

Dairy Situation and Outlook

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01/02/07

Milk Production Shows Another Gain

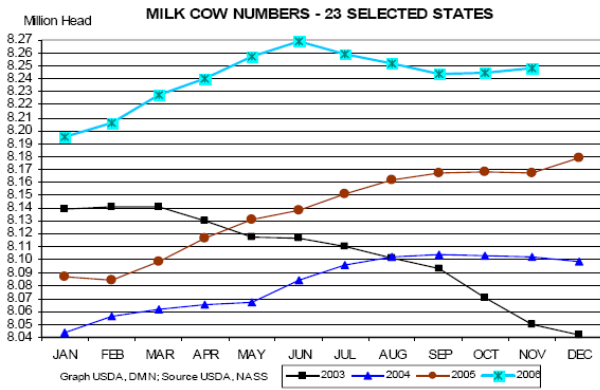
November 2006 milk production for the 23-reporting dairy states rose 2.5% while US milk production was estimated up 2%. Milk cow numbers were 81,000 higher than one year ago, nearly 1% more, and 3,000 more than October. Milk production per cow rose 1.5%, 24 pounds higher than one year ago.

Iowa milk production grew by nearly 1.25% due to larger cow numbers and milk per cow. During all of 2006 Iowa cow numbers have remained at 200,000. Iowa cheese production dropped 8.7% during October compared to Oct 07 but increased 3.2% from September.

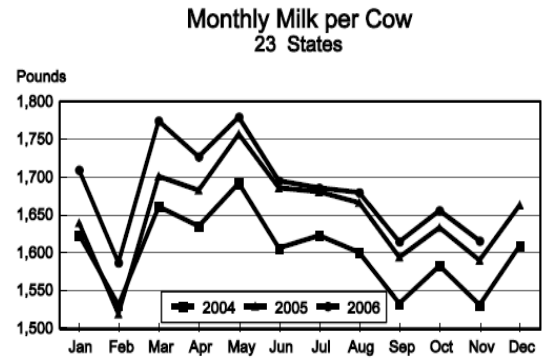
Kentucky had the largest milk drop in November -5.7% due to 7000 less cows. Their cows did produce 15 pounds more milk per cow. Other states with lower milk produce include VA, VT and WA. FL had 3% less milk and MO had -1.4% less milk with 30 pounds less milk per cow with 1000 more cows.

Milk Production: Selected Dairy States, November 2006

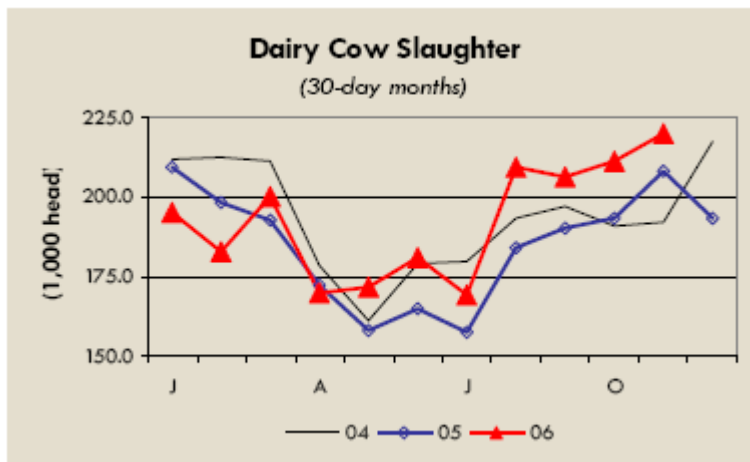
| State | thousands | | | pounds | | | million pounds | | % change total milk |
|----------|------------------|------------------|----------------------|-------------------|-------------------|-------------------|----------------------------|----------------------------|---------------------|
| | 2005 cow numbers | 2006 cow numbers | % change cow numbers | 2005 milk per cow | 2006 milk per cow | % change milk/cow | 2005 total milk production | 2006 total milk production | |
| Iowa | 199 | 200 | 0.50% | 1640 | 1650 | 0.61% | 326 | 330 | 1.23% |
| MN | 445 | 450 | 1.12% | 1455 | 1490 | 2.41% | 647 | 671 | 3.71% |
| WI | 1238 | 1247 | 0.73% | 1480 | 1495 | 1.01% | 1832 | 1864 | 1.75% |
| IL | 104 | 103 | -0.96% | 1480 | 1510 | 2.03% | 154 | 156 | 1.30% |
| CA | 1770 | 1781 | 0.62% | 1725 | 1755 | 1.74% | 3053 | 3126 | 2.39% |
| CO | 105 | 112 | 6.67% | 1820 | 1850 | 1.65% | 191 | 207 | 8.38% |
| ID | 471 | 497 | 5.52% | 1790 | 1790 | 0.00% | 843 | 890 | 5.58% |
| NM | 337 | 360 | 6.82% | 1720 | 1650 | -4.07% | 580 | 594 | 2.41% |
| PA | 556 | 550 | -1.08% | 1500 | 1560 | 4.00% | 834 | 858 | 2.88% |
| NY | 648 | 633 | -2.31% | 1485 | 1535 | 3.37% | 962 | 972 | 1.04% |
| TX | 321 | 338 | 5.30% | 1630 | 1695 | 3.99% | 523 | 573 | 9.56% |
| 23-State | 8167 | 8248 | 0.99% | 1592 | 1616 | 1.51% | 13002 | 13328 | 2.51% |



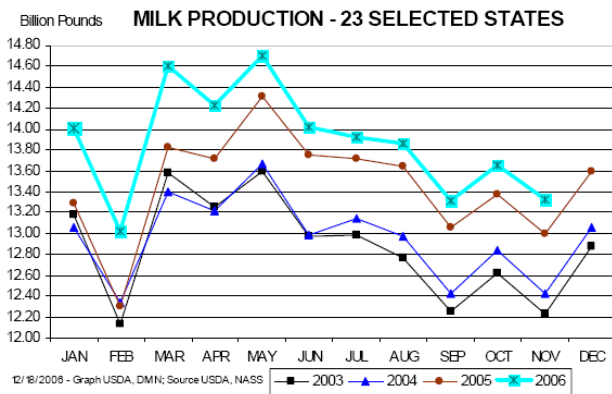
Source: Dairy Market News



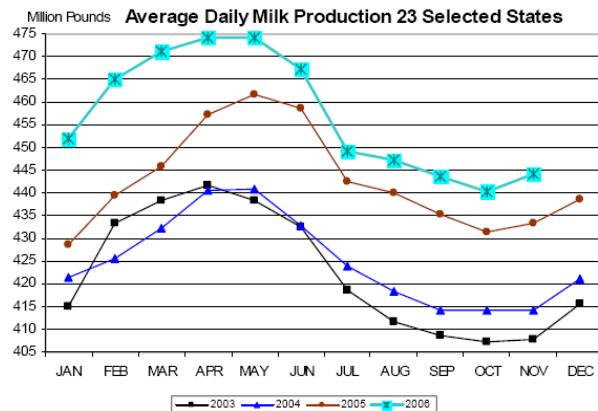
Source: Milk Production, NASS



Source: Daily Dairy Report



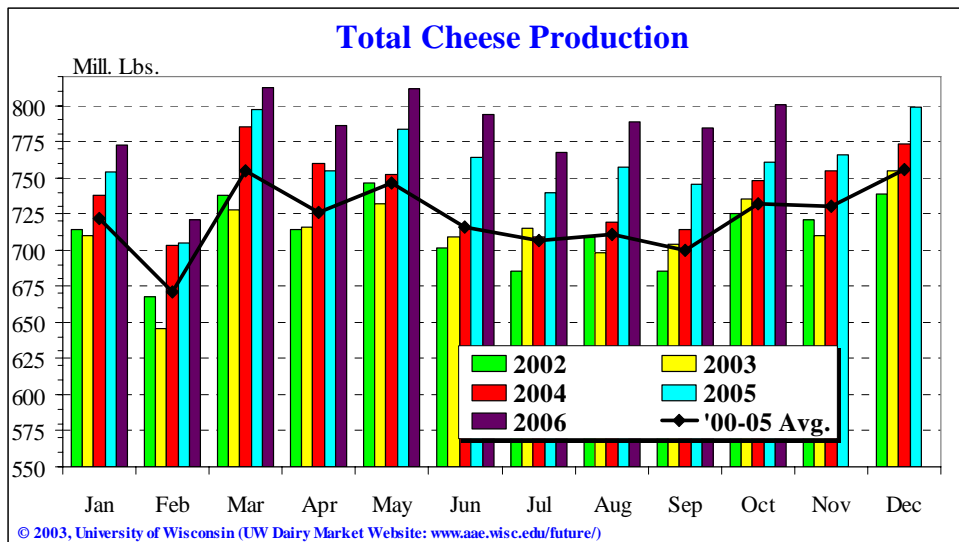
Source: Dairy Market News



Demand

October fluid milk was reported up 1% and up 1% year to date. July-Sept commercial disappearance was off 0.3% compared to 3rd quarter 2006. January to September commercial disappearance has increased 1.7%. That increase is 0.7% less than the same time in 2005. A significant part of that drop has been lower nonfat dry milk production. NDM production was very strong during the first 5 months of 2006 but suffered double digit declines during the summer of 2007. Much of the NDM made in the western US.

USDA's Cold storage reported November butter stocks down 36% from October but 47% less than November 05. Total cheese inventory in November was 3% less than October but 7% higher than one year ago. The chart below shows how cheese production for 2006 has been ahead of last year and the 5-year average.



Analysis

Culling activity by dairy farmers does not seem to be accelerating. Cull cow slaughter was just 600 higher for Nov 06 than Oct 06, but 11,000 higher than Nov 05. Through the first 11 months of 2006 total dairy cow slaughter rose 89,000 higher than same period 2005. The July 1 dairy heifer replacement inventory indicated a rise of 2.7% more than one year earlier. Heifer prices are below \$2000, unlike last year.

USDA, CME futures and Penn State Dairy economist Bailey put 2007 milk prices well ahead of last year. The range is \$1-2/ hundredweight higher than 2006. A \$13.50 planning price appears to be likely on the low end of the range.

