

## Dairy Situation and Outlook

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04/30/07

### March Milk Rises Only 1.1%

A weak increase in milk per cow, up only 7 pounds, led to another small monthly milk production increase, +1.1%, during March compared to one year ago. Feb 07 milk production was revised down 31 million pounds or -0.2%. First quarter 2007 US milk production was up 1% compared to the first quarter of 2006. Milk cow numbers averaged 36,000 higher than last year.

Iowa milk production rose by 4.2% due to an increase of 10,000 cows to a total of 211,000 compared to one year ago. Cow numbers were 1000 higher than Feb 07. Total cheese production in Iowa was off 11.2% from Feb 06 and down 2.8% from Jan 07.

Surrounding smaller dairy states also reported first quarter milk production. NE was up 2.5% but cow numbers remained at 60,000. ND had a milk production decline of 2.5% and 2000 fewer cows. SD added 10.2% more milk for the quarter and 3000 more cows.

**Milk Production:** Selected Dairy States, March 2007

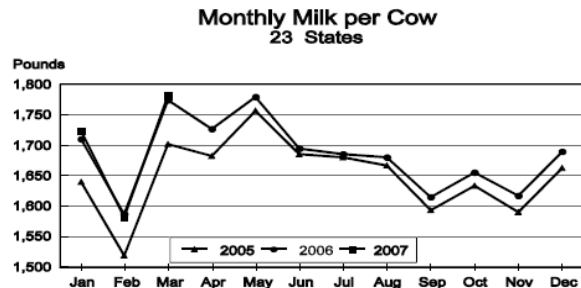
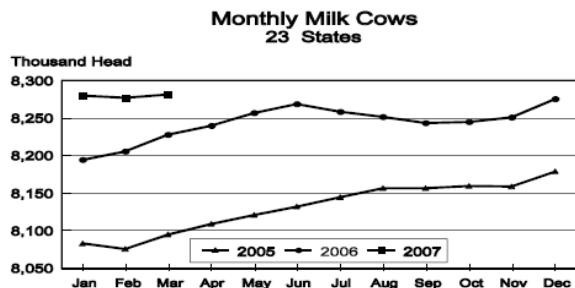
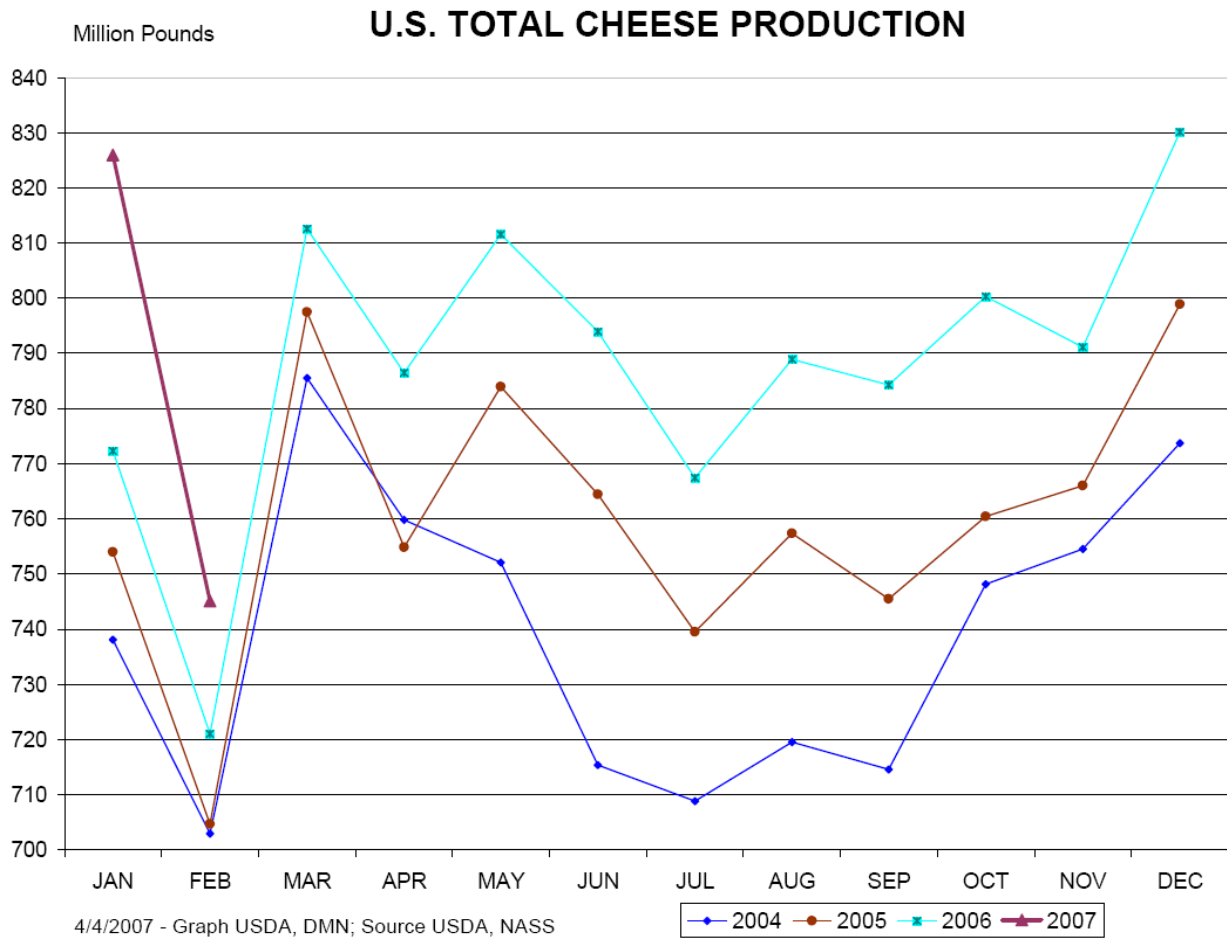
State	thousands			pounds			million pounds		% change
	2006 cow numbers	2007 cow numbers	% change cow numbers	2006 milk per cow	2007 milk per cow	% change milk/cow	2006 total milk production	2007 total milk production	
Iowa	201	211	4.98%	1780	1770	-0.56%	358	373	4.19%
MN	450	455	1.11%	1625	1650	1.54%	731	751	2.74%
WI	1241	1246	0.40%	1620	1640	1.23%	2010	2043	1.64%
IL	104	103	-0.96%	1720	1655	-3.78%	179	170	-5.03%
CA	1781	1796	0.84%	1925	1975	2.60%	3428	3547	3.47%
CO	107	115	7.48%	1980	1890	-4.55%	212	217	2.36%
ID	476	504	5.88%	1880	1890	0.53%	895	953	6.48%
NM	347	349	0.58%	1910	1790	-6.28%	663	625	-5.73%
PA	555	550	-0.90%	1700	1710	0.59%	944	941	-0.32%
NY	645	628	-2.64%	1630	1630	0.00%	1051	1024	-2.57%
TX	332	347	4.52%	1975	1920	-2.78%	656	666	1.52%
23-State	8224	8282	0.71%	1775	1782	0.39%	14599	14760	1.10%

### Dairy Product Demand

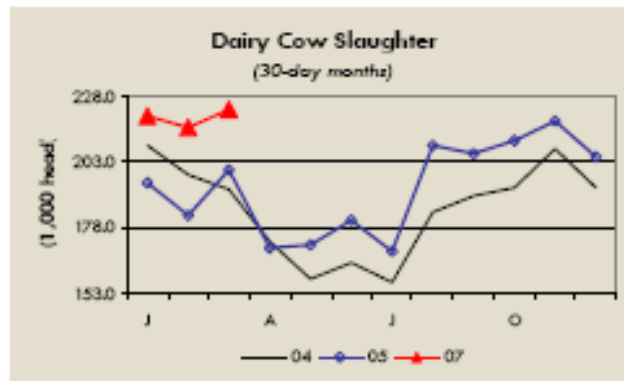
Commercial disappearance of dairy products for Dec06-Feb07 has been very good, +2.8%. The same period for 05-06 was only up 1.1%. Fluid milk products rose 1.3%, butter was up 14.7%, American style cheese up 2% and other cheese up 5%. Calendar year 2006 commercial disappearance was also good +2.2%, the same as the 2005 annual increase.

March dairy products in cold storage were higher too. Butter on March 31 was up 4.1% from the previous month and -1.2% from one year ago. Total cheese stocks were much higher, 7.7% more than one year ago and 1.9% more than the previous month.

Dairy Market News reports cheese demand and prices are firm. Cheese buyers are expressing some concern about cheese availability for late summer and fall. They appear to be building inventory now. They are concerned that milk production may drop due to feed costs leading to less cheese coming to the market.



Source: Dairy Market News



Source: Daily Dairy Report

## Analysis

The dairy market is certainly in a bull cycle due to a number of factors. Many of these are psychological. Demand has been good thanks to a strong economy and a weak dollar. NDM is moving into the export market at high prices but the weak US dollar helps this movement.

Anticipation of lower milk production has initiated some buying that may have been held till later in the year. Reduced Posilac use has been considered and certainly reported in the agricultural news media and into the main stream media. We have seen some California and Texas companies talking about doing what consumers want.

Feed prices have also led to some thinking that milk production will decline. Weaker milk per cow is probably the first indication of high feed costs negatively impacting profitability for farms. But much of the driver for higher corn prices is the ethanol market. Many of the Iowa ethanol plants are still under construction or just now coming into production. The real impact on corn usage won't be felt until later this year and next. Corn price volatility will be great when weather problems appear and all the ethanol plants are fully operating. At today's milk prices dairy farmer will be hard pressed to cash flow and recapture their capital costs in the long run. New dairy facilities in Iowa will have production costs \$3-4 higher than a few years ago. Consolidation and larger herd sizes have just been sped up with higher corn prices and construction costs.