

Dairy Situation and Outlook

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Milk Production Weakens A Little More

The 23 major dairy states produced 14.6 billion pounds of milk for Jan 08, an increase of 2.4% year over year. Dec 07 milk production was unrevised. Jan 08 milk per cow was 1743, 17 more than Jan 07. Milk cow numbers totaled 8.4 million. This was 120,000 more than Jan 07 and 15,000 more than the previous month.

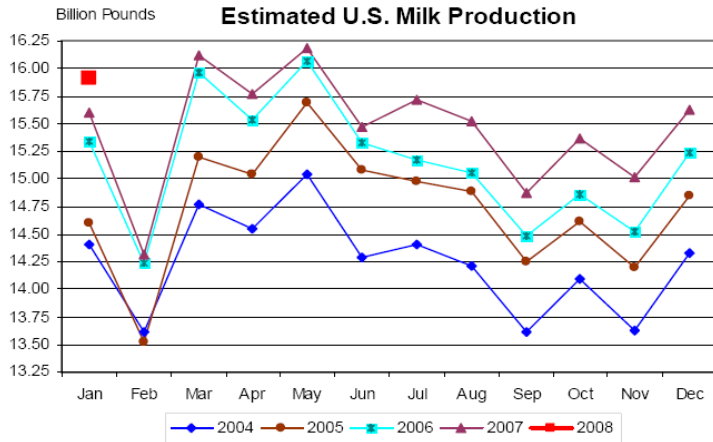
2007 US milk production totaled 186 billion pounds, 2.15% above 2006. Milk per cow for 2007 was 20,267 pounds, up 316 pounds from 2006. Milk per cow has increased 17.9% since 1998. Milk cow numbers averaged 9.16 million, 0.5% more than 2006.

Iowa milk production was flat for Jan 08 compared to Jan 07. Cow numbers increased by 6,000 year over year and 1000 from Dec 07. Total Iowa milk production was flat in the face of increased cow number because milk per cow was 50 pounds lower for Jan 08 compared to Jan 07.

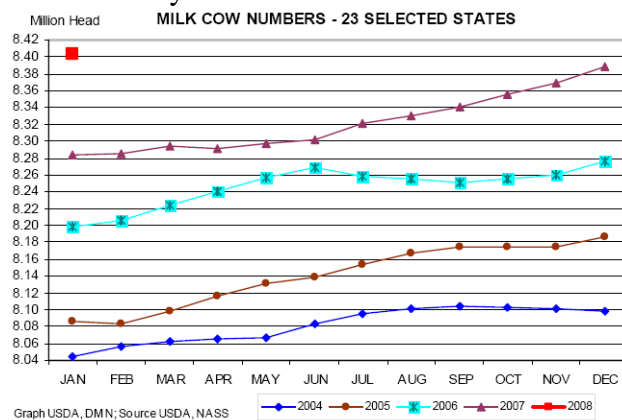
Milk Production: Selected Dairy States, January 2008

State	thousands			pounds			million pounds		% change total milk
	2007 cow numbers	2008 cow numbers	% change cow numbers	2007 milk per cow	2008 milk per cow	% change milk/cow	2007 total milk production	2008 total milk production	
Iowa	210	216	2.86%	1730	1680	-2.89%	363	363	0.00%
MN	455	463	1.76%	1635	1610	-1.53%	744	745	0.13%
WI	1245	1250	0.40%	1630	1640	0.61%	2029	2050	1.03%
IL	103	103	0.00%	1645	1615	-1.82%	169	166	-1.78%
CA	1792	1837	2.51%	1880	1900	1.06%	3369	3490	3.59%
CO	115	120	4.35%	1855	1940	4.58%	213	233	9.39%
ID	502	533	6.18%	1850	1870	1.08%	929	997	7.32%
NM	357	340	-4.76%	1690	1880	11.24%	603	639	5.97%
PA	549	552	0.55%	1640	1630	-0.61%	900	900	0.00%
NY	628	626	-0.32%	1610	1650	2.48%	1011	1033	2.18%
TX	347	360	3.75%	1780	1825	2.53%	618	657	6.31%
23-State	8284	8404	1.45%	1726	1743	0.98%	14302	14648	2.42%

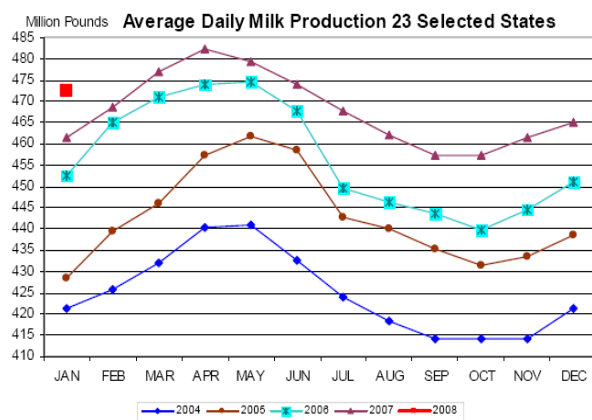
Milk cow numbers have been increasing month-to-month since April 07. Strong milk prices, even in the face of much higher feed costs, have encouraged dairy producers to keep cows and build herd numbers. Dairy cow slaughter in January was down 35,000 from December and 8000 more than January 07. Dairy cow culling is expected to increase as the all-milk price drops.



Source: Dairy Market News



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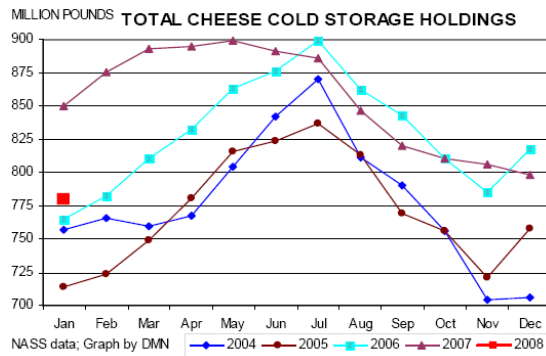
Source: Dairy Market News

Dairy Product Demand

Commercial Disappearance of dairy products for 2007 totaled 188.3 billion pounds, 2.2% year over year. This number includes about 4.64 billion pounds that were imported and about 17.7 billion exported on a milk solids basis. This was about 9.5% of US milk production. Butter consumption was +5.6%, other style cheese +3.5% and NDM +2.3%. Fourth Quarter 07 disappearance rose 2.3% year over year. Butter disappearance was +5.6%, NDM +19.1% but fluid milk consumption was flat for fourth quarter.

The January 08 CPI for food was up 4.9% year over year. Dairy foods prices increased 14% for cheese, 1.4% for butter and fresh whole milk is up 20%.

Cold storage holdings of butter on Jan 31, 2008 were + 21% from the previous month and +26% year over year. Natural cheese holdings were smaller though, 3% and 10%, compared to previous month and year.



Source: Dairy Market News

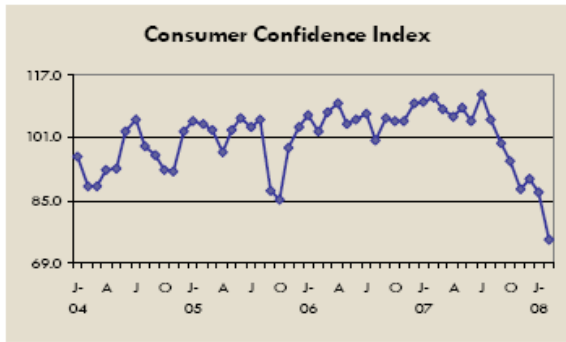
Analysis

Dairy Market News most recent comments on US milk production relates seasonally strong production. Cheese production is seasonally higher to steady also. Milk production for both Australia and New Zealand has weakened due to increased drought problems. The Australian milk production season will end sooner than usual. This leaves increased export opportunities for US dry products at the same time the US dollar is showing more weakness. Lower NDM and whey prices compared to their peaks in summer 07 will help as well.

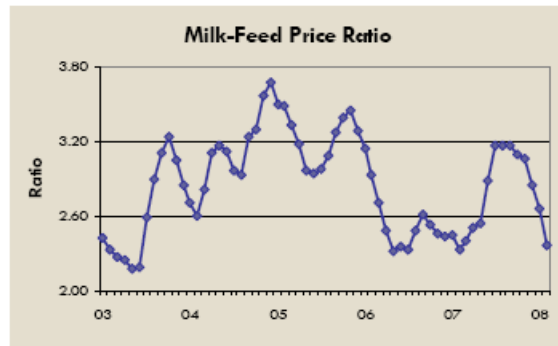
These lower prices also lead to some operating problems for cheese plants. Cheese buyers are anticipating lower future prices and with high prices, as they see them, many are only buying cheese on a “just in time” basis. During Mid-January spot cheese prices, \$1.65, were not enough to pay for the milk, over \$19, used to make it. We have seen cheese prices move up since. Export markets have helped move some cheese that US buyers were not ready to own.

The most recent milk-feed price ratio has declined further, 2.36 for February. This ratio indicates future reductions in milk production. Along with the consumer confidence index decline, Class III milk prices will probably slide further. USDA’s current 2008 all-milk price is lower than last time, \$16.85-17.55 per hundredweight. This price range is about \$1 less than the last USDA price projection.

Feed prices continue to be difficult to deal with, or maybe the uncertainty of future margins is more accurate. Milk production continues to increase but is now at rates closer to the increases in commercial disappearance. USDA’s current All-Milk price projection for 2008 is probably going to mean the same margins dairy farmers had when milk prices were \$12.



Source: Daily Dairy Report



Source: Daily Dairy Report