

Dairy Situation and Outlook

Robert Tigner

Iowa State University Extension

Farm Management Specialist

New Hampton, Iowa

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Milk Production Backs Off a Little

Dairy producers in the 23 reporting states appear to have backed off a little for Dec 2007 milk. Dec 07 milk production rose 3.1% from 1 year ago. Milk cow numbers rose by 107,000 from Dec 06 and 14000 from Nov 07. Milk per cow also rose 29 pounds or 1.7% higher. Only 5 reporting dairy states had milk production declines: FL -2.8%, IL -2.4%, KY -1%, MO- 11.3% and OR -1.1%. Iowa milk production rose only 0.8% even though milk cow numbers were 6,000 higher. Iowa milk production was held back because milk per cow was 35 pounds lower, -2.06%. Compared to one year ago, Iowa cheese production was 19.4% higher during Nov 07 and -0.4% from the previous month.

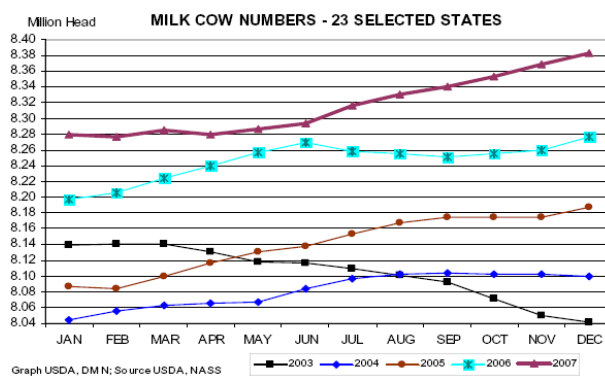
Fourth quarter US milk production was +3.2% and average milk cow numbers for the period were 80,000 higher. SD added 5000 cows and 9% more milk, ND had 3000 fewer cows and -7.8% milk, NE lost 4000 cows and -5.1% milk.

Milk Production: Selected Dairy States, December 2007

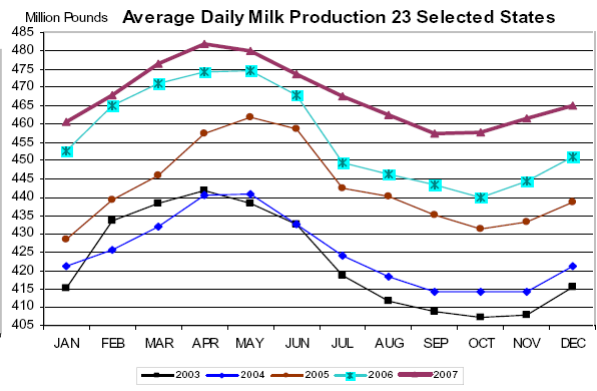
State	thousands			pounds			million pounds		
	2006 cow numbers	2007 cow numbers	% change cow numbers	2006 milk per cow	2007 milk per cow	% change milk/cow	2006 total milk production	2007 total milk production	% change total milk
Iowa	209	215	2.87%	1700	1665	-2.06%	355	358	0.85%
MN	450	463	2.89%	1575	1590	0.95%	717	736	2.65%
WI	1245	1250	0.40%	1590	1605	0.94%	1980	2006	1.31%
IL	103	103	0.00%	1620	1580	-2.47%	167	163	-2.40%
CA	1787	1833	2.57%	1845	1880	1.90%	3297	3446	4.52%
CO	114	120	5.26%	1910	1965	2.88%	218	236	8.26%
ID	500	527	5.40%	1920	1870	-2.60%	910	985	8.24%
NM	360	339	-5.83%	1690	1840	8.88%	608	624	2.63%
PA	549	550	0.18%	1620	1620	0.00%	889	891	0.22%
NY	628	627	-0.16%	1580	1615	2.22%	992	1013	2.12%
TX	346	355	2.60%	1765	1825	3.40%	611	648	6.06%
23-State	8276	8383	1.29%	1690	1719	1.72%	13983	14414	3.08%

Milk cow numbers have been increasing month-to-month since April 07. Since July monthly year-over-year milk production increases have been over 3%. 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 December was down 12,700 from November and 6000 less than December 06.



Source: Dairy Market News



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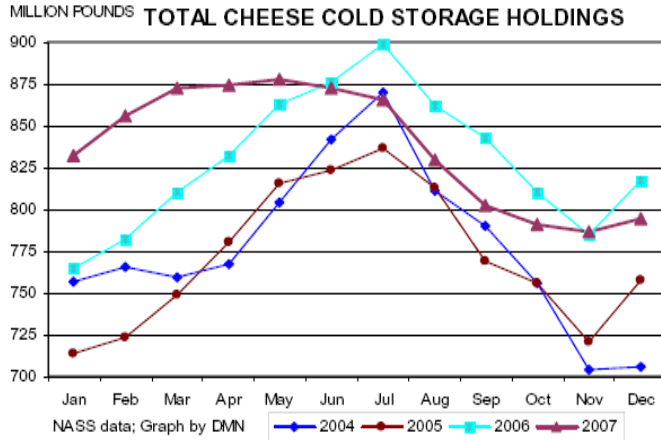
Dairy Product Demand

Dairy Market News remarks that CME cash cheese prices have been very volatile, but by historical standards, cheese prices remain high. Exports remain high as well and are up 2.5% through the end of October. Continuing weakness in the US dollar and strong foreign economies has led to export strength. The most recent Cold Storage report puts total cheese stocks slightly above 2006 and 9% higher than the 5 year average.

Weakness has appeared in the butter market with fourth quarter prices averaging \$1.3012. Monthly butter production during the first 11 months of 2007 exceeded nearly every comparable month in 2006. Stocks were a third higher at the end of Nov 07 than one year earlier. Exports of nonfat dry milk (NDM) and skim milk powder (SMP) have declined by nearly 13% during 2007 compared to 2006. Commercial stocks for NDM and SMP at the end of Nov07 were 227 higher than one year ago. NDM/SMP exports to Mexico totaled 9,891 tons in November and some of these stocks should begin to lower.

Fluid milk consumption is starting to show some weakness as well. Calendar adjusted sales of all fluid products -1.7% for Nov 07 and -0.4% for the year to date compared to 06. Year to date organic fat-reduced milk consumption is up by 34% but it is only 2% of all beverage milk. Whole milk was -4% and flavored whole milk -5.2% for year to date.

Cheese consumption was down for the September-November period compared to one year ago, -1.1%. American style cheese was down 3.9% while other style cheese was up 0.6%.



Source: Dairy Market News

Analysis

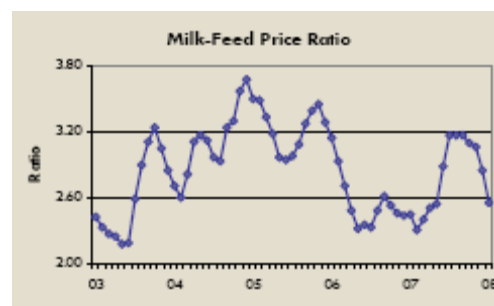
Cheese prices have strengthened since Jan 18, 2008 when blocks closed at \$1.65, but barrels were \$1.8025 and are now lower. Block cheese prices closed at \$1.715 and barrel cheese closed at \$1.73 per pound on Jan 29 08. NDM prices are now over 30 cents lower than one month ago and have been dropping since the beginning of November 07. Whey prices are also much lower than their peak in April; approximately one-half that peak.

Dairy cow slaughter for Dec 07 was 204,700 which was 6900 (3.3%) less than one year earlier. For the year 2.5 million cows were sent to slaughter, up 6.1% compared to 2006. The first half of 2007 slaughter was up 12% while the second half slaughter was up only 1%. That is the most since 2003. Even so dairy cow numbers have increased since April.

The most recent milk-feed price ratio has declined further, 2.55 for January. 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 slightly lower than last time, \$17.90-18.70 per hundredweight.



Source: Daily Dairy Report



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