

Dairy Situation and Outlook

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Milk Production up 1.7%, Cheese Inventory Grows

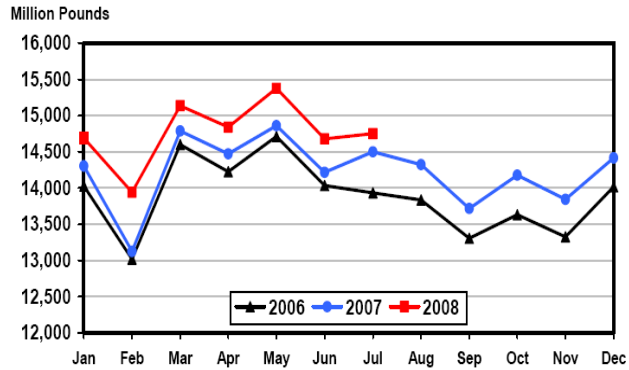
July 2008 23 major dairy states milk production rose nearly 1.7%. Production per cow was unchanged from one year ago. Milk cow numbers were 143,000 more than July 07 and 5000 more than June 08. June milk production was revised down by 19 million pounds.

Iowa July 08 milk production was down over 1.9% compared to one year ago. Cow numbers were the same as one year ago, but milk production per cow was down by 25 pounds. This situation led to Iowa milk production down by 1.9% from one year ago. June 08 cheese production was 17.3% higher than one year ago and -6.5% more than May 08.

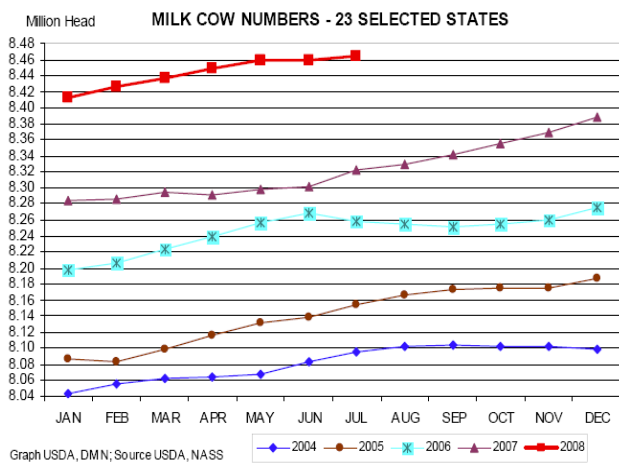
Milk Production: Selected Dairy States, July 2008

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	215	215	0.00%	1700	1675	-1.47%	366	359	-1.91%
MN	463	463	0.00%	1575	1590	0.95%	729	736	0.96%
WI	1248	1252	0.32%	1675	1675	0.00%	2090	2097	0.33%
IL	103	102	-0.97%	1550	1520	-1.94%	160	155	-3.13%
CA	1816	1846	1.65%	1900	1850	-2.63%	3450	3415	-1.01%
CO	119	129	8.40%	2005	1950	-2.74%	239	252	5.44%
ID	516	556	7.75%	1970	1970	0.00%	1017	1095	7.67%
NM	335	338	0.90%	1850	2000	8.11%	620	676	9.03%
PA	550	546	-0.73%	1610	1630	1.24%	886	890	0.45%
NY	626	626	0.00%	1650	1690	2.42%	1033	1058	2.42%
TX	348	383	10.06%	1720	1850	7.56%	599	709	18.36%
23-State	8322	8465	1.72%	1742	1742	0.00%	14500	14750	1.72%
US total			#DIV/0!			#DIV/0!			#DIV/0!

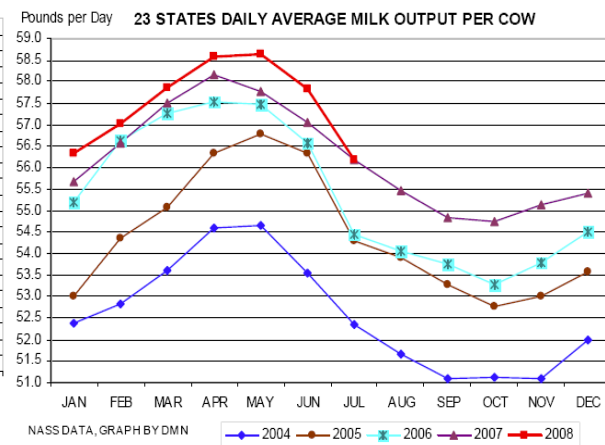
USDA estimated that 208,500 dairy cows were slaughtered in July 08. This is up 27,600 from June 2008 and 28,300 more than one year ago. Cooperatives Working Together (CWT) announced a fifth herd reduction. January-July 2008 dairy cull dairy cow slaughter totaled 1.468 million which was 50,000 higher than the same period during 2007. Through July 26, cow slaughter was 2.6% higher than one year ago. Some recent weeks slaughter has been up by as much as 18% than corresponding weeks in 2007.



Source: Milk Production, NASS



Source: Dairy Market News



Source: Dairy Market News

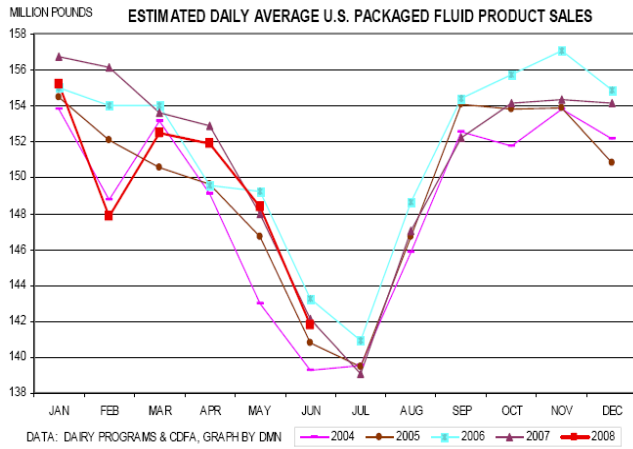
Demand or Disappearance

Commercial disappearance has remained strong for the first half of 2008, +2.4%, During the second quarter use declined slightly in percentage increase to +2.3%. Cheese disappearance was weaker during the second quarter 2008. The Jan-June 08 American cheese use was -1.1% and other cheese off by -1.9%. April-June08 American cheese use dropped 2.5% and other cheese was down by 3.8%. June American cheese was still at -3% for commercial use.

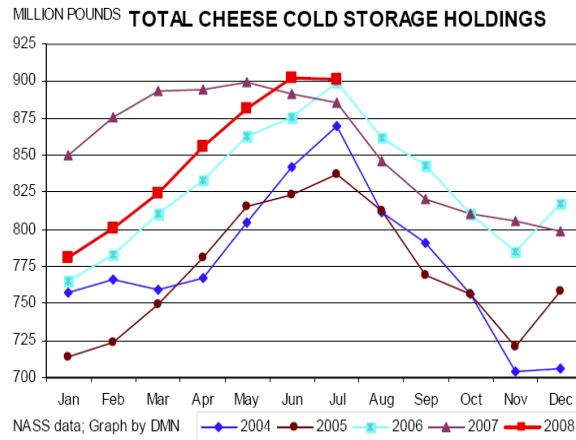
Butter demand continues to be strong compared to one year ago. June 08 butter use was up 19.2% compared to June 07 with the first half of 2008 use up 21.2%

The whey market continues to show weakness as evidenced by prices and stocks, 30% higher than the 5-year average. Prices are now near cost of production rather than adding profit to cheese operations.

A Downes-O'Neill dairy economist remarked that cheese supply is adequate but the concern is that consumer demand may not be adequate to use it. Recent GDP growth rate reports put the rate at 3.3% annually, better than the 1.9% initial estimate.

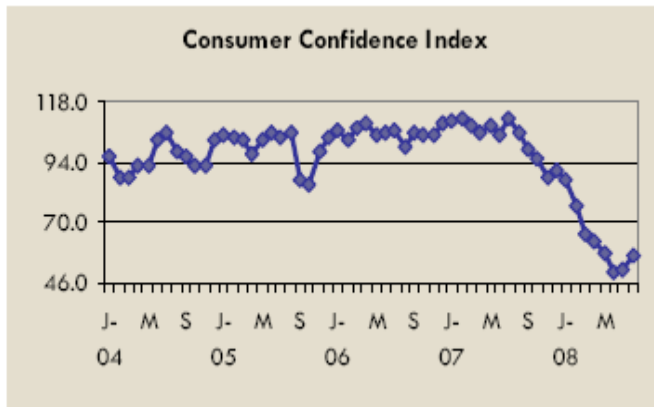


Source: Dairy Market News



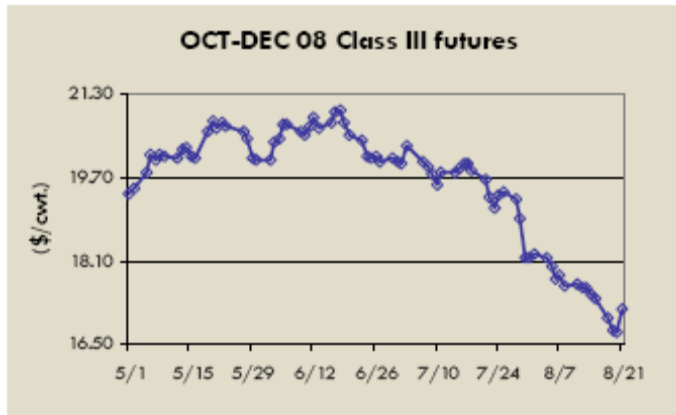
Source: Dairy Market News

The Consumer Confidence Index for August was reported as 56.9 up 5 points from the July index. August was the second monthly gain.



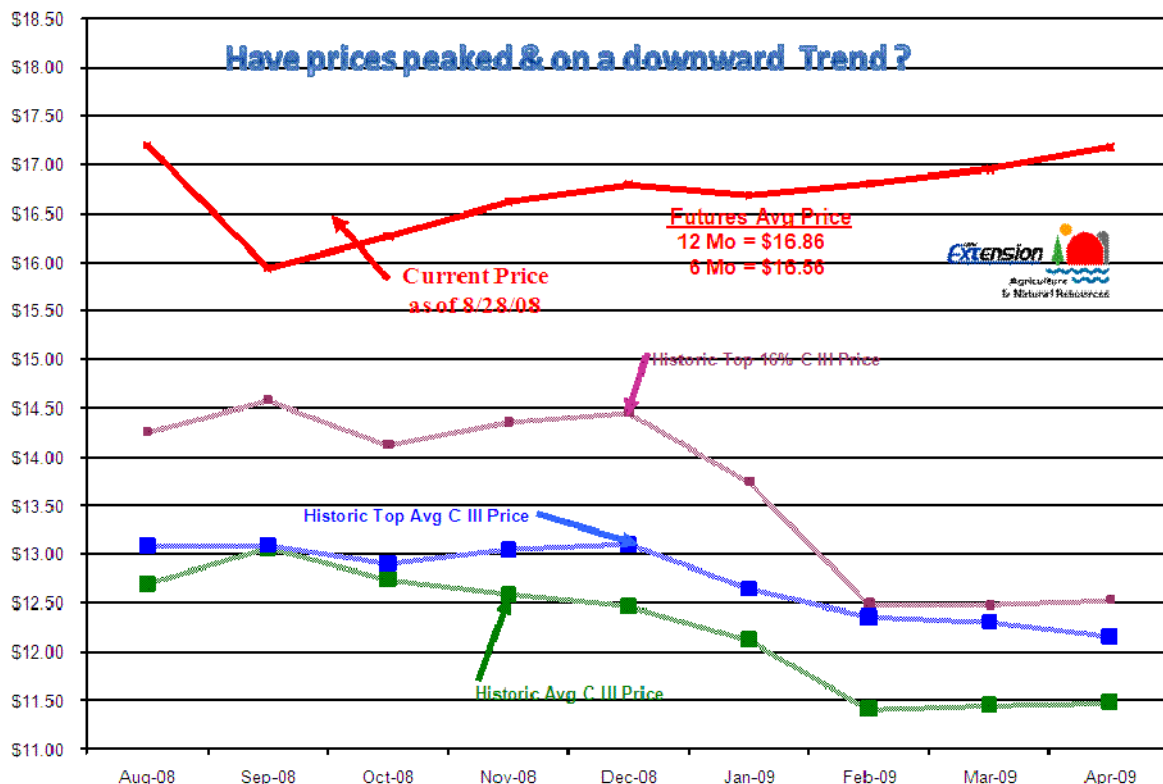
Source: Daily Dairy Report

Analysis



Source: Daily Dairy Report

Milk pricing opportunities continue to be available for dairy farm operators, although CME cash cheese prices have declined from their peak, \$2.28. The above chart shows this decline has been going on since mid-June. The image below presents next 12 months Class III CME closing prices as of August 28, 2008 and their relationship to historic prices. These prices have begun at least a short-term decline with the recent step decline in cash cheese prices at the CME. The most recent milk-feed ratio was calculated at 1.89.



Source: Hedging Opportunity web site, UWEX

The US dairy industry must begin to reduce its dairy herd soon. The most recent CWT bid removed only 26,453 cows from the US dairy herd. However the 23-state dairy herd is still well above one-year ago, up 143,000. A significant reduction in milk cow numbers is necessary to strengthen CME futures prices. As well as cash cheese prices.