

## Dairy Situation and Outlook

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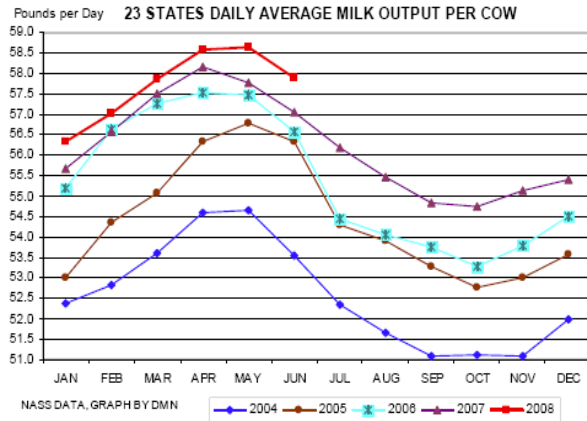
### Milk Production up 3.4%, Cheese Hits Record Prices

June 2008 23 major dairy states milk production rose 3.4%. Production per cow was 25 pounds higher for June. Milk cow numbers were 158,000 more than June 07 but only 1000 more than May 08. March milk production was revised up by 14 million pounds or 0.1%. Second quarter 08 US milk production totaled 48.7 billion pounds, up 2.7% from the same period in 2007. Milk cow numbers averaged 136,000 more as well to 9.27 million head. Second quarter 08 milk production in NE was -3.6% with 2000 fewer cows, ND -7.8% with 3000 fewer cows and SD +6.5% with 4000 more cows. The most rapid drop in milk production occurred in HI -50.5%.

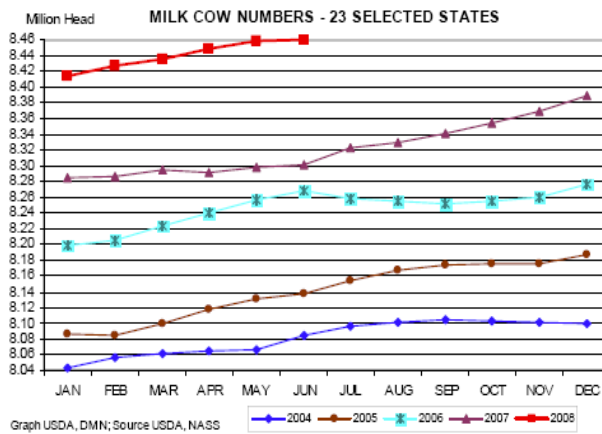
Iowa June 08 milk production was down by 0.6% compared to one year ago. Again cow numbers were higher than one year ago, 2000, but milk production per cow was 25 pounds lower. March 08 cheese production was 18.3% higher than one year ago and 7.4% more than Feb 08. Second quarter 08 milk production was 0.2% lower in Iowa than one year ago. Milk cow numbers were 4000 more which means cows productivity declined. Milk per cow was 5060 pounds for second quarter 08 versus 5165 for second quarter 07. May 08 total cheese output in Iowa was 16.7% higher than one year ago and 4.1% greater than the previous month.

#### Milk Production: Selected Dairy States, June 2008

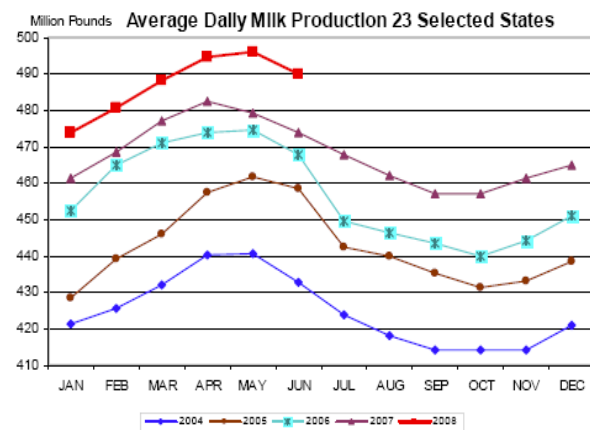
State	thousands			pounds			million pounds		% change total milk
	2007 cow numbers	2008 cow numbers	% change cow numbers	2007 milk per cow	2008 milk per cow	% change milk/cow	2007 total milk production	2008 total milk production	
Iowa	214	216	0.93%	1675	1650	-1.49%	358	356	-0.56%
MN	460	463	0.65%	1565	1590	1.60%	720	736	2.22%
WI	1247	1252	0.40%	1620	1640	1.23%	2020	2053	1.63%
IL	103	102	-0.97%	1550	1565	0.97%	160	160	0.00%
CA	1811	1848	2.04%	1845	1850	0.27%	3341	3419	2.33%
CO	118	128	8.47%	1960	1940	-1.02%	231	248	7.36%
ID	508	550	8.27%	1910	1910	0.00%	970	1051	8.35%
NM	335	340	1.49%	1815	1970	8.54%	608	670	10.20%
PA	549	546	-0.55%	1590	1630	2.52%	873	890	1.95%
NY	626	626	0.00%	1620	1680	3.70%	1014	1052	3.75%
TX	348	377	8.33%	1740	1870	7.47%	606	705	16.34%
23-State	8302	8460	1.90%	1712	1737	1.46%	14216	14697	3.38%



Source: Milk Production, NASS



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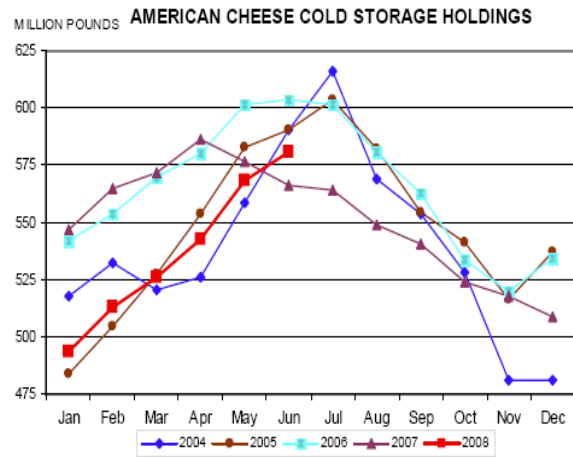
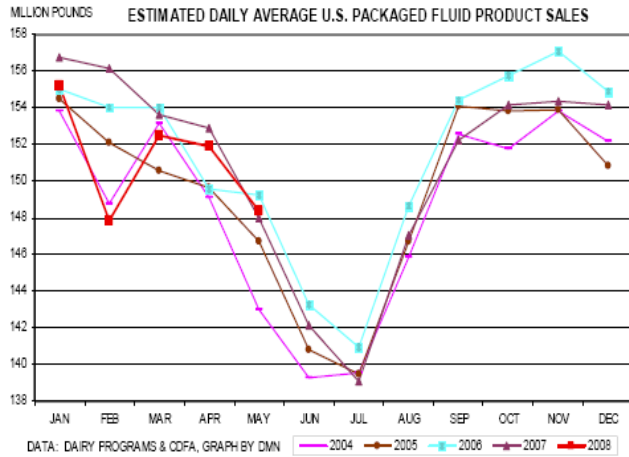
Source: Milk Production, NASS

### Demand or Disappearance

High fluid milk prices have hit retail milk sales. All food prices for May 08 rose 5.1%, but dairy product prices were 11% higher than one year ago. Beverage milk sales Jan-May 08 were down by 0.8% from one year ago when calendar adjusted. Cheese sales are weaker as well with Jan-April American cheese up only 1.4% and sales of other cheese styles down by 0.6%. Butter sales are a bright spot with Jan-April sales 21.8% higher than the same time last year. Butter stocks as of May 31 were 2.7% lower than one year ago while 10.9% above the 5-year average.

Dairy product production remains stronger than one year ago. Total cheese for May 08 was 828 million pounds, up 0.5% compared to May 07 and 2.3% more than the previous month. Italian style cheese was 1.7% below May 07 but up 0.6% compared to the previous month.

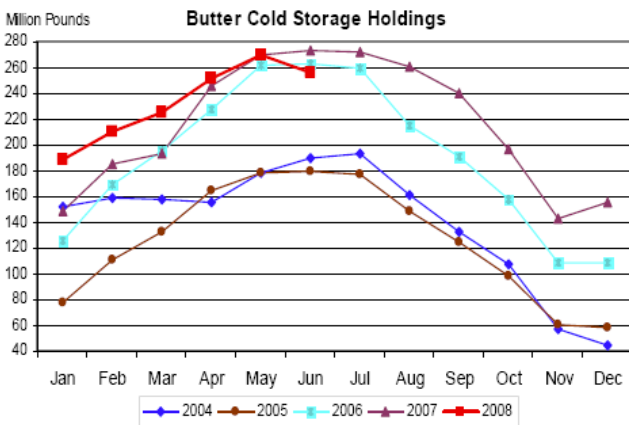
American style cheese production for May rose 4.5% compared to May 07 and was 3% higher than April 08.



Source: Dairy Market News

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Butter production was 15.8% ahead of May 07 but 4.4% less than April 08. Butter churns are now competing for cream supplies that could go to ice cream manufacture as well. CA butter production rose by 27.6% from one year ago and was -1.4% from the previous month. WI butter though was off by 4.9% from May 08 while it was off by 1% from April 08. Even with higher butter production cold storage holdings dropped.



Source: Dairy Market News

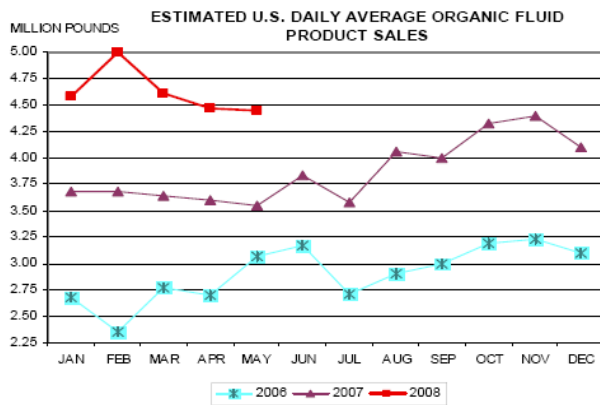
Dry milk product manufacture rose 11.8% from one year ago while it dropped 3% from April 08. Skim milk powder rose 250.4% from one year ago. Dry whey product production mostly dropped. Dry whey for human consumption -2.2%, for animal consumption -3.9% for a total dry whey manufacture -2.3% from one year ago

## Analysis

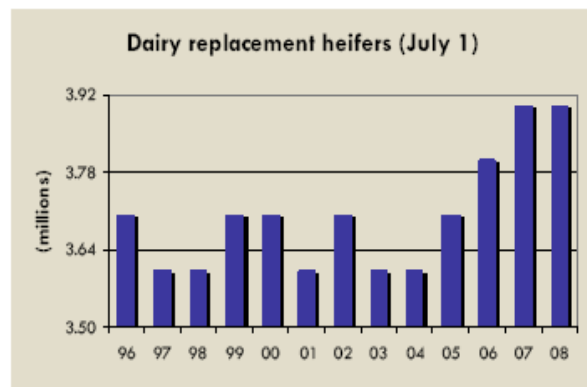
The US economy is showing continued weakness which may translate to reduced dairy product consumption. Fluid milk consumption has been weak for several months now and organic fluid milk consumption is showing weaker growth as well. The weak US dollar has been very helpful for dairy product exports. But the weak dollar has raised cost through higher energy costs. Higher oil prices also have helped increase feed cost through the use of corn for ethanol. Ethanol prices are now following oil prices.

Dairy replacement inventory is near a 10 year high. Even though dairy cow slaughter has been running at 6-9% above year ago levels in recent weeks, more than enough dairy heifers remain to continue dairy herd expansion. Also we now have the import of Canadian cows available which was not the case early in the year. This import amount however is likely to be more than the most recent CWT bid number of 25,474. Historically approximately 60,000 head of dairy animals were exported from Canada to the US prior to December 2003.

The June milk-feed price ratio continues to be extremely weak, 1.78, but its relevance is being debated. Dr Ken Bailey argues that income over feed cost (IOFC) is more useful for comparison. Bailey calculates a 2004-07 IOFC average of \$10.37. He calculates June 08 IOFC at \$8.50 and May 08 at \$8.35.



Source: Dairy market News



Source: Daily Dairy Report