

Dairy Outlook Overview

The future of the dairy industry is a time filled with excitement and animosity due to commodity prices and new technology in the next 12 months. This article series will serve as an overview of where the industry is at today and where it is expected to be over the next year.

Milk production has increased in the United States and was at just less than 193 billion pounds last year. Production has increased in 2011; for January through September production it was 2.3 billion pounds ahead of production compared to last year.

Milk production is down for Iowa in 2011 by 14 million pounds for the first three quarters comparatively from 2011 to 2010. Although the summer months brought deeper cuts to milk production in Iowa for 2011, September milk production increased by a half of a percent after three months of 0 to 6.52 percent decrease.

The total number of milk cows in the U.S. is at 9.2 million head at the end of July, a decrease of 0.55 percent in 2011. Cow inventory increased in 2010 in the upper Midwest, Southwest, and Northwest states and decreased in California, Missouri, and Iowa by 10, 7, and 5 thousand head, respectively.

Replacement heifer inventory in the U.S. is at 4.2 billion head as of July 2011, up 150,000 from a year ago.

Rolling herd average per cow in Iowa equates to 20,172 per cow and 23,732 when adjusting by 85 percent for dry cow inventory.

Milk Supply recap:

Increased heifer inventory will continue to allow for increased culling and management in herds across the U.S., which results in a stable to increasing dairy cow herd inventory at 9 to 9.25 million head.

Dairy producers continue to be more efficient in producing milk as pounds per cow has increased from year to year and this trend is expected to continue but at a lower rate of increase partially due to tightening feed margins.

Demand has been stronger for U.S. exports over the past year due to a growing middle class and reduced production from leading dairy countries. Except for 2009, global exports have increased since 2002 with the primary products being milk powder, whey, and cheese. Primary export customers include Mexico, Southeast Asia, Canada, Middle East/Northern Africa, and China for 2011, with South Korea picking up steam in the market in the past month. The growing middle class in Asian countries offer increased demand for dairy products; however New Zealand and Australia are increasing milk production after a period of dry weather which resulted in decreased production.

United States dairy consumption has decreased in the first quarter of 2011 for fluid milk and cheese; however, yogurt consumption, especially Greek yogurt has increased. Recently, butter and milk powder production has increased due to holiday and export demand.

Milk Demand recap:

The expected increase in global milk supply combined with economic uncertainty can result in a decrease U.S. export demand; however, the growing middle class, resolved trade issues, and a favorable exchange rate for exports may reduce the impact. In the U.S., with the economy remaining in a sluggish state, dietary and nutrition promotion along with innovation of new products is important to recover loss in consumption of some products.

The U.S. average All Milk Price is at \$20.90 and \$21.80 per hundredweight for producers in Iowa. Milk price in Iowa has increased since January, \$16.50 cwt. All Milk Price, with slight decreases during April and May. Recent increase in milk price has primarily been led by the heightened activity on the cheddar cheese market which drives the protein price component in milk pricing. This activity has been stimulated by global market demand over the summer months of 2011.

Commodity price markets have been extremely volatile over the past year, and feed input prices have followed suit. Corn prices have softened in October to mid six dollar range. However, due to extreme weather variability over the summer months between regions of the U.S., hay quality and availability is a factor that may cause increased feed prices.

Milk Profitability recap:

Milk price has increased due to tightening supply margins and increased demand. Milk price is expected to remain in the 16 to 17 dollar range going into 2012. Increased production with stable to variable demand also points to a decrease in milk price in the next year. With 2011 resulting in high commodity prices, there is a high probability that the market will cycle and lower prices with tightened margins will be in the future for 2012 or 2013. Margin management, through financial and production management, is pivotal moving forward to protect dairy producers and their operations.

Milk production, herd inventory, global and national demand, and milk and feed commodity prices are all variables that play into the status of the industry and are highly variable causing heightened opportunity and uncertainty.

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