

Dairy Situation and Outlook, January 19, 2010
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Milk prices were showing good recovery the end of 2009. The Class III price which was a low of \$9.97 May and June was \$14.98 for December. The U.S. All Milk Price which was a low of \$11.30 June and July was \$16.30 for December. Average prices for the year were: Class III \$11.36 compared to \$17.44 for 2008, and the All Milk Price \$12.79 compared to \$18.29 for 2008. We can expect some fall back in prices for January and February before again starting an upward trend of higher milk prices. As normally happens once holiday orders for butter and cheese are fulfilled butter and cheese prices drop back some. CME butter was a high of \$1.525 per pound most of November, ended the year at \$1.325 per pound, but has once again shown strength in January with January 19th back to \$1.50 per pound. Lower butter production and renewed interest butter exports are helping to support higher butter prices. November butter exports were up 59% from the year earlier. CME barrel cheese was a high of \$1.51 per pound in November, ended the year at \$1.43 per pound, but also show strength in January with January 19th at \$1.48 per pound. CME cheddar blocks were a high of \$1.72 per pound early December, ended the year at \$1.41 per pound and as of January 19th it was \$1.455 per pound. As a result, the January Class III price may be around \$14.40 and the All Milk Price \$15.70. February prices could decline a little more to around \$14.00 for Class III and \$15.30 for the All Milk Price.

But, all signs point to higher milk prices as we progress through the year. There are signs that domestic milk and dairy product sales are improving and may be up more than 1% for the year. Fluid (beverage) milk sales have been running about 1% higher than a year ago. Sales to restaurants have improved. One indicator of stronger cheese sale was mozzarella cheese production for last November, which was up 7.5% from a year ago to meet higher demands from pizza makers. While the decline in dairy exports where a major factor in bringing milk prices down in 2009, an increase in exports may be the key to higher prices in 2010. November exports of nonfat dry milk/skim milk powder, cheese, butter, whey proteins and lactose all posted strong increase over a year ago. Exports were up 24% for nonfat dry milk/skim milk powder, 13% for cheese, 59% for butterfat, 47% for total whey proteins and 21% for lactose. On a total solids basis dairy exports were equivalent 10.8% for U.S. milk production in 2008, fell to an estimate 7% in 2009, but could be back to 9% or higher in 2010 adding 3 to 4 billion pounds of increased milk demand.

The Class III price could be in the \$15 to near \$16.00 range by May and June, above \$16.00 by July and in the high \$16s by the end of the year. If so, the average Class III for the year could be in around \$15.50 to \$15.75 and the U.S. All Milk Price around \$16.80 to \$17.00. But, final prices can well end up either higher or lower than these. Final prices will depend upon what happens to domestic sales, dairy exports and milk production. Milk cow numbers and milk production needs to continue the trend of being below year ago levels. Milk cow numbers were declining and 2.7% below a year earlier last December with an average of 9.2 million head for the year, down 1.2%. Cow numbers are anticipated to continue to decline further in 2010 to an average of about 8.962 million head. Total milk production for 2009 was 189.3 billion pounds,

down 0.4% from 2008. USDA forecasts production to decline another 0.4% in 2010 to 188.4 billion pounds.

Compared to a year ago, U.S. milk production was estimated to be down 0.9% for both November and December. December milk production continued to run well below year ago levels in some Western states. Arizona experienced a 10.9% decline, California 4.6% and New Mexico 3.2%. Idaho had just a 0.4% increase and Texas 0.1%. Texas until recently was experiencing relatively strong increases in milk production from both more cows and good production per cow. But, in December cow numbers in Texas were down 4.4% from a year ago. For the year, California's milk production is estimated to be down close to 4% from 2008.

In the Northeast, Michigan continues to show good growth in milk production with December production up 2.4% from a year ago. But, Pennsylvania's production was up just 0.7% and New York's down 0.3%.

Production continues to run well above year ago levels in the Midwest. Compared to a year ago December production was up 3.6% in Iowa, 3.2% in Minnesota and 4.3% in Wisconsin. Wisconsin ended the year with about 25.2 billion pounds of milk, up 2.9% from 2008 and a new record for the state. The previous record was 25.0 billion pounds set back in 1988. Production got down to 22 billions in 2004, but since then milk production has steadily increased in Wisconsin.

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