

# Dairy Market Report



## Executive Summary

- ➔ U.S. skim solids commercial disappearance up 1.8% last September-November; fat up 1.7%.
- ➔ Cheese stocks open 2008 down 3%, butter stocks up 43%, from last year.
- ➔ December 2007 milk production up 2.7%, annual production up 2.1%, from 2006.
- ➔ Cheese prices down after recent records: January 31 blocks down 46¢ to \$1.73/lb., barrels down 44¢ to \$1.72, butter down 10¼¢ to \$1.22¼/lb., from our last report.
- ➔ Outlook: *Moderate price strength in 2008 continues to rely on strong exports into a tight world market; high feed costs will slow 2008 production, set new higher price standard.*

## Market Outlook

*Futures project near-\$18.00 milk for 2008 and 2009, but \$18 milk ain't what it used to be. As we discussed last September, farm prices seem to have risen to a new plateau, including especially crop prices, as they are increasingly tied to high energy prices. Economic growth around the world is driving prices of limited energy, metal, and farm commodities to new highs, including oil near \$100 per barrel.*

*Agricultural productivity is being strained around the world as corn, sugar, and soybeans are converted to fuel for motor engines. These high commodity prices are a boon to crop farmers (at least those who own their land), but they are a bane to livestock farmers whose animals don't return the full value of their feed.*

*The average dairy farmer is lucky when he can afford to replace worn-out equipment and still get even a minimal return for his family's labor. Through all of 2008 and 2009, figuring from futures prices, he will afford neither. The average cost of milk production is up as much as \$6 or \$7 per cwt. over the last 3 years, including a \$5 increase in feed cost per cwt. of milk; and futures markets project nearly another \$2 for the next two years, based on corn over \$5, and soybeans over \$13, per bushel. As a result, net dairy farmer income in 2008 and 2009 could be the lowest in a decade. This may take time to hit home, though, since dairy prices are relatively high, and many dairymen grow their own feed. Farmers who buy their feed feel this squeeze now, though, and some that "grow their own" are already abandoning milking to focus on more profitable row crops.*

*Thanks to higher energy costs and the new feed-for-fuel industry, the days of \$2 corn and \$5 soy beans may be over. Thanks to higher feed costs, the days of \$13 milk may also be over. But dairy farmers, for the foreseeable future, may still be stuck between too-high feed prices and not-high-enough milk prices. **dmr***

The Dairy Market Report is created for Dairy Management Inc.



### The Nutshell

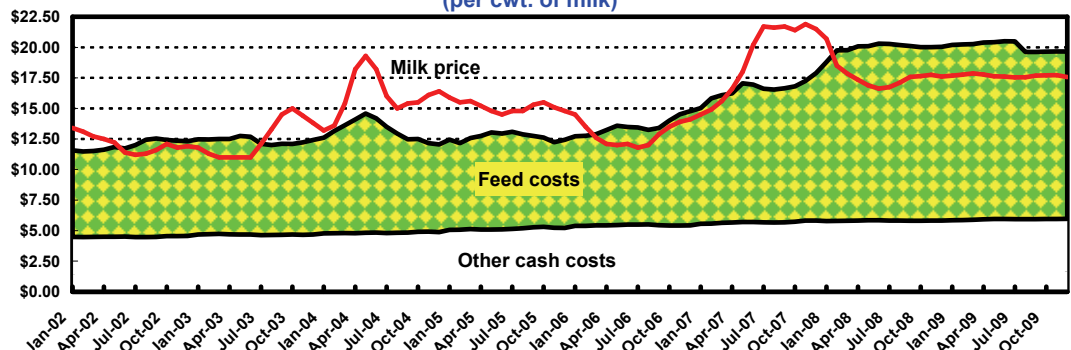
#### Production v. last year:

- Nov. Cheese    ↑ 1.2%
- Nov. Butter    ↑ 11.7%
- Nov. NDM/SMP ↑ 14.1%
- Nov. Whey       ↑ 9.0%
- December Milk ↑ 2.7%

#### Prices:

NASS	Nov.	Dec.
Cheddar	1.97	2.10
Whey	0.43	0.45
Butter	1.29	1.32
NDM	1.96	1.80
Milk	Nov.	Dec.
Cl. III	19.22	20.60
Cl. IV	20.40	19.18
	Dec.	Jan.
All	21.50	20.70

Dairy Farm Operating Costs and All-Milk Price, 2002-2009  
(per cwt. of milk)



Sources: USDA/NASS, USDA/ERS, CME, US EIA; NMPF; 2008 & 2009 projected from January 31 futures prices.

Note: Costs shown do not include returns to owners, value of family labor, or capital costs. Cattle & other dairy-related income are not accounted for.

### Cheese and Whey

In November 2007, total U.S. **cheese production** (excluding cottage cheese) was 808 million lbs., up 1.2% from a year ago. Of this, American types totaled 323 million lbs., up 3.5%, and Italian types were 343 million lb., up 4.0%. For the year to date, total cheese production was up 1.4%.

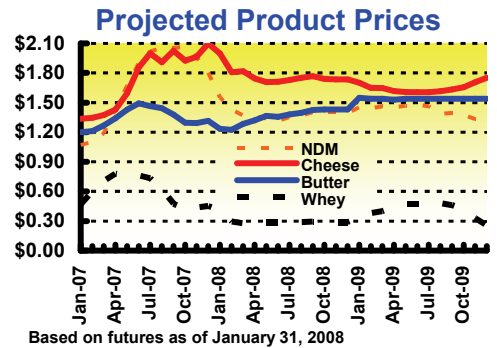
Natural American cheese **stocks** were 519 million lbs. as the year began, down 3% from a year ago. Stocks of other cheese, including Swiss, began 2008 at 266 million lbs., down 6% from last year. Total cheese stocks are down 3% from a year ago, and up 1% from December 1.

For the three months ending November 2007, **commercial disappearance** of American cheese was 991 million lbs., down 4.2% from a year ago; other cheese was 1.58 billion lbs., up 0.5% from last year. The total was down 1.4%.

**CME** cheese prices fell from recent record highs. After peaking at \$2.20 per lb. around Thanksgiving, 40-lb. block prices bounced through December and closed above \$2 as recently as January 8. By January 18, however, blocks had crashed to \$1.65. On

January 31, they were up to \$1.73. Five-hundred pound barrels closed at a record \$2.16 for five days ending December 11, then had a similarly bumpy ride. As of January 31, barrels had fallen to \$1.72.

For all of 2007, the NASS cheddar cheese price used in the Class III milk price formula



dar cheese (up 11% from last year); and \$3.91 for American processed cheese (up 8%). For the year, cheddar cheese averaged \$4.23 at retail (down ½%) and processed cheese averaged \$3.84 (up 3%).

Total **production** of dry **whey** was 94 million lbs. in November, up 9% from a year ago, and up 2.8% for the year to date. (See box.)

The protein values of whey, WPC-34, buttermilk, and nonfat dry milk are beginning to converge again. (See graph on page 3.) The manufacturers' **price** of whey was 39¢ per lb. the week of January 19, according to NASS' survey. WPC-34 prices are about \$1.20 (compare with nonfat dry milk prices near \$1.43), and Western sweet whey is down to about 31¢, per **Dairy Market News**. The **CME** dry whey futures project average whey prices of 30¢ in 2008. The international whey price is about 36¢ per lb., and 2007 U.S. whey exports were worth \$606 million through November, 5 times the value in 2003. **dmr**

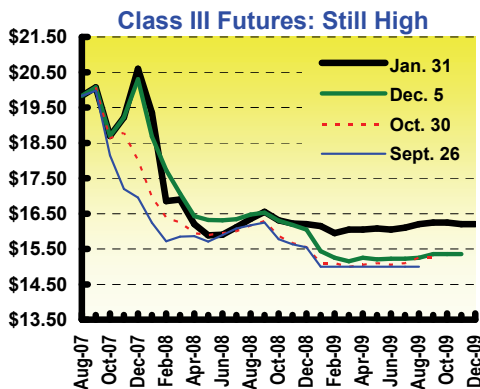
Whey Products				
Product	November Production		December 1 Maker Stocks	
	Mil. lbs.	Change v 2006	Mil. lbs.	Change v 2006
Whey, food	88.1	7.9	52.6	51.0
Whey, feed	5.5	29.6	5.7	389.2
WPC25-50	21.8	-8.9	17.4	-1.9
WPC50-90	11.4	11.4	9.3	-6.9
WPI90+	3.1	2.3	n/a	n/a
<b>Total</b>	<b>129.9</b>	<b>5.5%</b>	<b>85.0</b>	<b>33.4%</b>

averaged \$1.67. The Class III futures markets project this same price to average \$1.75 for the next 6 months (February through July), \$1.77 for all of 2008, and \$1.65 for 2009. These projections are consistent with an expectation that cheese has neared its bottom and buyers will return to buoy up the price.

With world cheddar cheese prices above \$2.20 per lb., U.S. cheese remains competitive in receptive overseas markets. The value of U.S. cheese exports in the first 11 months of 2007 was \$344 million, 2½ times what it was in 2003.

The **retail prices** in December 2007 were \$4.45 per lb. for ched-

*Protein values of whey, WPC34, buttermilk and nonfat dry milk are converging.*



## Butter

November U.S. [butter production](#) was 132 million lbs., up 12% from a year ago; production was up 6.0% for 2007 to date. U.S. [stocks](#) began 2007 at 156 million lbs., up 43% from 2006, and well over the seasonal average.

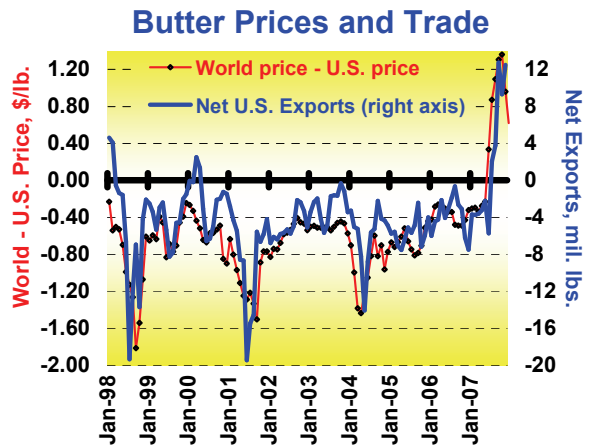
[Commercial disappearance](#) of butter in the quarter ending last November was 500 million lbs., up 9.1% from a year ago. Disappearance of all milkfat was up 1.7%.

The [retail](#) butter price averaged \$2.98 per lb. in December 2007,

(up 3% from last year) and \$3.03 for all 2007 (up 4%).

The [CME](#) butter price was down 10¼¢ to \$1.22¼ on January 28. The 2007 average NASS butter price was \$1.34. Futures project this at \$1.32 for the six months through August, \$1.36 in 2008, and \$1.54 in 2009.

World prices remain near \$1.60 per lb., as U.S. [net butter exports](#) continue to track the World—US price gap. (See graph.) **dmr**



## Dry Milk Powders

U.S. [nonfat dry milk production](#), including protein-standardized “skim milk powders” was 118 million lbs. last November, up 14% from a year ago; and down 1.2% for the year to date, to 1.37 billion lbs.

December 1 manufacturers’ stocks of (only) nonfat dry milk were 132 million lbs., up 227% from last year, and the highest in 8 years.

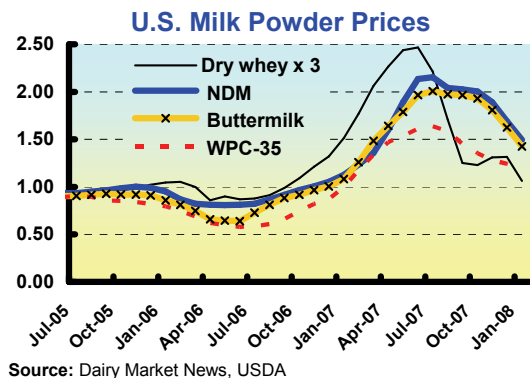
The [CME](#) prices of extra grade and grade A nonfat dry milk were \$1.40 (down 45¢ from our last report) on January 31, a nickel

below the average surveyed U.S. manufacturers’ [price](#) of \$1.45 the week of January 19.

Skim powder prices are about \$1.90 in Oceania, but near \$1.59 in Europe. U.S. exports rose to 63 million pounds in November, and dry milk and whey exports equaled 11% of U.S. skim solids production.

Overall U.S. [commercial disappearance](#) of nonfat dry milk (including exports, but excluding modified “skim milk powders”) in the three months ending November was 296 million lbs., up 27%

from a year ago, according to USDA. For the same quarter, commercial disappearance of all skim solids was up 1.8%. **dmr**



Source: Dairy Market News, USDA

## Yogurt, Ice Cream, and Fluid Milk

U.S. [yogurt production](#) was 264 million lbs. last November, up 10.9% from last year, and 2007-to-date production was up 6.9%, helped by very substantial growth in yogurt drink sales.

November [ice cream production](#) was down 1.8% from a year ago to 81 million gallons. Ice cream mix production was 32 million gallons, down 1%. For 2007 to date, ice cream and ice cream mix pro-

duction is up 1.2%. December’s [retail](#) ice cream price was \$4.08 per ½-gallon, up 4.6% from last year; the 2007 average was \$3.95, up 5.4%.

November [fluid milk sales](#) fell only 1.7% (calendar-adjusted), though [retail](#) prices rose 31%. December’s retail whole milk price was \$3.87 per gallon, up 29% from a year earlier; 2007 averaged \$3.50, up 14%. **dmr**

## U.S. Fluid Milk Sales

Product	October 2007		November 2007	
	Mil. lbs.	%	Mil. lbs.	%
Whole Milk	1,305	-5.7	1,286	-6.2
Flavored Whole Milk	66	5.0	53	-11.8
Organic Whole Milk	31	37.8	30	36.0
Reduced Fat Milk (2%)	1,568	3.2	1,534	2.7
Low Fat Milk (1%)	580	4.2	555	1.7
Fat-Free Milk (Skim)	701	2.4	673	1.1
Flavored Fat-Reduced	401	0.9	346	-2.0
Organic Fat-Reduced	103	33.3	102	36.7
Buttermilk	44	-1.3	48	0.5
Total (including “Other”)	4,824	1.0	4,686	-0.3
Total (calendar adjusted)	4,779	-1.0	4,630	-1.7

Source: USDA/AMS, Dairy Market News

## Milk: Production and Prices

U.S. [milk production](#) was 15.63 billion lbs. in December, up 2.7% from a year ago, from 0.9% more cows and 1.7% more milk per cow.

Preliminary totals for 2007 are compiled below. U.S. production was up an estimated 2.1% to 185.6 billion pounds, with 0.4% more cows and 1.6% more milk per cow. USDA [pro-](#)

[jects](#) 2.4% growth for 2008.

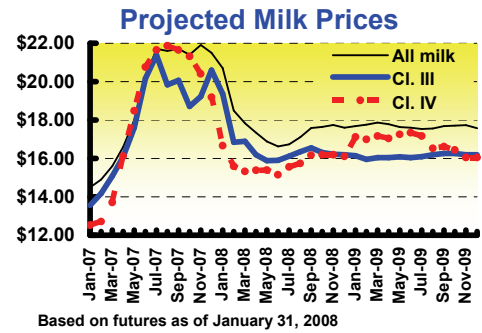
December's Class III price was announced at \$20.60 per hundredweight, up 53% from a year ago. The 2007 average was a record \$18.04. We project January Class III near \$19.15. Class III [futures](#) prices for the next six months

(February through August) averaged \$16.31 per hundredweight on January 31, and project averages of \$16.57 for 2008 and \$16.13 for 2009. USDA [forecasts](#) \$16.55 in 2008. The Class III price is the minimum price paid for cheese milk pooled on Federal orders.

The December Class IV price was \$19.18 per hundredweight, up 56% from a year ago. The 2007 average was \$18.36. January's Class IV is projected near \$16.30. [Futures](#) markets project Class IV milk to average about \$15.40 for the next six months, \$15.79 for 2008 and \$16.81 for 2009. USDA forecasts \$17.35 in 2008. The Class IV price is the minimum price for pooled milk used to make butter or milk powder.

December component prices: \$1.4348 per lb. (up 3¢ from November) for butterfat in Class III, Class IV, and producer milk; \$4.7061 (up 40¢) for protein in Class III and producer milk; \$1.6296 (down 15¢) for total non-fat solids in Class IV milk; and \$0.2637 (up 2¢) for other solids in Class III and producer milk.

December's Class II price was down \$1.25 to \$20.82 per hun-



dredweight. This is the minimum price for pooled milk used to make soft dairy products and in most food processing. January is projected near \$22.00.

The February Class I base price was down 36¢ to \$19.68, but 47% above last year and now based on cheese/whey values. The Class I base price plus the Class I location differential is the minimum price processors pay at the plant for bottling milk pooled on a [Federal order](#).

December's [all-milk price](#) was \$21.50, down 40¢ from November's record; January was down another 80¢ to \$20.70. The 2007 average was \$19.13, \$3.10 above the 2004 record. Futures project the next six months at \$17.32, 2008 at \$17.69, and 2009 at \$17.68. **dmr**

State	Milk Cows		Milk per Cow		Milk	
	(th. head)	Change	(lbs.)	Change	(mil. lbs.)	Change
Alabama	13	-7.1%	15,308	5.6%	199	-2.0%
Alaska	0.6	-25.0%	14,667	19.7%	8.8	-10.2%
Arizona	181	4.6%	23,193	1.5%	4,198	6.2%
Arkansas	17	-13.1%	12,662	-4.4%	220	-17.0%
California	1,810	1.7%	22,461	3.0%	40,660	4.7%
Colorado	118	6.8%	22,911	-1.1%	2,692	5.7%
Connecticut	19	0.0%	19,263	-0.3%	366	-0.3%
Delaware	7	-3.6%	16,741	-3.9%	113	-7.4%
Florida	127	-3.6%	16,637	1.3%	2,117	-2.3%
Georgia	77	0.0%	18,169	-0.4%	1,399	-0.4%
Hawaii	3.0	-30.2%	12,067	-9.0%	36.2	-36.5%
Idaho	513	5.2%	22,490	0.7%	11,543	5.9%
Illinois	103	0.0%	18,612	-3.1%	1,917	-3.1%
Indiana	167	0.9%	20,258	1.3%	3,373	2.2%
Iowa	213	3.9%	20,075	-0.4%	4,276	3.5%
Kansas	109	-2.5%	20,723	-0.9%	2,264	-3.4%
Kentucky	90	-8.2%	13,911	4.8%	1,252	-3.8%
Louisiana	29	-10.9%	12,316	-0.5%	351	-11.4%
Maine	33	1.6%	18,031	0.5%	586	2.1%
Maryland	58	-9.0%	17,854	4.5%	1,040	-4.8%
Massachusetts	15	-7.8%	17,153	-1.3%	253	-9.0%
Michigan	334	4.3%	22,595	1.8%	7,541	6.2%
Minnesota	460	2.2%	18,843	1.4%	8,663	3.6%
Mississippi	21	-7.6%	15,247	2.8%	324	-5.0%
Missouri	112	-3.0%	15,049	-5.9%	1,678	-8.8%
Montana	18	-7.9%	19,086	2.4%	334	-5.6%
Nebraska	59	-4.1%	18,410	0.4%	1,077	-3.7%
Nevada	27	0.0%	21,630	4.7%	584	4.7%
New Hampshire	14	-6.7%	20,786	6.4%	291	-0.7%
New Jersey	10	-6.8%	16,488	1.9%	169	-5.1%
New Mexico	342	-3.8%	21,406	-0.5%	7,310	-4.3%
New York	627	-1.8%	19,317	2.3%	12,102	0.5%
North Carolina	48	-6.4%	19,288	4.2%	921	-2.4%
North Dakota	29	-8.6%	15,282	4.0%	447	-4.9%
Ohio	276	0.6%	18,042	1.7%	4,975	2.4%
Oklahoma	69	-6.2%	16,701	0.4%	1,144	-5.8%
Oregon	113	-4.4%	19,273	1.4%	2,173	-3.1%
Pennsylvania	550	-0.8%	19,452	0.3%	10,689	-0.5%
Rhode Island	1.1	0.0%	16,182	-6.3%	17.8	-6.3%
South Carolina	18	6.6%	17,600	7.6%	319	14.7%
South Dakota	85	4.9%	19,306	3.9%	1,641	9.0%
Tennessee	63	-5.6%	15,684	0.2%	992	-5.4%
Texas	348	4.0%	21,174	-0.7%	7,374	3.2%
Utah	85	-0.9%	20,563	1.3%	1,753	0.5%
Vermont	140	-0.9%	18,111	-1.5%	2,531	-2.4%
Virginia	100	-2.0%	17,530	1.0%	1,753	-1.0%
Washington	238	0.2%	23,288	1.0%	5,531	1.2%
West Virginia	13	0.0%	15,308	-0.5%	199	-0.5%
Wisconsin	1,248	0.4%	19,293	2.5%	24,068	2.9%
Wyoming	7.1	5.6%	18,898	7.3%	133.7	13.3%
United States	9,153	0.4%	20,279	1.6%	185,599	2.1%

Source: USDA/NASS preliminary reports.

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The National Milk Producers Federation (NMPF) is a farm commodity organization representing most of the dairy marketing cooperatives serving the U.S.

