

Dairy Market Report



Executive Summary

- ➔ U.S. skim solids commercial disappearance up 2.2% in 2007's fourth quarter; fat up 1.9%.
- ➔ Cheese stocks opened February down 8%, butter stocks up 26%, from last year.
- ➔ January milk production up 1.9%: 0.9% more cows each making 1.0% more milk.
- ➔ Cheese prices on a wild ride: March 13 blocks up 8¢ to \$1.81/lb., barrels down ¾¢ to \$1.71¼, butter up 12¼¢ to \$1.34½/lb., from our last report.
- ➔ Outlook: *High but falling milk prices won't cover dramatically higher feed costs in 2008. Exports remain crucial to maintain demand.*

Market Outlook

Export sales have held up cheese (and milk) prices in recent weeks, but the futures markets say this is temporary. NMPF's Peter Vitaliano estimates that 2007 U.S. exports accounted for 3.2% of U.S. milkfat production and 10% of milk protein. U.S. companies are building long-term relationships with overseas customers that are crucial to maintain this demand.

The graph below shows three-year growth trends in the number of cows milked and in milk per cow for each of the top 25 milk producing states. The size of each state's bubble reflects 2007 production. Nearly all have averaged milk per cow growth between 0% and 4%, but there is a wide variation in herd growth. New Mexico's long-term growth in cows, shown below, was reversed in 2007 with a loss of 3.7% of her cows.

Texas' exceptional growth in milk per cow below reflects heavy turnover: new operations in the high plains counties—some moved from New Mexico—have boosted the state's herd average and milk cow numbers are up 9% in just the last two years. Other states with large herd growth over the last two years include Wyoming (44.9% growth), Colorado (13.5%), Idaho (12.7%), and Arizona (9.7%). Milk per cow growth slowed in 2007 to 1.5% and could be slower in 2008, as high feed costs further undermine the value of declining milk prices. *dmr*

The Dairy Market Report is created for Dairy Management Inc.



The Nutshell

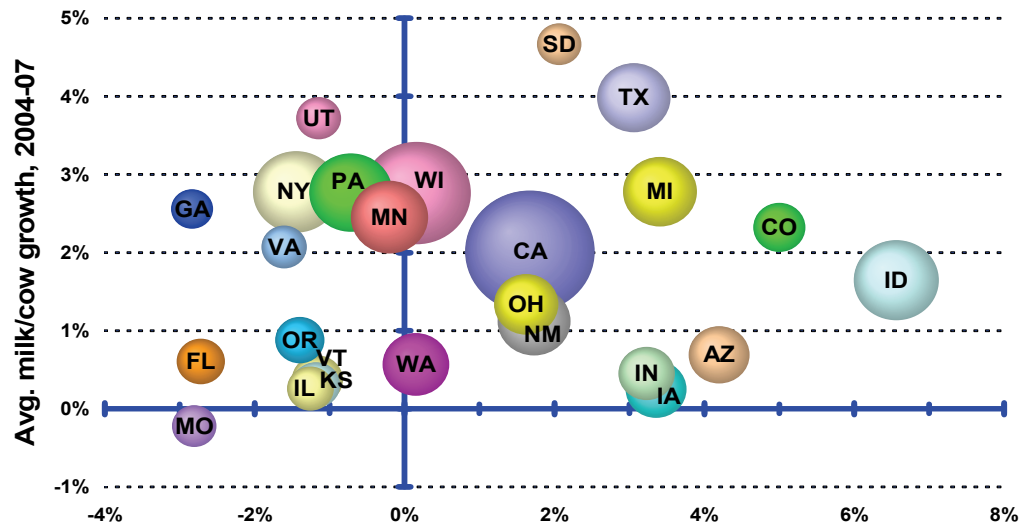
Production v. last year:

- Jan. Cheese ↓ 1.9%
- Jan. Butter ↑ 12.7%
- Jan. NDM/SMP ↑ 31.8%
- Jan. Whey ↓ 7.8%
- January Milk ↑ 1.9%

Prices:

NASS	Jan.	Feb.
Cheddar	2.00	1.84
Whey	0.40	0.27
Butter	1.23	1.20
NDM	1.51	1.33
Milk	Jan.	Feb.
Cl. III	19.32	17.03
Cl. IV	16.29	14.67
All	20.50	19.30

2007 Milk Production: Top 25 States With Three Year Growth Trends



Bubble volume represents to 2007 production Data source: USDA

Cheese and Whey

Total U.S. **cheese production** (excluding cottage cheese) was 810 million lbs. in January 2008, down 1.9% from a year ago and down 4% from December 2007. Of this, American types totaled 334 million lbs. in January, down 2.7% from last year, and down 0.2% from December. Italian types were 350 million lb., down 1.1% from last year and down 1.9% from December.

Natural American cheese **stocks** were 494 million lbs. as February began, down 10% from a year ago. Stocks of other cheese, including Swiss, began February at 286 million lbs., down 6% from last year. Total cheese stocks are down 8% from a year ago, and down 2% from January 1.

For the three months ending December 2007, **commercial disappearance** of American cheese was 1.02 billion lbs., up 1.4% from a year ago; other cheese was 1.60 billion lbs., up 1.1% from last year. The total was up 1.2%. For all 2007, total cheese disappearance was up 1.9%, to 10.1 billion lbs.

CME cheese prices continued their roller coaster ride. After January prices as low as \$1.65 (blocks) and \$1.73 (barrels), they topped \$2 in late February, reach-

ing \$2.09 (blocks) and \$2.06 (barrels). But on March 13, they were down yet again, to \$1.81 (blocks) and \$1.71 (barrels).

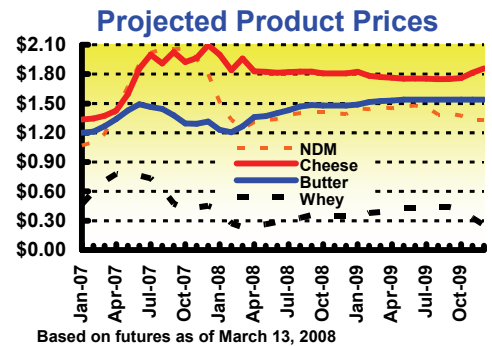
March 13 futures markets project the NASS cheese price to average \$1.82 for the next 6 months (April through September), \$1.85 for all of 2008, and \$1.78 for 2009.

World cheddar cheese prices remain above \$2.20 per lb., and export demand has buoyed the U.S. market in fits and starts. U.S. cheese exports were 219 million pounds in 2007, this was 2.2% of U.S. cheese production, and worth \$387 million.

The **retail prices** in January 2007 were \$4.62 per lb. for cheddar cheese (up 14% from last year); and \$3.99 for American processed cheese (up 6%).

Total **production** of dry **whey** for food was 85.3 million lbs. in January 2008, down 8% from a year ago. The 2007 total was up 3%. (See box.)

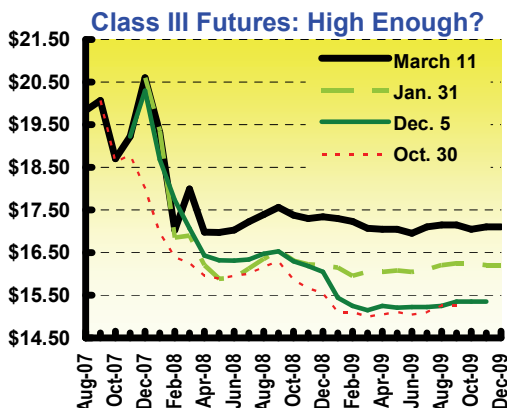
The protein values of whey, WPC-34, butter-milk, and nonfat dry milk continue to converge. (See graph on page 3.) The manufacturers' **price** of whey was 25¢ per lb. the week of March 8, according to NASS' survey. WPC-34 prices are below \$1.15, while nonfat dry milk is near \$1.25, and



Western sweet whey is down again to about 24¢, per **Dairy Market News**. The **CME** dry whey futures project average whey prices of 31¢ in 2008. The international whey price is also about 30¢ per lb. The U.S. exported 940 million pounds of whey products in 2007, equal to 6% of U.S. skim milk solids production. **dmr**

Feed costs are driving the outlook for dairy producer losses in 2008 & 2009.

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Whey Products				
Product	December Production		January 1 Maker Stocks	
	Mil. lbs.	Change v 2006	Mil. lbs.	Change v 2007
Whey, food	92.6	4.5	62.0	53.3
Whey, feed	5.0	34.1	5.2	307.2
WPC25-50	22.0	-5.9	19.9	6.5
WPC50-90	12.2	12.0	9.4	-11.3
WPI90+	3.4	1.5	n/a	n/a
Total	135.2	4.1%	96.5	35.9%
Product	January Production		February 1 Maker Stocks	
	Mil. lbs.	Change v 2007	Mil. lbs.	Change v 2007
Whey, food	85.3	-7.8	61.9	87.0
Whey, feed	6.3	72.8	5.0	178.6
WPC25-50	20.8	-6.3	21.8	27.7
WPC50-90	11.9	10.3	9.0	-11.8
WPI90+	3.3	-5.6	n/a	n/a
Total	127.6	-3.8%	97.7	57.1%

Butter

January U.S. [butter production](#) was 170 million lbs., up 13% from a year ago. For all 2007, production was up 5.6%, to 1.53 billion lbs. U.S. [stocks](#) began February at 188 million lbs., up 26% from last year, and still well above the seasonal average.

[Commercial disappearance](#) of butter in the last three months of 2007 was 496 million lbs., up 5.6% from a year ago; for all 2007 it was up 5.6% to 1.52 billion lbs. Disappearance of all milkfat was

up 1.9% for the quarter, 2.0% for the year.

The [retail](#) butter price averaged \$3.08 per lb. in January 2008, up 3% from last year.

The [CME](#) butter price was up 12½¢ to \$1.34½ on March 13. Futures project NASS butter at \$1.42 for the six months through September, \$1.39 in 2008, and \$1.53 in 2009. World prices have declined more than U.S. prices, and U.S. [net butter exports](#) are tracking the gap down. (See graph.) **djr**

Dry Milk Powders

U.S. [nonfat dry milk production](#), including protein-standardized “skim milk powders” was 158 million lbs. in January, up 31% from a year ago. Annual production was down 0.2% in 2007, to 1.51 billion pounds.

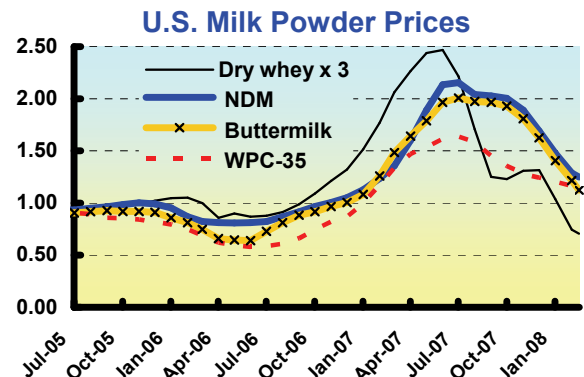
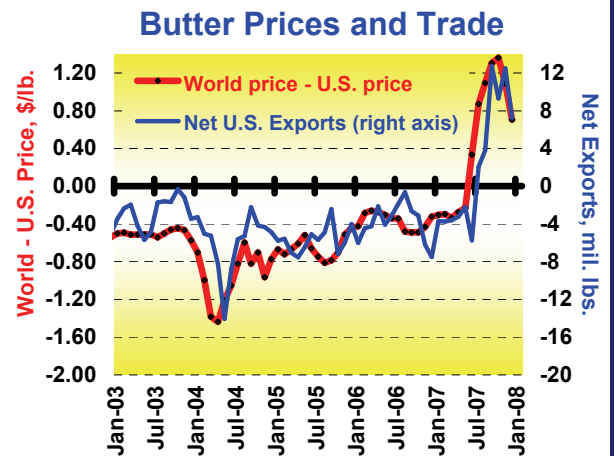
February 1 manufacturers’ stocks of (only) nonfat dry milk were 150 million lbs., up 86% from last year.

The [CME](#) prices of extra grade and grade A nonfat dry milk were \$1.30 (down 10¢ from our last report) on March 13, 3¢ above the average surveyed U.S. manufacturers’ [price](#) of \$1.27 the week of

March 8.

Skim powder prices are about \$1.80 in Oceania, and \$1.60 in Europe, per [USDA](#). January exports were 72 million pounds, nearly double a year ago, accounting for 5% of U.S. skim solids production. In all 2007, these exports were 568 billion pounds, or 3½% of U.S. skim solids.

Overall U.S. [commercial disappearance](#) of nonfat dry milk (including exports, but excluding modified “skim milk powders”) in the three months ending December was 266 million lbs., up 16%



Source: Dairy Market News, USDA

from a year ago, according to USDA. For the same quarter, commercial disappearance of all skim solids was up 2.2%.

For all 2007, disappearance of skim solids was up 1.9% **djr**

Yogurt, Ice Cream, and Fluid Milk

U.S. [yogurt production](#) was 296 million lbs. in January, up 3.5% from last year, and 8.5% from December 2007. For all of 2007, production was up 6.9%.

January [ice cream production](#) was down 4% from a year ago to 89 million gallons. Ice cream mix production was 34 million gallons, down 6%. For all of 2007, ice cream production was up 2% to 1.3 billion gallons; ice cream mix

was down 0.6% to 491 million gallons. Combined, they were up 1.3%. January’s [retail](#) ice cream price was \$4.14 per ½-gallon, up 2.7% from last year.

January [fluid milk sales](#) fell only 1.0% from a year ago (calendar-adjusted), though [retail](#) prices rose 26% to \$3.87. **djr**

U.S. Fluid Milk Sales

Product	December 2007		2007 Total		January 2008	
	Mil. lbs.	%	Mil. lbs.	%	Mil. lbs.	%
Whole Milk	1,325	-7.3	15,815	-4.3	1,334	-7.0
Flavored Whole Milk	53	-10.9	672	-5.7	48	-25.0
Organic Whole Milk	31	40.9	321	31.8	33	28.5
Reduced Fat Milk (2%)	1,567	2.6	18,028	1.1	1,580	0.2
Low Fat Milk (1%)	557	2.7	6,561	2.6	580	0.7
Fat-Free Milk (Skim)	684	1.2	8,119	1.0	708	-0.8
Flavored Fat-Reduced	284	-3.5	3,695	-0.9	364	-1.6
Organic Fat-Reduced	96	30.2	1,093	33.6	109	24.7
Buttermilk	51	7.2	527	1.1	53	21.2
Total (including “Other”)	4,716	-0.7	55,086	-0.1	4,822	-1.7
Total (calendar adjusted)	4,778	-0.5	55,047	-0.4	4,810	-1.0

Source: USDA/AMS, Dairy Market News

Milk and Feed

U.S. [milk production](#) was 15.91 billion lbs. in January, up 1.9% from 2007, from 1.0% more cows and 0.9% more milk per cow; large increases in Western states, especially, are straining milk plants. USDA [projects](#) 2.7% growth for 2008; this may be high: we expect cow numbers to continue rising, based on the large supply of replacements, but milk per cow will suffer from high feed costs.

February's Class III price was announced at \$17.03 per hundredweight, down \$2.29 from January, but up \$2.85 from a year ago. March will be up again to near \$17.80. Class III [futures](#) prices for the next six months (April through September) averaged \$17.11 per hundredweight on March 13, and project averages of \$17.41 for 2008 and \$17.25 for 2009. USDA [forecasts](#) \$15.80 in 2008. The Class III price is the minimum price paid for cheese milk pooled on Federal orders.

The February Class IV price was \$14.67 per hundredweight, down \$1.62 from January, but up \$1.96 from a year ago. March's Class IV is projected near \$14.25. [Futures](#) markets project Class IV milk to average about \$15.80 for the next six months, \$15.75 for 2008 and \$16.80 for 2009. USDA forecasts \$15.45 in 2008. The Class IV price is the minimum price for pooled milk used to make butter or milk powder.

February component prices: \$1.3010 per lb. (down 3¢ from January) for

butterfat in Class III, Class IV, and producer milk; \$4.0180 (down 48¢) for protein in Class III and producer milk; \$1.1643 (down 17¢) for total nonfat solids in Class IV milk; and \$0.0803 (down 13¢) for other solids in Class III and producer milk.

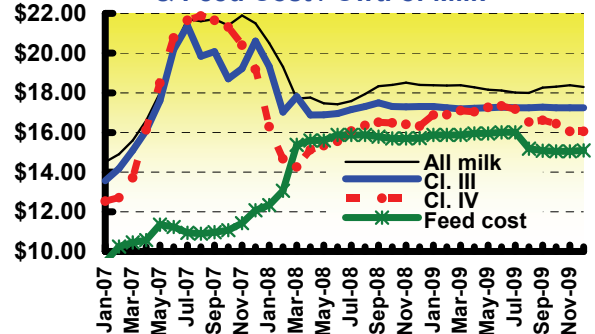
February's Class II price was down \$1.29 to \$18.46 per hundredweight. This is the minimum price for pooled milk used to make soft dairy products and in most food processing. March is projected near \$15.60.

The March Class I base price was down \$2.98 to \$16.70, but \$2.45 above last year and based on cheese/whey values. April's Class I base price should be near \$18.40. The Class I base price plus a location differential is the minimum price processors pay at the plant for bottling milk pooled on a [Federal order](#).

February's [all-milk price](#) was \$19.30, down \$1.20 from January and down \$2.60 from November's record. Futures project the next six months at \$17.75, 2008 at \$18.30, and 2009 at \$18.25.

Feed costs continue to drive the outlook for dairy farmer losses in

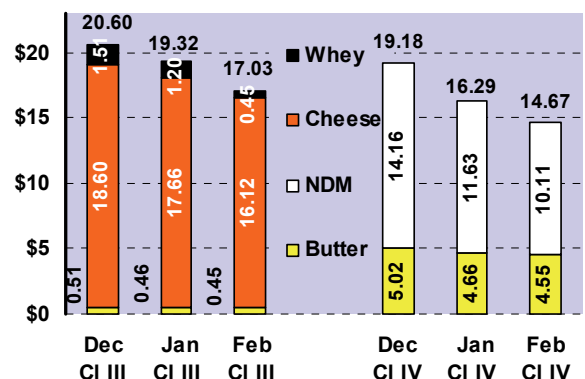
Projected Milk Prices & Feed Cost / Cwt. of Milk



Based on futures as of 3/13/2008; non-feed costs not shown.

2008 and 2009. February's \$11 NASS [soybean price](#) was a dollar above the record set in June 1973 (during an exceptional price spike) and matched in December 2007. [Soy](#) futures project more records in 2008, with NASS soy expected to pass \$13. The February [corn price](#) of \$4.25/bu. approached the July 1996 record of \$4.43. [Corn](#) futures project that record to be exceeded by as much as a dollar a bushel this summer. If feed and dairy futures are right, they project the milk-feed price ratio to remain below 1.9 through next summer. **dmr**

Class Price Breakdown



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Dairy Management Inc.™ and state, regional, and international organizations work together to drive demand for dairy products on behalf of America's dairy farmers, through the programs of the American Dairy Association®, the National Dairy Council®, and the U.S. Dairy Export Council®.



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