Market and Price Report
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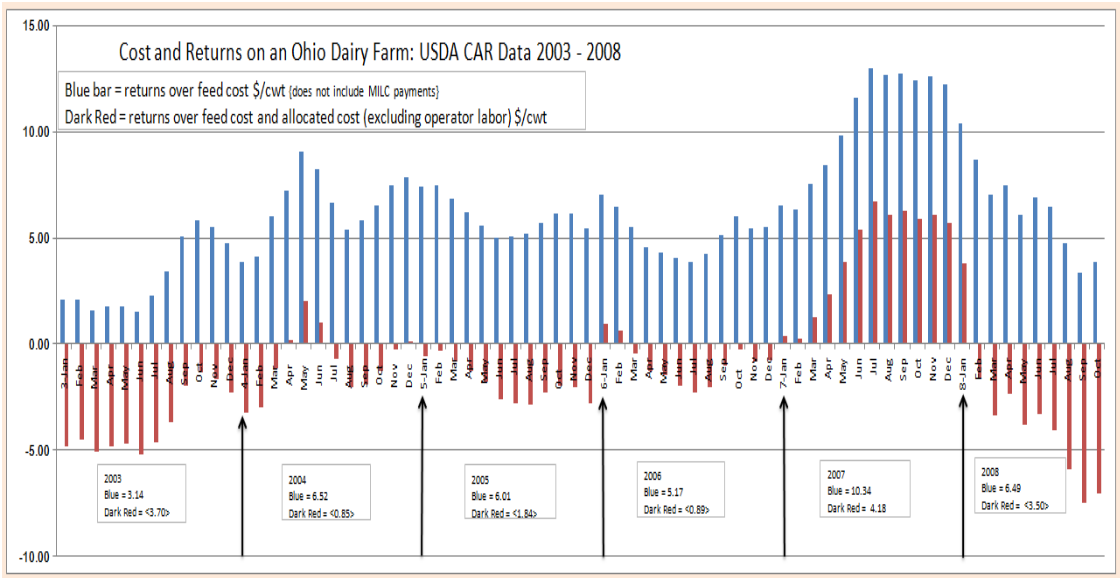
No one requires a reminder that we are living through tough economic times. The economic and financial headlines are filled with the latest bad news. The latest insight into the U.S. and worldwide economic freefall is that this will last at least through the third quarter of 2009. Had bad is it? *Retail Sales*, a report published by the U.S. Census Bureau provides an answer. Total retail sales are reported to be down 7.4% for November 2008 over the year earlier. That is a decline of $28.4 billion dollars in consumer spending for the month. U.S. unemployment is anticipated to reach almost 10% before the economy begins showing real growth.

Given the uncertainty surrounding the details of a federal stimulus package, economic recovery may begin by the start of 2010, but it will be well into that year before the improved economic activity will be realized across the board. For those dairy producers who had the foresight or good luck to lock in low feed prices back in late 2006 or early 2007 the good news is that excellent economic returns for 2007 helped cover reduced net returns for 2008. For those buying at the market over this period, the red ink is piling up and the coming year will not look any better.

NET RETURNS ON OHIO DAIRY FARMS: The latest data from the USDA Costs and Returns database for Ohio shows the severity of the coming financial squeeze on dairy farms. The chart below shows the net return over feed cost IOFC (the blue bars) and the net return over all costs IOAC (feed, variable, and fixed including capital recovery, but excluding operator labor charges) for the years 2003 – 2008. Income over feed cost (blue bars) beginning in 2007 and holding throughout most of 2008 are excellent. IOFC is even better for those with contracted feed prices, as the USDA data uses current market prices for feed each month. The IOAC is also excellent for 2007 but not so for 2008. As it appears now, IOAC averaged for January through October 2008, stands at a negative $3.50 per cwt. With two months to go for a complete picture in 2008 this may exceed the average of a negative $3.70 per cwt. posted for 2003. Given the current dismal macroeconomic outlook, 2009 will likely see a continuation of the red ink.



Market Watch

No group watches the dairy markets more closely than the good folks at the USDA Dairy Market News. The following is a synopsis of what they have to say about the current conditions in the dairy markets, domestic and international (bolding added for emphasis). Visit my OhioDairyWeb for up-to-date price, futures/options and price forecast information.

OhioDairyWeb 2009 can be found at http://aede.osu.edu/programs/ohiodairy.

BUTTER: Butter markets across the country are weak. The CME Group cash butter price continues to decline and settled at $1.1100 at weeks end, $0.1475 lower this week and the lowest cash price since June 2003. **Conversations with producers and handlers are now including comments on possible Government Support (CCC) clearances of butter**. The current support price of butter is $1.0500 with the last clearances into this program occurring in May 2003.

CHEESE: Cash cheese prices on CME Group trading **fell sharply on December 11, reaching the lowest daily trading levels ($1.50s) since April 2007**. Most traders had been expecting declines after holiday orders had been shipped and exports have waned. Buyers have been buying just to cover immediate needs as they want to have enough to cover holiday demand yet have low inventories for yearend fiscal considerations. Tighter credit is also a factor in inventory management.

FLUID MILK: Milk production across the country is following trends of recent weeks. In the deep southern tier of states, milk output is starting to show more signs of increases while output from coast to coast further north is generally holding steady. Milk volumes this week were generally being readily absorbed by bottling operations with much lighter volumes clearing to balancing plants. **This bottling trend will quickly turn around by mid week next week as schools and universities begin to recess for the year end holiday period.**

DRY PRODUCTS: Dry dairy product markets are weak as prices continue to generally trend lower, especially at the upper end of reported price ranges. Nonfat dry milk markets are generally weak with prices mixed following sales based on last week's higher NASS price, although volumes continue to clear to CCC at $0.8000. In some areas of the country, heavy nonfat dry milk drying occurring last week has slowed noticeably this week in Central and Eastern areas, while heavy in the West. Overall demand is slow and lack luster.

CCC SUPPORT ACTIVITY: During the week of December 8 - 12, CCC net purchases totaled 7,824,504 pounds of Western nonfortified NDM under the dairy price support program. **CCC purchases of NDM now exceed 93 million pounds**.

CWT HERD RETIREMENT BIDS: Cooperatives Working Together (CWT) announced on December 10, that it has tentatively accepted 184 bids in its sixth herd retirement program and second during 2008, representing 61,078 cows and 1.2 billion pounds of milk. In addition, CWT has accepted bids for 1,548 bred heifers in this herd retirement program. **Together, CWT's two herd retirements during 2008 account for 85,663 cows that produced 1.637 billion pounds of milk, along with another 2 billion pounds, milk equivalent, that CWT's Export Assistance program has removed from the market**.

DECEMBER MILK SUPPLY AND DEMAND ESTIMATES (WAOB): Milk production forecasts for 2008 and 2009 are reduced slightly from last month. The cow number forecasts are unchanged. Forecast milk per cow for both years is reduced reflecting the continued slow rate of growth in output per cow. However, the forecasts for 2009 are unchanged as weaker international demand is expected to limit exports. Weakness in demand for fat basis imports is expected to carry into 2009, thus the fat basis import forecast for 2009 is lowered. **Sales of nonfat dry milk (NDM) to the CCC are forecast higher for 2008 and 2009.**

CLASS MILK PRICES: Class III and Class IV prices for 2008 and 2009 are reduced from last month as most product price forecasts are lowered. Demand both domestically and in international markets will likely be affected by economic weakness. Cheese prices are forecast weaker as domestic demand lags in a weak economy. Although the whey price is unchanged from last month, weaker cheese prices will push the Class III price lower while lower butter and NDM prices will result in a reduced Class IV price. **The 2008 all milk price forecast is unchanged this month, averaging $18.30 to $18.40, but the 2009 forecast is lowered to $14.95 to $15.75.**