



DIBS

Dairy Issue Briefs



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Plummeting prices in the dairy industry are creating critical cash-flow and long-term survivability issues on Ohio's 3,328 dairy farms. In response to these falling prices, OSU Extension's Dairy Working Group, a collaboration of OSU Extension Educators and Specialists discuss:

What happened to our dairy exports?

In a nutshell, our dairy exports have been cut by half. This drop started in mid-summer 2008, but accelerated in the fall. What happened?

First, it finally rained in New Zealand last winter (our summer 2008). Milk production in New Zealand has rebounded by 8-10%. New Zealand now produces over 35 billion pounds of milk per year (pretty close to what is produced in California) and exports over 32 billion pounds per year (solids equivalent) in the form of butter, non-fat dry milk, whole milk powder and various other dairy products.

Second, starting in mid-summer 2008, the U.S. dollar strengthened considerably against most currencies, particularly those of the countries we compete with for dairy exports. Last summer, the Australian dollar was trading nearly at par with the U.S. dollar; it is now worth about 65¢.

Third, The European Union (EU) has increased its dairy quota (i.e., milk production) and has announced that it is resuming its export subsidy on dairy exports. The last time that the EU entered this "trade war" it subsidized dairy exports to the tune of \$3 to \$5 billion per year. Consequently, world prices of dairy products have hit rock bottom.

Fourth, the world economic crisis has reduced world demand for dairy products.

Fifth, the melamine disaster in China has reduced demand for milk powder in China and, subsequently world demand for dairy products – especially milk protein.

So five big black clouds have converged into the perfect storm and our exports of dairy products have plummeted. Considering that last year the U.S. exported approximately 12% of its production (about 22 billion pounds of milk on a solids equivalent), that's a lot of extra milk looking for a belly in the U.S. Unfortunately, it is highly unlikely that we will recover these export markets anytime soon.



Bottom Line: Exports of dairy products have dropped considerably and this has had a significant negative effect on our domestic milk prices. Don't expect exports to increase anytime soon.

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