



AEDE Agricultural, Environmental,
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The following information is excerpt from *the Livestock, Dairy, & Poultry Outlook/LDP-M-171* / November 17, 2008 Economic Research Service, USDA, and the USDA Costs and Returns Database – Dairy.

U.S. Dairy Overview

The good news is that feed costs have fallen and will continue to decline into 2009. The bad news is that a world-wide economic recession is causing milk prices to fall proportionately more than feed costs. Using the USDA Costs and Returns database, (<http://www.ers.usda.gov/Data/CostsAndReturns/>) the average 2008 net returns over all allocated costs, excluding operator labor charges, has declined to a negative \$3.26 per cwt. compared to a positive \$4.18 per cwt. earned in 2007. Net returns over all allocated costs have not been this negative since the USDA began reporting these monthly data in January 2003. Net returns over total costs, including operator labor charges, for September 2008 is a negative \$11.87 per cwt.. Net returns this low have not been recorded since June 2003. Clearly with numbers like these the financial pressure on U.S. dairy farm families will be tremendous in the coming months and throughout 2009.

U.S. Dairy Herd

Cow numbers will average 9,266-thousand head for 2008. For 2009, U.S. herd size is forecast to contract to 9,246-thousand head. This anticipated decline is based on anticipated higher feed costs with lower milk prices. Cow slaughter is running higher than a year ago and cow replacement prices are lower. Milk per cow is expected to average 20,479, up 212 pounds per cow over 2007. An increase in milk per cow to 20,710 projected for 2009 will be the smallest since 2004. Higher feed prices along with lower product prices will continue to have a limiting effect on milk yields. Total milk production for 2009 is expected to increase by less than one percent to 191.5 billion pounds.

Commercial Use

Domestic and international demand growth is slowing. The slowing domestic economy is taking a toll on the restaurant sector and on cheese demand. Strong export markets have helped butter and nonfat dry milk sales, but as the world economy slows, exports are forecast decline in 2009. These factors, (1) slowing global economy, (2) the dollar strengthening against the Euro and other currencies, and (3)

increasing foreign production, all suggest a decline in export sales in 2009. Declining oil prices will reduce oil revenue for a number of major NDM importers such as Mexico and Algeria. This decline will temper export sales in 2009. New Zealand and Australian milk production is expected to climb above year earlier levels in 2009. Increased supply from major competitors and a weakening global economy will curb exports next year. Both foreign and domestic demand is adversely affected by the onset of economic slowdown.

Market Prices / Commodities

A softening demand both domestically and internationally contributes to lower prices for the balance of 2008 and into 2009 compared with 2007. The cheese price is forecast at \$1.88 to \$1.89 per pound this year and to decline to \$1.675 to \$1.765 per pound in 2009. Butter prices, at a near record high this year, are projected to average \$1.455 to \$1.485 per pound in 2008 and decline to \$1.39 to \$1.51 per pound next year. NDM prices have declined through October according to NASS and averaged 91 cents a pound by the end of October. By early November, the Commodity Credit Corporation (CCC) had agreed to purchase of 48 million pounds of NDM at the 80 cent per pound support price. Slower exports will continue to take a toll on NDM prices both this year and in 2009. NDM prices are expected to average between \$1.225 to 1.245 per pound and then drop to 90.0 to 97.0 cents per pound in 2009. Whey prices, in the doldrums after 2007 highs, are expected to average 24.5 to 25.5 cents per pound for 2008 and decrease in 2009 to 19.0 to 22.0 cents per pound.

The Class III price is expected to average \$17.30 to \$17.40 per cwt in 2008 and slide to \$14.75 to \$15.65 per cwt in 2009. As domestic and export demand continues to weaken, the Class III price may slide another \$1.00 - \$1.50. The Class IV price is expected to be lower next year than this year. The price is expected to average \$14.75 to \$14.95 per cwt in 2008 and fall to \$11.50 to \$12.50 per cwt in 2009. These price projections apply the new make allowances. The new allowances went into effect on October 1. The all milk price is projected at \$18.30 to \$18.40 per cwt this year, declining to \$15.30 to \$16.20 per cwt next year. You can find an updated 24 week dairy commodity and Class 3 & 4 milk price forecast at <http://aede.osu.edu/programs/ohiodairy/>.

MILC-2008

With weakening demand and slow production growth, 2009 will see some positive MILC payments. These payments are expected to average \$0.45 - \$0.55 in 2009. If you would like to calculate these payments, along with the feed price adjuster, you can download a Microsoft Excel Workbook at http://aede.osu.edu/programs/ohiodairy/MILC_Center/MILC_Center.htm. This workbook will help you project your eligible milk production and calculate your MILC payments by month, October through September.