

Outlook for the U.S. Dairy Sector in 2009

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The dairy sector in 2008 and 2009

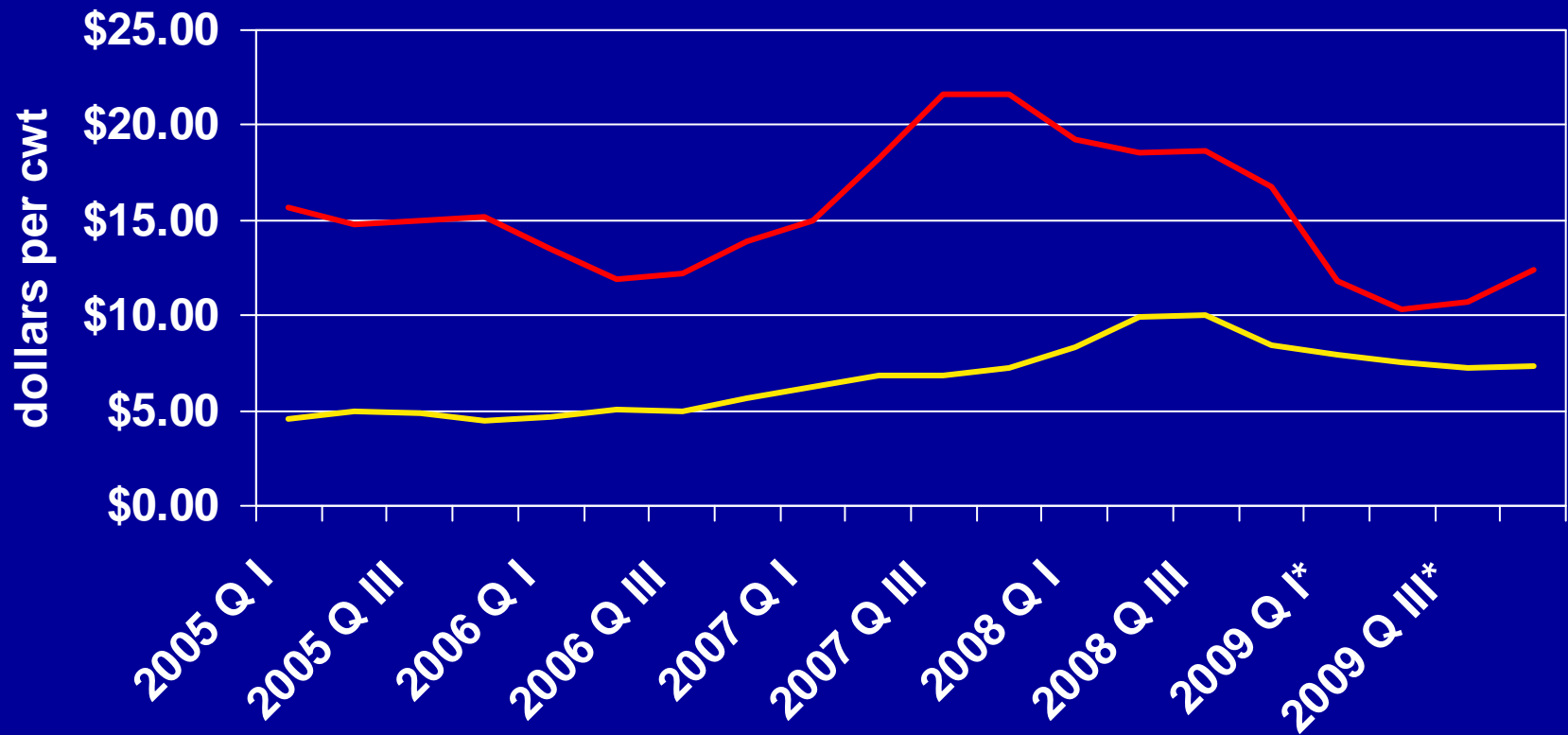
2008

- High milk and product prices
- High volume of product exports
- High feed costs
- High production volume

2009

- Low milk and product prices
- Exports drop
- Feed costs remain high (but lower than '08)
- Production volume exceeds demand

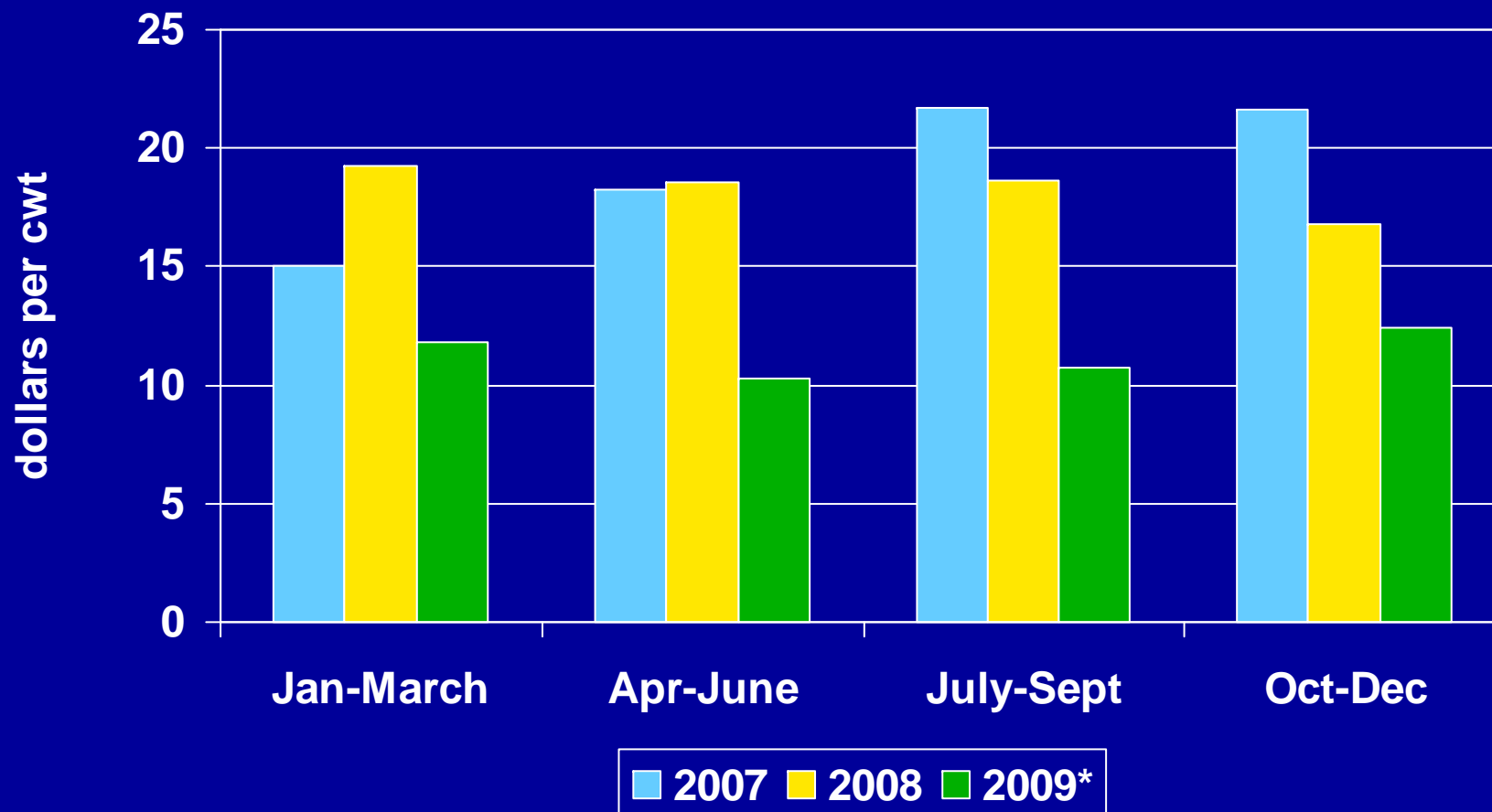
Milk prices fall quickly in 2009, while feed costs slowly decline



— all milk price — 16% Protein Mixed Ration Value (USDA Benchmarked)

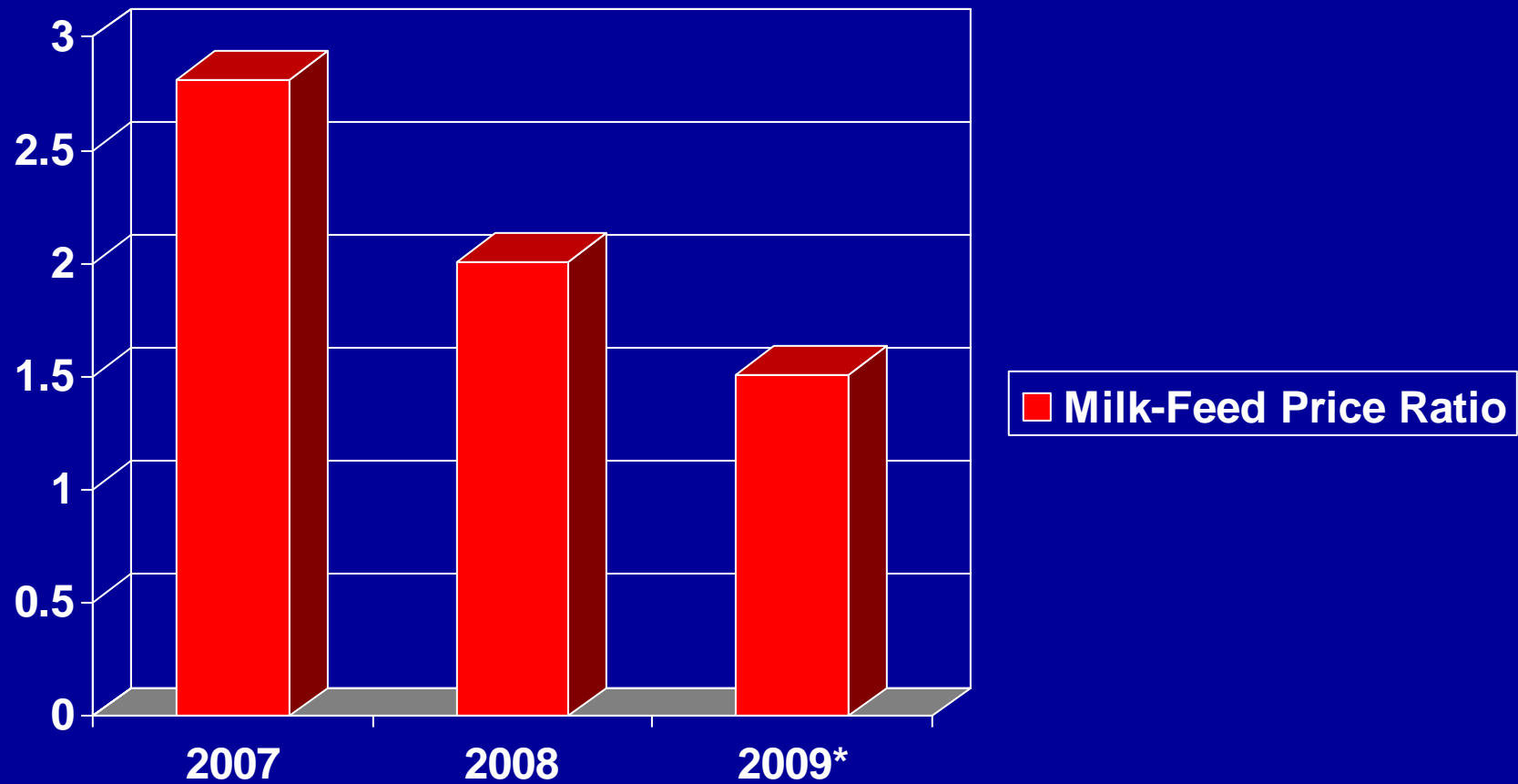
*Forecast

Quarterly all milk prices are down from 2007 highs



*Midpoint of forecasted range

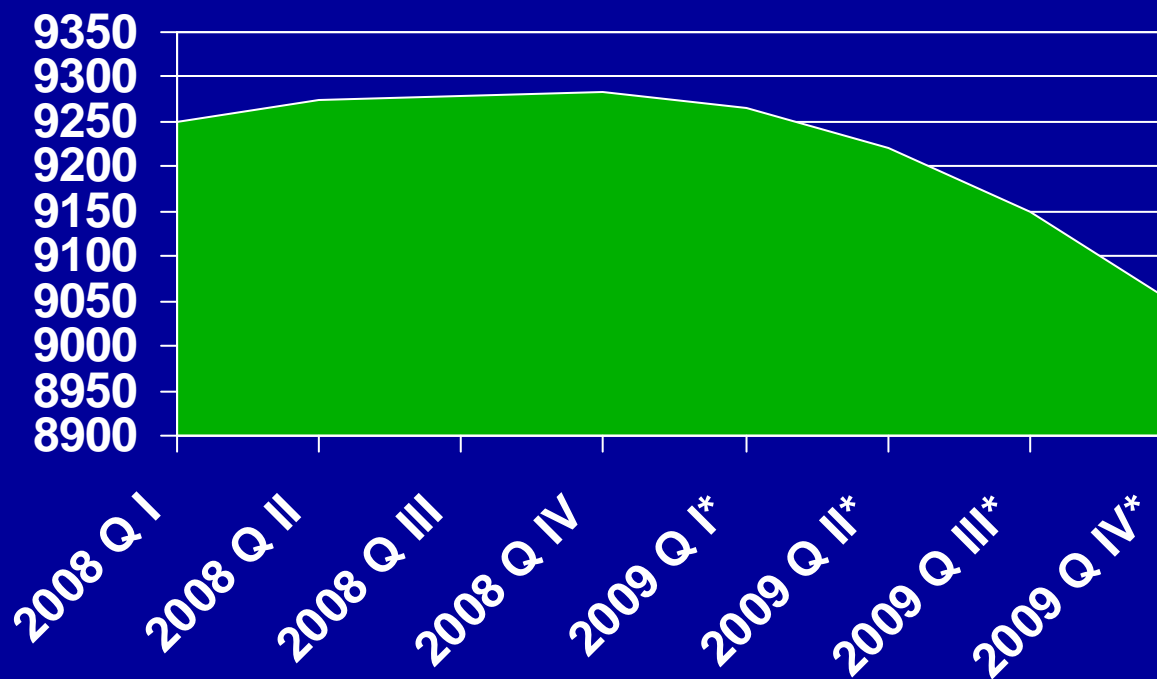
Milk Feed Price Ratio



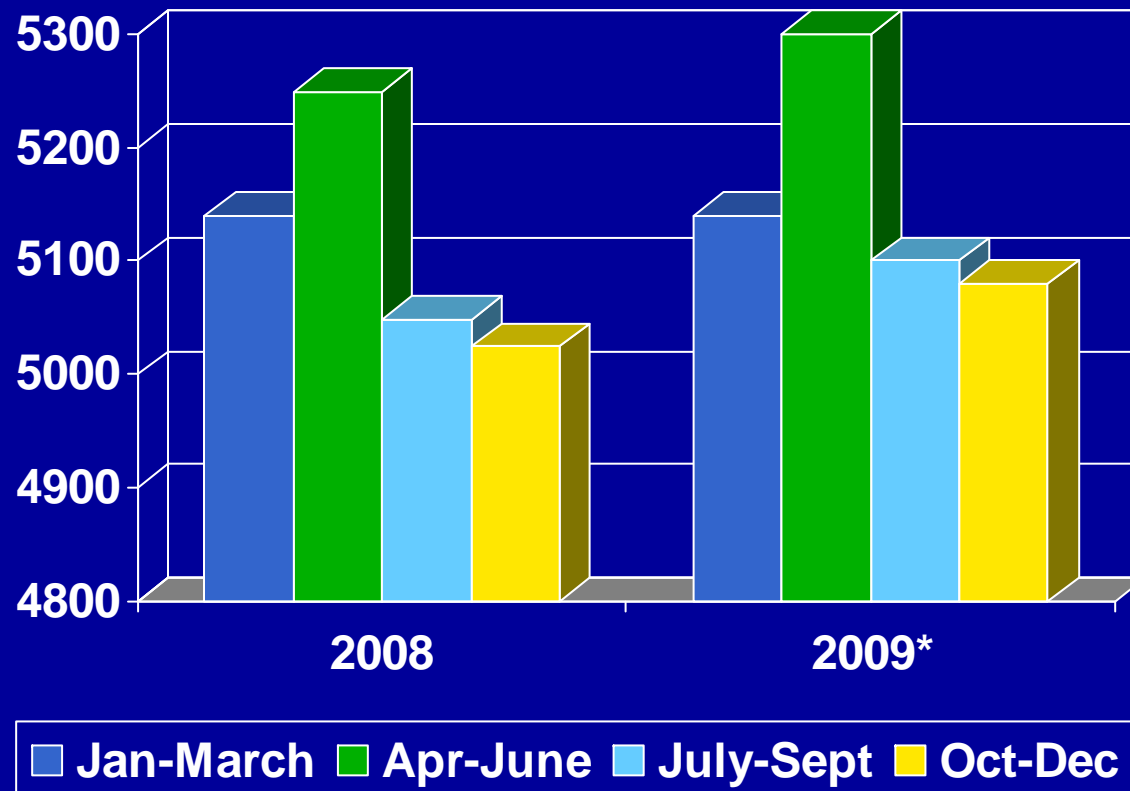
*Forecast

Herd Size

■ Number of Milk Cows (thousands)

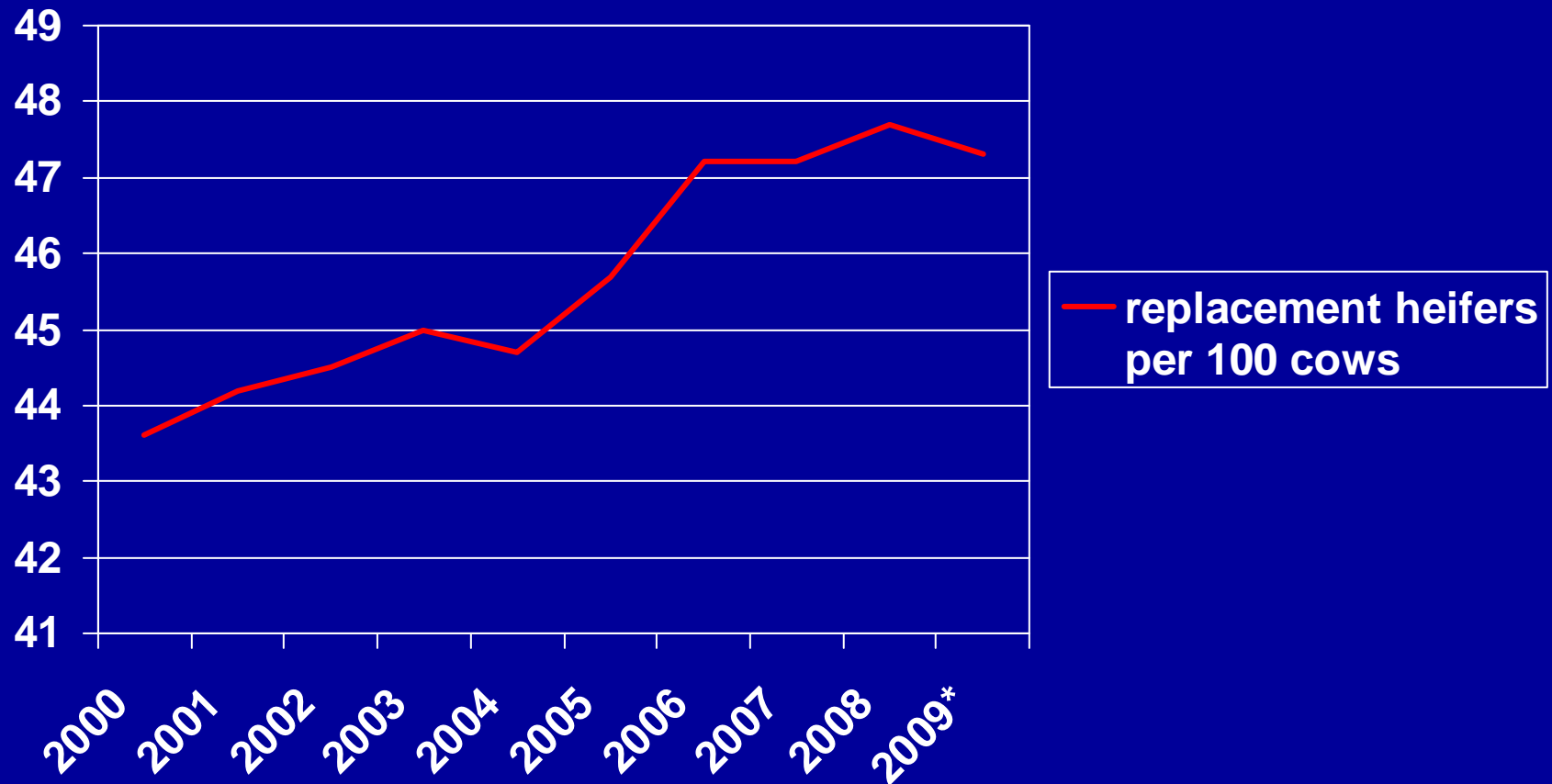


Milk Yields (pounds of milk per cow)



*Forecast

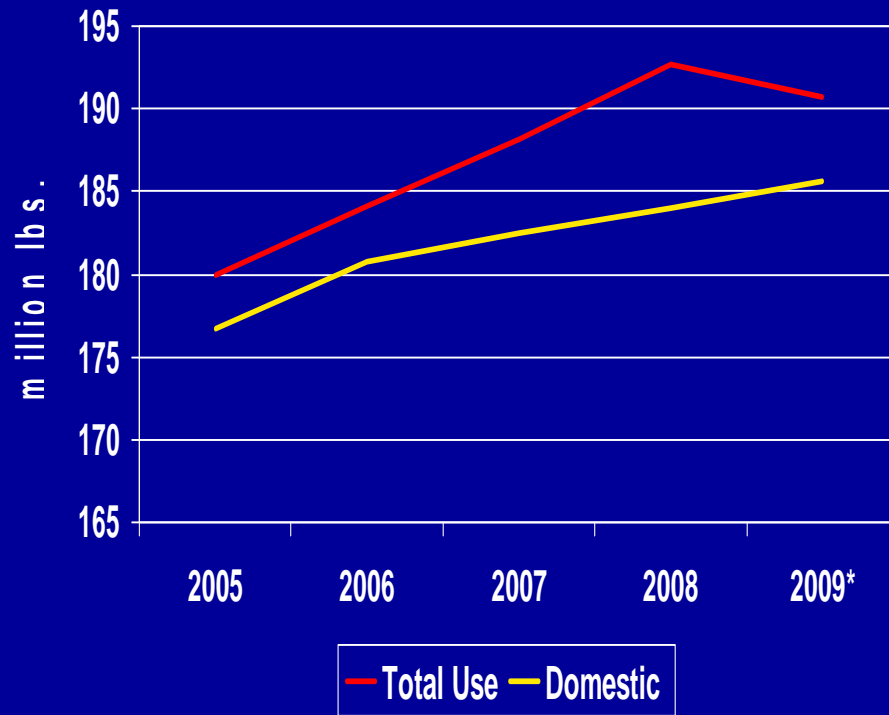
Replacement heifers on the rise



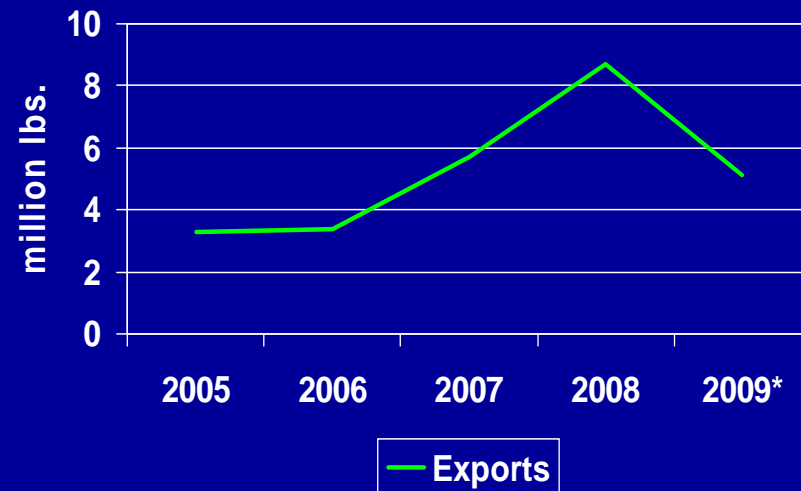
*Forecast

Domestic supplies and use remain steady as the export market dries up

Milk Fat Basis- Domestic and Total Use



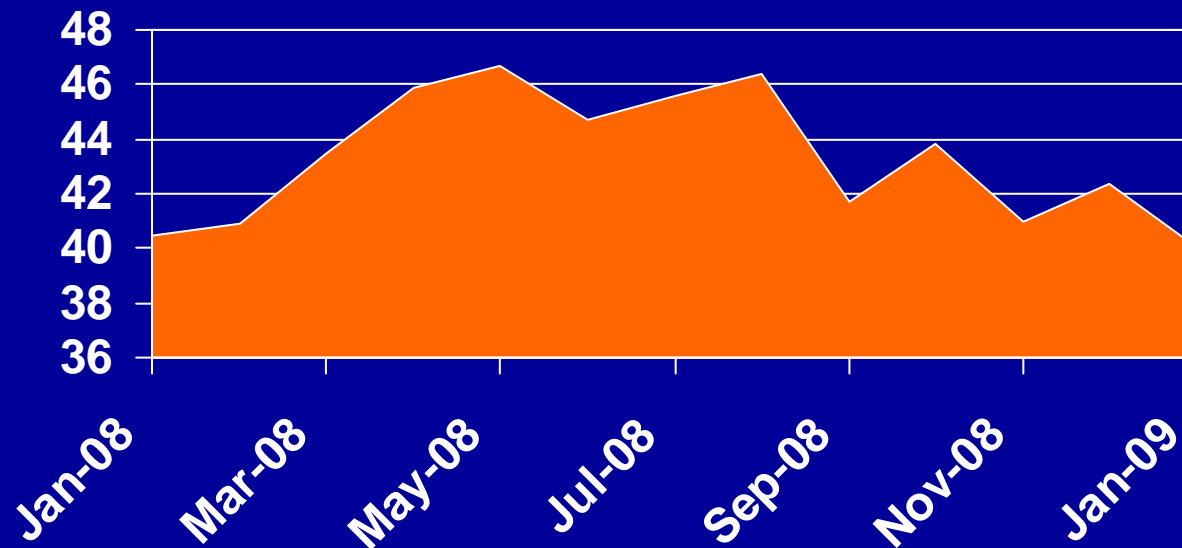
Milk Fat Basis- Exports



*Forecast

Restaurant and food service demand declined in late 2008

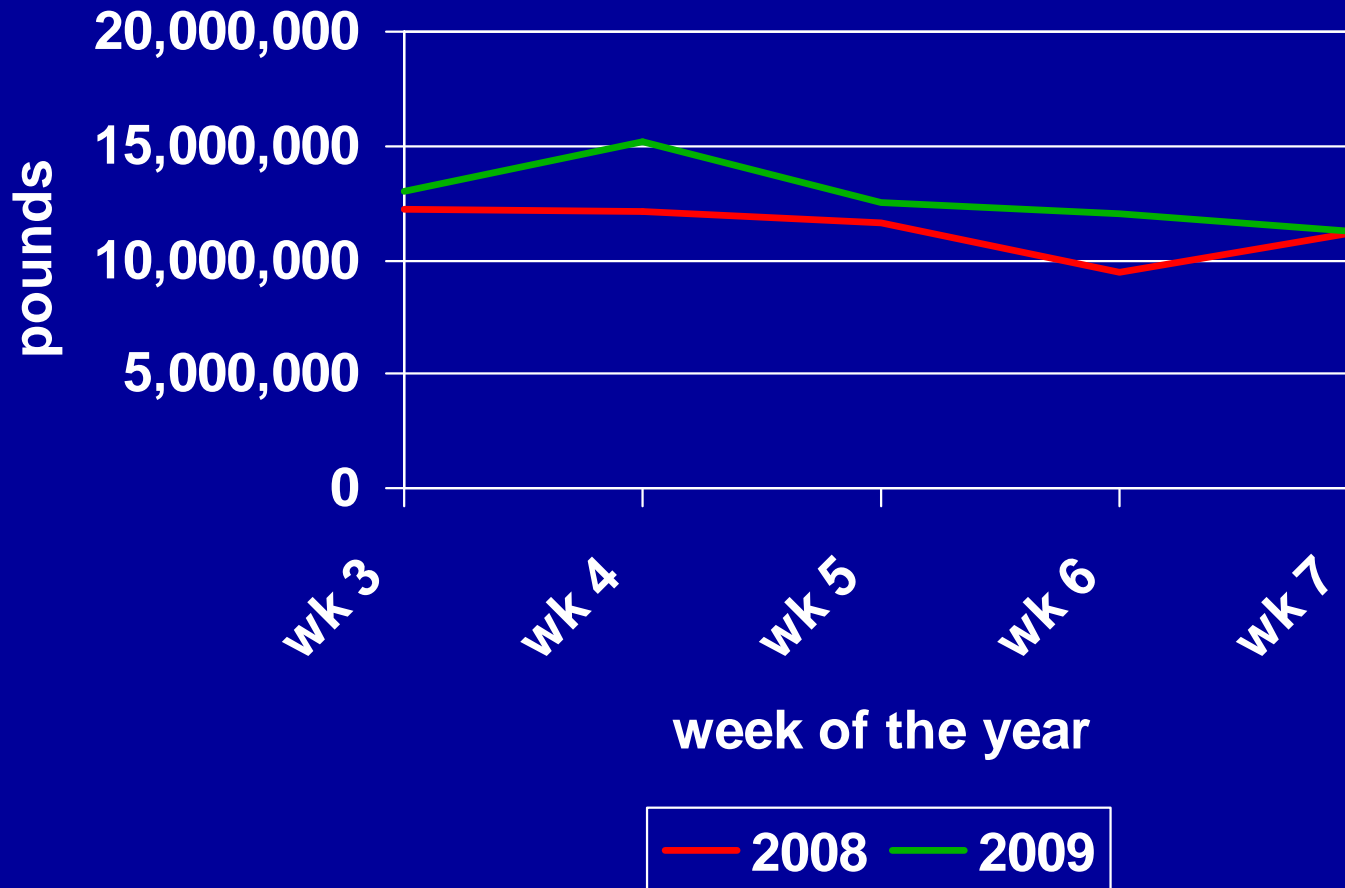
Food Sales, Away From Home*
(\$ billion)



*Food only, not seasonally adjusted.

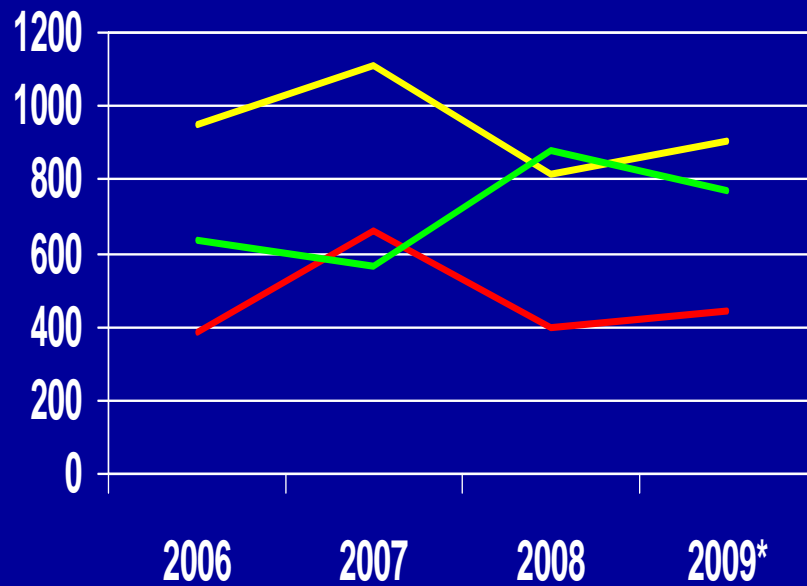
Source: ERS, Agricultural Outlook, Statistical Indicators.

Weekly Cheese Sales- early 2008 vs. early 2009



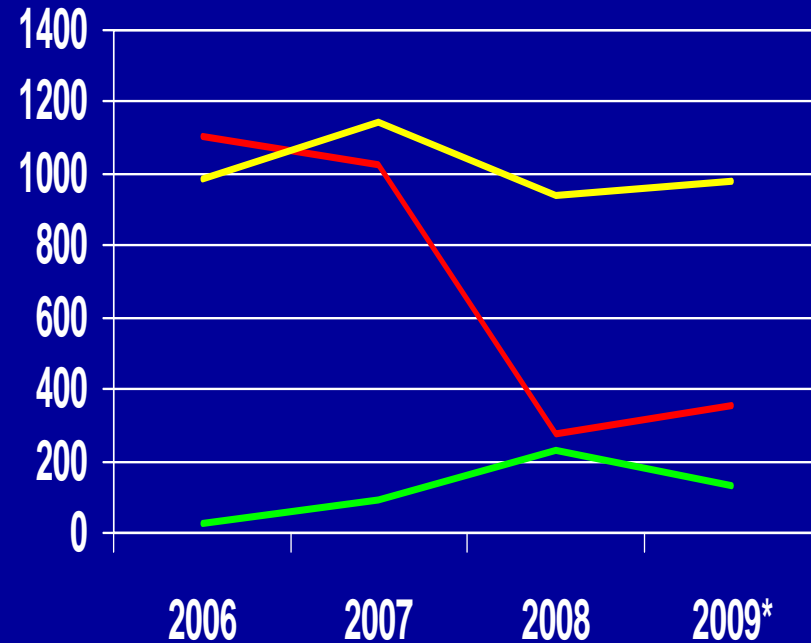
U.S. captured greater export market share in 2008

NDM Exporters
(million lbs.)



— E.U. — Oceania — U.S.

Butter Exporters
(million lbs.)



— E.U. — Oceania — U.S.

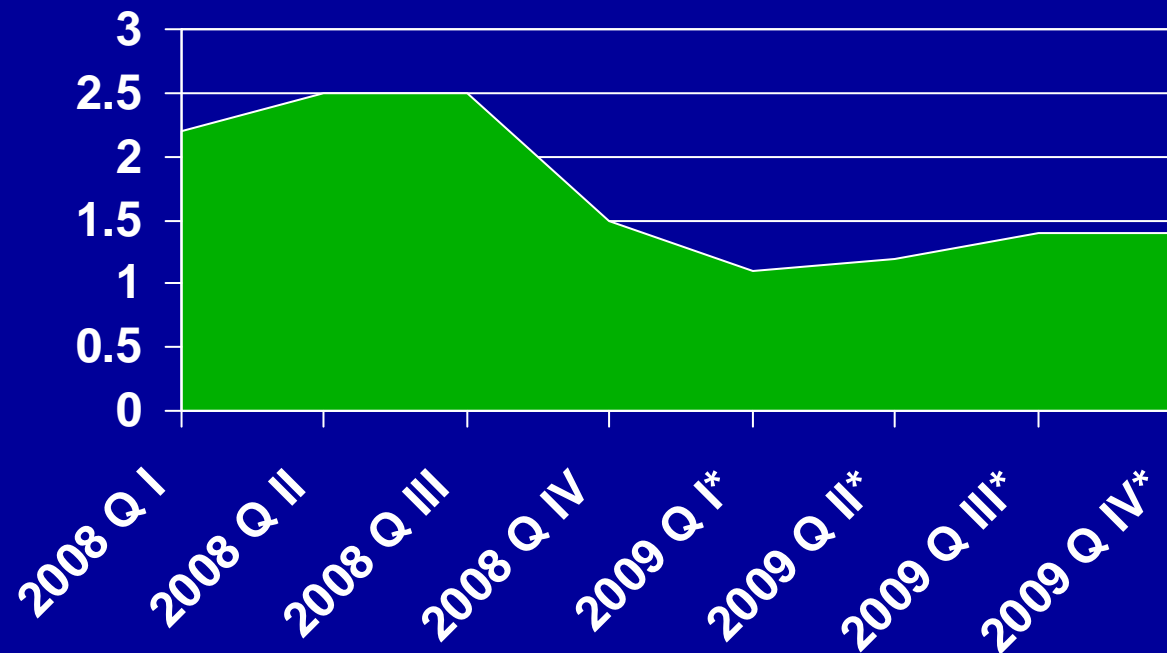
*Forecast

Why were U.S. exports so strong in 2007 and 2008?

- U.S. prices were below world prices
- U.S. production was high
- Severe drought in Oceania = low world supplies
- Strong global demand because of economic growth
- High oil prices = more dairy product imports by oil exporting countries

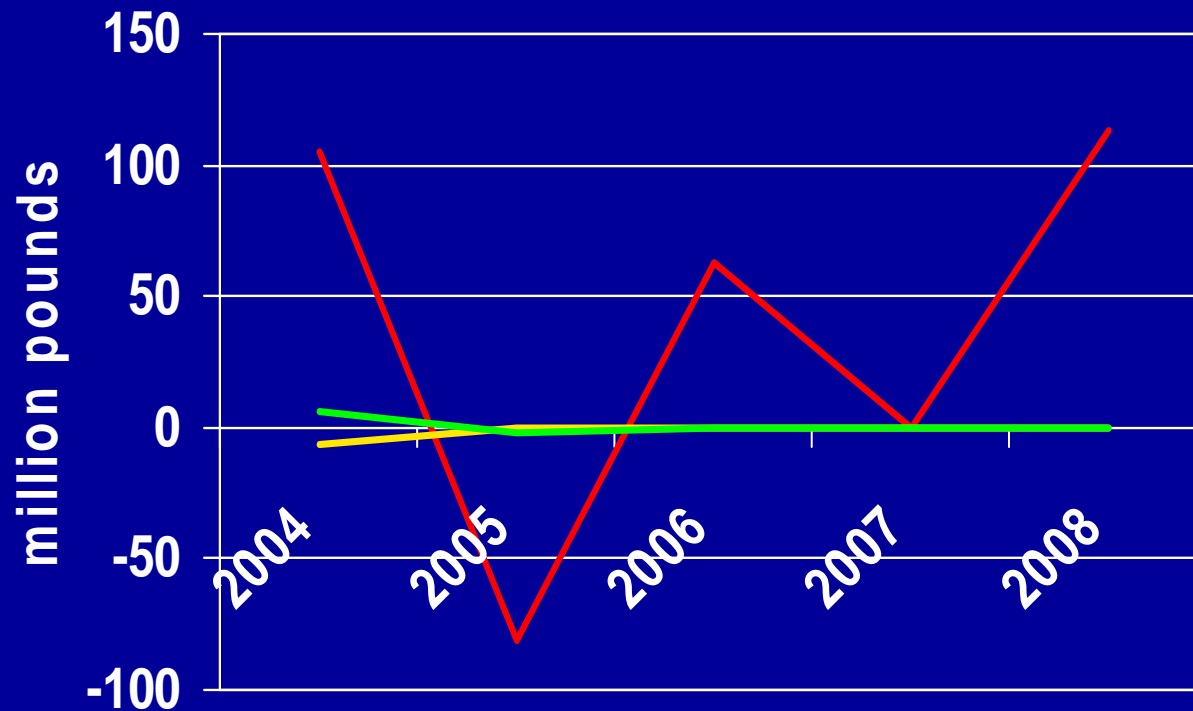
U.S. exports projected to decline in 2009

Commercial Exports of Milkfat
(billion pounds milk equivalent)



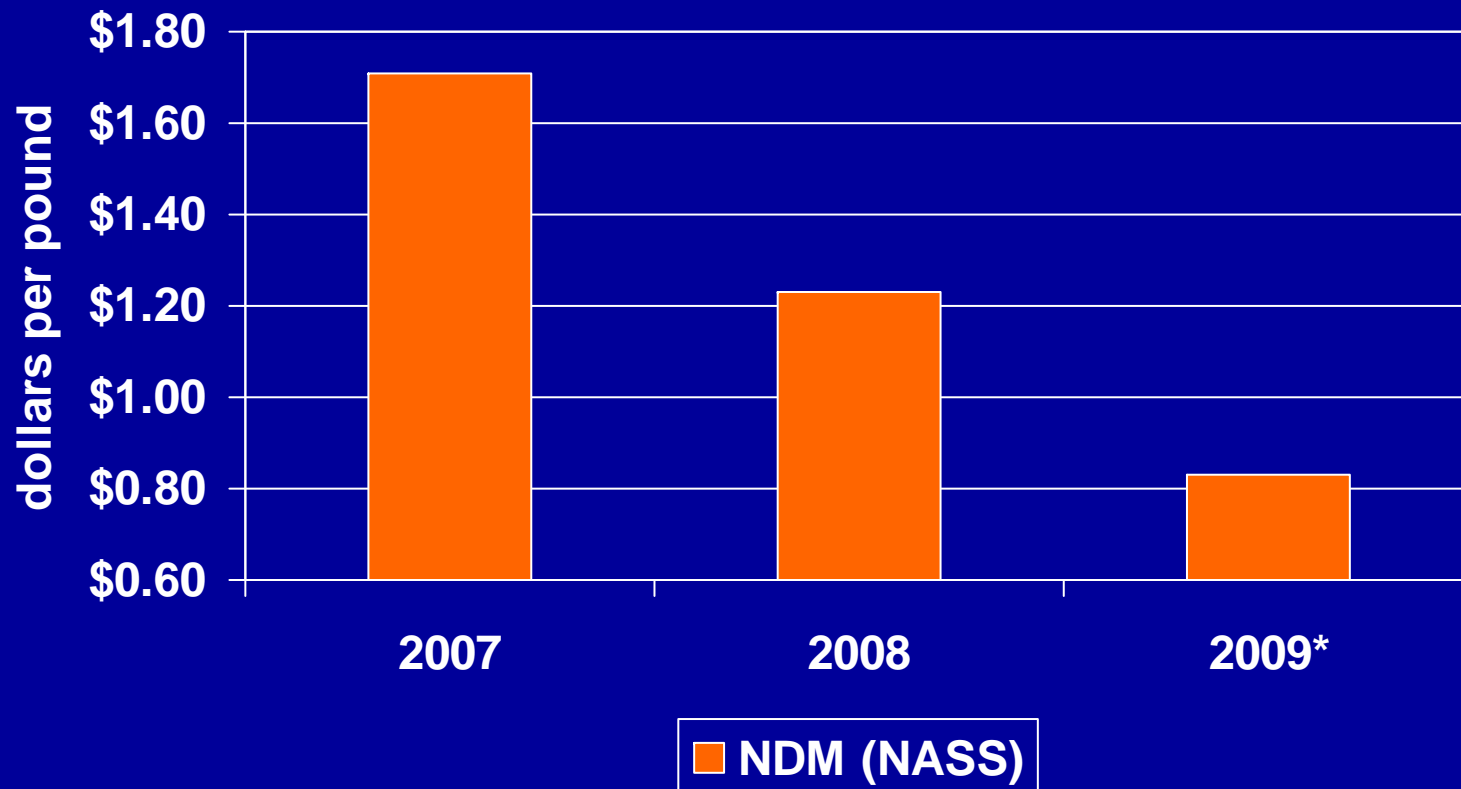
*Forecast

CCC Purchases- Net Removals



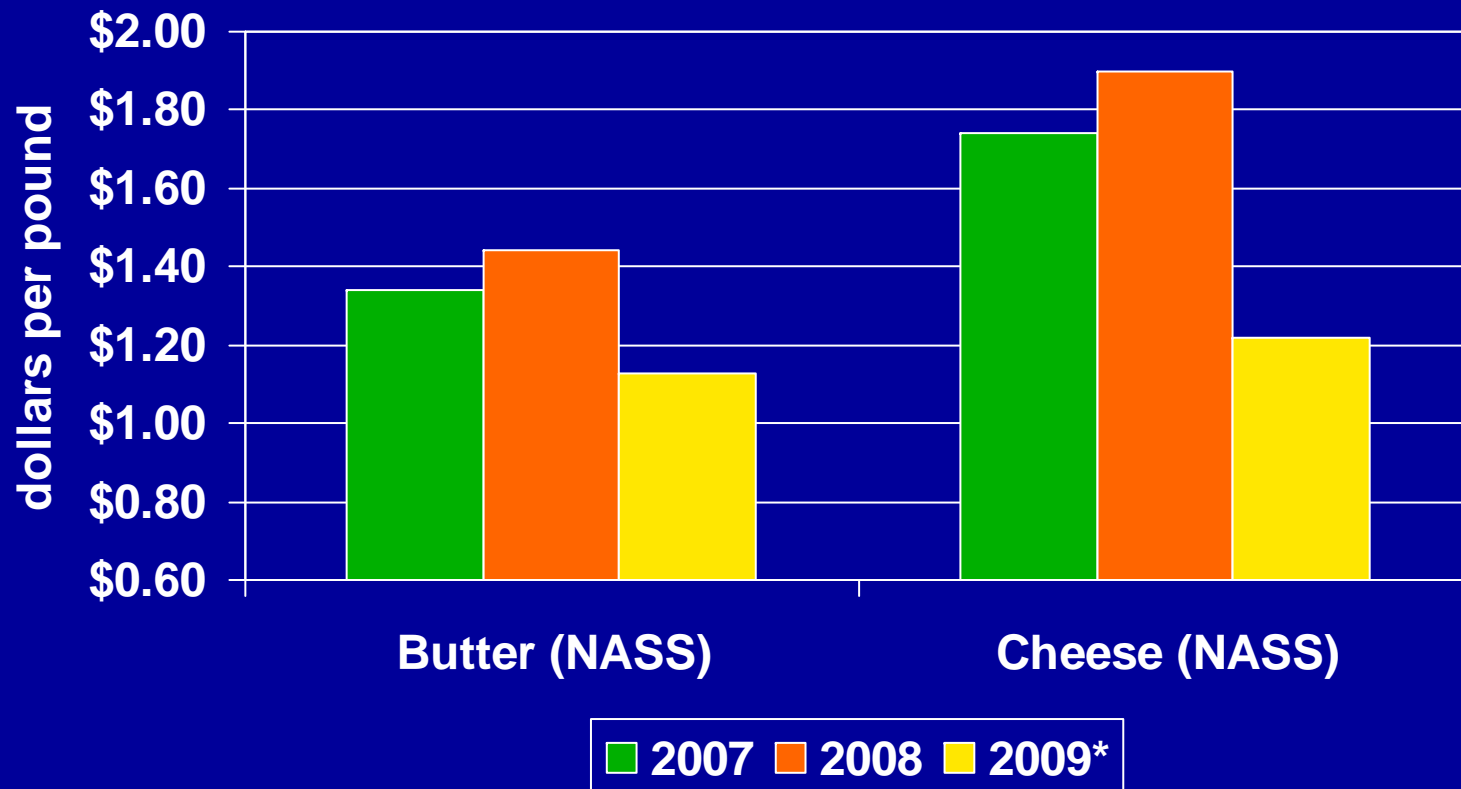
— NDM Purchases — Butter Purchases
— Cheese Purchases

NDM prices fall sharply in 2008 and 2009



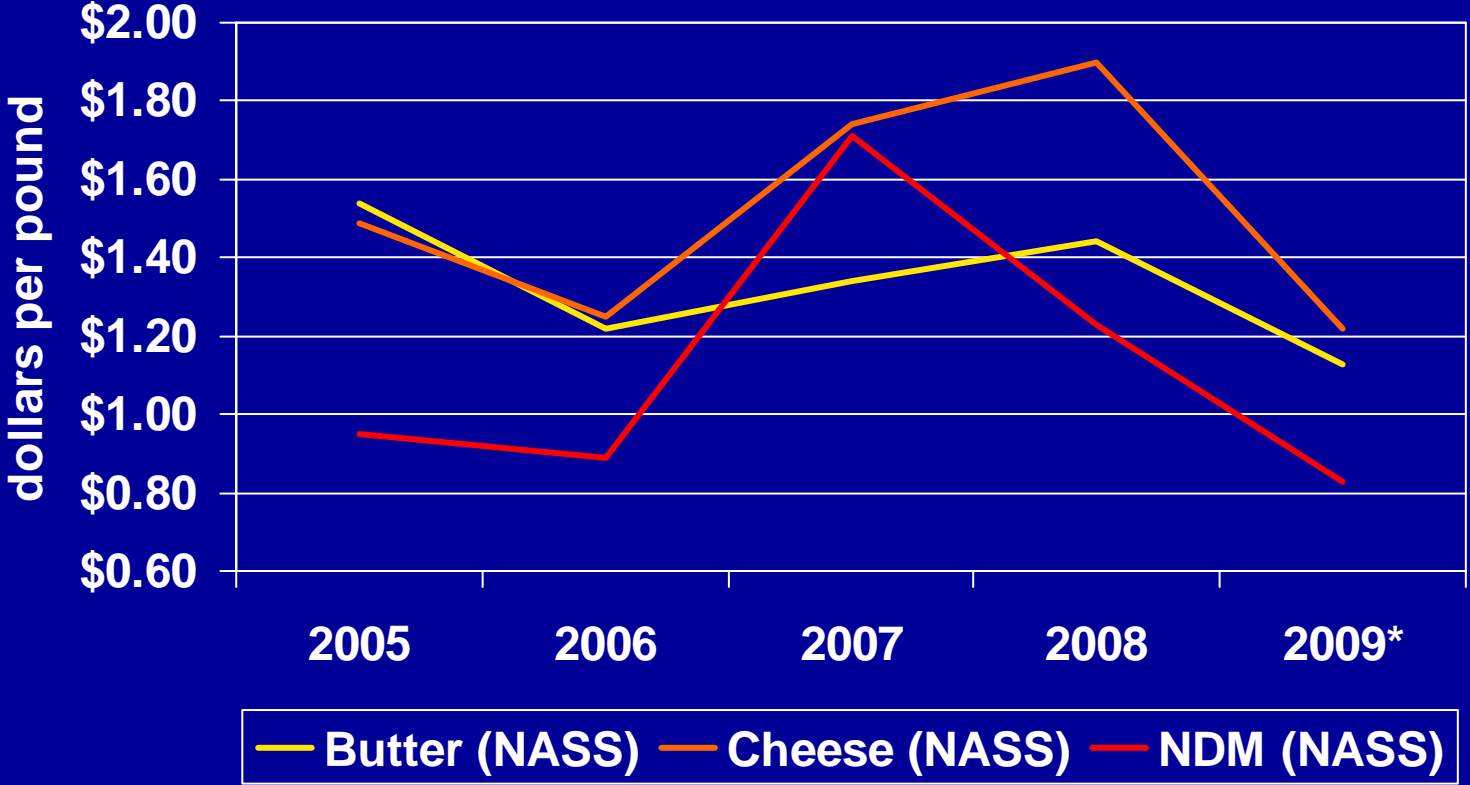
*Forecast

Butter and cheese prices are down from 2008 highs



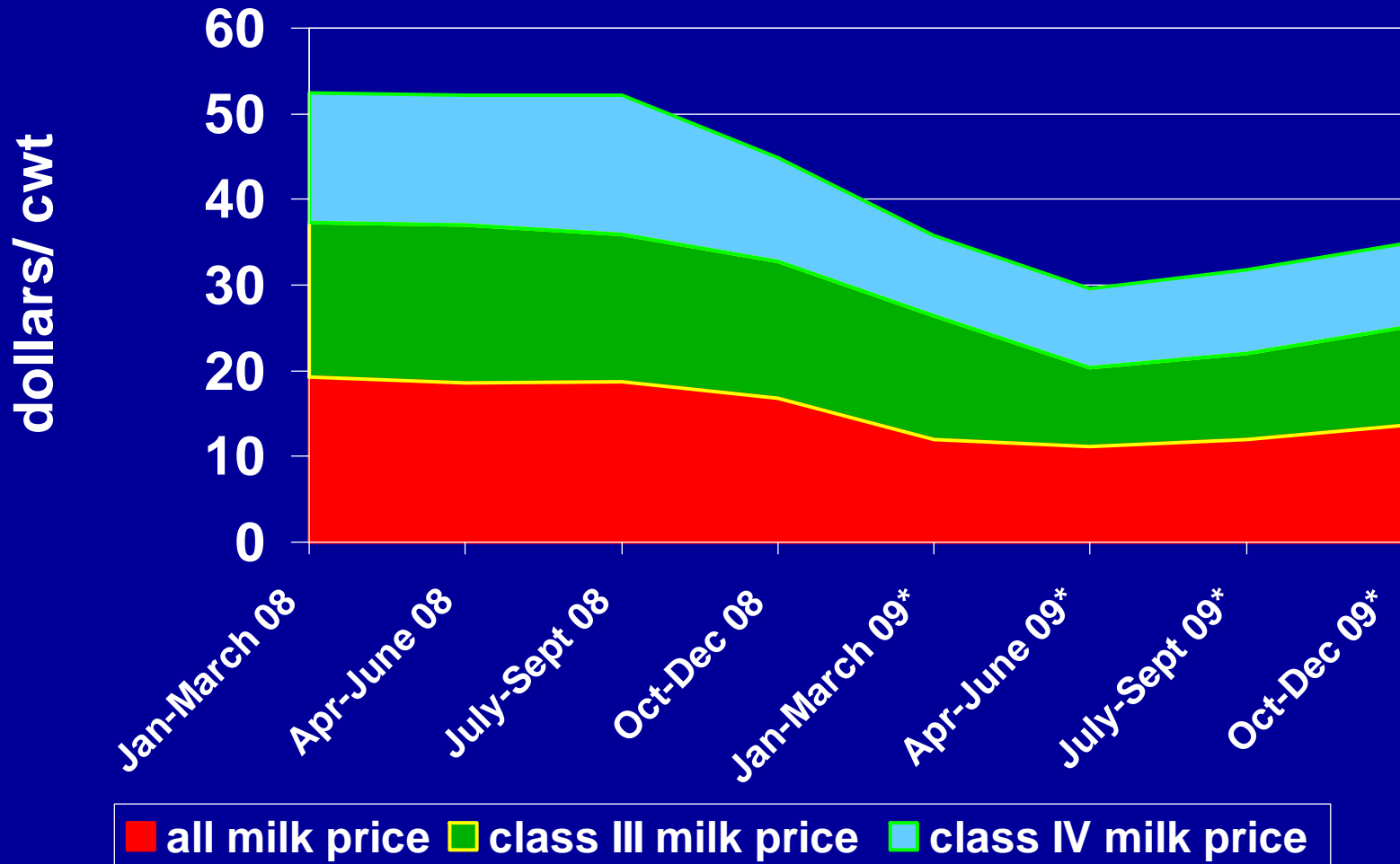
*Forecast

Butter, cheese and NDM prices decline sharply in 2009



*Forecast

Milk prices are forecast to decline in mid-2009



*Midpoint of forecasted range

2008 highs...

- Domestic production was high in 2008, at 189.7 billion pounds.
- 2008 saw high milk prices (compared to recent years) and high feed prices as well, cutting into producer margins compared to 2007.
- Exports of NDM reached record highs in 2008 as world supplies tightened and world demand grew.

...and 2009 lows.

- Milk prices have fallen drastically in 2009 as demand has dried up in the global economic downturn.
 - Domestic demand is down for cheese and other value added products.
 - The export market has dried up as the global economy worsens and the U.S. dollar gains value.
- Feed prices remain high, making milk production a losing enterprise for some dairy farms.

Additional Information on the Outlook for 2009 is Available on the Following Websites:

- World Agricultural Supply and Demand Estimates
 - <http://www.usda.gov/oce/commodity/wasde/index.htm>
- Livestock, Dairy, and Poultry Situation and Outlook
 - www.ers.usda.gov/publications/ldp/
- Dairy: World Markets and Trade
 - <http://www.fas.usda.gov/dlp/dairy/dairy.asp>