

Dairy Situation and Outlook

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August Production Down 0.2%, Cow Numbers Down Too

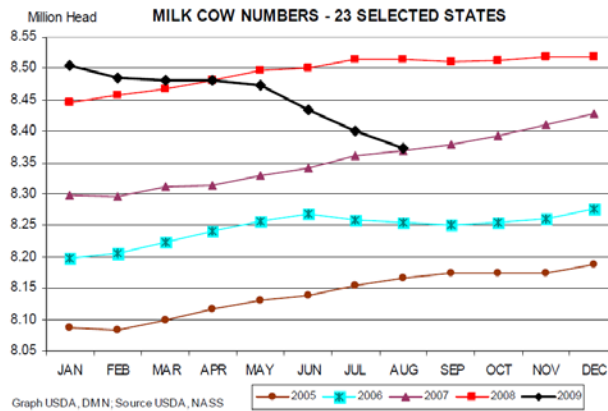
August 2009 23 major dairy states milk production decreased 0.2%. Production per cow was up by 25 pounds from one year ago. Milk cow numbers were 143,000 less than August 08 and 28,000 less than July 09. July 09 milk production was revised down 0.1%, a decrease of 13 million pounds.

Iowa August 09 milk production was 2.52% higher than one year ago. Cow numbers were even compared to one year ago and milk production per cow was 40 pounds higher than one year ago. Aug 09 Iowa cheese production was down by 4.374 million pounds, 32.7% higher than one year ago and 573,000 pounds, -3.1% less than July 09. Of the individually reported states, this may mean Iowa is the eighth largest cheese producing state.

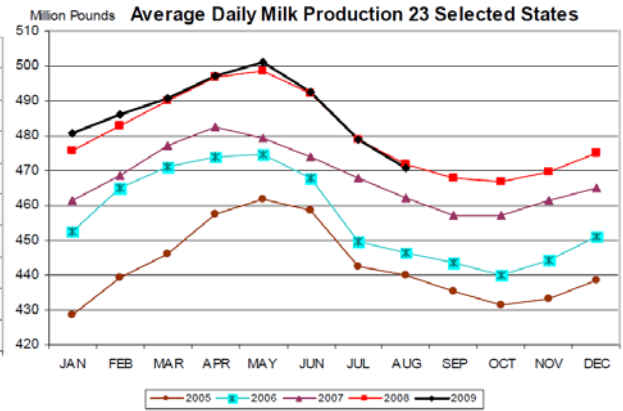
Milk Production: Selected Dairy States, August 2009

State	thousands			pounds			million pounds		% change
	2008 cow numbers	2009 cow numbers	% change cow numbers	2008 milk per cow	2009 milk per cow	% change milk/cow	2008 total milk production	2009 total milk production	
Iowa	215	215	0.00%	1660	1700	2.41%	357	366	2.52%
MN	465	469	0.86%	1565	1620	3.51%	728	760	4.40%
WI	1252	1257	0.40%	1650	1705	3.33%	2066	2143	3.73%
IL	102	102	0.00%	1455	1530	5.15%	148	156	5.41%
CA	1846	1782	-3.47%	1840	1820	-1.09%	3397	3243	-4.53%
CO	130	123	-5.38%	1930	1980	2.59%	251	244	-2.79%
KS	117	116	-0.85%	1710	1725	0.88%	200	200	0.00%
ID	555	548	-1.26%	1970	1940	-1.52%	1093	1063	-2.74%
NM	337	320	-5.04%	1920	2000	4.17%	647	640	-1.08%
PA	548	545	-0.55%	1590	1610	1.26%	871	877	0.69%
NY	626	618	-1.28%	1690	1715	1.48%	1058	1060	0.19%
TX	425	420	-1.18%	1605	1680	4.67%	682	706	3.52%
23-State	8515	8372	-1.68%	1718	1743	1.46%	14626	14594	-0.22%
US 2nd quarter	9315	9262	-0.57%				48774	48262	-1.05%

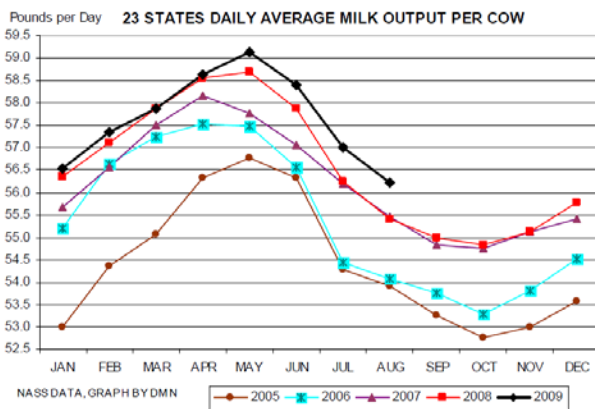
California milk production has suffered through 2009 has been lower than during 2008. And milk production per cow has averaged 20 pounds less.



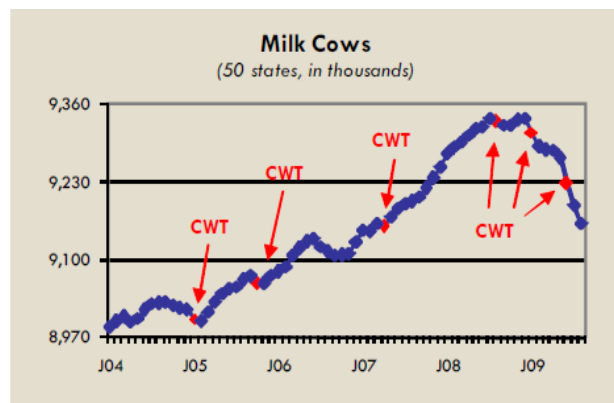
Source: Dairy Market News



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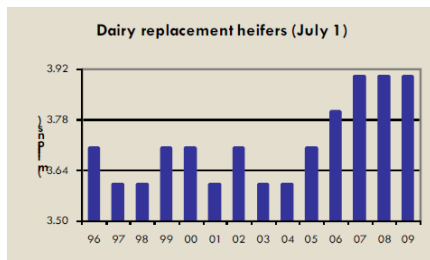


Source: Dairy Market News

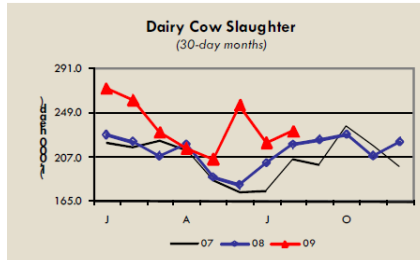


Source: Daily Dairy Report

Dairy producers sent 238,900 dairy cattle to slaughter in August. This is up from one year ago and the previous month. However, total milk production has been offset by a large volume of replacement heifers in the pipeline. Dairy men had 3.9 million dairy replacements on hand in July, the same number as in 2007 and 2008, according to the biannual “Cattle” report. This matches the highest figure of the last 15 years (see chart). There were 42.4 replacements for every 100 cows in the herd, up from 41.7 per 100 last year. The previous three sentences are repeated from last months’ outlook as a reminder that we see the same strong milk production response relative to cow numbers for a few more months.



Source: Daily Dairy Report



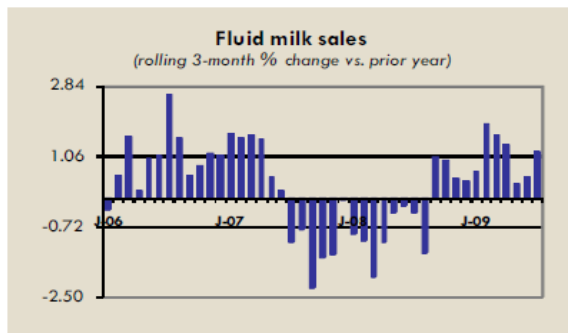
Source: Daily Dairy Report

Demand or Disappearance

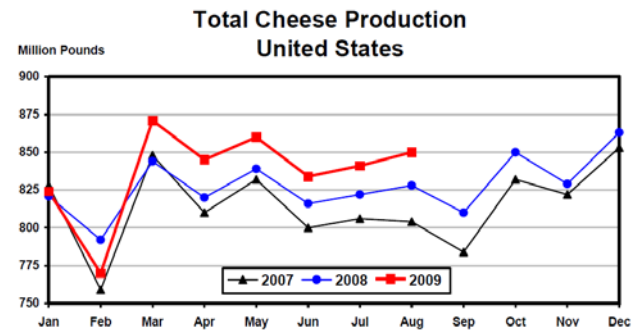
August total cheese output was 849.531 million pounds, up 1% from one year ago and 2.6% more than July 09. CA cheese production was -2.4%, ID +2.2% compared to one year ago. WI cheese production was +8.2% from one year ago but 2.4% from July 09. Italian type cheese production totaled 349.78 million pounds, 0.1% above July 2009 and 3.9% more than one Aug 2009. American type cheese production totaled 345.243 million pounds, 1.6 percent below Aug 2008 and -2% from July 2009. Butter production was 100.18 million pounds, 13.6% below Aug 2008 and 12.3% below July 2009.

Fluid milk sales continue to be in positive territory compared to one year ago. Year to date (Jan-Jul) fluid milk disappearance is up 1.4%. The May-Jul period is up by 1.3%

Total commercial disappearance year to date was down by 0.6% but last year's same period had a rise of 3%. Butter was -3.7% and nonfat dry milk was -7.5%. American cheese was up 4.3% and other cheese up 1.4%.



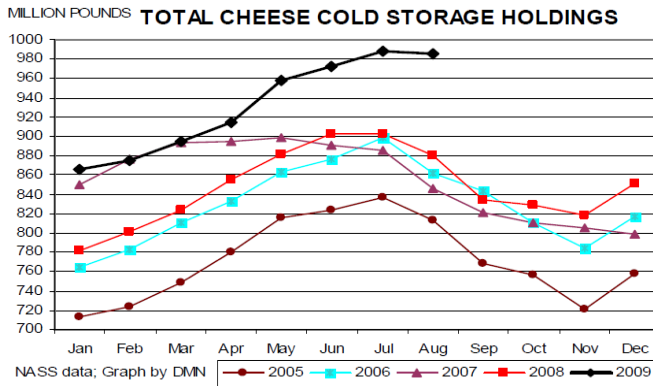
Source: Daily Dairy Report



Source: Dairy Products

Recent cheese production has continued to be high. But cheese stocks seem to be leveling off and that is to be expected at this time of year. But the 6.8 million pound decline in August was the smallest drop for that month since 1992. So we continue to be near the highest storage total since August 1985.

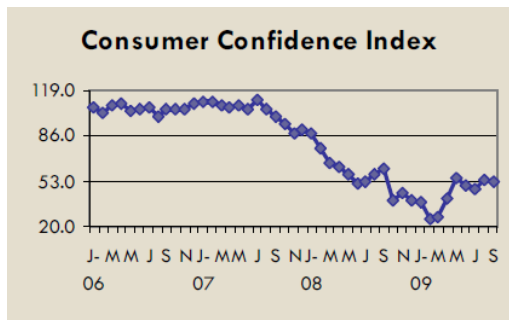
Commercial butter inventories increased in August for the first time since 1990. August stocks on average declined by 29.4 million pounds in the past 10 years. This August butter stocks expanded by 391,000 pounds.



Source: Dairy Market News

Analysis

The Consumer Confidence Index reported for September declined to 53.1 after an August increase. Consumers apparently viewed business conditions and employment prospects less positively. Income growth also is not expected to grow according to consumers.



Source: Conference Board

The large numbers of dairy replacements may have contributed to the weak decline in total milk production by moving into spots older cows had taken. These higher quality dairy cattle will likely continue to pressure further dairy slaughter. In fact on Oct 1, 2009 CWT announced third herd retirement for 2009 obviously recognizing that further herd reduction is necessary for milk prices to rise.

Ed Jesse, professor emeritus University of WI commented on the 2008 loss of export markets, 5.7 billion pounds of milk equivalent. Through June milk production was off only 195 million pounds. Some wonder why milk production adjustment is taking so long. Reasons include MILC and the ability of some dairy farmers to withstand losses through cash reserves or borrowing. Who will be the last producer standing?

