



Dairy Outlook

January 2012

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Market Psychology

Dairy markets have weakened in the last few weeks. For example, the block cheese price sat at \$1.56/lb. for a few weeks, and then strengthened, only to drop to its current \$1.505 at the end of last week. Butter followed a similar course, with a peak in mid-month but dropped to \$1.56, down 4 cents from last month. Butter stocks are up 29% from a year ago, and production in December was 14% above December 2010. Exports of butter and other milk fats have risen sharply in the last few months, which will help use the additional production and inventories if it continues. Of course this meant that Class III and Class IV nearby futures both fell. Non-fat dry milk rose by 3 cts./lb. since last month to \$1.43, while whey prices rose by 6.75 cts./lb. to 71 cents.

The December Pennsylvania all-milk price was \$0.40 lower than November at \$21.80. The December Class III price fell by \$0.30 to \$18.77/cwt. The Class III futures price is \$17.09/cwt. for January 2012. The average Class III price for all of 2011 was \$18.37, or \$3.96/cwt. higher than the 2010 average. The Class IV price fell by \$1.00 in December to \$16.87/cwt. This meant the 2011 average Class IV price was \$19.04 or \$3.97 higher than 2010. The Class IV futures price for January 2012 is now \$16.65/cwt. The forecast all-milk prices for 2012, based on the futures prices, are also shown in Table 1. These prices imply a PA all-milk price of \$20.08/cwt. for 2012. The forecast Pennsylvania all-milk price for this period is \$2.07/cwt. less than the 2011 average. Of course, high feed costs will squeeze margins in 2012.

The U.S. dollar lost ground in recent weeks, with the New Zealand and Australian dollars 4 cents higher compared to the greenback. The Euro is down 0.7% to \$1.297. The economic issues in Greece continue to plague the European Union, raising doubts about the future of the euro. Global trade overall is down. An article in the New York Times today talked about the decline in shipping, with freight rates for dry bulk carriers, such as grain ships, down by more than 50% in the past six weeks. Whether this is indicative of a weakening of the global economy is unclear, but continued growth in China and Asia generally has been important to keeping our economy from being weaker. Certainly China is a major force in dairy prices. In 2011, China imported 800,000 tons of dry milk products, up almost 17% from 2010. Quality problems in their domestic milk supplies have meant that imported powder is the preferred source for infants. However, if China's economy gets weaker that would be bad for exports. The increase in the Australian and New Zealand dollars should help our exports.

Corn and Soybean Markets

Corn and soybean markets have been on a roller coaster ride for the last month. The March corn contract is now at \$6.35 and March beans are at \$12.23. Both are up slightly from a month ago, but rose, dropped, and rose again in the interim. The mid-January outlook reports hit the markets hard, but in my opinion



the market overreacted. There is still not much corn on hand and ethanol continues to use 40% of production, so any bad news for producing the 2012 crop will create problems for animal producers. Soybean meal futures followed the soybean market, with March meal futures now at \$321/ton, up 8% from last month.

Income over feed costs (IOFC)

Penn State's measure of income over feed costs fell by \$0.29/cow/day in December to \$8.77/cow/day, down 3.3% from its November level. The PA all-milk price was down \$0.40 at \$21.80/cwt. Feed costs were up slightly from last month, by 3 cents/cow/day. Corn prices were down, as were soybean meal prices, while hay was up. Income over feed cost reflects daily gross income less feed costs for an average cow producing 65 pounds of milk. Figure 1 and Table 2 showing the monthly data are appended. Figure 1 shows that although income over feed cost dropped to a bit lower from last month, the dip was less than in December 2010. Income over feed cost for 2011 averaged \$8.94/cow/day, compared to \$7.89 in 2010 and \$5.30 in 2009.

The allocation of the revenue per hundred pounds of milk is shown in Table 3. The milk margin is the estimated amount from the Pennsylvania all milk price that remains after feed costs are paid. As with income over feed cost, this measure shows that the December PA milk margin was down 3.3% from November.

Cow Numbers and Milk Production

Figures 2 and 3 show the monthly number of dairy cows on farms and the normalized monthly milk production for a 30-day month. Cow numbers rose by 12,000 animals from November. The national dairy herd is 0.9% larger than last year at the same time. Milk production is above the prior year by 2.5%, a wider increment than last month. Milk production estimates for Pennsylvania and New York, however, are down by 0.3% and up 0.9% respectively. The national increase in milk production is well above a year ago and greater than in November so dairy exports remain very important.



Table 1. Milk Prices and Milk Futures Prices for 2011 and 2012

(Based on futures prices of January 25, 2012)

2011	Class III \$/cwt	Class IV \$/cwt	PA All Milk \$/cwt	2012	Class III \$/cwt	Class IV \$/cwt	PA All Milk \$/cwt
Jan	\$13.48	\$16.42	\$18.90	Jan	\$17.09	\$16.65	\$ 20.09
Feb	\$17.00	\$18.40	\$20.70	Feb	\$16.58	\$16.34	\$ 19.68
Mar	\$19.40	\$19.41	\$22.00	Mar	\$16.85	\$16.35	\$ 19.83
Apr	\$16.87	\$19.78	\$21.50	Apr	\$16.85	\$16.52	\$ 19.90
May	\$16.52	\$20.29	\$22.10	May	\$16.90	\$16.60	\$ 19.96
Jun	\$19.11	\$21.05	\$22.90	Jun	\$17.08	\$16.68	\$ 20.10
Jul	\$21.39	\$20.33	\$23.50	Jul	\$17.17	\$16.85	\$ 20.22
Aug	\$21.67	\$20.14	\$24.20	Aug	\$17.20	\$16.94	\$ 20.28
Sep	\$19.07	\$19.53	\$23.80	Sep	\$17.17	\$16.95	\$ 20.26
Oct	\$18.03	\$18.41	\$22.20	Oct	\$17.07	\$16.95	\$ 20.21
Nov	\$19.07	\$17.87	\$22.20	Nov	\$17.04	\$16.95	\$ 20.19
Dec	\$18.77	\$16.87	\$21.80	Dec	\$17.05	\$16.94	\$ 20.19
Annual	\$18.37	\$19.04	\$22.15	Annual	\$17.00	\$16.73	\$20.08
Annual change	\$ 3.96	\$ 3.97	\$ 3.87	Annual change	-\$ 1.36	-\$ 2.32	-\$ 2.07
% change	27.5%	26.3%	21.1%	% change	-7.4%	-12.2%	-9.4%

Table 2: PA Income over Feed Costs

	all milk price	feed cost per 65 lbs. milk	Income over feed cost	average 12 months
Jan-10	\$18.00	\$3.96	\$ 7.74	\$ 5.43
Feb-10	\$18.10	\$3.87	\$ 7.90	\$ 5.72
Mar-10	\$17.00	\$3.96	\$ 7.09	\$ 5.96
Apr-10	\$16.30	\$3.55	\$ 7.05	\$ 6.16
May-10	\$16.90	\$3.54	\$ 7.45	\$ 6.41
Jun-10	\$17.50	\$3.73	\$ 7.65	\$ 6.71
Jul-10	\$18.10	\$3.89	\$ 7.87	\$ 6.99
Aug-10	\$18.50	\$3.85	\$ 8.17	\$ 7.29
Sep-10	\$19.60	\$4.28	\$ 8.46	\$ 7.56
Oct-10	\$20.30	\$4.34	\$ 8.85	\$ 7.75



Nov-10	\$20.20	\$4.37	\$ 8.76	\$ 7.89
Dec-10	\$18.90	\$4.61	\$ 7.68	\$ 7.89
Jan-11	\$18.90	\$4.93	\$ 7.36	\$ 7.86
Feb-11	\$20.70	\$5.26	\$ 8.20	\$ 7.88
Mar-11	\$22.00	\$5.20	\$ 9.10	\$ 8.05
Apr-11	\$21.50	\$5.40	\$ 8.58	\$ 8.18
May-11	\$22.10	\$5.21	\$ 9.15	\$ 8.32
Jun-11	\$22.90	\$5.66	\$ 9.23	\$ 8.45
Jul-11	\$23.50	\$6.18	\$ 9.09	\$ 8.55
Aug-11	\$24.20	\$6.07	\$9.66	\$ 8.68
Sep-11	\$23.80	\$5.30	\$10.17	\$ 8.82
Oct-11	\$22.20	\$5.48	\$8.95	\$ 8.83
Nov-11	\$22.20	\$5.37	\$9.06	\$ 8.85
Dec-11	\$21.80	\$5.40	\$8.77	\$ 8.94

Table 3: PA Milk Margin

	All milk price per cwt.	Feed cost per cwt.	Milk margin per cwt.
Jan-10	\$18.00	\$6.09	\$11.91
Feb-10	\$18.10	\$5.95	\$12.15
Mar-10	\$17.00	\$6.09	\$10.91
Apr-10	\$16.30	\$5.46	\$10.84
May-10	\$16.90	\$5.44	\$11.46
Jun-10	\$17.50	\$5.74	\$11.76
Jul-10	\$18.10	\$5.99	\$12.11
Aug-10	\$18.50	\$5.92	\$12.58
Sep-10	\$19.60	\$6.58	\$13.02
Oct-10	\$20.30	\$6.68	\$13.62
Nov-10	\$20.20	\$6.72	\$13.48
Dec-10	\$18.90	\$7.09	\$11.81
Jan-11	\$18.90	\$7.58	\$11.32
Feb-11	\$20.70	\$8.09	\$12.61
Mar-11	\$22.00	\$8.00	\$14.00
Apr-11	\$21.50	\$8.30	\$13.20
May-11	\$22.10	\$8.02	\$14.08
Jun-11	\$22.90	\$8.70	\$14.20
Jul-11	\$23.50	\$9.51	\$13.99
Aug-11	\$24.20	\$9.34	\$14.86
Sep-11	\$23.80	\$8.15	\$15.65
Oct-11	\$22.20	\$8.44	\$13.76
Nov-11	\$22.20	\$8.26	\$13.94
Dec-11	\$21.80	\$8.31	\$13.49

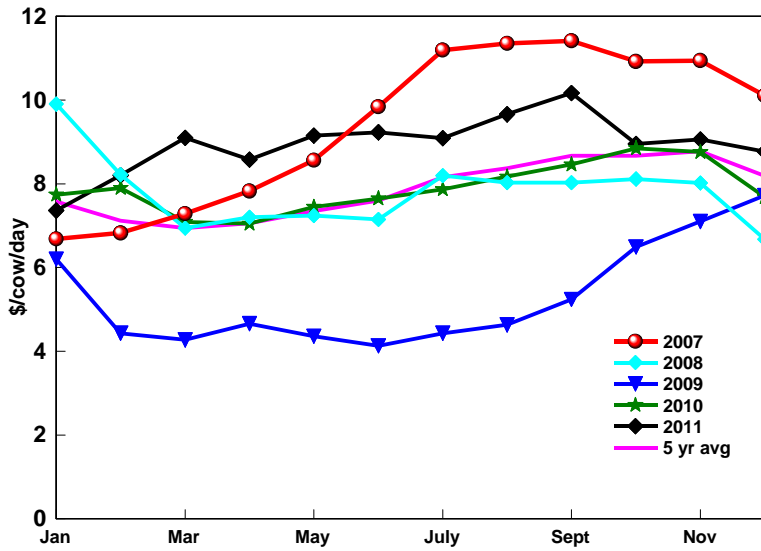


Figure 1: PA Income over feed cost

Number of Dairy Cows

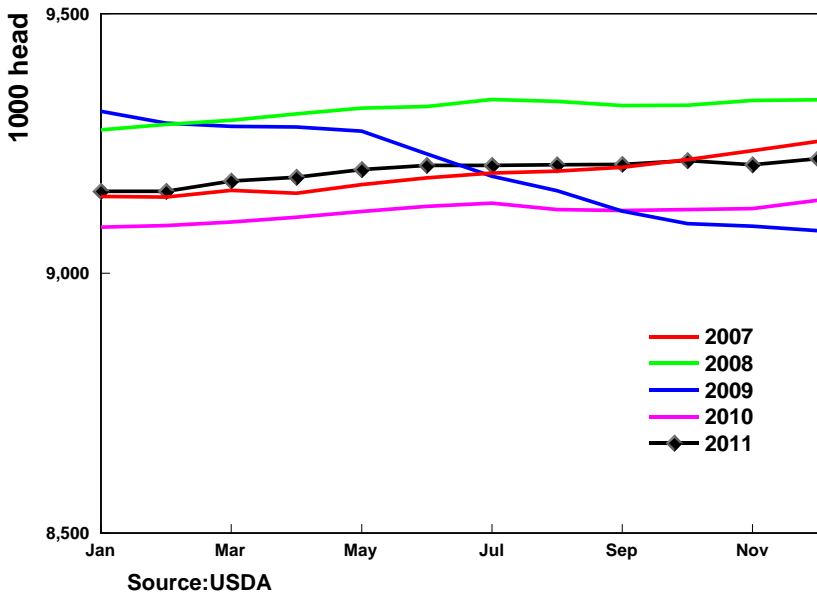


Figure 2: Cows

Monthly Milk Production 30 Day months

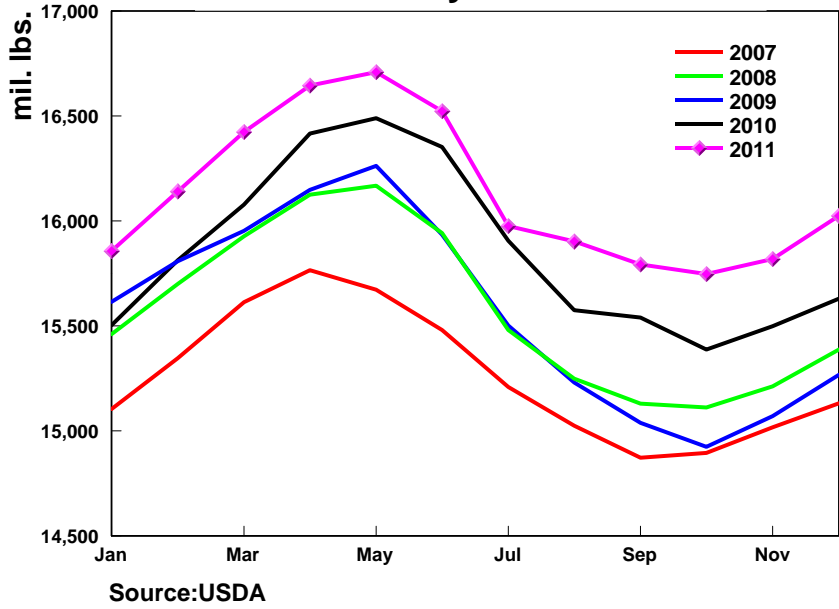


Figure 3: Normalized Monthly Milk Production