PNW Dairy Monitor

University of Idaho Cooperative Extension
Department of Agricultural Economics & Rural Sociology

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Monthly Market Indicators through January . . .

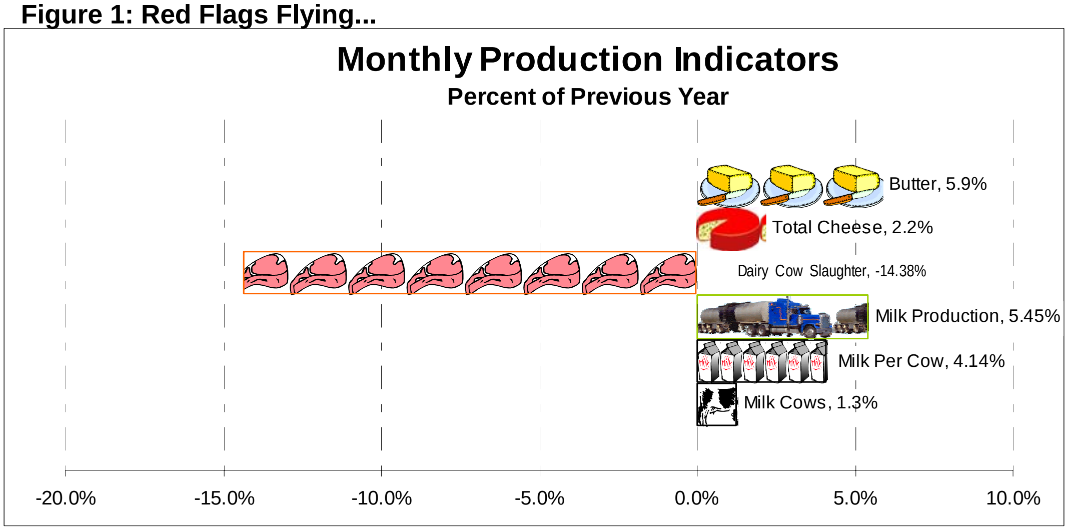
Production	Current	Year Ago	Prices	January	Previous Month	Year Ago
Milk Prod. 23 St. (Mill. Lb.)	14,011	13,287	Milk, Class III ($/cwt.)	13.39	13.37	14.14
Idaho (Mill. Lb.)	880	798	Milk, Class IV ($/cwt.)	12.57	12.57	12.52
Washington (Mill. Lb.)	461	461	Springer Heifers ($/HD)	2,318	2,050	1,803
Per Cow Production – 23 St. (Lb.)	1,711	1,643	Cull Cows ($/cwt.)	52.03	53.55	52.23
Idaho (Lb.)	1,860	1,830	CME Cheese 40# (Lb.)	1.3335	1.4224	1.6269
Washington (Lb.)	1,945	1,960	CME Butter (Lb.)	1.3368	1.3552	1.5775
Cow Numbers – 23 St. (Thou HD)	8,190	8,190	Premium Hay ($/Ton)	111.67	115.79	104.11
Idaho (Thou HD)	473	436	Y. Corn #2, Denver (BU)	2.08	2.02	1.96
Washington (Thou HD)	237	235	Barley #2, Portland (BU)	NA	2.38	2.29

Milk production in the 23 major States during January totaled 14.0 billion pounds, up 5.4 percent from January 2005. December production, at 13.6 billion pounds, was up 4.1 percent from December 2004. Compared to a year-ago 17 states gained in production, led by New Mexico (15.8%), Texas (14%), Idaho (10.3%), Indiana (9%) and Michigan (7.5%). Three states fell below year-ago levels – Florida, Kentucky and Oregon. Idaho was 5th for the second month again, behind Pennsylvania. All states except Colorado, which was unchanged, were above December.

Production per cow in the 23 major States averaged 1,711 pounds for January, 68 pounds above January 2005. Texas cow were up 11.5%, followed by Missouri, New Mexico, Pennsylvania, and Kentucky. Idaho cows were up 1.6%

The number of cows on farms in the 23 major States was 8.19 million head, 103,000 head more than January 2005, and 11,000 head more than December 2005. Fourteen states increased numbers, 7 decreased and 3 were unchanged. Compared to December, 9 states increased numbers, 3 decreased and 11 were unchanged.

Figure 1: Red Flags Flying...



The annual production of milk for the U.S. during 2005 was 177 billion pounds, 3.5 percent above 2004. Revisions to 2004 production increased the annual total 129 million pounds. Revised 2005 production was up 0.3 percent or 498 million pounds from last month's publication.

Production per cow in the U.S. averaged 19,576 pounds for 2005, 609 pounds above 2004. The average annual rate of milk production per cow has increased 19.1 percent from 1996.

The average number of milk cows on farms in the U.S. during 2005 was 9.04 million head, up 3.2 percent from 2004. The average number of milk cows was revised up 2,000 head for 2004 and up 7,000 head for 2005.

Total cheese output (excluding cottage cheese) was 791 million pounds, 2.2 percent above December 2004 and 3.9 percent above November 2005. For the respective periods California production was down -0.9% and up 2.6%, Utah was down -1.3% and up 0.8%, while Wisconsin production was up 5.9% and up 3.4%

American type cheese production totaled 325 million pounds, 0.3 percent above December 2004 and 4.9 percent above November 2005. For the respective periods California was down -4.8% and up 0.1%, Oregon was down -6.5% and down -1.2%, while Wisconsin was up 0.7% and up 7%.

Butter production was 126 million pounds, 5.9 percent above December 2004 and 13.3 percent above November 2005. Nonfat dry milk for human food: (compared with December 2004) --- 103 million pounds, up 10.2 percent. For the respective periods California was up 9.5% and up 12.5%, while Wisconsin was up 3.9% and up 9.9%.

NFDM production for December, 2005 was 102.7 million pounds up 10.2% and up 15.5% compared to year earlier and November 2005.

Dry whey products production for December 2005 and a comparison to November 2005

- Dry whey for human production was 80.1 million pounds, up 0.1% and down -0.1%
- Dry whey for animal production was 6.1 million pounds, down -19%, up 23%
- Dry whey total production was 86.2 million pounds, down -1.5%. up 1.3%

Human and Animal Lactose production was 56.7 million pounds for December 2005, down -4.2% from 2004 and down -0.7% from November 2005.

Total Whey Protein Concentrate production was 34.5 million pounds for December 2005, up 5.9% from 2004 and up 7.8% from November 2005

FEED S & O (ERS Feed Outlook February 13, 2006)

Feed Grain Food, Seed, and Industrial Use Increases and Stocks Decline

Feed grain use for food, seed, and industrial purposes increased .6 million metric tons this month to 81.3 million metric tons, up 7.5 million from 2004/05. Most of the increase was in the use for production of ethanol in the year-over-year increase. Very small changes were made in feed grains imports and exports this month. Imports were lowered 100,000 tons because of the expected decline in barley imports. Exports were down 14,000 tons because of the change in oats exports, and were too small to register when using million metric tons. Feed grains stocks were down .7 million metric tons this month as a result of these changes, to 66 million and were up from 59 million in 2004/05.

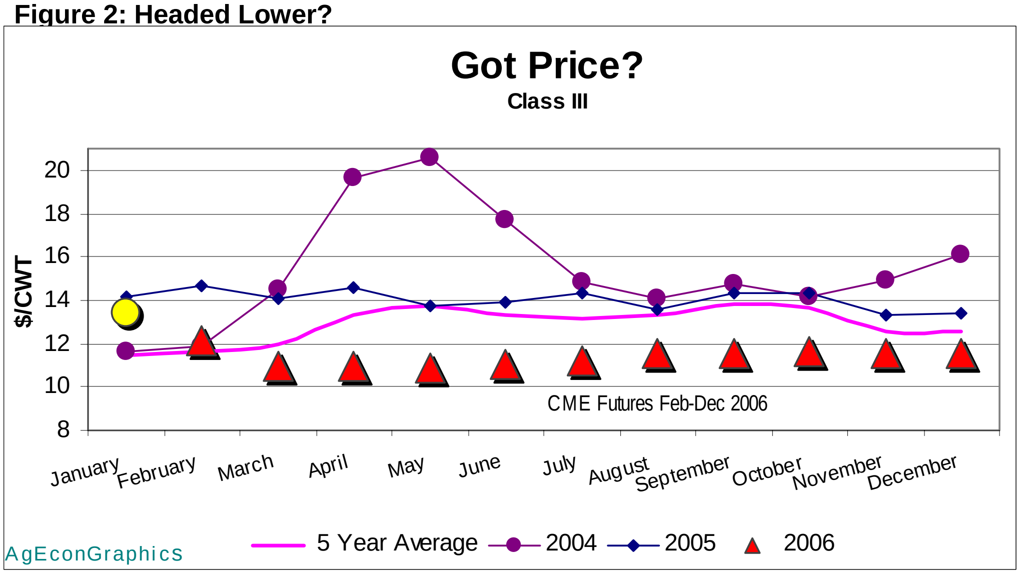
Corn Used for Ethanol Expected To Increase

The only change made this month in the corn supply and use was in corn used for ethanol. In the September-November marketing year quarter, corn used for ethanol production was up 15 percent from the same period a year earlier. Ethanol plants are being constructed to take advantage of the current strong margins and to provide ethanol to comply with the Energy Policy Act of 2005. The use of oxygenates will no longer be mandatory, 270 days after the bill was signed. The oil industry believes that they must phase out MTBE at that time and are looking for a replacement. Usually, the replacement is ethanol for reformulated gasoline, but other octane enhancers could be used if reformulated gasoline was not mandated. In any case, ethanol prices are expected to remain strong. Ethanol producers, and potential producers, should be encouraged to keep output as high as possible, and strengthen the use of corn.

OUTLOOK

In a nutshell, the outlook for the next 12 plus months is not good. Production is increasing like a building storm. An old country song has the refrain “give me 40 acres and I’ll turn this rig around.” With the current momentum in herd size, increasing per cow production, continued low feed costs and the spring flush all coinciding with a MILC extension, 40 acres won’t be enough.

Figure 2: Headed Lower?



Although CME futures have dived 30 to 50 cents per contract (as of this writing) since the milk report on the 17th, only March through May are under \$11/cwt. As noted in the price chart this year is projected below the 5 year average and under the last two strong price years. However, prices are not approaching the lows of 2000-2001 or 2002-2003. Yet. At this juncture it is likely that herd building will continue into the third quarter of 2006. Until some producers start to decrease herds or exit milk production will likely remain above profitable market clearing prices. Although the CWT program removed 64,050 cows to yield a 1.2 billion pound reduction in milk production, there are still 103,000 head more than January 2005 and 11,000 head more on farms than December 2005.

It is also getting difficult to put much price protection in place that insures a profit. Stop loss measures may be the best game left. Astute managers will be putting cost control measures in place now and planning for a year or more of very difficult milk prices.

Of Note

MILC is LAW

President Bush signed into law the budget-reconciliation bill that includes an extension of the Milk Income Loss Contract program. The program is retroactive back to Oct. 1, and producers could have received small payments in three of the past four months, so there are a lot of questions about sign-up that the USDA will need to clarify. Among those is how implementation will be handled.

A Snow Fence?

Starting later this month, the Chicago Mercantile Exchange will begin electronically trading snowfall futures and options. This will be the third weather-related futures contract trading on the CME. First came temperature futures and then frost-day futures. The weather-related futures are generally used by cities and large businesses to help manage risk from weather.