

21-Oct-09

QUARTERLY EDITION

AG ECON EXTENSION

Monthly Market Indicators for September

Production	Current	Year Ago	Prices	September	Previous Month	Year Ago
Milk Prod. 23 St. (Mil. Lb.)	13,949	14,041	Milk, Class III (\$/cw t.)	12.10	11.20	16.28
Idaho (Mil. Lb.)	1,012	1,036	Milk, Class IV (\$/cw t.)	11.15	10.38	15.45
Oregon (Mil. Lb.)	183	183	CME Cheese 40# (Lb.)	1.3294	1.3471	1.8762
Washington (Mil. Lb.)	459	466	CME Cheese Barrels (Lb.)	1.3035	1.3271	1.8517
Per Cow Production – 23 St. (Lb.)	1,672	1,650	CME Butter (Lb.)	1.2199	1.2005	1.6973
Idaho (Lb.)	1,850	1,870	NFDM West (LB.)	0.9924	0.9381	1.2357
Oregon (Lb.)	1,605	1,590	NFDM Cent. & East (Lb.)	1.0365	0.9858	1.3187
Washington (Lb.)	1,930	1,900	Whey Pow der Western(LB.)	0.2156	0.2699	0.2623
Cow Numbers – 23 St. (Thou HD)	8,342	8,510	WPC-Central & West (LB.)	0.6624	0.6374	0.4098
Idaho (Thou HD)	547	554				
Oregon (Thou HD)	114	115	Springer Heifers (\$/HD)	1,083.33	1,243.00	1,945.00
Washington (Thou HD)	238	245	Cull Cow s (\$/cw t.)	48.15	47.70	56.25
			Milk - Feed Ratio	1.93	1.78	1.90
Total Cheese (Mil. Lb.)	849,531	828,318	Premium Hay (\$/Ton)	110.27	122.77	221.72
Italian Cheese (Mil. Lb.)	349,780	336,569	Fair Hay (\$/Ton)	70.51	79.32	172.06
Butter (Mil. Lb.)	100,181	115,939	Y. Corn #2, Omaha (BU)	3.15	3.12	5.24
NFDM (Mil. Lb.)	105,620	115,205	S Meal 48% Cent. IL(Ton)	377.22	411.45	359.43
Dry Whey - Total (Mil. Lb.)	92,184	89,253	low a DDG 10% mstr (Ton)	77.94	79.06	140.63

Milk production in the 23 major States during September totaled 13.9 billion pounds, down 0.7 percent from September 2008. August revised production at 14.6 billion pounds, was down 0.1 percent from August 2008. The August revision represented an increase of 23 million pounds or 0.2 percent from last month's preliminary production estimate.

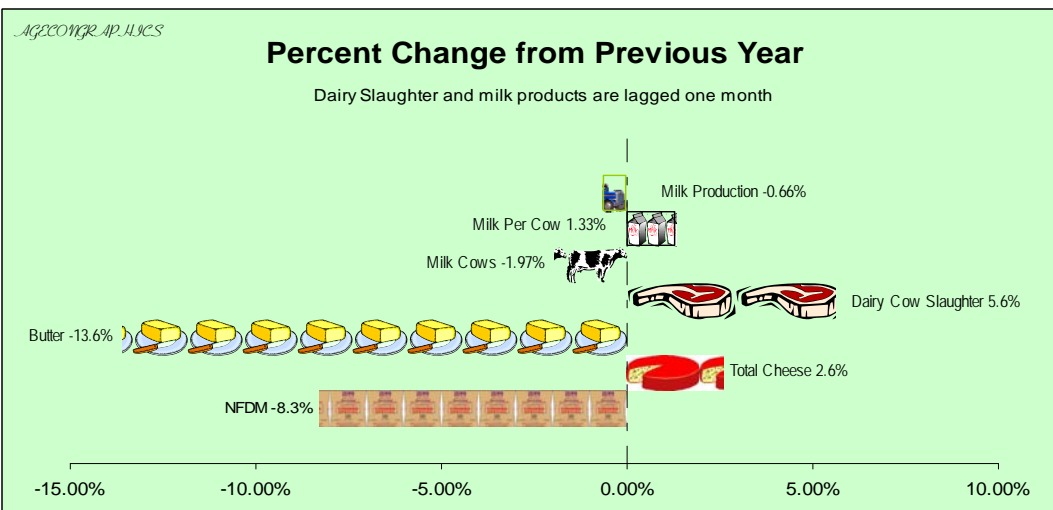
Production per cow in the 23 major States averaged 1,672 pounds for September, 22 pounds above September 2008.

The number of milk cows on farms in the 23 major States was 8.34 million head, 168,000 head

less than September 2008, and 32,000 head less than August 2009.

Relief Ahead?

Milk production in the U.S. during the July - September quarter totaled 46.8 billion pounds, down 0.3 percent from the July - September quarter last year. The average number of milk cows in the U.S. during the quarter



(Continued on page 3)

Milk Cows and Production: By Quarter, United States, 2008-2009 1/

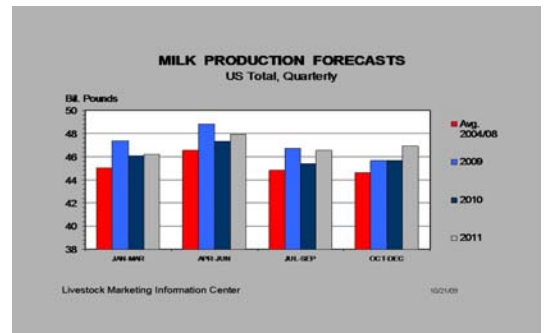
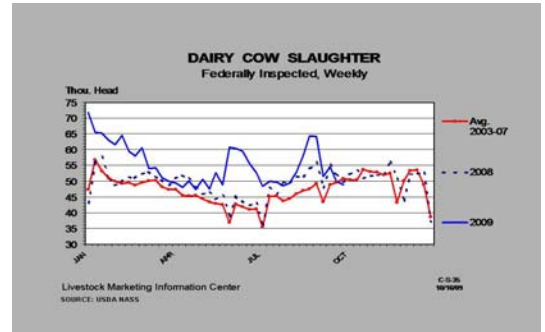
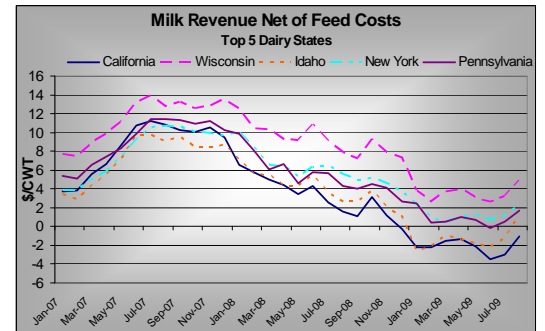
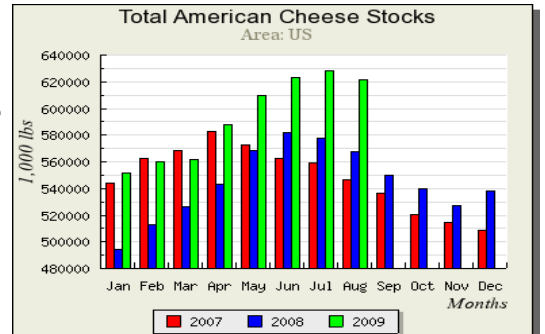
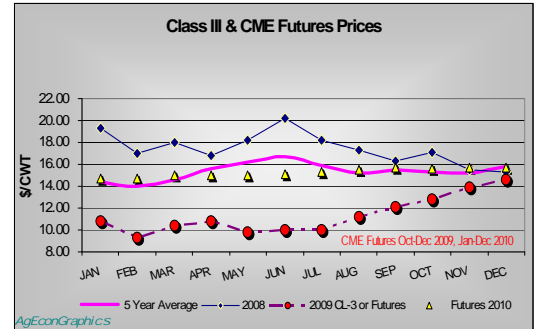
Quarter	Milk Cows 2/		Milk Per Cow 3/		Milk Production 3/		Change From 2008
	2008	2009	2008	2009	2008	2009	
	1,000 Head		Pounds		Million Pounds		Percent
Jan-Mar	9,286	9,295	5,127	5,096	47,610	47,363	-0.5
Apr-Jun	9,315	9,260	5,236	5,278	48,774	48,874	0.2
Jul-Sep	9,330	9,159	5,025	5,105	46,881	46,758	-0.3
Oct-Dec	9,330		5,008		46,727		
Annual	9,315		20,396		189,992		

For the second month in a row milk production has decreased. Futures prices continue to display their same logic by being more optimistic with out months and reducing prices on the nearby months as they loom closer. While production of cheese and other products is slowing on a month-to-month comparison there is still plenty of cheese and butter in storage (see chart at right), which will keep prices from moving up too fast. The recent run up and retreat in cheese prices is evidence. With school in session and holiday's approaching demand will increase. With layoff's and home foreclosures continuing and many wondering when the stimulus dollars will show up I expect cautious shopping to be the watchword this fall.

The restaurant industry tracks several indexes on how well stores are doing. In their September 30 report restaurant industry performance softened in August, as the National Restaurant Association's comprehensive index of restaurant activity posted a modest decline. The Association's Restaurant Performance Index (RPI) stood at 97.9 in August, down 0.2 percent from July and its third decline in the last four months.

The Current Situation Index, which measures current trends in four industry indicators (same-store sales, traffic, labor and capital expenditures), stood at 96.0 in August - down 0.9 percent from July and its sharpest decline in nearly a year. In addition, August represented the 24th consecutive month below 100, which signifies contraction. The sharp decline in Current Situation Index was the result of deteriorating sales and traffic levels in August. Only 17 percent of restaurant operators reported a same-store sales gain between August 2008 and August 2009, the lowest reading in the seven-year history of the RPI. Sixty-eight percent of operators reported a same-store sales decline in August. Sixty-five percent of operators reported a traffic decline in August, compared to 59 percent who reported lower traffic in July. Report at (<http://www.restaurant.org/pressroom/pressrelease.cfm?ID=1859>).

At the beginning of 2009 the talk by experts was that about 300,000 cows would need to go to market in order to reduce milk production by the 3-5 percent estimated as necessary to bring supply and demand in balance. 9 months later we are down 186,000 head (January minus September numbers) and have finally moved the needle 7 tenths of 1 percent on milk production.



Doing some "back of the envelope" figuring and assuming the current CWT round buys around 55,000 head the industry will still need to send another 200,000 cows to market to pull production down the 3% thought needed.

Although the CWT program has or will ship about 281,000 cows to town between the fall of 2008 and the end of 2009, replacements and increases in the mid-west have worked to offset those numbers. Additionally, per cow productivity continues its historic trend of ever increasing. Since January 1999 there have been only 11 months that per cow productivity didn't increase compared to the same period a year earlier. And only one of those months in the last four years. Projections (see table on page 4) indicate that financial health may be slow in returning to the industry. While the past is often used as a guide to the future, the US and world markets have not seen a financial meltdown of this magnitude since the depression of the 1930's. While this is not as severe in some respects due to strong governmental intervention, the recovery won't be rapid which means consumer spending will be cautious—I believe for several years.

As milk production contracts over the next 6-9 months milk prices will generally show continued but slow improvement. Futures will continue to be overly optimistic on farther out months which may present hedging or options opportunities for astute marketers. With a possible near record corn harvest this fall and modest hay prices feed costs will be the best for some time.

Most financial bleeding and corresponding cow culling has been in the west. That region will continue to be the most hard hit and slowest to recover. Returns over feed costs (see chart) have been lowest in the west and those producers will take much longer to get well when prices rise above breakeven. This situation has brought many to question and seek changes in the dairy marketing and Federal order systems. Dairying may look different in years to come.

Kellogg's are going to laser their logo onto every Corn Flake. In a bid to guarantee their cereal's origins, the breakfast food company is going to stamp their trademark 'Kellogg's' logo onto every single flake. A spokesperson said: "We want shoppers to be under absolutely no illusion that Kellogg's does not make cereal for anyone else."

(Continued from page 1)

was 9.16 million head, 171,000 head less than the same period last year.

Total cheese output (excluding cottage cheese) was 850 million pounds, 2.6 percent above August 2008 and 1.0 percent above July 2009. Italian type cheese production totaled 350 million pounds, 3.9 percent above August 2008 and 0.1 percent above July 2009. American type cheese production totaled 345 million pounds, 1.6 percent above August 2008 but 2.0 percent below July 2009. Butter production was 100 million pounds, 13.6 percent below August 2008 and 12.3 percent below July 2009.

Dry Milk Powders: (comparisons with August 2008)

Nonfat dry milk, human --- 106 million pounds, down 8.3 percent.

Skim milk powders --- 10.7 million pounds, down 59.9 percent.

U.S. QUARTERLY MILK PRODUCTION, COMMERCIAL DISAPPEARANCE, AND SELECTED PRICES^a

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Year Quarter	Average Number Milk Cows (1,000 Head)	% Chg. from Year Ago	Production Per Cow (Lbs.)	% Chg. from Year Ago	Total Milk Production (Mil. Lbs.)	% Chg. from Year Ago	Commercial Disappearance (Milk Equivalent ^b) (Mil. Lbs.)	% Chg. from Year Ago	Class III Price (\$/Cwt.)	% Chg. from Year Ago	US All Milk Price (\$/Cwt.)	NCE/CMC 40# Block Price (\$/LB.)
2006												
I	8001	0.09	4813	1.23	43326	1.32	42065	0.05	14.31	12.98	15.67	1.5505
II	8042	0.44	5068	4.07	45825	4.53	44941	2.47	14.10	-26.87	14.83	1.5084
III	8073	0.51	4863	3.80	44121	4.52	46668	4.60	14.08	-3.12	14.87	1.4974
IV	8085	0.73	4806	3.15	43659	3.90	46466	1.45	13.69	-9.12	15.13	1.4150
Year	8050	0.44	19550	3.11	176931	3.57	180170	2.16	14.05	-8.75	15.15	1.4928
2006												
I	8121	1.33	4995	3.78	45563	5.16	42909	1.93	12.23	-14.49	13.50	1.2321
II	8156	1.26	5125	1.13	46825	2.40	45790	1.89	11.02	-21.87	11.83	1.1810
III	8137	0.71	4889	0.55	44675	1.26	47422	1.62	11.42	-18.89	12.23	1.2306
IV	8133	0.53	4885	1.66	44619	2.20	47988	3.27	12.88	-5.94	13.87	1.3105
Year	8137	0.96	18995	1.76	181752	2.74	184107	2.19	11.89	-15.36	12.88	1.2385
2007												
I	8152	0.34	5033	0.75	46063	1.10	44339	3.33	14.28	16.70	15.00	1.3470
II	8170	0.15	5173	0.94	47436	1.09	46560	1.75	17.95	62.87	18.23	1.7313
III	8188	0.67	5013	2.53	46111	3.21	48136	1.51	20.43	78.82	21.87	1.9540
IV	8236	1.13	4885	2.04	46042	3.19	48162	2.45	18.51	51.49	21.60	1.9889
Year	8189	0.57	20204	1.55	185654	2.13	188226	2.24	18.04	51.76	19.13	1.7578
2008												
I	8296	1.46	5127	1.87	47610	3.36	46509	4.89	18.12	26.90	19.17	1.8838
II	8315	1.58	5236	1.21	48774	2.82	47743	2.47	18.40	2.47	18.57	2.0051
III	8330	1.44	5025	0.24	46881	1.67	48415	2.66	17.28	-15.40	18.63	1.8611
IV	8330	1.02	5008	0.46	46727	1.49	48424	0.53	15.95	-18.23	16.80	1.6731
Year	8315	1.37	20396	0.95	189892	2.34	193038	2.56	17.44	-3.35	18.29	1.8558
2008												
I	8295	0.10	5096	-0.80	47363	-0.52	46444	-2.29	10.18	-43.83	12.23	1.1820
II	8259	-0.60	5277	0.78	48860	0.18	47881	0.29	10.20	-44.57	11.60	1.1597
III ^b	8130	-2.14	5055	0.60	46152	-1.55	47152	-4.58	11.09	-35.82	12.00	1.2760
IV ^c	8045	-3.05	5050	0.84	45677	-2.25	47177	-4.55	12.00-12.35	-23.67	12.75-13.10	1.26-1.28
Year	8182	-1.43	20478	0.40	188052	-1.02	187654	-2.79	10.88-10.98	-37.37	12.10-12.22	1.21-1.22
2010												
I	8960	-3.60	5145	0.96	46099	-2.67	46049	1.33	12.25-12.75	22.83	12.75-13.50	1.26-1.35
II	8915	-3.72	5310	0.83	47339	-3.11	47539	-0.72	12.20-13.00	23.57	13.00-14.00	1.30-1.40
III	8900	-2.52	5100	0.89	45390	-1.65	46240	-1.93	12.75-13.75	19.48	13.50-14.75	1.35-1.50
IV	8900	-1.60	5130	1.58	46657	-0.04	46657	-1.10	12.75-14.00	9.88	13.50-15.00	1.35-1.55
Year	8919	-2.87	20685	1.01	184485	-1.80	186485	-0.62	12.49-13.38	18.42	13.20-14.30	1.32-1.45
2011												
I	8900	-0.67	5195	0.97	46236	0.30	46436	0.84	12.75-14.25	8.00	13.50-15.25	1.35-1.60
II	8925	0.11	5370	1.13	47927	1.24	48127	1.24	12.75-14.50	8.13	13.50-15.65	1.40-1.65
III	8950	0.56	5200	1.96	46540	2.53	46760	1.19	12.75-15.25	5.68	13.50-16.25	1.40-1.70
IV	8975	0.84	5230	1.95	46939	2.81	47439	1.68	12.50-15.00	2.80	13.25-16.25	1.35-1.70
Year	8938	0.21	20995	1.50	187642	1.71	188792	1.24	12.69-14.75	6.09	13.45-15.85	1.38-1.66

^a Totals may not add due to rounding. Beginning in 2008 disappearance is domestic only (excludes exports).

^b Estimated quarter by LMIC

^c Sources: Historical data from various USDA Publications by NASS, AMS, ERS

^d Forecasted quarters by LMIC

^e Milk-equivalent, milkfat basis.



In cooperation with

