Dairy Economics From a Global View

MSRNC
Arlington, Texas
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AgriLIFE EXTENSION
Texas A&M System
Overview

- Economy and Demand
- Costs
- Too Much Milk
Economy
QTRLY GROSS DOMESTIC PRODUCT (GDP)
Real Dollar (2000) Change from Previous Quarter

Percent Change

-2.0 -1.5 -1.0 -0.5 0.0 0.5 1.0 1.5 2.0
1993 1995 1997 1999 2001 2003 2005 2007
DRY WHEY PRICES
US, Weekly

$ Per Pound

Avg. 2003-07
2008
2009

JAN  APR  JUL  OCT
Dairy Economics
SOUTHERN PLAINS CORN PRICES
Weekly

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<td>Jan</td>
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AFPC Representative Dairy Farms

- Developed With Producers
  - Consensus process
  - On paper the costs and returns for a dairy representative of the area
- Used for Policy Analysis
  - For more than 20 years
- 22 Representative Dairies
Increase in Purchased Feed Costs/ cwt, 2006-2008

<table>
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<th>$/cwt</th>
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<tbody>
<tr>
<td>TXCD 1300</td>
<td>3.1</td>
</tr>
<tr>
<td>TXED 450</td>
<td>2.5</td>
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<tr>
<td>TXND 3000</td>
<td>3.3</td>
</tr>
<tr>
<td>FLND 550</td>
<td>4.1</td>
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• Decline From $1.00 to $3.00 per cwt
• Why?
  – Lower feed, fuel, other costs from 2008
• Costs Range From $14 to $20 per Cwt (2009)
• Costs Back to the Same as 2007
• $2-$4 per Cwt Higher Than in 2006
Prior to Price Meltdown

- 14 of 22 Dairy Farms Would Have a Negative Ending Cash Balance If...
- Revenue Declined by Only 10%
- That Was Using FAPRI’s December Baseline
- With Higher Debt-Asset Ratio
  - Half unable to recover financially with this year’s projected price
Supply
JANUARY 1 COW INVENTORY
U.S., Annual

Mil. Head

2009 = 31.7 Million Head
-2.4 Percent

2009 = 9.3 Million Head
+0.8 Percent
DAIRY COW SLAUGHTER
Federally Inspected, Weekly

Thou. Head

JAN
APR
JUL
OCT

Avg. 2003-07
2008
2009
MILK PRODUCTION
US Total, Monthly

Bil Pounds

JAN MAR MAY JUL SEP NOV

Avg.
2003-07

2008

2009

13.5
14.0
14.5
15.0
15.5
16.0
16.5
17.0
# Projected Prices for 2008-2009

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<th>Prod.</th>
<th>All Milk</th>
<th>Class III</th>
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<tbody>
<tr>
<td>2008</td>
<td>189.7</td>
<td>18.32</td>
<td>17.44</td>
</tr>
<tr>
<td>2009 I</td>
<td>47.5</td>
<td>11.90</td>
<td>10.18</td>
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<tr>
<td>II</td>
<td>48.9</td>
<td>12.00-12.50</td>
<td>11.00-11.50</td>
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<td>III</td>
<td>47.0</td>
<td>13.80-14.50</td>
<td>12.80-13.50</td>
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<tr>
<td>IV</td>
<td>46.0</td>
<td>15.00-15.75</td>
<td>14.00-14.75</td>
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</tbody>
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Summary

• Huge Financial Losses in Production Sector
  – How fast do we cull cows to reduce production?

• Like Everything Else, The Key is Economic Recovery
  – World demand
  – Boost exports
  – Consumers spending money