

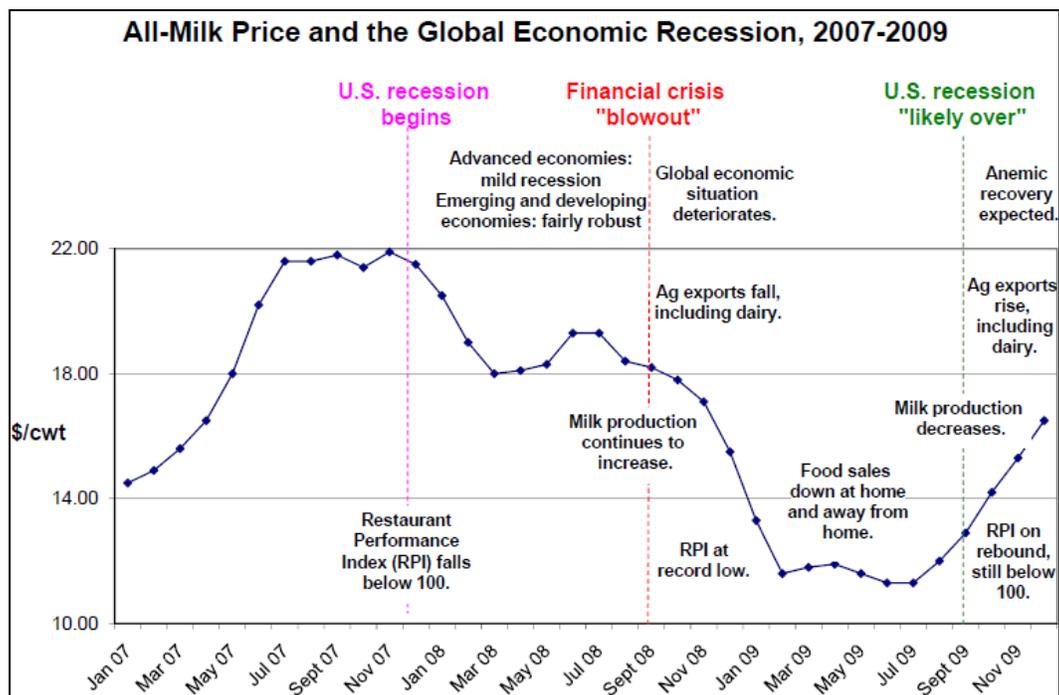
Dairy Outlook report shows conditions improving but not completely recovering

By Jon H. Harsch

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Washington, Feb. 19 – Describing the dairy industry’s perfect storm at USDA’s annual Outlook Forum Friday, Agricultural Marketing Service Senior Economist Jerry Cessna said that “When you put all the pieces together, the recession began December 2007 and milk prices started falling.” Then, he explained, the escalating global financial crisis drove milk prices further down along with all agricultural exports – while at the same time, milk production continued to increase.

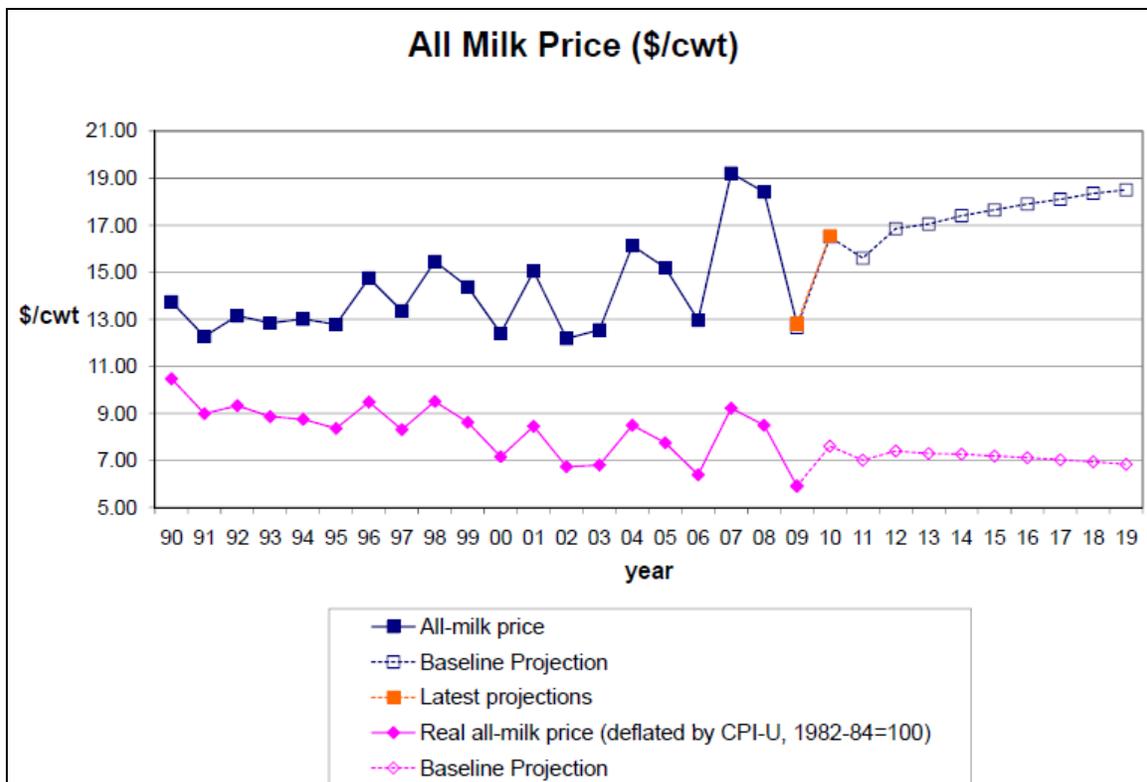
Cessna went on to describe the dairy industry’s recovery from a devastating 2009, helped by the combination of the economy’s overall recovery, “a flurry” of USDA rescue programs which still continue, and the industry’s own herd reduction.



Source: USDA Agricultural Outlook Forum, Feb 19, 2010, in presentation by USDA Agricultural Marketing Service Senior Agricultural Economist Jerry Cessna.

Cessna said that given the three-year cyclical swings in milk prices since 1998 and the increasing price peaks of 2004 and 2007, it might be reasonable to expect 2010 to see an average all-milk price top the prior \$19.21 per cwt. peak. But he said with global economic recovery sluggish, expected continuing high unemployment, dairy heifer calving numbers up, and 2009 ending stocks up especially for cheese, “prices are expected to increase significantly in 2010, but generally not to the levels seen in 2007 and 2008.”

Longer-term, Cessna forecasts that “The all-milk price increases to \$16.50 per cwt in 2010, falls to \$15.60 in 2011, and then rises through the projection period, reaching \$18.50 by 2019.” He also notes that in inflation-adjusted real terms, “In line with the long-term trend of most agricultural commodities, farm-level milk prices in real terms generally decline over time. Following a fluctuation that lasts until 2012, real all-milk prices decrease for the remainder of the projection period.”



Source: USDA Agricultural Outlook Forum, Feb 19, 2010, in presentation by USDA Agricultural Marketing Service Senior Agricultural Economist Jerry Cessna.

Mark Stoermann, Project Manager for 15,000-cow Fair Oaks Dairy Farm in Indiana, offered insights on how dairy operations can improve their economic sustainability despite USDA’s forecast of falling real milk prices. At Fair Oaks, he’s overseen the installation and operation of anaerobic digesters which turn dairy manure into high-value electric power, high-nutrient fertilizer, and compressed gas which will be used to power a Fair Oaks trucking fleet.

He said regardless of whether or not the threat of climate change is real, one certainty is that “energy costs will go up” – a certainty which he says creates an opportunity for dairy

operations to significantly improve both their environmental and their economic performance.

To read USDA's 7-page "Situation and Outlook for the U.S. Dairy Industry" report, go to: www.usda.gov/oce/forum/2010_Speeches/Speeches/DairyOutlook2010.pdf.

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