**What’s Ahead for Dairy in 2010??**

**Stronger domestic demand.**

For 2009, dairy’s “greatest story never told”, (except in The Milkweed) was the explosion in retail sales of cheese and fluid milk. America’s difficult finances have forced major food-lifestyle changes – specifically, increased home-preparation of meals. Cheese is a big part of those home-made meals. And milk is the beverage on the table more frequently when those meals are eaten at home.

Additionally, as 2009 progressed, retail prices for cheese and beverage milk declined – giving retail dairy products a semblance of better “bargain” prices. What’s ahead? America’s tough financial times will continue. So will these new, food-lifestyle changes. Dairy needs to capitalize on these strong, emerging trends.

**Strong export demand.**

Meanwhile, global demand for dairy products solidified in the second half of 2009. The weaker U.S. dollar places potential exports from this nation in a favorable position, compared to nations whose currencies have retained value. Global prices for dairy products are sky-high. Cheddar at the dock in New Zealand ranges from $1.8144 to 2.0412 per pound, according to USDA’s latest Dairy Market News report. (See related story on page 4.) Export opportunities for U.S. dairy will be strong, IF product is available, as long as the dollar stays weak AND U.S. dairy commodities remain so far below global values.

Curiously, statements by personnel at DairyAmerica (the U.S. milk powder export cartel) indicate that the marketing agency will push exports less aggressively in 2010, and try to take care of their domestic customers’ needs during a time of perceived, tight milk powder production and inventories.

2010: Conclusions

* U.S. milk production will be impaired, compared to 2009’s output … perhaps significantly impaired.

* U.S. consumer demand should increase, particularly in retail sales for at-home meal preparation and consumption. Pizza chains are working hard to try to rebuild sales momentum – which started to improve in the second half of 2009.

* Export demand for U.S. dairy products should grow strong. World market prices for major dairy commodities are all stronger than U.S. cash market commodity prices. The weak U.S. dollar makes our dairy exports – if available – even more desirable to bargain-hunting global buyers.

### December 2009 Class III Price $14.98—November Class IV $15.01

<table>
<thead>
<tr>
<th>October</th>
<th>November</th>
<th>December</th>
<th>Nov.—Dec. Difference</th>
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<tbody>
<tr>
<td><strong>Butter</strong></td>
<td>1.2245</td>
<td>1.3817</td>
<td>$1.4459</td>
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<tr>
<td><strong>Nonfat Dry Milk</strong></td>
<td>1.0270</td>
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<tr>
<td><strong>Cheddar Cheese</strong></td>
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**Stronger domestic demand.**

(Oct. 2010)

Dairy farmers’ accountants will need red ink by the gallon, when totaling 2009’s books for their clients. But what’s ahead for 2010??? That’s the big question on the minds of surviving dairy farmers, as they lick their financial wounds coming out of the worst year for milk prices they’ve ever seen.

The Milkweed will attempt, to detail key factors that will influence dairy’s supply/demand and pricing picture for the coming year. However, readers must appreciate the hazards of trying predict specific farm milk price levels. That’s because dairy’s current, price-setting mechanism – cash Cheddar markets at the Chicago Mercantile Exchange (CME) – appears divorced from fundamental supply-demand considerations.

As we see them, here’s the array of major, game-changing factors ahead in 2010:

**Significantly less U.S. milk production.**

Numerous factors all point to less farm milk in 2010, perhaps a LOT less milk. These factors include:

* Poor quality forages harvested in 2009 in key dairy regions, particularly the Midwest and Northeast. Quality forage is key to efficient milk production.

* Unusually cool temperatures during the 2009 growing season left much corn and soybeans in northern dairy states immature at harvest. Likelihood is that corn and soybeans will pack less nutritional density and value this year. Those factors will slow down U.S. farm milk output.

* Reduced animal health maintenance. To cope with low milk prices, many dairy farmers had to back off normal herd health maintenance in the past year. Cutting back on animal health care will pull down overall productivity, short- and medium-term.

* Scarcity of borrowed money to buy replacement heifers. The next to the last thing that agricultural bankers want to hear is a dairy farmer asking to borrow money to buy heifers. Except in rare circumstances, forget it.

* Continued foreclosures, sell-outs. By their own decision or otherwise, a significant number of U.S. dairy farmers will quit production in coming months. As these herds exit, a far smaller-than-normal percentage of milk cows will go to slaughter rather than to neighboring dairy farms.

For all of the above reasons, U.S. milk production will decline, perhaps significantly in 2010.

### December 2009 Class III Price $14.98—November Class IV $15.01

Once again both Class III and Class IV prices rose substantially from the previous month’s levels. December 2009 Class III price was $14.98, an increase of $0.90 over November 2009. December’s price represents a further increase over this year’s low of $10.20 in July. Class IV price was $15.01 for December 2009 up $1.76 from November. Class IV has gained $3.15 in two months.

All monthly component prices gained.

**Monthly component prices derived from NASS weekly surveys are:**

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