

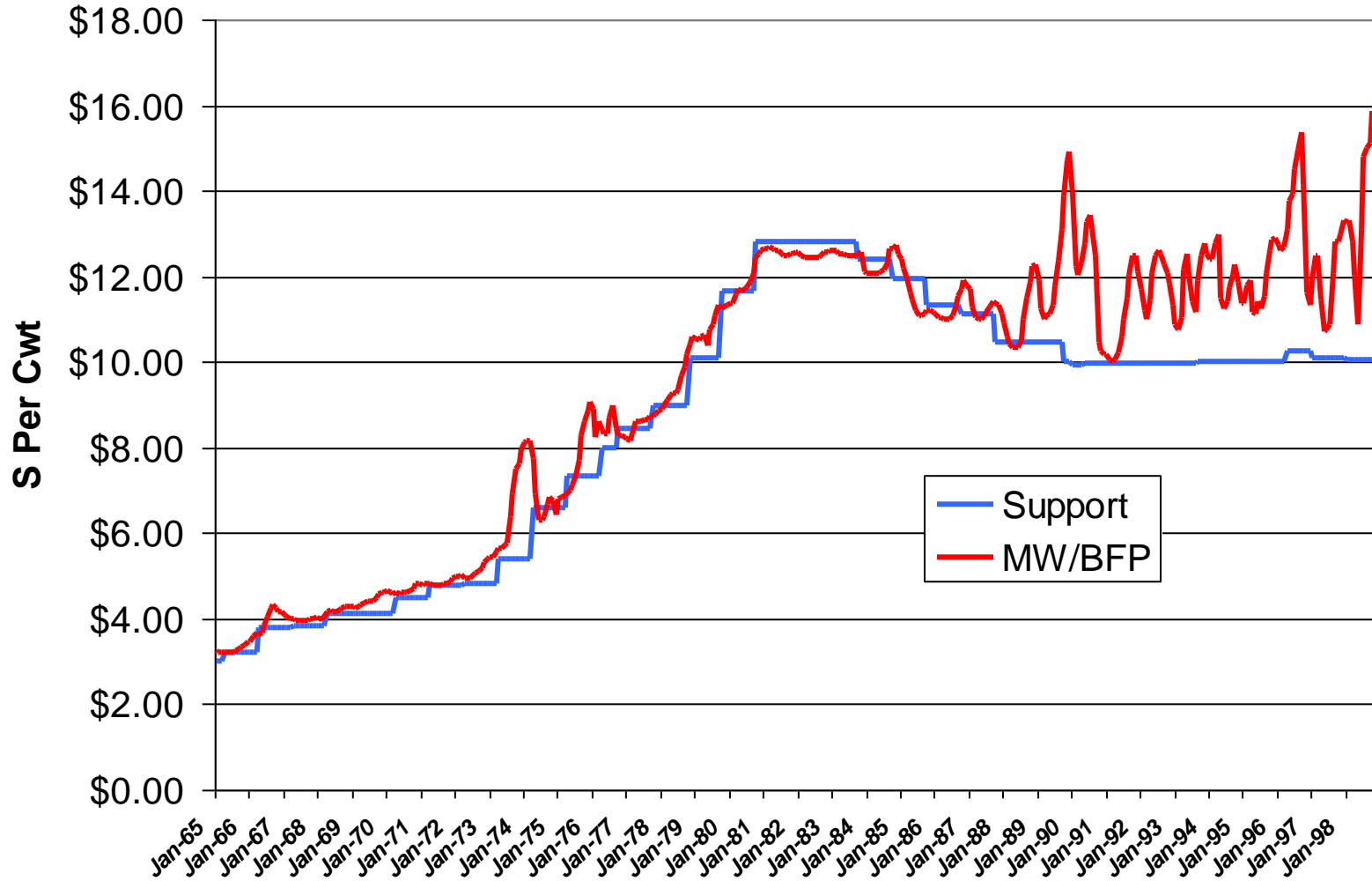
Dairy Situation and Outlook

By Bob Cropp

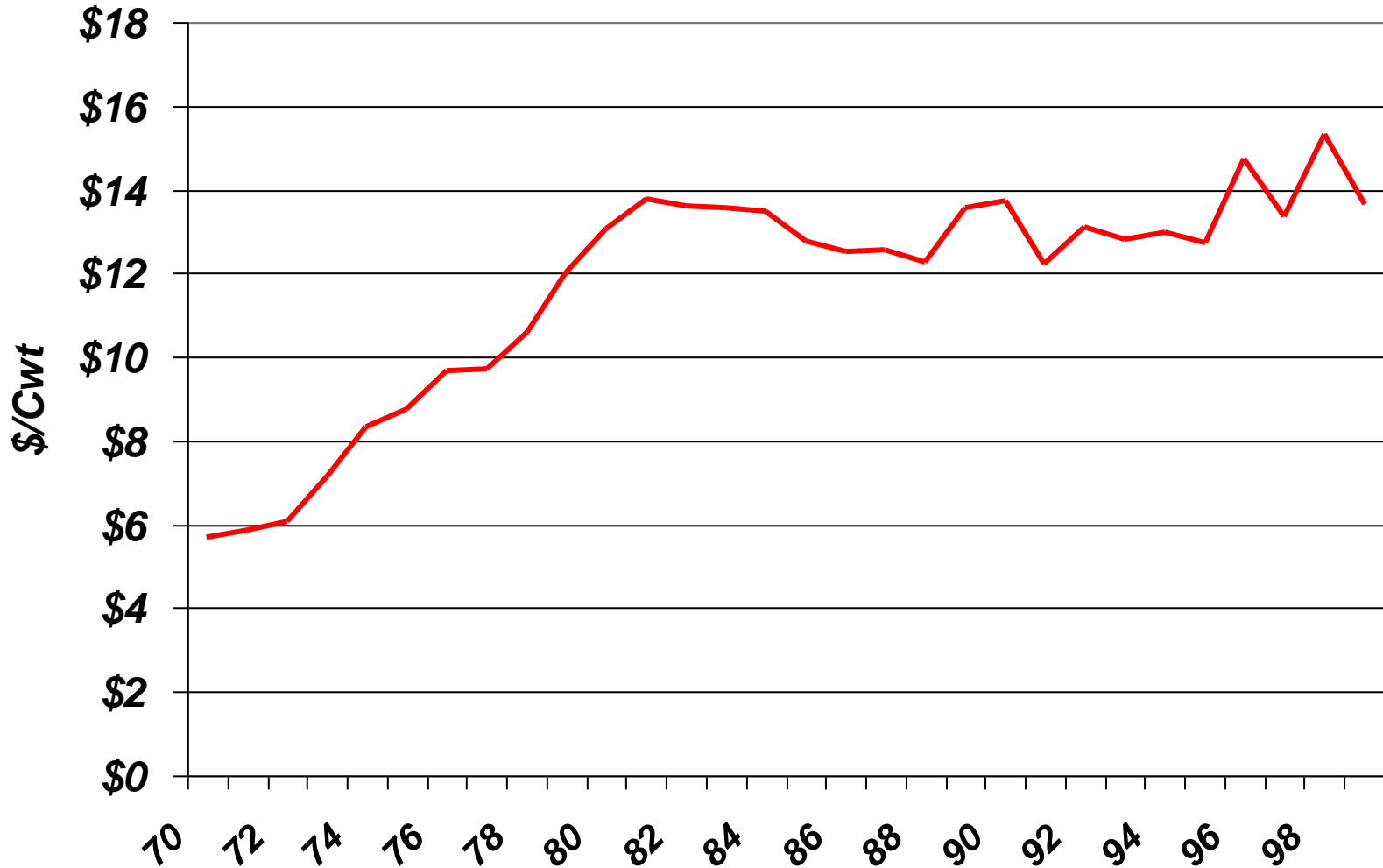
University of Wisconsin-Madison

January 1999

MW/BFP vs Support Price, 1965-98



U.S. Average All Milk Price, 19970-99



Milk Price Outlook, 1998

Month	1997 BFP	1998 BFP Forecast
Jan	\$11.94	\$13.25
Feb	\$12.46	\$13.32
Mar	\$12.49	\$12.81
Apr	\$11.44	\$12.01
May	\$10.70	\$10.88
Jun	\$10.74	\$13.10
Jul	\$11.86	\$14.77
Aug	\$12.07	\$14.99
Sep	\$12.79	\$15.10
Oct	\$12.83	\$16.04
Nov	\$12.96	\$16.84
Dec	\$13.29	\$17.34
Average BFP	\$12.05	\$14.20
Average All Milk Price	\$13.25	\$15.45

**Percent Change in Cow Numbers, Milk Per
Cow and Total Milk production-20 States
1998 vs 1997**

<i>Month</i>	<i>No. Cows</i>	<i>Milk Per Cow</i>	<i>Total Product- ion</i>
<i>Jan</i>	<i>-0.7</i>	<i>2.2</i>	<i>1.4</i>
<i>Feb</i>	<i>-0.6</i>	<i>1.7</i>	<i>1.1</i>
<i>Mar</i>	<i>-0.5</i>	<i>1.1</i>	<i>0.7</i>
<i>Apr</i>	<i>-0.4</i>	<i>1.7</i>	<i>1.3</i>
<i>May</i>	<i>-0.2</i>	<i>1.8</i>	<i>1.7</i>
<i>Jun</i>	<i>-0.2</i>	<i>0.3</i>	<i>0.2</i>
<i>Jul</i>	<i>-0.2</i>	<i>-0.6</i>	<i>-0.8</i>
<i>Aug</i>	<i>-0.1</i>	<i>-0.5</i>	<i>-0.5</i>
<i>Sept</i>	<i>0.1</i>	<i>0.3</i>	<i>0.4</i>
<i>Oct</i>	<i>0.0</i>	<i>1.4</i>	<i>1.3</i>
<i>Nov</i>	<i>0.1</i>	<i>2.6</i>	<i>2.7</i>
<i>Dec</i>	<i>0.1</i>	<i>2.6</i>	<i>3.0</i>

***Percent Change in Number of Cows, Milk
Per Cow & Total Milk Production, Selected
States, December 1998***

<i>State</i>	<i>No. Cows</i>	<i>Milk Per Cow</i>	<i>Total Milk</i>
<i>WI</i>	<i>-0.7</i>	<i>6.4</i>	<i>5.5</i>
<i>MN</i>	<i>-3.5</i>	<i>8.2</i>	<i>4.5</i>
<i>CA</i>	<i>3.6</i>	<i>-2.6</i>	<i>0.9</i>
<i>ID</i>	<i>7.5</i>	<i>2.5</i>	<i>10.2</i>
<i>WA</i>	<i>0.4</i>	<i>3.9</i>	<i>4.4</i>
<i>NM</i>	<i>4.8</i>	<i>3.1</i>	<i>8.0</i>
<i>AZ</i>	<i>1.5</i>	<i>4.9</i>	<i>6.8</i>
<i>TX</i>	<i>-3.9</i>	<i>4.8</i>	<i>0.6</i>
<i>FL</i>	<i>-2.5</i>	<i>-4.2</i>	<i>-5.7</i>
<i>MO</i>	<i>1.2</i>	<i>3.9</i>	<i>4.8</i>
<i>KY</i>	<i>7.1</i>	<i>2.0</i>	<i>-5.6</i>
<i>NY</i>	<i>0.3</i>	<i>2.9</i>	<i>3.3</i>
<i>PA</i>	<i>-1.4</i>	<i>1.4</i>	<i>0.0</i>

Dairy Imports: Jan - Oct 1998

- Butter:

1997 = 22 million Lbs

1998 = 65 million Lbs + 195%

- Cheese:

1997 = 236.6 million Lbs

1998 = 276.9 million Lbs + 17%

Production of Dairy Products

- *November 1998 vs November 1997:*

American Cheese *+7.7%*

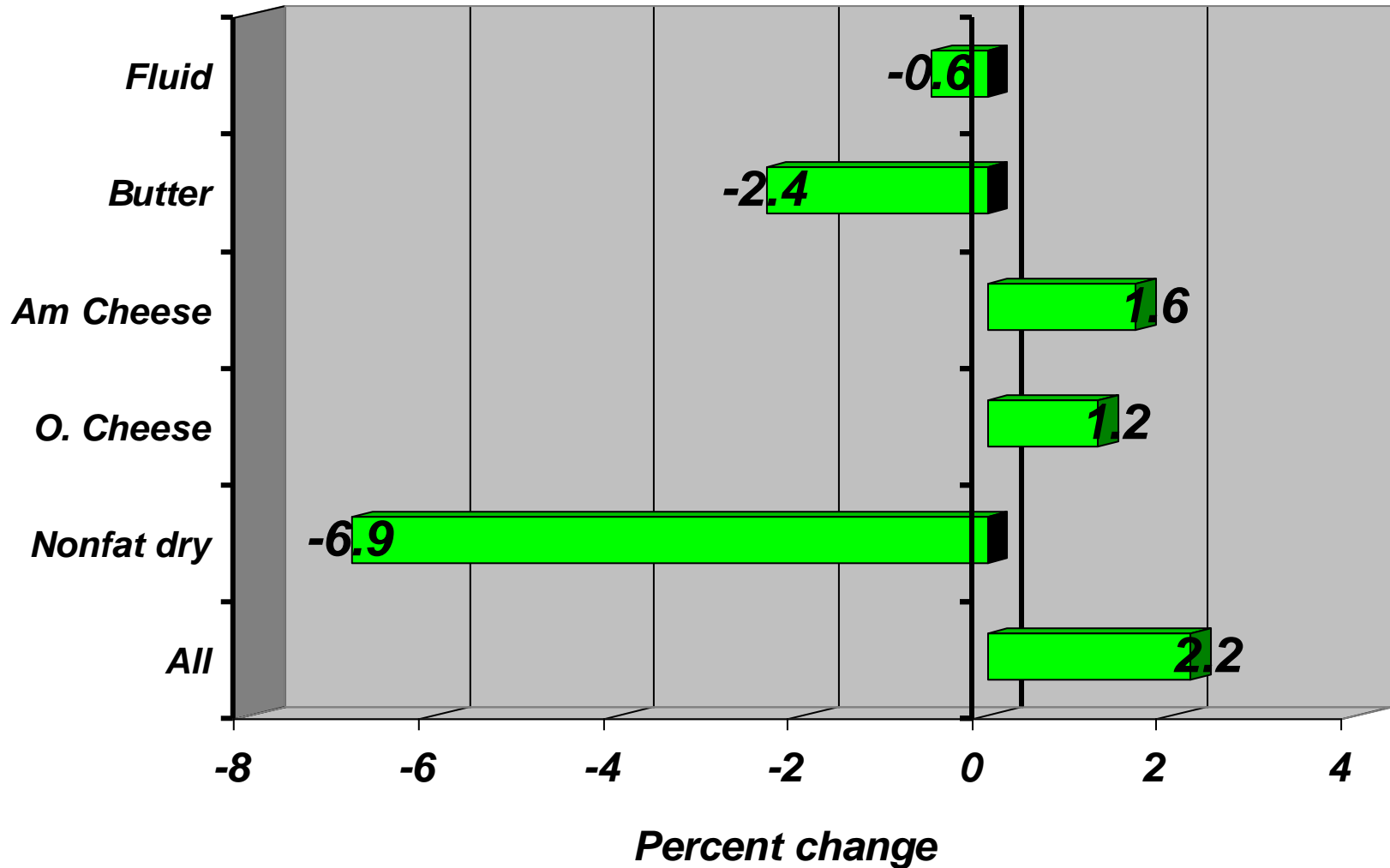
All Cheese *+6.4%*

Butter *-2.1%*

Retail Prices
Percent Change

Month	All Food	Dairy Prod.	Whole Milk	Cheese	Butter	Meat, Poultry, Fish, Eggs
June	2.2	2.8	2.0	1.2	23.1	-1.1
July	2.2	3.4	2.7	2.9	35.4	-0.9
Aug	2.2	5.0	6.0	4.0	39.2	-0.6
Sept	2.0	6.6	8.5	4.6	55.0	-1.1
Oct	2.4	6.4	5.0	7.0	69.6	-0.6
Nov	2.3	6.1	4.1	7.4	51.5	-0.9

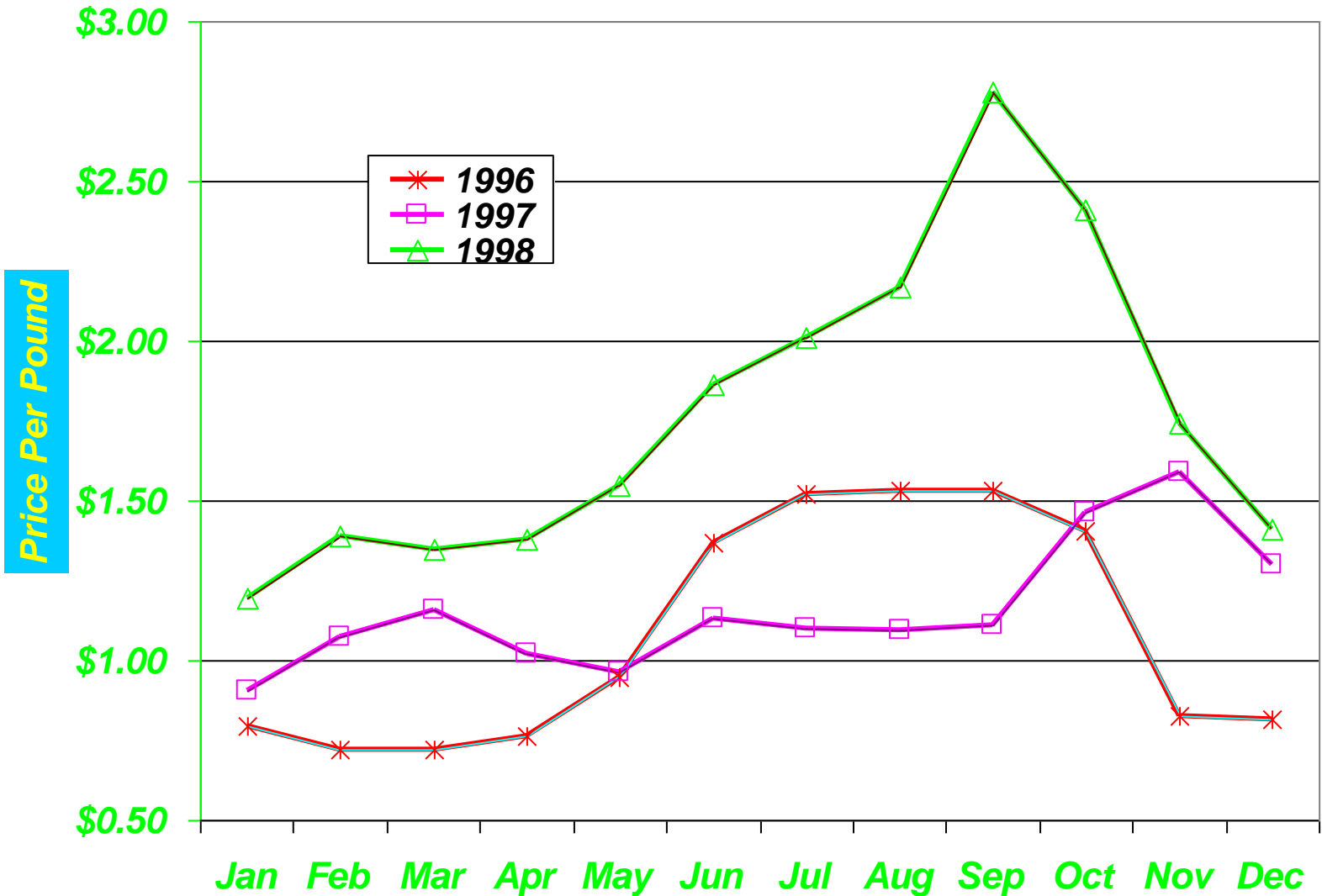
Commercial Sales, Jan - Sept 1998 vs 1997



Stocks of Dairy Products
Dec 31st

Product	1996	1997	1998	% Change
Total Cheese	476.9	480.4	520.0	+8.2%
Butter	18.4	20.8	27.4	+31.2

CME Average Monthly AA Butter Prices 1996-98



**Number of Dairy Cows, Milk Per Cow,
Total Milk Production, Total Commercial
Sales, 1997 Actual & 1998 Preliminary**

	1997	% Change	1998	% Change
Number of Milk Cows (000)	9,252	-1.3	9,239	-0.1
Milk Per Cow	16,871	2.7	17,090	1.3
Total Milk Prod'n (billion pounds)	156.1	1.4	157.9	1.1
Imports	2.7	-7.4	3.0	11.1
Total Commercial sales (billion pounds)	156.5	1.2	159.3	1.8

Milk Production in 1999

- *Relatively low grain & concentrate prices*
- *Milk-feed price ratio*

Dec 97 = 4.35

Year ago 2.80

- *Forage quality/quantity*
- *Low cull cow prices*

\$34 to \$36

Milk production continued:

- *Exiting & expansion*
- *Weather*
- *Imports: down slightly*
- *Summary:*

Close to a 2% increase seems likely

Sales in 1999:

- *Impact of higher retail prices????*
 - Late 1998?*
 - Early 1999?*
 - Lower prices late 1999*
- *Stock market & incomes*
- *Product substitution--food ingredients*
- *Exports--5.0 billion*
- *At least a 1.5% growth seems likely*

***Number of Dairy Cows, Milk Per Cow,
Total Milk Production, Total Commercial
Sales, 1998 & 1999 Estimates***

	1998	% Change	1999	% Change
Number of Milk Cows (000)	9,239	-0.1	9,184	-0.6
Milk Per Cow	17,090	1.3	17,500	2.4
Total Milk Prod'n (billion pounds)	157.9	1.1	160.7	1.8
Imports (billion pounds)	3.0	11.1	2.9	-0.3
Total Commercial Sales (billion pounds)	159.3	1.8	161.7	1.5

***Milk Price Outlook, 1997 & 1998 Actual,
1999 Estimates***

Month	1997 BFP	1998 BFP	1999 BFP
<i>Jan</i>	<i>\$11.94</i>	<i>\$13.25</i>	<i>\$15.60</i>
<i>Feb</i>	<i>\$12.46</i>	<i>\$13.32</i>	<i>\$11.70</i>
<i>Apr</i>	<i>\$12.49</i>	<i>\$12.81</i>	<i>\$11.90</i>
<i>Apr</i>	<i>\$11.44</i>	<i>\$12.01</i>	<i>\$11.70</i>
<i>May</i>	<i>\$10.70</i>	<i>\$10.88</i>	<i>\$11.00</i>
<i>Jun</i>	<i>\$10.74</i>	<i>\$13.10</i>	<i>\$11.50</i>
<i>Jul</i>	<i>\$11.86</i>	<i>\$14.77</i>	<i>\$11.90</i>
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<i>Dec</i>	<i>\$13.29</i>	<i>\$17.34</i>	<i>\$12.00</i>
<i>Average BFP</i>	<i>\$12.05</i>	<i>\$14.20</i>	<i>\$12.34</i>
<i>Average all milk price</i>	<i>\$13.25</i>	<i>\$15.45</i>	<i>\$13.60</i>

Management Implications:

- *Milk prices will continue to be volatile and uncertain*
- *Milk prices can change quickly and abruptly*
- *The trend in milk prices is rather flat*
- *Controlling costs are of utmost importance*
- *Protecting input prices and milk prices are of utmost importance*

Federal Milk Marketing Order Changes:

- *Secretary of Ag. Proposed rule last spring*
- *Requested comments*
- *U.S. Congress last fall delayed implementation (was to be by April 4, 1999; now Oct 1, 1999; also extended Northeast Compact to Oct 1, 1999)*
- *Secretary will issue final rule on or before April 4, 1999*
- *Final recommendation and producer referendum this summer*
- *Yes by 2/3 producers to approve; if not no order*

What can we expect?

- *Consolidation of orders from 31 to no less than 10 and no more than 14 (Likely 11; CA not included)*
- *Replace BFP with multiple component pricing*
- *Four classes of milk*
- *Perhaps a separate mover for class I & class II*
- *Class I differentials????????????????????*

USDA “Dairy Options Pilot Program (DOPP)”

- *States:*

California

Minnesota

New York

Pennsylvania

Texas

Vermont

Wisconsin

DOPP

- *Last 6 to 8 months for each participant*
- *Limit of 600,000 Lbs to be hedged*
- *All DOPP options to be at least two months deferred*
- *No more than 200,000 pounds in any single month*
- *Producer pays 20% of premium*
- *RMA pays \$30 of transaction costs*
- *Training the week of February 22*
- *Additional counties/states for round two.*