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Dairy Economic Update

To: All NYS Dairy Foods, Inc. Members Only

From: Gary Latta, Dairy Economist, Bruce W. Krupke Exec. VP

Date: Tuesday, December 23, 2008

Subj: December *Economic Update*

January Advanced Prices:

The January Federal Order Class I price mover @ 3.5% butterfat increased \$0.31 per cwt. This was the result of an increase in advanced Class I skim of \$1.75 per cwt and a drop in the advanced Class I butterfat of (\$0.3941) per pound. The advanced Class II skim value decreased (\$0.14) per hundredweight.

http://www.fmmone.com/Northeast_Order_Prices/Advance_prices/adv0901.pdf

Nov. Monthly Prices:

November's monthly Class III skim decreased (\$1.33) per cwt. November's monthly Class IV skim decreased (\$1.14) per cwt. Monthly butterfat for November decreased (0.0777) per pound.

http://www.fmmone.com/Northeast_Order_Prices/Class_prices/cp0811.pdf

The increase in January's Class I value was primarily the result of higher NASS cheese prices used in USDA formulas.

Most recently however, cheese prices at the CME have taken a nose dive as holiday orders have come to a close. Milk production continues to climb, although at a much slower rate. This, combined with soft consumer sales is weakening the CME cheese price.

http://www.ams.usda.gov/mnreports/dywacheese_cmebl.pdf

Butter prices at the CME continue to trend downward, however with a slight increase this week.

http://www.ams.usda.gov/mnreports/dywabutter_cme.pdf

Lower nonfat dry milk prices have contributed to a lower Class II skim value.

CME weekly recap..

http://www.ams.usda.gov/mnreports/md_da999.txt

Milk Production:

USDA's November Milk Production report showed an increase of 1.4% for the 23 major milk producing states. Production per cow was up 3 pounds, and the number of cows was up 99,000 head from November of last year. Cow numbers were up 6,000 head from October '08.

<http://usda.mannlib.cornell.edu/usda/current/MilkProd/MilkProd-12-18-2008.pdf>

The major northeast states were down a bit however. PA and VT had a decrease in both the number of cows and in output per cow. NY had a decrease in cow numbers, but with a small increase in output per cow.

NY –No Change.

PA (4.8) %

VT (1.0) %

USDA's December Livestock Dairy and Poultry Report:

This month's Livestock, Dairy and Poultry report stated that despite significant decreases in feed cost, farm operations are experiencing little relief due to falling milk prices. Domestic and international demand is softening due to economic conditions. Export demand has weakened while supplies from the U.S., the European Union, and Oceania are more than ample. Exports of U.S. product appear weaker, particularly for nonfat dry milk. Weaker exports, along with a small-modest increase in milk production, will result in lower prices for all product classes. See pages 10-11 and USDA's latest forecast on page 15 in the report below.

<http://www.ers.usda.gov/Publications/LDP/2008/12Dec/ldpm174.pdf>

Agricultural Income and Finance Outlook Report:

USDA issued their very detailed Income and Finance Outlook Report this month. The report examines recent and historic financial conditions of all farms, not just dairy. Price volatility and costs have increased, placing some farms in stress. However, substantial gains in farm real estate values have contributed to net worth and are a foundation for securing credit. This report suggests that while there is considerable uncertainty, farm financial performance as a whole remains strong going into '09. This is an excellent report with good graphics....

<http://usda.mannlib.cornell.edu/usda/current/AIS/AIS-12-10-2008.pdf>

Misc. News and Information:

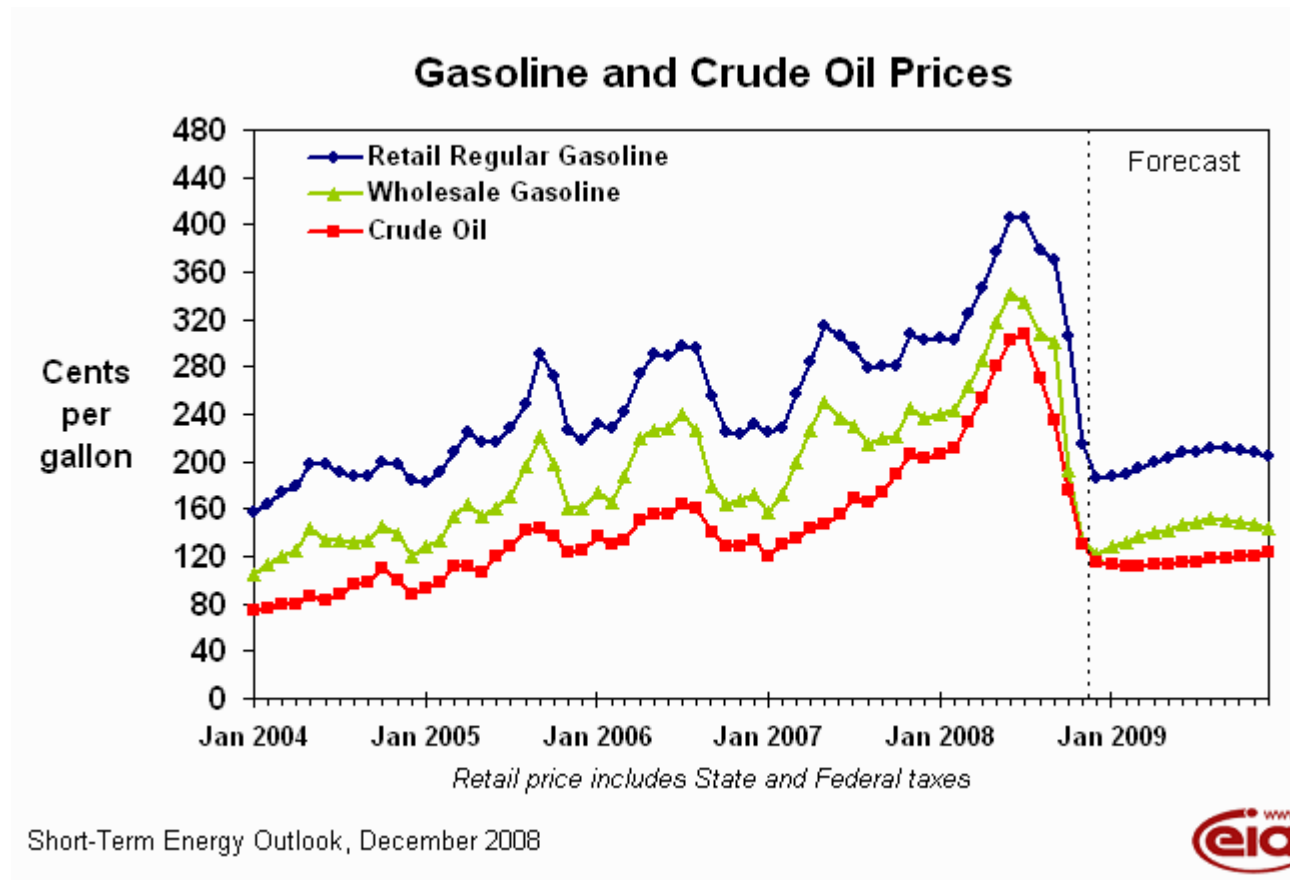
USDA Announces a final decision and termination of proceedings denying proposals that would have increased Class I and Class II prices and modified the formulas used to determine Class I and II prices in all Federal milk marketing orders effective Dec. 29, 2008. A copy of the decision is attached to this email.

The PA Milk Marketing Board will continue their \$2.15/cwt. producer premium which has been in effect. The premium will extend to June 30, 2009. Click here for more information:

http://www.mmb.state.pa.us/mmb/lib/mmb/ogo/ogo_a-959.pdf

CWT Update: Efforts Will Continue in 2009.

http://www.cwt.coop/about/news_releases/news_release_121708.pdf



Energy Outlook...

<http://www.eia.doe.gov/oiaf/aeo/index.html>

Updates and Forecasts from Academia and the CME:

In early, December we attended Cornell's annual Agribusiness and Economic Outlook Conference in Ithaca, New York. Cornell's Mark Stephenson gave an outlook of that included positive factors such as lower fuel, fertilizer, and feed costs. Negative factors are lower exports and a slower economy. All the reports in the Cornell Economic Handbook are excellent with good graphics. Special Interest should be noted for chapters 2, 6 &8

<http://aem.cornell.edu/outreach/publications.htm>

Univ. of Wisconsin - Dr. Bob Cropp's Summary:

http://future.aae.wisc.edu/outlook/cropp_dec_08.pdf

CME reports and updates: <http://www.dailydairyreport.com/>

Please let us know if there is other information you would like reported in these reports. This information can be passed on to other employees at your company.

Thank you and Happy Holidays!

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