

To: All NYS Dairy Foods, Inc. Members Only
From: Gary Latta, Dairy Economist, Bruce W. Krupke Exec. VP
Date: July 25, 2008
Subj: [July Economic Update](#)

This report is being sent to you as a special report on important dairy industry economic data. Please let us know if you find this information useful for future releases.

OLD BUSINESS:

Earlier this week we reported the NYS Ag. Dept. suspended the Retail Milk Price Threshold Report. Two days after this information was provided to us we were notified the report will be sent out for August 1, 2008. Attached to this email is a copy of the report. The excuse we were given for releasing the report after all was because the price fell and the Ag. Dept. felt it prudent not to suspend the release during a price decrease. We might expect another suspension for September's release. Bruce Krupke will be meeting with Ag. Commissioner Hooker the week of July 28th to further clarify and express our position a monthly release is needed to help the retail industry understand the production/price relationships.

MILK PRODUCTION

USDA's Milk Production Report for June showed output up 3.4% in the 23 major states. Again, this was due to both more cows and an increase in output per cow. New York was up 3.7% and Vermont was up 3.3%. From May to June, farmers added 1,000 cows, and were 158,000 head above June of last year. Production per cow was 25 pounds greater than June of 2007. It is clear that growth in cow numbers has slowed down. High feed costs are expected to slow output per cow in the coming months.

... <http://usda.mannlib.cornell.edu/usda/current/MilkProd/MilkProd-07-18-2008.pdf>

In its June release of the World Agricultural Supply & Demand Estimates (WASDE), USDA again predicts slower growth in milk production, along with high demand and exports. This should keep cheese prices high. They place the all milk price for '08 at \$18.95-\$19.25. For '09, they place it at \$18.60-\$19.60. This will result in milk prices at or near record highs since '07 the report said. Strong demand is pushing up butter and nonfat dry milk prices. Whey is steady to just a bit lower. One thing is clear, domestic demand and exports remain relatively strong at the same time milk production is slowing. CWT farmer-subsidized exports and herd retirements will likely add to this pressure. Some reports are indicating signs of a slowdown in consumer demand.

WASDE... <http://www.usda.gov/oc/commodity/wasde/latest.pdf>

CWT... <http://www.cwt.coop/>

OUTLOOK

The July Livestock, Dairy, and Poultry Outlook is also forecasting a slowdown in the growth of cow numbers beginning in the third quarter of this year, with a contraction of cow numbers in '09. Milk production per cow will expand more slowly at below recent trend. The report has an updated USDA price forecast on page 15 <http://www.ers.usda.gov/Publications/LDP/2008/07Jul/ldpm169.pdf>

RAW MILK PRICES

The August Federal Order Class I price was announced on Friday July 18th. Class I decreased \$2.31 per cwt at 3.5% butterfat. The skim value decreased \$2.65 per hundredweight and the butterfat value increased \$.0718 per pound. Class II skim value increased \$.43. Class II skim is driven by changes in the Advanced Class IV price, which is driven by nonfat dry milk prices. Class I skim is driven by the higher of either the Advanced Class III skim milk price or the Advanced Class IV skim milk price. Class III skim is driven by changes in the cheese price, while Class IV skim is driven by nonfat dry milk prices. With cheese prices being relatively high, Class I skim has been driven by cheese prices. The CME cheese price declined in June and early July. These decreases were later captured by USDA's weekly NASS price, which led to a decrease for August fluid milk. This week, CME cheese began rising again. Butter prices have been steadily rising due to demand for butterfat and seasonality.

NASS summary: <http://www.usda.gov/nass/PUBS/TODAYRPT/dppr3008.pdf>

CME weekly recap July 25, '08: http://www.ams.usda.gov/mnreports/md_da801.txt

Basic agricultural commodity prices have risen 60% in the past two years according to recent reports from the International Monetary Fund. In the past, price spikes were common but short-lived. Various commodities did not always spike at the same time, therefore providing for some substitution between different grains and animal products. How much in the last 4-5 years can be attributed to fuel and energy? An interesting short report with graphics... <http://www.cattlenetwork.com/Content.asp?ContentID=239453>

DAIRY ECONOMIST REPORTS

Report from Bob Cropp.. <http://www.cattlenetwork.com/Content.asp?ContentID=238301>

Report from Ken Bailey... <http://dairyoutlook.aers.psu.edu/reports/Pub2008/DairyOutlookJul08.pdf>

FUEL PRICING

The climb in diesel prices slowed just a bit recently, but remains \$1.90 higher than at this time last year here on the east coast.

The Energy Information Administration (eia) has been supplying a good deal of information on fuel component cost changes, including taxes. In fact, taxes make up 10 percent of the total cost of motor fuel. Taxes are the second highest component for gasoline and the third highest for diesel. The eia admits their tax component figures are slightly low due to the many local, gross receipts, and sales taxes layered on top of the state tax.

Prices... http://tonto.eia.doe.gov/oog/info/wohdp/diesel.asp#graph_buttons

Taxes... <http://tonto.eia.doe.gov/oog/info/twip/twip.asp>

THANK YOU!