

Dairytech News & Forecast

Our Role: Dairy Technomics enables milk category managers to lower their procurement costs. We provide monthly target purchase price points for each of your dairy suppliers. By leveraging multiple data sources, then utilizing our custom designed data retrieval and delivery systems we are able to provide the most current and precise cost analysis system available.

DAIRY TECH FORECASTS:

12/1/08

Fluid: Milk production patterns across the country are basically following trends of recent weeks, although lower than usual temperatures are being recorded in some areas of the country which potentially may impact milk output. Class I demand for milk was typical early in the week but tapered off sharply by midweek as schools and universities recessed for the Thanksgiving holiday and weekend retail needs were filled. Milk handlers indicate that manufacturing milk volumes will increase sharply, but placement of this milk will be challenging. Many manufacturing plants are not willing to take advantage of the offerings. Cheese plant managers feel that the recent strength in cheese prices is probably valid in the short run, but plants are not willing to make any cheese that does not have a home, just to absorb surplus offerings. Cream markets are in the same situation as the fluid market. Most Class II operations will be down or running at greatly reduced production schedules for much of the upcoming holiday weekend, thus cream offerings will be plentiful. Reduced pricing & multiples are common and yet are not generating additional interest.

'08 Outlook: Milk production estimates for 2008 are at 189.5 billion pounds. Milk production is expected to inch ahead through the fall quarter as both cow numbers & yield are slightly higher on a year-over-year basis. Cow numbers are expected to retreat through the balance of 2008 & into 2009. Feed & alfalfa prices have fallen, but proportionally less than either corn or soybean meal. Lower feed costs will likely help boost feeding rates hence yields. Milk production will increase to 191.5 billion pounds in 2009. This is well below rates of increase in recent years. Slightly higher production will encounter weaker demand, both foreign and domestic, pressuring prices.

Butter: The CME weekly average \$1.5342 (-0.0818) The CME Group cash butter price continues to edge lower. The lowest since June. Butter producers across the country indicate that cream offerings were building by midweek and most will be exercising caution with their purchasing patterns during the upcoming holiday weekend. Churning schedules will vary from one plant to another with some down a day or two for the holiday, while others will be running full out during the entire holiday period. Butter demand this week was lighter as holiday orders have been placed and shipped. Some last minute orders did occur, but were minimal. This buying pattern is typical for a holiday week. Butter producers and handlers state that orders are on the books for upcoming yearend needs, but also state that they appear to be lighter than previous years at this time. Some suppliers speculate that orders may be lighter due to

economic conditions and also feel that they may improve somewhat after Thanksgiving clearances have been reviewed.

'08 Outlook: The demand for butter has slowed due to prices & the economy. Inventories are not affecting prices. Butter has entered an era of stability or balance both at the CME, manufacturers, ice cream makers & retailers. Production continues well above year ago levels & so do stocks. Butter prices should average \$1.455 to \$1.485 per pound in 2008 dropping average \$1.390 to \$1.510 next year.

Cheese: Block prices on the CME averaged \$1.79 (+0.0407). Cash cheese prices at the CME Group remained firm. Most traders expect prices could fall after holiday orders are finished. Packaging/processing operations will be closed for at least one extra day this week due to Thanksgiving, reducing bulk cheese needs. Orders for yearend holiday use need to be made and shipped soon. Buyers just want to have enough cheese to complete orders for the holidays. Offerings of current cheddar/natural American varieties are limited. Aged cheddar supplies are declining seasonally. Cheese production is expected to increase over the long holiday weekend with other dairy operations closed for all or part of the period.

'08 Outlook: Cheese demand will remain strong & grow. Cheese prices will likely bounce around during the holidays & soften due to the economy. Cheese prices are expected to average \$1.880 to \$1.890/lb this year and \$1.675 to \$1.765/lb in '09.

Skim Milk Powder prices are expected to average between \$1.225 to 1.245 per pound & drop to \$0.90 to \$0.97/lb in '09. Whey prices, which declined sharply in 2008, are expected to average \$0.24 to \$0.25/lb this year & \$0.19 to \$0.22 next year.

	Actual										
<u>Estimates:</u>	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	April
Class 1 Mover	18.18	20.78	18.47	17.65	15.53	17.33	15.43	15.70	15.90	16.10	16.30
Butterfat Price	1.56	1.61	1.65	1.67	1.75	1.84	1.79	1.75	1.70	1.66	1.65
\$ - Reflection to											
Gallon 3.25 Mil k	+0.22	-0.20	-0.07	-0.18	+0.15	-0.16	+0.01	+0.02	+0.02	+0.02	+0.02

The Class 1 (C1) Mover is the base used to determine your C1 price. To the C1 Mover we add the zone, hauling, administration and other expenses to arrive at the C1 for your area. We then adjust the Class 1 Mover to the desired fat level. The Mover & butterfat price is determined from the National Agricultural Statistics Service (NASS).

Chicago Mercantile Exchange Prices, Week Averages (Actual)

	28 Nov	21 Nov	14 Nov	7 Nov	31 Oct	24 Oct	17 Oct	10 Oct	3 Oct
500 lb.									
Barrels	1.77	1.73	1.69	1.65	1.69	1.82	1.89	1.82	1.82
40 lb.									
Blocks	1.79	1.75	1.71	1.62	1.66	1.78	1.87	1.85	1.85

Butter:

Grade	28 Nov	21 Nov	14 Nov	7 Nov	31 Oct	24 Oct	17 Oct	10 Oct	3 Oct
AA	1.53	1.62	1.64	1.65	1.72	1.75	1.75	1.70	1.76

Source: Dairy Market News

Below we have benchmarked key cost components. These costs represent a national average of product typical found or used in a milk processing plant.

	<u>+30 Days</u>	<u>Current</u>	<u>30 Days Ago</u>	<u>60 Days Ago</u>	<u>90 Days Ago</u>
High Density Polyethylene HDPE \$ per Pound		0.64	0.83	0.92	0.86
Orange Juice Concentrate OJFC \$ / LB. Solid	0.90	0.95	1.00	1.10	1.15

We trust the information gathered from reliable sources is reasonably accurate, Dairy Tech cannot guarantee its accuracy or completeness.

Global dairy products prices are forecast to rule lower during 2008-09 (September-August) as rise in production and exports from the US and the European Union improve their availability in the world markets.

DAIRY TECH NEWS:

12/1/08

Class 1(C1) Base Price for December 2008 is \$15.43cwt & Butter @ \$1.7925/lb. This is a decrease of \$1.90/cwt from November's price of \$17.33/cwt. The effect on 3.5BF is a decrease of \$0.164/Gal & a decrease in Skim of \$0.157/Gal. December's price will be announced December 19th.

C1 Base Nov \$17.33 Oct \$15.53 Sept \$15.53 Aug.\$18 .47 July \$20.78 June 18.18 May 16.62

The base price is used to establish the C1 price for the entire country. A zone value & other charges are added to the base price to determine the C1 price applicable for a specific order & given marketing area.

Class 2 Oct \$16.60 Sept \$17.58 August \$17.45 July \$16.81 June \$16.19 May \$15.51

Milk:

~ Milk Prices are moving & where is the supply going? What's next?? - See our Forecast page.

~ U.S. farmers are on pace to produce the second-largest corn crop & fourth largest soybean crop in history, per USDA. Corn production is forecast at 12.3 billion bushels, down 6% from last year's record, up 17% from 2006. Soybean production is forecast at 2.97 billion bushels.

~ **Milk production** in Oct totaled 14.4 billion pounds, **up 1.5% from Oct. '07**. September revised production at 14.0 billion pounds, was up 1.8% from Sept 07. The September revision represented a decrease of 13 million pounds or 0.1% from last month's preliminary production estimate. Production per cow averaged 1,700 pounds for October, 3 pounds above Oct 07. The number of milk cows on farms in the 23 major States was 8.46 million head, 105,000 head more than Oct 07, and 1,000 head more than Sept 08.

~ After record high milk prices in 2007, prices are down for 2008 and will be even lower in 2009, says Robert Cropp, dairy marketing economist at the U Wisc. "There's a difference of opinion as to how much lower prices will be, but clearly milk prices are very volatile and producers need to manage price risk."

High feed prices and lower milk prices are impacting milk production, Cropp said. Cow slaughter was up 4.1 percent from January to September. The cow herd is still 1.1 percent higher in September than a year ago.

Increases in milk per cow have slowed. The trend had been 2 percent per year the past 10 years. This year it's been about 1 percent and September was just 0.6 percent.

USDA projected feed costs for September were up 44.2% from a year ago. Corn and soybean prices have dropped, but the estimate for October is still 29 percent above last year.

High feed costs will hold milk per cow down, older cows will be replaced with high producing replacements. In 2009 the annual increase in milk per cow will be about 1.4%. Total milk production will be up 1%.

~ The *Washington Post* reports the USDA is looking at stricter grazing standards for cows certified to produce organic dairy products & closing loopholes. Regulators found that some organic producers were cutting corners on the standards because the current rule doesn't define what 'access to pasture' means.

~ Dairy occupies about 3% of total grocery store space, but comprises 9% of sales. Dry grocery is 43% of the space & comprises 30% of sales.

~ How will organic products fare in a down economy? A category that has prospered on \$5 gallons of milk & \$8 packets of lunchmeat has been questioned before. Doubts grew when Whole Foods reported its disastrous third quarter earnings; the future appears dark .

~ Coconut water, the liquid inside coconuts, has a sweet, nutty taste, is low in fat and sugar, is loaded with health-promoting nutrition. It can be found at most health-food stores and an increasing number of grocery stores.

~ Researchers at Cornell University are looking at ration differences among New York farms to find out why some cows produce more milk fat and milk protein than others. So far, they've discovered that the factors of larger corn silage particle size and higher neutral detergent fiber for digestibility correlate with higher levels of milk fat, and higher ration starch level correlates with higher milk protein levels.

~ A new poll featured in the November 2008 issue of ShopSmart, from Consumer Reports, women are willing to switch brands of over-the-counter medications (68%), milk (67%) & eggs (67%) to save money, and only 29% say they would change their brand of pet food. Women are also reluctant to switch cosmetics (30%), personal-care items (48%) & toilet paper (49%).

~ **Orange Juice** – Price has dropped due to time of year, slow sales, larger than typical inventories & crop forecasts.

~ **U.S. orange forecast for the 2008-09 season is 9.19 million tons**, down 10% from the 2007-08.

Florida orange growers can expect an average farm price of just \$1.25 per pound solids, an 11% decline, per Florida Department of Citrus. Processors are currently offering 85 cents per pound solids for early-mid oranges, based his projections on the current cash market plus multi-year contracts with processors, which typically have a floor price which can run from \$1.25 to \$1.70 per pound solids

~ **Update on Resin** – Resin price has seen movement. Recent price adjustments:

0.03	May 24	+0.03	June 22	+0.03	July 24	+0.05	Aug 22	+0.07	Oct 6	-0.07
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~ Using pounds of carbon dioxide per gallon of milk as the carbon footprint value, the dairy industry's footprint has dropped from 31 pounds per gallon of milk in 1944 to 12 pounds per gallon in 2007. The number of dairy cows has dropped from 25.6 million (in 1944) to 9.2 million (in 2007) while milk production has increased from 117 billion pounds to 186 billion pounds.

~ The "Got Milk" Milk Mustache campaign offers retailers a wide variety of merchandising & marketing campaign at no cost. Website: www.whymilk.com www.milkplan.org www.3aday.org

Help to explain rising food cost

Need help explaining to your neighbor why the cost of food is on the increase? The Illinois Farm Bureau has developed an informative, comprehensive and interactive Web site devoted to the issue of rising food prices. To access it, <http://www.farmingforyou.org/>

Industry:

~ The *New York Times* reports the US FDA has decided all Chinese products will be stopped at the border that may contain milk or other dairy. The decision was made as concerns increased about the presence of the toxic chemical melamine in Chinese dairy products, which has sickened at least 5,000 infants killing four; manufacturers add melamine to their products to artificially inflate protein levels.

~ Dairy Crest, a leading processor in the UK, has announced a cut in the price paid for its organic milk by up to four pence per litre from next week, as the current economic uncertainty burrows into the segment's profitability

~ Canada has confirmed the 15th case of mad-cow disease, this time in a dairy cow from British Columbia.

No part of the 7-year-old cow got into systems that produce food for consumption by either people or animals, Canadian Food Inspection Agency. The agency has identified where the animal was born and is looking for the source of its disease.

~ The Matanuska Creamery in Wasilla, Alaska, is now producing enough milk to keep four local dairies in business. The creamery was created to help farmers after Matanuska Maid Dairy closed in 2007

~ Wegman's will cut prices on hundreds of dairy, meat, produce, frozen and bakery items in anticipation of lower food and shipping costs in 2009.

~ Pevely Dairy in midtown St. Louis is shutting down to move some workers to a north St. Louis County facility & sent others home for good.

Note:

Class 1 = Fluid **Class 2** = Cream, Ice Cream & Cultured **Class 3** = Cheese **Class 4** = Butter & Powder

The average cow produces 17 quarts daily & drinks 2 gallons of water to make gallon of milk.

5.8lbs of milk = 1gal of ice cream 10lbs of milk = 1lb of cheese 21.8lbs. Milk = 1lb of butter

High Density Polyethylene Resin (HDPE) = \$0.83/lb. PET Bottle = \$0.76/lb.

Diesel Nat Ave Last Wk \$2.81 Current \$2.66 Frozen Orange Juice Concentrate = \$0.95/lb Solids

11.625gallons or 46.5 qts/100 lbs. (cwt) 1 Qt. 3.5% = 2.15 lbs. 1 Qt. Skim = 2.16 lbs.

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