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Outlook for the U.S. Dairy Sector in 2011

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**Presented at the 2009 USDA Outlook Forum
Washington D.C.
February 25, 2011**

The dairy sector in 2010 and 2011

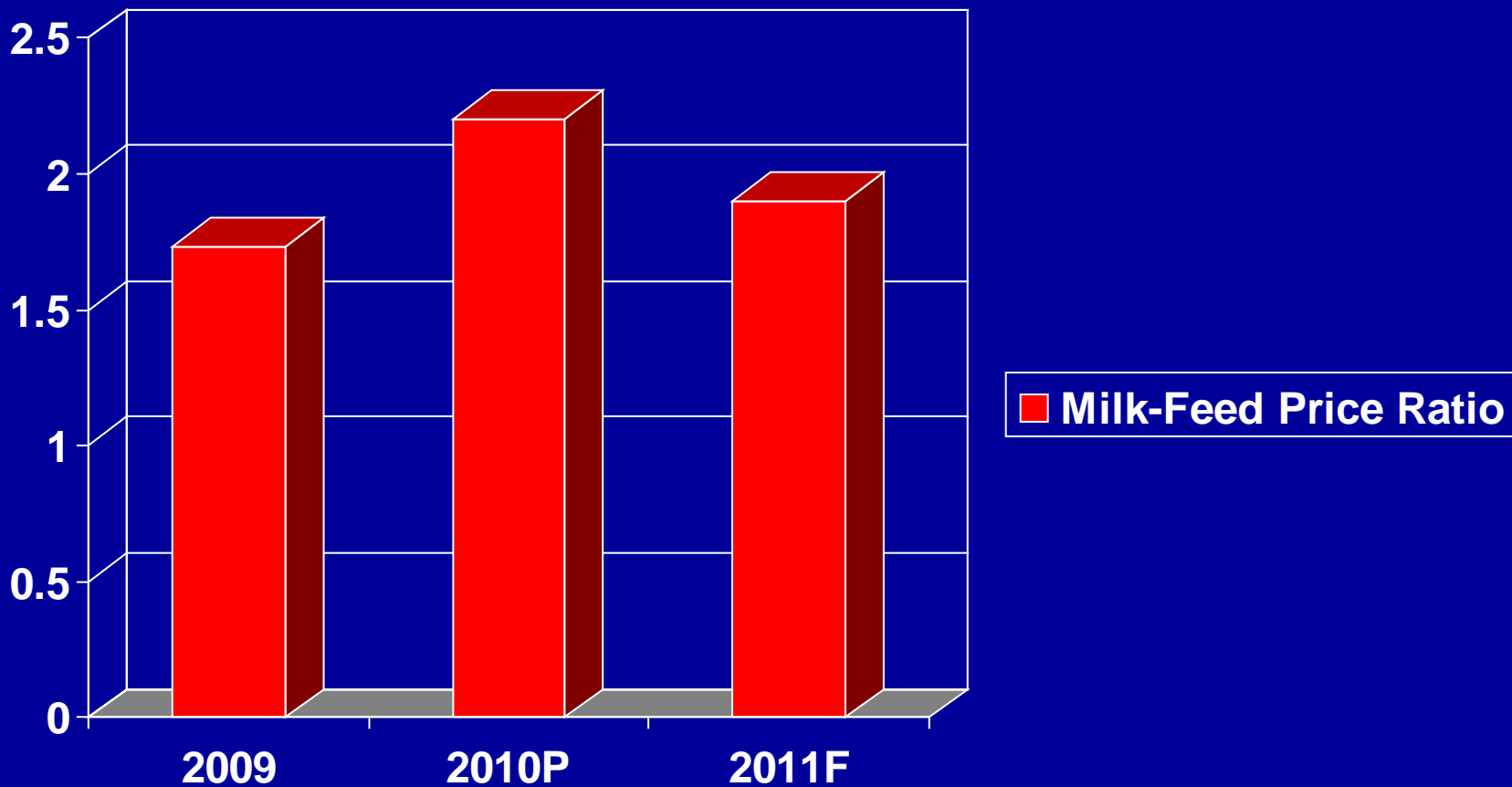
2010

- Milk and product prices recover
- Farm income recovers sharply
- Moderate feed prices
- Production recovers

2011

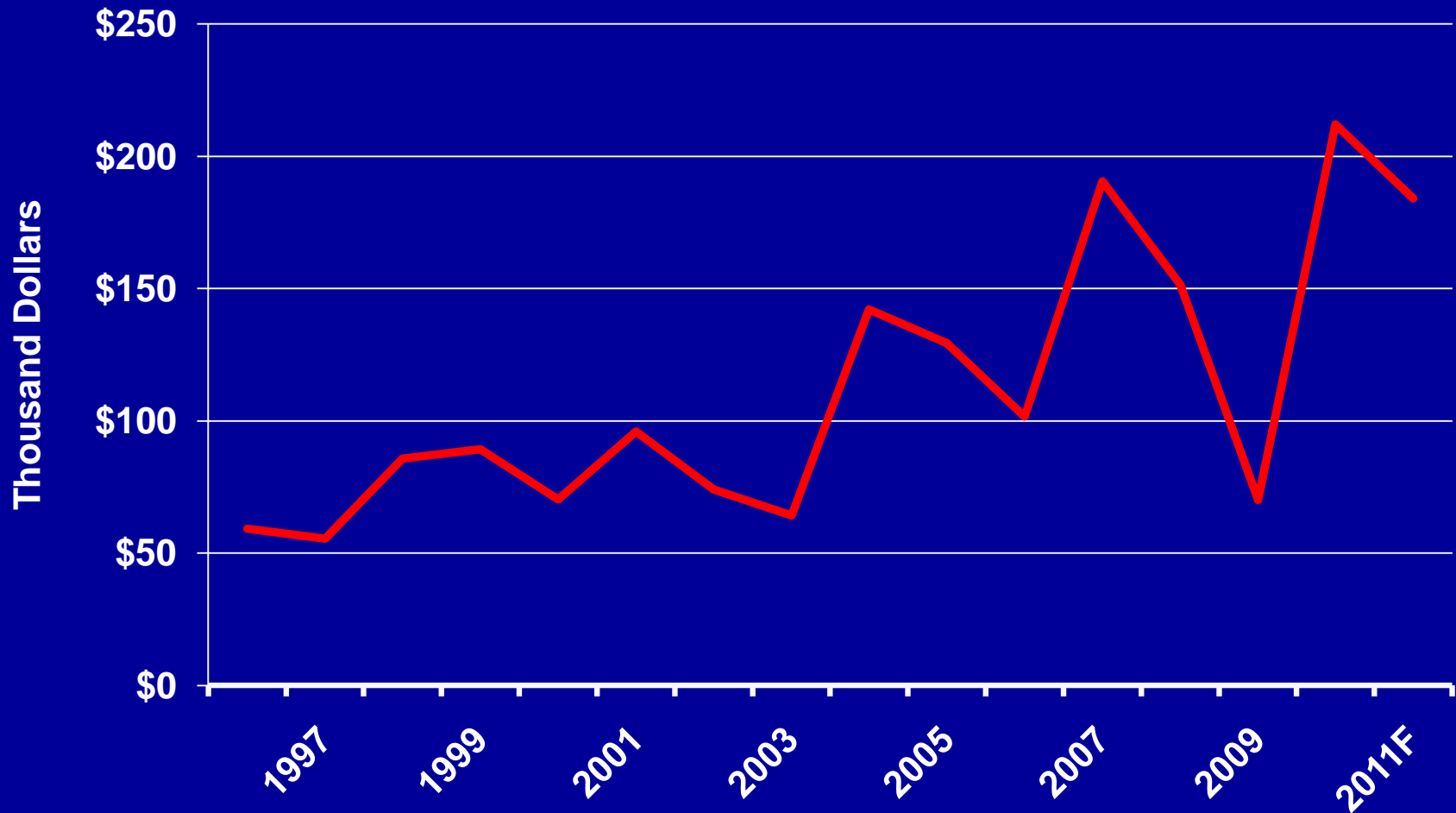
- Soaring feed prices
- Higher (still) milk and product prices
- Farm income declines from 2010
- Production continues to expand

Milk-Feed Price Ratio



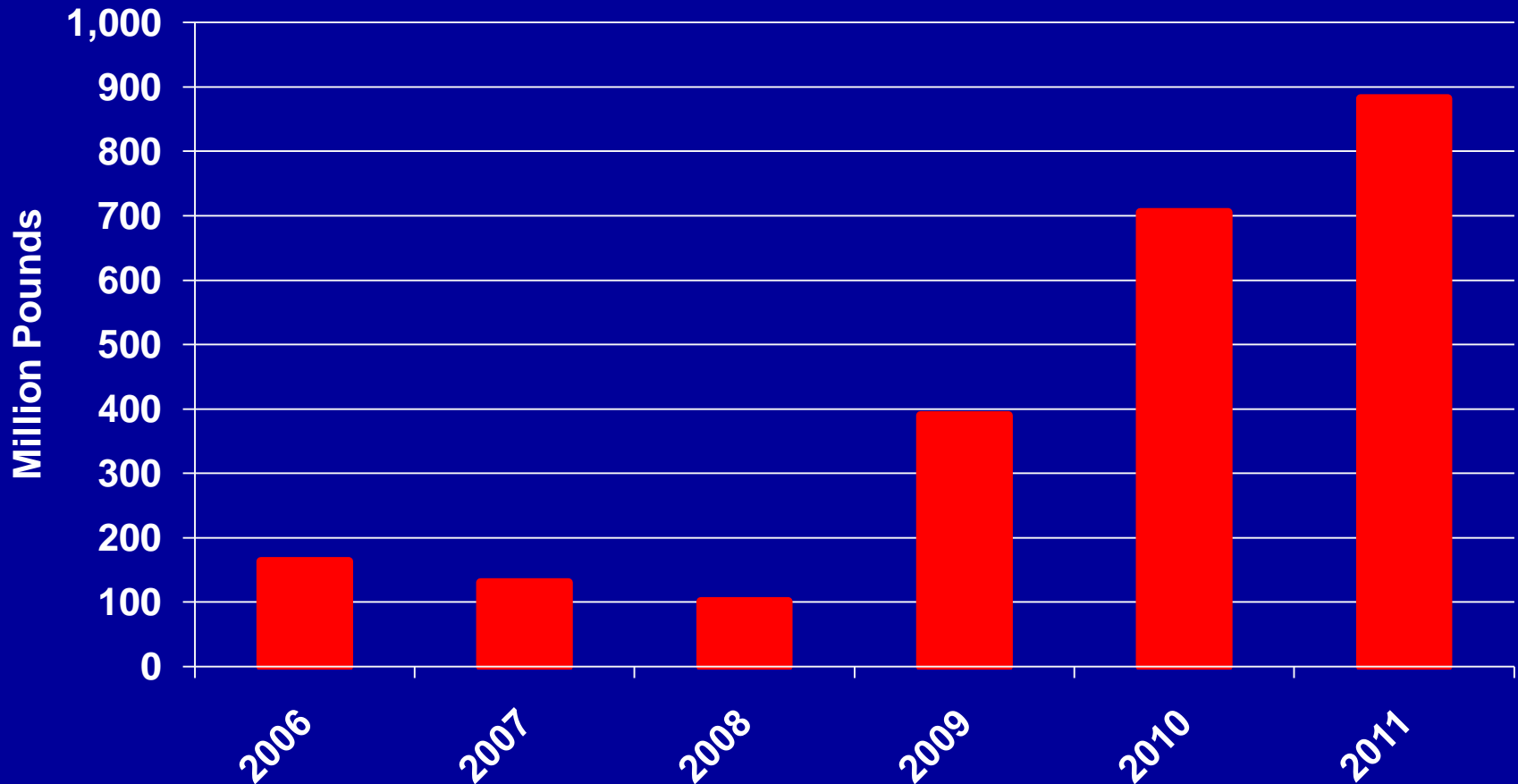
Source: USDA./WAOB

Net Cash Farm Income, per Farm



Source: USDA/ERS ARMs data

Chinese Imports of WMP Take Off



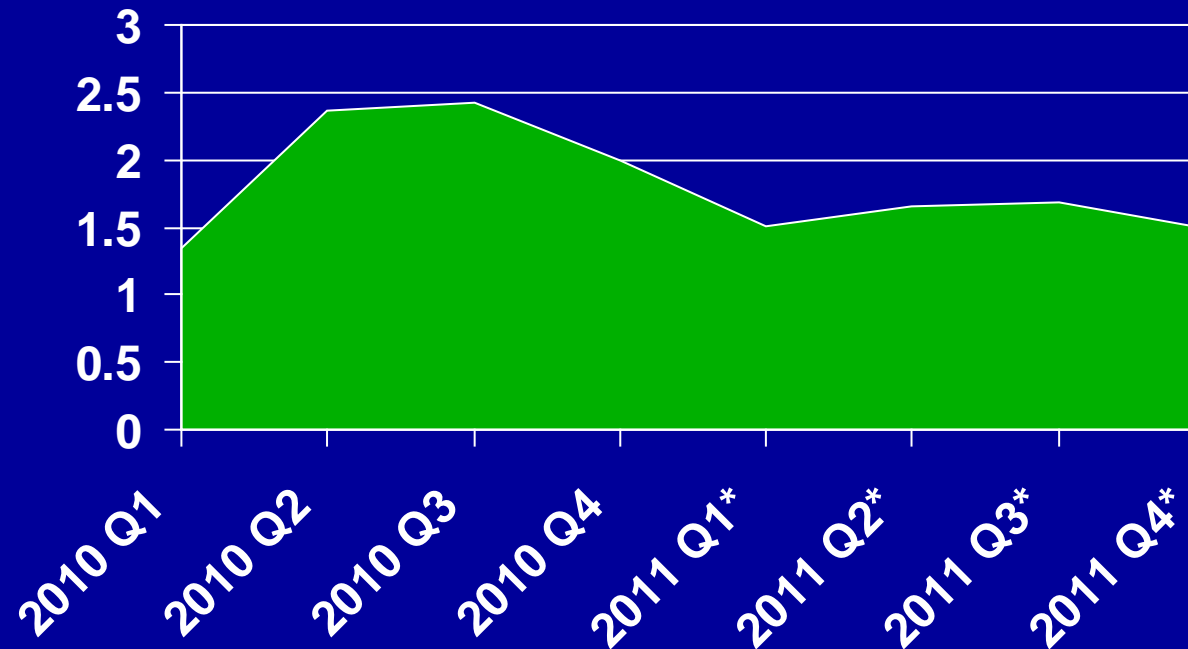
Source: USDA/FAS

Why were U.S. exports so strong in 2010?

- U.S. prices were below world prices
- Increasing U.S. production
- Severe drought in Oceania = low world supplies
- Strong global demand because of economic growth

U.S. exports projected to decline in 2011

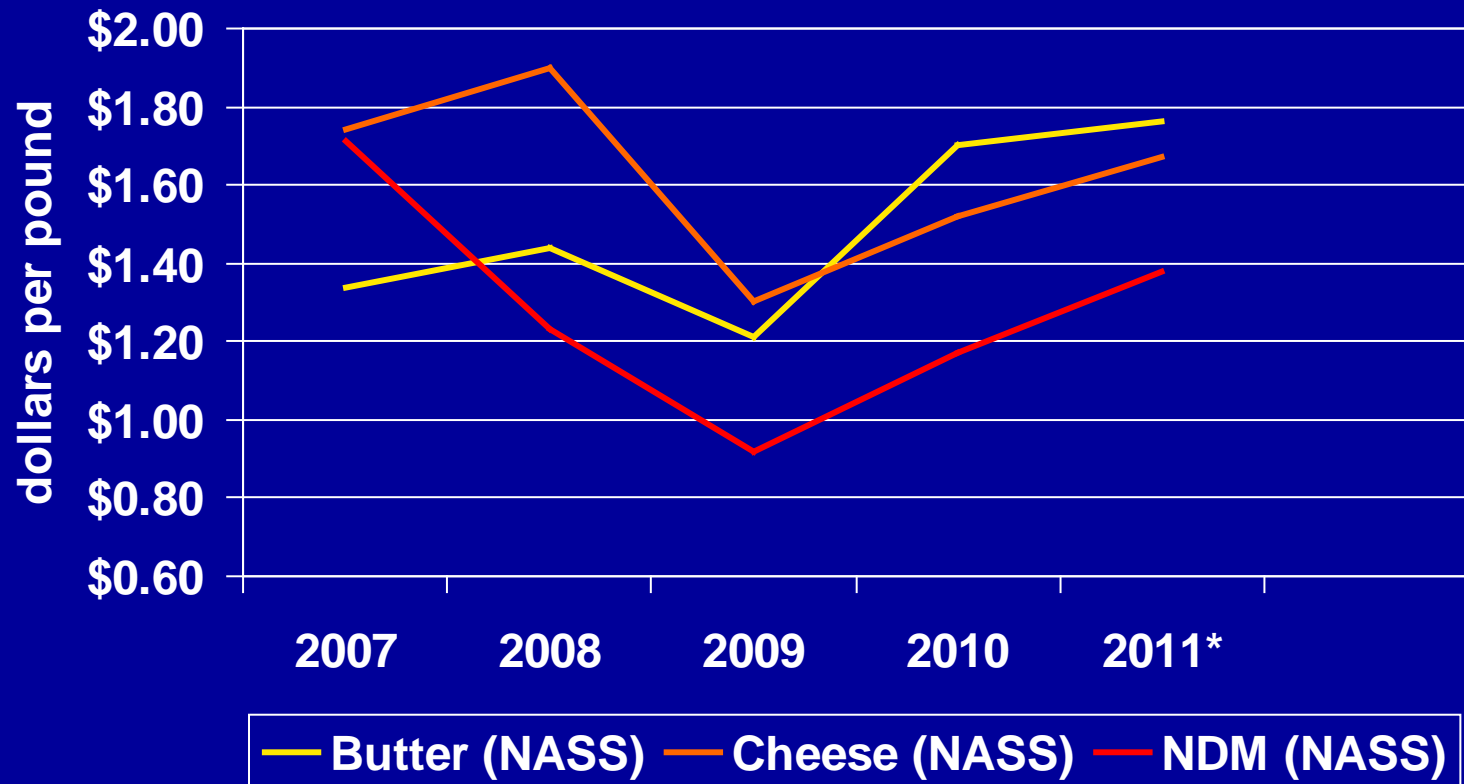
**Commercial Exports of Milkfat
(billion pounds milk equivalent)**



Source: USDA/WAOB

*Forecast

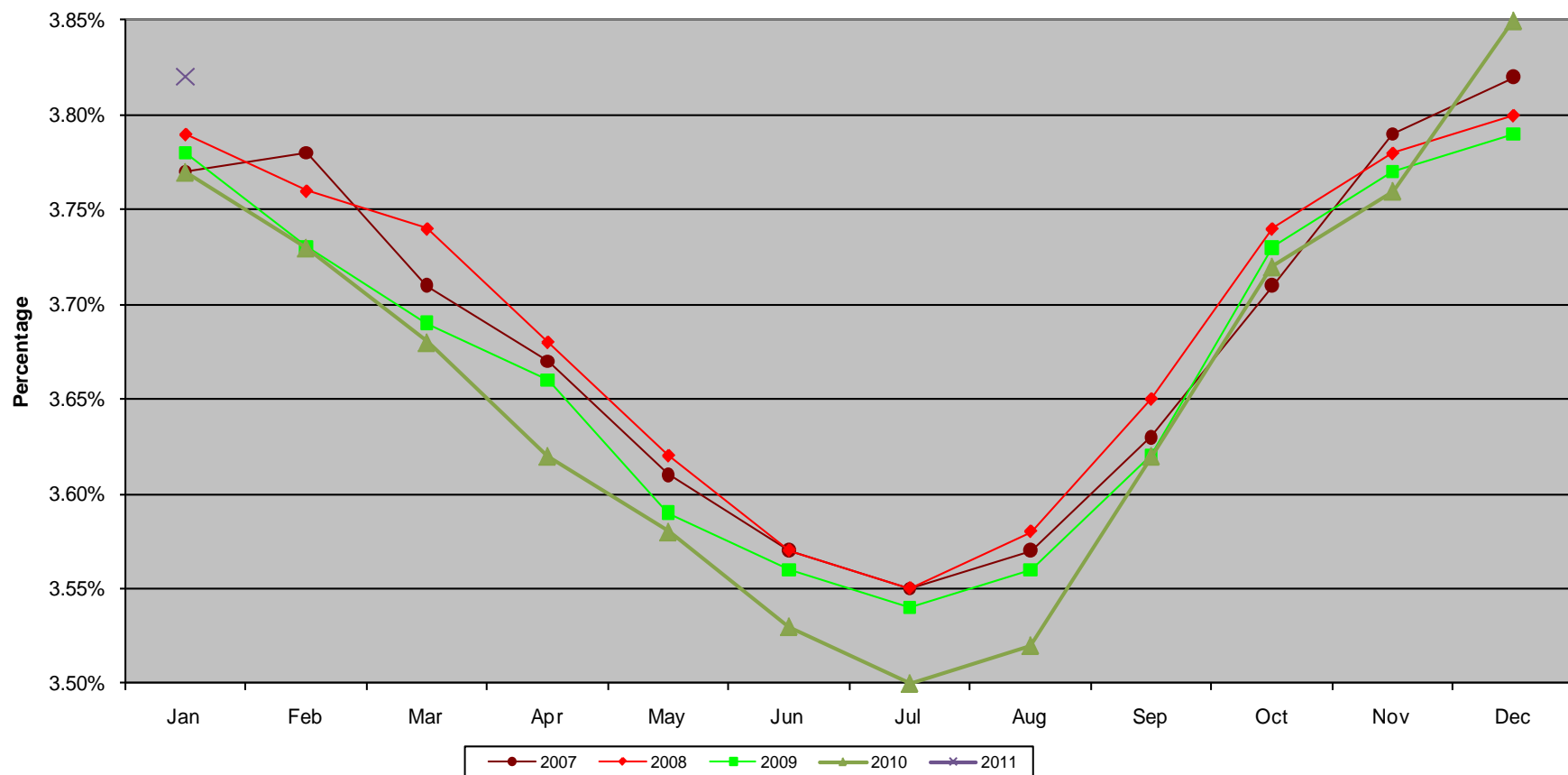
Butter, cheese and NDM prices show volatility over last five years



Source: USDA/NASS/WAOB

*Forecast

Butterfat Percentage in Raw Milk, Monthly, 2005-2011



Source: USDA/NASS

Milk prices are forecast to remain high in 2011



Source: USDA/WAOB

*Midpoint of forecasted range

2010 recovery

- Domestic production was high in 2010, at 192.7 billion pounds.
- 2010 saw milk prices recover sharply from 2009. Feed prices remained relatively moderate.
- Net average cash farm income soared to highest level since 1996.

2011 Outlook

- Milk prices continue to strengthen.
 - Domestic demand expected to rise for cheese and other value added products.
 - The export market still strong but U.S. faces stiffer competition
- Feed prices are exceptionally high and could rise further but milk production remains a profitable enterprise for many dairy farms.

Additional Information on the Outlook for 2009 is Available on the Following Websites:

- World Agricultural Supply and Demand Estimates
 - <http://www.usda.gov/oce/commodity/wasde/index.htm>
- Livestock, Dairy, and Poultry Situation and Outlook
 - www.ers.usda.gov/publications/ldp/
- Dairy: World Markets and Trade
 - <http://www.fas.usda.gov/dlp/dairy/dairy.asp>