OUTLOOK FOR THE U.S. DAIRY SECTOR IN 2015

Shayle D. Shagam
World Agricultural Outlook Board
U.S. Department of Agriculture

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2014 Milk Production Higher…

- Returns have been favorable for sector to expand
  - Record milk prices in 2014, near record in 2013
  - Feed prices declined in 2014
  - Replacement heifers available

- Production in 2014: 206.1 billion pounds
  - Slow increase in cows
  - Above trend gains in milk per cow
…But Pressure in 2015

• 2015 returns will weaken
  • Milk prices lower
  • Feed prices will remain moderate, improved availability of alfalfa

• Production in 2015: 211.5 billion pounds
  • More cows
  • Slightly slower growth in milk per cow
More Heifers Available but Replacement Prices Remain High

Replacement Heifers per 100 Cows

MO Approved Springer Price*

*2015: Jan-Feb
Light Heifer Calf Prices Falling

Holstein Heifer Calves 85-120 Lbs, Pennsylvania

- 2013
- 2014
- 2015*

* Through Early-February
Dairy Cow Slaughter Has Increased
Quarterly Average U.S. Cow Herd

Million head

- Jan-March
- Apr-June
- July-Sept
- Oct-Dec

2013*
2014
2015*

*QI-QII not available due to Sequester
**Forecast
Milk per Cow Growth
Adjusted for Leap Year

Percent

Jan-March | Apr-June | July-Sept | Oct-Dec | Annual
--- | --- | --- | --- | ---
Average 2010-2014* | 1.75 | 1.60 | 2.00 | 1.70
2014 | 1.75 | 1.60 | 2.90 | 1.70
2015** | 1.75 | 1.60 | 2.90 | 1.70

*QI-QII: 2008-12 due to Sequester
**Forecast
Quarterly U.S. Milk Production

<table>
<thead>
<tr>
<th></th>
<th>Jan-March</th>
<th>Apr-June</th>
<th>July-Sept</th>
<th>Oct-Dec</th>
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<tbody>
<tr>
<td>2013</td>
<td>50.0</td>
<td>52.0</td>
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<td>2014</td>
<td>51.0</td>
<td>53.0</td>
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<td>2015*</td>
<td>55.0</td>
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*Forecast
International Demand Helped Move Dairy Products in early 2014

- Demand was firm in first-half 2014
  - U.S. fat basis exports were 39 percent higher January-June
  - Skim solids basis exports were 10 percent higher
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• Demand dropped off in the second half
  • Increased production by major exporters during 2014
Growth in 2014 Major Exporter Milk Production

- Australia: 3.0%
- New Zealand: 1.5%
- EU: 1.2%
- U.S.: 2.6%

Percent
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  • Increased production by major exporters during 2014
  • Russia announced 1-year ban on imports from Australia, EU, Norway, Canada, and the United States
  • China reduced powder purchases
Russia and China were Major Product Importers in 2013

Source USDA/FAS: PSD
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  - U.S. dollar strengthened in later part of 2014
U.S. Dollar Stronger Against Competitor Currencies

National Currencies per U.S. Dollar

- Aus $
- NZ $
- Euro
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- U.S. prices became uncompetitive vis-à-vis competing exporters
Nonfat/Skim Milk Prices
Monthly Average of Weeks

February: First 2 weeks
Cheddar Cheese Prices
Monthly Average of Weeks

<table>
<thead>
<tr>
<th>Month</th>
<th>Oceania</th>
<th>U.S.</th>
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<tbody>
<tr>
<td>Jan 2013</td>
<td>0.50</td>
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<tr>
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<td>Sep 2013</td>
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<td>Nov 2013</td>
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<td>May 2014</td>
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<td>Sep 2014</td>
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February: First 2 weeks

Oceania vs. U.S. Cheese Prices from January 2013 to January 2015
Butter Prices
Monthly Average of Weeks

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- U.S. prices became uncompetitive vis-à-vis competing exporters
  - U.S. fat basis exports down 28 percent year-over, July-December
  - Skim solids basis exports down 6 percent
Commercial Use in 2015 will be Largely Driven by Growth in Domestic Demand

- Domestic use will increase through the year
  - Continued growth in the economy and declining unemployment
  - Lower dairy product prices

- Exports likely to be below year-earlier for 2015
  - Below year-earlier first half
    - Weak import demand
    - Strong dollar
  - However, support for year-over increases in second-half
    - Increased demand with Russia ban ending
    - Lower U.S. product prices could boost competitiveness
Domestic Demand will Absorb Supplies

**Fat Basis**

**Skim Solids Basis**

- **Domestic Use**
- **Exports**

*Forecast*
2015 Dairy Prices Lower to Balance Increased Production

• Class III price to average $16.30-17.00 per cwt
  - Cheese price weaker: $1.595-$1.665 per pound
  - Whey price lower: $0.560-$0.590 per pound

• Class IV price to average $15.10-$15.90 per cwt
  - Butter price lower: $1.655-$1.755 per pound
  - Nonfat dry milk price down: $1.185-$1.245 per pound

• All milk price to average $17.40-$18.10 per cwt
Quarterly Class Prices

$ per cwt

2011 QI  QIII  2012 QI  QIII  2013 QI  QIII  2014 QI  QIII  2015 QI*  QIII*

Class III  Class IV

*Forecast
Quarterly Average All Milk Prices

$ per cwt

*Forecast
Additional Information on the Outlook for 2015 is Available on the Following Websites:

• World Agricultural Supply and Demand Estimates

• Livestock, Dairy, and Poultry Situation and Outlook

• Dairy: World Markets and Trade