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OUTLOOK FOR THE U.S. DAIRY SECTOR IN 2015

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

Presented at the 2015 USDA Outlook Forum
Washington D.C.
February 20, 2015



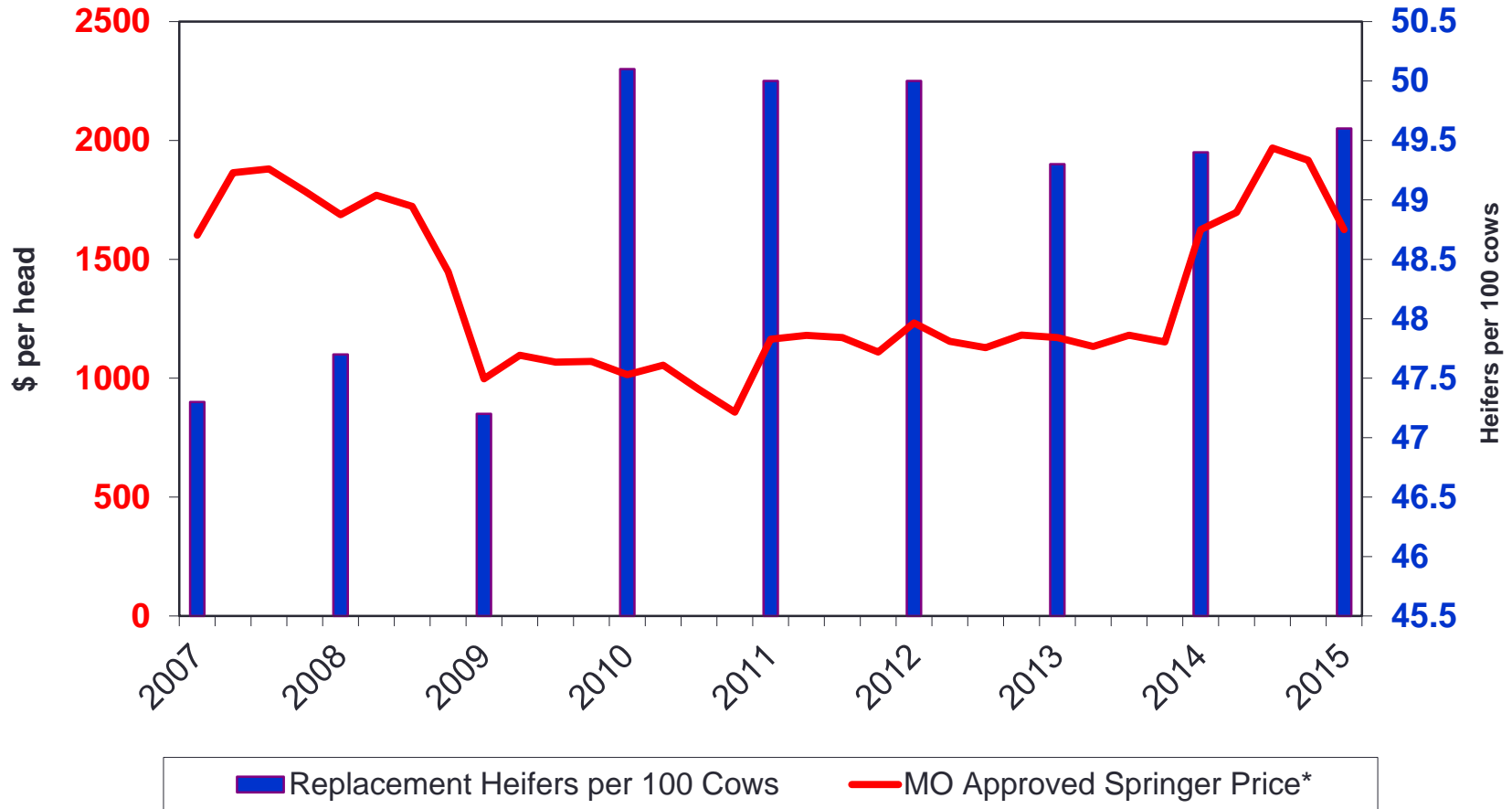
2014 Milk Production Higher...

- 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

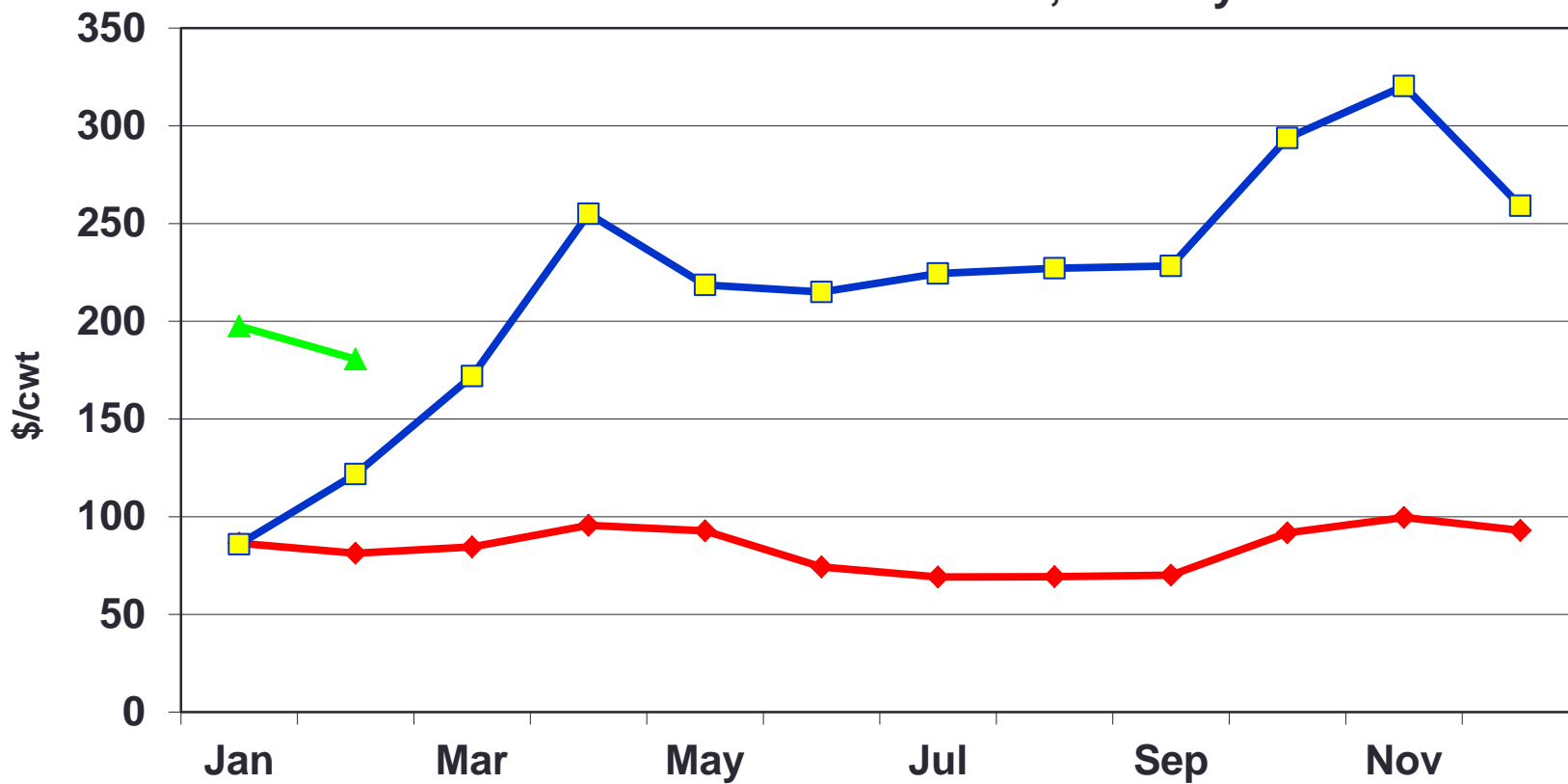
- 2015 returns will weaken
 - Milk prices lower
 - Feed prices will remain moderate, improved availability of alfalfa
- Production in 2015: 211.5 billion pounds
 - More cows
 - Slightly slower growth in milk per cow

More Heifers Available but Replacement Prices Remain High



Light Heifer Calf Prices Falling

Holstein Heifer Calves 85-120 Lbs, Pennsylvania

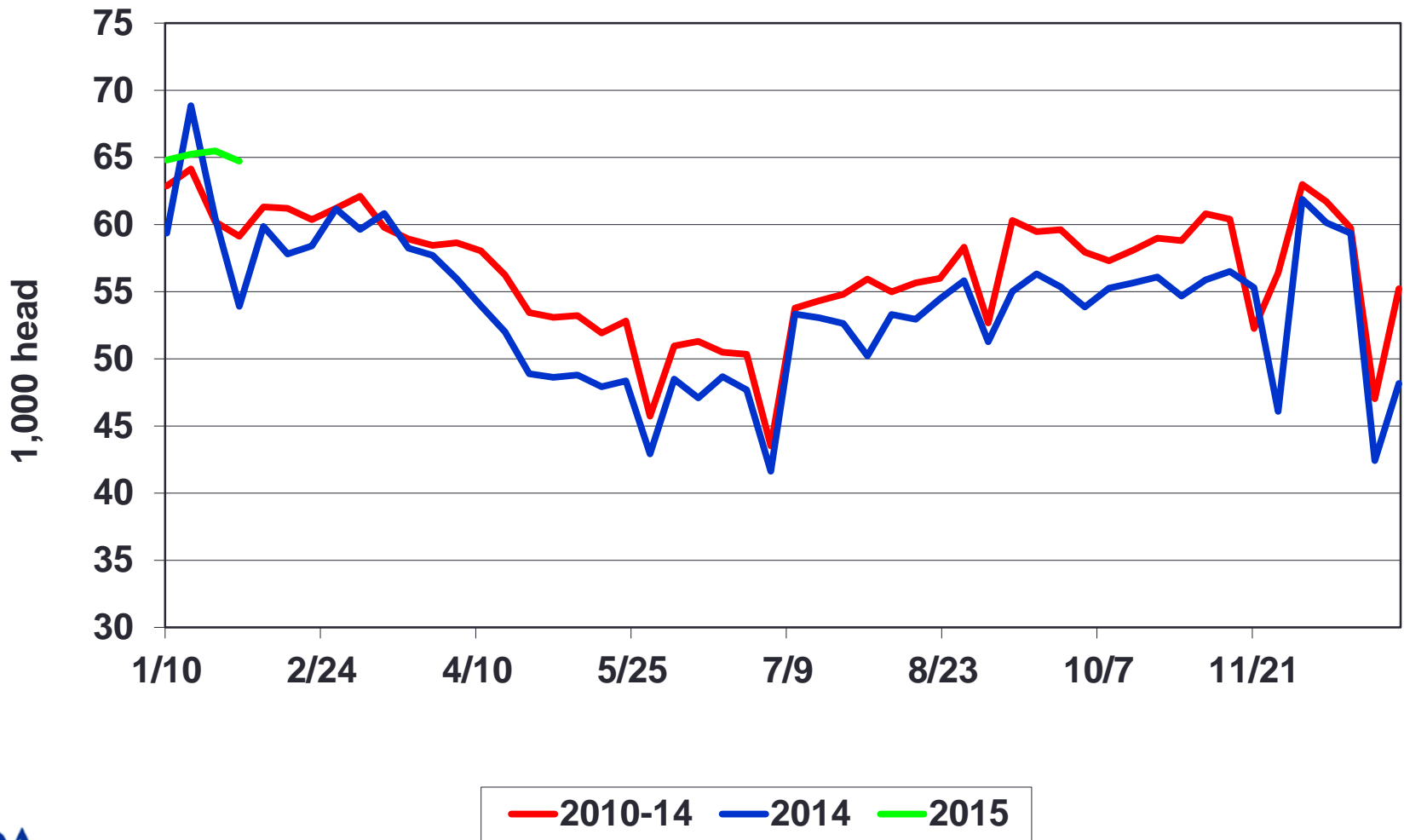


◆ 2013 ■ 2014 ▲ 2015*

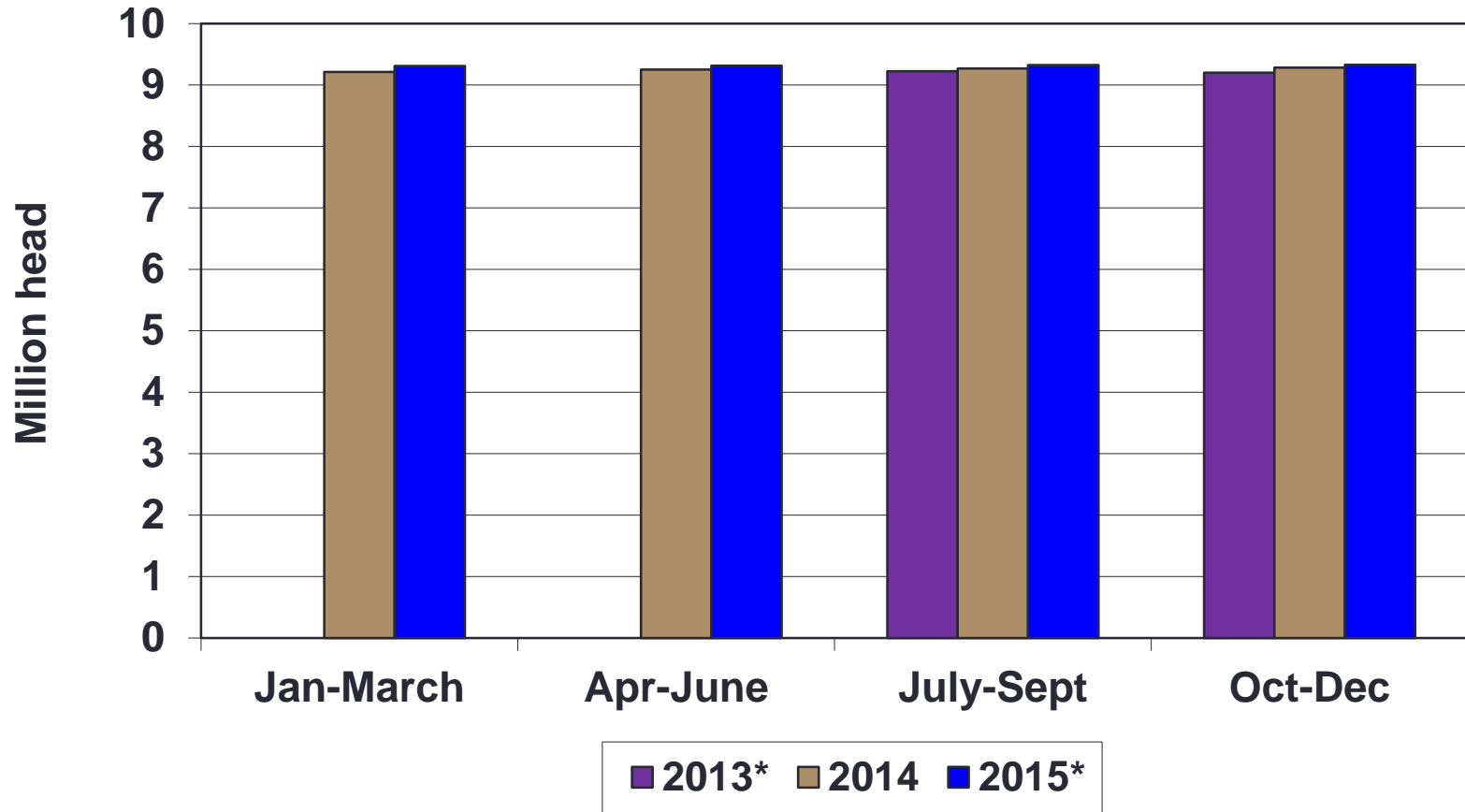
* Through Early-February



Dairy Cow Slaughter Has Increased



Quarterly Average U.S. Cow Herd

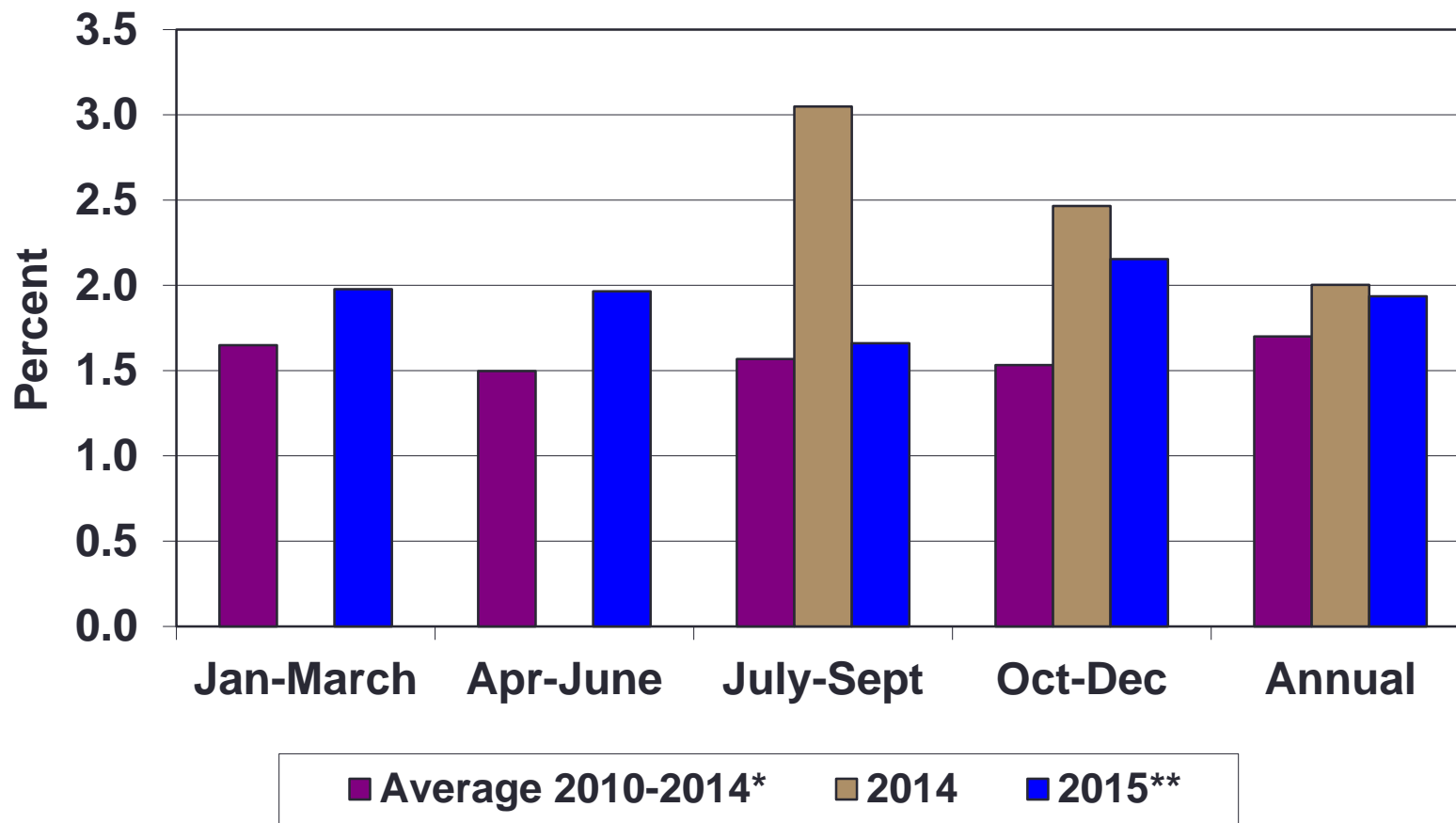


*QI-QII not available due to Sequester

**Forecast

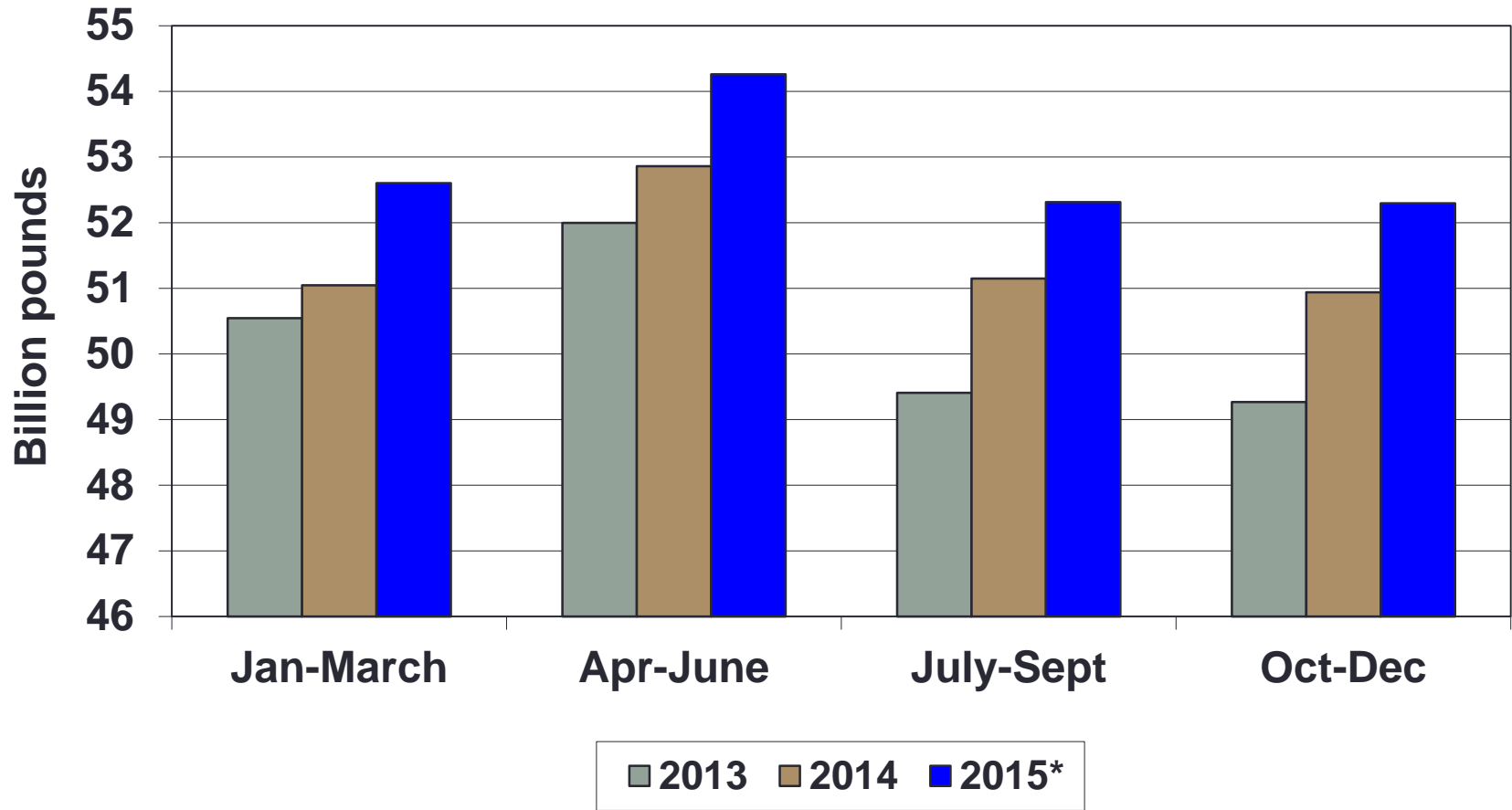
Milk per Cow Growth

Adjusted for Leap Year



*Q1-QII: 2008-12 due to Sequester
**Forecast

Quarterly U.S. Milk Production



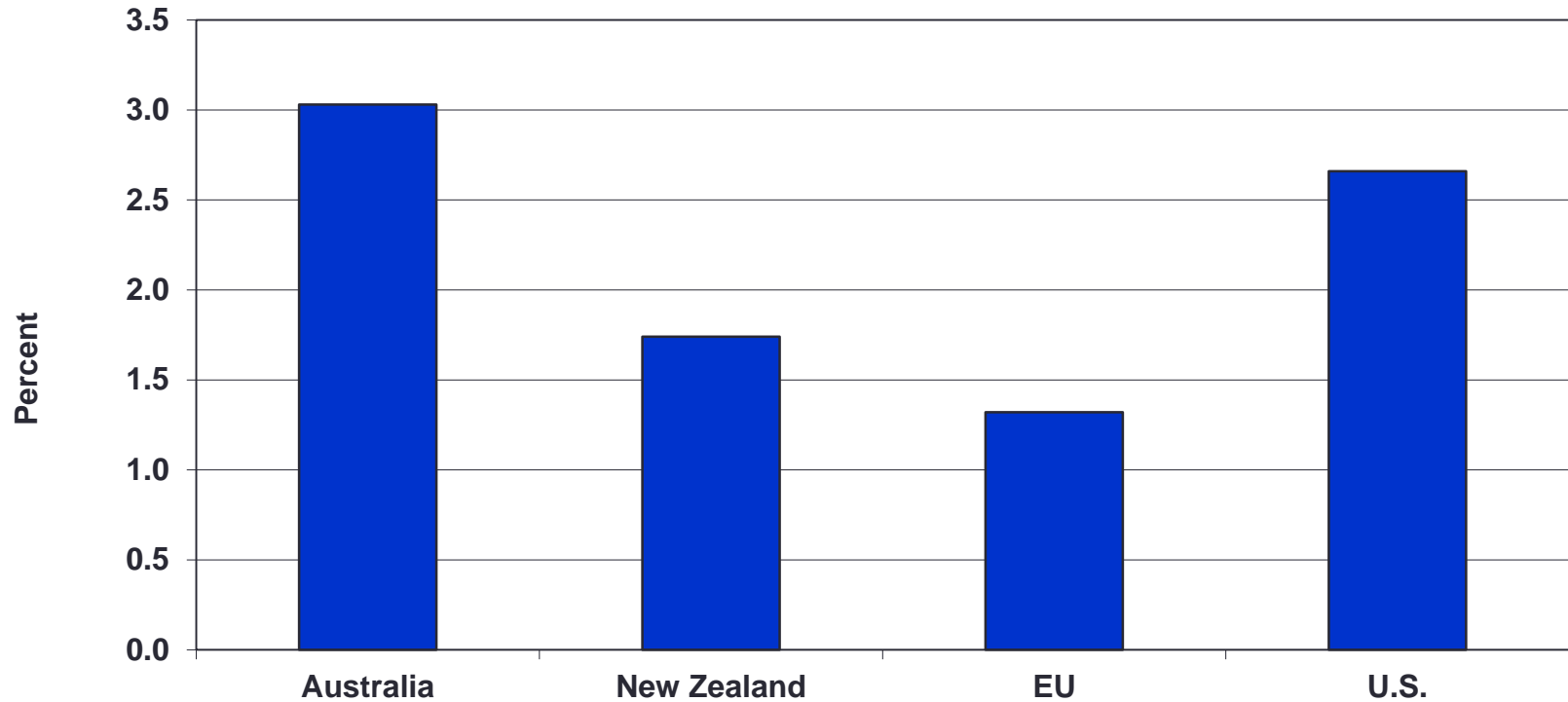
International Demand Helped Move Dairy Products in early 2014

- 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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Growth in 2014 Major Exporter Milk Production

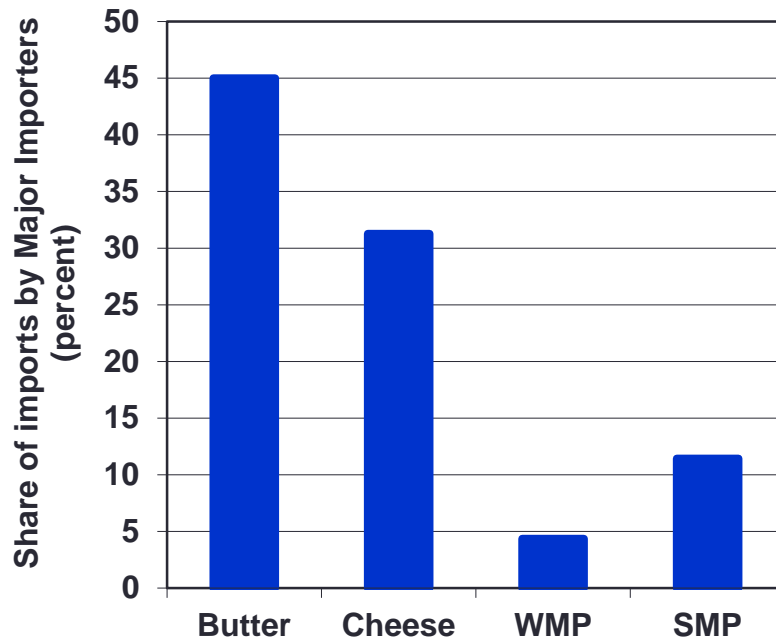


International Demand Helped Move Dairy Products in early 2014

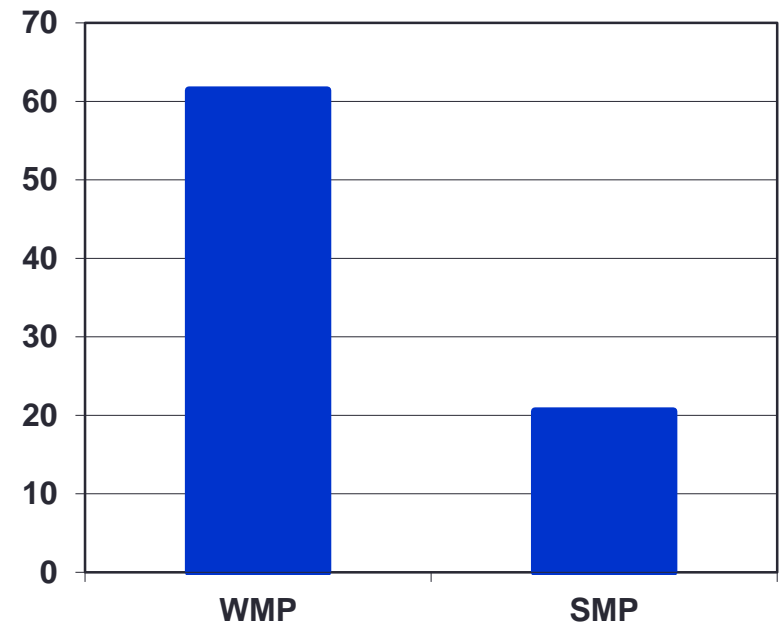
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 - China reduced powder purchases

Russia and China were Major Product Importers in 2013

Russia



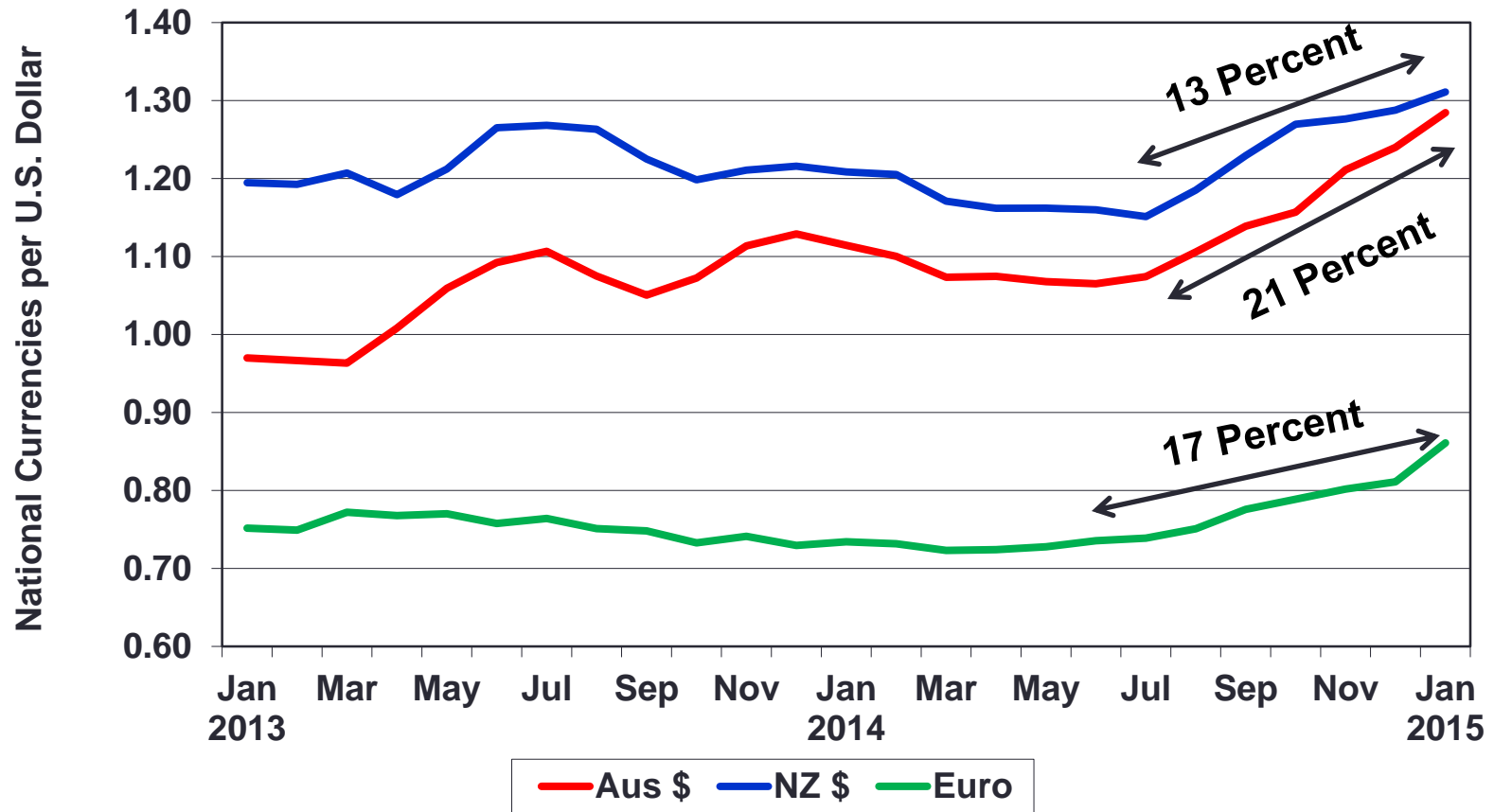
China



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U.S. Dollar Stronger Against Competitor Currencies

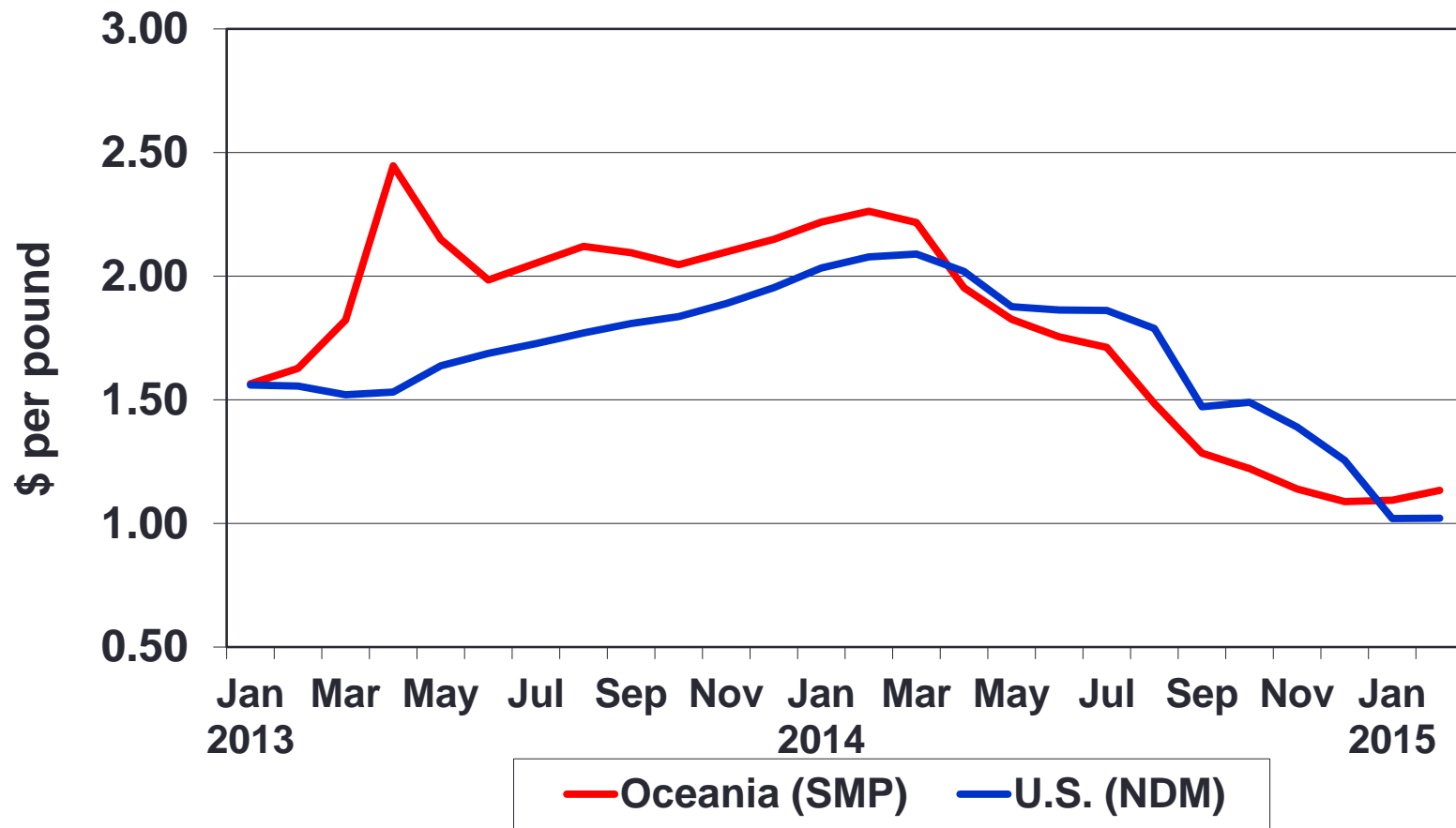


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Nonfat/Skim Milk Prices

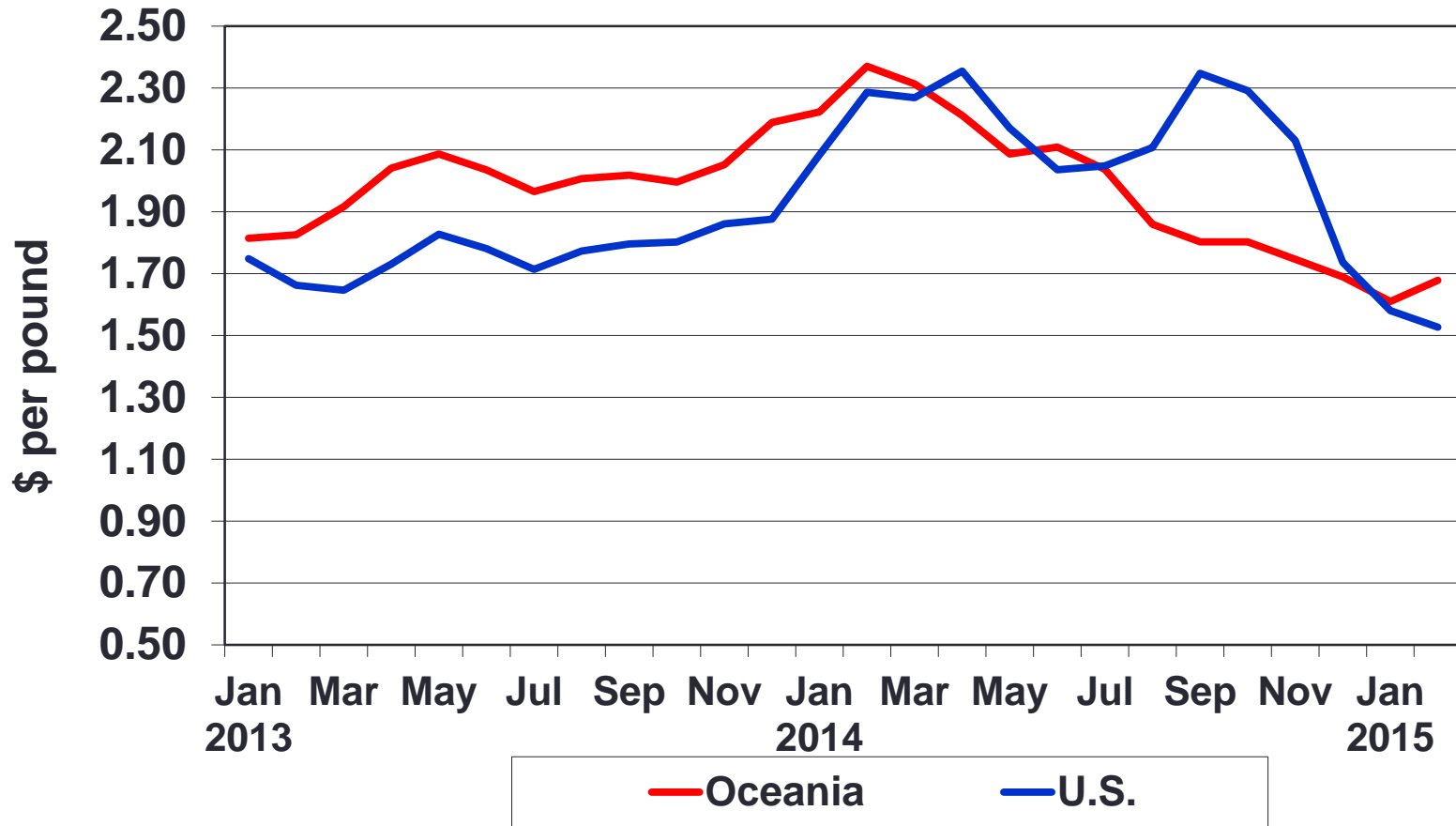
Monthly Average of Weeks



February: First 2 weeks

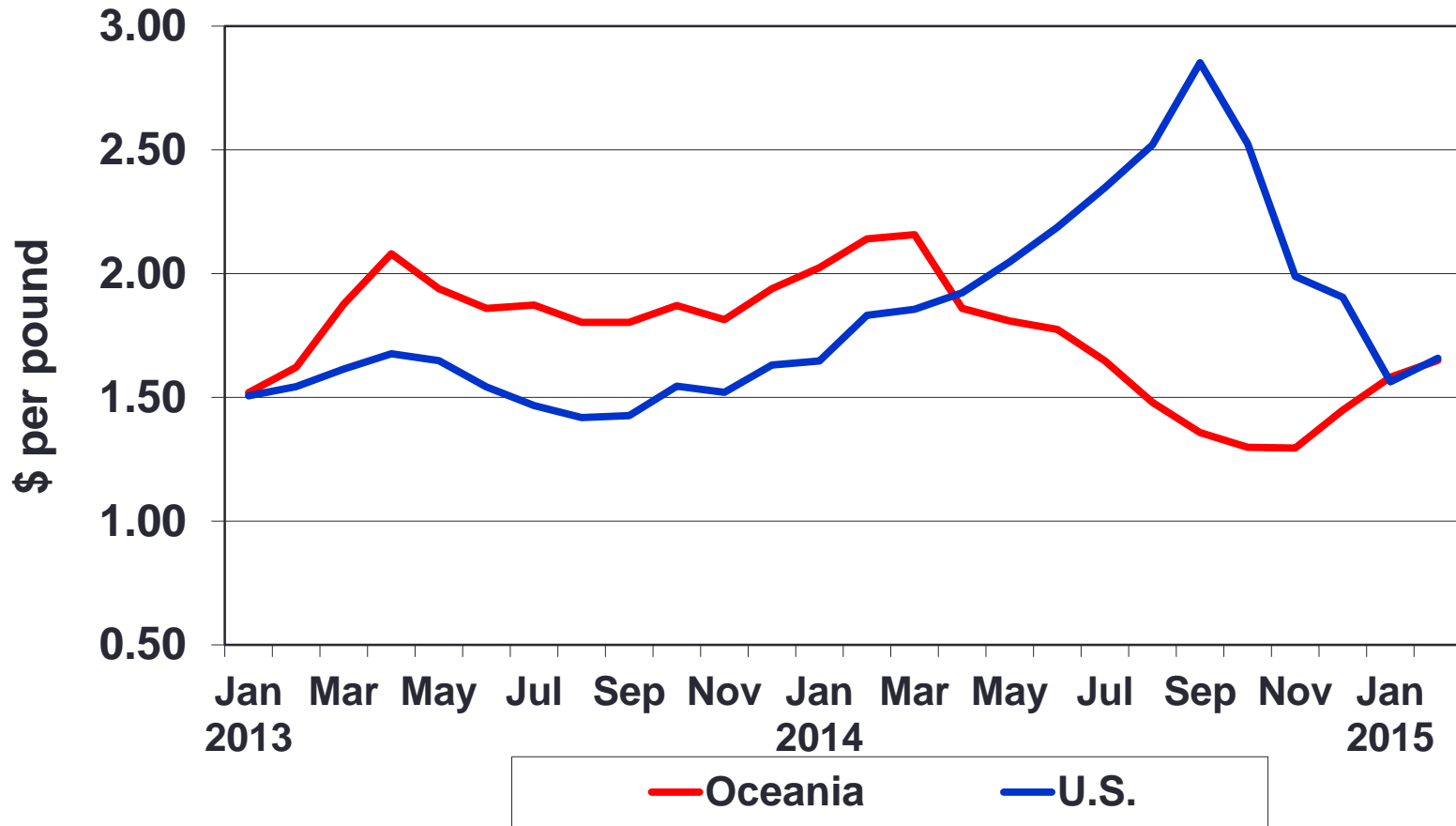
Cheddar Cheese Prices

Monthly Average of Weeks



Butter Prices

Monthly Average of Weeks



International Demand Helped Move Dairy Products in early 2014

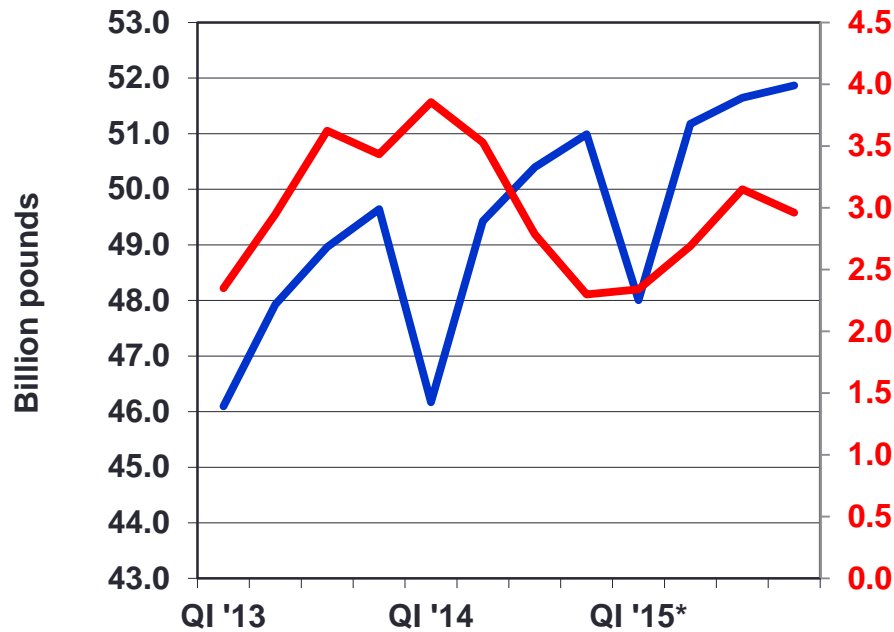
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 - U.S. dollar strengthened in later part of 2014
- U.S. prices became uncompetitive vis-à-vis competing exporters
 - U.S. fat basis exports down 28 percent year-over, July-December
 - Skim solids basis exports down 6 percent

Commercial Use in 2015 will be Largely Driven by Growth in Domestic Demand

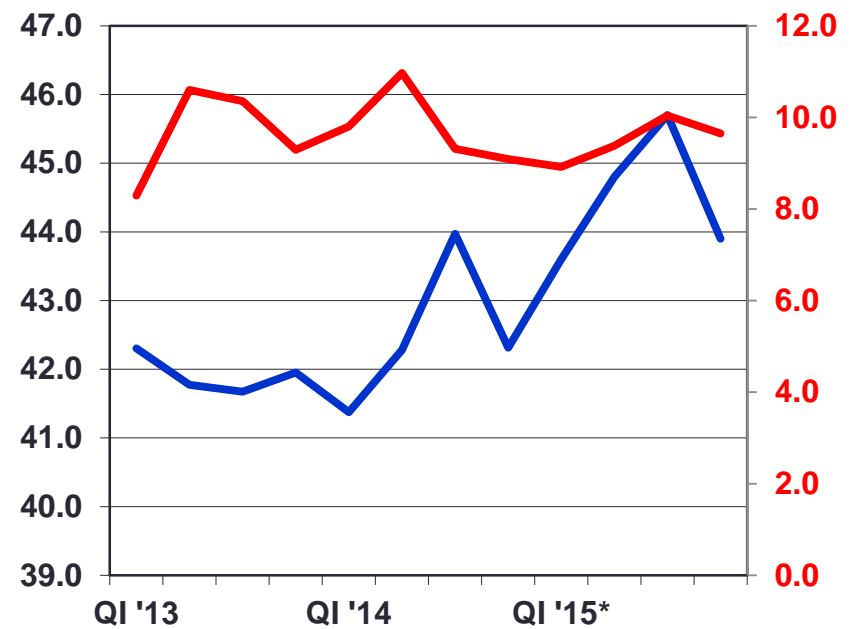
- Domestic use will increase through the year
 - Continued growth in the economy and declining unemployment
 - Lower dairy product prices
- Exports likely to be below year-earlier for 2015
 - Below year-earlier first half
 - Weak import demand
 - Strong dollar
 - However, support for year-over increases 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

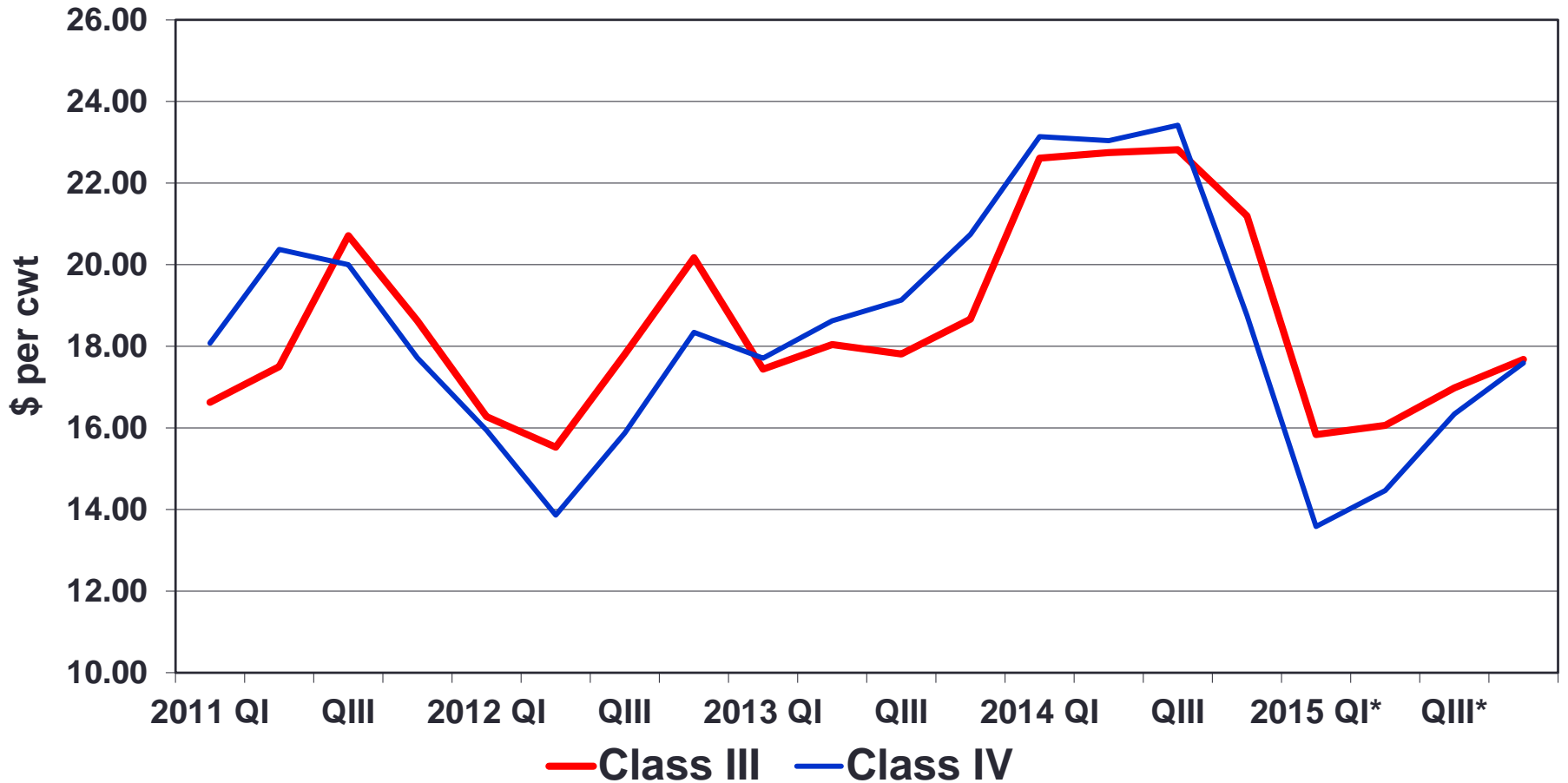


*Forecast

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

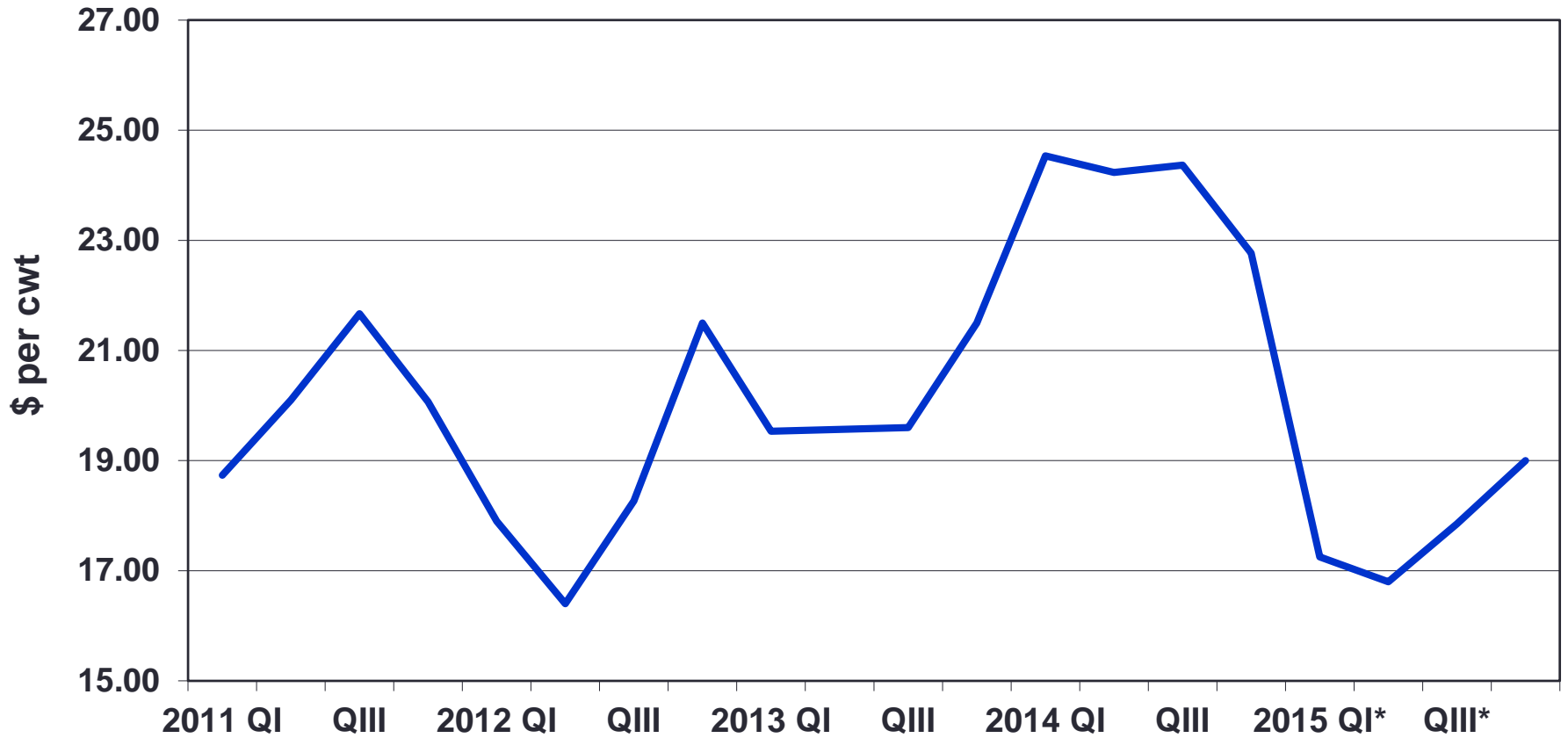
Quarterly Class Prices



*Forecast



Quarterly Average All Milk Prices



*Forecast

Additional Information on the Outlook for 2015 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
 - <http://www.ers.usda.gov/publications/ldpm-livestock,-dairy,-and-poultry-outlook.aspx>
- Dairy: World Markets and Trade
 - <http://www.fas.usda.gov/data/dairy-world-markets-and-trade>