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U.S. Dairy
Export Council.

USDA Agricultural Outlook Forum 2008

Outlook for U.S. Dairy Exports in a Changing World Market



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Global Trade Analysis
February 22, 2008



What has changed?

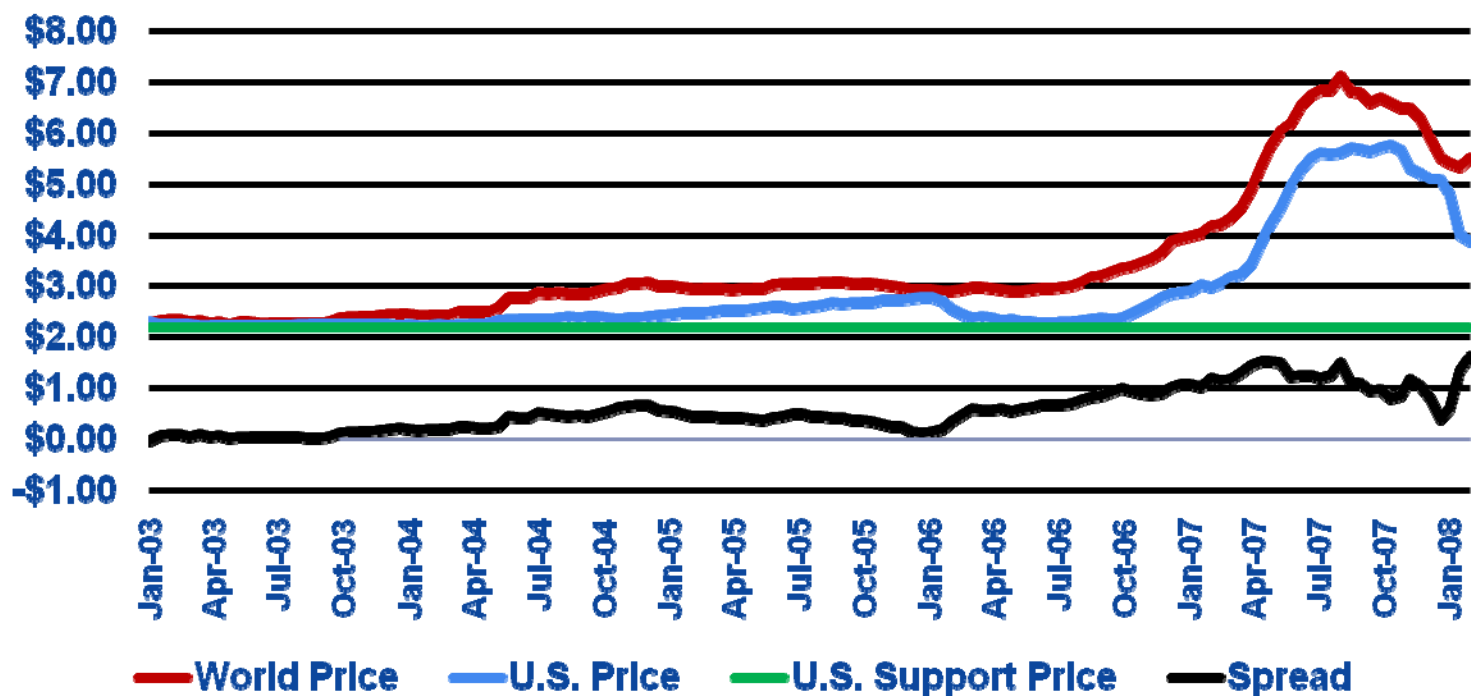
- **The U.S. industry is no longer insulated from the global market...**
 - World prices at or above U.S. prices
 - Exports account for growing percentage of U.S. milk solids production
 - Commercial exports dominate
 - U.S. exports at record levels
- **Makes the U.S. industry subject to a complex stew of factors that affect the global market**



World prices at or above U.S. prices

Nonfat Dry Milk/SMP Prices

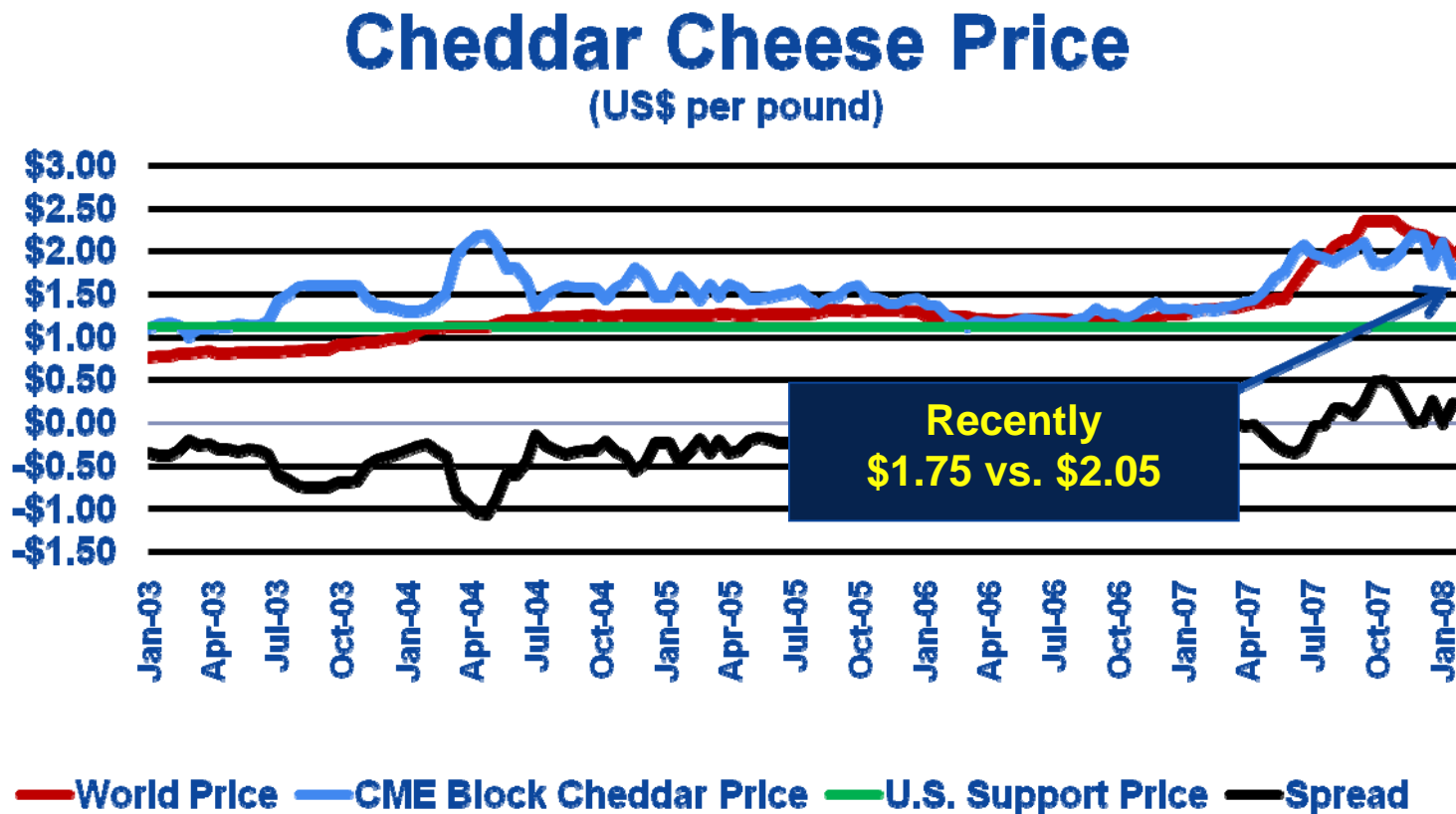
(US\$ per pound of protein)



Source: USDA; compiled by USDEC



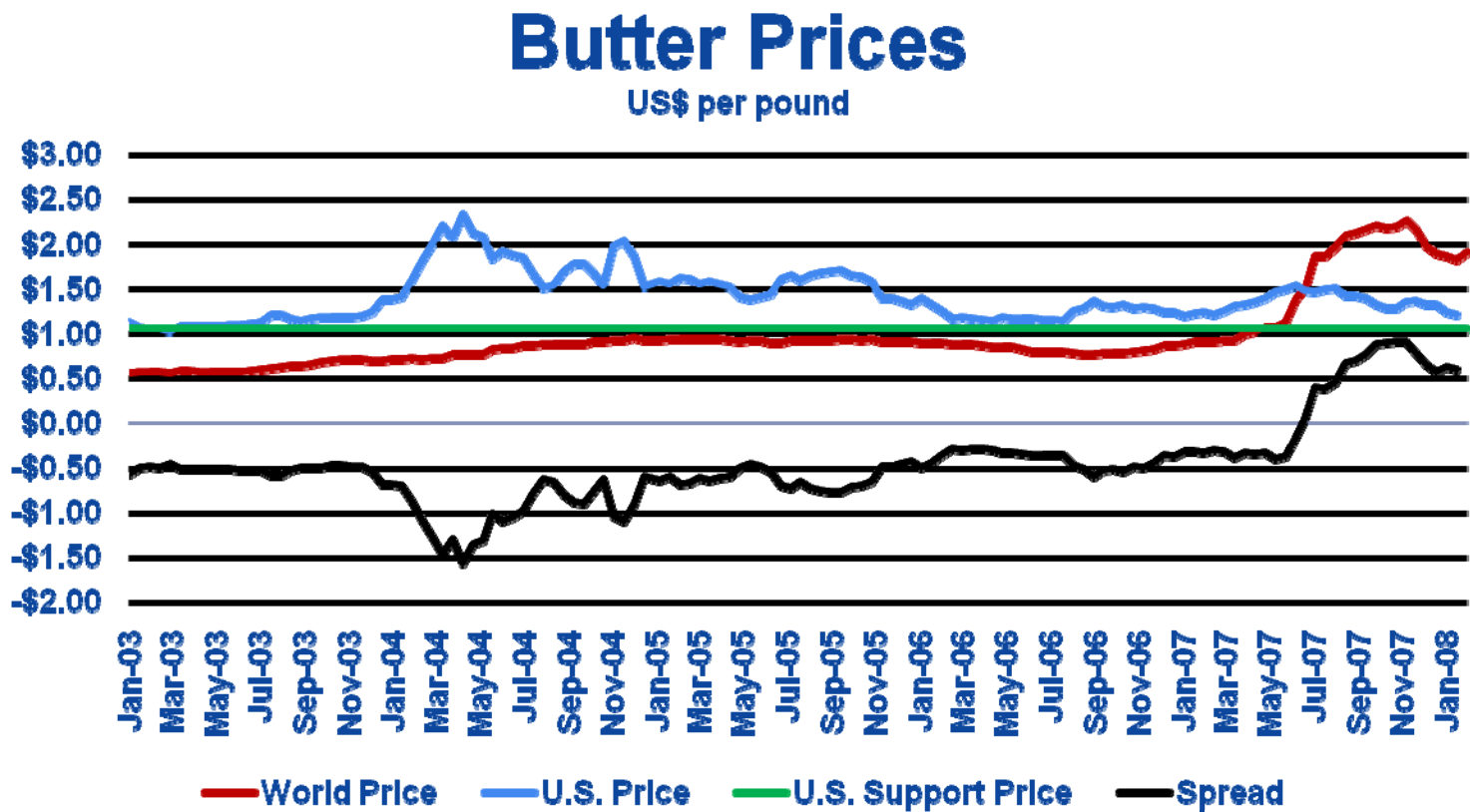
World prices well above U.S. prices



Source: USDA, compiled by USDEC



World prices above U.S. prices

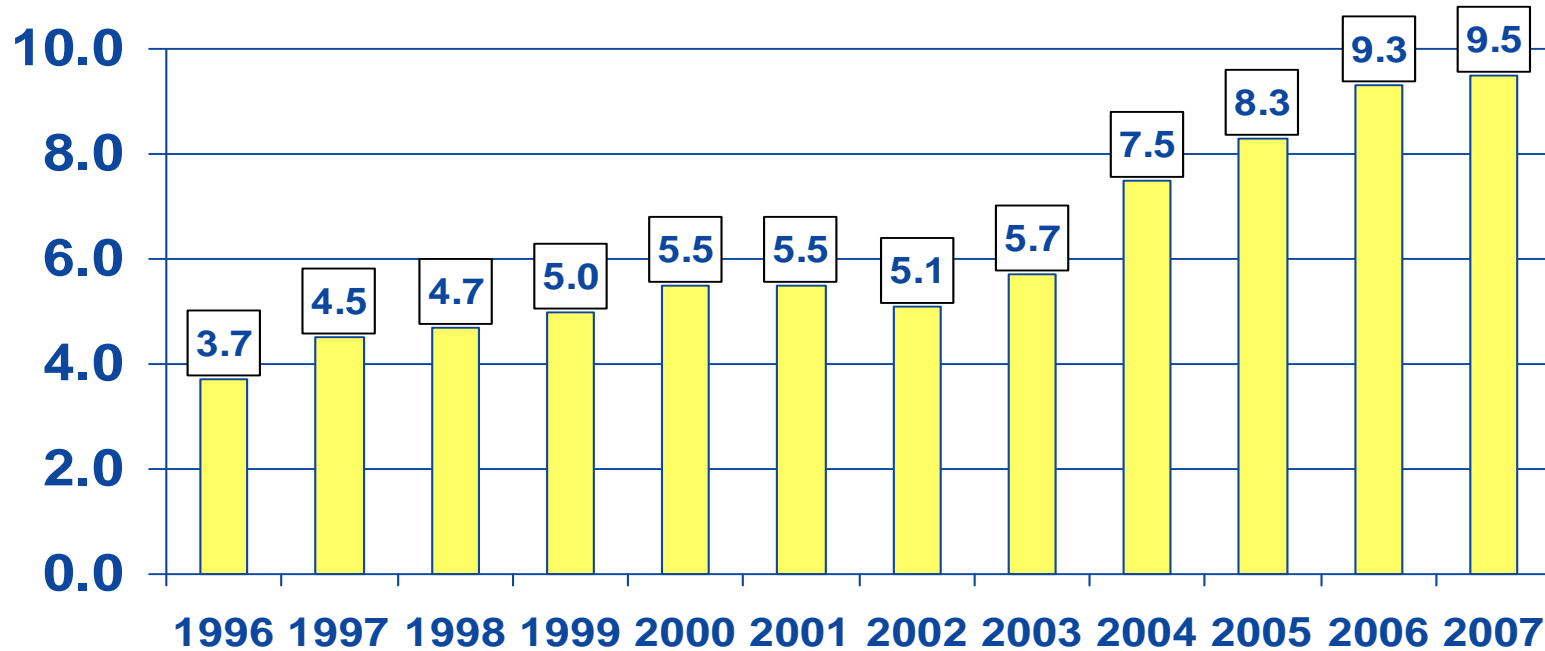


Source: USDA, compiled by USDEC



Exports approaching 10 percent of production

Exports as Percentage of U.S. Milk Production
(total solids basis)



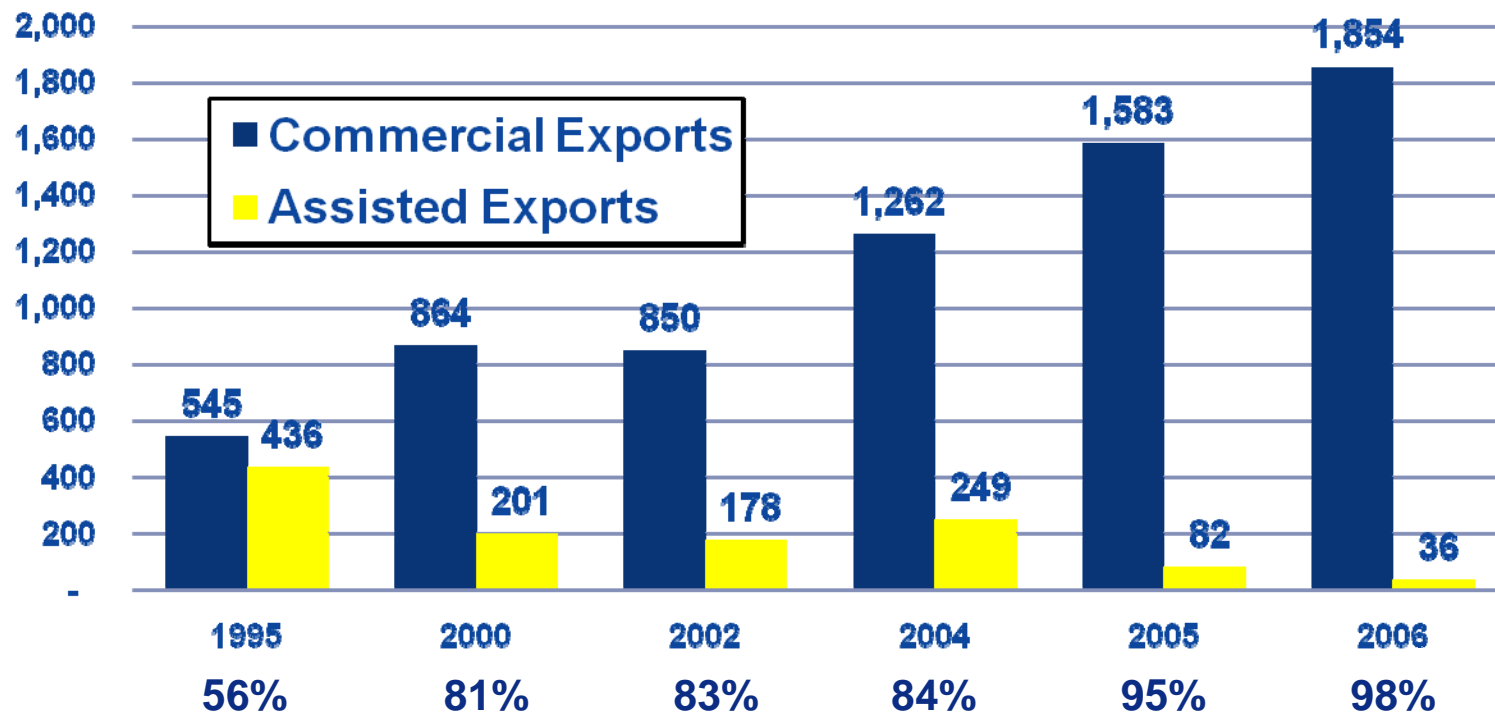
NOTE: 2007 value is subject to revision

Source: National Milk Producers Federation



Commercial sales grow to dominate

Commercial versus Assisted Exports (million US\$)



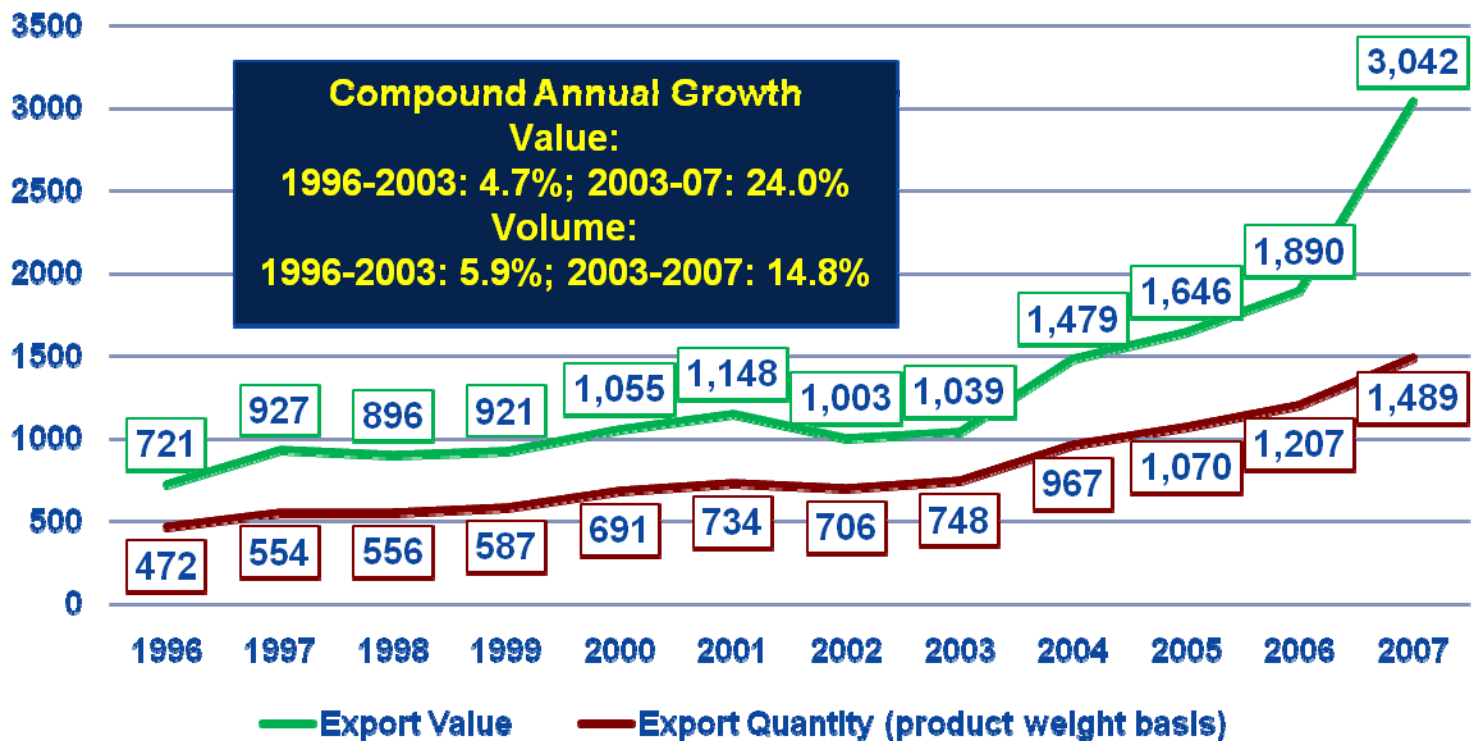
Source: U.S. Dairy Export Council and USDA



Exports grow to record levels

U.S. Dairy Exports

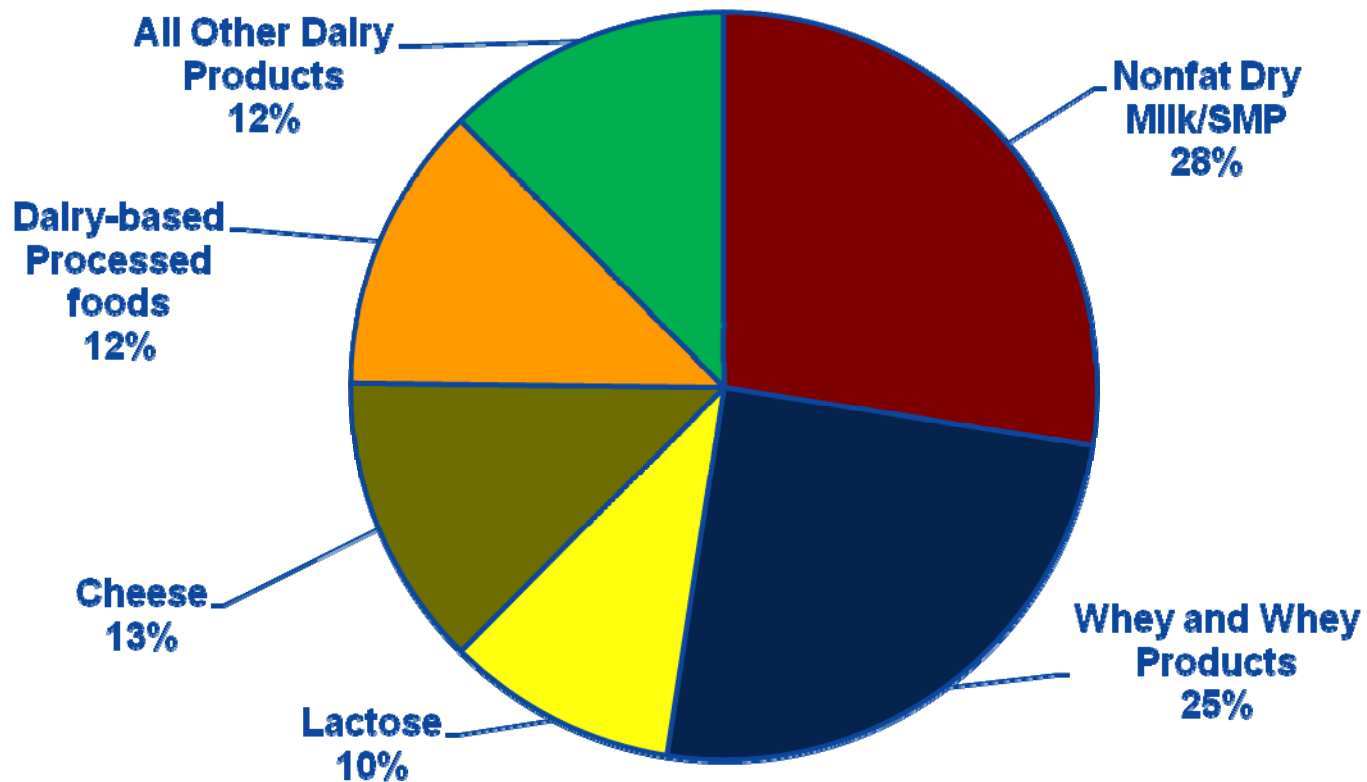
(million US\$, 1,000 metric tons)



Source: U.S. Dept. of Commerce and U.S. International Trade Commission



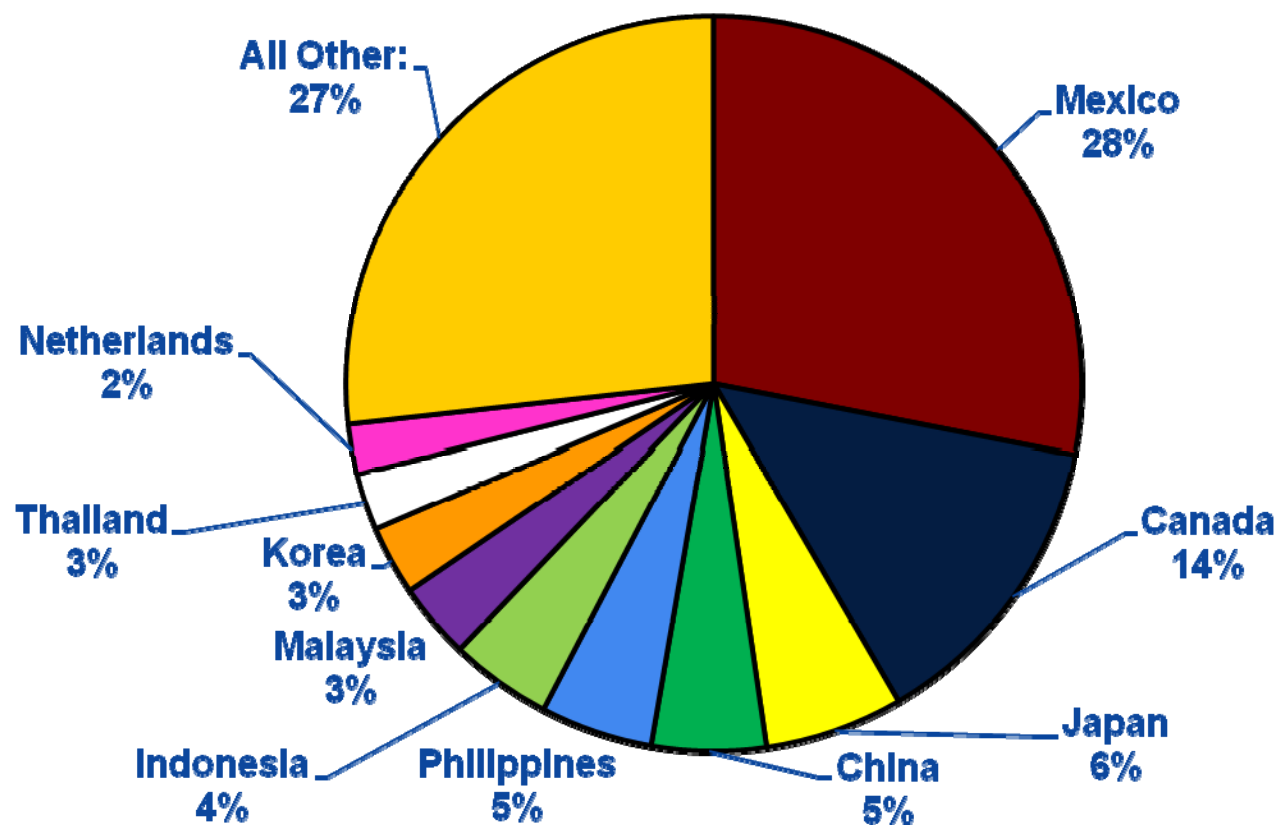
U.S. Dairy Exports 2007 by Product Value





U.S. Dairy
Export Council.

U.S. Dairy 2007 Export Value by Country





Complex stew of changing global factors

1. Rising demand
2. Supply constraints
3. Weaker dollar
4. Favorable trade agreements
5. Reduction of government stocks
6. EU policy changes





2008 Export Outlook

- U.S. should continue to be a competitive supplier of NDM/SMP
- Increasing opportunities for U.S. to become a key cheese supplier
- U.S. milk fat inventories will overhang a generally weak market



Milk Powders

Sustainable U.S. Competitiveness

Factors affecting U.S. milk powder exports	
Positive	Negative
Sustainable income-driven demand growth	Higher prices moving through to consumers
U.S. opportunities to increase customer loyalty	U.S. viewed as residual supply and holder of global inventories
EU preference towards cheese and fresh products	Increased supplies if EU expands quotas and production responds
Weak U.S. dollar	Good butter/powder returns bring new supplies to global market



Cheese

U.S. product remains in demand

Factors affecting U.S. cheese exports	
Positive	Negative
Sustainable global demand growth, including U.S. and EU	EU supply expansion exceeds internal demand growth
Continued food service expansion	Price resistance
Oceania capacity constraints	Increased internal Japanese and South American production
CWT supports market entry	Russian growth slows



Butter

Generally weak

Changing factors affecting U.S. butter exports	
Positive	Negative
EU movement towards cheese	U.S. inventories and imports
Weak dollar	Few large global importers
CWT export support available	Vulnerable to substitution



Other factors affecting U.S. exports

- Relationship between world and U.S. prices
- U.S. import/export balance
- Increased price volatility
- Ability and desire to meet import market standards, specifications, packaging, and variety



Summary

- Expect structural tightness to persist
- Expect prices to be lower but above historic ranges
- U.S. exports necessary to meet growing global dairy demand
- U.S. supplies drive global prices
- U.S. dairy exports affect the bottom line of the entire dairy industry



Final Thoughts

- Dairy exports are no longer the subsidized child that can be hid, like Harry Potter, in the closet under the stairs
- Dairy exports represent an important and increasing source of value to the domestic industry
- Maintaining that value requires encouragement and nurturing from all levels of the industry as well as from the government and USDA



U.S. Dairy
Export Council.

U.S. Dairy Export Council Member...

- When exports account for this level of domestic milk solids production, exporting is no longer an opportunity... *it is an obligation*