

# **The Challenges Facing the US Dairy Industry in 2011**



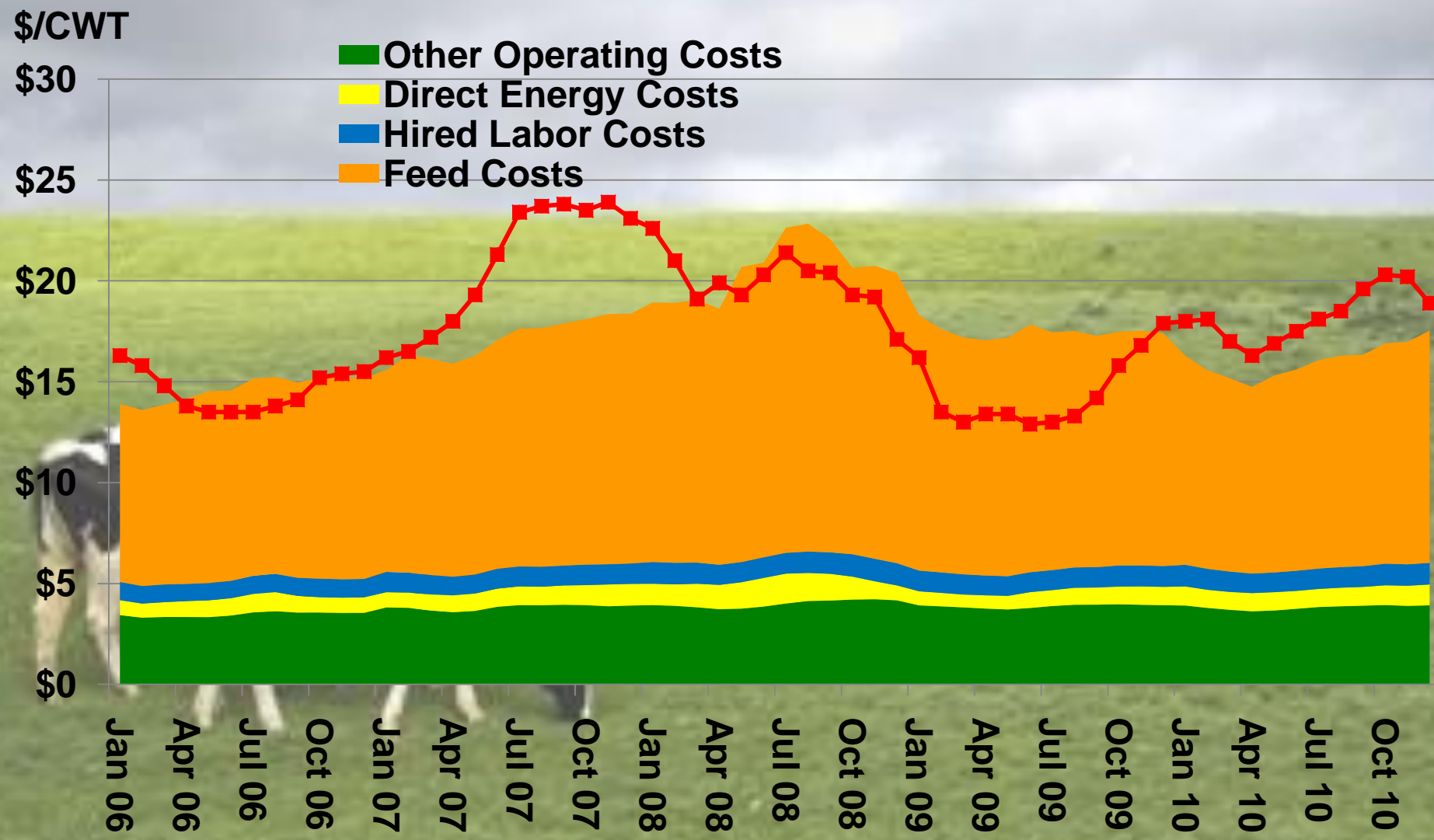
**By Daniel W Basse, President  
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Chicago, Illinois 60606  
[basse@agresource.com](mailto:basse@agresource.com)**

# The Dilemma of the US Dairy Farmer!



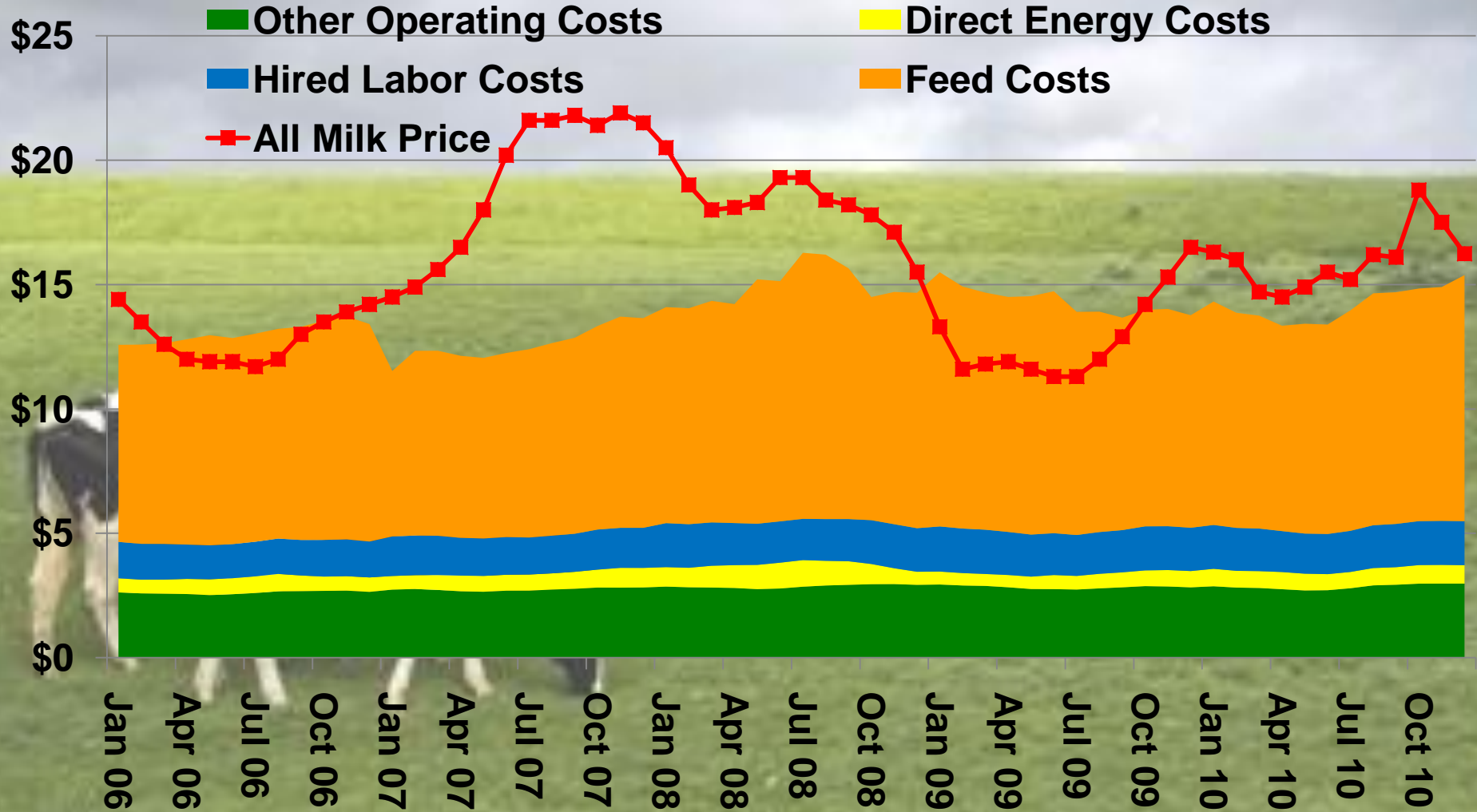
- **Falling domestic milk consumption on per capita basis**
- **Rising domestic milk production which will reach record highs in 2011.**
- **Squeezed profit margins due to rising feed costs. Where was the Dairy/Livestock farmer in the US ethanol debate?**
- **Fragmented industry that has had difficulty agreeing on policy or changing failed advertising programs.**
- **Limited vision and ability to tap the world dairy market. Good news US dairy trade in past 9 months is expanding!**
- **Totally focused on milk production – little or no focus on feed costs and their impact on profitability.**
- **What's the solution?**

# Pennsylvania Dairy Margins



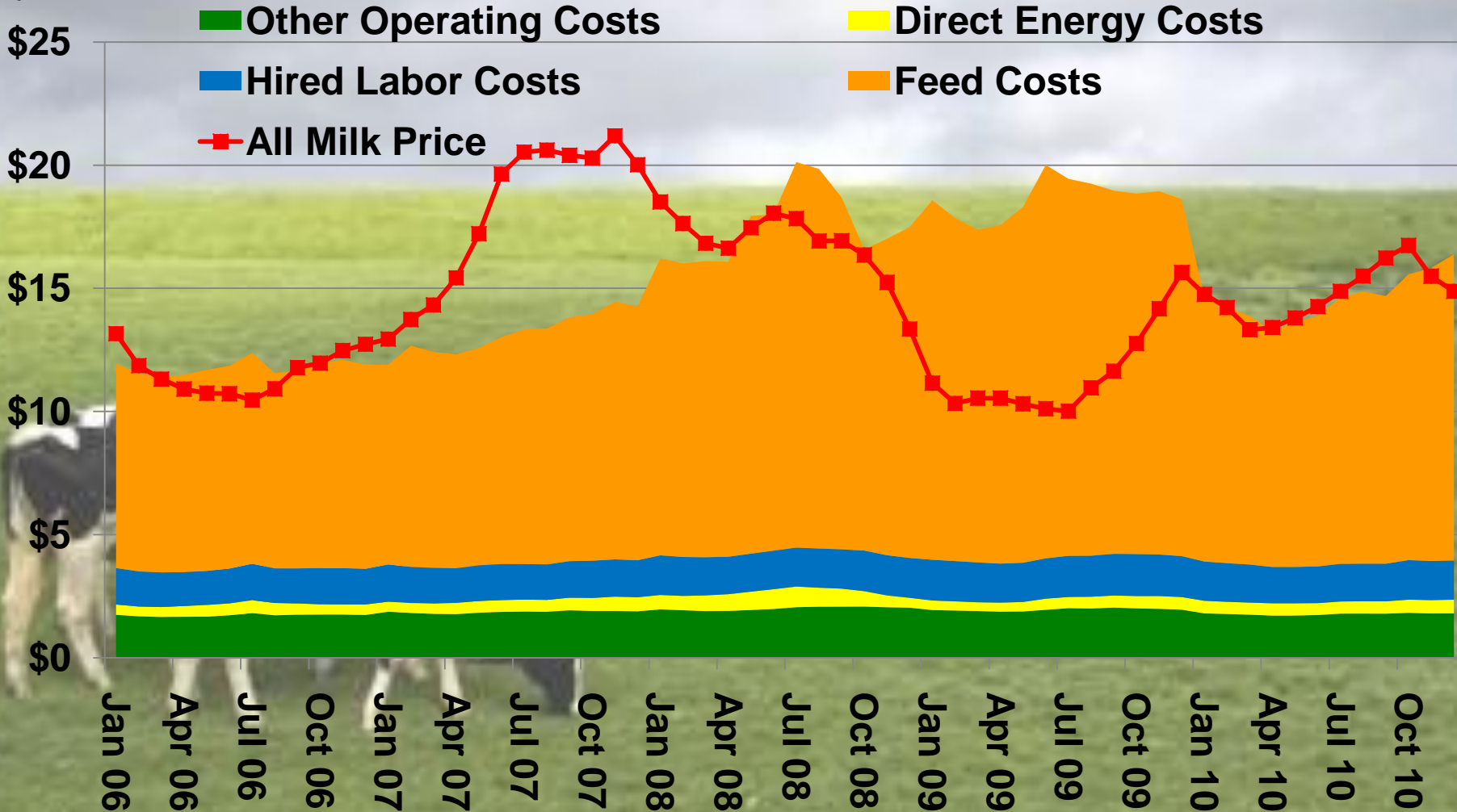
# Wisconsin Dairy Margins

\$/CWT

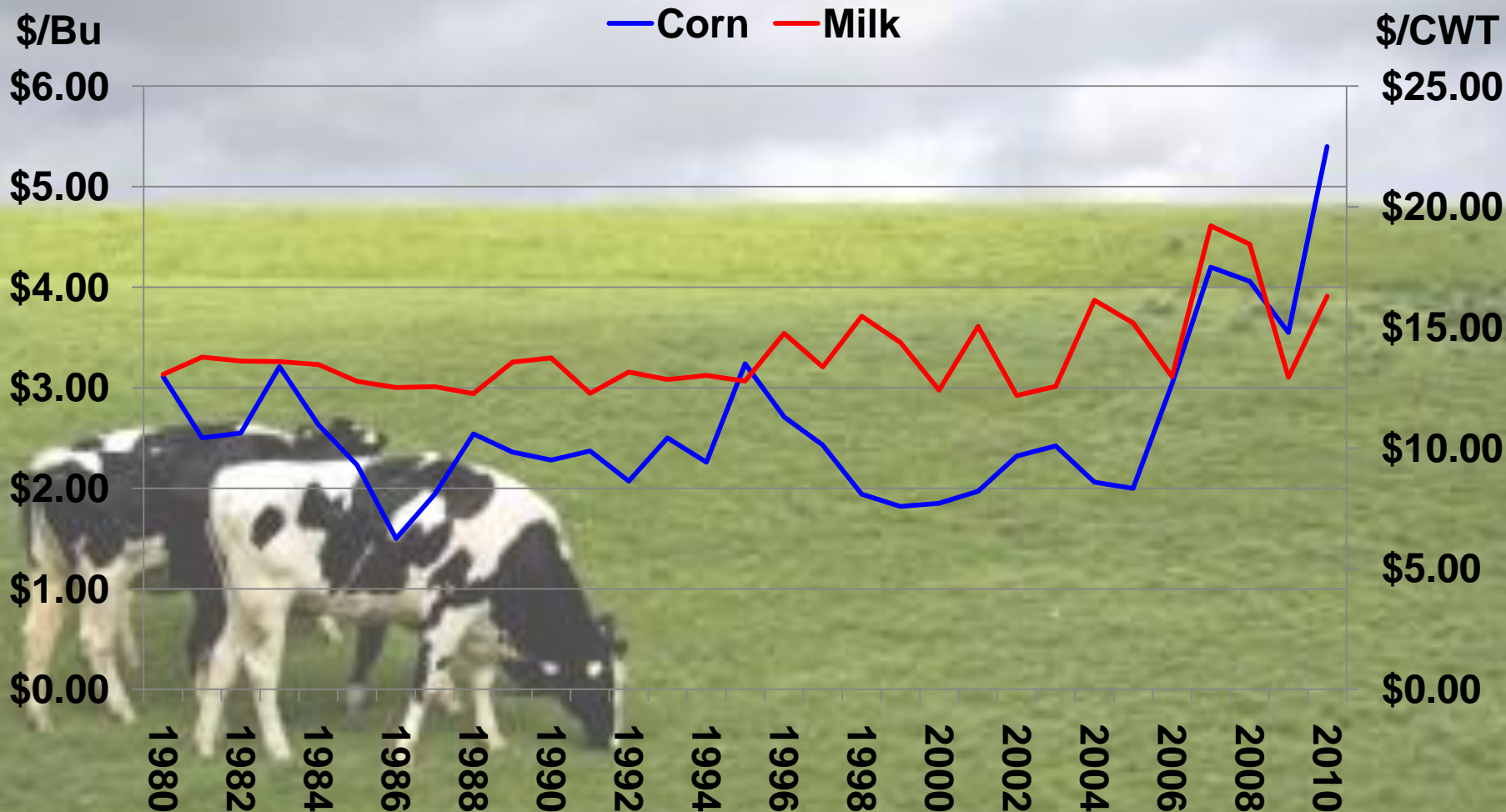


# California Dairy Margins

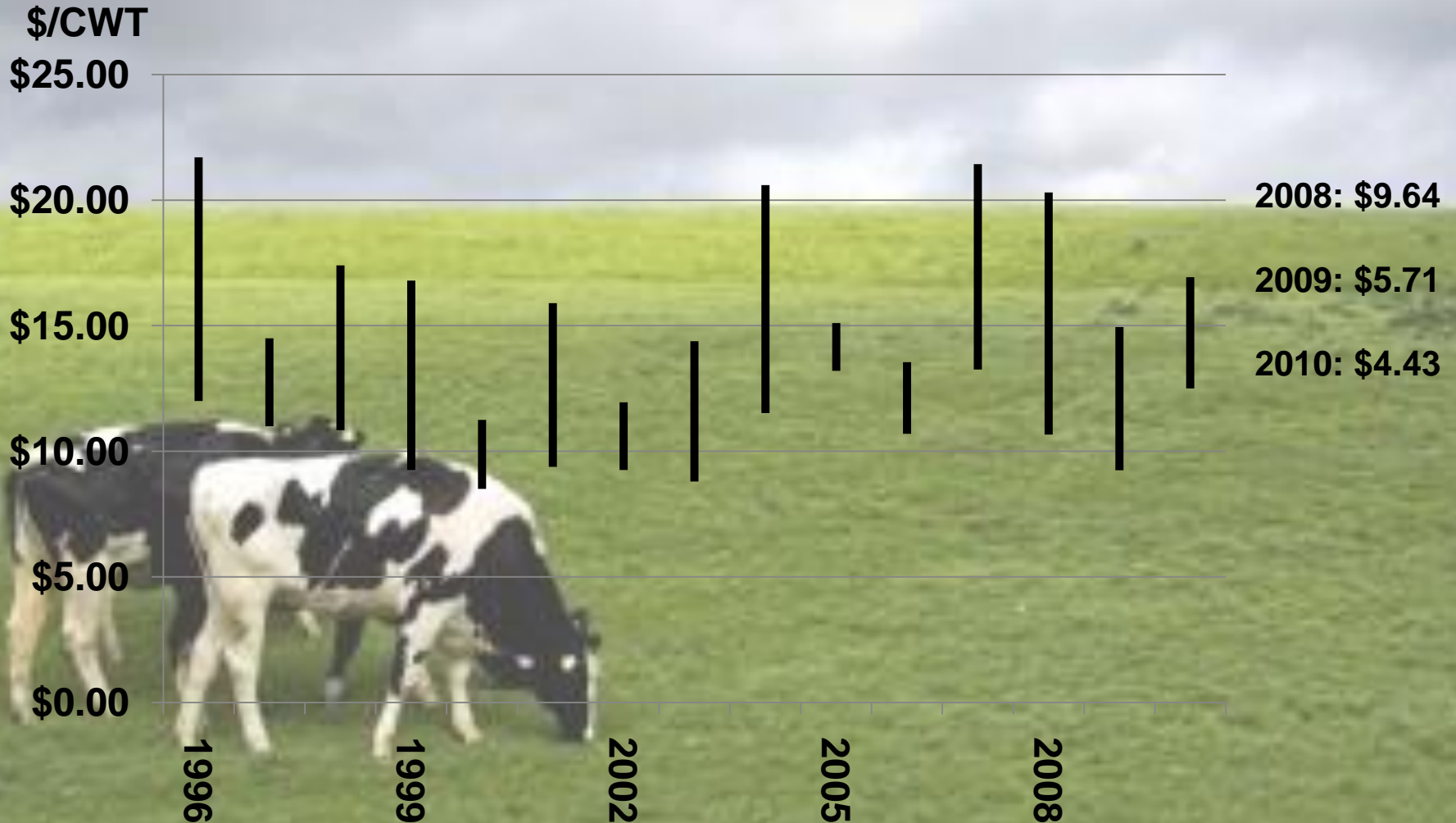
\$/CWT



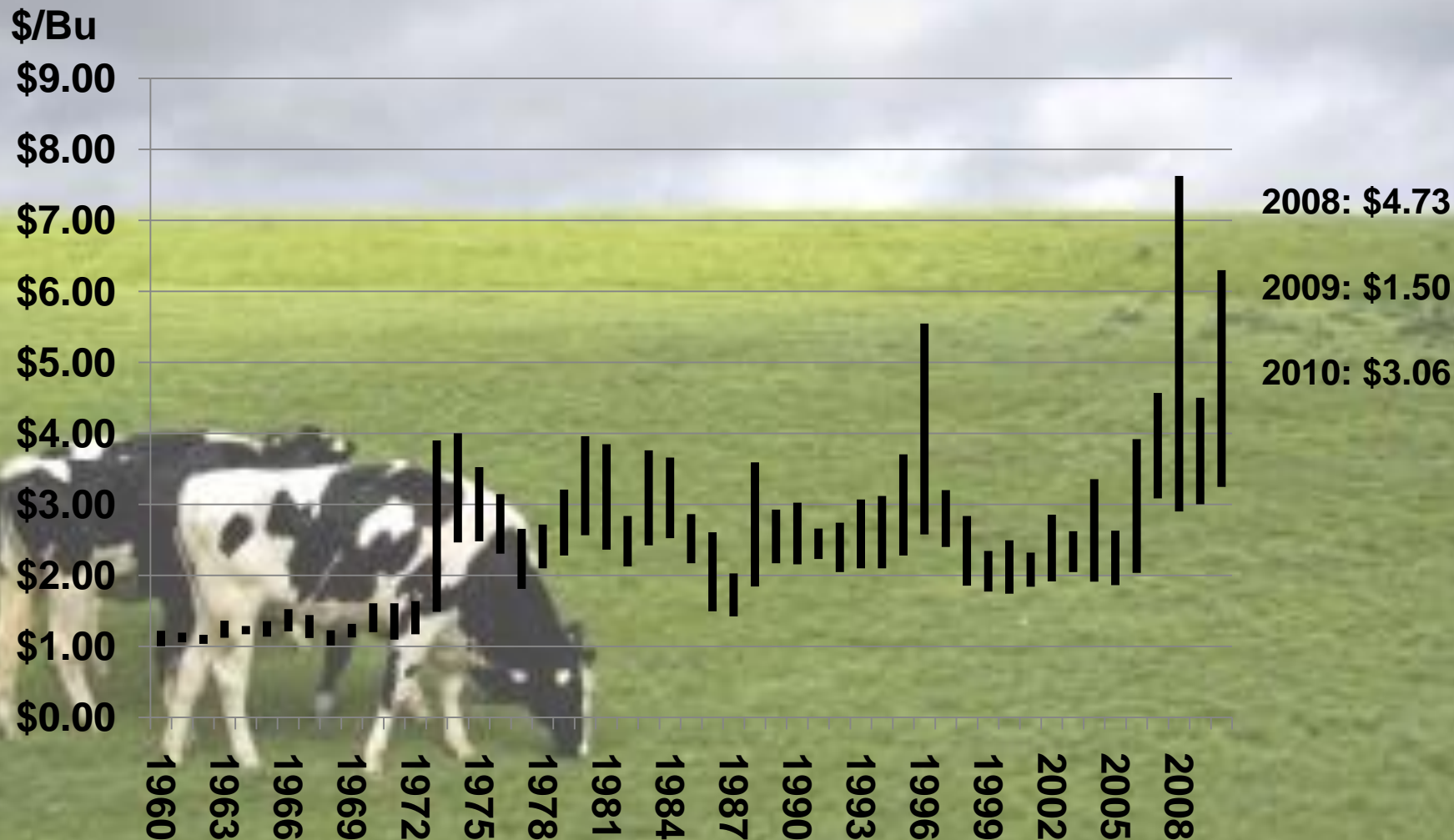
# Corn Price and Milk Price since 1980



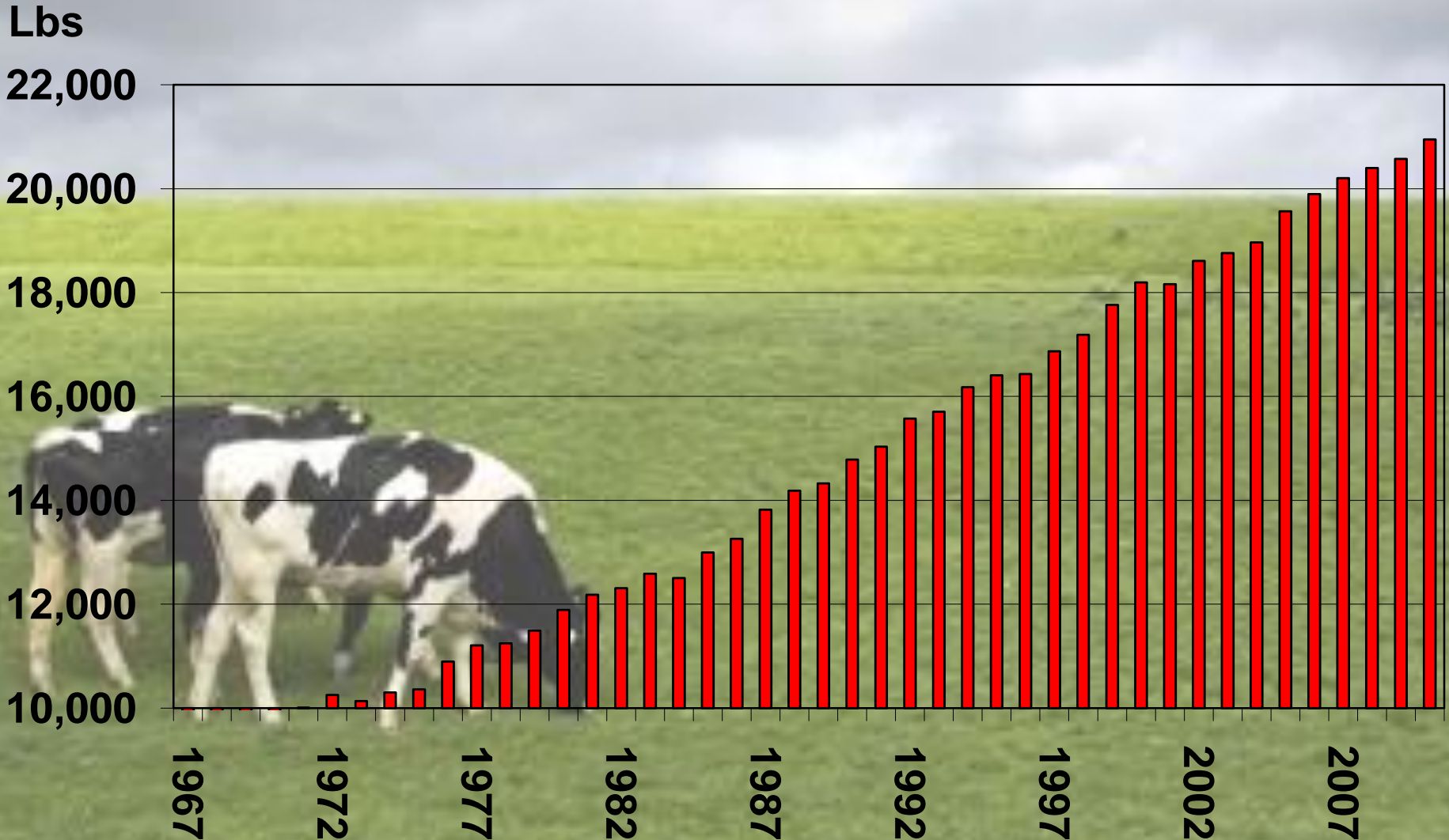
# Class III Futures Volatility – Annual Price Ranges 1996-2010



# Corn Market Volatility – Annual Price Ranges 1960-2010

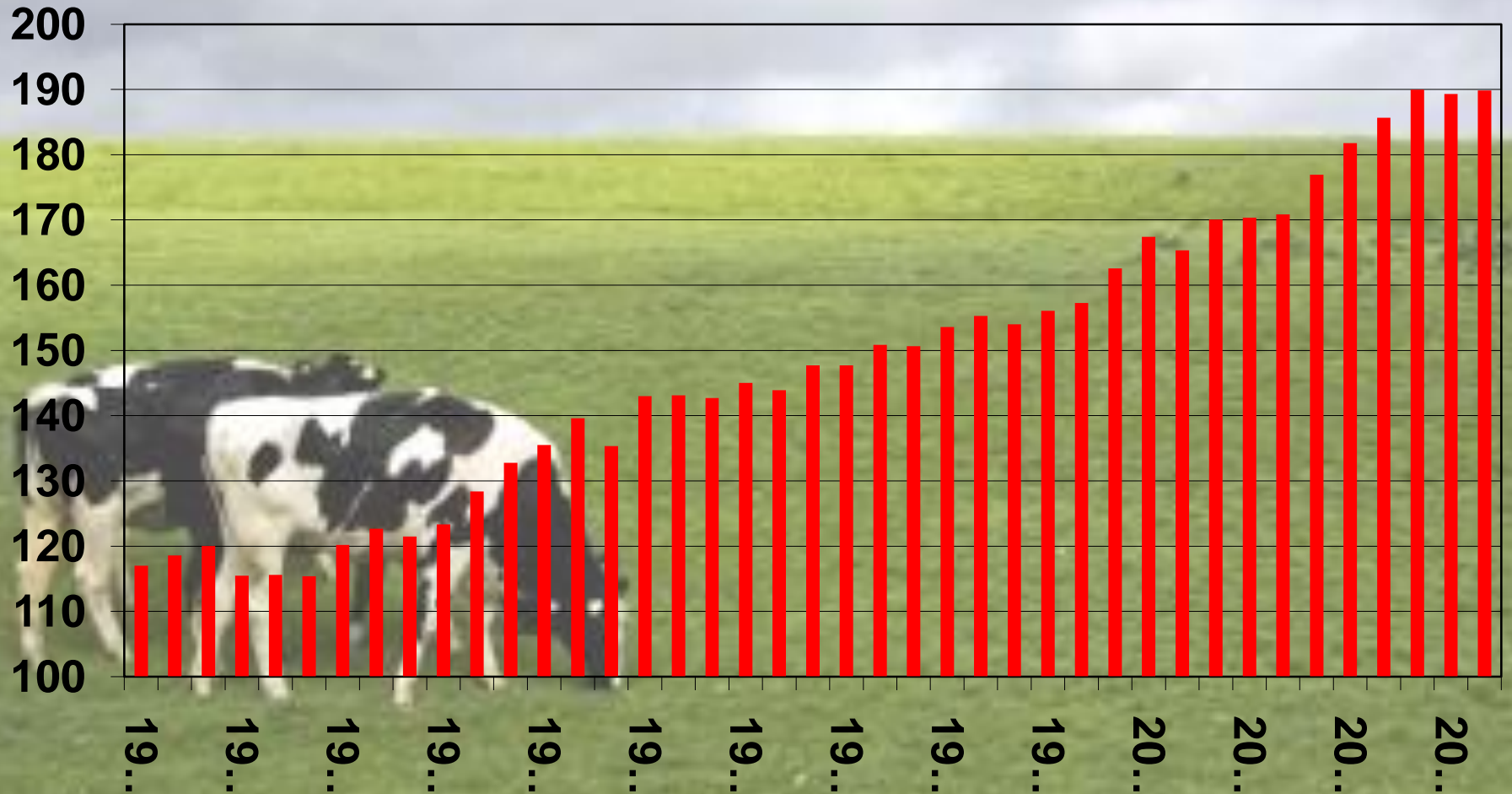


# US Pounds of Milk/Cow – You are the best farmers in the world!



# US Annual Milk Production

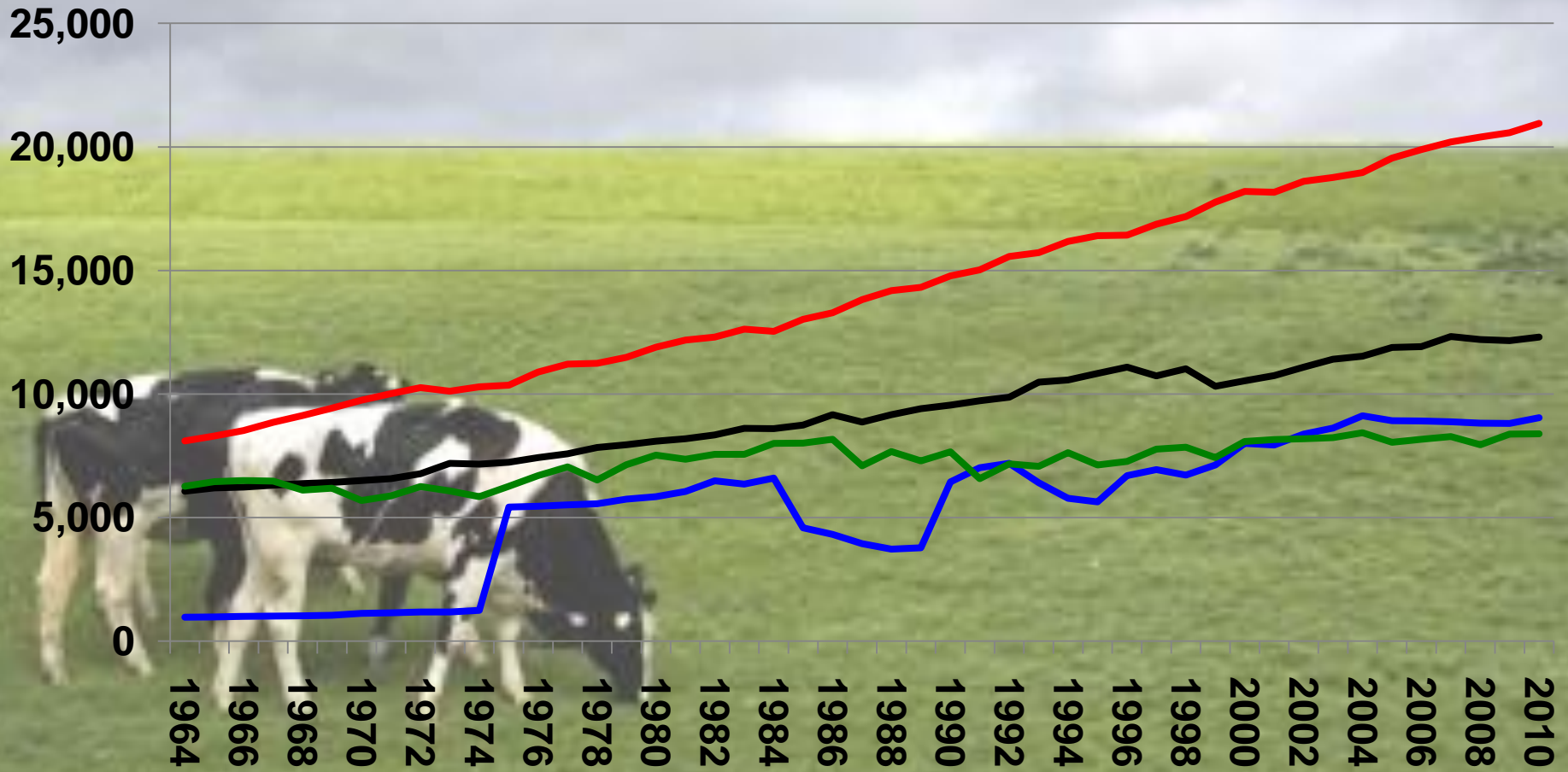
Bil Lbs



# World Per Cow Productivity

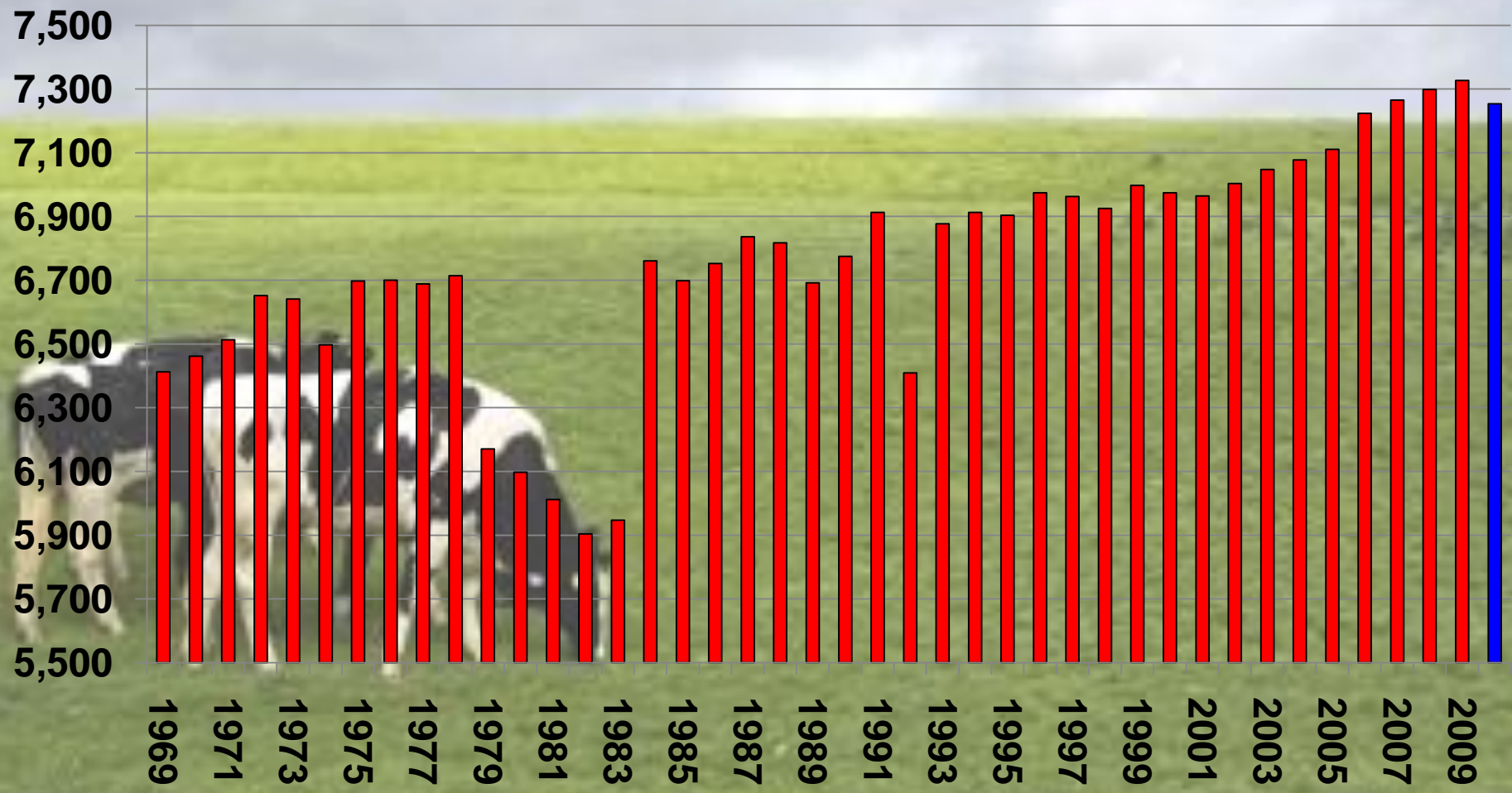
Pounds/Cow

— US — EU — China — New Zealand



# US Fluid Milk Consumption

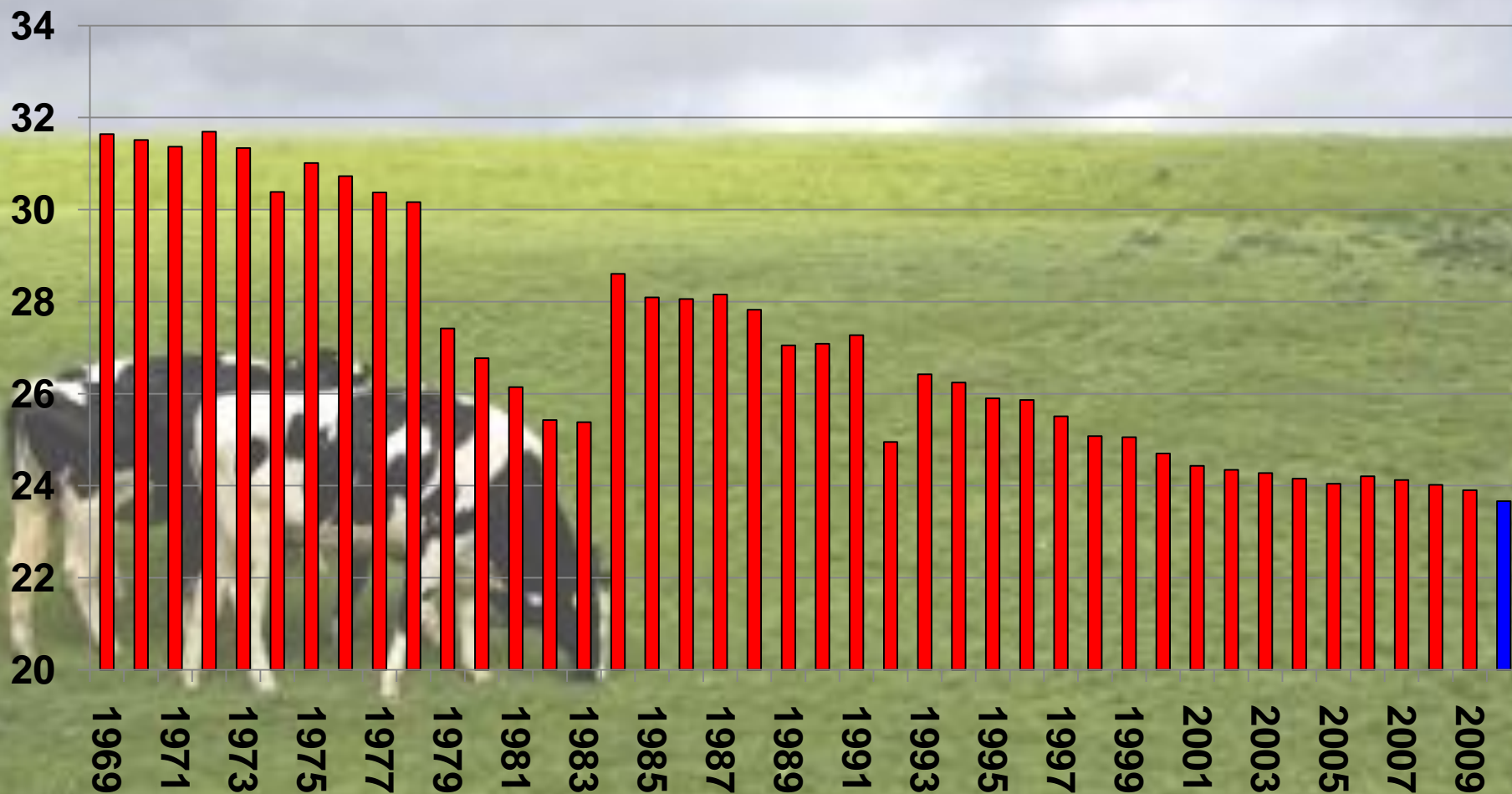
Mil Gal



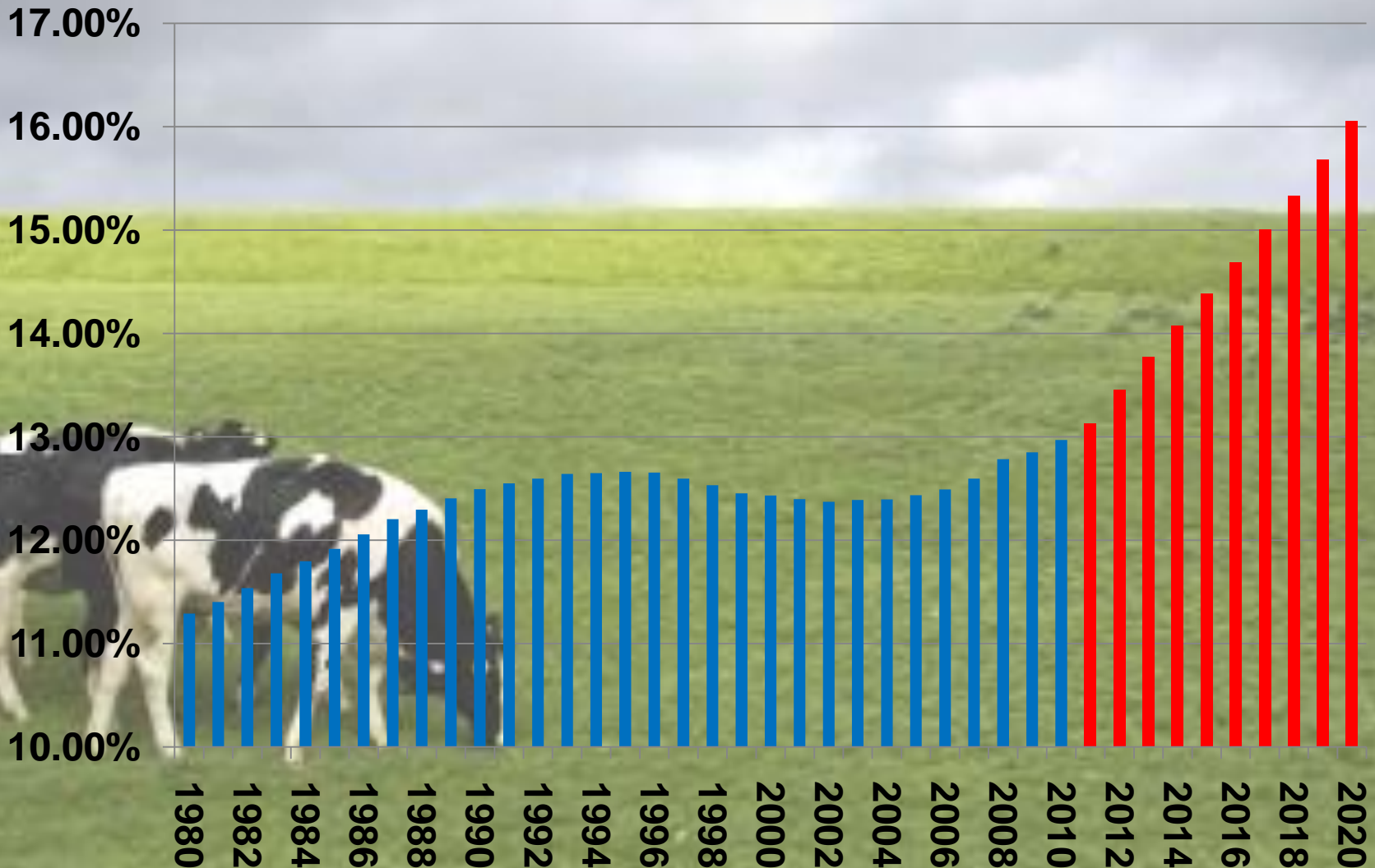
# Per Capita US Fluid Milk Demand



Gal/Capita



# The Aging of the US Population: % 65 Years and Over



# Net Dairy Trade: Milk & Cream Exports - Imports



1,000 Liters

10,000

8,000

6,000

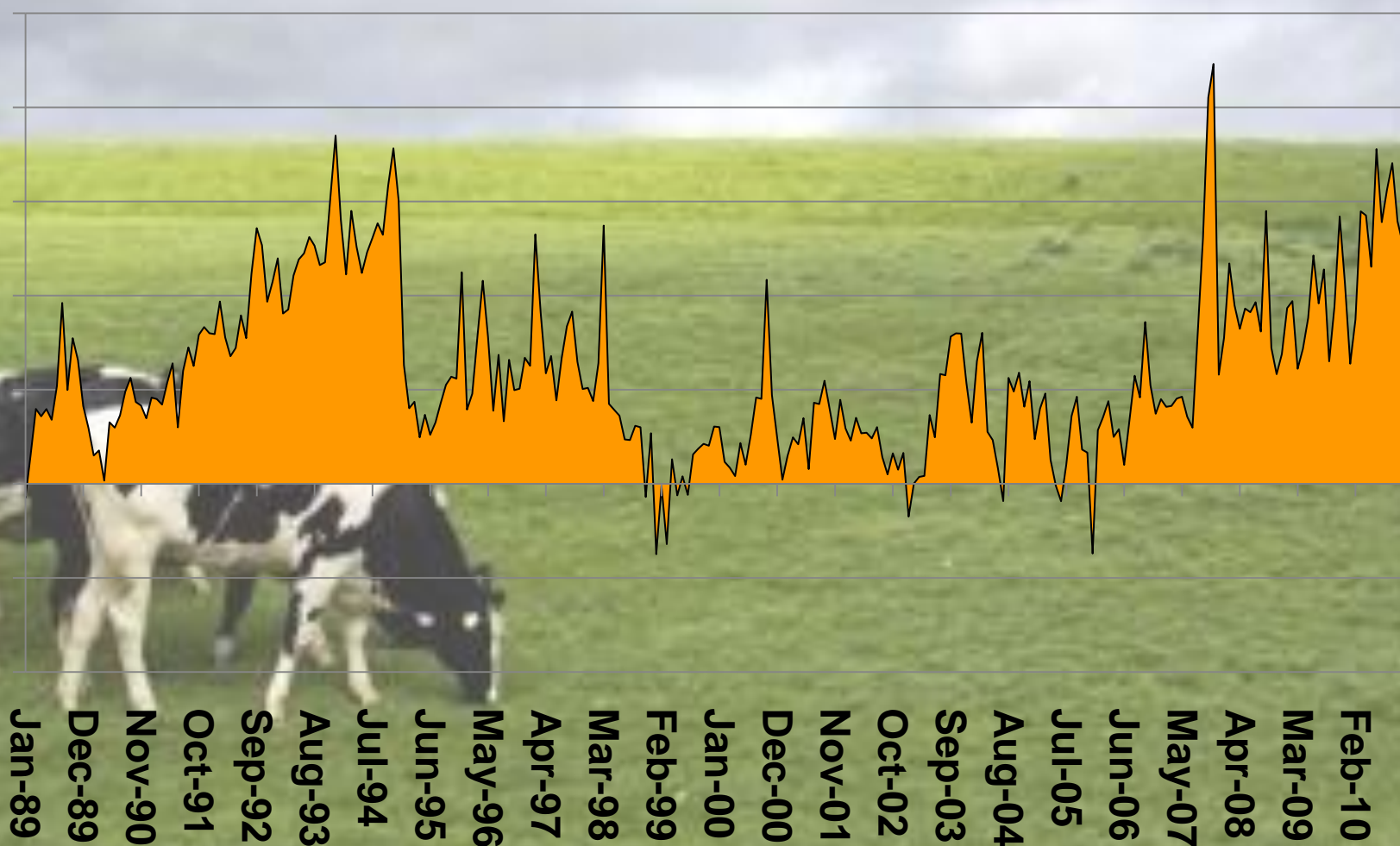
4,000

2,000

0

-2,000

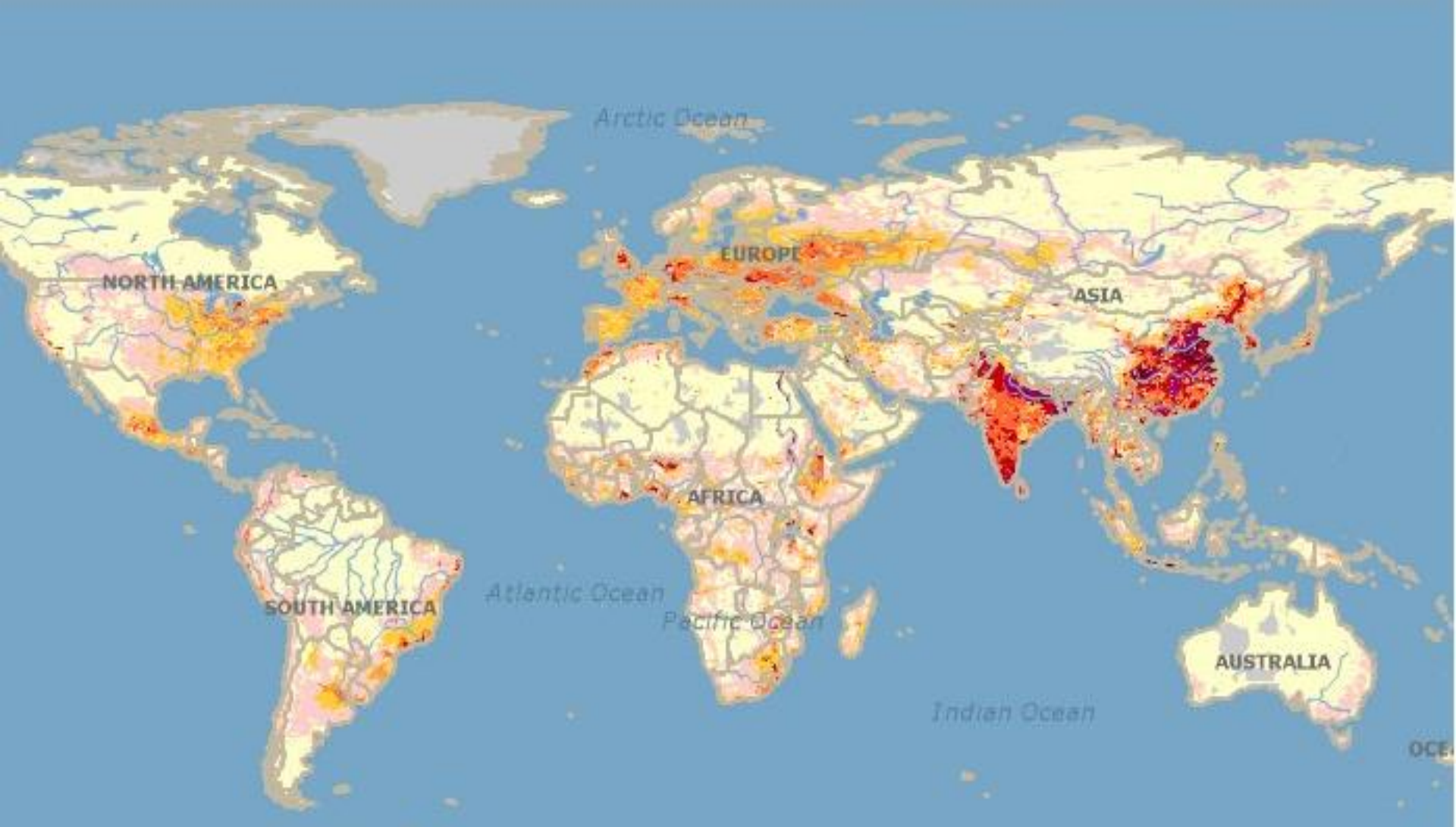
-4,000



# The Opportunity for US Dairymen



# World Population Density



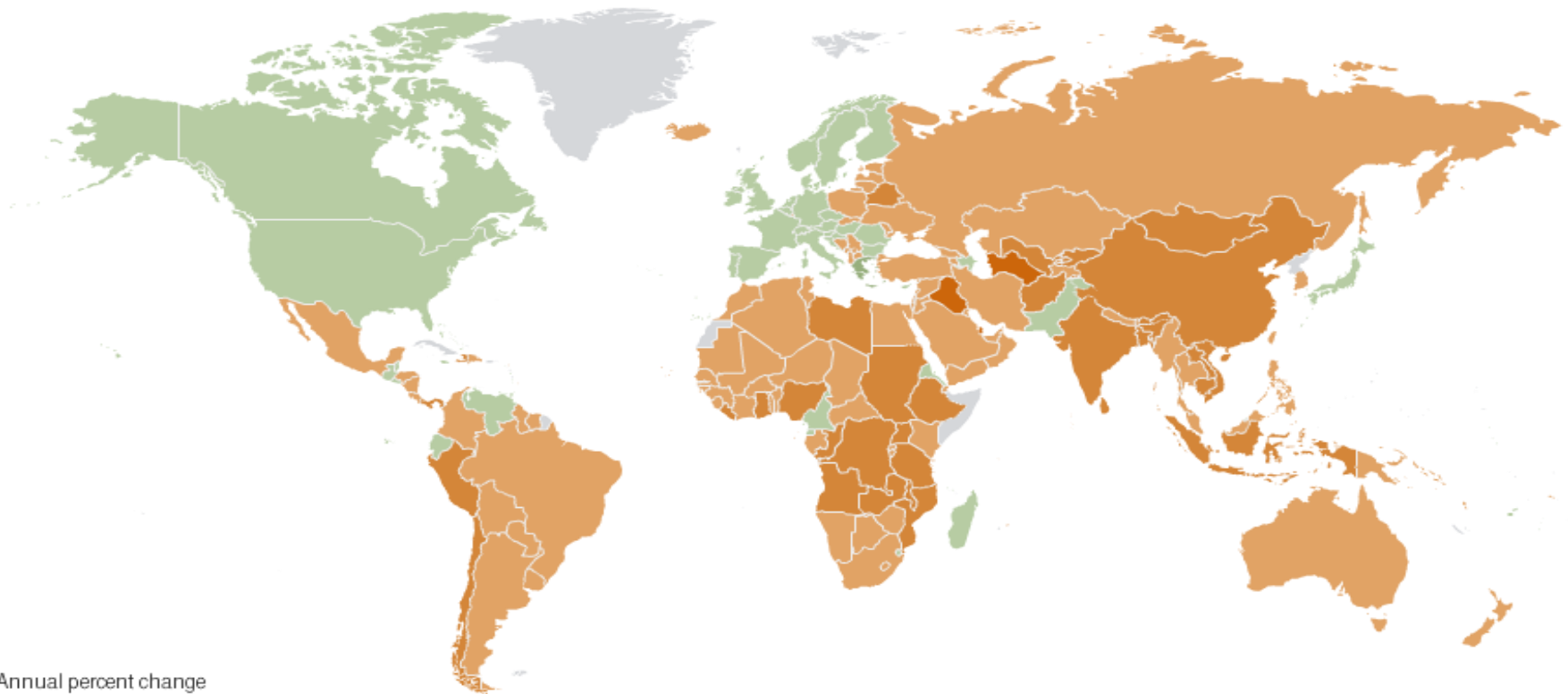
# SE Asia The Driver of Demand



## IMF Data Mapper ®

Real GDP growth (2011)

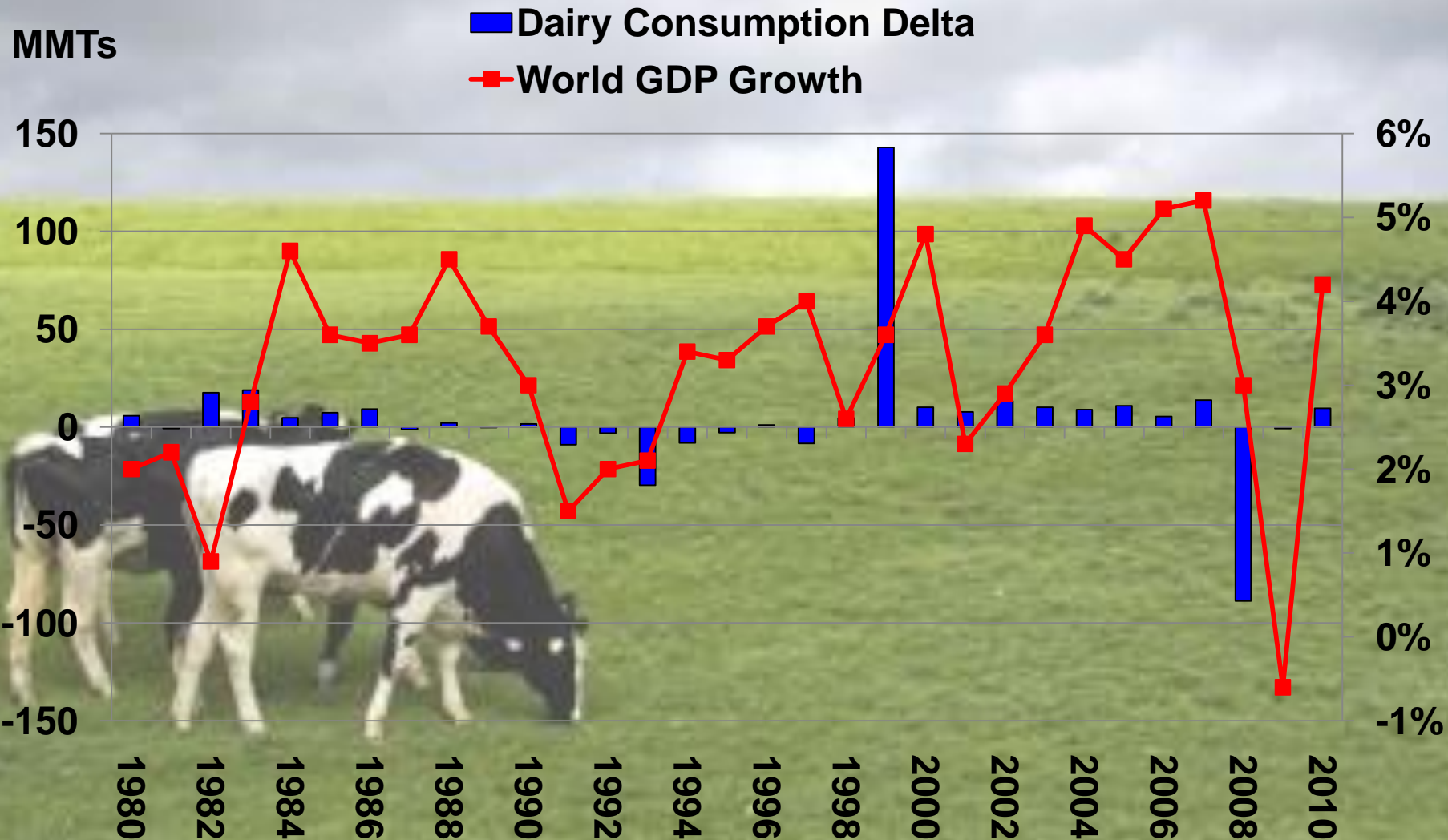
Source: World Economic Outlook (October 2010)



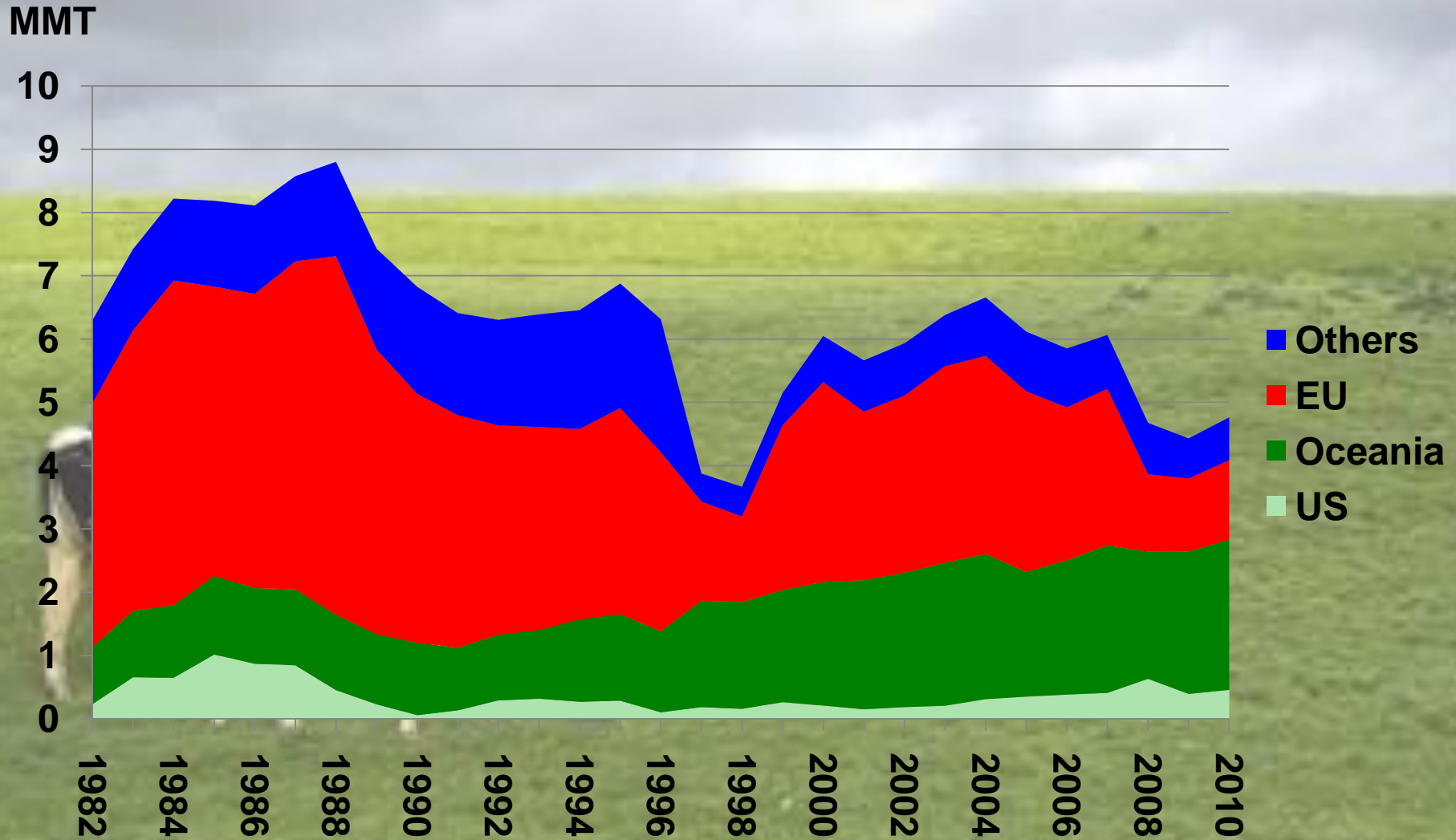
Annual percent change



# World Dairy Demand Delta vs World GDP Growth Rate



# The US's Role in World Dairy Trade!



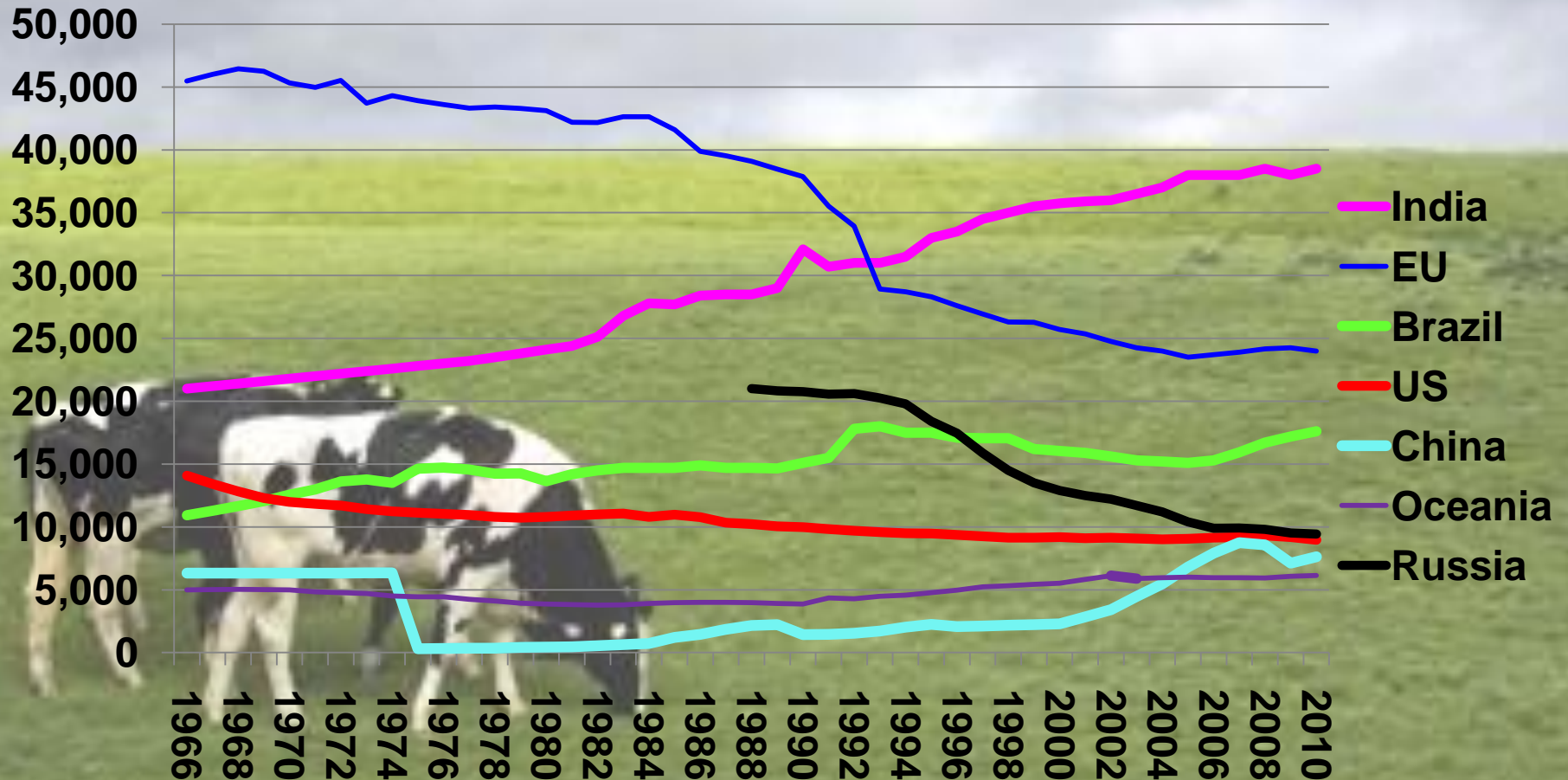
# So.....New Marketing Theme of the US Dairy Industry!



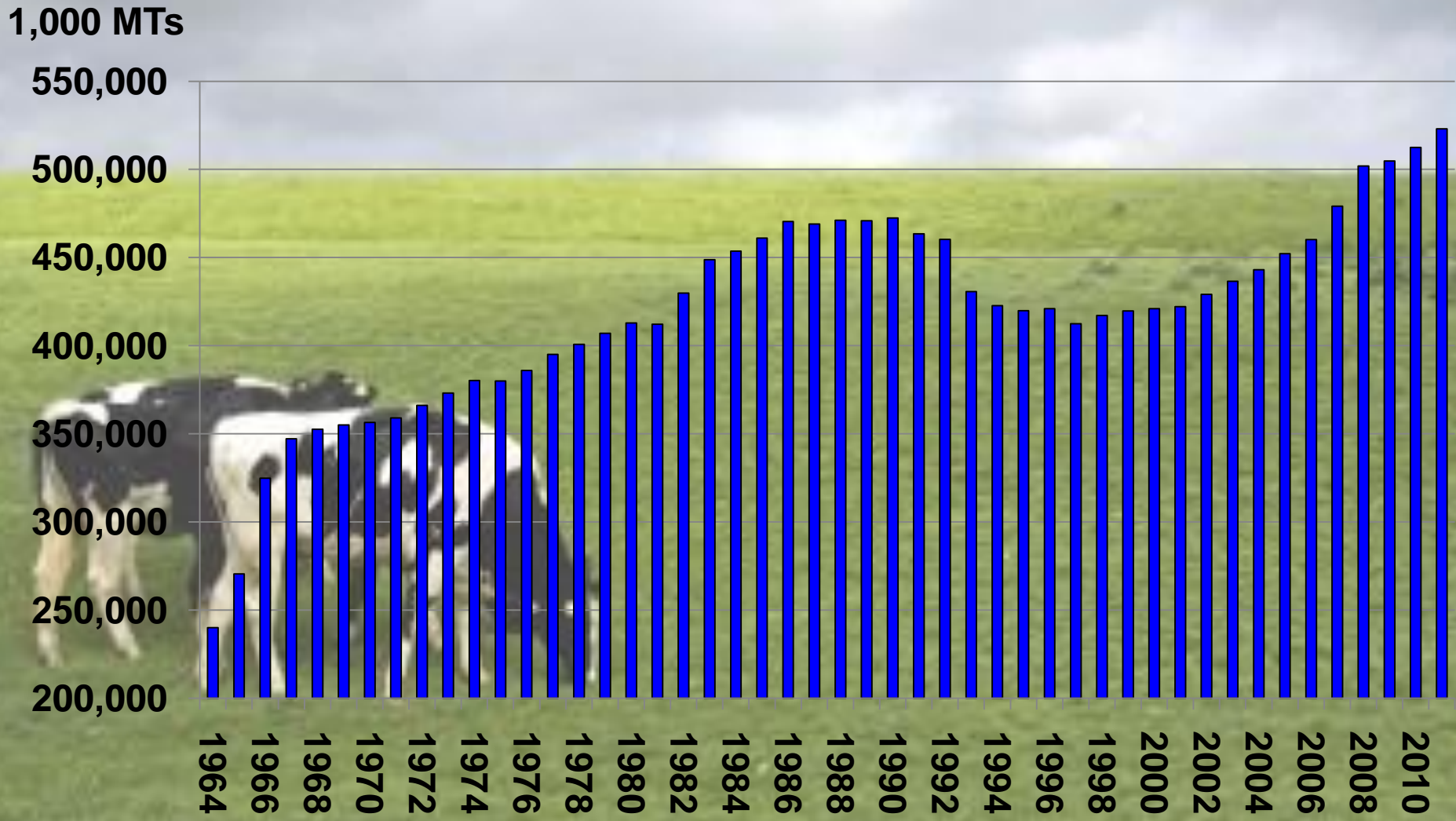
# World Dairy Herds – Cows in Milk A Decade of Opportunity?



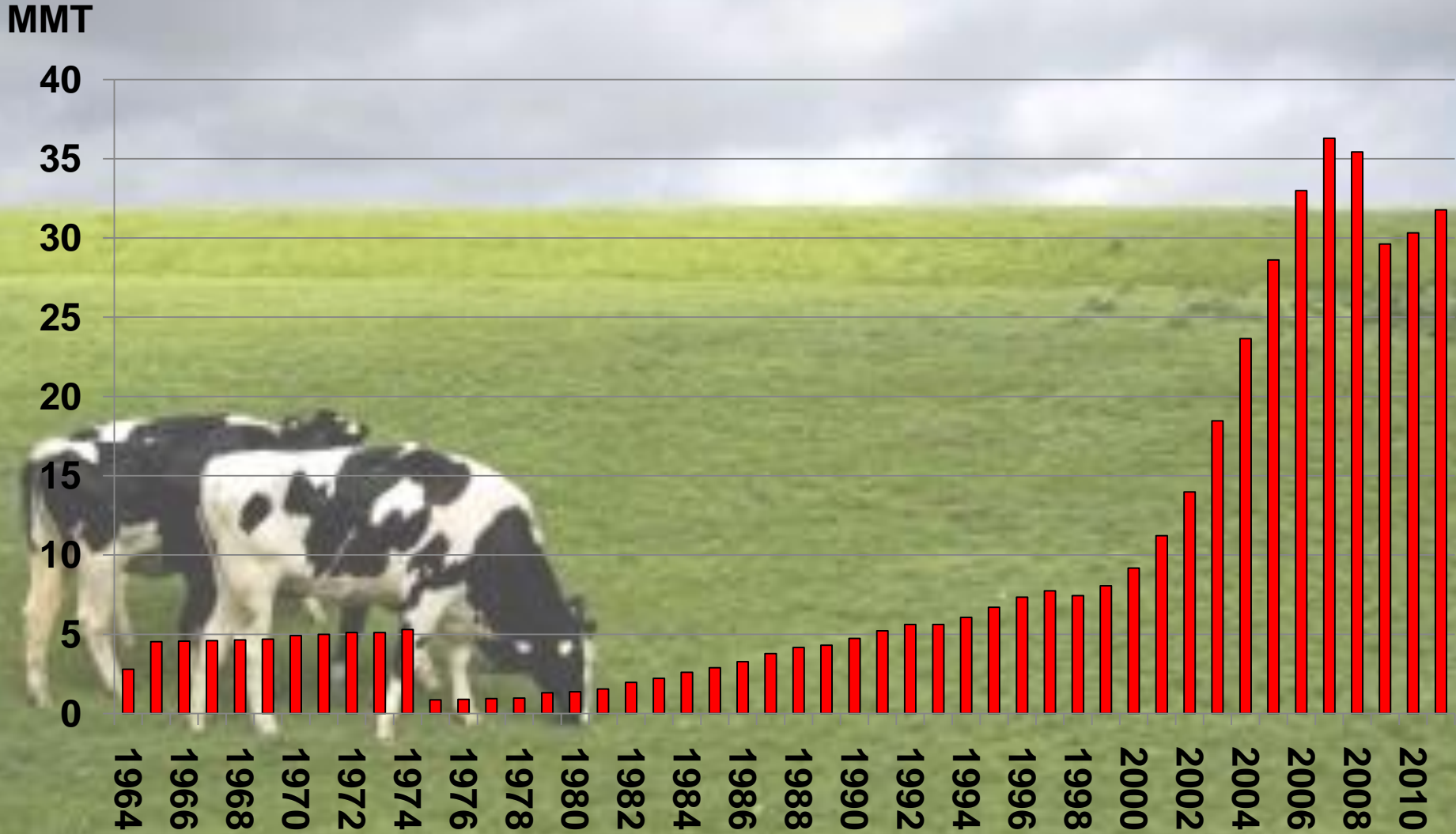
1,000 Head



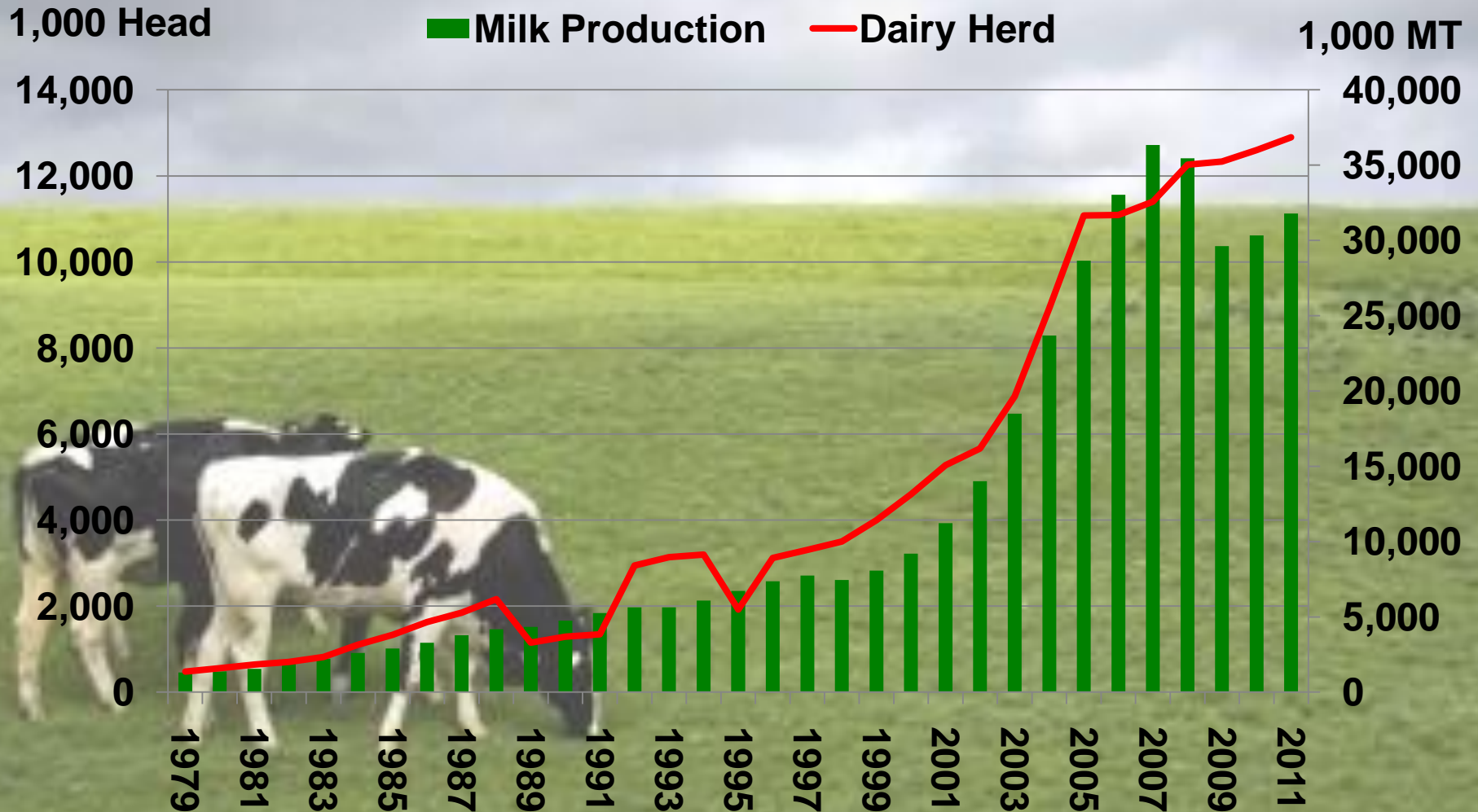
# World Fluid Milk Consumption



# China Fluid Milk Consumption



# Chinese Dairy Cow and Annual Milk Production

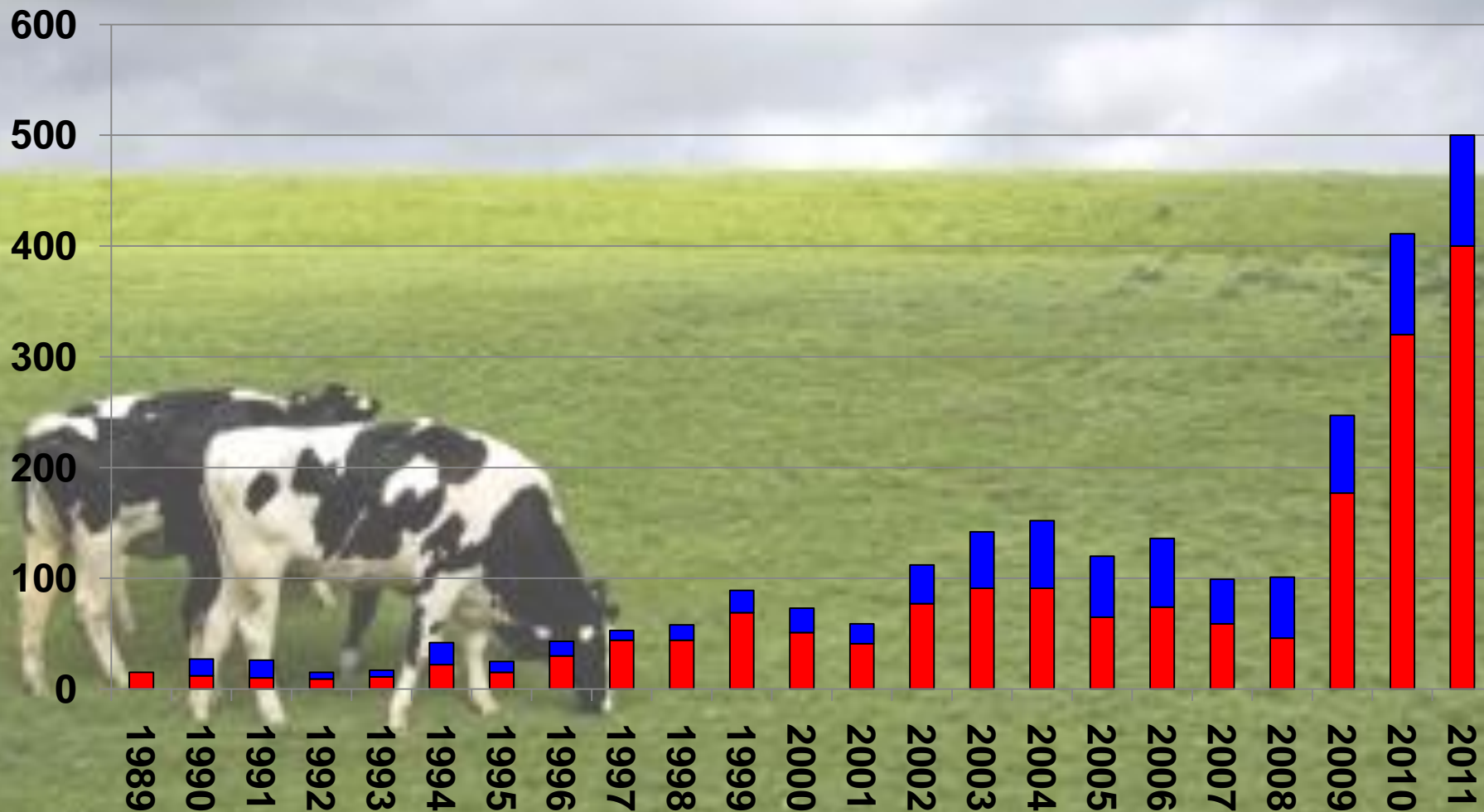


# Chinese NonFat/Powder Imports

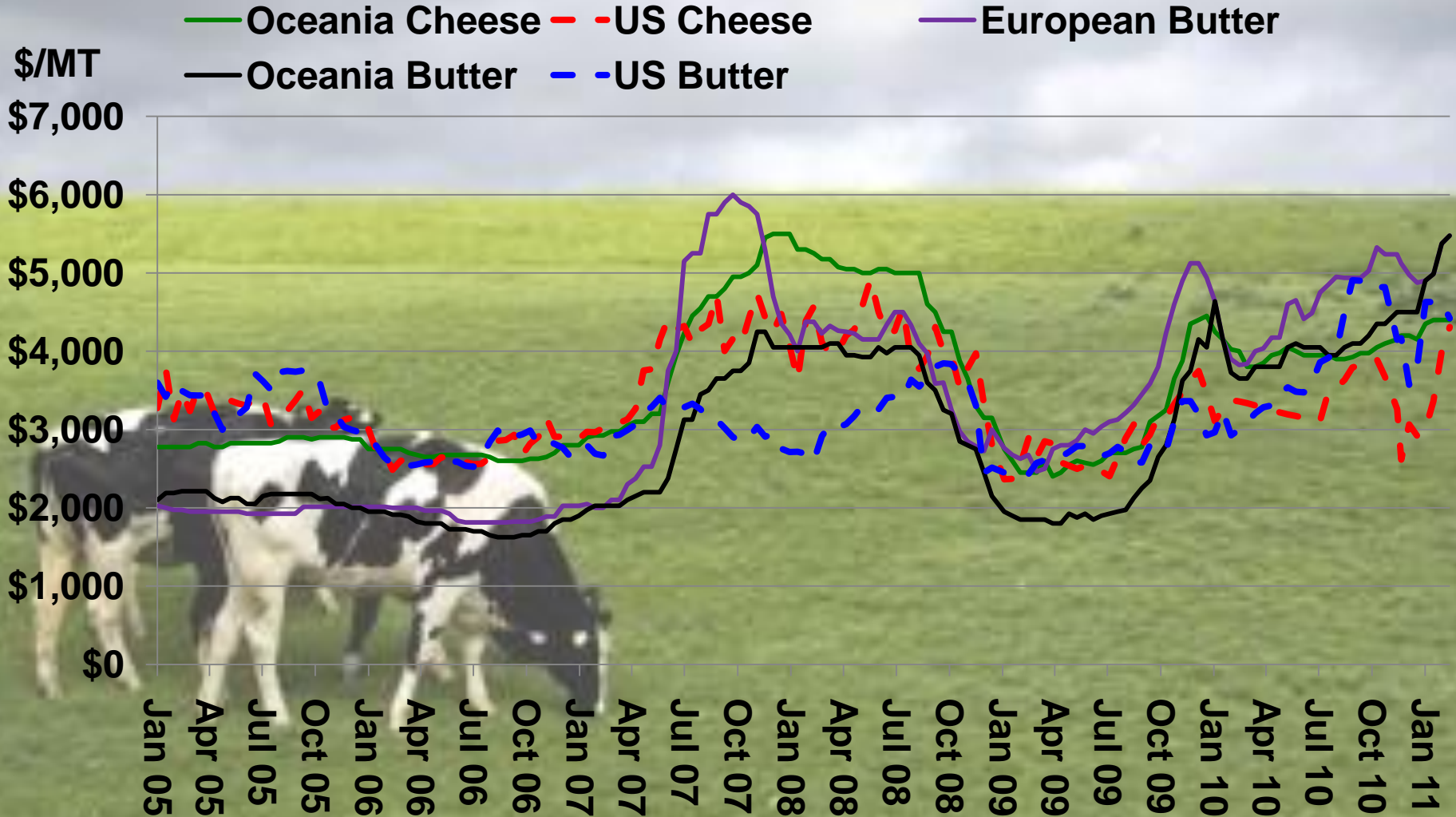


1,000 MTs

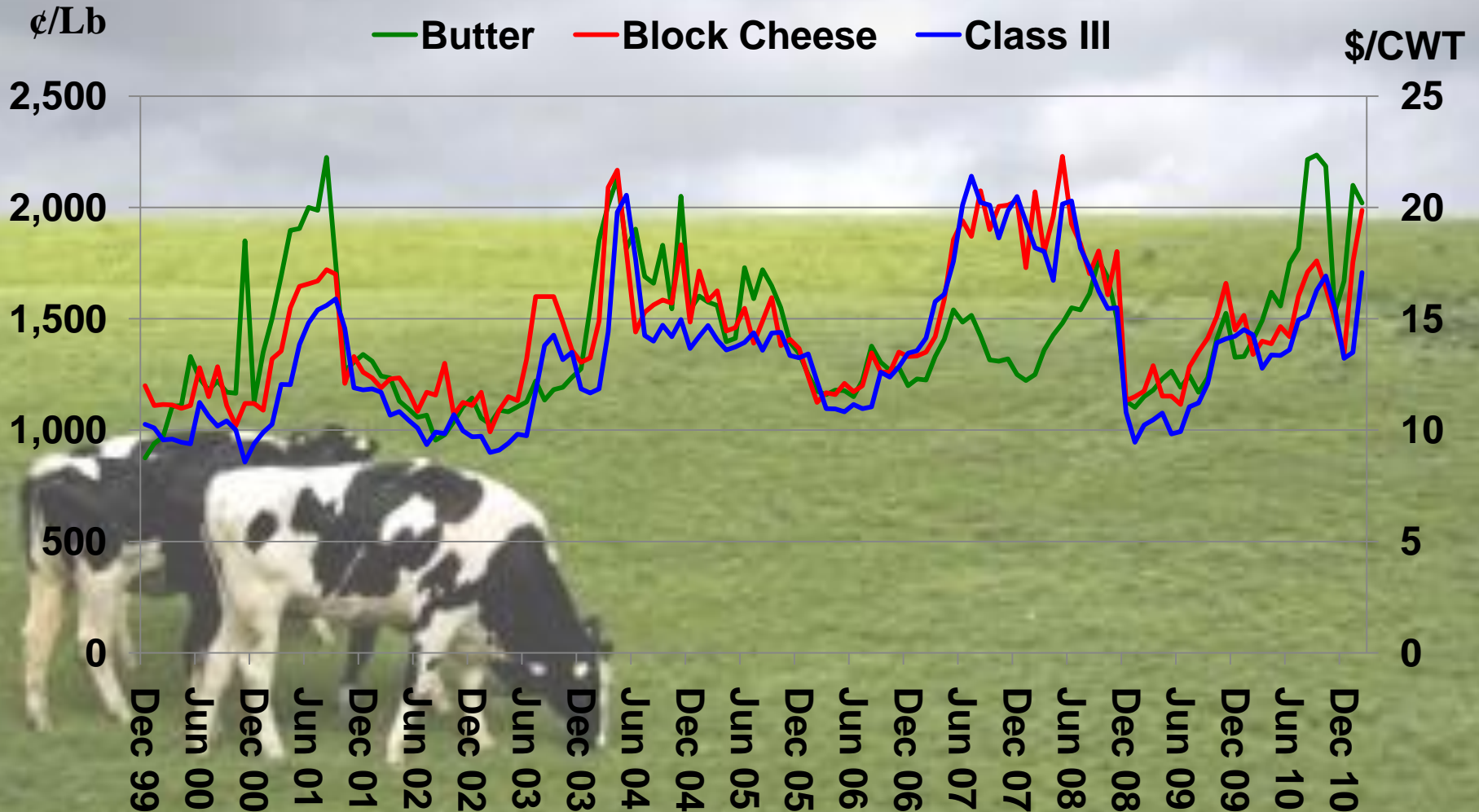
■ Nonfat Dry ■ Whole Powder



# Oceania & European Dairy Product Export Prices



# CME Dairy Product Prices - Its Cheese that determines price!

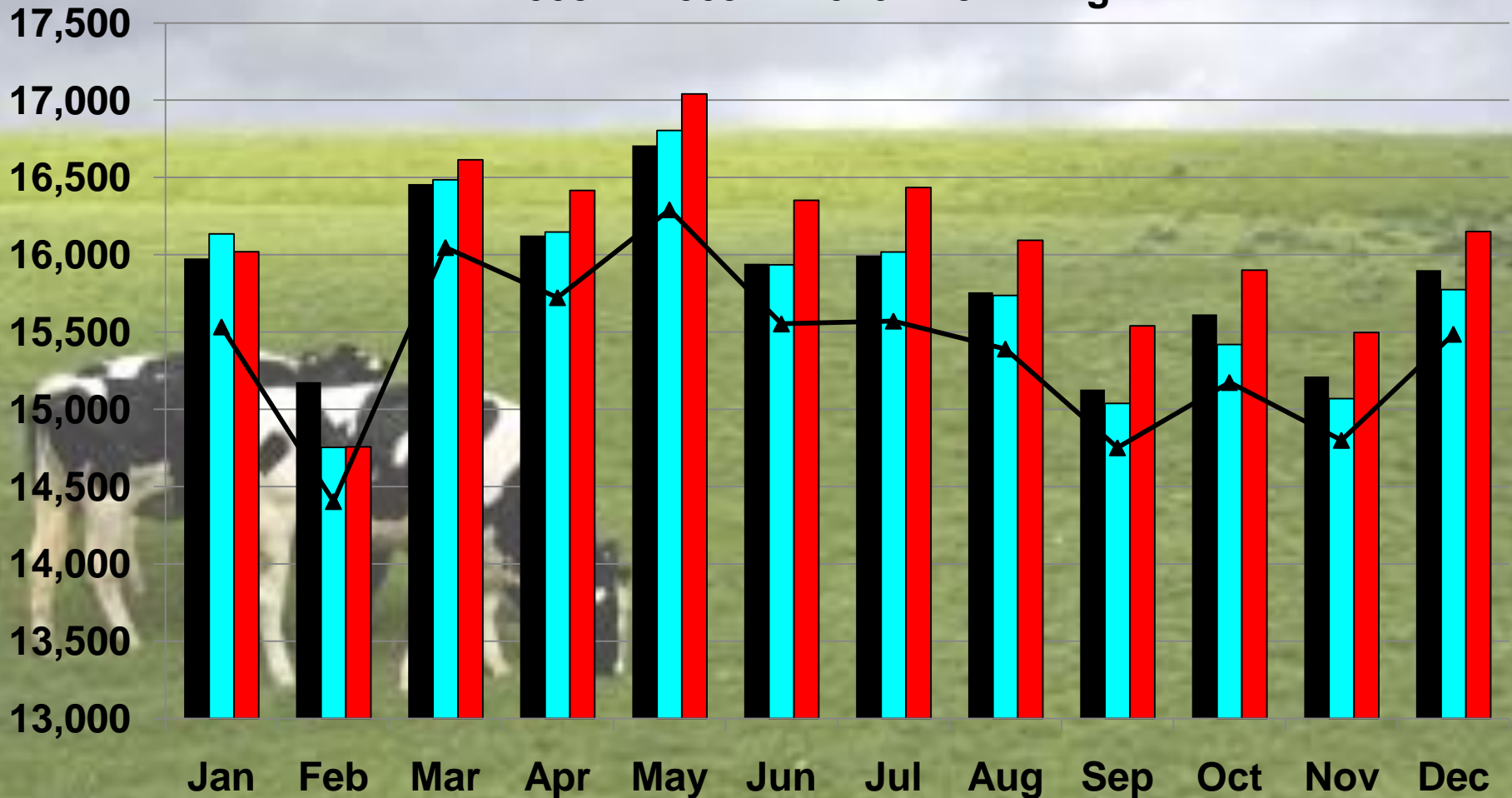


# US Monthly Milk Production



Mil Lbs

■ 2008 ■ 2009 ■ 2010 ▲ 5 Yr Avg

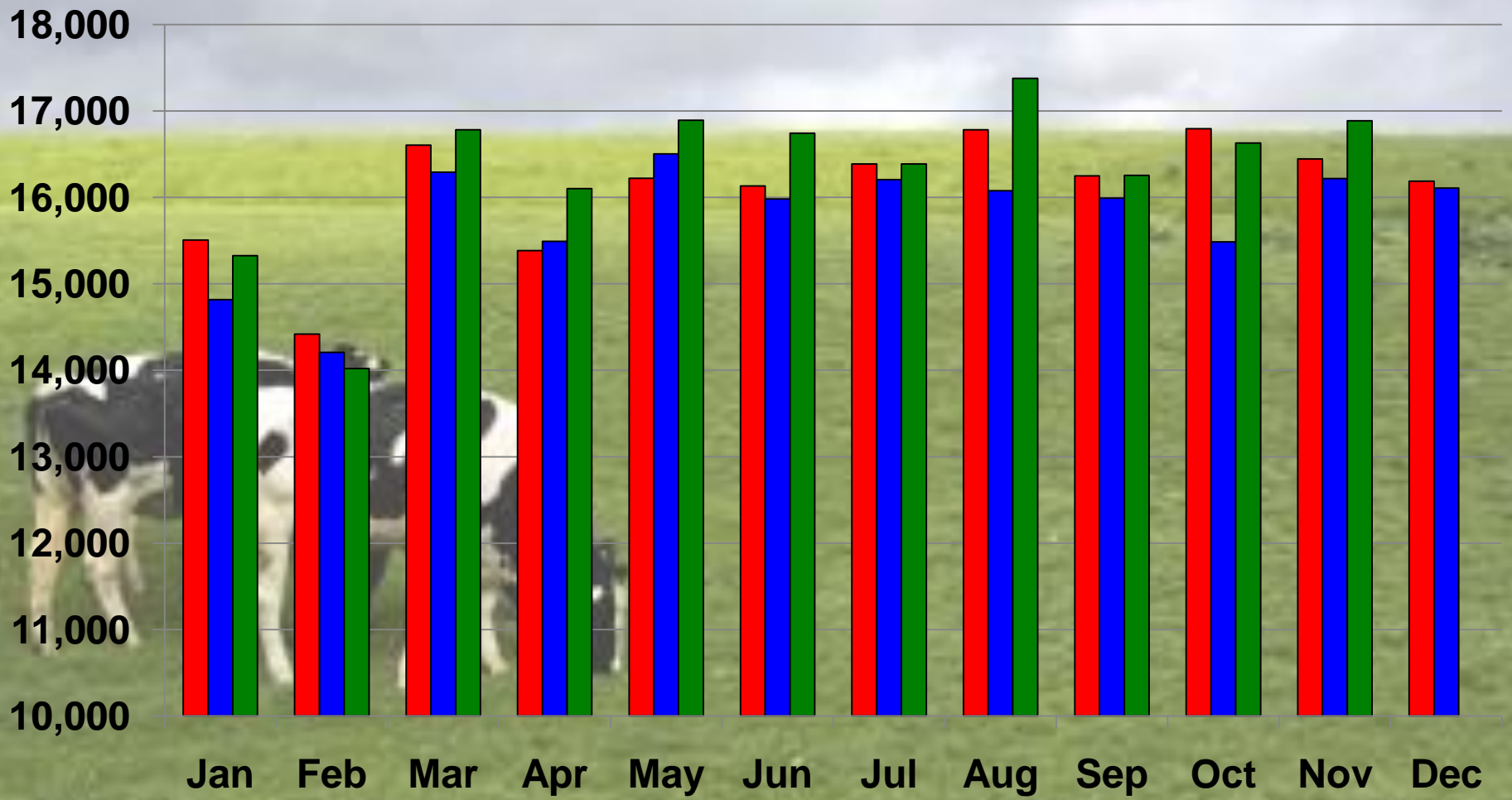


# US Monthly Milk Commercial Disappearance

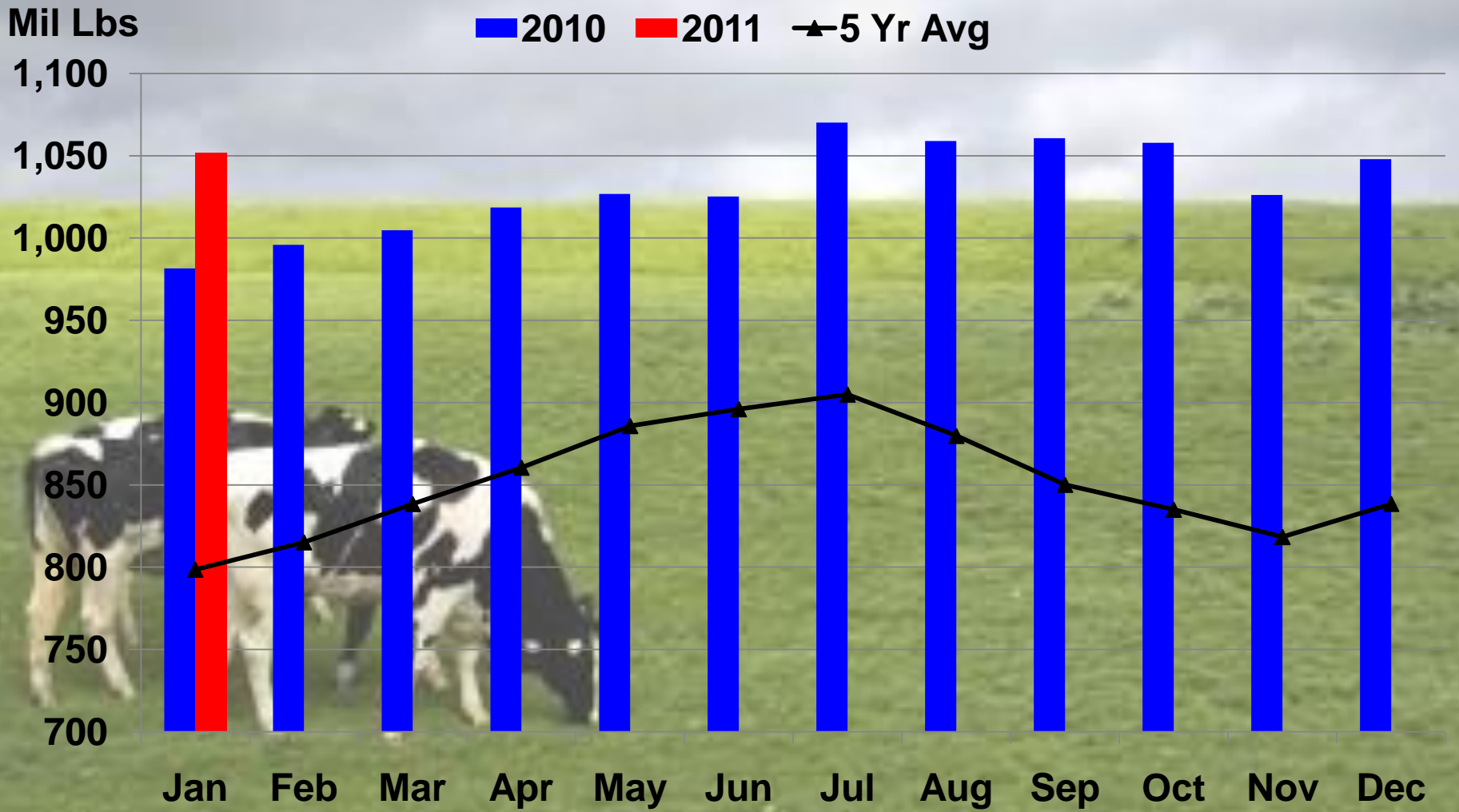


Mil Lbs

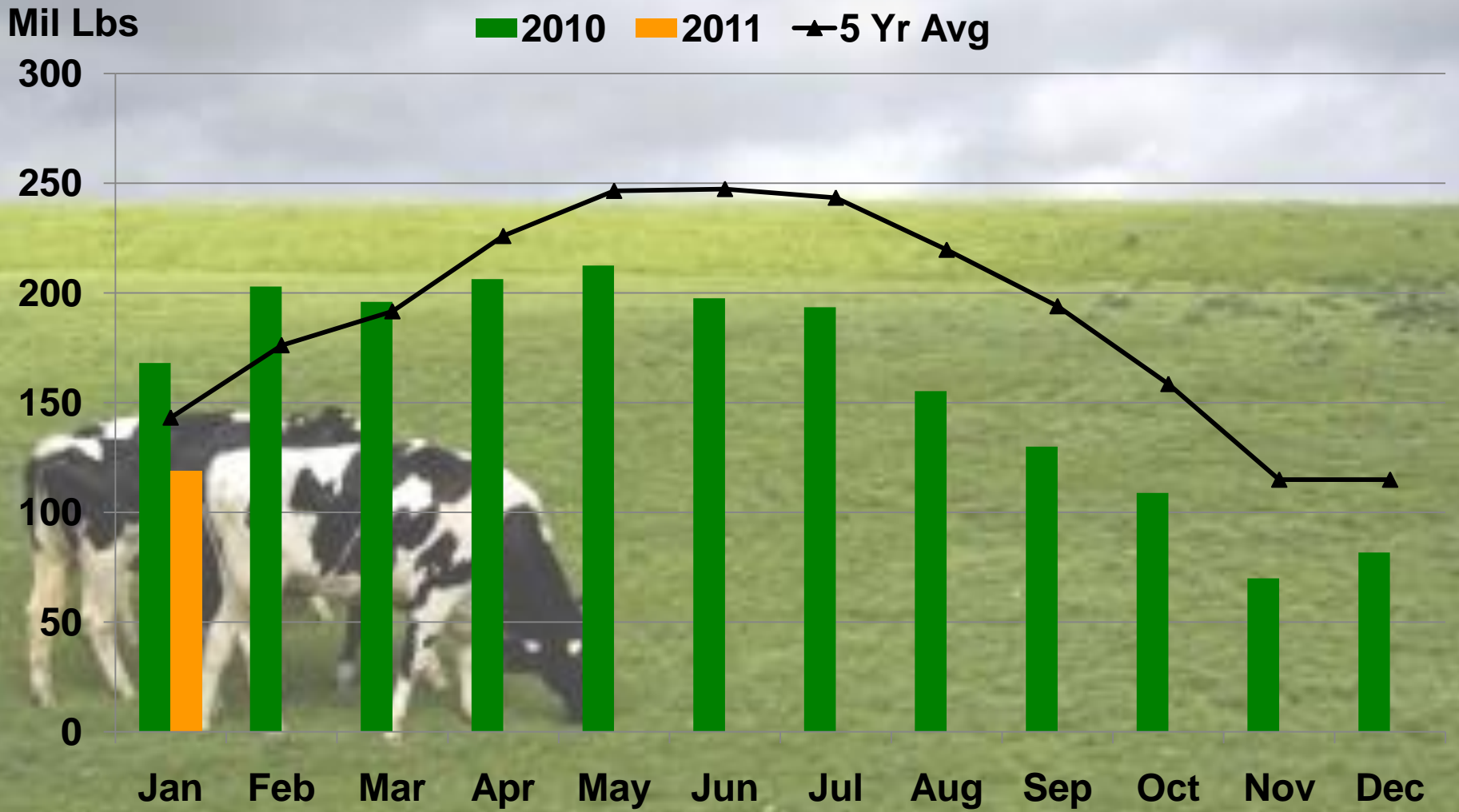
■ 2008 ■ 2009 ■ 2010



# US Monthly Cheese Stocks



# US Monthly Butter Stocks

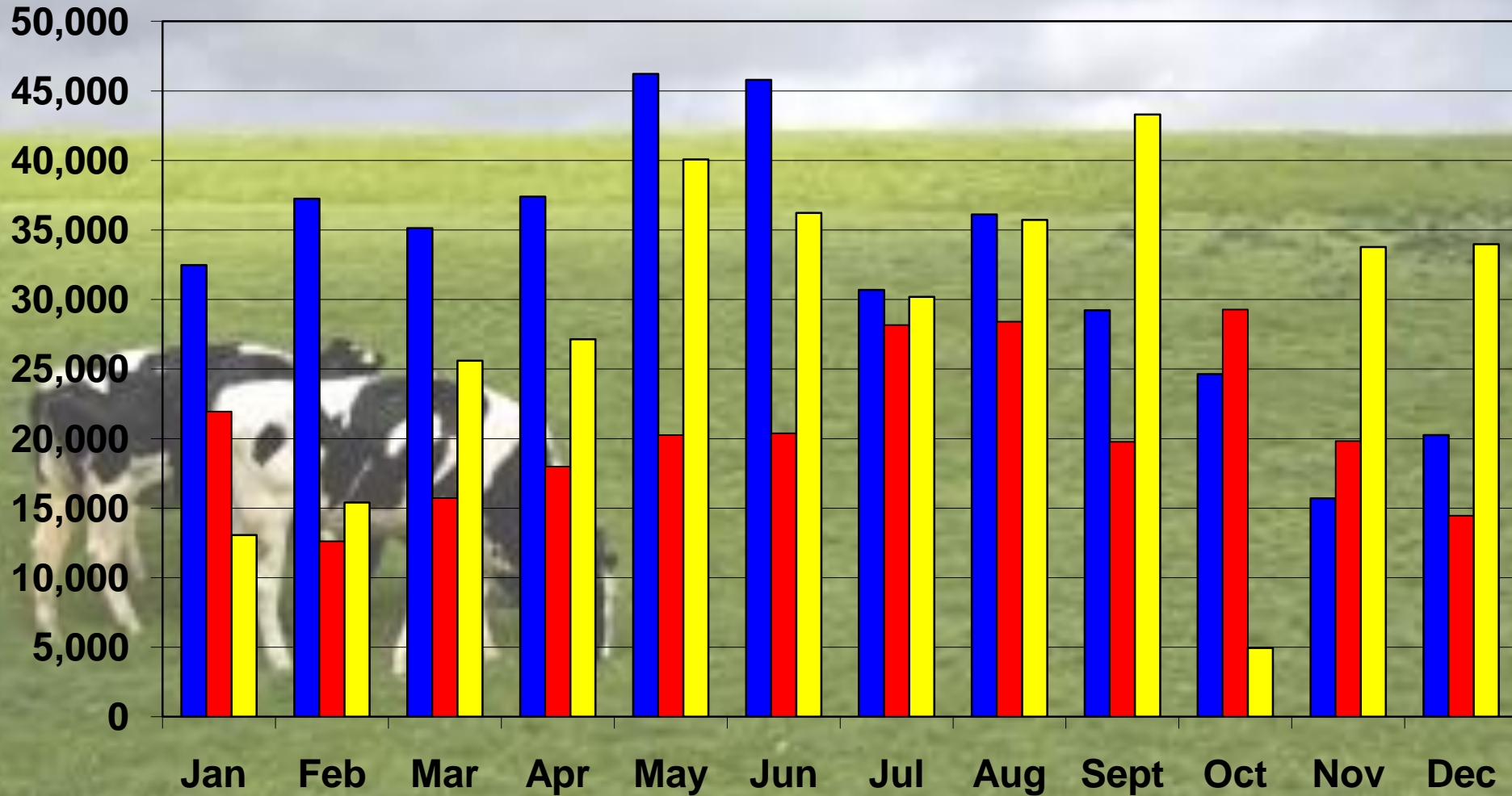


# Monthly Non Fat Dairy Exports



Metric Tons

■ 2008 ■ 2009 ■ 2010



# US Annual Butter & Milk-Fat Exports



Metric Tons

140,000

120,000

100,000

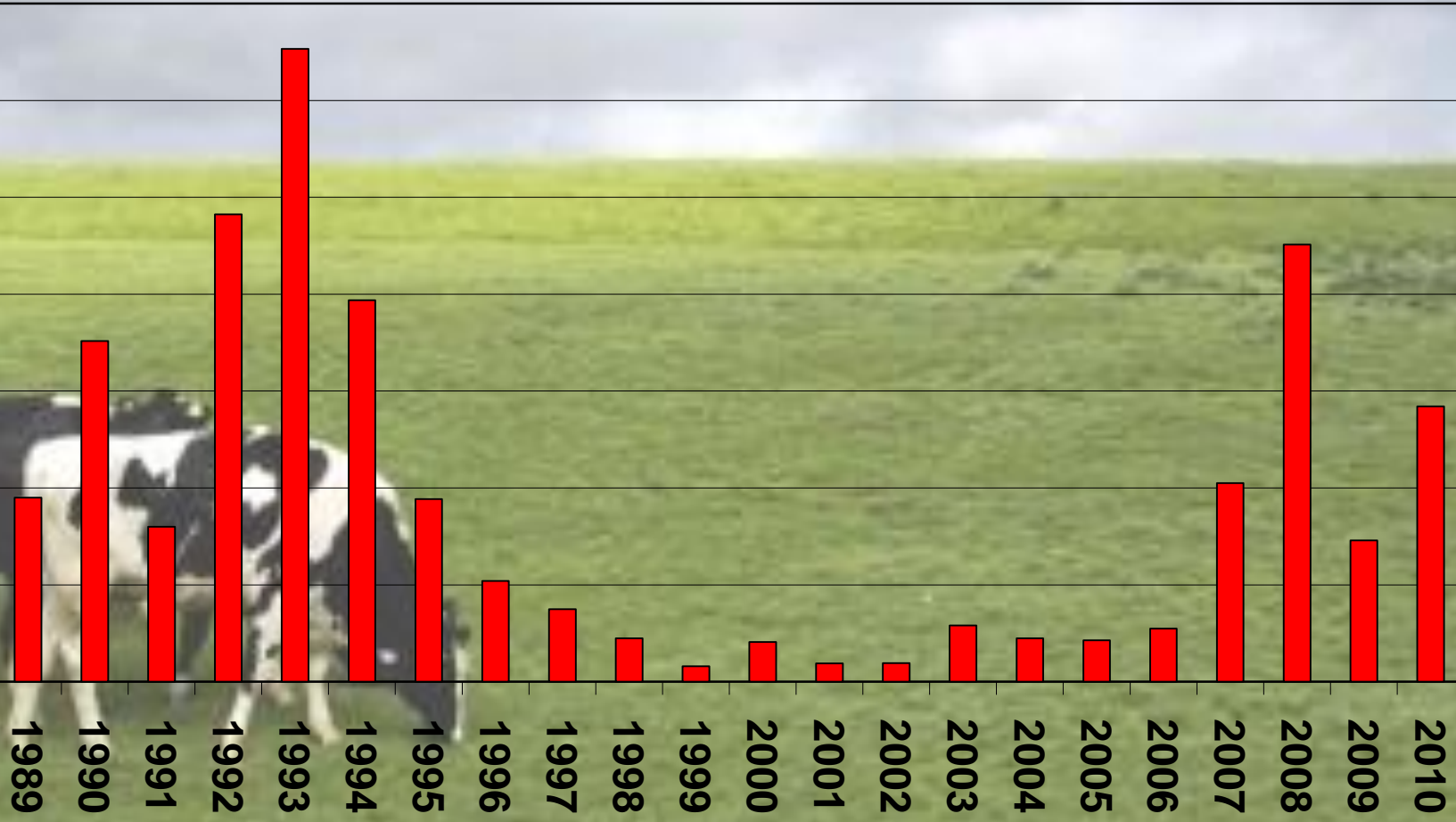
80,000

60,000

40,000

20,000

0



1989

1990

1991

1992

1993

1994

1995

1996

1997

1998

1999

2000

2001

2002

2003

2004

2005

2006

2007

2008

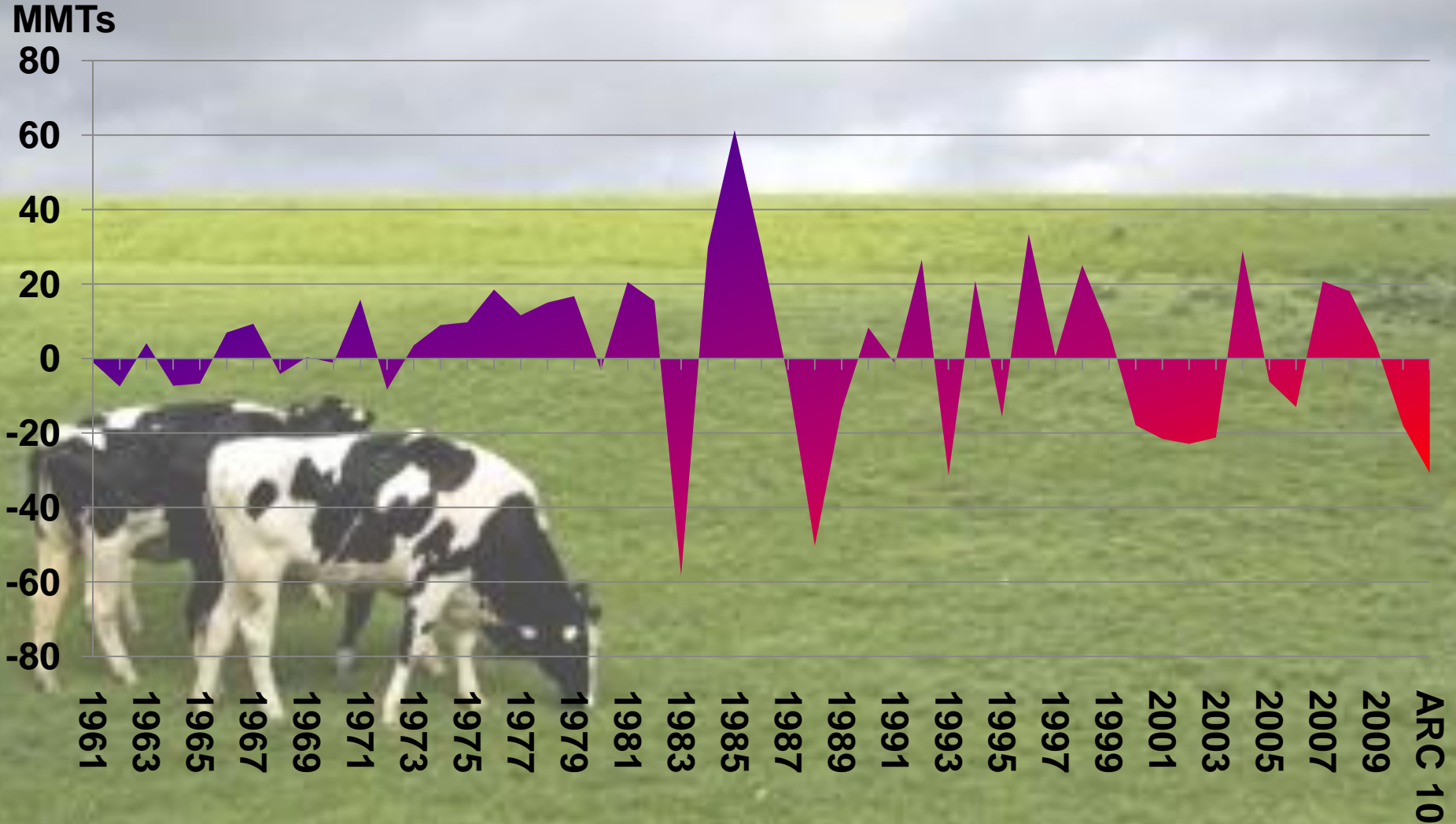
2009

2010

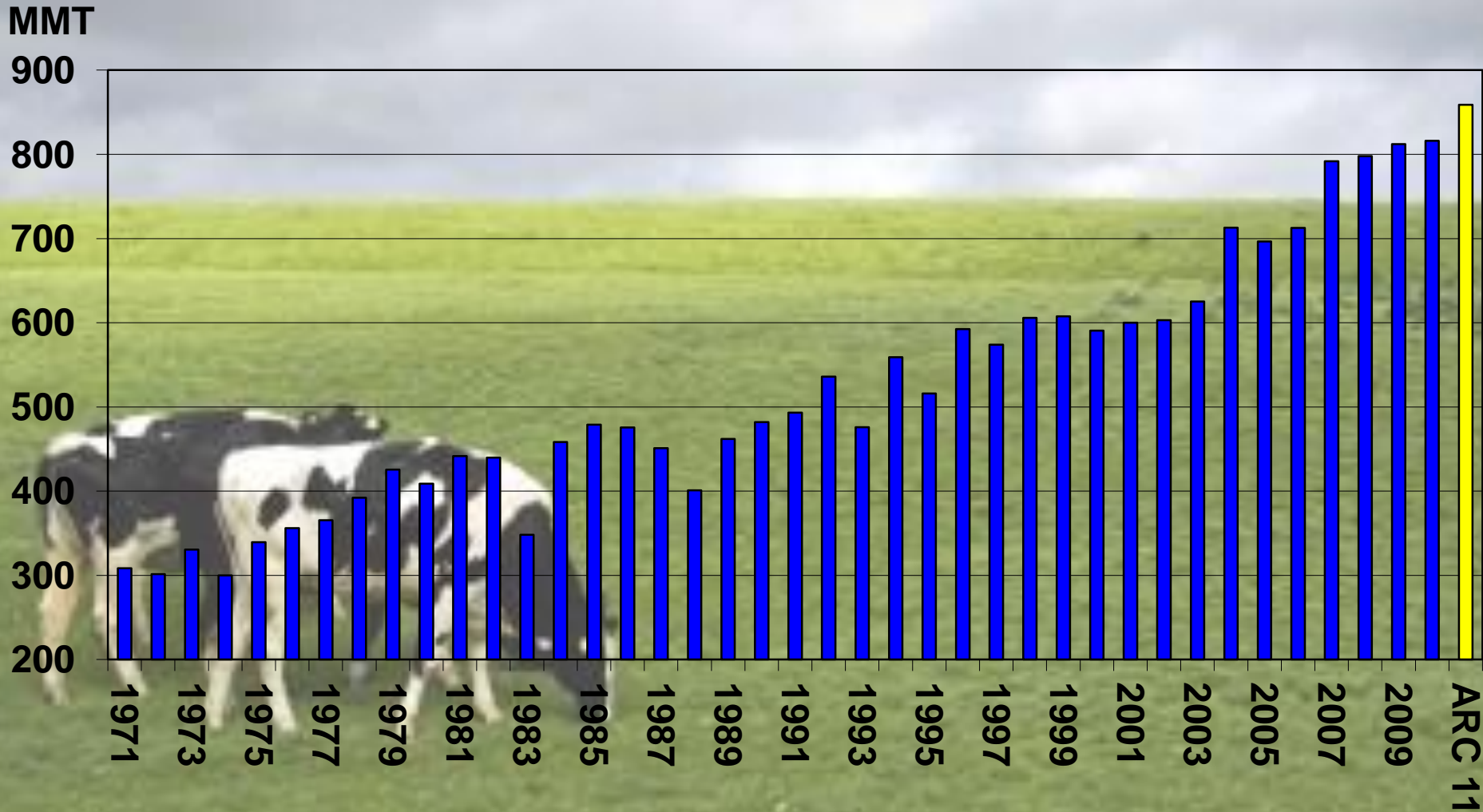
# The Worry of Rising Corn Values



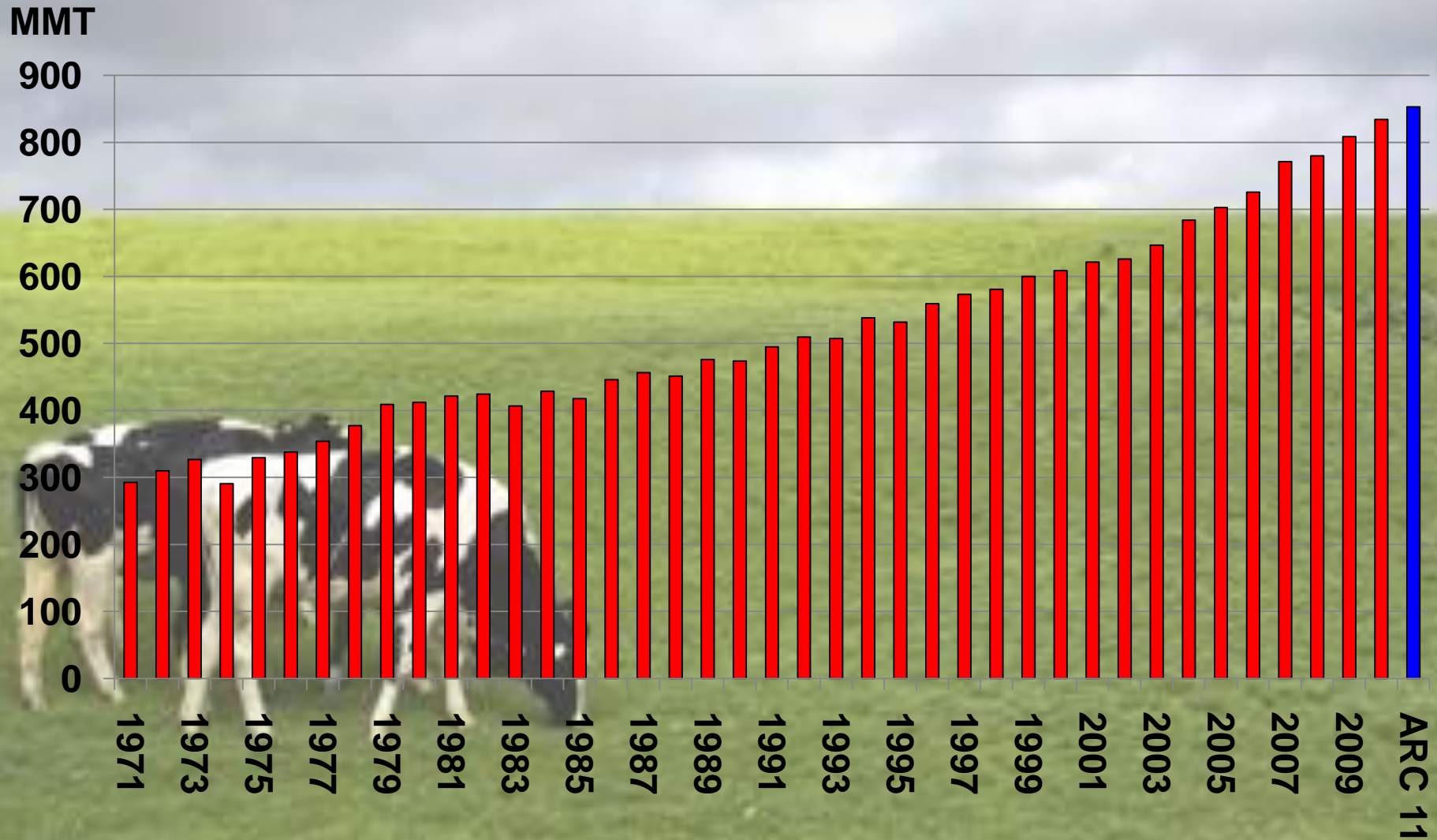
# World Corn Production Not Keeping up with Demand!



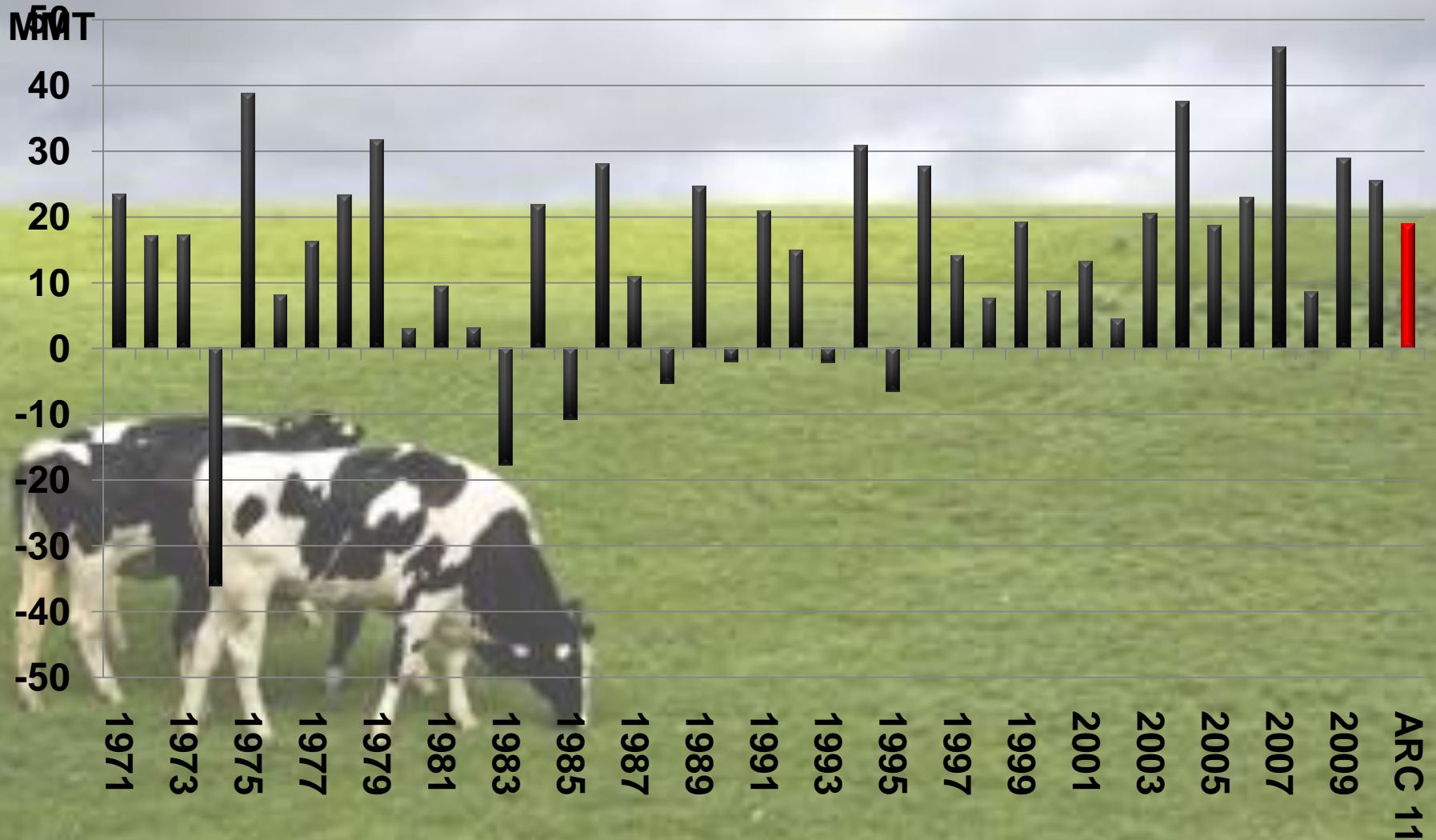
# World Corn Production – 852 crop (up 40 MMTs) in '11 to keep stocks steady!



# Global Corn Demand – 5 Year average gain is +26.8 MMTs/Yr



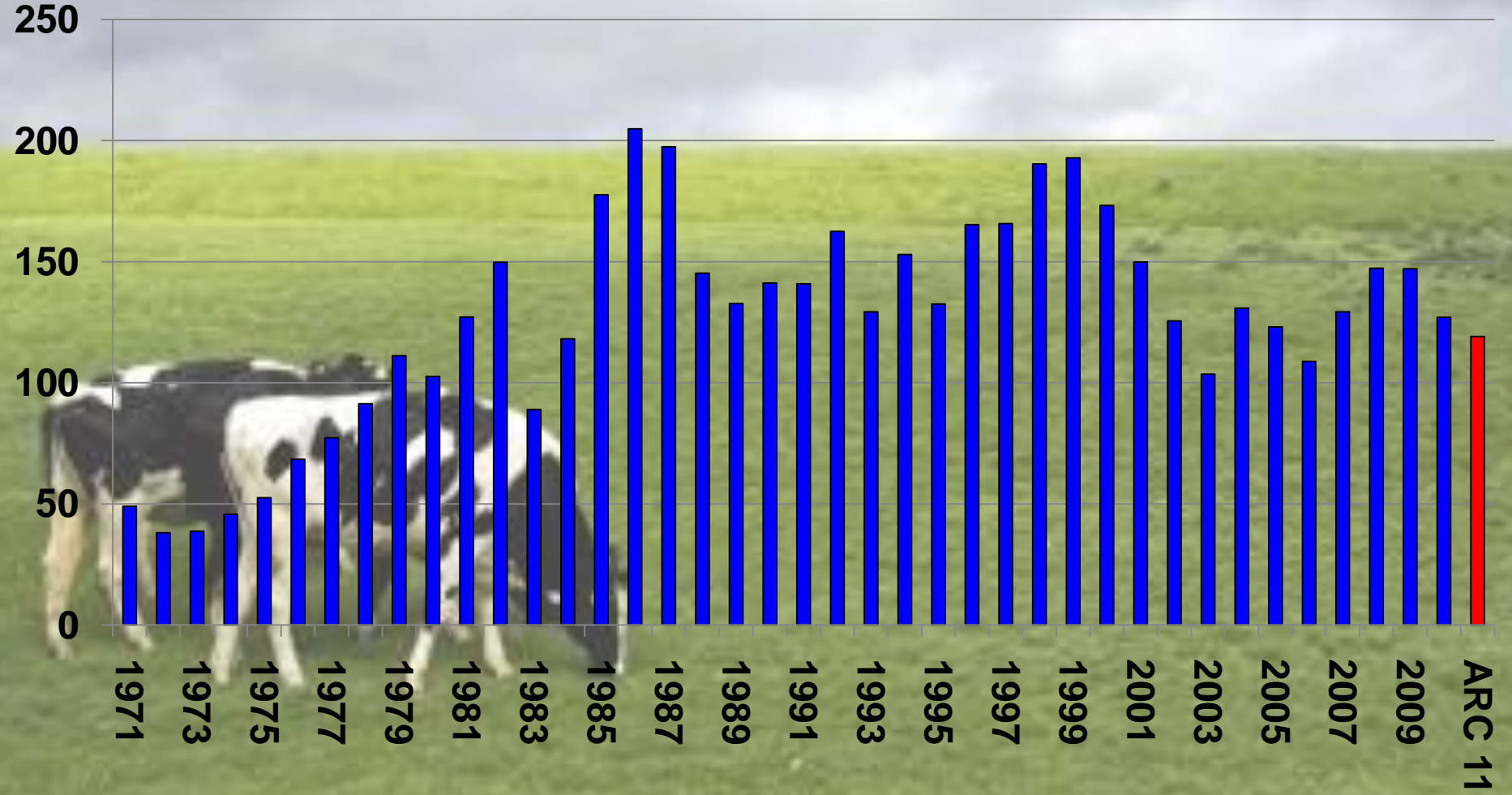
# Year to Year Delta in World Corn Demand



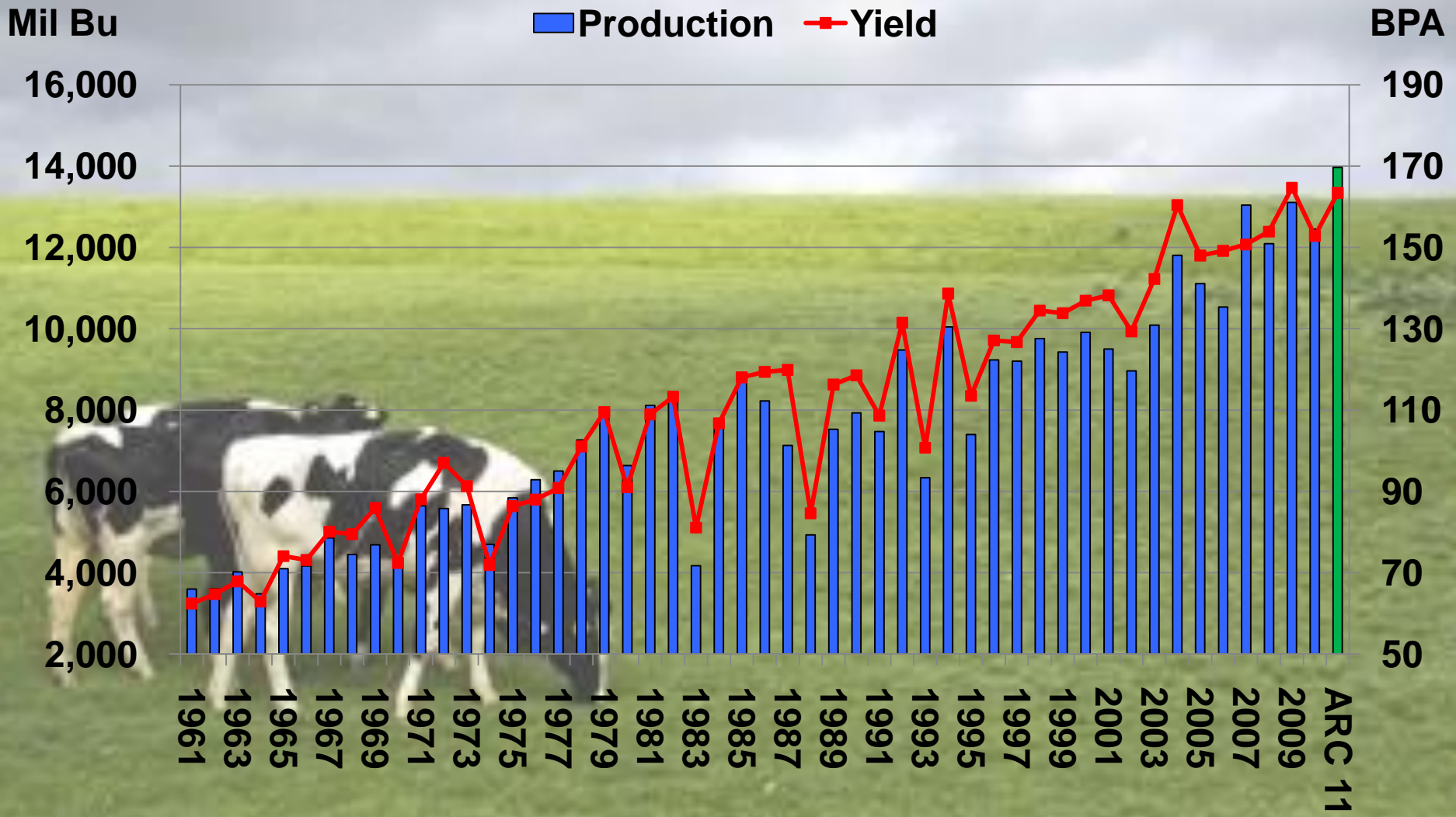
# Global Corn Stocks -119.1 MMTs



MMT



# 2010 US Corn Crop – 3<sup>rd</sup> Largest on Record! But not enough!



# US Corn Total Demand

Feed, Industrial and Export 13.8-14.0 Bil Bu in 2011/12



Mil Bu

16,000

14,000

12,000

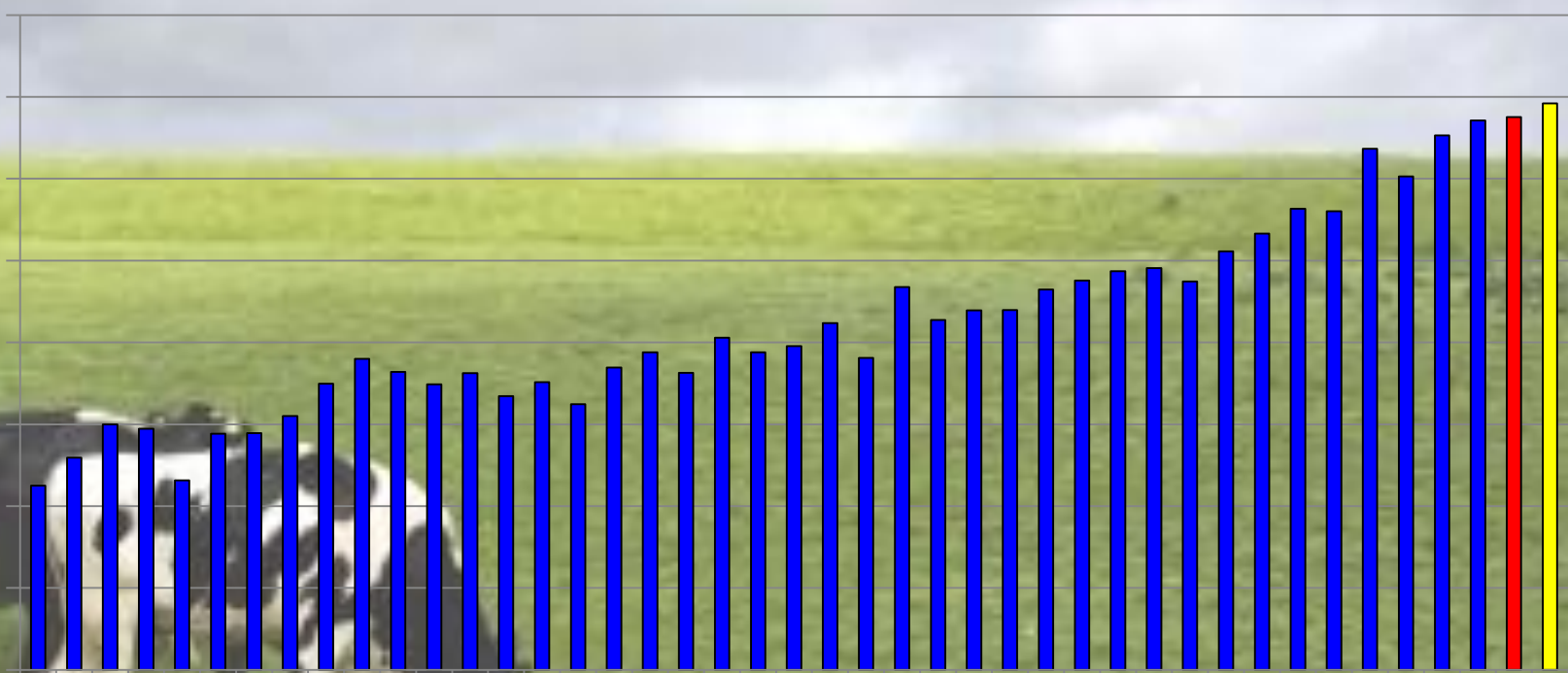
10,000

8,000

6,000

4,000

2,000



1970

1972

1974

1976

1978

1980

1982

1984

1986

1988

1990

1992

1994

1996

1998

2000

2002

2004

2006

2008

2010

ARC 11

# US Corn Export Demand



Mil Bu

3,000

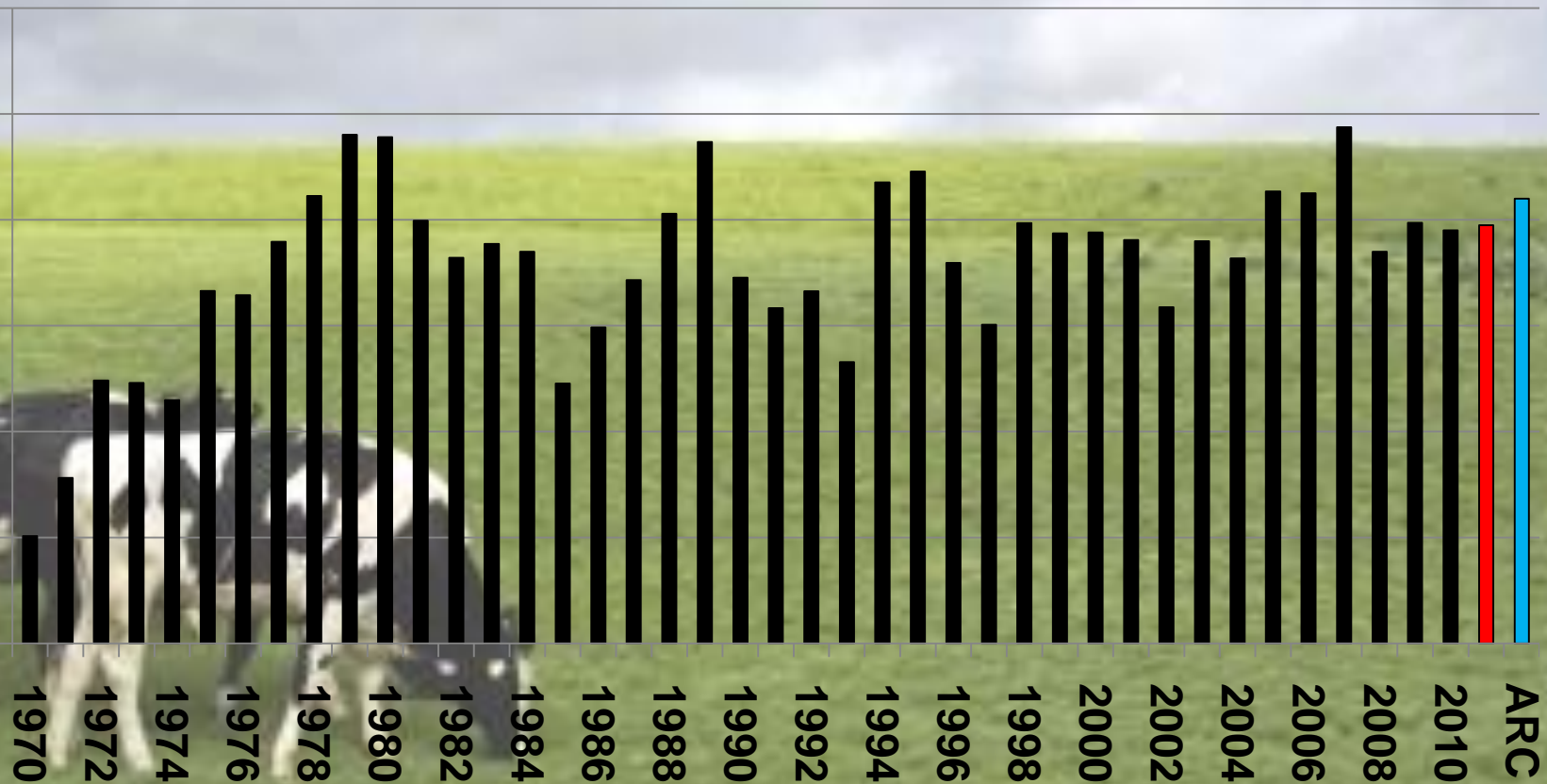
2,500

2,000

1,500

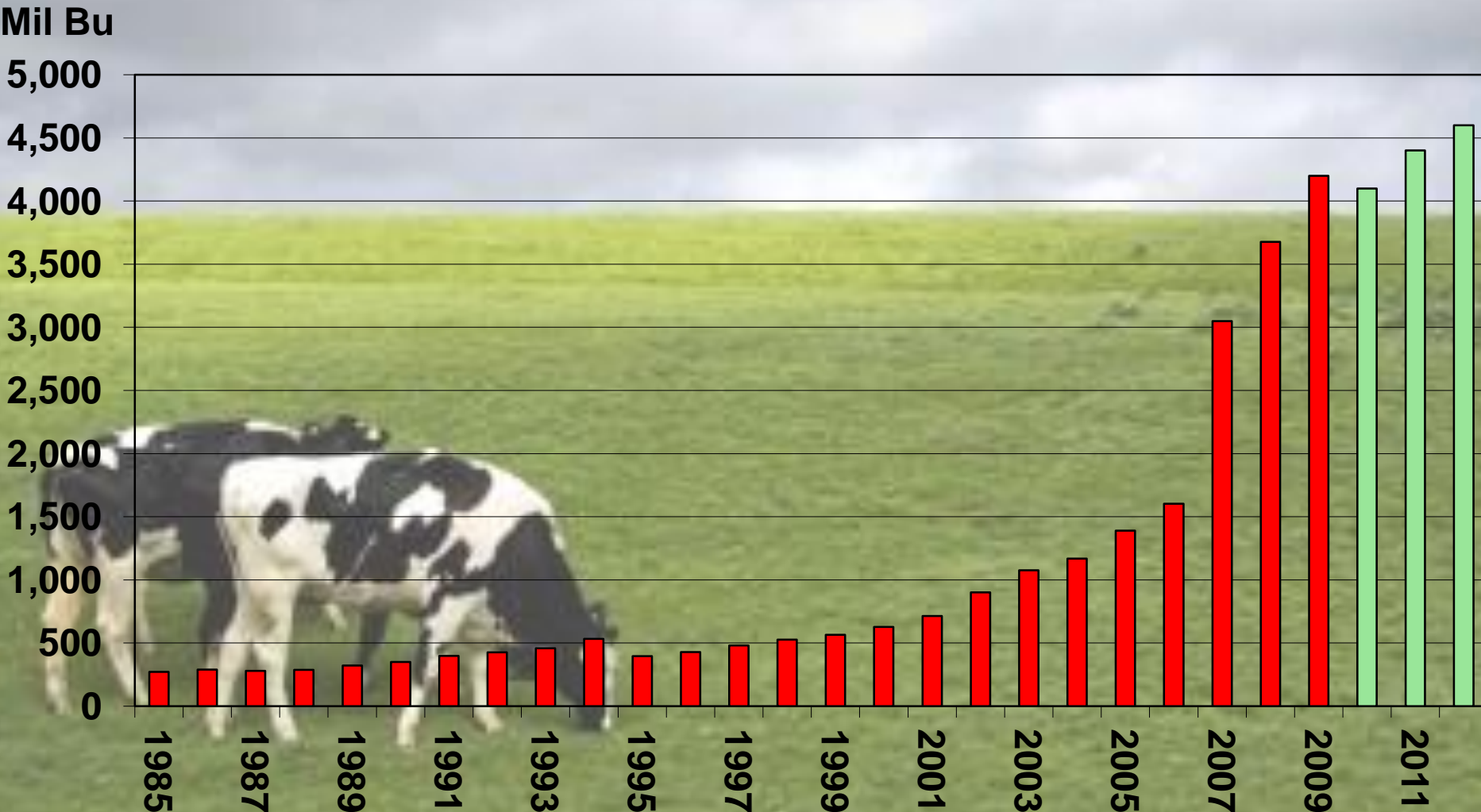
1,000

500

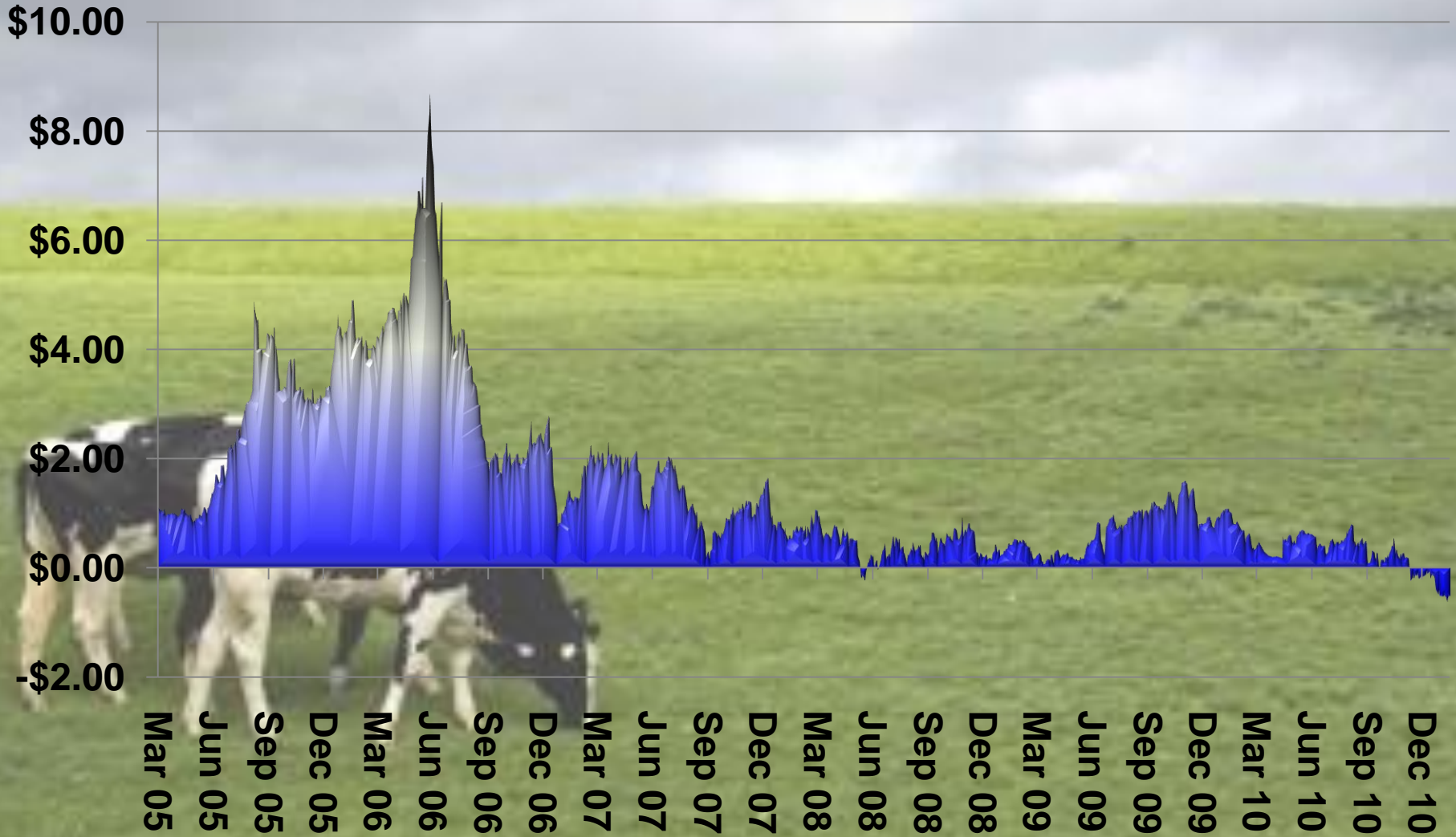


ARC 11

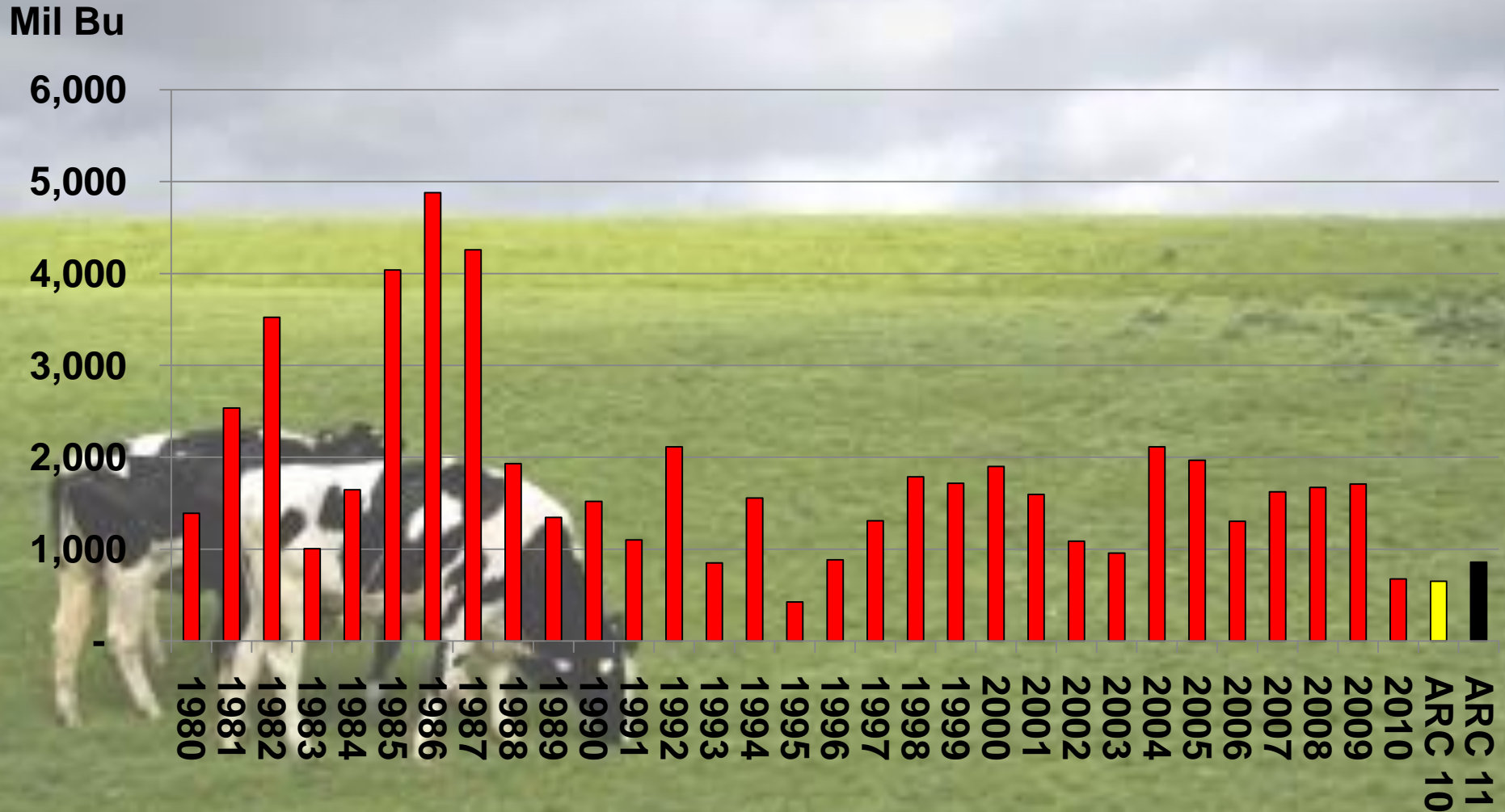
# US Corn Used for the Production of Ethanol



# US Corn Ethanol Profitability



# US Corn Ending Stocks



# US Corn Supply/Demand



	USDA	USDA	ARC	ARC
	2009/10	2010/11	2010/11	2011/12
Carry-In	1,673	1,708	1,708	650
Production	13,092	12,447	12,447	13,970
Imports	8	20	20	10
Total Supply	14,774	14,175	14,175	14,630
Feed/Resid	5,140	5,200	5,150	5,150
Food/Indus.	5,939	6,350	6,400	6,520
Exports	1,987	1,950	1,975	2,100
Total Use	13,066	13,500	13,525	13,770
End Stocks	1,708	625	650	860

# Corn 2011 Conclusion

- Any modest loss of 2011 world crop causes a upside price explosion as the demand rationing need quickens.
  - The ag bull market is multi year and the market has to reach price levels that encourage considerable new crop seeding in key traditional exporting nations.
  - The debate over using grain for fuel could “boil over” in 2011 as regional shortages develop.
  - Food Security returns as world issue as exporting countries become more protective of their supply.
- 
- A photograph of several black and white cows grazing in a green field, positioned in the lower-left quadrant of the slide.

# Dairy Outlook and Margin

- **Challenging environment to raise US fluid milk consumption as household incomes stagnate and competition with other fluid drinks increase.**
- **The US Dairy Industry has to look abroad to boost demand. Fragmentation must end, and the industry will have to work together to boost trade.**

