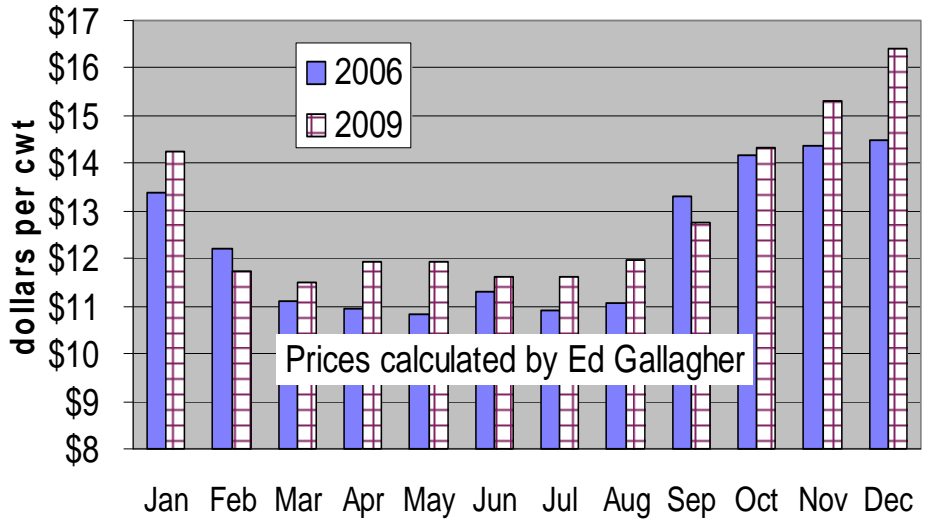


Milk Price Outlook

Northeast Dairy Leadership Team
February 2, 2010

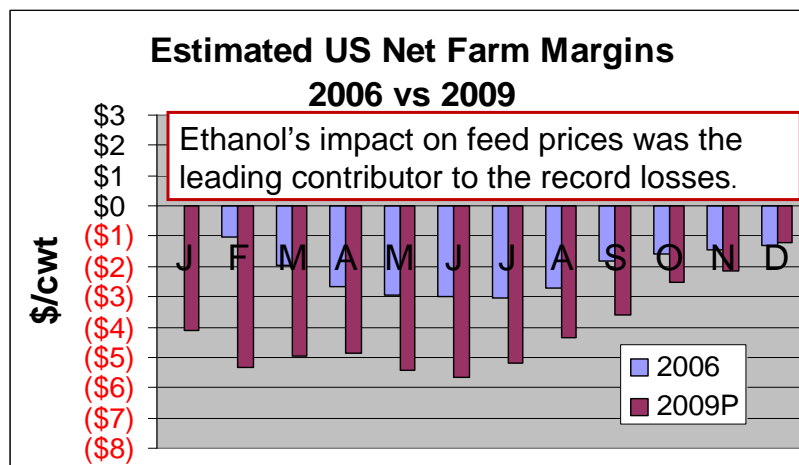
50,000 Foot View
of Dairy Economics

Central New York Area Gross Milk Prices 2006 & 2009

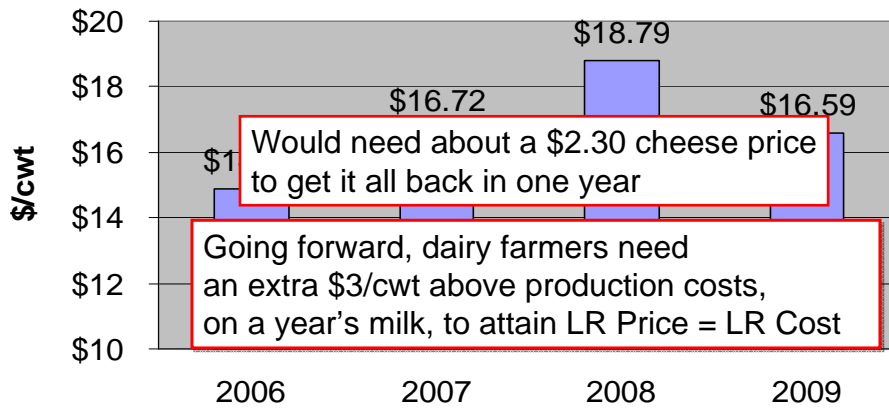


Recent Downturn Was Far Worse Than Others

Estimated US Net Farm Margins 2006 vs 2009



Gallagher's Estimate of US Average Cost of Producing Milk



The range on individual farms is all over the place. Some farms can produce milk for \$13-\$14 per cwt.

Some Major Factors Influencing 2010 Milk Prices

US Economic Outlook

	Real GDP (%)		Unemployment Rate (%)		Payrolls (000s/month)	
	Previous	New	Previous	New	Previous	New
<i>Quarterly data:</i>						
2009:Q4	2.2	2.7	9.9	10.2	-81.0	-159.5
2010:Q1	2.5	2.3	9.9	10.2	51.5	-35.0
Q2	2.8	2.4	9.8	10.1	61.5	57.6
Q3	2.6	2.6	9.6	10.0	90.8	158.6
Q4	N.A.	2.9	N.A.	9.8	N.A.	142.2
<i>Annual average data:</i>						
2009	-2.6	-2.5	9.2	9.3	-415.7	-426.7
2010	2.3	2.4	9.6	10.0	-24.6	-69.8
2011	2.9	3.1	8.9	9.2	N.A.	N.A.
2012	3.2	3.3	8.0	8.3	N.A.	N.A.

Table from Philadelphia Federal Reserve Bank, *Fourth Quarter Survey of Professional Forecasters*, November 16, 2009

Global Forecasts for GDP Growth

	2009	2010
<i>World</i>	-2.0%	3.0%
United States	-2.7%	2.0%
European Union*	-4.7%	-0.1%
China	8.4%	9.0%
Japan	-5.6%	1.6%
India	5.9%	7.4%
Russia	-8.0%	2.8%
Middle East*	2.0%	3.7%
Brazil	-0.2%	4.2%
Mexico	-7.0%	2.5%
South Korea	-1.0%	4.0%

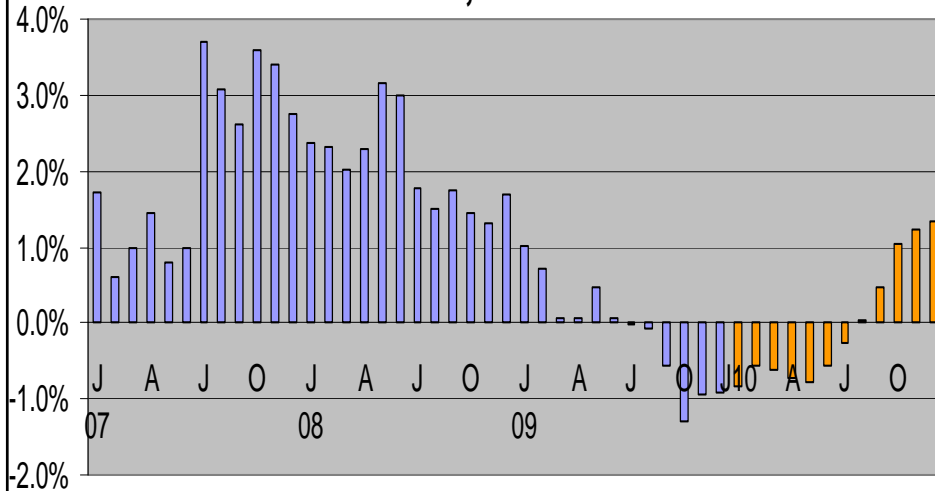
Worldwide economic improvement is anticipated

Source: Kiplinger Global Forecasts, 9/09

*International Monetary Fund

World Economic Outlook Projections, 7/09

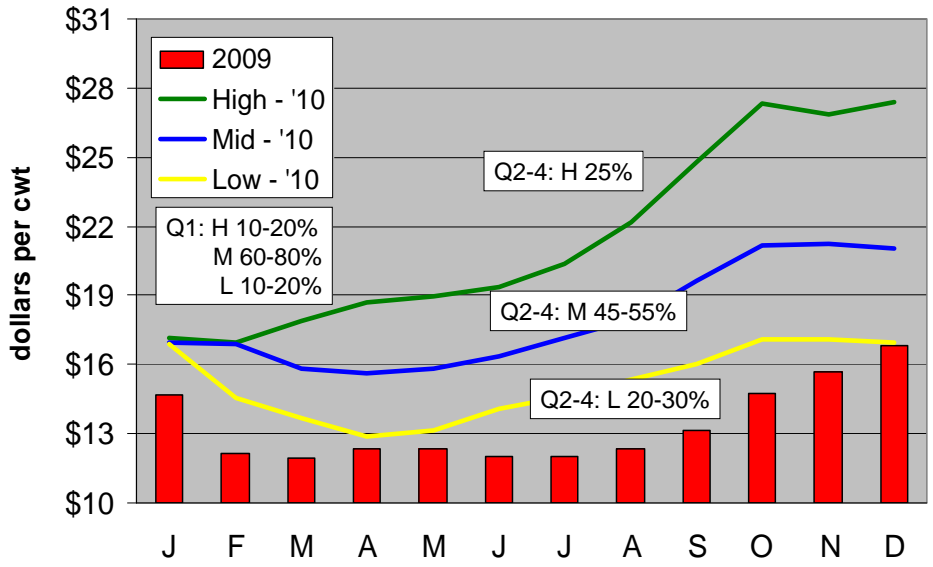
US Milk Production Growth Year-over-Year, Jan 07- Dec 10



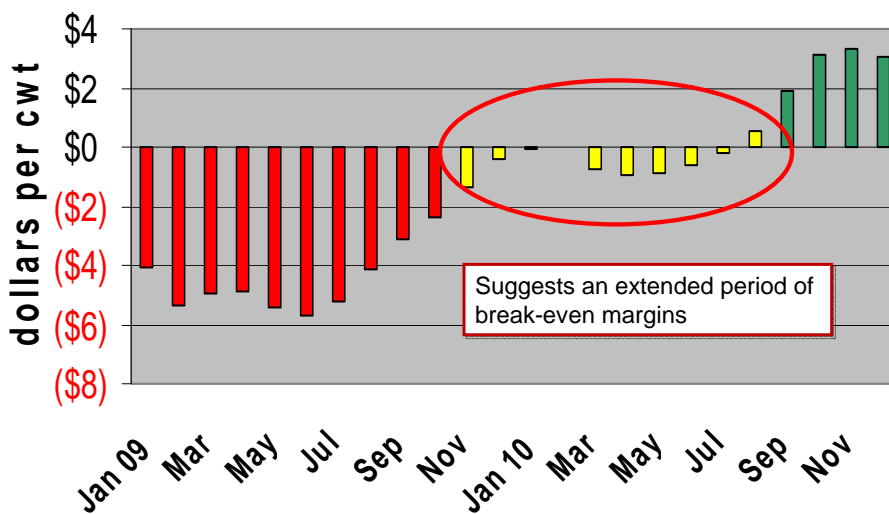
USDA Forecasts for 2010

- Domestic Demand: + 0.5%
- Export Demand: +16.5%
- Milk Production: - 2.0%
(minus 3 billion pounds)

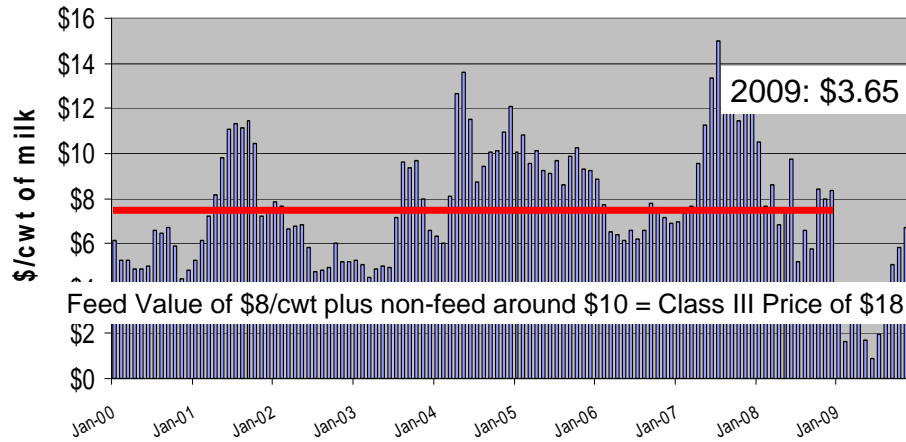
Lancaster County, PA Gross Milk Price Estimates, 2009 and by 3 Ranges, 2010



US Dairy Farm Average Net Margins Estimated, Jan 09 - Dec 10



Class III Non-Primary Feed Margins Jan 00 - Dec 09



Margin calculated using the DairyIea/DFA feed formula for corn and soybean meal

Dairy Policy Options

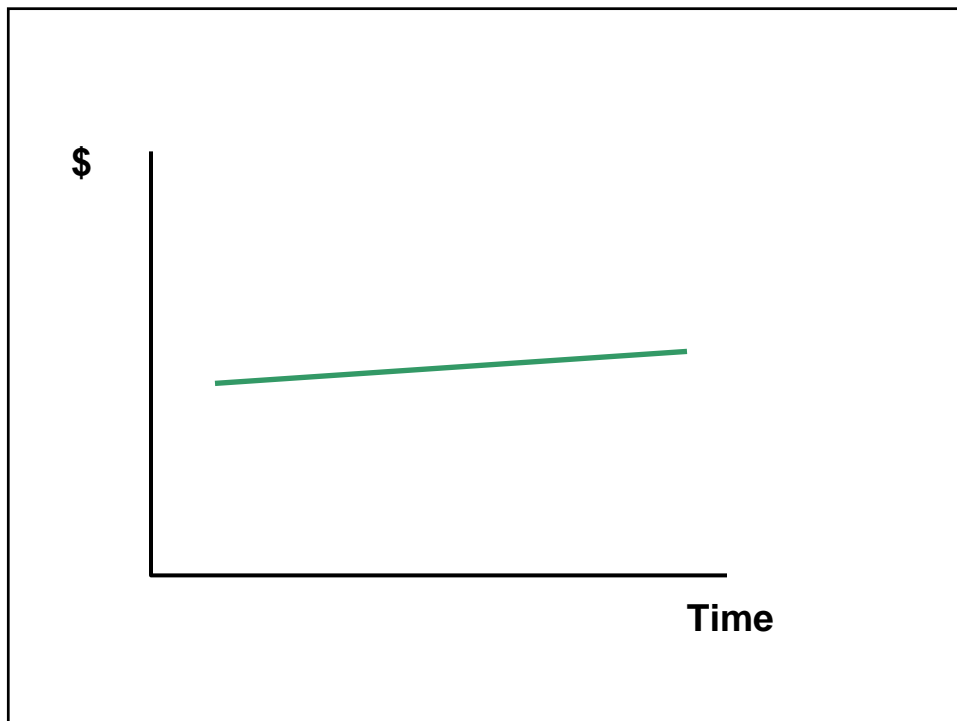
**What is the Problem to
Solve?**

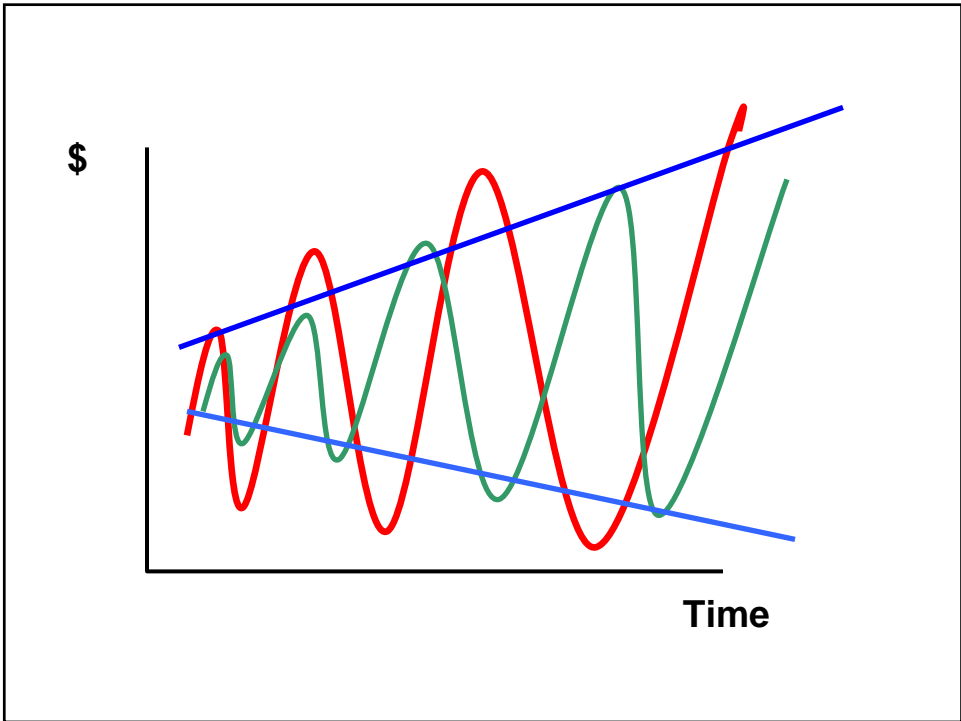
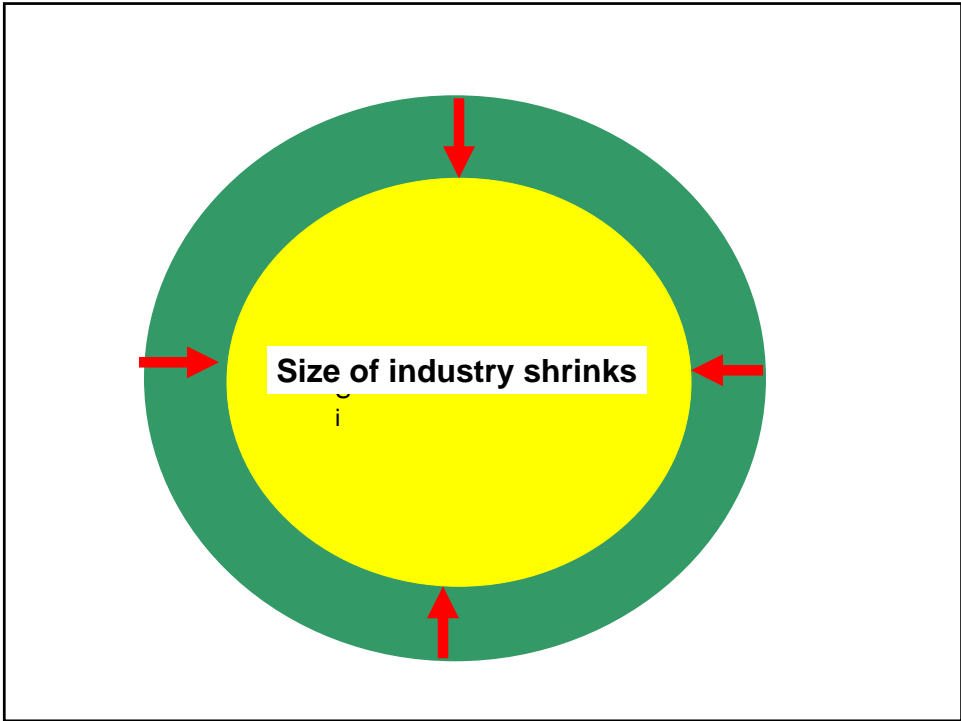
**Price Adequacy
or
Price Volatility**

**Income Adequacy
or
Income Volatility**

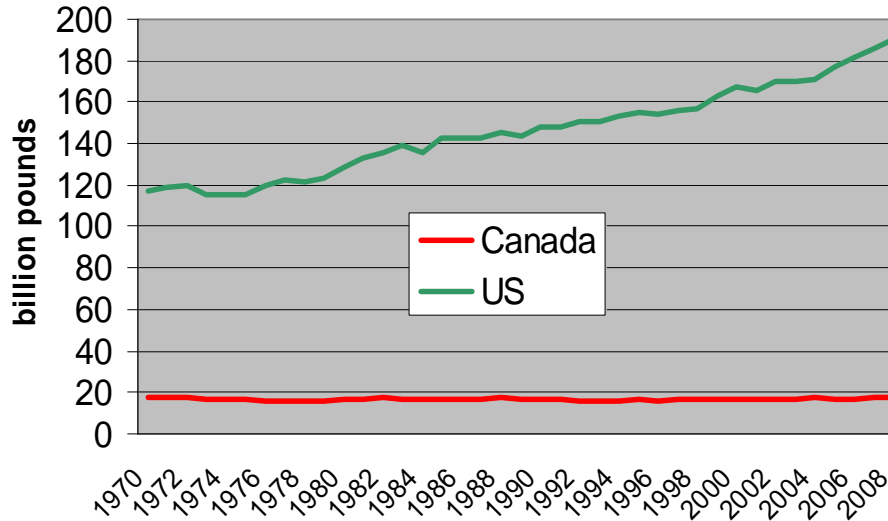
**What is the Goal You
Want to Attain?**

One Program or Portfolio of Programs





US and Canada Milk Production, 1970 - 2008



NMPF Proposal

- Reform Federal Orders
- Revamp dairy safety nets
 - Price Support Program
 - MILC
- Create a producer income insurance program
- Improve participation in CWT

Growth Management Guidelines

- Be market oriented for growth domestically and internationally
- Be responsive to quickly changing market conditions
- Have 100 percent financial participation by producers
- Be global in nature to consider the impact of imports and exports
- Be national in scope with the ability to implement regionally

Dairy Growth Management Initiative

- Public/private partnership to suppress price volatility
- Operate much like the promotion check-off does with DMI
 - Mandatory check-off
 - Private business, DMI, receives the funds and develops programs
 - Dairy farmer board approves programs and use of funds
 - USDA provides audit/regulatory oversight

DGMI Program Considerations

- Herd reduction programs (partial or whole)
 - Including heifer reduction programs
- Dairy commodity production incentives for products being displaced by imports
 - Casein, mpc
- Programs to enhance risk management tools and opportunities used by producers, cooperatives and customers

DGMI Program Considerations

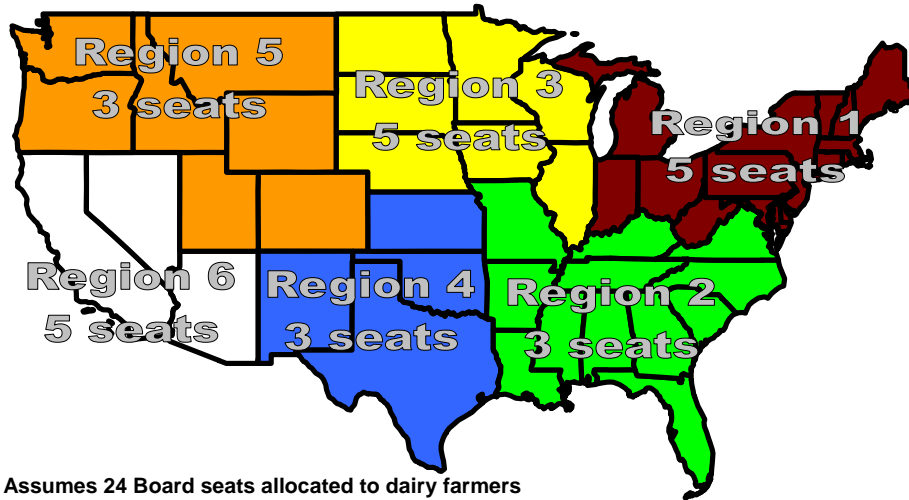
- Dairy commodity inventory management programs
- National or regional base programs
- Export assistance programs, if in compliance with WTO
 - May leave this out and let producers fund this on a voluntary basis
- Other programs could come under the umbrella as well

DGMI Governance

- 30 board members, 24 that are dairy farmers
 - Board representation from 6 regions of the US
 - Every region could have 2 seats and additional seats awarded based on region's milk production
 - Quarterly board meetings
- Producer referendum every 3 years or at the petition of 10% of producers
 - Block-voting allowed, but members can "ask out"
 - Simple majority vote for passage

Potential Regions for the Dairy Growth Management Initiative

Board Allocations



- Assumes 24 Board seats allocated to dairy farmers
- Each region assigned 2 seats plus additional seats allocated on the basis of milk volume

DGMI Miscellaneous

- Funding – 0.8% of Class III price
 - Fund capped at \$400 million unless producer referendum raises cap
- USDA would audit use of funds and administer referenda

Discussion