

# The 2003 Outlook for Milk and Dairy Products

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Dairy Programs

# 2002/03 Outlook Summary

- Beginning Commercial stocks – 11.3 bil. lbs.
- Commercial use increase exceed production growth
- Nonfat dry milk support - \$0.80 per pound
- Ending Commercial Stocks – 10.6 bil. lbs.
- CCC net purchases
  - Milk fat – 1.1 billion pounds
  - Skim-solids – 6.9 billion pounds
- All-milk price - \$11.20 to \$11.70 per cwt.
  - 2001/02 all-milk price - \$12.76

# 2002 Farm Bill

- Milk Income Loss Contract
  - $(\$16.94 - \text{Price}) * 0.45 = \text{payment}$
  - 2.4 million pounds per FY
- Support Price at \$9.90
  - November NDM and Butter Adjustments
  - NDM \$0.80 (- 10 cents)
  - Butter \$1.05 (+ 19.5 cents)
  - Cheese Blocks \$1.13 (no change)
  - Cheese Barrels \$1.10 (no change)

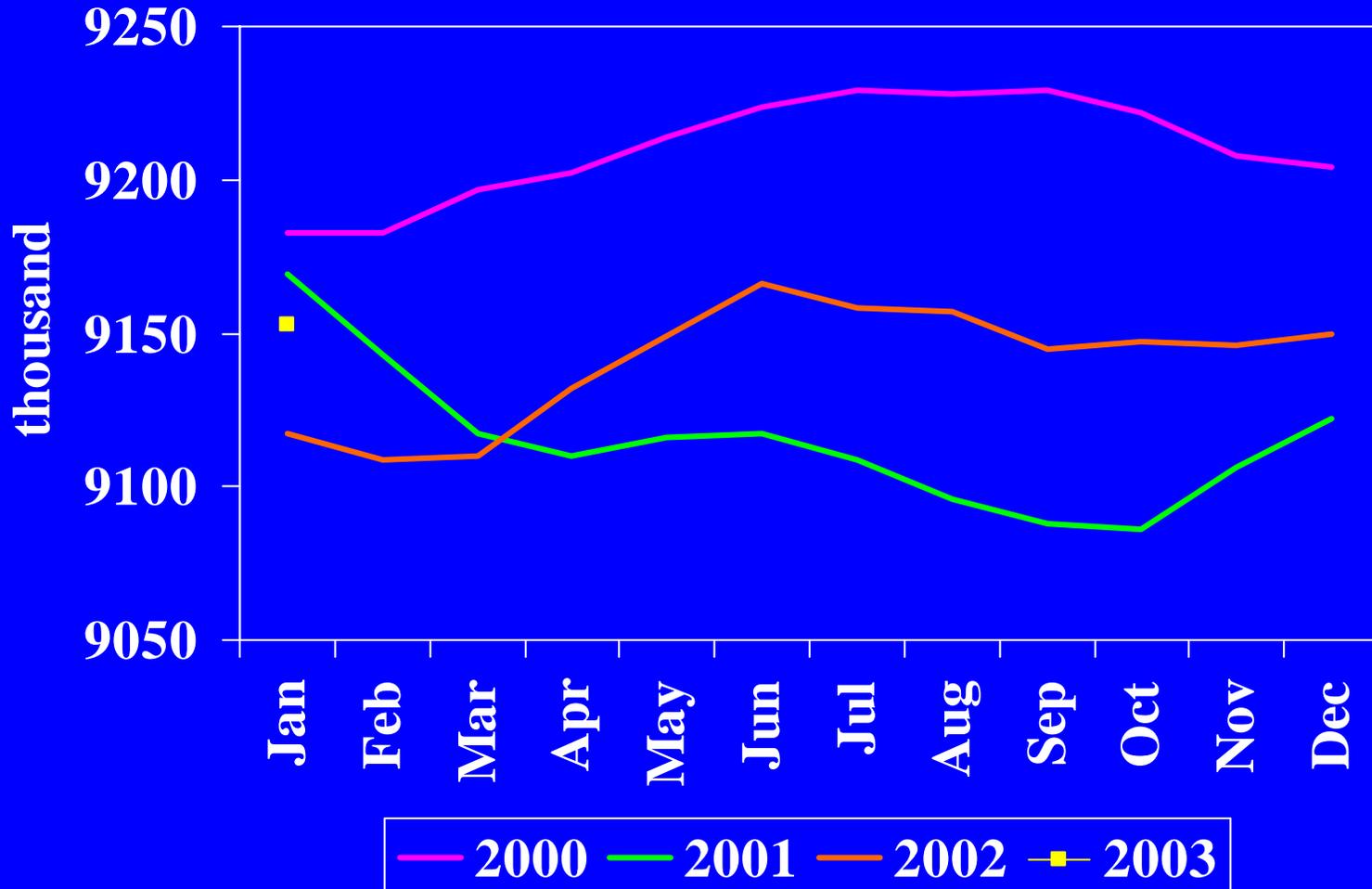
# MILC Program

- \$1 billion in payments by Jan 30, 2003
- \$1.5 billion additional in FY 2003
- \$3 to \$4 billion to cover production through September 2005
- Legal challenge on 2.4 million lb. cap in transition period, \$6 billion possible

# Milk Cow Numbers

2002/03: 9.105 million

- 0.26 percent

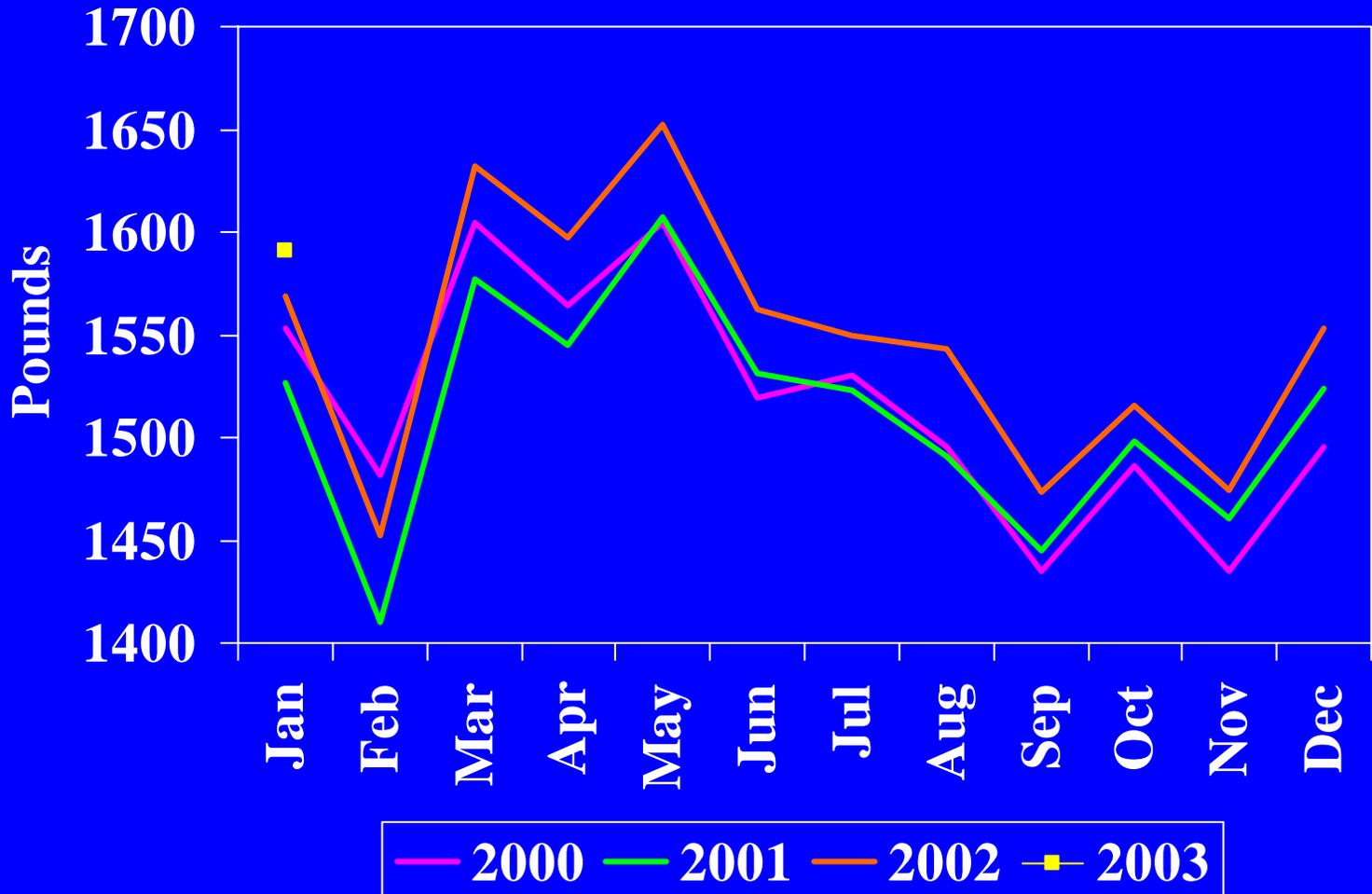


# Replacement Heifers

- 2002 – 30 heifers per 100 cows
- 2003 – 45 heifers per 100 cows
- 1993 - 43 heifers per 100 cows
- 1983 - 41 heifers per 100 cows

# Milk Production Per Cow

2002/03: 18,750 lbs.  
+ 1.35 percent

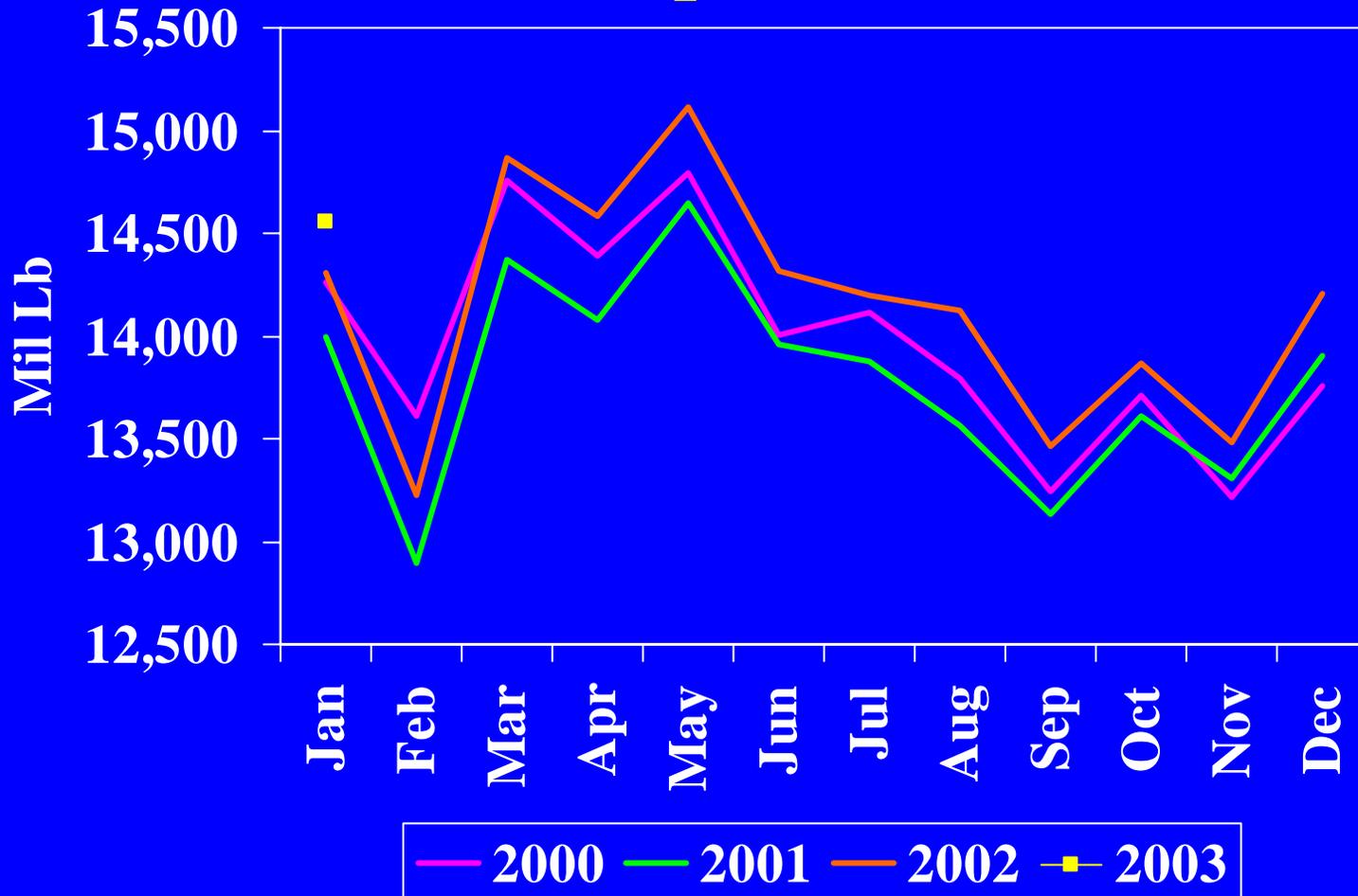


# Milk per cow growth, 1970-2002



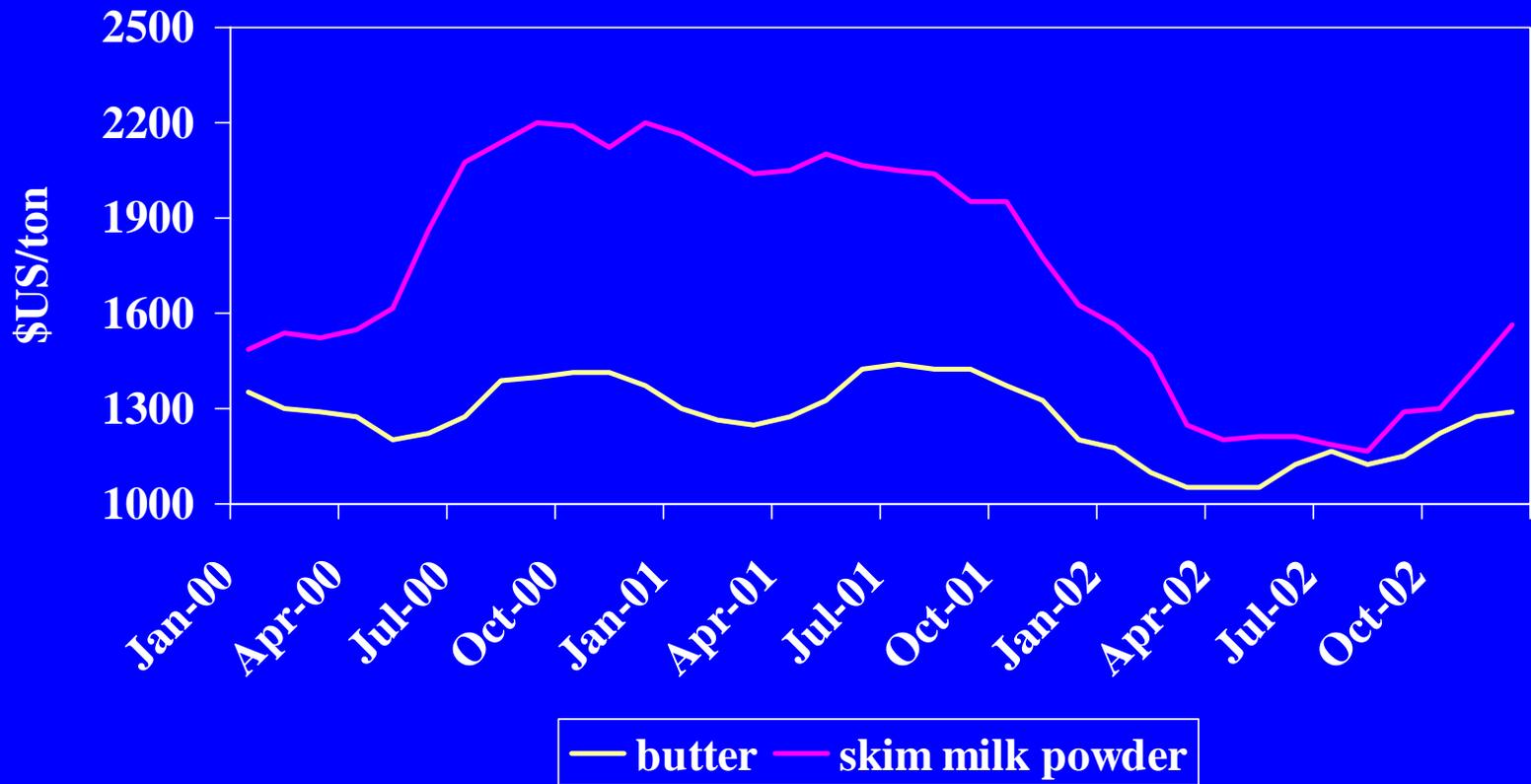
# Milk Production

2002/03: 170.7 bil. lbs.  
+ 1 percent



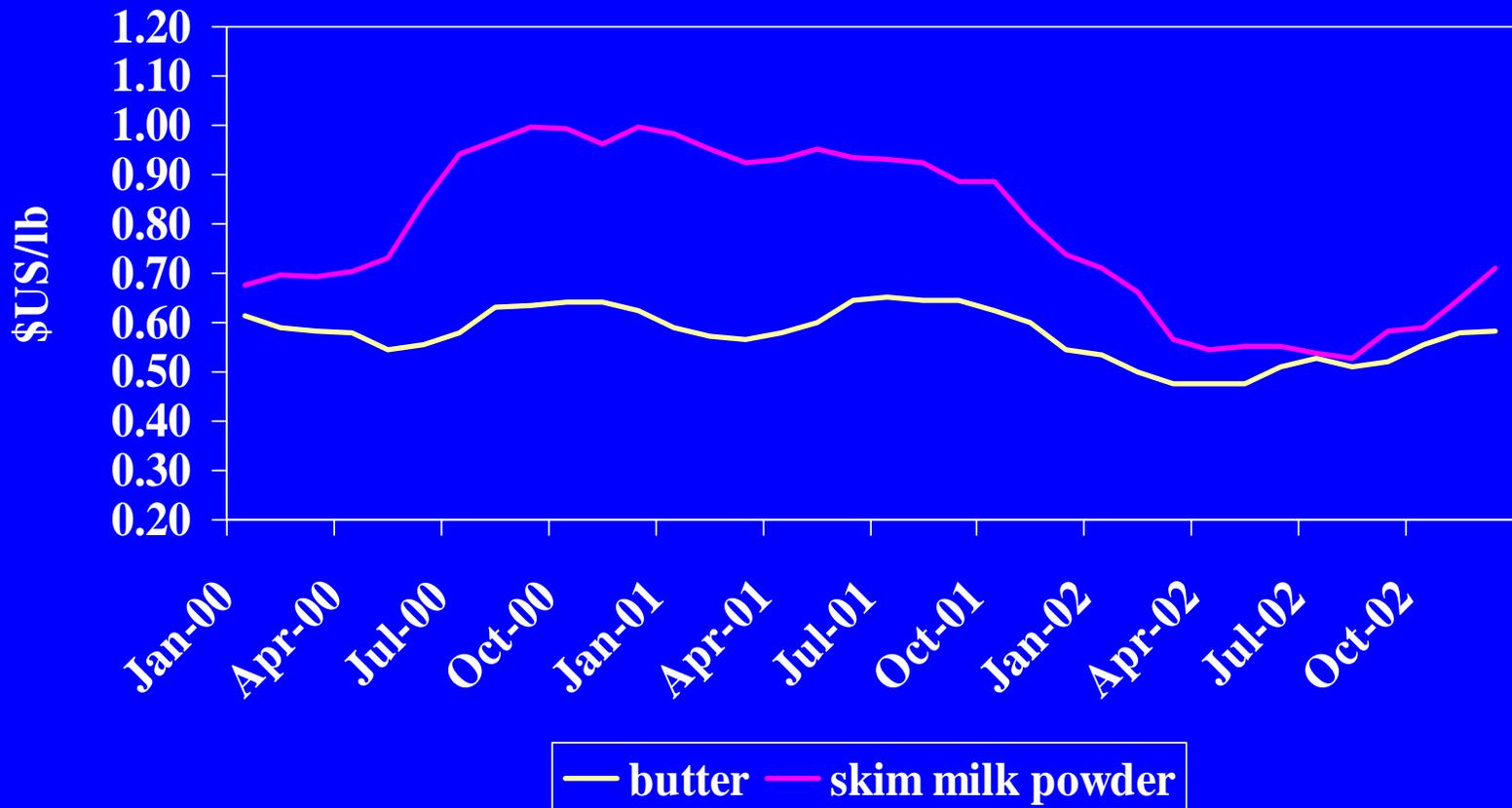
# International Dairy Prices

## FOB Northern Europe, \$/Ton



# International Dairy Prices

## FOB Northern Europe, \$/pound



# Dairy Trade Conditions

- Weaker Dollar against Euro and \$NZ
- Australia – drought, milk production down
- New Zealand – drought, reduced growth
- Lower U.S. butter, cheese, and NDM prices
- Reduced incentives to import into US
- Possible US exports of NDM
  - Mexico, Central America

# Dairy Export Incentive Program: DEIP

## Allocated in 2002/03

- NDM 42,626 MT
- Cheese 1,894 MT
- Butterfat 13,186 MT

## Limits under WTO

- 68,201 MT
- 3,030 MT
- 21,097 MT

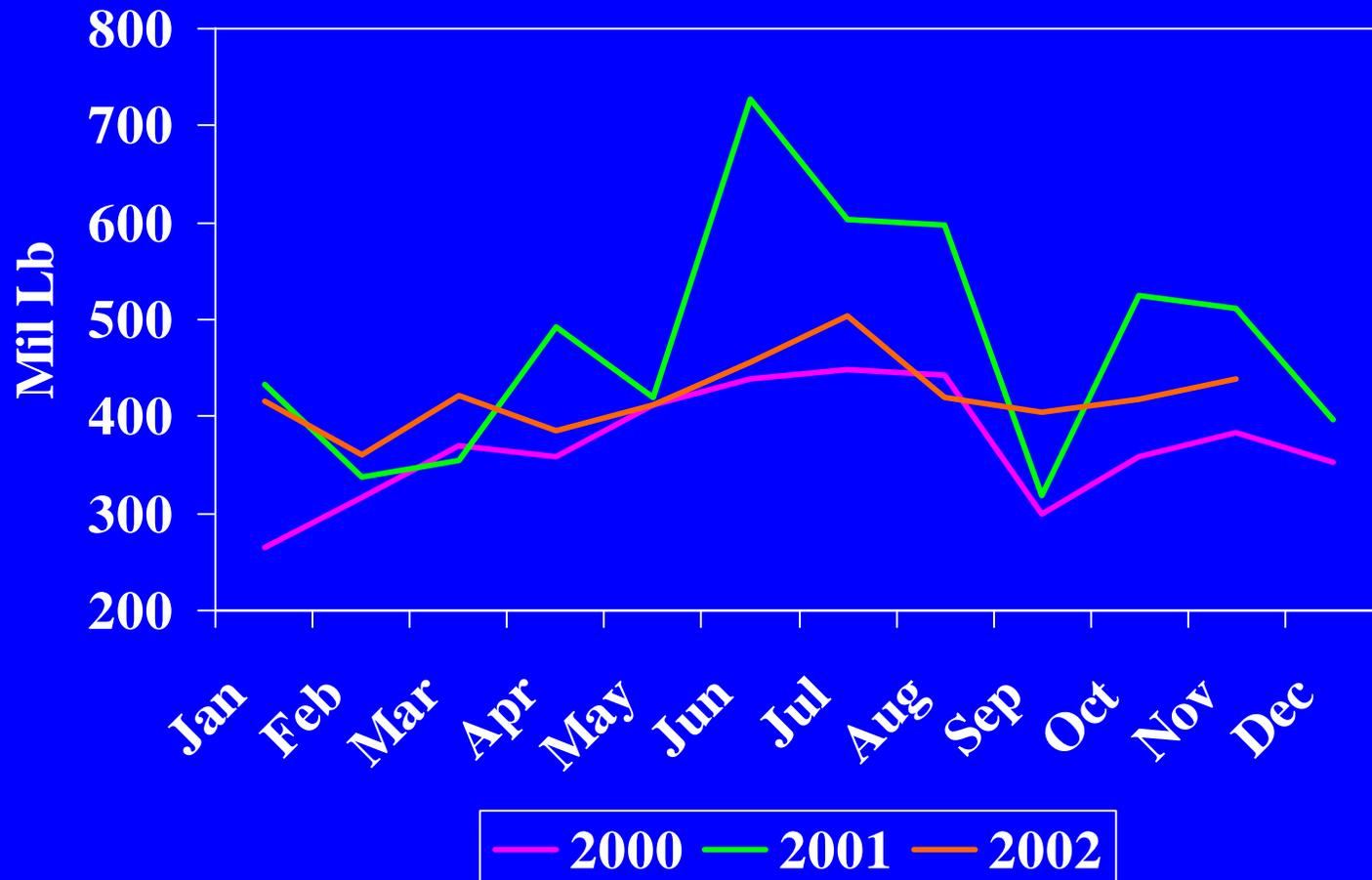
First and second NDM and cheese allocations used up by Nov. 2002.

Remaining allocations announced by June 30, 2003.

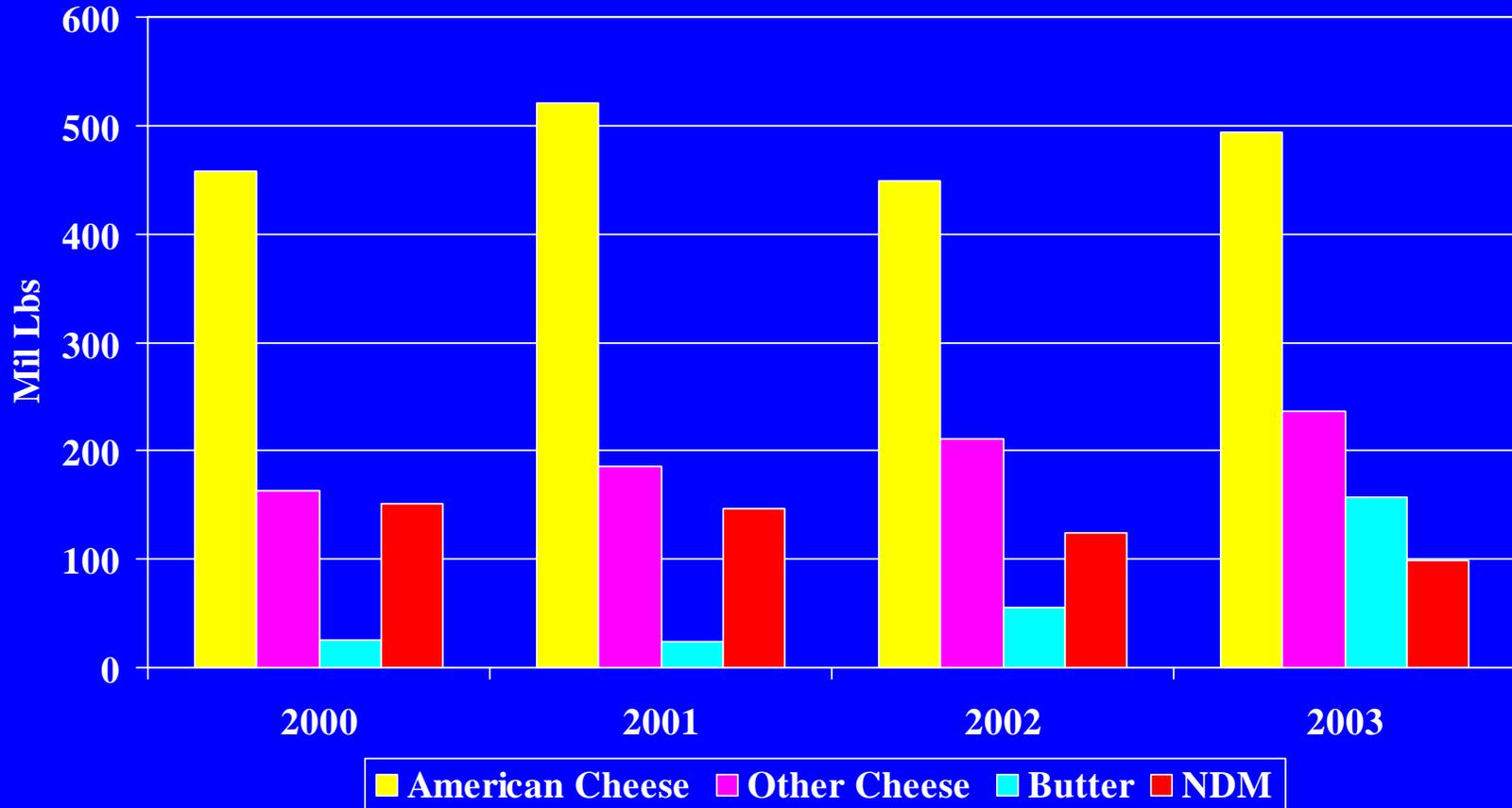
# Imports of Milk Equivalent, Milkfat Basis

2002/03: 5.0 bil. lbs.

- 0.4 percent



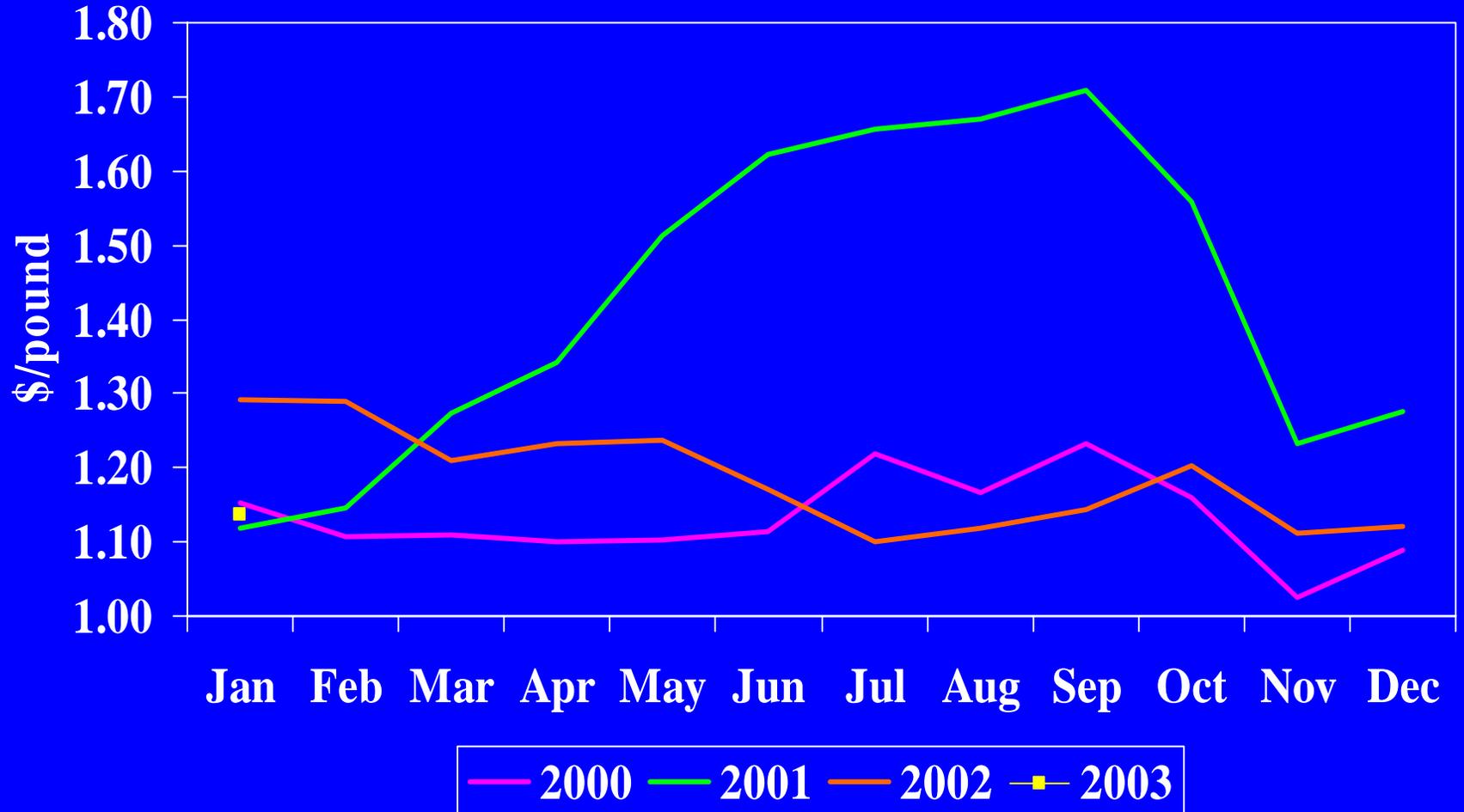
# Commercial Stocks, Beginning



# Cheese

- Production CY 2002
  - 8.4 billion pounds, 3.8 percent increase
- CCC
  - 8 million pounds since October 1, 2002
  - 25 million pounds net removals 2002/03
- Price
  - Peak in September 2001 \$1.70
  - Hovering above support around \$1.15

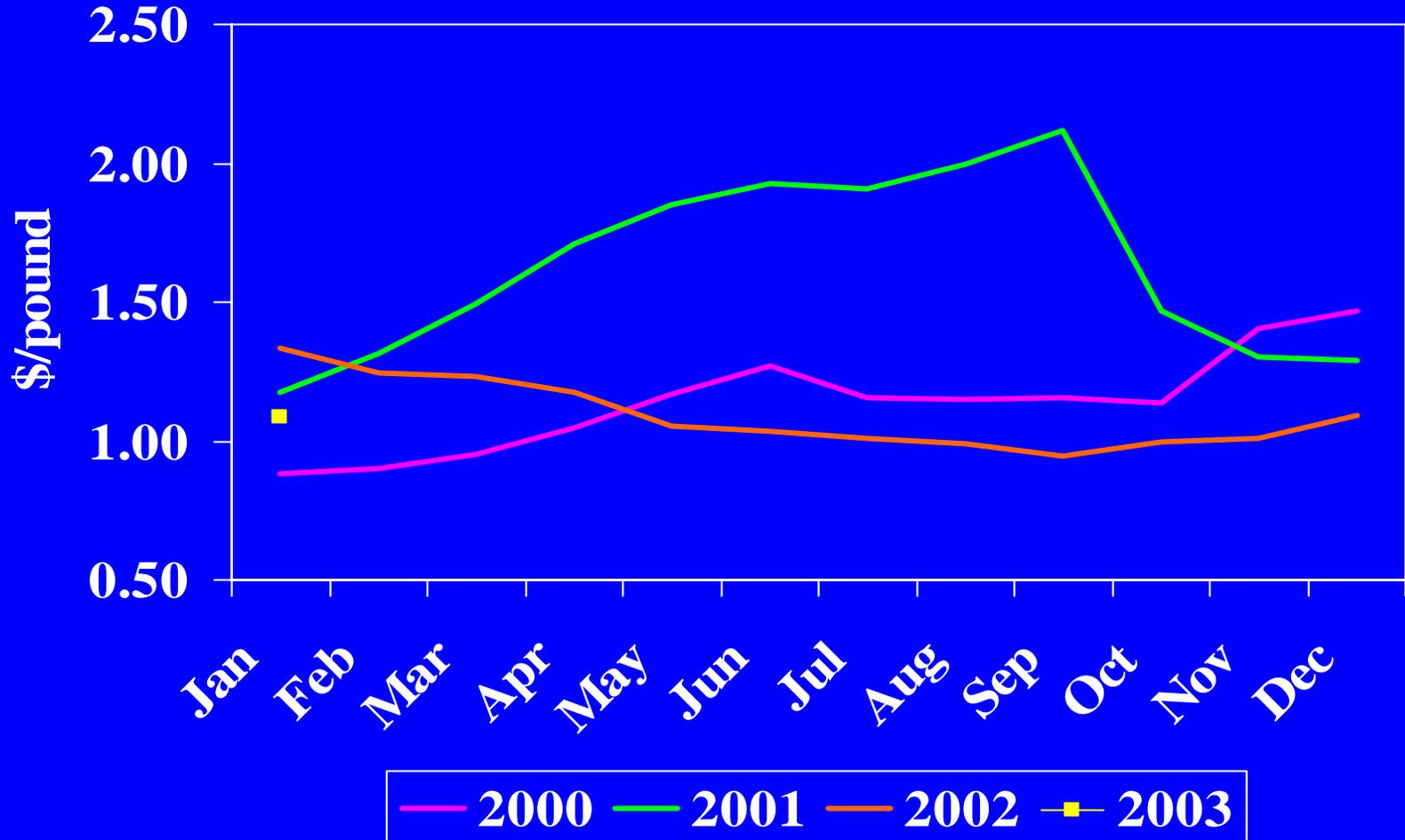
# Cheese Price



# Butter

- Production CY 2002
  - 1.4 billion pounds, 9.9 percent increase
- CCC
  - 1 million pounds since October 1, 2002
  - 35 million pounds net removals 2002/03
- Price
  - Peak in September 2001 \$2.10
  - Hovering above support around \$1.05

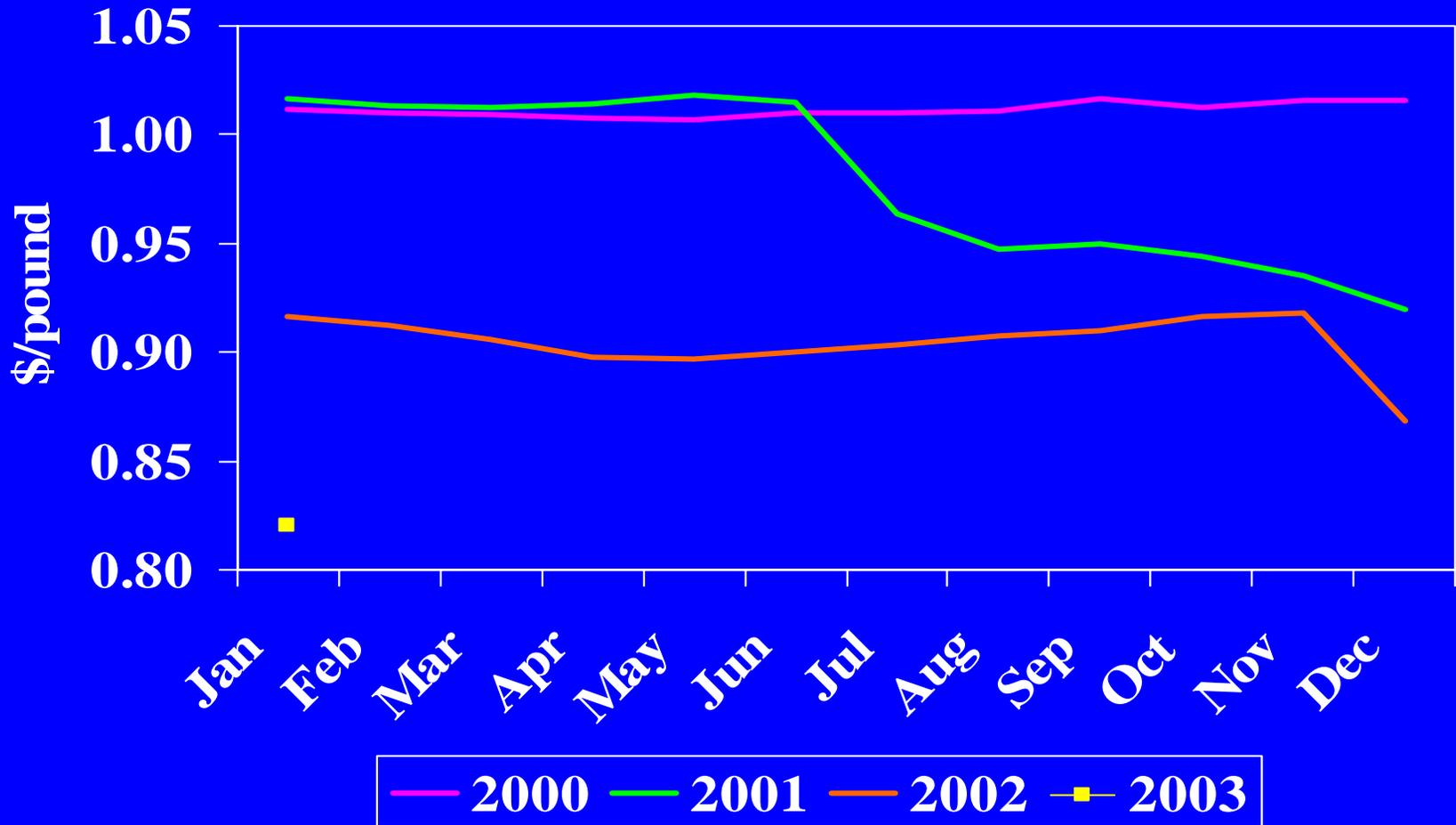
# Butter Price



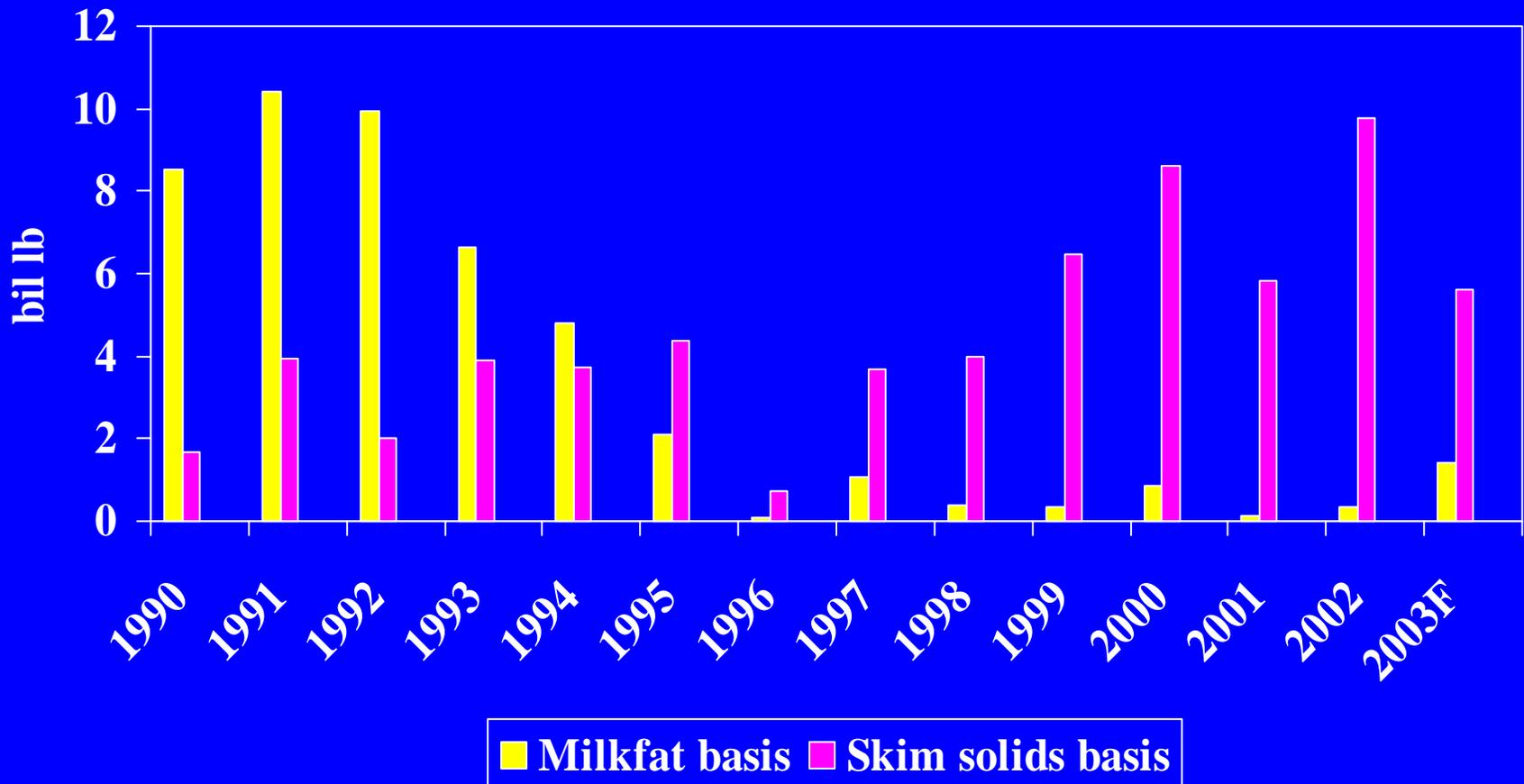
# Nonfat Dry Milk

- Production CY 2002
  - 1.5 billion pounds, 6.9 percent increase
- CCC
  - 208 million pounds since October 1, 2002
  - 420 million pounds net removals 2002/03
    - down 35 percent
- Price
  - up to November 2002, \$0.90 per pound
  - Hovering just above support, \$0.80

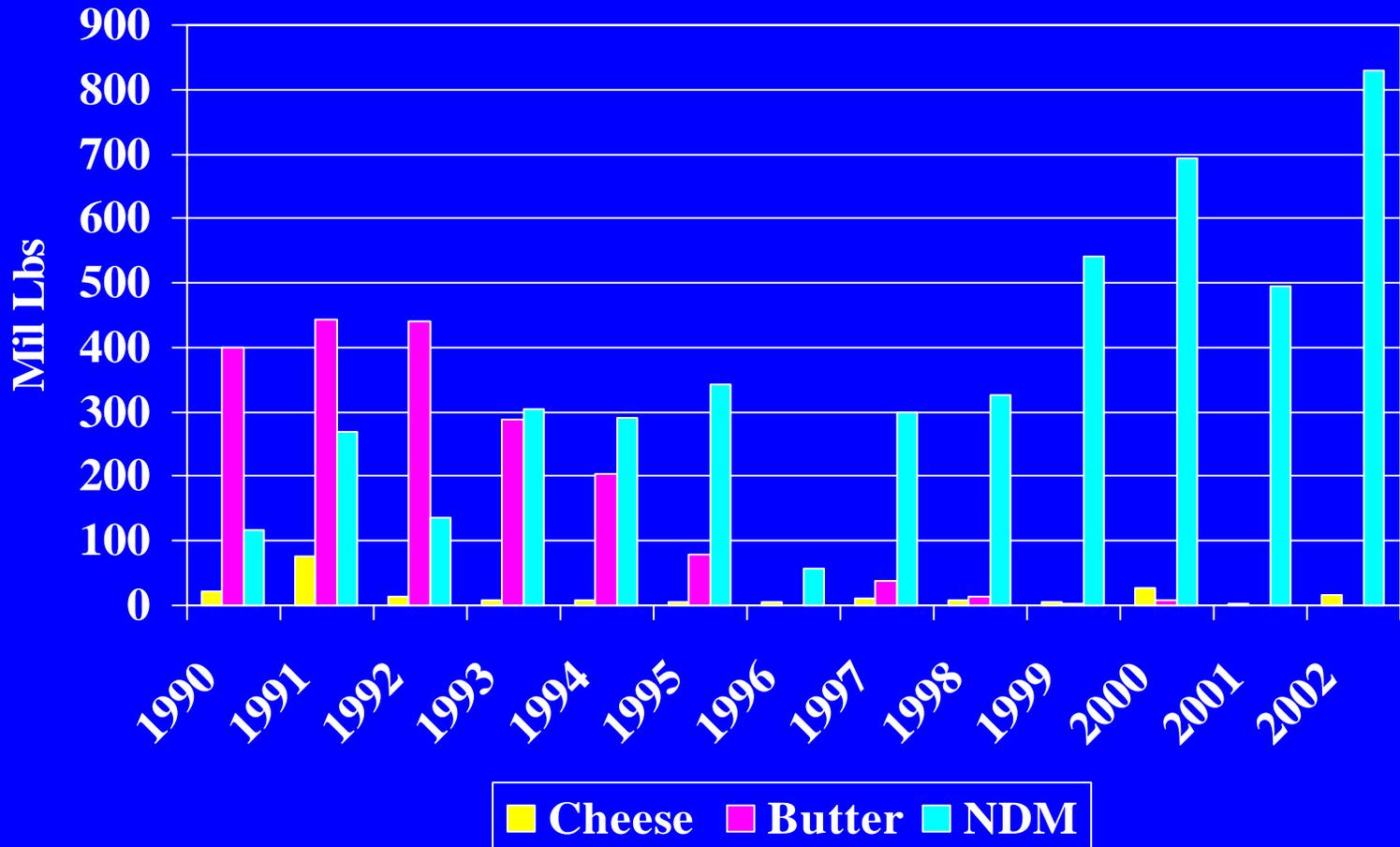
# Nonfat Dry Milk Price



# CCC net removals



# CCC Net Removals by Product



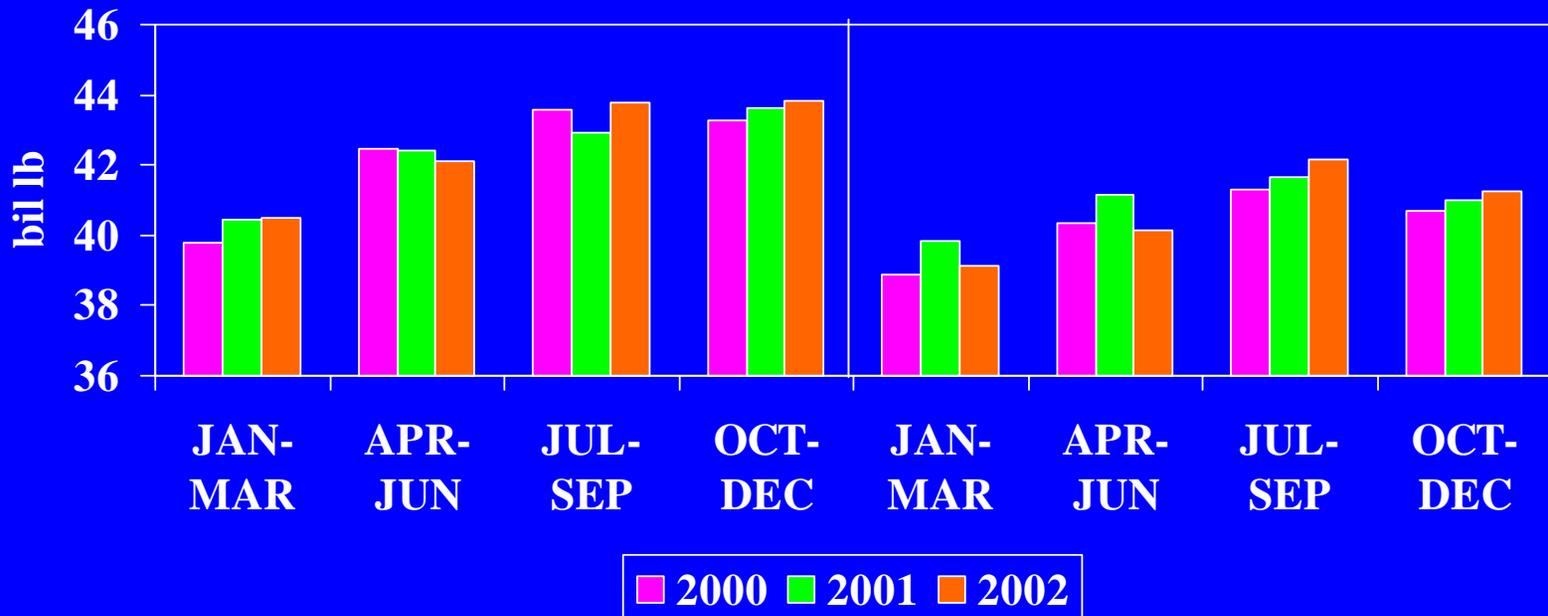
# Commercial use, milk equiv.

2002/03: 174.1 bil. lbs.

+ 2.4 percent

Milkfat Basis

Skim Solids Basis



# All milk price

## 2002/03: \$11.20 - \$11.70

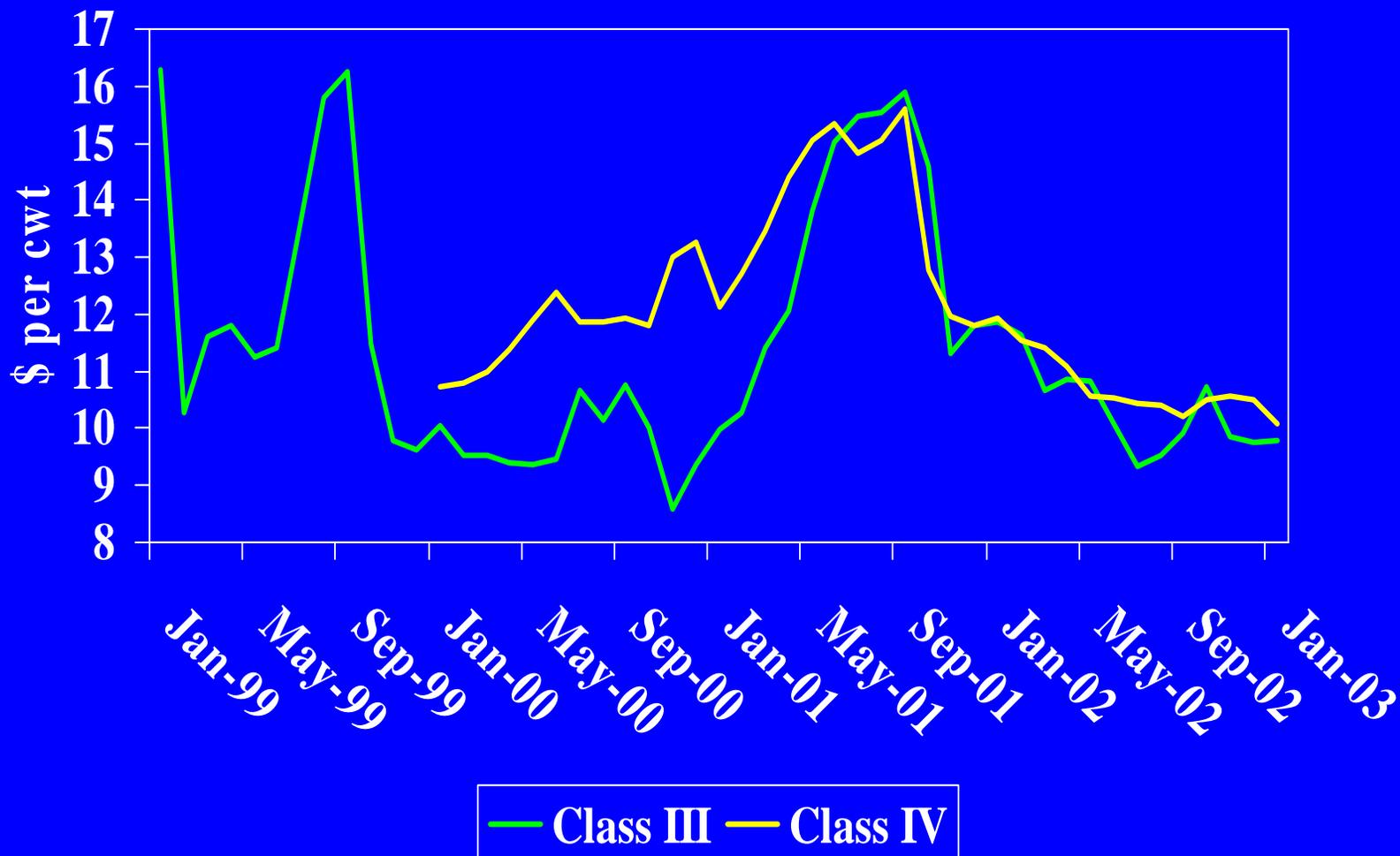




# Class III and IV Milk Prices

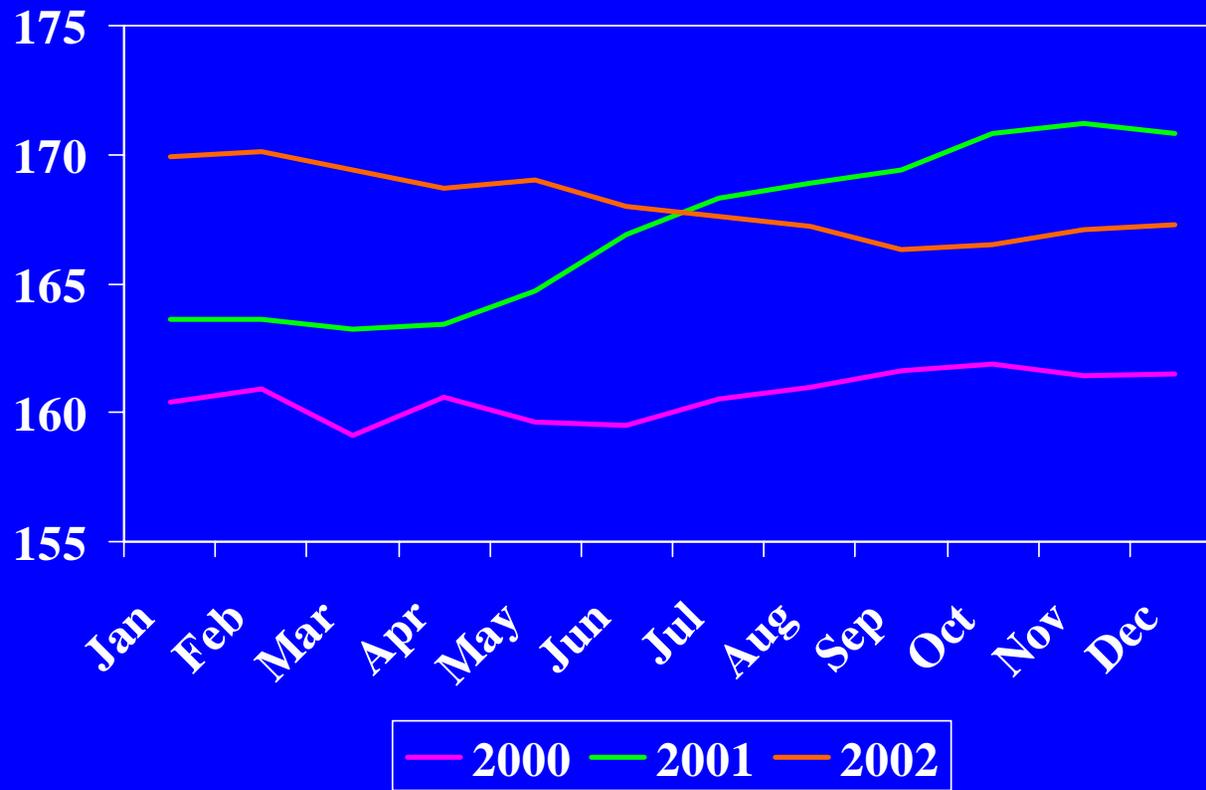
2002/03 C1 III: \$9.70-\$10.20

2002/03 C1 IV: \$9.90-\$10.60



# CPI, Dairy and Related Products

## 2002/03: 168.8



# Key uncertainties: Domestic markets

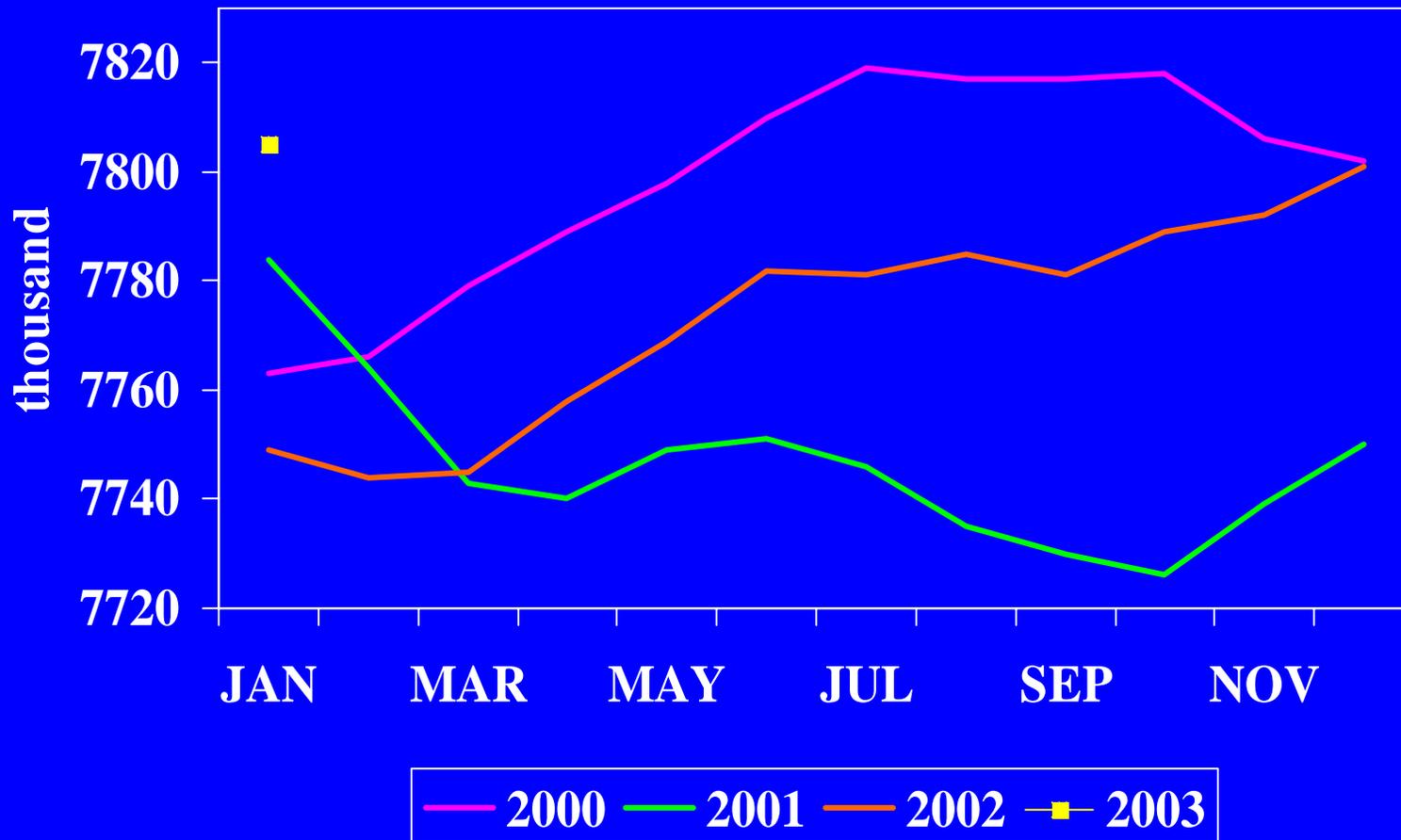
- Western alfalfa hay supplies
- Drought in Corn Belt and Plains
- Replacement heifer supply and cull rate
- Rate and steadiness of milk per cow growth
  
- Continued economic recovery
- Events in the Middle East

# Key uncertainties: International issues

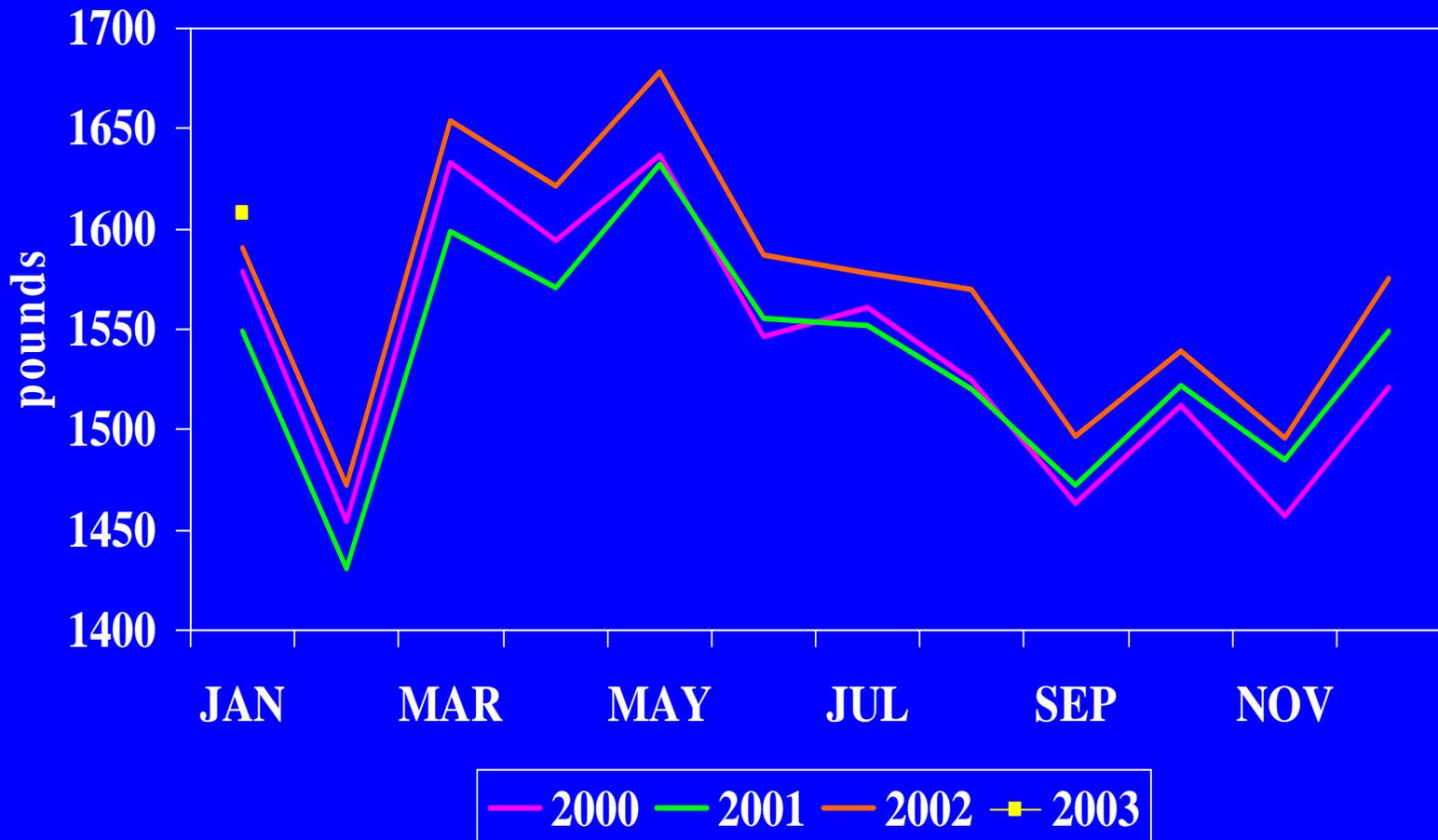
- U.S. Customs consideration of MPC
  - redefinition of MPC classification
- WTO and the Doha Agenda
  - US goals: subsidy reduction, increased market access
  - EU internal markets and policy
- Bilateral Free Trade Agreements
  - Australia
- Free Trade Area of the Americas (FTAA)
  - Argentina and Brazil
- U.S.-Central America Trade Agreement (CAFTA)

The End

# Milk cow numbers, 20 States



# Milk per cow, 20 States





# Dairy Trade Programs

- Uruguay Round Agreement on Agriculture
- Dairy Export Incentive Program (DEIP)
  - 2001-2002 (2000 forward)
    - Nonfat dry milk - 68,201 metric tons
    - Butterfat - 21,097 metric tons
    - Cheese - 3,030 metric tons
- Tariff Rate-Quota System for Licensed Imports
- MPCs and caseinates low duty – \$0.0037 per kilogram
- Casein – zero tariff

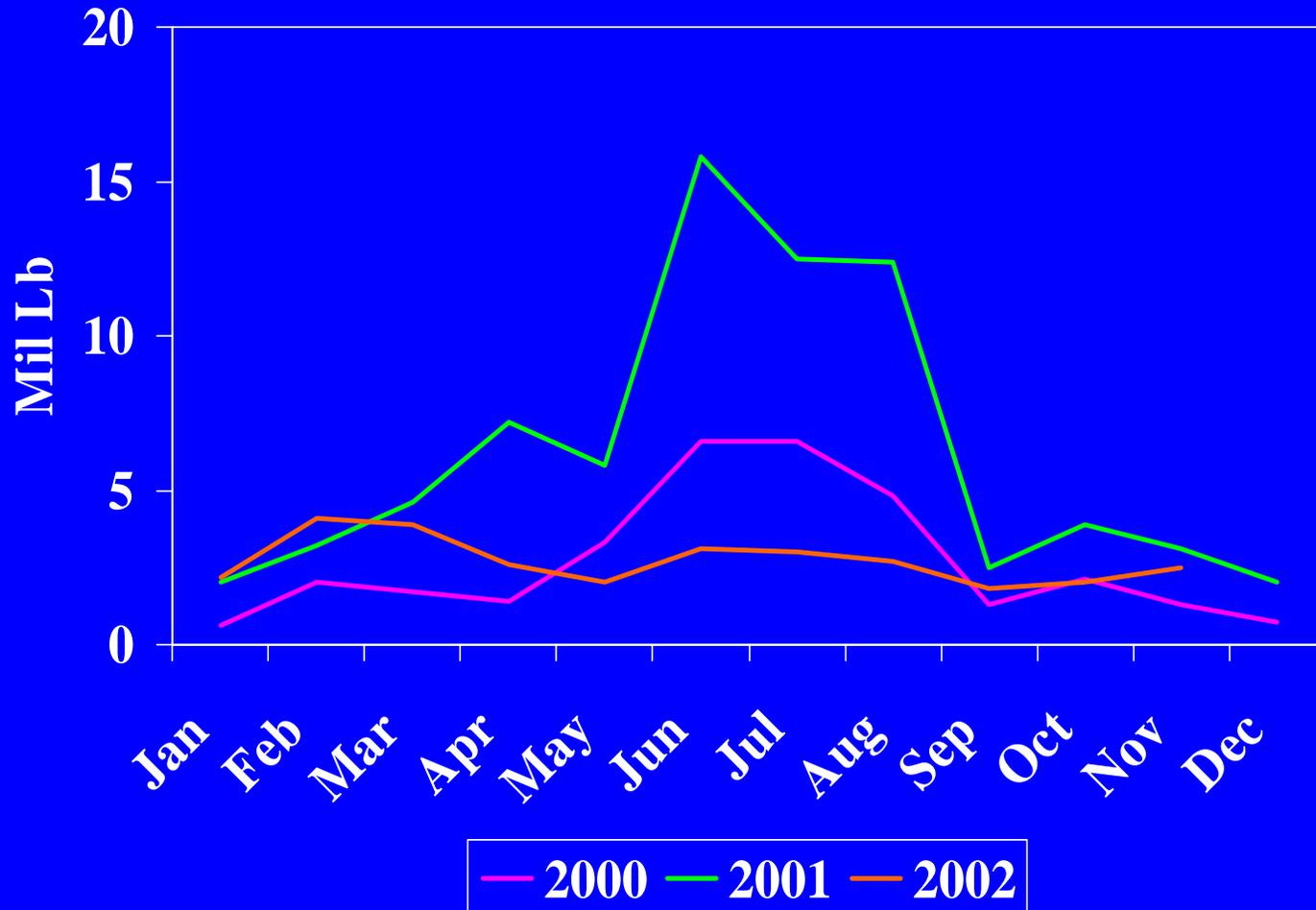
# Macroeconomic Conditions

- Weak Income Growth
  - US, Europe, Japan
- Recovering Income Growth
  - Mexico, Brazil, Argentina
- Stronger Income Growth
  - China, Eastern Europe, Former Soviet Union
- Weaker Dollar

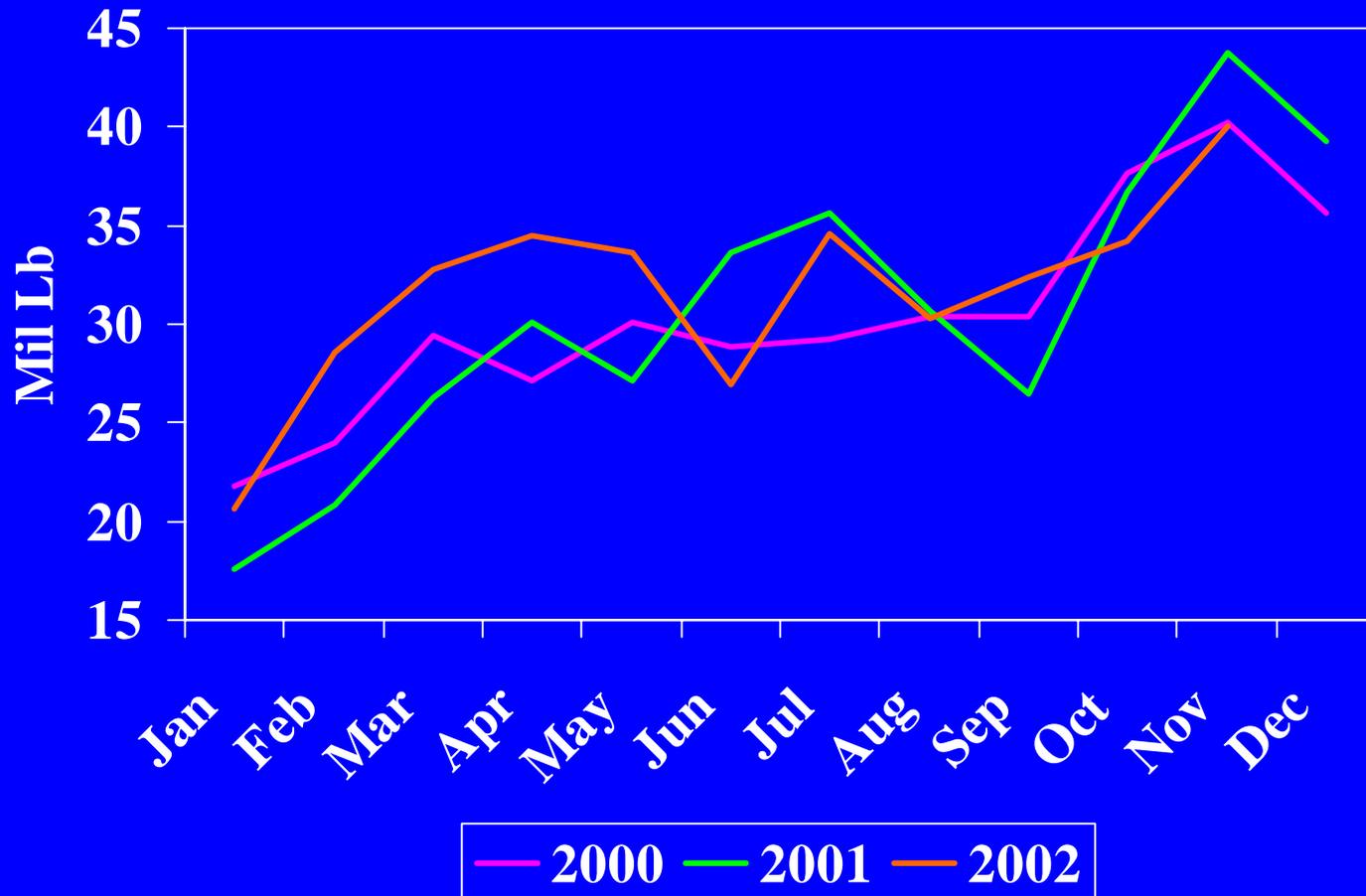
# American Cheese Imports



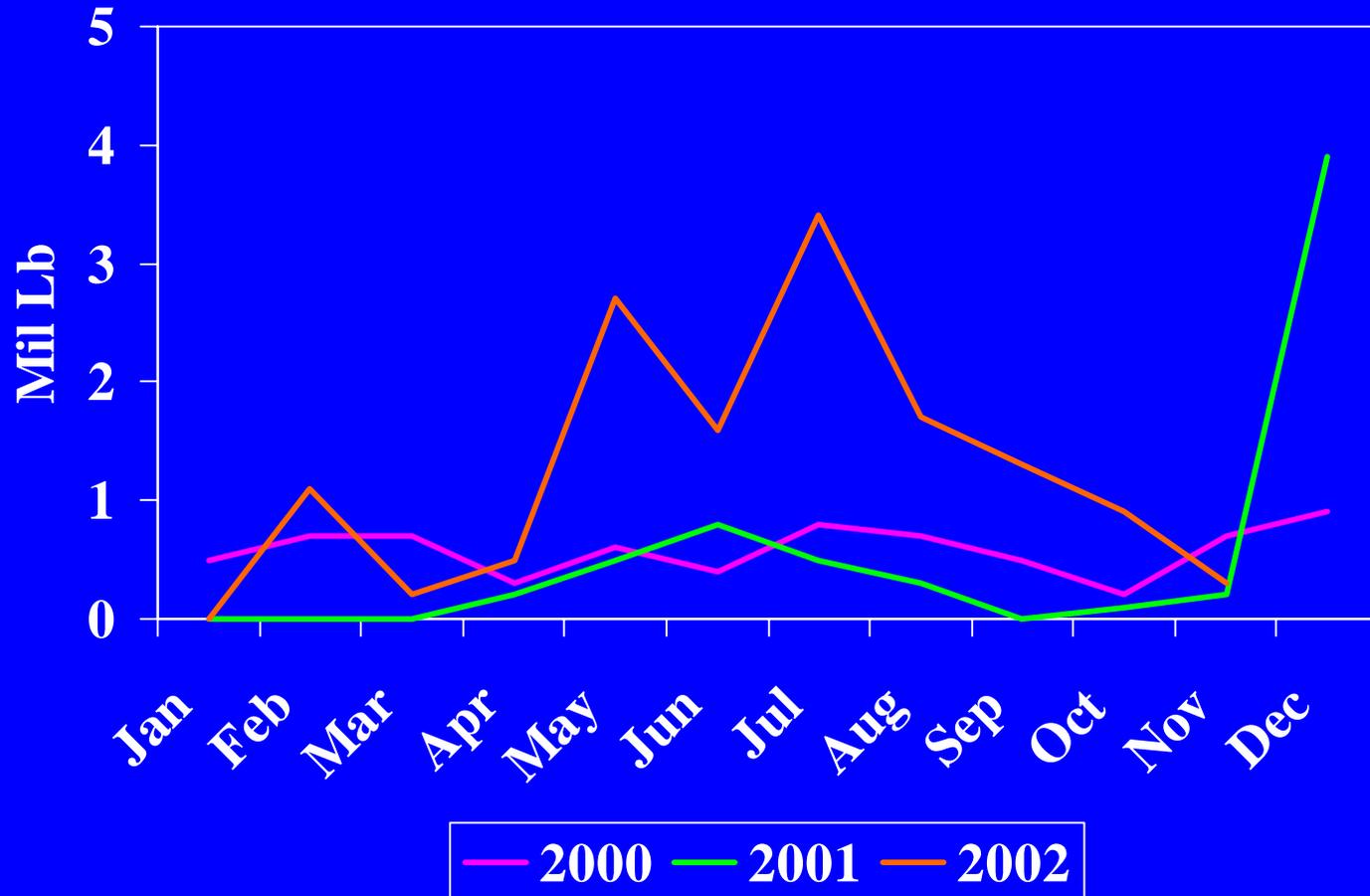
# Butter Imports



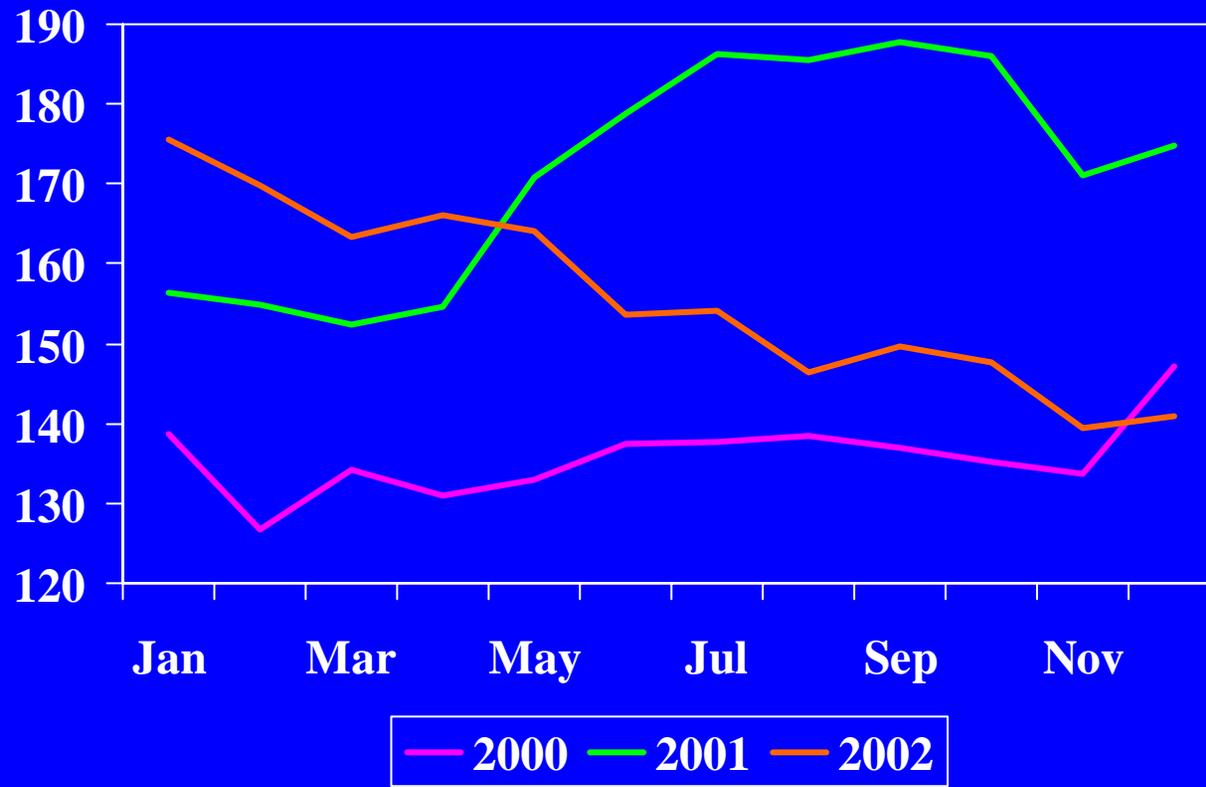
# Imports, Other-Than-American Cheese



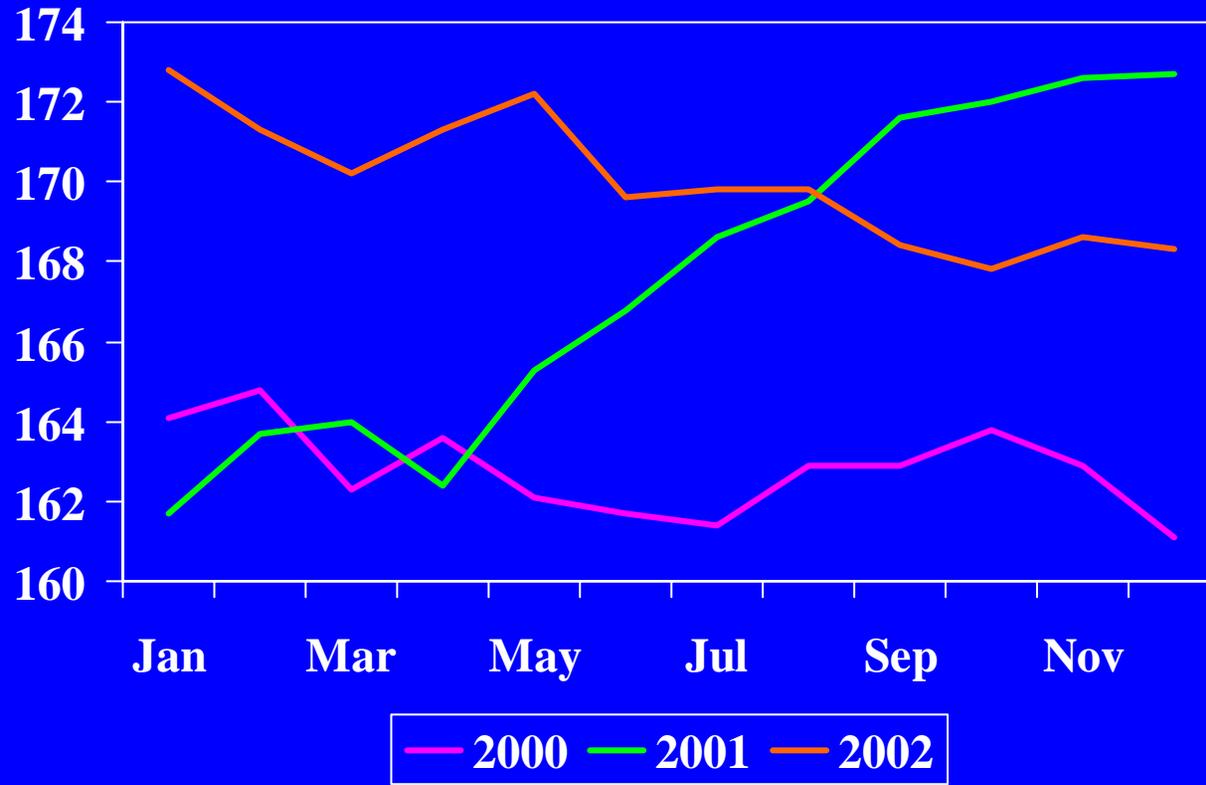
# Imports of Nonfat Dry Milk



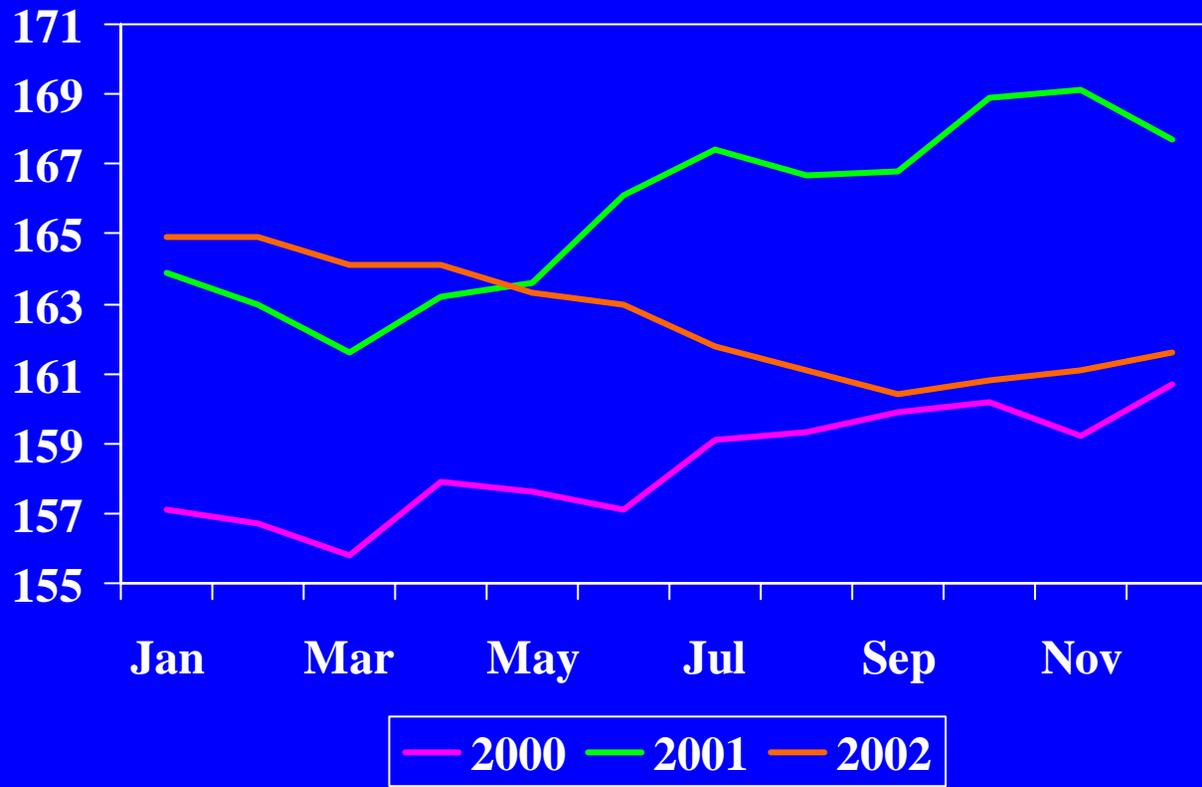
# CPI, Butter



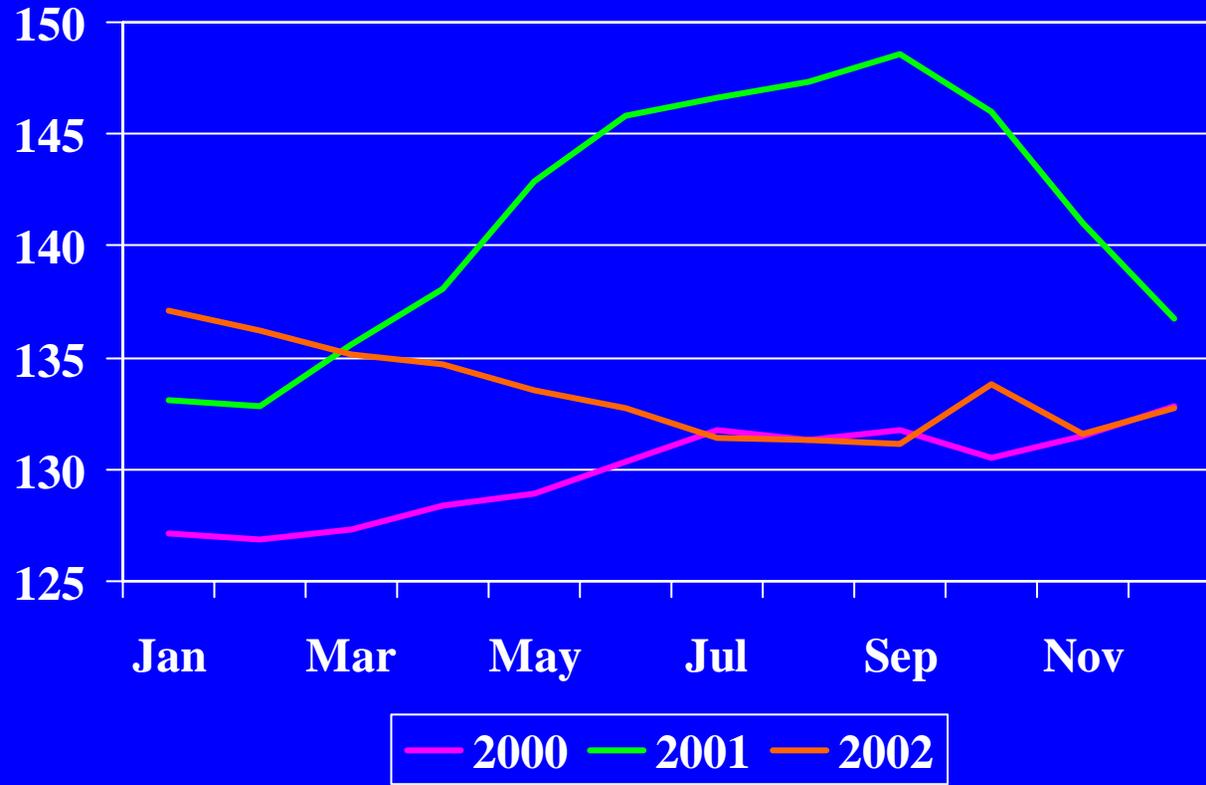
# CPI, Cheese and Related Products



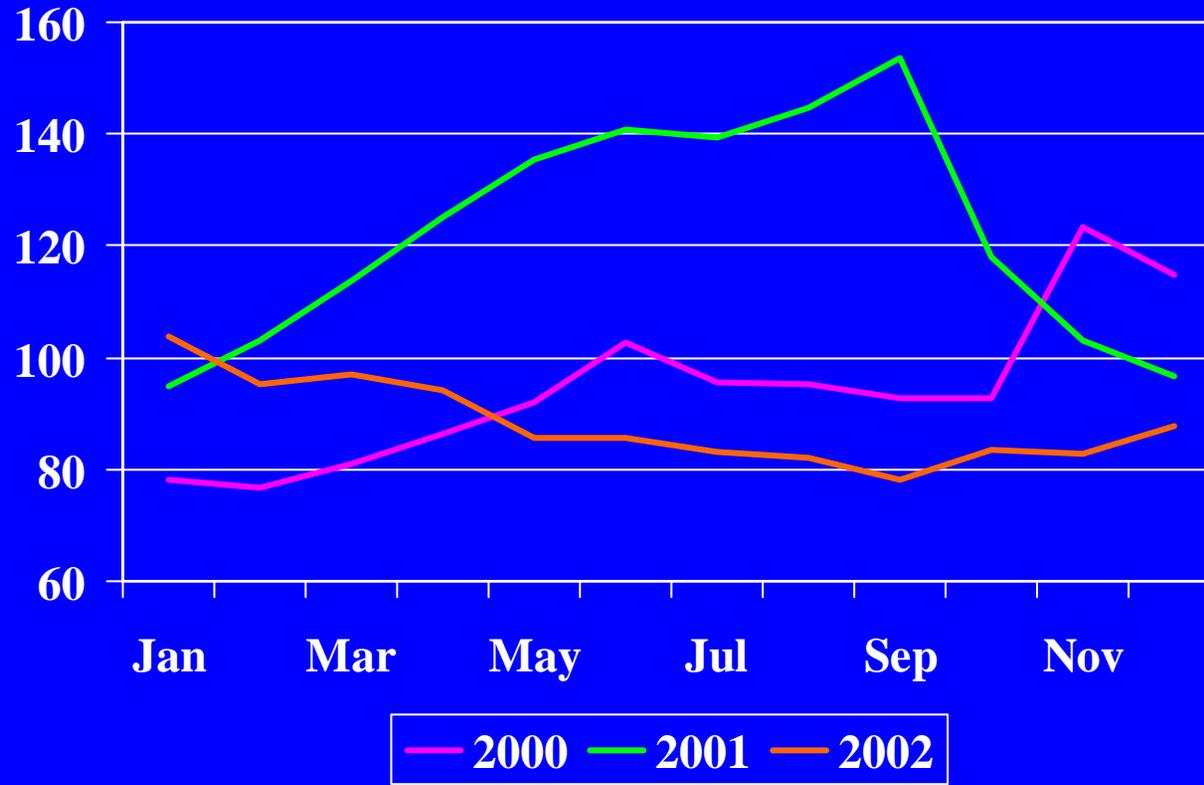
# CPI, Fresh Milk and Cream



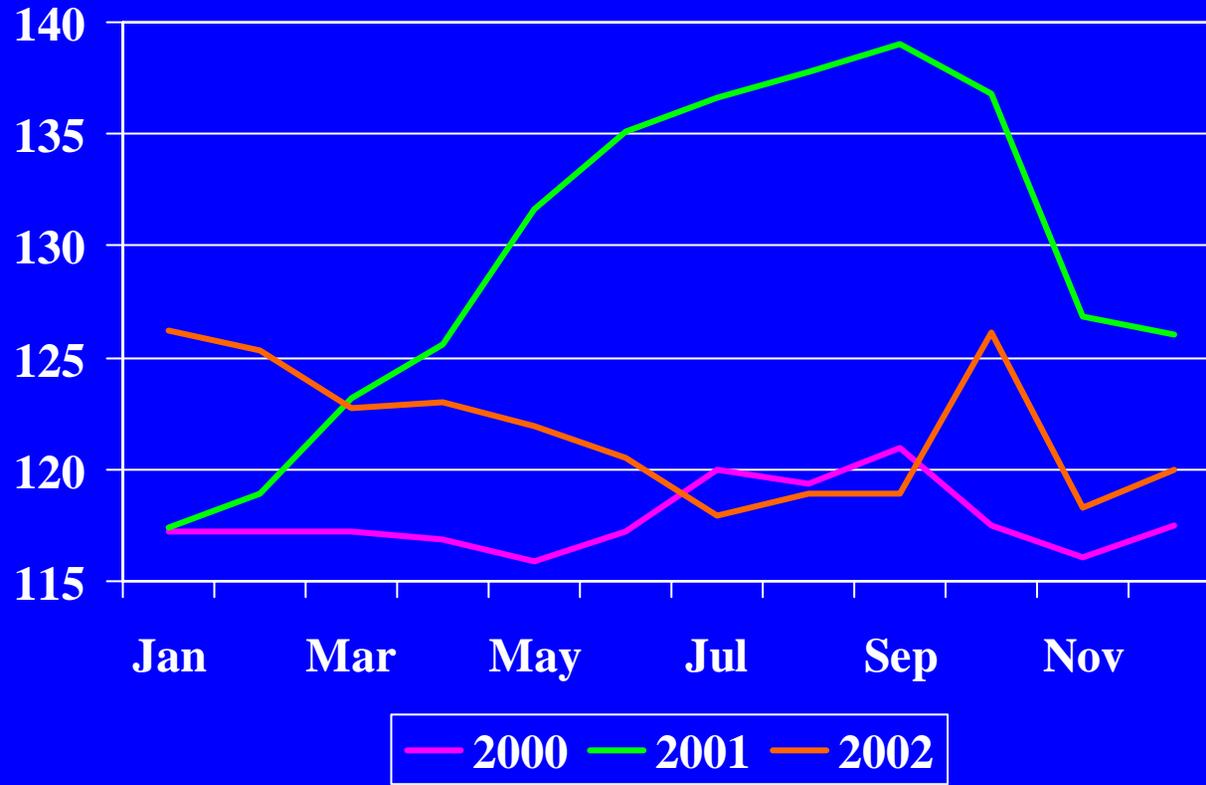
# PPI, All Dairy Products



# PPI, Butter



# PPI, Cheese



# PPI, Fluid Milk

