

## Monthly Market Indicators through April 2008

Production				Prices			
	Current Month	A Month Ago	Year Ago		Current Month	A Month Ago	Year Ago
<b>Milk Prod. 23 St. (Mill. Lb.)</b>	14,833	15,134	14,228	Milk, Class III (\$/cwt.)	16.76	18.00	10.93
<b>New Mexico (Mill. Lb.)</b>	681	677	656	Milk, Class IV (\$/cwt.)	14.56	14.17	10.36
<b>Texas (Mill. Lb.)</b>	727	733	635	Milk, Class I (\$/cwt.) Dallas, #126	21.61	19.70	14.22
<b>Arizona (Mill. Lb.)</b>	398	407	369	Milk, Class I (\$/cwt.) Phoenix, #131	20.96	19.05	13.57
<b>Per Cow Production – 23 St. (Lb.)</b>	1,757	1,794	1,727	NM Repl. Cows/ Heif.(HD) (1Q)	1750	1,940	1,780
<b>New Mexico (Lb.)</b>	1990	1990	1,870	NM Cull Cows (\$/cwt.) (May)	55.50	52.00	43.80
<b>Texas (Lb.)</b>	1965	1980	1,905	CME Cheese 40# (\$/Lb.)	1.8826	1.8234	1.1651
<b>Arizona (Lb.)</b>	2140	2190	2,145	CME Butter (\$/Lb.)	1.3905	1.3454	1.1632
<b>Cows Numbers – 23 St. (Thou HD)</b>	8,444	8,436	8,240	NFDM. Cent. States (\$/Lb.)	1.3525	1.3224	0.8603
<b>New Mexico (Thou HD)</b>	342	340	350	Corn #2, Omaha, NE (BU)	5.59	5.16	2.18
<b>Texas (Thou HD)</b>	370	370	333	NM Alfalfa Hay (\$/TON) (May)	185	161	145
<b>Arizona (Thou HD)</b>	186	186	172	S.B.O.M., Central IL (Ton)	329.94	331.57	174.64

## Milk Production

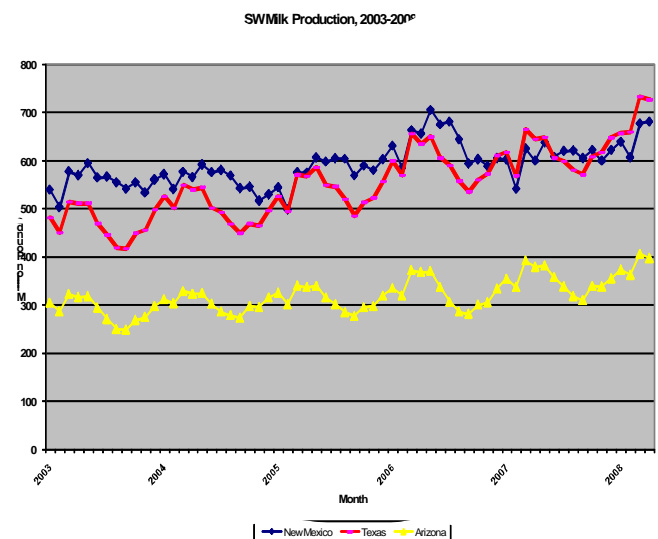
Milk production in the 23 major states during April totaled 14.8 billion pounds, down 2% from March production. New Mexico production in April was 376 million pounds, 3 percent more than in April 2007. Texas' January production was 727 million pounds, up 13 percent, while Arizona's production was 398 million pounds 5 percent increase from a year ago. Texas surpassed New Mexico in milk production for 2007 and continues to outpace New Mexico in 2008.

Milk production gains in the 23 major states over the past year were due to increased production per cow and an increase in cow numbers. April's production continued the upward trend in production being higher than all months in the last year except for March.

Production per cow in the 23 major states averaged 1,757 pounds for April, 11 pounds above a year ago. New Mexico production per cow averaged 1,990 pounds for April, typically one of the

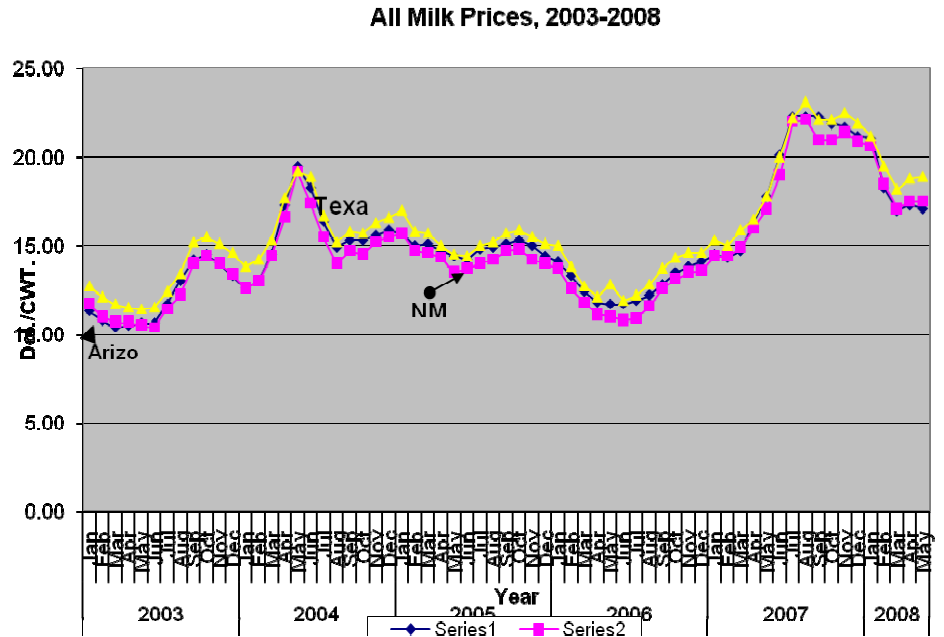
lower production months of the year, an increase of 120 pounds from a year ago. Texas gained 60 pounds per cow between April 2007 and April 2008; Arizona dropped 5 pounds per cow over a year earlier.

The number of milk cows on farms in the 23 major states in April was 8.4 million head, 164,000 head more than in April 2007, and 8,000 head more than in March 2008. New Mexico cow numbers have declined steadily and were down 3,000 from a year earlier. This decline reversed a long term growth trend in cow numbers for New Mexico. Texas cow numbers increased by 23,000 from a year ago, and Arizona gained 4,000 cows in the same time.



## Milk Prices

**Milk prices are softening up:** After increasing sharply in early 2007, peaking in September at \$24.91 per cwt., prices have declined steadily into 2008, June 2008 Advance Class I milk prices for the SW Federal Milk Marketing Order #126 at Dallas are announced to be \$21.18 per cwt., up \$1.56 from the March. The All Milk prices reported by USDA-NASS for May 2008 were \$17.50 per cwt. for New Mexico-produced milk, \$18.90 for Texas-produced milk. This is up from year-ago levels in May 2007 of \$17.10 for New Mexico-produced milk and \$18.80 for Texas-produced milk, and preliminary June prices continue to increase in both states. Arizona Order #131 Class I price at Phoenix rose to \$24.26 per cwt. for September, but is declining and projected to settle at \$19.17 for May after reaching 20.96 for April. The drop in Arizona's Class I price from September 2007's peak, reflects generally lower prices from a year earlier as U.S. supplies of milk continue to expand.



## USDA-ERS Forecasts as of May 16, 2008 (From USDA-ERS-LDP Newsletter)

**Dairy:** Despite higher feed costs, milk production continues to rise, and the rate of increase this year will be 2.3 percent higher than in 2007. Current-year production is projected to be above 2007, at 189.8 billion pounds. Milk production is forecast to rise by only 0.3 percent, to 190.4 billion pounds in 2009. The effect of this year's soaring feed costs on cow numbers likely will not be apparent until 2009. Milk cow population will rise in 2008 to 9,265 thousand, before declining incrementally to average 9,230 thousand in 2009. A slowing of growth in California due to production restrictions by cooperatives there, limited possibilities of exporting cows to nearby States, and continuing exits in Eastern and mid-Western States is the source of the pullback. Milk yields per cow have been increasing at a slower rate for several years. They will climb by 0.8 percent in 2008 after adjusting for the extra day in February and are forecast to rise less than 1 percent in 2009, to 20,630 pounds. The milk-feed price ratio could become more favorable toward the end of 2009, mostly because of higher milk prices rather than because of any expected declines in feed costs.

U.S. demand for dairy products continues to be relatively strong, and exports, which are now broken out as a separate item in USDA tables, continue to show substantial growth on a fats basis. However, skim/solid exports are expected to be lower. Although European Union (EU) production is expected to continue to rise, most of the added milk will be consumed within the EU, especially in Eastern European countries where incomes continue to advance. Diminished dairy product availability from Oceania and other regions, and the lower valued dollar, combine to make the United States an increasing source of global dairy products, especially cheese. However, exports in 2009 are expected to drop from 2008 totals as competitors' milk supplies recover and leveling of domestic production increases competition between exports and domestic use.

Continued increases in exports will likely keep cheese and butter prices firm in 2008. Consequently, commercial use, which now more closely gauges domestic use, is projected to rise about 2 percent in 2008 over 2007, but is forecast to rise only slightly more than 1 percent in 2009. Production is moving more toward butter/powder at the expense of cheese as cheese production capacity is limited. Commercial stocks on both a fats and skims/solids basis are expected to be significantly tighter by the end of 2009 than in 2008. National Agricultural

Statistics Service cheese prices will likely average \$1.820 to \$1.870 per pound in 2008 and level to an average \$1.790 to \$1.890 per pound in 2009. Butter prices are forecast to average \$1.335 to \$1.415 per pound this year and rise to \$1.335 to \$1.485 in 2009. Nonfat dry milk (NDM) price has fallen in 2008 compared with last year and will likely average \$1.360 to \$1.400 per pound. However, prices are forecast higher in 2009, at \$1.470 to \$1.540 per pound. Whey prices for 2008 are sharply lower than in 2007, and by year's end will average 27.5 to 30.5 cents per pound. Only a slight recovery is expected in 2009, to 29.5 to 32.5 cents per pound.

**Dairy Forecasts**

	2007					2008				
	I	II	III	IV	Annual	I	II	III	IV	Annual
Milk cows (thous.)	9,130	9,129	9,156	9,195	9,153	9,230	9,260	9,270	9,250	9,253
Milk per cow (pounds)	5,039	5,195	5,037	5,008	20,279	5,195	5,290	5,070	5,050	20,805
Milk production (bil. pounds)	46.0	47.4	46.1	46.0	186.6	48.0	49.0	47.0	46.7	190.6
Farm use	0.3	0.3	0.3	0.3	1.1	0.3	0.3	0.3	0.3	1.1
Milk marketings	45.7	47.1	45.8	45.8	184.5	47.7	48.7	46.7	46.4	189.5
Milkfat (bil. pounds milk equiv.)										
Milk marketings	45.7	47.1	45.8	45.8	184.5	47.7	48.7	46.7	46.4	189.5
Beginning commercial stocks	9.5	11.9	13.6	12.3	9.5	10.4	13.5	15.2	13.4	10.4
Imports	1.1	1.2	1.0	1.5	4.8	1.1	1.1	1.1	1.5	4.7
Total supply	56.3	60.2	60.5	59.6	198.7	59.1	63.3	63.0	61.3	204.6
Ending commercial stocks	11.9	13.6	12.3	10.4	10.4	13.6	15.2	13.4	10.6	10.5
Net removals	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial use	44.4	46.6	48.2	49.2	188.4	45.6	48.1	49.6	50.8	184.1
Skim solids (bil. pounds milk equiv.)										
Milk marketings	45.7	47.1	45.8	45.8	184.5	47.7	48.7	46.7	46.4	189.5
Beginning commercial stocks	9.1	9.7	10.1	9.5	9.1	9.8	11.0	11.0	10.5	9.8
Imports	1.0	1.1	1.1	1.3	4.5	1.0	1.1	1.1	1.4	4.4
Total supply	55.8	58.0	57.0	56.6	198.1	58.6	60.8	59.3	58.3	203.8
Ending commercial stocks	9.7	10.1	9.5	9.8	9.8	11.0	11.5	10.5	10.2	10.2
Net removals	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial use	46.1	47.8	47.5	46.8	188.2	47.5	49.3	48.8	48.1	193.6
Milk prices (dol./cwt) 1/										
All milk	15.00	18.27	21.67	21.60	19.13	16.10	16.45	15.45	16.35	16.85
						-19.40	-17.05	-18.35	-17.35	-17.55
Class III	14.28	17.95	20.43	19.51	18.04	17.71	15.65	14.20	14.35	15.46
						-18.01	-18.25	-15.10	-15.35	-16.15
Class IV	12.98	18.45	21.71	20.29	18.36	15.53	14.16	14.66	15.83	15.06
						-15.93	-14.86	-15.69	-15.93	-15.85
Product prices (dol./pound) 2/										
Cheddar cheese	1.352	1.627	1.978	1.995	1.738	1.868	1.670	1.505	1.490	1.635
						-1.898	-1.730	-1.595	-1.590	-1.705
Dry whey	0.592	0.786	0.810	0.435	0.800	0.333	0.305	0.325	0.375	0.335
						-0.353	-0.335	-0.355	-0.405	-0.365
Butter	1.227	1.421	1.428	1.301	1.344	1.183	1.155	1.200	1.205	1.185
						-1.243	-1.246	-1.320	-1.335	-1.285
Nonfat dry milk	1.182	1.668	2.043	1.940	1.708	1.438	1.292	1.332	1.465	1.380
						-1.468	-1.342	-1.402	-1.535	-1.440

1/ Simple averages of monthly prices. May not match reported annual averages.

2/ Simple averages of monthly prices calculated by the Agricultural Marketing Service for use in class price formulas. \*Based on weekly "Dairy Product Prices", National Agricultural Statistics Service. Details may be found at [http://www.ams.usda.gov/dyfm/mib/fedordprc\\_dsorpc.htm](http://www.ams.usda.gov/dyfm/mib/fedordprc_dsorpc.htm)

Source: World Agricultural Supply and Demand Estimates and supporting materials. For further information, contact: Roger Hoskin 202 694 5148, [rhoskin@ers.usda.gov](mailto:rhoskin@ers.usda.gov). Published in Livestock, Dairy, and Poultry Outlook, <http://www.ers.usda.gov/publications/lp>

## Higher Milk Production in 2008 Softens Prices; Exports Bolster Demand

The value of dairy exports set a record in fiscal year (FY) 2007 and is expected to set another in FY 2008. However, expansion is expected to be less robust, and international prices have softened. U.S. cheese exports are forecast to climb 5 percent above 2007's record 95,000 metric tons. Australian cheese exports are expected to decline again in 2008. Although Australia has finally received some rain, the amounts have been insufficient to overcome lingering drought.

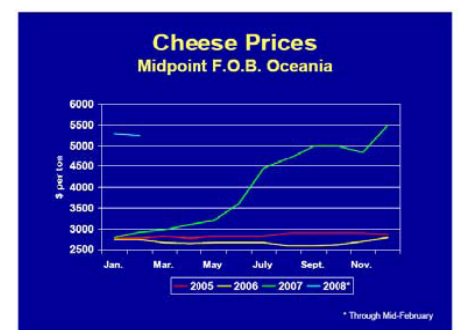
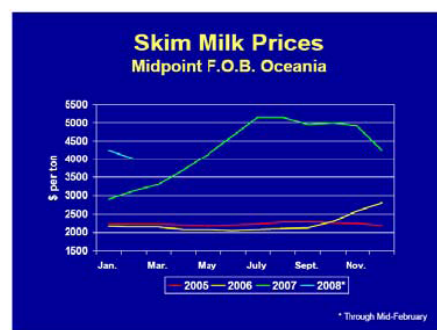
U.S. butter exports should also benefit from the overall tightness in global supplies. In the European Union, butter production is being sacrificed for increased cheese production, both to meet domestic demand and for export, mostly to Eastern European countries and Russia. With Australia sidelined and a weak dollar, prospects for U.S. butter exports are favorable.

The same favorable conditions hold true for nonfat dry milk (NDM) and other dry milk products, and export prospects remain good for these products. High world prices for skim milk powder have fueled U.S. exports throughout 2007 and could continue to do so in 2008. In 2007, limited domestic availability of the product curtailed exports. In

2008, although there will be more milk, cheese demand could still limit supplies of NDM.

Whey exports soared in early 2007, but then declined and prices fell. In 2008, low prices could stimulate demand, but exportable supplies could be affected by domestic demand for low-fat cheeses.

Prices for U.S. dairy products should be somewhat lower in 2008. Cheese should show the least decline from 2007, with prices averaging \$1.635 to \$1.705 per pound. Butter prices are expected to average \$1.185 to \$1.285 per pound in 2008. Sharper declines are in store for NDM and whey, as prices for them are expected to average \$1.380 to \$1.440 and 33.5 to 36.5 cents a pound, respectively.



## What happened to New Mexico?


For the last several years growth in New Mexico seemed unstoppable, growing at similar rates as Idaho. Both expansion states were taken the majority of the overflow from California, combined with a phenomenal internal growth. Idaho went on to become the number 4 milk producing state in the nation, while New Mexico dropped from number 7 to number 9, and Texas filled the gap at number 8. Combined, New Mexico and Texas are still the third largest dairy producing area in the country, but unlike Texas – and I should say West-Texas, New Mexico took a breather. What happened?

There is never one reason in particular to create a change like this, it is always a dynamic set of circumstances working in concert, the outcome of which determines the direction and magnitude of the change, but I believe the scenario is as follows.

Weather; the weather during a period of time will set the stage for a direction of the market, and in this case a combination of a tough '06 summer and '06-'07 winter made for a lot of cows leaving the herds because "the wheels came off". Secondly the economics of low milk and high feed prices didn't favor expansion, but added to the "herd cleaning process". It wasn't until July of '07 that milk prices peak over the \$20 mark. Thirdly we had round number four of the CWT bids

which removed about 14,500 cows from Southwest herds, a large percentage of which came from New Mexico. Add to this equation some large herds re-locating to south western Kansas, and a serious bout with TB in the summer of '07 removing another estimated 6000 milking cows from the area, and voila there it is: a negative growth of about 17,000 cows at the end of '07.

Question is what is going to happen from here into the future? Well, heifer availability at an all-time high would indicate expansion, however diminishing milk prices and feed prices at astronomical highs will probably put area milk producers in a "stay put" mode, and depending on how deep and long this dip will be, and depending on how well producers have rebuild their equity, I do not foresee any major growth in New Mexico, especially with the Dalhart cheese plant trying to gear up to full speed. Any expansion will most likely be in West Texas, not on the New Mexico side of the border. Of course any major expansion is still going to depend on a re-bounce of the housing market in California with developers & builders continuing their quest for land, and offering "real deals" to dairymen, escrows that seem secure enough for somebody to take it and decide to relocate. Until that point, any changes in the market will have to come from internal shifts.



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