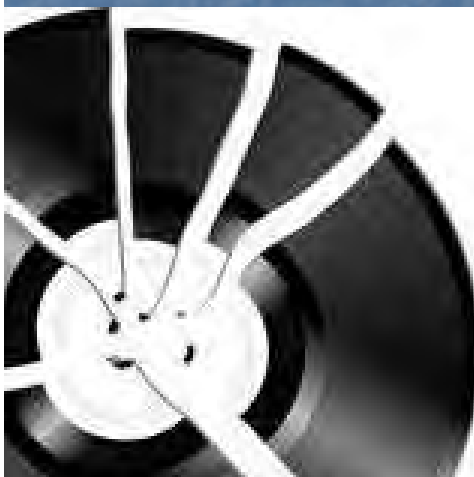
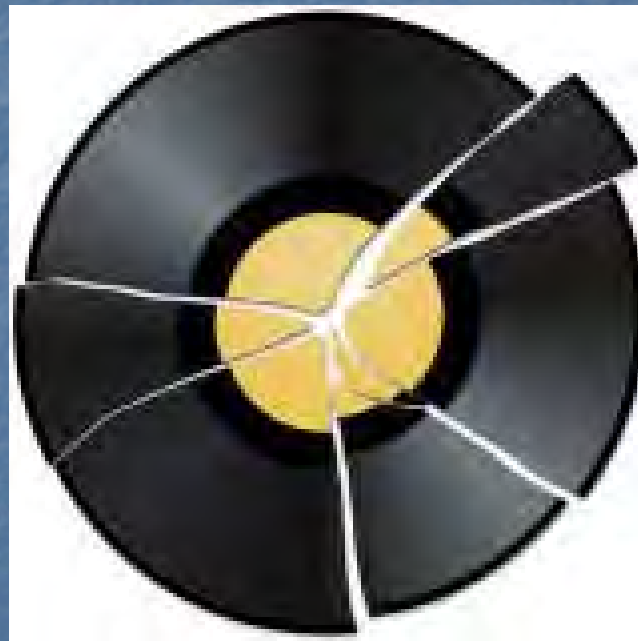


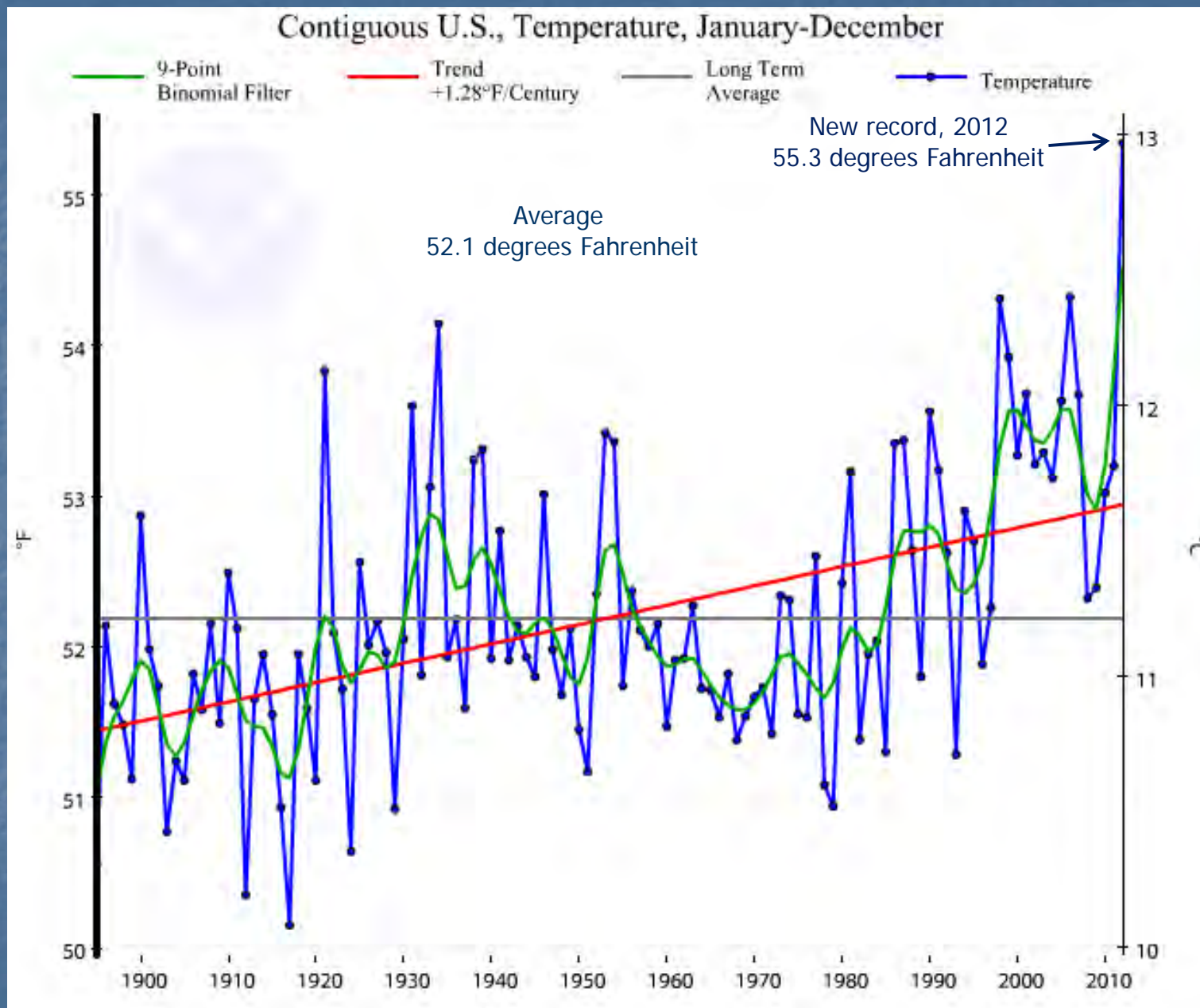
Situation and Outlook for the U.S. Dairy Industry

Jerry Cessna
Senior Agricultural Economist
USDA Agricultural Marketing Service
Dairy Programs

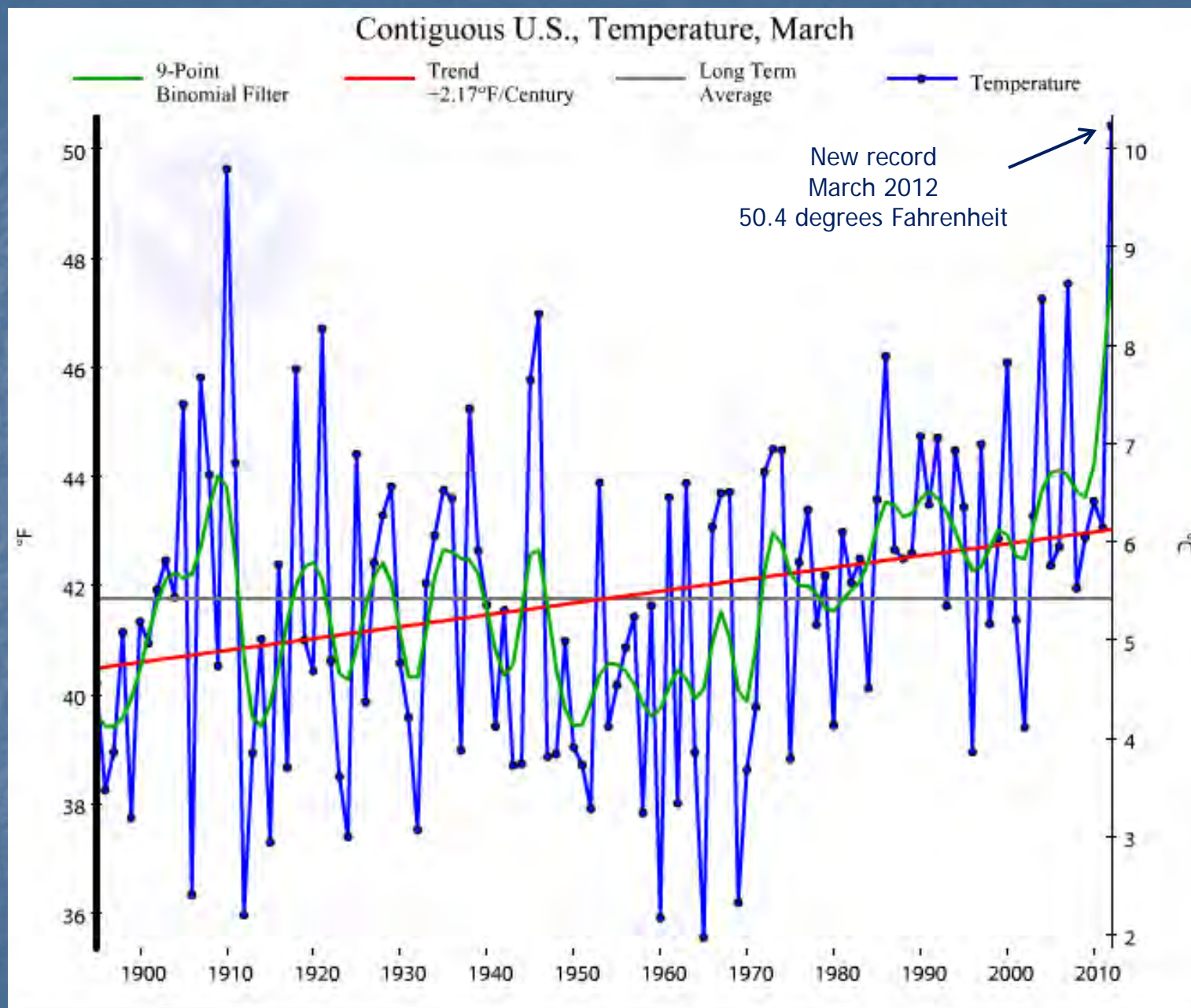
February 22, 2013

2012 A Record-Breaking Year for the Dairy Industry





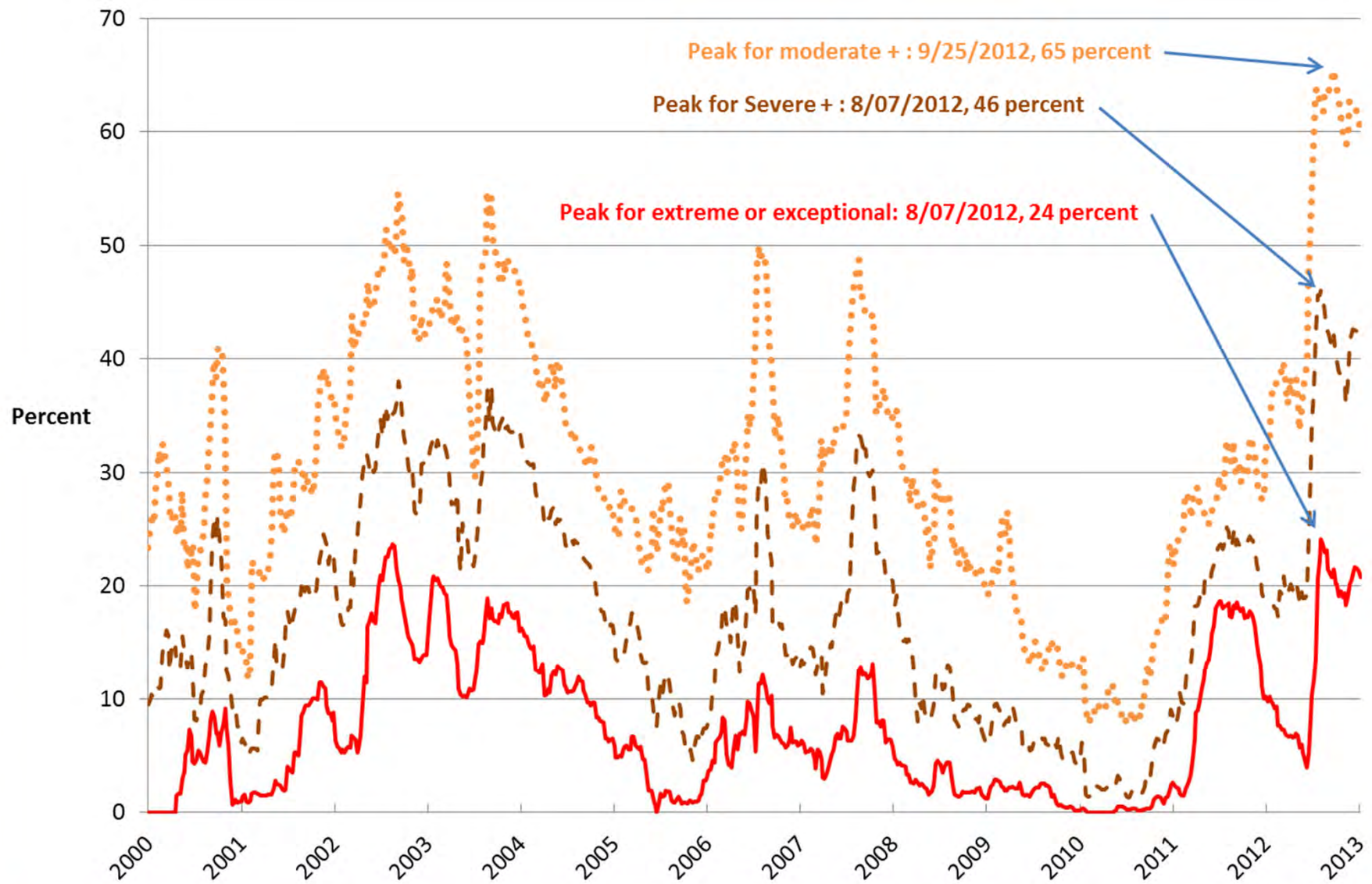
National Climatic Data Center, National Oceanic and Atmospheric Administration



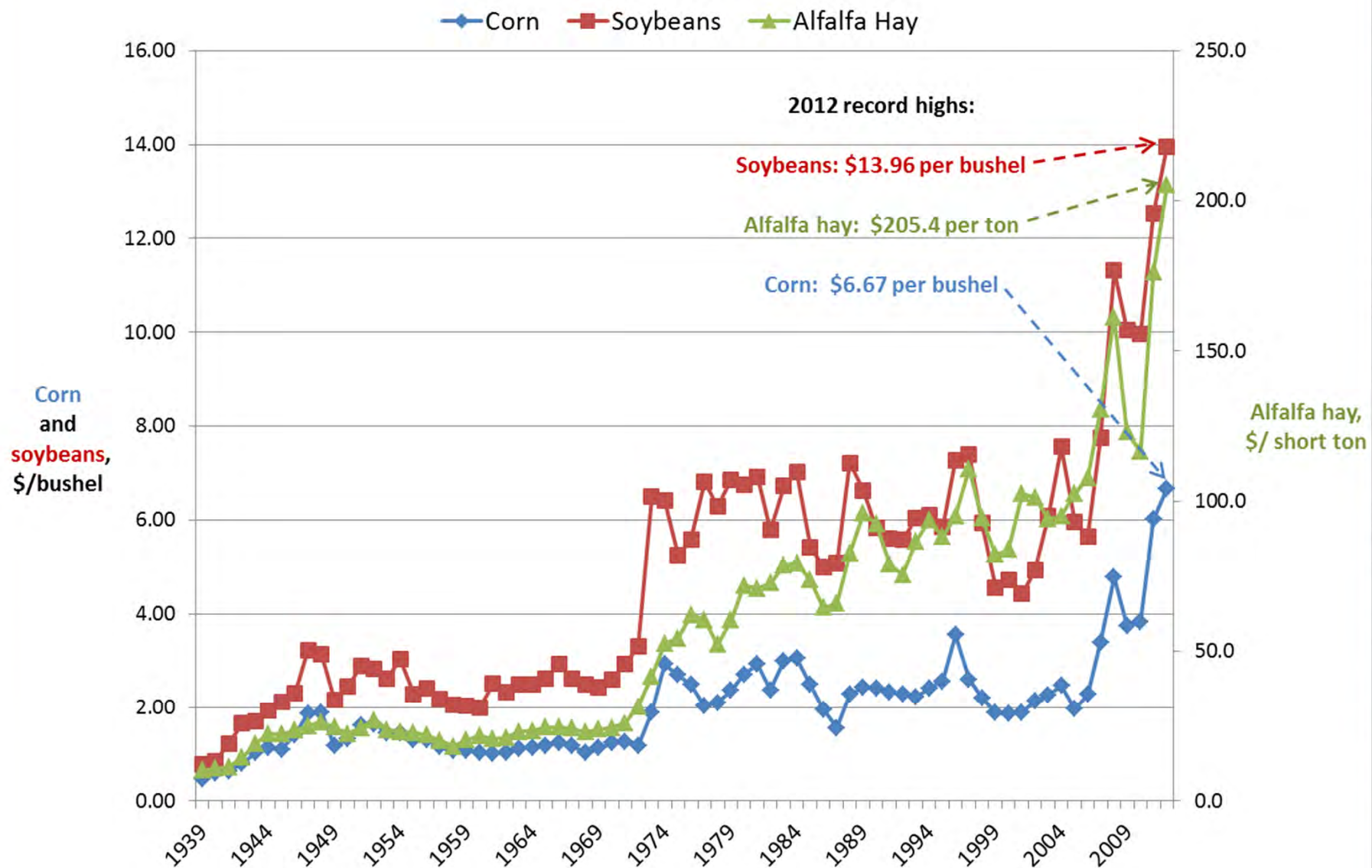
National Climatic Data Center, National Oceanic and Atmospheric Administration

Drought in Contiguous U.S. (2000 to Present)

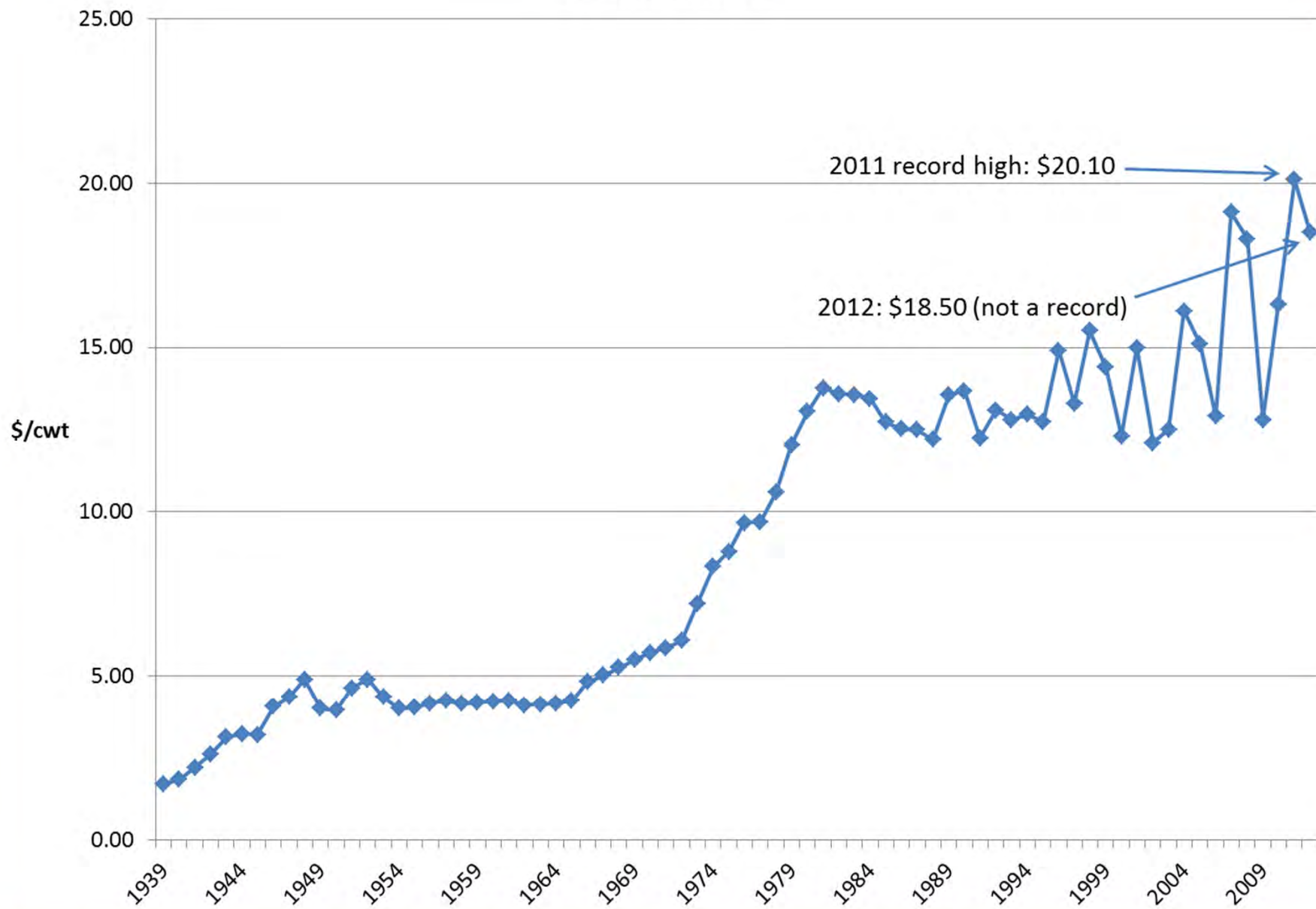
..... Moderate + - - - Severe + — Extreme or exceptional



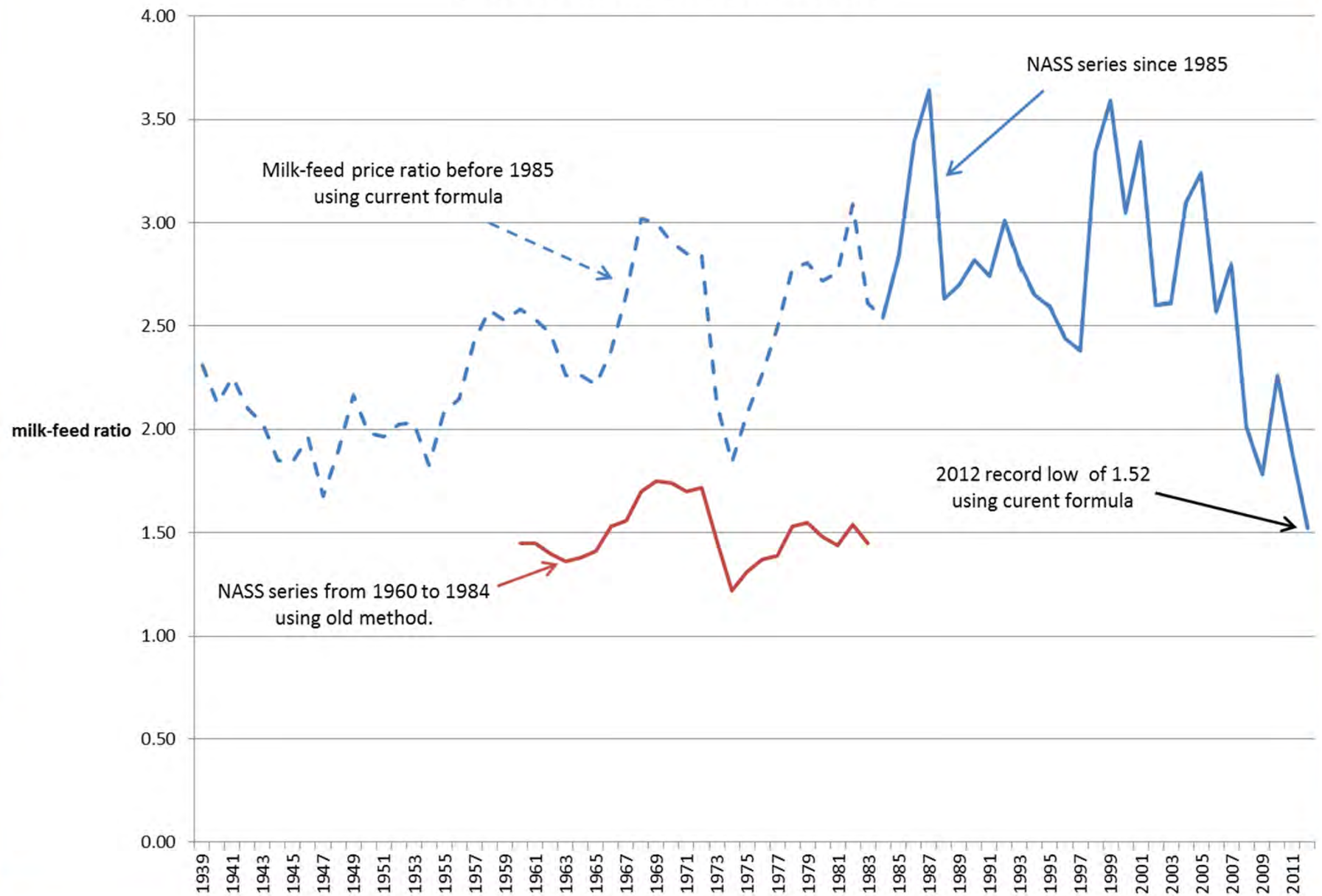
Prices of Feed Ingredients



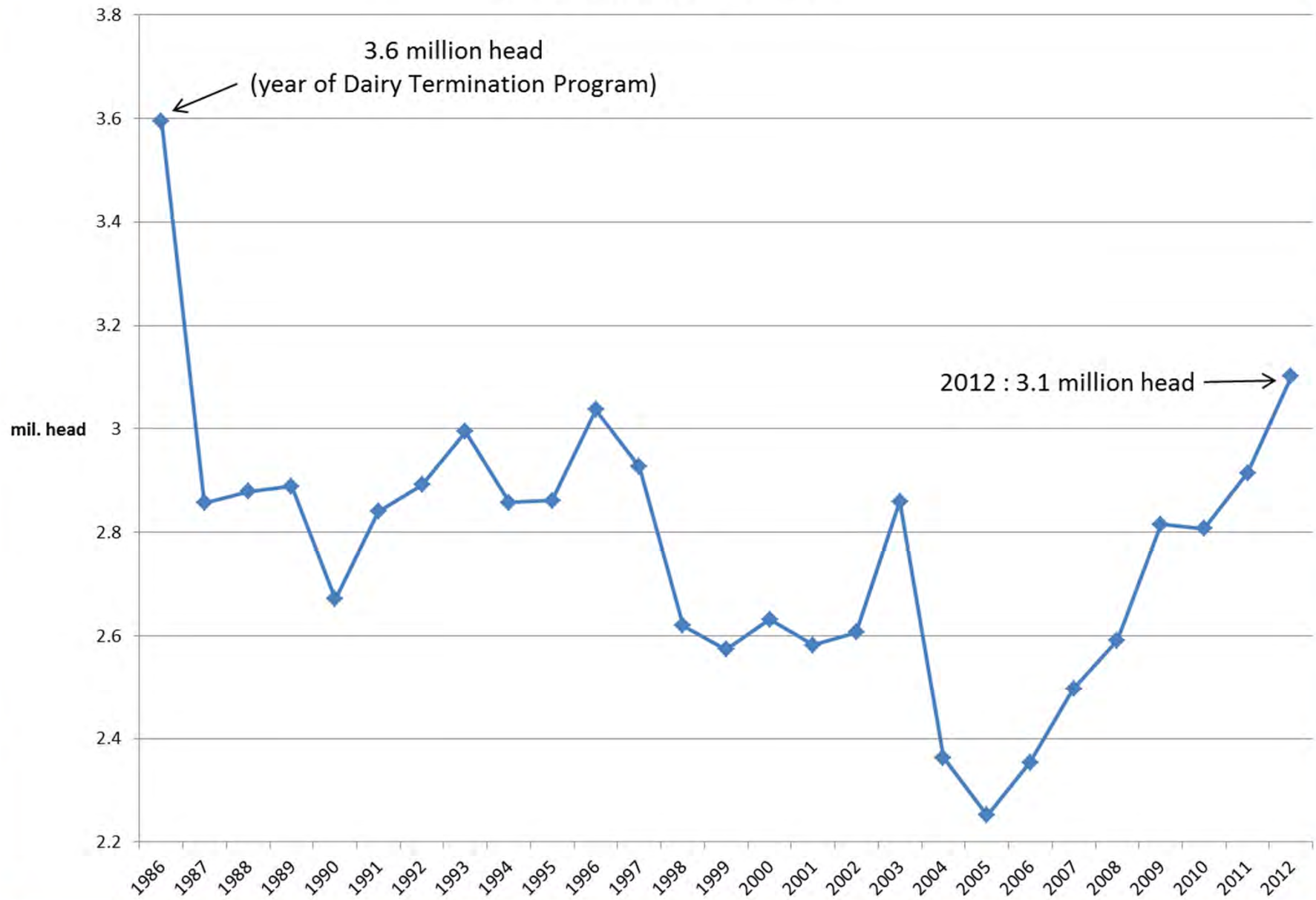
All-Milk Price



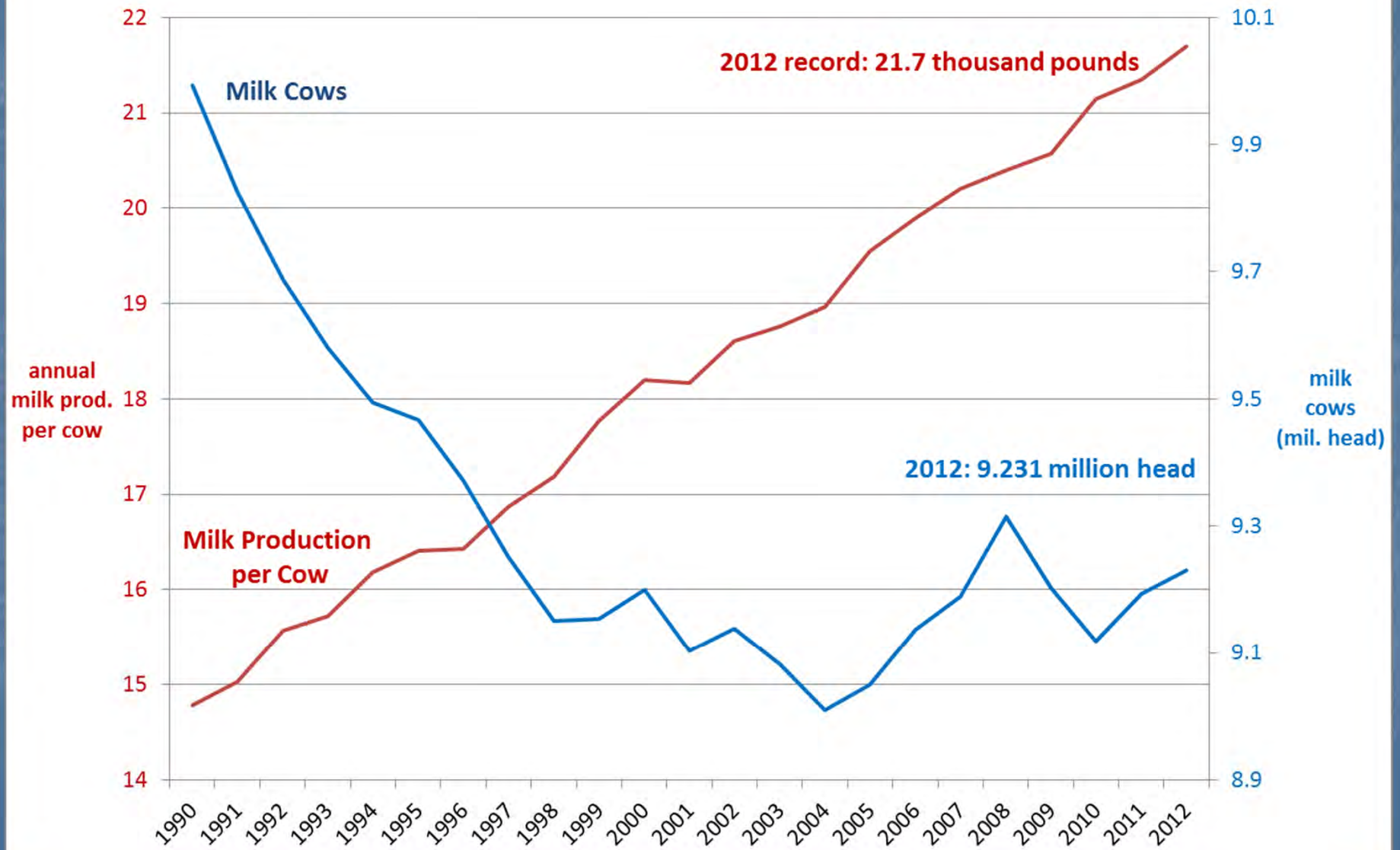
Annual Milk-Feed Price Ratio



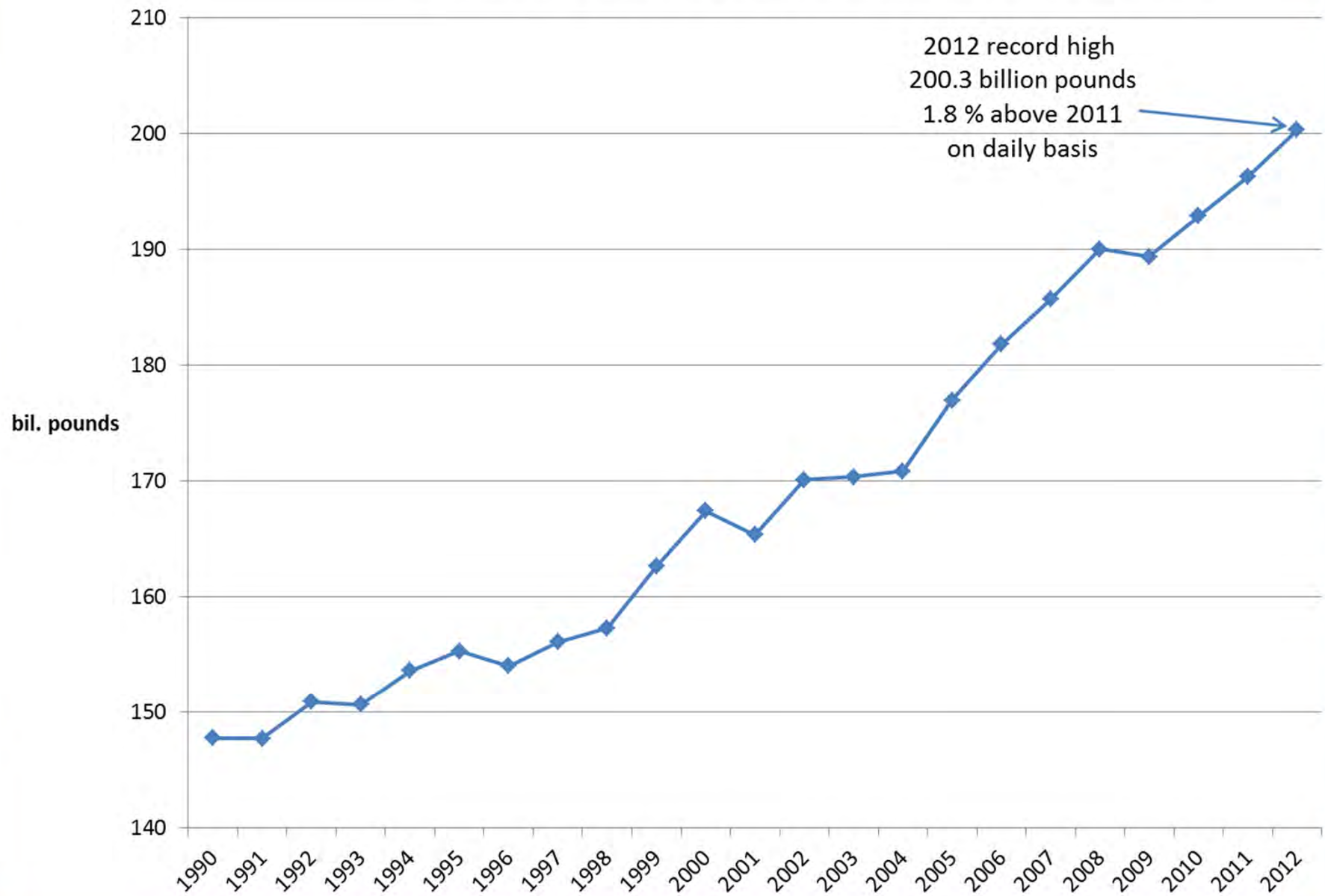
Milk Cows Slaughtered



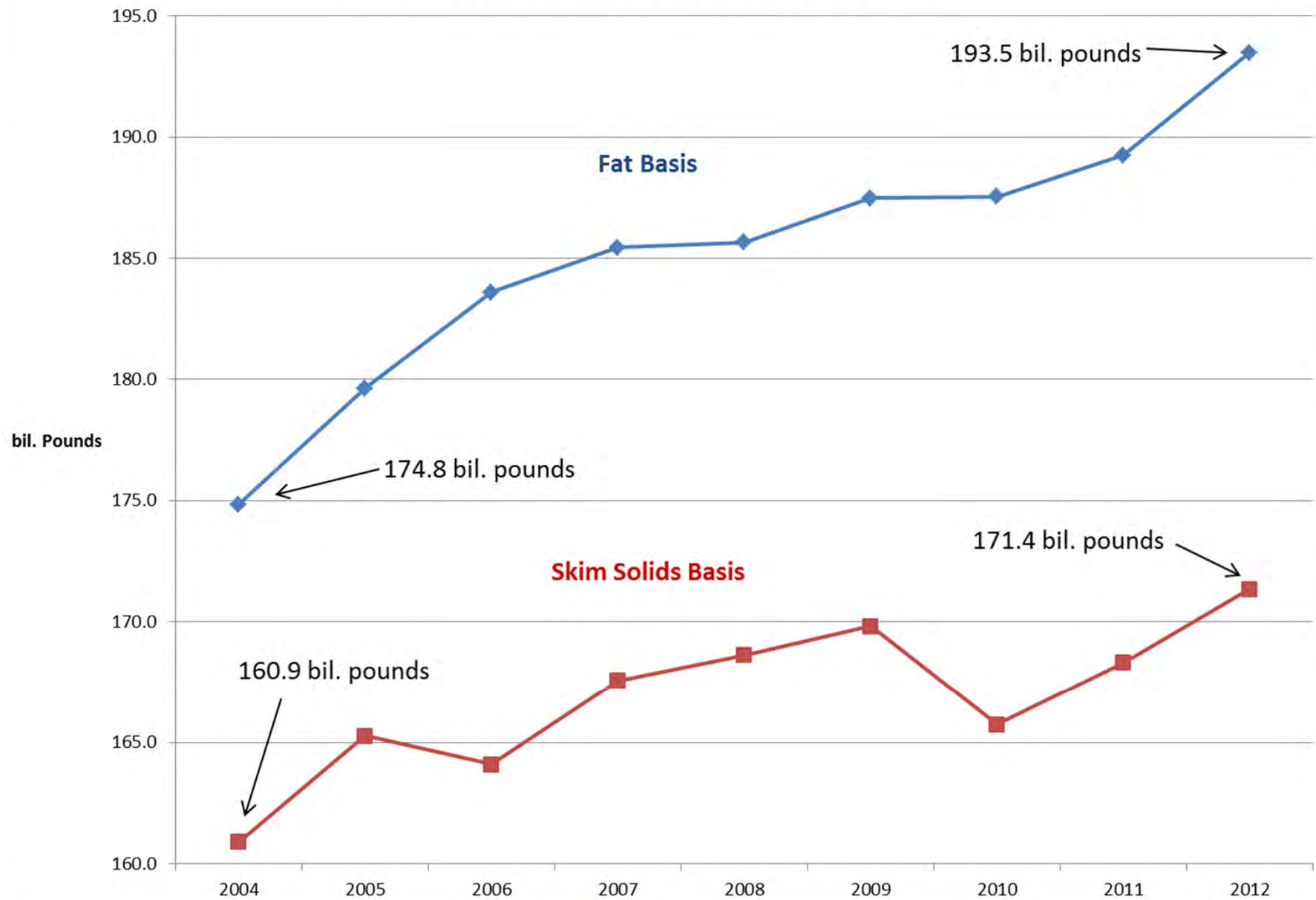
Milk Cow Numbers and Milk Production Per Cow



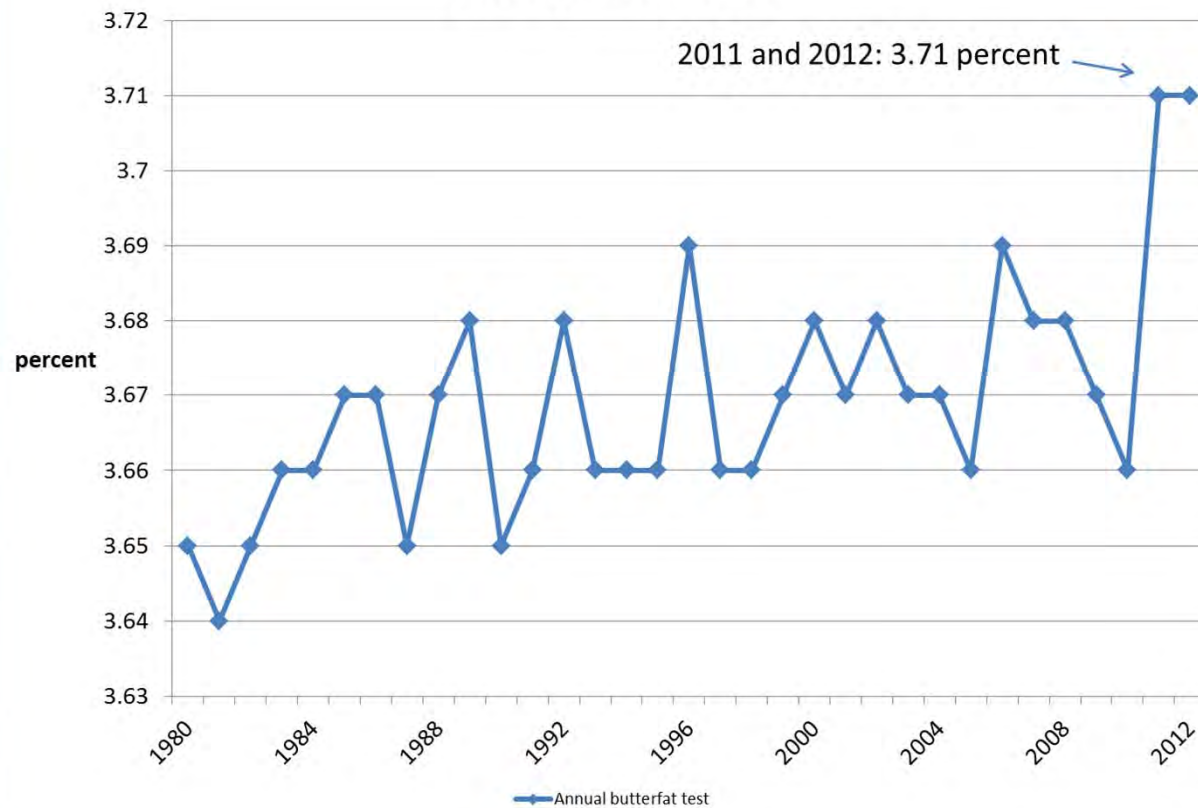
2012 Milk Production Passes 200 Billion Pound Mark



Domestic Commercial Disappearance



Annual Milkfat Test

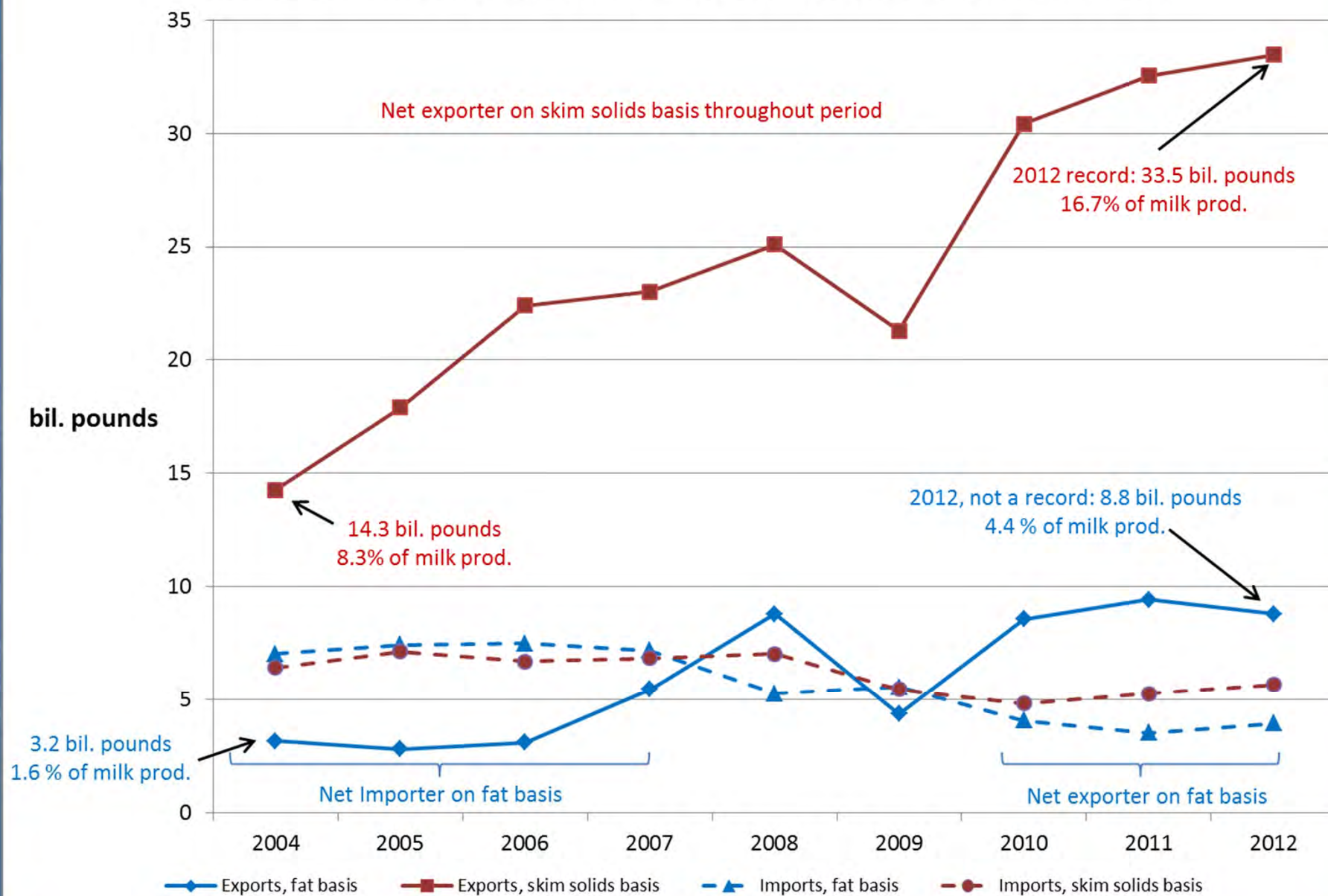


December 2012:
3.86 percent

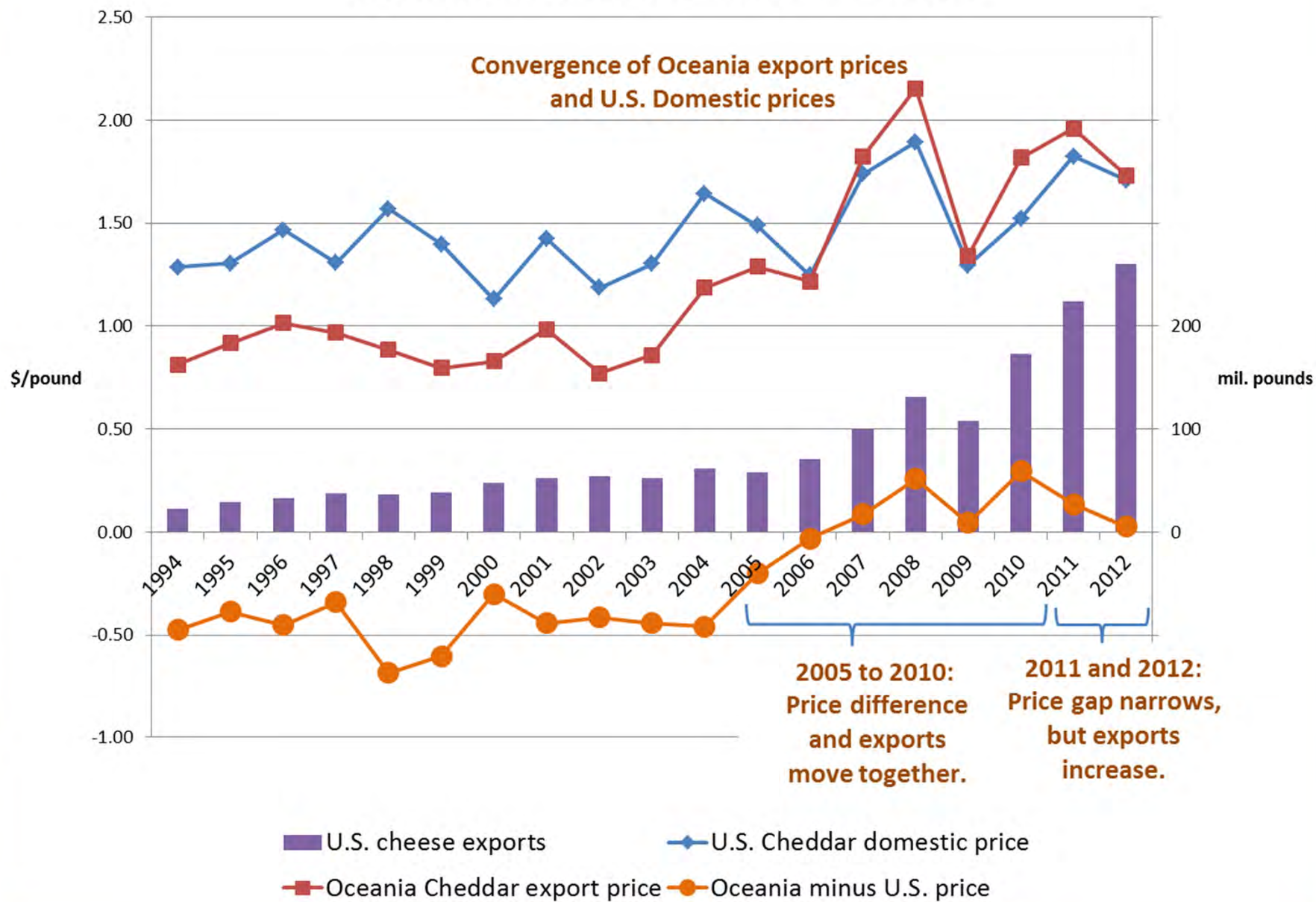
Dairy Cow Percentage Enrollment in Dairy Herd Improvement (DHI) Test Plans as of January 1 by Breed

| Breed | 2009 | 2010 | 2011 | 2012 | 2013 |
|----------|-------|-------|-------|-------|-------|
| Holstein | 89.1 | 87.6 | 86.8 | 86.0 | 84.7 |
| Mixed | 5.1 | 6.6 | 7.5 | 8.2 | 8.6 |
| Jersey | 5.1 | 5.2 | 5.1 | 5.2 | 6.2 |
| Other | 0.7 | 0.6 | 0.6 | 0.5 | 0.5 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

Annual Commercial Exports and Imports on Milk Equivalent Basis

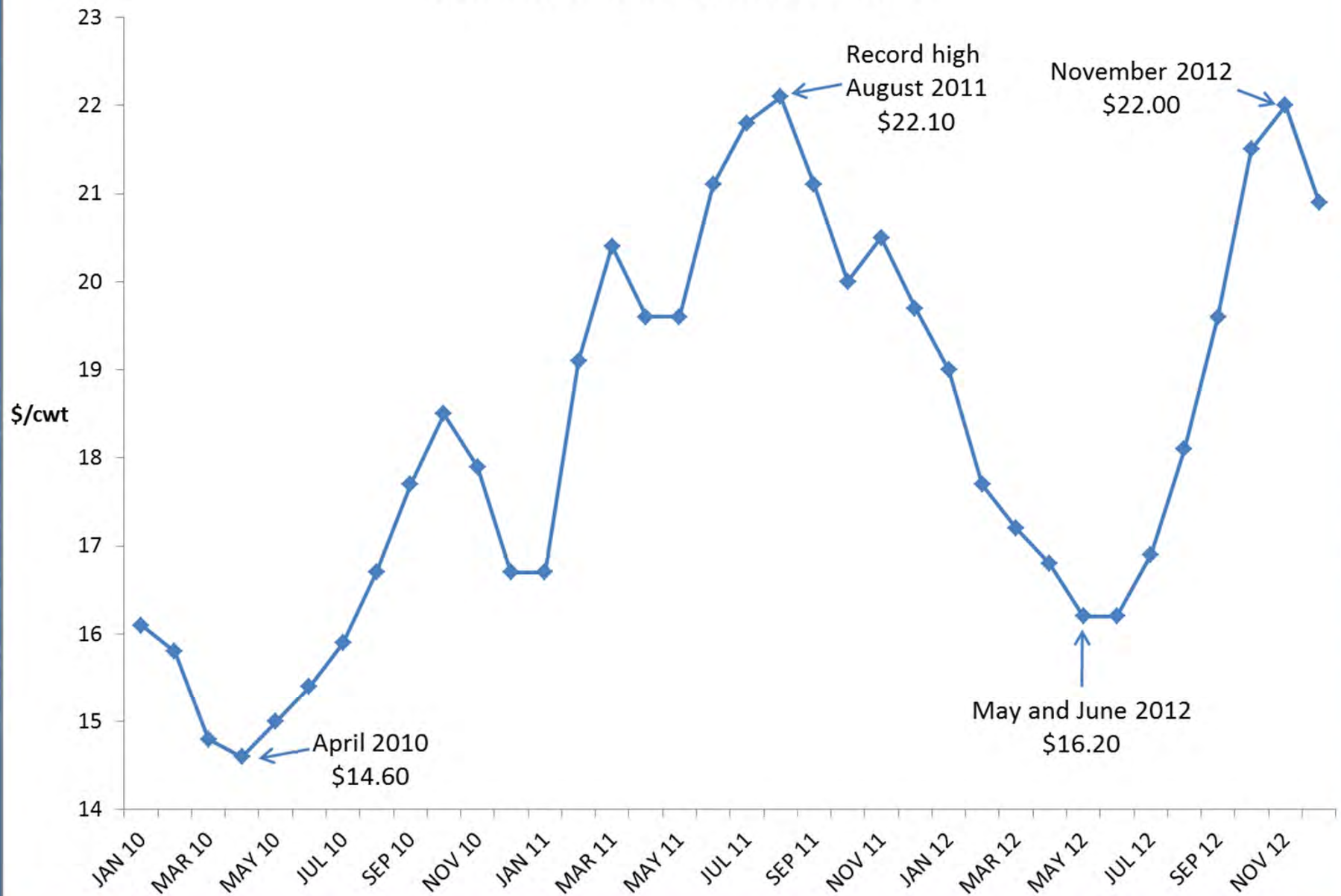


Relationship of Cheese Prices and Exports

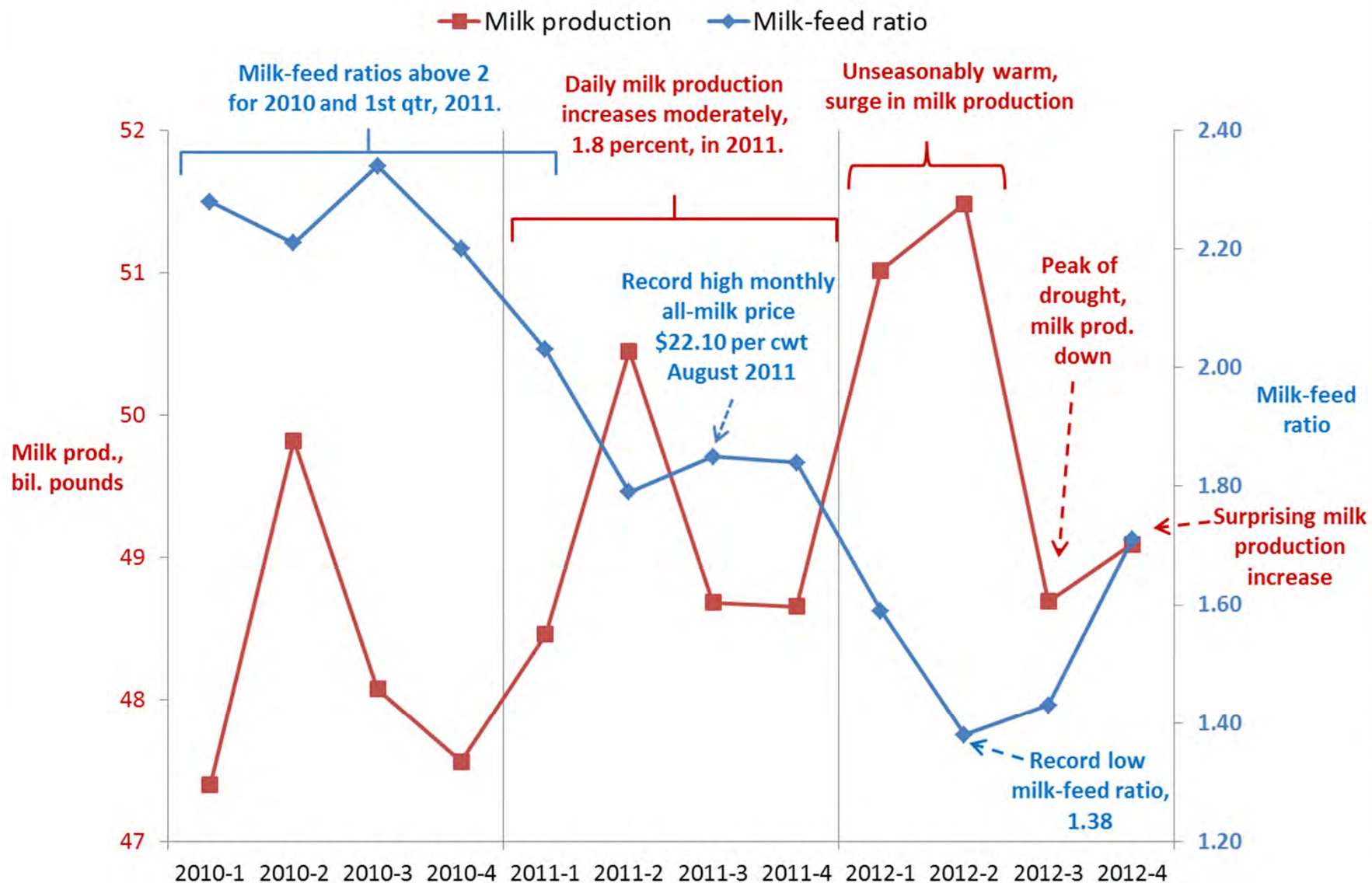


Closer Look at 2010 Through 2012

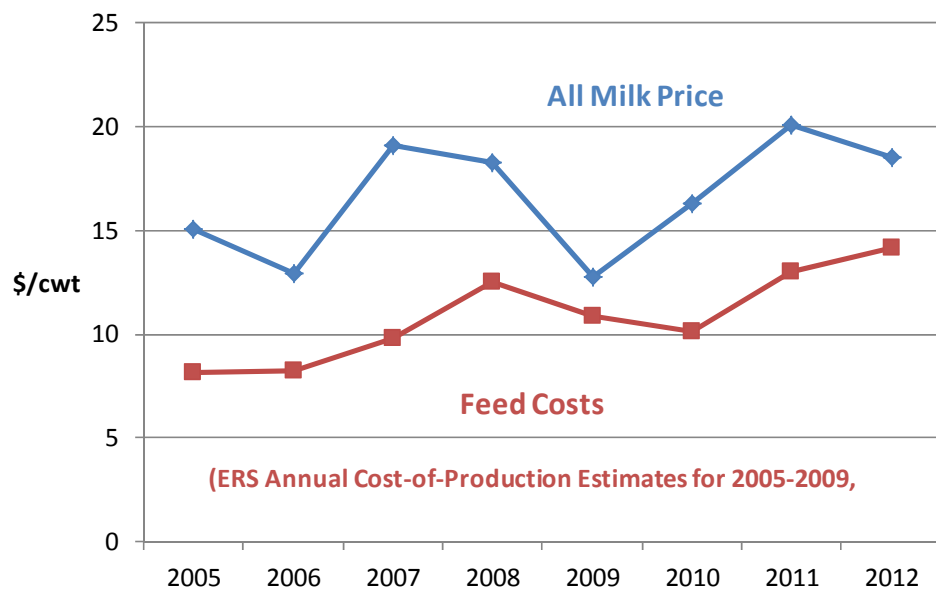
Monthly All-Milk Price, 2010-2012



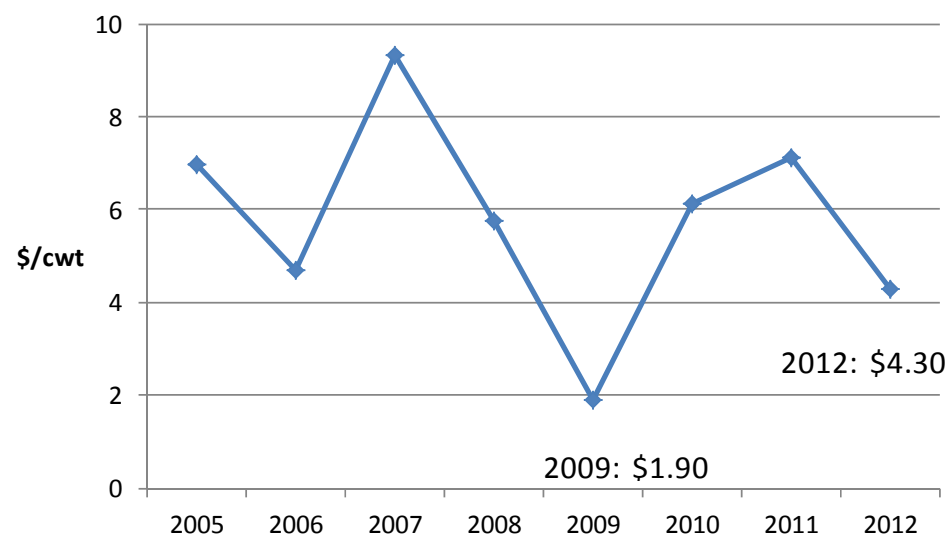
Milk Production and Milk-Feed Ratio



All Milk Price and Feed Costs

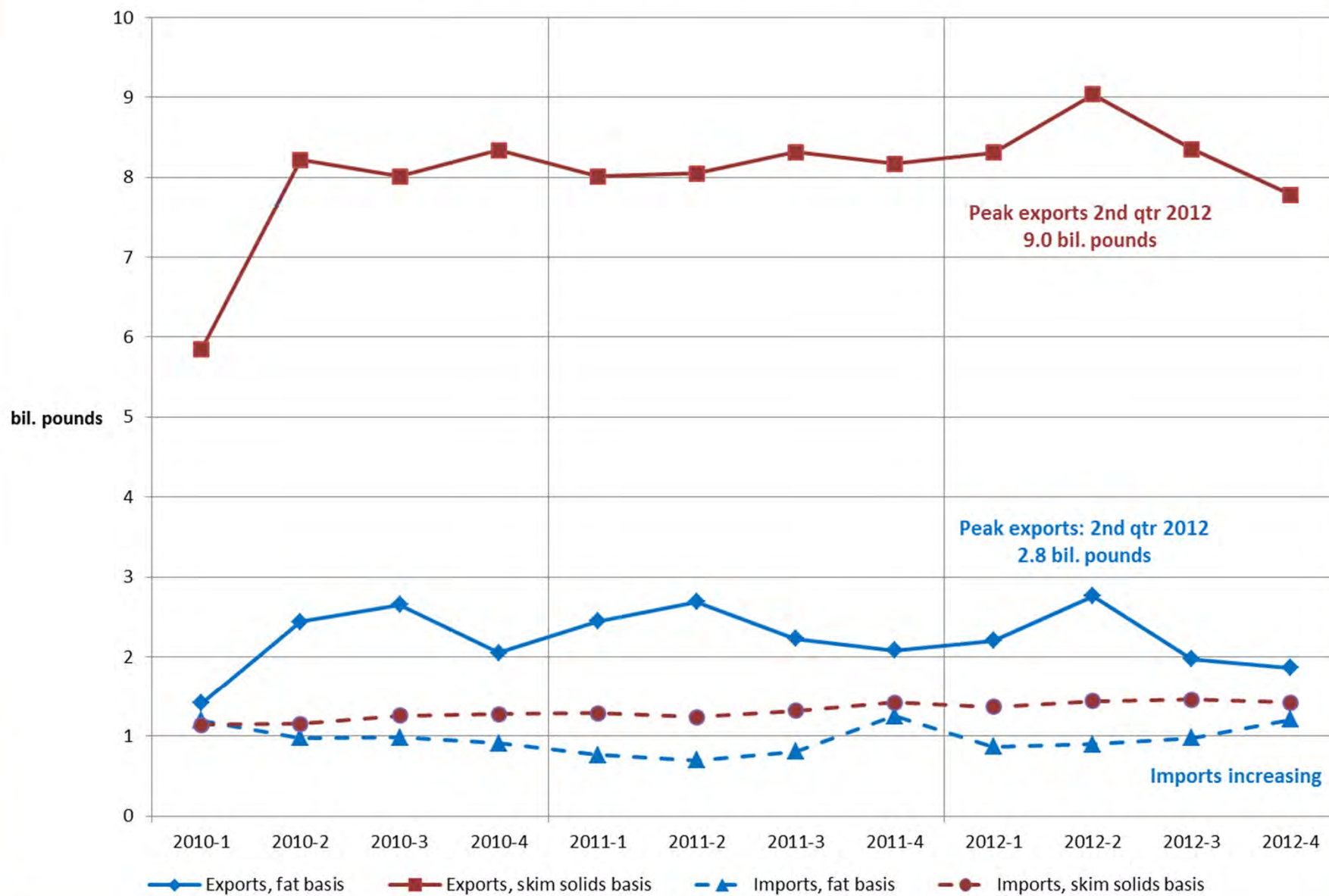


All-Milk Price Minus Feed Costs (using above data)



Margins on average
were smaller
in 2009 than in 2012.

Commercial Exports and Imports



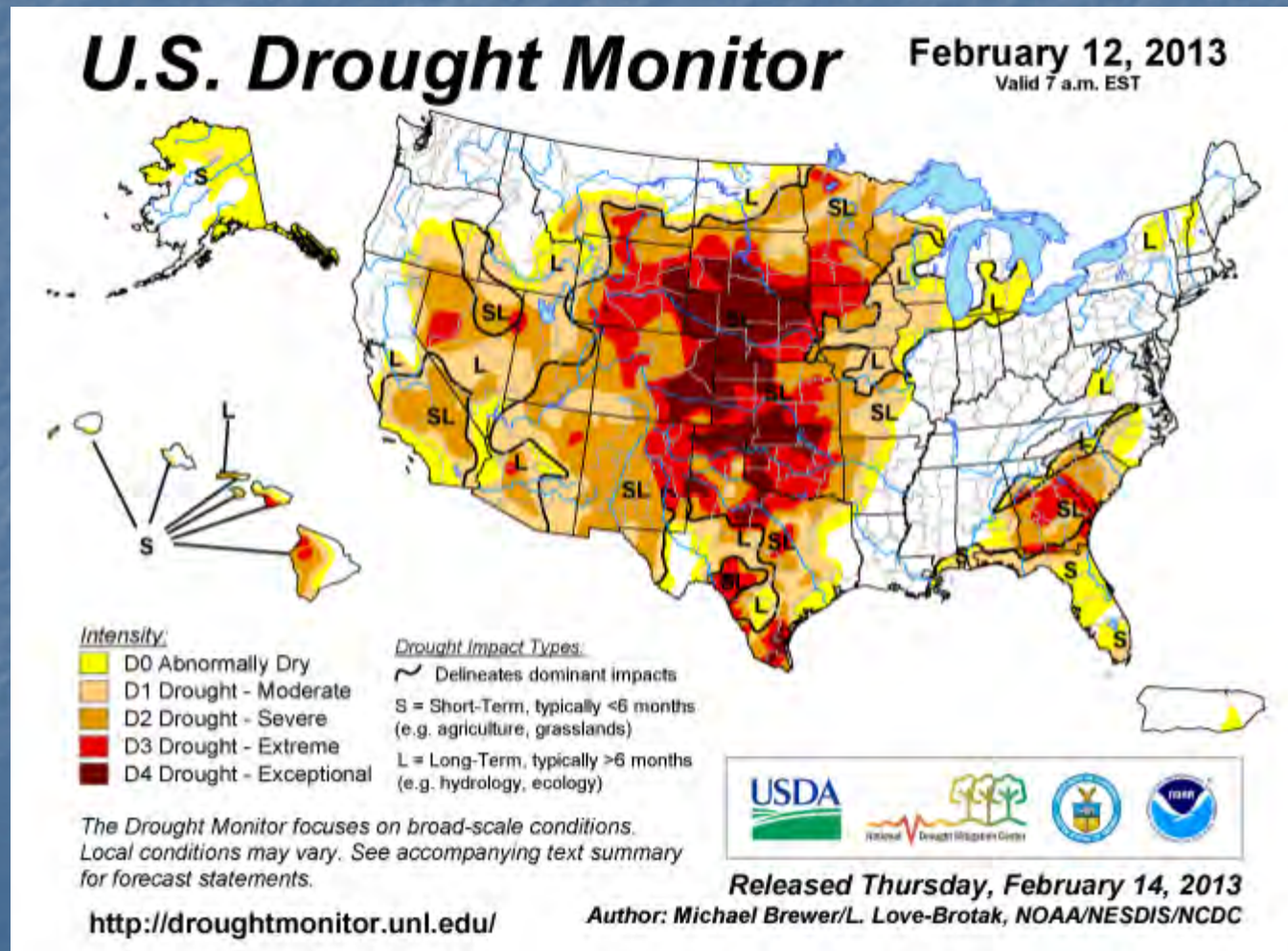
Transition

From 2012 to 2013

Still in a Drought

Projections Assume Return to Normal Weather

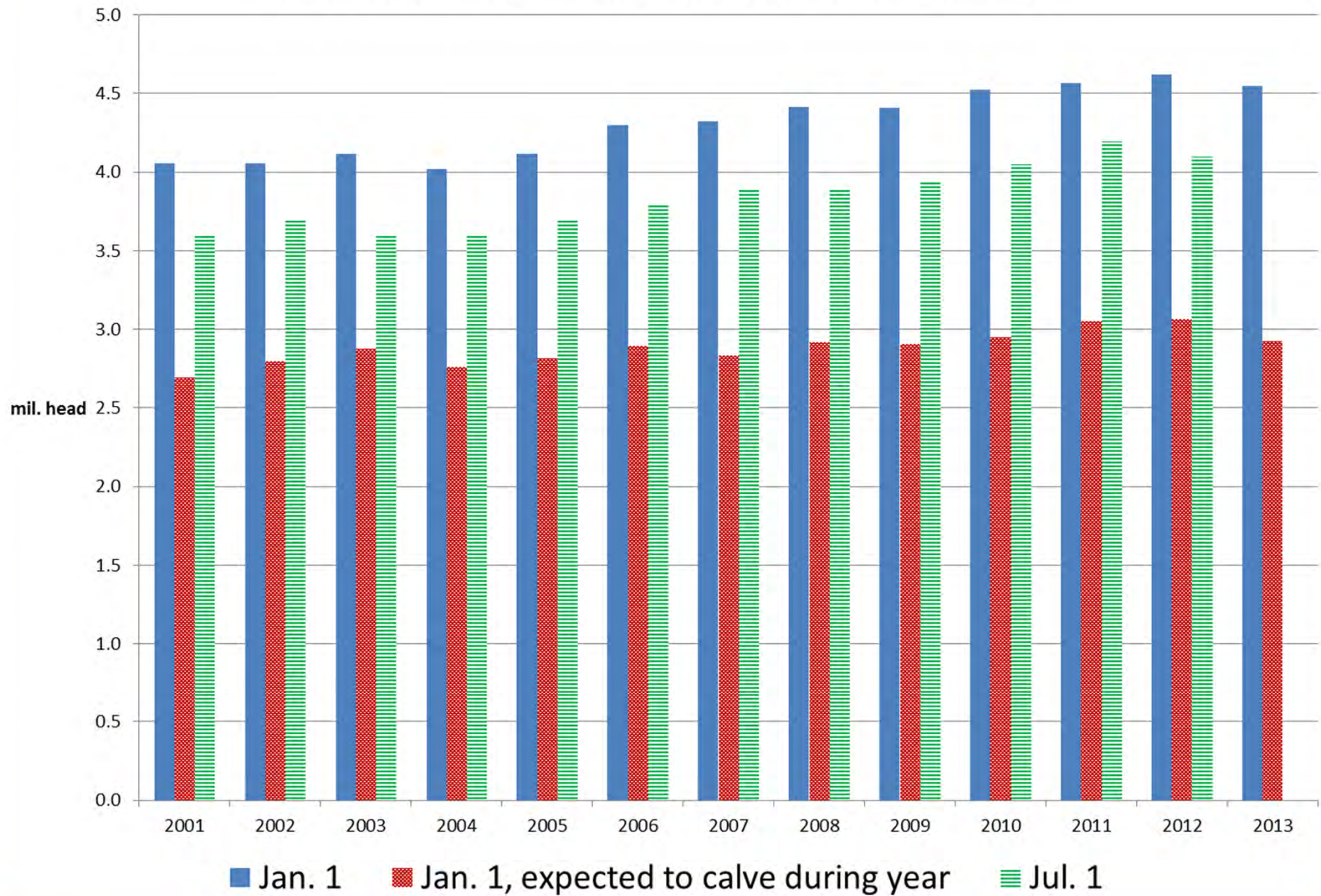
38 % of contiguous U.S. in severe or worse drought.
Down from peak of 65 %.



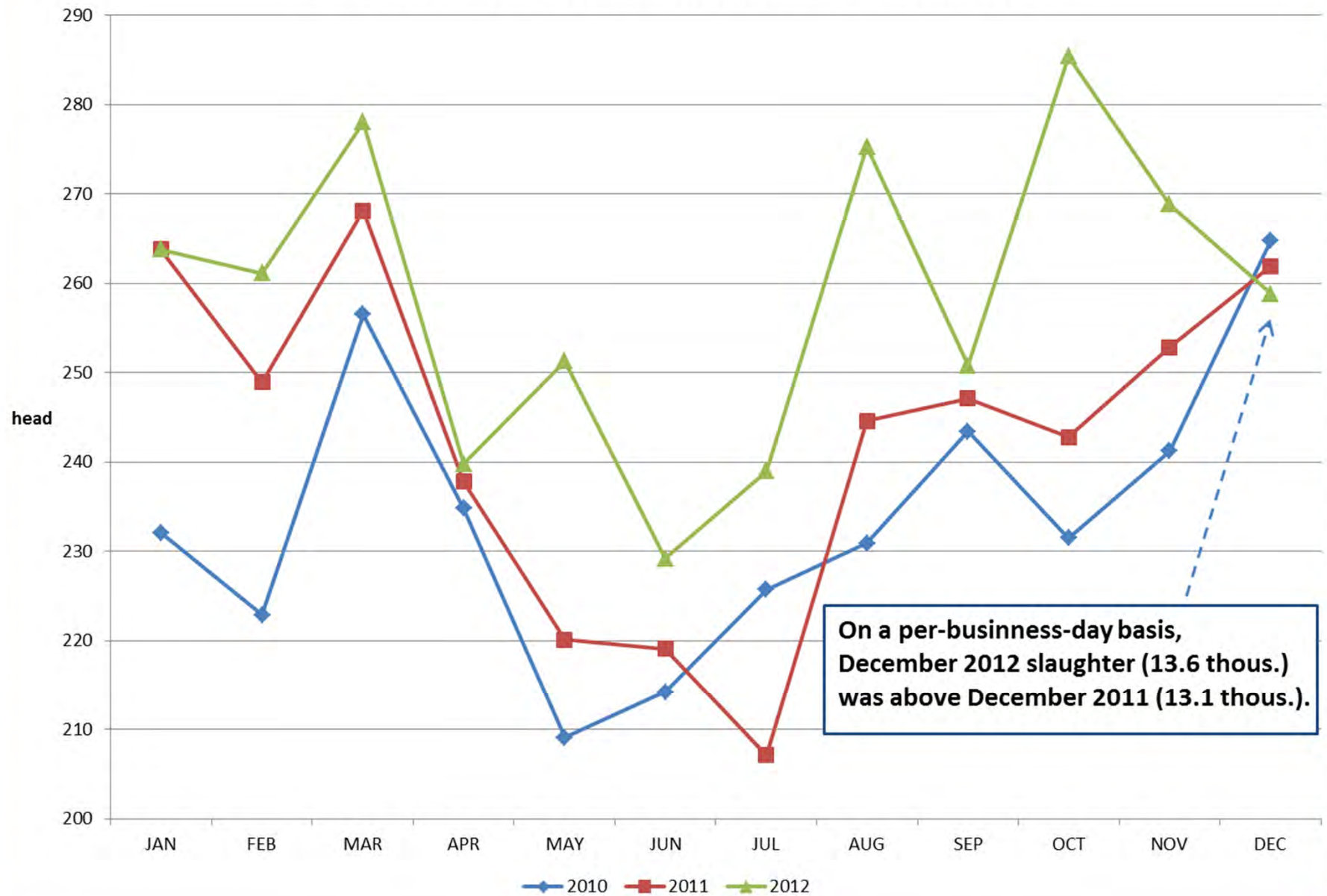
Feed Price Projections

- Corn (Marketing Year: Sept.-Aug.)
 - 2011/2012: \$6.22 per bushel (historical data)
 - 2012/2013: \$6.75 – \$7.65 per bushel
 - Expectations of a relatively large planted area and trend yield growth
 - 2013-2014: \$4.80 per bushel
- Soybean Meal (Marketing Year: Oct.-Sept.)
 - 2011/2012: \$394 per short ton (historical data)
 - 2012-2013: \$430 - \$460 per short ton
 - 2013-2014: \$300 per short ton
- Note: Feed price projections are per applicable marketing year.
Milk price, supply, and use projections are per calendar year.
- The lower feed price projections for 2013/14 marketing suggest some relief for dairy farmers in the latter part of calendar year 2013.

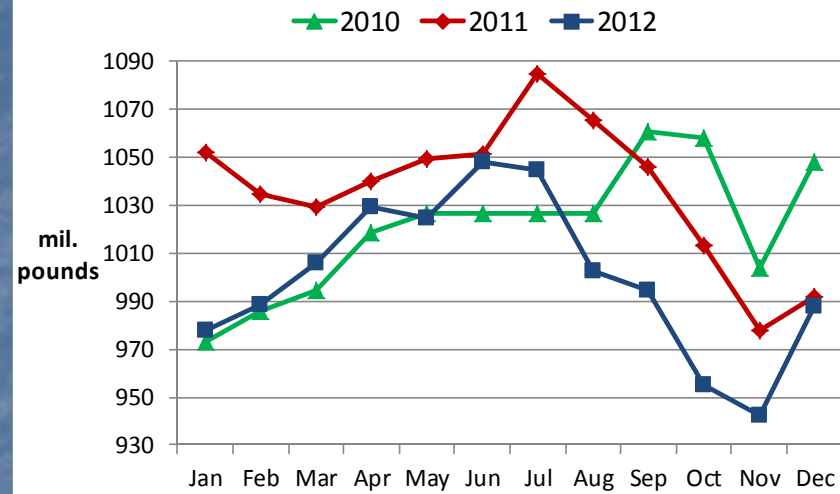
Milk Cow Replacement Heifers (500 pounds and over)



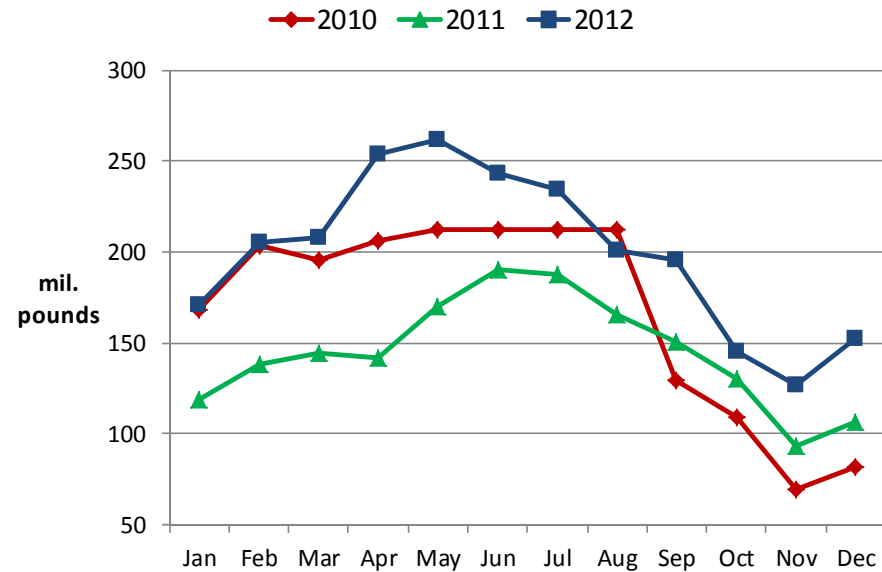
Dairy Cows Slaughtered Under Federal Inspection



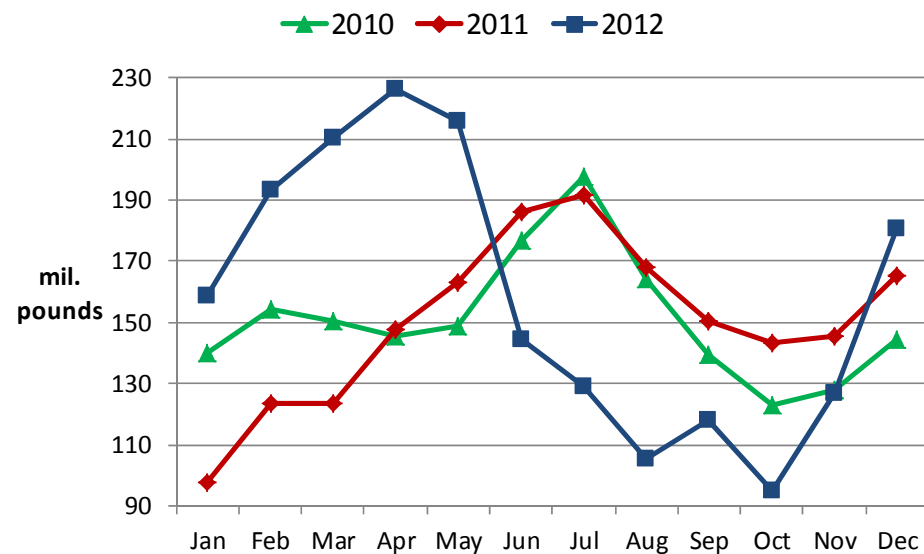
Total Natural Cheese Ending Stocks, Cold Storage



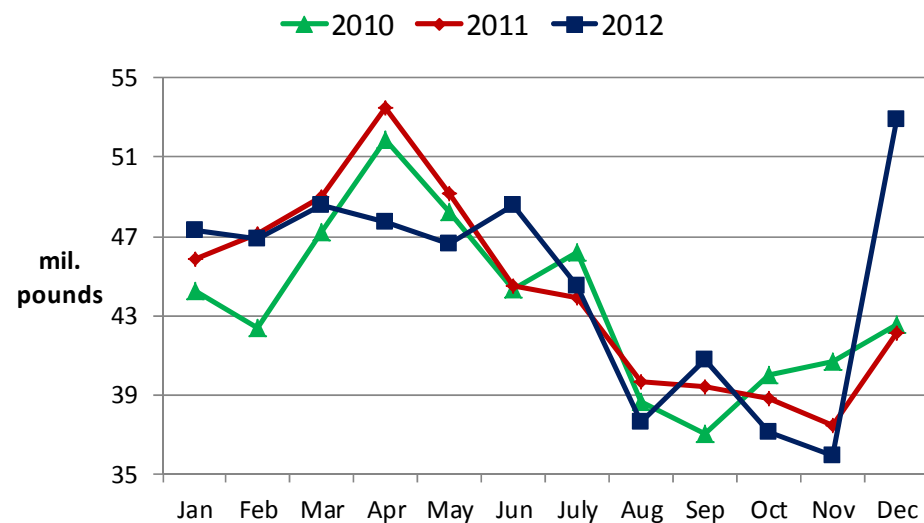
Butter Ending Stocks, Cold Storage



Manufacturer's Nonfat Dry Milk Ending Stocks



Manufacturer's Whey Ending Stocks, For Human Consumption

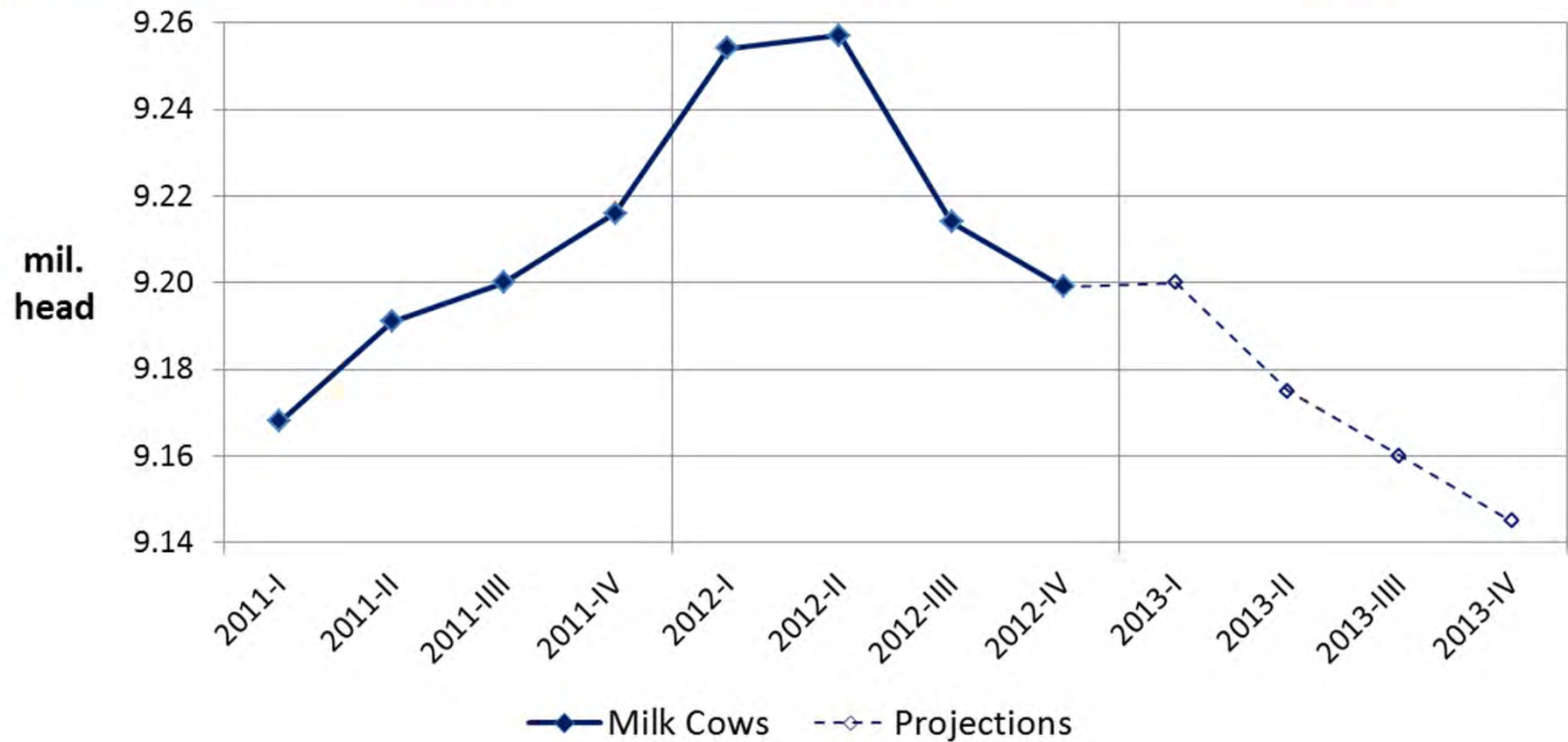


A Look Forward to 2013

Milk Cows (mil. head)

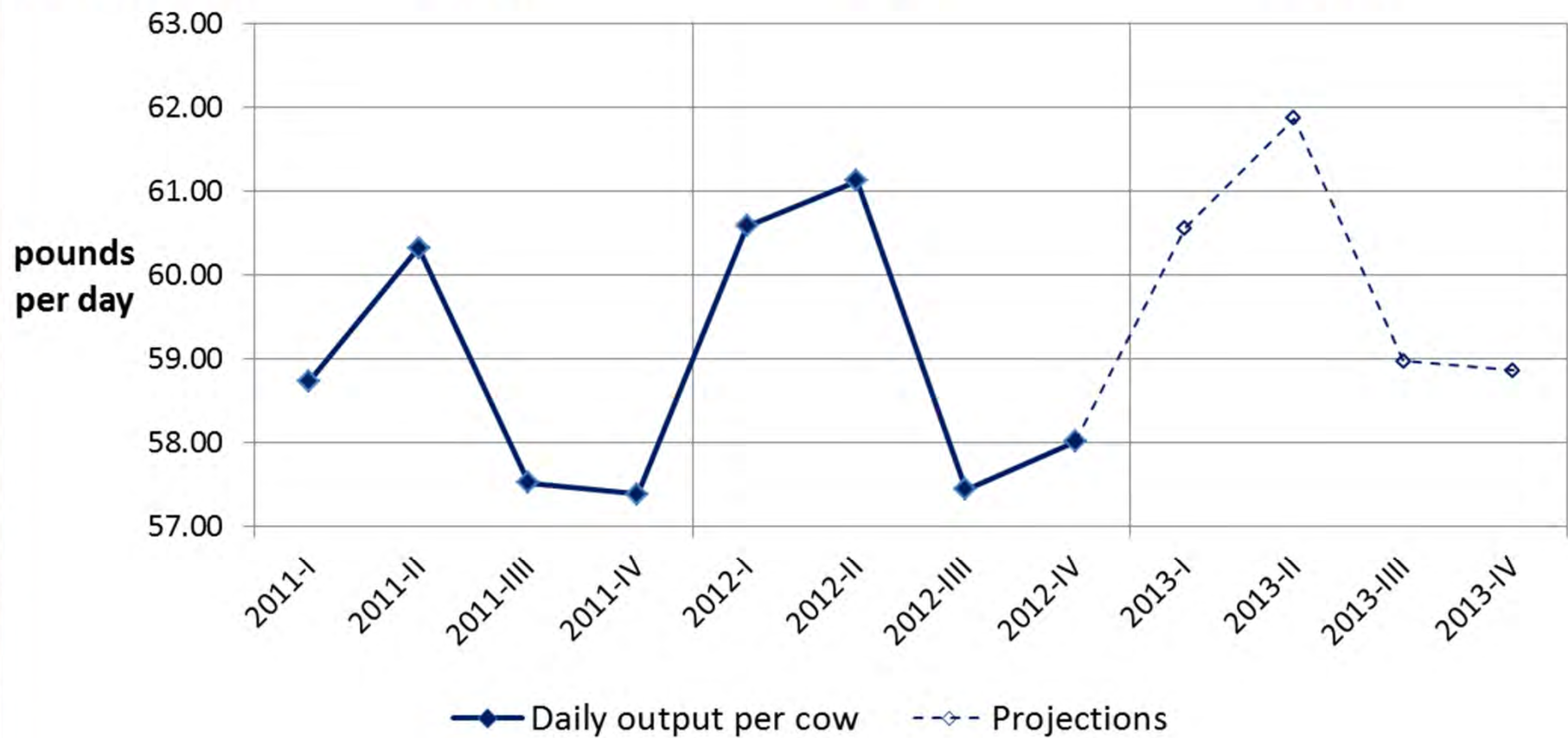
Milk Cows
% chg prev. yr.

| <u>2011</u> | <u>2012</u> | <u>2013</u> |
|---------------|---------------|---------------|
| 9.194 | 9.231 | 9.170 |
| + 0.8% | + 0.4% | - 0.7% |



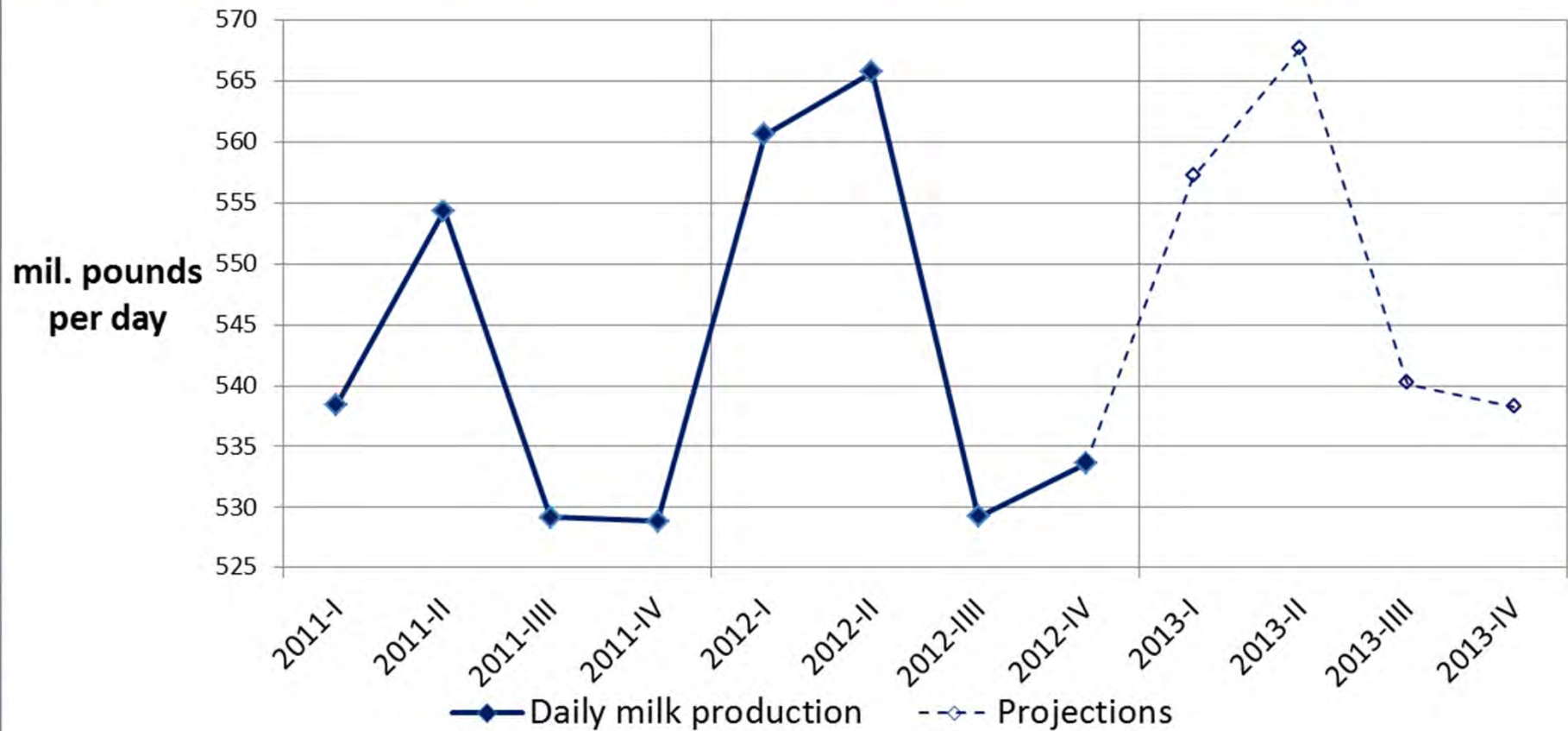
Daily Output per Cow (pounds)

| | <u>2011</u> | <u>2012</u> | <u>2013</u> |
|----------------------|-------------|-------------|-------------|
| Daily output per cow | 58.5 | 59.3 | 60.1 |
| % chg prev. yr. | + 0.9% | + 1.4% | + 1.3% |



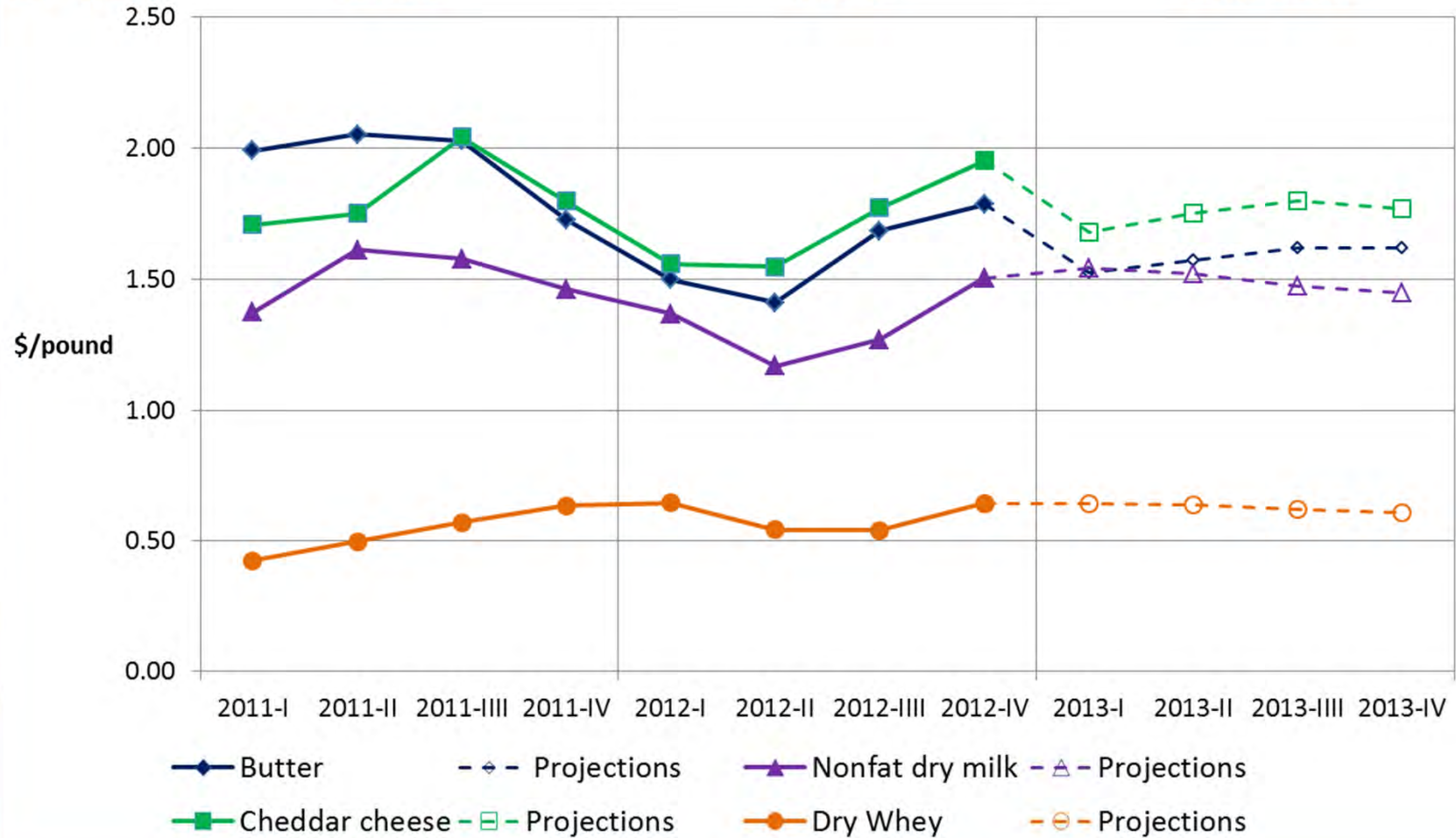
Daily Milk Production (mil. pounds)

| | | | |
|------------------------|--------------------|--------------------|--------------------|
| Milk Production | <u>2011</u> | <u>2012</u> | <u>2013</u> |
| % chg prev. yr. | 537.7 | 547.3 | 550.8 |
| | + 1.8% | + 1.8% | + 0.6% |



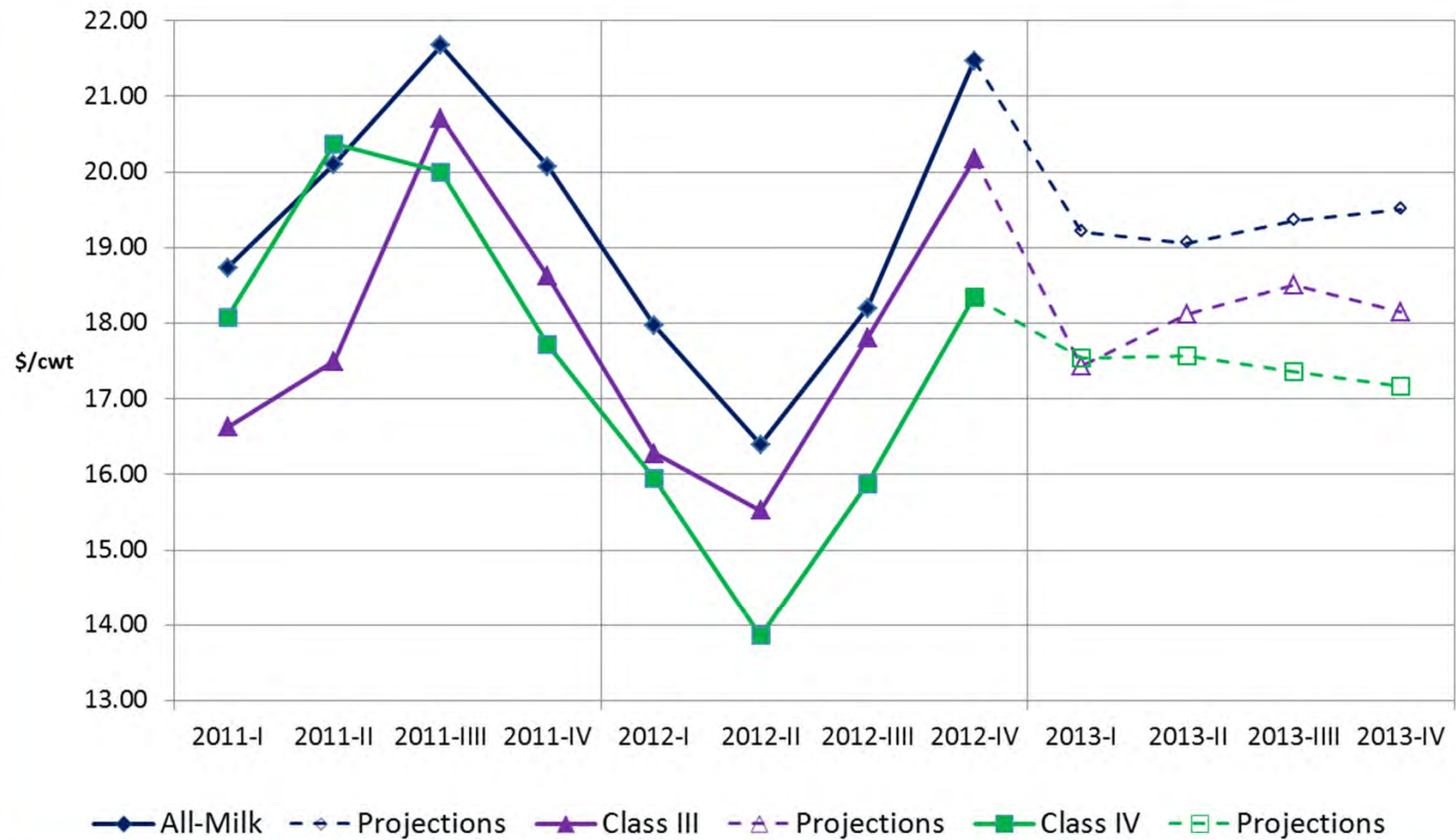
Dairy Products Prices (\$/pound)

| | | | |
|-----------------|-------------|-------------|-------------|
| | <u>2011</u> | <u>2012</u> | <u>2013</u> |
| Cheddar Cheese | 1.8246 | 1.7076 | 1.715-1.785 |
| Butter | 1.9498 | 1.5943 | 1.535-1.635 |
| Nonfat Dry Milk | 1.5058 | 1.3279 | 1.465-1.525 |
| Dry Whey | 0.5325 | 0.5935 | 0.615-0.645 |



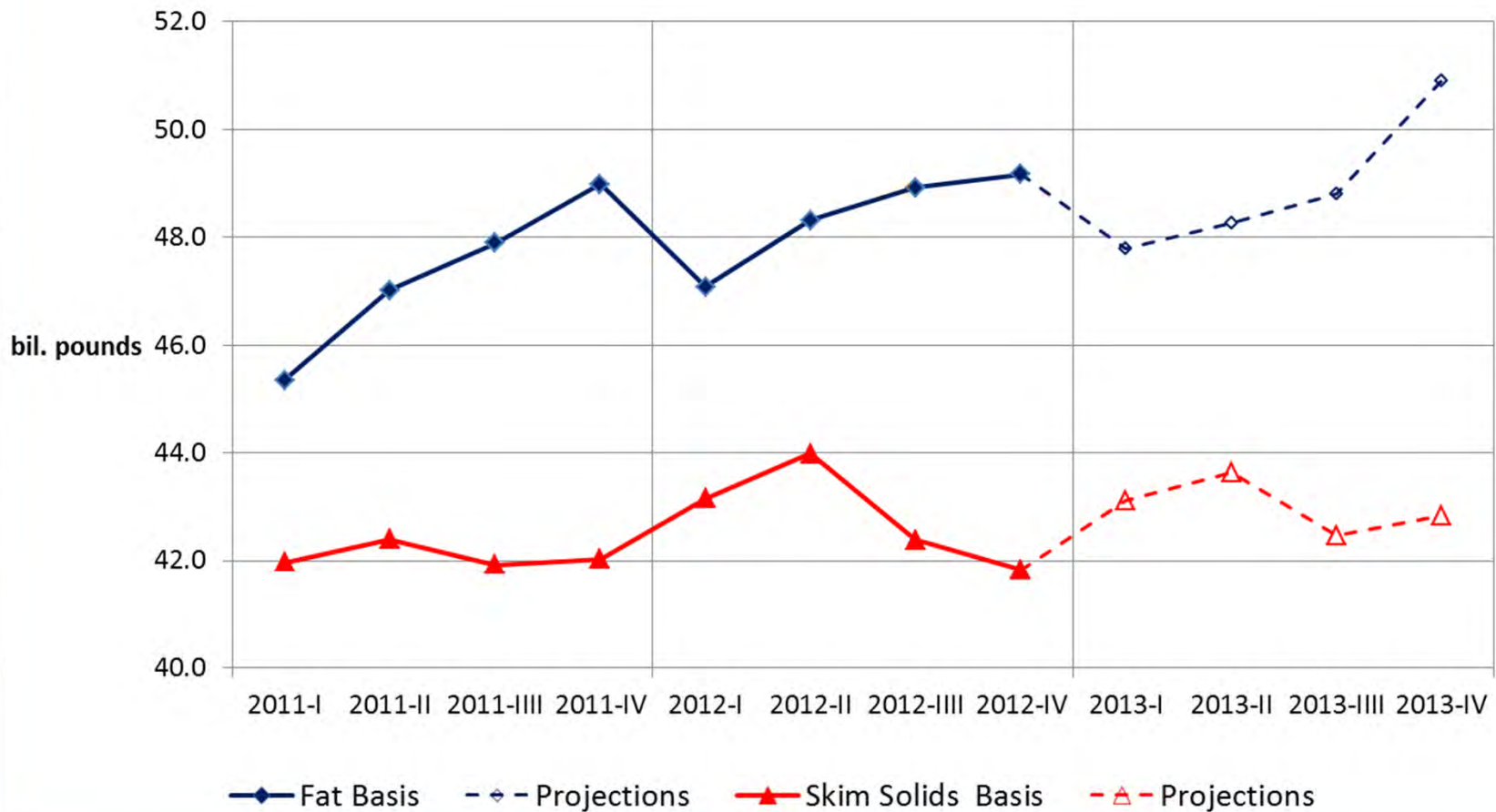
Milk Prices (\$/cwt)

| | | | |
|------------------|--------------|--------------|--------------------|
| All Milk | 2011 | 2012 | 2013 |
| | 20.14 | 18.51 | 18.90-19.60 |
| Class III | 18.37 | 17.44 | 17.70-18.40 |
| Class IV | 19.04 | 16.01 | 17.00-17.80 |



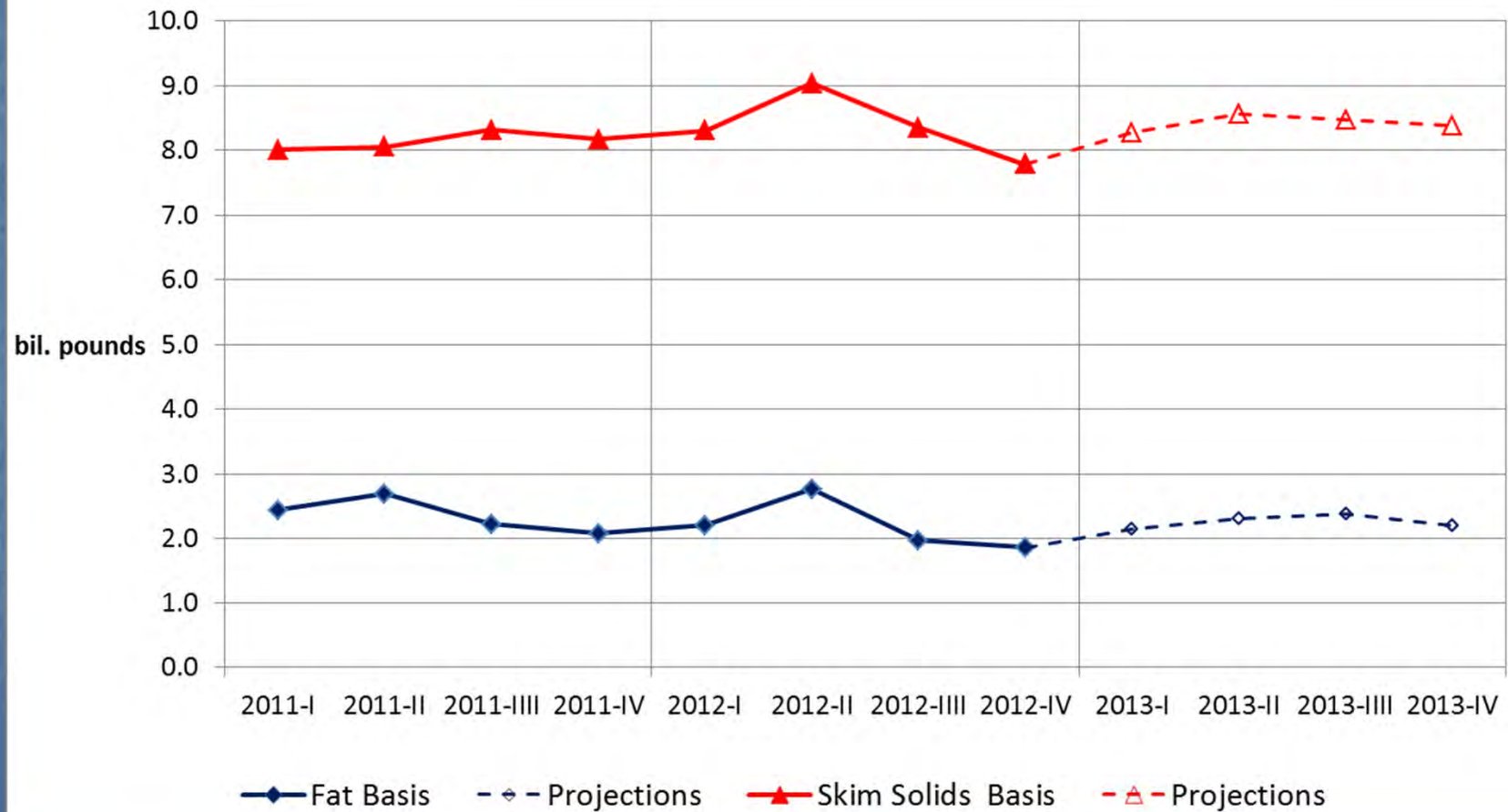
Domestic Commercial Use (bil. lbs)

| | | | |
|--------------------------|---------------|---------------|---------------|
| | <u>2011</u> | <u>2012</u> | <u>2013</u> |
| Fat Basis | 189.2 | 193.5 | 195.7 |
| % chg prev. yr. | + 0.9% | + 2.2% | + 1.2% |
| Skim Solids basis | 168.3 | 171.4 | 172.1 |
| % chg prev. yr. | + 1.6% | + 1.8% | + 0.4% |



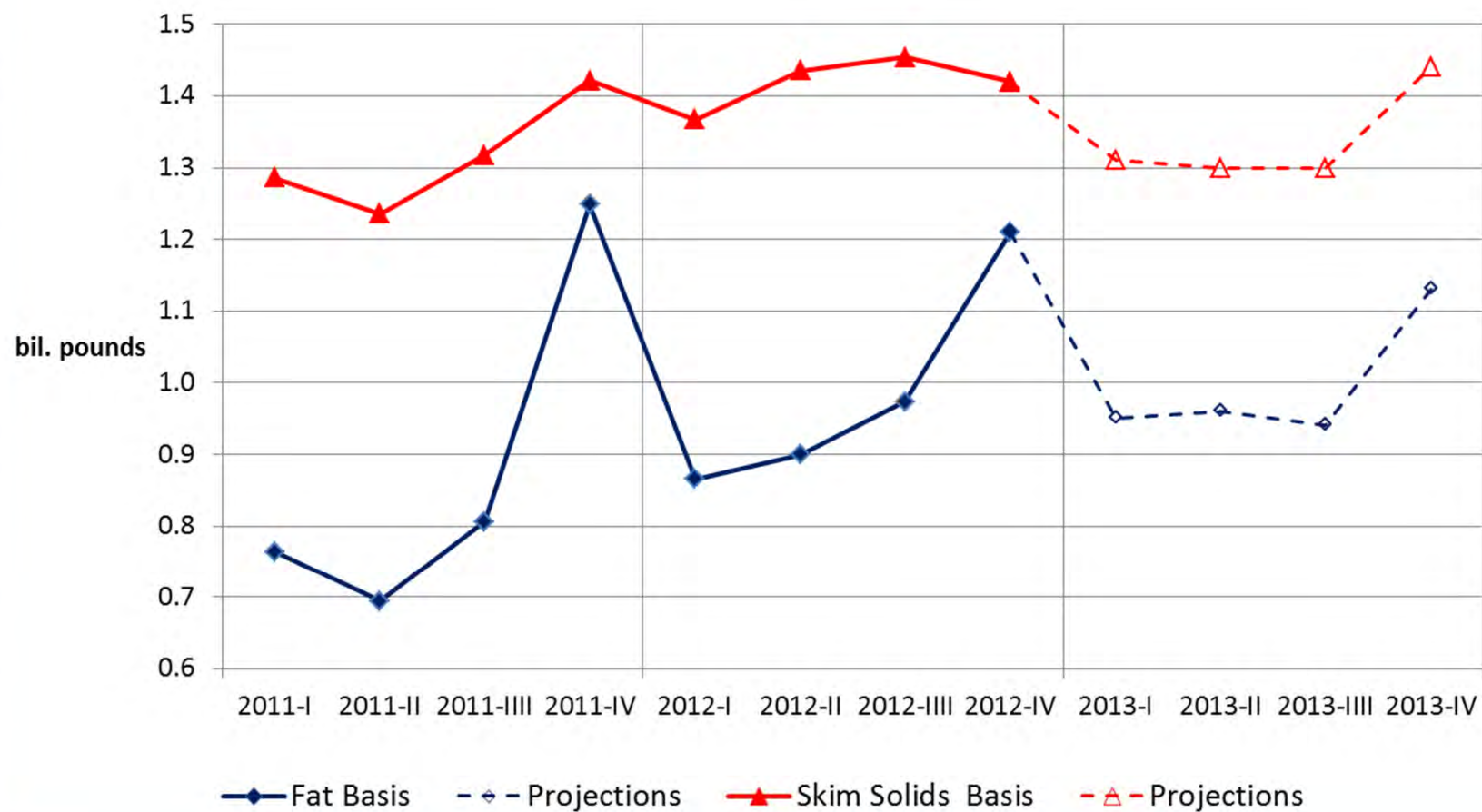
Commercial Exports (bil. lbs)

| | | | |
|--------------------------|----------------|---------------|---------------|
| | <u>2011</u> | <u>2012</u> | <u>2013</u> |
| Fat Basis | 9.4 | 8.8 | 9.0 |
| % chg prev. yr. | + 10.3% | - 6.8% | + 2.6% |
| Skim Solids basis | 32.5 | 33.5 | 33.7 |
| % chg prev. yr. | + 7.0% | + 2.9% | + 0.7% |



Imports (bil. lbs)

| | | | |
|--------------------------|----------------|----------------|---------------|
| | <u>2011</u> | <u>2012</u> | <u>2013</u> |
| Fat Basis | 3.5 | 4.0 | 4.0 |
| % chg prev. yr. | - 13.5% | + 12.4% | + 0.8% |
| Skim Solids basis | 5.3 | 5.7 | 5.4 |
| % chg prev. yr. | + 9.0% | + 7.9% | - 5.7% |



Ending Commercial Stocks (bil. lbs)

Fat Basis
2011
10.9
% chg prev. yr.
+ 0.8%

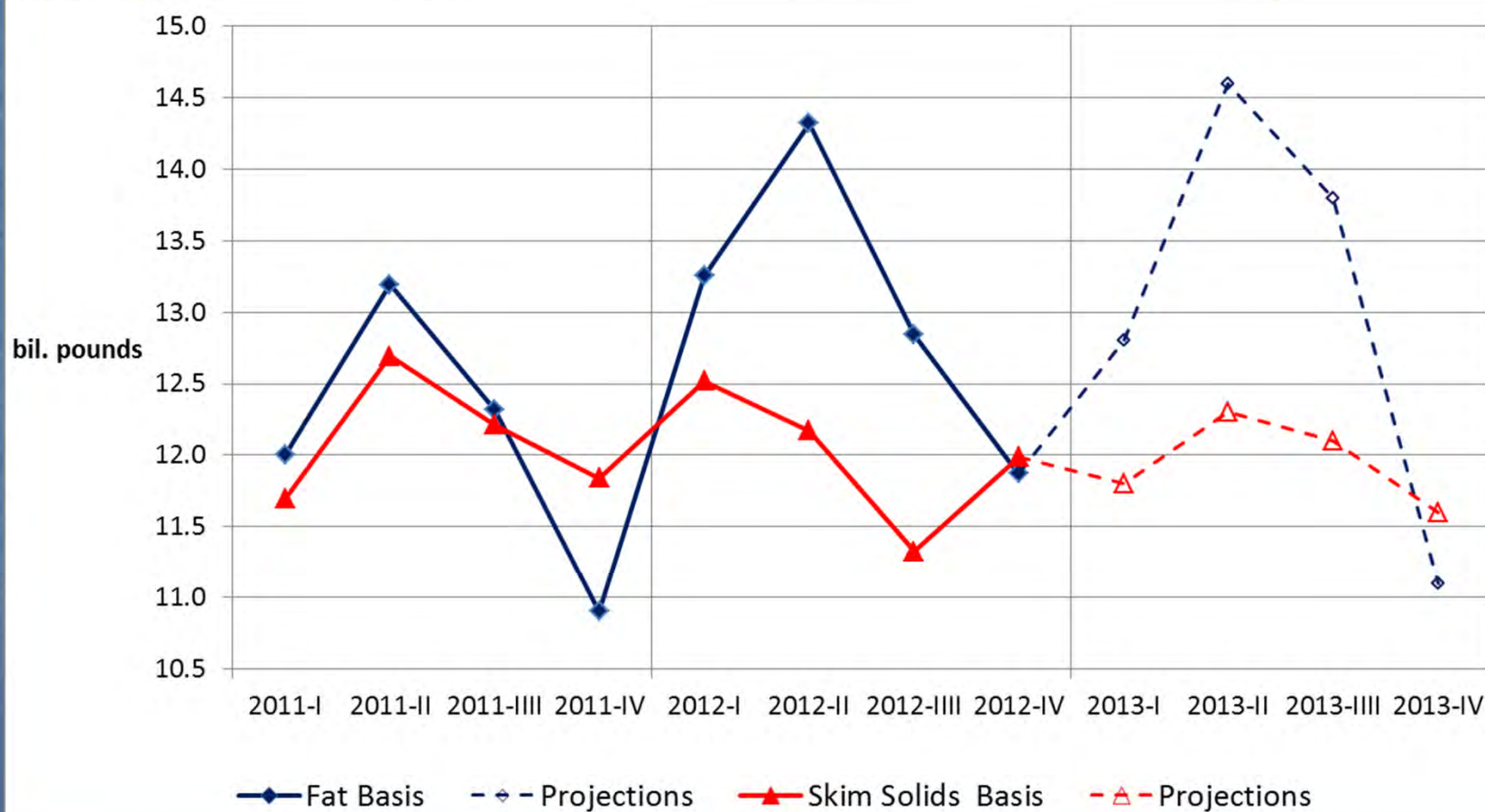
2012
11.9
+ 8.9%

2013
11.1
- 6.5%

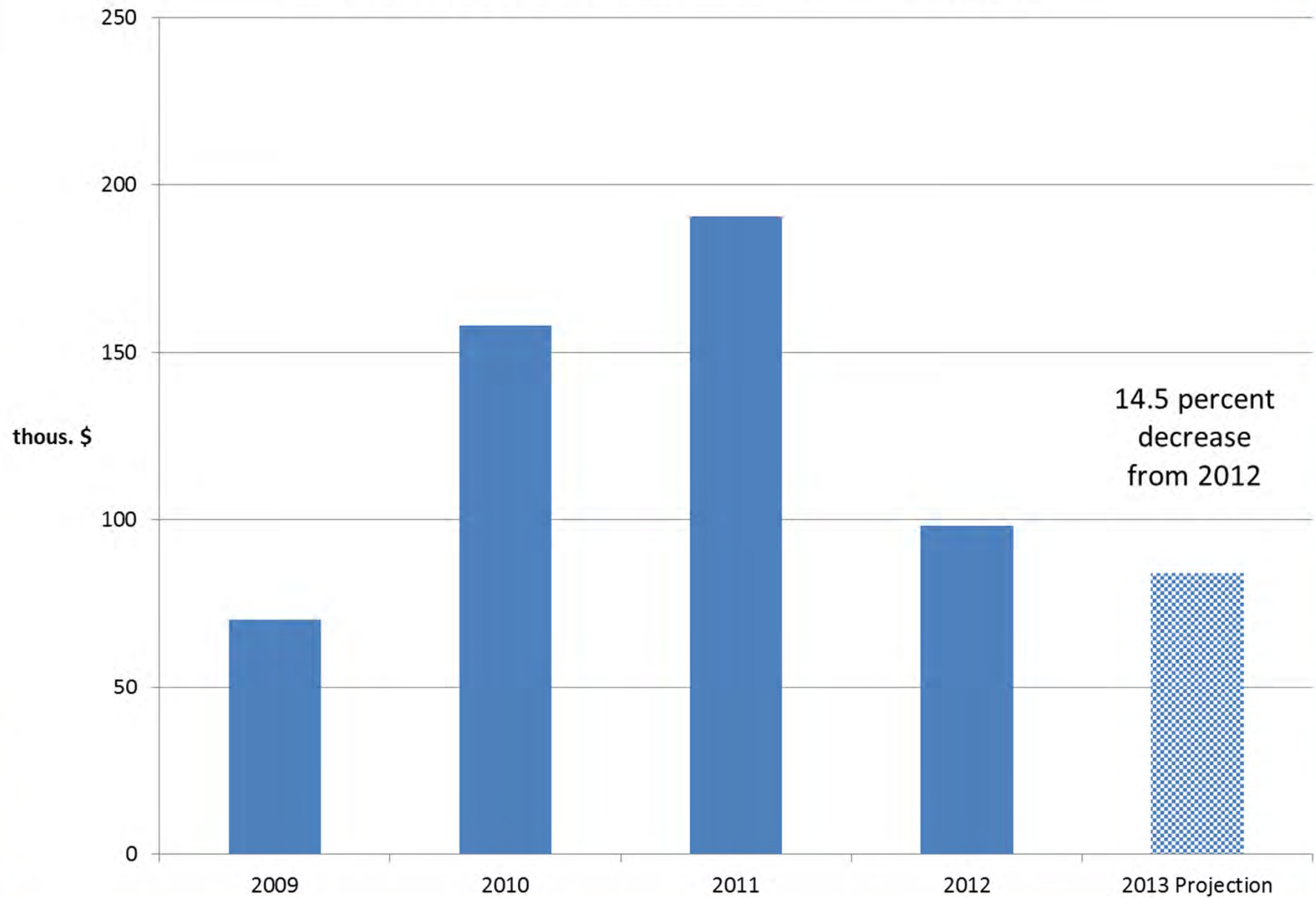
Skim Solids basis
2011
11.8
% chg prev. yr.
- 2.7%

2012
12.0
+ 1.2%

2013
11.6
- 3.2%

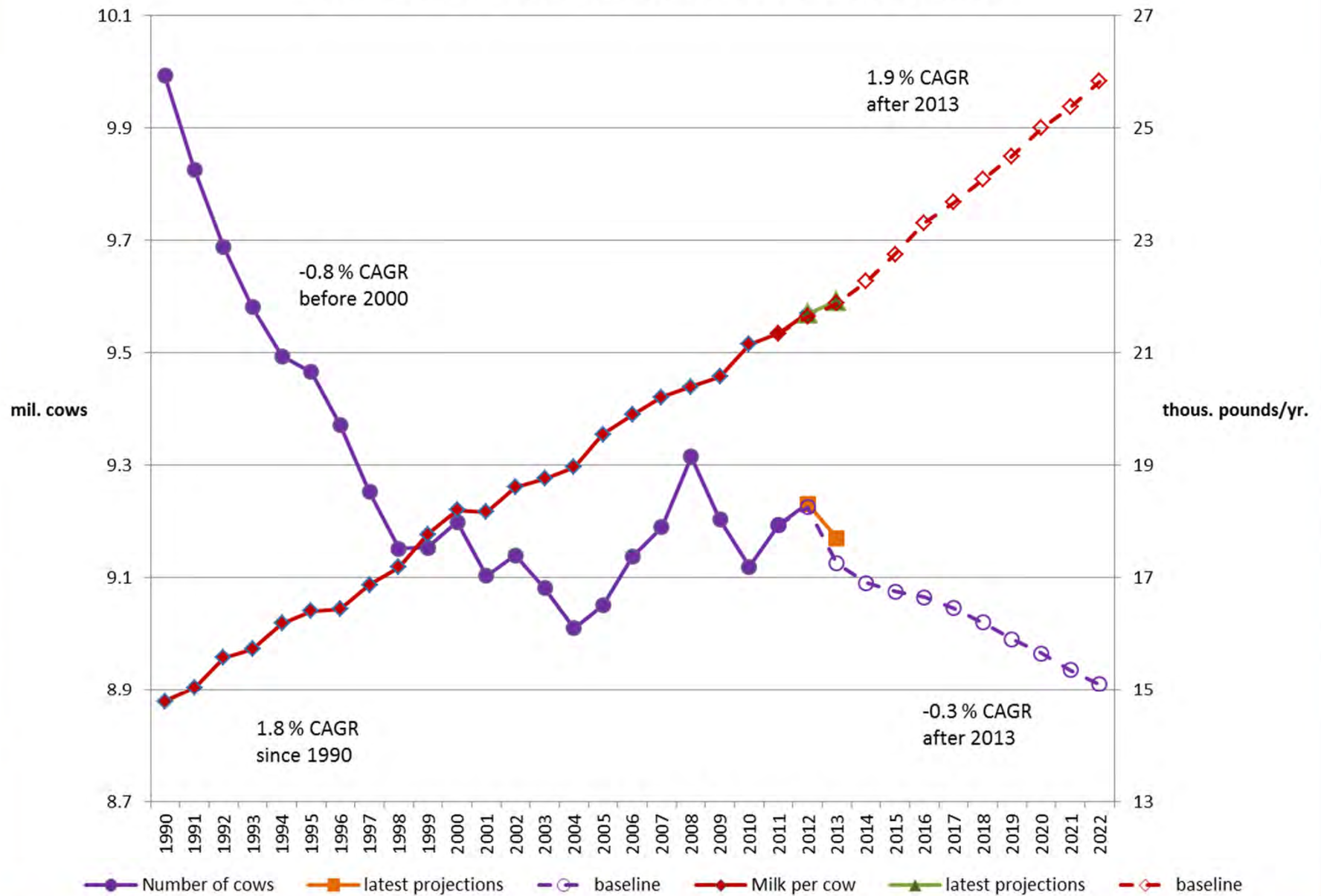


Average Net Cash Income per Dairy Farm Operation

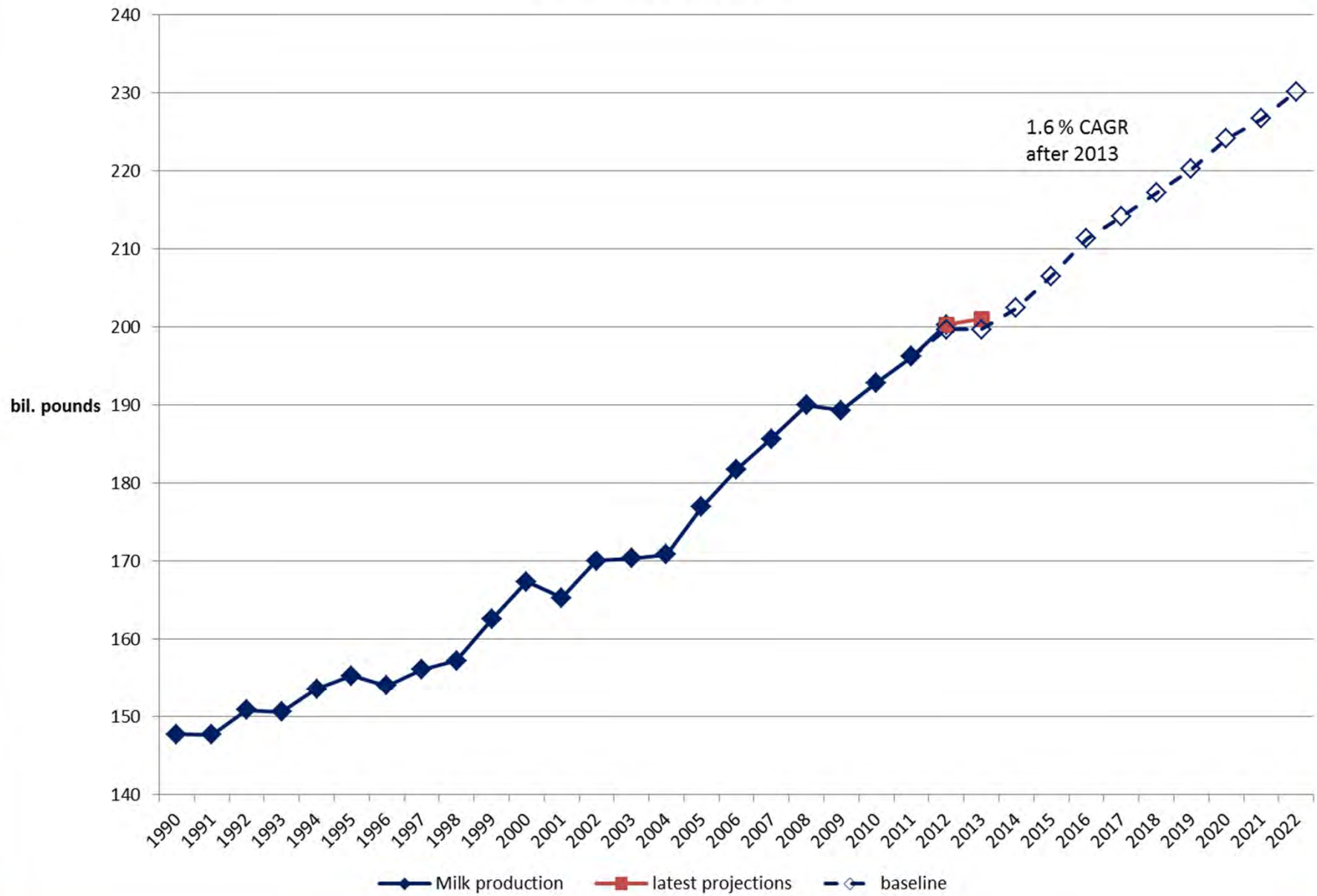


Long-Term Baseline Projections

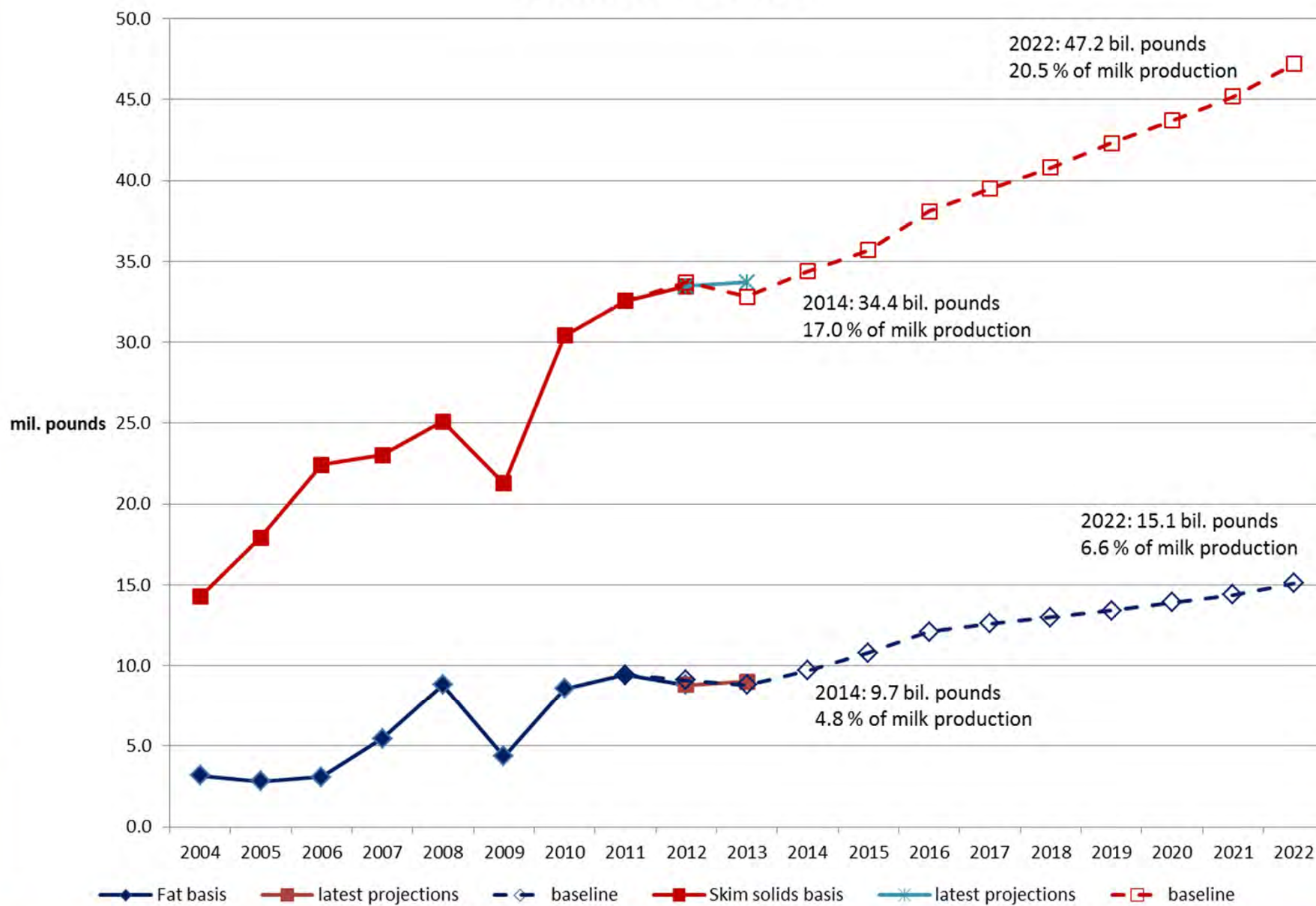
Number of Cows and Milk Production Per Cow



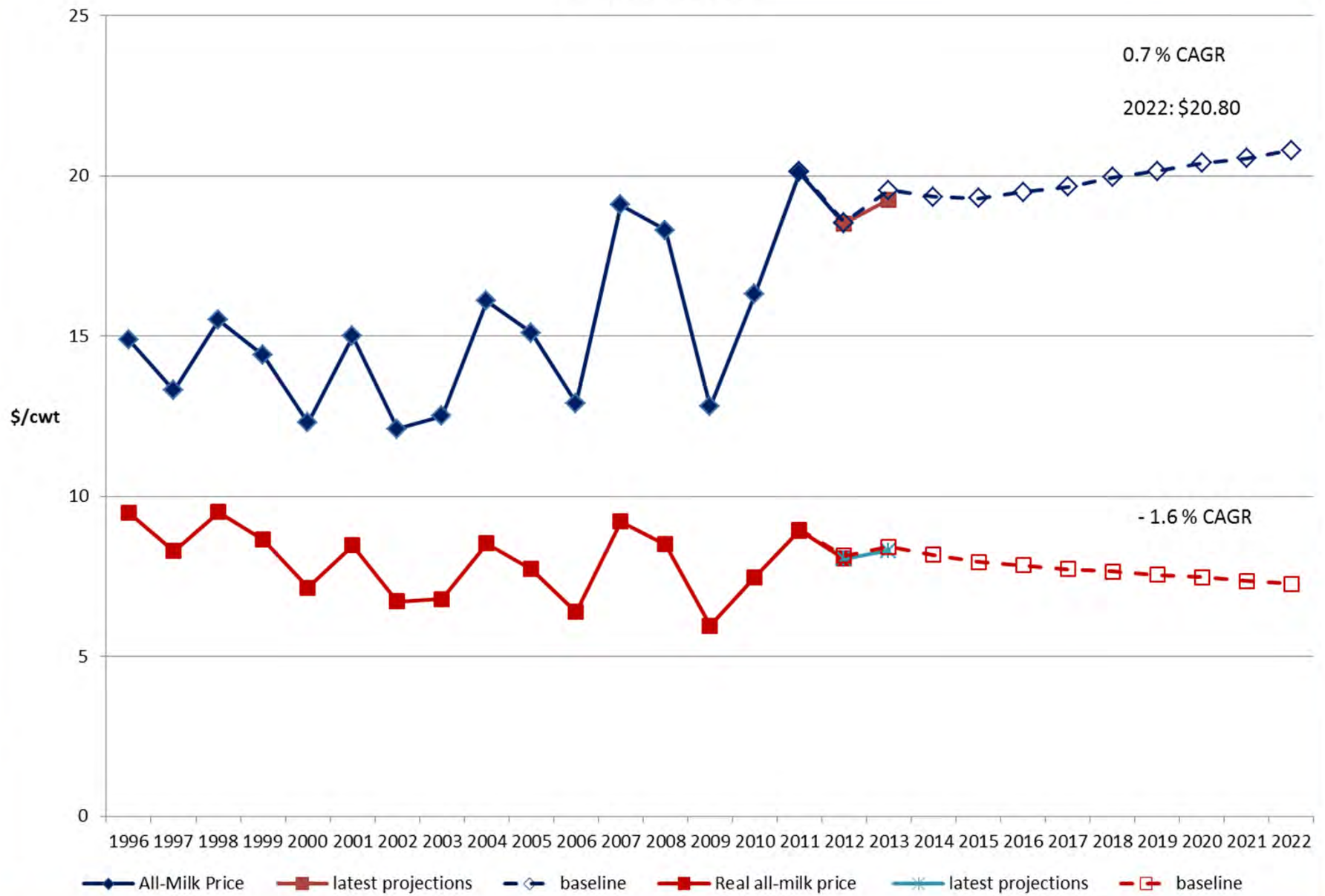
Milk Production



Commercial Exports



All-Milk Price



Thank you