



Dairy Economics

Plan ahead for the roller coaster ride!

2012 California State Holstein Convention

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Petaluma, California

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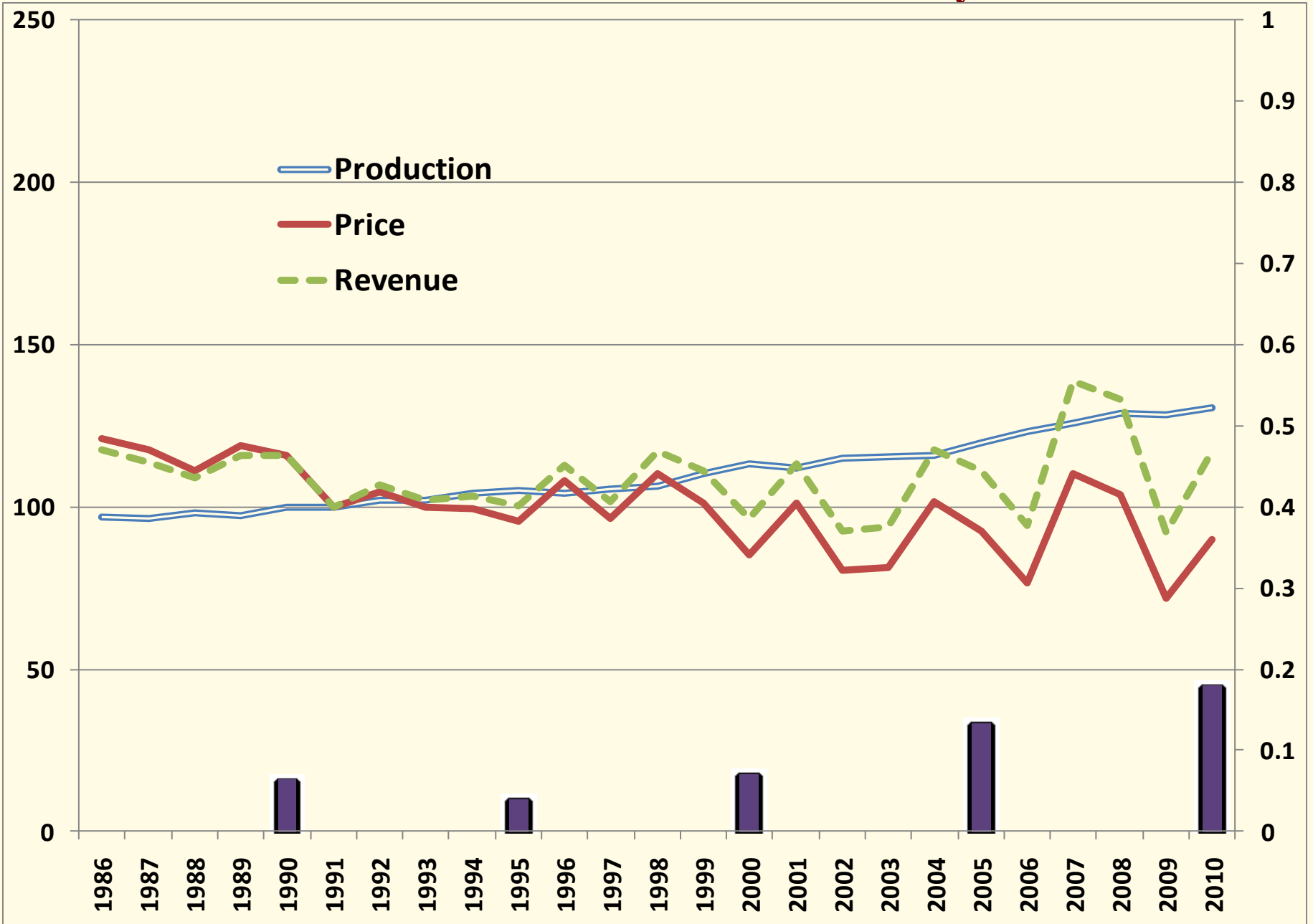
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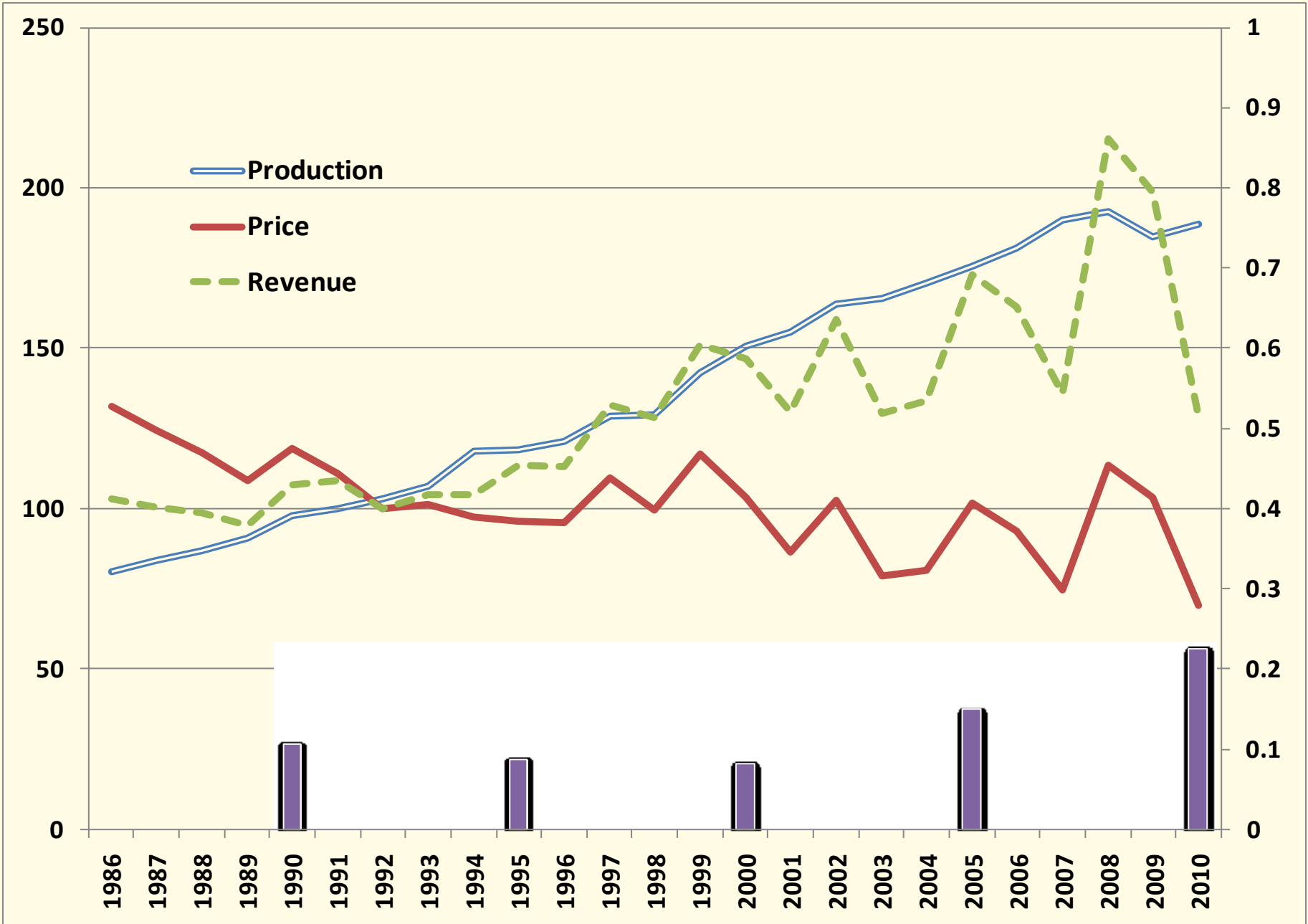
Outline and Main Points

- **Milk production varies a bit and milk demand varies a bit, but these are enough to drive considerable variation in revenues and margins**
- **On the demand side the growing role of exports drives much of the dairy future, exports to Asia will grow as markets open and NZ and Aus hit their limits**
- **But, growth in Asia also drives higher dairy input costs**
- **The last time we had a sustained commodity boom was the 1970s and we can back in a few years. Is this time different?**
- **Projections are easy, accurate projections are a bit more challenging!**

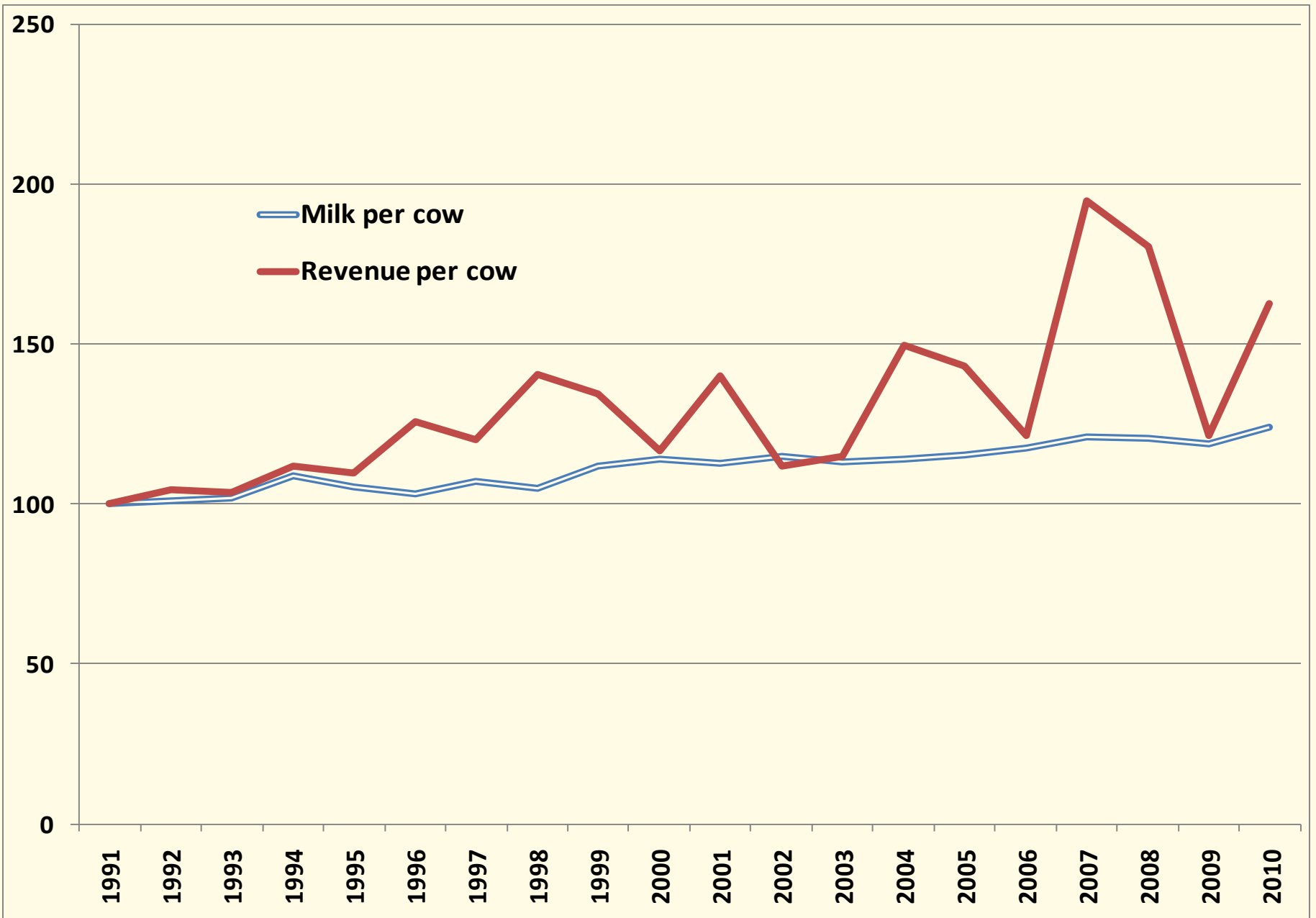
Index of real U.S. milk production, price and revenue (1991=100) with coefficient of variation for revenue at 5 year intervals



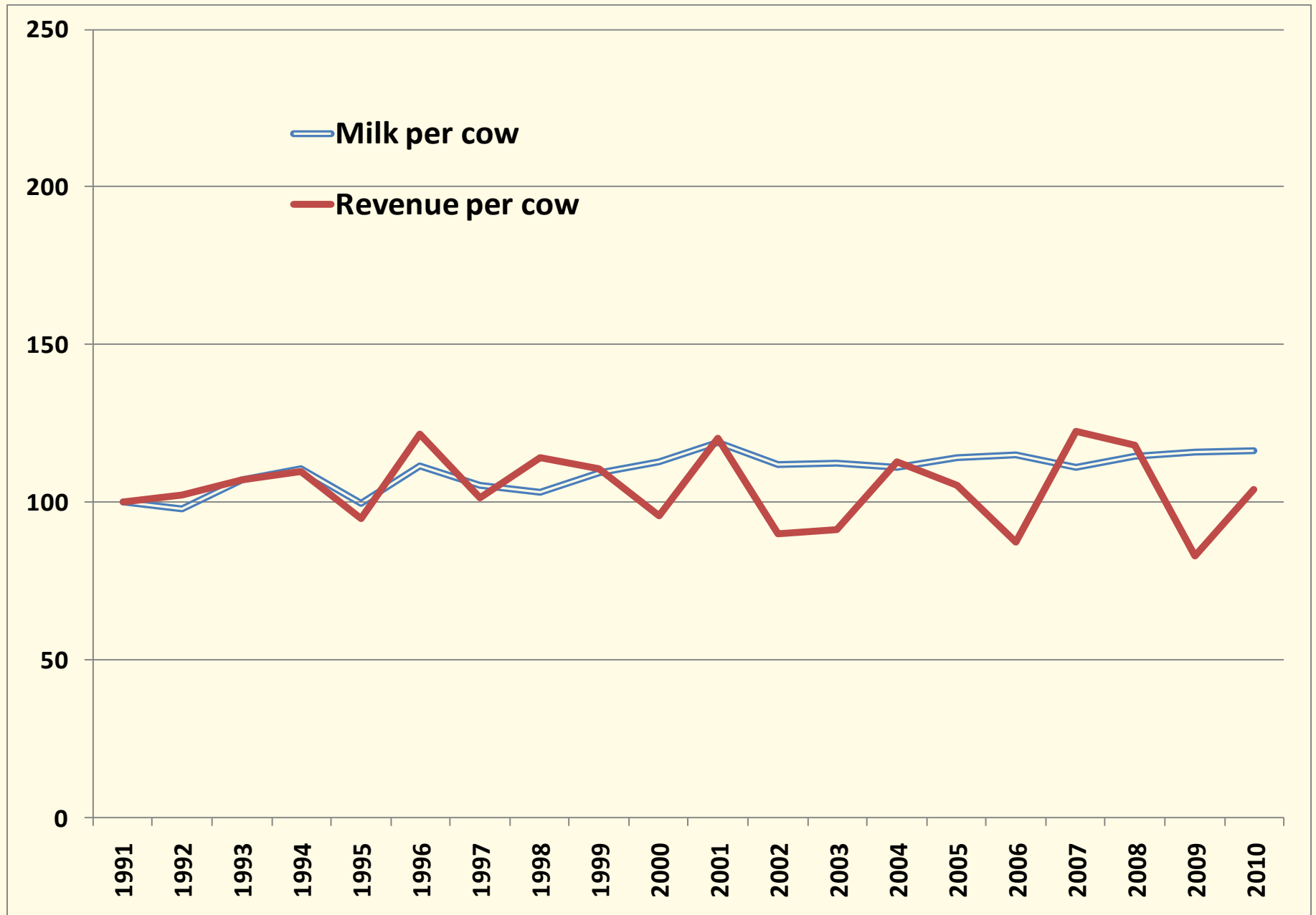
Index of real California milk production, price and revenue (1991=100) with coefficient of variation for revenue at 5 year intervals



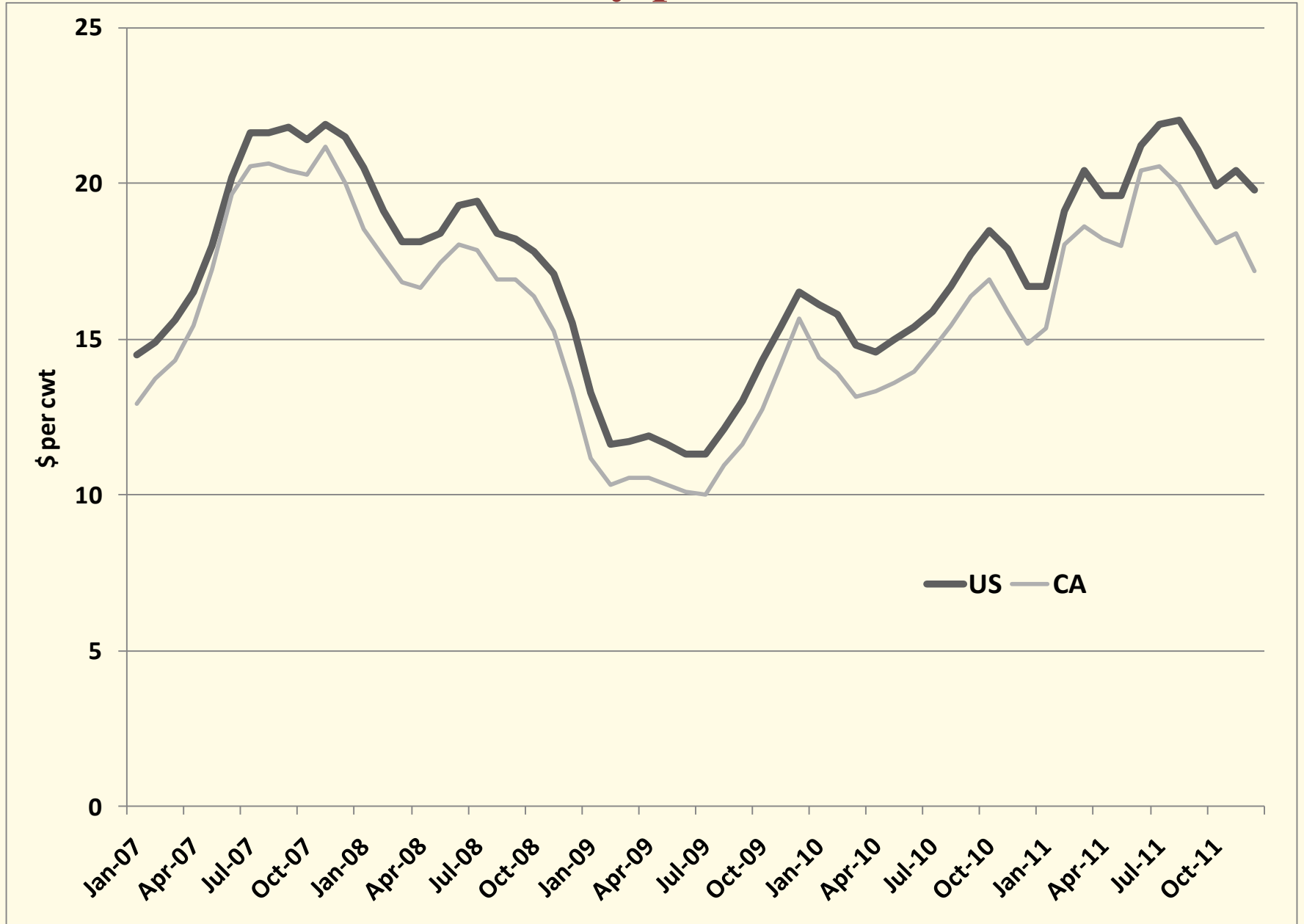
Index of milk and real revenue per cow in California (1991=100)



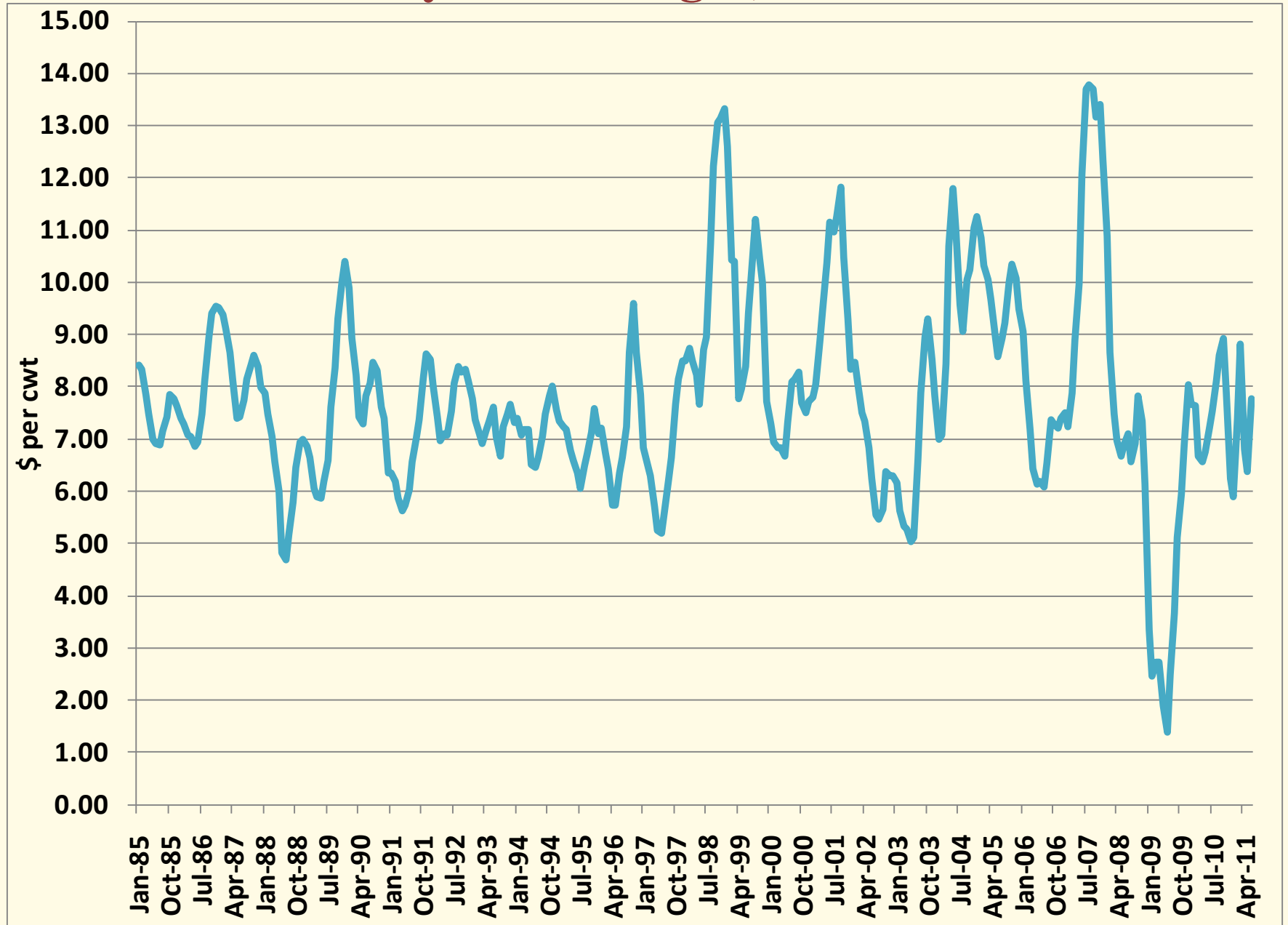
Index of milk and real revenue per cow in Tulare County, California (1991=100)



U.S. and California monthly prices for all milk, 2007-2011



Estimated monthly milk margin, Jan. 1985- Jun. 2011

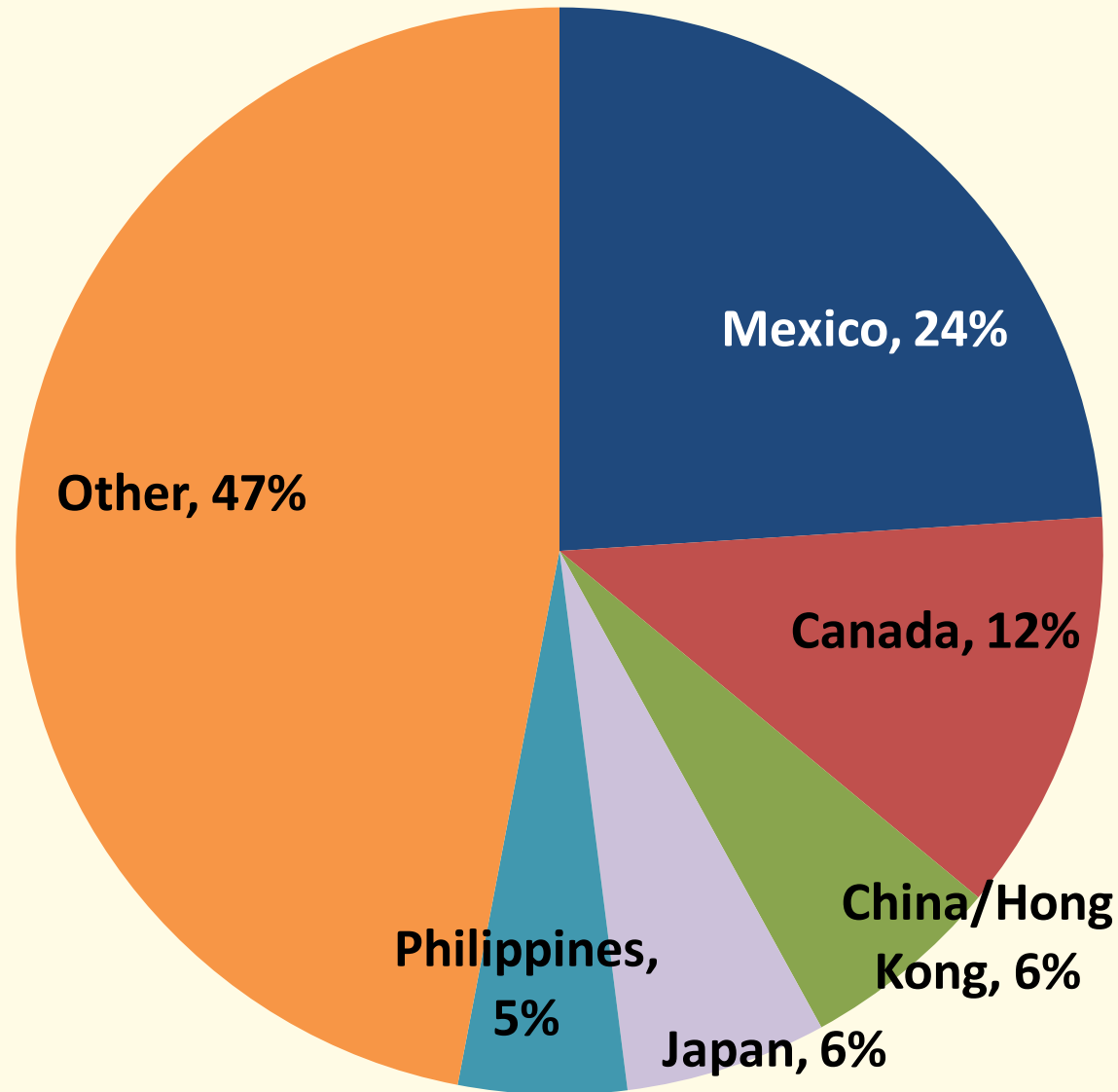


California Dairy Exports, 2008-2010

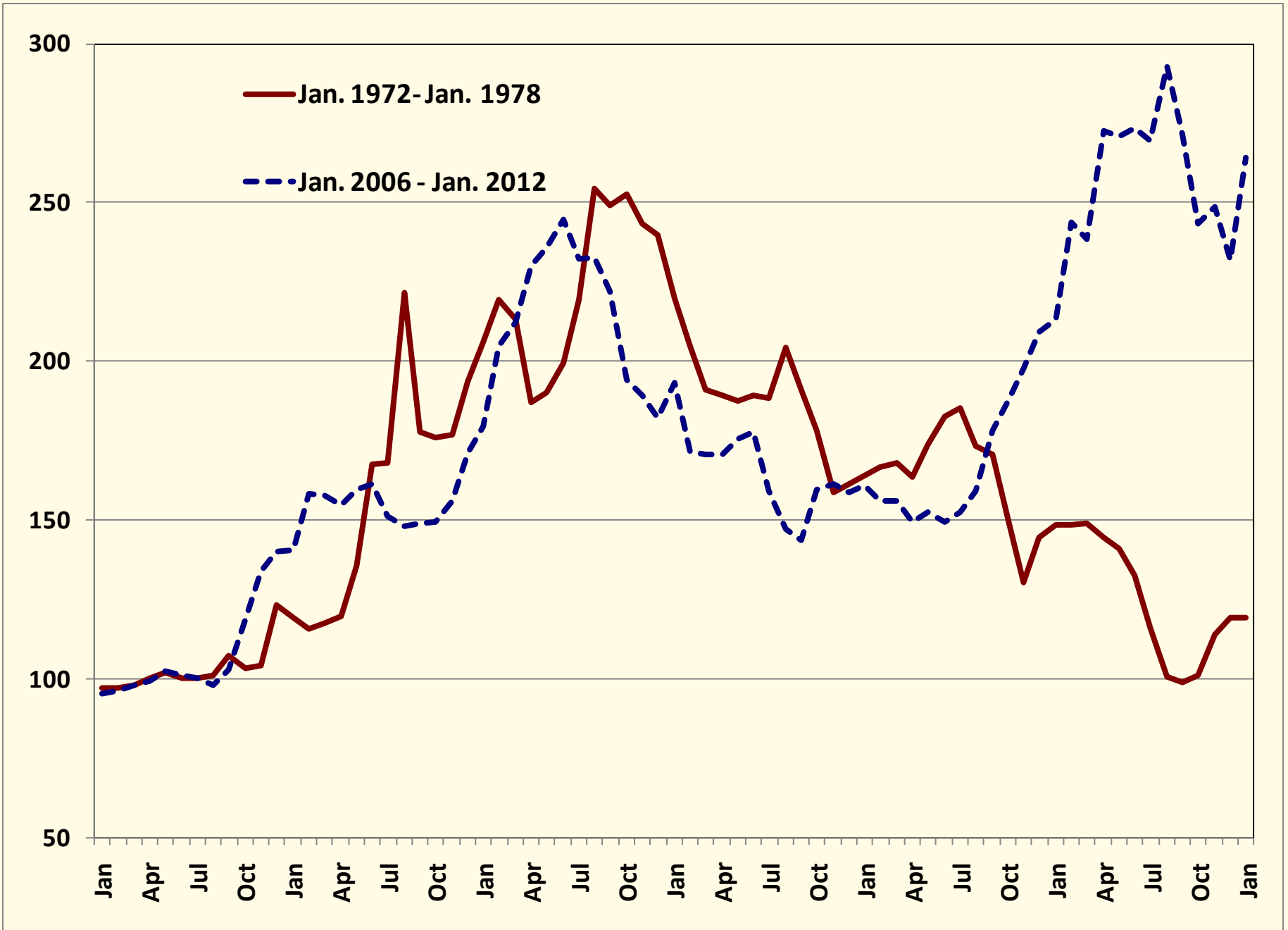
	2008	2009	2010
Export Value (\$ million)	1,214	608	1,143
Ratio of exports to CA Production (%)	14	15	24
CA Share of US Exports (%)	31	28	32

California dairy export value by destination, 2010

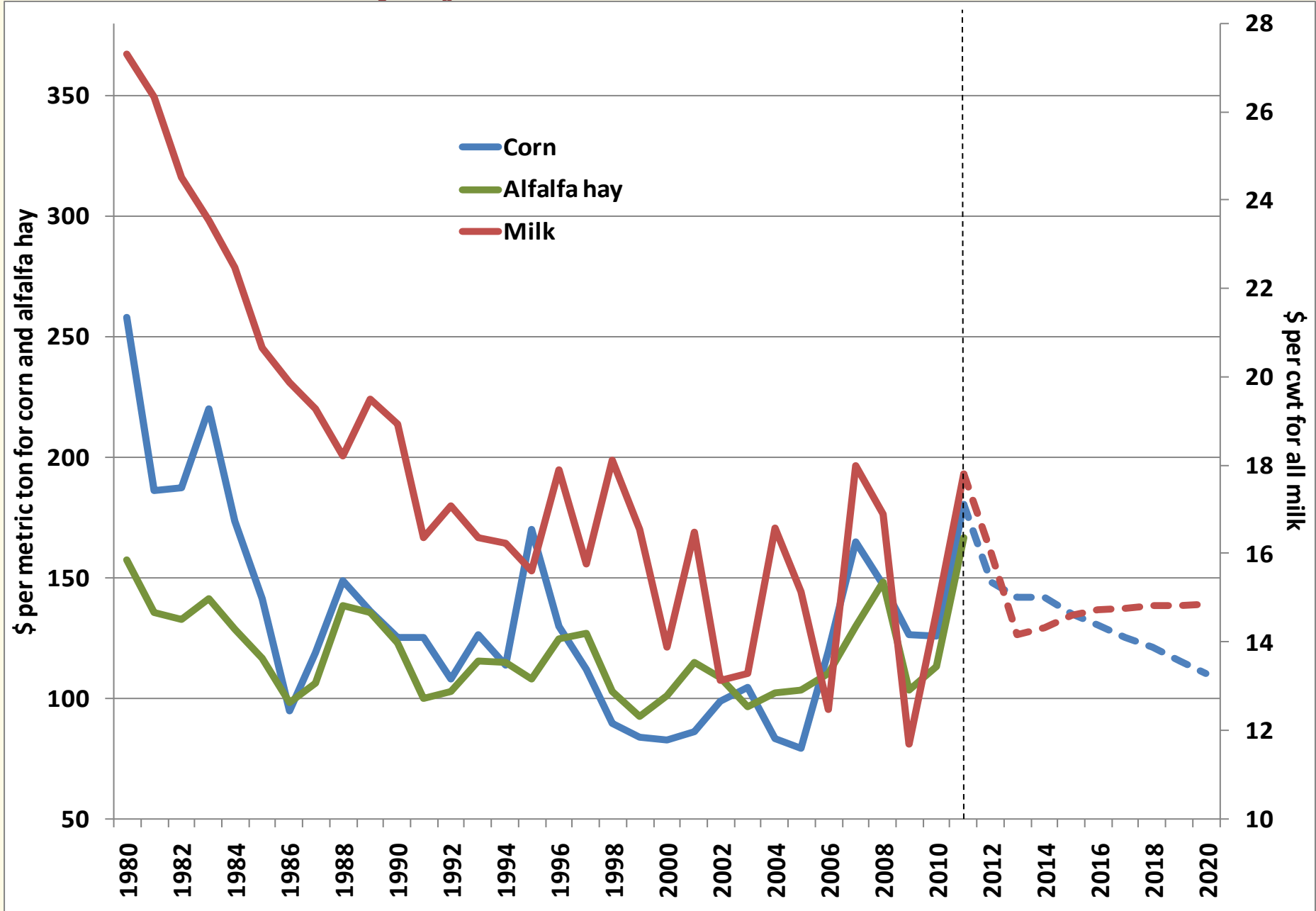
Dairy exports are well diversified



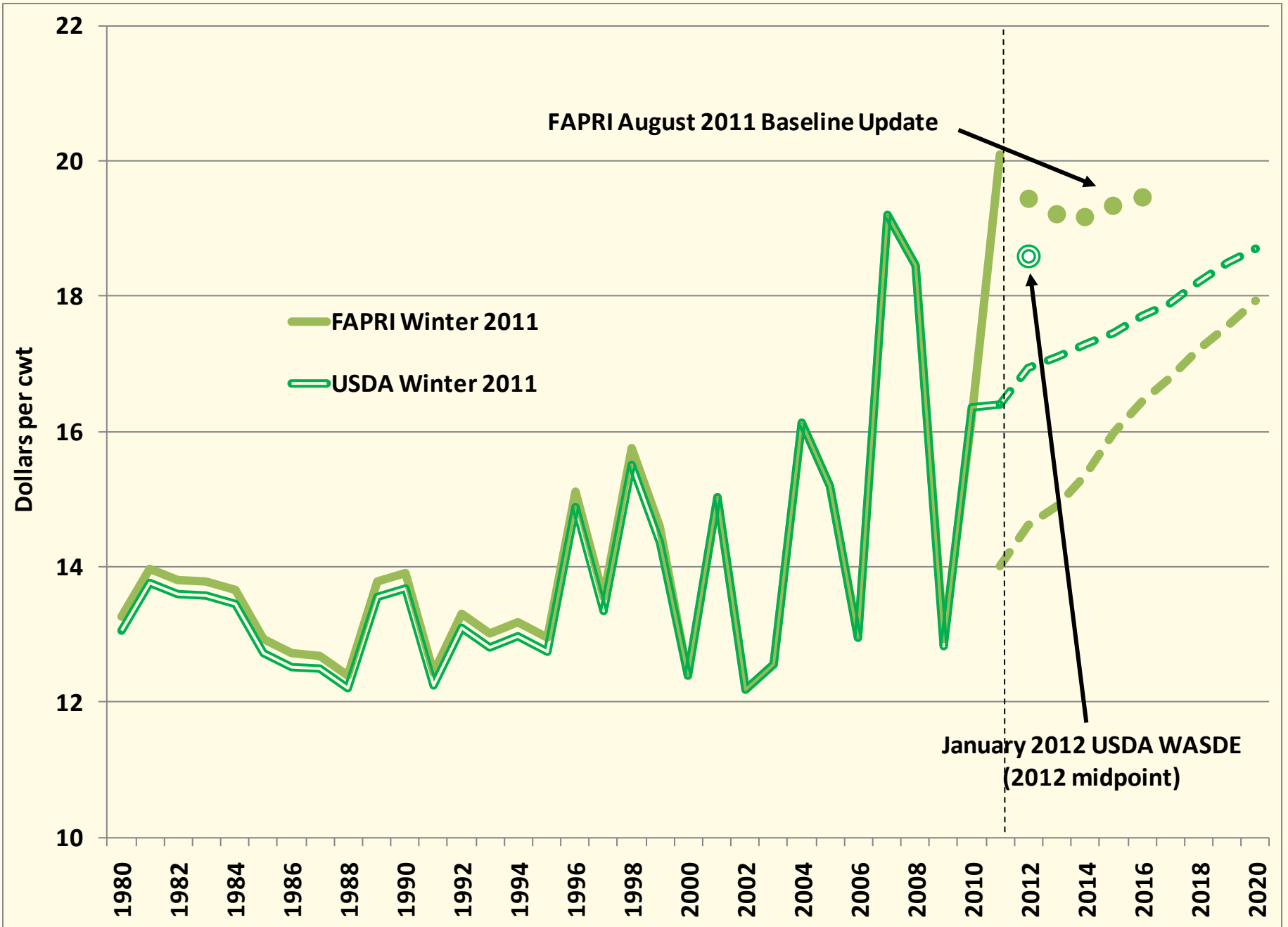
U.S. indexed real corn prices, 1972-78 and 2006-2011



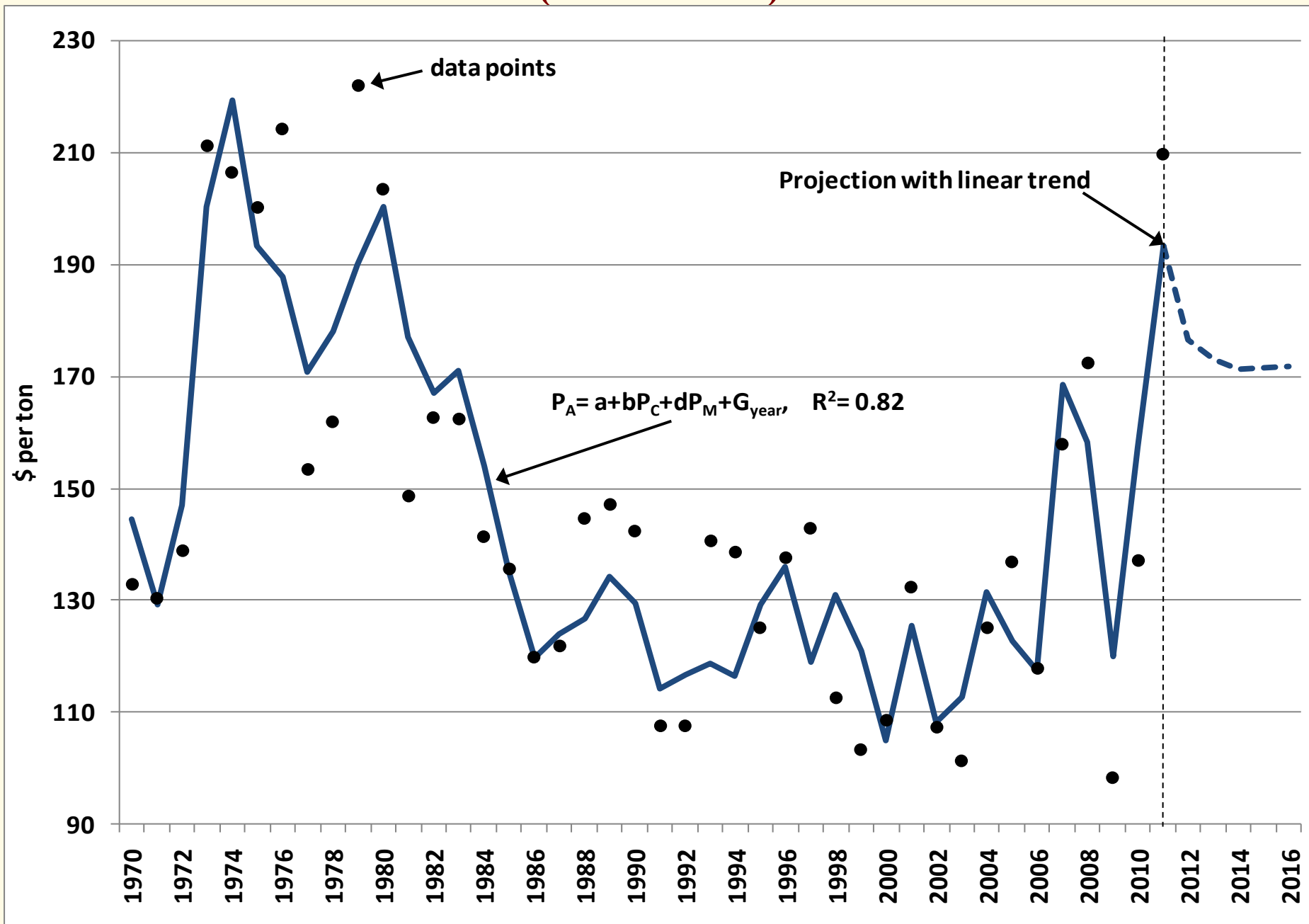
Real prices for alfalfa hay, corn and all milk with 2011 USDA projections for corn and milk



U.S. price for all milk, 1980-2010 with projections



Real Price of California Alfalfa: Data, Fitted Values and Projections (2005 dollars)



Dairy economics is never easy

Dairy farm revenues and costs are sure to move up and down

If profits were easy then dairy production would expand enough that profits were tough to find again

For a small segment (maybe some of the North Coast) specialty markets have real promise, but this is unlikely to be the salvation for the bulk of the industry

Finally, long term industry sustainability cannot be to retreat or hunker down. Slowing productivity growth concedes the market to others and sends the best and brightest of the next generation to other industries and careers