

## Dairy Market Update, May 2009

Craig Thomas

Michigan State University Extension

The last Dairy Market Update was on April 28, 2009. At that time (4/27/09) CME cheese traded at \$1.1750/lb. (blocks) and \$1.1000/lb. (barrels). Since then blocks and barrels have weakened (Figure 1), closing Fri (5/22/09) at \$1.1400/lb (blocks) and \$1.0800/lb (barrels). Since late Apr Class III futures (at right, Fig. 1, and Table 1) are mostly down. As of Fri (5/22/09), close-up months (May-Aug '09) were **-\$1.48** to **-\$0.33** and further out months (Sep '09-Aug '10) were **-\$0.88** to **+\$0.01**. In late Apr butter traded at \$1.2250/lb (4/27/09) and closed Fri (5/22/09) up at \$1.2650/lb.

Change in Class III Futures Prices

Contract Month	Change vs Last Report <sup>1</sup>	Contract Month	Change vs Last Report <sup>1</sup>
May	(\$0.33)	Jan '10	(\$0.35)
Jun	(\$0.91)	Feb '10	(\$0.52)
Jul	(\$1.48)	Mar '10	(\$0.25)
Aug	(\$1.38)	Apr '10	(\$0.19)
Sep	(\$0.88)	May '10	(\$0.15)
Oct	(\$0.77)	Jun '10	\$0.01
Nov	(\$0.45)	Jul '10	(\$0.13)
Dec	(\$0.34)	Aug '10	(\$0.10)

<sup>1</sup>Last report: 4/27/09.

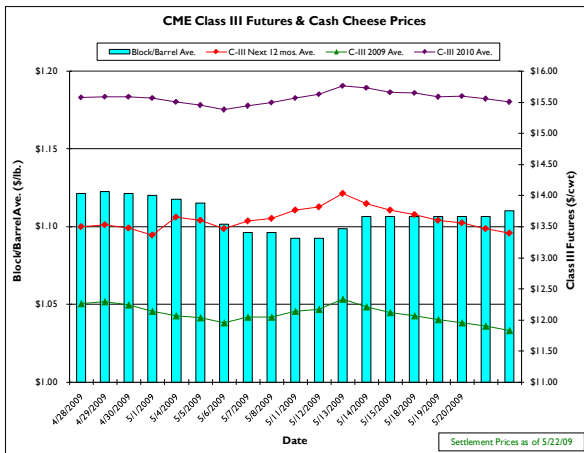


Figure 1: Chicago Mercantile Exchange Class III Futures and Cash Cheese Prices.

April's Class III price increased (+\$0.34) vs. Mar (\$10.44) to close at \$10.78, and Apr's Class IV price finished higher (+\$0.18) than Mar (\$9.64) at \$9.82 (Figure 2). April's Class III price was lower (**-\$5.98**) than Apr 2008 (\$16.76), and lower (**-\$1.89**) than the 1995-2009 Apr average (\$12.67)(see Table 2). The Apr Class IV price was lower (**-\$4.74**) than Apr 2008 (\$14.56) and lower (**-\$2.65**) than the 1995-2009 Apr average (\$12.47)(see Table 3). The Jan-Feb 2009 USDA MI mailbox price was \$12.64, down (**-\$6.92**) vs. Jan-Feb 2008 (\$19.55).

**Do you know your current cost of production?**

### SUPPLY, DEMAND, INVENTORIES

**Milk Production:** Nationally, Apr milk production was down vs. Apr 2008 by 0.1% (Figure 3), and up only marginally (0.03%) in the Top 23 States. April national milk output was at or below trend increase (trend 1995-2008 is +1.7%) for the ninth consecutive month. In fact, Apr marked the second consecutive month that national milk production dropped vs. the same month last year. Total 2008 production finished +2.4% nationally vs. 2007 (~190 B pounds). Production in key western states was mostly down in Apr vs. Apr 2008: CA (-2.3%), AZ (-3.5%), ID (-1.5%), NM (+0.9%), April production in Midwest/Eastern dairy states was mixed vs. Apr 2008: WI (+1.6%), MN (+2.9%), PA (-1.9%), and NY (-0.5%). April milk production in Michigan was up vs. Apr 2008 by +3.8%.

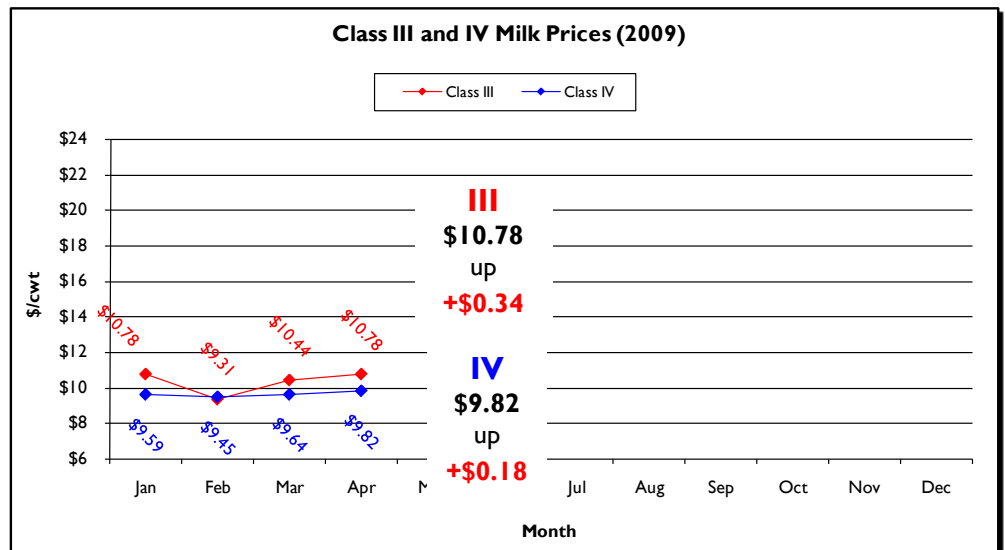
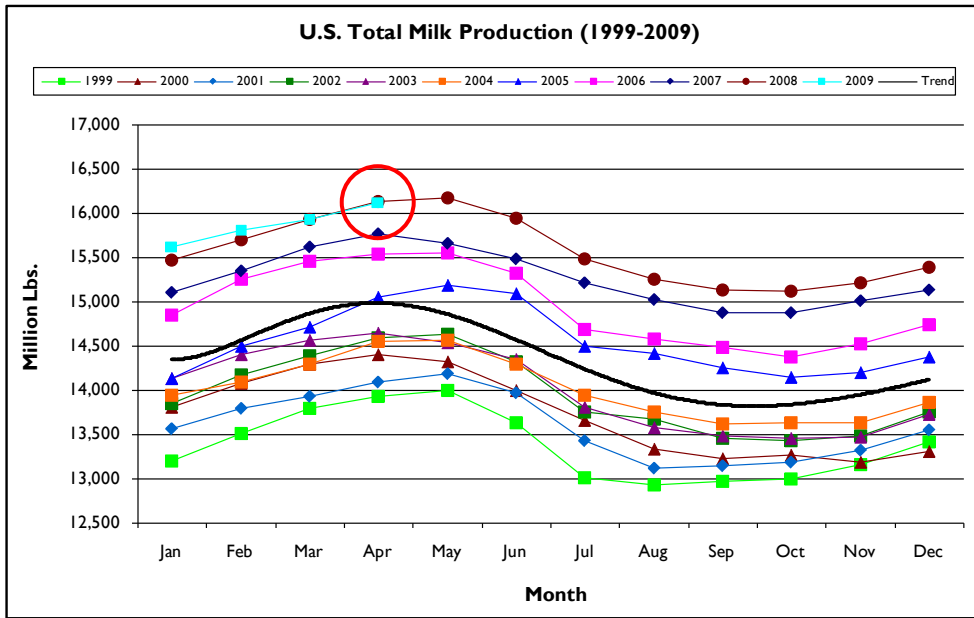
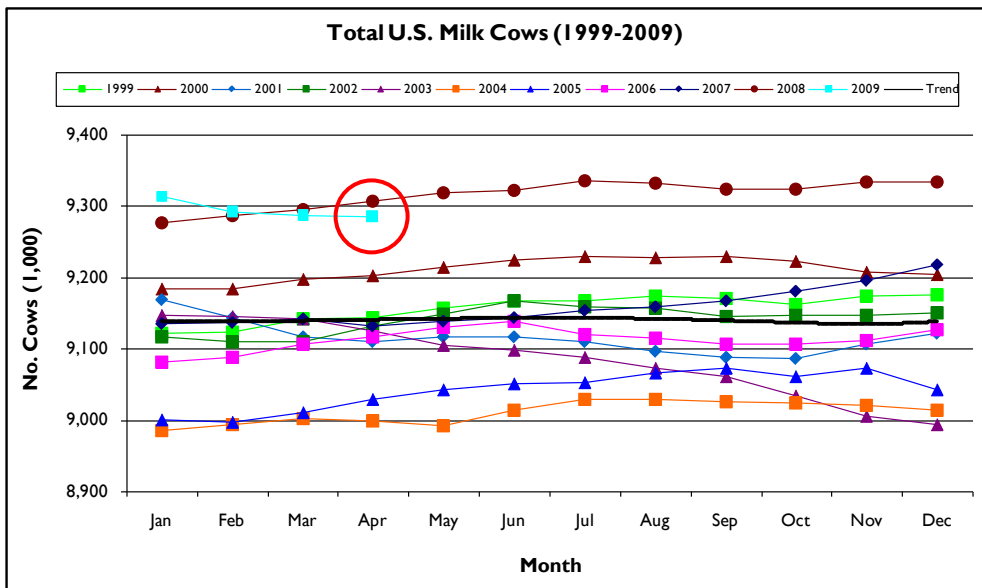


Figure 2: Class III and Class IV Milk Prices (2009).

and WA (-3.4%).



**Figure 3: Total U.S. Milk Production (1999-2009).**



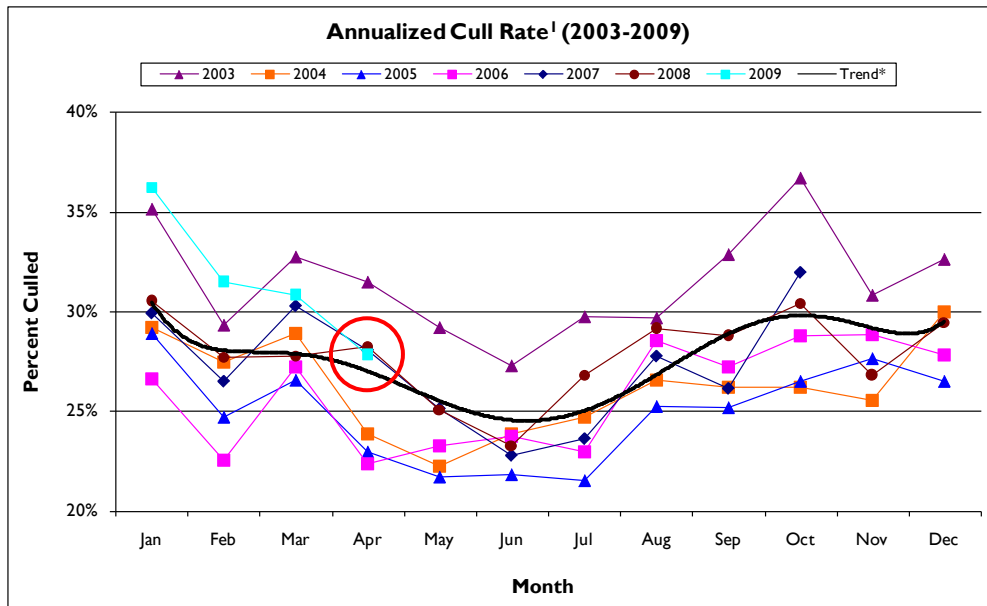
**Figure 4: Dairy Cows Numbers in the U.S. (1999-2009).**

Cow numbers declined nationally Mar→Apr by 2,000 hd and Top 23 states cow numbers in Apr were down 3,000 vs. Apr 2008. Nationally cow numbers in Apr stood at 9,284,000. Cow numbers have now decreased 50,000 since Dec (nationally). But, cow numbers are +288,000 vs. the last time cow numbers dipped below 9.0 million (Feb 2005). In Apr Top 23 States cow numbers were up, or even, in 12 of the states vs. Apr 2008. April cow numbers in Michigan were at 356,000, up 9,000 vs. Apr 2008. Cow numbers in key western states (i.e., AZ, CA, ID, NM, and WA) are now 30,000 below last year. In Apr cow numbers in the Top 23 States east of the Mississippi River decreased vs. Apr 2008 (-3,000 hd).

Nationally cull cow prices in Apr fell 5.9% below last year's level (\$50.50/cwt, 4/2008 vs. \$47.50/cwt, 4/2009). The USDA's Apr report showed a major decline nationally in milk cow prices from Apr 2008 to Apr 2009 (\$1,390/hd down from \$1,940/hd, *USDA Dairy Market News*, 5/1/09). The same USDA report showed a \$650/hd decrease in MI dairy cow prices for Apr 2008 vs. Apr 2009 (\$2,200/hd vs. \$1,550/hd). The most recent (5/25/09) *Dairy Profit Weekly* reports top prices for springers and/or fresh cows below \$1,700 with most in the \$1,450 to \$1,625 range. The Jan 2009 *USDA Cattle Report* indicated that milk cow replacements (>500 lbs.) were estimated up 5,000 from Jan 2008

and replacement heifers expected to calve were down 14,000 vs. Jan 2008. USDA reports showed U.S. dairy replacement inventory growing by 9.7% from 2004 to 2009 while the same inventory in Canada fell by 9.5%.

April's USDA dairy cow slaughter figures showed the cull rate above the long term trend for the seventh time in the past nine months (Figure 5). However, Apr saw an decrease of 4,000 dairy cows slaughtered in federally inspected plants vs. Apr 2008 and 2008 ended with 94,200 more dairy cows slaughtered than 2007. Slaughter numbers were up sharply in early 2009 as a result of round #6 of the CWT herd retirement and the depressed dairy economy. As of 5/2/09; 111,400 more dairy cows had been slaughtered in federally inspected plants vs. the same period in 2008. The cull rate (calculated using monthly dairy cows slaughtered vs. milk cow inventory) for 2008 was 28.0%; above the 1999-2008 annual average of 27.7%; and so far in 2009 it is 31.6%.



**Figure 5: Annualized Cull<sup>1</sup> Rate For U.S. Dairy Cows (2003-2009).**

<sup>1</sup>Annualized cull rate equals monthly dairy cow slaughter divided by total U.S. dairy cows for the same month times 12.

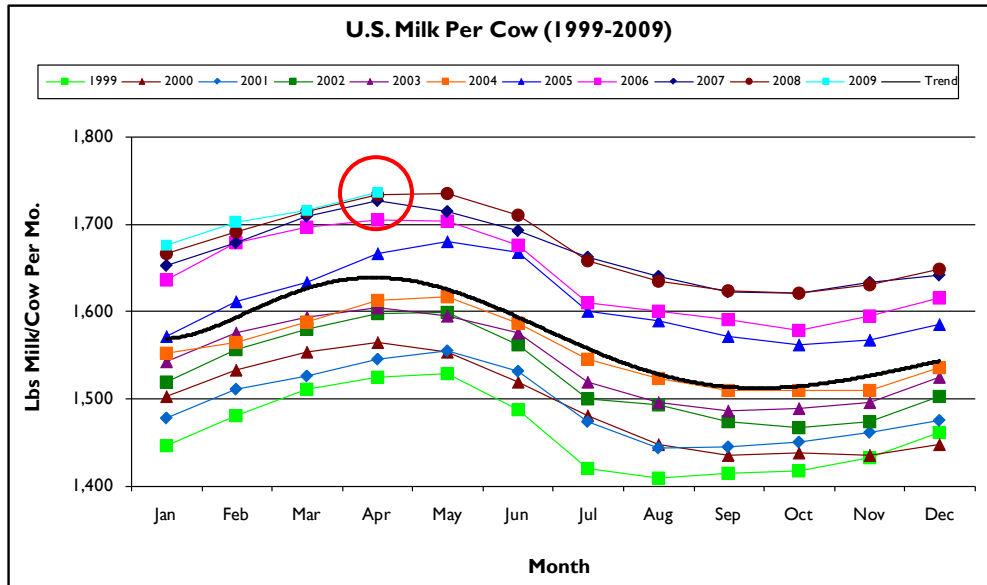
\*Trend equals curve fitted to monthly average annualized cull rates, 1999-2007.

In Apr Michigan milk per cow increased vs. Apr 2008 (+20 lbs/cow). The U.S. trend (1999-2008) increase in milk per cow is +1.5%/year (+292 lbs/cow). Average milk per cow in 2008 was 20,396 lbs. nationally (+130 lbs/cow) and 20,704 lbs. (+188 lbs/cow) in the Top 23 States. Milk per cow in Apr vs. Apr 2008 was up nationally (+0.2%; +3 lbs/cow) and in the Top 23 States (+0.06%; +1 lb/cow)(Figure 6).

The Apr milk:feed price ratio increased marginally to 1.59 (Mar, 1.57). April's all-milk price fell (-\$0.20/cwt) to \$11.80/cwt. Feed price changes were: corn, -\$0.01/bu (\$3.86/bu); soybeans, -\$0.77/bu (\$9.12/bu); and alfalfa hay, +\$4.00/ton (\$137/ton). Cost of 100 lbs. of the USDA's blended dairy feed fell 21.0% vs. Apr 2008 (\$9.58/cwt to \$7.54/cwt). Also, Apr's feed price was \$0.03/cwt below Mar (-0.4%). April income over feed costs (calculated using 65 lbs. milk and 50 lbs. as fed ration) was lower (-41.9%) than Apr 2008 (\$3.90/cwt vs. \$6.91/cwt), and fell \$0.12/cwt from Mar. April marked the seventeenth consecutive month the milk:feed ratio has been below 3.00 and the eleventh time in the past thirteen months it's been below 2.0.

**Dairy Product Consumption:** USDA figures indicate annual trend growth (1995-2007) in total commercial disappearance is +1.7% per year (Figure 7). Despite relatively high dairy product prices for Q-1, Q-2, and Q-3 2008, total commercial disappearance set new monthly records in every month of those quarters. But, two of the three months in Q-4 2008 (Oct & Nov) saw declines vs. the same month last year. Collectively, Q-4 2008 commercial disappearance was only +0.5% vs. Q-4 2007. Total commercial disappearance finished 2008 well-above trend vs. 2007 at +2.6%. However, total commercial disappearance has begun 2009 quite weak at -0.9% vs. Jan-Feb 2008. Annual trend growth (1995-2008) in total cheese commercial disappearance is +2.6% per year. Total cheese commercial disappearance started 2008 with Jan and Feb setting new monthly records for Jan and Feb. However, Mar-Dec cheese disappearance was a combined -0.9% vs. Mar-Dec 2007 despite Sep, Oct, and Nov setting new monthly records for those months. Cheese disappearance in 2008 grew by only 1.2 million pounds vs. 2007 (+0.01%) and has

begun 2009 down a disappointing **-2.0%** vs. Jan-Feb 2008. Trend annual increase in butter commercial disappearance since 1995 has averaged +3.1% per year. Butter commercial disappearance for most of 2008 was very strong with Jan-Sep and Dec setting new monthly records for those months (average +19.6% vs. same months in 2007). However, Oct/Nov butter disappearance was **-5.9%** vs. Oct/Nov 2007; pushing 2008 annual disappearance down to +12.8%. However, Jan-Feb 2009 was **-8.4%** vs. Jan-Feb 2008. Butter production so far in 2009 is up 0.8% (Jan-Mar). Commercial disappearance for Jan-Feb 2009 (vs. Jan-Feb 2008) for specific dairy products was: Am cheese +2.0%, other cheese **-1.7%**, and NFDM **-3.1%**. Composition adjusted fluid milk sales were up in Mar (+2.6%) vs. Mar 2008 (YTD vs. 2008, +1.6%). March marked the seventh time in eight months fluid sales increased vs. the same month in the previous year.



**Figure 6: Milk Production Per Cow in the U.S. (1999-2009).**

The U.S.'s phenomenal success in dairy exports is now ancient history. FY-2008 U.S. dairy exports set a record of \$4.099 B, up 63% from FY-2007. The FY-2008 dairy trade surplus totaled \$995 M, compared to dairy trade deficits in FY-2007 of \$221 M, \$895 M in FY-2006, and \$866 M in FY-2005. But, so far in FY-2009 each month has experienced a trade deficit (**-\$409 M** through Mar). FY-2009 (Oct-Mar) exports are valued at \$1.216 B, down 40% from the same period in FY-2008. Exports in March were valued at \$170.1 M down 51% vs. March 2008. March exports of individual commodities were all mostly down vs. March 2008: NFDM/SMP, **-52%**; cheese, **-26%**; butterfat, **-78%**; WMP, **-57%**; ice cream, +7%. The only real bright spot was dry whey up 19% vs. March 2008. The CCC continues purchases of NFDM, albeit in smaller amounts. For the week ending 5/22/09 the CCC purchased almost 2.4 M pounds and has purchased over 238 M pounds since 10/1/08. However, the CCC has made no butter purchases since the week ending 3/6/09 (total since 1/1/09 remains at slightly over 4.6 M pounds).

The percentage change in CPI for individual dairy products during Mar (vs. Mar, 2008) were: fresh whole milk, **-14.7%**; cheese, +1.3%; and butter, +1.9%. For Mar (vs. Mar, 2008) the CPI for meat, poultry, fish and eggs rose 3.3% and "All Food" rose 4.4. Overall, retail dairy product prices for consumers fell in Mar (**-3.1%**). The average Mar prices of the various categories of retail dairy products were mixed vs. Mar 2007: whole milk (**-\$0.665/gal**), butter (**-\$0.062/lb**), process cheese (**-\$0.123/lb**), natural cheese (+\$0.186/lb), and ice cream (+\$0.070/half gal).

**Dairy Product Inventory and Production:** The latest USDA *Cold Storage Report* (Figure 8) showed inventory increases in Apr for both Am cheese (+7.9% at 586.1 M lbs.) and total cheese (+6.8% at 914.1 M lbs.) vs. Apr 2008. Total cheese inventory is at a historical high! In terms of raw numbers, we began May 2009 with 43.0 million lbs. more Am cheese and 58.2 million lbs. more total cheese vs. May 2008. Cheese production finished 2008 up from 2007 (Am +3.3%, total +1.2%); Jan-Mar 2009 production was higher than Jan-Mar 2008 (Am +4.0%, total +2.4%). Current cold storage numbers show Apr butter inventory below Apr 2008 (**-3.5%**, 242.7 M lbs.). We began May 2009 with 8.8 million lbs. less butter than May 2008. Butter production finished 2008 up strongly vs. 2007 (+7.7%); Jan-Mar 2009 production is up 0.8% vs. Jan-Mar 2008.

The latest USDA **Dairy Market News** (5/15/09) indicated: **Cheese:** “The CME Group cash cheese market remained steady to firm during the week with barrels closing at \$1.0800 and 40# Blocks at \$1.1400. Barrels remain under support with 40# Blocks slightly higher than the \$1.1300 support price. Last year at this time, barrels were \$2.2500 with 40# Blocks at \$2.2725. The trade continues to speculate as to whether any cheese will end up in the price support program. Sales activity remains relatively good, but there is plenty of cheese available for current interest. Milk production across the country is at or near seasonal peak levels, thus cheese production is very active. In the East, some auxiliary cheese plants have been pressed into service to help move milk intakes by manufacturing cheese. Most plants are anticipating that additional milk offerings will be available to them during the upcoming holiday period. How plants will respond to these surplus offerings is still unknown as most operations are already at peak manufacturing levels.” **Butter:** “The cash butter price at the CME Group remains firm and closed the week at \$1.2650. The current cash price is the highest since early December 2008 and compares to \$1.4925 last year at this time. Churning schedules across the country are mixed, but generally are running strong. Cream volumes are anticipated to be more available late in the week as the Memorial Day holiday weekend approaches. Some butter producers will take advantage of the additional offerings while others are planning to hold their production schedules to cream supplies from regular/ongoing suppliers. Butter demand is seasonally fair. Retail orders are typical for this time of the year. Food service orders have been stronger over the past few weeks as restaurants and food service outlets prepare for the holiday weekend and the unofficial start of the summer vacation season.”

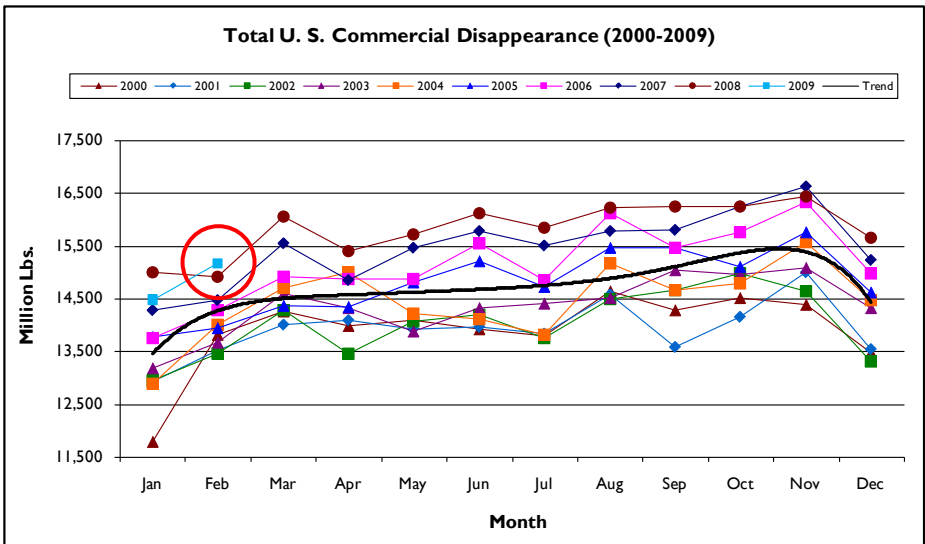


Figure 7: Dairy Total Commercial Disappearance (2000-2009).

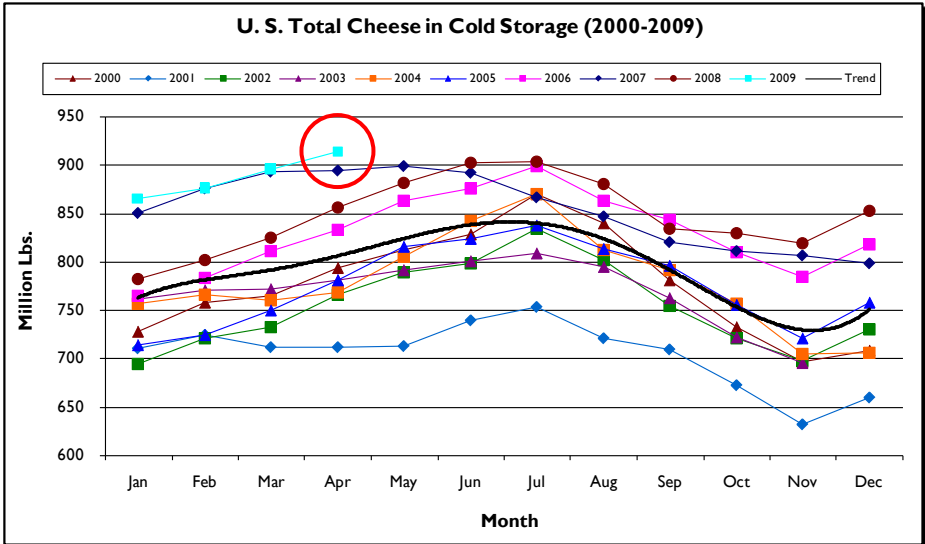


Figure 8: Total Cheese Held in Cold Storage (2000-2009).



## Where are milk prices headed?

The price outlook for 2009 remains rather dark and dreary. The first half of 2009 remains quite bleak and the majority of producers are receiving milk prices well below their cost of production. Class III futures prices for 2009 have fallen 4.6% (-\$0.54/cwt) since my last report. As of 5/22/09 Class III prices for the first half of 2009 averaged only \$10.21/cwt and \$13.44/cwt for the second half of 2009. These Class III prices would produce mailbox prices for the 'typical' Michigan dairy producer averaging about \$11.48/cwt for the first six months and \$15.00/cwt for the second six months. Cheese prices have weakened, with the block/barrel average dropping \$0.0275 since my last report (4/27/09). Butter continues to show signs of life trading at or above \$1.26/lb for the past seven consecutive trading days. NFDN and dry whey are at least off life support with both experiencing recent gains, albeit modest.

USDA feed prices declined \$0.03/cwt Mar to Apr, but the "All-milk" price also dropped (-\$0.20/cwt) producing another near record low M:F ratio in Apr (1.59). IOFC for Apr fell 41.9% vs. Apr 2008 (-\$2.89/cwt) to an abysmal \$3.90/cwt. Record low margins continue to plague the industry. According to Dan James of *Mountain Plains Farm Credit Services (Dairy Profit Weekly, 4/27/09)*, many western dairy producers will lose \$500-\$750/cow for the first six months of 2009. Losses after that point are uncertain, but still may occur. Surely such drastic financial 'blood letting' will shorten the length of this low price cycle...hopefully!

Round 6 of the CWT herd retirement removed 50,630 cows, 1,220 bred heifers, and 976 M pounds of milk production. Round 7 has accepted 388 bids for 102,898 cows and 2 B pounds of milk production. It will be interesting to see how the dairy industry responds to this buyout. Will an upsurge in culling follow? Thus far in 2009 over 111,400 more head have been slaughtered than the same period in 2008. I want to believe that record low margins and tight credit will cause cow numbers to decline rapidly as we go through the summer. Even after herd retirement #7 we need to cull an extra  $\pm 200,000$  hd. This must occur by midsummer for there to be any hope of prices improving to profitable levels for Q-3/Q-4. It is doubtful much help will come from the consumption side.

Ample supplies of replacements remain available and prices remain soft. However, there are some major expansion projects in my area moving forward. I expect these are "self" financed since credit remains tight. The YTD total for Canadian dairy replacements entering the U.S. is 5,180 hd (through 5/9/09).

Dairy product commercial disappearance has been weak since Q-4 2008 and continues so into 2009 with total disappearance in all product categories down vs. Jan-Feb 2008 except American cheese and fluid. Lower fluid prices have created increased fluid disappearance in eight of the past nine months. Total cheese disappearance finished 2008 only +0.01% ahead of 2007 and through Feb is off 2.0% for 2009. One important reason for this decline in total disappearance was the weakening of our critical dairy export market. March's exports were down 51% (-\$163.4 M) vs. Mar 2008. Many experts forecast U.S. dairy exports down as much as 40% in 2009 vs. 2008. If realized, this will require the domestic market to absorb 3-4 B lbs. of milk.

Our overall economy remains very weak and many experts continue to say we have yet to see the worst. According to many, the next "shoe to drop" will be a crisis in the credit card industry. These factors contribute to low consumer confidence, reduced vacationing, and have produced a blight in the food service industry. Dairy consumption will probably continue below trend unless the general economy strengthens. Moderating retail dairy prices will help, but total cheese inventories are at record levels. The CCC continues to buy powder, and cheese purchases may take place very soon. Again, any improvement in farm gate milk prices will be mostly dependent upon decreased milk production via declining cow numbers.

Have dairy markets made their lows? One would like to think so. If cow numbers continue to fall, milk per cow remains below trend and domestic commercial disappearance even slightly improves; both cheese prices and Class III futures prices should begin to slowly climb out of the basement. The rise will not be meteoric, but I still believe it is quite possible to see \$16.50 to \$17.00 Class III futures for Q-3, Q-4 2009 by mid to late summer.

The latest USDA *Milk Supply and Demand Estimates* report (May) reduced forecasted 2009 milk output to 187.7 billion pounds (-1.2% vs. 2008) "...as the sector responds to weak 2009 returns." Forecasted fat basis commercial disappearance for 2009 increased to 186.8 billion pounds (+1.4% vs. 2008). The 2009 USDA predictions for average Class III prices decreased \$0.10 to \$10.55-\$11.05; Class IV remained at \$9.95-\$10.55, and the "All Milk" price remained at \$11.85-\$12.35. Forecasted wholesale dairy product prices for 2009 were: Cheese down \$0.025 to \$1.245-\$1.295; butter up \$0.010 to \$1.165-\$1.245; NFDN steady at \$0.830-\$0.870; and dry whey was up \$0.015 to \$0.025 to \$0.195-\$0.225.

Very few dairy producers can profitably produce milk at current prices, especially if they purchase a large portion of their feed supply. I would like to be optimistic that the second half of the year will see profitability return for at



least the 50<sup>th</sup> percentile of lower cost producers. However, that remains to be seen. Be sure to examine your cost of production carefully, and continue to tighten the belt on expenses. For more information on weathering this storm see my recent article "Weathering the Storm" in the *Michigan Dairy Review* ([click here](#)). Below is a list of the major positive and negative market fundamentals I see impacting the dairy markets. Factors are not quantitative, so if there are more positives than negatives, or vice versa, do not interpret that as favoring a bull or bear market outlook.

The latest average CME Class III futures prices (5/22/09) (Figures 1 & 9, Table 1) are \$11.82 (2009), \$13.39 (next 12 months), and \$15.50 (2010). As annual averages these prices are now all well-below 2007's record of \$18.04 and 2008's \$17.44. These Class III prices would produce potential average "USDA" mailbox prices (Michigan) of \$12.39 (2009), \$13.95 (next 12 months), and \$16.07 (2010)(Figure 10). Remember, the USDA's definition of "mailbox price" deducts "all marketing costs" to arrive at their price. To estimate your gross pay price you should use your own farm's historical basis. Table 4 presents an estimate of future MILC payments based on futures prices for milk, corn, and soybeans as of 5/22/09.

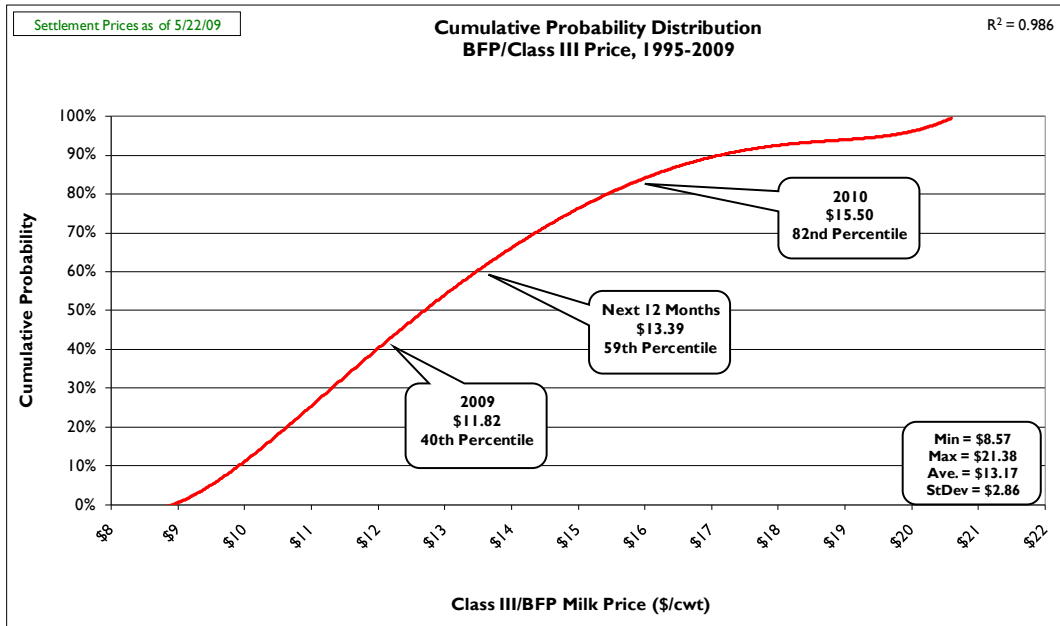
Figure 9 is a cumulative distribution graph of all USDA announced BFP/Class III monthly prices from 1995-present. The figure shows the current (5/22/09) CME Class III futures averages for 2009, next 12 months, and 2010. The graph shows the percentiles for each of these three prices indicating the percentage of historical monthly BFP/Class III prices that were at or below these levels: 2009, 40<sup>th</sup> percentile; next 12 months, 59<sup>th</sup> percentile; 2010, 82<sup>nd</sup> percentile.

#### Positive

Total commercial disappearance of dairy products finished 2008 above trend at +2.6%.  
 Total commercial disappearance of dairy products set all-time monthly records every month in 2008 except Oct and Nov.  
 Dairy cow slaughter numbers were up 94,200 hd in 2008 vs. 2007.  
 Dairy cow slaughter numbers are up 111,400 hd in 2009 vs. 2008 (through 5/2/09).  
 Dairy Profit Weekly reports many western producers will lose \$500-\$750/cow for Q-1; Q-2 2009; should lead to deep culling that will benefit the industry (not individual producers involved!).  
 U.S. cow numbers have dropped by 50,000 hd since Dec and are down by 30,000 hd in key western states (CA, AZ, ID, NM, WA) vs. Apr 2008.  
 No CCC purchases of butter since week ending 3/6/09.  
 Butter stocks down (-3.5%) vs. last Apr.  
 Round 6 CWT herd retirement removed 50,630 cows, 1,220 bred heifers, 976 M pounds of milk production.  
 Round 7 CWT herd retirement has accepted 388 bids for 102,898 cows and 2 billion pounds of milk; rumors of multiple retirements in 2009.  
 USDA Dairy Market News (5/25/09) reported only 5,180 "Canadian Dairy Breeding Female Imports" came into the U.S. since 1/1/09.  
 CPI for dairy products fell in Mar vs. Mar 2008 (-3.1%); fluid milk prices \$0.665/gal lower than Mar 2008.  
 Will credit crunch shorted this low price cycle? May decrease ability to expand and/or maintain herd size, reduce feeding rates.

#### Negative

USDA revised cow numbers upward for all 2008 months in the Feb Milk Production report by 40,000 to 50,000 hd; national herd now stands at 9,284,000 hd.  
 Despite bullish USDA Milk Production Reports in March & April, plus announcement of CWT herd retirement #7 removing over 100,000 cows; CME Group Class III futures prices remain anemic  
 Cheese stocks up in Apr vs. Apr 2008: Am cheese, +7.9% and total cheese, +6.8%; eleventh consecutive month cheese inventories above last year.  
 Total cheese disappearance was well-below trend (+2.8%) in 2008 vs. 2007 at only +0.01% and Jan-Feb 2009 was -2.0% vs. Jan-Feb 2008.  
 NFDm disappearance has started 2009 weak with Jan-Feb -3.1% vs. Jan-Feb 2008; over 236 M pounds have been sold to CCC since 10/1/08.  
 2009 started with total commercial disappearance down 0.8% vs. Jan-Feb 2008 and all dairy product categories were down vs. Feb 2008 except Am cheese.  
 The milk:feed ratio has been below 3.00 for seventeen consecutive months and below 2.0 for eleven of the past thirteen months; Apr was a miserable 1.59.  
 IOFC are down 41.9% vs. Apr 2008 (\$3.90/cwt vs. \$6.91/cwt).  
 \$409 M dairy trade deficit first six months of FY-2009 (Oct-Mar); reverses a string of 16 of 17 months with dairy trade surpluses.  
 March U.S. dairy exports down 51% (-\$163.4 M) vs. Mar 2008; YTD FY-2009 dairy exports total \$1.213 B down 42% vs. 2008.  
 Fuel prices continue increasing (>\$2.30/gal); may put a serious dent in the summer 2009 travel season and further reduce dairy product consumption.  
 The economic "crisis" remains a worldwide problem limiting consumer spending and lower dairy product consumption in both domestic and export markets.



**Figure 9: Cumulative distribution graph of USDA announced monthly BFP/Class III prices and current CME averages. (1995-present).**

**TABLE I. CME Class III futures vs. historical Class III averages.**

Month/ Year	Last Report 4/27/2009	CME Futures 5/22/2009	95-09 Class III Average	Difference vs. Class III Ave.	Difference (Last Report)	Change Since Last Report	Ave. Basis 2003-09	Potential MI "Mailbox" <sup>1</sup>
Jan	\$10.78	\$10.78	\$12.67	(\$1.89)	(\$1.89)	\$0.00	\$1.16	\$11.94
Feb	\$9.31	\$9.31	\$12.06	(\$2.75)	(\$2.75)	\$0.00	\$1.18	\$10.49
Mar	\$10.44	\$10.44	\$12.36	(\$1.92)	(\$1.92)	\$0.00	\$0.70	\$11.14
Apr	\$10.76	\$10.78	\$12.67	(\$1.89)	(\$1.91)	\$0.02	(\$0.02)	\$10.76
May	\$10.13	\$9.80	\$13.03	(\$3.23)	(\$2.90)	(\$0.33)	(\$0.18)	\$9.62
Jun	\$11.03	\$10.12	\$13.45	(\$3.33)	(\$2.42)	(\$0.91)	(\$0.29)	\$9.83
Jul	\$12.50	\$11.02	\$13.71	(\$2.69)	(\$1.21)	(\$1.48)	\$0.27	\$11.29
Aug	\$13.77	\$12.39	\$13.87	(\$1.48)	(\$0.10)	(\$1.38)	\$0.44	\$12.83
Sep	\$14.50	\$13.62	\$14.30	(\$0.68)	\$0.20	(\$0.88)	\$0.66	\$14.28
Oct	\$15.02	\$14.25	\$13.82	\$0.43	\$1.20	(\$0.77)	\$1.04	\$15.29
Nov	\$15.06	\$14.61	\$13.08	\$1.53	\$1.98	(\$0.45)	\$1.30	\$15.91
Dec	\$15.10	\$14.76	\$13.30	\$1.46	\$1.80	(\$0.34)	\$0.54	\$15.30
Jan '10	\$15.20	\$14.85	\$12.67	\$2.18	\$2.53	(\$0.35)	\$1.16	\$16.01
Feb '10	\$15.21	\$14.69	\$12.06	\$2.63	\$3.15	(\$0.52)	\$1.18	\$15.87
Mar '10	\$15.35	\$15.10	\$12.36	\$2.74	\$2.99	(\$0.25)	\$0.70	\$15.80
Apr '10	\$15.64	\$15.45	\$12.67	\$2.78	\$2.97	(\$0.19)	(\$0.02)	\$15.43
May '10	\$15.65	\$15.50	\$13.03	\$2.47	\$2.62	(\$0.15)	(\$0.18)	\$15.32
Jun '10	\$15.74	\$15.75	\$13.45	\$2.31	\$2.30	\$0.01	(\$0.29)	\$15.46
Jul '10	\$15.88	\$15.75	\$13.71	\$2.04	\$2.17	(\$0.13)	\$0.27	\$16.02
Aug '10	\$15.90	\$15.80	\$13.87	\$1.93	\$2.03	(\$0.10)	\$0.44	\$16.24
Sep '10	\$15.85	\$15.80	\$14.30	\$1.50	\$1.55	(\$0.05)	\$0.66	\$16.46
Oct '10	\$15.80	\$15.65	\$13.82	\$1.83	\$1.98	(\$0.15)	\$1.04	\$16.69
Nov '10	\$15.84	\$15.85	\$13.08	\$2.77	\$2.76	\$0.01	\$1.30	\$17.15
Dec '10	\$15.75	\$15.80	\$13.30	\$2.50	\$2.45	\$0.05	\$0.54	\$16.34
Jan '11	\$15.51	\$15.51	\$12.67	\$2.84	\$2.84	\$0.00	\$1.16	\$16.67
Feb '11	\$15.35	\$15.35	\$12.06	\$3.29	\$3.29	\$0.00	\$1.18	\$16.53
Mar '11	\$15.35	\$15.40	\$12.36	\$3.04	\$2.99	\$0.05	\$0.70	\$16.10
Apr '11		\$15.30	\$12.67	\$2.63			(\$0.02)	\$15.28
<b>2009</b>	<b>\$12.37</b>	<b>\$11.82</b>	<b>\$13.19</b>	<b>(\$1.37)</b>	<b>(\$0.82)</b>	<b>(\$0.54)</b>	<b>\$0.57</b>	<b>\$12.39</b>
<b>Next 12 mo.</b>	<b>\$14.04</b>	<b>\$13.39</b>	<b>\$13.19</b>	<b>\$0.20</b>	<b>\$0.85</b>	<b>(\$0.65)</b>	<b>\$0.57</b>	<b>\$13.95</b>
<b>2010</b>	<b>\$15.65</b>	<b>\$15.50</b>	<b>\$13.19</b>	<b>\$2.31</b>	<b>\$2.46</b>	<b>(\$0.15)</b>	<b>\$0.57</b>	<b>\$16.07</b>

<sup>1</sup>Potential mailbox price for MI based on 2003-2008 basis (i.e., basis calculated as USDA MI mailbox price minus Class III price).



**TABLE 2. BFP/Class III Milk Price Historical Data**

BFP/Class III Price																				
Month	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	Average	Median	StDev	Min	Max
Jan	\$11.35	\$12.73	\$11.94	\$13.25	\$16.27	\$10.05	\$9.99	\$11.87	\$9.78	\$11.61	\$14.14	\$13.39	\$13.56	\$19.32	\$10.78	\$12.67	\$11.94	\$2.55	\$9.78	\$19.32
Feb	\$11.79	\$12.59	\$12.46	\$13.32	\$10.27	\$9.54	\$10.27	\$11.63	\$9.66	\$11.89	\$14.70	\$12.20	\$14.18	\$17.03	\$9.31	\$12.06	\$11.89	\$2.15	\$9.31	\$17.03
Mar	\$11.89	\$12.70	\$12.49	\$12.81	\$11.62	\$9.54	\$11.42	\$10.65	\$9.11	\$14.49	\$14.08	\$11.11	\$15.09	\$18.00	\$10.44	\$12.36	\$11.89	\$2.32	\$9.11	\$18.00
Apr	\$11.16	\$13.09	\$11.44	\$12.01	\$11.81	\$9.41	\$12.06	\$10.85	\$9.41	\$19.66	\$14.61	\$10.93	\$16.09	\$16.76	\$10.78	\$12.67	\$11.81	\$2.90	\$9.41	\$19.66
May	\$11.12	\$13.77	\$10.70	\$10.88	\$11.26	\$9.37	\$13.83	\$10.82	\$9.71	\$20.58	\$13.77	\$10.83	\$17.60	\$18.18		\$13.03	\$11.19	\$3.48	\$9.37	\$20.58
Jun	\$11.42	\$13.92	\$10.74	\$13.10	\$11.42	\$9.46	\$15.02	\$10.09	\$9.75	\$17.68	\$13.92	\$11.29	\$20.17	\$20.25		\$13.45	\$12.26	\$3.65	\$9.46	\$20.25
Jul	\$11.23	\$14.49	\$10.86	\$14.77	\$13.59	\$10.66	\$15.46	\$9.33	\$11.78	\$14.85	\$14.35	\$10.92	\$21.38	\$18.24		\$13.71	\$13.97	\$3.28	\$9.33	\$21.38
Aug	\$11.55	\$14.94	\$12.07	\$14.99	\$15.79	\$10.13	\$15.55	\$9.54	\$13.80	\$14.04	\$13.60	\$11.06	\$19.83	\$17.32		\$13.87	\$13.92	\$2.85	\$9.54	\$19.83
Sep	\$12.08	\$15.37	\$12.79	\$15.10	\$16.26	\$10.76	\$15.90	\$9.92	\$14.30	\$14.72	\$14.30	\$12.29	\$20.07	\$16.28		\$14.30	\$14.51	\$2.61	\$9.92	\$20.07
Oct	\$12.61	\$14.13	\$12.83	\$16.04	\$11.49	\$10.02	\$14.60	\$10.72	\$14.39	\$14.16	\$14.35	\$12.32	\$18.70	\$17.06		\$13.82	\$14.15	\$2.40	\$10.02	\$18.70
Nov	\$12.87	\$11.61	\$12.96	\$16.84	\$9.79	\$8.57	\$11.31	\$9.84	\$13.47	\$14.89	\$13.35	\$12.84	\$19.22	\$15.51		\$13.08	\$12.92	\$2.89	\$8.57	\$19.22
Dec	\$12.91	\$11.34	\$13.29	\$17.34	\$9.63	\$9.37	\$11.80	\$9.74	\$11.87	\$16.14	\$13.37	\$13.47	\$20.60	\$15.28		\$13.30	\$13.10	\$3.18	\$9.37	\$20.60
Average	\$11.83	\$13.39	\$12.05	\$14.20	\$12.43	\$9.74	\$13.10	\$10.42	\$11.42	\$15.39	\$14.05	\$11.89	\$18.04	\$17.44	\$10.33					
StDev	\$0.65	\$1.26	\$0.92	\$1.97	\$2.45	\$0.61	\$2.18	\$0.81	\$2.09	\$2.74	\$0.45	\$0.99	\$2.68	\$1.46	\$0.70					
Min	\$11.12	\$11.34	\$10.70	\$10.88	\$9.63	\$8.57	\$9.99	\$9.33	\$9.11	\$11.61	\$13.35	\$10.83	\$13.56	\$15.28	\$9.31					
Max	\$12.91	\$15.37	\$13.29	\$17.34	\$16.27	\$10.76	\$15.90	\$11.87	\$14.39	\$20.58	\$14.70	\$13.47	\$21.38	\$20.25	\$10.78					

**TABLE 3. Class IV Milk Price Historical Data**

Class IV Price																				
Month						2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	Average	Median	StDev	Min	Max
Jan						\$10.73	\$12.13	\$11.93	\$10.07	\$10.97	\$12.52	\$12.20	\$12.53	\$16.29	\$9.59	\$11.90	\$12.03	\$1.86	\$9.59	\$16.29
Feb						\$10.80	\$12.70	\$11.54	\$9.81	\$12.21	\$12.74	\$11.10	\$12.71	\$14.67	\$9.45	\$11.77	\$11.88	\$1.56	\$9.45	\$14.67
Mar						\$11.00	\$13.46	\$11.42	\$9.79	\$14.10	\$12.66	\$10.68	\$13.71	\$14.17	\$9.64	\$12.06	\$12.04	\$1.77	\$9.64	\$14.17
Apr						\$11.38	\$14.41	\$11.09	\$9.73	\$14.57	\$12.61	\$10.36	\$16.12	\$14.56	\$9.82	\$12.47	\$12.00	\$2.31	\$9.73	\$16.12
May						\$11.91	\$15.04	\$10.57	\$9.74	\$14.50	\$12.20	\$10.33	\$18.48	\$15.26		\$13.11	\$12.20	\$2.89	\$9.74	\$18.48
Jun						\$12.38	\$15.33	\$10.52	\$9.76	\$13.72	\$12.33	\$10.22	\$20.76	\$15.92		\$13.44	\$12.38	\$3.50	\$9.76	\$20.76
Jul						\$11.87	\$14.81	\$10.45	\$9.95	\$13.31	\$13.17	\$10.21	\$21.64	\$16.60		\$13.56	\$13.17	\$3.76	\$9.95	\$21.64
Aug						\$11.87	\$15.06	\$10.41	\$10.14	\$12.46	\$13.44	\$10.64	\$21.87	\$16.64		\$13.61	\$12.46	\$3.79	\$10.14	\$21.87
Sep						\$11.94	\$15.59	\$10.22	\$10.05	\$13.00	\$13.75	\$11.10	\$21.61	\$15.45		\$13.63	\$13.00	\$3.62	\$10.05	\$21.61
Oct						\$11.81	\$12.77	\$10.50	\$10.16	\$12.81	\$13.61	\$11.51	\$21.31	\$13.62		\$13.12	\$12.77	\$3.31	\$10.16	\$21.31
Nov						\$13.00	\$11.97	\$10.58	\$10.30	\$13.34	\$12.90	\$12.11	\$20.40	\$12.25		\$12.98	\$12.25	\$2.97	\$10.30	\$20.40
Dec						\$13.27	\$11.79	\$10.49	\$10.52	\$13.42	\$12.57	\$12.30	\$19.18	\$10.35		\$12.65	\$12.30	\$2.72	\$10.35	\$19.18
Average						\$11.83	\$13.76	\$10.81	\$10.00	\$13.20	\$12.88	\$11.06	\$18.36	\$14.65	\$9.63					
StDev						\$0.79	\$1.43	\$0.55	\$0.25	\$1.02	\$0.51	\$0.79	\$3.64	\$1.87	\$0.15					
Min						\$10.73	\$11.79	\$10.22	\$9.73	\$10.97	\$12.20	\$10.21	\$12.53	\$10.35	\$9.45					
Max						\$13.27	\$15.59	\$11.93	\$10.52	\$14.57	\$13.75	\$12.30	\$21.87	\$16.64	\$9.82					

**TABLE 4. Estimated MILC Payments**

Date Futures Prices: May 22, 2009

Predicted/Actual MILC Payments<sup>1</sup> Enter data in green-shaded cells only.

Mo/Yr	Class III				Feed Price Difference From Base	Feed Price Adjustment Factor	Adjusted Class I Mover	Predicted MILC Payment <sup>3</sup>
	Futures Price <sup>1</sup>	Corn Price <sup>2</sup>	Soy Price <sup>2</sup>	Hay Price <sup>2</sup>				
Jan '09	\$15.74	\$4.36	\$9.97	\$149.00	\$1.00	13.7%	\$14.73	NP
Feb '09	\$10.72	\$4.13	\$9.58	\$143.00	\$0.62	8.4%	\$14.33	\$1.63
Mar '09	\$9.43	\$3.87	\$9.89	\$133.00	\$0.22	3.0%	\$13.92	\$2.02
Apr '09	\$10.36	\$3.86	\$9.12	\$137.00	\$0.19	2.6%	\$13.89	\$1.59
May '09	\$10.97	\$4.30	\$11.66	\$137.00	\$0.93	12.7%	\$14.66	\$1.66
Jun '09	\$10.08	\$4.30	\$11.66	\$137.00	\$0.93	12.7%	\$14.66	\$2.06
Jul '09	\$11.02	\$4.30	\$11.66	\$137.00	\$0.93	12.7%	\$14.66	\$1.64
Aug '09	\$12.39	\$4.30	\$11.34	\$137.00	\$0.89	12.1%	\$14.61	\$1.00
Sep '09	\$13.62	\$4.40	\$10.76	\$137.00	\$0.90	12.3%	\$14.63	\$0.45
Oct '09	\$14.25	\$4.40	\$10.76	\$137.00	\$0.90	12.3%	\$14.63	\$0.17
Nov '09	\$14.61	\$4.40	\$10.31	\$137.00	\$0.84	11.5%	\$14.56	NP
Dec '09	\$14.76	\$4.52	\$10.31	\$137.00	\$0.95	12.9%	\$14.68	NP

<sup>1</sup>Use Class III futures prices as a proxy for Class I base price; prices in bold face are the USDA's announced Class I movers.

<sup>2</sup>Use CBOT futures prices closest to given month/year to predict corn and soy prices; use best estimate of hay price.

<sup>3</sup>NP means no MILC payment.

Craig Thomas, Extension Educator-Dairy Michigan State University Extension Sanilac, Huron, Lapeer, Tuscola & St. Clair Counties	Phone: 810.648.2515 Web: dairyteam.msu.edu E-mail: thomasc@msu.edu
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