



## ***Kentucky Dairy Notes***

***November 2008***

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# **Kentucky Dairy Market Outlook for 2008-2009**

## **2008 Summary**

Increases in milk cow inventory and milk per cow have resulted in about a 2% increase in milk production in 2008. The majority of these year-over-year increases were seen in the first half of 2008 and were largely the result of extremely high milk prices during the second half of 2007. Prices moderated in the spring, rallied in the summer, but dropped again in the fall. The US All Milk price for 2008 should settle about \$0.50 to \$0.75 per cwt. lower than 2007.

Contrary to the national trend, Kentucky saw another decrease in dairy cow numbers to begin the year 2008. Another year of dry weather and economic challenges likely lead to a further reduction in dairy cow numbers in Kentucky. USDA's monthly milk production report suggests that Kentucky will start 2009 with fewer than 90,000 milk cows in production.

The components that drove milk prices above \$20 in the second half of 2007 have been quite mixed in 2008. Butter prices followed 2007 levels quite closely until summer, when they broke to the upside. On the other hand, non-fat dry and whey prices have been well below 2007 levels. Cheese prices were above last year's levels until summer, but are now pretty close to where they were last fall.

## **Outlook for 2009**

Growth in dairy production is likely slowing, hampered by decreasing profit margins. USDA is forecasting less than a 1% increase in milk production next year, fueled primarily by a small increase in milk per cow. The weakening demand that is impacting all sectors of the agricultural economy is also likely to have a negative impact on dairy products as we move into 2009. Milk prices in 2009 will likely be slightly below 2008 levels. It is also important to note that milk price formula adjustments were



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made, effective October 1, 2008, that increased the make allowances for cheese, dry whey, non-fat dry milk, and butter. Holding everything else constant, these changes will decrease the minimum price that can be paid for farm level milk.

While 2009 milk prices are likely to be above long term average, many producers will struggle due to higher input costs. Feed costs remain high for quality hay, silage, and concentrates. Dairy producers are also wrestling with higher fuel and fertilizer costs. Like most sectors, breakeven prices in the dairy sector have gone up substantially over the last three or four years, which makes current prices levels deceiving.

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