

Setting the Stage with Dairy Outlook

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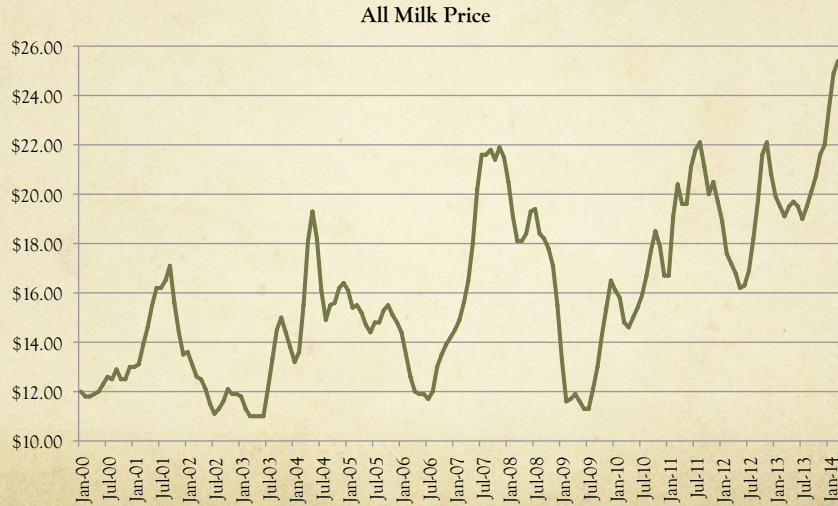
Have You Ever Heard the Phrase...

- 3M— Money Makes Milk
- 5M— More Money Makes More Milk
- 7M— Much More Money Makes Much More Milk
- Or does it?

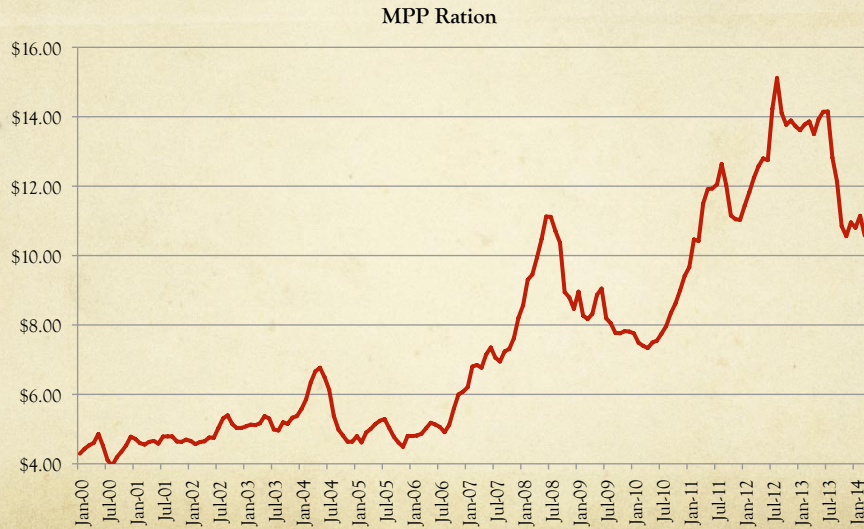


Attributed to Don Kullmann of Prairie Farms Dairy Cooperative

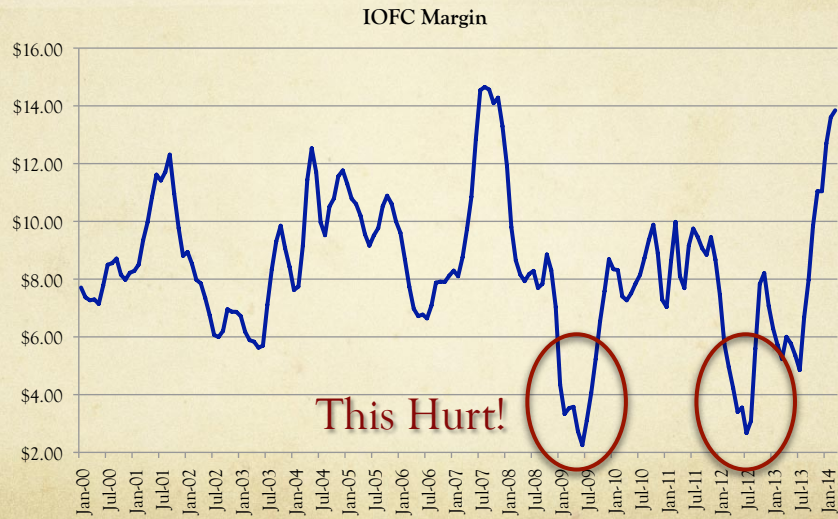
We've Never Been Here Before



It's Also About Costs...



The Margin Looks Good for Now

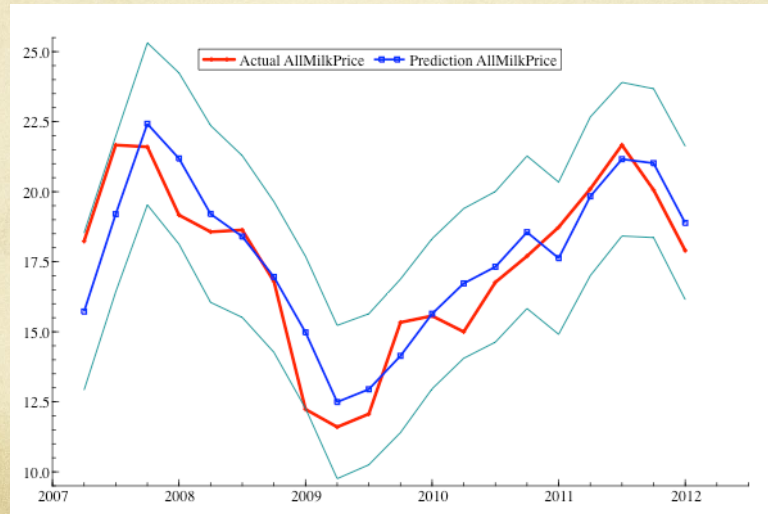


Business Models Differ

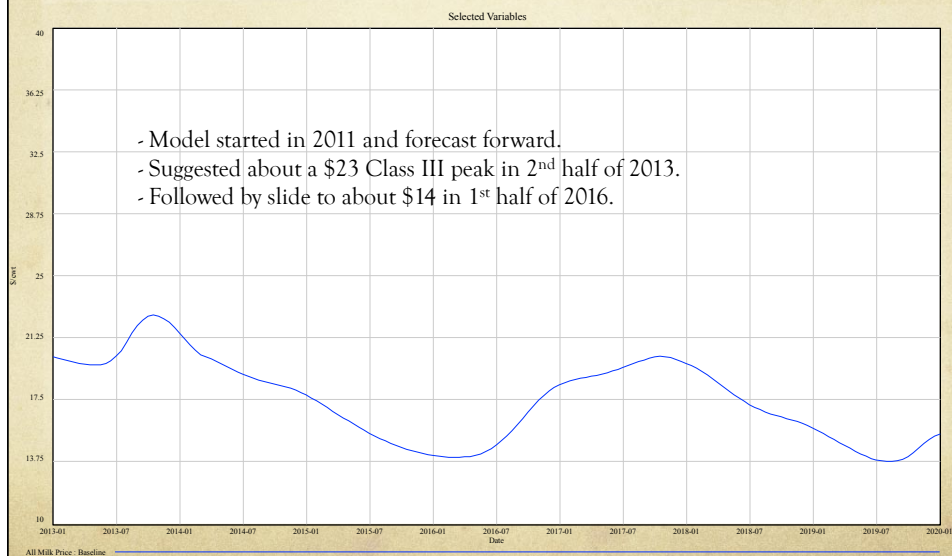
Average Daily Change in Production from Year Earlier



Not Everyone Agrees, but it Looks Like Cycles to Us.



Another Model Suggests...



Ultimate Authority



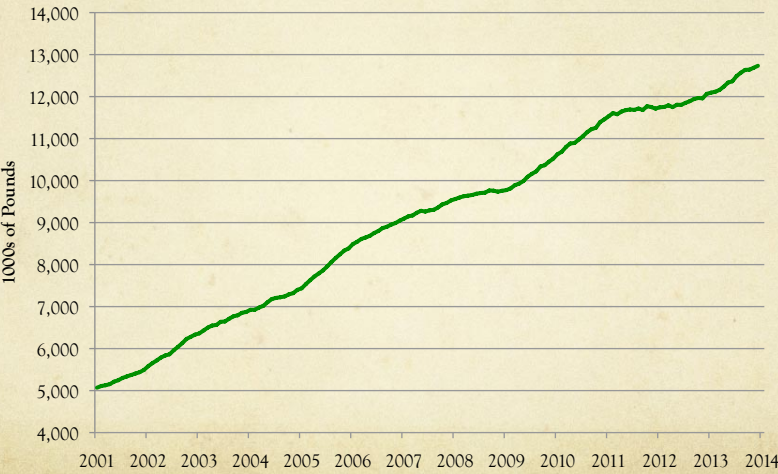
How Do I Forecast?

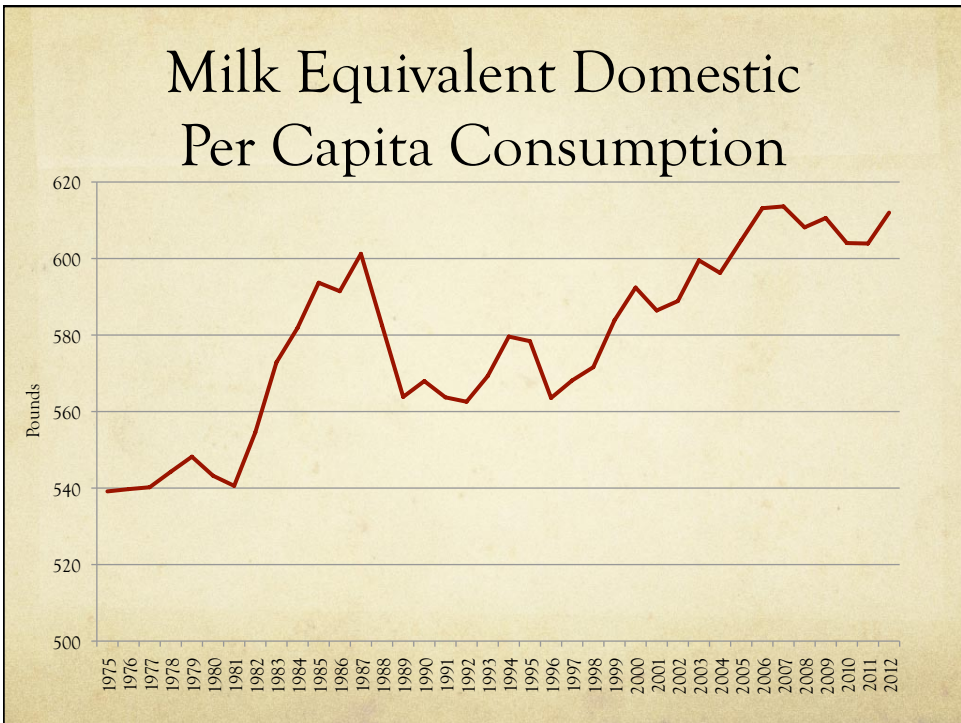
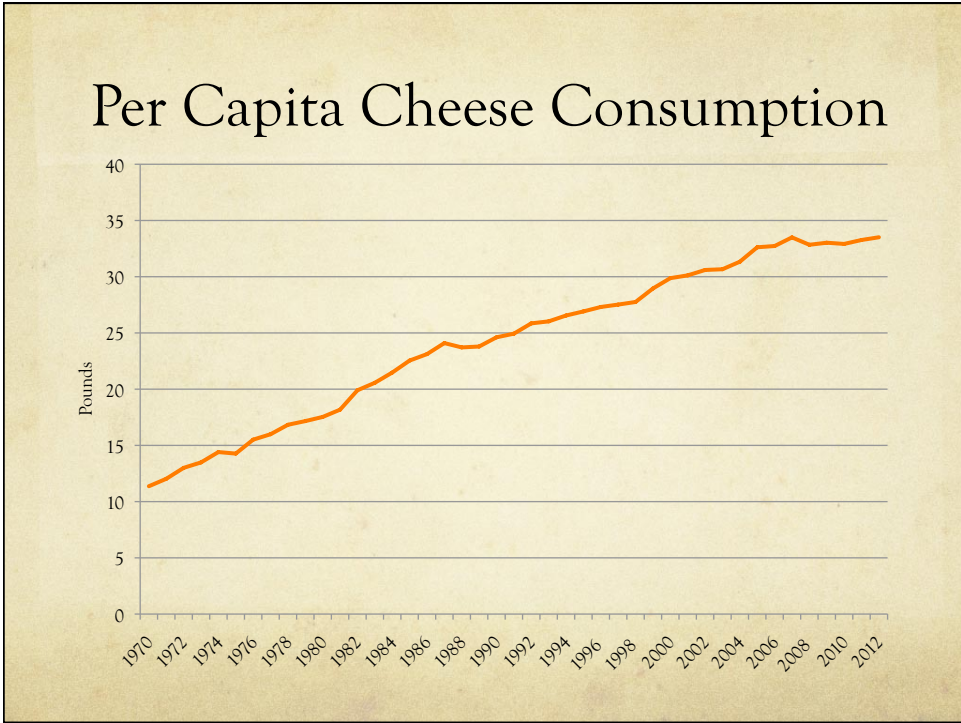
- I take input from our best known measurements
 - NASS, AMS, CME, BLS, NOAA, CNIEL, GDT, others
- I assemble data into supply & utilization balance sheet
- I consider what the mathematical models indicate
- I listen to what others are saying
- I assemble and weight into my own mental model

Rolling Average Daily Fluid Milk Sales

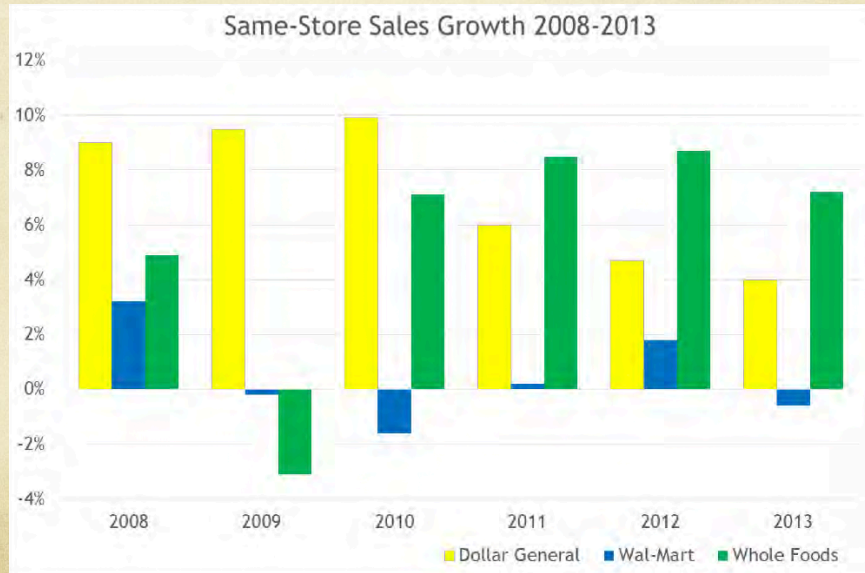


Rolling Average Daily Yogurt Production

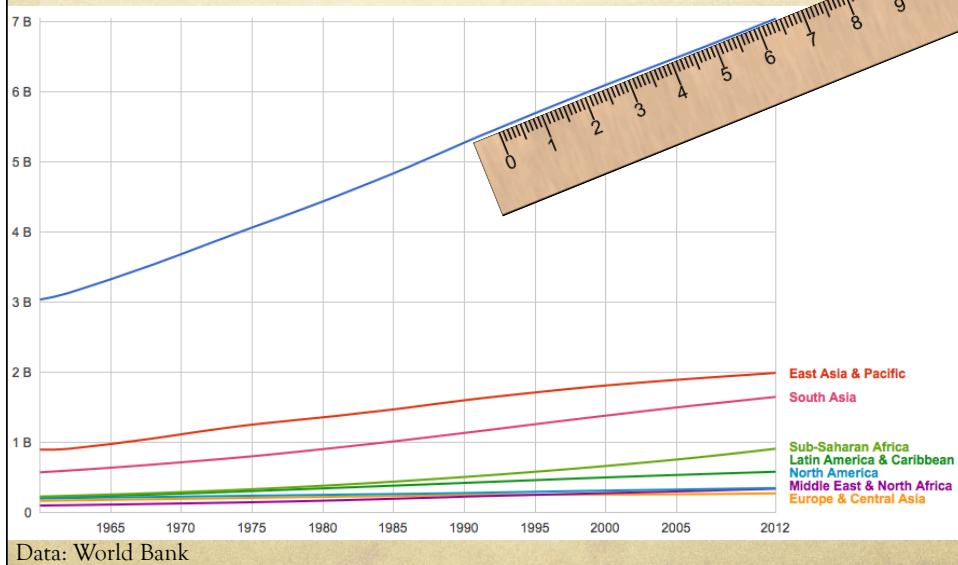




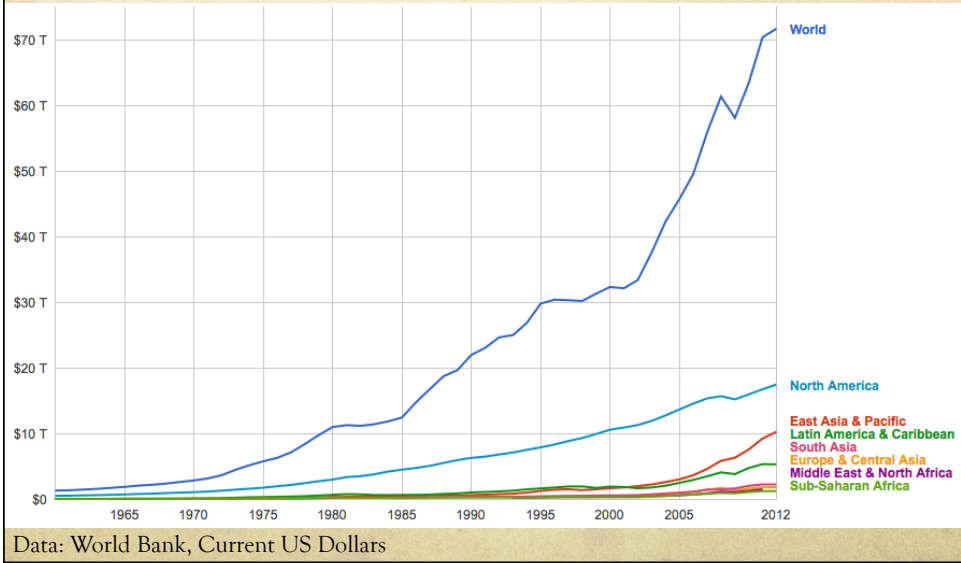
Phil Plourd Makes a Case



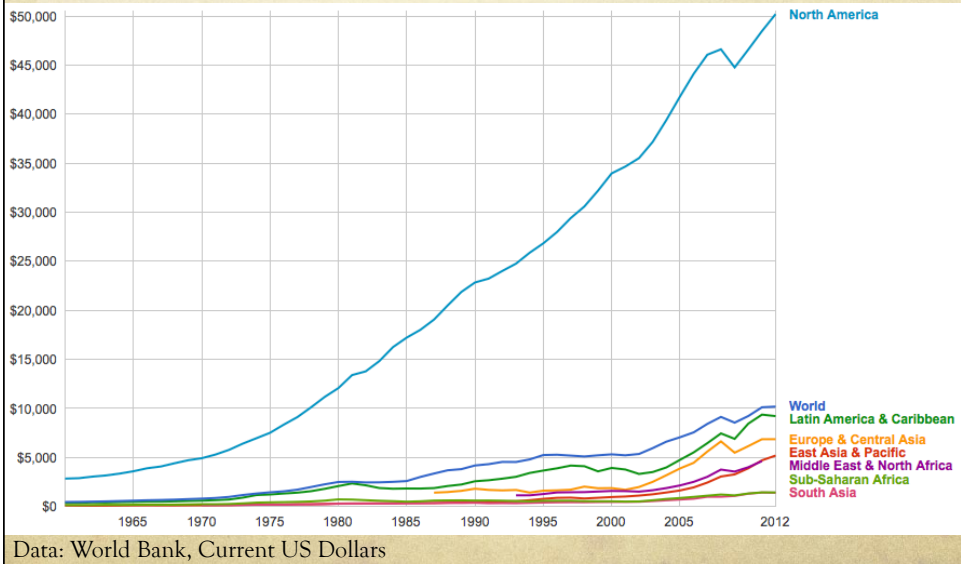
World Population



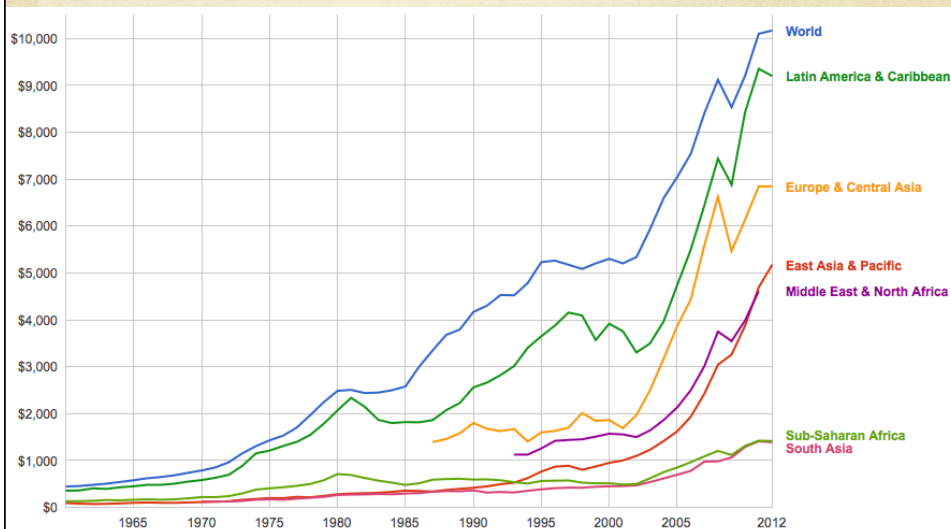
Gross Domestic Product



Per Capita GDP with North America



Per Capita GDP

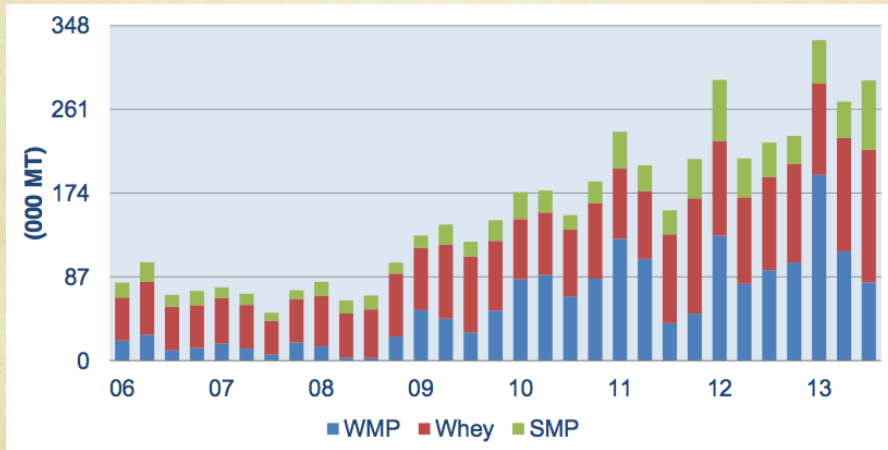


Data: World Bank, Current US Dollars

What Can Prosperity Buy?

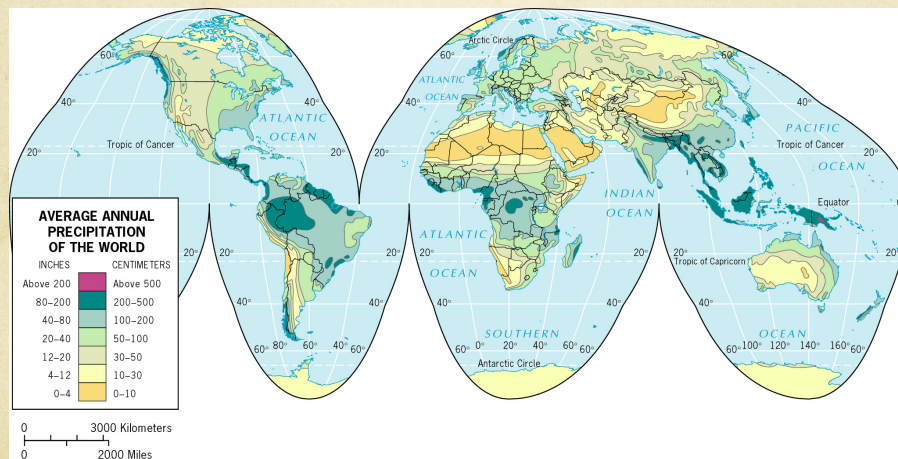
- East Asia has had about a 5 times increase in per capita GDP over the last decade.
- East Asia is no longer concerned about adequate calories
- East Asia wants to upgrade the “quality” of its diet with more animal proteins.
- Tom Hertel suggests that for the first time in history increases in prosperity are driving increased food demand more than increases than population.

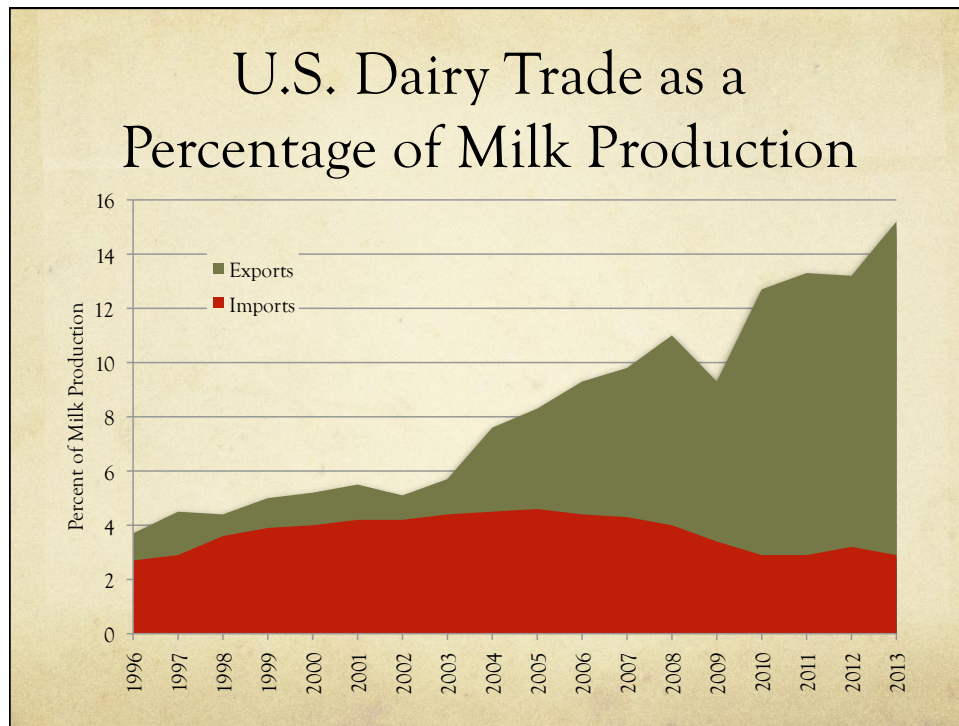
Quarterly China Imports from U.S.



Source: USDEC, GTIS

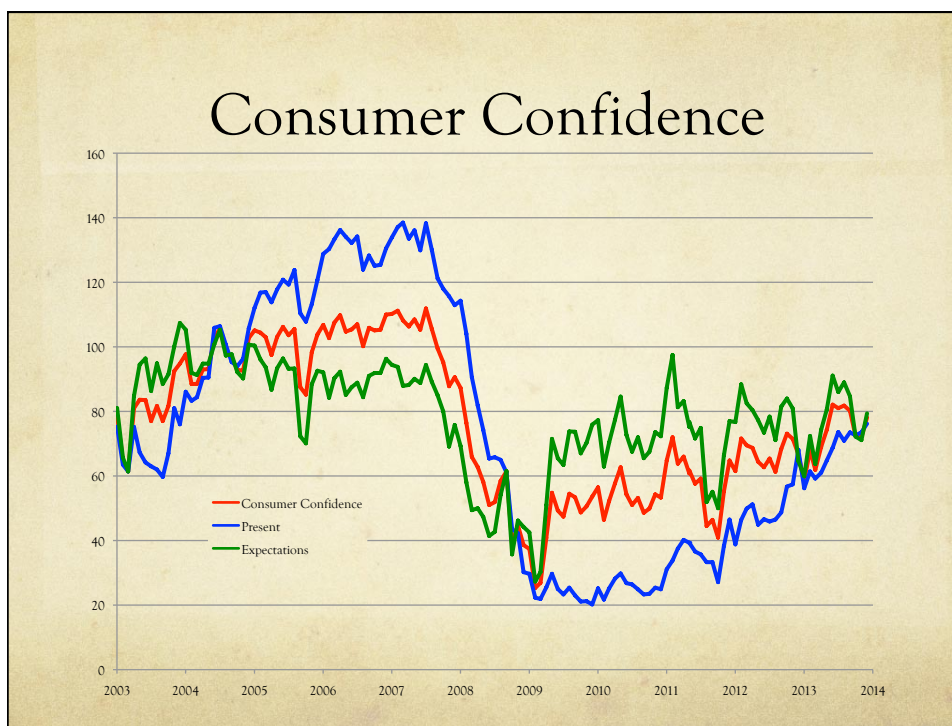
World Weather Makes a Difference.





Demand Expectations

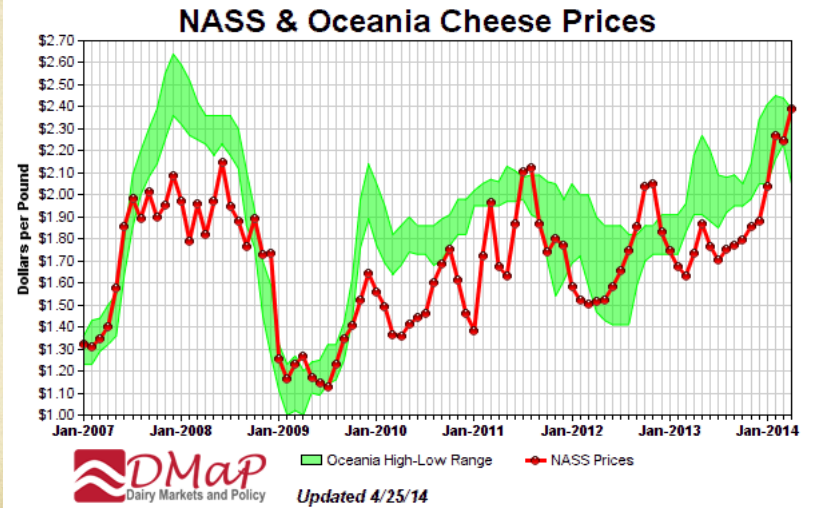
- I expect domestic demand to be alright—modest growth but nothing special



Demand Expectations

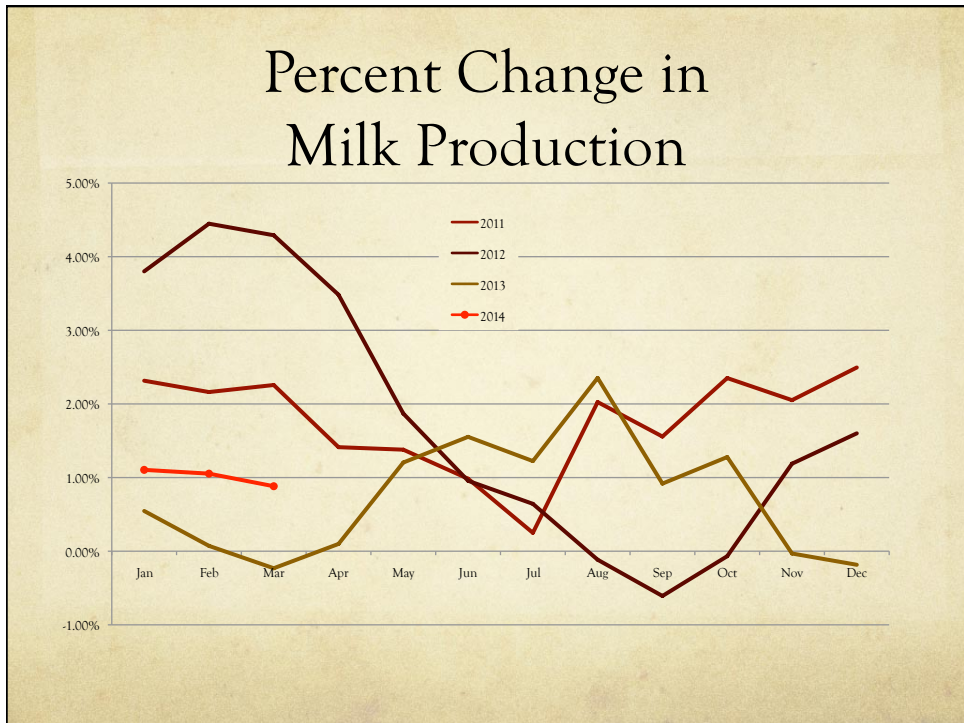
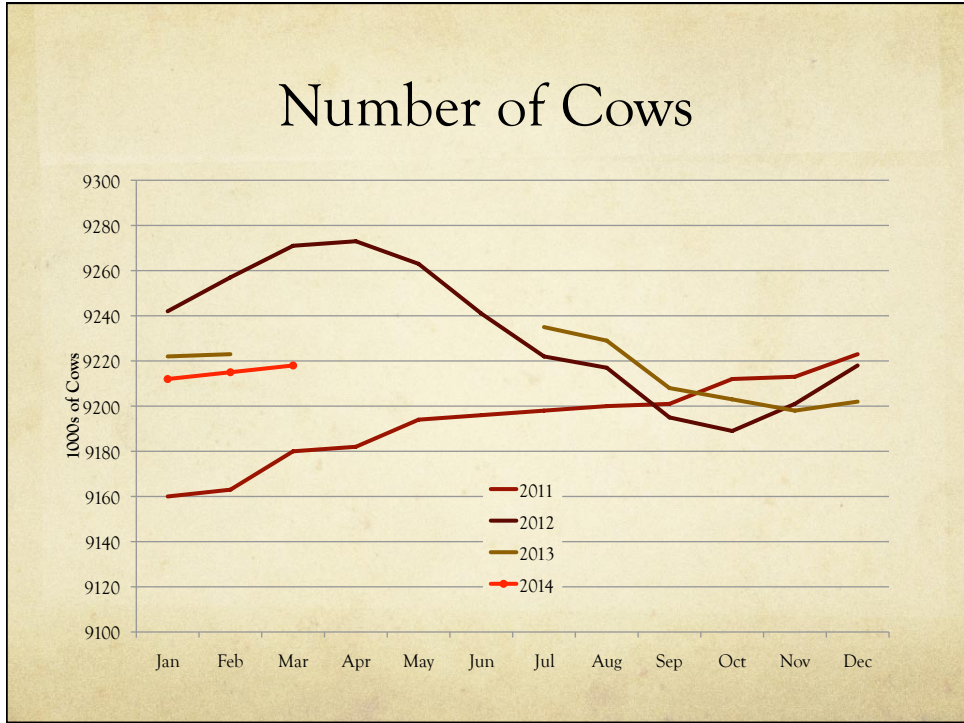
- I expect domestic demand to be alright—modest growth but nothing special
- I expect U.S. export demand to expand, but probably not at the same rate as last year.
 - New Zealand and European Union have much improved weather for production.
 - China's demand is still growing but showing signs of slowing the pace.
 - Already see price decline on GDT.
 - U.S. product prices will have to align.

U.S. versus World Prices

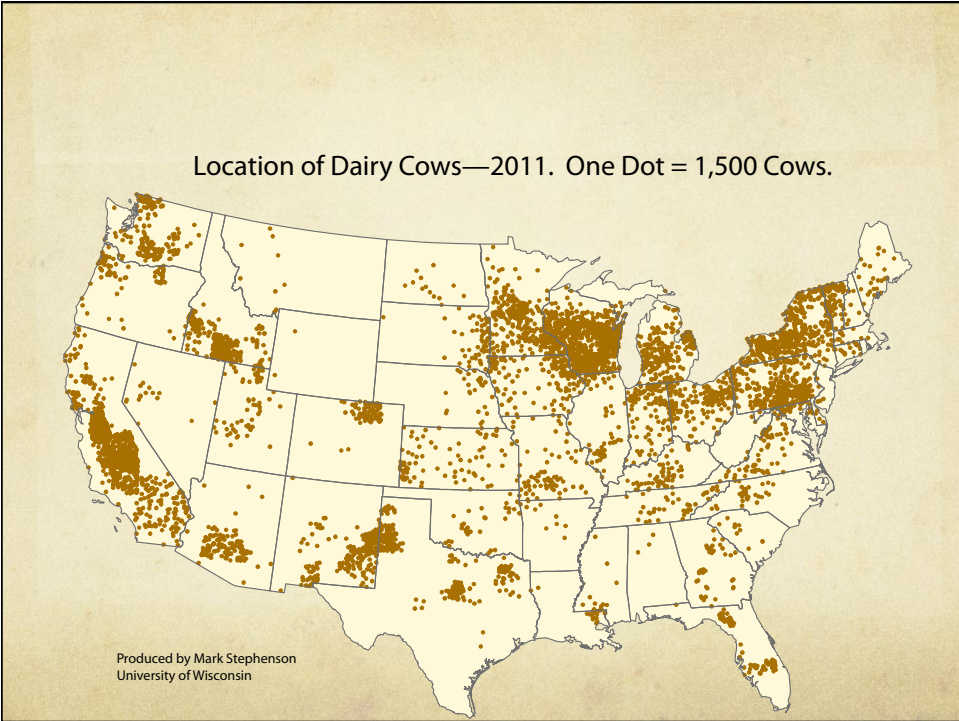
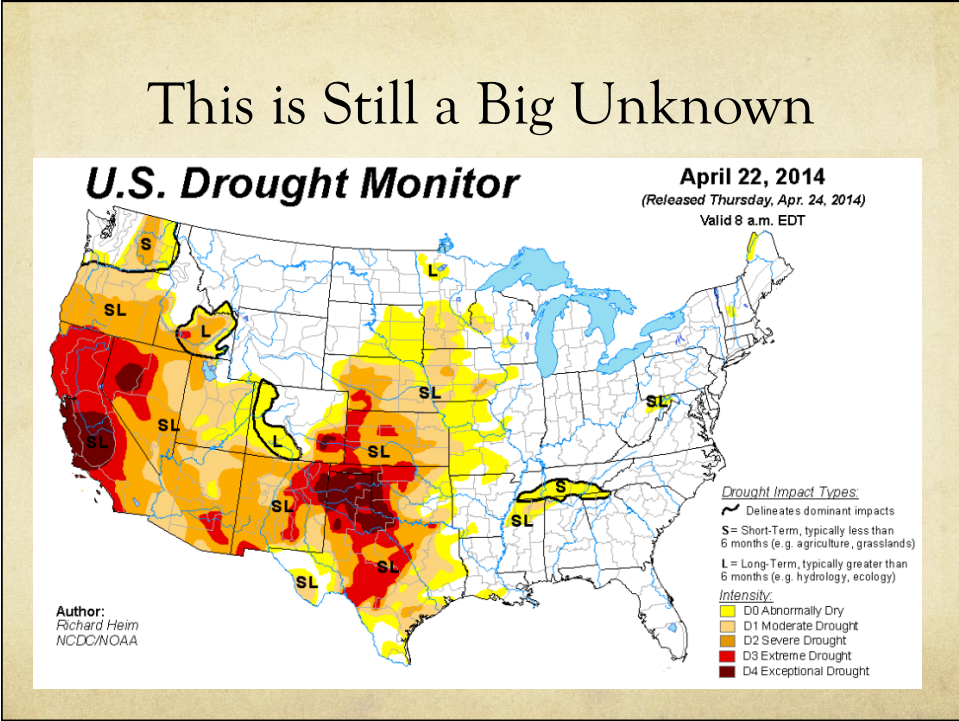


Average Daily Milk Per Cow





This is Still a Big Unknown



Uncertainties

- **Domestic Economy.** Not all indicators are pointing in the same direction.
- **Export Sales.** Could be stronger than I am forecasting.
- **Weather.** Will the El Niño be enough.
- **Farm Bill.** Signed into law on Feb 7. We understand the major pieces but there are still many details for USDA to decide before implementation. How will producers react?

Observations...

- Farms have all the signal they need to tell them the market wants more milk.
- They've been slow to respond, but they are holding back cows from culling and there will soon be adequate heifers in the pipeline (even given beef prices).
- They want to restore balance sheets quickly, but have been burned in the past. Western operations may not be as credit-worthy as in previous years.
- I'm forecasting milk prices to decline from this high point but still average

My Conclusions...

- We are at the peak of our milk price cycle now
- We will decline significantly (All Milk price of low \$19 by December)
- The 2014 average milk price will still be \$2.50 above 2013 average
- 2015 average will look a lot more like 2013
- 2016???

Questions?