



National Milk Producers Federation

National Milk Producers Federation • 2101 Wilson Blvd., Arlington, VA 22201 • 703-243-6111

Dairy Price Talking Points – February 2009

- ❑ Farm level milk prices have headed sharply lower in 2009, after being higher than average in 2007 and 2008. The current price that farmers get for bottled milk is down nearly 50% from last winter, and just the drop from January to February alone is more than 40 cents per gallon.
- ❑ Hopefully, many retailers will reduce their prices for milk and other dairy foods, just as they raised store prices last year when farm prices were higher. Right now, retail prices in most places haven't dropped nearly as much as the price drops that farmers have already seen.
- ❑ The reason farm prices are declining is that supply – milk production – is now outstripping demand. The overall global economy has slowed dramatically in just the past few months, and our exports to overseas markets have also slowed, and that is now showing up as lower prices. Exports were a key reason why prices were high last year, but we can't count on them as much right now. Also, the U.S. economy, as everyone knows, is in a recession, and that affects consumers' buying habits.
- ❑ Dairy farmers will face a dire challenge to survive in 2009, as their prices drop, while the cost of making milk remains high [see chart on p. 2]. Demand for biofuels, especially ethanol, is keeping corn prices above historic levels, and corn is a key feed ingredient for dairy cows. The costs of other cattle feed, such as soybeans and hay, while not as high as they were last summer, are still higher than in years past, making it more expensive to feed cows.
- ❑ Farmers do not set the price of milk. Wholesale and retail prices are determined by market forces of supply and demand. There is often a huge variance in the retail price of milk from store to store, and from city to city, and this has to do with the differing markups that are used by supermarkets, mass merchandisers, convenience stores and drug stores.
- ❑ Retail prices increasingly are disconnected from the farm-level price, with the margin between what farmers receive, and what consumers pay, growing steadily over time. On average, farmers only receive about 30 cents of every dollar that consumers spend on dairy products. The other 70% is split among others in the supply chain. Retail prices jump quickly when farm prices rise, but when farm prices fall – as they're doing now – retail prices decline more slowly, and sometimes not at all.
- ❑ Dairy products remain a solid value for consumers. Penny for penny, no other food offers as much nutritional value for America's families as milk. While food budgets are tight for many people, dairy products remain an important staple ingredient for their great taste and nutrition.

The chart below illustrates the steep plunge in farm-level milk prices (the red line), compared to the average cost of making milk. Feed costs (in orange) remain elevated, and when combined with other costs of running the farm, including energy, labor, and related expenses, most farmers will be operating in the red for much of 2009.

