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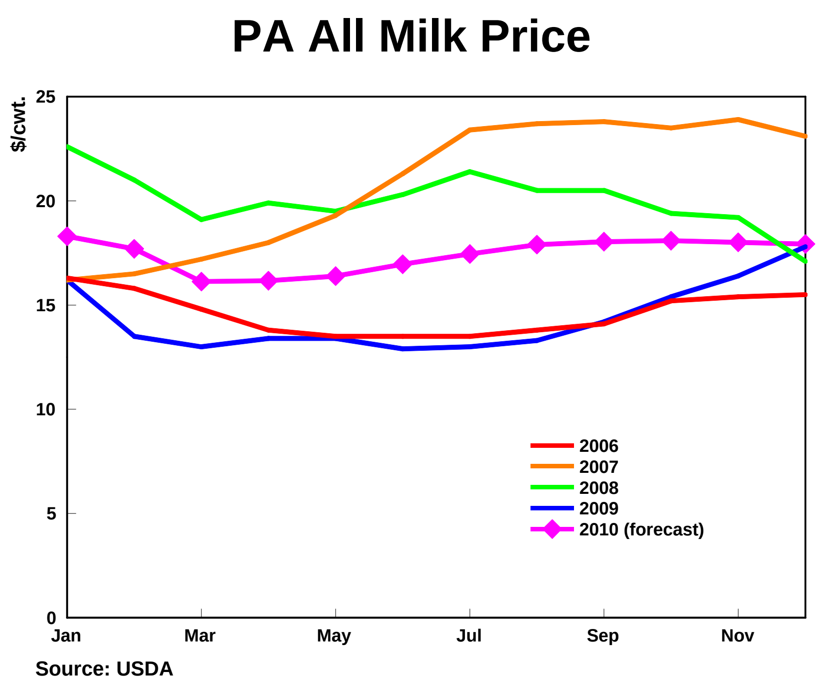
2009 was a very bad year for dairy farms. In 2007 and 2008 conditions internationally, including severe drought in New Zealand and Australia and a weak dollar, made the United States a much bigger dairy exporter that had been true before. Milk prices soared and many dairy farmers expanded their herds. Unlike most U.S. agricultural products, the U.S. dairy industry serves primarily the domestic market. We sell about 10% of the world's dairy exports and buy about the same. The European Union is the biggest exporter, followed by New Zealand, the U.S., and Australia. As the world economy collapsed and it began to rain in the Antipodes, our exports were no longer as competitive. However, we had more cows producing and our domestic economy was weak, hurting domestic demand as well. Prices dropped sharply. The Pennsylvania all-milk price, which had hit $23.90/cwt. in 2007, fell to the $13/cwt. range for several months, with a low of $12.90 in June 2009. For all of 2009, this price was $14.38.cwt., compare to $20.04 for all of 2008. The market came back in the fall, but many farmers lost $500/cow and some $1,000/cow. One source told me that based on his analysis of his clients they lost $332/cow or $1.36/cwt. Farmers had trouble paying their bills, servicing their debt, and supporting their families. Prices had been that low earlier in the decade, but in 2009 feed costs were much higher and the costs of other inputs were more expensive, and of course, the purchasing power of the dollar has eroded with inflation. The profits from $13 milk in 2009 are less than $13 milk in 2000. Figures 1 and 2 illustrate these points. The milk price in 2009 was about the same as in 2006, however the amount available to pay the bills after paying for feed (income over feed costs) was much less.

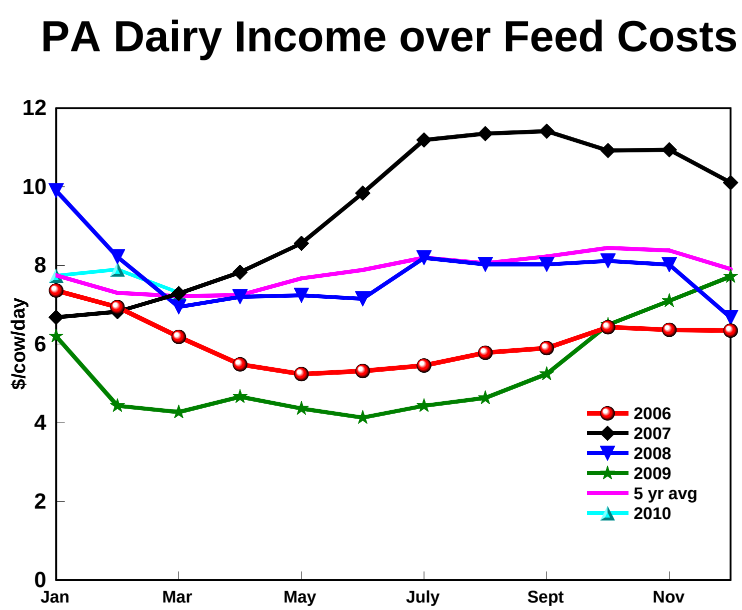
A national reduction in cow numbers drove a late-year price increase in 2009, but prices fell after a bearish calf report in late January, 2010. The latest value is $17.30/cwt. This value is a bit higher than the average for the last 10 years. However, most farms now have more debt on their balance sheets and with planting coming soon, farmers may need to borrow additional funds. For many, this is the third time they have needed more money in a year. Depending on their financial situation in December 2008, farmers now are in a somewhat worse situation or a much worse situation than they were then. If they had $4,000 debt /cow Jan 1, 2009, they may now have $5,000. Many needed a new loan last spring and another in late summer. They now need to make this debt manageable by restructuring. Some are running out of collateral, borrowing capacity, and the ability to service debt. For everyone, the break-even milk price is now higher than it was 15 months ago.

All farmers are not the same, but for some, the farm's survival is in doubt. Many farms that recently expanded are now on thin ice. Many small farms are struggling. A lot depends on what the debt load was two years ago and how focused the farm is on controlling costs. I might add that some of the big farms in California and other western states were hit very hard by 2009. Cow numbers dropped 4.2% in California in 2009 and by 1.9% in Pennsylvania.

The expected prices for 2010 are okay, but not great. They will probably be a bit above the average values for the past decade. In a different year they would not be notable, but after last year dairy farmers could really benefit from higher prices.



1 Pennsylvania All-Milk Price



2: PA Dairy income over feed costs