



Dairy Producers Face Extended Tough Times

Dairy producers are facing unprecedented economic distress as they struggle to cope with low milk prices, high feed costs and weakened demand. With milk prices far below production costs, farmers are losing \$3 to \$5 per cow per day, or \$100 to \$150 per cow per month, according to dairy producer **Pat Lunemann**, who is president of the **Minnesota Milk Producers Association** and serves on the state's Dairy Profitability Advisory Committee.

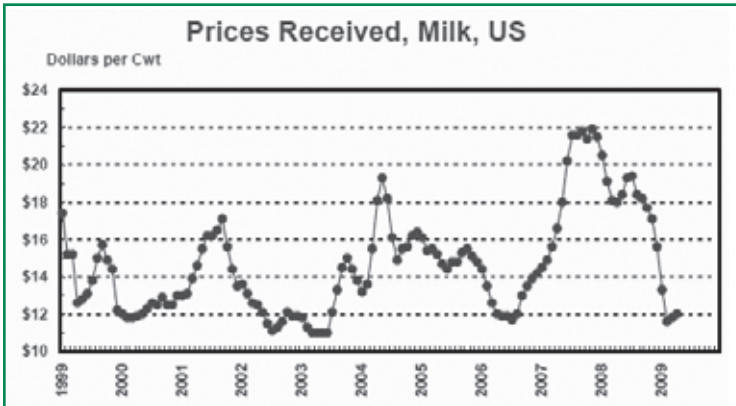
In April, the U.S. all milk price was \$12 per hundredweight, about 33 percent lower than a year ago and about half of peak prices last fall. Feed prices have moderated, but still remain relatively high. For the 17th straight month the milk-feed price ratio – estimated by USDA — has remained below the threshold of 3.0, which is considered positive for milk production. April's milk-feed price ratio was just 1.59.

"This downturn in the dairy economy is the worst I've seen," says Lunemann who milks 575 cows and has been dairy farming for 30 years. "Not only are milk prices low

range, still below breakeven.

Economic Drivers

Several factors besides high feed costs are driving the economic downturn in the dairy industry. The national and world economic crisis of 2008-09 created a major tsunami that has buffeted the dairy industry. Last year, the U.S. dairy industry exported 10 percent of its production. "Global demand buoyed milk prices and sales throughout the first half of 2008, but exports nearly disappeared in the fourth quarter," says **Ed Welch**, CEO for **Associated Milk Producers Inc. (AMPI)**. Dairy exports dropped by more than half as the U.S. dollar became stronger and countries' buying power declined. At the same time the EU reinstated dairy export



but feed costs are high. It costs producers about \$16 per hundredweight to produce milk and Minnesota farmers are getting paid only \$10 to \$11 per hundredweight."

"If things don't change, dairy producers won't see a profitable month until sometime next year," says **Bob Lefebvre**, executive director, Minnesota Milk Producers Association. In early May, class III milk futures prices for next spring were in the high \$14

production was down 0.2 percent in March.

subsidies. Domestic demand also slowed as consumers faced economic challenges.

Bright Spots

USDA's Milk Income Loss Contract Program (MILC), which compensates dairy producers when domestic milk

prices fall below a specified level is providing some cushion for producers, but falls far short of producers' break even costs. The program will pay registered farmers \$1.51/cwt. for milk produced in February, \$2/cwt. for milk produced in March and about \$1.60/cwt. for milk produced in April.

Another bright spot is a slight decline in milk supply. Milk powder inventories are declining in government warehouses and milk

What needs to be done?

The dairy industry desperately needs the economy to improve and consumer demand to increase. "This situation is unprecedented, virtually every dairy farmer in the country is losing money," says Lefebvre. "The best way to get out of this situation is to increase the consumption of dairy products. Barring that, cows must be culled and farmers will go out of business. That's not good for dairy farm families or for families in the community that rely on their business."

Help may come from the seventh round of the Cooperatives Working Together (CWT) herd retirement program. Bids closed on May 1 and CWT was hopeful it received a large number of bids at levels that will allow it to remove a large number of cows. Review of the bids began on May 12 and all bidders will be notified no later than June 12. Sixty-seven percent of the country's milk production is represented in this dairy farmer-funded, voluntary program. In a perfect situation

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MINNESOTA AGRI-GROWTH COUNCIL



The Minnesota Agri-Growth Council is a unique trade association whose mission is the promotion of Minnesota agriculture with elected officials, the general public, media, and the farm community. The Agri-Growth Council's 200 members represent the entire food and agriculture sector, from agribusinesses and processors to producer-based commodity organizations. The Council is based in St. Paul and has been working to promote Minnesota agriculture since 1968.

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Member IN FOCUS



Name: Minnesota Agricultural Education Leadership Council

Web site: www.maelc.state.mn.us

Location: Saint Paul, Minn.

Background: Minnesota Agricultural Education Leadership Council (MAELC) is a 16-member Legislative Council created in 1997 to reinvigorate agricultural education in Minnesota. It's an umbrella organization for agricultural education, focusing on strengthening local programs at the secondary, post-secondary and farm business management levels. MAELC is housed at the University of Minnesota alongside the Agricultural Education Division. The Council works jointly with the University on important issues such as student recruitment and teacher retention across the state.

Scope of organization: MAELC takes the lead on helping develop new strategies to improve agricultural education in the state and region. The Council works with its stakeholders to look at new and innovative ways to increase its reach. To date, MAELC has awarded more than \$1.9 million in grants, scholarships and special project funding.

Minnesota has 227 teachers in 185 secondary agricultural education programs, which reach 29,000 students annually. There are also 75 farm business management instructors who work jointly with 3,500 farmers across Minnesota. MAELC works hand in hand with these teachers to help give them the tools needed to develop productive students and farmers.

The Council works cooperatively with the State of Minnesota, Minnesota Department of Agriculture, Minnesota Department of Education, University of Minnesota, Minnesota State Colleges and Universities, Minnesota Association of Agricultural Educators and the Minnesota FFA Foundation. MAELC is also looking at ways to include new partners in expanding programs to reach a larger audience.

Q&A with Julie Tesch, executive director

How is your organization funded?

MAELC is fully supported by state legislative funding.

What is new with your organization?

We are in a very exciting time for Agricultural Education in Minnesota. There is a renewed interest in learning about agriculture and we are continually asked about starting new traditional and non-traditional agricultural education programs. We are happy to see a 30-year high of 9,000 FFA members and 29,000 secondary students choosing to take agricultural education classes.

New ideas are always being brought forward. We are looking forward to seeing the results of our new statewide, online agricultural education curriculum that integrates state science

standards. We are on the cusp of expanding our relationship with the Minnesota Council on Economic Education to broaden the agricultural economics curriculum statewide. High school students can now take agricultural economics courses and have them count as economics standard credit.

Our secondary teachers are becoming better equipped with modern technology and learning mechanisms because of MAELC. Success is proven through increased interest in classes and increased number of students statewide looking to study agriculture as a career at two- and four-year colleges and universities.

What are key trends affecting your industry?

Education is an evolving paradigm. MAELC works hard to include current stakeholders in expanding our curriculum and scope of activities, while trying to include new audiences. We're looking at ways to offer more inclusive programs across the state to work with emerging populations. We provide excellent teaching and hands-on learning for students and feel all students in Minnesota should have access to our programs.

Also, we're finding there is a sincere interest in having agricultural education programs in both urban and rural areas. We are currently working with an elementary school in south Minneapolis to integrate agricultural education into the classrooms. This program will be replicated throughout the metro area. We are also working in remote rural areas to offer agricultural education to schools that cannot afford to have a full-time teacher. The Sparsely Populated Area Project will have five school districts in northwestern Minnesota jointly offer a cutting edge agricultural education program using technology and shared resources.

Another trend is that we will lose 50 percent of our farm business management instructors due to retirements in the next five years. We need to continue recruiting more students to pursue agricultural education careers to ensure that we continue to have quality teachers offering quality programs. We don't see the trend of people being interested and involved in agriculture going away and want to make sure we are reaching students in a significant way and making a positive impact.

What are your legislative priorities?

We are being asked to educate more Minnesotans about agriculture. While class sizes are growing, there is increased competition from other courses. Having an increased number of potential classes mandated by the State (physical education, etc.) cuts down on the opportunities for students to take agricultural education courses or other electives. Our legislative priority is to make sure everyone who wants to be educated about agriculture is given the opportunity.

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CWT would take upwards of 300,000 cows out of production, but that's highly optimistic, as earlier buyouts have only retired between 24,000 to 64,000 cows.

Midwest advantage?

Many expect contraction of the dairy industry in the West and Southwest. "While we have it bad here, the Midwest does have some competitive advantages that are really starting to shine compared to other parts of the country," Lefebvre says. "We have fertile soil and an abundance of water allowing us to grow high quality feedstuffs for our cows. We also have adequate land for manure application."

Lunemann agrees, "If grain prices stay high, cows will come home to where the feed is grown. Minnesota needs to be cognizant of the need for different sized dairies in the state to support our dairy infrastructure and our economy." He notes that each dairy cow has a \$15,000 economic impact on local communities.

In the last five years, Minnesota has experienced a dairy industry resurgence, reversing a 30-year-trend of declining milk production in the state. "We hope the current downturn is just a temporary setback," says Lunemann.

State dairy programs face budget cuts

With a \$4.6 billion budget deficit, state programs such as the Dairy Development and Profitability Enhancement Program (DDPEP funding for dairy diagnostic teams and dairy business planning grants) and the Livestock Investment Grant Program (LIGP)

face funding cuts. The Governor's proposal would cut both funds in half. The Agriculture, Rural Development and Veterans Affairs Conference Committee bill funds DDPEP at \$755,000 per year and LIGP at \$1 million.

How are producers coping?

Most producers have cut off capital expenditures. They are meeting with bankers for larger operating loans, or to defer principal on their debts, explains Lunemann. It's important for producers to realize they aren't alone. "We're telling them to talk with their

suppliers and lenders to work out a financial plan. They need to communicate and try to find solutions," says Lefebvre.

Dairy processors start to feel the pinch

"At the processing level, it's the same color of ink as on the dairy farm. We have negative margins now, just as dairy farmers do," says **Jon Davis**, COO for **Davisco Foods**. "We're still buying milk and making product, but we aren't able to sell all of the products. We have a lot of cheese in a cooler and powder in a warehouse."

Supply and demand are so out of balance now because U.S. producers geared up production to meet increasing export demand. Some of that demand was created by a severe drought in New Zealand and Australia, two major milk exporters. "We gained cheese market share in the Pacific Rim in 2007 and 2008 due to the drought. But, now, New Zealand's and Australia's production is back and they've regained their marketshare by dropping prices," Davis explains. "The world market price for cheese is 15 cents less per pound than we can deliver." That's put pressure on milk prices because 90 percent of the U.S. milk price is derived from the price of cheese, he notes.

In 2008, AMPI members produced a record 5.8 billion pounds of milk resulting in increased cheese and butter production and revenues of \$1.7 billion. "Our domestic dairy food sales have not been too badly impacted by the

economic downturn. Our fast food and retail sales for cheese and butter remain strong. But, exports have been hit hard," says CEO Ed Welch. "Unfortunately, our producer members are receiving record low prices for their milk. This downturn has already lasted too long. We have the makings of a disaster for the entire dairy industry." AMPI has been encouraging USDA to buy extra cheese and reinstitute dairy export incentives, he says.

Retail Prices Begin to Moderate

Consumers are benefiting from lower retail fluid milk prices. The American Farm Bureau Federation Marketbasket Survey found retail food prices at the supermarket dropped about 5.5 percent in the first quarter of 2009. Milk dropped 67 cents to \$3.15 per gallon while shredded cheese dropped 70 cents to \$4.24 per pound.

USDA Dairy Purchases Help Feeding Programs

In late March, the USDA announced it would release 200 million pounds of nonfat dry milk for use in domestic feeding programs.

"The USDA nonfat dry milk donation comes at a critical time for Minnesota's food banks. This is the first time since 2005 that the food banks have had USDA nonfat dry milk," says **Newell Searle**, vice president of external relations, **Second Harvest Heartland**. "The Minnesota Legislature has provided funds to purchase fluid milk, but funding that largely met the need last year only met the need for eight months this year. The USDA nonfat dry milk will help to fill the need until next fiscal year."

Processors say program falls short

Midwest dairy processors, however, contend that USDA's release of nonfat dry milk for use in domestic feeding programs is not that positive for the market. "The non-fat dry milk will displace other dairy products, plus it's not readily useable by food banks," says **AMPI CEO Ed Welch**. "It would be better if the government would buy pasturized processed cheese, which is easily used by schools and food banks."

He also notes that USDA's size, grading and packaging requirements for blocks and barrels of cheese purchased by the government under the dairy products price support program make it too expensive for processors to sell cheese to the government under the support program. Thus, cheese production and stocks are up and farm milk prices remain inadequate.



Agri-Growth Leadership Featured in Minneapolis/St. Paul Business Journal

Daryn McBeth, president of the Minnesota Agri-Growth Council, is featured in the Minneapolis/St. Paul Business Journal's "40 Under Forty" listing, which honors the region's up-and-coming leaders.

The article profiles McBeth and highlights the work of the Minnesota Agri-Growth Council, including the organization's efforts hosting AgNite, a nonpartisan celebration of America's food and agriculture industry during the 2009 GOP National Convention in Minneapolis. The story also touches on the diversity of the state's food and agriculture industry. According to the Mark Reilly, project editor, the "40 Under Forty" project spotlights some of the region's most talented and successful young leaders. The project drew hundreds of nominations.

To read the entire article, visit the Journal's web site, <http://twincities.bizjournals.com>, and enter "40 under forty" in the search box.





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Become a member at:

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Save the Date

June 4

Legislative Wrap Up

Agri-Growth Signs Letter to Homeland Security Secretary Regarding Immigration

The Minnesota Agri-Growth Council, along with several dozen business-focused associations, recently sent a letter to U.S. Homeland Security Secretary **Janet Ann Napolitano**, urging consideration to reject the Bush administration regulations to enforce immigration laws in the workplace. The letter indicates the best way to move forward is to give employers the proper tools and authority to screen workers for work authorization status before they are hired. To read the letter, visit www.agrigrowth.org and click on "News & Updates."

Over the last year the Minnesota Agri-Growth Council has been working closely with a Business Immigration Coalition, which includes the Minnesota Chamber of Commerce, **Minnesota Milk Producers Association**, **Minnesota Nursery and Landscape Association**, Hospitality Minnesota and a number of other trade associations, to address immigration workplace issues and urge for reform of federal policies.

Retail Food Prices Begin to Moderate



The American Farm Bureau Federation Marketbasket Survey found retail food prices at the supermarket dropped about 5.5 percent in the first quarter of 2009. Of the 16 items surveyed, 11 decreased and five increased in price.

The 16 item marketbasket was updated to include sliced deli ham, shredded cheddar cheese, chicken breasts, orange juice and bagged salad, in addition to ground chuck, sirloin tip roast, bacon, eggs, milk, apples, potatoes, toasted oat cereal, flour, bread and vegetable oil.

Register for the Annual AgPAC Golf Outing

Make plans to participate in the 20th Annual Minnesota AgPAC Golf Outing, June 15, at Eagle Ridge Golf Course (www.eagleridgegc.com) in Belle Plaine, Minn.

The golf outing is an opportunity for agriculture and food industry leaders to network, while raising funds for the Minnesota AgPAC, a political fund that benefits the state's agriculture and food industry.

Event registration is at 11:30 a.m., with box lunches served. The 18-hole tournament begins at 12 p.m., with a shot-gun start. The afternoon concludes with the social hour at 4:30 p.m., and barbecue dinner with a short awards program at 5:30 p.m.

Registration is \$80 per golfer. Corporate checks are accepted for golfer registration costs. Golfers are encouraged to make a personal contribution to the Minnesota AgPAC.

To register or learn about sponsorship opportunities, visit www.agrigrowth.org and click on Events, or contact **Tony Mondry** at 651-905-8900 or tony.mondry@agrigrowth.org.

Affiliated with the Minnesota Agri-Growth Council, the Minnesota AgPAC is a political fund that enables participation in the campaign process on behalf of state's agriculture and food industry. While Minnesota AgPAC receives contributions from individuals and other authorized entities concerned about food and agricultural issues in Minnesota, it cannot accept corporate contributions.

