



## 2009 Recap

Is it really December already? 2009 seemed like one long winter punctuated by a four-day summer back in June. Maybe we were just so busy surviving lousy milk prices that the year seemed shorter, and for that we should be grateful.

As we faced the beginning of 2009, we weren't filled with hope of a brighter future. We were still coming to grips with the worldwide economic meltdown and concerned with the effect it would have on dairy consumption. "Uncertainty" probably best describes our outlook as we looked forward to 2009, and now we have the opportunity to reflect on what that uncertainty came to be. Prices for much of the year missed the break-even point by a wider margin than any of us had ever experienced, making it difficult to maintain a positive attitude. I never thought "break-even" would look so attractive.

This year *could* have been worse than it was, even though that's hard to imagine. The CWT program removed about 250,000 cows in the last year, which certainly helped turn prices around sooner than would have happened without a CWT program. Retail prices never seem to drop as quickly or as sharply as producer pay prices would justify, but they did move downward.

Consumers in the U.S. took notice and, recognizing the tremendous value for their dollars, consumed more fluid milk. Dairy exports didn't drop off as much as some had predicted.

Most pizza makers reacted to 2008 high cheese prices by reducing the amount of cheese on pizzas, thereby exacerbating a decline

in pizza sales. This is important, because approximately 25 percent of cheese sales in the United States is related to cheese on pizzas. The response Domino's Pizza had to higher cheese prices was much different. Domino's didn't reduce the concentration of cheese on its pizzas; instead they recognized the value good taste has to their consumers, adding even more cheese to some of their pizzas. This strategy resulted in steady sales for Domino's as opposed to sharply declining sales among other leading pizza chains that had reduced their cheese consumption. This did not go unnoticed by the competition, who are now adding more cheese back to their pizzas.

Leprino Foods has been busy developing a tasty lower-sodium and lower-fat mozzarella. They have partnered with Domino's, who has incorporated this cheese with wholegrain crust and low-fat pepperoni, to create a pizza that meets the federal nutritional guidelines. Kids love pizza, especially pizza that tastes this good. Domino's is now interested in marketing this product to schools through its local franchises across the nation. Schools are favorably impressed with the cost structure. This should help to reverse the current 5-year decline in pizza consumption.

What else does the immediate future hold for the dairy industry? It's a question on most of our minds right now. Experts tell us 2010 will be better economically than 2009, but how much better remains to be seen. Dairy farmers should soon see a balance between income and expenses, with slow

growth in profitability for 2010. The U.S. and world economies, though improving, are still fragile and could experience a hiccup in the coming months, but the trend line should be up. The world economy appears to be recovering sooner than ours. That, coupled with a weak U.S. dollar, should help to make our dairy industry competitive in the export market. One year (2009) did not change the underlying dairy consumption patterns that we can expect with a stronger worldwide economy. The middle class is growing very rapidly in China and southeast Asia and will consume more dairy and meat products, but not at any price. We can't discount the role lower prices played in keeping U.S. dairy consumption strong throughout 2009.

We have to learn from the past to see if there is a better way to manage our industry to prevent such a severe impact on our livelihoods. A great deal of time and effort has been spent in 2009 trying to think of ways to better control our destinies by lessening the volatility of milk prices. Although volatility will never go away, devising a method of reducing the swings would benefit producers and consumers alike. We will all learn more about this in the coming months.

2009 has been a "Wow - What happened?" year, but we have a better outlook for 2010 and much to be thankful for. I look forward to visiting with many of our members at the MMPA Local meetings in the coming months. In the meantime, have a very Merry Christmas!

Ken