

**Dairy Situation and Outlook, August 20, 2009**  
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Milk production was expected to drop below year ago levels for July, but that didn't happen. For the 23 reporting states July milk production was up slightly, 0.1%, and was estimated to be unchanged for the U.S. Cooler than normal July weather in the Upper Midwest and parts of the Northeast contributed to good milk production per cow and resulting in increases in total milk production. Wisconsin for example had just 0.4% more cows but milk per cow was up 5.4% resulting in 5.8% more milk. Minnesota with 0.9% more cows and 5.0% more milk per cow had 5.0% more milk. Iowa had the no change in cows but 4.8% more milk per cow. Even in the Northeast increases in milk per cow were favorable being up 3.3% for New York, 2.9% for Michigan and 2.6% for Ohio. Per cow production was up just 0.6% in Pennsylvania. Each of these Northeast states had fewer cows except for Michigan. But, the net was increases in milk production of 2.6% for New York, 4.6% for Michigan, 1.4% for Ohio but just 0.4% for Pennsylvania.

But, the story was different for Western states. All of the Western states except for Texas had less total milk production than a year ago. Decreases were as follows: California 5.0%, Idaho 3.5%, Arizona 8.3%, New Mexico 2.8%, Washington 1.6% Utah 1.9% and Colorado 1.6%. Each of these states had fewer cows with numbers down as much as 8.1% in Arizona, 5.6% in New Mexico, 3.9% in Colorado and 2.9% in California. There were some large herds in these states that were accepted in the last CWT program. Low milk prices and poor or negative returns over feed costs contributed to higher cow slaughter as well as some producers exiting dairying. Poor returns over feed costs along with some weather and related feed quality issues contributed to 2.2% less milk per cow in California and 2.0% less in Idaho. Cow numbers were unchanged in Texas but milk per cow was up 1.5%

In summary, estimated cow numbers for the U.S. were down 145,000 head from a year ago or 1.6%. This decline was offset by 1.6% more milk per cow keeping total milk production the same as a year ago.

While cow slaughter continues to run above year ago levels, and the completion of two rounds of CWT this year that removed about 158,000 cows, the decline in the size of the nation's cow herd has been slowed by more than an ample supply of dairy replacements. July 1st dairy replacements were 3.9 million head, about 42.4 per 100 milk cows.

Despite milk production not dropping below year ago levels, cheese prices have strengthened. The beginning of August CME cheddar barrel cheese was \$1.26 per pound and improved to \$1.3675 per pound as of August 19<sup>th</sup>, \$0.0875 above the new support price. CME cheddar blocks were \$1.285 the beginning of August and had improved to \$1.40 per pound as of August 19<sup>th</sup>, \$0.09 above the new support price. The anticipated seasonal decline in milk production August through September, and perhaps expecting milk production to start to drop below year ago levels, along with the opening of schools the end of August increasing school orders for cheese and increased fluid milk sales may all be factors for higher cheese prices. Yet cheese stocks were

still high with June 30<sup>th</sup> stocks of American cheese 7.1% higher than a year ago, and total cheese stocks 7.6% higher. Also, cheddar cheese production remains strong compared to a year ago with June production 4.4% higher. Cheese exports for the first half of the year were down 29% from last year.

The support price for nonfat dry milk was increased to \$0.92 per pound. West nonfat dry milk has been trading in the \$0.915 to \$0.95 per pound range. Exports of nonfat dry milk have increased for four straight months, but June exports were still 55% below year ago levels. Exports for the first half of the year were down 54% from a year ago.

Butter prices have been weakening. In mid-July, CME butter was \$1.27 per pound and declined to \$1.1725 per pound as of August 19<sup>th</sup>. While June butter production was 10.0% lower than a year ago, in recent weeks cream supplies for churning has been relatively high for this time of the year, and as a result, there has not been a need for butter users to dip into stocks for current needs. June 30<sup>th</sup> butter stocks were 3.1% higher than a year ago. Butter exports for the first half of the year were down 80% from a year ago.

For the first half of the year, dry protein exports were 4% higher than a year ago. West dry whey prices have been in the \$0.31 to \$0.33 price range.

These improved dairy product prices, with the exception of butter, also means improved milk prices. The July Class III price was just \$9.97 and will be near \$11.20 for August. The Class IV price was \$10.15 in July and will be around \$10.50 for August. Prices will continue to improve for the months ahead. Milk production should start to drop below year ago levels in August and continue this decline for the remainder of the year and into 2010 as cow numbers decline and the increase in milk per cow remains below normal. Also, the third CWT round this year will remove close to another 87,000 cows this fall. The opening of schools will increase the quantity of milk needed for fluid consumption. As fall approaches cheese buyers will begin to build inventory for seasonal sales this fall and early winter. Yet dairy futures continue to show modest increases in prices. Class III futures remain below \$13.00 for September, only reaching \$13.05 for October, ending the year at just \$13.40 and don't reach \$14.00 until June of next year. I remain more optimistic than this with Class III over \$14.00 by December. However, milk production needs to show declines below year ago levels for this to happen. The Class III price needs to get closer to \$16.00 before dairy producers experience favorable returns over operating costs. This may not happened much before the start of the second half of 2010.

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