

Dairy Situation and Outlook, February 21, 2018
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Weaker dairy product prices have pushed milk prices lower. The Class III price peaked last November at \$16.88 and fell to \$14.00 in January and February will be near \$13.50. The Class IV price peaked last August at \$16.61 and has been declining since to \$13.13 in January and February will be near \$13.00. It looked like both the Class III and Class IV prices would stay in the \$13's at least through March. But, the good news is cheese prices have improved during February and if they hold or improve more, the Class III price could reach about \$14.25 in March. On the CME barrels averaged \$1.3345 per pound in January but have strengthened during February starting at \$1.3325 to now \$1.485. The 40-pound block price averaged \$1.4938 per pound in January but also strengthened during February starting at \$1.4625 to now \$1.55. However, the price of dry whey remains weak at around \$0.25 per pound and not adding strength to the Class III price. But, the Class IV price may show only modest improvement in March to near \$13.40. Butter which averaged \$2.1587 per pound in January has held in the low \$2.00's and will average about the same in February. Nonfat dry milk averaged \$0.6926 in January and got as high as \$0.735 in February but has now fallen back to \$0.685.

Dairy product production has been running well above a year ago. Compared to December a year ago increases were: butter 4.2%, American cheese 2.9% with cheddar 3.2%, total cheese 2.6%, dry whey 6.1% and nonfat dry milk 5.4%. Reports are that butter and cheese sales have picked up. Dairy product prices have also been helped by dairy exports. U.S. dairy exports finished the year strong in December. Compared to December a year ago exports of nonfat dry milk/skim milk powder were 27% higher, while cheese was 4% lower exports for the year were 19% higher, butterfat exports were 18% higher and dry whey 9% higher. On a total solids basis December exports were equivalent to 16.4% of milk production compared to 14.5% a year ago. But while stocks levels have improved there remains ample stocks to dampen increases in dairy product prices. Compared to a year ago stocks were: butter 1.8% higher, American cheese 2.8% higher, total cheese 6.9% higher, dry whey 49.8% higher and nonfat dry milk 46.5% higher.

How milk prices play out from here out will of course depend upon the level of milk production, domestic sales and exports. USDA has lower their increase in 2018 milk production from 1.8% earlier to now 1.5%. USDA forecasts the average number of milk cows for the year to increase slightly to 0.2% which is reasonable considering low milk prices will likely result in some producers exiting and a slowdown in dairy expansions. USDA forecasts milk per cow to increase just 1.3% which also is reasonable considering some forage quality issues particularly in the Northeast and Upper Midwest will impact milk per cow until the new crop this summer, plus lower returns over feed cost will result in some producers reducing the amount of grain or dairy concentrates fed. So we can expect milk prices to continue to improve as we move through year especially if the increase in milk production does stay well below 2%.

However, USDA's latest milk production report estimates January milk production to be up relatively high from a year ago with a 1.8% increase. Milk cow numbers have increased for three consecutive months with January numbers 46,000 head higher than a year ago for an increase of 0.5%. Milk per cow was 1.3% higher. California after experiencing milk production running below year ago levels for about two years experienced a 2.2% increase. In recent months Idaho had shown little growth in milk

production but January's production was up 2.1%. New Mexico had a 5.0% increase and Texas 5.8%. The Northeast had modest increases of 1.2% in Michigan, 1.4% in Pennsylvania and New York had a 3.3% decline. Other than Iowa with a 3.7% increase other Midwest states had relatively small increases of 0.8% in Minnesota, 1.8% in South Dakota and just 0.4% in Wisconsin.

Last year butter and cheese sales had only a modest increase. But, with continued growth in the economy and a higher Consumer Confidence Index and a Restaurant Performance Index the sales growth this year could be stronger. Dairy exports will face strong competition this year particularly from the EU. Milk production is increasing in the EU and increased exports of cheese as well as skim milk powder are expected and competing with the U.S. for markets. Drought has resulted in New Zealand's milk production to fall below a year ago, but EU's increase will more than offset New Zealand's decrease.

But, as of now the dairy outlook appears a little brighter than last month. Class III dairy futures continue to improve reaching the \$15's by July, and the low \$16's by October with an average of about \$15.00 for the year. I could see a similar price pattern, if not even a little higher the last half of the year, if the increase in milk production remains well below 2% and dairy exports still show growth in 2018. But, Class III will still average well below the \$16.17 average last year. Class IV dairy futures show a slow increase as we move through the year staying in the \$13's for the first half of the year and only improving to the \$14's for the second half and averaging about \$14.00 for the year compared to \$15.16 last year. Class IV will get some support from butter prices that likely will stay above \$2.00 per pound but nonfat dry milk prices which depend heavily upon exports may show only modest strength as we move through the year.

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