

**Dairy Situation and Outlook, January 18, 2008**  
**By Bob Cropp, Professor Emeritus**  
**University of Wisconsin Cooperative Extension**  
**University of Wisconsin-Madison**

The year 2007 will be remembered as record high milk prices. Prices average about \$6.00 per hundredweight higher than 2006. Averages for the year were: Class III \$18.04, Class IV and Class II both \$18.36, the Class I mover \$18.75 and the average U.S. All Milk Price \$19.15. Lower prices are forecasted for 2008, perhaps averaging about \$2.00 lower, but possibly still ending up the second highest on record. Nevertheless, higher feed prices will shrink profit margins for dairy producers in 2008.

Higher milk production and dairy product production will push milk prices lower in 2008. Since July of last year milk production has been running more than 3% higher than the previous year's corresponding month. USDA's report on December production showed production 3.1% higher than a year ago with 1.3% more cows and 1.7% more milk per cow. Production increases were very strong in the West with increases of 4.5% in California, 6.3% in Arizona, 8.2% in Idaho, 2.6% in New Mexico and 6.1% in Texas. In the Northeast, New York had 2.1% more milk and Pennsylvania 0.2%. In the Midwest, Wisconsin's production was up 1.3%, Minnesota up 2.6% and Iowa up 0.8%. Only 4 of the 23 reporting states had less milk production: Florida -2.8%, Illinois -2.4%, Kentucky -1.0%, Missouri -11.3% and Oregon -1.1%.

U.S. milk production for 2007 totaled 185.599 billion pounds, 2.1% higher than 2006. Milk cow numbers, which started to increase month to month in May 2007, averaged 0.4% higher than 2006 and milk per cow averaged 1.6% higher.

Milk production is expected to continue at higher than previous year's levels in 2008 and end the year about 2% higher. The nation's cow herd is likely to continue higher, at least up to the last quarter of the year, and milk per cow is expected to increase less than 2%. Weekly cow slaughter, which dropped below year ago levels during the summer of 2007 have returned to higher levels, and for the year, averaged about 6% higher. But, more than ample numbers of dairy replacements allows for some growth in the dairy herd. Lower milk prices but higher feed prices will dampen herd expansions in 2008. The milk-feed-price ratio, which was above the favorable level of 3.0 July through November, fell to 2.82 in December and is expected to remain well below 3.0 for all of 2008.

Despite 3% plus increases in milk production cheese prices held up reasonably well until the second week of January. While CME cheese prices did take a down turn the third week of December they rebounded. As of January 4<sup>th</sup>, CME cheddar barrels were still \$2.09 per pound and 40-pound cheddar blocks \$2.1525 per pound. But, as of January 18<sup>th</sup>, barrels had fallen \$0.2875 per pound to \$1.8025 and 40-pound blocks \$0.5025 per pound to \$1.65. Part of the reason why cheddar prices had held up until recently was due to less cheddar cheese production and lower stocks. Closing of a relatively large cheddar plant in California and closing of some small plants along with tighter cheddar plant margins held back production. Cheddar production is once again above year ago levels with November production 2.2% higher, but year-to-date production was still 2.2% lower. November 30<sup>th</sup> stocks of natural American cheese was still

2.21% lower than a year before and stocks of all cheese up slightly, 0.07%, the first increase since May 2007.

Nonfat dry milk production, which has been running well above year ago levels since early fall was up 27.9% for November and up 7.7% year-to-date. Stocks of nonfat dry milk are building and prices which were \$2.00 per pound or higher this summer are now in the \$1.50 to \$1.60 per pound range. Dry whey production is also higher with stocks building and prices that were near \$0.80 per pound this summer are now \$0.35 to \$0.42 per pound. Butter prices have dropped below \$1.25 per pound.

The Class III price, which was \$20.60 for December, will be around \$19.15 for January. With declining cheese prices, the Class III price will continue a decline ending the first quarter of 2008 below \$17.00. The Class III price may stay in the \$16.00 to high \$16.00s range through the third quarter before falling below \$16.00, and even \$15.00, by the end of the fourth quarter. If these prices hold, the Class III price for the year would still average near \$16.00. But, one needs to watch milk production, domestic sales of milk and dairy products as well as dairy exports. Changes in any of these factors as we go through the year could substantially change the price out come.

Robert Cropp  
[racropp@wisc.edu](mailto:racropp@wisc.edu)  
University of Wisconsin.