

Dairy Situation and Outlook, January 23, 2018
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Milk prices started to decline last December and will continue to fall first quarter of 2018. Class III reached its peak last year in November at \$16.88 but fell to \$15.44 in December and it looks like January will be down to near \$13.90. Class IV reached its peak last year in August at \$16.61 fell to \$13.51 in December and will be near \$13.30 in January. While still not great milk prices in 2017 were the highest since 2014 and averaged well above 2016. Class III averaged \$16.17 compared to \$14.87 in 2016. Class IV averaged \$15.16 compared to \$13.77 in 2016. But, another good year of milk prices is needed to help dairy farmers to recover financially from low milk prices experienced in 2015 and 2016. But, it now looks like 2018 milk prices will average lower than 2017.

The lower milk prices are being driven by relatively high milk production, a decline in beverage milk sales, slower growth in butter and cheese sales and a decline in nonfat dry milk/skim milk powder (NDM/SMP) exports all resulting in relatively high stocks levels. Adjusting for 2016 leap year 2017 milk production was up 1.7%. With milk production this strong favorable milk prices require good domestic sales and increased dairy exports. Latest dairy export data for November shows 2017 exports did improve over 2016 particularly through July. Nonfat dry milk/skim milk powder exports ran above year ago levels starting the last half of 2016 through July of 2017. October NDM/SMP exports fell 34% below a year earlier but improved to just one percent lower in November. Butter, cheese and total whey exports have been higher than a year ago with year-to-date exports up 13%, 22% and 8% respectively. But, with relatively strong milk production and slower domestic sales stocks of dairy products are relatively high. In recent months butter stocks have been below year ago levels, but butter stocks grew by 6.2% November to December and are now 1.8% higher. December American cheese stocks were 2.8% higher and total cheese stocks 6.9% higher. November nonfat dry milk stocks were 40.2% higher and dry whey stocks 65.6% higher.

The price of butter has held well above \$2 per pound during December and into January. But much lower cheese and dry whey prices lowered the Class III price. On the CME 40-pound cheddar blocks averaged \$1.73 per pound in October, \$1.66 in November but just \$1.49 in December. Blocks have been as low as \$1.475 in January recovering to \$1.57 only to fall back to \$1.495. Barrels averaged \$1.70 in October, \$1.66 in November and \$1.54 in December. But in January barrels have been as low as \$1.2175 with recovery to \$1.36. Dry whey which was \$0.51 per pound last April has been on a steady decline since with December \$0.28 and now \$0.25. With the butter price steady above \$2 per pound lower nonfat dry milk prices have lowered the Class IV price. Nonfat dry milk started 2017 at \$1.00 per pound declined each month since to \$0.68 in December with January as low as \$0.67 and recovering to \$0.7175.

USDA has revised down its forecast for 2018 milk production to a 1.5% increase from 0.2% more milk cows and 1.3% more milk per cow. While this is a smaller increase in milk production that last year it is still a lot of milk requiring good domestic sales and dairy exports. There are good signs that butter and cheese sales could grow better in 2018 than last year. The economy is doing better and both the consumer confidence index and restaurant performance indexes are favorable for good sales. But dairy exports will face increased competition for markets as world milk production is expected to increase. For 2016 through the first half of 2017 milk production was below year ago levels in major dairy exporters—EU, New Zealand, Australia and Argentina. But now milk production is running much higher. New

Zealand is currently experiencing a major drought which will dampen increases in their milk production the last half of their season. World demand is picking up which will absorb some of the increase in world milk production. China in particular has stepped up its imports.

So for 2018 we could see Class III prices in the \$13's first quarter, the \$14's second quarter, low \$15's third quarter and the mid to high \$15's fourth quarter and averaging around \$14.90 for the year. Class IV could be in the \$13's through May, the \$14's through September and the low \$15's last quarter and averaging about \$14.25 for the year. Current dairy futures for Class III and Class IV show even lower prices. But prices may well end up averaging a little higher. The low milk prices first half of the year could well lower both the number of milk cows and the increase in milk per cow. Dairy exports for the second half of the year could also do better than now expected.

December milk production may give some indication of milk production going into 2018. After declining for the previous three months December milk cow numbers increased 3,000 head and stood at 0.5% higher than a year ago. The increase in milk per cow continued below trend being just 0.6% higher resulting in December milk production 1.1% higher than a year ago bring the total for the year to 215.4 billion pounds, 1.4% higher than 2016. Increases in milk production for the past four months have been about 1%. If the increased in 2018 milk production ends up less than the 1.5% USDA is now forecasting , milk prices could improve for the second half of the year. The five leading dairy state—California, Wisconsin, Idaho, New York and Michigan produce 51% of total milk production. In December three had December production below a year ago—California -0.3%, Idaho -0.2% and New York -2.2%; and two had more production—Wisconsin +1.0% and Michigan +2.5%. The combined December production of these five states was just 0.1% higher than a year ago.

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