

**Dairy Situation and Outlook, July 17, 2009**  
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Milk prices were expected to show some slight improvement by now, but that hasn't happened. July cheese prices have not show continuous strengthening. On the CME 40-pound cheddar blocks averaged \$1.1353 per pound for June, started July 1<sup>st</sup> at \$1.115, dropped to \$1.0875 on July 14<sup>th</sup> and were at \$1.145 on July 17<sup>th</sup>. The block price was below the \$1.13 support price from June 18<sup>th</sup> through July 15<sup>th</sup>. The cheddar barrel cheese price averaged \$1.0884 per pound for June, started July 1<sup>st</sup> at the \$1.10 support price, dropped to \$1.08 on July 14<sup>th</sup> and was \$1.14 on July 17<sup>th</sup>. The softness in domestic sales and loss of exports means there is plenty of cheese around. The latest dairy product production statistics show May Cheddar cheese production 3.7% higher than a year ago and total cheese production 2.6% higher. With the softness in sales and exports, cheese stocks have been building month-to-month and were 8.6% higher than a year ago on May 31<sup>st</sup>. Cheese buyers knowing there is plenty of cheese available have been purchasing cheese for immediate needs and not carrying extra inventory.

The Class III price was \$9.97 for June and may be around \$10.00 for July, if cheese prices hold or increase further. There has been some strengthening of dry whey prices with Western dry whey at \$0.305 to \$0.335 per pound. This has helped to give some strength to the Class III price. But, the Class III price has been below \$10.00 since May. Some strengthening of nonfat dry milk prices has increased the Class IV price each month beginning with March. The June Class IV price was \$10.22 and may improve to about \$10.30 for July.

Dairy product prices and milk prices won't show much improvement until milk production falls below year ago levels. The normal seasonal decline in milk production and the seasonal strong fall sales of dairy products will strengthen milk prices in the months ahead. But, milk production may need to fall 2 to 3% below year ago levels to get the milk price at a level to stop the financial stress now being experienced by dairy producers. That means the Class III price needs to get to at least the \$15.00 to \$16.00 range. This may not happen until 2010. It appears now that the Class III price may be near \$12.50 by September and in the low \$14's by December. Hopefully prices will do better than this and that is possible. If milk production drops off faster and/or sales show some improvement, prices could be better. National Milk Producers Federation completed the 7<sup>th</sup> round of CWT herd liquidation the end of June which removed 101,000 cows, and announced the opening of bids for a 8<sup>th</sup> round of CWT. This action will help to further reduce cow numbers and slow milk production. Further, with these very depressed milk prices the number of dairy producers exiting the industry could increase substantially coming fall. This exiting would decrease cow numbers and milk production. With the loss of equity and credit limits reached, expansion plans by some dairy producers may be delayed well into 2010 and beyond, and banks may be more cautious in financing expansions. The bottom line is that milk prices will improve as we progress through this year with continued improvement in 2010.

It appears milk production is starting to drop below year ago levels. USDA revised May's production for the U.S. to be 0.4% higher than a year ago but estimated June's production to be down 0.2%. The effect of the completion of 7<sup>th</sup> round of CWT that removed about 101,000 cows

as well as other cow slaughter running higher appears to be reducing the size of the nation's cow herd. It is estimated the U.S. cow numbers for June were 86,000 head or 0.9% lower than a year ago. Since last December cow numbers have declined 99,000 head. Milk per cow for June was up just 0.8%.

Milk production in the West continues to show strong declines. Compared to a year ago in June California had 2.0% fewer cows with 2.2% less milk per cow resulting in 4.1% less milk production. While cow numbers were slightly higher at 0.2%, 1.1% less milk per cow gave Idaho a 0.9% reduction in milk production. Arizona had a 5.4% reduction in cow numbers and 0.5% less milk per cow resulting a 6.1% less milk. Cow numbers were down 3.8% in New Mexico, but this was offset by 4.1% more milk per cow. Texas is the exception in the West with cow numbers up 2.6% and milk per cow up 1.2% resulting in 3.8% more milk.

Other states with fewer milk cows that resulted in the following reductions in milk production were: Missouri -4.4%, Ohio -1.6%, Utah -2.0%, Vermont -4.6%, Washington -1.2% and Pennsylvania -0.2%. While New York had 0.5% fewer cows this was more than offset with 2.4% more milk per cow netting 1.9% more milk. Florida also experienced 3.3% fewer cows but much improved milk per cow still resulted in 2.3% more milk.

Milk production continues to increase in the Upper Midwest. Wisconsin had 0.4% more cows and 2.4% more milk per cow resulting in 2.8% more milk. Cow numbers were up 1.3% in Minnesota and milk per cow was up 2.2% resulting in 3.5% more milk. While cow numbers were down 0.4% in Iowa 3.0% more milk per cow netted 2.5% more milk.

In summary, it appears that finally milk production is on a trend below year ago levels. This trend along with the normal seasonal decline in milk production and seasonal strong fall dairy product sales with slowly improve milk prices. But, with expected milk prices dairy farmers will continue to experience financial stress for the remainder of 2009 and into 2010

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