

Dairy Situation and Outlook, June 18, 2009

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USDA estimates May milk production to actually be up just slightly at 0.1% from a year ago. The growth in milk production has been slowing with revised April production at the same level as a year ago. But, with the very depressed farm milk prices and resulting financial stress dairy producers are facing, milk production should start to fall below year ago levels and end the year being down 1% or more from that of 2008. The slow down in production is due to a combination of a decline in milk cow numbers and not much increase in milk per cow. Very low milk prices and relatively high feed costs have meant unfavorable returns over feed costs for dairy farmers. Dairy farmers have responded by increasing the slaughter of dairy cows and feeding less grain and concentrate. As of May, milk cow numbers have fallen 59,000 head from the beginning of the year and are now 0.5% below a year ago. Milk per cow in May was up just 0.6%, slightly offsetting fewer cows. The 7th round of CWT is now in operation and will remove about 103,000 cows between now and the end of July.

Of the 23 reporting states, 11 had more milk in May than a year ago, 11 had a decrease and one state, Illinois had no change. The decreases in May milk production were mostly in Western, Southern and Northeast states. Decrease in production were as follows: California 1.9%, Idaho 1.4% (the first and fourth largest producing states), Arizona -6.2%, Utah -0.7%, Washington -1.4%, Missouri -3.9%, New York -0.8%, Pennsylvania -0.8%, Vermont -3.1%, Virginia -1.3% and Ohio -0.9%. States with increases in May production included Texas with 6.3%. Most other states were in the Central or Midwest regions with Minnesota +2.9%, Wisconsin +1.9%, Iowa +2.1%, Indiana +2.1% and Kansas +6.8%. Other states with increases were Michigan +3.1%, Colorado +2.4%, Oregon +1.5%, New Mexico +2.0% and Florida +2.1%.

Despite milk production being at about year ago levels, and forecasted to continue to decline, dairy product prices have not shown any strength. On the CME, butter was \$1.265 per pound on June 3rd, but as of June 18th it had slid back to \$1.20 per pound. 40-pound cheddar block cheese was at the \$1.13 per pound support price on May 11th, increased to \$1.1525 on May 29th only to slip back to below support at \$1.1275. Barrel cheese was below the \$1.10 per pound support price (\$1.055) on May 7th, increased to \$1.1025 on June 1st and is now again below support at \$1.07. The only price improvement has been with nonfat dry milk and dry whey. While CCC continues to purchase nonfat dry milk weekly under the support program some West nonfat dry milk is selling for \$0.865 per pound. More domestic interest and some improved exports have increased West dry whey prices to the \$0.29 to \$0.31 per pound range. Earlier in the year dry whey was selling for around \$0.15 per pound. This increase adds \$0.80 to \$0.90 per hundredweight to the Class III price offsetting only partially the effect of depressed cheese prices. With these prices the June Class III price will be around \$9.90, not much improvement from \$9.82 in May. The June Class IV price will be around \$10.53, up from \$10.14 in May. And the U.S. All milk price will also show little improvement being around \$11.80 compared to \$11.70 in May.

Milk production needs to fall below year ago levels before there is much improvement in milk prices. The weak domestic economy and loss of export sales has meant more than enough milk and dairy products for current needs. Stocks of most dairy products have been building month to month. Latest stock report, April 30th shows compared to a year ago, butter stocks growing but still down 3.5%, American cheese stocks growing and 7.9% higher, total cheese stocks growing and 6.8% higher, dry whey and whey protein concentrate stocks growing but yet down 14.6% and 4.3% respectively. The exception is nonfat dry milk stocks which were at 300.9 million pounds in January have declined each month since to 135.5 million pounds in April, but still 102.6% higher than a year ago.

The loss of the export market is a major factor for depressed dairy product prices. USDA estimates dairy exports for the year will be down 57% on a fat-basis from last year or 25% on a skim-solids basis. This is like putting 3 to 4% more milk on the domestic market. For the first 4 months compared to last year, dairy exports were: nonfat dry milk/skim milk powder down 52%, cheese down 29% and butter down 79%. The exception was exports of total whey products, up slightly to 3%.

We know that as milk production continues to slow that dairy product prices and milk prices will improve. But, the recovery appears to be very slow. Opinions as to how much improvement by year end varies. With the sensitivity of prices to rather small supply and demand changes any of these opinions could be correct. Due to a sluggish domestic economy and the lost of exports USDA is not overly optimistic for much improvement this year. USDA predicts the following average prices for the year: Class III \$10.60 to \$11.00, Class IV \$10.10 to \$10.60, and the All Milk Price \$11.95 to \$12.35. I still feel prices could do better than this. I could see Class III \$13.65 by September and \$15.15 by December with an average of \$12.10 for the year. The All Milk Price could be \$15.40 by September and \$16.45 by December with an average of \$13.65 for the year. Current futures prices are in between these estimates. None of these estimates get milk prices to a level for favorable returns over feed and operating costs for dairy producers. Financial stress dairy producers are currently facing will continue to push down milk production for most of 2010 and result in further improvement in milk prices. But, it could take until the second half of 2010 before prices get to a level for favorable returns to dairy producers. If production slows more than expected, domestic demand and/or exports improve more than expected, or some government action to improve prices is implemented, prices could improve much sooner and that would be very well received.

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