

**Dairy Situation and Outlook, March 20, 2018**  
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March milk prices will end up higher than February. Butter and cheese prices will average higher in March, while both nonfat dry milk and dry whey prices remain low with no increase. Higher cheese prices will increase the Class III price to around \$14.30 compared to \$13.40 in February. Higher butter prices will increase the Class IV price to around \$13.25 compared to \$12.87 in February.

While stocks of dairy products remain relatively high improved domestic sales and dairy exports helped to strengthen prices. Compared to a year ago, January 31<sup>st</sup> stocks were: butter +1.0%, American cheese +2.2%, total cheese +7.0%, dry whey +28.6% and nonfat dry milk +50.0%. Domestic commercial disappearance of butter during January was up 6.3%, American cheese up 3.0% and other cheese varieties up 2.3% while beverage milk sales were 0.6% lower. Compared to January a year ago, exports of nonfat dry milk/skim milk powder were up 3%, cheese up 19%, total whey up 18%, but butter was down 6%. On a total solids basis January exports were equivalent to 13.9% of milk production compared to 13.1% a year ago.

Milk prices for the rest of the year will of course continue to depend upon domestic sales, dairy exports and the level of milk production. With continued improvement in the economy domestic sales should be positive for milk prices. Dairy exports will continue to face stiff competition for markets mainly from the EU as their milk production continues to show strong growth. As far as other major exporters milk production is up just slightly in Australia but lower in New Zealand and Argentina. On the positive side U.S. dairy products remain very price competitive on the world market. U.S. prices of butter, cheese, nonfat dry milk/skim milk powder and dry whey are all lower than EU or Oceania prices. The world economy also is improving. So U.S. should see some growth in dairy exports during 2018.

So a key factor to where milk prices will be headed will be the level of milk production. Despite low milk prices milk production is not slowing down. Compared to a year ago, milk production was up 1.8% for both January and February. Milk cow numbers have increased each month since last October for a total increase of 15,000 head. February cow numbers were 45,000 head higher than a year ago for an increase of 0.5%. Slaughter dairy cow numbers are running about 3% higher than a year ago despite very unfavorable slaughter cow prices, but dairy replacements are at a level to grow the cow herd. Milk per cow was up 1.3%.

Of the 23 reporting states in February, 14 states had more cows than a year ago, 5 had the same number and 4 had fewer cows. Leading with increase in cow numbers were Texas with 16,000, Colorado with 12,000, and Idaho and New Mexico both with 9,000. States with the biggest decrease in cow numbers were California 17,000, and both Minnesota and Wisconsin with 5,000.

Biggest increases in February milk production over a year ago were: Colorado with 7.7%, Utah with 6.9%, Texas with 5.5%, and Idaho and Kansas both with 4.8%. Biggest decreases in milk production were Florida with 2.8% and New York with 2.3%. Despite California having 17,000 fewer cows 4.5% more milk per cow increased the state's milk production 3.5%. With fewer cows and just 0.5% more milk per cow Wisconsin's milk production was up just 0.1%. Fewer cows and just 0.6% more milk per cow resulted in a 0.5% decrease in Minnesota's milk production. Iowa had 1.8% more milk from more cows and higher

milk per cow. A few more cows but less milk per cow netted South Dakota with no change in milk production.

Unless milk production slows down and/or dairy exports show greater increases it appears that milk prices will continue to slowly improve. Class III could improve to the \$15's by July and possible top out near \$16 by October and average for the year no higher than \$15.00 compared to \$16.17 last year. The Class IV price could improve to the \$14's by July but remain below \$15.00 and average no higher than \$14.00 compared to \$15.16 last year. But, hopefully, lower milk production and higher exports will push milk prices higher.

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