

Dairy Situation and Outlook, May 19, 2009

**By Bob Cropp, Professor Emeritus
University of Wisconsin Extension
University of Wisconsin-Madison**

USDA's recent milk production report estimated April's milk production down just 0.1% from a year ago and corrected March's production to the same level as a year ago. Cow slaughter had slowed in April as dairy producers were waiting for how many producers and cows would be slaughtered under the 7th round of CWT. As a result, U.S. cow numbers were just 23,000 head or 0.2% lower than a year ago. Relatively high feed prices and poor returns over feed costs kept the increase in milk per cow to just 0.2%.

Compared to April a year ago, milk production was down 86 million pounds for the top 5 dairy states that account for about 52% of U.S. milk production. A major share of this decline was due to California reducing cow numbers 24,000 head or 1.3% and milk per cow 1.0% lower resulting in a decline in milk production of 82 million pounds or 2.3%. While Idaho had 1.3% more cows 2.7% less milk per cow resulted in 15 million pounds less milk or 1.5%. Milk production was down 0.5% and 1.9% respectively for New York and Pennsylvania for a total of 21 million pounds. But, Wisconsin was the exception for the 5 states with 0.4% more cows and 1.2% more milk per cow resulting in 33 million more pounds of milk or an increase of 1.6%.

Other states showing relatively more milk production due to both more cows and more milk per cow were: Texas, +7.2%; Kansas, +5.0%; Michigan, +3.8%; and Minnesota, +2.9%. While Florida had fewer cows more milk per cow resulted in 5.9% more milk.

States with relatively strong declines in milk production due to both fewer cows and less milk per cow were: Vermont, -5.0%; Washington, -3.4%; Virginia, -1.9% and Missouri, -1.4%.

Despite milk production up only slightly from a year ago for the past two months, May milk prices will decline from April prices. The Class III price was \$10.78 in April will be about \$9.80 for May. CME cheese prices began to decline in April with continued declines in May. On April 1st, 40-pound cheddar blocks were \$1.29 per pound, but were just above support at \$1.1325 on May 18th. Cheddar barrels were also at \$1.29 per pound on April 1st and were below support at \$1.08 on May 18th. If prices don't recover shortly, we could see some barrel cheese purchased under the support program. Dry whey prices have shown some strength with some Western dry whey selling for \$0.28 per pound. The Class IV price was \$9.82 in April and will be around \$10.15 for May. CME butter which was \$1.18 per pound on April 1st continues to strengthen and was \$1.265 per pound on May 18th. Nonfat dry milk prices have also shown a little strength with some Western nonfat dry milk selling at \$0.845 per pound. But, weekly sales of nonfat dry milk to the government under the support program continue.

Compared to a year ago, March butter production was 4.4% lower. But, while mozzarella cheese production continues to be below a year ago at a -1.5%, cheddar cheese production was 5.9% higher bringing total cheese production up 4.3%. Nonfat dry milk production was up just 0.2%, and with the loss of exports, production of skim milk powder was down 29%. Dry whey and whey protein concentrate production were down 5.7% and 5.6% respectively.

With weaker domestic demand and reduced exports stocks of some dairy products have increased. Compared to a year ago, March 31st stocks of butter, which have been building in recent months, were still 4.3% below a year ago. Total cheese stocks were 8.3% higher and nonfat dry milk stocks 90.2% higher. With reduced production and some improvement in sales dry whey and whey protein stocks were down 22.6% and 9.7% respectively.

Cheese prices and milk prices should start to show some improvement starting in June and continue to improve as the year progresses. But, there is disagreement as to how much prices will improve. Currently, Class III futures don't reach \$13.00 until August, \$14.00 until September and only \$14.90 in December. Despite the announcement that CWT will be removing close to 103,000 cows between the end of May and the end of July, Class III futures have declined since the announcement. Milk production needs to fall below year ago levels before milk prices will show significant increases. The reason is slower domestic sales and the big decline in dairy exports. Until prices improve financial stress on dairy farmers will continue. U.S. alfalfa hay price at \$133 per ton is 17% lower than a year ago. But while also lower than a year ago, corn and soybean prices are still relatively high. Returns over feed costs are still negative for some producers and low for all others. As a result, milk production should start to fall below year ago levels as cow numbers continue to decline and milk per cow remains well below more normal increases. And with lower wholesale and retail dairy product prices some improvement in dairy product sales should occur. As a result, I still feel prices could improve more than what the futures market is currently indicating.

Robert Cropp

racropp@wisc.edu

University of Wisconsin-Madison