Milk prices for October will decline just slightly. The Class III price was $15.82 in September and will be near $15.60 for October, the result of little lower cheese and dry whey prices. But, the October Class IV price will be higher near $16.40 compared to $15.08 in September the result of butter prices holding up and higher nonfat dry milk prices. Sales of butter and cheese remain good holding up prices, but exports continue to decline. On a volume basis dairy exports in August declined for the fourth straight month. Butter exports were down 35%, cheese down 28%, nonfat dry milk/skim milk powder down 5% and total whey products down 18%.

During the month dairy product prices on the CME have been unsettled moving down and up. Butter started the month at a high of $2.70 per pound, was as low as $2.35 and is now $2.44. The 40-pound cheddar cheese price was a high of $1.80 per pound early October, and is now $1.625. Cheddar barrels were a high of $1.73 per pound early October, and is now $1.58. Nonfat dry milk started the month at a high of $1.06 per pound, but has declined since and is now $0.86. Western dry whey prices have been at $0.20 per pound. But, as holiday orders are filled we can expect butter and cheese prices to decline. While butter production has been lower than a year ago, 1.2% lower in August and 1.7% lower year-to-date August 31st stocks were 21.1% higher than a year ago and 9.1% higher than the 5-year average for this date. But, August 31st stocks took a big down turn from July 31st, dropping 18%, the result of lower production and strong butter sales. Cheese production remains strong with August production of cheddar cheese 3.1% higher than a year ago and 2.6% higher year-to-date. Total cheese production was 3.5% higher than a year ago in August and 2.5% higher year-to-date. Unlike butter, stocks have been increasing with August 31st stocks of American cheese up 15.5% from July 31st and were 9.3% higher than a year ago. Total cheese stocks on August 31st increased 4.7% from July 31st and were 12.1% higher than a year ago. August production of nonfat dry milk was 6.7% higher than a year ago and 8.4% higher year-to-date. Yet with exports down only 6% and increased domestic sales August 31st stocks were 14.4% lower than July 31st and 2.3% lower than a year ago. August 31st dry whey stocks were 43.1% higher than a year ago.

With the filling of holiday orders we can expect both butter and cheese prices to fall lower bring down both the Class III and Class IV price. The Class III price could be about $15.45 by December and the Class IV price about $14.50. And we could expect further price declines first half of 2016. How low prices may end up will depend heavily upon the level of milk production and domestic sales because much improvement in exports is not likely until the last half of 2016.

The increase in milk production is slowing. September production was just 0.4% higher than a year. Of course a year ago production was increasing strong being 4.3% higher than the year before. September milk cow numbers declined 5,000 head from August and were just 0.4% higher than a year ago. Milk per cow was up only slightly at 0.1%. Total milk production year-to-date was 1.4% higher than a year ago. USDA has forecasted milk production for the year to be 1.4% higher than 2014. But, if the growth in milk production for the last three months of the year continues at this relatively small increase, total production for the year may only be up about 1.2%.

California’s production continues to decline. Milk cow numbers were down 1,000 head from a year ago and milk per cow was down 3.5% netting 3.6% less milk production. Idaho had 7,000 more cows but milk
per cow was up just 0.5% netting 1.7% more milk. Milk production in New Mexico was down 2.0% all due to less milk per cow. Texas had 8,000 fewer cows but milk per cow was up 2.3% netting 0.6% more milk. Michigan and New York had more cows and more milk per cow resulting in 4.0% and 1.1% more milk respectively. Pennsylvania’s milk production was down 1.9% all due to less milk per cow. Iowa and Wisconsin had more cows and higher milk per cow resulting in 2.1% and 3.1% more milk. Minnesota’s production was 2.2% higher, all due to more milk per cow. And South Dakota had 10,000 more cows with milk per cow up 2.2% netting 12.6% more milk.

Cheese prices could drop to around $1.60 per pound, and if dry whey remains around $0.20 per pound, by April and May the Class III price would drop below $15.00. If butter drops to around $1.85 per pound and nonfat dry milk stays around $0.90 per pound, the Class IV price would be about $13.40. While Class III and Class IV futures also show declines for the first half of 2016 they remain higher than this. If milk production continues to increase at less than 1% going into 2016, then milk prices will be higher. So much uncertainty exists as to where final prices end up. Milk prices can swing quickly in either direction with rather small changes in the level of milk production and the combination of domestic sales and exports. With expected domestic sales to remain solid and some improvement in exports for the second half of the year the Class III price could improve to the $16’s and even reach $17 by late fall and the Class IV price could be in the $15’s.

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