

Dairy Situation and Outlook, April 21, 2008
By Bob Cropp, Professor Emeritus
University of Wisconsin Cooperative Extension
University of Wisconsin-Madison

Milk production continues to increase by more than 2%. USDA's milk production report for the month of March showed production for the 23 reporting states up 2.4% from a year ago. Milk cow numbers were 9,000 head more than February and marks the 11th straight month that milk cows have increased over the month before. There were 1.7% more milk cows in March than a year ago.

Despite high feed costs milk production continues strong in the West. Compared to a March a year ago, milk production was up 2.4% in California, 8.2% in Idaho, 3.6% in Arizona, 8.3% in New Mexico and 10.1% in Texas. While there are reports some California dairy cooperatives have placed bases on their producers and that more cows are being slaughtered or leaving the state, California still had 3,000 more cows than February and 2.6% more than a year ago. These Western states all had more cows than a year ago except for New Mexico, which reported 9,000 fewer cows which was more than offset by 11.2% more milk per cow.

In the Upper Midwest, milk production also increased. March production was up 1.7% in Wisconsin, 1.4% in Iowa but up just 0.1% in Minnesota. While Minnesota had 1.8% more milk cows, milk per cow was down 1.5%. Iowa also had less milk per cow, down 1.1%, but it was more than offset by 2.4% more cows. Wisconsin had 0.4% more cows and 1.2% more milk per cow.

In the Northeast, cow numbers were down for both New York and Pennsylvania with milk per cow higher for New York but lower for Pennsylvania. Total milk production was still up 2.7% for New York but 2.0% lower for Pennsylvania. In the Southeast, cow numbers were down 5.4% in Florida more than offsetting 2.5% more per cow and netting 2.9% less total milk production.

Looking ahead milk production is likely to continue to increase 2% plus over the next several months. While high feed prices may hold down increases in milk per cow to no more than 1%, earlier herd expansion decisions from record high milk prices in 2007 will hold milk cow numbers higher than a year ago.

Despite more milk cheese prices have held up. When CME cheese prices do fall they quickly recover. On April 1st, CME cheddar barrels were \$1.7375 per pound and 40-pound blocks at \$1.8050 per pound. Barrels fell further to \$1.69 per pound on April 8. But, as of April 18th, barrels were back to \$1.84 per pound and 40-pound blocks to \$1.9050 per pound. Factors holding up cheddar cheese prices are: less production of cheddar cheese, increase cheese exports and relatively tight stocks. Cheddar cheese production for 2007 was 2.3% lower than 2006. As of February 2008, cheddar production, adjusted on a daily basis, was still running 2.5% below year ago levels. February American cheese stocks were 8.3% lower than a year ago. Partly due to lack of plant capacity the increase in milk production is going into the production of other types of cheese rather than cheddar (for example, February Italian cheese production was 1.2% higher than a year ago) and into nonfat dry milk and skim milk powder production. February nonfat dry

milk production on a daily basis was 17.7% higher than a year ago and skim milk powder production was up 195.8%.

The year is starting out with good growth in dairy exports. For the first two months of the year compared to 2007, cheese exports were up 66.1%, nonfat dry milk up 79.9%, butter up 8.3% and whey protein concentrate up 3.8%. Dry whey exports, however, were 28.6% lower.

While February butter production on a daily basis was 5.6% higher than a year ago and stocks ample at 8.5% higher than a year ago, butter prices have shown some strength. CME butter prices were \$1.3925 per pound on April 18th. Increased export activity and increased domestic use has improved nonfat dry milk prices. West nonfat dry milk prices are trading mostly in the range of \$1.32 to \$1.36 per pound. However, West dry whey prices remain depressed at \$0.27 to \$0.28 per pound.

Due to lower cheese, dry whey and butter prices the end of March and early April the mover for May Class I milk was announced almost \$2.00 lower than April, \$18.61 for April and \$16.62 for May. While dairy product prices will average higher for the last half of April, lower prices earlier will result in an April Class III price of around \$17.00, down about \$1.00 from \$18.00 in March.

Class III futures are very bullish. Class III prices are back to about \$17.80 for May, with June at \$18.55 and then above \$19.00 through March of 2009 and even above \$18.00 through March 2010. These prices are surely possible, but they will require milk production to not increase much more than 2%, domestic sales remain strong and expected increased exports of cheese, butter, dry whey and nonfat dry milk come to pass. Prices are very sensitive to rather small changes in or anticipated changes in any of these factors and can result in quite different milk prices. Price risk remains very real in the dairy industry.

Robert Cropp

racropp@wisc.edu

University of Wisconsin-Madison