Dairy product prices and milk prices are holding at higher levels than what was forecasted earlier in the year. In fact, surprisingly dairy product prices have shown strength during April. Good restaurant and food service performance has meant strong cheese and butter sales. On the CME, 40-pound cheddar blocks averaged $1.5549 per pound in March and are now $1.6075. Cheddar barrels averaged $1.529 per pound in March and are now $1.625. Butter averaged $1.5290 per pound in March and is now $1.83. Nonfat dry milk averaged $1.0108 per pound in March and has weakened to $0.93. Dry whey is around $0.46 per pound. With a little strengthening of cheese and butter prices the April Class III price will be around $15.85 compared to $15.56 in March. While butter prices have strengthened some lower nonfat dry milk prices will lower the April Class IV price from $13.80 in March to near $13.70.

Milk production has been increasing at a slower rate than earlier expected which is one factor for higher dairy product prices and milk prices. Milk production for February was 1.7% higher than a year earlier with March just 1.2% higher, putting the first quarter 1.7% higher than a year ago. A growth in milk production of less than 2% is a factor for higher milk prices. Domestic demand has been growing mainly due to good cheese sales as cheese buyers rebuild inventory and lower cheese prices has increased interest in aging cheese. But, dairy exports are much lower than a year ago. February cheese and nonfat dry milk exports did improve over January, but are still lower than a year ago. Compared to February a year ago, exports of nonfat dry milk/skim milk powder was down 2%, cheese down 5%, butterfat down 5%, total whey down 72% and lactose down 10%. Dairy exports are hampered by lower world prices and a strong U.S. dollar. Prices on the Global Dairy Trade after showing some strength have declined for the past three auctions and are lower than U.S. prices. Average prices at the last auction were $1.31 per pound for cheddar cheese, $1.37 per pound for butter and $1.02 for skim milk power. Higher U.S. prices have attracted more imports. During the January – March period cheese imports under quota were up 25% from a year ago with high tier imports (imports subject to tariff) were up 19%. Quota butter imports were up 68% and high tier imports were much higher being up 2812%.

Milk production is now experiencing a spring flush which could put some downward pressure on cheese and butter prices over the next couple of months lowering milk prices. Butter production keeps running below a year ago with February production 4.8% lower. But, cheese production is running higher with cheddar production 3.4% higher, Italian cheese production 5.4% higher and production of all cheese 3.9% higher. Stocks of products are slowly building, but as of the end of February stocks were not burdensome with butter stocks just 3.7% higher than a year ago, American cheese stocks 2.3% higher and total cheese stocks 5.3% higher. Normally about 50% of nonfat dry milk production is exported, but with exports down stocks of nonfat dry milk keep increasing and were 32.6% higher than a year ago.

Milk prices could weaken some over the next couple of months and then show strength for the second half of the year. How much milk prices change will depend heavily on milk production and any improvement in exports. The 1.2% increase in March milk production was the result of 78,000 more cows than a year ago, an increase of 0.8%, and just 0.4% more milk per cow. Cow numbers actually fell by 5,000 head from February leaving a net increase of just 2,000 head thus far this year. But of the 23 reporting states, only three states had fewer cows in March than a year ago—California down 2,000, Pennsylvania down 1,000 and Virginia down 1,000. Some other states had lot more cows than a year ago—Michigan 22,000, Texas 8,000, South Dakota 6,000 Wisconsin 5,000 and Iowa 4,000. Increases in
milk per cow well below the normal trend of about 1.6% is what has slowed the increase in total milk production. Of the 23 reporting states seven had less milk per cow. Yet, just three of the states had less total milk production than a year ago—California -2.9%, New Mexico -3.9% and Oregon -0.6%. States having relative strong increases in milk production were: South Dakota +9.6%, Michigan +7.0%, Kansas +6.9%, Colorado +6.1%, Minnesota +4.4%, Indiana +3.9% and Wisconsin +3.6%

If the growth in milk production continues below 2%, and it looks like this could well happen, milk prices may decline only slightly over the next couple of months and show a little stronger increase for the last half of the year. Earlier it was anticipated that cow numbers would continue to increase at least up until the last quarter of the year. But, with a decrease in March cow numbers the number of cows for the year may not average much higher than last year. With lower milk prices and continued strong slaughter cow prices cow slaughter is up slightly from a year ago at 4 percent. But, the number of dairy replacements would still allow for an increase in cow numbers. Milk per cow has been increasing much less than expected, but should continue above a year ago levels. USDA has reduced their forecast for milk production due to a smaller anticipated increase in both cow numbers and milk per cow. USDA now forecasts milk production to end the year 1.9% higher than 2014. But, unless an increase in cow numbers picks up and/or milk per cow improves this increase could be on the high side. Some improvement in dairy exports is still anticipated by the last half of the year which would add strength to milk prices.

In summary, it now looks like milk prices will fair better than earlier forecasted. But yet dairy futures seem to be a little optimistic with no weakness in milk prices for any of the months ahead. This is a change in dairy futures from a few weeks ago. Now the Class III futures reach the $16’s by May, the $17’s by August and remain there for the remainder of the year. Class IV futures reach the $14’s by May, the $15’s by July and the $16’s by October.

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