

**Dairy Situation and Outlook, April 20, 2017**  
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Milk prices have been trending downward since last December and will likely continue through May. The Class III price was \$17.40 last December, fell to \$16.77 in January and was \$15.81 in March. April should be around \$15.15 and May at \$15 or a little below \$15. Prices should start to trend upward again by June. This pricing pattern is not unusual. After strong seasonal sales of butter and cheese during Thanksgiving through Christmas sales soften, and at the same time milk production starts to increase seasonally. Then as we move into summer milk production slows, by September schools open increasing beverage milk sales and by fall milk plants and buyers of cheese and butter start building stocks to again meet the strong seasonal sales.

Dairy product prices, with the exception for dry whey have fallen since last December. On the CME December butter averaged \$2.1763 per pound and is now \$2.0675. Cheddar barrels averaged \$1.6132 per pound and are now \$1.3825, and 40-pound blocks averaged \$1.7335 and are now \$1.475. Nonfat dry milk averaged \$1.0019 per pound and is now \$0.8475. However, dry whey averaged \$0.3844 per pound in December and has increased to \$0.495 giving some strength to the Class III price.

First quarter sales of butter and cheese have soften some from a year ago, but are expected to show growth for the year. For the nine months from last June through February dairy exports have improved over a year earlier. February exports were the highest since May of 2015. Milk production has been lower than a year ago in major dairy exporters with the exception of the U.S. World demand has picked up with China, Mexico and others increasing their imports. With a tighter world supply demand situation world dairy product prices have increased making U.S. dairy products more competitive. Compared to February a year ago, exports increased 26% for nonfat dry milk/skim milk powder, 8% for cheese, 22% for total whey products, but were 55% lower for butterfat and 5% lower for lactose. On a total solids basis February exports were equivalent to 14.8% of milk production compared to 13.4% a year ago.

With relatively strong milk production stocks of dairy products have been building putting downward pressure on prices. Butter stocks grew by 27.6% January to February with February stocks 20% higher than a year ago. Natural American cheese stocks grew by 2.9% January to February as did total cheese stocks, and February stocks were 8.1% and 6.4% higher respectively than a year ago.

Milk production continues to run well above a year ago, but the increase is slowing. USDA's milk production report shows March milk production up 1.7% from a year ago compared to an increase of 2.6% for January. March cow numbers were 15,000 head higher than February and 0.6% higher than a year ago. The lower increase in March milk production was due to a slower increase in milk per cow. Milk per cow which was 1.9% higher than the previous year in January was up just 1.1% in March. Both California and Idaho experienced lower milk production than a year ago of 2.9% and 1.0% respectively due to both fewer cows and less milk per cow. New Mexico and Texas had the highest relative increase in milk production of 9.0% and 16.4% respectively. Colorado and Kansas also had relatively high increases of 7.3% and 6.6% respectively. Milk production was up 3.6% in New York, 3.0% in Pennsylvania, 3.5% in Michigan, 3.7% in South Dakota, 1.9% in Iowa, 2.3% in Minnesota and 1.5% in Wisconsin.

Milk production is expected to continue to run higher than a year ago. USDA is forecasting 2017 milk production to be 2.3% higher than last year. But, with expected growth in butter and cheese sales along with continued improved dairy exports milk prices are forecasted to increase starting with the month of June. While reduced some from earlier in the year milk prices are expected to average for the year higher than last year. The Class III price could be back to about \$15.35 by June, in the \$16's by July with the \$17's possible by September giving an average for the year around \$16.35 compared to \$14.87 last year. Some price forecasters have a possible Class III of \$18 by August. However, Class III futures do not reach the \$16's until August and stay below \$17 for the remainder of the year giving an average for the year of about \$16.10. USDA forecasts Class III to average between \$16.10 and \$16.60. No doubt as we move through the year and observe the actual level of milk production, dairy product sales and exports price forecasts will be revised, and that could be higher or lower than now forecasted. It doesn't take big changes to result in changes in milk prices.

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