Milk prices have been well above a year ago through July. The Class III price set a record high in July at $21.39, $7.65 higher than a year ago. For the first seven months Class III averaged $17.68, $4.08 higher than a year ago. The July Class IV price was $20.33, $4.58 higher than a year ago. For the first seven months Class IV averaged $19.81, $4.44 higher than a year ago. But, while milk prices have been well above a year ago so have feed prices. Compared to a year ago the price of corn is about 85% high, soybeans 37% higher and U.S. average alfalfa hay 62% higher with hay prices more than double in Idaho and almost double in California. So higher milk prices have been needed for dairy producers to experience favorable returns over feed costs.

The July prices will be the peak for the year with August prices some what lower. The August Class III price may be near $21.00, the Class IV price near $19.90 and the U.S. All Milk price near $22.00. Butter, cheese and nonfat dry milk prices are all showing some weakness. CME cheddar barrel cheese prices had been above $2 a pound since June 6th. But, in the last three trading sessions barrel cheese lost 23 cents down to $1.865 per pound as of August 18th. CME cheddar blocks also had been above $2.00 per pound since June 6th, but lost 13.25 cents in the last two trading session down to $1.9075 per pound as of August 18th. Butter prices have held above $2.00 per pound. West nonfat dry milk prices, which have been near $1.65 per pound, are now trading in the $1.45 to $1.57 range. However, dry whey prices have been firm trading in the $0.57 to $0.60 range adding support to the Class III price.

Butter prices could hold near $2.00 per pound until later this fall. Butter production is much higher than a year ago, up 20.1% for June. But, while stocks have increased since May they remain tight for this time of the year with June 30th stocks still 24% lower than the 5-year average. Cheese prices will most likely experience further declines to perhaps $1.80 to $1.70 per pound by year’s end. But, on the positive side for cheddar cheese prices is lower production. Compared to a year ago cheddar cheese production during the month of June was down 5.4% from a year ago. Total cheese production was just 1.3% higher. American cheese stocks are now also slightly lower than a year ago with June 30th stocks 1.3% lower. During August and September milk available for cheese making will be tighter. Milk production and milk composition is declining seasonally and schools will be opening channeling additional milk into fluid use.

Dairy exports have added strength to butter, cheese, nonfat dry milk and dry whey prices. But, world prices have weakened some and U.S. exports appear to be slowing down. Yet, for June total export value was a record high $423 million, up 24% from June 2010. On volume basis compared to a year ago June exports of nonfat dry milk were still 6% higher, total cheese 19% higher, butterfat 2% higher, lactose 23% higher, but total whey proteins 14% lower. As a percent of production June exports accounted for 47% of the nonfat dry milk, 4.3% of cheese, 10.7% of...
butterfat, 71% of dry whey and 62% of lactose. On a total milk solids basis June exports were equivalent to 14.2% of U.S. milk production. While imports were also higher than a year ago, the increase was much less than U.S. exports resulting in a trade surplus of $1.16 billion for the first half of the year compared to a surplus of $732, 2 million during the first half of 2010. Milk production is anticipated to recover in 2011/12 for both New Zealand and Australia, which account for about 40% of world dairy trade. This likely will lower U.S. exports this fall and into 2012, but yet remain relatively high historically.

The level of milk production for the remainder of the year of course will be a major factor where milk prices will end up. USDA’s estimated milk production for the month of July shows milk production continues above year ago levels, but the increase continues to slow. For the U.S. as a whole USDA estimated July milk production just 0.7% higher than a year ago compared to a 1.0% increase in June and increases of 2% plus during January through March. The nation’s cow herd continues to get larger from one month to the next which began with October of last year. This has occurred despite more dairy cows going to slaughter. But, as of July 1st the number of dairy replacements stood at 4% higher than a year ago. July cow numbers stood at 0.8% higher than a year ago. But for the first time this year milk per cow was lower than a year ago being 0.2% lower in July. Contributing to this lower milk per cow was high grain and concentrate prices reducing the amount fed to dairy cows and extreme heat in the Northeast and Upper Midwest which depressed milk per cow.

The affect of extreme heat in the Northeast and Upper Midwest is very evident by what happened to milk production in these states. In the Northeast, July milk production from a year ago was down 0.2% in New York, 3.2% in Pennsylvania and 1.5% in Michigan. In the Upper Midwest, July production was down 6.6% in Minnesota, 3.5% in Wisconsin, 7.1% in Iowa and 5.0% in Illinois. While cow numbers were a little lower for some of these states the extreme heat depressing milk per cow was the primary factor. In comparison states with much more favorable weather located in the West had relatively strong increases in July milk production. July production was up 4.8% in Arizona, 4.4% in California, 5.7% in Colorado, 4.8% in Idaho, 6.6% in Washington, 2.4% in New Mexico and 8.3% in Texas. Of these states only Colorado had a little less milk per cow and all of the states had added cows.

With high feed prices increases in milk production of no more than 1% seems likely for the remainder of the year. High feed prices will hold down increases in milk per cow. With lower milk prices the returns over feed costs with decline and this will likely increase cow slaughter. The result will help to hold milk prices at relatively higher levels. By the end of the year both the Class III and Class IV prices could be in the $17 to $18 range and the U.S. All Milk price in the $18 to $19 range. However, there are some who are forecasting lower prices due to a sluggish U.S. economy affecting domestic demand and lower dairy exports. Lower prices are definitely possible. But, if prices turn out much lower both the number of cows going to slaughter and producers deciding to exit the business would likely increase adjusting downward the level of milk production and adjusting milk prices upward.

Robert Cropp
racropp@wisc.edu
University of Wisconsin-Madison.