Milk production is picking up as dairy producers feed for higher production per cow and by adding milk cows. USDA’s milk production report revised June’s milk production to 2.2% higher than a year ago and estimated July’s production 3.9% higher. July milk cows numbered 0.4% higher than a year ago and milk per cow was 3.5% higher. Cow numbers increased by reduced culling and adding dairy replacements. Dairy cow slaughter this year is 10.3% lower than a year ago. Of the 23 reporting states 11 had more cows than a year ago, 21 had more milk per cow and 20 had more total milk production.

In the West July milk production was well above a year ago except for New Mexico that had a slight drop in production. Milk production was up 8.9% in Arizona, 4.4% in California, 4.0% in Idaho, and 5.5% in Texas. Milk per cow was higher for each of these states but cow numbers were down slightly for California and New Mexico. The Northeast showed strong increases in milk production with increases of 8.2% for Michigan, 4.8% for New York, 3.4% for Ohio and 3.0% for Pennsylvania. Each of these states had more milk per cow but Pennsylvania and Ohio had fewer cows. In the Upper Midwest the increase in milk production was not as strong. Milk production was slightly lower in Minnesota, 1.6% higher in Iowa and 3.4% higher in Wisconsin. Each of these states had higher milk production per cow but each had fewer milk cows.

Despite milk production picking up butter and cheese prices will average higher in August. On the CME butter averaged $2.46 per pound in July but has been higher in August reaching a record high for the year at $2.66 on August 15th. Cheddar barrels averaged $1.997 per pound in July and have increased during August reaching $2.21 on August 15th. The 40-pound cheddar block price averaged 1.987 per pound in July but increased to $2.22 on August 15th. The 40-pound cheddar block price has averaged above $2 per pound every month this year except for July, and cheddar barrels averaged above $2 per pound first quarter of the year and near $2 since then. Higher cheese and butter prices along with dry whey holding at $0.67 per pound will result in a Class III price near $22.20 in August compared to $21.60 in July.

While butter prices have increased nonfat dry milk prices have weakened. Nonfat dry milk averaged above $2 per pound through May but is now at $1.70 per pound. But, the higher butter price will hold the August Class IV price near $23.25 compared to $23.78 in July.

With higher milk production and anticipation of some softening in dairy exports the higher butter and cheese prices were a little surprising. Butter exports which were running well above a year ago were 21% lower in June than a year ago, but still 57% higher year-to-date. Cheese exports however were still 33% high than a year ago and 34% higher year-to-date. Domestic butter and cheese sales have been running above a year ago. June butter production was slightly below a year ago while American cheese production was 3.2% high and total cheese production 3.3% higher. But, the higher butter and cheese prices have been driven by stock levels lower than what butter and cheese makers as well as some buyers would like to have at this time of the year to meet the strong sales period during the holidays later this year. They also realize that increasing butter and cheese production is more limited with milk production and milk composition seasonally lower during the summer. Schools will also be opening the end of the month and early September moving more milk into beverage use. The latest stock report is for June 30th stocks. Butter stocks were 42% lower than a year ago, American cheese stocks 7% lower
and total cheese stocks 8% lower. With good domestic sales and strong exports the need for higher stock level exists. Compared to the previous five year average June butter stocks were actually 32% higher and total cheese stocks 3% higher.

Dairy exports higher than a year ago have been a big factor for higher dairy product prices and milk prices. World dairy product prices have been higher than U.S. prices giving U.S. a competitive edge in exports. But, world milk production has improved significantly particularly in the major exporters of New Zealand the EU-28 countries. China has been very active in importing dairy products and has moved passed Canada as U.S. second largest customer. But China has accumulated stocks to the point where their imported activity has decreased. The result has been a significant fall in world prices putting prices below U.S. prices. While cheese exports were still higher than a year ago for June reports are that new orders by international buyers have softened. As noted June butter exports have already fallen below a year ago as have nonfat dry milk exports down 25%. To maintain export levels U.S. prices will need to come down closer to world prices. Yet, export volume will likely hold at levels that will end the year above the record level of 2013.

We can expect dairy product prices and milk prices to decline. The question is how soon and by how much. The level of milk prices and much lower feed costs has meant very favorable margins for dairy producers to increase milk production. Corn prices are 44% lower than a year ago, alfalfa hay prices just 3.3% higher and soybean oil meal prices are starting to decline and are 5% lower than a year ago. However, California with a severe drought is experiencing alfalfa hay prices 35% higher than a year ago. Milk production last year was flat the last quarter of the year. We can expect milk production to continue to run 4% or more higher than a year ago for the remainder of the year and end the year around 2.4% higher than 2013. Milk production for January through July was 1.6% higher than a year ago. But, it will take time to build stock levels so prices could gradually decline rather than take a sharp fall. Dairy futures remain very optimistic with the Class III price staying above $21 through October and above $19 for December. The Class III price stays above $18 all of 2015. The Class IV price stays above $20 through October, but then declined more quickly to less than $18 by December and stays in the $17s for 2015. But, the odds are that prices later this year and into 2015 could average lower than these future prices rather than higher. Nevertheless, milk prices will set new records in 2014 with the Class III price averaging well over $21 compared to $17.99 last year and the Class IV price over $22 compared to $19.05 last year.

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