

**Dairy Situation and Outlook, August 18, 2017**  
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After taking a dip down in July milk prices will increase again in August. The July Class III price fell \$0.99 from June to July to \$15.45, but may increase about a dollar in August to near \$16.45. The Class IV price did increase \$0.52 from June to July to \$16.60, but may be unchanged for August. Slower growth in milk production, good domestic sales of butter and cheese and higher dairy exports strengthen dairy product prices which pushed milk prices higher in August.

CME 40-pound cheddar blocks were as high as \$1.7875 per pound early August, and as low as \$1.66, and are now back to \$1.7550 and will average higher for the month than the July average of \$1.6586. The price spread between blocks and barrels were more than \$0.20 early in August. Barrels early August were \$1.51 per pound and have strengthened to \$1.7500 and for the month well above the July average of \$1.4396. The block barrel spread is now just \$0.005 compared to the more normal spread of \$0.03 to \$0.04.

CME butter averaged \$2.6195 per pound in July, were \$2.7375 early August, but softened some since then and is now \$2.645. Dry whey which was as high as \$0.50 per pound in April, declined since then averaging \$0.4256 in July, and is now \$0.41. Nonfat dry milk averaged \$0.8902 per pound in June, \$0.8616 in July, is now \$0.8325 and will average lower than July for the month. Stronger cheese prices more than offset lower dry whey prices giving the boost to the August Class III price. A little higher butter prices for the month will offset lower nonfat dry milk prices keeping the August Class IV price about unchanged from July.

USDA estimated July milk production to be 1.8% higher than a year ago. This marks the third straight month the increase has been less than 2% which is supportive of higher milk prices.

U.S. dairy exports in the first half of the year were the most in three years due to record exports of nonfat dry milk/skim milk powder and whey products and a 24 percent year-to-date increase in cheese exports. June exports compared to a year ago were as follows: nonfat dry milk/skim milk powder +7%, cheese +32% and butterfat +254%, but total whey exports were 10% lower. On a total solids basis June exports were equivalent to 14.4% of milk production and 14.3% for the year-to-date compared to 13.1% a year ago. Improved exports have been aided by increase in world demand and much improved world prices that are now higher than U.S. prices.

Butter prices have held due to lower production, good sales and higher exports. In June butter production was 4.8% lower than a year ago and 1.7% lower year-to-date. As a result, stocks of butter declined May to June and were 5.5% lower than a year ago. But, cheese production has been higher than a year ago. June production of cheddar cheese was 2.8% higher with year-to-date 6.0% higher. Total cheese production for June was 3.2% higher and 2.7% higher year-to-date. With good cheese sales and higher exports stocks of cheese declined May to June, but were still 7.0% higher than a year ago for American cheese and 5.3% higher for total cheese. Relatively strong production in June compared to a year ago for nonfat dry milk at 11.6% and dry whey at 9.8% resulted in relatively higher June stocks putting pressure on prices. Compared to a year ago nonfat dry milk stocks were 28.9% higher and dry whey stocks 12.2% higher.

Seasonal improvement in butter and cheese sales along with expected continued improvement in exports should add further strength to the Class III price for September and October reaching into the \$17's. Higher butter prices should keep the Class IV price in the \$16's. These higher milk prices will be supportive if the growth in milk production remains below 2%. The 1.8% increase in July milk production was the result of 0.8% more cows and just a 1.0 % increase in milk per cow. Unlike last year a lower increase in milk per cow is slowing the increase in milk production. Compared to a year ago, the increase in milk production is considerably lower in the Northeast and Midwest with mixed changes in the West. Compared to July a year ago, Northeast milk production was slightly lower in New York, Pennsylvania and Ohio with Michigan up just 2.9%. In the Midwest July milk production was 4.2% higher in South Dakota, 2.1% in Iowa, 3.1% in Minnesota, but just 0.7% in Wisconsin. In the West California continues to experience lower milk production with July down just slightly at 0.2%. Idaho's production was also 0.2% lower. Relatively high increases continued in New Mexico and Texas at 8.4% and 14.8% respectively. In the Southeast Florida's milk production was 2.0% higher.

USDA has lowered their forecast for 2017 milk production for each of the past five monthly forecasts due to an expected lower increase in milk per cow reducing the impact of more cows. USDA is forecasting an average of 0.8% more cows, but just a 0.7% increase in milk per cow resulting in 2017 milk production 1.6% higher than last year. Wet weather in both the Northeast and Midwest, with the exception of South Dakota which has experienced a drought, harvesting quality hay has been hampered which could impact milk per cow in these two major milk producing regions.

Looking further down the road we could see the Class III price falling back to the mid \$16's first quarter of next year. But, there remains a lot of uncertainty as to final prices. Prices will depend upon the actual level of milk production, domestic sales and exporters.

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