

**Dairy Situation and Outlook, December 21, 2009**  
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USDA's latest milk production report estimates U.S. milk production for the month of November 1.0% lower than a year ago. This is the fourth consecutive month that production was below a year ago. November milk cow numbers were down 2.6% from a year ago and milk per cow was 1.7% higher.

The majority of the decline in cow numbers and milk production continues in the West. Compared to a year ago November cow numbers were down 10.6% in Arizona, 10.8% in Colorado, 5.7% in New Mexico, 4.3% in California, 4.0% in Texas and 1.4% in Idaho. Poor returns over feed costs still appear to be negatively impacting milk per cow in some Western states. Milk per cow was unchanged from a year ago in Arizona, 1.1% lower in California and up just 1.1% in Idaho. For the reporting Western states total milk production was down from a year ago in all states except Texas where an increase in milk per cow more than offset fewer cows netting an increase of 2.6%. But, milk production was down as 10.7% in Arizona, 9.2% in Colorado, 5.4% in California, 1.6% in New Mexico and 0.4% in Idaho.

Cow numbers were down in the Northeast with New York down 2.1%, Pennsylvania 2.0% and Vermont 3.6%. Milk production was down 2.1% in New York, 2.5% in Vermont, but an increase in milk per cow more than offset fewer cows in Pennsylvania netting an increase of 1.3%.

The Midwest continues to have more cows than a year ago with relatively good milk production per cow. Compared to a year ago November milk production was up 4.5% in Wisconsin, 3.8% in Indiana, 2.6% in Iowa, and 1.1% in Minnesota.

Milk production below a year ago was needed before dairy product prices and milk prices would show much improvement. We can expect cow numbers and milk production to continue to fall below year ago levels for several months ahead. The current decline in milk production has strengthened dairy product prices and milk prices starting in October with good increases in November and early December.

While butter and nonfat dry milk/skim milk powder production has been lower than a year ago, October production down 14.3% and 26.6% respectively, October total cheese production was 1.3% higher with cheddar production 2.2% higher. October 31<sup>st</sup> stocks were ample for market needs with butter stocks 30.6% higher than a year ago, American cheese stocks 7.3% higher and total cheese stocks 16.3% higher. But, increased buyer orders for the holiday season and specials by retail stores pushed the price of butter and cheese much higher. CME butter was a yearly high of \$1.525 per pound from November 11 to December 1, but as of December 18 it had fallen back to \$1.3250. This price was still higher than the \$1.20 per pound a year ago at this time. CME 40-pound cheddar blocks reached a yearly high of \$1.72 per pound on December 2, and as of December 18 the price had slipped just 1.75 cents to \$1.7025. This price was higher than the \$1.4175 per pound a year ago at this time. CME barrels were a high of \$1.51 per pound on November 25 and declined to \$1.44 per pound as of December 18, but still higher than the

\$1.405 per pound a year ago. While the spread between blocks and barrels was just 1.25 cents a year ago, it is now more than 26 cents, much higher than the more normal 3 to 4 cent spread. Blocks being in greater demand for the holidays than barrels meant tighter supplies than barrels. But, holiday orders are now filled and the block price may drop back some, as has butter prices, rather than the barrel price increasing.

Both dry whey and nonfat dry milk prices are higher and continue to show strength. Increased dairy exports helped to strengthen prices. Compared to a year ago, October nonfat dry milk/skim milk powder exports were up 19%, the first time in 12 months higher than a year ago. Dry whey exports were up 13%.

Higher dairy product prices means much improved farm milk prices. The December Class III price will be near \$14.85, up almost \$4.90 from the yearly low of \$9.97 for both June and July. For the year, the Class III price will average about \$11.30, down about \$6.15 from the \$17.44 average last year. The U.S. All Milk Price will be near \$16.00 for December, about \$4.70 higher than the yearly low of \$11.30 for both June and July. For the year the ALL Milk Price will average near \$12.75, about \$5.55 lower than the \$18.29 average last year. With some dropping back in cheese and butter prices now that holiday orders are filled, we may not see an increase in January milk prices. But, beyond January with a continued decline in milk production from a year ago and some signs of perhaps improvement in domestic sales, especially cheese, and anticipated further improvement in dairy exports, milk prices will continue to improve in 2010. Dairy producers can anticipate a much improved year in 2010 with higher milk prices.

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