Milk prices for 2015 have been lowered from earlier forecasts. Milk prices are forecasted lower for two reasons—lower dairy exports and a higher level of milk production. The Class III price set a new record monthly high every month this year except for December and will average about $4 higher for the year than last year. These record prices were driven by milk production increasing less than 2% for the first half of the year, good domestic sales and record dairy exports. But, exports are now declining. Milk production has been strong amongst major exporting countries. USDA, FAS estimates for 2014 milk production over 2013 are: Australia +3.2%, EU-28 +4.7%, New Zealand +7.4%, U.S. 2.4% and Argentina the exception with -0.9% for a total growth of 3.9%. While world milk production was higher two factors softened world imports of dairy products—the Russian ban on dairy imports from the EU and China reducing its imports from the first part of the year by more than 50%. China is the world’s largest importer of dairy products and Russia ranks 3rd with the combined total of these two countries accounting for about 20% of world imports. The net result has been a drop in world dairy products well below U.S. prices making U.S was no longer competitive. The strengthening of the U.S. dollar is also impacting exports. U.S. dairy exports were setting new records accounting for 17.7% of U.S. milk production back in March. But, with falling world prices exports started to slow. Butter exports through April were more than double the year before, but by May they fell below year ago levels. Nonfat dry milk exports fell below year ago levels by August and cheese by October. October exports compared to a year ago were down 82% for butter, 3% for cheese, 25% for nonfat dry milk and 9% for dry whey. October exports had fallen to 14.4% of U.S. milk production. While exports were declining higher U.S. prices were attracting dairy imports. Quota Imports January through November compared to the same period last year were 42% higher for butter and 12% higher for cheese.

Dairy exports could show some recovery during the second half of 2015. Milk prices are considerably lower for all major exporting countries which should slow the growth in world milk production in 2015. However, relatively low feed prices will help to sustain milk production. Russia is to stop the ban on EU imports in August, but this is uncertain. As China works off accumulated dairy stocks they are likely to resume importing by the second half of the year, but at a more conservative level. But, for the year U.S. dairy exports will be lower than 2014 exports.

USDA estimated total November milk production to be 3.4% higher than last year. Milk production for the past 5 months was 3.5% higher than a year ago. Milk cow numbers have been increasing slowly with November numbers just 4,000 head above October putting the increase since the end of last year at 78,000 head. November cow numbers were 0.9% higher than last year. Fourteen of the 23 reporting states had more milk cow than last year, 4 had no change and 5 had fewer cows. The biggest increase in cow numbers occurred in Texas with 30,000 head, followed by Michigan with 19,000 and Idaho with 12,000. Cow numbers were unchanged for California and down 1,000 head in Wisconsin. For the year cow numbers are estimated to average 9.255 million head, 0.4% higher than last year.

Improvement in milk per cow has been much bigger factor for increased milk production than more cows. November milk per cow was 2.4% higher than last year. For the year milk per cow is estimated to average 22,261 pounds, 2.0% higher than last year.
States having the highest increase in November milk production over a year ago were: Utah 7.9%, Texas 7.7%, Colorado 7.7%, Michigan 7.0%, and South Dakota 6.7%. California had 23.2% more milk and Wisconsin 2.8%. Total milk production for the year is estimated at 205.8 billion pounds, 2.3% more than last year.

The December Class III price will be near $17.75 compared to the peak of $24.60 back in September and $21.94 in November. But, as we move into 2015 increased milk production and lower exports means milk prices will fall further. By January the Class III price could be down to about $16.30 and falling to the $15’s February through August before showing some strength and peaking in the high 16’s in October or November. Some forecasters have the Class III price falling below $15 this spring which is not without a possibility. Not until the growth in milk production slows to 2% or less and/or exports pick up can we expect milk prices higher than this. Lower feed cost will ease some of the pain of lower milk prices, but margins will be far from the record margins experienced this year. One positive is an expected stronger growth in the economy during 2015 and dairy product prices will be lower, both of which should result in good growth in domestic sales to help to support milk prices.

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