

Dairy Situation and Outlook, December 19, 2017
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USDA estimated November milk production at 1.0% higher than a year ago. If December has a similar increase, the year will end up with 215.4 billion pounds of milk, 1.4% more than 2016. But, leap year adjusted the increase would be 1.7%. This is a lot of milk considering milk production increased 1.6% (leap year adjusted) in 2016. This strong milk production is putting downward pressure milk prices. The November increase was the result of 0.6% more cows and just 0.5 % more milk per cow.

Milk production changes in the major milk producing states overall slowed from changes in recent months. In the West Arizona had a strong increase of 4.3%, but production was down 1.1% in California and 0.6% in Idaho with New Mexico up 2.0% and Texas up 5.9%. In the Midwest Iowa had a relatively strong increase of 3.7%, but Minnesota was up just 1.5% and Wisconsin up 0.9% with no change in South Dakota. In the Northeast, production was down 0.3% in New York, and up 2.2% in Pennsylvania and 2.2% in Michigan.

The price of butter, cheddar cheese, dry whey and nonfat dry milk have been declining in December. Butter averaged \$2.22 per pound in November and in December did stay in the \$2.19 to \$2.26 range up until now with today's price \$2.21. December cheese prices have been quite volatile with a lot of trading on the CME. Barrels averaged \$1.67 per pound in November and ranged from \$1.54 to \$1.67 in December, but decline \$0.10 today to \$1.48. The 40-pound block price which averaged \$1.66 per pound in November has fallen sharply to now \$1.45. Dry whey which was as high as \$0.53 per pound last April is now about \$0.28. That price changed dropped the Class III price about \$1.50. Nonfat dry milk averaged \$0.72 per pound in November and has dropped to a historic low of \$0.6475.

Higher production of dairy products has led to ample stocks. Compared to a year ago, October butter production was 2.6% higher, cheddar cheese 4.1% higher, total cheese 1.7% higher and nonfat dry milk 6.5% higher. Increased cheese production this year increased dry whey production 8.2%. Butter stocks did decline 14% September to October and were 3.7% lower than a year ago. But, with butter orders for strong seasonal sales in December now filled butter prices have fallen. American cheese and total cheese stocks also declined September to October 5.3% and 3.1% respectively. October American cheese stocks were just 0.5% higher than a year ago and total cheese stocks 3.7% higher. But, like butter holiday orders are now filled. Both dry whey stocks and nonfat dry milk stocks remain burdensome. October dry whey stocks were 57.1% higher than a year ago and nonfat dry milk stocks 31.8% higher.

When milk production increases well above 1% strong domestic sales along with good dairy exports are required to hold up milk prices. Latest export data are for October. While nonfat dry milk/skim milk powder exports ran well above year ago levels from the last half of last year through July of this year, they have fallen lower since due to strong competition from both the EU and Canada exports. October exports were 34% lower than a year ago. The loss of exports has pushed nonfat dry milk prices to now a historic low. Cheese exports have slowed but October exports were still 9% higher than a year ago. Butterfat exports were 13% higher and dry whey exports 9% higher. On a total milk solids equivalent basis October exports were still 15.2% of U.S. milk production and 14.3% year-to-date.

The Class III price was \$16.88 in November, the high for the year, and will fall to near \$ 15.45 in December. This will make the average for the year about \$16.20 compared to \$14.87 last year. The November Class IV price was \$13.99 and will fall to near \$13.60 in December. The average for the year will be about \$15.15 compared to \$13.77 last year. So while milk prices were not the greatest, 2017 was still a big improvement over 2016.

But, milk prices do not look good going into 2018. USDA is forecasting a relatively strong increase in milk production at 1.7% higher. Good domestic sales and higher dairy exports will be required to hold up milk prices. The economy is showing strength, the Consumer Confidence Index continues to improve and the Restaurant Performance Index is showing some improvement, all positives for improved domestic sales. USDA is forecasting a rather modest growth in domestic sales. So a lot will depend upon exports. But, as of now an increase in exports will be a challenge. Milk production is increasing in all five of the major exporters—the EU, New Zealand, U.S., Argentina and Australia. So U.S. will face stiff competition for markets in 2018. World prices have fallen putting downward pressure on U.S. prices especially nonfat dry milk and dry whey that depend heavily upon international markets. World demand is expected to pick up as China and others appear to be again increasing imports and this will help to absorb some of the increase in milk production.

It now looks like we will see Class III prices in the \$14's for the first half of the year and Class IV in the \$13's. Current Class III futures even has Class III in the \$13's February and March. But, with milk prices this low milk production may moderate the second half of the year. We can expect milk prices to improve for the second half of the year with Class III in the \$15's and Class IV in the \$14's with possible \$15's last quarter. If prices end up at these levels, Class III would average for the year about \$1 lower than 2017 at \$15.20. The Class IV price would average about \$0.85 lower at \$14.30.

I would not rule out milk prices doing somewhat better than this for the second half of the year. Milk production could increase less than 1.7%. World milk production also may not increase as much. For example, New Zealand is now experiencing a drought and if rains don't come soon, its growth in milk production will be reduced. World demand could also end up higher. It doesn't take big changes to change milk prices.

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