Milk prices continue to fall in 2015. The February Class III price will be near $15.55 compared to $16.18 in January and $17.82 last December. The Class III price February a year ago was $23.35. The February Class IV price will be near $14.00, up from $13.23 in January due to some strengthening of butter prices, but down from $16.70 last December. February a year ago the Class IV price was $23.46.

There exists considerably uncertainty as to how milk prices will end up for the rest of the year. A month ago there were predictions for the Class III price to fall to the low $14’s first quarter of the year and not reaching into the $16’s last half of the year and averaging about $7 lower than last year. Class III futures also showed this pattern. But, dairy futures have rallied. Currently Class III futures stay in the $15’s through May, and in the $16’s through July, and the $17’s for the remainder of the year. Class IV futures have also strengthened. Class IV futures are in the $15’s to may, $16 for June and in the $17’s for the remainder of the year. The explanation for this rally is the drought in New Zealand and New Zealand’s forecast for their milk production to be 3% lower in 2015. New Zealand is the single country leading exporter pf dairy products. Also there is anticipation that Russia will lift its ban on dairy imports from the EU-28 by August and that China will resume imports later in the year. Prices of whole milk powder, skim milk powder and butter have also strengthened on the Global Dairy Trade. But, it seems the impact of some of this would strengthen prices later in the year rather than for these near months. There exist cumulative dairy stocks that need to be worked down before China will likely resume any significant imports. Dairy producers in the EU-28 are currently suffering from low milk prices which will slow their milk production in 2015. While quotas come to an end in the EU in April some countries have milk production that exceeds existing quotas and producers face stiff levies if they don’t reduce milk production before April.

A positive for 2015 milk prices to average higher that what were forecaster earlier is the possibility of a smaller increase in this year’s milk production. Earlier USDA was forecasting 2015 milk production to increase 2.8% and have now reduced that to 2.6%. A 2.6% increase is still a lot of milk. Domestic sales will show growth led by a continued increase in cheese sales. But, exports are forecasted to be lower, particularly for butter and cheese. Nonfat dry milk/skim milk powder, dry whey, whey protein concentrates and lactose exports are expected to far better.

For now dairy product prices on the CME have been holding at levels higher than earlier predicted. Butter started February at $1.7625 per pound, rallied to $1.81 and is now $1.7225. The 40-pound cheddar block price has been around $1.54 per pound and cheddar barrels above $1.48
per pound. Nonfat dry milk fell to a low of $0.9875 per pound the start of February and have improved to $1.025. Dry why continues to trade at $0.45 per pound.

The latest dairy product production report is for December. Compared to a year ago December butter production was 1.7% lower, American cheese production just 1.9% higher and total cheese production 2.8% higher and nonfat dry milk production 19.2% higher. With butter and cheese sales holding January 31st stocks are only slightly higher than a year ago. Butter stocks were 2.9% higher, American cheese stocks 0.3% higher, total cheese stocks 2.7% higher and nonfat dry milk stocks compared to December 31st a year ago were 85.6% higher.

The increase in milk production for 2015 could well end up lower than earlier forecasts if January is any indication. Last year milk production July through December was 3.5% higher than the year before resulting in a 2.4% increase in milk production for the year. December’s milk production was 3.1% higher than the year before. But, USDA’s milk production report estimates January 2015 milk production for the U.S. to be just 2.1% higher than a year ago. Milk cow numbers were 96,000 head higher than a year ago, a 1.0% increase. But, milk per cow was just 1.0% higher average averaging 2.0% higher last year.

Of the 23 reporting states only two had lower January milk production than a year ago, California and New Mexico. California’s milk production was 2.6% lower, the result of 0.1% fewer cows and 2.5% less milk per cow. The effect of the drought and the start of lower milk prices appear to be impacting California’s milk production. New Mexico’s production was 1.9% lower all due to less milk per cow. Idaho had 2.5% more cows but 1.0% less milk per cow netting a 1.4% increase in milk production. Texas also had 1.0% less milk per cow but had added 5.6% more cows netting an increase of 4.4% in milk production. In the Northeast milk production is rather strong with increase of 3.7% for New York, 3.0% for Pennsylvania and 9.6% for Michigan. Pennsylvania had a few less cows but New York added a few more cows and Michigan added 5.8% more cows. Each of the states had increases in milk per cow well above 3.0%. Milk production was also up rather strong in the Midwest. Production was up 4.9% in Iowa, 3.0% in Minnesota, 3.4% in Wisconsin and 8.7% in South Dakota. Each of these states had more cows and increases in milk per cow in excess of 3%. A year ago the Northeast and the Midwest were experiencing relatively small increases in milk production due to lower forage quality and very cold temperatures lowering milk per cow. Other states with increases in milk production above 6% were Colorado, Indiana, and Utah. Kansas had a 5.1% increase.

So milk prices may turn out better than earlier forecasted and let’s hope so. But, milk production is currently running strong in the Northeast and the Midwest and several other states and spring flush is still ahead of us. World dairy product prices appeared to have bottomed out and are now improving, but remain lower than U.S. prices. So U.S. dairy exports are not likely to show
improvement until the last half of the year. We know milk prices react rather quickly to any
bearish or bullish news on what is going on with milk production, domestic sales and exports. So
milk prices can and will no doubt change as these factors change as we move through the year.

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