

Dairy Situation and Outlook, February 21, 2017
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Milk prices ended 2016 at a high for the year. December Class III was \$17.40 compared to a low of \$12.76 back in May. December Class IV was the high for the year at \$14.97. But, milk production continues to increase at a relatively high level and the peak demand for cheese and butter during the holidays is over so some weakening of milk prices is expected for the start of this year. On a positive note dairy exports improved last quarter of the year. Compared to a year ago, December exports were up 3% for nonfat dry milk/skim milk powder, 16% for cheese, 27% for butterfat, 43% for whey products and 3% for lactose. Nonfat dry milk/skim milk powder prices were competitive on the world market all of 2016. As a result, nonfat dry milk/skim milk powder exports for the year were 8% higher than the 2015 and actually 10.6% higher than the previous record set in 2014. Nevertheless, stocks of both butter and cheese grew during December. Compared to a year ago, December 31st stocks were 12.8% high for butter and 5.3% higher for cheese.

As expected under these market conditions cheese prices have declined. On the CME 40-pound cheddar blocks were a high of \$1.85 per pound early February, but declined during the month to now \$1.53 per pound. Cheddar barrels were a high of \$1.7075 per pound early February, but also declined during the month and are now \$1.60. Last December available supply of fresh 40-pound cheddar blocks was rather tight resulting in the block price well above the cheddar barrel price. A more normal price relationship between blocks and barrels is about \$0.04 per pound. But, during February 40-pound blocks have fallen more than barrels. The start of February blocks were \$0.1725 higher than barrels, but now barrels are \$0.07 higher than blocks. Offsetting some of the decline in cheese prices is higher dry whey prices. Dry whey was about \$0.44 per pound in January and has improved to about \$0.49 which adds about \$0.30 to the Class III price. The Class III price in February should be about \$16.85. Despite relatively high butter stocks the CME butter price continues well above \$2 per pound averaging thus far in February at \$2.16 per pound. But, the CME nonfat dry milk which was a high of \$0.9625 per pound early February has slipped to \$0.81. So the February Class IV price will decline from January and be about \$15.65.

Milk prices are still expected to stay much more favorable than last year for all of 2017. Domestic sales of butter and cheese are expected to continue to show growth. Milk production in four of the five leading exporters—EU, New Zealand, Australia and Argentina—is expected to continue below year ago levels at least for the first half of the year with only modest increases as a possibility for the last half of the year. U.S. the fifth largest exporter will continue to show relatively strong increases in milk production. Increase demand by China and others is expected pushing up world dairy product prices. With these conditions continued improvement in dairy exports is expected. The level of milk production will be a key factor in how much milk prices improve over 2016.

With relatively low feed prices and improved milk prices we can expect the average number of milk cows to increase in 2017 and further improvement in milk per cow. USDA is forecasting the average number of milk cows to increase 0.4% and milk per cow to increase 1.9% resulting in an increase in total milk production of 2.3%. With this level of milk production good domestic sales and dairy exports will be required to strengthen milk prices. USDA's forecast of a 1.9% increase in milk per cow could be on the high side. The annual increase in milk per cow for the past 5 years has been 1.3%. Adjusted for leap year milk per cow last year increased 1.4%. Last year milk per cow in California averaged 0.8% lower, adjusted for leap year, and rather relatively strong increases in milk per cow in the Northeast and Upper

Midwest. This year milk per cow is likely to improve in California with relatively lower increases in the Northeast and Upper Midwest.

USDA's milk production report estimates U.S. milk production for January to be +2.5% higher than last year. The number of milk cows was 56,000 head higher than a year ago or 0.6% and milk per cow was 1.8% higher. California had more milk per cow but 14,000 fewer cows netted 0.6% less total milk production. Idaho's milk production was 1.0% higher. An expansion in cow numbers of 15,000 and 39,000 along with more milk per cow resulted in milk production increases of 15.3% and 19.2% respectively for New Mexico and Texas. Milk production continues relatively strong in the Northeast with increases of 3.5% for Michigan, 3.8% for New York and 2.0% for Pennsylvania. In the Upper Midwest milk production was up 3.8% in Iowa, 1.7% in Minnesota, 1.0% in Wisconsin and 2.8% in South Dakota. In the Southeast Florida experienced a 1.3% decline in milk production. Over all of the 23 reporting states, 10 had fewer milk cows than a year ago, only two had lower milk per cow and six had lower total milk production.

As of now it looks like the Class III price to be in the low \$16's through about May, then increasing to the \$17's with high \$17's and even low \$18's by October or November with an average for the year around \$17.15 compared to \$14.87 last year. The Class IV price may stay in the \$15's first half of the year reaching the \$16's and even the \$17's for the last half of the year and averaging about \$16.30 for the year compared to \$13.77 last year. How dairy exports actually perform over the next couple of months and the level milk production will provide better insight for milk prices during the year.

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