The year 2014 will be remembered as record milk prices. The average Class III price was $22.34, $4.34 higher than 2013. The average Class IV price was $22.09, $3.04 higher than 2013, and the average U.S. All Milk Price was $23.97, $3.92 higher than 2013. But, as of now it looks like milk prices will be a lot lower this year. By last December the Class III price had declined to $17.82 after peaking at $24.60 back in September. The January Class III price will be about $16.00 and will likely decline further being in the low $14’s March through May before slowly improving and reaching the $16’s last quarter of the year. The Class IV price has declined even more. The Class IV price peaked at $23.89 last August and declined to $16.70 by December. The Class IV price will be near $13.50 in January and not reach $14 until June and recovering to the low $16’s by November. The U.S. All Milk Price peaked at $25.70 last September, had declined to $20.30 by December and will be near $17.45 in January and in the 16’s March through May and reaching the $18’s by September. If this holds milk prices will average about $7 lower than 2014. It looks like there will be payments under the Margin Protection Program at least for those producers who signed up with margin protection above the $6 level. At this time the probability that margins could actually be below $6 is quite low. But, it is early in the year and milk prices are very sensitive to rather small changes in milk production, domestic sales and dairy exports. So the year could turn out quite different than what I just described particularly for the second half of the year. There is just a lot of uncertainty when projecting milk prices six months to a year out.

The question may be what is causing milk prices to decline this far? The answer is increased milk production and lower dairy exports. Domestic sales with the exception of fluid (beverage) milk have been good and are expected to be good in 2015. But, milk production after increasing just 1.3% over a year ago January through June of last year increased 3.5% July through December finishing the year with an increase of 2.4%, the result of an average of 0.4% more cows and 2.0% more milk per cow. Dairy exports which were setting new highs for the first half of the year reaching as much as 17.7% of milk production on a total solids basis in March declined significantly during the second half of the year. Latest export data is for November. Compared to a year ago exports were down 7% for nonfat dry milk/skim milk powder, 13% for cheese, 72% for butter and 17% for dry whey. Exports as a percent of U.S. milk production declined to 14% in November. Exports declined as world milk production increased and at the same time China, the largest importer of dairy products reduced their imports significantly. The result was a decline in world dairy product prices making U.S. dairy products no longer price competitive on the world market.

Dairy product prices have taken quite a tumble bring down milk prices. CME butter which averaged $2.97 per pound last September averaged $1.74 for December and is now $1.55. CME cheddar barrel cheese which averaged $2.37 per pound last September averaged $1.56 for December and is now $1.45. CME 40-pound cheddar blocks which averaged $2.35 last September averaged $1.63 for December and are now $1.47. CME nonfat dry milk which was as high as $2.07 per pound early in 2014 is now $.9525 and Western dry whey which averaged as high as $66.8 per pound last August is now $0.48.

With much more milk dairy product production was running well above a year ago with the exception of butter. Compared to a year ago during November butter production was 4.7% lower, American cheese production 4.5% higher, total cheese production 2.9% higher and nonfat dry milk production 48.9% higher. With the decline in exports skim milk powder production was 45.5% lower.
With higher dairy product production and lower exports stocks have increased modestly. Compared to last December 31st, stocks of butter were still 12.3% lower compared to 17.0% lower on November 30th, American cheese stocks were just 0.9% higher and total cheese stocks just 0.3% higher. November 30th stocks of nonfat dry milk were 89.7% higher.

How soon and how much dairy product prices and milk prices will improve will hinge heavily on the level of milk production and improvement in dairy exports. Currently milk production continues strong. USDA’s latest milk production report estimated December milk production at 3.1% higher than a year ago, the result of 1.1% more milk cows and 2.0% more milk per cow. Texas led the increase at 9.7% by adding 30,000 more cows than last year and a strong 2.7% increase in milk per cow. Michigan’s milk production was 7.8% higher than a year ago by adding 12,000 cows and an increase of 2.5% milk per cow. Idaho had 14,000 more cows than a year ago and milk per cow was up 2.6% resulting in 3.5% more milk. California’s milk production dropped slightly below a year ago at -0.1% due to 1,000 fewer cows and no increase in milk per cow. Increases in milk production for some of the other key dairy states were: Arizona 4.5%, New York 4.1%, Pennsylvania 3.3%, Kansas 6.4%, Colorado 6.6%, Utah 8.8%, South Dakota 6.4%, Iowa 4.9%, Minnesota 2.3% and Wisconsin 3.1%. Besides California only two other states amongst the 23 reporting had less milk, Illinois – 0.6% and Oregon 0.5%. In total 20 of the 23 states had added cows over a year ago. We can expect milk production to continue to run strong at least for the first half of the year. But, with lower milk prices and lower margins the relative increase in milk production will slow as producers increase cow slaughter and not feed as aggressively for more milk per cow. But, for the year milk production may end up 2.6% higher than 2014. USDA is projection is a little higher at 2.8%.

Dairy exports for the year will likely be lower than 2014. World dairy product prices appear to have bottomed out with recent Global Dairy Trade showing some strength in prices. Milk prices are also much lower in the major exporting countries—New Zealand, Australia and the EU-28. New Zealand is also experiencing dry weather, which if it persists, will reduce their milk production in the months ahead. So the increase in world milk production will not be as high as it was in 2014. As accumulated dairy stocks are worked down dairy imports are expected to pick up the last half of the year particularly in China but at a more modest pace.

In summary, as the growth in milk production slows and dairy exports improve for the last half of the year we can expect milk prices to improve. But, unless milk production slows more than now anticipated and/or dairy exports improve more than anticipated milk prices will average much lower than 2014.

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