

Dairy Situation and Outlook, January 24, 2017
By Bob Cropp, Professor Emeritus
University of Wisconsin Cooperative Extension
University of Wisconsin-Madison

USDA's milk production report estimated December milk production to be 2.2% higher from a year ago, the results of 0.4% more cows and 1.8% more milk per cow. This brings total milk production for the year to 212.5 billion pounds, 1.9% more than 2015. The increase in milk production was driven primarily by more milk per cow which was 1.7% higher than 2015. The average number of milk cows was just 0.2% higher than 2015.

December milk production showed the similar regional pattern as recent past months. Comparing December milk production to a year earlier showed continued relatively strong increases in milk production in the Northeast and Midwest. However, increases were a little lower than recent months. Milk production was up 3.6% in New York, 3.9% in Michigan, 3.2% in Iowa, 1.1% in Minnesota, 4.3% in South Dakota and 1.1% in Wisconsin. In the West, California's production was up 0.5%, with Idaho up 2.7%, and Texas up 11.7%. Of the 23 reporting states 10 had fewer cows, 3 had less milk per cow and 6 had lower total milk production.

Milk prices ended the year much improved over prices during the first half. The Class III averaged just \$13.48 for the first half, but improved to \$16.25 for the second half. Class III was \$16.76 for November and the high for the year of \$17.40 for December. The Class IV price averaged \$13.18 for the first half and \$14.36 for the second half and the high for the year of \$14.97 for December.

The Class III price improved with CME butter prices above \$2.00 per pound since mid-December, higher cheese prices and higher dry whey prices. On the CME 40-pound block cheddar cheese averaged \$1.7335 in December and cheddar barrels averaged \$1.6132. Dry whey prices were in the \$0.20's per pound the first seven months of the year improved to \$0.40 by December. Butter above \$2.00 per pound and nonfat dry milk which averaged \$0.89 per pound in November reached \$1.02 the end of December improved the December Class IV price.

Despite relatively high stocks December prices held for butter and cheese. December 31st butter stocks increased from November and were 12.8% higher than a year ago. Total cheese stocks also increased from November and were 5.3% higher than a year ago.

Good sales of butter and cheese and improved exports held up prices. Compared to a year ago, November exports were up 10% for cheese, 131% for butterfat, 32% for nonfat dry milk/skim milk powder, and 47% for whey products. The volume of November exports were the highest in 18 months and on a total solids basis were equivalent to 15.8% of U.S. milk production.

Forecasts are for improved milk prices in 2017. USDA is forecasting the average number of milk cows to increase 0.4% and milk per cow to increase 1.8% resulting in 2.2% more milk to be produced. With that relatively strong production increase how much milk prices increase will depend upon continue good butter and cheese sales and continued growth in dairy exports. Continued growth in the economy and improved consumer confidence spells well for good sales. Milk production for four of the major exporters—EU, New Zealand, Australia and Argentina—are expected to be lower than a year ago and not expected to show increases any time before the second half of the year. U.S. is the only major exporter experiencing higher milk production. World demand is also improving with more activity from

China, Southeast Asia and others. The world supply and demand is slowly tightening and world dairy product prices are increasing. These are favorable factors for growth in U.S. dairy exports.

The January Class III price will fall from the December high but the January Class IV price will be higher. Butter has fallen from its January high of \$2.30 per pound to \$2.2175 and is expected to fall some more. CME 40-pound block cheddar started January at \$1.67 per pound, peaked at \$1.75, but has fallen to \$1.64. Cheddar barrels started January at \$1.595 per pound, peaked at \$1.6975 and have fallen to \$1.48. Dry whey prices continues to strengthen is trading as high as \$0.48 per pound giving support to the Class III price. Nonfat dry milk prices have also fallen to \$0.995 per pound, but should show strength in the months ahead. The January Class III price could be about \$16.50 and the Class IV price near \$16.00. But, unless cheese prices rebound the Class III could fall below \$16 for February. But, Class III should stay in the \$16's through May or June and then move into the \$17's for the remainder of the year. The Class III price could average more than \$2.00 higher than 2016. The Class IV price could be in the \$16's first quarter than in the \$17's for the remainder of the year. Any changes in expected milk production, sales or exports could result in quite different prices. Dairy producers may want to use some price risk management tools to take advantage of relatively high Class III and Class IV futures. Currently Class III futures are averaging \$17.52 for the year and Class IV futures \$17.19.

Robert Cropp

racropp@wisc.edu

University of Wisconsin-Madison.