The relative increase in milk production is showing strength. Compared to a year ago U.S. milk production was estimated to be up 1.5% for May and 1.9% for June. These are relatively strong increases considering a year ago May production was running 1.2% above the previous year and June's production was 1.6% higher. Year ago milk production per cow is not available, but one would assume that milk per cow is improving as producers feed for higher production with lower feed costs and favorable margins as well higher quality forges now available. Dairy producers are also adding milk cows. Dairy cow slaughter is 11% lower than a year ago thus far this year. No doubt more dairy replacements are being brought into the herd as well. Milk cow numbers started to increase last December, increased by 11,000 head in June and by 64,000 head this year.

Compared to June a year ago milk production was up in Western states by 2.1% in Arizona, 1.7% in California, 2.1% in Idaho, 1.3% in New Mexico and a strong 8.3% in Texas. Increases for the Northeast were Michigan 3.2%, New York and Pennsylvania just 0.3% and 0.2% respectively with Ohio continuing to see a decline of 1.5%. Production was up for Upper Midwest states with Iowa up 1.0%, Minnesota just 0.1% and Wisconsin 0.6%. South Dakota continued to show a strong increase of 5.4%.

Despite the relative increase in milk production picking up dairy product prices and resulting milk prices has held up. On the CME butter prices averaged $2.263 per pound in June but will average higher in July. As July 18th butter had increased to $2.48 per pound. Several factors support strong butter prices. Cream supplies have been tight keeping butter production lower than a year ago. Butter exports through May were 80% higher than a year ago. Domestic sales have been higher. The result is lower butter stocks. Butter stocks on May 31st were 40% lower than a year ago. The question is how long will butter prices hold? World butter prices have fallen well below U.S. prices and interest by world butter importers in U.S. butter has declined. This already showed up in May when butter exports were 8% lower than a year ago.

Cheese prices have also held. On the CME cheddar blocks were above $2 per pound this year until May 13th, but went above $2 again on May 22nd, only to fall below $2 on July 1st, but to return again to $2 on July 15th. The cheddar block price continued to increase to $2.0275 per pound on July 18th. Cheddar blocks have average above $2 or every month through June and this will continue for July. Cheddar barrels were above $2 per pound through May 13th, returned to $2 on May 18th, below $2 again on July 1st but above $2 again on July 14th. The price of barrels also continued to increase and was $2.07 per pound on July 18th. Barrels averaged above $2 every month through April and in the high $1.90’s since then. These prices have held despite May production of cheddar cheese 2.5% higher than a year ago and total cheese production 2.2% higher. But domestic sales have been good and exports have been strong being 15% higher than a year ago in May and 34% higher year-to-date. Stocks of American cheese were 8% lower than a year ago on May 31st and total cheese stocks 7% lower. But, as with butter cheese prices are now higher than world prices and interest in further exports has declined.

Nonfat dry milk prices have weakened. Nonfat dry milk averaged $1.9395 per pound in June and will average about $1.85 in July. May exports were 8% higher than a year ago. While May production of nonfat dry milk was 8.7% higher than a year ago May 31st stocks were still 4% lower. But, like butter and cheese nonfat dry milk prices are now higher than world prices.
Dry whey prices have held near the June average of $0.6569 per pound. In May dry whey production was 5.6% higher than a year ago and exports were 2% higher. May 31st stocks were slightly lower than a year ago at -0.6%.

The Class III price peaked this year at $24.31 in April was $21.36 in June and the July Class III price will be about $21.50. The Class IV price was as high as $23.66 in March, was $23.13 for June and with higher butter prices it will be near $23.45 for July. Milk prices no doubt will trend lower as we move through the year and into 2015. With feed prices lower than a year ago margins to dairy producers will remain favorable for increasing milk production. Cow numbers will continue to increase as producers add cows through reduced culling and bringing in more dairy replacements. Producers will feed for higher milk production per cow and forage quality should improve from what was available last winter. The result will be a higher relative increase in total milk production for the remainder of the year going into 2015. World milk production is also increasing pushing world dairy product prices lower. Lower world prices will put downward pressure on U.S. prices in order to maintain dairy exports. Current Class III futures fall to $19.09 by December and stay well above $18 through first quarter of 2015. The Class IV price falls to $18.95 by December and remains well above $18 for first quarter of 2015. If the increase in milk production picks up as anticipated and world prices puts some downward pressure on U.S. dairy product prices, these dairy futures prices may be a little optimistic. But that said no sharp decline in prices well below $18 is anticipated in the foreseeable future.

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