Despite relatively strong milk production, increasing stocks of dairy products and weak exports dairy product prices surprisingly have strengthened in June. On the CME, butter which averaged $2.0554 per pound in May is now $2.36. Barrel cheese and 40-pound block cheese which averaged $1.3529 per pound and $1.3174 per pound respectively in May is now $1.545 and $1.5125 respectively. Nonfat dry milk which averaged $0.7880 per pound in May is now $0.88. And Western dry whey has strengthened and is trading as high as $0.26 per pound. So we can expect the Class III price which was a low of $12.76 in May to be near $13.25 in June, and the Class IV price which was $13.09 in May to be near $13.79 in June.

Sales of butter and cheese have been good particularly in food service. But, exports have been weak with April exports compared to a year ago lower by 19% for nonfat dry milk/skim milk powder, 33% for cheese, 44% for butter, 13% for dry whey products and 22% for lactose. Compared to a year ago, April stocks of butter were 28.3% higher, total cheese stocks 11.8% higher, nonfat dry milk stocks just 1% higher, but 17.1% higher than the five year average for this date, and dry why stocks were 4.6% higher. So the question is will these dairy product prices hold or even increase more? If so, milk prices will be considerably higher for the remainder of 2016 than what has been forecasted. USDA’s June forecast still had the Class III price averaging for the year $13.40 to $13.80 and the Class IV price averaging $13.15 to $13.65. Class III averaged $15.80 last year and the Class IV price averaged $14.35.

Both Class III and Class IV futures have responded to higher dairy product prices. Currently Class III futures jump to $15.05 for July and then in the $16’s August through November with December in the high $15s. Class IV futures jump to $15.59 for July and then the $16’s for the remainder of the year. The price of corn, soybean meal and alfalfa hay have all increased. So these higher prices are much needed to improve margins for dairy producers.

Whether these dairy product prices hold or improve even more and increasing dairy producer prices will depend a lot upon the level of milk production. USDA’s report of May milk production shows a continuation of relatively strong milk production with May being up 1.2% from May a year ago. But, the report shows milk cows have stop increasing and have been at 9.327 million head for the past three months, and were just 3,000 head higher than a year ago. The increase in milk production is being driven by more milk per cow. Last year milk per cow increased well below trend at just 0.6%. Milk per cow for May was 1.2% higher than last year.

The regional pattern in milk production remains as it has last year and thus far this year. Milk production remains very strong in the Northeast with production up 4.9% in New York, 6.9% in Michigan, but just 0.3% in Pennsylvania. Milk production also remains strong in the Midwest with production up 2.3% in Iowa, 2.2% in Minnesota, 9.5% in South Dakota and 4.2% in Wisconsin. The picture is somewhat mixed in the West with California continuing to see milk production 2.8% lower, New Mexico down 3.8%, Washington’s production unchanged, and increases of 2.3% in Arizona, 1.8% in Idaho, 1.4% in Texas, 4.1% in Colorado and 2.2% in Oregon.

This improvement in dairy product prices and milk prices is driven by expected strong butter and cheese sales, but also by an expectation that milk production could slow down due to lower milk prices, but also
weather. Weather forecasts show that with La Nino conditions there is a high probability of hot and humid temperatures and dry conditions for the Central, Midwest and Northeast regions. Grain prices have also moved higher for the same weather conditions. These weather conditions would reduce milk per cow lowering milk production, lower milk composition, and reduce grain yields as well as forage supply increasing feed costs. There is also signs that world milk production may start to slow. Low milk prices appears to be affecting milk product in New Zealand and Australia and starting to do so in the EU. As world milk production slows world dairy product prices will improve. China may start to increase its imports of dairy products. So U.S. dairy exports could slowly improve during the second half of the year.

So the dairy picture looks a little brighter now than it did just a month ago.

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