

Dairy Situation and Outlook, March 17, 2008
By Bob Cropp, Professor Emeritus
University of Wisconsin Cooperative Extension
University of Wisconsin-Madison

Milk prices fell in February but may average a little higher for March. The Class III price was \$19.32 for January but fell to \$17.03 for February. The March Class III price may average a little higher than the February Class III price. The word “may” is used here because of the time lag between CME cheese prices and NASS survey of and reporting of cheese prices used in the Class III product price formula. The NASS prices for the first week that will be used for the March Class III were \$2.0452 per pound for 40-pound cheddar blocks and \$2.1055 for cheddar barrels. CME cheese prices have fallen since then beginning with the February 28th trading session. As of March 17th, 40-pound blocks had fallen 36 cents to \$1.73 per pound and barrels 33.75 cents to \$1.69 per pound. NASS survey prices used for the March Class III will be driven by what happened to CME cheese prices the weeks beginning February 18 and 25 and March 3, 10 and 17. So if CME cheese prices fall much further this week, the March Class III price may not end up higher than February’s.

Up until this time cheddar cheese price have held up surprisingly well considering increases in milk production. But, due to cheddar cheese plant closings, previous unfavorable cheese operating margins and reluctance on the part of buyers and cheese plants to carry un-necessary inventories when cheese prices are relatively high, cheddar production has been below year-ago levels. As of January, cheddar production was still 4.5% below a year ago. Less production kept stocks tight. As of January 31st, American cheese stocks were down 9.7% from a year ago.

An earlier Easter Holiday and store specials have resulted in a strengthening of butter prices despite higher butter production and stocks. As of March 17th CME butter was \$1.355 per pound compared to \$1.3175 a year ago January 31st butter stocks were 26.4% higher than a year ago. Nonfat dry milk prices remain low compared to a year ago as production and stocks build. West nonfat dry milk prices are \$1.20 to \$1.30 per pound. Dry whey prices also remain lower at 22 to 26 cents per pound. January 31st stocks of dry whey were 91.7% higher than a year ago.

USDA’s report on milk production for the month of February showed total production for the 23 reporting states up 2.4% from a year ago, adjusted to 28 days. This is a little less than the 2.7% increase for the month of January. Milk cow numbers, which began to build month to month beginning with May of last year stood at 1.6% higher than a year ago. But, just 0.8% more milk per cow held down the increase in total milk production. High feed prices and a deterioration of the milk-feed-price ratio may partially explain the lower performance in milk per cow. Milk per cow was substantially lower than a year ago in several states: California - 0.7%, Arizona – 2.0%, Indiana -2.2%, Iowa – 4.6%, Kentucky -2.6%, Michigan – 2.9%, Minnesota – 0.9%, Missouri – 4.3%, Oregon – 10.4%, Pennsylvania -1.5%.

Compared to February a year ago and adjusted for 28 days, total milk production for the leading five dairy states that produce over 50% of the milk was: California +1.9%, Wisconsin +0.8%, New York +3.4%, Idaho +7.2% and Pennsylvania – 1.0%. February milk production for some of the other key dairy states was: Florida -2.9%, New Mexico +8.1%, Texas +12.0%, Michigan

+1.8%, Ohio +2.1%, Iowa -2.3% and Indiana – 1.2%. We can expect milk cow numbers to continue to build at least for the first half of the year. Lower milk prices and high feed prices may encourage heavier slaughter of dairy cows as the year progresses. But, dairy replacements are about 3% higher than a year ago that will allow for continued expansion in cow numbers. There may also be another round of CWT in 2008. But, as of now milk production could grow well over 2% for the year.

Commercial disappearance is likely to grow slower in 2008, the result of a slow growth in the economy and relatively high dairy product prices and high gas prices. But, some of this slow down in domestic milk and dairy product sales will be offset by an expected further growth in dairy exports. In 2007, dairy exports on a total milk solids basis, was equivalent to 9.3% of U.S. milk production. Exports of nonfat dry milk and dry whey have slowed in recent months but are expected to improve as summer approaches. World demand for milk proteins, cheese and butter remain strong. The continuation of the effects of the Australian drought, and now drought in New Zealand will be factors contributing to increased U.S. dairy product exports. EU is allowing member countries to expand their milk quotas by 2% beginning April 1st and reports are that milk production is already favorable in some countries. But, much of this increases in milk production is targeted for domestic consumption. Increased exports may raise nonfat dry milk prices by summer and fall to \$1.40 per pound or even higher and dry whey prices back in the \$0.40s per pound, but both staying below the record highs of 2007.

We can expect some further decrease in cheddar cheese prices and dropping below \$1.70 per pound in April and May but staying relatively favorable. Class III prices from April to July of \$16.00 plus now seem reasonable. With some strengthening of cheese prices and dry whey prices by late summer and fall, a \$17.00 Class III is quite possible by September and October. At this time Class III futures is showing such a pattern. But, any major changes in milk production, growth domestic sales or dairy exports can change the milk price outcome.

Robert Cropp
racropp@wisc.edu
University of Wisconsin-Madison