Dairy product prices and in turn farm milk prices are holding steady. On the CME, butter started out in March at $1.78 per pound and has declined to $1.68. But, cheddar cheese actually showed strength with 40-pound blocks going from $1.545 to $1.57 per pound, but declined to $1.55 on the 19th. Barrels went from $1.4925 to $1.56 per pound, but declined to $1.52 on the 19th. Nonfat dry milk prices for the West were below $1 per pound and have strengthened to around $1.05. Dry whey prices have weakened some from $0.48 to $0.45 per pound. Both the March Class III and Class IV price will be a little higher than in February, but much lower than a year ago. The March Class III price will be near $15.55 compared to $15.46 in February and $23.33 a year ago. The March Class IV price will be near $14.15 compared to $13.82 in February and $23.66 a year ago.

Reports of continued good sales of butter and cheese have supported these dairy product prices. The last stock report was for January 31st stocks. Other than nonfat dry milk stocks, stocks levels remain fairly tight. Butter stocks were just 2.9% higher than a year ago with American cheese stocks 0.3% higher and total cheese stocks 2.7% higher. But, nonfat dry milk stocks were 60.8% higher. The growth in nonfat dry milk stocks was the result of production being 19% higher than a year ago and January exports 10% lower. Over 50% of nonfat dry milk production was being exported a year ago with this dropping to just 37% in January.

Dairy exports have not been a factor in stable prices for butter, cheese or dry whey. According to the US Dairy Export Council, dairy exports were at their biggest slump in January since 2012. Compared to January a year ago, butterfat exports were down 75%, cheese down 26%, dry whey down 15% and lactose down 23%. On a total milk solids basis January exports were just 11.2% of U.S. milk production compared to a high of 17.7% for March of last year and an average of 15.4% all of last year. While world prices seem to have bottomed out and now show some strength U.S. product prices are still not competitive on the world market with the strength in the U.S. dollar. Dairy exports are expected to improve some the last half of the year as China increases its imports, Russia lifts its ban on imports from the EU countries and a slower growth in world milk production than last year.

It still appears that milk prices may not fall as low this spring as earlier predicted and also be a little higher for the last half of the year. Dairy futures have declined some the last few days but still remain optimistic with Class III over $16 by June, over $17 by September and holding at that level through the remainder of the year. Class IV futures are over $15 by July and $16 by September and holding at this level for the remainder of the year. But, with milk production entering the seasonal flush and exports soft these prices could be optimistic, at least through July. It will depend a lot on milk production for the months ahead. Lower feed prices than a year ago only partially offset much lower milk prices so margins to producers are also much lower than a year ago. The January milk-feed-price ratio was 2.09 compared to 2.46 a year ago.

Current trends in milk production are supportive of higher milk prices. Compared to a year ago, U.S. milk production was estimated to by 2.2% higher for January, but just 1.7% higher for February. The number of milk cows continue to increase, but at slow pace with just 3,000 head more than January. Of the 23 reporting states, just two states, California and Pennsylvania had fewer milk cows than a year ago, five had the same number of cows and sixteen had more cows. For the U.S., the number of cows was 1.1%
higher than a year ago. Five states had lower milk per cow, two had no change and 16 had more milk per cow. The slow down in the growth in milk production was a small increase in milk per cow of just 0.5%. Only two states had less total milk production than a year ago, California and New Mexico.

It is significant that the leading milk producing state continues to experience a decline in milk production. Compared to a year ago, California’s milk production was down 2.6% in January and 3.8% in February. While California had 0.1% fewer cows, lower milk production was due to 3.7% less milk per cow. The second leading dairy state, Wisconsin had 0.5% more cows and 3.9% more milk per cow increasing milk production by 4.3%. Milk production was relatively strong in other Upper Midwest states with Minnesota up 4.3%, Iowa up 4.8%, and South Dakota up 9.6%. In the Northeast, milk production was up 2.3% for New York, 2.0% for Pennsylvania and 2.4% for Ohio with Michigan up 7.8%. Milk production increases for some other states show Texas up 4.2%, Idaho 1.5%, and Arizona 2.9%. Even Florida had an increase of 4.3%.

We can expect total milk production to pick up during the spring flush that could strain the capacity of some manufacturing plants in the Upper Midwest and the Northeast and put some downward pressure on milk prices. But, if the growth in milk production compared to a year ago continues less than 2% as it did in February, then there is optimism that milk prices could average higher than earlier forecasted, but still average $6 to $7 lower for the year than last year.

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