USDA’s milk production report shows milk production for the 23 reporting states for April was up a strong 2.5% from a year ago. But an even stronger increase was held back by poorer performance per cow. While milk cow numbers stood 1.8% higher than a year ago, milk per cow was up only 0.7%. This relatively low increase in milk per cow may be attributable to reduce use of rBST and high feed prices. Fifteen of the 23 states reported less milk per cow and 15 reported more or the same number of milk cows as last year. But, while feed costs are substantially higher current milk prices still result in favorable returns over feed costs.

Less milk per cow was reported in several major dairy states: California -0.8%, Idaho -2.2%, Minnesota -2.5%, Iowa -2.3%, Michigan -4.7% and Pennsylvania -1.2%. Cow numbers have been increasing month-to-month since May of last year. If milk per cow does improve, these additional cows will result in much greater increases in milk production.

Compared to a year ago, April milk production for some of the key dairy states was: California +1.8%, Idaho +6.2%, New Mexico +13.5%, Texas +12.7%, New York +3.9%, Pennsylvania – 1.4%, Michigan -0.6%, Wisconsin +1.3%, Minnesota -0.8%, and Iowa no change. The strong growth in Texas was due to dairy herd expansion that showed 6.6% more milk cows and 5.6% more milk per cow.

Despite more milk production cheese prices have been on the rise and strong cheddar cheese prices have been the driver of milk prices. Cheddar cheese is the only cheese traded on the CME. Cheddar cheese production fell 2.1% for all of 2007 and continues below year ago levels with March production down 1.7%. Most noticeably was the decline in California. California, the second largest total cheese producer and cheddar cheese producer, produced 10.7% less total cheese and 20.7% less cheddar cheese in March compared to a year ago. Consequently stocks remain tight with March 31st American cheese stocks 7.5% lower than a year ago. As of May 20th, CME cheddar blocks were $2.13 per pound and barrels $2.09 per pound. Cheese prices did fall in April but surprisingly have shown strong increases since then. Since early April cheddar blocks have increased 28 cents per pound and barrels 40 cents per pound. Cheddar cheese prices are used in the Class III formula. While weakness in cheddar prices lower the April Class III price to $16.76, down from $18.00 in March, the recovery in cheese prices will result in a May Class III price above $18.00. CME butter prices have also strengthened to $1.50 per pound as have nonfat dry milk prices to around $1.30 per pound, the two prices that drive the Class IV price. But, Class IV prices have stayed below the Class III price. The April Class IV price which was $14.56 will increase to around $15.40 for May. Higher cheese prices has meant that the advanced Class III price and not the advanced Class IV price has been the mover of Class I milk prices.

Strong exports have also helped to strengthen cheese and butter prices. Compared to the first quarter a year ago, cheese exports were 54.4% higher and butter exports 798.6% higher. Nonfat dry milk exports were also high at 73.5%. But, dry whey exports were 5.5% lower.
Class III futures are above $20 June 2008 through December of this year and above $19.00 January through March of 2009 and beyond that through April of 2010 above $18.00. These prices may or may not come true. Market prices continue to surprise many price forecasters. Much higher feed costs resulting in much higher milk production costs per hundredweight is partially credited for a slower response by dairy producers to favorable milk prices in increasing milk production. But, despite higher feed costs, if farm milk prices do result as the futures market is now showing, there will be profitable returns to dairying. Dairy producers in the nation as a whole do respond to milk prices received in relation to costs of production. As previously indicated, with the beginning of May of last year each month dairy producers have added milk cows. Unless milk prices do decline to a Class III price of about $16.00 cow numbers are likely to continue to increase and milk production is likely to continue to increase at a rate of at least 2%. Milk prices can hold if commercial disappearance also grows 2 percent or more. But, if the economy continues to slow and gas and food prices continue to increase, we can expect some slow down in consumer demand for milk and dairy products. Some of this slow down may be offset by expected continued favorable exports of butter, nonfat dry milk, dry whey and cheese. But, all said and done, the chances of Class III prices for the remainder of this year and going into 2009 and beyond holding at current Class III futures prices is less than prices turning out lower.

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