USDA’s report on April milk production shows milk production continuing well above year ago levels. It is estimated that U.S. milk production was 1.5% higher than April a year ago. In fact, the estimated 16.383 billion pounds is a record for the month of April. Contributing to this increase in milk production is more milk cows and a strong increase in milk per cow. While milk cow numbers were 2.0% below a year ago cow numbers are no longer declining month-to-month and have increased by 14,000 head since last December. The increase in milk per cow has more than offset fewer milk cows in several states. Of the 23 reporting states 15 had fewer milk cows but only one state, Virginia had less milk per cow. For the U.S. milk per cow was estimated to be 3.5% higher than a year ago. While milk prices have yet to recover from the lows of a year ago, prices have been about $3.00 higher and with lower corn and hay prices than a year ago returns over feed costs have improved and, as a result, it appears producers are feeding for increased milk production.

The extent of the decline in milk production that was occurring in Western states has subsided. For example, both California and Idaho experienced declining cow numbers and total milk production in 2009. Compared to April a year ago, California still had 3.8% fewer cows, but this was offset by about 4.0% more milk per cow. Idaho had 0.5% more cows producing 2.8% more milk resulting in an increase of 3.3% in total milk production. Arizona, New Mexico and Texas each had fewer cows, but improved milk per cow lowered the decline in milk production from a year ago when compared to recent monthly declines. Milk production was down 4.9% in Arizona, 1.7% in New Mexico and 2.2% in Texas. Washington continues to increase milk production, up 7.2% from 4.1% more cows and 2.9% more milk per cow.

In the Northeast, while both New York and Pennsylvania had fewer milk cows, more milk per cow netting increases in milk production of 1.7% and 2.8% respectively. In the Midwest, milk production continues well above year ago levels with more cows and good production per cow. Both Wisconsin and Minnesota had 0.4% more cows. Milk per cow was up 5.8% in Wisconsin and 2.8% in Minnesota. As a result milk production was up 6.2% in Wisconsin and 3.3% in Minnesota.

With milk production continuing well above year ago levels it is taking more time to work down the rather high level of cheese stocks. The high level of cheese stocks has been a major factor slowing the recovery of milk prices. Total cheese production was running 2.3% higher than a year ago in March, with cheddar production just 0.8% higher. While reports are mixed cheese sales appear to have improved. In particular mozzarella cheese and other Italian cheese sales have improved with the growth in pizza sales by major pizza makers as well as some improvement in restaurant business. But, at the end of March American cheese stocks were still 9.5% higher than a year ago, and total cheese stocks at slightly more than 1 billion pounds was 9.4% higher and the largest March level since 1984. As a result, cheddar cheese prices have been rather weak. On the CME 40-pound blocks were $1.51 per pound early April, but declined to $1.36 by April 20th. But, beginning the week of May 10th the price has increased each trading
session with the May 18th price at $1.475. Similarly, barrels were $1.455 early April, declined to $1.345 by April 20th but increased to $1.43 as of May 18th. With this latest milk production report, cheese prices may not increase further or even hold in the short run. Dry whey prices have held in the $0.37 to $0.42 per pound range in the West to add support to the Class III price. The Class III price was $12.92 in April may improve to around $13.30 for May.

March butter production was 4.3% below a year ago and March 31st butter stocks 7.5% below a year ago. Butter sales have been favorable. Since the end of April CME butter has been $1.60 or more per pound. But, prices declined each of the last two trading sessions, may 17th and 18th to $1.5825. Western nonfat dry milk prices have been $1.22 to $1.32 per pound. These relatively higher butter and nonfat dry milk prices as compared to cheese resulted in the April Class IV price being higher than Class III at $13.73.

Milk prices will continue to improve as we move through the year. The speed and extent of improvement depends upon milk production, domestic sales and dairy exports. Earlier milk production was forecasted to decline for the second consecutive year bringing with it much improved milk prices in 2010. It now looks like milk production could actually increase in 2010. USDA is predicting a 0.5% increase. While dairy cow slaughter is now running higher than a year ago the ample supply of dairy replacements is more than enough to maintain the total number of milk cows. Also while milk prices are not at the level earlier anticipated they have improved enough to help many producers to cash flow. With higher milk prices and lower feed costs returns over feed costs are more favorable. The price of corn is about 10% lower than a year ago and 30% lower than two years ago. Soybeans are 3% lower than a year ago and 21% lower than two years ago. The average U.S. alfalfa hay price is 14% lower than a year ago and 30% lower than two years ago. Improved returns over feed costs and higher producing dairy replacements entering the dairy herd has helped to increase milk per cow and is now running more than 3% above a year ago.

Domestic sales may grow in 2010 by around 1% and the volume of dairy exports is expected to grow 12% or more. First quarter exports for all products were up from a year ago. Increases for the first quarter were as follows: nonfat dry milk/skim milk powder 7%, whey proteins 29%, lactose 19%, cheese 33%, and butterfat 83%. If milk production does increase but no more than 1%, milk prices will continue to strengthen. The Class III price could be above $14.00 by July, in the high $15’s by October and peaking above $16 by November. But, final prices lower or higher than this are possible. It all depends upon how milk production, domestic sales and exports play out as the year progresses.

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