Dairy Situation and Outlook, November 18, 2009
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Milk prices continue their upward trend of improvement. The Class III price, which was $9.97 for both June and July improved to 12.82 for October and will be around $14.05 for November. The U.S. All Milk Price which was $11.30 for both June and July improved to $13.80 for October and will be around $15.10 for November. Prices will continue to improve for December and as we move through 2010. With higher milk prices returns over feed costs are also improving. With the harvest of corn and soybeans not finished, and some concerns about the quality of the corn harvested, it is not certain where over-all feed costs will be this winter. Corn prices have been bouncing around with prices back in September of $3.25 per bushel. But December futures are now about $4.00 with prices well above $4.00 for winter and spring of 2010. It looks like soybean meal will be cheaper in 2010. Soybean meal, which was around $418 per ton back in June fell to $326 in October and soybean meal futures for 2010 are now near $300. But, the major factor for lower feed costs this winter may be lower cost for forage. Alfalfa hay prices are substantially lower. Compare to October of last year alfalfa hay prices for some key dairy states are lower by as much as 50% in California and Idaho, 25% in New Mexico, 3% in Texas, 9% in New York, 13% in Wisconsin, and on an average, 36% lower for the U.S.

The prices of cheddar cheese, butter, dry whey and nonfat dry milk have all shown substantial increases since summer. Despite relatively high cheese stocks and more cheese production, cheddar cheese prices showed good improvement towards the end of October and continued in November. September 30th stocks of American cheese were 10.5% higher than a year ago and stocks of all cheese 16.3% higher. September production of American cheese was 6.4% higher than a year ago and the production of all cheese 4.4% higher. But, sales of American cheese has been relatively strong with July through August sales up 4.0% from a year ago. Italian cheeses, particularly mozzarella cheese sales have recently shown improved. The question is whether cheese sales will continue to hold once orders are filled for the Thanksgiving and Christmas season. September 30th butter stocks were 23% higher than a year ago. But, September butter production was down 22% from a year ago. Retail stores are featuring butter and butter orders are up. Current butter production is inadequate to fill orders necessitating drawing down of butter stocks. Nonfat dry milk prices have strengthened due to reduced production and some improvement in both domestic sales and exports. September nonfat dry milk and skim milk powder production was 20% lower than a year ago. Much of this reduced production is attributed to the fact that California's milk production is lower and California makes more than 50% of the nation's milk powder. Tightness of nonfat dry milk supplies also has helped to strengthen dry whey prices.

In summary, as of November 18th, CME prices for cheddar barrels were $1.4425 per pound, 40-pound cheddar blocks $1.5825 per pound, and butter $1.525 per pound. Western nonfat dry milk is selling from $1.09 to as much as $1.39 per pound and dry whey from $0.35 to $0.37 per pound. Once holiday orders are filled butter and cheese prices may subside some, but there are positive signs that prices will strengthen further as we move into 2010. Cheese and butter sales, particularly at retail and even some at the restaurant level, are improving. Beverage milk sales are higher with January through September sales up 1.3% from a year ago. World economies are recovery quicker than anticipated and countries like China, Mexico and others are increasing purchases of dairy products on the world market. As of November 5th, the European Union reduced export subsidies to zero except for butter and butter oil. Milk production is increasing at a much lower level than earlier anticipated in both New Zealand and Australia. World market prices are increasing. So we can anticipate U.S. dairy exports to increase for the remainder of this year with further increases in 2010.

But, while domestic and international sales appear to be improving higher farm level milk prices will depend upon milk production continuing to fall below year ago levels. Estimated U.S. milk production feel below year ago levels just 0.1% in August, 0.5% in September, but fell 1.1% in October. Three CWT programs in 2009 removing more than 225,000 cows, and higher slaughter of cows by other dairy producers, resulted in 226,000 fewer cows than a year ago in October, a reduction of 2.4%. Milk per cow was just 1.3% higher than a year ago. The big reduction in cow numbers and milk production continues in the West. Compared to a year ago, October cow numbers were down 10.8% in Arizona, 4.2% in California, 10.8% in Colorado, 5.0% in New Mexico, 1.4% in Idaho and 3.5% in Texas. In the North East cow numbers were down 1.8% for both New York and Pennsylvania. But, in the Midwest cow numbers were 0.4% higher in Wisconsin, 0.6% in Minnesota and unchanged in Iowa. Milk production per cow was either down or up only slightly for Western states whereas milk per cow was 3.1% higher in Wisconsin and 1.9% higher in Minnesota. In summary, compared to a year ago, October milk production was down by 10.6% in Arizona, 5.3% in California, 1.4% in Idaho, 8.9% in Colorado, 0.2% in New Mexico, 1.5% in New York and unchanged in Pennsylvania. October milk production was higher by 2.0% in Texas, 3.5% in Wisconsin, 2.5% in Minnesota and unchanged in Iowa.

If improved domestic sales and dairy exports, as well as further reduction in milk production materialize as anticipated, Class III prices could be above $15.00 and the U.S. All Milk Price approaching $16.25 by second quarter of 2010. By the fourth quarter the Class III price could be near $16.00 and the All Milk Price approaching $17.25. But, we must realize that milk prices are very sensitive to rather small changes in either sales and/or milk production.

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