Voluntary cheese prices have meant volatile Class III milk prices this year. On the CME 40-pound cheddar blocks averaged a low of $1.3174 per pound in May, rebounding to $1.7826 in August only to fall back to $1.6035 in October. The result was the May Class III was $12.76, August $16.91 and October $14.82. The good news is that while November cheese prices have had some rather big price increases as well as decreases overall cheese prices have shown surprising strength in November to the point that the November Class III could be near $16.75. During November 40-pound cheddar blocks started out at $1.80 per pound, were as high as $1.9425, and barrels started at $1.73 per pound and were as high as $1.86. As of November 18th prices were lower with 40-pound blocks at $1.91 and barrels at $1.75. After Christmas season cheese orders are filled cheese prices are likely to weaken resulting in a Class III in the low $16’s for December. The Class III price will average near $14.75 for the year compared to $15.80 last year and $22.24 for 2014.

Despite adequate cheese stocks we have seen this price increase. September 30th American cheese stocks were 6.5% higher than a year ago. But, continued good cheese sales have tightened the availability of fresh 40-pound block cheddar cheese while stocks of more aged cheese are much more plentiful. Stocks of cheddar barrel cheese have not been as tight explaining the rather large existing price spread between blocks and barrels. Cheese prices were not helped by exports. September cheese exports were just 0.6% lower than a year ago, but 20.5% lower than strong exports in 2014. Higher cheddar cheese prices may be partially explained by cheese production. While the production of Italian types have been running more than 4% higher than a year ago cheddar cheese production was 0.5% lower in September and 0.8% lower year to date. Total cheese production was 1.6% higher in September and 1.9% higher year-to-date.

Class IV prices have not been as volatile. CME butter averaged over $2 per pound January through September before dropping to an average of $1.8239 for October. But, strong buying to build inventory for the peak holiday sales has pushed butter prices back up. At the start of November butter was $1.86 per pound and now is $2.03. Nonfat dry milk prices slowly strengthened reaching an average of $0.916 per pound in September, but fell back some to $0.8852 for October and has now increased to $0.90. Class IV was a low of $12.68 in April, a high of $14.84 in July dropping to $13.66 in October, and will be near $13.80 for November. The interest in U.S. butter picked up in September with exports 137% higher than a year ago, but still 30% lower than September 2014 exports and 73.5% lower than 2014 exports year to date. Nonfat dry milk/skim milk powder exports have held up with September exports 10% higher than a year ago, and year to date exports 5% higher and even 3% higher compared to 2014.

Looking ahead into 2017 milk prices will depend a lot on the level of milk production. Milk production continues to run well above year ago levels with October production up 2.5%. Milk cow numbers have been declining falling by 6,000 head since peaking in August. Of the 23 reporting states 11 had fewer cows than a year ago. But, more milk per cow is driving the
increase in milk production. Milk per cow was 2.3% higher than a year ago. Of the 23 reporting states just 3 had lower milk cow than a year ago.

After having lower milk production than a year ago for 23 consecutive months California had 1.8% more milk in October than year ago from 2.5% higher production per cow more than offsetting 11,000 fewer cows. Other West/Southwest states experienced strong increases in milk production with Idaho up 4.1% and Texas up 8.2%. In the Northeast production was up 4.9% in Michigan, 4.7% in New York, and 2.2% in Pennsylvania. A similar story for the Upper Midwest with production up 4.3% in Iowa, 1.9% in Minnesota, 4.4% in South Dakota and 2.2% in Wisconsin. Of the 23 states just 3 experienced lower milk production –Florida 3.3%, Utah 5.5% and Virginia 2.1%. Milk production for the year will end up about 2% higher than 2015. While milk cows will average just 0.1% higher milk per cow will be about 1.7% higher.

USDA is forecasting 2017 milk production to increase another 2.1%. That is a lot of milk. But, we can expect high milk prices from continued good butter and cheese sales as well improved exports as we move through next year. The growth in world milk production has slowed as major exporters—EU, New Zealand, Australia and Argentina—all are experiencing lower milk production with either a decline or relatively small increases for 2017. U.S. is the only major exporter experiencing higher milk production. World demand has picked up with China and other major importers being more active. This tightening of world supply and demand will reduce the buildup of world surplus increasing world dairy product prices making U.S. dairy products more competitive on the world market. World prices are already showing strength. Prices on the Global World Dairy Trade have strengthened for 7 of the last 8 trades.

As of now it looks like the Class III price maybe in the high $15’s at the start of 2017, in the low $16’s by the end of first quarter, in the mid-$16’s by second quarter, higher $16’s third quarter and with the $17’s as a possibility fourth quarter. The average for the year could be near $16.50, a good improvement over the expected $14.75 this year. This is more optimistic than USDA and some other forecasters are forecasting. USDA has the Class III averaging from $15.30 to $16.20. But, final milk prices will be subject to any rather small changes in milk production, sales, or exports.

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