

Dairy Situation and Outlook, November 20, 2017
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USDA's milk production report for the U.S. showed October milk production picking up a little with October production 1.4% higher than a year ago compared to September 1.0% higher. This is a lot of milk considering that last year milk production was running 2.5% higher than a year ago. The October increase was the result of 0.7% more cows and just 0.6% more milk per cow. In the West California's production was down 1.5%, Idaho up just 0.2%, Arizona up 6.6% and Texas up 5.3%. In the Northeast New York had a slight decline in production, with Michigan up 3.3% and Pennsylvania up 0.7%. Milk production was relatively strong in the Midwest with Iowa up 4.0%, Minnesota 2.9%, South Dakota 3.7% and Wisconsin 2.3%. Overall the increase in milk production will put some downward pressure on milk prices.

The September Class III price was \$16.36. The normal seasonal increase dairy product sales helped to increase the October Class III price to \$16.69. The November Class III maybe up slightly to around \$16.80. But, dairy product prices have declined meaning the December Class III price could fall below \$16.00 to around \$15.45. The average for the year will be around \$16.15 compared to \$14.48 last year. The Class III price is driven by the price of butter, cheddar cheese and dry whey. The price of butter on the CME averaged \$2.65 per pound in August, but has declined steadily since to now \$2.21 per pound. The amount of the price declined is a little surprising in that September butter production was 0.3% lower than a year ago and September 30th stocks were 4.5% lower than a year ago. But, butterfat exports which had been running higher than a year ago fell 16% in September resulting in year-to-date exports up just 9%. Butter fat exports had been aided by the price of Europe butter higher than U.S. butter. But, in recent weeks the price of Europe butter has fallen reducing the competitiveness of U.S. butter on the world market. The price of butter could still fall further but stay above \$2.00 per pound.

Cheddar cheese prices were above \$1.70 per pound in October and the first two weeks in November. But, both cheddar blocks and barrels are now below \$1.70 per pound. Barrels are \$1.64 and blocks \$1.60. Cheese stocks remain ample with September 30th American cheese stocks 4.7% higher than a year ago and total cheese stocks 5.7% higher. Cheese production has been relatively strong with September production of cheddar cheese 4.5% higher than a year ago and total cheese production 2.7% higher. Domestic cheese sales have been fair. But, cheese prices have benefited from higher exports. September cheese exports were 23% higher than a year ago and 24% higher year-to-date.

Dry whey production has been much higher than a year ago with September production up 20.4%. Dry whey exports did improve in September being 25% higher than a year ago leaving year-to-date exports up 13%. But, stocks continue to build to a burdensome level with September 30th stocks 107.5% higher than a year ago. Dry whey prices which were \$0.50 per pound early May are now in the low \$0.30's taking about \$0.90 off the Class III price.

The Class IV price peaked this year at \$16.61 in August and has been declining since. The October Class IV price was \$14.85. The November Class IV price will about \$14.00 with December near \$13.85. The average for the year will be around \$15.20 compared to \$13.77 last year. The Class IV price is driven by the price of butter and nonfat dry milk. Both prices have fallen. The price of nonfat dry milk is heavily depended upon exports. Exports of nonfat dry milk/skim milk powder were higher than a year ago for the first half of the year, but have been declining since. September exports were 31% lower than a year ago and are now just 5% higher year-to-date. U.S. exports are experiencing competition from EU and

Canada. According to U.S. Dairy Export Council EU exported 43% more skim milk powder during January through August than a year ago. Canada with very aggressive pricing with export prices below both EU and the U.S. had increased exports of skim milk powder. Canada was exporting about 1,000 tons of skim milk powder per month but is now exporting 8,000 to 10,000 tons. In addition, Mexico having concerns about the outcome of current NAFTA negotiations has reduced its source of nonfat dry milk imports from the U.S. Mexico last year sourced 94% of its nonfat dry milk from the U.S. This has dropped to 77% as Mexico is now sourcing from both the EU and Canada. As a result the price of nonfat dry milk has fallen to \$0.715 per pound, a level not seen since early last year.

USDA and other forecasters have lowered their price forecast for 2018. Both Class III and Class IV futures for 2018 have fallen. Class III futures are in the \$14's January through May and in the \$15's for the remainder of the year. Class IV futures start the year below \$14 reaching the \$14's by March and the \$15's by August. If these prices hold true, milk prices will average lower than this year. USDA is saying the Class III price in 2018 could average as low as \$15.50 and the Class IV price as low as \$14.15. But, final milk prices will depend upon the level of milk production, domestic sales and exports. USDA is forecasting an increase in 2018 milk production of 1.8% from 0.5% increase in the average number of milk cows and 1.3% more milk per cow. This is a lot of milk following a 1.6% increase forecasted for this year. But, if milk prices start the year near current futures market prices, we could see heavier culling of milk cows and a lower increase in milk per cow.

Domestic sales of butter and cheese should continue to be favorable in 2018. But, a crucial factor in where milk prices end up will be dairy exports. For most of this year milk production for four of major exporters—EU, New Zealand, Argentina and Australia was lower than the year before, U.S. was the exception with increased production. But, milk production has now started to increase in all five exporters meaning U.S. will face strong competition for markets in 2018. Unless there is good growth in world demand to absorb this increase in milk production world dairy product prices will decline. China and others are expected to increase their imports, but world prices have already started to decline which will put pressure on U.S. prices. But, still I feel milk prices will end up higher than current futures market prices particularly for the last half of the year from a little lower increase in milk production and prices supported by domestic sales and exports.

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