Higher U.S. milk production, slowing of dairy exports and higher dairy imports are pushing down milk prices. USDA’s estimated milk production for the month of September shows production 4.0% higher than a year ago. Milk cow numbers only increased 2,000 head from August and were 0.6% higher than a year ago. But, milk per cow was much higher at 3.4% above September a year ago. Milk per cow was above a year ago for each of the 23 reporting states. Of the 23 reporting states 8 had had fewer milk cows than a year ago—California, Illinois, Minnesota, Ohio, Pennsylvania, Vermont, Virginia, and Wisconsin. Only one state, Illinois had less total milk than a year ago. Compared to a year ago, milk production for the top five dairy states was: California +2.9%, Wisconsin +3.2%, Idaho 3.4%, New York 4.5% and Pennsylvania 3.5%. States with the highest relative increase in milk production were: Colorado 10.8%, Texas 9.6%, Kansas 9.2%, Utah 7.8% and Arizona 6.5%.

The latest dairy export report was for August. The report showed that compared to a year ago August exports were 59% lower for butter, 10% lower for nonfat dry milk, 20% lower for dry whey, 36% lower for whey protein concentrate and 11% lower for lactose. But, cheese was still 11% higher. Due to increase in world milk production and China’s much lower dairy imports than earlier in the year world dairy product prices have declined substantially and are considerably lower than U.S. prices lowering U.S. exports.

With world dairy product prices lower than U.S. prices and the strengthening of the U.S. dollar compared to the Euro and Oceania currencies imports of butter and cheese have increased compared to a year ago. For the January through August period butter imports were up about 175% and cheese up 3%. Tight butter stocks were also a factor for butter users to seek butter supplies outside the U.S. As of August 31st butter stocks were still 37.4% lower than a year ago. Cheese stocks were not nearly as tight being just 4.2% lower. As U.S. dairy product prices decline and stock levels increase imports no doubt will decline.

Dairy product prices have declined considerably from where they were back in September with butter prices leading the way. Butter prices normally don’t decline until holiday orders are filled sometime in November. But, this year butter on the CME set a record high at $3.06 per pound on September 19th but as of October 20th prices have fallen to $2.015 per pound. Cheddar barrels were $2.49 per pound back on September 25th and as of October 20th prices had fallen to $2.1075. The 40-pound cheddar blocks were $2.45 per pound on September 19th, fell to $2.14 on October 2nd, but rebounded to $2.325 on October 20th. Dry whey which was $0.65 per pound in September is now $0.60, and nonfat dry milk which was $1.51 per pound early in September is now $1.40.

The Class III price which was $24.60 for September will be near $23.95 for October down to around $19.50 by December. For the year, the Class III price will average near $22.45, about $4.45 higher than the $17.99 average last year. The Class IV price was $25.58 for September, but lower butter prices will put the October price near $22.20 and down to around $17.10 by December. The Class IV price will average near $22.20, about $3.15 higher than the $19.05 average last year. The U.S. All Milk price will average near $23.95 for the year, about $3.90 higher than the $20.05 average last year.
The year will finish with cow numbers averaging about 0.4% higher than a year ago and milk per cow 2.1% higher resulting in total milk production near 206.3 billion pounds, 2.5% higher than last year. The higher milk prices experienced and much lower feed costs than a year ago has resulted in very favorable margins (returns over feed costs) for dairy producers. While milk prices will be lower next year, with lower feed cost margins, while not as high, could still be favorable for increase milk production. Milk cow numbers are likely to increase for much of next year with milk per cow running above year ago levels. USDA is forecasting the number of cows next year to average 0.8% higher with milk per cow averaging 2.2% higher pushing total milk production to 212.5 billion pounds, 3.0% higher. But, this could be on the high side. Dairy producers are more cautious about adding cows knowing milk prices are likely to be lower. Also dairy replacements are rather tight and at a much higher price. Also the price for slaughtered dairy cows will remain relatively high encouraging culling all of which may slow the increase in cow numbers and the increase in milk production.

There is unanimous agreement amongst price forecasters that milk prices will be lower in 2015. But, the opinions vary considerable as usual. Two big uncertainties are what will be the level of dairy exports and how much U.S. milk production will actually increase. As of now it looks like the Class III price could be about $18.25 by January and then falling into the $17s most of the year with the possibility of even being below $17 mid-summer before some strength in the fall. With anticipated much lower butter prices and lower nonfat dry milk prices the Class IV price will likely be in the low $17s or high $16s during the year. The average U.S. Milk price for the year could average $3 to as much $5 lower than this year. Some are forecasting milk prices even lower than this, which is possible. We know that prices are very sensitive to rather small changes in milk production, domestic sales and exports. These factors can change as we move through next year and significantly impact milk prices. Weather conditions not only in the U.S. but major exporters like New Zealand can affect crop conditions and feed cost impacting U.S. and world milk production, and to the extent China comes back importing dairy products, are examples of changes that can have a big impact milk prices next year. Thus, there is considerable risk with milk prices in 2015.

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