Dairy Situation and Outlook, October 20, 2016  
By Bob Cropp, Professor Emeritus  
University of Wisconsin Cooperative Extension  
University of Wisconsin Madison

Milk production continues to run above year ago levels. USDA shows U.S. milk production for the month of September up 2.1% from a year ago. The number of milk cows was just 0.2% higher than a year ago, but the increase in milk per cow was 1.8% higher. While milk cows increased June through August, the number of cows declined by 3,000 head in September, but was up 28,000 since January. Compared to a year ago, milk production continued to decline in California, but down just 0.1% for September, all due to 11,000 fewer cows. Idaho and Texas experienced strong increases of 4.9% and 5.3% respectively. Other states in the West also had strong increases with Colorado up 4.5% and Kansas up 6.3%. There were relatively strong increases in the Northeast with New York up 4.9% and Michigan up 5.8%. The same was true for the Midwest with increases of 5.1% for South Dakota, 4.5% for Iowa, 2.4% for Minnesota and 3.3% for Wisconsin. In the Southeast, Florida’s production continues to run lower down 2.8%.

Despite the relatively strong milk production cheese prices rallied in August pushing up the August Class III price. On the CME, 40-pound cheddar blocks and barrels were a low of $1.275 per pound and $1.28 per pound respectively in May. In August 40-pound blocks peaked at $1.865 and barrels at $1.88. The Class III price was a low of $12.76 in May. The August Class III price had increased to $16.91. This increase was short lived with the September Class III at $16.39 and forecasts for October through December in the low $15’s. While domestic cheese sales continue strong, the increase in milk production and weak exports has increased cheese stock levels putting downward pressure on prices.

August 31st American cheese stocks were 5.0% higher than a year ago and 12.0% higher than the five-year average for this date. August cheese exports increased slightly from a year ago, but were 17% below a year ago January through August and 28.9% lower than 2014 during this period. By October 11th 40-pound blocks had fallen to $1.5175 per pound and barrels on October 13th to $1.4475 per pound. Prices have come back some with blocks at $1.67 and barrels at $1.575, a spread of 9.5 cents compared to a normal spread of 3 to 4 cents. Dry whey prices have improved about 5 cents to around $0.30 per pound adding about $0.30 to the Class III price.

Butter sales have been very good this year. On the CME the price of butter averaged over $2 per pound January and February, $1.96 in March, and again above $2.00 per pound April through August. Prices started to weaken the end of August and fell below $2 per pound on September 19th. Prices continued to decline in October with butter now at $1.755 per pound. Normally butter prices peak in October as we move closer to peak sales during November and December. But, growing butter stocks, weaker exports and more imports has push down prices. August 31st butter stocks were 51.9% higher than a year ago and 58.6% higher than the 5-year average for this date. January through August butter exports were 12% lower than a year ago and 75.2% lower than 2014 during this period. August butter exports were 59% lower than a year ago. Coupled with higher imports the net trade deficit for butter was the highest since December 2006.

Nonfat dry milk prices were a low of $0.69 per pound in January, but improved to $0.89 per pound in July, peaking at $0.9525 in September. But, prices have weakened in October and are now $0.88 per pound. U.S. nonfat dry milk prices unlike cheese and butter have remained competitive on the world
market. As a result, exports have held up. August exports were 39% higher than a year ago and 5% higher than a year ago January through August and just 2.2% lower for this period during 2014.

Relatively strong butter prices and some strength in nonfat dry milk prices supported higher Class IV prices. Class IV was a low of $12.68 in April and peaked at $14.84 in July. Despite higher nonfat dry milk prices lower butter prices in August and falling below $2 per pound the end of September and for October pushed the September Class IV price down to $14.25. Class IV will remain in the low $14’s or even a little below $14 for the remainder of the year.

USDA and other price forecasters have milk prices improving as we move through 2017, but with differences as to how quickly and how much of an improvement. The level of milk production and exports will be key factors. USDA forecasts milk production to increase 2.2% in 2017 from 0.5% more cows and 1.7% more milk per cow. This is a lot of milk and will dampen the price increase. But, milk production could well be lower. Milk per cow is expected to average 1.6% higher this year which is higher than the recent average annual increases. So another 1.7% increase for 2017 appears to be on the higher side. Some positive factors point to improved dairy exports. World milk supply and demand is slowly coming balance. Milk production in the EU was increasing about 5% early in the year and has dropped below year ago levels starting in June. EU has implemented a voluntary supply program which is expected to reduce milk production for the October to December period from a year ago by 2.9%. EU milk production is forecasted to increase just 0.5% in 2017. The combination of low milk prices and weather issues has forecasts for lower milk production in New Zealand, Australia and Argentina. On the demand side it appears China will be more active in importing dairy products.

As of now it looks like the Class III price will be in the $15′s at least for the first quarter of 2017 with continue increases there after reaching the $16′s by perhaps the end of the second quarter and the high $16′ possible by the end of the third quarter and the 4th quarter. However, my forecast is higher than USDA’s and current Class III futures. Prices are very sensitive to rather small changes so no doubt forecasts will be revised.

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