Dairy Situation and Outlook, September 18, 2008
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Milk production continues to increase at a slower rate than during the first six months of the year. For the 23 reporting states August milk production was only 1.5 % higher than a year ago, the result of 1.6% more milk cows but milk per cow two pounds lower. Milk cow numbers which have been increasing month to month since May 2007 were 3,000 head lower than July. U.S. milk production for August is estimated at just 1.1% higher than a year ago.

Unfavorable weather explains much of the smaller increase in milk production. For example, due to hot weather California's milk production was 1.9% lower than a year ago. Milk per cow fell 60 pounds or 3.2%, more than offsetting 1.3% more cows. Idaho also experienced a decrease of 10 pounds or 0.5% per cow, but with 6.7% more cows total milk production was still 6.3% higher. Arizona experienced a 1.9% increase in milk production and New Mexico a 5.0% increase. Texas had the largest percentage increase in milk production at 17.2% followed by Kansas at 15.6%. In the Northeast, New York had a 3.2% increase in milk production, but 20 less pounds of milk per cow resulted in 1.7% lower milk production for Pennsylvania. In the Midwest milk production had a relatively small increase with Wisconsin up 0.9%, Minnesota 0.7% and Iowa 1.1%. Evidently high feed cost is resulting in Florida dairy farmers reducing cow numbers. Florida cow numbers were 4.8% lower than a year resulting in 0.7% lower milk production.

While CME butter prices have increased to $1.70 per pound, nonfat dry milk prices and dry whey prices have weakened. Western nonfat dry milk prices are in the range of $1.25 to $1.35 per pound and dry whey $0.2125 to $0.2425 per pound. While July butter production was just slightly higher than a year ago and dry whey production 5.8% lower, nonfat dry milk production was 11% higher. Stocks of dry whey are about 2% higher than a year ago but whey protein concentrate stocks are more than 60% higher. Cheese prices have been highly volatile. Both CME cheddar barrel and 40-pound block prices were more than $2.00 per pound the end of July, but by September 2nd barrels had fallen to $1.6275 and blocks to $1.68. As of September 18th barrels had recovered to $1.9325 and blocks to $1.9225. Cheese prices may hold near these levels through mid-December before declining seasonally. While American cheese production for July was nearly 5% higher than a year ago, July 31st stocks were only about 2% higher. But, both a slow down in domestic sales and exports will likely keep prices below the $2 plus per pound experienced back in July. The September Class III price will be around $16.20 compared to $17.32 in August. The Class IV price will be around $16.25 compared to $16.64 in August. But, with the recovery of cheese prices both the October and November Class III prices should be above $17.00.

Milk production is expected to continue to increase for the remainder of the year, but at a rate of less than 2%, and perhaps increase by no more than 1% for all of 2009. High feed costs this winter will dampen increases in milk per cow and increase dairy cow slaughter numbers. Milk cow numbers which increased month to month from May of last year through July of this year will likely continue to decline the reminder of this year and continue to decline going into 2009 with the average herd size for 2009 perhaps about 0.3% lower than the 2008 average. Lower milk prices and high feed costs will likely hold increases in milk per cow this winter well below the more normal 2% increase. The price of feed purchased by dairy farmers during August was 50% higher than a year ago. Alfalfa hay average $180 per ton in the U.S. compared to $138 per ton a year ago, a 30% increase. Alfalfa hay was 35% higher in California and 54% higher in Idaho with Texas price up 12%. With the August U.S. all milk price $3.10 lower than a year ago ($18.50 vs. $21.60) the milk-feed-price ratio for August was only 1.89 compared to 3.19 a year ago. Dairy producers are already responding to high feed costs and lower milk prices by increasing culling of lower producing cows. Weekly cow slaughter has been running 10% to as much as 18% higher than a year ago. Many of these slaughtered cows however are being replaced from a good supply of dairy replacements, 3.9 million head as of July 1st.

With milk production increasing by less than 2% one would expect milk prices to be at relatively high levels—Class III prices, for example near $20.00. But, a slow down in domestic demand as well as a slower growth in dairy exports will dampen milk prices. Fluid milk sales continue to run about 0.7% below a year ago and indications are that cheese sales have also slowed. High retail prices of not only dairy products but all food along with high gas prices and home heating costs this winter will contribute to a slower growth in domestic sales. Lower world dairy product prices and the strengthening of the U.S. dollar are slowing dairy exports. Milk production in Oceania is beginning its seasonal increase and more product will be available to export. As of August world butter was near the U.S. price at $1.63 per pound. World cheese was still higher than U.S. cheddar price at $2.04 per pound. World skim milk powder price was $1.33 per pounds, only a little higher than U.S. price.

In summary, as of now it looks like milk prices for 2009 could average near but a little lower than 2008 prices. The Class III price may average in the $17.00 to mid $17.00 range compared to near $18.00 average for 2008. Class III futures, except for October are currently below $17.00 between now and August of 2009. But, since cheese prices have strengthened we can expect some recovery of Class III futures as well.

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