Dairy Situation and Outlook Report, September 19, 2014
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September dairy product prices and milk prices continue to set new record highs. Butter on the CME which averaged $2.59 per pound in August, showed strength all month reaching $3 per pound on September 12th and increased to $3.06 per pound on the 19th. Cheddar barrels averaged $2.18 per pound in August, started the month at $2.3625 per pound and on the 19th it had increased to 2.43 per pound. The 40-pound cheddar block price also averaged $2.18 per pound in August and on the 19th increased to $2.45. Dry whey prices have held near $0.65 per pound. The only weakness has been nonfat dry milk prices which have fallen to $1.375 per pound on the CME. The Class III price for September will be near $24.55, $2.30 higher than August, the highest this year and $6.40 higher than a year ago. While nonfat dry milk prices have slipped the higher butter prices will put the Class IV price near $22.45, 0.57 lower than August but still $3.00 higher than a year ago. The All Milk Price will near $26 for September and $5.90 higher than a year ago.

Two major factors for these higher prices have been strong domestic sales and exports. Despite higher butter and cheese prices buyers of butter and cheese have bid up prices to get product to build stocks for the upcoming strong sales period later this fall. January through July exports compared to a year earlier were 37% higher for butter, 31% higher for cheese, 11% higher for nonfat dry milk and 5% higher for dry whey. On a total solids basis exports were equivalent to 16.5% of U.S. milk production. These domestic sales and exports have tightened stocks. As of July 31st butter stocks were 42% lower than a year ago, American cheese stocks 6% lower, total cheese stocks 8% lower and dry whey stocks 5% lower. Nonfat dry milk was the only product with higher stocks than a year ago at 21.3%.

But these higher prices will not hold. Opinions differ widely as to how quickly and how far prices will fall as we end this year and for 2015. High prices could eventually temper domestic sales of butter and cheese. World prices of butter, cheese, skim milk powder and whole milk powder have fallen substantially and are now well below U.S. prices making U.S. products less competitive on the world market. World prices have fallen primarily because of a recovery in milk production in all major exporting countries and China backing off on very aggressive buying earlier in the year. July butter and dry whey exports already dropped below year ago with butter exports 39% lower and dry whey exports 17% lower. Nonfat dry milk exports were just 1% higher. Cheese exports were still 18% higher due to fulfilling previous contracts, but new orders have softened. Record milk prices along with lower feed cost have resulted in very favorable margins for dairy producers to increase U.S. milk production. As milk production increases so does the production of dairy products. Compared to a year earlier July butter production was 2.6% higher, American cheese production 9.5% higher, total cheese production 7% higher and nonfat dry milk production 42.7% higher.

USDA’s estimated U.S. milk production compared to a year earlier was 3.9% higher for July and 2.5% higher for September. An increase in the number of milk cows has been anticipated. But, cow numbers are increasing slowly as cull cow prices remain high and the supply of dairy replacements is lower than two years ago. Milk cow numbers for August actually fell by 1,000 head from July and were just 0.5% higher than a year ago. Only 74,000 head have been added thus far this year. Of the 23 reporting states the following nine had fewer milk cows than a year ago: California, Illinois, Minnesota, New Mexico, Ohio, Pennsylvania, Vermont, Virginia and Wisconsin. The relatively stronger increase in milk production was due to improved milk per cow. Only two states had lower milk per cow, Oregon and Texas.
milk per cow was 2.0% higher than a year ago. Leading states in increases in August milk production compared to last year were Florida +8.1%, Colorado +8.0%, Michigan +6.7%, Texas 6.2% and Kansas 5.8%. Of the five leading dairy states that produce more than half of U.S. milk production, production was up just 1.4% in California, 1.2% in Wisconsin, 2.7% in New York, 3.1% in Idaho, and 0.5% in Minnesota.

By December we could see butter prices around $1.90 per pound and near $1.70 early into 2015. Cheese could be about $1.95 per pound by December, $1.80 early into 2015 and in the mid-$1.70s by summer. Dry whey could be below $0.50 early into 2015 and nonfat dry milk around $1.35. These prices would put the Class III price near $19.30 for December, around $18 by January and in the $17s by spring and summer. As butter prices weaken the Class IV price will fall even faster to around $18 by December and in the low $17s early into 2015. These are substantial declines in milk prices. Lower feed costs will help to soften the impact on dairy producers, but margins will not be as favorable as this year. This has been a good year for dairy producers helping them recover financially from the extremely depressed milk prices of 2009 and very high feed prices the fall of 2012 and winter of 2013 as well as increase costs of other production expenses. Average yearly prices for 2014 will all be record highs with Class III near $22.30, $4.40 higher than 2013, Class IV $22.20, $3.15 higher than 2013, and the All Milk Price $23.90, $3.85 higher than 2013.

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