USDA’s milk production report showed August milk production 1.9% higher than a year ago. The July milk production was also revised up to a 1.6% increase. The increase in August was due to 16,000 more cows than a year ago, a 0.5% increase, and 1.4% more milk per cow. Despite some really low milk prices milk cow numbers have been increasing. Since the beginning of the year cow numbers have increased by 40,000 head. There are plenty of replacements to increase the cow numbers and cow slaughter has been 1.4% lower thus far this year.

California’s milk production continues to fall below year ago levels down 1.7% in August, the result of 11,000 fewer cows and 1.1% less milk per cow. But, Idaho’s production was up 4.9% with 13,000 more cows and 2.6% more milk per cow. Texas led all states with milk production up 11.0% from 25,000 more cows and 5.3% more milk per cow. Colorado was second with 6.9% more milk from 8,000 more cows and 1.1% more milk per cow. Michigan continues a strong increase in production up 6.6% with 12,000 more cows and 3.5% more milk per cow. New York’s production was up 3.2% while Pennsylvania was down slightly at 0.4%. South Dakota’s milk production continues to increase being up 5.4% with 8,000 more cows, but 1.8% less milk per cow. Iowa’s production was up 3.0%, Wisconsin 2.4% and Minnesota 0.8%. Wisconsin cow numbers were down 2,000 head, while Minnesota cow numbers were up by 2,000 with no change in Iowa.

Milk prices had a good run up but prices aren’t holding. The Class III price was a low of $12.76 in May and had increased to $16.91 in August. But, cheese prices have fallen which means lower milk prices again. On the CME, 40-pound cheddar blocks were as low as $1.27 per pound in May, but increased to $1.86 in August. Cheddar barrels were also as low as $1.27 per pound in May and increased to $1.88 in August. But, cheese prices have been falling in September. As of September 20th, 40-pound blocks were back down to $1.5975 per pound, the lowest since the end of June. Cheddar barrels were $1.5075 per pound, the lowest since early June. Dry whey prices have strengthened to $0.34 per pound. But, the much lower cheese prices will push the September Class III price to around $16.30, and in the mid to high $15’s for the remainder of the year. However, current Class III futures remain in the $16’s for the remainder of the year, but unless cheese prices rally some current cheese prices don’t support $16 plus Class III.

Nonfat dry milk prices have strengthened. On the CME nonfat dry milk averaged $0.8454 per pound in August and is now $0.92. But, butter prices have been falling. Butter averaged $2.1776 per pound in August and is now $1.9550. Butter had been above $2 per pound since early April. The Class IV price was $14.65 in August, but lower butter prices will more than offset higher nonfat dry milk prices resulting in a September Class IV price around $14.20.

Besides really strong increases in milk production, ample cheese stocks and lower cheese exports are factors for lower cheese prices. July 31st American cheese stocks were 10.3% higher than a year ago and 13.9% higher than the 5-year average for this date. July 31st total cheese stocks were 9.9% higher than a year ago and 15.2% higher than the 5-year average for this date. July cheese exports were 6% lower than a year ago and 25.6% lower than 2014 exports. January through July cheese exports were 18% lower than a year ago and 29.1% lower than 2014 exports.
Ample butter stocks and lower butter exports were also factors for lower butter prices. July 31st butter stocks were 31% higher than a year ago and 44.4% higher than the 5-year average for this date. July butter exports were 33% lower than a year ago and 76.5% lower than the 2014 exports. January through July butter exports were just 5% lower than a year ago, but 75.3% lower than the 2014 exports.

July 31st nonfat dry milk stocks were 7.2% lower than a year ago, but 19.4% higher than the 5-year average for this date. But, unlike cheese and butter prices which have been well above world prices nonfat dry milk prices have remained price competitive. July exports were strong being 31% higher than a year ago and actually 2.6% higher than 2014 exports. January through July exports were even with a year ago but 6.6% lower than 2014 exports. July dry whey exports were also higher than a year ago up 12% and even with 2014 exports. January through July exports were just 1% lower than a year ago and 8.6% lower than 2014 exports.

Milk prices should improve as we move into 2017 with the Class III price back in the $16’s and perhaps even reaching $17 by 4th quarter. However, current Class III futures stay below $17 for all of 2017. Domestic butter and cheese sales are expected to remain good and there are signs dairy exports will improve. EU milk production which was running as much as 6% higher than a year ago had dropped below year ago levels in June and is expected to remain below for the reminder of the year. Milk production is expected to be below year ago levels for Australia and Argentina and up just slightly for New Zealand. China has been a little more active with imports and is expected to be more so in 2017. The expected slower growth in world milk production and stronger demand should increase world prices making U.S. dairy products more competitive and improving exports.

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