

Dairy Situation and Outlook, September 18, 2017  
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Forecasted milk prices for the remainder of the year have softened from what was expected earlier. The Class III price was \$16.44 in June, fell to \$15.45 in July, but increased to \$16.57 in August and was expected to continue to strengthen reaching into the low \$17's by October. But, now the September Class III price will weaken some to around \$16.25. And it will take a rally in cheese prices to strengthen the Class III price October through December.

The Class III price is driven by the price of cheese, dry whey and butter. The price of all three products weakened during September. On the CME barrel cheese averaged \$1.5993 per pound in August but weakened since then to \$1.485 as of September 19<sup>th</sup>. The 40-pound block price which averaged \$1.6852 in August also weakened and is now \$1.5925. The spread between blocks and barrels was in the \$0.20's per pound in July, fell to just \$0.02 the end of August, but is now back to \$0.105. Dry whey which was in the low \$0.40's per pound during August is now trading \$0.38 to \$0.39. Butter averaged \$2.6473 per pound in August and is now \$2.4675.

Lower dairy product prices were the result of higher production, slower growth in sales and higher stock levels. The latest dairy product report is for July. All products showed higher production than a year ago with cheddar cheese up 0.8%, total cheese up 1.0%, dry whey up 21% and butter up 1.6%. Cheese and butter sales have been higher, but have not shown the same growth as last year. July 31<sup>st</sup> stocks of American style cheese were a record high for the month of July except for 1983-84 when government stocks of surplus cheese were high, but total cheese stocks did set a new record high. American cheese stocks were 8.8% higher than a year ago with total cheese stocks 7.8% higher. Dry whey stocks were 38.7% higher, but butter stocks were 7.5% lower.

The Class IV price has held up better than Class III. In June Class IV was \$15.89, July \$16.60, August \$16.61 and will around \$15.95 for September. The Class IV price is expected to stay in the mid to high \$15's for the remainder of the year. Both lower butter and nonfat dry milk prices is lowering the Class IV price. The nonfat dry milk price averaged \$0.8491 per pound in August but has fallen to \$0.8225. Relatively high stocks of nonfat dry milk has pushed the price down. July 31<sup>st</sup> stocks were 16.2% higher than a year ago.

Dairy exports have added strength to milk prices. But, after 12 straight months of year-over-year growth, dairy export volume declined in July. Exports of nonfat dry milk/skim milk powder declined 13%, the first decline since June 2016. Nonfat dry milk/skim milk powder exports are facing competition from the EU. Both whey products and lactose exports were unchanged from a year ago. However, exports of butterfat and cheese were 66% and 14% higher respectively. On a total solids basis exports were equivalent to 13.4% of U.S. milk production compared to 14.5% last year and the lowest since January.

The Class III price October through December could stay in the low \$16's and average about \$1.30 higher for the year than last year. Currently Class III futures are not even this optimistic with the Class III staying below \$16. Class IV futures could also stay in the \$15's and average about \$2.25 higher than last year. But, it is not without a possibility that cheese prices could rally October or November pushing up the Class III price like last year. Last year 40-pound block cheese was \$1.5175 per pound early October and rallied to \$1.9425 by early November and were still \$1.80 mid-December. The Class III price went

from \$14.82 in October to \$17.40 in December. So unexpected big changes in prices can happen. If the monthly increase in milk production stays below 2%, there is strong seasonal increase in butter and cheese sales and exports hold up, we could see higher milk prices October to December than what is now forecasted. USDA is now forecasting milk production for the year to be 1.7% higher than last year.

The increase in monthly milk production from a year ago did drop below 2% May and June, but both July and August production was 2.0% higher. The number of milk cows started to increase last October with no increase in August. August cow numbers were 0.8% higher than last year. Of the 23 reporting states 8 had fewer cows than last year. The increase in milk per cow was running below 1% May and June but improved to 1.2% for July and 1.3% for August. Of the 23 reporting states 2 had no change in milk per cow and 5 had lower production.

Despite some high temperatures in August California's milk production was just 0.7% lower than last year, all due to fewer milk cows. Idaho's milk production was down 0.2%, the net result of 0.5% less milk per cow more than offsetting 0.3% more cows. Other Western states had relatively strong production increases of 3.8% in Arizona, 5.9% in Colorado, 3.5% in New Mexico, 9.2% in Texas and 10.2% in Utah. Kansas's production increase was relatively strong at 5.4%. Production increases in the Northeast were 1.9% in New York, 2.8% in Pennsylvania and 3.0% in Michigan. Production increases in the Midwest were 2.8% in Iowa, 4.0% in Minnesota, 4.2% in South Dakota and 1.8% in Wisconsin. Favorable weather contributed to good milk production per cow in the Midwest. In the Southeast Florida's production was up 2.6%

Looking into 2018 the Class III price could be in the \$15's first quarter before moving into the \$16's. Current Class III futures don't reach the \$16's until July. With expected improvement in milk production in the EU and New Zealand U.S could face stiff competition for nonfat dry milk/skim milk powder exports. The result could be a Class IV price in the \$15 the first half of the year with stronger butter prices pushing it into the low \$16's for the second half. Current Class IV futures also reflect this price pattern.

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