Dairy Situation and Outlook, February 19, 2010
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Milk prices weakened some in January but remain well above year ago levels. The December 2009 Class III price was $14.98. The January 2010 Class III price declined to $14.50, but $3.52 higher than January 2009. We can expect the February Class III to decline further. Such price declines during this time of the year are not unusual. Cheese and butter prices often decline some after holiday orders were filled. CME butter was $1.52 per pound early December, fell to $1.3275 at the start of the year only to rally back to $1.525 mid-January. But since then it dropped back to $1.36. Some renewed interest in exports was partly the reason for the butter rally. CME cheddar blocks were $1.72 per pound on December 3rd, ended the year at $1.45, rallied back to $1.515 on January 26th, but have fallen back to $1.4125. CME cheddar barrels were $1.51 per pound on November 25th, ended the year at $1.43, rallied back to $1.51 on January 25th, but are now $1.3775. Dry whey prices soften slightly, but Western prices are still $0.39 to $0.42 per pound. However, nonfat dry milk prices have weakened. Western nonfat dry milk was trading a few weeks ago as high as $1.40 per pound, but now are $1.04 to $1.10.

Ample stocks of butter and cheese are one factor for lower prices. December 31st stocks of butter were 12.4% higher than a year ago, American cheese stocks 9.0% higher and total cheese stocks 13.5% higher. However, December cheese production was lower than a year ago with cheddar production down 8.3%, all American cheese down 2.6%, mozzarella up 3.9% and total cheese down slightly, 0.1%. Cheese sales showed growth in 2009 with January through November sales of American cheese up 3.1% from a year ago and other cheeses (mainly Italian) up 1.4%. The increase in mozzarella production is an indication that cheese sales through restaurants, particularly pizza restaurants has improved. Mozzarella product was below year ago levels through July. If sales can hold up and milk production continues to slow in 2010, cheese stocks will become tighter and cheese prices will strengthen in the months ahead.

Similar to cheese, December butter production was 4.3% below a year ago. However, January through November butter sales was down 8.6%. Nevertheless, if milk production continues to decline we can expect butter prices to improve considerably for the second half of the year.

Some of the softness in cheese, butter, and in particular nonfat dry milk prices may be related to recent softness in world prices and uncertainty of exports. Over the last 8 weeks or so world prices of butter, cheese, nonfat dry milk/skim milk powder and dry whey have all declined. However, prices remain above year ago levels. USDA still forecasts a growth in dairy exports for 2010 at a level that could be equivalent to about 9% of U.S. milk production, up from about 7% in 2009. The world economy is showing recovery which should help U.S. dairy exports. The OECD projects world gross domestic product will rise 3.4% in 2010 after a decline of nearly 2% in 2009. Further, New Zealand and Australia’s milk production is forecasted to not improve as much as earlier projected which will dampen their growth in dairy exports. The final growth in U.S. dairy exports will be a key factor in how much milk prices improve in 2010.
Another important factor for the recent decline in dairy product prices is a market reaction to USDA’s release of January 1st dairy replacement numbers. As of January 1, 2010 there were 4.516 million head of dairy replacements, up 2% from a year ago, the equivalent to 49.7 per 100 milk cows compared to 47.3 a year ago. About two-thirds of these replacements are expected to enter the dairy herd within the next 12 months. Thus, the decline in the number of milk cows in 2010 may not be as high as earlier predicted. Plus, with the culling and slaughter of lower producing cows being replaced by higher producing replacements and improved returns over feed costs the increase in milk per cow will be higher than it was in 2009. This raises the question as to whether the decline in milk cow numbers will more than offset increases in milk per cow to result in a decline in milk production for the second consecutive year. But, with the lingering effects of low milk prices and loss of equity in 2009 and an expected increase in the number of dairy producers exiting in 2010 as well as less herd expansions, milk production is expected to be lower than 2009, perhaps 2% to 4% lower.

USDA’s report on January milk production is a little troubling. While the estimated milk cow numbers for the U.S. were 227,000 fewer in January than a year ago, down 2.4%, the numbers were 3,000 head higher than last December. In recent weeks dairy cow slaughter has been running about 13% lower than a year ago. Higher milk prices and improved returns over feed costs appear to be having an impact on milk per cow. January milk per cow was up 1.9% from a year ago. The net result was just a 0.6% decline in milk production from a year ago.

Western states continue to experience a decline in cow numbers and milk production. January milk production compared to a year ago was: California -2.4%, Colorado -10.4%, Arizona -7.5%, New Mexico -4.8% and Texas -3.3%. However, the increase in milk per cow more than offset fewer cows in Idaho netting a 1.5% increase in milk production.

Milk production was down 1.3% in New York and 1.7% in Pennsylvania. But, the Midwest continues to show growth in milk production with production up 4.7% in Wisconsin, 3.6% in Minnesota, and 1.9% in Iowa. Of the 23 reporting states milk production was down for 13 and up for 10.

Class III dairy futures have declined considerably since the beginning of the year when the average for the year was about $15.45. Currently Class III futures are below $14 through June and stay in the low $15’s from September through December with an average for the year of about $14.20. While $14.20 is an improvement over the $11.36 Class III average for 2009, dairy producers need higher prices to build back lost equity in 2009. The level of milk production, domestic milk sales and dairy exports in the coming months will determine if prices will show greater improvement.

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