In March milk prices will not change much from February and remain well below a year ago. Dairy product prices may average just a little lower than February. CME butter averaged $2.08 per pound in February and ranged from $1.925 to $2.04 in March with the current price $1.95. The 40-pound cheddar cheese price averaged $1.474 per pound in February and ranged from $1.46 to $1.52 in March with the current price $1.49. Cheddar barrels averaged $1.4573 per pound in February and ranged $1.42 to $1.50 in March with the current price $1.50. And dry whey averaged $0.2393 per pound in February and around $0.25 in March. At these prices the March Class III price will be near $13.80, the same as February and about $1.75 lower than the $15.56 a year ago. Nonfat dry milk averaged $0.741 in February and ranged $0.74 to $0.78 in March. As a result, the March Class IV price will be near $13.00 compared to $13.49 in February and $13.80 a year ago.

Domestic sales of butter and cheese are forecasted to remain good. But, depending upon the level of milk production and exports milk prices may increase only modestly April, May and June and then show more strength from July through December. As we approach spring and early summer milk production normally increases seasonally. A year ago, milk production during the first half of the year was running well above year ago levels as milk cow numbers were increasing and milk per cow was good. For the first half of the year milk production was 1.7% higher than the year before. So milk production may increase less than 1% for the first half of the year. But, milk production slowed for the last half of the year with production just 1.0% higher in the third quarter and 0.7% in the fourth quarter. So for the last half of the milk production could increase by more than 1%. USDA forecasts milk production for the year to increase by 1.4%, down from their 1.6% increase earlier. This forecast is based on milk cow numbers averaging about 0.2% lower than last year and milk per cow up 1.8%. But, with the low milk prices forecasted for the first half of the year and averaging below a year ago for the entire year this 1.4% increase in milk production may still be on the high side. However, lower feed costs is helping to keep margins at a level for a continued increase in milk production.

Milk production started off slow with January milk production up just 0.2%, the result of 2,000 more cows and a 0.16% increase in milk per cow. But, February’s production, adjusted for leap year, improved to an increase of 1.0% from 4,000 more cows and 0.9% more milk per cow. Changes in milk production continue to show regional differences with lower or small increases in the West and relatively strong increases in the Northeast and Midwest. Last year California experienced lower milk production than the year before every month and ended the year with production down 3.4%. This trend continues. February’s production adjusted for leap year, showed California’s production down 2.9% from 0.28% fewer cows and 2.7% less milk per cow. New Mexico’s production was down 6.0% from fewer cows and less milk per cow. Texas’s production was down 2.0% all due to fewer cows. Idaho’s production was up 2.0% from more cows and higher production per cow. Production was up 4.6% in New York and 7.8% in Michigan. Both states had more cows and higher production per cow. Production was up 1.4% in
Minnesota, 5.1% in Wisconsin and 1.2% in Iowa. Production per cow was higher in each state, and while Wisconsin had more cows Minnesota had no change in cow numbers and cows were 0.5% lower in Iowa.

Dairy exports are not likely to push milk prices up until late in the year or into 2017. The level of world stocks and world milk production along with the lower imports by China and Russia have depressed world prices. The higher U.S. dollar and dairy product prices higher than world prices are keeping exports below a year ago while attracting more imports. The exception is nonfat dry milk/skim milk powder where U.S. prices are competitive on the world market. January nonfat dry milk/skim milk powder exports were up 23% from the prior year and most ever for the month. But, cheese exports after being 14% lower last year, were down another 8% and butter exports after being down 70% last year were even with a year ago. On a total solids basis, U.S. exports were equivalent to 12.5% of U.S. milk production in January, down from 14.0% in 2015. Imports however, were equivalent to 4.4% of milk production, the highest since February 2009.

With lower exports the stocks of butter and cheese are increasing and putting downward pressure on milk prices. January 31st butter stocks were 31.7% higher than a year ago and 24.3% higher than the five year average for this date. Total cheese stocks were 12.4% higher and 14.0% higher than the five year average for this date. Nonfat dry milk stocks were 5.7% lower than a year ago, but the second highest for January and still 30.3% higher than the five year average for this date.

With anticipated milk production and dairy exports not expected to show much improvement until late in the year, USDA and other price forecasters have revised downward milk prices for the year. USDA forecasts the Class III price to only average $13.60 to $14.20 compared to $15.80 last year. The forecast for the average ALL Milk Price is $14.95 to $15.55 compared to $17.08 last year. Current Class III futures are not any more optimistic with Class III in the $13’s until August and then in the $14’s for the remainder of the year and the first half of 2017. But, I think milk prices still have a good chance of turning out somewhat better than this. Milk production may not increase as much and exports could improve more than now anticipated during the second half of the year. We could see the Class III in the $14’s by May, the $15’s by July and the $16’s by September or October and average near $15 for the year with the All Milk Price averaging near $16.30. Even if these higher prices materialize, it will be a tough year for dairy.

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