Despite higher milk production than what was predicted earlier in the year farm milk prices have improved considerably over the very depressed prices experienced a year ago. U.S. milk production was estimated to be up from a year ago by 2.6% for June, 2.9% for July and 2.7% for August. The August Class III price was $15.18, up $3.90 from the $11.20 a year ago. The September Class III will be around $16.30 compared to $12.11 a year ago. The Class IV price has shown even greater improvements. The August Class IV price was $15.61, up $5.23 from $10.38 a year ago. The U.S. All Milk Price for August was $16.60, up $4.50 from $12.10 a year ago and will be near $17.70 for September.

The prices of butter, cheddar cheese, dry whey and nonfat dry milk which drive these milk prices are all higher than a year ago. CME butter has been above $2 per pound since August 19th and as of September 17th it was $2.2225 per pound. A year ago butter was around $1.17 per pound. Higher butter prices can easily be explained by higher sales than a year ago (however, there is concern that these high prices may start to dampen sales), lower production than a year ago (down 2.9% for July) due tightening of cream supplies, and lower stocks (July 31st stocks down 24% from a year ago). But, the strength in cheddar cheese prices is somewhat surprising. On the CME cheddar barrels have shown a steady increase since the end of June when it was $1.3975 per pound. As of September 17th, barrels were $1.71 per pound compared to $1.3125 a year ago. Similarly, the price of 40-pound cheddar blocks increased steadily since the end of June when it was $1.42 per pound. As of September 17th blocks were $1.735 per pound compared to $1.27 a year ago. While sales of Italian cheeses, particularly mozzarella have been favorable compared to a year ago, cheddar sales have been just fair. Compared to a year ago, July production of American cheese was 4.0% higher with cheddar production up 2.6% and total cheese production up 4.7%. The release of cheese production figures for August could well show a slow down in production. Very hot and humid weather for parts of August depressed milk production in Wisconsin, the leading cheese producer, and other Midwest states. August Cheese stocks have been ample. July 31st stocks of American cheese were 638.6 million pounds, 5.5% higher than a year ago and the most for this date since 1986. July 31st total cheese stocks were 1.049 billion pounds, 4.9% higher than a year ago and the most for this date since 1984.

Dry whey has been in the mid to high 30 cent per pound range all year. A year ago dry whey started the year less than 15 cents per pound and didn’t reach 30 cents until August. Nonfat dry milk prices which stayed below $1.00 per pound through August of last year have been well above $1.00 all year.

The strength in these dairy product prices can be partially explained by improve dairy exports. Compared to July a year ago, exports of butterfat were 1,054% higher, cheese 66% higher, dry whey 47% higher and nonfat dry milk/skim milk powder 9% higher. The export increases for the first seven months of the year were: butterfat 7.7%, cheese 61%, dry whey 31% and nonfat dry milk/skim milk powder 14.5%.
The question is can we expect further price increases this year and how long can we expect prices to hold at these levels? Once cheese and butter buyers acquire adequate inventories for the Thanksgiving to Christmas holiday period and milk production as well as milk composition improve latter this fall there will be downward pressure on prices. A major factor as to how much downward pressure will occur is what happens to milk production. In September, USDA raised their forecast for both 2010 and 2011 milk production. USDA forecasts 2010 milk production to be up 1.8% from a year ago and up another 1.8% for 2011. USDA’s release of August milk production estimates U.S. cow numbers 0.3% lower than a year ago, but cow numbers have increased by 53,000 head since the end of last year. Milk per cow continues strong, up 2.9% from a year ago. West/Northwest states showed August milk production well above a year ago with production up 4.9% in California, 7.8% in Idaho, 6.9% in Oregon and 7.4% in Washington. While California had 2.1% fewer cows than a year ago, cow numbers were 4.6% higher in Idaho. In the Southwest milk production was 3.9% higher in Arizona, but up just 0.6% in New Mexico and down 0.4% in Texas. In the Northeast milk production was up 4.8% in New York, 3.0% in Pennsylvania and 4.9% in Vermont. But, unfavorable August weather reduced Minnesota’s production by 0.8%, Illinois by 5.1% and held Wisconsin to just a 0.5% increase. Both Minnesota and Wisconsin had a few more cows but milk per cow was 0.9% lower in Minnesota with no change for Wisconsin. But, the production decline for Illinois was due to 2.9% fewer cows plus 2.3% less milk per cow.

On September 17th, dairy futures showed Class III peaking in September at $16.30, declining to $15.40 by December and continuing to decline into 2011 falling below $14 by April. But, this may be too pessimistic. Milk production could very well slow down from what USDA now forecasts. Considerably higher feed costs this winter may be a key factor resulting in higher culling of dairy cows, some reduced grain and concentrate feeding as well as slow down or delay in expansion decisions (ag lenders are more cautious in making loans for expansion). Corn, soybeans and hay prices are all forecasted higher than a year ago. As of September 17th corn for December delivery was $5.13 per bushel compared to the $3.59 December average a year ago and the highest in two years. Soybeans for November delivery were $10.69 per bushel compared to $9.96 a year ago. The price of August alfalfa hay for the U.S. was 4.5% higher than a year ago with prices up as much as 19% for California. 6.6% for Idaho, 8.3% for New Mexico and 11% for Wisconsin.

The level of domestic sales and dairy exports will also be key factors. Fluid milk sales were 1.4% lower than a year ago January through July and may not show much improvement. Cheese and butter sales have been more favorable. Both butter and cheese sales depend heavily upon the restaurant business. However, the restaurant business continues to be sluggish. Dairy exports are projected to continue to run well above year ago levels for the remainder of this year with further growth for 2011.

In summary, we can expect some weakening of milk prices from their peak in September or October and into early 2011. But, there is a high probability that prices will be higher than currently shown by dairy futures.

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