

Dairy Situation and Outlook, April 20, 2018
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Milk prices continue on the path of slow recovery. The prices of butter, cheese, dry whey and nonfat dry milk will average higher in April than March increasing the Class III and Class IV prices. Comparing average April prices to March, butter on the CME could average about 9 cents per pound higher, 40-pound cheddar blocks about 4 cents higher and dry whey about 2 cents higher. Cheddar barrels however will be about 3 cents lower. These price changes will put the April Class III price near \$14.50 compared to \$14.22 for March and the low of \$13.40 for February. The average nonfat dry milk price could be about 5 cents higher. The combination of higher butter and nonfat dry milk prices will increase the April Class IV price to near \$13.60 compared to \$13.04 for March the low of \$12.87 for February.

Milk prices haven't been helped by the fact that milk production started the year well above a year ago. Both January and February production was 1.8% higher. This resulted in relatively high increases in the production of dairy products. Compared to February a year ago, production increases were: butter 4.7%, cheddar cheese 5.7%, total cheese 4.2%, nonfat dry milk 12.1% and dry whey 14.6%. This production increase has kept stocks relatively high holding down price increases. Butter, cheese and nonfat dry milk stocks have been increasing since last December while dry whey stocks declined slightly. Latest stock data is for the end of February. Compared to February a year ago butter stocks were 2.6% higher, American cheese stocks 2.4% higher, total cheese stocks 7.2% higher, nonfat dry milk 23.6% higher and dry whey 24.8% higher.

Last year fluid (beverage) milk sales declined 2% and the growth in both butter and cheese sales were relatively weak. Stronger economic growth is projected for this year which is positive for sales. January through February sales of fluid milk were 1.1% lower than a year ago, but it is encouraging that domestic commercial disappearance increased 2.8% for butter, 4.3% for American cheese and 3.6% for other types of cheese.

Improved dairy exports is providing some optimism for better milk prices. Exports have been running higher than a year earlier since July of last year. Dairy exports on a volume basis reached an all-time high in February due to increased exports to China, Southeast Asia, South America, Middle East/North Africa and Japan. Compared to February a year ago increased exports were: nonfat dry milk/skim milk powder +28%, cheese +7%, butterfat +21%, total whey products +7% with dry whey +29%, and lactose +27%. On a total milk solids basis February exports were equivalent to 17.2% of U.S. milk production compared to 14.8% last year.

With more optimism for domestic sales and dairy exports how much milk prices improve for the remainder of the year depends a lot on the level of milk production. USDA revised down increases in milk production from 1.8% for both January and February to 1.7% and 1.6% respectively. Positive for continued improvement in milk prices is USDA's estimated March milk production to be up just 1.3%. Milk cow numbers declined by 2,000 head, the first decline since September of last year and were just 0.2% higher than a year ago. The slowdown in milk production came from a relatively small increase in milk per cow of just 1.1%.

This year the growth in milk production is coming from the West with little or no increase in the Northeast and Midwest. In the West the increases in March milk production compared to last year were:

Arizona 2.8%, California 2.7%, Idaho 4.0%, New Mexico 1.9%, Texas 4.8% and Colorado and Utah leading all 23 reporting states with increases of 7.4% and 5.5%. In the Northeast Michigan had just 0.8% more milk and New York and Pennsylvania had 1.2% and 0.3% less milk respectively. Bad winter weather nor doubt was a contribution factor for less milk per cow or small increases and explain the changes in Northeast milk production. In the Midwest milk production was up 1.0% in Iowa, 0.9% in South Dakota, with no change for Wisconsin and a decrease of 1.1% for Minnesota. Both Minnesota and Wisconsin had significant declines in milk cow numbers of 5,000 and 6,000 head respectively. Iowa had no increase in milk per cow and South Dakota had less milk per cow. USDA is still forecasting milk production for the year to end up 1.6% higher than last year from 0.2% more milk cows producing 1.4% more milk per cow.

It now appears the Class III price could be in the \$15's by June and in the \$16's by August or September but still averaging for the year about a dollar lower than the \$16.17 average last year. The Class IV price could reach the \$15's by September, but also average for the year about a one dollar lower than the \$15.16 average last year. Class III and IV futures support similar prices. But, in April USDA was forecasting prices lower than this with Class III in the range of only \$14.20 to \$14.70 and Class IV in the range of only 13.25 to \$13.85.

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