

Dairy Situation and Outlook, July 20, 2018
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About six weeks ago the outlook for improved milk prices for the last half of 2018 was optimistic. After the Class III price hit a low of \$13.40 in February it looked like the Class III price could improve to the high \$15's by July and in the \$16's from there on with even reaching \$17 a possibility. The Class IV price was a low of \$12.87 in February but was forecasted to reach near \$15 by June and in the high \$15's for the remainder of the year. But, forecasts for this much price improvement has disappeared. U.S. placed tariffs on aluminum and steel from Mexico, China, Canada and the EU. In response Mexico, China and Canada placed retaliatory tariffs on U.S. cheese and other dairy products. It is unknown the extent these retaliatory tariffs will have on U.S. dairy exports. But, while these retaliatory tariffs were not effective until early July both U.S. and international buyers of cheese, butter and nonfat dry milk appeared to reduce orders in anticipation that these retaliatory tariffs would reduce U.S. exports resulting in lower prices months ahead. The dairy markets have been trying to assess the impact of retaliatory tariffs. Prices have been moving up and down on the CME with a lot of trading activity. But, since early June butter has dropped about \$0.15 per pound, barrel cheese \$0.25, 40-pound blocks \$0.10 and nonfat dry milk \$0.04. The exception has been dry whey which has held close to \$0.40 per pound.

It now looks like the July Class III price will fall to near \$14.25, almost a \$1 lower than the \$15.21 in June. The July Class IV price will fall to near \$14.15 about \$0.75 lower than the \$14.91 in June.

Not helping milk prices is a continued decline in fluid (beverage) milk sales and a rather weak increase in butter and cheese sales. The result is high stocks of dairy products. The latest stock report showed butter stocks building April to May with May 31st stocks 8.0% higher than a year ago. Both American cheese stocks and stocks of other than American cheese also increased April to May. But, May 31st stocks of American cheese was 1.4% lower than a year ago with other than American cheese stocks 17.9% higher bringing total cheese stocks 5.9% higher. While still at a high level May 31st nonfat dry milk stocks were 3.3% lower than a year ago and dry whey stocks were 10.1% lower.

On the positive side dairy exports have been well above a year ago. April exports on a volume basis were at an all-time high and on a total solids basis equivalent to 18.8% of U.S. milk production. May exports were the third-highest ever and equivalent to 17.2% of U.S. milk production. Compared to a year ago all May exports showed a smaller increase than in April except for lactose. In fact cheese exports which had a 22% increase in April actually had a 15% decrease in May lead by a 35% drop in exports to Mexico, U.S. largest cheese export market.

With a somewhat weak domestic sales and some anticipated weakening of dairy exports where milk prices will end up for the remainder of the year and into next year depended heavily on milk production. If the growth in milk production stays at or below 1% milk prices will improve in the months ahead. USDA's milk production report estimated June milk production to be 1.2% higher than a year ago with no change in cow numbers from May or a year ago and a 1.2% increase in milk per cow. Of the 23 reporting states 7 had lower milk production from a year ago. Florida's production was down 3.7%, Minnesota 0.6% and Pennsylvania 0.2%. Increases were New York 1.4%, Michigan 1.3%, Wisconsin 1.2%, California 0.5%, Idaho 1.0%, Arizona 0.9%, New Mexico 1.4% and Texas 6.6%. The strongest relative increase continue in Colorado 10.7%, Kansas 7.4% and Utah 6.3%. Reports are hot July weather has

negatively impacted milk per cow. Milk cow numbers could also start to decline. Thus, the increase in July milk production could be closer to 1%.

As of now the Class III price could improve to near \$15 by August, the low \$15's by September and the high \$15's for the remainder of the year and averaging about \$14.90 for the year compared to \$16.17 in 2017. The Class IV price is likely to stay in the \$14's reaching the high \$14's by November and averaging for the year about \$14.10 compared to \$15.16 in 2017. But, these prices could easily change depending heavily upon how dairy exports actually do turn out. Milk prices in 2019 will be an improvement but the extent of improvement at this time is difficult to forecast. How dairy exports are performing and the level of milk production will be key factors. USDA has lower their forecast of milk production in 2019 to just a 1.3% increase from a 0.1% decrease in the average number of milk cows and a 1.3% increase in milk per cow. This lower increase in milk production will be a positive for improved milk prices.

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