Dairy Situation and Outlook, March 19, 2014

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Strong dairy product prices resulting in record milk prices continue into 2014. On the CME cheddar barrels were a record $2.32 per pound back on February 5th. But by mid-February the price fell by more than $0.25 to $2.0625 only to resume price increases. Cheddar barrels reached $2.16 per pound the beginning of March and as of March 19th barrels were close to the earlier record at $2.305. The situation is similar for 40-pound cheddar blocks. Cheddar blocks were a record $2.36 on February 4th, fell by more than $0.25 to $2.105 with the price rebounding beginning in March at $2.2275, setting a new record on March 14th at $2.3625 and as of March 19th the price was $2.42. CME butter averaged $1.80 per pound in February and as of March 19th it was $1.905. Dry whey averaged $0.62 per pound in February and will average about $0.64 in March. Nonfat dry milk has been about $2.07 per pound February and March.

The February Class III price was a record $23.35 and will be near that for March. The February Class IV price was a record $23.46 and will be near $23.60 for March. The February average U.S. All Milk Price was a record $24.70 and will average near $25 for March. Compared to March a year ago the Class III price will be about $6.40 higher, the Class IV price $5.85 higher and the average U.S. All Milk Price $5.90 higher.

Good domestic demand for cheese and strong exports of cheese, butter and nonfat dry milk is a major factor for these record prices. Exports of dairy products set a record last year totaling 15.5% of U.S. milk production on a total solids basis. Exports above a year ago continued into January. Compared to January a year ago exports of nonfat dry milk/ skim milk powder were 22% higher, total cheese had a new record at 46% higher, butterfat 136% higher, and lactose 3% higher. On a total solids basis exports were equivalent to 14.5% of milk production compared to 12.3% a year ago.

Domestic sales and exports have tightened stocks of dairy products. The latest stock report is for January 31st stocks. Compared to a year ago butter stocks were 33% lower, American cheese stocks and total cheese stocks were both 2% lower. Nonfat dry milk stocks were 25% lower and dry whey stocks 8% lower.

Milk production is also a key factor for record prices. With corn prices around $4.50 per bushel compared to near $7 a year ago, and alfalfa hay averaging lower for most parts of the country except for some states like California and Texas margins (returns over feed costs) are very favorable for milk production. But, milk production was flat the last two month of 2013 with milk production for the year up just 0.7% (adjusted for leap year). January's milk production for the U.S. was up just 1.0% and February's milk production was up 1.1%. Milk cow numbers which had small increases last December and January did not increase in February resulting in February cow numbers slightly lower than a year ago at a -0.1%. Milk per cow was 1.2% higher than a year ago.

California's milk production continues to improve after production declining 1.3% last year. Compared to a year earlier California's milk production was up 4.4% in January and 5.3% in February. California has added milk cows and improved milk per cow. The severe drought is not impacting milk production at this time. With much stronger milk prices and feed cost lower than a year ago except for alfalfa hay California dairy farmers are producing all the milk they can to pay down accumulated debt incurred from the crash in milk prices back in 2009 and high feed prices the fall and winter of 2012/13 from the drought of 2012. Idaho had fewer cows but higher milk per cow resulting in a 2.6% increase in milk production. Milk production was up 2.2% in Arizonian and 3.2% in Texas. Both states had added milk cows and had improved milk per cow. New Mexico however, had 1.4% less milk all due to lower milk per cow. Upper Midwest states continue to have lower milk production. Milk production was down 2.7% in Iowa, 2.3% in Minnesota and 2.0% in Wisconsin. Each of these states had lower milk per cow and except for Wisconsin had fewer milk cows. Milk production was up just 0.2% In New York and down 0.2% in Pennsylvania and 3.7% in Ohio. Cow numbers were lower in Pennsylvania and Ohio and milk per cow was lower in New York and Ohio. Of the 23 reporting states 8 had fewer milk cows, 10 had less milk per cow and 7 had less total milk production.

Normally with the level of milk prices and favorable margins we would expect to see milk production increase as producers add milk cow numbers and feed for higher milk per cow. But, many producers are still recovering financially from the very depressed milk prices experienced in 2009 followed by the widespread drought the summer of 2012 pushing up feed prices from the fall of 2012 through the first half of 2013. So rather than expansions of dairy operations some producers are paying off accumulated debt. Also dairy producers may be more cautious on expansions recognizing the milk prices will not stay at record levels for ever and feed costs can increase again. Also last year a wet spring followed later by drought conditions in much of the Midwest reduced the quantity and quality of forages which appear to now be impacting milk per cow. The extreme cold this winter may also have added to some herd health issues.

But, as we move through the year we can expect milk production to pick up as milk cow numbers increase and milk per cow improves. Despite rather high slaughter cow prices dairy cow slaughter thus far this year has been 9% below a year ago. With favorable margins lower producing cows that normally would be culled are still profitable to milk. Milk production is also improving in the major exporting countries of the EU-28, New Zealand, and Argentina with Australia the exception. So more dairy products will be available for export. But, with current world stocks of dairy products rather tight and world demand remains strong led by China it will take some time to rebuild stocks. U.S. exports may slow the last half of the year but yet total 13% to 14% of U.S. milk production on a total solids basis for the year.

So we can expect milk prices to average lower for the second half of the year, but no sharp decline in milk prices is anticipated. The Class III price which now is over $23 is likely to be in the $20 to $19 range by early summer and end the year near $18. If this holds the Class III price for the year will average well over $19 compared the average of $17.99 last year. The U.S. All Milk Price will average over $21 compared to $20.01 last year. Current Class III futures are at levels that would support prices even a little higher than this.