

Dairy Situation and Outlook September 18, 2015
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September has been a mixed bag regarding dairy product prices on the CME. Butter was \$2.29 per pound the last week of August but has shown strength all of September with the current price at \$2.7175. Nonfat dry milk which was \$0.77 per pound the last week of August has also shown some strength and is now \$0.91. With both butter and nonfat dry milk prices improving the September Class IV price will be near \$15.10 compared to \$12.90 in August.

But, cheese and dry whey prices have weakened. The 40-pound cheddar block price was \$1.6575 per pound the last week of August, improved to \$1.75 on September 1st, but is now \$1.6925. Cheddar barrels were \$1.60 per pound the last week of August, improved to \$1.67 on September 1st and is now \$1.5425. Dry whey which was \$0.38 per pound mid-August has fallen to \$0.25. With these lower prices the September Class III price will be about \$15.85 compared to \$16.27 in August.

The outlook for milk prices for the remainder of the year and into 2016 is not for higher prices. Once stocks of butter and cheese are built to levels for the holidays by October or early November butter and cheese prices will likely weaken. Milk production is declining seasonally but is above a year ago and at levels to build stocks. The latest dairy product report is for July. While it showed butter production 3.2% lower than a year ago, cheddar cheese production was 4.7% higher, total cheese production 3.1% higher, nonfat dry milk production 6.9% lower, but skim milk powder production 23.0% higher, and dry whey production 9.8% higher. While restaurant and food service demand has been strong for butter and cheese dairy exports are much lower and the result is stocks are building. July exports compared to a year ago show butter exports down 58%, cheese down 21%, nonfat dry milk down 22% and dry whey down 8%. Exports would be even lower if it wasn't for the CWT program supporting exports. July 31st stocks compared to a year ago were: butter 40.7% higher, American cheese 5.1% higher, total cheese 6.7% higher, nonfat dry milk 8.5% higher and dry whey 16.2% higher.

Dairy exports are not expected to improve prior to the second half of 2016. With the two largest importers of dairy products, China and Russia importing much less dairy products than early in 2014 along with the level of world milk production world dairy stocks have built to surplus levels. World dairy product prices have fallen to levels not experienced since a decade ago and well below U.S. prices. With higher U.S. prices imports of butter and cheese has increased. But, world prices appear to have bottomed out. For the last three Global Dairy Trades prices have increased which is good news. With exports not expected to improve much prior to the second half of 2016 the level of milk prices will depend heavily upon domestic sales and the level of milk production.

USDA's release of milk production for August showed the smallest increase this year at 0.8% compared to 1.3% for July. Milk cow numbers have held at 9.321 million for the past three months, down 3,000 from the peak this year in May, but still 0.6% higher than a year ago. Milk per cow continues to show only a modest increase at 0.3%. Milk production January through August is up 1.5% from a year ago.

California's production continues to run well below year ago with August production down 3.4%. Cow numbers were down only 0.1%, but milk per cow was 3.4% lower. Of the 23 reporting states New Mexico had the biggest decline in production at 4.3%, all due to less milk per cow. Texas's production was also down 1.4% due to 1.7% fewer cows and just 0.3% more milk per cow. Idaho's production was up just 0.8% due to 1.0% more cows but 0.2% less milk per cow. August production was up 2.5% for New York, 0.3% for Pennsylvania and 4.1% for Michigan. Milk per cow was higher in each of these three states and cow numbers were higher except for no change for Pennsylvania. South Dakota continues to lead in increases in milk production with August up 13.3% due to 10.3% more cows and 2.7% more milk per cow. Iowa's production was up 3.9% due to 1.4% more cows and 2.4% more milk per cow. Minnesota had no change in cow numbers but production was up 4.7% all due to more milk per cow. Wisconsin had 0.7% more cows and 4.0% more milk per cow resulting in 4.8% more production. Florida's production was 1.6% higher due to 1.6% more cows but 0.2% less milk per cow.

USDA forecasts total milk production for this year to end up 1.4% higher than last year and expects another 2.0% increase for 2016. But, this will be a little high if the increase in milk production continues at less than 1.0%. But, yet even with milk production at these levels and for exports not to show much improvement prior to the second half of 2016 we can expect the Class III price to decline to the high \$15's for the remainder of the year and may be the low \$15's first quarter of next year before prices slowly increase reaching the \$16's by third quarter. The Class IV price could be near \$14 for November, but with expected declines in the butter price after holiday orders are filled the Class IV could be in the \$13's by December and even in the \$12's first quarter of next year before slowly increasing by the second quarter. However, Class IV futures is more optimistic than this. The Class IV price will depend heavily upon any increase in exports.