

Dairy Situation and Outlook July 21, 2015
By Bob Cropp, Professor Emeritus
University of Wisconsin Cooperative Extension
University of Wisconsin-Madison

For the past couple of months there were reports that plant capacity of cheese plants in the Northeast and Midwest was being stretched with the relatively strong increase in milk production. In fact, some milk was dumped in the Northeast due to lack of capacity. Yet cheese prices were holding up due to strong sales to fast food restaurants and by other end users and cut and wrap operations. Stocks last year were reduced to low levels and end users and cut and wrap operations had been rebuilding stocks. Over all cheese stocks have been building. The May 31st stock report showed American cheese stocks 1.2% higher than a year ago and 1.9% higher than the five year average for this date. Total cheese stocks were 2.2% higher and 3.1% higher than the five year average for this date. While retail and restaurant cheese sales remain good the stocks of end users and cut and wrap operations may have reached a level where demand is softening putting downward pressure on prices. Just a month earlier the average cheese price on the CME was the high for the year at \$1.71 per pound for 40-pound cheddar blocks and \$1.67 for cheddar barrels. Cheese prices on the CME have since declined. At the start of the month 40-pound cheddar blocks were \$1.6325 per pound, reached \$1.725 on July 10th and are now \$1.67. Cheddar barrels start of the month were \$1.60 per pound, reached \$1.67 on July 9th and are now \$1.6375.

Butter prices have also declined. Butter was \$1.93 per pound the start of the month and now is \$1.8325. Butter stocks have been building as well. May 31st stocks were 26.2% higher than a year ago and 12.4% higher than the five year average for this date. But, the biggest decline in prices has been nonfat dry milk. Nonfat dry milk was above \$1.00 per pound through April. Nonfat dry milk has declined to \$0.745 per pound, the lowest price in 12 years. Manufacture stocks of nonfat dry milk for May was 18% higher than a year ago and a record for this date. Dry whey which was above \$0.50 per pound early in the year is now below \$0.40.

USDA's estimate of June milk production showed the growth in milk production slowing. Milk production was up 1.5% in May but just 0.7% in June, the result of 0.5% more cows and just 0.2% more milk per cow. June milk cow numbers were down 7,000 head from May. In recent weeks dairy cow slaughter has been running almost 6% higher than a year ago with year to date slaughter up 4.5%. The regional production patterns remain the same with Western states experiencing lower or only small increases in milk production from a year ago while increases in production are relatively strong in the Midwest and Northeast. Compared to June a year ago milk production was down 4.3% in California and 4.5% in New Mexico, both declines all due to less milk per cow. Milk production was also down in Texas by 2.1%, and just up 1.0% in Idaho. Milk production was up 5.2% in Iowa, 4.2% in Minnesota, 12.0% in South Dakota and 3.4% in Wisconsin. Michigan's production was up 7.2%, New York 2.9% and Pennsylvania 3.1%, however Ohio experienced a 0.7% decline due to less milk per cow. Milk production April through June was 1.4% higher than a year ago.

If dairy exports were at the levels a year ago, along with the existing good domestic sales, increases in milk production of 1.4% would easily be handled without lower milk prices. But, exports are well below year ago levels. For the period of January through May compared to a year ago exports were 74% lower for butter, 10% lower for cheese and 22% lower for dry whey with nonfat dry exports up slightly at 1%. It is not overly optimistic that exports will improve any time before well into next year. For nine consecutive trades on the Global Dairy Trade (GDT) prices have fallen. GDT prices are currently \$1.12 per pound for butter, \$1.19 per pound for cheddar cheese and \$0.77 per pound for skim milk powder, all well below existing U.S. prices except for skim milk powder in comparison to nonfat dry milk. Last year world milk production for the major exporters, the EU countries, New

Zealand and the U.S. were at relatively high levels at the same time China, the world's largest importer of dairy products drastically reduced imports, and Russia, the second largest importer placed a ban on imports from the EU. Russia was a major market for EU cheese and butter. As a result of the ban EU channeled more milk into nonfat dry milk/skim milk powder production which increases the competition for the same export markets U.S. serves. EU will also be competing with the U.S. for butter and cheese markets. Other countries have only picked up a small portion of lost exports to China and Russia. Thus, there currently exists a world buildup of surplus dairy products and the supply and demand will likely not come more in balance until the second half of next year. Also, not only are U.S. exports lower, with U.S. prices of cheese and butter still well above world prices imports are much higher than a year ago.

The July Class III price will be around \$16.25 compared to \$16.72 for June, and the Class IV price near \$13.45 compared to \$13.90 for June. But, with the declining dairy product prices the Class III price will be in the low to mid-\$15's for the remainder of the year. The Class IV price will be in the low \$13's, and possibly even below \$13 for some months for the remainder of the year. Depending upon the level of milk production it could be until the second half of next year before the Class III price returns to the \$16's and the Class IV price to the \$15's. Class III and Class IV dairy futures currently show this same pattern of prices. With feed prices averaging a little higher this fall and winter margins to dairy producers will be lower which could lower increases in milk production for next year. Yet, USDA is still forecasting a relatively strong 2.3% increase in milk production for next year, which if materializes will keep a damper on milk prices. If milk cow numbers continue to decline and milk per cow remains below trend like in June, then the growth in milk production will be dampened and milk prices may improve quicker towards year end and into next year.

