

Dairy Situation and Outlook, October 20, 2018
By Bob Cropp, Professor Emeritus
University of Wisconsin Cooperative Extension
University of Wisconsin-Madison

After increasing in September milk prices will decline in October. The Class III price was \$14.95 in August and increased in September to a high for the year at \$16.09. But, it looks like October may be closer to \$15.60. Class IV will continue with a small increase. The August Class IV price was \$14.63, September \$14.81 and October will be around \$15.00. The weakening of cheese prices is responsible for a lower Class III price. Cheddar 40 pound blocks were as high as \$1.705 per pound early September and averaged \$1.6483 for the month. But as of October 19th blocks have fallen to \$1.475 and may average around \$1.60 for the month. Cheddar barrels have fallen rather sharply. Barrels were as high as \$1.64 per pound early September and averaged \$1.4503 for the month. Barrels have fallen to \$1.2575 and may average around \$1.33 for the month. If it was not for the continued strengthening of dry whey prices the Class III price would be even lower. Dry whey averaged \$0.5225 per pound in September and continues to strengthen with a current price of \$0.5750. Dry whey has increased by more than \$0.25 since early in the year adding more than \$1.50 to the Class III price.

Butter was \$2.32 per pound the end of September and averaged \$2.2545 for the month. Butter is now \$2.26 per pound and may average around \$2.28 for the month. Little higher average October butter price and nonfat dry milk staying in the range of \$0.86 to \$0.88 per pound explains a little higher Class IV price.

With the upcoming thanksgiving and Christmas season cheese and butter buyers normally build stocks to meet the strong seasonal demand. As a result butter and cheese prices increase. But, this does not appear to be happening. Stocks held by butter and cheese manufacturers have tightened some but are more than adequate to fulfill demands by butter and cheese buyers. July 31st stocks compared to a year ago were 3.5% higher for butter and 3.3% higher for total natural cheese. Nonfat dry milk and dry whey stocks are well below a year ago, down 21.3% and 21.7% respectively.

Dairy exports have been a positive factor for milk prices. Despite retaliatory tariffs imposed by Mexico and China dairy exports continue to run above a year ago. A 64% increase in exports of nonfat dry milk/skim milk powder to Mexico was a major factor for higher August exports. In total nonfat dry milk/skim milk powder exports were 26% higher. But, August cheese exports were 7% lower due to a decline of 21% to Mexico and 40% to China. Total whey exports were still 2% higher despite a 26% decline to China. Butterfat exports were 56% higher. On a total milk solids basis August exports were equivalent to 16.8% of milk production compared to 15% a year ago.

September milk production was estimated to be 1.3% higher than a year ago. Milk cow numbers have declined for four consecutive months, are now 32,000 lower than a year ago and down 41,000 since January. But, improved milk per cow being 1.6% higher resulted in the increase in milk production. California's milk production showed a major recovery being up 4.8%. While cow numbers were 11,000 lower milk per cow was up 5.4%. Relatively strong increase in milk production occurred in Texas, Colorado and Kansas being up 8.9%, 8.7%, and 4.5% respectively. Each of these states added milk cows with Texas adding 24,000, Colorado 14,000 and Kansas 8,000. Milk cow numbers declined in the Midwest with Wisconsin down 4,000 and Minnesota down 6,000. But, higher production per cow still resulted in increased milk production of 2.0% and 1.5% respectively. The Northeast also experienced a decline in cow numbers. The number of cows were down 3,000 in New York, 8,000 in Pennsylvania and

6,000 in Michigan. The result was milk production up just 0.8% in New York but down 4.3% in Pennsylvania and 2.1% in Michigan. In the Southeast Florida has 5,000 fewer cows resulting in 8.7% less milk.

Unless cheese prices rally November and December Class III prices will stay below \$16. Currently Class III futures are in the mid-\$15's. For the year the Class III price may average around \$14.95 compared to \$16.16 in 2017. The November and December Class IV price could stay near \$15 and average about \$14.25 for the year compared to \$15.16 in 2017.

There is considerable uncertainty for milk prices in 2019. Butter and cheese sales should show continued growth. The level of milk production will be a major factor. USDA is forecasting a 1.5% increase in milk production. With this level of milk production milk prices in 2019 will average higher than 2018. The level of dairy exports will be a major factor as to how much higher. USDA is forecasting 2019 exports to be 6.7% lower on a milk-fat basis and 2.2% lower on a skim solids basis. For the first four months of 2018 the Class III price averaged just \$14.02. Class III prices for the first four months in 2019 should be at least in the mid-\$15's and show continued improvement in the months ahead being in the \$16's the last half of the year. The Class IV price only averaged \$13.13 for the first four month of 2018. For 2019 prices should be in the high \$14's to low \$15's and increase to the higher \$15's for the second half of the year. Wet weather last spring and this fall in the Northeast and Midwest may have lower forage quality that could reduce the level of milk per cow this winter. USDA is forecasting a slight increase in cow numbers which may not happen. So the increase in milk production could turn out less than the predicted 1.5% increase which would push milk prices higher. No doubt price forecasts will change from month to month as milk production and dairy exports become known.

Robert Cropp

racropp@wisc.edu

University of Wisconsin-Madison.