Dairy Situation and Outlook, September 18, 2019
By Bob Cropp, Professor Emeritus
University of Wisconsin Cooperative Extension
University of Wisconsin-Madison

Lower cheese production, tighter cheese stocks, modest growth in cheese sales plus slightly higher cheese exports all contributed to higher cheese prices and improved Class III prices. Compared to a year ago, July cheddar cheese production was 5.5% lower with total cheese production just 0.5% higher. July 31st American cheese stocks were 5.8% lower with total cheese stocks 3.5% lower. Cheese exports in July were 1% higher with year-to-date exports 3% higher. Cheese prices showed continued improvement August through September. On the CME cheddar barrels were $1.6975 per pound the end of July and 40-pound blocks were $1.82. Cheddar barrels improved to $1.94 per pound on September 16 only to dropped way back to $1.7850 on September 18. The 40-pound block price improved to $2.375 per pound on September 16 only to drop back to $2.1175 on September 18. A 40-pound block price at $2.00 per pound has not been seen since November of 2014. In 2014 cheese prices topped out in September with 40-pound blocks at $2.45 per pound and barrels at $2.43 resulting in a record high Class III price of $24.60 for September. Dry whey has also showed some strength since the end of July when it was $0.34 per pound to now $0.3975.

The Class III price was a low of $13.89 in February, improved to $17.60 in August and will be near $18.25 for September compared to $16.09 a year ago. Cheese and dry whey prices could still increase some as we approach the holiday season resulting in an October Class III price near $19 with November and December staying in the $18's.

Higher butter production, building stocks and lower exports has lowered butter prices. Compared to July a year ago, butter production was 6% higher and July 31st stocks were 3.6% higher. July butterfat exports were 68% lower with year-to-date exports 40% lower. On the CME, butter was $2.345 per pound the end of July but dropped to $2.11 on September 18. Nonfat dry milk was $1.035 per pound the end of July and improved $1.0750. As a result the Class IV price which was $16.74 in August will be near $16.30 for September compared to $14.81 a year ago. Butter prices also could still recover some as we approach the strong sales period during the holidays and nonfat dry milk prices should hold close to the current level resulting in a Class IV price $16.60 to $16.75 October through December.

Milk prices for the remainder of this year and into next year will depend on the level of milk production, domestic sales and exports. Milk production was 0.4% and 0.2% lower than a year ago May and June respectively, but was 0.2% higher for both July and August. Milk cow numbers continue to decline with August down another 2000 head and 0.8% lower than a year ago. Milk per cow was 1.0% higher than a year ago. Compared to August a year ago milk production for the top five states that produce more than 50% of the milk was: California +1.5%, Wisconsin -0.5%, Idaho +2.9%, New York +1.1% and Texas +4.6%. Other states with relatively strong increases in milk production were Colorado 4.6%, Oregon and Idaho both with 2.6% and Michigan 1.6%. States with relatively high decreases in milk production were Virginia 11.4%, Illinois 7.9%, Arizona 6.1% and Pennsylvania 6.0%.

USDA is forecasting milk production 1.5% higher next year, the result of 0.2% more milk cows and 1.3% more milk per cow. But, milk production could be lower than this. While milk prices are now showing improvement this does not offset the financial stress and loss of equity dairy farmers have experienced from low milk prices for the past four and half years. The number of milk cows may not increase. We can expect dairy farmers to continue to exit the dairy industry and not a lot of dairy herd expansions. Also this year's crop season has been a challenge with wet and cool weather delaying planting, acres planted, crop yields and forage quality could reduce the increase in milk per cow.

Domestic sales could weaken some if the economy slows as some are predicting. Both the consumer confidence index and the restaurant performance index have fallen. The lower volume of dairy exports this year was mostly due to lower exports to China. Lower exports of whey products and lactose accounted for much of the reduced exports to China, the result of retaliatory tariffs and the African Swine Fever which drastically reduced their swine herd. But, higher exports to Mexico, Middle East/North Africa and South America, and except for July higher exports to Southeast more than offset the reduced volume of exports to China. The possible slowing of the world economy could impact exports next year. Mexico, European countries, South America, South Korea, China and others are experiencing slower economic growth. But, USDA is still forecasting exports to be higher next year. This is very possible since world milk production is not expected to show much growth next year leaving opportunities for U.S. exports.

Current dairy futures are not overly optimistic for milk prices going into next year. Class III drops below $17 by January and doesn't reach $17 again until August and only in the low $17's for the remainder of the year. But, with a smaller increase in milk production and a level of domestic sales and exports to support milk prices I am of the opinion milk prices could do better than this with 2020 milk prices averaging one dollar or more higher than this year.

Robert Cropp
racropp@wisc.edu
University of Wisconsin-Madison