

## **Dairy Situation and Outlook, July 22, 2021**

Bob Cropp, Professor Emeritus

With a higher level of milk production, the production of dairy products has been relatively high. The latest dairy product report showed that compared to a year in ago in May the production of cheddar cheese was 8.7% higher with total cheese production up 5.0% and butter up 7.6%. However, improved domestic sales along with exports has tightened cheese stocks. June 30th American cheese stocks were 2% lower than May 31st and just 2% higher than a year ago. June 30th total cheese stocks were also 2% lower than May 31st and just 1% higher than a year ago. June 30th butter stocks grew just 1% from May 31st and were 14% higher than a year ago.

Milk production remains at a level to put downward pressure on milk prices. However, the level of milk production has improved. While May milk production for the U.S. was estimated to be 4.7% higher than a year ago June's production was up 2.9%. These increases need to be compared to a year ago when May milk production was down 0.5% from the previous year and June was up just 0.8%. Milk cow numbers had been increasing since July of 2020, but cow number declined slightly in June by 1,000 head. Cow numbers were still 153,000 higher than a year a year ago for a 1.3% increase. Milk per cow returned to a more normal trend being 1.3% higher.

Compared to June a year ago South Dakota had the highest increase in milk production being up 14.7%. Following was Indiana up 8.3% and Texas up 7.6%. Increases in some other key dairy states were California 3.1%, Wisconsin 2.8%, Minnesota 3.2%, Michigan 4.0%, New York 3.1% and New Mexico 4.3%. Just five states had decreases in milk production: Arizona, Florida, Pennsylvania, Virginia and Washington.

July milk prices will end up lower. Dairy product prices have weakened during the month. During the month the price of barrel cheese was as high as \$1.6475 per pound but has fallen to \$1.3725. The price of 40-pound blocks has ranged from \$1.5225 to \$1.7375 per pound and is now \$1.5425. Butter has ranged from \$1.6750 per pound to \$1.74 and is now \$1.6950. Nonfat dry milk has ranged from \$1.225 per pound to \$1.2675 and is now \$1.245. Dry whey has ranged from \$0.4875 per pound to now \$0.5375. As a result, the July Class III will be near \$16.65 down from \$17.20 in June and \$18.96 in May. The July Class IV will be near \$15.95 down from \$16.35 in June.

As things return to more normal with restaurants more fully open, students return to the classroom, conferences return, fans are back in the stands for sports and etc. domestic demand for dairy products will continue to improve. And dairy exports continue to do well as prices remain very competitive to Oceania and Western Europe. But, improved domestic demand and higher dairy exports will not be enough to hold milk prices higher unless milk production slows down even more. Dairy exports grew last year and continue above year ago level. May was the second highest month for dairy exports shipped in a single month. The volume in milk solids equivalent was up by 13 percent. Nonfat dry milk/skim milk powder exports were up 11.5%, the most ever shipped in a single month. Whey product exports were up 28%. Butterfat exports were up 152.7%. Cheese exports were 12.7% lower but a year ago cheese exports were strong as importers took advantage of U.S. cheese prices that were as low as \$1.00 per pound in April.

Milk prices for the remainder of the year are still uncertain. It will take more slowdown in milk production, improved domestic sales, and continued strong dairy exports for relatively high milk prices. USDA is forecasting this year's milk production on a daily basis to end up 2.5% higher than last year with 1.2% more milk cows and 1.3% more milk per cow. Milk production at this level will

keep downward pressure on milk prices. As of now Class III could be in the \$16's for July through September. As milk production reaches its seasonal low late summer, things return more to normal and with the anticipation of seasonal high demand for butter and cheese thanksgiving through Christmas cheese prices should strengthen pushing the Class III to the \$17's October through December. Current Class III futures show a similar pattern with the \$16's July through September and the \$17's October through December. USDA is forecasting even lower milk prices with Class III averaging just \$16.80 for the year.