

Dairy Situation and Outlook, February 23, 2022

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Milk prices strengthened last quarter of 2021 and continued into 2022 as the price of cheese, dry whey, butter and nonfat dry milk all increased. Class III was \$17.83 in October, \$18.03 in November, \$18.36 in December, \$20.38 in January and could be near \$20.85 in February. Class IV was \$17.4 in October, \$18.79 in November, \$19.88 in December, \$23.09 in January and could be near \$23.90 in February. Driving higher milk prices is a slowdown in milk production, modest increase in dairy product sales and record dairy exports.

In 2021 milk production was running well above a year ago with production up 2.8% January through July. But, by August production slowed down with last quarter of the year below year ago levels. Production continued below year ago levels in January 2022 being down 1.6%. Milk cow numbers after peaking in May 2021 had fallen 134,000 by December with January declining another 5,000. The increase in milk per cow was running well below normal trend being up just 0.3% August through December. Milk per cow was 0.7% lower January 2022 than a year ago. Last summer's drought tightening feed supplies and higher feed prices were the drivers of reduced cow numbers and smaller increase in milk per cow. Compared to January a year ago, of the 24 selected states 19 had lower milk production and 16 had lower milk per cow and 16 had fewer milk cows.

Compared to January a year ago of the five leading dairy states two had an increase in milk production, Idaho 0.6%, and Texas 3.5% with lower production of 1.9% in California, 0.6% in New York and 0.3% in Wisconsin. South Dakota had 18.3% more milk, the highest of all states. Milk production was down 12.1% in New Mexico, the most of all states. Some other states with less milk were Arizona, Florida, and Michigan all at 3.5%, Kansas 3.3%, Pennsylvania 2.9% and Indiana 2.8%

While beverage milk sales were about 4% lower in 2021 than the prior year commercial disappearance of butter was 2.4% higher and cheese 2.7% higher. Dairy exports set a new record high in 2021 being 10% higher than the prior year on a volume basis. All dairy products experienced increases over the prior year with nonfat dry milk/skim milk powder up 10%, whey products up 10%, cheese up 14%, a record high, and butterfat up 121%. Improved world demand, U.S. dairy product prices competitive to other major exporters and lower milk production in other major exporters allowed U.S. to grow its dairy exports.

It looks like milk prices will continue well above 2021 and be the highest milk prices since record prices were set back in 2014. Milk production is not likely to increase much in 2022. Higher feed prices, labor shortages, higher other input costs, and fewer heifers as dairy replacements expected to calve within the next 12 months, 2.7% lower than a year ago, will all hinder increases in milk production. Construction cost is also much higher reducing the incentive to build new facilities for herd expansion. While milk prices are expected to be higher, higher feed costs will tighten margins over feed cost. The existing widespread drought conditions is a concern for crop conditions in 2022 that could result in higher feed prices for the second half of the year. In response to higher milk prices some dairy producers may reduce culling and feed for higher milk production per cow which could improve milk production by the second half of the year. USDA is forecasting just a 0.7% increase in 2022 milk production which is bullish for milk prices.

On the demand side modest growth in butter and cheese sales is expected. Hopefully the COVID virus will be less of an issue for the remainder of the year allowing restaurants to return to more normal operations improving food service sales. Some consumers may cut back on eating out as

inflation reduces their spending power. Dairy exports are expected to experience some growth. However, increased exports will be challenging. The 2021 growth was driven by a rebound in exports to Mexico, a sharp increase in whey and milk powder exports to China and higher exports to Southeast Asia. Maintaining these markets and finding additional markets will be required to increase the volume of exports over the record 2021 exports. With higher feed costs, weather and environmental issues milk production in other major exporters is not expected to show much increase in 2022. And expected growth in world demand raising world prices leaves open the opportunity for U.S. to expand dairy exports. But higher U.S. dairy product prices will make U.S. products less competitive than 2021. Also, the relatively small increase in U.S. milk production limits its ability to increase in dairy product production for exports. We can also expect continued port congestion, shortages of shipping containers, trucking availability and other issues that challenge exporting.

Tighter dairy stocks will support higher milk prices. January 31st stocks of butter were 33.3% lower than a year ago. While total cheese stocks were 2.6% higher than a year ago this is a much smaller increase than all of 2021.

Even if domestic milk and dairy product sales turns out modest and dairy exports show no or small increase over 2021 the growth in milk production less than 1% will still support higher milk prices. Dairy futures currently are very bullish. Class III futures are \$21 to \$22 all year. Class IV futures are \$23 to \$24 until falling to \$23 in May and \$22 in October. The latest USDA forecast has Class III averaging \$19.65 for the year compared to \$17.08 in 2021 and Class IV averaging \$20.90 compared to \$16.09 in 2021. Milk prices could turn out higher or lower some months than these forecasted prices. Recent history tells us milk prices can change quickly with rather small changes in milk production, domestic sales or exports. Forecasting milk prices very far out is far from 100% certain. Dairy producers will continue to experience dairy price volatility and uncertainty and should consider using available price risk management tools.

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