Dairy Situation and Outlook, January 25, 2023
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Milk production was below year ago levels from the last quarter of 2021 through June of 2022. Since then milk production has been above year ago levels. December milk production was up 0.8%. Milk cows were 27,000 higher than a year ago, an increase of 0.3%. Milk per cow was just 0.4% higher. July to December milk production was 1.1% higher than a year ago. Higher milk production and weaker domestic sales has put downward pressure on milk prices. January to November butter sales were down 6.5% from a year ago while cheese sales were 1.3% higher. Fluid milk sales continued the downward trend. The December Class III was $20.50, down $4.71 from the $25.21 peak in May. The December Class IV was $22.12, down $3.71 from the $25.83 peak in June.

Compared to a December a year ago milk production for the five leading dairy states was up 0.3% for California, 0.6% for Wisconsin, 1.6% for Idaho, 3.3% for Texas, and 2.8% for New York. Georgia led the increase in milk production at 10.8 percent followed by South Dakota at 8.9%. Increases for some other states were Michigan 1.1%, Iowa 6.0%, and Kansas 3.8%. December milk production was down 12.7% for Florida, 6.5% Virginia, 4.8% for New Mexico and 0.3% for Minnesota.

Milk production will continue to run above year ago levels in 2023. However, high feed prices and the price of other inputs, lower milk prices, higher interest rates, tighter margins, a tighter supply of dairy replacements and base plans by some cooperatives will limited the increase. In 2022 milk cows peaked in May at 9.419 million, declined to 9.41 million by August, increased by 5,000 in September and 1,000 in October only to fall by 8,000 in both November and December. It is doubtful the number of milk cows will show much increase in 2023. USDA is forecasting for the year the average number of milk cows could actually be 5,000 lower than 2022. USDA forecast is for an increase in milk per cow of 1.1% resulting in an increase in total milk production of 1.1%.

USDA is forecasting total domestic milk sales both on a milk-fat basis and skim-solids basis to be down slightly from 2022. Inflation resulting in higher food prices and other consumer goods and the possibility of a recession is dampening sales. Dairy exports have been a positive factor for milk prices. The volume of November exports on a milk solids equivalent basis was 9% higher than a year ago, the eight consecutive monthly growth. Year-to-date total exports were up 4%. Year-to-date exports of whey products were up 8%, cheese 12%, butterfat 48% but down 7% for nonfat dry milk/skim milk powder. USDA is forecasting continued growth in 2023 exports as U.S. prices are to remain competitive on the world market and of the major exporting countries just Argentina and the U.S. are expected to have any real growth in milk production.

The combination of higher milk production, slightly lower domestic sales and some growth in dairy exports means lower milk prices in 2023. Both the Class III and Class IV futures have weakened considerably over the past month. Currently Class III is $19.44 in January, and has been in the $18's February through June and in the $19's for the remainder of the year. The January Class IV is $19.81, in the $18's February through June and in the $19's for the remained of the year. We could see prices lower than this. All dairy product prices have weaken in January . Unless there is price rally current dairy product prices could result in $17's for both Class III and Class IV. In fact, today the March Class III hit $17.93. USDA is forecasting the Class III to average $18.85 for the year, down $3.09 from $21.94 for 2022 and Class IV to average $19.25, down $5.25 from $24.47 for 2022. Much can change as we move through the year but it now appears 2023 milk prices will be much lower than 2022 prices.

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