

Dairy Situation and Outlook, February 22, 2023
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Cheese prices have moved up and down during January and February but the trend is downward. Barrel cheddar cheese averaged \$1,6803 per pound in January and is now \$1.60. Forty-pound cheddar blocks averaged \$2.0024 per pound in January and are now \$1.96. Dry whey which was \$0.30's per pound in January have been \$0.415 to \$0.46 per pound in February. As a result Class III which was \$20.50 in December fell to \$19.43 in January. The February Class III will be even lower around \$17.90. The Class III price has fallen a long way from the record \$25.21 last May.

The price of butter weakened some in January with some recovery in February. Butter averaged \$2.3553 per pound in January and is now \$2.38. Nonfat dry milk averaged \$1.2279 per pound in January and is now \$1.215. The December Class IV was \$22.12 but weaker December and January butter and nonfat dry milk prices pushed the January Class IV to \$20.01. The February Class IV may move even lower to around \$18.90.

The level of milk production, domestic sales and dairy exports will determine milk prices for the months ahead. As of now these factors indicate much lower milk prices than 2022.

Milk production is expected to increase but by less than 1% in 2023. USDA is forecasting an increase of 0.8% marking two consecutive years of less than a 1% increase. Milk production was just 0.1% higher in 2022. Fewer dairy replacements, expected higher culling of cows from the herd, relatively high feed prices and lower milk prices could reduce the average number of cows in 2023. USDA forecasts the average number of cows for the year to be down 24,000 from 2022, a 0.3% decline. This makes two consecutive decreases in cow numbers with a decline of 0.5% or 44,000 in 2022. High feed prices have been a factor limiting the increase in milk per cow. Milk per cow increased just 0.6% in 2022. USDA is forecasting a 1.0% increase for 2023.

As of now milk production continues to run above year ago levels. January's milk production was 1.3% higher than a year ago. Milk production has been at least 1% higher since last August. Milk cows were 0.4% higher and milk per cow was 0.9% higher. The number of milk cows declined by 9,000 November and December but increased by 16,000 in January. States with rather large increase in milk cow numbers were Texas 24,000, South Dakota 17,000, Iowa 16,000, and New York 10,000.

Compared to a year ago January milk production for the five leading dairy states was California no change, Wisconsin 1.6% higher, Idaho 2.6% higher, Texas 5.2% higher and New York 3.5% higher. Other states with relatively high increases were South Dakota 9.1%, Iowa 7.4%, and Georgia 6.3%. States with major declines were Florida 11.4% and New Mexico 4.1%.

Domestic use of dairy products in 2022 was slightly lower than 2021. While cheese sales were nearly the same as 2021 butter, nonfat dry milk, dry whey, whey protein concentrate and lactose declined. Domestic use is expected to increase in 2023 but only by about 1%.

Dairy exports were a major factor for stronger milk prices in 2022. Exports for all of 2022 were a record. Compared to 2021 exports were higher by 5% on a total volume basis, 9% for whey products, 12.5% for cheese which was a record, and 41.5% for butterfat but 5.5% lower for nonfat dry milk/skim milk powder. USDA is forecasting 2023 exports to be lower than 2022. U.S. will face more competition for exports as Europe's milk production increases. New Zealand could experience increased milk production depending upon weather conditions. Also, there is softness in

international demand that could limit exports. A lot depends upon China. Exports to China were lower in 2022.

The production of dairy products has been above year ago levels. Compared to December a year ago butter production was 3.9% higher and total cheese production 2.2% higher. Butter and cheese stocks increased from November 30th to December 31st. Compared to a year ago December 31st stocks of butter were 9% higher and total cheese stocks at the same level. Stocks are more than ample to meet current use.

Opinions as to the level of 2023 milk prices vary considerably but all forecast much lower milk prices than 2022. USDA has lowered their price forecast. Class III averaged \$21.94 for 2022, \$4.86 higher than 2021. The forecast for 2023 is \$17.90, \$4.04 lower than 2022. Class IV averaged \$24.47 for 2022, \$8.38 higher than 2021. The forecast for 2023 is \$18.25, \$6.22 lower than 2022. As we move through the year and monthly increases in milk production slow as expected, milk production hits its normal low this summer, demand strengthens as schools open late summer and butter and cheese sales have their normal seasonal strength during the holidays milk prices are likely to improve the second half of the year over the first. Current futures reflects this with Class III in the \$17's and \$18's first half of the year and the \$19's and \$20's the second half of the year. Futures are more optimistic than USDA's forecast. Some forecasters see the possibility of the Class III getting as low as the \$16's during the first half of the year. So much uncertainty exists as to the level of milk prices in 2023.

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