

Dairy Situation and Outlook, May 20, 2023
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Above a year ago milk production has slowed. Milk production January through March was 1.0% higher than a year ago. April production was just 0.3% higher. While the number of milk cows were 26,000 higher than a year ago, or up 0.3% milk per cow was unchanged from a year ago. The number of milk cows increased month to month January through March but fell 16,000 in April. Each of the five leading dairy states had April production higher than a year ago except California which experienced a 1.9% decline. California had the same number of cows as a year ago but excess rain and flooding reduced milk per cow by 1.9%. Milk production was up just 0.1% in Wisconsin from 5,000 fewer cows. Milk production in Idaho was up 2.7% from 16,000 more cows. Texas had 5,000 more cows with milk production up 1.3%. New York had 10,000 more cows with milk production up 2.4%. Increases in milk production for some other states was 7.7% for South Dakota, 5.0% for Kansas, 2.9% for Iowa and 2.6% for Michigan. Each state had more cows than a year ago. Some states experiencing lower milk production were Florida down 4.0%, Virginia down 4.0%, New Mexico down 3.1%, Utah down 2.7% and Arizona down 2.5%. Each of these states had fewer cows than a year ago.

Despite a slowdown in milk production cheese prices have declined steadily beginning in April and continuing in May. On The CME cheddar barrels averaged \$1.8175 per pound in March and \$1.5921 in April. As of May 19, barrels were just \$1.47 per pound. The 40-pound cheddar blocks averaged \$1.9372 per pound in March and \$1.7574 in April. As of May 19, blocks were just \$1.530 per pound. Dry whey prices have also fallen averaging \$0.4449 per pound in March and \$0.3709 in April and as of May 19 just \$0.2650 per pound. These lower prices will drop the Class III price which was \$18.52 in April to around \$16.30 in May.

The latest stock report showed total March 31st cheese stocks at the same level as a year ago but still at a relatively high level. While March total cheese production was just 0.2% higher than a year ago cheddar cheese production was up 3.6%. Cheese sales are up some from a year ago. Cheese exports were up year-to-date for eighteen straight months but fell below year ago levels by 0.4% in both February and March. Increased competition from European cheese and economic uncertainty has impacted cheese exports. But year-to-date cheese exports were still 4.0% higher than a year ago. March exports of other dairy products compared to a year ago were butter down 36%, nonfat dry milk/skim powder down 3.0% and dry whey products up 8%. On a milk solids equivalent basis, the volume of March exports was 0.4% lower than a year ago, the first decline in a year. Year-to-date exports were still 5% higher than a year ago.

Looking ahead the Class III price could stay in the \$16's June and July. Class III prices are then Likely to increase for the rest of the year. The increase in milk production over the previous year should stay well below 1%. USDA forecast the number of milk cows to average for the year just 0.1% higher than a year ago with the increase in milk per cow just 0.8% resulting in 0.9% more milk production than 2022. Milk production slows in the summer. Schools start opening in August which increases beverage milk sales. The building of butter and cheese stocks starts in late fall for the seasonal increased sales thanksgiving through Christmas. All of this will push the Class III price higher. By August, the Class III price could be in the high \$17's, increase to \$18 by September and peeking out in the high \$18's by October and November. Class III futures which had Class III in the \$19's just a few weeks ago for the last quarter of the year now is in the \$18's. USDA is not even quite this optimistic about the Class III price forward. USDA forecasts the Class III price to average just \$17.75

for the year compared to the \$21.96 average for 2022. But all will depend upon what milk production does for the remainder of the year along with domestic sales and exports. But clearly milk prices will stay well below those of 2022. Dairy producer margins will be squeezed. Some relief in lower feed prices are expected by fall if final crop yields turn out as expected.

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