

Dairy Situation and Outlook, September 18, 2023  
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Milk prices continue to show strength. Class III was \$18.52 in April but then steadily declined reaching a low of \$13.77 in July. But Class III rebounded in August to \$17.19 and will be around \$18.35 in September. Much higher cheese prices pushed Class III prices higher. Forty-pound cheddar blocks averaged \$1.6209 per pound in July but \$1.9752 in August. Blocks have been mostly in the \$1.92 to \$1.96 per pound range in September but has now shown weakness at \$1.88. Cheddar barrels averaged \$1.5404 per pound in July but \$1.8190 in August. In September barrels were mostly in the \$1.8275 to \$1.87 per pound range but have also now shown some weakness at 1.77.

Domestic demand has been positive for higher cheese prices pushing the Class III price higher. While fluid (beverage) milk sales continue below a year ago the sales of both butter and cheese have been higher. However, dairy exports, which set a record last year, have been below a year ago since last March. U.S. has faced weaker demand in Asia and increased competition for markets from both Europe and New Zealand. On a milk solids equivalent basis, the export volume for July was 12% lower than a year ago. Compared to July a year ago cheese exports were down 1% with year-to-date down 6%. Butterfat exports were down 61% with year-to-date down 45%. Dry whey product exports were down 43% with year-to-date down 17%. Nonfat dry milk/skim milk powder exports were up 3% with year-to-date down just 1%. Heavier exports to Mexico push July exports higher.

The main driver of higher cheese prices and milk prices has been lower milk production. Milk production fell below year ago levels by 0.7% in July and 0.2% in August. January through August milk production was just 0.4% higher than a year ago. August cow numbers were unchanged from July but were 16,000 head fewer than a year ago, a 0.2% decline. Cow numbers have declined by 54,000 since March. Low milk prices and favorable cull cow prices have encouraged higher culling and slaughter of cows from the herd. Hot temperatures impacted milk per cow with no increase from a year ago.

Compared to a year ago August milk production for the five leading dairy states was: California down 3.7%. Wisconsin up 1.2%, Idaho up 1.0%, New York up 3.8% and Texas down 3.2%. California had 9,000 fewer cows with milk per cow 3.2% lower. Wisconsin had 3,000 fewer cows with milk per cow 1.4% higher. New York had 6,000 more cows with milk per cow 2.8% higher. Texas had 20,000 fewer cows with milk per cow 0.2% lower. Other states with relatively strong increases in milk production were Iowa up 3.2%, Indiana up 3.0%, Georgia up 3.1%, Michigan up 3.7% and South Dakota up 6.0%. All of these states had more cows except Georgia. States with relatively high decreases in milk production were Colorado down 3.5%, Kansas down 4.3%, Minnesota down 0.7%, New Mexico down 8.0%, and Oregon down 3.2%.

Lower milk production has lowered cheese production. In July cheddar cheese production was 2.6% lower than a year ago with total cheese production down 0.7%. Cheese stocks have also tightened. Compared to a year ago, July 31<sup>st</sup> stocks of American cheese was 3% lower and total cheese stocks 2% lower.

The Class III price should stay at or near \$18 for the remainder of the year. Milk production is not likely to show increases over a year ago. Drought in the Midwest has reduced hay production. With expected feed prices and milk prices returns over feed cost will remain at unfavorable levels. Cow numbers will likely continue to decline. Reports are that both butter and cheese sales remain higher than a year ago. Dairy exports are expected to remain below year ago levels. Current Class III futures

average just above \$18 for October through December. USDA's latest price forecast has Class III averaging \$18.05 October through December.

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