With the government shutdown key USDA reports we not available—Milk Production, stocks of dairy products, production of dairy products, dairy exports, and slaughter cow numbers—all useful in assessing the dairy situation and milk price outlook. But, I will make some observations based on what we do know.

Dairy producers faced a very difficult year last year. Milk prices have been depressed for four years with last year being the worse of the four. Milk prices fell sharply the last quarter of the year. In September the Class III price was $16.09 but had fallen to just $13.78 in December. The average for the year was $14.61 compared to $16.16 in 2017. The Class IV price did better with improving nonfat dry milk prices. The Class IV price was $14.14 in July but improved to $15.09 in December. The average for the year was $14.23 compared to $15.16 in 2017.

Milk prices will average higher in 2019 depending upon the level of milk production, domestic sales and dairy exports. Most forecasts are not overly optimistic as to how much high with increases no more than $1. The latest milk production report was for November of last year. At that time cow numbers were declining and averaged 3,000 head or 0.03% lower year-to-date. With four years of low milk prices more than the usual number of dairy producers were exiting the industry. Milk per cow was running below the normal trend at just 1.0% higher and averaged 1.0% higher year-to-date. The result was milk production less than 1.0% higher than a year ago for September to November and averaging just 1.0% higher year-to-date. It seems logical with low milk prices that cow numbers continued to decline in December and going into January. Likewise the increase in milk per most likely continued to be no more than 1.0% for December going into January netting less than a 1.0% increase in milk production for December and probably for January.

USDA's latest dairy forecast was last December. At that time USDA forecasted the average number of milk cows for 2019 would be 20,000 head or 0.02% lower than 2018 and milk per cow would be 1.5% higher netting an increase in total milk production of 1.3% over 2018. But, milk production could well turn out less than this. The number of dairy producers exiting for at least for the first half of the year is expected to remain relatively high, and if so the decline in cow numbers could well be more than 20,000. Wet weather the spring and again the fall of 2018 lower the quality of hay and corn silage potentially dampening the increase in milk per cow to less than 1.5%. Domestic demand normally can handle about a 1% increase in milk production for reasonable milk prices. Increase above 1% require exports.

The 2018 economy was favorable for domestic demand with low unemployment and higher wages. However, beverage milk sales continue to decline. The latest milk sales was for November of last year. Sales January through November were 2.0% lower than the year before. When less milk is drank milk needs to be made into manufactured dairy products like cheese. Both cheese and butter sales were modestly higher last year. Concerns are rising that the economy may slow from last year which could dampen milk and dairy product sales.

Dairy exports will be important for higher milk prices in 2019. As long as there is a trade war between the U.S. and Mexico and China dairy exports will be curtailed. As of now this trade war doesn’t appear to be ending soon. The latest export data was for October of last year. Nonfat dry milk/skim milk powder exports were still running 19% higher than a year ago with cheese exports even, butterfat exports 75% higher and whey exports 19% lower. Mexico placed a retaliatory tariff on U.S. cheese but not nonfat dry milk. Mexico is U.S. largest market for cheese and nonfat dry milk and China is the largest market for whey products and China had cut whey imports by about half. On the positive side world milk production is not increasing and world dairy product prices are improving which may offer opportunities for U.S. exports. While New Zealand’s milk production is running well above a year ago, drought in Australia and the EU has reduced feed supplies forcing reduced cow numbers and lowering milk production. Also higher whey and nonfat dry milk exports to Southeast Asia replaced some of the loss exports to China. Mexico is still buying cheese with October sales to Mexico actually higher than the year before. So exports are likely to be lower than last year but still at a level to give some support to milk prices.

In summary, the increase in milk production not much more than 1%, modest growth in domestic sales and a level of exports to support milk prices I am a little more optimistic about milk prices this year. The Class III price is likely to be in the $14’s first quarter, in the $15’s second and third quarters but then in the $16’s fourth quarter and averaging $1.10 to $1.20 higher than last year. Class IV will start the year in the $15’s and could be in the $i6’s the last half of the year and averaging $1.40 to $1.50 higher than last year. Yet these prices are not what dairy produces need to start to recover from four years of low milk prices. But, I am also not ruling out that we could see a better recovery in milk prices by fourth quarter.