

Dairy Situation and Outlook, February 20, 2019  
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USDA released the December milk production. January milk production will be released on March 12<sup>th</sup> and February production on March 19<sup>th</sup>. December milk production was just 0.5% higher than a year ago from 49,000 fewer milk cows and just 1.1% more per cow. Milk production for the last quarter was just 0.5% higher than a year ago. Milk production for the year was up 0.9% from an average of 7,000 fewer milk cows and just 1.0% more milk per cow. Milk production below 1% is bullish for milk prices.

Comparing December milk production to a year ago, production was down 1.4% in Arizona, up 1.7% in California from 11,000 fewer cows, but 2.3% more milk per cow, up 4.9% in Idaho from 14,000 more cows and 2.5% more milk per cow, down 2.8% in New Mexico from 7,000 fewer cows, and up 4.8% in Texas from 27,000 more cows. In the Northeast production was up 2.1% in New York from the same number of cows, down 6.0% in Pennsylvania from 20,000 fewer cows, and down 0.2% in Michigan from 6,000 fewer cows. In the Midwest production was down 0.2% in Iowa from less milk per cow, up 1.0% in Minnesota from 2.2% higher milk per cow more than offsetting 6,000 fewer cows, up 1.4% in Wisconsin from 1.8% higher milk per cow more than offsetting 5,000 fewer cows, and up 5.5% in South Dakota from 4,000 more cows and 1.9% higher milk per cow. States with significant declines in milk production were: Florida 7.2% with 8,000 fewer cows, Virginia 12.3% with 8,000 fewer cows, Illinois 9.7% with 8,000 fewer cows, Indiana 3.7% with 6,000 fewer cows and Ohio 4.1% with 11,000 fewer cows. The decline in cow numbers reflects the financial strain on dairy producers from four years of low milk prices.

Despite the growth in milk production of less than 1.0% milk prices remain depressed going into 2019. The January Class III price was \$13.96 and it looks like February will be around \$14.00. Cheese prices are starting to show some improvement. The 40-pound cheddar block price was as low as \$1.375 per pound in January and have improved to \$1.5950. Cheddar barrels were as low as \$1.16 per pound in January and have improved to \$1.4175. But, dry whey prices have weakened. In mid-January dry whey was \$0.52 per pound, but are now \$0.36 which has reduced the Class III price about \$0.90. With butter holding near \$2.25 per pound and nonfat dry milk near \$1.00 per pound the Class IV price has increased and is higher than Class III. In January Class IV was \$15.48 and will be near \$15.85 in February.

Looking ahead milk prices are expected to slowly increase. Domestic demand has been showing modest growth. Fluid (beverage) milk sales continue the downward trend falling another 2.0% in 2018. But, higher butter and cheese sales increased total domestic demand. A similar trend is expected for 2019. November dairy exports on a volume basis fell below a year ago, the first decline since October 2017. While nonfat dry milk exports were up 13% to Mexico, the largest market, exports were down 22% to Southeast Asia, 91% in the MENA region and 64% to China. Cheese exports were down 10% with declines of 7% to Mexico, 25% to China, 24% to South Korea and 20% to the MENA region. Dry whey exports were down 18% mainly due to a 37% drop in exports to China. Butterfat exports were still 24% higher. On a total solids basis November exports were equivalent to 13.9% of U.S. milk production compared to 16.1% a year ago. Unless the trade war with Mexico and China is resolved we can expect 2019 exports to be lower than 2018.

With the government shut down the latest stock report was for November 30<sup>th</sup>. At that time cheese stocks were a record high at 7.5% higher than a year ago. Butter stocks were 3.5% lower, dry whey

stocks 34.6% lower and nonfat dry milk stocks 9.4% lower. USDA will release December stocks on March 12<sup>th</sup> and February stocks on March 19<sup>th</sup>.

Class III futures don't reach \$15 until May and the \$16's until August and peak at just \$16.35 in November. But, if the growth in milk production is no more than 1.0% the Class III price could improve quicker and higher than this. USDA is forecasting for the year that milk production could increase by 1.1% from an average of 20,000 fewer milk cows and 1.4% more milk per cow. With the financial stress on dairy producers and some forage quality issues until the new crop I could see even lower cow numbers and a lower increase in milk production. With a modest growth in cheese sales the stocks of cheese will slowly improve. While dairy exports are expected to be lower they may still be at a level to offer support to cheese and other dairy product prices. With little growth in world milk production world milk prices should increase to help U.S. dairy exports. I could see Class III prices in the mid-\$15's by second quarter, the high 15's and even reaching the \$16's in the third quarter and the mid-\$16's in the fourth quarter and averaging around \$15.70 compared to \$14.61 last year. The Class IV price is expected to do better. Butter prices should stay well above \$2.00 per pound and continued strong nonfat dry milk exports to keep nonfat dry milk prices near \$1.00 per pound. Class IV prices could stay in the higher \$15's first half of the year and in the \$16's second half.

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