

Dairy Situation and Outlook, March 19, 2019
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Good news for improved milk prices is milk production continues to slow. For the last quarter of 2018 milk production was just 0.5% above a year earlier. January's production was up 0.9%, and February was up just 0.2%. The number of milk cows started to decline last June, and while there was no change from January to February cow numbers had declined 63,000 head and were now 77,000 head or 0.8% lower than a year ago. The increase in milk per cow continues below trend being up 1.0% in 2018 and 1.1% in February.

Of the 23 reporting states, 13 had fewer cows in February than a year ago, six had lower milk per cow and 8 had lower total milk production. States with big losses in cow numbers were Pennsylvania 25,000, New Mexico 12,000, Virginia and Ohio both 9,000, Arizona, California and Florida 8,000, and Minnesota, Illinois, Indiana and Wisconsin down 5,000. States with major increases in cow numbers were Texas 20,000, Colorado 12,000, South Dakota 5,000 and New York 2,000.

States with significant declines in February milk production from a year ago were Virginia 11.7%, Illinois 7.3%, Florida 6.2%, Pennsylvania 6.0%, New Mexico and Ohio 3.9% and Arizona 3.4%. States with significant increases in milk production were Colorado 8.3%, Texas 7.7%, Oregon 7.3%, South Dakota 6.4%, and Idaho 2.1%. Other increases were California 0.1%, New York 2.8%, Iowa 0.5%, Minnesota 1.6%, Michigan 1.0% and Wisconsin 1.5%.

Domestic demand continues on the soft side. Fluid beverage milk sales declined another 2.0% last year with modest growth in butter and cheese sales. This type of pattern is expected to continue in 2019. Dairy exports were a record high in 2018 being equivalent to 15.8% of milk production on a total milk solids basis compared to 14.5% in 2017. Compared to 2017 exports of cheese were 2% higher, butterfat 61% higher, nonfat dry milk/skim milk powder 18% higher and no change in total whey products. But, exports were robust for the first half of the year and dampened the second half of the year after China, Mexico and Canada imposed retaliatory tariffs on U.S. dairy products. On a milk-fat milk equivalent basis exports in the first half of 2018 grew by 18.9% over that of 2017, but declined to 8.0% for the second half of the year. On a skim-solids milk equivalent basis, exports in the first half of the year grew by 19.8% over 2017, but in the third quarter the growth declined to 12.8%, and in the fourth quarter exports were below 2017 by 12.2%. By December of 2018 exports on a total milk solids basis had declined to 12.8% of milk production. Looking into 2019 there are some positive factors for exports. Milk production is expected to show only a modest increase in the EU, lower production in Australia and a possible drought in New Zealand could dampen their milk production. World dairy product prices are increasing. But, as long as retaliatory tariffs exist exports will be hindered. USDA forecasts 2019 exports on a milk-fat basis to be down 3.8% and on a skim-solids basis up just 1.0%.

Cheese stocks remain at rather higher levels holding down cheese prices. January 31st cheese stocks grew a little from December with American cheese stocks 8.6% higher than a year ago and total cheese stocks 6.4% higher. Butter stocks normally increase as we move towards summer as cream supplies are more available than when ice cream production picks up for summer sales. January 31st butter stocks were 6.9% lower than a year ago. January 31st stocks of dry whey were 12% lower than a year ago and nonfat dry milk stocks 7.6% lower.

Despite a slower growth in milk production ample cheese stocks, modest growth in domestic demand and reduced growth in dairy exports has kept milk prices from showing much improvement. The Class III price was \$13.89 in January and \$13.96 in February. Earlier in the month barrel cheese was just \$1.365 per pound and 40 pound blocks were \$1.52 per pound. Prices have improved to \$1.51 for barrels and \$1.5825 for blocks. But, dry whey prices continue to weaken from \$0.36 per pound early in the month to now \$0.305. To get \$16 Class III prices cheese needs to get above \$1.70 per pound. It looks like March Class III will increase to about \$14.95. Dairy futures continues to show very slow price recovery with Class III reaching the low \$15's in April and not reaching the \$16's until August and only topping out in the low \$16's in October. But, I look for the Class III price to do better than this. After four years of low milk prices and starting 2019 with low milk prices the growth in milk production is likely to stay below 1% for a while. The number of licensed dairy herds in 2018 declined 2,731 or 6.8%. Herd numbers continue to decline. Cow numbers will likely continue to decline through at least the first half of the year. Slaughter cow numbers continue to run above a year ago and the number of dairy replacements expected to enter the dairy herd during the year are down 1% from a year ago. And with some forage quality issues until a new crop and lower returns over feed cost the increase in milk per cow is likely to be dampened. So I see the possibility of much stronger Class III prices for the last six months and reaching the mid to high \$16's by fourth quarter.

Butter prices have been staying around \$2.28 per pound and should hold around there and strengthen some by fourth quarter. Nonfat dry milk prices should hold close to \$0.95 per pound and higher for most of the year. The Class IV price was \$15.98 in January, \$15.86 in February and should be about \$15.80 in March. By May the Class IV price should reach \$16's and could be in the high \$16's by fourth quarter.

In 2018 the average all milk price was \$16.18 compared to \$17.65 in 2017 and the lowest average since \$12.85 back in 2009. So while milk prices will improve in 2019 over that of 2018 they will keep operating margins for dairy farmers rather tight until at least the last quarter of the year.

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