

Dairy Situation and Outlook, May 20, 2019
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Increases in milk production well below one percent from last quarter of 2018 and going into this year with February milk production just 0.1% higher than a year ago, March production actually 0.6% lower than a year ago and April's production up just 0.1% has reduced dairy product production and increased dairy product prices. The latest dairy product production for March compared to a year ago showed production down 3.9% for butter, 3.2% for cheddar cheese, 0.7% for total cheese, 8.0% for nonfat dry milk and 14.2% for dry whey. Lower production has tighten stock levels. March 31st stocks compared to a year ago showed butter 1.4% lower, and while cheese stocks were still higher they have tightened with American cheese stocks just 2.3% higher and total cheese stocks 4.3% higher. Nonfat dry milk stocks were 2.9% lower, but dry whey stocks were 5.5% higher.

With the exception of dry whey dairy product prices for May will average higher than April. Since the end of April CME butter now at \$2.34 per pound is up 2 cents, cheddar barrels now at \$1.6250 per pound is unchanged, but was as high as \$1.74 earlier in the month, and 40 pound cheddar blocks now at \$1.6250 is also unchanged, but was as high as \$1.7025 earlier in the month. Nonfat dry milk now at \$1.0450 per pound is 2 cents higher than the end of April, but dry whey now at \$0.35 per pound is just one cent higher.

The higher average dairy product prices is pushing milk prices higher. The Class III price which was below \$14 for both January and February was \$15.96 in April and will be near \$16.35 for May. The Class IV price which was \$15.48 in January was \$15.72 in April and will be near \$16.30 for May.

Dairy exports impact dairy product prices. March exports compared to a year ago showed nonfat dry milk/skim milk powder exports 10% lower with exports down 21% to Mexico and 86% to China. Butter exports were 33% lower, and total whey product exports 22% lower due to whey exports down 52% to China, the result of China's retaliatory tariffs, but also the African Swine fever which has taken a toll on China's swine herd. But, cheese exports have been increasing. February cheese exports were 16% higher than a year ago, the second highest volume ever, and March exports were 10% higher for a record volume. While cheese exports to Mexico were down 17% as retaliatory tariffs on U.S. cheese remain in place cheese exports to South Korea were 39% higher, with record exports to Southeast Asia up 33%, and up 28% to Japan, 22% to MENA and 33% to Central America. South Korea surpassed Mexico as the largest cheese market surpassing Mexico for the first time in four years.

Key factors indicate that milk prices will continue to strengthen as we progress through the year. Milk production is forecasted to increase no more than 0.5% for the year. April's milk production up just 0.1% from a year ago was the net result of 1.0% fewer milk cows than a year ago and 1.1% more milk per cow. For the top five milk production states April milk production was up 6.7% for Texas, 2.6% for California, 2.2% for Idaho, 1.9% for New York but just 0.4% for Wisconsin. Relatively large declines in April milk production occurred in Virginia 11%, Pennsylvania 7.1%, Florida 5.5%, Arizona 4.7% and New Mexico 3.9%. Michigan's production improved some with April production 1.6% higher than a year ago. April's production was 0.1% lower in Minnesota, 1.4% in Iowa and 1.8% higher in South Dakota. It appears the spring flush in milk production will be weaker than normal.

The late wet and rather cool spring has delayed the planting for corn and soybeans. Portions of some wet fields in the Corn Belt may not get planted. There are reports of winter kill of alfalfa in Wisconsin. And the weather forecast is for above normal wet weather going into June could make harvesting of first crop alfalfa difficult and lowering its quality. All of which can make higher feed prices and lower quality forage going into fall and winter and lowering increases in milk per cow.

Fluid (beverage) milk sales continues on the downward trend making more milk available for manufactured products like cheese. Compared to a year ago first quarter conventional fluid milk sales were 2.2% lower, fluid organic milk sales 4.5% lower resulting in total fluid milk sales 2.4% lower. But, with continued growth in the economy, low unemployment and high wages modest growth in butter and cheese sales is anticipated to increase total domestic sales of milk.

Where dairy exports are headed will have a major bearing how much milk prices improve. President Trump just announced that tariffs on Canada and Mexico aluminum and steel have been lifted. In response Canada and Mexico will lift retaliatory tariffs on U.S. dairy products. The lifting of Mexico's retaliatory tariffs on U.S. cheese could resume higher cheese exports to Mexico by last quarter of this year. Increased tariffs imposed by the U.S. on China's goods and China retaliating with higher tariffs on U.S. dairy products could further reduce dairy exports to China. Unless the U.S./China trade dispute is ended exports to China will not improve in 2019. We can expect continued relatively strong exports to South Korea, Southeast Asia and maybe to Japan and Central America. So while trade volume may end up lower than last year exports should still be at a level to add support to milk prices.

It now looks like there is a good possibility that milk prices could strengthen considerably last quarter of the year. A Class III price near \$17 by June and in the high \$17's by September or October seems possible. Current Class III futures are not quite that optimistic reaching low \$17's August through November before falling back below \$17 in December. Class IV prices could be in the \$17's from July through the end of the year. Current Class IV futures reflect this price pattern. But, it wouldn't take big changes in the level of milk production and/or dairy exports to drive milk prices either higher or lower than this.

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