Dairy Situation and Outlook, June 18, 2019

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The good news is milk prices continue to improve. The Class III price which was as low as $13.89 in February will improve about $2.40 in June to around $16.30. The Class IV price which was as low as $15.48 in January will improve about $1.30 to around $16.80 in June. Much lower milk production is the driver for improved milk prices. For the U.S. compared to a year earlier, April's milk production was up just 0.3% with May down 0.4%. Cow numbers in May were 9.333 million head, down 89,000 since January or 0.9% lower than a year ago. The continued exiting of dairy producers and the slaughter of cows running 5.0% higher than a year ago is reducing the size of the dairy herd. Milk per cow was also well below trend being up just 0.6%. Of the 24 reporting states 14 had fewer cows and 11 had lower total milk production.

In May two states lead the way in increases in milk production, Texas at 5.4% and Colorado at 3.6%. Production for other Western states were: California and Idaho up 1.3% and 1.4% respectively with production down 0.8% in New Mexico and 4.3% in Arizona. In the Northeast production was up 1.0% in New York, just 0.4% in Michigan and down 7.0% in Pennsylvania. In the Midwest production was up just 0.4% for South Dakota with production down 0.2% for both Iowa and Minnesota and 0.4% for Wisconsin. In the Southeast production was down 4.9% in Florida and 10.1% in Virginia.

Lower milk production relates to lower dairy product production. Compared to a year earlier April butter production was 4.8% lower, American cheese production 2.8% lower with cheddar 3.3% lower, total cheese production just 0.2% higher, nonfat dry milk production 2.6% lower and dry whey production 13.7% lower.

Butter and cheese sales continue to show modest growth. But, fluid (beverage) mill sales continue the downward trend with April sales 3.1% lower than a year ago and year-to-date sales 2.5% lower. While lower than a year ago, dairy exports are supportive of milk prices. With lower milk production exports do not need to be as high to support milk prices. For the first four months of the year exports on a volume basis were the third highest with 2018 being the highest and 2014 the second highest. Much lower exports to China is the major factor for reduce volume of exports. China's retaliatory tariffs and the African swine fever resulted in April exports to China being 64% lower than a year ago. Cheese exports have held up. While April cheese exports were one percent lower than a year ago, year-to-date exports are 7% higher. April exports were down 25% for nonfat dry milk/skim milk power, 71% for butterfat and 31% for total whey products. Yet on a total solids basis exports were equivalent to 14.4% of milk production.

The stock level of dairy products is also improving. Compared to a year ago April 30th stocks were 5.4% lower for butter, just 0.3% higher for American cheese stocks and 4.0% higher for total cheese stocks. However, dry whey stocks and nonfat dry milk stocks were 8.9% and 1.6% higher.

Milk prices should improve further as we progress through the rest of the year. USDA now forecasts milk production for the year to be just 0.3% higher than 2018, the result of cow numbers averaging 0.7% lower and milk per cow 1.0% higher. It looks like feed prices will be higher. Alfalfa hay prices will be higher. Current hay stocks are tight and there are reports of significant winter kill in some areas along with a challenge of harvesting quality first cutting due to wet weather. Delayed corn planting and unplanted acres means higher corn prices. Tighter feed supplies, lower quality forages along with higher feed prices will likely continue to reduce cow numbers and dampen milk per cow this fall and winter.

Butter and cheese sales are expected to continue to show modest growth. While exports will be lower exports will still support to milk prices. It doesn't look like the trade dispute with China will end soon. In May U.S. increased tariffs on China's goods and China in turn increased tariffs levied on U.S. dairy products. But, in May U.S. eliminated tariffs on steel and aluminum from Mexico and Mexico in turn eliminated its tariffs on U.S, cheese. This could be positive for cheese exports later this year and going into 2020.

As of now we could see the Class III price in the low $17's by August and in the mid to high $17's by fourth quarter. Some are predicting Class III even in the $18's. Class IV could be in the low $17's by July and in the mid $17's fourth quarter. If this holds true, Class III would average about $16.30 for the year compared to $14.61 in 2018 and the Class IV price would average about $17.00 compared to $15.09 in 2018.

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