

Dairy Situation and Outlook, August 19, 2019  
By Bob Cropp, Professor Emeritus  
University of Wisconsin Cooperative Extension  
University of Wisconsin-Madison

Milk prices have shown improvement since early in the year. Class III was a low of \$13.89 in February and increased \$3.66 by July to \$17.55. Class IV was \$15.48 in January and increased \$1.52 to \$16.90 in July. But, with small changes in dairy product prices August will see a small increase in the Class III price and a small decrease in the Class IV price. On the CME, barrel cheese was as high as \$1.78 per pound in July, started August at \$1.6925 and is now \$1.750. The 40-pound blocks were as high as \$1.86 per pound in July, started August at \$1.82 and are now \$1.9075. Butter will average lower in August. Butter was as high as \$1.435 per pound in July and is now \$2.33. Dry whey was \$0.32 per pound in July and has improved to \$0.370. Nonfat dry milk was as high as \$1.05 per pound in July, but has decreased to \$1.03. The little improvement in cheese and dry whey prices will put the August Class III price near \$17.60. Lower butter and nonfat dry milk prices will put the August Class IV price lower to near \$16.60.

Class III futures shows September peaking at about \$17.80 and then declining fourth quarter and ending in December about \$17.00. Class IV futures remain below \$17 for the remainder of the year. But, milk prices could do better than this for the fourth quarter for several reasons. Butter and cheese will be in the strong seasonal sales period thanksgiving through the holidays. Schools will be starting increasing fluid milk sales leaving less milk for dairy product production. Compared to a year ago, the June Dairy Product report showed butter production up some to 3.1%, but cheddar cheese 1.9% lower, dry whey 6.3% lower and nonfat dry milk just 2.7% higher. The dairy stock situation has tightened. Compared to June 30<sup>th</sup> a year ago, butter stocks were 2.6% lower, American cheese stocks declined May to June as did total cheese stocks and were 1.9% and 0.5% lower respectively. Dry whey stocks were 0.9% lower and nonfat dry milk stocks 4.8% lower. Milk production will show some seasonal strength but remain below year ago levels.

Lower dairy exports have dampened the increase in milk prices some. But, with lower milk production exports don't need to be as high to support milk prices. According to US Dairy Export Council loss of exports to China due to retaliatory tariffs and African swine fever, plus strong competition from European and New Zealand resulted in the volume of exports for the first half of the year to be down 14% from last year. Cheese exports have been the bright spot with exports 4% higher than a year ago for the first half of the year with record volumes to South Korea, Southeast Asia, and Central America. But, June cheese exports took a turn to 12% lower. For the first half of the year, nonfat dry milk exports were 15% lower, the result of losing market share to European suppliers and New Zealand. For the first half of the year dry whey exports were 25% lower due almost entirely to exports to China down 58%. On a total milk solids basis, U.S. Exports were equivalent to 14.1% of U.S. milk solids production for the first half of the year compared to 16.7% a year ago.

USDA's milk production report estimated July milk production to be down 0.2% from a year ago, the net result of almost one percent fewer milk cows and an increase in milk per cow of just 0.9%. Milk cow numbers continue to decline dropping 9,000 head June to July. Of the 24 reporting states 14 had fewer milk cows than a year ago and milk per cow was lower in 11 states. Relatively large production increase continued in Texas and Colorado with increases of 5.8% and 5.9% respectively. California and Idaho had increases of 2.5% and 2.1%. Production was down 6.7% in Arizona and 0.9% in New Mexico. In the Northeast New York's production was up just 0.3%, Michigan 0.6%, but down 7.6% in Pennsylvania and 6.0% in Ohio. In the Midwest production was down 1.0% in Wisconsin, 0.7% in Iowa and up just 1.0% in

Minnesota. In the Southeast production was down 1.1% in Florida and 11.2% in Virginia with Georgia up 2.8%.

Milk prices in 2020 will depend a lot on the level of milk production. USDA's is forecasting milk production to be 1.6% higher due to milk cow numbers averaging 0.2% higher and milk per cow 1.4% higher. But, this level of milk production could be on the higher side. There may be no increase in the number of milk cows. Dairy cow slaughter continues to run higher than a year ago. Dairy herds exiting the industry continues to run relatively high. Financial stress for more than four years will hinder dairy expansions. The number of dairy replacements are lower standing at 44.1 per 100 milk cows, the lowest since depressed milk price in 2009. There is concern about feed quality. Stocks of quality hay are tight. Corn and soybean meal prices will be average higher. The result may lower the increase in milk per cow. There is some concern as to whether the U.S. economy will slow and impact dairy product sales. There is also concern that the world economy could slow impacting dairy exports. USDA is still forecasting 2020 exports to be 5.3% higher on a milk fat basis than 2019 and 4.4% higher on a total milk solids basis. So there is a lot that can sway milk prices higher or lower. Dairy futures are currently not overly optimistic about 2020 milk prices. Class III futures stay below \$17 through July and only get to the low \$17's the remainder of the year. Class IV futures are in the high \$16's first quarter than the \$17's the remainder of the year. USDA likewise is not overly optimistic as to how much higher milk prices will be in 2020. USDA forecasts Class III to average \$16.55, just \$0.25 higher than the forecast for this year, and Class IV to average \$16.45, just \$0.15 higher. But, there still is a good probability milk prices could strengthen the last half of the year and end averaging better than this.

Robert Cropp

[racropp@wisc.edu](mailto:racropp@wisc.edu)

University Of Wisconsin Madison