

Dairy Situation and Outlook, December 18, 2019
By Bob Cropp, Professor Emeritus
University of Wisconsin Cooperative Extension
University Of Wisconsin-Madison

With fourth quarter Class III prices not seen since record highs in 2014 Class III will average about \$16.96 for the year, \$2.35 higher than the \$14.61 average in 2018. Class III was as low as \$13.89 back in February. But, in October it was \$18.72, November \$20.45 and December will be around \$19.40. October total cheese production 2.1% lower than a year ago, good seasonal cheese sales along with September cheese exports 12% higher than a year ago and October 6% higher put cheese stocks below a year ago, all of which strengthened cheese prices. The 40-pound block cheddar price was above \$2 per pound from early October until November 12th and cheddar barrels were above \$2 per pound from early October until December 10th. Some improvement in dry whey prices also supported higher Class III prices. Dry whey was \$0.2725 per pound the end of October and increased to \$0.3675 early December.

Since November 2016 butter was above \$2 per pound until November 27th of this year. Higher nonfat dry milk prices more than offset lower butter prices increasing the Class IV price. Nonfat dry milk was \$1.0475 per pound in September and increased to \$1.2375 per pound by the end of November. Higher cheese prices resulted in increased use of nonfat dry milk to standardized milk for cheese production and nonfat dry milk exports increased. While butter exports were 45% lower than a year ago January through October nonfat dry milk exports were 25% higher in September and 17% higher in October. Class IV will average about \$16.47 for the year, about \$2.24 higher than the \$14.23 average in 2019.

The big question is how long can we expect higher milk prices? As of now it looks like first quarter 2020 milk prices could average as much as \$3 higher than a year ago, and continue to average higher through third quarter with prices averaging a little lower fourth quarter. It all depends upon the level of milk production, milk sales and dairy exports.

Compared to a year earlier November milk production was just 0.5% higher than a year ago, the net result of 0.3% fewer cows and 0.8% more milk per cow. The growth in milk production seems to be slowing. Milk production had increased 1.3% in September and 1.0% in October. Also cow numbers were trending downward during the year but increased 5,000 in September and another 9,000 in October. November had no increase in cow numbers. Depending upon December milk production the year could end with cows averaging 0.7% lower than a year ago and milk per cow 1.2% higher netting an increase in total milk production of just 0.5%.

USDA is forecasting for 2020 just a 5,000 increase in the average number of cows with 1.7% more milk per cow netting a 1.7% increase in total milk production. After four and half years of depressed milk prices dairy expansions are likely to be limited. The number of dairy replacements is lower. But, the size of the dairy herd could increase some with higher milk prices making lower producing cows still profitable and some dairy producers keeping these cows in the herd longer to produce all the milk they can. But, the forecasted increase in milk per cow seems to be on the high side. The very wet year resulted in lower quality alfalfa hay, haylage and corn silage which likely will dampen the increase in milk per cow. The increase in milk production could be more like 1.3% to 1.4%.

A continued relatively strong economy with low unemployment and higher wages along with positive consumer confidence will increase total milk sales. Fluid (beverage) milk sales will continue its downward trend but this will be more than offset by higher cheese sales.

USDA is forecasting 2020 dairy exports to be 3.3% higher on a fat basis and 5.6% higher on a skim-solids basis. U.S. butter, cheese and nonfat dry milk prices are currently above Oceania and Europe prices. But, world prices may increase some and U.S. prices will decline some. Plus, milk production in all of the major dairy exporters except the U.S. is forecasted to be lower in 2020 or up less than one percent. EU has experienced a major drought reducing feed supplies and increasing feed prices. Cow numbers have declined. Weather issues may keep New Zealand's milk production increase to no more than one percent. Australia has also experienced a major drought reducing feed supplies and forcing a reduction in cow numbers. Milk production was down more than 5% this year with little if any increase expected in 2020. Weather issues has also damped Argentina's milk production. So dairy exporters will have less dairy products available and dairy importers will need to turn to the U.S. for dairy products.

But, cheese prices have tumbled since the beginning of December. On the CME cheddar barrels fell \$0.6925 per pound from \$2.2625 to \$1.57, but came back today \$0.0425 to \$1.615. The 40-pound block price fell \$0.205 per pound from \$1.9475 to \$1.7425 but also came back \$0.0575 today to \$1.80. Dry whey also fell from \$0.3675 per pound to \$0.3125. Cheese prices normally due fall after orders are filled for the holiday season. But, this appears to be an abnormal downward marked adjustment with some further upward correction likely. If not, Class III will fall below \$16 again.

As of now I could see Class III averaging around \$17.25 first quarter, \$17.20 second quarter, \$18.25 third quarter, \$18.85 fourth quarter and averaging near \$17.90 for the year compared to the estimated \$16.96 for 2019. However, this is well above current Class III futures but in line with what USDA is forecasting. We know that milk prices are very sensitive to rather small changes in milk production, milk sales or exports. No doubt price forecasts will be modified as we move through the year and see what actually develops.

Robert Cropp

racropp@wwisc.edu

University of Wisconsin-Madison.