

Dairy Situation and Outlook, January 23, 2020
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Milk prices normally decline in January following the seasonal high sales period for butter and cheese during the holidays and this year is no exception. Milk prices during the last quarter of 2019 had improved significantly from earlier in the year. Class III hit a high of \$20.45 in November and declined to \$19.37 in December but averaged \$16.96 for the year, \$2.35 higher than the 2018 average of \$14.61. But, it look like Class III for January will be more than \$2 lower than December around \$17.00 due to much lower cheese prices. On the CME cheddar barrels were as high as \$2.39 per pound early November of 2019 and stayed above \$2.00 until early December. During January barrels were a low of \$1.4675 per pound and as high as \$1.6425 per pound and as of today barrels are \$1.63. The 40-pound cheddar block price was a high of \$2.175 per pound the end of October 2019 and stayed above \$2.00 until November 12th. During January blocks were a low of \$1.825 per pound and as of today are at a high of \$2.0025. The Class III price is getting some support from higher dry whey prices. January started off with dry whey at \$0.3125 per pound and has improved to 0.36 per pound.

Higher nonfat dry milk prices more than offset lower butter prices in 2019 resulting in Class IV averaging \$16.30 for the year \$2.07 higher than the \$14.23 average in 2018. Class IV was \$16.70 in December and will be about the same in January. CME butter was above \$2.00 per pound from November of 2016 up until November of 2019. Butter was high as \$1.95 per pound in January and as of today it is \$1.8675. But, nonfat dry milk started the year at \$1.2275 per pound and continued to increase to \$1.29.

The big question is where are milk prices headed for the rest of the year? Milk prices are so sensitive to relatively small changes in milk production, milk and dairy product sales and dairy exports. As of now these factors all appear positive for milk prices to average higher for the year than 2019. Milk production for December was 0.7% higher than a year ago, the net result of 0.1% fewer cows and 0.8% more milk per cow. For the year cow numbers averaged 67,000 fewer or -0.7%. Milk per cow averaged 1.1% higher netting an increase in milk production of just 0.3%.

December compared to a year ago saw milk production up 0.5% in California, 3.2% in Idaho, 8.6% in Texas, 5.4% in Colorado, 1.9% in New Mexico, 3.9% in South Dakota, 1.9% in New York and 1.2% in Michigan. But December milk production was 1.1% lower in Wisconsin, 0.4% in Minnesota and 0.9% in Iowa.

USDA is forecasting 2020 milk production to be 1.7% higher than 2019, the result of just an average of 5,000 more milk cows and 1.7% more milk per cow. Dairy farmers lost a lot of equity from very low milk prices from all of 2015 until the last half of 2019. Dairy farmers will need to recover from this before we see much dairy herd expansions. So USDA's forecast for the number of cows seems reasonable but I question the increase in milk per cow. The very wet crop year in 2019 resulted in lower quality hay, haylage and corn silage which is bound to impact milk per cow. We may see the increase in milk per cow closer to 1.3% to 1.4% which would be more positive for milk prices.

The economy continues to grow, unemployment is low and wages have increases which points to positive milk sales. Fluid (beverage) milk sales will likely continue the downward trend, but this should be more than offset by higher cheese sales.

November dairy exports were above year ago levels for the third straight month driven by nonfat dry milk/skim milk powder exports 41% higher than a year ago and cheese exports 7% higher. However, butter exports and whey product exports were 63% and 25% lower respectively. But, there are positives for exports to be higher for 2020, particularly for nonfat dry milk/skim milk powder, cheese and whey products. While it takes time for the full effects of trade agreements are realized 2020 exports may get some help from the recently signed USMCA, phase one China agreement and a phase one Japan agreement. But, a major factor for higher exports is an expected a growth in world milk production of less than one percent. Milk production amongst the major dairy exporters, the EU, New Zealand, Australia and Argentina are forecast to be up one percent or less and in the case of Australia lower. This will open up opportunities for U.S. dairy exports. U.S. dairy products have been higher than world prices, but world prices are strengthening which will help to make U.S. products more competitive.

Also positive for higher milk prices is dairy stocks. December 31st American cheese stocks increase some from November to December, but were 7.1% lower than a year ago. The stocks of other cheese varieties were 6.5% higher, but total cheese stocks were still 2.2% lower. Butter stocks however grew by 5.2% from November to December with December stocks 5.9% higher than a year ago. This is a factor for lower butter prices.

As of now I could see first quarter Class III averaging around \$17.55, second quarter \$17.65, third quarter \$18.35 and fourth quarter \$18.95 for an average of \$18.15 to \$18.40 for the year or about \$1.20 to \$1.30 higher than 2019. Butter prices could go above \$2 per pound second half of the year. This along with forecasted nonfat dry milk prices well above \$1.00 per pound could result in the Class IV price averaging \$17.80 to \$17.85 per pound , about \$1.20 to \$1.25 higher than 2019. But, all of this could change. A couple of potential clouds are a slower growing U.S. and world economy. China is facing its worst GDP growth in 30 years and Europe economies are showing slow growth. Current Class III futures are fairly optimistic for 2020. Dairy farmers may want to consider protecting some of their milk with dairy futures and options or the Revenue Protection option.

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