

Dairy Situation and Outlook, March 19, 2020  
By Bob Cropp, Professor Emeritus  
University of Wisconsin Cooperative Extension  
University of Wisconsin-Madison

Back in December and January the forecast was for milk prices to average as much as \$1 or more higher than 2019. Milk production would recover slowly, strong economy with low unemployment and higher wages spelled a modest growth in domestic demand, and a relatively low growth in world milk production offered an opportunity for higher dairy exports especially nonfat dry milk/skim milk powder and cheese. The coronavirus has changed matters and things change daily creating a lot of uncertainty where things might be headed.

Dairy product prices started to decline the end of December and continued into now. Cheese was above \$2 a pound mid-October to mid-November. Butter was above \$2 per pound until the end of November. Nonfat dry milk was high as \$1.2675 per pound in December. As of January 1<sup>st</sup>, cheddar barrels were \$1.6425, 40-pound blocks \$1.9025, butter \$1.95 and nonfat dry milk \$1.2275. As of March 19<sup>th</sup>, barrels were \$1.3875, 40-pound blocks \$1.8625, butter \$1.70 and nonfat dry milk \$0.9625. As a result, Class III which was \$20.45 back in November was \$17.05 in January, \$17 in February will be about \$16.30 in March. Class IV was \$16.70 in December, \$16.30 in January, \$16.23 in February will be about 14.85 in March. Prices are headed even lower for the immediate months ahead. Dairy futures change hourly but now Class III futures April through December are below \$16 which would give an average \$15.92 Class III for the year, over \$1.00 lower than the \$16.96 average last year. Class IV futures May through August are below \$14 reaching just \$15.20 in December which would give an average of \$14.57 for the year, about \$1.70 lower than the \$16.30 average last year.

How long before the coronavirus comes under control will be a major factor where milk prices will end up. But there is a strong possibility milk prices could rally second half of the year. The level of milk production will be important. A rather mild winter has been positive for milk per cow. A strong spring flush would put downward pressure on milk prices. USDA's estimate of February milk production leap year adjusted showed milk production coming on rather strong. Leap year adjusted February milk production was 1.7% higher than a year ago the result of 0.2% more cows and 1.5% more milk per cow. Milk cow numbers increased 5,000 head January to February and 27,000 head December to February. Major cow expansions have incurred in the West with numbers up 11,000 in Colorado, 27,000 in Idaho, 11,000 in New Mexico, 32,000 Texas and 6,000 in Kansas. However, numbers were down 6,000 in Arizona and 3,000 in California. In contrast in the Midwest numbers were down 5,000 in Iowa and Minnesota, and 10,000 in Wisconsin with South Dakota up 4,000. In the Northeast numbers were down 1,000 in New York, and 17,000 in Pennsylvania but up 3,000 in Michigan.

Leap year adjusted relatively strong increase in milk production occurred in Colorado 7.5%, Idaho 5.5%, Texas 7.0% and Kansas 5.4%. Milk production was up 2.6% in California, 2.6% in New Mexico, 1.1% in Michigan, 1.9% in New York, 4.7% in South Dakota, just 0.2% in Minnesota, and down 2.1% in Iowa and 0.8% in Wisconsin. Increase in U.S. milk production at this level will push milk prices down. The latest USDA forecast has milk production for the year up 1.5% leap year adjusted, the result of an average of 9,000 more milk cows and 1.4% more milk per cow. But, with relatively low milk prices first half of the year the size of the dairy herd may end up being less and the increase in milk per cow less since production was 1.0% higher in 2019.

The coronavirus is not positive for the economy and will impact milk and dairy product sales. The closing of schools will impact beverage milk sales since about 8% of beverage milk sales are to schools. This loss volume will need to be made in to cheese or some other dairy product. The cancellation of conferences, closing of restaurants, sport events, colleges etc. will impact butter and cheese sales. People will still eat, buy groceries, order food through drive throughs and online. But many people will have reduced incomes which will hurt dairy product sales. But hopefully by second half of the year things start to improve. Schools will open late summer increasing beverage milk sales and we can expect butter and cheese sales to increase during the holiday season.

Dairy exports started out strong in January. Export volume was 21% higher than a year ago and was equivalent to 15.1% of total milk solids, the most ever for January and compared to 12.5% a year ago. Compared to a year earlier nonfat dry milk/skim milk powder exports were 41% higher, total whey product exports 18% higher and cheese even. The coronavirus is impacting world economies which will not be positive for exports. But there will be exports. The increase in world milk production is expected to be no more than 1%. EU milk production is running a little higher than expected with a mild winter but will still be a modest increase. New Zealand is currently experiencing a major drought. Mexico, our largest customer will still buy cheese and nonfat dry milk. As we move through the year China could very well increase imports. China is dropping retaliatory tariffs on U.S. cheese in March. So, while exports may not be higher than 2019, they will still be at a level to provide support to milk prices.

Milk prices will change daily and change with rather small changes in milk production, milk and dairy product sales and exports. So, there is a lot of uncertainty now as to where milk prices will end up. It now looks like Class III will average about \$16.80 first quarter, but may average only about \$15.40 second quarter, \$16.50 third quarter, \$17.25 fourth quarter and average \$16.50 for the year, about \$0.50 lower than \$16.96 last year. These prices are much more optimistic than current Class III futures. As we move through the year and see what is happening with milk production, milk and dairy product sales and exports milk prices will be revised and hopefully revised upward. But, as of now what looked like a better year now looks like another difficult year for dairy farmers.

Robert Cropp

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

University of Wisconsin-Madison