

Dairy Situation and outlook, April 21, 2020
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COVID-19 resulted in the closing of schools, conferences, restaurants, food service, sporting events and other activities. The sales of milk and dairy products was seriously impacted, particularly cheese and butter. As people were advised to stay home retail sales increased as did take out and home delivery from restaurants but not nearly enough to offset reduced sales. It has been estimated that there now is about 10 percent too much milk. Dairy product prices tumbled. Last October and November the price of butter, barrel and block cheese was over \$2 per pound, nonfat dry milk was \$1.25 per pound and dry whey was \$0.35 per pound. Prices decline some as they normally do after the holidays, but prices were still relatively strong the beginning of January. Butter was \$1.95 per pound, barrels \$1.64, blocks \$1.90, nonfat dry milk \$1.22 and dry whey \$0.31. But as of today, butter has dropped about \$0.75 per pound to \$1.185, barrels \$0.60 to \$1.0015, blocks \$0.90 to \$1.0075, nonfat dry milk \$0.40 to \$0.8350, but dry whey increased \$0.08 to \$0.385.

Much lower dairy product prices means much lower milk prices. Class III was \$20.45 last November, \$17.05 yet in January but will be about \$13.40 for April and less than \$11.00 for May and \$11.50 for June. It is similar for Class IV. Class IV was \$16.60 last November, \$16.65 in January and will be about \$11.40 for April and \$11.00 for May and June. So, what looked like a good year coming up for dairy farmers with milk prices averaging \$1.00 or more higher than 2019 has turned into a very difficult year for dairy farmers financially.

Dairy exports were also looking promising for 2020. February exports were above a year ago, the sixth straight month of growth. Exports to Southeast Asia and Middle East/North Africa had increased significantly. But exports may soften with COVID-19 disrupting supply distribution and a slowdown in world economies.

Milk production needs to decrease before milk prices show much improvement. But, reducing milk production as much as 10 percent takes time and will involve reducing cow numbers. The demand for red meat has been hit hard with the closing of restaurants and food service. Slaughter plants are not seeking an increase in dairy cows. Also, COVID-19 has sickened workers and a few slaughtering plants have closed.

USDA's estimate of March milk production shows milk production has been increasing and not slowing down. Milk cow numbers increased by 5,000 from February to March and 37,000 head since the end of last year. March cow numbers were 0.5% higher than last year. Milk per cow is also doing very well being 1.7% higher than last year and bringing the increase in total milk production to 2.2%. This is not good news for milk prices. Dairy expansion has been very prevalent in some states with 10 of the 24 states having more milk cows than a year ago. The increase in milk cows was Colorado 11,000, Idaho 29,000, Kansas 7,000, Michigan 3,000, New Mexico 10,000, Texas 33,000, South Dakota 10,000, Ohio 2,000 and both Oregon and Washington 3,000. In contrast milk cow numbers were down 3,000 in California, 4,000 in Arizona, 3,000 in Minnesota, 1,000 in Iowa, 10,000 in both Wisconsin and Pennsylvania, 1,000 in both New York and Florida. The relatively strong increases in milk production were Colorado 7.5%, Idaho 5.2%, Kansas 7.5%, Texas 8.6%, South Dakota 6.8% and Ohio 3.9%. Milk production was also higher in Michigan 2.3%, New York 2.1%, but just 1.3% in California and Iowa, 1.0% in Minnesota and down 0.1% in Wisconsin.

Milk Prices will improve some second half of the year but how much is uncertain. Dairy futures show Class III reaching \$14 by August and \$15 by October. Class IV futures reach \$12 by August and \$13 by November. USDA's latest price forecast is not very optimistic with Class III averaging \$12.75 for the year compared to \$16.96 last year, Class IV averaging \$12.15 compared to \$16.30 last year and the all milk price averaging \$14.35 compared to \$18.60 last year. But so much depends upon how fast the growth in milk production slows, when the economy opens back up and how well dairy exports do.

Dairy farmers who signed up for the Dairy Margin Protection program with a \$9.50 protected margin will receive beneficial payments during these low milk prices. The April margin will be around \$7.00 meaning a payment of about \$2.50 per hundredweight with the May margin near \$5.00 with a payment of about \$4.50 per hundred weight. Payments decline as milk prices improve but are likely for most of the remainder of the year. Dairy farmers will also receive direct payments under the \$19 billion federal relief program of which \$2.9 billion is targeted for dairy farmers. The exact payments per hundredweight will be forthcoming. In addition, USDA will be spending \$100 million per month purchasing dairy products with some additional dollars for purchases to add to food banks. Dairy purchases will add some strength to milk prices. None of these activities come close to completely offsetting the losses from low milk prices but hopefully will help carry dairy farmers through very difficult times until prices do return to profitable levels.

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