Dairy Situation and Outlook, June 18, 2020

By Bob Cropp, Professor Emeritus
University of Wisconsin Cooperative Extension
University of Wisconsin-Madison

Milk prices have been volatile, but it looks like volatility will be a record in 2020. In January, the Class III prices was $17.05. By May it had fallen to $12.14. But it looks like June will be above $20. Class IV has also been volatile with January at $16.65 falling to $10.67 in May and will be about $13.35 in June.

What factors drove these big changes in milk prices? The sharp drop in prices in May was the result of the COVID-19 virus shutting down schools, universities, restaurants, and food service which caused a big drop in the sales of milk, cheese, and butter. Milk production was also at a relatively high level with March production 2.8% higher than the year before resulting in more milk than milk plants could handle with the loss of sales. Dairy farmers were asked to lower milk production and some were asked to dump milk. But then in May and continuing in June sales of milk, cheese, and butter while not back the levels prior to COVID-19 started to improve. Restaurants are slowly reopening, and food service sales are increasing. Restaurants and food service needed to place rather big orders of cheese and butter to restock their supplies. With people staying at home retail sales of milk, cheese and butter increased. By May 15th and into June the Farmers to Family Food Box Program kicked in and the government bought rather large quantities of milk and cheese. And on the supply side dairy cooperatives implemented base excess plans to their producers to reduce milk production. So, all these activities tightened the supply demand situation and milk prices responded. This shows we can have big changes in milk prices from relatively small changes in supply and demand.

USDA's milk production report showed dairy farmers did reduce milk production. Milk cow numbers declined by 11,000 head from April to May and by 15,000 head March to May. May cow numbers were still 0.4% higher than a year ago but milk per cow was 1.5% lower resulting in May milk production to be 1.1% lower than a year ago. The two leading dairy states California and Wisconsin had lower milk production of 1.5% and 3.1% respectively. Both had reduced cow numbers with California down 4,000 head and Wisconsin 12,000 head. May milk production was lower than a year ago by 3.7% in New York and Pennsylvania, 1.9% in Minnesota, 2.0% in Iowa, 0.4% in Michigan and 7.2% in New Mexico. But milk production was up by 4.8% in Idaho, 4.6% by Oregon, 2.1% in Kansas and 9.7% in South Dakota. South Dakota had added 11,000 cows.

The Class III price is driven by the cheese price. On the CME 40-pound block cheddar was as high as $2.0225 per pound in January. Got as low as $1.00 in April and as high as $2.585 in June and is now $2.50. Cheddar barrels were as high as $1.50 per pound in January, got as low as $1.00 in April and as high as $2.425 in June and is now $2.28. The price of whey also impacts the Class III price but has not shown any real strength in May or June. The Class IV price is driven by the price of butter and nonfat dry milk. Butter was as high as $1.90 per pound in January. Got as low as $1.10 per pound in April and as high as $2.015 in June and is now $1.8075. Nonfat dry milk was as high as $1.24 per pound in January. Got as low as $0.80 in April and was as high as $1.05 in June and is now $1.02.

The big question is how long can these milk prices hold? A big part of the answer is milk production. Hopefully, dairy farmers do not respond to higher milk prices by increasing production again. We are entering the seasonal low in milk production during July through September. So, milk production will be declining and hopefully stay below year ago levels over the next few month. The question is will schools and universities reopen. It looks like some will and some may stay with online instruction. Will restaurants be allowed to open to a larger capacity and will consumers be willing to go to restaurants. USDA has announced it will extend purchases of dairy products under the Food Box Program in July and August which would be positive for milk prices. This fall cheese and butter plants will build stocks to meet the seasonal increase in demand for the holidays. Will there be a second surge in COVID-19? So, there is a lot of uncertainty as to milk prices for the remainder of the year. But prices should remain rather strong for the next 2 or 3 months at least. Beyond that there is more uncertainty. Dairy futures currently are rather optimistic. Class III futures is $20 in July, $18’s in August, high $17’s in September before trailing off to the $16’s by November and December. Dairy producers should consider taking advantage of these prices with risk management tools such as the Dairy Revenue Protection Program, Class III futures and options, forward contracting some of their milk with a milk buyer because there is a greater probability that milk prices could fall from these current futures prices than increase.

Robert Cropp

racropp@wisc.edu

University of Wisconsin-Madison.