

Dairy Situation and Outlook, July 22, 2020
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Dairy product prices and milk prices continue to do the unexpected. January forecasts called for 2020 to be a recovery year with the best milk prices in 5 years. But, Covid-19 virus outbreak came along resulting in a loss on milk and dairy product sales due to schools and universities closing, restaurants being shut down, cancellation of conferences and sporting events. On the CME dairy product prices per pound for the month of January averaged as follows: butter \$1.8813, barrel cheese \$1.5721, 40-pound cheddar blocks \$1.9142, nonfat dry milk \$1.2688 and dry whey \$0.3520. By April monthly averages had fallen with butter \$1.1999, barrels \$1.0690, 40-pound cheddar blocks \$1.0119 and nonfat dry milk \$0.8485. The exception was dry whey where the average was \$0.3644. These dairy product prices brought down the Class III price from \$17.05 in January to \$12.14 in May and the Class IV price from \$16.45 in January to \$10.67 in May.

By June the demand for milk and dairy products improved with restaurants partially reopening, and their need to restock cheese and butter, people now eating at home and significantly increasing store purchases of milk and dairy products, the government purchasing a lot of dairy products, mainly cheese from May 15 to June 30 under the Farm to Family Food Box program, and with dairy product prices below world prices dairy exports increased. In May dairy export volume was the most in more than two years. Nonfat dry milk/skim milk powder exports were the most ever, and up 24% from a year ago. After running below year ago levels cheese exports in May exports were 8% higher than a year ago, the second-best month ever. May whey exports were 16% higher than a year ago. On the supply side dairy cooperatives had implemented base excess plans to their dairy producers that reduced milk production. May milk production fell 0.5% below a year ago. With dairy product prices and milk prices being rather sensitive to small changes in demand and/or supply dairy product prices improved beginning in May and in June, with cheese setting a record high in June.

Average dairy product prices per pound for the month of June were butter \$1.7291, barrel cheese \$2.3376, 40-pound cheddar blocks \$2.81 and nonfat dry milk \$1.0092. The price of dry whey was the exception averaging lower than April at \$0.3151. The June Class III price was \$21.04, a record monthly increase of \$8.90 from \$12.14 in May. The Class IV price was \$12.90, an increase of \$2.23 from \$10.67 in May.

Cheese prices continued to increase in July. Barrel cheese ranged from \$2.37 to \$2.45 per pound. The 40-pound cheddar blocks started July at \$2.64 per pound and continued to increase setting a new record high on July 13 at \$3.00. However, as of July 22 the block price has fallen \$0.3775 per pound to \$2.6225. Barrels are \$2.45 per pound. Butter prices moved up and down in July starting the month at \$1.75 per pound and is now \$1.6675. Nonfat dry milk got as high as \$1.0325 per pound but has fallen to \$0.9975. Dry whey started the month at \$0.33 per pound, got as low as \$0.2875 and is back to \$0.34.

With these changes in July dairy product prices Class III will be about \$24.30 but below the record \$24.60 set in September 2014. The July Class IV price will be near 13.80, well below the record \$23.89 set in August 2014. But the big question is where are prices headed for the remainder of the year?

Important to keeping milk prices falling to low levels will be milk production. Milk production needs to stay well below a 1% increase over a year ago. After running well over 1% above a year ago milk production fell 0.5% in May and was up just 0.5% in June. Since March milk cow numbers have fallen each month being down 35,000 head as of June. But June cow numbers were still 23,000 head higher than a year ago, or +0.3%. Milk per cow has been running well below trend with June up just 0.2% from a year ago.

The sales of milk and dairy products stay below a year ago as restaurants and food service remain only partially reopened. It looks like many schools, colleges, and universities will use virtual learning this fall rather than in person classroom. High school, college and professional sports will be cancelled or operate without fans in the stands. The government will continue the Farm to Family Food Box program from July 1 to August 31. With the exception of butter, the price of cheese, nonfat dry milk and dry whey have been below world prices and price competitive. Dairy exports through May have been above year ago levels. But the price of cheese and nonfat dry milk moved above world prices in June and July which likely slowed exports. The positive for dairy exports is milk production for major exporters is lower than a year ago or only showing small increases leaving an opportunity for U.S. exports.

So not knowing when we will see some positive signs the COVID-19 virus is coming more under control allowing more opening of the restaurants, schools and colleges and other activities, and how dairy exports will do for the remainder of the year and the level of milk production milk prices are uncertain. We should still see a seasonal increase in butter and cheese sales during the holidays which will help hold prices. Also positive is the stocks of butter and cheese while still above year ago levels have declined from May 31st to June 30th. As of June 30th and compared to a year ago butter stocks were still 10.8% higher than a year ago, American cheese stocks just 1.1% higher and total cheese stocks 2.6% higher. As of now it looks like the Class III price will trend lower in the months ahead but not fall to low levels. Class III dairy futures remain quite optimistic with Class III above \$20 for August and September, in the \$19's in October, the \$18's in November before falling below \$17 in December. Class IV futures show only small strength staying in the \$14's and only reaching the \$15's in December.

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