

Dairy Situation and Outlook May 19, 2015
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May milk prices will be the highest thus far this year. The May Class III price will be near \$16.20 compared to \$15.81 for April, and the Class IV price will be near \$14.00 compared to \$13.51 for April. Slower than anticipated increase in milk production, good domestic sales of cheese and butter, and some improvement in dairy exports are the reasons for higher milk prices. With record milk prices last year, and lower feed costs predictions at the beginning of the year was for milk production to run well over 2% higher than the year before. But, this has not occurred. USDA's milk production report estimated April milk production for the U.S. to be just 1.7% higher than last year. Milk production during the January through April period was just 1.8% higher than a year ago. Both retail and restaurant sales have been good for both butter and cheese. In March, U.S. dairy export volumes reached their highest levels in nine months. Overall volume improved from February, though sales were below year ago levels. But, nonfat dry milk/skim milk powder exports were 7% higher than a year ago. Compared to a year ago, cheese exports were 5% lower, total whey exports 16% lower, and butterfat exports 79% lower. Exports as a percent of production were 55% for nonfat dry milk/skim milk powder, 47% for dry whey, 7.7% for cheese and 3.5% for butterfat. U.S. exports on a total milk solids basis was equivalent to 15.9% of U.S. milk solids production.

May milk cow numbers increased 1,000 head from March after decreasing by 2,000 head February to March. Compared to April of last year, cow numbers were 65,000 higher and milk per cow 1.0% higher resulting in the 1.7% increase in total milk production.

Milk production continues rather weak in the West in comparison to the Northeast and Upper Midwest.

April compared to last year, California had 2,000 fewer cows and 1.9% less milk per cow resulting in a 2.1% decline in milk production. Idaho had 12,000 more cows, but just 0.3% more per cow resulting in 2.4% more milk production. Texas had 2,000 more cows, but just a 0.5% more milk per cow resulting in 0.9% more milk production. New Mexico had the same number of cows but less milk per cow resulting in 1.4% less milk production. Milk per cow was higher for New York, Pennsylvania and Michigan. New York had 2,000 more cows, Pennsylvania 1,000 fewer cows and Michigan 20,000 more cows. Milk production was 1.9% higher for New York, 2.8% higher for Pennsylvania, and 6.5% higher for Michigan. Milk per cow was higher for Iowa, Minnesota and Wisconsin. Iowa had 6,000 more cows, Minnesota 1,000 fewer cows and Wisconsin 9,000 more cows. Total milk production was 5.9% higher for Iowa, 2.7% higher for Minnesota and 4.0% higher for Wisconsin.

The stronger milk production this spring in the Northeast and the Upper Midwest put pressure on milk plant capacity. While butter production in March continued to run below year ago, down 3.0%, cheese production was 1.8% higher, and nonfat dry milk production 8.7% higher. March 31st stocks compared to a year ago remain fairly tight, except for nonfat dry milk, with butter stocks 3.9% lower (7.4% lower than the 5-year average), American cheese stocks 1.5% lower (even with the 5-year average) and total cheese stocks 4.4% higher (2.1% high than the 5-year average). Nonfat dry milk stocks were 17.8% higher.

Higher cheese prices is the reason for the higher May Class III price and higher butter prices offsetting lower nonfat dry milk prices for the higher Class IV price. On the CME cheddar barrels averaged \$1.6135 per pound in April, reached a high of \$1.6375 on May 12th, and were \$1.6125 on May 19th. The 40-pound cheddar blocks averaged \$1.589 per pound in April, reached a high of \$1.63 on May 18th and held on May 19th. Butter averaged \$1.7937 per pound in April, reached a high of \$2.06 on May 13th, but has fallen back to \$1.905 on May 19th.

There is uncertainty as to where milk prices are headed for the remainder of the year. Dairy futures have prices to continue to show strength. Class III futures are in the \$17's by September and for the remainder of the year. Class IV futures reach the \$15's by August and the \$16's for November and December. But, there is a concern that buyers of cheese have been building inventory and will not be as active in purchases going into summer and fall. Dairy exports may not improve as much as earlier anticipated and will stay below year ago levels. Prices on the Global Dairy Trade have shown further weakness and keep prices below U.S. prices. China's milk production has improved, their economy has slowed some and it is uncertain to what extent China will become more active later this year in importing dairy products. The world milk supply may be higher than earlier anticipated with New Zealand's milk production now anticipated to turn out higher than earlier predicted with improved rainfall, and the quota on milk production has ended in the EU. It is quite possible that milk prices could weaken some June through July before showing some strength this fall. It depends a lot on how milk production plays out for the remainder of the year. USDA is now forecasting milk production to end the year just 1.3% higher than last year. An increase in milk production well below 2% is bullish for milk prices. At this time it doesn't appear that milk prices could either fall or increase sharply for the remainder of the year. Prices could still average \$6 to \$7 lower than the record high prices of last year. But, with lower feed prices than last year margins (returns over feed costs) are still conducive to increased milk production.