

Dairy Situation and Outlook, August 20, 2018
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It appears dairy prices may have overreacted late June and early July to retaliatory tariffs to be implemented about mid-July by Mexico, China and Canada. Butter and cheese prices fell lowering the Class III price from \$15.21 in June to \$14.10 in July. The Class IV price fell from \$14.91 in June to \$14.14 in July. But, prices have recovered some in August. Butter averaged \$2.2361 per pound in July, reached a high of \$2.3875 mid-August, but now has fallen back to \$2.25. Barrel cheese has shown the biggest improvement. Barrels averaged \$1.3707 per pound in July reached a high of \$1.6750 mid-August, but has fallen back to \$1.6425. The 40-pound block price averaged \$1.5364 per pound in July, reached a high of 1.66 mid-August and is now \$1.61. Nonfat dry milk which averaged \$0.7783 per pound in July has shown strength all of August and is now \$0.8675. So has dry whey which averaged \$0.4118 in July is now \$0.4475. The August Class III price should improve to around \$15.00 and the Class IV price to around \$14.70.

The latest stock report was for June 30th and showed more than ample stocks. Butter and American cheese stocks did decline from May to June with Butter stocks still 8.5% higher than a year ago while American cheese stocks were 0.9% lower. However, stocks of other cheese types grew May to June and were 16.0% higher than a year ago bring total cheese stocks 5.8% higher. Dry whey stocks also grew May to June but were still 13.1% lower than a year ago. Nonfat dry milk stocks also grew May to June and were 1.4% higher than a year ago.

June is the latest report for milk and dairy product sales. Fluid (beverage) milk sales continue the downward trend. Compared to a year ago, conventional milk sales were 4.2% lower and organic milk sales were down 3.1% lowering total beverage milk sales 4.1%. The commercial disappearance of butter was 3.8% higher but cheese sales were just 1.0% higher.

June dairy exports continued to grow. Compared to a year ago exports were up 24% for nonfat dry milk/skim milk powder, 12% for cheese, 9% for butterfat, 7% for total whey products and 16% for lactose. On a total solids basis exports were equivalent to 16.4% of milk production.

The major factor for improved dairy product prices and milk prices is milk production. Compared to a year ago, July milk production was up just 0.4%. Milk cow numbers fell by 8,000 head from June bring July numbers also 8,000 head below a year ago. Milk per cow as just 0.5% higher than a year ago.

July milk cow numbers were lower than a year ago for several dairy states. Compared to a year ago cow numbers were 12,000 lower in California, 4,000 in Florida, 4,000 in New Mexico, 4,000 in Michigan, 2,000 in New York, 5,000 in Pennsylvania, 6,000 in Minnesota and 4,000 in Wisconsin. Cow numbers were up in other states including 6,000 in Idaho, 15,000 in Texas, 3,000 in Iowa, 4,000 in South Dakota, 15,000 in Colorado, 8,000 in Kansas and 4,000 in Utah. Hot and humid weather negatively affected milk per cow. Milk per cow was down 1.0% in Arizona, 1.8% in California, and 2.7% in Florida, with no change for Michigan and up just 0.5% in New Mexico, 1.0% in New York, 0.3% in Pennsylvania, 0.5% in Iowa, 1.1% in Minnesota and 0.3% in South Dakota. But, despite some hot and humid weather Wisconsin had a 1.5% increase.

Compared to a year ago July milk production was down 2.5% in California, 0.8% in New Mexico, 0.9% in Michigan, 0.7% in Pennsylvania, 0.2% in Minnesota, and 5.9% in Florida. Milk production was up just 0.8% in Idaho, 0.6% in New York, 1.8% in Iowa, and 1.2% in Wisconsin. Relatively strong increases occurred in South Dakota 3.6%, 5.4% in Utah, 7.3% in Texas, 7.6% in Kansas and 8.9% in Colorado.

Milk prices for the remainder of the year are rather uncertain. Class III prices could improve to the high \$15's and even touch \$16. The Class IV price is likely to be in the \$15's. Milk cow numbers could fall further with milk per cow improving some with cooler weather by October. Thus, the growth in milk production could stay at 1% or less which would be positive for prices. Dairy exports have been a positive factor for milk prices but the uncertainty is how exports will do for the remainder of the year since retaliatory tariffs are now in effect. EU is the leading dairy exporter. But, EU is experiencing some severe drought conditions which has reduce crop production and raising feed prices. New Zealand, the second largest exporter may see some recovery in milk production but now only projected to be about 2%. So the growth in world milk production is likely to be lower resulting in world milk prices staying relatively strong which is positive for exports. So milk price forecasts will change as more information on milk production and dairy exports come available.

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