Dairy Situation and Outlook, April 18, 2007
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Milk production growth continues to slow from the 2% even 5% monthly increases from the previous year during 2006. This has been a major factor in strengthening milk prices this year. Compared to year earlier, March milk production for the 23 reporting states was up 1.1 percent. Milk cows were 0.7% more than a year ago, but a continued low increase in milk per cow of just 0.4% held down the increase in total milk production.

Two major factors will hold down milk production in the months ahead. One is cow slaughter which is running well above a year ago. For the week ending March 24th cow slaughter was up 16.8% from a year ago. The fourth round of CWT maybe a factor in this increase. But, for the year thus far cow slaughter was up 12.8%. However, USDA's milk production report showed that while cow numbers for the 23 states declined by 3,000 head January to February, they grew back by 5,000 head February to March. Strong milk prices will require a continued decline in milk cow numbers as the year progresses. Such a decline is still forecasted with the average number of cows for the year down about 0.3% compared to 2006.

The second that will slow milk production is high feed prices and reduce use of BST will continue to slow increases in milk per cow. Despite March milk prices almost $4.00 higher than a year ago much higher feed prices resulted in a milk-feed-price ratio just 2.41, down from 2.70 March a year ago. Not only has corn and soybean prices been much higher than a year ago, the price of alfalfa hay was also 20 percent higher. The new hay crop and green chop is just beginning in California which may ease hay prices some in that state.

For the 23 states, March milk production compared to year ago was lower for 13 states. But, this decrease was more than offset by increases in the other 10 states. Four of the 5 top dairy states all had increases in milk production—California +3.5%, Wisconsin + 1.6%, Idaho +6.5% and Minnesota 2.7%. The other leading state New York had a 2.6% decrease. These 5 top dairy states account for about 55% of U.S. milk production. Other states with increases were: Arizona +2.1%, Colorado +2.4%, Indiana +2.4%, Iowa +4.2%, Michigan +5.0% and Texas +1.5%.

The March Class III price was $15.09, $3.98 higher than a year ago. Cheese, dry whey and butter prices have all strengthened since then. The April Class III price will be around $16.00. Class III futures are all above $16.00 through December peaking over $17 for September. Looking into 2008, Class III futures are above $16.00 through November. If these prices hold, 2007 milk prices will average about $4.00 higher than 2006 and set a new record high surpassing that of 2004. But, for these prices to hold cheese prices need to strengthen some more and dry whey prices need to hold. While the latest stock report, February 28th, showed total cheese stocks still 8.9% higher than a year ago, stocks of American cheeses were only 0.2% higher. Production of American cheeses in February was 0.3% lower than a year ago while the production of all cheese was up 3.3%. Indications are that demand for cheese remains good. Some buyers maybe purchasing cheese now in anticipation of higher prices in the months ahead. CME cheese prices which for several trading sessions have held around $1.4125 per pound increased for the past two trading sessions (April 17 & 18) on unfilled bids to $1.455 for both barrels and blocks.

A major factor in higher milk prices has been high dry whey prices. Central dry whey prices are running $0.76 to $0.825 pound compared to just $0.30 to $0.3375 a year ago. Dry whey prices are part of the Class III formula price and for every one cent increase in dry whey prices the Class III price increases about $0.06. In response to high dry whey prices the industry appears to be responding by producing more dry whey for human use by reducing the production of dry whey for animal feed and reducing production of other dry whey products. Compared to a year ago, February production of dry whey for human use was up 1.4% while animal use was down 14.5% and the production of whey protein concentrate was down 6.5%. The domestic protein market remains tight especially since the production of nonfat dry milk and skim milk powder are both lower, down 16.5% and 57.0% respectively from a year ago. Western nonfat dry milk is selling $1.245 to $1.85 per pound compared to $0.805 to $0.815 a year ago .Exports of both dry whey and skim milk powder remain strong despite these higher prices. So cheese prices could strengthen and dry whey prices could hold at levels to result in these high Class III futures prices. But, some demand resistance both domestically and for exports could also dampen prices some. Resistance to high dry whey prices has already occurred with milk replacer users.

Butter prices have improved as well to $1.375 per pound despite February 28th stocks still 10.3% higher than a year ago. But, butter production is running below a year ago and butter buyers are purchasing butter now in anticipation of higher prices ahead.

In summary, all factors point to much higher milk prices for all of 2007 offsetting some of the higher feed prices. But, it is still uncertain whether cheese and dry whey prices will hold at levels that will allow current Class III futures prices to materialize. But, also if summer weather is unfavorable to milk production, prices this summer and early fall could be even high. Higher prices may result in some demand resistance similar to what occurred with record high prices in 2004.

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