

Dairy Situation and Outlook, March 18, 2009
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USDA's report for February milk production showed U.S. milk production only 0.6% higher than last year, adjusted for leap year in 2008. This was a smaller increase than January which was up 0.8%. Milk cow numbers continue to decline dropping 36,000 head or 0.4% since the end of last year. February milk cow numbers were just 0.1% higher than a year ago.

California continues to experience a drop in milk production being 1.2% lower than a year ago in January and 2.4% lower in February. Compared to a year ago, California had 0.9% fewer milk cows and 1.6% less milk per cow. Idaho also experienced 1.2% less milk per cow, but 2.8% more milk cows netted 1.6% more total milk production. Arizona had 2.2% more cows slightly offsetting 1.2% less milk per cow netting 0.7% more total milk production. Cows were down 2.1% in New Mexico but 9.1% more milk per cow netted 6.8% more total milk. Texas continues to lead all states in increases in milk production with February production up 11.2% from 6.4% more cows producing 4.5% more milk.

In the Northeast, cow numbers were down 0.5% in New York with no change for Pennsylvania. Both New York and Pennsylvania had increases in milk per cow of around 0.3% resulting in New York's total milk production down 0.2% and Pennsylvania's up just 0.2%.

In the Upper Midwest, milk production continues to increase in both Wisconsin and Minnesota with February production up 1.0% and 2.5% respectively. Cow numbers were 0.4% higher in Wisconsin and 1.1% higher in Minnesota. Milk per cow was only 0.6% higher in Wisconsin but up 1.5% in Minnesota. Iowa had 0.5% fewer cows and only 0.3% more milk per cow resulting in total milk production being down 0.3%.

Two other states with relatively large decreases in milk production were Vermont, down 5.3% and Washington, down 3.5%. Both states had fewer milk cows and less milk per cow.

Rather small increases, and in many cases decreases in milk per cow as well as fewer milk cows for several states reflects the unfavorable operating margins to dairy producers stemming from the combination of low milk prices and relatively high feed costs. We can expect increases in milk per cow to remain well below normal increases and milk cow numbers to continue to decline as we progress through the year.

With a higher slaughter rate of dairy cows (now running about 25% higher than a year ago) and another CWT herd buyout likely the nation's cow herd will continue to decline through the remainder of the year. Relatively low milk prices and high feed costs will hold increases in milk per cow well below the more normal increase of near 2%. This means that total milk production for the year could be up less than 0.3%. USDA's March outlook has 2009 milk production 0.8% lower than 2008.

With forecast for a continued slow down in milk production and some improvement in milk and dairy product sales wholesale prices of butter, cheese and even nonfat dry milk and dry whey have shown improvement. As of March 18th, CME butter was \$18.25 per pound, cheddar barrel cheese \$1.34 per pound and 40-pound cheddar blocks \$1.2675 per pound. For two consecutive weeks the CCC made no purchases of butter under the support program. Retailers are featuring butter and cream for butter making is tighter as cream moves to other cream use products for the Easter holidays. Reports are that some retailers are also having specials on cheese as well as beverage milk products. USDA reports that January total beverage milk sales, adjusted for calendar year were 0.3% higher than a year ago. But, the weakness of the economy appears to be impacting organic milk sales which have been increasing in the double digits annually. However, January sales of organic whole milk were 2.6% lower than a year ago, compared to traditional whole milk being down 1.3%. Reduced-fat organic milk sales were down 4.7% compared to traditional 2% and 1% milk sales 3.2% and 4.2% higher respectively.

Hopefully milk and dairy product sales can continue to hold. The weak economy and increased unemployment will continue to negatively impact restaurant sales particularly for butter and cheese. However, with cheese prices lower than a year ago some restaurants, especially pizza businesses, are looking at additional cheese use as well as efforts to attract customers. The world economic recession will reduce U.S. exports of dairy products in 2009. USDA estimates dairy exports will be down from 2008 about 42% on a fat basis and 29% on a skim-solids basis reflecting relatively greater decline in cheese and butter exports compared to skim milk powder and whey exports.

Dairy product prices and milk prices should continue to strengthen from current levels each month through December and into 2010. There are differences in opinions as to how much strength we can expect. The Food and Agricultural Policy Research Institute (FAPRI) recently reported to U.S. Congress that for 2009 the Class III price could average \$11.78, the Class IV price \$10.55 and the U.S. All Milk price \$13.08. USDA in its March outlook gave the following ranges for 2009: Class III \$11.05 to \$12.05, Class IV \$9.95 to \$11.05 and the U.S. All milk price \$12.05 to \$13.05. I could see the Class III price and the U.S. All Milk price ending up being at least \$1.00 higher than these two forecasts. Currently Class III futures are averaging higher than these forecasts at \$12.93 for the year and Class IV at \$10.87. If these future market prices materialize, the U.S. All Milk Price would average near \$14.00. But, even with these higher milk price relatively high feed and other costs keeps operating margins for dairy farmers at unfavorable levels. MILC payments which kicked in for February (estimated around \$1.50 for February) will only provide partial relief from existing depressed milk prices. As we look further ahead, the slow down in milk production, and hopefully with some economic recovery, milk prices will continue to improve through the year and into 2010.

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