

Dairy Situation and Outlook, November 19, 2018  
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It looks like farm milk prices will end the year at a low level. The Class III price had peaked for the year at \$16.09 in September, fell to \$15.53 in October and will be around \$14.55 for November with December about \$14.70. The Class IV price peaked at \$15.01 in October, will be around \$15.10 for November and December. Class III will average about \$14.70 for the year compared to \$16.16 in 2017. This would be the lowest average Class III price for the past four years. Class IV will average about \$14.20 compared to \$15.16 last year. This would be the second lowest for the past four years with \$13.17 the lowest for 2016.

The lower Class III and Class IV prices is the result of dairy product prices moving lower than was expected for this time of the year. Cheddar barrels were \$1.42 per pound the start of October but declined ever since only being as high as \$1.36 in November and is currently \$1.2975. The 40-pound cheddar block price was \$1.7475 per pound the beginning of October and has declined since only being as high as \$1.4575 in November and currently is \$1.41. The lower Class III price is also being driven by declining dry whey prices. Dry whey was \$0.5750 per pound the beginning of October and has declined steadily since. The current price is \$0.43 per pound. Butter averaged \$2.26 per pound in October. For November butter has been as low as \$2.1925 per pound and as high as \$2.33 per pound which is also the current price. Nonfat dry milk averaged \$0.8691 in October, was \$0.90 early November and is currently \$0.8850. Hopefully, strong holiday sales of butter and cheese will push prices up some resulting in some improvement in both the projected December Class III and Class IV prices.

Butter and cheese prices normally don't weaken like this as we approach the holiday season. So why the decline in prices? It is somewhat puzzling. Sales of fluid (beverage) milk continue its downward trend being 2.5% lower January through September. Butter and cheese are somewhat mixed but still are higher. Perhaps as prices fall buyers take a wait and see attitude to see how low prices may fall before increasing purchases for the upcoming holidays knowing that stocks are more than adequate to meet their needs. Latest stock data is for September 30<sup>th</sup>. Butter stocks were 10.6% higher than a year ago with American cheese stocks just 1.5% higher but total cheese stocks 4.5% higher. Also while September butter production was 0.1% lower than a year ago American cheese production was 3.9% higher with total cheese production 3.1% higher.

Dairy exports explain some of the weakness in dairy product prices except for butter. While September butterfat exports were 168% higher than a year ago cheese exports were down 9%, a 20 month low. Exports of cheese to U.S. largest market Mexico was down 10% and down 63% to China reflecting the effect of retaliatory tariffs by these two countries. Dry whey exports were down 6% mainly due to a 38% decline to China, U.S. largest market. Nonfat dry milk/skim milk powder exports remain strong being 30% higher than a year ago due to a 40% increase to Mexico. Mexico did not place retaliatory tariffs on nonfat dry milk.

The forecast is for higher milk prices in 2019, but not to the level dairy producers are hoping for. If current Class III futures hold the Class III price would average about a \$1.20 higher than this year at \$15.85. USDA is forecasting the Class III price to average \$15.15 to \$16.05. Current Class IV futures average \$15.80 for the year about \$1.60 higher than this year. USDA's forecasts the Class IV price to average a little lower than this for the year at \$14.35 to \$15.35. There is a good probability that Class III prices could average higher starting in the low \$15's the start of the year, improving to the higher \$15's by the end of the second quarter and then moving into the \$16's reaching the higher \$16's for the last quarter. But, the level of milk production and dairy exports will be determining factors.

USDA shows October milk production slowing which is good news for milk prices. October milk production was just 0.8% higher than a year ago compared to a 1.3% increase for September. Milk per cow as up 1.1% but milk cow numbers were down 43,000 head since January and 30,000 from a year ago. Unfortunately cow numbers are down from more than a more normal number of dairy producers exiting the industry, the result of four consecutive years of low milk prices. Compared to a year ago milk cow numbers were down 10,000 in California, 3,000 in New York, 9,000 in Pennsylvania, 6,000 in Michigan, 6,000 in Minnesota, 4,000 in Wisconsin, 3,000 in Illinois, 5,000 in Indiana, 10,000 in Ohio, 7,000 in Virginia and 6,000 in Florida. Yet there was herd expansions with cow numbers up 24,000 in Texas, 16,000 in Colorado, 9,000 in Kansas and 4,000 in South Dakota, all states with expanded milk plant capacity.

Despite California's fewer cows a strong increase in milk per cow of 3.7% netted 3.2% more milk. Increases in milk production some other key states were: Idaho 2.1%, Texas 7.5%, South Dakota +4.1%, Colorado 10.1%, Kansas 6.1%, and New York 1.0%. States with decreases in milk production were: Pennsylvania 3.8%, Michigan 1.0%, Minnesota 0.5%, Ohio 4.1%, Wisconsin 0.3%, Illinois 4.5%, Indiana 4.8%, Iowa 1.1%, Virginia 10.6% and Florida 5.5%. In summary there is relatively strong milk production growth in some Western states with little growth in the Northeast and Midwest and decreases in the Southeast.

USDA is forecasting a 1.4% increase in milk production next year from an average of 10,000 fewer milk cows being more than offset by 1.5% more milk per cow. The 1.5% more per cow maybe on the high side considering a projected 1.2% increase this year and the possible forage quality issues in the Northeast and Midwest this winter.

USDA is forecasting a 6.7% decrease in dairy exports on a milkfat basis and a 2.2% decrease on a skim solids basis. While a decrease in dairy exports is not positive for milk prices a growth in milk production of less than 1.5% should still strengthen milk prices in 2019. Any improvement in exports and/or less milk production than now forecasted would push milk prices even higher.

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