

## Dairy Situation and Outlook, July 22, 2019

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Milk production running below a year ago, modest growth in dairy product sales, dairy exports while lower than a year are still supportive of milk prices and improved dairy stocks levels are all contributing to a continued improvement in milk prices. The July Class III price will be near \$17.40, up about \$3.50 from the \$13.89 low back in February. The Class IV which was \$15.48 back in January will be near \$16.90 in July. And milk prices should continue to improve during the remainder of the year.

USDA's estimated U.S. milk production for June 0.3% lower than a year ago. Milk cow numbers declined by 10,000 head May to June and were 91,000 head or 1.0% lower than a year ago. Milk per cow was 0.6% higher. In the West milk production was lower by 4.6% in Arizona and 2.8% in Mexico, but up by 1.2% in California, 2.0% in Idaho, 5.6% in Texas and 6.0% in Colorado. In the Northeast milk production was up 2.2% in Michigan and just 0.2% in New York, but down 6.5% in Pennsylvania and 4.6% in Ohio. In the Midwest milk production was up just 0.8% in Minnesota, and 0.9% in South Dakota, but down 0.5% for both Iowa and Wisconsin. In the Southeast production was down 3.0% in Florida and 8.1% in Virginia.

Fluid (beverage) milk sales continue to decline with January through May down 1.8% from a year ago. Butter and cheese sales continue to show growth. Domestic disappearance January through May was 4.3% higher than a year ago for butter and 1.4% higher for cheese.

The volume of dairy exports continues below a year ago. But, nearly all of the reduced volume came from lost sales to China. Sales to China of skim milk powder, cheese, butterfat, whey products and lactose were down 67% in May. Nevertheless, according to the US Dairy Export Council for the first five months of the year, overall volume of exports is on track for the third best year ever, only

trailing the pace of 2018 and 2014. Compared to May a year ago exports were lower by 9% for nonfat dry milk/skim milk powder, 41% for butterfat, 29% for whey products and 14% for lactose, but up 11% for cheese. Cheese remains the bright spot for exports. While cheese to Mexico, the largest market was down 7%, exports to Southeast Asia, Japan and South Korea were well above a year ago. On a total solids basis May exports were equivalent to 14.7% of milk production.

The dairy stock situation continues to improve. Butter stocks as normal increased from May to June, but were 2.6% lower than a year ago. American cheese stocks declined from May to June and were 1.9% lower than a year ago. Other cheese stocks also declined from May to June, but were still 2.2% higher than a year ago. This resulted in total cheese stocks declining from May to June, but were just 0.5% lower than a year ago.

Milk production is likely to continue below a year ago for the remainder of the year. USDA is forecasting milk production for the year to be just 0.3% above a year ago. That is positive for improved milk prices. Butter and cheese sales should continue to show growth particularly during the fourth quarter for thanksgiving and the holidays. Cheese exports are forecasted to continue to run above year ago levels. U.S. eliminated its tariffs on aluminum and steel from Mexico and in turn Mexico eliminated its tariff on U.S. cheese which should be positive for exports by fourth quarter. These factors are bullish for milk prices. The Class III price should be in the mid to high \$17's for the remainder of the year with \$18 a real possibility fourth quarter. However, unless dry whey prices increase from its current \$0.3425 per pound, cheese needs to be about \$1.90 per pound to get to \$18. Currently cheddar barrels are \$1.7125 per pound and 40-pound blocks are \$1.7925 per pound.

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