

Milk Price Outlook

The dairy situation has changed a lot over the past month. Strong cheese prices resulted in Class III prices averaging well over \$18.00 from January through July. But, cheese prices declined in August. On July 28th, CME cheddar barrels were \$2.0225 per pound, but declined to \$1.70 as of August 18th. CME cheddar blocks were \$2.0825 per pound on July 29th, but declined to \$1.76 as of August 18th. With dry whey prices only in the \$0.26 to \$0.29 per pound range the Class III price for August will be about \$17.15 compared to \$18.24 for July and could fall below \$17 for September. Cheese prices are likely to recover some during the October - November period pushing the Class III price back to the mid \$17's October through December. A little more than a month ago Class III futures were averaging nearly \$19 through July 2010. Today, Class III futures are below \$18.00 though May 2009 and in the low to mid \$18s through July 2010. Lower cheese prices and in turn Class III prices are due to increased cheese production, slower domestic demand and increased stocks.

CME butter prices remain over \$1.64 per pound despite June production 9.0% higher than a year ago. But, butter sales have been good and cream supplies for making butter tight. Compared to a year ago commercial disappearance of butter January through May were up 21.1%. Without exports both butter and cheese prices would be lower. Butter exports January through June totaled 113.1 million pounds compared to just 16.9 million pounds for the same period a year ago.

January through June cheese exports were 156.5 million pounds, 48% more than a year ago.

May and June milk production was more than 3.2% higher than a year ago. But, the growth in milk production slowed in July. For the 23 reporting states July's production was up just 1.7 % from a year ago. Milk cow numbers, which have increased month to month beginning with May of last year, increased another 5,000 head in July and were 1.7 % higher than a year ago. Lower than normal increases in milk per cow have held down the increase in milk production. The 1.7% increase in total milk production for July was due entirely to more milk cows since milk per cow was unchanged from a year ago.

Increases in milk production will likely continue at a slower rate through last quarter of this year and for 2009. Lower milk prices and high feed costs this fall and winter are likely to reduce the average total number of milk cows in 2009. Weekly dairy cow slaughter has been running higher than a year ago. While dairy cow slaughter through the week ending July 26th was just 2.6% higher than a year ago, in recent weeks dairy cow slaughter has been up as much as 18%. Also CWT will be removing cows this fall. While 2008 milk production will total about 2% more than 2007, milk production may increase only 1% or less in 2009. This slower growth in milk production will add strength to milk prices. But this will be partially offset by also a slower growth in domestic as well as international sales of milk and dairy products. Slower

growth in the economy along with higher food, gas and home heating prices this winter will dampen domestic sales. Some strengthening of the U.S. dollar and increased milk production in New Zealand and Europe as well as a slower growth in the world economy may slow the growth in dairy exports. Nevertheless, while milk prices are likely to average lower in 2009 than 2008, the base milk price is still likely to average above \$17.00.

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