

Markets

Milk Prices Start to Rise as Production Falls

DAIRY OUTLOOK



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The good news for dairy in July is that the Class III price was \$2.02 higher than in June and the Class IV price was up \$1.07.

The market has been responding to a variety of events leading to decreased production, including extreme heat in the Southwest, drought in parts of the Northeast and lower margins worldwide.

Not all dairy prices are up. Butter and powder prices are down by 2.4 and 3.8 percent, while cheese and whey prices are 13 and 16 percent higher.

Cheese prices are apparently reflecting strong domestic demand, even though the export market is being limited by the strong dollar and substantial inventories.

Butter stocks are well above last year, and with the strong dollar and accumulating inventories in Europe, we may see butter imports once again in the autumn.

California's milk production continues to lag behind a year ago. U.S.

milk production in May was up by 1.5 percent over last June.

If Britain leaves the EU, it may return to importing dairy products from its former colonies Australia and New Zealand after the EU tariffs disappear.

The euro has recovered somewhat relative to the greenback while the Australian dollar is up by 2 percent and the New Zealand dollar is down by 0.4 percent since a month ago.

Cheese futures prices have risen substantially in the last month for 2016 contracts. Butter futures show a typical fall pattern, with slight rises until November, when the holiday-designated inventory is distributed.

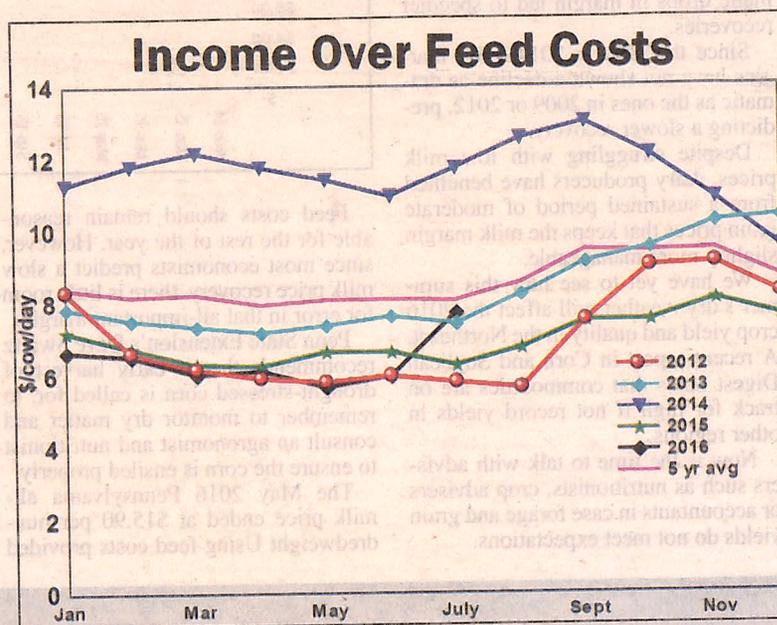
The dollar is still strong, hurting exports somewhat. The Mexican peso continues to slide, but nevertheless Mexico remains an important dairy trade partner.

Class III and to a lesser extent Class IV prices are expected to be higher over the remainder of 2016, and the two prices are about the same for the first half of 2017.

My estimates for the Pennsylvania all-milk price for the rest of 2016 show it averaging \$2.80 more per hundredweight than for January-June, but still 62 cents below the 2015 average.

In much of Pennsylvania and especially upstate New York, the latest drought monitor shows drought is becoming more serious.

The corn crop has stalled, and the hay crop will be considerably smaller



in some areas. This of course hurts net dairy income because affected farmers have to buy feed to replace crops they have spent money to grow.

Besides the Northeast and the continuing extreme drought in California, the nation's crop weather is generally OK.

The continuing issues hanging over the dairy economy are the strong dollar, the Russian embargo on EU dairy imports and China's economy.

Overall, the outlook for milk prices for the rest of 2016 is better than the first half, with the first half of 2017 much like the rest of 2016.

Corn and soybean meal prices are

down 6 and 12.5 percent in the past month, and soybean prices are down 6.8 percent.

The weather in Argentina and Brazil is hurting their soybean crops. The U.S. corn crop will be a record, or nearly so. Domestic and export demand will not eliminate the drag of large inventories carried into the 2017 crop year.

The soybean situation is fairly similar — favorable weather in the major U.S. growing areas and a lot of soybeans in Brazil and Argentina.

Income Over Feed Costs

Penn State's measure of income over feed costs rose by 28.8 percent

in July from its June value, as much higher milk prices combined with somewhat lower feed costs.

July's income over feed costs is the highest since last November.

Income over feed costs reflects daily gross milk income less feed costs for an average cow producing 65 pounds of milk per day.

The milk margin is the estimated amount of the Pennsylvania all-milk price that remains after feed costs are paid.

Like income over feed costs, the July Pennsylvania milk margin was 28.8 percent higher than in June.

If the Pennsylvania drought hits farmers hard, which it will for some, then calculations based on prices from the broader market will understate the impact for farmers who spent money to replace crops lost to drought.

The latest U.S. milk production report showed June milk production up 1.5 percent from a year earlier on a 30-day month basis.

Although not a large increase, this milk production increase is problematic in the current dairy environment since the export market is tight, given the strong dollar.

Cow numbers increased by 0.0 percent over last year. Although this increase is small, more milk production nationally will restrict the rise in milk prices.

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