

Dairy Situation and Outlook, May 18, 2022
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Milk prices continue well above year ago levels. The April Class III price was \$24.42, and May will be near \$25.00. The April Class IV price was \$25.31 but May will be lower near \$24.5. While volatile dairy product prices have held at levels to maintain Class III and Class IV prices near these levels. During the month or May cheddar barrel cheese started the month at \$2.34 per pound, got as low as \$2.30, but has strengthened since then and is now \$2.45. Forty-pound cheddar blocks started the month at \$2.38 per pound, got as low as \$2.2625, but has also strengthened since then and is now \$2,3750. Dry whey prices continues to weaken. Dry whey started the month at \$0.5750 per pound and is now \$0.5025. Dry whey was as high as \$0.86 per pound back in February. This drop in the value of dry whey has taken about \$2 off the Class III price.

Prices of butter and nonfat dry milk have held at levels to maintain a strong Class IV price. During the month of May butter was as high as \$2.8025 per pound and as low as \$2.61 and is now \$2.7925. Nonfat dry milk was as high as \$1.88 per pound and as low as \$1.7075 and is now \$1.7450.

But milk prices for the remainder of the year are uncertain. Prices should stay well above year above levels but how much higher is uncertain. There is uncertainty as to the level of milk production, domestic sales, and dairy exports all of which will determine the level of milk prices. With much higher feed prices and the price of all other inputs milk production is not likely to show much of any increase this year. Dairy replacement numbers are also lower, and some dairy cooperatives have in place base type plans that limited their members increasing milk production. USDA is forecasting just a 0.2% increase in this year's milk production over last year. Milk production at this level will support higher milk prices. If milk production would increase at higher levels by the last half of the year, milk prices could weaken some.

USDA's estimated April milk production was 1.0% below a year ago, the sixth consecutive month milk production was below a year ago. Milk cow numbers were 98,000 head below a year ago, a 1.0% decrease with no increase in milk per cow. April milk production was below a year ago in three of the five leading states. Milk production was below a year ago by 0.6% in California, 0.1% in Wisconsin, 0.8% in New York with no change in Idaho and a 4.7% increase in Texas. Milk cow numbers were lower than a year go by 2,000 in California, 1,000 in Wisconsin, 6,000 in New York with no change in Idaho and 13,000 more in Texas. South Dakota led all states with April milk production up 16.7% from a year ago with 25,000 more cows followed by Georgia with milk production up 12.1% with 9,000 more cows. April milk production was below a year ago by 12.1% in Florida with 12,000 fewer cows and 12.9% in New Mexico with 41,000 fewer cows.

How milk and dairy product sales hold up for the remaining of the year is uncertain. Inflation is cutting into consumer spending power. This may cause consumers to cut back on going to restaurants which would dampen butter and cheese sales. Higher retail prices may also reduce consumer purchases of dairy products in the grocery store. While fluid (beverage) milk sales are expected to decline butter and cheese sales are still expected to show some increase in sales.

Dairy exports continue to do well but may not match the record exports of last year. The volume of March exports were just one percent lower than a year ago. This was the fourth consecutive month the

volume of exports was below a year ago. The exports of nonfat dry milk/skim milk powder and dry whey resulted in the lower total volume. Compared to a year ago March exports of nonfat dry milk/skim milk powder were down 7% and dry whey 11%. Cheese exports continue to do well being 13% higher than a year ago and butterfat was 59% higher. Milk production in Oceania and Western Europe, two leading dairy exporters continues to run below a year ago levels which leaves open opportunities for U.S. exports. World dairy products prices have been declining but as U.S. prices are still competitive on the world market.

In summary, milk prices will stay well above year ago levels. But it is uncertain as to how much higher. If milk production does not increase above year ago levels the Class III price could strengthen by summer and fall as milk production is seasonally lower in the summer while butter and cheese inventories start to build for the seasonally high sales for thanksgiving and the holidays. But, if milk production does strengthen some last half of the year this could dampen Class III and Class IV price increases. Nevertheless, 2022 should end the year with prices averaging well above a year ago. USDA is forecasting the Class III price to average \$20.50 compared to \$17.08 last year and the Class IV price to average \$21.40 compared to \$16.09 last year. Prices could very well average higher. Current dairy futures are more optimistic with Class III \$24 until August then \$23 and ending at \$22 in December. Class IV futures are \$24 until October then \$23 and ending at \$22 in December. We need to keep in mind that milk prices can change quickly with small changes in milk production, milk and dairy product sales and dairy exports.

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