

Dairy Situation and Outlook

Robert Tigner

Iowa State University Extension Farm Management

Specialist

New Hampton, Iowa

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Small Milk Increase Again

August 2006 milk production increased 1.6% while July Milk production was revised up by 6 million pounds. Production per cow rose by 9 pounds to 1680. Milk cow numbers for the 23 major dairy states were 88,000 higher than Aug 05 but 9000 fewer than the previous month. This is the second month in a row that dairy cow numbers have dropped.

Iowa milk production dropped 3.5% due to lower milk per cow, down 95 pounds. Cow numbers were 200,000 in Aug 06, 4000 higher than one year ago and the same as the previous month. Iowa cheese production was off by 5.3% compared to the previous month and -

State	thousands 2005 cow numbers	thousands 2006 cow numbers	% change cow numbers	pounds 2005 milk per cow	pounds 2006 milk per cow	% change milk/cow	2005 total milk production	2006 total milk production	% change total milk
Iowa	196	200	2.04%	1740	1645	-5.46%	341	329	-3.52%
MN	450	450	0.00%	1510	1525	0.99%	680	686	0.88%
WI	1236	1244	0.65%	1595	1570	-1.57%	1971	1953	-0.91%
IL	104	103	-0.96%	1515	1550	2.31%	158	160	1.27%
CA	1759	1768	0.51%	1795	1860	3.62%	3157	3288	4.15%
ID	468	495	5.77%	1940	1960	1.03%	908	970	6.83%
NM	331	362	9.37%	1825	1780	-2.47%	604	644	6.62%
PA	562	554	-1.42%	1575	1580	0.32%	885	875	-1.13%
TX	320	337	5.31%	1625	1655	1.85%	520	558	7.31%
23-State	9060	9128	0.75%	1643	1658	0.91%	14896	15126	1.54%

Demand

Recent cheese prices on the CME have indicated both higher and lower demand for cheese. August 2006 cheese stocks decrease amounted to 21.8 million pounds, slightly lower than average. American cheese stocks for Aug 06 were lower than one year ago but USDA revised the July stocks estimate upward. The drop in butter stocks was 44.6 million pounds, larger than the usual 28 million pounds.

Commercial disappearance has been good for the first half of 2006, up 2.8% compared to one year ago. Butter was up 5.8%, American cheese up 6.4%, other cheese up 1% and fluid milk products up 1.4%. July fluid milk sales are up 1.2% compared to one year ago up 0.7%.

Analysis

Western US milk production, especially CA, has rebounded from its weak performance during July 06. CA and AZ appear to be the two states negatively affected by the July heat. The total impact on AZ and its milk production for the US will be minimal though; AZ has less than 10% the cow numbers as CA or about the same milk production as IN. Both CA and AZ had cow

number reductions due to summer heat but with springing heifer prices averaging \$400 less than one year ago, both will rebuild quickly.

One commentator believes cow numbers will continue to decline through the end of 2006 and another believes it will continue through summer 2007. The Milk-Feed price ratio is now at 2.48, up 0.1 due to a drop in soy bean meal price and a 10 cent improvement in milk price. A ratio of 3 or more indicates expansion of dairy cow numbers while a number below 3 usually means reduction in cow numbers. Through the first eight months of 2006 total dairy cow slaughter is up by 44,000 to 1.498 million. August slaughter was 27,000 more than one year ago.

The cheese market lost 3 cents in blocks and 3.5 cents in barrel trade. The up and down price movement for the last few days, makes one nervous about higher prices for cheese during the remainder of 2006. This type of trade often indicates a market that has topped out and dairy farmers would be well served to take price protection.

