

## **Dairy Situation and Outlook**

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# **Milk Production Turnaround**

USDA's recent "Milk Production" report released 16 Aug 04 reported the July 04 milk production up 0.7%, the first monthly milk production increase since Nov 03. June 04 milk production was revised upward to -0.1%. Production per cow was 1613 pounds, 16 pounds more than one year earlier. Dairy cow numbers rose 11,000 from the previous month, but were 27,000 fewer than 1 year ago.

Iowa's July 04 milk production did not fare well however. Iowa had the largest percentage milk decline, -5.3%, with 1,000 fewer cows than the previous month. This is the second consecutive month that Iowa has had the largest monthly percentage milk decline. Iowa production per cow was 10 pounds less than one year ago.

Half of the 20 reporting dairy states had production increases with the other half with milk production declines. Texas had the largest milk increase, 10.5%, even though cow numbers were unchanged from the previous year. Production per cow rose 145 pounds in Texas building on June's trend of a 100 pound increase. Florida had a 8.8% milk production rise from 2,000 fewer cows because those remaining produced 125 more pounds. Arizona had the next largest milk increase, 6.3%, by adding 3,000 cows and 70 pounds of milk per cow. California had the fourth largest milk increase, 3.7%, with 38,000 more cows and 25 pounds more milk per cow. New Mexico added 14,000 more cows and 25 pounds less milk per cow. Idaho's milk production increase was 1.2% by adding 14,000 cows while milk per cow dropped by 40 pounds. Ohio had a 2.9% milk production rise on 6,000 added cows and 10 pounds more milk per cow. Kentucky had a milk production rise due to 50 pounds more milk per cow with 5,000 fewer cows. In that same area, Indiana's milk rise was 2.1% on 2,000 more cows and +15 pounds more milk per cow. Missouri added milk too, 2%, through 90 more pounds on a 7,000 head smaller dairy herd.

States with milk production declines were: IL -0.6%, MI -3.4%, MN -1%, NY -3.8%, PA -2%, VT -0.9%, VA -0.7%, WA -2.7% and WI -1.8%.

## **Dairy Products**

The cheese market has firmed up. Cheese buyers are finding that cheese prices are above those in early July by nearly 20¢ per pound. Cheese supplies are also tighter due to reduced milk going into cheese vats. Cheese production may decline further as schools open.

Iowa cheese production continues to suffer. June 04 production was -7.5% from May 04, but was +3.9% from June 03. Still, cheese production is off 2-3 million pounds from last year even when cheese plant closures are taken into account.

US butter production has finally reached levels similar to the last 2 years. First half 04 butter production,

leap year adjusted, was -12.3% from first half 03, the smallest since 1987. June 04 butter production was 15.2% above June 03. Butter sales are slow in the retail marketplace. Although butter stocks are relatively low compared to one year ago, about one-half, CME prices for butter have trended down since early April. Retail prices have been sticky and may explain why sales aren't as good as last year.

Fluid milk sales are off compared to one year ago. June fluid milk sales were -3% compared to one year ago with year-to-date sales-2%. One of the bright spots was +8.4% for flavored fat reduced milk. Unfortunately it accounts for only 6.6% of fluid milk sales.

US dairy exports are stronger compared to last year. The monetary amount through April is 25% above year ago levels. NFDM sales are 71% higher than one year ago with a significant amount of it as commercial sales. US NFDM is priced at competitive levels in the world market, \$2,000 per ton, even without DEIP assistance. Cheese sales are 28% higher with a 48% greater value than one year ago. Butter and milkfat sales are much larger as well.

Domestically dairy product sales is 1.4% higher than the same period one year earlier through May 04. Nonfat dry milk disappearance is up by 87.9%, all cheese up 5.7% but fluid milk and butter down 2.1% and 4% respectively.

### **Analysis**

US dairy markets appear to be stable for the next few months, but the larger corn and soybean crop reducing feed costs and the possibility that California may begin calving large numbers of cows this fall could drag down anticipated prices for the first half of 2005. The heat problem for California during 2003 caused a number of cows to have longer lactations and dry days than desired. We will probably have a surge of calvings late summer and early fall in that state. If this takes place we will pressure dairy product prices and lower mailbox prices.

There is still no indication when the Canadian border will open to live cattle imports. Canada exports up to 190,000 head of dairy cattle to the US annually under normal circumstances. Heifer prices are about \$400 ahead of 1 year ago when the border was open and milk prices were much lower. Average heifer prices for July were reported at a record \$1720 by USDA.

The latest milk-feed price ratio was 3.05 which indicates some potential profit to increased milk per cow or herd size expansion by individual dairy owners.