

Milk Market Update

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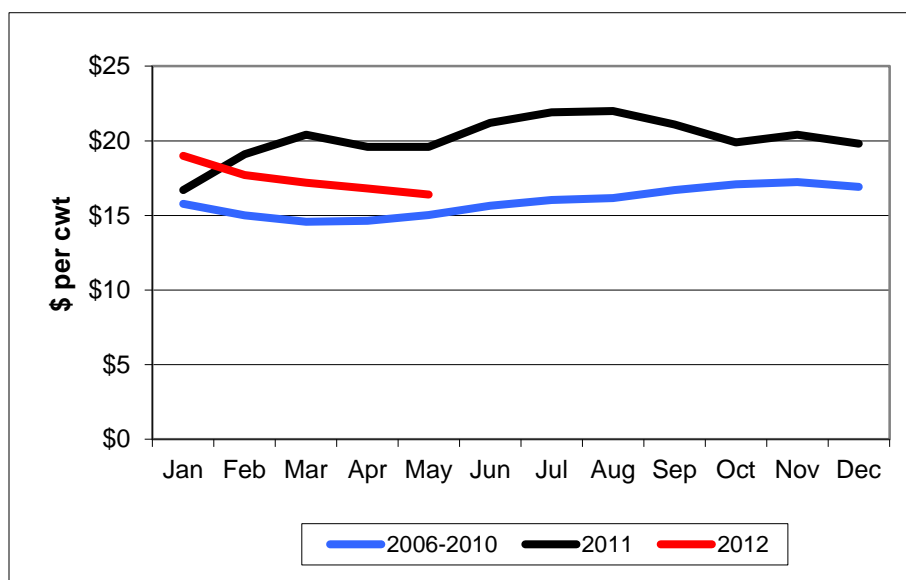
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Milk prices have continued to fall since the first of the year. At the time of this writing, the US All Milk Price was in the \$16-\$17 range, down from the \$20's during 2011. Milk production continues to exceed that of last year, although the pace does appear to have slowed. According to USDA's Monthly Milk Production Report, first quarter milk production during 2012 exceeded that of 2011 by more than 5%. However, during April and May, milk production was up by 3.4% and 2% respectively. Still, larger production levels have continued to pressure milk prices, as can be seen in the chart below.

Increased production, coupled with generally rising stocks, have all component prices below year ago levels. Dry whey began the year well above 2011 levels, but has steadily fallen since January. Cheese, butter, and non-fat dry have been below last year's levels most all year. Weaker prices for milk and dairy products, increasing feed costs, and strong cull cow prices are likely to result in a reduction in dairy cow numbers by year's end, but this reduction may be smaller in magnitude that previously thought according to USDA. USDA's current forecast puts 2012 milk production estimates around 3% higher than 2011.

While production is expected to be up for this year, the largest year over year increases have likely been seen. Milk production increases through the rest of the year should be smaller, and driven primarily by increases in milk per cow. In truth, it will be margins (milk price relative to feed costs) that will determine the level of liquidation that occurs in the coming months. If export pace remains strong, some slight price improvement is certainly possible by the end of the year. USDA's current projections are for around a \$1 per cwt improvement in All Milk Price by the 4th quarter, which would also be consistent with recent seasonal trends. Milk prices have tended to seasonally increase from spring into the fall over the last several years as can be seen in the chart below.

US All Milk Price



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