

Dairy Situation And Outlook

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Total milk production for the month of November for 20 reporting states was 1.3% more than a year ago. While the number of milk cows were down 0.7%, milk per cow was up 2.0%. The 1.3% increase was the smallest increase since the 1.1% increase in March. A major reason for the slow down in relative increases is because a year ago milk production was recovering and relative increases were also greater.

The greatest decline in milk cow numbers was in Minnesota and Wisconsin with November numbers, respectively, 3.4% and 2.5% lower than a year ago. While the November total number of milk cows for the 20 states were down 51,000 head, the combined reduction for Minnesota and Wisconsin was 55,000 head. Minnesota also had 0.8% less milk per cow resulting in a 4.2% decrease in total milk production. Wisconsin's milk per cow was up 2.0, but not enough to offset the decline in cow numbers, resulting in a 0.5% decline in total milk production.

Both California and Idaho had strong increases in November milk production. Compared to a year ago, production was up 5.9% and 7.0% respectively. Cow numbers were up 4.0% in California and 4.9% in Idaho. Increases in milk per cow were about normal, up 1.8% in California and 2.0% in Idaho. Washington, however, had a 2.3% decrease in cow numbers and a 0.6% decrease in milk per cow, netting 3.1% less total milk production.

Cow numbers were up 3.3% in Arizona and 5.1% in New Mexico, but down 2.0% in Texas. Milk per cow was down in both Arizona, 2.7% and Texas, 4.1%, but 2.9% higher in New Mexico. As a result, Arizona had just a 0.5% increase in total milk production and New Mexico had a 8.2% increase while production was down 6.1% in Texas.

November milk production was not strong in the Southeast. Compared to a year ago, production was down 1.6% in Florida, 6.1% in Kentucky and 2.2% in Missouri. Except for Florida where milk per cow was down 2.8%, the decline in total milk production was due to less milk cows.

Northeastern states all experienced fewer milk cows, New York 0.1%, Pennsylvania 0.3%, Ohio

1.1% and Michigan 4.4%. Except for Michigan, more milk per cow more than offset this decline in cow numbers. Total milk production was up 2.2% in New York, 2.7% in Pennsylvania, and 0.9% in Ohio, but down 1.6% in Michigan.

Similar milk production changes can be expected for December. If so, 1997 milk production will total about 156.9 billion pounds, up about 1.7% from the 154.3 billion pounds produced in 1996. Adjusting for the extra day in 1996, 1997 milk production will be up over 2%.

What does this milk production mean for farm level milk prices? Milk prices have held much better than earlier expected. The November BFP was \$12.96 per hundredweight, \$1.35 higher than a year and up \$2.26 from the low of \$10.70 in May. November was the fifth straight monthly increase. The December BFP may change little from November. However, it is normal for prices to decline seasonally in December and on into the new year. But the BFP dairy futures are trading above \$12.00 per hundredweight through March 1998.

Most predict that the BFP will not drop below \$11.00 as it did in 1997, but most predict a BFP below \$12.00 first quarter of 1998.

So dairy farmers may want to consider these rather favorable BFP futures and options. The chances of actual BFP prices being lower than these futures prices, I believe are greater than being higher.

The 40 pound block cheddar cheese price is the major mover of the BFP. Surprisingly, the CME price for 40 pound cheddar blocks has held thus far, where normally prices decline seasonally. In fact, the 40 pound block price increased \$0.25 December 4 to \$1.435 per pound. This is \$0.1925 per pound higher than a year ago at this time.

CME barrel prices, on the other hand have shown considerable weakness. CME barrel prices started to drop on October 23 and have dropped 6 of the 7 weeks since. On December 11, barrels were \$1.27 per pound, \$0.0925 lower than the October price. The spread between barrels and blocks is abnormally large, \$0.165 per pound.

The normal spread is 3 to 4 cents. This means that production will shift from barrels to blocks and put downward pressure on 40 pound block prices.

The good news for cheese prices is that sales have improved in recent months and production of cheese over year ago levels has slowed. October cheese production was up 1.1%, the smallest increase since April when production was actually down from year ago levels. January through October cheese production was 2.0% higher than for the same period a year ago.

With improved sales and slower cheese production, stocks of cheese have improved. As of October 31, stocks of Natural American cheese were 399.3 million pounds, 5.2% higher than a year ago, but down 5.2% from September 30 stocks. October 30 stocks of other natural cheese va-

rieties were 24.5% lower than a year ago. This more favorable cheese supply/demand situation may prevent 40 pound cheddar cheese prices from collapsing quickly, but we can expect prices to start to decline.

Butter prices have fallen sharply in December. CME grade AA butter prices fell \$0.08 per pound on December 5 and another \$0.32 per pound on December 12. Grade AA price is now \$1.20 per pound, but still \$0.41 per pound higher than a year ago.

Butter prices normally decline in December as cream supplies improve and butter demand weakens after the holidays. Butter stocks, however, are not burdensome. October 30 stocks at 26.4 million pounds are 28.8% higher than a year ago, but a year ago stocks were below normal for this time of the year. But these stock levels do indicate further declines in the butter price. These higher prices are also keeping butter sales below year ago levels.

In summary, the December BFP may change little from November's \$12.96. This will make the average BFP for the year slightly above \$12.00 per hundredweight, compared to \$13.39 average for 1996, but yet the third highest since 1990. The average all milk price will be about \$13.25 compared to \$14.74 for 1996, but also the third highest since 1990.

Looking into 1998, it appears the BFP will not reach the lows of 1997, and could average as high, if not higher than 1997. The impact of El Nino in the west, high hay prices this winter and crop conditions for 1998 can all have major impacts on 1998 milk prices. But as for now, 1998 milk prices look as good, if not better, than 1997.

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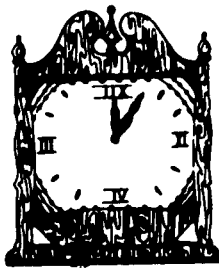
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Land O'Lakes Names Cruickshank Head Of Dairy Procurement Team

ST. PAUL, MN; December 23) - Land O'Lakes has named a veteran of the cooperative system and the dairy industry to head the dairy procurement team for its Pennsylvania-based Eastern Operations.

Chuck Cruickshank, who for the past three years has led the Land O'Lakes dairy enterprise consulting program, with responsibilities that included dairy and specialty feeds, will move to Pennsylvania after the first of the year.

Cruickshank has 20 years experience in local and regional cooperative systems, with major responsibilities for leading field service operations working directly with producers

The new assignment will be a return to home territory for Cruickshank and his family who

have roots in the East. He has a Bachelor of Arts Degree in Economics from the State University of New York and did graduate work at Columbia University. His background includes work in a variety of market segments - generally serving the dairy industry; and work in a variety of geographic areas - principally the eastern U.S. and Midwest.

Don Berg, vice president of dairy procurement for Land O'Lakes said, "Chuck is an articulate and thoughtful leader who will bring an extensive knowledge of Land O'Lakes and the dairy industry to his work with the field staff and producer-members in the Mid Atlantic region"

Cruickshank is married and has two children

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