

Dairy Situation And Outlook

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The BFP prices on the futures market have declined significantly in recent trading sessions. On December 15, while the December BFP settled at \$17.25, other near month contracts declined. January BFP contracts settled at \$15.60, down \$0.73 from the \$16.33 on December 10. February contracts at \$13.40 were down \$1.23 from \$14.60 on December 10th. And March contracts at \$12.66 were down \$0.86 from \$13.52 on December 10th. More distant contracts also declined but to a lesser degree. On December 15th the May BFP broke the \$12.00 barrier and settled at \$11.91. June contracts settled at \$12.01.

A December BFP over \$17.00 and a new BFP record seems quite safe. The 40 pound block cheddar cheese price has increased every week since September 1 and ended at a record \$1.90 per pound on Friday, December 11. The 40 pound block price is the prime driver of the BFP. But why the

drop in BFP prices after December? The answer is an anticipation of increased milk production and resulting cheese production along with a seasonal decline in cheese sales. Cheese sales have been excellent with increases of more than 2%. October 31st stocks of natural American cheese were down 5.8% from September and 5.3% from a year ago. But a rebuilding of cheese stocks are anticipated as milk production and milk composition improves seasonally and sales decline seasonally. But we can't forget super-bowl Sunday which is a strong cheese sales period. Nevertheless, cheese prices have not only increased beyond predictions, they have held longer than many anticipated. Cheese production did show some strength in recent weeks. October production of American cheese was up 1.4% from a year ago and the production of all cheese up 2.4%. USDA's November milk production report does not show milk production strengthening. While milk production compared to a year ago was down in July

(0.8%) and August (-0.5%), it return to a slight increase in September (-0.3%), and increased 1.7% in October, but increased 3.0% for November. Why the change in milk production? First, milk cow numbers have stopped declining. For the 20 reporting states, milk cow numbers are unchanged from October and down just slightly, -0.1% from a year ago. But more importantly, milk per cow has returned to a more normal increase, being up 2.8% from a year ago. Compared to a year ago, milk per cow was down in July and August 0.6% and 0.5% respectively, increased just 0.4% in September and 1.8% in October. The major change here was for California which has been experiencing rather poor milk production per cow due weather related problems for most of the year. But for November, California's milk per cow was still down, but only 1.5% compared to 3.1% for October and close to 7% for September. Weather has improved and California's milk per cow is slowly improving. Since California had 3.8% more

cows this more than offset the decline in milk per cow and resulted in a 2.3% increase in California's milk production compared to just a 0.6% increase in October and lower milk production during the summer months.

Mild weather has been a factor across the country for improved milk production per cow. Also a milk-feed ratio of 4.23 compared to 2.73 a year ago encourages grain and concentrate feeding for milk production. The only states showing less milk per cow in November compared to a year ago were Virginia, Washington and California.

November milk production, compared to a year ago, for other states show the following increases; Arizona 6.3%, Idaho 10.6%, Washington 4.1%, New Mexico 8.8%, New York 3.5%, Pennsylvania 0.8%, Ohio 0.6%, Wisconsin 3.8% and Minnesota 4.1%. Milk cow numbers have stopped declining in Wisconsin as well. November cow numbers were up 2,000 head from October and down only 1.2% from a year ago. Milk per cow

was up 5.2% in Wisconsin and 6.9% in Minnesota. Texas had been experiencing poor milk per cow also because of adverse weather. But for November, milk per cow as up 3.4% offsetting 3.4% fewer milk cows, and resulting in no change in milk production. All spring and summer Texas's milk production had been running below year ago levels. Milk production, although up seasonally, continues below year ago levels in most southern states and in the southeast. Kentucky for example, had 7.3% less milk and Florida experienced a 2.7% decline. But since milk production is up seasonally, the need to bring outside milk into the region for fluid purposes has pretty much stopped.

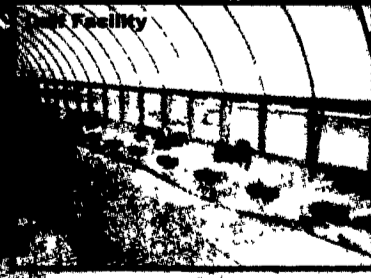
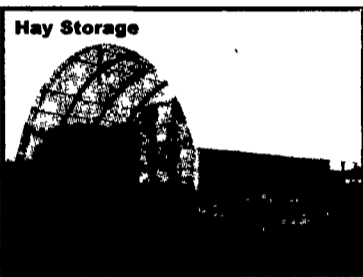
In summary, 1998 will finish with a new record BFP in December of more than \$17.00. While the BFP will decline as we move into 1999, the BFP will stay well above the 5 year average, at least through April, and perhaps longer.

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