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What Happened to Milk Prices This Year?

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Cornhusker Economics

Cooperative Extension

Institute of Agriculture & Natural Resources
Department of Agricultural Economics
University of Nebraska - Lincoln

What Happened to Milk Prices This Year?

Market Report	Yr Ago	4 Wks Ago	10/18/02
<u>Livestock and Products,</u>			
<u>Average Prices for Week Ending</u>			
Slaughter Steers, Ch. 204, 1100-1300 lb Omaha, cwt	\$66.54	\$66.23	\$65.77
Feeder Steers, Med. Frame, 600-650 lb Dodge City, KS, cwt	85.00	82.50	*
Feeder Steers, Med. Frame 600-650 lb, Nebraska Auction Wght. Avg	93.99	86.85	86.57
Carcass Price, Ch. 1-3, 550-700 lb Cent. US, Equiv. Index Value, cwt	107.34	103.93	101.31
Hogs, US 1-2, 220-230 lb Sioux Falls, SD, cwt	38.50	31.00	29.00
Feeder Pigs, US 1-2, 40-45 lb Sioux Falls, SD, hd	33.38	*	*
Vacuum Packed Pork Loins, Wholesale, 13-19 lb, 1/4" Trim, Cent. US, cwt	106.40	90.22	97.09
Slaughter Lambs, Ch. & Pr., 115-125 lb Sioux Falls, SD, cwt	42.85	74.25	77.25
Carcass Lambs, Ch. & Pr., 1-4, 55-65 lb FOB Midwest, cwt	124.45	157.74	156.02
<u>Crops,</u>			
<u>Cash Truck Prices for Date Shown</u>			
Wheat, No. 1, H.W. Omaha, bu	2.89	4.74	4.90
Corn, No. 2, Yellow Omaha, bu	1.76	2.46	2.43
Soybeans, No. 1, Yellow Omaha, bu	3.93	5.42	5.26
Grain Sorghum, No. 2, Yellow Kansas City, cwt	3.31	4.64	4.76
Oats, No. 2, Heavy Minneapolis, MN, bu	2.05	2.16	2.07
<u>Hay,</u>			
<u>First Day of Week Pile Prices</u>			
Alfalfa, Sm. Square, RFV 150 or better Platte Valley, ton	115.00	132.50	150.00
Alfalfa, Lg. Round, Good Northeast Nebraska, ton	77.50	92.00	85.00
Prairie, Sm. Square, Good Northeast Nebraska, ton	105.00	117.50	117.50
* No market.			

Dairy farmers don't need to be reminded that milk prices have declined dramatically in the past year. In September, the U.S. average all milk price was \$11.50, or down about one-third compared to a year ago. The answer lies in that basic economic tenet - supply and demand. Too much supply relative to the demand for milk and dairy products.

Supply Factors

On the supply side, milk supply increased 2.8 percent during the first nine months of this year compared to 2001. In September it was up 3.3 percent. It is projected to run about 2.6 percent over 2001 for all of 2002. This is considerably higher than the typical increase of about 1.5 percent over the previous year. That's the bad news. The good news is that it appears cow numbers are declining. After eight consecutive months of increasing cow numbers, the dairy herd in the 20 major dairy states declined by 4,000 head in September. This is borne out by replacement values which have declined in the past couple of months. During the first nine months of the year, cow numbers continued to increase along with a continued increase in production per cow. Of the 3.3 percent increase in total milk, 2.6 percentage points has been due to higher output per cow and 0.7 percentage points due to more cows.

Demand Factors

For the first half of 2002, commercial disappearance of all milk, on a milk fat basis, was down 0.4 percent. For the whole year commercial disappearance is projected to be up one percent - compared to the 2.6 percent increase in production. For specific products



the consumption changes for the first half of 2002 relative to 2001 are as follows: butter, up 1.7 percent; American cheese, up 0.3 percent; other cheese, no change; nonfat dry milk, down 30.7 percent; and fluid milk, no change.

This soft demand, combined with increased milk production has lead to increased inventories. For example, butter inventories are projected to increase from 55 mil. lbs. at the beginning of the year to 94 mil. lbs. at the end of the year, or an increase of 71 percent. Similarly, American cheese inventories are expected to increase from 448 mil. lbs. to 516 mil. lbs. or 15 percent. The one percent increase in expected disappearance or consumption is consistent with the long term trend of increased milk consumption equaling the percentage increases in population. The U.S. population has increased at the rate of slightly more than one percent per year over the past 10 years.

Outlook for 2003

An immediate rebound in milk prices unfortunately is not in the cards. In fact, with the stocks that are in storage and only a modest decline in cow numbers, milk prices could be flat to down slightly through the fourth quarter of 2002, and the first and second quarters of 2003. Ken Bailey, dairy marketing economist at Penn State University, has projected milk prices to start rebounding by the third quarter of 2003. This is based on the combination of reduced cow numbers and slightly lower output per cow to produce about one percent less milk in 2003 than in 2002. He projects a

Class III price of \$12.35 in the fourth quarter of 2003 compared to an annual price of \$10.66 for 2002. An economic recovery will help the consumption of some dairy products such as cheese.

Sources:

Ken Bailey. "Dairy Outlook." Autumn, 2002. <http://dairyoutlook.aers.psu.edu>. Penn State University.

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