An educational newsletter to keep producers informed of changing market factors affecting the dairy industry.

**Dry Products:** Low/medium heat nonfat dry milk (NDM) prices heightened in all regions. Western industry contacts note international demands are strengthening. Spot load availability is mixed in the United States. High heat prices are mostly higher. NDM markets are bullish. Dry buttermilk prices moved higher. International interests remain healthy, but port/freight congestion are impacting potential export opportunities.

**Cheese:** Spot milk trading was fairly quiet in general, and Northeastern cheese producers say there are pockets of tightness regarding milk availability. Cheese production generally has been somewhat busy, despite reports of employee shortages and other logistical snags growing in regularity in recent months. Demand notes ring true across the regions. Retail demand has strengthened seasonally, across the board. CME prices have thrown a curveball at market participants. After a notable gap between block and barrel cheese prices for months, where block prices clearly outpaced those of barrels, the prices have now inverted. Barrel prices late last week and throughout this week have been higher than blocks. Cheese contacts in the Western region do relay block inventories are more available than barrels.

**Butter:** Cream is tight in the East region, while availability varies in the West. Following a fire at a butter plant in the Northwest, cream has been diverted to other nearby production facilities. In the Northeast some churns are, reportedly, idle this week as cream clears to holiday-related processing lines. Demand for butter is strong. While inventories of butter are available in the Northeast and West, some purchasers are buying increasing off farms. There are reports milk availability is slightly tight in areas of the Northeast. Bottling demands are mostly steady. Seasonal retail products, like eggnog and aerated cream, have increased production schedules for customers’ demands. Cream markets are stable. Internal cream supplies are meeting the needs of some end users.

**Fluid Milk:** In most areas of the nation, milk production is increasing off farms. There are reports milk availability is slightly tight in areas of the Northeast. Bottling demands are mostly steady. Seasonal retail products, like eggnog and aerated cream, have increased production schedules for customers’ demands. Cream markets are stable. Internal cream supplies are meeting the needs of some end users.
Milk prices will finish the year higher. Class III was $15.95 in August, $16.36 in September and may improve to about $17.80 for October. The higher Class III price is the result of both higher cheese and dry whey prices. Stronger butter prices and much improved nonfat dry milk price will push the Class IV price which was $15.92 in August and $16.36 in September to $17 for October. Butter which averaged $1.78 per pound in September has ranged from $1.69 to $1.82 in October. The real strength in the Class IV price came from higher nonfat dry milk prices. Nonfat dry milk averaged $1.35 per pound in September and has shown steady increase since to now $1.52.

The increase in milk production over a year ago has slowed and is expected to continue to slow for the remainder of the year. And with the strong seasonal demand for butter and cheese for the holidays cheese and butter prices could strengthen even more. Class III could improve to the high $18’s November and December. Current Class III futures are higher reaching $19 for both November and December. Class IV could also be in the $18’s November and December. This is the second consecutive month milk per cow dropped below a year ago partially reflecting some adverse weather and possibly higher feed costs.

Dairy exports have also been a factor in higher dairy product prices. The volume of August exports was 13% higher than a year ago. August exports marked the seventh straight month of grow.

The growth in milk production for 2022 may be no more than 1.5%. USDA is projecting an increase of just 1.2% over 2021. High feed cost as well as increasing labor and other input costs will encourage heavier culling of lower producing cows. The high cost of building materials will dampen dairy expansion decisions. Milk cow numbers will likely average below 2021.

The economy is forecasted to continue to grow in 2022. But inflation driving up the cost of food, other consumer goods, gasoline and home heating fuel will reduce consumer spending power. But barring any set back to restaurants, in-person learning on schools and colleges and public events increased cheese sales should increase overall milk sales.

Dairy exports are forecasted for some growth over 2021. U.S. dairy products are expected to remain competitive with other major exporters. If progress continues in reducing cases of COVID-19, world economy should show improvement improving world demand for dairy products.

Any slight changes in forecasted milk production, domestic sales or dairy exports will change the milk price outlook for 2022. As of now first quarter Class III prices could be in the higher $17’s, second quarter the mid $17’s and in the $18’s third and fourth quarter. But there is the probability that prices could turn out higher or lower.

Dairy producers need to consider one of several price risk management tools to protect profits when opportunities occur. Opportunities currently exist to do so. Class III futures are rather optimistic for 2022 milk prices with Class III in the $18’s January through October. If the growth in milk production continues at the low rate experienced for the past two months, Class III could well be the $18’s for most of next year. However, USDA is much more cautious with Class III averaging just $17.10 for the year. But if USDA’s projection of just a 1.2% increase in milk production is correct, the Class III price ought to average higher.