

# Dairy Margin Watch: January



Dairy margins continued to deteriorate through the second half of January as milk prices declined further while projected feed costs held steady. USDA's December Milk Production report reflected a continued build in milk output, while the Cold Storage report showed increased inventories. U.S. milk production in December totaled 18.934 billion pounds, up 0.8% from a year ago with the total milking herd at 9.4 million head. This was down 8,000 head from November but 27,000 above a year ago. Productivity also increased, with milk per cow at 2,014 pounds up 9 lbs. from December 2021 which contributed to the increased milk production. Natural cheese inventories in cold storage at the end of December totaled 1.445 billion pounds which was up 1% from November and 0.2% from the previous year to a new high for the month of December. American cheese inventories of 825 million pounds were down 2.1% from the previous December while other cheese inventories of 596 million pounds were up 3.3% year-over-year setting a new December record. Butter inventories of 216.3 million pounds were up 9% from a year ago as grocers stopped buying after holiday orders were filled while exports were deterred by high prices. USDA also released the January semi-annual Cattle Inventory report which showed 2.77 million dairy heifers expected to calve and enter the milking herd this year. That figure is down 2% from 2022 and the smallest heifer inventory since 2004. The report also showed fewer than 29 million beef cows as of January 1, the lowest figure since 1963. There are also fewer beef heifers and cows to rebuild the herd, which will lead to a tighter cattle market over the next 2 years. Our clients are continuing to monitor opportunities in deferred periods to add new margin coverage.



The Dairy Margin calculation assumes, using a feed price correlation model, that for a typical dairy 62.4 lbs of corn (or equivalent) and 7.34 lbs of meal (or equivalent) are required to produce 100 lbs of milk (includes dry cows, excludes heifers not yet fresh). Additional assumed costs include \$0.90/cwt for other, non-correlating feeds, \$1.65/cwt for corn and meal basis, and \$8.00/cwt for non-feed expenses. Milk basis is \$0.75/cwt and non-milk revenue is \$1.00/cwt.

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