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Dairy Outlook

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OUTLOOK FOR U.S. DAIRY

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The U.S. dairy sector enters 2025 with favorable feed prices, a slightly larger dairy herd, and slightly reduced all-milk price. In the NASS *Cattle* report, the January 1 dairy cow inventory in 2025 was 9.349 million head, 2,500 head more than January 1, 2024. The inventory of dairy replacement heifers fell by 37,000 head, signaling a challenge to potential herd expansion. With strong returns in 2024, cow numbers in milk production are expected to increase in 2025, ending the year with 20,000 more cows in production compared to the end of 2024. Milk per cow is expected to grow at a slower rate compared with the historical averages. The combined effect of a modest increase in the number of cows and higher milk per cow supports milk production in 2025 growing at a forecast annual rate of 0.5 percent. However, milk component levels will likely grow faster than historical trends and offset slow growth in milk production to some extent.

Movement in trade volumes is expected to be mixed across dairy products. On a milk-fat milk - equivalent basis, exports are expected to grow but imports to shrink. Conversely, on a skim-solids milk-equivalent basis, exports are expected to decline slightly and imports to grow.

Domestic use is projected to increase slightly on a fat basis and to increase considerably on a skim-solids basis from 2024, reflecting an increase in demand. On a fat basis, ending stocks in 2025 are projected to be nearly unchanged from 2024. The slight projected gain in fat basis domestic use reflects production growth exceeding the counteracting effects of increased net exports. On a skim-solids basis, stocks are projected to grow and will be more in line with historical levels. Following a year-over-year decline, the modest projected increases in domestic use reflect the resilience of domestic consumption in the presence of year-over-year higher projected prices for most dairy products.

Milk prices are expected to remain nearly unchanged in 2025 from the strong levels of 2024. Tighter supplies and strong demand in major dairy exporting countries are expected to continue support high global prices. With the exception of dry whey, U.S. prices for most major dairy products (including cheese, skim milk products, and butter) are expected to remain competitive in the global market in 2025. Changes in the Federal Milk Marketing Order (FMMO) will raise make allowances in June, which would lower calculated Class III and Class IV prices in the absence of other component price adjustments. Then, in December, FMMO changes will raise milk component factors in the Class III and Class IV milk formulas that will raise their calculated levels. While accounting for FMMO adjustments, recent gains in the prices of cheese and dry

whey against a strong drop in butter prices moved price forecasts to result in a minor gain in Class III and minor dip in Class IV milk prices.

Despite a modest supply increase from increased production, continued strong rates of domestic use and tighter stocks on both a fat and skim-solids basis are projected to maintain the all-milk price near 2024 levels.

Milk Cow Inventories are Expected to Expand in 2025 on strong all-milk price and lower feed costs

U.S. dairy producers are expected to face lower feed costs in 2025 compared to the previous year. Soybean meal prices are expected to fall, and corn prices are expected to remain well below the high prices seen during 2022 and 2023. For forage, most major U.S. alfalfa-growing areas saw extended relief from drought conditions experienced in 2022 and 2023, which lowered alfalfa prices and increased on farm stocks by 6 percent.

After declining steadily since 2021, milk cow inventories are expected to grow through 2025, supported by stronger all-milk prices, lower feed costs, and increases in processing capacity. Milk output per cow is also expected to grow, but at a pace of growth well off that of historical trends as breeding and management decisions target the growth in milk components - fat, proteins, and other non-fat solids.

Increases in the domestic milk cow herd size, however, may be constrained by the availability of cows and bred heifers. According to the *Cattle* report, on January 1, 2025, the national dairy herd was virtually unchanged. According to the *Milk Production* report, within 2024, the average milk cow inventory rose from 9.337 million cows in the first quarter to 9.359 million cows in the fourth quarter. The dairy herd expansion is expected to continue but at gradual rate due to the tight supply of replacement dairy heifers and the strong demand for beef-on-dairy cattle. Recent high feeder cattle prices have provided strong incentives to dairy producers to produce calves that can be utilized for beef rather than milk production.

The number of heifers per 100 cows is at the lowest percentage since 1991, and producers indicated that they expect 0.4 percent fewer heifers to calve during the year. Despite similar sizes for the January 1 dairy cow herd between years and fewer replacement heifers, slaughter rates of dairy cows fell 11 percent in 2024 from the previous year's levels. This reflects efforts by farms to grow herds by retaining productive cows for longer.

Milk Per Cow Growth Continues to Be Slower but With Higher Component Rates

Milk production is projected to increase 0.5 percent in 2025 to 226.9 billion pounds. This growth in production is due to a larger herd size, projected to increase 0.4 percent, and higher output per cow, projected to increase 0.3 percent. Milk per cow was down in the first half of 2024 but improved in the third quarter. Yields fell off again in the fourth quarter, however, largely due to the specific effect of Highly Pathogenic Avian Influenza (HPAI) in California dairy herds,

incidences of which have declined at the start of 2025. After accounting for the leap year, growth in milk per cow in 2025 is projected to be higher than that of 2024, which was negligible on a per day basis.

The growth in milk components compared to overall milk production is expected to continue into 2025 as trends in dairy consumption move away from fluid milk and towards manufactured dairy products. Since 2016, milk production has grown at an annual average rate of 0.9 percent, compared to protein and butterfat which have grown at rates of 1.5 percent and 2.2 percent, respectively. The continued slow growth in output per cow reflects a changing focus of farm management oriented towards producing more components as opposed to milk volume.

Tight Global Milk Production is Expected to Support U.S. Exports

The global dairy trade is expected to continue to be constrained by milk production that is lower in the European Union and growing only modestly in New Zealand in 2025. Slow growth in production in these large exporting regions, coupled with rising demand, is expected to support stronger cheese and butter prices and improve U.S. competitiveness among foreign competitors, particularly for these products.

Domestic Use of Dairy Products Declined in 2024 on Mixed Inventories Levels

Compared to 2024, the United States dairy market begins the year with lower beginning stocks of dairy products on a fat basis and slightly higher beginning stocks on a skim-solids basis. At the end of 2024, fat basis stocks were 4 percent lower than the previous year, while skim-solids basis stocks were higher by less than 1 percent. For skim-solids basis products, ending stocks of export-oriented dairy products such as dry whey products, whey protein concentrates (WPCs), and lactose have all fallen in 2024, with WPCs being 9 percent below end-of-year levels 2023 and 31 percent below that of 2022. Conversely, stocks of dry skim milk products grew in 2024 by 27 percent from very low 2023 end-of-year levels. On the fat basis side, butter stocks were up 11 percent at the end of 2024 compared with the previous year. Stocks of American-style cheese were down 8 percent at the start of 2025, having fallen sharply and remained down since the summer price runup. Other cheese stocks also fell, with demand for foreign varieties being strong in the second half of the year. In 2024, strong global demand for cheese, especially for other-than-American-style cheese varieties, led to record-high exports and declining inventories. Overall, domestic use was largely flat, falling slightly by 0.1 percent on a fat basis and 0.4 percent on a skim-solids basis in 2024.

With the expectation of steady macroeconomic conditions, growth in domestic use is expected on both a fat and skim-solids basis. However, growth might be constrained by higher dairy product prices and modest increase in milk production. Domestic use on a fat basis is projected to remain relatively flat, increasing slightly by 0.1 percent. At 184.0 billion pounds, the skim-solids basis domestic use is also forecast about 1 percent higher, indicating continued strength in domestic demand, that is supported by production gains and higher imports.

U.S. Dairy Exports Projected Higher in 2025 for Skim-Solids

After a three-year run up in export volume on a milk fat basis between 2019 and 2022, and a decline in 2023, exports rose by 12 percent in 2024 on a year over year basis. High global prices relative to domestic prices for butter and Cheddar cheese resulted in higher fat basis exports in 2024. Skim-solids basis exports in 2024 were 2 percent lower than in 2023, which itself was 6 percent lower than 2022. Unlike butter and cheese prices, weaker foreign demand for dry skim milk products against less competitive U.S. prices reduced exports in that category. In tonnage, 2024 US exports showed the greatest growth for cheese, butter, and dry whey products, with decreases for dry skim milk products and lactose. Both exports and imports for butter and cheese were higher in 2024 compared to the previous year

On a fat basis, exports for 2025 are projected to grow less than 1 percent and imports to fall 2 percent. This reflects the improved price competitiveness of U.S. products compared to major global producers, particularly for cheese and butter. Skim-solids exports in 2025 are projected to be nearly unchanged from 2024 levels, with increased production meeting higher expected domestic consumption. For the year, exports on a fat basis are expected to reach 11.8 billion pounds, and exports on a skim-solid basis are expected to fall slightly to 48.7 billion pounds.

Strong Demand Projected to Support U.S. Dairy Prices in 2025

Dairy product prices trended upward in 2024 and generally reflected year-over higher prices in the second part of the year. Excluding butter, which had a December average price below 2023, prices of cheese, NDM, and whey were all higher in 2024 than 2023 at the end of the year. Rising prices for cheese and whey may have reflected falling stocks and increased global competition, as well as lower-than-expected milk production in the second half of the year. As for butter, the fall in price from the beginning of the year was the result of higher production and imports that led to growing stocks despite higher exports and domestic use.

Strong domestic and international demand is supporting U.S. milk and dairy product prices at current levels. The all-milk price is projected to be $22.60 per cwt in 2025, down slightly from an estimated $22.61 in 2024. In 2025, quarterly prices are expected to range between $21.90 and $23.50 per cwt, with prices coming down through the third quarter before recovering at the end of the year.

The 2025 Class IV milk price is projected to be $19.70 per cwt, down from the 2024 estimate of $20.75 based on lower butter prices. Butter prices in 2024 had an extended mid-year period of strong domestic prices that fell off sharply in the fourth quarter. U.S. butter prices are projected to average $2.65 per pound in 2025, down from $2.89 in 2024 and well off 2022 highs.

NDM prices in 2024 averaged $1.24 per pound, rising 5 percent over the previous year. Tight supplies of NDM during the third quarter of 2024 pushed prices higher to end the year. As increases in cheese and whey prices relative to butter and NDM encouraged a production shift away from dry skim milk products, stocks of NDM fell during the year, putting upward pressure on prices. NDM stocks had recovered by December, however, and prices are forecast to fall

steadily throughout 2025. Domestic use fell sharply in response to increased prices. For 2025, NDM prices are projected to be $1.30 per cwt due to tight supplies early in the year.

The 2025 Class III milk price is projected to be $19.10 per cwt, up from the 2024 estimate of $18.89 per cwt. The Class III price is expected to benefit from strong whey prices and slightly improved cheese prices, along with increased processor demand following the opening of several cheese production plants in the United States.

Cheddar cheese prices rose 6 percent in 2024 to $1.86 per pound. Production of American-style cheese fell 3.6 percent in 2024, as producers switched capacity to other cheese, which saw an increase of similar magnitude in volume terms. Exports of American-style cheese held flat in 2024, while those of other cheese rose 21 percent. Domestic disappearance fell 2 percent compared to 2023 in response to higher prices. For 2025, cheese prices are projected at $1.88 per pound, a 1 percent increase from the 2024 estimate.

Dry whey prices rose by 36 percent over the previous year's level to $0.49 per pound in 2024, with the year ending on highs that had built steadily through the second half of the year. Lower production led to upward price pressure and thus reduced domestic use and reduced stocks in 2024. Exports of dry whey held unchanged from the previous year on an annual basis. Whey prices for 2025 are projected to average $0.61 per pound—up strongly from the previous year and approaching record levels set in 2022. The projected price increase is due to robust global demand for whey and tight domestic stocks, down 9 percent to close the year.

Additional information about the 2025 dairy forecasts is available at:

World Agricultural Outlook Board (WAOB)
World Agricultural Supply and Demand Estimates
www.usda.gov/oce/commodity/wasde/index.htm

Economic Research Service (ERS)
Livestock, Dairy, and Poultry Situation and Outlook
https://www.ers.usda.gov/publications/pub-details/?pubid=108311

Foreign Agricultural Service (FAS)
Dairy: World Markets and Trade
https://www.fas.usda.gov/data/dairy-world-markets-and-trade