Dairy Outlook

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OUTLOOK FOR U.S. DAIRY

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NOTE: The 2026 Dairy Outlook was reposted on February 24, 2026, to correct an error in the expected size of the dairy herd and the reporting period on page 1. The report now correctly shows the expected change in the dairy herd size between the fourth quarters of 2025 and 2026.

The U.S. dairy sector enters 2026 with favorable feed prices, a larger dairy herd, and a reduced all-milk price. In the NASS *Cattle* report, the January 1 dairy cow inventory in 2026 was 9.568 million head, 188 thousand head more than January 1, 2025. The inventory of dairy replacement heifers fell by 3,000 head, signaling a challenge to potential herd expansion. Following the strong growth in herd sizes and milk supply along with a steady decline in milk prices in 2025, cows in milk production are expected to decrease in 2026, with a 4th quarter herd totaling 42,000 fewer cows compared to that in 2025. Milk production per cow is expected to grow by less than one percent in 2026. Despite the expected decline in cow inventories through the year, the average herd size for 2026 is expected to be higher than that of 2025. The combined effect of the larger herd and higher milk per cow supports milk production in 2026 growing at a forecast annual rate of 1.3 percent. Moreover, milk component levels are expected to continue to grow and augment the growth in milk production.

The differentiated nature of dairy products produced with milk can facilitate simultaneous increases in both import and exports. In 2026, trade volumes are expected to increase for dairy products on both a milkfat and skim-solids equivalent basis for both imports and exports. Increased exports on both a milkfat and skim-solids equivalent basis are supported by increased domestic production and international competitiveness. Increased imports are driven by increased demand for specialty cheeses and butter.

Driven by increased supplies and strong consumer demand, domestic use is projected to increase steadily on both a milkfat and skim-solids basis. On a fat basis, ending stocks in 2026 are projected to grow due to increased production that is only partly offset by increased net exports and domestic consumption growth. On a skim-solids basis, stocks are projected to fall slightly from recent levels as increases in production and net imports are fully offset by increases in domestic use.

Milk prices are expected to be lower on average in 2026 compared to 2025 levels. The United States and other major exporting countries saw very strong production growth in 2025 that was supported by increases in herd size, increases in milk per cow, and increases in milk components, particularly in milkfat. High milk supplies to start 2026 are expected to lower prices for butter and cheese, which have high milkfat components. On the other hand, the prices of nonfat dry milk (NDM) and whey, which have high skims solids components, are expected to see higher prices because supply growth in the skims-solids component of milk has been slower in recent years and because demand has grown for this protein-rich component to dairy. The net result of these opposing factors are significant decreases in Class III and Class IV milk prices. Similarly, the 2026 all milk price is forecast to fall from the 2025 level as a result of increases in milk supply outpacing increases in demand.

Despite Low Feed Costs, Milk Cow Inventories are Expected to Fall in 2026 on a Lower All-Milk Price

Favorable feed prices for U.S. dairy producers in 2025 are expected to continue through 2026. Both soybean meal and corn prices are expected to reach five-year lows, having continued their largely steady decline since 2022. For forage, most major U.S. alfalfa-growing areas continued to see relief from the drought conditions experienced in 2022 and 2023, circumstances which have increased alfalfa production and farm hay stocks to five-year highs while keeping alfalfa prices low.

After growing rapidly throughout 2025, milk cow inventories are expected to contract over the course of 2026 due to the fall in all-milk prices. Despite this expected decline, a larger January 1st herd size in 2026 compared to 2025 results in the average herd size throughout 2026 being higher than that of 2025. Milk output per cow had also grown rapidly in 2025 despite reductions early in the year due to the persisting effects of outbreaks of High Path Avian Influenza in California herds. In 2026, milk per cow is expected to continue to show growth, particularly in the first quarter. The combined effect of the higher average herd size and increased milk per cow will result in increased milk production. Adding to the increased milk supply, milk component percentages – the measured amount of fat, proteins, and other non-fat solids within fluid milk – are also expected to see continued growth in 2026 as advances in herd genetics and feeding nutrition continue to improve.

Feeder cattle prices rose dramatically in 2025 and are expected to rise further in 2026. Alternatively, in recent years, breeding advancements have improved the performance of beef-on-dairy crossbreeds on pricing grids offered by beef packers. Faced with high prices for beef-bred feeder cattle, feedlots have increasingly sought out beef-on-dairy crossbreds to maintain inventories. At the same time, sales of crossbred calves, which will be raised for feedlot placement, have become an increasingly large share of dairy producer's revenue.

Entering 2025, the number of dairy heifers available for replacement was the lowest on record since 1990. Similarly, the number of dairy heifers expecting to calf was the lowest since 2019 when first recorded. Lower levels of milk cow slaughter in 2025, along with the small number of available replacement cows, suggest that dairy producers increased the herd sizes in large part by retaining existing cows for additional cycles rather than adding new heifers. According to the *Cattle* report, on January 1, 2026, both the number of available dairy heifers and the number of dairy heifers expecting to calf were lower than the already low 2025 levels. As milk cow herds age, a greater share of the herd will likely require replacement to maintain milk productivity. In addition to lower milk prices constraining milk returns, the small number and high cost of heifers available to replace older cows is also discouraging herd expansion.

According to the *Milk Production* report, within 2025, the average milk cow inventory rose from 9.401 million cows in the first quarter to 9.562 million cows in the fourth quarter. On January 1, 2026, the number of dairy heifers per 100 milk cows was again at its lowest percentage since 1991, and producers indicated that they expect 0.3 percent fewer heifers to calve this year, despite requiring more heifers to support the enlarged 2026 herd. Increased rates of slaughter for dairy

cows in late 2025 and early 2026 further suggest a slowing and likely reversal of 2025 gains in recent herd growth trend.

Milk Per Cow Showed Strong Growth in 2025 along with Components.

Milk production is projected to increase 1.3 percent in 2026 to 234.5 billion pounds. This growth in production is due to a larger herd size, projected to increase 0.5 percent, and higher output per cow, projected to increase 0.8 percent. Milk per cow showed negligible growth in the first quarter of 2025 as dairy herds, particularly in California, struggled to recover from HPAI outbreaks that started in 2024. High measured rates of growth in milk per cow in the last two quarters of 2025 likely reflected, in part, a temporary catchup effect as herds returned to normal that lead to milk per cow growing by 1.2 per cent for the year, the second highest growth rate in the since 2017 and well above the flat growth rates in the previous three years. This catchup effect is expected to dissipate by the second half of 2026 when growth in milk per cow slows

The growth in milk components compared to overall milk production is expected to continue into 2026 as producers continue to improve herd performance with genetic improvements and better nutrition. In 2025, the milkfat percentage grew by 2.1 percent to an annual percentage level of 4.33. Skim solids grew by 0.4 percent to an annual percentage level of 9.1.

Global Milk Production is Expected to Contract in 2026 Facilitating U.S. Exports

The global dairy trade is expected to grow based on increased production among dairy production in Oceania, the European Union, and United States. Both domestic and international prices for butter and cheese are expected to fall in 2026. However, the United States is expected to maintain a competitive position in these markets that will increase exports on a milkfat basis. Due to strong domestic demand for protein products supporting prices for key dairy products, U.S. export growth on a skims solids basis is expected to remain flat.

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

Compared to 2025, the United States dairy market begins 2026 with beginning stocks of dairy products being 2 percent lower on both a fat basis and on a skim-solids basis. 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 2025, with WPCs down 16 percent and lactose down 15 percent. Conversely, end-of-year stocks of dry skim milk products grew in 2025 by 4 percent from 2024 levels. On the fat basis side, butter stocks were down 7 percent at the end of 2025 compared with the previous year. Stocks of American-style cheese were up 2 percent at the start of 2026. In 2025, strong global demand for butter and cheese, both American and other-than-American-style cheese varieties, lead to the highest exports levels dating back to at least 2013 for each of these products. In all, domestic use is expected to fall by 0.5 percent on a fat basis and 3.4 percent on a skim-solids basis in 2025.

With the expectation of steady macroeconomic conditions, growth in domestic use is expected continue on both a fat and skim-solids basis. However, growth might be constrained by higher export levels and more modest growth in milk production. At 223.7 billion pounds, domestic use

on a fat basis is projected to grow by 1 percent in 2026. At 184.0 billion pounds, the skim-solids basis domestic use is forecast to grow by about 1.7 percent in 2026, indicating continued strength in domestic demand for protein products and flat growth in skim solids exports.

Strong Growth in U.S. Milkfat Exports Projected to Continue but Moderate in 2025

Pending the finalization of fourth quarter trade data, exports of milkfat in 2025 are expected to have risen by 40 percent year over year. Ample cream supplies and competitive U.S. prices on the world market caused year-to-date exports to increase by 152 percent for butter, by 49 percent for American cheese, which includes Cheddar, and by 13 percent for other cheeses. Skim-solids basis exports are expected to have fallen by 2 percent in 2025. Unlike butter and cheese, weaker foreign demand for dry skim milk products against less competitive U.S. prices reduced exports in this category. Year-to-date exports of dry whey rose 8 percent, but exports of dry skim milk fell 11 percent while whey protein concentrate and lactose exports were virtually unchanged.

On a fat basis, exports for 2026 are projected to grow by 5 percent and imports by 7 percent. Export growth reflects the continued price competitiveness of U.S. products compared to major global producers, particularly for cheese and butter while import growth reflects domestic demand for differentiated products in those same product categories. Skim-solids exports in 2026 are projected to be nearly unchanged from 2025 levels, with increased production directed to domestic markets that show increased demand for protein-dense products. For the year, exports on a fat basis are expected to reach 17.5 billion pounds, and exports on a skim-solid basis are expected to remain at 48.0 billion pounds.

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

Except for whey, dairy product prices trended downward in 2025 and generally reflected the effect of both increased milk production and increased processing capacity, particularly for cheese. Falling prices for butter resulted in higher exports and lower imports rather than increased domestic consumption or larger stocks. Falling cheese prices showed more even effects by showing increases in exports, consumption and stocks and decrease in imports for both American and other cheeses.

Following strong growth in the production of milk and milk components, U.S. milk and dairy product prices are expected to fall in 2026. The all-milk price is projected to be $18.95 per cwt in 2026, down from an estimated $21.17 in 2025. In 2026, quarterly prices are expected to range between $17.90 and $19.90 per cwt, with prices coming up each quarter as producers shrink herds and curtail production growth.

The 2026 Class IV milk price is projected to be $15.70 per cwt, down from the 2025 level of $17.38. Butter prices fell sharply in the second half of 2025. While butter prices are expected to trend upward through the year, butter prices are expected to average $1.68 per pound in 2026, their lowest level since 2020 and well below their 2025 level of $2.22 per pound.

NDM prices in 2025 averaged $1.24 per pound, nearly unchanged from the 2024 price. Reduced and variable export demand caused up and down price movements throughout the year along with

increased domestic consumption. End-of-year stocks grew slightly as prices reached their yearly low in December. Prices are forecast to rise in 2026 as NDM has recently been adapted for fortification of cheeses and protein-enriched fluid milks. For 2026, NDM prices are projected to be $1.32 per cwt from the expected continuation of this trend.

The 2026 Class III milk price is projected to be $16.65 per cwt, up from the 2025 estimate of $18.01 per cwt. Higher expected whey prices in 2026 will not offset the effect of lower cheese prices, as increased processing capacity for cheese will continue to put more product on the market.

Cheddar cheese prices fell 4 percent in 2026 to $1.79 per pound. Production of American-style cheese rose 4 percent and other cheese production rose 2 percent in 2025. Year-to-date exports of American-style cheese rose 50 percent in 2025, while other cheese export rose 13 percent. For 2026, cheese prices are projected at $1.60 per pound, a 10 percent decrease from the 2025 estimate.

Dry whey prices rose by 21 percent over the previous year's level to $0.60 per pound in 2025. Strong domestic demand for protein has redirected whey from dry whey products to whey protein concentrates and led to less production and consumption of dry whey itself. Year-to-date exports of dry whey increased 8 percent in 2025. Whey prices for 2026 are projected to average $0.69 per pound based on strong continued domestic demand for protein.