

Overview

U.S. milk prices are at near record levels for the second time this year, while dairy prices on world markets continue to sink. Records were set in September for the monthly butter price, the Federal Order Class II and Class III prices, and the monthly milk price-feed cost margin under the new farm bill formula. CME futures indicate the October all-milk price could edge past April's record. However, declining exports and slowing growth in domestic use are putting downward pressure on prices. World prices are under severe pressure from growing milk production in New Zealand and the European Union, coupled with slowing import demand as consumers, particularly in Asia, react to higher retail dairy prices and cooling economies. The Russian dairy import embargo is having a relatively smaller impact, and EU dairy products are likely leaking into Russia through Belarus.

Commercial Use of Dairy Products

Growth in domestic commercial use of cheese has accelerated in recent months, while that for butter has stabilized. For the three months ending in July, commercial use of American-type cheese was up 3.2 percent compared with the same period last year, while use of all other cheese rose 3.7 percent. Both rates increased approximately six percent in July alone. Butter use in the domestic market was up 3.1 percent from May through July compared with last year. But that was down from higher rates earlier in the year. The nonfat dry milk and skim milk powder

category was flat, but domestic commercial disappearance of milk in all products was up in both milkfat and skim solids use. Fluid milk was the only major dairy product for which use declined, by 3.4 percent from April through June. USDA sales data for July are not yet available.

U.S. Dairy Trade

The pace of U.S. dairy export growth continues to slow as the effects of low world prices and reduced import demand increasingly affect the United States. Last year's surge in world import demand

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Domestic Commercial Disappearance	May–Jul 2014	May–Jul 2013	2013–2014 Change	Percent Change
	(million pounds)			
Total Fluid Milk Products	12,118	12,543	-425	-3.4%
Butter	420	407	13	3.1%
American-type Cheese	1,079	1,046	33	3.2%
All Other Cheese	1,616	1,559	57	3.7%
Nonfat Dry Milk / Skim Milk Powders	224	223	0	0.1%
All Products (milk equiv., milkfat basis)	50,038	48,983	1,055	2.2%
All Products (milk equiv., skim solids basis)	42,697	41,408	1,289	3.1%

U.S. Dairy Trade *from page 1*

boosted U.S. dairy exports from roughly May 2013 to June 2014. Among major products, butter exports fell the most from June through August, compared with last year. This was due in part to tight domestic supplies, which triggered very high domestic prices and a correspondingly large gap between U.S. and world prices. Total cheese exports are still up over last year but are relatively flat for American-type cheese. U.S export data identifies only Cheddar and Colby as specific American-type varieties, but USDA's Economic Research Service provides an estimate that includes additional, unspecified products. Growth rates are somewhat smaller using the higher USDA estimates. Aside from cheese, whole milk powder is the only other listed product showing strong annual export growth from June through August. The percent of exported U.S. milk solids dropped by more than

one percentage point during the period compared to a year ago. Still, the estimated 14.9 percent of U.S. milk solids exported during August was the second highest ever for the month, exceeded only by the 17.5 percent in August 2013.

From January through September, U.S. exports helped through Cooperatives Working Together were approximately half of all American-type cheese exports and a third of all exports of both butter and whole milk powder. CWT shares were lower than a year ago for both American-type cheese and butter because strong world prices and import demand earlier this year resulted in exports requiring less CWT assistance. The reduced availability of butter has also lowered CWT-assisted exports this year. However, that situation has changed in recent months, and CWT assistance has been critically important in helping U.S. cheese and whole milk powder perform better than

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U.S. Dairy Exports	Jun–Aug 2014	Jun–Aug 2013	2013–2014 Change	Percent Change
		(metric tons)		
Butter	12,212	22,299	-10,088	-45%
Anhydrous Milk Fat/Butteroil	2,529	2,691	-162	-6%
Cheddar Cheese	17,895	17,628	266	2%
American-type Cheese	19,230	19,999	-769	-4%
Total Cheese	97,450	81,045	16,405	20%
Nonfat Dry Milk/Skim Milk Powder	158,346	150,657	7,689	5%
Whole Milk Powder	14,724	13,341	1,383	10%
Dry Whey	92,937	97,738	-4,801	-5%
Whey Protein Concentrate/Isolate	24,989	32,277	-7,288	-23%
Lactose	80,563	95,514	-14,950	-16%
Percent of Milk Solids Exported	16.0%	17.1%	-1.1%	-7%
U.S. Dairy Imports	Jun–Aug 2014	Jun–Aug 2013	2013–2014 Change	Percent Change
		(metric tons)		
Butter	2,850	1,343	1,508	112%
Cheese	39,309	35,487	3,822	11%
Nonfat Dry Milk/Skim Milk Powder	1,344	735	610	83%
MPC (all protein levels)	9,250	10,833	-1,583	-15%
Casein	18,295	17,190	1,105	6%
Percent of Milk Solids Imported	3.1%	2.8%	0.4%	14%

U.S. Dairy Trade *from page 2*

other products over the most recent three-month period. Also, CWT's significant share of total U.S. whole milk powder exports in 2014 is up from virtually zero a year earlier.

The large gap between U.S. domestic and world prices has attracted an increase in dairy imports, although from very low base levels. Imports likely will increase over the next several months, particularly for milkfat in a number of different tariff categories. However, this is not likely to reach levels that cause serious disruption of domestic markets.

Milk Production

U.S. milk production was almost three percent higher from June through August, compared with 2013. The increase was due largely to a 2.5 percent increase in production per cow, while the size of the U.S. milking herd rose only 0.4 percent. Total cow numbers have been slow to increase, and were up just a half percent in August over a year earlier. With the exception of July, when USDA reported a 3.5 percent annual jump, production per cow has also shown only moderate growth. Preliminary USDA numbers for August show cow productivity up two percent over August 2013. Total milk production rose

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Milk & Dairy Products Production	Jun–Aug 2014	Jun–Aug 2013	2013–2014 Change	Percent Change
Milk Production				
Cows (1000 head)	9,274	9,234 *	40	0.4%
Per Cow (pounds)	5,605	5,470 *	135	2.5%
Total Milk (million pounds)	51,982	50,512	1,470	2.9%
		(million pounds)		
Dairy Products Production				
Cheese				
American Types	1,127	1,090	38	3.5%
Cheddar	808	776	32	4.2%
Italian Types	1,214	1,165	48	4.1%
Mozzarella	968	912	56	6.1%
Total Cheese	2,841	2,737	104	3.8%
Butter	409	407	1	0.3%
Dry Milk Products				
Nonfat Dry Milk	433	354	80	23%
Skim Milk Powder	133	166	-34	-20%
Dry Whey	223	235	-12	-5%
Whey Protein Concentrate	134	121	12	10%
Dairy Product Inventories	Aug 2014	Jul 2014	Aug 2013	Percent Change 2013–2014
		(million pounds)		
Butter	165	170	264	-37%
American Cheese	662	660	668	-1%
Other Cheese	392	394	432	-9%
Nonfat Dry Milk	244	250	194	25%
	*NMPF estimates			

Milk Production *from page 3*

2.5 percent that month. Although this pace is slowly growing, as of August it had not yet exceeded growth in milk and dairy product use. When that happens, prices will retreat from their recent high levels.

Dairy Product Production

USDA data on dairy product production shows a pattern similar to milk production, namely increased production but not yet enough to significantly outpace commercial use. Total cheese production, for example, was 4.3 percent higher than a year earlier from May through July, while total commercial cheese use was up 4.7 percent during the same period. However, this dynamic will likely change soon, as milk production grows, exports continue to slow, and domestic use begins to show the effects of high late-summer prices.

Dairy Product Inventories

Except for nonfat dry milk, major U.S. dairy products still showed little evidence of accumulating stocks. As of the end of August, cheese stocks were down slightly over a year ago while butter stocks remained down by almost 40 percent. The growth in nonfat dry milk inventories reflects slowing export growth since a much higher proportion of U.S. production is exported compared with butter and cheese.

Milk and Dairy Product Prices

In September, average wholesale butter prices reported by USDA's Agricultural Marketing Service reached \$2.85 per pound, the highest level since this price series began in 2000. The September CME spot butter price averaged \$2.97 a pound, 21 cents a pound higher than the previous record month, September 1998. The

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Dairy Industry Prices	Sept 2014	Aug 2014	Sept 2013	2013–2014 Change
AMS Commodity Prices		(per pound)		
Butter	\$2.853	\$2.521	\$1.426	\$1.426
Cheese	\$2.347	\$2.107	\$1.796	\$0.551
Nonfat Dry Milk	\$1.472	\$1.789	\$1.809	-\$0.337
Dry Whey	\$0.673	\$0.688	\$0.579	\$0.093
Producer Prices		(per hundredweight)		
Class I Mover	\$23.63	\$23.87	\$19.16	\$4.47
Class III	\$24.60	\$22.25	\$18.14	\$6.46
Class IV	\$22.58	\$23.89	\$19.43	\$3.15
All Milk	\$25.00	\$24.10	\$20.10	\$4.90
Feed Prices				
Corn (per bushel)	\$3.38	\$3.63	\$5.40	-\$2.02
Soybean Meal (per ton)	\$526	\$490	\$500	\$25
Alfalfa Hay (per ton)	\$197	\$209	\$194	\$3
2014 Farm Bill Feed Cost (per cwt.)	\$10.19	\$10.36	\$12.13	-\$1.94
2014 Farm Bill Margin (per cwt.)	\$14.81	\$13.74	\$7.97	\$6.84
Retail Dairy Product Prices	Aug 2014	Jul 2014	Aug 2013	2013–2014 Change
Fluid Milk (per gallon)	\$3.673	\$3.645	\$3.448	\$0.225
Cheddar Cheese (per pound)	\$5.580	\$5.560	\$5.465	\$0.115

Milk and Dairy Product Prices *from page 4*

September AMS Cheddar cheese price was \$2.3472, just three quarters of a cent below its April record. September's AMS prices for both butter and cheese were well above their levels a month earlier and were even higher than a year earlier. By contrast, September nonfat dry milk prices were down considerably from both month-earlier and year-earlier prices, again reflecting that product's greater exposure to world market conditions. Average dry whey prices for the month were relatively unchanged from a month earlier and still almost a dime per pound over last year's prices. Current world prices for whey are about where they were a year ago.

The Federal Order Class III price in September was a record \$24.60 per hundredweight, almost 30 cents higher than the previous record last April. September's Federal Order Class II price was also a record, mostly due to the record AMS butter price. September's preliminary U.S. average all-milk price reported by USDA's National Agricultural Statistics Service was \$25.00 per hundredweight, just 30 cents below its April record. The CME dairy futures as of early October indicate that the October all-milk price might just edge past that record.

August retail prices for whole milk and Cheddar cheese in major U.S. cities, reported by the Bureau of Labor Statistics, were both up slightly over a month earlier and also higher than a year earlier. But both remained well below their highest reported levels over the past 10 years

Feed Prices

Corn prices were down again in September, as were alfalfa hay prices, as reported by NASS. Corn prices were slightly more than two dollars per bushel below a year earlier, while alfalfa hay prices were just coming back to year-earlier levels. Soybean meal prices reported by AMS rose again in September, to \$526 per ton. The September monthly dairy feed cost, as calculated by the 2014 farm bill formula, was below the previous month and almost two dollars per hundredweight less than a year ago.

The farm bill monthly milk price-over-feed-cost margin, calculated using preliminary NASS numbers for September, was \$14.81 per hundredweight. This was more than a dollar per hundredweight above a month earlier, almost seven dollars per hundredweight above a year earlier, and sixteen cents a hundredweight above its record during August 2007.

USDA regulations implementing the new Margin Protection Program were released at the end of August. Producers have until November 28 to sign up for coverage for the last four months of 2014, for all of 2015, or both. USDA will compute MPP's milk price-over-feed-cost margin formula as averages for January-February, March-April, May-June, July-August, September-October, and November-December. For the farm bill's Dairy Product Donation Program, the margin will be determined monthly.

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