

Overview

Milk prices in many major milk-producing countries have plummeted to levels that are producing severe financial stress for their farmers. However, on the back of stable domestic consumption, the milk price outlook in this country is generally more positive. Domestic consumption of dairy products has been strong throughout 2015 and has helped to offset both increased milk production and declining U.S. exports. Milk production increases have moderated in recent months and may help to offset weaker Federal order July prices. Feed prices have showed considerable variability this growing season due to the wet spring in parts of the South and Eastern corn belt and then favorable growing conditions of late in the Western corn belt. Milk and feed futures prices indicate the MPP margin will improve during the last third of 2015 following a potential payment as high as \$0.50 per hundredweight during the July-August period.

Commercial Use of Dairy Products

Growth in domestic commercial use of milk outpaced increased milk production during the February-April period. Disappearance outpaced production by at least one percent, measured either on a milkfat or skim solids basis. On a weighted-average component basis, total disappearance, including exports, grew at the same rate as production during the period. Domestic growth was particularly strong for both American-type cheese and nonfat dry milk. Commercial use of cheese measures disappearance in retail sales, food service use and food manufacturing, while commercial use of nonfat dry milk is largely as an ingredient for producing cheese and other dairy products. Fluid milk sales, as reported by USDA's Agricultural Marketing Service, saw a

sharper than usual downturn in May, reducing sales for the March-May period by 2.3 percent compared with a year earlier. AMS has not been reporting monthly fluid sales data on a calendar-adjusted basis, accounting for weekends, holidays, etc., which may partly explain the unexpected May numbers. Total consumption of milkfat in all fluid products declined by one percent from a year earlier during March-May.

U.S. Dairy Trade

Butter and American-type cheese continued to show the largest year-over-year reductions in export volume during the April-June period. Almost 90 percent of the drop in U.S. butter exports was to countries in the Middle East and North Africa, particularly

continued on page 2

Domestic Commercial Disappearance	Mar–May 2015	Mar–May 2014	2014–2015 Change	Percent Change
	(million pounds)			
Total Fluid Milk Products	12,358	12,643	-285	-2.3%
Butter	408	417	-9	-2.2%
American-type Cheese	1,121	1,061	60	5.6%
All Other Cheese	1,651	1,621	30	1.9%
Nonfat Dry Milk / Skim Milk Powders	249	240	9	3.6%
All Products (milk equiv., milkfat basis)	50,237	48,867	1,370	2.8%
All Products (milk equiv., skim solids basis)	43,590	42,332	1,258	3.0%

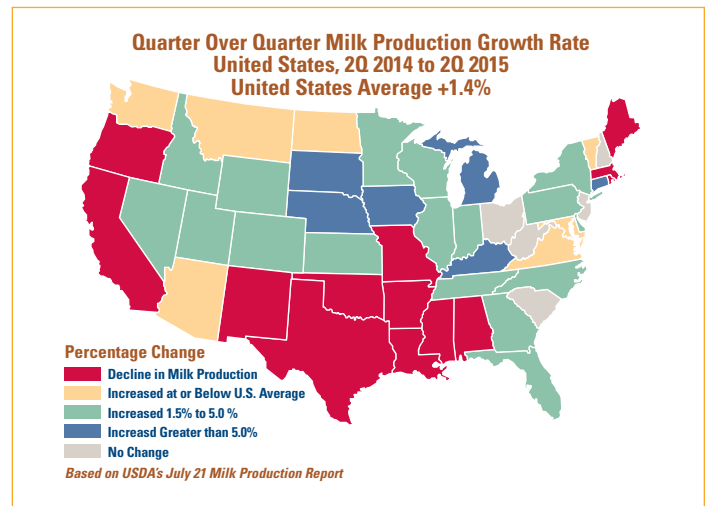
U.S. Dairy Trade *from page 1*

Morocco, Saudi Arabia and Egypt. Morocco's most recent import data, for example, show that the United States lost by far the largest butter volume, while Australia and several European countries gained volume. Almost 70 percent of the loss in American-type cheese export volume was accounted for by Japan, Saudi Arabia, Panama and Mexico. For the same period, Japan's cheese import data shows the United States, Australia and New Zealand losing the largest volume, while several European countries picked up the most. Total U.S. export losses during the period equaled 1.3 percent of U.S. milk solids production from the prior year.

The largest gains for U.S. dairy imports during April-June were for cheese and milk protein concentrate, while total imports grew by the equivalent of 0.8 percent of U.S. milk solids production.

Milk Production

Milk production increased at an annual rate of 1.4 percent during April-June. But the rates of increase for individual months have



continued on page 3

U.S. Dairy Exports	Apr–Jun 2015	Apr–Jun 2014	2014–2015 Change	Percent Change
		(metric tons)		
Butter	4,439	17,763	-13,324	-75%
Anhydrous Milk Fat/Butteroil	872	2,665	-1,793	-67%
Cheddar Cheese	11,346	22,455	-11,109	-49%
American-type Cheese	11,955	25,563	-13,608	-53%
Total Cheese	87,380	99,217	-11,837	-12%
Nonfat Dry Milk/Skim Milk Powder	164,635	174,237	-9,602	-6%
Whole Milk Powder	9,640	15,967	-6,327	-40%
Dry Whey	92,001	99,248	-7,247	-7%
Whey Protein Concentrate/Isolate	39,101	32,612	6,489	20%
Lactose	94,310	81,036	13,273	16%
Percent of Milk Solids Exported	15.6%	16.9%	-1.3%	-8%

U.S. Dairy Imports	Apr–Jun 2015	Apr–Jun 2014	2014–2015 Change	Percent Change
		(metric tons)		
Butter	3,842	2,188	1,654	76%
Cheese	45,078	34,907	10,171	29%
Nonfat Dry Milk/Skim Milk Powder	19	53	-34	-64%
MPC (all protein levels)	19,018	9,408	9,609	102%
Casein	19,736	16,908	2,828	17%
Percent of Milk Solids Imported	3.5%	2.7%	0.8%	29%

Milk Production *from page 2*

been dropping, with June preliminary production up just 0.7 percent from a year earlier, compared with more than two percent at the beginning of the year. The annual increase in cow numbers is also moderating, from one percent in January and February to 0.5 percent in June. June milk production was down 3.4 percent from a year ago in six mostly Western states. These six states produced over one-third of the milk produced in the 23 states for which USDA reports monthly production. In the other 17 states, June production increased 3.3 percent. In August, USDA maintained its forecast of a 1.4 percent annual increase in milk production for 2015 at 208.8 billion pounds of milk production.

However, USDA reduced projections for growth in 2016 down to two percent compared to July's forecast of 2.3 percent. USDA's forecast of 2016 milk production is currently 213.0 billion pounds.

Dairy Product Production

Cheddar cheese has accounted for a little under three-quarters of total American-type cheese production during the past few years. During the April-June period, however, production of American cheese other than cheddar grew considerably faster than cheddar production. None of the major product categories, including combined skim powder and whey categories, showed significant expansion relative to milk production growth during

continued on page 4

Milk & Dairy Products Production	Apr–Jun 2015	Apr–Jun 2014	2014–2015 Change	Percent Change
Milk Production				
Cows (1000 head)	9,319	9,253	67	0.7%
Per Cow (pounds)	5,753	5,717	36	0.6%
Total Milk (million pounds)	53,615	52,897	718	1.4%
Dairy Products Production				
		(million pounds)		
Cheese				
American Types	1,175	1,144	31	2.7%
Cheddar	855	844	10	1.2%
Italian Types	1,258	1,243	15	1.2%
Mozzarella	993	992	1	0.1%
Total Cheese	2,918	2,877	41	1.4%
Butter	477	474	2	0.5%
Dry Milk Products				
Nonfat Dry Milk	526	471	55	12%
Skim Milk Powder	105	162	-58	-36%
Dry Whey	238	233	4	1.9%
Whey Protein Concentrate	125	136	-11	-8.4%

Dairy Product Inventories	Jun 2015	May 2015	Jun 2014	2014–2015 Change
		(million pounds)		
Butter	255	265	199	28%
American Cheese	685	669	655	4.5%
Other Cheese	456	442	400	14%
Nonfat Dry Milk	262	261	228	15%

Dairy Product Production *from page 3*

the period, after accounting for the decline in fluid product production and the resulting increased availability of milk for manufacture of other products.

Dairy Product Inventories

Stocks of nonfat dry milk at the end of June were essentially unchanged from their record level a month earlier. Butter stocks continue to grow to high – but not record – levels. But that had not dampened butter prices as of July. Stocks of both American-type and other cheese are showing greater increases in annual growth than in recent months.

Dairy Product and Federal Order Class Prices

Agricultural Marketing Service monthly survey prices for cheese dropped slightly in July after rising steadily since February. Butter prices continued their rise since January, but the July increase was less than a penny a pound. Nonfat dry milk prices have dropped each month since February but took their largest monthly drop yet this year – more than nine cents a pound – in July. Monthly dry whey prices have dropped steadily since January, by an average of a little over three cents a pound, about the same as their monthly drop in July. Lower cheese and whey prices, and the small change in butter prices, lowered the July Class III

continued on page 5

Dairy Product and Federal Order Prices	Jul 2015	Jun 2015	Jul 2014	2014–2015 Change
AMS Commodity Prices		(per pound)		
Butter	\$1.916	\$1.907	\$2.347	-\$0.431
Cheese	\$1.700	\$1.722	\$2.048	-\$0.349
Nonfat Dry Milk	\$0.837	\$0.928	\$1.862	-\$1.025
Dry Whey	\$0.394	\$0.425	\$0.689	-\$0.295
Class Prices for Milk		(per hundredweight)		
Class I Mover	\$16.53	\$16.14	\$23.02	-\$6.49
Class III	\$16.33	\$16.72	\$21.60	-\$5.27
Class IV	\$13.15	\$13.90	\$23.78	-\$10.63

Milk and Feed Prices	Jun 2015	May 2015	Jun 2014	2014–2015 Change
Producer Prices				
All Milk (per cwt.)	\$16.90	\$16.70	\$23.20	-\$6.30
Feed Prices				
Corn (per bushel)	\$3.58	\$3.62	\$4.50	-\$0.92
Soybean Meal (per ton)	\$335	\$320	\$502	-\$167
Alfalfa Hay (per ton)	\$178	\$192	\$222	-\$44
2014 Farm Bill Feed Cost (per cwt.)	\$8.74	\$8.87	\$11.56	-\$2.81
2014 Farm Bill Margin (per cwt.)	\$8.16	\$7.83	\$11.64	-\$3.49
Retail Dairy Product Prices				
Fluid Milk (per gallon)	\$3.366	\$3.387	\$3.626	-\$0.260
Cheddar Cheese (per pound)	\$5.256	\$5.312	\$5.560	-\$0.304

Dairy Product and Federal Order Class Prices *from page 4*

price by almost \$0.40 per hundredweight from a month earlier, while the Class IV price fell by \$0.75 per hundredweight, mostly on lower nonfat dry milk prices. Combined, these Federal Order price changes imply that the July all-milk price, to be reported at the end of August, will be about 20 cents per hundredweight lower than the June price.

Milk and Feed Prices

The June all-milk price added another 20 cents a hundredweight onto the May price. The June corn price reported by NASS was down slightly from May, while the June alfalfa hay price was down more significantly. Together with a \$15 per-ton

increase in the AMS soybean meal price, these changes produced a \$0.13 per-hundredweight reduction in the June MPP feed cost and a \$0.33 per-hundredweight increase in the June MPP margin. For the third time this year, the bimonthly MPP margin fell almost exactly on the threshold of where coverage begins or on a border between coverage levels, coming in at \$7.99534 per hundredweight for the May-June period. This is almost exactly the same level as the January-February margin, and will again result in a very small payment to producers who insured their margins at the maximum \$8.00 level.

Average retail prices reported by the Bureau of Labor Statistics showed continued slight reductions from May to June for both whole milk and cheddar cheese.

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The **National Milk Producers Federation (NMPF)** is a farm commodity organization representing most of the dairy marketing cooperatives serving the U.S.