

## Overview

*Domestic milk prices are down modestly from their second peak this year, but feed costs are down even more, resulting in record income-over-feed cost margins for producers. The U.S. average all-milk price set a record in September, while the monthly milk price-over-feed-cost margin for October, computed using the new Margin Protection Program formula, was 11 percent above its peak prior to this year. However, dairy futures indicate prices and margins will rapidly exit their near-record territory and continue down well into 2015. Contributing to the bearish outlook are a projected four percent increase in U.S. milk production during the fourth quarter of 2014, further erosion in already low world dairy prices and slumping U.S. dairy exports.*

## Commercial Use of Dairy Products

Among major dairy product categories, non-American type cheese showed the largest gain in domestic consumption from June through August, according to data from USDA's Economic Research Service. Commercial disappearance for this category was 2.7 percent higher than during the same period in 2013, while American-type cheese use was up 0.4 percent. Disappearance of milk in all products showed strong gains as well, rising 2.7 percent in skim solids and 1.9 percent in milkfat. Commercial

use of butter and nonfat dry milk were both down during this period. USDA's Agricultural Marketing Service has not provided fluid milk sales data since June.

## U.S. Dairy Trade

Falling exports will be a major factor in the U.S. dairy picture for the next several months. The drop is already occurring, with July through September exports down from last year in all major product categories except non-American type cheese.

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Domestic Commercial Disappearance	Jun–Aug 2014	Jun–Aug 2013	2013–2014 Change	Percent Change
	(million pounds)			
Total Fluid Milk Products*	12,118	12,543	-425	-3.4%
Butter	416	419	-4	-0.8%
American-type Cheese	1,088	1,084	5	0.4%
All Other Cheese	1,627	1,584	43	2.7%
Nonfat Dry Milk / Skim Milk Powders	197	224	-27	-12.2%
All Products (milk equiv., milkfat basis)	50,319	49,384	934	1.9%
All Products (milk equiv., skim solids basis)	42,783	41,663	1,120	2.7%
* Apr–Jun				

### U.S. Dairy Trade *from page 1*

U.S. dairy exports remain in a long-term expansion, but they are a more volatile part of the industry's marketing mix and subject to temporary downturns. Dairy exports saw particularly strong growth for more than a year. But that ended around June, as world demand for dairy products cooled. World demand is expected to remain below normal, and world dairy prices depressed, until mid-2015, while milk production growth accelerates for the major dairy exporters. Those are the United States, the European Union and New Zealand. Lower domestic milk prices are inevitable.

In another indication of the changed world situation, U.S. dairy imports are up strongly in all major categories. Still, the impact of increased imports will be small compared with the drop in

exports. Exports during July through September have fallen by the equivalent of 2.5 percent of domestic milk production from a year ago, while imports have risen the equivalent of 0.7 percent of production. The combined change in the U.S. dairy trade balance is equivalent to temporarily losing a market for 3.2 percent of the U.S. milk supply.

## Milk Production

The number of U.S. milk cows continues to creep up, rising by just half a percent from a year ago in July through September. But average production per cow simultaneously rose by three percent, boosting total milk production by 3.5 percent. USDA projects that 2014 milk production will be up 2.5 percent over

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U.S. Dairy Exports	Jul–Sept 2014	Jul–Sept 2013	2013–2014 Change	Percent Change
		(metric tons)		
Butter	9,512	24,522	-15,010	-61%
Anhydrous Milk Fat/Butteroil	1,675	4,181	-2,506	-60%
Cheddar Cheese	15,386	17,213	-1,827	-11%
American-type Cheese	16,334	19,462	-3,128	-16%
Total Cheese	91,385	81,118	10,267	13%
Nonfat Dry Milk/Skim Milk Powder	129,733	147,575	-17,841	-12%
Whole Milk Powder	12,698	15,317	-2,619	-17%
Dry Whey	85,443	93,547	-8,104	-9%
Whey Protein Concentrate/Isolate	24,521	30,022	-5,501	-18%
Lactose	82,611	90,410	-7,799	-9%
Percent of Milk Solids Exported	14.7%	17.2%	-2.5%	-15%
U.S. Dairy Imports	Jul–Sept 2014	Jul–Sept 2013	2013–2014 Change	Percent Change
		(metric tons)		
Butter	3,148	1,408	1,740	124%
Cheese	41,050	37,407	3,643	10%
Nonfat Dry Milk/Skim Milk Powder	1,356	751	606	81%
MPC (all protein levels)	12,076	9,251	2,825	31%
Casein	18,571	14,940	3,631	24%
Percent of Milk Solids Imported	3.4%	2.7%	0.7%	24%

### Milk Production *from page 2*

2013. That's equivalent to an annual growth rate of four percent during the fourth quarter. USDA also calls for production to rise three percent in 2015 over 2014.

## Dairy Product Production

Domestic production of all cheese rose by 4.1 percent in the third quarter of 2014. This indicates that cheese has absorbed proportionately more of the additional milk production for the quarter. Butter production was off by almost one percent, as additional milkfat production was used in other products,

particularly cheese. Combined production of nonfat dry milk and skim milk powder rose 13.5 percent during the quarter. The drop in skim milk powder production and the greater gain in nonfat dry milk reflects declining U.S. export sales. While cheese production has increased, combined production of dry whey and whey protein concentrate was essentially flat.

## Dairy Product Inventories

Cold storage holdings of butter and cheese continue to decline, with butter stocks almost 40 percent below last September. Manufacturers' stocks of nonfat dry milk were up by almost 20 percent.

Milk & Dairy Products Production	Jul–Sept 2014	Jul–Sept 2013	2013–2014 Change	Percent Change
<b>Milk Production</b>				
Cows (1000 head)	9,268	9,225	44	0.5%
Per Cow (pounds)	5,517	5,356	161	3.0%
Total Milk (million pounds)	51,134	49,408	1,726	3.5%
<b>Dairy Products Production</b>	(million pounds)			
<b>Cheese</b>				
American Types	1,114	1,074	40	3.7%
Cheddar	790	758	32	4.2%
Italian Types	1,225	1,158	67	5.8%
Mozzarella	975	906	69	7.6%
Total Cheese	2,838	2,725	113	4.1%
Butter	396	399	-4	-0.9%
<b>Dry Milk Products</b>				
Nonfat Dry Milk	398	297	102	34%
Skim Milk Powder	122	162	-40	-25%
Dry Whey	213	228	-15	-7%
Whey Protein Concentrate	131	119	12	10%
<b>Dairy Product Inventories</b>	Sept 2014	Aug 2014	Sept 2013	Percent Change 2013–2014
	(million pounds)			
Butter	146	165	233	-37%
American Cheese	631	648	661	-5%
Other Cheese	382	393	410	-7%
Nonfat Dry Milk	171	243	145	18%

## Milk and Dairy Product Prices

Milk and dairy market prices are dropping from record levels. October butter prices reported by the Agricultural Marketing Service were down more than 10 percent from their record a month earlier. Nonfat dry milk prices were down almost 30 percent from their record in March, cheese prices were down slightly from their April record, and dry whey prices were down five percent from their 2014 peak in July. Milk prices have been slower to react. They were down only one to three percent from recent records for the Federal Order Class III price and the Class I price mover. The same was true for the November advance-announced Class I mover and for the October preliminary average all-milk price announced by the National Agricultural Statistics Service. NASS made an unusually large revision in the September

preliminary all-milk price, boosting it from \$25.00 to \$25.70 per hundredweight. That put the September price 40 cents above the record, which was set in April. Dairy futures indicate, however, that prices will rapidly exit this territory and continue down until well into 2015.

September U.S. average retail prices reported by the Bureau of Labor Statistics were six percent below their record levels for both fluid whole milk and for natural cheddar cheese.

## Feed Prices

So far this fall, feed prices have fallen further than milk prices, boosting income over feed costs for producers. Looking back to January 2013, October preliminary corn prices reported by

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Dairy Industry Prices	Oct 2014	Sept 2014	Oct 2013	2013–2014 Change
<b>AMS Commodity Prices</b>		(per pound)		
Butter	\$2.526	\$2.853	\$1.545	\$0.980
Cheese	\$2.291	\$2.347	\$1.803	\$0.489
Nonfat Dry Milk	\$1.490	\$1.472	\$1.837	-\$0.347
Dry Whey	\$0.653	\$0.673	\$0.573	\$0.079
<b>Producer Prices</b>		(per hundredweight)		
Class I Mover	\$24.19	\$23.63	\$19.20	\$4.99
Class III	\$23.82	\$24.60	\$18.22	\$5.60
Class IV	\$21.35	\$22.58	\$20.17	\$1.18
All Milk	\$25.30	\$25.70	\$20.90	\$4.40
<b>Feed Prices</b>				
Corn (per bushel)	\$3.28	\$3.48	\$4.63	-\$1.35
Soybean Meal (per ton)	\$382	\$526	\$444	-\$62
Alfalfa Hay (per ton)	\$194	\$197	\$193	\$1
2014 Farm Bill Feed Cost (per cwt.)	\$8.98	\$10.30	\$10.87	-\$1.89
2014 Farm Bill Margin (per cwt.)	\$16.32	\$15.40	\$10.03	\$6.29
<b>Retail Dairy Product Prices</b>	<b>Sept 2014</b>	<b>Aug 2014</b>	<b>Sept 2013</b>	<b>2013–2014 Change</b>
Fluid Milk (per gallon)	\$3.732	\$3.673	\$3.428	\$0.304
Cheddar Cheese (per pound)	\$5.565	\$5.580	\$5.433	\$0.132

### Feed Prices from page 4

NASS are down by more than half from their peak. Alfalfa hay prices are down approximately 15 percent, AMS-reported soy bean meal prices are down by 30 percent, and the monthly feed cost calculated using the new Margin Protection Program formula is down by more than a third. Large drops in feed costs, coupled with the all-milk price still lingering in record territory, have produced consecutive records in the monthly MPP income-over-feed cost margin. The preliminary monthly margin for October was \$16.32 per hundredweight. The previous record was \$15.40 a month earlier. Before that, the highest monthly

MPP margin was \$14.65 per hundredweight in August 2007. However, dairy futures indicate prices and margins will be considerably lower in 2015.

Producers have until December 5 to sign up for coverage under the Margin Protection Program for the last four months of 2014, for all of 2015 or both. USDA will announce MPP milk price-over-feed-cost margins as averages for January-February, March-April, May-June, July-August, September-October, and November-December. For the Dairy Product Donation Program, the margin will be determined monthly.

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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.