

Overview

Fluid milk sales showed the lowest volume decline in almost a year during November 2016–January 2017. American-type cheese consumption continued to outpace that of other cheeses during the same period. American-type cheese exports showed positive growth for the first time in more than a year during December 2016–February 2017. U.S. exports of dry ingredient products continued to grow by double-digit percentages during the same period, as they have since the second half of 2016. U.S. milk production continued to grow by around 2½ percent, as cow numbers have crept up. Product inventories are building and beginning to erode the gains in milk prices registered during the second half of 2016.

Commercial Use of Dairy Products

Sales of all fluid products were down by just 0.3 percent from a year earlier during November 2016–January 2017, the lowest three-month drop in almost a year. Total whole milk sales were up by 5.5 percent during the period, fueling an estimated 2.2 percent year-over-year increase in estimated consumption of milkfat in all fluid products. Commercial use of American-type cheese outpaced that of other cheeses during the period, a pattern that has generally continued since last spring. For the first time since last summer, the growth rates of total milk consumption showed only a relatively small divergence when measured on a milk equivalent milkfat basis versus skim solids basis.

U.S. Dairy Trade

American-type cheese exports showed positive growth for the first time in more than a year during December 2016–February 2017. U.S. cheese exports during calendar year 2016 were 30,000 metric tons less than during calendar year 2015, a drop of 9.7 percent, adjusted for leap year. Competition from other major exporters increased considerably, particularly following the removal of EU milk production quotas. The corresponding statistics on dairy exports by the other major cheese exporters are: the European Union, 81,000 tons more exports to non-EU destinations, an increase of 11.2 percent; New Zealand, 28,000 tons more, a gain of 8.4 percent, and Australia, a loss of 4,000 tons, down by 2.5 percent. This represents a major realignment

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Domestic Commercial Use	Nov 2016–Jan 2017	Nov 2015–Jan 2016	2016–2017 Change	Percent Change
	(million pounds)			
Total Fluid Milk Products	12,743	12,776	-33	-0.3%
Butter	492	498	-6	-1.3%
American-type Cheese	1,185	1,150	36	3.1%
All Other Cheese	1,845	1,800	45	2.5%
Nonfat Dry Milk / Skim Milk Powders	261	220	41	18.5%
All Products (milk equiv., milkfat basis)	52,143	51,033	1,110	2.2%
All Products (milk equiv., skim solids basis)	44,549	43,867	682	1.6%

U.S. Dairy Trade from page 1

of the world's top cheese exporters, and a serious loss of market share for the United States, during a period of significant growth in cheese exports overall. By contrast, U.S. exports of dry ingredient products rebounded very strongly last year, particularly during the second half of 2016. Butter exports showed a similar rebound, albeit from a very small base, driven mostly by a late-year spike in exports to Canada.

During December 2016–February 2017, butter imports showed a slight upturn, while last year's slow drop in cheese imports stepped up considerably. The rise in milk protein concentrate imports during the second half of 2016, together with a smaller increase in casein imports, coincides with the strong recovery of U.S. dry ingredient exports, which likely increased the net domestic demand for milk proteins.

Milk Production

Milk production in the United States during December 2016–February 2017 was 2.4 percent higher than during the same months a year earlier, adjusted for leap year. U.S. milk production has been expanding at this same rolling three-month rate since the fall of 2016. However, since then, the year-over-year growth rate of milking cow numbers has crept up, from 0.2 percent during the summer and fall of 2016 to 0.6 during the latest three months, while production per cow has shown an opposite, and offsetting trend. National milk production growth is not likely to exceed its current range, based on state-level trends. During the past several months, the rate of year-over-year growth of milk production in the 5 largest milk producing states has been dropping. It has increased in half of the 12 states in the next tier based on production volume, while production has been dropping in all but 6 of the smallest milk producing states. In its April

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U.S. Dairy Exports	Dec 2016–Feb 2017	Dec 2015–Feb 2016	2016–2017 Change	Percent Change*
	(metric tons)			
Butter	4,834	2,820	2,014	73%
Anhydrous Milk Fat/Butteroil	1,171	5,575	-4,404	-79%
Cheddar Cheese	9,063	8,369	694	9%
American-type Cheese	9,116	8,754	363	5%
Total Cheese	77,619	71,046	6,573	10%
Nonfat Dry Milk/Skim Milk Powder	146,496	130,425	16,071	14%
Whole Milk Powder	7,471	5,479	1,992	38%
Dry Whey	85,505	67,626	17,879	28%
Whey Protein Concentrate/Isolate	46,184	34,164	12,020	37%
Lactose	86,343	86,437	-94	1%
Percent of Milk Solids Exported	14.1%	12.8%	1.3%	11%
	*Adjusted for leap year			

U.S. Dairy Imports	Dec 2016–Feb 2017	Dec 2015–Feb 2016	2016–2017 Change	Percent Change*
	(metric tons)			
Butter	6,615	6,416	199	4%
Cheese	47,449	55,130	-7,681	-13%
Nonfat Dry Milk/Skim Milk Powder	20	209	-189	-90%
MPC (all protein levels)	16,883	15,447	1,436	11%
Casein	19,454	18,882	572	4%
Percent of Milk Solids Imported	3.8%	4.0%	-0.2%	-4%
	*Adjusted for leap year			

Milk Production *from page 2*

outlook forecast, USDA lowered its projection of annual milk production growth in 2017, from 2.4 percent to 2.3 percent.

Dairy Products

Production of American-type cheese, particularly cheddar, continues to grow at an accelerating pace, as additional milk production is processed largely into this type of cheese. American-type cheese production was up 4.6 percent during December 2016–February 2017 over the same period a year earlier, after adjusting for leap year. This was greater than the

combined increase in domestic consumption and exports of this product. Italian-type cheese was up by a much more modest 0.8 percent, adjusted for leap year. Skim milk powder production growth outpaced that of nonfat dry milk during the period, while whey product production was down.

Dairy Product Inventories

Stocks of butter, American cheese and nonfat dry milk were all up significantly at the end of February from a month earlier, as growth in milk production further outpaces commercial use of these products. Growing stocks are putting increasing pressure on prices, particularly for American cheese and nonfat dry milk.

Milk and Dairy Products Production	Dec 2016–Feb 2017	Dec 2015–Feb 2016	2016–2017 Change	Percent Change*
Milk Production				
Cows (1,000 head)	9,363	9,310	52	0.6%
Per Cow (pounds)	5,626	5,589	37	1.8%
Total Milk (million pounds)	52,674	52,035	639	2.4%
Dairy Products Production				
		(million pounds)		
Cheese				
American Types	1,209	1,168	41	4.6%
Cheddar	892	847	45	6.5%
Italian Types	1,320	1,325	-5	0.8%
Mozzarella	1,026	1,034	-8	0.3%
Total Cheese	3,040	2,995	45	2.6%
Butter	506	526	-20	-2.7%
Dry Milk Products				
Nonfat Dry Milk	448	428	20	5.8%
Skim Milk Powder	150	135	15	12.4%
Dry Whey	239	251	-12	-3.7%
Whey Protein Concentrate	116	118	-2	-0.8%

*Adjusted for leap year

Dairy Product Inventories	Feb 2017	Jan 2017	Feb 2016	2016–2017 Change
		(million pounds)		
Butter	283	222	236	20%
American Cheese	774	752	716	8%
Other Cheese	483	470	466	4%
Nonfat Dry Milk	260	227	217	20%

Dairy Product and Federal Order Class Prices

Monthly prices reported by USDA's Agricultural Marketing Service showed considerable weakness in March. Cheese was weak on higher domestic production and stocks, while nonfat dry milk reflected the recent reversal of the recovery in world skim milk powder prices since the summer of 2016. U.S. dry whey prices continued to improve in March, reflecting an uninterrupted recovery of world whey prices over the same period. Class III and Class IV prices both dropped by over \$1 per hundredweight from February to March, primarily due to the corresponding slides in cheddar cheese and nonfat dry milk prices.

Milk and Feed Prices

The February U.S. average all-milk price was down \$0.40 per cwt. from January, as increased milk production and growing product stocks started to erode the steady price gains of the previous 8 months. The all-milk price rose a total of \$4.40 per cwt. from its May 2016 low to January 2017's price. Minor price increases in the three feedstuff components of the Margin Protection Program feed cost formula boosted the calculated cost by 8 cents in February from January, thus dropping the MPP monthly margin by \$0.48 per cwt. for the month.

The U.S. average retail price of whole milk extended its stay at around \$3.00 per gallon to 5 consecutive months in February,

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Dairy Product and Federal Order Prices	Mar 2017	Feb 2017	Mar 2016	2016–2017 Change
AMS Commodity Prices		(per pound)		
Butter	\$2.168	\$2.176	\$1.991	\$0.177
Cheese	\$1.555	\$1.687	\$1.516	\$0.039
Nonfat Dry Milk	\$0.849	\$0.993	\$0.752	\$0.097
Dry Whey	\$0.524	\$0.489	\$0.248	\$0.276
Class Prices for Milk		(per hundredweight)		
Class I Mover	\$16.90	\$16.73	\$13.78	\$3.12
Class III	\$15.81	\$16.88	\$13.74	\$2.07
Class IV	\$14.32	\$15.59	\$12.74	\$1.58

Milk and Feed Prices	Feb 2017	Jan 2017	Feb 2016	2016–2017 Change
Producer Prices				
All Milk (per cwt.)	\$18.50	\$18.90	\$15.70	\$2.80
Feed Prices				
Corn (per bushel)	\$3.44	\$3.40	\$3.58	-\$0.14
Soybean Meal (per ton)	\$334	\$332	\$274	\$61
Alfalfa Hay (per ton)	\$129	\$128	\$137	-\$8
2014 Farm Bill Feed Cost (per cwt.)	\$7.92	\$7.84	\$7.73	\$0.19
2014 Farm Bill Margin (per cwt.)	\$10.58	\$11.06	\$7.97	\$2.61
Retail Dairy Product Prices				
Fluid Milk (per gallon)	\$3.300	\$3.318	\$3.230	\$0.070
Cheddar Cheese (per pound)	\$4.967	\$4.933	\$5.369	-\$0.402

Milk and Feed Prices *from page 4*

as reported by the Bureau of Labor Statistics. The BLS-reported average retail price of cheddar cheese has been modestly below \$5.00 per pound since November 2016. Prior to that, it had not been below \$5 since December 2010.

Looking Ahead

Pressure on cheese prices in the domestic market and stress on skim powder prices in the world market are beginning to show up in the price of milk. CME block cheese prices have come off

their lows of mid-March, but the CME futures indicate that the all-milk price could lose about \$2.50 per cwt. from its January high by mid-year. In its April outlook forecast, USDA reduced its estimate of the U.S. all-milk price for 2017 by \$0.45 per cwt., after steadily raising it, by a total of \$2.10 per cwt., over the prior 5 months. Its lower April forecast implies that the 2017 average milk price would be about \$1.50 per cwt. above the 2016 average price. This was just slightly more optimistic than the futures indicated. At the same time, USDA's MPP decision tool projected the MPP margin would remain above \$8.00 per cwt. for all of 2017, with only small probabilities of falling below that level.

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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.