

Overview

In January, the average U.S. all-milk price reached its highest level since the final month of the 2013-2014 price spike. At \$10.54 per hundredweight, the Margin Protection Program (MPP) margin for November–December was the highest in two years. Also in January, dairy exports continued to improve, representing 13 percent of milk solids production, the second highest-ever January percentage after January 2014’s level of 14.4 percent. At the same time, milk production growth has been steady for several months at a rate of approximately 2.5 percent year-over-year. This has caused cheese production to overtake consumption growth, boosting inventories and putting pressure on prices.

Commercial Use of Dairy Products

Fluid milk sales dropped by 1.2 percent from a year earlier during the fourth quarter of 2016, and by 0.9 percent during all of 2016. Whole milk increased by 5.2 percent and the milkfat content of all fluid milk sales rose by an estimated 1.6 percent, adjusted for the leap year. Butter consumption was up during the quarter by more than 5 percent from a year earlier, reflecting particularly robust holiday-season use. Holiday use also buoyed domestic cheese consumption, particularly for American types. The growth rates of total milk consumption continue to show a wide divergence when measured on a milk equivalent milkfat basis versus skim solids basis. The domestic market is making increasing claims on milkfat, leaving less to export, while the

recovering world markets have been doing the opposite for U.S. skim milk solids production.

U.S. Dairy Trade

Year-over-year changes in U.S. dairy exports during November 2016–January 2017 showed further improvement from earlier in 2016 for butter, Cheddar, total American-type and all cheeses and dry whey, as well as for total milk solids. This general across-the-board improvement in the dairy export situation was driven by improved international demand and prices during the period, together with lower milk production in the major exporting countries. During July–December 2016, combined milk production in the United States, European

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Domestic Commercial Use	Oct–Dec 2016	Oct–Dec 2015	2015–2016 Change	Percent Change
	(million pounds)			
Total Fluid Milk Products	12,660	12,811	-151	-1.2%
Butter	541	514	27	5.3%
American-type Cheese	1,205	1,157	48	4.2%
All Other Cheese	1,865	1,855	9	0.5%
Nonfat Dry Milk / Skim Milk Powders	207	228	-21	-9.2%
All Products (milk equiv., milkfat basis)	53,708	51,563	2,145	4.2%
All Products (milk equiv., skim solids basis)	43,740	44,070	-330	-0.7%

U.S. Dairy Trade *from page 1*

Union, New Zealand and Australia was 4.3 billion pounds, or 1.4 percent less than during the same period a year earlier. The United States exported 1.9 percent more of its milk solids during November 2016–January 2017 compared with the same period a year earlier.

The milk solids content of dairy imports was down slightly during November 2016–January 2017, as were imports of butter, cheese and casein, while milk protein concentrate imports rose.

Milk Production

During November 2016–January 2017, U.S. milk production increased by 2.4 percent from a year earlier, while the number of cows producing that milk increased by 0.5 percent. At the beginning of 2016, U.S. milk production was virtually even with

a year earlier, but it grew steadily during the year. It subsequently stabilized at around 2.5 percent year-over-year during each of the four months through January 2017. This rate was sustained by robust growth in fewer than 10 of the larger milk producing states. However, trends in these and other states indicate that production growth will probably not expand much beyond this rate over the next several months.

Dairy Products

Production of American-type cheese, particularly Cheddar, has been accelerating in recent months after being down year-over-year earlier in 2016. This change matches closely the increased growth of U.S. milk production. Cheese production growth between American and other types switched during 2016, with other types starting out strong and finishing weaker. Butter production was down again during November 2016–January 2017 as holiday

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U.S. Dairy Exports	Nov 2016–Jan 2017	Nov 2015–Jan 2016	2016–2017 Change	Percent Change
		(metric tons)		
Butter	5,935	2,618	3,318	127%
Anhydrous Milk Fat/Butteroil	865	2,876	-2,011	-70%
Cheddar Cheese	8,136	8,020	116	1%
American-type Cheese	8,196	8,505	-309	-4%
Total Cheese	76,229	69,405	6,823	10%
Nonfat Dry Milk/Skim Milk Powder	148,971	131,612	17,359	13%
Whole Milk Powder	9,921	3,627	6,294	174%
Dry Whey	85,729	63,228	22,502	36%
Whey Protein Concentrate/Isolate	47,880	33,700	14,180	42%
Lactose	90,694	89,377	1,318	1%
Percent of Milk Solids Exported	14.5%	12.6%	1.9%	15%

U.S. Dairy Imports	Nov 2016–Jan 2017	Nov 2015–Jan 2016	2015–2017 Change	Percent Change
		(metric tons)		
Butter	6,128	6,378	-250	-4%
Cheese	54,165	58,667	-4,502	-8%
Nonfat Dry Milk/Skim Milk Powder	59	416	-357	-86%
MPC (all protein levels)	16,739	15,455	1,284	8%
Casein	20,312	20,821	-509	-2%
Percent of Milk Solids Imported	3.9%	4.0%	-0.1%	-2%

Dairy Products from page 2

demands claimed increased volumes of cream before they could get to the churn. Dry whey and whey protein concentrate production was down during the period despite the increase in cheese production.

Dairy Product Inventories

American cheese stocks at the end of January represented 61 days of total commercial use during the month, including exports. This was a sharp increase from recent months and reflected a return to the days-of-use-in-stock level at the end of July 2016, when American cheese in cold storage was the highest in 30

years. At the end of January, stocks of butter were 50 million pounds, or 15 percent below their 2016 high in last July.

Dairy Product and Federal Order Class Prices

The monthly prices reported by USDA's Agricultural Marketing Service were mostly down in February from a month earlier, even for nonfat dry milk. A steadily improving world market had boosted nonfat dry milk prices each month through January, beginning in spring 2016, but dry whey continued its rise, almost doubling over the same period, driven as well by recovery in global dairy ingredient markets. Federal order class prices

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Milk and Dairy Products Production	Nov 2016–Jan 2017	Nov 2015–Jan 2016	2016–2017 Change	Percent Change
Milk Production				
Cows (1000 head)	9,355	9,311	44	0.5%
Per Cow (pounds)	5,674	5,565	109	2.0%
Total Milk (million pounds)	53,079	51,814	1,265	2.4%
Dairy Products Production	(million pounds)			
Cheese				
American Types	1,226	1,181	45	3.8%
Cheddar	894	855	39	4.5%
Italian Types	1,347	1,326	21	1.6%
Mozzarella	1,049	1,035	14	1.4%
Total Cheese	3,113	3,024	88	2.9%
Butter	486	504	-17	-3.5%
Dry Milk Products				
Nonfat Dry Milk	438	416	22	5.3%
Skim Milk Powder	155	140	16	11.3%
Dry Whey	233	254	-21	-8.1%
Whey Protein Concentrate	117	123	-6	-4.9%

Dairy Product Inventories	Jan 2017	Dec 2016	Jan 2016	2016–2017 Change
	(million pounds)			
Butter	223	166	192	16%
American Cheese	752	726	716	5%
Other Cheese	480	472	462	4%
Nonfat Dry Milk	229	228	226	1%

Dairy Product and Federal Order Class Prices *from page 3*

were well above year-ago levels in February, but showed mixed results following their significant improvement during the 2016 holiday season.

Milk and Feed Prices

The all-milk price gained another \$0.10 in January, following a sharp two-month rise of \$2.20 per hundredweight from October–December 2016. The cost of dairy feed, as measured by the MPP formula, has increased for the past couple of months. However, due to offsetting effects among individual components, the formula cost has returned to about where it

was at the beginning of 2016. The monthly MPP margin changed little from December to January, and remained above \$11 per hundredweight during both months. At \$10.54 per hundredweight, the margin for November–December was the highest bimonthly margin in two years.

The retail price of whole milk in January changed little from both a month and a year earlier, while the retail price of Cheddar cheese was down by almost 50 cents a pound from January 2016.

Looking Ahead

Pressure on domestic cheese prices intensified during the first part of March, with the daily CME cash prices bottoming out

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Dairy Product and Federal Order Prices	Feb 2017	Jan 2017	Feb 2016	2016–2017 Change
AMS Commodity Prices		(per pound)		
Butter	\$2.176	\$2.257	\$2.135	\$0.041
Cheese	\$1.687	\$1.701	\$1.517	\$0.170
Nonfat Dry Milk	\$0.993	\$1.023	\$0.769	\$0.224
Dry Whey	\$0.489	\$0.442	\$0.247	\$0.243
Class Prices for Milk		(per hundredweight)		
Class I Mover	\$16.73	\$17.45	\$13.64	\$3.09
Class III	\$16.88	\$16.77	\$13.80	\$3.08
Class IV	\$15.59	\$16.19	\$13.49	\$2.10

Milk and Feed Prices	Jan 2017	Dec 2016	Jan 2016	2016–2017 Change
Producer Prices				
All Milk (per cwt.)	\$18.90	\$18.80	\$16.10	\$2.80
Feed Prices				
Corn (per bushel)	\$3.40	\$3.33	\$3.66	-\$0.26
Soybean Meal (per ton)	\$332	\$321	\$280	\$53
Alfalfa Hay (per ton)	\$128	\$129	\$141	-\$13
2014 Farm Bill Feed Cost (per cwt.)	\$7.84	\$7.70	\$7.91	-\$0.07
2014 Farm Bill Margin (per cwt.)	\$11.06	\$11.10	\$8.19	\$2.87
Retail Dairy Product Prices				
Fluid Milk (per gallon)	\$3.318	\$3.290	\$3.313	\$0.005
Cheddar Cheese (per pound)	\$4.933	\$4.895	\$5.411	-\$0.478

Looking Ahead from page 4

mid-month at almost \$0.30-a-pound lower than at the beginning of 2017. The mid-March CME dairy futures indicated that the AMS cheese price would bottom out in April at approximately \$0.15 below January. AMS-reported cheese prices in January and February were \$0.05-\$0.06 higher than the average CME cash prices in those months. Softer import demand has caused world prices for skim milk powder to drop on the Global Dairy Trade auction by about 25 percent from their high earlier in

2017. These changes will affect U.S. milk prices. The CME dairy futures projected the U.S. average all-milk price would drop in May and June to more than \$2 per hundredweight below January, but in March, USDA inched up its forecast of the all-milk price during 2017 by \$0.05 per hundredweight from its projection a month earlier. This was the net result of raising its price forecasts for butter and dry whey and dropping them for cheese and nonfat dry milk. It remains to be seen how many months the current episode of price weakness will last.

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