

Overview

In July, milk and dairy product prices generally halted their decline from the record levels of a few months ago, and CME dairy futures show mostly stronger prices for August. That will give U.S. milk prices a distinct double peak this year, despite continued weakness in world prices for milk powders and other key dairy products. Growth in commercial use of dairy products in both domestic and export markets continues to keep pace with domestic production. That's despite stronger, but still muted, signs of a buildup in cow numbers and accelerating growth in milk production per cow. Substantial drops in feed prices in July boosted milk price-over-feed-cost margins, which will remain well above post-2007 levels through the remainder of 2014.

Russia's recently announced ban on dairy and other agricultural imports from the European Union, the United States, Australia, Canada and Norway will not have a direct effect on U.S. dairy exports since Russia has imported almost no dairy products from the U.S. in recent years. However, displacement effects may well be significant. Measured by trade values, Russia accounted for about 7.5 percent of total world dairy imports in 2013, excluding intra-EU trade, and about 70 percent of Russia's dairy imports came from the now-banned countries, almost all from the EU.

Commercial Use of Dairy Products

Commercial disappearance of butter in the domestic market was 4.1 percent higher during the first five months of 2014 than in the corresponding period in 2013, according to new data from USDA's Economic Research Service. This was the highest growth

rate among the major dairy categories in the new ERS domestic disappearance series. Commercial disappearance of other than American-type cheese, which is mostly Mozzarella, was also up strongly, at 2.3 percent, while disappearance of American-type cheese was essentially flat. The combined growth in butter and

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Domestic Commercial Disappearance	Jan–May 2014	Jan–May 2013	2013–2014 Change	Percent Change
	(million pounds)			
Total Fluid Milk Products	21,234	21,766	-532	-2.4%
Butter	683	656	27	4.1%
American-type Cheese	1,721	1,724	-3	-0.2%
All Other Cheese	2,637	2,579	58	2.3%
Nonfat Dry Milk / Skim Milk Powders	393	445	-53	-11.8%
All Products (milk equiv., milkfat basis)	79,061	77,853	1,208	1.6%
All Products (milk equiv., skim solids basis)	69,702	70,257	-555	-0.8%

cheese use was a major contributor to the 1.6 percent growth in the domestic use of milk in all products, measured on a milk equivalent, milkfat basis. But total U.S. sales of all fluid milk products were again down, by 2.4 percent from a year ago, over the first five months of this year. Domestic use of nonfat dry milk and skim milk powder was off by almost 12 percent, reflecting continued strong demand for skim milk solids in other products and for export. Lower sales and commercial use of these milk products contributed to the 0.8 percent drop in the domestic use of milk in all products, measured on a milk equivalent, skim solids basis.

U.S. Dairy Trade

The United States exported 16.5 percent of its total milk solids production during the first half of 2014, 1.8 percent more than it did during the first half of 2013. Among the major categories,

cheese and butter exports were well over last year's levels. From January through June, the United States exported 7.8 percent of its cheese production and approximately 10 percent of butter production, measured on a product volume basis. On the basis of milkfat content, the butter exports were effectively greater than 10 percent of production since most were world-standard 82 percent milkfat while most production is 80 percent milkfat. Exports were up significantly in all major product categories, except for the whey complex products of whey protein concentrate, whey protein isolate and lactose.

U.S. dairy imports were down slightly during the first six months of 2014, as a percent of U.S. milk solids production. Imports of milk proteins, that is, casein and milk protein concentrate, were well down over last year and total cheese imports were flat. Butter and nonfat dry milk/skim milk powder imports were up by large percentages, but small volumes.

U.S. Dairy Exports	Jan–Jun 2014	Jan–Jun 2013	2013–2014 Change	Percent Change
	(metric tons)			
Butter	43,869	30,901	12,969	42%
Anhydrous Milk Fat/Butteroil	7,562	1,236	6,326	512%
Cheddar Cheese	48,534	29,326	19,208	65%
American-type Cheese	54,315	33,509	20,806	62%
Total Cheese	199,013	148,593	50,420	34%
Nonfat Dry Milk/Skim Milk Powder	300,764	265,979	34,785	13%
Whole Milk Powder	30,292	13,084	17,209	132%
Dry Whey	191,394	178,580	12,814	7%
Whey Protein Concentrate/Isolate	53,516	57,847	-4,331	-7%
Lactose	173,523	178,582	-5,060	-3%
Percent of Milk Solids Exported	16.5%	14.7%	1.8%	12%
U.S. Dairy Imports	Jan–Jun 2014	Jan–Jun 2013	2013–2014 Change	Percent Change
	(metric tons)			
Butter	3,766	2,324	1,443	62%
Cheese	67,542	67,283	258	0%
Nonfat Dry Milk/Skim Milk Powder	853	482	371	77%
Casein	41,689	46,848	-5,159	-11%
MPC (all protein levels)	21,685	27,759	-6,075	-22%
Percent of Milk Solids Imported	2.9%	3.0%	-0.1%	-4%

Milk Production

USDA data for June showed that the United States is in the early stages of an expansion in milk production. This is expected, given the strong milk-over-feed-cost margins since last fall. Average milking cow numbers during June were 0.3 percent higher than in June 2013. This was the highest year-over-year growth in monthly dairy cow numbers in two years. Also, national average production per cow was up by 1.6 percent in June over a year ago. With two isolated exceptions, this was the highest year-over-year growth in this key monthly milk productivity indicator in more than two years. Overall June milk production was up 1.9 percent over a year ago, also the highest rate in more

than two years. These are all preliminary numbers and may be revised upward next month, as often occurs when milk production growth is accelerating. USDA is currently projecting that milk production for all of 2014 will be up by 2.4 percent over 2013 and up again by 3.2 percent year over year in 2015.

Dairy Product Production

Production of the major dairy products during the first six months of 2014 continued to broadly track domestic and export product demand. This has kept inventories tight and prices firm. Total cheese production was 1.5 percent higher than a year ago, while Mozzarella was up by 6.7 percent. Butter production was

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Milk & Dairy Products Production	Jan–Jun 2014	Jan–Jun 2013	2013–2014 Change	Percent Change
Milk Production				
Cows (1000 head)	9,234	9,240 *	-6	-0.1%
Per Cow (pounds)	11,248	11,098 *	150	1.4%
Total Milk (million pounds)	103,863	102,542	1,321	1.3%
Dairy Products Production				
Cheese		(million pounds)		
American Types	2,218	2,236	-19	-0.8%
Cheddar	1,630	1,636	-6	-0.4%
Italian Types	2,460	2,353	107	4.6%
Mozzarella	1,953	1,831	122	6.7%
Total Cheese	5,604	5,520	84	1.5%
Butter	982	1,013	-32	-3.1%
Dry Milk Products				
Nonfat Dry Milk	912	869	43	5.0%
Skim Milk Powder	296	291	4	1%
Dry Whey	441	503	-62	-12%
Whey Protein Concentrate	269	243	26	11%
Dairy Product Inventories	Jun 2014	May 2014	Jun 2013	Percent Change 2013–2014
		(million pounds)		
Butter	186	193	319	-42%
American Cheese	658	656	711	-7%
Other Cheese	404	409	439	-8%
Nonfat Dry Milk	229	221	230	0%
*NMPF estimates				

Dairy Product Production *from page 3*

down by more than three percent, as demand for milkfat in other products continues to keep butter production tight relative to demand in both domestic and export markets.

Dairy Product Inventories

Domestic stocks remain at or below year-ago levels for the major products, as demand has kept pace with, or exceeded, production. The supply-demand balance remains particularly tight for butter, resulting in a year-over-year drop in inventories of more than 40 percent and continued very firm domestic prices.

Milk and Dairy Product Prices

Milk and dairy product prices took a break in July from their retreat from this spring's historically high levels. Prices for the

four major milk-price-determining products last month were either roughly the same or slightly above their levels in June. Federal order class prices were all higher in July than June, as was the average all-milk price. The CME dairy futures indicate that most product and federal order class prices, as well as the all-milk price, will be up again in August, resulting in a distinct double peak in milk prices for this year. A major exception is nonfat dry milk prices, which are under pressure from a significant drop in world prices over the past few months. By contrast, world prices for whey and cheese have been relatively steady, helping to prevent domestic price erosion. The favorable supply-demand balance for cheese and butter has also been a major factor in maintaining U.S. prices, particularly the sizeable increase in export shipments, which has been supported by the CWT Export Assistance Program administered by NMPF.

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Dairy Industry Prices	July 2014	Jun 2014	July 2013	2013–2014 Change
AMS Commodity Prices		(per pound)		
Butter	\$2.3473	\$2.1874	\$1.4674	\$0.8799
Cheese	\$2.0482	\$2.0358	\$1.7142	\$0.3340
Nonfat Dry Milk	\$1.8617	\$1.8633	\$1.7272	\$0.1345
Dry Whey	\$0.6890	\$0.6789	\$0.5804	\$0.1086
Producer Prices		(per hundredweight)		
Class I Mover	\$23.02	\$22.86	\$18.91	\$4.11
Class III	\$21.60	\$21.36	\$17.38	\$4.22
Class IV	\$23.78	\$23.13	\$18.90	\$4.88
All Milk	\$23.40	\$23.20	\$19.10	\$4.30
Feed Prices				
Corn (per bushel)	\$3.80	\$4.49	\$6.79	-\$2.99
Soybean Meal (per ton)	\$451	\$502	\$545	-\$94
Alfalfa Hay (per ton)	\$216	\$222	\$209	\$7
2014 Farm Bill Feed Cost (per cwt.)	\$10.35	\$11.55	\$14.15	-\$3.80
2014 Farm Bill Margin (per cwt.)	\$13.05	\$11.65	\$4.95	\$8.10
Retail Dairy Product Prices	Jun 2014	May 2014	Jun 2013	2013–2014 Change
Fluid Whole Milk (per gallon)	\$3.626	\$3.735	\$3.458	\$0.168
Cheddar Cheese (per pound)	\$5.560	\$5.586	\$5.493	\$0.067

Milk and Dairy Product Prices *from page 4*

Retail prices for fluid whole milk and cheddar cheese reported by the Bureau of Labor Statistics were both down slightly in June compared with a month earlier but remain above year-earlier levels.

Feed Prices

Corn and soybean meal prices both dropped sharply in July. The farm price of corn was down almost \$0.70 per bushel from June and almost \$3 from July 2013. Continued reports of favorable weather and good growing conditions fueled the drop. Soybean meal prices were down by more than \$50 a ton for the month and nearly \$100 a ton over the year. Prices for alfalfa hay, reported by USDA, show a further decline from their peak in May this year. These price reductions cut the 2014 farm bill monthly feed cost formula

calculation for July by \$1.20 per hundredweight from June and by \$3.80 per hundredweight from July 2013.

The farm bill monthly milk price-over-feed-cost margin calculation for July was \$1.40 per hundredweight higher than a month earlier and \$8.10 per hundredweight higher than July 2013. CME futures indicate the margin will remain well above July's level through October. USDA regulations implementing the farm bill's new Margin Protection Program are due by the end of August. USDA will compute the milk price-over-feed-cost margin formula for the MPP as averages over two months 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 on a monthly basis.

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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.