

## Overview

*Domestic commercial use of milk in all products is keeping pace with growing U.S. milk production so far, but erosion of export volumes is causing total consumption to lag behind production growth. That's keeping pressure on milk prices. The dairy futures outlook for the U.S. average all-milk price for the first half of 2015 has dropped by about two dollars per hundredweight in less than two months. Feed costs are stabilizing and have rebounded in recent weeks, even as large volumes of grain are harvested. The monthly milk-price-over-feed-cost margin, computed using the Margin Protection Program formula, dropped by approximately \$1.80 per hundredweight from October to November.*

## Commercial Use of Dairy Products

Domestic commercial disappearance of milk in all dairy products showed strong gains during July-September. Compared with a year earlier, domestic disappearance rose three percent on a milkfat basis, 5.7 percent on a skim solids basis, and 4.5 percent overall. Cheese consumption was up more than two percent and nonfat dry milk and skim milk powder use was up by one-third. Total fluid milk sales were down by three percent during May-July.

## U.S. Dairy Trade

During August-September, U.S. dairy exports were down substantially from a year ago in all major product categories except non-American-type cheese and lactose. The overall drop was equivalent to 2.5 percent of domestic milk solids production. Imports increased in the major categories of cheese and milk proteins, as well as butter and nonfat dry milk and skim milk powder. The overall increase in imports was equivalent to half a percent of domestic milk solids production.

Domestic Commercial Disappearance	Jul–Sept 2014	Jul–Sept 2013	2013–2014 Change	Percent Change
	(million pounds)			
Total Fluid Milk Products*	11,904	12,275	-371	-3.0%
Butter	422	434	-13	-2.9%
American-type Cheese	1,096	1,073	23	2.2%
All Other Cheese	1,648	1,614	34	2.1%
Nonfat Dry Milk / Skim Milk Powders	296	220	76	34.4%
All Products (milk equiv., milkfat basis)	50,405	48,960	1,445	3.0%
All Products (milk equiv., skim solids basis)	44,062	41,673	2,389	5.7%
* May–Jul				

## Milk Production

U.S. milk production rose at an annual rate of 3.5 percent during August-October. This was due mostly to a 2.8 percent increase in production per cow over the same period in 2013, while the size of the national milking herd grew just 0.6 percent. The rate of growth in U.S. milk cows is accelerating gradually, a sign that this year's strong producer earnings are adding momentum to the dairy herd expansion. In October, cow numbers were up 0.8 percent over a year earlier, based on preliminary USDA numbers. However, USDA has held its forecasts of U.S. milk production growth unusually steady since May, predicting annual growth around 2.5 percent for all of 2014 and approximately three percent for 2015. By contrast, total commercial use of milk has been increasing at an annual rate of less than two percent recently, driven by the drop in exports.

## Dairy Product Production

U.S. cheese production was 2.7 percent higher during August-October than a year earlier. Growth in Italian types was particularly strong, at 5.3 percent. That's well above the growth rate for commercial use of all cheese other than American types, of which approximately 70 percent is Italian-type cheese. Combined production of nonfat dry milk and skim milk powder was up almost 15 percent, as skim milk production moves more into milk powder than cheese. Butter production remains flat, indicating that growing milkfat production has been moving into other products. Combined production of dry whey and whey protein concentrate remains flat.

## Dairy Product Inventories

Butter inventories remain below year-ago levels, permitting butter prices to remain relatively high toward the end of the

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U.S. Dairy Exports	Aug–Oct 2014	Aug–Oct 2013	2013–2014 Change	Percent Change
		(metric tons)		
Butter	7,045	25,175	-18,130	-72%
Anhydrous Milk Fat/Butteroil	835	5,412	-4,577	-85%
Cheddar Cheese	13,535	16,512	-2,977	-18%
American-type Cheese	14,289	18,497	-4,208	-23%
Total Cheese	85,489	80,879	4,611	6%
Nonfat Dry Milk/Skim Milk Powder	116,244	147,369	-31,125	-21%
Whole Milk Powder	9,918	13,825	-3,907	-28%
Dry Whey	89,101	91,166	-2,065	-2%
Whey Protein Concentrate/Isolate	21,707	27,508	-5,801	-21%
Lactose	88,004	81,328	-6,676	8%
Percent of Milk Solids Exported	14.2%	16.7%	-2.5%	-15%
U.S. Dairy Imports	Aug–Oct 2014	Aug–Oct 2013	2013–2014 Change	Percent Change
		(metric tons)		
Butter	3,301	1,464	1,836	125%
Cheese	43,712	39,863	3,850	10%
Nonfat Dry Milk/Skim Milk Powder	912	585	327	56%
MPC (all protein levels)	14,451	11,796	2,656	23%
Casein	17,085	14,651	2,433	17%
Percent of Milk Solids Imported	3.4%	2.9%	0.5%	17%

### Dairy Product Inventories *from page 2*

holiday buying season, despite flat growth in domestic consumption and substantial drops in exports. Cheese stocks remain in good balance. Inventories of all natural cheese at the end of October were the lowest in almost three years and the second lowest in almost five years. Growing production of nonfat dry milk is matched by increased stocks.

## Milk and Dairy Product Prices

Dairy product prices reported by USDA's Agricultural Marketing Service were lower in November than a month earlier, particularly

butter prices. However, all except nonfat dry milk are still well above their levels in November 2013. Nonfat dry milk prices are most indicative of the substantial drop in world prices. Over the past year, Oceania FOB prices have dropped by about half for skim milk and whole milk powders. Oceania prices have dropped by about a quarter for butter, about 20 percent for cheddar cheese and only about 10 percent for dry whey. And while world prices for all products have fallen fairly steadily all year, U.S. butter prices rose steadily until September, and domestic cheese prices hit a double peak in the spring and the fall. Domestic and world markets are less closely connected for butter and cheese because U.S. exports represent a smaller

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Milk & Dairy Products Production	Aug–Oct 2014	Aug–Oct 2013	2013–2014 Change	Percent Change
<b>Milk Production</b>				
Cows (1000 head)	9,274	9,215	59	0.6%
Per Cow (pounds)	5,478	5,328	150	2.8%
Total Milk (million pounds)	50,803	49,095	1,708	3.5%
<b>Dairy Products Production</b>				
		(million pounds)		
<b>Cheese</b>				
American Types	1,120	1,100	20	1.8%
Cheddar	792	780	12	1.5%
Italian Types	1,237	1,175	62	5.3%
Mozzarella	979	917	62	6.7%
Total Cheese	2,861	2,786	74	2.7%
Butter	407	412	-6	-1.4%
<b>Dry Milk Products</b>				
Nonfat Dry Milk	365	266	99	37%
Skim Milk Powder	136	172	-36	-21%
Dry Whey	211	220	-9	-4%
Whey Protein Concentrate	133	124	9	7%
<b>Dairy Product Inventories</b>	<b>Oct 2014</b>	<b>Sept 2014</b>	<b>Oct 2013</b>	<b>Percent Change 2013–2014</b>
		(million pounds)		
Butter	138	146	182	-24%
American Cheese	612	631	626	-2%
Other Cheese	372	383	304	-6%
Nonfat Dry Milk	195	178	111	76%

### Milk and Dairy Product Prices *from page 3*

proportion of both domestic production and world trade. A significant proportion of the exports of both products has received assistance from the NMPF-initiated Cooperatives Working Together program.

Producer milk prices have reflected these product price patterns. While federal order class prices and the NASS-reported all-milk price were all lower in November, compared with a month earlier, all except the Class IV price were still well above their levels of November 2013.

October U.S. average retail prices reported by the Bureau of Labor Statistics were up slightly from a month earlier for both whole milk and natural cheddar cheese. Retail milk prices were

almost nine percent, or about 30 cents a gallon, higher in October than a year earlier, while cheddar cheese prices were up by 3.3 percent.

## Feed Prices

Farm prices for corn have rebounded a bit over the last few weeks after falling steadily since mid-year in anticipation of an exceptionally large harvest. Forecasts for the size of the harvest have been revised downward, while the outlook for consumption has improved on the falling prices. Grain farmers, with balance sheets strengthened by several years of very high prices, reacted to the earlier price drop by storing large amounts of their crops, forcing buyers to pay more than they expected during the peak of the harvest. October soybean meal prices were up significantly

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Dairy Industry Prices	Nov 2014	Oct 2014	Nov 2013	2013–2014 Change
<b>AMS Commodity Prices</b>		(per pound)		
Butter	\$1.989	\$2.526	\$1.521	\$0.469
Cheese	\$2.131	\$2.291	\$1.861	\$0.269
Nonfat Dry Milk	\$1.390	\$1.490	\$1.889	-\$0.499
Dry Whey	\$0.637	\$0.653	\$0.583	\$0.053
<b>Producer Prices</b>		(per hundredweight)		
Class I Mover	\$24.06	\$24.19	\$20.20	\$3.86
Class III	\$21.94	\$23.82	\$18.83	\$3.11
Class IV	\$18.21	\$21.35	\$20.52	-\$2.31
All Milk	\$23.40	\$24.90	\$21.60	\$1.80
<b>Feed Prices</b>				
Corn (per bushel)	\$3.57	\$3.56	\$4.37	-\$0.80
Soybean Meal (per ton)	\$441	\$382	\$451	-\$10
Alfalfa Hay (per ton)	\$184	\$194	\$188	\$4
2014 Farm Bill Feed Cost (per cwt.)	\$9.59	\$9.28	\$10.58	-\$0.98
2014 Farm Bill Margin (per cwt.)	\$13.81	\$15.62	\$11.02	\$2.78
<b>Retail Dairy Product Prices</b>	<b>Oct 2014</b>	<b>Sept 2014</b>	<b>Oct 2013</b>	<b>2013–2014 Change</b>
Fluid Milk (per gallon)	\$3.756	\$3.732	\$3.462	\$0.304
Cheddar Cheese (per pound)	\$5.568	\$5.565	\$5.390	\$0.178

### Feed Prices from page 4

over a month earlier, rebounding to just \$10 a ton below where they were a year ago. NASS-reported alfalfa hay prices continued to fall from their May record, and slipped in November below year-ago levels for the first time since spring. The

October preliminary feed cost calculated using the MPP formula was about 30 cents a hundredweight higher than a month earlier but approximately a dollar below a year ago. The preliminary MPP monthly margin for October was down \$1.81 per hundredweight from September's record, but \$2.78 above October 2013.

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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.