

## Overview

*Milk and dairy product prices continue to decline from the record levels of a few months ago. But they remain at high levels by historical standards.*

*Growth in commercial use in domestic and export markets is still outpacing modest growth in milk production, although a buildup in cow numbers and faster growth in milk production is likely soon. Recent Agriculture Department reports have largely convinced markets that grain stocks are more ample than expected and very large harvests are expected this fall. These factors are putting downward pressure on feed prices. All this suggests that milk-price-over-feed-cost margins for producers will remain favorable into the fall.*

## Commercial Use of Dairy Products

U.S. sales of all fluid milk products, as estimated by USDA's Agricultural Marketing Service, were 2.2 percent less during the first four months of this year than during the same period in 2013. Sales declines were particularly large in the reduced-fat conventional milk category. During the same period, organic fluid sales represented almost five percent of the total and were up by 13.3 percent over a year earlier. Butter disappearance was 10 percent higher this year, driven by strong gains in both domestic and export sales. Both American-type cheese and all

other cheese posted increased commercial disappearance during the first four months. Increased exports drove the gains for American cheese while other cheese use was up in both the domestic and export markets. Nonfat dry milk is a residual product in the U.S. market, so the 12 percent drop in total commercial disappearance during the first four months reflects greater demand, relative to supplies, for skim milk in other products as well as for export. The 4.7 percent increase in commercial disappearance of milk in all products significantly outpaced the increase in U.S. milk production over the same period, which kept milk prices at historically high levels.

Commercial Disappearance	Jan–Apr 2014	Jan–Apr 2013	2013–2014 Change	Percent Change
	(million pounds)			
Total Fluid Milk Products	17,038	17,419	-381	-2.2%
Butter	618	562	56	10.0%
American-type Cheese	1,454	1,429	25	1.7%
All Other Cheese	2,333	2,236	97	4.3%
Nonfat Dry Milk	495	563	-67	-12.0%
All Products (milk equiv., milkfat basis)	67,671	64,619	3,052	4.7%

## U.S. Dairy Trade

The United States exported two percent more of its total milk solids production during the first five months of 2014 compared with the same period a year ago. Exports in the traditionally large-volume product categories of nonfat milk powders and whey products were broadly up by single-digit percentages. Butter and cheese exports have also become substantial and are up over last year by considerably higher percentages. This increase was partly due to high world prices in the latter part of 2013 and the beginning of this year, when many of the exports shipped early this year were contracted. A second factor was export assistance provided by the Cooperatives Working Together (CWT) program.

CWT assisted approximately 25 percent of the butter exports and 55 percent of the American cheese exports between January and May of this year. These levels are down from the last two

years, when world prices were lower, but are still clearly significant. CWT sales have helped keep U.S. butter and cheese prices above world levels, on a comparable FOB U.S. plant basis, during the significant downturn in world prices in the last three months. By contrast, U.S. and world prices for the other two products that determine domestic farm milk prices – nonfat dry milk and dry whey – have largely maintained parity with each other so far in 2014. U.S. exports of these two products are large relative to both total U.S. production and total world imports, making the global markets for each effectively one large, single-priced market.

Imports of milk protein products – casein and milk protein concentrate – were down over last year during the first five months of 2014, while cheese imports were relatively unchanged. These are the three major product categories for U.S. dairy imports, and the changes resulted in a drop in total U.S. dairy imports over the period.

U.S. Dairy Exports	Jan–May 2014	Jan–May 2013	2013–2014 Change	Percent Change
		(metric tons)		
Butter	38,897	23,783	15,114	64%
Anhydrous Milk Fat/Butteroil	6,641	925	5,716	618%
Cheddar Cheese	41,093	23,720	17,374	73%
American-type Cheese	46,266	27,374	18,892	69%
Total Cheese	165,083	123,089	41,994	34%
Nonfat Dry Milk/Skim Milk Powder	240,055	217,283	22,771	10%
Whole Milk Powder	25,069	10,330	14,740	143%
Dry Whey	158,383	146,082	12,301	8%
Whey Protein Concentrate/Isolate	56,451	55,071	1,380	3%
Lactose	146,471	147,506	-1,035	-1%
Percent of Milk Solids Exported	16.3%	14.3%	2.0%	14%
U.S. Dairy Imports	Jan–May 2014	Jan–May 2013	2013–2014 Change	Percent Change
		(metric tons)		
Butter	3,064	2,001	1,064	53%
Cheese	55,250	55,924	-674	-1%
Nonfat Dry Milk/Skim Milk Powder	843	216	627	291%
Casein	36,901	40,100	-3,199	-8%
MPC (all protein levels)	20,083	24,366	-4,282	-18%
Percent of Milk Solids Imported	2.9%	3.0%	-0.1%	-4%

## Milk Production

U.S. milk production grew by a little more than one percent over last year in the first five months of 2014. This growth was due to a slightly faster increase in milk production per cow. Looking at individual months, production has been edging up over the period. May production was 1.4 percent higher than May a year ago. But for all individual months during the period, increased production has all been due to increased productivity, not more cows. Growth in the nation's milking cow herd, which can be expected in response to recent, very favorable producer margins, is still not noticeable in USDA statistics. But there are signs it has begun. The increase in productivity per cow is understandable,

given those favorable margins. Increased feeding may be driving the increased productivity, rather than the high levels of cow replacement of several months ago. Despite record cow slaughter prices, the gap between replacement milking cow costs and dairy cow cull values has been widening this year, as demand for dairy replacements has pressured the available supply. Monthly dairy cow slaughter has been down over year-ago levels for the past year. In May it was at its lowest level in almost a year as a percentage of both total dairy cows and total dairy and beef cow slaughter. These statistics are early indications total dairy cows will rise soon. Monthly dairy cow numbers have not changed by more than half a percent from year-earlier

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Milk & Dairy Products Production	Jan–May 2014	Jan–May 2013	2013–2014 Change	Percent Change
<b>Milk Production</b>				
Cows (1000 head)	9,229	9,240 *	-11	-0.1%
Per Cow (pounds)	9,381	9,265 *	116	1.3%
Total Milk (million pounds)	86,573	85,607	966	1.1%
<b>Dairy Products Production</b>				
Cheese		(million pounds)		
American Types	1,869	1,873	-5	-0.2%
Cheddar	1,374	1,377	-3	-0.2%
Italian Types	2,050	1,960	89	4.6%
Mozzarella	1,625	1,523	102	6.7%
Total Cheese	4,685	4,607	78	1.7%
Butter	842	873	-31	-3.6%
<b>Dry Milk Products</b>				
Nonfat Dry Milk	764	738	27	3.6%
Skim Milk Powder	244	233	11	5%
Dry Whey	361	424	-63	-15%
Whey Protein Concentrate	228	202	26	13%
<b>Dairy Product Inventories</b>	<b>May 2014</b>	<b>April 2014</b>	<b>May 2013</b>	<b>Percent Change 2013–2014</b>
		(million pounds)		
Butter	193	174	322	-40%
American Cheese	657	649	715	-8%
Other Cheese	411	389	435	-6%
Nonfat Dry Milk	221	240	230	-4%
*NMPF estimates				

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levels for the past two years. That's an unprecedented period of stability in the size of the national milking cow herd. USDA is forecasting U.S. milk production will grow year-over-year by 2.3 percent in 2014 and by 3.2 percent in 2015.

## Dairy Product Production

Cheese production from January to May was broadly consistent with changes in total commercial use, with production of Mozzarella and all Italian cheese increasing faster than Cheddar and all American cheese. Greater demand for all dairy products, relative to increased milk production, is showing up particularly in the supply-demand balance for milkfat. Commercial disappearance for milkfat in all products is up three percent over a year ago during the first five months of 2014, but U.S. production of milkfat is up less than half a percent during the same period.

This imbalance has pulled fat away from butter production and into other products. Coupled with increased demand for butter, this has pushed butter prices to the highest levels seen in a long time.

## Dairy Product Inventories

These same supply-demand factors are driving the year-over-year reductions in dairy product stocks, particularly for cheese and butter. Tighter stocks should continue to support milk and dairy product prices and are expected to continue until milk production rises by more than it has in recent months.

## Milk and Dairy Product Prices

Prices in June continued to ease back from the highs of a few months ago. The all-milk price was down by almost a dollar per

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Dairy Industry Prices	June 2014	May 2014	June 2013	2013–2014 Change
<b>AMS Commodity Prices</b>		(per pound)		
Butter	\$2.1874	\$2.0477	\$1.5422	\$0.6452
Cheese	\$2.0358	\$2.1703	\$1.7810	\$0.2548
Nonfat Dry Milk	\$1.8633	\$1.8768	\$1.6878	\$0.1755
Dry Whey	\$0.6789	\$0.6745	\$0.5738	\$0.1051
<b>Producer Prices</b>		(per hundredweight)		
Class I Mover	\$22.86	\$24.47	\$18.93	\$3.93
Class III	\$21.36	\$22.57	\$18.02	\$3.34
Class IV	\$23.13	\$22.65	\$18.88	\$4.25
All Milk	\$23.30	\$24.20	\$19.50	\$3.80
<b>Feed Prices</b>				
Corn (per bushel)	\$4.37	\$4.71	\$6.97	-\$2.60
Soybean Meal (per ton)	\$502	\$519	\$497	\$5
Alfalfa Hay (per ton)	\$222	\$224	\$220	\$2
2014 Farm Bill Feed Cost (per cwt.)	\$11.42	\$11.94	\$14.14	-\$2.73
2014 Farm Bill Margin (per cwt.)	\$11.88	\$12.26	\$5.36	\$6.53
<b>Retail Dairy Product Prices</b>	<b>May 2014</b>	<b>April 2014</b>	<b>May 2013</b>	<b>2013–2014 Change</b>
Fluid Milk (per gallon)	\$3.735	\$3.687	\$3.441	\$0.294
Cheddar Cheese (per pound)	\$5.586	\$5.733	\$5.559	\$0.027

## Milk and Dairy Product Prices *from page 4*

hundredweight from May but was still almost \$4 per hundredweight above a year ago. Dairy product and federal order class prices generally showed the same pattern: mostly down from a month earlier but still well above a year ago. The major exception was butter, for which the price increase from May to June was sufficient to generate a corresponding increase in the Class IV price. By contrast, Class III prices are basically unaffected by changes in butter prices. The CME dairy futures have been generally dropping in recent months, but they indicate the all-milk price will remain above \$22 per hundredweight for several more months.

Retail prices reported by the Bureau of Labor Statistics show a mixed picture for May, with whole milk prices up from April but natural Cheddar prices down significantly. May retail whole milk prices were still more than 20 cents a gallon below their high level from previous years.

## Feed prices

The price of corn received by farmers, as reported by the National Agricultural Statistics Service (NASS), fell by \$0.34 per bushel from May to June, reflecting a similar drop in corn futures contract average settlement prices over the same time. Corn futures prices have dropped in the wake of USDA reports showing larger-than-

expected corn stocks and generally good growing conditions. This has raised expectations for record corn yields this fall and generated price projections around \$4 per bushel for the crop year. The Agriculture Department also reported larger-than-expected stocks and planted acres of soybeans, which has generated continued pressure on soybean meal prices. NASS reported a slight easing in June from May's record farm price for alfalfa hay. These price reductions equate to a \$0.52-per-hundredweight reduction in the 2014 farm bill monthly feed cost formula price from May to June.

The farm bill monthly milk-price-over-feed-cost margin calculation for June was \$0.38 per hundredweight less than a month earlier. A \$0.90-per-hundredweight drop from May to June in the all-milk price exceeded the smaller drop in monthly feed costs. The CME futures indicate the margin will move back up for July and August, with grain costs dropping as the harvest approaches. For the Margin Protection Program established in the new farm bill, the margin formula will be based on the two-month averages for January-February, March-April, May-June, July-August, September-October, and November-December. For the bill's Dairy Product Donation Program, the margin will be determined monthly. Final regulations for the MPP program are expected by the beginning of September.

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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.