

Overview

Milk and dairy product prices generally moved higher in August as most domestic dairy product markets remain in tight supply-demand balance.

This is producing a distinct double peak for U.S. milk prices this year, despite continued weakness in world prices for all dairy products. Growth in commercial use of dairy products in both domestic and export markets has generally kept pace with domestic production. That probably won't continue much longer, as cow numbers build, and milk production per cow accelerates. Recent drops in feed prices continued in August, but at a moderating pace.

Late in August, USDA released its regulations implementing the 2014 farm bill's new dairy safety net, the Margin Protection Program. Producers have until November 28 to sign up for coverage for both the last four months of 2014 and all of 2015.

Commercial Use of Dairy Products

Domestic commercial use of American-type cheese has been recovering in recent months. Overall, it was up by just 0.2 percent for the first half of 2014, over a year ago. But it was up 1.7 percent in May and June, following several months of slight declines. Growth in domestic consumption of all other types of cheese has been strong, averaging 2.4 percent for the first half of 2014. Butter has been even stronger, up 4.5 percent during the first six months. Total fluid milk sales have been in fairly steady decline

over the same period, with an average drop of 2.4 percent, as reported by USDA's Agricultural Marketing Service. The monthly domestic commercial disappearance data is from a new report by USDA's Economic Research Service. The report shows growth during first half of the year in domestic commercial disappearance of milk in all products, averaging 1.7 percent measured on a milkfat basis. Measured on a skim solids basis, however, commercial disappearance of milk declined by half a percent.

Domestic Commercial Disappearance	Jan–Jun 2014	Jan–Jun 2013	2013–2014 Change	Percent Change
	(million pounds)			
Total Fluid Milk Products	25,011	25,625	-614	-2.4%
Butter	820	784	36	4.5%
American-type Cheese	2,077	2,074	3	0.2%
All Other Cheese	3,179	3,103	75	2.4%
Nonfat Dry Milk / Skim Milk Powders	450	528	-78	-14.9%
All Products (milk equiv., milkfat basis)	95,602	94,018	1,584	1.7%
All Products (milk equiv., skim solids basis)	83,649	84,063	-414	-0.5%

U.S. Dairy Trade

Census Bureau data shows the pace of U.S. dairy export growth is slowing from its torrid pace earlier in the year. For the first seven months of 2014, the United States exported an average of 16.4 percent of total milk solids production, 1.3 percent more than the same period in 2013. Exports of most individual dairy products are up strongly and were still growing year-over-year in recent months. But butter exports have dropped significantly over the past three months. Robust domestic demand, coupled with stagnant production, has reduced butter inventories well below normal seasonal levels and significantly reduced the supply of butter available for export. U.S. butter exports accounted for 9.4 percent of domestic production from January through July of this year. Export shipments of butter that received assistance from the Cooperatives Working Together program

represented 43 percent of all U.S. butter exports for the same period. CWT-assisted shipments also accounted for 55 percent of U.S. American-type cheese exports. Coupled with high domestic demand for butter and cheese, this is continuing to provide U.S. producers with considerable protection from slumping global prices.

U.S. milk solids imports have been steady as a percentage of production, with declines in the major dairy protein products – that is, casein and milk protein concentrate – balanced by growth in milkfat imports, including butter.

Milk Production

The United States produced 3.9 percent more milk in July 2014 than the same month in 2013. This was a big jump from the

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U.S. Dairy Exports	Jan–Jul 2014	Jan–Jul 2013	2013–2014 Change	Percent Change
		(metric tons)		
Butter	47,886	39,226	8,660	22%
Anhydrous Milk Fat/Butteroil	8,844	1,683	7,161	425%
Cheddar Cheese	54,340	35,193	19,148	54%
American-type Cheese	60,562	40,055	20,508	51%
Total Cheese	231,197	175,875	55,322	31%
Nonfat Dry Milk/Skim Milk Powder	352,962	317,535	35,428	11%
Whole Milk Powder	36,195	17,787	18,408	103%
Dry Whey	221,127	211,079	10,048	5%
Whey Protein Concentrate/Isolate	64,085	68,363	-4,278	-6%
Lactose	198,528	212,243	-13,714	-6%
Percent of Milk Solids Exported	16.4%	15.1%	1.3%	9%
U.S. Dairy Imports	Jan–Jul 2014	Jan–Jul 2013	2013–2014 Change	Percent Change
		(metric tons)		
Butter	4,680	2,827	1,853	66%
Cheese	81,873	79,718	2,156	3%
Nonfat Dry Milk/Skim Milk Powder	1,313	836	477	57%
Casein	48,799	52,516	-3,717	-7%
MPC (all protein levels)	25,376	31,126	-5,750	-18%
Percent of Milk Solids Imported	2.9%	3.0%	0.0%	-1%

Milk Production *from page 2*

2.2 percent year-over-year growth just one month earlier. The change was due almost entirely to a corresponding jump in milk production per cow. U.S. milk cows were up only 0.4 percent over a year ago in July, compared with 0.3 percent growth in June. Replacement milking cows are in tight supply, and dairy farmers and their bankers seem cautious about expanding after the relatively low milk-price-over-feed-cost margins of the recent past. However, this year's excellent margins are fueling a gradual production buildup, which is now accelerating on the productivity side.

Dairy Product Production

U.S. production of all cheese was 2.7 percent higher during the first seven months of 2014, roughly matching growth in domestic consumption. However, the pace of that growth has been accelerating in recent months, reaching seven percent year-over-year in July, compared with 3.6 percent for June. This jump appears to mirror the increase in total milk production, which is outpacing recent gains in commercial cheese use. But for the moment, double-digit export growth is helping to keep the supply-demand balance tight for cheese, generating a second

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Milk & Dairy Products Production	Jan–Jul 2014	Jan–Jul 2013	2013–2014 Change	Percent Change
Milk Production				
Cows (1000 head)	9,240	9,239 *	1	0.0%
Per Cow (pounds)	13,135	12,916 *	219	1.7%
Total Milk (million pounds)	121,363	119,330	2,033	1.7%
Dairy Products Production				
Cheese		(million pounds)		
American Types	2,622	2,582	40	1.6%
Cheddar	1,918	1,883	35	1.8%
Italian Types	2,865	2,744	121	4.4%
Mozzarella	2,278	2,139	139	6.5%
Total Cheese	6,589	6,413	176	2.7%
Butter	1,119	1,146	-28	-2.4%
Dry Milk Products				
Nonfat Dry Milk	1,079	985	94	9.5%
Skim Milk Powder	323	345	-22	-6%
Dry Whey	515	583	-68	-12%
Whey Protein Concentrate	315	283	31	11%
Dairy Product Inventories	Jul 2014	Jun 2014	Jul 2013	Percent Change 2013–2014
		(million pounds)		
Butter	170	186	296	-42%
American Cheese	660	655	702	-6%
Other Cheese	395	400	444	-11%
Nonfat Dry Milk	250	229	206	21%
*NMPF estimates				

Dairy Product Production *from page 3*

price peak for cheese and milk during the late summer and early fall. Changes in butter production have not kept pace with demand, generating a return to record high prices. Of the major product categories, nonfat dry milk showed the greatest increase in production, 9.5 percent over the first seven months of 2014. Coupled with declining domestic consumption and slowing exports, this is pushing nonfat dry milk prices down.

Dairy Product Inventories

The slackening supply-demand situation for nonfat dry milk and skim milk powders is resulting in growing stocks of nonfat dry milk. But stocks are down for cheese and butter due to continuing tight conditions in those markets.

Milk and Dairy Product Prices

In August, average wholesale butter prices reported by USDA's Agricultural Marketing Service reached \$2.52 per pound, their highest level since at least 2000 and \$1.10 a pound higher than during August 2013. Cheddar cheese and dry whey prices were also up significantly over a year ago, while nonfat dry milk prices were about the same.

These changes in dairy product prices are generating corresponding movements in federal order milk prices. The Class I mover, Class III and even Class IV prices were all higher in August than July, and were also at least \$4 per hundredweight higher than their levels in August 2013. The average all-milk price moved

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Dairy Industry Prices	Aug 2014	Jul 2014	Aug 2013	2013–2014 Change
AMS Commodity Prices		(per pound)		
Butter	\$2.5206	\$2.3473	\$1.4187	\$1.1019
Cheese	\$2.1074	\$2.0482	\$1.7731	\$0.3343
Nonfat Dry Milk	\$1.7887	\$1.8617	\$1.7706	\$0.0181
Dry Whey	\$0.6880	\$0.6890	\$0.5778	\$0.1102
Producer Prices		(per hundredweight)		
Class I Mover	\$23.87	\$23.02	\$18.88	\$4.99
Class III	\$22.25	\$21.60	\$17.91	\$4.34
Class IV	\$23.89	\$23.78	\$19.07	\$4.82
All Milk	\$23.70	\$23.30	\$19.60	\$4.10
Feed Prices				
Corn (per bushel)	\$3.70	\$4.05	\$6.21	-\$2.51
Soybean Meal (per ton)	\$490	\$451	\$465	\$25
Alfalfa Hay (per ton)	\$209	\$216	\$199	\$10
2014 Farm Bill Feed Cost (per cwt.)	\$10.44	\$10.62	\$12.81	-\$2.37
2014 Farm Bill Margin (per cwt.)	\$13.26	\$12.68	\$6.79	\$6.47
Retail Dairy Product Prices	Jul 2014	Jun 2014	Jul 2013	2013–2014 Change
Fluid Whole Milk (per gallon)	\$3.645	\$3.626	\$3.449	\$0.196
Cheddar Cheese (per pound)	\$5.560	\$5.560	\$5.434	\$0.126

Milk and Dairy Product Prices *from page 4*

higher over the last two months after dropping in the previous two months from its record level in April.

Retail prices for whole milk in major U.S. cities, reported by the Bureau of Labor Statistics, averaged two cents a gallon more in July than a month earlier, while cheddar cheese prices were unchanged. Both prices remain above year-earlier levels.

Feed Prices

Corn prices were down again in August, as were alfalfa hay prices. But soybean meal prices rose following a large monthly drop in July. The net effect of these changes was to drop the August feed cost formula calculation under the 2014 farm bill by \$0.18 per hundredweight compared with July and by \$2.37 per hundredweight compared with August 2013.

The farm bill monthly milk price-over-feed-cost margin calculation for August was \$0.58 per hundredweight higher than a month earlier, and \$6.47 per hundredweight higher than a year ago. USDA regulations implementing the new Margin Protection Program were released at the end of August. Producers have until November 28 to sign up for margin protection coverage for the last four months of 2014 and for all of 2015. USDA will compute MPP's milk price-over-feed-cost margin formula as averages 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 monthly.

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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.