

## Overview

*Many key milk and dairy product prices continued to set records in April. And while the dairy futures markets indicate that prices will soon ease back from these levels, the futures have been moderating their assessment of how far prices will adjust downward. Futures markets currently indicate that milk prices will plateau for much of the second half of 2014 at about the highest level they had ever reached prior to this year. This extraordinary price performance is the result of markets continuing to show increased dairy product sales in the domestic market, strong export shipments, moderate to little increased milk and dairy product production and significant drawdown of domestic dairy product inventories. Markets had previously anticipated swifter and sharper reactions, on both the demand and supply sides. This has not occurred as expected, giving longer legs to the current dairy price situation and outlook.*

*A concurrent general decline in the cost of dairy feed is resulting in very favorable milk price margins over feed costs. Current milk price-feed cost margins, as measured by the 2014 farm bill margin formula, will not reach record levels this year, but they will generally rival the only other extended episode of extraordinarily high margins, when this indicator established its current record, in the second half of 2007.*

## Commercial Use of Dairy Products

Total estimated U.S. fluid milk product sales, as reported by USDA's Agricultural Marketing Service (AMS), fell during the first two months of 2014 by more than one percent over the first two months of 2013. January fluid sales were down by less than half a percent, but February sales returned to a more typical pattern of recent years, falling by around two percent. Commercial

disappearance of other dairy products, as determined by USDA's Economic Research Service (ERS), showed generally strong gains during the first two months this year. Butter disappearance was up almost seven percent over a year ago, driven by higher sales in both the domestic and export markets. Both American and other cheese categories showed strong growth, while commercial use of milk in all products, in both domestic and export channels,

*continued on page 2*

Commercial Disappearance	Jan-Feb 2014	Jan-Feb 2013	2013–2014 Change	Percent Change
	(million pounds)			
Total Fluid Milk Products	8,591	8,695	-104	-1.2%
Butter	299	280	19	6.8%
American-type Cheese	716	702	14	2.0%
All Other Cheese	1,131	1,091	40	3.7%
Nonfat Dry Milk	232	238	-6	-2.5%
All Products (milk equiv., milkfat basis)	32,532	31,155	1,377	4.4%

## Commercial Use of Dairy Products *from page 1*

was up almost four and a half percent over a year earlier, on a milkfat basis. Nonfat dry milk was the only major manufactured dairy product to show lower use than a year ago, likely reflecting the strong need for milk solids in other dairy products.

## U.S. Dairy Trade

U.S. dairy exports were well above year-ago levels in all product categories reported below. In general, export sales in the already high-volume nonfat dry product categories of skim powders, whey products and lactose were up by roughly 10 to 20 percent, while cheese and butter exports were up by considerably larger percentages. Exports of two products that are important internationally but still small for the United States, namely anhydrous milk fat (AMF) and whole milk powder (WMP), are up even more. (One cautionary note: U.S. export statistics

generally over-count WMP exports by misclassifying some nonfat dry milk and skim milk powder shipments as WMP. This has been a situation of long standing and often results in volumes of net exports reported for WMP that exceed USDA-reported quantities produced.)

Overall, during the first three months of 2014, the United States exported almost three percent more of its domestic milk solids production than it did during the first quarter of 2013. Total exports were particularly strong in March, equivalent to 17.7 percent of domestic milk solids production and a record for this monthly measure. Dairy exports during March of the three previous years were all between 13.4 percent and 13.5 percent of domestic milk solids production. The current surge in U.S. dairy exports is at least partly a residual of the very high volume

*continued on page 3*

U.S. Dairy Exports	Jan-Mar 2014	Jan-Mar 2013	2013–2014 Change	Percent Change
	(metric tons)			
Butter	26,519	14,221	12,299	86%
Anhydrous Milk Fat/Butteroil	4,897	371	4,526	1221%
Cheddar Cheese	25,837	14,396	11,441	79%
American-type Cheese	28,511	17,115	11,396	67%
Total Cheese	99,546	70,024	29,522	42%
Nonfat Dry Milk/Skim Milk Powder	126,549	106,111	20,439	19%
Whole Milk Powder	14,212	4,232	9,980	236%
Dry Whey	91,669	81,918	9,751	12%
Whey Protein Concentrate/Isolate	33,542	30,277	3,265	11%
Lactose	91,970	84,982	6,988	8%
Percent of Milk Solids Exported	15.9%	13.0%	2.9%	22%
U.S. Dairy Imports	Jan-Mar 2014	Jan-Mar 2013	2013–2014 Change	Percent Change
	(metric tons)			
Butter	1,567	1,268	299	24%
Cheese	32,669	33,344	-675	-2%
Nonfat Dry Milk/Skim Milk Powder	493	37	456	1234%
Casein	25,174	25,630	-456	-2%
MPC (all protein levels)	12,149	18,047	-5,899	-33%
Percent of Milk Solids Imported	3.0%	3.3%	-0.3%	-8%

## U.S. Dairy Trade from page 2

of export sales contracted later in 2013 and earlier this year. This pace has slacked off lately, with China in particular stepping back from making new commitments, causing world prices to fall over the past several weeks from their very high levels of a few months ago. However, ongoing shipments under those earlier contracts are continuing to send record volumes of U.S. milk solids out of the country and will likely continue to do so for a few more months.

U.S. dairy imports were down from the previous year during the first quarter of 2014. Among the major product categories,

cheese and casein imports were flat while milk protein concentrate (MPC) was down by a third.

## Milk Production

U.S. milk production during the first quarter of 2014 doesn't look much different than for the first two months of the year: cow numbers flat, production per cow and total production up about one percent, compared with the same periods a year earlier. Continued high milk-feed cost margins still show scant signs of generating expansion of the nation's milking cow herd, or

*continued on page 4*

Milk & Dairy Products Production	Jan-Mar 2014	Jan-Mar 2013	2013–2014 Change	Percent Change
<b>Milk Production</b>				
Cows (1000 head)	9,214	9,213 *	1	0.0%
Per Cow (pounds)	5,541	5,486 *	55	1.0%
Total Milk (million pounds)	51,056	50,545	511	1.0%
<b>Dairy Products Production</b>				
<b>Cheese</b>		(million pounds)		
American Types	1,100	1,109	-9	-0.8%
Cheddar	803	817	-14	-1.7%
Italian Types	1,222	1,173	49	4.1%
Mozzarella	968	913	55	6.0%
Total Cheese	2,768	2,734	34	1.2%
Butter	511	543	-31	-5.8%
<b>Dry Milk Products</b>				
Nonfat Dry Milk	442	427	15	3.5%
Skim Milk Powder	137	139	-2	-1%
Dry Whey	198	259	-61	-24%
Whey Protein Concentrate	135	118	18	15%
<b>Dairy Product Inventories</b>	<b>March 2014</b>	<b>February 2014</b>	<b>March 2013</b>	<b>Percent Change 2013–2014</b>
		(million pounds)		
Butter	178	163	255	-30%
American Cheese	631	629	685	-8%
Other Cheese	380	381	421	-10%
Nonfat Dry Milk	214	181	218	-2%
*NMPF estimates				

## Milk Production *from page 3*

even boosting average production per cow back up to, and beyond, its 1.44 percent average annual growth rate of the past five years. USDA's National Agricultural Statistics Service (NASS) suspended reporting of monthly production per cow and dairy cow numbers from March through June 2013 due to sequestration, so year-over-year comparisons for these two important data items will be estimated for much of the year.

## Dairy Product Production

Dairy product production in the United States was generally below a year ago during the first quarter of 2014, reflecting the continued slow growth in U.S. milk production. Italian-type cheese was the major exception among the product categories reported in the table on page 3, moving total cheese production up by more than one percent over a year ago. Combined, nonfat

dry milk and skim milk powder production were also up, while dry whey and WPC combined production was down.

## Dairy Product Inventories

Strong growth in domestic and export sales of U.S. dairy products, modest growth in U.S. milk and dairy product production and declining U.S. dairy imports have only one way to balance out, namely, a substantial drawdown of domestic dairy product inventories. Stocks of cheese in March were off by eight to 10 percent compared with March 2013, while butter stocks were down 30 percent over the year. Nonfat dry milk stocks were flat from a year ago, as increased exports basically balanced out the increased production and reduced total commercial use. Butter stocks, in particular, have changed dramatically over the past year. Monthly U.S. butter stocks follow a clear seasonal pattern

*continued on page 5*

Dairy Industry Prices	April 2014	March 2014	April 2013	2013–2014 Change
<b>AMS Commodity Prices</b>		(per pound)		
Butter	\$1.9227	\$1.8562	\$1.6766	\$0.2461
Cheese	\$2.3547	\$2.2689	\$1.7310	\$0.6237
Nonfat Dry Milk	\$2.0191	\$2.0897	\$1.5312	\$0.4879
Dry Whey	\$0.6774	\$0.6554	\$0.5741	\$0.1033
<b>Producer Prices</b>		(per hundredweight)		
Class I Mover	\$23.65	\$23.64	\$17.66	\$5.99
Class III	\$24.31	\$23.33	\$17.59	\$6.72
Class IV	\$23.34	\$23.66	\$18.10	\$5.24
All Milk	\$25.50	\$25.20	\$19.50	\$6.00
<b>Feed Prices</b>				
Corn (per bushel)	\$4.73	\$4.51	\$6.97	-\$2.24
Soybean Meal (per ton)	\$514	\$498	\$422	\$92
Alfalfa Hay (per ton)	\$206	\$191	\$213	-\$7
2014 Farm Bill Feed Cost (per cwt.)	\$11.67	\$11.11	\$13.50	-\$1.82
2014 Farm Bill Margin (per cwt.)	\$13.83	\$14.09	\$6.00	\$7.82
<b>Retail Dairy Product Prices</b>	<b>April 2014</b>	<b>March 2014</b>	<b>April 2013</b>	<b>2013–2014 Change</b>
Fuid Milk (per gallon)	\$3.669	\$3.561	\$3.431	\$0.238
Cheddar Cheese (per pound)	\$5.579	\$5.543	\$5.736	-\$0.157

## Dairy Product Inventories from page 4

that is best evaluated by comparison to the average trend level of total monthly commercial use. During the months of March – June, monthly butter inventories typically represent 135 percent – 145 percent of the month's average total commercial use, both domestic and export. During April – June 2013, that ratio was about 200 percent, as all regions of the country abounded in surplus cream, which was churned into butter for storage. In March 2014, the ratio had dropped almost by half, to 110 percent, well below typical levels for the spring months.

## Milk and Dairy Product Prices

Milk and dairy product prices continued to set monthly records in April. The numbers highlighted in yellow in the table on page 4 are all records for any individual month. The Federal Order Class II price for April and the Class I mover for May, already announced, are also both records. The April U.S. average all-milk price was the fourth consecutive record level for this key price indicator and is \$3.40 per cwt. above the record high level prior to 2014. April milk prices generally ranged from \$5.00 to \$7.00 per cwt. above their respective levels a year ago. These high prices were the net results of the market trends discussed above: good to excellent overall growth in sales in the domestic and export markets, modest to no increases in domestic milk and dairy product production, and significant drawdown of domestic dairy product stocks.

Retail prices for the key dairy products reported by the Bureau of Labor Statistics (BLS) for March show higher, but not record, retail prices for fluid milk in the major U.S. cities, but lower retail prices for cheddar cheese, compared with March 2013.

## Feed prices

The rally in corn prices of the past several months appears to have topped out as market speculation moves from traditional worry about plantings to focusing on the coming corn harvest. However, generally lower prices compared with last year have sparked increased use, falling estimates for ending stocks and acreage switching from corn to soybeans. The major upward movement in soybean meal prices over the past year or more seems also to have paused, at least for the moment, but the April Central Illinois SBM price reported by USDA/AMS was the fifth-highest ever for a single month. Alfalfa hay prices reported by USDA/NASS have been increasing in recent months but are still below a year ago. Using preliminary NASS prices for April, the 2014 farm bill feed cost formula calculates dairy feed costs at not quite \$2 per cwt. below the calculation for April 2013.

The \$6.00 per cwt. higher preliminary all-milk price for April, combined with the \$1.82 per cwt. lower preliminary farm bill feed cost calculation for April, yields a farm bill margin calculation for the month \$7.82 per cwt. above its level in April 2013. For the dairy Margin Protection Program (MPP) established in the new farm bill, the margin formula will be determined by USDA as averages over two months for the six consecutive two-month periods of January-February, March-April, May-June, July-August, September-October, and November-December. For the bill's Dairy Product Donation Program (DPDP), the margin will be determined on a monthly basis. Final regulations for the MPP program are expected from USDA by the beginning of September.

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