

Overview

Recent reports suggest milk production is outstripping manufacturing capacity in many areas, leading farmers to dump milk or designate it as animal feed.

USDA's June milk production report supports these claims, showing strong milk production growth in Central and Eastern milk-producing states. Despite ample milk supplies in these regions, however, milk and dairy product production are not yet showing signs of outpacing demand growth nationally. In July, USDA projected 2015 U.S. milk production would be 1.4 percent more than 2014, a slight increase over its 1.3 percent growth forecast a month earlier. U.S. average milk prices have increased modestly in recent months. But increases in livestock feed prices are making payments under the Margin Protection Program likely for the May-June period at the highest \$8 coverage level.

Commercial Use of Dairy Products

Fluid milk sales were 1.7 percent less during February – April compared with the same period a year earlier. Whole milk, conventional and organic sales, rose 3.9 percent during the same months, while use of milkfat in all fluid products was down just 0.3 percent. Domestic commercial use of butter was down two percent, but use of milk in all products, measured by milkfat, rose 3.3 percent. Use of American-type cheese grew by more than seven percent, considerably more than growth of all other cheese. Disappearance of all cheese was up by 3.3 percent in the domestic market and by 2.1 percent for domestic and export together. Use of milk in all products grew by 2.1 percent on a total milk solids basis, outpacing growth of U.S. milk production.

U.S. Dairy Trade

U.S. dairy exports showed much the same pattern for March-May as they have for recent three-month periods, namely, continued steep drops from a year ago for butter and cheese but growth in most of the nonfat dry product categories. The month of May saw the second highest ever U.S. export volumes of nonfat dry milk and skim milk powder behind June 2014. Exports of nonfat dry milk, skim milk powder, whey, whey protein concentrate and lactose have remained relatively stable throughout the recent boom-and-bust cycle in world dairy markets. This is because domestic and world prices for these products have been closely aligned, even as both declined significantly. By contrast, exports of cheese and milkfat-containing products, including whole

continued on page 2

Domestic Commercial Disappearance	Feb–Apr 2015	Feb–Apr 2014	2013–2014 Change	Percent Change
	(million pounds)			
Total Fluid Milk Products	12,275	12,483	-208	-1.7%
Butter	397	405	-8	-2.0%
American-type Cheese	1,089	1,016	73	7.1%
All Other Cheese	1,594	1,580	14	0.9%
Nonfat Dry Milk/Skim Milk Powders	284	198	86	44%
All Products (milk equiv., milkfat basis)	48,238	46,691	1,547	3.3%
All Products (milk equiv., skim solids basis)	42,536	40,742	1,794	4.4%

U.S. Dairy Trade *from page 1*

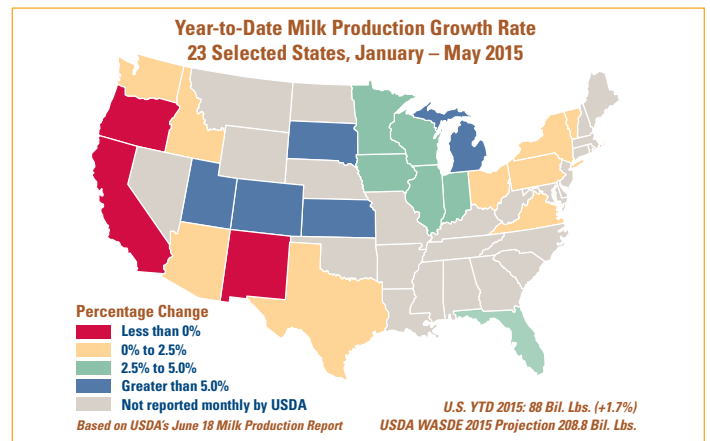
milk powder, have dropped as weakening world markets, tempered by relatively strong domestic demand, have created growing differences in domestic and world prices.

The same basic forces have affected dairy imports. Higher U.S. prices have attracted growing imports of butter and cheese, while smaller price differences have generally resulted in smaller changes in nonfat dry product imports. Milk protein concentrate has recently been an exception, with imports growing during the past few months.

Milk Production

U.S. milk production increased at an annual rate of 1.5 percent during March – May, with May production growing by just 1.4 percent from May of last year, based on preliminary USDA estimates. Total cow numbers were up by 0.8 percent for the period, including

increases of 0.9, 0.8 and 0.6 percent, respectively, for March, April and May. Milk production was either down or grew at a diminishing rate over the January – May period in all but eight of the 23 monthly reporting states, representing about one third of total U.S. milk production. But milk production in these eight states grew at an annual rate of 4.2 percent during May.



continued on page 3

U.S. Dairy Exports	Mar–May 2015	Mar–May 2014	2014–2015 Change	Percent Change
		(metric tons)		
Butter	5,166	23,044	-17,878	-78%
Anhydrous Milk Fat/Butteroil	1,241	3,422	-2,181	-64%
Cheddar Cheese	12,133	25,295	-13,163	-52%
American-type Cheese	12,758	28,290	-15,531	-55%
Total Cheese	95,317	101,701	-6,384	-6%
Nonfat Dry Milk/Skim Milk Powder	173,044	165,125	7,919	5%
Whole Milk Powder	10,641	15,062	-4,421	-29%
Dry Whey	93,651	102,324	-8,673	-8%
Whey Protein Concentrate/Isolate	40,407	36,345	4,062	11%
Lactose	96,719	89,678	7,041	8%
Percent of Milk Solids Exported	16.0%	17.1%	-1.1%	-6%

U.S. Dairy Imports	Mar–May 2015	Mar–May 2014	2014–2015 Change	Percent Change
		(metric tons)		
Butter	3,905	2,211	1,694	77%
Cheese	45,035	35,067	9,969	28%
Nonfat Dry Milk/Skim Milk Powder	103	391	-288	-74%
MPC (all protein levels)	16,917	11,731	5,186	44%
Casein	19,702	21,657	-1,956	-9%
Percent of Milk Solids Imported	3.4%	2.9%	0.5%	19%

Milk Production *from page 2*

Together, these factors indicate that total U.S. milk production is not yet showing signs of serious acceleration, relative to demand growth. However, production is outstripping manufacturing capacity particularly in the Central and Eastern states. In those areas growth, coupled with declining fluid sales, is exposing an increasingly inadequate level of dairy manufacturing infrastructure. That has led to media reports of milk dumping.

Dairy Product Production

Production of the major U.S. dairy products, including all major cheese categories, showed mostly moderate growth during March – May. Combined production of nonfat dry milk/skim

milk powder and whey/whey protein concentrate were up just 1.2 percent and 2.2 percent, respectively. Butter production dropped marginally, as increased use of milkfat in other products continues to compete strongly with butter churns for tight cream supplies.

Dairy Product Inventories

By the end of May, American-type cheese in cold storage was just over one percent above a year earlier. Meanwhile, stocks of nonfat dry milk reached a record level at 261 million pounds at the end of May. Stocks of other cheese are up by approximately nine percent, as production continues to run slightly ahead of commercial use. Growing butter inventories primarily reflect

continued on page 4

Milk & Dairy Products Production	Mar–May 2015	Mar–May 2014	2014–2015 Change	Percent Change
Milk Production				
Cows (1000 head)	9,308	9,238	70	0.8%
Per Cow (pounds)	5,825	5,781	44	0.8%
Total Milk (million pounds)	54,218	53,403	815	1.5%
Dairy Products Production	(million pounds)			
Cheese				
American Types	1,182	1,157	25	2.2%
Cheddar	854	853	1	0.1%
Italian Types	1,277	1,259	19	1.5%
Mozzarella	1,005	998	7	0.7%
Total Cheese	2,955	2,902	52	1.8%
Butter	498	501	-3	-0.5%
Dry Milk Products				
Nonfat Dry Milk	540	490	50	10%
Skim Milk Powder	111	153	-42	-28%
Dry Whey	243	226	17	8%
Whey Protein Concentrate	128	137	-9	-7%

Dairy Product Inventories	May 2015	Apr 2015	May 2014	2014–2015 Change
	(million pounds)			
Butter	264	232	209	26%
American Cheese	664	644	656	1.2%
Other Cheese	445	442	409	8.8%
Nonfat Dry Milk	261	248	221	18%

Dairy Product Inventories *from page 3*

continued deterioration of the U.S. trade balance for butter, since changes in domestic production and domestic use remain roughly similar.

Dairy Product and Federal Order Class Prices

Agricultural Marketing Service monthly survey prices for butter and cheese rose in June compared with May, while nonfat dry milk and dry whey prices again slipped slightly. This reflected a continued stable supply-demand balance in the domestic market for milkfat and cheese. This stands in contrast with continued

weakness in world markets, which adversely affects nonfat dry dairy product prices. These price movements are reflected in the Federal Order minimum prices. The Class III price and the Class I mover, which is driven by the heavily cheese-based Class III skim price, both rose in June from a month earlier, while the Class IV price was essentially unchanged. Federal Order price changes imply that the June all-milk price, to be reported at the end of July, could be up by approximately 30 cents per hundredweight from May.

Milk and Feed Prices

The May all-milk price increased by 20 cents per hundredweight from April. An increase of approximately this amount was

continued on page 5

Dairy Product and Federal Order Prices	Jun 2015	May 2015	Jun 2014	2014–2015 Change
AMS Commodity Prices		(per pound)		
Butter	\$1.907	\$1.873	\$2.187	-\$0.281
Cheese	\$1.722	\$1.656	\$2.036	-\$0.314
Nonfat Dry Milk	\$0.928	\$0.946	\$1.863	-\$0.935
Dry Whey	\$0.425	\$0.445	\$0.679	-\$0.254
Class Prices for Milk		(per hundredweight)		
Class I Mover	\$16.14	\$15.83	\$22.86	-\$6.72
Class III	\$16.72	\$16.19	\$21.36	-\$4.64
Class IV	\$13.90	\$13.91	\$23.13	-\$9.23

Milk and Feed Prices	May 2015	Apr 2015	May 2014	2014–2015 Change
Producer Prices				
All Milk (per cwt.)	\$16.70	\$16.50	\$24.20	-\$7.50
Feed Prices				
Corn (per bushel)	\$3.62	\$3.75	\$4.71	-\$1.09
Soybean Meal (per ton)	\$320	\$337	\$519	-\$199
Alfalfa Hay (per ton)	\$192	\$184	\$225	-\$33
2014 Farm Bill Feed Cost (per cwt.)	\$8.87	\$9.02	\$11.95	-\$3.09
2014 Farm Bill Margin (per cwt.)	\$7.83	\$7.48	\$12.25	-\$4.41
Retail Dairy Product Prices				
Fluid Milk (per gallon)	\$3.387	\$3.397	\$3.735	-\$0.348
Cheddar Cheese (per pound)	\$5.312	\$5.384	\$5.586	-\$0.274

Milk and Feed Prices *from page 4*

foreshadowed by changes in Federal Order prices from May to June. Continued decline of corn and soybean meal prices offset increased hay prices from April to May, resulting in a 15-cent-per-hundredweight drop in the monthly farm bill feed cost calculation for May. That produced a 35-cent increase in the May monthly margin calculation under the Margin Protection Program. USDA computes the bimonthly MPP margins, on which margin protection

payments are made, as simple averages of the monthly margins. Accordingly, payments for the May-June period will be made at the \$8 per hundredweight protection level if the June margin falls below \$8.17. Futures prices indicate that payments are likely at the \$8 coverage level due to increases in grain prices.

Average retail prices reported by the Bureau of Labor Statistics show slight reductions from April to May for both whole milk and cheddar cheese.

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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.