

Overview

The dairy industry is moving further into the price correction that will define the first half of 2015. Chicago Mercantile Exchange futures markets indicate that U.S. average milk prices will hit the year's lowest levels in March and April, while milk-price-over-feed cost margins will bottom out in April and May. Conflicting signals are coming from both the domestic and international dairy markets as to how low these respective bottoms will be. But some signs, including the still-moderate domestic stock situation for butter and cheese, a temperate outlook for U.S. milk production growth and the futures themselves, indicate the correction may not be as severe as it appeared a few months earlier.

Commercial Use of Dairy Products

Fluid milk sales reported by USDA's Agricultural Marketing Service fell 3.1 percent from year-ago levels during September – November 2014. That was approximately the same rate that fluid sales declined from January through November 2014, compared with a year earlier. For the three-month period, domestic commercial disappearance of butter fell almost eight percent from a year earlier, while domestic disappearance of cheese rose 1.4 percent. Disappearance of milk in all products grew 2.4 percent, somewhat less than the growth of total milk

production during the same period. With exports behind last year's levels, this imbalance will continue to pressure milk and dairy product prices.

U.S. Dairy Trade

U.S. dairy export volumes during the fourth quarter of 2014 continued to show declines relative to year-earlier levels for most dairy products. The industry is moving further through a challenging period, a year after a very substantial dairy import buying spree by China and other dairy-deficit countries. Butter

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Domestic Commercial Disappearance	Sept–Nov 2014	Sept–Nov 2013	2013–2014 Change	Percent Change
	(million pounds)			
Total Fluid Milk Products	12,716	13,120	-404	-3.1%
Butter	468	508	-40	-7.8%
American-type Cheese	1,102	1,085	18	1.6%
All Other Cheese	1,710	1,690	20	1.2%
Nonfat Dry Milk/Skim Milk Powders	292	201	92	45.7%
All Products (milk equiv., milkfat basis)	50,492	49,472	1,021	2.1%
All Products (milk equiv., skim solids basis)	43,010	41,888	1,122	2.7%

U.S. Dairy Trade *from page 1*

exports were down more than three-quarters, while anhydrous milk fat and American-type and cheddar cheese were each off by about one-third. However, total cheese exports were down less than 10 percent from fourth-quarter 2013 levels, and whole milk powder, whey products and lactose were beginning to show gains. Total U.S. milk solids exported during the fourth quarter were down 1.5 percentage points. During all of 2014, the United States exported 15.4 percent of its total milk solids production, down only slightly from the record 15.5 percent exported during in 2013.

Dairy imports during 2014's fourth quarter were up strongly over a year earlier for butter, cheese and nonfat milk powders. But imports were down for the protein products milk protein concentrate and casein. The United States imported the equivalent of 3.6 percent of total milk solids during the fourth

quarter, up about one-third of a percentage point from a year ago. During all of 2014, U.S. dairy imports were equivalent to 3.2 percent of domestic milk solids production, up from three percent in 2013.

Milk Production

Department of Agriculture data show the growth in U.S. milk cows accelerating, while the growth in milk production is slowing. For the October – December quarter, total cow numbers were 0.9 percent higher than the fourth quarter of 2013, while milk production was 3.4 percent higher. In December 2014, cow numbers were up 1.1 percent over a year earlier. The monthly year-over-year herd growth rate has increased steadily since May 2014. By contrast, monthly milk production growth has dropped from 4.2 percent in September to 3.1 percent in December. That mirrors the reductions in growth of production per cow.

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U.S. Dairy Exports	Oct–Dec 2014	Oct–Dec 2013	2013–2014 Change	Percent Change
		(metric tons)		
Butter	5,671	25,465	-19,794	-78%
Anhydrous Milk Fat/Butteroil	2,868	4,127	-1,260	-31%
Cheddar Cheese	10,674	16,214	-5,539	-34%
American-type Cheese	11,639	18,573	-6,935	-37%
Total Cheese	78,330	86,497	-8,167	-9%
Nonfat Dry Milk/Skim Milk Powder	115,459	141,256	-25,797	-18%
Whole Milk Powder	11,661	10,741	921	9%
Dry Whey	90,031	84,862	5,169	6%
Whey Protein Concentrate/Isolate	32,674	33,629	-955	-3%
Lactose	87,765	72,556	15,210	21%
Percent of Milk Solids Exported	14.0%	15.5%	-1.5%	-10%
U.S. Dairy Imports	Oct–Dec 2014	Oct–Dec 2013	2013–2014 Change	Percent Change
		(metric tons)		
Butter	4,042	1,597	2,445	153%
Cheese	55,941	42,503	13,438	32%
Nonfat Dry Milk/Skim Milk Powder	556	264	292	111%
MPC (all protein levels)	14,389	17,604	-3,216	-18%
Casein	16,134	20,979	-4,845	-23%
Percent of Milk Solids Imported	3.6%	3.3%	0.3%	10%

Milk Production *from page 2*

Also affecting milk production is the growing rate of dairy cow slaughter, both on a year-over-year basis and as a percentage of dairy and beef cow slaughter. Falling milk prices and high cull cow prices are raising the value of marginal milk cows for meat versus milk production. Regionally, milk production during the fourth quarter of 2014 was up the most in the Southwest, or 4.7 percent above a year earlier. Also higher than the national average increase were the Great Plains, up 3.9 percent, and the Upper Midwest, up 3.6 percent. Fourth-quarter milk production grew at the national average rate of 3.4 percent in the Northeast but at a lower rate in the Southeast, West and Corn Belt.

Dairy Product Production

Total U.S. cheese production grew at a slower rate than total milk production during the fourth quarter of 2014, with Italian-type cheese considerably outpacing growth of American types. Growth in butter production was well below the pace of increased milk and milkfat production. Combined whey and whey protein concentrate production declined slightly, well below the growth in both milk and total cheese production. Among the major dairy product categories, only total dry skim milk products outpaced growth in milk and skim milk solids production. Sales of these products continue to shift from the

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Milk & Dairy Products Production	Oct–Dec 2014	Oct–Dec 2013	2013–2014 Change	Percent Change
Milk Production				
Cows (1000 head)	9,284	9,200	83	0.9%
Per Cow (pounds)	5,487	5,355	132	2.5%
Total Milk (million pounds)	50,939	49,268	1,671	3.4%
Dairy Products Production				
		(million pounds)		
Cheese				
American Types	1,143	1,109	34	3.1%
Cheddar	811	795	16	2.0%
Italian Types	1,284	1,225	59	4.8%
Mozzarella	1,011	962	49	5.1%
Total Cheese	2,937	2,857	80	2.8%
Butter	453	450	3	0.7%
Dry Milk Products				
Nonfat Dry Milk	450	313	137	44%
Skim Milk Powder	117	177	-60	-34%
Dry Whey	216	230	-14	-6%
Whey Protein Concentrate	140	135	4	3%
Dairy Product Inventories	Dec 2014	Nov 2014	Dec 2013	Percent Change 2013–2014
		(million pounds)		
Butter	99	101	112	-12%
American Cheese	624	635	618	1%
Other Cheese	389	381	391	-1%
Nonfat Dry Milk	247	222	133	86%

Dairy Product Production *from page 3*

export to the domestic market, as evidenced by the continued decline in skim milk powder production and the rapid growth of nonfat dry milk.

Dairy Product Inventories

In December, U.S. stocks of butter fell below 100 million pounds for the first time in more than three years. Month-ending butter inventories have fallen steadily from a high of 322 million pounds in May 2013. American-type cheese stocks have been below year-ago levels for much of the last year, along with inventories of all natural cheese. American-type cheese stocks

ended the year approximately one percent higher than the end of 2013. Lack of inventory buildup to date for these key milk price-determining dairy products is helping to keep U.S. milk prices from falling further than they would otherwise fall. By contrast, domestic stocks of nonfat dry milk are approaching a doubling of their levels of a year earlier.

Dairy Product and Federal Order Class Prices

Starting this year, USDA's National Agricultural Statistics Service has discontinued reporting preliminary farm product prices. This change will affect this publication's reporting of the

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Dairy Product and Federal Order Prices	Jan 2015	Dec 2014	Jan 2014	2013–2014 Change
AMS Commodity Prices		(per pound)		
Butter	\$1.563	\$1.905	\$1.648	-\$0.084
Cheese	\$1.581	\$1.736	\$2.084	-\$0.503
Nonfat Dry Milk	\$1.020	\$1.255	\$2.034	-\$1.013
Dry Whey	\$0.588	\$0.587	\$0.603	-\$0.015
Class Prices for Milk		(per hundredweight)		
Class I Mover	\$18.58	\$22.53	\$21.48	-\$2.90
Class III	\$16.18	\$17.82	\$21.15	-\$4.97
Class IV	\$13.23	\$16.70	\$22.29	-\$9.06
Milk and Feed Prices	Dec 2014	Nov 2014	Dec 2013	2013–2014 Change
Producer Prices				
All Milk	\$20.40	\$23.00	\$22.00	-\$1.60
Feed Prices				
Corn (per bushel)	\$3.78	\$3.58	\$4.41	-\$0.63
Soybean Meal (per ton)	\$432	\$441	\$498	-\$67
Alfalfa Hay (per ton)	\$183	\$184	\$186	-\$3
2014 Farm Bill Feed Cost (per cwt.)	\$9.74	\$9.61	\$10.94	-\$1.21
2014 Farm Bill Margin (per cwt.)	\$10.66	\$13.39	\$11.06	-\$0.39
Retail Dairy Product Prices				
Fluid Milk (per gallon)	\$3.820	\$3.858	\$3.501	\$0.319
Cheddar Cheese (per pound)	\$5.438	\$5.419	\$5.386	\$0.052

Dairy Product and Federal Order Class Prices *from page 4*

all-milk price and most of the feed cost components used to calculate the monthly Margin Protection Program feed cost formula and the monthly MPP margin. The MPP feed cost formula and margin will now be reported a month later. The Federal Milk Marketing Order dairy product and milk class prices announced by the Agricultural Marketing Service will not be affected. Although AMS-reported soybean meal prices also are unaffected by the NASS decision, this publication will continue to report them together with the other MPP margin component prices. This change will not affect USDA's reporting of the MPP margin nor any payments under the program. The department always planned to use only revised, final NASS price data for this purpose.

Producer milk prices are heavily influenced by the four dairy product prices that determine the class prices under federal milk marketing orders. And these four prices are exhibiting markedly different patterns as the dairy industry moves further into the price correction that will define the first half of 2015. Butter, cheese and nonfat dry milk prices were all down sharply in January from a month earlier. But, compared with a year earlier, nonfat dry milk prices were down a dollar a pound, cheese was down 50 cents a pound and butter was down scarcely more than eight cents a pound. Dry whey prices are stable versus both a month ago and a year ago, but are down approximately 10 cents a pound from their peak in July. These changes mirror the degrees to which these products are exposed to the drop in world dairy imports and the corresponding erosion in world prices over the past year. The Federal Order class prices for January imply that the January U.S. average all-milk price will

be approximately \$18 per hundredweight when it is announced later this month. This would be down about \$2.50 per hundredweight from December and about \$5.50 from January 2014. But it would be down only approximately \$0.80 per hundredweight from the average of January prices for the three years preceding 2014. During those same three years, feed costs also averaged about \$2.50 higher than they will likely be this month.

Milk and Feed Prices

NASS-revised prices for December show the all-milk price down \$2.60 per hundredweight from the previous month and down \$1.60 per hundredweight from a year earlier. Corn prices rose \$0.20 per bushel post-harvest but remain below a year ago. December soybean meal prices were down approximately \$10 per ton from a month earlier. Alfalfa hay prices are basically unchanged from both a month and a year ago, having run up to \$225 per ton and then back down during 2014. The monthly MPP feed cost rose 13 cents per cwt. from a month earlier in December, due to higher corn prices. Pricier feed coupled with the lower all-milk price pushed the monthly MPP margin down a total of \$2.73 per cwt. from November. The final MPP margin for November-December was \$12.03 per hundredweight, well above the MPP-insurable margin levels. USDA will announce the MPP margin for January-February 2015 in early April.

December retail whole milk prices were down approximately four cents a gallon from their recent high a month earlier, while retail cheddar cheese prices remain below the high levels they reached during spring 2014.

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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.