

Overview

Milk prices in 2015 will be significantly below last year's record level, as last year's tight market conditions continue to reverse themselves. Imports by the major dairy-importing countries are well below levels of a year ago, while milk production is growing in the major dairy-exporting countries. Prices will stay depressed until imports pick up and the international expansion of milk production slows. Feed costs will stay at current moderate levels due to large volumes of stored grain from last year's harvest. The Department of Agriculture reported that more than half of U.S. dairy farms – or 23,000 – have enrolled in the new Margin Protection Program.

Commercial Use of Dairy Products

Fluid milk sales reported by USDA's Agricultural Marketing Service fell six percent last August, pushing the average drop for the three months June – August to almost four percent, compared with the same months a year earlier. For the three months, sales were down in all categories of conventional milk, especially the lower-fat categories. Sales of organic milk, which represented 5.2 percent of total fluid sales for June – August, were up by eight percent over a year earlier. But one percent, skim and flavored organic milk sales were also down. Declining production and exports, coupled with modest changes in stocks, have lowered commercial use of butter in both the domestic and global markets.

Increased production and stocks of nonfat dry milk and skim milk powder, combined with reduced exports, have generated a substantial increase in domestic use of these products. Commercial use of cheese during August – October is virtually unchanged from a year ago. Domestic commercial disappearance of milk in all products is up, both on a milkfat and skim milk solids basis.

U.S. Dairy Trade

In most major product categories, U.S. dairy exports were down substantially from September – November a year ago. The main reason is the end of a surge in import demand from China and other dairy-importing countries. For U.S. exports, this surge

continued on page 2

Domestic Commercial Disappearance	Aug–Oct 2014	Aug–Oct 2013	2013–2014 Change	Percent Change
	(million pounds)			
Total Fluid Milk Products*	11,800	12,277	-477	-3.9%
Butter	430	474	-44	-9.3%
American-type Cheese	1,123	1,128	-5	-0.5%
All Other Cheese	1,683	1,673	10	0.6%
Nonfat Dry Milk / Skim Milk Powders	302	209	93	44.8%
All Products (milk equiv., milkfat basis)	50,407	49,710	697	1.4%
All Products (milk equiv., skim solids basis)	44,102	42,422	1,681	4.0%
* Jun–Aug				

U.S. Dairy Trade *from page 1*

extended from May 2013 through July 2014. Until mid-2015, exports likely will continue below year-earlier levels. After that, world import demand, and U.S. dairy exports, are expected to recover, while year-earlier comparison levels will be lower. During September – October, exports were off from a year ago by the equivalent of 2.2 percent of domestic milk solids production. Reductions were particularly large for butterfat products, with more moderate drops in American-type cheese and milk powder exports.

During 2014, the Cooperatives Working Together (CWT) program accepted bids to export 103 million pounds of cheese, 54 million pounds of butter and 35 million pounds of whole milk powder. Some of this won't be shipped until this year. CWT-assisted product shipments during 2014 totaled 195 million pounds. This is the equivalent of 2.5 billion pounds of milk production.

CWT will be actively assisting exports of cheese and butter in 2015, helping to keep domestic prices from falling as much as otherwise.

U.S. dairy imports during September – November were up most noticeably for butter and cheese. They were up for all products by the equivalent of 0.4 percent of domestic milk solids production.

Milk Production

The growth in U.S. milk production is accelerating. It was up by 3.7 percent over a year ago during September – November, mostly from a 2.9 percent increase in production per cow. The number of milk cows was up by 0.8 percent over a year ago. Despite these increases, USDA has been dropping its forecasts of U.S. milk production growth for 2015, from 3.3 percent in October to 2.8 percent in January. The decline coincides with a steady reduction in USDA's milk price forecasts for the year.

U.S. Dairy Exports	Sept–Nov 2014	Sept–Nov 2013	2013–2014 Change	Percent Change
		(metric tons)		
Butter	5,959	26,152	-20,193	-77%
Anhydrous Milk Fat/Butteroil	1,121	4,767	-3,646	-76%
Cheddar Cheese	11,605	15,325	-3,720	-24%
American-type Cheese	12,330	17,271	-4,942	-29%
Total Cheese	78,688	80,984	-2,295	-3%
Nonfat Dry Milk/Skim Milk Powder	113,421	142,342	-28,921	-20%
Whole Milk Powder	10,563	11,698	-1,135	-10%
Dry Whey	87,669	86,587	1,082	1%
Whey Protein Concentrate/Isolate	21,440	25,563	-4,123	-16%
Lactose	69,847	73,829	-3,982	-5%
Percent of Milk Solids Exported	13.9%	16.0%	-2.2%	-14%
U.S. Dairy Imports	Sept–Nov 2014	Sept–Nov 2013	2013–2014 Change	Percent Change
		(metric tons)		
Butter	3,562	1,420	2,141	151%
Cheese	50,345	42,224	8,120	19%
Nonfat Dry Milk/Skim Milk Powder	356	507	-151	-30%
MPC (all protein levels)	13,596	13,131	465	4%
Casein	15,961	15,986	-25	0%
Percent of Milk Solids Imported	3.5%	3.1%	0.4%	13%

Dairy Product Production

U.S. production of all cheese was up by 3.5 percent during September – November, mirroring the increase in milk production. By contrast, U.S. butter production dropped slightly, indicating that increased milkfat production has been used for other products. Skim milk powder production has dropped significantly, while nonfat dry milk has grown, reflecting declining exports of skim powders.

Dairy Product Inventories

Of the major dairy product categories, only nonfat dry milk is showing significant increases in stocks. Butter inventories are

still below a year ago despite the large drop in exports. All prices will be under pressure this year until the global milk supply comes into balance with global demand. But that pressure will be particularly acute for U.S. products with growing domestic inventories.

Milk and Dairy Product Prices

December dairy product prices reported by USDA's Agricultural Marketing Service were all down from November. Both cheese and nonfat dry milk were lower than in December 2013.

Chicago Mercantile Exchange dairy futures indicate most of these prices will decline until spring, as last year's tight market

continued on page 4

Milk & Dairy Products Production	Sept–Nov 2014	Sept–Nov 2013	2013–2014 Change	Percent Change
Milk Production				
Cows (1000 head)	9,278	9,203	75	0.8%
Per Cow (pounds)	5,399	5,249	150	2.9%
Total Milk (million pounds)	50,094	48,309	1,785	3.7%
Dairy Products Production				
		(million pounds)		
Cheese				
American Types	1,118	1,075	43	4.0%
Cheddar	787	763	24	3.1%
Italian Types	1,251	1,184	68	5.7%
Mozzarella	988	928	59	6.4%
Total Cheese	2,873	2,777	96	3.5%
Butter	410	420	-11	-2.6%
Dry Milk Products				
Nonfat Dry Milk	401	261	140	54%
Skim Milk Powder	115	173	-58	-33%
Dry Whey	211	218	-7	-3%
Whey Protein Concentrate	133	128	5	4%
Dairy Product Inventories	Nov 2014	Oct 2014	Nov 2013	Percent Change 2013–2014
		(million pounds)		
Butter	101	139	122	-17%
American Cheese	635	623	614	3%
Other Cheese	381	372	383	0%
Nonfat Dry Milk	217	196	114	90%

Milk and Dairy Product Prices *from page 3*

conditions reverse themselves. Imports by the major dairy-importing countries, led by China, are well below year-ago levels, and milk production is growing in the major dairy-exporting countries. These are the United States and countries in Europe and Oceania.

The advance-announced Class I mover for December was still above year-ago levels, but other December class and producer prices were all down from both a month earlier and a year earlier. The December Class IV price was significantly below its level a year ago, driven by a corresponding drop in nonfat dry milk prices. Both declines reflected the particularly large downward swing in milk powder prices in the world market over the past year. CME dairy futures indicate the U.S. average all-milk price for all of 2015 will be at least \$7.00 per hundredweight below its record level of last year.

The U.S. average retail price for whole milk, reported by the Bureau of Labor Statistics, was higher in November than both the previous month and a year earlier. The average retail price of cheddar cheese was lower in November from a month earlier, but still above a year earlier.

Feed prices

Prices received by farmers for corn have risen a bit over levels during last fall's large harvest. A significant volume of corn is being stored in anticipation of increased demand in certain uses and higher prices. However, falling gasoline prices are reducing the break-even price for ethanol. December soybean meal prices were down about \$10 a ton from a month earlier and \$67 a ton below a year ago. Alfalfa hay prices reported by USDA's National Agricultural Statistics Service were down slightly in December from both month-ago and year-ago levels.

continued on page 5

Dairy Industry Prices	Dec 2014	Nov 2014	Dec 2013	2013–2014 Change
AMS Commodity Prices		(per pound)		
Butter	\$1.905	\$1.989	\$1.631	\$0.274
Cheese	\$1.736	\$2.131	\$1.876	-\$0.140
Nonfat Dry Milk	\$1.255	\$1.390	\$1.954	-\$0.698
Dry Whey	\$0.587	\$0.637	\$0.571	\$0.017
Producer Prices		(per hundredweight)		
Class I Mover	\$22.53	\$24.06	\$20.37	\$2.16
Class III	\$17.82	\$21.94	\$18.95	-\$1.13
Class IV	\$16.70	\$18.21	\$21.54	-\$4.84
All Milk	\$20.30	\$23.00	\$22.00	-\$1.70
Feed Prices				
Corn (per bushel)	\$3.77	\$3.58	\$4.41	-\$0.64
Soybean Meal (per ton)	\$431.74	\$441.40	\$498.31	-\$67
Alfalfa Hay (per ton)	\$182.00	\$184.00	\$186.00	-\$4
2014 Farm Bill Feed Cost (per cwt.)	\$9.71	\$9.61	\$10.94	-\$1.23
2014 Farm Bill Margin (per cwt.)	\$10.59	\$13.39	\$11.06	-\$0.47
Retail Dairy Product Prices	Nov 2014	Oct 2014	Nov 2013	2013–2014 Change
Fluid Milk (per gallon)	\$3.858	\$3.766	\$3.491	\$0.367
Cheddar Cheese (per pound)	\$5.419	\$5.568	\$5.391	\$0.028

Feed Prices *from page 4*

The December preliminary feed cost calculated using the Margin Protection Program formula was \$.10 a hundredweight higher than a month earlier, based on the higher corn price. But it was \$1.23 per hundredweight below a year ago.

The preliminary MPP margin for December was down \$2.80 per hundredweight from the previous month, due almost entirely to the drop in the all-milk price. It was only about \$.50 below the December 2013 margin.

Peter Vitaliano
National Milk
Producers Federation
pvitaliano@nmpf.org
www.nmpf.org



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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.