

## Overview

*Domestic dairy markets appear to have stabilized. Milk prices and milk-feed cost margins held steady from March to April and will likely show gains when they are announced for May. Commercial use of most major dairy products showed solid growth in the first quarter, while some dairy exports also showed improvement. At the same time, U.S. milk production growth may be stabilizing. The future track for milk production will have a deciding influence on prices and margins in the second half of 2015.*

## Commercial Use of Dairy Products

U.S. fluid milk sales, including both conventional and organic milk, declined at an annual rate of 2.3 percent during the first quarter of 2015. However, sales of whole milk, representing approximately 30 percent of the total, grew by 2.6 percent during the quarter. Shifts in consumption toward higher-fat categories caused consumption of milkfat in all fluid products to decline at an annual rate of 1.1 percent. That was less than half the rate of decline of fluid milk volume. With the exception of non-American type cheese, commercial use in other major product categories, as well as milk in all products, was up strongly in the first quarter. Modest growth in production, slowing rates of stock buildup and declining exports are significantly increasing estimated consumption in the U.S. for these categories. Most are also showing growth in total consumption despite lower exports. Stocks are building and exports are up for non-American

type cheese, so that domestic use is down slightly while total use is flat.

## U.S. Dairy Trade

More than a year after the start of the great contraction in world import demand, annual growth rates for U.S. dairy exports are beginning to show some improvement. Exports of milkfat products and American-type cheese are still down by more than half from a year ago, but non-American type cheese, skim milk powder and lactose exports are now all showing increases over a year ago. Exports as a percentage of milk solids production averaged above 15 percent during February-April, the first time this has happened over three consecutive months since mid-2014. Exports were equivalent to 16.7 percent of domestic production in April. That's the sixth-highest percentage ever for this measure, and a strong rebound from 11.2 percent in January. However,

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Domestic Commercial Disappearance	Jan–Mar 2015	Jan–Mar 2014	2013–2014 Change	Percent Change
	(million pounds)			
Total Fluid Milk Products	12,598	12,893	-295	-2.3%
Butter	415	382	32	8.4%
American-type Cheese	1,107	1,019	87	8.6%
All Other Cheese	1,572	1,590	-18	-1.2%
Nonfat Dry Milk / Skim Milk Powders	320	229	91	39%
All Products (milk equiv., milkfat basis)	48,476	45,890	2,587	5.6%
All Products (milk equiv., skim solids basis)	43,669	41,350	2,320	5.6%

### U.S. Dairy Trade *from page 1*

recent dairy export numbers have been affected somewhat by the West Coast port shutdown. Products sent to West Coast ports for export late last year were delayed for shipment until the labor dispute was resolved. Subsequent shipment of this backlog is doubtless overstating the regular course of export movement, as it was understated in the months before.

Dairy imports continue to run ahead of a year ago, especially for butter and other milkfat. This pace will not change as long as the current environment of reduced import demand, low world prices and considerably higher domestic prices for most products continues. One exception is casein, for which February – April imports are down by almost 30 percent over a year ago. Casein imports have been in general decline since 2000, when domestic production of specialized milk proteins began to grow and imported milk proteins began to lose their cost advantage.

## Milk Production

Domestic milk production increased at an annual rate of 1.6 percent during February – April. Growth during individual months was 1.7 percent for February, 1.4 percent for March and 1.7 percent (preliminary) for April. A key question is whether milk production growth will move up again after dropping from an annual 4.3 percent rate in September 2014. In its June outlook update, USDA did not increase its forecast of 1.3 percent growth for all of 2015. U.S. milking cows were up 0.9 percent over a year ago during February – April. For individual months, cow numbers were up one percent in February but 0.7 percent in April. Overall U.S. milk production has been rising very modestly in recent months because production in a few large milk-producing states in the West, primarily California and New Mexico, has dropped off. That has offset sizeable increases in the Midwest and East. In sum, the near-term outlook for

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U.S. Dairy Exports	Feb–Apr 2015	Feb–Apr 2014	2014–2015 Change	Percent Change
		(metric tons)		
Butter	6,051	25,624	-19,573	-76%
Anhydrous Milk Fat/Butteroil	1,343	4,385	-3,042	-69%
Cheddar Cheese	11,722	26,044	-14,322	-55%
American-type Cheese	12,084	28,908	-16,824	-58%
Total Cheese	95,536	101,186	-5,649	-6%
Nonfat Dry Milk/Skim Milk Powder	148,032	140,936	7,097	5%
Whole Milk Powder	11,506	15,273	-3,767	-25%
Dry Whey	82,988	97,351	-14,362	-15%
Whey Protein Concentrate/Isolate	35,650	36,361	-710	-2%
Lactose	95,925	88,373	7,552	9%
Percent of Milk Solids Exported	15.3%	16.7%	-1.5%	-9%

U.S. Dairy Imports	Feb–Apr 2015	Feb–Apr 2014	2014–2015 Change	Percent Change
		(metric tons)		
Butter	3,913	1,892	2,021	107%
Cheese	42,741	33,633	9,108	27%
Nonfat Dry Milk/Skim Milk Powder	108	83	25	31%
MPC (all protein levels)	13,619	11,700	1,919	16%
Casein	18,197	25,395	-7,198	-28%
Percent of Milk Solids Imported	3.3%	3.0%	0.3%	10%

### Milk Production *from page 2*

milk production not clear, but an eventual return to higher growth is likely.

## Dairy Product Production

Except for butter, production of major U.S. dairy products is up roughly in line with increased milk production and is generally outpaced by increased commercial use. Nonfat dry milk production increased more than nine percent during February–April, while combined production of nonfat dry milk and skim milk powder was up just 3.2 percent. The reduced growth rate for nonfat dry milk and skim milk powder reflects reduced exports. Dry whey

production was up 16 percent, but combined production of dry whey and whey protein concentrate was up only 6.7 percent. Higher-valued WPCs are currently returning less to manufacturers than dry whey, causing a temporary shift away from WPC production and toward dry whey production. Butter production is down because milkfat use in products including cheese, yogurt and fluid milk is growing faster than milkfat production. That leaves less cream to make into butter.

## Dairy Product Inventories

As April ended, cold storage stocks of American-type cheese and manufacturers’ stocks of nonfat dry milk were basically flat

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Milk & Dairy Products Production	Feb–Apr 2015	Feb–Apr 2014	2014–2015 Change	Percent Change
<b>Milk Production</b>				
Cows (1000 head)	9,306	9,225	81	0.9%
Per Cow (pounds)	5,593	5,552	41	0.7%
Total Milk (million pounds)	52,049	51,216	833	1.6%
<b>Dairy Products Production</b>				
		(million pounds)		
<b>Cheese</b>				
American Types	1,130	1,104	27	2.4%
Cheddar	819	814	5	0.6%
Italian Types	1,259	1,218	41	3.4%
Mozzarella	986	968	18	1.9%
Total Cheese	2,863	2,786	77	2.8%
Butter	485	500	-15	-3.0%
<b>Dry Milk Products</b>				
Nonfat Dry Milk	512	469	43	9.1%
Skim Milk Powder	106	130	-23	-18%
Dry Whey	242	209	33	16%
Whey Protein Concentrate	123	133	-10	-7.7%

Dairy Product Inventories	Apr 2015	Mar 2015	Apr 2014	2014–2015 Change
		(million pounds)		
Butter	230	184	187	23%
American Cheese	640	632	649	-1.4%
Other Cheese	441	434	389	14%
Nonfat Dry Milk	249	251	240	4%

### Dairy Product Inventories *from page 3*

compared with a year earlier. Flat nonfat dry milk stocks are noteworthy because inventories have been up between 16 percent and 90 percent since last July as exports fell. Butter inventories were up at the end of April as the market moved past Easter. They will likely remain relatively high until summer ice cream sales pick up.

## Dairy Product and Federal Order Class Prices

Agricultural Marketing Service monthly survey prices for dairy products, and the federal milk marketing order class prices

computed from them, all remain well below their levels from a year earlier. But many of these prices ticked up from April to May. Butter prices rose almost 14 cents a pound in April, and cheese was more than four cents a pound higher, while both nonfat dry milk and whey prices eased slightly during the month. Federal order class prices were up between \$0.33 and \$0.40 per hundredweight in May, suggesting there will be a similar increase in the May all-milk price.

## Milk and Feed Prices

The April all-milk price was basically unchanged from March, as were the feed cost and monthly margin calculated using the 2014 farm bill formulas. USDA put the March-April

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Dairy Product and Federal Order Prices	May 2015	Apr 2015	May 2014	2014–2015 Change
<b>AMS Commodity Prices</b>		(per pound)		
Butter	\$1.873	\$1.736	\$2.048	-\$0.175
Cheese	\$1.656	\$1.612	\$2.170	-\$0.515
Nonfat Dry Milk	\$0.946	\$0.968	\$1.877	-\$0.930
Dry Whey	\$0.445	\$0.461	\$0.675	-\$0.230
<b>Class Prices for Milk</b>		(per hundredweight)		
Class I Mover	\$15.83	\$15.50	\$24.47	-\$8.64
Class III	\$16.19	\$15.81	\$22.57	-\$6.38
Class IV	\$13.91	\$13.51	\$22.65	-\$8.74

Milk and Feed Prices	Apr 2015	Mar 2015	Apr 2014	2014–2015 Change
<b>Producer Prices</b>				
All Milk (per cwt.)	\$16.50	\$16.60	\$25.30	-\$8.80
<b>Feed Prices</b>				
Corn (per bushel)	\$3.75	\$3.81	\$4.71	-\$0.96
Soybean Meal (per ton)	\$337	\$358	\$514	-\$177
Alfalfa Hay (per ton)	\$184	\$172	\$207	-\$23
2014 Farm Bill Feed Cost (per cwt.)	\$9.02	\$9.07	\$11.67	-\$2.65
2014 Farm Bill Margin (per cwt.)	\$7.48	\$7.53	\$13.63	-\$6.15
<b>Retail Dairy Product Prices</b>				
Fluid Milk (per gallon)	\$3.397	\$3.463	\$3.687	-\$0.290
Cheddar Cheese (per pound)	\$5.384	\$5.384	\$5.733	-\$0.349

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**Milk and Feed Prices** *from page 4*

margin at \$7.50 per hundredweight. That will trigger a payment at the approximate rate of \$0.50 to those who insured their margins at the highest \$8.00 per hundredweight level under the Margin Protection Program.

According to the Bureau of Labor Statistics, the average retail price of a gallon of whole milk was almost 30 cents less in April than a year earlier, while cheddar cheese was down approximately 35 cents a pound. Retail milk prices also fell from March to April, while retail cheddar cheese prices were unchanged.

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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.