Dairy Management Inc.

Dairy Market REPORT

National Milk Producers Federation

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Overview

Farm milk prices and margins are falling sharply, but from such high levels that they are still near their averages in recent years. Also, U.S. prices remain stronger than those in New Zealand and Europe, which are suffering more from the slump in world dairy imports than we are. One reason we are doing better? Growing U.S. milk production and declining exports are being partially offset by strong domestic cheese and total milkfat consumption. As a result, while the average all-milk price was down $8.10 per hundredweight in January from its record four months earlier, that was still within a dollar per hundredweight of its average in years 2011 to 2013. Likewise, the farm bill margin for the month was down significantly but, at $8.34 per hundredweight, was still approximately 85 cents higher than the January average during 2011-2013.

Commercial Use of Dairy Products

According to USDA's Agricultural Marketing Service, in the last quarter of 2014 fluid milk sales were 2.5 percent lower than a year earlier, while whole milk sales were down just 0.4 percent. Domestic American-type cheese use increased 1.4 percent, and other-type cheese sales rose 2.6 percent. Commercial disappearance of skim solids rose less than one percent despite an almost 30 percent rise in domestic use of nonfat dry milk. By contrast, domestic butter disappearance is down four percent, but commercial use of milkfat in all products rose by 2.7 percent. The reason for those seemingly contradictory numbers is that the average milkfat content of many dairy products, including milk and cheese, has grown recently as negative messages about consuming milkfat have declined. This is keeping the supply-demand balance for total milkfat fairly tight.

U.S. Dairy Trade

U.S. dairy exports have shown the same basic pattern of year-over-year reductions for the past several months. The reductions have been approximately three-quarters for butter, about half for

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Domestic Commercial Disappearance	Oct–Dec 2014	Oct–Dec 2013	2013–2014 Change	Percent Change
		(million pounds)		
Total Fluid Milk Products	12,914	13,238	-324	*-2.5%*
Butter	497	518	-21	*-4.0%*
American–type Cheese	1,120	1,105	15	*1.4%*
All Other Cheese	1,741	1,696	45	*2.6%*
Nonfat Dry Milk/Skim Milk Powders	244	190	54	*28.3%*
All Products (milk equiv., milkfat basis)	50,963	49,605	1,359	*2.7%*
All Products (milk equiv., skim solids basis)	42,277	41,915	362	*0.9%*

U.S. Dairy Trade *from page 1*

American-type cheese, and smaller amounts for all cheese and most dry products. Nearly 13 percent of U.S. milk solids were exported during November 2014 – January 2015, compared with 15 percent for the same period a year earlier. The U.S. dairy export slowdown reflects reduced dairy imports worldwide, and is affecting all major exporters. Imports by China and Russia are well below year-ago levels, and, despite lower world prices, the shortfall has not been made up by increased imports from other countries.

U.S. dairy imports continue above year-earlier levels for all but the concentrated protein products, as the U.S. market attracts products displaced from other import destinations. However, the net increase in total imports compared with a year ago amounts to less than half a percent of total domestic milk solids production.

Milk Production

U.S. milk production grew by 2.9 percent during the three-month period November 2014 – January 2015 compared with a year earlier. This was the combined result of a one percent annual increase in cow numbers and a 1.9 percent increase in production per cow. USDA data have shown a steady but moderate annual increase in the rate of growth in cow numbers – to one percent for January – but a drop in the rate of increase in production per cow, particularly for January. The result has been a steady drop in the annual rate of milk production growth, from 4.3 percent in September to 3.4 percent in December and a sharp drop to 2.1 percent in preliminary numbers for January. The drop in production per cow may be due to a simultaneous drop in milk prices, despite low feed costs. But high beef prices may also be keeping growth in milk production at moderate levels. Monthly dairy cow slaughter, as a percent of total dairy cows,

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U.S. Dairy Exports	Nov 2014–Jan 2015	Nov 2013–Jan 2014	2014–2015 Change	Percent Change
		(metric tons)		
Butter	5,641	24,967	-19,326	*-77%*
Anhydrous Milk Fat/Butteroil	3,409	4,096	-688	*-17%*
Cheddar Cheese	9,934	18,926	-8,992	*-48%*
American–type Cheese	10,725	22,120	-11,395	*-52%*
Total Cheese	75,810	91,573	-15,763	*-17%*
Nonfat Dry Milk/Skim Milk Powder	111,697	128,667	-16,969	*-13%*
Whole Milk Powder	12,558	12,096	462	*4%*
Dry Whey	78,407	82,381	-3,974	*-5%*
Whey Protein Concentrate/Isolate	31,540	32,806	-1,267	*-4%*
Lactose	80,000	77,535	2,465	*3%*
Percent of Milk Solids Exported	12.9%	15.0%	-2.1%	*-14%*

U.S. Dairy Imports	Nov 2014–Jan 2015	Nov 2013–Jan 2014	2014–2015 Change	Percent Change
		(metric tons)		
Butter	4,241	1,431	2,810	*196%*
Cheese	50,655	38,116	12,539	*33%*
Nonfat Dry Milk/Skim Milk Powder	712	497	215	*43%*
MPC (all protein levels)	14,354	16,172	-1,819	*-11%*
Casein	15,314	23,146	-7,832	*-34%*
Percent of Milk Solids Imported	3.6%	3.2%	0.4%	*12%*

Milk Production *from page 2*

was above its recent average for the first time in almost a year. Also, the ratio of monthly dairy cow slaughter to total monthly cow slaughter – 57.3 percent – was the highest since at least January 2000.

Dairy Product Production

U.S. production of both American- and Italian-type cheese grew at slightly faster annual rates than total milk production during the three-month period November 2014 – January 2015. However, American-type cheese inventories had not increased by the end of the period. U.S. butter production grew less than one percent, well under the growth rate of total milkfat production. That indicates that increased milkfat is being used in other products and not ending up as butter. Nonfat powder production continues to shift from export-destined skim milk powders to nonfat dry milk for domestic use. But total production of both products was up more than 10 percent. Total production of whey products was fairly flat during the period.

Dairy Product Inventories

U.S. inventories of butter in cold storage were slightly less than three percent higher at the end of January than a year earlier. This was the first time since October 2013 that butter stocks

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Milk & Dairy Products Production	Nov 2014–Jan 2015	Nov 2013–Jan 2014	2014–2015 Change	Percent Change
Milk Production				
Cows (1000 head)	9,297	9,206	*91*	*1.0%*
Per Cow (pounds)	5,542	5,437	*105*	*1.9%*
Total Milk (million pounds)	51,525	50,054	*1,471*	*2.9%*
Dairy Products Production		(million pounds)		
Cheese				
American Types	1,156	1,118	*38*	*3.4%*
Cheddar	834	803	*31*	*3.9%*
Italian Types	1,284	1,237	*48*	*3.9%*
Mozzarella	1,012	976	*36*	*3.7%*
Total Cheese	2,931	2,855	*77*	*2.7%*
Butter	489	486	*3*	*0.6%*
Dry Milk Products				
Nonfat Dry Milk	480	366	*115*	*31%*
Skim Milk Powder	115	173	*-58*	*-34%*
Dry Whey	222	229	*-7*	*-3%*
Whey Protein Concentrate	140	137	*3*	*2%*

Dairy Product Inventories	Jan 2015	Dec 2014	Jan 2014	Percent Change 2014–2015
		(million pounds)		
Butter	148	105	144	*2.9%*
American Cheese	632	628	631	*0.3%*
Other Cheese	410	390	384	*6.7%*
Nonfat Dry Milk	240	241	149	*61%*

Dairy Product Inventories *from page 3*

were above year-earlier levels. End-of-January stocks of American-type cheese were scarcely above their level from January 2013. End-of-month American-type cheese stocks were below year-earlier levels between November 2013 and October 2014 and have been only moderately above since. The same is true of natural cheese stocks, which were only 2.7 percent higher than a year earlier at the end of January. Although stocks of non-American-type natural cheese were 6.7 percent higher than a year ago, those types account for less than 40 percent of the cheese in cold storage reported by USDA.

Dairy Product and Federal Order Class Prices

February butter prices reported by USDA's Agricultural Marketing Service were $1.68 per pound, 12 cents higher than January. But that's 15 cents a pound below a year ago. Nonfat dry milk prices took a pause in February after their steep drop over the previous year. But they were still down more than a dollar a pound, to approximately half their level in February 2014. February cheese prices were down modestly from a month earlier, to $1.545. But they were down by $0.74 a pound from a year ago. The Federal order Class III price for February was $0.72 per hundredweight

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Dairy Product and Federal Order Prices	Feb 2015	Jan 2015	Feb 2014	2014–2015 Change
AMS Commodity Prices		(per pound)		
Butter	$1.682	$1.563	$1.832	*-$0.150*
Cheese	$1.545	$1.581	$2.286	*-$0.742*
Nonfat Dry Milk	$1.031	$1.020	$2.078	*-$1.048*
Dry Whey	$0.517	$0.588	$0.631	*-$0.115*
Class Prices for Milk		(per hundredweight)		
Class I Mover	$16.24	$18.58	$22.02	*-$5.78*
Class III	$15.46	$16.18	$23.35	*-$7.89*
Class IV	$13.82	$13.23	$23.46	*-$9.64*

Milk and Feed Prices	Jan 2015	Dec 2014	Jan 2014	2014–2015 Change
Producer Prices				
All Milk (per cwt.)	$17.60	$20.40	$23.50	*-$5.90*
Feed Prices				
Corn (per bushel)	$3.81	$3.78	$4.42	*-$0.61*
Soybean Meal (per ton)	$380	$432	$480	*-$100*
Alfalfa Hay (per ton)	$174	$183	$186	*-$12*
2014 Farm Bill Feed Cost (per cwt.)	$9.26	$9.74	$10.81	*-$1.55*
2014 Farm Bill Margin (per cwt.)	$8.34	$10.66	$12.69	*-$4.35*
Retail Dairy Product Prices				
Fluid Milk (per gallon)	$3.758	$3.820	$3.552	*$0.206*
Cheddar Cheese (per pound)	$5.401	$5.438	$5.381	*$0.020*

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

below January's price and almost eight dollars below the February 2014 Class III price. The advance-announced February Class I mover was down $2.34 per hundredweight from a month earlier, largely reflecting the steep drop in butterfat prices the previous month. Class IV prices rose in February from the previous month, as nonfat dry milk prices temporarily held steady and butter prices rose.

Milk and Feed Prices

The U.S. average all-milk price for January, reported by USDA's National Agricultural Statistics Service, was $17.60 per hundredweight, a drop of $2.80 from just a month earlier. That was the largest single-month drop in the all-milk price ever, and also $5.90 per hundredweight below January 2014.

The January all-milk price also reflected the largest drops ever in this national price indicator over periods of two, three and four consecutive months. It was $8.10 below the September 2014 record price of $25.70 per hundredweight. Lower prices for soybean meal and alfalfa hay reduced the monthly farm bill feed cost by $0.48 per hundredweight, so the much larger monthly drop in the all-milk price has reduced the monthly farm bill margin by $2.32, to $8.34 per hundredweight for January.

January retail prices for whole milk and cheddar cheese were both lower than their corresponding December values, as the significant drop in farm milk prices over the last four months begins to be passed on to consumers. But retail milk prices were still 20 cents a gallon above a year ago in January, while cheddar cheese retail prices were little changed from last year.

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

Dairy Management Inc.
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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.