

Overview

Butter and American-type cheese prices rose in August as domestic demand for cheese and milkfat in all products mostly continues to keep pace with supply growth. However, inventories of key dairy products are building slowly, and exports continue to suffer from reduced demand, extremely low world prices and intensified competition for available business. Following its steep fall from historic levels, the all-milk price has stayed just below \$17 per hundredweight since February. The margin under the Margin Protection Program was \$7.45 per hundredweight for July, and will likely be just under \$8.00 for August, yielding an MPP margin between \$7.50 and \$8.00 for the July-August payment period.

Commercial Use of Dairy Products

The larger-than-expected drop in USDA-reported domestic fluid milk sales in May was offset by an increase in the June numbers, neither of which is adjusted for calendar composition. The annual rate of change for the two months combined was -1.3 percent, the same as April and thus the same for the April-June quarter. This is a more moderate rate of decline than during 2014 and early 2015. During the recent quarter, organic fluid sales represented five percent of the total, and dropped at an annual rate of 2.4 percent, while conventional milk was down by 1.2 percent, half the rate of organic sales slippage. Also, full-fat products, conventional and organic, represented 32 percent of the total and rose 3.9 percent compared with the same quarter

a year ago, while total reduced-fat products dropped by 3.5 percent over the previous year. Commercial use of American-type cheese grew slightly faster than both U.S. milk production and commercial use of milk in all products. Commercial use of other cheese rose at the same rate as milk production but less than commercial use of milk in all products.

U.S. Dairy Trade

U.S. dairy exports have shown the same patterns of year-over-year change for several months this year. Butterfat exports have been off by approximately three-quarters, American-type cheese down about half, total cheese exports off by a quarter or less and powdered skim products, including whey products, roughly the same to up

continued on page 2

Domestic Commercial Use	Apr–Jun 2015	Apr–Jun 2014	2014–2015 Change	Percent Change
	(million pounds)			
Total Fluid Milk Products	11,959	12,118	-159	-1.3%
Butter	397	433	-36	-8.2%
American-type Cheese	1,089	1,066	23	2.1%
All Other Cheese	1,632	1,613	19	1.2%
Nonfat Dry Milk / Skim Milk Powders	257	258	-1	-0.2%
All Products (milk equiv., milkfat basis)	49,992	49,421	571	1.2%
All Products (milk equiv., skim solids basis)	43,099	42,359	740	1.7%

U.S. Dairy Trade *from page 1*

slightly compared with a year ago. These reduced export levels reflect the relative gaps between U.S. and world prices for the different products. World prices have been severely depressed for virtually all commodities this year, following substantial reductions in imports by China and other emerging-market countries. Strong domestic demand has maintained U.S. butterfat and cheese prices well above world levels. By contrast, domestic skim milk powder and whey product prices have generally tracked world prices due to the United States' large exposure to world markets and the lack of strong domestic demand to counter that exposure. Whey prices have been particularly affected by the aging of China's still-extensive stocks of whole milk powder and the expectation that these stocks will soon be used for animal feed. Export volumes have been declining from earlier in the

year, when shipments delayed in late 2014 by the West Coast dock strike were added to new export shipments.

U.S. dairy imports remain well above year-earlier levels for the major categories, including the large-volume categories of cheese and dried milk proteins. However, while import volumes continue to grow, total imports remain below four percent of domestic production. Contrary to these trends, milk protein concentrate imports were down significantly in July, to about one-third their average level during the previous six months. This decline is probably temporary.

Milk Production

After moderating steadily early in 2015, the annual rate of increase in U.S. milk production moved up a bit in July, to 1.2 percent, the same as the May-July quarter. Annual growth in cow numbers

continued on page 3

U.S. Dairy Exports	May–Jul 2015	May–Jul 2014	2014–2015 Change	Percent Change
		(metric tons)		
Butter	4,041	13,781	-9,741	-71%
Anhydrous Milk Fat/Butteroil	761	2,812	-2,051	-73%
Cheddar Cheese	10,661	20,422	-9,761	-48%
American-type Cheese	11,218	22,530	-11,312	-50%
Total Cheese	81,257	97,807	-16,549	-17%
Nonfat Dry Milk/Skim Milk Powder	147,781	173,173	-25,392	-15%
Whole Milk Powder	7,649	16,356	-8,707	-53%
Dry Whey	90,093	95,772	-5,679	-6%
Whey Protein Concentrate/Isolate	34,190	33,275	915	3%
Lactose	92,342	80,018	12,324	15%
Percent of Milk Solids Exported	14.6%	16.6%	-2.0%	-12%

U.S. Dairy Imports	May–Jul 2015	May–Jul 2014	2014–2015 Change	Percent Change
		(metric tons)		
Butter	4,341	2,382	1,959	82%
Cheese	48,785	38,004	10,781	28%
Nonfat Dry Milk/Skim Milk Powder	1,077	502	575	115%
MPC (all protein levels)	17,249	9,196	8,052	88%
Casein	20,019	15,458	4,561	30%
Percent of Milk Solids Imported	3.7%	2.8%	0.8%	29%

Milk Production *from page 2*

and production per cow have both come down to rates just above a half percent. The relative strength of milk prices, especially compared with world prices, depends on continued modest growth in milk production.

Dairy Product Production

Production of all cheese, as well as most major individual cheese types, is beginning to grow faster than milk production, while butter production is essentially stable. Increased domestic demand for milkfat in other products continues to absorb additional cream before it can be turned into butter. Combined production

of nonfat dry milk and protein-standardized skim milk powder continues to grow modestly, as does combined whey and whey protein concentrate production. But, for the first time in 2015, production of nonfat dry milk declined from a year earlier in July while skim milk powder production rose, a potential sign of increased exports in the near future.

Dairy Product Inventories

Butter stocks were stable from June to July, but at levels well above a year ago. Inventories of cheese and nonfat dry milk grew in July from a month earlier, but are up from a year ago by more modest percentage amounts. July stocks were above

continued on page 4

Milk & Dairy Products Production	May–Jul 2015	May–Jul 2014	2014–2015 Change	Percent Change
Milk Production				
Cows (1000 head)	9,323	9,263	61	0.7%
Per Cow (pounds)	5,739	5,706	33	0.6%
Total Milk (million pounds)	53,505	52,852	653	1.2%
Dairy Products Production				
		(million pounds)		
Cheese				
American Types	1,178	1,144	34	3.0%
Cheddar	856	828	28	3.4%
Italian Types	1,266	1,235	31	2.5%
Mozzarella	999	987	12	1.2%
Total Cheese	2,942	2,875	67	2.3%
Butter	445	444	1	0.2%
Dry Milk Products				
Nonfat Dry Milk	500	477	23	5%
Skim Milk Powder	105	141	-36	-25%
Dry Whey	246	235	11	4.7%
Whey Protein Concentrate	124	135	-11	-7.9%

Dairy Product Inventories	Jul 2015	Jun 2015	Jul 2014	2014–2015 Change
		(million pounds)		
Butter	254	256	181	41%
American Cheese	698	686	660	5.7%
Other Cheese	464	456	394	18%
Nonfat Dry Milk	270	262	248	9%

Dairy Product Inventories *from page 3*

their average levels since 2009 by more than a third for butter, by just above 10 percent for cheese, and by 50 percent for nonfat dry milk. July nonfat dry milk stocks were at their highest level since at least 1999.

Dairy Product and Federal Order Class Prices

The Agricultural Marketing Service monthly survey price for butter increased by approximately 13 cents a pound from July to August. The survey price for cheese was also up, by almost four cents a pound, while the prices for both nonfat dry milk

and dry whey dropped significantly. These price movements reflected the different degrees to which the products are exposed to world prices. They also resulted in a \$3.37 per hundredweight difference between the August Class III and Class IV federal order prices. The Class III – Class IV price difference has been larger than that level during only 11 months since these price formulas were introduced in 2000.

Milk and Feed Prices

The July all-milk price was down \$0.30 per hundredweight from June. At the same time, rising corn and soybean meal prices more than offset a drop in the alfalfa hay price to raise the Margin Protection Program feed cost formula by \$0.41 per

continued on page 5

Dairy Product and Federal Order Prices	Aug 2015	Jul 2015	Aug 2014	2014–2015 Change
AMS Commodity Prices		(per pound)		
Butter	\$2.044	\$1.916	\$2.521	-\$0.477
Cheese	\$1.739	\$1.700	\$2.107	-\$0.369
Nonfat Dry Milk	\$0.744	\$0.837	\$1.789	-\$1.044
Dry Whey	\$0.311	\$0.394	\$0.688	-\$0.377
Class Prices for Milk		(per hundredweight)		
Class I Mover	\$16.28	\$16.53	\$23.87	-\$7.59
Class III	\$16.27	\$16.33	\$22.25	-\$5.98
Class IV	\$12.90	\$13.15	\$23.89	-\$10.99

Milk and Feed Prices	Jul 2015	Jun 2015	Jul 2014	2014–2015 Change
Producer Prices				
All Milk (per cwt.)	\$16.60	\$16.90	\$23.30	-\$6.70
Feed Prices				
Corn (per bushel)	\$3.80	\$3.58	\$4.06	-\$0.26
Soybean Meal (per ton)	\$376	\$335	\$451	-\$75
Alfalfa Hay (per ton)	\$169	\$178	\$217	-\$48
2014 Farm Bill Feed Cost (per cwt.)	\$9.15	\$8.74	\$10.64	-\$1.49
2014 Farm Bill Margin (per cwt.)	\$7.45	\$8.16	\$12.66	-\$5.21
Retail Dairy Product Prices				
Fluid Milk (per gallon)	\$3.430	\$3.366	\$3.645	-\$0.215
Cheddar Cheese (per pound)	\$5.376	\$5.256	\$5.560	-\$0.184

Milk and Feed Prices *from page 4*

hundredweight. That resulted in a drop in the MPP margin of \$0.71 per hundredweight, to \$7.45 in July. If the MPP margin is less than \$8.55 per hundredweight in August, there will be a payout under the program for July-August. The August survey prices for dairy products imply that the August all-milk price will rise again, to about \$16.80. That would keep the all-milk price in the narrow range just below \$17 per hundredweight where it has been every month since February. The August corn

futures settlement and the already-reported August soybean meal price indicate that the August MPP feed cost will likely be just under \$9 per hundredweight. That will result in a margin under \$8 for August and hence a margin between \$7.50 and \$8.00 for July-August.

Average retail prices reported by the Bureau of Labor Statistics rose in July from a month earlier for both whole milk and cheddar cheese, after mostly declining for the past year.

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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.