

## Overview

*June Federal Milk Marketing Order prices were up over the previous month, as were Class III and Class IV prices. The dairy futures markets suggest that milk prices have likely bottomed out for the year, following a drop of \$0.50 per hundredweight in May. In other positive developments, domestic commercial use of milk continues to expand faster than milk production, while record stocks of butter and American-type cheese in May did not restrain increases in Chicago Mercantile cash prices for these products that month. However, the monthly Margin Protection Program margin dropped more than a dollar per hundredweight in May on the lower milk price and higher feed costs.*

## Commercial Use of Dairy Products

Domestic commercial use increased year over year for most products during February–April as increasing domestic prices and intense competition in world markets continue to draw products away from export sales. Domestic use grew at least as fast as production for most manufactured products, as well as for total milk use in all products. The rate of annual decline in fluid milk sales continues to slow, while consumption of milkfat in the entire fluid milk category continues to grow. Fluid sales during February–April were just 0.6 percent under a year ago, adjusted for leap year. Milkfat consumption in fluid products during the period was 1.7 percent higher than a year earlier.

## U.S. Dairy Trade

In its *July Global Dairy Update*, Fonterra Co-operative Group repeated its previous assessment that “dairy exports remain strong for New Zealand, Australia and Europe but the United States is down largely due to increased domestic demand.” Exports were indeed down for most U.S. dairy products during March–May, but increased domestic demand was only partly responsible and applied mostly to milkfat-containing products. Reduced production of nonfat dry milk and skim milk powder accounts for much of the drop in exports of these products, and the intensely competitive world dairy market has hampered exports of American-type cheese, which has added to domestic stocks.

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Domestic Commercial Use	Feb–Apr 2016	Feb–Apr 2015	2015–2016 Change	Percent Change*
	(million pounds)			
Total Fluid Milk Products	12,340	12,274	66	-0.6%
Butter	434	401	33	7.0%
American-type Cheese	1,123	1,111	12	0.0%
All Other Cheese	1,749	1,598	151	8.2%
Nonfat Dry Milk/Skim Milk Powders	299	284	15	4.1%
All Products (milk equiv., milkfat basis)	49,988	48,245	1,743	2.5%
All Products (milk equiv., skim solids basis)	45,199	42,550	2,649	5.0%
	*Adjusted for calendar composition			

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

Butter and cheese imports were up from a year ago during the March–May period, but imports of concentrated milk proteins, MPC and casein, declined. Domestic prices remained well above world prices for butter and cheese, but not for dairy ingredients, including milk proteins.

## Milk Production

U.S. milk production was 1.4 percent higher during March–May than during the same period a year earlier. The gain was due almost entirely to greater production per cow and was in line with normal productivity gains associated with herd replacements. The national dairy herd increased by an average of only 9,000 cows, or 0.1 percent, over the year. As in recent months, relatively steady milk production at the national level was the result of divergent changes at the state and regional level. During the period, dairy farmers nationwide

produced 744 million more pounds of milk than they did a year ago. At the same time, California producers, who have consistently shown the largest year-over-year monthly state milk volume reductions during 2016, produced 313 million pounds less milk. Meanwhile, Wisconsin producers, consistently the largest state volume gainers, produced 353 million pounds more. In July, USDA reduced its 2016 milk production forecast from 212.6 billion pounds to 212.4 billion pounds.

## Dairy Products

Butter production grew strongly during March–May, continuing a trend that started in late 2015. In both 2014 and 2015, annual butter production declined slightly, while milkfat production grew. During those years, milkfat use in other products grew faster than supply, leaving less cream to be churned into butter, despite high prices. Production of American-type cheese was essentially flat during March-May, while both Italian-type and

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U.S. Dairy Exports	Mar–May 2016	Mar–May 2015	2015–2016 Change	Percent Change
		(metric tons)		
Butter	2,716	5,166	-2,450	-47%
Anhydrous Milk Fat/Butteroil	2,459	1,241	1,219	98%
Cheddar Cheese	7,243	12,133	-4,890	-40%
American-type Cheese	7,346	12,758	-5,413	-42%
Total Cheese	70,568	95,317	-24,750	-26%
Nonfat Dry Milk/Skim Milk Powder	131,292	173,044	-41,753	-24%
Whole Milk Powder	17,906	10,641	7,265	68%
Dry Whey	72,063	93,651	-21,588	-23%
Whey Protein Concentrate/Isolate	42,149	40,407	1,741	4%
Lactose	87,870	96,719	-8,849	-9%
Percent of Milk Solids Exported	13.1%	16.0%	-2.9%	-18%

U.S. Dairy Imports	Mar–May 2016	Mar–May 2015	2015–2016 Change	Percent Change
		(metric tons)		
Butter	5,610	3,905	1,705	44%
Cheese	48,773	45,035	3,738	8%
Nonfat Dry Milk/Skim Milk Powder	490	103	386	374%
MPC (all protein levels)	15,271	16,917	-1,646	-10%
Casein	15,961	19,702	-3,741	-19%
Percent of Milk Solids Imported	3.6%	3.4%	0.2%	7%

**Dairy Products** from page 2

total cheese production grew faster than milk production. Combined production of nonfat dry milk and skim milk powder dropped year over year, as it has done for most of the past year. Production of dry whey and whey protein concentrate was also below last year for the period, but this has only occurred in more recent months.

## Dairy Product Inventories

At the end of May, butter and cheese inventories were up over both the prior month and a year ago. Stocks of butter and American-type cheese were both at their highest levels since

at least the beginning of 2000. Despite this, prices for both products continued to increase, and market reports indicate manufacturers were generally holding those stocks, much of which may already have been committed, in anticipation of continued strong demand and higher prices going into the fall.

## Dairy Product and Federal Order Class Prices

Butter prices reported by USDA's Agricultural Marketing Service were more than 10-cents-per-pound higher in June than a month earlier and more than 25-cents-per-pound higher than in June 2015. June prices for Cheddar cheese, nonfat dry milk

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Milk & Dairy Products Production	Mar–May 2016	Mar–May 2015	2015–2016 Change	Percent Change
<b>Milk Production</b>				
Cows (1000 head)	9,328	9,319	9	0.1%
Per Cow (pounds)	5,901	5,827	74	1.3%
Total Milk (million pounds)	55,045	54,301	744	1.4%
<b>Dairy Products Production</b>				
		(million pounds)		
<b>Cheese</b>				
American Types	1,195	1,200	-6	-0.5%
Cheddar	872	871	1	0.1%
Italian Types	1,334	1,279	56	4.3%
Mozzarella	1,046	1,005	40	4.0%
Total Cheese	3,015	2,975	40	1.3%
Butter	529	502	26	5.2%
<b>Dry Milk Products</b>				
Nonfat Dry Milk	506	542	-35	-6.5%
Skim Milk Powder	134	108	26	24.0%
Dry Whey	247	244	3	1.1%
Whey Protein Concentrate	114	129	-14	-11.1%

Dairy Product Inventories	May 2016	Apr 2016	May 2015	2015–2016 Change
		(million pounds)		
Butter	325	296	265	23%
American Cheese	757	734	669	13%
Other Cheese	492	475	442	11%
Nonfat Dry Milk	235	252	261	-10%

### Dairy Product and Federal Order Class Prices *from page 3*

and dry whey were all modestly higher than in May, but were still below June 2015 levels. Class III and Class IV prices both rose considerably in June from their levels in May, and the June Class IV price was just under its level a year earlier.

## Milk and Feed Prices

The U.S. average all-milk price was \$14.50 per hundredweight in May, down 50 cents from April. Since November 2015, the national all-milk price has dropped almost \$4 per hundredweight. The monthly Margin Protection Program (MPP) feed cost calculation rose \$0.56 per hundredweight in May from a month earlier. As a result, the MPP margin fell by more than a dollar from a month

earlier, to \$5.77 per hundredweight in May, its lowest level since the program started. May federal order class prices pointed to an all-milk price of \$14.40 per hundredweight, just below its announced level. The June federal order prices indicated the all-milk price would change little from May, which would effectively halt its slide over the last six months.

## Looking Ahead

In July, USDA raised its mid-point forecast for the average all-milk price in 2016 to \$15.70 per hundredweight, 55 cents higher than its forecast a month earlier and 85 cents higher than its forecast of two months earlier. The July increase still left USDA's projection at least half a dollar below average milk prices indicated by the

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Dairy Product and Federal Order Prices	Jun 2016	May 2016	Jun 2015	2015–2016 Change
<b>AMS Commodity Prices</b>		(per pound)		
Butter	\$2.162	\$2.058	\$1.907	\$0.256
Cheese	\$1.448	\$1.410	\$1.722	-\$0.275
Nonfat Dry Milk	\$0.789	\$0.761	\$0.928	-\$0.140
Dry Whey	\$0.260	\$0.251	\$0.425	-\$0.164
<b>Class Prices for Milk</b>		(per hundredweight)		
Class I Mover	\$13.14	\$13.70	\$16.14	-\$3.00
Class III	\$13.22	\$12.76	\$16.72	-\$3.50
Class IV	\$13.77	\$13.09	\$13.90	-\$0.13

Milk and Feed Prices	May 2016	Apr 2016	May 2015	2015–2016 Change
<b>Producer Prices</b>				
All Milk (per cwt.)	\$14.50	\$15.00	\$16.80	-\$2.30
<b>Feed Prices</b>				
Corn (per bushel)	\$3.68	\$3.58	\$3.64	\$0.04
Soybean Meal (per ton)	\$376	\$304	\$320	\$56
Alfalfa Hay (per ton)	\$147	\$153	\$192	-\$45
2014 Farm Bill Feed Cost (per cwt.)	\$8.73	\$8.17	\$8.89	-\$0.16
2014 Farm Bill Margin (per cwt.)	\$5.77	\$6.83	\$7.91	-\$2.14
<b>Retail Dairy Product Prices</b>				
Fluid Milk (per gallon)	\$3.157	\$3.155	\$3.387	-\$0.230
Cheddar Cheese (per pound)	\$5.365	\$5.399	\$5.312	\$0.053

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### Looking Ahead *from page 4*

CME dairy futures. The USDA's MPP decision tool suggests a May–June margin below \$6 per hundredweight, which would be the lowest bimonthly MPP margin since the program began. After that, the margin will likely move back above \$8 and eventually to around \$10 during the second half of 2016. Following the substantial erosion of milk prices that took place during the

first part of the year, the generally optimistic undertone in these forecasts, coupled with similarly optimistic market reports from the Agricultural Marketing Service, indicates that market players are focusing more on the steady state of U.S. milk production and the strength of domestic dairy product demand and less on the continued erosion of exports and the growth of product inventories.

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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.