

Overview

Domestic use of milk continues to outpace production, but prolonged weakness in world dairy markets is weighing more heavily on U.S. milk prices, particularly the skim solids portions of farmers' milk checks. Butter and cheese inventories are increasing, which is both a cause and a symptom of the weakened market. The monthly Dairy Margin Protection Program (MPP-Dairy) margin, after spending the last third of 2015 well above the program's payout range, dropped back close to the \$8 threshold in January. Most forecasts now project the program will make payments every month through August, with the low point ranging from \$6.50 to \$7.00 per hundredweight. The forecasts indicate the all-milk price will average \$1.60–\$2.10 per hundredweight below 2015's average for all of 2016.

Commercial Use of Dairy Products

The long-term slide in U.S. fluid milk sales continues to moderate following several years of annual drops in the 1.5-to-3.5 percent range. Fluid sales were down by just 1.1 percent from a year earlier during the fourth quarter of 2015. Year-over-year growth in the domestic commercial use of butter and American-type cheese has slowed, to 1.4 and 1.1 percent, respectively, in the fourth quarter. However, domestic use of other cheese was up by almost 5 percent, and, in a manner analogous to fluid milk, the rate of decline in domestic nonfat dry milk has moderated to less than 10 percent. Commercial use of milk in all products was considerably stronger for skim milk solids than for milkfat.

U.S. Dairy Trade

U.S. exports continued to fall on an annual basis for three out of four dairy products whose prices translate rather directly into domestic milk prices due to their key roles in federal and state milk marketing order pricing. From November 2015 through January 2016, exports rose by almost 20 percent for nonfat dry milk/skim milk powder, but dropped for butter, cheddar cheese and dry whey. The United States exports a small portion of its cheese and butter, but its cheese exports are nevertheless substantial compared to those of its major competitors. As a result, exports do have some influence on domestic cheese prices. Because butter exports have shrunk to

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Domestic Commercial Use	Oct–Dec 2015	Oct–Dec 2014	2014–2015 Change	Percent Change
	(million pounds)			
Total Fluid Milk Products	12,811	12,949	-138	-1.1%
Butter	516	508	7	1.4%
American-type Cheese	1,151	1,138	13	1.1%
All Other Cheese	1,827	1,742	85	4.9%
Nonfat Dry Milk/Skim Milk Powders	228	246	-17	-7.1%
All Products (milk equiv., milkfat basis)	51,541	50,956	585	1.1%
All Products (milk equiv., skim solids basis)	44,077	42,360	1,717	4.1%

U.S. Dairy Trade *from page 1*

a small fraction of domestic production, domestic prices are determined primarily by U.S. demand for milkfat. By contrast, the United States exported about two-thirds of its dry whey production in 2015, causing low world prices to substantially determine the domestic price. The same holds true for nonfat dry milk/skim milk powder, for which 2015 exports were more than half of domestic production. Exports of all products during November–January were equivalent to 12.5 percent of U.S. milk solids production.

The annual rate of increase in U.S. dairy imports continues to rise for butter, casein and milk solids. Estimates put imports at

close to 4 percent of U.S. milk solids production during November 2015–January 2016, a volume not experienced since early 2009.

Milk Production

During November 2015–January 2016, U.S. milk production was again up by just 0.6 percent over a year ago. Cow losses from the winter storm in New Mexico and Texas reduced January’s annual production growth to slightly above flat for the country as a whole. January cow numbers were also similar to a year earlier. The last time the national herd grew as slowly was September 2012. Besides New Mexico and Texas, milk production dropped significantly faster, year-over-year, in January compared to December in Florida, Iowa and Illinois,

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U.S. Dairy Exports	Nov 2015–Jan 2016	Nov 2014–Jan 2015	2015–2016 Change	Percent Change
		(metric tons)		
Butter	2,618	5,641	-3,024	-54%
Anhydrous Milk Fat/Butteroil	2,876	3,409	-532	-16%
Cheddar Cheese	8,022	9,961	-1,938	-19%
American-type Cheese	8,507	10,752	-2,246	-21%
Total Cheese	69,634	75,645	-6,011	-8%
Nonfat Dry Milk / Skim Milk Powder	131,696	111,289	20,407	18%
Whole Milk Powder	3,627	12,538	-8,911	-71%
Dry Whey	63,280	78,342	-15,061	-19%
Whey Protein Concentrate/Isolate	32,009	30,420	1,589	5%
Lactose	89,167	80,230	8,936	11%
Percent of Milk Solids Exported	12.5%	12.8%	-0.3%	-2%

U.S. Dairy Imports	Nov 2015–Jan 2016	Nov 2014–Jan 2015	2015–2016 Change	Percent Change
		(metric tons)		
Butter	6,378	4,241	2,137	50%
Cheese	58,667	50,536	8,131	16%
Nonfat Dry Milk / Skim Milk Powder	416	712	-296	-42%
MPC (all protein levels)	15,455	14,639	816	6%
Casein	20,821	15,222	5,599	37%
Percent of Milk Solids Imported	3.9%	3.5%	0.5%	14%

Milk Production *from page 2*

and growth slowed considerably in Arizona in Minnesota. On the other hand, the pace of annual production growth picked up in January in Utah, Michigan, Idaho, Vermont and Kansas.

Dairy Products

During November 2015–January 2016, production of the major dairy commodities increased faster than milk output, except for the combined production of dry milk and whey products. This is a general trend that will probably continue. Even if milk production does not outpace the commercial use of milk,

manufactured products will likely expand at a somewhat faster rate, to counterbalance the change in fluid milk sales. This will require building new manufacturing facilities and upgrading current ones.

Dairy Product Inventories

Cold storage stocks of butter and cheese are still running well above a year ago, indicating production is outpacing commercial use and pressuring prices. For January, the monthly butter stocks-to-use ratio also rose above its 2014–2015 average. The corresponding January ratios for American-type cheese

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Milk & Dairy Products Production	Nov 2015–Jan 2016	Nov 2014–Jan 2015	2015–2016 Change	Percent Change
Milk Production				
Cows (1000 head)	9,318	9,299	19	0.2%
Per Cow (pounds)	5,569	5,548	21	0.4%
Total Milk (million pounds)	51,892	51,589	303	0.6%
Dairy Products Production	(million pounds)			
Cheese				
American Types	1,177	1,170	7	0.6%
Cheddar	854	838	16	1.9%
Italian Types	1,333	1,288	44	3.4%
Mozzarella	1,042	1,015	27	2.6%
Total Cheese	3,027	2,957	70	2.4%
Butter	500	494	6	1.2%
Dry Milk Products				
Nonfat Dry Milk	412	480	-68	-14%
Skim Milk Powder	140	117	22	19%
Dry Whey	262	222	40	17.9%
Whey Protein Concentrate	121	141	-20	-14.2%

Dairy Product Inventories	Jan 2016	Dec 2015	Jan 2015	2015–2016 Change
	(million pounds)			
Butter	196	155	149	32%
American Cheese	716	701	636	13%
Other Cheese	462	445	412	12%
Nonfat Dry Milk	227	204	240	-6%

Dairy Product Inventories *from page 3*

and other cheese remained above their two-year averages, while nonfat dry milk stocks-to-use increased to its two-year average.

Dairy Product and Federal Order Class Prices

The price of butter rose 6 cents in February, regaining some of the ground it lost with January's 50-cent drop. As reported by USDA's Agricultural Marketing Service, the February butter price was also 45 cents higher than in February 2015. In the same survey, dry whey prices gained a penny from the previous month, nonfat dry milk lost a penny and cheddar cheese stayed

the same. Both Class III and Class IV prices moved up modestly in February, due to the higher butter price that month, but the forward-priced Class I mover dropped by \$2.40 per hundred-weight due to the earlier drop in butter. That earlier fall in butter took \$2.69 per hundredweight off the Class I mover. This was offset to a small extent by a 29-cent increase in the mover's skim value, when the same butterfat drop caused a large increase in in the price of Class III skim, enabling it to move past Class IV skim to set the mover's skim value in February.

Milk and Feed Prices

Slight changes in the price of feed ingredients dropped the monthly MPP feed cost formula by 10 cents from December to

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Dairy Product and Federal Order Prices	Feb 2016	Jan 2016	Feb 2015	2015–2016 Change
AMS Commodity Prices		(per pound)		
Butter	\$2.135	\$2.076	\$1.682	\$0.453
Cheese	\$1.517	\$1.518	\$1.545	-\$0.028
Nonfat Dry Milk	\$0.769	\$0.778	\$1.031	-\$0.262
Dry Whey	\$0.247	\$0.235	\$0.517	-\$0.270
Class Prices for Milk		(per hundredweight)		
Class I Mover	\$13.64	\$16.04	\$16.24	-\$2.60
Class III	\$13.80	\$13.72	\$15.46	-\$1.66
Class IV	\$13.49	\$13.31	\$13.82	-\$0.33

Milk and Feed Prices	Jan 2016	Dec 2015	Jan 2015	2015–2016 Change
Producer Prices				
All Milk (per cwt.)	\$16.10	\$17.20	\$17.60	-\$1.50
Feed Prices				
Corn (per bushel)	\$3.66	\$3.65	\$3.82	-\$0.16
Soybean Meal (per ton)	\$280	\$290	\$380	-\$100
Alfalfa Hay (per ton)	\$147	\$150	\$170	-\$23
2014 Farm Bill Feed Cost (per cwt.)	\$8.00	\$8.10	\$9.22	-\$1.23
2014 Farm Bill Margin (per cwt.)	\$8.10	\$9.10	\$8.38	-\$0.27
Retail Dairy Product Prices				
Fluid Milk (per gallon)	\$3.313	\$3.310	\$3.758	-\$0.445
Cheddar Cheese (per pound)	\$5.411	\$5.328	\$5.401	\$0.010

Milk and Feed Prices *from page 4*

January. The average all-milk price fell by \$1.10 per hundredweight from December, to \$16.10, as anticipated by January's previously-announced federal order prices. The monthly MPP margin therefore fell by a dollar, to \$8.10 per hundredweight in January, just above the program's payout ceiling. February's federal order class prices point to a February all-milk price of \$15.50 per hundredweight. Recent weakness in dairy markets has lowered the futures market's opinion of where milk prices will track this year. The Chicago Mercantile Exchange futures

prices now indicate the all-milk price will bottom out at around \$14.70 per hundredweight in late spring, rise into the low- to mid-\$16 range by fall, and average approximately \$15.50 for the year. USDA's current forecast is a bit more bearish, projecting an average all-milk price in the range of \$14.95-\$15.55 per hundredweight in 2016.

The Bureau of Labor Statistics reported average retail prices were unchanged from December to January for whole milk. But cheddar cheese increased by 8 cents a pound, to approximately where it was a year earlier.

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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.