

Overview

The outlook for milk prices remains mostly positive, as milk production continues to grow modestly, but exports continue to lag. Despite recent inventory levels that range from high to historically high, prices for butter and cheese have been relatively strong, while nonfat dry milk prices have been recovering from depressed levels. Dry whey prices, however, remain under pressure. The Margin Protection Program will make a payment for July-August of approximately 30.5 cents per hundredweight on milk insured at the maximum \$8-per-hundredweight margin level, subject to sequestration. U.S. milk production continues to grow at a modest rate, as relatively strong growth in the Upper Midwest is largely balanced by declines in the West and Southwest.

Commercial Use of Dairy Products

According to the Department of Agriculture, fluid milk sales were one percent lower than a year ago during May-July. This was less than half the 2.3 percent average rate of decline in fluid sales since January 2014. There were strong gains in sales of all types of whole milk and of low-fat conventional milk. Pounds of milkfat in fluid sales were an estimated 0.5 percent higher than a year earlier, due to the gains in whole milk sales. Domestic commercial use of all cheese, nonfat milk powders, and milk in all products grew annually by nearly three percent during May-July.

U.S. Dairy Trade

During June-August, the United States exported about half as much American-type cheese as it did a year earlier, while total cheese exports were down by about one-quarter. Exports of nonfat milk powders and dry whey were down between 15 and 20 percent during the period, while lactose exports increased by about 20 percent. The year-over-year loss of exports in all product categories was equivalent to slightly more than two percent of U.S. milk solids production.

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Domestic Commercial Use	May–Jul 2015	May–Jul 2014	2014–2015 Change	Percent Change
	(million pounds)			
Total Fluid Milk Products	11,786	11,905	-119	-1.0%
Butter	424	425	-1	-0.3%
American-type Cheese	1,099	1,079	20	1.9%
All Other Cheese	1,669	1,625	44	2.7%
Nonfat Dry Milk / Skim Milk Powders	258	249	9	3.8%
All Products (milk equiv., milkfat basis)	51,306	50,099	1,207	2.4%
All Products (milk equiv., skim solids basis)	43,870	42,717	1,153	2.7%

U.S. Dairy Trade *from page 1*

Dairy imports continue to grow, particularly for milk protein concentrate and for butter and milkfat in other products. Import growth in all product categories during June-August compared with a year earlier was 0.7 percent of U.S. milk solids production.

Milk Production

U.S. milk production grew by one percent during June-August from a year earlier. Of the 23 states USDA reports on monthly, production decreased in six, representing one-third of total production. Production was down by 3.1 percent in these states, which are mostly in an arc through the West Coast and the Southwest. They include Washington, Oregon, California, New Mexico and Texas. Arizona, with a 1.5 percent increase, was an exception. Milk production rose by more than three percent in

another six of the 23 monthly reported states, also representing about one-third of total production. These states, which collectively increased production by 5.1 percent, were mostly in the Upper Midwest, including South Dakota, Minnesota, Iowa, Wisconsin and Michigan. New York also increased production.

Dairy Product Production

Production of all cheese as well as most of the major cheese categories grew considerably faster than milk production during June-August. And it grew slightly faster than domestic cheese use. Production and commercial use grew at about the same rate during the period. However, lower exports and increased imports for both cheese and butter have caused a buildup in stocks of both. Combined production of nonfat milk powders was down by two percent, while combined production of dry whey and whey protein concentrate was up by four percent.

U.S. Dairy Exports	Jun–Aug 2015	Jun–Aug 2014	2014–2015 Change	Percent Change
		(metric tons)		
Butter	5,231	12,212	-6,981	-57%
Anhydrous Milk Fat/Butteroil	383	2,529	-2,146	-85%
Cheddar Cheese	9,033	17,926	-8,893	-50%
American-type Cheese	9,449	19,261	-9,812	-51%
Total Cheese	74,557	97,386	-22,830	-23%
Nonfat Dry Milk / Skim Milk Powder	130,039	158,130	-28,091	-18%
Whole Milk Powder	7,683	14,724	-7,041	-48%
Dry Whey	78,200	93,007	-14,807	-16%
Whey Protein Concentrate/Isolate	30,675	31,803	-1,128	-4%
Lactose	95,777	80,405	15,372	19%
Percent of Milk Solids Exported	13.9%	16.0%	-2.1%	-13%

U.S. Dairy Imports	Jun–Aug 2015	Jun–Aug 2014	2014–2015 Change	Percent Change
		(metric tons)		
Butter	5,480	2,838	2,641	93%
Cheese	50,051	39,586	10,466	26%
Nonfat Dry Milk/Skim Milk Powder	1,597	1,344	253	19%
MPC (all protein levels)	14,987	9,260	5,727	62%
Casein	20,028	18,469	1,559	8%
Percent of Milk Solids Imported	3.8%	3.1%	0.7%	22%

Dairy Product Inventories

Butter in cold storage dropped by 45 million pounds from July to August, but August stocks were still more than 20 percent higher than year-ago levels. Manufacturers' stocks of nonfat dry milk dropped 39 million pounds from July to August, to just below year-ago levels. August stocks of American and other cheeses are higher than a year ago, by approximately the same volume, reaching the third-highest monthly level since at least 2000. July stocks of other than American-type cheese were the highest since at least 2000, and August stocks were the second highest. July stocks of nonfat dry milk were also at their highest level since at least 2000, but August stocks were down out of record territory.

Dairy Product and Federal Order Class Prices

Despite the run up in butter prices during September, the USDA monthly survey price was more than 40 cents below the record September 2014 survey price. By comparison, the monthly price for dry whey was toward the low end of its historical price range. The tight domestic supply-demand situation for milkfat in all products contrasts with the depressed world market, which has held down dry product prices. The August and September survey prices for nonfat dry milk were the lowest and second lowest in the 15-year history of the USDA survey. The September dry whey survey price is the lowest since 2009. Dairy futures markets

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Milk & Dairy Products Production	May–Jul 2015	May–Jul 2014	2014–2015 Change	Percent Change
Milk Production				
Cows (1000 head)	9,321	9,269	52	0.6%
Per Cow (pounds)	5,633	5,608	25	0.4%
Total Milk (million pounds)	52,506	51,982	524	1.0%
Dairy Products Production				
		(million pounds)		
Cheese				
American Types	1,165	1,126	39	3.5%
Cheddar	839	804	34	4.3%
Italian Types	1,252	1,220	32	2.6%
Mozzarella	985	975	10	1.0%
Total Cheese	2,929	2,845	84	2.9%
Butter	404	408	-4	-1.0%
Dry Milk Products				
Nonfat Dry Milk	445	432	13	3%
Skim Milk Powder	108	136	-27	-20%
Dry Whey	250	224	26	11.6%
Whey Protein Concentrate	120	133	-13	-10.0%

Dairy Product Inventories	Aug 2015	Jul 2015	Aug 2014	2014–2015 Change
		(million pounds)		
Butter	209	254	173	21%
American Cheese	709	698	649	9.3%
Other Cheese	459	464	393	17%
Nonfat Dry Milk	231	270	236	-2%

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

suggest that nonfat dry milk prices will rebound more strongly than dry whey prices, which are burdened by expectations that China's aging but extensive stocks of whole milk powder will soon be diverted to animal feed. Monthly survey prices for cheese have been hovering somewhat above the mid-point of their historical range. These price movements are reflected in USDA's class prices for September. Class III prices moved down while Class I prices, driven by advanced Class III skim prices, were steady. Class IV prices increased rapidly, closing much of the large gap between Class III and Class IV that has persisted since world skim milk powder prices fell substantially more than a year ago.

Milk and Feed Prices

The August all-milk price reported by USDA's National Agricultural Statistics Service was 10 cents a hundredweight higher than the July price. The August Federal order class prices suggested an all-milk price of \$16.80 per hundredweight, which was just 10 cents off the price subsequently reported. The September class prices indicate that the September all-milk price will be up again, to approximately \$17.30 per hundredweight. The Margin Protection Program feed cost formula dropped almost 40 cents a hundredweight from July to August on lower prices for all three price components. These price movements produced a rise of almost 50 cents a hundredweight in the MPP margin from July to August. USDA's announced margin for the two-month

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Dairy Product and Federal Order Prices	Sept 2015	Aug 2015	Sept 2014	2014–2015 Change
AMS Commodity Prices		(per pound)		
Butter	\$2.445	\$2.044	\$2.853	-\$0.408
Cheese	\$1.715	\$1.739	\$2.347	-\$0.633
Nonfat Dry Milk	\$0.801	\$0.744	\$1.472	-\$0.671
Dry Whey	\$0.244	\$0.311	\$0.673	-\$0.428
Class Prices for Milk		(per hundredweight)		
Class I Mover	\$16.34	\$16.28	\$23.63	-\$7.29
Class III	\$15.82	\$16.27	\$24.60	-\$8.78
Class IV	\$15.08	\$12.90	\$22.58	-\$7.50

Milk and Feed Prices	Aug 2015	Jul 2015	Aug 2014	2014–2015 Change
Producer Prices				
All Milk (per cwt.)	\$16.70	\$16.60	\$24.20	-\$7.50
Feed Prices				
Corn (per bushel)	\$3.68	\$3.80	\$3.63	\$0.05
Soybean Meal (per ton)	\$358	\$376	\$490	-\$132
Alfalfa Hay (per ton)	\$159	\$169	\$207	-\$48
2014 Farm Bill Feed Cost (per cwt.)	\$8.76	\$9.15	\$10.33	-\$1.58
2014 Farm Bill Margin (per cwt.)	\$7.94	\$7.45	\$13.87	-\$5.92
Retail Dairy Product Prices				
Fluid Milk (per gallon)	\$3.389	\$3.430	\$3.673	-\$0.284
Cheddar Cheese (per pound)	\$5.336	\$5.376	\$5.580	-\$0.244

Milk and Feed Prices *from page 4*

period was \$7.69510 per hundredweight. This triggered a program payment of \$0.3049 per hundredweight on all milk insured at the maximum \$8 per hundredweight margin coverage level. Payments to producers will be subject to sequestration, a congressional budget requirement that will reduce payments

by several percentage points. Dairy and grain futures indicate that the MPP margin will be higher than \$8 for the remainder of 2015.

Average retail prices for both whole milk and cheddar cheese, as reported by the Bureau of Labor Statistics, continued their slow decline in August, following increases in July.

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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.