

Overview

The U.S. Department of Agriculture (USDA) reported that the U.S. average all-milk price rose \$0.60 from May to \$17.30 per hundredweight in June, the first significant monthly increase in milk prices since last December. Modest reductions in grain and hay prices moved the June monthly Margin Protection Program (MPP) feed cost formula calculation down by \$0.12 from May to \$7.97 per hundredweight. The bimonthly MPP margin for May–June was \$8.97 per hundredweight, up \$0.02 from the March–April margin. The further easing of the milk production buildup of the past year or so has contributed to lower product stocks, and ultimately to stronger milk prices. The U.S. dairy trade balance during the second quarter increased by the equivalent of a full percentage point of total domestic milkfat production.

Commercial Use of Dairy Products

Domestic use of cheese showed growth for both American-type and other types during March–May. This was the first time in several months that both types of cheese sustained year-over-year growth during a three-month period. Commercial use of milk in all dairy products increased by more than 2 percent on a milkfat basis during the period, also for the first time in several months. Butter showed strong growth, as well, while nonfat dry milk continued to be pulled away from the domestic market to supply rebounding exports of skim milk powder. Fluid milk sales were down 1.7 percent during March–May, but total milkfat use in all fluid products remained about the same as a year earlier.

U.S. Dairy Trade

U.S. exports of other than American-type cheese, skim milk powder and dry whey contributed large year-over-year volume gains during April–June, while whey protein concentrate and isolate exports showed significant volume drops. The largest volume gains in cheese exports during the period were from shipments to Mexico, South Korea, Japan, Australia and the Philippines. Butter exports showed a large percentage gain, with most of the increased volume again going to Canada. U.S. exports of anhydrous milkfat to Canada were also up over the prior year during the second quarter.

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Domestic Commercial Use	Mar–May 2017	Mar–May 2016	2016–2017 Change	Percent Change
	(million pounds)			
Total Fluid Milk Products	12,130	12,345	-215	-1.7%
Butter	463	429	34	7.8%
American-type Cheese	1,163	1,141	23	2.0%
All Other Cheese	1,779	1,765	15	0.8%
Nonfat Dry Milk / Skim Milk Powders	275	341	-66	-19.2%
All Products (milk equiv., milkfat basis)	52,637	51,492	1,145	2.2%
All Products (milk equiv., skim solids basis)	45,861	46,735	-874	-1.9%

U.S. Dairy Trade *from page 1*

U.S. dairy product imports continued to fall below year-ago levels during the second quarter, totaling the equivalent of 3.3 percent of total U.S. milk solids production, compared with 3.7 percent during the second quarter of 2016. Butter imports increased, but imports of milk protein concentrates were again below year-ago levels during the second quarter.

Milk Production

U.S. milk production was up by 1.8 percent over a year earlier during the second quarter. The corresponding monthly numbers were 2.1 percent for April, 1.8 percent for May and 1.6 percent for June, indicating a clear slowing of the production build up that began almost a year ago. Falling production per cow continues to drive the slowdown in milk production growth by outpacing a gradual increase in cow numbers. The Southern Plains and

Southwest is the only major area of the country where significant production growth occurred during the second quarter. Total dairy cow numbers in the United States were 77,000 higher than a year earlier during the second quarter. There were 71,000 more cows than a year ago in April and 78,000 more in both May and June.

Dairy Products

As growth in U.S. milk production continues to moderate, so has that of Cheddar cheese production. Although Cheddar production was 5.3 percent higher than a year ago during the second quarter, it was up 7.8 percent over a year earlier during the first quarter. Gains in total American-type cheese production, however, have yet to begin to ease back to a more sustainable level, but production of other than American-type cheese is beginning to show increased growth after several months of expansion by less than 2 percent annually.

U.S. Dairy Exports	Apr–Jun 2017	Apr–Jun 2016	2016–2017 Change	Percent Change
		(metric tons)		
Butter	5,753	2,618	3,134	120%
Anhydrous Milk Fat/Butteroil	1,248	329	918	279%
Cheddar Cheese	9,860	7,129	2,731	38%
American-type Cheese	9,949	7,222	2,726	38%
Total Cheese	92,827	68,090	24,737	36%
Nonfat Dry Milk/Skim Milk Powder	160,031	132,560	27,471	21%
Whole Milk Powder	5,174	7,805	-2,632	-34%
Dry Whey	91,036	79,400	11,636	15%
Whey Protein Concentrate/Isolate	39,767	49,870	-10,103	-20%
Lactose	86,072	89,822	-3,751	-4%
Percent of Milk Solids Exported	14.6%	14.0%	0.5%	4%

U.S. Dairy Imports	Apr–Jun 2017	Apr–Jun 2016	2016–2017 Change	Percent Change
		(metric tons)		
Butter	6,629	5,556	1,073	19%
Cheese	45,330	45,642	-312	-1%
Nonfat Dry Milk/Skim Milk Powder	122	490	-368	-75%
MPC (all protein levels)	10,685	14,791	-4,107	-28%
Casein	16,382	16,490	-108	-1%
Percent of Milk Solids Imported	3.3%	3.7%	-0.4%	-11%

Dairy Product Inventories

Stocks of American-type cheese declined in June from a month earlier, both in volume and in terms of days of commercial use. June-ending stocks represented just over 56 days of use, which was just slightly more than would be expended based on the trend of this indicator. By contrast, stocks at the end of March were nine days over the trend indication. Stocks of other than American-type cheese have been close to, or slightly below, their trend average since 2011. Although large by many measures, butter stocks at the end of June were balanced when seasonality is taken into account. June-ending stocks of nonfat dry milk were 8.5 days of use in excess of normal.

Dairy Product and Federal Order Class Prices

The monthly dairy product prices reported for July by USDA's Agricultural Marketing Service (AMS) revealed mixed trends. Butter prices were up almost \$0.20 a pound from a month earlier and are likely to rise further through late fall this year. The Cheddar cheese survey price has been variable, dropping \$0.09 from June to July, settling back at the level it was in May. Nonfat dry milk prices have crept back up to about \$0.90 a pound, a level they have struggled to attain and hold for the past two years. Dry whey prices rebounded more strongly from a lull of similar length, but have weakened again in more recent

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Milk and Dairy Products Production	Apr–Jun 2017	Apr–Jun 2016	2016–2017 Change	Percent Change
Milk Production				
Cows (1,000 head)	9,400	9,322	77	0.8%
Per Cow (pounds)	5,884	5,828	56	1.0%
Total Milk (million pounds)	55,308	54,331	977	1.8%
Dairy Products Production		(million pounds)		
Cheese				
American Types	1,254	1,193	61	5.1%
Cheddar	919	873	46	5.3%
Italian Types	1,349	1,319	30	2.3%
Mozzarella	1,048	1,026	22	2.2%
Total Cheese	3,127	3,011	116	3.8%
Butter	467	485	-18	-3.8%
Dry Milk Products				
Nonfat Dry Milk	504	484	20	4.2%
Skim Milk Powder	141	150	-9	-5.8%
Dry Whey	255	244	11	4.6%
Whey Protein Concentrate	126	116	9	7.9%

Dairy Product Inventories	Jun 2017	May 2017	Jun 2016	2016–2017 Change
		(million pounds)		
Butter	310	314	328	-5%
American Cheese	810	837	757	7%
Other Cheese	507	493	493	3%
Nonfat Dry Milk	298	281	231	29%

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

months. The lower cheese and whey prices brought the July Class III price down by about a dollar per hundredweight from its level in June. By contrast, the higher butter price for July raised the July Class IV price by just over \$0.70 per hundredweight from June.

Milk and Feed Prices

USDA's National Agricultural Statistics Service (NASS) reported the first significant monthly increase in milk prices since last December, when it reported the U.S. average all-milk price rose \$0.60 per hundredweight from May to \$17.30 per hundredweight in June. June's higher Class III and Class IV prices were the

primary driver of this increase. As harvest season approaches, markets are reflecting a more realistic assessment of the grain supply-demand situation, with corn and soybean meal prices showing modest declines in June, as reported by NASS and AMS. NASS reported a drop in the alfalfa hay price from a month earlier for the first time since last December. Combined, these reductions moved the June monthly MPP feed cost formula calculation down by \$0.12 from May to \$7.97 per hundredweight, resulting in a June MPP margin of \$9.33 per hundredweight. The bimonthly MPP margin for May–June was \$8.97 per hundredweight, up \$0.02 from the March–April margin.

The U.S. average retail price of whole milk continued its slow decline in June, while the June natural Cheddar cheese retail

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Dairy Product and Federal Order Prices	Jul 2017	Jun 2017	Jul 2016	2016–2017 Change
AMS Commodity Prices		(per pound)		
Butter	\$2.604	\$2.407	\$2.316	\$0.288
Cheese	\$1.543	\$1.629	\$1.642	-\$0.099
Nonfat Dry Milk	\$0.899	\$0.914	\$0.836	\$0.063
Dry Whey	\$0.451	\$0.492	\$0.274	\$0.177
Class Prices for Milk		(per hundredweight)		
Class I Mover	\$16.59	\$15.31	\$13.70	\$2.89
Class III	\$15.45	\$16.44	\$15.24	\$0.21
Class IV	\$16.60	\$15.89	\$14.84	\$1.76

Milk and Feed Prices	Jun 2017	May 2017	Jun 2016	2016–2017 Change
Producer Prices				
All Milk (per cwt.)	\$17.30	\$16.70	\$14.80	\$2.50
Feed Prices				
Corn (per bushel)	\$3.43	\$3.45	\$3.82	-\$0.39
Soybean Meal (per ton)	\$301	\$308	\$409	-\$108
Alfalfa Hay (per ton)	\$152	\$155	\$142	\$10
2014 Farm Bill Feed Cost (per cwt.)	\$7.97	\$8.09	\$9.05	-\$1.07
2014 Farm Bill Margin (per cwt.)	\$9.33	\$8.61	\$5.75	\$3.57
Retail Dairy Product Prices				
Fluid Milk (per gallon)	\$3.213	\$3.242	\$3.115	\$0.098
Cheddar Cheese (per pound)	\$4.797	\$4.748	\$5.269	-\$0.472

Milk and Feed Prices *from page 4*

price rose from May but remained below \$5 a pound for the eighth straight month, as reported by the U.S. Bureau of Labor Statistics.

Looking Ahead

USDA lowered its forecast of 2017 U.S. milk production in August, as it has done the preceding four months. The department currently projects the nation will produce 1.8 percent more milk this year than during 2016, adjusted for the leap year. Last March, the forecast was for a 2.7 percent increase. The August forecast implies that production will increase by 1.6 percent year-over-year during the second half of this year. USDA has reported a falling monthly

growth rate for production for the past several months, with June up 1.6 percent over June 2016, so it is likely that further reductions in the the department's 2017 milk production forecasts will be made in the coming months. The department has made similar steady reductions in its 2018 milk production forecasts since it began in May to report its outlook projections for next year. It currently projects the U.S. average all-milk price for all of 2017 will be between \$17.90-\$18.00 per hundredweight. This is consistent with Chicago Mercantile Exchange dairy futures settlement prices at the time the department's August forecasts were reported, and would mean a \$1.60 per hundredweight increase in this year's average milk price compared with 2016. USDA's forecasts are reported in its monthly *World Agricultural Supply and Demand Estimates (WASDE)* reports.

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