

Overview

Driven by a \$2.00/cwt. drop in the U.S. all-milk price, the monthly margin under the Margin Protection Program (MPP) fell by \$2.27/cwt. over the two months from November to January, to just over \$8.00/cwt. The Bipartisan Budget Act of 2018, enacted earlier this year, made significant changes to the MPP and created additional risk management options for farmers. Milk production growth had been dwindling relatively steadily during 2017, but showed signs of increasing again in January. Domestic consumption of all dairy products was down slightly year-over-year during November–January, but exports were up from a year earlier by a full percentage point of domestic milk solids production during the same period.

Commercial Use of Dairy Products

The domestic commercial use of milk in all dairy products was down slightly over a year earlier during November 2017–January 2018 when measured on both a milkfat and a skim solids basis – the first consecutive three-month period for which this occurred since the first quarter of 2017. This likely resulted from continued loss of fluid sales combined with lackluster cheese consumption during the period.

U.S. Dairy Trade

U.S. exports of all cheese types have increased year-over-year during consecutive three-month periods for at least the past 12 months, while dry whey exports have done the same for a

year and a half. With the exception of just a few periods, butter exports have done the same for almost as long. These gains have helped U.S. dairy exports recover from their slump in 2015 and 2016. Total U.S. dairy exports were equivalent to 15.4 percent of domestic milk solids production during November 2017 through January 2018, a full percentage point above the same period a year earlier. Exports represented 12.7 percent and 12.6 percent of domestic production during the same months, respectively, in 2015 and 2016. For the major U.S. dry ingredient export products, exports as a percent of domestic production during November 2017–January 2018 were 60 percent for nonfat dry milk/skim milk powder, 53 percent for dry whey, 76 percent for whey protein concentrate and 77 percent for lactose.

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Domestic Commercial Use	Nov 2017–Jan 2018	Nov 2016–Jan 2017	2017–2018 Change	Percent Change
	(million pounds)			
Total Fluid Milk Products	12,497	12,743	-246	-1.9%
Butter	495	491	3	0.7%
American-type Cheese	1,241	1,234	7	0.6%
All Other Cheese	1,880	1,856	24	1.3%
Nonfat Dry Milk /Skim Milk Powders	202	263	-61	-23.1%
All Products (milk equiv., milkfat basis)	52,826	52,862	-36	-0.1%
All Products (milk equiv., skim solids basis)	43,698	44,669	-971	-2.2%

U.S. Dairy Trade *from page 1*

U.S. imports were below year-ago levels by double-digit percentages for the major import categories of butter, cheese, milk protein concentrate and casein during November 2017–January 2018. These four categories represented 57 percent of the milk solids equivalent of all U.S. dairy imports during calendar year 2017.

Milk Production

U.S. milk production increased during September through December last year at an unusually constrained rate of 1.1 percent over the previous year, with no single month increasing by more than 1.2 percent. Then production expanded by 1.8 percent in January, nudging up the three-month growth rate during November 2017–January 2018 to 1.2 percent from the same period a year ago. Contributing to the faster expansion in January were accelerations in the major milk producing states

of California, Idaho and Washington. Furthermore, steady increases in the milk solids content of U.S. milk production in recent years have caused the farm-level production of milk solids, and hence the yield of milk in the production of most dairy products, to grow year-over-year at a faster rate than milk production itself. Using USDA estimates of monthly milk composition, U.S. production of milk solids (milkfat plus skim solids) increased by 1.8 percent during November–January from a year earlier, compared with 1.2 percent growth of raw milk production during the same period.

Dairy Products

The period of November 2017–January 2018 marked several turning points in production trends for U.S. dairy products. Year-over-year growth during the period was the lowest for a consecutive three-month period in more than a year for American-type cheese, Cheddar cheese in particular. Consecutive

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U.S. Dairy Exports	Nov 2017–Jan 2018	Nov 2016–Jan 2017	2017–2018 Change	Percent Change
		(metric tons)		
Butter	6,567	5,936	630	11%
Anhydrous Milk Fat/Butteroil	2,122	865	1,257	145%
Cheddar Cheese	9,734	8,134	1,600	20%
American-type Cheese	9,803	8,194	1,609	20%
Total Cheese	83,551	76,237	7,314	10%
Nonfat Dry Milk/Skim Milk Powder	164,989	148,817	16,173	11%
Whole Milk Powder	7,171	9,921	-2,750	-28%
Dry Whey	99,711	85,938	13,773	16%
Whey Protein Concentrate/Isolate	53,203	47,914	5,290	11%
Lactose	96,989	90,711	6,278	7%
Percent of Milk Solids Exported	15.4%	14.4%	1.0%	7%
U.S. Dairy Imports	Nov 2017–Jan 2018	Nov 2016–Jan 2017	2017–2018 Change	Percent Change
		(metric tons)		
Butter	5,461	6,130	-669	-11%
Cheese	48,013	54,159	-6,146	-11%
Nonfat Dry Milk/Skim Milk Powder	347	59	288	490%
MPC (all protein levels)	12,940	16,739	-3,799	-23%
Casein	16,682	20,350	-3,668	-18%
Percent of Milk Solids Imported	3.3%	3.9%	-0.6%	-15%

Dairy Products *from page 2*

three-month growth was highest in more than a year for both Italian-type cheese and for mozzarella, and it was also highest in a year and a half for butter.

Dairy Product Inventories

Butter stocks increased seasonally in January. The December–January, post-holiday increase is typically equivalent to 16 days of commercial use, but this year the jump was almost 20 days of use. End-of-January, nonfat dry milk stocks were also excessive by the days-of-use criterion, by about 100 million pounds in volume. American cheese stocks are down by almost 100 million

pounds from their peak last year, and are coming more in line with normal stocks-to-use ratios. USDA’s March 9 Dairy Market News commented that “cheese inventories are generally in balance with demand” outside of the western United States.

Dairy Product and Federal Order Class Prices

Three of the four USDA/AMS-reported dairy product prices moved lower in February from the month before. This was the sixth monthly drop in a row for butter, the third for Cheddar cheese and the tenth for dry whey. Nonfat dry milk barely reversed a previous seven-month losing streak by inching up a penny in

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Milk and Dairy Products Production	Nov 2017–Jan 2018	Nov 2016–Jan 2017	2017–2018 Change	Percent Change
Milk Production				
Cows (1,000 head)	9,400	9,351	49	0.5%
Per Cow (pounds)	5,720	5,679	41	0.7%
Total Milk (million pounds)	53,768	53,107	661	1.2%
Dairy Products Production				
		(million pounds)		
Cheese				
American Types	1,265	1,237	28	2.3%
Cheddar	916	904	12	1.4%
Italian Types	1,393	1,355	38	2.8%
Mozzarella	1,078	1,050	28	2.7%
Total Cheese	3,229	3,132	97	3.1%
Butter	503	484	19	3.9%
Dry Milk Products				
Nonfat Dry Milk	468	436	31	7.2%
Skim Milk Powder	138	157	-20	-12.6%
Dry Whey	254	234	21	8.8%
Whey Protein Concentrate	128	118	10	8.0%

Dairy Product Inventories	Jan 2018	Dec 2017	Jan 2017	2017–2018 Change
		(million pounds)		
Butter	224	169	222	1%
American Cheese	738	747	722	2%
Other Cheese	537	534	470	14%
Nonfat Dry Milk	340	320	227	50%

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

February. In February, the Class III price was the lowest since June 2016, Class IV the lowest since April 2016, and the Class I mover the lowest since July 2016.

Milk and Feed Prices

The monthly U.S. average all-milk price dropped by \$2.00/cwt. in the two months from November to January. The monthly MPP margin lost \$2.27/cwt. over the same two months. The November MPP margin, \$10.39/cwt., was the highest since February 2017, while the January margin, \$8.12/cwt., was the lowest since July 2016. The Bipartisan Budget Act of 2018, enacted earlier this

year, changed the frequency of MPP payments from bimonthly to monthly, so the MPP bimonthly margins are no longer relevant for the program. Other changes the Act made to the program include substantially lowering the premiums for buy-up coverage up to 5 million pounds of production history, and raising the free, catastrophic coverage level from \$4/cwt. to \$5/cwt. on a farm's first 5 million pounds of production history.

The average retail price of whole milk in the United States was almost \$0.20-a-gallon less in January than just a month earlier, according to the Bureau of Labor Statistics. BLS data also shows that the U.S. average retail price of Cheddar cheese has been hovering around \$5.00 for the five consecutive months through January.

Dairy Product and Federal Order Prices	Feb 2018	Jan 2018	Feb 2017	2017–2018 Change
AMS Commodity Prices		(per pound)		
Butter	\$2.111	\$2.197	\$2.176	-\$0.065
Cheese	\$1.473	\$1.518	\$1.687	-\$0.214
Nonfat Dry Milk	\$0.708	\$0.697	\$0.993	-\$0.284
Dry Whey	\$0.253	\$0.276	\$0.489	-\$0.237
Class Prices for Milk		(per hundredweight)		
Class I Mover	\$14.25	\$15.44	\$16.73	-\$2.48
Class III	\$13.40	\$14.00	\$16.88	-\$3.48
Class IV	\$12.87	\$13.13	\$15.59	-\$2.72

Milk and Feed Prices	Jan 2018	Dec 2017	Jan 2017	2017–2018 Change
Producer Prices				
All Milk (per cwt.)	\$16.10	\$17.20	\$18.90	-\$2.80
Feed Prices				
Corn (per bushel)	\$3.29	\$3.23	\$3.40	-\$0.11
Soybean Meal (per ton)	\$323	\$319	\$332	-\$10
Alfalfa Hay (per ton)	\$152	\$148	\$128	\$24
2014 Farm Bill Feed Cost (per cwt.)	\$7.98	\$7.84	\$7.84	\$0.14
2014 Farm Bill Margin (per cwt.)	\$8.12	\$9.36	\$11.06	-\$2.94
Retail Dairy Product Prices				
Fluid Milk (per gallon)	\$2.961	\$3.155	\$3.318	-\$0.357
Cheddar Cheese (per pound)	\$5.021	\$4.950	\$4.933	\$0.088

Looking Ahead

In its March forecast update, USDA increased its projection of this year's milk production, following nine months of almost steady reductions. It also raised its forecast for total commercial use of milk, based on expectations of increased U.S. exports of cheese and whey. It raised its price forecasts for cheese and butter, but lowered them for nonfat dry milk and dry whey, and left

its 2018 U.S. average all-milk price forecast unchanged at the midpoint of \$16.05/cwt. In mid-March, the CME futures indicated that the 2018 average all-milk price would be around \$16.20/cwt. The average all-milk price for all of 2017 was \$17.60/cwt. Also in mid-March, USDA's on-line MPP Decision Tool was projecting that the MPP margins would be below \$8.00/cwt. from February through July or August this year. USDA will soon re-open sign-up for MPP coverage for 2018, as directed by Congress.

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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.