

Overview

Four straight months of rising milk prices and three straight months of falling feed costs have brought some financial relief to U.S. dairy producers from the tough conditions of early last summer. The average all-milk price moved from \$14.50 per hundredweight last May to \$17.30 in September, while the monthly Margin Protection Program (MPP) margin formula rose from \$5.75 per hundredweight last June to \$9.48 in September. The world dairy market and U.S. dairy export outlook also continue to brighten, but rising U.S. milk production is complicating the forecast for the coming year.

Commercial Use of Dairy Products

During June–August, sales of fluid milk products were 1 percent below the same period a year earlier. Domestic commercial use of butter and nonfat dry milk were lower following several months of growth. The growth rate of other than American-type cheese, as well as the use of milk in all dairy products, slowed from earlier in the year. Use of American-type cheese, however, increased by 4.2 percent, a significantly higher growth rate than earlier in 2016.

U.S. Dairy Trade

U.S. cheese exports were just 2 percent below a year earlier during July–September after falling by more than 20 percent earlier in 2016.

Rates of decline for butter and American-type cheese exports, including Cheddar, have also slowed in recent months, but were still more than 20 percent for the period compared to a year earlier. Rates of export growth for nonfat dry milk/skim milk powder were strong after declines earlier in 2016. The United States exported the equivalent of 15.1 percent of its milk solids during July–September, compared to 13.9 percent a year earlier.

Butter imports were fewer than a year earlier during July–September for the first time in several years. However, milk protein concentrate imports rose by more than a third after being down for most of the year. Casein imports continue to drop by double-digit percentages, as they have all year. But the percent of total U.S.

continued on page 2

Domestic Commercial Use	Jun–Aug 2016	Jun–Aug 2015	2015–2016 Change	Percent Change
	(million pounds)			
Total Fluid Milk Products	11,669	11,790	-121	-1.0%
Butter	435	461	-26	-5.6%
American-type Cheese	1,169	1,122	47	4.2%
All Other Cheese	1,757	1,701	56	3.3%
Nonfat Dry Milk / Skim Milk Powders	246	297	-52	-17.3%
All Products (milk equiv., milkfat basis)	52,544	52,463	81	0.2%
All Products (milk equiv., skim solids basis)	44,611	44,564	47	0.1%

U.S. Dairy Trade *from page 1*

production represented by imports was up slightly, at 3.8 percent, compared with 3.6 percent a year earlier.

Milk Production

U.S. milk production was 1.7 percent higher than a year earlier during July-September. Monthly growth—1.5 percent in July, 1.7 percent in August and 2.1 percent in September—indicates that U.S. milk production is expanding after an extended period of very slow growth. However, this is less the result of individual states accelerating their production than it is a gradual recovery from extended losses by several states with large production volumes. Extended losses in those states had held down growth in the country as a whole. In September, 15 of the 23 states for which USDA reports monthly milk production saw increases compared to September 2015. Most of this increase, which totaled

394 million pounds, came from just five states: Idaho, Michigan, New York, Texas and Wisconsin. Together, these states produced 284 million pounds more milk than a year ago. Eight of the 23 monthly reporting states lost production from a year ago, but by just 28 million pounds in all. The net increase in production from these 23 states was 366 million pounds, while nationally production was up by 350 million pounds. The difference was a net loss of 16 million pounds among the 27 states for which milk production is reported only quarterly. During the July-September quarter, only four of these 27 states had higher production than a year earlier. And in only one, Nebraska, was the increase significant.

Dairy Products

Production of Cheddar and all American-type cheeses continued to drop during July-September, while mozzarella and all Italian-type

continued on page 3

U.S. Dairy Exports	Jul–Sept 2016	Jul–Sept 2015	2015–2016 Change	Percent Change
		(metric tons)		
Butter	3,157	4,311	-1,154	-27%
Anhydrous Milk Fat/Butteroil	685	540	145	27%
Cheddar Cheese	6,276	7,925	-1,649	-21%
American-type Cheese	6,352	8,404	-2,052	-24%
Total Cheese	68,725	70,363	-1,638	-2%
Nonfat Dry Milk/Skim Milk Powder	150,596	130,610	19,987	15%
Whole Milk Powder	19,285	7,802	11,483	147%
Dry Whey	86,858	69,398	17,460	25%
Whey Protein Concentrate/Isolate	45,911	35,904	10,008	28%
Lactose	92,341	96,514	-4,173	-4%
Percent of Milk Solids Exported	15.1%	13.9%	1.2%	8%

U.S. Dairy Imports	Jul–Sept 2016	Jul–Sept 2015	2015–2016 Change	Percent Change
		(metric tons)		
Butter	5,299	6,173	-874	-14%
Cheese	47,344	50,714	-3,370	-7%
Nonfat Dry Milk/Skim Milk Powder	26	1,947	-1,921	-99%
MPC (all protein levels)	12,496	9,152	3,344	37%
Casein	16,355	18,936	-2,581	-14%
Percent of Milk Solids Imported	3.8%	3.6%	0.3%	8%

Dairy Products *from page 2*

cheese continued to grow strongly. Butter production was up 2.5 percent, which was a slowdown from earlier in 2016. Production of dry whey and whey protein concentrate was lower, but skim milk powder production continued to rise by more than 30 percent, as exports recovered.

Dairy Product Inventories

Commercial inventories of butter dropped significantly from the end of August to the end of September, when they represented 43.3 days of total commercial use. That's five days less than the average for that month. September-ending stocks of American-type

cheese rose slightly from a month earlier, to the equivalent of 58.9 days of commercial use, almost five days above average. Stocks of other cheese and nonfat dry milk were both close to their respective average levels at the end of September.

Dairy Product and Federal Order Class Prices

Monthly prices surveyed by USDA's Agricultural Marketing Service for nonfat dry milk and dry whey were higher in October than in September, the sixth straight month-to-month increase for both products. This reflects steady improvements in world markets for skim milk ingredients due to improving

continued on page 4

Milk & Dairy Products Production	Jul–Sept 2016	Jul–Sept 2015	2015–2016 Change	Percent Change
Milk Production				
Cows (1000 head)	9,337	9,314	23	0.2%
Per Cow (pounds)	5,632	5,549	83	1.5%
Total Milk (million pounds)	52,585	51,685	900	1.7%
Dairy Products Production				
Cheese		(million pounds)		
American Types	1,167	1,172	-5	-0.4%
Cheddar	831	837	-6	-0.7%
Italian Types	1,288	1,236	53	4.3%
Mozzarella	1,006	972	34	3.5%
Total Cheese	2,993	2,947	46	1.6%
Butter	407	397	10	2.5%
Dry Milk Products				
Nonfat Dry Milk	394	399	-5	-1.2%
Skim Milk Powder	134	101	33	32.4%
Dry Whey	233	244	-10	-4.3%
Whey Protein Concentrate	105	119	-14	-11.4%

Dairy Product Inventories	Sept 2016	Aug 2016	Sept 2015	2015–2016 Change
		(million pounds)		
Butter	269	319	188	44%
American Cheese	744	742	699	6%
Other Cheese	494	499	454	9%
Nonfat Dry Milk	216	235	212	2%

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

import demand and tighter supplies, particularly from the European Union. By contrast, October butter prices were below a month earlier for the third straight month, while Cheddar cheese prices were down for the second month in a row. The October Class III price was \$1.57 per hundredweight less than in September, and more than \$2 below August. The October Class IV price fell for the third straight month, to more than a dollar below August. The lagged Class I mover, which has increased for four straight months, eked out a 4-cent gain from September to October.

Milk and Feed Prices

The U.S. average all-milk price moved up another 20 cents to \$17.30 per hundredweight in September. That capped four straight months of increases, totaling almost \$3 a hundredweight. At the same time, feed prices have been declining, producing three months of falling feed costs under the MPP formula, and three consecutive months of rising MPP margins.

The average retail price of whole milk has fallen at a mostly slow but steady pace since the end of 2014, but has risen for the past two months by 17 cents a gallon. The natural Cheddar cheese average retail price dropped almost 25 cents a pound from August to September.

Dairy Product and Federal Order Prices	Oct 2016	Sept 2016	Oct 2015	2015–2016 Change
AMS Commodity Prices		(per pound)		
Butter	\$1.864	\$2.078	\$2.573	-\$0.710
Cheese	\$1.583	\$1.751	\$1.679	-\$0.096
Nonfat Dry Milk	\$0.922	\$0.885	\$0.895	\$0.027
Dry Whey	\$0.330	\$0.306	\$0.231	\$0.099
Class Prices for Milk		(per hundredweight)		
Class I Mover	\$16.60	\$16.56	\$15.84	\$0.76
Class III	\$14.82	\$16.39	\$15.46	-\$0.64
Class IV	\$13.66	\$14.25	\$16.43	-\$2.77

Milk and Feed Prices	Sept 2016	Aug 2016	Sept 2015	2015–2016 Change
Producer Prices				
All Milk (per cwt.)	\$17.30	\$17.10	\$17.50	-\$0.20
Feed Prices				
Corn (per bushel)	\$3.22	\$3.21	\$3.68	-\$0.46
Soybean Meal (per ton)	\$338	\$341	\$334	\$4
Alfalfa Hay (per ton)	\$137	\$138	\$160	-\$23
2014 Farm Bill Feed Cost (per cwt.)	\$7.82	\$7.84	\$8.59	-\$0.78
2014 Farm Bill Margin (per cwt.)	\$9.48	\$9.26	\$8.91	\$0.58
Retail Dairy Product Prices				
Fluid Milk (per gallon)	\$3.229	\$3.141	\$3.392	-\$0.163
Cheddar Cheese (per pound)	\$5.023	\$5.272	\$5.382	-\$0.359

Looking Ahead

Dairy product markets have sent mixed signals in the past few months. The Chicago Mercantile Exchange (CME) cash market prices for butter and cheese fell generally from September through mid-October, then rebounded strongly through the first week of November, only to ease off again. USDA has found it challenging to read these signals. In October, the department lowered its forecast for the 2017 average all-milk price from \$16.65 to \$16 per hundredweight, but then raised it again in November to \$16.75 per hundredweight. By mid-November,

the CME futures were indicating the all-milk price would average approximately \$17.90 in 2017, 40 cents higher than they indicated a few weeks earlier.

Signs of a strong holiday season for butter and cheese sales, plus steady improvements in world markets and U.S. dairy exports, are competing with rising milk production to determine the direction of prices next year. USDA's MPP decision tool still projects that the MPP margin will remain above \$8 per hundredweight for the foreseeable future.

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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.