

Overview

Ongoing major government dairy purchases for distribution to food-insecure Americans promises to further cement 2020 as the year of the wild cheese

prices. After falling sharply in the spring, then rocketing upward in early summer, another short-term price runup has been under way. Stronger exports of dry skim ingredient products, as well as cheese, have been another bright spot in dairy prices, helping to offset lower domestic foodservice consumption that's still suffering from the impact of the COVID-19 pandemic. Domestic stocks of basic products – butter, cheese and dry skim milk – reached decades-high prices this past spring and have declined modestly since then, except for dry skim milk, for which greatly expanded exports have reduced inventories.

Commercial Use of Dairy Products

The continuing weakness in foodservice demand for butter resulted in commercial domestic butter use dropping in August, by 10 percent compared with August 2019. Domestic use of other than American-type cheese has improved steadily since April, when it was 11 percent under a year earlier, to August, when it pulled even with last year. This likely reflects a recovery in restaurant pizza use. Almost all U.S. produced yogurt is consumed domestically, and it has definitely benefited from increased at home eating during the pandemic. During the twelve months ending last February, yogurt consumption had dropped by an average of 2 percent year-over-year, but it has increased by an average of 6 percent since then. Although domestic commercial use of milk in

all products is down by most milk equivalent measures, total commercial use, including exports, was higher during June–August.

U.S. Dairy Trade

U.S. dairy exports, as measured by their collective percentage of U.S. milk solids production, have grown fairly steadily over the past two years, from a low of 12.5 percent in January 2019 to a high of almost 18 percent in June, before pulling back to 16.5 percent in August. Large increases in the major U.S. dairy export products of dry skim milk, dry whey, whey protein concentrate and lactose have been the main drivers of this growth, but increases in buttermilk powder and several types of cheese have also contributed.

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Domestic Commercial Use	Jun–Aug 2020	Jun–Aug 2019	2019–2020 Change	Percent Change
	(million pounds)			
Total Fluid Milk Products	NA	10,955	NA	NA
Yogurt	1,149	1,069	80	7.5%
Butter	475	474	2	0.4%
American-type Cheese	1,327	1,291	36	2.8%
All Other Cheese	1,902	1,881	20	1.1%
Total Cheese	3,229	3,172	57	1.8%
Dry Skim Milk	219	327	-108	-32.9%
All Products (milk equiv., milkfat basis)	55,110	54,251	859	1.6%
All Products (milk equiv., skim solids basis)	45,240	46,480	-1,240	-2.7%
All Products (milk equiv., total solids basis)	48,210	48,806	-596	-1.2%

U.S. Dairy Trade *from page 1*

The United States has imported the equivalent of 3.3 percent of its domestic milk solids production in calendar year 2020 through August. Of this milk solids equivalent, 39 percent has consisted of concentrated milk and whey proteins, 21 percent has been cheese, 14 percent has been butter, anhydrous milkfat and other milkfat products, and 12 percent has been mixtures and food preparations containing dairy ingredients.

Milk Production

U.S. milk production growth held relatively steady in August. Preliminary August data shows national production up by 1.8 percent over August 2019, while revised July production was up by 2 percent over a year earlier. This was the smallest change in monthly annual growth rates between two consecutive months since last December. Since then, those

differences in consecutive month-to-month changes have averaged about 1 percent. Relatively few states that report monthly month production showed large differences between July and August milk production patterns. Annual total milk-solids production growth has been diverging above liquid milk production growth in recent months, as it had done from 2016 through mid-2019.

Dairy Products

Much of the increased U.S. production of milk solids during June through August has found its way into cheese, butter and skim milk powder. Production growth of all cheese has been a net of increased American-type cheese production, partially offset by a drop in production of other types of cheese. Increased production of skim milk powder has been partially offset by a drop in nonfat dry milk production, reflecting the recent strong export growth of dry skim milk products.

U.S. Dairy Exports	Jun–Aug 2020	Jun–Aug 2019	2019–2020 Change	Percent Change
		(metric tons)		
Butter	5,878	4,205	1,673	40%
Anhydrous Milk Fat / Butteroil	1,150	1,086	64	6%
Cheddar Cheese	12,278	12,235	43	0%
American–type Cheese	12,354	12,355	-1	0%
All Other Cheese	86,348	71,746	14,602	20%
Total Cheese	98,702	84,101	14,601	17%
Dry Skim Milk	219,923	143,298	76,625	53%
Whole Milk Powder	8,679	13,159	-4,479	-34%
Dry Whey	57,866	37,695	20,171	54%
Whey Protein Concentrate / Isolate	49,259	43,980	5,279	12%
Lactose	94,890	102,743	-7,853	-8%
Percent of U.S. Milk Solids Exported	17.1%	14.1%	3.0%	21%

U.S. Dairy Imports	Jun–Aug 2020	Jun–Aug 2019	2019–2020 Change	Percent Change
		(metric tons)		
Butter	12,899	12,000	899	7%
Cheese	39,076	44,718	-5,642	-13%
Dry Skim Milk	272	32	240	760%
MPC (all protein levels)	14,203	14,969	-765	-5%
Casein	14,543	17,047	-2,504	-15%
Percent of U.S. Milk Solids Imported	3.4%	3.7%	-0.3%	-9%

Dairy Product Inventories

End-of-month commercial stocks of American-type cheese, other types of cheese and dry skim milk all reached their highest levels since at least 1995 this past April, while butter did so in May. By August, ending stocks had declined from those respective highs by 31 percent for dry skim milk, by 9 percent for other than American-type cheese, by 5 percent for American-type cheese, and by just 1 percent for butter. Strong export growth of dry skim milk was largely responsible for the large stock drawdown and well as for drawing the product away from domestic market uses this spring and summer.

Dairy Product and Federal Order Class Prices

Changes in the monthly dairy product prices in the National Dairy Product Sales Report (NDPSR) from August to September were relatively modest, by the standards of the COVID era, for butter, nonfat dry milk and, to some extent, for dry whey. NDPSR prices for cheese, by contrast, continued to show volatility, dropping by 16 percent between those two months. From August to September, 40-pound block prices were down by 12 percent and

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Milk and Dairy Products Production	Jun–Aug 2020	Jun–Aug 2019	2019–2020 Change	Percent Change
Milk Production				
Cows (1,000 head)	9,357	9,320	37	0.4%
Per Cow (pounds)	5,953	5,887	66	1.1%
Total Milk (million pounds)	55,702	54,867	835	1.5%
Total Milk Solids (million pounds)	7,046	6,920	126	1.8%
Dairy Products Production		(million pounds)		
Cheese				
American Types	1,337	1,314	23	1.8%
Cheddar	956	935	21	2.3%
Italian Types	1,379	1,392	-13	-0.9%
Mozzarella	1,101	1,109	-7	-0.7%
Total Cheese	3,309	3,269	40	1.2%
Butter	457	447	11	2.4%
Dry Milk Products				
Nonfat Dry Milk	454	463	-8	-1.8%
Skim Milk Powder	172	160	13	7.8%
Dry Whey	250	251	-1	-0.3%
Whey Protein Concentrate	119	119	-1	-0.5%

Dairy Product Inventories	Aug 2020	Jul 2020	Aug 2019	2019–2020 Change
		(million pounds)		
Butter	372	371	304	22%
American Cheese	790	786	767	3%
Other Cheese	588	606	597	-2%
Dry Skim Milk	280	320	273	3%
Dry Whey	86	85	73	18%

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

500-pound barrels dropped by 21 percent. These changes took the Class III price down by \$3.44 per cwt., or 17 percent, in September from a month earlier. During the same time, the Class I mover dropped by 7 percent, and Class IV was down by just 2 percent.

Retail dairy product prices showed relatively modest changes from August to September following relatively large increases in fluid milk prices in August.

Milk and Feed Prices

The U.S. average all-milk price dropped by \$1.70 per cwt., from \$20.50 per cwt. in July to \$18.80 per cwt. in August. This continues the pattern of monthly milk price changes of mostly well over a dollar per hundredweight that began with the pandemic's full onset last spring. The monthly milk price-feed cost margin for August under the Dairy Margin Coverage (DMC) program was \$10.83 per cwt. This was down \$1.58 per cwt. from the July margin. The DMC feed cost calculation continues to be much less volatile than the

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Dairy Product and Federal Order Prices	Sept 2020	Aug 2020	Sept 2019	2019–2020 Change
NDPSR Dairy Product Prices	(per pound)			
Butter	\$1.487	\$1.515	\$2.234	-\$0.747
Cheddar Cheese	\$1.774	\$2.110	\$1.905	-\$0.131
40-Pound Blocks	\$1.950	\$2.214	\$1.984	-\$0.035
500-Pound Barrels	\$1.574	\$1.982	\$1.791	-\$0.218
Nonfat Dry Milk	\$1.001	\$0.962	\$1.052	-\$0.051
Dry Whey	\$0.320	\$0.334	\$0.370	-\$0.050
Federal Order Class Prices for Milk	(per hundredweight)			
Class I Mover	\$18.44	\$19.78	\$17.85	\$0.59
Class III	\$16.43	\$19.77	\$18.31	-\$1.88
Class IV	\$12.75	\$12.53	\$16.35	-\$3.60
Retail Dairy Product Prices				
Fluid Whole Milk (per gallon)	\$3.448	\$3.406	\$3.102	\$0.346
Lowfat Fluid Milk (per gallon)	\$3.017	\$3.038	\$2.742	\$0.275
Cheddar Cheese (per pound)	\$5.611	\$5.572	\$5.406	\$0.205
Butter (per pound)	\$3.570	\$3.623	\$3.954	-\$0.384

Milk and Feed Prices	Aug 2020	Jul 2020	Aug 2019	2019–2020 Change
Producer Prices				
All Milk (per cwt.)	\$18.80	\$20.50	\$18.90	-\$0.10
Feed Prices				
Corn (per bushel)	\$3.12	\$3.21	\$3.93	-\$0.81
Soybean Meal (per ton)	\$290	\$291	\$297	-\$7
Alfalfa Hay (per ton)	\$182	\$183	\$194	-\$12
DMC Feed Cost (per cwt.)	\$7.97	\$8.09	\$9.05	-\$1.08
DMC Margin (per cwt.)	\$10.83	\$12.41	\$9.85	\$0.98

Milk and Feed Prices *from page 4*

milk price component of the margin and has been dropping every month since April. The August feed cost was \$0.12 per cwt. lower than in July, mostly on a lower corn price.

Looking Ahead

The USDA-sponsored DMC Decision Tool is currently anticipating a price-driven drop in the margin below \$9.50 per cwt. in September, which would generate payments at higher levels of coverage for the fourth, and likely final month this year. Following this, the tool currently projects the margin will fall again to levels that would generate payments at the higher coverage levels during all months

in the first half of 2021. Signup for the DMC program for 2021 coverage began on October 12 and will run through December 11. Enrolling in the program for next year is strongly recommended for operations not already signed up under the previous multi-year enrollment option.

In contrast with the extraordinary volatility of milk prices so far this year, the dairy futures indicate that U.S. national average milk prices will stabilize around \$18 per hundredweight during the first half of 2021. This is approximately the level that prices are on track to average in 2020. However, the substantial CFAP direct payments to producers in 2020 will add as much as another \$2.45 per hundredweight of income to most dairy farms this year.

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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.