

Overview

Milk prices continued a generally solid recovery from their late-spring low through August, when the U.S. average all-milk price reached \$17.10 per hundredweight.

The rise was powered largely by a strong increase in Class III skim milk prices, which also drove up Class I skim prices. However, Class III and Class IV prices dropped in September, and milkfat prices have been drifting downward for the past few months. That indicates milk prices may have reached a ceiling for the time being. The Margin Protection Program monthly feed cost calculation dropped steadily from June through August, and the monthly MPP margin rose by more than \$3.50 per hundredweight from its low in June to \$9.26 per hundredweight in August.

Commercial Use of Dairy Products

After a nearly steady spring, sales of all fluid milk products resumed a pattern of steeper declines during the summer. Fluid sales were 1.7 percent below a year ago for the May–July period. Commercial use grew during May–June for the major dairy product categories, as well as for total milk use in all products.

U.S. Dairy Trade

U.S. exports of cheese and lactose are continuing to drop year-over-year, but the rate of decline has decreased steadily in recent months. A similar pattern of decreasing losses turned positive during June–August for nonfat dry milk, skim milk

powder and dry whey, as well as for the percent of all U.S. milk solids exported. Exports of whey protein concentrate and isolate have been growing at a steadily increasing pace for most of 2016. These are all strong indications that the long slide in U.S. exports could be bottoming out and a modest recovery is under way. World demand for imported dairy products has picked up recently, and world dairy product prices are reacting positively. Also helping world prices is the recent stalling of the past year’s explosive growth in European Union milk production.

U.S. cheese imports dropped during June–August after increasing during the first half of 2016. Casein imports have dropped by

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Domestic Commercial Use	May–Jul 2016	May–Jul 2015	2015–2016 Change	Percent Change
	(million pounds)			
Total Fluid Milk Products	11,586	11,786	-200	-1.7%
Butter	435	427	8	1.8%
American-type Cheese	1,129	1,116	13	1.2%
All Other Cheese	1,738	1,677	61	3.6%
Nonfat Dry Milk/Skim Milk Powders	323	258	65	25.1%
All Products (milk equiv., milkfat basis)	52,016	51,398	618	1.2%
All Products (milk equiv., skim solids basis)	45,133	43,961	1,173	2.7%

U.S. Dairy Trade *from page 1*

double-digit percentages all year, but the percent of total U.S. production represented by imports continues to rise by single-digit percentages.

Milk Production

Milk production picked up steam during the summer after rising year-over-year by 1 percent or less for much of the previous year. Nationwide, production was up 1.6 percent over a year earlier during June-August. Much of the increase stemmed from faster growth in production per cow, although cow numbers nationally are starting to rise after being virtually flat during the winter and spring. Like the past year, changes at the national level have been an amalgam of quite varied state patterns. Some states, such as Idaho, Kansas and Texas, are showing accelerated

growth, while large milk producing states in the West, including California and New Mexico, have been moderating their rates of production loss over the past year. Somewhat counterbalancing these trends are several states where the pace of growth has been slowing, including Michigan, Minnesota, South Dakota and Wisconsin. The smaller milk producing states have been mostly losing production, with a few exceptions such as Nebraska, Maine and Georgia.

Dairy Products

Production of American-type cheese dropped during May-July, indicating that increased milk production went largely to other types of cheese and to butter. Production of dried skim milk products is shifting from nonfat dry milk to protein-standardized skim milk powder as exports recover from their slump earlier this year.

U.S. Dairy Exports	Jun–Aug 2016	Jun–Aug 2015	2015–2016 Change	Percent Change
		(metric tons)		
Butter	2,571	5,230	-2,659	-51%
Anhydrous Milk Fat / Butteroil	621	400	221	55%
Cheddar Cheese	7,572	9,033	-1,461	-16%
American-type Cheese	7,656	9,449	-1,792	-19%
Total Cheese	69,721	74,293	-4,572	-6%
Nonfat Dry Milk / Skim Milk Powder	143,153	129,973	13,180	10%
Whole Milk Powder	25,464	7,683	17,781	231%
Dry Whey	89,357	77,999	11,358	15%
Whey Protein Concentrate / Isolate	48,954	30,962	17,992	58%
Lactose	93,625	96,079	-2,453	-3%
Percent of Milk Solids Exported	15.1%	13.8%	1.2%	9%

U.S. Dairy Imports	Jun–Aug 2016	Jun–Aug 2015	2015–2016 Change	Percent Change
		(metric tons)		
Butter	6,249	5,480	769	14%
Cheese	47,495	50,051	-2,557	-5%
Nonfat Dry Milk / Skim Milk Powder	14	1,597	-1,583	-99%
MPC (all protein levels)	15,388	14,987	401	3%
Casein	17,949	20,028	-2,080	-10%
Percent of Milk Solids Imported	4.0%	3.8%	0.2%	6%

Dairy Product Inventories

Commercial inventories dropped between the end of July and the end of August for butter, cheese and nonfat dry milk. August ending stocks of American-type cheese represented 55.4 days of total commercial use, 1.2 days higher than the trend average for that month. There were 24.4 days of commercial use of other than American-type cheese in stock at the end of August, 1.7 days above the trend average, while nonfat dry milk stocks were 39.4 days of use, 3.8 days higher than average. Butter stocks, which are highly seasonal, were more out of line with commercial needs at the end of August. At 69.3 days of use, they were almost 21 days higher than average.

Dairy Product and Federal Order Class Prices

Dairy product prices surveyed by USDA's Agricultural Marketing Service were lower in September than a month earlier for both butter and Cheddar cheese. Prices rose slightly for nonfat dry milk and dry whey but not enough to keep Class III and Class IV prices from taking substantial drops in September. The Class I price mover rose significantly in September in delayed response to earlier increases in the Class III skim price. Rising inventories of butter and cheese pressured prices over the past few months, and rising milk production has stepped in more recently to

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Milk & Dairy Products Production	Jun–Aug 2016	Jun–Aug 2015	2015–2016 Change	Percent Change
Milk Production				
Cows (1000 head)	9,334	9,316	18	0.2%
Per Cow (pounds)	5,720	5,643	77	1.4%
Total Milk (million pounds)	53,392	52,572	820	1.6%
Dairy Products Production				
		(million pounds)		
Cheese				
American Types	1,178	1,183	-5	-0.4%
Cheddar	839	854	-15	-1.8%
Italian Types	1,300	1,256	44	3.5%
Mozzarella	1,017	987	31	3.1%
Total Cheese	2,993	2,958	35	1.2%
Butter	424	407	17	4.2%
Dry Milk Products				
Nonfat Dry Milk	414	445	-31	-7.0%
Skim Milk Powder	150	109	41	38.0%
Dry Whey	238	250	-12	-4.8%
Whey Protein Concentrate	108	120	-12	-10.4%

Dairy Product Inventories	Aug 2016	Jul 2016	Aug 2015	2015–2016 Change
		(million pounds)		
Butter	322	333	212	52%
American Cheese	744	770	709	5%
Other Cheese	499	506	458	9%
Nonfat Dry Milk	235	257	231	2%

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

continue the downward pressure. Counteracting this, however, has been continued optimism for strong butter and cheese sales during the holiday season. This tug-of-war has given rise to price swings that have not yet settled on a clear direction. Meanwhile, there have been slow but steady improvements in world prices for nonfat dry milk and dry whey, which have lifted U.S. prices in concert.

Milk and Feed Prices

The U.S. average all-milk price was \$17.10 per hundredweight in August, \$1 higher than July and up \$2.30 from June. The Margin Protection Program monthly feed cost calculation

dropped by \$0.67 per hundredweight from July on lower prices for all three components. The milk price and feed cost changes together lifted the monthly Farm Bill MPP margin by \$1.67 per hundredweight from July to August.

The average retail price of both whole milk and natural Cheddar cheese decreased from July to August, and both are now below their levels from a year ago.

Looking Ahead

In its forecast update for October, USDA turned bearish on milk prices. Using the midpoints of the forecast ranges, it lowered its projection for the average all-milk price for calendar year 2016

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Dairy Product and Federal Order Prices	Sept 2016	Aug 2016	Sept 2015	2015–2016 Change
AMS Commodity Prices		(per pound)		
Butter	\$2.078	\$2.225	\$2.445	-\$0.367
Cheese	\$1.751	\$1.812	\$1.715	\$0.037
Nonfat Dry Milk	\$0.885	\$0.859	\$0.801	\$0.084
Dry Whey	\$0.306	\$0.285	\$0.244	\$0.061
Class Prices for Milk		(per hundredweight)		
Class I Mover	\$16.56	\$15.07	\$16.34	\$0.22
Class III	\$16.39	\$16.91	\$15.82	\$0.57
Class IV	\$14.25	\$14.65	\$15.08	-\$0.83

Milk and Feed Prices	Aug 2016	Jul 2016	Aug 2015	2015–2016 Change
Producer Prices				
All Milk (per cwt.)	\$17.10	\$16.10	\$16.70	\$0.40
Feed Prices				
Corn (per bushel)	\$3.21	\$3.60	\$3.68	-\$0.47
Soybean Meal (per ton)	\$341	\$371	\$358	-\$17
Alfalfa Hay (per ton)	\$138	\$140	\$161	-\$23
2014 Farm Bill Feed Cost (per cwt.)	\$7.84	\$8.51	\$8.78	-\$0.94
2014 Farm Bill Margin (per cwt.)	\$9.26	\$7.59	\$7.92	\$1.34
Retail Dairy Product Prices				
Fluid Milk (per gallon)	\$3.141	\$3.062	\$3.389	-\$0.248
Cheddar Cheese (per pound)	\$5.272	\$5.184	\$5.336	-\$0.064

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from \$16.20 to \$15.85 per hundredweight. The 35-cent drop was rather large for so late in the year. The dairy futures suggest the all-milk price will average about \$16 per hundredweight this year. USDA also dropped its projection for next year's all-milk price, from \$16.65 to \$16, due mostly to "higher expected milk supplies." The dairy futures currently suggest the all-milk price will average about \$17.50 during calendar year 2017.

USDA correctly anticipates that steadily rising world prices will improve domestic prices of nonfat dry milk and dry whey for

the foreseeable future. But the keys to the milk price outlook for U.S. dairy farmers are domestic cheese and butter prices. Continued strong domestic demand for milkfat has a decent chance of supporting butter prices in the face of increased milkfat production. But after the holiday season, strong domestic demand for cheese will most likely need to be bolstered by a strong recovery of exports to counter the downward pressure on cheese prices from rising milk production.

USDA's MPP decision tool is projecting the MPP margin will remain above \$8.00 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.