

Overview

June and July data and statistics from the Agriculture Department have painted an increasingly compelling picture of a slow but steady recovery in U.S. dairy markets. The national average all-milk price rose \$0.30 per hundredweight in June, while the July federal order prices showed particular upward buoyancy for Class III, Class IV and even the lagged Class I prices. In the second quarter of 2016, the size of the national milking herd barely changed from a year earlier, while commercial milk use increased more than twice as fast as milk production. But, as a reminder of the painful dairy situation during the first part of the year, the Margin Protection Program margin reached its lowest bimonthly level since the program's 2014 start. The \$5.76 per hundredweight May–June margin triggered MPP payments at the \$6 through \$8 coverage levels. Also, exports of cheese, particularly American-type cheese, remain well down from a year ago, contributing to record inventory levels.

Commercial Use of Dairy Products

Sales of all fluid milk products during March–May were just 0.1 percent less than a year earlier. Within this period, year-over-year sales were flat during April and rose 0.2 percent during May. Also during the period, milkfat consumption in fluid products was 2.4 percent higher than a year earlier. Domestic commercial use continues to rise for butter, other than American-type cheese, and nonfat dry milk and skim milk powder, but not for American-type cheese. The increased milkfat sales in fluid products and the higher use of butter and cheese helped lift the use of milk in all products on a milkfat basis by 2.6 percent.

U.S. Dairy Trade

Intense competition in global markets, particularly from the European Union and New Zealand, as well as persistent large gaps between domestic and world prices, continued to take a toll on U.S. cheese exports during the second quarter. Year-over-year losses in shipments to Japan accounted for almost half of the drop in exports of Cheddar and total American-type natural cheese, which includes Cheddar. Fresh cheese, including Mozzarella, accounted for a substantial portion of the drop in exports of non-American-type cheese. Shipments of fresh cheese were down, particularly those headed to South Korea and Australia.

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Domestic Commercial Use	Mar–May 2016	Mar–May 2015	2015–2016 Change	Percent Change
	(million pounds)			
Total Fluid Milk Products	12,344	12,357	-13	-0.1%
Butter	445	413	32	7.8%
American-type Cheese	1,133	1,143	-9	-0.8%
All Other Cheese	1,745	1,654	92	5.5%
Nonfat Dry Milk/Skim Milk Powders	333	245	89	36.3%
All Products (milk equiv., milkfat basis)	51,687	50,356	1,330	2.6%
All Products (milk equiv., skim solids basis)	46,290	43,655	2,635	6.0%

U.S. Dairy Trade *from page 1*

Similar circumstances are affecting butter exports, but a shortage of milkfat beyond domestic needs is playing a more important role. Almost 80 percent of the drop in second-quarter butter exports can be attributed to a reduction in U.S. shipments to Saudi Arabia.

Cheese imports were mostly unchanged from a year ago during the second quarter, but butter imports rose by almost the same amount as butter exports dropped, creating a sizeable net change in butter trade. This deficit, however, is mostly domestic demand-driven and therefore has had relatively little effect on domestic prices.

Milk Production

U.S. milk production was 1.2 percent higher than a year ago during the second quarter of 2016. The increase again was due

mostly to increased production per cow, with almost no change in the size of the national dairy cow herd. However, as with milk production, herd size changes varied widely at the state level. Sixteen states increased their milking cow numbers by a total of more than 55,000. The largest gainers were Michigan with 12,000, or 3 percent more cows than a year earlier, and South Dakota, up 8.6 percent, with 9,000 more cows. At the same time, 23 states lost more than 49,000 cows during the year. The largest losses were in New Mexico, down 13,000 cows, or 4 percent, and California with 7,000, or 0.4 percent, fewer milking cows than a year earlier. Eleven states, including the large milk-producing states of Wisconsin and Pennsylvania, experienced no change in cow numbers from a year earlier.

Dairy Products

Combined production of nonfat dry milk and skim milk powder was essentially unchanged from a year ago during the second

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U.S. Dairy Exports	Apr–Jun 2016	Apr–Jun 2015	2015–2016 Change	Percent Change
		(metric tons)		
Butter	2,621	4,439	-1,818	-41%
Anhydrous Milk Fat/Butteroil	329	872	-543	-62%
Cheddar Cheese	7,127	11,373	-4,246	-37%
American-type Cheese	7,220	11,982	-4,762	-40%
Total Cheese	68,121	87,597	-19,476	-22%
Nonfat Dry Milk/Skim Milk Powder	132,681	165,323	-32,642	-20%
Whole Milk Powder	25,331	9,641	15,691	163%
Dry Whey	79,365	92,326	-12,961	-14%
Whey Protein Concentrate/Isolate	49,578	39,247	10,331	26%
Lactose	90,156	94,743	-4,587	-5%
Percent of Milk Solids Exported	14.0%	15.6%	-1.6%	-10%

U.S. Dairy Imports	Apr–Jun 2016	Apr–Jun 2015	2015–2016 Change	Percent Change
		(metric tons)		
Butter	5,557	3,842	1,715	45%
Cheese	45,675	45,078	598	1%
Nonfat Dry Milk/Skim Milk Powder	490	19	471	2451%
MPC (all protein levels)	15,158	19,018	-3,859	-20%
Casein	16,490	19,736	-3,246	-16%
Percent of Milk Solids Imported	3.7%	3.5%	0.2%	6%

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quarter of 2016. Since domestic commercial use of these products increased more than exports declined, inventories were drawn down. Combined production of dry whey and whey protein concentrate dropped, as well. Production of skim milk solids rose during the quarter, so commercial use increased for upstream products, leaving less to be dried.

Dairy Product Inventories

Stocks of both butter and American-type cheese each grew by only approximately 1 million pounds between the end of June and a month later. This was a marked slowdown from the inventory

buildup between January 1 and the end of May. During those five months, American-type cheese stocks increased an average of 11.3 million pounds a month and butter stocks jumped an average of 34 million pounds a month.

Dairy Product and Federal Order Class Prices

Federal order commodity and class prices reflected the slowly strengthening domestic dairy markets more fully in July than in May or June, when dairy markets first showed some signs of improvement. Cheddar cheese prices reported by USDA's Agricultural Marketing Service (AMS) increased by almost

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Milk & Dairy Products Production	Apr–Jun 2016	Apr–Jun 2015	2015–2016 Change	Percent Change
Milk Production				
Cows (1000 head)	9,327	9,322	6	0.1%
Per Cow (pounds)	5,827	5,763	64	1.1%
Total Milk (million pounds)	54,351	53,720	631	1.2%
Dairy Products Production		(million pounds)		
Cheese				
American Types	1,186	1,195	-9	-0.8%
Cheddar	866	872	-6	-0.7%
Italian Types	1,309	1,261	48	3.8%
Mozzarella	1,025	995	30	3.0%
Total Cheese	2,981	2,941	40	1.4%
Butter	499	479	21	4.3%
Dry Milk Products				
Nonfat Dry Milk	479	526	-47	-9.0%
Skim Milk Powder	149	103	46	44.6%
Dry Whey	244	243	0	0.1%
Whey Protein Concentrate	111	126	-15	-11.8%

Dairy Product Inventories	Jun 2016	May 2016	Jun 2015	2015–2016 Change
		(million pounds)		
Butter	326	325	256	27%
American Cheese	759	758	686	11%
Other Cheese	493	492	456	8%
Nonfat Dry Milk	238	232	262	-9%

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

20 cents a pound from June to July to a few cents below their July 2015 level. Nonfat dry milk prices pulled even with a year earlier for the first time in almost two years. The lagged Class I mover returned to its level in May, following a 56-cent drop in June. The July Class III price was more than \$2 per hundredweight higher than a month earlier, and the Class IV price was up over \$1 for the month.

Milk and Feed Prices

The U.S. average all-milk price rose 30 cents from May to \$14.80 per hundredweight in June, hopefully signaling a bottom to milk prices this year. The monthly Margin Protection Program feed cost calculation rose 32 cents from May on higher corn and soybean

meal prices. These changes resulted in a June MPP margin just 2 cents below May's margin and a bimonthly margin of \$5.76 per hundredweight for May–June. MPP payments will be made for this period to producers who insured their margins at the \$6 through \$8 coverage levels.

The average retail price of whole milk dropped another 4 cents a gallon in June to 25 cents below a year earlier. The average retail price of Cheddar cheese dropped almost 10 cents a pound in June, but was still 1 cent a pound higher than a year earlier.

Looking Ahead

Federal order prices for July suggested the average all-milk price would rise to approximately \$15.50 in July. In early August, the

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Dairy Product and Federal Order Prices	Jul 2016	Jun 2016	Jul 2015	2015–2016 Change
AMS Commodity Prices		(per pound)		
Butter	\$2.316	\$2.162	\$1.916	\$0.400
Cheese	\$1.642	\$1.448	\$1.700	-\$0.058
Nonfat Dry Milk	\$0.836	\$0.789	\$0.837	\$0.000
Dry Whey	\$0.274	\$0.260	\$0.394	-\$0.120
Class Prices for Milk		(per hundredweight)		
Class I Mover	\$13.70	\$13.14	\$16.34	-\$2.64
Class III	\$15.24	\$13.22	\$16.33	-\$1.09
Class IV	\$14.84	\$13.77	\$13.15	\$1.69

Milk and Feed Prices	Jun 2016	May 2016	Jun 2015	2015–2016 Change
Producer Prices				
All Milk (per cwt.)	\$14.80	\$14.50	\$17.00	-\$2.20
Feed Prices				
Corn (per bushel)	\$3.82	\$3.68	\$3.59	\$0.23
Soybean Meal (per ton)	\$409	\$376	\$335	\$74
Alfalfa Hay (per ton)	\$142	\$147	\$178	-\$36
2014 Farm Bill Feed Cost (per cwt.)	\$9.05	\$8.73	\$8.75	\$0.29
2014 Farm Bill Margin (per cwt.)	\$5.75	\$5.77	\$8.25	-\$2.49
Retail Dairy Product Prices				
Fluid Milk (per gallon)	\$3.115	\$3.157	\$3.366	-\$0.251
Cheddar Cheese (per pound)	\$5.269	\$5.365	\$5.256	\$0.013

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Chicago Mercantile Exchange dairy futures markets indicated that the all-milk price would climb above \$18 per hundredweight by late 2016. That would be almost \$4 higher than its May low point of \$14.50 per hundredweight. At the same time, USDA's decision tool projected the MPP margin would rise above \$8 for July–August and exceed \$10 for the last two bimonthly periods in 2016. In August, USDA raised its mid-point forecast for the

average all-milk price in 2016 to \$16.35 per hundredweight, 65 cents higher than its forecast a month earlier. These are all indicators that the second half of 2016 should see some improvement in milk prices and returns over costs for U.S. dairy producers, compared with the deterioration that occurred in the first half of the year. The key factors driving this improved outlook are strong domestic demand, some sluggish improvement in world prices and continued restraint of growth in U.S. milk production.

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