

Overview

Dairy producers are seeing their highest prices in five years in the latter months of 2019, adding further to balance sheets that have also been improving as the result of federal assistance from the new Dairy Margin Coverage (DMC) program.

The September USDA survey prices of Cheddar cheese and nonfat dry milk, \$1.91/pound and \$1.05/pound, respectively, were the highest these prices had been since the end of 2014. The August U.S. average all-milk price of \$18.90 per cwt. is as high as this reported price has reached during the same period. Lower milking cow numbers in the U.S. over the past year, combined with average growth in production per cow, are basic factors contributing to the improving price outlook. Meanwhile, relatively modest and stable feed prices have allowed these recent price increases to translate into higher margins and income for dairy producers.

Signup in the improved Dairy Margin Coverage (DMC) program that surpassed its predecessor, the Margin Protection Program (MPP), has made 2019 the second consecutive year in which the federal margin insurance safety net has generated significant support to dairy farmers. Two negative factors in the U.S. dairy market are the modest decline of butter prices in recent months and the general softening of U.S. dairy export volume growth in the past half-decade.

Commercial Use of Dairy Products

Domestic commercial use of fresh dairy products, fluid milk and yogurt, continues to fall. In recent months, butter has done so as well, but cheese has generally continued to generate consumption gains. Aggregated over all products, domestic consumption growth of skim solids well outpaced that of milkfat during June–August, fueled by increases in use of nonfat dry milk and other dry skim ingredients. Lower use

of butter helped hold back commercial use of milkfat in all dairy products.

U.S. Dairy Trade

Total U.S. dairy exports were down from a year ago by the equivalent of almost two percent of U.S. milk solids production during June–August, as exports fell to more typical volumes following last year’s temporary surge, which peaked in the

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Domestic Commercial Use	Jun–Aug 2019	Jun–Aug 2018	2018–2019 Change	Percent Change
	(million pounds)			
Total Fluid Milk Products	10,939	11,157	-218	-2.0%
Yogurt	1,074	1,129	-55	-4.8%
Butter	450	465	-15	-3.3%
American–type Cheese	1,299	1,284	15	1.2%
All Other Cheese	1,880	1,855	25	1.3%
Total Cheese	3,179	3,139	40	1.3%
Nonfat Dry Milk /Skim Milk Powders	287	194	92	47.5%
All Products (milk equiv., milkfat basis)	54,396	54,515	-120	-0.2%
All Products (milk equiv., skim solids basis)	46,484	44,972	1,512	3.4%
All Products (milk equiv., total solids basis)	48,853	47,820	1,034	2.2%

U.S. Dairy Trade *from page 1*

spring of 2018. Nearly all major product-export categories participated in the pullback, including cheese, which had bucked this general trend during the first half of this year.

Concentrated milk proteins, including casein and MPC, were the major source of increased milk solids imports into the U.S. during June–August, along with butter. Cheese, the other large U.S. dairy import category besides concentrated milk proteins, registered more modest import gains, with no single variety contributing a significant share of that increase.

Milk Production

Milk production in the United States was almost flat from a year ago during the June–August period, as fewer milking cows mostly offset increased per-cow production. U.S. cow numbers have been below year-ago levels since July 2018. This shortfall reached a monthly peak of 100,000 fewer cows

than a year ago this past March, then steadily scaled back to 53,000 fewer cows in September. That month, looking back a half-decade to the beginning of the most recent herd buildup, the nation’s milking cow herd stood at just 37,000 cows more than during the same month in 2014. However, those cows produced an average of 6¼ percent more milk and 10 percent more total milk solids than their bovine sisters did five years earlier.

Dairy Products

Production of American-type cheese was up by 1.2 percent over a year earlier during July–August. During the same period, Cheddar cheese, which represented 71 percent of total American-type cheese production, was down by 1.3 percent. Other American-type cheese, primarily Monterey Jack and Colby, made up that difference with year-over-year growth of 8.2 percent. Annual growth in Cheddar production has been generally declining starting in 2017 and has been

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U.S. Dairy Exports	Jun–Aug 2019	Jun–Aug 2018	2018–2019 Change	Percent Change
	(metric tons)			
Butter	4,214	7,205	-2,991	-42%
Anhydrous Milk Fat / Butteroil	1,060	4,544	-3,484	-77%
Cheddar Cheese	12,234	13,487	-1,253	-9%
American-type Cheese	12,354	13,577	-1,224	-9%
All Other Cheese	71,978	76,516	-4,537	-6%
Total Cheese	84,332	90,093	-5,761	-6%
Nonfat Dry Milk / Skim Milk Powder	143,300	174,075	-30,775	-18%
Whole Milk Powder	13,159	10,702	2,457	23%
Dry Whey	37,318	56,336	-19,018	-34%
Whey Protein Concentrate / Isolate	44,047	43,746	301	1%
Lactose	102,484	103,926	-1,442	-1%
Percent of U.S. Milk Solids Exported	14.0%	15.9%	-1.9%	-12%

U.S. Dairy Imports	Jun–Aug 2019	Jun–Aug 2018	2018–2019 Change	Percent Change
	(metric tons)			
Butter	12,021	10,369	1,652	16%
Cheese	44,881	42,559	2,322	5%
Nonfat Dry Milk / Skim Milk Powder	32	323	-291	-90%
MPC (all protein levels)	14,969	9,914	5,055	51%
Casein	17,047	14,291	2,756	19%
Percent of U.S. Milk Solids Imported	3.9%	3.2%	0.7%	22%

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mostly negative this year, while other American-type cheese production growth has trended in the opposite direction. By contrast, Mozzarella cheese, the largest single variety within its broader category of all Italian-type cheese, has maintained a relatively steady share of just under 80 percent of that category throughout the current decade.

Dairy Product Inventories

Inventories of butter and nonfat dry milk eased down in late summer while cheese holdings remained comparatively steady. For much of 2019, total commercial use has expanded somewhat faster than production for all cheese and for nonfat

dry milk, drawing down stocks from earlier in the year. But this pattern paused at the end of the summer. Butter stocks have generally grown this year as production has outpaced use, a trend that appeared to be moderating at summer's end.

Dairy Product and Federal Order Class Prices

Survey prices for Cheddar cheese and nonfat dry milk significantly topped year-ago levels in September, while butter and dry whey prices were slightly lower. Cheddar cheese blocks showed particular price strength, but this also produced a spread between the survey prices for Cheddar blocks and barrels of almost 20 cents a pound. A spread of

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Milk and Dairy Products Production	Jun–Aug 2019	Jun–Aug 2018	2018–2019 Change	Percent Change
Milk Production				
Cows (1,000 head)	9,318	9,398	-80	-0.8%
Per Cow (pounds)	5,892	5,838	54	0.9%
Total Milk (million pounds)	54,901	54,862	39	0.1%
Total Milk Solids (million pounds)	6,925	6,902	24	0.3%
Dairy Products Production		(million pounds)		
Cheese				
American Types	1,322	1,305	16	1.2%
Cheddar	937	950	-13	-1.3%
Italian Types	1,386	1,367	18	1.3%
Mozzarella	1,101	1,080	21	1.9%
Total Cheese	3,271	3,240	31	0.9%
Butter	424	410	14	3.3%
Dry Milk Products				
Nonfat Dry Milk	456	432	25	5.7%
Skim Milk Powder	132	154	-22	-14.3%
Dry Whey	250	256	-5	-2.0%
Whey Protein Concentrate	118	125	-6	-5.1%

Dairy Product Inventories	Aug 2019	Jul 2019	Aug 2018	2018–2019 Change
		(million pounds)		
Butter	304	330	291	5%
American Cheese	766	775	787	-3%
Other Cheese	597	588	573	4%
Nonfat Dry Milk	270	289	280	-4%

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

just 3 cents a pound is used to align barrel cheese prices with those for blocks in calculating the federal order protein component price. An actual spread in the market larger than 3 cents has the effect of reducing income to dairy producers, since the federal order protein price has a large influence on the price of milk throughout the United States.

The large drop in butter prices from August to September overcame the higher nonfat dry milk price to produce a drop in the Class IV price that month. But the higher cheese prices

overcame the drop in dry whey and butter prices to boost the Class III price at the same time. Changes in retail prices for fluid milk, Cheddar cheese and butter, compared to a year ago, reflected corresponding changes in the federal order Class I mover and the survey prices of Cheddar cheese and butter, respectively.

Milk and Feed Prices

The DMC margin rose above the program's maximum coverage level \$9.50 per cwt. for the first time in August, following seven consecutive months below that level this

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Dairy Product and Federal Order Prices	Sept 2019	Aug 2019	Sept 2018	2018–2019 Change
AMS Commodity Prices		(per pound)		
Butter	\$2.234	\$2.366	\$2.272	-\$0.038
Cheddar Cheese	\$1.905	\$1.828	\$1.653	\$0.252
40-Pound Blocks	\$1.984	\$1.864	\$1.677	\$0.307
500-Pound Barrels	\$1.791	\$1.757	\$1.602	\$0.190
Nonfat Dry Milk	\$1.052	\$1.034	\$0.855	\$0.197
Dry Whey	\$0.370	\$0.367	\$0.403	-\$0.033
Class Prices for Milk		(per hundredweight)		
Class I Mover	\$17.85	\$17.89	\$14.85	\$3.00
Class III	\$18.31	\$17.60	\$16.09	\$2.22
Class IV	\$16.35	\$16.74	\$14.81	\$1.54
Retail Dairy Product Prices				
Fluid Whole Milk (per gallon)	\$3.102	\$3.045	\$2.890	\$0.212
Lowfat Fluid Milk (per gallon)	\$2.742	\$2.702	\$2.573	\$0.169
Cheddar Cheese (per pound)	\$5.406	\$5.367	\$5.128	\$0.278
Butter (per pound)	\$3.954	\$4.036	\$4.119	-\$0.165

Milk and Feed Prices	Aug 2019	Jul 2019	Aug 2018	2018–2019 Change
Producer Prices				
All Milk (per cwt.)	\$18.90	\$18.70	\$15.90	\$3.00
Feed Prices				
Corn (per bushel)	\$3.93	\$4.16	\$3.36	\$0.57
Soybean Meal (per ton)	\$297	\$311	\$333	-\$36
Alfalfa Hay (per ton)	\$194	\$196	\$177	\$17
DMC Feed Cost (per cwt.)	\$9.05	\$9.43	\$8.47	\$0.58
DMC Margin (per cwt.)	\$9.85	\$9.27	\$7.43	\$2.42

Milk and Feed Prices *from page 4*

year, the first for the program created in the 2018 farm bill. The August margin calculation was boosted by an eighth consecutive increase in the all-milk price and a harvest season-driven drop in feed prices. More than 22,000 dairy farm operations signed up for the 2019 DMC program, which features the \$9.50 margin for up to five million pounds of covered milk production history, more than participated in the last year of the MPP, which it replaced. USDA has reported that these enrolled operations will receive more than \$305 million in program payments this year.

Looking Ahead

The U.S. average all-milk price was \$3 per cwt. higher in August than it was a year earlier. USDA's October dairy forecast projected the all-milk price would average \$18.40 per cwt. for all of 2019, which would be \$2.15 per cwt. higher than the average for 2018. USDA also predicted that the milk price would rise another forty-five cents to average

\$18.85 per cwt. during 2020. In late October, the CME dairy futures were indicating slightly stronger results, a few cents more for 2019 and a 2020 average of \$19.20 per cwt.

At the same time, the department's DMC Decision Tool was projecting that the DMC margin would average \$10.10 per cwt. in 2020, a dollar a hundredweight more than in 2019, and that the monthly margins would not fall below the maximum \$9.50 per cwt. coverage level in 2020. In short, the various forecasts available are indicating that the markets are recovering to the extent that DMC assistance will not be triggered for the foreseeable future. However, it must be cautioned that 2018 also started out looking much more favorable than the few years preceding it, and it ended up being the worst of them. Enrolling in the DMC program at the generous coverage available – \$9.50 per cwt. is almost a dollar higher than the average DMC margin for the past decade – and for the affordable premiums available, will always be a highly-recommended risk-management option for dairy farmers.

Peter Vitaliano
National Milk
Producers Federation
pvitaliano@nmpf.org
www.nmpf.org



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