

Situation and Outlook for the U.S. Dairy Industry

Uthra Raghunathan
Agricultural Economist
USDA Agricultural Marketing Service
Dairy Programs

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Acknowledgments

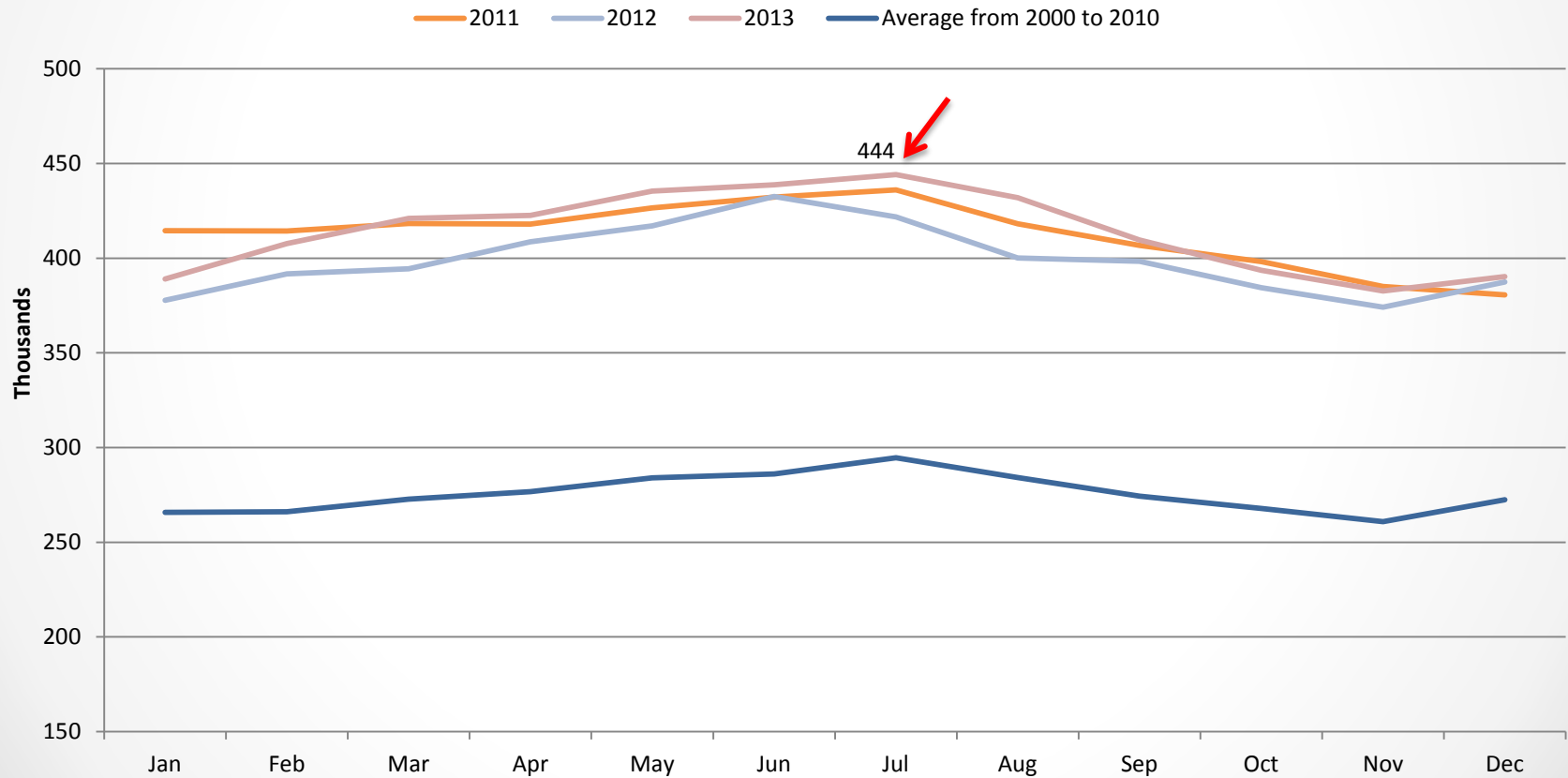
- Andrew Novakovic, Cornell University
- Brad Gehrke, US Dairy Export Council
- Dairy Programs colleagues
- ICEC colleagues
- Michael Woolsey, US Dairy Export Council

2013 Review

- Milk Production increased by 0.9 billion pounds
- Commercial Disappearance
 - o Fat ME Basis: decreased by 0.7 billion pounds
 - o Skim Solids ME Basis: decreased by 3.5 billion pounds
- Annual Ending Stocks
 - o Fat ME Basis: decreased by 1.0 billion pounds
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2013 Stocks: Highest Since mid-1990s

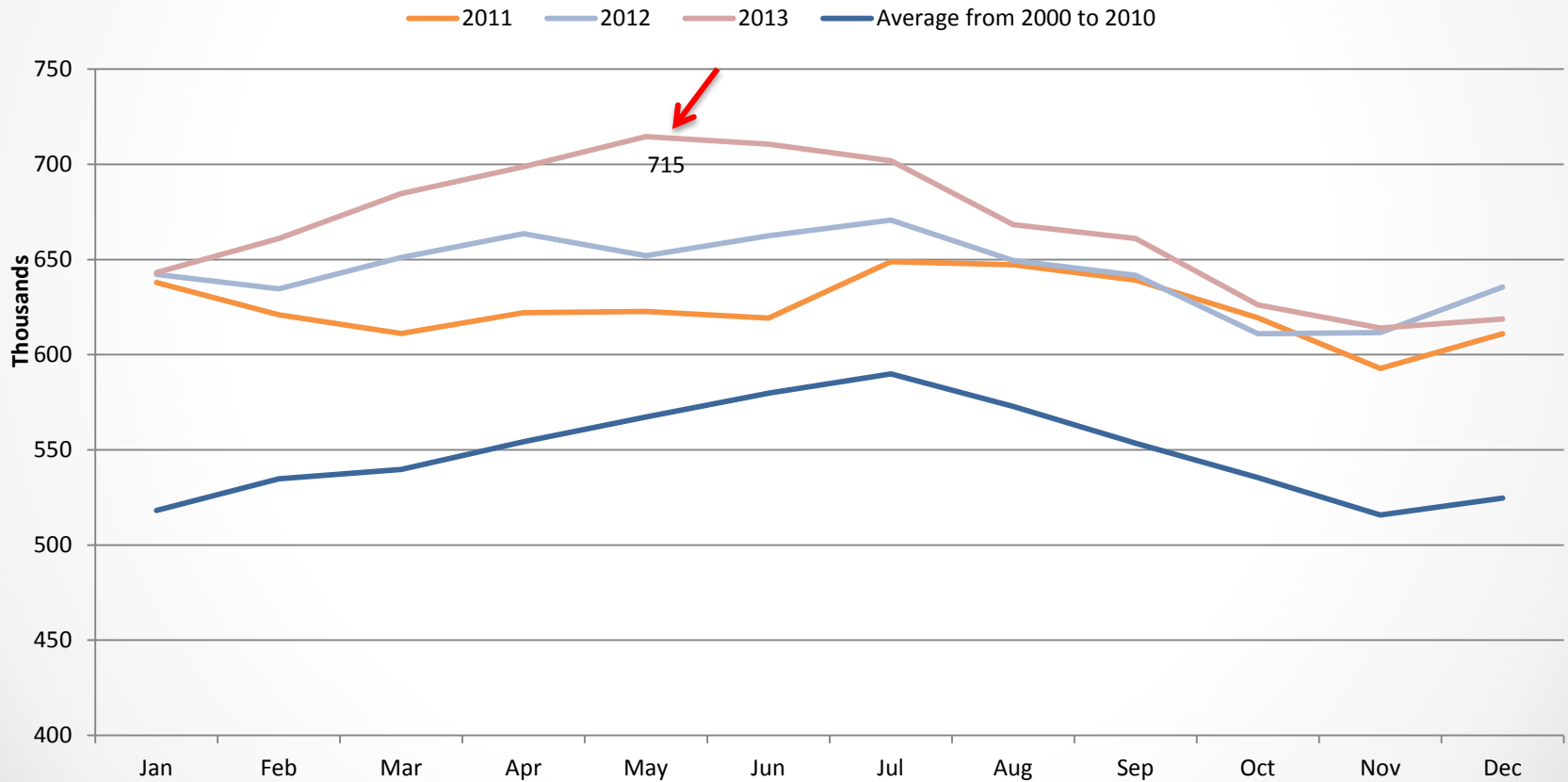
Other Cheese



Source: USDA/NASS

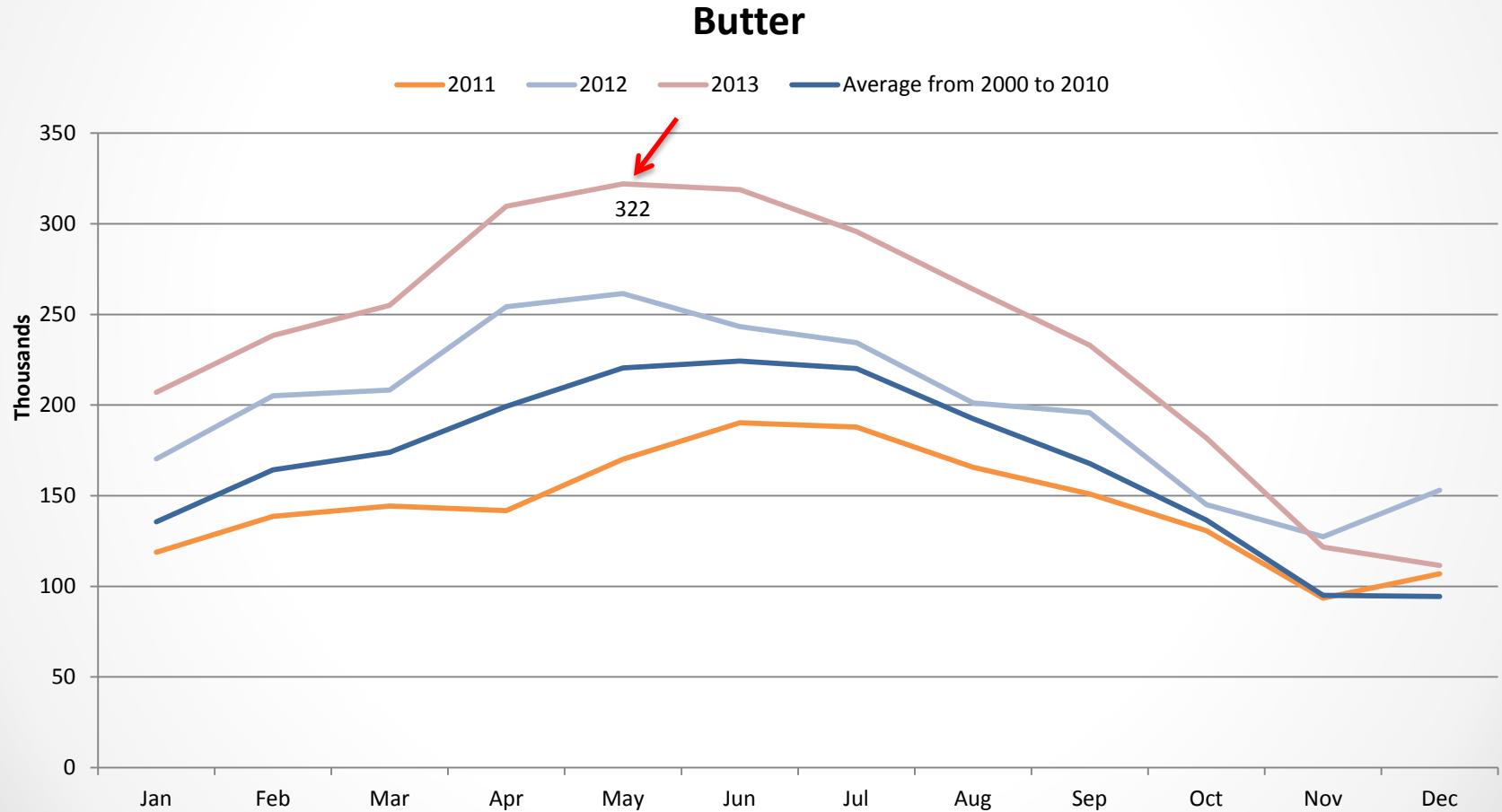
2013 Stocks: Highest Since mid-1990s

American Cheese



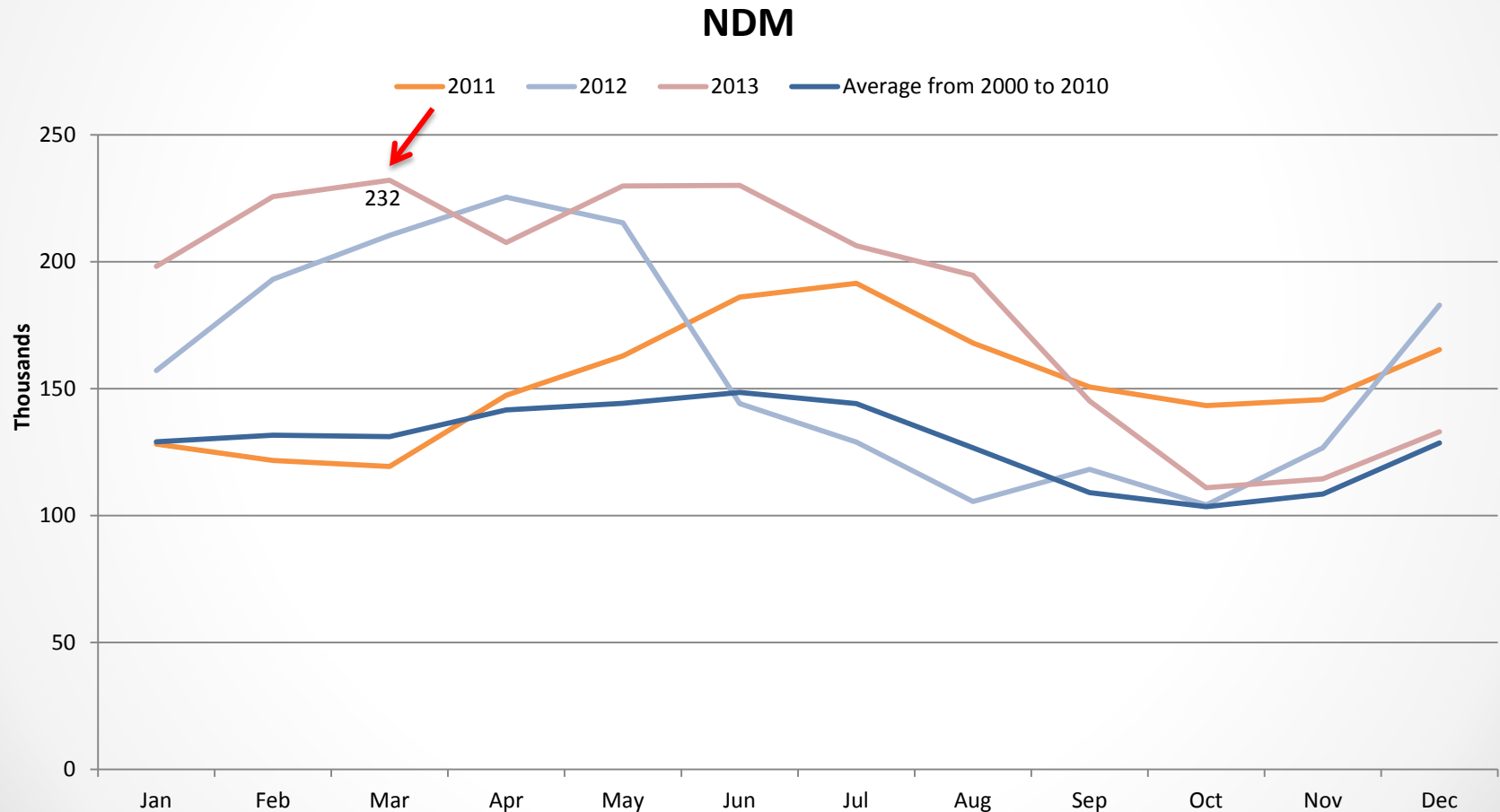
Source: USDA/NASS

2013 Stocks: Highest Since mid-1990s



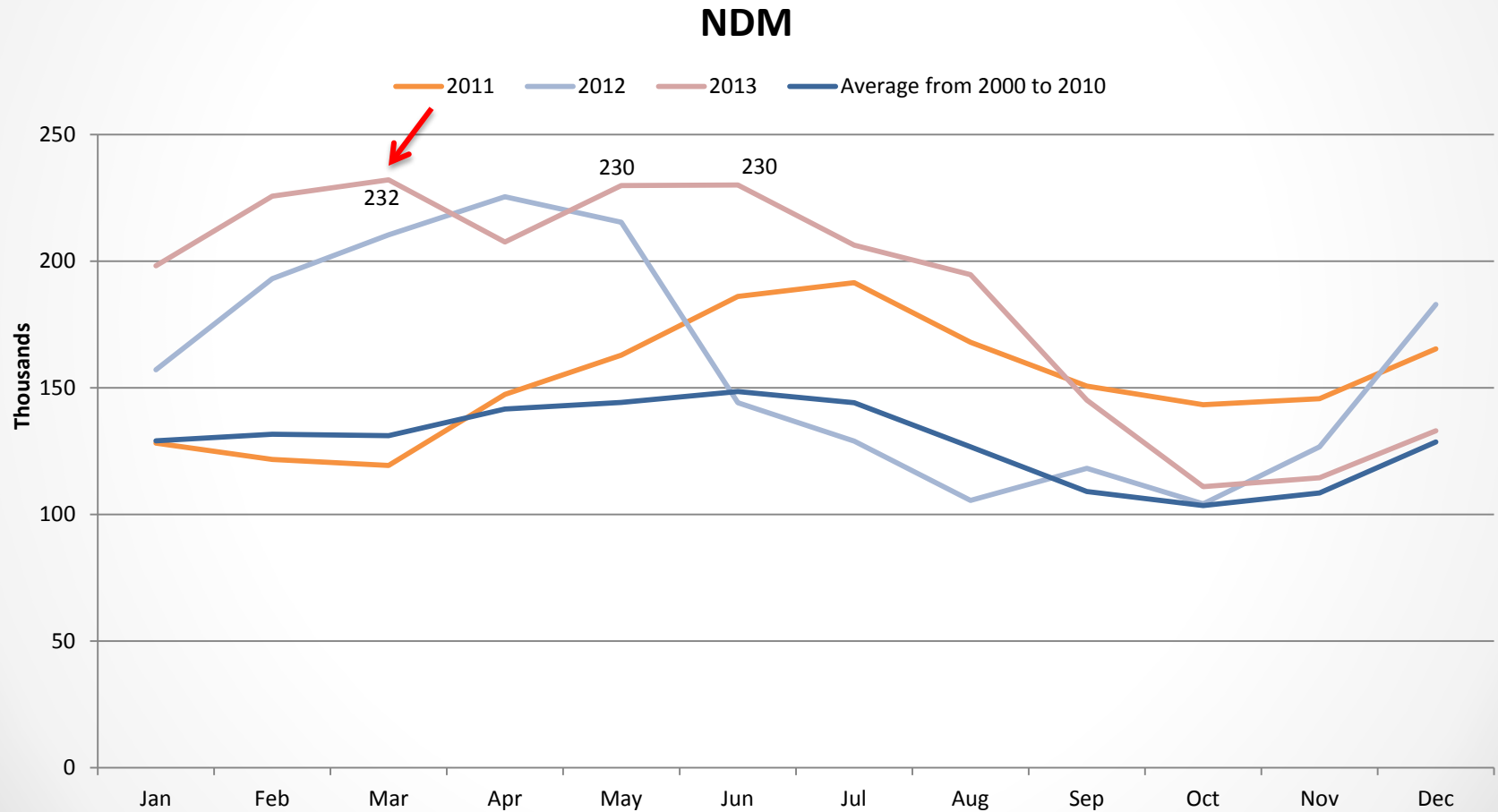
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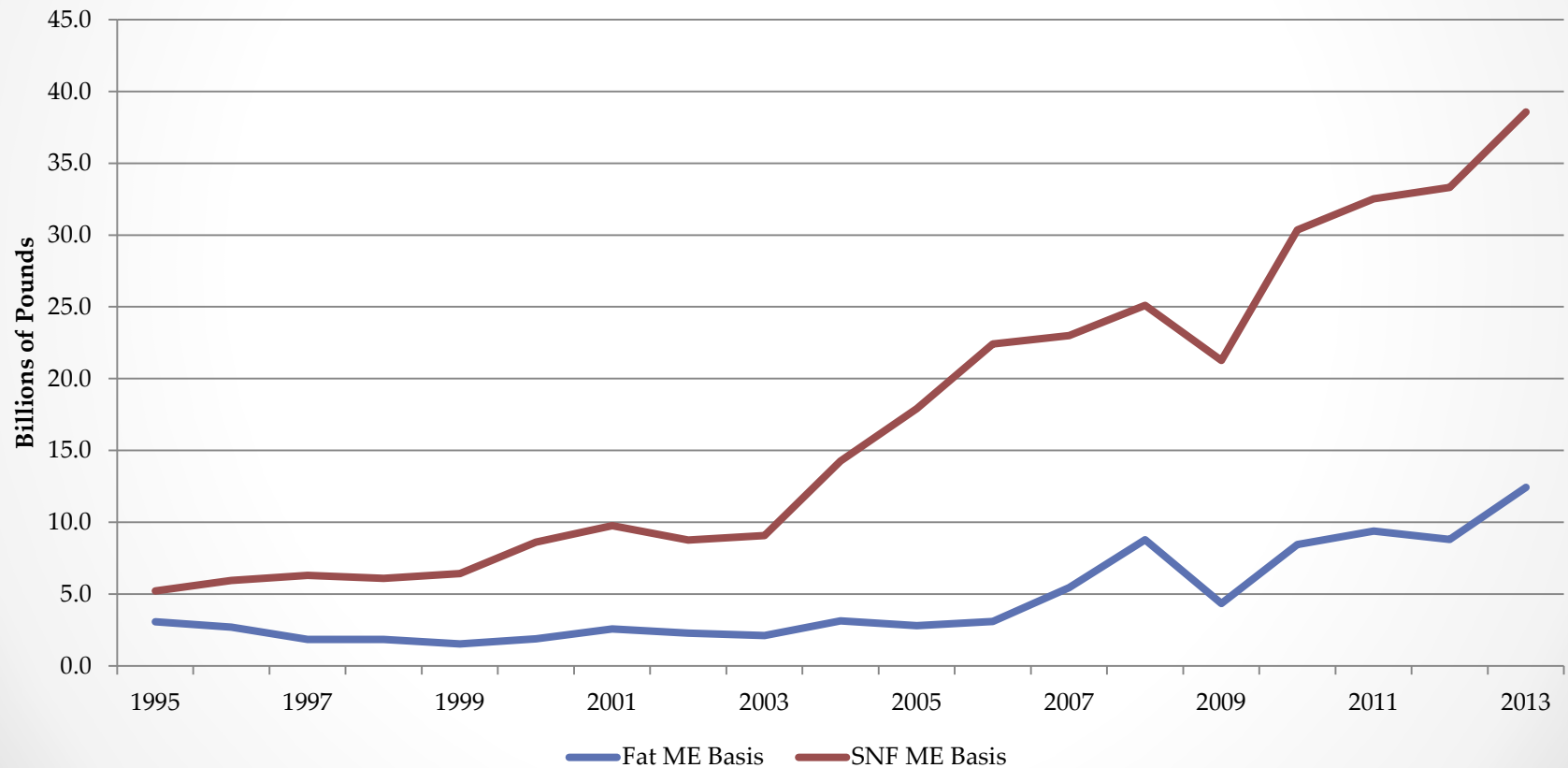


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- Exports
 - o Fat ME Basis
 - Exported 12.4 billion pounds
 - An increase of 3.6 billion pounds
 - o Skim Solids ME Basis:
 - Exported 38.6 billion pounds
 - An increase of 5.3 billion pounds

2013: More on Exports

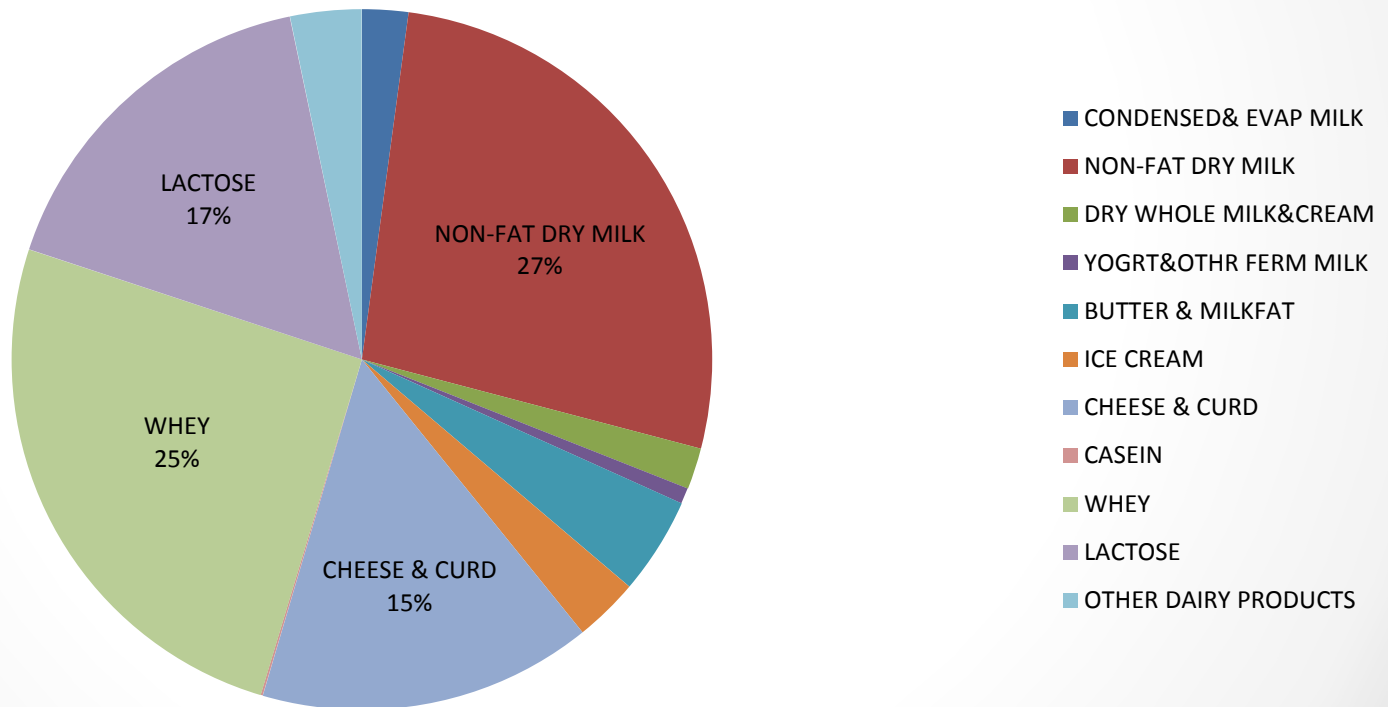
Commercial Exports



Source: USDA/FAS

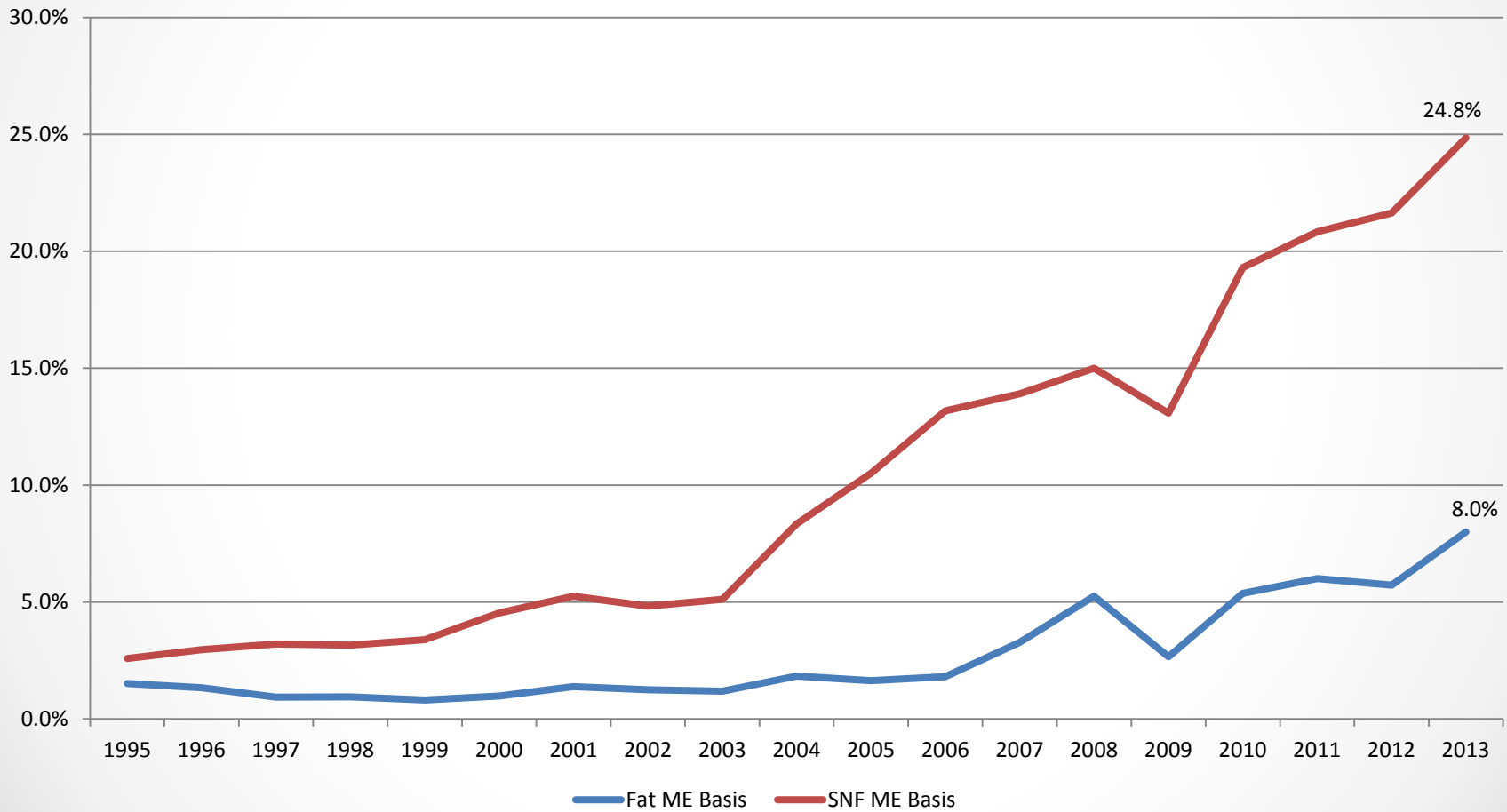
Exports Breakdown

2013 Quantity



Source: USDA/FAS

Exports as a Percentage of Milk Production



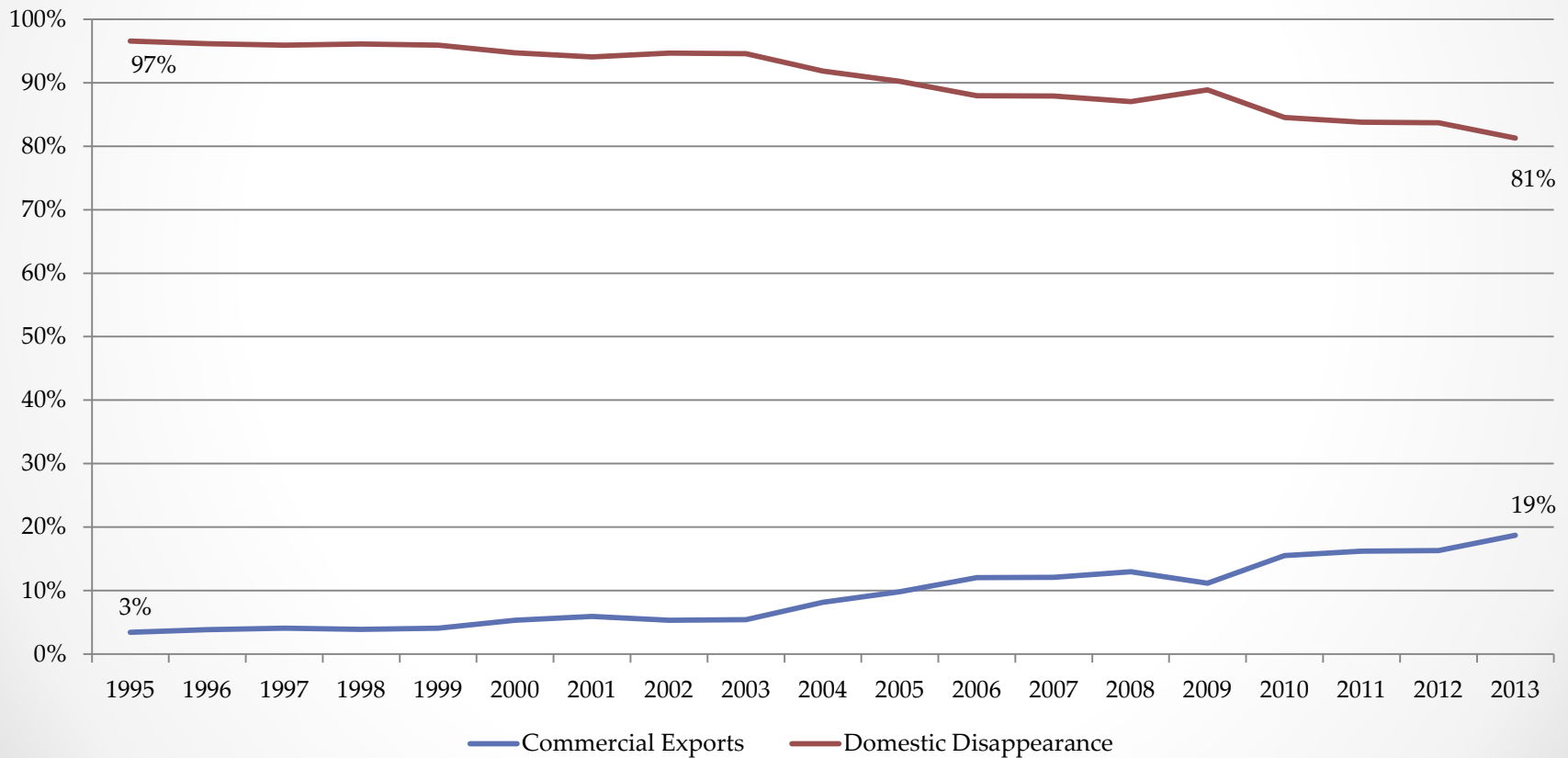
Source: USDA/FAS/NASS

Exports as a Percentage of Product Production

- Butter exports were 10% of butter production
- NDM exports were 57% of NDM production
 - o Production of NDM was 16% lower
 - o Production of skim milk powder was 66% higher
 - o Combined total NDM and SMP production was 2% lower
- Cheese exports were 6% of Cheese Production

Exports as a Percentage of Commercial Use

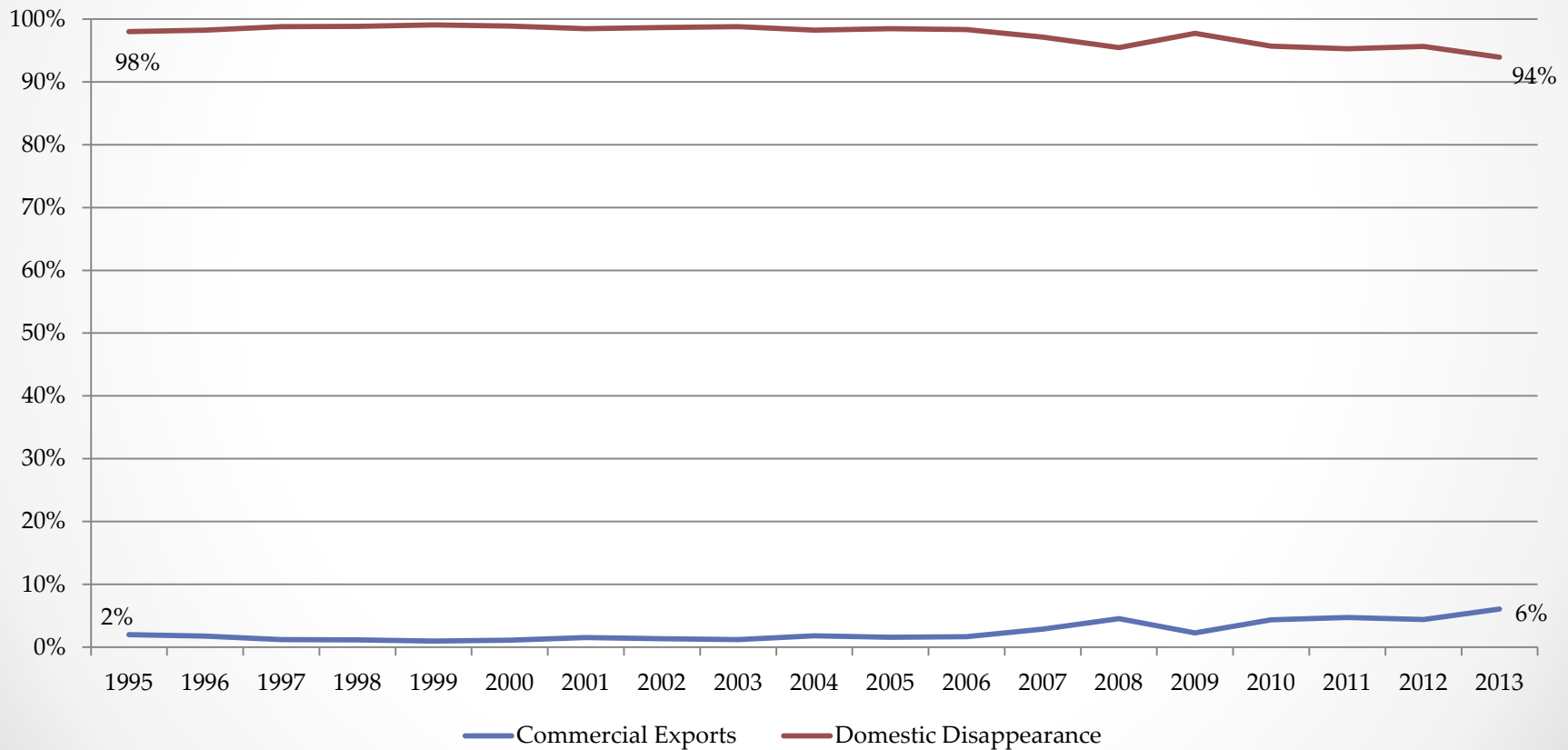
Percent of Total Commercial Disappearance, SNF ME



Source: USDA/FAS/ERS

Exports as a Percentage of Commercial Use

Percent of Total Commercial Disappearance, Fat ME



Source: USDA/FAS/ERS

Anecdotal Evidence

- World demand expected to grow faster than world supply
- China expected to diversify where imports come from for greater food security
- New Partnerships
 - DFA and Inner Mongolia Yili Industrial Group co of China
 - Allows access to markets
- New platforms being embraced like Global Dairy Trade Auction (GDT)
 - Dairy America (currently trading)
 - Land O'Lakes (joins in March)
 - Producing powder without a known buyer or contract
- Setting up shops in new markets like China
 - Land O'Lakes
 - Leprino Foods
- WMP powder plants
 - DFA (Fallon, Nevada)
 - Built for export market
 - Darigold (Lynden, Washington)
 - Michigan Milk Producers Association (Ovid, Michigan)
- USDEC expects US to capture 5%-7% of WMP market in next few years

2014 Outlook

- Milk Production

- o Projected modest increase of 4.5 billion pounds
- o Projected number of cows slightly increase by 34 thousand head
- o Projected output per cow increase by 408 pounds
- o Favorable milk prices and feed cost indicate an expansionary period
 - Corn prices projected at \$4.20 to \$4.80 for crop 2013/2014 year . Further declines projected for 2014/2015 crop year
 - Soybean meal prices projected at \$425 to \$465 for crop 2013/2014 year. Further declines projected for 2014/2015 crop year
 - Actual Alfalfa prices so far are 15% lower than last year

- Domestic Use

- o Projected modest increase around 3.6 billion pounds on both a fat and skim solids ME basis

2014 Outlook

- Exports

- o Projected to be historically strong
- o Slight decrease projected from 2013
 - On a fat ME basis exports projected to decrease around 0.9 billion pounds
 - On a skim solids ME basis exports projected to decrease around 0.4 billion pounds
 - Early 2014 expected to show strong exports for US
 - Later in 2014, increased production from Oceania and the EU expected to put downward pressure on US exports

- Annual Ending Stocks

- o Projected to increase in 2014
 - 0.8 billion pounds increase in 2014 ending stocks on a fat ME basis
 - 0.4 billion pounds increase in 2014 ending stocks on a skim solids ME basis

2014 Outlook

- Prices
 - o Strong product prices seen in beginning of 2014
 - CME shown record prices for cheese blocks and barrels
 - o Prices projected to remain strong in first quarter of 2014
 - o Later in 2014, prices projected to slowly decline as Oceania and EU production puts pressure on US exports
 - o Most 2014 average prices projected to be higher than 2013 average prices
 - Butter price projected between \$1.550 and \$1.650
 - NDM price projected between \$1.785 and \$1.845
 - Cheese price projected between \$1.815 and \$1.885
 - Whey price projected between \$0.56 and \$0.59
 - Class III price projected between \$18.53 and \$19.05
 - Class IV price projected between \$19.80 and \$20.60
 - All milk price projected between \$20.85 and \$21.55

Long-Term Projections

- Milk Production
 - o Milk production projected to increase between 1.65% to 2.45% year-over-year
 - o Number of cows increase projected to increase in 2016 and 2017 and then decrease from 2018 until 2023
 - o Output per cow projected to increase from 2015 to 2023 at a moderate rate of about 2% per year
- Domestic Use
 - o Projected to moderately increase at a lesser rate than exports
- Annual Ending Stocks
 - o Projected to hold at a steady rate throughout the baseline

Long-Term Projections

- Exports

- o Fat ME Basis

- Project strong growth from 2015 to 2017 at an average rate of 7%
 - Projected moderate growth rate from 2018 to 2023 at an average rate of 3%

- o Skim Solids ME Basis

- Projected moderate growth rate from 2016 to 2023 at an average growth rate of about 2%

- Prices

- o All-milk price projected to increase in nominal terms at an average rate of 0.8% per year
 - o Butter and NDM projected to increase in nominal terms at an average rate of 0.8% per year
 - o Cheese projected to increase in nominal terms at an average rate of 1.1% per year
 - o Whey projected to increase in nominal terms at an average rate of 0.7% per year

Additional Information

- World Agricultural Supply and Demand Estimates
<http://www.usda.gov/oce/commodity/wasde/index.htm>
- Milk Marketing Order Statistics
<http://www.ams.usda.gov/AMSV1.0/DairyMarketStatistics>
- Dairy Market News
<http://www.marketnews.usda.gov/portal/dairy>
- Livestock, Dairy, and Poultry Situation and Outlook
www.ers.usda.gov/publications/ldp/
- Dairy: World Markets and Trade
<http://www.fas.usda.gov/dlp/dairy/dairy.asp>

Questions?