Situation and Outlook for the U.S. Dairy Industry

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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
  o Skim Solids ME Basis: decreased by 0.7 billion pounds
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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2013 Stocks: Highest Since mid-1990s

Source: USDA/NASS
2013 Stocks: Highest Since mid-1990s

NDM

232
230
230

Average from 2000 to 2010
2013 Review

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- Exports
  - Fat ME Basis
    - Exported 12.4 billion pounds
    - An increase of 3.6 billion pounds
  - 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

- **NON-FAT DRY MILK**: 27%
- **CHEESE & CURD**: 15%
- **WHEY**: 25%
- **LACTOSE**: 17%
- **CONDENSED & EVAP MILK**:
- **DRY WHOLE MILK & CREAM**:
- **YOGURT & OTHER FERM MILK**:
- **BUTTER & MILKFAT**:
- **ICE CREAM**:
- **CHEESE & CURD**:
- **CASEIN**:
- **WHEY**:
- **LACTOSE**:
- **OTHER DAIRY PRODUCTS**:

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**
  - Projected to be historically strong
  - 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**
  - 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

• Milk Marketing Order Statistics

• Dairy Market News

• Livestock, Dairy, and Poultry Situation and Outlook

• Dairy: World Markets and Trade
Questions?