

Overview

Domestic dairy-product use is increasing with signs that the country is making another run at moving on from the COVID-19 pandemic, with growing ranks of the vaccinated, gradual recovery of food service and staged resumption of in-person schooling raising milk-price forecasts for later this year. But these positive developments are in a race with new virus variants and premature relaxation of behavioral measures to protect against transmission. Internationally, U.S. dairy exports surged in February, while dairy imports have dropped to multi-year lows as a percentage of domestic milk solids production.

Still, milk prices remain well below a year ago, and payments under the Dairy Margin Coverage Program remain significant. Rising demand isn't keeping pace with milk production, and stocks of major dairy products are rising, making higher prices more the product of hope for brighter days than of market fundamentals, making effective risk management crucial.

Commercial Use of Dairy Products

Domestic commercial use was positive, on a leap-year adjusted basis, for most of the major dairy products and for milk in all products during December 2020–February 2021. Increased use was particularly notable for butter, yogurt and American-type cheese. Year-over-year growth in total consumption of milk in all products, total solids basis milk equivalent, has exceeded domestic consumption growth for most months during the pandemic, as export gains have outpaced increases in domestic use. Total consumption

growth temporarily slipped below domestic growth November–January, when export shipments were held up by a container shortage and U.S. port congestion, but switched back again in February. Fluid milk sales were higher than a year earlier in December and just slightly ahead in February, but a drop of almost 5 percent in January brought consumption down by just over one percent for the 3-month period. Domestic consumption growth may begin to outpace total consumption growth more consistently during the next few months.

| Domestic Commercial Use | Dec 2020–Feb 2021 | Dec 2019–Feb 2020 | 2020–2021 Change | Percent Change* |
|--|-------------------------|-------------------|------------------|-----------------|
| | (million pounds) | | | |
| Total Fluid Milk Products | 11,469 | 11,728 | -259 | -1.1% |
| Yogurt | 1,127 | 1,055 | 72 | 8.0% |
| Butter | 490 | 444 | 46 | 11.5% |
| American-type Cheese | 1,279 | 1,245 | 34 | 3.9% |
| All Other Cheese | 1,830 | 1,862 | -31 | -0.6% |
| Total Cheese | 3,109 | 3,107 | 2 | 1.2% |
| Dry Skim Milk | 175 | 127 | 48 | 39.4% |
| All Products (milk equiv., milkfat basis) | 51,858 | 51,341 | 517 | 2.1% |
| All Products (milk equiv., skim solids basis) | 44,159 | 44,336 | -177 | 0.7% |
| All Products (milk equiv., total solids basis) | 46,566 | 46,507 | 59 | 1.2% |
| | *adjusted for leap year | | | |

U.S. Dairy Trade

U.S. dairy exports during December 2020 through February 2021 were mixed for many of the main product categories, including cheese and dry ingredients, but were stronger for milkfat products. These mixed changes balanced out to leave total exports as a percent of U.S. milk solids production unchanged from a year earlier. However, individual months are more volatile than the year-over-year figure. December was 14.5 percent, January was 14.0 percent, but February shot up to 16.9 percent on significantly stronger exports that month of milk powders, whey products, butter and cheese.

U.S. dairy imports fell from a year earlier for the major product categories during December 2020 through February 2021. As a percentage of U.S. milk solids production, imports have been dropping fairly steadily from 4.0 percent in July 2019 to 2.5 percent this February, the lowest level by this measure since May, 2014.

Milk Production

As was widely expected, January U.S. milk production growth was revised up from 1.6 percent to 2.4 percent. Preliminary February production rose by 2.0 percent from a year earlier on a leap year-adjusted basis. For individual states, January production was revised down by more than 2.0 percentage points for Georgia and Florida. It was revised up by more than 2.0 percentage points for California and Kansas. January U.S. growth in average milk production per cow was also revised up, from 0.6 percent to 1.4 percent year-over-year. Preliminary February production per cow was 1.2 percent higher than a year earlier. Milk solids production rose a full percentage point faster than liquid milk production during December 2020–February 2021, according to USDA data.

| U.S. Dairy Exports | Dec 2020–Feb 2021 | Dec 2019–Feb 2020 | 2020–2021 Change | Percent Change* |
|--------------------------------------|-------------------|-------------------|------------------|-----------------|
| | | (metric tons) | | |
| Butter | 9,213 | 4,285 | 4,928 | 117% |
| Anhydrous Milk Fat / Butteroil | 1,607 | 933 | 674 | 74% |
| Cheddar Cheese | 9,849 | 9,426 | 423 | 6% |
| American-type Cheese | 9,923 | 9,537 | 387 | 5% |
| All Other Cheese | 71,329 | 75,476 | -4,147 | -4% |
| Total Cheese | 81,253 | 85,013 | -3,760 | -3% |
| Dry Skim Milk | 193,297 | 192,964 | 332 | 1% |
| Whole Milk Powder | 9,000 | 10,863 | -1,863 | -16% |
| Dry Whey | 53,933 | 41,323 | 12,610 | 32% |
| Whey Protein Concentrate/Isolate | 54,169 | 48,296 | 5,873 | 13% |
| Lactose | 77,935 | 94,567 | -16,632 | -17% |
| Percent of U.S. Milk Solids Exported | 15.1% | 15.1% | 0.0% | 0% |

*adjusted for leap year

| U.S. Dairy Imports | Dec 2020–Feb 2021 | Dec 2019–Feb 2020 | 2020–2021 Change | Percent Change* |
|--------------------------------------|-------------------|-------------------|------------------|-----------------|
| | | (metric tons) | | |
| Butter | 4,707 | 5,047 | -340 | -6% |
| Cheese | 40,996 | 42,532 | -1,536 | -3% |
| Dry Skim Milk | 44 | 81 | -38 | -46% |
| MPC (all protein levels) | 12,238 | 15,026 | -2,789 | -18% |
| Casein | 15,097 | 16,776 | -1,679 | -9% |
| Percent of U.S. Milk Solids Imported | 2.8% | 3.2% | -0.5% | -15% |

*adjusted for leap year

Dairy Products

The disparity between rates of growth for American-type and Italian-type cheese was particularly extreme during the December 2020 through February 2021 period. However, the resurgence of food service consumption should narrow this gap in the near future. The particularly strong growth of butter production is consistent with dry skim milk product production growth during the period.

Dairy Product Inventories

Cold storage stocks of butter and cheese and manufacturers' stocks of dry skim milk and dry whey continue to rise from

the pandemic-month low points they all attained during the second half of 2020. But when measured by days of total commercial use in stock, all except butter have been relatively stable and in line with long-term trends. Only butter stocks are clearly approaching the high levels, by all measures, that they attained during the initial surge of the pandemic during the spring of 2020.

Dairy Product and Federal Order Class Prices

Monthly survey prices of the key dairy products that establish federal order class prices were mostly stable from February *continued on page 4*

| Milk and Dairy Products Production | Dec 2020–Feb 2021 | Dec 2019–Feb 2020 | 2020–2021 Change | Percent Change* |
|------------------------------------|-------------------|-------------------|------------------|-----------------|
| Milk Production | | | | |
| Cows (1,000 head) | 9,451 | 9,363 | 88 | 0.9% |
| Per Cow (pounds) | 5,905 | 5,892 | 13 | 1.3% |
| Total Milk (million pounds) | 55,806 | 55,172 | 634 | 2.3% |
| Total Milk Solids (million pounds) | 7,339 | 7,183 | 155 | 3.3% |
| Dairy Products Production | | | | |
| | | (million pounds) | | |
| Cheese | | | | |
| American Types | 1,363 | 1,312 | 50 | 5.0% |
| Cheddar | 986 | 952 | 34 | 4.7% |
| Italian Types | 1,410 | 1,417 | -7 | 0.6% |
| Mozzarella | 1,096 | 1,119 | -24 | -1.0% |
| Total Cheese | 3,309 | 3,265 | 44 | 2.5% |
| Butter | 602 | 565 | 36 | 7.6% |
| Dry Milk Products | | | | |
| Nonfat Dry Milk | 591 | 500 | 90 | 19.4% |
| Skim Milk Powder | 107 | 143 | -37 | -24.8% |
| Dry Whey | 243 | 241 | 2 | 2.0% |
| Whey Protein Concentrate | 126 | 121 | 5 | 5.2% |

*adjusted for leap year

| Dairy Product Inventories | Feb 2021 | Jan 2021 | Feb 2020 | 2020–2021 Change |
|---------------------------|----------|------------------|----------|------------------|
| | | | | |
| | | (million pounds) | | |
| Butter | 353 | 332 | 302 | 17% |
| American Cheese | 816 | 809 | 778 | 5% |
| Other Cheese | 620 | 599 | 584 | 6% |
| Dry Skim Milk | 356 | 314 | 331 | 8% |
| Dry Whey | 70 | 67 | 75 | -6% |

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

to March except for butter and dry whey, which improved significantly in March. Despite butter's recent growing production and stock situation, buyers seemed to focus more on strong retail sales and recent reports of increased food-service use. Class I prices dropped in March, while Class II and Class IV prices rose by a dollar per hundredweight or more. This was considerably more than Class III prices improved at the same time but still left Class III prices well above them.

Retail prices for the major dairy products were mostly lower in March from the month before.

Milk and Feed Prices

The February margin under the Dairy Margin Coverage program dropped \$0.92/cwt below January's to \$6.22/cwt. Of this drop, \$0.40/cwt was due to a lower milk price, \$17.10/cwt, while the other \$0.52/cwt was generated by a higher feed cost calculation, almost all due to a higher price for corn, slightly offset by a lower soybean meal price.

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| Dairy Product and Federal Order Prices | Mar 2021 | Feb 2021 | Mar 2020 | 2020–2021 Change |
|--|----------|---------------------|----------|------------------|
| NDPSR Dairy Product Prices | | | | |
| | | (per pound) | | |
| Butter | \$1.590 | \$1.359 | \$1.755 | -\$0.165 |
| Cheddar Cheese | \$1.598 | \$1.595 | \$1.709 | -\$0.111 |
| 40-Pound Blocks | \$1.670 | \$1.687 | \$1.813 | -\$0.144 |
| 500-Pound Barrels | \$1.502 | \$1.484 | \$1.576 | -\$0.074 |
| Nonfat Dry Milk | \$1.117 | \$1.116 | \$1.116 | \$0.001 |
| Dry Whey | \$0.554 | \$0.506 | \$0.375 | \$0.179 |
| Federal Order Class Prices for Milk | | | | |
| | | (per hundredweight) | | |
| Class I Mover | \$15.20 | \$15.54 | \$17.46 | -\$2.26 |
| Class II | \$15.07 | \$14.00 | \$16.75 | -\$1.68 |
| Class III | \$16.15 | \$15.75 | \$16.25 | -\$0.10 |
| Class IV | \$14.18 | \$13.19 | \$14.87 | -\$0.69 |
| Retail Dairy Product Prices | | | | |
| Fluid Whole Milk (per gallon) | \$3.348 | \$3.368 | \$3.248 | \$0.100 |
| Lowfat Fluid Milk (per gallon) | \$2.966 | \$3.008 | \$2.913 | \$0.053 |
| Cheddar Cheese (per pound) | \$5.682 | \$5.600 | \$5.329 | \$0.353 |
| Butter (per pound) | \$3.643 | \$3.661 | \$3.857 | -\$0.214 |

| Milk and Feed Prices | Feb 2021 | Jan 2021 | Feb 2020 | 2020–2021 Change |
|--------------------------|----------|----------|----------|------------------|
| Producer Prices | | | | |
| All Milk (per cwt.) | \$17.10 | \$17.50 | \$18.90 | -\$1.80 |
| Feed Prices | | | | |
| Corn (per bushel) | \$4.75 | \$4.24 | \$3.78 | \$0.97 |
| Soybean Meal (per ton) | \$427 | \$439 | \$295 | \$132 |
| Alfalfa Hay (per ton) | \$193 | \$189 | \$191 | \$3 |
| DMC Feed Cost (per cwt.) | \$10.88 | \$10.36 | \$8.84 | \$2.05 |
| DMC Margin (per cwt.) | \$6.22 | \$7.14 | \$10.06 | -\$3.85 |

Milk and Feed Prices *from page 4*

The February payment for \$9.50/cwt DMC program coverage is therefore \$3.28/cwt. For the first two months this year, the program has generated payments of over \$223 million.

Looking Ahead

In the April update to its World Agricultural Supply and Demand Estimates (WASDE) forecasts, USDA raised its estimate of milk production for 2021 from 227.3 bil. lb. to 227.7 bil. lb.,

which would be 2.0 percent over 2020 production, primarily due to increased cow numbers. But it also raised the 2021 all milk price forecast, from \$17.75 per cwt to \$18.40 per cwt, due to “improving demand.” At the same time, the dairy futures translated into a 2021 all-milk price forecast of about \$19.40 per cwt. Futures futures also indicated that the February margin may be the lowest for the year, and that the margins going forward should rise above \$9.50/cwt sometime around mid-year.

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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.