

Overview

Retail dairy product price inflation continued to affect domestic commercial use of milk during the September–November period, even as inflation itself rose more slowly than in previous months. U.S. dairy exports that are on track to set a new calendar-year record as a percent of U.S. milk solids production, at about 18 percent, helped buttress prices against the domestic-use decline. The national average milk price continues its gradual decline from the all-time high it achieved in May, while still remaining at historically high levels. Stocks of butter and cheese continue to drop, but so do their prices as well.

Price-feed cost margins under the Dairy Margin Coverage (DMC) program remained well above the \$9.50/cwt maximum coverage level in November, but forecasts indicate the margin will soon drop below this level for well into the summer.

Commercial Use of Dairy Products

U.S. domestic butter consumption has been below year-ago levels by double-digit percentages for each month during September through November, doubtless due to the high and still-escalating retail price inflation it has experienced throughout the period. This has helped tip total domestic consumption of all dairy products on a milkfat basis back into negative growth territory following several months of running quarterly growth. Total consumption on a skim solids basis was flat, following similar growth. Domestic consumption growth of cheese, on the other hand, remained strong during September–November, while fluid milk and yogurt consumption continues to languish.

U.S. Dairy Trade

U.S. dairy exports were equivalent to 18.3% of U.S. milk solids production during November. Calendar year 2022 will definitely set a new record by this measure, with a good chance it will be at least 18%. During September–November, exports of American-type cheese and all the basic products of the whey complex experienced growth in double-digit percentages, mostly well into such territory. Butter exports approached triple-digit growth. Exports of dry skim milk, typically the largest U.S. export product category in terms of milk solids, were flat during the period.

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Domestic Commercial Use	Sept–Nov 2022	Sept–Nov 2021	2021–2022 Change	Percent Change
	(million pounds)			
Total Fluid Milk Products	10,947	11,229	-282	-2.5%
Yogurt	1,130	1,152	-22	-1.9%
Butter	536	619	-83	-13.4%
American–type Cheese	1,345	1,314	30	2.3%
All Other Cheese	2,015	1,984	32	1.6%
Total Cheese	3,360	3,298	62	1.9%
Dry Skim Milk	159	228	-69	-30.1%
All Products (milk equiv., milkfat basis)	56,874	57,490	-617	-1.1%
All Products (milk equiv., skim solids basis)	44,516	44,495	20	0.0%
All Products (milk equiv., total solids basis)	48,389	48,524	-135	-0.3%

U.S. Dairy Trade *from page 1*

Increased imports of butter, casein and milk protein concentrate during September–November were possibly yet another result of U.S. retail dairy product price inflation.

Milk Production

U.S. milk production increased year-over-year by 1.3 percent in November last year. States in which production increased more rapidly that month than during the previous month were mostly in the Corn Belt, Upper Midwest and Northeast. Nationally, milk production growth has been relatively stable, at just over one percent for several months, and not yet showing a clear indication of either accelerating or slowing down. Milk solids production has similarly grown at a relatively stable rate in recent months, although at a rate almost one percent faster than liquid milk production.

U.S. dairy cow numbers, by contrast, are more clearly showing indications of faster growth. For the three months through

November, the national milking herd added increasingly more cows than a year earlier.

Dairy Products

Growth of American-type cheese production sped up during September–November, while production of other cheese and total cheese slowed. Butter production growth has also picked up its pace, as increased milk production, combined with continued reaction to retail dairy price inflation, has provided more cream for churning. By contrast, dry skim milk production has dropped due to lower skim milk powder production, reflecting stable exports and lower domestic use. Whey products production was stable, as lower domestic use offset higher exports.

Dairy Product Inventories

Cold storage stocks of butter fell in November to less than half their three-decade high of June 2021. Stocks of both

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U.S. Dairy Exports	Sept–Nov 2022	Sept–Nov 2021	2021–2022 Change	Percent Change
	(metric tons)			
Butter	20,411	10,855	9,556	88%
Anhydrous Milk Fat / Butteroil	3,190	5,493	-2,303	-42%
American-type Cheese	20,399	15,608	4,792	31%
Cheddar Cheese	20,217	15,483	4,735	31%
All Other Cheese	89,786	87,613	2,172	2%
Total Cheese	110,185	103,221	6,964	7%
Dry Skim Milk	208,319	213,385	-5,066	-2%
Whole Milk Powder	6,480	7,130	-650	-9%
Dry Whey	65,530	55,666	9,864	18%
Whey Protein Concentrate/Isolate	58,376	45,996	12,380	27%
Lactose	114,569	103,534	11,035	11%
Percent of U.S. Milk Solids Exported	18.3%	17.4%	0.8%	5%

U.S. Dairy Imports	Sept–Nov 2022	Sept–Nov 2021	2021–2022 Change	Percent Change
	(metric tons)			
Butter	13,491	12,190	1,301	11%
Cheese	54,023	54,871	-847	-2%
Dry Skim Milk	201	100	101	101%
MPC (all protein levels)	14,809	12,679	2,130	17%
Casein	19,605	17,128	2,477	14%
Percent of U.S. Milk Solids Imported	3.7%	3.5%	0.2%	6%

Dairy Product Inventories *from page 2*

American-type and other cheese, and hence total cheese, have all receded from the more recent three-decade high they each reached in July 2022. Manufacturers' stocks of dry skim milk and stocks of all the major whey and whey protein products turned up modestly in November from their month-earlier levels.

Dairy Product and Federal Order Class Prices

In December, butter prices reported in the National Dairy Product Sales Report (NDPSR) took a second consecutive large monthly

drop from last year's September peak, doubtless in reaction to the inflation-caused weakness in commercial use last fall. NDPSR cheese prices also fell again in December, from a September secondary high point, but by smaller amounts, and their block cheese component rose during that time. Nonfat dry milk and dry whey survey prices also dropped in December, but from levels that peaked much earlier in 2022. These product price movements generated corresponding reductions in December's Class III and Class IV prices.

Retail price inflation for fluid milk and cheese appears to have peaked last summer along with overall inflation and food and beverage price inflation, as measured by year-over-year changes

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Milk and Dairy Products Production	Sept–Nov 2022	Sept–Nov 2021	2021–2022 Change	Percent Change
Milk Production				
Cows (1,000 head)	9,419	9,391	27	0.3%
Per Cow (pounds)	5,877	5,820	57	1.0%
Total Milk (million pounds)	55,353	54,656	697	1.3%
Total Milk Solids (million pounds)	7,299	7,147	152	2.1%
Dairy Products Production				
		(million pounds)		
Cheese				
American Types	1,371	1,365	6	0.4%
Cheddar	956	948	8	0.9%
Italian Types	1,476	1,444	32	2.2%
Mozzarella	1,154	1,123	31	2.7%
Total Cheese	3,460	3,417	43	1.3%
Butter	472	464	9	1.8%
Dry Milk Products				
Nonfat Dry Milk	407	421	-14	-3.4%
Skim Milk Powder	154	209	-55	-26.4%
Dry Whey	230	226	4	1.8%
Whey Protein Concentrate	138	135	4	2.7%

Dairy Product Inventories	Nov 2022	Oct 2022	Nov 2021	2021–2022 Change
		(million pounds)		
Butter	200	240	210	-5%
American Cheese	816	831	835	-2%
Other Cheese	614	617	587	5%
Dry Skim Milk	263	255	234	12%
Dry Whey	73	68	60	22%

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

in their respective monthly consumer price indices. Frozen dairy products may have peaked in November, helping to bring down changes in the overall dairy CPI for the month, but butter price inflation continues to intensify.

Milk and Feed Prices

The U.S. average all-milk price dropped \$0.30/cwt in November from a month earlier to \$25.60/cwt. The two prices constituted a mini-peak that temporarily paused the ongoing gradual

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Dairy Product and Federal Order Prices	Dec 2022	Nov 2022	Dec 2021	2021–2022 Change
NDPSR Dairy Product Prices				
		(per pound)		
Butter	\$2.776	\$2.956	\$2.064	\$0.712
Cheddar Cheese	\$2.056	\$2.090	\$1.754	\$0.301
40-Pound Blocks	\$2.159	\$2.075	\$1.863	\$0.296
500-Pound Barrels	\$1.929	\$2.074	\$1.626	\$0.303
Nonfat Dry Milk	\$1.456	\$1.505	\$1.547	-\$0.091
Dry Whey	\$0.457	\$0.475	\$0.639	-\$0.183
Federal Order Class Prices for Milk				
		(per hundredweight)		
Class I Mover	\$22.58	\$24.09	\$19.17	\$3.41
Class II	\$23.11	\$24.67	\$19.84	\$3.27
Class III	\$20.50	\$21.01	\$18.36	\$2.14
Class IV	\$22.12	\$23.30	\$19.88	\$2.24
Retail Dairy Product Prices				
Fluid Whole Milk (per gallon)	\$4.211	\$4.218	\$3.743	\$0.468
Lowfat Fluid Milk (per gallon)	\$3.845	\$3.842	\$3.359	\$0.486
Cheddar Cheese (per pound)	\$5.995	\$5.933	\$5.257	\$0.738
Butter (per pound)	\$4.811	\$4.639	\$3.474	\$1.337

Milk and Feed Prices	Nov 2022	Oct 2022	Nov 2021	2021–2022 Change
Producer Prices				
All Milk (per cwt.)	\$25.60	\$25.90	\$20.70	\$4.90
Feed Prices				
Corn (per bushel)	\$6.49	\$6.50	\$5.26	\$1.23
Soybean Meal (per ton)	\$437	\$469	\$359	\$78
Premium Alfalfa Hay (per ton)	\$331	\$348	\$254	\$77
Feed Prices (per cwt of milk)				
Corn	\$6.96	\$6.97	\$5.64	\$1.32
Soybean Meal	\$3.21	\$3.44	\$2.64	\$0.57
Premium Alfalfa Hay	\$4.53	\$4.77	\$3.48	\$1.05
DMC Feed Cost* (per cwt.)	\$14.71	\$15.19	\$11.66	\$3.05
DMC Margin* (per cwt.)	\$10.89	\$10.71	\$9.14	\$1.75
<i>*DMC calculations are not revised</i>				

Milk and Feed Prices *from page 4*

decline from the May 2022 all-time high of \$27.30/cwt. The November feed cost under the Dairy Margin Coverage (DMC) program was \$14.71/cwt, generating a DMC margin of \$10.89/cwt that month. The DMC feed ingredient prices are gradually receding from the high levels they reached this year. Alfalfa hay prices hit an all-time high this past October, and their influence pulled the DMC feed cost to an all-time high this past August.

Looking Ahead

In its December World Agricultural Supply and Demand Estimates (WASDE) report, USDA raised its milk production forecast for 2023, to the equivalent of 1.1 percent over 2022, based on “both higher expected cow numbers and slightly more rapid growth in output per cow.” This month, the department reversed course and reduced its 2023 forecast back to its prior level, 1.0 percent over 2022, citing “a smaller expected average cow inventory for the year.”

These changes illustrate the current uncertainties surrounding the rate at which U.S. milk production is expanding again following an unusually long period of depressed production, ending last July. The national dairy cow herd has clearly entered an expansion cycle following a period of record high milk prices, a combination that typically stimulates an episode of production growth that challenges total demand for milk and dairy products. Operating in the opposite direction are still-excessive costs of production, particularly feed costs, as well as “expectations of weak domestic demand and price pressure in international markets” which caused USDA to reduce its 2023 price forecasts for all components. Despite this, 2023 milk production growth will very likely exceed 1.0 percent, even though markets are already projecting that margins over feed costs will be weak this year, with the DMC margin currently expected to remain well below the maximum coverage level of \$9.50/cwt until well into next summer.

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