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USDA projects four years of declining milk prices

By CAROL RYAN DUMAS
Capital Press

USDA is forecasting a significant downturn in milk and dairy product prices in 2015, with the all-milk price falling $4.90 per hundredweight and the cheese price retreating 45 cents per pound.

Decreases in subsequent years are less dramatic, but an increase in milk prices aren't expected until 2021 and an increase in the cheese price is not expected until 2022, according to the agency's long-term projections released this month.

The all-milk price is expected to drop to $18.05 by 2018, stabilize for a couple of years then move higher to reach $19.20 by 2024, USDA economists reported.

Milk production is projected to continue its long-term upward trend, increasing 37.1 billion pounds from 212.3 billion pounds in 2015 to 249.4 billion pounds by 2024, with favorable returns encouraging expansion of the herd through 2018.

Milk per cow is expected to rise more than 4,000 pounds over the next 10 years, from 22,770 pounds in 2015 to 27,060 pounds by 2024, the economists project.

The agency forecasts higher feed costs will bring year-to year declines in the number of cows from 2020 through 2024. Production per cow, however, will continue upward, reflecting continued developments in technology and genetics.

Future demand for dairy products looks bright in USDA's projections, with domestic commercial use growing faster than the U.S. population. While per-capita consumption of fluid milk is expected to continue its slow decline, domestic demand for cheese is expected to increase due to greater consumption of prepared foods and increased eating away from home.

The economists project domestic commercial use (on a milk fat basis) to rise from 202.6 billion pounds in 2015 to 234.6 billion pounds in 2024.

The upward trend in dairy exports is also projected to continue, with the U.S. well positioned to expand exports, according to USDA.

Commercial exports (on a milk fat basis) are projected to increase steadily over the next decade, reaching record levels and growing from 11 billion pounds in 2015 to 17.9 billion pounds in 2024, the economists reported.

Imports of dairy products are projected to remain fairly steady, between 3.8 billion pounds and 4.1 billion pounds over the next 10 years.

For the report: www.usda.gov/oce/commodity/projections

U.S. dairy long-term prices

(Projected)

Year	Milk*	Cheese†
2013	$20.05	$1.77
2014	24.20	2.18
2015	19.30	1.73
2016	18.70	1.70
2017	18.30	1.66
2018	18.05	1.64
2019	18.05	1.63
2020	18.05	1.63
2021	18.25	1.63
2022	18.50	1.65
2023	18.90	1.68
2024	19.20	1.71

*All milk price, dollars per hundredweight
†Cheese price, dollars per pound

Second-half slowdown curbs 2014 dairy exports

By CAROL RYAN DUMAS
Capital Press

U.S. dairy exports, which soared 22 percent in the first half of 2014, slumped in the second half of the year to finish 6 percent above 2013.

U.S. dairy exports in 2014 totaled $7.1 billion, an increase of nearly $400 million from $6.7 in 2013, according to the latest export report by U.S. Dairy Export Council.

At mid-year, those exports were up 22 percent from a year earlier at $4.5 billion, an increase of $800 million over $3.7 billion in the first half of 2013.

U.S. exports to China saw the biggest retreat in the second half of 2014, down 1 percent for the year after having been up 32 percent in the first half of 2014.

China slowed its purchases overall, not just from the U.S., in the second half of the year, said Alan Levitt, USDEC vice president of communications.

China purchased $452 million worth of U.S. dairy products in the first half of 2014 but only purchased another $245 million in the second half for a total of $697 million.

Southeast Asia and Middle East/North Africa also pulled back significantly on purchases of U.S. products, according to USDEC.

Southeast Asia's imports of U.S. product were up 21 percent year over year in the first half of 2014 but up only 3 percent for the entire year. By mid-year, Southeast Asia had purchased $885 million in U.S. dairy products but only purchased about half that, $437 million, in the second half for a total of $1.3 billion

Dairy imports to Middle East/North Africa from the U.S. were up 22 percent in the first half of the year and down 18 percent for the entire year. By mid-year, U.S. imports to the region totaled $518 million and increased only $125 million in the second half for a total of $643 million.

There were a few reasons for those declines, Levitt said.

Carol Ryan Dumas/Capital Press

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Top 10 U.S. dairy export markets, 2014

Rank/Country	Value (Million of dollars)	% change 2013-14
1. Mexico	$1,644.1	15%
2. S.E. Asia	1,322.3	3
3. China	697.4	-1
4. MENA*	643.3	-18
5. Canada	591.6	4
6. S. Korea	416.8	39
7. Japan	406.8	34
8. Oceana	297.8	15
9. S. America	291.9	5
10. Caribbean	224.6	6

Sources: USDA ; USDEC *Middle East/North Africa

Carol Ryan Dumas and Alan Kenaga/Capital Press

First was price disparity, with the U.S. price much higher than Oceana and EU pricing. U.S. prices were fairly close to record high due to the strong domestic dairy market, he said.

Russia's ban on EU products also played into the decline in U.S. dairy exports to Southeast Asia and MENA. Russia consumes about 2 percent of EU milk production and is EU's biggest market. When Russia stopped buying EU cheese, EU manufacturers switched to skim milk powder production, he said.

Southeast Asia is the biggest buyer of U.S. skim milk powder, but EU prices were more competitive than U.S. prices, he said.

New Zealand also switched production from whole milk powder to skim milk powder when China stopped buying, and New Zealand's prices were also more competitive than U.S. prices in the Southeast Asia market, he said.

The Middle East is EU's logical next biggest market after Russia, and the U.S. lost sales to MENA on the whole range of dairy products, he said.

Other highlights of USDEC's report show:

- Exports of U.S. nonfat dry milk powder in 2014 were slightly below 2013 with declines in China, Indonesia, Vietnam, and MENA and increases in Mexico and the Philippines.
- U.S. cheese exports increased for the fifth year in a row, up 17 percent year over year with large gains in South Korea and Japan
- Overall whey exports were up fractionally with a 31 percent gain in shipments of whey protein isolate and a 3 percent decline in dry whey exports.
- U.S. butterfat exports were down 21 percent with sales slumping after April.
- Total U.S. exports in 2014 were equivalent to 15.4 percent of U.S. milk production, down slightly from 15.5 percent in 2013.

Rabobank explores cow-calf confinement to rebuild beef herd

By CAROL RYAN DUMAS
Capital Press

An unprecedented run in price for all classes of cattle in 2014 has cow-calf producers sending fewer cows to slaughter and holding back heifers to rebuild the U.S. beef herd.

But those producers and herd expansion are challenged by a significant reduction in grazing acres and high prices to lease or rent pasture, according to Rabobank economists in a report released earlier this month.

The report "Outside In …" explores confined cow-calf production as a viable means for rebuilding the beef cow herd.

"Clearly the economic signal has been sent that the cow-calf sector needs to expand," said Don Close, Rabobank Food & Agribusiness senior analyst.

Profitability, required for expansion, has been taken care of, but availability of land is questionable, he said.

USDA statistics show a 32 million-acre loss in grazing land over the last 10 years, driven by such things as expansion of row crops, urban sprawl and restricted Bureau of Land Management grazing. If cow numbers are to grow by the projected 3 million to 4 million head, alternative production models will be required, Rabobank's report stated.

While traditional cow-calf production will remain the primary method, a significant part of herd expansion will need to incorporate systems for confined calf production.

Confined and semi-confined production are viable and valuable options and "very competitive" when compared with conventional grazing models, Close said.

The two most applicable production models are converting existing excess feed-yard pen space and aligning confinement buildings with conventional row crop production in the Corn Belt, the bank's economist reported.

Both offer increased efficiency from the cow herd and healthier animals and show higher per-cow returns than conventional grazing, Rabobank reported.

Confined and semi-confined management systems allow the operator to tailor feeding programs to the different stages of the animal production cycle, sort and feed cows by their body condition scores and better manage high-quality calf programs.

The confinement systems also achieve better productivity gains through better cow management, artificial breeding and stock selection for end markets. Limited research also suggests those systems can improve cow health and extend reproductive life, Rabobank reported.

The confined systems also results in exceptional calf health where prenatal calf health is better than average through balancing the cow's nutritional requirements. The systems also result in less stress in weaning, even early weaning, and introduction into a feedlot system, according to Rabobank.

As for return on investment, mid-range price scenarios found per-cow profit in the Northern Plains was $220 for conventional grazing, $324.50 for semi-confinement, $363 for older cow confinement, and $253 for young cow confinement, the economists reported.

"A primary benefit of converting existing feed-yard space to cow-calf confinement is that it enables facilities to use existing structures with minimal modifications while allowing the feed yard to remain a viable entity and sidestep the extreme competition for feeder cattle," the economists stated.

With current excess pen space, the production units can vary in size, from several hundred cows to units with 3,000 to 5,000 cows. Existing structures would require some enhancements such as lower bunk and water access for calves, a separate area for bedding and shade and creep gates or other fence spacing to allow a safe zone for calves that is inaccessible to cows, Rabobank reported.

Cash butter, powder see busy week

By LEE MIELKE
For the Capital Press

Dairy Markets

Lee Mielke

Cash cheese prices saw little change the second week of February. The block Cheddar closed Friday the 13th at $1.53 per pound, down a half-cent on the week and 57 1/2-cents below a year ago, when they weren't so "lucky" and dropped almost 13 cents, to $2.1050.

The Cheddar barrels closed Friday at $1.4850, up a quarter-cent on the week and 57 3/4-cents below a year ago. Only two cars of barrel were sold last week on the spot market.

The markets were closed Monday for the President's Day holiday but the blocks inched up a penny Tuesday while the barrels were unchanged.

Cash butter headed south last week, shedding 8 1/2-cents by Wednesday, but gained back a penny Friday to close at $1.72 per pound, down 7 1/2-cents on the week and 5 cents below a year ago. It was unchanged Tuesday. A lot of butter found its way to Chicago last week, with 36 loads exchanging hands, up from 18 the previous week.

Cash Grade A nonfat dry milk saw a fourth week of strength, finishing Friday at $1.15 per pound, up a nickel on the week. It was another big week of sales, with 44 loads exchanging hands, up from 54 loads the previous week and 34 the week before that. The powder was up another 2 cents Tuesday, hitting $1.17, highest spot price since Nov. 19.

California March Class I milk down

The California Department of Food and Agriculture announced the state's March Class I milk price at $16.66 per hundredweight for the north and $16.93 for the south, down 42 cents and 43 cents, respectively, from February. Both are an eye-catching $8.72 below March 2014 and the lowest Class I prices since January 2011.