

THE COURIER

Monthly Newsletter

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ERS Study on Dairy Industry

USDA's Economic Research Service (ERS) recently released a report that focuses on the interrelated topics of structural change in dairy production, changes in dairy product markets, growing price volatility, and dairy policy. The complete report, *Changing Structure, Financial Risks, and Government Policy for the U.S. Dairy Industry*, is available at: <http://www.ers.usda.gov/media/2027311/err205.pdf>. A summary of the report is provided below.

Congress created the Dairy Margin Protection Program (MPP-Dairy) in 2014 to provide farmers with financial protection against risks from increasing volatility in milk and feed prices. This report focuses on the interrelated topics of structural change in dairy production, changes in dairy product markets, growing price volatility, and dairy policy.

U.S. dairy farming faces two major and ongoing changes. One is a structural change toward fewer but larger dairy farms, while the second is a change in dairy product consumption away from fluid milk products and toward manufactured products for domestic and international markets. The two changes interact with one another: structural change toward larger farms reduced industry average production costs and made U.S. dairy products more competitive in international markets, while change in product composition favors larger operations located away from population centers.

There are substantial price risks, and there is evidence that the risks have increased. Price risks are inherent in the economics of dairy markets, and expanded international trade may have added a new component of price risks arising from foreign demand and currency fluctuations.

Dairy policy has long focused on price risks; successive policies have adopted different methods for limiting the impacts of such risks and, at times, have shifted from risk management to income enhancement. The changes in farm structure and in product composition complicate the design of policy to manage price risks. Structural change has created a wide range of farm types, with much differing cost structures and differing financial impacts from any price shifts. Meanwhile, changes in product composition create a new set of international consumers and competitors.

Congress charted a major new direction in dairy policy in the Agricultural Act of 2014 when it introduced MPP-Dairy as a risk management program for dairy farmers. This is a large and complex program, and farmers must make some complicated decisions when choosing a level of enrollment.



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Appalachian Statistical Summary

	MARCH 2016	FEBRUARY 2016	MARCH 2015
PRICES: (Base Zone)			
Uniform Price	\$15.87	\$16.41	\$17.63
Class I Price	17.18	17.04	18.96
Class II Price	13.57	14.30	14.50
Class III Price	13.74	13.80	15.56
Class IV Price	12.74	13.49	13.80
Uniform Skim Milk Price	\$8.13	\$8.47	\$11.58
Class I Skim Milk Price	8.94	9.31	12.99
Class II Skim Milk Price	6.05	6.17	8.31
Class III Skim Milk Price	6.25	5.68	9.43
Class IV Skim Milk Price	5.21	5.36	7.61
Uniform Butterfat Price	\$2.2913	\$2.3535	\$1.8441
Class I Butterfat Price	2.4443	2.3018	1.8348
Class II Butterfat Price	2.2098	2.3848	1.8514
Class III Butterfat Price	2.2028	2.3778	1.8444
Class IV Butterfat Price	2.2028	2.3778	1.8444
PRODUCER MILK:			
Class I	333,473,492	316,928,508	323,796,322
Class II	77,298,054	69,032,034	84,964,176
Class III	24,369,289	20,867,636	20,767,327
Class IV	60,843,256	47,244,343	65,535,440
Total Producer Milk	495,984,091	454,072,521	495,063,265
PERCENT PRODUCER MILK IN:			
Class I	67.23	69.80	65.41
Class II	15.59	15.20	17.16
Class III	4.91	4.60	4.19
Class IV	12.27	10.40	13.24

F.O. 5 STATS FOR MARCH 2016:

The Uniform Price for March 2016 was \$15.87 per cwt., a decrease of \$0.54 from February 2016.

Total Class I Milk for March 2016 was 333,473,492 pounds, an increase of 9.7 million pounds, or 3.0 percent, compared to March 2015.

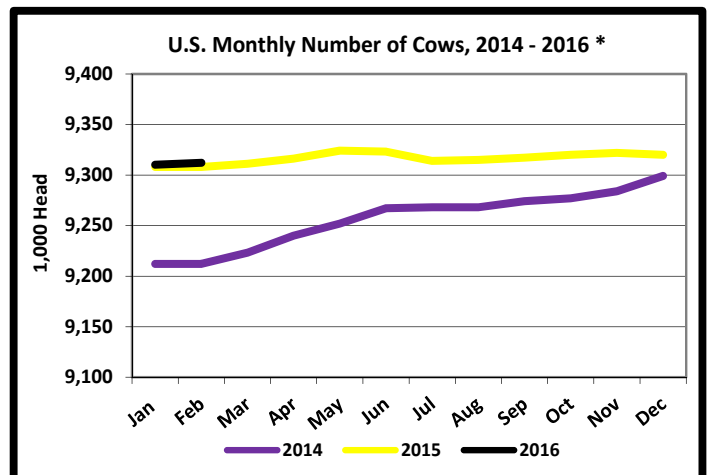
Class I Utilization was 67.23 percent for March 2016, an increase of 1.8 percentage points from March 2015.

Total Producer Milk for March 2016 was 495,984,091 pounds, an increase of 0.9 million pounds, or 0.2 percent, compared to March 2015.

February Milk Production Up 4.6%

Milk production in the 23 major States during February totaled 15.8 billion pounds, up 4.6 percent from February 2015. However, adjusting production for the additional day due to leap year causes February milk production to be up 1.0 percent on a per day basis. January revised production, at 16.6 billion pounds, was up 0.2 percent from January 2015. The January revision represented a decrease of 13 million pounds or 0.1 percent from last month's preliminary production estimate. Production per cow in the 23 major States averaged 1,833 pounds for February, 79 pounds above February 2015.

February Milk Production Up 4.6%, cont'd on pg. 4



*Based on entire U.S. production

ERS Study on Dairy Industry, continued from page 1

The program appears to offer value to dairy producers, judging from initial enrollments accounting for 80 percent of U.S. milk production, and model simulations suggest that the protections offered by the program could be more valuable in the future.

The potential effects of the program are subject to two major unknowns. The first concerns the impact of the program on milk production and prices, and hence on Government subsidies. If the program reduces the degree to which milk production responds to changes in milk prices, then it could lead to extended periods of low prices and increased Government support. Because the program was only recently enacted, and because of the complexity of the program's design, we lack strong evidence for the likely effects of the program on production, and will learn from experience.

The second unknown concerns the effect of the program on continued structural adjustment in the dairy sector. Structural change has been a large and constant force in dairy farming in recent years, and it has been partly responsible for increased productivity and improved international competitiveness in the industry. MPP-Dairy has not developed complete rules for handling structural change in the sector. Without rules for managing structural change, the program could reduce incentives to increase herd sizes. The program is designed to expire in 2018, and efforts to revise the program will have to consider structural change.

Dairy Outlook

Dairy Forecasts for 2016

Feed price forecasts continue to remain relatively low. The corn price forecast for 2015/16 is \$3.40-\$3.80 per bushel, unchanged from last month at the midpoint of the range. The 2015/16 soybean meal price forecast is \$270-\$300 per short ton, a \$10 reduction at the top of the range from last month's forecast. The national average price for alfalfa hay decreased from \$150 per short ton in December to \$147 in January.

Based on recent data, the 2016 forecast for milk cows has been raised to 9.305 million head, 10 thousand more than forecast last month. Milk per cow has been lowered to 22,745 pounds per head, 50 pounds less than forecast last month, based on recent yield data and lower milk prices. Milk production for 2016 is forecast at 211.6 billion pounds, a decrease of 0.3 billion pounds from last month's forecast.

Price forecasts this month are based upon counteracting supply and demand influences. Generally, higher imports and lower exports have negative effects on dairy product prices while lower milk production has a positive effect. The cheese price forecast has been lowered to \$1.505-\$1.565 per pound due to more milk allocated to cheese, higher expected imports, and lower expected exports. The butter price has been raised to \$2.010-\$2.100 per pound, as the effects of the lower milk supply, milk reallocation, and the positive shift in demand more than offset the effect of higher imports. The price forecast for nonfat dry milk has been lowered to \$0.770-\$0.820 per pound as global trade effects more than offset the effects of lower expected U.S. milk production and milk reallocation. The annual whey price forecast is unchanged at \$0.230-\$0.260 per pound, as effects of supply and demand on price are expected to be offsetting.

With the lower expected cheese price, the 2016 Class III milk price forecast has been lowered to \$13.60-\$14.20 per hundredweight (cwt). The Class IV milk price forecast is \$13.05-\$13.75 per cwt, unchanged at the midpoint, as changes in the underlying dairy product prices are offsetting. With a lower expected Class III milk price, the all-milk price forecast for 2016 has been lowered to \$14.95-\$15.55 per cwt, a reduction from \$15.30-\$16.00 forecast last month.

Full report is available at: <http://www.ers.usda.gov/media/2030045/ldp-m-261-outlook-march-2016.pdf>.

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**February Milk Production
Up 4.6%, cont'd from pg. 2**

This is the highest production per cow for the month of February since the 23 State series began in 2003. When production is adjusted for the additional day due to leap year, February production per cow is 16 pounds above February 2015 on a per day basis.

The number of milk cows on farms in the 23 major States was 8.63 million head, 8,000 head more than February 2015, and 2,000 head more than January 2016.

Federal Milk Marketing Order Statistics - February 2016

Federal Order	Producer Deliveries Million Pounds	Class I Producer Receipts Million Pounds	Class I Utilization Percent	Statistical Uniform Price \$/cwt
1 Northeast	2,137.8	725.9	34.0	15.29
5 <i>Appalachian</i>	<i>454.1</i>	<i>316.9</i>	<i>69.8</i>	<i>16.41</i>
6 Florida	235.5	196.4	83.4	18.43
7 Southeast	426.7	312.5	73.3	16.88
30 Upper Midwest	3,101.0	284.1	9.2	13.99
32 Central	1,312.6	394.2	30.0	14.21
33 Mideast	1,601.6	518.0	32.3	14.37
124 Pacific Northwest	716.5	159.5	22.3	14.08
126 Southwest	1,197.4	352.7	29.5	15.02
131 Arizona	433.1	104.1	24.0	14.30
All Orders ¹	11,616.1	3,364.4	29.0	14.72

¹Weighted average uniform prices at 3.5% butterfat at announced locations.