APPALACHIAN MARKETING AREA
FEDERAL ORDER 5

THE COURIER

Monthly Newsletter
March 2017

Dairy Outlook

Recent Developments in Dairy Markets

Recent wholesale price directions for U.S. dairy products, as reported in the USDA *National Dairy Products Sales Report* (NDPSR), have been mixed in recent weeks. From the week ending February 4 to the week ending March 4, prices declined for butter, 40-pound blocks of cheddar cheese, and nonfat dry milk (NDM), but prices rose for 500-pound barrels of cheddar cheese and dry whey.

From the week ending February 24 to the week ending March 3 on the Chicago Mercantile Exchange (CME), the butter price increased from $2.129 to $2.180 per pound, while prices declined for cheddar cheese - from $1.543 to $1.507 per pound for 40-pound blocks, and from $1.557 to $1.476 for 500-pound barrels. Price changes on the CME for butter and cheese typically precede similar changes reported in the NDPSR by a week or two.

Strong demand for whey protein concentrate (WPC) and whey protein isolate (WPI) has likely contributed to the increase in the dry whey price. Production of the two products grew from 46 million pounds in September to 50 million pounds in December and remained about the same in January. Dry whey stocks became relatively tight - 67 million pounds at the end of January (much lower than 84 million in at the end of January 2016).

From December to January, commercial exports decreased for most dairy products, with notable declines for cream, whey products, and lactose. Combined exports of nonfat dry milk and skim milk powder (NDM/SMP), the dairy product with the highest export volume for the United States, were 105 million pounds in January, slightly higher than December but lower than the recent peak of 125 million pounds in October.

Mexico has consistently been the leading export destination for U.S. dairy products, and NDM/SMP has been the leading U.S. dairy product exported to Mexico. In 2016, 54.1 percent

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2016 Annual Milk Production Up 1.8% from 2015

The annual production of milk for the United States during 2016 was 212 billion pounds, 1.8 percent above 2015. Revisions to 2015 production decreased the annual total 36 million pounds. Revised 2016 production was down 76 million pounds from last month's publication. Annual total milk production has increased 14.4 percent from 2007.

Production per cow in the United States averaged 22,774 pounds for 2016, 378 pounds above 2015. The average annual rate of milk production per cow has increased 12.7 percent from 2007.

The average number of milk cows on farms in the United States during 2016 was 9.33 million head, up 0.2 percent from 2015. The average number of milk cows was revised down 5,000 head for 2016. The average annual number of milk cows has increased 1.5 percent from 2007.

Harold H. Friedly, Jr.
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Appalachian Statistical Summary

	FEBRUARY 2017	JANUARY 2017	FEBRUARY 2016
PRICES: (Base Zone)			
Uniform Price	$19.09	$20.06	$16.41
Class I Price	20.13	20.85	17.04
Class II Price	16.52	16.36	14.30
Class III Price	16.88	16.77	13.80
Class IV Price	15.59	16.19	13.49
Uniform Skim Milk Price	$10.80	$11.83	$8.47
Class I Skim Milk Price	11.60	13.01	9.31
Class II Skim Milk Price	8.29	7.77	6.17
Class III Skim Milk Price	8.69	8.22	5.68
Class IV Skim Milk Price	7.35	7.62	5.36
Uniform Butterfat Price	$2.4766	$2.4699	$2.3535
Class I Butterfat Price	2.5532	2.3714	2.3018
Class II Butterfat Price	2.4344	2.5323	2.3848
Class III Butterfat Price	2.4274	2.5253	2.3778
Class IV Butterfat Price	2.4274	2.5253	2.3778
PRODUCER MILK:			
Class I	307,438,239	352,361,215	316,928,508
Class II	64,644,187	68,543,879	69,032,034
Class III	20,020,456	21,215,747	20,867,636
Class IV	39,910,189	41,319,485	47,244,343
Total Producer Milk	**432,013,071**	**483,440,326**	**454,072,521**
PERCENT PRODUCER MILK IN:			
Class I	71.16	72.88	69.80
Class II	14.96	14.18	15.20
Class III	4.64	4.39	4.60
Class IV	9.24	8.55	10.40

F.O. 5 STATS FOR FEBRUARY 2017:

The Uniform Price
for February 2017 was $19.09 per cwt., a decrease of $0.97 from January 2017 and increase of $2.68 from February 2016.

Total Class I Milk
for February 2017 was 307,438,239 pounds, a decrease of 9.5 million pounds, or when adjusted for the additional day due to leap year in 2016 represents an increase of 0.5 percent, compared to February 2016.

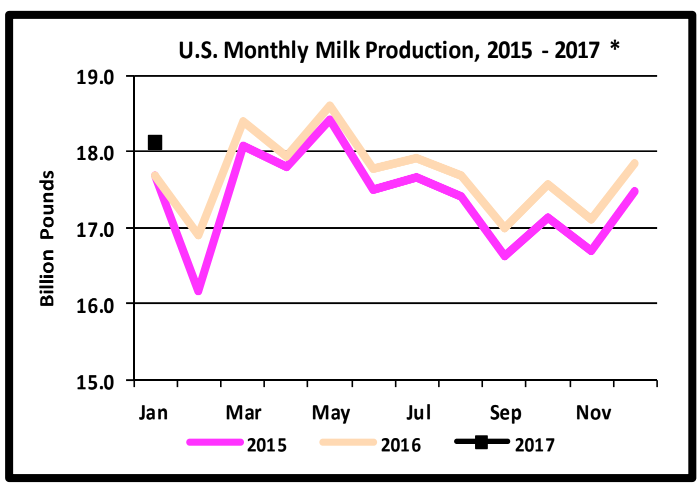
Class I Utilization
was 71.16 percent for February 2017, an increase of 1.4 percentage points from February 2016.

Total Producer Milk
for February 2017 was 432,013,071 pounds, a decrease of 22.1 million pounds, or when adjusted for leap year in 2016 represents a 1.5 percent decrease, compared to February 2016.

January Milk Production up 2.7%

Milk production in the 23 major States during January totaled 17.0 billion pounds, up 2.7 percent from January 2016. December revised production, at 16.8 billion pounds, was up 2.6 percent from December 2015. Production per cow in the 23 major States averaged 1,957 pounds for January, 37 pounds above January 2016. This is the highest production per cow for the month of January since the 23 State series began in 2003.

The number of milk cows on farms in the 23 major States was 8.69 million head, 67,000 head more than January 2016, and 5,000 head more than December 2016.



*Based on entire U.S. production

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of NDM/SMP produced in the United States was exported, and 43.1 percent of NDM/SMP exports went to Mexico. NDM/SMP exports to Mexico have declined each month since October, although they remained a substantial proportion of the total in January. However, there is a great deal of uncertainty concerning the future of exports to Mexico. The strong U.S. dollar is making NDM/SMP exports from U.S. to Mexico less attractive. For the week ending February 17, USDA *Dairy Market News* (DMN) reported that the Mexican Government bought 15,000 metric tons (about 33 million pounds) of SMP from Europe. According to DMN, "Mexican buyers have been quiet, analyzing SMP tenders from other international manufacturers outside the U.S." In subsequent reports, DMN has continued to report Mexico's sluggish demand for U.S. NDM/SMP. Mexico's purchase of 33 million pounds of SMP from the EU is considerable; for the entire year of 2016, EU exports of SMP to Mexico totaled only 18 million pounds.

U.S. milk cow numbers climbed to 9.360 million head in January, 6,000 more than December 2016 and 56,000 more than January 2016. Yield per cow averaged 1,937 pounds, 35 pounds above January 2016. U.S. milk production was 18.1 billion pounds in January, up 2.5 percent above the previous year. Feed price forecasts for corn and soybean meal for 2016/17 are \$3.20-\$3.60 per bushel and \$310-\$340 per short ton, both unchanged from last month's forecasts.3 The alfalfa hay price decreased from \$129 per short ton in December to \$128 in January; this is \$13 lower than January 2016.

Imports in January were 542 million pounds on a milk-fat milk-equivalent basis, a decrease of 55 million from December. On a skim-solids milk-equivalent basis, January imports were 576 million pounds, a decrease of 8 million pounds from December. Stock levels remained relatively high, with ending stocks for January higher than January 2016 by 221 million pounds on a milk-fat basis and 602 million pounds on a skim-solids basis.

Dairy Forecasts for 2017

Based on recent data, the 2017 forecast for milk cows is now 9.380 million head, an increase of 10,000 head from the previous forecast. Milk per cow is forecast 10 pounds lower than last month's forecast, at 23,185 pounds for the year. These changes result in a milk production forecast for 2017 of 217.5 billion pounds, 0.1 billion pounds higher than last month's forecast.

The import forecast for the year on a milk-fat basis is unchanged at 6.6 billion pounds. Exports on a milk-fat basis are projected to be 8.3 billion pounds in 2017, the same as last month's forecast. The domestic-use forecast on a milk-fat basis is 214.6 billion pounds for the year, a reduction of 0.1 billion pounds from the previous estimate. The estimate for stocks at year's end on a milk-fat basis is unchanged at 14.3 billion pounds.

The 2017 import forecast on a skim-solids basis is 6.2 billion pounds, unchanged from last month's forecast. Exports on a skim-solids basis are forecast 0.3 billion pounds lower, at 39.8 billion pounds for the year, mostly due to lower expectations for NDM/SMP exports. Domestic use is expected slightly lower than last month, at 183.1 billion pounds for the year. With lower expected exports and higher expected milk production, the forecast for ending stocks on a skim-solids basis has been raised to 14.5 billion pounds, 0.5 billion pounds higher than last month.

Recent weakness in cheese prices and sustained high stocks result in a reduction in the cheese price forecast to \$1.645-\$1.705 per pound for the year. With the price strength of and tightness in the supply of dry whey (due in part to high production of WPC and WPI), the whey price forecast has been increased to \$0.495-\$0.525 per pound for the year. Spot prices for NDM have recently moved significantly downward; in addition, expectations for exports this year have been lowered. As a result, the NDM price is now forecast at \$0.925-\$0.975 per pound for 2017. The butter price forecast for the year has been raised to \$2.120-\$2.210 per pound due to higher expected demand.

With increases in the whey price more than offsetting decreases in the cheese price, the Class III price forecast is raised to \$16.60-\$17.20 for the year. The Class IV price forecast is lowered to \$14.85-\$15.55 per cwt, as lower NDM prices negate the positive effects of higher butter prices. The all-milk price forecast for 2017 is \$17.80-\$18.40 per cwt, an increase of 10 cents at the lower end of the range from last month's forecast.

Livestock, Dairy, and Poultry Outlook/LDP-M-273/March 15, 2017
Economic Research Service, USDA

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Federal Milk Marketing Order Statistics - February 2017

	Federal Order	Producer Deliveries Million Pounds	Class I Producer Receipts Million Pounds	Class I Utilization Percent	Statistical Uniform Price $/cwt
1	Northeast	2,148.7	676.9	31.5	17.77
5	*Appalachian*	*432.0*	*307.4*	*71.2*	*19.09*
6	Florida	213.0	177.7	83.4	21.07
7	Southeast	437.8	299.8	68.5	19.36
30	Upper Midwest	2,251.1	258.3	11.5	16.94
32	Central	1,226.4	384.1	31.3	16.83
33	Mideast	1,609.7	510.6	31.7	16.92
124	Pacific Northwest	551.6	148.0	26.8	16.58
126	Southwest	853.8	330.0	38.7	17.57
131	Arizona	392.2	100.2	25.5	16.73
	All Orders [1]	10,116.4	3,193.0	31.6	17.41

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