**MPC FRIDAY MARKET UPDATE**

**CHEESE MARKET COMMENTS:** Considering everything that is happening in agriculture, politics, and with the U.S. and other major nation’s economies, the cheese market this week came through in a fashion that should help manufacturers and major buyers begin to look ahead instead of looking over their shoulders. Trading on the CME was relatively active with a total of 22 carloads selling within a tight price range. Blocks lost $.0075 per lb; barrels were unchanged. Manufacturers’ average prices for shipments made last week moved closer to this week’s spot market, meaning they came down by about $.10 per lb. They are now within $.09 per lb of this week’s CME averages for the two styles. *Dairy Market News* said they thought the market was unsettled, but it looks more like it’s settling. The strong and lengthy cheese buying season is all but here. Production is steady, helped by a little more milk with a little more butterfat and protein content, schools and back in session, and the NFL is back in action. Class III futures prices increased from September through January, with the biggest move, $.49 per cwt, in November. February-May prices edged down a bit. Next year’s futures prices appear to be about in line with what USDA projected this week for prices next year, which are about $2.25 per cwt lower than this year’s expected averages. That’s a mixed message to producers: feed costs are not projected to fall but milk prices are, but not by nearly anything close to what a crash would indicate. CWT continues to approve subsidies for cheese exports into what appears to be a weakening demand market. July’s exports were about where they were a year ago; January to July was up by about 40%.

**BUTTER MARKET COMMENTS:** After the $.20 price drop over the past three weeks, the butter market looks like it is better situated than it was – it was so much higher than virtually any time before for such a long period of time, and inventories were again pushing upward. Manufacturers’ prices for shipments made last week stayed higher than was expected but should move closer this week to this week’s CME average. Butter futures prices lost a penny or two per lb through December after which they were steady. The December price is at $1.75 per lb. Butter exports in July were sharply lower than last July, as international prices continue to edge lower and willing buyers become harder to find.

**POWDER MARKET COMMENTS:** Demand for nonfat dry milk continues to be steady in the East and Midwest, in line with production. Prices edged upward a bit this week. The weather disruptions back there have about all been cleared up, and an abundance of milk and condensed skim in showing up just when needed. Stocks in the West are ample, says DMN, and prices appear to have widespread downward pressure. Export volume is holding up well, but prices are being tested by European sellers with help from what is becoming a very weak Euro. DMN says some Western manufacturers are keeping NFDM stocks from growing by shifting production to skim milk powder and selling it at a price lower than NFDM prices. Tell me how that makes sense, but whoever is doing that, please continue; if nothing else it’s different. Production of buttermilk powder and condensed buttermilk is increasing in the central and eastern regions, and prices are mixed. Production in the West is higher than normal for this time of year, and prices are generally lower. DMN reports some imported whole milk powder is showing up on the east coast – likely from Europe – at prices lower than domestic product.
Prices for nonfat dry milk shipped last week were about a penny and a half per lb higher than the week before with sharply lower volume; California plants again had the higher price.

**WHEY PRODUCTS MARKET COMMENTS:** The domestic and export markets for dry whey continues to be steady to strong. Prices moved higher again this week. The West’s “mostly” price increased by $.0067 per lb this week. The big increase in July exports of WPC (and possibly in August) appears to have materially affected the domestic market. DMN says some buyers are having difficulty in securing supply commitments for next year. Shortages of condensed whey and WPC have been reported. The WPC-34 price ticked up this week.

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**FRED DOUMA’S PRICE PROJECTIONS…**

| Sept 16 Est: | Quota cwt. $19.99 | Overbase cwt. $18.30 | Cls. 4a cwt. $19.27 | Cls. 4b cwt. $16.46 |
| Last Week:   | Quota cwt. $20.01 | Overbase cwt. $18.31 | Cls. 4a cwt. $19.28 | Cls. 4b cwt. $16.49 |

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**NORTHWEST DAIRY ASSOCIATION (DARIGOLD) ENDORSES PETERSON/SIMPSON DAIRY REFORM LEGISLATION:** (By Rob Vandenheuvel) This week, Northwest Dairy Association (Darigold) – a major dairy cooperative in the Northwest U.S. – announced that their board of directors has officially endorsed the dairy reform package being put forth by Congressmen Collin Peterson (D-Minnesota) and Mike Simpson (R-Idaho). The press release follows:

Northwest Dairy Association Supports Draft Dairy Reform Legislation Based on Foundation for the Future Program

*(Release also posted at: [http://www.milkproducerscouncil.org/ndarelease.pdf](http://www.milkproducerscouncil.org/ndarelease.pdf]*)

SEATTLE, WA. (September 12) – Northwest Dairy Association (NDA), a dairy farmer-owned cooperative, and Darigold, Inc., its wholly-owned milk processing subsidiary, recently pledged support for the draft dairy reform legislation released by House Agriculture Committee ranking democratic member Collin Peterson (D-MN) earlier this summer. Peterson, who plans to introduce the legislation this fall, will be joined by Congressman Mike Simpson (R-ID) as a co-sponsor. The proposal is based on Foundation for the Future (FFTF), a comprehensive dairy reform proposal authored by dairy leaders across the country.

“Our decision to support the Peterson/Simpson proposal is not one taken lightly,” according to Jim Werkhoven, Chairman of the Northwest Dairy Association and Darigold boards of directors and a dairy farmer in Monroe, Washington. “We began our evaluation of the proposal more than a year ago, by presenting it to the membership at our annual meeting. Since then, we have discussed the plan in many forums, including area producer meetings. There is an industry consensus building around Foundation for the Future that promises improved economic stability for dairy farmers and ensures food security for the nation.”

The impetus for redirection in federal dairy policy was the precipitous drop in milk prices in 2009 that forced thousands of dairy farmers out of business and resulted in virtually all producers selling their milk far below the cost of production. By all accounts, dairy farmers’ equity was decimated by prolonged low milk prices, which were exacerbated by historically high feed prices – the largest milk production cost – during the same time.

“Given Northwest Dairy Association’s and Darigold’s position in the marketplace as a farmer-owned cooperative and global processor of a full range of dairy products, we are uniquely situated to evaluate and appreciate the positive aspects of Foundation for the Future,” according to Jim Wegner, President and CEO of the NDA/Darigold organizations. “We have been part of the national conversation that helped formulate FFTF, and we support its multiple provisions as a package deal. Should changes to the program be contemplated, we will be fully engaged in the conversation to assure that our member-owners’ interests are well served and that the dairy industry is positioned for future success.”
Initiated by the National Milk Producers Federation (NMPF), of which Northwest Dairy Association/Darigold is a member, FFTF proposes elimination of the federal dairy support program that removes excess dairy products from the market in favor of a risk-management program that insures producers against extremely low margins between milk and feed prices. The result is less milk price volatility and a reasonable opportunity for producers to cover their costs of production. The program includes elements that send immediate, but temporary, market signals to producers to curtail production when supply and demand fall out of balance. It also sets in motion comprehensive reform of the Federal Milk Marketing Order system, a USDA program that ensures orderly marketing of producers’ milk within given geographic areas.

Upon release of the draft legislation, NMPF’s President and CEO, Jerry Kozak said, “This is a long-anticipated and very welcome next step in the process of upgrading dairy policy to better provide farmers with protection, stability, and the opportunity for growth.” In the coming weeks, NMPF will continue to work with Peterson and Simpson to build support for the legislative draft, seeking additional co-sponsors from both political parties, in order that Congress can take it up for consideration as soon as possible.

“NDA and Darigold join with Congressmen Peterson and Simpson, National Milk Producers Federation, and dairy farmers across the country in seeking sponsorship for and early consideration of the draft legislative changes necessary to implement Foundation for the Future,” said Wegner.

MANAGER’S NOTE: (By Rob Vandenheuvel) MPC appreciates the leadership shown by the Darigold board and staff. With the work being done by the bipartisan duo of Reps. Peterson and Simpson, we are faced with a rare opportunity to make real, positive reforms to our federal safety net policies – reforms that are much-needed in all regions of the country.

FLUID MILK SALES ARE HEADING TOWARDS A 25 YEAR LOW; IS ANYONE WATCHING? (by J. Kaczor) USDA’s Agricultural Marketing Service calculates and reports U.S. sales of fluid milk products on a monthly basis, using federal order and CDFA data to arrive at a total they believe to represent 92% of total U.S. sales. They estimate the remaining 8% of sales by using population data for areas not included in the two data series. The AMS reports are considered the best available estimate of total U.S. fluid milk consumption. For the first half of the past two decades these annual estimates of fluid milk sales have been remarkably steady – the trend line is virtually flat – but since has tipped slightly downward, and recently, sharply downward. However, over those two decades the U.S. population grew from 253 million to 309 million, an increase of 22.1%. That combination of lower milk sales and growing population means per capita consumption has fallen by about 25% over that time period.

California’s population grew slightly more over this period, by 22.3%, but Class 1 usage levels and changes can only be estimated because of the substantial changes in imports and exports of packaged milk that occurred during this period. [CDFA reports the amount of milk processed and sold in California by California plants, and recently has added a report of how much packaged milk is sold out-of-state, but there is no data on how much packaged milk enters the state.] A conservative estimate is that California’s per capita consumption trend for fluid milk was about the same as the national pattern.

The graph shown on the right gives a picture of how fluid milk sales have fared over the past twelve years. The indicator for 2011 sales uses actual sales for the first half of the year and assumes sales in the second half of the year will be no lower than they were for the same period.
in 2010. However, if sales in 2011’s second half continue to run 1.5% lower than the previous year, which they did in the first half, 2011’s fluid milk sales will be well below 54 billion lbs. The trend line shows the decreasing annual sales, greatly influenced by the results for 2004, 2005, 2010, and 2011’s precipitous drop off. There were two economic recessions during the period covered by the chart: the year 2001 and the 19 months that began in December 2007 and ended in June 2009. The recovery from the recent recession has been so weak it was recently called “economic purgatory.”

Part of the mystery about total milk sales over the past six years is how well organic milk in California and nationally, which is sold for much higher prices than regular milk, has been faring. The bars on the graph show the combined sales of regular milk and organic milk. An example of the difference between sales of the two types of milk can be seen by comparing the separate volumes this year of regular milk and organic nationally and in California. Nationally, organic milk sales increased 19.8% while regular milk sales decreased by 2.8%; the average of all milks was down by 1.5%. California’s plants processed and sold 18.9% more organic milk in the first half of this year, and 2.8% less of regular milk; the average of the two was a 2.0% drop. Similar divergent sales patterns for the two milks were evident from the time organic sales were first separately reported. The point here is not that organic milk sales is somehow taking away from sales of regular milk, but to wonder why that is happening, particularly in the present economic climate. Producers generally are not affected because organic milk sales are pooled, but individual processors can be affected, in one way or another, even if they do begin to process or carry the additional SKU’s.

Historically, studies on fluid milk sales have generally found that consumption has been relatively unresponsive to changes in price levels and economic conditions, but recent results challenge those findings. Cornell University economists have a model that shows the statistically significant effects of seven demand factors on fluid milk consumption. Their findings have been included in the annual reports to Congress on how the national generic promotional programs have been faring since 1995. The two factors found to have the greatest effect on per capita fluid milk consumption are the percent of the population under 6 years of age and the percent of expenditures on food away from home. A one percent increase in the first is reported to affect per capita milk consumption by +0.71 percent. A one percent increase in money spent on food away from home affects milk consumption by -0.50 percent. Decreases in those factors would have the opposite effect.

Two other factors in the Cornell model are questionable or irrelevant for predicting changes in per capita consumption of fluid milk. They are changes in average real per capita income and changes in retail milk prices. The real per capita income figure used in the Cornell study is the simple U.S. average, which overlooks the obvious widening differences between the affluent and everyone else. A stratified measure of real per capita income would be enlightening, particularly after the report released this week that 46.2 million people in 2010 were below the official poverty level, the highest number in fifty years, and 50 million people are without health insurance. Percentage-wise, California is not as well off. National median household real income in 2010 fell to levels last seen in 1997, causing a Harvard economics professor to call the period from 2000 to 2010 a “lost decade.” One might ask how much milk are those people drinking, as well as those in the strata immediately above the poverty level, even though the average real U.S. per capita income may have risen.

The Cornell model found that a one percent increase in retail prices reduces per capita milk consumption by 0.174 percent. That says, other things being equal, a price increase from $3.00 per gallon to $4.00 per gallon should reduce per capita consumption by about 5.5%; it did not, when it happened. Nor did a decrease from $4.00 per gallon to $3.00 per gallon increase per capita consumption by 4.4%, when it happened. The results are mixed: the above graph does show a decrease in milk sales in 2004 when milk prices spiked for a short time, and steady sales in 2007 and 2008 when prices reached record highs in the middle of a long deep recession, and then a surge in sales in 2009 when prices fell fast and far, when there were more unemployed, incomes were lower, and more meals were consumed at home.

Over the past ten or so years, it appears consumers have turned away from fluid milk in favor of tap water, bottled water, canned soda, and a variety of other beverages. Except for 2004 and 2005, fluid milk sales in 2010 were lower than they have been in the past ten years and sales in 2011, realistically, could be a billion pounds
lower than last year. Consumer sentiment is sour. The economic recovery is faltering. Bankruptcies and foreclosures continue almost unabated.

Generally speaking, the best that can be said about the industry’s major generic milk and dairy product promotion programs is that sales would likely be even lower without them. That is not much of a compliment, and the state and national producer programs appear to be more interested in selling cheese than fluid milk. DMI’s CEO, Tom Gallagher, recently did put a positive spin on fluid milk sales, saying it is a “growth opportunity” and ticked off a number of successes, mainly with the food service industry. But, ironically enough, most of those ideas, and others, for improving milk sales involve higher costs and therefore higher prices for consumers (round plastic bottles and UHT shelf life). They are working on it, as is the national MilkPeP program whose recent study recommends concentrating on particular usage opportunities and going after one of fluid milk’s fastest growing competitive products, bottled water. Good luck to them all. Cornell’s key indicator for improvement in fluid milk sales, the percentage of the population under six years of age, points up the super important role that the California Dairy Council plays in helping to educate students at an impressionable age about the benefits and pleasure of lifelong milk consumption. I know of their good work; may they keep it up.

Addendum: After this report was finalized, USDA released their estimate for July U.S. fluid milk sales. July sales were down sharply from last July (-4.0% for all products; +10.7% for organic milk and -4.5% for regular milk) which means the conservative projection for 2011 is likely way higher than what will happen. Instead, look for 2011 fluid milk sales fall to about 53 billion lbs. That leaves lots of work for our generic promotion programs.