Serious Milk Powder Shortages Disrupting Dairy/Food Processors

by Pete Hardin

Say what??? No milk powder???

Many dairy and food processing firms suddenly face serious shortages of nonfat dry milk. Virtually zero supplies of fresh milk powder are available. DairyAmerica—the marketing agency in common for most U.S. dairy cooperatives that produce nonfat dry milk—was unable to tell contracted buyers at the end of August whether those buyers would receive *any* product during September.

Some industry sources project that the severe shortage of milk powder could last to Christmas 2007!

Nonfat dry milk is so basic a commodity that it's always been taken for granted, like tap water. Nonfat dry milk is powdered milk—36% protein content—with the milk fat removed.

U.S. milk powder is widely used in dairy and food processing. According to the American Dairy Products Institute (ADPI—the milk powder trade association), the largest use for nonfat dry milk is dairy manufacturing, primarily cheese. Some cheese plants add nonfat dry milk to their cheese vats to boost protein content and cheese yields.

Confectionary (candy) and baking are, respectively, the second- and third-largest domestic users of nonfat dry milk, according to ADPI.

Scanning food products' ingredients labels at a major supermarket will unveil many dozens of products listing nonfat dry milk as an ingredient. Shortages of nonfat dry milk mean dairy/food processors must substitute ingredients—such as whey protein derivates and/or soy proteins. Manufacturers using such substitutes must adjust their ingredients' labels—a costly move. And such substitutes will detract from both the taste and quality of foods in which they're used.

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Why is nonfat dry milk scarce?

Two major events have suddenly converged to dry up nonfat dry milk supplies across the U.S. Those factors include California's intense heat wave during July … and downright stupidity.

1) *Heat cut CA July/August 2006 milk solids*

The intense heat wave the devastated California seriously dropped farm milk output in both July and August. Don't believe USDA's National Agricultural Statistics Service (NASS) numbers projecting California only suffered a 0.3% decline in July 2006 milk production compared to July 2005. (For a discussion of California's July 2006 milk output, see page 7 of this issue.)

Regardless of how much milk California actually lost from July's brutal heat wave, the Milk Pooling Branch of the California Department of Food and Agriculture (CDFA) reported that total, state-wide production of solids-not-fat dropped 8.4% in July, compared to the June 2006 total! That's the critical statistic to measuring the impact upon California milk production and dairy processing yields.

July 2006 data for California shows nonfat dry milk powder production was 8.8% below July 2005 totals, and a whopping 31.7% below June 2006's output. California is biggest milk powder producing state in the U.S.

Nationally, U.S. milk powder production for July 2006 fell 18.9% below July 2005 totals, and 24.6% below June 2006's volume.

Thus, one basic answer to the question about what happened to nonfat dry milk is that both California milk and milk solids were reduced by the July 2006 farm heat wave. About 30,000 California milk cows died as a result of that intense heat (1.7% of the state's milking herd). Remaining animals' have regained most of the daily milk output they lost during the heat.

The longer concern about the heat rests with the impact of such intense heat upon dairy animals' reproduction.

2) *100 million lbs. exported in July/August.*

Incredible stupidity is also a factor in the sudden U.S. milk powder shortage. As reported in *The Milkweed* last month, the bozos at DairyAmerica really screwed up in late spring or early summer, when they contracted to sell for export 100 million lbs. of U.S. nonfat dry milk to Fonterra (New Zealand's dairy export agency). Sixty million lbs. of that total were contracted for July 2006 shipment, with the remaining 40 million lbs. scheduled to exit the country in August. (In fact, what's exported is most likely "Skim Milk Powder," which has a slightly lower protein content than nonfat dry milk. U.S. dairy co-ops produce skim milk powder by adding lactose to nonfat dry milk.)

DairyAmerica overplayed its hand. That 100 million lbs. export sale is higher than the 8 million lbs. of U.S. milk powder production for July and August 2006.

DairyAmerica's exporting 100 million lbs. of nonfat dry milk "shorted" contracted domestic dairy/food processors of this critical ingredient … just as Mother Nature turned up the heat nationwide.

Fall: peak demand for nonfat milk use

Fall is the traditional peak demand season for nonfat dry milk in the U.S. Industry sources estimate that *monthly* commercial needs for nonfat milk range in the 120-150 million lb. range.

That's why personnel in the supply chain of the nonfat dry milk trade—from brokers with contracts through to end-users—are scared stiff.

Repeat: In late August, DairyAmerica personnel could not detail how much, *if any*, milk powder would be available to firms that have signed 12-month purchase agreements with DairyAmerica.

Milk powder users very mad & scared

Anger is brewing at DairyAmerica's management.

Sources steam that DairyAmerica has encouraged buyers to contract 12-month purchase agreements, to lock monthly needs. And then DairyAmerica sold a month's worth of U.S. nonfat dry milk to Fonterra this summer—and now can't supply domestic, contracted users' needs.

Sources steam that DairyAmerica has advised the industry to set up pricing based upon weekly price surveys of nonfat dry milk sales by the USDA's NASS. And then the weekly NASS surveys lag far behind other price indices, such as the Chicago Mercantile Exchange (CME) daily cash market, spot markets, dairy.com prices … and global markets. Firms reselling nonfat dry milk based on the NASS weekly price in late August were losing almost five and a half cents per pound, when comparing the NASS price to the CME cash market price.

Sources steam that DairyAmerica is selling spot loads of nonfat dry milk through dairy.com for far higher prices—up to $1.15-$1.20 per pound. Thus, DairyAmerica is "milking" the tight spot market, while failing to provide contracted volumes of nonfat dry milk to its regular customers.

Did DairyAmerica lowball export price?

In USDA's weekly NASS survey for nonfat dry milk sales, DairyAmerica is the single biggest "player" reporting to the government. DairyAmerica's member co-ops produce about 80-85% of all U.S. milk powder.

Why then, in late August, is the weekly NASS price groveling along at a bit over $.84/lb. when the CME cash market has hit $.90/lb. and spot loads of nonfat dry milk go for $1.15-1.20/lb. on dairy.com??? The likely answer: DairyAmerica low-balled its own prices in the export sales to Fonterra, selling well below world market prices. Skeptics seethe that the low NASS prices reflect weekly prices on export volumes sent to Fonterra by DairyAmerica.

This issue is scandalous. DairyAmerica's management failed to factor in adverse summer weather. Worse yet: the lowball prices to NASS effective undervalue the prices received by dairy farmers through USDA's federal milk order system … at a time when dairy farmers direly *NEED* all the money they can get!

In panic, WI plants scramble for farm milk

Panic is setting in the dairy and food processing industries over the shortage of nonfat dry milk.

In August, Baker Cheese (St. Cloud, Wisconsin) "stole" two and a half loads of milk a day from Saputo Cheese's Schneider Cheese plant at Waldo. Milk truck drivers said that Baker Cheese's management didn't think they'd be able to obtain nonfat dry milk for the next year and they needed more milk to fill strong orders for their excellent "string cheese" product.

Foremost Farms, based in Baraboo, Wisconsin, is literally addicted to the white powder. At a membership meeting in Shawano, Wisconsin in late August, a high-level Foremost executive, when asked, stated that Foremost's business plan called for purchase of 90 million lbs. of nonfat dry milk annually—to boost cheese yields. Not having that milk powder available means Foremost Farms' cheese plants' output will be dramatically reduced—hurting per-unit efficiencies.

Meanwhile, in California, July 2006 data from CDFA shows that, despite the fact that less raw milk was diverted to cheese plants, Mozzarella production actually rose. Mozzarella output in July 2006 in California was 5.3% higher than July 2005's total. Mozzarella is commonly the cheese most commonly fortified with nonfat dry milk. Thus, the strategy for California's operating dairy cooperatives (which own DairyAmerica) is to keep whatever milk powder supplies they have at home and put them in the cheese vat.

Scarce supplies of nonfat dry milk will likely last until Christmas 2007. Danger to the industry is that users will seek out alternate ingredients, when and where possible. DairyAmerica's short-sighted export sale of 100 million lbs. of nonfat dry milk has really hurt U.S. dairy and food processors. And DairyAmerica sold that volume for what appears to be a bargain-basement price!

Sources tell *The Milkweed* that nationally known food processors are on the verge of stopping production—due to milk powder shortages. Historically … non fat dry milk has been taken for granted. No more!

July 2006 Milk Production

JULY 2006 MILK COWS AND MILK PRODUCTION, BY STATES

STATE	MILK COWS 1/		MILK PER COW 2/		MILK PRODUCTION 2/		
	2005	2006	2005	2006	2005	2006	% CHANGE FROM 2005
	THOUSANDS		POUNDS		MILLION POUNDS		PERCENT
AZ	162	170	1,865	1,805	302	307	1.7
CA	1,756	1,771	1,780	1,760	3,126	3,117	-0.3
CO	105	112	1,960	1,960	206	220	6.8
FL	136	131	1,315	1,330	179	174	-2.8
ID	460	490	1,960	1,960	902	960	6.4
IL	104	103	1,580	1,600	164	165	0.6
IN	156	166	1,700	1,670	265	277	4.5
IA	193	200	1,720	1,690	332	338	1.8
KS	112	113	1,695	1,650	190	186	-2.1
KY	106	97	1,065	1,060	113	103	-8.8
MI	313	321	1,850	1,875	579	602	4.0
MN	455	450	1,510	1,565	687	704	2.5
MO	117	115	1,360	1,270	159	146	-8.2
NM	328	362	1,845	1,880	605	681	12.6
NY	647	647	1,600	1,605	1,035	1,038	0.3
OH	270	274	1,480	1,510	400	414	3.5
OR	121	121	1,640	1,580	198	191	-3.5
PA	561	555	1,590	1,600	892	888	-0.4
TX	320	335	1,710	1,760	547	590	7.9
VT	143	141	1,565	1,540	224	217	-3.1
VA	105	103	1,390	1,415	146	146	---
WA	245	237	1,985	1,960	486	465	-4.3
WI	1,236	1,244	1,600	1,600	1,978	1,990	0.6
23 STATE TOTAL	8,151	8,258	1,683	1,686	13,715	13,919	1.5

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