The Milkweed

Dairy's best information and insights

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Dairy "Surplus" Myth Evaporates: Few Commodities Available

by Pete Hardin

For many years, *The Milkweed* has argued that for every year, since 1996, the U.S. was a "deficit milk producing nation." Specifically, U.S. citizens (and illegal aliens) consumed more cheese, ice cream, fluid milk, yogurt, butter, etc., than the total volume of milk produced by U.S. dairy farmers could yield. Most dairy "big-wigs" have pooh-poohed such analysis, countering with such wisdom as, "Don't you know there's a surplus?"

Truth is: USDA's annual "Commercial Disappearance" data shows that for every year since 1996, the United States has been a deficit milk-producing nation. (See the accompanying chart for annual U.S. dairy product consumption, farm milk output, and the differences.) Truth is: Since the mid-1990s, periodic big slugs of imports have been used to create a "surplus" of cheese, with the accompanying decline in commodity prices and farm milk prices. Even worse: USDA's "Commercial Disappearance" data do not register the two biggest dairy imports, volume-wise: casein and Milk Protein Concentrate.

But suddenly, the dairy "surplus" myth has evaporated in the early weeks of 2011. As recently as late December 2010, the usual excuses for low commodity Cheddar prices were widely available – that there was lots of cheese in storage. That excuse was seemingly true enough – backed up by USDA data showing a total of just more than a billion pounds of cheese in storage in U.S. warehouses. (Clarification: a little more than 600 million pounds of that volume was "American" varieties.) But suddenly:

* Buyers seeking cheese from the U.S. to send to Brazil to help feed hundreds of thousands of persons displaced by recent flooding were told by Land O'Lakes that there would be no cheese available for at least three to four months.

* Another exporter was shut out seeking several million pounds of cheese from Midwest sources.

* U.S. butter inventories, according to reliable weekly data generated by the Chicago Mercantile Exchange, shows only 18 million pounds of butter in U.S. warehouses as of the first week of February 2011. Eighteen million pounds of butter equals less than a 25% of a quarter-pound stick of butter for each person in this country!

* Sources say that some U.S. warehouses that were once brimming with stored milk powder are now virtually empty.

* Recently, a source from California tells of comments by a cheese industry insider that virtually all the cheese in storage in the U.S. is either for "aging" or "committed" to buyers. A billion pounds of cheese "aging" or "committed?" If true: then the olfactory glands detect what may be a wholesale cleanout of U.S. dairy inventories by hungry, worried buyers. (Think China!)

How the dairy surplus "myth" burst

Here's how the truth has finally emerged:

* Global dairy product demand has increased. In particular, Asian nations' improving economies have created desires for better, Western-style foods (more meat, more dairy). China's basic food needs are drought-stressed.

* New Zealand's milk output has been challenged by adverse weather.

* The U.S. dollar's value has slumped, making foreign purchases of U.S. goods relatively cheaper.

* U.S. exporters – particularly cooperatives – have been giving away dairy products at prices far below global market values.

* Stronger global demand has pulled away resources –such as dairy protein powders – to other markets, away from the U.S.

* Volumes of U.S. dairy exports have increased in recent years.

Suddenly, global grain shortages, weather events and two years of mostly poor farm milk prices leave U.S. milk production struggling … just as the Grandfather of all Global Food Crises hits! The U.S. dairy surplus "myth" lasted only as long as cheap imports created the illusion of surplus. No more.

U.S. Dairy Commercial Disappearance 1990-2010 (billion pounds)

	Commercial Disappearances	Milk Production	Difference
1990	138.799	147.721	8.922
1991	138.563	147.697	9.134
1992	141.321	150.847	9.526
1993	144.981	150.636	5.655
1994	150.094	153.602	3.508
1995	155.005	155.292	.287
1996	155.607	154.006	(1.601)
1997	156.564	156.091	(.473)
1998	159.721	157.262	(2.459)
1999	164.823	162.589	(2.234)
2000	168.963	167.393	(1.570)
2001	169.493	165.332	(4.161)
2002	170.872	170.063	(.809)
2003	174.711	170.348	(4.363)
2004	176.208	170.832	(5.376)
2005	180.166	176.931	(3.235)
2006	184.182	181.782	(2.400)
2007	188.252	185.654	(2.598)
2008	193.039	189.992	(3.047)
2009	189.373	187.308	(2.065)
2010*	179.394	175.693	(3.691)

*Data available only through November 2010

Differences in brackets ( ) show annual deficit of U.S. milk supply/demand.

Data Source: USDA

U.S. Dairy Tangled in Global Food Crisis

by Pete Hardin

If Egypt weren't consumed by civil chaos, the major news story in the world would probably be the fast-evolving global food crisis. The U.S. dairy industry is caught in tornado-like, swirling events as serious global food shortages loom. One factor helping to propel the past month's rapid increases in dairy commodities prices is global buyers seeking to tap the United States' presumed reservoir of dairy commodities. Hasn't the supposedly huge stockpile of cheese in the U.S. been among the top culprits widely blamed for low milk prices during much of the past two years?

Trouble is: the U.S. has virtually nothing extra, in the way of dairy commodities, to offer global buyers except for present and future production already committed for export. Sources in the cheese business point to little available fresh cheese. Cheese products in storage, others are saying, are either committed or inventoried for aging.

Meanwhile, supplies of milk powder are tight and cash prices have been rising steadily. Butter inventories, in 2011's first quarter, are at a low ebb, historically. Grade AA butter cash prices at the Chicago Mercantile Exchange (CME) are holding tight at $2.10 per pound. That's a stiff price for buyers to pay for butter during the year's first-quarter. But the outlook for butter supplies just gets tighter as 2011 progresses and higher prices loom later in the year.

On both the east and west coasts, U.S. milk production is struggling. In late January and early February, some California milk marketers see their daily milk intake volumes down 5% (or more) from same-week, year-ago figures. California is the nation's biggest producer of nonfat dry milk and butter, so supplies of those commodities will con-

Continued on page 6