

## DIXIE DAIRY REPORT

### December 2019

**Cheese at its highest price in five years.** For the first time since 2014, the monthly cheese price, used to set federal order prices, is over \$2.00/lb. The November cheese price is \$2.1723/lb. which is over \$0.70/lb. higher than last November. Barrel cheddar propelled the higher cheese price by increasing almost \$0.40/lb. from October to November. After being \$0.22/lb. lower than blocks in October, barrels were \$0.13/lb. higher than blocks in November. The high cheese price resulted in a November Class III price of \$20.45/cwt., again, the highest price, since 2014. Higher cheese prices are the result of: 1) Lower inventories. Since May, American cheese inventories have been below the same month a year ago with the October 31 inventory 9% lower than last October. 2) Strong demand. In October domestic cheese consumption was 3.4% and exports 11.6% higher than last October. 3) Lower production. October American cheese production was 3.2% lower than last October. Looking ahead, cheese prices are retreating, but still much higher than a year ago. As of December 4, CME block cheddar and barrel are \$1.9750/lb. and \$2.2525/lb. respectfully. Cheese prices are anticipated to decline from current levels, as production increases, but prices are projected to remain significantly higher than a year earlier through the first half of 2020.

The price of nonfat dry milk powder (NFDM) keeps climbing. The November NFDM price is \$1.1540/lb., the highest since 2014. Factors propelling high powder prices are: 1) Increased exports. The volume of milk powder exported in September was a record for any September. 2) Strong domestic use of powder by bakers and confectioners. 3) Increased use of powder and wet solids for cheese milk standardization. Currently, the domestic NFDM price is about \$0.20/lb. lower than the world price. The NFDM price is projected to continue to move upward in 2020, and will be a primary reason for higher milk prices next year.

The butter price is dropping. Since July, the butter price has declined every month with the November CME butter price the lowest in three years. Reasons for the decline include: 1) Increased butter production. Production up 5% in October. 2) Expanding inventories. Inventories have increased each month since July. 3) Heavy butter imports, and lower world prices continue to put downward pressure on the domestic butter price. Butter prices are projected lower in 2020, compared to recent years.

#### **DAIRY PRODUCTS SALES REPORT (DPSR) PRICES \***

<u>Product</u>	<u>November 2019</u>	<u>October 2019</u>	<u>November 2018</u>	<u>November 2017</u>
			(\$/lb.)	
<b>Butter</b>	\$2.0869	\$2.1599	\$2.2677	\$2.2810
<b>Cheese (block)</b>	\$2.0987	\$2.0569	\$1.5246	\$1.7475
<b>Cheese (barrel)</b>	\$2.2280	\$1.8379	\$1.3433	\$1.7450
<b>Cheese weighted avg.</b>	\$2.1723	\$1.9694	\$1.4463	\$1.7617
<b>Nonfat Dry Milk Powder</b>	\$1.1540	\$1.0957	\$0.8860	\$0.7553
<b>Dry Whey</b>	\$0.3071	\$0.3396	\$0.4626	\$0.3587

\*Dairy product prices used to calculate federal order class prices

**More milk and cows.** For the fourth consecutive month, milk production is higher than a year earlier. October production is 1.3% higher than last October. Of the 24 milk reporting states production was higher in 17 and lower in 7 states. Texas continues as the production leader, up 9.3%. October production was 2.8% higher in California and up 1.0% in Wisconsin. Estimated cow numbers at the end of October were 9.327 million head. Cow numbers have increased 10,000 head over the past two months.

However, the nation's dairy herd is 40,000 head less than last October. It is interesting to note, cow numbers in Texas are 31,000 more than a year ago while Pennsylvania has 30,000 less cows. In the three southeast reporting states, October production is up slightly in Georgia and Florida, but Virginia continues its decline. Higher production in Georgia and Florida is due to more milk per cow. In Florida, October milk per cow is over 3% higher than last October.

#### SOUTHEAST MONTHLY MILK REPORTING STATES \*- October to October

	Georgia	Florida	Virginia	Total
<b>(Production)</b>	(million lbs.)			
<b>October 2019</b>	136	172	119	427
<b>October 2018</b>	135	170	128	433
<b>Change %</b>	0.8%	1.2%	-7.0%	-1.4%

\*These three states produce about two-thirds of the milk in the Southeast.

**Poor quarter for fluid milk sales.** Fluid milk sales, combined, for the three southeastern federal orders were 2.1% lower during the third quarter of this year compared to the same quarter a year earlier. Third quarter changes for the individual orders were: Appalachian down 2.2%, Florida down 1.5%, and Southeast Order down 2.5%. Fluid sales, declining more than production, is a continuing challenge for the Southeast States.

**Blend prices.** November blend prices, in the Southeastern federal orders, are projected about \$0.50/cwt. higher than October in the three southeastern federal orders. December blend prices are projected to be \$0.50 to \$0.75/cwt. higher than November. Due to the change in the Class I Mover calculation, Southeast dairy farmers will not see all of the recent cheese price gains in upcoming milk checks. In parts of the Appalachian and Southeast orders, the November Class III price will be higher than the order blend price.

#### PROJECTED\* BLEND PRICES – Base Zones – SOUTHEASTERN FEDERAL ORDERS

Month	Appalachian	Florida	Southeast
	(\$/cwt. at 3.5% butterfat)		
October 2019	\$20.17	\$22.00	\$20.65
<b>November</b>	<b>\$20.58</b>	<b>\$22.54</b>	<b>\$21.17</b>
<b>December</b>	<b>\$21.07</b>	<b>\$23.34</b>	<b>\$21.74</b>
<b>January 2020</b>	<b>\$20.91</b>	<b>\$22.97</b>	<b>\$21.40</b>
<b>February</b>	<b>\$20.66</b>	<b>\$22.89</b>	<b>\$21.34</b>
<b>March</b>	<b>\$20.13</b>	<b>\$22.43</b>	<b>\$20.68</b>

\*Projections in bold

**Looking ahead to 2020.** Our projections show blend prices in the three Southeastern federal orders averaging about \$1.25/cwt. higher in 2020 compared to 2019. However, two factors can easily change the projection. They are production and sales. There is concern higher milk prices will spur on more milk production. Hopefully, dairy farmers will think twice before expanding, remembering the consequences of too much milk. On the sales side, domestic demand is enjoying a good year. We are optimistic this will continue as the economy remains strong. On the export side, powder exports are moving up. And, whey exports should improve next year as Asia rebuilds its swine population. Overall, we are optimistic for higher milk prices in 2020.

*Best wishes to all of you for a blessed and joyous Christmas season.*

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