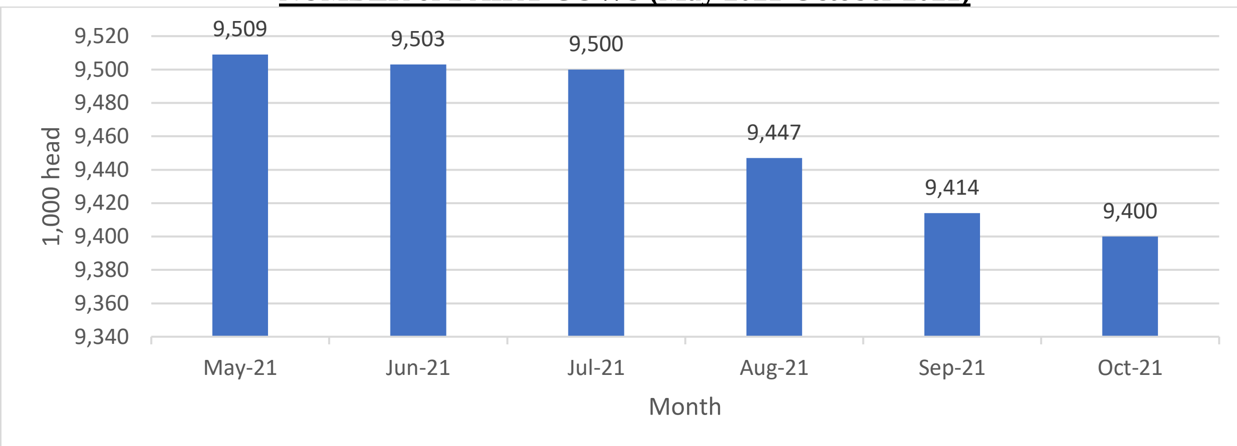
DIXIE DAIRY REPORT
December 2021

Dairy herd declining. For the first time since 2018, month-over-month (MOM) dairy cow numbers are lower. USDA estimates the nation's dairy herd as of October 31 at 9.40 million head. This is 14,000 head lower than last October. Since May of this year, the nation's dairy herd has declined 109,000 head, a large contraction over a relatively short period. Poor, and in many cases negative margins, are the main cause. USDA reports the average third quarter cost of a 16% dairy ration was $11.42/cwt. A year ago, it was $7.62/cwt., a 50% increase. This is only feed and does not include other milk production costs such as labor, fuel, parts and equipment, which have significantly increased in price.

NUMBER of DAIRY COWS (May 2021-October 2021)



Lower cow numbers resulted in October milk production 0.5% lower than last October. The first month, since May 2020 (coronavirus lockdown) for lower MOM production. In the 24 reporting states, October production was higher than a year ago in eight (8) states. South Dakota, a growing cheese producing state, continues to lead the pack with October production up 15.3%. Texas was up 3.9%, Minnesota up 2.8% and Wisconsin up 2.7%. New Mexico continues to be the leading decliner in milk production, down 15.3% in October. Through August, the average New Mexico mailbox price is $14.60/cwt. This compares to $17.77/cwt. and $17.80/cwt. in Wisconsin and Minnesota, respectively.

In the three Southeast reporting states, both Florida and Virginia continue to drop in milk production. October production was down 4.7% in Florida and 4.9% in Virginia. Compared to a year ago, Florida's dairy herd is down 7,000 head. For the seventh consecutive month, production is higher in Georgia, up 2.1%. Georgia has 1,000 more dairy cows compared to last year.

Exports drive dairy demand. The U.S. dairy industry continues to become more dependent on the world market for dairy sales. Through the first nine months of the year, export sales are 12.2% higher than last year. Domestic sales are up 1.3%. Through nine months, export sales are responsible for 17.2% of total dairy demand. A year ago, exports were 15.7% of total demand.

PERCENT CHANGE in DAIRY DEMAND – Total Solids (Quarters 2021 vs. 2020)

Quarter	Domestic	Export	Total
1st Quarter	1.6%	11.3%	3.1%
2nd Quarter	1.8%	13.6%	3.8%
3rd Quarter	0.6%	11.4%	2.3%
Total – 9 months	1.3%	12.2%	3.0%

Skim milk powder and whey products are the major dairy products exported. Almost 60% of total production of these products is exported. Butter exports are strong this year, up 127%. However, butter exports are only about 4.5% of total butter production.

Dairy product prices. November saw Dairy Products Sales Report (DPSR) prices for butter, nonfat dry milk powder (NDM), and dry whey increase, while cheese declined. The November butter price of $1.9503/lb. is the highest in two years. The NDM November price of $1.4769/lb. is the highest since 2014. The November Class III price increased $0.20/cwt. from October (due to a higher dry whey price) to $18.03/cwt. The November Class IV price was $18.79/cwt. This is a gain of $1.75/cwt. from October and the highest, Class IV price since October 2014. The December Class I Mover moved up $1.19/cwt. to $19.17/cwt., the highest Mover for the year. The Class I Mover averaged $16.83/cwt. for 2021.

Looking ahead, December butter should stay close to $1.95/lb. Butter demand remains steady, and inventory is 6% below a year ago. The NDM price should move higher and push the December Class IV price around $19.00/cwt. Cheese is uncertain, which is evident by the large block to barrel spread. A month ago, the barrel price was higher than block. Today it is reversed with the December 3rd CME block price at $1.8575/lb. and a barrel price of $1.6025/lb. Due to a lower supply, the dry whey price is inching slightly higher, and will offset some of the cheese price decline in the Class III price. I project a December Class III price around $18.00/cwt. and a January Class I Mover around $19.30/cwt.

Blend prices. November blend prices are projected about $1.25/cwt. higher than October. December blends are projected to add around another $0.75/cwt. for the highest blend prices of the year. My 2022 blend price projections continue to increase. 2022 blend prices in the three Southeastern federal orders are projected to average $1.50-$2.00/cwt. more than 2021. My projections remain lower than the current Class III and IV futures markets indicate. Milk production is below a year ago, and poor margins will continue to lead to more dairy farm exits. However, the current uptick in milk prices could prompt larger herds to add cows. On the demand side, sales may be a challenge next year. As the previous table shows, third quarter domestic demand was only 0.6% higher than last year. Inflation and other challenges may limit consumers' buying power, including dairy products. Coronavirus, and lockdowns continue to hang around. Lower milk production in the other two major exporting regions, European Union and Oceania, is good for U.S. export opportunities, but there is uncertainty regarding volume of future Chinese dairy purchases. Thus, my cautious optimism for 2022 milk prices.

PROJECTED* BLEND PRICES – Base Zones – SOUTHEASTERN FEDERAL ORDERS

Month	Appalachian	Florida	Southeast
	($/cwt. at 3.5% butterfat – base zone)		
September 2021	$19.37	$21.22	$19.70
October	$19.70	$21.55	$19.86
November	**$20.96**	**$22.86**	**$21.04**
December	**$21.85**	**$23.67**	**$21.87**
January 2022	**$21.76**	**$23.57**	**$21.70**
February	**$21.72**	**$23.69**	**$21.67**

*Projections in bold

May you all have a Merry Christmas and a Blessed New Year. During this Christmas season and throughout the coming years: May the joy of the angels, the eagerness of the shepherds, the perseverance of the wise men, the obedience of Joseph and Mary, and most importantly the hope, peace, and salvation that comes from the Christ-child be yours.

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