

## DIXIE DAIRY REPORT May 2017

**First quarter federal order blend prices highest in three years, but still below 2014.** As shown in the table below, blend prices in the three southeastern federal orders are \$2.69 to \$2.96/cwt. higher than the first quarter of last year. However, blend prices are still several dollars below 2014.

### SOUTHEASTERN FEDERAL ORDER FIRST QUARTER BLEND PRICES

<u>Year First Quarter</u>	<u>Florida Federal Order</u>	<u>Southeast Federal Order</u>	<u>Appalachian Federal Order</u>
	(\$/cwt. at 3.5% fat @ base zone)		
2014	\$27.20	\$25.71	\$25.23
2015	\$20.99	\$19.31	\$18.59
2016	\$18.61	\$16.90	\$16.44
2017	\$21.52	\$19.59	\$19.40
2017 versus 2016	+\$2.91	+\$2.69	+\$2.96

Blend prices are projected to remain higher than last year, but with seasonal declines in April and May. We project the April blend price, in the three southeastern orders, to be about \$1.00/cwt. lower than March. April blend prices are projected as follows: Florida - \$20.34, Southeast -\$18.23, and Appalachian - \$17.86. Expect May blend prices to drop another \$0.50-\$0.75/cwt. from April. Prices are projected to start inching up in June.

Compared to last month, our projections for the last half of 2017 are lower. Reasons for lower projections include: an abundance of milk especially outside of California and the Northwest; increasing butter and cheese inventories; and domestic and export sales not as strong as anticipated.

**Milk production strong during first quarter of the year.** Milk production during first quarter of 2017 versus 2016 is up 2.15%. (All numbers adjusted for Leap Year). The nation's dairy herd is at 9.369 million cows, 57,000 head more than last year. Texas and New Mexico lead the way in producing more milk, with first quarter production up 17.28% and 11.85%, respectively. First quarter production changes in other leading milk producing states are: Michigan +4.18%, New York +3.95%, Pennsylvania + 2.60%, and Wisconsin +1.29%. Production is down in states with historically the nation's lowest milk prices, California down 1.80%, Idaho down 0.21%, and Idaho down 1.80%.

Milk production in the ten southeastern states is down 0.25% in the first quarter of this year compared to a year ago. As shown below, adjusted production is only up in two states, Georgia and Florida. The share of these two states total southeastern milk production continues to increase. Georgia and Florida now produce over 47% of all milk in the southeastern states.

### SOUTHEASTERN STATES CHANGES in MILK PRODUCTION FIRST QUARTER 2017 versus 2016

<u>State</u>	<u>% Change</u>		<u>State</u>	<u>% Change</u>
Georgia	+2.96%		Tennessee	-1.59%
Florida	+0.22%		Kentucky	-2.53%
Virginia	-0.25%		Alabama	-2.78%
South Carolina	-0.35%		Mississippi	-6.11%
North Carolina	-0.89%		Louisiana	-12.24%

**Sales of packaged fluid milk sold in Florida market, but packaged outside of Florida skyrockets.**

Over the past few years, about 12-13% of fluid milk sales in the Florida market were processed in plants located outside of the marketing area. During the past few months this has dramatically changed. As shown in the table below, almost 19% of Florida fluid milk sales are now processed outside of Florida.

**FLORIDA ORDER FLUID MILK SALES PACKAGED IN and OUTSIDE the ORDER  
(first quarter 2014-2017)**

First Quarter Year	Total Fluid Sales	Packaged in Florida	Packaged Outside Florida	% Packaged Outside
	(million lbs.)			
2014	714.6	631.8	82.8	11.6
2015	699.7	617.0	82.6	11.8
2016	715.3	622.2	93.2	13.0
2017	715.6	580.6	135.1	18.6
% Change 17vs. 14	+0.14%	-8.10%	+63.16%	

The following puts the above table in better perspective:

About 11.5 more tankers per day of raw milk equivalent, packaged outside of Florida, were sold in Florida during the first quarter of 2017 compared to 2014. While during the same time period about 11.5 less tankers of Florida packaged milk were processed each day.

My reasons for the growth in sales of milk packaged outside of Florida include:

- Increasing demand for various fluid milk products in Florida, but not packaged in Florida. Products such as; milk sold in non-conventional gallons jugs that require less handling (greatest impact); organic milk, lactose free milk, and newer branded products such as Fairlife<sup>R</sup> and A2<sup>R</sup>.
- A large, Pennsylvania based convenience store chain, Wawa, continues to expand in Florida. This chain has its own fluid milk processing plant in Pennsylvania.
- Just as many dairy farms see the need to expand due to lower margins, the same is true with fluid milk plants. Due to federal order pricing regulations, it is much easier for plants located in the Midwest and Northeast to expand south.

**Southeast cheese wins prestigious award.** Congratulations to Sweet Grass Dairy, Thomasville, Georgia for being awarded the 2017 *sofi* (*specialty outstanding food innovation*) Gold medal for its “Thomasville Tomme” cheese. This award, presented by the Specialty Food Association started back in 1972. The Gold award is the top award given in various food categories including cheese. Entries come from throughout the world, and are judged by 62 nationally recognized culinary experts. The Sweet Grass cheese will be presented later at the Summer Fancy Food Show in New York City, and the Winter Fancy Food Show in San Francisco.

**A2<sup>R</sup> milk now available in the southeast.** Fluid milk, processed from cows only containing the A2<sup>R</sup> beta-casein (protein), is now carried by Publix Super Markets. Originally, all cows’ milk contained the A2<sup>R</sup> protein, but overtime much of the world’s cows’ milk starting containing the A1 protein. Various reports show people with challenges digesting milk can more easily digest milk containing only the A2<sup>R</sup> protein. With the growing interest in A2<sup>R</sup> milk, more dairy farms are selecting cows that contain the A2<sup>R</sup> protein. Granted, some people question the validity of A2<sup>R</sup> milk. However, it is my opinion the market for A2<sup>R</sup> milk will continue to grow.