DIXIE DAIRY REPORT
July 2018

CME dairy product prices decline. Since the first of June, butter, cheese, and nonfat dry milk powder (NFDM) prices have moved significantly lower at the CME. As shown below, butter declined almost twenty cents and barrel cheddar over twenty cents per lb. since the first of June. Unfortunately, these lower prices will eventually translate into lower milk checks.

CME DAILY PRICES – June 1 vs. July 5, 2018

Product	June 1	July 5	Change
		($/lb.)	
Butter	$2.3775	$2.1800	-$0.1975
Block Cheddar	$1.5975	$1.5425	-$0.0550
Barrel Cheddar	$1.5200	$1.2800	-$0.2400
Nonfat Dry Milk Powder	$0.8250	$0.7425	-$0.0825

We identify four reasons for lower commodity prices:

1. Building inventories. Total cheese inventory at the end of May was a record high, almost 1.4 billion lbs. and six percent higher than last May. The butter inventory is growing as well, eight percent higher than a year ago. However, there is some good news regarding inventories. The NFDM inventory is 3.1% lower than a year ago, and dry whey inventory is down 7.8%.
2. Weak domestic demand. For the past two months of available data, March and April, domestic dairy product demand was down 1.4 and 0.7%, respectively, compared to a year ago.
3. Uncertainty in the barrel cheese market. Barrel cheese at the CME was $1.565/lb. on June 11, two weeks later on June 25 it fell to $1.205/lb., the lowest price since July 2009. By July 7 barrels climbed back to $1.28/lb. The current spread between blocks and barrels is $0.26/lb., well above the historical spread of about a nickel. During June about 230 loads of barrel cheese traded at the CME, a year ago it was about 60 loads. Low barrel prices, heavy trading, and a high block-barrel price spread indicate there is still much surplus milk looking for a market. Plus, the barrel price responds quickly to lower domestic demand.
4. Higher tariffs and the threat of higher tariffs by some countries on imported U.S. dairy products. According to *Dairy Market News* some export orders have been cancelled due to this issue. Through the first four months of this year, exports represent 16.5% of total U.S. dairy demand.

May milk production up 0.8%. For the second consecutive month, milk production increased less than 1%. According to USDA, May production was 0.8% higher than last May. Cow numbers are remaining relatively flat at 9.4 million head. Out of the 23 milk reporting states, production in May was up in 12 states, down in 9 states, and no change in two states. California production was up 0.5%, mainly due to more milk per cow, and Wisconsin production was up 1.1% for the same reason. Production remains strong in Texas, up 6.6%. In the Northeast, New York and Pennsylvania, production is down 1.8% and 2.1%, respectively.

In the two southeast reporting states, May milk production was down 5.6% in Florida and down 5.8% in Virginia. In both states lower production is due to fewer cows, and less milk per cow. May is the sixth consecutive month for production declines in Florida, and this May was the lowest May production in Florida since 2012. To put the Florida production drop in better perspective, the 5.6% decline is about four less tanker loads of milk per day this May, compared to last May.

Watching Florida milk production is one of the better indicators of dairy farm financial conditions. History shows if financial returns on the farm are good, Florida milk production increases. If farm returns are poor, milk production declines. Due to its dairy structure, Florida dairy farmers make these production decisions quicker than dairy farmers in other states. As pointed out earlier, Florida's production has declined for the past six months. The numbers back up this response. Through the first five months of 2018, the national average margin is about $2.50/cwt. lower than a year ago, and is the lowest since 2012. The *National Dairy Advanced Index*, for the first quarter of 2018, reports a net loss before debt and draws, of $0.67/cwt. After debt repayment and owner draws, the loss is $2.09/cwt.

Future blend prices. June blend prices are projected about $0.50/cwt. higher than May. In July prices are projected to decline a few pennies from June. From August through the remainder of the year, our blend price projections are significantly lower, compared to last month, due to lower commodity prices. However, our projections are not as low as the current futures market indicates. We are optimistic that trade issues are short-term, domestic demand will strengthen, and the gap between supply and demand will tighten during the last half of the year. For all 2018, our forecast is similar to the beginning of the year, 2018 southeastern federal order blend prices average about $1.50/cwt. lower than 2017.

PROJECTED BLEND PRICES–BASE ZONES – SOUTHEASTERN FEDERAL ORDERS

Month	Appalachian	Florida	Southeast
	($ /cwt.) – 3.5% butterfat		
June 2018	$17.74	$19.87	$18.08
July	$17.56	$19.75	$17.93
August	$17.16	$19.15	$17.65
September	$17.45	$19.19	$17.96
October	$18.02	$19.53	$18.55

Milk produced per southeastern dairy farm exceeds 4 million lbs. In 2001 the average annual milk production per southeastern dairy farm was about 2 million lbs. It was 2012, eleven (11) years later, before average annual production surpassed 3 million lbs. Then it only took another four (4) years, in 2017, for average annual production to exceed 4 million lbs. More milk per farm is due to annual milk per cow increasing from about 15,000 lbs. to over 19,500 lbs. from 2000 to 2017, and the average number of cows per farm increasing from 132 to 218 during the same time period. The ten (10) southeastern states show a wide range in milk produced per farm. Florida tops the list with average annual farm milk production in 2017 at 22.7 million lbs. followed by Georgia at 10.2 million lbs. The two lowest states are Kentucky and Louisiana at about 1.7 million lbs. average annual production per farm.

Multiple component pricing (MCP) proposal withdrawn. On April 2, 2018 a proposal was submitted to USDA to change the current skim-butterfat milk pricing system used in the Appalachian and Southeast federal orders to MCP. A month later, USDA published a call for any additional proposals and released an action plan which included a call for a possible public hearing to begin on July 30, 2018. Two additional proposals were submitted. One by the Kroger Co. which calls for lowering the level of Class I sales required for a distributing plant to achieve pool plant status from 50 to 25 percent. The other proposal was submitted by Tennessee Dairy Producers Association. Their proposal opposed MCP, but asked that if a hearing request was granted consideration be given to tighter pooling requirements. On June 28 a letter was sent to USDA, by the MCP proponents, withdrawing the MCP proposal. The reason given for the withdrawal, marketing conditions in these two orders was in a "state of flux." The letter further stated that when marketing conditions stabilize and when resources needed to advance the proposal became available, the MCP proposal may be resubmitted.

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