

## DIXIE DAIRY REPORT

### February 2019

**Production down and Class I utilization up slightly.** Producer milk in the three southeastern federal orders totaled 13.5 billion lbs. in 2018 which is 2.5% lower than the previous year. Class I lbs. were 9.8 billion lbs., 1% lower than 2017. 2018 Class I utilization, in all three orders, was 72.79%. This compares to 71.33% in 2017 and 72.88% in 2016. Almost all of the 2018 Class I utilization increase was in the Southeast order, due to 4.4% less producer milk. Utilization was down in the Appalachian order, and up a fraction in the Florida order. Overall, there is little yearly change in Class I utilization, and the foreseeable market situation indicates no future change.

#### SOUTHEASTERN FEDERAL ORDERS PRODUCER MILK UTILIZATION (2016-2018)

	2016	2017	2018	2018 vs. 2017
	(million lbs.)			(%)
<b><u>Appalachian</u></b>				
<b>Class I</b>	3,884.1	4,001.7	3,984.1	(0.4%)
<b>Class II</b>	864.8	913.1	819.2	(10.3%)
<b>Class III &amp; IV</b>	865.3	886.0	931.1	5.1%
<b>Total</b>	5,614.2	5,801.0	5,734.5	(1.1%)
<b>Class I %</b>	<b>69.18%</b>	<b>68.98%</b>	<b>69.48%</b>	
<b><u>Florida</u></b>				
<b>Class I</b>	2,275.6	2,168.6	2,144.4	(1.1%)
<b>Class II</b>	284.5	288.7	331.5	14.8%
<b>Class III &amp; IV</b>	154.0	144.9	89.6	(38.2%)
<b>Total</b>	2,714.1	2,602.3	2,565.4	(1.4%)
<b>Class I %</b>	<b>83.84%</b>	<b>83.33%</b>	<b>83.59%</b>	
<b><u>Southeast</u></b>				
<b>Class I</b>	3,838.6	3,767.1	3,704.6	(1.7%)
<b>Class II</b>	779.1	781.4	807.0	3.3%
<b>Class III &amp; IV</b>	772.0	903.0	697.7	(22.7%)
<b>Total</b>	5,389.6	5,451.4	5,209.3	(4.4%)
<b>Class I %</b>	<b>71.22%</b>	<b>69.10%</b>	<b>71.11%</b>	
<b><u>Combined</u></b>				
<b>Class I</b>	9,998.3	9,937.3	9,833.1	(1.0%)
<b>Class II</b>	1,928.3	1,983.4	1,957.8	(1.3%)
<b>Class III &amp; IV</b>	1,791.3	1,934.0	1,718.4	(11.1%)
<b>Total</b>	13,718.0	13,854.7	13,509.2	(2.5%)
<b>Class I %</b>	<b>72.88%</b>	<b>71.73%</b>	<b>72.79%</b>	

**Higher butterfat %.** The producer butterfat price has increased over 50% or about \$0.85/lb. during the past five years. Dairy farmers have responded, by focusing more on butterfat, and rightly so. As a result, from 2014 to 2018 annual producer butterfat % increased from 3.65% to 3.79% in the Appalachian order; from 3.60% to 3.68% in the Florida order; and 3.66% to 3.80% in the Southeast order. This shows dairy farmers respond to milk pricing signals. Higher butterfat % in producer milk has added \$0.20-\$0.40/cwt. to average mailbox prices.

**Commodity prices.** Prices are mixed for the four commodities (butter, cheese, nonfat dry milk powder, and dry whey) that establish federal order class prices. Butter continues to remain relatively constant, trading in a narrow range, and is expected to do so through 2019. The NFDM price is steadily advancing. The January price surpassed \$0.95/lb. and is over a \$0.25/lb. higher than last January. We anticipate powder to keep increasing and will exceed \$1.00/lb. by mid-year. Dry whey is over \$0.20/lb. higher than a year ago. But, at the CME, the whey price has fallen below \$0.40/lb. due to weaker exports, and heavier inventories. Cheese continues to be the challenge. Production is exceeding demand. Both CME block and barrel showed some gains for the week ending February 2. However, the gains could be weather related, and may not hold. There is some optimism that low cheese prices will boost retail sales, and make U.S. cheese exports more competitive.

#### **DAIRY PRODUCTS SALES REPORT PRICES**

<b><u>Product</u></b>	<b><u>January 2019</u></b>	<b><u>December 2018</u></b>	<b><u>January 2018</u></b>
		(\$/lb.)	
<b>Butter</b>	\$2.2343	\$2.2425	\$2.1972
<b>Cheese (block &amp; barrel)</b>	\$1.3868	\$1.3742	\$1.5175
<b>Nonfat Dry Milk Powder</b>	\$0.9513	\$0.9020	\$0.6966
<b>Dry Whey</b>	\$0.4805	\$0.4685	\$0.2755

**Higher blend prices.** 2019 is starting off a little better than 2018. We project January blend prices up slightly from December. As shown below, we project blend prices increasing slightly, each month throughout 2019. For all of 2019 we project blend prices to average about \$1.50/cwt. higher than 2018, which is higher than last month's projection. A steady butter price and increasing NFDM price are the reasons for higher blend prices. However, the price increase will be a "walk" not a "run." It will take a significant decline in milk production, and or increase in demand to speed up the price increase.

#### **PROJECTED BLEND PRICES—BASE ZONES – SOUTHEASTERN FEDERAL ORDERS**

<b><u>Month</u></b>	<b><u>Appalachian</u></b>	<b><u>Florida</u></b>	<b><u>Southeast</u></b>
		(\$ /cwt. 3.5% butterfat)	
<b>December (actual)</b>	\$17.45	\$19.47	\$18.00
<b>January 2019</b>	<b>\$17.76</b>	<b>\$19.62</b>	<b>\$18.18</b>
<b>February</b>	<b>\$17.90</b>	<b>\$20.02</b>	<b>\$18.21</b>
<b>March</b>	<b>\$18.15</b>	<b>\$20.30</b>	<b>\$18.33</b>
<b>April</b>	<b>\$18.26</b>	<b>\$20.38</b>	<b>\$18.51</b>

**Fluid milk sales.** Thanks to strong whole milk sales, November 2018 conventional fluid milk sales were unchanged compared to a year ago. November whole milk sales were 3.3% and flavored whole milk sales were 56% higher than a year earlier. Reduced fat sales were down 2.2%. For the year-to-date total conventional sales are down 2.2%. November organic sales were down 0.1% compared to a year earlier, and down 2.0% for the year-to-date. It was a different fluid sales picture in three southeast federal orders. Florida November fluid sales were down 3.0%, Southeast order sales down 1.8%, and Appalachian sales down 1.4%. Note: The new California order and the Mideast order were the only two orders with increased November fluid milk sales, up 5.9% and 7.2%, respectively. Please note California is a new order, and a large new fluid milk is coming on line in the Mideast order. This may have impacted the November fluid sales data.

**Note: Due to the partial government shutdown there are no updated milk production, commercial disappearance, and inventory data to report this month.**