

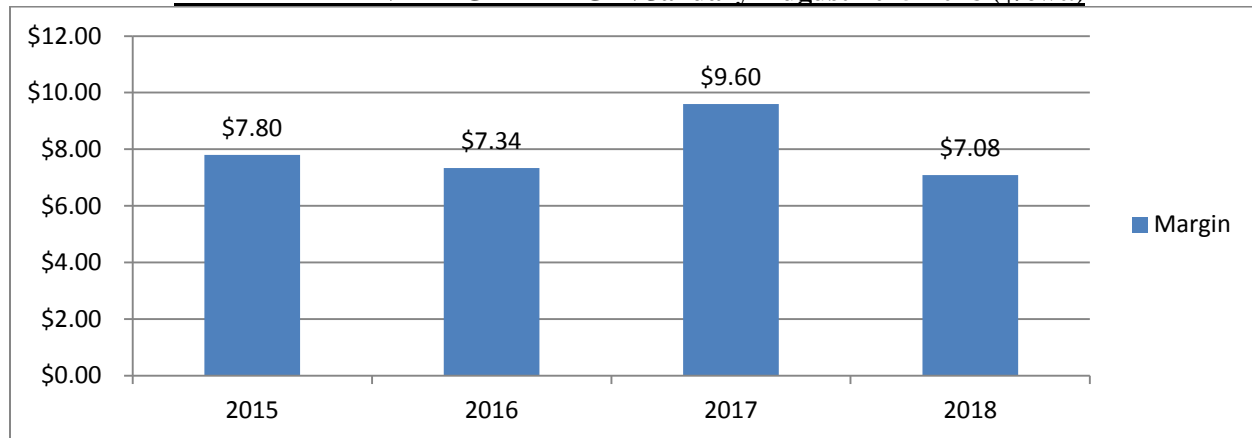
DIXIE DAIRY REPORT

October 2018

Milk production back up in August. After only being up 0.5% in July, milk production in August was 1.4% higher than a year ago. The gain in production was all due to more milk per cow. Cow numbers in August were 4,000 head below last month and a year ago. Of the 23 reporting states, milk production was higher in 14 states. Texas led the way with production up a strong 9.5%. Texas reports 20,000 more cows this August compared to last August. Production was higher in the nation's number one and two milk producing states. California was up 1.2% and Wisconsin up 1.4%. Of the states with lower production, Florida was the lowest followed by Virginia. August production was down 7.3% in Florida, and down 5.7% in Virginia. Production is down in both states due to a combination of fewer cows (5,000 less in Florida and 4,000 less in Virginia); and less milk per cow (down 50 lbs. per month in Florida and 25 lbs. in Virginia).

Low margins. August is the seventh consecutive month; margins are below the \$8.00 level to be eligible for payments under the Margin Protection Program-Dairy (MPP-Dairy). As shown below, the average year-to-date margin is the lowest in the past four years, and is \$2.52/cwt. lower than last year. Low margins are resulting in increased numbers of dispersal sales and more dairy cows going to slaughter. Through September dairy cattle slaughter numbers are over 5% higher than a year ago.

MPP-DAIRY AVERAGE MARGIN January-August 2015-2018 (\$/cwt.)



Domestic demand flat, exports up almost 20%. Domestic demand for all dairy products, on a total solids basis, was up 1.2% in July, a much needed improvement after being down the previous four months. Butterfat continues to drive domestic sales with year-to-date butterfat demand up 1.5% while skim demand is down 0.5%. Combined, year-over-year domestic demand is flat. Dairy exports continue to set record highs. Through the end of July, dairy exports (total solids basis) are 19.1% higher than the same period a year ago. So far this year exports represent 16.2% of total dairy demand. Combining domestic and exports sales, total solids demand is up 2.8% so far this year. Skim solids account for over 90% of total export sales.

Fluid demand. Nationwide, July fluid milk sales (most recent month available) were down 2.6% for conventional, and down 2.1% for organic milk. For the year-to-date, combined, fluid sales are down 2.1%. Whole milk continues to be a bright spot with year-to-date sales up 1.3%. July was a poor month for packaged fluid milk sales in the three southeastern federal orders. July fluid sales were down 2.3% and 4.6% in the Florida and Southeast orders, respectively, while sales were up 0.4% in the Appalachian order. As shown below, year-to-date fluid sales in the three orders, plus Virginia Milk Commission are down 1.3%.

SOUTHEASTERN PACKAGED FLUID MILK SALES January-July 2018 vs. 2017

<u>Order-Commission</u>	<u>2017 (January-July)</u>	<u>2018 (January – July)</u>	<u>2018 vs. 2017</u>
	(million lbs.)		(% change)
Appalachian	1,826	1,859	1.8
Florida	1,599	1,565	-2.1
Southeast	2,548	2,477	-2.8
Virginia Milk Commission	500	486	-2.7
Total	6,473	6,387	-1.3%

Milk prices. For the first time in 2018, both the Class I Mover and Class III prices are over \$16.00/cwt. The October Class I price is \$16.33/cwt. which is \$1.48/cwt. higher than September. The September Class III price is \$16.09/cwt., up \$1.14/cwt. from August. Both prices are still a few pennies below the same month a year ago. September Class II and Class IV saw small increases, \$0.20/cwt. and \$0.18/cwt., respectively. September blend prices are projected \$0.25-\$0.40/cwt. higher than August. Due to the \$1.48/cwt. increase in the October Class I Mover, October blend prices are projected to increase about \$1.00/cwt. from September. For the last quarter of the year, blend prices are projected to decline in the Appalachian and Southeast orders, and remain relatively steady in the Florida order.

PROJECTED BLEND PRICES—BASE ZONES – SOUTHEASTERN FEDERAL ORDERS

<u>Month</u>	<u>Appalachian</u>	<u>Florida</u>	<u>Southeast</u>
	(\$ /cwt.) – 3.5% butterfat		
September	\$17.48	\$19.22	\$17.74
October	\$18.65	\$20.27	\$18.93
November	\$18.31	\$20.40	\$18.79
December	\$17.89	\$20.52	\$18.65

Per capita consumption. Recently USDA released its annual per capita consumption of dairy products report. The data tells us what dairy products consumers are eating, and provides further insight into today's milk prices. As summarized below we see the following: 1) after increasing for several years total dairy product consumption declined last year; 2) consumers continue to eat more cheese, consumption is up 25% since 2000; 3) yogurt consumption has leveled off; 4) ice cream consumption is trending downward; 5) consumers are eating about an additional pound of butter today, compared to ten years ago; and 6) the decline in fluid milk consumption is not slowing down, at the current rate of decline per capita consumption could be below 100 lbs. by 2035.

PER CAPITA CONSUMPTION of SELECTED DAIRY PRODUCTS (2000-2017)

<u>Year</u>	<u>Fluid Milk</u>	<u>Butter</u>	<u>Cheese</u>	<u>Yogurt</u>	<u>Ice Cream</u>	<u>All Dairy Products</u>
2000	197	4.5	29.5	6.5	22.7	591
2005	186	4.5	31.3	10.3	21.1	604
2010	178	4.9	32.7	13.4	20.4	605
2015	156	5.6	35.1	14.4	19.3	630
2016	154	5.7	36.4	13.7	19.3	645
2017	149	5.7	36.9	13.7	19.4	643

Source: USDA-ERS