

DIXIE DAIRY REPORT

June 2018

Strong first quarter for dairy demand. On a total solids basis, commercial disappearance for the first quarter of 2018 compared to the first quarter of 2017 is up 3.41%. As shown in the table below, exports are driving demand, up 18.02% while domestic demand is only up 1.04%. During the first quarter, exports represented 15.9% of total solids disappearance, a record level. The previous record was 15.7% in 2014. Nonfat/skim powder continues to lead U.S. dairy exports with exports over 23% higher than a year ago, and currently utilizing over 60% of total nonfat/ skim powder produced in this country.

TOTAL SOLIDS COMMERCIAL DISAPPEARANCE

	<u>2017 (first quarter)</u>	<u>2018 (first quarter)</u>	<u>Change</u>
	(million lbs.)		(%)
<u>Domestic</u>			
Butterfat	1,939.1	1,980.9	2.16%
Skim	3,963.4	3,983.2	0.50%
Total domestic solids	5,902.5	5,964.2	1.04%
<u>Export</u>			
Butterfat	80.3	94.7	17.96%
Skim	873.4	1,030.8	18.02%
Total export solids	953.7	1,125.5	18.02%
Total All Solids	6,856.2	7,089.7	3.41%

On the domestic side, quarter to quarter butterfat demand is 2.16% higher, compared to only 0.50% for skim solids. First quarter domestic demand for individual products saw butter disappearance up 4.8%, American cheese up 1.6%, other cheese up 3.7%, and nonfat/skim milk powder down 6.5%.

Fluid milk sales. Sales of packaged fluid milk were down 1.9% and organic sales down 1.6% for the first quarter of the year compared to a year earlier. Whole milk continues to be a bright spot with conventional and organic sales up 3.0% and 5.7%, respectively. Reduced fat milk sales are down 4.2% and 6.0%. Fluid sales in the three southeastern orders and Virginia Milk Commission are only down 0.9%. Florida continues to struggle with a high percent of its fluid sales, packaged outside of the order. So far this year about 18% of Florida's fluid milk sales are packaged outside of the Florida order.

SOUTHEASTERN ORDERS and VIRGINIA PACKAGED FLUID MILK SALES

<u>Region</u>	<u>2017 (first quarter)</u>	<u>2018 (first quarter)</u>	<u>Change</u>
	(million lbs.)		(%)
Appalachian Order	816	827	1.3%
Florida Order	716	705	-1.5%
Southeast Order	1,135	1,111	-2.1%
Virginia Milk Com.	195	192	-1.5%
TOTAL ALL	2,862	2,835	-0.9%

Milk production growth slowing. April milk production was only 0.6% higher than a year earlier, the smallest monthly increase since January 2016. Cow numbers are down for the third consecutive month. Of the 23 reporting states, production was up in 12 states and down in 11 states. Again, in a reverse from a year ago, production is up in the Western states, California, Idaho, and Washington. But, production is down in the Midwest and Northeast states, Michigan, New York, Pennsylvania, and Wisconsin.

In the Southeast, April production is down 2.2% in Florida and down 3.9% in Virginia. According to USDA data, less milk in Florida and Virginia is due to: 25 fewer lbs. of milk produced per cow during April in both states; and 1,000 fewer cows in Florida and 2,000 less in Virginia, compared to last April.

The nation's dairy herd is estimated at 9.4 million head which is only 8,000 head more than last April. The number of dairy cows slaughtered continues to run well ahead of a year ago. April saw 9.1% more cows slaughtered than last April. For the first four months of 2018, 6.3% more head have gone to slaughter than during the same period last year. Estimated margins (income over feed cost) at more than \$2.50/cwt. lower than a year ago is no doubt a main reason for more cows going to slaughter.

Dairy product prices continue to move higher. For the past three months all DPSR prices have increased. As you can see below, both butter and cheese are higher than a year ago. On the other hand, nonfat dry milk powder and dry whey prices are still below year ago. However, due to declining inventory levels and increased exports, prices of these products increased about 10% from April to May.

DAIRY PRODUCTS SALES REPORT PRICES (DPSR)

<u>Product</u>	<u>May 2017</u>	<u>April 2018</u>	<u>May 2018</u>
		(\$/lb.)	
Butter	\$2.1644	\$2.2452	\$2.3382
Cheese (block & barrel)	\$1.5390	\$1.5737	\$1.6353
Nonfat Dry Milk Powder	\$0.8704	\$0.7131	\$0.7937
Dry Whey	\$0.5094	\$0.2592	\$0.2711

Higher blend prices projected for the coming months. We project May blend prices in the Appalachian and Southeast orders to exceed \$17.00/cwt. and Florida over \$19.00/cwt. Even though blend prices are increasing they still are about \$0.50/cwt. lower than last May. As shown below, prices are projected to continue increasing through the fall months. Through April, total producer milk in all three orders is 0.5% more than the same period last year, and Class I producer milk is 1.5% higher.

PROJECTED BLEND PRICES—BASE ZONES – SOUTHEASTERN FEDERAL ORDERS

<u>Month</u>	<u>Appalachian</u>	<u>Florida</u>	<u>Southeast</u>
		(dollars /cwt.) – 3.5% butterfat	
May 2018	\$17.18	\$19.15	\$17.35
June	\$17.71	\$19.84	\$18.06
July	\$17.99	\$20.04	\$18.37
August	\$18.61	\$20.65	\$19.12
September	\$19.05	\$20.88	\$19.59

Dairy farming in Senegal. Recently, I returned from a volunteer assignment with the Farmer-to-Farmer program in the West African country of Senegal. My assignment was to help a group of 200 dairy farmers who just recently formed a cooperative, and will soon take over operation of a milk collection center. The dairy farmers deliver milk in cans to the milk collection center which is powered by solar energy. At the center the milk is checked for quality and added water, filtered and cooled. From there it is distributed to local shops in milk cans. When a customer wants milk, the shop keeper opens a refrigerator, dips out some milk into a plastic bag for the customer. The farm milk price is the U.S. equivalent of about \$22.00 per cwt. This group of dairy farmers milked one to two cows with average production per cow about one to three quarts per day.

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