

DIXIE DAIRY REPORT

January 2018

December commodity prices lower. 2017 ended and 2018 is beginning with commodity prices moving lower. As shown below, the December butter price is down a nickel from November. Cheese is down almost twelve cents, and is almost fifteen cents below a year ago. The December nonfat dry milk powder price (NFDM) of \$0.7237/lb. is the lowest monthly powder price since these prices (used to calculate federal order class prices) were first published in January 2000. Compared to a year ago, NFDM has dropped over \$0.23/lb. This equates to over a \$2.00/cwt. decline in the Class IV skim price. Dry whey continues to decline as well, dropping about a dime over the past year. Each penny decline in dry whey lowers the Class III price about \$0.06/cwt.

National Dairy Products Sales Report Prices (NDPSR) – Monthly

Product	December 2016	November 2017	December 2017
		(\$/lb.)	
Butter	\$2.1000	\$2.2810	\$2.2319
Cheese (block & barrel)	\$1.7900	\$1.7617	\$1.6481
Nonfat Dry Milk Powder	\$0.9579	\$0.7553	\$0.7237
Dry Whey	\$0.3994	\$0.3587	\$0.3030

Activity at the CME, during the first week of 2018, has pushed block cheddar below \$1.50/lb. and barrel cheddar below \$1.40/lb. Cheese plants are full of milk. With low powder prices, more surplus milk is moving to cheese versus powder. *Dairy Market News* reports cheese plants are purchasing surplus milk as low as \$6.00/cwt. below class price. On the positive side butter remains steady, closing at \$2.2375/lb. NFDM is trading at the CME around \$0.67-\$0.68/lb. The last time NFDM prices were in the 60 cent price range was the early 1970's. Various reports indicate NFDM may have found its bottom price.

Butter is the stalwart. Looking at annual commodity price averages over the past five years, butter is the stalwart. Butter has remained above \$2.00/lb. for the past four years. On the other hand the NFDM price declined about 50%. After averaging over \$2.00/lb. in 2014, cheese has yet to surpass the \$2.00 mark since. Changes in these four commodity prices, over the past few years, show the shift in milk's value from nonfat solids and protein to butterfat.

National Dairy Products Sales Report Prices – Annual Averages

Year	Butter	Cheese	Nonfat Dry Milk Powder	Dry Whey
			(\$/lb.)	
2013	\$1.5451	\$1.7683	\$1.7066	\$0.5902
2014	\$2.1361	\$2.1551	\$1.7682	\$0.6538
2015	\$2.0670	\$1.6454	\$0.9016	\$0.3804
2016	\$2.0777	\$1.6050	\$0.8292	\$0.2875
2017	\$2.3303	\$1.6344	\$0.8666	\$0.4437

Growing inventories. Expanding inventories, of NFDM and dry whey, are depressing prices for these commodities. At the end of November, the NFDM inventory is estimated at 302 million lbs. This is 40% or 87 million more lbs. than a year ago. The November inventory of dry whey is 100 million lbs. compared to 61 million lbs. last year, an increase of 64%.

However, the U.S. powder inventory is small compared to the European Union's (EU) skim milk powder inventory of about 800 million lbs. Putting the EU inventory in perspective, it is about one-third of annual NFDM production in the U.S.

Commercial disappearance flat. Through October of 2017, compared to the same period a year earlier, domestic commercial disappearance of all dairy products, on a total solids basis, is only up 0.7%. This compares to year-over-year domestic disappearance in 2016 and 2015 of 3.2% and 2.2%, respectively. Exports look better with 13.9% of total solids production exported through October compared to 13.4% in October 2016. Combining domestic and export, disappearance is 1.2% higher through the first ten months of 2017, compared to 2016.

Production growth slower. Through the first eleven months of 2017, U.S. milk production is 1.5% higher than the previous year. Production increasing (1.5%) greater than dairy product disappearance (1.2%) helps explain why milk prices are declining. There is some encouraging news, milk production growth is slowing. November 2017 production was only up 1.0% compared to the previous November. This is the third consecutive month with production up around 1%. Production increased 1.2% in October and the September increase was 1.0%. Cow numbers have remained constant for several months around 9.4 million head.

Out of the 23 reporting states, November production was down in five states and up in the remaining 18. Of the five states with lower production, four are major milk producers – California, New York, Idaho, and Washington. In the Southeast, production was up 1.0% in Florida and up 4.4% in Virginia.

Lower blend prices. Not to sound like a broken record, but we continue to lower our blend price projections. Last October we projected 2018 blend prices, in the southeastern federal orders, to average similar to 2017. We were optimistic, more than most, that production would start declining and domestic consumption would improve. Unfortunately, we are being proven wrong. Due to the opposite happening, our projections continue to go lower. For all of 2018, we currently project blend prices to average about \$1.50/cwt. lower than 2017. The greatest decline is projected for the first quarter of 2018. First quarter 2018 blend prices are projected to average about \$2.50/cwt. below the same quarter in 2017.

Projected Blend Prices –Base Zones – Southeastern Federal Orders

<u>Quarter</u>	<u>Appalachian</u>	<u>Florida</u>	<u>Southeast</u>
(dollars /cwt.) – 3.5% butterfat			
December, 2017	\$18.48	\$21.14	\$19.18
January, 2018	\$17.73	\$19.94	\$17.93
February	\$16.57	\$18.53	\$16.76
March	\$16.35	\$18.33	\$16.48
April	\$16.22	\$18.20	\$16.37
May	\$16.38	\$18.30	\$16.54

We do maintain some optimism that 2018 milk prices will be higher than projected. The overall economy is improving, consumer confidence is high, unemployment is at a 17 year low, and the stock market continues to set record highs. Hopefully, this will encourage consumers to increase dairy product purchases at the grocery store, order a few more pizzas, and dine out more. Increasing domestic demand from 0.7% to 1% or better will do much to lift milk prices.

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