

DIXIE DAIRY REPORT

August 2019

Milk supply. June is the second consecutive month with milk production below the same month a year earlier. The last time this happened was back in 2013. For the first six months of this year, as shown below, production is almost identical to the same period last year. However, due to milk component levels continuing to increase, we estimate total milk solids production, for the first half of the year, is up about one-half % over last year. More milk solids means more pounds of manufactured products, thus one of the reasons “flat” milk production is not having a greater impact on milk prices.

Looking at production by regions, we see the Southeast continues to lead the way in lower production, down 6.9%. Lower milk production in the Southeast is primarily due to 31,000 fewer cows than a year ago. Year to-date production is lower in each of the ten Southeast states with Georgia having the lowest production decline of only 1.5%. In the Southeast’s largest milk producing state, Florida, production is down 5.9% for the first half of the year. At the current rate, total 2019 milk production will be below 9 billion lbs. in the Southeast, the lowest annual milk volume since record keeping. Cow numbers must increase in the Southeast before any significant turnaround in milk production.

Nationally, besides the Southeast, first half milk production is lower in the Northeast and Midwest; but higher in California, Northwest, and Southwest. Higher production in California is due to more milk per cow. In the other two regions it is due to more cows. Currently, USDA is projecting slightly higher milk production during the last half of 2019 compared to last year. For 2020, they project production to increase about 1.6%.

U.S. MILK PRODUCTION by REGION – 1st Half 2019 versus 1st Half 2018

<u>Region</u>	<u>2018</u>	<u>2019</u>	<u>Change</u>
	(billion lbs.)		(%)
Southeast	4,833	4,501	-6.9
Midwest	34,459	34,394	-0.2
California	20,596	20,824	1.1
Northwest	16,087	16,391	1.9
Northeast	15,732	15,429	-1.9
Southwest	13,783	13,930	1.1
Plains	4,740	4,733	-0.1
Total	110,230	110,202	0.0%

Milk demand. May was a strong month for domestic demand, 4.9% higher than last May, on a total solids basis. May dairy exports were stronger than April, but still 14.4% lower than a year ago, but still higher than two years ago. Combining both domestic and export, May total solids demand was 1.6% higher than last May. June was a poor month for Class I sales in the Southeast, based on producer milk used in Class I. For all three southeast federal orders combined, June Class I producer milk usage was 9.9% lower than last June. For individual orders; Appalachian was down 12.1%, Southeast down 11.4% order, and Class I usage was 3.5% lower in the Florida order.

June Class I utilization in the Southeast order was only 57.17%. Last June it was almost 68%, and in May it was 65.82%. This is the lowest June Class I utilization in the Southeast order since 2013. We estimate over 35 million lbs. of additional milk was pooled on the Southeast order in June, compared to what would be normally expected. This additional milk doubled the Class III and IV usage, thus significantly lowering Class I utilization and the order blend price. We will watch to see if this continues in July.

Dairy commodity prices. July was a strong month for the cheese price, the highest monthly average since 2014. However, based on current CME activity, July may be this year's peak cheese price. Butter gained a couple of cents in July over June, but weaker international butter prices are starting to push the domestic price lower. Through May of this year, butter imports are 43% higher than a year ago. Weaker powder exports, a stronger dollar and competition from other countries are impacting the nonfat dry milk powder price, lowering it about a half a penny in July.

DAIRY PRODUCTS SALES REPORT PRICES and CLASS I MOVER

<u>Product</u>	<u>July 2019</u>	<u>June 2019</u>	<u>July 2018</u>	<u>July 2017</u>
(\$/lb.)				
Butter	\$2.3893	\$2.3663	\$2.2596	\$2.6039
Cheese (block & barrel)	\$1.8238	\$1.6910	\$1.4868	\$1.5430
Nonfat Dry Milk Powder	\$1.0393	\$1.0431	\$0.7824	\$0.8991
Dry Whey	\$0.3631	\$0.3643	\$0.3372	\$0.4514
	<u>August 2019</u>	<u>July 2019</u>	<u>August 2018</u>	<u>August 2017</u>
(\$/cwt.)				
Class I Mover (3.5% fat)	\$17.89	\$17.18	\$14.15	\$16.72
Class I Mover (2.0% fat)	\$14.00	\$13.31	\$10.42	\$12.36

Blend prices. July blend prices are projected higher than June, with a larger increase projected in August. The August Class I Mover is the highest since January 2015. Compared to last month, our projections for the remainder of 2019 are lower, based on declining dairy commodity prices. Please note our blend price projections are based on historical utilizations. If the Southeast order July Class I %, is similar to June, the July blend will be about \$0.30/cwt. lower than the projection below.

PROJECTED BLEND PRICES–BASE ZONES –SOUTHEASTERN FEDERAL ORDERS

<u>Month</u>	<u>Appalachian</u>	<u>Florida</u>	<u>Southeast</u>
(\$ /cwt. 3.5% butterfat)			
June 2019 (actual)	\$19.44	\$21.62	\$19.58
July	\$19.76	\$21.68	\$20.33
August	\$20.34	\$22.34	\$20.88
September	\$20.06	\$22.09	\$20.72
October	\$20.26	\$22.25	\$20.88

Retail milk prices and Class I Mover. The Class I Mover for the first six months of 2019 averaged \$1.52/cwt. or about \$0.13/gallon more, compared to the same period in 2018. With raw milk accounting for about 80% of processed fluid milk's wholesale value, one would expect retail milk prices to show a similar change. However, this has not occurred. According to USDA, the national average retail price of a gallon of whole milk averaged \$3.28/gallon during the first half of 2019, the same as in 2018. For the three reporting Southeast cities of Atlanta, Louisville, and Miami we see slightly different results. In Atlanta the retail price declined from \$3.77/gallon in 2018 to \$3.48/gallon in 2019. In Miami, the average retail price has remained almost unchanged, \$3.94 in 2018 versus \$3.93/gallon this year. While in Louisville the retail milk price remains extremely low, \$1.86 in 2018 versus \$1.94/gallon this year. Today, more factors than just the raw milk price impact the retail milk price. One of these factors is increased competition between retail grocers. A decrease or increase in the Class I milk price does not necessarily result in a similar change in the retail milk price.