

## DIXIE DAIRY REPORT

### May 2021

**Dairy product prices.** April Dairy Products Sales Report (DPSR) prices, for the four dairy products used to calculate federal order class prices, were all higher than March. Strong food service sales are strengthening butter and cheese prices. April butter increased over \$0.20/lb. from March to \$1.7814/lb., and is the highest butter price since last July. Based on recent CME trading activity the butter price appears to be softening. Cheese gained over a dime for an April average price of \$1.7106/lb. Barrel cheese is reported “tight”, a reason for the current CME barrel price higher than block. Cheese production is at a record high with March production almost 5% greater than last March. Expect, this increased production will put a lid on higher cheese prices. Nonfat dry milk powder (NDM) and dry whey continue several months of price increases. Each advanced over a nickel per lb. from March to April. Good domestic and strong export demand are driving both products. Plus, the NDM inventory is declining, almost 10% lower than last year. The April NDM price of \$1.1680/lb. is the highest in over a year. April dry whey at \$0.6135/lb. is the highest price since 2014. As shown below, all Class prices are higher than the previous month with the large spread between Class III and IV continuing.

#### FEDERAL ORDER CLASS PRICES (2021 YTD)

Class	January	February	March	April	May
	(\$/cwt. 3.5% fat)				
<b>Class I</b>	\$15.14	\$15.54	\$15.20	\$15.51	\$17.10
<b>Class II</b>	\$14.18	\$14.00	\$15.07	\$15.56	
<b>Class III</b>	\$16.04	\$15.75	\$16.15	\$17.67	
<b>Class IV</b>	\$13.75	\$13.19	\$14.18	\$15.42	

**More cows and more milk.** USDA estimates 9.468 million dairy cows as of March 31. This is the largest dairy cow inventory since 1985, the year of the whole herd buyout. March milk production was 1.8% higher than last March. More milk was due to more cows with March milk per cow up 1%. States with the largest first quarter production increases were: South Dakota + 10.5%, Indiana + 9.4%, Minnesota + 6.0%, and Texas + 3.7%. First quarter production in California and Wisconsin was + 0.7% and + 2.4%, respectively. In some of the areas of the country, additional milk volume is causing hauling challenges. *Dairy Market News* reports finding enough milk truck drivers a growing concern.

While most of the nation continues to add cows and produce more milk, the opposite is occurring in the Southeast States. First quarter milk production in the ten Southeast States was 5.7% lower than last year with all states reporting lower production. Lower production in the Southeast is due to fewer cows, about 20,000 head less than last year. The Southeast dairy herd is currently estimated at 409,000. In 2015, the Southeast had 500,000 dairy cows. Florida, Georgia, and Virginia, which account for about two-thirds of Southeast milk production, were down 8.5%, 3.4%, and 4.0%, respectively, for the first quarter. North Carolina had the lowest first quarter decline, down 0.4%.

**Challenging first quarter for fluid milk sales.** Class I producer milk in all federal orders was 3.6% lower for the first quarter of 2021 compared to the first quarter of last year. (Note: In our opinion Class I producer milk provides a quicker and a more producer-oriented measure of fluid milk sales.) In the three southeastern federal orders the decline is greater at 5.2%. All but one of the eleven (11) federal orders saw first quarter declines in Class I producer milk. The one exception was the Northeast order with Class I slightly higher than a year earlier. The largest Class I decline was in the Central order with a drop of 8.1%, followed by Florida which was down 7.7%. We can speculate government restrictions kept normal winter travel from northern to southern states lower this year. This may partially account for slightly higher fluid sales in the Northeast, but lower in Florida and the Southeast.

**AVERAGE DAILY CLASS I PRODUCER MILK – First Quarter 2021 vs. 2020**

Federal Order	2019	2020	2021	Change (21 vs. 20)
	(million lbs. per day)			(% )
<b>Appalachian</b>	10.8	10.9	10.7	-1.9%
<b>Florida</b>	6.2	6.1	5.7	-7.7%
<b>Southeast</b>	10.0	9.5	8.8	-7.2%
<b>3 Orders Total</b>	27.0	26.5	25.2	-5.2%
<b>All Federal Orders</b>	125.5	124.7	120.1	-3.7%

Higher retail fluid milk prices do not appear to be a reason for lower fluid sales. Nationwide, whole milk retail prices only averaged about \$0.07/gallon higher during the first quarter of this year compared to a year ago. While in the Miami and Atlanta markets, average first quarter retail whole milk prices are about \$0.25/gallon and \$0.50/gallon lower than last year, respectively. Sales growth of plant- based beverages, sold alongside fluid milk in the dairy case, may account for some of the fluid sales loss. The April 9, 2021 *Cheese Reporter* reports sales of these plant-based products was \$2.5 billion in 2020, an increase of 20% from 2019 to 2020. The article further reported these plant-based beverages account for 15% of milk category sales in all stores, and 45% in natural food stores.

**Dairy industry important to Southeast.** Even though Southeast milk production is on a downhill slope, it is still economically important to the Southeast. USDA's 2020 *Milk Production, Disposition and Income Summary* reports cash receipts from 2020 milk sales in the Southeast States almost \$1.7 billion. The following table shows the cash receipts for each Southeast state.

**2020 CASH RECEIPTS from MILK SALES – Southeast States**

State	(\$)	State	(\$)
Alabama	\$8,052,000	Mississippi	\$24,897,000
Florida	\$486,492,000	North Carolina	\$167,132,000
Georgia	\$349,272,000	South Carolina	\$35,898,000
Kentucky	\$174,097,000	Tennessee	\$100,768,000
Louisiana	\$24,366,000	Virginia	\$297,667,000

**Blend prices continue to advance.** As shown below, April blend prices in the three southeastern orders, are projected higher than March. Blend prices are projected to add about a \$1.00/cwt. each in May and June before starting to level off. Our projections are higher than last month, but still not as high as current futures prices indicate. This is due to a strong milk supply and anticipating food service sales to moderate. Even though blend prices are moving higher, gross margins are declining. Using the USDA gross margin formula, average 2021 first quarter gross margin is \$3.37/cwt. lower than a year ago.

**PROJECTED\* BLEND PRICES – Base Zones – SOUTHEASTERN FEDERAL ORDERS**

Month	Appalachian	Florida	Southeast
	(\$/cwt. at 3.5% butterfat – base zone)		
February 2021	\$17.56	\$19.54	\$17.72
March	\$17.94	\$20.11	\$17.92
<b>April</b>	<b>\$18.39</b>	<b>\$20.43</b>	<b>\$18.79</b>
<b>May</b>	<b>\$19.41</b>	<b>\$21.32</b>	<b>\$19.67</b>
<b>June</b>	<b>\$20.18</b>	<b>\$22.34</b>	<b>\$20.64</b>
<b>July</b>	<b>\$20.45</b>	<b>\$22.36</b>	<b>\$20.72</b>

\*Projections in bold