

DIXIE DAIRY REPORT

May 2019

Dairy prices starting to improve. April prices, for the four commodities that establish federal order milk prices, are all higher than a year ago. Except for dry whey, all are higher than two years ago as well. The May Class I Mover is the highest since December 2017. Reasons for improving prices are: slower growth in milk production, both nationally and internationally; butter and powder inventories lower than last year; and cheese production steady. We project cheese, powder, and butter prices to continue to advance leading to higher milk prices. However, our forecasts show milk price increases will be a "walk" not a "run" upward. Less milk, not stronger dairy product demand is fueling higher prices. Plus, due to China's swine flu (China is a major buyer of whey for feed) the dry whey price will struggle. Every penny change in the dry whey price changes the Class III skim price about \$0.06/cwt.

DAIRY PRODUCTS SALES REPORT PRICES and CLASS I MOVER

<u>Product</u>	<u>April 2019</u>	<u>March 2019</u>	<u>April 2018</u>	<u>April 2017</u>
(\$/lb.)				
Butter	\$2.2669	\$2.2740	\$2.2452	\$2.1160
Cheese (block & barrel)	\$1.6468	\$1.5383	\$1.5737	\$1.4960
Nonfat Dry Milk Powder	\$0.9641	\$0.9589	\$0.7134	\$0.8386
Dry Whey	\$0.3923	\$0.4127	\$0.2592	\$0.5243
(\$/cwt.)				
Class I Mover (3.5% fat)	\$16.42	\$15.76	\$14.41	\$15.20
Class I Mover (2.0% fat)	\$12.74	\$12.03	\$10.81	\$11.74

Milk production. For the first quarter of 2019, production is only 0.2% higher than a year ago with March production 0.4% lower than last March. March is the first month since December 2013 month over month milk production has declined. At the end of March there were 86,000 less cows than a year ago. March's monthly milk production per cow was only up 0.5%. Quarter over quarter milk production change varies across the country. Northwest, Plains, and Southwest are the only regions of the country showing more than single digit milk production growth. In the Northwest, Idaho and Colorado are responsible for the most of the production. In the Southwest region it is Texas. There are more cows going to slaughter and more dairy farms exiting the business. Through the first three months of this year, 42,400 more dairy cows were slaughtered compared to a year ago.

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

<u>Region</u>	<u>2018</u>	<u>2019</u>	<u>Change</u>
(billion lbs.)			
Southeast	2,456	2,284	-7.0
Midwest	16,946	16,993	0.3
California	10,307	10,361	0.5
Northwest	7,834	8,016	2.3
Northeast	7,725	7,620	-1.4
Southwest	6,798	6,869	1.0
Plains	2,322	2,357	1.5
Alaska + Hawaii	10.9	2.2	-79.8
Total	54,399	54,502	0.2%

Southeast milk supply and demand. As shown above, the Southeast leads the nation in lower milk production. First quarter production is 7.0% below a year earlier, and is down in every Southeast state as follows: Florida (5.3%), Georgia (1.5%), Virginia (11.9%), Kentucky (8.3%), North Carolina (4.4%), Tennessee (15.2%), South Carolina (13.2%), Louisiana (10.9%), Mississippi (2.7%) and Alabama (9.5%). Lower milk production in the ten Southeast States is due to fewer cows. Compared to a year ago, the Southeast's dairy herd has shrunk about 6% or 31,000 cows. Virginia has the greatest cow decline, 10,000 head, followed by Florida down 8,000 head.

For the three (3) southeastern federal orders combined, first quarter producer milk is down 5.2%, almost 3 million lbs. per day. Most of the decline is in the Appalachian and Southeast orders, Florida order producer production is only down about 100,000 lbs. per day.

Unfortunately, Class I demand is down as well. For all three orders during the first quarter of this year, average daily producer milk in Class I is down about 1.5 million lbs. Due to production down more than Class I sales, the combined orders' first quarter Class I utilization is 73.3% compared to 71.6% in 2018. Daily average Class I sales for the first three months of 2019 are 1.4% lower in the Florida order, 6.6% lower in the Appalachian order, and 6.0% lower in the Southeast order.

Blend prices. Due to improving dairy product prices, and a change in the Class I Mover calculation, coming months blend price projections, for the three southeastern orders, are higher than last month. April blend prices are projected a few pennies below March, due to the March Class I Mover lower than February. Blend prices are projected to increase about \$0.75/cwt. in May, and further increase each month through the end of the year. Our current projections show blend prices averaging about \$2.00/cwt. higher this year compared to 2018.

PROJECTED BLEND PRICES–BASE ZONES – SOUTHEASTERN FEDERAL ORDERS

<u>Month</u>	<u>Appalachian</u>	<u>Florida</u>	<u>Southeast</u>
(\$ /cwt. 3.5% butterfat)			
March (actual) 2019	\$18.31	\$20.41	\$18.70
April	\$18.27	\$20.33	\$18.58
May	\$18.95	\$21.03	\$19.20
June	\$19.51	\$21.28	\$19.62
July	\$19.57	\$21.54	\$20.14

Mailbox milk prices. Nationally, the 2018 average mailbox price of \$15.72/cwt. was \$1.57/cwt. lower than 2017, and the lowest mailbox price since 2009. For the three southeastern mailbox reporting areas, the Appalachian and Southeast States 2018 mailbox prices were also the lowest since 2009. In Florida the 2016 mailbox price was the lowest since 2009. Of all 20 mailbox reporting areas throughout the country, Florida has the highest mailbox price, and also the lowest decline from 2017. Differing levels of mailbox price decline is impacted by over-order premiums, balancing and marketing expenses, milk utilization, cooperative operations, and milk hauling.

SOUTHEASTERN REPORTING AREAS 2017 and 2018 ANNUAL MAILBOX MILK PRICES

	<u>Appalachian States</u>	<u>Florida</u>	<u>Southeast States</u>
		(\$/cwt.)	
2017	\$18.09	\$18.96	\$17.55
2018	\$16.28	\$17.74	\$16.18
Change	(\$1.81)	(\$1.22)	(\$1.37)