

## DIXIE DAIRY REPORT

### September 2018

**Commodity prices.** August Dairy Product Sales Report prices for all four commodities were higher than July, but still below a year earlier. See table below. These higher commodity prices resulted in an August Class III price of \$14.95/cwt. and a September Class I Mover of \$14.85 which are \$0.85/cwt. and \$0.70/cwt. higher than the previous month, respectively. Due to lower milk production increases, and optimism regarding trade issues, CME cheese and dry product prices improved in August with cheese showing the largest movement. During the month of August, barrels gained almost \$0.25/lb. and blocks almost \$0.20/lb. We project a September Class III price and an October Class I Mover over \$16.00/cwt. which would be the highest prices so far this year. It appears butter is at a "comfort" price level, due to its trading in a narrow range over the past couple of months. Market reports indicate butter sales are steady to weak, and inventory levels are adequate.

#### DAIRY PRODUCTS SALES REPORT PRICES

Product	August 2017	July 2018	August 2018
		(\$/lb.)	
Butter	\$2.6578	\$2.2596	\$2.3192
Cheese (block & barrel)	\$1.6664	\$1.4868	\$1.5544
Nonfat Dry Milk Powder	\$0.8733	\$0.7824	\$0.8111
Dry Whey	\$0.4345	\$0.3372	\$0.3681

**Milk production.** July milk production, according to USDA, was up 0.4%, compared to last July. For the year-to-date, production is up 1.1%. Average milk per cow in July was only 10 lbs. more than a year ago, an increase below the historical average. The national dairy herd, in July, was estimated at 9.396 million head, which is 8,000 head less than last month. Of the 23 reporting states, milk production was higher in 10 states, and flat or lower in the other 13 states. In the top two dairy states July production was 2.5% lower in California and up 1.2% in Wisconsin. New Mexico saw its first decline in many months, down 0.8%. However, Texas continues to grow, with production up 7.3%. In the Northeast, New York was up 0.6%, and Pennsylvania was down 0.7%.

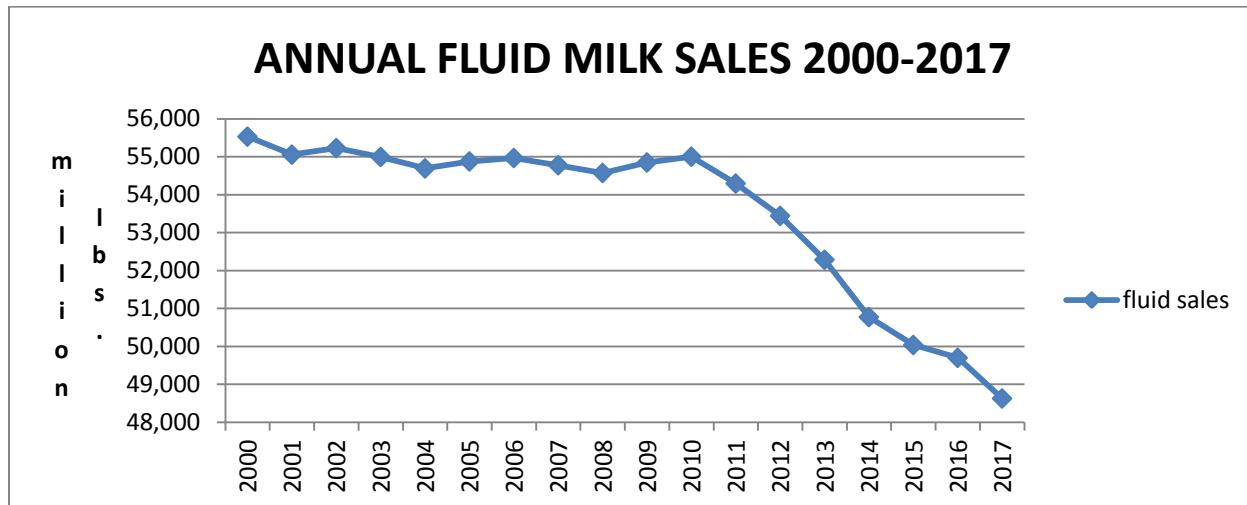
In the Southeast, production continues to decline in Florida and Virginia, down 5.9% and 5.0%, respectively. July is the eighth consecutive month production has declined in Florida. Much of Florida's decline is due to less milk per cow. July per cow production was 45 lbs. lower than last July.

**Domestic demand is weak and exports are strong.** For the first half of 2018 domestic demand (total solids basis) is 0.15% below the same period in 2017. On the other hand exports are at a record high, and are almost 20% higher than last year. For the first half of the year, exports represent 16.5% of total solids demand. Over 91% of exports are skim solids, the primary reason for the steady increase in nonfat dry milk powder and dry whey prices, since the beginning of the year.

#### DAIRY DEMAND (Total Solids) First 6 months 2016-2018

Year	Domestic	Export
	(million lbs.)	
2016	11,946.6	1,749.5
2017	11,900.0	1,958.7
2018	11,882.7	2,350.2
<b>Change 2017 vs. 2018</b>	<b>-0.15%</b>	<b>19.99%</b>

**Fluid milk sales.** Recently, USDA's Economic Research Service released its annual report on fluid milk sales. As shown below, 2017 was the seventh consecutive year of declining fluid sales. Sales in 2017 were 2.16% lower than 2016. From 1985 to 2010, annual fluid sales were relatively constant between 54 to 55 billion lbs. However, since 2010, sales have continued to decline.



On the positive side, whole milk sales have increased the past three years. In fact whole milk sales in 2017 were the highest since 2007. In 2017, whole milk was about 34% of all fluid sales and skim/reduced fat about 65%. Another bright spot is flavored milk. Flavored milk sales in 2017 were a record high at 4.71 billion lbs.

For the first half of 2018, fluid milk sales continue to follow 2017 with sales down 2.1%. In the southeastern federal orders, sales in the Florida order are down 2.1%, Southeast order down 2.5%, and the Appalachian order up 2.0%. The Appalachian order increase is mainly due to reporting sales that were unregulated or in other orders, previously.

**Southeastern orders blend prices.** July blend prices in the Appalachian and Florida orders were \$0.35-\$0.40/cwt. lower than June. In the Southeast order, the July blend price remained the same as June due to a relatively high Class I utilization of 74%. Southeast Class III and IV usage in July was about one-half the usage a year ago. In the Florida order, Class I utilization declined to 81% due to about 4 million less lbs. of Class I sales this July compared to last July. We project August blend prices about \$0.50/cwt. lower than August. Blend prices are projected higher in September with the Florida blend exceeding \$20.00/cwt. in October.

#### PROJECTED BLEND PRICES–BASE ZONES – SOUTHEASTERN FEDERAL ORDERS

Month	Appalachian	Florida	Southeast
(\$ /cwt.) – 3.5% butterfat			
<b>July 2018</b>	\$17.52	\$19.57	\$18.12
<b>August</b>	\$17.08	\$19.03	\$17.44
<b>September</b>	\$17.58	\$19.31	\$17.84
<b>October</b>	\$18.57	\$20.16	\$18.83
<b>November</b>	\$18.74	\$20.91	\$19.23