

DIXIE DAIRY REPORT

October 2020

Dairy product prices. Cheese continues to be the headliner. The September DPSR cheese price (used to establish federal order prices) is \$1.7741/lb. which is \$0.34/lb. lower than August. The lower cheese price resulted in the September Class III price declining \$3.34/cwt. to \$16.43/cwt. However, CME cheese prices rallied in September which will move the October Class III price back over \$19.00/cwt. We attribute the rally to the extension of USDA's Food Box program, retail sales remaining good, and strong mozzarella and other pizza cheese sales. The CME block to barrel price remains historically high, at over \$0.65/lb. This high spread along with the expected upcoming opening of a new large cheese plant in Michigan, does give some uncertainty to future cheese price direction.

Butter continues to struggle with the September DPSR butter price at \$1.4871/lb., the lowest since 2013. At the end of August, the butter inventory is over 22% higher than a year ago. On the positive side, the last quarter of the year is the strongest quarter for butter sales which should draw down the inventory. This should provide some stability to the butter price. Nonfat dry milk powder (NDM) is now back over \$1.00/lb. spurred by improving export sales. Currently, we see NDM being the price driver in 2021. The dry whey price is down over a penny from August. Dry whey exports are higher than a year ago. On the other hand, domestic sales are lower.

DAIRY PRODUCTS SALES REPORT (DPSR) PRICES *

| <u>Product</u> | <u>September 2020</u> | <u>August 2020</u> | <u>September 2019</u> | <u>September 2018</u> |
|-------------------------------|-----------------------|--------------------|-----------------------|-----------------------|
| | | | (\$/lb.) | |
| Butter | \$1.4871 | \$1.5154 | \$2.2344 | \$2.2724 |
| Cheese (block) | \$1.9496 | \$2.2144 | \$1.9843 | \$1.6770 |
| Cheese (barrel) | \$1.5736 | \$1.9817 | \$1.7913 | \$1.6016 |
| Cheese weighted avg. | \$1.7741 | \$2.1099 | \$1.9053 | \$1.6533 |
| Nonfat Dry Milk Powder | \$1.0014 | \$0.9619 | \$1.0519 | \$0.8548 |
| Dry Whey | \$0.3196 | \$0.3338 | \$0.3698 | \$0.4028 |

*Dairy product prices used to calculate federal order class prices

Milk production. August milk production was 1.8% higher than a year ago. USDA reports 42,000 more cows than last year with milk per cow up 1.4%. Of the 24 reporting states, only seven states reported lower production. In the two largest milk producing states, California was up 1.8% while Wisconsin was 0.3% lower. In the Southeast, Florida declined for the third consecutive month with August milk production down 3.9%. Milk per cow is higher in Florida, but cow numbers are down 5,000 head. Production was 0.7% higher in Georgia and 2.5% higher in Virginia, due to more milk per cow.

Challenging month for Class I utilization. In all federal orders, August Class I usage was 6.9% lower than last August. In the three southeastern federal orders combined, the decline was greater, down 11.3%. The Appalachian order had the lowest decline, down 6.2%. Class I usage was down 12.8% and 16.0%, in the Florida and Southeast orders, respectively. Why? The primary reason is school milk. In many parts of the country, especially in the Southeast, the new school season starts in August. Historically, the beginning of the new school season results in a boost in Class I usage, as the school milk pipeline is filled. This year, due to the coronavirus pandemic, many schools delayed or only had a portion of students in the classrooms at one time. The bottom line, school milk makes a difference in Class I usage. Our failing to project such a large decline in Class I milk is the reason for our August blend price projections missing the mark.

Blend prices. August blend prices were higher than July, but September blend prices are projected lower than August, as shown below. Most of the blend price decline is due to a lower butterfat price. Compared to a year ago, the producer butterfat price is about \$1.00/lb. lower. Blend prices are projected to drop further in October. This due to the large decline in the Class I Mover from September to October. Due to the lag in pricing, the current rebound in CME cheese prices will not be fully reflected until the November blend price.

PROJECTED* BLEND PRICES – Base Zones – SOUTHEASTERN FEDERAL ORDERS

| Month | Appalachian | Florida | Southeast |
|---|----------------|----------------|----------------|
| (\$/cwt. at 3.5% butterfat – base zone) | | | |
| August 2020 | \$20.25 | \$22.69 | \$20.18 |
| September | \$19.47 | \$21.67 | \$19.62 |
| October | \$17.85 | \$19.58 | \$18.25 |
| November | \$19.21 | \$20.97 | \$19.73 |
| December | \$18.66 | \$20.73 | \$19.07 |

*Projections in bold

Consumers continue to “eat” more and “drink” fewer dairy products. In 2019, per capita cheese consumption set another record high at 38.3 lbs. Converting this to fluid milk, consumers “ate” the equivalent of 383 lbs. of milk in the form of cheese last year. Cheese consumption has doubled since 1975. On the other hand, fluid milk consumption in 2019 was only 141 lbs. per capita. Back in 1975, fluid consumption was over 100 lbs. higher, at 247 lbs. *In that the Southeast’s milk market is fluid milk, declining fluid milk sales is the greatest challenge facing the Southeast dairy industry.* Butter per capita consumption increased for the third consecutive year to 6.2 lbs. During the past decade butter consumption has increase 21%. Still butter consumption remains below the over 10 lbs. per capita back in the 1950’s. Yogurt consumption continued its slide in 2019 with per capita consumption at 13.4 lbs. This is down from its peak at 14.9 lbs. in 2014. Ice cream remained flat at 18.7 lbs. per capita.

PER CAPITA CONSUMPTION of FLUID MILK (1975-2019)

