

DIXIE DAIRY REPORT

March 2020

Dairy commodity prices. A combination of the coronavirus and additional milk flowing into manufacturing plants is making commodity prices shaky. Due to its dependence on the export market, nonfat dry milk powder (NFDM) is the most impacted by the coronavirus. Because of the price lag, the February NFDM price, used to establish federal order prices, was \$1.2453/lb., a fraction higher than January. However, disruption of powder exports will be reflected in a lower March price. Renewed export activity will be needed to reverse prices.

The butter price is at its lowest price in almost five years. Relatively strong butter prices in recent years, increased butter production, and opened up the door for more imports; all of which moved the price lower. In 2019 the U.S. imported 84.5 million lbs. of butter, a record, with a high percent being Irish butter. The butter inventory at the end of January was 15% higher than last January. Until butter inventories decline, no significant butter price increase is expected. Reports indicate butter is close to, or may have reached a floor price.

Moving to cheese, both cheddar blocks and barrels were lower in February, compared to January, but still higher than a year ago. Based on trading at the CME during the first week of March, cheese prices continue to move lower with blocks closing at \$1.76/lb. and barrels at \$1.5175/lb. on March 6. The large block to barrel spread is a sign of uncertainty in the marketplace. The positive news on cheese is the January inventory is 1.2% lower than last January, and cheese makers report sales as steady.

Milk production. *Dairy Market News* reports cheese plants are at or near capacity. Prices paid for surplus milk, by Wisconsin cheese plants, are reported between \$1.00 to \$5.00/cwt. below the class price. Looking at the production numbers, USDA reports 0.9% more milk produced in January compared to a year ago. USDA estimates 6,000 less head of dairy cows than last year, but there are 5,000 more head than December. January milk production was higher in all of the top five milk producing states, except for Wisconsin, which was down 1.0%. January production changes for the other four states with higher production: California 0.7%, Idaho 3.7 %, New York 2.2%, and Texas 7.9%.

January saw the Southeast milk production pattern change. For the three Southeast reporting states, January production was 2.4% higher in Florida and 1.3% higher in Georgia. After many consecutive months of declining production, January saw Virginia's milk production 1.5% greater than a year earlier. These three states produce about two-thirds of the milk in the Southeast.

Class I sales. The New Year started off poorly in regards to Class I sales. January Class I producer milk, in all eleven federal orders, was 4.4% lower than a year ago. This equates to 179 million less lbs. of milk used in fluid products compared to last January. This additional 179 million lbs. had to find a home in cheese or powder plants, with much of the milk sold at a discount. Loss of fluid milk sales has a double price impact on dairy farmers: 1) significant less revenue compared to the Class I price, and 2) additional milk to manufacturing plants which in turn increases dairy product supply leading to lower dairy product prices.

Unfortunately, the largest decline in January Class I sales was in the Southeast Federal Order, down 10.4%. The Appalachian Order was second with a decline of 6.8%. The Florida Order saw a drop of 3.2%. Combined, this is 66 million lbs. less of producer milk utilized in Class I this January, compared to last January in the three Southeast orders. Again, the double impact of lower fluid sales; less Class I dollars and more milk to manufacturing. If the significant decline in Class I sales continues in the Southeast, dairy farmers will see a greater spread between mailbox and order blend prices.

Whole milk greater share of the fluid market. For many years the Florida Market Administrator staff has provided us with fluid milk sales data by product. From 2014 to 2019, whole milk sales increased its share of the Florida market from 34.7% to 38.7%. While during the same period, the market share of low fat declined from 41.5% to 39.2%, and skim from 10.2% to 6.8%. Organic fluid sales are a relatively small part of the Florida market, 3.3% in 2014 and 3.7% in 2019.

Blend prices. January blend prices were over \$3.00/cwt. higher than a year ago. Blend prices will move lower in February, and continue to do so through the middle of the year. Our current projections are lower than at the beginning of the year. Now, we project blend prices to average about \$0.50/cwt. higher in 2020 compared to 2019, versus the \$1.25/cwt. projected in January. However, our projections are not as low as current futures prices indicate. We consider the coronavirus a temporary setback in prices. Economic fundamentals are strong, which is good for dairy demand. However, the large January decline in fluid sales is concerning. If fluid milk needs continue to stay 4% below a year ago, the additional milk will find its way to cheese and butter plants, thus increasing supply of dairy products.

PROJECTED* BLEND PRICES – Base Zones – SOUTHEASTERN FEDERAL ORDERS

Month	Appalachian	Florida	Southeast
(\$/cwt. at 3.5% butterfat)			
January 2020	\$21.03	\$23.33	\$21.32
February	\$19.76	\$21.83	\$20.34
March	\$19.40	\$21.64	\$19.82
April	\$19.04	\$21.41	\$19.54

*Projections in bold

Dairy demand. Total (domestic and export) milk solids disappearance slowed in 2019. It only increased 0.6% from 2018, the lowest annual increase since 2009. However, 2019 was a banner year for domestic disappearance. Domestic disappearance of milk solids in 2019 was a record 24.7 billion lbs., 2% higher than in 2018. During the first decade of the twenty-first century, domestic dairy disappearance increased at an annual rate of 1.1%. During the recent decade the increase jumped to 1.5%. Disappearance of milk solids through exports was 7% lower in 2019 compared to 2018. This is the reason for the smaller increase in total demand (domestic and export) last year. Even though exports were lower, 2019 was the second highest year for exports, representing 14.2% of solids demand, only trailing 2018.

Dairy farm numbers. At the end of 2019, USDA reports 34,187 licensed dairy farms, 8.8% less farms than 2018. Back in 1992, when this data was first published, there were 131,535 dairy farms. Wisconsin saw the largest decline in 2019, losing 780 dairy farms, but Wisconsin remains the number one state with 7,720 dairies. Pennsylvania is second with 5,730. The Southeast States lost 14% or 250 of its dairies in 2019, dropping from 2,025 in 2018 to only 1,775 at the end of 2019. In 1992, there were 10,261 dairy farms in the Southeast states.

SOUTHEAST LICENSED DAIRY FARMS (2018-2019)

State	2018	2019	Difference	State	2018	2019	Difference
Alabama	30	25	-5	Mississippi	65	60	-5
Florida	95	90	-5	N. Carolina	180	150	-30
Georgia	160	140	-20	S. Carolina	50	40	-10
Kentucky	540	480	-60	Tennessee	250	200	-50
Louisiana	90	85	-5	Virginia	565	505	-60

Source: USDA -NASS

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