DIXIE DAIRY REPORT
August 2021

Overview. Milk continues to flow. Second quarter milk production was 3.7% higher than the second quarter of last year. On the positive side the nation's dairy herd declined by 1,000 head from June to July, and 10,500 more dairy cows were slaughtered in July compared to last July. Hopefully, improving cull cow prices will send more cows to slaughter. More milk is producing more dairy products. June to June dairy product production changes: American cheese +5.1%, butter +7.8%, and nonfat dry milk powder (NDM)+19.8%. Good domestic demand utilized much of the additional milk during the first four months of the year, but domestic demand is slowing with May domestic demand down 1.3%. However, we must remember the significant impact of the Food Box program on dairy demand last year when making comparisons. Exports remain at historical highs, up 14% through May, but international butter and powder prices are moving downward. Strong supply is moving domestic dairy prices lower. All July Dairy Product Sales Report (DSPR) prices declined from June, thus lowering the July Class III price to $16.49/cwt., the Class IV price to $16.00/cwt. and the August Class I Mover to $16.90/cwt. Class prices are projected to remain below $17.00/cwt. for the remainder of 2021, which means lower farm milk prices. Higher feed and other production expenses will continue to shrink margins. The June Dairy Margin program's gross margin was only $6.24/cwt., well below last June's margin of $9.99/cwt.

Milk production. Growth in milk production slowed in June, only increasing 2.9% over last June. The May and April increases were 4.7% and 3.5%, respectively. For the first half of the year, milk production is 2.4% greater than the same period last year, and is 4.3% higher than 2019. As the table below indicates, most of the production growth is in the center of the country, Midwest, Plains States, and the Southwest (primarily Texas.) In the center of the country, dairy farmers have added cows to fill up capacity at new and expanding cheese plants. In California, milk production is up 2.4% through June, but it is due to more milk per cow. Water and labor challenges are expected to cause a decline in California production in the coming months. In Wisconsin, first-half production is up 3.4% with 17,000 more cows. The three states with the largest first-half production increases are: South Dakota + 13.0%, Indiana + 10.3%, and Texas + 6.1%. These three states, combined, added 17,000 cows over the past year.

The Southeast is the only region declining in milk production. The decline is due to less cows. At the end of June, the Southeast's dairy herd is estimated at 410,000 head. Five years ago, the Southeast had almost 500,000 head of dairy cattle. North Carolina is the only state, out of the ten Southeast states, reporting an increase in milk production for the first half of the year, up 1.5%. For the two leading Southeast milk producing states, Florida is 5.4% lower and Georgia is down 0.1%. However, Georgia production is rebounding. Second quarter production is 2.7% higher than the second quarter of last year.

REGIONAL CHANGE in MILK PRODUCTION & COW NUMBERS
(First Six Months of 2021 vs. 2020)

Region	Milk Production	2021 vs, 2020
	(Percent Change)	(Head of Dairy Cows)
Midwest	4.0%	89,000
California	2.4%	0
Northwest	1.1%	22,000
Northeast	0.3%	-11,000
Southwest	3.2%	30,000
Plains	5.2%	24,000
Southeast	-3.7%	-12,000
Total	2.4%	141,000

Inventories. A key barometer in forecasting future milk prices is dairy product inventories. At the end of June, butter and NDM inventories are heavy. The June 30 butter inventory is 14.4% higher than last June, and the NDM inventory is up 24.3%. Growing inventories put downward pressure on butter and NDM prices. The American cheese inventory is only 2% higher than a year ago. However, it has expanded the past two months, as American cheese production remains strong, up 6.1% through the first half of 2021. Continuing with cheese, mozzarella cheese production is down 0.4% through the first half of the year. Generally, mozzarella cheese is not manufactured unless there is demand for the product. Hopefully, demand will reverse, and shift production away from American cheese. Growing mozzarella demand has been the shining star for the dairy industry for many years.

Fluid milk sales. Fluid milk sales, measured by Class I producer milk, is 4.9% lower for the first half of 2021 compared to the same period in 2020. Combining the three Southeast federal orders and the Virginia Milk Commission, Class I sales are down 5.3% through the first six months of the year. However, it is important to remember, fluid milk sales received a boost last year through the Food Box program. Nationwide, I estimate the Food Box program purchased about 300 million lbs. of fluid milk from May 15-June 30 of last year. Adjusting for Food Box purchases, Class I sales are down 3.3% this year, still a significant decline.

CLASS I PRODUCER MILK – First Half 2019, 2020 and 2021

Federal Order/State Milk Commission	2019	2020	2021	Change (21 vs. 20)
	(Million lbs.)			(%)
Appalachian	1,854.4	1,953.6	1,863.5	-4.6%
Florida	1,073.2	1,050.2	993.6	-5.4%
Southeast	1,737.2	1,647.2	1,540.0	-6.5%
Virginia	357.4	368.2	358.0	-2.8%
Total Above	5,022.2	5,019.2	4,755.1	-5.3%
All Federal Orders	21,991.2	22,005.8	20,968.4	-4.9%

Blend prices. June federal order blend prices were almost a $1.00/cwt. higher in the Appalachian and Southeast orders, and over a $1.00/cwt. higher in Florida versus June. Unless, there is a significant market correction, June is the month with the highest blend prices for the year. Blend price projections for the remainder of the year are lower than last month. July blend prices are projected $0.50-$0.80/cwt. lower than June with further declines in August and September. Compared to the first half of 2021, blend prices are projected to average about $0.50/cwt. higher during the last half of the year.

PROJECTED* BLEND PRICES – Base Zones – SOUTHEASTERN FEDERAL ORDERS

Month	Appalachian	Florida	Southeast
	($/cwt. at 3.5% butterfat – base zone)		
May 2021	$19.35	$21.26	$19.52
June	$20.19	$22.40	$20.39
July	**$19.70**	**$21.65**	**$20.18**
August	**$19.17**	**$21.03**	**$19.26**
September	**$18.88**	**$20.81**	**$19.12**
October	**$19.05**	**$21.02**	**$19.25**

*Projections in bold

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