

DIXIE DAIRY REPORT

November 2017

Dairy product prices mixed. Prices for the four dairy products used to calculate federal order class prices, as reported in the National Dairy Product Sales Report (NDPSR), are mixed. Butter and cheese are higher than a year ago, but nonfat dry milk powder is lower, as shown below. October butter is lower than September even with domestic sales up 2.6% and exports up 29%, for the year-to-date. Plus, the U.S. butter price is about \$0.30/lb. lower than the Oceania price. However, butter imports increased during the past two months, and the normal seasonal decline in butter inventories is lower than usual. October cheese gained \$0.06/lb. from September. Domestic cheese sales are flat so far this year, but cheese exports are 25% higher. With most retailers, having completed the bulk of their cheese holiday buying, and cheese inventories building, look for cheese prices to start retreating.

Both nonfat dry milk powder and dry whey continue to move downward in price. October powder is down \$0.04/lb. from September, and about \$0.12/lb. lower than a year ago. Since its peak at over \$0.52/lb. in April, dry whey has declined \$0.14/lb. Exports of both products have declined in recent months, and inventories of both products are building. At the end of August, the powder inventory was 35% higher than last August and dry whey almost 70%. The European Union's backlog of powder is displacing some U.S. exports.

National Dairy Products Sales Report Prices

| <u>Product</u> | <u>October 2016</u> | <u>September 2017</u> | <u>October 2017</u> |
|------------------------------------|---------------------|-----------------------|---------------------|
| | | (\$/lb.) | |
| Butter | \$1.8637 | \$2.5298 | \$2.3718 |
| Cheese (block & barrel) | \$1.5830 | \$1.6608 | \$1.7254 |
| Nonfat Dry Milk Powder | \$0.9222 | \$0.8499 | \$0.8099 |
| Dry Whey | \$0.3303 | \$0.4167 | \$0.3790 |

Milk production down slightly in third quarter. Milk production for the third quarter of the year is 1.7% higher compared to the third quarter of last year. This is down slightly from the 1.8% increase during the second quarter. Cow numbers continue to increase with the nation's dairy herd estimated at 9,402 million head. For the year-to-date, production is up 1.5%. The Southwest leads year-to-date growth with milk production up 9.5%. Production in the Midwest and Northeast is up 1.5% and 1.3%, respectively, while production is down 1.9% in California.

In the ten southeastern states, production is down 0.4% for the nine months of the year. Three states did increase production: Florida +0.2%, Georgia +1.1%, and Virginia +0.3%. The USDA report shows higher cow numbers in both Florida and Georgia, but 11,000 total less cows in the ten southeastern states.

Quarterly Milk Production and Cow Numbers (2016 vs. 2017)

| <u>Quarter</u> | <u>2016</u> | <u>2017</u> | <u>Change</u> | <u>2016</u> | <u>2017</u> | <u>Change</u> |
|----------------------|----------------|----------------|---------------|--------------|--------------|---------------|
| | (million lbs.) | | (%) | | (1,000 head) | |
| First | 52,998 | 53,568 | 1.1 | 9,312 | 9,370 | 58 |
| Second | 54,331 | 55,314 | 1.8 | 9,323 | 9,398 | 75 |
| Third | 52,590 | 53,495 | 1.7 | 9,331 | 9,402 | 71 |
| Total YTD | 159,919 | 162,377 | 1.5 | 9,322 | 9,390 | 68 |
| Southeast YTD | 7,178 | 7,146 | -0.4 | 488 | 477 | -11 |

Class I utilization down. Combined, Class I pounds in the southeastern federal orders, are down 1.1% for the first three quarters of the year compared to a year ago. However, there is a large variation among the three orders. Class I pounds are up 2.0% in the Appalachian order, but down 5.3% in Florida and down 1.6% in the Southeast order. Total producer milk in all three orders, for the first nine months of the year, is little changed from 2016, about 10.34 billion lbs.

Southeastern Federal Orders Utilization (January – September: 2016 vs. 2017)

| <u>Order</u> | <u>Class I</u> | | | <u>(Total Producer Milk)</u> | | |
|------------------------|----------------|-------------|---------------|------------------------------|-------------|---------------|
| | <u>2016</u> | <u>2017</u> | <u>Change</u> | <u>2016</u> | <u>2017</u> | <u>Change</u> |
| | (million lbs.) | | (%) | (million lbs.) | | (%) |
| Appalachian | 2,898.1 | 2,954.7 | 2.0 | 4,221.5 | 4,308.2 | 2.1 |
| Florida | 1,706.2 | 1,615.4 | -5.3 | 2,029.4 | 1,938.7 | -4.5 |
| Southeast | 2,860.9 | 2,816.5 | -1.6 | 4,082.1 | 4,093.1 | 0.3 |
| Total | 7,465.2 | 7,386.6 | -1.1 | 10,332.9 | 10,340.8 | 0.1 |
| Total Class I % | 72.25% | 71.43% | | | | |

2018. USDA's October dairy outlook report forecasts about 2% more milk in 2018 compared to this year. Their current all-milk price forecast is \$17.45/cwt. to \$18.35/cwt. which is \$0.55/cwt. higher to \$0.35/cwt. lower than this year. USDA projects higher cheese prices in 2018, butter prices similar to this year, and lower nonfat dry milk powder and dry whey prices. Our current 2018 blend price projections, shown below, projects blend prices slightly lower in 2018 compared to this year. The major challenge in 2018 is enough demand to handle the additional milk production. Domestic demand is slowing. Even though world dairy demand is growing, the U.S. faces strong competition from the European Union and New Zealand to fill that demand. On the supply side we all know just a small change in milk production results in a much larger change in milk prices. Instead of a forecasted 2% growth in milk supply, if the growth is only 1.0-1.25%, milk prices will move higher. However, there is yet to be anything on the horizon to indicate lower milk production, nationally.

Projected Blend Prices –Base Zones – Southeastern Federal Orders

| <u>Quarter</u> | <u>Appalachian</u> | <u>Florida</u> | <u>Southeast</u> |
|----------------------------|----------------------------------|----------------|------------------|
| | (dollars /cwt.) – 3.5% butterfat | | |
| 2017 –Fourth | \$18.61 | \$20.73 | \$19.23 |
| 2017 – Year Average | \$18.81 | \$20.91 | \$19.19 |
| 2018-First | \$18.54 | \$20.50 | \$18.58 |
| Second | \$18.16 | \$20.20 | \$18.37 |
| Third | \$19.03 | \$20.94 | \$19.43 |
| Fourth | \$19.08 | \$21.09 | \$19.65 |
| 2018 – Year Average | \$18.70 | \$20.68 | \$19.01 |
| 2018 vs. 2017 | -\$0.11 | -\$0.23 | -\$0.18 |

Our best to all for an enjoyable Thanksgiving, a special time to look back, remember, and give thanks for our over abundance of blessings.

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