

DIXIE DAIRY REPORT January 2020

Federal order blend prices. 2019 saw needed improvement in order blend prices. As shown in the table below, 2019 blend prices in the three southeastern federal orders will average about \$2.00/cwt. higher than 2018. Last January we projected about \$1.00/cwt. increase in 2019 over 2018. All of the 2019 increase occurred in milk's skim portion. The butterfat value of milk in 2019 was slightly lower than the previous year. For 2020, we project blend prices about \$1.25/cwt. higher than 2019.

Southeastern Federal Orders Actual and Projected* Blend Prices (2015-2020)

Year	Appalachian	Florida	Southeast
	(\$/cwt.) @ 3.5% fat @ base zone		
2015	\$18.58	\$20.90	\$19.29
2016	\$17.09	\$19.23	\$17.55
2017	\$18.79	\$20.91	\$19.15
2018	\$17.29	\$19.37	\$17.71
2019	\$19.39	\$21.42	\$19.81
2019 versus 2020	+\$2.10	+\$2.05	+\$2.10
2020	\$20.61	\$22.73	\$21.15
2020 vs. 2019	+\$1.22	+\$1.31	+\$1.34

*Projected in bold. 2019 includes actual from January-November with December projected.

Dairy commodities. Most of the projected price increase in 2020 will be due to increasing nonfat dry milk powder (NFDM) prices. Butter was the price driver in 2017 and 2018, but NFDM was the price driver in 2019 and will continue to be so in 2020. NFDM averaged about a quarter higher in 2019 compared to 2018, and is projected to gain another \$0.17/lb. in 2020. See dairy product sales prices in the table below. Remember each one penny increase in the NFDM price increases the Class IV skim price by \$0.09/cwt. A combination of lower inventories (both in the U.S. and Europe), higher international powder prices, and increased world demand, especially in Asia, are reasons for increasing NFDM prices.

Since 2017, the butter price has trended downward, and is projected to continue to do so in 2020. In December, for the first time in three years, the monthly CME butter price fell below \$2.00/lb. Dairy farmers have responded to higher butterfat prices by increasing the average butterfat % in their milk production from 3.77% in 2016 to 3.88% in 2018, thus increasing supply. At the end of November, the butter inventory was 18% higher than a year earlier, and *Dairy Market News* reports cream as plentiful.

National Dairy Products Sales Report Prices – Annual Averages (2015-2019) and Projected 2020

Year	Butter	Cheese	Nonfat Dry Milk Powder	Dry Whey
			(\$/lb.)	
2015	\$2.0670	\$1.6454	\$0.9016	\$0.3804
2016	\$2.0777	\$1.6050	\$0.8292	\$0.2875
2017	\$2.3303	\$1.6344	\$0.8666	\$0.4437
2018	\$2.2572	\$1.5377	\$0.7945	\$0.3422
2019	\$2.2431	\$1.7586	\$1.0419	\$0.3799
2020 projected	\$2.17	\$1.81	\$1.21	\$0.36

In regards to dry whey, until Asia starts recovering from swine flu, and rebuilds its swine population, we anticipate no major increase in dry whey prices. Asia is a major buyer of dry whey for its pig feed.

Cheese saw over a \$0.20/lb. increase in 2019 over 2018. We project the average 2020 cheese price about a nickel per lb. higher than 2019. The good news is that 2020 is starting with no burdensome cheese inventories, which is a positive. We anticipate there could be more volatility in cheese prices, as was with barrels last fall when the monthly barrel price jumped \$0.50/lb. from \$1.75/lb. in September to \$2.25/lb. in November.

Supply and demand. How many cows, dairy farmers will milk in 2020 is the big unknown. It appears 2019 will end with about 20,000 fewer cows than at the beginning of the year. However, cow numbers at the end of November were 14,000 more head compared to the low in August. 2019 production will be about 0.3% higher than 2018. Under normal conditions, with no change in cow numbers, we can expect an annual increase in total milk production of about 1.5%, due to improved cow performance. The reason why it takes a significant decline in cow numbers to lower milk production over the long-term.

Moving to the demand side, as shown below, domestic demand for the year-to-date is up 2.7%. However, exports are down, resulting in a total year-to-date demand only up 0.5%. This is higher than the milk production increase of 0.3%, thus the reason for higher milk prices in 2019. Demand exceeds supply. Looking ahead to 2020 we see improving exports which should lift total demand 1.5 to 2% higher than 2019. This supports our projection for higher milk prices in 2020, demand exceeding milk supply.

However, any change in these supply to demand numbers, will quickly change our price projection higher or lower. If cow numbers start increasing, expect lower milk prices. If demand increases more than projected, look for higher milk prices.

Dairy Demand Measured by Total Solids

	Oct. 2019	Oct. 2018	Change %	YTD 2019	YTD 2018	Change %
	(million lbs.)			(million lbs.)		
Domestic	2,159.7	2,075.9	4.0%	20,583.4	20,035.5	2.7%
Export	354.6	351.7	0.8%	3,347.3	3,769.0	-11.2%
Total	2,514.3	2,427.6	3.6%	23,930.7	23,804.5	0.5%

Southeast demand. October was a poor month for fluid milk sales in the Southeastern federal orders. As shown below, October fluid sales were below a year ago in all orders, and down a combined 2.6%. For the year-to-date fluid sales are down 3.0% in all three orders, combined.

Fluid Milk Sales in the Three Southeastern Federal Orders

	Oct. 2019	Oct. 2018	Change %	YTD 2019	YTD 2018	Change %
	(million lbs.)			(million lbs.)		
Appalachian	272	277	-1.8%	2,595	2,670	-2.8%
Florida	229	233	-1.7%	2,218	2,242	-1.1%
Southeast	360	374	-3.7%	3,423	3,575	-4.3%
Total	861	884	-2.6%	8,326	8,487	-3.0%

Southeast milk production. November milk production for the three southeast reporting states was: Florida up 2.2% due to more milk per cow; Georgia up 1.4% also due to more milk per cow; and Virginia continued its steady decline down 4.8% and 7,000 less cows. Combined, these three states which account for about two-thirds of southeast milk production, produced about the same volume of milk in November compared to a year ago.