DIXIE DAIRY REPORT
March 2021

Dairy product and milk prices. February prices for butter, cheese, and nonfat dry milk powder (NDM), three of the four dairy products used to calculate federal order class prices, were all lower than a year ago and last month. The fourth product, dry whey, continues to inch higher due to strong export demand. Dry whey is now over $0.50/lb. and the highest price in nearly four years. The March Class I Mover (based on February product prices) is $15.20/cwt. The Mover is $0.34/cwt. lower than February, and $2.26/cwt. lower than last March. February Class II, III, and IV prices are $14.00/cwt., $15.75/cwt. and $13.19/cwt., respectively. All are lower than last February. Class II is down $2.84/cwt., Class III $1.75/cwt. and Class IV $3.01/cwt. lower than last February. Better news, March began with improving prices for cheese, and especially butter. During the first week of March, CME butter gained $0.1955/lb. to close at $1.6900/lb. on March 5. The end of "old crop" butter trading on February 26 (butter manufactured before December 1, 2020) is responsible for part of the price increase. Plus, increased export interest due to a domestic price over $0.50/lb. lower than the Oceania butter price. However, the butter inventory is over 30% higher than a year ago and production continues at historical highs. Higher butter prices may only be temporary. Not as impressive as butter, but still an increase, CME block cheddar gained $0.064/lb. and barrel $0.0375/lb. during the first week of March. On March 5 block closed at $1.7325/lb. and barrel at $1.5075/lb. There are various reports indicating cheese demand is picking up due to reopening and expanded openings of food service establishments. January cheese production numbers show a mixed signal. American cheese production was 5% higher than last January, but Italian cheese production was 0.8% lower. NDM has shown some price weakness the last few weeks. Exports were 10% lower in January compared to last January, and inventory almost 9% higher.

More milk and cows. January milk production, according to USDA, was 1.4% higher than last January. Higher production was due to a combination of 85,000 more cows and 0.6% more milk per cow, compared to a year ago. Dairy farmers continue to send fewer cows to the butcher with January dairy cattle slaughter down 7.1% or 21,200 cows less than last January. Of the 24 reporting states, January production was up in 15 states. The highest production increases were in the center of the country. Indiana up 10.1%, South Dakota up 9.6%, Texas up 5.3%, Minnesota up 5.7%, Michigan up 4.3%, and Wisconsin up 3.1%. On the west coast, January production was 0.7% lower in California and down 1.9% in Washington. Lower production in both states was due to less milk per cow. Turning to the three Southeast reporting states, January was the eighth consecutive month with lower production in Florida, down 5.1%. Georgia production remains flat. While Virginia, after showing production increases in 11 of the past 12 months, was 3.0% lower in January.

Milk production will continue above year ago levels until there is a significant reduction in cow numbers. The Dairy Margin Coverage program's January gross margin was only $7.14/cwt. This is $3.58/cwt. lower than last January, and the lowest January margin since 2013. One would expect low margins will result in more cows going to slaughter, thus reducing milk production, but time will tell.

2020 total dairy consumption up over 2019. Dairy consumption (total solids) in 2020 was 1.6% higher than 2019. Exports were responsible for all of the increase. Exports increased 12.9% and accounted for 15.7% of total demand. On the other hand, domestic demand declined 0.2%. Looking at individual dairy products, commercial disappearance of American cheese in 2020 compared to 2019 was flat. Other cheese disappearance was 1% lower and butter was up 2.5%. Total estimated fluid milk sales in 2020 were only 0.1% lower than 2019. Conventional fluid sales were down 1%, but organic sales were up a strong 10%. Conventional whole milk sales were up 2.6% while reduced fat sales were down 4.5%. The impact of the Food Box program on 2020 dairy sales cannot be overlooked. Our estimates show the program utilized at least 1.65% of total milk production in 2020 which includes about 5% of total American cheese production and at least 2% of fluid milk sales.

In the three Southeastern federal orders, estimated packaged fluid milk sales were almost 1.0% higher in 2020 compared to 2019. As the table below shows, all of the sales increase was in the Appalachian order.

THREE SOUTHEASTERN FEDERAL ORDERS PACKAGED FLUID MILK SALES (2015-2020)

Year	Appalachian	Florida	Southeast	Total
	(average daily packaged fluid milk sales – million lbs.) *			
2016	8.80	7.59	12.34	28.79
2017	8.81	7.55	12.17	28.53
2018	8.81	7.40	11.81	28.02
2019	8.61	7.33	11.32	27.26
2020	9.14	7.33	11.04	27.51
Change 2020 vs. 2019	6.20%	-0.09%	-2.47%	0.91%

*average daily adjusts for Leap Year
Source: Agricultural Marketing Service

The table above shows sales of packaged fluid milk within the respective federal order, not packaged milk processed by plants pooled in each order. For example, plants in the Appalachian order process and package more milk than is sold in the Appalachian order. Florida order plants process and package only about 80% of the total fluid milk sold in the Florida order. The other 20% comes from plants outside the Florida order. Southeast order plants process about 70% of their order's packaged milk sales, but supply about 5% of Florida order sales. We estimate fluid milk plants in all three orders combined, process and package about 90% of the total packaged fluid milk sold in the three orders. Most of the remaining 10% of sales are varieties of fluid milk not processed and packaged by Southeast plants.

Milk prices. Last month our January blend prices projections were lower than actual due to a large decline in Class I usage, and a lower Class I utilization. January Class I producer milk, compared to last January, was 8.7% lower in Florida, 10.2% lower in the Southeast, and 5.6% lower in the Appalachian order. Producer milk in all three orders declined as well, but not as much as the decline in Class I milk, thus lowering Class I utilization. Florida January Class I utilization was only 79%, it was 68% in the Southeast order and 71% in the Appalachian order. Our current projections show January as the lowest blend prices for the year. Blend prices are projected a little higher in February, due to the February Mover $0.40/cwt. higher than January, and assuming Class I sales recover from January. Blend prices are projected to slowly increase through the remainder of the year. The first quarter of 2021 will be a challenge, with blend prices averaging about $2.50/cwt. lower than the first quarter of last year.

PROJECTED* BLEND PRICES – Base Zones – SOUTHEASTERN FEDERAL ORDERS

Month	Appalachian	Florida	Southeast
	($/cwt. at 3.5% butterfat – base zone)		
January 2021	$17.42	$19.26	$17.59
February	**$17.45**	**$19.59**	**$17.82**
March	**$17.66**	**$19.79**	**$18.19**
April	**$17.94**	**$20.21**	**$18.36**
May	**$18.46**	**$20.46**	**$18.69**
June	**$18.64**	**$20.80**	**$19.08**

*Projections in bold

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