

DIXIE DAIRY REPORT
August 2020

Cheese and butter prices move lower. During the past month, cheese prices at the CME moved steadily lower. The first full week of August saw the downward price decline pick up speed. Blocks declined \$0.5475/lb. and barrels \$0.7175/lb. during the week. All if the declined due to cheese sales. Closing prices on August 7 were blocks \$1,7050/lb. and barrels \$1.5175/lb. Cheese prices are back to year ago levels. Needless to say, “volatility” is the word to describe the cheese market over the past few months. On April 15 block cheddar was at \$1.00/lb. then two months later it set a record high of \$3.00/lb. and has declined since. Reasons for the downward price spiral include the “cheese pipeline” getting refilled, price resistance at higher prices, and more cheese. USDA’s August 3 *Dairy Products* report showed total June cheese production 3.5% higher than last June, and mozzarella production up 3.9%. *Dairy Market News* reports milk is readily available in the Midwest at prices \$2 -\$5.00/cwt. below class price. Looking ahead, we are optimistic for a rebound in cheese prices, at least to above year ago levels. Lower prices should rekindle demand, both domestic and export.

Now moving to the other three dairy products which establish milk prices. The CME butter price has declined for eight consecutive weeks. It closed at \$1.5300/lb. on August 7, and is over \$1.00/lb. lower than a year ago. Even though the butter inventory is declining, it is still almost 10% higher than a year ago. Cream is reported as plentiful. On a more positive note, nonfat dry milk powder (NDM) prices continue to inch up. The July DPSR price is \$0.9717/lb., up six cents from June. A weakening U.S. dollar is aiding powder exports, and inventory is slightly lower than last year. The volume of powder exported in May was a record high. All indicators point to the NDM price continuing to gradually move upward. The dry whey price continues to decline due to an abundance of product. At the end of June, the dry whey inventory was 23.6% higher than last June. It will take lower cheese production, and an improved market for higher valued whey products to reverse the dry whey price.

Higher blend prices. The July Class III price is \$24.54/cwt. but still short of the record price of \$24.60/cwt. set in September 2014. The July Class III price is almost \$10.00/cwt. higher than Class II and IV prices of \$13.79/cwt. and \$13.76/cwt., respectively. The July Class III price is higher than all federal order July Class I prices including the highest, Miami, at \$22.56/cwt. Advanced pricing and the new method of calculating the Class I Mover are why Class I prices are lower than Class III. As was in June, little Class III milk is expected to be pooled in July. For example, June saw only 1.9 million lbs. of Class III milk pooled in the Appalachian order compared to 37.2 million lbs. in June 2019.

As shown below, July blend prices in all orders are projected to increase about \$4.00/cwt. from June. Additional price increases are projected in August, with the largest increase in the Florida order. Blend prices are projected to decline in September, due to lower cheese and butter prices. For all of 2020, we project blend prices, in all three orders, to average about \$1.00/cwt. lower than June.

PROJECTED* BLEND PRICES – Base Zones – SOUTHEASTERN FEDERAL ORDERS

Month	Appalachian	Florida (\$/cwt. at 3.5% butterfat)	Southeast
June 2020	\$15.27	\$16.83	\$15.38
July	\$19.33	\$20.81	\$19.34
August	\$20.74	\$23.38	\$21.43
September	\$18.79	\$20.76	\$19.30
October	\$17.92	\$19.79	\$18.41
November	\$17.82	\$19.52	\$18.35

*Projections in bold

More milk nationwide, but less in the southeast. After being down 0.5% in May, June milk production was up 0.5%. May production was lower due to less milk per cow, while June production was higher due to more milk per cow. June cow numbers were 10,000 head lower than May, but still 23,000 more than last June. Of the 24 monthly reporting states, production was lower in ten states, but higher in 14 states. For the first half of 2020, average daily milk production is 1.2% higher compared to the same period in 2019. The Plains states, Northwest, and Southwest lead the way in producing more milk. In the Southeast states, first half of 2020 average daily production is down 1.1% which includes Florida down 1.3%, Georgia down 1.0%, and Virginia up 1.5%.

Up and down fluid milk demand. Due to the coronavirus and governments reacting by shutting down many segments of the economy, the first half of 2020 saw a higher than normal monthly change in fluid milk sales. Using federal order data for Class I producer milk as the measurement for fluid sales, the table below shows average daily Class I producer milk in the three southeastern federal orders by month. March saw fluid sales increase in all three orders, especially the Appalachian where Class I producer milk increased 12.5% in March compared to last March. The lower March increase in Florida, 3.3%, is most likely due to less tourism. Nationwide in all 11 federal orders, there was 7.5% more Class I producer milk this March compared to a year earlier.

After consumers stocked their refrigerators with fluid milk in March, fluid sales declined in April and May in the Florida and Southeast orders, but remained higher in the Appalachian order. June saw another large increase most likely due to fluid processors, wholesalers, retailers, etc. building inventory before the \$5.14/cwt. increase in the Class I Mover in July. Through the first six months of this year, average daily Class I producer milk is down 2.7% in Florida and down 5.7% in the Southeast orders, but up 4.8% in the Appalachian order. In all federal orders, Class I producer milk for the first half of 2020 is only 0.5% lower than a year ago. The best first half of the year for fluid milk sales in many years.

Looking ahead to the remainder of the year there are several factors which will impact fluid sales: schools and their reopening schedules, how much of higher raw milk prices will be added to retail prices, government dairy product purchases for donation programs, and how quick local and state governments allows businesses to reopen and at what capacity. All will impact how much fluid milk is sold, as well as all dairy product sales.

Southeastern Federal Orders Average Daily Class I Producer Milk (January-June) 2019 vs. 2020

<u>Order</u>	<u>January</u>	<u>February</u>	<u>March</u>	<u>April</u>	<u>May</u>	<u>June</u>	<u>Avg.</u>
	(million lbs.)						
<u>Florida</u>							
2019	6.43	6.23	5.96	6.09	5.70	5.18	5.93
2020	6.21	6.05	6.16	5.60	5.25	5.34	5.77
% change	-3.4%	-2.8%	3.3%	-8.1%	-7.8%	3.2%	-2.7%
<u>Southeast</u>							
2019	10.76	9.82	9.35	9.95	9.28	8.41	9.60
2020	9.66	8.95	9.89	8.95	8.29	8.53	9.05
% change	-10.3%	-8.8%	5.8%	-10.1%	-10.7%	1.4%	-5.7%
<u>Appalachian</u>							
2019	11.94	10.47	10.01	10.36	9.90	8.77	10.25
2020	11.13	10.39	11.26	10.59	10.25	10.76	10.73
% change	-6.8%	-0.7%	12.5%	2.2%	3.6%	22.6%	4.8%

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Southeastern Federal Orders' Packaged Fluid Milk Sales - Million lbs.													
<u>Florida</u>	<u>J</u>	<u>F</u>	<u>M</u>	<u>A</u>	<u>M</u>	<u>J</u>	<u>J</u>	<u>A</u>	<u>S</u>	<u>O</u>	<u>N</u>	<u>D</u>	<u>YTD</u>
2018	247	216	242	223	226	203	208	229	215	233	226	235	1,357
2019	246	219	234	230	222	199	209	228	207	229	225	227	1,350
2020	234	215	234	221	208	205							1,317
% change	-5.0%	-1.8%	0.1%	-3.8%	-6.5%	3.2%							-2.4%
<u>Southeast</u>													
2018	395	341	375	356	355	324	331	376	348	374	372	361	2,146
2019	386	325	341	345	334	306	327	366	339	362	352	346	2,037
2020	357	323	370	328	319	310							2,007
% change	-7.6%	-0.7%	8.6%	-4.9%	-4.4%	1.3%							-1.5%
<u>Appalachian</u>													
2018	298	252	277	261	269	249	253	273	261	277	279	268	1,606
2019	287	240	268	261	265	232	250	266.6	256	272	271	271	1,553
2020	280	252	299	272	275	268							1,645
% change	-2.4%	4.9%	11.7%	4.1%	3.6%	15.5%							5.9%
<u>Total all Three Orders</u>													
2018	940	809	894	840	850	776	792	878	824	884	877	864	5,109
2019	919	784	843	836	821	737	786	861	802	863	848	844	4,940
2020	870	789	904	821	801	783							4,969
% change	-5.3%	0.7%	7.2%	-1.8%	-2.4%	6.3%							0.6%

U.S. Estimated Fluid Milk Sales - million lbs.													
2017	4,260	3,791	4,228	3,840	4,062	3,746	3,697	4,022	4,013	4,136	4,130	4,134	48,059
2018	4,231	3,720	4,101	3,856	3,932	3,593	3,614	3,950	3,788	4,121	4,125	4,046	47,077
2019	4,210	3,648	3,909	3,857	3,902	3,446	3,620	3,889	3,756	4,042	4,008	3,953	46,240
% change	-0.5%	-1.9%	-4.7%	0.0%	-0.8%	-4.1%	0.2%	-1.5%	-0.8%	-1.9%	-2.8%	-2.3%	-1.8%

Southeast Federal Orders' Class I Utilization %													
<u>Florida</u>	<u>J</u>	<u>F</u>	<u>M</u>	<u>A</u>	<u>M</u>	<u>J</u>	<u>J</u>	<u>A</u>	<u>S</u>	<u>O</u>	<u>N</u>	<u>D</u>	<u>Avg.</u>
2018	82%	85%	85%	84%	85%	85%	81%	84%	82%	84%	85%	81%	83%
2019	86%	84%	82%	85%	86%	82%	83%	86%	80%	83%	82%	80%	83%
2020	86%	82%	82%	78%	82%	84%							82%
<u>Southeast</u>													
2018	73%	68%	65%	65%	68%	68%	74%	76%	75%	79%	78%	70%	69%
2019	76%	70%	65%	67%	66%	57%	70%	74%	73%	78%	77%	73%	70%
2020	71%	73%	66%	69%	68%	70%							70%
<u>Appalachian</u>													
2017	71%	69%	67%	66%	68%	67%	69%	72%	69%	75%	75%	67%	69%
2018	76%	72%	65%	66%	67%	63%	71%	73%	73%	75%	74%	70%	70%
2020	74%	70%	70%	71%	69%	83%							73%

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U.S. Milk Production - Million lbs.													
	<u>J</u>	<u>F</u>	<u>M</u>	<u>A</u>	<u>M</u>	<u>J</u>	<u>J</u>	<u>A</u>	<u>S</u>	<u>O</u>	<u>N</u>	<u>D</u>	<u>YTD Total</u>
2018	18,437	16,973	18,989	18,412	19,131	18,288	18,329	18,245	17,395	17,873	17,348	18,155	110,230
2019	18,612	16,966	18,845	18,433	19,058	18,225	18,375	18,267	17,595	18,135	17,506	18,365	110,139
2020	18,860	17,886	19,375	18,653	18,955	18,308							112,037
% change	1.3%	5.4%	2.8%	1.2%	-0.5%	0.5%							1.7%

U.S. Dairy Cows - 1,000 head													
2018	9,438	9,436	9,430	9,418	9,422	9,414	9,392	9,389	9,368	9,367	9,358	9,353	9,399
2019	9,354	9,352	9,333	9,332	9,333	9,327	9,315	9,318	9,333	9,347	9,345	9,343	9,336
2020	9,361	9,375	9,385	9,381	9,360	9,350							
Change	7	23	52	49	27	23							

Florida Milk Production - Million lbs.													
2018	220	211	233	217	223	201	188	180	163	170	182	193	1,305
2019	210	197	218	207	213	199	192	181	164	179	184	195	1,244
2020	215	205	216	205	213	187							1,241
Change %	2.4%	4.1%	-0.9%	-1.0%	0.0%	-6.0%							-0.2%

Georgia Milk Production - Million lbs.													
2018	161	150	168	157	156	141	143	139	129	135	140	147	933
2019	159	148	165	157	155	145	143	135	131	139	142	148	929
2020	161	152	166	155	152	143							929
Change %	1.3%	2.7%	0.6%	-1.3%	-1.9%	-1.4%							0.0%

Virginia Milk Production - Million lbs.													
2018	148	137	152	146	148	135	134	132	123	128	124	128	866
2019	132	121	134	131	133	122	118	117	114	119	117	124	773
2020	134	127	137	132	133	126							789
Change %	1.5%	5.0%	2.2%	0.8%	0.0%	3.3%							2.1%

Total above Three States* Milk Production - Million lbs.													
2017	529	498	553	520	527	477	465	451	415	433	446	468	3,104
2018	501	466	517	495	501	466	453	433	409	437	443	467	2,946
2020	510	484	519	492	498	456							2,959
Change %	1.8%	3.9%	0.4%	-0.6%	-0.6%	-2.1%							0.4%

* Florida, Georgia, and Virginia account for about two-thirds of the Southeastern States Milk Production
 These are the only three southeastern states USDA reports monthly milk production.