2018- SOUTHEAST DAIRY OUTLOOK

Georgia Milk Producers Association

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OBJECTIVES

- Provide you with information to help you better understand what is happening with milk prices.
- Provide my thoughts on milk demand and supply.
- Provide you with my forecast for 2018 blend prices.

Commercial Disappearance (Demand) – January-October

	2014	2015	2016	2017
	(Total Solids - million pounds)			
Domestic	19,005	19,605	20,004	20,177
% Change	**1.2%**	**3.2%**	**2.2%**	**0.7%**
Export	3,327	3,069	3,111	3,246
% Change	**2.7%**	**-7.8%**	**1.4%**	**4.3%**
Total Solids	22,332	22,674	23,155	23,423
% Change	**1.5%**	**1.5%**	**2.1%**	**1.2%**

Commercial Disappearance
Fat + Nonfat Solids

Year (January-October)	Fat (million lbs.)	Change Previous Year	Nonfat Solids (million lbs.)	Change Previous Year
2013	6,718	**3.2%**	15,295	**0.8%**
2014	6,847	**1.9%**	15,486	**1.2%**
2015	6,808	**-0.6%**	15,866	**2.5%**
2016	7,046	**3.5%**	16,109	**1.5%**
2017	7,222	**2.5%**	16,201	**0.6%**

Commercial Disappearance Domestic % and Export %

Year (January-October)	Domestic % (Total Solids Basis)	Export % (Total Solids Basis)
2013	**85.3 %**	**14.7%**
2014	**85.1%**	**14.9%**
2015	**86.5%**	**13.5%**
2016	**86.6%**	**13.4%**
2017	**86.1%**	**13.9%**

NFDM/SMP World Exports

Country	2015	2016	2017 (e)
		(million lbs.)	
European Union	1,526	1,265	1,673
New Zealand	906	882	893
Australia	443	364	375
Argentina	53	57	46
Canada	31	31	165
Total Foreign	3,358	3,093	3,534
United States	1,235	1,307	1,312
Total Export	4,592	4,400	4,846
U.S. %	**27%**	**30%**	**27%**
USDA: *Dairy Markets: World and Trade*			

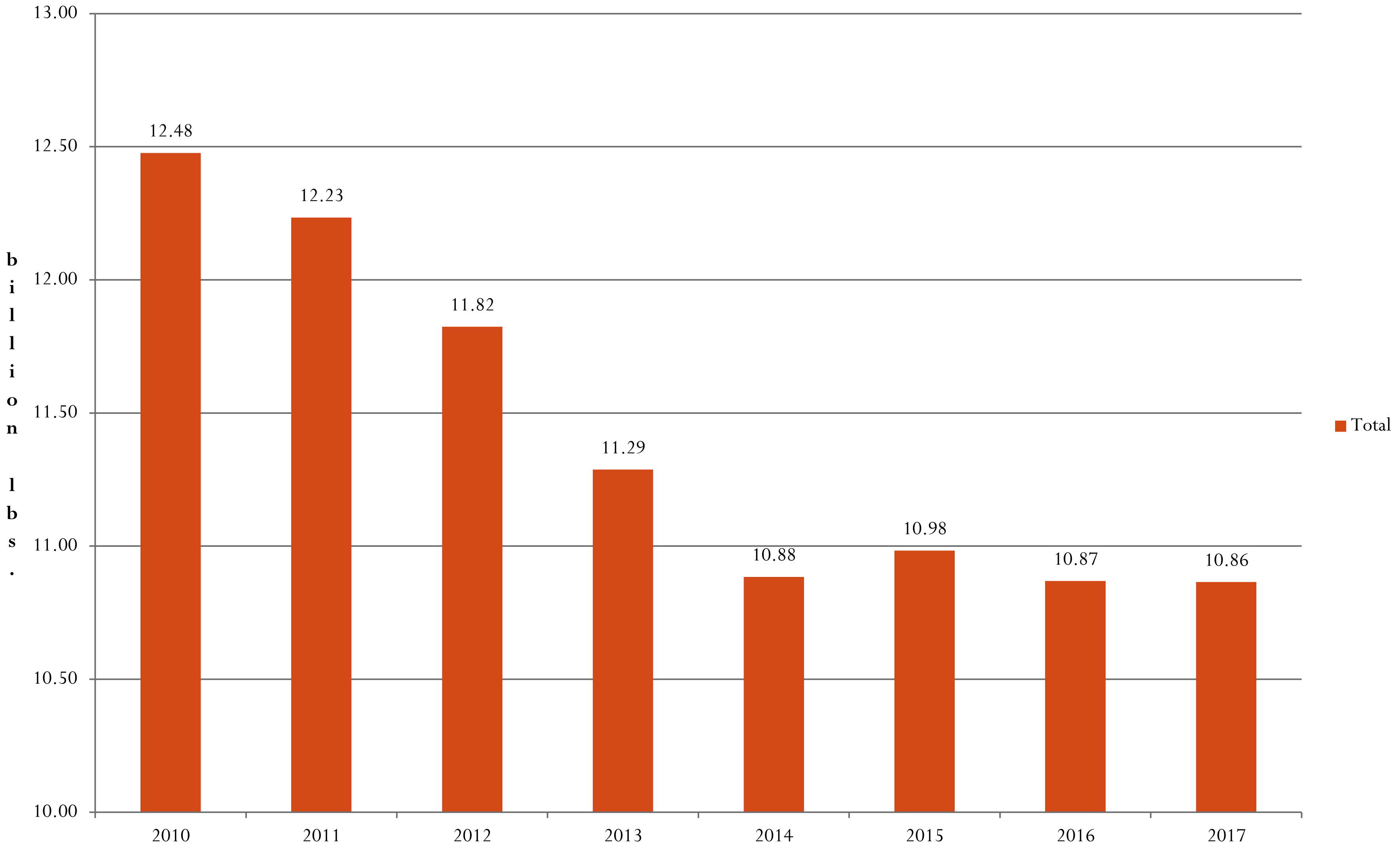
INVENTORY

Product	November 2016	November 2017	Change %
	(million lbs.)		
Butter	161	159	**-1%**
American Cheese	713	733	**+3%**
Nonfat Dry Milk Powder	224	328	**+46%**
Dry Whey	61	94	**+54**
Skim Milk Powder (EU)		800	

Southeast is a Fluid Milk Market

Federal Order	Class I %	Class II %	Class III & IV %
Appalachian	69%	16%	15%
Florida	83%	11%	6%
Southeast	70%	14%	16%
Total Southeastern Orders	**72%**	**14%**	**14%**
U.S.	**25%**	**12%**	**63%**

Class I Utilization (Demand)
Southeastern Federal Orders



Southeast Demand
Class I Utilization (billion lbs.)

Year	Appalachian	Florida	Southeast	Total
2013	4.15	2.60	4.54	11.29
2014	4.09	2.52	4.27	10.88
2015	4.19	2.49	4.30	10.98
2016	4.22	2.44	4.21	10.87
2017	4.36	2.36	4.14	10.86
Change since 2013	**5.1%**	**-9.2%**	**-8.8%**	**-3.8%**
Milk tankers	**+12**	**-14**	**-22**	**-24**

Competition in the Fluid Milk Case

- USDA study: Plant based beverages market share increased from:
  5.67% in 2013 to 7.63% in 2015.

- 126 different products in fluid milk case:
  87 milk based
  39 plant based

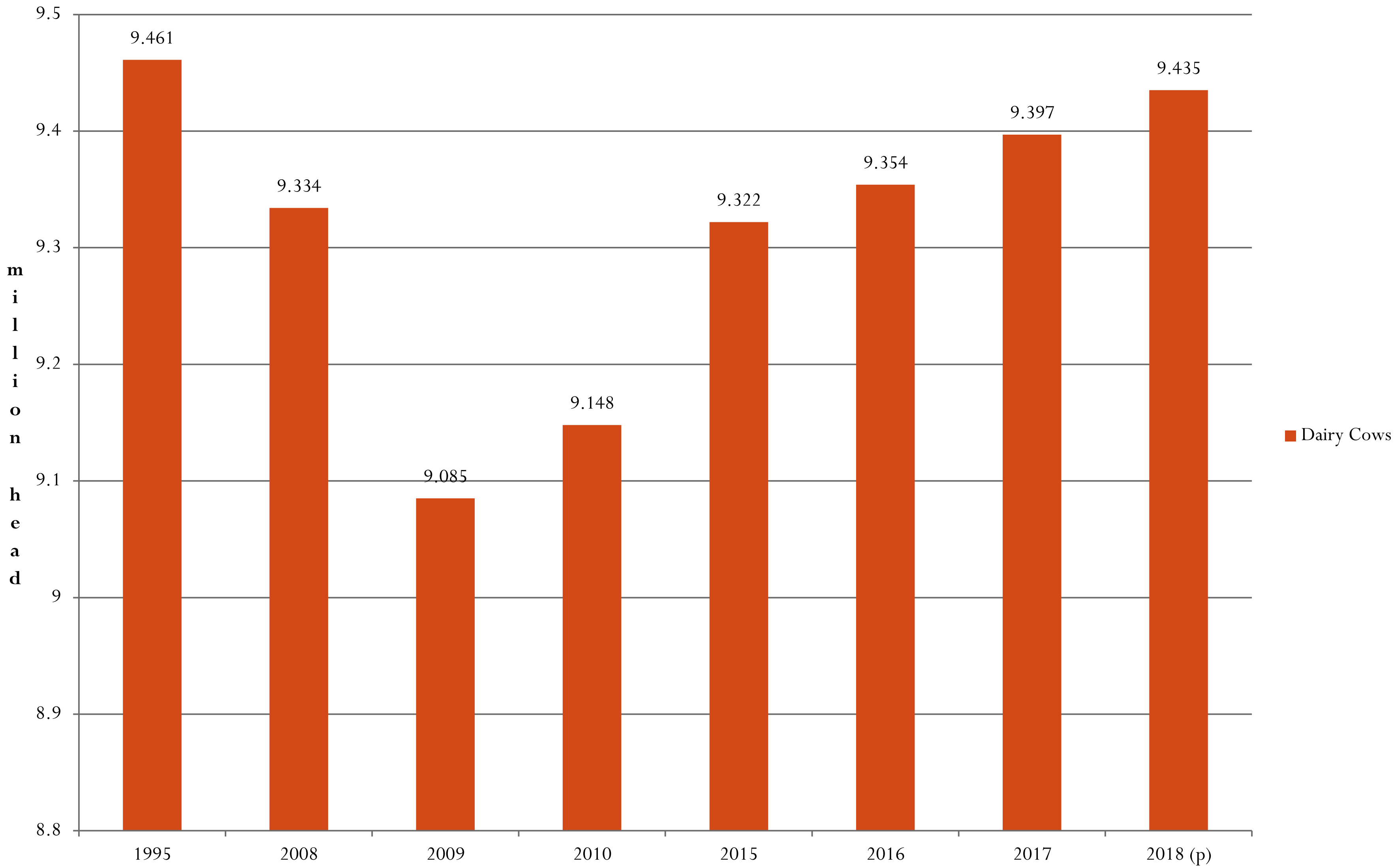
- Specialty Food Association – 2018 more plant based products

DEMAND – My Thoughts

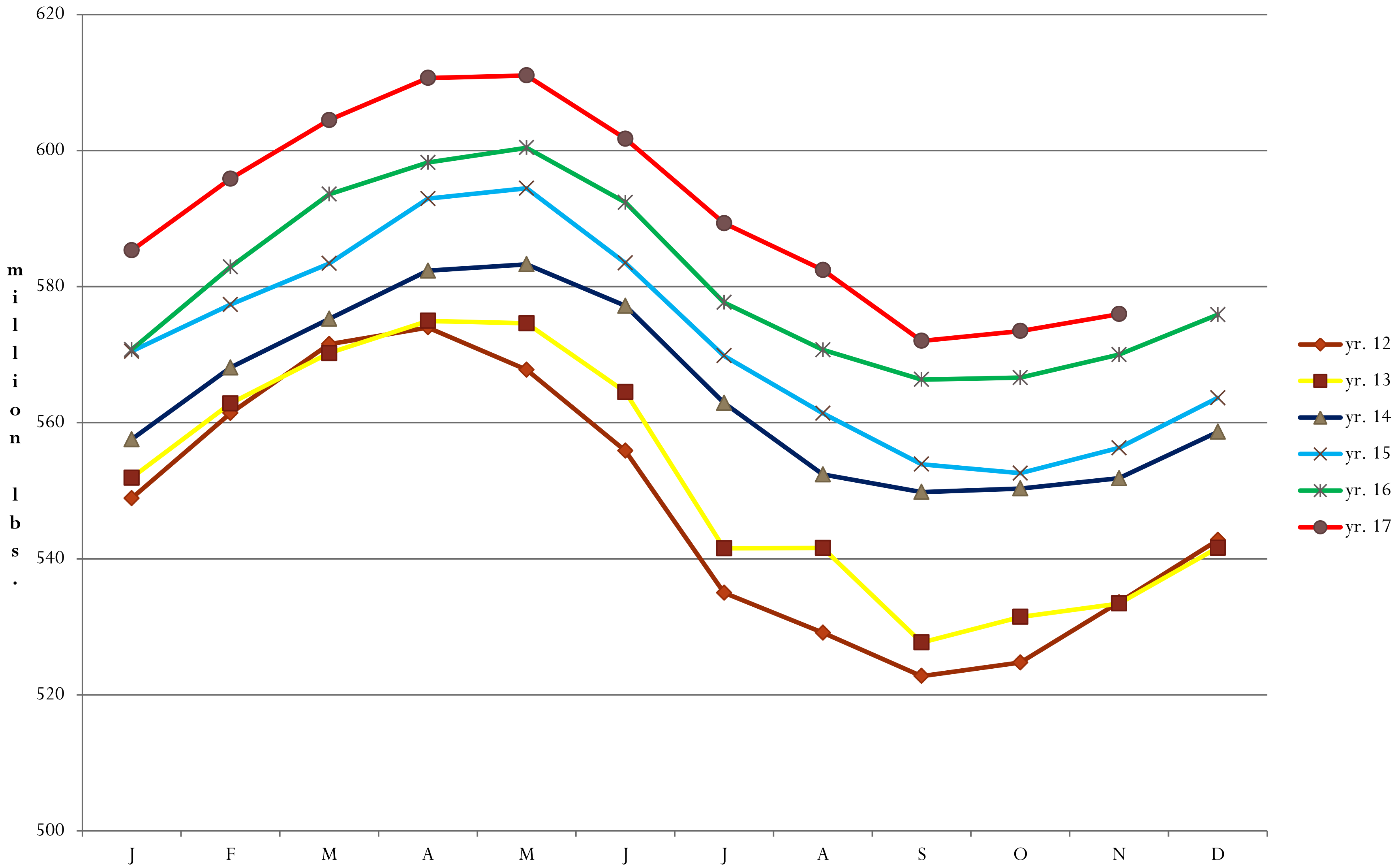
1. Domestic demand sluggish.
2. Competition – domestic and foreign.
3. Fat is driving demand.
4. Protein (powder + dry whey) inventories are a challenge.
5. Southeastern - overall fluid demand leveling off, but challenge in Florida.

<u>Current demand, alone, not strong enough to advance milk prices.</u>

Number of Dairy Cows
Selected Years (year-end)



Daily Milk Production by Month 2012-2017



Regional Milk Production

Region	2016 (January-September)	2017 (January-September)	Change %
	(million lbs.)		
Midwest	50,644	51,415	**1.5%**
California	30,569	29,982	**-1.9%**
Northwest	23,349	23,477	**0.5%**
Northeast	23,454	23,757	**1.3%**
Southwest	17,952	19,650	**9.5%**
Southeast	7,178	7,146	**-0.4%**
Plains	6,723	6,917	**2.9%**
Alaska + Hawaii	29	32	**9.3%**
Total	159,918	162,376	**1.5%**

State Production 2017 vs. 2016

State	2016 (January-September)	2017 (January-September)	Change %
	(million lbs.)		
Florida	**1,915**	**1,919**	**0.2**
Georgia	**1,391**	**1,406**	**1.1**
Virginia	**1,305**	**1,309**	**0.3**
Kentucky	796	784	-1.5
North Carolina	732	717	-2.0
Tennessee	531	524	-1.3
South Carolina	191	187	-2.1
Louisiana	134	123	-8.2
Mississippi	112	107	-4.5
Alabama	71	70	-1.4
Total	**7,178**	**7,146**	**-0.4**

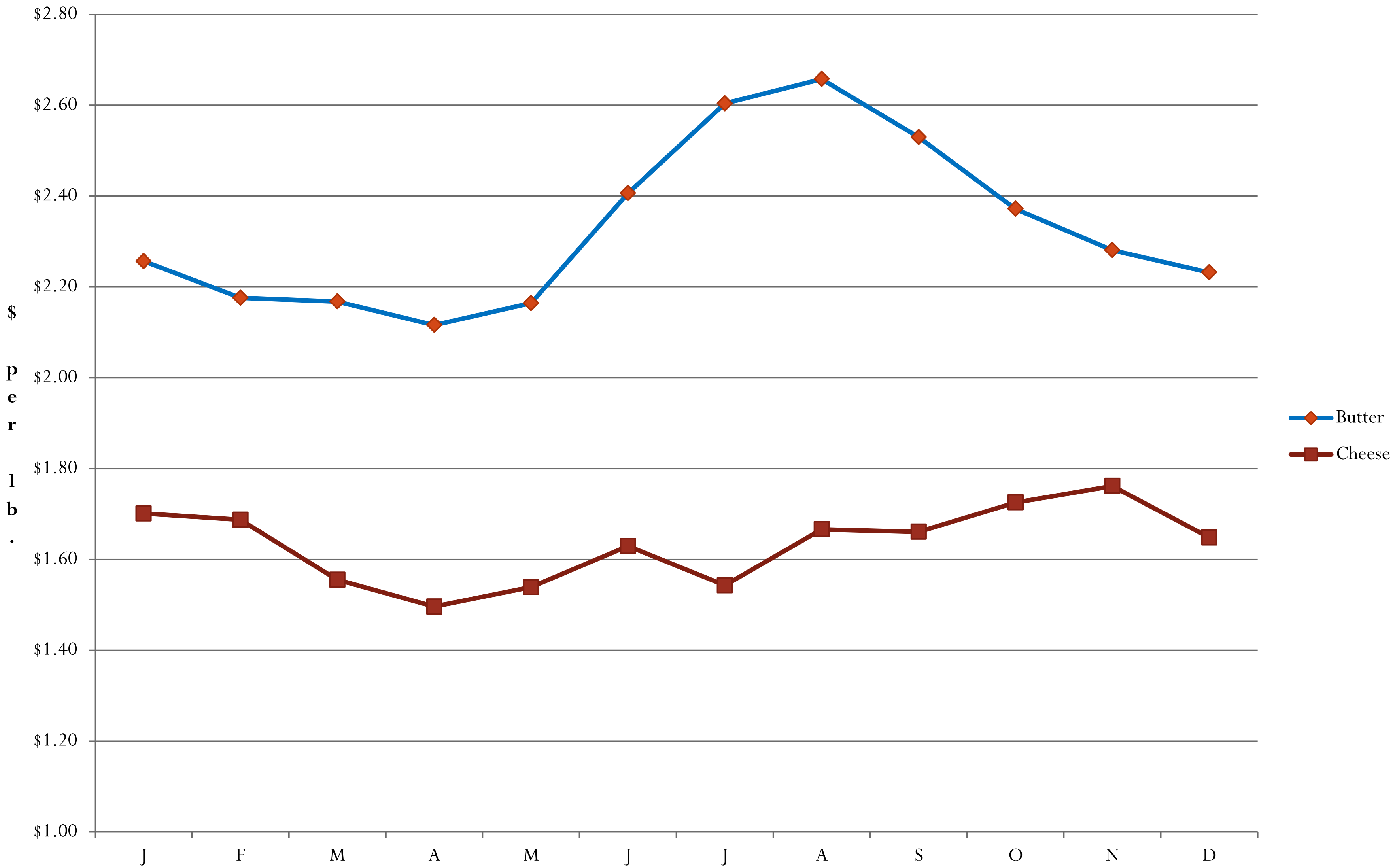
World Milk Production Increasing

Year	2017 (estimate) (trillion lbs.)	Change % Previous Year
2014	1.07	**3.8%**
2015	1.09	**1.8%**
2016	1.09	**0.2%**
2017 (projected)	1.10	**1.4%**
2018 (projected)	1.12	**1.8%**
Source: USDA: *Dairy Markets: World and Trade*		

MILK PRODUCTION

1. Cows numbers continue to increase.
2. Milk production increasing throughout the world.
3. U.S. milk production shifting back to east of the Rocky Mountains.
4. Production holding in the Southeast, but concentrated in Florida and Georgia.
5. USDA projects 2018 milk production +1.4%

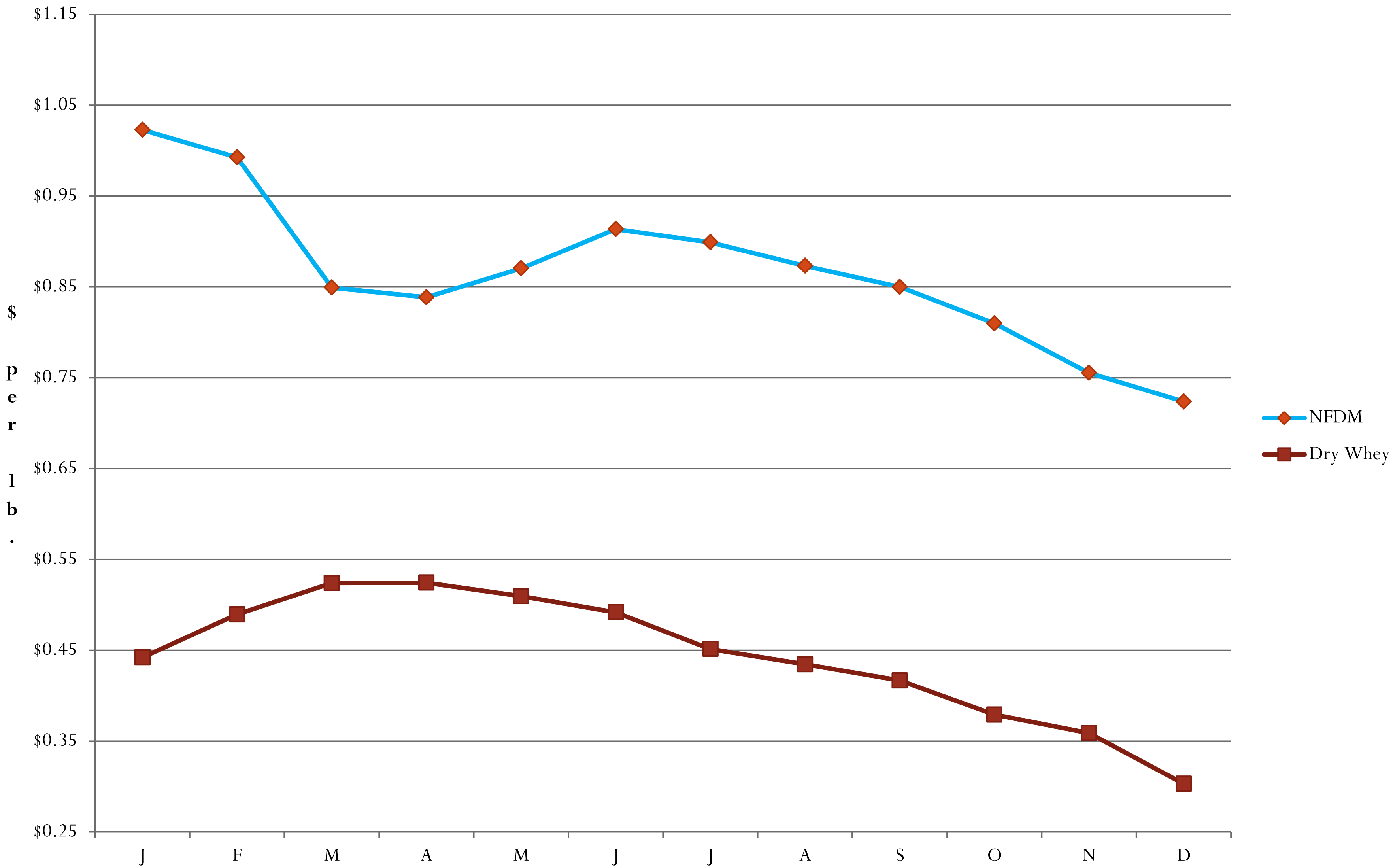
DPSR Butter and Cheese 2017 Monthly Average Prices



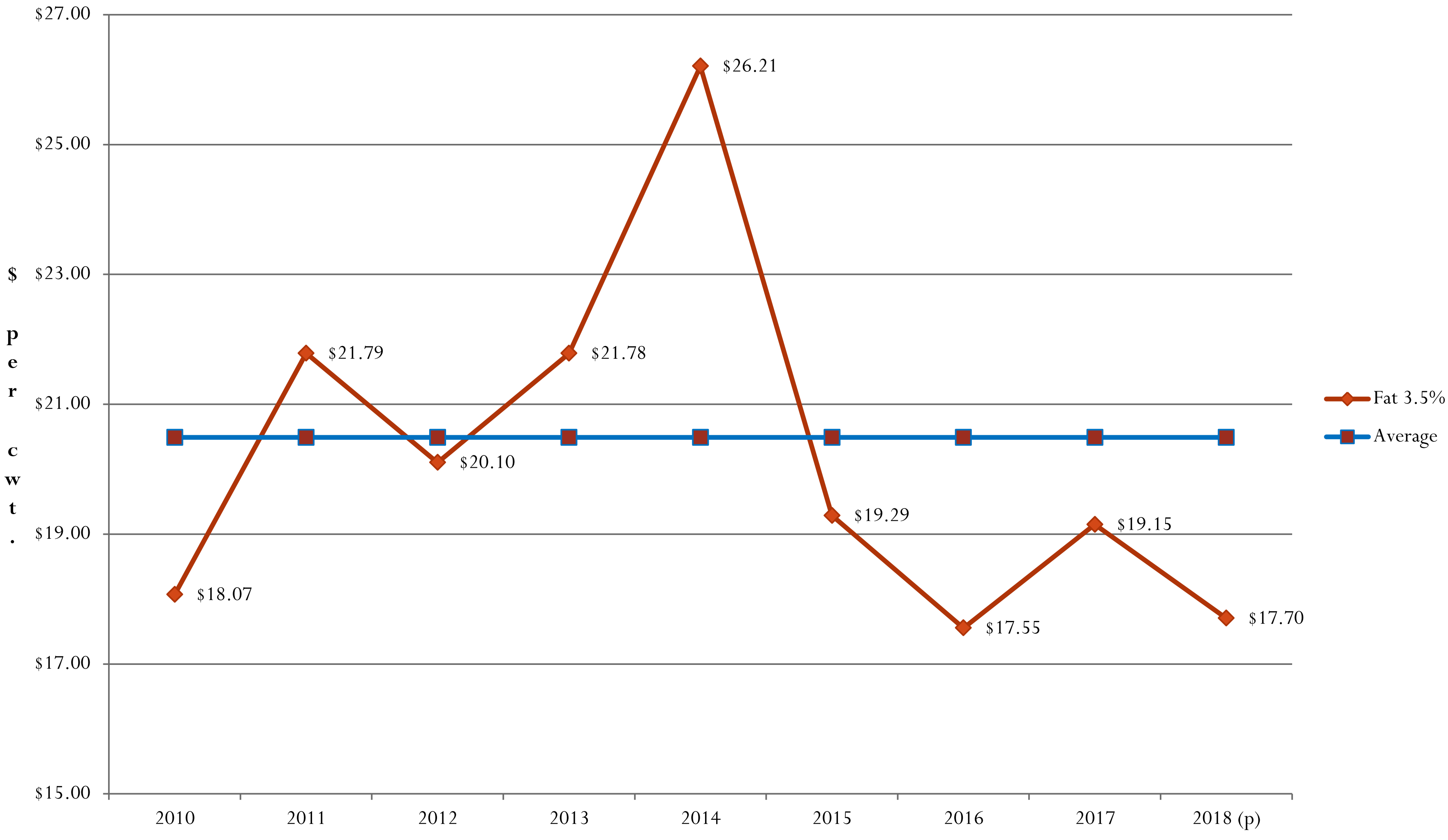
CME Cheese and Butter -2018

Date	Block Cheddar	Barrel Cheddar	Butter
		($/lb.)	
January 1, 2018	$1.5400	$1.4425	$2.2075
January 16	$1.4675	$1.2750	$2.1600
Change	-$0.0725	-$0.1675	-$0.0475

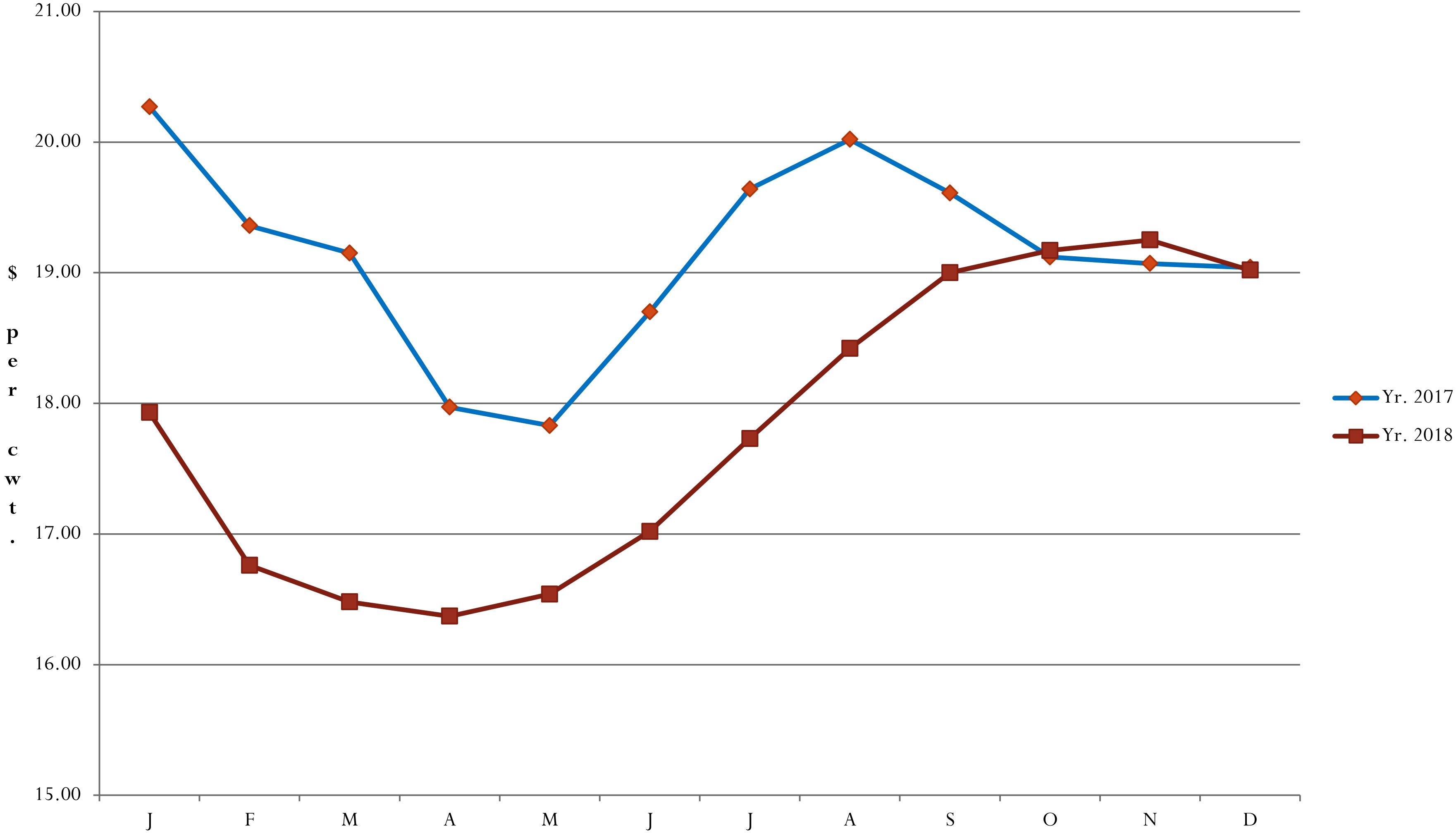
DPSR Nonfat and Dry Whey 2017 Monthly Average Prices



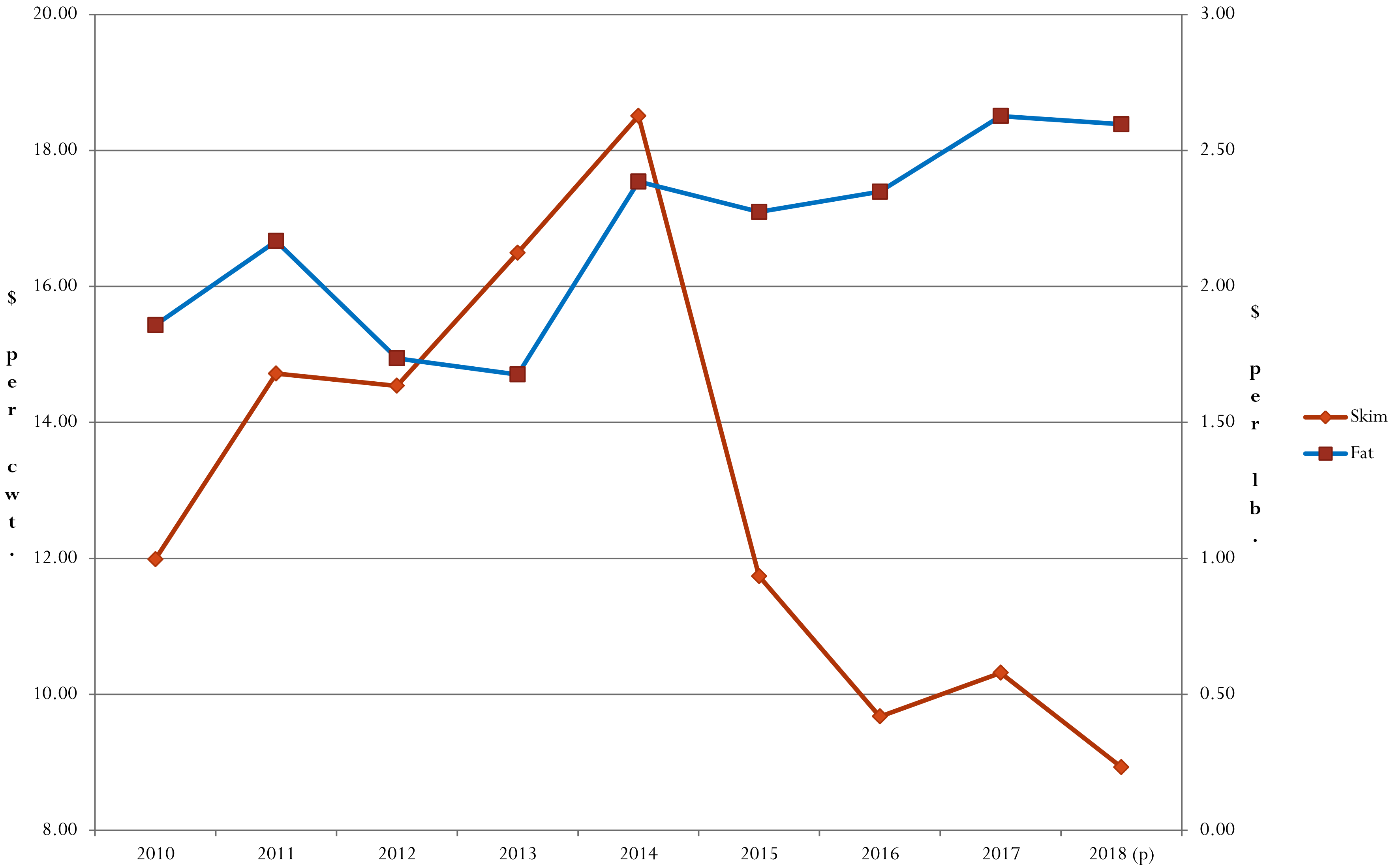
Southeast Federal Order Annual Blend Prices base zone -3.5% fat



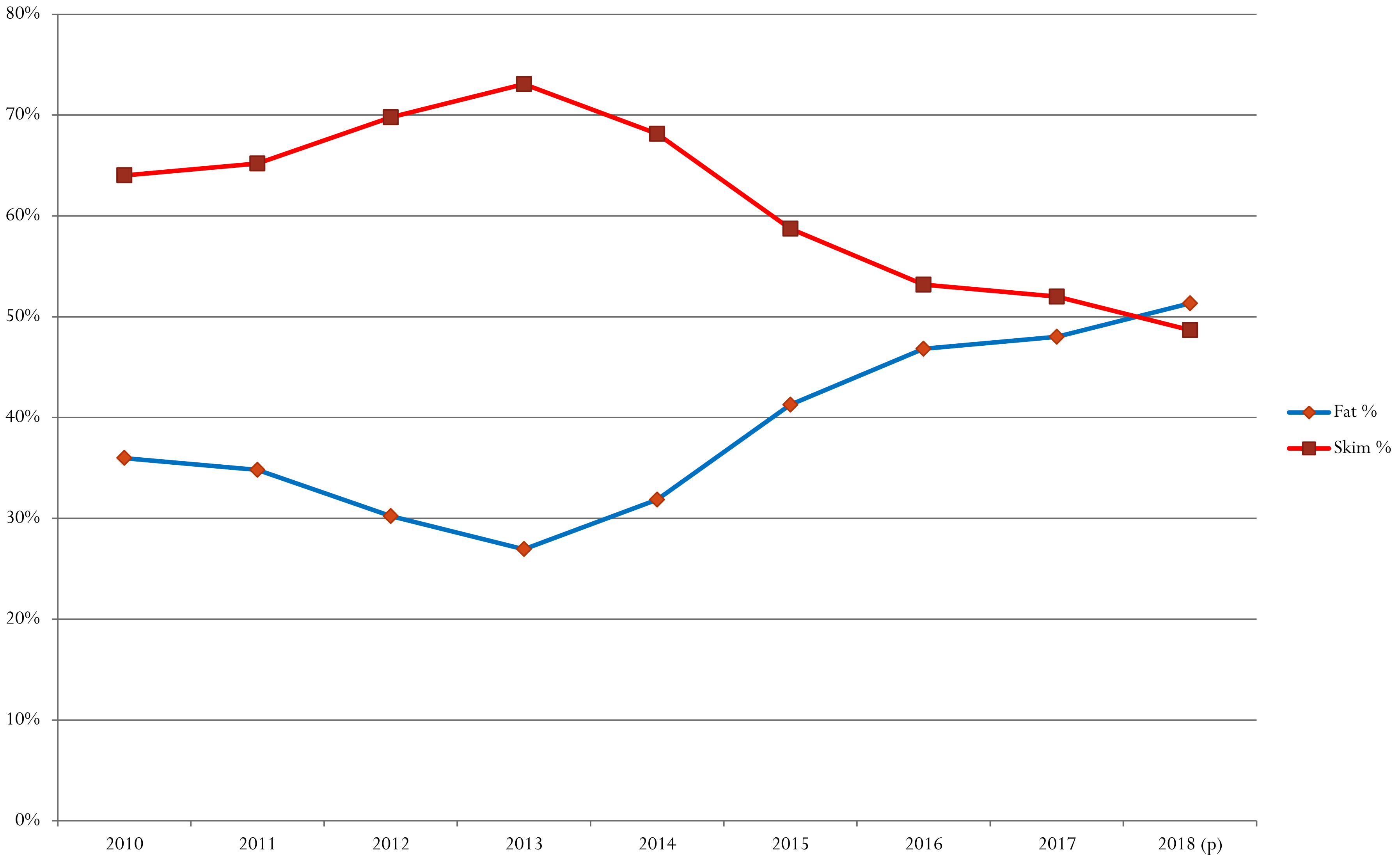
Southeast Federal Order 2017 actual and 2018 projected blend prices (base zone - 3.5%)



Southeast Order
Annual Skim and Fat Prices (blend)



Southeast Federal Order
Fat and Skim Percent of Blend Price (3.5%)



FEDERAL ORDER BLEND @ test minus MAILBOX PRICE

Year	Appalachian ($cwt.)	Florida ($/cwt.)	Southeast ($/cwt.)
2010	-$0.22	-$0.89	-$0.04
2011	-$0.43	-$0.97	-$0.33
2012	-$0.61	-$1.09	-$0.55
2013	-$0.51	-$0.79	-$0.59
2014	-$0.51	-$0.99	-$0.72
2015	-$1.01	-$1.96	-$1.56
2016	-$1.02	-$2.27	-$1.78
2017 (January-September)	-$1.53	-$2.34	-$2.15

Milk Prices

1. Southeastern federal order 2018 blend prices - $1.50/cwt. lower than 2017.

2. Almost all decline in skim – fat price holding.

3. Fat most valuable portion of milk.

4. Mailbox prices decline more than federal order blend price.

5. Optimism – domestic demand improve – milk price better than projection.