

2004 MID-YEAR REVIEW

The Big Picture

For the first six months of 2004, the California dairy industry continued the overall trend of increased milk production and total number of milk cows. The industry finally felt some relief from the previous year's low farm prices, as farm prices steadily increased to an all-time record high in June. However, the second half of 2004 started with the farm prices beginning a downward trend. The record high prices of June and July contributed to slow retail and commercial sales of dairy products, and more milk was diverted to ice cream and cheese production. For four of the first six months of 2004, California recorded milk production over three billion pounds and compared to the same period in 2003, California milk production is up 1.3 percent. For the U.S. overall, for January-June 2004 compared to the same period in 2003, milk production is up 0.1 percent, cow numbers have decreased by 90,000, and average production per cow is up 250 pounds per cow. For the third quarter of 2004, compared to 2003, USDA projects that U.S. production will be at the same level.

Dairy Products

California continues to lead the nation in the production of market milk, butter, and nonfat dry milk, producing an estimated 21, 29, and 46 percent, respectively, of the nation's total production. As in 2003, this year continues the steady growth of cheese production with California producing 21 percent of the nation's total cheese. If the current trend in cheese production continues, California could produce a record 1.98 billion pounds of total cheese by year-end, an 8.0 percent increase over last year's record 1.8 billion pounds. The year 2003 recorded a decrease of 4.8 percent in butter production, and the first six months of this year have continued this trend with butter production down 6.4 percent from the same period last year. Nonfat dry milk production continued to decline for the first six months of 2004, with production down 0.2 percent compared to the same period last year.

When compared to the same period in 2003, utilization of milk in California for the first six months of this year declined 0.7 percent. Class 4a and 4b products accounted for 75 percent of all California dairy products for January-June 2004 on a total solids basis.

Milk Prices

As has been said many times before, what a difference a year makes! The low milk prices that dominated discussions in the dairy industry for most of 2003 are now just a distant memory. Given the current pricing environment, it does not seem conceivable that in 2003, the overbase price was below \$10 per hundredweight for six consecutive months. The "window" of prices from 2003 through 2004 provides just another example of how milk prices can and do move both up and down rapidly. It also shows that the volatility in milk prices is tied to the inherent instability realized in dairy commodity markets and not to adjustments to California's milk pricing formulas. In other words, the same pricing formulas that resulted in \$10 per hundredweight milk a year ago are the same ones that are now giving prices in the \$15 to \$17 per hundredweight range.

Transportation Issues

On August 4, 2004, the Department will be holding a public hearing to receive testimony regarding transportation issues in the dairy industry. It has been only one year since the last transportation hearing, a reflection of the dynamic landscape of the California dairy industry. Much of the discussion regarding milk movement has focused on the continuing evolution of Southern California from a significant milk producing region to a highly urbanized region. While the dairy industry in Southern California has been shrinking for years, the rate of dairies exiting Southern California has increased significantly recently. For example, during the first five months of 2004, milk production in Southern California has decreased by 15 percent when compared to the prior year. In contrast, milk production decreased by less than 8 percent during the same time period in 2003. With nearly two-thirds of the state's population in the Los Angeles basin and a full complement of plants to supply dairy products to that population, it will become increasingly important to move milk to those processing facilities by means that are efficient, orderly, sustainable, and predictable.

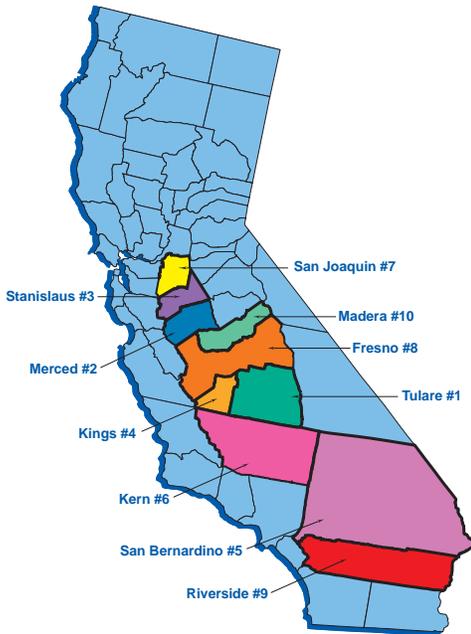


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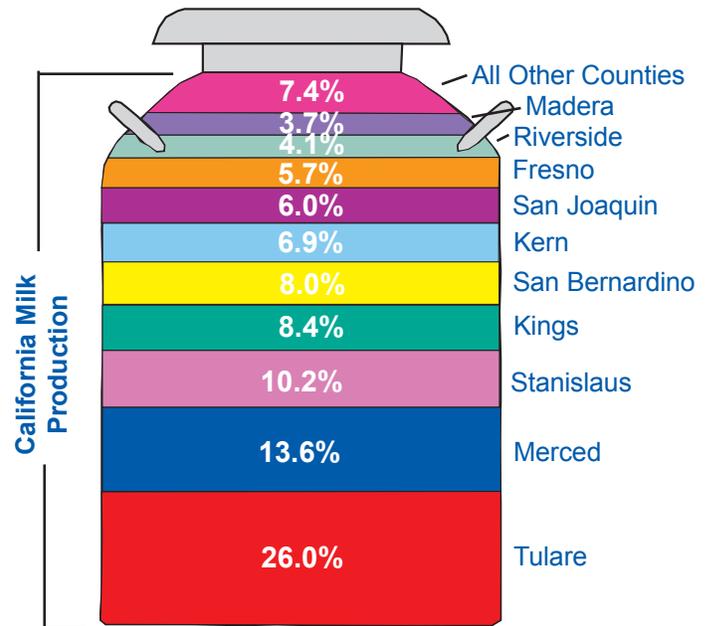
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CALIFORNIA MILK PRODUCTION

Top Ten Counties in Milk Production



Percent Share of California's Milk Production, January-June 2004



County (By Rank)	Milk Production Jan-June 2004 (In Pounds)	% Change from 2003
Tulare	4,733,474,500	0.85%
Merced	2,480,287,692	2.11%
Stanislaus	1,845,717,174	2.97%
Kings	1,533,135,434	3.48%
San Bernardino	1,449,725,775	-16.79%
Kern	1,251,322,511	25.35%
San Joaquin	1,089,065,004	1.36%
Fresno	1,043,624,483	8.00%
Riverside	738,962,027	-16.55%
Madera	668,123,540	21.52%

Production Notes, January-June 2004:

- The top ten counties accounted for 93% of California's total milk production and 22% of the nation's total milk production.
- For the top ten counties, in comparison to the same period in 2003, Kern County recorded the largest increase in milk production at 25.4%, and San Bernardino and Riverside counties showed the greatest decreases in milk production at -16.8% and -16.6%, respectively.
- Compared to the same period last year, San Bernardino County dropped from ranking 4th to ranking 5th in milk production, and Riverside County dropped from ranking 8th to ranking 9th in milk production.
- The milk production of Tulare, Merced, Stanislaus, Kings, and San Bernardino counties accounted for 16% of total U.S. production.

California Commercial Production of Market and Manufacturing Milk January-June, 2003 vs. 2004 (In Thousand Pounds)

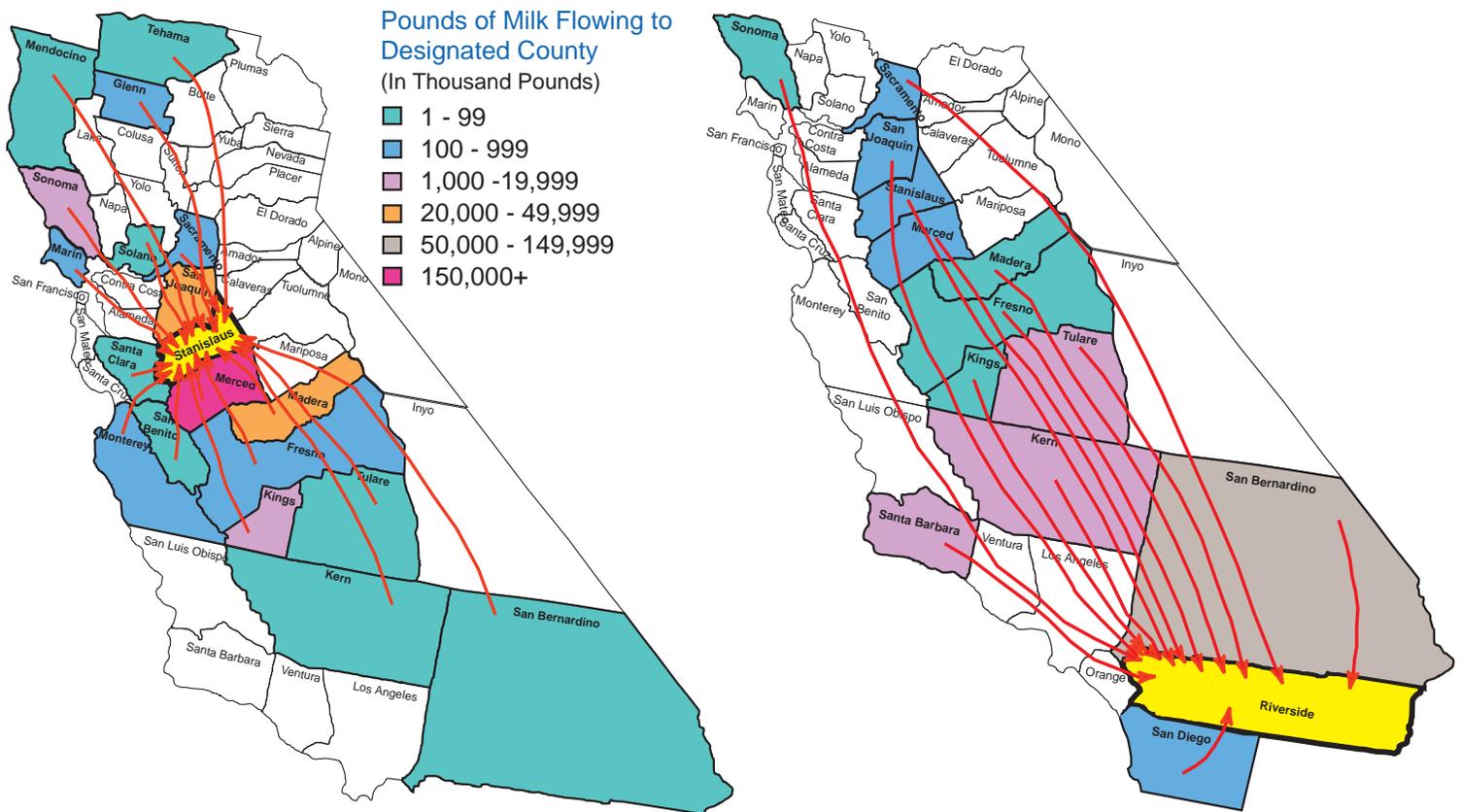
Month	Market Milk			Manufacturing Milk			Total Milk Production		
	2003	2004	% Change	2003	2004	% Change	2003	2004	% Change
January	2,966,537	2,950,802	-0.5	22,299	42,630	91.2	2,988,836	2,993,432	0.2
February	2,748,948	2,815,802	2.4	18,592	40,640	118.6	2,767,540	2,856,045	3.2
March	3,082,279	3,058,918	-0.8	25,387	40,834	60.8	3,107,666	3,099,752	-0.3
April	3,004,747	3,027,406	0.8	23,649	42,638	80.3	3,028,396	3,070,044	1.4
May	3,064,138	3,092,397	0.9	25,685	51,614	100.9	3,089,823	3,144,011	1.8
June	2,943,488	2,970,852	0.9	27,615	49,844	80.5	2,971,103	3,020,696	1.7
Jan-June Totals	17,810,137	17,915,780	0.6	143,227	268,200	87.3	17,953,364	18,183,980	1.3

NET MILK AVAILABLE / MILK MOVEMENT

Net Milk Available in California In Thousand Pounds, January-June, 2000-2004

Year	Production Entering California	Production Leaving California	California Milk Production	Net Milk Available
2000	291,683	146,187	16,192,536	16,338,032
2001	409,301	151,199	16,527,272	16,785,374
2002	601,210	286,287	17,490,758	17,805,681
2003	634,164	335,284	17,953,364	18,252,244
2004	730,164	139,284	18,183,980	18,774,473

Grade A Milk Movement to Stanislaus and Riverside Counties, May 2004



California Grade A Ranch-to-Plant Milk Movement Selected Counties, May 2004

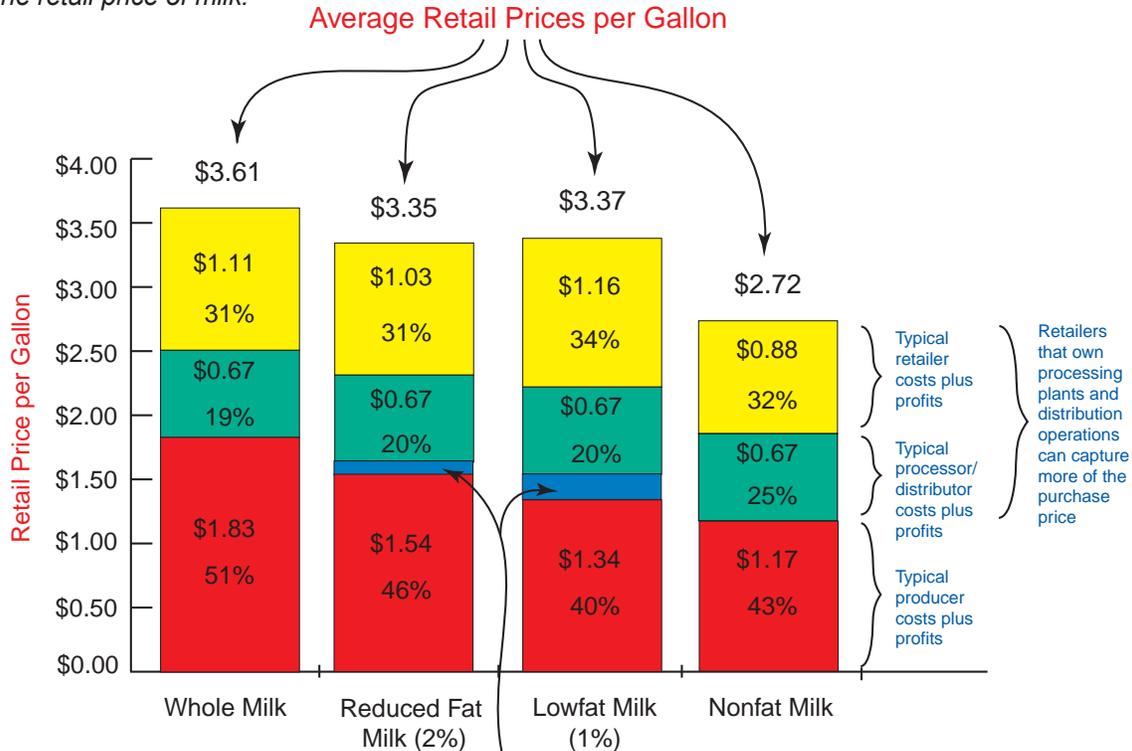
County	% of County's Milk Production Shipped to Other Counties	Maximum Distance Milk Shipped to Other Counties (In Miles)	Number of Counties Milk Shipped To	% of State's Total Milk Production Processed in This County
Tulare	25%	420	9	26%
Stanislaus	50%	400	7	13%
Merced	44%	365	11	16%
Kings	56%	300	7	8%
Fresno	34%	310	7	8%
Riverside	57%	280	5	5%

CONSUMER MILK DOLLARS / RETAIL PRICES

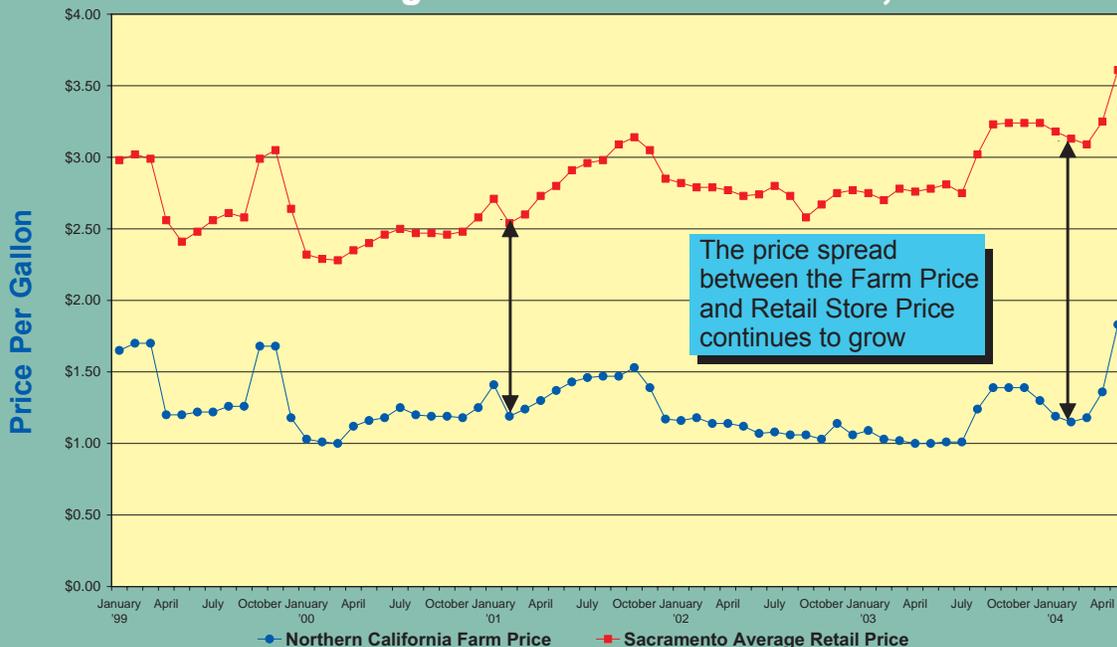
Where Do Consumer's Milk Dollars Go?

Sacramento, May 2004

Under both California and federal milk marketing orders, minimum farmgate prices are regulated, but retail prices are not. Consumers often assume that most of their milk dollar goes to dairy farmers. The chart below shows that farmers receive about half of the retail price of milk.



Comparison of Northern California Class 1 Farm Price and Sacramento Average Retail Price - Whole Milk, 1999-2004

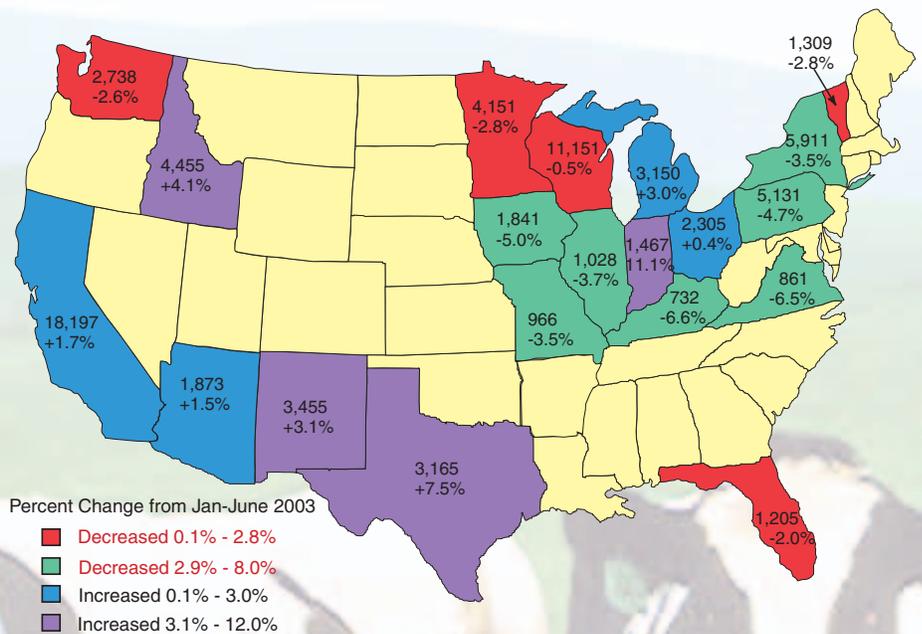


U. S. MILK PRODUCTION

U.S. Milk Production (In Million Pounds) Top 20 Reporting States: January-June 2004 Percent Change from Same Period in 2003

In the Top Twenty States:

- U.S. milk production in the top twenty reporting states for January-June 2004, showed an overall 0.02% decrease compared to the same period in 2003.
- These top twenty reporting states produced 86.9% of the nation's total milk production.
- The strongest increase in milk production was recorded by Indiana (+11.1%).
- Twelve of the top twenty milk producing states reported decreases in production with Kentucky showing the largest decrease (-6.6%).



U.S. Total Milk Cows (Per 1,000 Head) Top 20 Reporting States, June 2004 Percent Change is June 2004 vs. June 2003

In the Top Twenty States:

- U.S. total milk cows in the top twenty reporting states for January-June 2004, showed an overall 0.4% decrease compared to the same period in 2003.
- The strongest increase in the number of cows was recorded by Idaho (+5.2%); while the biggest decrease in the number of cows was recorded by Virginia (-12.8%).
- Twelve of the top twenty milk producing states reported a decrease in the number of cows.
- The top twenty milk producing states accounted for 86 percent of the nation's total milk cows.

