

U.S. MILK PRODUCTION/COWS • CALIFORNIA MILK PRODUCTION • NET MILK AVAILABLE • CALIFORNIA FARMS • CONSUMER MILK DOLLARS/RETAIL PRICES



**Mid-Year
Review
2008**



2008 Recap

For the first six months of 2008, California continued to record increased milk production for each month compared to the previous year. Milk production in California reflected an average growth rate of 3.2 percent for the first six months of 2008, compared to the 12-month average growth rate in 2007 of 4.8 percent. For each of the first six months of 2008, California recorded milk production well over three billion pounds. Overall, U.S. and California milk production recorded increases each month compared to 2007, and at times, plants across the country (including California) scrambled for plant capacity to handle the increasing milk supply. For the U.S. overall, June 2008 USDA reports indicate that compared to 2007, milk production was up 3.0 percent, cow numbers increased by 133,000, and average production per cow was up 26 pounds per cow. The strong demand for U.S. dairy products, particularly world demand, kept the prices paid to dairy producers consistent with 2007. The principal suppliers of dairy commodities on the World Market continued to have insufficient supplies available to satisfy the world demand, thus the strong demand for whey protein and whey products continued.

Dairy Products

Through June of 2008, California dairy product growth was focused on the butter and powder products, with total cheese production down from 2007 totals. The world demand for milk protein products (such as skim

milk powder and whey products) has helped fuel the U.S. production of these products. For California production, compared to 2007, the first half of 2008 recorded increases of 16.0 percent in butter production, and 5.5 percent in nonfat dry milk production (not including the skim milk powders and whey protein concentrates). In addition, for January-June 2008, Class 1 sales of fluid milk in California showed no change compared to the same period in 2007.

Milk Prices

In mid-2007, rising commodity prices drove milk prices to record levels that lasted through the year, ending the low milk prices from 2006. Except for the month of June, the first six months of 2008 recorded higher prices paid to producers compared to 2007. For the first six months of 2008, the average price paid to California producers was \$17.47 compared to \$15.48 for the first six months of 2007. The return to higher milk prices reflects the commercial demand for milk and dairy products outpacing the milk supply (even though total milk production has surpassed last year levels). Commercial demand for dairy products has been steady, and the global economies and markets continue to fuel increases in U.S. dairy product export sales. Australia and New Zealand continue to have drought issues and their dairy production has not played the major role in the dairy export market as in years passed (although milk production in Australia has started to rebound). The dramatic increase in dairy product exports, coupled

with the demand of the emerging global markets, continues to play a role in the U.S. dairy supply/demand balance. Currently the U.S. dairy industry is experiencing a supply shortage relative to total commercial demand . . . resulting in increased dairy commodity prices and higher milk prices. USDA is predicting that milk prices will remain higher for most of 2008.

Hearings and Related Issues

No hearings took place in the first six months of 2008, however the Department held a public hearing on July 1, 2008, to consider changes in the transportation allowances as provided in the Pooling Plan for Market Milk (Pool Plan), changes in the transportation credits as provided in the Stabilization and Marketing Plans for Market Milk for the Northern California and Southern California Marketing Areas (Stab Plan), and technical amendments to the Pool Plan. All hearing related information can be found on the Dairy Marketing Branch website at: www.cdffa.ca.gov/dairy (go to Hearings).

On June 19, 2008, the U. S. Department of Agriculture issued a tentative final decision to amend the Class III and Class IV product price formulas in all Federal milk marketing orders. The decision would adopt the following manufacturing cost (make) allowances: cheese, \$0.2003 per pound; butter, \$0.1715 per pound; NFD, \$0.1678 per pound; and dry whey, \$0.1991 per pound. This decision also proposes to increase the butterfat yield factor of the butterfat price formula from 1.20 to 1.211.



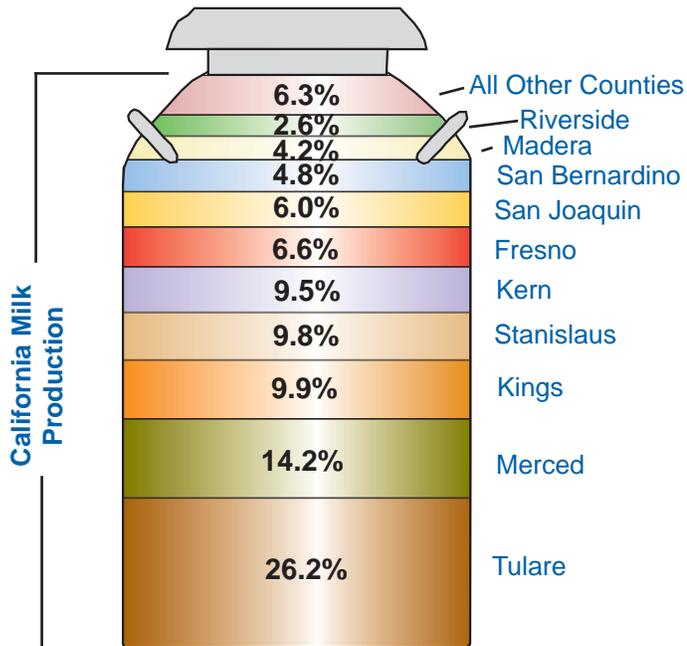
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CALIFORNIA MILK PRODUCTION



Percent Share of California's Milk Production, January-June 2008



County (By Rank)	Milk Production Jan-June 2008 (In Pounds)	% Change from 2007
Tulare	5,499,308,678	2.90%
Merced	2,981,925,233	6.07%
Kings	2,063,967,118	6.69%
Stanislaus	2,061,923,901	2.07%
Kern	1,982,348,893	2.58%
Fresno	1,381,633,848	1.56%
San Joaquin	1,253,547,047	4.96%
San Bernardino	998,781,600	0.68%
Madera	878,050,746	8.74%
Riverside	547,371,810	-16.11%

California Commercial Production of Market and Manufacturing Milk January-June, 2007 vs. 2008 (In Thousand Pounds)

Month	Market Milk			Manufacturing Milk			Total Milk Production		
	2007	2008	% Change	2007	2008	% Change	2007	2008	% Change
January	3,277,174	3,432,711	4.7%	87,159	59,662	-31.5%	3,364,333	3,492,374	3.8%
February	3,062,928	3,268,724	6.7%	82,081	56,715	-30.9%	3,145,009	3,325,439	5.7%
March	3,455,090	3,573,021	3.4%	95,620	63,614	-33.5%	3,550,710	3,636,635	2.4%
April	3,351,328	3,445,127	2.8%	94,050	63,779	-32.2%	3,445,377	3,508,906	1.8%
May	3,373,818	3,517,344	4.3%	98,334	63,827	-35.1%	3,472,152	3,581,171	3.1%
June	3,240,183	3,354,527	3.5%	97,663	59,040	-39.5%	3,337,846	3,413,567	2.3%
Jan-June Totals	19,760,521	20,591,454	4.2%	554,906	366,638	-33.9%	20,315,427	20,958,092	3.2%

Net Milk Available in California In Thousand Pounds, for January-June, 2003-2008

Year	Production Entering California	Production Leaving California	California Milk Production	Net Milk Available
2003	634,164	335,284	17,953,364	18,252,244
2004	730,164	139,284	18,183,980	18,774,473
2005	639,799	161,063	18,793,595	19,272,331
2006	597,215	194,183	19,591,176	19,994,209
2007	526,398	205,156	20,315,427	20,636,669
2008	414,379	235,055	20,958,092	21,137,416



The Size of California's Dairy Farms, May 2008

Range of Milk Marketings	Number of Grade A & B Farms (Arrows Indicate Difference from May 2007)	Percent of Total Grade A & B Farms	Percent of Total Grade A & B Milk Marketings
 > 5.0 Million Lbs.	↑ 152	8.14%	30.34%
 2.4 to 4.9 Million Lbs.	↑ 324	17.34%	30.98%
 1.5 to 2.3 Million Lbs.	↓ 319	17.08%	17.17%
1 to 1.4 Million Lbs.	275	14.72%	9.62%
750,000 to 999,999 Lbs.	↓ 203	10.87%	5.03%
500,000 to 749,000 Lbs.	↓ 218	11.67%	3.79%
250,000 to 499,000 Lbs.	↓ 233	12.47%	2.47%
< 249,000 Lbs.	↓ 144	7.71%	0.59%

 = Farms producing at least one tanker load of milk per day

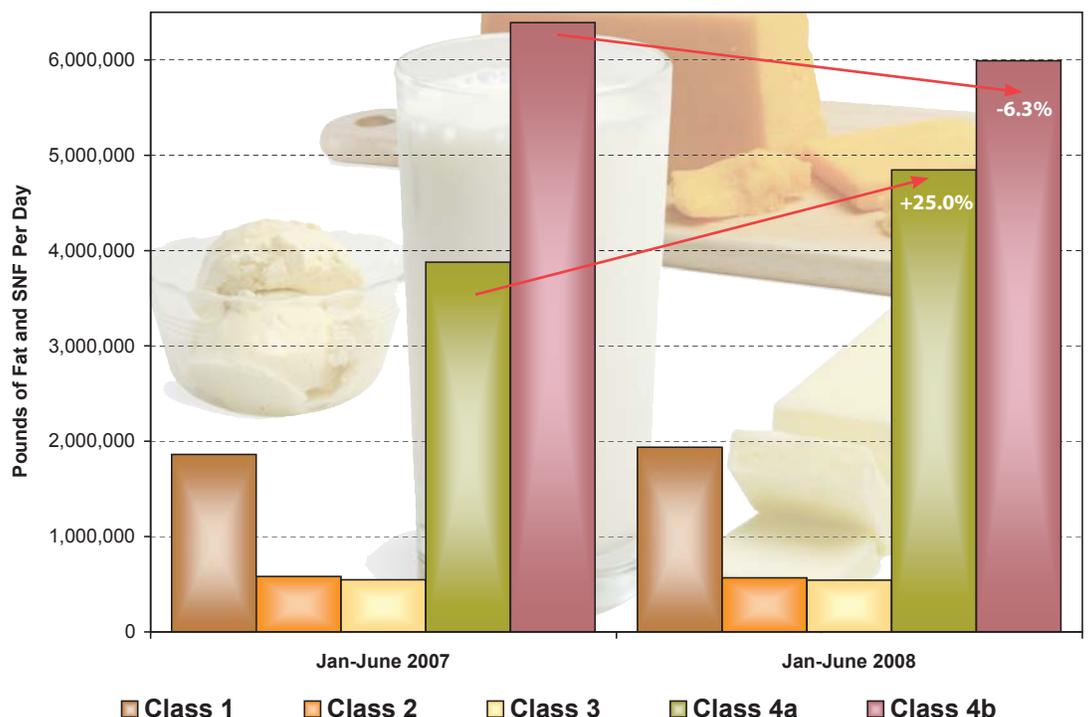
California Farms by Size, Comparison

- The 476 top-producing dairy farms (25% of the state's dairies) produce 61% of the state's milk marketings.
- The 595 lowest-producing dairy farms (32% of the state's dairies) produce only 7% of the state's milk marketings.
- The group of dairies producing less than 249,000 pounds of milk per month (144 dairies) accounted for less than 1% of the state's milk marketings.
- In May 2008, there were 152 dairies producing greater than 5 million pounds of milk per month, 13% more dairies than in May 2007.
- Compared to May 2007, there are an additional 20 dairies producing more than one tanker load of milk per day.

Utilization of Pooled Milk in California

Utilization of Pooled Milk in California, Comparing Total Fat and SNF Per Day, Jan-June 2008 vs. 2007:

- Class 4a (butter, powder) recorded the largest gain in pooled milk utilization (+25%) for the last 25 years
- Class 2 (yogurt, sour cream), Class 3 (frozen), and Class 4b (cheese and dry milk products) all decreased in total share of pooled milk utilization
- Class 1 (packaged fluid milk) showed no change in the share of total pooled milk (14%)
- Total volume of pooled milk in California increased 4.7%



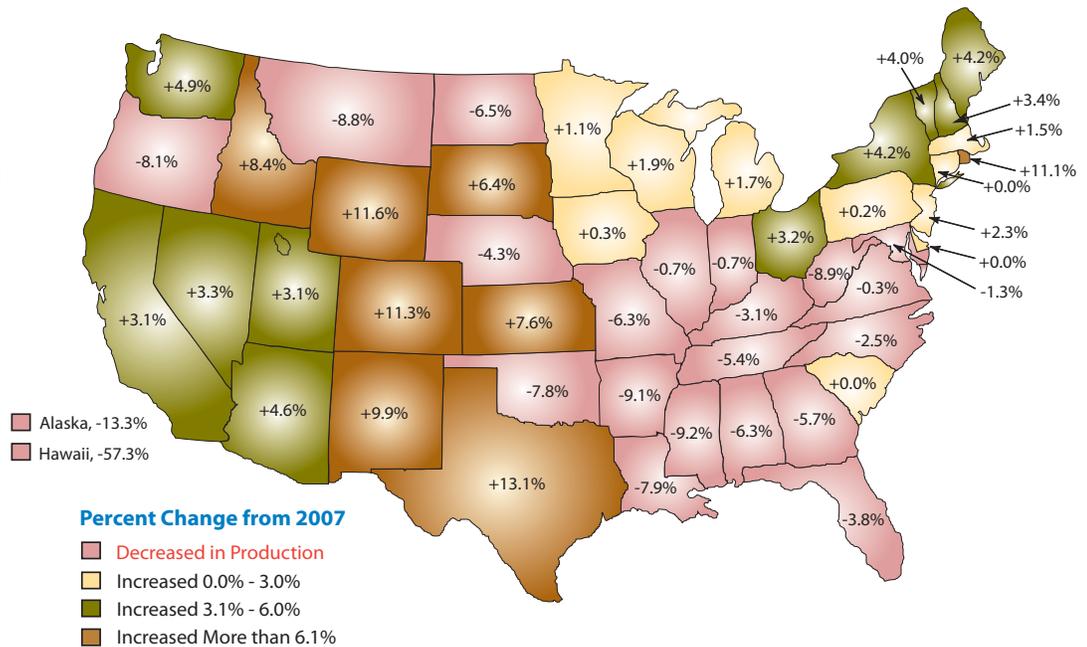
U.S. MILK PRODUCTION/MILK COWS



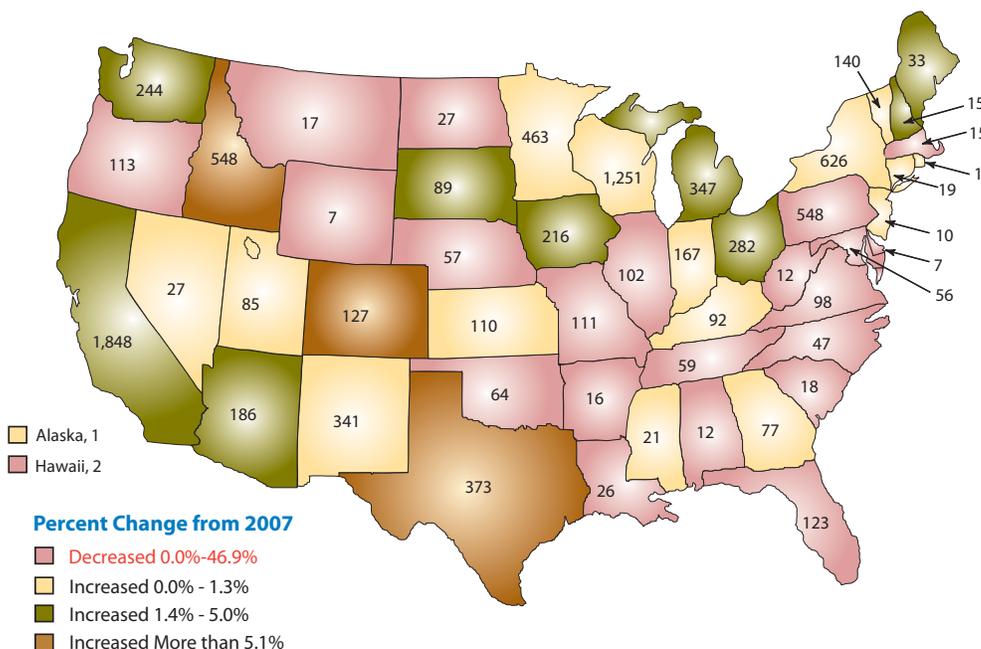
U.S. Milk Production Percent Change January-June 2008 vs. January-June 2007

U.S. Milk Production:

- U.S. milk production for January-June 2008, showed an overall 2.96% increase compared to the same period in 2007.
- For the first six months of 2008 compared to 2007, Texas and Wyoming showed the strongest increases in milk production, 13.1% and 11.6%, respectively.
- There were twenty-two states recording a decrease in milk production comparing January-June 2008 to the same period in 2007.



U.S. Total Milk Cows (Per 1,000 Head) - June 2008 Percent Change is June 2008 vs. June 2007



Milk Cows in the U.S.:

- U.S. total number of milk cows for June 2008 increased to 9.27 million compared to 9.14 million in June of 2007, a 1.5% increase.
- Thirty-four states reported a decrease or no change in the number of cows from the same period in 2007.
- California has 1.85 million milk cows, which is approximately 20% of the 9.3 million U.S. milk cows.