2009 Mid-Year Review

2009 MID-YEAR REVIEW

2009 Recap

For the first six months of 2009, California recorded decreasing milk production for each month compared to the previous year. Milk production in California reflected an average negative growth rate of -3.1 percent for the first six months of 2009, compared to the 12-month average positive growth rate in 2008 of 1.3 percent. For each of the first six months of 2009, California continued to record milk production over three billion pounds. Overall, U.S. milk production has not recorded the consistent decline in milk production as has been experienced in California for the first half of 2009. For the U.S. overall, the first six months of 2009 showed production decreases in two of the months and no increase over 1.0 percent compared to the same time period in 2008. However, there were still times in early Spring when both U.S. and California plants were scrambling for plant capacity, but not to the extent experienced in 2008. The strong demand for U.S. dairy products, particularly world demand in the export markets, came to a halt in early 2009, contributing to the prices paid to producers to be at the lowest levels since June 2003.

Dairy Products

Through June of 2009, California dairy product growth continued to be focused on butter and powder products, with total cheese production down for the second consecutive year (-3.4 percent for the first six months of 2009 compared to 2008). The world demand for milk protein products (such as skim milk powder and whey products) slowed considerably and the Commodity Credit Corporation continued purchasing excess nonfat dry milk (purchases began in Fall 2008). For California production, compared to 2008, the first half of 2009 recorded increases of 14.6 percent in nonfat dry milk production (not including the skim milk powders and whey protein concentrates) and a decrease in production of butter of 4.6 percent. In addition, for January-June 2009, Class 1 sales of fluid milk in California showed a slight 0.3 percent increase compared to the same period in 2008.

Milk Prices and the Bigger Picture

In mid-2009, commodity prices at or near support-levels) continued to drive milk prices downward. For the first six months of 2009, the average price paid to California producers was $10.47/cwt. (with a first quarter average statewide cost to produce milk at $18.51/cwt.) compared to an average price paid of $17.47/cwt. for the first six months of 2008 (with a first quarter average statewide cost to produce milk at $17.31/cwt.). The downturn of the U.S. economy has changed the picture from high commercial demand for milk and dairy products outpacing the milk supply . . . to just the opposite, with the milk supply overpowering the declining demand for dairy products. Commercial demand for dairy products, including global demand, has mirrored the sluggish economy and been slow to show any recovery. Australia and New Zealand milk production have shown recovery from the recent drought years and they are returning to play major roles in the dairy export market as in years passed. The dramatic downturn in U.S. dairy product exports, coupled with the sluggish demand of the emerging global markets, continues to play a role in the U.S. dairy supply/demand imbalance. The U.S. dairy industry is in the midst of an oversupply situation relative to a decreased total commercial demand . . . resulting in decreased dairy commodity prices and lower milk prices.

Hearings/Other Issues

The last public hearing the Department held was on October 30 and 31, 2008 to consider amendments to the Stabilization and Marketing Plans for Market Milk for the Northern California and Southern California Marketing Areas regarding proposed changes to the Class 1, 2, and 3 pricing formulas. The results of this hearing, effective January 1, 2009, were to: decrease the Class 1 price approximately $0.35/cwt.; decrease the Class 2 and 3 prices approximately $0.26/cwt.; and make adjustments to the Class 2 and 3 solids-not-fat differentials.

The Cooperatives Working Together (CWT) Program completed its seventh herd retirement round and called for bids for an eighth round in mid-July. The Dairy Export Incentive Program (DEIP) started accepting bids in late May 2009 for export of nonfat dry milk, butterfat, and cheese. DEIP has been extended through June 30, 2010. With the low Boston Class 1 prices, the Milk Income Loss Contract (MILC) Program initiated payments to producers in early 2009.

cdfa

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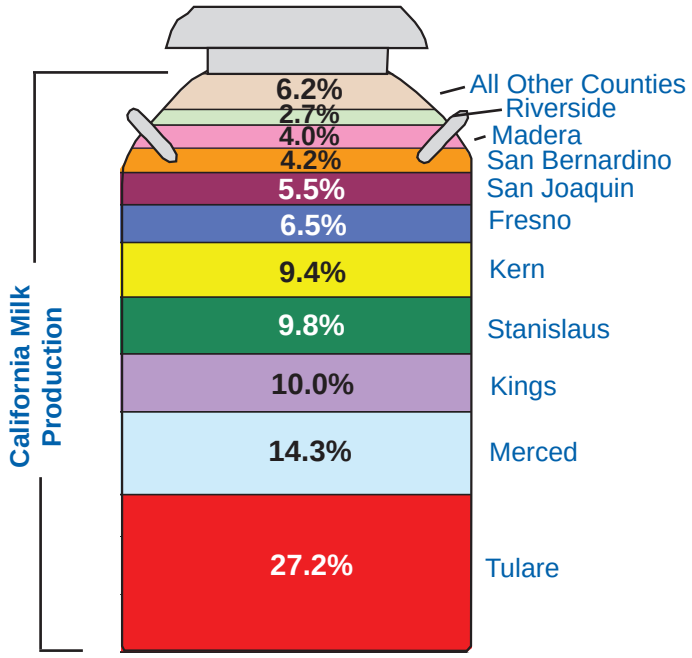
CALIFORNIA MILK PRODUCTION

Percent Share of California's Milk Production, January-June 2009



County (by rank)	Milk Production Jan-June 2009 (In Pounds)	% Change from 2008
Tulare	5,535,091,917	0.65%
Merced	2,904,378,427	-2.60%
Kings	2,039,284,025	-1.20%
Stanislaus	1,994,038,794	-3.29%
Kern	1,913,471,949	-3.47%
Fresno	1,328,475,928	-3.85%
San Joaquin	1,126,474,249	-10.14%
San Bernardino	856,287,760	-14.27%
Madera	814,479,993	-7.24%
Riverside	545,645,588	-0.32%

California Commercial Production of Market and Manufacturing Milk January-June, 2008 vs. 2009 (In Thousand Pounds)

	Market Milk			Manufacturing Milk			Total Milk Production		
Month	2008	2009	% Change	2008	2009	% Change	2008	2009	% Change
January	3,432,711	3,289,250	-4.2%	59,662	159,406	167.2%	3,492,374	3,448,656	-1.3%
February	3,268,724	3,004,049	-8.1%	56,715	133,199	134.9%	3,325,439	3,137,247	-5.7%
March	3,573,021	3,355,052	-6.1%	63,614	148,616	133.6%	3,636,635	3,503,668	-3.7%
April	3,445,127	3,282,426	-4.7%	63,779	151,030	136.8%	3,508,906	3,433,456	-2.2%
May	3,517,344	3,352,685	-4.7%	63,827	158,256	147.9%	3,581,171	3,510,941	-2.0%
June	3,354,527	3,131,599	-6.6%	59,040	149,224	152.8%	3,413,567	3,280,823	-3.9%
Jan-June Totals	**20,591,454**	**19,415,061**	**-5.7%**	**366,638**	**899,731**	**145.4%**	**20,958,092**	**20,314,791**	**-3.1%**

Net Milk Available in California January-June, 2004-2009 (In Thousand Pounds)

Year	Production Entering California	Production Leaving California	California Milk Production	Net Milk Available
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
2009	403,027	260,603	20,314,791	20,457,215

CALIFORNIA DAIRIES /COST OF PRODUCTION

The Size of California's Dairy Farms, May 2009

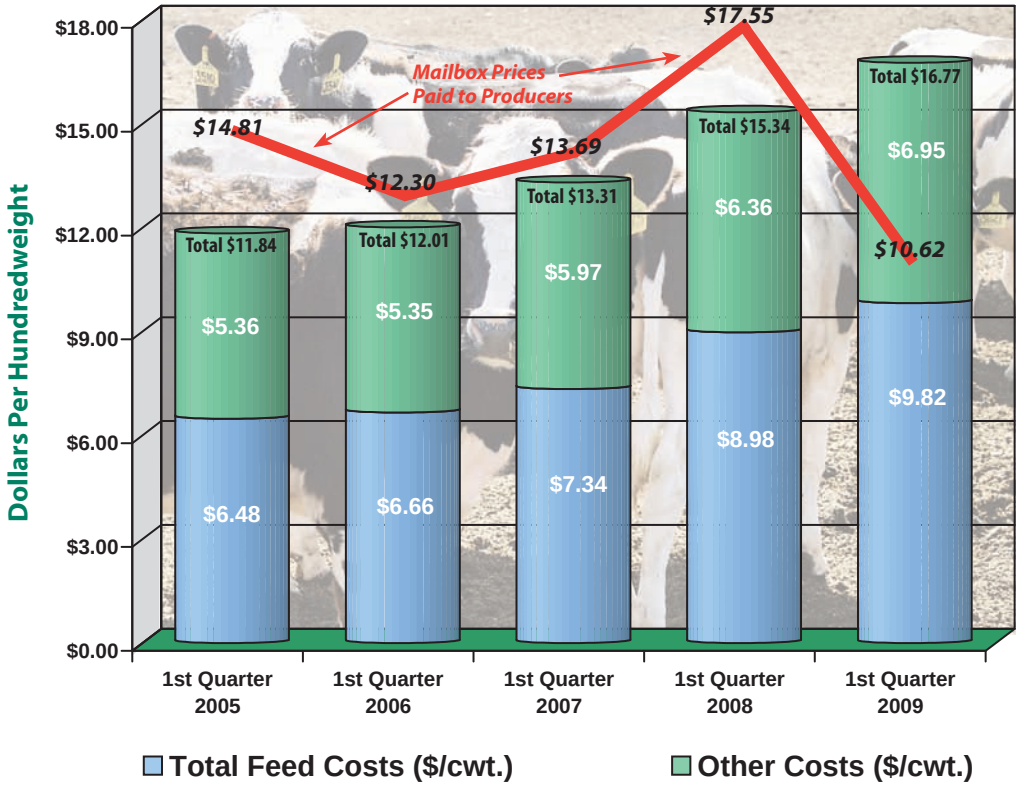
Range of Milk Marketings	Number of Grade A & B Farms	Percent of Total Grade A & B Farms	Percent of Total Grade A & B Milk Marketings
> 5.0 Million Lbs.	150	8.44%	30.92%
2.4 to 4.9 Million Lbs.	321	18.05%	31.70%
1.5 to 2.3 Million Lbs.	313	17.60%	17.05%
1 to 1.4 Million Lbs.	266	14.96%	9.43%
750,000 to 999,999 Lbs.	180	10.12%	4.54%
500,000 to 749,000 Lbs.	190	10.69%	3.42%
250,000 to 499,000 Lbs.	217	12.20%	2.34%
< 249,000 Lbs.	141	7.93%	0.59%

= Farms producing at least one tanker load of milk per day, based on 1.5+ million pounds/month.

California Farms by Size, Comparison

- The 471 highest-producing dairy farms (26% of the state's dairies) produce 63% of the state's milk marketings.
- The 548 lowest-producing dairy farms (31% of the state's dairies) produce only 6% of the state's milk marketings.
- The group of dairies producing less than 249,000 pounds of milk per month (141 dairies) accounted for less than 1% of the state's milk marketings.
- In May 2009, there were 150 dairies producing greater than 5 million pounds of milk per month.

California Total Feed Costs; Total Cost of Production*; Mailbox Prices Paid to Producers First Quarters of 2005-2009, In Dollars Per Hundredweight

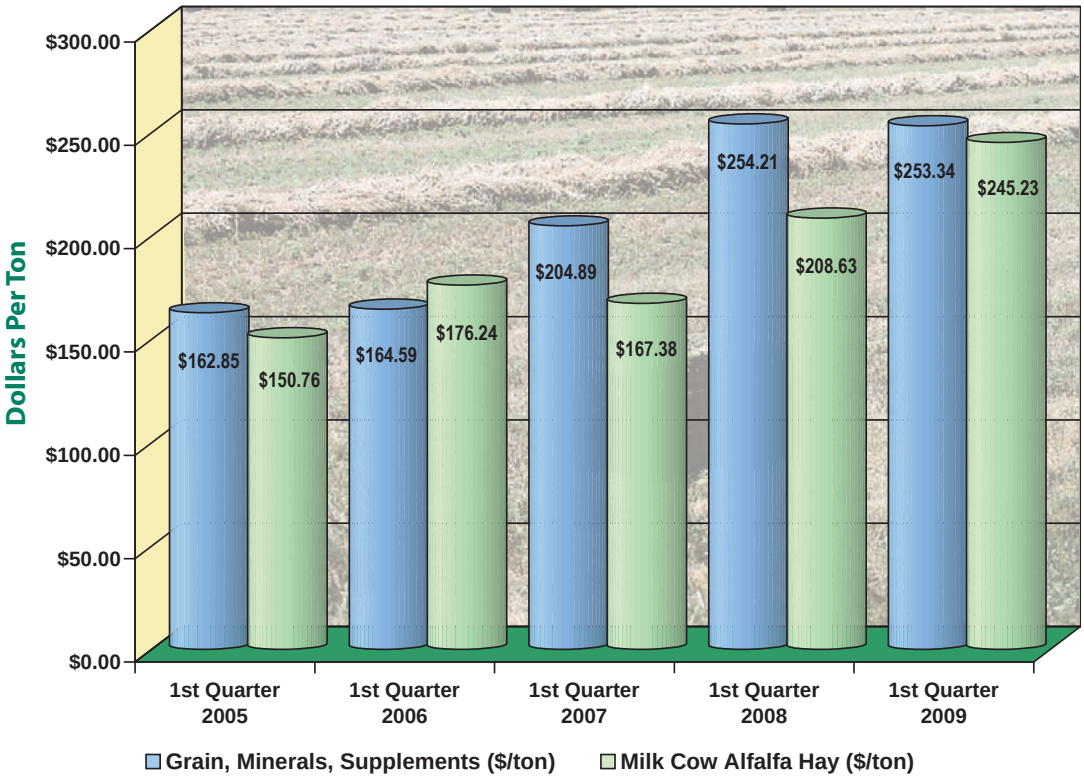


- Comparing the first quarter time periods, 2005-2009, the first quarter of 2009 shows the highest total feed costs, highest total cost of production, and lowest mailbox prices paid to producers.
- As seen on the graph, the mailbox prices paid to producers (red line on graph) approached the total feed costs in the first quarter of 2009.

*Total Cost of Production does not include Return on Investment and Return for Management

COST OF MILK PRODUCTION/UTILIZATION

A Comparison of the Average Cost Per Ton Fed: Grains, Minerals, Supplements & Milk Cow Alfalfa Hay First Quarters of 2005-2009, In Dollars Per Ton

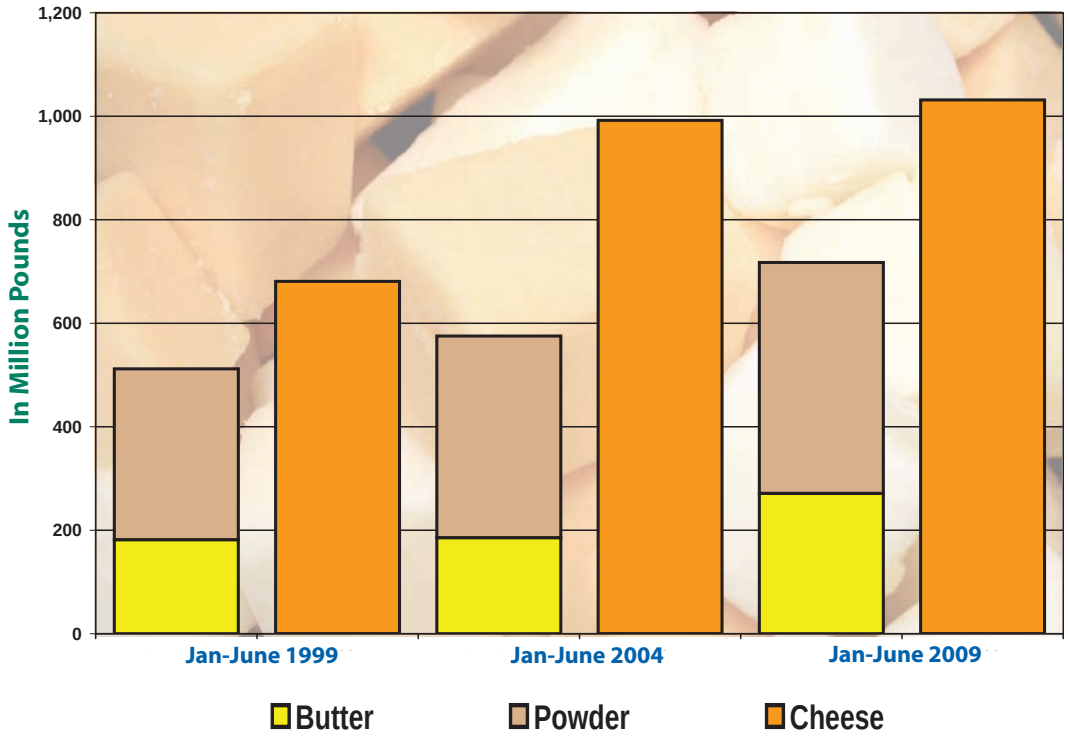


- The first quarter of 2009 showed that the grain, minerals, supplements, and milk cow alfalfa hay costs started out the year at or above previous first quarter levels.
- Except for the first quarter of 2007, the cost per ton of milk cow alfalfa hay has continued to steadily increase.
- Both the milk cow alfalfa hay and the grain, minerals, supplements cost increases are playing a major role in the increase of the cost to produce milk.
- Comparing the first quarter of 2005 with 2009, grains, minerals, and supplements costs per ton increased 56%; milk cow alfalfa hay cost per ton increased 63%.

A Comparison of the Production of Class 4a and 4b Products in California First Quarters of 2005-2009, In Million Pounds

Comparing Jan-June 1999, 2004, 2009: Production of Class 4a and 4b Products

- The January-June time periods over the last 10 years showed a steady increase in the total production of Class 4a products (butter and nonfat dry milk).
- Total production of Class 4b products (cheese) has basically stopped increasing and is holding steady compared to the production levels of five years ago.

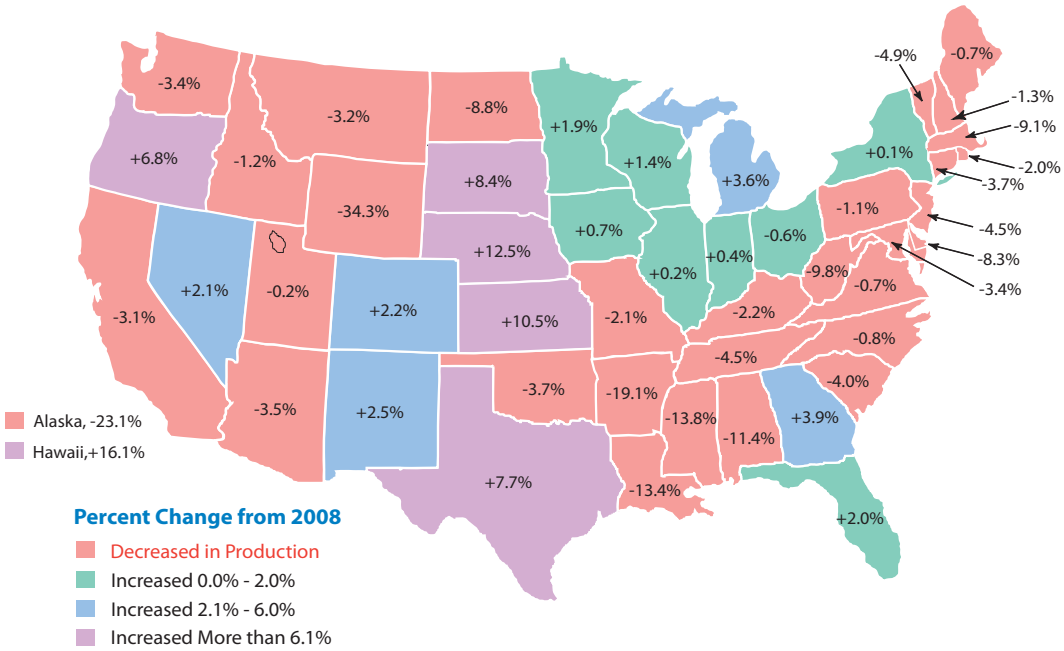


U.S. MILK PRODUCTION / MILK COWS

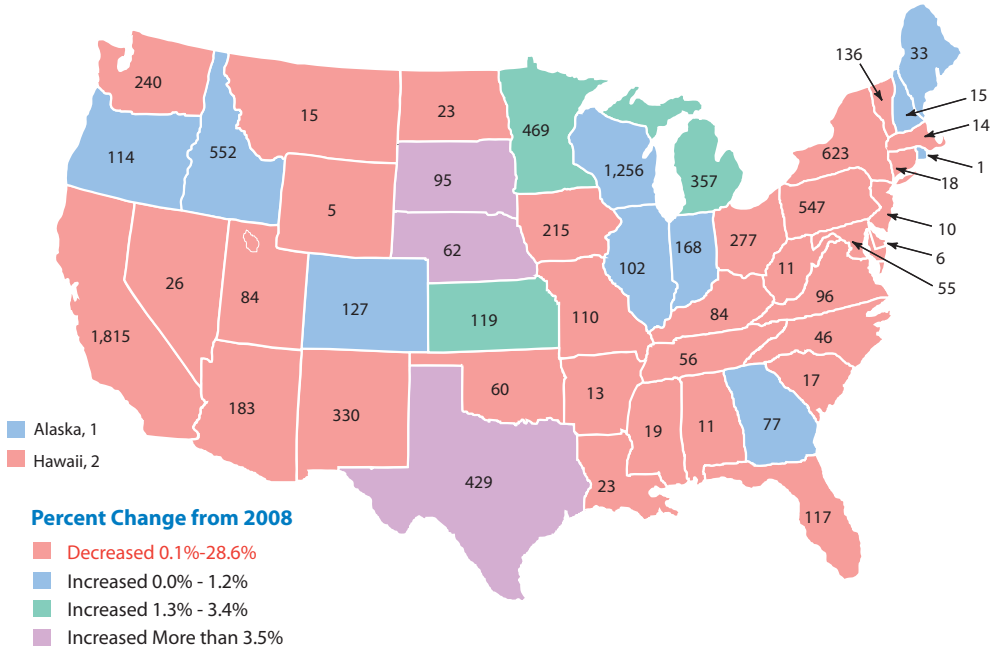
U.S. Milk Production Percent Change
January-June 2009 vs. January-June 2008

U.S. Milk Production:

- U.S. milk production for January-June 2009, showed an overall 0.1% decrease compared to the same period in 2008.
- For the first six months of 2009 compared to 2008, Hawaii and Nebraska showed the strongest increases in milk production.
- There were thirty-two states recording a decrease in milk production comparing January-June 2009 to the same period in 2008.



U.S. Total Milk Cows (Per 1,000 Head) - June 2009
Percent Change is June 2009 vs. June 2008



Milk Cows in the U.S.:

- U.S. total number of milk cows for June 2009 decreased to 9.26 million compared to 9.32 million in June of 2008, a 0.57% decrease.
- Thirty-three states reported a decrease or no change in the number of cows from the same period in 2008.
- California has 1.82 million milk cows, which is approximately 19.6% of the 9.26 million U.S. milk cows.