Dairy Marketing Branch

California Dairy Review

A publication serving the California dairy industry for over 12 years

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In This Issue . . .

California Department of Food and Agriculture
A.G. Kawamura, *Secretary*

Milk Income Loss Program Sign-ups Started, Low Class Prices May Bring Payments

Signups for the Milk Income Loss Contract Program (MILC) began December 22, 2008 and will continue through the program's expiration date, Sept 30, 2012. Under the 2008 Act (Farm Bill), the MILC payment rate and the per-operation poundage limit were modified, depending on when the milk was produced. In addition, a "feed cost adjuster," was introduced over the life of the 2008 Act, which adjusts the $16.94 per hundredweight (cwt.) benchmark price upward depending on the cost of feed rations. MILC payments are based on a payment rate percentage that is multiplied by the difference between a now-flexible target ($16.94 per cwt. or higher) and the specific month's Boston Class I price of milk.

USDA's Commodity Credit Corporation (CCC) issued MILC payments on an operation-by-operation basis up to a maximum of 2.4 million pounds of milk produced and marketed (about 120 cows) from Oct. 1, 2007, through Sept. 30, 2008. The production limit per operation increased to 2.985 million pounds (about 145 cows) for each fiscal year from Oct. 1, 2008, through Aug. 31, 2012. The production limitation reverts back to the original limit of 2.4 million pounds per fiscal year in Sept. 2012.

The 2008 Act adjusts the trigger price of $16.94 cwt., depending on the extent to which feed costs increase. The feed cost adjustment takes effect when the monthly National Average Dairy Feed Ration Cost (calculated from the "entire month" prices published by the National Agricultural Statistics Service) is greater than $7.35 per cwt. Calculations will be made at 45 percent of the percentage that the National Average Dairy Feed Ration Cost exceeds $7.35 per cwt.

Beginning with Fiscal Year 2009 marketings, which started Oct. 1, 2008, the 2008 Act made changes to the provisions for payment eligibility to add an adjusted gross income (AGI) limit. If the individual or entity has annual non-farm AGI for the relevant base period greater than $500,000, the individual or entity is not eligible for MILC benefits. The base period will be set pursuant to AGI regulations yet to be issued. That rule will also define what is considered to be non-farm income.

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Production, Prices, Quota Transfers, Alfalfa

December Milk Production

USDA estimates U.S. milk production for December 2008 in the 23 major dairy states at 14.6 billion pounds, up 1.5 percent from December 2007. Production per cow in the 23 major states averaged 1,726 pounds for December, 8 pounds above December 2007.

Quota Transfer Summary

Quota Transfers	Nov.	Dec.	Jan.
Number of Sellers	7	9	13
Pounds of SNF Quota Transferred	12,592	13,314	4,530
Average Price Per Pound of SNF Quota	$545	$556	$554

Minimum Class Prices

California Hundredweight Prices

Class		December	January	February
1	No. Calif.	$16.57	$17.42	$11.27
	So. Calif	$16.84	$17.69	$11.55
2	No. Calif.	$13.56	$13.30	N/A
	So. Calif.	$13.79	$13.53	N/A
3	No. Calif.	$13.51	$13.25	N/A
	So. Calif.	$13.52	$13.25	N/A
4a		$10.15	N/A	N/A
4b		$13.95	N/A	N/A

Commodity Prices Used in the Calculation of California Class 1 Milk Prices

Month	Chicago Mercantile Exchange		California Manufacturing Plants	Dairy Market News
	Grade AA Butter	Block Cheddar Cheese	Nonfat Dry Milk	Western Dry Whey
	Dollars per Pound			
Jan.	$1.1275	$1.1178	$0.8146	$0.1500
Feb.				
Mar.				
Apr.				
May				
June				
July				
Aug.				
Sept.				
Oct.				
Nov.				
Dec.				

Federal Order and California Minimum Class 1 Prices

Hundredweight Prices

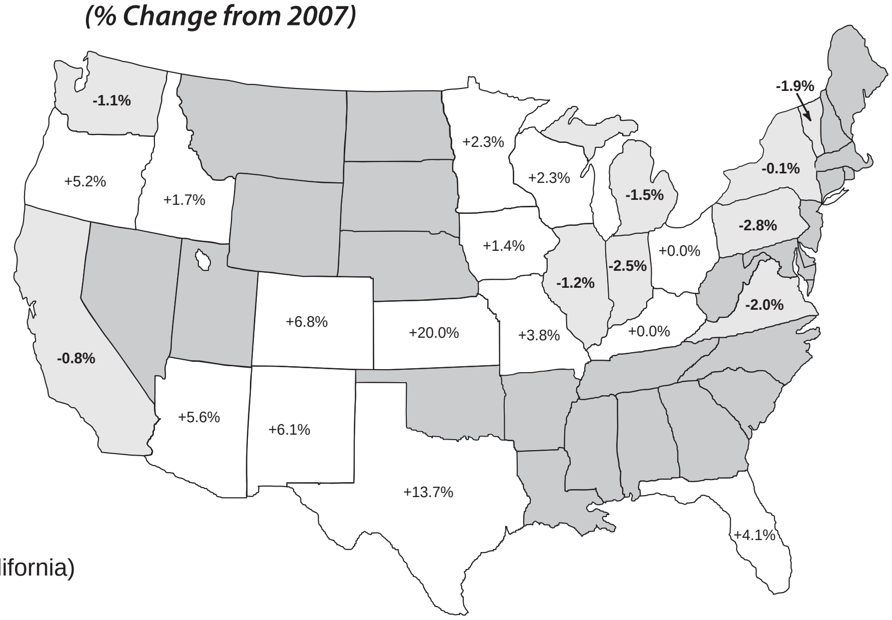
Regions	December	January	February
Phoenix, Arizona	$17.78	$18.09	$13.07
Southern California	$16.84	$17.69	$11.55
Portland, Oregon	$17.33	$17.64	$12.62
Northern California	$16.57	$17.42	$11.27
Boston (Northeast)	$18.68	$18.99	$13.97

December Milk Production in the Top 23 States

(% Change from 2007)

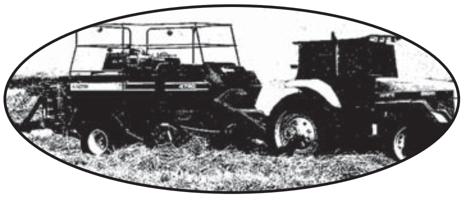
For the U.S. overall, comparing December 2008 to December 2007:

- U.S. Milk production during December was up 1.4%
- The number of cows on farms was 9.292 million head, up 75,000 head
- Production per cow averaged 1,706 pounds, 10 pounds more than December 2007
- Nine of the top twenty-three milk producing states showed a decrease in milk production



As reported by USDA and CDFA (for California)

Supreme Alfalfa Hay Prices / Alfalfa Sales - Reported Weekly



Alfalfa Hay Update:
January began with warm and mild weather conditions, causing the planted hay to grow faster than wanted. Hay still being sold out of barns and from stacks; dairy producers buying hay only as needed. Late January weather turned wet and rainy for many areas - may be enough to irrigate new seedlings.

Statewide Average Prices Per Ton / Total Tons Sold or Delivered

Area	Jan. 2	Jan. 9	Jan. 16	Jan. 23	Monthly Average/Range
Petaluma	$255-285	$235-255	$240-245	$250-285	$245-268
North Valley[1]	$235-257	N/A	$205-240	$195-245	$212-247
South Valley[2]	$185-200	$195-200	$210	$195	$196-201
Chino Valley	N/A	N/A	N/A	$170-200	$170-200
Tons Sold[3]	11,220	17,687	16,020	12,850	14,444
Tons Delivered[4]	5,800	7,450	7,435	6,075	6,690

[1] North Valley is Escalon, Modesto and Turlock areas.
[2] South Valley is Tulare, Visalia and Hanford areas.
[3] For current or future delivery.
[4] Contracted or current sales.

Source: USDA Market News, Moses Lake, Washington, (509) 765-3611, www.ams.usda.gov/LSMarketNews

California Weekly Feed Commodity Spot Prices, Delivered to the Dairy

AREA Tulare/Pixley	**Almond Hulls**	**Canola**	**Distillers Dried Grains**	**Rolled Corn**	**Soybean Meal**	**Whole Cottonseed**
Dec. 30	$131.00	$319.00	$178.00	$191.00	$362.00	$316.00
Jan. 6	$131.00	$320.00	$190.00	$199.00	$364.00	$316.00
Jan. 13	$129.00	$337.00	$192.00	$175.50	$349.00	$321.00
Jan. 20	$127.00	$330.00	$196.00	$184.50	$361.00	$316.00
Monthly Average	**$129.50**	**$326.50**	**$189.00**	**$187.50**	**$359.00**	**$317.25**

North Valley	**Almond Hulls**	**Canola**	**Distillers Dried Grains**	**Rolled Corn**	**Soybean Meal**	**Whole Cottonseed**
Dec. 30	$125.00	$319.00	$179.00	$200.00	$362.00	$316.00
Jan. 6	$125.00	$320.00	$190.00	$208.00	$364.00	$316.00
Jan. 13	$122.00	$337.00	$192.00	$184.50	$349.00	$321.00
Jan. 20	$120.00	$330.00	$196.00	$193.50	$361.00	$316.00
Monthly Average	**$123.00**	**$326.50**	**$189.25**	**$196.50**	**$359.00**	**$317.25**

Los Banos/Chowchilla	**Almond Hulls**	**Canola**	**Distillers Dried Grains**	**Rolled Corn**	**Soybean Meal**	**Whole Cottonseed**
Dec. 30	$128.00	$321.00	$179.00	$196.00	$364.00	$318.00
Jan. 6	$128.00	$322.00	$192.00	$204.00	$366.00	$318.00
Jan. 13	$125.00	$339.00	$194.00	$180.50	$351.00	$323.00
Jan. 20	$122.00	$332.00	$198.00	$189.50	$363.00	$318.00
Monthly Average	**$125.75**	**$328.50**	**$190.75**	**$192.50**	**$361.00**	**$319.25**

Milk Production Cost Comparison Summary for California *

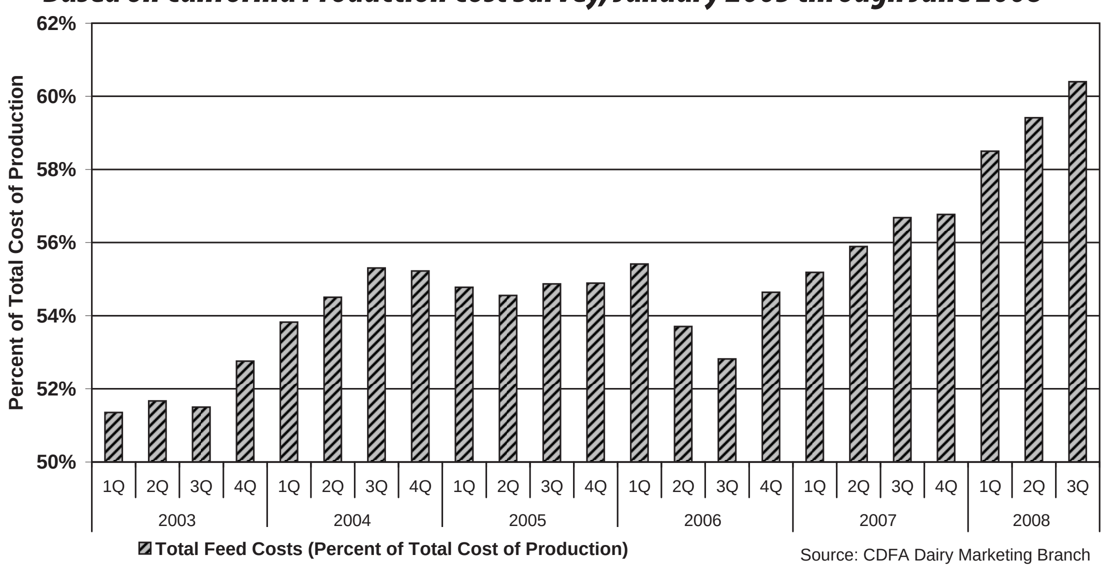
By Quarter, 2007-2008

Quarter	North Coast		North Valley		South Valley		Southern California		Statewide Weighted Average	
	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008
	Dollars per Hundredweight									
1st Quarter										
Total Costs	17.52	19.74	13.33	15.14	13.16	15.31	13.17	15.44	13.31	15.34
Total Costs & Allowances*	19.27	21.97	14.86	16.98	14.76	17.17	14.55	17.07	14.87	17.31
2nd Quarter										
Total Costs	16.23	18.49	13.41	15.86	13.51	16.26	13.00	16.06	13.49	16.14
Total Costs & Allowances*	18.15	20.62	15.13	17.76	15.29	18.16	14.53	17.69	15.25	18.04
3rd Quarter										
Total Costs	17.12	20.52	13.62	16.68	14.20	17.38	13.76	17.13	14.01	17.17
Total Costs & Allowances*	19.24	22.74	15.51	18.67	16.24	19.46	15.52	18.93	15.98	19.21
4th Quarter										
Total Costs	19.01		14.93		15.04		14.46		15.03	
Total Costs & Allowances*	21.21		16.84		17.05		16.23		14.97	

* Includes an allowance for management and a return on investment

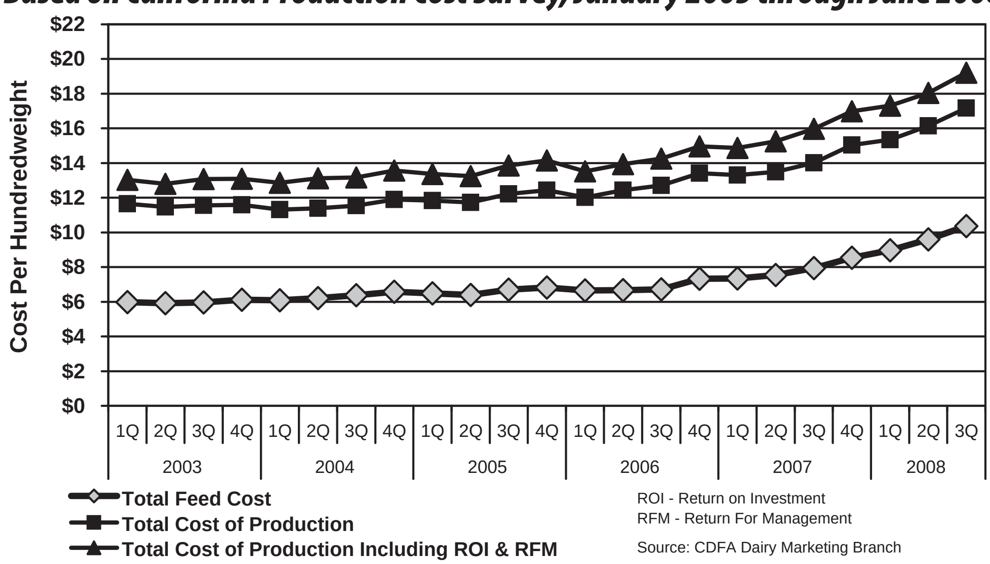
Total Feed Costs (Percent of Total Cost of Production)

Based on California Production Cost Survey, January 2003 through June 2008



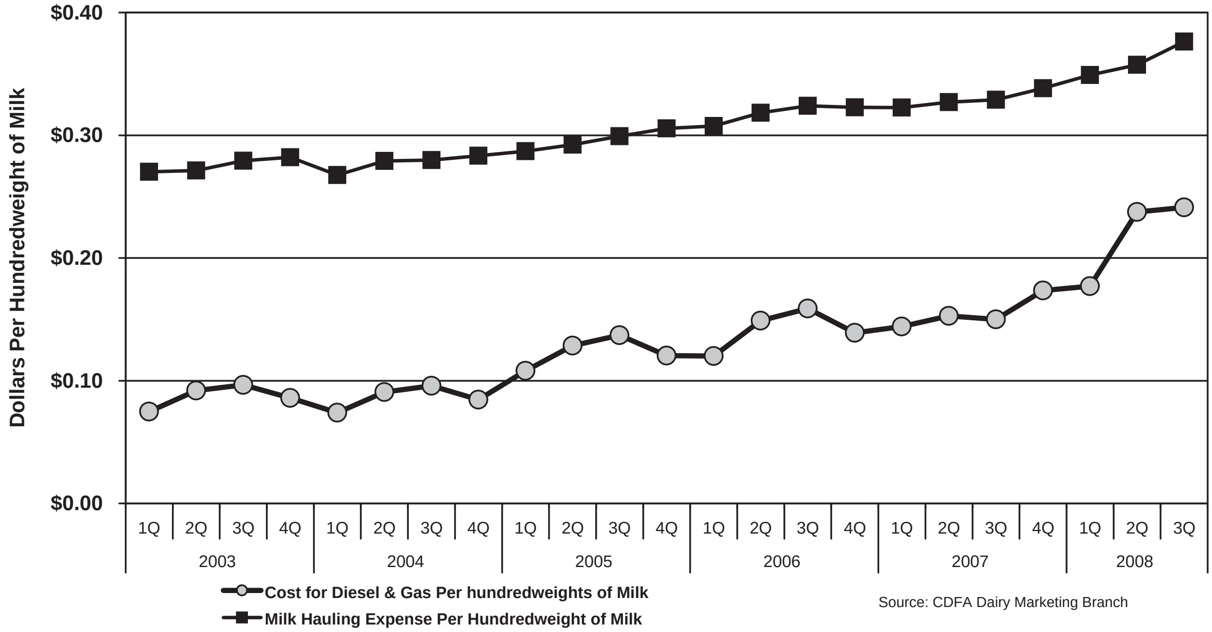
California Cost of Production, Total Feed Cost, by Quarter

Based on California Production Cost Survey, January 2003 through June 2008



Diesel, Gas, and Milk Hauling Costs, Per Hundredweight of Mlk

Based on California Production Cost Survey, January 2003 through June 2008



USDA Milk-Feed Ratio Drops

The milk-feed price for December was 1.97, a 0.05-point drop from November, and 0.88 less than a year ago when it was 2.85. In December, USDA revised its preliminary November milk-feed ratio, dropping it from 2.13 to 2.02.

Further retraction to 1.97 for December is the result of a $1.20 drop in the all-milk price used by the USDA to calculate the ratio. The report lists the all-milk price at $15.90 per hundredweight. down from a year ago when the price was $21.50 per hundredweight.

Feed prices used to calculate the ratio declined. USDA used a corn price of $4.05 per bushel to calculate the December ratio; $0.21 cents less than the November corn price. and $0.28 cents higher than a year ago. The price of soybeans fell from $9.38 to $8.97 per bushel — a $0.41-cent loss, and $1.03 less than a year ago. Baled alfalfa hay declined $8 to $155 per ton,moving close to what it was a year ago at $135 per ton.

A ratio of 1.97 means that a dairy producer can buy 1.97 pounds of feed for every pound of milk sold. Whenever the ratio meets or exceeds 3.0, it is considered profitable to buy feed and produce milk.

Corn and Soybean Markets Affected by Economy

The corn and soybean markets have felt the slowdown affect of the world financial markets. That is good news for livestock producers, but bad news for corn and soybean growers.

Corn for December delivery settled at $4.17 on the Chicago Board of Trade, $3.70 off the contract high of $7.87 set on June 27, 2008. Soybeans for November delivery settled at $9.26.

"The market has been in decline since the first of July — once we got past the flooding issues (in the Midwest) and the acreage reports for corn, which were higher than expected," says Marty Foreman, senior economist with Doane Advisory Services in St. Louis. And, the weather since that time has generally been favorable for crop production.

"The whole thing that has affected the equity market has bled over to commodities," Foreman says. Money has been moved out of riskier investments like commodities and into safer investments like T-bills or cash. And, there are concerns as well that the financial crisis will affect export markets, since the crisis is global in scope.

CWT to Continue in 2009

Cooperatives Working Together (CWT) has received commitments from its members that they will continue to fund the program in 2009 , according to CWT officials.

CWT is currently in the process of removing 184 herds, with 61,000 cows that produced 1.2 billion pounds of milk, through its second herd retirement of 2008. CWT's first herd retirement of the year removed 25,000 cows that produced 430 million pounds of milk. In addition, its export assistance program has helped members sell overseas the equivalent of more than two billion pounds of milk in 2008.

"With the continued investment individual producers and cooperatives are making, CWT will have the financial resources to remove more cows, and export more products, that will help battle the decline in dairy prices in 2009," Jerry Kozak says.

An independent economic analysis of CWT, conducted this fall by Scott Brown of the University of Missouri's College of Agriculture, demonstrated that farmers' return of investment in CWT has been $0.76 cents per hundredweight.

For more information, go to: www.cwt.coop

Cheddar Cheese Commodity Prices Collapse

Cheddar Cheese commodity prices have fallen to levels not seen in nearly three years. The month of December sent cheese block prices sliding from $1.7900 per lb. to $1.1325 on December 31st, a decline of a little over $0.65 cents per lb.

Prices normally soften after the holiday-buying season, explains Bob Cropp, professor emeritus and dairy economist at the University of Wisconsin-Madison, but a decline of this magnitude comes as "a surprise to everybody."

The economic downturn hurt demand both domestically and internationally and up until the last few months of 2008, exports were strong, Cropp explains. But since the world economy has softened, exports also are down. In December and January, on the domestic front, cheese stocks were building and buyers of cheese were not showing interest in taking on more inventory.

New Processing Plant in Idaho

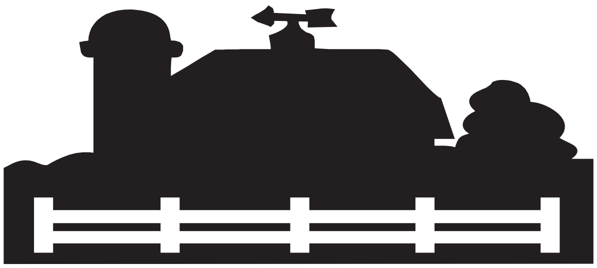
Three Idaho dairy producers are combining their sizable resources to build a milk processing plant in Jerome, Idaho. Idaho Milk Products (IMP) will open a $100 million powder plant in early 2009. The project has been five years in the making, says Rick Onaindia, CFO of Bettencourt Dairy, one of the three owners. The facility can't come soon enough for Idaho, the nation's fourth-largest milk producer.

In all, Idaho has 18 dairy processing plants, capable of processing 32 million pounds of milk a day, but they've been hard pressed to handle the state's growing milk supply. In the last three years, production has risen by 7-8% annually, with a jump of 2.2 million pounds between January and June 2008 alone, says Russ De Kruyf, president of the Idaho Milk Processors Association. From July 2007 to July 2008, Idaho's milk production rose 7.8% with cow numbers climbing to 556,000 head.

The IMP facility will boost the state's dairy processing capacity by an estimated 7.5% and marks the third new milk processing plant built in Idaho in the last three years. Gossner Foods opened a new plant two years ago in Heyburn, while High Desert Milk's new facility in Burley ramped up production this summer. Several processors have expanded capacity at existing plants.

The plant is expected to produce 92 million pounds annually of powder, mostly milk protein concentrates and milk lactose permeate. It will also turn out cream. The company will market its output both domestically and internationally. Like other local plants, IMP will process milk from cows not treated with rBST.

The 180,000-square-foot plant broke ground in October 2007 and it will employ 65 workers.



Questions from the Corral

The Dairy Marketing Branch is bringing back the "Questions from the Corral" question and answer section of the Dairy Review. As the dairy industry evolves and changes, questions arise and this is a way that dairy producesrs can ask the Department questions or ask for clarity on pricing issues, hearing decisions, etc. Please email your questions to kdapper@cdfa.ca.gov or dairy@cdfa.ca.gov; or fax your questions to (916) 341-6697.

Question: This question was received in early January that asked the Department to clarify the recent Class 1, 2, and 3 pricing changes and their relationship to the current supply of milk of California.

Answer: The California dairy industry is facing critical challenges. California's milk production growth relative to commercial demand is adversely impacting the California dairy industry. The focus of most producers is on the production side of the dairy economy, while the negatives of the demand aspects are not as readily apparent. The negative consequences of increasing the Class 1, 2, 3 prices are sometimes not generally understood by the dairy producer community.

Despite the voluntary and painful efforts to balance California's milk production with demand via the establishment of production base plans by California major cooperatives and limits of milk purchases by major proprietary processors, surplus quantities of California milk production must be shipped to out of state processors at prices substantially less than the California minimum prices in order to find a "processing" home. Meanwhile, some California milk supplies are being sold as calf feed, while there are reports that some supplies are being marketed in California at less than the minimum price requirements in violation of the law. Unfortunately, some California milk production is currently being dumped because of the limited interest in purchasing additional quantities at the mandated minimum price levels.

While California's 2008 annual milk production through November increased by 1.5% over the prior year, California cheese processors actually processed a total annual volume less than the prior year. Despite having available processing capacity, the total 2008 annual volume processed in other higher valued products, like fluid, soft product, frozen products, is essentially flat relative to the prior year (through Nov: fluid milk is positive 0.8%; yogurt is positive 3%; cheese is negative 7.8%; sour cream is negative 18% and frozen is negative 0.9%).

The following events are representative of the general decline in the state's processing volume: Crystal Cream and Butter Company's downsizing of plant operations after the company was purchased by HP Hood; Foster Farms reductions in milk volume processed due to the loss of major sales accounts to out of state processors; Dairy Farmers of America closed Golden Cheese plant operations because of financial losses, and F&A Dairy is processing less volume because of its current financial difficulties.

It is important to remember that the independent 2006/07 McKinsey & Company study (commissioned by the California Milk Advisory Board) concluded that the California dairy industry must build at least three to four new plants the size of Hilmar or Leprino Foods (Lemoore) by the year 2020 just to accommodate California's average annual production growth. Since the McKinsey report was issued, California's plant capacity has actually decreased. The combination of increasing annual milk production and decreasing processing of milk into dairy products has resulted in termination notices for milk supply contracts for about 30 former Crystal Cream and Butter Company shippers and about 25 former Foster Farms milk shippers. Very few of the affected producers have been able to secure a permanent long-term supply contract with a California processor. Compounding the problem is the fact that all the cooperatives are closed to new membership. The financial difficulties that F&A Dairy and other financially challenged processing companies are experiencing may place additional producers and cooperative organizations in the same predicament.

Keep in mind that there is no legal requirement that California dairy processing firms must purchase increasingly larger milk supplies to accommodate California's production growth. How much milk production a processor is willing to purchase is a business choice or decision left to each individual processor. Just as every dairy farmer has business choices or decisions on how much milk they will produce.

(Continued next page)

Each processor can choose to idle their plants if they don't believe processing additional milk supplies will be profitable, even if they have surplus processing capacity. While producers don't have the same flexibility in adjusting their production as quickly, every producer has the business choice to milk as many cows as they deem appropriate. They have the discretion to reduce cow numbers when milk prices are low – even if their dairy could milk more cows.

Regrettably, a relatively small surplus of milk production (less than one percent) in relationship to demand is sufficient to cause relatively low milk prices (the contrary is also true, a small supply deficit relative to demand of less than one percent can cause relatively high milk prices).

The October 30 and 31, 2008 hearing record demonstrated that surplus California milk supplies are still being shipped to out of state processors. While these out of state shipments provide a temporary solution to the state's processing capacity inadequacies, it gives the out of state processor a competitive advantage by providing the opportunity to purchases the surplus California milk supply at substantially below California's minimum prices (no minimum price regulations govern these sales). The resulting lower raw product cost enables the out-of-state dairy processor to undercut the market price and take away sales of California dairy products. These lost sales to the out-of-state processors will translate into additional incentives to reduce the volume processed by California plants.

One scenario that best illustrates the consequence of these transactions is the California surplus bulk milk shipments to a fluid plant in Yerington, Nevada. The Yerington plant is paying the California producers the California overbase price (this is the best "home" that the affected California producers can find under the current conditions). The overbase price can be as much as $7 dollars per hundredweight less than the California Class 1 price, enabling the Yerington processor to take the major retail fluid milk accounts away from California processors. The lost revenues associated with these lost sales are already negatively impacting the California Pool since the Yerington processor is under no obligation to share their California sales revenues.

While raising the Class 1, 2, 3 prices provides some small temporary income relief to California dairy farms in the short run (24 cents per cwt. on average over the five-year period from 2003-2008), it also increases the competitive advantage that the out-of-state fluid, soft, and frozen products would have over California products. This dynamic relationship has been playing out in recent years and is a major reason why the existing California processors are not expanding their plant volumes or building new processing plants.

Approximately 80 percent of California's current milk supply is used in the lowest valued dairy products, Class 4a and 4b, while Class 1 sales now reflect about 14-15% of the state's total. Almost all of California's 2008 annual production increase over 2007 was used in Class 4a products, which is the lowest valued dairy product (the expansion of Class 4a is only because cooperative producer organizations made the investment in plant expansion).

The McKinsey study reported that this trend will continue to blend down the Pool prices that California dairy farmers receive over time. Even if the Department holds California's Class 1, 2, 3 minimum prices constant at relatively high levels, the annual expansion of California's milk production will blend the California Pool prices downward. This trend is accelerated if out-of-state processors are able to capture substantial segments of California's Class 1, 2, and 3 product sales. Eventually, California producers would be left with Pool blend prices largely made up of the lowest valued dairy products.

As the McKinsey study indicated, if California's total milk production cannot be better linked or connected to commercial demand of higher valued products, then any increase in the California minimum price, even on a temporary basis, will only accelerate the non-profitability of California milk production. The bottom line, as the McKinsey report concluded, is that the success upon which the California dairy industry has been built over the past few decades requires dramatic strategic change in order to ensure the long term viability of the industry.

European Union Reactivates Export Subsidy Program

On January 15, 2009, the European Commission announced it was reactivating its export subsidy program for butter, cheese and milk powder. The Commission took action to help offset the drop in dairy prices and to help its struggling dairy industry better compete in the world market. The European Union (EU) said it intended to buy extra butter and skimmed milk powder on the European market beginning in March to keep prices up. French and German dairy farmers have been demanding EU help for months.

The EU initially suspended the export subsidy program in June 2007, as international dairy prices climbed. From 2002-2004 the export subsidies helped to depress world prices.

Tom Suber, president of the U.S. Dairy Export Council, reacted to the EU action by stating, "The EU's actions today will have a major negative effect on world dairy trade. On a broad level, the reactivation of the EU's large subsidy program will again depress world dairy prices, prolonging the down cycle in which the world's dairy industry currently finds itself and significantly delay natural market recovery. Specifically for the U.S. dairy industry, it will perpetuate a lopsided playing field, undercutting recent hard-fought export market gains made by U.S. dairy suppliers. U.S. suppliers will find i t difficult to compete in a market in which the biggest dairy export bloc in the world, supported by massive government handouts, can sell product for hundreds of dollars less per metric ton than suppliers from other countries."

The bloc has pledged to eliminate subsidies as part of the stalled World Trade Organization (WTO) Doha Round negotiations; but that agreement has not yet been completed, leaving the EU free to bring back the subsidies.

California Testing Horses

A news release from California Department of Food and Agriculture (CDFA) Animal Health

January 2009 - California is among 39 states testing horses that may have been exposed to a highly contagious venereal disease of horses, contagious equine metritis (CEM). CDFA veterinarians have quarantined 14 mares and are working with the United States Department of Agriculture (USDA) and regulatory veterinarians in other states to identify any additional exposed horses as this nationwide disease investigation unfolds. Following a course of negative cultures and treatment, the mares will be released from quarantine.

In mid-December 2008, a CEM-infected quarter horse stallion was detected in Kentucky during routine testing for international semen shipment. The USDA and Kentucky animal health authorities quickly initiated a disease investigation, leading to the identification of more exposed horses. To date, nine stallions have been confirmed to be infected: four in Kentucky, three in Indiana, one in Wisconsin and one in Texas; and a total of 334 exposed stallions and mares in 39 states have been identified and placed under quarantine by state animal health authorities, pending test results.

CEM is considered a bacterial foreign animal disease and has only been detected in the US on three previous occasions, in 1978 in Kentucky, 1979 in Missouri and in 2006 in Wisconsin. In all instances, the disease was controlled and eliminated quickly. CEM is not known to affect humans or other livestock. It is spread between mares and stallions during mating or with infected semen used in artificial insemination. It can also be transmitted on contaminated breeding equipment. Stallions do not exhibit any clinical symptoms, but the infection may cause fertility problems in mares.

Additional national CEM information may be found on the USDA's web site at:
http://www.aphis.usda.gov/newsroom/hot_issues/cem/index.shtml

Agricultural Commissioner Appointed in Fresno

The County of Fresno Board of Supervisors has appointed Carol N. Hafner to the position of Agricultural Commissioner/Sealer of Weights & Measures for the Fresno County Department of Agriculture effective January 12, 2009. Carol was the second female inspector to be hired by the Department over 28 years ago. She was the first female Deputy Agricultural Commissioner promoted in September 1989, the first female Assistant Agricultural Commissioner named in February 2008.

Carol grew up in the Santa Clara Valley when apricot and prune trees still bloomed there. Her family farmed strawberries and vegetable crops before switching to commercial cut flower production. Her farming background and a B.A. in Biology with an emphasis in Botany from San Jose State University led her to joining the Department in June 1979.

She is ready for the challenges that the Commissioner/Sealer position will bring and looks forward to working on the myriad of issues facing the Department of Agriculture with the Board, the agricultural industry, other Commissioners, the public and the best supporting staff a Commissioner could ask for.

The honor that has been bestowed upon Carol brought tears to the eyes of her 92-year-old father, Rikio Nishimatsu, and 87-year-old mother, Matsuko, on her selection as the new Commissioner/Sealer. Carol lives in Fresno with her husband, Tye, and her miniature schnauzers. The Hafners have two sons; Erik lives in Claremont and Michael attends Cal Poly, San Luis Obispo.

MILC Feed Calculator

The Milk Income Loss Contract (MILC) program now includes a "feed cost adjuster." This provision adjusts the $16.94 benchmark price upward, depending on the feed cost. A website is available to help determine MILC payment rates. At the "Understanding Dairy Markets" website, maintained by the University of Wisconsin Dairy Marketing and Risk Management Program, there are links to information about the MILC program and a spreadsheet model to help calculate the MILC program's "feed cost adjuster." This website also offers access to the Farm Service Agency's 2008 MILC handbook. The handbook describes the program's provisions, eligibility requirements, how to compute payments and sign-up requirements.

Here is access the University of Wisconsin website:
http://future.aae.wisc.edu/milc.html

USDA Reports on 2008 Crop Production

As reported in the early January USDA Crop Report

The following summary is for 2008 crop production as reported by USDA:

Corn: U.S. corn for grain production is estimated at 12.1 billion bushels, up 1 percent from the November forecast but 7 percent lower than last year's record high. The average U.S. grain yield is estimated at 153.9 bushels per acre, 3.2 bushels above 2007. Yield is the second highest on record, behind 2004, and production is the second largest, behind 2007. Regionally, estimated yields are equal to or higher than last year across the western and central Corn Belt and northern half of the Great Plains, where heavy spring and early summer precipitation and timely rainfall during late summer provided adequate soil moisture supplies.

Corn planted area, at 86.0 million acres, is down 8 percent from 2007. Planted acreage decreased in most States as a result of favorable prices for other crops, high fertilizer prices, and a return to normal crop rotation patterns. Area harvested for grain, at 78.6 million acres, is down 9 percent from 2007.

Soybeans: Production in 2008 totaled 2.96 billion bushels, up 11 percent from 2007. U.S. production is the fourth largest on record with the average per acre estimated at 39.6 bushels, 2.1 bushels below last 2007 yield. Planted area for the Nation, at a record 75.7 million acres, is up 17 percent from 2007. Soybean growers harvested a record 74.6 million acres, up 16 percent from last year.

All Hay: Production of dry hay for 2008 is estimated at 146 million tons, down 1 percent from the 2007 total. Area harvested, at 60.1 million acres, is down 2 percent from 2007. The average yield, at 2.43 tons per acre is up 0.02 ton from the previous year.

Alfalfa and Alfalfa Mixtures: Hay production in 2008 is estimated at 69.6 million tons, down slightly from 2007. Harvested area, at 21.0 million acres, is 1 percent below the previous year. The average yield is 3.32 tons per acre, 0.12 ton below the previous forecast but 0.01 ton above 2007.

National Dairy Situation and Outlook – USDA Estimates

Milk Production and Cow Numbers
Monthly: Compared to 2007, USDA estimates that overall milk production across the U.S. was up 1.4% in December, led by Kansas' 20.0% growth in milk production (on 12,000 more cows and 135 more pounds per cow). USDA reports that California milk production was down 0.8% on 9,000 more cows, and 25 less pounds per cow, compared to December 2007. Among the western states, Arizona was up 5.6%; New Mexico up 6.1%; and Washington was down 1.1%. Five of the top ten states reported a production decrease.

Quarterly: For the fourth quarter of 2008 compared to the third quarter of 2008, U.S. milk cow numbers decreased to 9.275 million, production per cow decreased 28 pounds; the net effect was decreased milk production to 46.6 billion pounds. USDA projects that for the first quarter of 2009 compared to the fourth quarter of 2008, U.S. milk cow numbers will decrease to 9.265 million cows, production per cow will increase to 5,140 pounds; the net effect would be increased milk production to 47.6 billion pounds.

Milk Prices
Comparing the fourth quarter of 2008 to the third quarter of 2008, U.S. average all-milk prices were up to $18.90/cwt. USDA projects that for the first quarter of 2009, U.S. average all-milk prices will be $11.75-12.15/cwt.; Class 4b prices will be $9.75-10.15/cwt.; and Class 4a prices will be $9.41-9.91/cwt.

Utility Cow Prices
Comparing the fourth quarter of 2008 to the third quarter of 2008, average U.S. utility cow prices were down $15.08/cwt. to a national average of $46.70/cwt. USDA projects that utility cow prices will average $46-52 in the first quarter of 2009.

Information from the USDA-NASS publication "Milk Production" and the USDA-ERS publication: "Livestock, Dairy, and Poultry Outlook."

MILC Payments - *Continued from Page 1*

During the signup application period, participating dairy operations must select the month of the fiscal year to start receiving payments for eligible production. Producers submitting contract applications after Jan. 21, 2009, will not have the option of selecting an earlier month as the payment start month for the dairy operation for a fiscal year; and will be limited to applicable start month selection rules. Those general rules are that the start month must either be the month the contract is submitted or some later month. Changes in the month may be made from year to year so long as the designation is made by the fourteenth of the month proceeding the new start month. Pound limits run from the start month and all pounds for which payment is received count against the limit for that fiscal year.

Eligible dairy producers are those who commercially produce milk in the United States. To receive program approval, producers must enter into a MILC contract with CCC and provide monthly milk marketing data. Dairy producers can apply for MILC at local Farm Services Agency offices.

Idaho Production Moves Ahead of Pennsylvania

Idaho is now positioned as the fourth-largest milk-producing state, moving Pennsylvania back to the fifth largest milk producing state as related to the top milk producing states in the U.S.

In 2008, total milk output in Idaho topped that produced in Pennsylvania in every month.

Idaho milk production is trailing number three ranked New York, but surpassed New York milk production in four months during 2008.

Pool Prices

Month	Quota	Overbase
July ‘07	$21.60	$19.90
August	$21.74	$20.04
September	$21.69	$19.99
October	$21.16	$19.46
November	$21.93	$20.23
December	$20.79	$19.09
January ‘08	$19.14	$17.44
February	$18.42	$16.72
March	$17.71	$16.01
April	$17.56	$15.86
May	$18.47	$16.77
June	$19.12	$17.42
July	$19.05	$17.35
August	$18.01	$16.31
September	$17.92	$16.22
October	$17.14	$15.44
November	$15.97	$14.27
December	$14.11	$12.41

Milk Mailbox Prices

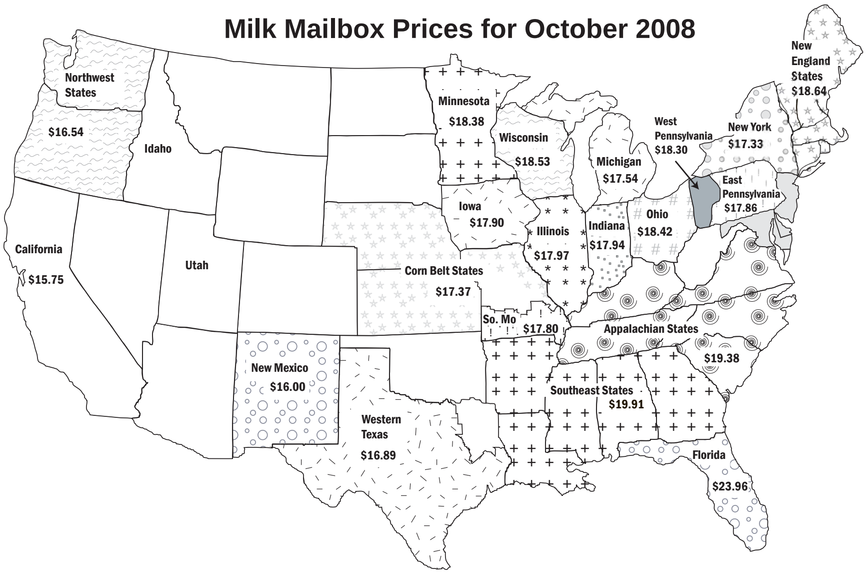
Milk Mailbox Prices in Dollars per Hundredweight

	April	May	June	July	August	September	October
California [1]	$15.88	$16.79	$17.35	$17.19	$16.25	$16.29	$15.75
USDA[2]	$18.19	$18.09	$19.11	$19.43	$18.58	$18.25	$17.94

[1] California mailbox price calculated by CDFA.

[2] All federal milk market order weighted average, as calculated by USDA.

Milk Mailbox Prices for October 2008



In October 2008, mailbox milk prices for selected reporting areas in Federal milk orders averaged $17.94 per cwt., down $0.33 from the revised previous month average, and down $3.45 from October 2007. The component tests of producer milk in October 2008 were: butterfat, 3.74%; protein, 3.12%; and other solids, 5.70%. On an individual reporting area basis, mailbox prices decreased in all Federal milk order reporting areas except in Florida, Wisconsin, and Minnesota, and ranged from $23.96 in Florida to $16.00 in New Mexico.

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