The Big Picture

For the first six months of 2005, the California dairy industry continued the trend of increased milk production, posting record production numbers in the months of March and May. Milk production in California has reflected an average growth rate of 3.4 percent for the first six months of 2005, compared to the 12-month average growth rate in 2004 of 2.9 percent. For five of the first six months of 2005, California recorded milk production over three billion pounds and continues to set new records in production. For the U.S. overall, for January-June 2005 compared to the same period in 2004, milk production was up 2.6 percent, cow numbers increased by 40,000, and average production per cow was up 80 pounds per cow.

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. Following the trend of 2004, the first six months of this year continued the steady growth of California cheese production, averaging a 8.5 percent increase in production over the same period in 2004. The month of May 2005 produced a record 187.3 million pounds. If the current trend in cheese production continues, California could produce a record 1.9 billion pounds of total cheese by year-end, compared to last year’s record 1.99 billion pounds. The year 2005 recorded an increase of 5.3 percent in butter production, and the first six months of this year have continued this trend with butter production up 5.5 percent from the same period last year. Nonfat dry milk production continued to decline for the first six months of 2005, with production down 35.0 percent compared to the same period last year. This large decrease reflects overseas demand which has created a market for custom-tailored powder which does not have the same standards as nonfat dry milk powder, therefore is not included in the nonfat dry milk dataset. Utilization in the first six months of 2005 continued to reflect recent production trends with butter, cheese, and nonfat powder production accounting for 76 percent of all California-produced milk available on a total solids basis.

Milk Prices

The low milk prices that dominated discussions in the dairy industry for most of 2003 are now just a distant memory. With today’s pricing environment, the industry experienced consistent farm prices, with the first six months of 2005 recording an average price paid to California producers of $13.98 per hundredweight. Even though the commodity prices for butter and cheese were volatile and unpredictable at times, overall, the prices responded to renewed consumer confidence, strong world prices, and at times, the lack of surplus dairy products on hand. Looking back at the low prices of 2003 and early 2004 provides just another example of how milk prices can and do move both up and down rapidly. It also shows that the level of milk prices is more reflective of the supply/demand of the dairy commodity markets. For example, the pricing formulas that resulted in $10 per hundredweight milk two years ago are the same ones that are now resulting in prices in the $14 to $16 per hundredweight range.

Shifting Dairy Landscape

The dairy landscape in California continues to shift with 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 continues to increase from year-to-year. For example, over the past four years, San Bernardino and Riverside counties have recorded a net loss of 77 dairies. During the first five months of 2005, milk production in Southern California decreased by 12.8 percent compared to 2004, following a 15% decrease in production for the same period comparing 2004 to 2003. Southern California now only accounts for approximately 10.7 percent of the state’s milk production. 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, in the future it will become increasingly important to move milk to those processing facilities by means that are efficient, orderly, and sustainable.

This publication was prepared in the Division of Marketing Services, Dairy Marketing Branch, and is a joint effort of the California Department of Food and Agriculture, the U.S. Department of Agriculture, and the National Agricultural Statistics Service. This publication would not be possible without the cooperation of the individuals and firms engaged in the production, manufacture, and distribution of milk and dairy products.
**Production Notes, January-June 2005:**
- The top ten counties accounted for 93% of California’s total milk production and 20% of the nation’s total milk production.
- For the top ten counties, in comparison to the same period in 2004, Kern County recorded the largest increase in milk production at 20.8%, and San Bernardino and Riverside counties showed the greatest decreases in milk production at -12.3% and -13.4%, respectively.
- Compared to the same period last year, San Bernardino County dropped from ranking 5th to ranking 6th in milk production, San Joaquin County dropped from ranking 7th to ranking 8th, and Riverside County dropped from ranking 9th to ranking 10th in milk production.
- The milk production of Tulare, Merced, Stanislaus, Kings, and Kern counties accounted for 14% of the nation’s total milk production.
The Size of California’s Dairy Farms, May 2005

<table>
<thead>
<tr>
<th>Range of Milk Marketings</th>
<th>Number of Grade A &amp; B Farms</th>
<th>Percent of Total Grade A &amp; B Farms</th>
<th>Percent of Total Grade A &amp; B Milk Marketings</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; 250,000 Lbs.</td>
<td>194</td>
<td>9.78%</td>
<td>0.91%</td>
</tr>
<tr>
<td>250,000 to 500,000 Lbs.</td>
<td>282</td>
<td>14.22%</td>
<td>3.27%</td>
</tr>
<tr>
<td>500,000 to 750,000 Lbs.</td>
<td>248</td>
<td>12.51%</td>
<td>4.78%</td>
</tr>
<tr>
<td>750,000 to 1 Million Lbs.</td>
<td>227</td>
<td>11.45%</td>
<td>6.13%</td>
</tr>
<tr>
<td>1 to 1.5 Million Lbs.</td>
<td>313</td>
<td>15.78%</td>
<td>11.87%</td>
</tr>
<tr>
<td>1.5 to 2.4 Million Lbs.</td>
<td>317</td>
<td>15.99%</td>
<td>18.41%</td>
</tr>
<tr>
<td>2.4 to 5.0 Million Lbs.</td>
<td>294</td>
<td>14.83%</td>
<td>30.76%</td>
</tr>
<tr>
<td>&gt; 5.0 Million Lbs. (up to 17.4 Million Lbs.)</td>
<td>108</td>
<td>5.45%</td>
<td>23.88%</td>
</tr>
</tbody>
</table>

California Farms by Size, Comparison

- The 402 top-producing dairy farms (20% of the state’s dairies) produce 55% of the state’s milk marketings.
- The 724 lowest-producing dairy farms (36% of the state’s dairies) produce only 9% of the state’s milk marketings.
- The group of dairies producing less than 250,000 pounds of milk per month (194 dairies) accounted for less than 1% of the state’s milk marketings.
- In May 2005, there were 108 dairies producing greater than 5 million pounds of milk per month, an increase of 33% more dairies than in July 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 less than half of the retail price of milk.
In the Top Twenty-three States:

- U.S. milk production in the top twenty-three reporting states for January-June 2005, showed an overall 3.1% increase compared to the same period in 2004.
- These top twenty-three reporting states produced 91% of the nation’s total milk production.
- The strongest increase in milk production for the period January-June 2005 was recorded by Idaho (+9.5%).
- Four of the top twenty-three milk producing states reported decreases in production for the period January-June 2005, compared to 12 states reporting decreases for the same period in 2004.

In the Top Twenty-three States:

- U.S. total milk cows in the top twenty-three reporting states for January-June 2005, showed an overall 0.6% increase compared to the same period in 2004.
- The strongest increase in the number of cows was recorded by Idaho (+6.4%); while the largest decrease in the number of cows was recorded by Missouri (-4.8%).
- Eleven of the top twenty-three milk producing states reported a decrease in the number of cows.
- The top twenty-three milk producing states accounted for 90 percent of the nation’s total milk cows.