The Big Picture

For the first six months of 2007, California continued the trend of increased milk production, however, by early Spring, because of the strong demand for U.S. dairy products, particularly world demand, the low milk prices of 2006 were a distant memory. The principal suppliers of dairy commodities on the World Market have declining supplies available to satisfy the world demand, thus increasing the demand for whey protein and whey products. Milk production in California reflected an average growth rate of 3.7 percent for the first six months of 2007, compared to the 12-month average growth rate in 2006 of 3.4 percent. For each of the first six months of 2007, California recorded milk production over three billion pounds. U.S. overall milk production also showed an increase and at times, plants across the country (including California) scrambled for plant capacity to handle the surplus milk supply. For the U.S. overall, USDA June 2007 reports indicate that compared to 2006, milk production was up 1.0 percent, cow numbers decreased by 10,000, and average production per cow was up 20 pounds per cow.

Dairy Products

The first half of 2007 continued California’s dairy industry growth with increased total pounds of production of butter, nonfat dry milk, and total cheese (compared to the same period in 2006). The steady annual growth of total cheese production continued, averaging a 6.5 percent increase in production over the same period in 2006. California cheese production is on track to surpass last year’s record setting 2.2 billion pounds of total cheese by year-end. Many California plants diverted the increased milk supplies to the production of butter and nonfat dry milk products. The world demand for milk protein products (such as skim milk powder, dry whey, and whey protein concentrate) has fueled the U.S. production of these products. The first half of 2007 recorded increases of 3.3 percent in butter production, and 10.5 percent in nonfat dry milk production (not including the skim milk powders and whey protein concentrates). In addition, for January-June 2007, Class 1 sales of fluid milk in California were 0.5 percent higher than the same period in 2006.

Milk Prices

The high milk prices experienced by producers in mid-2004 were surpassed in the spring of 2007. Early 2007 brought the low milk prices of 2006 to an end as rising commodity prices drove milk prices to record levels, surpassing 2004 pricing levels. For the first six months of 2007, the average price paid to California producers was $15.48 compared to $11.43 for the first six months of 2006. 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). Demand for dairy products has been very strong, and the global economies and markets have changed resulting in substantial increases in U.S. dairy product export sales. Australia has been plagued with drought conditions over the last few years and currently is not a major player in the dairy export market; on the contrary, they are seeking U.S. dairy products. The dramatic increase in dairy product exports coupled with these emerging global markets increasing demand has caused a shift 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 2007.

Hearings and Related Issues

The Department has called a public hearing on August 28, 2007, to consider amendments to the Stabilization and Marketing Plan for Market Milk for the Northern and Southern California Marketing Areas (Plans) and revisions to the Weekly and Monthly Nonfat Dry Milk Sales Reports. Petitions were received from Western United Dairymen and Milk Producers Council. The petitions addressed changes to the method used to determine the market value of nonfat dry milk used in the Class 4a formulas and in the Commodity Reference Price of the Class 1 pricing formula; and including only contracted sales of nonfat dry milk that are delivered within 90 days of contract execution in the nonfat dry milk sales reports.

There were no hearings held in the first six months of 2007, however the hearings held in 2006 are important
to note as they had an impact on 2007 milk prices.

On January 31st and July 6th of 2006, the Department held public hearings regarding transportation issues in the dairy industry: a reflection of the dynamic changing landscape of the California dairy industry. These hearings addressed the competitiveness of milk movement costs in light of the structural changes in the state’s dairy industry. 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.

The Department held a hearing on June 1 and 2, 2006, to consider amendments to the Class 2, 3, 4a, and 4b pricing formulas, which resulted in numerous changes to the formulas, namely changes to the manufacturing cost allowances, and f.o.b. California price adjusters.

The Department also held a hearing on December 5, 2006, considering numerous issues and amendments to the Class 1 pricing formula. This hearing resulted in changes to the formula, but most notably the addition of a dry whey factor to the Class 1 pricing formula.

All hearing related information can be found on the Dairy Marketing Branch website at: www.cdfa.ca.gov/dairy (go to Hearings)
### Net Milk Available in California

In Thousand Pounds, for January-June, 2002-2007

<table>
<thead>
<tr>
<th>Year</th>
<th>Production Entering California</th>
<th>Production Leaving California</th>
<th>California Milk Production</th>
<th>Net Milk Available</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>601,210</td>
<td>286,287</td>
<td>17,490,758</td>
<td>17,805,681</td>
</tr>
<tr>
<td>2003</td>
<td>634,164</td>
<td>335,284</td>
<td>17,953,364</td>
<td>18,252,244</td>
</tr>
<tr>
<td>2004</td>
<td>730,164</td>
<td>139,284</td>
<td>18,183,980</td>
<td>18,774,473</td>
</tr>
<tr>
<td>2005</td>
<td>639,799</td>
<td>161,063</td>
<td>18,793,595</td>
<td>19,272,331</td>
</tr>
<tr>
<td>2007</td>
<td>526,397</td>
<td>205,156</td>
<td>20,315,427</td>
<td>20,636,668</td>
</tr>
</tbody>
</table>

### California Farms by Size, Comparison

- The 452 top-producing dairy farms (24% of the state’s dairies) produce 60% of the state’s milk marketings.
- The 638 lowest-producing dairy farms (34% 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 (164 dairies) accounted for less than 1% of the state’s milk marketings.
- In May 2007, there were 134 dairies producing greater than 5 million pounds of milk per month, 8% more dairies than in May 2006.
- Compared to May 2006, there are an additional 23 dairies producing more than one tanker load of milk per day.

---

### Distribution of Farms by Size of Milk Marketings, May 2007

- **< 249,000 Lbs.**: 164 Farms (8.69% of total, 0.68% of total milk marketings)
- **250,000 to 499,000 Lbs.**: 247 Farms (13.01%, 2.71%)
- **500,000 to 749,000 Lbs.**: 227 Farms (11.96%, 4.08%)
- **750,000 to 999,999 Lbs.**: 203 Farms (10.70%, 5.21%)
- **1 to 1.4 Million Lbs.**: 281 Farms (14.81%, 10.00%)
- **1.5 to 2.3 Million Lbs.**: 323 Farms (17.02%, 17.74%)
- **2.4 to 4.9 Million Lbs.**: 318 Farms (16.75%, 31.41%)
- **> 5 Million Lbs.**: 134 Farms (7.06%, 28.17%)

---

- **134 Dairies** producing at least one tanker load of milk per day
- **318 Dairies** producing between 2.4 to 4.9 million pounds of milk.
- **323 Dairies** producing between 1.5 to 2.3 million pounds of milk.
- **281 Dairies** producing between 1 to 1.4 million pounds of milk.
- **203 Dairies** producing between 750,000 to 999,999 pounds of milk.
- **227 Dairies** producing between 500,000 to 749,999 pounds of milk.
- **247 Dairies** producing between 250,000 to 499,000 pounds of milk.
- **164 Dairies** producing less than 249,000 pounds of milk.
Where Do Consumer Milk Dollars Go?
Sacramento, May 2007

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 producers. The chart below shows that dairy producers receive only about one third of the retail price of milk.

Average Retail Prices per Gallon

Costs to meet California’s higher nutritional standards ($0.10 for reduced fat milk; $0.19 for lowfat milk)
Retail price data for Sacramento for May 2007 obtained from A.C. Nielson Company

Average Retail Gallon Prices for Whole Milk, Selected Cities, May 2007

U.S. Average Retail Price for Whole Milk, May 2007: $3.23/gallon
Source: A.C. Nielsen Scantrack Reports
**U.S. Milk Production:**

- U.S. milk production for January-June 2007, showed an overall 1.1% increase compared to the same period in 2006.
- In the top ten milk producing states for the first six months of 2007 compared to 2006, Idaho and Michigan showed the strongest increases in production, 5.7% and 5.2%, respectively.
- Interesting to note that even though 31 of the 50 states reported decreases in production for the period January-June 2007 compared to the same period in 2006, overall U.S. production still recorded a 1.1% increase.

**Milk Cows in the U.S.:**

- U.S. total number of milk cows for June 2007 were at relatively the same level as seen in June of 2006.
- In the June 2007 USDA report, the majority of the states showing a decrease in cow numbers, compared to 2006, were those in the middle and eastern half of the U.S.
- Just over half of the 50 states reported a decrease in the number of cows compared to the same period in 2006.
- One fifth of the 9.1 million U.S. dairy cows are located in California.