

California Dairy Review

A publication serving the California dairy industry for over 10 years

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

Department Announces Class 4a/4b Hearing Decision - Effective Date Pending

On June 1 and 2, 2006, the Department held a public hearing to consider amendments to the Stabilization and Marketing Plans for Market Milk (Plans). The proposed amendments to the Class 4a and 4b pricing formulas would also have a pass-through effect on the Class 2 and 3 pricing formulas.

Having carefully weighed the contents of the hearing record, the Department has decided to:

- Reduce the f.o.b. California price adjuster for Grade AA butter from \$0.0280 per pound to \$0.0168 per pound.
- Reduce the f.o.b. California price adjuster for Cheddar cheese from \$0.0290 per pound to \$0.0252 per pound.
- Increase the manufacturing cost allowance for Cheddar cheese from \$0.171 per pound to \$0.178 per pound.
- Increase the manufacturing cost allowance for skim whey powder from \$0.200 per pound to \$0.267 per pound.
- Increase the manufacturing cost allowance for nonfat dry milk from \$0.152 per pound to \$0.160 per pound.

The Department has additionally decided:

- not to change the manufacturing cost allowance for butter,
- not to adopt any form of variable manufacturing cost allowance,
- not to adopt floors or snubbers for the commodity prices,
- not to add whey protein concentrate to the Class 4b formula, and
- not to change the Cheddar cheese yield.

The f.o.b. price adjusters were changed consistent with prior Department decisions to base them on the two-year simple average for the most recent data available.

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Production, Prices, Quota Transfers, Alfalfa

June Milk Production

Milk production in California for June 2006 totaled 3.2 billion pounds, up 0.8 percent from June 2005. USDA's estimate for U.S. milk production for June 2006 in the 23 major dairy states is 14.0 billion pounds, up 1.4 percent from June 2005. Production per cow in the 23 major states averaged 1,695 pounds for June, five pounds more than June 2005. ☀

Minimum Class Prices

Statewide average hundredweight prices

Class	June	July	August
1	\$12.48	\$12.50	\$12.17
2	\$10.86	\$10.86	N/A
3	\$10.69	\$10.69	N/A
4a	\$ 9.83	N/A	N/A
4b	\$10.65	N/A	N/A

Federal Order and California Minimum Class 1 Prices

Average Hundredweight Prices

Regions	June	July	August
Phoenix, Arizona	\$13.10	\$13.69	N/A
Southern California	\$12.62	\$12.64	\$12.30
Portland, Oregon	\$12.65	\$13.24	N/A
Northern California	\$12.35	\$12.37	\$12.03
Boston (Northeast)	\$14.00	\$14.59	N/A

Quota Transfer Summary

For June 2006, seven dairy producers transferred 9,994 pounds of SNF quota. June quota sales averaged \$499 per pound of SNF (without cows), average ratio of 2.32. For July 2006, two dairy producers transferred 3,349 pounds of SNF quota. July quota sales averaged \$505 per pound of SNF (without cows), average ratio of 2.39.

Alfalfa Update: July

Northern California: Premium and Supreme alfalfa were steady with good demand and light supplies. Fair and Good alfalfa was steady with moderate demand and moderate to heavy supplies. Retail and Stable hay was fairly weak with some processors compelled to take lower offers. Demand and supply was moderate.

Southern California: Supreme and Premium alfalfa was not well tested with good demand and light supplies. Fair and Good alfalfa was steady with moderate demand and moderate to heavy supplies. Retail and stable hay was steady to weak with moderate demand and supplies - several producers going to the barn with some of their supplies. ☀

Supreme Hay Prices

Statewide average prices per ton

Area	6/30	7/7	7/14	7/21
Petaluma	\$195	N/A	\$175	N/A
North Valley ¹	\$170-185	\$175-185	\$160-185	\$170-185
South Valley ²	\$180-190	\$172-205	\$183	N/A
Chino Valley	N/A	N/A	N/A	N/A

¹North Valley is Escalon, Modesto and Turlock areas.

²South Valley is Tulare, Visalia and Hanford areas.

Alfalfa Hay Sales/Delivery

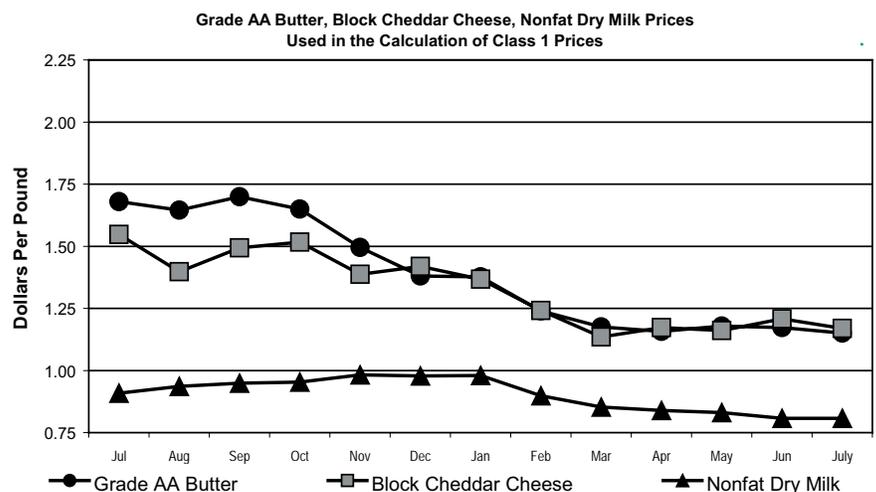
	June	July
Tons Sold ¹	295,527	326,707
Tons Delivered ²	130,570	128,161

¹ For current or future delivery.

² Contracted or current sales.

Alfalfa hay sales, deliveries and Supreme quality prices per ton, delivered to dairies, as reported by the USDA Market News Service, Moses Lake, WA, (509) 765-3611, <http://www.ams.usda.gov/marketnews.htm>

Grade AA Butter, Block Cheddar Cheese, and Nonfat Dry Milk Prices Used in the Calculation of California Class 1 Milk Prices





The current theory is that Bovine Spongiform Encephalopathy (BSE) entered North America through cattle imported from the United Kingdom (UK) during the 1980's; 182 UK cattle were imported directly into Canada and 300 into the US from 1982 to 1990. Native cattle were most likely exposed to BSE by eating a ration containing meat and bone meal contaminated with infectious material.

Animal Feed Controls

In 1997, both the US and Canada introduced measures to safeguard cattle feed. In October 2005, the Food and Drug Administration proposed a rule to strengthen the current US animal feed controls; the rule should be finalized in July 2006. The proposal would ban the use in **all animal feed** of cattle parts most likely to spread BSE, including the brain and spinal cord from cattle 30 months of age and older, the entire carcass of cattle not passed for human consumption (if the brain and spinal cord have not been removed), tallow from prohibited materials that contains more than 0.15% insoluble impurities, and mechanically separated beef. In June 2006, Canada published a rule that, effective July 2007 bans specified risk materials from all animal feeds, pet foods and fertilizer.

What Should Producers Do?

- Comply with feed bans - **do not feed products containing prohibited materials.**
- Keep copies of feed records – invoices and labels.
- Establish an individual animal identification plan for your herd, and keep records of when animals enter and leave the herd.
- **Report cattle with neurological signs to your veterinarian.**
- Dispose of carcasses appropriately, such as with a licensed renderer.
- Help to ensure that unsafe meat does not enter the human food chain.

Eleven cases to date...

To date, 11 BSE cases have been diagnosed in North America:

Case 1: In 1993, one of the monitored UK cattle tested positive for BSE in Alberta, Canada, and was diverted from the human food and animal feed systems. Canada depopulated all of their remaining UK cattle.

Case 2: On May 20, 2003, Canada confirmed BSE in a six-year-old Angus cow born in Saskatchewan. The

cow did not enter the human food chain; the remains entered the feed system through a rendering facility in Alberta. The herd of origin and other animals of interest were slaughtered: more than 2,700 cattle were culled and over 2,000 tested negative for BSE.

Case 3: On December 25, 2003, the USDA confirmed BSE in a six-year-old Holstein cow slaughtered in Washington State. The cow was born in Alberta and entered the US in 2001 as part of a shipment of 81 animals. Over 255 cattle were depopulated from 10 premises; all tested BSE negative.

Case 4: On January 2, 2005, BSE was confirmed in an eight-year-old Holstein cow born in Alberta. No part of the cow entered the human or animal food chain. Over 130 animals were traced; those located alive were culled and tested negative for BSE.

Case 5: On January 11, 2005, BSE was confirmed in a six-year-old Charolais cow born in Alberta. No part of the animal entered the human or animal food chain. Over 350 animals were investigated, and 41 were culled and tested negative for BSE.

Case 6: On June 24, 2005, BSE was confirmed in a 12-year-old Brahma-cross cow born in Texas. No part of this animal entered the human or animal food chain. Over 200 cattle were investigated.

Case 7: On January 23, 2006, BSE was confirmed in a six-year-old Holstein-Hereford cross cow in Alberta. No part of the animal entered the human or animal food chain. A total of 156 cattle were investigated.

Case 8: On March 13, 2006, BSE was confirmed in a 10-year-old crossbred beef cow in Alabama, US. The investigation was unable to find any related animals except for the two most recent calves.

Case 9: On April 16, 2006, BSE was confirmed in a 6-year-old Holstein cow from British Columbia.

Case 10: On July 4, 2006, BSE was confirmed in a 15-year-old crossbred beef cow from Manitoba.

Case 11: On July 13, 2006, BSE was confirmed in a 50-month-old dairy cow from Alberta.

CDFA Animal Health Branch Offices	
Sacramento (HQ)	916-654-1447
Modesto	209-491-9350
Ontario	909-947-4462
Redding	530-225-2140
Tulare	559-685-3500
USDA/APHIS/VS	877-741-3690

California Hay Update

By Seth Hoyt, National Agricultural Statistics Service, California Field Office

Alfalfa hay acres in California on June 1, 2006, were estimated at 1,060,000, up 60,000 acres or 6% above 2005. This compares to a 150,000 increase in alfalfa hay acres in 2002 following a good alfalfa hay market in 2001, but nowhere near the 2005 market. It appears the largest planting of new alfalfa in 2006 is in central California.

While Imperial Valley alfalfa acres were up 9,500 from last year, it was nearly offset by a drop in acres in the Palo Verde Valley (Blythe area). Some in industry, including many seed reps, predicted alfalfa hay acres could be up at least 10% or more in California this year. Heavy December and early spring rains may have had more of an impact than first thought, particularly in the north central and northern valley. For example, a Sacramento Valley grower told me he planted over 500 acres of alfalfa last fall that was drowned out by December rains. He replanted in February, but March and April rains drowned out all but 70 acres of replanted alfalfa. There are other stories of losses from the Stockton/Sacramento Delta and Sacramento Valley. Planting of other crops may have also played a part in lower than expected alfalfa acres.



Other Hay Acres

Other hay acres in California on June 1 were estimated at 540,000, down 10,000 from 2005. Fewer sudan and rye grass acres in the central and northern valley may be one reason for the slight drop in other hay. But sudan hay acres in California could be close to last year due to 6% more acres in the Imperial Valley vs. a year ago. Oat hay acres appeared to be higher than 2005 in central California but were mixed in other areas. Other grain hay acres were also up, including wheat harvested for hay due to stripe rust. Much of the grain hay in the central and northern valley was rained on in May, adding to supplies of dry cow hay. Smaller supplies of Good quality oat hay for horses were still selling at strong prices in June.

Weather Disruption

Mother Nature threw a wrench in normal alfalfa production in central and northern California this

spring. Delayed harvests and rainy weather resulted in disappointing tests on early cuttings. Alfalfa hay testing above 56% TDN was limited. Supplies of low to middle quality alfalfa hay were above normal. Many central California growers may lose a cutting for the season. It's significant because most dairies came into 2006 with below normal supplies of milk cow quality alfalfa.

California hay stocks on May 1 were down 16% from 2005. This was evident from the strong demand in southern California for the first two alfalfa cuttings. According to Market News, Supreme alfalfa in the southern desert ranged from \$135.00 to \$158.00 per ton f.o.b. from February through April, much of it destined to San Joaquin Valley dairies. As milk prices declined, dairy hay buyers became more bearish and prices in the desert topped at \$143.00 f.o.b. by May 1. Hopes of higher quality new crop alfalfa hay from the San Joaquin and Sacramento Valleys were shattered by rain that delayed the start of harvest, and mid-May rain that caught a large amount of hay on the ground.

Normally, 60,000 more alfalfa hay acres would result in larger production than the prior year. But, with the late start of the season in the central and northern valley and low tonnage in some areas, alfalfa hay yields may well be down in 2006. The question is, can growers make up some of the lost yield in summer cuttings? We should have a better handle on production in the coming months. The bottom line: alfalfa hay supplies in 2006 may be below earlier expectations. That's little consolation to growers in central and northern California who found themselves with larger than normal supplies of non-test hay on hand in June and a bearish market. It's similar to 1998 when El Nino rains resulted in an abundance of low-to-middle quality alfalfa hay and limited supplies of higher test hay.

Another issue is a cash flow problem because growers

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HAY UPDATE - Continued

didn't produce their normal two spring cuttings of milk cow quality alfalfa (which would have moved readily). I've heard of growers taking hay to barns, which should fill earlier than normal. What about growers who don't have barns or may need cash? Can they afford to sit on hay until late summer or early fall? Another factor is an abundant supply of low to middle quality grain hay in some areas (much of it rained on). Some dairies are purchasing this for dry cow hay and may purchase alfalfa hay for dry cows in late summer or early fall.

In Shipped Hay

I mentioned in earlier articles that alfalfa shipments from western states into California in 2005 were up significantly from 2004. Shipments in January 2006 were a record high. However, alfalfa hay shipments from February thru May were 8% below the same period in 2005. Part of this could be that old crop milk cow quality supplies of alfalfa hay were declining in the West. Higher freight rates were possibly a factor. But the big reason appears to be a dramatic drop in alfalfa shipments from Arizona. Sources there tell me that urban sprawl in central Arizona has displaced alfalfa ground. This and a growing dairy industry has resulted in alfalfa hay, particularly near the Colorado River, moving to central Arizona rather than California. Another development is that some alfalfa from the desert Southwest has been moving to drought areas in Texas and Oklahoma, according to sources. Fair Quality alfalfa hay prices in the southern California desert in late June were not the normal \$10.00 to \$20.00 per ton below the San Joaquin and Sacramento Valley.

Shipments of milk cow quality alfalfa hay into California from Western States could be higher in the coming months due to a shortage of high test hay in California. Much will depend on weather and tests on hay. It will be hard to top the large out-of-state shipments of alfalfa in the summer and fall of 2005. Some California hay buyers visited Nevada and Utah in June to buy milk cow quality alfalfa. Supplies were not as plentiful as hoped due to rained on first cuttings or hay that tested below normal. There should be good demand for Premium and Supreme alfalfa in California and the West the balance of 2006. There may be improved demand for alfalfa hay for export due to heavy rain damage in June in the Pacific Northwest.

California Dairies

The Overbase milk price in California dropped to \$10.20 cwt in April and May. This could be as bad as the \$9.50 price in 2003 considering the current higher cost of production. There seemed to be some optimism in late May for milk prices in the coming months, but it faded when cheese and butter markets continued to falter in



June. Even the bullish milk production report for May which showed the slowest growth in milk production in a year could not stimulate the milk futures market. On June 29, the July thru December 2006 Class 3 milk futures prices ranged from \$11.17 to \$12.22 cwt., which was better than the first six months of the year.

If the combination of hot weather and dairies feeding middle quality rather high quality alfalfa holds milk production at or below levels seen in May, there may be a chance for improved milk prices the second half of 2006. Whether the market would climb high enough to bring profitability back to the dairy industry is the big question. The breakeven price on milk is higher than a couple of years ago.

Dairies continue to adjust feed rations by reducing the amount of hay in milk cow rations. I've heard some dairies have dropped to 8 to 10 pounds of hay per cow/per day with a few as low as 3 to 4 pounds. I'm not a nutritionist but I'd be concerned about production and cow health feeding 3 to 4 pounds of hay per cow/per day long term. Maybe there is something new with dairy cow nutrition and rations I've missed, or maybe these dairies are feeding alfalfa silage along with hay. I think some dairies have faced the reality that if they find high test alfalfa hay there will be stiff competition and comparatively, the price will be much higher than middle quality hay. As predicted, many dairies are buying more short term and not purchasing large quantities of hay. If larger dairies can find milk cow quality alfalfa hay in the West and have the cash, they will buy volume.

Dairies were culling heavier the past few months to generate cash. Dairy cow slaughter in California from March thru May was 16% above the same period in 2005. Dairy cow slaughter in May was up 22% from 2005. The year-to-year growth in dairy cow numbers on June 1 in California was 34,000 head

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HAY UPDATE - Continued

above June 2005. While it's only slightly lower than the 35,000 head year-to-year growth last June, it compares to 59,000 head year-to-year growth in June 2002. There are indications that dairy cow numbers in California may slip. Dairy replacement heifers shipped to California the first five months of 2006 were down 19% vs. the same period last year. Demand and prices for dairy springer heifers have dropped. Dairy cow inventory in May 2006 was 1,785,000 head.

Feed Corn Update

My last article mentioned that feed corn prices could move higher this summer due to lower production in 2006, higher exports, and demand for ethanol. The market was moving higher until early June when a private company predicted U.S. corn acres would be unchanged from last year. This, along with favorable corn planting and growing conditions caused the market to tumble. However, the USDA June acreage report released June 30 estimated U.S. feed corn acres at 3% below 2005. On July 3rd, corn futures prices on the Chicago Board of Trade rallied 14 to 15 cents per bushel with the December prices reaching \$2.68 ½.

Weather will drive the feed corn market until harvest. The prediction is that 20% of the U.S. corn harvest will go to ethanol production, up from 14% in 2005. A plus in this is that distillers dry grains, a high protein by-product feed from ethanol production using corn, should be more readily available and competitively priced. Some dairies and feedlots in California are currently feeding distillers dry grains.

Conclusion

Supplies of higher test alfalfa hay for milk cows may be tight throughout 2006 in California and the West. Demand will be good for Premium and Supreme quality alfalfa. Demand may also be good in California for middle quality alfalfa hay for export due to rain damaged alfalfa in the Pacific Northwest. Near term supplies of low to middle quality alfalfa hay in California are plentiful with slow movement. The price spread between the top and bottom of the market may reach a record in some areas.

Alfalfa hay supplies in California this fall may not be as large as earlier predictions due to lower than expected production, combined with older alfalfa stands taken out of production in late spring, hay moving to barns, export demand, lower hay carryover from 2005, and the possibility that out-of-state alfalfa hay shipments in 2006 may be lower than anticipated. ☀

Canada Confirms BSE in Animal Born After Feed Ban Ruling

The Canadian Food Inspection Agency has confirmed bovine spongiform encephalopathy (BSE) in a 50-month-old dairy cow from Alberta. The animal was first reported July 10th based on preliminary test results. The entire carcass was incinerated and did not enter the human or animal feed systems.

This is the seventh case of BSE found in Canada since 2003 and the second this month. Another case was discovered in early July in Manitoba province. In the previous six cases, the animals were born either before or shortly after the enactment of the feed ban.

The birth farm has been located and quarantined, and investigators are tracing other cattle born on the premises within 12 months before or after the birth of the affected animal.

Given its age, the affected animal was exposed to BSE after the 1997 implementation of Canada's feed ban. This scenario, as well as the animal's age, is consistent with the experiences of most countries reporting cases of BSE. Nonetheless, a full accounting and determination of how this animal was exposed to BSE will be the primary focus of the CFIA's investigation. Raised on a farm in Alberta, the dairy cow is the youngest in North America known to have succumbed to mad cow disease.

This animal, along with all previous cases, was detected through the national surveillance program, which targets the highest risk animal populations. The program is intended to establish the prevalence of the disease and continues to indicate that only a very low level of BSE is present in the national cattle herd. Canada has monitored its cattle for BSE since 1991. Starting in 2003, the number of animals annually tested sharply increased. During the same period, the CFIA, provinces and industry have collaborated to promote awareness and encourage reporting of potential BSE cases, which is an important factor in domestic and international confidence.

The United States imports roughly 1 billion pounds of beef annually from Canada, according to the U.S. Department of Agriculture. Fear of the disease abroad has cost the U.S. beef industry billions of dollars in lost export sales, especially to Japan and South Korea. Many countries banned U.S. beef after an animal in Washington state tested positive for the disease in late 2003. The bans cut beef exports by 80 percent, according to the USDA. ☀

CWT 10-Cent Assessment Begins July 1st

Members of Cooperatives Working Together (CWT) have committed to doubling the investment they are making as the fourth year of the CWT program begins on July 1st. Starting with July's milk production, CWT member cooperatives and individual farmers will begin contributing ten cents per hundredweight, an increase of five cents per hundredweight from the current level of commitment. The additional revenue will be used to continue CWT's two-pronged approach to reducing milk supplies in an effort to improve the economic climate for America's dairy farmers. The higher assessment will run through 2007, and ensures that CWT will be able to fund additional herd retirement efforts, as well as its ongoing export assistance program.

With milk production up 4.1% through the first five months of 2006, compared to year-earlier levels, the CWT efforts hope to bring some balance to supply and demand. CWT's membership volume as of July 1st will be approximately 70% of the nation's milk supply. That figure includes cooperatives fully participating at the higher, ten cent assessment level, as well as others that continue to be contributors at the five cent level for the remainder of 2006. 

CWT Accepts Export Assistance Bids

CWT announced that it has accepted an export assistance bid for the sale of cheese from Dairy Farmers of America of Kansas City, MO, for the export of 96 metric tons (211,200 pounds) of Cheddar cheese to Japan. This accepted bid increases CWT's year-to-date (YTD) cheese exports to 3,638 metric tons (8.0 million lbs.). In addition, CWT's YTD anhydrous milkfat exports are 1,165 metric tons (2.56 million lbs.), and its whole milk powder exports are 1,864 metric tons (4.10 million lbs.). CWT's YTD butter exports have been revised upward to 5,870 metric tons (12.91 lbs.), due to an additional 42 metric tons being shipped to Honduras as part of a bid initially accepted back on January 31.

Previous shipments facilitated by CWT's export assistance program have gone to Algeria, Barbados, Denmark, the Dominican Republic, Egypt, El Salvador, Germany, Guatemala, Honduras, Hong Kong, India, Indonesia, Israel, Japan, Jordan, Kuwait, Lebanon, Mexico, Morocco, the Netherlands, Nicaragua, Oman, Qatar, Panama, Romania, Russia, Saudi Arabia, Singapore, South Korea, Taiwan, Trinidad, Tunisia, Turkey, the United Arab Emirates, and Vietnam. For more on CWT activities, visit www.cwt.coop. 

It Pays to Keep Dry Cows Cool

University of California, Davis researchers claim that you can come out financially ahead by cooling dry cows during the summer.

Dry cows cooled with sprinklers, fans and shades were projected to give nearly 186 pounds more milk during the first 60 days of lactation than dry cows cooled with sprinklers only, according to a partial-budget analysis by researchers at the University of California, Davis. By following the guidelines to keep dry cows cool, researchers projected an economic return of \$2,131 in profit per year.

The analysis was based on a study that took place on a 3,000-cow dairy in central California. In one dry-cow pen, sprinklers were mounted over the feedbunk. In a second dry-cow pen, sprinklers, fans and shades were mounted over the feedbunk. Researchers exposed cows to their respective treatment for at least two weeks before calving.

Shortly before this publication went to press, the Department received several reports of an increase in cow deaths due to heat related issues. 

Market, News, Weather (DTN) On Dairy Marketing Website

DTN Dairy is a source of comprehensive dairy-specific market, weather, and news information. This site provides a complete package of market analysis and commentary, real-time quotes, milk production information, highly localized weather and industry news 24 hours a day. DTN also includes exclusive updates from the Chicago Mercantile Exchange dairy traders daily. It also provides easy access to local and regional pricing information for distillers grain, soybean meal and cottonseed, as well as a complete database of current bid prices in relation to the producer's operation. The site also provides advice and analysis on current and historic fuel and fertilizer data.

The Dairy Marketing Branch website at www.cdfa.ca.gov/dairy has a link featuring "Markets, Weather, and News" where you can access the DTN information site. Simply go to the left side of the branch website home page and click on "Markets, Weather, and News (DTN)."

State's First 2006 Equine West Nile Virus Case

Death of unvaccinated horse in Tulare County signals return of a deadly disease

California's horse owners are being urged to make sure their animals are vaccinated following the confirmation of this year's first equine case of West Nile virus. The three-year-old quarter horse stallion from Tulare County died on July 4, and had not been vaccinated.

Last year, 456 horses in California were known to have contracted the disease, and 200 of them died. In the great majority of those cases the horses either were not vaccinated or were vaccinated improperly.

"This case is a signal to all of our state's horse owners that West Nile is active again this year and vaccination is the best way to protect horses," said California State Veterinarian Dr. Richard Breitmeyer. "If your horses are not vaccinated or you are not sure of their status, contact your veterinarian as soon as possible to make sure your animals' vaccinations are current."

Signs of West Nile virus in horses include stumbling, staggering, wobbling, weakness, muscle twitching and inability to stand. Horses contract the disease from carrier mosquitoes and are not contagious to other horses or people. Not every horse exposed to the virus will die.

CDFA is collaborating with state, federal and local agencies to detect and respond to the disease in California. CDFA is distributing a video public service announcement about West Nile virus and has carried out a public education program for the equine community over the last several years, including tips on mosquito control.

For more information, click on www.cdfa.ca.gov or call the Equine West Nile Virus Information Line at 1-800-268-7378. Questions may be e-mailed to CDFA at WNVirus@cdfa.ca.gov 

National Dairy Situation and Outlook – USDA Estimates

Milk Production and Cow Numbers

Monthly: Compared to 2005, USDA estimates that overall milk production across the U.S. was up 1.4% in June, led by New Mexico's 12.9% growth in milk production (on 35,000 more cows and 35 more pounds per cow). California's estimated production was up 0.6% (on 30,000 more cows and 25 less pounds per cow). Among the western states, Arizona was up 7.0%; New Mexico up 12.9%; and Washington was down -1.9. Three of the top 10 states reported a production decrease.

Quarterly: For the second quarter of 2006 compared to the first quarter of 2006, U.S. milk cow numbers increased to 9.120 million, production per cow was up 2.6%; the net effect was a 3.3% increase in milk production to 47.0 billion pounds. USDA projects that for the third quarter of 2006 compared to the second quarter of 2006, U.S. milk cow numbers will increase 5,000 cows to 9.125 million cows, production per cow will down 230 pounds per cow; the net effect would be a decrease in milk production to 44.8 billion pounds.

Milk Prices

Comparing the second quarter of 2006 to the first quarter of 2006, U.S. average milk prices were down to \$12.07/cwt. USDA projects that for the third quarter of 2006, U.S. average all-milk prices will be \$11.90-12.30/cwt.; Class 4b prices will be \$11.05-11.45/cwt; and Class 4a prices will be \$10.15-10.65/cwt.

Utility Cow Prices

Comparing the second quarter of 2006 to the first quarter of 2006, average U.S. utility cow prices were down \$1.10/cwt. to a national average of \$47.79/cwt. USDA projects that utility cow prices will average \$47-49 in the third quarter of 2006.

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

Help for East Coast Producers . . .

Connecticut Governor M. Jodi Rell announced a new program to provide direct financial aid to Connecticut's struggling dairy farmers. The Dairy Farm Reinforcement Program is designed to help the industry reverse recent financial losses by providing grants, loans, energy conservation assistance, and access to credit to offset costs incurred due to federal price controls and high energy costs. Governor Rell noted that the dairy industry in Connecticut has declined from 367 farms and eight milk processing plants in 1990 to 165 farms and five milk processing plants today.

The dairy industry employs 2,200 people in Connecticut and produces approximately 50 to 60 percent of the milk consumed in the state. The current federally fixed price of milk per gallon is significantly lower than the cost of producing that milk in Connecticut.

In Vermont, a number of initiatives have been introduced aimed at helping dairy farmers who are struggling to make ends meet despite record low milk prices, high fuel costs and rainy weather that has repeatedly damaged or ruined crops.

These initiatives include: \$8.6 million to be paid to farmers in monthly installments of \$1.07/cwt. of milk produced; \$100,000 to the program encouraging the purchase of Vermont-produced farm products; \$100,000 to assist traditional dairy farmers to switch to organic production; \$100,000 to assist with business practices; \$396,700 in cash grants from the federal government to restore croplands and other farm property damaged by weather; reduction in loan rates offered through the Vermont Agricultural Credit Corp., from 8.5 percent to 5.75 percent, and in the works is an appropriation for cash payments for replacing feed ruined by weather. 

2006-2007 DAIRY COUNCIL ASSESSMENT RATES ESTABLISHED

The Dairy Council of California has recommended and the Department of Food and Agriculture has approved assessment rates for the Council's 2006-2007 fiscal year (July 1, 2006, through June 30, 2007). The rates are presented below. These rates are the same as last year's rates.

2006-2007 Dairy Council Assessment Rates	
Class 1 Milk	one and fifty hundredths cents (<u>\$0.015</u>) per cwt.
Milk For All Other Classes	sixty hundredths cents (<u>\$0.006</u>) per cwt.

As you can see from the table above, the Dairy Council Law mandates a two-tier assessment structure; an assessment for milk used in Class 1 milk products and a lower assessment for milk used in all other classes of milk products. The Dairy Council Law stipulates that the assessment rate for Class 1 milk shall not exceed two cents (\$.02) per hundredweight (cwt.) and that the assessment rate for all other usages of milk shall not exceed eight mills (\$0.008) per hundredweight (cwt.). In addition, the Law further requires that the relationship between the two rates shall be at a ratio of 2.5 to 1. The Dairy Council assessment rates are applicable to both milk producers and milk handlers. The Dairy Council uses the funds generated from these assessments to carry out its mission of stimulating demand for milk by demonstrating the role of dairy products as essential elements in a healthy diet.

As in the past, handlers will continue to be responsible for remitting both the handler and producer assessments to the Department. Handlers shall pay the handler assessments for milk utilized in the plant of the handler. The producer assessments shall be collected by the first handler of milk produced in California by deducting any such assessments from any payment due the producer of such milk.

Please call Dennis Manderfield of the CDFA Marketing Branch at (916) 341-6005 if you have any questions about these assessment rates. If you have questions regarding the activities of the Dairy Council, please call Peggy Biltz, CEO of the Dairy Council, at (916) 263-3560. 

Class 4a/4b Hearing Decision - Continued

The adjustments to the Plans will take effect for milk delivered to processing plants on or after August 1, 2006. The Department's decision however, is stayed for an estimated 60 days for the conduct of an initial study under 14 CCR 15063. The Department reserves any judgment as to how California Environmental Quality Act (CEQA) may apply pending the outcome of the study, and further reserves the right to conform its decision to any findings or recommendations the study may make.

An estimated impact analysis of the how the changes might impact prices is shown below. It is based on the assumption that the changes were in effect over the five-year period January 2001 to December 2005. While this estimate is a good indication of what would have happened under the economic conditions at that time, it is not necessarily a good indication of what will happen in the future.

Changes and Impacts of Hearing Determinations January 2001 to December 2005, unless otherwise indicated

	Old	New	Class Price Impact	
	¢/lb	¢/lb	2, 3, 4a ¢/cwt	4b ¢/cwt
f.o.b. Adjusters				
butter	2.80¢	1.68¢	+4.9¢	-0.3¢
cheese	2.90¢	2.52¢	n.a.	+3.8¢
Manufacturing Cost Allowances				
NFDM	15.20¢	16.00¢	-7.0¢	n.a.
cheese	17.10¢	17.80¢	n.a.	-7.1¢
SWP	20.00¢	26.70¢	n.a.	-38.4¢
TOTAL			-2.0¢	-41.9¢

Quota and Overbase Price Impacts - ¢/cwt

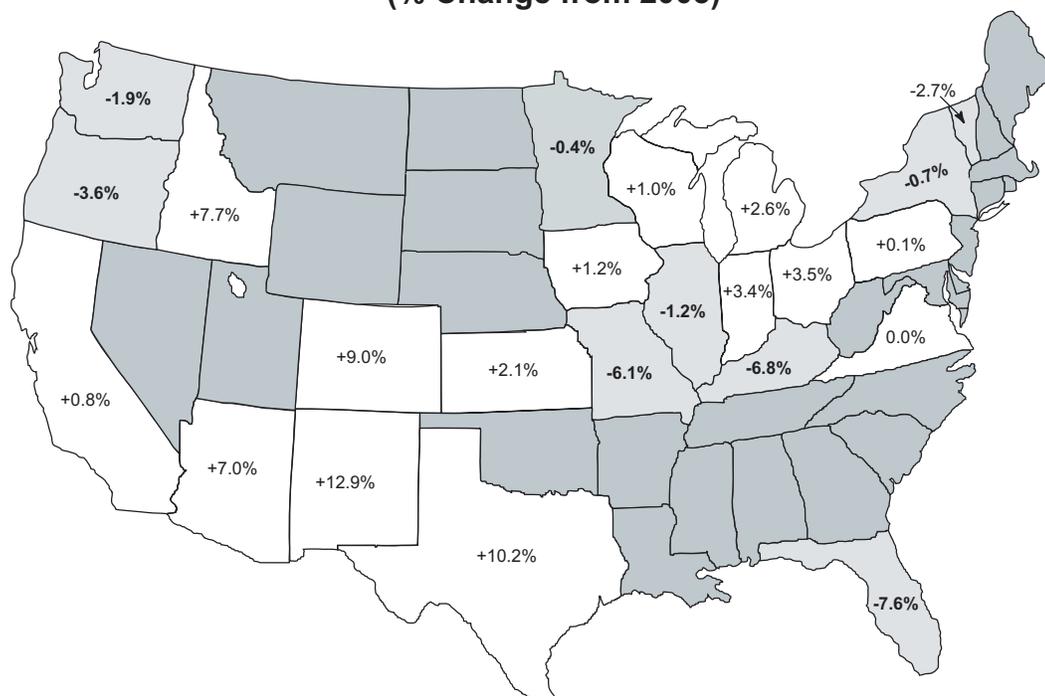
2001	2002	2003	2004	2005	five year average
-18.7¢	-19.0¢	-19.6¢	-20.1¢	-21.0¢	-19.7¢

The changes to the Class 2, 3, 4a and 4b prices are constant over time. The changes to the Quota and Overbase prices will vary with changes in pool utilization.

Copies of the Hearing Determinations and a more detailed explanation of the Department's decision may be obtained from the Dairy Marketing Branch website at www.cdfa.ca.gov/dairy. From this page, click on Hearings, and then on the [Dairy Hearings Progress Matrix] link.

Media contacts and publication staff are asked to contact the Department's Public Affairs Office by e-mail at officeofpublicaffairs@cdfa.ca.gov or by phone at (916) 654-0462. ☀

June Milk Production in the Top 23 States (% Change from 2005)



For the U.S. overall, comparing June 2006 to June 2005:

- U.S. Milk production during June was up 1.4%
- The number of cows on farms was 9.147 million head, up 100,000 head
- Production per cow averaged 1,673 pounds, 5 pounds more than June 2005
- Nine of the top twenty-three milk producing states showed an decrease in milk production

As reported by USDA
and CDFA (for California)

Milk Production Cost Comparison Summary for California^{1/} By Quarter, 2005-2006

Quarter	North Coast		North Valley		South Valley		Southern California		Statewide Weighted Average	
	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006
<i>Dollars per Hundredweight</i>										
1st Quarter										
Total Costs	13.69	15.35	11.86	12.32	11.54	11.72	12.04	11.76	11.78	12.01
Total Costs & Allowances*	15.24	16.93	13.35	13.82	13.10	13.24	13.62	13.07	13.31	13.52
2nd Quarter										
Total Costs										
Total Costs & Allowances*										
3rd Quarter										
Total Costs										
Total Costs & Allowances*										
4th Quarter										
Total Costs										
Total Costs & Allowances*										

* Includes an allowance for management and a return on investment

Hundredweight Pool Prices

Month	Quota	Overbase
December	\$15.74	\$14.04
January '05	\$15.50	\$13.80
February	\$14.96	\$13.26
March	\$14.98	\$13.28
April	\$15.06	\$13.36
May	\$14.60	\$12.90
June	\$14.56	\$12.86
July	\$14.99	\$13.29
August	\$14.65	\$12.95
September	\$15.26	\$13.56
October	\$15.07	\$13.37
November	\$14.35	\$12.65
December	\$14.41	\$12.71
January '06	\$13.91	\$12.21
February	\$12.75	\$11.05
March	\$12.19	\$10.49
April	\$11.90	\$10.20
May	\$11.90	\$10.20
June	\$11.90	\$10.20

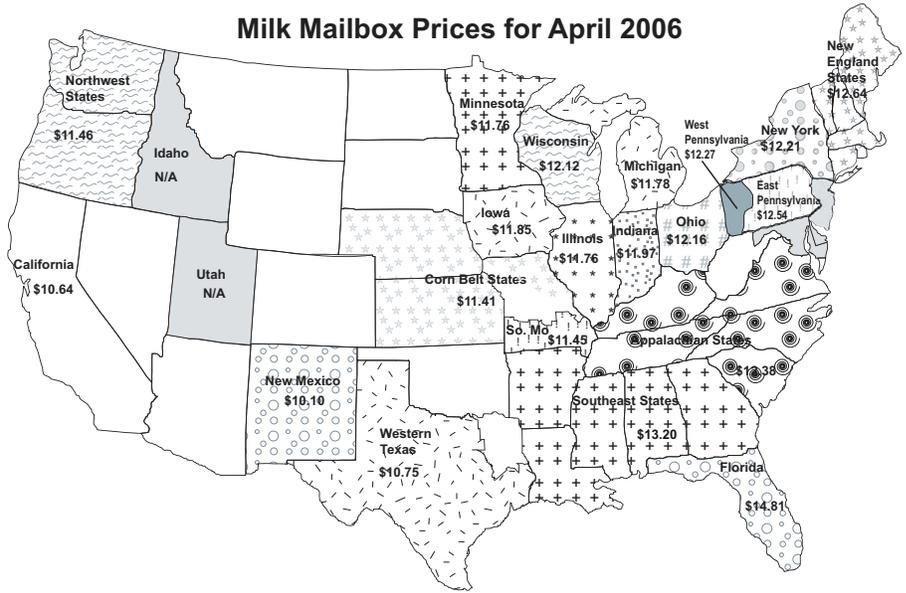
Milk Mailbox Prices

Milk Mailbox Prices in Dollars per Hundredweight

	October	November	December	January	February	March	April
California ¹	\$14.10	\$13.42	\$13.49	\$12.87	\$11.52	\$11.05	\$10.64
USDA ²	\$15.38	\$15.09	\$14.73	\$14.43	\$13.57	\$12.64	\$11.92

¹ California mailbox price calculated by CDFA.

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



In April 2006, mailbox prices for selected reporting areas in Federal milk orders averaged \$11.92 per cwt., \$0.72 less than the figure for the previous month. The component tests of producer milk in April 2006 were: butterfat, 3.68%; protein, 3.02%; and other solids 5.72%. On an individual reporting area basis, mailbox prices decreased in all reporting areas, ranging from \$14.81 in Florida to \$10.10 in New Mexico. In April 2005, the Federal milk order all-area average mailbox price was \$14.97, \$3.05 higher.

The California Department of Food and Agriculture Dairy Marketing Branch publishes the California Dairy Review monthly. Please direct any comments or subscription requests to Karen Dapper at (916) 341-5988 or send an email to dairy@cdfa.ca.gov

Milk Pricing Information:
 Within California 1-800-503-3490
 Outside California 1-916-442-MILK

Dairy Marketing Branch:
 Phone (916) 341-5988; Fax (916) 341-6697
 Website: www.cdfa.ca.gov/dairy
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