



California

# Dairy Review

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## Department Announces August 28, 2007 Hearing Decision

On August 28, 2007, the Department held a public hearing to consider revisions to the Weekly and Monthly Nonfat Dry Milk Sales Reports and to consider adjustments to the Northern and Southern California Stabilization and Marketing Plans for Market Milk (Plans), namely changes to the nonfat dry milk (NFD) price series used in the Class 4a and Class 1 pricing formulas.

Having carefully weighed the contents of the hearing record, the Department has decided to retain the use of the California Weighted Average Price (CWAP), to establish the NFD price series in Class 4a and Class 1 pricing formulas.

In addition, the Department has decided to modify the reporting procedures and reporting forms for the collection of the weekly and monthly NFD prices:

- Reported sales should include:  
All sales regardless of volume or length of storage, vitamin-fortified NFD, rBST-free NFD, high heat NFD, indexed price contracts, CCC purchases under dairy support program and DEIP sales, energy surcharges, and fixed price long-term contracts within 150 days of the first shipment
- Reported sales should not include:  
Organic NFD, instant NFD, other types of powder (skim milk, whole milk, dry buttermilk, dry whey products), intra-company sales, re-sales, and transportation, clearing charges and broker fees

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.cdffa.ca.gov/dairy](http://www.cdffa.ca.gov/dairy). From this page, click on the Hearing matrix link.

Should you have questions or desire further information, please contact Dave Ikari at (916) 341-5988.



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

# Production, Prices, Quota Transfers, Alfalfa

## September Milk Production

Milk production in California for September 2007 totaled 3.25 billion pounds, up 3.4 percent from September 2006. USDA's estimate for U.S. milk production for September 2007 in the 23 major dairy states is 13.7 billion pounds, up 3.1 percent from September 2006. Production per cow in the 23 major states averaged 1,644 pounds for September, 31 pounds above September 2006. ☀

## Minimum Class Prices

Statewide average hundredweight prices

Class	Sept.	Oct.	Nov.
1	\$22.87	\$23.68	\$23.30
2	\$19.25	\$22.22	\$22.22
3	\$19.09	\$22.06	\$22.06
4a	\$21.62	N/A	N/A
4b	\$19.34	N/A	N/A

## Federal Order and California Minimum Class 1 Prices

Average Hundredweight Prices

Regions	Sept.	Oct.	Nov.
Phoenix, Arizona	\$24.26	\$23.94	\$23.80
Southern California	\$23.10	\$23.81	\$23.43
Portland, Oregon	\$23.81	\$23.49	\$23.35
Northern California	\$22.83	\$23.54	\$23.16
Boston (Northeast)	\$25.16	\$24.84	\$24.70

## Quota Transfer Summary

For September 2007, four dairy producers transferred 5,164 pounds of SNF quota. September quota sales averaged \$495 per pound of SNF (without cows), average ratio of 2.45. For October 2007, five dairy producers transferred 6,794 pounds of SNF quota. September quota sales averaged \$497 per pound of SNF (without cows), average ratio of 2.47. ☀

## Alfalfa Update: October

Northern California: Premium and Supreme alfalfa were steady with very light supplies, good demand, and limited test. Fair and Good alfalfa was steady with good demand and light supplies. Retail and Stable hay was steady with good demand and supplies moderate to light. Most producers starting to work on last cutting and dealing with scattered showers towards the middle of the month.

Southern California: Premium alfalfa was not well tested with good demand but no supplies available. Fair and good alfalfa was steady with good demand and light supplies. Retail and stable hay was steady with good demand and light supplies. Rumors are circulating that producers putting in more wheat this coming year. ☀

## Supreme Hay Prices

Statewide average prices per ton

Area	9/28	10/5	10/12	10/17
Petaluma	\$230	N/A	\$210-215	N/A
North Valley <sup>1</sup>	\$215-230	\$215-225	\$200-225	\$214-230
South Valley <sup>2</sup>	\$213-240	\$213-252	\$215-235	\$222-240
Chino Valley	N/A	N/A	N/A	N/A

<sup>1</sup>North Valley is Escalon, Modesto and Turlock areas.

<sup>2</sup>South Valley is Tulare, Visalia and Hanford areas.

## Alfalfa Hay Sales/Delivery

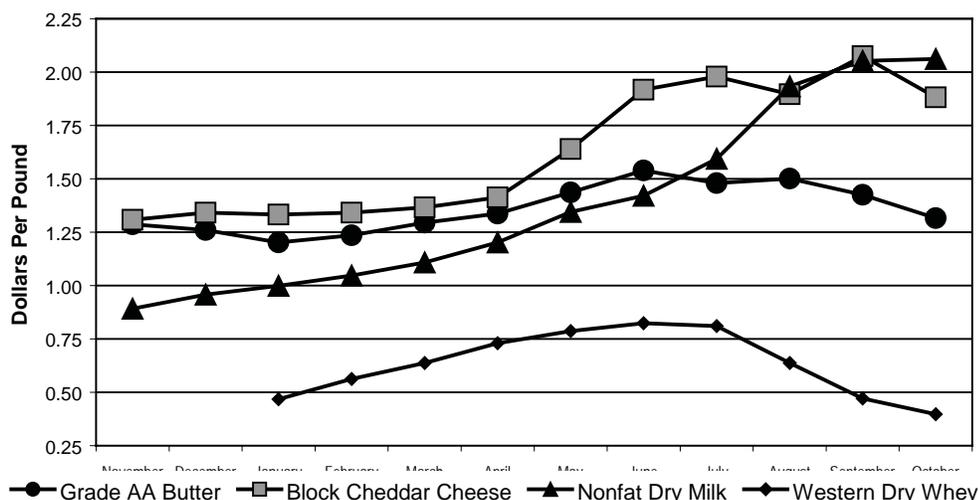
	September	October
Tons Sold <sup>1</sup>	270,999	134,504
Tons Delivered <sup>2</sup>	105,791	81,430

<sup>1</sup> For current or future delivery.

<sup>2</sup> 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, Nonfat Dry Milk, and Western Dry Whey Mostly Prices Used in the Calculation of California Class 1 Milk Prices**



# Hay Market Continues Strong In Spite of Record Yields and In-Shipments

by Seth Hoyt, California Agricultural Statistics Service

## Record Yields

While hay price records were being shattered in 2007, you can add to the records list alfalfa hay yields which reached 7.4 tons per acre, according to the October 12, 2007 production report released by the National Agricultural Statistics Service (NASS). The previous record high was 7.2 tons in 1997. With dry cow alfalfa hay prices at unprecedented levels, it was very evident that growers were harvesting for tonnage this summer. As a result, water shortages, light tonnage on late cuttings, white flies in the southern desert, and any other challenges thrown at California alfalfa hay growers in 2007 could not diminish alfalfa hay yields. While the final alfalfa hay yield estimate for 2007 will be published in early January 2008, all signs point to a record high yield this year for California hay growers.

Yields were unchanged-to-higher in many Western States but were disappointing in Nevada and Idaho due to dry conditions and a spring freeze. Alfalfa hay yields in Nevada were estimated at six percent below 2006, while Idaho yields were down two percent.

## Hay Shortage Reflected in In-shipments

If hay prices in California weren't convincing enough that there was a hay shortage in the Golden State in 2007, record tonnage imported in July and August from other states definitely should have. In July, 101,269 tons were trucked into California from other Western States, up 52 percent from last year. Not to be outdone, August shipments were up 95 percent from a year ago at 109,926 tons. This doesn't include the hay that comes through a few entrances where there are no border stations or where stations are open only part time. This also does not include other kinds of hay besides alfalfa.

California dairy hay buyers would not be out-bid in their pursuit to purchase out-of-State alfalfa hay. This is not surprising given that California hay prices were the highest in the nation. The strong California hay market also brought shipments from states who rarely ship hay to California, i.e. Montana, Wyoming, and Colorado. In August, 2,640 tons came from

these three states. It is also interesting that the record large in-shipments came following the month of June, when some dairies in California indicated they finally had climbed out of the deep financial hole they were in from 2006.

## Unprecedented Array of Dry Cow Feeds

Another indication of short hay supplies in California is the different kinds of forage and by-products being fed dry cows in 2007. Some of the various by-products and hay ranged from corn stalks to rice straw, bean straw to Bermudagrass hay, Sudangrass, (Sudan) hay and straw to wheat straw. If there was a by-product roughage feed that could be baled it was probably fed. Obviously, for palatability



reasons, many were fed in Total Mixed Rations (TMRs) and some had to be chopped or ground. In late summer when overbase milk prices in California reached \$20.00/cwt. and dairy producers had the money to purchase hay, some were not able to find enough dry cow or milk cow alfalfa hay to carry them through the winter.

## Hay Exports 14 Percent Higher

Adding to the short supplies of hay were the higher hay exports from California in 2007. While alfalfa hay exports in California were down due to the record high prices on middle quality export-type hay, Sudan hay exports were up substantially from 2006. Much of the increased volume of Sudan hay exports were from the Imperial Valley where it all moves through the Port of Long Beach to Japan. The January through August 2007 all hay exports from California totaled 710,935 tons, compared to 623,184 tons the same period last year, according to the U.S. Department of Commerce.

*(Continued next page)*

## Alfalfa Hay - *Continued*

The weak U.S. dollar combined with the strong Canadian and Australian dollar made Sudan and other export hay in California much more attractive in price to export buyers. One exporter indicated that Sudan hay in California was 15 percent lower in price compared to Canada's timothy hay and Australia's oaten hay (similar to our oat hay), the two main competitors of Sudan hay. This combined with tighter supplies of oaten hay in Australia due to drought resulted in nearly 90,000 more tons of hay being exported from California ports the first eight months of 2007.

### **Corn for Silage Acres 19 Percent Higher**

Corn for silage acres were significantly higher in California in 2007. With shortages and record high prices on hay, dairy producers were willing to pay the \$30.00-to-\$35.00 per ton f.o.b. price for corn standing in the field. Early estimates on corn for silage acres in California for 2007 were 480,000 (corn planted for all purposes minus the estimated corn harvested for grain) compared to 405,000 acres in 2006. Look for corn for silage acres to be high again in 2008.

### **Coffee Shop Talk Turning from Corn To Wheat**

Wheat prices, while slipping at the time of this report (October 16, 2007) are still at record high levels. With world supplies at 30-year lows and U.S. wheat stocks for the 2007/2008 crop year projected to be at the lowest level since 1949, the wheat market was on fire in late September with nearby futures prices reaching \$9.00 per bushel and higher. In the past month, contracts for 2008 hard red and white wheat in California were reported at \$190.00-to-\$240.00 per ton, both f.o.b. ranch and delivered locally. Durum wheat contracts in the Imperial Valley were reported from \$280.00-to-\$340.00 per ton, delivered locally. Wheat acres in California could be substantially higher in 2008 and wheat will displace corn, alfalfa and other hay, cotton, and processed tomatoes.

### **What To Expect**

Sources indicate that the overall inventory of unsold hay, including barn hay in California is lower than a year ago. Look for prices on barn hay to be strong in the months ahead. Historically, an alfalfa hay market like we've had in 2007 would have automatically resulted in 10-to-15 percent more acres in California the following year. However, with crop options, including record high wheat prices and with irrigation water uncertainties don't expect an upward surge in alfalfa hay acres next year. There is more of a chance that acres could be unchanged, unless heavy rain and snow pack prompted above normal spring plantings. One wild card is that some dairies, including large dairies in the southern San Joaquin Valley have or will increase alfalfa hay plantings. It is too early to predict the impact on state acres. 

## Cost Comparison Summary Available on Website

The cost of production feedbacks have been posted on the Dairy Marketing Branch website: [www.cdffa.ca.gov/dairy](http://www.cdffa.ca.gov/dairy). To find the feedbacks, click on the Cost of Production tab then click on Feedbacks, once there it gives a list of feedbacks to choose from. 

## Corn Crop Heading Toward Record High

According to last Friday's "Crop Production" report, the corn crop is forecast at 13.3 billion bushels — up 26 percent from last year. Estimated yields are up 5.6 bushels to 154.7 bushels per acre versus last year. If realized, it would be the second-highest yield on record. Meanwhile, soybean production is forecast at 2.6 billion bushels, which is down 19 percent from last year's record high. 

## Bunk Space from the Cow's Perspective

Overstocking at the feed bunk increases aggressive behavior and prevents subordinate cows from accessing feed. "And who knows what kind of problems you're setting her up for," says Marina von Keyserlingk, of the University of British Columbia's Animal Welfare Program.

"Cows don't normally stand like sardines in the pasture," von Keyserlingk said during a World Dairy Expo educational seminar. It is a good idea to evaluate bunk management from the cow's perspective and rethink how much bunk space you offer cows. Is the industry standard of 24 inches acceptable? Many experts now recommend 30 inches of bunk space per cow instead. 

# National Dairy Situation and Outlook – USDA Estimates

## Milk Production and Cow Numbers

Monthly: Compared to 2006, USDA estimates that overall milk production across the U.S. was up 2.6% in September, led by Arizona's 9.9% growth in milk production (on 8,000 more cows and 5 more pounds per cow). USDA reports that California's milk production was up 3.3% on 47,000 more cows and 10 more pounds per cow compared to September 2006. Among the western states, Arizona was up 9.9%; New Mexico up 1.9%; and Washington was up 2.5%. One of the top 10 states reported a production decrease.

Quarterly: For the third quarter of 2007 compared to the second quarter of 2007, U.S. milk cow numbers increased to 9.165 million, production per cow decreased 150 pounds per cow; the net effect was decreased milk production to 46.2 billion pounds. USDA projects that for the fourth quarter of 2007 compared to the third quarter of 2007, U.S. milk cow numbers will increase to 9.180 million cows, production per cow will be down 50 pounds per cow; the net effect would be decreased milk production to 45.8 billion pounds.

## Milk Prices

Comparing the third quarter of 2007 to the second quarter of 2007, U.S. average milk prices were up to \$21.70/cwt. USDA projects that for the fourth quarter of 2007, U.S. average all-milk prices will be \$20.80-21.20/cwt.; Class 4b prices will be \$18.03-18.43/cwt; and Class 4a prices will be \$21.08-21.58/cwt.

## Utility Cow Prices

Comparing the third quarter of 2007 to the second quarter of 2007, average U.S. utility cow prices were up \$0.10/cwt. to a national average of \$54.07/cwt. USDA projects that utility cow prices will average \$50-52 in the third quarter of 2007.

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

# Dean Foods Reduces Workforce, Cuts 600-700 Jobs

Dean Foods is decreasing its workforce to adjust to the rising price of dairy which is causing major problems in the food industry environment.

"Rapidly increasing and record high dairy commodity costs have created a very challenging operating environment and 2007 results have been well short of our expectations," Chief Executive Officer Gregg Engles said. The Dallas-based company makes an assortment of food products, but its dairy division is the country's largest processor and distributor of milk and dairy goods. As a major player in the dairy market, the company's profit margin depends on low dairy prices.

In recent quarters, dairy commodity costs have reached all-time highs because of a number of factors. High fuel prices have incrementally increased the cost of transporting materials, while the rising cost of grain, which reflects the growing demand for corn and ethanol production, has made it more expensive to feed cows. Meanwhile, the global demand for nonfat dry milk powder is surging, as developing countries like China consume more milk.

Roger Hoskin, an economist with the U.S. Department of Agriculture said, "If people expect that prices are going back to where they were a couple years ago, that ain't gonna happen. The demand is there, and a lot of it foreign."

The company said the dairy rut will continue to negatively impact earnings until the second half of 2008, when a growing milk supply is expected to ease dairy prices. For now, the company will focus on tightening its ship. It will immediately cut 600 to 700 jobs, or roughly 2% of the workforce. 

## Foster Farms Expands With Crystal Cream & Butter Acquisition

Foster Farms Dairy announced its purchase of Crystal Cream & Butter Co.'s dairy business, increasing the Modesto-based firm's milk processing by about 20 percent and extending its reach in California.

Foster Farms Dairy soon will begin making Crystal milk products, such as cottage cheese and sour cream, at its processing plant on Kansas Avenue. It purchased Crystal from HP Hood LLC of Massachusetts, one of the nation's largest dairy product companies.

As a result, the Modesto production center will add 35 jobs and process an additional 500,000 gallons of milk per week. Foster Farms will maintain Crystal's producer relationships.

The deal will allow Foster Farms to expand to hundreds of new retail outlets in California, particularly around Sacramento. It includes 55 drivers from Crystal's Sacramento operation and 30 employees at Crystal distribution centers. The purchase will add 70 Crystal trucks to Foster Farms' distribution fleet. However, the transaction does not include Crystal's production facilities or other assets.

"It's very exciting for us, and for our family, to be able to acquire another family-owned business with a name like Crystal," said Jeff Foster, president and chief executive officer of Foster Farms Dairy. "It's a very exciting time." Foster said the Modesto plant will process milk, cottage cheese and sour cream to start, eventually adding ice cream and possibly butter.

Founded in 1939, Foster Farms Dairy originally was a spin-off of the Foster Farms Poultry operation in Livingston. It began as a dairy and milk-delivery company for Modesto residents. The company is the largest privately owned dairy in California, and the Foster family still owns it. The company processes about 2.5 million gallons of milk a week and employs 650 people.

Crystal, which began in 1901 in Sacramento, had a milk processing plant there for decades and remained family-owned until the acquisition by HP Hood LLC in May. Both Foster Farms and Crystal companies promote the fact that their milk is free of the synthetic growth hormone rBST. 

## HP Hood LLC Plans to Bottle Longer Shelf-Life Products

HP Hood LLC, the Boston-area milk processor that recently purchased Crystal Cream & Butter, announced it has sold off most everything from Crystal including the trucks, the Crystal brand and its contracts with regular milk customers. Hood plans to overhaul the Crystal bottling facility into a next-generation plant designed to capitalize on "extended shelf-life" products.

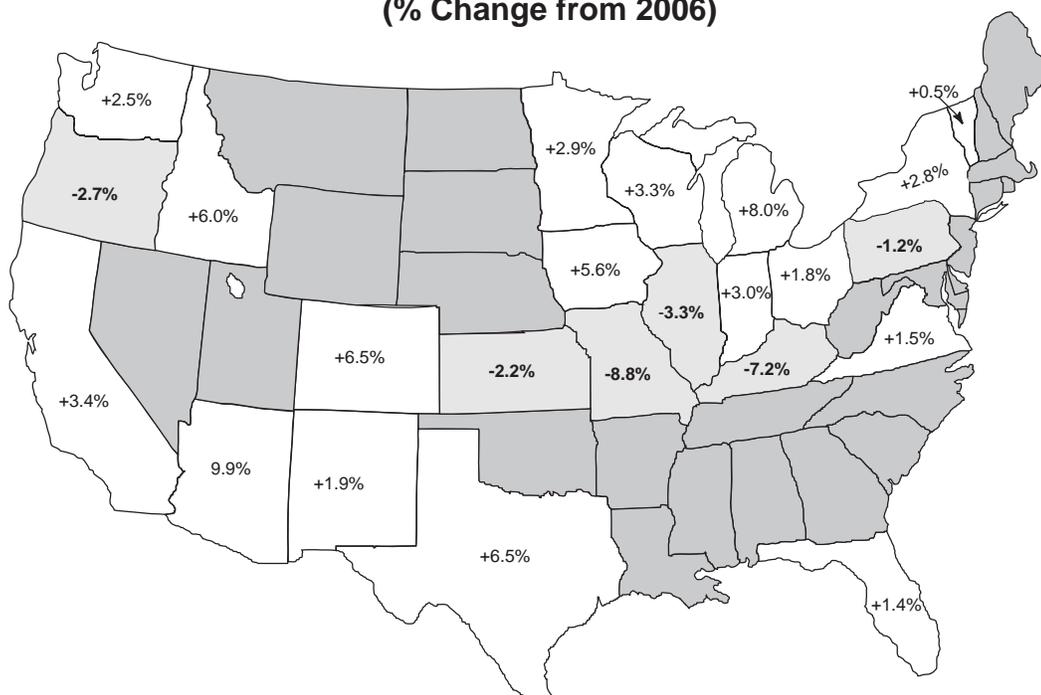
These extended shelf-life products are pasteurized for 2 seconds at 280 degrees Fahrenheit instead of the standard 162, and can keep for 70 days or more in refrigerated warehouses and grocery dairy cases, vs. 14-to-21 days for conventional milk. This longer storage capability has freed dairy processors from the constraints of time and distance that historically kept the milk industry an intensely regional business. And it has helped launch the first truly national milk brands, such as Hood's Lactaid brand.

These newer products – including organic milk and the single-serving bottles sold in vending machines and convenience stores – are often low-volume compared with standard grocery-store gallon jugs. However, the longer shelf-life products tend to command higher margins. The long shelf-life products can be delivered more economically to warehouses instead of delivering to individual stores which results in more efficient distribution processes.

Ultrasteurized milk has higher costs to produce:

- a standard pasteurization line starts at roughly \$4 million, while the ultra-type runs \$20 million and up,
- ultrasteurized milk must be packaged in containers that are more airtight than standard cartons and plastic jugs, which adds 10 cents or more to the cost of each half-gallon. But much, if not all, of that extra cost can be made up by distribution savings.
- Ultrasteurization allows a dairy processor to ship full tractor-trailer loads of milk to central grocery warehouses, rather than delivering store to store, saving transportation costs. 

## September Milk Production in the Top 23 States (% Change from 2006)



For the U.S. overall, comparing September 2007 to September 2006:

- U.S. Milk production during September was up 2.6%
- The number of cows on farms was 9.163 million head, up 50,000 head
- Production per cow averaged 1,621 pounds, 30 pounds more than September 2006
- Six of the top twenty-three milk producing states showed a decrease in milk production

As reported by USDA  
and CDFA (for California)

## Milk Production Cost Comparison Summary for California <sup>1/</sup> By Quarter, 2006-2007

Quarter	North Coast		North Valley		South Valley		Southern California		Statewide Weighted Average	
	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007
<i>Dollars per Hundredweight</i>										
<b>1st Quarter</b>										
Total Costs	15.35	17.52	12.32	13.33	11.72	13.16	11.76	13.17	12.01	13.31
Total Costs & Allowances*	16.93	19.27	13.82	14.86	13.24	14.76	13.07	14.55	13.52	14.87
<b>2nd Quarter</b>										
Total Costs	14.22	16.23	12.36	13.41	12.47	13.51	11.99	13.00	12.43	13.49
Total Costs & Allowances*	15.76	18.15	13.88	15.13	14.00	15.29	13.31	14.53	13.94	15.25
<b>3rd Quarter</b>										
Total Costs	14.62		12.58		12.73		12.56		12.71	
Total Costs & Allowances*	16.14		14.10		14.33		13.90		14.26	
<b>4th Quarter</b>										
Total Costs	16.99		13.47		13.25		13.23		13.41	
Total Costs & Allowances*	18.62		15.01		14.84		14.59		14.97	

\* Includes an allowance for management and a return on investment

# Pool Prices

Month	Quota	Overbase
February '06	\$12.75	\$11.05
March	\$12.19	\$10.49
April	\$11.90	\$10.20
May	\$11.90	\$10.20
June	\$11.90	\$10.20
July	\$11.71	\$10.01
August	\$12.13	\$10.43
September	\$12.80	\$11.10
October	\$12.87	\$11.17
November	\$13.31	\$11.61
December	\$13.50	\$11.80
January '07	\$13.70	\$12.00
February	\$14.45	\$12.75
March	\$15.28	\$13.58
April	\$16.33	\$14.63
May	\$18.29	\$16.59
June	\$20.70	\$19.00
July	\$21.60	\$19.90
August	\$21.74	\$20.04
September	\$21.69	\$19.99

# Milk Mailbox Prices

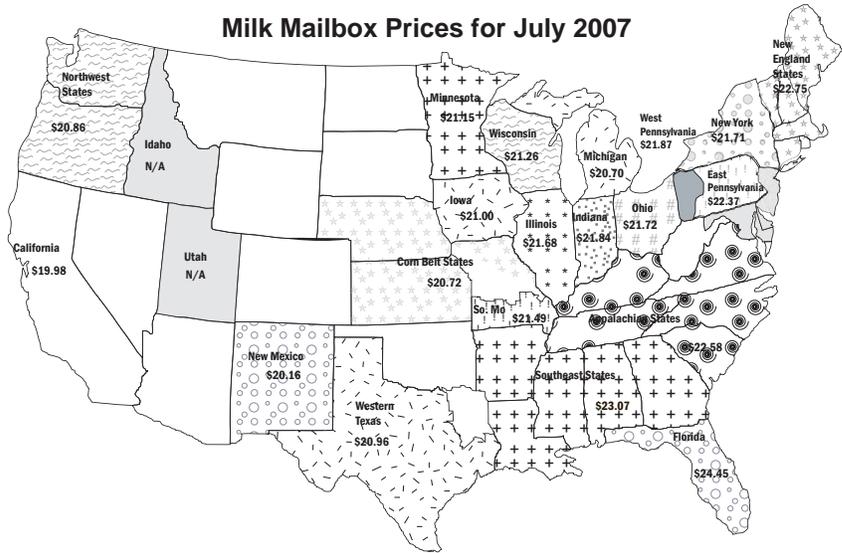
## Milk Mailbox Prices in Dollars per Hundredweight

	January	February	March	April	May	June	July
California <sup>1</sup>	\$12.55	\$13.09	\$13.89	\$14.83	\$16.77	\$19.12	\$19.98
USDA <sup>2</sup>	\$14.66	\$14.92	\$15.60	\$16.45	\$17.78	\$19.80	\$21.49

<sup>1</sup> California mailbox price calculated by CDFA.

<sup>2</sup> All federal milk market order weighted average, as calculated by USDA.

## Milk Mailbox Prices for July 2007



In July 2007, mailbox prices for selected reporting areas in Federal milk orders averaged \$21.49 per cwt., a new record mailbox price. This price exceeds the June 2007 price (the former record month), by \$1.69 per cwt. The component tests of producer milk in July 2007 were: butterfat: 3.55%; protein, 2.96%; and other solids, 5.72%. On an individual reporting area basis, mailbox prices increased in all Federal milk order reporting areas, and ranged from \$24.45 in Florida to \$20.16 in New Mexico. In July 2006, the Federal milk order all-area average mailbox price was \$11.66, 9.83 lower.

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Within California 1-800-503-3490  
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