California Dairy Review

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Dairy Future Task Force Update

In late July 2012, the Secretary of the Department of Food and Agriculture created the California Dairy Future Task Force (Task Force) made up of thirty-two [32] industry leaders from the producer and processor communities to address issues and challenges facing the dairy industry and create an action plan for the future. The first session, held October 23-24, 2012, provided an opportunity to agree on a common fact base and a shared vision for the future which is: California dairy economically sustains producers and processors through profits and growth. We grow demand for milk including high value products. We use a coordinated approach to ensure significant, continued investment in processing and product. We are the leading global dairy exporter. The group identified a set of strategies that are necessary to achieve this vision, such as:

- A 21st century pricing system
- Comprehensive domestic and export growth plans
- Coordinated industry regulatory strategy
- Growing the right processing capacity for California
- A product differentiation and innovation plan.

Four self-appointed work groups of technical experts have been organized to collect data, research alternative approaches, analyze their impacts and present options to the Task Force. The Department has secured an interagency agreement with the UC Agricultural Issues Center to assist with economic modeling and analysis of the structural changes necessary to create a 21st century pricing system that more equitably shares risk and stimulates investment in product innovation. The timeframe for completion of the UC activities is December 31, 2013.

The latest progress report on the Work Groups:

<u>Reforming Class 4 Working Group (21st Century Pricing System)</u>
This working group has met three times and has another all day session scheduled. They are in the process of evaluating pricing options for 4a/4b. Once the field is narrowed to two or three strategies they will confer with CDFA/UC Davis team in order to run economic models to determine the long-term impacts of each option.
Working Group Members: *David Ahlem, Chair; Evan Kinser; Eric Erba; Tom Wegner; Elvin Hollon; Sue Taylor; Geoff VandenHuevel*

<u>Quota Working Group</u>
The Chair is trying to recruit members. Therefore, no meetings have been held.
Working Group Members: *Mike Marsh, Chair*

<u>Risk Management Working Group</u>
This working group has met three times and another session is scheduled for the week of July 1st. They have identified several issues that warrant analysis: difference in CA vs. FMMO pricing; lower correlation between FFMO Class III and CA Class 4b; correlation with FMMO Class IV and CA Class 4a; differences in CWAP vs. CME prices for NFDM; differences in CME vs. NDPSR for cheese and butter; and need for forward pricing in export sales.

The Chair plans to bring in additional members to the group and conduct a survey of producers and processors for the purpose of gathering information on the use of risk management tools, hedging, and impediments to using risk management tools. Once the survey is complete this group is planning on coordinating their efforts with the Class 4 working group.
Working Group Members: *Rachel Kaldor, Chair; Mike McCully; Tiffany LaMendola; Rich Denier*

<u>Investment Working Group</u>
No report.
Working Group Members: *Andrei Mikhalevsky, Chair*

Department Announces Hearing Decision

Having carefully evaluated the May 20, 2013 milk pricing hearing record, the Department is amending the Class 1, 2, 3, 4a and 4b pricing formulas for the period July 1, 2013 to December 31, 2013 by:

- Increasing the Class 1 price approximately $0.03/cwt. by adding:
  - o $0.0003 per pound to the milk fat price,
  - o $0.0023 per pound to the milk solids-not-fat price,
  - o $0.0001 per pound to the milk fluid carrier price.
- Increasing the Class 2 and 3 prices approximately $0.05/cwt. by adding:
  - o $0.0041 per pound to both the milk fat and milk solids-not-fat prices.
- Increasing the Class 4a and 4b prices approximately $0.15/cwt. by adding:
  - o $0.0123 per pound to both the milk fat and milk solids-not-fat prices.

These changes will take effect for milk delivered to processing plants on or after July 1, 2013. On average, these adjustments will increase the monthly Pool prices for this period by approximately $0.125/cwt. The Hearing Determinations, Panel Report, and Stabilization Plans can be obtained on the Dairy Marketing home page at www.cdfa.ca.gov/dairy by clicking on [Hearing Matrix].

California Minimum Class Prices

Hundredweight Prices

Class	May	June	July
1 No. Calif.	$19.39	$20.84	$19.59
So. Calif	$19.66	$21.12	$19.86
2 No. Calif.	$18.17	$18.26	$18.31
So. Calif.	$18.40	$18.49	$18.54
3	$18.12	$18.21	$18.26
4a	$18.24	$18.39	N/A
4b	$17.20	$15.91	N/A

California Pool Prices

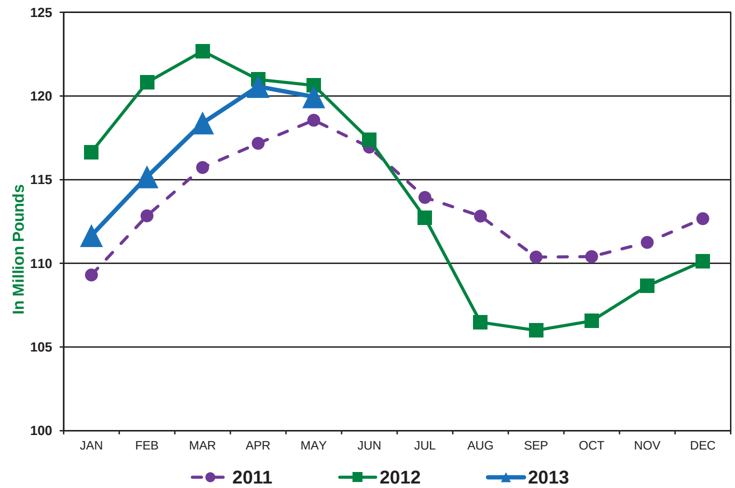
Pool Price	Mar.	Apr.	May
Quota	$18.03	$18.99	$19.13
Overbase	$16.33	$17.29	$17.43

Quota Transfer Summary

Quota Transfers	April	May	June
Number of Sellers	9	12	3
Pounds of SNF Quota Transferred	15,130	13,958	14,168
Average Price Per Pound of SNF Quota	$403	$398	$400

California Milk Production

Average Daily Basis: 2011, 2012, 2013



February 2012 Milk Production included 29 days.

California Milk Production Cost Comparison, by Region, 1st Quarter 2012-2013

Quarter	North Coast 2012	North Coast 2013	North Valley 2012	North Valley 2013	South Valley 2012	South Valley 2013	Southern California 2012	Southern California 2013	Statewide Weighted Average 2012	Statewide Weighted Average 2013
	Dollars per Hundredweight									
1st Quarter										
Total Costs	$23.47	$24.44	$16.79	$17.64	$16.31	$17.57	$16.36	$16.96	$16.63	$17.69
Total Costs & Allowances	$25.28	$26.14	$18.21	$19.08	$17.77	$19.06	$17.89	$18.38	$18.09	$19.16

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

California Alfalfa Hay Monthly Weighted Average Prices – Delivered

Week Ending	May 31, 2013		June 7, 2013		June 14, 2013		June 21, 2013	
Delivered	Tons	Price Range	Tons	Price Range	Tons	Price Range	Tons	Price Range
Tulare, Hanford Areas								
Supreme	2,520	$270-$290	925	$275-$292	2,200	$278-$290	5,600	$275-$290
Premium	3,750	$260-$270	2,061	$260-$280	3,805	$260-$283	1,850	$265-$280
Good	15,615	$240-$265	2,425	$240-$265	8,803	$240-$260	3,600	$245-$260
Fair	3,265	$220-$235	4,063	$225-$240	3,822	$225-$240	3,975	$230-$240
Escalon, Modesto, Turlock Areas								
Supreme	2,975	$265-$280	2,990	$265-$285	2,825	$268-$283	3,515	$270-$292
Premium	1,950	$255-$265	1,625	$250-$270	2,000	$250-$268	3,311	$255-$278
Good	1,600	$235-$250	1,900	$235-$250	200	$240-$240	350	$238-$245
Fair	500	$210-$220	1,200	$210-$225	280	$215-$225	250	$210-$225

Source: The Hoyt Report, Inc.

Federal Order Minimum Class Prices

Hundredweight Prices

Class I	May	June	July
Phoenix, Arizona	$20.11	$21.28	$21.26
Portland, Oregon	$19.66	$20.83	$20.81
Boston (Northeast)	$21.01	$22.18	$22.16
Class III	**$18.52**	**N/A**	**N/A**

USDA Dairy Cow Culling Activity

Week Ending	Region 9 [1] Dairy Cows	U.S. Dairy Cows	West Region [2] Price Range
	Head	Head	$/cwt.
5/11/13	14,900	55,500	$65-$80
5/18/13	15,200	54,100	-
5/25/13	15,600	56,800	$60-$73
6/01/13	13,000	47,800	$61-$68
6/08/13	13,400	55,100	$64-$66

1 Region 9 includes AZ, CA, HI and NV
2 West region includes AZ, NV, UT, CA, ID, OR and WA

Source: USDA Market News: Report LM_CT168 and SJ_LS714

USDA Commercial Cold Storage Report

Month	Butter		American Cheese		Nonfat Dry Milk	
	2012	2013	2012	2013	2012	2013
	In Million Pounds					
January	170	207	612	644	159	249
February	205	240	608	667	196	225
March	211	255	622	680	210	214
April	254	310	632	699	227	193
May	264	323	623	718	215	-
June	243		630		145	
July	234		635		130	
August	201		614		106	
September	195		608		118	
October	145		582		104	
November	127		581		127	
December	153		605		181	

Source: USDA, Farm Services Agency, NASS Cold Storage and Dairy Products. (As published in the Dairy Market News)

USDA Milk-Feed Price Ratio

USDA reports that the milk-feed price ratio for May 2013 was 1.55 (up from 1.54 in April 2013). The current ratio of 1.55 means that a dairy producer can buy 1.55 pounds of feed for every pound of milk sold. The prices used to calculate the May 2013 milk-feed price ratio were: corn $6.88/bushel; baled alfalfa hay $221/ton; soybeans $14.80/bushel; all-milk price $19.80/cwt. (up $0.30/cwt. from April 2013).

Prices used to calculate the milk-feed price ratio are based on U.S. prices and don't necessarily reflect California prices.

National Dairy Situation & Outlook USDA Estimates

Milk Production

Note: Through September 2013, USDA will only publish administrative data for Milk Production (there will be no "milk per cow" or "number of cows" data available).

Monthly: USDA estimates overall milk production across the U.S. was up by 0.8% in May 2013, compared to May 2012. USDA reports that California milk production decreased 0.5% compared to May 2012. Among other western states, compared to May 2012, Arizona was down 1.9%; New Mexico was down 1.1%; and Washington was up 1.5%. Three of the top 10 states reported a production decrease. The largest increase was reported by Kansas at 8.1% growth in milk production.

Quarterly: For the first quarter of 2013 compared to the fourth quarter of 2012, U.S. milk cow numbers increased to 9.225 million head, milk production per cow increased to 5,475 pounds; the net effect was slightly increased milk production at 50.5 billion pounds. USDA projects that for the second quarter of 2013 compared to the first quarter of 2013, milk production will increase to 51.8 billion pounds.

Milk Prices: Comparing the first quarter of 2013 to the fourth quarter of 2012, U.S. average milk prices decreased to $19.50/cwt. USDA projects that for the second quarter of 2013, U.S. average all-milk prices will be $19.65-19.85/cwt.; Class III prices will be $17.95-18.15/cwt.; and Class IV prices will be $18.45-18.75/cwt.

Utility Cow Prices

Comparing the first quarter of 2013 to the fourth quarter of 2012, average U.S. utility cow prices were up $4.06/cwt. to a national average of $77.87/cwt. USDA projects that utility cow prices will average $77-78/cwt. in the second quarter of 2013.

Top Ten Milk Production States - May 2013

(Percent Change from Same Month/Previous Year)

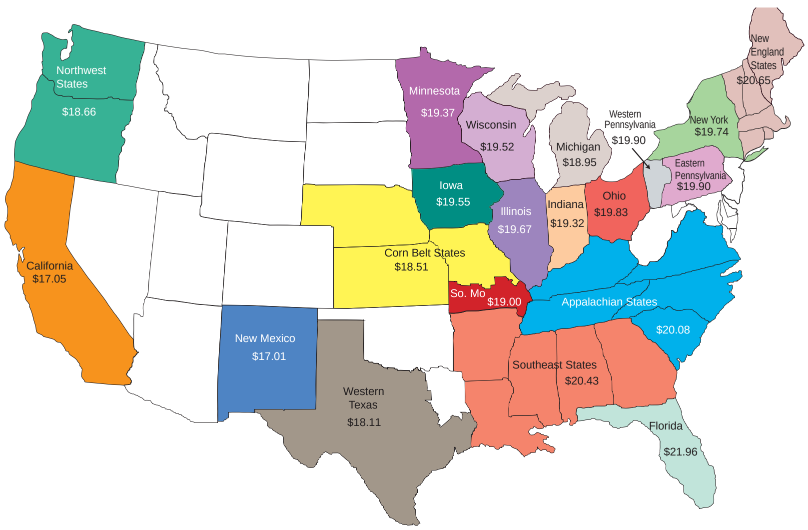
1. California	**-0.5%**	6. Texas	**-0.8%**
2. Wisconsin	+1.2%	7. Minnesota	+1.8%
3. New York	+2.1%	8. Michigan	+2.5%
4. Idaho	+0.3%	9. New Mexico	**-1.1%**
5. Pennsylvania	+2.3%	10. Washington	+1.5%

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

Milk Mailbox Prices in Dollars per Hundredweight - 2013

Area	Jan.	Feb.	March	April	May	June	July	August	Sept.	Oct.	Nov.	Dec.
California	$17.73	$17.58	$17.05									
USDA	$20.18	$19.56	$19.30									

[1] California mailbox price calculated by CDFA
[2] All federal milk market order weighted average, as calculated by USDA.



In March 2013, mailbox milk prices for selected reporting areas in Federal milk orders averaged $19.30 per cwt., down $0.26 from the February 2013 average, and up $2.06 from the March 2012 average. The component tests of producer milk in March 2013 were: butterfat, 3.81%; protein, 3.15%; and other solids, 5.75%. On an individual reporting area basis, when compared to the previous month, mailbox prices decreased in all Federal milk order reporting areas except Wisconsin where the mailbox price remained the same. Mailbox prices in March 2013 ranged from $21.96 in Florida to $17.01 in New Mexico.

Norwalk Dairy has informed the Department they are no longer processing bulk milk as of March 2013. For accountability, the Department would like to be informed if any milk business is conducted with Norwalk Dairy after March 2013. Norwalk Dairy is not licensed to purchase bulk milk in the State of California. You can call the Milk Pooling Branch at 916-900-5012 or email at pooling@cdfa.ca.gov

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