California Dairy Review

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# Secretary Karen Ross Letter to the California Dairy Industry

Dear Dairy Industry Stakeholders:

Today I am extending the current temporary price relief across all classes of milk through June 30, 2014 – an overall price increase of 12.5 cents per hundredweight of milk each month. I believe this will provide a consistent level of revenue to producers to ensure a stable milk supply.

While there are positive signs in the marketplace, the fragility of the country's economic recovery and the stability of the dairy sector compel me to make this extension. However, I am convinced that continued adjustments to the minimum price are inadequate to address the ongoing difficulties in the dairy industry. Our antiquated state pricing system demands structural reform.

I understand there will be disappointment with this decision in light of the publicity surrounding the perceived agreement between producers and processors during the legislative session. However, the Department was not jointly petitioned by producers and processors – only some producers – and when questioned by the Hearing Panel, processors responded that there was no agreement.

Despite the Department specifically requesting economic data and legal explanation in the hearing, testimony failed to provide justification for the petitioners' position that price relief be based solely on the whey factor and the 4b formula. In fact, the testimony supports the Department's position that the manufactured milk pricing formulas need to be changed to equitably return value to producers and recognize that only a few processors are realizing the full value of whey.

California's 1960's system of regulated milk pricing is outdated and impairs the ability of the dairy industry to meet 21st century challenges and opportunities in national and international markets. These markets have changed dramatically, as have product distribution, costs, and feed and production patterns.

Since 2011, the Department has held six hearings and denied five hearing requests. In the last ten years, it has held a total of eighteen hearings and denied a total of twelve. Recently, legislative battles have begun at the state and federal levels, creating more tension and entrenchment within the industry. In the midst of all this, no progress has been made to update California's pricing system -- something that must be done.

*Continued on page 3*

## California Minimum Class Prices

*Hundredweight Prices*

| Class | Sept. | Oct. | Nov. |
|---|---|---|---|
| 1 No. Calif. | $20.28 | $20.79 | $21.74 |
| So. Calif | $20.56 | $21.06 | $22.01 |
| 2 No. Calif. | $18.91 | $19.41 | $19.41 |
| So. Calif. | $18.14 | $19.64 | $19.64 |
| 3 | $18.86 | $19.36 | $19.36 |
| 4a | $19.47 | N/A | N/A |
| 4b | $16.65 | N/A | N/A |

## California Pool Prices

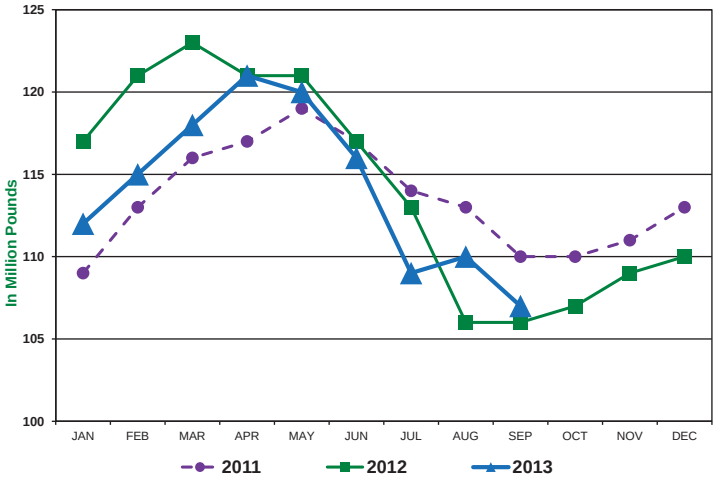
| Pool Price | July | Aug. | Sept. |
|---|---|---|---|
| Quota | $18.55 | $19.01 | $19.44 |
| Overbase | $16.85 | $17.31 | $17.74 |

## Quota Transfer Summary

| Quota Transfers | Aug. | Sep. | Oct. |
|---|---|---|---|
| Number of Sellers | 6 | 7 | 9 |
| Pounds of SNF Quota Transferred | 10,911 | 8,122 | 6,746 |
| Average Price Per Pound of SNF Quota | $398 | $403 | $405 |

## California Milk Production

### Average Daily Basis: 2011, 2012, 2013




February 2012 Milk Production included 29 days.

## California Milk Production Cost Comparison, by Region, 2nd Quarter 2012-2013

| Quarter | North Coast | | North Valley | | South Valley | | Southern California | | Statewide Weighted Average | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 |
| | *Dollars per Hundredweight* | | | | | | | | | |
| **2nd Quarter** | | | | | | | | | | |
| Total Costs | $22.00 | $22.52 | $16.99 | $17.00 | $16.64 | $16.81 | $16.04 | $16.57 | $16.84 | $16.98 |
| Total Costs & Allowances* | $23.60 | $24.19 | $18.34 | $18.42 | $18.02 | $18.27 | $17.47 | $17.88 | $18.22 | $18.42 |

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

## California Alfalfa Hay Monthly Weighted Average Prices – Delivered

| Week Ending | October 4 2013 | | October 11, 2013 | | October 18, 2013 | | October 25, 2013 | |
|---|---|---|---|---|---|---|---|---|
| Delivered | Tons | Price Range | Tons | Price Range | Tons | Price Range | Tons | Price Range |
| **Tulare, Hanford Areas** | | | | | | | | |
| Supreme | 700 | $285-$295 | 2,650 | $285-$302 | 925 | $285-$300 | 3,100 | $280-$310 |
| Premium | 960 | $268-$280 | 1,630 | $265-$275 | 1,025 | $260-$285 | 3,750 | $260-$280 |
| Good | 1,100 | $230-$255 | 2,580 | $225-$255 | 6,375 | $230-$265 | 1,900 | $235-$260 |
| Fair | 1,200 | $215-$220 | 200 | $215-$215 | 525 | $215-$225 | 1,300 | $210-$220 |
| **Escalon, Modesto, Turlock Areas** | | | | | | | | |
| Supreme | 1,615 | $280-$295 | 1,325 | $277-$305 | 2,450 | $280-$300 | 3,050 | $278-$303 |
| Premium | 780 | $267-$280 | 475 | $270-$270 | 650 | $265-$275 | 2,475 | $265-$282 |
| Good | 300 | $235-$250 | 150 | $245-$245 | 500 | $225-$250 | 400 | $240-$255 |
| Fair | 750 | $200-$215 | 150 | $210-$215 | 400 | $210-$215 | 300 | $210-$225 |

Source: The Hoyt Report, Inc.

## Letter from Secretary Ross - *Continued from Page 1*

California's world-renowned dairy industry has tremendous potential to take advantage of the new marketplace to create growth and prosperity for our dairy families and processors. In order to achieve this growth, we must work together to create a new system built on the four most critical pillars of the California Dairy Future Task Force: a 21st century pricing system that allows producers to be responsive to market signals; comprehensive risk management tools to more equitably share risk between producers and processors; the right processing capacity for domestic and international markets; and an in-depth examination of California's quota in the context of a 21st century pricing system.

The cornerstone of any 21st century pricing system must begin with changes to Classes 4a and 4b, as they represent approximately eighty percent of the milk processed in California. A work group of industry technical experts is developing potential alternative pricing scenarios that could replace the formulas currently used. The Department has contracted with Daniel Sumner, Ph.D., a University of California at Davis Professor of Agricultural & Resource Economics and a former USDA Chief Economist, to analyze the effects of different pricing scenarios on California's dairy industry.

Additionally, because statutory changes will be required to make the needed reforms, I have directed staff to develop comprehensive pricing proposals – in cooperation with stakeholders, industry experts and the Legislature – by December 15, 2013. We can and must work together to implement changes to the current pricing system.

Yours truly,

Karen Ross
Secretary

# Dairy Futures Task Force - Working Group Update

At the October 2013 Dairy Advisory Committee meeting, the four Dairy Futures Task Force working groups reported the following updates:

**Reforming Class 4 Working Group (21st Century Pricing System): (David Ahlem - Chair, Evan Kinser, Eric Erba, Tom Wegner, Elvin Hollon, Sue Taylor, and Geoff Vanden Huevel).** This group has held numerous meetings and is moving forward very productively. They are focusing on the question of what pricing reforms will be to the best interest for all of the dairy industry. Four different scenarios have been identified and Dr. Sumner of U.C. Davis is currently conducting modeling analysis for the group. The group is hopeful to have recommendations by the end of 2013.

**Quota Group: (Mike Marsh - Chair, Annie AcMoody, Tom Barcellos, Dennis Leonardi, 4 other members).** This group has met and is focusing on what changes need to be made and how to best implement those changes. They are looking at various scenarios and are still in the working stage.

**Investment Group: (Andre Mikhalevsky - Chair, John Jeter and Stan Andre).** This group has met and is focusing on dairy specific and non-dairy specific investment interests; processing capacity as it relates to milk production; and future growth opportunities in California and also outside California. The group has been working closely with the Governor's Office of Go-Biz, California Business Investment Services , known as Cal BIS.

**Risk Management Group: (Rachel Kaldor - Chair, Mike McCully, Tiffany LaMendola, , Rich Denier and Joel Karlin).** This group has met numerous times and has developed a survey that was sent out to the Task Force to gather input regarding the use of risk management tools. They are now focusing on the survey results and will be ready to use this information when the Class 4 working Group has recommendations that they can apply.
The group has identified that there needs to be more information given to producers on risk management tools, i.e. how they work, what they are, etc.

# Department Announces September 12, 2013 Hearing Results

Having carefully evaluated the September 12, 2013 milk pricing hearing record, the Department is extending the temporary price adjustments on the Class 1, 2, 3, 4a and 4b pricing formulas implemented as a result of the May 20, 2013 hearing, through June 30, 2014, by continuing the following adjustments:

- Increasing the Class 1 price approximately $0.03/cwt. by adding:
  - $0.0003 per pound to the milk fat price,
  - $0.0023 per pound to the milk solids-not-fat price, and
  - $0.0001 per pound to the milk fluid carrier price.

- Increasing the Class 2 and 3 prices approximately $0.05/cwt. by adding:
  - $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:
  - $0.0123 per pound to both the milk fat and milk solids-not-fat prices.

Order Numbers 60 and 75 of the Stabilization and Marketing Plans for Market Milk for the Northern California and Southern California Marketing Areas (Stabilization Plans) will implement these adjustments. These changes will remain in effect for milk delivered to processing plants through June 30, 2014. 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].

Should you have any questions or desire further information, please contact Hyrum Eastman at (916) 900-5014.

## Federal Order Minimum Class Prices

*Hundredweight Prices*

| Class I | Sept. | Oct. | Nov. |
|---|---|---|---|
| Phoenix, Arizona | $21.51 | $21.55 | $22.55 |
| Portland, Oregon | $21.06 | $21.10 | $22.10 |
| Boston (Northeast) | $22.41 | $22.45 | $23.45 |
| **Class III** | **$18.14** | **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. |
| 9/14/13 | 17,000 | 65,900 | $67-$73 |
| 9/21/13 | 16,100 | 62,000 | $66-$67 |
| 9/28/13 | 16,600 | 64,300 | $64-$74 |
| 10/5/13 | 16,300 | 60,800 | N/A |

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 | 208 |
| May | 264 | 321 | 623 | 714 | 215 | 227 |
| June | 243 | 319 | 630 | 711 | 145 | 230 |
| July | 234 | 296 | 635 | 705 | 130 | 207 |
| August | 201 | 269 | 614 | 670 | 106 | 194 |
| 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 September 2013 was 1.86 (increased $0.18 from August 2013). The current ratio of 1.86 means that a dairy producer can buy 1.86 pounds of feed for every pound of milk sold. The prices used to calculate the September 2013 milk-feed price ratio were: corn $5.28/bushel; baled alfalfa hay $194/ton; soybeans $13.80/bushel; all-milk price $19.80/cwt. (increased $0.30 from August 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 - Most Recent Available

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 2.6% in August 2013, compared to August 2012. USDA reports that California milk production increased 2.7% compared to August 2012. Among other western states, compared to August 2012, Arizona was up 5.5%; New Mexico was down 1.2%; and Washington was up 4.4%. Two of the top 10 states reported a production decrease. The largest increase was reported by Kansas at 8.8% growth in milk production.

**Quarterly:** For the second quarter of 2013, U.S. milk cow numbers and milk production per cow were not available. Milk production increased to 52.0 billion pounds compared to first quarter 2013 production. USDA projects that for the third quarter of 2013 compared to the second quarter of 2013, milk production will decrease to 49.6 billion pounds.

### Milk Prices

Comparing the second quarter of 2013 to the first quarter of 2013, U.S. average all-milk prices increased to $19.57/cwt. USDA projects that for the third quarter of 2013, U.S. average all-milk prices will be $19.35-19.55/cwt.; Class III prices will be $17.75-17.95/cwt.; and Class IV prices will be $18.95-19.25/cwt.

### Utility Cow Prices

Comparing the second quarter of 2013 to the first quarter of 2013, average U.S. utility cow prices were down $0.41/cwt. to a national average of $77.46/cwt. USDA projects that utility cow prices will average $78-81/cwt. in the third quarter of 2013.

### Top Ten Milk Production States - August 2013

*(Percent Change from Same Month/Previous Year)*

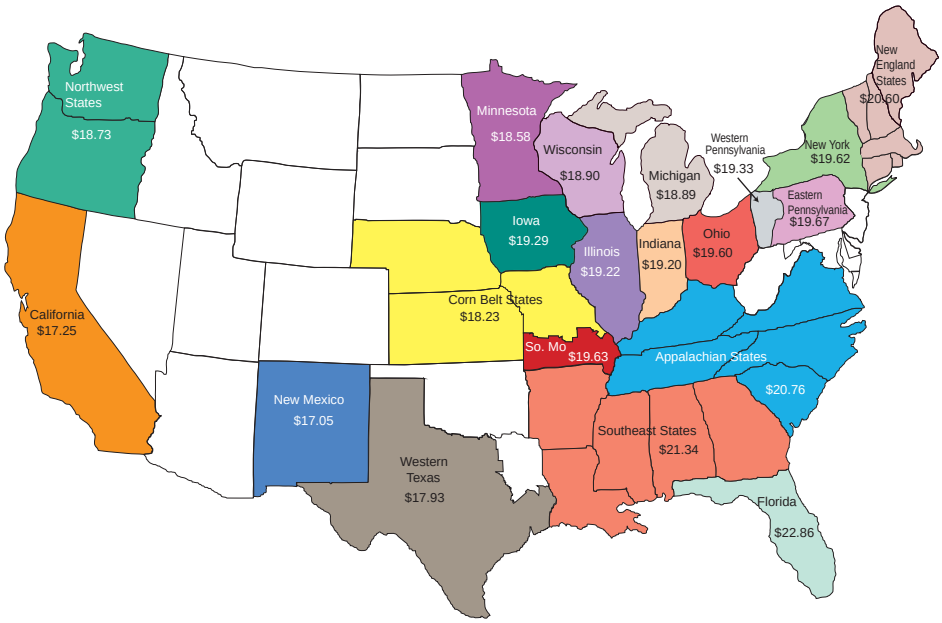
| | | | |
|---|---|---|---|
| 1. California | +2.7% | 6. Texas | +3.3% |
| 2. Wisconsin | +1.7% | 7. Michigan | +3.9% |
| 3. Idaho | **-0.7%** | 8. Minnesota | +1.9% |
| 4. New York | +4.2% | 9. New Mexico | **-1.2%** |
| 5. Pennsylvania | +3.5% | 10. Washington | +4.4% |

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 | $17.90 | 17.95 | 17.55 | 17.25 | | | | | |
| **USDA** | $20.18 | $19.56 | $19.30 | $19.45 | 19.63 | 19.46 | 19.08 | | | | | |

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




In July 2013, mailbox milk prices for selected reporting areas in Federal milk orders averaged $19.08 per cwt., down $0.38 from the June 2013 average, but up $2.20 from the July 2012 average. The component tests of producer milk in July 2013 were: butterfat, 3.61%; protein, 2.99%; and other solids, 5.75%. On an individual reporting area basis, mailbox prices decreased in 15 Federal milk order reporting areas, and increased in 4 Federal milk order reporting areas when compared to the previous month. Mailbox prices in July 2013 ranged from $22.86 in Florida to $17.05 in New Mexico.

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