★★★ SPECIAL EDITION ★★★

Milk Pricing NEWSLETTER

Serving the California dairy industry for over 7 years

Dairy Marketing Branch, CDFA July 2007

This Special Issue of the Milk Pricing Newsletter has been prepared to provide an overview of the underlying factors contributing to the recent surge in milk prices. Currently, the supply of milk in the U.S. is not meeting the demand for dairy products. When the supply of milk remains below needed levels and the demand for dairy products remains strong, prices paid for fluid milk at the retail level will be higher. The inside pages of this Special Issue bring a better understanding of the issues currently affecting the price of milk.

Commodity Prices Remain Strong, Milk Prices Continue to Increase . . .

The national commodity prices for Grade AA Butter, Cheddar cheese, nonfat dry milk and Western dry whey all averaged higher compared to last month, consequently, all milk prices increased: whole milk increased four and three tenths cents per gallon; reduced fat milk increased six and no tenths cents per gallon; lowfat milk increased seven and two tenths cents per gallon; and skim milk increased six and six tenths cents per gallon. The table below shows individual prices for the four types of fluid milk by container size and the price changes from the previous month. The prices listed represent the minimum price paid by processors for the milk only - no other processing costs are included.

Minimum Prices for the Four Types of Fluid Milk by Container Size for August 2007

Northern California	Gallon	1/2 Gallon	Quart	Pint	1/3 Quart	1/2 Pint
Whole	$2.020	$1.010	$0.505	$0.253	$0.168	$0.126
Reduced Fat 2%	$1.998	$0.999	$0.499	$0.250	$0.166	$0.125
Lowfat 1%	$2.002	$1.001	$0.501	$0.250	$0.167	$0.125
Nonfat (Skim)	$1.601	$0.800	$0.400	$0.200	$0.133	$0.100
Southern California						
Whole	$2.044	$1.022	$0.511	$0.255	$0.170	$0.128
Reduced Fat 2%	$2.021	$1.011	$0.505	$0.253	$0.168	$0.126
Lowfat 1%	$2.026	$1.013	$0.506	$0.253	$0.169	$0.127
Nonfat (Skim)	$1.625	$0.813	$0.406	$0.203	$0.135	$0.102

Price Changes from the Previous Pricing Period

	Gallon	1/2 Gallon	Quart	Pint	1/3 Quart	1/2 Pint
Whole	$0.043	$0.022	$0.011	$0.005	$0.004	$0.003
Reduced Fat 2%	$0.060	$0.030	$0.015	$0.007	$0.005	$0.004
Lowfat 1%	$0.072	$0.036	$0.018	$0.009	$0.006	$0.005
Nonfat (Skim)	$0.066	$0.033	$0.017	$0.008	$0.006	$0.004

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Supply/Demand balance for milk is reflected in the basic dairy commodity prices . . .

Butter, Cheddar cheese, nonfat dry milk, and dry whey are the four basic dairy commodities whose prices are reflective of the fundamental supply/demand interaction for milk and dairy products, in California and across the U.S. These four commodities are incorporated directly into the economic formulas used to establish the milk price. The prices are determined in either the open competitive market or in the case of butter and cheddar cheese, via the trades in a commodity market, such as the Chicago Mercantile Exchange (CME). At the CME, these basic dairy commodities are traded daily and a daily price is determined. When the wholesale price of these commodities increases from one trading session to another, it signals that there is relative strength in the value of that commodity/product. That is to say, demand for that commodity meets or exceeds the supply for that product. More importantly, it implies that the milk from which the commodity was made has more value than it did in the previous trading sessions.

Alternatively, the commodity prices will decrease when the supply of the commodity exceeds the quantity demanded.

Factors causing high commodity prices?

There is usually no single factor causing the commodity prices to increase or decrease. Increased demand for dairy products and the available supply of dairy products, which directly affect the prices of the commodities, can be driven by numerous factors, for example:

Foreign/World Markets

- ✓ The foreign/world demand for U.S. exports of milk and dairy products has increased over the last few years – directly affecting U.S. supplies.
- ✓ The continued increase in world demand for milk protein products (skim milk powder, dry whey, and whey protein concentrates).
- ✓ In particular, the world demand for whey protein (a high quality protein made from milk that is used in a wide variety of food and drink products), has simply exploded.
- ✓ The principal suppliers of dairy commodities on the World Market have declining supplies available to satisfy the world demand.
- ✓ European Union, the world's principal supplier of these dairy commodities, has offered decreasing supplies of nonfat dry milk and whey protein.
- ✓ Australia, the world's second leading supplier, has been plagued with progressively severe drought that has sharply curtailed its available production.
- ✓ The relatively weak dollar, has made U.S production of these commodities an attractive alternative for supplying the world market.
- ✓ As a result, U.S exports of dry why exports are up 17 percent and whey protein concentrates have been up 74 percent since last year, with China, Canada, Mexico, and South Korea as the major export designations.

What is happening in the commodity markets now?

For the last few months, the commodity market prices have been on the rise. The demand for U.S. dairy products has been very strong. The inventory supplies of surplus dairy products in the U.S. is very low, if non-existent, thus the supply of dairy products is not sufficient to satisfy the total demand. If the summer months bring high heat and humidity across the country, milk production could drop as cows are not as productive in these conditions – this could cause a drop in milk production and higher commodity prices may continue.

Retail milk prices are currently higher than last year, but remember that last year, the average retail whole milk prices for 2006 were the lowest in the past 10 years. The graph below shows the annual average price of retail whole milk for the Los Angeles area. It shows that six of the last 10 years had higher annual average prices for whole milk than the average price for the first four months of 2007. As the chart indicates, the retail prices for milk are volatile just like the commodity prices are volatile, depending on commodity market conditions, milk production, consumer demand, etc. The butter, Cheddar cheese, nonfat dry milk, and dry whey commodity prices drive the formulas that calculate the price of milk for California and the U.S. Currently, milk prices are higher as a direct response to the increasing value of dairy products.

Yearly Average Retail Price of Whole Milk
Los Angeles, 1997-2007

*2007 includes January - April

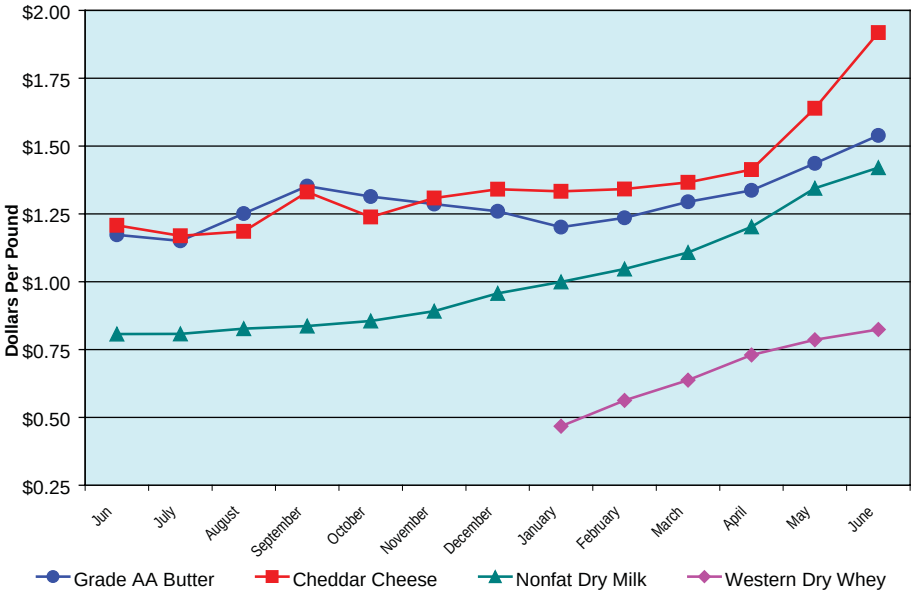
Minimum Prices for the Milk Component of Various Manufactured Dairy Products

The minimum prices for the raw milk component used by processors in manufacturing dairy products are listed in the table to the right. No other costs incurred by the processor are included, such as:

- milk quality premiums,
- milk composition premiums,
- competiveness for availability of milk premiums,
- transportation costs,
- plant processing costs,
- service charges
- marketing costs

	Lowfat Yogurt ($/quart)	Super-Premium Ice Cream ($/ 1/2 gal)	Generic Ice Cream ($/ 1/2 gal)
August	$0.18	$1.13	$0.44
September	$0.18	$1.13	$0.44
October	$0.19	$1.24	$0.48
November	$0.19	$1.24	$0.48
December	$0.20	$1.29	$0.50
January '07	$0.20	$1.29	$0.50
February	$0.22	$1.28	$0.50
March	$0.22	$1.28	$0.50
April	$0.25	$1.35	$0.53
May	$0.25	$1.35	$0.53
June	$0.30	$1.58	$0.62
July	$0.30	$1.58	$0.62

National Commodity Prices June 2006 - June 2007



Lowest Observed Retail Prices for Milk July 2007

	Two-Pack	Single Gallon
Northern California		
Whole Milk	$6.29	$3.15
Reduced Fat	$6.19	$3.10
1% Lowfat	$6.19	$3.10
Nonfat/Skim	$5.29	$2.65
Southern California		
Whole Milk	$6.29	$3.15
Reduced Fat	$6.19	$3.10
1% Lowfat	$6.19	$3.10
Nonfat/Skim	$5.25	$2.63

This newsletter can also be found on our website at:
www.cdfa.ca.gov/dairy/milkpricing_nl.html

In accordance with the California Government Code and ADA requirements, this publication can be made available in an alternative format by contacting Karen Dapper at (916) 341-5988, by email at dairy@cdfa.ca.gov, or by contacting TDD 1-800-735-0193.

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