

The Milkweed



Dairy's best information and insights

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California's Heat, Drought & Low Milk Prices Slowing U.S. Milk Flow

by Pete Hardin

June 2015 saw the nation's biggest milk producing state's output fall 4.3% below June 2014's total. California's declining milk volumes for June 2015 represent a big drop from recent prior months' negative trends. What's ahead? *The Milkweed* sees the possibility that by late 2015, California's monthly milk production could approach "double-digit down" levels (compared to same-month, 2014 figures.)

Nationally, June 2015 milk volume gained 0.7% over June 2014's total. Fast-growing milk production in states such as Wisconsin (+3.4%), Minnesota (+4.2%), South Dakota (+12.0%), Michigan (+7.2%), Iowa (+5.2%), and Kansas (3.3%) offset California's big decline. But looking ahead to 2015's second half, and into 2016, it's hard to imagine that soybean and hay costs/quality in many parts of the country will be able to sustain continued milk flow gains. Thus, California's status as "the big dog" in U.S. milk production will, in all likelihood, start pulling down the nation's overall monthly milk production trends starting soon and continuing for an unknown period. (Note: New Mexico's milk production for June was down 4.5%.) For these reasons, *The Milkweed* must retain greater optimism, compared to most dairy analysts, about U.S. dairy commodity federal milk order prices (exception: Dairy protein powders.) in 2015's second half and into 2016. That relative optimism must be qualified, in comparison to the dire forecasts coming from many so-called "experts." (See related article, page 3.)

California is deep into the fourth consecutive year of severe Drought. Climate scientists estimate the current California Drought is the worst prolonged dry period since the mid-1500s. Falling milk production is just a small problem for that state, where more than two dozen summer wildfires rage out of control this early August. That Drought is not just a California matter, but extends brutally into Oregon, Washington State, Nevada, Arizona, Utah and, to a lesser extent, Idaho. Washington, Arizona and Idaho are key milk-producing states.

Back to California ... Hundreds of thousands of acres of California farmland have been idled in 2015 due to lack of surface water for irrigation. In late spring/early summer, state officials intervened to deny water to certain agricultural producers who'd previously (mistakenly) imagined that they had water access for the present growing season. Lawsuits have followed. Ultimately at stake: California's system of surface water rights, which bases water rights upon the date when claims were originally filed more than a century ago. Critics are increasingly vocal about the allocation of water rights to agriculture based upon a century-plus old system, when the water viability of a vulnerable society counting 40,000,000 residents is at stake. When cities fight

farms over scarce water, urban needs always prevail. Widespread drilling of deep wells, to bring to the surface water from far below, has caused such a drawdown of groundwater supplies that in certain areas, levels of surface areas are declining.

Looking ahead, California dairies face multiple challenges to their net milk margins including:

- Reduced availability of 2015 "new crop" feeds, due to reduced availability of surface water for irrigation. Inventories of stored corn silage – a critical source of belly-fill (and energy) for California dairy cows – are winding down. By-products of other agricultural products – an important source of rations for California's milk cows and young stock – will be less available, due to water restrictions.

- California's state milk-pricing system is heavily based upon the 4a price (nonfat dry milk). Nationally and globally, nonfat dry milk (and other dairy protein) supplies are severely glutted, with commodity prices in the sub-basement. While no measure of overall nonfat dry milk inventories are available through government data bases, it's a fact of life that end-users' inventories of nonfat dry milk are high. Right now, nonfat dry milk sales are a buyers' market. With Grade A nonfat dry milk prices hovering in the "high 60s/low 70s" per pound range, California's state milk pricing system is locked into low-ball prices for most other classes of milk. That's because 4a prices are a primary basis in the pricing of farm milk used for fluid milk, cottage cheese, yogurt, ice cream, etc. Such a supply-demand scenario means that when overall dairy commodity prices do finally start swinging upwards, California's dairy producers' milk prices will lag behind, due to their pricing system's overt dependence upon milk powder-based 4a values.

- The Dairy Margin Protection Program (DMPP) – USDA's newly created "safety net" for dairy – offers *nada* to California producers. For producers making over four million pounds of milk annually, premiums for higher-tier coverage (say, \$6.50 up to \$8.00/cwt.) don't pencil out well. Per-



Jersey cows and Jersey crosses have become very hot items at auctions and private sales. Writer Jan Shepel takes a long look at the many reasons why Jerseys are commanding buyers' interest. See pages 6-7.

formance of the DMPP pay-outs so far in 2015 make it a highly questionable decision for producers making over four million pounds of milk annually to sign up for high-end levels of margin protection.

In conclusion, California dairy producers are fighting against three difficult forces: Mother Nature's Drought, glutted inventories of dairy protein powders, and a milk powder-based state milk pricing system. None of these forces will be resolved any time soon. As California's milk production engine slows, represents lost momentum for **future** milk production. The fundamental structure of the nation's largest milk producing state – based in an arid desert, and reliant on scare supplies of surface water and dwindling supplies of ground water – is deeply flawed.

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Record Volumes Dumped in Northeast, Mid-East in June

by Nate Wilson

Dumping farm milk in the Northeast and Mid-East marketing regions hit all-time records during June 2015. Data from the Order 1 (Northeast) and Order 33 (Mid-East) show vast amounts of milk have been dumped this spring in both those federal milk marketing orders. The following data were drawn from those two fmmos' *Monthly Statistical Report*. June was the latest month that dumpage data was available at press time.

In Order 1, the amount dumped escalated from 5.37 million pounds in April, to 7.11 million pounds

in May, to an unprecedented 22.07 million pounds in June. June 2015's dumpage exceeded by more than three times May's already painfully high figure! Again, the butterfat percentage on June 2015's dumped milk was low: 0.63 percent. That statistic suggests significant amounts of butterfat were skimmed before the milk was discarded. Based on an estimated 55,000 pounds per tractor trailer load, the 22.07 million-pound total pencils out to 401 loads of milk wasted, in Order 1 just last June.

Meanwhile, in June the Mid-East milk order dumped heavily: 18.33 million pounds. That total

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