



Milk Producers Council

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MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks - \$.0050 \$2.1250
Barrels +\$.0200 \$2.0975

CHICAGO AA BUTTER

Weekly Change - \$.0200 \$2.0400
Weekly Average - \$.0710 \$2.0300

NON-FAT DRY MILK

Week Ending 6/24 & 6/25

Calif. Plants \$1.6068 12,977,272
NASS Plants \$1.6629 16,374,071

Weekly Average

Blocks - \$.0010 \$2.1290
Barrels +\$.0160 \$2.0855

DRY WHEY

WEST MSTLY AVG w/e 07/01/11 \$.5563
NASS w/e 06/25/11 \$.5306

CHEESE MARKET COMMENTS: Cheese makers and buyers likely took notice of USDA's Thursday report on corn acreage plantings but traders on the CME didn't show much reaction. Corn prices continued downward today, with December prices ending the week just below \$6.00 per bushel. Block prices were unchanged until Friday when a single sale dropped the price by a half cent. Offers on Wednesday and Friday brought the barrel price up by a penny each day – 2 cents for the week. Prices for cheese shipped from plants last week were substantially higher than two weeks ago – with both varieties gaining about 20 cents per lb. Barrel prices are within 5 cents per lb of Friday's spot price; blocks were still about 14 cents per lb below the spot price. Production has been seasonally normal. Milk production is being affected somewhat by very hot temperatures and some humidity throughout the southern states, but has been good to very good in the northern states. Cheese sales have been steady. *Dairy Market News* reports export interest has slowed because of rising prices, although CWT continues to assist members with some sales. Normal after major holiday reviews and decisions should begin to give direction to the market by mid July. Class III futures prices were mixed this week through the end of the year, at levels reflective of a few cents to 40 cents per lb cheese below current spot prices.

BUTTER MARKET COMMENTS: Prices lost 4 cents per lb on Monday from 2 sales and an uncovered offer. Six sales on Tuesday didn't change a thing and single offers on Wednesday and Thursday raised the price a penny each day. Friday's activity ended with an offer at penny higher, with no takers. All in all, it was a good week. Futures traders generally were supportive of current spot prices for all months this year, with the price still holding at \$2.00 per lb for December. Hot weather and strong cream demand for other usages has been affecting butter production, and sales have been fairly strong into the upcoming holiday weekend. Normal schedules are expected to resume next week. DMN says many buyers are still unsure about the right approach to take with respect to holding butter in storage. Who wouldn't be?

POWDER MARKET COMMENTS: Demand is relatively weak for buttermilk powder, and prices remain unchanged at about 14 cents per lb below nonfat dry milk. Prices for nonfat dry milk edged upward for the week for both major price series. The California price continues to lag below the national price. Futures prices have settled in at about 20 cents per lb below the CME spot market for the November to January period. DMN reports production is higher than expected for this time of year, prices are at or somewhat above international prices, and some buyers are holding back for obvious reasons. Some such offers have been noted in the Midwest. Short term, production of nonfat powders is expected to be heavy due to normal holiday schedule changes.

WHEY PRODUCTS MARKET COMMENTS: DMN reports a continuing shift in production in the Midwest towards more concentrated whey products. This is resulting in some tightening of supplies, particularly in the East. Price levels are somewhat higher, and some re-sale products are being offered at premiums. The opposite effect is seen for WPC; spot loads readily available at somewhat lower prices. Domestic and export interest for dry whey and whey protein concentrates continues to be good. For those interested, the west's "mostly" price for

dry whey this week ranges from \$.54 to \$.5725 per lb, while the NASS weighted average price for a light volume of 6.4 million lbs last week was \$.5306 per lb. These prices are reported in the table above.

FRED DOUMA'S PRICE PROJECTIONS...

July 1 Est:	Quota cwt. \$21.36	Overbase cwt. \$19.66	Cls. 4a cwt. \$20.22	Cls. 4b cwt. \$19.51
June '11 Final:	Quota cwt. \$21.09	Overbase cwt. \$19.39	Cls. 4a cwt. \$20.79	Cls. 4b cwt. \$18.79

DO FLUID MILK SALES FOLLOW COMMONLY HELD ASSUMPTIONS? (By J. Kaczor) A number of long-held beliefs about fluid milk sales recently were tested, with mixed results. The assumptions about milk sales include the following: that demand is inelastic (meaning low prices do not unduly stimulate sales nor high prices unduly retard sales); that per capita consumption is on a long, slow downward trend (meaning the rising population keeps total sales about level); that because milk is considered to be an essential food, fluid milk sales are essentially recession-proof; and, more recently, that price volatility may contribute to lower sales (meaning less volatility may contribute to higher sales). The tests of these beliefs were not planned; they are empirical marketplace observations of milk sales through high and low price periods and the recession.

The approximately five and a half year period ending this April provided the opportunity to test each of above-mentioned beliefs about what affects fluid milk sales. There was a short, sharp price spike in mid 2006 and an eighteen month period in 2007-2008 of historically high prices which transitioned to nine months of very low prices in 2009. The recession began in December 2007 and ended in June 2009, and we are now back to a period where prices are again high – about where they were in 2007-2008.

About the recession: it was the most severe U.S. economic recession since the 1930's; it didn't miss by much being classified as a depression. It provides the best possible test on whether milk sales are recession proof. The recovery supposedly began July 2009, but is weak and uneven to the point where some economists believe it is not sustainable. While the great financial institutions on Wall Street have fully recovered and many large corporations have learned how to do more with less (meaning fewer employees with less benefits and longer hours, and huge profits), many small-business owners, including milk processors, are doing about as good as their customers, which is to say not so good at all. Why is that?

A June 27th report by Alex Kowalski on Bloomberg.com, "*Consumer Spending in U.S. Stagnated in May,*" cited poor employment prospects and rising inflation as principal causes for the cut back in consumer spending. That report is another way of saying "low consumer confidence" is keeping the economy from reaching the critical level where improvement in one sector feeds into others and eventually blossoms into an obvious sustainable recovery. The single most important factor causing employers to put off hiring is uncertainty about sales. Unfortunately, a stimulus to spark hiring or consumer confidence doesn't appear to be evident at the present time.

About milk sales:

- Estimated daily average fluid milk sales are now believed to be lower than they have been in sixty years; perhaps an all time low; partly because of a continuing decrease in per capita consumption.
- Fluid milk sales fell sharply following a four month price spike in 2004, but recovered soon thereafter, reflecting short term negative response to price increases.
- A price trough of about ten months beginning in April 2006 was accompanied by a rise in sales for that same period, reflecting a positive response to price decreases.
- Milk sales during the period of record high prices in 2007-2008 were generally higher than they were in 2010, when prices were considerably lower.
- Estimated daily average sales in 2009, at the lowest point of the recession, when prices were at a seven year low, were substantially higher than present sales; this positive response appears to be very strong evidence of price elasticity during hard economic times.
- Fluid milk sales in April 2009 are believed to be higher than any April in the past twenty years, about seven million lbs per day higher than this April.
- Sales of organic milks, although somewhat affected by the recession, have generally fared far better than sales of non-organic milks despite having retail prices substantially higher than non-organic milks. Prices

for organic milks generally have much more level retail prices than non-organic milks. Over the past year and a half, sales of organic milks have risen while sales of non-organic milks have fallen.

- The theory that more stable retail milk prices could help to increase sales is still a theory.

A general conclusion drawn from this scattered review of milk sales over the past six years, a period characterized by wide price swings and economic hardship, is that milk sales are more responsive to high and low prices, and to sharp price changes, than was believed. Organic milk sales are still relatively new, but during the short period looked at, they seem to be the exception to the price rule. A second conclusion is that milk seems to be losing its role as an essential food product; displays, and promotions and advertising for a long list of other beverages continues to take sales from milk processors and producers. A third conclusion is that milk sales may be now suffering from the lingering effects of the recession and from continuing rise in food prices.

Milk processors are stunned from what is happening; they are directly affected, are looking for answers, and so far finding none. Milk producers are somewhat shielded for a time from the effect of lower class 1 sales because of higher prices for the lower classes of usage, but are unable to do anything about any of it. Here's to a strong economic recovery; let's continue the study under better circumstances.

GOVERNOR BROWN VETOES THE “CARD CHECK” BILL: *(By Rob Vandenheuvel)* On behalf of the our Board and Membership, MPC expresses great appreciation to California Governor Jerry Brown for standing up to heavy union pressure this week and vetoing SB 104, known as the “Card Check” bill. As we've written in prior issues of this newsletter, Democrats in the California Legislature have been trying for several years to change the way union elections are held in the State. SB 104 – the most recent attempt – would have allowed union leaders to intimidate their way into agriculture businesses by replacing the current system of having workers vote by secret ballot with a “Card Check” system of having workers sign union cards in open view of the union officials and their fellow workers.

The California agriculture industry got some help last week when even the *Los Angeles Times* – not exactly a paper known for a Conservative, pro-business slant – editorialized against the legislation, stating that, “the ‘card check’ bills that Democrats keep sending to the governor...empower unions, not union workers” (<http://articles.latimes.com/2011/jun/23/opinion/la-ed-cardcheck-20110623>).

For those of you who were able to reach out to the Governor's office in the last couple weeks and urge a veto, your message was heard and your efforts are much appreciated. While this certainly won't be the last attempt at this issue by union leaders, it's certainly a strong message to those who want to bully our State's ag workers into unions. Too often in California, we see unwise policies implemented into law. It's nice to see one stopped.

MPC TESTIFIES AT CDFA HEARING ON CLASS 4A/4B MILK PRICE FORMULAS: *(By Rob Vandenheuvel)* For the past two days, the California Department of Food and Agriculture (CDFA) held a hearing to consider amending the minimum price formulas for milk sold to Class 4a (butter/powder) and Class 4b (cheese/whey) manufacturing plants. About 20 producer and processor organizations provided testimony at the hearing, including MPC, who testified on behalf of our members. As we've reported in this newsletter in the past two months, the issues at this hearing included make allowances, f.o.b. price adjusters and the “dry whey factor” in our Class 4b formula. Next week, I will go into more detail on the hearing and where we go from here.

REMINDER – NMPF WILL BE IN VISALIA ON JULY 13TH: *(By Rob Vandenheuvel)* As we've reported in previous articles, the National Milk Producers Federation (NMPF) will be hitting the road this month for a 12-stop “Summer Grassroots Tour” to meet with dairy families around the country and talk about their “Foundation for the Future” (FFTF) dairy policy reform package. The 2nd stop on this tour will be right here in California, at the Visalia Holiday Inn on July 13th. There will be two sessions: a 9:30 am – 12:30 pm session and a 1:30 – 4:30 pm session. More information can be found on their website (www.futurefordairy.com), and space is limited, so NMPF is asking that individuals interested in attending pre-register on their website.

MPC would like to wish everyone a wonderful weekend celebrating our Nation's Independence!