December 2000

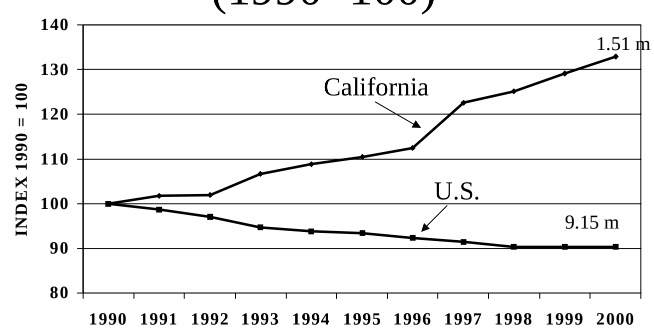
Year 2001

The following graphs and tables, supplied by Dr. L. J. Butler, Dairy Extension Marketing Economist, UCD, review the California dairy scene for the past few years and look into 2001. For further details or comments Dr. Butler can be reached at ljbutler@ucdavis.edu or phone 530-752-3681.

The dairy industry is currently undergoing a period of surplus production milk and declining prices. The reasons for this are much more milk price volatility in the last few years, with the prices in the last two years being much higher than average. At the same time feed costs have been lower than average. Feed costs have been \$5 to \$10 per cow lower than previous years and \$0.50 to \$0.75 per cwt lower than previous years. As a result many dairy producers have found it profitable to increase cow numbers and increase milk production.

In fact, the last two years have seen the largest back-to-back increases in milk production in the U.S. for over 30 years. This tremendous growth in cow numbers and milk production has resulted in incredible growth in the production of butter, powder, and cheese. This, in turn, has depressed prices in 2000 to support levels and lower. Yet dairy producers have found it profitable to continue to produce milk in record amounts. There are various factors responsible for this unique situation.

Index of Milk Cows on Farms, California and U.S., 1990-2000, (1990=100)



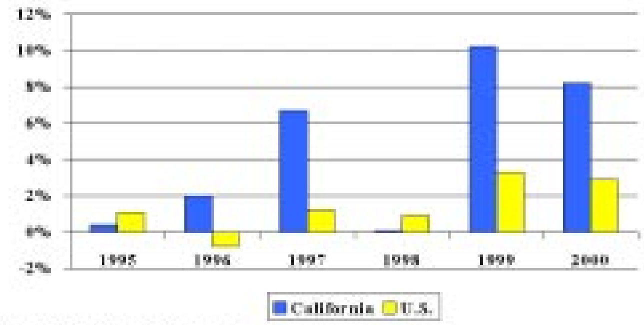
Source: L.J. Butler, ARE, UC Davis

First, grain prices hit a 13-year low in the summer of 1999, and these prices have continued in 2000. Hay has also been plentiful and at lower than average prices. These low grain and hay prices have benefited dairy producers with low concentrate and roughage prices. Consequently, producers have found it profitable to continue to produce milk in record quantities. Two other factors that have contributed to the increase in milk production are higher than average cost of dairy replacements and lower prices for cull cows. These factors will continue to shape the picture in 2001.

Because of record crops this year it is likely that grain prices will remain near their current levels. Therefore, concentrate feeds are likely to remain relatively cheap. Alfalfa hay acreage is expected to decline slightly in 2001, but there are plentiful supplies of other hay. Thus, feed costs are likely to remain low in 2001. As long as feed costs remain at relatively low levels, then there is no incentive to cull heavier either, so cow numbers probably will not decrease significantly in 2001. Consequently, milk production is expected to remain at current relatively high levels and may continue to increase.

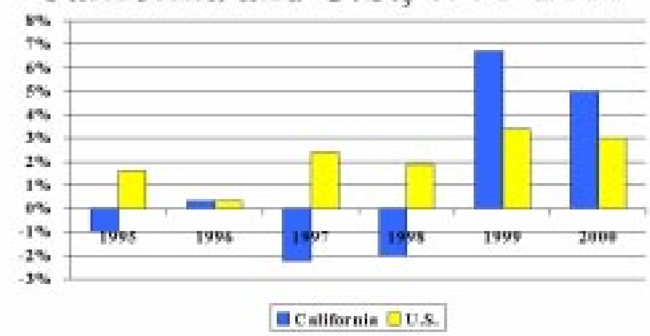
The demand for milk and dairy products has been clipping along at a brisk pace the last two years, and it is not expected to slow any in 2001. However, demand is not expected to increase over 1999 and 2000 levels. Consequently, prices are not likely to increase because of increased demands. Other issues which may affect 2001 milk prices are imports of dairy products and dairy policies pertaining to price supports, direct payments, and the Farm Bill for 2001/2002.

Percentage Change in Milk Production, California and U.S., 1995-2000



Source: L.J. Butler, ARE, UC Davis

Percentage Change in Milk Production per Cow, California and U.S., 1995-2000



Source: L.J. Butler, ARE, UC Davis

2001 Dairy Outlook for California

	1998	1999	2000	2001
Milk Cows (000's)	1420	1466	1510	1548
Production per cow	19442	20788	21788	22877
Total milk Production	27.6	30.5	32.9	35.4
Average Price Milk	$14.99	$13.55	$11.56	$11.70
Ave Cost of Prod	$12.49	$11.72	$11.50	$11.50
Margin	$2.50	$1.83	$0.06	$0.20

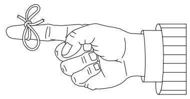
Source: L.J. Butler, ARE, UC Davis

U.S. Dairy Outlook for 2001

	1998	1999	2000	2001
Total Milk Production	157.4	162.7	167.5	169.3
Farm Use	1.4	1.3	1.3	1.3
Marketings	156.0	161.4	166.2	168.0
Beginning Stocks	4.9	5.3	6.1	5.5
Imports	4.6	4.7	4.2	4.0
Total Supply	165.5	171.4	176.5	177.5
CCC Removals	0.4	0.3	0.8	0.4
Ending Stocks	5.3	6.1	5.5	5.5
Commercial Use	159.8	165.0	170.2	171.6
Ave Price	$15.42	$14.36	$12.45	$12.70

Source: L.J. Butler, ARE, UC Davis

Remember these 2001 dates...



- **South Valley Dairy Day**
Wednesday, January 24th
AgTAC, Tulare

- **Environmental Stewardship Short Course**
February 28th, March 7th and 14th
UCCE building, Hanford

- **Dairy Options Pilot Program (DOPP)**
Thursday, March 8th
Location to be announced

Best wishes for the holidays and continued success in 2001.

Tom Shultz
Dairy Advisor
(559) 733-6488