II. PRODUCTION

A. FARM LEVEL PRODUCTION INFORMATION

Farm Level Production Overview

For the sixth consecutive year, U.S. farm milk production volume hit an all-time high, reaching 185.6 billion pounds in 2007 and eclipsing last year's record production of 181.8 billion pounds by 2.1%. Although total U.S. milk production in the first six months of 2008 increased approximately 1% over the same period last year; it surged in July, increasing 3.18% above the same month in 2007, according to the U.S. Department of Agriculture (USDA).

The number of U.S. milk cows also continued its growth trend again in 2007, with an increase of 46,000 cows. At the same time, the national average milk per cow rose to 20,267 pounds, setting a new national record for a sixth year. Two western states lead the nation in per cow production efficiency; Arizona jumped to the top spot in 2007 with 23,260 pounds of milk per cow, followed by Washington at 23,239 pounds.

In general, the average U.S. farm operations with milk cows got larger as the number of farms continued a decades-long downward trend. The average herd size of U.S. farm operations with milk cows rose to 128 from 122 dairy cows per farm in 2006. The biggest decline in the number of dairy farms came in the categories of those farms with less than 30 milk cows. The only size category to see an increase in the number of farm operations continued to be those with more than 500 milk cows.

Regional trends in 2007 showed strong increases in production, with California, up more than 1.85 billion pounds (or 4.8%), continuing to lead the nation in farm milk production. Eight of the top 10 milk producing states increased their output over 2006. Michigan had the largest percentage increase in output of the top 10 producing states with an increase of 6.8% in 2007; Idaho increased its output by 5.9%, Minnesota by 3.4% and Texas by 3.3% over the prior year. The top 10 states accounted for 73% of all U.S. milk production.

Nearly 64% of the milk produced in 2007 was used to make either cheese (41%) or fluid milk, cream and related products (23%). Butter accounted for about 18% of the milk supply, and about 8% ended up in ice cream and other frozen dairy products. The demand for milk for cheesemaking has risen dramatically over the past few decades. In 1960, cheesemaking accounted for about 11% of all milk produced in the United States; in 1998, this became the dominant use of milk, and now accounts for more than 40% of milk utilization.