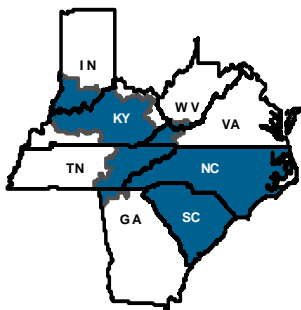




THE COURIER



Harold H. Friedly, Jr.
Market Administrator

Tentative Partial Decision to Amend Mideast Order

On July 26, 2005, the U.S. Department of Agriculture announced a tentative partial decision that recommends various amendments to current provisions of the Mideast Federal milk marketing order. This decision is based on testimony and evidence given at a public hearing held on March 7 – 10, 2005, in Wooster, Ohio.

The decision adopts proposals to amend certain features of the pooling standards of the Mideast milk marketing order on an interim final and emergency basis. Specifically, the decision will: 1) prohibit the ability to simultaneously pool the same milk on the Mideast Federal milk order and on a

marketwide equalization pool administered by another government entity; 2) lower the diversion limit standards; and 3) increase the performance standards for supply plants.

At a later date, USDA will issue a separate decision to address proposals to deter the de-pooling of milk, adopt transportation credits and clarify the *Producer* definition of the order.

The decision was published in the July 27 Federal Register (<http://www.archives.gov/federal-register/>). Interested persons have 60 days to file comments in response to the tentative partial decision. USDA will determine if producers approve the amended order.

World Dairy Situation and Outlook

The Foreign Agricultural Service (FAS) of USDA recently released the semi-annual report, *Dairy: World Markets and Trade*. The publication provides an analysis of current production, consumption, and trade data for selected global dairy markets. The current issue can be found at <http://www.fas.usda.gov/dlp/circular/2005/05-07Dairy/toc.htm>.

According to FAS, global dairy markets continue to be stable as international dairy commodity prices continue to hold firm reflecting the relatively tight supply situation and strong import demand. Three key factors have played a key role in the evolution of this situation: 1) Exchange rates, particularly the decline in the value of the U.S. dollar have increased European Union export prices, 2) lower than anticipated milk production in Oceania, and 3) reduced exportable supplies in the EU. Although the dollar has lately strengthened, world dairy prices resisted any declines as the

EU embarked on a round of aggressive export restitution cuts in response to a well balanced domestic market and budgetary pressures.

Prospects for the remainder of 2005 point to continued strength in international dairy prices despite the upcoming milk production season in Oceania. Although New Zealand milk production is likely to rebound substantially, Australian output will recover at a more moderate pace as cow numbers remain low following the severe drought in 2002/03. On the demand side, global economic growth is anticipated to expand at around 3.0 percent – down from the 3.9 percent registered in 2004 – but nevertheless a sufficient rate that will likely continue to fuel import demand. Consequently, while the upcoming Oceania production wave may provide some temporary relief, global dairy prices will likely remain strong for this year and probably the early part of 2006. The implication for U.S. dairy



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Appalachian Statistical Summary

	JULY 2005	JUNE 2005	JULY 2004
PRICES: (Base Zone)			
Uniform Price	\$16.26	\$15.49	\$18.94
Class I Price	16.99	16.72	21.05
Class II Price	13.79	13.06	14.00
Class III Price	14.35	13.92	14.85
Class IV Price	13.17	12.33	13.31
Uniform Skim Milk Price	\$10.61	\$10.31	\$12.04
Class I Skim Milk Price	11.83	11.68	14.05
Class II Skim Milk Price	7.73	7.73	7.03
Class III Skim Milk Price	8.34	8.65	7.94
Class IV Skim Milk Price	7.12	7.00	6.34
Uniform Butterfat Price	\$1.7198	\$1.5830	\$2.0916
Class I Butterfat Price	1.5920	1.5576	2.1398
Class II Butterfat Price	1.8077	1.6002	2.0613
Class III Butterfat Price	1.8007	1.5932	2.0543
Class IV Butterfat Price	1.8007	1.5932	2.0543
PRODUCER MILK:			
Class I	332,705,052	335,351,218	349,104,392
Class II	83,783,943	98,365,407	79,543,321
Class III	21,810,238	44,297,114	37,993,239
Class IV	65,617,673	89,461,251	52,212,923
Total Producer Milk	503,916,906	567,474,990	518,853,875
PERCENT PRODUCER MILK IN:			
Class I	66.02	59.10	67.28
Class II	16.63	17.33	15.33
Class III	4.33	7.81	7.33
Class IV	13.02	15.76	10.06

→ For the Appalachian Marketing Area in July 2005, producers marketed 503,916,906 pounds of milk on the order.

→ Class I utilization accounted for over 66% of the total producer milk in July 2005, up from 59.1% in June 2005.

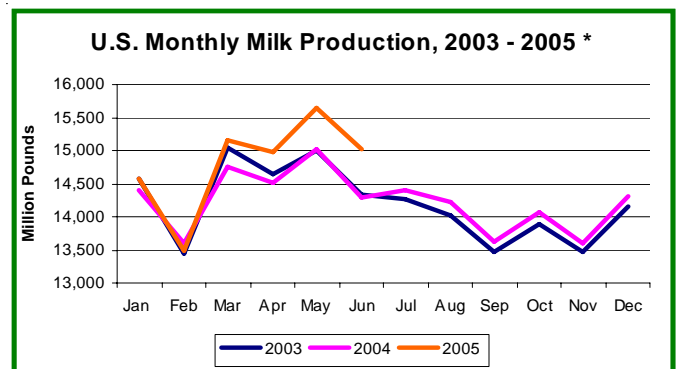
June Milk Production Up 5.4 Percent

Milk production in the 23 major states during June totaled 13.7 billion pounds, up 5.4 percent from June 2004. May revised production, at 14.3 billion pounds, was up 4.6 percent from May 2004. The May revision represented an increase of 26 million pounds or 0.2 percent from last month's preliminary production estimate.

Production per cow in the 23 major states averaged 1,683 pounds for June, 76 pounds above June 2004. The number of milk cows on farms in the 23 major states was 8.13 million head, 47,000 head more than June 2004, and 9,000 head more than May 2005.

April-June Milk Production Up 4.1 Percent

Milk production in the U.S. during the April-June quarter totaled 45.6 billion pounds, up 4.1 percent from the April-June quarter last year. The average number of milk cows in the U.S. during the quarter was 9.04 million head, 34,000 head more than the same period last year.



* Pounds based on entire U.S. production.

World Dairy Situation (Cont'd from page 1)

exporters is positive as the boom in U.S. exports, particularly nonfat dry milk, will likely be sustained throughout the remainder of this year and into 2006.

Global Dairy Production

The Australian milk production forecast for 2004/05 (July/June) has been adjusted down 2.9 percent from the previous projection reflecting dry conditions in the early part of 2005 that negatively affected some key dairy producing regions. If this forecast is realized then Australian milk output will drop 1.7 percent from the previous year and will mark the third consecutive year that Australian milk production has declined.

Although New Zealand's 2004/05 (June/May) milk production was initially expected to grow by 2.5 percent, the downward revision in the forecast caught markets by surprise. Milk output is now expected to drop by 2.5 percent as a result of slower than anticipated growth in the dairy herd and poor weather conditions that also led to flooding in some key producing regions. This is the first drop in New Zealand's milk production recorded since the 1998/99 season. Assuming a return to normal weather conditions in the upcoming season, it is likely that New Zealand's 2005/06 milk production will rebound.

EU-25 milk production is forecasted to recover in 2005 by 0.7 percent following the drought-affected reduction in 2004. The increased milk output figure not only reflects favorable production conditions but also the changing use of milk from farm use to milk delivered to dairy plants within the EU-10 (i.e. new member states). Nevertheless, exportable supplies of major dairy commodities were reduced sharply as a result of the growing consumption of cheese.

The U.S. 2005 milk production forecast has been raised marginally by 125,000 tons bringing the projected total milk production figure to 79.075 million tons – up nearly 2.1 percent from 2004. In the second quarter of 2005, milk production posted a gain of 3.3 percent compared to the same period last year.

Dairy Products Exports

The 2005 forecast for total cheese exports in selected countries is revised down as a result of a cut in New Zealand exports following a disappointing production season and a drop in EU exports. The latter is partly due to a revision of figures and reflects the more limited availability of exportable supplies as a result of strong growth in domestic consumption. In terms of major cheese exporters, it appears that cheese exports during the 2002-2005 period remained virtually stagnant suggesting that the recent global price increases are attributable primarily to import demand growth by major cheese importing countries. In fact, while not comprehensive in coverage, cheese imports in selected countries jumped by nearly 171,000 tons in the period 2000 through 2005.

In terms of butter trade, revisions have been principally on the export side. The New Zealand 2005 export forecast has been adjusted down by 16 percent due to lower milk production. The longer term trend has been for a decline in butter exports as the focus has shifted to the higher returns gained from WMP and cheese exports. EU butter exports for 2004 and the 2005 forecast year have been adjusted upwards but the year-to-year change is negligible. EU butter production has been declining over the past several years and despite a drop in consumption, available supplies for the export market will likely remain limited. In fact, EU ending stocks for 2005 are forecast to drop by 22 percent.

The 2005 NDM export forecast for selected countries has been revised down sharply by 6.2 percent from the last report due to a decline in the EU export forecast but more significantly, a substantial cut in the Oceania forecast; nearly 19 percent or some 91,000 tons. In contrast, the outlook for U.S. exports of NDM has improved markedly

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Major Destinations for U.S. Exports of NDM (Metric Tons)		
Countries by Rank	Jan-May 2004	Jan-May 2005
1. Mexico	32,012	45,903
2. Philippines	7,748	15,456
3. Indonesia	60	15,236
4. Kazakhstan	0	11,672
5. Algeria	18	9,460
6. Malaysia	497	9,310
7. Thailand	0	6,304
8. Vietnam	500	5,838
9. Guatemala	246	5,539
10. Cuba	7,515	4,024
Other	12,663	21,639
TOTAL	61,259	150,381

**APPALACHIAN MARKETING AREA
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Federal Milk Marketing Order Statistics - June 2005

Dairy Products Exports
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and is now projected to hit 250,000 tons – up 66 percent from the previous forecast and a gain of 8 percent over 2004. In the first five months of 2005, U.S. exports of NDM reached 150,000 tons compared to 61,000 tons over the same period in 2004. During this period, the bulk of U.S. NDM exports were shipped to Mexico (30 percent), Philippines, and Indonesia.

Federal Order	Producer Deliveries Million Pounds	Class I Producer Receipts Million Pounds	Class I Utilization Percent	Statistical Uniform Price \$/cwt
1 Northeast	1,997	827	41.4	15.23
5 Appalachian	567	335	59.1	15.49
6 Florida	259	199	76.8	16.80
7 Southeast	650	361	55.6	15.47
30 Upper Midwest	1,847	341	18.4	14.12
32 Central	873	328	34.5	14.18
33 Mideast	1,629	484	29.7	14.36
124 Pacific Northwest	609	165	27.1	13.81
126 Southwest	841	314	37.4	14.87
131 Arizona-Las Vegas	250	76	30.5	14.19
All Orders¹	9,522	3,430	36.0	14.69

¹ Weighted average uniform prices at 3.5 % butterfat at announced locations.

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