APPALACHIAN MARKETING AREA
FEDERAL ORDER 5

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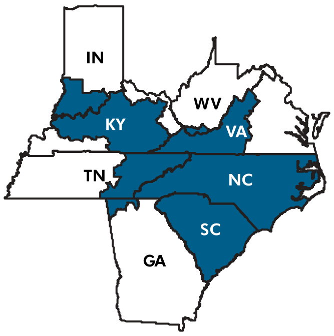
THE COURIER

Appalachian Marketing Area Monthly Newsletter



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Market Administrator

Inside This Issue:

Dairy Situation and Outlook

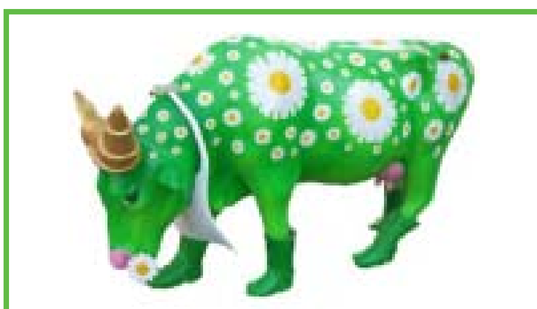
The Economic Research Service of USDA provided an updated forecast of 2007 for the dairy sector in its March 19, 2007, issue of *Livestock, Dairy, and Poultry Outlook*.

Rapidly rising feed prices have continued to raise costs for dairy producers. Corn and soybean meal prices have risen, but probably more important for dairy producers, have been high prices for alfalfa hay. Hay prices are expected to rise further as supplies tighten, but should decline later this year as supplies increase with expected improved conditions this spring. Relief in the form of higher milk prices for 2007 could improve profitability for most producers. The change in this month's forecast is a result of lower-than-expected production per cow in the first quarter of this year. Cow numbers and milk production are unchanged from last month's forecast for the remainder of the year. Production per cow is expected to be 20,260 pounds, and total 2007 production is expected to reach 184.1 billion pounds, 1.3 percent above 2006.

Prices for all major dairy products this year are forecast above 2006 levels. January 2007 stocks for butter and total cheese exceeded January 2006 by 24 percent and 11 percent respectively, according to the most recent *Cold Storage* report. Year-over year-production for both butter and total cheese has also trended higher in January, up 2.5 percent and 6.7 percent respectively. Given the strong ongoing demand for cheese and dry products, the relatively small increase in 2007 milk production could tighten supplies later in the year and draw down the higher beginning stocks. As a result, prices in 2007 are expected to be higher than in 2006. In 2007, the cheese price is expected to be between $1.330 and $1.390 per pound, while the butter price is forecast between $1.240 and $1.330 per pound. Butter prices are unlikely to increase compared with other products because butter supplies are ample and should remain so for the year.

Nonfat dry milk (NDM) demand remains strong, and global supplies are especially tight. In 2006, exports are estimated to account for around 40 percent of U.S. NDM and skim milk powder (SMP) production, a situation likely to continue into 2007. Australian production could take this year and next to rebound from weather-related problems, and European Union milk production is moving into higher value cheese production, away from dry products. U.S. whey exports are also expected to trend higher in 2007. Consequently, domestic prices for NDM and whey are expected to continue to strengthen this year. The annual 2007 NDM price is forecast between $1.110 and $1.160 per pound. The dry whey price should climb to between 59.5 and 62.5 cents per pound for the year.

Forecast higher prices for dairy products point to significantly higher prices for all milk classes. The Class IV milk price is expected to climb throughout 2007, averaging $12.95 to $13.65 per cwt. for the year. The Class III price is projected to rise to an average $14.10 to $14.70 per cwt. for the year. The reported U.S. all-milk price is expected to be sharply higher in 2007 – it could reach $15.50 to $16.50 per cwt. by the fourth quarter and will likely average $15.05 to $15.65 per cwt. for the year.



Appalachian Statistical Summary

	MARCH 2007	FEBRUARY 2007	MARCH 2006
PRICES: (Base Zone)			
Uniform Price	$16.46	$15.57	$14.13
Class I Price	17.35	16.49	15.59
Class II Price	13.60	13.08	11.69
Class III Price	15.09	14.18	11.11
Class IV Price	13.71	12.71	10.68
Uniform Skim Milk Price	$12.10	$11.36	$9.88
Class I Skim Milk Price	13.10	12.29	11.05
Class II Skim Milk Price	9.07	8.77	7.52
Class III Skim Milk Price	10.64	9.94	6.94
Class IV Skim Milk Price	9.21	8.42	6.50
Uniform Butterfat Price	$1.3680	$1.3171	$1.3137
Class I Butterfat Price	1.3445	1.3216	1.4078
Class II Butterfat Price	1.3839	1.3182	1.2666
Class III Butterfat Price	1.3769	1.3112	1.2596
Class IV Butterfat Price	1.3769	1.3112	1.2596
PRODUCER MILK:			
Class I	354,852,920	331,038,573	369,134,564
Class II	91,264,501	77,126,750	99,144,227
Class III	30,590,513	23,750,409	33,831,361
Class IV	53,798,321	60,216,604	73,977,227
Total Producer Milk	**530,506,255**	**492,132,336**	**576,087,379**
PERCENT PRODUCER MILK IN:			
Class I	66.89	67.27	64.08
Class II	17.20	15.67	17.21
Class III	5.77	4.82	5.87
Class IV	10.14	12.24	12.84

APPALACHIAN MARKETING AREA STATS FOR MARCH 2007:

⇨ **The Uniform Price** for March 2007 was $16.46, up $0.89 compared to $15.57 for February 2007 and up $2.33 compared to $14.13 for March 2006.

⇨ **Total Producer Milk** for March 2007 was 530,506,255, a decrease of 46 million pounds or 7.9 percent from March 2006.

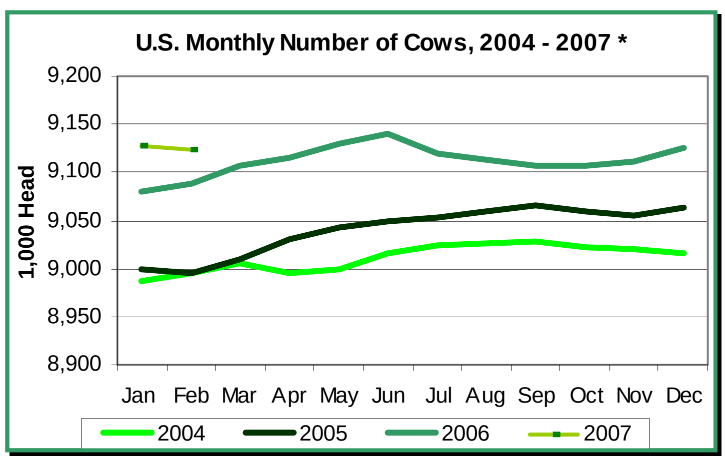
⇨ **Class I Utilization** for March 2007 increased 2.81 percent from a year ago and decreasd 0.38 percent from last month to 66.89 percent.

February Milk Production Up 0.9 Percent

Milk production in the 23 major states during February totaled 13.1 billion pounds, up 0.9 percent from February 2006. January revised production, at 14.3 billion pounds, was up 1.8 percent from January 2006. The January revision represented an increase of 48 million pounds or 0.3 percent from last month's preliminary production estimate.

Production per cow in the 23 major states averaged 1,586 pounds for February, no change from February 2006.

The number of milk cows on farms in the 23 major states was 8.28 million head, 71,000 head more than February 2006, but 3,000 head less than January 2007.



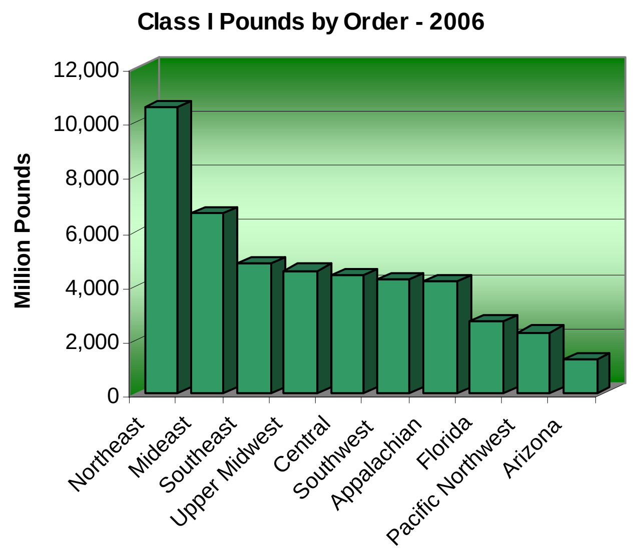
* Based on entire U.S. production.

Federal Order Class I Value

The method of pricing farm milk under the Federal milk marketing order (FMMO) is at the plant of first receipt. Class I prices paid by plants and the producer minimum uniform prices vary by the location of the plant. Each county in the United States is designated a Class I differential. The Federal order minimum Class I prices and the uniform prices are announced at the principal pricing point, or base zone, for each Federal order, e.g., $3.10 for Mecklenburg County, NC, (Charlotte) for the Appalachian Marketing Area. The effective Class I prices and the uniform prices are adjusted based on the actual location of the receiving plant. A map of the Class I price structure is available at: http://www.ams.usda.gov/fmor/modopt1a.pdf.

The Class I differential recognizes that it is more costly to produce and market milk for fluid use than for milk that is used for manufacturing such products as butter, cheese and nonfat dry milk. A reason the cost difference exists is because milk in fluid form, which is perishable in nature, usually must be transported relatively long distances from production areas to market centers. The Class I Differential Value in the table below reflects the total value of the Class I differential at plant location in each market.

The orders provide that producers be paid a uniform or average price. The uniform price is calculated by combining and averaging class values for all handlers through market-wide pooling provisions. The Federal milk order program has two systems for paying producers, the component pricing system and the skim milk/butterfat pricing system. The component pricing system is used in six orders (Orders 1, 30, 32, 33, 124, and 126). Under this system, producer prices are based on the value of components, butterfat, protein, and other solids, in the milk they market and the value of the producer price differential. The skim milk/butterfat pricing system is used in four orders (Orders 5, 6, 7, and 131). Under this system, the producer prices are based on the uniform skim milk price and the uniform butterfat price. The value of Class I differentials are weighted in the order uniform prices based on the portion of Class I milk to total producer milk pooled on the order. For example, the Class I differential value contributed $1.86 per hundredweight, on average, to the Federal Order 5 uniform price in 2006.



Class I Value - Annual Value of Class I Differentials at Location

Federal Milk Marketing Order - 2006					
Order Name	Order Number	Average Class I Utilization	Class I Differential Value	Weighted Average Market Class I Differential	Class I Differential Value per Hundredweight of Producer Milk
				$/cwt.	
Northeast	1	46.49%	$309,571,086.79	$2.94	$1.36
Appalachian	**5**	**66.26%**	**$116,069,281.29**	**$2.81**	**$1.86**
Florida	6	84.03%	$107,202,953.45	$4.08	$3.43
Southeast	7	59.27%	$142,362,855.42	$2.98	$1.77
Upper Midwest	30	16.86%	$78,585,391.25	$1.74	$0.29
Central	32	31.40%	$91,980,354.42	$2.10	$0.66
Mideast	33	38.42%	$128,905,483.37	$1.95	$0.75
Pacific Northwest	124	29.52%	$42,392,611.92	$1.90	$0.56
Southwest	126	36.35%	$129,792,326.81	$3.08	$1.12
Arizona	131	37.50%	$29,276,864.71	$2.31	$0.87

Data obtained from the Market Administrators' offices.

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USDA

Federal Milk Marketing Order Statistics - February 2007

	Federal Order	Producer Deliveries Million Pounds	Class I Producer Receipts Million Pounds	Class I Utilization Percent	Statistical Uniform Price $/cwt
1	Northeast	1,693	822	48.6	15.21
5	***Appalachian***	***492***	***331***	***67.3***	***15.57***
6	Florida	269	218	81.2	16.71
7	Southeast	650	381	58.6	15.68
30	Upper Midwest	1,960	360	18.4	14.23
32	Central	848	347	40.9	14.06
33	Mideast	1,277	531	41.6	14.23
124	Pacific Northwest	583	175	30.0	13.81
126	Southwest	878	326	37.1	14.98
131	Arizona	301	111	36.8	14.22
	All Orders [1]	**8,951**	**3,601**	**40.2**	**14.70**

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