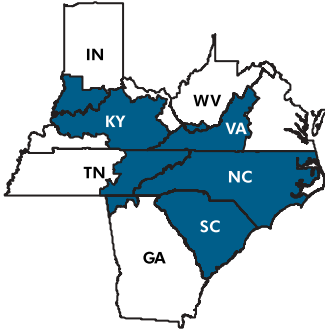


# THE COURIER

Appalachian Marketing Area Monthly Newsletter



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## Global Demand Could Keep Prices High Despite Increased Production

Milk production for 2007 is projected at 184.3 billion pounds, unchanged from July. Growth in cow numbers is expected to continue for the remainder of 2007 and into 2008. July's *Cattle* report showed 3 percent more replacement heifers on farms. The 2007/08 season-average corn price is forecast to average \$2.80 to \$3.40 a bushel and the soybean meal price is forecast to average \$200 to \$230 a ton. Alfalfa hay prices could remain high, as alfalfa producing-regions of the country are experiencing dryness. Higher milk and product prices have overcome the higher feed prices this year. The milk-feed-price ratio will likely climb to nearly 3.5 by the end of the summer and could average about 3.0 for the year. The higher expected feed-price ratio indicates a change in the milk production outlook in the second half of 2007. Higher feed prices and lower-than-expected rBST use could keep output per cow below trend this year.

In 2008, the milk-feed price ratio should still signal expansion at over 3.0. Production is forecast to reach 188.6 billion pounds as cow numbers are expected to increase each quarter and average 9.15 million head for the year compared with 9.13 million head in 2007. The outlook for higher milk prices should encourage some additional retention.

The greater availability of milk, both for the balance of 2007 and into 2008, is expected to moderate prices, but precipitous declines from 2007 price levels are unlikely next year. Robust demand, both domestically and, especially, internationally, will keep prices high. Sales of fluid milk through April have been about 2 percent above previous year's levels in Federal Market Order areas and California. Higher prices at retail could limit gains for the balance of the year, making more milk available for manufacturing.

Commercial disappearance through May for butter, American style cheese, and nonfat dry milk (NDM) are ahead of 2006 totals for the same period, with butter leading the way at a nearly 9-percent year-over-year rise. Strong demand for cheese and butter will keep prices high. The average cheese price is expected to be \$1.690 to \$1.710 per pound this year. World supplies of butter are tight and the United States may commercially export butter this year. Butter price is expected to average \$1.385 to \$1.425 per pound. Next year, increased production could lower prices slightly. The cheese price is expected to average \$1.565 to \$1.665 per pound and butter \$1.310 and \$1.440 per pound.

Commercial disappearance of NDM and whey dipped below year-earlier levels earlier this spring, mainly because high domestic prices, driven by high international prices, rationed supply. However, it is global demand for NDM and other dry milk products and whey that are supporting U.S. prices and constraining disappearance. Exports of NDM and whey have soared since 2005, and exports are expected to continue at least through 2008 as world demand continues to outstrip supply. The NDM price is expected to average \$1.675 to \$1.695 per pound in 2007, with only a slight drop to \$1.605 to \$1.675 per pound anticipated in 2008. Whey price is projected to average 65.5 to 67.5 cents per pound in 2007 and drop in 2008 to average 59.5 to 62.5 cents per pound.

Class IV price is projected to average \$18.30 to \$18.60 per cwt. in 2007 and decline slightly to \$17.45 to \$18.55 in 2008. Likewise, Class III price is expected to average \$18.00 to \$18.20 per cwt. this year and soften to \$16.40 to \$17.40 per cwt. next year. The all milk price will average \$19.15 to \$19.345 per cwt. in 2007. A decline to between \$18.25 and \$19.25 is expected in 2008. (Source: *Livestock, Dairy, and Poultry Outlook, August 2007.*)

## Appalachian Statistical Summary

	AUGUST 2007	JULY 2007	AUGUST 2006
<b>PRICES: (Base Zone)</b>			
Uniform Price	\$24.16	\$23.28	\$13.51
Class I Price	24.86	24.01	14.07
Class II Price	22.41	21.40	11.16
Class III Price	19.83	21.38	11.06
Class IV Price	21.87	21.64	10.64
Uniform Skim Milk Price	\$19.20	\$18.14	\$9.36
Class I Skim Milk Price	19.84	18.71	10.06
Class II Skim Milk Price	17.44	16.31	6.82
Class III Skim Milk Price	14.79	16.31	6.74
Class IV Skim Milk Price	16.91	16.58	6.31
Uniform Butterfat Price	\$1.6086	\$1.6499	\$1.2804
Class I Butterfat Price	1.6320	1.7018	1.2464
Class II Butterfat Price	1.5942	1.6180	1.3078
Class III Butterfat Price	1.5872	1.6110	1.3008
Class IV Butterfat Price	1.5872	1.6110	1.3008
<b>PRODUCER MILK:</b>			
Class I	349,659,833	327,471,320	356,722,144
Class II	78,821,741	89,468,419	73,576,321
Class III	25,460,551	27,867,447	17,569,272
Class IV	23,290,989	36,193,123	32,585,452
<b>Total Producer Milk</b>	<b>477,233,114</b>	<b>481,000,309</b>	<b>480,453,189</b>
<b>PERCENT PRODUCER MILK IN:</b>			
Class I	73.27	68.08	74.25
Class II	16.52	18.60	15.31
Class III	5.33	5.80	3.66
Class IV	4.88	7.52	6.78

### APPALACHIAN MARKETING AREA STATS FOR AUGUST 2007:

⇒ The Uniform Price for August 2007 was \$24.16, up \$0.88 compared to \$23.28 for July 2007, and up \$10.65 compared to \$13.51 for August 2006.

⇒ Total Class I Milk for August 2007 was 349,659,833, an increase of 22.2 million pounds or 6.8 percent from July 2007.

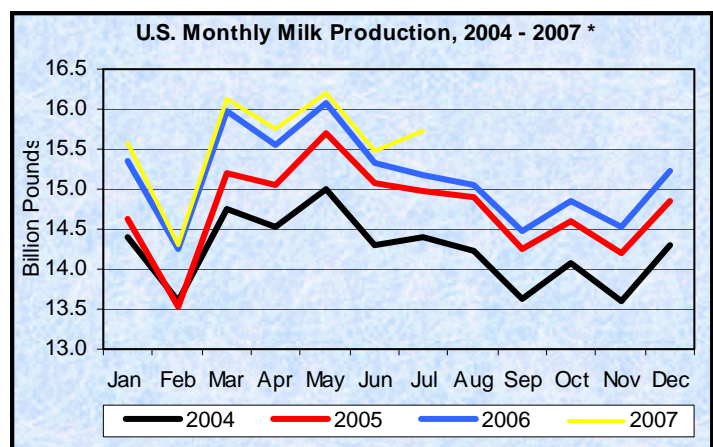
⇒ Class I Utilization for August 2007 increased 5.19 percent from July 2007 to 73.27 percent.

### July Milk Production Up 3.9 Percent

Milk production in the 23 major states during July totaled 14.5 billion pounds, up 3.9 percent from July 2006. June revised production at 14.2 billion pounds, was up 1.2 percent from June 2006. The June revision represented an increase of 6.0 million pounds from last month's preliminary production estimate.

Production per cow in the 23 major states averaged 1,743 pounds for July, 55 pounds above July 2006.

The number of milk cows on farms in the 23 major states was 8.31 million head, 50,000 head more than July 2006, and 14,000 head more than June 2007.



\* Based on entire U.S. production.

# World Markets and Trade

During the past six months, global dairy markets have experienced an explosive increase in product prices due to a convergence of several events. First, the decline of the EU in global dairy markets (particularly milk powder markets) was far more rapid and acute than had originally been anticipated and was punctuated by the suspension of all dairy export subsidies. Second, a crippling drought in Australia led to a shortfall in Australian milk output reducing available exportable supplies. Finally, although not as critical, the export restrictions imposed by Argentina and to a lesser extent, India, added further uncertainty to supply lines stretched thin by strong demand. This demand was particularly evident in the rapidly growing economies of the Pacific Rim where an expanding middle class population is consuming more sophisticated processed foods. This led to increased imports of dairy ingredients. There are other variables that have played a role; a weak dollar that to some extent mitigated the sharp rise in import prices and in certain importing nations, the significant growth in oil revenues fueled demand.



perspective, the fundamental factors that promoted the rapid escalation in prices will continue to persist. Exportable dairy product supplies are not expected to grow significantly either from the major Oceania suppliers or the EU and United States. In the United States, strong internal demand for dairy products such as cheese is diverting milk away from nonfat dry milk production.

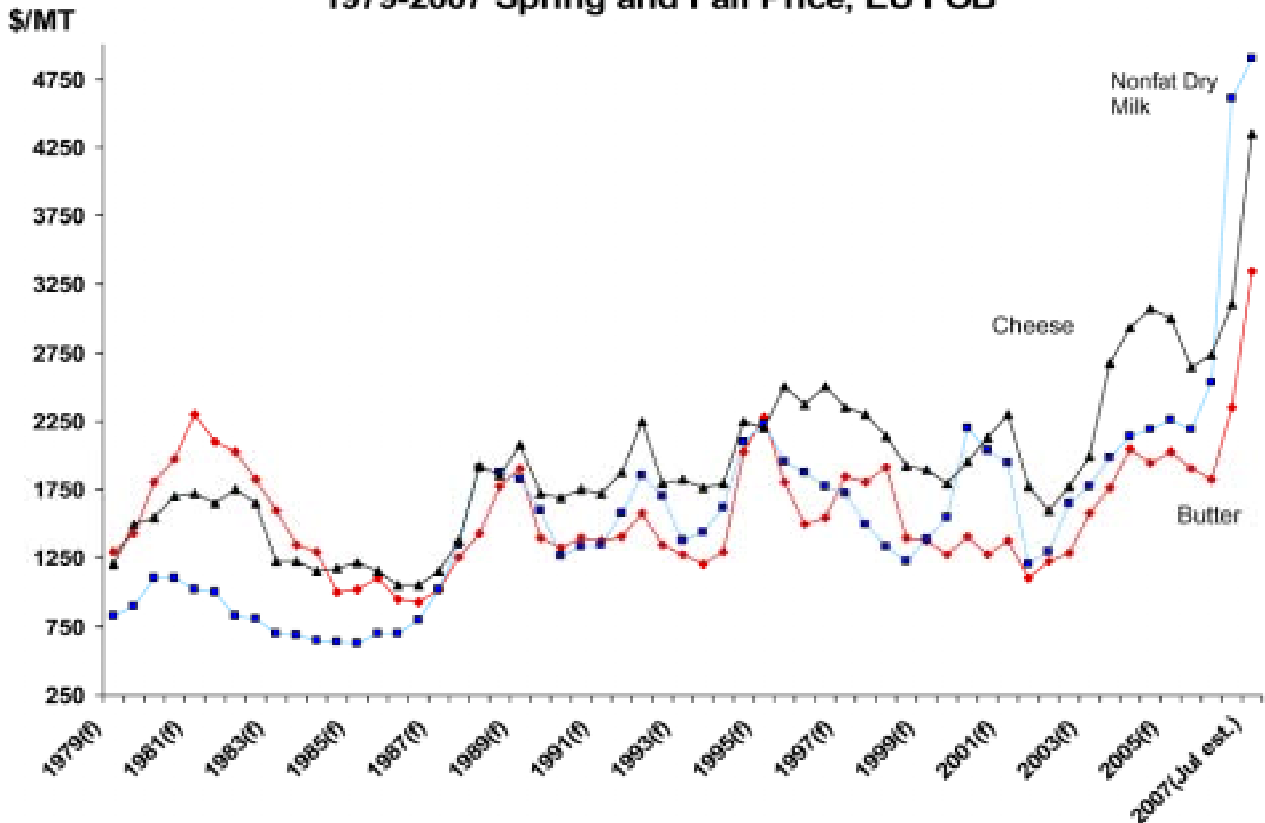
On the economic front, although the world economy is forecast to slow down in 2007, it is nevertheless expected to grow by a healthy 3.5 percent annually; down moderately from the 4 percent registered in 2006. In the critical Asian countries, China is anticipated to grow at a robust 10.2 percent while the rest of Asia is forecast to expand at a more modest 4.5 percent. This would suggest that dairy markets will remain well balanced.

There is, however, a sense of unease following such a steep rise in global dairy prices in so short a period of time. For example, nonfat dry milk (NDM) was trading at around \$2,300 per ton (EU FOB) in July 2006 and is now quoted at a record-setting \$5,000 per ton - over a 115 percent increase in one

*World Markets, cont'd on page 4*

For the balance of the year and into 2008, there is a great deal of uncertainty over the likely track of prices. From a logical

**Historical Prices for Butter, Nonfat Dry Milk, and Cheese  
1979-2007 Spring and Fall Price, EU FOB**



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World Markets, cont'd from page 3

year. Consequently, there is an intuitive expectation that inevitably prices are cyclical and demand will flag particularly once the impact of these high prices are fully transmitted to consumers. Nevertheless, it is difficult to envisage a scenario in which global prices in 2007 or 2008 drop dramatically to the EU intervention (support) levels or the lower U.S. price support levels. (Source: *Dairy: World Markets and Trade, July 2007.*)

**Federal Milk Marketing Order Statistics - July 2007**

Federal Order	Producer Deliveries Million Pounds	Class I Producer Receipts Million Pounds	Class I Utilization Percent	Statistical Uniform Price \$/cwt
1 Northeast	1,941	816	42.0	22.94
<b>5 Appalachian</b>	<b>481</b>	<b>327</b>	<b>68.1</b>	<b>23.28</b>
6 Florida	248	199	80.1	24.22
7 Southeast	562	370	65.8	23.29
30 Upper Midwest	2,390	341	14.3	21.65
32 Central	987	332	33.6	21.90
33 Mideast	1,468	498	34.0	21.97
124 Pacific Northwest	590	177	30.1	21.98
126 Southwest	1,049	314	29.9	22.69
131 Arizona	311	107	34.4	22.09
<b>All Orders <sup>1</sup></b>	<b>10,025</b>	<b>3,481</b>	<b>34.7</b>	<b>22.35</b>

<sup>1</sup> Weighted average uniform prices at 3.5% butterfat at announced locations.

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