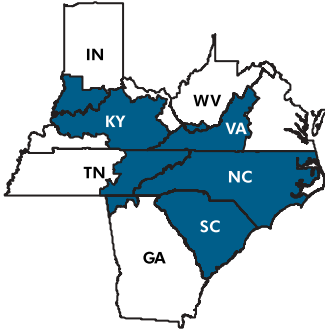


# THE COURIER

Appalachian Marketing Area Monthly Newsletter



Harold H. Friedly, Jr.  
Market Administrator

## USDA Issues Interim Final Rule on Class III & IV Formula

On July 30, 2008, the U. S. Department of Agriculture issued an interim final rule amending the Class III and Class IV product price formulas in all Federal milk marketing orders. The decision was based on testimony at USDA public hearings held in Strongsville, OH, (February 26-March 2, 2007); Indianapolis, IN, (April 9-13, 2007); and Pittsburgh, PA, (July 9-11, 2007). These amendments were announced on June 20, 2008. The interim order was approved by dairy farmers in all 10 Federal milk marketing orders.

cheese - \$0.2003 per pound; butter - \$0.1715 per pound; NFDM - \$0.1678 per pound; and dry whey - \$0.1991 per pound. This decision also increases the butterfat yield factor of the butterfat price formula from 1.20 to 1.211.



These amendments will be effective September 1, 2008.

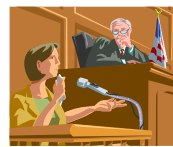
The interim order was published in the July 31 Federal Register. As announced on June 20, 2008, public comments and exceptions to the tentative final decision are due on or before August 19, 2008. USDA will consider the comments and exceptions and issue a final decision.

The decision amends the manufacturing allowances for cheese, butter, nonfat dry milk (NFDM) and dry whey. Specifically, this decision adopts the following manufacturing allowances:

## Hearing Set On Proposed Amendment to Mideast Order

On July 24, 2008, the U.S. Department of Agriculture announced that it will hold a public hearing to consider proposals seeking to temporarily increase the Class I differentials in the southern tier of the Mideast marketing area. The hearing will begin at 9 a.m. on August 19, 2008, at the Westin Cincinnati Hotel, 21 E. 5th Street, Cincinnati, OH 45202.

of the hearing notice may be obtained from the USDA/AMS/Dairy Programs, STOP 0231 - Rm. 2971, 1400 Independence Avenue, SW, Washington, DC 20250-0231. The hearing notice is available at <http://www.regulations.gov>.



The hearing notice was published in the July 24, 2008, Federal Register. Copies

Anyone interested in participating in the hearing should notify a USDA official upon arrival. The hearing notice and additional information is available at <http://www.ams.usda.gov/dairy>.

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## Higher Feed Costs Constrain Production Expansion

Higher feed costs have slowed milk production increases. The domestic dairy herd has continued to expand. The June *Milk Production* report estimated the number of milk cows in May at 9,281 thousand head, up 1.6 percent from a year earlier and slightly ahead of April's estimate. Production per cow also continued an upward

trajectory, rising 1.4 percent in May 2008 compared with a year ago. The May rise reaches only to the level of the long-term trend and comes after several months of below-trend production increases. The price of the benchmark dairy ration, which consists of corn,

*Higher Feed Costs, Continued on page 3* ➤

## Appalachian Statistical Summary

	JULY 2008	JUNE 2008	JULY 2007
<b>PRICES: (Base Zone)</b>			
Uniform Price	\$22.31	\$20.22	\$23.28
Class I Price	24.18	21.58	24.01
Class II Price	16.81	16.19	21.40
Class III Price	18.24	20.25	21.38
Class IV Price	16.60	15.92	21.64
Uniform Skim Milk Price	\$17.07	\$15.11	\$18.14
Class I Skim Milk Price	19.10	16.57	18.71
Class II Skim Milk Price	11.31	10.89	16.31
Class III Skim Milk Price	12.82	15.12	16.31
Class IV Skim Milk Price	11.12	10.64	16.58
Uniform Butterfat Price	\$1.6667	\$1.6115	\$1.6499
Class I Butterfat Price	1.6426	1.5965	1.7018
Class II Butterfat Price	1.6844	1.6230	1.6180
Class III Butterfat Price	1.6774	1.6160	1.6110
Class IV Butterfat Price	1.6774	1.6160	1.6110
<b>PRODUCER MILK:</b>			
Class I	330,830,757	312,267,779	327,471,320
Class II	90,412,896	87,895,660	89,468,419
Class III	21,590,635	19,271,867	27,867,447
Class IV	33,655,714	46,213,449	36,193,123
<b>Total Producer Milk</b>	<b>476,490,002</b>	<b>465,648,755</b>	<b>481,000,309</b>
<b>PERCENT PRODUCER MILK IN:</b>			
Class I	69.43	67.06	68.08
Class II	18.98	18.88	18.60
Class III	4.53	4.14	5.80
Class IV	7.06	9.92	7.52

### APPALACHIAN MARKETING AREA STATS FOR JULY 2008:

⇒ **The Uniform Price** for July 2008 was \$22.31, up \$2.09 from June 2008.

⇒ **Total Class I Milk** for July 2008 was 330,830,757 pounds, up 18.6 million pounds from June, and up 3.4 million pounds from July 2007.

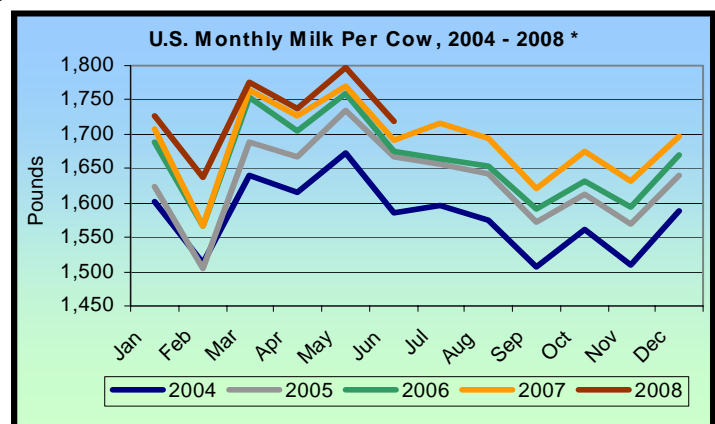
⇒ **Class I Utilization** for July 2008 was 69.43 percent, up 2.37 percent from last month, and up 1.35 percent from July 2007.

⇒ **Total Producer Milk** for July 2008 was 476,490,002 pounds, up 10.8 million pounds, or a 2.3% increase compared to last month.

## June Milk Production Up 3.4 Percent

Milk production in the 23 major states during June totaled 14.7 billion pounds, up 3.4 percent from June 2007. May revised production at 15.4 billion pounds, was up 3.5 percent from May 2007. The May revision represented an increase of 14 million pounds or 0.1 percent from last month's preliminary production estimate. Production per cow in the 23 major states averaged 1,737 pounds for June, 25 pounds above June 2007.

The number of milk cows on farms in the 23 major states was 8.46 million head, 158,000 head more than June 2007, and 1,000 head more than May 2008.



\* Based on entire U.S. production.

## Higher Feed Costs, Continued from page 1

soybeans and alfalfa hay, is expected to be 37 percent higher in 2008 compared with 2007. Presently, the 2009 forecast is for the price of that ration to climb only slightly. The milk-feed price ratio slipped to 1.78 in June compared with 1.88 in May and a loftier 2.88 in June 2007.

Higher feed costs should ultimately slow herd expansion in the third and fourth quarter of 2008 relative to the first half of the year and lead to gradually declining herd size throughout 2009. Milk per cow will likely continue to increase, but at below-trend rates throughout the balance of 2008 and 2009. Forecast 2008 milk production is 189.5 billion pounds and 2009 is 190.3 billion.

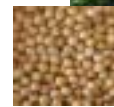
Domestic cheese prices soared to over \$2.21 a pound in mid-June this year before retreating to \$1.99 a pound for the first week of July, according to *Dairy Product Prices*. Domestic disappearance through April 2008 lags slightly below that for the same period in 2007. Higher prices and a slowing domestic economy are limiting domestic demand. However, exports have risen to fill the gap, keeping cheese demand strong. The cheese processing sector may be close to capacity limits, slowing production increases. Although May fluid use was up fractionally, incremental increases in milk production are going largely to Class IV uses. Cheese prices have probably peaked for the year and could decline slightly in 2009, but should remain well above the average of recent years. Prices will likely average \$1.935 to \$1.965 per pound this year and remain firm, averaging \$1.855 to 1.955 per pound in 2009.

The May *Cold Storage* report placed butter stocks 5 percent above April, but 3 percent below a year ago. The seasonal downturn in stocks may be beginning early and, according to *Dairy Market News*, demand is ahead of production and some sales are being met out of stocks. Prices remain strong and very close to 2007's peak. The 2008 season-average butter price is projected to be \$1.360 to \$1.420 per pound. Prices in 2009 should remain about the same, averaging \$1.350 to \$1.480 per pound. Nonfat dry milk and skim milk powder (NDM/SMP) production through May exceeds all years at least back to 2005.

However, it is exports of NDM and SMP that are propelling the butter/powder market. Year-to-date exports of NDM/SMP are nearly double that for the same period of 2007 and comprise nearly 50 percent of total production. With Australia sidelined by drought, the United States remains the major exporter of powdered milk. The higher 2008 production has contributed to lower prices than in 2007, and NDM prices are expected to average \$1.370 to \$1.400 per pound. Next year's forecast modest milk production increase should help firm prices in 2009 to an average \$1.475 to \$1.545 per pound.

Whey stocks continue high, pressuring prices despite strong exports and domestic use. Prices are expected to average 28.0 to 30.0 cents per pound this year and 32.0 to 35.0 cents per pound next year.

Strong product demand and modest production increases for both this year and 2009 will keep Class III prices near 2007 levels. The Class III price is expected to average \$18.10 to \$18.40 per cwt. in 2008 and \$17.55 to \$18.55 per cwt. in 2009. The Class IV price is expected to average \$15.70 to \$16.10 per cwt. in 2008 and climb to \$16.55 to \$17.65 next year. The all milk price will average \$18.95 to \$19.25 this year and be virtually unchanged in 2009, at \$18.60 to \$19.60 per cwt.



Soybeans



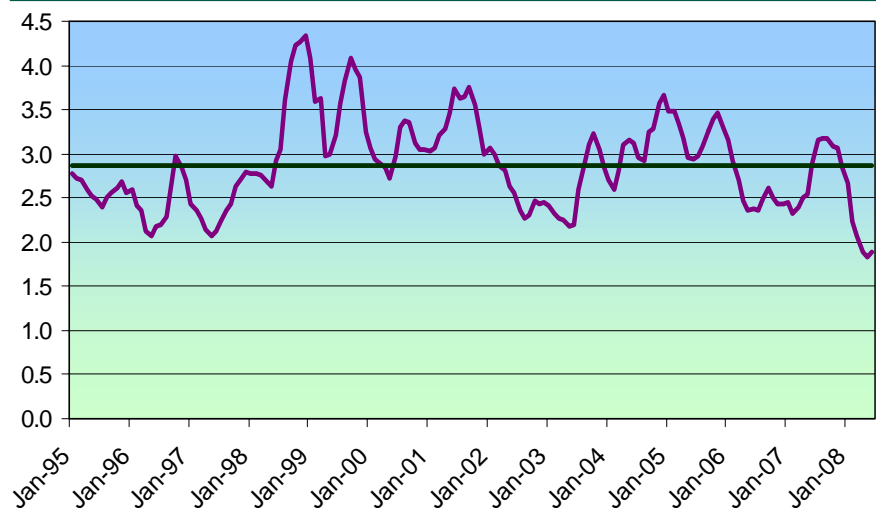
Alfalfa



Corn



### Milk Feed Price Ratio January 1995 - June 2008



Source: *Livestock, Dairy, & Poultry Outlook/LDP-M-169/July 18, 2008*, and Economic Research Service, USDA.

**APPALACHIAN MARKETING AREA  
FEDERAL ORDER 5**

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**April - June Milk Production**

Milk production in the U.S. during the April - June quarter totaled 48.7 billion pounds, up 2.7 percent from the April - June quarter last year. The average number of milk cows in the U.S. during the quarter was 9.27 million head, 136,000 head more than the same period last year.

**Federal Milk Marketing Order Statistics - June 2008**

Federal Order		Producer Deliveries Million Pounds	Class I Producer Receipts Million Pounds	Class I Utilization Percent	Statistical Uniform Price \$/cwt
1	Northeast	1,833	802	43.8	19.56
<b>5</b>	<b>Appalachian</b>	<b>466</b>	<b>312</b>	<b>67.1</b>	<b>20.22</b>
6	Florida	260	197	75.6	22.36
7	Southeast	493	347	70.3	20.80
30	Upper Midwest	1,948	327	16.8	19.79
32	Central	767	311	40.6	18.50
33	Mideast	1,216	478	39.3	18.96
124	Pacific Northwest	506	175	34.5	18.03
126	Southwest	655	312	47.6	19.02
131	Arizona	353	106	29.9	18.65
<b>All Orders <sup>1</sup></b>		<b>8,498</b>	<b>3,366</b>	<b>39.6</b>	<b>19.45</b>

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

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