APPALACHIAN MARKETING AREA
FEDERAL ORDER 5

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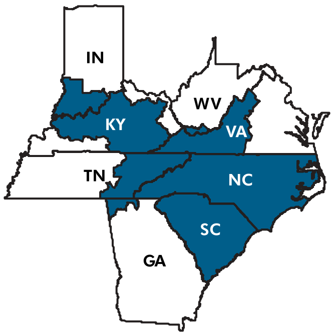
THE COURIER

Appalachian Marketing Area Monthly Newsletter



Harold H. Friedly, Jr.
Market Administrator

Inside This Issue:

Final Rule Announced for a Dairy Forward Pricing Program

On October 31, 2008, the U.S. Department of Agriculture announced a final rule establishing the Dairy Forward Pricing Program as directed by the Food, Conservation and Energy Act of 2008. This program will allow milk producers and cooperative associations to voluntarily enter into forward price contracts with milk handlers for milk used for non-fluid purposes. The program exempts handlers regulated under the Federal milk order program from paying producers and cooperative associations the minimum Federal order price for milk under forward contract.

The final rule was published in the October 31 Federal Register.

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Additional information may also be obtained from this office by calling (502) 499-0040, or e-mail friedly@malouisville.com.

James E. Link Named Administrator of AMS

On October 31, 2008, Agriculture Under Secretary for Marketing and Regulatory Programs Bruce Knight announced the appointment of James E. Link as Administrator of the Agricultural Marketing Service (AMS), an agency within the U.S. Department of Agriculture.

"Jim Link's experience as a rancher, businessman and educator will be an asset in his new role at AMS, where he will help to market U.S. agricultural products in domestic and international markets," said Knight. "His background and service make Jim well suited to continue to enhance the economic opportunities available to U.S. agricultural producers."

Link will direct several marketing programs that facilitate the efficient marketing of U.S. agricultural products, including food, fiber and specialty crops. He also will be responsible for procuring commodities, including fruits and vegetables, meat, poultry, fish and egg products, for the national school lunch and other Federal

James Link Named, cont'd on page 3

Milk Prices Sharply Lower in 2009

The size of the U.S. dairy herd likely crested in the summer quarter and is expected to decline in 2009 to 9,245 thousand head after averaging 9,265 thousand this year. An adjustment process has been set in motion, and dairy cow population is expected to decline each quarter in 2009 from its 2009 year high. High feed prices and falling milk prices have reduced profitability, especially for small and medium-sized producers. Although grain prices have declined since last spring and are expected to slip further next year, feed costs remain high by historical measures, especially for alfalfa hay. Countering declining cow numbers, milk yields are forecast to rise by about 1 percent next year, which is below the 5-year average. The increased yield will advance milk production to 191.1 billion pounds in 2009 topping 2008's projected 189.6-billion-pound total, about the same as the year-over-year increase in 2008.

Milk Prices, cont'd on page 3

Appalachian Statistical Summary

	OCTOBER 2008	SEPTEMBER 2008	OCTOBER 2007
PRICES: (Base Zone)			
Uniform Price	$18.49	$20.23	$23.75
Class I Price	18.93	21.05	24.69
Class II Price	16.60	17.58	21.90
Class III Price	17.06	16.28	18.70
Class IV Price	13.62	15.45	21.31
Uniform Skim Milk Price	$12.54	$14.42	$19.28
Class I Skim Milk Price	13.16	15.38	19.96
Class II Skim Milk Price	10.46	11.59	17.56
Class III Skim Milk Price	10.97	10.27	14.27
Class IV Skim Milk Price	7.40	9.41	16.97
Uniform Butterfat Price	$1.8262	$1.8053	$1.4694
Class I Butterfat Price	1.7791	1.7751	1.5519
Class II Butterfat Price	1.8577	1.8266	1.4162
Class III Butterfat Price	1.8507	1.8196	1.4092
Class IV Butterfat Price	1.8507	1.8196	1.4092
PRODUCER MILK:			
Class I	366,203,300	347,230,443	354,738,544
Class II	87,333,826	88,887,923	75,159,764
Class III	17,754,987	22,795,273	30,730,243
Class IV	26,425,363	20,944,224	18,236,676
Total Producer Milk	**497,717,476**	**479,857,863**	**478,865,227**
PERCENT PRODUCER MILK IN:			
Class I	73.57	72.36	74.08
Class II	17.55	18.52	15.70
Class III	3.57	4.75	6.41
Class IV	5.31	4.37	3.81

APPALACHIAN MARKETING AREA STATS FOR OCTOBER 2008:

⇨ **The Uniform Price** for October 2008 was $18.49.

⇨ **Total Class I Milk** for October 2008 was 366,203,300 pounds, up 19 million pounds from September, and up 11.5 million pounds from October 2007.

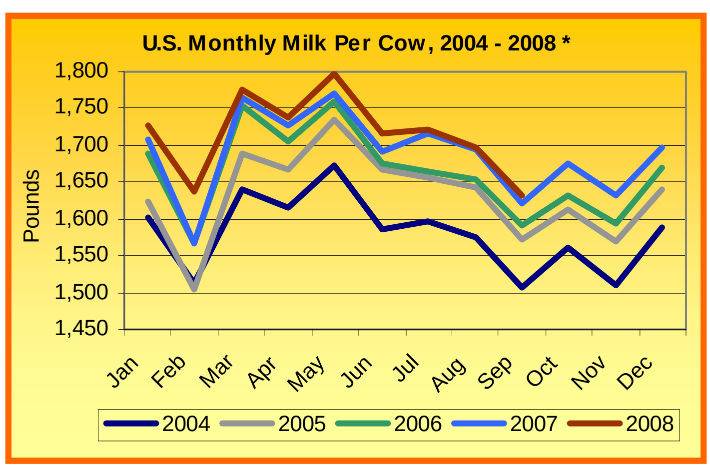
⇨ **Class I Utilization** for October 2008 was 73.57 percent, up 1.21 percent from last month.

⇨ **Total Producer Milk** for October was 497,717,476 pounds, up 17.9 million pounds, or a 3.7 percent increase compared to last month, and up 18.9 million pounds, or 3.9 percent from last year.

September Milk Production Up 1.9%

Milk production in the 23 major states during September totaled 14.0 billion pounds, up 1.9 percent from September 2007. August revised production at 14.6 billion pounds, was up 1.7 percent from August 2007. The August revision represented an increase of 24 million pounds or 0.2 percent from last month's preliminary production estimate. Production per cow in the 23 major states averaged 1,652 pounds for September, 7 pounds above September 2007.

The number of milk cows on farms in the 23 major states was 8.46 million head, 118,000 head more than September 2007, but 8,000 head less than August 2008.



* Based on entire U.S. production.

James Link Named Administrator, continued from page 1

food and nutrition programs. AMS is part of USDA's Marketing and Regulatory Programs, which works to ensure a productive and competitive global marketplace for U.S. agricultural products.

Link assumed the role of Administrator on Monday, November 3, 2008. Prior to this appointment, he served as administrator of USDA's Grain Inspection, Packers and Stockyards Administration (GIPSA) since 2005. As GIPSA administrator, he successfully led the Agency through reforms mandated by Congress and directed a variety of programs to facilitate the marketing of agricultural products and promote fair and competitive trading practices for the overall benefit of consumers and American agriculture.

Link has a bachelor's degree in business administration from Emporia State University and an MBA from Texas Christian University. Link and his wife, Karin, have been in the cattle business for most of their adult lives, most recently as owners of the Link Cattle Company of Crowley, Texas. He and his wife have two sons and four grandchildren.

Link replaces former AMS Administrator Lloyd Day, who had held the position since August 2005.

James E. Link
Administrator
AMS

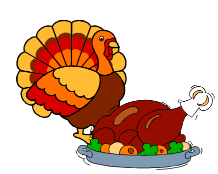
Milk Prices, continued from page 1

Exports have buoyed dairy demand in 2007 and 2008, but a number of factors make next year's export outlook weaker. The U.S. dollar has strengthened vis-à-vis the Euro and some other foreign currencies. European dairy prices have declined and are more competitive with U.S. products. Oceania milk production is expected to recover from last year's drought-induced cutback. Slower global economic growth acts to limit demand. While exports are forecast to decline for all product categories, dry products are most likely to be affected. The decline for fats is expected to be more modest. Butter exports are expected to retreat less on a percentage basis than other products.

The CCC is forecast to purchase 50 million pounds of nonfat dry milk (NDM) in the fourth quarter of this year. No further purchases are expected in 2009. Domestic use across all product categories has been sluggish. High retail prices and a slowing domestic economy will slow growth in use. Domestic use is expected to rise by about 1 percent in 2008 compared with 2007. Next year, domestic use is forecast to climb by 1.7 percent over 2008, but more rapidly on a skims basis as the domestic market absorbs a greater portion of NDM production. Lower prices for all dairy products are expected to stimulate demand. However, this forecast could be upset if a deeper and longer economic downturn than is expected materializes.

Prices across all product categories are expected to be lower in 2009. The NASS cheese price, which is projected to average $1.900 to 1.910 per pound in 2008, is forecast to slip to $1.780 to $1.870 per pound in 2009. Butter prices are expected to average $1.450 to $1.480 per pound this year and decline to $1.390 to $1.510 per pound in 2009. NDM prices will likely fall from $1.265 to $1.285 per pound this year to average $1.070 to $1.140 per pound in 2009. Whey prices, expected to average 25 to 26 cents a pound this year, will fall to 20.5 to 23.5 cents in 2009.

Lower expected prices for dairy products are already affecting 2008 milk prices and will continue to pressure prices in 2009. The Class III price is expected to average $17.50 to $17.60 per cwt. in 2008 and slide to $15.85 to $16.75 per cwt. in 2009. The Class IV price is expected to average $15.10 to $15.30 per cwt. in 2008 and fall to $12.95 to $13.95 per cwt. in 2009. Slightly higher production is forecast to tip the all milk price lower into next year. The all milk price is projected at $18.40 to $18.50 per cwt. this year, declining to $16.50 to $17.40 per cwt. next year.



SOURCE: *"Livestock, Dairy, and Poultry Outlook", LDP-M-172, October 17, 2008, Economic Research Service, USDA.*

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USDA

July - Sept. Milk Up 1.6%

Milk production in the U.S. during the July - September quarter totaled 46.8 billion pounds, up 1.6 percent from the July - September quarter last year. The average million head, 118,000 head more than the same period last year.

Federal Milk Marketing Order Statistics - September 2008

	Federal Order	Producer Deliveries Million Pounds	Class I Producer Receipts Million Pounds	Class I Utilization Percent	Statistical Uniform Price $/cwt
1	Northeast	1,882	875	46.5	18.90
5	***Appalachian***	***480***	***347***	***72.4***	***20.23***
6	Florida	237	205	86.8	22.39
7	Southeast	537	400	74.6	20.63
30	Upper Midwest	2,531	377	14.9	16.85
32	Central	1,019	361	35.4	17.44
33	Mideast	1,253	566	45.2	18.05
124	Pacific Northwest	627	189	30.1	17.07
126	Southwest	901	358	39.8	18.46
131	Arizona	310	118	38.1	17.66
	All Orders [1]	**9,777**	**3,798**	**38.8**	**18.16**

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