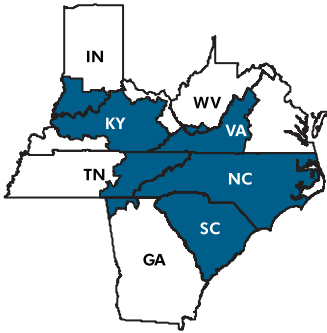




THE COURIER

Appalachian Marketing Area Monthly Newsletter



Harold H. Friedly, Jr.
Market Administrator

National Ice Cream Month



International Dairy Market

The value of U.S. exports of dairy products reached record highs during 2008 as a result of multiple factors, primarily strong global demand for dairy products, reduced global supplies of dairy products, a weak U.S. dollar, and high dairy product prices. As quickly as exports rose, they have fallen towards the end of 2008 and into 2009. As the global economy entered a recession, demand for dairy products dropped off. At the same time, the U.S. dollar gained in value and production recovered somewhat in dominant dairy product exporting countries such as New Zealand and Australia. Facing a weak domestic market in 2009, U.S. producers continue to look to the export market for potential sales, and the USDA has reactivated the Dairy Export Incentive Program (DEIP) to help move products into international markets.

Traditionally, the U.S. has been a relatively small player in international dairy markets, but that has been changing in recent years. From 2000 to 2007, the quantity of butter and butter oil exported increased by 925 percent, cheese by 111 percent, and nonfat dry milk (NDM) by 80 percent. While

U.S. exports have been increasing, the total quantity of most products exported remains a small percentage of the international market as a whole — in 2007, the U.S. accounted for about 5 percent of major traders' butter exports and 8 percent of cheese exports. The U.S. share of NDM exports was greater, about 23 percent of exports from major traders.

In 2008, however, it was a different story for U.S. dairy product exports. Both international and domestic market conditions leading up to 2008 helped create an environment in which the U.S. could capture a greater share of the international market for a limited time. Starting in about 2001, international demand for dairy products increased steadily as world income increased. Increased income, coupled with a greater demand for a Westernized diet in many developing countries, led to increased imports of dairy products. Population growth, urbanization, growth of fast food outlets, demographic shifts, and a change in relative prices of other goods were also factors that led to increased dairy product consumption

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Rayne Pegg Named Administrator of AMS

On May 11, 2009, Agriculture Secretary Tom Vilsack announced the appointment of Rayne Pegg as Administrator of the U.S. Department of Agriculture's Agricultural Marketing Service. The agency is part of USDA's Marketing and Regulatory Programs mission area which works to ensure a productive and competitive global and domestic marketplace for U.S. agricultural products. Pegg began serving in this role in early July.

Pegg most recently served as the Deputy Secretary of Legislation and Policy for the California Department of Food and Agriculture. In this role, she was the principle

advisor to both the Secretary of the Department and the cabinet of the Governor of California on the Department's legislative and policy issues. Pegg represented the Department before the California legislature, regulating bodies and interested parties on issues potentially impacting the Department's programs. She has worked with growers and the public to find common ground and reach agreement on controversial issues. She also worked on legislation and public policy that address: invasive species, the Farm Bill, the Department's budget, organic production, food safety, farmers markets, government oversight, and trade barriers.

Appalachian Statistical Summary

	JUNE 2009	MAY 2009	JUNE 2008
PRICES: (Base Zone)			
Uniform Price	\$12.66	\$13.28	\$20.22
Class I Price	13.48	14.37	21.58
Class II Price	10.79	10.71	16.19
Class III Price	9.97	9.84	20.25
Class IV Price	10.22	10.14	15.92
Uniform Skim Milk Price	\$8.52	\$9.20	\$15.11
Class I Skim Milk Price	9.31	10.41	16.57
Class II Skim Milk Price	6.61	6.49	10.89
Class III Skim Milk Price	5.78	5.61	15.12
Class IV Skim Milk Price	6.04	5.92	10.64
Uniform Butterfat Price	\$1.2685	\$1.2577	\$1.6115
Class I Butterfat Price	1.2857	1.2359	1.5965
Class II Butterfat Price	1.2614	1.2718	1.6230
Class III Butterfat Price	1.2544	1.2648	1.6160
Class IV Butterfat Price	1.2544	1.2648	1.6160

PRODUCER MILK:			
Class I	323,693,729	329,290,360	312,267,779
Class II	85,368,942	78,024,160	87,895,660
Class III	32,105,178	40,673,673	19,271,867
Class IV	63,130,705	60,969,637	46,213,449
Total Producer Milk	504,298,554	508,957,830	465,648,755

PERCENT PRODUCER MILK IN:			
Class I	64.19	64.70	67.06
Class II	16.93	15.33	18.88
Class III	6.36	7.99	4.14
Class IV	12.52	11.98	9.92

F.O. 5 STATS FOR JUNE 2009:

⇒ **The Uniform Price** for June 2009 was \$12.66.

⇒ **Total Class I Milk** for June 2009 was 323,693,729 pounds, an increase of 11.4 million pounds from June 2008.

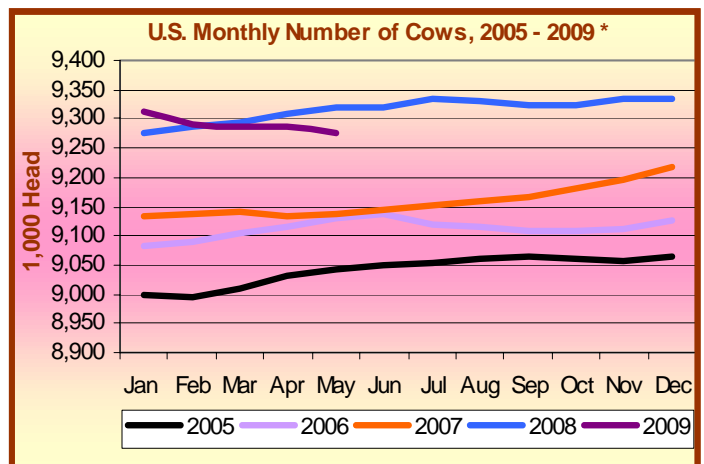
⇒ **Class I Utilization** was 64.19 percent for June 2009, a decrease of 0.5 percentage points from May 2009.

⇒ **Total Producer Milk** for June 2009 was 504,298,554 pounds, up 38.6 million pounds, or 7.9 percent, compared to June 2008.

May Milk Production Up 0.2%

Milk production in the 23 major States during May totaled 15.5 billion pounds, up 0.2 percent from May 2008. April revised production at 14.9 billion pounds, was up 0.1 percent from April 2008. The April revision represented an increase of 10 million pounds or 0.1 percent from last month's preliminary production estimate.

Production per cow in the 23 major States averaged 1,828 pounds for May, 9 pounds above May 2008. The number of milk cows on farms in the 23 major States was 8.47 million head, 25,000 head less than May 2008, and 10,000 head less than April 2009.



* Based on entire U.S. production.

International Dairy Market, continued from pg. 1

and imports by developing countries. For many of these countries, production-limiting factors such as tropical climates, land and feed scarcity, and high transaction and transportation costs constrained domestic dairy industry capacity to meet the rising demands for milk and dairy products.

Increased demand came not only from developing countries, but also from oil exporting countries flush with oil revenues from record-high petroleum prices. Countries such as Saudi Arabia, Iran, Algeria, and Russia imported large quantities of dairy products. Additionally, developed countries continued to demand value-added dairy products in the early 2000s, not only for retail sales, but also for their large food service industries.

Increasing demands coincided with a decreased supply due to drought conditions in New Zealand and Australia, two of the three largest exporters of dairy products. Drought conditions in New Zealand and Australia reduced milk production by about 3 percent for each country from 2007 to 2008. With a decreased milk supply, exports of dairy products dropped as well.

The EU also saw a decline in dairy product exports in 2007 and 2008. Milk production dropped sharply in 2006 and had not fully recovered by 2008. With a large domestic market to serve, butter, cheese, and NDM exports from the EU fell.

The United States, by comparison, saw an increase in production from 2007 to 2008. Production of nonfat dry milk and skim milk powders rose by over 26 percent and whole milk powder by over 58 percent, with the majority of these products destined for international markets. The U.S. dairy herd expanded by 112,000 cows during 2008, and milk production per cow per day grew although it lagged historical trends. This production expansion left the U.S. well-positioned to meet increased global demand for dairy products in 2008.

The final factor that tipped the export market in favor of the United States was the exchange rate. The value of the U.S. dollar was weak in 2007 and 2008, making U.S. exports a more attractive buy for other countries, compared with products from competitors such as New Zealand, Australia, and the EU.

The decline in international demand for dairy products started in late 2008 as a result of the global recession. Incomes around the world have fallen and consumers in many countries are expected to limit demands for cheese, butter, WMP, and NDM in 2009.

Global dairy production is expected to rise in 2009. Improved weather conditions have allowed production to rebound in a number of traditional exporting countries such as the EU-27, Australia, and New Zealand. In the face of weaker global demand, it is expected that higher levels of exportable supplies in these countries will allow them to regain market share lost to the United States in 2007 and 2008.



As the United States loses international market share and the domestic market remains weak, with milk prices below production costs, many U.S. producers have been asking for Government assistance. After a long period of inactivity, on May 22, 2009 the USDA announced allocations for DEIP to help U.S. dairy farmers remain active participants in the international markets. A principle objective of the program is to help U.S. exports in markets where U.S. products are not competitive due to the subsidized dairy products from other countries. Under DEIP, the USDA accepts bids from exporters and awards payments based on the competitiveness of the bid, which represents the difference between the cost of purchasing the domestic product and the selling price in the importing country. DEIP allocates specified quantities of dairy products that are eligible for export assistance, as per WTO commitments.

In January 2009, the EU re-opened its program to subsidize dairy product exports and aid its own domestic dairy industry. It remains to be seen how EU and U.S. subsidy programs will impact international dairy product prices. While the EU and the United States are both large players in the global dairy market, Oceania still dominates the market in most dairy product categories and has lower production costs and no domestic support programs. Both the EU and the United States have publically stated that their export subsidy programs will not impact world market prices. Under WTO limits, the EU can subsidize about 2 million MT or roughly \$3.1 billion dollars of dairy products. EU eligible allocations for NDM and butter, however, are above projected export quantities of those products for 2009. The United States can subsidize just over 92,000 MT, or roughly \$116.6 million dollars, of dairy products.

Source: *Livestock, Dairy, & Poultry Outlook/LDP-M-180/* June 17, 2009

Economic Research Service, USDA



**APPALACHIAN MARKETING AREA
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Federal Milk Marketing Order Statistics - May 2009



Federal Order	Producer Deliveries Million Pounds	Class I Producer Receipts Million Pounds	Class I Utilization Percent	Statistical Uniform Price \$/cwt
1 Northeast	2,121	846	39.9	12.18
5 Appalachian	509	329	64.7	13.28
6 Florida	248	212	85.7	15.65
7 Southeast	663	379	57.2	13.21
30 Upper Midwest	2,885	358	12.4	10.30
32 Central	1,256	336	26.8	10.82
33 Mideast	1,494	564	37.7	11.27
124 Pacific Northwest	691	181	26.2	10.83
126 Southwest	1,085	353	32.6	11.84
131 Arizona	369	113	30.7	11.15
All Orders ¹	11,320	3,673	32.4	11.47

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

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