APPALACHIAN MARKETING AREA
FEDERAL ORDER 5

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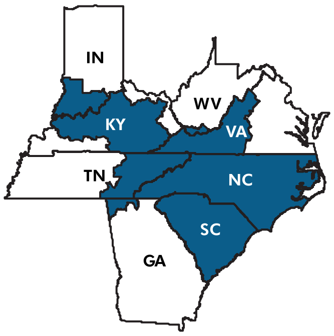

Harold H. Friedly, Jr.
Market Administrator

Inside This Issue:

USDA Issues Recommended Decision on Proposed Amendments to All Federal Milk Orders

On October 21, 2009, the U.S. Department of Agriculture issued a recommended decision to adopt amendments to the producer-handler definition in all Federal milk marketing orders. This decision is based on testimony and evidence given at a public hearing held May 4-19 in Cincinnati, Ohio.

The decision recommends that the producer-handler definitions of all Federal milk marketing orders be amended to limit exemption from pooling and pricing provisions of the orders to those producer-handlers with total route disposition of fluid milk products of 3 million pounds or less per month.

Interested persons have 60 days to file comments in response to the recommended decision. You may send your comments by using the Federal eRulemaking portal at http://www.regulations.gov.

The recommended decision was published in the October 21 Federal Register. The recommended decision is also available on the AMS' web site: www.ams.usda.gov/dairy.

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

Lower Milk Production and Improved Export Prospects Combine to Strengthen Prices in 2010

The September *Milk Production* report shows slight milk production declines in both July and August. The number of cows in the national herd has shown a month-over-month decline since January, and the year-over-year decline in cow numbers more than offset the incrementally rising output per cow in the second half of the year. The prospects for the rest of 2009 and 2010 are for cow numbers to continue to decline and for production per animal to continue increasing. In 2010, the U.S. dairy herd is expected to average below 9 million for the year. The production increase per cow per day is expected to be about 1 percent in 2009, well below the 5-year-average rise. In 2010, production per cow is expected to rise by 1.8 percent during the year, above the 5-year average.

The recovery in production per cow next year is predicated on forecast lower corn and soybean meal prices in 2010. Alfalfa hay prices have retreated in 2009 from their 2008 highs and with normal weather next year, supplies should be adequate to keep prices moderate. Despite productivity increases, production in 2010 is forecast to decline to 187.2 billion pounds, down slightly from this year's projected 188.9 billion pound production. The expected smaller cow herd trumps the production per cow increase, resulting in the second year-over-year production decline.

Export prospects are improving. Economic recovery has exceeded expectations in several countries in recent months with the result that demand for dairy products has improved. Reportedly, an increase in exports to China and greater sales into North Africa and Middle Eastern markets has boosted world prices,

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Appalachian Statistical Summary

	OCTOBER 2009	SEPTEMBER 2009	OCTOBER 2008
PRICES: (Base Zone)			
Uniform Price	$15.05	$13.65	$18.49
Class I Price	15.75	14.33	18.93
Class II Price	11.93	11.01	16.60
Class III Price	12.82	12.11	17.06
Class IV Price	11.86	11.15	13.62
Uniform Skim Milk Price	$11.01	$9.59	$12.54
Class I Skim Milk Price	11.83	10.14	13.16
Class II Skim Milk Price	7.71	6.95	10.46
Class III Skim Milk Price	8.66	8.12	10.97
Class IV Skim Milk Price	7.66	7.12	7.40
Uniform Butterfat Price	$1.2638	$1.2550	$1.8262
Class I Butterfat Price	1.2381	1.2986	1.7791
Class II Butterfat Price	1.2822	1.2296	1.8577
Class III Butterfat Price	1.2752	1.2226	1.8507
Class IV Butterfat Price	1.2752	1.2226	1.8507
PRODUCER MILK:			
Class I	361,602,133	343,044,417	366,203,300
Class II	85,829,431	84,513,238	87,333,826
Class III	25,055,268	25,292,923	17,754,987
Class IV	19,349,982	16,876,460	26,425,363
Total Producer Milk	491,836,814	469,727,038	497,717,476
PERCENT PRODUCER MILK IN:			
Class I	73.52	73.03	73.57
Class II	17.45	17.99	17.55
Class III	5.09	5.39	3.57
Class IV	3.94	3.59	5.31

F.O. 5 STATS FOR OCTOBER 2009:

➲ **The Uniform Price** for October 2009 was $15.05, an increase of $1.40 from September 2009.

➲ **Total Class I Milk** for October 2009 was 361,602,133 pounds, an increase of 18.6 million pounds, or 5.4 percent, comparted to September 2009.

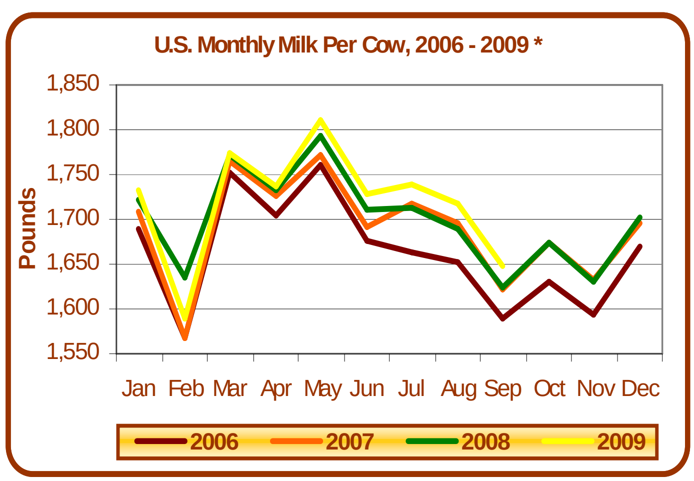
➲ **Class I Utilization** was 73.52 percent for October 2009, an increase of 0.5 percentage points from September 2009.

➲ **Total Producer Milk** for October 2009 was 491,836,814 pounds, up 22.1 million pounds, or 4.7 percent, compared to September 2009.

September Milk Production Down 0.7%

Milk production in the 23 major States during September totaled 13.9 billion pounds, down 0.7 percent from September 2008. August revised production at 14.6 billion pounds, was down 0.1 percent from August 2008. The August revision represented an increase of 23 million pounds or 0.2 percent from last month's preliminary production estimate. Production per cow in the 23 major States averaged 1,672 pounds for September, 22 pounds above September 2008.

The number of milk cows on farms in the 23 major States was 8.34 million head, 168,000 head less than September 2008, and 32,000 head less than August 2009.



* Based on entire U.S. production.

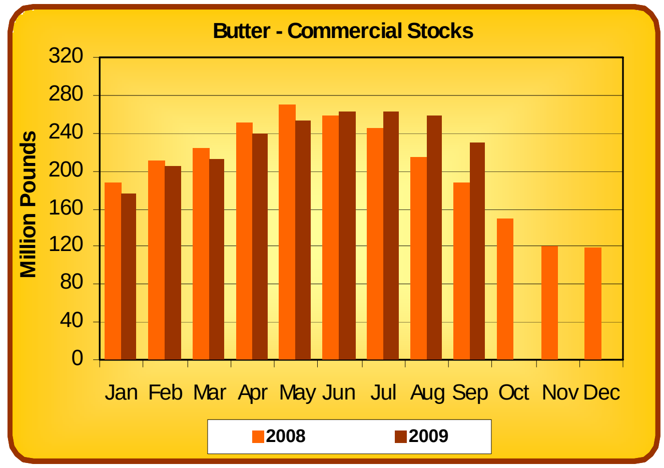
Lower Milk Production and Improved Export Prospects Combine to Strengthen Prices in 2010, cont'd from pg. 1

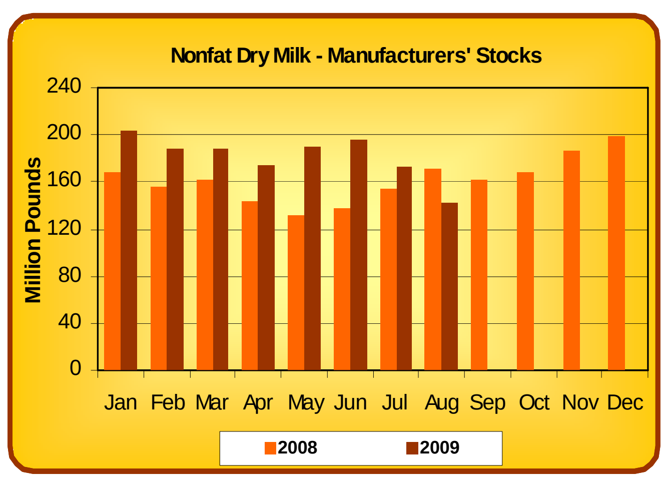
especially for whole milk powder. U.S. producers are in position to benefit as the dollar weakens relative to a number of foreign currencies. While still below 2008's stellar levels, milk equivalent exports are expected to reach almost 4 billion pounds this year and improve to 4.3 billion in 2010 on a fat basis. Milk equivalent exports on a skims/solids basis are forecast at 21.5 billion pounds and 23.6 billion pounds for this year and next. The current forecasts represent an upward revision of earlier USDA export forecasts. Commercial domestic use on a fats basis is projected to rise 1.6 percent from 2008 use. In 2010, commercial domestic use on a fats basis will be essentially unchanged from this year's use. On a skims-solids basis, commercial use will increase about 2 percent in 2009 and an additional 1 percent in 2010.

Stocks of cheese and butter remain high compared with recent years; yet prices have continued to trend upward through 2009. Lower cheese production in the near term, along with improving export prospects into next year, should firm cheese prices for the remainder of 2009. Forecast lower milk production in 2010, along with strengthening exports, will likely lead to higher prices for both butter and cheese in 2010. Nonfat dry milk (NDM) and whey prices are forecast to increase as well, though not as much. Cheese prices are forecast at $1.265 to $1.275 per pound this year and will rise to $1.515 to $1.605 in 2010. High butter stocks should moderate butter price increases for the rest of 2009, despite sharply lower butter production as more milk moves to cheese production relative to butter/powder.

Butter prices will likely increase in 2010 from this year's expected $1.165 to $1.195 per pound average to $1.400 to $1.520 per pound as lower milk production next year affects all dairy products. NDM and whey prices should also firm up in 2010. NDM prices, forecast to average 87.5 to 89.5 cents per pound this year, are expected to average 95.5 cents per pound to $1.025 per pound in 2010. Whey prices will likely average 24.5 to 25.5 cents per pound this year and climb slightly to 30.0 to 33.0 cents per pound next year.

Strengthening dairy product prices will lead to recovery in milk prices in 2010. The Class III milk price is forecast to average $11.00 to $11.10 per cwt this year and $13.85 to $14.75 next year. The Class IV price is forecast to average $10.35 to $10.55 per cwt this year and to firm to $12.00 to 13.00 per cwt in 2010. In the face of tighter milk supplies and improved demand, the all milk price is expected to rise to $14.70 to $15.60 per cwt next year after averaging $12.35 to $12.45 this year.





Source: *Livestock, Dairy, & Poultry Outlook*/LDP-M-184/October 16, 2009 Economic Research Service, USDA

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July - September Milk Production Down 0.3%

Milk production in the U.S. during the July - September quarter totaled 46.8 billion pounds, down 0.3 percent from the July - September quarter last year. The average number of milk cows in the U.S. during the quarter was 9.16 million head, 171,000 head less than the same period last year.

Federal Milk Marketing Order Statistics - September 2009

	Federal Order	Producer Deliveries Million Pounds	Class I Producer Receipts Million Pounds	Class I Utilization Percent	Statistical Uniform Price $/cwt
1	Northeast	1,841	859	46.7	12.93
5	***Appalachian***	***470***	***343***	***73.0***	***13.65***
6	Florida	240	205	85.7	15.58
7	Southeast	543	397	73.1	14.12
30	Upper Midwest	2,395	371	15.5	12.14
32	Central	884	355	40.1	11.90
33	Mideast	1,306	571	43.7	12.07
124	Pacific Northwest	395	194	49.1	11.89
126	Southwest	844	364	43.1	13.02
131	Arizona	284	120	42.4	12.37
	All Orders [1]	**9,203**	**3,780**	**41.1**	**12.63**

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