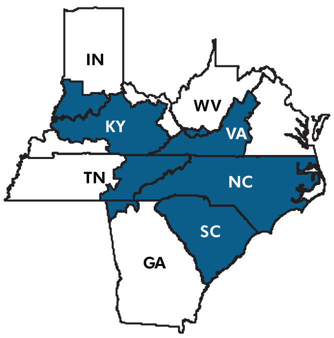
APPALACHIAN MARKETING AREA
FEDERAL ORDER 5

August 2010
Volume 11, No. 7

THE COURIER

Appalachian Marketing Area Monthly Newsletter



Harold H. Friedly, Jr.
Market Administrator

August 2010

Inside This Issue:

Dairy and Fluid Milk Promotion Programs

The enabling legislation of the dairy producer and fluid milk processor promotion programs requires the U.S. Department of Agriculture (USDA) to submit an annual report to the House Committee on Agriculture and the Senate Committee on Agriculture, Nutrition, and Forestry. The report includes summaries of the activities for the National Dairy Promotion and Research Program and the National Fluid Milk Processor Promotion Program, including an accounting of funds collected and spent; USDA activities; and an independent analysis of the effectiveness of the advertising campaigns of the two programs. A summary of the report is provided below. The full report can be found online at **www.ams.usda.gov/dairy**.

The mandatory assessments for the Producer Dairy Promotion and Research Program collected under the Dairy Act totaled $284.5 million in 2008. The National Dairy Promotion and Research Board (Dairy Board) portion of the revenue from the 15-cent per hundredweight producer assessment was $95.5 million for 2008, and Qualified Programs revenue from the producer assessment was $189.0 million. Expenditures by the Dairy Board and many of the Qualified Programs are integrated through a joint process of planning and program implementation so that the programs on the national, regional, State, and local level work together. The Dairy Board continued to develop and implement programs to expand the human consumption of dairy products by focusing on partnerships and innovation, product positioning with consumers, and new places for dairy product consumption. One such endeavor was accomplished through continuing to integrate single-serve plastic bottled milk into the menus of quick-serve restaurants such as Burger King®, Wendy's®, and Subway®. The Dairy Board also continued to promote its 3-A-Day™ of Dairy for Stronger Bones,

Promotion Programs, cont'd on page 3

Dairy Situation and Outlook

Feed prices have been more favorable for producers this year compared with last. Although corn and soybean meal prices are expected to average higher for the 2010/11 crop year, the increases are expected to be moderate. Corn prices are forecast to be $3.45 to $4.05 a bushel in the 2010/11 crop year. Likewise, soybean meal prices are likely to rise slightly in 2010/11 to $240-$280 a ton. The milk-feed price ratio has risen since 2009 and will likely average about 2.3 for the current year. Given the outlook for feed and milk prices, the ratio will remain nearly the same in 2011. Although producer returns have improved over 2009, the improvement is not enough to result in higher average cow numbers this year or next. Cow numbers are expected to average 9.1 million head this year and be about the same next year. According to the June Milk Production report, monthly cow numbers have increased fractionally since the first of the year but still trail year earlier levels. Meanwhile, milk per cow continues to trend upward on a year-over-year basis. The increased output per cow will more than offset reduced herd size this year, resulting in more milk. Production in 2010 is forecast at 191.2 billion pounds. Next year, the forecast decline in cow numbers is expected to slow even further and production per cow is expected to be closer to trend, rising 1.6 percent year-over-year. The result is an estimated 193.5 billion pounds of milk in 2011.

Economic recovery is continuing apace in Asia and South America and coupled with weaker production in Oceania has tightened global diary product supplies. However, prices were lower at the most recent world Dairy Trading auction. According to *Dairy Market News*, seasonally strong production in Northern Hemisphere countries and optimism for the upcoming season in Australia and New Zealand pushed down prices. The lower auction prices may have anticipated greater global supplies in the coming

Dairy Situation and Outlook, cont'd on page 3

Appalachian Statistical Summary

	JULY 2010	JUNE 2010	JULY 2009
PRICES: (Base Zone)			
Uniform Price	$18.54	$17.68	$12.92
Class I Price	19.06	18.68	13.66
Class II Price	17.10	16.01	10.87
Class III Price	13.74	13.62	9.97
Class IV Price	15.75	15.45	10.15
Uniform Skim Milk Price	$12.58	$12.03	$8.78
Class I Skim Milk Price	13.52	13.01	9.43
Class II Skim Milk Price	10.82	10.31	6.73
Class III Skim Milk Price	7.36	7.86	5.82
Class IV Skim Milk Price	9.44	9.76	6.01
Uniform Butterfat Price	$1.8292	$1.7353	$1.2699
Class I Butterfat Price	1.7179	1.7495	1.3022
Class II Butterfat Price	1.9034	1.7304	1.2508
Class III Butterfat Price	1.8964	1.7234	1.2438
Class IV Butterfat Price	1.8964	1.7234	1.2438
PRODUCER MILK:			
Class I	332,249,198	319,518,680	340,694,568
Class II	80,782,397	88,336,915	84,447,777
Class III	36,387,071	44,625,224	31,112,583
Class IV	34,770,142	51,324,779	31,751,062
Total Producer Milk	**484,188,808**	**503,805,598**	**488,005,990**
PERCENT PRODUCER MILK IN:			
Class I	68.62	63.42	69.81
Class II	16.68	17.53	17.30
Class III	7.52	8.86	6.38
Class IV	7.18	10.19	6.51

F.O. 5 STATS FOR JULY 2010:

⇨ **The Uniform Price** for July 2010 was $18.54, an increase of $0.86 from June 2010 and an increase of $5.62 from July 2009.

⇨ **Total Class I Milk** for July 2010 was 332,249,198 pounds, an increase of 12.7 million pounds, or 4.0 percent, compared to June 2010.

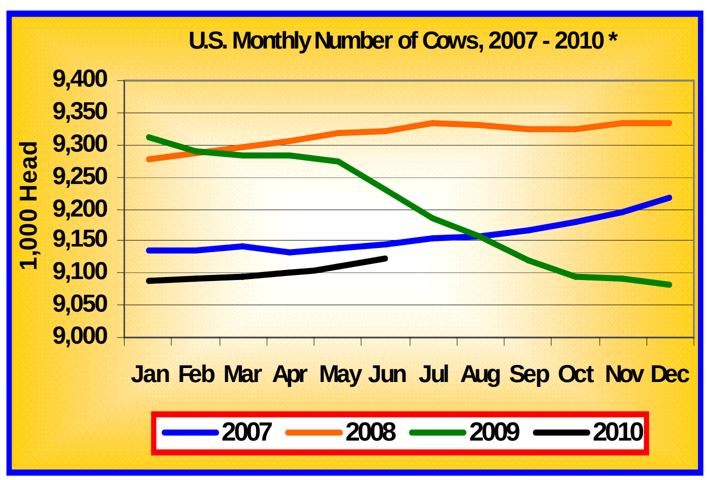
⇨ **Class I Utilization** was 68.62 percent for July 2010, an increase of 5.2 percentage points from June 2010.

⇨ **Total Producer Milk** for July 2010 was 484,188,808 pounds, a decrease of 3.8 million pounds, or 0.8 percent, compared to July 2009.

June Milk Production Up 2.7%

Milk production in the 23 major States during June totaled 15.2 billion pounds, up 2.7 percent from June 2009. May revised production at 15.8 billion pounds, was up 1.5 percent from May 2009. The May revision represented an increase of 40 million pounds or 0.3 percent from last month's preliminary production estimate. Production per cow in the 23 major States averaged 1,816 pounds for June, 67 pounds above June 2009.

The number of milk cows on farms in the 23 major States was 8.35 million head, 87,000 head less than June 2009, but 10,000 head more than May 2010.



* Based on entire U.S. production.

Dairy and Fluid Milk Promotion Programs, cont'd from page 1

a nutrition–based marketing and education program developed to help solve the Nation's calcium crisis and increase consumption of milk, cheese, and yogurt; as well as its "New Look of School Milk" campaign which includes efforts to improve the school milk experience for the Nation's children through improvements in packaging, flavors, and availability.

The National Fluid Milk Processor Promotion Board (Fluid Milk Board) continued to administer a generic fluid milk promotion and consumer education program funded by America's fluid milk processors. The program is designed to educate Americans about the benefits of milk, increase milk consumption, and maintain and expand markets and uses for fluid milk products in the 48 contiguous States and the District of Columbia. During 2008, the Fluid Milk Board evolved its messaging to use the role of calcium-rich fluid milk products in successful weight maintenance for moms and refueling after exercise for teens as central themes and focal points for its activities. In its promotion programs such as "Campaign for a Healthy Weight" and "Make a Splash with Curves," the Fluid Milk Board encouraged moms to choose milk to help maintain a healthy weight. For teens, the 2008 integrated Body By MilkSM campaign, combining advertising, promotion, and public relations components, stressed the importance of maintaining a healthy weight through a healthy diet, and keeping fit and strong by drinking three glasses a day of lowfat or fat–free milk to help muscle recovery after exercise. Assessments generated $107.2 million in 2008. The fluid milk marketing programs are research based and message focused.

USDA has oversight responsibility for the dairy and fluid milk promotion programs. The oversight objectives ensure that the Boards and Qualified Programs properly account for all program funds and that they administer the programs in accordance with the respective Acts and Orders.

Through an independent econometric analysis, conducted by Cornell University, it is estimated that generic fluid milk marketing efforts sponsored by fluid milk processors and dairy farmers have helped mitigate the decline of fluid milk consumption. The generic fluid milk marketing activities increased fluid milk consumption by 6.87 billion pounds per year, on average, from 1995 to 2008. Had there not been generic fluid milk marketing conducted by the two National Programs, fluid milk consumption would have been 9.9 percent lower. Cornell concluded that these marketing efforts have had a positive and statistically significant impact on per capita fluid milk consumption.

Dairy Situation and Outlook, cont'd from page 1

year. U.S. Milk equivalent exports are projected to reach 5.3 billion pounds in 2010 and 5.1 billion pounds next year on a fats basis. Exports on a skims-solids basis are expected to climb to 26.3 billion pounds this year and rise to 27.3 billion pounds in 2011. The skims-solids export forecasts are in the range of 2008 export totals after last year's falloff. Correspondingly, U.S. imports will be lower this year. Milk equivalent imports are projected at 4.5 billion pounds on a fats basis and 4.6 billion pounds on a skim solids basis this year. Imports are forecast to rise slightly to 4.7 billion pounds on a fats basis and 4.8 billion pounds on a skims-solids basis in 2011.

The most recent *Cold Storage* report shows butter stocks at the end of May at 16 percent below year-earlier levels and total cheese stocks are 5 percent ahead of a year ago. The relatively higher cheese stocks and relatively low butter stocks compared with last year are contributing to butter prices being higher than cheese prices. The July Dairy Products report shows May end-of-month nonfat dry milk (NDM) stocks at 26 percent below year-earlier levels.

The rise in domestic use and exports will draw down stocks. On a milk-equivalent basis, ending commercial stocks are expected to tighten both this year and next, and on both a fats- and skims-solids basis. The drawdown in stocks on a skim solids basis is expected to be more pronounced next year than in 2010.

The current situation has Class IV prices above Class III prices, a reflection of the tightness in fat availability. Lower fat tests have boosted butter prices and may have helped firm up cheese prices as well. This situation should correct itself early in 2011. Prices for the major dairy products, except butter, are expected to rise slightly next year. Cheese prices are expected to average $1.465-$1.495 per pound in 2010 and $1.520-$1.620 per pound in 2011. Butter prices are forecast to average $1.530-$1.590 this year and $1.400-$1.530 per pound next year. NDM prices are expected to average $1.195-$1.225 per pound this year and $1.235-$1.305 in 2011. Whey prices are forecast to average 36.5-38.5 cents per pound in 2010 and 37.5-40.5 cents in 2011.

Class IV milk prices are forecast to average $14.65-$15.05 per cwt this year and increase slightly to $14.40-$15.50 per cwt, in 2011. The Class III price is projected to average $13.80-$14.10 per cwt in 2010 and climb to $14.40-$15.40 per cwt in 2011. The all-milk price is expected to average $15.80-$16.10 per cwt in 2010, with a rise to $15.90-$16.90 in 2011.

Source: Livestock, Dairy, & Poultry Outlook / LDP-M-193 / July 21, 2010
Economic Research Service, USDA

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FEDERAL ORDER 5

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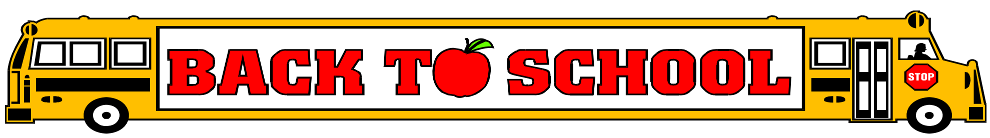
USDA

April - June Milk Production Up 1.7%

Milk production in the U.S. during the April - June quarter totaled 49.7 billion pounds, up 1.7 percent from the April - June quarter last year. The average number of milk cows in the U.S. during the quarter was 9.11 million head, 151,000 head less than the same period last year.



Federal Milk Marketing Order Statistics - June 2010

	Federal Order	Producer Deliveries (Million Pounds)	Class I Producer Receipts (Million Pounds)	Class I Utilization (Percent)	Statistical Uniform Price ($/cwt)
1	Northeast	2,110	815	38.6	16.73
5	**Appalachian**	**504**	**320**	**63.4**	**17.68**
6	Florida	225	188	83.7	19.85
7	Southeast	566	352	62.1	17.64
30	Upper Midwest	2,887	331	11.5	14.14
32	Central	1,092	336	30.8	15.18
33	Mideast	1,321	480	36.3	15.60
124	Pacific Northwest	659	177	26.8	15.18
126	Southwest	996	327	32.9	16.16
131	Arizona	359	105	29.3	15.68
	All Orders [1]	**10,719**	**3,431**	**32.0**	**15.71**