

Mideast Market Administrator's Bulletin

Federal Order No. 33

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July Milk Production Up 3.9 Percent

Milk production in the 23 major States during July totaled 14.5 billion pounds, up 3.9 percent from July 2006. June revised production at 14.2 billion pounds, was up 1.2 percent from June 2006. The June revision represented an increase of 6.0 million pounds from last month's preliminary production estimate.

Production per cow in the 23 major States averaged 1,743 pounds for July, 55 pounds above July 2006.

The number of milk cows on farms in the 23 major States was 8.31 million head, 50,000 head more than July 2006, and 14,000 head more than June 2007.

The Mideast Marketing Area has four states represented in the 23 major states used above. They are Indiana, Michigan, Ohio, and Pennsylvania. Milk production in these Mideast states during July totaled 2.2 billion pounds, up 64 million pounds or 2.9 percent from July 2006.

Production per cow in the Mideast states averaged 1,693 pounds for July, 34 pounds above July 2006.

The number of cows on farms in the Mideast states was 1.3 million head, 11,000 head more than July 2006.

Global Demand for Dairy Products Could Keep Prices High in 2008 Despite Increased Production

Milk production for 2007 is projected at 184.3 billion pounds, unchanged from July. Growth in cow numbers is expected to continue for the remainder of 2007 and in to 2008. July's *Cattle* report showed 3 percent more replacement heifers on farms. The 2007/08 season-average corn price is forecast to average \$2.80 to \$3.40 a bushel and the soybean meal price is forecast to average \$200 to \$230 a ton. Alfalfa hay prices could remain high, as alfalfa producing regions of the country are experiencing dryness. Higher milk and product prices have overcome the higher feed prices this year. The milk-feed-price ratio will likely climb to nearly 3.5 by the end of the summer and could average about 3.0 for the year. The higher expected feed-price ratio indicates a change in the milk production outlook in the second half of 2007. Higher feed prices and lower-than-expected rBST use could keep output per cow below trend this year.

In 2008, the milk-feed price ratio should still signal expansion at over 3.0. Production is forecast to reach 188.6 billion pounds as cow numbers are expected to increase each quarter and average 9.15 million head for the year compared with 9.13 million head in 2007. The outlook for higher milk prices should encourage some additional retention.

The greater availability of milk, both for the balance of 2007 and

into 2008, is expected to moderate prices, but precipitous declines from 2007 price levels are unlikely next year. Robust demand, both domestically and, especially, internationally, will keep prices high. Sales of fluid milk through April have been about 2 percent above previous year's levels in Federal Market Order areas and California. This represents a change in the downward trend of recent years. Low fat and skim milk product consumption has grown faster than whole milk. Organic milk sales have climbed at double-digit rates, albeit from a small base. Higher prices at retail could limit gains for the balance of the year, making more milk available for manufacturing.

Commercial disappearance through May for butter, American style cheese, and nonfat dry milk (NDM) are ahead of 2006 totals for the same period, with butter leading the way at a nearly 9-percent year-over-year rise. Strong demand for cheese and butter will keep prices high. The average cheese price is expected to be \$1.690 to \$1.710 per pound this year. World supplies of butter are tight and the United States may commercially export butter this year. Butter price is expected to average \$1.385 to \$1.425 per pound. Next year, increased production could lower prices slightly. The cheese price is expected to average \$1.565 to \$1.665 per pound and butter \$1.310 and \$1.440 per pound.

Commercial disappearance of NDM and whey dipped below year-earlier levels earlier this spring, mainly because high domestic prices, driven by high international prices, rationed supply. However, it is global demand for NDM and other dry milk products and whey that are supporting U.S. prices and constraining disappearance. Exports of NDM and whey have soared since 2005, and exports are expected to continue at least through 2008 as world demand continues to outstrip supply. The NDM price is expected to average \$1.675 to \$1.695 per

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August 2007 - Pool Summary

Classification of Producer Milk

	Pounds	Percent
Class I	556,449,207	44.6
Class II	197,240,547	15.8
Class III	423,777,046	34.0
Class IV	69,361,685	5.6
Total	1,246,828,485	100.0

Producer Prices

Producer Price Differential	\$ 2.36 / cwt
Butterfat Price	1.5872 / lb
Protein Price	3.9412 / lb
Other Solids Price	0.4368 / lb
Somatic Cell Adjustment Rate	0.00096 / cwt
Statistical Uniform Price	22.19 / cwt

ANNOUNCEMENT OF PRODUCER PRICES

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AUGUST 2007

COMPUTATION OF PRODUCER PRICE DIFFERENTIAL

	<u>POUNDS</u>	<u>BUTTERFAT</u>	<u>SKIM / PROTEIN</u>	<u>NONFAT SOLIDS</u>	<u>OTHER SOLIDS</u>	<u>PRICE</u>	<u>VALUE</u>
Class I Skim Value			546,280,087			\$ 18.74 / cwt	\$102,372,888.32
Class I Butterfat		10,169,120				1.6210 / lb	16,484,143.53
Class I Location Differential	556,449,207						(277,497.69)
Class II SNF Value				16,412,587		1.9378 / lb	31,804,311.11
Class II Butterfat		14,970,411				1.5942 / lb	23,865,829.23
Class III Protein Value			12,593,136			3.9412 / lb	49,632,067.60
Class III Other Solids Value					24,289,116	0.4368 / lb	10,609,485.88
Class III Butterfat		14,764,894				1.5872 / lb	23,434,839.76
Class IV SNF Value				5,854,166		1.8785 / lb	10,997,050.82
Class IV Butterfat		4,386,916				1.5872 / lb	6,962,913.07
Somatic Cell Value II / III / IV							<u>262,099.77</u>
TOTAL PRODUCER MILK VALUE	1,246,828,485	44,291,341	36,951,181				\$276,148,131.40
Overages						\$ 29,743.60	
Beginning Inventory and OS Charges						(154,460.74)	
TOTAL ADJUSTMENTS							\$ (124,717.14)
TOTAL HANDLER OBLIGATIONS							\$ 276,023,414.26
Total Protein Value			36,951,181 lbs	@	\$ 3.9412		\$(145,631,994.58)
Total Other Solids Value			71,373,738 lbs	@	0.4368		(31,176,048.76)
Butterfat Value			44,291,341 lbs	@	1.5872		(70,299,216.43)
Total Somatic Cell Values							<u>(409,995.01)</u>
TOTALS							\$ 28,506,159.48
Net Producer Location Adjustments							\$ 885,322.17
1/2 Unobligated Balance Producer Settlement Fund							<u>557,000.00</u>
Total - Divided by Total Pounds			1,246,828,485 lbs		2.4019728		\$ 299,484,816.5
Rate of Cash Reserve					<u>(0.0419728)</u>		<u>(523,328.83)</u>
PRODUCER PRICE DIFFERENTIAL at Cuyahoga County, OH*					\$ 2.36 /cwt		\$ 29,425,152.82

COMPONENT PRICES

COMPUTATION OF UNIFORM PRICE

	<u>August</u>			<u>August</u>	
	<u>2007</u>	<u>2006</u>		<u>2007</u>	<u>2006</u>
Butterfat Price	\$1.5872 / lb	\$1.3008 / lb	Class III Price - 3.5% BF	\$19.83	\$11.06
Protein Price	3.9412 / lb	1.9050 / lb	Producer Price Differential*	<u>2.36</u>	<u>0.92</u>
Other Solids Price	0.4368 / lb	0.1416 / lb	Statistical Uniform Price	\$22.19	\$11.98
Somatic Cell Adjustment Rate	0.00096 / cwt	0.00059 / cwt			
Nonfat Solids Price	1.8785 / lb	0.7013 / lb			

CLASS PRICES

CLASSIFICATION OF PRODUCER MILK

	<u>August</u>			<u>August</u>	
	<u>2007</u>	<u>2006</u>		<u>2007</u>	<u>2006</u>
Class I*	\$23.76	\$12.97	Class I	<u>Product lbs.</u> 556,449,207	<u>Product lbs.</u> 557,217,052
Class II	22.41	11.16	Class II	197,240,547	276,427,167
Class III	19.83	11.06	Class III	423,777,046	461,556,647
Class IV	21.87	10.64	Class IV	<u>69,361,685</u>	<u>64,984,090</u>
			Total	1,246,828,485	1,360,184,956

* Subject to Location Adjustment.

ORDER 33 MARKET SUMMARY

The Producer Price Differential for the Mideast Marketing Area for August 2007 was \$2.36 per cwt. and the Statistical Uniform Price was \$22.19 per cwt. for the month. The Statistical Uniform Price is \$0.22 higher than last month, and is \$10.21 higher than August 2006.

The Producer Butterfat Price of \$1.5872 per pound decreased 2.38 cents from July 2007 and is up 28.64 cents from a year ago. The Protein Price of \$3.9412 per pound is down 26.56 cents from last month and is up 2.0362 dollars from August 2006. The Other Solids Price in August was \$0.4368 per pound, a decrease from last month's price of \$0.5534 per pound and an increase of 29.52 cents from last August. The Somatic Cell Adjustment rate for August was \$0.00096 per cwt.

August producer receipts of 1.25 billion pounds were 15.0 percent lower than July 2007, and 8.3 percent lower than August 2006 production of 1.36 billion pounds. Producer milk allocated to Class I accounted for 44.6 percent of the total producer milk in August 2007, more than the 34.0 percent in July 2007 and more than the 41.0 percent in August 2006. A total of 8,006 producers were pooled on the Mideast Order, compared to 8,048 producers pooled in August 2006.

The market average content of producer milk was as follows: Butterfat 3.55%; Protein 2.96%; Other Solids 5.72% and Nonfat Solids 8.68%.

(Continued from Front Page)

pound in 2007, with only a slight drop to \$1.605 to \$1.675 per pound anticipated in 2008. Whey price is projected to average 65.5 to 67.5 cents per pound in 2007 and drop in 2008 to average 59.5 to 62.5 cents per pound.

Demand for products will keep milk prices high both this year and next. Class IV price is projected to average \$18.30 to \$18.60 per cwt. in 2007 and decline slightly to \$17.45 to \$18.55 per cwt. in 2008. Likewise, Class III price is expected to average \$18.00 to \$18.20 per cwt. this year and soften to \$16.40 to \$17.40 per cwt. next year. The all milk price will average \$19.15 to \$19.345 per cwt. in 2007. A decline to between \$18.25 and \$19.25 per cwt. is expected in 2008.

Source: *Livestock, Dairy, & Poultry Outlook/LDP-M-158/August 20, 2007* Economic Research Service, USDA

Invitation to Submit Proposals for a Public Hearing to Expand the Pacific Northwest Marketing Area

Northwest Dairy Association and Dairy Farmers of America have requested that the Department of Agriculture (USDA) hold a public hearing to consider a proposal to expand the boundaries of the Pacific Northwest marketing area and modify certain provisions of the order. The proposal would amend the pooling standards of the order and expand the marketing area to include all of the counties in the states of Washington, Oregon, Idaho, Utah and Lincoln and Uinta counties in Wyoming. Copies of the proposal may be obtained from the Dairy Programs website at www.ams.usda.gov/dairy.

Profits, Costs, and the Changing Structure of Dairy Farming

Dairy farming in the United States is undergoing dramatic changes, driven by both supply and demand factors. Consumption is shifting from fluid milk, generally produced for local markets, toward manufactured products, such as cheese, and dairy-based ingredients produced for national and global markets. Innovations in breeding and feeding systems have led to large increases in the amount of milk that a cow produces. Milk production is shifting toward Western States like California, Idaho, and New Mexico, and to much larger farms. The number of dairy farms with fewer than 200 cows is shrinking, while the

number of very large operations, with 2,000 or more cows doubled between 2000 and 2006.

Large dairy farms first emerged in the Western States, but are now appearing in traditional dairy states as well. This report documents shifts in the location and size of dairy farms, and also takes a look at what those changes may mean. If the shift in farm size reflects economies of scale in dairy production—that is, lower costs on larger farms—then increasing farm size also enables milk to be produced with fewer resources, thereby reducing prices to consumers.

Large dairy enterprises generate returns that, on average, well exceed their full costs. At the same time, smaller dairy farms mostly incur economic losses—the value of their production does not exceed full costs, including the costs of capital and time committed by their owners. Large farms incur much lower costs, on average, than smaller farms, and these advantages accrue across a wide range of sizes.

Dairy investment decisions are consistent with the financial evidence. Farms with fewer than 200 cows accounted for over two-thirds of the nationwide inventory of cows in 1992. By 2006, their share of the nationwide inventory had dropped to 38 percent. Meanwhile, farms with at least 1,000 head of dairy cows are growing more prevalent. They accounted for less than 10 percent of inventory in 1992 but more than a third by 2006. Structural shifts are evident among the largest farms, too. During the 1990s, farms with 1,000-3,000 head were adding the most capacity, but capacity additions have since shifted to even larger farms, with 3,000-10,000 head. Some small dairy farms are profitable, and others continue to earn enough to remain in operation. As a result, structural change is likely for the foreseeable future, with a continuing decline, rather than a sudden disappearance, of small and midsize dairy operations. The ongoing structural changes will continue to place downward pressure on milk prices.

This study focuses on conventional dairy production, and does not assess costs and farm sizes among organic dairy operations, a rapidly growing but still small segment of the industry. The 2005 Agricultural Resource Management Survey dairy version contains comprehensive information on a sample of organic producers, and other research projects are analyzing that data.

Prepared by the Economic Research Service. The full report is available at www.ers.usda.gov/publications/err47.

Weighted Averages - Butterfat, Protein, Other Solids, Somatic Cell Count by State

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State	July 2007						July 2006				
	Number of Producers	Pounds of Milk (000)	Butterfat	Protein	-----Weighted Averages----- Other Solids SCC (000)		Pounds of Milk (000)	Butterfat	Protein	Other Solids	SCC (000)
Michigan	1997	567866	3.48	2.95	5.74	276	540578	3.52	2.94	5.72	273
Ohio	2362	357861	3.57	2.99	5.69	315	346021	3.60	2.96	5.67	342
New York	423	182597	3.53	2.95	5.74	251	147815	3.53	2.91	5.70	249
Indiana	1,120	156,105	3.54	2.96	5.70	335	154320	3.58	2.93	5.70	335
Pennsylvania	1,143	115,014	3.60	2.98	5.69	357	119280	3.63	2.96	5.67	392
Wisconsin	355	67386	3.52	2.92	5.79	285	164953	3.56	2.90	5.74	283
West Virginia	63	5755	3.69	3.06	5.67	384	5647	3.66	3.05	5.66	421
Other	183	14886	3.47	2.99	5.80	246	23293	3.52	2.93	5.75	323
Total/Average *	7646	1467469	3.53	2.96	5.72	296	1501907	3.56	2.94	5.70	305

* Totals may not add due to rounding. Data provided on a one month delay basis.



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**FEDERAL ORDER DATA
AUGUST 2007**

<u>Marketing Area</u> ^{1/}	<u>Producer Milk</u>		<u>Class I</u>	<u>Producer</u>	<u>Statistical</u>
	<u>Total</u> (000)	<u>Class I</u> (000)	<u>Percent</u> %	<u>Price Differential</u> (per cwt.)	<u>Uniform Price</u> (per cwt.)
FO 1 Northeast - (Boston)	1,998,835	876,169	43.9	\$3.31	\$23.14
FO 5 Appalachian - (Charlotte)	477,233	349,660	73.3	^{2/}	24.16
FO 6 Florida - (Tampa)	246,333	213,617	86.7	^{2/}	25.24
FO 7 Southeast - (Atlanta)	581,050	409,987	70.6	^{2/}	23.87
FO 30 Upper Midwest - (Chicago)	2,351,953	389,559	16.6	0.78	20.61
FO 32 Central - (Kansas City)	944,144	368,419	39.0	2.10	21.93
FO 33 Mideast - (Cleveland)	1,246,828	556,449	44.6	2.36	22.19
FO 124 Pacific Northwest - (Seattle)	596,875	188,027	31.5	2.01	21.84
FO 126 Southwest - (Dallas)	782,915	349,538	44.7	2.93	22.76
FO 131 Arizona - (Phoenix)	289,832	118,866	41.0	^{2/}	22.22

^{1/} Names in parentheses are principal points of markets.

^{2/} Producers in these markets are paid on the basis of a uniform skim and butterfat price.

MINIMUM PARTIAL PAYMENT PRICE FOR SEPTEMBER 2007 \$19.83/cwt.