Mideast Market Administrator's Bulletin

Federal Order No. 33

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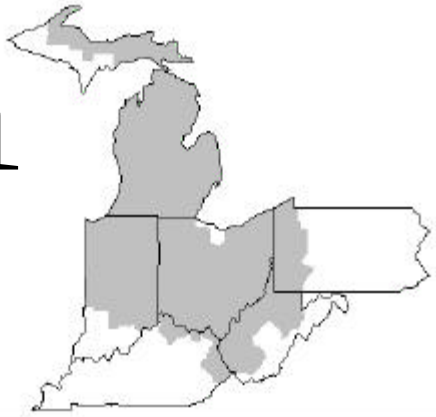

World Dairy Situation and Outlook

During the past six months, global dairy markets have experienced an explosive increase in product prices due to a convergence of several events. First, the decline of the EU in global dairy markets (particularly milk powder markets) was far more rapid and acute than had originally been anticipated and was punctuated by the suspension of all dairy export subsidies. Second, a crippling drought in Australia led to a shortfall in Australian milk output reducing available exportable supplies. Finally, although not as critical, the export restrictions imposed by Argentina and to a lesser extent, India, added further uncertainty to supply lines stretched thin by strong demand. This demand was particularly evident in the rapidly growing economies of the Pacific Rim where an expanding middle class population is consuming more sophisticated processed foods. This led to increased imports of dairy ingredients. There are other variables that have played a role; a weak dollar that to some extent mitigated the sharp rise in import prices and in certain importing nations, the significant growth in oil revenues fueled demand.

For the balance of the year and into 2008, there is a great deal of uncertainty over the likely track of prices. From a logical perspective, the fundamental factors that promoted the rapid escalation in prices will continue to persist. Exportable dairy product supplies are not expected to grow significantly either from the major Oceania suppliers or the EU and United States. In the United States, strong internal demand for dairy products such as cheese is diverting milk away from nonfat dry milk production. In the EU, the situation is similar. The recent suspension of all EU export restitutions for dairy products is directly related to growth in internal consumption of cheese while milk production is held steady by quotas.

Milk Production: 2007 Forecast Summary - The Australian dairy industry is still in turmoil due to the extensive and severe drought that is reducing the herd size and impacting production. For 2006/07 (July-June), the milk output forecast is revised down by 2 percent to 9.785 million tons – a decline of 6 percent from the previous year. This would also represent the lowest level of production since 1997/98 and is 16 percent below the peak level reached in 2001/02.

For 2007/08, assuming normal rainfall, depleted fodder reserves and historically low water supplies are expected to constrain milk output to a 5-10 percent increase. The dairy industry is heavily reliant on irrigation accounting for some 60 percent of irrigated water use in Australia. However, dairy prices are strong and forecast to increase, although not expected to spur any significant growth in production.

Despite a slow start to the season due to cold wet weather, the New Zealand 2006/07 (April/May) forecast is raised by 1 percent from the

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June Milk Production Up 1.2 Percent Michigan Now Ranked Eighth

Milk production in the 23 major States during June totaled 14.2 billion pounds, up 1.2 percent from June 2006. May revised production, at 14.9 billion pounds, was up 1.1 percent from May 2006.

The May revision represented an increase of 7 million pounds from last months preliminary production estimate.

Production per cow in the 23 major States averaged 1,713 pounds for June, 16 pounds above June 2006.

The number of milk cows on farms in the 23 major States was 8.29 million head, 19,000 head more than June 2006, and 2,000 head more than May 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 May totaled 2.2 billion pounds, up 19 million pounds or 0.9 percent from June 2006.

Production per cow in the Mideast states averaged 1,668 pounds for June, 12 pounds above May 2006.

The number of cows on farms in the Mideast states was 1.3 million head, 7,000 head more than June 2006.

During the first half of 2007, Michigan milk production increased by 5.08% compared to January-June 2006. This was the largest increase of the top ten dairy producing states. During the same period, New Mexico milk production declined by 7.56%. Michigan was the eighth largest milk producing state in the nation during the period compared to ninth ranked in 2006.

July 2007 - Pool Summary

Classification of Producer Milk

	Pounds	*Percent*
Class I	498,402,844	34.0
Class II	281,566,141	19.2
Class III	558,322,916	38.0
Class IV	129,309,701	8.8
Total	1,467,601,602	100.0

Producer Prices

Producer Price Differential	$ 0.59	/ cwt
Butterfat Price	1.6110	/ lb
Protein Price	4.2068	/ lb
Other Solids Price	0.5534	/ lb
Somatic Cell Adjustment Rate	0.00100	/ cwt
Statistical Uniform Price	21.97	/ cwt

ANNOUNCEMENT OF PRODUCER PRICES

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JULY 2007

COMPUTATION OF PRODUCER PRICE DIFFERENTIAL

	POUNDS	BUTTERFAT	SKIM / PROTEIN	NONFAT SOLIDS	OTHER SOLIDS	PRICE	VALUE
Class I Skim Value			489,075,629			$ 17.61 / cwt	$ 86,126,218.29
Class I Butterfat		9,327,215				1.6908 / lb	15,770,455.13
Class I Location Differential	498,402,844						(241,624.64)
Class II SNF Value				23,791,200		1.8122 / lb	43,114,412.61
Class II Butterfat		17,153,126				1.6180 / lb	27,753,757.88
Class III Protein Value			16,593,280			4.2068 / lb	69,804,610.32
Class III Other Solids Value					32,050,933	0.5534 / lb	17,736,986.33
Class III Butterfat		18,367,348				1.6110 / lb	29,589,797.65
Class IV SNF Value				11,013,312		1.8424 / lb	20,290,926.03
Class IV Butterfat		6,887,198				1.6110 / lb	11,095,276.01
Somatic Cell Value II / III / IV							577,430.41
TOTAL PRODUCER MILK VALUE	1,467,601,602	51,734,887	43,466,795		83,968,835		$ 321,618,246.02
Overages					$ 3,204.28		
Beginning Inventory and OS Charges					45,987.22		
TOTAL ADJUSTMENTS							$ 49,191.50
TOTAL HANDLER OBLIGATIONS							$ 321,667,437.52
Total Protein Value			43,466,795 lbs	@	$ 4.2068		$ (182,856,113.21)
Total Other Solids Value			83,968,835 lbs	@	0.5534		(46,468,353.31)
Butterfat Value			51,734,887 lbs	@	1.6110		(83,344,902.98)
Total Somatic Cell Values							(798,336.14)
TOTALS							$ 8,199,731.88
Net Producer Location Adjustments							$ 452,325.98
1/2 Unobligated Balance Producer Settlement Fund							603,000.00
Total - Divided by Total Pounds			1,467,601,602 lbs		0.6306247		$ 9,255,057.86
Rate of Cash Reserve					(0.0406247)		(596,208.75)
PRODUCER PRICE DIFFERENTIAL *at Cuyahoga County, OH**			1,467,601,602		**$ 0.59 cwt**		$ 8,658,849.11

COMPONENT PRICES

	July 2007	July 2006
Butterfat Price	$1.6110 / lb	$1.2228 / lb
Protein Price	4.2068 / lb	1.9807 / lb
Other Solids Price	0.5534 / lb	0.1257 / lb
Somatic Cell Adjustment Rate	0.00100 / cwt	0.00059 / cwt
Nonfat Solids Price	1.8424 / lb	0.6831 / lb

COMPUTATION OF UNIFORM PRICE

	July 2007	July 2006
Class III Price - 3.5% BF	$21.38	$10.92
Producer Price Differential*	0.59	0.82
Statistical Uniform Price	$21.97	$11.74

CLASS PRICES

	July 2007	July 2006
Class I*	$22.91	$13.34
Class II	21.40	10.83
Class III	21.38	10.92
Class IV	21.64	10.21

* Subject to Location Adjustment.

CLASSIFICATION OF PRODUCER MILK

	July 2007 *Product lbs.*	July 2006 *Product lbs.*
Class I	498,402,844	499,916,830
Class II	281,566,141	262,830,106
Class III	558,322,916	606,109,343
Class IV	129,309,701	132,876,247
Total	1,467,601,602	1,501,732,526

ORDER 33 MARKET SUMMARY

The Producer Price Differential for the Mideast Marketing Area for July 2007 was $0.59 and the Statistical Uniform Price was $21.97 for the month. The Statistical Uniform Price is the $ 2.06 higher than last month, and is $ 10.23 higher than July 2006.

The Producer Butterfat Price of $1.6110 per pound decreased 3.47 cents from June 2007 and is up 38.82 cents from a year ago. The Protein Price of $ 4.2068 is up 50.09 cents from last month and is up 2.2261 dollars from July 2006. The Other Solids Price in July was $0.5534 per pound, a decrease from last month's price of $0.5831 and an increase of 42.77 cents from last July. The Somatic Cell Adjustment rate for July was $0.00100.

July producer receipts of 1.47 billion pounds were 11.8 percent higher than June 2007, and 2.3 percent lower than July 2006 production of 1.50 billion pounds. Producer milk allocated to Class I accounted for 34.0 percent of the total producer milk in July 2007, less than the 37.5 percent in June 2007 and more than the 33.3 percent in July 2006. A total of 7,604 producers were pooled on the Mideast Order compared to 8,472 producers pooled in July 2006.

The market average content of producer milk was as follows: Butterfat 3.53%; Protein 2.96%; Other Solids 5.72% and Nonfat Solids 8.68%.

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December forecast to reach a record 15.6 million tons – a near 3 percent increase over the previous year. For next year, the outlook is positive. Although high capital costs (particularly land), environmental concerns, water issues, and available suitable land are challenging growth in the dairy sector, the relatively high rewards are expected to provide an incentive for farmers to not only convert to dairying but also promote further investment in expanding current dairy facilities. Consequently, for 2007/08, milk production is forecast to grow by 2-3 percent to 16 million tons.

In the EU, the milk production forecast for 2007 is raised by nearly 1 percent to 131.5 million tons. This represents a 1 percent increase from the drought impacted 2006 season but is below the 2005 total despite two subsequent annual expansions of 0.5 percent in milk quota limits. Milk production in the EU has been virtually stagnant with annual growth over the past 5 years and 8 years only averaging 0.1 percent and 0.2 percent, respectively.

During this period, growing domestic consumption of cheese and fresh dairy products has effectively squeezed out the available milk supplies for the production of NDM, whole milk powder (WMP), and butter.

In the United States, the milk production outlook has steadily improved in the past few months although low hay stocks and the demands of the rapidly expanding ethanol industry are creating uncertainty. These high feed costs have lowered the milk-feed ratio tempering any rapid expansion in output. However, in recent months, strong domestic demand and a booming export market for NDM and other dairy products have led to a strong resurgence in prices and an improvement in the milk-feed ratio. The 2007 all-milk price is expected to hit a record $19.00-$19.30 per hundredweight. Consequently, the 2007 milk production forecast is raised by nearly 1 percent to 83.6 million tons; this also represents an increase of 1 percent from the previous year. For 2008, the benefits of higher prices are expected to lead to higher milk output; milk is forecast to increase 2 percent to 85.4 million tons partly due to an additional leap day and modest rise in milk per cow output. For 2008, the all-milk price is forecast at $18.20-$19.20 per hundredweight.

Nonfat Dry Milk: The Australian 2007 (July/June) NDM export forecast is adjusted down by 6 percent from December reflecting the severity of the drought and reflects a drop of nearly 9 percent from 2006 (July/June). In sharp contrast, the New Zealand 2007 (June/May) export forecast is raised by around 26 percent and means that NDM exports are expected to jump by nearly 28 percent compared to 2006. During the past 5 years, New Zealand's NDM production has been growing at an average annual pace of 4.6 percent and is projected to increase by 10 percent in 2008 to reach 335,000 tons. Since most of the production is exported, shipments in 2008 are expected to grow by 7 percent to 331,000 tons.

Although the EU 2007 forecast for NDM production is adjusted upwards due to improved milk deliveries, production will now be equal to the previous year. Exports of NDM in 2007 are expected to rebound from last's year precipitous drop (55 percent) but forecast at 100,000 tons are well below the average of 200,000 registered during the past 5 years. The EU currently has no intervention stocks of NDM and due to strong internal prices, export subsidies have been suspended.

The U.S. export NDM forecast for 2007 is revised down to 270,000 tons due to expected lower production. Although domestic milk production is expected to increase, high returns from the production of cheese and whey are diverting milk and skimmed milk supplies from the manufacture of NDM (including skim milk powder). Consequently, despite record global prices of NDM, cumulative U.S. shipments during the January- May 2007 are down nearly 10 percent relative to the same period last year.

SOURCE: "Dairy: World Markets and Trade", Circular Series, FD 1-07, July 2007, Foreign Agricultural Service, USDA.

June Fluid Milk Sales

During June, about 4.3 billion pounds of packaged fluid milk products are estimated to have been sold in the United States. This was 0.7 percent lower than June 2006. After adjusting for calendar composition, sales in June 2007 were 0.8 percent lower than June 2006. On an individual product basis, after adjusting for calendar composition, sales of organic whole milk, reduced fat milk (2%), low fat milk (1%), and organic fat-reduced milk increased from June 2006, while sales of whole milk, flavored whole milk, fat-free (skim) milk, flavored fat-reduced milk, and buttermilk decreased from a year earlier.

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

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	June 2007						June 2006				
			-----Weighted Averages-----				------Weighted Averages------				
State	Number of Producers	Pounds of Milk (000)	Butterfat	Protein	Other Solids	SCC (000)	Pounds of Milk (000)	Butterfat	Protein	Other Solids	SCC (000)
Michigan	1,997	522,769	3.49	2.95	5.72	262	525,838	3.54	2.95	5.72	254
Ohio	2,367	299,454	3.55	2.99	5.68	301	348,045	3.63	2.98	5.69	301
New York	425	179,281	3.53	2.96	5.73	241	144,447	3.57	2.92	5.73	227
Indiana	1,137	145,113	3.55	2.97	5.69	321	155,608	3.60	2.95	5.71	306
Pennsylvania	1,215	112,819	3.60	3.00	5.69	341	122,804	3.67	3.00	5.69	341
Wisconsin	418	39,726	3.57	2.92	5.76	275	175,158	3.60	2.94	5.73	272
West Virginia	64	5,669	3.69	3.08	5.67	342	5,843	3.69	3.07	5.69	371
Other	176	8,042	3.65	3.01	5.66	326	22,971	3.63	2.99	5.72	291
Total/Average *	7,799	1,312,875	3.53	2.97	5.71	283	1,500,713	3.59	2.96	5.71	278

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

United States Department of Agriculture

Mideast Market Administrator Bulletin
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FEDERAL ORDER DATA

JULY 2007

Marketing Area [1/]		Producer Milk Total (000)	Producer Milk Class I (000)	Class I Percent %	Producer Price Differential	Statistical Uniform Price
FO 1	Northeast - *(Boston)*	1,940,981	815,648	42.0	$1.56	$22.94
FO 5	Appalachian - *(Charlotte)*	481,000	327,471	68.1	[2/]	23.28
FO 6	Florida - *(Tampa)*	248,237	198,729	80.1	[2/]	24.22
FO 7	Southeast - *(Atlanta)*	561,866	369,735	65.8	[2/]	23.29
FO 30	Upper Midwest - *(Chicago)*	2,390,011	341,080	14.3	0.27	21.65
FO 32	Central - *(Kansas City)*	986,600	331,638	33.6	0.52	21.90
FO 33	**Mideast - *(Cleveland)***	**1,467,602**	**498,403**	**34.0**	**0.59**	**21.97**
FO 124	Pacific Northwest - *(Seattle)*	589,556	177,475	30.1	0.60	21.98
FO 126	Southwest - *(Dallas)*	1,049,117	313,691	29.9	1.31	22.69
FO 131	Arizona - *(Phoenix)*	310,501	106,846	34.4	[2/]	22.09

[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.

[3/] Data not available at time of publication, please see website version for information.

MINIMUM PARTIAL PAYMENT PRICE FOR AUGUST 2007 ..... $21.38 /cwt.