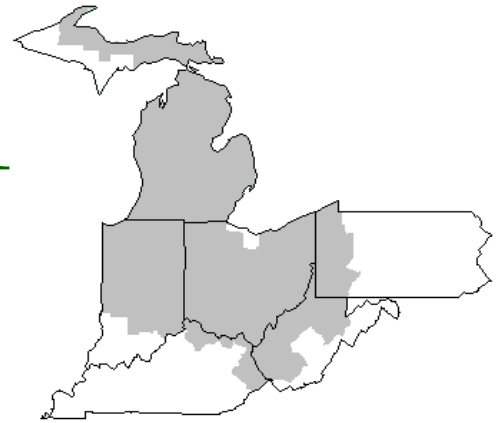


Mideast Market Administrator's Bulletin



Federal Order No. 33

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The Dairy Outlook

Lower Milk Production Provides Basis for Slowly Rising Prices

High feed prices are taking a toll on milk production. Estimated U.S. production for April was 0.1 percent below that of 2008. Production is being reined in as the dairy herd size is contracting. The estimated U.S. herd was 9.28 million head in April, down from 9.31 million in April 2008. In 2010, dairy herd contraction is expected to continue and the herd is forecast to average 8.94 million head for the year. On the other hand, production per cow continues to rise, albeit slowly. Production per cow on a daily basis has ranged above year-earlier levels in the first 4 months of 2009. For the year, output per cow is expected to reach 20,445 pounds, up a quarter percent year-over-year. For 2010, output per cow is forecast to climb to 20,850 pounds per cow, which would represent a 2-percent increase above 2009's weak growth.

Feed prices this year are projected to be below 2008's lofty highs, but still above those in 2007. Corn prices are expected to average over \$4.00 per bushel for both the 2008/09 and 2009/10 crop years. Soybean meal prices are expected to decline to average \$320 per ton in 2008/09. Meal prices should be slightly lower in 2009/10. Projected relatively high feed prices, especially for corn, will keep the annual average milk-feed price ratio below 2.0 both this year and next. This limits any incentive for herd expansion even with alfalfa hay prices reflecting improved harvest conditions. The Cooperatives Working Together program is expected to remove over 100,000 cows from the herd by mid-summer. In addition, culling will likely be above average as a result of weak returns to producers. The cow removals will boost average output per cow among the remaining herd, but higher feed prices will likely dampen growth in output per cow. The smaller herd size will lead to lower milk production in 2009 and 2010. Milk production is forecast at 187.5 billion pounds this year and 186.4 billion pounds in 2010.

Compounding weakness in domestic demand is the loss of export markets, which expanded rapidly in 2007 and 2008. Commercial exports this year are expected to total only 3.7 billion pounds of milk equivalent on a fat basis (19.7 billion pounds on a skims/solids basis). Fat basis exports are forecast to increase to 3.8 billion pounds of milk equivalent in 2010. Buoyed by stronger nonfat dry milk (NDM) and whey sales, skim/solids exports will increase to 23.1 billion pounds next year.

Domestic commercial use on a fats basis is forecast to rise in 2009 to 186.1 billion pounds, up 1 percent from 2008, but to remain virtually unchanged in 2010. The reduction in milk supplies is the basis for modestly higher milk and dairy product prices in both 2009 and 2010. Net removals are estimated to reach 234 million pounds in 2009 but are forecast to drop to 10 million pounds next year.

Dairy product prices are forecast to rise. Cheese prices have been close to support levels in recent weeks, but are expected to average \$1.235 to \$1.275 per pound in 2009. Cheese prices are expected to strengthen throughout 2010. The average 2010 price is forecast at \$1.580 to \$1.680. For butter, the 2009 prices are expected to average \$1.185 to \$1.255 per pound for the year. In 2010, prices could rise to average \$1.44 to \$1.57 per pound. NDM exports have lagged earlier expectations and prices reflect that fact.

NDM prices are expected to average 83.5 to 87.5 cents per pound this year and \$1.000 to \$1.070 per pound next year, mostly on the basis of improving exports and tighter supplies. Whey prices show some recovery as exports have improved lately and will average 22.0 to 24.0 cents a pound in 2009 and likely rise to 26.0 to 29.0 cents a pound in 2010.

These product prices will translate into slowly recovering milk prices this year and further recovery in 2010. However prices will remain below 2007 and 2008 highs. The Class IV price is projected to average \$10.10 to \$10.60 per cwt this year and \$12.55 to \$13.65 per cwt next year. The Class III price is forecast to average \$10.60 to \$11.00 per cwt this year and to rise to \$14.30 to \$15.30 per cwt next year. The all milk price is projected at \$11.95 to \$12.35 per cwt in 2009 and to climb to \$15.10 to \$16.10 per cwt in 2010.

SOURCE: "Livestock, Dairy, and Poultry Outlook", LDP-M-180, June 17, 2009, Economic Research Service, USDA. For more information, contact Roger Hoskin, (202) 694-5148.

June 2009 Pool Summary

Classification of Producer Milk

	<i>Pounds</i>	<i>Percent</i>
Class I	528,269,033	36.9
Class II	289,501,396	20.2
Class III	511,842,393	35.8
Class IV	101,389,213	7.1
Total	1,431,002,035	100.0

Producer Prices

Producer Price Differential	\$ 1.02 /cwt
Butterfat Price	1.2544 /lb
Protein Price	1.7283 /lb
Other Solids Price	0.0723 /lb
Somatic Cell Adjustment Rate	0.00057 /cwt
Statistical Uniform Price	10.99 /cwt

ANNOUNCEMENT OF PRODUCER PRICES**Federal Order No. 33****JUNE 2009****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			518,598,229			\$ 7.91 / cwt	\$ 41,021,119.90
Class I Butterfat		9,670,804				1.2717 / lb	12,298,361.45
Class I Location Differential	528,269,033						(260,109.00)
Class II SNF Value				24,402,557		0.7344 / lb	17,921,237.85
Class II Butterfat		17,664,028				1.2614 / lb	22,281,404.90
Class III Protein Value			15,243,468			1.7283 / lb	26,345,285.76
Class III Other Solids Value					29,279,844	0.0723 / lb	2,116,932.70
Class III Butterfat		17,768,562				1.2544 / lb	22,288,884.16
Class IV SNF Value				8,550,198		0.6715 / lb	5,741,457.94
Class IV Butterfat		6,122,848				1.2544 / lb	7,680,500.49
Somatic Cell Value II / III / IV							<u>623,736.83</u>
TOTAL PRODUCER MILK VALUE	1,431,002,035	51,226,242	42,377,863		81,649,745		\$158,058,812.98
Overages						\$ 23,867.42	
Beginning Inventory and Other Source Charges						\$ 49,215.08	
TOTAL ADJUSTMENTS							<u>\$ 73,082.50</u>
TOTAL HANDLER OBLIGATIONS							<u>\$ 158,131,895.48</u>
Total Protein Value			42,377,863 lbs	@	\$ 1.7283		\$ (73,241,660.67)
Total Other Solids Value			81,649,745 lbs	@	0.0723		(5,903,276.56)
Butterfat Value			51,226,242 lbs	@	1.2544		(64,258,197.97)
Total Somatic Cell Values							<u>(945,512.08)</u>
TOTALS							<u>\$ 13,783,248.20</u>
Net Producer Location Adjustments							\$ 801,909.43
1/2 Unobligated Balance Producer Settlement Fund							<u>713,000.00</u>
Total - Divided by Total Pounds			1,431,002,035 lbs		1.0690521		\$ 15,298,157.63
Rate of Cash Reserve					(0.0490521)		<u>(701,936.55)</u>
PRODUCER PRICE DIFFERENTIAL at Cuyahoga County, OH*			1,431,002,035		\$ 1.02 /cwt		\$ 14,596,221.08

COMPONENT PRICES**COMPUTATION OF UNIFORM PRICE**

	<u>June</u>			<u>June</u>	
	<u>2009</u>	<u>2008</u>		<u>2009</u>	<u>2008</u>
Butterfat Price	\$1.2544 / lb	\$1.6160 / lb	Class III Price - 3.5% BF	\$ 9.97	\$20.25
Protein Price	1.7283 / lb	4.7193 / lb	Producer Price Differential*	<u>1.02</u>	<u>(1.29)</u>
Other Solids Price	0.0723 / lb	0.0826 / lb	Statistical Uniform Price	\$10.99	\$18.96
Somatic Cell Adjustment Rate	0.00057 / cwt	0.00108 / cwt			
Nonfat Solids Price	0.6715 / lb	1.1819 / lb			

CLASS PRICES**CLASSIFICATION OF PRODUCER MILK**

	<u>June</u>			<u>June</u>	
	<u>2009</u>	<u>2008</u>		<u>2009</u>	<u>2008</u>
Class I*	\$12.08	\$20.18	Class I	528,269,033	477,717,334
Class II	10.79	16.19	Class II	289,501,396	264,471,762
Class III	9.97	20.25	Class III	511,842,393	313,736,383
Class IV	10.22	15.92	Class IV	<u>101,389,213</u>	<u>159,608,613</u>
			Total	1,431,002,035	1,215,534,092

* Subject to Location Adjustment.

ORDER 33 MARKET SUMMARY

The Producer Price Differential for the Mideast Marketing Area for June 2009 was \$1.02 and the Statistical Uniform Price was \$10.99 for the month. The Statistical Uniform Price is \$0.28 lower than last month, and is \$7.97 lower than June 2008.

The Producer Butterfat Price of \$1.2544 per pound decreased 1.04 cents from May and is down 36.16 cents from a year ago. The Protein Price of \$1.7283 is down \$0.0171 from last month and is down \$2.9910 from June 2008. The Other Solids Price in June was \$0.0723 per pound, an increase from last month's price of \$0.0336 and a decrease of 1.03 cents from last June. The Somatic Cell Adjustment rate for June was \$0.00057.

June producer receipts of 1.43 billion pounds were 4.2 percent lower than May and 17.7 percent higher than June 2008 production of 1.22 billion pounds. Producer milk allocated to Class I accounted for 36.9 percent of the total producer milk in June 2009, less than the 37.7 percent in May and less than the 39.3 percent in June 2008. A total of 7,210 producers were pooled on the Mideast Order compared to 7,383 producers pooled in June 2008.

The market average content of producer milk was as follows: Butterfat 3.58%; Protein 2.96%; Other Solids 5.71% and Nonfat Solids 8.67%.

May Milk Production Up 0.2 Percent

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 months 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.

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 2.4 billion pounds, up 15million pounds or 0.6 percent from May 2008.

Production per cow in the Mideast states averaged 1,775 pounds for May, 14 pounds above May 2008. The number of cows on farms in the Mideast states was 1.4 million head, 2,000 head more than May 2008.

Dairy Product Exports: 2008 Highs and 2009 Lows

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.

Weak Global Economy Will Weigh on Trade in 2009 - 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, whole milk powder, 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.

DEIP Resurfaces - 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 World Trade Organization (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.

The long-term forecasts for the U.S. dairy sector (determined prior to the DEIP allocation announcement) are for herd size and exports to continue to decrease and milk production per cow and domestic consumption to continue to increase.

Bulletin WebPage Edition

www.fmmacleev.com

Featured this month are:

- Producer Milk Classification
- Statistical Uniform Price
- Class and Component Prices
- Weighted Average NASS Prices

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

Federal Order No. 33

State	May 2009					May 2008					
	Number of Producers	Pounds of Milk (000)	-----Weighted Averages -----			Pounds of Milk (000)	-----Weighted Averages -----				
			Butterfat	Protein	Other Solids	SCC (000)		Butterfat	Protein	Other Solids	SCC (000)
Michigan	1,869	619,880	3.58	2.98	5.71	197	539,195	3.57	3.00	5.73	223
Ohio	2,225	359,711	3.66	3.02	5.68	239	284,177	3.65	3.04	5.72	262
Indiana	1,144	159,246	3.64	2.98	5.69	253	151,540	3.64	3.01	5.71	280
New York	340	138,829	3.64	3.01	5.72	212	98,125	3.62	3.01	5.73	218
Pennsylvania	1,101	114,640	3.70	3.05	5.67	306	86,504	3.73	3.05	5.70	317
Wisconsin	330	72,689	3.62	2.98	5.76	229	55,024	3.68	2.99	5.75	259
West Virginia	64	5,762	3.78	3.15	5.67	303	6,012	3.84	3.19	5.72	344
Illinois	41	8,762	3.60	2.99	5.75	256	5,763	3.59	3.00	5.74	285
Other	124	14,015	3.50	3.00	5.73	216	5,440	3.71	3.06	5.72	314
Total/Average *	7,238	1,493,533	3.62	3.00	5.70	225	1,231,780	3.62	3.02	5.72	248

* Totals may not add due to rounding. Data provided on a one month delay basis and includes only milk from these states *pooled* on the Mideast order.



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FEDERAL ORDER DATA

June 2009

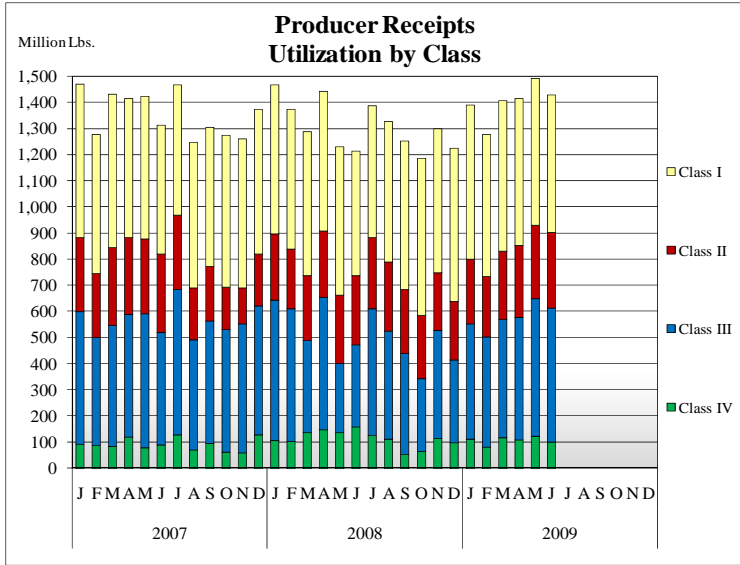
<u>Marketing Area</u> ^{1/}	Producer Milk		Class I	Producer Price Differential <i>(per cwt.)</i>	Statistical Uniform Price <i>(per cwt.)</i>
	<u>Total</u> <i>(000)</i>	<u>Class I</u> <i>(000)</i>	<u>Percent</u> %		
FO 1 Northeast - <i>(Boston)</i>	2,002,371	825,015	41.2	\$1.96	\$11.93
FO 5 Appalachian - <i>(Charlotte)</i>	504,299	323,694	64.2	^{2/}	12.66
FO 6 Florida - <i>(Tampa)</i>	221,439	196,502	88.7	^{2/}	14.96
FO 7 Southeast - <i>(Atlanta)</i>	605,153	370,303	61.2	^{2/}	12.83
FO 30 Upper Midwest - <i>(Chicago)</i>	2,758,670	339,916	12.3	0.32	10.29
FO 32 Central - <i>(Kansas City)</i>	1,188,631	326,474	27.5	0.73	10.70
FO 33 Mideast - <i>(Cleveland)</i>	1,431,002	528,269	36.9	1.02	10.99
FO 124 Pacific Northwest - <i>(Seattle)</i>	670,568	180,115	26.9	0.73	10.70
FO 126 Southwest - <i>(Dallas)</i>	992,686	326,664	32.9	1.67	11.64
FO 131 Arizona - <i>(Phoenix)</i>	335,308	111,248	33.2	^{2/}	10.95

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

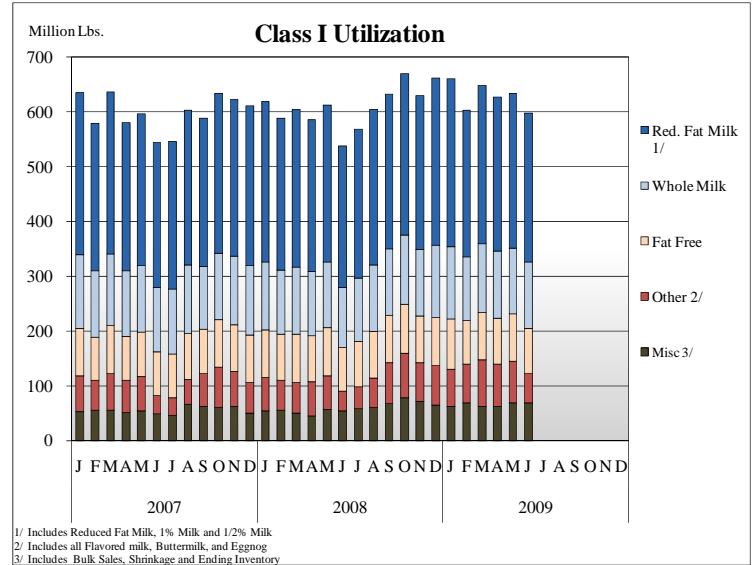
^{2/} Producers in these markets are paid on the basis of a uniform skim and butterfat price.

MINIMUM PARTIAL PAYMENT PRICE FOR JULY 2009.....\$ 9.97 /cwt.

PRODUCER MILK CLASSIFICATION



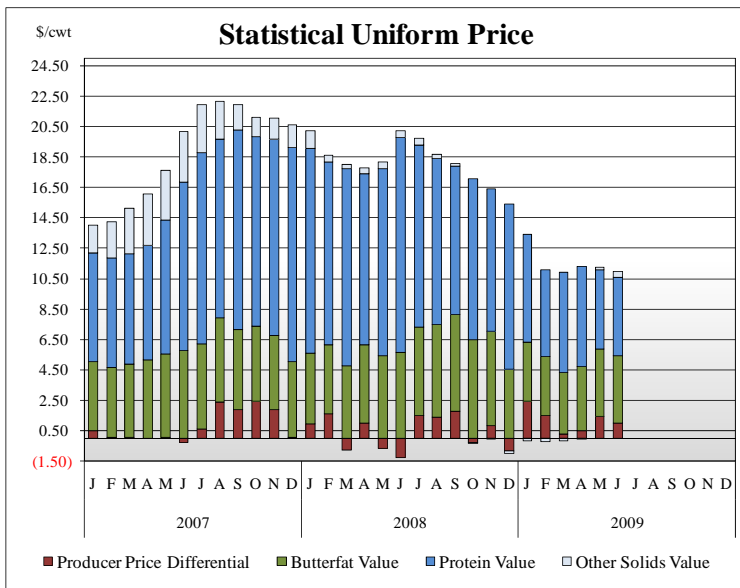
Producer Receipts: Producer receipts for the Mideast Order totaled 1.43 billion pounds in June 2009. The pounds allocated to Class I represented 36.9 percent of the total pounds. These totals represent a 215 million pound increase in producer milk and a 2.4 percent decrease in Class I utilization from June 2008.



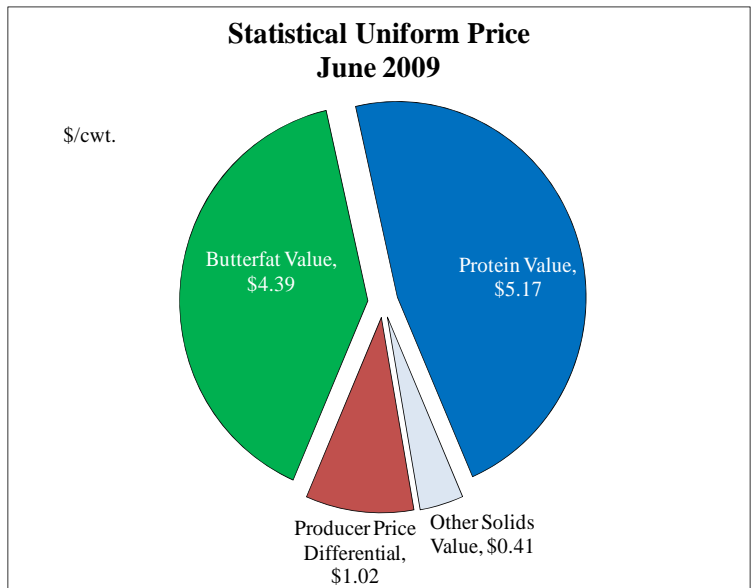
1/ Includes Reduced Fat Milk, 1% Milk and 1/2% Milk
2/ Includes all Flavored milk, Buttermilk, and Eggnog
3/ Includes Bulk Sales, Shrinkage and Ending Inventory

Class I Pounds: Class I utilization for the Mideast Order totaled 528 million pounds in June 2009. Finished products include 120 million pounds used for whole milk, 272 million pounds of reduced fat and low fat milk, and 84 million pounds of fat free (skim) milk.

STATISTICAL UNIFORM PRICE

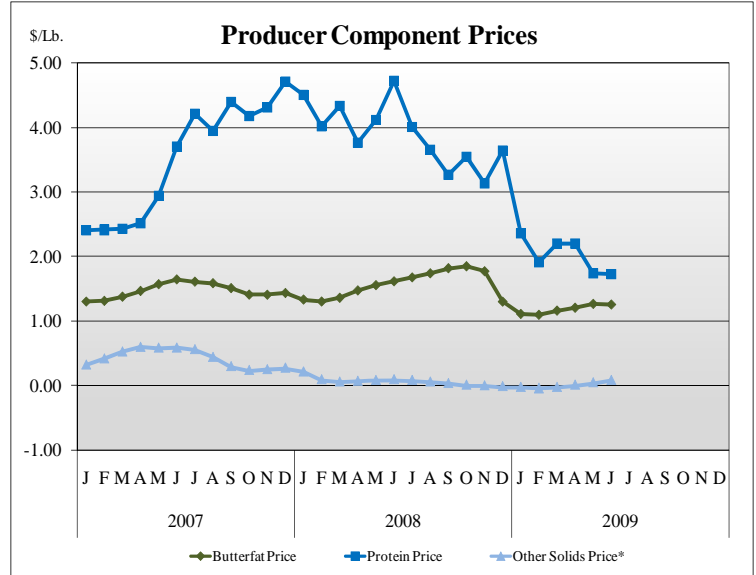
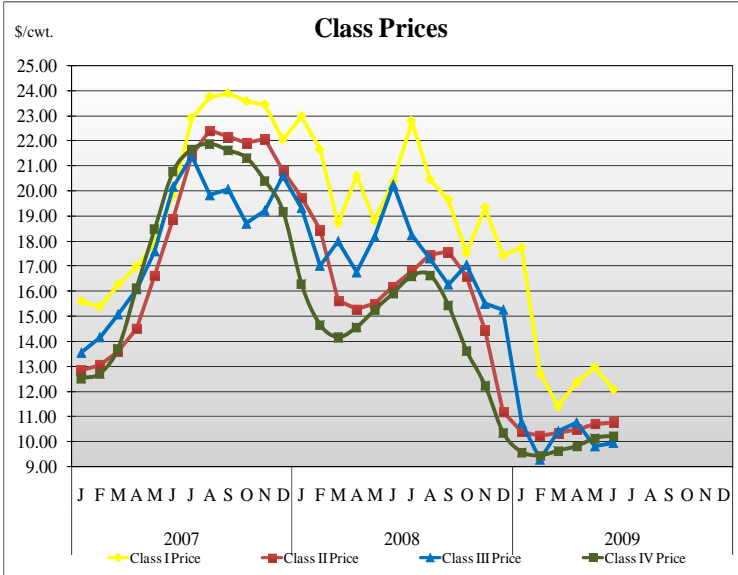


Statistical Uniform Price: The Mideast Federal Order Statistical Uniform Price (SUP) at Cuyahoga County, OH was \$10.99 per cwt for June 2009. The June 2009 SUP was \$0.28 per cwt less than the May 2009 SUP. The June 2009 SUP is 42 percent lower than the June 2008 SUP.



June Statistical Uniform Price: Using the Class III Price formula at 3.5% BF, the component values for the June 2009 SUP are: \$5.17 per cwt for protein, \$4.39 per cwt for butterfat and \$0.41 per cwt in other solids. Also included in the SUP is \$1.02 per cwt in PPD value.

CLASS AND COMPONENT PRICES



WEIGHTED AVERAGE NASS PRICES

