The Market Administrator's Report

Pacific Northwest & Arizona Marketing Areas

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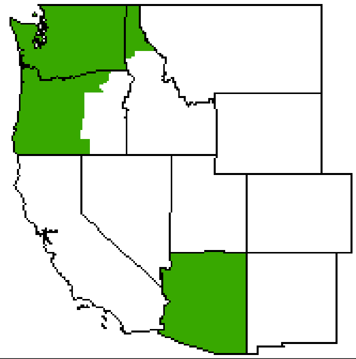

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August 2009

MARKET SUMMARIES FOR JULY 2009

Comparisons to a year ago can be found in the tables on pages 6 and 7.

Pacific Northwest

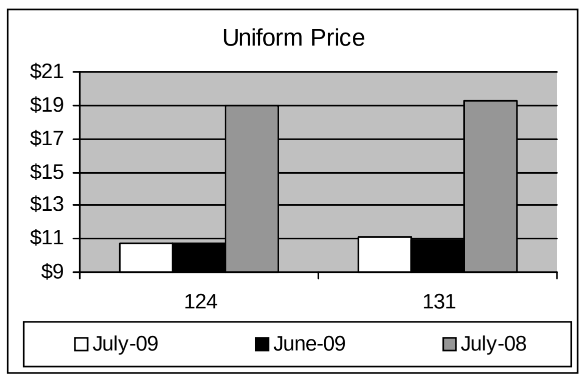
Producers delivered a total of 684.7 million pounds of milk to the market during July. Daily deliveries averaged 22.1 million pounds, down 1.2 percent from June. An estimated 656 producers delivered milk to the market during the month. Daily deliveries per producer averaged 33,671 pounds, down 1.2 percent from June.

Class I producer milk during July totaled 187.6 million pounds, 27.4 percent of total producer receipts. Daily usage averaged 6.1 million pounds, up 0.8 percent from June.

Arizona

Producers delivered a total of 304.1 million pounds of milk to the market during July. Daily deliveries averaged 9.8 million pounds, down 12.3 percent from June. An estimated 97 producers delivered milk to the market during the month. Daily deliveries per producer averaged 101,116 pounds, down 12.3 percent from June.

Class I producer milk during July totaled 117.0 million pounds, 38.5 percent of total producer receipts. Daily usage averaged 3.8 million pounds, up 1.8 percent from June. ♦



Federal Order Producer Prices and Component Levels: July 2009

Producer Prices	FO124	FO131	Component Levels (%)	FO124	FO131
Uniform Price 1/*	10.74	11.10	Butterfat	3.603	3.433
Butterfat 2/	1.2438	1.2561	Protein	3.016	N/A
Protein 2/	1.6970	N/A	Other Solids	5.706	N/A
Other Solids 2/	0.0949	N/A	Nonfat Solids	8.722	N/A
PPD 1/*	0.77	N/A			
Skim 1/	N/A	6.95			

N/A = not applicable. * Subject to applicable location adjustments. 1/ $ per cwt. 2/ $ per pound.

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JULY 2009 CLASS PRICES

July 2009 non-advanced Class Prices were calculated using NASS commodity price surveys from July 4, 11, 18, and 25, 2009. Component prices for the month are $1.6970 per pound of protein, $1.24384 per pound of butterfat, $0.0949 per pound of other solids, and $0.6677 per pound of nonfat solids.

July 2009 Class III and IV prices at 3.5% butterfat are $9.97 and $10.15 per hundredweight, respectively. The July Class III price compared to June is unchanged. The Class III price is $8.27 lower than in July 2008.

Class II butterfat was announced at $1.2508 per pound. Class I skim and butterfat and Class II skim prices for July 2009 were announced on June 19, 2009. The Class II price at 3.5% butterfat is $10.87 for July 2009.

FINAL: NASS COMMODITY PRICES

	June	July	Change
Cheese*	$1.1466	$1.1334	-$0.0132
Butter	$1.2073	$1.1986	-$0.0087
Nonfat Dry Milk	$0.8461	$0.8422	-$0.0039
Whey	$0.2693	$0.2912	$0.0219

* The weighted average of barrels plus 3 cents and blocks.

Current Commodity Prices - - The NASS survey of cheddar cheese prices showed a net increase in price received for 40-pound blocks and an increase in 500-pound barrels. The survey of 40-pound blocks showed a net increase of 9.14 cents between the July 11 and the August 15 surveys, to $1.2220 per pound. The survey of 500-pound barrels (**adjusted to 38% moisture**) showed an increase of 15.01 cents to $1.2594 per pound.

The NASS butter price showed a net increase of 3.45 cents between the weeks ending July 11 and August 15 from $1.1736 per pound to $1.2081 per pound.

The NASS nonfat dry milk showed a net increase of 2.34 cents since mid-July to $0.8684 per pound. The average price for NASS whey showed a net increase of 0.52 cents since mid-July to $0.2978 per pound. ♦

SEPTEMBER'S CLASS I PRICE ANNOUNCEMENT

On August 21, the September 2009 Class I price was announced at $12.83 for the Pacific Northwest Order and $13.28 for the Arizona Order. The Class I price was calculated using NASS commodity price surveys from the weeks of August 8 and 15.

The September Class III and IV advance skim prices are $6.74 and $6.25 per hundredweight, respectively. The butterfat portion of the Class I mover increased 4.97 cents from $1.2149 to $1.2646 per pound.

The September 2009 Class II skim and nonfat solids prices were also announced on August 21. The skim price is $6.95 per hundredweight, and the nonfat solids price is $0.7722 pound for all Federal orders. ♦

ADVANCED: NASS COMMODITY PRICES FOR CLASS I PRICE CALCULATIONS

	August	September	Change
Cheese*	$1.1339	$1.2311	$0.0972
Butter	$1.1747	$1.2158	$0.0411
Nonfat Dry Milk	$0.8416	$0.8695	$0.0279
Whey	$0.2873	$0.2938	$0.0065

* The weighted average of barrels plus 3 cents and blocks.

AGRICULTURE SECRETARY VILSACK ANNOUNCES IMMEDIATE RELIEF FOR STRUGGLING DAIRY PRODUCERS

Agriculture Secretary Vilsack announced on July 31, 2009, that the Obama Administration is taking immediate action to support struggling dairy farmers by increasing the amount paid for dairy products through the Dairy Product Price Support Program (DPPSP). USDA estimates show that these increases, which will be in place from August 2009 through October 2009, will increase dairy farmers' revenue by $243 million.

"The Obama Administration is committed to pursuing all options to help dairy producers," said Vilsack. "The price increase announced today will provide immediate relief to dairy farmers around the country and keep many on the farm while they weather one of the worst dairy crises in decades."

The increase announced on July 31 raises the price paid for nonfat dry milk from $0.80 per pound to $0.92 per pound, the price paid for cheddar blocks from $1.13 per pound to $1.31 per pound, and the price of cheddar barrels from $1.10 per pound to $1.28 per pound. This increase in the support price will have an immediate effect upon dairy farmers' bottom line. Temporarily raising the price of these dairy products increases the price that dairy farmers receive for their milk.

USDA estimates that this announcement is expected to increase the all milk price received by dairy producers. The increase will result in the government purchase of an additional 150 million pounds of non-fat dry milk (NDM) and an additional 75 million pounds of cheese.

Prior to this announcement, USDA had taken several steps to provide support for dairy farmers, including the following:

- In March, USDA transferred approximately 200 million pounds of nonfat dry milk to USDA's Food and Nutrition Service, which will not only remove inventory from the market, but also support low-income families struggling to put nutritious food on their tables.
- USDA expects to spend more than $1 billion in fiscal year 2009 on purchases of dairy products (Dairy Product Price Support Program) and payments to producers (Milk Income Loss Contract (MILC).
- On March 22, 2009, USDA reactivated USDA's Dairy Export Incentive Program (DEIP), to help U.S. dairy exporters meet prevailing world prices in addition to encouraging the development of international export markets in areas where U.S. dairy products are not competitive due to subsidized dairy products from other countries.
- Since March 22, USDA has encouraged the export of 20,000 tons of nonfat dry milk.
- From July 2008 through June 30, 2009, DEIP has announced allocations of 68,201 metric tons of nonfat dry milk; 21,097 metric tons of butterfat; 3,030 metric tons of various cheeses and 34 metric tons of other dairy products.
- USDA is working with the Department of State to identify foreign assistance programs such as U.S. Agency for International Development (USAID) and McGovern-Dole International Food for Education and Child Nutrition Program to make the following available:
    - At least one million pounds on a competitive basis, for the production of casein;
    - About 500,000 pounds for use in the McGovern-Dole International Food for Education and Child Nutrition Program; and
    - About one million pound for use by the U.S. Agency for International Development, based on anticipated requests from the State Department.
- USDA is currently reviewing federal dairy policy to determine what changes are needed to reduce price volatility and enhance farmer profitability. ♦

Source: Release No. 0355.09, *NEWS RELEASE*, USDA Office of Communications, July 2009

AMBER WAVES: CONSUMERS SHOW STRONG BRAND LOYALTY IN CHEESE PURCHASES

Consumers' brand loyalty and desire for brand varieties play an important role in the demand for food products and the profitability of U.S. food marketing firms. Firms use brand introduction as a key strategy to attract new consumers and to retain current consumers with original brands, thereby improving the firms' market shares.

Fluctuating food prices, however, may cause consumers to forego brand loyalty and choose less expensive store or generic products. Economic Research Service (ERS) and university researchers used household data from ACNielsen Homescan Surveys from 1998 to 2003 to investigate U.S. consumers' brand loyalty for Cheddar, shredded, and sliced American cheese.

The study results indicate that, in general, strong brand habits seem to override the effects of changing prices on consumers' cheese purchases. Researchers used brand and store information along with households' demographics (size, education, income) to examine consumers' brand choices. The study analyzed households from four U.S. regions—Northeast, Central, Southeast, and West—to identify regional patterns of brand loyalty and switching in cheese purchases.

Consumers appear to have strong brand loyalty when purchasing Cheddar, shredded, or sliced American cheese. Some regional differences in brand loyalty were observed, but the study showed little evidence of brand switching. Consumers' current choices appear to be driven mainly by past brand purchases. In some instances, brand-loyal households even appear to switch among retail stores to purchase their desired brand. A larger selection of brands or varieties does not induce greater price sensitivity among U.S. consumers.

However, brand loyalty appears to decrease over time. Two consecutive purchases made 8 weeks apart show less brand loyalty than such purchases within a 4-week period. Thus, brand loyalty depends on not only frequency of purchases but also time elapsed between consecutive purchases (memory), which likely explains marketing strategies such as coupons with expiration dates. When brand switching occurs, it appears to be within the top two or three brands in each of the three types of cheese for all four regions.

These findings are drawn from "Brand Inertia in U.S. Household Cheese Consumption," by Carlos Arnade, Munisamy Gopinath, and Daniel Pick, *American Journal of Agricultural Economics*, Vol. 90, Issue 3, August 2008, pp. 813-826. ♦

Source: *Amber Waves*, June 2009, Economic Research Service, USDA.

Photo courtesy of the National Dairy Council ©

WASHINGTON DAIRY PRODUCTS COMMISSION HOSTS NEW WEBSITE: A KEY INGREDIENT

The Washington Dairy Products Commission has launched a new website, www.akeyingredient.com, that spotlights the Washington State dairy industry. According to the website, "Washington is a unique and special place because of the different contributions of its residents. Washington's dairy farm families are among those key ingredients that make our state such a great place to live." The commission invites viewers to "Learn more about the Washington way of dairying" through the links and features available on the site.

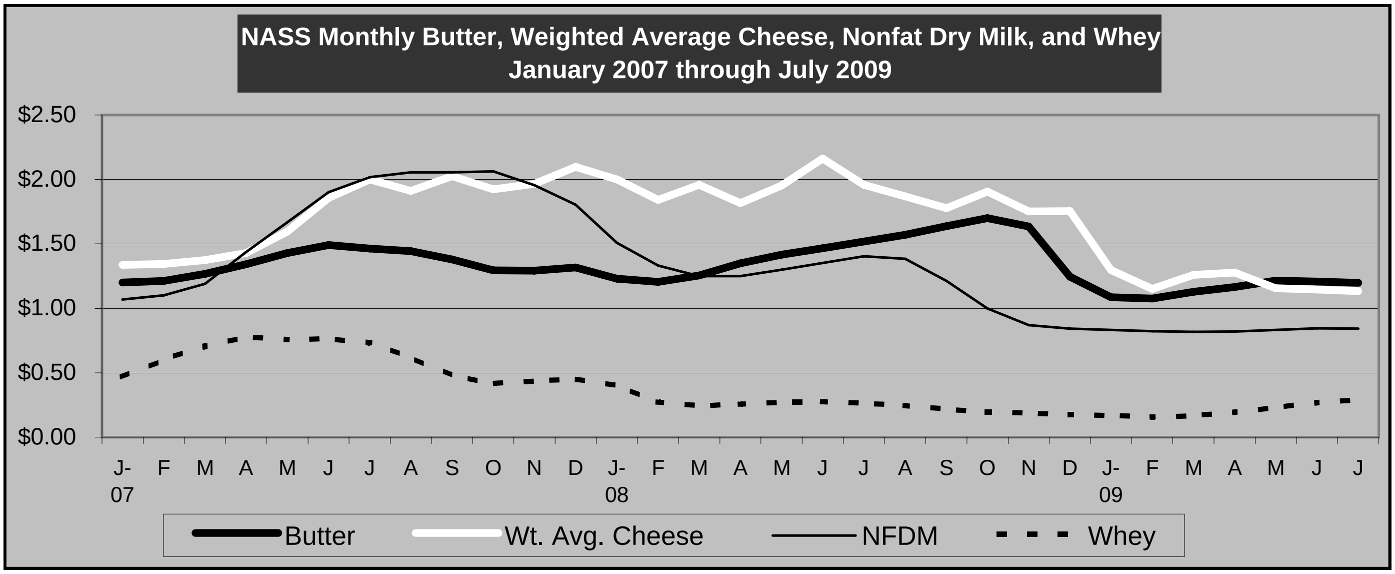
The main features on A Key Ingredient include:

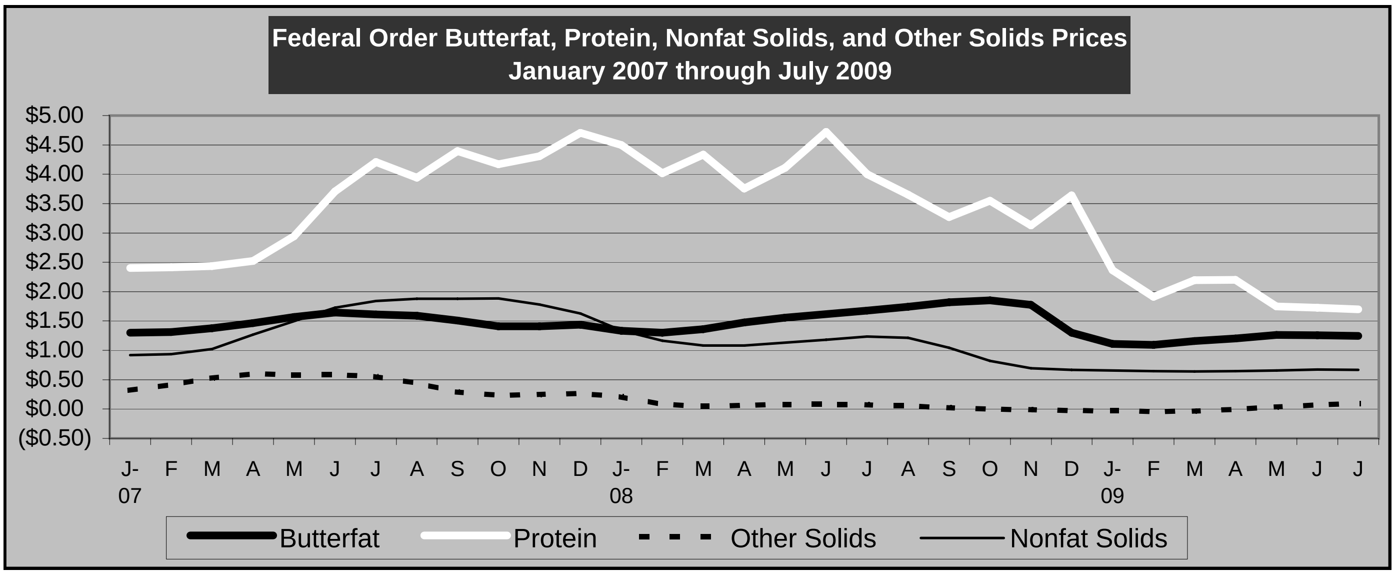
- **All About Milk** – includes descriptions and nutritional content for milk, cheese, and yogurt along with recipes, product safety information, and a brief explanation of dairy prices,
- **On the Farm** - this section has three parts: Cow Care, Sustaining the Land, and a Washington Farmer Spotlight. The spotlight currently has a selection of audio recordings of dairy farmers and others discussing Washington's dairies; videos are scheduled to be added soon,
- **Beyond the Farm** – discusses a range of topics including the economic impact and environmental sustainability of dairying, activities of The Dairy Farmers of Washington in the community, and the history of Washington's dairy farming, and
- **News & Events** - this section has links to a variety of media articles. ♦

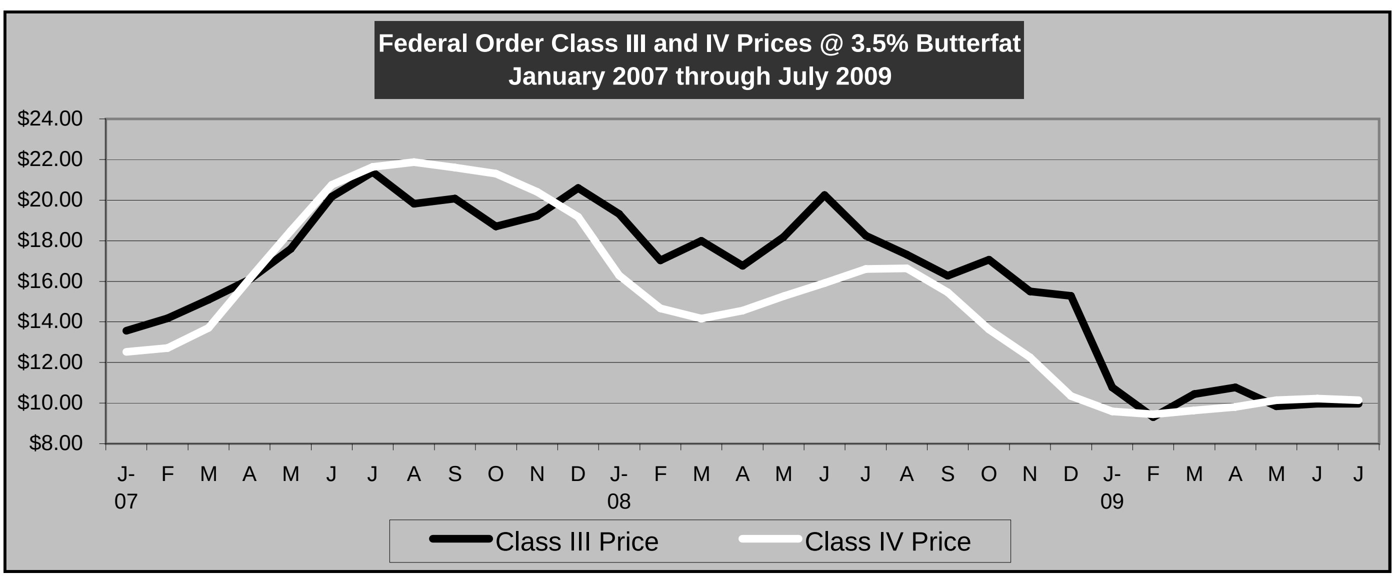
MILK INCOME LOSS CONTRACT PROGRAM FISCAL YEAR RESTARTS SOON

The Milk Income Loss Contract (MILC) Program's 2010 fiscal year will begin on October 1, 2009. Dairy operations can obtain more information on MILC at Farm Service Agency (FSA) county offices and online at: www.fsa.usda.gov; click on Price Support.

The Food, Conservation, and Energy Act of 2008 (2008 Farm Bill) reauthorized the MILC Program through September 30, 2012. The USDA FSA's MILC Program supports the dairy industry by providing direct counter-cyclical style payments to milk producers on a monthly basis when the Boston Federal Milk Marketing Order Class I price for fluid milk falls below the benchmark of $16.94 per hundredweight (cwt.). The 2008 Farm Bill changed the $16.94 per cwt of milk trigger for MILC payments to a variable trigger that may be adjusted monthly for variations in feed costs above $7.35 per cwt of a 16-percent protein feed ration. Monthly MILC payment rates will be determined and payments issued to eligible dairy operations when the Boston Class I price falls below the feed-cost-adjusted trigger. Certain per year, per operation eligibility pound limits also apply. ♦


NASS Monthly Butter, Weighted Average Cheese, Nonfat Dry Milk, and Whey
January 2007 through July 2009
$2.50
$2.00
$1.50
$1.00
$0.50
$0.00
J-07 F M A M J J A S O N D J-08 F M A M J J A S O N D J-09 F M A M J J
Butter
Wt. Avg. Cheese
NFDM
Whey


Federal Order Butterfat, Protein, Nonfat Solids, and Other Solids Prices
January 2007 through July 2009
$5.00
$4.50
$4.00
$3.50
$3.00
$2.50
$2.00
$1.50
$1.00
$0.50
$0.00
($0.50)
J-07 F M A M J J A S O N D J-08 F M A M J J A S O N D J-09 F M A M J J
Butterfat
Protein
Other Solids
Nonfat Solids


Federal Order Class III and IV Prices @ 3.5% Butterfat
January 2007 through July 2009
$24.00
$22.00
$20.00
$18.00
$16.00
$14.00
$12.00
$10.00
$8.00
J-07 F M A M J J A S O N D J-08 F M A M J J A S O N D J-09 F M A M J J
Class III Price
Class IV Price

MONTHLY SELECTED STATISTICS

Minimum Class Prices (3.5% B.F.)	PACIFIC NORTHWEST Jul 2009	Jun 2009	Jul 2008	Jun 2008	ARIZONA Jul 2009	Jun 2009	Jul 2008	Jun 2008
Class I Milk ($/cwt.)	$12.16	$11.98	$22.68	$20.08	$12.61	$12.43	$23.13	$20.53
Class II Milk ($/cwt.)	10.87	10.79	16.81	16.19	10.87	10.79	16.81	16.19
Class III Milk ($/cwt.)	9.97	9.97	18.24	20.25	9.97	9.97	18.24	20.25
Class IV Milk ($/cwt.)	10.15	10.22	16.60	15.92	10.15	10.22	16.60	15.92
Producer Prices								
Producer Price Differential ($/cwt.)	$ 0.77	$ 0.73	$ 0.70	$(2.22)	+	+	+	+
Butterfat ($/pound)	1.2438	1.2544	1.6774	1.6160	+	+	+	+
Protein ($/pound)	1.6970	1.7283	4.0025	4.7193	+	+	+	+
Other Solids ($/pound)	0.0949	0.0723	0.0707	0.0826	+	+	+	+
Uniform Skim Price ($/cwt.) . . .	+	+	+	+	6.95	6.78	13.95	13.48
Uniform Butterfat Price ($/pound)	+	+	+	+	1.2561	1.2601	1.6710	1.6127
Statistical Uniform Price ($/cwt.) . .	$10.74	$10.70	$18.94	$18.03	$11.10	$10.95	$19.31	$18.65
Producer Data								
Number of Producers	657 *	656	677	525	97 *	97	100	101
Avg. Daily Production (lbs.) . . .	33,671 *	34,074	31,709	32,145	101,116 *	115,226	105,917	116,582
Producer Milk Ratios								
Class I	27.39%	26.86%	27.06%	34.48%	38.47%	33.18%	32.04%	29.94%
Class II	6.57%	6.41%	7.10%	8.89%	9.14%	9.45%	6.86%	6.56%
Class III	43.23%	43.10%	32.59%	13.40%	28.87%	30.45%	32.50%	30.37%
Class IV	22.81%	23.63%	33.25%	43.23%	23.52%	26.92%	28.60%	33.13%

+ Not Applicable. * Preliminary.

MONTHLY SUPPLEMENTAL STATISTICS

Number of Handlers	Jun 2009	May 2009	Jun 2008	May 2008	Jun 2009	May 2009	Jun 2008	May 2008
Pool Handlers	28	28	24	24	7	7	7	7
Distributing Plants	*15*	*15*	*15*	*15*	*5*	*5*	*5*	*5*
Supply Plants 2/	*8*	*8*	*4*	*4*	*1*	*1*	*1*	*1*
Cooperatives	*5*	*5*	*5*	*5*	*1*	*1*	*1*	*1*
Producer-Handlers	6	6	6	6	0	0	1	1
Other Plants w/ Class I Use . . .	23	23	23	24	25	26	24	24
Class I Route Disposition In Area								
By Pool Plants	162,891,451	168,966,547	158,330,803	171,126,713	88,521,848	93,055,190	85,230,837	95,413,409
By Producer-Handlers	6,939,576	6,832,290	6,395,521	7,087,282	0	0	1/	1/
By Other Plants	7,693,982 *	7,066,392	6,453,087	5,816,684	4,546,358 *	4,719,720	5,110,000	4,846,567
Total	177,525,009	182,865,229	171,179,411	184,030,679	93,068,206	97,774,910	90,340,837	100,259,976
Producer-Handler Data								
% Class I Use	84.08%	79.01%	79.82%	80.28%	0.00%	0.00%	R	R
% of Total In-Area Route Dispositions	3.91%	3.74%	3.74%	3.85%	0.00%	0.00%	R	R

* Preliminary. R = Restricted. Not included. 1/ Restricted. Included with other plants. 2/ Includes Cooperative Pool Manufacturing Plants

MONTHLY STATISTICAL SUMMARY

(Product pounds based upon reports of handlers)

RECEIPTS, UTILIZATION AND CLASSIFICATION OF MILK	PACIFIC NORTHWEST				ARIZONA			
	Jul 2009	Jun 2009	Jul 2008	Jun 2008	Jul 2009	Jun 2009	Jul 2008	Jun 2008
TOTAL PRODUCER MILK	684,740,839	670,568,357	665,480,122	506,281,028	304,057,165	335,307,590	328,341,775	353,243,354
RECEIPTS FROM OTHER SOURCES	21,025,003	23,184,886	47,705,735	37,563,789	5,337,846	14,772,939	29,777,467	23,271,905
OPENING INVENTORY	31,839,415	35,627,978	31,768,627	31,220,717	20,041,380	20,610,292	27,344,633	21,073,834
TOTAL TO BE ACCOUNTED FOR	737,605,257	729,381,221	744,954,484	575,065,534	329,436,391	370,690,821	385,463,875	397,589,093
UTILIZATION OF RECEIPTS								
Whole milk	34,141,234	31,784,777	31,975,068	30,926,967	25,806,866	24,672,649	23,875,846	24,002,699
Flavored milk & milk drinks	7,128,406	9,475,631	6,836,982	9,087,195	2,791,313	2,822,382	2,070,853	2,567,993
2% milk	69,350,616	66,913,686	67,459,317	65,421,008	37,962,156	36,303,302	34,556,739	35,036,421
1% milk	25,370,691	26,006,569	24,350,713	24,057,595	13,390,789	12,547,234	11,305,159	11,251,397
Skim milk	28,062,766	27,362,484	27,204,004	27,471,967	12,536,033	11,781,611	11,575,579	11,933,264
Buttermilk	1,399,308	1,348,304	1,554,106	1,366,071	386,949	394,670	402,387	439,063
CLASS I ROUTE DISP. IN AREA . .	165,453,021	162,891,451	159,380,190	158,330,803	92,874,106	88,521,848	83,786,563	85,230,837
Class I dispositions out of area . . .	18,285,440	16,483,397	17,622,408	16,210,117	22,817,881	22,161,198	21,628,341	21,294,504
Other Class I usage	17,596,045	14,017,970	17,417,935	15,820,522	12,592,847	11,552,340	11,179,805	11,516,477
TOTAL CLASS I USE	201,334,506	193,392,818	194,420,533	190,361,442	128,284,834	122,235,386	116,594,709	118,041,818
TOTAL CLASS II USE	54,378,789	53,120,198	54,610,492	50,448,966	28,630,643	32,494,187	23,453,220	23,946,636
TOTAL CLASS III USE	299,740,393	292,009,191	225,672,534	67,855,795	89,848,503	103,159,266	106,702,508	107,267,981
TOTAL CLASS IV USE	182,151,569	190,859,014	270,250,925	266,399,331	82,672,411	112,801,982	138,713,438	148,332,658
TOTAL ACCOUNTED FOR	737,605,257	729,381,221	744,954,484	575,065,534	329,436,391	370,690,821	385,463,875	397,589,093
CLASSIFICATION OF RECEIPTS								
Producer milk: Class I . .	187,559,314	180,114,694	180,104,869	174,567,798	116,963,300	111,247,907	105,225,696	105,768,769
Class II .	44,996,753	42,983,484	47,253,260	44,991,431	27,803,857	31,690,024	22,513,029	23,175,126
Class III .	296,011,535	289,022,090	216,856,175	67,845,118	87,768,347	102,106,748	106,700,689	107,267,981
Class IV .	156,173,237	158,448,089	221,265,818	218,876,681	71,521,661	90,262,911	93,902,361	117,031,478
Other receipts: Class I .	13,775,192	13,278,124	14,315,664	15,793,644	11,321,534	10,987,479	57,122,100	44,345,739
Class II .	9,382,036	10,136,714	7,357,232	5,457,535	2/	2/	1/	1/
Class III .	3,728,858	2,987,101	8,816,359	10,677	2/	2/	1/	1/
Class IV .	25,978,332	32,410,925	48,985,107	47,522,650	14,057,692	24,395,752	1/	1/
Avg. daily producer receipts	22,088,414	22,352,279	21,467,101	16,876,034	9,808,296	11,176,920	10,591,670	11,774,778
Change From Previous Year . .	2.89%	32.45%	12.88%	-12.28%	-7.40%	-5.08%	5.75%	9.40%
Avg. daily Class I use	6,494,661	6,446,427	6,271,630	6,345,381	4,138,220	4,074,513	3,761,120	3,934,727
Change From Previous Year . .	3.56%	1.59%	0.57%	-2.49%	10.03%	3.55%	-2.51%	-2.33%

1/ Restricted - Included with Class I.
2/ Restricted - Included with Class IV.

HIGHLIGHTS THIS ISSUE:

DAIRY COUNCILS LAUNCH *FUEL UP TO PLAY* PROGRAM FOR 2009-2010 SCHOOL YEAR

The National Dairy Council © and your local Dairy Council © have huddled up with the National Football League to help America's students eat right and stay active with Fuel Up to Play! Previously known as Do Amazing Things, this comprehensive program focuses on empowering kids to make smart choices about their nutrition and physical activity.

As part of this initiative, the Dairy Councils are offering a free Fuel Up to Play Wellness Activation kit. The kit targets grades 4-10 and includes display materials and wellness-based activities that inspire kids to "get up and play" for 60 minutes a day and to "fuel up" with the food groups kids don't get enough of – low-fat and fat-free dairy foods, fruits, vegetables, and whole grains.

For more details on the program, request a kit for your school, view monthly e-news updates, or download wellness tools, visit the Fuel Up to Play website at www.SchoolWellnessKit.org. ♦

Source: School Wellness Kit's "Info Flyer" available via the following link:
http://www.schoolwellnesskit.org/futp/pdf/InfoFlyer.pdf