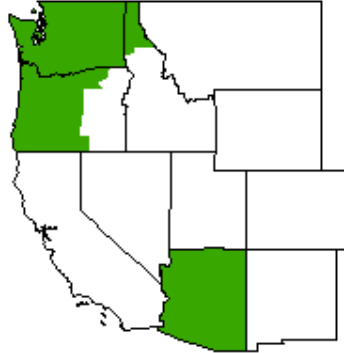


Pacific Northwest & Arizona Marketing Areas



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September 2008

MARKET SUMMARIES FOR AUGUST 2008

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

Pacific Northwest

Producers delivered a total of 658.9 million pounds of milk to the market during August. Daily deliveries averaged 21.3 million pounds, down 1.0 percent from July. An estimated 677 producers delivered milk to the market during the month. Daily deliveries per producer averaged 31,395 pounds, down 1.0 percent from July.

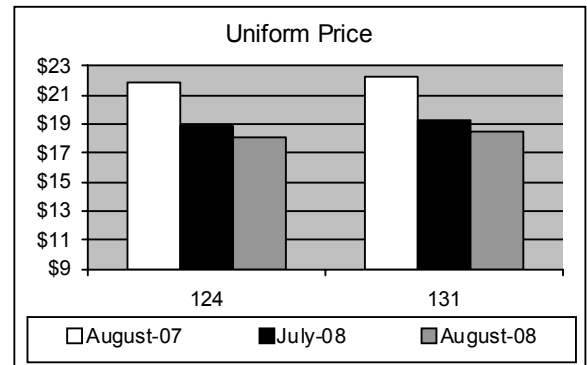
Class I producer milk during August totaled 184.9 million pounds, 28.1 percent of total producer receipts. Daily usage averaged 6.0 million pounds, up 2.7 percent from July.

Arizona

Producers delivered a total of 318.6 million pounds of milk to the market during August. Daily deliveries averaged 10.3 million pounds, down 3.0 percent from July. An estimated 100 producers delivered milk to the market during the month. Daily

deliveries per producer averaged 102,772 pounds, down 3.0 percent from July.

Class I producer milk during August totaled 116.9 million pounds, 36.7 percent of total producer receipts. Daily usage averaged 3.8 million pounds, up 11.1 percent from July. ♦



Federal Order Producer Prices and Component Levels: August 2008

Producer Prices	FO124	FO131	Component Levels (%)	FO124	FO131
Uniform Price 1/*	18.03	18.50	Butterfat	3.576	3.511
Butterfat 2/	1.7413	1.73520	Protein	3.029	N/A
Protein 2/	3.6497	N/A	Other Solids	5.716	N/A
Other Solids 2/	0.0529	N/A	Nonfat Solids	8.745	N/A
PPD 1/*	0.71	N/A			
Skim 1/	N/A	12.88			

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

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AUGUST 2008 CLASS PRICES

August 2008 non-advanced Class Prices were calculated using NASS commodity price surveys from August 2, 9, 16, 23 and 30, 2008. Component prices for the month are \$3.6497 per pound of protein, \$1.7413 per pound of butterfat, \$0.0529 per pound of other solids, and \$1.2147 per pound of nonfat solids.

August 2008 Class III and IV prices at 3.5% butterfat are \$17.32 and \$16.64 per hundredweight, respectively. The August Class III price compared to July is down \$0.92. The Class III price is \$2.51 lower than in August 2007. The Class III price at 3.67% butterfat is \$7.69 above the support price of \$9.90 at 3.67% butterfat.

Class II butterfat was announced at \$1.7483 per pound. Class I skim and butterfat and Class II skim prices for August 2008 were announced on July 18, 2008. The Class II price at 3.5% butterfat is \$17.45 for August 2008.

FINAL: NASS COMMODITY PRICES

	<u>July</u>	<u>August</u>	<u>Change</u>
Cheese*	\$1.9585	\$1.8699	-\$0.0886
Butter	\$1.5180	\$1.5713	\$0.0533
Nonfat Dry Milk	\$1.4053	\$1.3840	-\$0.0213
Whey	\$0.2642	\$0.2470	-\$0.0172

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

Current Commodity Prices - - The NASS survey of cheddar cheese prices showed a decrease in price received for 40-pound blocks and a net decrease for 500-pound barrels. The survey of 40-pound blocks showed a decrease of 18.35 cents between the August 16 and the September 13 surveys, to \$1.7176 per pound. The survey of 500-pound barrels (adjusted to 38% moisture) showed a net decrease of 8.45 cents to \$1.7092 per pound.

The NASS butter price showed a net increase of 1.27 cents between the weeks ending August 16 and September 13 from \$1.6015 per pound to \$1.6142 per pound.

The NASS nonfat dry milk showed a net decrease of 14.81 cents since mid-August to \$1.2130 per pound. The average price for NASS whey showed a decrease of 2.45 cents since mid-August to \$0.2215 per pound. ♦

OCTOBER'S CLASS I PRICE ANNOUNCEMENT

SPECIAL NOTE: The manufacturing allowances and butterfat yield factor used to compute the Federal order minimum advance Class I prices and Class II nonfat solids and skim milk prices and pricing factors in this announcement, as well as future Class I and Class II prices and pricing factors, and Federal order minimum prices for Class III and Class IV milk marketed on or after October 1, 2008, will be the revised manufacturing allowances and butterfat yield factor contained in the Interim Final Rule published in the Federal Register on July 31, 2008 (73 FR 44617).

(Please see page 8 for more details on the delay of the effective date of Class III and IV manufacturing cost allowances and butterfat yield factor).

Source: Dairy Programs, AMS, USDA

On September 23, the October 2008 Class I price was announced at \$17.43 for the Pacific Northwest Order and \$17.88 for the Arizona Order. The Class I price was calculated using NASS commodity price surveys from the weeks of September 6 and 13.

The October Class III and IV advance skim prices are \$9.71 and \$9.76 per hundredweight, respectively. The butterfat portion of the Class I mover increased 0.40 cent from \$1.7411 to \$1.7451 per pound.

The October 2008 Class II skim and nonfat solids prices were also announced on September 23. The skim price is \$10.46 per hundredweight, and the nonfat solids price is \$1.1622 per pound for all Federal orders. ♦

ADVANCED: NASS COMMODITY PRICES FOR CLASS I PRICE CALCULATIONS

	<u>Sept.</u>	<u>Oct.</u>	<u>Change</u>
Cheese*	\$1.9041	\$1.7279	-\$0.1762
Butter	\$1.5711	\$1.6125	\$0.0414
Nonfat Dry Milk	\$1.3790	\$1.2628	-\$0.1162
Whey	\$0.2487	\$0.2241	-\$0.0246

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

2008 FARM BILL SIDE-BY-SIDE COMPARISONS

Detailed below is a side-by-side comparison of the new farm bill with previous legislation. Summarized but substantive, it offers a time-saving reference to farm bill provisions. In addition to key provisions and details by Title, the side-by-side includes references to related ERS publications and to analyses of previous farm acts. New features include a user's guide, an A-Z list of major provisions, and a search function.

This side-by-side is not a complete digest of all provisions in the new Farm Bill, nor does it include every element within covered key provisions. Users needing a comprehensive list of provisions or the specific language of a particular provision are encouraged to download the 2008 Farm Bill. ♦

Source: Economic Research Service, USDA

Previous Legislation	2008 Farm Bill
Federal Milk Marketing Orders	
Continued 11 Federal milk marketing orders. Western Federal milk marketing order was terminated, effective April 1, 2004.	Continues Federal milk marketing orders.
No similar provision.	Not later than 60 days after enactment of 2008 Act, Secretary must issue, using informal rulemaking, supplemental rules of practice to define and revise guidelines and timeframes for amending marketing orders.
No similar provision.	Subject to availability of appropriations, a Federal Milk Marketing Order Review Commission, consisting of 14 members, must be established to conduct a comprehensive review and evaluation of the current Federal milk marketing order system and non-Federal milk marketing order systems. Within 2 years following first meeting of commission, commission must submit a report to Secretary and Congress.
Dairy Indemnity Program	
Authorized Secretary to make indemnity payments to dairy farmers who were directed to remove milk from the market due to presence of chemical residues.	Reauthorizes program.
Mandatory Reporting of Dairy Commodities	
No similar provision.	Subject to availability of funds, requires Secretary to establish an electronic reporting system for mandatory reporting of dairy commodities information. These reports are to be audited quarterly.
Dairy Forward Pricing Program	
Consolidated Appropriations Act of 2000 amended Agricultural Marketing Agreement Act of 1937 to mandate implementation of a Dairy Forward Pricing Pilot Program through Dec 31, 2004. Required Secretary to study the program to determine effects of forward pricing on milk prices paid to producers in the U.S. (See <i>A Study of the Dairy Forward Pricing Pilot Program and Its Effect on Prices Paid Producers for Milk and Economic Effects of U.S. Dairy Policy.</i>)	Establishes permanent program under which milk producers and cooperative associations of producers are authorized to enter voluntarily into forward price contracts with milk handlers. A milk handler may not require participation in a forward price contract as a condition of accepting milk from a producer or cooperative. A producer or cooperative association that does not enter into a forward price contract may continue to have milk priced under the minimum payment provisions of the applicable milk marketing order. No forward price contract under this section may be entered into after Sept. 30, 2012 or extend beyond Sept. 30, 2015.

Previous Legislation	2008 Farm Bill
Price Support	
<p>Secretary to support price of milk in 48 contiguous States. Minimum support price for milk was fixed at \$9.90/cwt for milk containing 3.67% butterfat. Support was maintained through government purchases of butter, nonfat dry milk, and cheese. Secretary could distribute price support between nonfat dry milk and butter in a way that minimized CCC expenditures. Authority to adjust support prices for butter and nonfat dry milk was limited to twice per calendar year.</p>	<p>Dairy price support is provided through purchases of specific products at specific prices.</p> <p>Secretary must purchase:</p> <ul style="list-style-type: none"> ● cheddar cheese in blocks at not less than \$1.13/lb ● cheddar cheese in barrels at not less than \$1.10/lb ● butter at not less than \$1.05/lb ● nonfat dry milk at not less than \$0.80/lb <p>Prices Secretary pays for cheese, butter, or nonfat dry milk must be uniform for all U.S. regions.</p> <p>Secretary may make purchase price adjustments in order to manage inventories held by CCC. Permissible quantities and duration of price adjustments are specified.</p> <p>Commodities purchased by CCC can be sold back to industry at market prices prevailing for that commodity at the time of sale. The sell-back price may not be less than 110% of specified minimum purchase price for the commodity being sold back for unrestricted use.</p>
Dairy Export Incentive Program (DEIP)	
<p>Extended DEIP to 2007. Secretary was required to authorize subsidies sufficient to export maximum volume of dairy products allowable under <u>Uruguay Round-GATT</u> (UR-GATT), subject to UR-GATT (later World Trade Organization) funding limits. DEIP was to be used for market development purposes.</p>	<p>Extends DEIP, with added emphasis on maximum use of program consistent with U.S. multilateral trade agreement obligations.</p>
Studies of Dairy Policy and Marketing Orders	
<p>Required Secretary to conduct studies of effects of changes in national dairy policy and fluid milk identity standards:</p> <ul style="list-style-type: none"> ● address effects of terminating milk price support and supply management programs, and impacts of cooperative efforts with States to manage milk prices and supplies (see <i>Economic Effects of U.S. Dairy Policy</i>) ● assess effects of requiring a minimum protein content for fluid milk commensurate with average nonfat solids content of bovine milk (see <i>Raising the Minimum Nonfat Solids Standard to the National Average in Raw Milk: A Study of Fluid Milk Identity Standards</i>) 	<p>Within 90 days, Secretary must submit to House Committee on Agriculture and Senate Committee on Agriculture, Nutrition, and Forestry a report on USDA procedures for reporting nonfat dry milk prices and the impact of these procedures on Federal milk marketing order minimum prices during period July 1, 2006 to date of enactment of 2008 Act.</p>
National Dairy Promotion and Research Program	
<p>Amended NDPRP authorizing language (Dairy Production and Stabilization Act of 1983) to require assessment and collection of a payment at rate of \$0.15/cwt for imported dairy products. However, USDA did not implement the import assessment.</p>	<p>Extends programs with revisions:</p> <ul style="list-style-type: none"> ● changes "definition" of the U.S. to include the 50 States, Puerto Rico, and District of Columbia ● authorizes expenditures to develop foreign markets ● authorizes assessment and collection of a payment on imported dairy products at a rate of \$0.075/cwt under regulations determined by Secretary
<p>Extended NFMPPP authorization (Fluid Milk Promotion Act of 1990).</p>	<p>Retains provision.</p>

Previous Legislation	2008 Farm Bill
<i>Milk Income Loss Contract (MILC) Payments</i>	
<p>Established a milk income loss contract (MILC) payments program. Producers entered into contracts ending on Sept. 30, 2005. A qualifying dairy farm operator could receive a monthly direct payment when monthly Class I price in Boston (Federal Marketing Order 1) was less than \$16.94/cwt.</p> <p>Agricultural Reconciliation Act of 2005 reauthorized the program through Sept. 30, 2007. Extended program period was called MILCX. Payment-rate-calculation provisions stopped any possible payments 1 month short, at the end of Aug., terminating the program at that time.</p> <p>Supplemental Appropriations for Defense, International Affairs, and Other Security-Related Needs Act of 2007 amended provision to remove the 1-month zero-payment rate.</p>	<p>Continues program through Sept. 30, 2012.</p>
<p>Payment rate was 45% of difference between \$16.94/cwt and Class I price in the Boston milk marketing order for the applicable month. 2002 Act amended to reduce payment rate to 34% of difference.</p>	<p>Defines payment rate for 3 specific periods:</p> <ul style="list-style-type: none"> • From Oct. 1, 2007-Sept. 30, 2008, 34% of difference between \$16.94/cwt (as adjusted) and Class I price in the Boston milk marketing order for the applicable month • From Oct. 1, 2008-Aug. 31, 2012, 45% of difference between \$16.94/cwt (as adjusted) and Class I price in the Boston milk marketing order for the applicable month • For period starting Sept. 1, 2012 and thereafter, 34% of difference between \$16.94/cwt (as adjusted) and Class I price in the Boston milk marketing order for the applicable month <p>The \$16.94 price will be adjusted by percentage that National Average Dairy Feed Rations Cost exceeds \$7.35/cwt for any month for period from Jan. 1, 2008-Aug. 31, 2012. Target cost of feed rations increases to \$9.50/cwt beginning Sept. 1, 2012.</p>
<p>Producers, on an operation-by-operation basis, could receive payments on no more than 2.4 million lbs of milk marketed per year. Producers could not reorganize dairy operations for sole purpose of receiving additional payment. Payment quantity for a producer equaled quantity of eligible production marketed by producer during the month.</p>	<p>Specifies cap on milk marketed that is eligible for payments for 3 specific periods:</p> <ul style="list-style-type: none"> • For Oct. 1, 2007-Sept. 30, 2008, 2.4 million lbs for the fiscal year • For Oct. 1, 2008-Aug 31., 2012, 2.985 million lbs for each fiscal year • Beginning Sept. 1, 2012, 2.4 million lbs for each fiscal year

MONTHLY SELECTED STATISTICS

6

Minimum Class Prices (3.5% B.F.)	PACIFIC NORTHWEST				ARIZONA 2/			
	Aug 2008	Jul 2008	Aug 2007	Jul 2007	Aug 2008	Jul 2008	Aug 2007	Jul 2007
Class I Milk (\$/cwt.)	\$20.37	\$22.68	\$23.66	\$22.81	\$20.82	\$23.13	\$24.11	\$23.26
Class II Milk (\$/cwt.)	17.45	16.81	22.41	21.40	17.45	16.81	22.41	21.40
Class III Milk (\$/cwt.)	17.32	18.24	19.83	21.38	17.32	18.24	19.83	21.38
Class IV Milk (\$/cwt.)	16.64	16.60	21.87	21.64	16.64	16.60	21.87	21.64
Producer Prices								
Producer Price Differential (\$/cwt.)	\$ 0.71	\$ 0.70	\$ 2.01	\$ 0.60	+	+	+	+
Butterfat (\$/pound)	1.7413	1.6774	1.5872	1.6110	+	+	+	+
Protein (\$/pound)	3.6497	4.0025	3.9412	4.2068	+	+	+	+
Other Solids (\$/pound)	0.0529	0.0707	0.4368	0.5534	+	+	+	+
Uniform Skim Price (\$/cwt.)	+	+	+	+	12.88	13.95	17.23	16.98
Uniform Butterfat Price (\$/pound)	+	+	+	+	1.7352	1.6710	1.5980	1.6300
Statistical Uniform Price (\$/cwt.) . .	\$18.03	\$18.94	\$21.84	\$21.98	\$18.50	\$19.31	\$22.22	\$22.09
Producer Data								
Number of Producers	677 *	677	689	689	100 *	100	93	93
Avg. Daily Production (lbs.)	31,395 *	31,709	27,945	27,602	102,772 *	105,917	100,531	107,701
Number of Handlers								
Pool Handlers	27	27	26	27	7	7	7	7
Producer-Handlers	6 *	6	5	6	1 *	1	1	1
Other Plants w/ Class I Use	23 *	23	25	25	25 *	25	21	22
Producer Milk Ratios								
Class I	28.05%	27.06%	31.50%	30.10%	36.70%	32.04%	41.01%	34.41%
Class II	7.13%	7.10%	7.23%	7.56%	6.57%	6.86%	11.13%	10.93%
Class III	31.63%	32.59%	31.12%	31.47%	31.91%	32.50%	31.27%	29.77%
Class IV	33.19%	33.25%	30.15%	30.87%	24.82%	28.60%	16.59%	24.89%

+ Not Applicable. * Preliminary.

MONTHLY SUPPLEMENTAL STATISTICS

Producer-Handler Data	Jul 2008	Jun 2008	Jul 2007	Jun 2007	Jul 2008	Jun 2008	Jul 2007	Jun 2007
Production	27,832,067	26,947,889	28,501,172	27,577,549	R	R	R	R
Class I Use	20,422,738	21,510,470	19,681,813	21,096,217	R	R	R	R
% Class I Use	73.38%	79.82%	69.06%	76.50%	R	R	R	R
Class I Route Disposition In Area								
By Pool Plants	159,380,190	158,330,803	157,206,751	158,663,825	83,786,563	85,230,837	86,756,493	88,683,183
By Producer-Handlers	6,732,554	6,395,521	6,481,648	6,422,022	1/	1/	1/	1/
By Other Plants	5,506,913 *	6,453,087	3,951,676	4,686,491	4,794,107 *	5,110,000	5,128,392	5,572,316
Total	171,619,657	171,179,411	167,640,075	169,772,338	88,580,670	90,340,837	91,884,885	94,255,499

* Preliminary. R = Restricted. Not included. 1/ Restricted. Included with other plants. 2/ Due to the implementation of the Milk Regulatory Equity Act of 2005, the name of Federal Order 131 changed from the "Arizona-Las Vegas Order" to the "Arizona Order" and Clark County, Nevada, was removed from the marketing area effective May 1, 2006.

MONTHLY STATISTICAL SUMMARY

(Product pounds based upon reports of handlers)

RECEIPTS, UTILIZATION AND CLASSIFICATION OF MILK	PACIFIC NORTHWEST				ARIZONA 2/				
	Aug 2008	Jul 2008	Aug 2007	Jul 2007	Aug 2008	Jul 2008	Aug 2007	Jul 2007	
TOTAL PRODUCER MILK	658,885,806	665,480,122	596,875,028	589,556,323	318,594,178	328,341,775	289,831,832	310,501,278	
RECEIPTS FROM OTHER SOURCES	38,358,351	47,705,735	40,973,174	45,331,284	13,731,449	29,777,467	28,089,859	23,280,003	
OPENING INVENTORY	31,450,171	31,768,627	33,400,935	31,438,273	19,856,829	27,344,633	19,561,559	20,834,593	
TOTAL TO BE ACCOUNTED FOR	728,694,328	744,954,484	671,249,137	666,325,880	352,182,456	385,463,875	337,483,250	354,615,874	
UTILIZATION OF RECEIPTS									
Whole milk	32,744,003	31,975,068	33,474,355	32,797,558	24,747,654	23,875,846	27,328,663	26,910,078	
Flavored milk & milk drinks	9,369,128	6,836,982	6,581,652	6,707,570	5,865,679	2,070,853	6,429,484	2,419,036	
2% milk	69,620,144	67,459,317	68,160,262	64,419,103	37,163,078	34,556,739	36,238,477	33,935,331	
1% milk	25,280,892	24,350,713	25,920,430	24,829,640	14,780,809	11,305,159	13,572,564	12,220,126	
Skim milk	28,095,094	27,204,004	27,914,877	26,971,719	11,776,689	11,575,579	12,664,580	10,816,360	
Buttermilk	1,413,935	1,554,106	1,563,036	1,481,161	436,288	402,387	484,547	455,562	
CLASS I ROUTE DISP. IN AREA.	166,523,196	159,380,190	163,614,612	157,206,751	94,770,197	83,786,563	96,718,315	86,756,493	
Class I dispositions out of area	19,850,682	17,622,408	19,990,569	17,933,449	22,657,293	21,628,341	22,373,811	21,321,256	
Other Class I usage	14,880,226	17,417,935	21,890,161	18,187,856	10,710,667	11,179,805	11,214,918	11,515,814	
TOTAL CLASS I USE.	201,254,104	194,420,533	205,495,342	193,328,056	128,138,157	116,594,709	130,307,044	119,593,563	
TOTAL CLASS II USE	51,878,749	54,610,492	50,966,746	51,365,963	21,559,681	23,453,220	33,235,990	34,909,442	
TOTAL CLASS III USE	216,334,590	225,672,534	202,693,752	203,990,378	101,664,824	106,702,508	93,499,752	93,598,323	
TOTAL CLASS IV USE	259,226,885	270,250,925	212,093,297	217,641,483	100,819,794	138,713,438	80,440,464	106,514,546	
TOTAL ACCOUNTED FOR	728,694,328	744,954,484	671,249,137	666,325,880	352,182,456	385,463,875	337,483,250	354,615,874	
CLASSIFICATION OF RECEIPTS									
Producer milk:	Class I	184,880,117	180,104,869	188,027,003	177,475,258	116,911,730	105,225,696	118,865,853	106,845,592
	Class II	46,947,387	47,253,260	43,174,783	44,567,579	20,943,708	22,513,029	32,255,253	33,924,751
	Class III	208,385,531	216,856,175	185,724,454	185,544,880	101,664,824	106,700,689	90,624,202	92,439,893
	Class IV	218,672,771	221,265,818	179,948,788	181,968,606	79,073,916	93,902,361	48,086,524	77,291,042
Other receipts:	Class I	16,373,987	14,315,664	17,468,339	15,852,798	33,588,278	57,122,100	47,651,418	44,114,596
	Class II	4,931,362	7,357,232	7,791,963	6,798,384	1/	1/	1/	1/
	Class III	7,949,059	8,816,359	16,969,298	18,445,498	1/	1/	1/	1/
	Class IV	40,554,114	48,985,107	32,144,509	35,672,877	1/	1/	1/	1/
Avg. daily producer receipts		21,254,381	21,467,101	19,254,033	19,017,946	10,277,232	10,591,670	9,349,414	10,016,170
Change From Previous Year		10.39%	12.88%	-17.73%	-16.64%	9.92%	5.75%	11.31%	12.36%
Avg. daily Class I use		6,492,068	6,271,630	6,628,882	6,236,389	4,133,489	3,761,120	4,203,453	3,857,857
Change From Previous Year		-2.06%	0.57%	0.50%	2.56%	-1.66%	-2.51%	1.79%	3.60%

1/ Restricted - Included with Class I. 2/ Due to the implementation of the Milk Regulatory Equity Act of 2005, the name of Federal Order 131 changed from the "Arizona-Las Vegas Order" to the "Arizona Order" and Clark County, Nevada, was removed from the marketing area effective May 1, 2006.

HIGHLIGHTS THIS ISSUE:

- Market Summaries for August 2008
- August 2008 Class Prices
- Class I Price for October 2008
 - * See SPECIAL NOTE *
- 2008 Farm Bill Side-by-Side Comparisons
- **USDA Delays Effective Date of Class III and IV Manufacturing Cost Allowances and Butterfat Yield Factor**

USDA DELAYS EFFECTIVE DATE OF CLASS III AND IV MANUFACTURING COST ALLOWANCES AND BUTTERFAT YIELD FACTOR

On August 29, 2008, the U. S. Department of Agriculture announced an interim rule that delayed the effective date of an Interim Final Rule published July 31, 2008, that would amend the manufacturing cost allowances and the butterfat yield factor used in Class III and Class IV product-price formulas in all Federal milk marketing orders. The effective date, which had been September 1, 2008, will now be October 1, 2008. USDA delayed the effective date because of a complaint filed in the U. S. District Court for the District of Columbia to enjoin the implementation of the revised manufacturing allowances and butterfat yield factor. Delaying implementation allows sufficient time for a preliminary injunction hearing.

The interim rule was published in the September 3, 2008, Federal Register. ♦

(Please see page 2 for more details)