The Market Administrator's Report

Pacific Northwest & Arizona Marketing Areas

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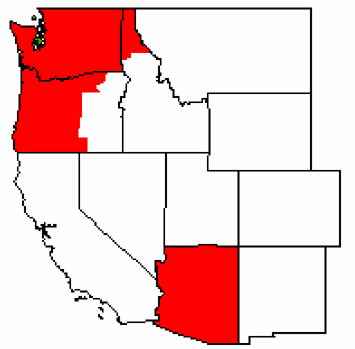

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December 2007

MARKET SUMMARIES FOR NOVEMBER 2007

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

Pacific Northwest

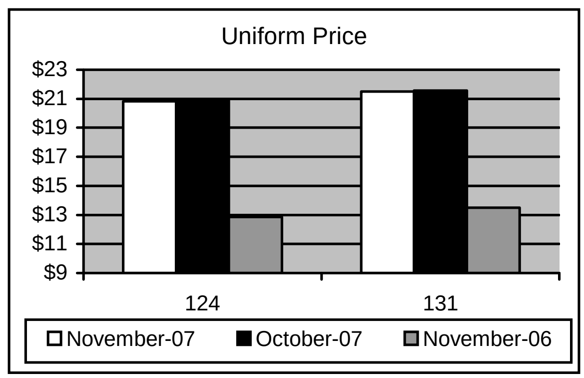
Producers delivered a total of 557.2 million pounds of milk to the market during November. Daily deliveries averaged 18.6 million pounds, down 0.4 percent from October. An estimated 686 producers delivered milk to the market during the month. Daily deliveries per producer averaged 27,075 pounds, down 0.4 percent from October.

Class I producer milk during November totaled 198.0 million pounds, 35.5 percent of total producer receipts. Daily usage averaged 6.6 million pounds, up 0.9 percent from October.

Arizona

Producers delivered a total of 308.4 million pounds of milk to the market during November. Daily deliveries averaged 10.3 million pounds, up 3.0 percent from October. An estimated 94 producers delivered milk to the market during the month. Daily deliveries per producer averaged 109,347 pounds, up 3.0 percent from October.

Class I producer milk during November totaled 121.1 million pounds, 39.3 percent of total producer receipts. Daily usage averaged 4.0 million pounds, up 1.3 percent from October. ♦



Federal Order Producer Prices and Component Levels: November 2007

Producer Prices	FO124	FO131	Component Levels (%)	FO124	FO131
Uniform Price 1/*	20.82	21.49	Butterfat	3.803	3.637
Butterfat 2/	1.4077	1.4199	Protein	3.189	N/A
Protein 2/	4.3081	N/A	Other Solids	5.705	N/A
Other Solids 2/	0.2461	N/A	Nonfat Solids	8.894	N/A
PPD 1/*	1.60	N/A			
Skim 1/	N/A	17.12			

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

NOVEMBER 2007 CLASS PRICES

November 2007 non-advanced Class Prices were calculated using NASS commodity price surveys from November 3, 10, 17, and 24, 2007. Component prices for the month are $4.3081 per pound of protein, $1.4077 per pound of butterfat, $0.2461 per pound of other solids, and $1.7812 per pound of nonfat solids.

November 2007 Class III and IV prices at 3.5% butterfat are $19.22 and $20.40 per hundredweight, respectively. The November Class III price compared to October is up $0.52; the Class IV price is down $0.91. The Class III price is $6.38 higher than in November 2006 and the Class IV price is $8.29 higher. The Class III price at 3.67% butterfat is $9.54 above the support price of $9.90 at 3.67% butterfat.

Class II butterfat was announced at $1.4147 per pound. Class I skim and butterfat and Class II skim prices for November 2007 were announced on October 19, 2007. The Class II price at 3.5% butterfat is $22.07 for November 2007.

FINAL: NASS COMMODITY PRICES

	October	November	Change
Cheese*	$1.9227	$1.9652	$0.0425
Butter	$1.2945	$1.2933	-$0.0012
Nonfat Dry Milk	$2.0615	$1.9562	-$0.1053
Whey	$0.4175	$0.4345	$0.0170

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

Current Commodity Prices - - The NASS survey of cheddar cheese prices showed an increase in prices received for 40-pound blocks and 500-pound barrels. The survey of 40-pound blocks showed an increase of 15.96 cents between the November 17 and the December 15 surveys, to $2.1402 per pound. The survey of 500-pound barrels (adjusted to 38% moisture) showed an increase of 15.17 cents to $2.1186 per pound.

The NASS butter price showed a net decrease of 0.03 cents between the weeks ending November 17 and December 15 from $1.3165 per pound to $1.3162 per pound.

The NASS nonfat dry milk showed a decrease of 8.47 cents since mid-November to $1.8235 per pound.

The average price for NASS whey showed an increase of 2.02 cents since mid-November to $0.4584 per pound. ♦

JANUARY'S CLASS I PRICE ANNOUNCEMENT

On December 21, the January 2008 Class I price was announced at $22.87 for the Pacific Northwest Order and $23.32 for the Arizona Order. The Class I price was calculated using NASS commodity price surveys from the weeks of December 8 and 15.

The January Class III and IV advance skim prices are $16.53 and $14.91 per hundredweight, respectively. The butterfat portion of the Class I mover increased 2.13 cents from $1.4120 to $1.4333 per pound.

The January 2008 Class II skim and nonfat solids prices were also announced on December 21. The skim price is $15.61 per hundredweight, and the nonfat solids price is $1.7344 per pound for all Federal orders. ♦

ADVANCED: NASS COMMODITY PRICES FOR CLASS I PRICE CALCULATIONS

	December	January	Change
Cheese*	$1.9648	$2.1328	$0.1680
Butter	$1.2969	$1.3146	$0.0177
Nonfat Dry Milk	$1.9131	$1.8304	-$0.0827
Whey	$0.4385	$0.4568	$0.0183

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

SIGN-UP BEGINS DECEMBER 3rd FOR DAIRY DISASTER AID PROGRAM

WASHINGTON, Nov. 26, 2007 – Eligible dairy producers can sign up for the Dairy Disaster Assistance Program (DDAP-III) at local U.S. Department of Agriculture Farm Service Agency (FSA) service centers beginning Monday, Dec. 3, 2007. DDAP-III will help dairy producers recover production losses resulting from a variety of adverse weather conditions in the last few years.

USDA provides more information on proposed DDAP-III provisions in a fact sheet posted online at:

- http://disaster.fsa.usda.gov and
- http://www.usda.gov/wps/portal/!ut/p/_s.7_0_A/7_0_1OB?contentidonly=true&contentid=2007/11/0348.xml. ♦

Source: USDA

HISTORY OF FEDERAL MILK MARKETING AREAS IN THE WEST AND PACIFIC NORTHWEST

The November 2007 Market Administrator's Report featured an article that illustrated certain aspects of the history of milk marketing in the Pacific Northwest. This month, the discussion continues by illustrating the creation and consolidation of milk marketing in other western states, and the redefinition of marketing areas following Federal Order Reform. Note that similar to last month's article, this article is published for historical purposes and is not a statement for or against the recent proposal to expand the Pacific Northwest Order or any other proposal that may be made.

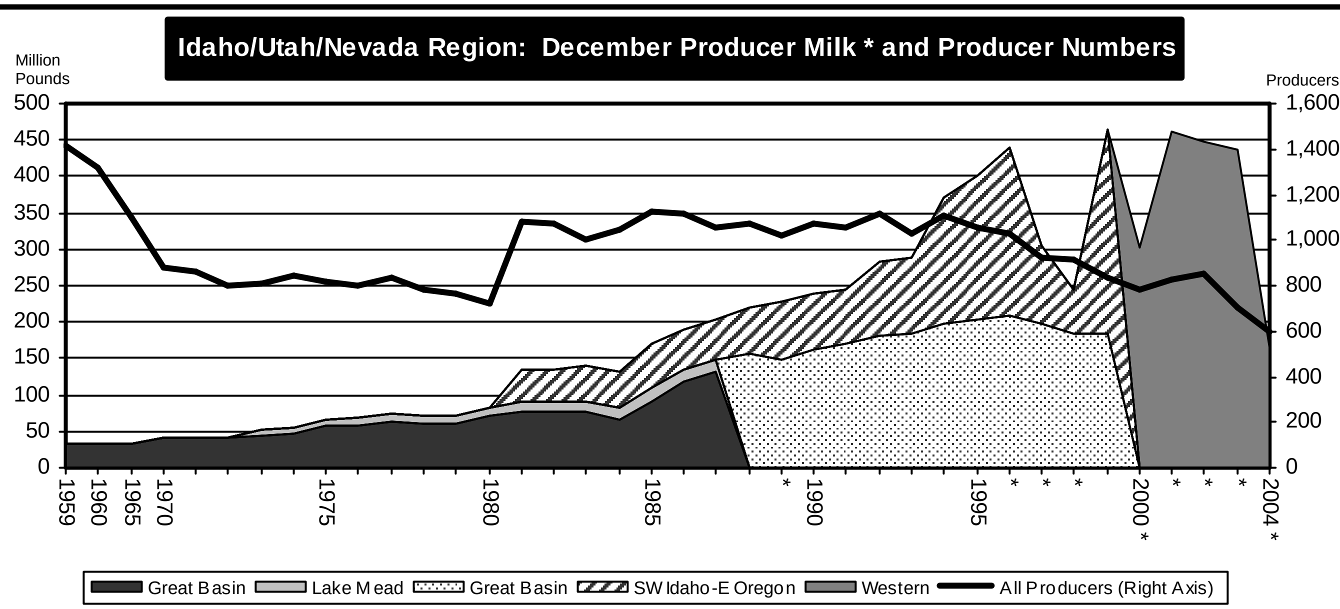
Federal Milk Market Orders in the Idaho/Utah/Nevada Region

The history of Federal orders in the Idaho/Utah/Nevada region can be divided into two periods: the Creation Period lasting from 1959 through 1987, and the Consolidation Period from 1988 to 1999. In 1996, the Farm Bill mandated changes which became the base for the general structure and scope of Federal orders today. Many changes have occurred since 2000.

During the Creation Period, cooperatives and dairy farmers requested the enactment of Federal orders in their milk sheds to help coordinate the supply and demand of milk, establish minimum and uniform prices based on classified pricing, and prevent disorderly marketing. Each new Federal order focused on a single, large metropolitan area (e.g. Salt Lake City and Las Vegas) due to the significant demand for fluid milk in combination with geographic and economic limitations associated with transportation, refrigeration, and other technologies. Over time, improvements to the transportation infrastructure, better refrigeration, and new technologies expanded the area to which fluid milk products could be marketed efficiently. Eventually, the initial geographic "market areas" became outmoded and the industry requested new, broader market areas. Through mergers of Federal order marketing areas, at the request of the dairy industry and by acts of congress, and order terminations, Federal orders have evolved to their present geographic borders. The history of Federal orders in the west as shown through number of producers and pounds of producer milk under regulation is described below and with tables and graphs below and on page 4.

Creation Period: 1959-1987

The first Federal order in the Idaho/Utah/Nevada region was instituted in November 1959 and was called the Great Basin Order. The marketing area of the order covered the region from Salt Lake City and south into central Utah and had a milk shed covering most of the northern two-thirds of Utah. In December 1959, the Great Basin Order consisted of 1,390 producers and had 33 million pounds of



* Eligible milk was not pooled in December 1989, 1996-1998, and 2000-2003, and March 2004. The Western Order was terminated April 1, 2004.

producer milk. By December 1973, the number of producers associated with the order dropped to 760, but producer milk increased to 45 million pounds. In December 1987, 705 producers delivered 131 million pounds of milk.

The second order in the Idaho/Utah/Nevada region was the Lake Mead Order which was created in August 1973 and covered the southwest corner of Utah and Clark County, Nevada. In December 1973, the Lake Mead Order consisted of 47 producers and had 9 million pounds of producer milk. By December 1987, the number of producers associated with the order increased to 54, and producer milk increased to 17 million pounds.

Consolidation Period: 1988-1999

In April 1988, the Great Basin and Lake Mead Orders were merged to create the Great Basin Order. In December 1988, the order had 764 producers and producer milk of 148 million pounds. By December 1999, producer numbers dropped to 509 while producer milk increased to 185 million pounds.

Federal Order Reform

The 1996 Farm Bill mandated that, among other items, the then current Federal milk orders be consolidated into between 10 to 14 orders. On January 1, 2000, the process, which came to be called Federal Order Reform, was completed and caused the merger and/or redefinition of Federal orders.

The Southwestern Idaho-Eastern Oregon Order was merged with the Great Basin Order with some adjustments to the marketing area to form the Western Order. In January 2000, the Western Order consisted of 780 producers and had 301 million pounds of producer milk. By December 2003, the last December that the Western Order existed, the number of producers associated with the order dropped to 702, and producer milk increased to 436 million pounds. The Western Order was terminated April 1, 2004, due to an amended order not receiving at least two-thirds of producer or producer milk voting in favor of the order.

The Pacific Northwest Order remained largely unchanged from pre-reform boundaries. In January 2000, the Pacific Northwest Order consisted of 1,073 producers and had 581 million pounds of producer milk. By January 2007, the number of producers associated with the order dropped to 753, and producer milk increased to 632 million pounds.

Summary

The history of Federal orders in the Idaho/Utah/Nevada region and Pacific Northwest is complex. This article examines two aspects of the growth and development of Federal orders in the region. A trend evident in the data presented in this article and the one appearing in the November Market Administrator's Report is an increase in the area covered by the Federal orders in the Pacific Northwest and West, an increase in producer milk,

Federal Order Inception and Major Markets

Order	Inception	To	Major Markets
Great Basin	June 1959	November 1959	Salt Lake City
Lake Mead	April 1973	August 1973	Las Vegas
Southwestern Idaho-Eastern Oregon	July 1981	December 1999	Boise
Great Basin	April 1988	December 1999	Las Vegas & Salt Lake City
Western	January 2000	March 2004	Boise & Salt Lake City

Idaho/Utah/Nevada Federal Orders: December Milk Production and Producer Numbers for Selected Years

Order	Year	Producer Milk (Million Pounds)	Producers
Great Basin (N)	1959	32.9	1,414
	1987	130.9	705
Lake Mead (N)	1973	9.1	47
	1987	17.2	54
Southwestern Idaho-Eastern Oregon (N)	1981	44.6	371
	1999	278.9	1,080
Great Basin (M)	1988	155.5	764
	1999	184.6	509
Western (M)	2000	301.0	780
	2003	436.0	702

N-New order. M-Order resulted from merger/consolidation.

and a simultaneous decrease in producer numbers. Many important changes, other than the number of producers and producer milk, have also taken place since the 1950's. These other important changes relate to but are not limited to: Federal order pricing; handler qualification standards; pool performance standards; the number, size and location of distributing plants and manufacturing plants; the milkshed of the market and distribution area of plants; the number, size and location of dairy farms; handler type and size; milk production and processing technology; transportation infrastructure; population; etc. ♦

ERS DAIRY OUTLOOK: HIGHER FEED PRICES DAMPEN MILK PRODUCTION EXPANSION IN 2008

According to the Economic Research Service's December 19, 2007, outlook report, expected higher feed prices in 2008 could dampen milk production expansion. Meanwhile, firm domestic and export demand for all major products except whey should keep prices from falling precipitously.

Sharply higher feed costs projected for 2008, especially for soybean meal, will cut into dairy producer profits. Offsetting higher feed costs are moderating prices for alfalfa hay and relatively high prices for milk. The milk-feed price ratio will be lower in 2008 compared with this year, and will likely slow the pace of expansion. The December *Milk Production* report showed November production still increasing at above the long-term average rate. Both cow numbers and production per cow are well above year-earlier levels and sharply above those in the first half of 2007. These fundamentals should boost milk production in 2008 by about 1.1 percent. Forecast 2008 production is 190.5 billion pounds.

October output of butter, total cheese, and nonfat dry milk (NDM) continues to outpace year-earlier levels by 9.1 percent, 1.6 percent and 41.4 percent respectively, according to the November *Dairy Products* report. Cheddar cheese prices remain at near-record levels of over $2 a pound. The Foreign Agricultural Service reports 10-month imports of quota cheese are lagging the same period in 2006 by 3 percent. However, the *Dairy Market News* reports that export interest may be building. For butter, the October drawdown in stocks set a record for that month, and commercial disappearance through September was 5.6 percent above year-earlier levels. World butter prices are above U.S. prices and could help boost export interest. Export potential for both cheese and butter, combined with firm domestic demand, will likely support prices for both products into the first half of 2008. Cheese prices could soften later in 2008.

The NASS cheese price is expected to average from $1.735 to $1.745 per pound in 2007 and from $1.640 to $1.720 per pound in 2008. The butter price will likely follow a similar pattern, averaging from $1.330 to $1.360 per pound in 2007 and slipping to $1.205 to $1.315 per pound in 2008. NDM prices soared in the second half of 2007, which will push the 2007 average price to the range of $1.705 to $1.725 per pound. In 2008, prices should decline somewhat to average from $1.645 to $1.705 per pound. Ample U.S. production and large stocks could pressure prices later in 2008. However, global supplies remain tight. Whey prices have fallen precipitously in the second half of 2007 and will likely average from 59.5 to 60.5 cents a pound this year, based mostly on earlier highs. Next year, prices will be closer to current prices and average from 43.0 to 46.0 cents a pound. Weaker export prospects in late 2007 and into 2008 will keep whey prices below early 2007 peaks.

While milk prices should be lower in 2008 than in 2007—a steep drop is not forecast. The Class IV average price is forecast to range from $17.40 to $18.30 per cwt in 2008, down from $18.30 to $18.50 per cwt in 2007. The Class III price is expected to average $16.15 to $16.95 per cwt in 2008, compared with $18.00 to $18.10 per cwt in 2007. The all milk price will average from $18.00 to $18.80 per cwt in 2008, down slightly from the $19.05 to $19.15 per cwt expected in 2007. ♦

Source: *Livestock, Dairy, & Poultry Outlook,* LDP-M-162, December 19, 2007, Economic Research Service, USDA.

MONTHLY SELECTED STATISTICS

	PACIFIC NORTHWEST				ARIZONA 2/			
Minimum Class Prices (3.5% B.F.)	Nov 2007	Oct 2007	Nov 2006	Oct 2006	Nov 2007	Oct 2007	Nov 2006	Oct 2006
Class I Milk ($/cwt.)	$23.35	$23.49	$14.30	$14.32	$23.80	$23.94	$14.75	$14.77
Class II Milk ($/cwt.)	22.07	21.90	11.98	11.79	22.07	21.90	11.98	11.79
Class III Milk ($/cwt.)	19.22	18.70	12.84	12.32	19.22	18.70	12.84	12.32
Class IV Milk ($/cwt.)	20.40	21.31	12.11	11.51	20.40	21.31	12.11	11.51
Producer Prices								
Producer Price Differential ($/cwt.)	$ 1.60	$ 2.21	$ 0.01	$ 0.20	+	+	+	+
Butterfat ($/pound)	1.4077	1.4092	1.3852	1.4149	+	+	+	+
Protein ($/pound)	4.3081	4.1695	2.2383	2.0775	+	+	+	+
Other Solids ($/pound)	0.2461	0.2286	0.2276	0.2026	+	+	+	+
Uniform Skim Price ($/cwt.) . . .	+	+	+	+	17.12	17.13	8.91	8.56
Uniform Butterfat Price ($/pound)	+	+	+	+	1.4199	1.4411	1.3963	1.4237
Statistical Uniform Price ($/cwt.) . .	$20.82	$20.91	$12.85	$12.52	$21.49	$21.57	$13.49	$13.24
Producer Data								
Number of Producers	686 *	686	761	769	94 *	94	93	94
Avg. Daily Production (lbs.) . . .	27,075 *	27,195	26,146	26,025	109,347 *	106,138	99,239	93,949
Number of Handlers								
Pool Handlers	26	27	29	29	7	7	7	7
Producer-Handlers	5 *	5	6	6	1 *	1	1	1
Other Plants w/ Class I Use . . .	26 *	26	26	26	23 *	23	25	25
Producer Milk Ratios								
Class I	35.52%	35.04%	33.20%	31.86%	39.27%	39.93%	42.39%	42.41%
Class II	6.48%	7.39%	8.01%	7.28%	6.95%	8.71%	10.85%	10.40%
Class III	31.14%	31.18%	28.25%	30.20%	31.00%	29.44%	35.99%	36.47%
Class IV	26.86%	26.39%	30.54%	30.66%	22.78%	21.92%	10.77%	10.72%

\+ Not Applicable. * Preliminary.

MONTHLY SUPPLEMENTAL STATISTICS

Producer-Handler Data	Oct 2007	Sep 2007	Oct 2006	Sep 2006	Oct 2007	Sep 2007	Oct 2006	Sep 2006
Production	26,094,030	25,673,577	23,000,416	22,020,680	R	R	R	R
Class I Use	21,676,157	19,122,009	20,853,119	17,296,484	R	R	R	R
% Class I Use	83.07%	74.48%	90.66%	78.55%	R	R	R	R
Class I Route Disposition In Area								
By Pool Plants	174,346,329	160,147,147	174,764,558	171,222,764	101,782,555	91,882,669	102,223,482	100,471,693
By Producer-Handlers	6,514,755	6,010,383	8,555,039	8,031,374	1/	1/	1/	1/
By Other Plants	5,236,554 *	4,456,016	4,346,396	4,507,623	5,135,969 *	4,810,848	5,230,282	4,526,551
Total	186,097,638	170,613,546	187,665,993	183,761,761	106,918,524	96,693,517	107,453,764	104,998,244

* 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/			
	Nov 2007	Oct 2007	Nov 2006	Oct 2006	Nov 2007	Oct 2007	Nov 2006	Oct 2006
TOTAL PRODUCER MILK	557,201,549	578,319,931	596,911,994	620,403,447	308,359,879	309,284,710	276,876,746	273,768,325
RECEIPTS FROM OTHER SOURCES	22,838,628	28,849,758	17,771,230	16,714,409	38,387,028	39,050,401	4,883,202	3,733,552
OPENING INVENTORY	36,665,308	37,695,516	32,917,294	34,781,207	18,360,751	22,847,511	15,989,601	19,635,219
TOTAL TO BE ACCOUNTED FOR	616,705,485	644,865,205	647,600,518	671,899,063	365,107,658	371,182,622	297,749,549	297,137,096
UTILIZATION OF RECEIPTS								
Whole milk	30,585,173	31,361,268	35,303,735	34,489,250	25,889,786	27,537,073	29,688,336	30,436,221
Flavored milk & milk drinks	15,980,591	15,193,982	17,112,131	15,818,822	7,773,571	7,377,039	8,211,320	7,098,534
2% milk	69,173,480	69,404,511	68,129,741	67,810,298	37,813,749	38,723,784	36,437,413	37,588,015
1% milk	27,658,416	28,931,043	27,017,183	27,233,047	13,762,162	14,280,511	13,369,017	13,353,703
Skim milk	27,511,703	28,010,696	27,715,182	27,991,087	12,960,073	13,353,987	13,122,909	13,246,810
Buttermilk	1,465,927	1,444,829	1,423,469	1,422,054	531,405	510,161	524,397	500,199
CLASS I ROUTE DISP. IN AREA. .	172,375,290	174,346,329	176,701,441	174,764,558	98,730,746	101,782,555	101,353,392	102,223,482
Class I dispositions out of area . . .	18,909,553	21,226,011	18,110,127	16,508,876	20,262,523	21,248,771	14,793,324	15,589,886
Other Class I usage	24,485,082	22,620,145	19,828,571	21,101,402	13,037,723	10,815,318	11,156,974	9,896,624
TOTAL CLASS I USE.	215,769,925	218,192,485	214,640,139	212,374,836	132,030,992	133,846,644	127,303,690	127,709,992
TOTAL CLASS II USE	42,934,046	50,581,002	56,301,209	55,131,445	22,202,314	27,794,650	30,832,695	29,292,820
TOTAL CLASS III USE	180,795,960	189,143,870	168,795,902	187,589,783	95,931,605	93,799,151	100,046,083	99,879,890
TOTAL CLASS IV USE	177,205,554	186,947,848	207,863,268	216,802,999	114,942,747	115,742,177	39,567,081	40,254,394
TOTAL ACCOUNTED FOR	616,705,485	644,865,205	647,600,518	671,899,063	365,107,658	371,182,622	297,749,549	297,137,096
CLASSIFICATION OF RECEIPTS								
Producer milk: Class I . .	197,961,046	202,689,306	198,127,832	197,627,521	121,079,709	123,526,941	117,375,634	116,130,590
Class II .	36,102,010	42,714,760	47,825,831	45,176,760	21,421,037	26,928,075	30,041,705	28,464,840
Class III .	173,494,313	180,305,368	168,636,383	187,378,931	95,606,806	91,044,987	99,647,572	99,838,398
Class IV .	149,644,180	152,610,497	182,321,948	190,220,235	70,252,327	67,784,707	29,811,835	29,334,497
Other receipts: Class I .	17,808,879	15,503,179	16,512,307	14,747,315	56,747,779	61,897,912	20,872,803	23,368,771
Class II .	6,832,036	7,866,242	8,475,378	9,954,685	1/	1/	1/	1/
Class III .	7,301,647	8,838,502	159,519	210,852	1/	1/	1/	1/
Class IV .	27,561,374	34,337,351	25,541,320	26,582,764	1/	1/	1/	1/
Avg. daily producer receipts	18,573,385	18,655,482	19,897,066	20,013,014	10,278,663	9,976,926	9,229,225	8,831,236
Change From Previous Year . .	-6.65%	-6.78%	-1.21%	-0.87%	11.37%	12.97%	16.78%	17.50%
Avg. daily Class I use	7,192,331	7,038,467	7,154,671	6,850,801	4,401,033	4,317,634	4,243,456	4,119,677
Change From Previous Year . .	0.53%	2.74%	7.51%	8.92%	3.71%	4.81%	30.97%	39.60%

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.

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