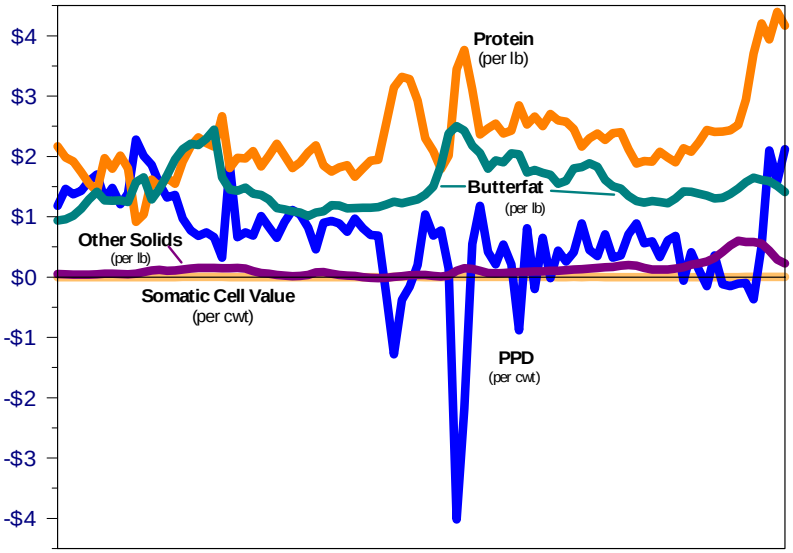
MARKETING SERVICE
BULLETIN

NOVEMBER 2007

How Do I Know My "Pay Price" When Component Prices Look Like This ?

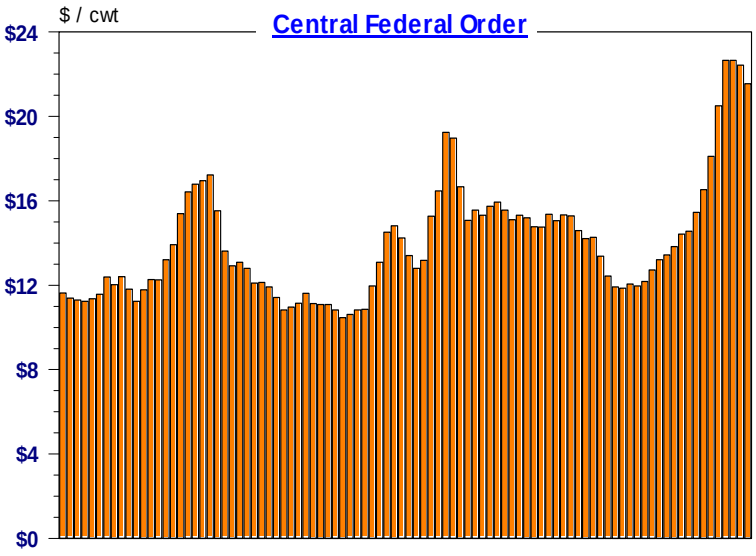
A long time ago, in a Federal Milk Order system far different from today, the calculation of each dairy farmer's monthly "pay price" was a relatively straightforward task. In the era prior to the advent of multiple component pricing, each Federal Milk Order (FMO) announced a single producer pay price known as the Uniform Price. This price, also known as the "Blend" Price, was applicable to all producer milk with only one adjustment - the Butterfat Differential. This adjustment was applicable to each producer's per hundredweight price based upon the butterfat content of milk marketed. In this bygone era each producer could readily make revenue comparisons by simply examining monthly Uniform Prices (adjusted for variances in butterfat content).

Central Order Component Values
January 2000 - October 2007



Congressionally-mandated FMO reforms were implemented effective January 1, 2000. Consolidation and reduction of FMOs from 31 to 11 was one major feature of this reform[1]. Another significant feature was the elimination of per hundredweight Uniform Prices adjusted by the Butterfat Differential. This pricing was replaced with a system based on per pound prices for milk components. Four of the post-reform FMOs implemented a system that priced just two components - skim and butterfat - while the remaining seven orders implemented a multiple component pricing system. Producer milk components priced on a per pound basis in these seven FMOs included butterfat, protein, and other solids. All seven of these FMOs also included a Producer Price Differential (PPD) based on total milk volume marketed, and four incorporated an adjustment based on the somatic cell count of producer milk.

Effective Value of Producer Milk
@ 3.67% BF; 3.10% Protein; 5.70% OS; 330,000 SCC



January 2000 - October 2007

The Central FMO is one of the four post-reform orders that implemented multiple component pricing with a somatic cell adjustment factor. Revenue calculations for Central order producers must include all priced components to accurately reflect total revenue generated. Failure to include all components can result in erroneous revenue estimations since prices for the various components often run counter to one another, as illustrated by the top graph on this page. The bottom graph on

1 The number of FMOs was further reduced to ten in April 2004 with the termination of the Western FMO.

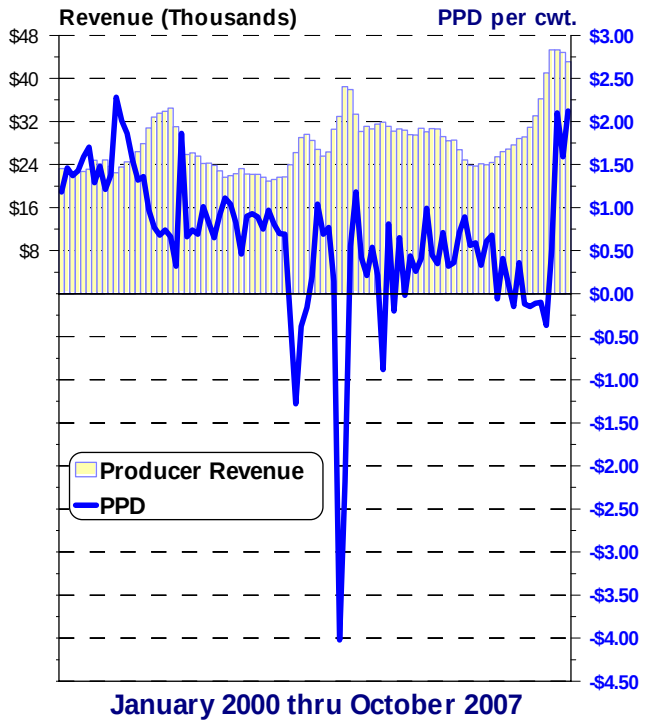
page 1 depicts the effective pay price for a "typical" producer[2] using all the component prices depicted in the top graph on page 1.

What about the PPD ??? The PPD represents, on a per hundredweight basis, the total dollars accumulated by the marketwide pool minus the amount paid to producers for their priced components. The value of milk used in Class I is the largest contributor to the PPD. Although the PPD tends to receive the most attention, it is only one part of a producer's total revenue equation. Over the past 94 months (January 2000 - October 2007), the PPD's proportion of a "typical" producer's total revenue averaged less than 5%, as indicated by the bottom graph on page 4.

The graphics and tables in this bulletin illustrate how the PPD relates to dairy producers' FMO pay price. Examining only one particular milk check component may yield inaccurate impressions. Often when the PPD declines total revenue actually increases due to changes in the other priced components. For example, the largest monthly decrease in the PPD was $4.16 between March and April 2004. The corresponding change in total revenue for our "typical' producer was an increase of over $2,300. Moreover, total revenue in May 2004 reached its highest level, up to that point in time, with an effective price of $19.24. This occurred even though the PPD was -$2.18, the second lowest level ever. Circumstances such as these make it necessary to understand how each of the components in a milk check are priced, and how these prices relate to one another. Relationships among the FMO-priced components are illustrated by the graphics and tables in this bulletin.

Central FMO Comparisons

Producer Revenue* versus the Producer Price Differential



January 2000 thru October 2007

* Revenue calculations assumes the following: 200,000 lbs marketed per month; Butterfat test: 3.67%; Protein test: 3.10%; Other Solids test: 5.70%; Somatic Cell Count: 330,000.

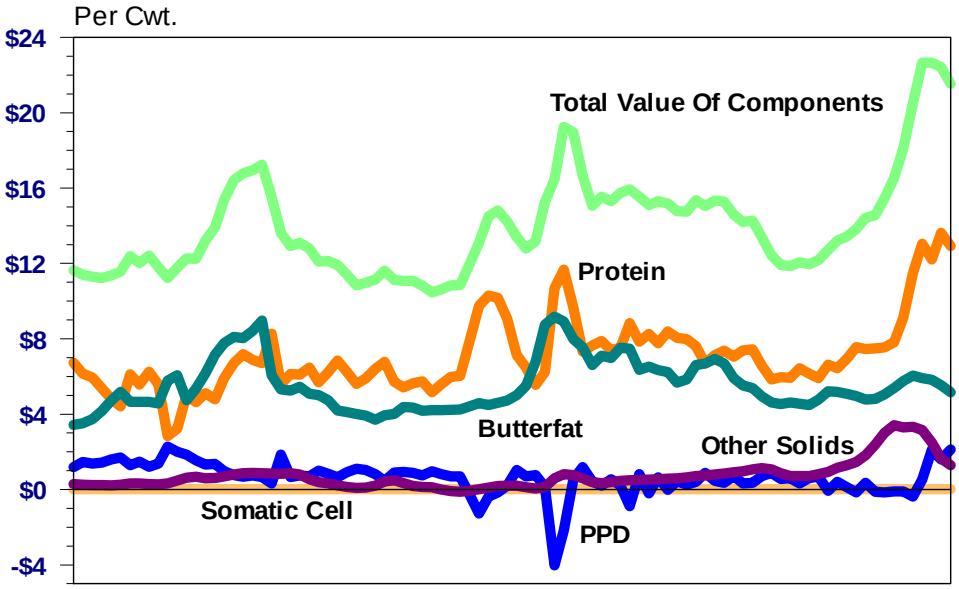
Central FMO Component Prices : The tables on page 5 provide some historical data for Central FMO producer component prices and revenue since the inception of federal milk order reform in January 2000. Yearly averages for components, total revenue, along with the effective uniform price are detailed in the first table on this page. The remaining two tables on page 5 detail monthly high and low prices for all these items from January 2000 through October 2007.

A sample format used in calculating total producer revenue is provided below the graph on page 3. The top graph on this page details movements in the PPD versus total revenue for our "typical" producer from January 2000 through October 2007. As previously noted, changes in the PPD and total revenue are not highly correlated and often move in opposite directions. The lower graph on this page depicts the monthly value of each priced component in 100 pounds of milk.

Component Values in 100 lbs. Producer Milk

@ 3.67% BF; 3.10% Protein; 5.70% OS; 330,000 SCC

Central Federal Order



January 2000 through October 2007

Average effective uniform price data, on a yearly basis, is detailed by the top graph on page 4. The remaining graph page 4 provides data regarding the proportion of total value represented by each priced component from January 2000 through October 2007. As indicated, protein (50.65%) and butterfat (39.56%) have accounted for over 90% of our "typical" Central order producer's total revenue since FMO reform.

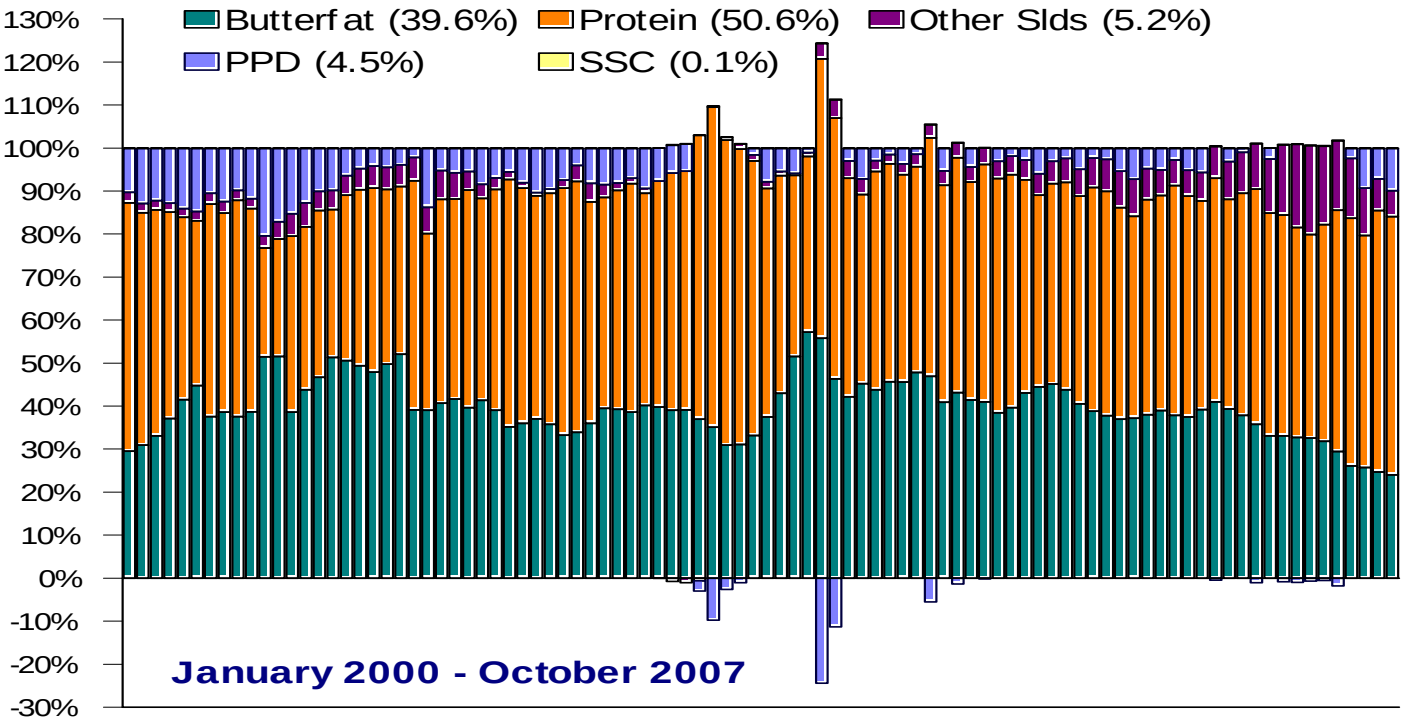
---

2 A "typical" producer is defined as follows:
Monthly marketings -- 200,000 pounds;
Butterfat test -- 3.67%;
Protein test -- 3.10%;
Other Solids test -- 5.70%;
Somatic Cell Count -- 330,000.

Component Values as a Percent of 100 Lbs. Producer Milk

@ 3.67% BF, 3.10% Protein, 5.70% OS, 330,000 SCC

Central Federal Order



A Look At How You Can Calculate Your Pay Price

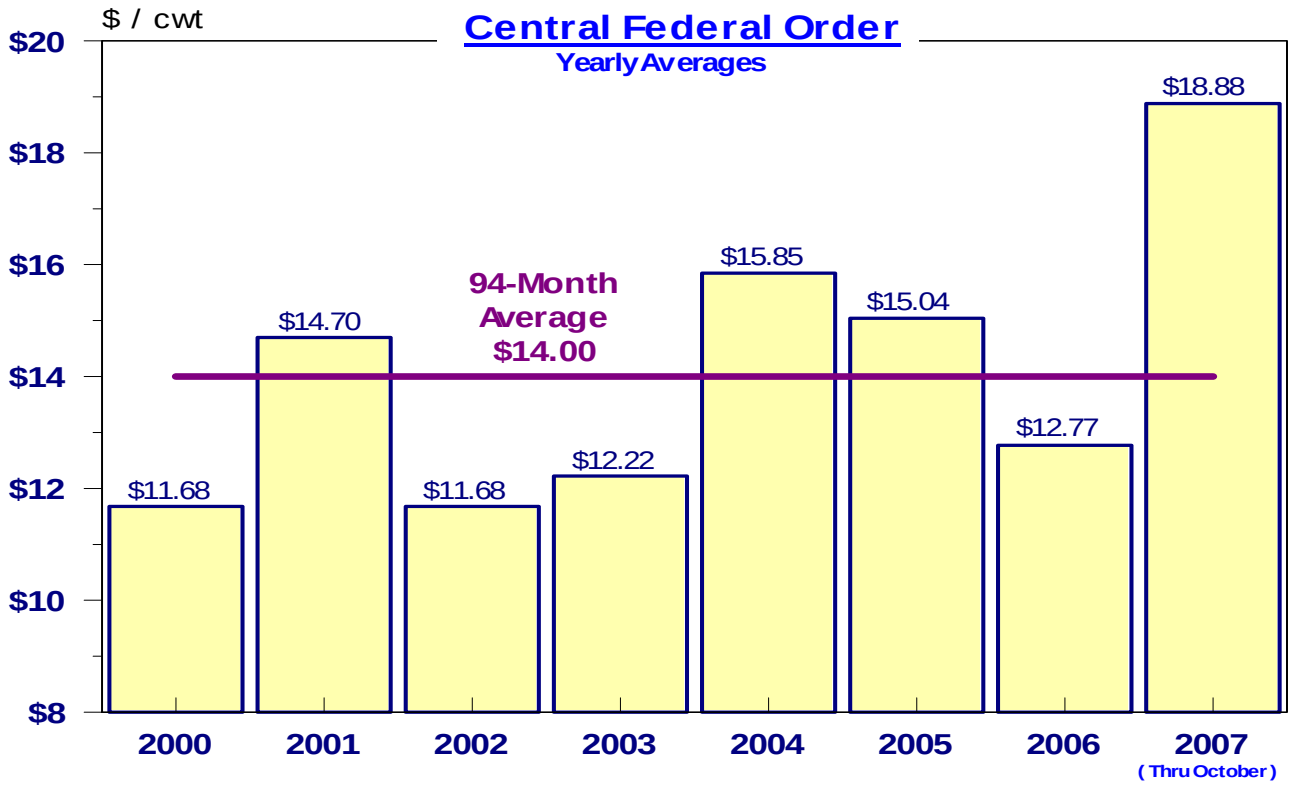
Assume a dairy	200,000 pounds of marketings	**Oct '07 Prices:**
producer with :	3.67% Butterfat test	$1.4092 / lb
	3.10% Protein test	$4.1695 / lb
	5.70% Other Solids test	$0.2286 / lb
	Producer Price Differential (PPD)	$2.12 / cwt
	330,000 Somatic Cell Count	$0.00096 / 100,000 cells / cwt

Component	Average Tests		Hundred-Weights		Component Pounds Marketed		October '07 Component Prices		Total Value
Butterfat	3.67	x	2,000	=	7,340	x	$1.4092	=	$10,343.53
Protein	3.10	x	2,000	=	6,200	x	$4.1695	=	$25,850.90
Other Solids	5.70	x	2,000	=	11,400	x	$0.2286	=	$ 2,606.04
PPD			2,000			x	$2.12	=	$ 4,240.00
Somatic Cell Count	330,000								
(Calculate Adjuster)									
(350-330=20)	20	x	$0.00096	=	$0.02	x	2,000	=	$40.00
Total Federal Order Value Of Milk Marketed : October 2007									**$43,080.47**
Effective Price Per Hundredweight									**$21.54**

Note: The Central order October 2007 Statistical Uniform Price was announced at $20.82. This price is published at 3.5% BF, 2.99% Protein, and 5.69% Other Solids. Individual producers should be aware their price can vary from the announced Statistical Uniform Price. In the above example, the price is 72¢ above the published price.

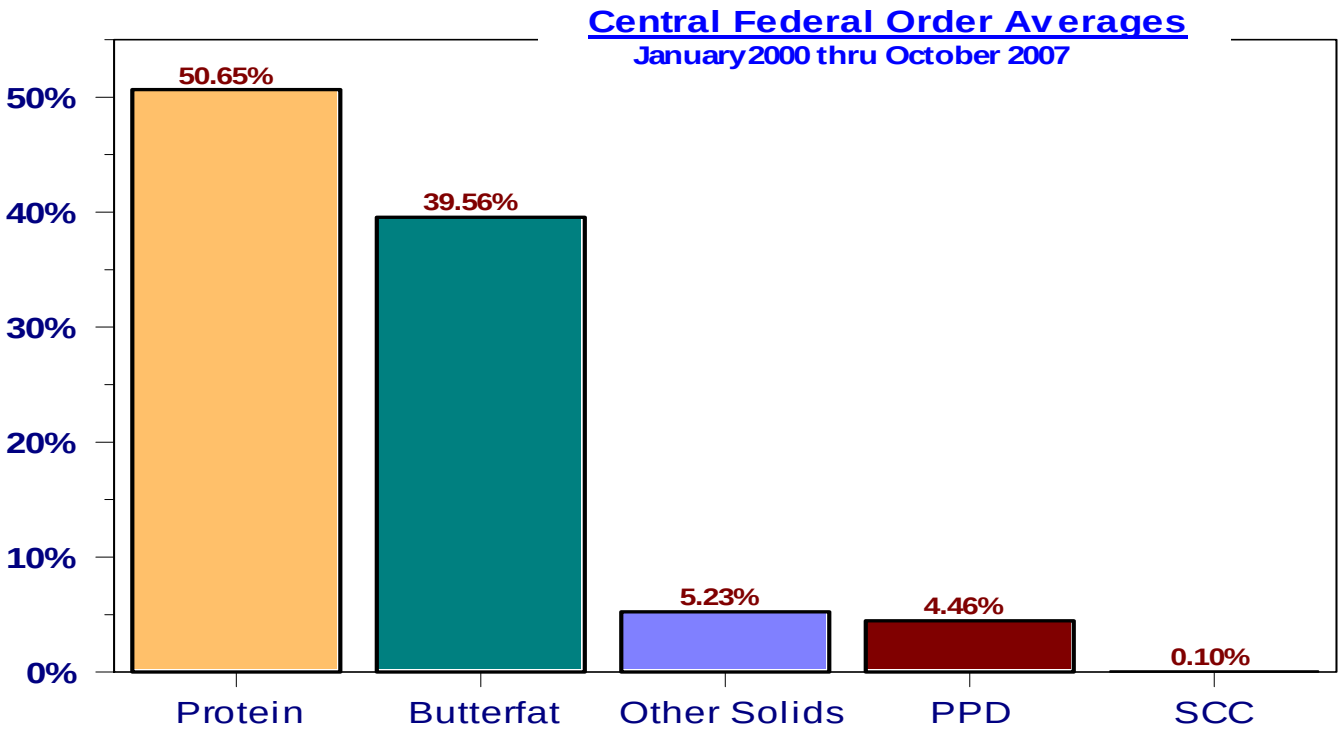
Effective Value of Producer Milk

@ 3.67% BF; 3.10% Protein; 5.70% OS; 330,000 SCC



Component Values as a % of 100 lbs. Producer Milk

@ 3.67% BF; 3.10% Protein; 5.70% OS; 330,000 SCC



Central Federal Milk Order Data

YEARLY AVERAGES	Butterfat Price	Protein Price	Other Solids Price	PPD	SCC Rate	Total Value	Effective Price
2000	$1.2522	$1.6938	$0.0509	$1.53	$0.00057	$23,355.94	$11.68
2001	$1.8480	$1.9613	$0.1343	$1.06	$0.00071	$29,409.78	$14.70
2002	$1.1928	$1.9735	$0.0593	$0.84	$0.00059	$23,368.18	$11.68
2003	$1.2099	$2.3770	$0.0129	$0.33	$0.00065	$24,448.13	$12.22
2004	$2.0510	$2.6035	$0.0751	$-0.20	$0.00082	$31,694.06	$15.85
2005	$1.7105	$2.4602	$0.1228	$0.42	$0.00075	$30,085.27	$15.04
2006	$1.3252	$2.0912	$0.1745	$0.42	$0.00062	$25,542.74	$12.77
2007 *	$1.4789	$3.3131	$0.4532	$0.58	$0.00084	$37,761.98	$18.88
94-Month Average	**$1.5092**	**$2.2878**	**$0.1286**	**$0.63**	**$0.00069**	**$28,004.99**	**$14.00**

94-Month Highs **							
Butterfat (April '04)	**$2.5013**	$3.4465	$0.1042	$-4.02	$0.00103	$32,915.72	$16.46
Protein (September '07)	$1.5101	**$4.3929**	$0.2890	$1.59	$0.00101	$44,834.71	$22.42
Other Solids (April '07)	$1.4657	$2.5212	**$0.6008**	$-0.11	$0.00071	$33,038.80	$16.52
PPD (November '00)	$1.5745	$0.9149	$0.0565	**$2.28**	$0.00051	$22,453.31	$11.23
SCC (May '04)	$2.4280	$3.7639	$0.1444	$-2.18	**$0.00106**	$38.483.86	$19.24
Total Value (August '07)	$1.5872	$3.9412	$0.4368	$2.10	$0.00096	**$45,305.01**	$22.65
Effective Price (August '07)	$1.5872	$3.9412	$0.4368	$2.10	$0.00096	$45,305.01	**$22.65**

94-Month Lows **							
Butterfat (January '00)	**$0.9366**	$2.1677	$0.0503	$1.18	$0.00058	$23,267.80	$11.63
Protein (November '00)	$1.5745	**$0.9149**	$0.0565	$2.28	$0.00051	$22,453.31	$11.23
Other Solids (June '03)	$1.1576	$1.9434	**$-0.0200**	$0.69	$0.00057	$21,717.86	$10.86
PPD (April '04)	$2.5013	$3.4465	$0.1042	**$-4.02**	$0.00103	$32,915.72	$16.46
SCC (November '00)	$1.5745	$0.9149	$0.0565	$2.28	**$0.00051**	$22,453.31	$11.23
Total Value (March '03)	$1.1459	$1.6648	$0.0206	$0.97	$0.00054	**$20,927.51**	$10.46
Effective Price (March '03)	$1.1459	$1.6648	$0.0206	$0.97	$0.00054	$20,927.51	**$10.46**

* Through October. ** Highlighted data represents the 94-month high/low for each category. The accompanying data for each category is applicable to the specified month in which the high/low was recorded.

	Statistical Uniform Price		Producer Price Differential		Class I Utilization	
	Oct '07	Sep '07	Oct '07	Sep '07	Oct '07	Sep '07
Northeast	22.38	22.99	3.68	2.92	46.36	44.51
Appalachian	23.75	24.00	-----	-----	74.08	70.08
Florida	24.81	25.08	-----	-----	85.32	84.40
Southeast	23.36	23.77	-----	-----	70.58	67.75
Upper Midwest	19.53	20.71	0.83	0.64	17.10	16.43
Central	**20.82**	**21.66**	**2.12**	**1.59**	**39.39**	**36.99**
Mideast	21.13	21.94	2.43	1.87	45.62	40.77
Pacific Northwest	20.91	21.65	2.21	1.58	35.05	31.42
Southwest	21.62	22.43	2.92	2.36	43.86	34.55
Arizona	21.57	22.15	-----	-----	39.94	39.28

FEDERAL MILK MARKET ADMINISTRATOR
P.O. BOX 14650
SHAWNEE MISSION, KANSAS 66285-4650

Website: www.fmmacentral.com
E-mail: market.administrator@fmmacentral.com
Phone: 913-495-9300

FIRST CLASS
U.S. POSTAGE
PAID
SHAWNEE MISSION, KS
PERMIT NO. 377

FIRST CLASS