

### Overview

Milk prices finished 2011 about 25% higher than the previous year, setting record highs in most categories. All four federal order annual average class prices were all-time highs, as was the average butterfat component price. The annual average true protein price was the highest since 2008 and other solids reached the highest average since 2007.

The story was the same in California, as the average Class 4b cheese milk price reached the highest level since 2008 and Class 4a butter-powder milk was the highest ever under California's current pricing system. The average quota and overbase price per hundredweight were also record highs in 2011.

To start 2012, January prices did decline slightly, except for the advanced federal order Class I mover, as cheese, butter, and nonfat dry milk products all posted price drops. However, dry whey was almost 75% higher than the previous January and whey protein concentrate prices were almost 50% ahead of that time last year. The Class I mover for February was announced at \$17.03 per hundredweight and current futures predict a Class III price of \$16.07.

Soybean futures prices have increased 3% compared to last month. This move is primarily due to drier weather in South America that decreased expected yields and an expected shift of domestic soybean land to corn plantings this spring. Corn prices have steadied the last few months, with the March contract at \$6.38 per bushel at the writing of this report.

USDA's Economic Research Service estimated the national average cost of production at \$22.53 per hundredweight in January, \$0.36 higher than January 2011 but actually down \$0.85 from December. Feed accounted for \$11.43 of total costs, down \$0.64 from the previous month.

On the retail side, fluid whole milk prices averaged \$3.58 per gallon in January, up almost two cents from December and 28 cents higher than the previous January. Fluid milk sales in 2011 accounted for only 27.6% of all milk marketed, down from 28.5% in 2010 and 29.5% in 2009. Organic fluid milk sales increased 14.3% last year to account for 3.9% of total fluid milk sold. Butter prices were practically unchanged from January 2011, averaging \$3.50 per pound, but up 18 cents from December. Natural cheddar cheese retail prices increased 29 cents in January, the average of \$5.72 per pound almost equal to the 2011 peak price of last September.

### Outlook

The latest USDA projections expect Class III to average between \$17.30 and \$18.30 per hundredweight this year, with the all milk price between \$18.70 and \$19.70. CME futures, however, have dropped significantly in recent weeks following bearish *Milk Production* and *Cold Storage* reports; 2012 Class III futures now average only \$15.90 per hundredweight. With lower milk prices expected for 2012, Milk Income Loss Contract (MILC) payments will likely be triggered starting with February milk, peaking in June at almost \$1.00 per hundredweight, and continuing until the program expires on September 30. Should MILC be continued, current futures project payments would be triggered through November.

## MILK AND MILK COMPONENT PRICES

	Annual Price Averages		Recent Months		YTD av.	YTD av.	Change
	2009	2010	Dec 2011	Jan 2012	2010 Jan-Dec	2011 Jan-Dec	From '10 - '11
<b>FMMO Fat - Skim Prices, 3.5% Fat</b>							
FMMO Class I Base Price	\$11.48	\$15.35	\$18.47	\$18.80	\$15.35	\$19.13	24.6%
FMMO Class II Price	\$11.26	\$16.02	\$18.08	\$17.67	\$16.02	\$19.62	22.4%
FMMO Class III	\$11.36	\$14.41	\$18.77	\$17.05	\$14.41	\$18.37	27.5%
FMMO Class IV	\$10.89	\$15.09	\$16.87	\$16.56	\$15.09	\$19.04	26.2%
All Milk Price	\$12.79	\$16.29	\$19.80	\$19.20	\$16.29	\$20.14	23.6%
<b>FMMO Component Prices / Pound</b>							
Milkfat	\$ 1.26	\$ 1.85	\$1.74	\$1.72	\$1.85	\$2.15	16.2%
True Protein	\$ 2.21	\$ 2.31	\$3.34	\$2.73	\$2.31	\$2.97	28.5%
Other Solids	\$ 0.06	\$ 0.18	\$0.47	\$0.50	\$0.18	\$0.34	93.3%
<b>CALIFORNIA Manufacturing Prices</b>							
CA Class 4a per Cwt.	\$10.77	\$14.81	\$16.59	\$16.18	\$14.81	\$18.81	27.1%
4a/4b Butterfat	\$1.26	\$1.84	\$1.69	\$1.66	\$1.84	\$2.12	15.0%
4a SNF	\$0.73	\$0.96	\$1.23	\$1.19	\$0.96	\$1.31	36.3%
CA Class 4b per Cwt.	\$11.05	\$13.17	\$15.14	\$14.23	\$13.17	\$16.37	24.3%
4a/4b Butterfat	\$1.26	\$1.84	\$1.69	\$1.66	\$1.84	\$2.12	15.0%
4b SNF	\$0.76	\$0.77	\$1.06	\$0.97	\$0.77	\$1.03	33.3%
<b>California Base &amp; Overbase</b>							
	<u>2009</u>	<u>2010</u>	<u>Dec-11</u>	<u>Jan-12</u>	<u>Jan-Dec '10</u>	<u>Jan-Dec '11</u>	<u>Change</u>
CA Overbase per Cwt.	\$10.81	\$13.92	\$16.10	\$15.55	\$13.92	\$17.53	25.9%
Overbase Butterfat	\$1.27	\$1.83	\$1.73	\$1.70	\$1.83	\$2.13	16.5%
Overbase SNF	\$0.73	\$0.87	\$1.15	\$1.11	\$0.87	\$1.16	33.9%
CA Quota per Cwt.	\$12.51	\$15.62	\$17.80	\$17.25	\$15.62	\$19.23	23.1%

## COMMODITY DAIRY PRODUCT PRICES

	Annual Price Averages		Recent Months		Change From	YTD
	2009	2010	Dec 2011	Jan 2012	Jan. '11 - '12	2011
<b>Cash Commodity Market Prices</b>						
CME Cheddar 40# Blocks	\$ 1.30	\$ 1.50	\$ 1.62	\$ 1.55	2.7%	\$ 1.81
CME Cheddar Barrels	\$ 1.25	\$ 1.48	\$ 1.58	\$ 1.54	3.2%	1.79
CME Butter	\$ 1.24	\$ 1.73	\$ 1.61	\$ 1.58	-22.2%	1.96
Western NFDM (Mostly)	\$ 0.95	\$ 1.19	\$ 1.40	\$ 1.38	6.8%	1.51
Western Whey (Mostly)	\$ 0.28	\$ 0.39	\$ 0.67	\$ 0.70	71.4%	0.55
Central Whey (Mostly)	\$ 0.26	\$ 0.35	\$ 0.64	\$ 0.70	87.2%	0.51
Whey Protein Concentrate	\$ 0.63	\$ 0.95	\$ 1.46	\$ 1.52	48.9%	1.39
<b>USDA NASS Survey Prices</b>						
Cheddar Cheese	\$ 1.30	\$ 1.52	\$ 1.81	\$ 1.61	14.4%	1.82
"AA" Butter	\$ 1.21	\$ 1.70	\$ 1.61	\$ 1.59	-13.7%	1.95
Nonfat Dry Milk	\$ 0.92	\$ 1.17	\$ 1.42	\$ 1.39	11.3%	1.51
Dried Whey	\$ 0.26	\$ 0.37	\$ 0.65	\$ 0.69	74.7%	0.53





# Milk & Component Outlook - January 2012 Jersey Price Comparisons

<u>JAN '12 STATISTICAL BLEND PRICE</u>		<u>JAN '12 MONTHLY MILK VOLUME</u> (Million #)		<u>JAN '12 JERSEY REGULATED BLEND PRICE</u>	
Northeast (Boston)	\$19.37	Northeast (Boston)	2,068	Northeast (Boston)	\$22.38
Appalachian (Charlotte)	\$20.78	Appalachian (Charlotte)	542	Appalachian (Charlotte)	\$22.41
Southeast (Atlanta)	\$21.07	Southeast (Atlanta)	603	Southeast (Atlanta)	\$22.70
Florida (Tampa)	\$23.11	Florida (Tampa)	257	Florida (Tampa)	\$24.94
Mideast (Cleveland)	\$18.24	Mideast (Cleveland)	1,522	Mideast (Cleveland)	\$21.20
Upper Midwest (Chicago)	\$17.44	Upper Midwest (Chicago)	2,875	Upper Midwest (Chicago)	\$20.34
Central (Kansas City)	\$17.93	Central (Kansas City)	1,312	Central (Kansas City)	\$20.80
Southwest (Dallas)	\$18.88	Southwest (Dallas)	1,055	Southwest (Dallas)	\$21.65
Arizona (Phoenix)	\$18.12	Arizona (Phoenix)	410	Arizona (Phoenix)	\$20.04
Pacific Northwest (Seattle)	\$17.76	Pacific Northwest (Seattle)	701	Pacific Northwest (Seattle)	\$20.29
<b>ALL FMMO MARKET AVERAGE</b>	<b>\$19.27</b>	<b>ALL FMMO MARKET TOTAL</b>	<b>11,345</b>	<b>ALL FMMO MARKET AVERAGE</b>	<b>\$21.67</b>
California 4b (Cheese Milk)	\$14.23			California 4b (Cheese Milk)	\$16.90
California Overbase	\$15.55			California Overbase	\$18.35
<i>Prices reflect Federal Order minimum blend prices for city shown.</i>		<i>Total Grade A milk volume sold under FMMO during month.</i>		<i>Prices reflect FMMO minimum prices at Jersey component values.</i>	
<u>JAN '12 JERSEY BLEND WITH ESTIMATED PROTEIN OR CHEESE YIELD PREMIUMS</u>		<u>JAN '12 DOLLAR DIFFERENCE: JERSEY MILK WITH PREMIUMS VS. STATISTICAL BLEND PRICE</u>		<u>JAN '12 PERCENT DIFFERENCE: JERSEY MILK WITH PREMIUMS VS. STATISTICAL BLEND PRICE</u>	
Northeast (Boston)	\$22.62	Northeast (Boston)	\$3.25	Northeast (Boston)	16.8%
Appalachian (Charlotte) (includes protein prem.)	\$22.70	Appalachian (Charlotte)	\$1.92	Appalachian (Charlotte)	9.2%
Southeast (Atlanta)	\$22.70	Southeast (Atlanta)	\$1.63	Southeast (Atlanta)	7.7%
Florida (Tampa)	\$24.94	Florida (Tampa)	\$1.83	Florida (Tampa)	7.9%
Mideast (Cleveland) (includes protein premium)	\$21.80	Mideast (Cleveland)	\$3.56	Mideast (Cleveland)	19.5%
Upper Midwest (Chicago) (includes cy premium)	\$20.58	Upper Midwest (Chicago)	\$3.14	Upper Midwest (Chicago)	18.0%
Central (Kansas City)	\$20.80	Central (Kansas City)	\$2.87	Central (Kansas City)	16.0%
Southwest (Dallas)	\$21.65	Southwest (Dallas)	\$2.77	Southwest (Dallas)	14.7%
Arizona (Phoenix) (includes protein)	\$20.32	Arizona (Phoenix)	\$2.20	Arizona (Phoenix)	12.1%
Pacific Northwest (Seattle)	\$20.29	Pacific Northwest (Seattle)	\$2.53	Pacific Northwest (Seattle)	14.3%
<b>ALL FMMO MARKET AVERAGE</b>	<b>\$21.84</b>	<b>ALL FMMO MARKET AVERAGE</b>	<b>\$2.57</b>	<b>ALL FMMO MARKET AVERAGE</b>	<b>13.6%</b>
California 4b (Includes CY Premium)	\$18.01	California 4b (Includes CY Premium)	\$3.78	California 4b (Includes CY Premium)	26.6%
California Overbase	\$19.46	California Overbase	\$3.91	California Overbase	25.2%
<i>Includes a protein premium of \$0.05 for every 0.01% increase in protein over the market average.</i>		<i>Prices reflect difference between Jersey price with premiums, and the statistical blend price.</i>		<i>Percent difference in Jersey price with premiums, over the statistical blend price.</i>	
<u>ESTIMATED JERSEY MILK COMPOSITION</u>		<u>REGULATED MILK PRICES</u>		<u>AVERAGE JERSEY PRICE ADJUSTMENT PER CWT:</u>	
	<u>Jan-12</u>		<u>Jan-12</u>		<u>Jan-12</u>
Butterfat	4.72	FMMO Milkfat	\$ 1.7178	FMMO Milkfat Adjustment	\$1.62
TRUE Protein	3.65	FMMO True Protein	\$ 2.7326	FMMO True Protein Adjustment	\$1.30
Other Solids	5.73	FMMO Other Solids	\$ 0.5032	FMMO Other Solids Adjustment	(\$0.01)
Solids Not Fat (SNF)	9.38	CA 4b (Cheese Milk) Milkfat	\$ 1.6613	CA 4b (Cheese Milk) Milkfat	\$2.02
Cheese Yield (90% Fat Recovery, 38% Moisture)	12.60	CA 4b (Cheese Milk) SNF	\$ 0.9673	CA 4b (Cheese Milk) SNF	\$0.67
		CA Overbase Milkfat	\$ 1.6950	CA Overbase Milkfat	\$2.06
CME Block Cheese Price	\$1.5546	CA Overbase SNF	\$ 1.1050	CA Overbase SNF	\$0.75

# NAJ Milk & Component Outlook - 2011 Year-to-Date Prices through December

2011 YTD STATISTICAL BLEND PRICE FOR EACH FEDERAL ORDER		2011 YEAR TO DATE MILK VOLUME (Million #)		2011 YTD JERSEY REGULATED BLEND PRICE	
Northeast (Boston)	\$20.62	Northeast (Boston)	24,359	Northeast (Boston)	\$24.01
Appalachian (Charlotte)	\$21.70	Appalachian (Charlotte)	6,128	Appalachian (Charlotte)	\$23.67
Southeast (Atlanta)	\$21.72	Southeast (Atlanta)	7,058	Southeast (Atlanta)	\$23.74
Florida (Tampa)	\$23.70	Florida (Tampa)	2,919	Florida (Tampa)	\$25.81
Mideast (Cleveland)	\$19.59	Mideast (Cleveland)	15,939	Mideast (Cleveland)	\$23.17
Upper Midwest (Chicago)	\$18.72	Upper Midwest (Chicago)	32,765	Upper Midwest (Chicago)	\$22.08
Central (Kansas City)	\$19.19	Central (Kansas City)	13,937	Central (Kansas City)	\$22.53
Southwest (Dallas)	\$20.20	Southwest (Dallas)	11,262	Southwest (Dallas)	\$23.61
Arizona (Phoenix)	\$19.67	Arizona (Phoenix)	4,518	Arizona (Phoenix)	\$22.00
Pacific Northwest (Seattle)	\$19.25	Pacific Northwest (Seattle)	8,022	Pacific Northwest (Seattle)	\$22.14
<b>ALL FMMO MARKET AVERAGE</b>	<b>\$20.44</b>	<b>ALL FMMO MARKET TOTAL</b>	<b>126,907</b>	<b>ALL FMMO MARKET AVERAGE</b>	<b>\$23.28</b>
California 4b (Cheese Milk)	\$16.37			California 4b (Cheese Milk)	\$19.33
California Overbase	\$17.53			California Overbase	\$20.58
<i>Prices reflect Federal Order minimum blend prices for city shown.</i>		<i>Total Grade A milk volume sold under FMMO year to date.</i>		<i>Prices reflect FMMO minimum prices at Jersey component values.</i>	
2011 YTD JERSEY BLEND WITH ESTIMATED PROTEIN OR CHEESE YIELD PREMIUMS		2011 YTD DOLLAR DIFFERENCE: JERSEY MILK WITH PREMIUMS VS. STATISTICAL BLEND PRICE		2011 YTD PERCENT DIFFERENCE: JERSEY MILK WITH PREMIUMS VS. STATISTICAL BLEND PRICE	
Northeast (Boston)	\$24.22	Northeast (Boston)	\$3.57	Northeast (Boston)	17.4%
Appalachian (Charlotte) (includes protein prem.)	\$23.93	Appalachian (Charlotte)	\$2.25	Appalachian (Charlotte)	10.4%
Southeast (Atlanta)	\$23.74	Southeast (Atlanta)	\$1.96	Southeast (Atlanta)	9.0%
Florida (Tampa)	\$25.81	Florida (Tampa)	\$2.05	Florida (Tampa)	8.7%
Mideast (Cleveland) (includes protein premium)	\$23.69	Mideast (Cleveland)	\$4.15	Mideast (Cleveland)	21.3%
Upper Midwest (Chicago) (includes cy premium)	\$22.29	Upper Midwest (Chicago)	\$3.57	Upper Midwest (Chicago)	19.2%
Central (Kansas City)	\$22.53	Central (Kansas City)	\$3.39	Central (Kansas City)	17.7%
Southwest (Dallas)	\$23.61	Southwest (Dallas)	\$3.40	Southwest (Dallas)	16.8%
Arizona (Phoenix) (includes protein)	\$22.23	Arizona (Phoenix)	\$2.52	Arizona (Phoenix)	12.9%
Pacific Northwest (Seattle)	\$22.14	Pacific Northwest (Seattle)	\$2.94	Pacific Northwest (Seattle)	15.3%
<b>ALL FMMO MARKET AVERAGE</b>	<b>\$23.42</b>	<b>ALL FMMO MARKET AVERAGE</b>	<b>\$2.98</b>	<b>ALL FMMO MARKET AVERAGE</b>	<b>14.9%</b>
California 4b (Includes CY Premium)	\$20.30	California 4b (Includes CY Premium)	\$3.94	California 4b (Includes CY Premium)	24.1%
California Overbase	\$21.56	California Overbase	\$4.02	California Overbase	22.9%
<i>Includes a protein premium of \$0.05 for every 0.01% increase in protein over the market average.</i>		<i>Prices reflect difference between Jersey price with premiums, and the statistical blend price.</i>		<i>Percent difference in Jersey price with premiums, over the statistical blend price.</i>	
ESTIMATED JERSEY MILK COMPOSITION	YTD '11	REGULATED MILK PRICES	YTD '11	AVERAGE JERSEY PRICE ADJUSTMENT PER CWT	YTD '11
Butterfat	4.61	FMMO Milkfat	\$2.1535	FMMO Milkfat Adjustment	\$1.99
TRUE Protein	3.56	FMMO True Protein	\$2.9663	FMMO True Protein Adjustment	\$1.38
Other Solids	5.73	FMMO Other Solids	\$0.3434	FMMO Other Solids Adjustment	(\$0.00)
Solids Not Fat (SNF)	9.29	CA 4b (Cheese Milk) Milkfat	\$2.1200	CA 4b (Cheese Milk) Milkfat	\$2.36
Cheese Yield (90% Fat Recovery, 38% Moisture)	12.31	CA 4b (Cheese Milk) SNF	\$1.0286	CA 4b (Cheese Milk) SNF	\$0.63
		CA Overbase Milkfat	\$2.1288	CA Overbase Milkfat	\$2.37
CME Block Cheese Price	\$1.81	CA Overbase SNF	\$1.1588	CA Overbase SNF	\$0.68