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The President's Pen ...

Kathy and I were enjoying a short visit to South Carolina when the weather forecasts showing the path of Hurricane Sandy sent us scurrying back to Vermont ahead of the storm. The images of New York City and much of east coast reeling from the impact of the massive storm speak to the value of accurate forecasting for risk management. Although the scale of property damage and human suffering are hard to comprehend, the effects could have been so much worse without the week of lead-time that allowed evacuations and preparedness measures to take place.



There are many parallels between the wild and violent swings in our weather patterns and the market place volatility navigated by the dairy industry. This month's newsletter includes a review of forecasts for dairy businesses over the upcoming year. Release of the World Agricultural Supply and Demand Estimates (WASDE) report by USDA triggers a flurry of forecasts and predictions for the next six to twelve months of commodity marketing. I encourage you to consider the key points of the forecasts and keep them in mind as you work with dairy producers making decisions regarding forages, grains, expansion, and herd management.

Although there are significant geographical variations in how the market trends play out for individual farms, the common themes of shrinking cow numbers, strong cull cow prices, slightly higher milk prices, tight margins and strong exports provide a collective basis for decision making over the next few months.

Paying close attention to the forecasts, for the weather or economic trends, is a critical component of business management.

Sincerely,

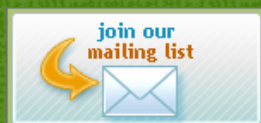
Art Whitman

Dairy Forecasts: A Mixed Bag For Industry

In the wake of the USDA release of the October World Agricultural Supply and Demand Estimates (WASDE) several dairy economists released forecasts for the upcoming production year. We have compiled reports from several states to find common themes. While there are geographic variations, a review of dairy pricing and other key market trends such as grain prices, cull cow prices and export sales from across the country highlights consistencies in the market outlook for the next six to twelve months.

- The national dairy herd continues to shrink as does milk per cow.
- High beef prices coupled with high grain prices are supporting strong sales of cull cows.
- Milk prices will be moderately higher in 2013
- The income margin is slim across the country in the wake of high fuel and feed costs
- The strong export market continues to play an important role in US milk prices.

In September U.S. milk production fell 0.5 percent as compared with September 2011. This marked the fourth consecutive month milk production grew below trend (+1.5 percent, 2007-2011). Milk production for the first four months (Jan-Apr) of 2012 grew by +3.9 percent as compared with 2011, but has slowed the past five months (May-Sep) growing at only +0.6



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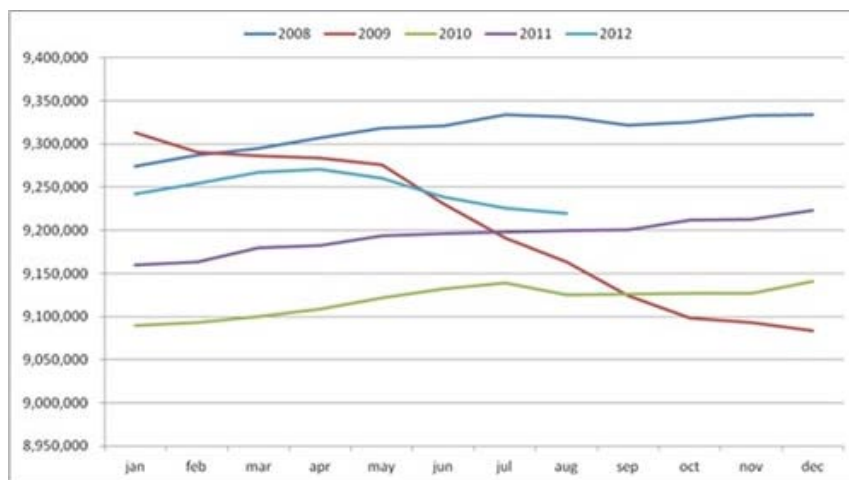
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percent.

The size of the U.S. dairy herd continues to shrink as dairy cow numbers declined by 27,000 head August to September and is down 76,000 head since April. We have not seen such a decline in dairy cow numbers since the second half of 2009 when low milk prices devastated dairy producers across the nation. The decline in cow numbers is particularly pronounced in the major western dairy states (AZ, CA, NM, WA, ID) with aggregate dairy cow numbers in these states down 16,000 head compared with September 2011.



The US dairy herd has shrunk to 9,225,000 head since April 2012, but is still well ahead of the 2010-2011 national average.

Dairy cow slaughter numbers in 2011 ran well ahead of 2010, up 106,600 head, and are up even more in 2012 through August at +153,600 head. Average cull cow prices remain historically high at \$80.00/cwt (+13.0 percent compared with August 2011). The dairy cow cull rate remains at a historical high at 33.0 percent, a full five percentage points above the long term average. Above average dairy cow culling rates will continue as dairy producers are squeezed by continuing high feed prices and beef producers are forced to sell in light of severe forage shortages.



The slaughter of dairy cattle in August 2012 was nearly 45,000 head above the five year national average.

The Class III price was \$19 in September and will reach \$21 for October and perhaps November before declining slightly in December. But, a Class III price at \$19 or higher for the first quarter of next year and staying above \$18 for the remainder of the year now appears quite possible. The Class IV price was \$17.41 in September and will be near \$18.75 for October and perhaps going above \$19 by November. A Class IV price of near \$18 for the first half of next year appears quite possible before declining towards year's end. Some are forecasting even prices higher.

Feed prices have fallen over the past month creating some buying opportunities for producers,

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but corn and soybean meal prices remain 44.5% and 36.8% respectively higher than mid-June prices. Also, just as importantly, forage prices are also at historical highs as heat and drought have played havoc with hay and corn silage yields. A recent USDA report showed nationwide alfalfa/alfalfa mixed hay production down 15.0 percent.

Many Northeast farms experienced record crop yields in 2012 and were able to harvest some corn as higher energy snaplage rather than silage. Most farmers were able to harvest four cuttings of grass and some even managed to sneak in a fifth cutting on alfalfa acreage. Intensive forage crop management will help offset high grain prices. In Pennsylvania the milk margin (the estimated amount from all milk price that remains after feed costs are paid) was up by 16% in September when compared to August. Both income over feed cost and the milk margin are expected to improve in the remainder of 2012.

Industry reports indicate very difficult times have hit the CA dairy industry. A major dairy accounting firm in CA reports "...10 percent of their firm's clients sold out in the past year or two, while another 20 percent-30 percent have filed for bankruptcy." A recent story in the *San Francisco Chronicle* reported that more than 100 California dairies are facing bankruptcy. California's Secretary of Agriculture, Karen Ross has convened a 28-member Dairy Future Task Force made up of dairy producers, processors and cooperatives to develop short term approaches to the impact of low milk prices on the California dairy industry.

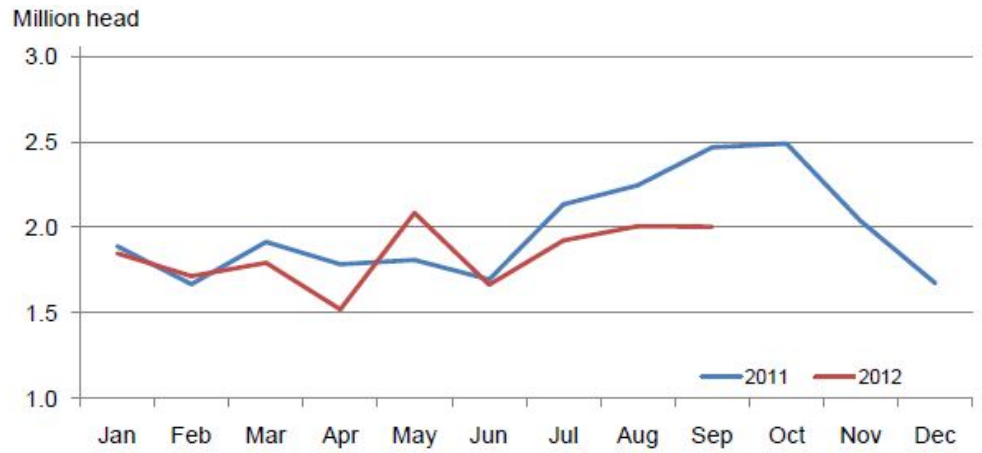
Despite rising prices dairy exports continue to increase over the record exports of 2011; US dairy trade has shown trade surpluses for thirty-one consecutive months. With the help of CWT August exports of cheese, nonfat dry milk, and whey protein concentrate were strong. But August dry whey and butter exports showed a decline. August marked the 18th consecutive month exports exceeded \$400 million and the 29th consecutive month exports equaled 12 to 15 percent of total U.S. milk solids production.

A common theme across many of the forecasts is that it appears US milk production will continue its decline across most of next year. There will likely be further herd reductions as the year progresses and feed prices remain high. The stalemate on development of a new farm bill or farm bill extension is having a negative impact on farm confidence. If a new bill is not implemented soon, there could be a significant increase in farm liquidations over the next few months, which would further tighten milk supply.

Compiled from Lisa Rathke, The Associated Press October 21, 2012, Bob Cropp, Professor Emeritus, University of Wisconsin Cooperative Extension, Dairy Situation and Outlook, October 22, 2012, James Dunn, Penn State Dairy Outlook - October 2012, Robin Schmal, Ag-Dairy Market Update October 26, 2012.

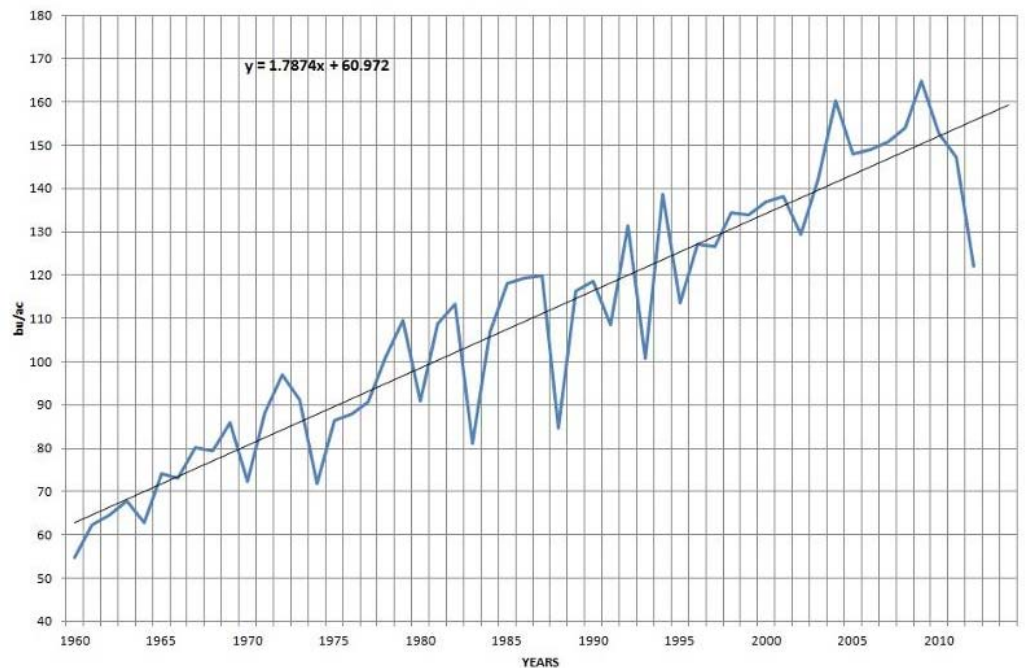
Beef Herds Impacted by Low Yields and High Prices

Reduced yields due to drought have forced many beef producers to cut back on cow numbers. Placements in feedlots during September 2012 totaled 2.00 million, 19 percent below the September 2011 inventory of 2.5 million. This is the lowest report of cattle placements on feed for the month of September since the USDA reporting series began in 1996.



Cattle placement on feed lots has dropped sharply in 2012 due to drought conditions forcing slaughter of cattle.

U.S. CORN YIELDS 1960-2012



With yield reports compiled for over half of the US corn crop the per bushel yield rate has dropped to 1996 levels of 122 bushels per acre.

The reduced size of the US beef herd will bolster the value of cull dairy cattle and provide opportunities for Northeast dairy farmers to utilize strong forage yields for beef production if it fits their management model.

[Food and Drug Administration Web Site Prepared to Accept FSMA Registrations](#)



All Facilities Registered with the FDA under the Bioterrorism Act of 2002 are required to register under the Food Safety Modernization Act.

Facilities must register if they fit any of these categories.

Domestic and foreign (*shipping food products for consumption in U.S.*) Interstate or intrastate commerce



- Commercial feed mills, feed ingredient manufacturers, pet food manufacturers Grain elevators, grain processors, flour/corn millers
- Biofuel facilities manufacturing co-products used as feed ingredients (*e.g., distillers grains*)

Biennial registration renewal for food facilities began at 12:01 AM on October 22, 2012. Feed manufacturers can renew existing registrations or create new registrations at the FDA web site:

Changes to the regulation of food safety are driving the inspection and documentation of production practices to the animal feed mill level, and in some cases all the way back to the farm

<http://www.fda.gov/Food/FoodSafety/FSMA/ucm314178.htm>

Steps to be enforced by FDA under the new law

- **Preventive controls-** For the first time, FDA has a legislative mandate to require comprehensive, prevention-based controls across the food supply.
- **Inspection and Compliance-** The law specifies how often FDA should inspect food producers. FDA is committed to applying its inspection resources in a risk-based manner and adopting innovative inspection approaches.
- **Imported Food Safety-** For the first time, importers must verify that their foreign suppliers have adequate preventive controls in place to ensure safety, and FDA will be able to accredit qualified third party auditors to certify that foreign food facilities are complying with U.S. food safety standards.
- **Response-** For the first time, FDA will have mandatory recall authority for all food products. FDA expects that it will only need to invoke this authority infrequently since the food industry largely honors our requests for voluntary recalls.
- **Enhanced Partnerships-** The legislation will strengthen collaboration among all food safety agencies-U.S. federal, state, local, territorial, tribal and foreign. For example, it directs FDA to improve training of state, local, territorial and tribal food safety officials.

[Surface Transportation Board Proposes Changes to Rail Rate Dispute Process](#)

In late July the Surface Transportation Board (STB), the federal organization charged with regulatory oversight of railroads, announced two initiatives to explore ways to further protect captive shippers from unreasonable rail rates. The STB proposed to reform its rules on how it resolves rate disputes to ensure that all captive shippers have a meaningful way to challenge rates. It is considering a proposal submitted by The National Industrial Transportation League (NITL) to increase rail-to-rail competition.

The National Grain and Feed Association (NGFA) has called on the STB to go further in its efforts to improve the ability of agricultural shippers to challenge unreasonable rail freight rates.

In a statement submitted to the STB in late October, the NGFA urged the federal agency to undertake a more comprehensive, in-depth review of its so-called "simplified standards" for rail rate regulation, with a goal of proposing further and more significant modifications. The NGFA said if the STB finds that its current methods for challenging unreasonable freight rates are inadequate - as the NGFA believes - the agency should ask Congress for additional statutory authority "designed to provide genuinely simplified and expedited standards for resolving rail rate disputes."

In its statement, the NGFA urged the STB to increase to at least \$3 million the amount that could be recovered over a five-year period using the most streamlined mechanism currently available for challenging freight rail rates - known as the three-benchmark (3B) method. Under this method, the STB proposed to increase the recovery limit to \$2 million, up from the current \$1 million. According to the NGFA the costs of bringing a 3B rate case likely still would discourage shippers from pursuing such relief. It noted that in the few 3B cases that have been filed by non-agricultural shippers, the defendant railroads have raised numerous arguments requiring the use of experts and current waybill data that required responses from shippers, each of which added costs and complexities.

Compiled from NGFA press release Nov 1, 2012 and STB web site

INDUSTRY NEWS

CFD Establishes Director of Nutrition

"Co-operative Feed Dealers General Manager Lon Stephens announced that Rene Lavoie II joined the CFD team to assist in sourcing and providing nutritional products for member and non-member feed mills. "This is a long overdue move on the part of the co-operative to bring direction and focused effort to support our feed mill members with products and services designed to help them succeed," stated Stephens.

Co-operative Feed Dealers is a cooperative assisting independent feed mills increase their purchasing power. Their customers include feed mills and retail locations (farm supply stores, feed stores, garden centers, and pet supply stores) throughout the Northeast.

Mercer Milling Names New General Manager

Owner Bill Colten announced that Jeff Matuszczak has been promoted to General Manager at Mercer Milling Company. Serving Mercer for 8 years, Jeff has been an integral part of their success, and growth within the industry particularly with regard to purchasing and customer service. Mercer is an industry leading mineral/vitamin pre-mixer and distributor based in Liverpool, NY.

Green Plains Renewable Energy Sells to The Andersons

Green Plains Renewable Energy, the nation's fourth largest ethanol producer, announced in late October that it will sell its grain business, including 12 grain elevators located in northwestern Iowa and western Tennessee, to The Andersons Inc., an Ohio-based company.

The sale involves approximately 32.6 million bushels, or 83 percent, of the Green Plain's reported agribusiness grain storage capacity, and all of its agronomy and retail petroleum operations. The estimated sales price for the facilities and certain related working capital is

\$133.1 million, including the assumption at closing of term debt of approximately \$28.3 million. "This will be the largest acquisition in our company's 65-year history, and will increase the storage capacity of our Grain Group by nearly 30 percent," says The Andersons CEO Mike Anderson. The purchase will support The Andersons continuing efforts to expand westward. The company conducts business across North America in the grain, ethanol, and plant nutrient sectors, railcar leasing, turf and cob products, and consumer retailing.

Todd Becker, president and CEO of Green Plains, said that while the sale is "a strategic part of our business, we are by no means exiting U.S. agriculture. We will continue to participate with our remaining grain handling assets and through future grain storage expansions at or near our ethanol plants."



The purchase of 12 grain elevators and retail petroleum operations from Green Plains Renewable Energy will increase the western US presence of The Andersons Inc, an Ohio based company active in the grain, ethanol, and plant nutrient sectors.

NEAFA Annual Meeting

MARK YOUR CALENDAR!

February 4-5, 2013

Northeast Ag & Feed Alliance is once again returning to the Albany Marriott on Wolf Road in Albany, NY for our 2013 Annual Meeting. You won't want to miss our top notch speakers such as Dennis Gartman, Jeff Simmons and Mary Ledman. We are also planning sessions on Commodity Markets Outlook, National Issues, Railroad Issue and US Farmers and Ranchers Alliance.



Registration information will be available soon, but sponsorship opportunities are available now!

[Click here to see what opportunities are available](#) ... or visit our website:
www.northeastalliance.com

Remember, if you missed one, past issues of NEAFA News are always available on our website at:

www.northeastalliance.com/newsletter.html

NEAFA Board of Directors Meeting

Monday, December 3, 2012

1:00 - 4:00 pm

via Video Conference

AFIA Import/Export Seminar

December 4-5, 2012

Renaissance Arlington Capital View

Arlington, Virginia

For more information: <http://www.afia.org/AFIA/Files/IES%202012/IES%20Agenda.pdf>

41st Annual NGFA Country Elevator Conference & Trade Show

December 9-11, 2012

Hilton Omaha/CenturyLink Center

Omaha, Nebraska

For more information: www.ngfa.org

AFIA & USPOULTRY Poultry Protein and Fat Council's 6th Annual Pet Food Conference

January 29, 2013

Georgia World Conference Center

Room B-401/402

Atlanta, Georgia

For more information: www.petfoodconference.com

International Feed, Poultry & Meat Expo

January 29-31, 2013

Atlanta, Georgia

For more information: <http://www.ife13.org/>

NEAFA Annual Meeting

February 4-5, 2013

Marriott Hotel - Wolf Road

Albany, New York

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