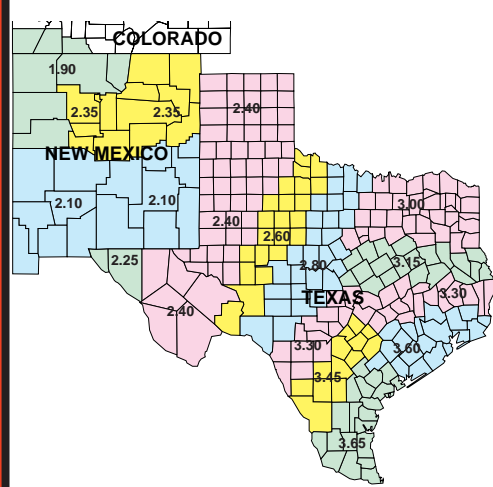


# THE MARKET ADMINISTRATOR'S *REPORT*



## SOUTHWEST MARKETING AREA

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VOLUME XXX, NO. 4

APRIL 2004

## MARKET SUMMARY FOR MARCH

The Producer Price Differential (P.P.D.) for milk delivered to handlers located in Dallas/Tarrant counties (TX) of the Southwest Milk Market Order was \$0.73 for March. Butterfat price increased \$0.5295 per pound from \$1.8518 in February to the level of \$2.3813 in March. Protein price increased \$0.2222 per pound from \$1.7911 in February to \$2.0133 in March. March's Other Solids price increased \$0.0144 per pound from \$0.0090 in February to \$0.0234 in March. The Somatic Cell Count adjustment rate factor for March was .00078 per thousand (difference from 350).

For comparison in hundredweights, producers who delivered milk to handlers located in Dallas/Tarrant counties (TX) received a March statistical uniform price of \$15.22 per hundredweight for milk testing 3.5% butterfat, 2.99% true protein, 5.69% other solids and 350,000 SCC. This is an increase of \$1.55 in comparison to the statistical blend price of \$13.67 in February.

The March Class I price increased \$0.35 from

\$14.59 in February to the March level of \$14.94. The Boston Class I price of \$15.19 produced a dairy deficiency payment of \$0.79 for March. The Class II price for March of \$14.79 per hundredweight increased \$1.89 from \$12.90 in February. March's Class III price increased \$2.60 from \$11.89 in February to \$14.49 in March. The Class IV price increased \$1.89 from \$12.21 in February to \$14.10 in March.

In March 864 producers delivered a total of 601,447,779 pounds of milk. On a daily basis this represents a decrease of 22.64 percent from the producer receipts level in February and it represents a decrease of 36.19 percent when compared to the producer receipts level of March 2003.

Producer milk classified as Class I during March amounted to 58.74 percent of total producer receipts. This figure is up from 44.39 percent in February and it is up from 35.95 percent in March 2003. The average butterfat test of producer milk pooled during March was 3.668 percent, average protein test was 3.050 percent, average other solids test was 5.724 percent and the average somatic cell count was 299,000.

Federal Order	Statistical Uniform Price		Producer Price Differential		Class I Utilization	
	Mar 04	Feb 04	Mar 04	Feb 04	Mar 04	Feb 04
Appalachian	15.80	14.49	-----	-----	76.20	66.52
Arizona-Las Vegas	14.69	12.89	-----	-----	32.35	31.41
Central	14.63	12.66	0.14	0.77	53.77	29.49
Florida	16.48	15.48	-----	-----	83.01	81.90
Mideast	14.68	12.87	0.19	0.98	44.50	36.30
Northeast	15.56	13.95	1.07	2.06	44.60	43.60
Pacific Northwest	14.55	12.67	0.06	0.78	31.61	28.34
Southeast	15.61	14.23	-----	-----	61.15	58.32
<b>Southwest</b>	<b>15.22</b>	<b>13.67</b>	<b>0.73</b>	<b>1.78</b>	<b>58.74</b>	<b>44.39</b>
Upper Midwest	14.70	12.36	0.21	0.47	58.70	18.30
Western	14.69	12.53	0.20	0.64	60.03	19.40

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**DAIRY OUTLOOK FOR 2004**

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Dairy demand appears to have gained some momentum during 2003 and is expected to continue its recovery this year. The restaurant segment is projected to do better, and ingredient use should come back somewhat. However, the improvement as yet has not been either steady or strong. Consumer spending may stay unsettled. In addition, it is unclear what the effects of recent intense media attention on weight problems might be. Commercial use of all dairy products is projected to grow about 1 percent on a milkfat basis in 2004. Boosted by expected larger ingredient use, commercial use on a skim solids basis is projected to rise more—about 2 percent. Although welcome, these increases represent only modest recovery in dairy demand.

Milk per cow grew only fractionally in 2003. More tellingly, the rise from the 5-year moving average was dramatically below the long-run trend. However, this has been far from unusual in recent years. Expansion has been well below average for 3 straight years and for 6 of the last 8 years. A number of factors contributed to last year's sluggish gains in milk per cow. Milk prices were low relative to concentrate feed prices. Although the milk-feed price ratio does not shape gains in output per cow as much as formerly, recent ratios have made producers cautious about boosting concentrate feeding. Other factors probably included an unusually large share of first-calf heifers in the milking herd and somewhat conservative use of bovine somatotropin (BST). Supplies of heifers available to start production in 2003 were quite large, a welcome relief from the heifer shortage of 2002. But, such a large cohort of heifers serves to lower average milk per cow the first year. Low milk prices probably made farmers leery of using BST on cows other than those with high odds of a profitable response. Monsanto has announced that it will accept no new BST customers in 2004 and that established users will be allowed only half their normal purchases. With more than a fifth of the cow herd currently receiving the hormone, reduced availability will significantly affect 2004 milk per cow. On the other hand, a much smaller number of first-calf heifers should spur gains in milk per cow. Milk per cow in 2004 is expected to rise only slightly more than 1 percent from 2003 on a daily average basis. Growth may pick up later in the year but significant recovery probably will have to wait until 2005.

Changes in milk cow numbers during 2002 and 2003, like most earlier periods, were driven by structural changes induced by milk prices and returns. What made these years different was the delay between changes in returns and the effects of structural adjustments. The generally high returns of 1996-2001 unleashed a wave of dairy farm expansions during 2001 and 2002. However, many of these new facilities were not completely filled until 2003 because of the shortage of dairy replacements. These expansions bolstered milk cow numbers into early 2003. Similarly, the rate of farms exiting was relatively low in 2001 because of the strong returns. The exit rate stayed slow during most of 2002 in spite of sharply lower returns. Even the relatively weak farms entered the year much better able to continue than normal, and their ability to persist was further enhanced by the Milk Income Loss Contract payments. However, the low returns were taking their toll by late 2002 and 2003, and the exit rate picked up considerably. Returns in 2004 are expected to be somewhat stronger than in 2002 or 2003 but still relatively weak. Dairy farm exits probably will remain numerous. Expansion by stronger producers might pick up a bit after the 2003 hiatus but is projected to stay fairly modest. Significantly fewer heifers will enter the milking herd this year, even though the overall herd of replacement heifers on January 1 was only 2 percent below a year earlier. An unusually large share of the year-earlier heifers were older animals, and the number expected to begin milking in 2004 was down 4 percent. And, no Canadian replacements will be available so long as the ban on importation of live animals continues. Although new regulations are in the comment process, it is uncertain when the current prohibition will end. Milk cow numbers are projected to decline at a fairly rapid rate throughout 2004. For the year, cows are expected to average almost 2 percent fewer than in 2003, the largest decline since at least 1991. Milk production in 2004, on a daily average basis, is projected to be about the same as in 2003. Production in 2003 was likewise steady. Such stability would be highly unusual in an industry where typical shifts in output have become much larger than in the past.

Counterseasonal increases in wholesale butter and cheese prices have been large this winter. By mid-March, butter prices had jumped more than 80 cents per pound since late December, exceeding \$2 for the first time since the summer of 2001. Meanwhile, cheese prices rose more than 50 cents per pound and had surpassed their 2003 peaks. The roots of these price rises lay in the strong finish to the 2003 holiday season. Recovery in demand and continued slight weakness in milk production left pipeline holdings tight and pulled down the heavy warehouse stocks of butter that had dogged dairy markets since the spring of 2002. Prices began to rise as buyers sought some protection from this market tightening. Since then, a series of bullish factors (mostly related to lower expected production) have created self-perpetuating price increases, as buyer actions to protect against future tightness dried up current markets. The peculiar mix of a counterseasonal price rise, tightened current market fundamentals, and the key role of anticipated market conditions make the ultimate size of the price rise, its duration, and the steepness of the subsequent downward adjustment very difficult to gauge. Given expected conditions, elevated wholesale prices are projected to persist through midyear, with gradual declines during the second half of 2004. Farm milk prices are expected to average more than \$14 per cwt in 2004, running well above a year earlier until at least autumn. Milk prices now seem likely to average substantially higher than the low levels of 2002 or 2003. However, prices may be quite volatile, and a sudden collapse will remain a possibility.

SOURCE: "Livestock, Dairy, and Poultry Outlook", LDP-M-117, March 16, 2004, Economic Research Service, USDA.

## TOP TEN TEXAS COUNTIES a/ – MARCH 2004

<u>County</u>	<u>Number of Producers</u>	<u>Pounds</u>	<u>% Change From 2003b/</u>	<u>County</u>	<u>Number of Producers</u>	<u>Pounds</u>	<u>% Change From 2003b/</u>
1. Erath	115	115,381,621	+ 0.18	7. Castro	7	19,155,083	+ 214.70
2. Hopkins	153	49,224,183	- 5.63	8. Deaf Smith	6	18,659,360	+ 33.52
3. Comanche	33	41,975,396	- 0.91	9. Hale	4	17,901,242	+ 118.89
4. Lamb	8	30,657,380	+ 13.67	10. El Paso	5	17,352,874	- 21.01
5. Archer	52	20,374,030	- 0.42	Ten County Total	388	350,158,375	+ 5.26 b/
6. Parmer	5	19,477,206	+ 70.27	Other Counties Total	426	198,783,084	+ 10.70
				<b>Texas Total</b>	<b>814</b>	<b>548,941,459</b>	<b>+ 7.16</b>

a/ Includes all known Grade "A" milk produced on farms located in Texas.

b/ Compared to top ten counties for the month in the previous year.

## Class Prices at 3.5%, for Federal Orders 126 Formula Prices and Price Quotations

Class Prices & P.P.D.						Component Prices				NASS Product Prices			
	I a/	II	III	IV	P.P.D.a/	BF	Other Solids	True Protein	SCC c/ Adj Rate	Grade AA Butter	Cheddar Cheese	NFDM Powder	Dry Whey
Month	----- Dollars Per Hundred Wt. -----					-----Cents Per Pound-----							
January 2003	13.56	11.29	9.78	10.07	2.10	118.56	3.39	181.64	.00057	108.72	113.70	82.07	17.28
February	13.23	10.66	9.66	9.81	1.76	113.73	2.40	185.38	.00056	104.76	112.99	81.11	16.32
March	12.81	10.54	9.11	9.79	1.99	114.59	2.06	166.48	.00054	105.46	107.80	80.51	15.99
April	12.64	10.44	9.41	9.73	1.78	115.03	- 0.08	180.06	.00055	107.36	109.97	80.30	15.82
May	12.71	10.43	9.71	9.74	1.59	115.12	- 1.44	192.75	.00057	107.43	113.94	80.40	14.50
June	12.74	10.46	9.75	9.76	1.58	115.76	- 2.00	194.34	.00057	107.97	114.64	80.40	13.96
July	12.77	10.63	11.78	9.95	0.23	120.55	- 1.24	254.80	.00067	111.96	134.97	80.72	14.70
August	13.97	10.81	13.80	10.14	- 0.87	125.14	0.26	314.38	.00077	115.78	154.96	81.05	16.15
September	16.71	10.76	14.30	10.05	0.18	122.18	1.70	331.80	.00080	113.32	159.40	81.11	17.55
October	17.27	10.84	14.39	10.16	0.50	125.53	3.11	328.15	.00080	116.11	159.36	81.09	18.92
November	17.37	10.99	13.47	10.30	1.06	128.77	3.68	292.67	.00075	118.81	149.41	81.30	19.47
December	16.84	11.30	11.87	10.52	1.99	136.88	3.62	229.97	.00066	125.57	132.60	80.70	19.41
Averages 2003 b/	14.39	10.76	11.42	10.00	1.16	120.99	1.29	237.70	.00065	111.94	130.31	80.90	16.67
January 2004	14.85	11.67	11.61	10.97	1.68	149.78	2.17	208.75	.00065	136.32	130.23	80.62	18.01
February	14.59	12.90	11.89	12.21	1.78	185.18	0.90	179.11	.00066	165.82	132.60	80.64	16.77
March	14.94	14.79	14.49	14.10	0.73	238.13	2.34	201.33	.00078	209.94	156.80	81.01	18.17

a/ Subject to location adjustments. b/ Simple averages c/ SCC adjustment rate is per 1,000 difference.

## TOP NEW MEXICO COUNTIES a/ – MARCH 2004

<u>County</u>	<u>Number of Producers</u>	<u>Pounds</u>	<u>% Change From 2003b/</u>	<u>County</u>	<u>Number of Producers</u>	<u>Pounds</u>	<u>% Change From 2003b/</u>
1. Chaves	38	160,089,064	+ 0.40	7. Valencia	9	16,016,194	+ 52.27
2. Roosevelt	44	105,223,849	+ 2.96	8. Socorro	7	11,609,505	- 30.70
3. Curry	21	97,925,073	+ 2.12	9. Sierra	3	7,414,226	+ 30.48
4. Dona Ana	23	88,637,270	+ 2.18				
5. Lea	17	36,760,007	- 21.36	Nine County Total	170	553,821,240	- 0.20 b/
6. Eddy	8	30,146,052	- 2.63	Other Counties Total	8	14,682,979	- 7.95
				<b>New Mexico Total</b>	<b>178</b>	<b>568,504,219</b>	<b>- 0.42</b>

a/ All known Grade "A" milk produced on farms located in New Mexico.

b/ Compared to top counties for the month in the previous year.

**POUNDS OF GRADE A MILK MARKETING BY  
PRODUCERS LOCATED IN TEXAS BY MONTHS:  
JANUARY 2002 THROUGH MARCH 2004, WITH PRODUCTION PERCENTAGE COMPARISONS**

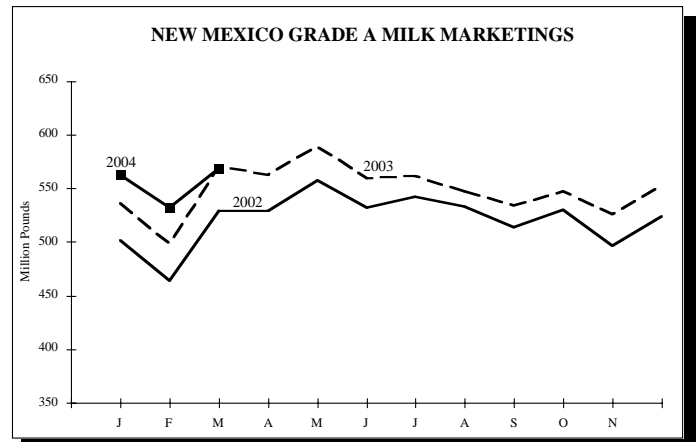
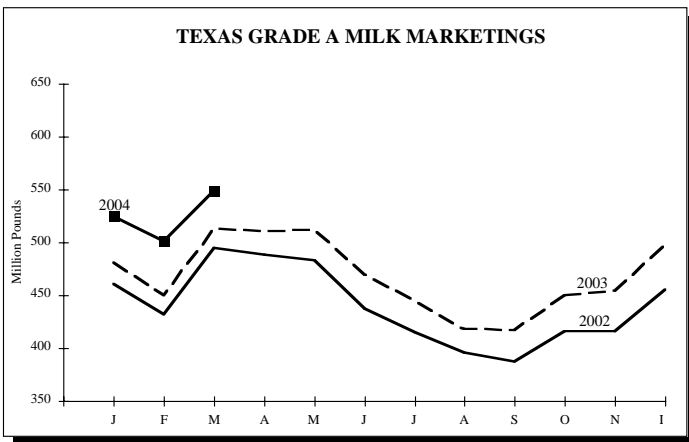
MONTH	2002 POUNDS	Number of Producers	2003 POUNDS	Number of Producers	2004 POUNDS	Number of Producers	PERCENT CHANGE 2003/02	2004/03
January	459,850,238	897	480,011,354	845	523,723,796	816	+ 4.38	+ 9.11
February	431,807,361	894	449,362,000	840	501,204,456	819	+ 4.07	+ 7.69*
March	494,608,931	893	512,243,241	841	548,941,459	814	+ 3.57	+ 7.16
April	487,475,741	889	510,466,950	838			+ 4.72	
May	482,994,330	875	511,474,552	840			+ 5.90	
June	435,698,971	872	468,387,455	838			+ 7.50	
July	414,700,943	862	444,115,237	834			+ 7.09	
August	395,468,644	851	417,817,794	833			+ 5.65	
September	386,732,687	859	416,649,423	836			+ 7.74	
October	415,984,319	846	449,267,689	835			+ 8.00	
November	415,537,665	847	453,593,349	826			+ 9.16	
December	<u>454,863,992</u>	843	<u>497,718,548</u>	815			<u>+ 9.42</u>	
Years Total	5,275,723,822		5,611,107,592				+ 6.36	

\* Based on average daily delivery.

**POUNDS OF GRADE A MILK MARKETING BY  
PRODUCERS LOCATED IN NEW MEXICO BY MONTHS:  
JANUARY 2002 THROUGH MARCH 2004, WITH PRODUCTION PERCENTAGE COMPARISONS**

MONTH	2002 POUNDS	Number of Producers	2003 POUNDS	Number of Producers	2004 POUNDS	Number of Producers	PERCENT CHANGE 2003/02	2004/03
January	501,275,998	174	535,741,056	177	562,516,031	178	+ 6.66	+ 5.00
February	463,667,936	173	498,218,526	176	532,156,355	176	+ 7.45	+ 3.13*
March	528,830,087	175	570,901,632	177	568,504,219	178	+ 7.96	- 0.42
April	528,467,048	175	562,338,380	177			+ 6.41	
May	557,746,887	176	589,176,775	177			+ 5.64	
June	532,178,000	178	559,442,259	177			+ 5.12	
July	542,546,821	176	560,883,275	178			+ 3.38	
August	532,685,705	176	547,114,145	178			+ 2.71	
September	513,773,496	178	533,648,709	180			+ 3.87	
October	529,524,800	178	546,904,202	178			+ 3.28	
November	496,802,059	178	526,000,891	176			+ 5.88	
December	<u>523,409,272</u>	178	<u>553,271,605</u>	179			<u>+ 5.71</u>	
Years Total	6,250,908,109		6,583,641,455				+ 5.32	

\* Based on average daily delivery.



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## TEXAS AND NEW MEXICO MARKET COMPONENT TEST

Month	Butterfat		Protein		Other Solids		S-N-F		SCC <sup>a/</sup>	
	TX	NM	TX	NM	TX	NM	TX	NM	TX	NM
March 2003	3.70	3.63	3.05	2.99	5.71	5.73	8.76	8.72	343	277
April	3.59	3.56	3.02	2.96	5.73	5.75	8.75	8.70	306	252
May	3.55	3.49	2.98	2.93	5.72	5.75	8.70	8.68	328	251
June	3.57	3.45	2.98	2.92	5.71	5.74	8.69	8.65	368	273
July	3.56	3.44	2.98	2.90	5.69	5.73	8.67	8.63	395	290
August	3.58	3.44	3.01	2.92	5.67	5.70	8.67	8.62	406	306
September	3.65	3.50	3.09	3.01	5.68	5.72	8.77	8.72	389	278
October	3.73	3.58	3.13	3.07	5.67	5.70	8.81	8.78	366	272
November	3.75	3.64	3.15	3.11	5.69	5.71	8.83	8.82	333	248
December	3.78	3.68	3.15	3.10	5.72	5.72	8.87	8.83	305	246
Averages 2003	3.66	3.57	3.06	3.00	5.70	5.72	8.76	8.72	351	275
January 2004	3.77	3.66	3.11	3.06	5.72	5.72	8.83	8.78	300	253
February	3.76	3.64	3.11	3.05	5.73	5.74	8.84	8.79	302	262
March	3.68	3.58	3.06	3.02	5.72	5.72	8.78	8.74	318	280

a/ In thousands.

### MARCH 2004

#### COMPUTATION OF PRODUCER PRICE DIFFERENTIAL

		Pounds	Price	Value
Add: Class I Differential				\$343,621.18
Class I Butterfat	60(a)	8,144,217	\$1.7975	\$14,639,230.07
Class I Skim Per Cwt		345,157,295	\$8.9600	\$30,926,093.64
Class II Butterfat	60(b)	8,837,964	\$2.3883	\$21,107,709.46
Class II Nonfat Solids		9,380,769	\$0.7400	\$6,941,769.06
Class III Butterfat	60(c)	1,653,238	\$2.3813	\$3,936,855.66
Class III Protein		708,075	\$2.0133	\$1,425,567.41
Class III Other Solids		1,322,873	\$0.0234	\$30,955.23
Class IV Butterfat	60(d)	3,427,776	\$2.3813	\$8,162,562.99
Class IV Nonfat Solids		9,941,393	\$0.6634	\$6,595,120.14
Class II, III & IV Somatic Cell Adj.	60(e)			\$91,381.29
Total Producer Milk-Product Lbs & Value		601,447,779		\$94,200,866.13
Add: Value as for 60(f) Thru 60(j)				\$197,812.49
Less: Total Protein Pounds	61(b)	18,348,575	<b>\$2.0133</b>	\$36,941,186.06
Total Other Solids Pounds		34,428,329	<b>\$0.0234</b>	\$805,622.92
Total Butterfat Pounds		22,063,195	<b>\$2.3813</b>	\$52,539,086.27
Total Value of Somatic Cell Adjustment				\$240,469.88
<b>Total Milk and Value</b>		601,447,779		\$3,872,313.49
Add: Location Differential Adjustments	61(c)			\$496,117.63
Producer-Settlement Fund	61(d)			\$319,143.21
<b>Total Producer Milk/URSP and Value</b>		601,447,779	\$0.77938	\$ 4,687,574.33
Less: Producer-Settlement Fund	61(f)		\$0.04938	\$297,005.54
<b>Producer Price Differential (Dallas County)</b>			<b>\$0.73</b>	\$4,390,568.79



# THE MARKET ADMINISTRATOR'S *REPORT*

## SOUTHWEST MARKETING AREA

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## MARCH 2004 PRODUCER MILK AND COMPONENT UTILIZATION PERCENTAGES

Producer Milk Utilization Percentages						
	Product Pounds	Percent	Butterfat Pounds	Percent	Skim Milk Pounds	Percent
Class I	353,301,512	58.74	8,144,217	36.91	345,157,295	59.57
Class II	111,658,268	18.56	8,837,964	40.06	102,820,304	17.75
Class III	23,953,043	3.99	1,653,238	7.49	22,299,805	3.85
Class IV	112,534,956	18.71	3,427,776	15.54	109,107,180	18.83
Total	601,447,779	100.00	22,063,195	100.00	579,384,584	100.00

Producer Milk Component Utilization Percentages						
	Protein Pounds	Percent	Other Solids Pounds	Percent	Nonfat Solids Pounds	Percent
Class I	10,918,996	59.51	20,504,802	59.56	31,423,798	59.54
Class II	3,275,506	17.85	6,105,257	17.73	9,380,769	17.77
Class III	708,075	3.86	1,322,873	3.84	2,030,945	3.85
Class IV	3,445,998	18.78	6,495,397	18.87	9,941,392	18.84
Total	18,348,575	100.00	34,428,329	100.00	52,776,904	100.00