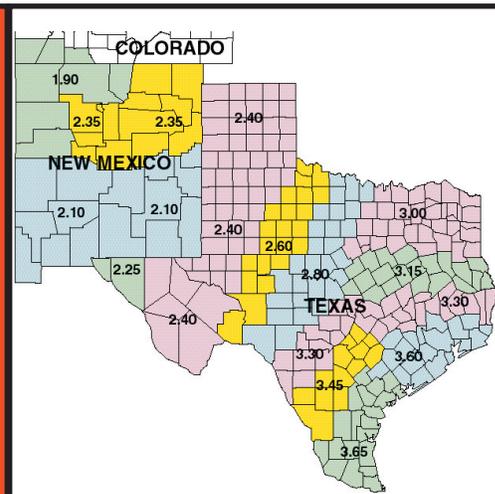


THE MARKET ADMINISTRATOR'S

REPORT



SOUTHWEST MARKETING AREA

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VOLUME XXXI, NO. 1

JANUARY 2005

MARKET SUMMARY FOR DECEMBER

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 (\$0.47) for December. Butterfat price decreased \$0.0123 per pound from \$2.0489 in November to the level of \$2.0366 in December. Protein price increased \$0.4189 per pound from \$2.4297 in November to \$2.8486 in December. December's Other Solids price increased \$0.0058 per pound from \$0.0800 in November to \$0.0858 in December. The Somatic Cell Count adjustment rate factor for December was .00086 per thousand (difference from 350).

For comparison in hundredweights, producers who delivered milk to handlers located in Dallas/Tarrant counties (TX) received a December statistical uniform price of \$15.67 per hundredweight for milk testing 3.5% butterfat, 2.99% true protein, 5.69% other solids and 350,000 SCC. This is a decrease of \$0.21 in comparison to the statistical blend price of \$15.88 in November.

The December Class I price increased \$0.14 from \$17.29 in November to the December level of \$17.43. The Class II price for December of \$13.98 per hundredweight decreased \$0.11 from \$14.09 in November. December's Class III price increased \$1.25 from \$14.89 in November to \$16.14 in December. The Class IV price increased \$0.08 from \$13.34 in November to \$13.42 in December.

In December 868 producers delivered a total of 631,956,753 pounds of milk. On a daily basis this represents a decrease of 19.53 percent from the producer receipts level in November and it represents a decrease of 22.95 percent when compared to the producer receipts level of December 2003.

Producer milk classified as Class I during December amounted to 57.14 percent of total producer receipts. This figure is up from 47.40 percent in November and it is up from 41.68 percent in December 2003. The average butterfat test of producer milk pooled during December was 3.810 percent, average protein test was 3.172 percent, average other solids test was 5.701 percent and the average somatic cell count was 331,000.

Federal Order	Statistical Uniform Price		Producer Price Differential		Class I Utilization	
	Dec 04	Nov 04	Dec 04	Nov 04	Dec 04	Nov 04
Appalachian	16.98	16.78	-----	-----	75.89	72.53
Arizona-Las Vegas	15.55	15.20	-----	-----	35.45	36.95
Central	15.26	15.10	(0.88)	0.21	52.84	50.39
Florida	18.00	17.99	-----	-----	85.58	89.05
Mideast	15.52	15.21	(0.62)	0.32	58.30	38.10
Northeast	16.43	16.20	0.29	1.31	49.50	52.00
Pacific Northwest	14.83	14.75	(1.31)	(0.14)	43.04	41.68
Southeast	17.03	16.83	-----	-----	70.90	71.59
Southwest	15.67	15.88	(0.47)	0.99	57.14	47.40
Upper Midwest	15.19	15.02	(0.95)	0.13	59.30	40.60

DAIRY FORWARD PRICING PILOT PROGRAM EXPIRES

Efforts to pass legislation to make permanent the Dairy Forward Pricing Pilot Program have not been successful. Therefore, proprietary handlers with milk under forward contracts beyond December 31, 2004, will not be exempt from paying minimum Federal order prices to producers or producer cooperatives for pool milk received after that date. This exemption termination also applies to cooperatives that have contracts with non-member producers.

Proprietary plant operators who wish to reduce cost variability for pool milk after December 31, 2004, must find a mechanism other than forward contracting with producers. Market Administrators will not recognize contracts between proprietary plants or institutions in which a proprietary plant is a significant owner and producers or producer cooperatives as exempting handlers from paying producers minimum order prices for pool milk.

Independent producers and cooperative producers being paid by proprietary plants who wish to reduce price variability after December 31, 2004, must acquire such protection from third parties (i.e., commodity brokers) who are totally independent from the handler which receives and pays them for their milk. Price hedging agreements which are verified by the Market Administrator as being between producers and third parties may be balanced through the handler's payroll. The handler may charge a nominal fee for handling such transactions. Both the balancing transaction and the handling fee must be authorized in writing by the producer and be separate, clearly identified entries on the handler's producer payroll.

Any questions pertaining to the above should be directed to our Carrollton office at 972-245-6060.

FALL FROM 2004 RECORD MILK PRICE SEEN AS LIMITED

Late 2004 recovery will leave average farm milk prices near \$16 per cwt, up about \$3.50 from 2003 and easily a record. Milk prices have averaged above a year earlier since the summer of 2003. The year-to-year rise in farm prices was the largest proportional rise since World War I. In 2004, the value of milk for cheese exceeded the value of milk for butter-nonfat dry milk by a wide margin. This stood in sharp con-

trast to most of the 2000-02 period when butter-powder values were dominant. The advantage to cheese is expected to narrow in 2005 as extra milk is expected to lower butter and cheese prices but have little impact on powder prices. Milk prices are projected to fall to \$13.85-\$14.65 in 2005, still considerably above those of 2002 and 2003. Much will hang on the size and steadiness of the expansion in milk production, where uncertainty is boosted by the BST situation as well as other milk-per-cow factors. Demand growth is expected to be only modestly favorable but could pick up if the economy finds steadier footing. Lastly, behavior by buyers, stung by this year's price volatility, may be somewhat erratic. Retail dairy prices in 2004 are projected to average about 8 percent above a year earlier, following almost no change in 2003. Although the farm-to-retail price spread posted increases during the second half, the average spread decreased slightly for the second year in a row. Despite the relatively large increase this year, retail dairy prices in the last 5 years have risen less than 3 percent annually, similar to prices of all food and a little less than prices of all items. Retail prices of manufactured dairy products reacted rather typically to wholesale price swings, lagging changes in both directions, but fluid milk price changes were highly unusual. Late 2003 farm price increases and the early portion of the 2004 rise were almost not seen in retail prices of fluid milk. Retail milk prices then made an unprecedented jump in May. When farm milk prices dropped, retail prices fell relatively quite quickly in August and September. Several factors may have contributed to this unusual pattern. Fluid milk sales have generally been rather weak, leaving retailers concerned that price increases might sap sales even more. Fluid milk sales make the greatest contribution to net margins for the dairy case, even though gross margins are relatively modest. In addition, supermarkets are being seriously challenged by the mixed-merchandise discount chains. Supermarket milk sales had been affected less than most sales because shopping frequency at the discounters was low. As the frequency has increased, supermarkets have seen a larger share of milk sales being challenged. Retail dairy prices are expected to increase less than 2 percent in 2005. Increases in the spread are projected to just outweigh the decreases in farm milk prices. However, retail pricing of fluid milk might stay somewhat atypical and unpredictable.

SOURCE: "Livestock, Dairy, and Poultry Outlook", LDP-M-126, December 16, 2004, Economic Research Service, USDA. This summary has been condensed from the original.

TOP TEN TEXAS COUNTIES a/ – DECEMBER 2004

County	Number of Producers	Pounds	% Change From 2003b/	County	Number of Producers	Pounds	% Change From 2003b/
1. Erath	108	100,581,603	- 3.44	7. Archer	53	17,969,325	- 8.07
2. Hopkins	149	42,380,990	- 3.64	8. Deaf Smith	6	17,376,492	- 2.83
3. Comanche	33	41,072,941	+ 8.69	9. Parmer	5	16,341,214	- 10.76
4. Lamb	8	26,879,090	- 9.31	10. Wood	45	13,828,872	+ 2.13
5. Hale	4	22,856,603	+ 75.78	Ten County Total	420	322,021,301	+ 1.37 b/
6. Castro	9	22,734,171	+ 49.06	Other Counties Total	373	172,261,452	- 4.34
				Texas Total	793	494,282,753	- 0.69

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

Month	Class Prices & P.P.D.					BF	Component Prices			NASS Product Prices			
	I a/	II	III	IV	P.P.D.a/		Other Solids	True Protein	SCC c/ Adj Rate	Grade AA Butter	Cheddar Cheese	NFDM Powder	Dry Whey
	----- Dollars Per Hundred Wt. -----						-----Cents Per Pound-----						
November 2003	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
April	16.64	15.21	19.66	14.57	- 3.48	250.13	10.42	344.65	.00103	219.94	205.20	81.71	26.02
May	22.65	15.03	20.58	14.50	- 1.91	242.82	14.44	376.39	.00106	213.85	212.66	83.83	29.92
June	24.13	14.31	17.68	13.72	1.72	217.68	13.39	310.86	.00092	192.90	184.11	84.97	28.90
July	20.95	14.00	14.85	13.31	2.23	205.43	10.48	236.25	.00078	182.69	156.95	85.13	26.07
August	17.62	13.13	14.04	12.46	1.45	179.41	6.76	246.63	.00076	161.01	151.67	85.84	22.46
September	16.94	13.66	14.72	13.00	1.03	193.54	5.89	254.31	.00079	172.78	158.67	86.39	21.62
October	17.78	13.57	14.16	12.81	1.52	190.20	6.77	238.14	.00076	170.00	152.56	85.65	22.47
November	17.29	14.09	14.89	13.34	0.99	204.89	8.00	242.97	.00079	182.24	158.86	85.70	23.67
December	17.43	13.98	16.14	13.42	- 0.47	203.66	8.58	284.86	.00086	181.22	171.46	87.13	24.23
Averages 2004 b/	17.98	13.86	15.39	13.20	0.61	205.07	7.51	260.35	.00082	182.39	164.31	84.05	23.19

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

TOP NEW MEXICO COUNTIES a/ – DECEMBER 2004

County	Number of Producers	Pounds	% Change From 2003b/	County	Number of Producers	Pounds	% Change From 2003b/
1. Chaves	41	139,537,384	- 8.72	7. Valencia	9	15,592,572	+ 57.58
2. Roosevelt	40	97,650,232	- 6.28	8. Socorro	7	10,890,585	- 35.51
3. Curry	23	95,986,641	+ 1.89	9. Sierra	3	7,381,557	+ 18.30
4. Dona Ana	23	83,447,102	+ 0.83	10. Bernalillo	4	4,964,778	- 4.17
5. Lea	14	31,719,115	- 27.24	Ten County Total	170	513,468,239	- 5.59 b/
6. Eddy	6	26,298,273	- 6.29	Other Counties Total	4	8,750,523	- 6.75
				New Mexico Total	174	522,218,762	- 5.61

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 MARKETED BY
PRODUCERS LOCATED IN TEXAS BY MONTHS:
JANUARY 2002 THROUGH DECEMBER 2004, WITH PRODUCTION PERCENTAGE COMPARISONS**

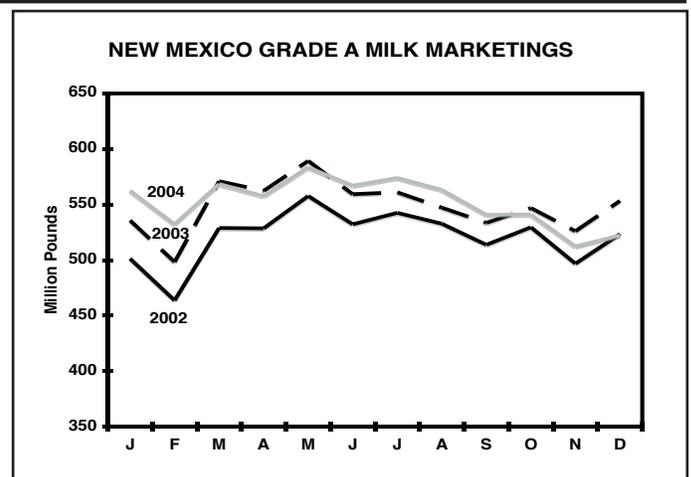
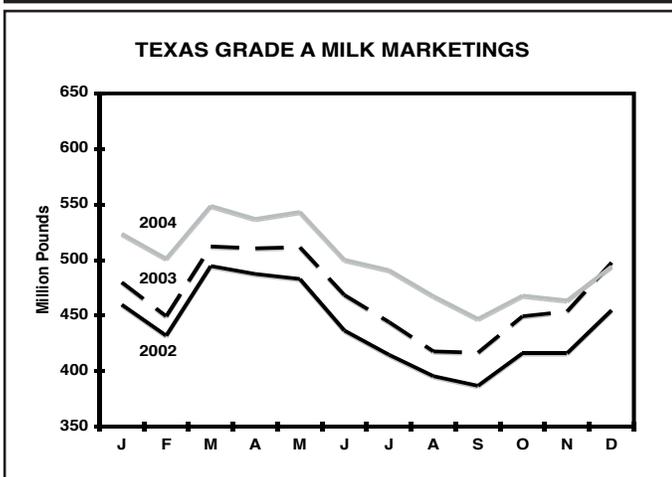
MONTH	2002 POUNDS	Number of Producers	2003 POUNDS	Number of Producers	2004 POUNDS	Number of Producers	PERCENT 2003/02	CHANGE 2004/03
January	459,850,238	897	480,011,354	845	523,723,796	816	+ 4.38	+ 9.11
February	431,807,361	894	449,362,000	840	501,204,456	819	+ 4.07	+ 7.69*
March	494,608,931	893	512,243,241	841	548,941,459	814	+ 3.57	+ 7.16
April	487,475,741	889	510,466,950	838	537,141,283	803	+ 4.72	+ 5.23
May	482,994,330	875	511,474,552	840	543,408,997	801	+ 5.90	+ 6.24
June	435,698,971	872	468,387,455	838	500,319,580	803	+ 7.50	+ 6.82
July	414,700,943	862	444,115,237	834	491,018,134	799	+ 7.09	+ 10.56
August	395,468,644	851	417,817,794	833	467,427,900	796	+ 5.65	+ 11.87
September	386,732,687	859	416,649,423	836	447,166,094	796	+ 7.74	+ 7.32
October	415,984,319	846	449,267,689	835	467,915,409	797	+ 8.00	+ 4.15
November	415,537,665	847	453,593,349	826	463,696,745	793	+ 9.16	+ 2.23
December	<u>454,863,992</u>	843	<u>497,718,548</u>	815	<u>494,282,753</u>	793	<u>+ 9.42</u>	<u>- 0.69</u>
Years Total	5,275,723,822		5,611,107,592		5,986,246,606		+ 6.36	+ 6.69

* Based on average daily delivery.

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

MONTH	2002 POUNDS	Number of Producers	2003 POUNDS	Number of Producers	2004 POUNDS	Number of Producers	PERCENT 2003/02	CHANGE 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	557,482,116	176	+ 6.41	- 0.86
May	557,746,887	176	589,176,775	177	583,379,003	177	+ 5.64	- 0.98
June	532,178,000	178	559,442,259	177	567,036,025	177	+ 5.12	+ 1.36
July	542,546,821	176	560,883,275	178	573,899,551	181	+ 3.38	+ 2.32
August	532,685,705	176	547,114,145	178	563,099,040	177	+ 2.71	+ 2.92
September	513,773,496	178	533,648,709	180	540,636,857	179	+ 3.87	+ 1.31
October	529,524,800	178	546,904,202	178	541,026,928	177	+ 3.28	- 1.07
November	496,802,059	178	526,000,891	176	512,342,849	176	+ 5.88	- 2.60
December	<u>523,409,272</u>	178	<u>553,271,605</u>	179	<u>522,218,762</u>	174	<u>+ 5.71</u>	<u>- 5.61</u>
Years Total	6,250,908,109		6,583,641,455		6,624,297,736		+ 5.32	+ 0.62

* 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 ^{a/}	
	TX	NM	TX	NM	TX	NM	TX	NM	TX	NM
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
April	3.64	3.53	3.05	2.99	5.73	5.74	8.77	8.73	311	292
May	3.59	3.43	3.02	2.94	5.70	5.71	8.72	8.66	316	262
June	3.57	3.40	3.00	2.92	5.70	5.72	8.70	8.64	326	247
July	3.59	3.43	3.01	2.91	5.69	5.73	8.71	8.63	377	286
August	3.62	3.46	3.05	2.95	5.69	5.71	8.74	8.66	389	300
September	3.67	3.53	3.11	3.03	5.68	5.70	8.79	8.73	356	274
October	3.76	3.63	3.15	3.09	5.69	5.72	8.84	8.81	346	285
November	3.84	3.72	3.18	3.14	5.70	5.73	8.88	8.87	372	298
December	3.85	3.74	3.19	3.15	5.70	5.70	8.89	8.84	359	323

a/ In thousands.

DECEMBER 2004
COMPUTATION OF PRODUCER PRICE DIFFERENTIAL

		Pounds	Price	Value
Add: Class I Differential				\$233,635.22
Class I Butterfat	60(a)	8,756,752	\$1.9134	\$16,755,169.28
Class I Skim Per Cwt		352,336,355	\$11.1200	\$39,179,802.69
Class II Butterfat	60(b)	7,661,350	\$2.0436	\$15,656,734.85
Class II Nonfat Solids		7,574,424	\$0.7856	\$5,950,467.50
Class III Butterfat	60(c)	1,187,774	\$2.0366	\$2,419,020.52
Class III Protein		170,299	\$2.8486	\$485,113.73
Class III Other Solids		307,014	\$0.0858	\$26,341.81
Class IV Butterfat	60(d)	6,477,766	\$2.0366	\$13,192,618.26
Class IV Nonfat Solids		15,508,396	\$0.7240	\$11,228,078.71
Class II, III & IV Somatic Cell Adj.	60(e)			\$52,516.96
Total Producer Milk-Product Lbs & Value		631,956,753		\$105,179,499.53
Add: Value as for 60(f) Thru 60(j)				\$124,669.62
Less: Total Protein Pounds	61(b)	20,048,200	\$2.8486	\$57,109,302.53
Total Other Solids Pounds		36,032,434	\$0.0858	\$3,091,582.86
Total Butterfat Pounds		24,083,642	\$2.0366	\$49,048,745.33
Total Value of Somatic Cell Adjustment				\$101,570.74
Total Milk and Value		631,956,753		(\$4,047,032.31)
Add: Location Differential Adjustments	61(c)			\$1,041,000.74
Producer-Settlement Fund	61(d)			\$311,479.54
Total Producer Milk/URSP and Value		631,956,753	(\$0.42638)	(\$2,694,552.03)
Less: Producer-Settlement Fund	61(f)		\$0.04361	\$275,644.71
Producer Price Differential (Dallas County)			(\$0.47)	(\$2,970,196.74)

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DECEMBER 2004
PRODUCER MILK AND COMPONENT UTILIZATION PERCENTAGES

Producer Milk Utilization Percentages						
	Product Pounds	Percent	Butterfat Pounds	Percent	Skim Milk Pounds	Percent
Class I	361,093,107	57.14	8,756,752	36.36	352,336,355	57.96
Class II	89,528,608	14.17	7,661,350	31.81	81,867,258	13.47
Class III	6,356,515	1.00	1,187,774	4.93	5,168,741	0.85
Class IV	174,978,523	27.69	6,477,766	26.90	168,500,757	27.72
Total	631,956,753	100.00	24,083,642	100.00	607,873,111	100.00

Producer Milk Component Utilization Percentages						
	Protein Pounds	Percent	Other Solids Pounds	Percent	Nonfat Solids Pounds	Percent
Class I	11,626,666	57.99	20,893,845	57.98	32,520,501	57.99
Class II	2,718,881	13.56	4,855,537	13.48	7,574,424	13.51
Class III	170,299	0.85	307,014	0.85	477,313	0.85
Class IV	5,532,354	27.06	9,976,038	27.69	15,508,396	27.65
Total	20,048,200	100.00	36,032,434	100.00	56,080,634	100.00