

Mideast Market Administrator's Bulletin

Federal Order No. 33

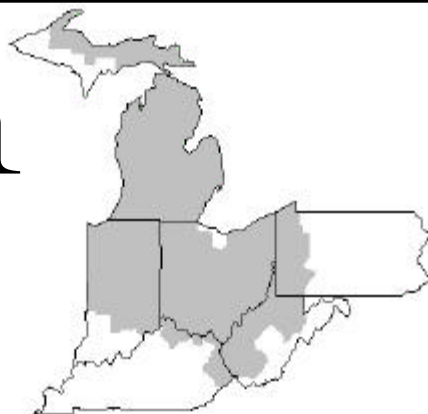
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THE DAIRY OUTLOOK

Better Supply-Demand Balance Expected in 2004 Dairy Markets

Overall, dairy markets are expected to be better balanced in 2004. Demand is projected to grow more than milk production, commercial stocks are expected to be smaller, and commercial exports of nonfat dry milk might substantially trim the recent surplus. However, this basic improvement might not generate higher farm milk prices next year. Much of this year's modest farm price recovery was caused by a misalignment of cheese prices with other dairy prices. Cheese buyers are likely to make quicker and more vigorous adjustments in 2004 that will prevent a repeat.

Milk Production about Steady

Milk production has not yet shown signs of a significant downturn and is expected to stay relatively close to a year earlier through 2004. Milk cow numbers are expected to decline at a fairly rapid clip through 2004. The recent higher prices probably were perceived as temporary and are not projected to have a significant impact on farmers' long-run plans. Dairy farm exits probably will be more common than in several years, and farm expansions likely will be fewer and cautious. Also, cull cow prices are projected to stay strong as the beef industry seems poised to undergo a cyclical turn. Milk cow numbers are expected to run 1 to 2 percent below 2003 throughout next year. Milk per cow probably will remain relatively weak in 2004 but could post some recovery from this year's poor showing. Daily average milk per cow is projected to rise slightly more than 2 percent in 2004, just slightly recovering toward the long-run trend line. Milk production throughout 2004 is expected to run a bit less than 1 percent above 2003 (on a daily average basis). Such stability in milk output would tend to temper milk and dairy product prices next year. However, there might be higher odds for milk production to be weaker than now expected than for it to be stronger.

Farm Milk Prices

Farm milk prices are expected to average above a year earlier during the first half of 2004. The current market balance probably will be somewhat tighter, commercial stocks will be lower, and the skim solids surplus is projected to be less. In addition, larger quantities will go into pipeline holdings to meet second-half needs. However, second-half milk prices are expected to fall short of this year's. Precautions taken during the first half are expected to prevent a large gap in the value of milk for cheese and for butter-powder. The average price of all milk in 2004 is projected to slip slightly from the \$12.60 per cwt. average for 2003. In general, market fundamentals, although healthier than during the preceding 2 years, are not expected to have adjusted enough to end the recent period of weak dairy prices. However, the odds of weaker-than-expected production (or stronger-than-expected demand) triggering substantial advances across the spectrum of product prices probably are higher than since 2001.

Recovery in Dairy Demand

Dairy demand in 2004 may move out of its 2-year stagnation. The economy is projected to grow at a fairly good clip, the employment picture

is improving, and consumers seem to be returning to more typical spending patterns. Relatively low prices of dairy products should spur some additional use. Commercial use of milkfat and skim solids is projected to expand substantially next year. However, dairy demand is not likely to match the extraordinary strength of the 1999-2001 period. The 2004 surplus of milkfat is projected to be quite small. Increases in use are expected to surpass growth in milkfat production, creating somewhat tight milkfat markets. On the other hand, the surplus of skim solids will stay large. Ingredient use of skim solids has not yet responded very much to the sharply lower powder prices.

However, economic growth should spur some ingredient use, particularly for upscale versions of some foods. The skim solids surplus is projected to decline next year to a level well below those of most recent years.

Butter and Cheese Price Strength Likely Temporary

Cheese and butter prices are projected to run above those of the first half of 2003. Growth in demand is expected to exceed increases in production, and commercial stocks likely will be smaller. Nonfat dry milk prices are expected to stay near the support purchase price during the first half of 2004 under the pressure of a sizable continuing surplus.

If vigorous export demand develops, price prospects could change for powder, particularly if export sales coincide with recovery in domestic ingredient use. Second-half price prospects are uncertain. Supply-demand conditions, in most ways, probably will be somewhat tighter than during 2003. Prices of many products are projected to run somewhat above a year earlier. However, cheese prices may well be a key exception. In 2003, cheese buyers generally did not attempt to protect themselves against price rises until it was too late in the season to have much effect. More aggressive building of pipeline stocks during the spring of 2004 probably will forestall a repeat of the 2003 price pattern.

SOURCE: "Livestock, Dairy, and Poultry Outlook", LDP-M-114, December 17, 2003, Economic Research Service, USDA. For more information, contact James J. Miller, (202) 694-5184.

DECEMBER 2003 POOL SUMMARY

Classification of Producer Milk

		Percent
Class I	561,523,974	38.6
Class II	178,082,464	12.2
Class III	631,443,953	43.4
Class IV	84,632,061	5.8
Total	1,455,682,452	100.0

Producer Prices

Producer Price Differential	\$ 1.39 /cwt
Butterfat Price	1.3688 /lb
Protein Price	2.2997 /lb
Other Solids Price	0.0362 /lb
Somatic Cell Adjustment Rate	0.00066 /cwt
Statistical Uniform Price	13.26 /cwt

ANNOUNCEMENT OF PRODUCER PRICES
Federal Order No. 33
DECEMBER 2003

COMPUTATION OF PRODUCER PRICE DIFFERENTIAL

	<u>POUNDS</u>	<u>BUTTERFAT</u>	<u>SKIM / PROTEIN</u>	<u>NONFAT SOLIDS</u>	<u>OTHER SOLIDS</u>	<u>PRICE</u>	<u>VALUE</u>
Class I Skim Value			550,396,099			\$11.70 / cwt	\$ 64,396,343.60
Class I Butterfat		11,127,875				1.3006 / lb	14,729,142.22
Class I Location Differential	561,523,974						(285,326.15)
Class II SNF Value				15,062,518		0.7467 / lb	11,247,182.20
Class II Butterfat		13,555,090				1.3758 / lb	18,649,092.83
Class III Protein Value			19,600,289			2.2997 / lb	45,074,784.62
Class III Other Solids Value					36,060,581	0.0362 / lb	1,305,393.03
Class III Butterfat		22,859,654				1.3688 / lb	31,290,294.37
Class IV SNF Value				7,022,490		0.6603 / lb	4,636,950.12
Class IV Butterfat		7,885,451				1.3688 / lb	10,793,605.31
Somatic Cell Value II / III / IV							<u>497,050.36</u>
TOTAL PRODUCER MILK VALUE	1,455,682,452	55,428,070	45,251,981				\$ 202,078,284.51
Overages						\$ 19258.09	
Beginning Inventory						247,736.93	
TOTAL ADJUSTMENTS							\$ 266,995.02
TOTAL HANDLER OBLIGATIONS							\$ 202,345,279.53
Total Protein Value			45,251,981 lbs	@	\$22997		\$ (104,065,980.70)
Total Other Solids Value			82,936,412 lbs	@	00362		(3,002,298.10)
Butterfat Value			55,428,070 lbs	@	13688		(75,869,942.18)
Total Somatic Cell Values							<u>(747,417.64)</u>
TOTALS							\$ 18,659,640.91
Net Producer Location Adjustments							\$ 1,575,586.02
1/2 Unobligated Balance Producer Settlement Fund							<u>587,000.00</u>
Total - Divided by Total Pounds			1,455,682,452 lbs		1.4304100		\$ 20,822,226.93
Rate of Cash Reserve					<u>(0.0404100)</u>		<u>(588,241.28)</u>
PRODUCER PRICE DIFFERENTIAL at Cuyahoga County, OH*			1,455,682,452		\$ 1.39 cwt		\$ 20,233,985.65

COMPONENT PRICES**COMPUTATION OF UNIFORM PRICE**

	December			December	
	<u>2003</u>	<u>2002</u>		<u>2003</u>	<u>2002</u>
Butterfat Price	\$13688 / lb	\$11922 / lb	Class III Price - 3.5% BF	\$ 11.87	\$ 9.74
Protein Price	22997 / lb	17506 / lb	Producer Price Differential*	<u>1.39</u>	<u>1.38</u>
Other Solids Price	00362 / lb	00584 / lb	Statistical Uniform Price	\$1326	\$11.12
Somatic Cell Adjustment Rate	0.00066 / cwt	0.00056 / cwt			
Nonfat Solids Price	06603 / lb	07282 / lb			

CLASS PRICES**CLASSIFICATION OF PRODUCER MILK**

	December			December	
	<u>2003</u>	<u>2002</u>		<u>2003</u>	<u>2002</u>
Class I*	\$1584	\$1252	Class I	Product lbs. 561,523,974	Product lbs. 550,728,223
Class II	1130	1162	Class II	178,082,464	131,853,132
Class III	1187	974	Class III	631,443,953	593,972,718
Class IV	1052	1049	Class IV	<u>84,632,061</u>	<u>87,108,591</u>
			Total	1,455,682,452	1,363,662,664

* Subject to Location Adjustment.

ORDER 33 MARKET SUMMARY

The Producer Price Differential for the Mideast Marketing Area for December 2003 was \$1.39 and the Statistical Uniform Price was \$13.26 for the month. The Statistical Uniform Price is \$0.67 lower than last month, and is \$2.14 higher than December 2002.

The Producer Butterfat Price of \$1.3688 per pound increased 8.11 cents from November 2003 and is up 17.66 cents from a year ago. The Protein Price of \$2.29267 is down 62.70 cents from last month and is up 54.91 cents from December 2002. The Other Solids Price in December was \$0.0362 per pound, a decrease from last month's price of \$0.0368 and a decrease of 2.22 cents from last December. The Somatic Cell Adjustment rate for December was \$0.00066.

December producer receipts of 146 billion pounds were 1.3 percent higher than November 2003, and 6.7 percent higher than December 2002 production of 136 billion pounds. Producer milk allocated to Class I accounted for 38.6 percent of the total producer milk in December 2003, more than the 37.5 percent in November and less than the 40.4 percent in December 2002. A total of 10,367 producers were pooled on the Mideast Order with an average daily delivery of 4,530 pounds compared to 10,678 producers pooled in December 2002 with an average daily delivery of 4,120 pounds.

The market average content of producer milk was as follows: Butterfat 3.81 %; Protein 3.11 %; Other Solids 5.70 % and Nonfat Solids 8.81 %.

NOVEMBER MILK PRODUCTION DOWN 0.2 PERCENT

Milk production in the 20 major States during November totaled 11.6 billion pounds, down 0.2 percent from November 2002. October revised production, at 12.0 billion pounds, was down 0.1 percent from October 2002. The October revision represented an increase of 0.1 percent or 13 million pounds from last month's preliminary production estimate.

Production per cow in the 20 major States averaged 1,509 pounds for November, 13 pounds above November 2002.

The number of milk cows on farms in the 20 major States was 7.71 million head, 82,000 head less than November 2002, and 10,000 head less than October 2003.

The largest gains were California, Idaho, and New Mexico with a combined total of 74,000 head. The largest decline was Pennsylvania

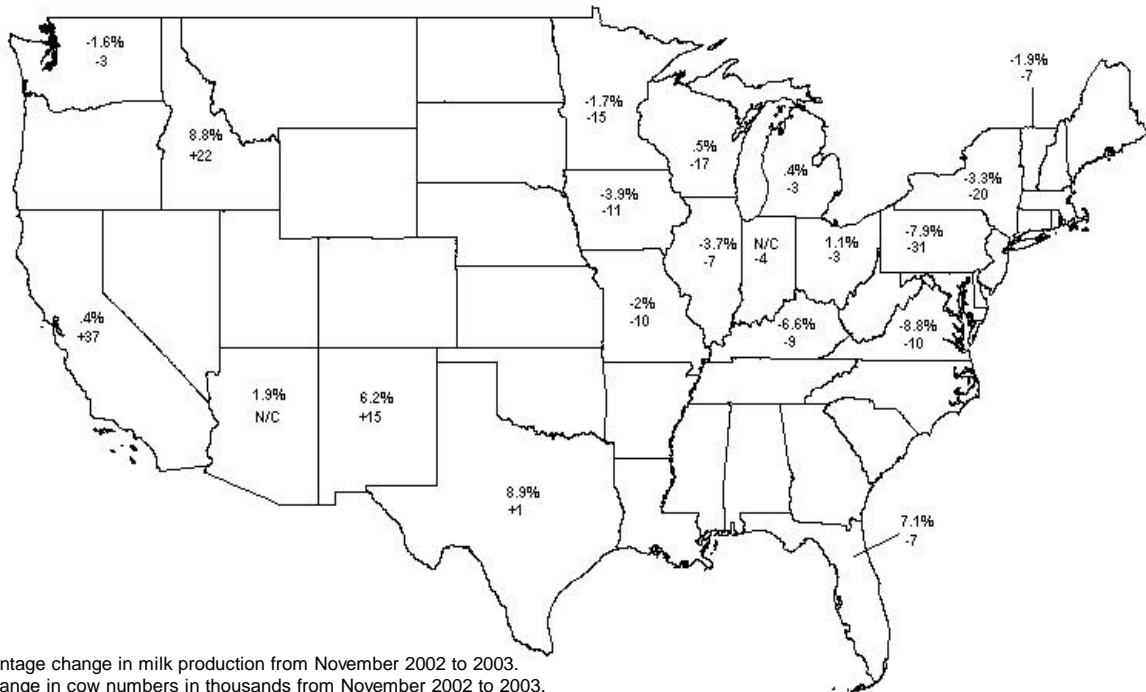
and New York with a combined decrease of 51,000 head. Minnesota and Wisconsin decreased by total of 32,000 head.

The Mideast Marketing Area has four states represented in the 20 major states used above. They are Indiana, Michigan, Ohio, and Pennsylvania. Milk production in these Mideast states during November totaled 1.8 billion pounds, down 62 million pounds or 3.2 percent from November 2002.

Production per cow in the Mideast states averaged 1,474 pounds for November, 14 pounds above November 2002.

The number of cows on farms in the Mideast states was 1.3 million head, 41,000 head less than November 2002.

**Change in Milk Production and Cow Numbers in the 20 Major Dairy States
November 2002 - 2003**



Top number is the percentage change in milk production from November 2002 to 2003.
Bottom number is the change in cow numbers in thousands from November 2002 to 2003.

**Weighted Averages - Butterfat, Protein, Other Solids, Somatic Cell Count by State
Federal Order No. 33**

State	November 2003*						November 2002				
	Number of Producers	Pounds of Milk (000)	Butterfat	Protein	Other Solids	SCC (000)	Pounds of Milk (000)	Butterfat	Protein	Other Solids	SCC (000)
Michigan	2,414	461,340	3.74	3.09	5.70	258	426,650	3.75	3.12	5.70	263
Wisconsin	2,147	309,533	3.82	3.09	5.71	260	277,027	3.82	3.08	5.70	279
Ohio	2,577	298,288	3.80	3.14	5.66	292	294,526	3.90	3.18	5.68	298
Indiana	1,272	129,328	3.82	3.14	5.70	277	130,379	3.88	3.16	5.70	277
Pennsylvania	1,348	105,386	3.84	3.12	5.63	356	114,345	3.90	3.16	5.64	364
New York	435	90,609	3.69	3.05	5.68	240	50,314	3.81	3.09	5.66	279
Illinois	98	18,396	3.66	3.14	5.78	273	11,500	3.90	3.11	5.71	304
West Virginia	83	5,730	3.85	3.20	5.65	378	5,905	3.90	3.21	5.64	381
Other	140	18,804	3.76	3.11	5.73	261	10,073	3.94	3.16	5.68	332
Total/Average	10,514	1,437,415	3.78	3.10	5.69	274	1,320,720	3.83	3.13	5.69	286

* Totals may not add due to rounding. Data provided on a one month delay basis.



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**FEDERAL ORDER DATA
DECEMBER 2003**

<u>Marketing Area</u> ^{1/}	<u>Producer Milk</u>	<u>Class I</u>	<u>Producer</u>	<u>Statistical</u>
	<u>Total</u>	<u>Class I</u>	<u>Price Differential</u>	<u>Uniform Price</u>
	(000)	(000)		
FO 1 Northeast - (Boston)	2,014,830	938,651	\$2.52	\$14.39
FO 5 Appalachian - (Charlotte)	552,112	382,015	^{2/}	15.48
FO 6 Florida - (Tampa)	250,777	217,600	^{2/}	17.16
FO 7 Southeast - (Atlanta)	620,265	401,066	^{2/}	15.33
FO 30 Upper Midwest - (Chicago)	2,128,405	385,429	0.54	12.41
FO 32 Central - (Kansas City)	1,240,148	376,688	1.04	12.91
FO 33 Mideast - (Cleveland)	1,455,682	561,524	1.39	13.26
FO 124 Pacific Northwest - (Seattle)	615,391	182,492	0.60	12.47
FO 126 Southwest - (Dallas)	820,235	341,910	1.99	13.86
FO 131 Arizona-Las Vegas - (Phoenix)	259,799	85,614	^{2/}	12.98
FO 135 Western - (Salt Lake City)	435,987	96,448	0.78	12.65

^{1/} Names in parentheses are principal points of markets.

^{2/} Producers in these markets are paid on the basis of a uniform skim and butterfat price.

MINIMUM PARTIAL PAYMENT PRICE FOR JANUARY 2004 \$10.52 /cwt.

