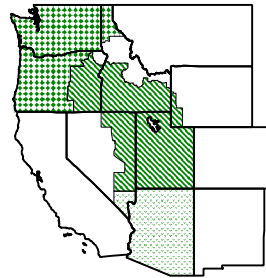


Pacific Northwest, Arizona-Las Vegas, & Western Marketing Areas



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James R. Daugherty
Market Administrator

FEBRUARY 2000

MARKET SUMMARIES FOR JANUARY

Pacific Northwest

Producers delivered a total of 581.2 million pounds of milk to the market during January. Daily deliveries averaged 18.7 million pounds. An estimated 1,080 producers delivered milk to the market during the month. Daily deliveries per producer averaged 17,360 pounds.

Class I producer milk during January totaled 173.7 million pounds, 29.9% of total producer receipts. Daily usage averaged 5.6 million pounds.

Producers will receive \$2.1677 per pound of protein, \$0.9366 per pound of butterfat, and \$0.0503 per pound of other solids. Producers will also receive the market's producer price differential of \$1.06, subject to applicable location adjustments. The market average component tests for the month were: 3.71% butterfat, 3.05% protein, 5.69% other solids, and 8.74% nonfat solids.

Western

Producers delivered a total of 322.6 million pounds of milk to the market during January. Daily deliveries averaged 10.4 million pounds. An estimated 698 producers delivered milk to the market during the month. Daily deliveries per producer averaged 14,907 pounds.

Class I producer milk during January totaled 83.9 million pounds, 26.0% of total

producer receipts. Daily usage averaged 2.7 million pounds.

Producers will receive \$2.1677 per pound of protein, \$0.9366 per pound of butterfat, and \$0.0503 per pound of other solids. Producers will also receive the market's producer price differential of \$1.06, subject to applicable location adjustments. The market average component tests for the month were: 3.73% butterfat, 3.08% protein, 5.68% other solids, and 8.76% nonfat solids.

Arizona Las Vegas

Producers delivered a total of 269.1 million pounds of milk to the market during January. Daily deliveries averaged 8.7 million pounds. An estimated 105 producers delivered milk to the market during the month. Daily deliveries per producer averaged 82,668 pounds.

Class I producer milk during January totaled 79.0 million pounds, 29.4% of total

(Continued On Page 2)

Estimated Uniform Price (@ 3.5% BF) January 2000

Federal Order	Per Cwt.
Pacific Northwest	\$11.11
Western	\$11.11
Arizona-Las Vegas	\$11.25

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(Continued From Page 1)

producer receipts. Daily usage averaged 2.5 million pounds.

Producers will receive \$0.9483 per pound of butterfat and \$8.22 per hundredweight of skim, subject to applicable location adjustments. The market average butterfat test for the month was 3.72%. ♦

JANUARY'S CLASS PRICES

January's non-advanced Class Prices were calculated using NASS commodity price surveys from January 1, 8, 15, 22, and 29. Component prices for the month are \$2.1677 per pound of protein, \$0.9366 per pound of butterfat, \$0.0503 per pound of other solids, and \$0.8574 per pound of nonfat solids.

January's Class III and IV prices at 3.5% butterfat are \$10.05 and \$10.73 per hundredweight, respectively. Class II butterfat was also announced at \$0.9436 per pound. Class I and Class II skim prices for January were announced on December 23, 1999. The Class II price at 3.5% butterfat is \$11.43 for January.

The January Class III price compared to December 1999 is up 42 cents. Most of the increase is due to the change in the method of calculating the price. The Class III price is \$6.22 lower than January 1999 and 25 cent above the support price.

Commodity Prices -- The NASS survey of cheddar cheese prices showed a net decrease in prices received for 40-pound blocks and a decrease in prices received for 500-pound barrels.

The survey of 40-pound blocks showed a net decrease of 5.98 cents between the January 15 and the February 19 surveys, to \$1.1029 per pound. The survey of 500-pound barrels (adjusted to 39% moisture) showed a decrease of 6.67 cents to \$1.0758 per pound.

The NASS butter price showed a net decrease of 2.81 cents between the weeks ending January 15 and February 19 from \$0.9367 per pound to \$0.8764 per pound.

The NASS nonfat dry milk showed a net increase of 0.01 cent in mid-January to \$1.0117 per pound. The average price for NASS whey showed a net decrease of 0.75 cents since mid-January to \$0.1778 per pound.

See graphs on page 3 for recent history of commodity prices. ♦

MARCH'S CLASS I PRICE ANNOUNCEMENT

On February 18, 2000, the March 2000 Class I price was announced at \$12.74 for the consolidated Pacific Northwest and Western Orders, and \$13.19 for the consolidated Arizona-Las Vegas Order. The Class I price was calculated using NASS commodity price surveys from the weeks of February 5 and 12.

The skim portion of the Class I mover is the higher of the Class III and IV advance skim prices. For February's Class I price, the Class III and IV advance skim prices were \$6.38 and \$7.71 per hundredweight, respectively. The butterfat portion of the Class I mover was calculated at \$0.9713 per pound.

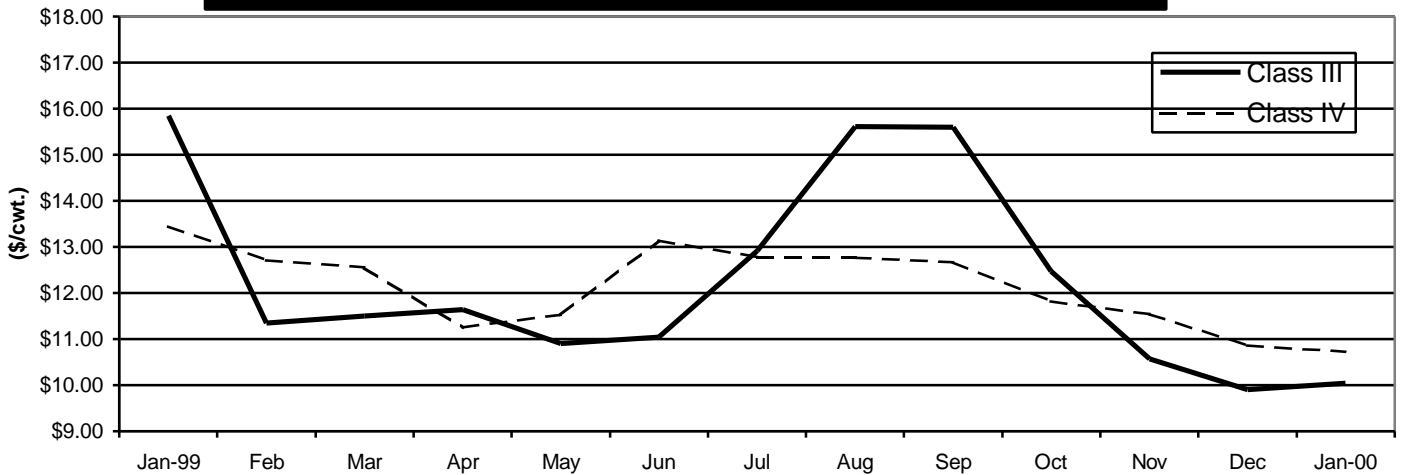
The March 2000 Class II skim and nonfat solids were also announced on February 18, 2000. The skim price is \$8.41 per hundredweight and the nonfat solids price is \$0.9344 per pound for all Federal Orders. ♦

INCREASE DEDUCTIONS FOR ADMINISTRATIVE ASSESSMENT AND MARKETING SERVICES

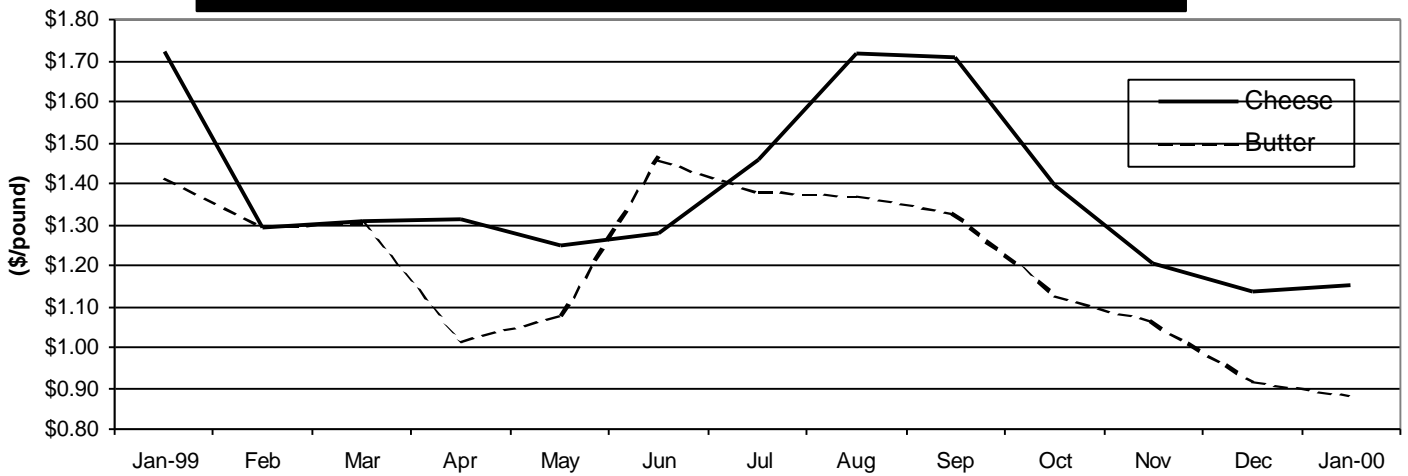
The 2.0 cents per hundredweight administrative assessment currently applicable to the Pacific Northwest Order(F.O. 124), the Arizona-Las Vegas Order(F.O. 131), and the Western Order(F.O. 135) will be increased to 2.5 cents per hundredweight effective with the milk for the January 2000 delivery period. Statements issued for that month will contain the new administrative assessment charge.

The deduction for marketing services under each of the above-named orders will be 3.0 cents per hundredweight commencing with the milk for the January, 2000 delivery period. This deduction is applicable to deliveries by producers who are not members of a qualified cooperative association performing marketing services. Statements issued for that month will contain the new rate of deduction for those marketing services. ♦

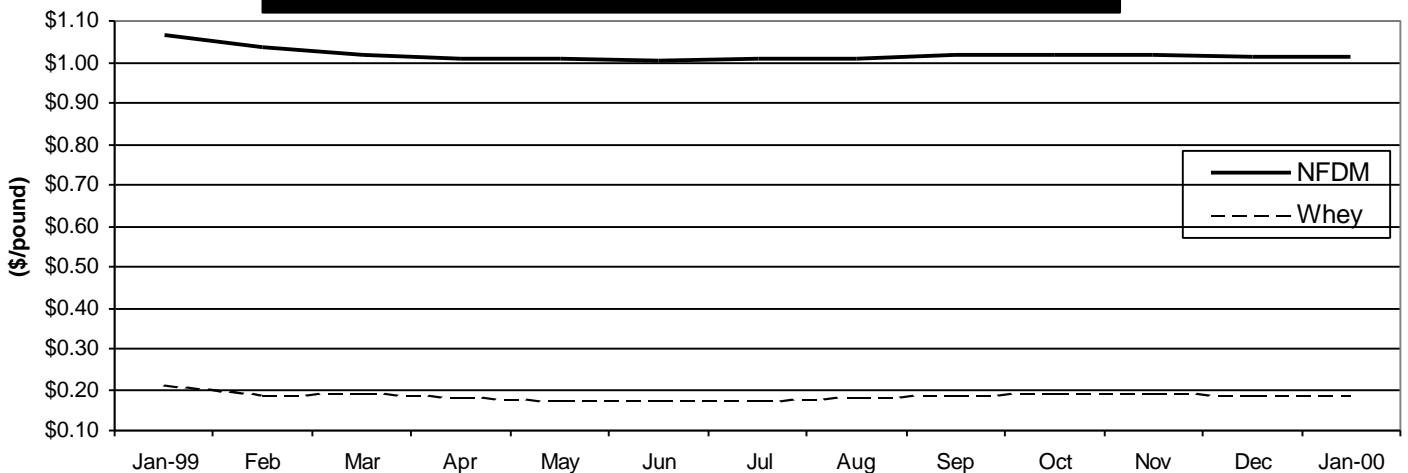
Final Decision Class III and IV Prices: January 1999 through January 2000



Monthly NASS Cheese and Butter Prices: January 1999 through January 2000



NASS NFDM and Whey Prices: January 1999 through January 2000



INVITATION TO SUBMIT PROPOSALS

The Consolidated Appropriations Act, 2000, requires the Secretary of Agriculture to conduct a formal rulemaking proceeding to reconsider the Class III and Class IV milk pricing formulas included in the final rule for the consolidation and reform of Federal milk orders. The formulas resulting from the required proceeding are to be implemented on January 1, 2001. Consequently, USDA is requesting that interested parties submit proposals to modify the computation of Class III and Class IV prices adopted in the final rule published in the Federal Register on September 1, 1999 (64 Fed. Reg. 47897-48021) by February 29, 2000. It is anticipated that such a hearing would be held in late April or early May 2000.

The legislation requiring the hearing describes the proceeding as an emergency. It should be noted that an emergency rulemaking proceeding omits a recommended decision with the opportunity to file comments thereon. The potential omission of a recommended decision will be an issue that will be considered at the hearing.

In addition to the Class III and Class IV prices adopted in the final rule, the hearing will consider proposals that address changes to any of the factors such as the specification of the products whose prices are identified, the yield factors, and the make allowances included in the computation of the component prices.

Two copies of the proposals should be mailed to: Deputy Administrator, Dairy Programs, Agricultural Marketing Service, United States Department of Agriculture, Room 2968, South Building, P.O. Box 96456, Washington, D.C. 20090-6456, by February 29, 2000.

Each proposal should be accompanied by a brief but comprehensive statement on the justification for the proposed changes. The statement will be used in deciding whether the proposals should be considered at the hearing. Those proposing changes to the Class III and Class IV price calculations contained in the final rule should plan to support their proposals with data, as well as arguments, at the hearing.

A hearing would be limited to the proposals included in a hearing notice. However, appropriate modifications of the proposals included in the notice also may be considered at the hearing if the modifications would not increase the scope of the hearing.

Actions under the Federal milk order program are subject to the "Regulatory Flexibility Act". This Act seeks to ensure that, within the statutory authority of a program, the regulatory and informational requirements are tailored to the size and nature of small businesses. For the purpose of the Act, a dairy farm is a "small business" if it has an annual gross revenue of less than \$500,000, and a dairy products manufacturer is a "small business" if it has fewer than 500 employees. For the purposes of determining which dairy farms are "small businesses," the \$500,000 per year criterion was used to establish a production guideline of 326,000 pounds per month. Although this guideline does not factor in additional monies that may be received by dairy producers, it should be an inclusive standard for most "small" dairy farmers. For the purposes of determining a handler's size, if the plant is part of a larger company operating multiple plants that collectively exceed the 500-employee limit, the plant will be considered a large business even if the local plant has fewer than 500 employees.

All known interested persons will be mailed a copy of the hearing notice when one is issued. Anyone who desires to present evidence on proposals set forth in the hearing notice will have an opportunity to do so at the hearing.

Once a hearing notice is issued and until issuance of a final decision, Department employees involved in the decisional process may not discuss the merits of a proceeding on an ex parte basis with any persons having an interest in the proceeding. For this purpose, the market administrator and staff are considered to be involved in the decisional process. Thus, it is suggested that any discussions that you may wish to have with Department personnel regarding hearing proposals be initiated soon. Procedural matters may be discussed at any time.

If you have any questions concerning the filing of the proposals or desire a copy of the final rule for the consolidation and reform of Federal milk orders, please contact this office. ♦

**USDA ANNOUNCES \$125 MILLION
IN AID TO DAIRY FARMERS**

Agriculture Secretary Dan Glickman announced that USDA is providing \$125 million in direct cash payments to assist dairy farmers who have been hurt by low prices. An additional \$200 million in aid was distributed last summer.

"Dairy farmers are being squeezed by market conditions that don't allow them a fair price for their product," said Glickman. "This assistance is sorely needed to help keep many small- and medium-size dairy producers in business until prices stabilize."

To distribute limited resources equitably among all dairy producers, the Dairy Market Loss Assistance program provides payments based on an operation's milk production in 1997 or 1998, up to the first 26,000 hundredweight of production. All dairy farmers who produced milk during the last quarter of calendar year 1998 are eligible for the program.

Eligible dairy farmers who did not participate in the program last summer must sign up at their local Farm Service Agency offices or USDA Service Centers from January 24 to February 28, 2000. Farmers who participated in last summer's program will automatically receive payments and do not need to reapply for assistance. The dollar amount of payments will be calculated after sign-up is complete. ♦

DAIRY OUTLOOK AND SITUATION

Dairy Prices To Fall in 2000. Soaring milk production and seasonally soft demand for many dairy products will leave early 2000 prices of milk and dairy products low. Cheese prices in mid-January were near the support purchase price, although no sales to the government had been made. Nonfat dry milk prices were solidly resting on the support purchase price and substantial purchases continued. Meanwhile, butter prices stayed below \$1 per pound, although they had recovered modestly from prices at the start of 2000.

Dairy markets for 2000 may not be as weak as current prices imply. The 1999 race between rapidly growing dairy demand and jumps in milk production appears to continue. Although markets are currently dominated by seasonal weakness

and large output, considerable uncertainty remains.

Demand for most dairy products closed out 1999 on a very strong note. Sales of cheese and butter posted large gains, while fluid milk sales rose slightly. For the year, commercial disappearance rose more than 3 percent (milk equivalent, milkfat basis), following 1998's gain of more than 2 percent. Use increased in the face of prices well above those of most of the 1990's, in large part because of growth in the general economy.

Ironically, the major area of weakness in dairy demand has been for separated skim solids, those products that have had stable low prices. Use of nonfat dry milk declined again in 1999, as did apparent direct use of skim milk or other forms of wet solids in foods other than dairy products. These declines limited the increase in total sales on a milk equivalent, skim solids basis to just more than one percent, similar to the 1998 rise.

A robust economy is projected to keep dairy demand brisk in 2000, particularly if sales of separated skim solids manage to recover. Good demand and relatively low prices should generate large increases in commercial use.

Autumn milk production was almost 4 percent higher than a year earlier on the strength of slightly higher milk cow numbers and a large gain in milk per cow. The last quarter's increase brought total 1999 milk production 3.4 percent above 1998, the largest rise since 1985. Farmers boosted milk production in response to relatively high milk prices in three of the last 4 years, inexpensive concentrate feed, and ample alfalfa supplies.

Expected lower milk prices should start to trim growth in milk production as 2000 progresses. A larger number of weaker producers are expected to exit dairying, after relatively modest losses during 1998-99. However, the current momentum in milk production will not reverse quickly. Expanding producers are not likely to defer or even delay growth already planned, particularly since feed prices will remain fairly low. Output in 2000 is projected to increase more than 2 billion pounds.

Large production increases are likely to hold first-half milk and dairy product prices to relatively low levels, even if they recover slightly from current levels. Prices probably will not rise significantly until it becomes clear that low prices are slowing the production expansion. Seasonal increases in

(Continued On Page 8)

MONTHLY SELECTED STATISTICS

NASS Commodity Prices	Jan 2000
(\$/pound)	
Butter	\$0.8820
Weighted Cheese Average	1.1517
Nonfat Dry Milk	1.0115
Whey	0.1857

	PACIFIC NORTHWEST	WESTERN	ARIZONA-LAS VEGAS
Minimum Class Prices (3.5% B.F.)	Jan 2000	Jan 2000	Jan 2000
Class I Milk (\$/cwt.)	\$12.80	\$12.80	\$13.25
Class II Milk (\$/cwt.)	11.43	11.43	11.43
Class III Milk (\$/cwt.)	10.05	10.05	10.05
Class III-A Milk (\$/cwt.)	10.73	10.73	10.73
Producer Prices			
Producer Price Differential (\$/cwt.)	\$ 1.06	\$ 1.06	+
Butterfat (\$/pound)	0.9366	0.9366	+
Protein (\$/pound)	2.1677	2.1677	+
Other Solids (\$/pound)	0.0503	0.0503	+
Uniform Skim Price (\$/cwt.)	+	+	8.22
Uniform Butterfat Price (\$/pound)	+	+	0.9483
Statistical Uniform Price (\$/cwt.)	\$11.11	11.11	11.25
Producer Data			
Number of Producers	1,080 *	698 *	105 *
Avg. Daily Production (lbs.)	17,360 *	14,907 *	82,668 *
Number of Handlers			
Pool Handlers	27	19	4
Producer-Handlers	12	7	1
Other Plants w/ Class I Use	5	10	3
Producer Milk Ratios			
Class I	29.88%	26.02%	29.37%
Class II	6.38%	9.96%	2.97%
Class III	32.41%	43.02%	67.66%
Class IV	31.33%	21.00%	R

+ Not Applicable. * Preliminary. R=Restricted, included with Class III.

MONTHLY SUPPLEMENTAL STATISTICS

Producer-Handler Data	Jan 2000	Jan 2000	Jan 2000
(Thousand lbs.)			
Production			
Class I Use			
% Class I Use			
Class I Route Disposition In Area			
(Thousand lbs.)			
By Pool Plants			
By Producer-Handlers			
By Other Plants			
Total			

Available in March's Market Administrator's Report

MONTHLY STATISTICAL SUMMARY

(Product pounds based upon reports of handlers)

RECEIPTS, UTILIZATION AND CLASSIFICATION OF MILK	<u>PACIFIC NORTHWEST</u> Jan 2000	<u>WESTERN</u> Jan 2000	<u>ARIZONA-LAS VEGAS</u> Jan 2000
TOTAL PRODUCER MILK	581,199,990	322,551,577	269,083,082
RECEIPTS FROM OTHER SOURCES	8,926,239	13,360,197	11,871,224
OPENING INVENTORY	<u>17,732,736</u>	<u>11,778,575</u>	<u>16,827,585</u>
TOTAL TO BE ACCOUNTED FOR	<u>607,858,965</u>	<u>347,690,349</u>	<u>297,781,891</u>
UTILIZATION OF RECEIPTS			
Whole milk	25,784,074	11,748,434	19,652,552
Flavored milk & milk drinks	8,633,448	5,320,428	4,315,041
2% milk	66,610,675	26,614,587	31,872,108
1% milk	27,646,424	14,418,256	10,201,467
Skim milk	33,724,864	13,595,310	12,101,103
Buttermilk	<u>1,442,685</u>	<u>613,127</u>	<u>523,621</u>
CLASS I ROUTE DISP. IN AREA.	163,842,170	72,310,142	78,665,892
Class I dispositions out of area	8,757,290	7,833,594	4,336,010
Other Class I usage	<u>15,008,169</u>	<u>11,977,150</u>	<u>6,396,579</u>
TOTAL CLASS I USE.	187,607,629	92,120,886	89,398,481
TOTAL CLASS II USE	41,497,554	33,839,420	14,659,376
TOTAL CLASS III USE	188,404,538	148,909,133	193,724,034
TOTAL CLASS IV USE	<u>190,349,244</u>	<u>72,820,910</u>	<u>2/</u>
TOTAL ACCOUNTED FOR	<u>607,858,965</u>	<u>347,690,349</u>	<u>297,781,891</u>
CLASSIFICATION OF RECEIPTS			
Producer milk:			
Class I	173,700,249	83,942,458	79,030,919
Class II	37,059,754	32,110,693	7,982,708
Class III	188,397,512	138,755,014	182,069,455
Class IV	182,042,475	67,743,412	2/
Other receipts:			
Class I	13,907,380	8,178,428	28,698,809
Class II	4,444,826	1,728,727	3/
Class III	1/	10,154,119	3/
Class IV	8,306,769	5,077,498	3/
Avg. daily producer receipts	18,748,387	10,404,890	8,680,099
Avg. daily Class I use	6,051,859	2,971,641	2,883,822

1/ Restricted - Included with other Class II usage.

2/ Restricted - Included with other Class III usage.

3/ Restricted - Included with Class I.

HIGHLIGHTS THIS ISSUE:

- Market Summaries
- January Class Prices and Commodity Prices
- Class I Price for March
- Deductions for Administrative Assessment and Marketing Services Increased
- Invitation to Submit Proposals
- USDA Announces \$125 Million in Aid to Dairy Farmers
- Dairy Outlook and Situation

(Continued From Page 5)

the second half are projected to be moderate, although stronger rises are possible if demand for skim solids recovers significantly. For all of 2000, farm milk prices could average as much as \$2 per cwt. below 1999's \$14.39, or \$3 below the 1998 record. ♦

SOURCE: "Livestock, Dairy, and Poultry Situation and Outlook", LDP-M-67, January 28, 2000, Economic Research Service, USDA. For more information on the LDP report, contact James J. Miller, (202) 694-5184.