The Market Administrator's Report

Pacific Northwest & Arizona-Las Vegas Marketing Areas

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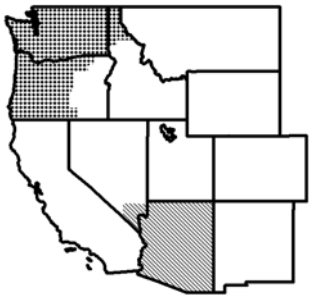

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July 2004

MARKET SUMMARIES FOR JUNE 2004

Comparisons to a year ago can be found in the tables on pages 6 and 7.

Pacific Northwest

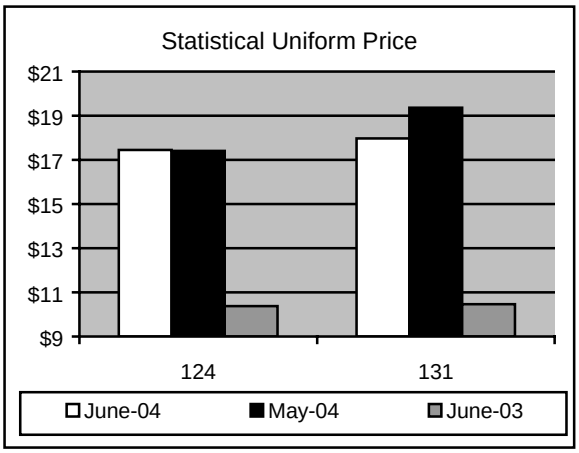
Producers delivered a total of 593.7 million pounds of milk to the market during June. Comparisons to previous month are affected by eligible milk not pooled in May and June 2004. Daily deliveries averaged 19.8 million pounds, up 39.6 percent from May. An estimated 906 producers delivered milk to the market during the month. Daily deliveries per producer averaged 21,843 pounds, up 7.7 percent from May.

Class I producer milk during June totaled 164.5 million pounds, 27.7 percent of total producer receipts. Daily usage averaged 5.5 million pounds, up 0.7 percent from May.

Arizona-Las Vegas

Producers delivered a total of 241.1 million pounds of milk to the market during June. Daily deliveries averaged 8.0 million pounds, up 0.5 percent from May. An estimated 93 producers delivered milk to the market during the month. Daily deliveries per producer averaged 86,409 pounds, up 0.5 percent from May.

Class I producer milk during June totaled 69.3 million pounds, 28.7 percent of total producer receipts. Daily usage averaged 2.3 million pounds, down 1.5 percent from May. ♦



Federal Order Producer Prices and Component Levels: June 2004

Producer Prices	FO124	FO131	Component Levels (%)	FO124	FO131
Uniform Price 1/*	17.45	17.97	Butterfat	3.589	3.549
Butterfat 2/	2.1768	2.2291	Protein	2.984	N/A
Protein 2/	3.1086	N/A	Other Solids	5.694	N/A
Other Solids 2/	0.1339	N/A	Nonfat Solids	8.678	N/A
PPD 1/*	(0.23)	N/A			
Skim 1/	N/A	10.54			

N/A = not applicable. * Subject to applicable location adjustments. 1/ $ per cwt. 2/ $ per pound.

JUNE 2004 CLASS PRICES

June 2004 non-advanced Class Prices were calculated using NASS commodity price surveys from June 5, 12, 19, and 26, 2004. Component prices for the month are $3.1086 per pound of protein, $2.1768 per pound of butterfat, $0.1339 per pound of other solids, and $0.7026 per pound of nonfat solids.

June 2004 Class III and IV prices at 3.5% butterfat are $17.68 and $13.72 per hundredweight, respectively. The June Class III price compared to May is down $2.90. The Class III price is $7.93 higher than June 2003. The Class III price at 3.67% butterfat is $8.14 above the support price of $9.90 at 3.67% butterfat.

Class II butterfat was announced at $2.1838 per pound. Class I skim and butterfat and Class II skim prices for June 2004 were announced on May 21, 2004. The Class II price at 3.5% butterfat is $14.31 for June 2004 .

FINAL: NASS COMMODITY PRICES

	May	June	Change
Cheese*	$2.1266	$1.8411	-$0.2855
Butter	$2.1385	$1.9290	-$0.2095
Nonfat Dry Milk	$0.8383	$0.8497	$0.0114
Whey	$0.2992	$0.2890	-$0.0102

* The weighted average of barrels plus 3 cents and blocks.

Current Commodity Prices - - The NASS survey of cheddar cheese prices showed a decrease in prices received for 40-pound blocks and 500-pound barrels. The survey of 40-pound blocks showed a decrease of 29.17 cents between the June 19 and the July 17 surveys, to $1.5164 per pound. The survey of 500-pound barrels (**adjusted to 38% moisture**) showed a decrease of 33.54 cents to $1.4669 per pound.

The NASS butter price showed a net decrease of 12.12 cents between the weeks ending June 19 and July 17 from $1.9698 per pound to $1.8486 per pound.

The NASS nonfat dry milk showed a net increase of 0.34 cents since mid-June to $0.8522 per pound. The average price for NASS whey showed a decrease of 3.51 cents since mid-June to $0.2574 per pound. ♦

AUGUST'S CLASS I PRICE ANNOUNCEMENT

On July 23, the August 2004 Class I price was announced at $16.52 for the Pacific Northwest Order, and $16.97 for the Arizona-Las Vegas Order. The Class I price was calculated using NASS commodity price surveys from the weeks of July 10 and 17.

The August Class III and IV advance skim prices are $7.55 and $6.37 per hundredweight, respectively. The butterfat portion of the Class I mover decreased 1.36 cents from $2.1088 to $2.0952 per pound.

The August 2004 Class II skim and nonfat solids prices were also announced on July 23. The skim price is $7.07 per hundredweight, and the nonfat solids price is $0.7856 per pound for all Federal orders. ♦

ADVANCED: NASS COMMODITY PRICES FOR CLASS I PRICE CALCULATIONS

	July	August	Change
Cheese*	$1.8683	$1.5439	-$0.3244
Butter	$1.8723	$1.8610	-$0.0113
Nonfat Dry Milk	$0.8500	$0.8552	$0.0052
Whey	$0.2942	$0.2600	-$0.0342

* The weighted average of barrels plus 3 cents and blocks.

CALCULATING THE FEDERAL ORDER VALUE OF MILK AND ITS COMPONENTS

Commodity prices are coming off of record levels. The heights that the commodity markets reached were generally unforeseen by the industry and where they will move into the fall is yet unknown. The low prices that plagued the industry prior to last summer while certainly not forgotten are fading into the history of the dairy industry (hopefully for a long time to come).

The effect of the commodity market increases has implications for Federal order pricing as well. Negative Producer Price Differentials (PPD), increased milk checks, and depooling are topics that are currently being extensively discussed in the media. The April 2004 *Market Administrator's Report* featured an article illustrating how negative producer price differentials were calculated and showing that the uniform price reflects the entire

value of the pool. While negative PPD's are hard to swallow and may seem somehow unfair, they are an indicator of quickly rising prices and higher revenues for dairy farmers.This article will show how the Federal order calculates the minimum value of producer milk as well as graphical illustrations of the value each milk component contributes to that minimum value. Historical component prices and other information are published on the market administrator's website (www.fmmaseattle.com) if you would like to explore these concepts using data from previous months. While this month's report focuses on the Pacific Northwest Order (FO 124), similar information will be reported next month for the Arizona-Las Vegas Order (FO 131).

Uniform Prices vs. Component Prices

The Uniform price (UP), as was shown in the article in the May Market Administrator's Report, is simply the Class III price, plus the producer price differential. Just like the Class prices that are announced for each type of milk utilization the UP represents fixed levels of components. The butterfat test of the UP is 3.5%; the protein test is 2.99%; and the other solids test is 5.69%. These component levels are "assumed" and have no relation to the test of an individual producer's milk except that similar to a broken watch, it could be right twice a day. The use of the "assumed" levels is designed to provide an easily understandable reference point that is consistent in its definition over time so the dairy industry can compare "apples with apples".

The Uniform price is a proxy for "the Federal order minimum value (FOMV)," which is the value that must be paid to cooperatives and nonmember dairy farmers and reflects the value of the pool. The FOMV is unique to each dairy farmer as the test of one herd's milk is never quite the same as that of another due to cow breeds, breeding, feed, and other management practices. The FOMV is made up of the PPD, the value of butterfat, protein and other solids.

The formula to calculate the value of a component per cwt is simple: Component Price X Component Percent

Using this formula and assuming that an individual dairy farm component tests match the market, the component values per cwt for the Pacific Northwest Order (FO 124) as calculated for May 2004 are:

Butterfat ($2.4282 X 3.57) = $8.67; Protein ($3.7639 X 3.01) = $11.33; Other Solids ($0.1444 X 5.70) = $0.82

To calculate the FOMV of Producer Milk (also known as the Uniform Price at Test), add the value of all components together, including the value of the PPD.

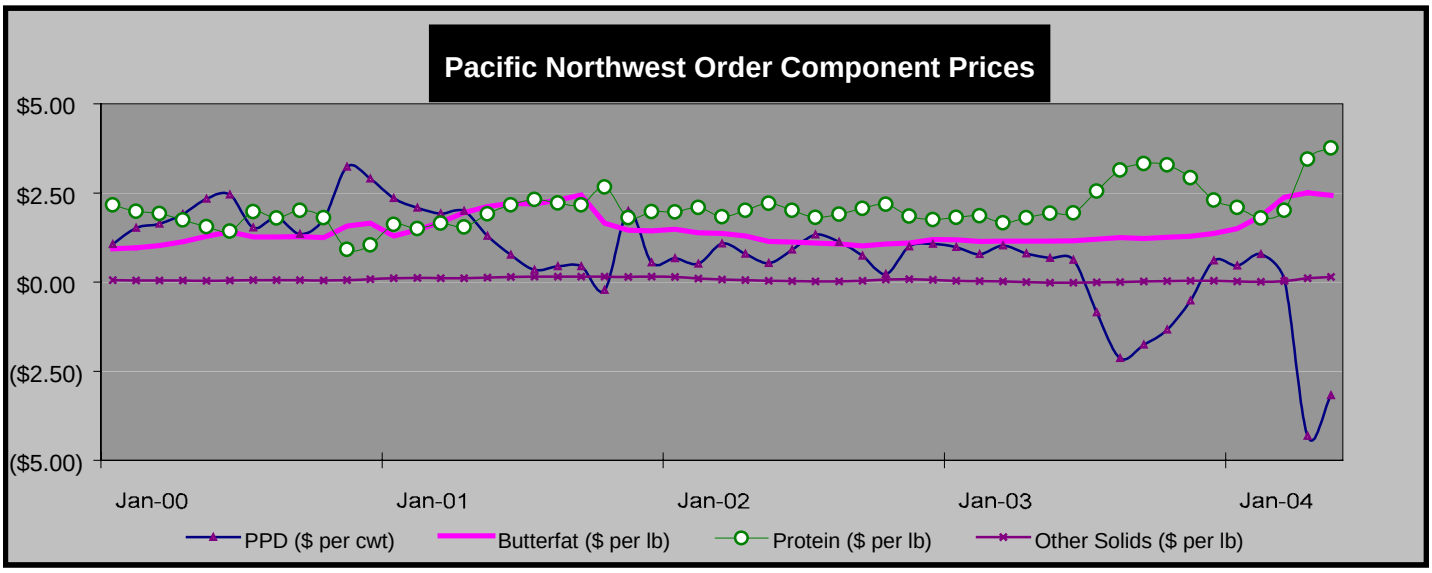
The FOMV of Producer Milk at Test for FO 124 in May 2004 is: $8.67 + 11.33 + 0.82 + (3.18) = $17.64

Similarly, the skim and butterfat values per cwt for FO 131 in May 2004 can be calculated as such:

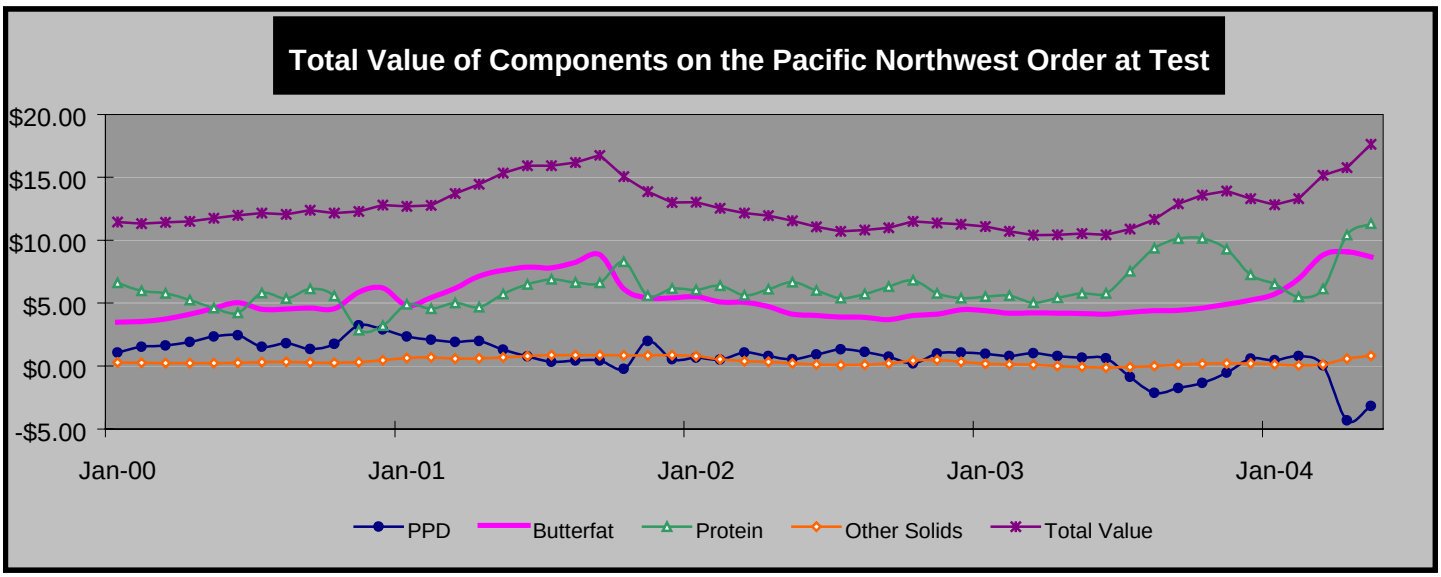
Skim ($11.23 x 96.48)/100 = $10.83; Butterfat ($2.4363 X 3.52) = $8.58

The FOMV of Producer Milk at Test for FO 131 in May 2004 is: $10.83 + 8.58 = $19.41

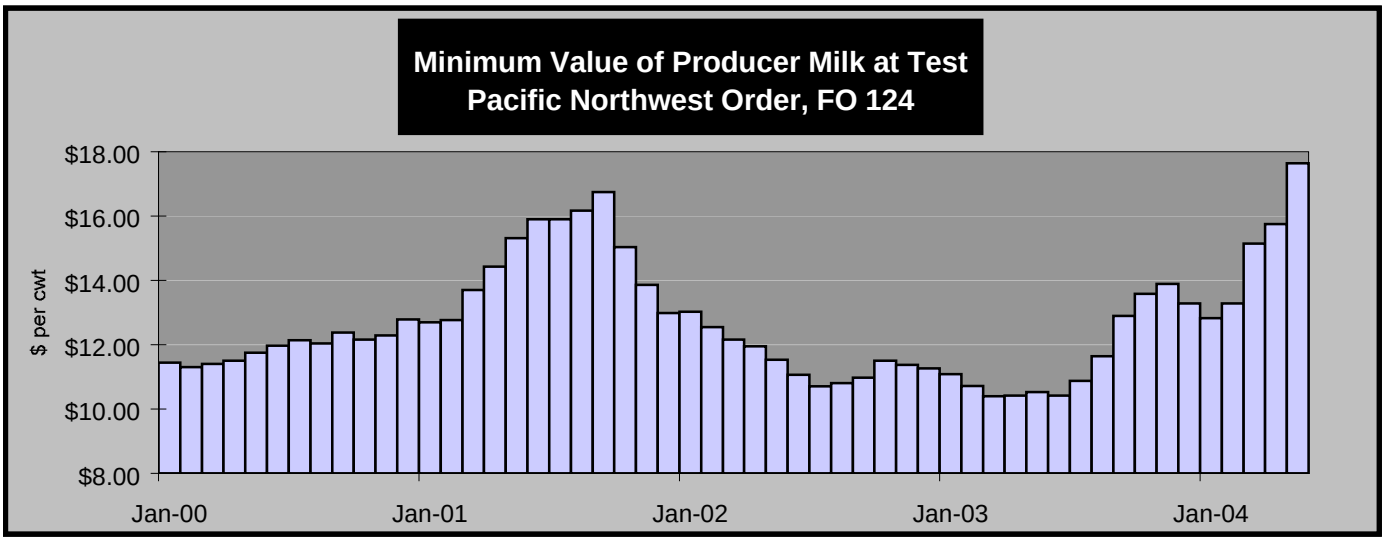
The graphs on pages 4 and 5 illustrate the value of components on the Pacific Northwest Order (FO 124) from January 2000 through May 2004. The graph on the top of page 4 tracks the price of each component. Note that butterfat, protein and other solids are priced per pound, while the PPD is per hundredweight. It is clear from the graph that the PPD is extremely erratic while the other component prices are relatively stable in comparison. The PPD is erratic because it is a residual. Each month the FOMV of the components are set at their Class III value for butterfat protein and other solids; this value is compared to the value of all milk as classified, also known as the handler's value. If the Class III component value is less than the handlers' value, the PPD is positive; if this component value is greater than the handlers' value, the PPD is negative. How a PPD comes to be negative is a function of the advanced pricing of Class I, the speed at which commodity market prices increase price differences between Class III and IV and the amount that Class III or IV (sometimes Class II also) usages represent of the entire market.

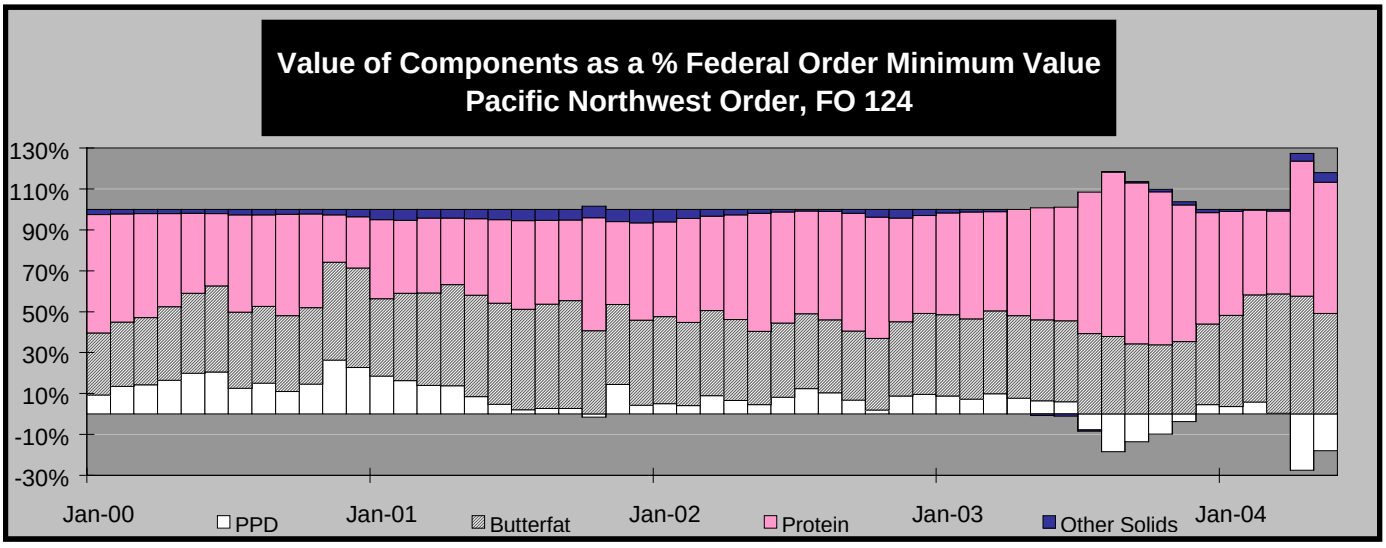


The graph below uses the formula from page 3 to calculate the value of each component. In most months, the values for butterfat and protein are greater than the value of other solids or the PPD. The same observations of the component prices made above can be made of the values of the components, the PPD and the Uniform price at test: the PPD is relatively more erratic than the other prices. The Uniform price at test generally reflects the effect of increases and decreases in the butterfat and protein values as they represent the largest shares of the Federal order minimum value.



By combining the values of all components, along with the PPD, the result is the FMOV of Producer Milk. The graph on the top of page 5 demonstrates how the total value that a producer receives can change due to increases and decreases in commodity prices. The other graph on page 5 shows the percentage that each component contributes to the FOMV of Producer Milk. As in the graph on the bottom of this page, the graph below illustrates that butterfat and protein contribute more than other solids or the PPD to the total value of producer milk. The graph also illustrates the fact that negative PPD's do not take money away from producers rather the valuation of butterfat, protein and other solids is simply greater than the handlers' value of milk, the maximum value that is available to be shared among producers.





Negative PPD's in the News

Calculating the total value of producer milk can be useful when trying to interpret media coverage of the negative PPD. The PPD peaked in November 2000 at $3.23 per hundredweight for the Pacific Northwest Order. Using the formulas from this article, we can calculate what the total value per cwt to producers was with the highest recorded PPD:

Butterfat ($1.5745 X 3.73) = $5.87; Protein ($0.9149 X 3.12) = $2.85; Other Solids ($0.0565 X 5.70) = $0.32

Adding the values together, the FMOV of Producer Milk at Test was: $5.87 + 2.85 + 0.32 + 3.23 = $12.27

When comparing May 2004 (negative PPD) to November 2000 (positive PPD), the total value of producer milk is $5.37 higher in May 2004 (negative PPD). Negative PPD's are a mathematical fact resulting from advance pricing of Class I, quickly rising commodity markets, and/or large differences between Class III and IV prices when either represents a sizeable portion of the market.

MONTHLY SELECTED STATISTICS

Minimum Class Prices (3.5% B.F.)	PACIFIC NORTHWEST Jun 2004	PACIFIC NORTHWEST May 2004	PACIFIC NORTHWEST Jun 2003	WESTERN Jun 2004	WESTERN May 2004	WESTERN Jun 2003	ARIZONA-LAS VEGAS Jun 2004	ARIZONA-LAS VEGAS May 2004	ARIZONA-LAS VEGAS Jun 2003
Class I Milk ($/cwt.)	$23.03	$21.55	$11.64	No data available. FO 135 was terminated effective April 1, 2004.		$11.64	$23.48	$22.00	$12.09
Class II Milk ($/cwt.)	14.31	15.03	10.46			10.46	14.31	15.03	10.46
Class III Milk ($/cwt.)	17.68	20.58	9.75			9.75	17.68	20.58	9.75
Class IV Milk ($/cwt.)	13.72	14.50	9.76			9.76	13.72	14.50	9.76
Producer Prices									
Producer Price Differential ($/cwt.)	$(0.23)	$(3.18)	$ 0.62			$ 0.49	+	+	+
Butterfat ($/pound)	2.1768	2.4282	1.1576			1.1576	+	+	+
Protein ($/pound)	3.1086	3.7639	1.9434			1.9434	+	+	+
Other Solids ($/pound)	0.1339	0.1444	(0.0200)			(0.0200)	+	+	+
Uniform Skim Price ($/cwt.)	+	+	+			+	10.54	11.23	6.63
Uniform Butterfat Price ($/pound)	+	+	+			+	2.2291	2.4363	1.1622
Statistical Uniform Price ($/cwt.)	$17.45	$17.40	$10.37			$10.24	$17.97	$19.36	$10.47
Producer Data									
Number of Producers	906 *	699	897			860	93 *	93	106
Avg. Daily Production (lbs.)	21,843 *	20,284	23,046			23,462	86,409 *	86,017	82,486
Number of Handlers									
Pool Handlers	30	27	30			14	5	5	6
Producer-Handlers	7 *	7	9			5	2 *	2	2
Other Plants w/ Class I Use	19 *	19	18			21	31 *	31	32
Producer Milk Ratios									
Class I	27.70%	38.40%	25.87%			14.33%	28.74%	29.32%	27.61%
Class II	6.91%	8.78%	6.97%			5.89%	8.76%	7.09%	7.80%
Class III	29.56%	2.78%	34.11%			70.53%	38.25%	43.10%	38.99%
Class IV	35.83%	50.04%	33.05%			9.25%	24.25%	20.49%	25.60%

+ Not Applicable. * Preliminary.

MONTHLY SUPPLEMENTAL STATISTICS

Producer-Handler Data	May 2004	Apr 2004	May 2003	May 2004	Apr 2004	May 2003	May 2004	Apr 2004	May 2003
Production	21,223,457	20,786,094	24,690,563	No data available. FO 135 was terminated effective April 1, 2004.		2,539,475	R	R	R
Class I Use	17,394,148	17,335,040	18,695,879			1,772,769	R	R	R
% Class I Use	81.96%	83.40%	75.72%			69.81%	R	R	R
Class I Route Disposition In Area									
By Pool Plants	154,514,397	158,177,138	165,287,382			70,288,813	70,502,870	77,288,417	77,710,168
By Producer-Handlers	17,139,962	16,274,652	18,611,796			1,782,310	1/	1/	1/
By Other Plants	4,422,097 *	4,265,080	2,489,583			3,495,503	32,582,781 *	33,968,068	31,850,400
Total	176,076,456	178,716,870	186,388,761			75,566,626	103,085,651	111,256,485	109,560,568

* Preliminary. R = Restricted. Not included. 1/ Restricted. Included with other plants.

MONTHLY STATISTICAL SUMMARY

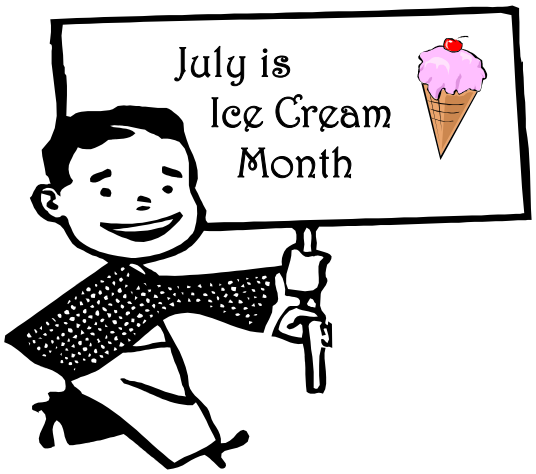
(Product pounds based upon reports of handlers)

RECEIPTS, UTILIZATION AND CLASSIFICATION OF MILK	PACIFIC NORTHWEST			WESTERN			ARIZONA-LAS VEGAS		
	Jun 2004	May 2004	Jun 2003	Jun 2004	May 2004	Jun 2003	Jun 2004	May 2004	Jun 2003
TOTAL PRODUCER MILK	593,694,655	439,531,111	620,181,306			605,308,760	241,082,492	247,986,147	262,304,931
RECEIPTS FROM OTHER SOURCES	42,905,292	19,058,052	14,092,112			9,056,466	36,227,457	34,743,802	34,538,363
OPENING INVENTORY	39,874,079	31,190,547	30,349,252			12,766,003	17,554,541	13,638,830	12,987,012
TOTAL TO BE ACCOUNTED FOR	676,474,026	489,779,710	664,622,670			627,131,229	294,864,490	296,368,779	309,830,306
UTILIZATION OF RECEIPTS									
Whole milk	28,271,858	28,359,249	27,635,712			11,546,593	20,036,778	20,222,470	21,853,345
Flavored milk & milk drinks	7,701,987	10,646,422	7,530,991			3,301,327	2,907,840	4,949,538	3,689,128
2% milk	65,241,907	65,629,679	63,957,313			25,895,865	27,417,675	26,593,805	26,339,029
1% milk	21,411,740	23,180,635	21,826,456			11,952,197	8,667,870	8,871,810	7,641,170
Skim milk	25,236,957	25,361,516	25,206,007			7,801,282	9,409,301	9,328,487	8,747,108
Buttermilk	1,304,937	1,336,896	1,311,229			514,304	528,312	536,760	490,588
CLASS I ROUTE DISP. IN AREA	149,169,386	154,514,397	147,467,708			61,011,568	68,967,776	70,502,870	68,760,368
Class I dispositions out of area	13,707,352	12,179,338	11,237,715			22,637,294	3,608,785	3,452,577	4,312,402
Other Class I usage	20,229,606	25,277,178	18,179,685			14,427,209	5,334,738	8,202,597	6,065,173
TOTAL CLASS I USE	183,106,344	191,970,913	176,885,108			98,076,071	77,911,299	82,158,044	79,137,943
TOTAL CLASS II USE	51,116,246	46,675,212	49,222,562			42,399,724	21,949,329	18,517,815	21,095,438
TOTAL CLASS III USE	202,455,973	12,204,173	211,660,974			426,942,866	93,139,333	108,173,084	103,368,777
TOTAL CLASS IV USE	239,795,463	238,929,412	226,854,026			59,712,568	101,864,529	87,519,836	106,228,148
TOTAL ACCOUNTED FOR	676,474,026	489,779,710	664,622,670			627,131,229	294,864,490	296,368,779	309,830,306
CLASSIFICATION OF RECEIPTS									
Producer milk: Class I	164,462,589	168,811,252	160,430,984			86,787,685	69,283,134	72,713,904	72,425,722
Class II	40,996,559	38,582,661	43,228,751			35,635,566	21,110,189	17,586,850	20,458,923
Class III	175,495,743	12,204,173	211,531,578			426,903,133	92,219,503	106,878,111	102,261,911
Class IV	212,739,764	219,933,025	204,989,993			55,982,376	58,469,666	50,807,282	67,158,375
Other receipts: Class I	18,643,755	23,159,661	16,454,124			11,288,386	53,781,998	48,382,632	47,525,375
Class II	10,119,687	8,092,551	5,993,811			6,764,158	1/	1/	1/
Class III	26,960,230	0	129,396			39,733	1/	1/	1/
Class IV	27,055,699	18,996,387	21,864,033			3,730,192	1/	1/	1/
Avg. daily producer receipts	19,789,822	14,178,423	20,672,710			20,176,959	8,036,083	7,999,553	8,743,498
Change From Previous Year	-4.27%	-31.56%	-7.20%			18.68%	-8.09%	-12.38%	2.30%
Avg. daily Class I use	6,103,545	6,192,610	5,896,170			3,269,202	2,597,043	2,650,259	2,637,931
Change From Previous Year	3.52%	-1.84%	4.65%			6.64%	-1.55%	-7.46%	-1.50%

No data available. FO 135 was terminated April 1, 2004.

1/ Restricted - Included with Class I.

HIGHLIGHTS THIS ISSUE:



USDA Amends Pacific Northwest Order

On June 22, 2004, the U.S. Department of Agriculture announced a final rule that will make permanent changes to the Pacific Northwest Federal Milk Marketing Order. The changes were previously implemented on an interim basis. Producers in the Pacific Northwest milk market approved these amendments.

Specifically, the final rule permanently adopts a "cooperative pool manufacturing plant" provision, a diversion limit of 80 percent of total producer receipts for a pool plant, system pooling for cooperative manufacturing plants, and the touch-base standard for the number of days during the month that the milk of a producer would need to be delivered to a pool plant in order for the rest of the milk of that producer to be eligible to be diverted to nonpool plants.

Additionally, this final rule maintains the authority granted to the market administrator to adjust the touch-base standard. The final rule was published in the June 23 Federal Register and became effective July 1, 2004. ♦