

Pacific Northwest & Arizona-Las Vegas Marketing Areas



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 Market Administrator

September 2004

MARKET SUMMARIES FOR AUGUST 2004

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

Pacific Northwest

Producers delivered a total of 619.8 million pounds of milk to the market during August. Comparisons to previous month are affected by eligible milk not pooled in August 2004. Daily deliveries averaged 20.0 million pounds, down 4.4 percent from July. An estimated 896 producers delivered milk to the market during the month. Daily deliveries per producer averaged 22,314 pounds, down 4.2 percent from July.

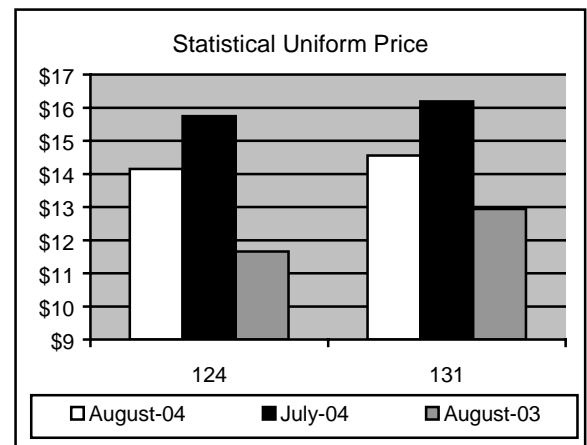
Class I producer milk during August totaled 176.3 million pounds, 28.4 percent of total producer receipts. Daily usage averaged 5.7 million pounds, up 1.7 percent from July.

Arizona-Las Vegas

Producers delivered a total of 222.1 million pounds of milk to the market during August. Daily deliveries averaged 7.2

million pounds, down 2.8 percent from July. An estimated 93 producers delivered milk to the market during the month. Daily deliveries per producer averaged 77,048 pounds, down 2.8 percent from July.

Class I producer milk during August totaled 82.3 million pounds, 37.1 percent of total producer receipts. Daily usage averaged 2.7 million pounds, up 11.3 percent from July. ♦



Federal Order Producer Prices and Component Levels: August 2004

Producer Prices	FO124	FO131	Component Levels (%)	FO124	FO131
Uniform Price 1/*	14.15	14.56	Butterfat	3.600	3.569
Butterfat 2/	1.7941	1.8615	Protein	2.978	N/A
Protein 2/	2.4663	N/A	Other Solids	5.701	N/A
Other Solids 2/	0.0676	N/A	Nonfat Solids	8.679	N/A
PPD 1/*	0.11	N/A			
Skim 1/	N/A	8.34			

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

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AUGUST 2004 CLASS PRICES

August 2004 non-advanced Class Prices were calculated using NASS commodity price surveys from July 31, August 7, 14, 21, and 28, 2004. Component prices for the month are \$2.4663 per pound of protein, \$1.7941 per pound of butterfat, \$0.0676 per pound of other solids, and \$0.7112 per pound of nonfat solids.

August 2004 Class III and IV prices at 3.5% butterfat are \$14.04 and \$12.46 per hundredweight, respectively. The August Class III price compared to July is down \$0.81. The Class III price is \$0.24 higher than August 2003. The Class III price at 3.67% butterfat is \$4.43 above the support price of \$9.90 at 3.67% butterfat.

Class II butterfat was announced at \$1.8011 per pound. Class I skim and butterfat and Class II skim prices for August 2004 were announced on July 23, 2004. The Class II price at 3.5% butterfat is \$13.13 for August 2004 .

FINAL: NASS COMMODITY PRICES

	July	August	Change
Cheese*	\$1.5695	\$1.5167	-\$0.0528
Butter	\$1.8269	\$1.6101	-\$0.2168
Nonfat Dry Milk	\$0.8513	\$0.8584	\$0.0071
Whey	\$0.2607	\$0.2246	-\$0.0361

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

Current Commodity Prices -- The NASS survey of cheddar cheese prices showed an increase in prices received for 40-pound blocks and 500-pound barrels. The survey of 40-pound blocks showed an increase of 8.06 cents between the August 14 and the September 11 surveys, to \$1.5753 per pound. The survey of 500-pound barrels (**adjusted to 38% moisture**) showed a net increase of 7.01 cents to \$1.5786 per pound.

The NASS butter price showed an increase of 18.41 cents between the weeks ending August 14 and September 11 from \$1.5339 per pound to \$1.7180 per pound.

The NASS nonfat dry milk showed a net increase of 0.16 cents since mid-August to \$0.8630 per pound. The average price for NASS whey showed a net decrease of 0.89 cents since mid-August to \$0.2155 per pound. ♦

OCTOBER'S CLASS I PRICE ANNOUNCEMENT

On September 17, the October 2004 Class I price was announced at \$16.68 for the Pacific Northwest Order, and \$17.13 for the Arizona-Las Vegas Order. The Class I price was calculated using NASS commodity price surveys from the weeks of September 4 and 11.

The October Class III and IV advance skim prices are \$8.53 and \$6.44 per hundredweight, respectively. The butterfat portion of the Class I mover increased 8.25 cents from \$1.7890 to \$1.8715 per pound.

The October 2004 Class II skim and nonfat solids prices were also announced on September 17. The skim price is \$7.14 per hundredweight, and the nonfat solids price is \$0.7933 per pound for all Federal orders. ♦

ADVANCED: NASS COMMODITY PRICES FOR CLASS I PRICE CALCULATIONS

	September	October	Change
Cheese*	\$1.5047	\$1.5958	\$0.0911
Butter	\$1.6058	\$1.6746	\$0.0688
Nonfat Dry Milk	\$0.8596	\$0.8622	\$0.0026
Whey	\$0.2280	\$0.2155	-\$0.0125

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

ANALYSIS OF COMPONENT LEVELS IN INDIVIDUAL HERD MILK AT THE FARM LEVEL

The following is the abstract from the Seattle Market Administrator's study entitled: "*Analysis Of Component Levels In Individual Herd Milk At The Farm Level: 2003.*" A copy of the complete study is available from this office and on our web site at <http://www.fmmaseattle.com>.

Component levels in producer milk pooled on the Pacific Northwest (FO 124), Arizona-Las Vegas (FO 131), and Western (FO 135) Federal Milk Marketing Orders were analyzed for 2003 to determine average levels, regional and seasonal variation, and, when possible, the statistical relationship between components. Handlers regulated under the Pacific Northwest and Western Orders report butterfat, protein, and other solids. Handlers regulated under the Arizona-Las Vegas Order report butterfat only. Producer milk pooled was also valued using Federal order minimum producer prices for the respective orders. For 2003, a monthly average total of 1,643 producers

were pooled on the Pacific Northwest, Arizona-Las Vegas, and Western Orders. During 2003, these producers delivered 14.0 billion pounds to the three markets. The milk shed of the three Federal orders includes Arizona, California, Colorado, Idaho, Nevada, New Mexico, Oregon, Utah, Washington, and Wyoming.

Major findings of this study include:

1. The 2003 average component levels for the Pacific Northwest Order were 3.66% butterfat, 3.04% true protein, and 5.69% other solids. The 2003 average component levels for the Western Order were 3.60% butterfat, 3.04% true protein, and 5.70% other solids. The 2003 average butterfat level for the Arizona-Las Vegas Order was 3.59%.

2. In all three orders, butterfat and protein levels decrease during the summer months and increase in the late fall and winter.

3. Although the volume of producer milk, number of producers, and average milk production per producer varies greatly between regions, there are only small differences in aggregate component levels between geographic regions within the milk shed of the three orders.

4. The Pacific Northwest Order's linear regression in 2003 for protein is $PRO\% = 1.45 + 0.432 * BF\%$, with an R-squared of 0.66. The Western Order's linear regression in 2003 for protein is $PRO\% = 1.53 + 0.427 * BF\%$, with an R-squared of 0.48.

The Pacific Northwest and Western Orders' regressions for estimating other solids using butterfat have a very poor correlation (R-squared of less than 0.05). The monthly regression varies between a positive and negative relationship; other solids levels appear to be independent of butterfat levels. ♦

DAIRY OUTLOOK

Dairy Replacement Prices Jump - Prices of dairy cow replacements hit a record \$1,720 per head in July, up more than \$400 from a year earlier. Replacement prices jumped since early 2004 mostly because record milk prices boosted demand for dairy heifers. However, the difference between the average replacement price during April-June and the slaughter value for dairy cows was considerably less than it had been during late 2001 and most of 2002 because of higher cull cow prices.

The inventory of dairy replacement heifers (500 pounds and more) stood at 3.6 million on July 1, unchanged from a year earlier but down slightly from 2 years earlier. Total supplies of heifers were down slightly at midyear because Canadian imports were not available. Typically, annual imports of replacements from Canada have been equivalent to 1 or 2 percent of the replacement herd.

Increased demand for replacements has had the greatest impact on prices. Very high milk prices made farmers anxious to keep their facilities completely full and even to stretch capacity if possible. However, the relatively few farm expansions currently underway kept replacement prices from shooting much higher. The second quarter difference between a cow's purchase price and salvage value was just over \$900, \$200 less than during the strong expansion period in 2002. Farmers probably saw the recent high milk prices as temporary in nature and largely irrelevant to investment decisions.

SOURCE: "Livestock, Dairy, and Poultry Outlook", LDP-M-122, August 18, 2004, Economic Research Service, USDA. For more information, contact James J. Miller, (202) 694-5184.

(Continued From Page 8)

processor promotion and research programs. In this capacity, Ms. Coale will promote a competitive and efficient marketplace that benefits U.S. dairy farmers, dairy processors, and consumers. Ms. Coale replaces Richard McKee, who retired April 3, 2004. Since December 2001, Ms. Coale has served as the Dairy Programs' associate deputy administrator.

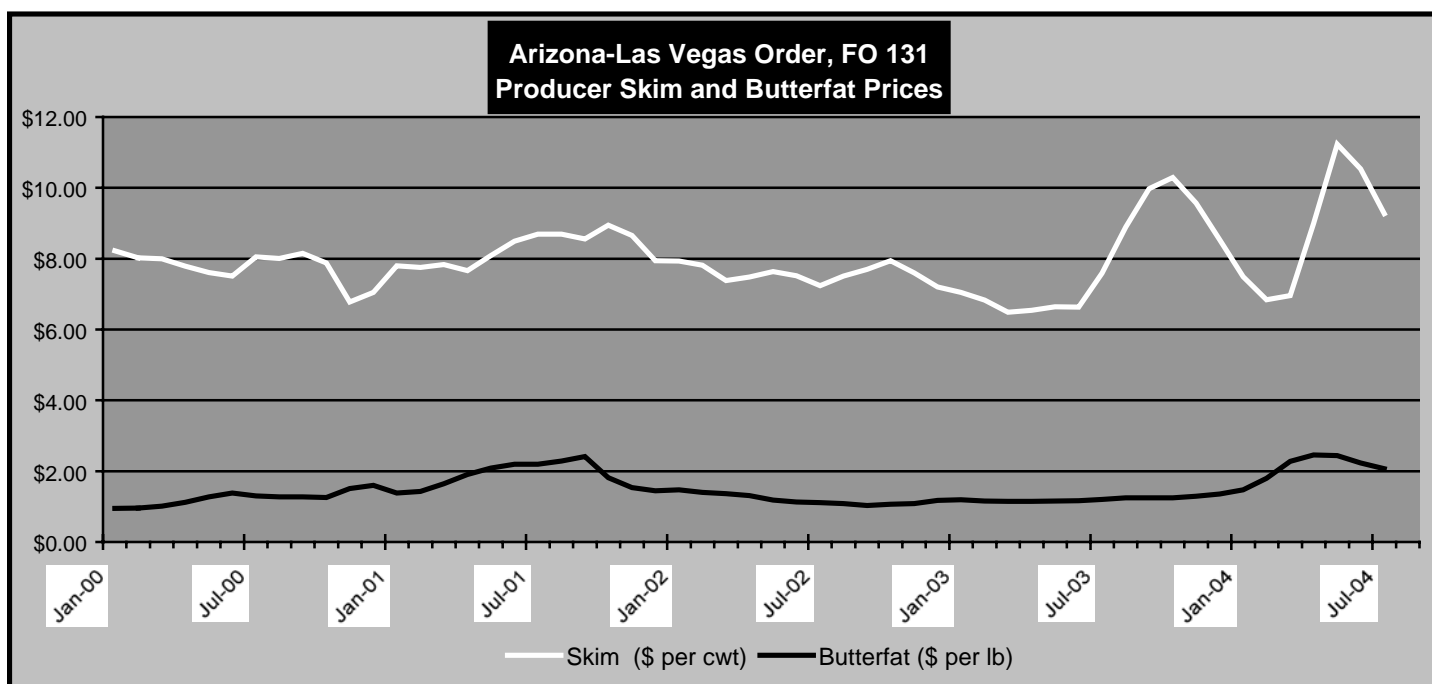
Ms. Coale's previous experience includes serving as an agricultural marketing specialist with the AMS Dairy Programs for 11 years working with the Federal milk marketing order program. Ms. Coale received a bachelor of science in public service and administration and international agriculture from Iowa State University. ♦

PRODUCER PRICES FOR THE ARIZONA-LAS VEGAS ORDER

The July 2004 Market Administrator's Report featured an article which showed 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. The article included formulas to calculate the Federal order minimum value (FOMV) for both the Pacific Northwest (FO 124) and Arizona-Las Vegas (FO 131) Orders, however, due to space limitations, only graphical illustrations for the Pacific Northwest Order (FO 124) were printed.

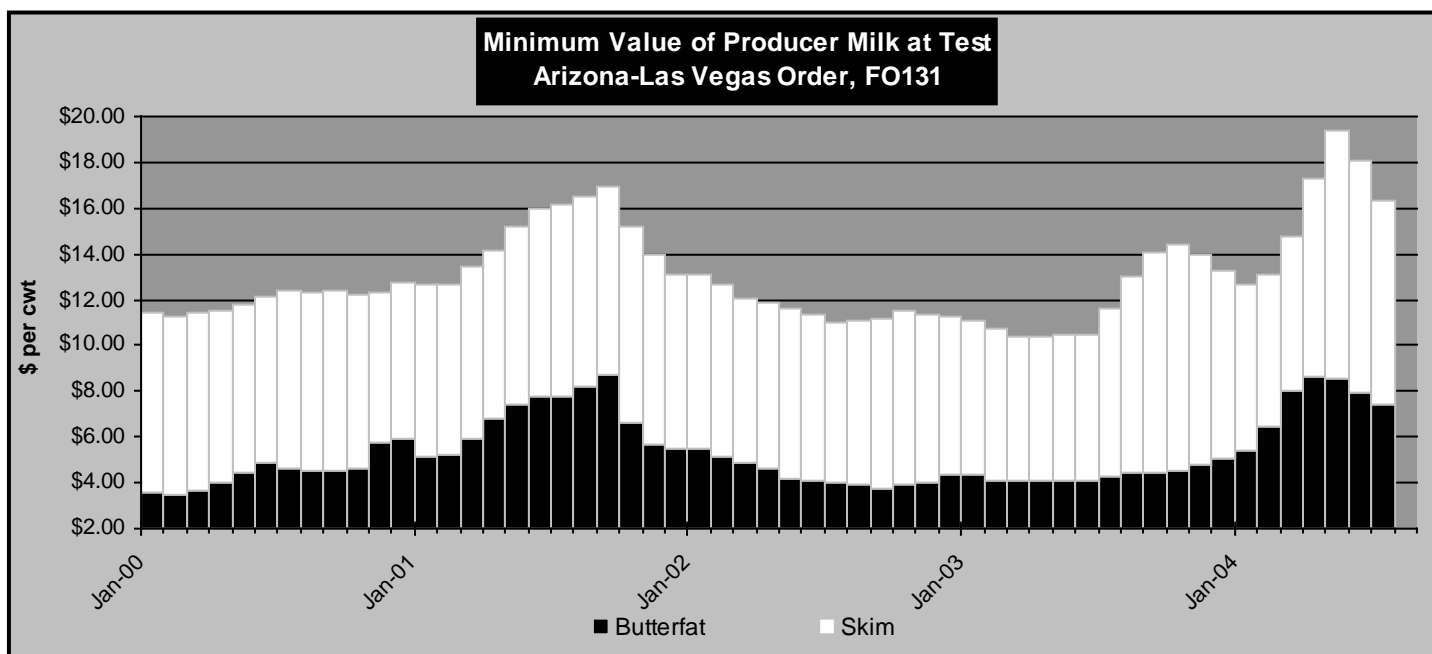
To summarize the information from the July 2004 article, total producer revenue for the producers in the Arizona-Las Vegas Order (FO 131) is based on the skim and butterfat content of milk. The FOMV is unique to each dairy farmer as the test of one herd's milk is never quite the same as that of another due to cow breeds, breeding, feed, and other management practices. To calculate the FOMV of Producer Milk (also known as the Uniform Price at Test), add the skim value and butterfat value per cwt of milk, where the value of skim and butterfat is calculated by multiplying the skim and butterfat price by their respective percentage. For examples of these calculations see the July 2004 edition of the Market Administrator's Report.

The graph below, and the graphs on page 5, illustrate the value of producer milk on the Arizona-Las Vegas Order (FO 131) from January 2000 through August 2004.

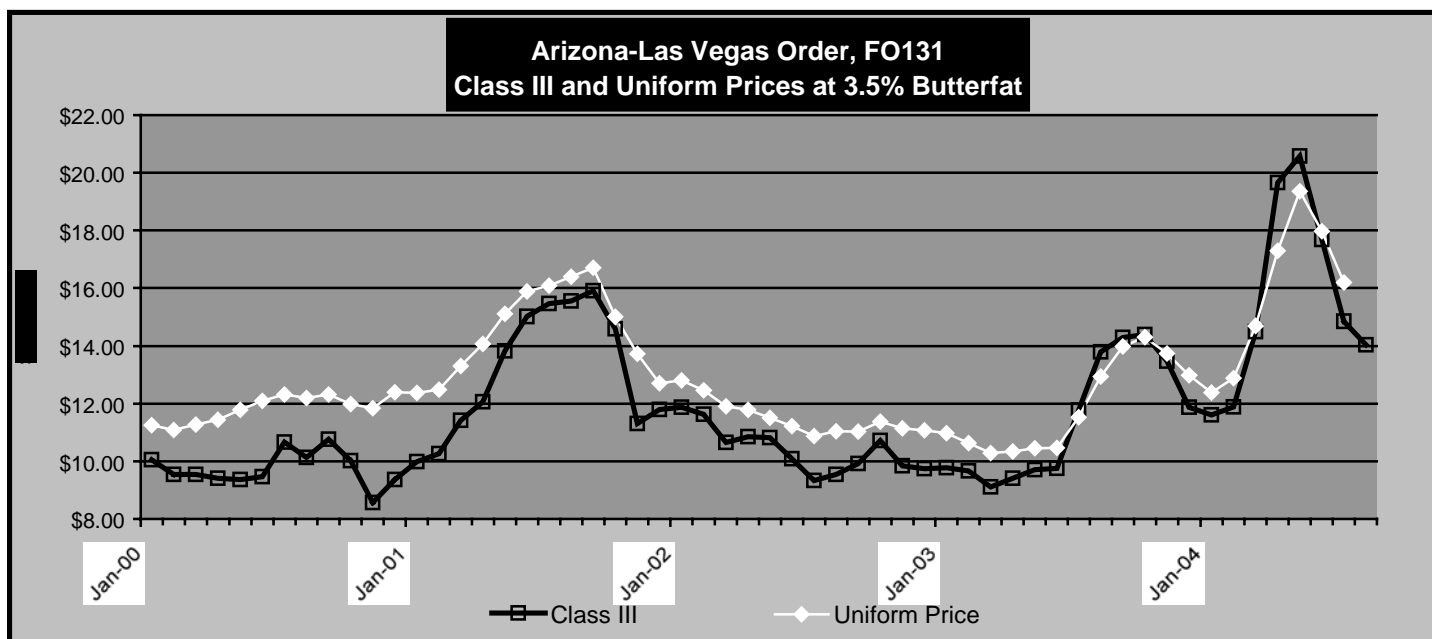


The graph above tracks the price of both skim and butterfat. Please note that butterfat is priced per pound, while skim is per hundredweight. Component prices are published monthly on the Announcement of Uniform Prices and historical data is available on our website (www.fmmaseattle.com) if you would like to explore data from previous months.

The graph on the top of page 5 shows the dollar value contribution of skim and butterfat to the total value of producer milk at test (the FOMV of Producer Milk). This graph demonstrates how the total value that producers receive can change due to increases and decreases in commodity prices.



The graph below shows the Federal Order Class III and the Arizona-Las Vegas Order's uniform price at 3.5 percent butterfat. This graph illustrates that when cheese prices increase rapidly, the Class III price becomes greater than the uniform price. Even though the Class III price is higher than the uniform price, July through October 2003, April and May 2004, the uniform price is increasing during these months. This would be the equivalent to negative producer price differentials on component pricing orders. When the Class III price is above the uniform price, handlers who have Class III producer milk utilization pay monies into the pool that are shared by all producers just as all producers share in the lesser value of Class III when it is lower than the uniform price.



MONTHLY SELECTED STATISTICS

	PACIFIC NORTHWEST			WESTERN			ARIZONA-LAS VEGAS			
	Aug 2004	Jul 2004	Aug 2003	Aug 2004	Jul 2004	Aug 2003	Aug 2004	Jul 2004	Aug 2003	
Minimum Class Prices (3.5% B.F.)										
Class I Milk (\$/cwt.)	\$16.52	\$19.85	\$12.87	No data available. FO 135 was terminated effective April 1, 2004.		\$12.87	\$16.97	\$20.30	\$13.32	
Class II Milk (\$/cwt.)	13.13	14.00	10.81			10.81	13.13	14.00	10.81	
Class III Milk (\$/cwt.)	14.04	14.85	13.80			13.80	14.04	14.85	13.80	
Class IV Milk (\$/cwt.)	12.46	13.31	10.14			10.14	12.46	13.31	10.14	
Producer Prices										
Producer Price Differential (\$/cwt.)	\$ 0.11	\$ 0.89	\$(2.14)			\$(1.70)		+	+	+
Butterfat (\$/pound)	1.7941	2.0543	1.2514			1.2514		+	+	+
Protein (\$/pound)	2.4663	2.3625	3.1438			3.1438		+	+	+
Other Solids (\$/pound)	0.0676	0.1048	0.0026			0.0026		+	+	+
Uniform Skim Price (\$/cwt.)	+	+	+			+		8.34	9.27	8.89
Uniform Butterfat Price (\$/pound)	+	+	+		+		1.8615	2.0710	1.2448	
Statistical Uniform Price (\$/cwt.) . .	\$14.15	\$15.74	\$11.66		\$12.10		\$14.56	\$16.19	\$12.94	
Producer Data										
Number of Producers	896 *	897	705		560		93 *	93	106	
Avg. Daily Production (lbs.)	22,314 *	23,303	18,997		10,583		77,048 *	79,244	67,940	
Number of Handlers										
Pool Handlers	29	29	28		16		5	5	6	
Producer-Handlers	7 *	7	9		5		2 *	2	2	
Other Plants w/ Class I Use	22 *	22	17		21		32 *	32	34	
Producer Milk Ratios										
Class I	28.44%	26.74%	40.64%		50.39%		37.06%	32.39%	34.73%	
Class II	6.90%	7.06%	10.55%		16.27%		10.82%	10.29%	8.69%	
Class III	34.26%	33.01%	6.14%		1.89%		34.00%	34.96%	43.16%	
Class IV	30.40%	33.19%	42.67%		31.45%		18.12%	22.36%	13.42%	

+ Not Applicable. * Preliminary.

MONTHLY SUPPLEMENTAL STATISTICS

	Jul 2004	Jun 2004	Jul 2003	Jul 2004	Jun 2004	Jul 2003	Jul 2004	Jun 2004	Jul 2003
Producer-Handler Data									
Production	21,084,006	20,778,455	24,306,500	No data available. FO 135 was terminated effective April 1, 2004.		2,374,403	R	R	R
Class I Use	17,183,783	16,574,845	17,036,352			1,557,164	R	R	R
% Class I Use	81.50%	79.77%	70.09%			65.58%	R	R	R
Class I Route Disposition In Area									
By Pool Plants	155,672,843	149,169,386	154,170,387		67,459,518		71,045,045	68,967,776	73,372,673
By Producer-Handlers	15,880,090	15,921,353	17,264,132		1,555,818		1/	1/	1/
By Other Plants	2,549,090 *	4,715,677	1,777,867		3,208,177		32,700,232 *	32,881,927	31,133,759
Total	174,102,023	169,806,416	173,212,386		72,223,513		103,745,277	101,849,703	104,506,432

* 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					
	Aug 2004	Jul 2004	Aug 2003	Aug 2004	Jul 2004	Aug 2003	Aug 2004	Jul 2004	Aug 2003			
TOTAL PRODUCER MILK	619,800,378	647,997,621	415,182,551	No data available. FO 135 was terminated April 1, 2004.			183,719,310	222,128,323	228,460,542	223,250,046		
RECEIPTS FROM OTHER SOURCES	20,438,454	15,590,228	134,325,745				9,543,422	6,665,184	32,587,504	5,559,230		
OPENING INVENTORY	29,964,099	35,854,823	29,577,600				16,665,872	11,922,150	12,729,228	12,405,449		
TOTAL TO BE ACCOUNTED FOR	670,202,931	699,442,672	579,085,896				209,928,604	240,715,657	273,777,274	241,214,725		
UTILIZATION OF RECEIPTS												
Whole milk	29,501,671	29,247,482	29,365,676				12,170,258	20,260,155	19,899,765	22,921,236		
Flavored milk & milk drinks	7,604,190	6,405,537	7,135,282				4,439,561	5,280,022	2,569,361	5,259,847		
2% milk	68,495,136	69,361,092	68,464,456				28,540,574	30,993,354	29,730,203	28,194,034		
1% milk	22,937,279	22,805,552	22,482,250				13,807,643	9,778,629	8,614,489	8,732,299		
Skim milk	25,640,612	26,440,750	25,758,816				8,484,202	10,222,739	9,718,982	9,339,945		
Buttermilk	1,350,833	1,412,430	1,419,813	574,557	547,925	512,245	521,848					
CLASS I ROUTE DISP. IN AREA	155,529,721	155,672,843	154,626,293	68,016,795	77,082,824	71,045,045	74,969,209					
Class I dispositions out of area	13,275,000	14,248,773	13,462,341	22,668,562	3,838,527	3,571,758	3,997,912					
Other Class I usage	21,784,308	18,342,170	17,519,745	16,275,100	6,698,456	5,011,592	7,663,768					
TOTAL CLASS I USE	190,589,029	188,263,786	185,608,379	106,960,457	87,619,807	79,628,395	86,630,889					
TOTAL CLASS II USE	54,323,244	56,421,837	48,138,812	36,511,261	24,887,172	24,363,750	20,013,480					
TOTAL CLASS III USE	215,847,523	214,369,809	132,703,784	3,833,878	76,166,999	80,632,466	97,676,557					
TOTAL CLASS IV USE	209,443,135	240,387,240	212,634,921	62,623,008	52,041,679	89,152,663	36,893,799					
TOTAL ACCOUNTED FOR	670,202,931	699,442,672	579,085,896	209,928,604	240,715,657	273,777,274	241,214,725					
CLASSIFICATION OF RECEIPTS												
Producer milk: Class I	176,297,263	173,345,926	168,746,417	92,574,723	82,314,611	74,004,450	77,531,215					
Class II	42,758,887	45,732,535	43,785,877	29,884,340	24,036,951	23,506,773	19,401,506					
Class III	212,335,236	213,872,447	25,499,161	3,477,572	75,527,128	79,867,910	96,350,477					
Class IV	188,408,992	215,046,713	177,151,096	57,782,675	40,249,633	51,081,409	29,966,848					
Other receipts: Class I	14,291,766	14,917,860	16,861,962	14,385,734	18,587,334	45,316,732	17,964,679					
Class II	11,564,357	10,689,302	4,352,935	6,626,921	1/	1/	1/					
Class III	3,512,287	497,362	107,204,623	356,306	1/	1/	1/					
Class IV	21,034,143	25,340,527	35,483,825	4,840,333	1/	1/	1/					
Avg. daily producer receipts	19,993,561	20,903,149	13,392,986	5,926,429	7,165,430	7,369,695	7,201,614					
Change From Previous Year	49.28%	57.48%	-38.98%	-59.65%	-0.50%	-6.31%	-0.66%					
Avg. daily Class I use	6,148,033	6,073,025	5,987,367	3,450,337	2,826,445	2,568,658	2,794,545					
Change From Previous Year	2.68%	0.68%	-4.52%	-1.87%	1.14%	-10.72%	-0.60%					

1/ Restricted - Included with Class I.

HIGHLIGHTS THIS ISSUE:

- Market Summaries for August 2004
- August 2004 Class Prices
- Class I Price for October 2004
- Abstract: Analysis of Component Levels in Individual Herd Milk at the Farm Level
- Dairy Outlook and Situation
- Producer Prices for the Arizona-Las Vegas Order
- Dana Coale Named Deputy Administrator of USDA Agricultural Marketing Service Dairy Programs

DANA COALE NAMED DEPUTY ADMINISTRATOR OF USDA AGRICULTURAL MARKETING SERVICE DAIRY PROGRAMS

The U.S. Department of Agriculture's Agricultural Marketing Service today announced the selection of Dana Hamilton Coale as the new deputy administrator of AMS' Dairy Programs.

"I am pleased to announce the appointment of Ms. Coale to head the AMS Dairy Programs," said AMS Administrator A. J. Yates. "Her varied background and proven abilities in various leadership positions makes her an ideal choice for this important post."

As Dairy Programs deputy administrator, Ms. Coale is responsible for overseeing various programs including the Federal milk marketing order program, the standardization program, the inspection and grading program, the market news program, and the dairy producer and fluid milk

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