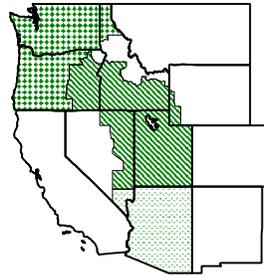


Pacific Northwest, Arizona-Las Vegas, & Western Marketing Areas



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James R. Daugherty
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SEPTEMBER 2000

MARKET SUMMARIES FOR AUGUST

Pacific Northwest

Producers delivered a total of 615.3 million pounds of milk to the market during August. Daily deliveries averaged 19.8 million pounds, up 0.2 percent from July. An estimated 1,039 producers delivered milk to the market during the month. Daily deliveries per producer averaged 19,104 pounds, up 2.0 percent from July.

Class I producer milk during August totaled 175.3 million pounds, 28.5 percent of total producer receipts. Daily usage averaged 5.7 million pounds, up 8.1 percent from July.

Producers will receive \$1.7952 per pound of protein, \$1.2659 per pound of butterfat, and \$0.0577 per pound of other solids. Producers will also receive the market's producer price differential of \$1.81 per hundredweight, subject to applicable location adjustments. The market average component tests for the month were: 3.57% butterfat, 3.00% protein, 5.71% other solids, and 8.70% nonfat solids.

Western

Producers delivered a total of 308.5 million pounds of milk to the market during August. Comparisons to the previous month are biased due to eligible milk not pooled in July and August 2000. Fewer than three handlers did not pool milk; the amount of eligible milk not pooled is

restricted. Daily deliveries averaged 10.0 million pounds, down 21.5 percent from July. An estimated 756 producers delivered milk to the market during the month. Daily deliveries per producer averaged 13,161 pounds, down 21.1 percent from July.

Class I producer milk during August totaled 85.4 million pounds, 27.7 percent of total producer receipts. Daily usage averaged 2.8 million pounds, up 8.1 percent from July.

Producers will receive \$1.7952 per pound of protein, \$1.2659 per pound of butterfat, and \$0.0577 per pound of other solids. Producers will also receive the market's producer price differential of \$1.40 per hundredweight, subject to applicable location adjustments. The market average component tests for the month were: 3.49% butterfat, 2.98% protein, 5.76% other solids, and 8.74% nonfat solids.

(Continued On Page 2)

Statistical Uniform Price (@ 3.5% BF) August 2000

Federal Order	Per Cwt.
Pacific Northwest	\$11.94
Western	\$11.53
Arizona-Las Vegas	\$12.20

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(Continued From Page 1)

Arizona-Las Vegas

Producers delivered a total of 238.9 million pounds of milk to the market during August. Daily deliveries averaged 7.7 million pounds, down 5.1 percent from July. An estimated 129 producers delivered milk to the market during the month. Daily deliveries per producer averaged 59,737 pounds, down 5.1 percent from July.

Class I producer milk during August totaled 84.6 million pounds, 35.4 percent of total producer receipts. Daily usage averaged 2.7 million pounds, up 15.7 percent from July.

Producers will receive \$1.2763 per pound of butterfat and \$8.01 per hundredweight of skim, subject to applicable location adjustments. The market average butterfat test for the month was 3.56%. ♦

August were announced on July 21, 2000. The Class II price at 3.5% butterfat is \$12.56 for August.

The August Class III price compared to July is down \$0.53. The Class III price is \$5.66 lower than August 1999 and \$0.33 above the support price.

AUGUST'S CLASS PRICES

August's non-advanced Class Prices were calculated using NASS commodity price surveys from August 5, 12, 19, and 26. Component prices for the month are \$1.7952 per pound of protein, \$1.2659 per pound of butterfat, \$0.0577 per pound of other solids, and \$0.8567 per pound of nonfat solids.

August's Class III and IV prices at 3.5% butterfat are \$10.13 and \$11.87 per hundredweight, respectively. Class II butterfat was also announced at \$1.2729 per pound. Class I skim and butterfat and Class II skim prices for

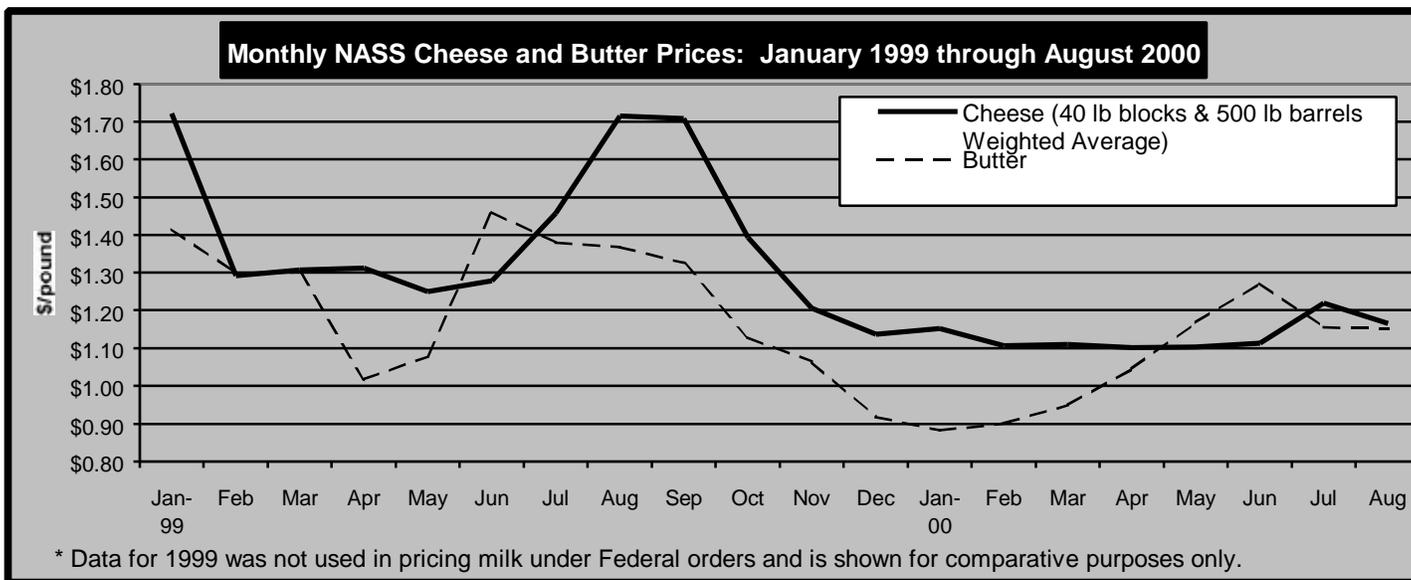
NASS COMMODITY PRICES			
	July	August	Change
Cheese*	\$1.2189	\$1.1660	-\$0.0529
Butter	\$1.1547	\$1.1520	-\$0.0027
Nonfat Dry Milk	\$1.0102	\$1.0108	\$0.0006
Whey	\$0.1909	\$0.1929	\$0.0020

* 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 a net increase of 8.78 cents between the August 19 and the September 16 surveys, to \$1.2843 per pound. The survey of 500-pound barrels (adjusted to 39% moisture) showed an increase of 13.22 cents to \$1.2107 per pound.

The NASS butter price showed a net decrease of 1.93 cents between the weeks ending August 19 and September 16 from \$1.1577 per pound to \$1.1384 per pound.

The NASS nonfat dry milk showed a net increase of 0.17 cents since mid-August to \$1.0126 per pound. The average price for NASS whey showed a net decrease of 0.45 cents since mid-August to \$0.1870 per pound. ♦



* Data for 1999 was not used in pricing milk under Federal orders and is shown for comparative purposes only.

OCTOBER'S CLASS I PRICE ANNOUNCEMENT

On September 22, the October 2000 Class I price was announced at \$13.79 for the Pacific Northwest and Western Orders, and \$14.24 for the Arizona-Las Vegas Order. The Class I price was calculated using NASS commodity price surveys from the weeks of September 9 and 16.

The October Class III and IV advance skim prices are \$6.66 and \$7.76 per hundredweight, respectively. The Class IV skim price has set the skim price for Class I milk for the first ten months of the year 2000. The butterfat portion of the Class I mover decreased 0.25 cents from \$1.2591 to \$1.2566 per pound.

The October 2000 Class II skim and nonfat solids were also announced on September 22. The skim price is \$8.46 per hundredweight, and the nonfat solids price is \$0.9400 per pound for all Federal Orders. ♦

NASS COMMODITY PRICES FOR CLASS I PRICE CALCULATIONS

	<u>September</u>	<u>October</u>	<u>Change</u>
Cheese*	\$1.1847	\$1.2380	0.0533
Butter	\$1.1465	\$1.1444	(0.0021)
Nonfat Dry Milk	\$1.0091	\$1.0168	0.0077
Whey	\$0.1940	\$0.1856	(0.0084)

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

COMMERCIAL DISAPPEARANCE OF DAIRY PRODUCTS UP 2.9% FOR FIRST HALF OF 2000

Commercial disappearance of U.S. milk for the first half of 2000 was up 2.9 percent over the same period of 1999. Commercial disappearance is used as an indicator of consumption of U.S. milk marketings and is a residual figure. This measure of consumption includes civilian and military purchases of milk and dairy products for domestic and foreign use (exports), but excludes farm household use, commercial stocks, and imports. The table below shows commercial disappearance by commodity and their milk-equivalent on a fat solids basis.

American cheese and "Other" cheese products both showed increases from 1999. Nonfat dry milk

disappearance decreased the most, down 10.1%. Other Cheese disappearance increased the most, up 8.8%. ♦

Commercial Disappearance

	January-June		% Change
	2000	1999	
<u>Selected Products</u>	-- Million Pounds --		1/
Butter *	600.4	615.7	-3.0%
American Cheese *	1,790.8	1,710.8	4.1%
Other Cheese *	2,403.6	2,196.4	8.8%
Nonfat Dry Milk *	348.1	384.9	-10.1%
Fluid Milk Products	27,607.4	27,601.5	-0.5%
Total *	82,658	79,880	2.9%

* Commercial Disappearance, milk-equivalent, milk fat basis. 1/ Adjusted for leap year. Source: Dairy Market News, Volume 67, No. 35.

IN-AREA DISPOSITION OF FLUID MILK PRODUCTS: JANUARY THROUGH JUNE 2000

In-area route disposition of fluid milk products is the amount of fluid milk products, from all sources, consumed in the selected marketing area. The table on page 4 shows in-area route disposition for the Pacific Northwest, Arizona-Las Vegas, and Western Orders. Changes from year-ago levels are not reported due to changes in marketing area boundaries beginning January 2000.

Pacific Northwest Order

For the period of January through June 2000, disposition of fluid milk products in the marketing area of the Pacific Northwest Order totaled 1,074.6 million pounds. During this period, low-fat milk products accounted for 887.3 million pounds or 82.6% of the market's disposition of fluid milk.

Arizona-Las Vegas Order

For the period of January through June 2000, disposition of fluid milk products in the marketing area of the Arizona-Las Vegas Order totaled 595.2 million pounds. During this period, low-fat milk products accounted for 400.1 million pounds or

67.2% of the markets disposition of fluid milk. Whole milk products accounted for 195.1 million pounds or 32.8% of the market in the Arizona-Las Vegas Order, a much higher percentage than the Pacific Northwest and Western Orders.

Western Order

For the period of January through June 2000, disposition of fluid milk products in the marketing area of the Western Order totaled 443.9 million pounds. During this period, low-fat milk products accounted for 370.9 million pounds or 83.6% of the markets disposition of fluid milk. ♦

In-Area Route Disposition 1/ Pacific Northwest (FO124), Arizona-Las Vegas (FO131), and Western (FO135) Orders January through June 2000			
	FO124	FO131	FO135
<u>Whole Milk Products</u>	- million pounds -		
Whole	176.7	182.0	69.5
Flavored	<u>10.6</u>	<u>13.0</u>	<u>3.5</u>
Total Whole Milk 2/	187.3	195.0	73.0
<u>Low-fat Milk Products</u>			
2%	476.7	230.7	184.8
1%	168.3	66.7	89.7
Skim	188.0	82.5	64.0
Flavored Low-fat	44.3	16.9	28.4
Buttermilk & Other 3/	<u>9.9</u>	<u>3.4</u>	<u>3.9</u>
Total Low-fat Milk 2/	887.3	400.1	370.9
Combined Total 2/	1,074.6	595.1	443.9

1/ Based on total in-area route disposition by handlers, handlers regulated by other Federal orders, partially regulated handlers, and producer-handlers. 2/ May not add due to rounding. 3/ May include small amounts of miscellaneous products.

(Continued From Page 8)

(Federal Milk Orders: Purpose, Scope, and Operation)

for their milk that considers the economic conditions throughout the year. This high degree of assurance makes dairy farmers willing to make the heavy investments in milk cows and equipment that are needed to produce the high-quality milk that consumers want.

The characteristics of milk make milk marketing inherently unstable. Milk is highly perishable and

must be moved promptly to market. Because milk is produced every day of the year, farmers must continue shipping it to the market, even when market prices are unsatisfactory. Also, milk production varies widely with the seasons. Because of the biological process, cows produce more milk in the spring and less in the fall. Therefore, in any market, when there is enough milk in the fall to meet the fluid (bottling) needs of the market, there is too much milk for that market's fluid needs in the spring.

The demand for fluid milk is relatively stable when measured season to season, but varies considerably from day-to-day. Because of its perishable nature, milk cannot be stored to balance the peaks and troughs of supply. The industry, therefore, must continually produce an oversupply of reserve to make sure that there will be enough fluid milk at all times for the day-to-day needs of consumers.

Reserve milk that is not needed for fluid use is manufactured into storable dairy products. But milk used in these products returns a lower price to producers than milk used for fluid purposes. Producers, therefore, are interested in getting as much of their milk as possible into higher-valued fluid uses, and, in the absence of regulation, often make uneconomic price concessions to achieve that end.

Scope

There are currently 11 Federal milk orders in effect, covering most of the major population centers in the country, except California, which has a state order. In December 1999, some 71,329 dairy farmers delivered nearly 10 billion pounds of milk to regulated handlers. This represented about 72% of all U.S. milk marketings. The amount of milk under Federal orders has doubled since the early 1960's, even though there are only a quarter as many orders.

Operation

The 1937 Act defines the provisions that can be included in an order. For example, each order includes provisions for: classified pricing and pooling; determining minimum prices handlers are required to pay producers; verifying weights and tests of milk usage; and insuring payments to producers.

On the other hand, Federal orders cannot set wholesale or retail prices, establish controls on

production, prevent farmers from selling their milk to any handler they choose, or regulate from whom a milk handler can buy milk.

Pricing -- Under classified pricing, minimum prices that handlers are required to pay are established according to how the milk was used. Milk used in perishable fluid products is designated Class I and commands the highest price. Milk used in soft products such as ice cream and cottage cheese is Class II and has a lower price. The lowest prices are for Class III and IV, which include milk that is manufactured into storable products, such as hard cheeses in Class III and butter and nonfat dry milk in Class IV. Under orders that have skim and butterfat pricing, including the Arizona-Las Vegas Order, handlers must pay minimum skim and butterfat prices based on the utilization of milk. Under orders that have multiple component pricing (MCP), including the Pacific Northwest and Western Orders, handlers must pay minimum prices for certain milk components, i.e., true protein and other solids or solids nonfat, instead of skim. Other solids are defined as solids-not-fat less true protein.

Class prices are based on weekly National Agricultural Statistics Services (NASS) Dairy Product Price Surveys. These survey prices replaced the Basic Formula Price (BFP) series beginning January 2000. Class prices are announced at two different times for each month.

Advanced prices are announced on or before the 23rd of the previous month and announce Class I skim and butterfat and Class II skim and nonfat solids prices. **Final** prices are announced on or before the 5th of the following month and announce Class II/III/IV butterfat, Class III protein and other solids, and Class IV nonfat solids prices. The Class I price includes a fixed differential that reflects the added costs of producing and marketing milk for fluid use. As a result, Class I prices vary among markets, generally being highest in the southern markets and lowest in the Midwestern and Western markets. The Class I differential is \$1.90 for the Pacific Northwest and Western Orders, and \$2.35 for the Arizona-Las Vegas Order. The Class II, III, and IV prices are calculated using NASS commodity surveys, and are the same in all orders.

The orders establish minimum prices, but dairy farmers and their cooperatives are free to negotiate higher prices with handlers who buy milk.

In most areas, market prices are above Federal order minimum prices.

Pooling -- Essentially all orders operate marketwide pools in determining producer prices. Under marketwide pooling, the total order value of the milk in all classes by all handlers in a market is divided by the total milk deliveries to determine the blend price for the market, or in markets with MCP, the producer price differential. The producer price differential plus the Class III price is similar to the "blend price," and on the Northwest orders is referred to as the "statistical uniform price." The blend price is paid to each producer or cooperative under the order, except for adjustments to reflect variations in component levels in the individual producer's milk and the location at which the milk is received by the handler.

Formulation -- Milk orders are established and amended through public hearings at which all interested parties -- producers, handlers and consumers -- can present their views. A decision on the proposals being considered must be based solely on the hearing record.

Following the issuance of a recommended decision and then a final decision, at least two-thirds of the affected producers voting in a referendum must approve a new or amended order. Cooperatives can bloc vote for their members. For amendments to orders, the vote is on the entire order as proposed to be amended rather than on separate amendments. The Act provides procedures for eliminating an order if producers or the Secretary of Agriculture desire to do so.

Administration -- The Dairy Programs of the USDA's Agricultural Marketing Service provide general oversight and administration of the milk order program. Each order is administered locally by a Market Administrator appointed by the Secretary of Agriculture. Activities include announcing the prices set by an order, receiving and auditing handler reports on milk receipts and uses, verifying producer payments, and verifying milk weights and tests. Budgets of the Market Administrator offices are covered by an assessment on milk handlers based on their pounds of milk pooled under the order.

Source: Adapted from Dairy Market News, Volume 60, Report 5, USDA.

MONTHLY SELECTED STATISTICS

NASS Commodity Prices (\$/pound)	Aug_2000	Jul_2000
Butter	\$1.1520	\$1.1547
Cheese, Weighted Average Blocks & Barrels	1.1660	1.2189
Nonfat Dry Milk	1.0108	1.0102
Whey	0.1929	0.1909

Minimum Class Prices (3.5% B.F.)	PACIFIC NORTHWEST		WESTERN		ARIZONA-LAS VEGAS	
	Aug_2000	Jul_2000	Aug_2000	Jul_2000	Aug_2000	Jul_2000
Class I Milk (\$/cwt.)	\$13.85	\$14.36	\$13.85	\$14.36	\$14.30	\$14.81
Class II Milk (\$/cwt.)	12.56	12.58	12.56	12.58	12.56	12.58
Class III Milk (\$/cwt.)	10.13	10.66	10.13	10.66	10.13	10.66
Class IV Milk (\$/cwt.)	11.87	11.87	11.87	11.87	11.87	11.87
Producer Prices						
Producer Price Differential (\$/cwt.)	\$ 1.81	\$ 1.53	\$ 1.40	\$ 1.07	+	+
Butterfat (\$/pound)	1.2659	1.2691	1.2659	1.2691	+	+
Protein (\$/pound)	1.7952	1.9726	1.7952	1.9726	+	+
Other Solids (\$/pound)	0.0577	0.0557	0.0577	0.0557	+	+
Uniform Skim Price (\$/cwt.)	+	+	+	+	8.01	8.05
Uniform Butterfat Price (\$/pound)	+	+	+	+	1.2763	1.3008
Statistical Uniform Price (\$/cwt.)	\$11.94	\$12.19	11.53	11.73	12.20	12.32
Producer Data						
Number of Producers	1,039 *	1,039	756 *	760	129 *	129
Avg. Daily Production (lbs.)	19,104 *	19,064	13,161 *	18,005	59,737 *	62,950
Number of Handlers						
Pool Handlers	26	26	19	19	6	6
Producer-Handlers	11	11	7	7	1	1
Other Plants w/ Class I Use	5	5	10	10	3	3
Producer Milk Ratios						
Class I	28.49%	26.40%	27.70%	20.12%	35.39%	29.04%
Class II	7.50%	6.33%	8.29%	8.18%	7.20%	3.87%
Class III	33.32%	33.76%	62.21%	65.89%	36.22%	34.61%
Class IV	30.69%	33.51%	1.80%	5.81%	21.19%	32.48%

+ Not Applicable. * Preliminary.

MONTHLY SUPPLEMENTAL STATISTICS

Producer-Handler Data (Thousand lbs.)	Jul_2000	Jun_2000	Jul_2000	Jun_2000	Jul_2000	Jun_2000
Production	24,582,037	24,127,491	2,653,642	2,601,540	R	R
Class I Use	18,064,173	18,803,125	1,699,698	1,739,393	R	R
% Class I Use	73.49%	77.93%	64.05%	66.86%	R	R
Class I Route Disposition In Area (Thousand lbs.)						
By Pool Plants	154,287,584	152,647,665	66,027,562	68,118,722	70,457,938	71,964,298
By Producer-Handlers	18,086,852	18,783,027	1,702,051	1,750,712	R	R
By Other Plants	813,304 *	878,901	1,002,755 *	877,916	13,960,195 *	14,116,718
Total **	173,187,740	172,309,593	68,732,368	70,747,350	R	R

* Preliminary.

** May not add due to rounding.

R = Restricted.

MONTHLY STATISTICAL SUMMARY

(Product pounds based upon reports of handlers)

RECEIPTS, UTILIZATION AND CLASSIFICATION OF MILK	PACIFIC NORTHWEST		WESTERN		ARIZONA-LAS VEGAS		
	Aug 2000	Jul 2000	Aug 2000	Jul 2000	Aug 2000	Jul 2000	
TOTAL PRODUCER MILK	615,317,025	614,029,807	308,452,042	392,873,015	238,889,435	251,736,755	
RECEIPTS FROM OTHER SOURCES	12,557,973	12,288,488	29,611,419	5,742,102	1,219,564	2,401,161	
OPENING INVENTORY	21,349,975	21,063,531	14,333,214	11,068,637	11,064,379	13,924,520	
TOTAL TO BE ACCOUNTED FOR	649,224,973	647,381,826	352,396,675	409,683,754	251,173,378	268,062,436	
UTILIZATION OF RECEIPTS							
Whole milk	27,053,864	26,142,769	12,009,780	11,078,087	20,361,949	19,011,619	
Flavored milk & milk drinks	6,423,410	5,786,260	4,497,478	3,290,953	3,995,284	2,640,295	
2% milk	74,060,185	70,844,214	31,448,530	28,176,505	32,303,426	30,300,397	
1% milk	25,631,363	22,654,839	15,196,911	14,161,774	9,344,756	7,824,326	
Skim milk	25,540,218	27,269,024	9,379,413	8,675,730	11,354,772	10,268,039	
Buttermilk	1,652,920	1,590,478	668,338	644,513	500,175	413,262	
CLASS I ROUTE DISP. IN AREA.	160,361,960	154,287,584	73,200,450	66,027,562	77,860,362	70,457,938	
Class I dispositions out of area	10,822,179	9,272,642	12,132,694	10,376,981	4,789,442	5,043,565	
Other Class I usage	17,130,089	15,295,853	9,126,327	10,376,962	6,867,707	4,771,067	
TOTAL CLASS I USE.	188,314,228	178,856,079	94,459,471	86,781,505	89,517,511	80,272,570	
TOTAL CLASS II USE	53,049,459	44,401,385	43,007,257	34,475,419	17,830,004	10,405,279	
TOTAL CLASS III USE	206,364,191	208,041,534	202,461,971	261,987,195	86,524,720	87,135,740	
TOTAL CLASS IV USE	201,497,095	216,082,828	12,467,976	26,439,635	57,301,143	90,248,847	
TOTAL ACCOUNTED FOR	649,224,973	647,381,826	352,396,675	409,683,754	251,173,378	268,062,436	
CLASSIFICATION OF RECEIPTS							
Producer milk:	Class I	175,285,362	162,127,690	85,445,455	79,045,803	84,557,892	73,093,129
	Class II	46,148,087	38,875,243	25,575,586	32,152,597	17,192,862	9,742,452
	Class III	205,016,457	207,290,540	191,880,742	258,857,187	86,524,720	87,135,740
	Class IV	188,867,119	205,736,334	5,550,259	22,817,428	50,613,961	81,765,434
Other receipts:	Class I	13,028,866	16,728,389	9,014,016	7,735,702	12,283,943	16,325,681
	Class II	6,901,372	5,526,142	17,431,671	2,322,822	1/	1/
	Class III	1,347,734	750,994	10,581,229	3,130,008	1/	1/
	Class IV	12,629,976	10,346,494	6,917,717	3,622,207	1/	1/
Avg. daily producer receipts		19,848,936	19,807,413	9,950,066	12,673,323	7,706,111	8,120,540
Avg. daily Class I use		6,074,653	5,769,551	3,047,080	2,799,403	2,887,662	2,589,438

1/ Restricted - Included with Class I.

HIGHLIGHTS THIS ISSUE:

- Market Summaries for August 2000
- August 2000 Class Prices and Commodity Prices
- Class I Prices for October 2000
- Commercial Disappearance of Dairy Products Up 2.9% for First Six Months of 2000
- In-Area Route Disposition, January through June 2000
- Federal Milk Orders: Purpose, Scope, and Operation

**FEDERAL MILK ORDERS:
PURPOSE, SCOPE, AND OPERATION****Introduction**

A Federal milk order is a legal document issued to regulate the minimum prices paid to dairy farmers by handlers of Grade A milk in a specified marketing area. Milk orders are authorized by the Agricultural Marketing Agreement Act of 1937. Under this law, the Secretary of Agriculture may establish Federal orders that apply to buyers (handlers) of milk. Orders are initiated by dairy farmers, normally through cooperatives, and can be issued only with the approval of the dairy farmers in the affected market.

Purpose

Milk orders assist dairy farmers in developing steady, dependable markets and help correct conditions that result in price instability and disorderly marketing. Under Federal milk market orders, dairy farmers are ensured a minimum price

(Continued On Page 5)

(See: Federal Milk Orders: Purpose, Scope, and Operation)