

NATIONAL DAIRY MARKET AT A GLANCE

CHICAGO MERCANTILE EXCHANGE (CME) CASH MARKETS (3/21): BUTTER: Grade AA closed at \$1.0975. The weekly average for Grade AA is \$1.0958 (+.0033).

CHEESE: Barrels closed at \$1.0500 and blocks at \$1.0850. The weekly average for barrels is \$1.0530 (-.0050) and blocks, \$1.0810 (+.0010).

NONFAT DRY MILK: Extra Grade closed at \$0.8400 and Grade A at \$0.8400. The weekly average for Extra Grade is \$0.8400 (N.C.) and Grade A, \$0.8400 (N.C.).

BUTTER: The cash price at the CME fluctuated lower and higher within a narrow range during the week. The current price is the highest it has been since early January but about 12 cents lower than last year at this time. Churning activity across the country remains seasonally strong. Some producers are looking for additional cream to maintain steady production schedules while others are only taking additional cream offerings if prices are favorable. Demand from Class II cream based product producers is increasing for upcoming holiday and summer needs. In most instances, butter production continues to surpass demand and inventories continue to build. Current butter demand remains fair at best. Conversations continue to occur about upcoming holiday retail promotions, although it appears that features might be less frequent than last year. Butter import figures for the first two months of 2003 indicate that nearly 1.4 million pounds of quota butter entered the U.S., 33% lighter than the comparable two months of 2002. For the January - February time period, high-tier or above quota imports totaled 23,400 pounds, well below the nearly 490,000 pound imported during the same two months last year.

CHEESE: The cheese market remains in a trading range. Orders for natural varieties have improved. Some buyers have become more aggressive in seeking additional product. Producers have ample milk supplies to fill orders. Some plant operators, mainly smaller specialty type producers, continue to use a minimum price floor of \$1.13 or so. Additional blocks, barrels, and process cheese are being cleared to CCC under the price support program. Cheese production remains seasonally heavy.

FLUID MILK: Milk production ranges from steady to slightly higher in most parts of the country. The milk flow in the northern portions of the Midwest and East was helped along by very warm weather. Some record highs were recorded this week from the Dakota's to New England. Bottled milk sales are steady to slower. The "winter residents" are leaving the South and Southwest and milk consumption is being affected. Surplus milk supplies remain heavy. Some regions have more balancing plants on line this week, but there is plenty of capacity to handle expected spring volumes. The fluid cream market is still weak, but supplies are in slightly better balance than past weeks. Demand for cream is improving along seasonal patterns, but excess cream is still clearing to butter makers in moderate to heavy volumes. On March 19th, the California Department of Food and Agriculture (CDFA) announced changes to Class 4a and 4b pricing formulas. In total, the changes will result in processors having to pay more for farm milk for Classes 2, 3, 4a, and 4b. These changes affect over 80% of California's milk marketings. Further details are available at CDFA's website www.cdffa.ca.gov/dairy/hearingresults.html

DRY PRODUCTS: The NDM market is little changed from past weeks. Production levels are increasing as surplus milk volumes grow. Some producers are making more high heat during the week. Production of low heat is heavy and often being made and offered

to CCC. Commercial interest is, at best, fair and often for immediate needs. The trade is abuzz over the CCC's announcement to use CCC-owned NDM as barter for a portion of cheese purchases under some annual USDA programs. The dry whey market is mostly steady. Production levels are steady to slightly heavier. However, stocks appear to be in better balance, but demand is not yet aggressive enough to push prices above current levels. In fact, some price weakness continues to be seen in the West. The lactose market is mostly steady. The WPC market is steady to weak and prices are lower.

CCC: For the week of March 17 - 21, CCC purchased 380,771 pounds of Western butter, 1,663,200 pounds of Central process cheese, 690,580 pounds of Western barrel cheese, 341,998 pounds of Western block cheese, and 22,841,267 pounds of NDM. Of the NDM total, 1,007,535 pounds were from the Central region, 19,638,770 pounds from the West, and 2,194,962 pounds from the East.

FEBRUARY MILK PRODUCTION (NASS): Milk production in the 20 major states during February totaled 11.6 billion pounds, up 1.7% from February 2002. January revised production, at 12.5 billion pounds, was up 1.8% from January 2002. Production per cow averaged 1,485 pounds for February, 13 pounds (+0.9%) above February 2002. The number of cows on farms was 7.81 million head, 66,000 head (0.8%) more than February 2002, and 3,000 head more than January 2003. Cow numbers have increased for five consecutive months.

FEBRUARY FEDERAL MILK ORDER PRICE AND POOL SUMMARY (DAIRY PROGRAMS): During February, about 10.0 billion pounds of milk were received from producers. This volume of milk is 0.6% higher than the February 2002 volume. (Taking into account the volume of milk not pooled due to intraorder disadvantageous price relationships, the year-to-year change is -0.1%.) About 3.7 billion pounds of producer milk were used in Class I products, 1.8% higher than the previous year. Calendar composition had no impact on milk used in Class I in 2003 as compared to 2002. The all-market average Class I utilizations were: Class I = 37%, Class II = 10%, Class III = 43%, and Class IV = 10%. The weighted average statistical uniform price was \$11.04, \$0.35 lower than last month, and \$1.80 lower than last year.

THE DAIRY SITUATION AND OUTLOOK (ERS): Milk production in 2003 is expected to increase about 1%, compared with 2.6% in 2002. Demand for dairy products weakened substantially in 2002 and now large commercial stocks overhang the market, pressuring prices. Farm milk prices have fallen from an average of nearly \$15 per hundredweight in 2001 to just more than \$12 in 2002. In 2003, prices are to fall further and average \$11.10 to \$11.70.

FEDERAL MILK ORDER ADVANCE PRICES HIGHLIGHTS (DAIRY PROGRAMS): Under the Federal milk order pricing system, the base price for Class I milk for April 2003 is \$9.64, down \$.17 from March. This price is derived from the advanced Class IV skim milk pricing factor of \$5.92 and the advanced butterfat pricing factor of \$1.1227 per pound. Class I differentials specific to each county are added to the base price to determine the Class I price. The Class II skim milk price for April is \$6.62 and the Class II nonfat solids price is \$0.7356 per pound. The following are the two-week product price averages: butter \$1.0506, nonfat dry milk \$0.8048, cheese \$1.0697, and dry whey \$0.1594.

****SPECIAL THIS ISSUE****

FEBRUARY MILK PRODUCTION (PAGE 7)

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**CHICAGO MERCANTILE EXCHANGE
CASH TRADING**

CHEESE: carload = 40,000-44,000 lbs., NONFAT DRY MILK: carlot = 42,000-45,000 lbs., BUTTER: carlot = 40,000-43,000 lbs.

PRODUCT	MONDAY MARCH 17	TUESDAY MARCH 18	WEDNESDAY MARCH 19	THURSDAY MARCH 20	FRIDAY MARCH 21	WEEKLY CHANGE*	WEEKLY AVERAGE
CHEESE BARRELS	\$1.0625 (-.0075)	\$1.0575 (-.0050)	\$1.0475 (-.0100)	\$1.0475 (N.C.)	\$1.0500 (+.0025)	-.0200	\$1.0530 (-.0050)
40# BLOCKS	\$1.0800 (N.C.)	\$1.0800 (N.C.)	\$1.0800 (N.C.)	\$1.0800 (N.C.)	\$1.0850 (+.0050)	+.0050	\$1.0810 (+.0010)
NONFAT DRY MILK EXTRA GRADE	\$.8400 (N.C.)	\$.8400 (N.C.)	\$.8400 (N.C.)	\$.8400 (N.C.)	\$.8400 (N.C.)	N.C.	\$.8400 (N.C.)
GRADE A	\$.8400 (N.C.)	\$.8400 (N.C.)	\$.8400 (N.C.)	\$.8400 (N.C.)	\$.8400 (N.C.)	N.C.	\$.8400 (N.C.)
BUTTER GRADE AA	\$1.0875 (-.0050)	----	\$1.1025 (+.0150)	----	\$1.0975 (-.0050)	+.0050	\$1.0958 (+.0033)

*Sum of daily changes. # Weekly averages are simple averages of the daily closing prices for the calendar week. Computed by Dairy Market News for informational purposes. This data is available on the Internet at WWW.AMS.USDA.GOV/MARKETNEWS.HTM

CHICAGO MERCANTILE EXCHANGE

MONDAY, MARCH 17, 2003

CHEESE — SALES: 4 CARS 40# BLOCKS: 1 @ \$1.0775, 1 @ \$1.0800, 1 @ \$1.0775, 1 @ \$1.0800; BIDS UNFILLED: NONE; OFFERS UNCOVERED: 3 CARS BARRELS: 1 @ \$1.0625, 1 @ \$1.0675, 1 @ \$1.0700; 1 CAR 40# BLOCKS @ \$1.0800
 NONFAT DRY MILK — SALES: NONE; BIDS UNFILLED: NONE; OFFERS UNCOVERED: NONE
 BUTTER — SALES: 4 CARS GRADE AA: 1 @ \$1.0900, 1 @ \$1.0875, 1 @ \$1.0900, 1 @ \$1.0875; BIDS UNFILLED: 5 CARS GRADE AA: 1 @ \$1.0850, 1 @ \$1.0825, 1 @ \$1.0750, 2 @ \$1.0650; OFFERS UNCOVERED: 1 CAR GRADE AA @ \$1.1025

TUESDAY, MARCH 18, 2003

CHEESE — SALES: 1 CAR 40# BLOCKS @ \$1.0850; BIDS UNFILLED: NONE; OFFERS UNCOVERED: 1 CAR BARRELS @ \$1.0575; 2 CARS 40# BLOCKS: 1 @ \$1.0800, 1 @ \$1.0825
 NONFAT DRY MILK — SALES: NONE; BIDS UNFILLED: NONE; OFFERS UNCOVERED: NONE

WEDNESDAY, MARCH 19, 2003

CHEESE — SALES: NONE; BIDS UNFILLED: NONE; OFFERS UNCOVERED: 2 CARS BARRELS: 1 @ \$1.0475, 1 @ \$1.0525; 2 CARS 40# BLOCKS: 1 @ \$1.0800, 1 @ \$1.0850
 NONFAT DRY MILK — SALES: NONE; BIDS UNFILLED: NONE; OFFERS UNCOVERED: NONE
 BUTTER — SALES: 6 CARS GRADE AA: 1 @ \$1.0975, 1 @ \$1.0925, 1 @ \$1.0950, 2 @ \$1.1000, 1 @ \$1.1025; BIDS UNFILLED: 19 CARS GRADE AA: 2 @ \$1.1000, 2 @ \$1.0975, 1 @ \$1.0950, 2 @ \$1.0925, 1 @ \$1.0900, 2 @ \$1.0875, 2 @ \$1.0850, 2 @ \$1.0825, 2 @ \$1.0800, 2 @ \$1.0600, 1 @ \$1.0550; OFFERS UNCOVERED: NONE

THURSDAY, MARCH 20, 2003

CHEESE — SALES: 2 CARS 40# BLOCKS: 1 @ \$1.0775, 1 @ \$1.0800; BIDS UNFILLED: 2 CARS BARRELS @ \$1.0475; OFFERS UNCOVERED: NONE
 NONFAT DRY MILK — SALES: NONE; BIDS UNFILLED: NONE; OFFERS UNCOVERED: NONE

FRIDAY, MARCH 21, 2003

CHEESE — SALES: NONE; BIDS UNFILLED: 2 CARS BARRELS @ \$1.0500; 1 CAR 40# BLOCKS @ \$1.0850; OFFERS UNCOVERED: NONE
 NONFAT DRY MILK — SALES: NONE; BIDS UNFILLED: NONE; OFFERS UNCOVERED: NONE
 BUTTER — SALES: 3 CARS GRADE AA: 1 @ \$1.0975, 1 @ \$1.0950, 1 @ \$1.0975; BIDS UNFILLED: 5 CARS GRADE AA: 1 @ \$1.0975, 1 @ \$1.0950, 1 @ \$1.0925, 1 @ \$1.0900, 1 @ \$1.0850; OFFERS UNCOVERED: 2 CARS GRADE AA: 1 @ \$1.1100, 1 @ \$1.1400

BUTTER MARKETS

NORTHEAST

The butter market tone remains mixed as the cash price continues to fractionally adjust during recent trading sessions. Producers and handlers anticipate that future prices will basically fluctuate in a narrow range around the current level with no significant increases or decreases. Cream supplies have tightened in the Eastern part of the country. Demand for cream from other cream based product producers is seasonally increasing for upcoming holiday needs. Ice cream producers are also taking advantage of available cream offerings as they build stocks for upcoming summer needs. Butter stocks continue to run well ahead of last year at this time. Although stocks are heavy, some producers are still looking for additional cream offerings to maintain full production schedules. Overall butter demand is seasonally fair at best. Some retail buyers are looking ahead to some retail feature activity during upcoming weeks, but no significant promotional activity seems to be developing. Sales of bulk butter, f.o.b. East, are reported in a range of flat market to 4 cents over the CME price/average.

CENTRAL

The cash butter price at the CME continues to adjust higher and lower within a narrow range around \$1.10. Many producers and handlers indicate that they anticipate that the cash price will remain in this area without dipping to the support price of \$1.05. Most producers indicate that cream supplies, although available, are not as plentiful as in past weeks. Demand for cream for other cream based dairy products is increasing seasonally to meet upcoming holiday and summer needs. Ice cream production is on the increase as manufacturers generate stocks for use later in the year. Churning activity remains seasonally strong and output continues to surpass demand. Overall buying interest remains fair at best. Some butter feature activity is being scheduled for the upcoming holiday, but handlers report that these

features are not as frequent as in past year. Most are attributing the lack of sales to overall lower butter prices already and abundant stocks. Butter import figures for the first two months of 2003 indicate that nearly 1.4 million pounds of quota butter entered the U.S., 33% lighter than the comparable two months of 2002. For the January – February time period, high-tier or above quota imports totaled 23,400 pounds, well below the nearly 490,000 pound imported during the same two months last year. Bulk butter for spot sale is in a range of flat to 2 cents per pound over various pricing basis.

WEST

Butter continues to trade in a narrow range at the cash CME market. No real direction is apparent. Butter production remains heavy as most cream eventually is ending up in the churns. Demand for cream from other users is slow in developing. Some Easter features are being put together, but the volumes don't seem to be large. When featured, additional butter sales are occurring. Those firms that are holding DEIP bid acceptances are searching for the best deal on the butter to fill their orders. It is not clear whether that will be new or old butter related to the age acceptable for clearing on the CME market. Imports of butter under quota for January and February are about 1/3 less than the comparable period in 2002 and total 1.37 million pounds. Imports of butter and butter substitutes at the high tier level are minimal compared to last year. This would be the anticipated result when looking at the price relationships. Weekly clearances to CME approved warehouses total 2.1 million pounds and the inventory now stands at 156.6 million pounds. This is the smallest weekly clearance since late December. Current prices for bulk butter range from 5 cents under to 2 cents under the market based on the CME with various time frames and averages (includes CCC sales when applicable).

NASS DAIRY PRODUCT PRICES

U.S. AVERAGES AND TOTAL POUNDS

WEEK ENDING	CHEESE		NDM	BUTTER	DRY WHEY
	40# BLOCKS	BARRELS 38% MOISTURE			
MAR 15	1.0675 6,990,830	1.0425 10,909,175	0.8031 26,756,093	1.0732 2,964,659	0.1566 12,574,923

Further data and revisions may be found on the internet at: <http://jan.mannlib.cornell.edu/reports/nassr/price/dairy>

CHEESE MARKETS

NORTHEAST

Wholesale prices are higher on process and unchanged on natural varieties. Current interest is fairly steady, often at somewhat disappointing levels. Retail sales remain sluggish though food service orders are about steady. Cheese plant inventories are generally larger than desired. Most plants continue to operate on seasonally active schedules. Most plants operators are reluctant to make spot milk purchases just to build additional inventory.

WHOLESALE SELLING PRICES: DELIVERED,
DOLLARS PER POUND (1000 - 5000 POUNDS MIXED LOTS)

Cheddar 10# Prints	:	1.1450-1.6400
Cheddar Single Daisies	:	1.1025-1.5675
Cheddar 40# Block	:	1.2200-1.4675
Process 5# Loaf	:	1.2675-1.4675
Process 5# Sliced	:	1.2875-1.5350
Muenster	:	1.3075-1.5125
Grade A Swiss Cuts 10 - 14#	:	2.3500-2.5500

MIDWEST

The cheese market is in a trading range. Current natural interest has improved for more cutters with a few even needing limited overtime. Generally, cutters are having little difficulty in acquiring most varieties with normal lead times on non-cheddar products. A few buyers have reported that acquiring extra load(s) from regular suppliers for immediate shipment is not as easy as recent weeks. Swiss sales are sluggish and the current large inventories are pressuring producers to limit production. Seemingly, a few more plant operators are using a minimum price program in the \$1.10 - 1.15 area. Confusion and less than happy reactions continue to be expressed over the Farm Service Agency announcement of the plan to use CCC-owned NDM as partial payment for cheese purchased for the annual CCC cheese purchase contracts. Grading and clearances to CCC continue under the price support program. Cheese production remains seasonally active. Plant operators are watching inventory levels to keep from accumulating further. Cheese yields are drifting lower seasonally. Most plants are operating on schedules well above last year.

WISCONSIN WHOLESALE SELLING PRICES: DELIVERED,
DOLLARS PER POUND (1000 - 5000 POUNDS MIXED LOTS)

Process American 5# Loaf	:	1.2375-1.4900
Brick And/Or Muenster 5#	:	1.5200-1.7425
Cheddar 40# Block	:	1.4400-2.1150
Monterey Jack 10#	:	1.7000-2.1150
Blue 5#	:	1.8350-2.2100
Mozzarella 5 - 6# (Low Moisture, Part Skim)	:	1.3875-2.2150
Grade A Swiss Cuts 6 - 9#	:	1.9500-2.6850

**WEEKLY COLD STORAGE HOLDINGS-SELECTED STORAGE CENTERS
IN THOUSAND POUNDS - INCLUDING GOVERNMENT STOCKS**

	BUTTER	:	CHEESE
		:	
03/17/03	79,022	:	142,334
03/01/03	78,736	:	144,729
CHANGE	286	:	-2,395
% CHANGE	0	:	-2

WEST

Natural and Swiss cheese prices held steady while process prices moved higher following trading at the cash CME market last week. Block cheese prices have held steady for twelve trading sessions since their sharp increase of 8 3/4 cents on March 3. Demand for current blocks and for cheese bargains continues to be called quite good. Some buyers are being delayed on when they can get the exact cheese that they want. Sales of all types of under grade cheese have improved quite a bit over the last two weeks. Some buyers seem to have become more aggressive in looking for cheese since the block price increased in early March. Inventories at some Western warehouses are now in much better shape. The interest in working with the DEIP cheese program has been more pronounced than previously noted. Cheese production levels remain heavy for this time of year and are expected to remain that way until after the spring flush is over. Surplus milk supplies are more variable as school demand is quite variable depending on the spring break situation.

WHOLESALE SELLING PRICES: DELIVERED, DOLLARS PER POUND
(1000 - 5000 POUNDS MIXED LOTS)

Process 5# Loaf	:	1.2075-1.4675
Cheddar 40# Block	:	1.2125-1.3525
Cheddar 10# Cuts	:	1.3925-1.6125
Monterey Jack 10#	:	1.4025-1.5625
Grade A Swiss Cuts 6 - 9#	:	2.2400-2.3900

FOREIGN

Domestic and imported prices are unchanged. The current market tone is steady. Lenteen cheese demand continues to improve seasonally. Current inventories are adequate for the steady interest.

WHOLESALE SELLING PRICES: FOB DISTRIBUTORS DOCK
DOLLARS PER POUND (1000 - 5000 POUNDS, MIXED LOTS)

	:	NEW YORK	
VARIETY	:	IMPORTED	: DOMESTIC
	:	:	:
Roquefort	:	TFEWR	: -0-
Blue	:	2.6400-3.3900	: 1.4400-2.9300
Gorgonzola	:	3.2400-5.9400	: 1.9575-2.4900
Parmesan (Italy)	:	TFEWR	: 2.8500-2.9400
Romano (Italy)	:	2.1000-3.1900	: -0-
Provolone (Italy)	:	3.4400-5.5000	: 1.4475-1.6750
Romano (Cows Milk)	:	-0-	: 2.6375-4.8100
Sardo Romano (Argentine)	:	2.8500-3.2900	: -0-
Reggianito (Argentine)	:	2.6900-3.2900	: -0-
Jarlsberg-(Brand)	:	2.7500-3.6900	: -0-
Swiss Cuts Switzerland	:	-0-	: 2.3500-2.5500
Swiss Cuts Finnish	:	2.5900-2.8500	: -0-
Swiss Cuts Austrian	:	TFEWR	: -0-
Edam	:	:	:
2 Pound	:	TFEWR	: -0-
4 Pound	:	2.1900-2.9900	: -0-
Gouda, Large	:	TFEWR	: -0-
Gouda, Baby (\$/Dozen)	:	:	:
10 Ounce	:	27.8000-31.7000	: -0-

* = Price change.

FLUID MILK AND CREAM

E A S T

Spot shipments of Grade A milk into or out of Florida and other Southeastern states

	THIS WEEK		LAST WEEK		LAST YEAR	
	IN	OUT	IN	OUT	IN	OUT
FLORIDA	0	30	0	0	0	83
SOUTHEAST STATES	0	0	0	0	0	0

Milk production patterns in the Eastern part of the country are increasing seasonally. Many milk handlers indicate that milk receipts at the plant are increasing gradually. Temperatures are starting to warm seasonally, thus weather conditions are conducive for favorable steady growth. In Florida, temperatures are reported to be warmer than usual for this time of the season. Some milk handlers are concerned about what impact these temperatures may have on overall milk output. At this point, production is surpassing demand and 30 loads of surplus milk were shipped out of state into other Southeastern manufacturing facilities. Bottled milk demand in Florida is experiencing the seasonal adjustment as the winter snow birds leave and the spring break vacationers arrive. Often, this does not balance out, thus exports from the state are expected to continue and increase as milk production builds. Milk production in the 20 surveyed U.S. states during February totaled 11.6 billion pounds, 1.7% heavier than February of last year. February 2003 production percentage changes for various Eastern and Southern states in comparison to February 2002: Florida, -2.5%; Kentucky, -7.4%; Texas, +3.9%, Vermont, -1.9%, and Virginia, -4.5%. In most instances, manufacturing plants within the region that are operational are at or very near capacity levels with some plant managers looking for additional volumes to maintain efficient production schedules. Not all manufacturing facilities are open yet but are expected to gear up as surplus milk volumes increase. Cream markets remain active with prices and multiples increasing. Cream volumes are readily available for Class II product needs with some butter operations looking for additional volumes to maintain maximum churning capacity. Class II product production for upcoming holiday needs is seasonally strong. Ice cream output is also absorbing increasing volumes of available cream as they build stocks for upcoming summer needs. Condensed skim markets are holding steady price-wise with sales reported as good.

FLUID CREAM AND CONDENSED SKIM PRICES IN TANKLOT QUANTITIES

SPOT PRICES OF CLASS II CREAM, \$ PER LB BUTTERFAT

F.O.B. PRODUCING PLANTS: NORTHEAST	-	1.3875-1.4640
DELIVERED EQUIVALENT ATLANTA	-	1.3875-1.4749 M 1.3984-1.4202
F.O.B. PRODUCING PLANTS: UPPER MIDWEST	-	1.3656-1.4858

PRICES OF CONDENSED SKIM, \$ PER LB WET SOLIDS

F.O.B. PRODUCING PLANTS:	
NORTHEAST- CLASS II - INCLUDES MONTHLY FORMULA PRICES	- .9000- .9800
NORTHEAST- CLASS III - SPOT PRICES	- .7200- .8400

M I D W E S T

Class I interest continues at relatively steady levels, though temporarily stimulated by retail feature activity in selected markets. Cream interest is somewhat improved as manufacturers prepare Lenten holiday products as well as boost ice cream output seasonally. Cottage cheese and yogurt use is also heavier. Milk supplies continue seasonally heavy. More plant operators are making plans on how to gain capacity/reduce bottlenecks to handle the expected larger spring peak levels. Manufacturing milk interest remains spotty and a few plants were reported as down for various periods for planned maintenance and one even with an electrical outage. Reported spot milk prices ranged from just slightly under class to +\$.75. Current milk intakes are fairly steady with recent weeks and most remain well above year ago levels for many plants. Estimated February milk production in selected Midwestern states compared with February 2002 is: Wisconsin 1.733 billion pounds, up 8 million pounds (+0.5%); Minnesota 665 million pounds, off 21 million pounds (-3.1%); Michigan 466 million pounds, up 10 million pounds (2.2%); and Iowa

302 million pounds, up 5 million pounds (1.7%). In these states, only Michigan reported a larger number of cows this year compared to last year. From setting a few record low daily temperatures early last week, temperatures climbed well into the 60's and 70's in many upper tier states by the weekend, then back to around normal (40's). Most snow melted though some states were receiving more around midweek further south. Soft fields and muddy conditions were limiting some outdoor activities.

WISCONSIN LIVESTOCK AUCTIONS (PER CWT.)

	MARCH 13 - 19	PREVIOUS YEAR
SLAUGHTER COWS	\$ 36.75- 42.00	\$ 41.00- 45.50
REPLACEMENT HEIFER CALVES	\$200.00-340.00	\$550.00-690.00

SOUTH ST. PAUL TERMINAL AUCTION MARKET (PER CWT.)

	MARCH 13 - 19	PREVIOUS YEAR
SLAUGHTER COWS	\$ 37.00- 45.00	\$ 40.00- 47.75

W E S T

Milk production in the 20 surveyed states for February totals 11.6 billion pounds, an increase of 1.7% from a year earlier. Output for selected Western states compared to last year is as follows: Arizona +2.5%, California +4.7%, Idaho +5.8%, New Mexico +8.1%, and Washington +3.5%. All five states increased cow numbers from last year by a total of 104,000 head. These five states increased milk output per day by 7.8 million pounds compared to last year. Production per cow is recovering in most of these states from earlier in the winter. Milk production patterns are moving higher at levels above a year ago across the SOUTHWEST states. Some storms were moving across the region and dropping rain, but the overall impact has been initially, minimal. CALIFORNIA milk output continues to trend higher and milk continues to be shipped out of state for processing. The impact of rainstorms in southern areas is being assessed. There are concerns over milk production as lots became wet and muddy. The additional water supplies are welcome in the region. Conditions have been favorable in the Central Valley for milk production. Cows are responding well and milk volumes are increasing. Northern milk sheds are also seeing situations where milk volumes are growing. On March 19th, the California Department of Food and Agriculture (CDFA) announced changes to Class 4a and 4b pricing formulas resulting from the January 29th and 30th hearings. In total, the changes will result in processors having to pay more for farm milk. No changes were made to Class 2 and 3 pricing formulas. Further details are available at CDFA's website. (<http://www.cdffa.ca.gov/dairy/hearingresults.html>) Rain across much of ARIZONA has had only a minimal impact on milk production, but has softened the upward trend. Class 1 sales are mostly steady. Processors are taking milk from other states, including California, to help process supplies. Low milk prices remain a big concern for dairies in the state. Western CREAM supplies remain heavy and the market trend is unsettled. There has been some movement higher for multiples. This is more a factor of formulas changing than strength developing. Where one supplier states demand from ice cream suppliers is improving, another states it is flat. Western cream multiples range from 109 to 123, FOB, depending on class usage. Some milk producers in the PACIFIC NORTHWEST are amazed at how well their cows are milking given the fact that they have done all they can to make sure that their rations are really "least cost". In most years, feed quality left to use by this time is limiting the milk flow. The generally very moderate weather is being given credit for much of the strength in output. A number of producers in the region continue to add cows. No indications are noted recently about additional herds being forced to liquidate. Banks are reducing the book value of cows in the herds so that they will not support nearly as much debt as previously. Some plants in UTAH and IDAHO are reporting that recently, their milk supplies are not increasing as fast as anticipated. They are not sure of the reasons yet. Milk is available and entering the area from two states away. Heifer prices at a major sales barn in the region are down sharply again. The top of the market (\$1560) and the average range price (\$1270) are lower than at any time in the past 15 months. Volumes moving through the market have not increased much over the past few weeks.

NDM, BUTTERMILK & WHOLE MILK

Prices represent carlot/trucklot quantities for domestic and export sales packaged in 25 kg. or 50 lb. bags, or totes, spray process, dollars per pound.

NONFAT DRY MILK - CENTRAL AND EAST

CENTRAL: Prices are unchanged to higher on a mostly steady market. Although milk production is trending seasonally higher, NDM output is lower in response to increased condensed skim demand. Condensed skim is clearing well into ice cream plants and some cheese operations. Reduced condensed skim intakes at some dryers is encouraging the more time consuming production of high heat. Interest in high heat is reportedly strong into bakeries and brokerage operations. Low heat demand is good on contracts and into blending facilities that instantize NDM. Supplies of high and low heat are mostly in balance. Sales to the CCC are noted from the Central region for the current week. Some discussions of potential NDM resale trades from the CCC cheese/NDM exchange are occurring between cheese producers and traders with much confusion.

EAST: Eastern prices are unchanged to slightly higher although milk production is building and drying schedules are expanding. Often, Eastern dryers are active during the week generating medium and high heat powder where possible, reverting to low heat powder on the weekends. As the volume of milk increases, more Eastern producers are generating powder for government clearance and volumes to CCC are increasing. Commercial sales are reported as more active, especially for medium and high heat powders. Some buyers are not purchasing powder this week as they continue to work off previous purchases.

F.O.B. CENTRAL/EAST: Includes EXTRA GRADE and GRADE A
 LOW/MEDIUMHEAT: .8000 - .8800 MOSTLY: .8000 - .8600
 HIGHHEAT: .8600 - .9150

NONFAT DRY MILK - WEST

Low/medium heat NDM prices in the West are fully steady. The market tone remains weak. The trade is abuzz over the CCC's announcement to use CCC-owned NDM in exchange for cheese for USDA programs. Trade comments tend to vary from neutral to bewilderment. Contacts are very concerned over the possibility of older CCC NDM back on the market. At best, the exchanged NDM would displace current condensed skim and NDM usage. At worst, the exchanged NDM would sell at lower prices due to value, age, condition, perception, etc. The exchanged NDM could then displace current NDM supplies and force domestic NDM prices lower to move on the spot market. Current sales are slow to fair and buying interest is consistent with recent weeks. Production levels are ramping up to handle additional milk supplies in the region as milk increases seasonally. During the week of March 10 - 14, Western producers offered 11.9 million pounds of powder to the CCC. High heat NDM prices are unchanged in a steady to firm market. Demand is often higher than anticipated. Orders are better for both spot and contract accounts. Production is increasing to keep pace. Stocks are generally light.

F.O.B. WEST: Includes EXTRA GRADE and GRADE A
 LOW/MEDIUMHEAT: .7850 - .8875 MOSTLY: .7950 - .8125
 HIGHHEAT: .8225 - .8450

CALIFORNIA MANUFACTURING PLANTS - NDM

WEEK ENDING	PRICE	TOTAL SALES	SALES TO CCC
March 14	\$.8031	13,546,073	7,056,808
March 7	\$.8041	13,258,524	7,746,413

Prices are weighted averages for Extra Grade and Grade A Nonfat Dry Milk, f.o.b. California manufacturing plants. Prices for both periods were influenced by effects of long-term contract sales. Total sales (pounds) include sales to CCC. Compiled by Dairy Marketing Branch, California Department of Food and Agriculture.

DRY BUTTERMILK - CENTRAL

Prices are unchanged and on a steady market. Most trading is occurring at the average or at the lower end of the range. Increased interest in cream from Class II facilities is decreasing cream intakes at some butter plants, resulting in lower condensed buttermilk output. Ice cream plant intakes of condensed buttermilk are increasing, reducing drying schedules at some locations. Offerings of dry buttermilk are light for the lackluster interest with resale stocks offered at the lower end of the range. Stocks are mostly in balance to instances long.

F.O.B. CENTRAL: .6800 - .7200

DRY BUTTERMILK - NORTHEAST AND SOUTHEAST

Eastern and Southern buttermilk powder markets are generally steady at unchanged prices. The market tone is steady at best, with weakness prevailing. Churning activity in the Eastern part of the country is seasonally active, although lighter than past weeks as cream supplies find more competition from other cream based product buyers. Stocks of buttermilk are reported to be readily available with some producers and handlers offering discounts within the reported ranges to keep product moving.

F.O.B. NORTHEAST: .7000 - .7300
 DELVDSOUTHEAST: .7400 - .7650

DRY BUTTERMILK - WEST

Western dry buttermilk prices are holding mostly steady and continue in a rather stagnant market trend. Generally, supplies are adequate to long of trade needs. Demand is slowly developing seasonally for some accounts with more product moving contractually to those buyers. Spot interest is mostly light. Production levels are at moderate to heavy levels. Stocks remain on the long side.

F.O.B. WEST: .7000 - .7500 MOSTLY: .7200 - .7400

DRY WHOLE MILK - NATIONAL

Whole milk powder markets are steady at unchanged prices. Powder production is seasonally increasing as milk production builds, although most drying schedules are keeping pace with demand. Demand continues to center around contractual commitments.

F.O.B. PRODUCING PLANT: 1.1000 - 1.1500

DEIP BID ACCEPTANCE SUMMARY

JULY 1, 2002 THROUGH MARCH 14, 2003
 WITH CHANGES FROM PREVIOUS REPORT

NONFAT DRY MILK	-	68,201	MT (150,355,592 LBS)
CHEESE	-	3,029	MT (6,677,733 LBS)
BUTTERFAT	-	5,000	MT (11,023,000 LBS)

Allocations for the DEIP year beginning July 1, as announced September 13: Nonfat dry milk -- 68,201 MT; Cheese -- 3,030 MT; Butterfat -- 21,097 MT. This program-year's allocations have been announced in stages. The third stage was announced on February 25, 2003, and makes available 25,575 MT of NDM, 1,136 MT of cheese, and 5,000 MT of butterfat. This announcement fills the NDM and cheese allocations for this DEIP-year.

WHEY, CASEIN & EVAPORATED MILK

Prices represent carlot/trucklot quantities for domestic and export sales packaged in 25 kg. or 50 lb. bags, or totes, spray process, dollars per pound.

DRY WHEY - CENTRAL

Prices are unchanged on a mostly steady market. While supplies appear tighter in the Central region, producers are not aggressively marketing whey at higher prices. Demand is light with most movement reported on a contractual basis. Production is mostly steady to somewhat lower as some plants reduce cheese output due to lower commodity cheese prices. Resale trades are not reported for the current week. Brokers are not active in trading whey. Condensed whey is readily available at some locations for the light interest.

F.O.B. CENTRAL: .1550 - .1675 MOSTLY: .1550 - .1600

DRY WHEY - NORTHEAST AND SOUTHEAST

Eastern and Southern whey powder markets are generally steady at unchanged prices. The market undertone remains weak. Whey stocks are reported to be somewhat more available this week as some producers and handlers have additional volumes for sale. Buyers speculate that previously, suppliers were hesitant to over commit themselves, but now find that demand has not cleared available stocks which are also increasing. Cheese production is seasonally active, even with weak cheese prices, thus whey volumes are also increasing.

F.O.B. NORTHEAST: EXTRA GRADE AND GRADE A: .1575 - .1800
DELVD SOUTHEAST: .1800 - .1950

DRY WHEY - WEST

The mostly price range is holding steady for Western whey powder. The price range moved fractionally lower. Domestic sales of whey from the West are improving. Buyers seem to think that the market is near a bottom and they are more willing to take the additional load when it is offered at this time. Inventories are in better balance with some orders having to wait for current production. Export sales are increasing with prices moving this low and competing world prices often moving higher. A new tender from the Far East was completed at the end of last week and the beginning of this week. The U.S. and Eastern Europe are indicated to have gotten most of the volumes with Europe getting almost the entire NDM portion. Some contacts feel that moving this additional powder offshore will mean that the market may be able to firm earlier than otherwise was anticipated.

NONHYGROSCOPIC: .1325 - .1775 MOSTLY: .1450 - .1600

ANIMAL FEED WHEY - CENTRAL

Prices are unchanged and nominal on a steady market. Interest in milk replacer product is light and supplies are limited. Roller ground production is unchanged and stocks are in balance for the mostly contractual interest. Early weaned pigs are trading lower and veal interest is light.

F.O.B. CENTRAL:
MILK REPLACER: .1375 - .1500
ROLLERGROUND: .1475 - .1825

WHEY PROTEIN CONCENTRATE - CENTRAL AND WEST

Prices are unchanged to lower on a steady to weak market. Production is steady to higher. Some plants that have the option to make both 80% and 34% are producing more 34% due to lackluster sales in 80%. Condensed WPC movement is also slow, encouraging plants that do not regularly produce dry 34% to commence production. Demand is light with some producers reducing prices to clear excess stocks. Brand specific supplies continue to trade at the higher end of the range for the mostly edible trade. Supplies of feed grade 34% and 80% are readily available for the light interest.

F.O.B. EXTRA GRADE 34% PROTEIN: .4900 - .5425 MOSTLY: .5000 - .5150

LACTOSE - CENTRAL AND WEST

Prices are unchanged on a firm market. Some plants are offering above 18 cents for the second quarter. Negotiations are slow to commence with some producers not expecting finalization until sometime in the first week of April. Production is steady to higher as some plants take in excess condensed whey and permeate available. Inventories are in balance. Most movement is occurring on a contractual basis. Inquiries are noted from foreign and domestic buyers. Resellers are clearing aged stocks at a premium. Feed grade supplies are limited for the good interest.

Including spot sales and up to 3 month contracts. Mesh size 30 - 100.
F.O.B. EDIBLE: .1550 - .2350 MOSTLY: .1600 - .1800

CASEIN - NATIONAL

Casein prices are unchanged, although the market tone is firm. For the most part, domestic buyers are getting their contracted volumes, but are concerned about spot availability during the upcoming months if additional supplies are needed. Oceania sources continue to report having adequate volumes of casein for contractual commitments, although recent reports of late season milk production declines have domestic buyers questioning if this will really be the case. European production is underway and it is too early to speculate on the overall supply situation. At this point, many European producers are optimistic about their upcoming production season.

SPOT SALES AND UP TO 3 MONTH CONTRACTS. PRICES ARE F.O.B., U.S. WAREHOUSE FOR EDIBLE NONRESTRICTED AND VARY ACCORDING TO MESH SIZE AND QUALITY.

RENNET: 1.9000 - 2.1000
ACID: 1.8000 - 2.0500

EVAPORATED MILK - NATIONAL

Evaporated milk markets are generally steady at unchanged prices. Production is seasonally increasing as producers replenish low stocks and take advantage of available milk volumes. For the most part, evaporated milk demand continues to center around contractual commitments.

DOLLARS PER 48 - 12 FLUID OUNCE CANS PER CASE DELIVERED MAJOR U.S. CITIES \$18.00 - 30.00
Excluding promotional and other sales allowances. Included new price announcements.

FEBRUARY MILK PRODUCTION

Milk production in the 20 major States during February totaled 11.6 billion pounds, up 1.7 percent from February 2002. January revised production, at 12.5 billion pounds, was up 1.8 percent from January 2002. The January revision represented an increase of 1 million pounds from last month's preliminary production estimate.

Production per cow in the 20 major States averaged 1,485 pounds for February, 13 pounds above February 2002.

The number of cows on farms in the 20 major States was 7.81 million head, 66,000 head more than February 2002, and 3,000 head more than January 2003.

FEBRUARY 2003 MILK COWS AND MILK PRODUCTION, BY STATES

STATE	MILK COWS 1/		MILK PER COW 2/		MILK PRODUCTION 2/		
	2002	2003	2002	2003	2002	2003	% CHANGE FROM 2002
	THOUSANDS		POUNDS		MILLION POUNDS		PERCENT
AZ	142	150	1,970	1,915	280	287	2.5
CA	1,626	1,686	1,620	1,635	2,634	2,757	4.7
FL	152	147	1,335	1,345	203	198	-2.5
ID	381	393	1,590	1,630	606	641	5.8
IL	115	114	1,440	1,485	166	169	1.8
IN	154	146	1,340	1,400	206	204	-1.0
IA	208	204	1,430	1,480	297	302	1.7
KY	123	120	1,100	1,040	135	125	-7.4
MI	295	299	1,545	1,560	456	466	2.2
MN	495	480	1,385	1,385	686	665	-3.1
MO	139	133	1,150	1,150	160	153	-4.4
NM	290	313	1,610	1,615	467	505	8.1
NY	672	682	1,405	1,390	944	948	0.4
OH	260	260	1,365	1,350	355	351	-1.1
PA	583	588	1,460	1,430	851	841	-1.2
TX	310	311	1,400	1,450	434	451	3.9
VT	154	153	1,375	1,360	212	208	-1.9
VA	120	118	1,290	1,250	155	148	-4.5
WA	247	248	1,735	1,790	429	444	3.5
WI	1,278	1,265	1,350	1,370	1,725	1,733	0.5
20 STATE TOTAL	7,744	7,810	1,472	1,485	11,401	11,596	1.7

1/ Includes dry cows. Excludes heifers not yet fresh.

2/ Excludes milk sucked by calves.

SOURCE: "Milk Production," Da 1-1 (3-03), Agricultural Statistics Board, National Agricultural Statistics Service, U.S. Department of Agriculture.

FEDERAL MILK ORDER PRICE AND POOL SUMMARY, FEBRUARY

HIGHLIGHTS. Handler reports of receipts and utilization under the Federal milk order system for February have been filed and tabulated. Combined totals for the 11 consolidated orders are being released. During February, about 10.0 billion pounds of milk were received from producers. This volume of milk is 0.6 percent higher than the February 2002 volume. (Taking into account the volume of milk not pooled due to intraorder disadvantageous price relationships, the year-to-year change is -0.1 percent.) About 3.7 billion pounds of producer milk were used in Class I products, 1.8 percent higher than the previous year. Calendar composition had no impact on milk used in Class I in 2003 as compared to 2002. The all-market average Class utilization percentages were; Class I = 37%, Class II = 10%, Class III = 43%, and Class IV = 10%. The weighted average statistical uniform price was \$11.04 per cwt., \$0.35 lower than last month, and \$1.80 lower than last year.

PRICE AND POOL STATISTICS FOR FEDERAL MILK ORDER MARKETING AREAS FOR THE MONTH OF FEBRUARY 2003										
FEDERAL MILK ORDER MARKETING AREA ^{1/}	ORDER NUMBER	RECEIPTS OF PRODUCER MILK		UTILIZATION OF PRODUCER MILK IN CLASS I			UTILIZATION OF PRODUCER MILK IN OTHER CLASSES			UNIFORM PRICE ^{2/}
		TOTAL	CHANGE FROM PREV. YEAR	TOTAL	CHANGE FROM PREV. YEAR	PERCENT	CLASS II	CLASS III	CLASS IV	
		MIL. LBS.	PERCENT	MIL. LBS.	PERCENT		PERCENT			\$ PER CWT.
Northeast (Boston)	001	1,901.3	-5.3	851.1	3.8	45	17	28	10	11.79
Appalachian (Charlotte)	005	490.6	-6.8	350.3	1.3	71	14	8	7	12.52
Southeast (Atlanta)	007	572.9	-14.2	373.7	-1.2	65	8	21	6	12.32
Florida (Tampa)	006	231.4	3.0	201.5	-0.4	87	7	3	3	13.65
Mideast (Cleveland)	033	1,387.8	-5.8	521.8	1.5	38	15	42	5	10.72
Upper Midwest (Chicago)	030 ^{3/}	1,729.1	7.0	320.6	0.4	19	2	74	5	10.13
Central (Kansas City)	032 ^{3/}	1,594.6	14.9	394.1	3.5	25	6	61	8	10.41
Southwest (Dallas)	126	822.1	8.2	317.7	0.5	39	12	30	19	11.42
Arizona-Las Vegas (Phoenix)	131	257.2	3.9	79.2	4.0	31	5	31	33	10.63
Western (Salt Lake City)	135 ^{3/}	465.4	3.2	86.4	10.4	18	6	62	14	10.29
Pacific Northwest (Seattle)	124	564.5	-4.7	162.7	0.6	29	6	33	32	10.44
ALL MARKET AVERAGE OR TOTAL	^{3/}	10,016.9	0.6	3,659.1	1.8	37	10	43	10	11.04

^{1/} Names in parentheses are the major city in the principal pricing point of the market.

^{2/} Statistical uniform price for component pricing orders (Class III price plus producer price differential). For other orders, uniform skim milk price times 0.965 plus uniform butterfat price times 3.5.

^{3/} Due to a disadvantageous relationship between intraorder class prices and the location adjusted statistical uniform (blend) price in these markets, handlers elected not to pool an estimated 90 million pounds of milk that normally would have been associated with these markets. In February 2002, the estimated not-pooled volume of milk was 160 million pounds. After adjusting for these not-pooled volumes, the year-to-year percent change is -0.1.

THE DAIRY SITUATION AND OUTLOOK***Milk Production To Increase; Prices To Decline**

Summary - Milk production in 2003 is expected to increase about 1 percent, compared with 2.6 percent in 2002. However, demand for dairy products weakened substantially in 2002 and now large commercial stocks overhang the market, pressuring prices. Farm milk prices have fallen from an average of nearly \$15 per hundredweight (cwt) in 2001 to just more than \$12 in 2002. In 2003, prices are to fall further and average \$11.10 to \$11.70 per cwt.

Dairy Doldrums To Continue - The dairy industry in early 2003 was in much the same shape as during 2002. Milk production was still growing briskly, mostly on unusually strong milk cow numbers. Meanwhile, commercial use's struggle to post significant gains continued. Commercial stocks of butter are huge, and other commercial stocks are quite ample. Signs of adjustment to much lower prices are beginning to emerge. But, these signs are quite faint, and no real momentum has developed to slow growth in milk production or to boost dairy demand. Significant recovery in milk prices does not seem likely in 2003. Milk prices collapsed in 2002 as surging production shot past sagging dairy demand. Generally high returns during 1996-2001 generated strong pressures for expansion in milk production. However, these pressures were largely stymied in 2001 by a shortage of replacement heifers and tight supplies of Western alfalfa. Expansion was not to be denied in 2002 as the problems of the previous year began to be resolved. Demand for dairy products weakened substantially in 2002. Commercial use grew just barely, even though prices were substantially lower. Weak demand in 2002 was in sharp contrast to the very robust demand of the preceding 4 years. Farm milk prices fell from an average of almost \$15 per cwt in 2001 to just more than \$12 in 2002, ending the year even weaker than at the start. Recent milk prices were the lowest since the late 1970's and have rather dim prospects for recovery in the short term.

Milk Production Surge Continues - Last autumn's sharp drop in prices of replacements indicated that heifer supplies are no longer a substantial restraint on milk cow numbers. It also meant that upward pressure on cow numbers may have started to ease, as the surge in expansions probably has crested. However, dairy farm exits have yet to pick up much, although some acceleration is expected as the year progresses. Fewer expansions and more exits would start milk cow numbers declining in coming months. However, declines probably will be gradual and are not likely to be dramatic by even yearend. For the year, the decrease in average milk cows is projected to be less than 1 percent. Forage developments may be critical in 2003. In some years with similar conditions, dairy farmers simply ran out of adequate forage in late spring, and milk per cow was harmed significantly. Whether such a situation emerges will hinge on the largely unknown amounts and quality of forage stocks on dairy farms and on forage crop development early in the new season. Dairy farmers will be vulnerable throughout the season to any shortfalls in 2003 production of dairy quality forage. The expected low milk prices probably will leave milk-feed price ratios quite low again in 2003, even if crops are normal. Concentrate feed prices are projected to be above a year earlier (and milk prices below) through at least summer. Additionally, feed prices will be more vulnerable to weather problems this year because of the reduced carryin stocks. Very weak growth going into 2003, little economic incentive to boost concentrate feeding, and erratic forage quality do not bode well for increases in milk per cow, even if this year's weather is normal. In addition, there likely is an unusually large share of first-calf heifers in the milking herd this year, further limiting potential gains. Milk per cow is projected to rise considerably less than 2 percent in 2003. Milk production is projected to increase about 1 percent in 2003.

Dairy Demand Recovery Delayed - Economic weakness undoubtedly was a major factor in the slowdown in dairy demand in late 2001 and in 2002. However, the economic weakness was relatively quite mild in most ways. The recession just barely qualified as one, consumer incomes stayed fairly strong, and the increase in unemployment was relatively small. Consumers continued to spend at a fairly brisk pace, in part fueled by savings from mortgage refinancing. However, consumers made major shifts in how they spent. Spending on homerelated items was strong, but the somewhat indulgent spending on food "treats" was reduced. In addition, economic recovery has been sluggish and erratic. Unlike most recent periods of economic weakness, inexpensive restaurants did not seem to benefit from less spending in pricier restaurants.

Continued on page 10

There were even some indications that more meals were being served at home, although many of them may have involved pre-prepared foods. These changes in away-from-home eating hurt demand for cheese, butter, and fluid cream, the strongest products in earlier years. Of particular importance to dairy was the lack of growth in pizza sales. The industry had counted on increases in pizza use, through thick and thin, for many decades. Growth in dairy demand is expected to resume in 2003. Slow economic improvement is projected, and the recent retrenchment in dairy demand may have run its course. However, this modest demand growth probably will not be able to absorb the increase in milk production and to pull down the heavy beginning stocks except at continued weak prices. In addition, events in the Middle East may disrupt both the economy and dairy demand.

Production and Stocks of Manufactured Products Heavy - Manufactured product output probably will stay large during 2003. Recovering cheese demand is expected to pull larger shares of the milk supply into cheese production, relieving some of the pressure on butter and nonfat dry milk markets. However, improvements are likely to be gradual and subject to any stumbles in the economy. Commercial butter stocks continue to stagger milkfat markets. On February 1, commercial inventories exceeded 200 million pounds, more than twice the previous record for the date and larger than on any date prior to spring 2002. These winter stocks were already equivalent to about 2 months of sales. Normally, butter stocks rise steadily during the first half of the year to a midyear peak. The heavy butter holdings brought February 1 commercial stocks of all products above 11 billion pounds, milk equivalent, milkfat basis, another dramatic record. February 1 commercial cheese stocks were moderately larger than the 2 preceding years on that date. Meanwhile, manufacturers' stocks of nonfat dry milk were down somewhat. Total commercial stocks on a milk equivalent, skim solids basis were about 9 billion pounds, up 6 percent from a year earlier. February 1 cheese and nonfat dry milk stocks might be considered comfortable in a tighter market situation, but probably were somewhat large in light of the heavy butter stocks and the continuing surplus prospects for skim solids. Such very large (and costly) stocks are not likely to persist. The modest excess of cheese holdings could be dealt with in a number of ways. But, butter stocks will be a larger problem. Unless sales were to surge in response to spring retail price specials, price support sales of butter seem inevitable, as Dairy Export Incentive Program (DEIP) exports cannot accommodate such large amounts. Even then, heavy price discounts may be needed to move the accumulated stocks of old butter commercially.

Price Weakness To Persist - Butter and cheese prices have slipped a little since the start of 2003, but mostly varied within the same general ranges. The supply-demand picture has not changed much: rising milk production, use struggling to grow, and burdensome stocks. No more than modest seasonal strength is expected through at least summer. Although the adjustment processes may have begun, no market-tightening momentum has developed in either supply or demand. Considerable time probably will be needed to erode the current surplus enough to generate significant price recovery, although butter sales to the government would have an accelerating effect. Autumn seasonal price increases are projected to be only modest. Farm milk prices are projected to run below a year earlier during the first three-quarters of 2003, with the largest declines during the first half. Although prices might post increases during autumn, such rises probably would be fairly small. For all of 2003, the average price of all milk is expected to decline 50 cents to \$1 from 2002's \$12.12 per cwt. Milk prices last year were the lowest since 1979. Retail prices of dairy products averaged only fractionally higher in 2002 and were below a year earlier during the second half of the year. The farm-to-retail price spread grew considerably, after it declined significantly in 2001 because of farm and wholesale price jumps. Retail dairy prices in 2003 are projected to be about unchanged.

* **Note:** This report has been condensed from the original by Dairy Programs, AMS. See "Source" for the complete text.
SOURCE: "Livestock, Dairy, and Poultry Outlook", LDP-M-105, March 17, 2003, Economic Research Service, USDA. For more information, contact James J. Miller, (202) 694-5184.

Measures of Growth in Federal Milk Order Markets, Selected Years, 1947-2002

Year	Number of markets 1/	Population of Federal milk marketing areas	Number of handlers 1/	Number of producers 2/	Receipts of producer milk 3/	Producer milk used in Class I	Percentage of producer milk used in Class I	Prices at 3.5% butterfat content 2/		Receipts as percentage of milk sold to plants and dealers		Daily deliveries of milk per producer	Gross value of receipts of producer milk 4/	
								Class I	Blend	Fluid grade	All milk		Per producer	All producers
	Number	1,000	Number		Million pounds		Percent	Dol. per cwt.		Percent		Pounds	Dollars	1,000 dol.
1947	29	---	991	135,830	14,980	9,808	65.5	4.65	4.34	---	21	302	5,024	682,407
1950	39	---	1,101	156,584	18,660	11,000	58.9	4.51	3.93	41	25	326	4,914	769,442
1955	63	46,963	1,483	188,611	28,948	18,032	62.3	4.67	4.08	51	32	420	6,510	1,227,815
1960	80	88,818	2,259	189,816	44,812	28,758	64.2	4.88	4.47	64	43	648	10,482	1,989,615
1965	73	102,351	1,891	158,077	54,444	34,561	63.5	4.93	4.31	70	48	944	15,300	2,418,526
1970	62	125,721	1,588	143,411	65,104	40,063	61.5	6.74	5.95	79	59	1,244	27,636	3,963,311
1975	56	150,666	1,315	123,855	69,249	40,106	57.9	9.36	8.64	78	63	1,532	49,233	6,097,768
1980	47	164,908	1,091	117,490	83,998	41,034	48.9	13.77	12.86	80	67	1,954	93,685	11,007,001
1985	44	176,440	884	116,765	97,762	42,201	43.2	13.88	12.61	80	70	2,294	107,871	12,595,522
1986	44	177,992	849	112,322	98,791	42,725	43.2	13.60	12.38	80	71	2,413	111,581	12,515,451
1987	43	180,374	797	105,882	98,182	42,876	43.7	13.90	12.51	80	71	2,542	118,402	12,529,800
1988	42	184,180	776	104,141	100,066	43,141	43.1	13.42	12.14	79	71	2,627	119,261	12,419,974
1989	41	185,919	748	100,291	95,871	43,367	45.2	14.51	13.30	75	68	2,614	129,744	13,012,796
1990	42	195,841	753	100,397	102,396	43,783	42.8	15.55	13.78	77	70	2,796	142,324	14,289,567
1991	40	198,409	722	100,267	103,252	45,033	43.6	13.30	12.11	76	71	2,821	121,479	12,180,354
1992	40	200,530	698	97,803	107,947	44,914	41.6	14.57	13.12	77	73	3,017	146,452	14,323,698
1993	38	199,604	675	92,934	103,979	44,805	43.1	14.19	12.89	73	69	3,073	145,350	13,507,974
1994	38	201,561	629	91,397	107,811	44,866	41.6	14.75	13.16	75	71	3,232	156,253	14,281,193
1995	33	207,548	571	88,717	108,548	45,004	41.5	14.19	12.79	75	71	3,350	157,754	13,995,454
1996	32	209,599	570	82,947	104,501	45,479	43.5	16.19	14.64	72	69	3,442	187,713	15,570,261
1997	31	208,379	570	78,422	105,224	44,917	42.7	14.36	13.10	71	69	3,676	178,424	13,992,366
1998	31	210,484	522	72,402	99,223	44,968	45.3	16.14	14.92	66	64	3,755	202,770	14,681,340
1999	31	212,118	487	69,008	104,479	45,216	43.3	16.24	14.09	67	65	4,148	216,794	14,960,544
2000	11	228,899	346	69,590	116,920	45,989	39.3	14.24	12.11	72	70	4,590	207,913	14,468,892
2001	11	231,487	350	66,423	120,223	45,887	38.2	16.96	14.90	75	73	4,959	275,642	18,308,968
2002	11	234,256	338	63,856	125,546	46,043	36.7	13.69	11.91	77	76	5,387	237,503	15,165,997

1/ End of year. The number of markets peaked at 83 in 1962. The number of handlers peaked at 2,314 in 1961.

2/ Average for year. The number of producers peaked at 192,947 in 1961.

3/ Beginning in 1989, due to disadvantageous price situations in some markets, handlers elected not to pool milk that normally would have been associated with the order. This has reduced, sometimes substantially, the volume of producer milk receipts reported for some markets.

4/ Based on blend (uniform) price adjusted for the butterfat content, and in later years, other milk components of producer milk.

CCC PURCHASES OF DAIRY PRODUCTS (POUNDS)

	FOR THE WEEK OF MARCH 17 - 21, 2003			CUMULATIVE TOTALS		UNCOMMITTED INVENTORIES	
	TOTAL PURCHASES	CONTRACT ADJUSTMENTS	ADJUSTED PURCHASES	SINCE 10/01/02	SAME PERIOD LAST YEAR	WEEK ENDING 03/07/03\$	SAME PERIOD LAST YEAR
BUTTER							
Bulk	380,771	-0-	380,771	3,765,933	-0-	-0-	-0-
Packaged	-0-	-0-	-0-	-0-	-0-	-0-	-0-
TOTAL	380,771	-0-	380,771	3,765,933	-0-	-0-	-0-
CHEESE							
Block	341,998	-0-	341,998	685,712	-0-	-0-	-0-
Barrel	690,580	-0-	690,580	2,631,364	-0-	-0-	-0-
Process	1,663,200	-0-	1,663,200	12,117,600	-0-	-0-	-0-
TOTAL	2,695,778	-0-	2,695,778	15,434,676	-0-	-0-	-0-
NONFAT DRY MILK							
Nonfortified	22,841,267	-0-	22,841,267	294,074,229	250,625,885	1,039,379,000	825,506,000
Fortified	-0-	-0-	-0-	-0-	-0-	46,391,000	46,391,000
TOTAL	22,841,267	-0-	22,841,267	294,074,229	250,625,885	1,085,770,000\$	871,897,000

\$DATA FOR 3/14/03 NOT AVAILABLE

MILK EQUIVALENT, FAT SOLIDS BASIS, OF ADJUSTED PURCHASES (MILLION POUNDS)

	MILKFAT* BASIS	SKIM** SOLIDS		MILKFAT* BASIS	SKIM** SOLIDS
WEEK OF MARCH 17 - 21, 2003 =	38.2	292.6	COMPARABLE PERIOD IN 2002 =	3.9	208.9
CUMULATIVE SINCE OCTOBER 1, 2002 =	289.3	3,576.3	CUMULATIVE SAME PERIOD LAST YEAR =	55.1	2,917.3
CUMULATIVE JANUARY 1 - MARCH 21, 2003 =	215.1	2,310.7	COMPARABLE CALENDAR YEAR 2002 =	38.2	2,021.4

* Factors used for Fat Solids Basis - Butter times 21.80; Cheese times 9.23; and Nonfat Dry Milk times 0.22

**Factors used for Skim Solids Basis - Butter times 0.12; Cheese times 9.90; and Nonfat Dry Milk times 11.64

CCC ADJUSTED PURCHASES FOR THE WEEK OF MARCH 17 - 21, 2003 (POUNDS)

REGION	BUTTER			CHEESE			NONFAT DRY MILK	
	BULK	PACKAGED	UNSALTED	BLOCK	BARREL	PROCESS	NONFORTIFIED	FORTIFIED
CENTRAL	-0-	-0-	-0-	-0-	-0-	1,663,200	1,007,535	-0-
WEST	380,771	-0-	-0-	341,998	690,580	-0-	19,638,770	-0-
EAST	-0-	-0-	-0-	-0-	-0-	-0-	2,194,962	-0-

CCC ADJUSTED PURCHASES SINCE 10/1/02 AND SAME PERIOD LAST YEAR (POUNDS) AND MILK EQUIVALENT AS A PERCENT OF TOTAL

REGION	BUTTER		CHEESE		NONFAT DRY MILK		MILK EQUIVALENT (%)	
	2002/03	2001/02	2002/03	2001/02	2002/03	2001/02	2002/03	2001/02
CENTRAL	-0-	-0-	12,159,200	-0-	9,941,319	7,914,205	39.6	3.2
WEST	3,765,933	-0-	3,275,476	-0-	274,897,306	233,691,351	59.7	93.2
EAST	-0-	-0-	-0-	-0-	9,235,604	9,020,329	0.7	3.6
TOTAL	3,765,933	-0-	15,434,676	-0-	294,074,229	250,625,885	100.0	100.0

SUPPORT PURCHASE PRICES FOR DAIRY PRODUCTS PRODUCED ON OR AFTER NOVEMBER 15, 2002

MANUFACTURING MILK Average Test 3.67% - \$9.90 per cwt.

BUTTER Bulk \$1.0500 per pound; 1# Prints \$1.0850

CHEESE 40 & 60# Blocks \$1.1314 per pound; 500# Barrels \$1.1014; Process American 5# \$1.1889; Process Am. 2# \$1.2289

NONFAT DRY MILK Nonfortified \$.8000 per pound; Fortified \$.8100; Instant \$0.9625

U.S. Dairy & Total Cow Slaughter under Federal Inspection, by Regions, for Week Ending 03/01/03 & Comparable Week 2002

Regions* (000 HEAD)	U.S. TOTAL										% DAIRY OF ALL			
	1	2	3	4	5	6	7	8	9	10	WEEK SINCE JAN 1	WEEK SINCE JAN 1		
2003-Dairy	0.2	0.9	8.4	4.3	21.5	2.5	0.4	0.9	14.6	3.1	56.9	514.0	52.3	49.4
2002-Dairy	0.2	0.7	5.7	4.9	17.2	2.5	0.4	1.0	12.8	2.6	48.0	463.0	49.4	47.7
2003-All cows	0.2	1.1	11.3	12.3	33.5	10.7	13.8	3.1	16.0	6.7	108.7	1,041.3		
2002-All cows	0.2	0.9	7.7	12.4	27.3	11.9	13.9	3.1	14.1	5.6	97.2	970.6		

SOURCE The slaughter data are gathered and tabulated in a cooperative effort by the Agricultural Marketing Service, The Food Safety and Inspection Service, and the National Agricultural Statistics Service, all of USDA.

CLASS III MILK PRICES, (3.5% BF)

YEAR	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
2000	10.05	9.54	9.54	9.41	9.37	9.46	10.66	10.13	10.76	10.02	8.57	9.37
2001	9.99	10.27	11.42	12.06	13.83	15.02	15.46	15.55	15.90	14.60	11.31	11.80
2002	11.87	11.63	10.65	10.85	10.82	10.09	9.33	9.54	9.92	10.72	9.84	9.74

FEDERAL MILK ORDER CLASS PRICES FOR 2003 (3.5% BF)

CLASS	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
I 1/	10.56	10.23	9.81	9.64								
II	11.29	10.66										
III	9.78	9.66										
IV	10.07	9.81										

1/ Specific order differentials to be added to this base price are located at www.ams.usda.gov/dyfmoms/mib/cls_prod_cmp_pr.htm