APPALACHIAN MARKETING AREA
FEDERAL ORDER 5

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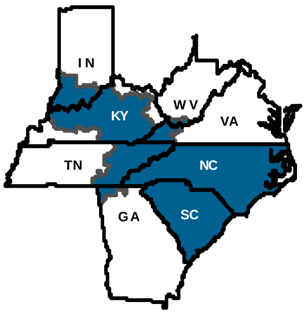
THE COURIER



Harold H. Friedly, Jr.
Market Administrator

Inside this Issue:

Dairy Situation and Outlook

The Economic Research Services of USDA reviewed the year of 2004 and provided an outlook for 2005 in the December issue of *Livestock, Dairy, and Poultry Outlook*. The year of 2004 was an incredible period for the U.S. dairy industry. U.S. farm milk prices jumped more than a fourth from 2003's average to a record $16 per cwt. due to slow milk production growth and mixed strength in commercial use.

Milk production has recently been running about 1 percent above a year earlier since it moved above prior year levels in early summer. Milk cow numbers increased through November before decreasing slightly in recent months. Cow numbers are expected to decline less than 1 percent in 2005 as farm exits gradually resume, expansions stay moderate, and heifer supplies remain tight. Growth in milk per cow remains rather weak, as forage problems continue, improve price rations between milk and concentrate feeds have yet to make an impact, and bovine somatotropin (BST) remains limited. The increase in the milk price relative to concentrate feed prices and the increase in BST allocation is expected to increase milk per cow in 2005. Overall, milk production in 2005 is projected to expand about 2 percent, the first sizable rise since 2002.

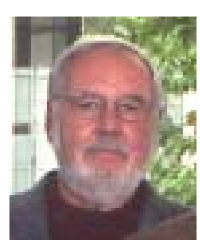
Movement of many dairy products has remained erratic. Sales of butter and cheese were somewhat lackluster in September and October, following strong movements during spring and most of summer. However, some of the sluggishness may be due to delayed holiday buying. The data should show stronger demand for November as was shown by the decrease in butter and cheese stocks in the November Cold Storage report.

Commercial disappearance of nonfat dry milk continues to increase mainly due to the increase of commercial exports. The combination of considerably smaller surplus and aggressive donation use for drought relief and food aid pulled government stocks of nonfat dry milk below 500 million pounds at the beginning of November, the smallest since late 2000 and half the level of a year earlier.

(Continued on page 3)

Donald Nicholson Announces Retirement

Effective January 3, 2005, Donald R. Nicholson retired from his position as the Market Administrator for the Central Federal Milk Order. During his 43 years of government service, Dr. Nicholson served more than 40 years in the Federal milk marketing order program, including over 29 years as a Market Administrator.


Don Nicholson
Market Administrator
Central Order

Robert E. Vander Linden has been announced as the Acting Market Administrator for the Central Milk Marketing Order.

Appalachian Statistical Summary

	December 2004	November 2004	December 2003
PRICES: (Base Zone)			
Uniform Price	$16.98	$16.78	$15.48
Class I Price	17.53	17.39	16.94
Class II Price	13.98	14.09	11.30
Class III Price	16.14	14.89	11.87
Class IV Price	13.42	13.34	10.52
Uniform Skim Milk Price	$10.40	$10.08	$11.15
Class I Skim Milk Price	11.22	10.91	12.80
Class II Skim Milk Price	7.07	7.14	6.72
Class III Skim Milk Price	9.34	8.00	7.34
Class IV Skim Milk Price	6.52	6.39	5.94
Uniform Butterfat Price	$1.9844	$2.0138	$1.3473
Class I Butterfat Price	1.9144	1.9598	1.3116
Class II Butterfat Price	2.0436	2.0559	1.3758
Class III Butterfat Price	2.0366	2.0489	1.3688
Class IV Butterfat Price	2.0366	2.0489	1.3688
PRODUCER MILK:			
Class I	370,659,136	368,722,955	382,015,462
Class II	67,239,817	77,000,216	57,651,238
Class III	9,928,273	26,877,709	43,355,828
Class IV	40,580,994	35,770,768	69,089,190
Total Producer Milk	488,408,220	508,371,648	552,111,718
PERCENT PRODUCER MILK IN:			
Class I	75.89	72.53	69.19
Class II	13.77	15.15	10.44
Class III	2.03	5.28	7.86
Class IV	8.31	7.04	12.51

November Milk Production Up 1.2 Percent

Milk production in the 20 major states during November totaled 11.8 billion pounds, up 1.2 percent from November 2003. October revised production, at 12.3 billion pounds, was up 1.4 percent from October 2003. The October revision represented an increase of 0.1 percent or 9 million pounds from last month's preliminary production estimate.

Production per cow in the 20 major states averaged 1,526 pounds for November, 9 pounds above November 2003.

The number of milk cows on farms in the 20 major states was 7.77 million head, 44,000 head more than November 2003, but unchanged from October 2004.

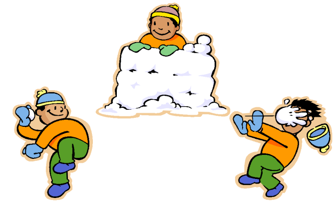
Dairy Situation and Outlook *(Cont'd from page 1)*

Sales of other products have been mixed but generally weak. Beverage milk sales were down 1.5 percent for the first 9 months of 2004. Likewise, sales of cottage cheese and frozen products (other than lowfat ice cream) decreased significantly in recent months. Sour cream and yogurt did manage to be exceptions to the general pattern.

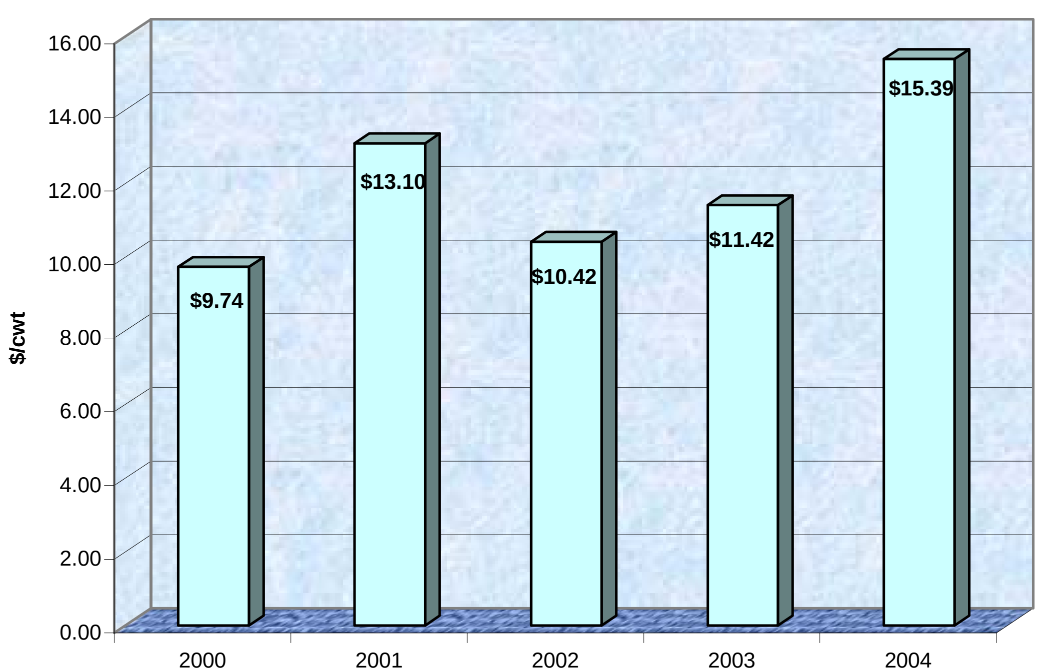
The economy and personal incomes continue to grow. However, economic performance has been uneven, with some sectors lagging considerably. In addition, higher food and energy prices have absorbed a significant share of the income growth. The consumption expenditures seem to imply an underlying shift to housing and housing-related expenditures and away from the treats for immediate consumption that had been so favored before mid-2001. These trends imply that demand for dairy products will be good, but not exceptional, in 2005.

International dairy markets remain tight, and the weak U.S. dollar is translating this tightness into relatively high prices. When the value of the U.S. dollar weakens in relation to another currency, prices for U.S. products fall in foreign markets. This allows U.S. dairy exporters to be more competitive in the international markets. International prices for nonfat dry milk and butter are expected to remain high through at least most of 2005 as the dollar is expected to stay weak. Therefore, commercial exports of nonfat dry milk are projected to be sizable in 2005.

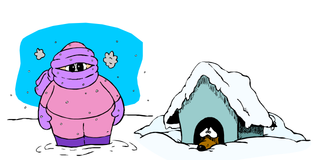
Wholesale butter and cheese prices are projected to remain relatively strong through at least the first half of 2005. Growth in milk production is not likely to be sudden, and demand should be able to absorb most of it. The annual Class III price is projected to fall to $12.35-$13.35 in 2005, still considerably above those of 2002 and 2003.



Annual Average Class III Price, 2000 - 2004





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Milk Market Administrator
P. O. Box 18030
Louisville, KY 40261-0030
ADDRESS SERVICE REQUESTED

Phone: 502-499-0040
Fax: 502-499-8749
E-mail: friedly@malouisville.com
TTY: 502-491-9124
Accessed through
KRS: 1-800-648-6057
or dial 7-1-1

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