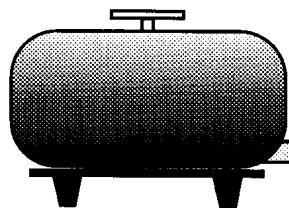


# MARKETING SERVICE

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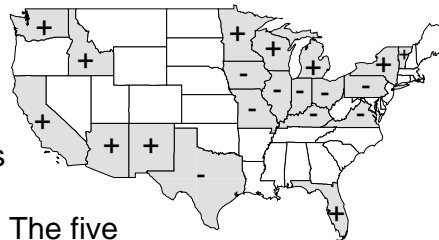


Got Milk ???



## Milk Production Out "West" May Surprise You

The National Agricultural Statistics Service Milk Production (5/17/1999) reported that milk production in the 20 major States totaled 12.0 billion pounds during April 1999 -- up 3.4 percent from April 1998. However, nine of these states noted decreases from the previous year. Eleven states had production increases with five being west of the Rocky Mountains and six being east. The five western states increased production by 9.8 percent from April 1998 while the six eastern states increased production by 2.6 percent.



Just noting that a few states increased production by some percent may only serve to make us aware that milk production is "increasing." If this happens month-after-month, we may only be reminded that "some trend" is developing. Milk production is not a static enterprise. Historically, the dairy industry has operated in and around rules designed to accommodate all the variations which affect both the producer and consumer. The continued milk production increases in several of the western states are resulting in geographic changes relating to where milk is and will be produced. This may challenge the conventional wisdom of north/south and east/west movements of milk.

This issue will partially examine and illustrate the alignment between the geographic density of milk marketings and population - i.e. a look at supply and demand localities. In an earlier analysis (November 1998 Marketing Service Bulletin) the US was separated into time zones as a method of developing a somewhat arbitrary "regional" analysis for comparing where milk is produced and where it is consumed. This analysis will use the

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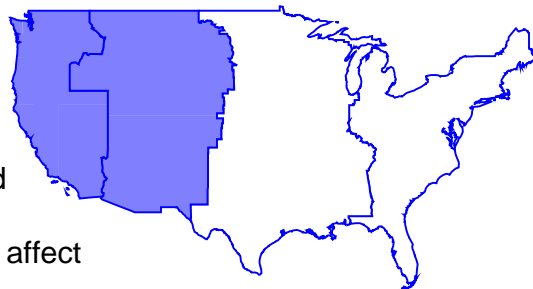
same time zone format to separate the US into the "west" and "east" and to more fully examine this concept.

The supply element is based on a compilation of May and December Federal order milk marketings provided by all Market Administrator offices and California state milk marketings. The May and December 1998 data were combined and multiplied by six to "estimate" annual milk production. This 1998 estimate of 150.6 billion pounds represented 96 percent of the NASS estimated US milk production.

Per capita consumption of dairy products is used to represent the demand element for milk. Estimated 1998 per capita dairy product consumption was 583 based on preliminary USDA ERS data. Milk production above the 583 pound per capita consumption level could be considered excess.

The two time zones comprising "**the west**" had 1998 milk marketings of 50.8 billion pounds -- representing 34 percent of marketings in the four time zones. The total population of the region was 59.6 million people which represented 22 percent of the population. Demand for fluid milk and dairy products was an estimated 34.7 billion pounds based on the 583 pounds per capita consumption estimate. As a result, estimated production exceeded estimated consumption demand by 16.1 billion pounds. This substantial surplus becomes available to the marketplace and may affect prices far outside its home boundaries.

## "The West"

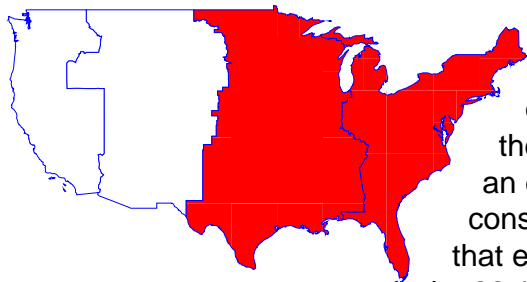


**How much is 16 billion pounds of milk?** Based on 50,000 pound tankers...it is 321,896 loads per year; 6,190 loads per week, or 882 loads each and every day. On a per capita basis, it amounts to 60 pounds for every person in the US.

How is this milk used or where does it go? Most of it moves "east" due to population. Few realize that 49% of the US population reside in the eastern time zone. The eastern and central time zones (splitting the country in half geographically) account for a combined 78 percent of the population. This surplus may move as fluid milk needed to supply deficit areas of the south and east. It may move as processed dairy products - mostly cheese and butter. However this surplus is utilized and wherever it may end up - its sheer size has to be considered.

**What can you make out of 16 billion pounds of milk?** If the entire western surplus was processed into cheese it would produce 1.6 billion pounds -- enough cheese to provide every person with 6 pounds. If made into butter it would produce 759 million pounds or 2.8 pounds of butter for every person. Or 1.5 billion pounds of NFDM could be manufactured.

## "The East"

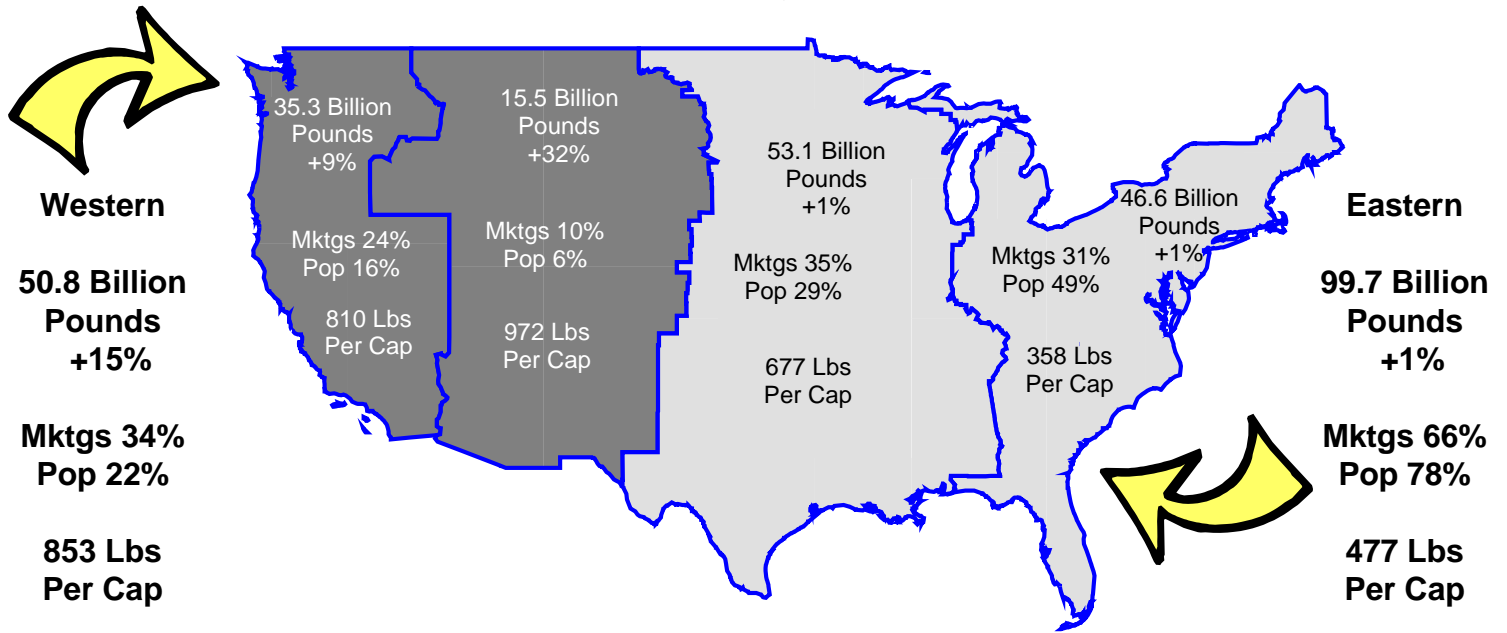


The "**east**" as represented by the two easternmost time zones couldn't be more different. The estimated 1998 marketings were 99.7 billion pounds -- representing 66 percent of marketings in the four time zones. As mentioned previously, 208.9 million people representing 78 percent of the population reside in this region with 49 percent residing just in the eastern time zone. Demand for fluid milk and dairy products were an estimated 121.8 billion pounds based on the 583 pounds per capita consumption estimate. As a result this region differs from the "west" in that estimated production does not meet estimated consumption demand by 22.1 billion pounds or a shortfall of 106 pounds per person. Furthermore,

in the eastern time zone there is not enough milk marketed to meet the fluid and Class II needs of that population base. This substantial shortfall becomes just as important to the marketplace as the surplus in the "west."

The map graphic and tables on the next page provide the data used to illustrate the disparity between where milk is produced and where it is consumed.

**1998 Estimated Federal Milk Order + California Milk Marketings By Time Zone**  
Percent Changes From 1994



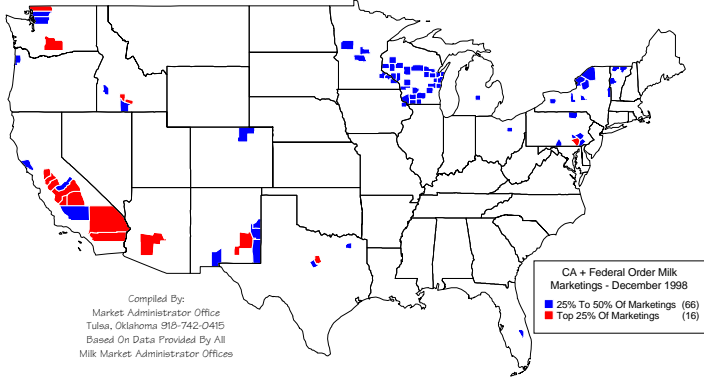
<b>1998 Est. Marketings</b> (billion lbs)		<b>1998 Est. Population</b> (million)		<b>1998 Est. Per Capita Marketings</b> (lbs)	
Pacific	35.315	Pacific	43.6	Pacific	810
Mountain	15.515	Mountain	16.0	Mountain	972
Central	53.094	Central	78.5	Central	677
Eastern	46.640	Eastern	130.4	Eastern	358
<b>Total</b>	<b>150.564</b>	<b>Total</b>	<b>268.5</b>	<b>Total</b>	<b>561</b>
Western	50.830	Western	59.6	Western	853
Eastern	99.734	Eastern	208.9	Eastern	477

<b>1998 Est. Consumption</b> 583 lbs. x Population (billion lbs)		<b>1998 Surplus/Deficit</b> Production - Consumption (billion lbs)		<b>1998 Mktgs &amp; Population</b> As A Percent Of Total		
				<b>Mktgs</b>	<b>Population</b>	
Pacific	25.432	Pacific	9.883	Pacific	24%	16%
Mountain	9.304	Mountain	6.212	Mountain	10%	6%
Central	45.748	Central	7.346	Central	35%	29%
Eastern	76.047	Eastern	-29.407	Eastern	31%	49%
<b>Total</b>	<b>156.531</b>	<b>Total</b>	<b>-5.966</b>	<b>Total</b>	<b>100%</b>	<b>100%</b>
Western	34.736	Western	16.095	Western	34%	22%
Eastern	121.795	Eastern	-22.061	Eastern	66%	78%

**A comparison of Blend Prices for milk of 3.5% butterfat content is provided for selected Federal milk marketing orders:**

	<b>Apr 1999</b>	<b>Mar 1999</b>	<b>Apr 1998</b>
Southeast (Zone 7)	\$13.00	\$18.19	\$15.54
Chicago Regional (Zone I)	11.49	13.03	12.71
Greater Kansas City	12.00	18.85	14.96
Indiana	11.65	16.56	14.30
Iowa (Zone I)	11.64	13.39	13.00
Southwest Plains (Zone I)	12.39	15.82	14.13
Central Illinois (Zone I)	11.75	16.28	14.44
Southern Illinois - Eastern Missouri (Base Zone)	11.85	16.00	13.95

82 Counties Marketed 50% Of All CA + Federal Order Milk During December 1998



During December 1998, 50 percent of California + Federal order milk marketings came from only 82 counties. The top 16 of these counties marketed 25 percent of the milk.

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