THE MARKET ADMINISTRATOR'S

REPORT

USDA

TEXAS MARKETING AREA

NEW MEXICO - WEST TEXAS MARKETING AREA

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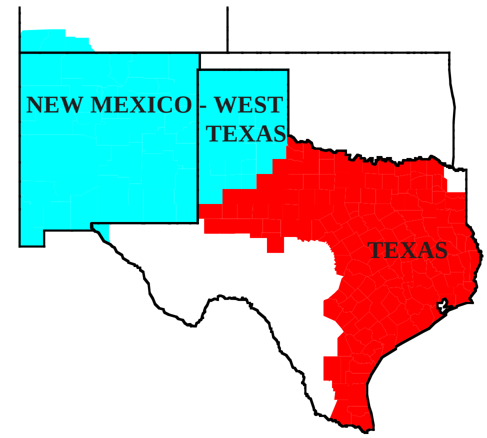

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MARKET SUMMARIES FOR SEPTEMBER

The September Class III price increased 43 cents from the previous month to $15.37. The Class II price for September of $14.79 per hundredweight increased 57 cents from $14.22 in August. September's Class III-A price increased 3 cents from August's level to $15.85.

Texas: Producers who delivered milk to handlers located in Zones 1 and 2 of the Texas Milk Market Order received $16.65 per hundredweight for deliveries of milk containing 3.5% butterfat. The September price was up 53 cents from August.

Producers delivered a total of 427,561,057 pounds of milk during September. On a daily basis this represents a decrease of 5.65 percent from the producer receipts level in August and it represents a decrease of 14.53 percent when compared to the producer receipts level of September 1995.

Producer milk classified as Class I during September amounted to 63.69 percent of total producer receipts. This figure is up from August's 62.92 percent and it is up from 52.46 percent in September 1995. The average butterfat test of producer milk pooled during September 1996 was 3.584 percent.

New Mexico - West Texas: Producers who delivered milk to handlers located in Zone 1 of the New Mexico - West Texas Milk Market Order received $15.84 per hundredweight for deliveries of milk containing 3.5% butterfat. The September price was up 47 cents from its August level.

Producers delivered a total of 201,755,312 pounds of milk during September. On a daily basis this represents an increase of 1.17 percent from the producer receipts level in August and it represents an increase of 67.70 percent when compared to the producer receipts level of September 1995.

Producer milk classified as Class I during September amounted to 27.94 percent of total producer receipts. This figure is down from 29.12 percent in August and it is down from 49.14 percent in September 1995. The average butterfat test of producer milk pooled during September 1996 was 3.555 percent.

MILK PRODUCTION TO RECOVER, COMMERCIAL USE TO SLOW

Record prices for milk and cheese will bring recovery in milk production and slowing in commercial use. However, the basic forces responsible for these prices--brisk demand, poor forage, and high concentrate prices--are expected to remain important through at least mid-1997. These factors will limit the size of price drops and make their timing highly uncertain. Milk production in 1996 is projected to decline more than 1 percent, as cow numbers decline about 1 percent and milk per cow fails to grow. Farm milk prices are expected to exceed $15 per cwt, up a fifth from 1995. In 1997, responses to the higher 1996-97 prices are expected to restore milk output to the 1995 level and to lower milk prices by 50 cents to $1.

Milk production in 1996 has been caught between bad forage, weather problems, high grain prices, and delayed structural effects of 1995 returns on the one hand and record high milk prices and strong 1996 returns on the other. So far, the negative forces have been dominant. But, that may change by early 1997. The expected 20 percent jump in 1996 returns over concentrate costs, followed by still strong levels in 1997, should unleash some expansions. However, the declines in milk cow numbers may slow only gradually. Producers are not likely to have a very solid feed base at least until the 1997 feed crops start to be harvested. Milk cow numbers are projected to decline about 1 percent in 1996, followed by a slightly smaller decrease next year. Milk per cow should recover during the rest of 1996, particularly once 1996 grain and silage is available. Although milk per cow is expected to be above a year earlier by late 1996, the annual total is projected to be down fractionally. Production per cow in 1997 is projected to grow about 2 percent on the strength of expanded use of bST and fewer forage problems. Milk production is projected to move above a year earlier in early 1997 and to increase about 1 percent for the year. However, this growth would bring milk output to only about the 1995 total. Feed conditions will continue to trouble dairy farmers through at least mid-1997. Concentrate prices will stay high, hay prices may be very high, and hay quality will be suspect. Forage quality in particular probably will frustrate many farmers' attempts to expand milk production.

Wholesale dairy product prices and farm milk prices remain delicately balanced. Recovery in milk production and slowing in commercial use are widely anticipated. However, these responses are expected to be gradual, stocks are modest, and conditions are tightening seasonally. Prices are projected to begin downward adjustments this autumn. However, tiny deviations from expected conditions could delay adjustments until year-end or move prices even higher. Wholesale prices by next winter will have dropped seasonally and will be well below current levels. However, prices are expected to stay considerably above those of a year earlier, as dairy markets are likely to stay relatively tight until mid - 1997. Farm milk prices are projected to be above a year earlier during the first quarter, but then to run lower during the rest of 1997. This year's strong prices should bring stronger milk production next year. Meanwhile, delayed response to 1996 price increases should slow growth in commercial use, even if demand otherwise is strong. Milk prices in much of 1997 will be dominated by strong demand, forage quality problems, and high grain prices, even if the force of these factors is less than in 1996. Prices are projected to average $14 per cwt for only the second time. Potential price weakness is much greater for 1998, if 1996-97 milk prices and an improved feed situation were to generate a flood of milk. Average retail dairy prices in 1996 are expected to rise 6-7 percent, the first time since 1990 that dairy prices rose faster than the Consumer Price Index. In early 1997, increases in retail prices are expected to be large, but then more moderate. The 1997 average is projected to rise 2 to 5 percent from 1996.

Economic growth continues to support demand for dairy products. Sustained growth in consumer income and relatively low unemployment have boosted consumers' willingness to spend on cheese and some foods containing dairy products. General economic conditions are expected to remain favorable, although not necessarily to the same extent, during the remainder of 1996 and 1997. Retail dairy prices in the second half of 1996 and in 1997 will rise more rapidly than most price categories, limiting growth in commercial use. However, response to these price increases may be somewhat muted. Prices of some other food categories are rising even more dramatically. In addition, dairy prices are coming off an extended period of near-stability. During 1990-95, retail dairy prices rose only about 1 percent per year. Sales are projected to grow only fractionally in 1997. Even small gains would represent fairly strong demand given the large expected increases in retail prices during late 1996 and the first half of 1997. In addition, commercial exports are not expected to be significant next year.

International dairy markets were soft and slow during the late spring and summer. Import demand has been sluggish since early 1996. Export supplies have been ample for this lower demand. Market conditions are not expected to change much during the rest of 1996.

Source: "Dairy Outlook", LDP-D-12, September 23, 1996, Economic Research Service, USDA.

MAILBOX MILK PRICES FOR SELECTED FEDERAL MILK ORDERS, JANUARY - JUNE 1996

	Mailbox Milk Price						
Federal milk order	Jan	Feb	Mar	Apr	May	Jun	Avg.
New York-New Jersey	13.44	13.29	13.18	13.16	13.70	14.10	13.48
Southeast	13.99	14.00	13.78	13.71	14.20	15.09	14.13
Chicago Regional	13.69	13.52	13.68	13.89	14.61	14.73	14.02
Upper Midwest	13.62	13.43	13.47	13.74	14.37	14.50	13.86
Texas	13.27	13.02	12.74	12.98	13.45	13.92	13.23
New Mexico-West Texas	11.93	11.73	11.57	11.75	12.59	13.13	12.12
Pacific Northwest	12.43	12.24	12.08	12.08	12.79	13.91	12.59

TOP TEN TEXAS COUNTIES a/ – SEPTEMBER 1996

County	Number of Producers	Pounds	% Change From 1995	County	Number of Producers	Pounds	% Change From 1995
1. Erath	179	105,986,407	+2.03	7. Hamilton	36	13,938,526	+2.16
2. Hopkins	343	51,564,704	-8.53	8. Wood	79	12,728,733	-14.76
3. Comanche	59	32,050,036	+7.56	9. Cherokee	41	11,174,274	-12.25
4. El Paso	9	17,784,785	+.71	10. Franklin	51	7,709,003	-13.28
5. Johnson	59	16,344,065	-1.42	Ten County Total	921	284,958,629	-1.32 b/
6. Archer	65	15,678,096	+9.81	Other Counties Total	717	142,299,946	-3.41
				Texas Total	1,638	427,264,575	-2.02

a/ Includes all known Grade "A" milk produced on farms located in Texas.
b/ Compared to top ten counties for the month in the previous year.

Minimum Prices at 3.5%, for Federal Orders 126 and 138 (Zone 1) **Formula Prices (3.5%) and Price Quotations**

Month	Class I a/ 126	Class I a/ 138	Class II	Class III	Class III-A	Uniform a/ 126	Uniform a/ 138	B F Diff.	Grade A Butter	Block Cheese	Spray Powder
	-------- Dollars Per Hundred Wt. --------							¢/Point	-------------Cents Per Pound--------------		
September 1995	14.39	13.58	11.53	12.08	10.90	13.26	12.72	7.8	81.33	137.74	107.18
October	14.71	13.90	11.85	12.61	11.66	13.62	13.03	9.6	95.74	141.48	108.64
November	15.24	14.43	12.38	12.87	12.40	14.07	13.46	10.5	103.00	142.25	113.40
December	15.77	14.96	12.91	12.91	11.24	14.18	13.20	6.1	71.83	141.91	117.61
Averages 1995 b/	14.78	13.97	11.84	11.83	10.74	13.18	12.41	7.0	75.13	130.44	108.58
January 1996	16.03	15.22	13.17	12.73	11.16	14.32	13.33	6.6	74.40	137.88	114.85
February	16.07	15.26	13.21	12.59	10.39	14.15	13.21	5.4	65.21	137.75	110.84
March	15.89	15.08	13.03	12.70	10.32	13.75	12.80	5.4	65.00	138.74	110.08
April	15.75	14.94	12.89	13.09	10.52	14.06	12.99	5.9	69.57	143.25	110.32
May	15.86	15.05	13.00	13.77	11.90	14.43	13.82	8.4	89.16	149.25	116.00
June	16.25	15.44	13.39	13.92	15.12	15.03	14.56	14.1	130.63	149.33	129.75
July	16.93	16.12	14.07	14.49	16.01	15.78	15.07	15.9	144.87	156.23	132.57
August	17.08	16.27	14.22	14.94	15.82	16.12	15.37	15.8	145.00	163.58	130.91
September	17.65	16.84	14.79	15.37	15.85	16.65	15.84	15.6	145.00	169.42	131.90
October	18.10	17.29	15.24								
November	18.53	17.72	15.67								

a/ Subject to zone and location adjustments. b/ Simple averages

TOP NEW MEXICO COUNTIES a/ – SEPTEMBER 1996

County	Number of Producers	Pounds	% Change From 1995	County	Number of Producers	Pounds	% Change From 1995
1. Chaves	41	103,197,367	-2.54	7. Valencia	12	10,765,436	+5.63
2. Dona Ana	24	58,592,439	+5.84	8. Bernalillo	8	8,751,878	-8.19
3. Roosevelt	30	35,720,909	-7.83	9. Socorro	8	6,331,905	+3.95
4. Curry	10	28,180,133	+11.22				
5. Lea	12	16,683,391	+10.94	Nine County Total	150	283,223,048	+.26
6. Eddy	5	14,999,590	-7.90	Other Counties Total	7	8,123,850	+27.06
				New Mexico Total	157	291,346,898	+.86

a/ All known Grade "A" milk produced on farms located in New Mexico.
b/ Compared to top counties for the month in the previous year.

POUNDS OF GRADE A MILK MARKETED BY PRODUCERS LOCATED IN TEXAS BY MONTHS: JANUARY 1994 THROUGH SEPTEMBER 1996, WITH PERCENTAGE COMPARISONS **

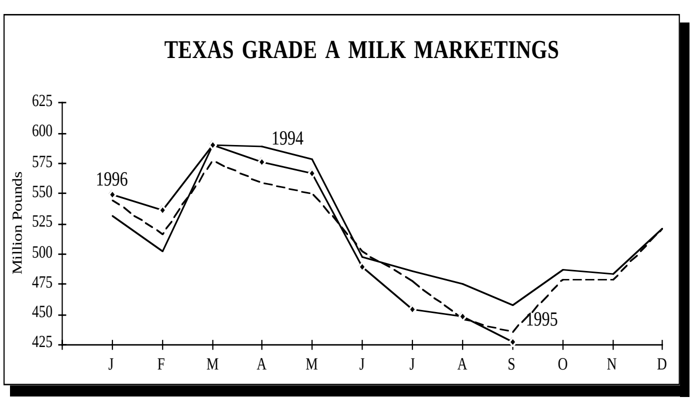
MONTH	1994 POUNDS	Number of Producers	1995 POUNDS	Number of Producers	1996 POUNDS	Number of Producers	PERCENT CHANGE 1995/94	PERCENT CHANGE 1996/95
January	531,658,454	1,960	544,665,125	1,918	549,914,311	1,786	+2.45	+.96
February	502,048,659	1,961	517,418,721	1,906	536,326,949	1,773	+3.06	+.07
March	590,563,277	1,957	577,449,222	1,897	590,936,348	1,745	-2.22	+2.34
April	588,890,115	1,963	558,387,965	1,881	575,799,475	1,738	-5.18*	+3.12
May	578,186,307	1,956	550,303,073	1,879	567,120,914	1,714	-4.81*	+3.06
June	498,233,850	1,969	502,909,961	1,859	490,380,980	1,683	+.96	-2.49
July	486,029,589	1,955	477,220,938	1,861	454,326,458	1,670	-1.81	-4.80
August	475,739,415	1,953	446,351,445	1,853	448,420,253	1,652	-6.18	+.46
September	458,143,784	1,948	436,091,164	1,839	427,264,575	1,638	-4.81	-2.02
October	486,705,004	1,944	479,027,137	1,832			-1.58	
November	483,247,718	1,936	478,710,017	1,821			-.94*	
December	521,399,526	1,924	521,728,728	1,795			+.06	
Years Total	6,200,845,698		6,090,263,496				-1.78	

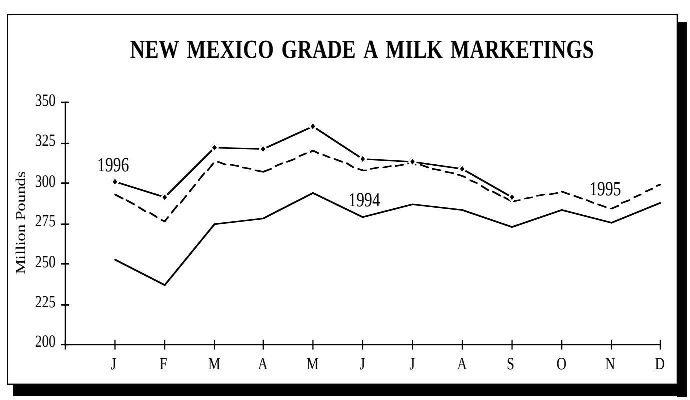
*Revised figures
**February figures are based upon average daily production.

POUNDS OF GRADE A MILK MARKETED BY PRODUCERS LOCATED IN NEW MEXICO BY MONTHS: JANUARY 1994 THROUGH SEPTEMBER 1996, WITH PERCENTAGE COMPARISONS **

MONTH	1994 POUNDS	Number of Producers	1995 POUNDS	Number of Producers	1996 POUNDS	Number of Producers	PERCENT CHANGE 1995/94	PERCENT CHANGE 1996/95
January	253,218,001	147	293,542,014	156	301,646,087	153	+15.92*	+2.76
February	237,211,785	148	276,638,548	155	291,741,013	154	+16.62*	+1.82
March	275,165,335	145	313,161,171	152	321,854,914	154	+13.81	+2.78
April	278,682,898	149	307,337,393	152	321,032,089	153	+10.28*	+4.46
May	293,746,832	149	320,781,400	154	335,537,514	153	+9.20*	+4.60
June	278,940,461	150	309,224,349	153	314,856,503	153	+10.86	+1.82
July	286,825,906	149	312,630,262	153	313,553,863	154	+9.00	+.30
August	283,870,810	150	304,582,850	153	309,399,050	155	+7.30	+1.58
September	273,359,295	151	288,872,854	156	291,346,898	157	+5.68	+.86
October	283,588,806	152	294,564,685	154			+3.87	
November	275,359,100	152	284,775,780	155			+3.42	
December	287,886,379	154	299,367,034	153			+3.99	
Years Total	3,307,855,608		3,605,478,340				+9.00	

*Revised figures
**February figures are based upon average daily production.





TEXAS AND NEW MEXICO MARKET COMPONENT TEST

Month	Butterfat TX	Butterfat NM	Protein TX	Protein NM	Lactose TX	Lactose NM	S-N-F TX	S-N-F NM	SCC* TX	SCC* NM
September 1995	3.52	3.51	3.21	3.13	4.74	4.80	8.66	8.65	465	269
October	3.64	3.62	3.26	3.20	4.77	4.82	8.75	8.74	381	239
November	3.73	3.68	3.28	3.20	4.78	4.81	8.78	8.72	330	210
December	3.74	3.71	3.25	3.19	4.79	4.81	8.76	8.71	317	237
Average 1995	3.57	3.56	3.21	3.15	4.77	4.81	8.70	8.67	390	248
January 1996	3.73	3.74	3.21	3.17	4.81	4.83	8.74	8.71	312	238
February	3.67	3.65	3.18	3.14	4.80	4.81	8.71	8.66	312	238
March	3.61	3.62	3.18	3.14	4.80	4.81	8.70	8.66	296	216
April	3.57	3.57	3.17	3.11	4.82	4.83	8.68	8.65	287	205
May	3.47	3.46	3.11	3.06	4.81	4.82	8.63	8.58	288	203
June	3.41	3.40	3.07	3.03	4.79	4.81	8.57	8.55	343	224
July	3.43	3.40	3.12	3.04	4.75	4.78	8.58	8.52	429	259
August	3.50	3.44	3.20	3.10	4.71	4.75	8.59	8.55	446	272
September	3.60	3.54	3.24	3.17	4.66	4.76	8.57	8.65	455	271

* In thousands.

NEW MEXICO - WEST TEXAS MILK MARKET AT A GLANCE

	REPORTED SEP. 1996	REPORTED AUG. 1996	REPORTED SEP. 1995
TOTAL UTILIZATION			
CLASS I	57,403,654	60,672,401	60,681,953
CLASS II	8,680,606	7,407,826	10,788,610
CLASS III/III-A	136,716,573	140,397,138	58,275,150
CLOSING INVENTORY (CLASS I, II AND III)	9,946,049	8,077,103	8,491,080
TOTAL UTILIZATION	212,746,882	216,554,468	138,236,793
DAILY CLASS I UTILIZATION	1,913,455	1,957,174	2,022,732
SEP. -DAILY CLASS I COMPARED TO:		-2.23%	-5.40%
CLASS I YEAR TO DATE (IN THOUSANDS)	574,072	516,669	529,413
% CHANGE FROM PREVIOUS YEAR	+8.44%	+10.23	+3.61%
TOTAL RECEIPTS			
PRODUCER RECEIPTS CLASSIFIED AS CLASS I	56,366,404	60,000,685	59,120,145
PRODUCER RECEIPTS CLASSIFIED AS CLASS II	7,819,450	6,318,676	10,006,443
PRODUCER RECEIPTS CLASSIFIED AS CLASS III/III-A	137,569,458	139,759,184	51,179,523
TOTAL PRODUCER RECEIPTS	201,755,312	206,078,545	120,306,111
OTHER SOURCE A/	2,873,188	2,750,134	10,146,208
OPENING INVENTORY	8,077,103	7,725,789	7,784,410
OVERAGE	41,279		64
TOTAL RECEIPTS	212,746,882	216,554,468	138,236,793
DAILY PRODUCER RECEIPTS	6,725,177	6,647,695	4,010,204
SEP. -DAILY PRODUCER RECEIPTS COMPARED TO:		+1.17%	+67.70%
PRODUCER RECEIPTS YEAR TO DATE (IN THOUSANDS)	1,619,499	1,417,743	1,391,180
% CHANGE FROM PREVIOUS YEAR	+16.41%	+11.56%	+4.43%
AVERAGE BUTTERFAT TEST OF PRODUCER RECEIPTS	3.555%	3.454%	3.612%
% PRODUCER MILK CLASSIFIED AS CLASS I	27.94%	29.12%	49.14%
NUMBER OF PRODUCERS	229	188	145
AVERAGE DAILY DELIVERY PER PRODUCER	29,368	35,360	27,657
NUMBER OF POOL HANDLERS	17	16	15

A/ INCLUDES MILK, SKIM MILK, CREAM AND SKIM EQUIVALENT OF CONCENTRATED SKIM MILK PRODUCTS

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Address Corrections Requested

TEXAS MILK MARKET AT A GLANCE

	REPORTED SEP. 1996	REPORTED AUG. 1996	REPORTED SEP. 1995
TOTAL UTILIZATION			
CLASS I	278,917,058	298,522,517	264,180,172
CLASS II	100,460,381	110,084,510	98,129,894
CLASS III/III-A	68,703,354	87,671,678	152,701,393
CLOSING INVENTORY (CLASS I, II AND III)	32,024,486	28,722,426	26,399,485
TOTAL UTILIZATION	480,105,279	525,001,131	541,410,944
DAILY CLASS I UTILIZATION	9,297,235	9,629,759	8,806,006
SEP. -DAILY CLASS I COMPARED TO:		-3.45%	+5.58%
CLASS I YEAR TO DATE (IN THOUSANDS)	2,443,913	2,164,996	2,344,702
% CHANGE FROM PREVIOUS YEAR	+4.23%	+4.06%	-4.12%
TOTAL RECEIPTS			
PRODUCER RECEIPTS CLASSIFIED AS CLASS I	272,333,697	294,635,490	262,461,762
PRODUCER RECEIPTS CLASSIFIED AS CLASS II	92,843,753	100,803,761	91,644,464
PRODUCER RECEIPTS CLASSIFIED AS CLASS III/III-A	62,383,607	72,840,588	146,155,187
TOTAL PRODUCER RECEIPTS	427,561,057	468,279,839	500,261,413
OTHER SOURCE A/	23,676,025	26,753,010	16,392,432
OPENING INVENTORY	28,722,426	29,968,282	24,707,295
OVERAGE	145,771		49,804
TOTAL RECEIPTS	480,105,279	525,001,131	541,410,944
DAILY PRODUCER RECEIPTS	14,252,035	15,105,801	16,675,380
SEP. -DAILY PRODUCER RECEIPTS COMPARED TO:		-5.65%	-14.53%
PRODUCER RECEIPTS YEAR TO DATE (IN THOUSANDS)	5,109,572	4,682,011	4,942,016
% CHANGE FROM PREVIOUS YEAR	+3.39%	+5.41%	-.75%
AVERAGE BUTTERFAT TEST OF PRODUCER RECEIPTS	3.584%	3.483%	3.504%
% PRODUCER MILK CLASSIFIED AS CLASS I	63.69%	62.92%	52.46%
NUMBER OF PRODUCERS	1,657	1,709	1,949
AVERAGE DAILY DELIVERY PER PRODUCER	8,601	8,839	8,556
NUMBER OF POOL HANDLERS	31	31	30

A/ INCLUDES MILK, SKIM MILK, CREAM AND SKIM EQUIVALENT OF CONCENTRATED SKIM MILK PRODUCTS.