

INCLUDED IN THIS ISSUE

Crop Weather ERS

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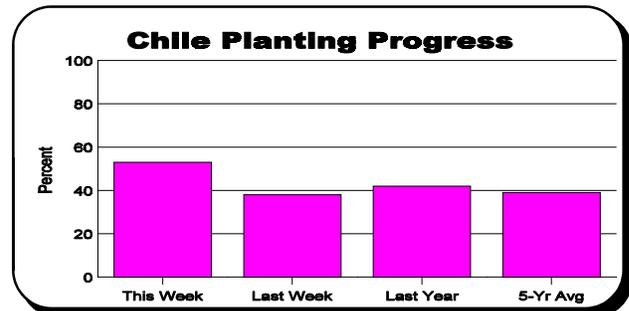
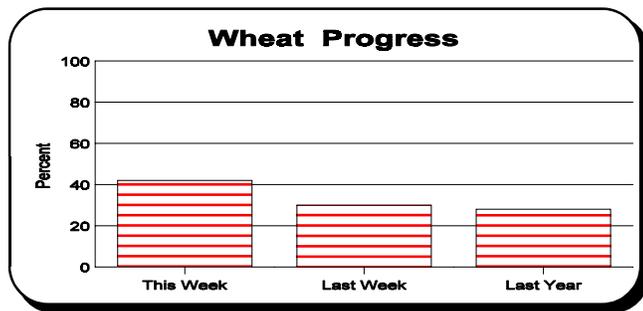
CROP SUMMARY FOR THE WEEK ENDING MARCH 28, 2004

NEW MEXICO: There were 6.9 days suitable for fieldwork. Farmers spent the week preparing ground, irrigating, and planting chile. There was moderate wind damage at 14% and 9% light damage. Alfalfa conditions were 1% very poor, 4% poor, 60% fair, 32% good, and 3% excellent. Winter wheat conditions were listed as 26% very poor, 15% poor, 37% fair, 20% good and 2% excellent while 42% was grazed. Lettuce conditions were mostly good to excellent. Chile was reported at 53% planted and onions were completely planted and reported in mostly good condition. Sheep producers have begun shearing and cattle ranchers continued with supplemental feeding as they prepare for calving season. Cattle conditions were 11% very poor, 18% poor, 41% fair, and 30% good. Sheep conditions were 18% very poor, 16% poor, 33% fair, 30% good and 3% excellent. Range and pasture conditions were 39% very poor, 42% poor, 18% fair and 1% good.

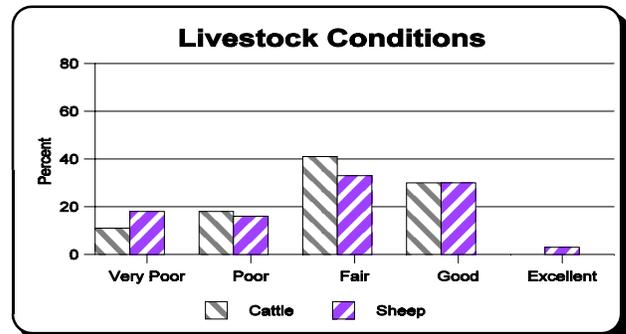
CROP PROGRESS PERCENTAGES WITH COMPARISONS

CROP PROGRESS		This Week	Last Week	Last Year	5-Year Average
CHILE	Planted	53	38	42	39
WHEAT (All)	Grazed	42	30	28	1/

^{1/} Not available

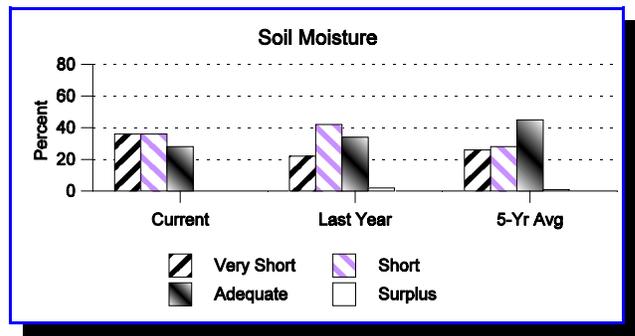


	CROP AND LIVESTOCK CONDITION PERCENTAGES				
	Very Poor	Poor	Fair	Good	Excellent
Alfalfa	1	4	60	32	3
Lettuce	--	--	10	40	50
Onions	--	--	8	86	6
Wheat (All)	26	15	37	20	2
Cattle	11	18	41	30	--
Sheep	18	16	33	30	3
Range/Pasture	39	42	18	1	--



SOIL MOISTURE PERCENTAGES

	Very Short	Short	Adequate	Surplus
Northwest	28	23	48	1
Northeast	52	44	4	--
Southwest	50	50	--	--
Southeast	20	32	48	--
State	36	36	28	--
State-Last Year	22	42	34	2
State-5-Yr Avg.	26	28	45	1



WEATHER SUMMARY

Last week was warm and dry over New Mexico. The only precipitation was associated with a storm early in the week that produced spotty rain and snow...mainly over the higher elevations. Red River (.42") and Ruidoso (.25") were the only spots that measured as much as a quarter of an inch. Temperatures averaged 10 degrees above normal for the state, and afternoon readings reached the 80's at many lower elevation stations on several days.

NEW MEXICO WEATHER CONDITIONS MARCH 22 - 28, 2004

Station	Temperature			Precipitation				
	Mean	Maximum	Minimum	03/22 03/28	03/01 03/28	Normal Mar	01/01 03/28	Normal Jan-Mar
Carlsbad	66.6	88	46	T	1.70	0.30	2.90	1.00
Tatum	62.5	84	41	0.00	1.16	0.52	3.64	1.41
Roswell	65.1	86	43	0.00	0.15	0.45	1.67	1.34
Clayton	58.2	80	29	T	0.63	0.55	1.28	1.10
Clovis	61.9	82	39	0.00	1.15	0.59	2.86	1.49
Tucumcari	61.8	84	34	T	0.74	0.40	1.50	1.13
Chama	41.5	70	10	0.14	0.25	1.99	5.22	5.34
Johnson Ranch	49.9	73	25	0.00	0.29	0.74	1.89	1.98
Capulin	49.4	74	22	T	0.47	0.89	1.24	1.85
Las Vegas	52.4	73	28	0.00	0.38	0.56	0.76	1.27
Los Alamos	52.3	68	36	0.02	0.86	1.22	3.49	2.88
Raton	50.4	76	21	T	0.18	0.83	0.99	1.84
Santa Fe	52.7	73	30	0.08	0.57	0.74	1.26	2.06
Red River	41.6	65	19	0.42	1.07	1.78	3.78	4.07
Farmington	56.0	79	30	T	0.05	0.81	1.29	1.97
Gallup	49.1	73	14	0.02	0.39	1.05	1.34	2.59
Grants	50.9	73	24	0.05	0.18	0.50	0.90	1.50
Silver City	55.0	73	35	T	1.14	0.96	4.24	3.37
Quemado	48.5	73	18	0.01	0.29	0.80	1.57	2.35
Albuquerque	59.4	76	39	0.04	0.67	0.54	1.94	1.44
Carrizozo	56.2	78	31	0.00	0.32	0.57	1.62	1.74
Gran Quivera	55.7	74	31	0.00	0.15	0.72	2.13	2.24
Moriarty	54.9	80	28	0.00	0.77	0.53	2.56	1.44
Ruidoso	51.2	69	31	0.25	0.34	1.33	2.20	3.61
Socorro	59.8	82	38	0.00	0.00	0.27	0.50	1.05
Alamogordo	63.7	81	47	0.00	1.07	0.46	1.80	1.67
Animas	63.6	81	42	0.02	1.33	0.47	3.44	1.66
Deming	61.3	82	40	T	0.96	0.34	2.16	1.36
T or C	61.9	83	44	0.03	0.52	0.34	0.79	1.18
Las Cruces	65.0	83	47	0.00	1.20	0.22	1.51	1.05

(T) Trace (-) No Report (*) Correction
 All reports based on preliminary data. Precipitation data corrected monthly from official observation forms.

LIVESTOCK, DAIRY, AND POULTRY OUTLOOK

USDA, ERS

March 16, 2004

Dairy Outlook for 2004: Last year was a year of transition. The surge in dairy farm expansions and the period of very low exit of weaker farms, both triggered by the generally high returns of 1996-2001, finally came to an end. Meanwhile, dairy product demand was slowly moving out of its late 2001-2002 weakness. It only remained to work off the huge butter stocks before dairy markets could return to better balance—something that was accomplished by yearend.

Conditions in 2004 promise to be considerably different. Farm structural changes are likely to show the effects of the low 2002-03 returns, while milk per cow is beset with a number of possible weaknesses. Demand appears to be mostly back to normal, and stocks are moderate. Prices are expected to recover this year.

Demand Slowly Recovering: Recent patterns of commercial use illustrate how the structure of dairy product demand has changed over the years. Restaurant use of butter and cheese began to weaken in late 2001-early 2002 in response to economic softness and shifting consumer expenditures. This weakness persisted well into 2003. By late in the year, economic recovery had brought restaurant spending back, and cheese and butter use were showing some strength. However, dairy demand from this sector still lagged the very brisk 1999-2001 period.

Food processor use of dairy products as ingredients was particularly sluggish during the last 2 years. Dairy products are generally used to boost quality in premium versions of foods, a position that makes them vulnerable when consumers become more conservative about food spending. There may have been a modest recovery in ingredient use late in 2003, but this segment generally remains weak.

The retail segment was a bit more robust than the other segments in 2003 but was somewhat sluggish most of the year. Consumers seemed to be passing by the treats they had bought in earlier years. However, the autumn holiday season reportedly was the strongest in a number of years.

Despite generally favorable dairy prices in 2003, commercial use grew only modestly. Milkfat sales grew about 2 percent following 2002's fractional increase. The 2003 use of skim solids was about 1 percent larger than in 2002, after no growth that year. Cheese sales rose only about 1 percent as a slip in American cheese use offset part of the gain for other varieties. Restaurant woes may have been particularly important for American cheese sales. Commercial disappearance of butter rose 1 percent in 2003, as strength late in the year overcame early declines. However, butter use probably was even stronger than autumn disappearance data indicate because the very disappointing 2002 holiday season probably had left

swollen pipeline holdings at the start of 2003. Fluid milk sales slipped fractionally, while use of most perishable manufactured products was weak.

Dairy demand appears to have gained some momentum during 2003 and is expected to continue its recovery this year. The restaurant segment is projected to do better, and ingredient use should come back somewhat. However, the improvement as yet has not been either steady or strong. Consumer spending may stay unsettled. In addition, it is unclear what the effects of recent intense media attention on weight problems might be.

Commercial use of all dairy products is projected to grow about 1 percent on a milkfat basis in 2004. Boosted by expected larger ingredient use, commercial use on a skim solids basis is projected to rise more--about 2 percent. Although welcome, these increases represent only modest recovery in dairy demand.

Milk Production Slows: Milk per cow grew only fractionally in 2003. More tellingly, the rise from the 5-year moving average was dramatically below the long-run trend. However, this has been far from unusual in recent years. Expansion has been well below average for 3 straight years and for 6 of the last 8 years.

A number of factors contributed to last year's sluggish gains in milk per cow. Milk prices were low relative to concentrate feed prices. Although the milk-feed price ratio does not shape gains in output per cow as much as formerly, recent ratios have made producers cautious about boosting concentrate feeding. In addition, 2003 resembled 2002 in having large amounts of mediocre alfalfa hay but tight supplies of good hay.

Other factors probably included an unusually large share of first-calf heifers in the milking herd and somewhat conservative use of bovine somatotropin (BST). Supplies of heifers available to start production in 2003 were quite large, a welcome relief from the heifer shortage of 2002. But, such a large cohort of heifers serves to lower average milk per cow the first year. Low milk prices probably made farmers leery of using BST on cows other than those with high odds of a profitable response.

Monsanto has announced that it will accept no new BST customers in 2004 and that established users will be allowed only half their normal purchases. With more than a fifth of the cow herd currently receiving the hormone, reduced availability will significantly affect 2004 milk per cow. Somewhat unattractive milk-feed price ratios and uneven forage quality probably will also work against

recovery in milk per cow. On the other hand, a much smaller number of first-calf heifers should spur gains in milk per cow. Milk per cow in 2004 is expected to rise only slightly more than 1 percent from 2003 on a daily average basis. Growth may pick up later in the year but significant recovery probably will have to wait until 2005.

Changes in milk cow numbers during 2002 and 2003, like most earlier periods, were driven by structural changes induced by milk prices and returns. What made these years different was the delay between changes in returns and the effects of structural adjustments. The generally high returns of 1996-2001 unleashed a wave of dairy farm expansions during 2001 and 2002. However, many of these new facilities were not completely filled until 2003 because of the shortage of dairy replacements. These expansions bolstered milk cow numbers into early 2003.

Similarly, the rate of farms exiting was relatively low in 2001 because of the strong returns. The exit rate stayed slow during most of 2002 in spite of sharply lower returns. Even the relatively weak farms entered the year much better able to continue than normal, and their ability to persist was further enhanced by the Milk Income Loss Contract payments. However, the low returns were taking their toll by late 2002 and 2003, and the exit rate picked up considerably.

Milk cow numbers declined rapidly during the last three-quarters of 2003, going from 0.3 percent above a year earlier in January-March to 1.4 percent below in October-December. Once expansions began to slow, the accelerated exit rate became the dominant force shaping cow numbers. In addition, rising cull cow prices during the year and the much lower replacement price throughout 2003 sharply narrowed the gap between replacement and

slaughter values, lowering the share of cows in exiting herds that went into other herds.

Returns in 2004 are expected to be somewhat stronger than in 2002 or 2003 but still relatively weak. Dairy farm exits probably will remain numerous. Expansion by stronger producers might pick up a bit after the 2003 hiatus but is projected to stay fairly modest.

Significantly fewer heifers will enter the milking herd this year, even though the overall herd of replacement heifers on January 1 was only 2 percent below a year earlier. An unusually large share of the year-earlier heifers were older animals, and the number expected to begin milking in 2004 was down 4 percent. And, no Canadian replacements will be available so long as the ban on importation of live animals continues. Although new regulations are in the comment process, it is uncertain when the current prohibition will end.

Cull cow markets remain unsettled. The loss of beef exports will require that additional quantities of fed beef be absorbed domestically, weakening cow beef prices as well as fed prices. In addition, some buyers reportedly are hesitating to deal with older dairy cows. However, beef supplies remain tight, demand has held, and cow prices are projected to stay fairly high.

Milk cow numbers are projected to decline at a fairly rapid rate throughout 2004. For the year, cows are expected to average almost 2 percent fewer than in 2003, the largest decline since at least 1991. Milk production in 2004, on a daily average basis, is projected to be about the same as in 2003. Production in 2003 was likewise steady. Such stability would be highly unusual in an industry where typical shifts in output have become much larger than in the past.