

Bulletin

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Federal Order No. 2

New York-
New Jersey
Milk Marketing
Area

Volume 58

June

1998

Cheese Prices Increase; Butter Hits Record High

Over the last 2 months, prices for 40-pound block Cheddar cheese have increased consistently, reaching near-record high levels. In addition, all grades of butter have skyrocketed to hit their highest prices on record.

Cheese Prices

Cheese prices bottomed out during the first week of May with both the Chicago Mercantile Exchange (CME) and National Agricultural Statistics Service (NASS) reporting around \$1.18 per pound. About mid-month prices started their ascent (see table on page 3). By the end of May, CME block prices had reached \$1.25 per pound; the next week they jumped 10 cents. During the following weeks, the CME price increased bringing the price to \$1.5575. On July 2, the CME price jumped another 5 cents hitting \$1.6075 per pound, where it has held.

NASS prices have followed a similar increasing trend as the CME prices, only they have not risen as high. By the end of May, NASS block prices lagged CME by 2.35 cents per pound. The following weeks' increases brought the NASS price to \$1.5532 for the week ending July 10, more than 5 cents per pound less than the equivalent CME price.

Butter Prices

All butter prices (Grades AA, A, and B) have hit record-high levels. We last reported that Grade AA butter had risen to \$1.49 on April 24, an increase of 14.5 cents from the previous week. It remained at that level for the next 3 weeks and then jumped 16 cents to \$1.65 per pound. At the same time Grades A and B both increased 23 cents to also reach \$1.65 per pound. For the next 4 weeks all three grades experienced increases of 5 cents, 4 cents, 16 cents, and 5 cents, bringing them all to \$1.95 per pound on June 19, the last trading date for Grades A and B on the CME (see related article on New Butter Price Series). The following week Grade AA increased another 3.5 cents bringing its price to \$1.9850, where it has held. At this time last year the Grade AA price was \$1.0850 per pound.

For additional information on how butter prices affect milk pricing, see related article on Butterfat Tests. ♦

June 1998 Pool Highlights

- The June 1998 uniform price equaled **\$13.41** an increase of \$0.68 from last month and \$1.54 higher than last year.
- All class prices were above last year's. The Class III-A price was \$3.16 higher than last year's and added \$0.07 to the June uniform price.
- Producer receipts totaled 1,010.3 million pounds, an increase of 1.1 percent from last year.
- Class I receipts totaled 380.9 million pounds, an increase of 8.9 percent from last year.
- Daily deliveries per producer (DDP) equaled 3,449 pounds, a year-to-year increase of 3.8 percent. ♦

Order No. 2 Prices and Utilization for June

Prices*	1997	1998	Per cent change
	dollars per cwt		
Uniform	11.87	13.41	13.0
Class I	13.86	14.43	4.1
Class II	11.74	12.31	4.9
Class III	10.63	12.99	22.2
Class III-A	12.11	15.27	26.1
Utilization	million pounds		
Class I	349.7	380.9	8.9
Class II	170.3	152.3	(10.5)
Class III	445.9	449.0	0.7
Class III-A	33.1	28.1	(15.2)
Producer Receipts	999.0	1,010.3	1.1

* For bulk milk testing 3.5 percent butterfat in the 201-210 mile zone.

U.P. Forecasted to Decrease Slightly

The uniform price forecast for July 1998 is **\$13.36** per hundredweight of bulk milk testing 3.5 percent butterfat in the 201-210 mile zone. This is an estimate. ♦

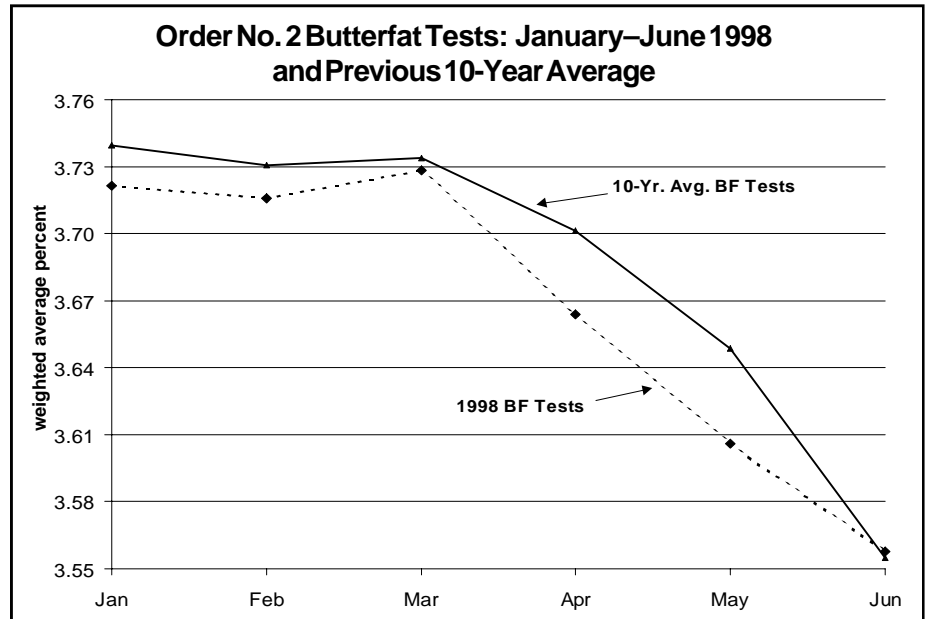
1998 Butterfat Tests Below Previous Years' Average

Average butterfat tests under Order No. 2 were consistently lower during the first 5 months of 1998 than average monthly butterfat tests for the previous 10 years. June 1998 butterfat tests, however, reversed this pattern recording a slightly higher average test than the simple average of the previous 10 years.

The accompanying chart presents Order No. 2 weighted average butterfat tests from January through June 1998 and a simple average of monthly butterfat tests during the corresponding period for the previous 10 years. The January–June 1998 tests averaged 0.019 percentage points below the 10-year simple average, with a percentage point range of 0.003 above to 0.043 lower.

The April and May 1998 tests were the lowest tests for those respective months during the 11-year period.

The butterfat differential, which is used in adjusting producer pay prices for butterfat content above or below the 3.5 percent pricing standard, has been at record levels in recent months. The May 1998 butterfat differential was a new high for that month, and the June differential of \$0.217 per tenth (0.1) of a point butterfat is the highest differential on record.



The reason for the record level differentials is the record-high wholesale market butter prices. The formula used to calculate the butterfat differential incorporates the monthly average Grade A butter price (now equivalent price) as traded on the Chicago Mercantile Exchange (see related butter pricing articles). For producers with butterfat tests above 3.5 percent, the June differential could contribute a significant premium to their pay price. ♦

Mid-Year Update: Receipts and Prices Higher

For the first 6 months of 1998, total producer receipts under Order No. 2 were 4.3 percent higher than during the same period in 1997. All class prices for the January–June period have averaged considerably higher than last year resulting in an 8.2 percent increase in the average uniform price. The accompanying table compares receipts and prices for the first 6 months of 1997 and 1998.

Even though producer numbers were up slightly at the end of the first quarter, changes in pooling among handlers during the second quarter resulted in an average decrease of 88 producers by mid-year. Daily deliveries per producer (DDP) have maintained consistent year-to-year increases during the first half of 1998, averaging 5.3 percent higher than last year.

Class I usage has been higher for each of the first 6 months of 1998 and has risen at a higher rate than total receipts, resulting in a 0.6 percentage point increase in utilization. Class II usage has declined compared to 1997; Class III has increased. Class III–A utilization dropped during the second quarter, but due to strong usage in the first quarter, resulted in a 6.1 percent increase for the 6-month period.

Class prices declined during the second quarter, compared to the first quarter of 1998. Strong demand for milk and

butterfat during the second quarter has held class prices above last year's. As a result, the first 6 months' uniform prices averaged \$1.02 per hundredweight higher than in 1997. ♦

<u>Pool statistic</u>	<u>1997</u>	<u>1998</u>	<u>1997–98 Change</u>
	<u>million pounds</u>		<u>percent</u>
Class I	2,253.0	2,385.8	5.9
Class II	943.0	909.8	(3.5)
Class III	2,464.7	2,607.4	5.8
Class III-A	194.1	205.9	6.1
Total receipts	5,854.8	6,108.9	4.3
	<u>pounds</u>		
DDP	3,182	3,352	5.3
	<u>utilization percentage</u>		<u>change</u>
Class I	38.5	39.1	0.6
Class II	16.1	14.9	(1.2)
Class III	42.1	42.7	0.6
Class III-A	3.3	3.4	0.1
	<u>dollars/cwt</u>		<u>percent</u>
Class I	14.30	15.36	7.4
Class II	12.18	13.24	8.7
Class III	11.58	12.51	8.1
Class III-A	12.03	13.25	10.1
Uniform	12.59	13.61	8.2

New Butter Price Series Announced

On June 19, the Chicago Mercantile Exchange (CME) discontinued trading Grade A and B butter on the spot market due to the lack of activity in these two markets. The Grade A price is a factor in the calculation of the basic formula price (BFP) and the butterfat differential under the Federal Milk Marketing Order system. As a result, USDA had to determine what would be used as an equivalent for the Grade A price.

On June 26, USDA issued a determination stating that the CME Grade AA Butter Spot Call less 9 cents will be used to calculate the BFP and the butterfat differential under all federal milk marketing orders. The accompanying table gives a comparison of reported Grade A prices and the new price series for 1995 through June of 1998. For information on butter prices and their effect on milk prices, see related articles in this *Bulletin*. ♦

Comparison of Grade A Butter Prices, Annual Averages 1995–97, January–June 1998			
	Grade A butter price		
	Reported by USDA	Estimated using new method	Difference
	dollars per pound		
1995 Ann. Avg.	0.7513	0.7241	0.0272
1996 Ann. Avg.	0.9982	0.9877	0.0105
1997 Ann. Avg.	1.0663	1.0694	(0.0031)
1998 Jan	1.1061	1.1032	0.0029
Feb	1.2963	1.3018	(0.0055)
Mar	1.2505	1.2552	(0.0047)
Apr	1.2856	1.2888	(0.0032)
May	1.4945	1.4565	0.0380
Jun	1.8468 *	1.7718	0.0750

* New formula used for last 5 days of month.

NDB Nominees Sought

USDA is asking dairy producer and farm organizations to nominate candidates to serve on the National Dairy Promotion and Research Board (NDB). The Secretary of Agriculture will appoint 12 individuals from those nominated to succeed members whose terms expire October 31. New members will serve 3-year terms beginning November 1, 1998, and ending October 31, 2001. Locally, appointments will be made from Region 11 (Delaware, Maryland, New Jersey, and Pennsylvania) and Region 12 (New York).

For nominating forms and procedures, contact USDA, AMS, Dairy Programs, Promotion and Research Branch, 1400 Independence Ave., S.W., Rm. 2734-S, Stop 0223, Washington, DC 20250-0233 or phone 202/ 720-6909. Nominations must be submitted by **July 24**. More information on the NDB is available on the Agricultural Marketing Service's website at <http://www.ams.usda.gov/dairy>. ♦

USDA Dairy Disaster Assistance Program

The USDA has announced an \$6.8 million dollar Dairy Production Disaster Assistance Program for dairy producers who have suffered financial losses as a result of recent natural disasters. The nationwide program will provide partial reimbursement to eligible producers for milk losses. Disaster assistance will be available to producers in areas where a Presidential Disaster Declaration or Secretarial Disaster Designation was declared, resulting from a natural disaster between *November 27, 1997 and May 1, 1998*. In the Order No. 2 milkshed, the northern New York State counties of Lewis, Jefferson, St. Lawrence, Franklin, Clinton, and Essex are designated counties as a result of the January 1998 ice storm.

Eligibility

Eligible producers are those who suffered a loss of milk production that is the direct or related result of the event for which the Presidential Declaration or Secretarial Designation was made. Contact the local Farm Service Agency (FSA) county office serving your area for eligibility information.

Payments

Disaster payments will be made at a rate of \$4 per hundredweight for milk produced but not marketed, or for diminished milk production resulting from the natural disaster. Affected producers must provide documentation to support loss claims. If the total calculated payment for all approved applications nationwide exceeds \$6.8 million, a uniform reduction will be applied to each producer's payment so the total outlays will not exceed \$6.8 million. Sign-up for the program runs from **July 6, 1998**, through **September 1, 1998**, at the FSA office serving your area. ♦

Cheese Prices (Table referred to on Page 1)

Prices of 40-Pound Block Cheddar Cheese, May 8–July 10, 1998		
Week ending	40-Lb. block Cheddar cheese prices	
	NASS	CME
	dollars per pound	
May 8	1.1812	1.1800
15	1.1912	1.2100
22	1.2033	1.2300
29	1.2265	1.2500
June 5	1.2929	1.3500
12	1.3762	1.4925
19	1.4636	1.5375
26	1.5125	1.5575
July 3	1.5332	1.5575
10	1.5532	1.6075

Source: USDA National Agricultural Statistics Service (NASS) and Chicago Mercantile Exchange (CME).
Note: NASS data includes revisions.

Determination of Uniform Price of \$13.41 for June 1998

Per hundredweight of milk testing 3.5 percent butterfat received in bulk from farms in the 201-210 mile zone

TOTAL VALUE OF POOLED MILK								
Class	Milk pounds	Per-cent	Minimum price	Value at minimum price	Trans- portation differential dollars	Total value	Contribution per cwt of receipts	
I-A	367,748,803	36.4	14.43	53,066,152.26	120,844.95	53,186,997.21	5.265	
I-B	13,137,333	1.3	14.43	1,895,717.12	2,040.99	1,897,758.11	0.188	
II	152,311,122	15.1	12.31	18,749,499.16	15,686.36	18,765,185.52	1.857	
III	448,989,439	44.4	12.99	58,323,728.11	43,823.33	58,367,551.44	5.777	
III-A	<u>28,099,508</u>	<u>2.8</u>	15.27	<u>4,290,794.87</u>	<u>4,787.95</u>	<u>4,295,582.82</u>	<u>0.425</u>	
Reported receipts	1,010,286,205	100.0		136,325,891.52	187,183.58	136,513,075.10	13.512	
Adjustments:	<u>Product pounds</u>			<u>Dollars*</u>				
Sec. .60(d)(6) I	7,001,373			257,886.73				
Sec. .60(d)(6) II	9,092,018			140,894.15				
Total Sec. .60(d)(2) thru (6)	16,093,391			398,780.88		398,780.88	0.040	
Total adjustments	16,093,391			398,780.88				
Total pool milk classified	1,010,286,205							
Handlers must pay			398,780.88	136,325,891.52	187,183.58	136,911,855.98	**	13.552
COMPUTATION OF UNIFORM PRICE								
	<u>Milk pounds</u>			<u>Dollars</u>			<u>Dollars per cwt of receipts</u>	
Total value of pooled milk				136,911,855.98			13.552	
Less: Cooperative payments	646,230,555			258,492.21			0.026	
Reserve				868,603.30			0.086	
Transportation credit	1,010,286,205			1,515,429.32	<u>(2,642,524.83)</u>		<u>0.150</u> <u>(0.262)</u>	
Value of pooled milk less subtractions				134,269,331.15			13.290	
Add: Freight adjustment to 201-210 mile zone				135,826.87			0.014	
Unreserved cash in producer settlement fund				<u>1,074,222.07</u>	<u>1,210,048.94</u>		<u>0.106</u> <u>0.120</u>	
Uniform Price	1,010,286,205			135,479,380.09			13.410	

* Includes transportation and other applicable differentials.

** In addition handlers must pay \$1,261,928.84 for butterfat in excess of 3.5 percent.

Note: The average butterfat test of milk delivered was 3.557562 percent. The butterfat differential was \$.217 for each one-tenth of one percent of butterfat.

Comparative Price and Other Descriptive Statistics

	JUNE 1997	MAY 1998	JUNE 1998
Order No. 2			
Handlers (with producer milk)	39	31	32
Bulk Tank Units	99	94	94
Producers	10,017	9,863	9,764
Daily Deliveries Per Producer (pounds)	3,324	3,486	3,449
Price Factors, Monthly Averages (dollars)			
Basic Formula Price, 3.5% butterfat, per cwt	10.74	10.88	13.10
Cheddar Cheese, 40-lb blocks, per lb, NASS	1.1583	1.2034	1.4038
Butter, Grade A, per lb#	1.0500	1.4945	1.8468
Nonfat dry milk, Central States, per lb	1.0788	1.0348	1.0289
Uniform Prices (dollars per cwt, 3.5% butterfat)			
Order No. 1, Zone 1 (Boston)	13.04	14.10	14.40
Order No. 2, 1-10 mile Zone* (New York City)	12.74	13.60	14.28
Order No. 4, Philadelphia¶	12.91	13.97	14.18
Class I Utilization Percentage			
Order No. 1	42.5	42.7	42.9
Order No. 2	35.0	37.5	37.7
Order No. 4	40.9	37.8	39.6

CME through May 1998; Grade A equivalent price effective June 26, 1998.

* Includes 15-cent transportation credit.

¶ Includes 6-cent direct-delivery differential.

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