

The Market Administrator's Bulletin

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Federal Order No. 2

New York-
New Jersey
Milk Marketing
Area

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Order No. 2 Milk Moves South

During the month of August, nearly 5.5 million pounds of milk pooled under Order No. 2 were shipped to plants in the southeastern United States. This amounts to approximately 109 tanker loads of bulk milk. This compares to 4.1 million pounds (86 tankers) in August 1997 and 9.9 million pounds (nearly 200 tankers) in August 1996. Nearly 70 percent of the milk moving to the South this August was classified as Class I. For the past 4 years, considerable volumes of milk have been sent to southern states to compensate for the seasonal shortage. In addition, Order No. 2 handlers ship milk to plants, regulated under other federal orders, that may eventually end up in southern states, but is not accounted for as Order No. 2 milk. ♦

Order Reform Info Available on CD

Federal milk marketing order reform information can be obtained on a two-volume compact disk (CD) set. The CD contains copies of public comments submitted to USDA and also includes the Proposed Rule, Correction Docket, Preliminary Regulatory Impact Analysis, Food & Nutrition Programs Impact Report, and Impact of Establishing Price Floor Analysis. The CD set costs \$95 plus shipping; this includes technical support if needed. Contact David Krump at Input Solutions, 1-800-935-SCAN (7226). ♦

Compact Commission to Reimburse USDA

The 1996 Farm Bill requires the Northeast Dairy Compact Commission (Commission) to reimburse USDA for product purchases that result from projected milk production increase that exceeds the projected national rate of increase.

USDA has determined that the Commission was responsible for \$1.762 million in nonfat dry milk purchases under the milk price support program. The Commission established a reserve fund in March 1998 in order to pay USDA for increased production impacts. After USDA obligations are met, any balance remaining in the reserve fund will be returned to those farmers in the Compact region who can document that they did not increase their milk production during fiscal year 1998. ♦

August 1998 Pool Highlights

- The August 1998 uniform price equaled **\$14.88**, an increase of \$1.35 from last month and \$2.66 higher than last year.
- Class I and II prices were \$2.36 above last year's; Class III was \$2.92 higher. The Class III-A price was \$4.64 higher than last year's and added \$0.04 to the August uniform price.
- Producer receipts totaled 989.7 million pounds, a decrease of 1.5 percent from last year.
- Class I receipts totaled 387.3 million pounds, a decrease of 2.3 percent from last year.
- Daily deliveries per producer (DDP) equaled 3,294 pounds, a year-to-year increase of 5.7 percent.
- The Order No. 2 average butterfat test was 3.526264. With the record-high butterfat differential of \$0.245, butterfat payments totaled \$636,870.58, an increase of 122.5 percent from last year. ♦

Order No. 2 Prices and Utilization for August

	1997	1998	Percent change
Prices*			
	dollars per cwt		
Uniform	12.22	14.88	21.8
Class I	13.16	15.52	17.9
Class II	11.04	13.40	21.4
Class III	12.17	15.09	24.0
Class III-A	11.98	16.62	38.7
Utilization			
	million pounds		
Class I	396.3	387.3	(2.3)
Class II	173.1	154.4	(10.8)
Class III	406.0	431.5	6.3
Class III-A	29.8	16.5	(44.5)
Producer Receipts#	1,005.1	989.7	(1.5)

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

Totals may not add due to rounding.

U.P. Forecasted to Increase

The uniform price **forecast** for **September 1998** is **\$16.02** per hundredweight of bulk milk testing 3.5 percent butterfat in the 201-210 mile zone. This is an estimate. ♦

Cheese and Nonfat Dry Milk Begin Daily Trading

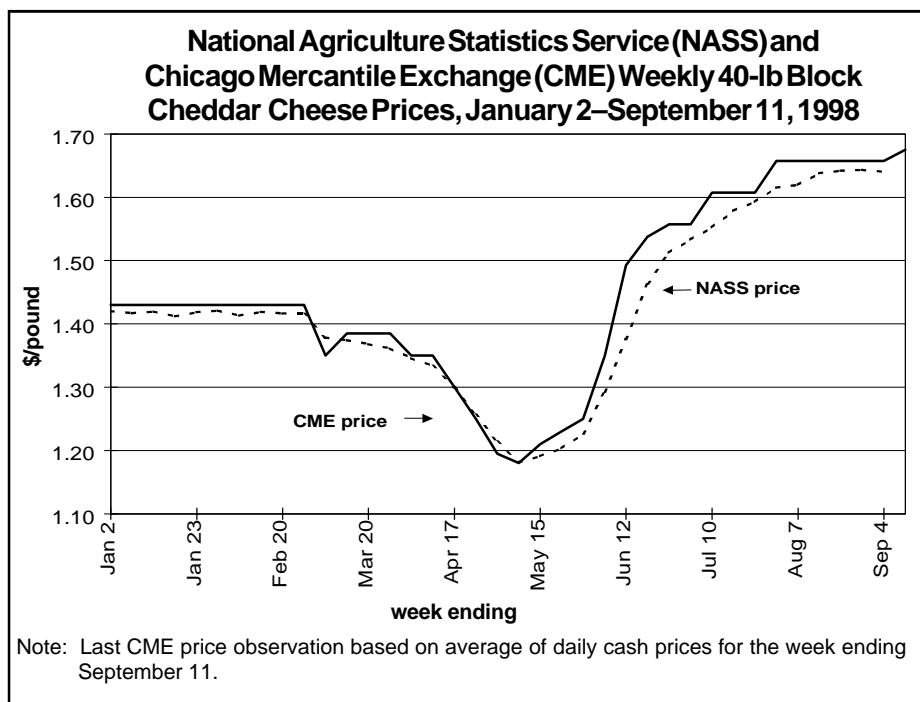
The Chicago Mercantile Exchange (CME) began daily cash trading of cheese and nonfat dry milk on September 1. Since May 1997, when the Green Bay Cheese Exchange closed and cash (or spot market) cheese trading moved to the CME, cheese trading on the CME took place weekly on Thursday afternoons. Cash market trading of nonfat dry milk is new to the CME.

Price Relationship

Although CME cheese prices are not used in calculating federal order prices, there has been an observable relationship between the direction and magnitude of CME cash market price changes and the weekly National Agricultural Statistics Service (NASS) cheese plant survey price. See accompanying chart. The NASS survey cheese price is used in the calculation of the basic formula price (BFP) from which federal order prices are set. Before the switch to daily trading, the reporting of NASS prices lagged 2 weeks behind CME cash market prices. As a result, CME cheese prices tended to look like leading indicators of expected price changes in the upcoming NASS price. Daily trading is expected to shorten the lead time between CME cash market prices and the NASS survey based price to 1 week. In addition, there could be a different cash market price every trading day.

Timely Information

Daily cash trading of cheese should help to provide more timely indicators of the industry's perception about short-term changes in the supply and demand for milk and cheese. Some analysts think that daily trading could reduce the dramatic swings in cheese prices sometimes experienced during the previous 1-day-per-week trading sessions. Buyers and sellers will now be able to make daily adjustments to their inventories as new market information is obtained, rather than having to wait for a single day to make inventory adjustments. ♦



Mailbox Prices Reviewed

For the first 6 months of 1998, Order No. 2 mailbox prices averaged 9.3 percent higher than during the same period in 1997. Comparatively, Order No. 2 uniform prices averaged 8.2 percent higher. The accompanying table shows mailbox prices for January–June 1997 and 1998 along with average premiums and hauling and corresponding changes.

Mailbox prices represent what producers actually receive in their milk check. The mailbox price is calculated by adjusting the uniform price for butterfat and location differentials, adding premiums reported, and deducting marketing charges. Although mailbox prices closely follow the direction of uniform prices, they are affected by butterfat tests and differentials and changes in premiums, hauling, and other deductions.

During the first half of 1998, premiums averaged 19.1 percent higher than in 1997. Hauling charges and other deductions remained relatively unchanged. Butterfat tests averaged slightly less than in 1997, but the butterfat differential has averaged 57.5 percent higher in 1998.

These factors—increased fat value, higher premiums, and stronger uniform prices—have resulted in significantly higher mailbox prices for the first half of 1998. ♦

**Mailbox Prices Under Order No. 2,
January–June, 1997–98**

Month	1997	1998	1997–98 Change	
	dollars per hundredweight		percent	
January	12.59	14.05	1.46	11.6
February	12.67	14.32	1.65	13.0
March	13.03	14.04	1.01	7.8
April	12.78	13.59	0.81	6.3
May	12.38	12.79	0.41	3.3
June	11.72	13.34	1.62	13.8
Average	12.53	13.69	1.16	9.3
Premium	0.33	0.39	0.06	19.1
Hauling	0.32	0.32	0.00	0.3

Milk Production Gains Slight Through August of 1998

Milk production figures reported by the National Agricultural Statistics Service (NASS) indicate that milk production in the 20 major dairy states, through the first 8 months of 1998, was only 0.6 percent (586 million pounds) greater than milk production from the same states and time period in 1997. As a point of reference, the volume of milk pooled under Order No. 2 during August was about 990 million pounds.

With the exception of 1996 when U.S. milk production for the first 8 months fell below the previous year's level—helping to bring on record high milk prices for the year—the 1998 increase is the smallest year-to-year increase during the past 5 years. In July 1998, milk production in the 20 major dairy states fell 0.8 percent below the July 1997 level. In August, milk production in the top 20 states was 0.4 percent below the previous year. July was the first month in 1998 that the current year's total monthly production was below the previous year's level for these states. The higher than expected blend prices being recorded this year are, in large part, a response to the tighter than anticipated U.S. milk supply and demand situation thus far in 1998.

Regional Production

Reported production increases in Pennsylvania and Vermont have bucked the national trend through August of this year. From January through August, Pennsylvania's average monthly production was 3.4 percent above the production for the same period in 1997. Vermont's average increase was 2.9 percent, but New York's average increase was only 0.8 percent. The cumulative milk production through the first 8 months for California, the top milk producing state, was essentially flat. Idaho and New Mexico have experienced the largest production increases, recording average increases of 11.5 and 7.6 percent, respectively. During June, New Mexico reported an 11.5 percent increase in production above the 1997 level. This growth propelled New Mexico to the 10th largest producing state position, overtaking Ohio in June and August. New Mexico's growth has been fueled by an additional 14,000 milk cows in August 1998 (total of 217,000 milk cows) above August 1997 and a 50-pound per cow milk production increase to an average of 1,700 pounds. By comparison, New York had an increase of 3,000 cows (total of 701,000 milk cows) and an average per cow production increase of 30 pounds to 1,440 pounds during August 1998. ♦

Plant Freight Zone Determined

The freight zone for the following plant location has been determined:

Londonderry, New Hampshire, in the 221–225 mile zone. ♦

Fluid Promotion Order Amended

USDA announced that it amended the Fluid Milk Promotion Order effective September 3. The amendments modify membership status and term-of-office of National Fluid Milk Processor Promotion Board members. The changes include: allowing a fluid milk processor to have two members on the board, instead of one; allowing board members whose fluid milk processor company affiliation has changed to serve 60 days or until a successor is appointed, whichever is sooner; and allowing board members who fill vacancies with 18 months or less in the term to serve two additional 3-year terms.

Additional amendments permit the board to establish committees of persons other than board members and modify the intellectual property provision of the order (patents, copyrights, inventions, and publications) to allow joint ownership when joint funds are used to develop intellectual property.

The program is financed by a mandatory 20-cent per hundredweight assessment on all fluid milk processed and marketed in consumer-type packages by fluid milk processors in the 48 contiguous states and the District of Columbia.

Details of the amendments were published as a final rule in the September 2 *Federal Register*. Copies and additional information may be obtained from David R. Jamison, Promotion and Research Branch, Dairy Programs, AMS, USDA, 1400 Independence Ave., S.W., Stop 0233, Room 2734-S, Washington, DC 20250-0233, telephone (202) 720-6909. ♦

Regional Industry Consolidations

Recently, there have been a number of company consolidations involving milk processing plants located in the Northeast. In August, Suiza Foods announced its purchase of Cumberland Farms, Inc.'s fluid milk business including the East Greenbush, NY, and Florence, NJ, processing plants. In addition, Suiza purchased Garelick Farms, Inc. of Franklin, MA; Fairdale Farms, Inc. of Bennington, VT; and Grants Dairy of Bangor, ME, in July 1997; and West Lynn Creamery, Inc. of Lynn, MA, in July 1998.

In February, Parmalat USA Corporation purchased Sunnydale Farms, Inc. of Brooklyn, NY. They also acquired Welsh Farms, Inc. of Long Valley, NJ, and Clinton Milk Company of Newark, NJ, in August.

Other changes include Dean Foods, Inc.'s purchase of Sani-Dairy, Inc. of Johnstown, PA, in January and Wengert's Dairy of Lebanon, PA, in February. Also, Upstate Milk Producers Cooperative, Inc. purchased Homestead Dairies, Inc. of Massena, NY, in May. Upstate closed the Homestead processing plant May 30, 1998. ♦

Determination of Uniform Price of \$14.88 for August 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	Transportation differential	Total value	Contribution per cwt of receipts
I-A	371,206,769	37.5	15.52	57,611,290.58	109,975.52	57,721,266.10	5.832
I-B	16,084,773	1.6	15.52	2,496,356.78	3,154.56	2,499,511.34	0.253
II	154,423,065	15.6	13.40	20,692,690.73	16,922.26	20,709,612.99	2.093
III	431,491,888	43.6	15.09	65,112,125.91	42,385.21	65,154,511.12	6.582
III-A	<u>16,527,232</u>	<u>1.7</u>	16.62	<u>2,746,825.97</u>	<u>2,410.88</u>	<u>2,749,236.85</u>	<u>0.278</u>
Reported receipts	989,733,727	100.0		148,659,289.97	174,848.43	148,834,138.40	15.038
Adjustments:	<u>Product pounds</u>		<u>Dollars*</u>				
Sec. .60(d)(1) III	987		2,482.75				
Total Sec. .60(d)(1)	987	987	2,482.75			2,482.75	0.000 #
Sec. .60(d)(6) I	1,724,134		12,536.67				
Sec. .60(d)(6) II	5,580,168		(78,122.35)				
Total Sec. .60(d)(2) thru (6)	7,304,302		(65,585.68)			65,585.68	(0.007)
Total adjustments	7,305,289		(63,102.93)				
Total pool milk classified	989,734,714						
Handlers must pay			(63,102.93)	148,659,289.97	174,848.43	148,771,035.47 **	15.031
COMPUTATION OF UNIFORM PRICE							
	<u>Milk pounds</u>			<u>Dollars</u>		<u>Dollars per cwt of receipts</u>	
Total value of pooled milk				148,771,035.47		15.031	
Less: Cooperative payments	635,954,216		254,381.68			0.026	
Reserve			793,156.06			0.080	
Transportation credit	989,733,727		1,484,600.59	<u>(2,532,138.33)</u>		<u>0.150</u>	<u>(0.256)</u>
Value of pooled milk less subtractions				146,238,897.14		14.775	
Add: Freight adjustment to 201-210 mile zone			155,252.42			0.016	
Unreserved cash in producer settlement fund			<u>878,229.02</u>	<u>1,033,481.44</u>		<u>0.089</u>	<u>0.105</u>
Uniform Price	989,733,727			147,272,378.58		14.880	

* Includes transportation and other applicable differentials.

Results from rounding.

** In addition handlers must pay \$636,870.58 for butterfat in excess of 3.5 percent.

Note: The average butterfat test of milk delivered was 3.526264 percent. The butterfat differential was \$.245 for each one-tenth of one percent of butterfat.

Comparative Price and Other Descriptive Statistics

	AUGUST 1997	JULY 1998	AUGUST 1998
Order No. 2			
Handlers (with producer milk)	38	32	32
Bulk Tank Units	101	97	94
Producers	10,409	9,718	9,691
Daily Deliveries Per Producer (pounds)	3,115	3,368	3,294
Price Factors, Monthly Averages (dollars)			
Basic Formula Price, 3.5% butterfat, per cwt	12.07	14.77	14.99
Cheddar Cheese, 40-lb blocks, per lb, NASS	1.3024	1.5656	1.6320
Butter, Grade A, per lb#	1.0132	1.9185	2.0830
Nonfat dry milk, Central States, per lb	1.0718	1.0297	1.0463
Uniform Prices (dollars per cwt, 3.5% butterfat)			
Order No. 1, Zone 1 (Boston)	12.98	13.86	15.72
Order No. 2, 1-10 mile Zone* (New York City)	13.09	14.40	15.75
Order No. 4, Philadelphia¶	12.76	13.56	15.39
Class I Utilization Percentage			
Order No. 1	45.6	53.2	46.3
Order No. 2	39.4	38.6	39.1
Order No. 4	48.1	43.4	45.6

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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