New York–
New Jersey
Milk Marketing
Area

The Market Administrator's Bulletin

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Federal Order No. 2

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Federal Order Reform Update

Dairy Farmers Approve Milk Marketing Order Reform

In producer referendums ending August 6, eligible dairy farmers across the country voted in favor of consolidating the current 31 federal milk marketing orders into 11 regional orders while also approving the reforms presented in the final decision. For the consolidated Northeast Marketing Area—consisting of the present New York–New Jersey, New England, and Middle Atlantic marketing areas and some currently unregulated areas in northern New York, Vermont, New Hampshire, and Massachusetts—75 percent of a total of 18,570 eligible producers voted by individual ballot or through “bloc votes” of their cooperative association. Of the ballots cast, 90.5 percent were in favor of the proposed Northeast Marketing Area. Producer referendums in each of the other consolidated orders were approved with affirmative votes all in excess of 90 percent.

Northeast Order Begins October 1, 1999

The consolidated Northeast Marketing Area regulates milk marketed on and after October 1, 1999. Payment to producers will be made sooner under the new order. Currently, the advance payment for milk delivered during the first 15 days of the month is paid at the Class III rate by the end of the month. The new date is by the 26th of the month at the lowest class price during the previous month. Final payment to producers is moved from the 20th of the following month to the 17th of the following month. The final check to producers is where adjustments will be made so that payment reflects the volume of components in each producer’s milk. Component prices for producers’ milk will be announced on the Friday before the 5th of the month unless the 5th is a Friday. The final factor that will determine producer prices, the producer price differential (PPD), will be announced by the 13th of the month.

New Terms and Provisions

Some new terms and provisions are used under the Northeast Order. The basic formula price (BFP) is replaced with a multiple component pricing (MCP)

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August 1999 Pool Highlights

- The August 1999 uniform price equaled **$14.16** per hundredweight, an increase of $0.95 from last month and down $0.72 from August 1998.
- Class I and II prices were $1.68 below last year’s. The Class III price was $0.80 higher and the Class III-A price was $3.90 lower than 1998’s.
- Producer milk receipts totaled 976.3 million pounds, a decrease of 1.4 percent from last year.
- Class I usage totaled 375.0 million pounds, down 3.2 percent from the previous year.
- Daily deliveries per producer (DDP) equaled 3,511 pounds. This was a year-to-year increase of 217 pounds (6.6 percent).◆

Order No. 2 Prices and Utilization for August

	1998	1999	Percent change
Prices*	dollars per cwt		
Uniform	14.88	14.16	(4.8)
Class I	15.52	13.84	(10.8)
Class II	13.40	11.72	(12.5)
Class III	15.09	15.89	5.3
Class III-A	16.62	12.72	(23.5)
Utilization	million pounds		
Class I	387.3	375.0	(3.2)
Class II	156.2	170.2	8.9
Class III	429.7	411.1	(4.3)
Class III-A	16.5	20.0	20.8
Producer Receipts	989.7	976.3	(1.4)

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

U.P. Forecasted to Increase

The uniform price **forecast** for **September 1999** is **$15.43** per hundredweight of bulk milk testing 3.5 percent butterfat in the 201-210 mile zone. This is an estimate.◆

Order No. 2 Milk Moves South

During the month of August, about 10.6 million pounds of bulk milk pooled under Order No. 2 were shipped to plants in the southeastern United States. This amounts to approximately 212 tanker loads of milk, or about 1.1 percent of the total volume of milk pooled under Order No. 2 during August. This volume was nearly 77 percent greater than the amount shipped during August of 1998, when about 6.0 million pounds (120 tankers) were shipped from Order No. 2 to southern plants. The quantity shipped south during August is the largest monthly volume ever shipped south by Order No. 2 handlers, surpassing the previous high of 9.9 million pounds (nearly 200 tankers) in August 1996. Plants in the states of Alabama, Georgia, Kentucky, North and South Carolina, Tennessee, and Virginia were recipients of this milk. Nearly 79 percent of this milk was classified as Class I.

During the late summer and fall months, Order No. 2 handlers sometimes take advantage of higher spot market prices in distant markets. Extra supplies of milk associated with Order No. 2 are temporarily moved to markets where milk is in short supply, such as the Southeast. In addition, a handful of producers formerly associated with this order have been shipping milk directly to the Southeast for the entire year.◆

Dairy Market Price Update

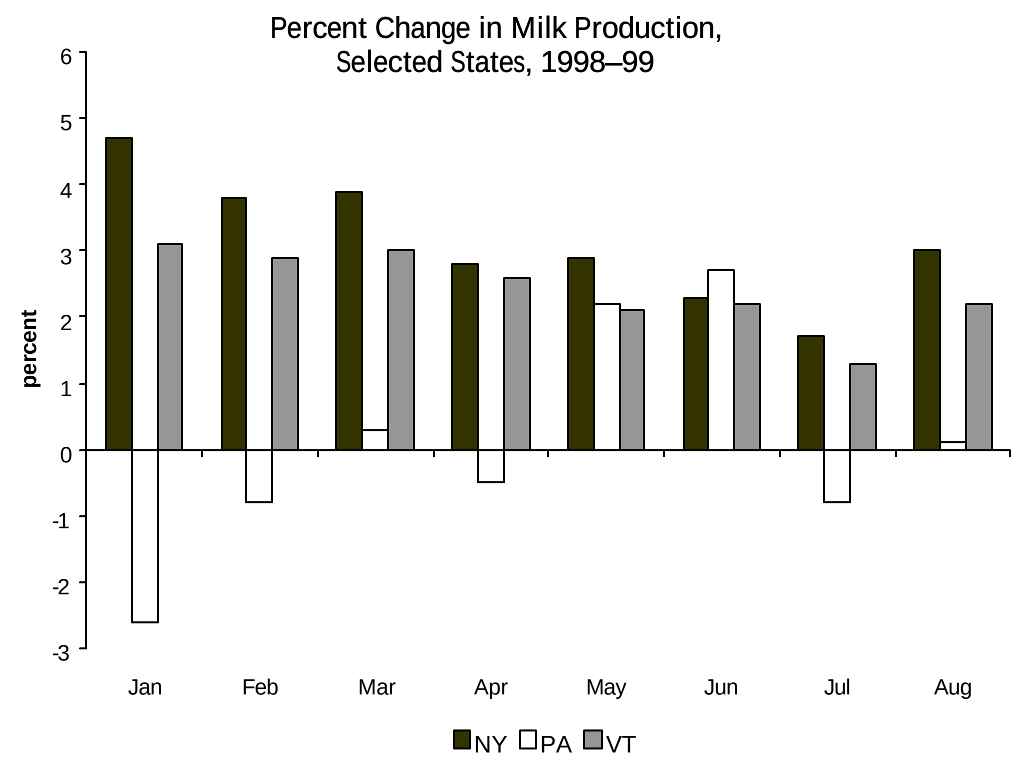
Cheese Prices Fall

On August 19, 1999, wholesale prices for 40-pound block Cheddar cheese trading on the Chicago Mercantile Exchange (CME) set a record high of $1.9725 per pound. The price held at that level through four trading sessions and then began to fall. By September 16, 1999, the price had dropped $0.33, closing at $1.6425 per pound. On September 8, block prices increased 4 cents from the previous day; however, the following day brought prices back down 3.5 cents. The spread between block and barrel prices is normally around 3 to 5 cents. During the first 16 days of September the block-barrel spread averaged about 17 cents.

Another factor that has contributed to the cheese price decline has been information provided by USDA's milk production report. Although much of the country is being adversely affected by drought and heat, the major milk producing states have continued to show strong gains in milk output. While production has been hindered in some areas, total U.S. milk production for the first 8 months of 1999 is 3.1 percent above last year's level. The combination of these factors apparently led buyers and sellers to conclude that there were more than adequate supplies of cheese and milk available. As a consequence, cheese prices dropped from their record high levels.◆

Market Prices Respond to Market Information

The recent cheese price decline has been partially triggered by new dairy market information. Revisions to USDA's cold storage survey data have indicated that more cheese stocks are in inventory than previously announced. This has led to changes in calculating commercial cheese disappearance (a partial measure for cheese demand). Increases in cheese inventories generally signal decreases in demand for cheese. Despite the revisions and record high cheese prices, commercial disappearance for all milk and dairy products during January through June is 1.3 percent higher on a daily average basis in 1999 compared to 1998.



Source: National Agricultural Statistics Service, *Milk Production*

January–June Mailbox Prices Reviewed

For the first 6 months of 1999, Order No. 2 mailbox prices averaged 3.3 percent higher than during the same period in 1998. They were 12.8 percent higher than during the 1997 period. Comparatively, Order No. 2 uniform prices were 3.0 percent and 11.4 percent higher than the corresponding periods in 1998 and 1997, respectively. The accompanying table shows mailbox prices for the first 6 months of 1997, 1998, and 1999. In addition, uniform price, premium, hauling, and butterfat information for the period is compared.

Order No. 2 Mailbox Prices and Comparative Data, January–June, 1997–99

	1997	1998	1999	Change 1997–99	Change 1998–99
Mailbox Price	dollars/cwt			percent	
January	12.59	14.05	17.58	39.6	25.1
February	12.67	14.32	15.30	20.8	6.8
March	13.03	14.04	15.38	18.0	9.5
April	12.78	13.59	11.86	(7.2)	(12.7)
May	12.38	12.79	12.30	(0.6)	(3.8)
June	11.72	13.34	12.41	5.9	(7.0)
Average	12.53	13.69	14.14	12.8	3.3
Uniform Price	12.59	13.61	14.02	11.4	3.0
Premiums	0.33	0.39	0.41	24.2	5.1
Hauling	0.32	0.32	0.29	(9.4)	(9.4)
B'fat differential	0.098	0.154	0.129	31.6	(16.2)
B'fat test (%)	3.670	3.665	3.674	0.1	0.2

During the first quarter of 1999, mailbox prices were considerably higher than during the same period in 1998. The second quarter experienced significant declines. The record-setting $6.00 drop of the basic formula price (BFP) in February affected the April Class I and II prices. The BFP bounced back to $11.62 in March, hit $11.81 in April, and dropped to $11.26 in May. In June, it increased slightly to $11.42. In 1998, the BFP bottomed at $10.88 in May, but otherwise remained in the $12.00-$13.00 range for the first 6 months.

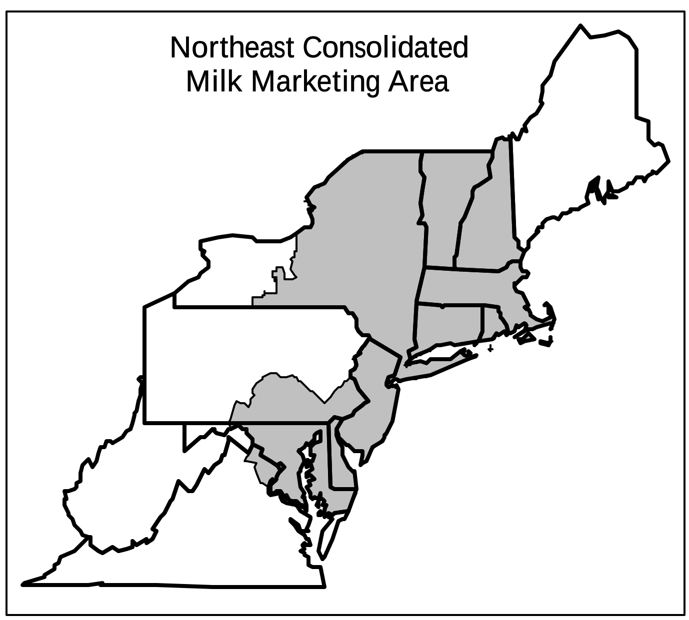
The BFP is the basis for class prices under the Order (until October 1, 1999, when order reform takes effect). The Order No. 2 uniform price followed a similar pattern to the mailbox prices for the 6-month period. The difference between the two prices is due to butterfat tests and differentials and changes in premiums, hauling, and other deductions. For the January–June 1999 period, premiums were 5.1 percent above 1998 and 24.2 percent above 1997. Hauling costs averaged 9.4 percent less than in both 1997 and 1998. The butterfat differential averaged lower in 1999 than in 1998, but butterfat tests averaged higher.◆

Order Reform *(continued from page 1)*

system. The butterfat differential will no longer be announced; producers will be paid based on the pounds of protein, butterfat, and other solids produced each month. Weekly wholesale dairy market product prices will be used to establish MCP levels and, in turn, will influence minimum order payments to producers. The current uniform price is replaced by an announced statistical uniform price that is equal to the new Class III price plus the PPD. The PPD represents a producer's share of the benefits from classified pricing and marketwide pooling. The PPD is paid to producers based on the total hundredweight of milk produced each month and is adjusted depending on the location of the plant that receives the milk. More details about the new order provisions were described in the March, May, and June 1999 issues of the *Bulletin*.

Northeast Market Administrator Designated

Erik F. Rasmussen has been designated as Market Administrator of the consolidated Northeast Marketing Area, effective October 1, 1999. Mr. Rasmussen presently serves as the Market Administrator of the New England Milk Marketing Area.◆



Determination of Uniform Price of $14.16 for August 1999

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	Product pounds	Milk pounds	Per-cent	Minimum price	Value at minimum price	Trans-portation differential	Total value	Contribution per cwt of receipts
				dollars				
I-A		362,030,468	37.1	13.84	50,105,016.83	98,878.91	50,203,895.74	5.142
I-B		12,992,818	1.3	13.84	1,798,206.02	2,553.72	1,800,759.74	0.185
I I		170,165,489	17.4	11.72	19,943,395.34	17,447.64	19,960,842.98	2.045
I I I		411,140,303	42.1	15.89	65,330,194.14	36,690.40	65,366,884.54	6.694
I I I-A		19,959,802	2.1	12.72	2,538,886.80	2,579.61	2,541,466.41	0.261
Reported receipts		976,288,880	100.0		139,715,699.13	158,150.28	139,873,849.41	14.327
Adjustments:	Product pounds			Dollars*				
Sec. .60(d)(1) III	15,951			1,775.35				
Total Sec. .60(d)(1)	15,951	15,951		1,775.35			1,775.35	0.000 #
Sec. .60(d)(6) I	2,959,188			8,166.43				
Sec. .60(d)(6) II	4,883,139			(92,782.70)				
Total Sec. .60(d)(2) thru (6)	7,842,327			(84,616.27)			(84,616.27)	(0.008)
Total adjustments	7,858,278			(82,840.92)				
Total pool milk classified		976,304,831						
Handlers must pay				(82,840.92)	139,715,699.13	158,150.28	139,791,008.49 **	14.319

COMPUTATION OF UNIFORM PRICE	Milk pounds	Dollars	Dollars	Dollars per cwt of receipts	Dollars per cwt of receipts
Total value of pooled milk			139,791,008.49		14.319
Less: Cooperative payments	631,197,941	252,479.18		0.026	
Reserve		817,506.54		0.084	
Transportation credit	976,288,880	1,464,433.30	(2,534,419.02)	0.150	(0.260)
Value of pooled milk less subtractions			137,256,589.47		14.059
Add: Freight adjustment to 201-210 mile zone		211,524.45		0.022	
Unreserved cash in producer settlement fund		774,391.49	985,915.94	0.079	0.101
Uniform Price	976,288,880		138,242,505.41		14.160

* Includes transportation and other applicable differentials.

Results from rounding.

** In addition handlers must pay $308,923.38 for butterfat in excess of 3.5 percent.

Note: The average butterfat test of milk delivered was 3.523267 percent. The butterfat differential was $.136 for each one-tenth of one percent of butterfat.

Comparative Price and Other Descriptive Statistics

	AUGUST 1998	JULY 1999	AUGUST 1999
Order No. 2			
Handlers (with producer milk)	32	30	29
Bulk Tank Units	94	93	89
Producers	9,691	8,958	8,970
Daily Deliveries Per Producer (pounds)	3,294	3,482	3,511
Price Factors, Monthly Averages (dollars)			
Basic Formula Price, 3.5% butterfat, per cwt	14.99	13.59	15.79
Cheddar Cheese, 40-lb blocks, per lb, NASS	1.6320	1.4702	1.7213
Butter, Grade A, per lb	2.0830	1.2544	1.3063
Nonfat dry milk, Central States, per lb	1.0463	1.0172	1.0384
Uniform Prices (dollars per cwt, 3.5% butterfat)			
Order No. 1, Zone 1 (Boston)	15.72	13.69	14.36
Order No. 2, 1-10 mile Zone* (New York City)	15.75	14.08	15.03
Order No. 4, Philadelphia¶	15.39	13.47	13.74
Class I Utilization Percentage			
Order No. 1	46.3	45.4	47.0
Order No. 2	39.1	39.0	38.4
Order No. 4	45.6	41.7	50.0

* Includes 15-cent transportation credit.

¶ Includes 6-cent direct-delivery differential.