

The Market Administrator's Bulletin

Ronald C. Pearce, Administrator

One Columbia Circle, Albany, NY 12203-6379

Phone: 518/452-4410 Fax: 518/464-6468

WWW: <http://www.fmmone.com>

E-mail: MAGeneric_Albany@usda.gov

Federal Order No. 2

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Cheese Prices Update

Wholesale cheese prices at the Chicago Mercantile Exchange (CME) dropped sharply during the first part of January 1999. Cash prices for 40-pound block Cheddar cheese trading at the CME began the new year at an all-time record high of \$1.90 per pound. By January 20, 1999, trading prices had dropped to \$1.25 per pound.

Cash cheese market trading sessions were previously held once per week at the National Cheese Exchange (NCE) and beginning May 1, 1997, at the CME. Since September 1, 1998, cash cheese markets operate daily at the CME. The 40-pound block Cheddar cash cheese price dive of \$0.65 per pound over a 3-week period in January 1999 has never occurred before in cash market trading. The previous 3-week record decrease was in October 1996 when prices fell from \$1.6950 to \$1.3975 at the NCE. Prices subsequently ended 1996 at \$1.1875, a cumulative drop of \$0.5075 over an 11-week period."

National Dairy Board Appointments

Secretary of Agriculture Dan Glickman has announced the appointment of eight incumbents and four new members to the National Dairy Promotion and Research Board. The board administers a coordinated program of promotion, research, and nutrition education funded by the mandatory 15-cent per hundredweight processor assessment.

All appointees will serve 3-year terms beginning January 26. Jane M. Gillette of Turin, NY, has been reappointed to serve region 12. Paul R. Kirsch of Varysburg, NY, also represents region 12. His term expires in December 2000. The board is composed of 36 dairy farmers representing 13 regions of the contiguous United States."

Administrative Assessment Decreases

Effective January 1, 1999, the rate of assessment for the expense of administration of the order shall be 3.0 cents per hundredweight of pool milk.

Each handler pays the administrative assessment as its pro rata share of the expense of administration of the New York–New Jersey milk marketing order. The assessment is levied on the total quantity of pool milk and other source milk pursuant to Section 1002.85 of the order.

This change is a 0.25 cent decrease from the 3.25 cent assessment effective during 1998."

December 1998 Pool Highlights

- The December 1998 uniform price equaled **\$17.45**, the fourth consecutive record high. This was an increase of \$0.67 from last month and \$3.50 higher than last year.
- Class I and II prices were \$3.21 above last year's; Class III was \$4.05 higher. Even though the Class III-A price was higher than last year's, the combination of the highest volume and lowest price since April reduced the blend price by \$0.14.
- Producer milk receipts totaled 979.6 million pounds, a decrease of 1.9 percent from last year.
- Class I usage totaled 420.7 million pounds, a decrease of 1.2 percent from last year.
- Daily deliveries per producer (DDP) equaled 3,341 pounds, a year-to-year increase of 235 pounds (7.6 percent). This was the largest DDP increase this year."

Order No. 2 Prices and Utilization for December

	1997	1998	Percent change
Prices*	dollars per cwt		
Uniform	13.95	17.45	25.1
Class I	15.25	18.46	21.0
Class II	13.13	16.34	24.4
Class III	13.35	17.40	30.3
Class III-A	12.52	13.54	8.1
Utilization	million pounds		
Class I	425.8	420.7	(1.2)
Class II	147.1	134.1	(8.9)
Class III	391.9	389.8	(0.5)
Class III-A	33.6	35.0	4.3
Producer Receipts	998.4	979.6	(1.9)

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

U.P. Forecasted to Decrease

The uniform price **forecast** for **January 1999** is **\$16.96** per hundredweight of bulk milk testing 3.5 percent butterfat in the 201-210 mile zone. This is an estimate."

1998 Order No. 2 Statistics Summarized

Record-high prices marked the last 4 months of 1998 that finished with an annual average uniform price of \$14.73 per hundredweight. This was \$0.32 higher than the last record-setting price, the 1996 average. Total producer milk receipts finished 1.1 percent above 1997, not as strong as originally forecasted. Lower production throughout the nation resulted in less cheese production and butter shortages that helped bolster prices through the second half of 1998. The accompanying table shows a comparison of receipts, utilization, and prices for Order No. 2 for the 1997–98 period.

DDP Growth Remains Strong

Annual average daily deliveries per producer (DDP) increased 183 pounds (5.8 percent) from 1997. Most of the gain is attributable to the change in farm structure within the order. The average number of producers declined by 455 (4.4 percent) from last year. With an increase in milk receipts of 1.1 percent and an overall decline in producers, those producers remaining have increased their production by adding cows and improving milk production per cow.

Changes in Class Utilization

Milk used for Class I purposes (fluid drinking milk) grew 2.8 percent in 1998 increasing utilization by 0.7 percentage points. Class II usage declined 5.1 percent; utilization dropped 0.9 percentage points. Milk used in Class III increased 2.9 percent, up 0.7 percentage points. Class III-A usage dropped 11.5 percent, down 0.3 percentage points.

Prices Set Records

The Order No. 2 uniform price averaged \$14.73 per hundredweight, up \$1.97 (15.4 percent) from last year. The last 4 months finished with consecutive record-setting highs. Both Class III and III-A annual average prices were

CCC Support Price Announced

The USDA announced that the support price for milk with an annual average milkfat content of 3.67 percent will be \$9.90 per hundredweight during 1999. This is a reduction of \$0.15 per hundredweight from the previous support level and is required by the 1996 Farm Bill.

In order to carry out the new support level, USDA will decrease the price it pays for nonfat dry milk by 1.8 cents per pound to \$1.0100 and decrease the price for block Cheddar and barrel cheese by 1.5 cents per pound to \$1.1000 and \$1.0700 per pound, respectively. The purchase price for butter will remain at \$0.6500 per pound.

The accompanying table shows the previous and current year support prices. For comparison purposes, the recent (January 15, 1999) wholesale market prices for these commodities are provided."

Order No. 2 Pool Statistics, Annual 1997–98

Pool statistic	1997	1998	1997–98
	million pounds		Change
			percent
Class I	4,714.5	4,844.7	2.8
Class II	1,877.6	1,781.8	(5.1)
Class III	4,834.6	4,972.6	2.9
Class III-A	345.6	305.7	(11.5)
Total Receipts	11,772.3	11,904.8	1.1
	pounds		
DDP	3,131	3,314	5.8
	utilization percentage		change
Class I	40.0	40.7	0.7
Class II	15.9	15.0	(0.9)
Class III	41.1	41.8	0.7
Class III-A	2.9	2.6	(0.3)
	dollars/cwt		percent
Class I	14.19	15.96	12.5
Class II	12.07	13.84	14.7
Class III	12.05	14.21	17.9
Class III-A	12.36	14.86	20.2
Uniform	12.76	14.73	15.4

the highest on record. Disappointing milk production in many of the major milk-producing states, coupled with low cheese inventories, drove milk prices up mid-year and kept them suspended throughout the end of 1998.

Low milk production resulted in decreased supplies of butterfat. This, combined with lower inventories of butter in recent years, resulted in record-high butter prices. The butterfat differential reflected the high butter prices and set its own record (see related article in this issue of the *Bulletin*.)"

Dairy Product Prices—CCC Purchase and Market

Product	CCC purchase price		
	Previous	Current*	Market**
	dollars per pound		
NFDM	1.0280	1.0100	1.0590
spray extra grade nonfortified, 25-kg bags			
Cheese			
Block Cheddar	1.1150	1.1000	1.6275
Grade A, 40-lb			
Barrel	1.0850	1.0700	1.5160
Extra grade, 500-lb			
Butter	0.6500	0.6500	1.4300
Grade A, 25-kg blocks			

* Effective January 1, 1999.

** NFDM: western states low/medium heat, midpoint, 1/14/99.

Cheese: Chicago Merc. Exch., weekly averages, 1/15/99.

Butter: Chicago Merc. Exch., weekly average, 1/15/99.

1998 Butterfat Tests Lower than Average; Differential Higher

Marketwide average butterfat tests for producers pooled under Order No. 2 during 1998 were generally lower than an average of Order No. 2 butterfat tests for the previous 10 years. The accompanying chart presents monthly Order No. 2 marketwide average butterfat tests for 1998 together with an average of marketwide butterfat tests for the prior 10 years (solid lines on chart). In addition, butterfat differentials for 1998 along with an average of monthly butterfat differentials for the past 10 years are presented (dashed lines on chart).

Butterfat Test Average Lower

Marketwide average butterfat tests for Order No. 2 during 1998 were lower than the previous 10-year average for every month except June and November. Tests during 1998 averaged 0.018840 percentage points below the 10-year average, with a range of 0.009555 above in November to 0.048989 below in September. The April, May, and September 1998 tests were the lowest tests for those respective months for the years 1988 through 1998.

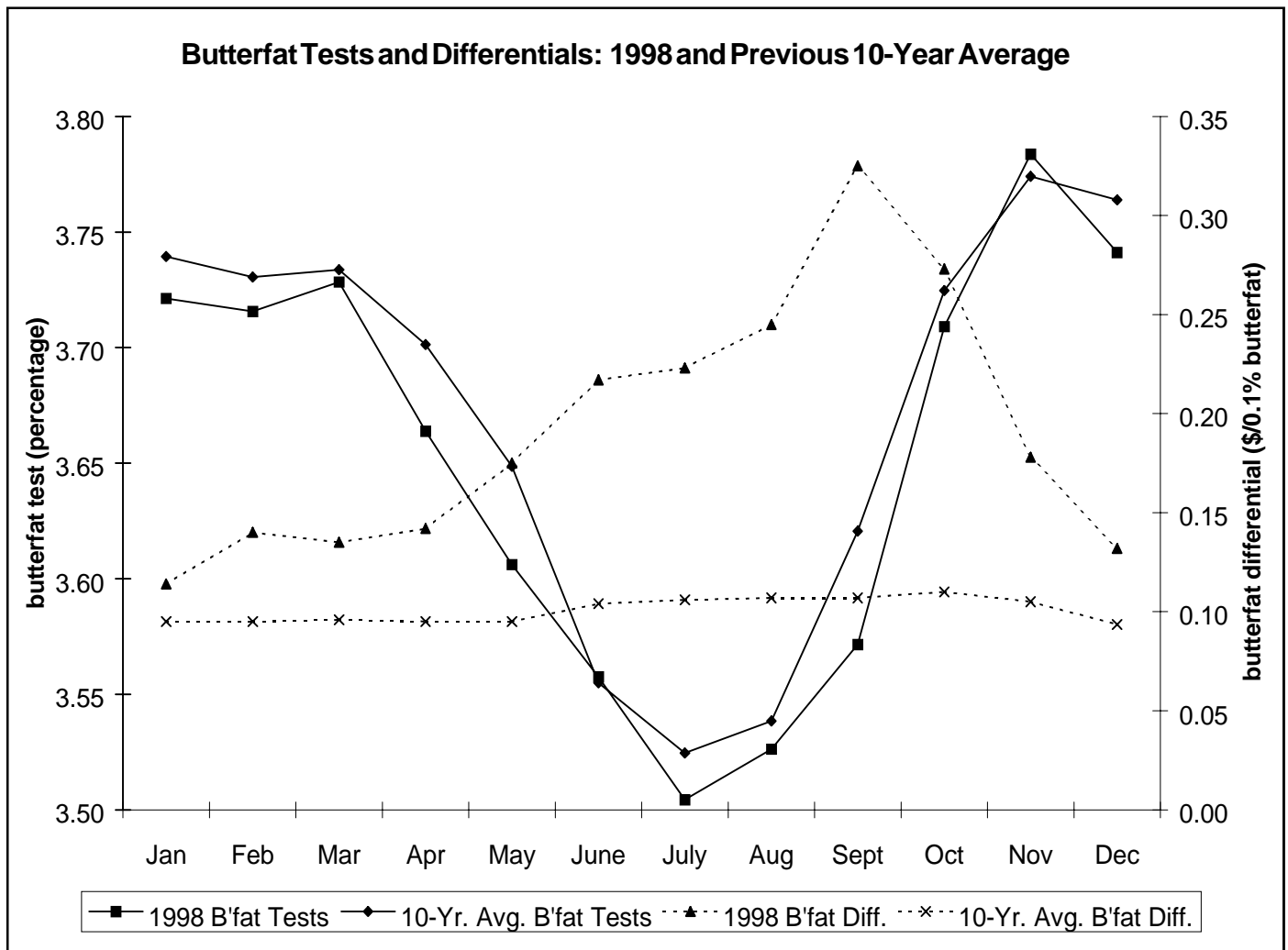
Butterfat Differential Averages Higher

The butterfat differential, which is used to adjust producer pay prices for butterfat content above or below the 3.5

percent pricing standard, reached record levels in 1998 as wholesale market butter prices reached record highs. The monthly butterfat differentials for June, July, August, and September set consecutive all-time record highs. The October differential, slightly below the September differential, was the second highest differential ever. Because of the record-high differentials during the summer and fall, average butterfat differentials in 1998 were nearly twice the level of average differentials during the previous 10 years.

Near-Record Butterfat Payments

Even though many producers had lower butterfat tests, those with tests above 3.5 percent received some substantial premiums due to the record-high differentials in 1998 that averaged \$0.192 per hundredweight. Total butterfat payments paid to producers pooled under Order No. 2 in 1998 totaled nearly \$30.4 million, up 43.8 percent from last year. This was the second largest annual payment for butterfat under the Order. During 1989, \$31.4 million was paid to producers for butterfat values exceeding 3.5 percent. The average differential in 1989 was only \$0.147 per hundredweight, but higher tests and more pooled milk contributed to the record butterfat payment.



Determination of Uniform Price of \$17.45 for December 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
dollars							
I-A	405,522,334	41.4	18.46	74,859,422.89	139,315.31	74,998,738.20	7.657
I-B	15,133,077	1.5	18.46	2,793,566.00	(1,837.03)	2,791,728.97	0.285
II	134,077,029	13.7	16.34	21,908,186.59	14,454.68	21,922,641.27	2.238
III	389,825,240	39.8	17.40	67,829,591.75	34,539.36	67,864,131.11	6.927
III-A	<u>35,012,351</u>	<u>3.6</u>	13.54	<u>4,740,672.32</u>	<u>5,224.65</u>	<u>4,745,896.97</u>	<u>0.485</u>
Reported receipts	979,570,031	100.0		172,131,439.55	191,696.97	172,323,136.52	17.592
Adjustments:	<u>Product pounds</u>		<u>Dollars*</u>				
Sec. .60(d)(1)III	236,511		30,226.11				
Total Sec. .60(d)(1)	236,511	236,511	30,226.11			30,226.11	0.003
Sec. .60(d)(6) I	4,590,152		117,575.59				
Sec. .60(d)(6) II	7,385,388		(41,358.19)				
Total Sec. .60(d)(2) thru (6)	11,975,540		76,217.40			76,217.40	0.008
Total adjustments	12,212,051		106,443.51				
Total pool milk classified	979,806,542						
Handlers must pay			106,443.51	172,131,439.55	191,696.97	172,429,580.03	** 17.603
COMPUTATION OF UNIFORM PRICE							
	<u>Milk pounds</u>		<u>Dollars</u>			<u>Dollars per cwt of receipts</u>	
Total value of pooled milk				172,429,580.03			17.603
Less: Cooperative payments	632,606,136		253,042.45			0.026	
Reserve			795,008.85			0.081	
Transportation credit	979,570,031		1,469,355.05	<u>(2,517,406.35)</u>		<u>0.150</u>	<u>(0.257)</u>
Value of pooled milk less subtractions				169,912,173.68			17.346
Add: Freight adjustment to 201-210 mile zone			136,508.62			0.014	
Unreserved cash in producer settlement fund			<u>886,288.11</u>	<u>1,022,796.73</u>		<u>0.090</u>	<u>0.104</u>
Uniform Price	979,570,031			170,934,970.41			17.450

* Includes transportation and other applicable differentials.

** In addition handlers must pay \$3,117,134.88 for butterfat in excess of 3.5 percent.

Note: The average butterfat test of milk delivered was 3.741072 percent. The butterfat differential was \$.132 for each one-tenth of one percent of butterfat.

Comparative Price and Other Descriptive Statistics

	DECEMBER 1997	NOVEMBER 1998	DECEMBER 1998
Order No. 2			
Handlers (with producer milk)	36	31	31
Bulk Tank Units	97	92	93
Producers	10,369	9,536	9,458
Daily Deliveries Per Producer (pounds)	3,106	3,205	3,341
Price Factors, Monthly Averages (dollars)			
Basic Formula Price, 3.5% butterfat, per cwt	13.29	16.84	17.34
Cheddar Cheese, 40-lb blocks, per lb, NASS	1.4163	1.8317	1.8707
Butter, Grade A, per lb#	1.1697	1.6547	1.3231
Nonfat dry milk, Central States, per lb	1.0740	1.1250	1.1490
Uniform Prices (dollars per cwt, 3.5% butterfat)			
Order No. 1, Zone 1 (Boston)	14.78	17.39	17.90
Order No. 2, 1-10 mile Zone* (New York City)	14.82	17.65	18.32
Order No. 4, Philadelphia¶	14.47	17.17	17.41
Class I Utilization Percentage			
Order No. 1	48.7	47.7	46.4
Order No. 2	42.5	44.3	42.9
Order No. 4	46.4	45.8	43.6

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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