



New York-  
New Jersey  
Milk Marketing  
Area

# The Market Administrator's Bulletin

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## Multiple Component Pricing Under the Proposed Northeast Order

Under the new regulations presented in the final decision on Federal Milk Marketing Order Reform, producers in the consolidated Northeast order will be paid on a multiple component pricing (MCP) basis. This means that producers' pay prices will be largely determined by the pounds of butterfat, "true" protein, and other solids in their milk. Under MCP a fourth factor called the producer price differential (PPD) also contributes to the total pay price. The PPD represents a farm's per hundredweight (cwt) share of the value generated by the marketwide pool. A producer's PPD will vary monthly depending on changes in class prices and milk utilization under the order. Each producer's PPD value also is affected by the zone location of the plant(s) to which the milk was shipped during the month.

### Basis of Payments

**Butterfat**—The pounds of butterfat produced by a farm for a month will be calculated by multiplying the average butterfat test for the month by the volume of milk produced. For example, a 3.67% monthly average butterfat test and 100,000 lbs. production yields 3,670 pounds of butterfat. There no longer will be a butterfat differential or an adjustment for tests above or below 3.5 percent butterfat. With payment based on *pounds* of butterfat there is a tradeoff between test levels and milk volume. To a degree, a larger volume of milk will offset a lower average butterfat test and a higher average test will offset lower production. For example, a 3.57% monthly average test and milk production of 102,800 lbs. (2,800 lbs. more) also would yield about 3,670 pounds of butterfat.

**True Protein**—Payment for protein will be on the pounds of "true" protein in the milk. True protein is "crude" protein or "total" protein minus the non-protein nitrogen (NPN) present in milk. The NPN is composed of urea and other low molecular nitrogen containing compounds; has little nutritional value; and has little or no effect on dairy product yields. Many breed registry or testing services presently report total  
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## May 1999 Pool Highlights

- The May 1999 uniform price equaled **\$12.24** per hundredweight, an increase of \$0.46 from last month and down \$0.49 from May 1998.
- Class I and II prices were \$1.19 below last year's. The Class III price was \$0.38 above while the Class III-A price was \$2.34 lower than 1998's.
- Producer milk receipts totaled 1,059.0 million pounds, a decrease of 0.6 percent from last year.
- Class I usage totaled 405.5 million pounds, up 1.6 percent from the previous year. Due to lower total milk receipts, Class I utilization increased 2.1 percentage points.
- Daily deliveries per producer (DDP) equaled 3,727 pounds, a new record under Order No. 2. This was a year-to-year increase of 241 pounds (6.9 percent).◆

### Order No. 2 Prices and Utilization for May

	1998	1999	Percent change
<b>Prices*</b>			
	dollars per cwt		
Uniform	12.73	12.24	(3.8)
Class I	15.23	14.04	(7.8)
Class II	13.11	11.92	(9.1)
Class III	10.76	11.14	3.5
Class III-A	13.84	11.50	(16.9)
<b>Utilization</b>			
	million pounds		
Class I	399.1	405.5	1.6
Class II	154.1	162.9	5.8
Class III	484.2	459.2	(5.2)
Class III-A	28.5	31.3	10.0
Producer Receipts#	1,065.8	1,059.0	(0.6)

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

# Totals due not add due to rounding.

## U.P. Forecasted to Increase

The uniform price forecast for **June 1999** is **\$12.53** per hundredweight of bulk milk testing 3.5 percent butterfat in the 201-210 mile zone. This is an estimate.◆

## Manufactured Dairy Products—1998 Summary

During 1998, United States production of cheese, yogurt, and ice cream increased while butter and nonfat dry milk production both declined. The accompanying table shows the annual production of selected dairy products for 1996–98.

### Cheese Production Increases

The amount of cheese manufactured (excluding cottage cheese) totaled 7.5 billion pounds in 1998, an increase of 2.3 percent. In 1997, the increase in total cheese equaled 1.6 percent. In this category, the production of American type cheese accounted for 44.3 percent, down slightly from 1997. Of the total American produced, Cheddar accounted for 79.5 percent, also slightly lower than in 1997. Italian cheese represented 40.0 percent of total cheese; mozzarella accounted for 78.8 percent of total Italian.

Wisconsin remained the largest cheese-producing state with 28.2 percent of the total in 1998, down slightly from the previous year. California followed with 16.6 percent, up 0.6 percent from 1997. New York displaced Minnesota as the third-ranked state with 8.4 percent of the total, the same percent as in 1997. Minnesota's share dropped to 8.2 percent from 8.8 percent in 1997. In 1997, New Mexico ranked eighth in total cheese production. In 1998, however, the reporting of its production was restricted either from having too few plants reporting or to prevent an individual plant's operations from being disclosed.

The leading American cheese manufacturers were Wisconsin, Minnesota, and California, respectively. Idaho ranked fourth; New York's production was restricted. The largest Italian cheese producers include Wisconsin, California, and New York, respectively. New York ranked third in mozzarella and second in other Italian cheese (i.e., ricotta, provolone, Romano, and Parmesan). Pennsylvania's mozzarella production (ranked third in 1997) was not disclosed.

New York remained first in the manufacture of creamed and lowfat cottage cheese. Its production of cream and Neufchatel cheese was not disclosed in 1998; New York has ranked number one for several years. Only data for Pennsylvania was shown for this category.

For the first time, Hispanic cheese was reported separately. California accounted for 66.2 percent of the total in 1998, followed by Wisconsin with 21.3 percent. These were the only states showing individual production.

United States Production of Selected Dairy Products, 1996–98

Product	1996	1997#	1998	1996–97	1997–98
	million pounds			percent change	
Total cheese*	7,217.5	7,330.4	7,501.9	1.6	2.3
Yogurt	1,588.1	1,574.1	1,616.0	(0.9)	2.7
Butter	1,174.5	1,151.3	1,081.9	(2.0)	(6.0)
NFDM	1,061.8	1,217.6	1,135.4	14.7	(6.8)
Cottage cheese**	690.3	706.2	728.6	2.3	3.2
	million gallons				
Ice cream	878.6	913.8	937.5	4.0	2.6

# Revised.

\* Excludes cottage cheese.

\*\* Includes creamed and lowfat cottage cheese.

Source: USDA, NASS, *Dairy Products*.

### Other Manufactured Products

Total U.S. butter production declined 6.0 percent in 1998. Wisconsin ranked first with 28.0 percent of total production. California, with 20.9 percent, dropped to second place with a 27.9 percent decline in butter production. Pennsylvania moved up from fourth to third place with 8.2 percent.

Nonfat dry milk (for human food) production decreased 6.8 percent in 1998. This follows an increase of 14.7 percent in 1997. Leading states included California with 44.7 percent and Washington with 12.3 percent of the total.

Ice cream production was up 2.6 percent in 1998. California dominated with 12.4 percent of all production. Indiana and Texas came in second and third, respectively. Yogurt production rose 2.7 percent in 1998, led by New York with 14.4 percent of the total. California followed with 12.4 percent.

### Number of Plants

Wisconsin had the largest number of dairy plants (manufacturing one or more dairy products) in 1998 with 217, down from 222 in 1996 and 1997. California ranked second with 147 plants, down from 175 in 1996 and 170 in 1997. New York had 141 plants in 1998, up from 134 in 1996 and 1997.◆

### Underpayment Notices Issued

For the first quarter of 1999, a total of \$15.73 in underpayments to producers resulted from incorrect transportation differentials. One handler and one producer were affected during those months. No hauling underpayments were reported during the first quarter. Handlers have been notified of their obligations.◆

## First Quarter Mailbox Prices Reviewed

For the first quarter of 1999, Order No. 2 mailbox prices averaged \$1.95 per cwt (13.8 percent) greater than the same period in 1998. This is also an increase of \$3.33 per cwt (26.1 percent) from the first quarter of 1997. The accompanying table shows mailbox price data for the first quarters of 1997-99.

Even though mailbox prices follow uniform prices, they are affected by butterfat tests and differentials, premiums, hauling, and other deductions such as cooperative dues and equity. As shown in the table, butterfat tests averaged higher during the first quarter of 1999, compared to the same period in the previous 2 years. In addition, the butterfat differential also averaged higher. Premiums for the January-March 1999 period averaged the same as in 1998, but were considerably above 1997. Hauling has averaged 3 cents per

hundredweight less during the first quarter than during the same period in both 1997 and 1998. The numbers reported represent over 95 percent of the Order No. 2 pool. ♦

**Order No. 2 Mailbox Prices, January-March 1997-99**

Mailbox Price	1997	1998	1999	1997-99	1998-99
	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
Average	12.76	14.14	16.09	26.1	13.8
Premiums	0.32	0.39	0.39	21.9	0.0
Hauling	0.33	0.33	0.30	(9.1)	(9.1)
B'fat differential	0.096	0.130	0.136	41.7	4.6
B'fat test (%)	3.717	3.722	3.739	0.6	0.5

## Multiple Pricing *(continued from page 1)*

protein figures. As a rule-of-thumb, subtract 0.19 percentage points from a total protein test to obtain an approximate true protein test. If you are receiving protein test information, be sure to ask whether the reported levels represent true or total protein. To counteract a lower reported true protein test, the price formulas for determining payment to producers on protein were adjusted so that there should be minimal impact on producer revenues. As with butterfat, there is a tradeoff between protein test levels and milk volume in terms of the total pounds of protein produced.

**Other Solids**—The other solids portion of milk represents the solids remaining in the milk after accounting for butterfat and protein. Other solids consist primarily of lactose and ash. Typically, a test for *total* milk solids is performed along with tests for butterfat and protein. Protein and butterfat tests are deducted from total solids leaving a residual figure for other solids.

### Component Testing

Testing of milk for MCP will be performed by the handler or cooperative buying a producer's milk, as is currently the procedure for butterfat testing. Testing frequency and procedures will be governed by the applicable regulations of the state in which the farm is located. For producers who do not belong to a cooperative, the Market Administrator will be responsible for spot verification of non-member component tests under a marketwide service program.

### Price of Components

The value for each component will be determined using weekly wholesale dairy product price surveys collected by USDA's National Agricultural Statistics Service (NASS). The survey prices will record actual sales

transaction prices across the United States and should, therefore, be reflective of national supply and demand conditions. The survey prices are used in formulas to generate the actual component prices for butterfat, protein, and other solids that will be paid to producers.

### Example of Price Calculation under MCP

The following example presents how a producer's gross pay price would be calculated under MCP. The example is a hypothetical farm with 100,000 pounds (1,000 cwt) production, average component tests, and uses actual component prices for the month of May. The calculation does not include any adjustments for hauling, premiums, or any other negotiable price adjustments that will affect the net price received by producers.

Since the composition of one farm's milk may be significantly different from another farm as well as the respective locations of where their milk will be shipped, milk checks for neighboring farms will no longer be as readily comparable. ♦

**Calculation of Producer Payment Under Consolidated Order**

	Test	Pounds	Price	Gross dollars
	percent		per pound	
Butterfat	3.62	3,620	x 1.1757	= \$4,256.03
True protein	3.02	3,020	x 2.1984	= 6,639.17
Other solids	5.47	5,470	x 0.0381	= 208.41
Total component value				\$11,103.61
Producer Price Differential 1,000 cwt*			1.10/cwt	= 1,100.00
Total gross payment				<b>\$12,203.61</b>
Gross price per cwt				<b>\$12.2036</b>

\* The calculated PPD is an estimate and is based on the difference between the May uniform price and the Class III price.

## Determination of Uniform Price of \$12.24 for May 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	Milk pounds	Per-cent	Minimum price	Value at minimum price	Trans- portation differential dollars	Total value	Contribution per cwt of receipts
I-A	387,983,950	36.6	14.04	54,472,946.57	120,537.11	54,593,483.68	5.156
I-B	17,496,526	1.7	14.04	2,456,512.27	2,135.85	2,458,648.12	0.232
II	162,944,480	15.4	11.92	19,422,982.02	17,838.00	19,440,820.02	1.836
III	459,226,888	43.4	11.14	51,157,875.31	39,987.13	51,197,862.44	4.834
IIIA	<u>31,335,107</u>	<u>2.9</u>	11.50	<u>3,603,537.31</u>	<u>4,738.00</u>	<u>3,608,275.31</u>	<u>0.341</u>
Reported receipts	1,058,986,951	100.0		131,113,853.48	185,236.09	131,299,089.57	12.399
Adjustments:	<u>Product pounds</u>			<u>Dollars*</u>			
Sec. .60(d)(6) I	2,272,400			52,719.67			
Sec. .60(d)(6) II	5,275,576			10,551.15			
Total Sec. .60(d)(2) thru (6)	7,547,976			63,270.82		63,270.82	0.006
Total adjustments	7,547,976			63,270.82			
Total pool milk classified	1,058,986,951						
Handlers must pay			63,270.82	131,113,853.48	185,236.09	131,362,360.39 **	12.405
COMPUTATION OF UNIFORM PRICE							
	<u>Milk pounds</u>			<u>Dollars</u>		<u>Dollars per cwt of receipts</u>	
Total value of pooled milk				131,362,360.39		12.405	
Less: Cooperative payments	686,298,070			274,519.23		0.026	
Reserve				901,640.38		0.085	
Transportation credit	1,058,986,951			1,588,480.44	<u>(2,764,640.05)</u>	<u>0.150</u>	<u>(0.261)</u>
Value of pooled milk less subtractions				128,597,720.34		12.144	
Add: Freight adjustment to 201-210 mile zone				181,613.81		0.017	
Unreserved cash in producer settlement fund				<u>840,668.65</u>	<u>1,022,282.46</u>	<u>0.079</u>	<u>0.096</u>
Uniform Price	1,058,986,951			129,620,002.80		12.240	

\* Includes transportation and other applicable differentials.

\*\* In addition handlers must pay \$1,354,021.11 for butterfat in excess of 3.5 percent.

Note: The average butterfat test of milk delivered was 3.615189 percent. The butterfat differential was \$.111 for each one-tenth of one percent of butterfat.

## Comparative Price and Other Descriptive Statistics

	MAY 1998	APRIL 1999	MAY 1999
Order No. 2			
Handlers (with producer milk)	31	31	29
Bulk Tank Units	94	92	91
Producers	9,863	9,232	9,167
Daily Deliveries Per Producer (pounds)	3,486	3,605	3,727
Price Factors, Monthly Averages (dollars)			
Basic Formula Price, 3.5% butterfat, per cwt	10.88	11.81	11.26
Cheddar Cheese, 40-lb blocks, per lb, NASS	1.2034	1.3131	1.2661
Butter, Grade A, per lb#	1.4945	.9398	1.0389
Nonfat dry milk, Central States, per lb	1.0348	1.0228	1.0228
Uniform Prices (dollars per cwt, 3.5% butterfat)			
Order No. 1, Zone 1 (Boston)	14.10	12.48	13.14
Order No. 2, 1-10 mile Zone* (New York City)	13.60	12.65	13.11
Order No. 4, Philadelphia†	13.97	12.10	12.70
Class I Utilization Percentage			
Order No. 1	42.7	45.2	41.9
Order No. 2	37.5	39.7	38.3
Order No. 4	37.8	36.8	34.5

# 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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