

# The Market Administrator's Bulletin

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Federal Order No. 2

New York–  
New Jersey  
Milk Marketing  
Area

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## Northeast Compact Update

### New Rules Adopted

Eligible Northeast Interstate Dairy Compact producers recently approved changes to the Compact's over-order pricing regulations. On January 1, 1999, new regulations will place limits on the amount of milk that can be diverted or transferred from the region and remain eligible for Compact payments.

New rules will limit Compact payments to milk needed to serve the New England market. Monthly limits ranging from 8 percent to 13 percent of total producer milk receipts will allow New England plants to balance market needs throughout the year, but prevent additional milk from receiving Compact payments.

### Judicial Action

On November 2, 1998, the United States District Court for the District of Massachusetts issued a ruling in favor of the Compact Commission. Among the issues involved was the regulation of milk produced, processed, and packaged outside of New England, but sold in the Compact marketing area. The Court ruled that the Commission's pricing and pooling regulations were properly constructed and recognized by congressional consent.

### Hearings Held on Proposed Rule

The Northeast Dairy Compact Commission held three hearings in December 1998, to receive comment and testimony from interested parties. The issues involved relate to income distribution from the producer-settlement fund, supply management policies, organic milk, and the administrative assessment. One specific proposal would set a cap on the amount of milk, per producer, that would be eligible for receiving Compact payments."

### Under Payment Notices Issued

For the third quarter of 1998, \$63.66 in underpayments to producers resulted from incorrect transportation differentials involving two handlers and two producers. No hauling underpayments were reported for this period. Handlers have been notified of their obligations."

## November 1998 Pool Highlights

- The November 1998 uniform price equaled **\$16.78**, another record-high. This was an increase of \$0.31 from last month and \$2.92 higher than last year.
- Class I and II prices were \$2.31 above last year's; Class III was \$3.88 higher. The Class III-A price was higher than last year's, but considerably below previous months and the lowest class price in November. It reduced the blend price by \$0.02.
- Producer milk receipts totaled 916.8 million pounds, a decrease of 2.0 percent from last year.
- Class I usage totaled 406.6 million pounds, an increase of 0.6 percent from last year.
- Daily deliveries per producer (DDP) equaled 3,205 pounds, a year-to-year increase of 212 pounds (7.1 percent). This was the largest DDP increase this year."

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

	1997	1998	Percent change
<b>Prices*</b>			
	dollars per cwt		
Uniform	13.86	16.78	21.1
Class I	15.21	17.52	15.2
Class II	13.09	15.40	17.6
Class III	13.02	16.90	29.8
Class III-A	14.07	14.93	6.1
<b>Utilization</b>			
	million pounds		
Class I	404.1	406.6	0.6
Class II	146.6	140.8	(4.0)
Class III	368.1	359.6	(2.3)
Class III-A	16.2	9.6	(40.5)
Producer Receipts#	935.1	916.8	(2.0)

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

# Totals do not add due to rounding.

### U.P. Forecasted to Increase

The uniform price **forecast** for **December 1998** is **\$17.43** per hundredweight of bulk milk testing 3.5 percent butterfat in the 201-210 mile zone. This is an estimate."

## CCC Purchases Summarized

During the 1998 marketing year (MY), October 1, 1997, to September 30, 1998, the Commodity Credit Corporation (CCC) purchased a total of 121.3 million pounds of nonfat dry milk (NFDM) under the dairy price support program. This amounts to 857.6 million pounds on a total solids milk equivalent basis. No butter or cheese was purchased during the year.

Under the support program, the CCC offers to buy cheese, butter, and NFDM at fixed prices. In addition, the CCC purchased dairy products for a variety of federal programs, but these purchases were at prevailing market prices.

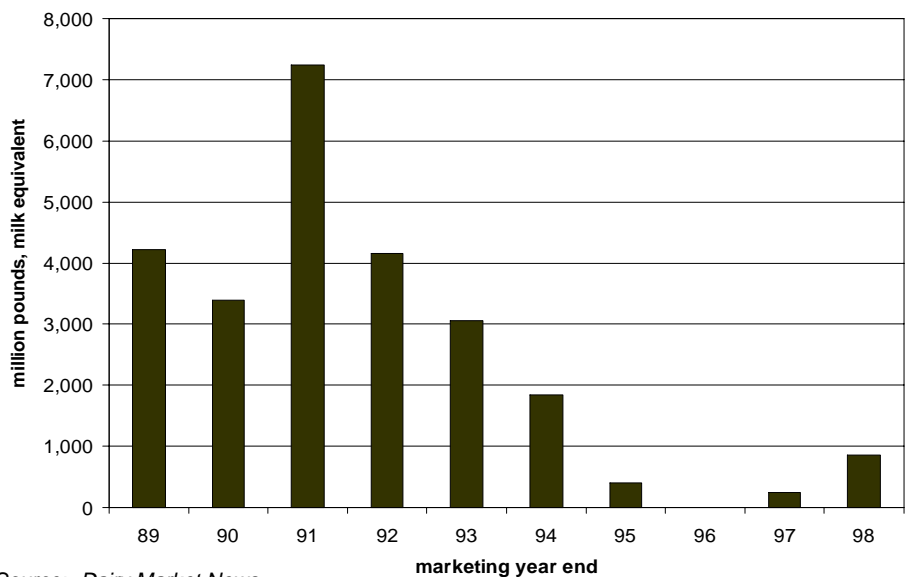
Last year, during the 1997 MY, the CCC purchased 1.9 million pounds of cheese and 31.9 million pounds of NFDM for a total of 244.1 million pounds on a total solids milk equivalent basis. Butter has not been purchased since March 1995. The accompanying chart shows CCC purchases on a total solids basis for the past 10 marketing years.

Under the Federal Agriculture Improvement and Reform Act of 1996 (FAIR Act), the milk price support program is authorized through December 31, 1999; however, the support price is gradually reduced in the interim years. Starting January 1, 1999, the support price will be \$9.90 per hundredweight for milk containing

3.67 percent butterfat.

Upon termination of the price support program, a recourse loan program for commercial processors of dairy products becomes effective January 1, 2000. The program will assist processors in managing inventories of eligible dairy products. The Secretary of Agriculture shall establish the amount of a loan, which shall reflect a milk equivalent value of \$9.90 per hundredweight of milk at a 3.67 percent butterfat test. The rate of interest charged under this section shall not be less than the rate of interest charged the CCC by the United States Treasury."

**CCC Purchases, Total Solids Basis, Marketing Years Ending 1989–1998**



Source: *Dairy Market News*.

## Dairy Promotion News

### Farmer Funded Promotion Order Amended

A final rule amending the Dairy Promotion and Research Order was issued October 26, 1998. The amendment modifies the number of members from geographic regions in order to best reflect the distribution of milk production volume in the United States. For more information on the changes, see the September *Bulletin*. The amended order was effective October 30, 1998.

### Processor Funded Promotion Continued

The USDA announced on December 4 that fluid milk processors voted to continue a national program for fluid milk promotion. A continuation referendum was conducted November 9–16, 1998.

USDA's Agricultural Marketing Service reported that 53.8 percent of processors voting favored continuation of the order. These processors represented 85.4 percent of fluid milk products processed and marketed by processors voting in the referendum.

Federal law requires that the program be continued if at least 50 percent of the processors voting approve it. In addition, those voting for approval must have collectively

processed and marketed commercially 60 percent or more of the fluid milk products marketed in the U.S. by referendum participants.

For more information, see the October issue of the *Bulletin*."

## Appeals Court Refuses to Hear Minnesota Case

On November 17, 1998, the United States Court of Appeals for the Eighth Circuit issued an Order denying a request for a rehearing of the case brought by the Minnesota Milk Producers Association contesting the Secretary's pricing of Class I milk. A three-judge panel of the Court issued a decision on August 13, 1998, upholding the Secretary (see the July *Bulletin*). The Minnesota group then petitioned the Court for a rehearing of the case with a suggestion for a rehearing before the full Court. The Court now has denied the suggestion for a rehearing. The only possibility of further action in this case would be an appeal to the United States Supreme Court."

## Mailbox Prices Compared

For the first 9 months of 1998, the Order No. 2 mailbox prices averaged \$14.02 per hundredweight, 13.5 percent higher than the 1997 average. Comparatively, Order No. 2 uniform prices averaged 8.2 percent higher during the same period. The accompanying table compares Order No. 2 mailbox and uniform prices for the January through September period.

As shown in the table, mailbox and uniform prices follow a similar pattern. Mailbox prices averaged \$0.41 per hundredweight (3.0 percent) higher than blend prices for the first 9 months of 1998. For the same period in 1997, mailbox prices averaged \$0.24 lower than blend prices. The reason for the difference is that butterfat tests and differentials and changes in premiums, hauling, and other deductions affect mailbox prices.

For the first 9 months of 1998, premiums averaged \$0.37 per hundredweight, compared to \$0.33 during the same period in 1997. Hauling remained at \$0.32 per hundredweight; other deductions increased by \$0.005 per hundredweight. Butterfat values probably had the greatest impact on mailbox prices. For the months compared, average butterfat tests varied by only .006 of a point, but the butterfat differential averaged 89.1 percent higher in 1998.

**Order No. 2 Uniform and Mailbox Prices,  
January–September, 1997–98**

Month	Uniform	Mailbox	Difference	Percent
	\$/cwt			
January	13.95	14.05	0.10	0.7
February	14.19	14.32	0.13	0.9
March	13.89	14.04	0.15	1.1
April	13.50	13.59	0.09	0.7
May	12.73	12.79	0.06	0.5
June	13.41	13.34	(0.07)	(0.5)
July	13.53	13.30	(0.23)	(1.7)
August	14.88	14.73	(0.15)	(1.0)
September	15.98	16.03	0.05	0.3
1998 9-month avg	13.61	14.02	0.41	3.0
1997 9-month avg	12.59	12.35	(0.24)	(1.9)

For the January–September 1998 period, mailbox prices averaged \$14.27 in New England (Order No. 1), \$14.26 in Middle Atlantic (Order No. 4), \$14.47 in Chicago Regional (Order No. 30), and \$14.31 in Upper Midwest (Order No. 68)."

## Dairy Product Price Changes

Wholesale dairy product prices continue to show volatility. In recent weeks, Grade AA butter prices at the Chicago Mercantile Exchange (CME) dipped sharply, rebounded, dropped, and then rose again. Cash prices for 40-pound block Cheddar cheese trading at the CME have reached all-time record highs.

Weekly Grade AA butter trading on the spot cash market at the CME peaked at an all-time record high of \$2.8100 per pound on September 18, 1998. Since then, the price dropped to \$1.2175 per pound on November 25, 1998; then increased the following week to \$1.4125 per pound; dipped the following week to \$1.3950 per pound; and rose to \$1.4700 per pound on December 18, 1998.

Daily spot market cash trading of Cheddar cheese began September 1, 1998, at the Chicago Mercantile Exchange. On September 11, 1998, the daily CME 40-lb block Cheddar price passed the previous record level of \$1.6950 per pound set in weekly trading at the National Cheese Exchange during September 6 through October 11, 1996. It continued rising and since December 9, 1998, 40-lb block Cheddar cheese trading at the CME has held at \$1.9000 per pound.

### Future Prices Insight

Wholesale dairy product prices can serve as a "leading indicator" for future class price changes and, subsequently, uniform price levels. Wholesale dairy product prices measured by National Agricultural Statistics Service (NASS) sales surveys are factors in the Basic Formula Price (BFP) calculation used to determine class prices

under federal milk marketing orders. Although CME cheese prices are not used in calculating federal order prices, there is a strong relationship between CME prices and NASS cheese price survey information. (See the March and August 1998 issues of the *Bulletin*.)

Since CME prices are reported daily, dairy industry analysts watch CME cheese prices closely to predict future changes in class prices and uniform prices under federal milk marketing orders. Record high CME cheese prices have driven class and uniform prices to record high levels. Futures market price observations at the CME settled on December 17, 1998, with December delivery BFP contracts at \$17.22 per hundredweight and December delivery Cheddar cheese at \$1.8325 per pound. Since a significant portion of cheese values are derived from the butterfat value in cheese, the recent drop in wholesale butter prices is another indicator that lower wholesale cheese prices may be coming."

## USDA Issues Disaster Relief Funds

USDA has disbursed nearly \$10 million in payments to eligible dairy producers under the Dairy Production Disaster Assistance Program. These payments were made to producers who dumped milk or suffered diminished milk production because of natural disasters occurring from November 27, 1997, through May 1, 1998, in counties with an approved Presidential or Secretarial disaster designation. Several counties in New York State were included."

## Determination of Uniform Price of \$16.78 for November 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 dollars	Total value	Contribution per cwt of receipts
I-A	388,148,291	42.3	17.52	68,003,580.54	104,528.75	68,108,109.29	7.429
I-B	18,474,086	2.0	17.52	3,236,659.88	6,678.35	3,243,338.23	0.354
II	140,840,769	15.4	15.40	21,689,478.38	14,138.90	21,703,617.28	2.368
III	359,648,794	39.2	16.90	60,780,646.21	34,544.36	60,815,190.57	6.633
III-A	<u>9,646,312</u>	<u>1.1</u>	14.93	<u>1,440,194.38</u>	<u>2,474.84</u>	<u>1,442,669.22</u>	<u>0.158</u>
Reported receipts	916,758,252	100.0		155,150,559.39	162,365.20	155,312,924.59	16.942
Adjustments:	<u>Product pounds</u>		<u>Dollars*</u>				
Sec. .60(d)(6) I	3,459,539		49,377.88				
Sec. .60(d)(6) II	3,524,273		(24,669.92)				
Total Sec. .60(d)(2) thru (6)	6,983,812		24,707.96			24,707.96	0.002
Total adjustments	6,983,812		24,707.96				
Total pool milk classified	916,758,252						
Handlers must pay			24,707.96	155,150,559.39	162,365.20	155,337,632.55 **	16.944
<b>COMPUTATION OF UNIFORM PRICE</b>							
	<u>Milk pounds</u>			<u>Dollars</u>		<u>Dollars per cwt of receipts</u>	
Total value of pooled milk				155,337,632.55		16.944	
Less: Cooperative payments	593,375,828		237,350.34			0.026	
Reserve			778,028.58			0.085	
Transportation credit	916,758,252		1,375,137.39	<u>(2,390,516.31)</u>		<u>0.150</u>	<u>(0.261)</u>
Value of pooled milk less subtractions				152,947,116.24		16.683	
Add: Freight adjustment to 201-210 mile zone			117,968.40			0.013	
Unreserved cash in producer settlement fund			<u>766,950.05</u>	<u>884,918.45</u>		<u>0.084</u>	<u>0.097</u>
Uniform Price	916,758,252			153,832,034.69		16.780	

\* Includes transportation and other applicable differentials.

\*\* In addition handlers must pay \$4,627,876.73 for butterfat in excess of 3.5 percent.

Note: The average butterfat test of milk delivered was 3.783601 percent. The butterfat differential was \$.178 for each one-tenth of one percent of butterfat.

## Comparative Price and Other Descriptive Statistics

	NOVEMBER 1997	OCTOBER 1998	NOVEMBER 1998
Order No. 2			
Handlers (with producer milk)	36	32	31
Bulk Tank Units	98	93	92
Producers	10,414	9,620	9,536
Daily Deliveries Per Producer (pounds)	2,993	3,215	3,205
Price Factors, Monthly Averages (dollars)			
Basic Formula Price, 3.5% butterfat, per cwt	12.96	16.04	16.84
Cheddar Cheese, 40-lb blocks, per lb, NASS	1.3852	1.7534	1.8317
Butter, Grade A, per lb#	1.4842	2.3189	1.6547
Nonfat dry milk, Central States, per lb	1.0713	1.1180	1.1250
Uniform Prices (dollars per cwt, 3.5% butterfat)			
Order No. 1, Zone 1 (Boston)	14.82	17.48	17.39
Order No. 2, 1-10 mile Zone* (New York City)	14.73	17.34	17.65
Order No. 4, Philadelphia¶	14.68	17.10	17.17
Class I Utilization Percentage			
Order No. 1	49.0	50.4	47.7
Order No. 2	43.2	45.4	44.3
Order No. 4	49.1	50.4	45.8

# 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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