

# Bulletin

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Federal Order No. 2

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## More Milk Moves South

During the month of September, approximately 7 million pounds of milk pooled under Order No. 2 were shipped to processing plants in the southeastern United States. This equaled about 140 tanker loads of bulk milk. In August, nearly 6 million pounds were shipped to southern states.

Last September, 4.3 million pounds (about 86 tankers) were sent to southern states. During August and September 1996, 9.9 million and 7.2 million pounds, respectively, were shipped when the Southeast was experiencing an extreme shortfall. ♦

## September Butterfat Differential Sets Another Record

The butterfat differential for September was 32.5 cents per tenth of a point (0.1) of butterfat. This was the fourth consecutive month where a new "all-time high" differential was reached. The reason for the high differential is the record high Chicago Mercantile Exchange (CME) wholesale market butter price, which is used in the calculation of the butterfat differential. Before the run-up in butter prices this summer, the previous record-high butterfat differential was a considerably lower 18.2 cents per tenth of a point, set in the fall of 1984.

For an Order No. 2 producer with a September 1998 butterfat test similar to the marketwide average butterfat test of 3.571588 percent, the butterfat differential would have contributed 23.3 cents per hundredweight to the pay price. During September 1997, the Order No. 2 average test was a bit higher at 3.607331 percent, but the butterfat differential was much lower at 10.6 cents per tenth of a point. As a result, a producer with a herd butterfat test close to the market average test in September 1997 would have received 11.4 cents per hundredweight for butterfat, less than half of the September 1998 value.

### Prices Have Softened

Since reaching a peak of \$2.81 per pound on September 18, Grade AA wholesale butter prices on the Chicago Mercantile Exchange (CME) have declined 47.5 cents to \$2.3350 per pound as of October 16. While wholesale butter prices remain historically high, the October butterfat differential will likely fall below the September differential as a result of lower market prices. ♦

## September 1998 Pool Highlights

- The September 1998 uniform price equaled **\$15.98**, an increase of \$1.10 from last month and \$3.39 higher than last year. This was the highest uniform price ever under the Order.
- Class I and II prices were \$3.91 above last year's; Class III was \$2.31 higher. The Class III-A price was \$7.94 higher than last year's and added \$0.05 to the September uniform price.
- Producer receipts totaled 936.5 million pounds, a decrease of 3.1 percent from last year.
- Class I receipts totaled 418.8 million pounds, an increase of 0.7 percent from last year.
- Daily deliveries per producer (DDP) equaled 3,228 pounds, a year-to-year increase of 152 pounds (4.9 percent).
- The Order No. 2 average butterfat test was 3.571588 percent. Butterfat payments totaled \$2,178,923.72, an increase of 98.1 percent from last year. ♦

## Order No. 2 Prices and Utilization for September

	1997	1998	Percent change
<b>Prices*</b>			
	dollars per cwt		
Uniform	12.59	15.98	26.9
Class I	13.28	17.19	29.4
Class II	11.16	15.07	35.0
Class III	12.85	15.16	18.0
Class III-A	11.93	19.87	66.6
<b>Utilization</b>			
	million pounds		
Class I	415.8	418.8	0.7
Class II	152.2	147.2	(3.3)
Class III	376.3	359.4	(4.5)
Class III-A	22.5	11.1	(50.5)
Producer Receipts	966.8	936.5	(3.1)

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

## U.P. Forecasted to Increase

The uniform price **forecast** for **October 1998** is **\$16.30** per hundredweight of bulk milk testing 3.5 percent butterfat in the 201-210 mile zone. This is an estimate. ♦

## Consumer Price Index Comparison: Food and Dairy

The consumer price index (CPI) represents changes in prices of all goods and services purchased for consumption. It is the most widely used measure of inflation and serves as an economic indicator to policy makers.

### CPI Specifications

CPI data is provided by the Bureau of Labor Statistics. The CPI-U was used in this analysis. It represents the CPI for all urban consumers, which is considered the "Official CPI." The data used was not seasonally adjusted because annual averages were compared and are not affected by seasonality. The base period used is 1982–84; in other words, an average price for each category was calculated

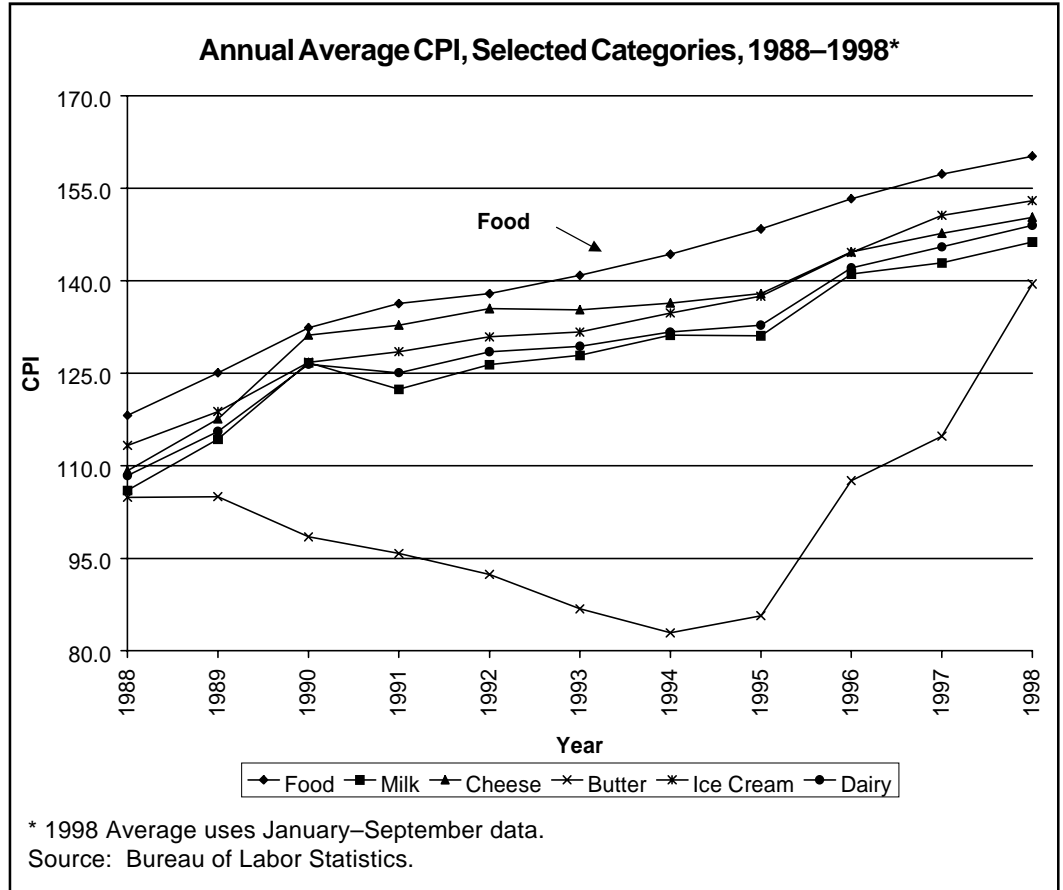
using all prices for the 36 months from 1982, 1983, and 1984. Then this average is set equal to 100. Changes in prices thereafter are compared to this base as greater or less than 100 (i.e., an index of 95 equals a 5 percent decrease from the base time-period).

### Dairy Prices Rise In-Step With Food Prices

Between 1988 and 1997, the consumer price index (CPI) for all dairy products rose at about the same rate compared to the CPI for all food. For the first 5 years of that period, much of the increase was fueled by the increase in cheese prices. During the second half of the 10-year period, cheese prices grew at a slower rate, while butter prices rose sharply beginning in 1996. The accompanying chart shows the annual average percentage CPI change for selected categories from 1988 to 1998. The table shows the percentage change in CPI for these same categories for certain years. For 1998 a 9-month average is used; all other years use 12-month averages.

### Most Dramatic Change: Butter

The average annual CPI for butter decreased each year from 1990 until 1994. Beginning in 1995, the demand for butter began increasing as did its price. From its low in 1994 to its current 1998 average, the butter CPI has increased 68.3 percent. The



CPI for ice cream has risen consistently over the past 10 years. Cheese prices rose dramatically in the late 1980s and then leveled around 1993; price increases were slower for the next 5 years, with the exception of 1996 when all dairy product prices increased. Fresh whole milk has had a couple of declines in average annual prices over the past 10 years. Overall, milk price increases have equaled cheese and have been slightly above both butter and ice cream.

Even though the CPIs for individual dairy products have changed at different rates, the combined dairy CPI has risen at about the same rate compared to all food. ♦

Years compared	Food	Milk	Cheese	Butter	Ice cream	Dairy
1988-1993	3.6	3.9	4.5	(3.7)	3.1	3.7
1988-1997	3.2	3.5	3.5	1.4	3.2	3.4
1988-1998	3.1	3.4	3.3	3.4	3.1	3.3
1993-1997	2.7	2.5	1.8	5.0	2.9	2.5
1993-1998	2.5	2.5	1.8	7.8	2.6	2.5

\* 1998 Average uses January–September data.  
Source: Bureau of Labor Statistics.

## Third Quarter Update: Receipts Down, Prices Up

For the July through September 1998 period, total producer milk receipts under Order No. 2 decreased 2.0 percent from the same period last year. Overall, producer milk receipts have increased 2.2 percent for the first 9 months of 1998. At mid-year, Order No. 2 milk receipts were 4.3 percent above 1997's. The accompanying table shows a comparison to 1997 for the January through September period.

Milk used for Class I was up 3.6 percent for the 9-month period. Class II usage was down, while Class III milk receipts were up. At mid-year, Class III-A usage was above the previous year's. Due to high prices in the third quarter, usage declined 45.7 percent from the same period in 1997, resulting in an overall decline of 9.7 percent for the first 9 months. Corresponding class utilization percentages have responded in a similar manner.

Class and uniform prices have been above last year's during each of the 9 months of 1998 except for March's Class III-A price which was \$0.11 less than in 1997. For the third quarter, Class I prices averaged 16.3 percent above last year's. Class II and III were 19.4 and 25.5 percent higher, respectively. Record-setting Class III-A prices averaged 44.8 percent over 1997's, and uniform prices averaged 21.7 percent greater than last year's. The 9-month average changes are shown in the table.

Daily milk deliveries per producer (DDP) posted an impressive 5.5 percent average gain for the January–September period. Producer numbers have declined 3.1 percent for the same period. ♦

<b>Order No. 2 Pool Statistics, January–September, 1997–98</b>			
<u>Pool statistic</u>	<u>1997</u>	<u>1998</u>	<u>1997–98 Change</u>
	<u>million pounds</u>		<u>percent</u>
Class I	3,457.3	3,582.8	3.6
Class II	1,433.3	1,367.6	(4.6)
Class III	3,685.0	3,847.0	4.4
Class III-A	279.5	252.2	(9.7)
Total Receipts*	8,855.1	9,049.7	2.2
	<u>pounds</u>		
DDP	3,160	3,334	5.5
	<u>utilization percentage</u>		<u>change</u>
Class I	39.0	39.6	0.6
Class II	16.2	15.1	(1.1)
Class III	41.6	42.5	0.9
Class III-A	3.2	2.8	(0.4)
	<u>dollars/cwt</u>		<u>percent</u>
Class I	13.93	15.35	10.2
Class II	11.81	13.23	12.0
Class III	11.71	13.34	13.9
Class III-A	12.02	14.62	21.6
Uniform	12.44	14.01	12.6

\* May not add due to rounding.

## Dairylea Holds Annual Meeting

Dairylea Cooperative Inc. held its 1998 annual meeting October 13–14, 1998. The cooperative announced the following officers and directors for the 1998–99 fiscal year:

President—Clyde E. Rutherford of Otego, NY

First Vice Pres.—Warren Beardsley of Fairport, NY

Second Vice Pres. and Secretary—Raymond J. Diebold of Altoona, PA

Treasurer—James L. Madigan of Towanda, PA

Asst. Treas.—Calvin Wood of DeRuyter, NY

Other directors include: William M. Beeman of Kingsley, PA; David Chamberlain of Wyoming, NY; Perry Dewey, Jr. of Clymer, NY; Glen Gasstrom of Ilion, NY; Raymond Johnson of Schaghticoke, NY; Edgar A. King of Schuylerville, NY; Arleigh Rice of Lowville, NY; and G. Douglas Young of Union Springs, NY. Serving as directors at large are Rich Baldwin of Waterville, NY; Arnold Dueppengiesser of Perry, NY; and James W. Hill of Otto, NY. ♦

## Changes Proposed to Promotion Order

On September 21 a proposal to amend the producer-funded Dairy Promotion and Research Order (Order) was published in the Federal Register. This proposal would modify the composition of the National Dairy Promotion and Research Board in order to best reflect the geographic distribution of milk production in the United States. The Order requires that regional representation be reviewed periodically and changed when necessary to reflect changes in milk production among the regions.

Specifically, it would add one seat to both Region 2 (California) and Region 3 (Arizona, Colorado, Idaho, Montana, Nevada, Utah, and Wyoming), and would remove one seat from both Region 6 (Wisconsin) and Region 7 (Illinois, Iowa, Missouri, and Nebraska).

The program is financed by a mandatory 15-cent per hundredweight assessment on all milk produced and marketed for commercial use. Comments were due October 5. ♦

## Glickman Creates Small Farms Office

As part of his continuing efforts to support small farms, Secretary Dan Glickman announced in early October his plans to create a Council on Small Farms and a new office at USDA that will deal specifically with small farm issues.

The new office will coordinate USDA agencies' responses to the recommendations of the Small Farms Commission and help to institutionalize the progress and interest in these issues. It will identify additional opportunities for USDA involvement in small farm issues and develop a strategic plan and an organizational structure to integrate a small farm emphasis into USDA policies and programs. ♦

## Determination of Uniform Price of \$15.98 for September 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	397,474,442	42.4	17.19	68,325,856.61	102,711.22	68,428,567.83	7.306
I-B	21,341,494	2.3	17.19	3,668,602.81	2,624.40	3,671,227.21	0.392
II	147,230,673	15.7	15.07	22,187,662.43	14,332.29	22,201,994.72	2.371
III	359,363,857	38.4	15.16	54,479,560.72	33,429.46	54,512,990.18	5.820
III-A	<u>11,119,926</u>	<u>1.2</u>	19.87	<u>2,209,529.30</u>	<u>2,270.45</u>	<u>2,211,799.75</u>	<u>0.237</u>
Reported receipts	936,530,392	100.0		150,871,211.87	155,367.82	151,026,579.69	16.126
Adjustments:	<u>Product pounds</u>			<u>Dollars*</u>			
Sec. .60(d)(6) I	3,891,155			82,458.42			
Sec. .60(d)(6) II	3,517,599			(704.05)			
Total Sec. .60(d)(2) thru (6)	7,408,754			81,754.37		81,754.37	0.009
Total adjustments	7,408,754			81,754.37			
Total pool milk classified	936,530,392						
Handlers must pay			81,754.37	150,871,211.87	155,367.82	151,108,334.06	** 16.135
COMPUTATION OF UNIFORM PRICE							
	<u>Milk pounds</u>			<u>Dollars</u>		<u>Dollars per cwt of receipts</u>	
Total value of pooled milk				151,108,334.06		16.135	
Less: Cooperative payments	607,481,127			242,992.45		0.026	
Reserve				781,553.49		0.083	
Transportation credit	936,530,392			1,404,795.58	<u>(2,429,341.52)</u>	<u>0.150</u>	<u>(0.259)</u>
Value of pooled milk less subtractions				148,678,992.54		15.876	
Add: Freight adjustment to 201-210 mile zone				157,364.01		0.017	
Unreserved cash in producer settlement fund				<u>821,200.09</u>	<u>978,564.10</u>	<u>0.087</u>	<u>0.104</u>
Uniform Price	936,530,392			149,657,556.64		15.980	

\* Includes transportation and other applicable differentials.

\*\* In addition handlers must pay \$2,178,923.72 for butterfat in excess of 3.5 percent.

Note: The average butterfat test of milk delivered was 3.571588 percent. The butterfat differential was \$.325 for each one-tenth of one percent of butterfat.

## Comparative Price and Other Descriptive Statistics

	SEPTEMBER 1997	AUGUST 1998	SEPTEMBER 1998
Order No. 2			
Handlers (with producer milk)	35	32	31
Bulk Tank Units	97	94	93
Producers	10,478	9,691	9,672
Daily Deliveries Per Producer (pounds)	3,076	3,294	3,228
Price Factors, Monthly Averages (dollars)			
Basic Formula Price, 3.5% butterfat, per cwt	12.79	14.99	15.10
Cheddar Cheese, 40-lb blocks, per lb, NASS	1.3782	1.6320	1.6556
Butter, Grade A, per lb#	1.0337	2.0830	2.6666
Nonfat dry milk, Central States, per lb	1.0711	1.0463	1.1007
Uniform Prices (dollars per cwt, 3.5% butterfat)			
Order No. 1, Zone 1 (Boston)	13.26	15.72	17.19
Order No. 2, 1-10 mile Zone* (New York City)	13.46	15.75	16.85
Order No. 4, Philadelphia¶	13.05	15.39	16.83
Class I Utilization Percentage			
Order No. 1	49.9	46.3	50.1
Order No. 2	43.0	39.1	44.7
Order No. 4	52.0	45.6	50.2

# 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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