

# The Market Administrator's Bulletin

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Federal Order No. 2

New York-  
New Jersey  
Milk Marketing  
Area

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## January Cheese Price Drop Will Appear In Coming Months' Blend Prices

The record decline in wholesale cheese prices during January will be partially reflected in the February and March uniform prices, but the full impact will not be felt until the April uniform price announced in May. As reported in last month's *Bulletin*, cash prices for 40-pound block Cheddar traded on the Chicago Mercantile Exchange (CME) started 1999 at a record high of \$1.90 per pound. By January 20 the CME price had dropped to \$1.25 per pound. Since then prices on the CME have rebounded 8 cents, closing at \$1.33 on February 12. Although it is cheese prices from the weekly National Agricultural Statistics Service (NASS) plant survey, and not CME cheese prices, that are used in calculating federal order prices, the two price series track each other with CME prices generally leading NASS prices.

### Advance Pricing in Federal Orders

Under federal orders, prices for Class I and II milk are announced 2 months in advance when the Basic Formula Price (BFP) for the previous month is announced. For instance, on February 5, the BFP for January was announced along with Class I and II prices for March. The Class I and II prices for February were announced on January 5, when the December BFP was announced. The blend (or uniform price), the relevant price for producers, is a weighted average price of the total pounds of milk pooled in each class multiplied by the appropriate Class price along with some additional adjustments. The back page of this *Bulletin* details the determination of the January uniform price.

The BFP plus a seasonal adjustment equals the Class III price. The formula used to calculate the BFP incorporates current market dynamics. Changes in wholesale cheese prices and other dairy products that are included in the BFP calculation, therefore, quickly become reflected in the Class III price. The February BFP, to be announced March 5, will reflect the change in wholesale product prices from January to February.

### Class I and II Prices Delay Impact

On average, about 55 percent of the total milk pooled monthly in Order 2 is utilized in Class I and II. The Class I and II prices for February (\$19.76 and \$17.64 *(continued on page 2)*)

## January 1999 Pool Highlights

- The January 1999 uniform price equaled **\$17.40**, the first month-to-month decrease since May 1998. This price was \$0.05 lower than last month's and \$3.45 higher than January 1998's.
- Class I and II prices were \$3.88 above last year's; Class III was \$3.02 higher. The Class III-A price was \$1.08 higher than last year's.
- Producer milk receipts totaled 987.7 million pounds, a decrease of 2.4 percent from last year.
- Class I usage totaled 410.7 million pounds, a decrease of 1.6 percent from last year.
- Daily deliveries per producer (DDP) equaled 3,384 pounds, a year-to-year increase of 215 pounds (6.8 percent)."

## Order No. 2 Prices and Utilization for January

	1998	1999	Percent change
<b>Prices*</b>			
	dollars per cwt		
Uniform	13.95	17.40	24.7
Class I	15.38	19.26	25.2
Class II	13.26	17.14	29.3
Class III	13.28	16.30	22.7
Class III-A	12.07	13.15	8.9
<b>Utilization</b>			
	million pounds		
Class I	417.3	410.7	(1.6)
Class II	147.4	132.9	(9.9)
Class III	411.5	412.6	0.3
Class III-A	35.8	31.5	(12.0)
Producer Receipts	1,012.0	987.7	(2.4)

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

## U.P. Forecasted to Decrease

The uniform price **forecast** for **February 1999** is **\$15.58** per hundredweight of bulk milk testing 3.5 percent butterfat in the 201-210 mile zone. This is an estimate."

## In-Area Sales Continue to Decline in 1998

Total packaged fluid milk sales in the New York–New Jersey milk marketing area declined 1.4 percent in 1998, the same percentage as last year. The only categories that witnessed increases in sales were fat free (skim) and flavored milk products. The accompanying table shows sales by product category for 1996–98. All comparisons have been adjusted for the 1996 leap year.

Reduced fat milk sales (2% butterfat milk) experienced the largest percentage drop of all the categories. Whole milk sales declined at a slightly lower rate than in 1997. Lowfat milk sales (1% butterfat milk) declined, but at a lesser rate than last year.

Fat free milk sales increased again, but at a slightly lower rate than in 1997. Sales of flavored milk and drinks had the largest increase. Buttermilk sales have remained stable.

The trend toward lower fat products also is shown in the average butterfat test of fluid milk products. Overall, the average butterfat test dropped slightly from 2.22 percent in 1997 to 2.19 percent in 1998. The average test for flavored milk and drinks, the only category with various fat levels, declined from 1.80 percent in 1997 to 1.72 percent.

On a market share basis, whole milk sales declined another 0.6 percentage points in 1998, falling for the first

### Additional Information Available on Web Site

Several sections of the Order No. 2 statistical handbook are now available on the Order No. 2 web site. The handbook is a compilation of historical statistics for Order 2 dating from August 1957 through December 1998 and is updated annually. The data are posted in Excel spreadsheet format that can be downloaded and analyzed by users. The *Bulletin*, price announcements, and most other publications released by this office also are available at <http://www.fmmone.com>. Questions or comments can be E-mailed to: [MAGeneric\\_Albany@usda.gov](mailto:MAGeneric_Albany@usda.gov).

### Plant List Available

The compilation of *Plants, Handlers, and Bulk Tank Units Under the New York–New Jersey Marketing Order* is now available from this office. The list includes designated and temporary pool plants, including producer-handlers, regulated under Order No. 2 during December 1998. It does not include plants regulated under another federal or state order or those not regulated under any marketing order. Anyone wishing to receive a copy of this list may do so by contacting this office or by accessing our web site."

**Sales of Packaged Fluid Milk Products Inside the NY–NJ Marketing Area, 1996–98**

Product	1996	1997	1998*	Year-to-year change	
				1996–97**	1997–98*
	million pounds			percent	
Whole milk	2,207.6	2,143.2	2,089.3	(2.7)	(2.5)
Reduced fat milk	783.5	760.2	731.2	(2.7)	(3.8)
Lowfat milk	586.6	581.5	578.9	(0.6)	(0.4)
Fat free milk	581.8	600.5	620.3	3.5	3.3
Flavored milk & drinks	167.9	169.3	176.8	1.1	4.4
Buttermilk	14.5	14.5	14.5	0.3	0.0
<b>Total</b>	<b>4,341.9</b>	<b>4,269.2</b>	<b>4,211.0</b>	<b>(1.4)</b>	<b>(1.4)</b>

\* Preliminary.  
\*\* Adjusted for leap year.

time to less than 50 percent of total sales. Reduced fat sales lost 0.4 percentage points while lowfat gained slightly. The largest market share gain was in fat free sales, which had another 0.7 percentage point increase. Fat free sales passed lowfat sales in total volume in 1997 and widened the margin in 1998. Flavored sales gained another 0.2 percentage points last year, but remain a small proportion of total sales.

Per capita sales also continue to decline in the marketing area. Total per capita sales equaled 200.8 pounds in 1998, down from 204.2 in 1997 and 208.2 in 1996. This was a decline of 1.7 percent, slightly higher than in 1997. The U.S. Bureau of the Census provided population estimates."

### January Cheese Price Drop Will Appear (continued from page 1)

respectively, 201–210 mile zone) are based off of the record high December BFP and also are record highs. With over half of the milk in the Order No. 2 pool calculation for February to be priced at record prices, the impact of the anticipated greatly lower February BFP will be mitigated because it will only impact approximately 40 to 45 percent of the milk pooled. A similar scenario will occur with the March uniform price since the Class I and II prices will still be at high levels. Class III-A utilization averages less than 3 percent of the Order No. 2 pool and generally has a minor impact on the blend price.

### Price Decline Noticed in March Advance Check

Order 2 regulations specify that in addition to a mid-month check, producers must be paid on or before the last day of the month for milk received during the first 15 days of the month. Payment for this "advance check" is at not less than the lowest class price for the preceding month. Producer's March advance check, paid on or before March 31, must be at least equal to the February Class III price. This price likely will reflect the January decline in cheese market prices."

**Market Administrator  
New York–New Jersey Milk Marketing Area  
Administration Fund**

**INCOME AND EXPENSE  
STATEMENT**

For the Year Ended December 31, 1998

**Income:**

Assessments	\$ 3,873,472
Late-Payment Charges	815
Interest Earned	170,004
Other Income	<u>391</u>

**TOTAL FUNDS PROVIDED** **\$ 4,044,682**

**Expenses:**

Salaries and Services	\$ 2,441,230
Travel	128,537
Communications	105,951
Employer Payroll	
Contributions	536,514
Conferences and Meetings	6,810
Insurance	9,883
Rent–Building	263,361
Rent–Equipment	14,172
Repairs and Maintenance	52,195
Supplies, Stationery, and Printing	115,593
Testing & Weighing	35,096
Training	3,779
Depreciation of Fixed Assets	50,131
Amortization of Leasehold	
Improvements	8,455
Miscellaneous	<u>3,725</u>

**TOTAL EXPENSES** **\$ 3,775,432**

**EXCESS OF INCOME  
OVER EXPENSES**

**\$ 269,250**

**BALANCE SHEET**

As of December 31, 1998

**ASSETS**

**Current Assets:**

Cash and Bank Deposits	\$ 1,174,766
Investments	2,361,996
Accounts Receivable:	
Handlers	\$ 329,853
Allowance for Uncollectible Accounts	(27,112)
Other	<u>86,555</u>
Deposits	389,296
Prepaid Expenses	3,558
Accrued Interest Receivable	21,697
	66,534

**Fixed Assets:**

Furniture and Equipment	\$ 1,131,986
Leasehold Improvements	84,549
Accum. Depreciation	<u>(1,118,886)</u>
	<u>97,649</u>

**TOTAL ASSETS** **\$ 4,115,496**

**LIABILITIES & OPERATING BALANCE**

**Liabilities:**

Accounts Payable:	
Trade Creditors	\$ 3

**Accrued Liabilities:**

Salaries	\$ 85,766
Employee Annual Leave	208,496
Employee Payroll Deductions	153
Employer Contributions	<u>18,009</u>
	312,424

**Operating Balance**

3,803,069

**TOTAL LIABILITIES  
& OPERATING BALANCE**

**\$ 4,115,496**

**Disclosure:**

The implementation of improvements in property accountability at the beginning of 1998 included several accounting adjustments that are reflected in these financial statements.

An increase in the threshold for capitalization of fixed assets to \$2,000 resulted in significant reduction in the amounts of fixed assets carried on the balance sheet.

The total book value of fixed assets that was removed from the balance sheet in the January 1998 adjustment was \$189,175.57. The total of their accumulated depreciation was \$122,920.36 and their net depreciated book value was \$66,255.21, while \$48,166.06 of their net value was charged to supplies as part of the adjustment.

A charge was made to depreciation expense resulting from a change in method of valuation that reduced or eliminated the salvage value of many fixed assets by \$18,089.15.

## Determination of Uniform Price of \$17.40 for January 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	Transportation differential	Total value	Contribution per cwt of receipts
dollars							
I-A	393,776,989	39.9	19.26	75,841,448.15	127,364.07	75,968,812.22	7.692
I-B	16,930,613	1.7	19.26	3,260,836.06	4,175.23	3,265,011.29	0.331
II	132,866,897	13.4	17.14	22,773,386.21	12,807.33	22,786,193.54	2.307
III	412,642,548	41.8	16.30	67,260,735.31	40,014.12	67,300,749.43	6.814
III-A	<u>31,474,434</u>	<u>3.2</u>	13.15	<u>4,138,888.08</u>	<u>5,550.56</u>	<u>4,144,438.64</u>	<u>0.419</u>
Reported receipts	987,691,481	100.0		173,275,293.81	189,911.31	173,465,205.12	17.563
Adjustments:	<u>Product pounds</u>		<u>Dollars*</u>				
Sec. .60(d)(1)III	96,252		23,804.01				
Total Sec. .60(d)(1)	96,252	96,252	23,804.01			23,804.01	0.002
Sec. .60(d)(6) I	1,446,346		27,263.05				
Sec. .60(d)(6) II	4,329,108		(11,255.67)				
Total Sec. .60(d)(2) thru (6)	5,775,454		16,007.38			16,007.38	0.002
Total adjustments	5,871,706		39,811.39				
Total pool milk classified	987,787,733						
Handlers must pay			39,811.39	173,275,293.81	189,911.31	173,505,016.51	** 17.567
COMPUTATION OF UNIFORM PRICE							
	<u>Milk pounds</u>		<u>Dollars</u>			<u>Dollars per cwt of receipts</u>	
Total value of pooled milk				173,505,016.51			17.567
Less: Cooperative payments	638,908,678		255,563.48			0.026	
Reserve			821,150.25			0.083	
Transportation credit	987,691,481		1,481,537.23	<u>(2,558,250.96)</u>		<u>0.150</u>	<u>(0.259)</u>
Value of pooled milk less subtractions				170,946,765.55			17.308
Add: Freight adjustment to 201-210 mile zone			111,941.73			0.011	
Unreserved cash in producer settlement fund			<u>799,610.41</u>	<u>911,552.14</u>		<u>0.081</u>	<u>0.092</u>
Uniform Price	987,691,481			171,858,317.69			17.400

\* Includes transportation and other applicable differentials.

\*\* In addition handlers must pay \$3,515,912.55 for butterfat in excess of 3.5 percent.

Note: The average butterfat test of milk delivered was 3.759834 percent. The butterfat differential was \$.137 for each one-tenth of one percent of butterfat.

## Comparative Price and Other Descriptive Statistics

	JANUARY 1998	DECEMBER 1998	JANUARY 1999
Order No. 2			
Handlers (with producer milk)	36	31	30
Bulk Tank Units	95	93	91
Producers	10,301	9,458	9,414
Daily Deliveries Per Producer (pounds)	3,169	3,341	3,384
Price Factors, Monthly Averages (dollars)			
Basic Formula Price, 3.5% butterfat, per cwt	13.25	17.34	16.27
Cheddar Cheese, 40-lb blocks, per lb, NASS	1.4165	1.8707	1.7595
Butter, Grade A, per lb#	1.1061	1.3231	1.3322
Nonfat dry milk, Central States, per lb	1.0593	1.1490	1.0893
Uniform Prices (dollars per cwt, 3.5% butterfat)			
Order No. 1, Zone 1 (Boston)	14.74	17.90	18.01
Order No. 2, 1-10 mile Zone* (New York City)	14.82	18.32	18.27
Order No. 4, Philadelphia¶	14.33	17.41	17.29
Class I Utilization Percentage			
Order No. 1	47.7	46.4	45.9
Order No. 2	41.2	42.9	41.6
Order No. 4	43.5	43.6	39.8

# 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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