



**New York-  
New Jersey  
Milk Marketing  
Area**

# The Market Administrator's Bulletin

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## Second Round for Dairy Options Pilot Program Announced

Agriculture Secretary Dan Glickman has announced that a second round of the Dairy Options Pilot Program (DOPP) will be conducted later this year. The DOPP provides hands-on training for dairy producers to learn how to protect their market price by buying options contracts. By purchasing futures options, dairy farmers have the ability to "lock-in" a base price for their milk in a future month. Options contracts give producers the right, but not the obligation, to sell a futures contract. This hedging alternative can protect a producer's income if the market price falls below the put option price. If market prices exceed the price of the put option, the option can be allowed to expire unused.

### Three Northeast States Among Participants

The second DOPP round will extend training to 61 counties in 25 states. In the Northeast, Wyoming and Madison counties in New York, Lebanon and Tioga counties in Pennsylvania, and Washington County in Vermont were selected. To participate, producers must operate a dairy farm in a designated county and have had total milk production of at least 100,000 pounds over any consecutive 6-month period during the last 12 months—less than 17,000 pounds per month. Producers in these counties will receive program information and application materials directly from USDA's Risk Management Agency. Interested producers will be required to attend a training session in order to participate.

### USDA Shares Participants Costs

Under DOPP, USDA covers 80 percent of an option's premium price and reimburses \$30 of participants' per trade brokerage fee. Producers will be able to buy up to 425,000 pounds of milk options in a 4-month period following their training. Counseling and advice will be available to participants for the program's 12-month duration.

During the first DOPP round in early 1999, 425 producers in 37 counties in seven states purchased almost 1,700 put options. Seventeen counties in New York, Pennsylvania, and Vermont were included in the first DOPP round. For more information, contact Lon Burke in USDA's Risk Management Agency at 202/720-5265. ♦

## July 1999 Pool Highlights

- The July 1999 uniform price equaled **\$13.21** per hundredweight, an increase of \$0.80 from last month and down \$0.32 from July 1998.
- Class I and II prices were \$0.38 above last year's. The Class III price was \$1.18 below and the Class III-A price was \$3.22 lower than 1998's.
- Producer milk receipts totaled 966.8 million pounds, a decrease of 4.7 percent from last year.
- Class I usage totaled 377.0 million pounds, down 3.5 percent from the previous year.
- Daily deliveries per producer (DDP) equaled 3,482 pounds. This was a year-to-year increase of 114 pounds (3.4 percent). ♦

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

	1998	1999	Percent change
	dollars per cwt		
<b>Prices*</b>			
Uniform	13.53	13.21	(2.4)
Class I	13.30	13.68	2.9
Class II	11.18	11.56	3.4
Class III	14.80	13.62	(8.0)
Class III-A	15.62	12.40	(20.6)
<b>Utilization</b>	million pounds		
Class I	390.9	377.0	(3.5)
Class II	156.2	143.9	(7.9)
Class III	448.8	428.4	(4.5)
Class III-A	18.7	17.5	(6.4)
Producer Receipts	1,014.5 #	966.8	(4.7)

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

# Total does not add due to rounding.

## U.P. Forecasted to Increase

The uniform price **forecast** for **August 1999** is **\$14.36** per hundredweight of bulk milk testing 3.5 percent butterfat in the 201-210 mile zone. This is an estimate. ♦

## Cheese Prices Rise; Butter Prices Fall

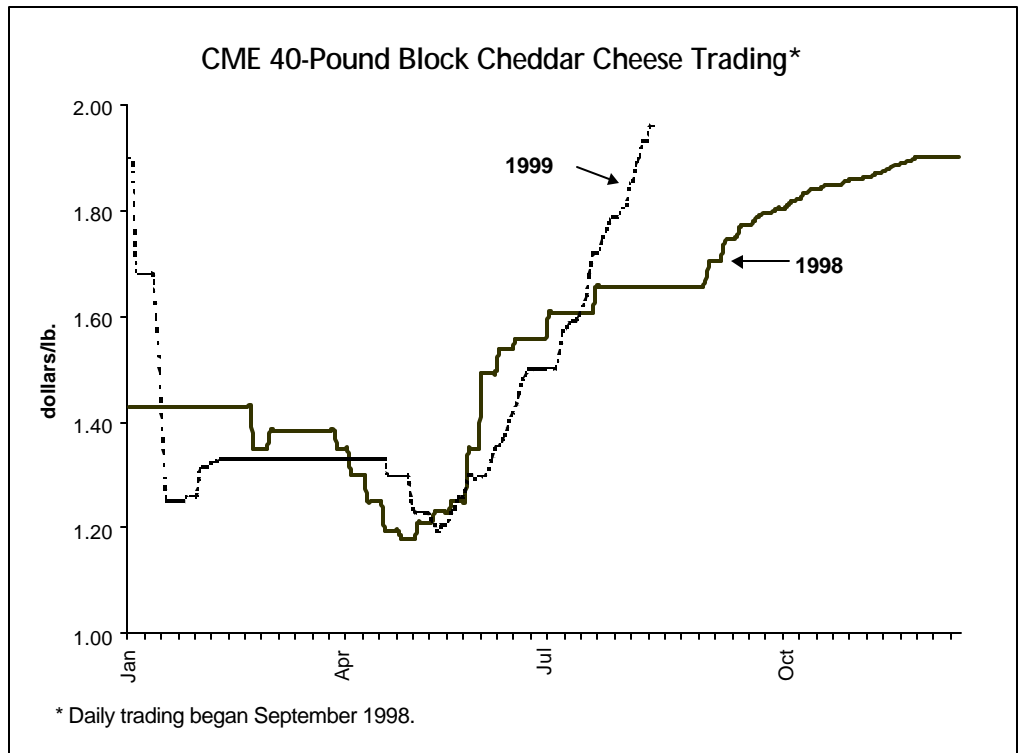
### Record High Cheese Prices

Cheese prices at the Chicago Mercantile Exchange (CME) continue to reach new record high levels. Wholesale prices for 40-pound block Cheddar cheese trading on the CME increased to \$1.9625 per pound as of August 18, 1999. Block cheese prices at the CME peaked last year at \$1.9000 as 1998 drew to a close. On May 17, 1999, block cheese prices dipped to their lowest level so far this year at \$1.1925 per pound. Since that date, prices have risen \$0.7675 over a 3-month period (see accompanying chart). This market information, combined with other factors,

has driven recent CME Basic Formula Price (BFP) futures contracts for September and October 1999 delivery to a range of \$17.30 to \$17.50 per hundredweight. Last year, the BFP peaked in December at \$17.34 per hundredweight.

### Butter Trends Down

Unlike cheese prices that have climbed to record highs, recent butter prices have been well below the record levels seen in 1998. As of August 18, 1999, cash wholesale Grade AA butter prices at the CME were



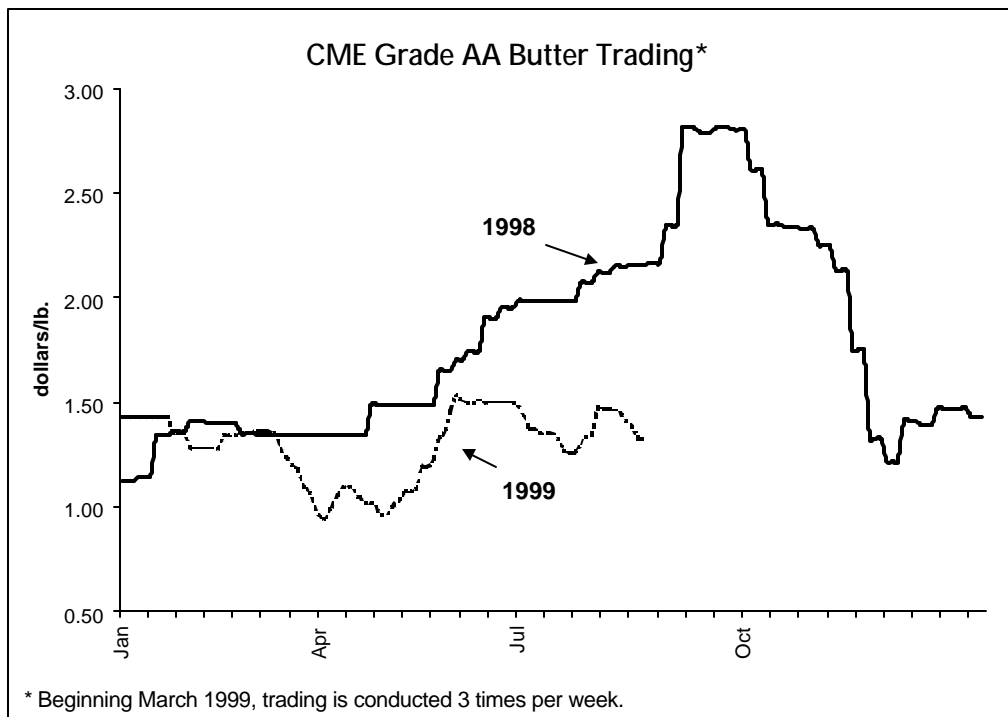
\$1.3250 per pound. Last year, at this time, butter prices were over \$2.00 per pound and headed toward the record high peak of \$2.81 per pound (see accompanying chart).

### Despite Heat, Milk Production Increases

USDA's *Milk Production*, released on August 16, 1999, indicated that the hot weather and drought affecting parts of the United States have had mixed results on state level milk production. In the Northeast, New York and Vermont milk production increased

1.7 and 2.2 percent, respectively, in July 1999, compared to last year. Pennsylvania's July milk production level was down 0.8 percent from 1998's level. Revised data for June 1999 show year-to-year increases for all three states. New York was up 2.3 percent; Pennsylvania increased 2.7 percent; and Vermont rose 2.2 percent from June 1998 levels.

Estimated total U.S. milk production increased 2.2 percent in July 1999 compared to last year. Cumulative U.S. milk production through the first 7 months of 1999 is 3.0 percent above last year's level. ♦



## In-Area Sales Decline at Lower Rate

For the first 6 months of 1999, total sales of packaged fluid milk products in the New York–New Jersey (Order No. 2) milk marketing area declined 0.7 percent compared to the same period in 1998. The decline for the first 6 months of 1998, compared to 1997, was 1.5 percent. The accompanying table shows in-area sales for the January–June period of 1997–99. Data for 1999 are preliminary.

Unlike previous years when declines were mainly seen in the higher-fat product categories, all product categories experienced declines except flavored milk and drinks during the January–June 1999 period. Even fat free (skim) milk, sales of which have been on the rise, dropped slightly during the 6-month period. Buttermilk sales had the largest percentage drop, but overall only accounted for 0.3 percent of total sales, which is unchanged from the last few years.

Sales of whole milk and lowfat (1%) milk dropped

Sales of Packaged Fluid Milk Products Inside the NY–NJ Marketing Area, January–June, 1997–99

				Year-to-year change	
	1997	1998	1999*	1997–98	1998–99*
	million pounds			percent	
Whole	1,067.4	1,039.1	1,029.7	(2.6)	(0.9)
Reduced	377.9	363.7	358.7	(3.8)	(1.4)
Lowfat	290.5	288.7	286.0	(0.6)	(0.9)
Fat free	296.0	306.9	305.1	3.7	(0.6)
Flavored	90.7	91.6	96.0	1.0	4.8
Buttermilk	7.0	7.3	7.1	5.0	(2.5)
<b>Total</b>	<b>2,129.5</b>	<b>2,097.3</b>	<b>2,082.7</b>	<b>(1.5)</b>	<b>(0.7)</b>

\* Preliminary

less than a percent each while sales of reduced fat (2%) declined 1.4 percent. Each of these three categories lost 0.1 percentage point of total sales. Even though fat free sales decreased, the category gained 0.1 percentage point of all sales. Flavored milk and drinks gained 0.2 percentage points. ♦

## Farms Increase Computer Usage

According to a recently released National Agricultural Statistics Service (NASS) survey, on-farm computer usage and ownership have increased dramatically in just the past 2 years. In 1999, a total of 47 percent of U.S. farms have access to a computer, compared to 38 percent in 1997; 40 percent of all farms own or lease a computer, up from 31 percent in 1997; and 29 percent of farms now have Internet access, compared to 13 percent in 1997.

Each year NASS conducts its June Agricultural Survey to provide estimates of crop acres planted, grain in storage, livestock inventories, and land values. In 1997, and again this year, questions were added to the survey form that asked the operator about access and use of computers.

Based on size of operation, 77 percent of U.S. farms with sales of \$250,000 and more have access to a computer; 72 percent own or lease a computer; 65 percent use a computer for their farm business; and 52 percent have Internet access. For farms with sales less than \$250,000; 45 percent have access to a computer; 37 percent own or lease a computer; 21 percent use one for their farm business; and 27 percent have Internet access.

On a regional basis, farms located in the western United States have the highest percentages of computer usage and ownership. Sixty-four percent have computer access and 41 percent have Internet access. In the Northeast, 50 percent have access to computers and 33 percent have Internet access. Farms located in

the South had the lowest percentage for access, ownership, usage for their farm businesses, and Internet access. ♦

## Administrative Assessment Waived

For the months of August and September 1999, the administrative assessment pursuant to Section 1002.85 of the order regulating the handling of milk in the New York–New Jersey Marketing Area will be waived. Payment of the assessment will not be required of handlers on milk received during those months. ♦

## Fluid Milk Board Members Named

Agriculture Secretary Dan Glickman announced the appointment of 9 incumbents and 4 new members to the National Fluid Milk Processor Promotion Board. Locally, in region 2, Jeffrey W. Stephen of Chelsea, Massachusetts, was newly appointed. The appointments for region 2 expire on May 31, 2002.

The Board was established by the Fluid Milk Promotion Act of 1990 to develop and administer a coordinated program of advertising and promotion to increase the consumption of fluid milk products. It is composed of 15 fluid milk processors from 15 geographic regions, and five at-large members. The program is financed by a mandatory 20-cent per hundredweight assessment on all fluid milk processed and marketed commercially in consumer-type packages. ♦

## Determination of Uniform Price of \$13.21 for July 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	363,410,189	37.6	13.68	49,714,513.86	110,023.84	49,824,537.70	5.153
I-B	13,602,410	1.4	13.68	1,860,809.69	2,106.16	1,862,915.85	0.193
II	143,867,730	14.9	11.56	16,631,109.56	17,546.04	16,648,655.60	1.722
III	428,430,788	44.3	13.62	58,352,273.36	36,829.70	58,389,103.06	6.038
III-A	<u>17,524,669</u>	<u>1.8</u>	<u>12.40</u>	<u>2,173,058.94</u>	<u>2,943.51</u>	<u>2,176,002.45</u>	<u>0.226</u>
Reported receipts	966,835,786	100.0		128,731,765.41	169,449.25	128,901,214.66	13.332
Adjustments:	<u>Product pounds</u>		<u>Dollars*</u>				
Sec. .60(d)(6) I	5,299,543		126,637.52				
Sec. .60(d)(6) II	6,231,376		15,578.45				
Total Sec. .60(d)(2) thru (6)	11,530,919		142,215.97			142,215.97	0.015
Total adjustments	11,530,919		142,215.97				
Total pool milk classified	966,835,786						
Handlers must pay			142,215.97	128,731,765.41	169,449.25	129,043,430.63	** 13.347
COMPUTATION OF UNIFORM PRICE							
	<u>Milk pounds</u>		<u>Dollars</u>			<u>Dollars per cwt of receipts</u>	
Total value of pooled milk				129,043,430.63			13.347
Less: Cooperative payments	627,441,080		250,976.43			0.026	
Reserve			789,710.07			0.082	
Transportation credit	966,835,786		1,450,253.67	<u>(2,490,940.17)</u>		<u>0.150</u>	<u>(0.258)</u>
Value of pooled milk less subtractions				126,552,490.46			13.089
Add: Freight adjustment to 201-210 mile zone			203,011.87			0.021	
Unreserved cash in producer settlement fund			<u>963,505.00</u>	<u>1,166,516.87</u>		<u>0.100</u>	<u>0.121</u>
Uniform Price	966,835,786			127,719,007.33			13.210

\* Includes transportation and other applicable differentials.

\*\* Calculations are on the basis of 3.5 percent butterfat. The amount handlers must pay is reduced by \$880,151.15 since the average butterfat test was below 3.5 percent.

Note: The average butterfat test of milk delivered was 3.432064 percent. The butterfat differential was \$.134 for each one-tenth of one percent of butterfat.

## Comparative Price and Other Descriptive Statistics

	JULY 1998	JUNE 1999	JULY 1999
Order No. 2			
Handlers (with producer milk)	32	29	30
Bulk Tank Units	97	91	93
Producers	9,718	9,040	8,958
Daily Deliveries Per Producer (pounds)	3,368	3,668	3,482
Price Factors, Monthly Averages (dollars)			
Basic Formula Price, 3.5% butterfat, per cwt	14.77	11.42	13.59
Cheddar Cheese, 40-lb blocks, per lb, NASS	1.5656	1.2747	1.4702
Butter, Grade A, per lb	1.9185	1.4031	1.2544
Nonfat dry milk, Central States, per lb	1.0297	1.0139	1.0172
Uniform Prices (dollars per cwt, 3.5% butterfat)			
Order No. 1, Zone 1 (Boston)	13.86	13.51	13.69
Order No. 2, 1-10 mile Zone* (New York City)	14.40	13.28	14.08
Order No. 4, Philadelphia¶	13.56	13.29	13.47
Class I Utilization Percentage			
Order No. 1	53.2	41.9	45.4
Order No. 2	38.6	36.4	39.0
Order No. 4	43.4	36.6	41.7

\* Includes 15-cent transportation credit.

¶ Includes 6-cent direct-delivery differential.

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