

# Bulletin

Ronald C. Pearce, Administrator

One Columbia Circle, Albany, NY 12203-6379

Phone: 518/ 452-4410 Fax: 518/464-6468

WWW: <http://www.fmmone.com>

E-mail: [MAGeneric\\_Albany@usda.gov](mailto:MAGeneric_Albany@usda.gov)

Federal Order No. 2

New York–  
New Jersey  
Milk Marketing  
Area

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## Federal Legislation Update

### Order Reform Deadline Extended

The fiscal year 1999 federal budget agreement (Omnibus Consolidated Emergency Supplemental Appropriations Bill) signed by the President on October 21, 1998, extended the deadline for completing federal milk marketing order reform. The Federal Agriculture Improvement and Reform Act (1996 Farm Bill) set April 4, 1999, as the date for completing order reform. The new implementation date is **October 1, 1999**, with a “final rule” to be submitted to Congress between February 1 and April 4, 1999. The Regulatory Flexibility Act requires 60 days for Congress to review major rules. The final rule will contain provisions for each suggested marketing order. Information about the final rule will be provided to producers to determine approval by a referendum vote.

Since the authorizing legislation for the Northeast Interstate Dairy Compact (Compact) is tied to the federal order reform implementation date, the Compact has also been extended until October 1, 1999.

### New Requirements

The budget agreement makes clear that under the federal milk order reform process, the state of California has from the date of the issuance of the final rule to Congress through September 30, 1999, to become a separate federal milk marketing order.

Another new requirement states that when the Secretary of Agriculture announces the basic formula price (BFP) used under federal milk marketing orders, the announcement must include an estimate of the costs incurred by milk producers to produce milk on a hundredweight basis. Total cash expenses and total economic costs will be reported for the United States and six subregions.”

### Underpayment Notices Issued

For the second quarter of 1998, \$27.89 in underpayments to producers resulted from incorrect transportation differentials involving one handler and one producer. No hauling underpayments were reported for this period. Handlers have been notified of their obligations.”

## October 1998 Pool Highlights

- The October 1998 uniform price equaled **\$16.47**, a new record-high under the order. This was an increase of \$0.49 from last month and \$3.10 higher than last year.
- Class III-A pricing added \$0.02 to the October uniform price.
- Producer milk receipts totaled 958.7 million pounds, a decrease of 2.5 percent from last year.
- Class I usage totaled 434.6 million pounds, an increase of 1.7 percent from last year and the largest volume of Class I since October 1973. Class I utilization was 45.4 percent, the highest since and equal to the November 1994 level.
- Daily deliveries per producer (DDP) equaled 3,215 pounds, a year-to-year increase of 6.0 percent.
- The Order No. 2 average butterfat test was 3.70905. Butterfat payments totaled a record-high \$5,471,629.70.”

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

	1997	1998	Percent change
<b>Prices*</b>			
	dollars per cwt		
Uniform	13.37	16.47	23.2
Class I	14.49	17.41	20.2
Class II	12.37	15.29	23.6
Class III	12.89	16.10	24.9
Class III-A	13.56	18.19	34.1
<b>Utilization</b>			
	million pounds		
Class I	427.2	434.6	1.7
Class II	150.5	139.3	(7.4)
Class III	391.2	376.0	(3.9)
Class III-A	14.7	8.8	(40.2)
Producer Receipts	983.6	958.7	(2.5)

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

### U.P. Forecasted to Increase

The uniform price **forecast** for **November 1998** is **\$16.65** 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; Only Skim and Flavored Show Increase

Total packaged fluid milk sales in the New York–New Jersey milk marketing area for the July–September 1998 period declined 2.0 percent from the same period in 1997 (see accompanying table). For the first 9 months of 1998, in-area sales are down 1.7 percent from last year.

Whole, reduced fat (2%), and lowfat (1%) milk sales decreased during the third quarter of 1998. Year-to-date sales for these products are down 2.8, 4.0, and 0.8 percent, respectively. Buttermilk sales were down for the July–September period, but were up 1.6 percent for the first 9 months of 1998.

The only products to experience increases during the third quarter of 1998 were skim milk and flavored milk/drinks. For the January–September period, sales in these categories have increased 3.6 and 1.7 percent, respectively. The flavored milk/drinks category is becoming predominantly lower fat. Its butterfat test has been decreasing steadily, averaging 1.76 percent for the January–September 1998 period, compared to 1.85 percent for the same period in 1997. As a percentage of the flavored category, lower fat products (reduced, lowfat, skim milk drinks) have grown to 85.4 percent, up from 82.5 percent for the comparable period in 1997.

On a market share basis, whole milk sales lost 0.6

percentage points and declined to 49.6 percent of all sales for the first 9 months of 1998. Reduced fat sales dropped 0.4 of a percentage point, while lowfat sales gained 0.1 of a percentage point. Their respective market shares were 17.4 and 13.8 percent. Skim's market share grew 0.8 percentage points to 14.8 percent of total sales. Flavored milk/drinks and buttermilk market shares were unchanged holding at 4.0 and 0.4 percent of the January–September in-area sales, respectively."

### Sales of Packaged Fluid Milk Products Inside the New York–New Jersey Marketing Area, July–September, 1997–98

Product	1997	1998*	Change
	million pounds	million pounds	percent
Milk	526.8	510.1	(3.2)
Reduced	187.9	179.3	(4.6)
Lowfat	143.6	141.8	(1.2)
Skim	150.7	156.0	3.5
Flavored	32.6	33.8	3.8
Buttermilk	3.9	3.7	(4.1)
<b>Total</b>	<b>1,045.5</b>	<b>1,024.8</b>	<b>(2.0)</b>

\* Preliminary.

## USDA Schedules Training Sessions for Dairy Options Pilot Program (DOPP)

USDA's Risk Management Agency (RMA) has announced training sessions for dairy farmers, residing in the previously designated counties, who are interested in participating in the DOPP. Six counties in each of the Northeast states of New York, Pennsylvania, and Vermont were previously designated to participate in the program.

The DOPP, first announced last June by Agriculture Secretary Dan Glickman, is designed to help dairy farmers learn to manage price risks and lock in a minimum milk price using options on the basic formula price (BFP). As an incentive to encourage program participation, USDA will cover a portion of participants trading related transaction costs while in the program and also provide training on using BFP options. See May 1998 *Bulletin* for additional information.

### Training Required

Within the next week, dairy farmers in the designated counties will receive a packet of information from RMA with program details and a DOPP application. Eligible producers will be required to attend a training session in order to participate in the program. DOPP participation will be limited to 100 producers per county during this program round. RMA is requiring applications to be returned from interested producers

by December 11, 1998. The accompanying table includes dates for training sessions in New York and Pennsylvania.

Additional details on the time and location of the training sessions will be sent directly to participants. For further information, or if you are a producer in a designated county who has not received a DOPP information packet, contact your county Extension Service office."

### January 1999 DOPP Training Sessions

Day	Date	Pennsylvania Counties
Monday	4	Franklin
Tuesday	5	Lancaster
Wednesday	6	Berks
Thursday	7	Chester
Friday	8	Bradford
Saturday	9	Crawford
<b>New York Counties</b>		
Monday	11	Steuben
Tuesday	12	Chatauqua
Wednesday	13	Lewis
Thursday	14	Oneida
Friday	15	Jefferson
Saturday	16	St. Lawrence

## Northeast Outlook Conference Held

The 1998 Northeast Regional Dairy Outlook Conference was held November 10, 1998, at this office. The annual conference brings together economists and statisticians from Northeast market administrators' offices, state and federal agricultural statistical services, and university extension offices to review production and price statistics for the past year and develop projections for the upcoming year. The northeastern region includes New England (Connecticut, Massachusetts, New Hampshire, Rhode Island, and Vermont), New York, New Jersey, Pennsylvania, Maryland, and Delaware.

### Crop Situation

Most of the northeastern states experienced favorable weather this past spring and summer resulting in an improved crop situation compared to last year. Hay and corn yields were up and of good quality. Across the country there is some poor quality forage, especially hay and alfalfa, but feed costs remain exceptionally low.

### Production Estimates

The combination of 1998's high milk prices and low feed costs are expected to generate an increase in milk production in 1999. Expansion has reportedly been slow in 1998, as farmers have been cautious about spending after witnessing high prices in 1996 that plummeted the following year. Many have used this year's returns to pay down debt. Milk production per cow (MPC) has been somewhat disappointing; this could be partially due to farmers keeping on cows that would normally be culled if milk prices were lower. Replacement cow prices are quite high indicating that farmers are buying with the intent of increasing production.

Nationally, 1998 milk production is expected to finish 0.5 percent above last year with a decline of 0.7 percent in cow numbers and an increase of 1.2 percent in MPC. For 1999, U.S. production is projected to increase 1.8 percent with the same decline in cows, but with a 2.4 percent MPC increase. For the northeast region, 1998 milk production is estimated to be up 1.7 percent with a slight increase in cows and a 1.6 percent increase in MPC. In 1999, regional production is expected to increase only 0.6 percent with a decline in cow numbers of 0.6 percent and an increase in MPC of 1.3 percent.

Total producer milk receipts for the four federal milk marketing orders (New England, New York–New Jersey, Middle Atlantic, and Eastern Ohio–Western Pennsylvania) and the Western New York State order are expected to finish 0.9 percent higher in 1998 than last year. Projections for 1999 are up 1.2 percent. Total Class I usage for these areas is expected to finish 0.2 percent down in 1998 and another 0.4 percent down next year. Class II usage for 1998 is estimated to finish 4.3 percent higher than last year; 1999 usage is projected down 1.6 percent. Overall, Class III usage is expected to increase in 1998 and 1999.

Total Class III-A usage was down in the northeast orders in 1998, but is projected to increase next year.

### Price Forecasts

As a result of high milk prices and low feed costs, an increase in milk production appears inevitable. This increase in production is expected to drive prices downward in 1999. Annual average basic formula price (BFP) projections from conference participants range from \$0.25 to \$1.70 per hundredweight less than the 1998 estimated annual average. The simple average of participants' 1999 BFP projections yielded \$12.79 per hundredweight. Correspondingly, uniform prices are estimated to decrease 4.3 percent in 1999 with a simple average for the Northeast region of 14.19 per hundredweight. The Order No. 2 blend price forecast for 1999 is \$14.25 per hundredweight."

## USDA Holds Referendum on Fluid Milk Promotion Program

The U.S. Department of Agriculture conducted a referendum November 9–16, 1998, to determine whether fluid milk processors favor the continuation of the Fluid Milk Promotion Order. Under the Fluid Milk Promotion Act, handlers processing and marketing more than 500,000 pounds of fluid milk products during July 1998 were eligible to vote in the referendum. The National Fluid Milk Promotion Board, which administers the order, requested that a continuation referendum be conducted. The program is funded by a mandatory 20-cent per hundredweight assessment on processors whose monthly marketing exceeds 500,000 pounds of fluid milk products in consumer packages. The Fluid Milk Promotion Order funds the "milk mustache" advertising campaign."

## Orders in the News

### Nebraska–Western Iowa

USDA has issued a proposed suspension of rule regarding the Nebraska–Western Iowa Federal Milk Marketing Order (No. 65). The proposal would suspend 11 counties from the marketing area for the period beginning November 1, 1998, through December 31, 1999. The request was made by one dairy that contends the suspension is necessary for it to maintain its milk supply and remain competitive in selling fluid milk products in the marketing area. Comments were due by November 9, 1998.

### Upper Midwest

The Upper Midwest Federal Milk Marketing Order revised its shipping percentages and diversion limits for the month of November 1998. The shipping percentage was changed from 16.3 to 15.5 percent. Conversely, the diversion limit was changed from 83.7 to 84.5 percent. The revisions were needed to prevent unnecessary handling and/or uneconomic shipments of milk."

## Determination of Uniform Price of \$16.47 for October 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	412,941,487	43.1	17.41	71,893,112.83	121,425.95	72,014,538.78	7.511
I-B	21,660,983	2.3	17.41	3,771,177.14	559.86	3,771,737.00	0.394
II	139,305,043	14.5	15.29	21,299,741.10	14,206.34	21,313,947.44	2.223
III	376,037,950	39.2	16.10	60,542,109.99	34,203.80	60,576,313.79	6.318
III-A	<u>8,801,046</u>	<u>0.9</u>	18.19	<u>1,600,910.27</u>	<u>1,706.46</u>	<u>1,602,616.73</u>	<u>0.167</u>
Reported receipts	958,746,509	100.0		159,107,051.33	172,102.41	159,279,153.74	16.613
Adjustments:	<u>Product pounds</u>			<u>Dollars*</u>			
Sec. .60(d)(6) I	5,348,283			120,709.08			
Sec. .60(d)(6) II	3,898,778			5,068.53			
Total Sec. .60(d)(2) thru (6)	9,247,061			125,777.61		125,777.61	0.013
Total adjustments	9,247,061			125,777.61			
Total pool milk classified	958,746,509						
Handlers must pay			125,777.61	159,107,051.33	172,102.41	159,404,931.35 **	16.626
<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				159,404,931.35		16.626	
Less: Cooperative payments	621,789,567			248,715.83		0.026	
Reserve				787,791.54		0.082	
Transportation credit	958,746,509			1,438,119.77	<u>(2,474,627.14)</u>	<u>0.150</u>	<u>(0.258)</u>
Value of pooled milk less subtractions				156,930,304.21		16.368	
Add: Freight adjustment to 201-210 mile zone				149,115.10		0.016	
Unreserved cash in producer settlement fund				<u>826,130.72</u>	<u>975,245.82</u>	<u>0.086</u>	<u>0.102</u>
Uniform Price	958,746,509			157,905,550.03		16.470	

\* Includes transportation and other applicable differentials.

\*\* In addition handlers must pay \$5,471,629.70 for butterfat in excess of 3.5 percent.

Note: The average butterfat test of milk delivered was 3.709050 percent. The butterfat differential was \$.273 for each one-tenth of one percent of butterfat.

## Comparative Price and Other Descriptive Statistics

	OCTOBER 1997	SEPTEMBER 1998	OCTOBER 1998
Order No. 2			
Handlers (with producer milk)	35	31	32
Bulk Tank Units	96	93	93
Producers	10,466	9,672	9,620
Daily Deliveries Per Producer (pounds)	3,032	3,228	3,215
Price Factors, Monthly Averages (dollars)			
Basic Formula Price, 3.5% butterfat, per cwt	12.83	15.10	16.04
Cheddar Cheese, 40-lb blocks, per lb, NASS	1.3835	1.6556	1.7534
Butter, Grade A, per lb#	1.3735	2.6666	2.3189
Nonfat dry milk, Central States, per lb	1.0691	1.1007	1.1180
Uniform Prices (dollars per cwt, 3.5% butterfat)			
Order No. 1, Zone 1 (Boston)	14.32	17.19	17.48
Order No. 2, 1-10 mile Zone* (New York City)	14.24	16.85	17.34
Order No. 4, Philadelphia¶	14.16	16.83	17.10
Class I Utilization Percentage			
Order No. 1	51.0	50.1	50.4
Order No. 2	43.4	44.7	45.4
Order No. 4	53.4	50.2	50.4

# 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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