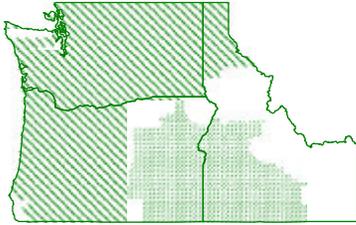


## Pacific Northwest & Southwestern Idaho- Eastern Oregon Marketing Areas

June 1999



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### MARKET SUMMARIES FOR MAY

#### Pacific Northwest

Producers delivered a total of 596.4 million pounds of milk to the market during May, an increase of 16.1 million pounds from the level of a year ago. Daily deliveries increased 13.2% from the previous month and were 2.8% above the level of a year ago. Change from previous month biased due to eligible producer milk not pool in April 1999. An estimated 1,107 producers delivered milk to the market during the month, a decrease of 43 producers from May 1998. Daily deliveries per producer averaged 17,379 pounds, an increase of 1,101 pounds or 6.8% from a year ago.

Class I producer milk during May totaled 175.2 million pounds, 29.4% of total producer receipts. Daily usage averaged 4.7% below that in April but 1.0% above the level of a year ago.

Producers will receive \$1.6713 per pound of protein, \$0.3317 per pound of other solids, and \$1.1838 per pound of butterfat in their deliveries of milk. Producers will also receive the market's producer price differential of \$0.80 per hundredweight. The market average component tests for the month were: 3.22% protein, 5.49% other solids (solids-not-fat less protein), 8.71% solids-not-fat, and 3.61% butterfat.

#### Southwestern Idaho-Eastern Oregon

Producers delivered a total of 177.0 million pounds of milk to the market during May, a decrease of 154.3 million pounds from a year ago. Daily deliveries averaged 408.5% above those in the previous month but were 46.6% below the level of a year ago. An estimated 380 producers delivered milk to the market during the month, a decrease of 9 producers from a year ago. Previous month and year ago comparisons are biased. Handlers elected to not pool eligible milk for the months of April and May 1999. Daily deliveries per producer averaged 30,601 pounds, an increase of 3,130 pounds or 11.4% from a year ago.

Class I producer milk during May totaled 15.3 million pounds, 8.7% of total producer receipts. Daily usage averaged 9.8% below that recorded last month but was 4.8% above the level of a year ago.

Producers will receive \$2.26 per pound of protein and \$1.18 per pound of butterfat in their deliveries of milk. Producers will also receive the market's weighted average differential price of \$0.17 per hundredweight. The market average component tests for the month were 3.22% protein and 3.56% butterfat. ♦

#### Estimated Uniform Price (@ 3.5% BF) May 1999

Federal Order	Per Cwt.
Pacific Northwest	\$12.06
Southwestern Idaho-Eastern Oregon	\$11.43

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**MAY BFP DOWN \$0.55 TO \$11.26 PER CWT.**

**Basic Formula Price** - - The May 1999 Basic Formula Price (BFP) for manufacturing grade milk at 3.50% butterfat decreased \$0.55 from April 1999, to \$11.26 per hundredweight. May's BFP is \$0.38 above the BFP of a year ago, and \$1.46 above the support price for milk at 3.50% butterfat. The decrease in the BFP for May resulted primarily from a 43-cent decrease in the product price portion of the BFP between April 1999 and May 1999. The decrease was aided by a 17-cent decrease in the base month M-W survey from \$11.86 to \$11.69 between March and April 1999. The BFP is calculated as the base month M-W survey price, plus the weighted average change in product prices ( $\$11.69 + -\$0.43 = \$11.26$  per hundredweight). The BFP at test was \$11.55 per hundredweight, with 3.76% butterfat, 3.16% protein, and 8.61% solids-not-fat. The BFP is the Class III price under the orders and is also used in determining the Class I price, the Class II price, and component prices under the orders.

**Commodity Prices** - - The NASS survey of cheddar cheese prices showed a net decrease in prices received for 40-pound blocks but a net increase for 500-pound barrels. The survey of 40-pound blocks showed a net decrease of 2.44 cents between the May 14 and the June 11 surveys, to \$1.2562 per pound. The survey of 500-pound barrels (adjusted to 39% moisture) showed a net increase of 2.46 cents to \$1.2355 per pound.

The Mercantile Exchange Grade A butter price series (weekly average Grade AA less 9 cents) showed a net increase of 25.17 cents between the weeks ending May 21 and June 18 from \$1.1583 per pound to \$1.4100 per pound.

The average wholesale price for nonfat dry milk (low, medium and high heat combined) in the Western States production area showed a net no change since mid-May at \$1.0050 per pound. The average price for western nonhygroscopic whey showed a net decrease of 0.13 cents since mid-May at \$0.1700 per pound. ♦

**FEDERAL ORDER REFORM FINAL DECISION: CLASSIFICATION AND IDENTICAL PROVISIONS**

The following articles are brief summaries of portions of the Final Decision. Reference the Final Decision for a complete analysis and discussions of these and other issues.

The Agricultural Marketing Agreement Act of 1937--the authorizing legislation for Federal milk marketing orders--provides that all milk should be classified "in accordance with the form in which, or the purpose for which it is used." This has resulted in a system of uniform provisions that places milk used for fluid purposes in the highest use class - Class I--and other manufactured products in lower classes--Classes II, III, and III-A.

Currently, products packaged for fluid consumption, such as whole milk, skim milk, buttermilk, and flavored milk drinks, are classified as Class I products. Class II products include ice cream, yogurt, cottage cheese, and cream. Most cheeses and butter are now classified in Class III, and Class III-A is limited to nonfat dry milk.

**Changes in Final Decision**

Among the changes in classification in the final decision are the following:

- Eggnog will be reclassified from Class II to Class I;
- Class III-A will be renamed Class IV, and will include butter and any milk product in dried form.

Federal milk marketing orders also contain numerous provisions that establish the regulations for the operation of the orders. Over the years, the orders have been individualized to account for specific situations associated with a given marketing area. However, there are many provisions within the orders that are similar, or that could be similar, and still provide for orderly and efficient marketing of milk. Therefore, the final decision also streamlines various provisions, definitions, and terms across orders. Specifically, the final decision will:

- Standardize and consolidate as many order provisions as possible into the General Provisions (Part 1000 of Title 7, CFR), and reduce the provisions contained in individual orders to those provisions that must be unique to each order. Standardized provisions would:

- define various terms used in the orders;
- establish regulatory standards for plants and handlers;
- provide for uniform reporting of milk receipts and utilization; and
- provide for uniform classification of milk.

➤ Eliminate archaic terminology and obsolete provisions, restructure order provisions in a more logical format, simplify the way in which "shrinkage" (milk lost in transit and processing) is classified, and modify the way in which milk components (butterfat, protein, and skim milk) are priced. ♦

#### **FEDERAL ORDER REFORM FINAL DECISION: REPLACING THE BASIC FORMULA PRICE**

The basic formula price, or BFP, is currently used to determine Federal order minimum Class III prices. The BFP reflects the value of milk used in manufactured dairy products --butter, nonfat dry milk (powder), and cheese. Price differentials are added to the BFP to establish minimum prices for milk used in higher valued fluid milk, called Class I products, and milk used in "soft" dairy products, called Class II products.

The current BFP is based on a monthly survey of prices paid for unregulated, manufacturing grade (Grade B) milk in Minnesota and Wisconsin. This monthly price is updated by a formula to reflect the most recent month-to-month changes in dairy product prices, especially cheese prices.

#### **Why Replace the BFP?**

There is widespread agreement in the industry that the BFP needs to be replaced. At one time, a significant amount of Grade B milk was produced, and the majority of it was produced in Minnesota and Wisconsin. Since Grade B milk is unregulated by Federal orders because it is not eligible for fluid use, it was considered representative of competitive market conditions that would prevail in the absence of the Federal milk order program. Today, less than 5 percent of all milk produced is Grade B milk. As the supply of Grade B milk has dwindled in Minnesota and Wisconsin, as well as nationally, the BFP is becoming out-of-date as a statistically valid indicator of a competitive market for milk.

#### **How Would the Final Decision Replace the BFP?**

The final decision replaces the BFP with a multiple component pricing plan that continues the tie between the price of milk used in fluid products and the price of milk used in manufactured products. The current BFP serves two purposes--it is the Class III price and it is the price mover for Class I and Class II. The replacement for the BFP will split these two functions. The Class III and Class IV prices will be based on multiple component pricing using monthly average commodity prices to compute the component values. Multiple component pricing involves determining a value for milk based on the values of protein, butterfat, and other nonfat solids used in manufactured dairy products.

The method of establishing minimum Class I prices will be very similar to the current method--in which a Class I differential is added to the manufacturing value of milk. Under the reformed milk marketing order system, the Class I differential will be added to a "base price." That "base price" will be announced on or before the 23rd of the month and will use the most recent 2-week estimate of the Class III or Class IV price for milk used in manufacturing, whichever is higher. Class I differentials will be added to this base price. Use of the most recent 2-week average of prices will reduce the time lag in Class I prices relative to manufactured dairy product prices.

#### **How Will Component Prices Be Determined?**

USDA's National Agricultural Statistics Service (NASS) currently surveys and reports block cheese prices used in calculating the current BFP. NASS also surveys and reports transaction prices for barrel cheese, butter, dry whey, and nonfat dry milk. All of these product prices now will be used to derive the price of milk used in manufacturing (Class III and Class IV) and to calculate the advanced pricing factors for computing the Class I price.

Manufacturing or "make" allowances--estimated costs of producing dairy products--would be deducted from the commodity prices surveyed by NASS to derive a representative price based solely on the value of the components in milk used to manufacture cheese, butter, nonfat dry milk, and dry whey.

The prices for butterfat, protein, and other solids used in Class III will be computed as follows:

Butterfat Price = ((NASS AA Butter Survey Price – 0.114) / 0.82)

Protein Price = (( NASS Cheese Survey Price – 0.1702 ) x (((NASS Cheese Survey Price - 0.1702) x 1.582) – Butterfat Price) x 1.28)

Other Solids Price = ((NASS Dry Whey Survey Price – 0.137) / 0.968).

For milk used in Class IV products the butterfat price is the same as the Class III butterfat price, while the nonfat solids price will be computed as follows.

Nonfat Solids Price = ((NASS Nonfat Dry Milk Survey Price – 0.137) / 1.02). ♦

### FEDERAL ORDER REFORM FINAL DECISION: CLASS I PRICING

In each milk marketing order area, the Class I price is the minimum price that regulated handlers must pay for milk used in fluid products--called Class I milk. Like Class II and Class III prices, producers do not receive the Class I price directly; rather, they receive a weighted average, called the blend price, which represents the volume and price of all milk in the marketing order area used in Class I, II, III, and III-A. Under the current program, Class I prices are announced each month for the following month, as the sum of the Basic Formula Price (BFP) for the previous month plus a stated Class I price differential. Since the BFP is the same for every milk order, most discussions of Class I prices focus on the Class I differential, which varies across milk marketing orders.

Class I differentials vary across Federal milk order areas for two reasons. First, there needs to be a price incentive (called the Class I differential) to move and maintain the quality status of Grade A milk from points of production to fluid milk processing plants, which are typically located closer to population centers than to production areas. However, Federal orders also recognize that local milk prices should not exceed the cost of available "distant" milk plus transportation costs to the "local" market. The price incentive also persuades manufacturing plants to "give up" milk and make it available for the fluid market.

### What's in the Final Decision?

The two Class I pricing options that the earlier proposed rule advanced for final consideration were reviewed in the final decision. The final decision adopts a national price surface that meets fluid milk demand by generating sufficient revenue for dairy farmers. It also provides incentives for greater structural efficiencies in milk assembly and distribution. These goals are achieved by using generally higher differential levels as proposed in Option 1A while retaining the pricing surface of the preferred option.

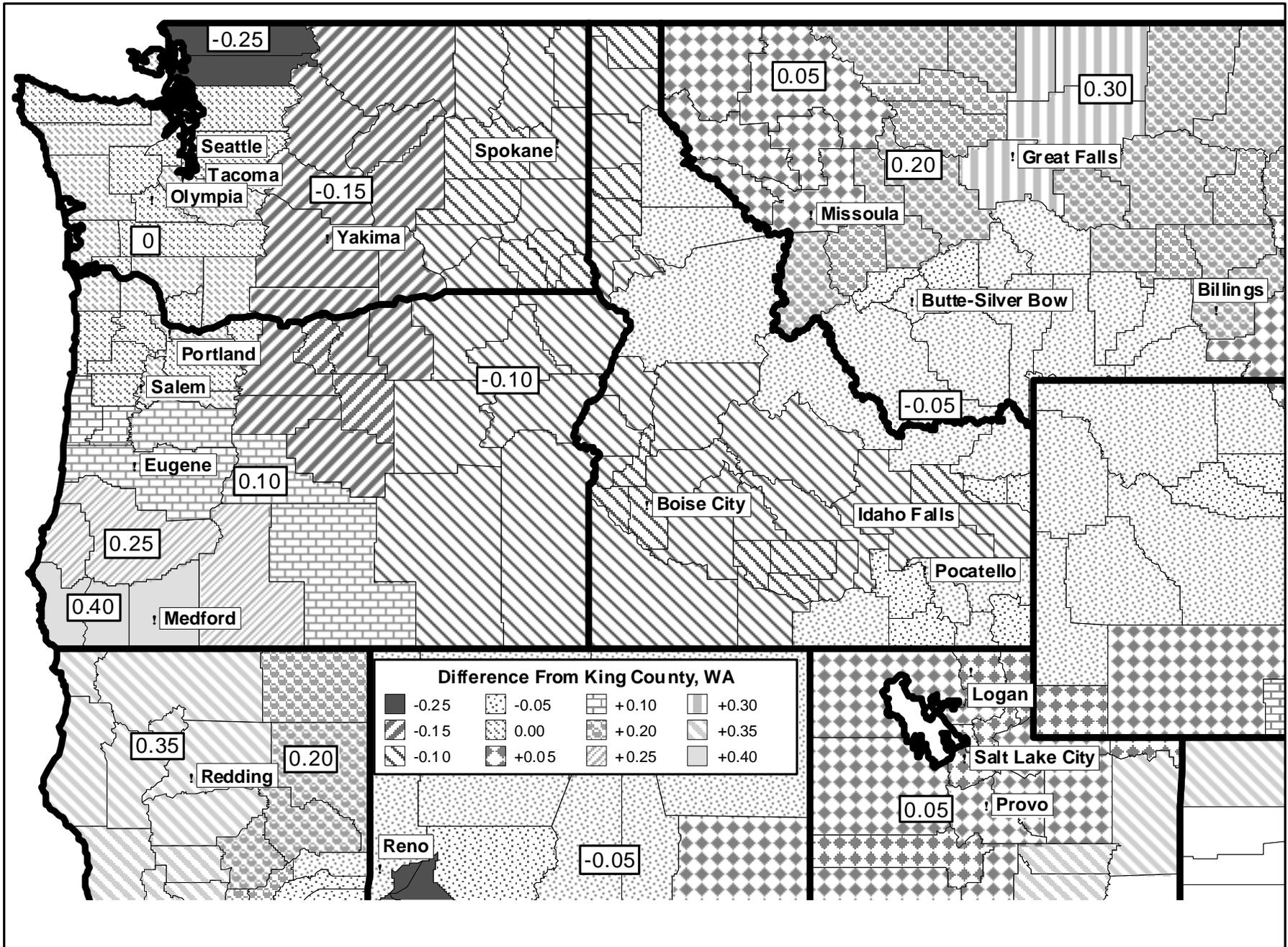
Higher differential levels were selected for two important reasons. First, the higher differential levels assure that the minimum prices established under the system of milk marketing orders will generate sufficient revenue for dairy farmers so that there will be an adequate supply of fluid milk while maintaining equity among handlers. Second, the higher differential level will, together with reducing the lead time for announcing Class I prices, reduce the likelihood of inverse class-price relationships, thereby sending better pricing signals to dairy farmers.

Although the adopted pricing surface is at generally higher levels than the original proposed preferred option, it retains essentially the same relative pricing relationships as presented in an economic model of the dairy industry, the U.S. Dairy Sector Simulator (USDSS). The price structure moves the dairy industry towards a more efficient structure, while assuring orderly marketing conditions for dairy farmers and handlers.

As with the other pricing options considered, the adopted price structure adds a differential to the Class I price mover--the higher of either the Class III or Class IV milk price--to set the Class I price for every county in the country. For the first time, a nationally coordinated pricing structure for milk is established.

On the following page is a map of the Final Decision Class I and producer location adjustments relative to King County, Washington, for the Pacific Northwest Order. ♦

# FINAL DECISION: PACIFIC NORTHWEST ORDER CLASS I AND PRODUCER LOCATION ADJUSTMENTS



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# MONTHLY SELECTED STATISTICS

Formula Prices	May 1999	Apr 1999	May 1998
Basic Formula Price	\$ 11.26	\$ 11.81	\$ 10.88
Butter, Grade A, CME Price Series	1.0389	0.9398	1.4945
Nonfat Dry Milk, Grade A - Western	1.0025	1.0105	1.0315
Cheese, 40 lb. blocks, NASS	1.2661	1.3131	1.2034

PACIFIC NORTHWEST, F.O. #124				SW IDAHO-E OREGON, F.O. #135		
Handler Prices (3.5% B.F.)	May 1999	Apr 1999	May 1998	May 1999	Apr 1999	May 1998
Class I Milk	\$13.52	\$12.17	\$14.71	\$13.12	\$11.77	\$14.31
Class II Milk	11.92	10.57	13.11	11.92	10.57	13.11
Class III Milk	11.26	11.81	10.88	11.26	11.81	10.88
Class III-A Milk	11.43	10.94	13.93	11.43	10.94	13.93
1/ Other Solids	0.3317	0.4852	0.0000	+	+	+
1/ Protein	1.6713	1.7333	1.4524	2.26	2.58	1.45
<b>Producer Prices</b>						
PPD/WAD 2/	\$ 0.80	\$(0.24 )	\$ 2.13	\$0.17	\$(0.21)	\$0.18
1/ Other Solids	0.3317	0.4852	-	+	+	+
1/ Protein	1.6713	1.7333	1.4524	2.26	2.54	1.45
Est. Uniform Price	12.06 ***	11.57 ***	13.01 ***	11.43 ***	11.60 ***	11.06 ***
1/ Butterfat Price	1.1838	1.0349	1.7976	1.18	1.03	1.80
<b>Producer Data</b>						
Number of Producers	1,107 *	938	1,150	380 *	221	389
Avg. Daily Production (lbs.)	17,379 *	18,117	16,278	30,601 *	28,752	27,471
<b>Number of Handlers</b>						
Pool Handlers	27	27	26	11	10	11
Producer-Handlers	12	12	15	0	0	0
Other Plants w/ Class I Use	4	4	4	5	5	5
<b>Producer Milk Ratios</b>						
Class I	29.38%	34.89%	29.89%	8.67%	48.87%	4.42%
Class II	8.77%	8.69%	8.71%	4.34%	20.89%	2.24%
Class III	61.85%	56.42%	61.40%	86.99%	30.24%	93.34%
Class III-A	**	**	**	**	+	+

+ Not Applicable. \* Preliminary. \*\* Restricted Included with Class III. \*\*\* Estimated. 1/ Per Pound.

2/ Producer Price Differential (PPD) for FO 124 and Weighted Average Differential (WAD) for FO 135.

## MONTHLY SUPPLEMENTAL STATISTICS

Producer-Handler Data	Apr 1999	Mar 1999	Apr 1998	Apr 1999	Mar 1999	Apr 1998
(Thousand lbs.)						
Production	22,377 *	22,842 *	22,017 *	0	0	0
Class I Use	17,677 *	19,516 *	18,452 *	0	0	0
% Class I Use	79.00%	85.44%	83.81%	0	0	0
<b>Class I Route Disposition In Area</b>						
(Thousand lbs.)						
By Pool Plants	163,784	172,090	164,763	14,386	14,646	13,828
By Producer-Handlers	16,998 *	18,785 *	17,444 *	0	0	0
By Other Plants	1,249	862	897	1,427	1,366	775
Total **	182,030	191,737	183,105	15,813	16,012	14,603

\* Partially Estimated. \*\* May not add due to rounding.

# MONTHLY STATISTICAL SUMMARY

(Product pounds based upon reports of handlers)

RECEIPTS, UTILIZATION AND CLASSIFICATION OF MILK	PACIFIC NORTHWEST			SW IDAHO - E OREGON			
	May 1999	Apr 1999	May 1998	May 1999	Apr 1999	May 1998	
TOTAL PRODUCER MILK	596,404,646	509,808,068	580,298,393	176,959,845	33,679,174	331,271,126	
RECEIPTS FROM OTHER SOURCES	11,999,908	11,590,682	9,836,479	2,325,029	2,000,389	2,466,416	
OPENING INVENTORY . . . . .	<u>22,450,919</u>	<u>22,684,596</u>	<u>21,686,202</u>	<u>2,913,761</u>	<u>2,390,116</u>	<u>3,056,284</u>	
TOTAL TO BE ACCOUNTED FOR	<u>630,855,473</u>	<u>544,083,346</u>	<u>611,821,074</u>	<u>182,198,635</u>	<u>38,069,679</u>	<u>336,793,826</u>	
UTILIZATION OF RECEIPTS							
Whole milk . . . . .	26,458,327	24,770,329	24,902,853	2,446,425	2,452,407	2,332,141	
Flavored milk & milk drinks . . . . .	8,915,430	8,668,124	8,515,177	1,135,693	1,131,171	890,326	
2% milk . . . . .	73,781,334	73,737,207	74,883,374	6,308,556	6,363,150	6,205,867	
1% milk . . . . .	25,396,681	24,278,266	24,710,177	2,443,813	2,440,214	2,504,545	
Skim milk . . . . .	32,023,292	30,750,674	31,998,096	1,905,584	1,887,150	1,836,008	
Buttermilk . . . . .	<u>1,617,242</u>	<u>1,579,238</u>	<u>1,660,762</u>	<u>128,088</u>	<u>112,002</u>	<u>122,756</u>	
CLASS I ROUTE DISP. IN AREA. . .	168,192,306	163,783,838	166,670,439	14,368,159	14,386,094	13,891,643	
Class I dispositions out of area . . .	9,822,749	9,625,516	8,194,109	1,714,121	1,605,301	1,609,782	
Other Class I usage . . . . .	<u>14,743,805</u>	<u>18,017,523</u>	<u>12,588,288</u>	<u>1,705,694</u>	<u>2,190,715</u>	<u>1,572,120</u>	
TOTAL CLASS I USE. . . . .	192,758,860	191,426,877	187,452,836	17,787,974	18,182,110	17,073,545	
Mixtures (1/2 & 1/2) . . . . .	3,473,403	3,318,479	3,227,146	214,421	178,440	184,906	
Whipping Cream . . . . .	1,777,146	1,612,720	1,535,921	123,646	75,780	99,709	
Sour Cream . . . . .	3,758,667	3,290,772	3,084,698	4/	4/	4/	
Yogurt . . . . .	6,283,570	5,960,712	5,775,698	0	0	0	
Other Class II Usage . . . . .	<u>45,680,898</u>	<u>42,437,660</u>	<u>44,964,330</u>	<u>9,343,917</u>	<u>8,661,332</u>	<u>9,527,638</u>	
TOTAL CLASS II USE . . . . .	60,973,684	56,620,343	58,587,793	9,681,984	8,915,552	9,812,253	
TOTAL CLASS III USE * . . . . .	<u>377,122,929</u>	<u>296,036,126</u>	<u>365,780,445</u>	<u>154,728,677</u>	<u>10,972,017</u>	<u>309,908,028</u>	
TOTAL ACCOUNTED FOR . . . . .	<u>630,855,473</u>	<u>544,083,346</u>	<u>611,821,074</u>	<u>182,198,635</u>	<u>38,069,679</u>	<u>336,793,826</u>	
CLASSIFICATION OF RECEIPTS							
Producer milk:	Class I . .	175,214,159	177,865,629	173,441,743	15,339,057	16,459,616	14,642,479
	Class II . .	52,318,702	44,319,311	50,520,551	7,684,247	7,036,738	7,417,661
	Class III * . .	368,871,785	287,623,128	356,336,099	153,936,541	10,182,820	309,210,986
Other receipts:	Class I . .	17,544,701	13,561,248	14,011,093	2,448,917	1,722,494	2,431,066
	Class II . .	8,654,982	12,301,032	8,067,242	1,997,737	1,878,814	2,394,592
	Class III * . .	8,251,144	8,412,998	9,444,346	792,136	789,197	697,042
Avg. daily producer receipts . . . . .		19,238,860	16,993,602	18,719,303	5,708,382	1,122,639	10,686,165
Change from previous year . . . . .		2.78%	- 7.65%	- .55%	- 46.58%	- 75.93%	29.64%
Avg. daily Class I use . . . . .		6,218,028	6,380,896	6,046,866	573,806	606,070	550,760
Change from previous year . . . . .		2.83%	2.57%	- 2.63%	4.18%	3.08%	- .44%

\* Includes Class III-A milk. 4/ Restricted - Included with other Class II usage.

**HIGHLIGHTS THIS ISSUE:**

- BFP Down \$0.55 for May to \$11.26 per Hundredweight
- Federal Order Reform Final Decision:
  - Classification and Identical Provisions
  - Replacing the BFP
  - Class I Pricing
    - Map of Class I and Producer Location Adjustments
- Commercial Disappearance Increases 2.4% in First Quarter 1999

**COMMERCIAL DISAPPEARANCE OF DAIRY PRODUCTS UP 2.4% FOR FIRST QUARTER**

Commercial disappearance of U.S. milk for the first quarter of 1999 was up 2.4 percent over the same period of 1998. Commercial disappearance is used as an indicator of consumption of U.S. milk marketings and is a residual figure. This measure of consumption includes civilian and military

purchases of milk and dairy products for domestic and foreign use (exports), but excludes farm household use, commercial stocks, and imports. The table below shows commercial disappearance by commodity and their milk-equivalent on a fat solids basis.

Nonfat dry milk and butter showed decreases from 1998. American cheese, "Other" cheese, and fluid milk products categories each showed increases. American cheese showed the largest percentage increase of 8.1%. ♦

	Commercial Disappearance		% Change
	January-March		
	1998	1999	
<u>Selected Products</u>	-- Million Pounds --		
Butter	293.3	264.3	-9.9%
American Cheese	820.6	886.8	8.1%
Other Cheese	1,023.1	1,087.3	6.3%
Nonfat Dry Milk	225.5	208.3	-7.6%
Fluid Milk Products 1/	13,934.3	13,969.0	0.2%
<b>Total 2/</b>	<b>38,136</b>	<b>39,060</b>	<b>2.4%</b>

1/ Sales. Estimated based on actual sales in Federal milk order marketing areas and California. 2/ Total Commercial Disappearance, milk-equivalent, milk fat basis. Source: Dairy Market News, Volume 66, No. 21.