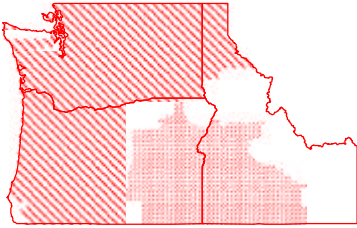


## Pacific Northwest & Southwestern Idaho- Eastern Oregon Marketing Areas

December 1999



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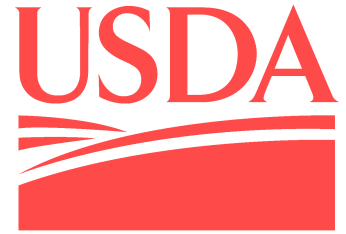
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### CONSOLIDATED FEDERAL MILK ORDERS TO BE IMPLEMENTED JANUARY 1, 2000

In response to President Clinton's signing of the Consolidated Appropriations Act 2000, the current 31 Federal milk marketing orders will be consolidated into 11 orders, and several other important reforms, including the minimum pricing of Class I (drinking) milk, will be implemented January 1, 2000.

The act requires that the Federal order reform final rule be implemented as published in the Federal Register on September 1, 1999, with changes made to the Class I price structure. The act mandates that Class I milk be priced utilizing the Option 1A-Location Specific Class I Differentials contained in the proposed rule published January 30, 1998, as corrected and modified through April 2, 1999. Implementation of the final rule had been delayed because of a temporary restraining order issued by the U.S. District Court for the District of Vermont.

In addition, the legislation requires USDA to conduct a hearing to reconsider the Class III and Class IV milk prices, with the resulting pricing formulas being implemented by January 1, 2001. It also requires that USDA establish a dairy forward pricing pilot program within 90 days of enactment of the legislation. More information on the implementation of these mandates will be available in the future.

The milk marketing order program ensures the fair marketing and pricing of milk. Milk marketing orders classify milk by use, set minimum prices that handlers must pay for each class of milk, and provide for paying average prices to all dairy farmers who supply a marketing order. In the 1996 Farm Bill, Congress mandated that USDA reform the program.

The Federal Milk Marketing Order reform process lasted more than three years and involved the dairy industry, the general public, and academia. The process included detailed regulatory impact, small business, and civil rights analyses and extensive efforts to collect public views. USDA received more than 8,000 comments during the process.

The final rule implementing the reforms will appear in the December 17 Federal Register. For copies of the rule and additional information, contact John F. Borovics, Order Formulation Branch, Dairy Programs, AMS, USDA, Room 2969-S, 1400 Independence Avenue, S.W., Washington, D.C. 20250-6456; telephone (202) 720-6274 or any current market administrator's office. The rule and additional background information can be accessed on the web at <http://www.ams.usda.gov/dairy>. ♦

NOTE: See article on page 4 concerning Option 1A - Location Specific Class I Differentials.

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**MARKET SUMMARIES FOR NOVEMBER**

**Pacific Northwest**

Producers delivered a total of 550.4 million pounds of milk to the market during November, an increase of 14.7 million pounds from the level of a year ago. Daily deliveries decreased 1.2% from the previous month but were 2.7% above the level of a year ago. An estimated 1,090 producers delivered milk to the market during the month, a decrease of 27 producers from November 1998. Daily deliveries per producer averaged 16,831 pounds, an increase of 844 pounds or 5.3% from a year ago.

Class I producer milk during November totaled 177.6 million pounds, 32.3% of total producer receipts. Daily usage averaged 4.2% above that in October and 0.1% above the level of a year ago.

Producers will receive \$1.6029 per pound of protein, \$0.0860 per pound of other solids, and \$1.1305 per pound of butterfat in their deliveries of milk. Producers will also receive the market's producer price differential of \$3.83 per hundredweight. The market average component tests for the month were: 3.29% protein, 5.48% other solids (solids-not-fat less protein), 8.77% solids-not-fat, and 3.74% butterfat.

**Estimated Uniform Price (@ 3.5% BF)  
November 1999**

Federal Order	Per Cwt.
Pacific Northwest	\$13.62
Southwestern Idaho-Eastern Oregon	\$10.39

**Southwestern Idaho-Eastern Oregon**

Producers delivered a total of 387.7 million pounds of milk to the market during November, an increase of 340.9 million pounds from a year ago. Daily deliveries averaged 4.1% above those in the previous month and were 727.6% above the level of a year ago. An estimated 388 producers delivered milk to the market during the month, an increase of 269 producers from a year ago. Changes from a year ago are biased due to eligible milk and producers not pooled in November 1998. Daily deliveries per producer averaged 33,307 pounds, an increase of 12,478 pounds or 59.9% from a year ago.

Class I producer milk during November totaled 17.6 million pounds, 4.5% of total producer

receipts. Daily usage averaged 8.6% above that recorded last month and was 13.9% above the level of a year ago.

Producers will receive \$1.75 per pound of protein and \$1.13 per pound of butterfat in their deliveries of milk. Producers will also receive the market's weighted average differential price of \$0.60 per hundredweight. The market average component tests for the month were 3.33% protein and 3.74% butterfat. ♦

**NOVEMBER BFP DOWN \$1.70 TO  
\$9.79 PER CWT.**

**Basic Formula Price** - - The November 1999 Basic Formula Price (BFP) for manufacturing grade milk at 3.50% butterfat decreased \$1.70 from October 1999, to \$9.79 per hundredweight. November's BFP is \$7.05 below the BFP of a year ago, and \$0.01 below the support price for milk at 3.50% butterfat. The decrease in the BFP for November resulted from a \$3.10 decrease in the base month M-W survey from \$15.09 to \$11.99 between September and October 1999. The decrease in the BFP from October to November was aided by a \$2.20 decrease in the product price portion of the BFP between October 1999 and November 1999. The BFP is calculated as the base month M-W survey price, plus the weighted average change in product prices (\$11.99 + -\$2.20 = \$9.79 per hundredweight). The BFP at test was \$10.33 per hundredweight, with 4.00% butterfat, 3.33% protein, and 8.70% 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.

The Class III price was last below \$10.00 in September 1978, when the price was \$9.90. The last time the Class III price was below the current Dairy Price Support Program target price was May 1987.

**Commodity Prices** - - The NASS survey of cheddar cheese prices showed a decrease in prices received for 40-pound blocks and a decrease in prices received for 500-pound barrels. The survey of 40-pound blocks showed a decrease of 12.54 cents between the November

12 and the December 10 surveys, to \$1.1142 per pound. The survey of 500-pound barrels (adjusted to 39%-moisture) showed decrease of 11.47 cents to \$1.0909 per pound.

The Mercantile Exchange Grade A butter price series (weekly average Grade AA less 9 cents) showed a net decrease of 16.00 cents between the weeks ending November 19 and December 17 from \$0.9750 per pound to \$0.8150 per pound.

The average wholesale price for nonfat dry milk (low, medium and high heat combined) in the Western States production area showed a decrease of 1.00 cent in mid-November to \$1.0125 per pound. The average price for western nonhygroscopic whey showed a net decrease of 0.37 cents since mid-November to \$0.1988 per pound. ♦

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#### DAIRY SITUATION AND OUTLOOK \*

Surging milk production finally began to overtake strong demand and dropped most wholesale dairy product prices sharply. Mid-November cheese prices were near support purchase prices after plunging almost 45 percent from the August record. Similarly, butter prices had fallen about 25 percent from their August peak. Late 1999 and early 2000 milk prices will be down sharply from a year earlier and the lowest in 5 years.

Milk cow numbers have drifted higher since the autumn of 1998, moving above a year earlier during the summer. Relatively strong returns during most of 1996-99 have spurred construction of new or greatly expanded operations, as well as reduced pressures on weaker producers to exit. Expansion was most pronounced in the West, where easing of the very tight forage situation of 1997-98 removed a constraint on dairy herd expansion. Lower milk prices are expected to lead to resumption of the long downtrend in milk cow numbers, but cow numbers might stay above a year earlier through much of 2000. The number of exiting farmers probably will pick up, as recent returns have done little to alter the long-run position of weaker producers. On the other hand, significant numbers of individual herds are likely to expand. Normally, a well-established expansion process is not halted quickly by lower returns,

particularly by returns within the range experienced relatively recently. Some newly expanded facilities reportedly were not filled completely because of not enough available replacements. These herds will undoubtedly expand in 2000.

Milk per cow grew briskly in summer and early autumn as most key factors were positive. Milk-feed price ratios have strongly supported increased feeding of grain and other concentrates and above-trend rises in milk per cow. Although the milk-feed price ratio will soon slip to less lofty readings, it will remain generally favorable. The forage situation is mixed but somewhat positive. Supplies of top quality alfalfa stay tight, but mediocre alfalfa hay is ample and much lower priced. This year's corn silage was not as uniformly good across the North as in the last 2 years, but quantities appear adequate and any deficiencies in grain content can be inexpensively overcome. Substantial growth in milk per cow should continue in 2000 unless major weather problems develop. Gains in milk per cow and about unchanged cow numbers are expected to lift milk production about 2 percent in 2000, following this year's 3-percent rise. Increases from a year earlier probably will be significant throughout 2000 but may diminish slowly as the year progresses.

Commercial use of dairy products posted large gains during August-September, not the conditions normally associated with the beginning of a major price decline. Spurred by brisk economic growth and consumer spending, sales of most major products rose sharply. The surge in use pulled down warehouse stocks rapidly, although holdings remained relatively large. Sales increases were very large for cheese and butter and modest for fluid milk, while soft product sales were the only weak spot. The strength of late summer sales probably was misleading. Early autumn pipeline-holdings probably were very swollen, as final sales did not absorb the surge in product production and pull down warehouse stocks as sharply as feared earlier in the summer. Working down these pipeline stocks probably will provide some fourth-quarter weakness in commercial disappearance. In general, demand for dairy products is expected to stay strong through 2000. Economic prospects remain bright. Even if demand has now fully caught up with the economic expansion (something that appeared not to be the case until at least this year), demand should grow significantly in 2000, maybe particularly for skim solids.

Increases in milk production and dairy product demand have actually been relatively steady in 1999, with rises in output tending to surpass demand growth. The sharp swings in dairy prices resulted from uncertainty about the relative sizes of the production and use increases and some abrupt reactions by traders to even minor variations in market conditions. First half 2000 prices are expected to be relatively low, even if they recover somewhat after the current product backlog clears. Large production increases probably will outweigh demand growth, and buyers may be more relaxed about ensuring second-half supplies early. Seasonal price increases during the second half of 2000 may be substantial, particularly if output rises ease. The annual average milk price is projected to be around \$13.00 per cwt., down from about \$14.40 in 1999.

milk disappearance showed a decrease of 4.2% during the same period. ♦

Commercial Disappearance			
	January-September		% Change
	1999	1998	
<u>Selected Products</u>	-- Million Pounds --		
Butter	851.5	828.0	2.8%
American Cheese	2,666.6	2,495.4	6.9%
Other Cheese	3,386.9	3,218.9	5.2%
Nonfat Dry Milk	619.1	646.3	-4.2%
Fluid Milk Products	41,449.	41,038.7	1.0%
	9		
<b>Total *</b>	<b>122,408</b>	<b>119,512</b>	<b>2.4%</b>

\* Commercial Disappearance, milk-equivalent, milk fat basis. Source: Dairy Market News, Volume 66, No. 48.

\* This summary was derived from the "Livestock, Dairy, and Poultry Situation and Outlook", LDP-M-65, November 23, 1999, Economic Research Service, USDA. (Some text was deleted to fit this space.) For more information on the LDP report, contact James J. Miller, (202) 694-5184.

**CLASS I DIFFERENTIALS AND PRODUCER LOCATION ADJUSTMENTS: OPTION 1A**

On page 5 is a map of the Class I Differentials (Option 1A) mandated by Congress and signed into law by President Clinton on November 29, 1999.

The Class I differentials are also used in determining producer location adjustments. Producer location adjustments are based on the location of the plant at which a producer's milk is physically received.

Producer location adjustments for the Pacific Northwest Order under Option 1A would be the difference between the Class I differential for a selected county and the Class I differential for King County, Washington (\$1.90). For example: a plant located in the \$1.75 Class I differential area would have a -\$0.15 producer location adjustment (\$1.75 - \$1.90 = -\$0.15).

Producer location adjustments for the Western Order under Option 1A would be the difference between the Class I differential for a selected county and the Class I differential for Salt Lake County, Utah (\$1.90). For example: a plant located in the \$1.60 Class I differential area would have a -\$0.30 producer location adjustment (\$1.60 - \$1.90 = -\$0.30). ♦

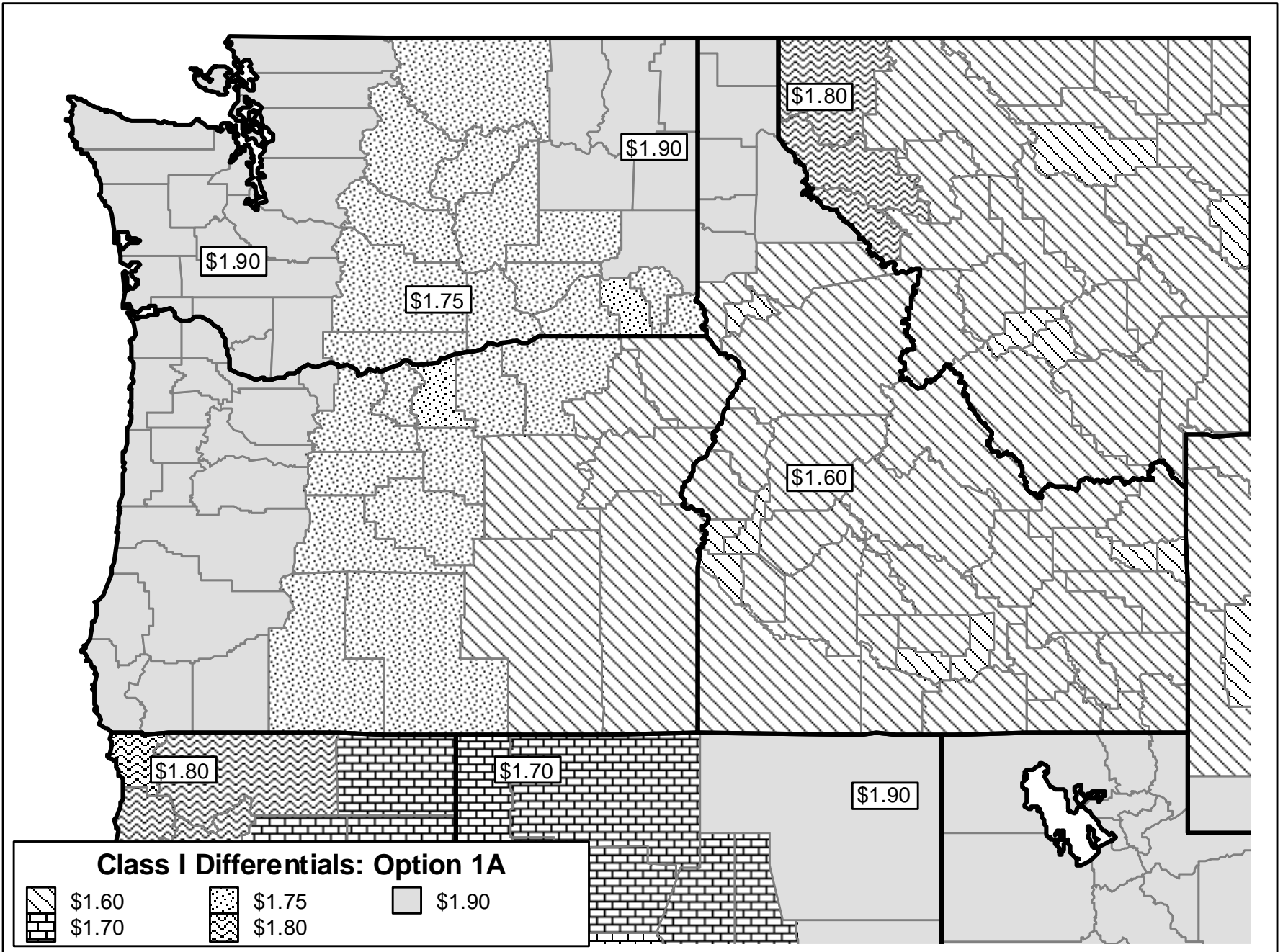
**COMMERCIAL DISAPPEARANCE OF DAIRY PRODUCTS UP 2.4% FOR FIRST THREE QUARTERS OF 1999**

Commercial disappearance of U.S. milk for the first three quarters 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 in the next column shows commercial disappearance by commodity and their milk-equivalent on a fat solids basis.

For the first three quarters of 1999, American cheese, "Other" cheese, butter, and fluid milk products showed increases from 1998. Nonfat dry

# CLASS I DIFFERENTIALS: OPTION 1A

5



# MONTHLY SELECTED STATISTICS

Formula Prices	Nov 1999	Oct 1999	Nov 1998
Basic Formula Price	\$ 9.79	\$ 11.49	\$ 16.84
Butter, Grade A, CME Price Series	0.9825	1.0348	1.6547
Nonfat Dry Milk, Grade A - Western	1.0210	1.0268	1.1168
Cheese, 40 lb. blocks, NASS	1.2143	1.4388	1.8317

PACIFIC NORTHWEST, F.O. #124				SW IDAHO-E OREGON, F.O. #135		
Handler Prices (3.5% B.F.)	Nov 1999	Oct 1999	Nov 1998	Nov 1999	Oct 1999	Nov 1998
Class I Milk	\$18.16	\$17.69	\$17.00	\$17.76	\$17.29	\$16.60
Class II Milk	16.56	16.09	15.40	16.56	16.09	15.40
Class III Milk	9.79	11.49	16.84	9.79	11.49	16.84
Class III-A Milk	11.46	11.61	14.80	11.46	11.61	14.80
1/ Other Solids	0.0860	0.1756	0.4053	+	+	+
1/ Protein	1.6029	1.8992	2.4178	1.75	2.19	3.10
<b>Producer Prices</b>						
PPD/WAD 2/	\$ 3.83	\$ 2.40	\$(0.44)	\$0.60	\$0.32	\$(0.20)
1/ Other Solids	0.0860	0.1756	0.4053	+	+	+
1/ Protein	1.6029	1.8992	2.4178	1.75	2.19	3.07
Est. Uniform Price	13.62 ***	13.89 ***	16.40 ***	10.39 ***	11.81 ***	16.64 ***
1/ Butterfat Price	1.1305	1.1764	1.8861	1.13	1.18	1.89
<b>Producer Data</b>						
Number of Producers	1,090 *	1,088	1,117	388 *	388	119
Avg. Daily Production (lbs.)	16,831 *	17,060	15,987	33,307 *	32,001	20,829
<b>Number of Handlers</b>						
Pool Handlers	26	26	27	11	11	10
Producer-Handlers	12	12	12	0	0	0
Other Plants w/ Class I Use	4	4	4	5	5	5
<b>Producer Milk Ratios</b>						
Class I	32.26%	30.60%	33.12%	4.53%	4.34%	32.90%
Class II	9.31%	8.43%	9.36%	2.25%	2.06%	11.40%
Class III	58.43%	60.97%	57.52%	93.22%	93.60%	55.70%
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	Oct 1999	Sep 1999	Oct 1998	Oct 1999	Sep 1999	Oct 1998
(Thousand lbs.)						
Production	22,590 *	22,119 *	20,757 *	0	0	0
Class I Use	17,967 *	17,461 *	18,301 *	0	0	0
% Class I Use	79.53%	78.94%	88.17%	0	0	0
<b>Class I Route Disposition In Area</b>						
(Thousand lbs.)						
By Pool Plants	168,309	167,600	178,065	14,999	14,590	15,002
By Producer-Handlers	17,974 *	17,477 *	17,578 *	0	0	0
By Other Plants	579	869	805	1,583	1,572	1,031
Total **	186,863	185,946	196,449	16,582	16,162	16,033

\* 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			
	Nov 1999	Oct 1999	Nov 1998	Nov 1999	Oct 1999	Nov 1998	
TOTAL PRODUCER MILK	550,381,068	575,402,669	535,731,770	387,695,953	384,905,356	46,843,551	
RECEIPTS FROM OTHER SOURCES	10,166,798	10,286,656	9,348,048	2,120,357	1,910,736	1,493,524	
OPENING INVENTORY . . . . .	<u>25,764,579</u>	<u>21,974,155</u>	<u>20,771,244</u>	<u>2,261,324</u>	<u>2,527,968</u>	<u>2,167,519</u>	
TOTAL TO BE ACCOUNTED FOR	<u>586,312,445</u>	<u>607,663,480</u>	<u>565,851,062</u>	<u>392,077,634</u>	<u>389,344,060</u>	<u>50,504,594</u>	
UTILIZATION OF RECEIPTS							
Whole milk . . . . .	27,585,230	27,410,965	25,800,175	2,526,402	1,923,310	2,399,037	
Flavored milk & milk drinks . . . . .	9,073,173	9,694,585	8,961,601	1,183,749	1,260,726	807,470	
2% milk . . . . .	74,571,698	74,895,039	75,543,645	6,567,348	7,199,414	6,219,671	
1% milk . . . . .	25,215,602	24,299,104	24,594,839	2,485,873	2,606,804	2,518,045	
Skim milk . . . . .	29,339,526	30,464,505	31,489,664	1,807,664	1,885,176	1,920,178	
Buttermilk . . . . .	<u>1,633,277</u>	<u>1,579,720</u>	<u>1,656,111</u>	<u>130,055</u>	<u>123,810</u>	<u>135,940</u>	
CLASS I ROUTE DISP. IN AREA. . . . .	167,418,506	168,343,918	168,046,035	14,701,091	14,999,240	14,000,341	
Class I dispositions out of area . . . . .	7,891,503	8,123,443	8,039,496	2,527,257	2,154,983	1,573,645	
Other Class I usage . . . . .	<u>15,126,763</u>	<u>13,753,975</u>	<u>15,600,342</u>	<u>1,890,154</u>	<u>1,307,470</u>	<u>1,870,704</u>	
TOTAL CLASS I USE. . . . .	190,436,772	190,221,336	191,685,873	19,118,502	18,461,693	17,444,690	
Mixtures (1/2 & 1/2) . . . . .	4,480,902	3,484,311	3,369,755	255,485	140,574	223,773	
Whipping Cream . . . . .	2,485,465	1,576,338	2,079,092	171,461	91,411	139,839	
Sour Cream . . . . .	4,381,226	3,241,347	4,223,261	4/	4/	4/	
Yogurt . . . . .	4,165,325	4,860,050	5,637,970	0	0	0	
Other Class II Usage . . . . .	<u>46,329,284</u>	<u>42,538,820</u>	<u>42,982,134</u>	<u>10,085,283</u>	<u>9,539,668</u>	<u>6,277,531</u>	
TOTAL CLASS II USE . . . . .	61,842,202	55,700,866	58,292,212	10,512,229	9,771,653	6,641,143	
TOTAL CLASS III USE * . . . . .	<u>334,033,471</u>	<u>361,741,278</u>	<u>315,872,977</u>	<u>362,446,903</u>	<u>361,110,714</u>	<u>26,418,761</u>	
TOTAL ACCOUNTED FOR . . . . .	<u>586,312,445</u>	<u>607,663,480</u>	<u>565,851,062</u>	<u>392,077,634</u>	<u>389,344,060</u>	<u>50,504,594</u>	
CLASSIFICATION OF RECEIPTS							
Producer milk:	Class I . . . . .	177,577,685	176,080,944	177,432,852	17,556,138	16,699,392	15,409,263
	Class II . . . . .	51,226,166	48,483,515	50,136,846	8,716,931	7,923,429	5,341,783
	Class III * . . . . .	321,577,217	350,838,210	308,162,072	361,422,884	360,282,535	26,092,505
Other receipts:	Class I . . . . .	12,859,087	14,140,392	14,253,021	1,562,364	1,762,301	2,035,427
	Class II . . . . .	10,616,036	7,217,351	8,155,366	1,795,298	1,848,224	1,299,360
	Class III * . . . . .	12,456,254	10,903,068	7,710,905	1,024,019	828,179	326,256
Avg. daily producer receipts . . . . .	18,346,036	18,561,376	17,857,726	12,923,198	12,416,302	1,561,452	
Change from previous year . . . . .	2.73%	2.98%	4.86%	727.64%	170.11%	- 54.32%	
Avg. daily Class I use . . . . .	6,347,892	6,136,172	6,389,529	637,283	595,538	581,490	
Change from previous year . . . . .	- .65%	- 6.09%	2.92%	9.59%	.29%	2.35%	

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

**HIGHLIGHTS THIS ISSUE:**

- Consolidated Federal Milk Orders to be Implemented January 1, 2000
- November Market Summaries
- BFP Down \$1.70 for November to \$9.79 per Hundredweight
- Dairy Situation and Outlook
- Commercial Disappearance Up 2.4% for First Three Quarters of 1999
- Class I Differentials and Producer Location Adjustments Under Option 1A

