

UNITED STATES DEPARTMENT OF AGRICULTURE

AGRICULTURAL MARKETING SERVICE

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FEDERAL MILK ORDERS 124 & 131

ANNOUNCEMENT OF UNIFORM PRICES FOR THE PACIFIC NORTHWEST AND ARIZONA-LAS VEGAS ORDERS

FO 124 and 131

April 2004

Producer Prices *	Pacific Northwest FO 124	Arizona - Las Vegas FO 131
Producer Price Differential 1/	(\$4.32)	
Butterfat 2/	\$2.5013	
Protein 2/	\$3.4465	
Other Solids 2/	\$0.1042	
Nonfat Solids 3/	\$0.6703	
Skim 1/		\$8.99
Butterfat 2/		\$2.4614
Stat. Uniform Price 4/	\$15.34	\$17.29

Producer Milk Utilizations				
Class	Percent	Pounds	Percent	Pounds
Class I	43.24%	179,162,560	32.67%	82,785,252
Class II	8.35%	34,583,442	7.46%	18,886,905
Class III	2.87%	11,906,144	41.16%	104,269,228
Class IV	45.54%	188,715,912	18.71%	47,397,870
Total Producer Milk		414,368,058		253,339,255

Producer Milk Component Levels		
Butterfat	3.628%	3.511%
Protein	3.018%	
Other Solids	5.683%	
Solids-Not-Fat	8.700%	

Computation of:	PPD (124)	Uniform Price (131)
Class I	\$21,093,388.26	\$10,463,864.74
Class II	\$12,089,624.37	\$6,290,294.58
Class III	\$4,543,796.80	\$24,043,006.80
Class IV	\$27,257,827.09	\$3,009,179.70
Gross Value	\$64,984,636.52	\$43,806,345.82
Net Adjustments	(\$82,901,920.46)	(\$21,817,167.02)
Net Pool Value	(\$17,917,283.94)	\$21,989,178.80

Class I	% Skim	44%		33%
	% Butterfat	21%		18%

* Subject to applicable location adjustments.

1/ Per hundredweight. 2/ Per pound. 3/ Price not used for payments to producers. 4/ For FO 124, statistical uniform price represents the Class III price, plus the producer price differential. For FO 131, statistical uniform price represents 0.965 multiplied by the skim price, plus 3.5 multiplied by the butterfat price.

Released: May 14, 2004

James R. Daugherty
Market Administrator

MILK MARKET SUMMARIES FOR APRIL 2004

Pacific Northwest Order (FO 124)

	April 2004 1/	March 2004 1/	April 2003	April 2004 Percent Change From	
				Month-Ago	Year-Ago
Producer Deliveries	414,368,058	600,834,267	625,726,509	-31.03%	-33.78%
Daily Deliveries	13,812,269	19,381,751	20,857,550	-28.74%	-33.78%
Number of Producers	692	862	909		
Daily Deliveries Per Producer	19,960	22,485	22,946	-11.23%	-13.01%
Class I Producer Milk	179,162,560	189,930,320	175,527,527	-5.67%	2.07%
Class I Utilization (%)	43.24%	31.61%	28.05%		
Class I Daily Usage	5,972,085	6,126,785	5,850,918	-2.52%	2.07%

Arizona-Las Vegas Order (FO 131)

	April 2004	March 2004	April 2003	April 2004 Percent Change From	
				Month-Ago	Year-Ago
Producer Deliveries	253,339,255	266,271,086	280,078,233	-4.86%	-9.55%
Daily Deliveries	8,444,642	8,589,390	9,335,941	-1.69%	-9.55%
Number of Producers	100	100	107		
Daily Deliveries Per Producer	84,446	85,894	87,252	-1.69%	-3.22%
Class I Producer Milk	82,785,252	86,148,705	81,640,047	-3.90%	1.40%
Class I Utilization (%)	32.67%	32.35%	29.15%		
Class I Daily Usage	2,759,508	2,778,990	2,721,335	-0.70%	1.40%

1/ Eligible milk not pooled due to price. Comparisons to previous month or year may be biased.

Numbers in Bold/Italics are estimated.

Understanding a Negative Producer Price Differential

On May 14, 2004, the Statistical Uniform Price of the Pacific Northwest Order (FO 124) was announced at \$15.34 per cwt. for the April 2004 delivery period. The price reflects an increase of \$0.79 from March (\$14.55). The Producer Price Differential (PPD), however, decreased from a positive \$0.06 to a negative \$4.32 per cwt. The following article is written to provide an understanding of the negative PPD to dairy farmers who are paid on Federal order prices.

Uniform Price and The Pool

The Uniform price is the result of a process commonly referred to as the Federal order pool. The pooling process generates the uniform price that represents the classified (weighted average) value of all milk pooled on the Federal order based on how it was used by handlers. If the milk is used for packaging fluid milk products it is valued at the Class I price; if the milk is used in soft products like cottage cheese, ice cream, sour cream, etc., it is value at the Class II price; if the milk is used in cheese or butter/nonfat dry milk it is valued at the Class III and IV prices, respectively. Handlers report how much milk they receive and how they use the milk. The pool is the summation of all the values of each handler's uses of milk. The uniform price is roughly the summation of the values divided by the total pounds of milk. The uniform price therefore represents the entire value of the pool on a hundredweight basis.

The Federal order states that dairy farmers should be paid for their milk on the basis of its component content (pounds) of butterfat, protein and other solids. The components are those that price milk in Class III, or cheese production. Components have value in the market place so it follows that the dairy farmers who produce the components should be compensated for their value.

The Federal order makes sure nonmembers and cooperatives receive at least the minimum order value for their milk. The minimum order value producers receive is represented by the value of the components and the Producer Price Differential (PPD). When the classified value is higher than the producer component value of milk, the difference, i.e., the PPD, is positive. A positive PPD is the result of what can be called "normal" price relationships. However, when dairy commodity prices rise quickly, component prices rise, too, and this causes the producer component value of milk to be higher than the classified value, i.e., price relationships become "abnormal". Since the classified value is the maximum value available to be paid to dairy farmers, the PPD must be negative when the producer value of components is greater than the classified value.

The graphic below shows a very simplified example of how the classified value of all milk relates to: 1) the contribution of each class; 2) the Uniform price; 3) the producer component value; and 4) the resulting PPD.

