

USDA Recommends Class IIIA Pricing For Most Federal Orders

Class III-A Effect on Blend Prices in Federal Order 4 November 1992 - June 1993.

BOB YONKERS
Assistant Professor
Ag. Economics

Penn State University

STATE COLLEGE (Centre Co.)

— The USDA recently announced a recommended decision to extend provisions for Class III-A pricing for milk used to make nonfat dry milk to a total of 29 federal orders.

This decision, which does not affect the other 11 federal orders which were not part of the original hearing to implement Class III-A pricing, is the result of a hearing held last October.

Currently, only three orders have Class III-A pricing, including the New England and Middle Atlantic orders, which went into effect last November. The new decision recommends that the Class III-A pricing formula be the same for all orders, using a modified yield factor and the Western States nonfat dry milk price series published by the Agricultural Marketing Service of USDA.

This is a slight change for the two northeastern federal orders which have used the Central States nonfat dry milk price series since the inception of Class III-A pricing in November, 1992.

According to testimony presented at USDA hearings held on the subject, this change is needed because the Class III price used in all federal orders is no longer related to orders nonfat dry milk plants can afford to pay.

The Class III price is determined by the Minnesota-Wisconsin Price Series (M-W price), a survey of mostly cheese plants in the upper Midwest states.

Proponents of Class III-A contend that competition for milk to be used for cheese sets the M-W price, pointing to the fact that no relationship exists between the M-W price and wholesale nonfat dry milk prices.

An additional reason for the change cited by USDA from the hearing is that the costs of handling each market's reserve milk supplies will be more equitably shared by all producers in each market. Cheese plants in the 29 affected orders have been at capacity with no need for addi-

tional milk, so nonfat dry milk production is the market of last resort for excess milk in those markets.

If incorporated into a final decision and voted on by a referendum of producers, Class III-A pricing will impact Class III-A pricing in federal orders here in the Northeast.

The effect on blend prices of Class III-A pricing since its start in November, 1992 in Federal Order 4 (the Middle Atlantic Marketing Area) appear in the table provided. The last column compares the blend price with what would have been had Class III-A pricing not been in effect.

Producers in the New England and Middle Atlantic Marketing Areas should also note that the new decision to use the Western States nonfat dry milk price series will be a change.

During the period covered by data presented at the hearing, this price was lower than the Central States used since last November. This change recognizes that the West Coast produces about 60 percent of U.S. nonfat dry milk, and use of another price series could over value milk used in Class III-A.

Remember, no change will occur until a final decision is announced and a referendum held, which are not likely to take place before year end.

Component Pricing Decision in F.O.

A final decision was announced which will change milk pricing in three Midwest federal orders: Eastern Ohio-Western Pennsylvania (Order 36), Ohio Valley (Order 33), and Indiana (Order 49) Marketing Areas.

This decision adopts a plan for pricing milk on the basis of its protein, as well as butterfat content.

This plan also includes, for the first time in a federal order, adjustments to the protein price based on the somatic cell count (SCC) of producer milk.

This change will eliminate the use of differentials in determining a producer's minimum blend. Producers will be paid for milk based on the pound of protein and butter-

Month	Minimum Prices @ 3.5% BF		Class IIIA Utilization	Class IIIA Blend Effect
	Class III	Class IIIA		
	----- \$/cwt -----		- percent -	- - \$/cwt - -
November	11.92	11.08	5.8	-0.05
December	11.42	11.02	12.6	-0.05
January	10.94	11.05	8.8	+0.01
February	10.78	11.33	14.2	+0.08
March	10.99	11.18	11.1	+0.02
April	12.08	11.08	18.3	-0.18
May	12.42	11.13	22.3	-0.29
June	11.94	11.04	22.6	-0.20

Source: Calculated from data supplied by the Middle Atlantic Marketing Area Market Administrator.

fat shipped, using prices per pound for these two components.

In addition, producers will receive a weighted average class differential per 100 pound of milk produced, reflecting the use of milk in Class I and II in the order.

Results of producer voting in the referendum held in late June and early July have not yet been announced. If approved, these changes should take effect soon.

Dairy Price Relationships

Recent issues of this newsletter have contained articles about the relationship between farm milk prices and dairy product wholesale and retail prices. Four times each year (in January, April, July, and October issues), readers of this newsletter can track recent changes in prices at all three levels (see table below).

Note that for the most recent four quarters (one year period) for which data is available, U.S. average Grade A and B milk prices have increased 3.2 and 4.2 percent, respectively, over the same period a year ago. The wholesale and retail price indexes reported (representing actual price levels relative to the base period indicated) have also increased, excepted for wholesale butter prices. However, these dairy product price increases have been in line with, and in most cases less than, changes in farm milk prices.

The bad news is that, at the retail level, both cheese and fluid milk and cream prices increased more than the index of all food prices, meaning that these two dairy products lost some ground relatively good values for the consumer's food dollar.

Walton Gets NICE Scholarship

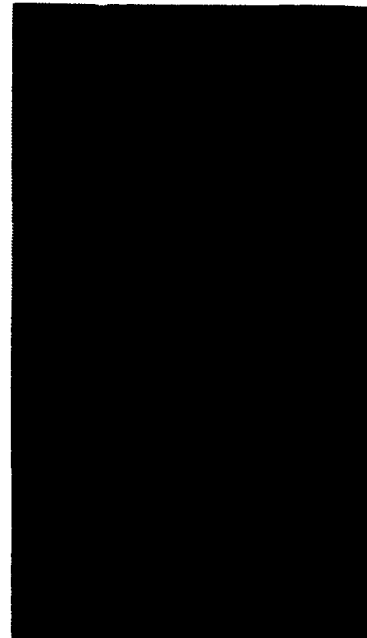
SOUTHAMPTON (Bucks Co.) — Elizabeth L. Walton of Carlisle was awarded a scholarship by Atlantic Dairy Cooperative to attend the 1993 National Institute on Cooperative Education (NICE), July 26-29 in Cincinnati, Ohio.

Elizabeth was among five students selected to attend the NICE program. The students, sons or daughters of Atlantic members, were awarded scholarships based on their participation in the Pennsylvania Council of Cooperative's 1993 Summer Institute. The program, held June 27-30 at Shippenburg University, teaches high school students about cooperative business in a fun and educational setting.

Elizabeth, 16, is the daughter of David and Kathleen Walton. She is a junior at Carlisle High School, where she is an Honor Roll student and a photographer for the Yearbook staff. She is an eight-year 4-H member, completing projects in dairy, cooking, sewing, quilting and computers. She is president of the county-wide 4-H Dairy Club, recording secretary of the 4-H County Council and is a member of the 4-H State Days food and nutrition team.

She also is a member of the Cumberland County Junior Holstein Club and was the 1992 Cumberland County Junior Dairy representative.

At the Summer Institute, Eliza-



Elizabeth Walton

beth was a member of the stage crew and the wake up/good night team. She was a session chairperson and a member of MINICO, a cooperative operated by the students during the four-day program.

The Atlantic scholarship winners furthered their cooperative experience at NICE, which is sponsored annually by the National Council of Farmer Cooperatives. They attended workshops featuring national cooperative leaders and motivational speakers.

Entries Sought For 'Ice Cream Churn-Off'

ROCKSPRING (Centre Co.) — For a fifth consecutive year, Pennsylvania's Dairy Promotion will be sponsoring an "Ice Cream Churn-Off" contest at Penn State's Ag Progress Days.

The contest will be held on Wednesday, August 18, at 1 p.m., at the dairy promotion booth at the corner of Main and West Eighth Streets on the Ag Progress Days grounds, at Rockspring, just west of State College, on Route 45.

Contestants will be creating and making their own flavors of homemade ice cream for the contest. Cash prizes are awarded in the contest to the entries with the most original ingredients and the best flavor and appearance. Points are awarded for entries that use many a variety of dairy products and offer simple preparation techniques.

The first eight eligible entries will be selected to compete in the contest for the grand prize of \$300. Additional prizes of \$150 and \$100 will be awarded to the second and third place entries, respectively. People attending the

contest will also be able to sample the eight recipes to determine their own winners. Recipe brochures listing all of the entered recipes will also be available for distribution.

The contest is jointly sponsored by Pennsylvania's Dairy Promotion Partners — the American Dairy Association and Dairy Council, Mid East United Dairy Industry Association/F.O. 36 Advertising Agency, and the Pennsylvania Dairy Promotion Program.

To enter the contest, individuals must print their name, address, telephone number, and complete written copy of their recipe on a piece of paper and mail it to "Ag Progress Days, Ice Cream Churn-Off," Pennsylvania Dairy Promotion Program, 2301 North Cameron Street, Harrisburg, PA 17110. Recipes should include all ingredients, the preparation instructions, and the amount of ice cream made by the recipe.

For more information about the contest, call the Pennsylvania Dairy Promotion Program, at (717) 787-6903.

Quarterly Comparison Of Dairy Products

ROBERT YONKERS
Assistant Professor, Ag Economics
Penn State University

STATE COLLEGE (Centre Co.) — Four times per year — in January, April, July and October — it's possible to review the relationship between farm milk prices and dairy product wholesale and retail prices and track recent changes.

That relationship can be charted for a comparison of those prices at all three levels (see table below).

Note that for the most recent four quarters (one-year period) for which data is available, U.S. average Grade A and B milk prices have increased 3.2 and 4.2 percent, respectively, over the same period a year ago.

The wholesale and retail prices indexes reported (representing actual price levels, relative to the base period indicated) have also increased, except for wholesale butter prices.

However, these dairy product price increases have been in line with, and in most cases, less than, changes in farm milk prices.

The bad news is that, at the retail level, both cheese and fluid milk and cream prices increased more than the index of all food prices, meaning that these two dairy products lost some ground (being competitive) for the consumer's food dollar.

Quarterly U.S. Average Dairy Price Data	Most Recent Data		Change, 92-93	Most Recent 4 Quarters		Change, 92-93
	Q1 92	Q1 93		One year ago	This year	
Grade B milk price (\$/cwt)	11.40	10.97	-3.8%	11.32	11.80	+4.2%
Grade A milk price (\$/cwt)	13.03	12.36	-5.1%	12.63	13.03	+3.2%
Wholesale Price Indexes*						
Cheese	108.4	107.2	-1.1%	108.9	110.8	+1.7%
Butter	63.1	53.9	-14.6%	68.5	56.9	-16.9%
Fluid milk	120.0	120.9	+0.8%	122.1	122.7	+0.5%
Retail Price Indexes**						
Cheese	135.4	135.7	+0.2%	133.6	135.6	+1.5%
Fluid Milk and Cream	126.1	127.5	+1.1%	123.3	127.4	+3.3%
All Food	137.6	139.9	+1.7%	136.7	138.5	+1.3%

* 1982 = 100.0

** 1982-84 = 100.0

Source: Economic Research Service, USDA.