FUTURES MARKETS

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showed strong gains in cheese production.

Prices for 40-pound block cheese fell from $1.2750 per pound on Monday, July 3, to $1.25 by Friday, July 7. Barrel cheese fell more sharply, from $1.28 per pound on Monday to $1.21 per pound by Friday.

It's too early to determine whether this is a trend or not. There was a short work week at many plants due to the July 4th holiday, so there must have been some extra milk in the system. Milk receipts at plants are generally trending down and will result in less cheese production.

American-type cheese production in May totaled 323.2 million pounds, 3.4 percent above May 1999 and 3.4 percent above April 2000. Total cheese output (excluding cottage cheese) was 729.0 million pounds, 8.0 percent above May 1999 and 5.1 percent above April 2000. Cumulative total cheese output through May 2000 was up 5.6 percent over the same period a year ago.

USDA announced class prices for June 2000 as follows: Class II price is $13.08 per cwt, Class III price is $9.46 per cwt, and Class IV price is $12.38 per cwt. The advanced Class I mover for July 2000 is $12.46 per cwt. The Class I differential must still be added to this figure to arrive at the Class I price. The differential for Boston, for example, is $3.25 per cwt. Thus overall, class prices are above what they would have been under the old system. Only the Class III price is lower than the old BFP formula and is at record low prices.

U.S. Senator Rick Santorum (R-PA) introduced legislation last month to assist dairy farmers across the country by creating a safety net when milk prices are low. Santorum, a member of the Senate Agriculture Committee, introduced the legislation along with Senator Herb Kohl (D-WI).

The bill is called "The National Dairy Farmers Fairness Act of 2000." It creates a sliding scale of assistance that will be triggered when the Class III milk price is low. All producers payments would be limited to the first 26,000 hundredweight of milk. So, given milk output of 18,000 pounds per cow, this program would be limited to a maximum of 144 cows. In addition, an incentive payment can also be earned if a farmer does not increase total milk production from the previous year.

This bill represents a coalition between two regions of the country that have the most in common: the Upper Midwest and the Northeast. Both regions have lots of small family farmers and small processors. It provides price protection to the most vulnerable members of the dairy community-small family farmers. The program would pay more when milk prices are lowest. And, a big plus, the program would not alter existing pricing programs. It does not fix class prices, require supply management, or lump program benefits onto Class I sales. Thus, it passes the Washington reality test.

Finally, I just completed a study on the Northeast Interstate Dairy Compact. The results may be found on my website. They show that the milk supply in the six New England states did not increase above the U.S. average after the compact was introduced. Fluid milk consumption did not appear to change appreciably. The program increased farm pay prices by about $0.48 per cwt. And, the cost of the compact to processors, about $0.10 per gallon, was fully passed on to consumers in the form of a 14-cent-per-gallon increase in retail milk prices. Overall, consumers paid about $0.24 per gallon more for milk after the compact was introduced, but $0.10 per gallon of this increase was related to other factors. None of these results can be related to what would occur if Pennsylvania and New York were to join the Northeast Compact.

For more information on dairy markets, see my website at: http://www.aers.psu.edu/dairyoutlook/