

# MARKETING SERVICE

## BULLETIN

### PPD . . . Is That Your Final Answer ?

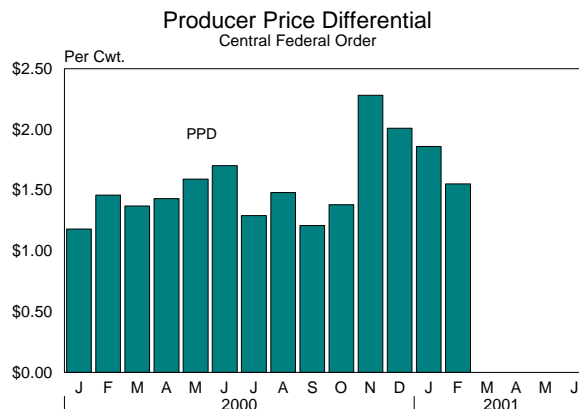
The Central federal milk order became effective January 1, 2000. Its origin was the Congressionally mandated milk order reform. The Central federal order reflects the consolidation of nine of the prior 31 separate federal milk orders. Many of the changes in Central order provisions have remained unnoticed by dairy producers.

However, one change that became dramatically apparent was an increased number of dairy producers in the newly formed Central order that became subject to multiple component pricing (MCP) on the milk they marketed. Milk marketings from approximately 2,200 Central order producers became priced under MCP for the first time during January 2000. These producers represented approximately 30% of the total marketings on the newly consolidated order. Approximately 83% of all federal order producer milk is marketed under MCP with 53% being under MCP plus somatic cell count adjustment. Seventeen percent of the federal order producer milk remains priced under the "old" skim and butterfat system.

Many Central order dairy producers had to become accustomed to a new pricing mechanism in understanding their milk checks. There was no longer a federal order "blend" price that was adjusted to each producer's butterfat test. Currently, there are five prices affecting a producer's milk check along with new relationships between these prices. Protein, butterfat, other solids, somatic cells, and finally the "mysterious" producer price differential (PPD).

This PPD is but one part of a producer milk check and has accounted for less than twenty percent (9.91% to 19.82% range) of the value of producer milk on the market since the inception of the order. However, it seems to have taken on the role of being the price that is often compared between federal orders. In many instances, only the change in PPDs are noted. Federal orders themselves may have a part in this role. The PPD is announced when the federal order pools are calculated. It is often announced singularly, perhaps because the other prices are known in advance of the pool computation and the PPD is the final piece of the pricing puzzle. The PPD represents the difference in the total dollars accumulated by the marketwide pool and the amount paid to producers for the specific components priced, i.e. butterfat, protein, other solids, somatic cell adjustment prices. The value of milk used in Class I is the largest contributor to the PPD.

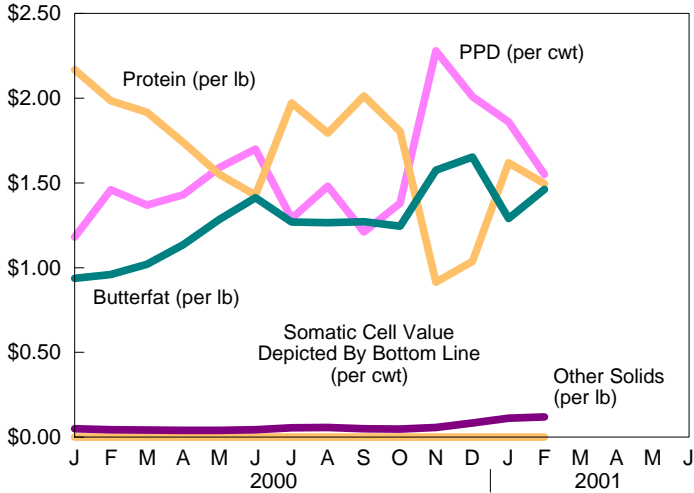
The graphics and tables contained in this bulletin indicate how the PPD relates to dairy producers' final federal order pay price. Looking at one particular milk check component may give false impressions. Even when the PPD declines the total return to a dairy farmer may increase due to changes in the four other "priced" milk components. For example, from June to July 2000 the PPD fell 41¢ per hundredweight. However, the total per hundredweight return to the average producer increased 62¢. Circumstances such as these make it necessary to understand how each of the components in a milk check are priced and how these prices relate to each other. These relationships are illustrated by the graphics and tables which follow.



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Component Values  
Central Federal Order



## Central Federal Order Component Prices

	<u>Butterfat</u>	<u>Protein</u>	<u>Other Solids</u>	<u>PPD</u>	<u>SSC</u>
Jan 2000	\$0.9366	\$2.1677	\$0.0503	\$1.18	\$0.00058
Feb	0.9588	1.9849	0.0432	1.46	0.00055
Mar	1.0191	1.9166	0.0424	1.37	0.00055
Apr	1.1352	1.7399	0.0408	1.43	0.00055
May	1.2854	1.5514	0.0403	1.59	0.00055
Jun	1.4128	1.4278	0.0438	1.70	0.00056
Jul	1.2691	1.9726	0.0557	1.29	0.00061
Aug	1.2659	1.7952	0.0577	1.48	0.00058
Sep	1.2707	2.0137	0.0502	1.21	0.00062
Oct	1.2444	1.8028	0.0471	1.38	0.00058
Nov	1.5745	0.9149	0.0565	2.28	0.00051
Dec	1.6534	1.0378	0.0829	2.01	0.00054

Jan 2001	\$1.2896	\$1.6181	\$0.1120	\$1.86	\$0.00056
Feb	1.4626	1.4951	0.1199	1.55	0.00057

Price announcements may be obtained from the Market Administrator website at [www.fmmacentral.com](http://www.fmmacentral.com), by contacting this office at the address on the back page, or by phone at 913-495-9300.



### A Look At How You Can Calculate Your Pay Price <sup>1</sup>

Assume a dairy producer with:

200,000 pounds of marketings  
3.67% Butterfat test  
3.10% Protein test  
5.70% Other Solids test  
Producer Price Differential  
330,000 somatic cell count

Jan 2000 Prices:

\$0.9366 /lb.  
\$2.1677 /lb.  
\$0.0503 /lb.  
\$1.18 /cwt.  
\$0.00058 /cwt.

Prices For Different Months May Be Found In Above Table

Component	Avg Test	Hundred-Weights	Lbs. Component Marketed	Jan '00 Component Prices	Total Value
Butterfat	3.67	x 2,000	= 7,340	x \$0.9366	= \$ 6,874.64
Protein	3.10	x 2,000	= 6,200	x \$2.1677	= \$13,439.74
Other Solids	5.70	x 2,000	= 11,400	x \$0.0503	= \$ 573.42
PPD		2,000		x \$1.18	= \$ 2,360.00
Somatic Cell Count (Calculate Adjuster) (350-330=20)	330,000 20	x 2,000	= 40,000	x \$0.00058	= \$23.20

**Total Federal Order Value Of Milk Marketed: January 2000**

**\$23,271.00**

<sup>1</sup> Your pay price or the federal order value of milk marketed is the minimum federal order price that dairy producers or their cooperative association must be paid under the order. This price does not include authorized deductions, marketing service fees, etc.

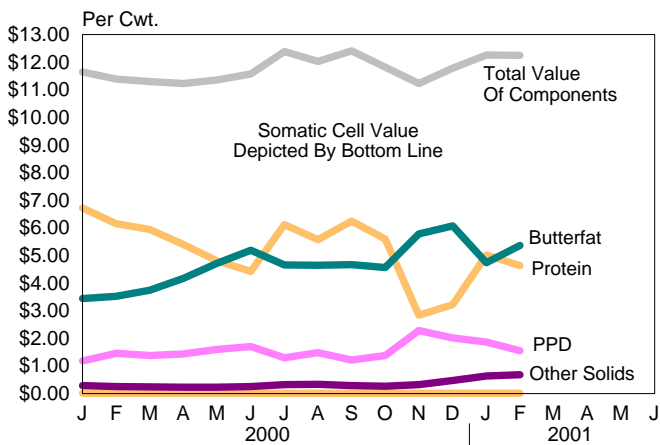
## PPD . . . Need A Lifeline ?

The calculations on the previous page were performed each month (holding test averages the same) to arrive at the values in the table below. This table may be useful in examining the relationships between actual component prices (top of previous page) as they compare with each other in determining the total value of the components to the producer (table below). The total value of the PPD was always less than either the butterfat or the protein component (during these 14 months) and yet remains one of the more often quoted and compared prices. Note that during several months when the PPD decreased, the total producer value increased and vice-versa.

**Total Federal Order Value Of Milk Marketed By Month <sup>1</sup>**  
**-- The Same 200,000 Pound Producer --**

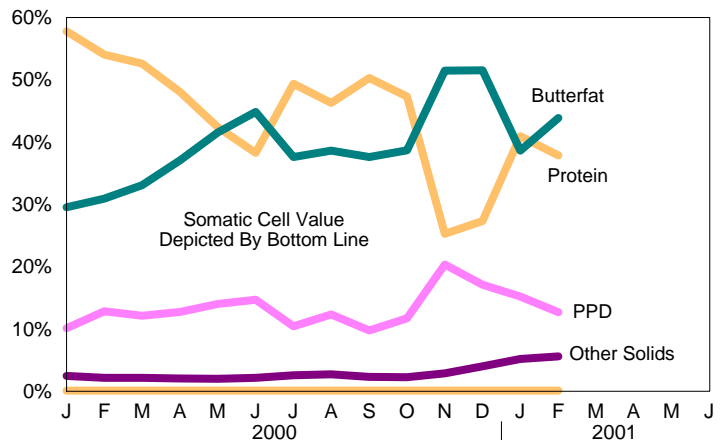
	Butterfat	Protein	Other Slds	PPD	SSC	Total
Jan 2000	6,874.64	13,439.74	573.42	2,360.00	23.20	23,271.00
Feb	7,037.59	12,306.38	492.48	2,920.00	22.00	22,778.45
Mar	7,480.19	11,882.92	483.36	2,740.00	22.00	22,608.47
Apr	8,332.37	10,787.38	465.12	2,860.00	22.00	22,466.87
May	9,434.84	9,618.68	459.42	3,180.00	22.00	22,714.94
Jun	10,369.95	8,852.36	499.32	3,400.00	22.40	23,144.03
Jul	9,315.19	12,230.12	634.98	2,580.00	24.40	24,784.69
Aug	9,291.71	11,130.24	657.78	2,960.00	23.20	24,062.93
Sep	9,326.94	12,484.94	572.28	2,420.00	24.80	24,828.96
Oct	9,133.90	11,177.36	536.94	2,760.00	23.20	23,631.40
Nov	11,556.83	5,672.38	644.10	4,560.00	20.40	22,453.71
Dec	12,135.96	6,434.36	945.06	4,020.00	21.60	23,556.98
Jan 2001	9,465.66	10,032.22	1,276.80	3,720.00	22.40	24,517.08
Feb	10,735.48	9,269.62	1,366.86	3,100.00	22.80	24,494.76

**Component Values In 100 Lbs. Producer Milk**  
 At 3.67% BF - 3.10% Protein - 5.70% OS - 330,000 SCC  
 Central Federal Order



**The graph at the left illustrates the dollar values found in the above table. The graph below illustrates the percent of the total value which each component comprises.**

**Component Values As A Percent Of 100 Lbs. Producer Milk**  
 At 3.67% BF - 3.10% Protein - 5.70% OS - 330,000 SCC  
 Central Federal Order



	Statistical Uniform Price		Producer Price Differential		Class I Utilization	
	02/2001	01/2001	02/2001	01/2001	02/2001	01/2001
Pacific Northwest	12.35	12.34	2.08	2.35	31.90	31.22
Western	11.79	11.70	1.52	1.71	27.65	27.04
Arizona-Las Vegas	12.48	12.37	-----	-----	31.57	31.67
<b>Central</b>	<b>11.82</b>	<b>11.85</b>	<b>1.55</b>	<b>1.86</b>	<b>30.18</b>	<b>30.81</b>
Southwest	13.24	13.62	2.97	3.63	49.51	47.83
Upper Midwest	11.15	11.02	0.88	1.03	19.75	19.92
Southeast	14.15	14.73	-----	-----	61.22	64.74
Mideast	12.28	12.54	2.01	2.55	43.39	42.46
Appalachian	14.48	15.00	-----	-----	64.73	68.19
Northeast	13.62	13.76	3.35	3.77	43.31	43.32
Florida	15.91	16.75	-----	-----	89.57	89.91

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