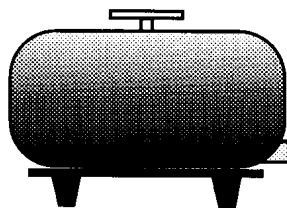


# MARKETING SERVICE

## BULLETIN

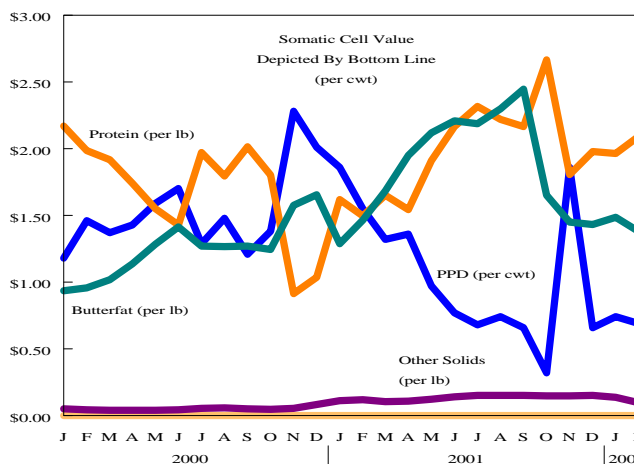


### How Do I Know My Pay Price When Component Prices Look Like This ?



Many Central federal order producers quickly became accustomed to new pricing mechanisms with the implementation of federal milk order reform in January 2000. The old "blend" price which was adjusted to each producer's butterfat test was replaced with five "new" prices. Protein, butterfat, other solids, somatic cells, and finally the "mysterious" producer price differential (PPD) all affect a producer's milk check. There was a new learning curve in understanding the relationship between these prices and how movements in each price affect a producer's pay price.

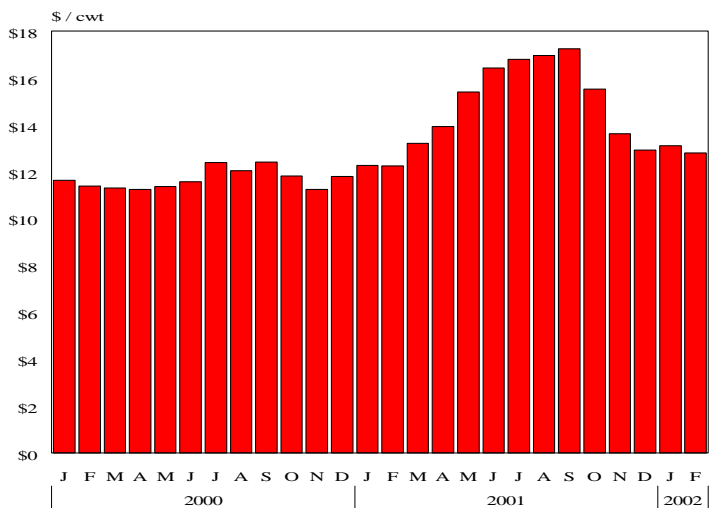
Central Order Component Values



Many times there is confusion when producers actually take the time to examine the component prices which make up their milk check. Many of the movements are counter to one another. Anyone plotting price movements (top graph) can readily see that it is easy to be confused. However, movements in individual component prices when used in the formulas to determine a producer's pay price result in prices that are not nearly as confusing. The graph below illustrates a typical producer's pay price using the component prices illustrated above.

Effective Value Of Producer Milk

@3.67% BF -- 3.10% Protein -- 5.70% OS -- 330,000 SCC



**What about the PPD ???** The PPD represents the total dollars accumulated by the marketwide pool minus the amount paid to producers for their components; i.e., butterfat, protein, other solids, and the somatic cell price adjustment. The value of milk used in Class I is the largest contributor to the PPD. Although the PPD may receive the most attention, it is only one part of a producer's total revenue equation. Over the past 26 months, the PPD's proportion of a "typical" Central order producer's total revenue averaged 9.51%, with a range of 2.06 to 20.31%.

The graphics and tables in this bulletin indicate how the PPD relates to dairy producers' federal order pay price. Looking at one particular milk check component may give false impressions. Often when the PPD declines, the total return to a dairy farmer may increase due to changes in the other

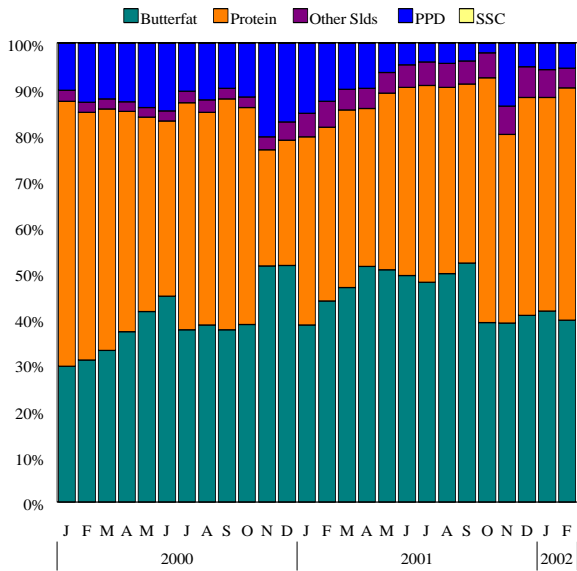
"priced" milk components. For example, from June to July 2000 the PPD fell 39¢ per hundredweight. However, the total per hundredweight return registered its largest increase of \$1.46. Circumstances such as these make it necessary to understand how each of the components in a milk check are priced and how these prices relate to each other. These relationships are illustrated by the graphics and tables which follow.

MARCH 2002



# Central Federal Order Component Prices

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



	Butterfat	Protein	Other Solids	PPD	SCC
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
Mar	1.6820	1.6498	0.1039	1.32	0.00064
Apr	1.9483	1.5443	0.1081	1.36	0.00067
May	2.1191	1.9108	0.1229	0.97	0.00076
Jun	2.2089	2.1670	0.1409	0.77	0.00081
Jul	2.1883	2.3175	0.1510	0.68	0.00083
Aug	2.2976	2.2188	0.1535	0.74	0.00083
Sep	2.4449	2.1647	0.1520	0.66	0.00085
Oct	1.6526	2.6664	0.1482	0.32	0.00078
Nov	1.4500	1.8045	0.1470	1.86	0.00062
Dec	1.4322	1.9782	0.1517	0.66	0.00064
Jan 2002	1.4846	1.9660	0.1392	0.74	0.00065
Feb	1.3817	2.0884	0.0965	0.69	0.00064

Price announcements may be obtained from the Market Administrator website at [www.fmmcentral.com](http://www.fmmcentral.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 (PPD)  
330,000 Somatic Cell Count

Feb 2002 Prices:

\$1.3817 /lb.  
\$2.0884 /lb.  
\$0.0965 /lb.  
\$0.69 /cwt.  
\$0.00064 /cwt.

Prices For Different Months May Be Found In Above Table

Component	Avg Test	Hundred-Weights	Lbs. Component Marketed	Feb '02 Component Prices	Total Value
Butterfat	3.67	x 2,000	= 7,340	x \$1.3817	= \$10,141.68
Protein	3.10	x 2,000	= 6,200	x \$2.0884	= \$12,948.08
Other Solids	5.70	x 2,000	= 11,400	x \$0.0965	= \$ 1,100.10
PPD		2,000		x \$0.69	= \$ 1,380.00
Somatic Cell Count (Calculate Adjuster) (350-330=20)	330,000 20	x 2,000	= 40,000	x \$0.00064	= \$ 20.00

**Total Federal Order Value Of Milk Marketed: February 2002**

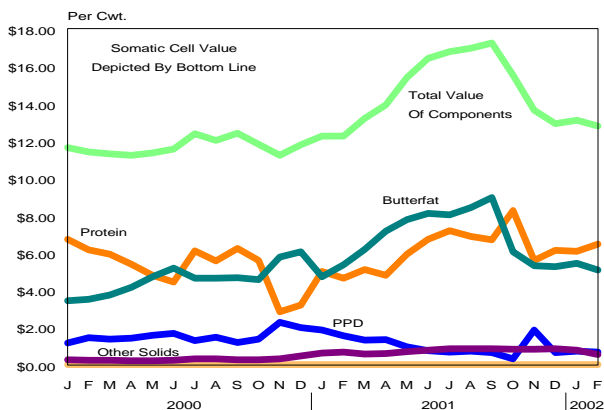
**\$25,589.86**

<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 associations must be paid under the order. The price does not include authorized deductions, marketing service fees, etc.

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). Highs are denoted in blue and lows in red. The total value of the PPD was always less than either the butterfat or the protein component (during these 26 months) and yet it remains one of the more often quoted and compared prices. The total producer value increased during several months when the PPD decreased and vice-versa.

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

	Butterfat	Protein	Other Solids	PPD	SCC	Total Value	Effective Price
Jan 2000	<b>6,874.64</b>	13,439.74	573.42	2,360.00	20.00	23,267.80	11.63
Feb	7,037.59	12,306.38	492.48	2,920.00	20.00	22,776.45	11.39
Mar	7,480.19	11,882.92	483.36	2,740.00	20.00	22,606.47	11.30
Apr	8,332.37	10,787.38	465.12	2,860.00	20.00	22,464.87	11.23
May	9,434.84	9,618.68	<b>459.42</b>	3,180.00	20.00	22,712.94	11.36
Jun	10,369.95	8,852.36	499.32	3,400.00	20.00	23,141.63	11.57
Jul	9,315.19	12,230.12	634.98	2,580.00	20.00	24,780.29	12.39
Aug	9,291.71	11,130.24	657.78	2,960.00	20.00	24,059.73	12.03
Sep	9,326.94	12,484.94	572.28	2,420.00	20.00	24,824.16	12.41
Oct	9,133.90	11,177.36	536.94	2,760.00	20.00	23,628.20	11.81
Nov	11,556.83	<b>5,672.38</b>	644.10	<b>4,560.00</b>	20.00	<b>22,453.31</b>	<b>11.23</b>
Dec	12,135.96	6,434.36	945.06	4,020.00	20.00	23,555.38	11.78
Jan 2001	9,465.66	10,032.22	1,276.80	3,720.00	20.00	24,514.68	12.26
Feb	10,735.48	9,269.62	1,366.86	3,100.00	20.00	24,491.96	12.25
Mar	12,345.88	10,228.76	1,184.46	2,640.00	20.00	26,419.10	13.21
Apr	14,300.52	9,574.66	1,232.34	2,720.00	20.00	27,847.52	13.92
May	15,554.19	11,846.96	1,401.06	1,940.00	40.00	30,782.21	15.39
Jun	16,213.33	13,435.40	1,606.26	1,540.00	40.00	32,834.99	16.42
Jul	16,062.12	14,368.50	1,721.40	1,360.00	40.00	33,552.02	16.78
Aug	16,864.38	13,756.56	<b>1,749.90</b>	1,480.00	40.00	33,890.84	16.95
Sep	<b>17,945.57</b>	13,421.14	1,732.80	1,320.00	40.00	<b>34,459.51</b>	<b>17.23</b>
Oct	12,130.08	<b>16,531.68</b>	1,689.48	<b>640.00</b>	40.00	31,031.24	15.52
Nov	10,643.00	11,187.90	1,675.80	3,720.00	20.00	27,246.70	13.62
Dec	10,512.35	12,264.84	1,729.38	1,320.00	20.00	25,846.57	12.92
Jan 2002	10,896.96	12,189.20	1,586.88	1,480.00	20.00	26,173.04	13.09
Feb	10,141.68	12,948.08	1,100.10	1,380.00	20.00	25,589.86	12.79



The graph at the left illustrates the dollar values found in the above table on a per hundredweight basis. **3.67% Butterfat, 3.10% Protein, 5.70% Other Solids, & 330,000 Somatic Cell Count**

	Statistical Uniform Price		Producer Price Differential		Class I Utilization	
	<u>2/2002</u>	<u>1/2002</u>	<u>2/2002</u>	<u>1/2002</u>	<u>2/2002</u>	<u>1/2002</u>
Pacific Northwest	12.14	12.53	0.51	0.66	27.29	29.74
Western	12.09	12.44	0.46	0.57	17.35	18.91
Arizona-Las Vegas	12.46	12.81	-----	-----	30.80	32.45
<b>Central</b>	<b>12.32</b>	<b>12.61</b>	<b>0.69</b>	<b>0.74</b>	<b>27.44</b>	<b>28.54</b>
Southwest	13.28	13.66	1.65	1.79	41.59	46.00
Upper Midwest	12.04	12.30	0.41	0.43	19.76	18.72
Southeast	13.75	14.13	-----	-----	56.63	57.99
Mideast	12.46	12.88	0.83	1.01	34.90	40.54
Appalachian	14.04	14.41	-----	-----	65.71	68.00
Northeast	13.48	13.81	1.85	1.94	40.81	41.94
Florida	15.46	15.76	-----	-----	90.08	90.29

The U.S. Department of Agriculture (USDA) prohibits discrimination in all its programs and activities on the basis of race, color, national origin, sex, religion, age, disability, political beliefs, sexual orientation, and marital or family status. (Not all prohibited bases apply to all programs.) Persons with disabilities who require alternative means for communication or program information (Braille, large print, audiotape, etc.) should contact USDA's TARGET Center at (202) 720-2600 (voice or TDD).

To file a complaint of discrimination write USDA, Director, Office of Civil Rights, Room 326-W, Whitten Building, 14th and Independence Avenue, SW, Washington, DC 20250-9410 or call (202) 720-5964 (voice or TDD). USDA is an equal opportunity provider and employer.



FIRST CLASS  
U.S. POSTAGE  
PAID  
SHAWNEE MISSION, KS  
PERMIT NO. 377

FEDERAL MILK MARKET ADMINISTRATOR  
P.O. BOX 14650  
SHAWNEE MISSION, KANSAS 66285-4650

FIRST CLASS