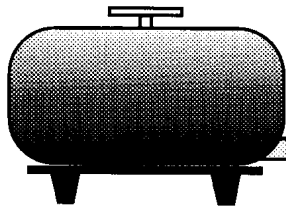


# MARKETING SERVICE

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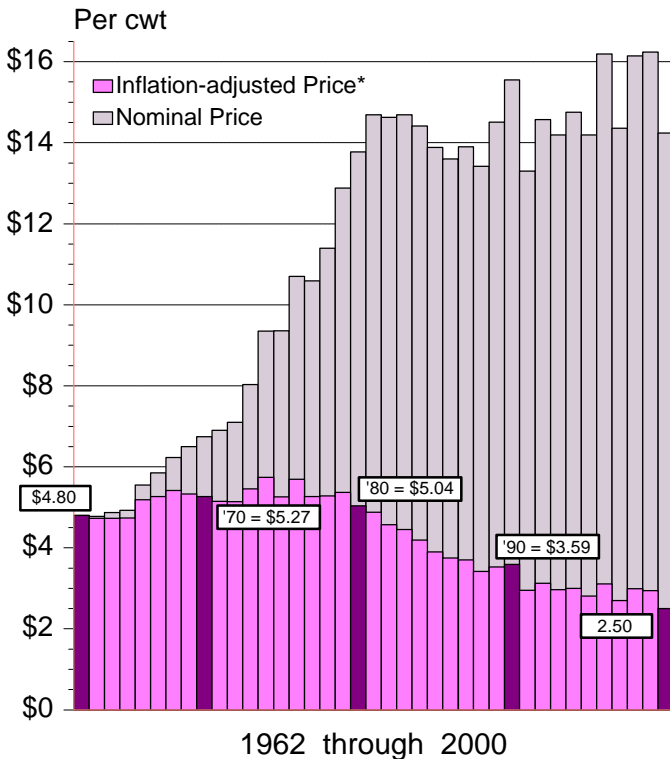


Depressed producer milk prices dominated the dairy industry during 2000. Record levels of milk production, along with other supply and demand dynamics, resulted in decreased levels of wholesale dairy commodity prices. Low commodity prices translate into depressed Federal Milk Order (FMO) prices for all usage categories. Consequently, farm-level milk prices and revenues suffered during 2000. FMO Class III prices, for example, averaged \$9.74 per hundredweight, which was the lowest level in over two decades.

Nominal price levels only tell a portion of the story, however. The consequences of price movements are not accurately depicted until inflationary effects are factored into the equation. The graphs and data in this issue depict inflation-adjusted changes in annual FMO Class I and blend prices, as well as gross revenue per producer since 1962. The FMO system reached its "zenith" in 1962 in terms of the sheer

number of orders and market administrators. In 1962 there were 39 market administrators and 83 FMOs. This compares to the current 11 orders administered by eight market administrators.

## Federal Milk Order Class I Prices



\* Prices adjusted using the Bureau of Labor Statistics CPI inflation adjustment index. 1962 = 100%.

The data in this bulletin represents annual weighted average data for all FMOs. These data have been adjusted using the consumer price index (CPI) inflation calculator. The CPI is the most widely used and recognized measure of inflation in the U.S. economy. This index represents changes in prices of all goods and services purchased for consumption by urban households. The CPI has been calculated every year since 1913.

The graph on this page depicts the nominal weighted average FMO Class I price, as well as the inflation-adjusted price, from 1962 through 2000. The base year used for inflation adjustment was 1962. In other words, all inflation-adjusted prices have been expressed in terms of the purchasing power of 1962 dollars. (For example, \$5.70 in 2000 was needed to purchase the same amount of goods and services that \$1.00 purchased in 1962.)

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## Federal Milk Order Blend Prices

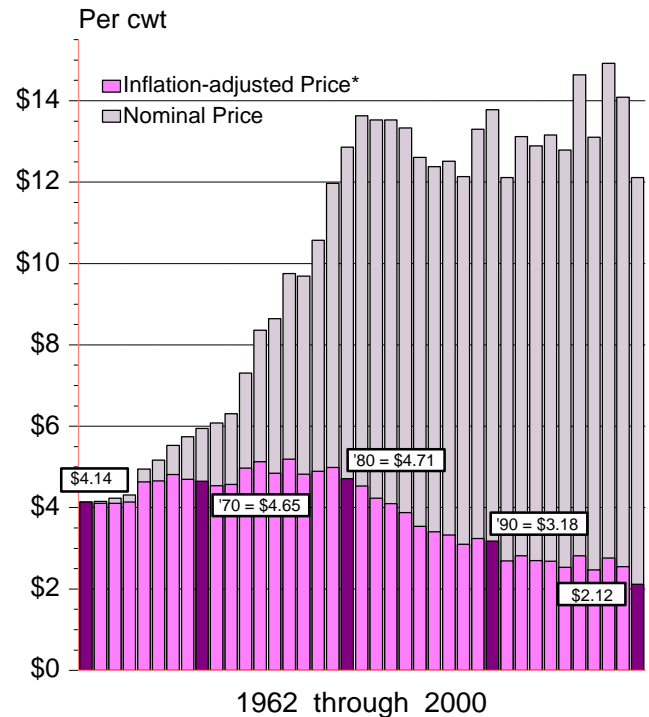
The nominal Class I price per hundredweight averaged \$4.80 during 1962 compared with \$14.24 during 2000, an increase of \$9.44 (+196.7%). In terms of the purchasing power of 1962 dollars, however, this price decreased by almost 48%, falling to \$2.50 per hundredweight. The highest nominal price during this time period was \$16.24 in 1999, while the highest inflation-adjusted price was \$5.74 recorded during 1974. Nominal and inflation-adjusted annual weighted average FMO Class I prices for all years during this time period are contained in the table on page three.

FMO blend prices exhibit a similar pattern of decreasing levels when adjusted using the CPI. The first graph this page depicts the weighted average nominal and inflation-adjusted blend prices for all FMOs from 1962 through 2000. The inflation-adjusted price fell from \$4.14 per hundredweight in 1962 to \$2.12 during 2000, a decrease of 48.8%. This occurred even though the nominal price level increased by \$7.97 per hundredweight. The highest nominal annual blend price average occurred during 1998 at \$14.92, while the highest inflation-adjusted blend price was recorded during 1976 at \$5.19. Nominal and inflation-adjusted annual weighted average FMO blend prices for all years during this time frame are contained in the table on page three.

The graph on the bottom right of this page depicts gross FMO value per producer from 1962 through 1999. Gross value is the weighted average FMO blend price, adjusted for butterfat content, for each year multiplied by average FMO producer marketings per farm. This data has also been adjusted for inflation using the CPI. As indicated, FMO gross value increased from \$11,854 in 1962 to \$39,274 in 2000, an increase of 231.3%. This increase occurred even though inflation-adjusted blend prices declined by almost 49%. Increased milk production efficiency has been an important reason for this revenue increase. During 1962, production per cow was 7,496 pounds. In 2000, milk production totalled 18,204 per cow, an increase of 142.8%. Herd size has also increased dramatically during this time period, and this increase has significantly added to the revenue gains attributable to dairy producers. This revenue data is contained in the table on page three.

The first graph on page four depicts the buying power equal to \$1.00 in 1962. As indicated, an ever increasing amount of money is needed to purchase a fixed amount of goods and services.

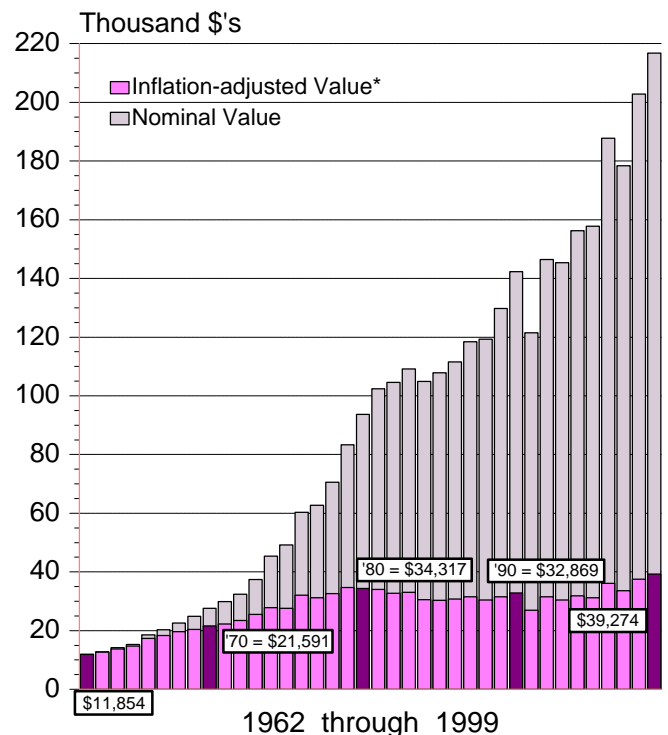
The remaining graphs on pages four and five detail additional historical data for all FMOs, with the exception of the last graph on page five. That graph depicts per capita consumption for the entire country.



\* Prices adjusted using the Bureau of Labor Statistics CPI inflation adjustment index. 1962 = 100%.

## Federal Milk Order Gross Value per Producer

(at Blend Price Adjusted for Butterfat Content)



\* Values adjusted using the Bureau of Labor Statistics CPI inflation adjustment index. 1962 = 100%.

# Class I Prices, Blend Prices, and Gross Value per Producer

## Federal Milk Order Data : 1962 through 2000

	<u>Nominal</u>	<u>Inflation-Adjusted *</u>		<u>Nominal</u>	<u>Inflation-Adjusted *</u>	<u>--- Nominal \$'s ---</u>	<u>-- Inflation-Adj.* --</u>
	<u>Class I Price</u>	<u>Class I Price</u>				<u>Gross Value at</u>	<u>Gross Value at</u>
	<u>--- per cwt ---</u>	<u>--- per cwt ---</u>		<u>Blend Price</u>	<u>Blend Price</u>	<u>Blend Price</u>	<u>Blend Price</u>
				<u>--- per cwt ---</u>	<u>--- per cwt ---</u>	<u>Adjusted for</u>	<u>Adjusted for</u>
						<u>Butterfat Content</u>	<u>Butterfat Content</u>
						<u>--- per producer --</u>	<u>--- per producer --</u>
1962	\$4.80	\$4.80		\$4.14	\$4.14	\$11,854	\$11,854
1963	\$4.78	\$4.73		\$4.15	\$4.11	\$12,814	\$12,687
1964	\$4.87	\$4.73		\$4.23	\$4.11	\$14,174	\$13,761
1965	\$4.93	\$4.74		\$4.31	\$4.14	\$15,300	\$14,712
1966	\$5.55	\$5.19		\$4.95	\$4.63	\$18,526	\$17,314
1967	\$5.85	\$5.27		\$5.17	\$4.66	\$20,321	\$18,307
1968	\$6.23	\$5.42		\$5.53	\$4.81	\$22,561	\$19,618
1969	\$6.50	\$5.33		\$5.74	\$4.70	\$24,892	\$20,403
1970	\$6.74	\$5.27		\$5.95	\$4.65	\$27,636	\$21,591
1971	\$6.90	\$5.15		\$6.08	\$4.54	\$29,893	\$22,308
1972	\$7.10	\$5.14		\$6.31	\$4.57	\$32,439	\$23,507
1973	\$8.03	\$5.46		\$7.31	\$4.97	\$37,461	\$25,484
1974	\$9.35	\$5.74		\$8.36	\$5.13	\$45,376	\$27,838
1975	\$9.36	\$5.26		\$8.64	\$4.85	\$49,233	\$27,659
1976	\$10.70	\$5.69		\$9.75	\$5.19	\$60,277	\$32,062
1977	\$10.59	\$5.27		\$9.69	\$4.82	\$62,692	\$31,190
1978	\$11.40	\$5.28		\$10.57	\$4.89	\$70,528	\$32,652
1979	\$12.88	\$5.37		\$11.97	\$4.99	\$83,262	\$34,693
1980	\$13.77	\$5.04		\$12.86	\$4.71	\$93,685	\$34,317
1981	\$14.69	\$4.88		\$13.63	\$4.53	\$102,354	\$34,005
1982	\$14.63	\$4.57		\$13.53	\$4.23	\$104,573	\$32,679
1983	\$14.69	\$4.45		\$13.53	\$4.10	\$109,142	\$33,073
1984	\$14.41	\$4.19		\$13.33	\$3.88	\$104,935	\$30,504
1985	\$13.88	\$3.90		\$12.61	\$3.54	\$107,871	\$30,301
1986	\$13.60	\$3.75		\$12.38	\$3.41	\$111,581	\$30,739
1987	\$13.90	\$3.70		\$12.51	\$3.33	\$118,402	\$31,490
1988	\$13.42	\$3.42		\$12.14	\$3.10	\$119,261	\$30,424
1989	\$14.51	\$3.53		\$13.30	\$3.24	\$129,744	\$31,568
1990	\$15.55	\$3.59		\$13.78	\$3.18	\$142,324	\$32,869
1991	\$13.30	\$2.95		\$12.11	\$2.69	\$121,479	\$26,935
1992	\$14.57	\$3.13		\$13.12	\$2.82	\$146,452	\$31,495
1993	\$14.19	\$2.97		\$12.89	\$2.70	\$145,350	\$30,408
1994	\$14.75	\$3.00		\$13.16	\$2.68	\$156,253	\$31,823
1995	\$14.19	\$2.81		\$12.79	\$2.53	\$157,754	\$31,238
1996	\$16.19	\$3.11		\$14.64	\$2.82	\$187,713	\$36,099
1997	\$14.36	\$2.70		\$13.10	\$2.47	\$178,424	\$33,602
1998	\$16.14	\$2.99		\$14.92	\$2.76	\$202,770	\$37,550
1999	\$16.24	\$2.94		\$14.09	\$2.55	\$216,794	\$39,274
2000	\$14.24	\$2.50		\$12.11	\$2.12	**	**

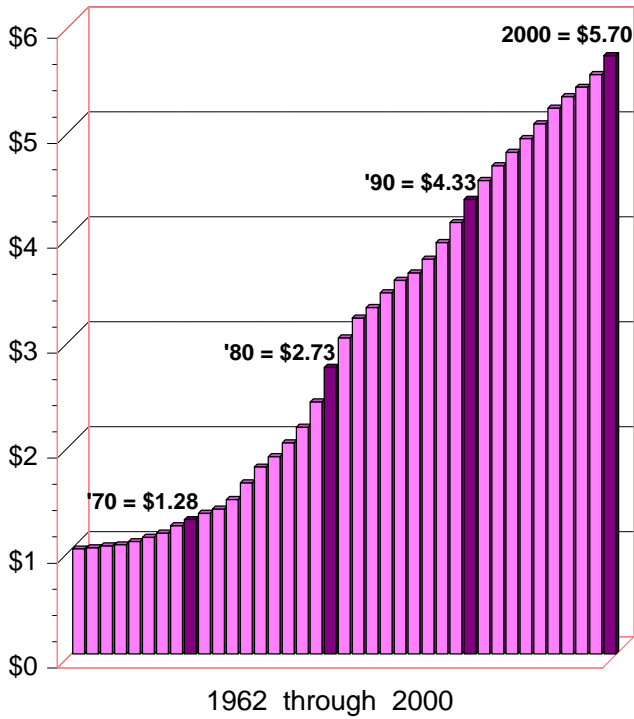
**Data Sources:** Dairy Market News, Volume 68, Report 15.  
Bureau of Labor Statistics (BLS).

\* Prices and revenue adjusted for inflation using the BLS CPI inflation adjustment index. (1962 = 100%)

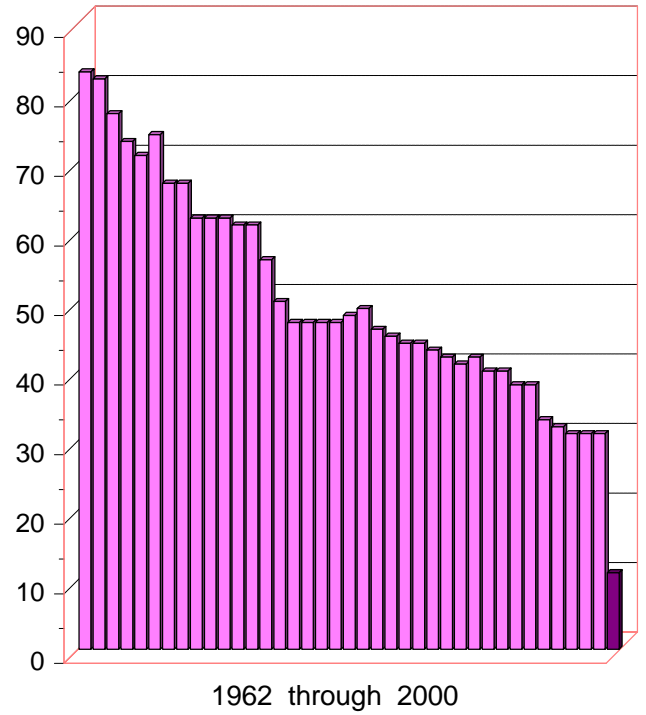
\*\* Data not available.

## Buying Power Equivalent to \$1 in 1962

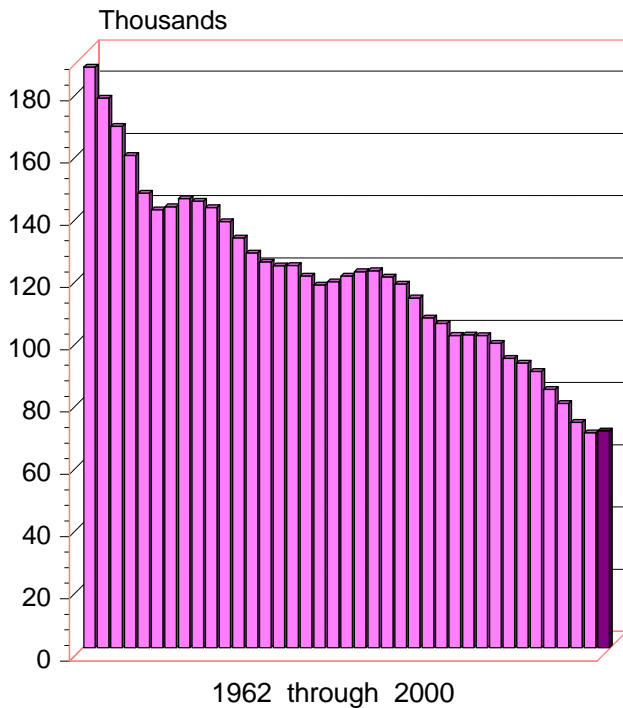
Bureau of Labor Statistics CPI Inflation Calculator



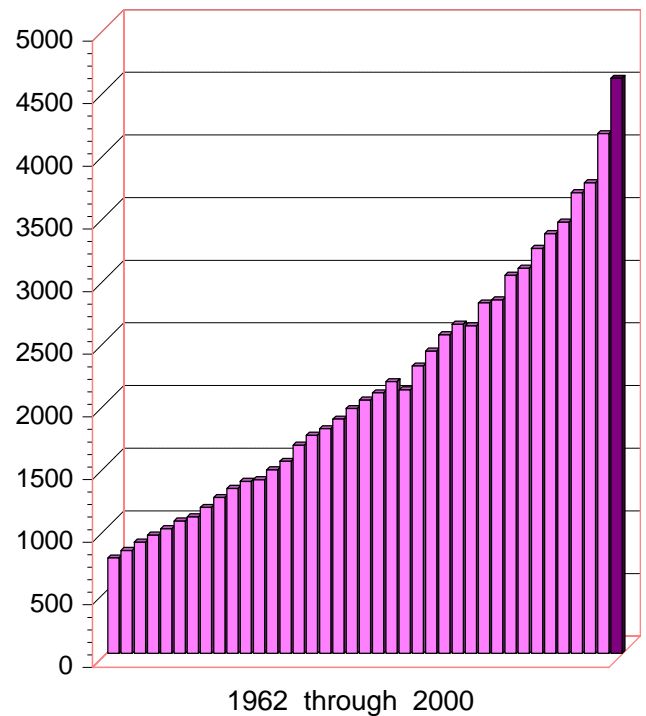
## Number of Federal Milk Orders



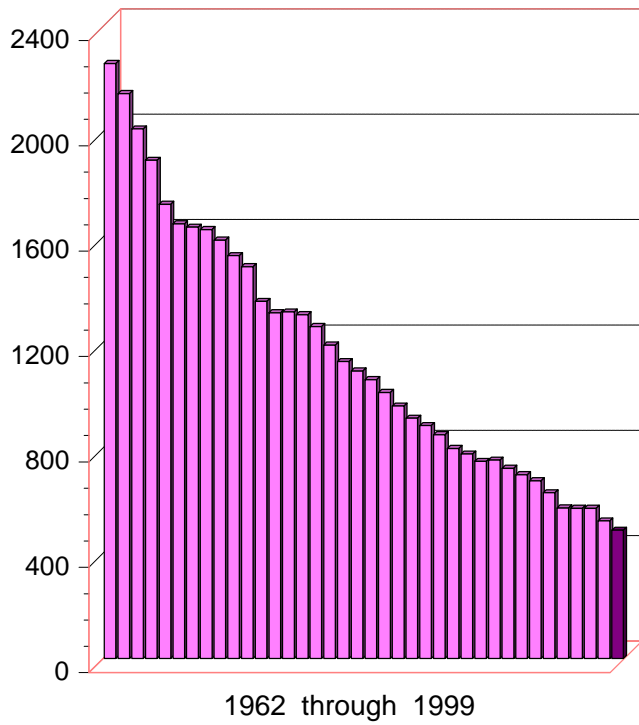
## Number of Federal Milk Order Producers



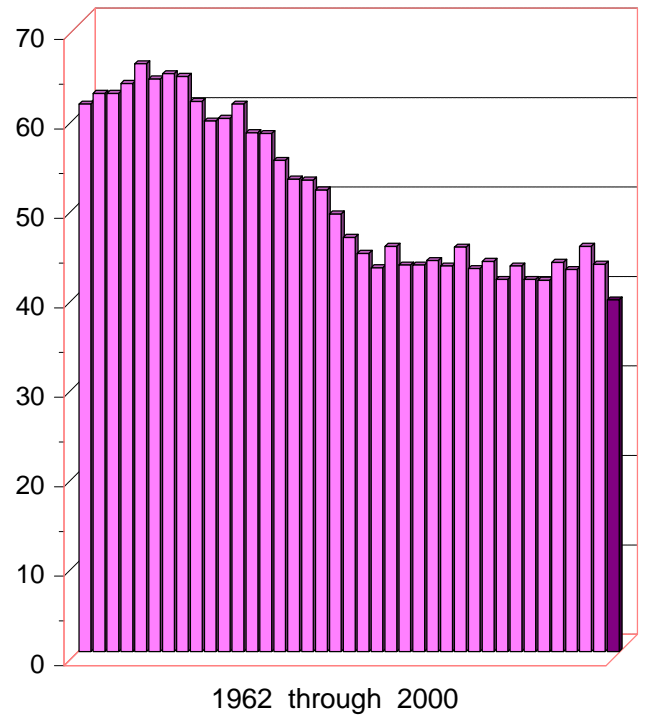
## Average Daily Deliveries per Producer



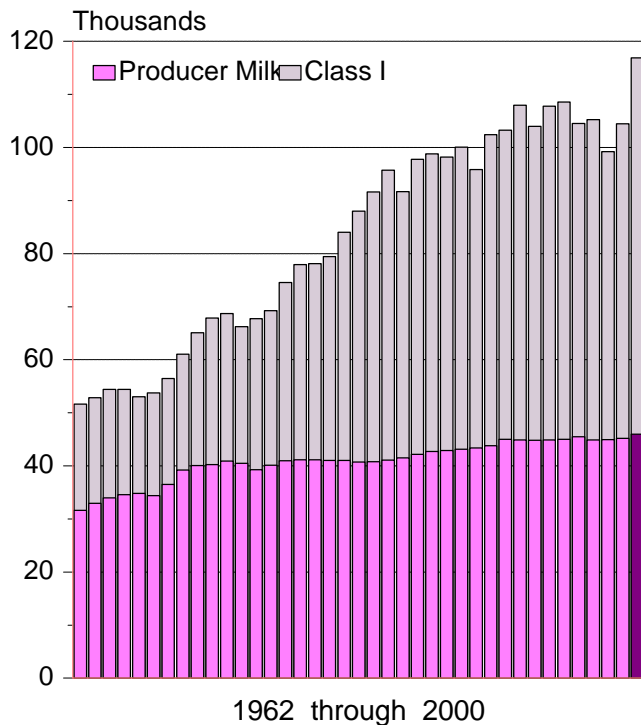
**Number of Federal Milk Order Handlers**



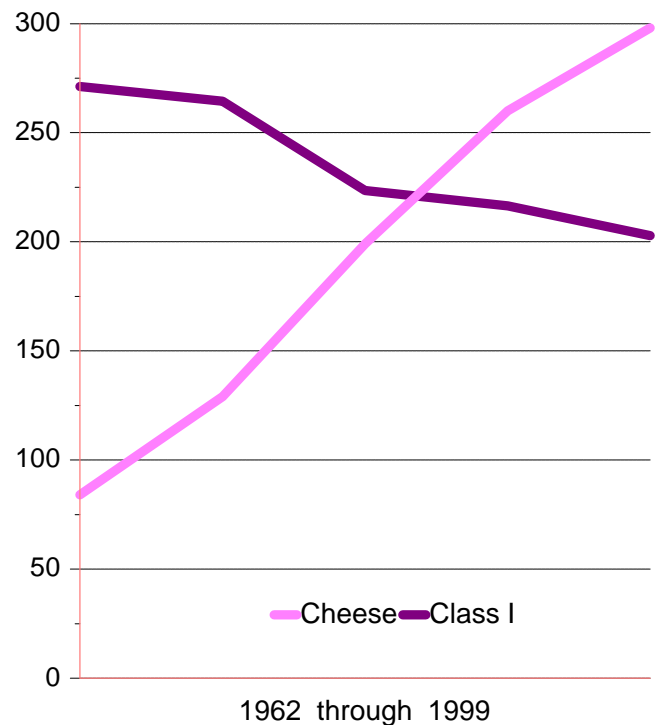
**Class I Utilization in Federal Milk Orders**



**Federal Milk Order Producer Milk and Producer Milk in Class I**



**Per Capita Consumption : Class I vs the Fluid Equivalent of Cheese**



	Statistical Uniform Price		Producer Price Differential		Class I Utilization	
	<u>03/2001</u>	<u>02/2001</u>	<u>03/2001</u>	<u>02/2001</u>	<u>03/2001</u>	<u>02/2001</u>
Pacific Northwest	11.17	12.35	1.63	2.08	30.93	31.90
Western	11.02	11.79	1.48	1.52	25.13	27.65
Arizona-Las Vegas	11.28	12.48	-----	-----	30.11	31.57
<b>Central</b>	<b>10.91</b>	<b>11.82</b>	<b>1.37</b>	<b>1.55</b>	<b>31.78</b>	<b>30.18</b>
Southwest	11.90	13.24	2.36	2.97	42.09	49.51
Upper Midwest	10.18	11.15	0.64	0.88	16.28	19.75
Southeast	12.83	14.15	-----	-----	62.44	61.22
Mideast	11.68	12.28	2.14	2.01	50.28	43.39
Appalachian	13.15	14.48	-----	-----	64.05	64.73
Northeast	12.39	13.62	2.85	3.35	41.97	43.31
Florida	14.47	15.91	-----	-----	87.34	89.57

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