

MARKETING SERVICE

BULLETIN

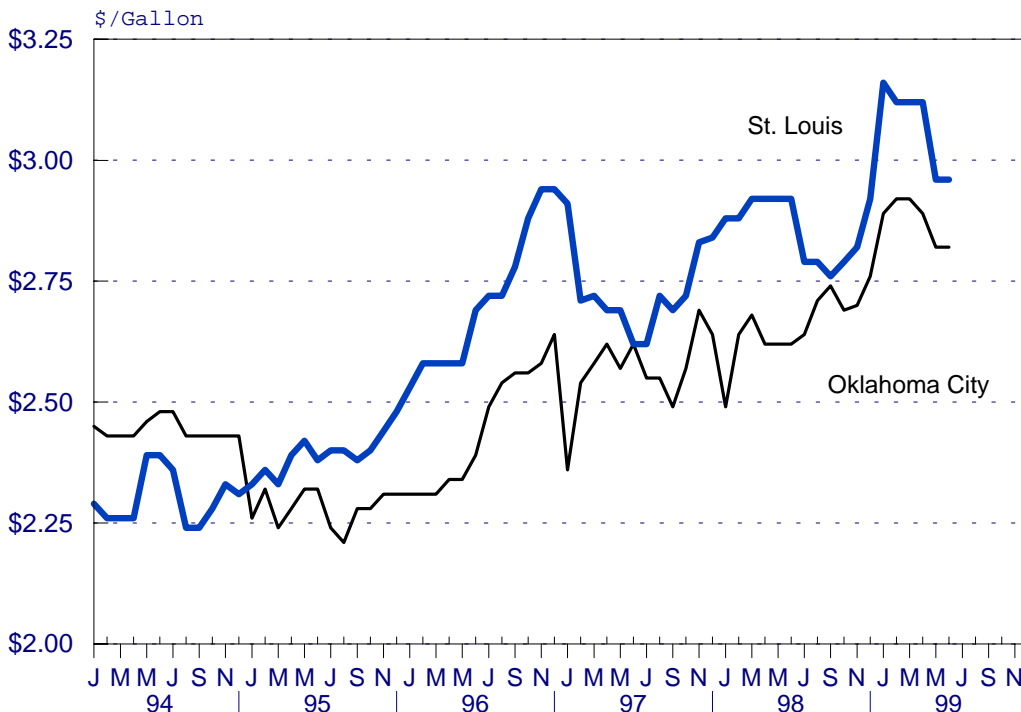
Federal Order Class I Prices A Declining Influence On Retail Milk Prices ???

Many people would agree with the perception that prices of goods and services just go up. "Stuff" just gets more expensive. Consumers (who may know little about who produces their food, where it comes from, or how it reaches them) become aware that their food dollar doesn't go as far when retail price increases are significant and occur in a relatively short time-frame.

The finger of blame often points at the dairy farmer when questions are asked as to why retail dairy prices are increasing. "Milk is short and producers are being paid more" is a favorite tag line. Little notice is paid when both retail and producer prices drop. Likewise, some discussions surrounding federal milk order reform have focused on Class I federal order prices and their possible effect on consumer prices. Some studies imply that federal milk orders might be responsible for increased consumer costs.

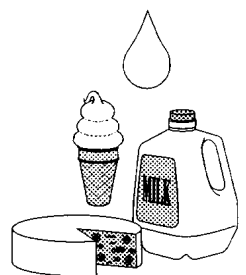
Both retail milk prices and federal order Class I prices are illustrated in this bulletin. As the graphics depict, relationships between retail and producer prices are different today than in the past.

Average Retail Homogenized Milk Prices



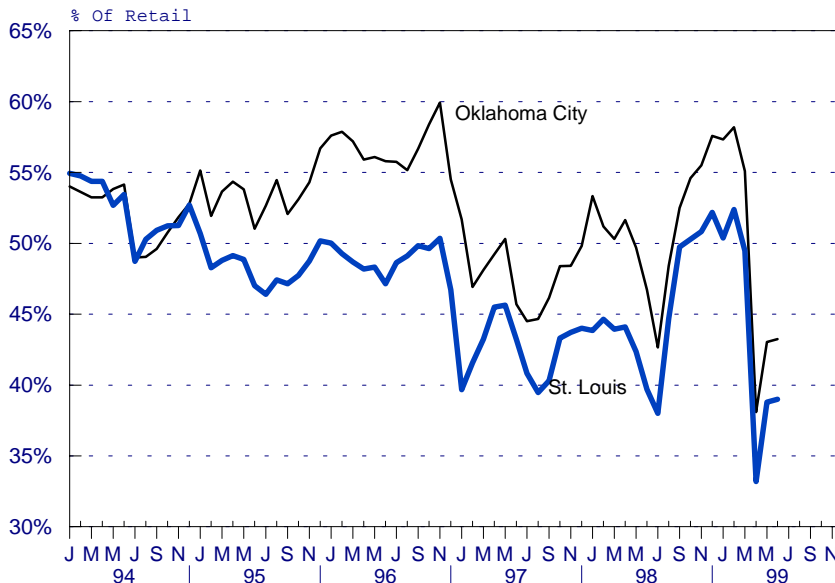
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Retail fluid dairy product prices are surveyed monthly by this office at St. Louis (MO) and Oklahoma City (OK). The retail prices used are averages of prices at the two largest retail grocery stores and the largest convenience store. Prices are obtained between the 1st and the 10th of the month, excluding Fridays and weekends, and represent the most common brand in the store. The average retail price of homogenized milk in both cities have maintained an upward trend over the past 5½ years as depicted by the graph on page one.

**Minimum Federal Order Class I Price @ 3.25% BF
As % Of Average Retail Homogenized Milk Price**



The federal milk order Class I price represents the dairy producers' share of the retail price. The Class I price in all federal milk orders is the minimum amount processors must pay for milk utilized in fluid bottling. Class I prices have been adjusted to a 3.25% butterfat content to correspond with the average butterfat content of homogenized milk. The Class I price does not represent a processor's total milk cost. Additional costs such as premiums paid to producers, processing, packaging, marketing, sales costs, profit margins, etc. must also be considered.

The declining effect which minimum Class I federal order prices have on retail prices is illustrated above. Class I prices as a percent of retail prices are shown for the two cities. Dairy farmers have experienced a decreasing share of the retail milk price over this period. Mainly this occurs through a repeating cycle. Farm prices increase then retail prices increase. Farm prices drop but retail prices fail to decrease proportionally. Over time, the dairy farmer finds that they "own" less and less of the share of the retail price. In effect, the federal order Class I prices over time may not affect consumer prices like some think they may.

St. Louis, Missouri

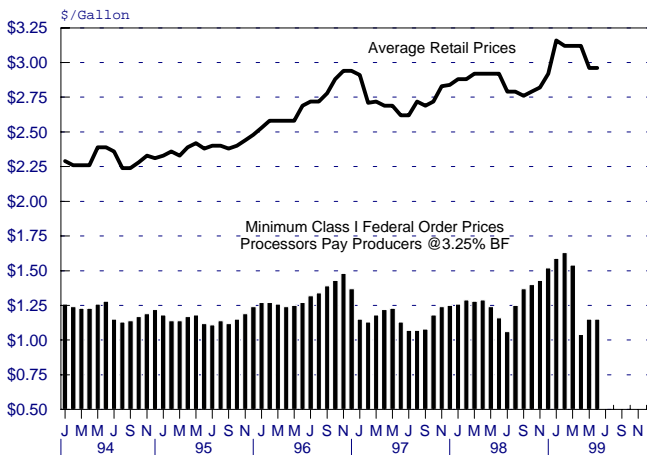
Retail prices in St. Louis increased steadily over the past 5½ years. The average price for a gallon of homogenized milk in June 1999 was \$2.96 which was up 23.8% from June 1994. The June 1999 price is down from a peak of \$3.16 noted in January 1999. The graphs at the top of the next page depict monthly retail prices (as surveyed) over this time-period, the minimum Class I price, and the differences between the two. Retail prices ranged from a low of \$2.24 to the \$3.16 peak.

Comparatively, Class I prices remained relatively stable with exception of the much publicized run-ups in the fall of 1996 and 1998. The Class I price for a gallon of 3.25% butterfat milk in June 1999 was \$1.15 -- down 10.2% from June 1994. The June 1999 price is down from a peak of \$1.63 noted in February 1999. The low was \$1.04 in April 1999. It is noteworthy that the high and low Class I prices during this time period were within two months of each other.

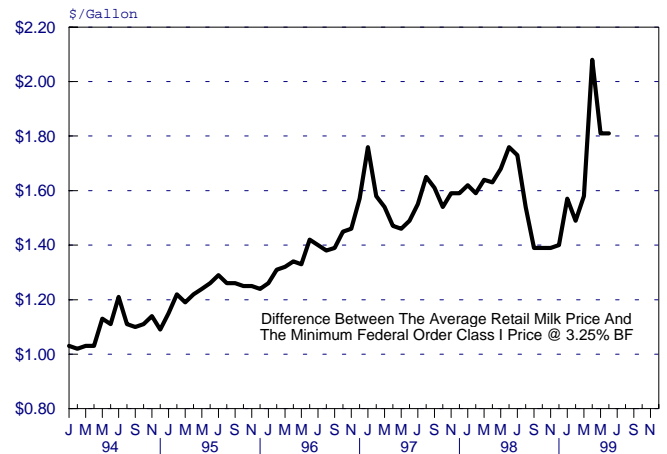
Retail prices varied by 92¢ per gallon during this time-period while the Class I prices varied by 59¢ per gallon. The difference between the average surveyed retail price in St. Louis and the Class I price was \$1.03 per gallon in January 1994. This spread peaked at \$2.08 in April 1999 when Class I prices fell

50¢ per gallon (-32.5%). Retail prices have been slower to respond to this price decrease (down 5.1%). However, retail prices did not increase as fast as the Class I price did late in 1998.

St. Louis Homogenized Milk Prices



St. Louis Homogenized Milk Prices



Oklahoma City, Oklahoma

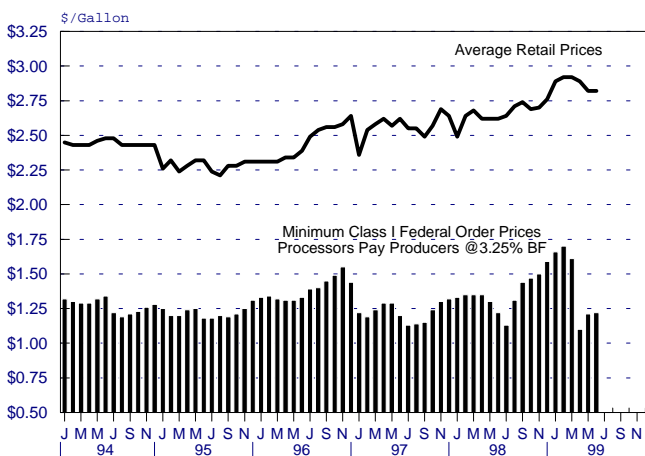
Retail prices in Oklahoma City have not varied as much as in St. Louis over the past 5½ years. The average price for a gallon of homogenized milk in June 1999 was \$2.82 -- up 13.7% from June 1994. The June 1999 price is down from a peak of \$2.92 noted in February & March 1999. The graphs below depict monthly retail prices (as surveyed) over this time-period, the minimum Class I price, and the differences between the two. Retail prices ranged from a low of \$2.21 to the \$2.92 peak.

Class I prices also remained relatively stable with exception of the previously mentioned fall 1996 & 1998 run-ups. The Class I price for a gallon of 3.25% butterfat milk in June 1999 was \$1.22 (7¢ higher than St. Louis) which was down 9.0% from June 1994. The June 1999 price is down from a peak of \$1.70 noted in February 1999. As in St. Louis, both the high and low Class I prices occurred within two months -- between the \$1.70 peak in February 1999 and the low of \$1.10 in April 1999.

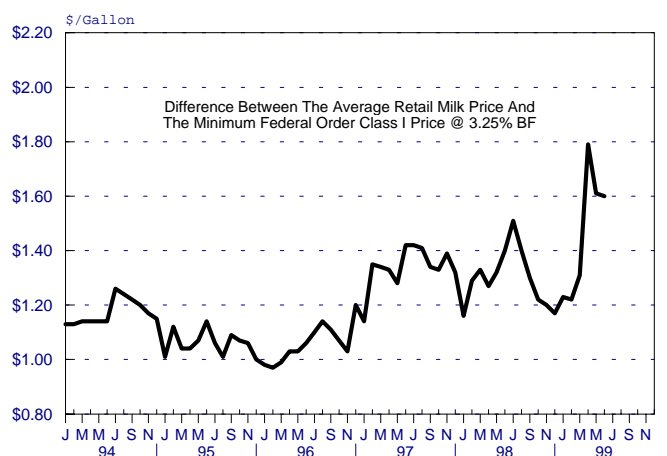
The Class I price varied by 60¢ per gallon in Oklahoma City. However, retail prices varied by 71¢ per gallon in Oklahoma City compared with the 92¢ per gallon variation in St. Louis.

The difference between the average surveyed retail price in Oklahoma City and the Class I price was \$1.13 per gallon in January 1994. This spread peaked at \$1.79 in April 1999.

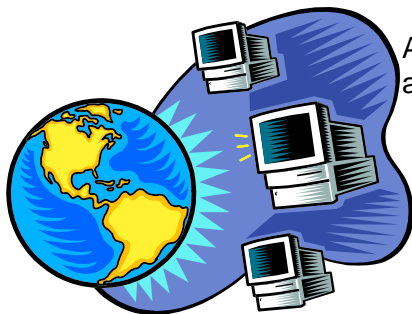
Oklahoma City Homogenized Milk Prices



Oklahoma City Homogenized Milk Prices



A comparison of Blend Prices for milk of 3.5% butterfat content is provided for selected Federal milk marketing orders:		<u>May</u> <u>1999</u>	<u>Apr</u> <u>1999</u>	<u>May</u> <u>1998</u>
		Southeast (Zone 7)	\$14.03	\$13.00
	Chicago Regional (Zone I)	11.75	11.49	11.68
	Greater Kansas City	13.25	12.00	14.07
	Indiana	12.74	11.65	13.82
	Iowa (Zone I)	11.91	11.64	12.08
	Southwest Plains (Zone I)	12.81	12.39	13.24
	Central Illinois (Zone I)	12.79	11.75	13.40
	Southern Illinois - Eastern Missouri (Base Zone)	12.67	11.85	13.15



A variety of information issued from the Tulsa Milk Market Administrator office may be accessed through our Internet Home Page located at www.fmmatulsa.com

Class and Uniform Price Announcements, Statistical Summaries, Marketing Service Bulletins, Weekly Commodity Prices, and other publications are available soon after their release. Also, you may choose to use the e-mail connection to send comments or suggestions.

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