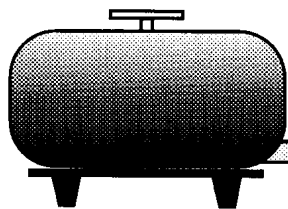


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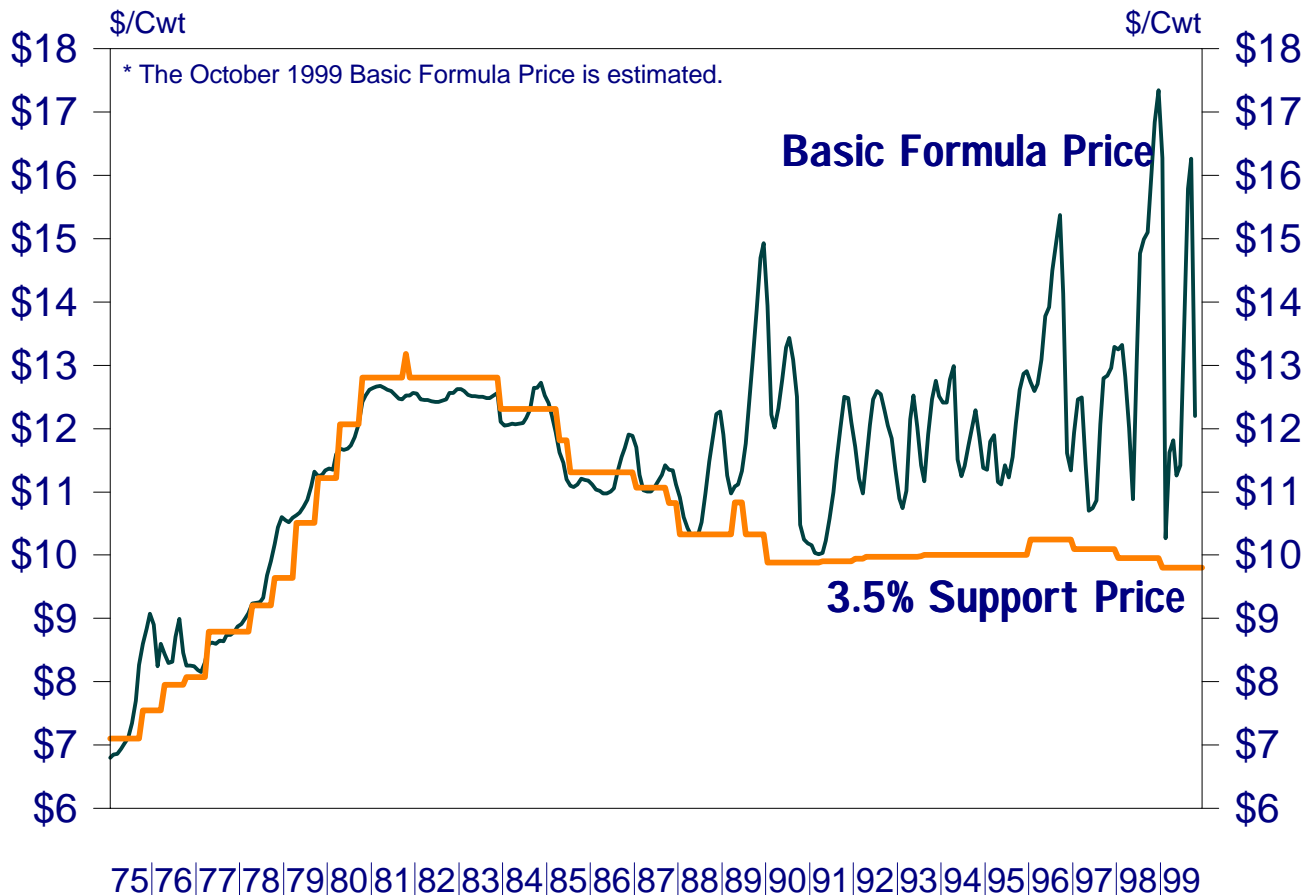


Volatility In The Basic Formula Price Series

United States milk prices have become increasing volatile over the past decade. This volatility roughly coincides with the lowering of the federal support price for milk as illustrated by the graph below. Since the Basic Formula Price (BFP) has been the price mover for all classes of milk priced under the

Federal Milk Marketing Order system, it is the appropriate price series to examine when analyzing prices. The BFP movements during 1998 and thus far in 1999 are a prime example of these extreme swings. The all-time high BFP of \$17.34 was recorded during December 1998 while the largest ever month-to-month drop (-\$6.00) occurred between January and February of 1999. Several other large month-to-month price fluctuations have been recorded since the beginning of 1998. The graph on the top of page two depicts these fluctuations in the BFP.

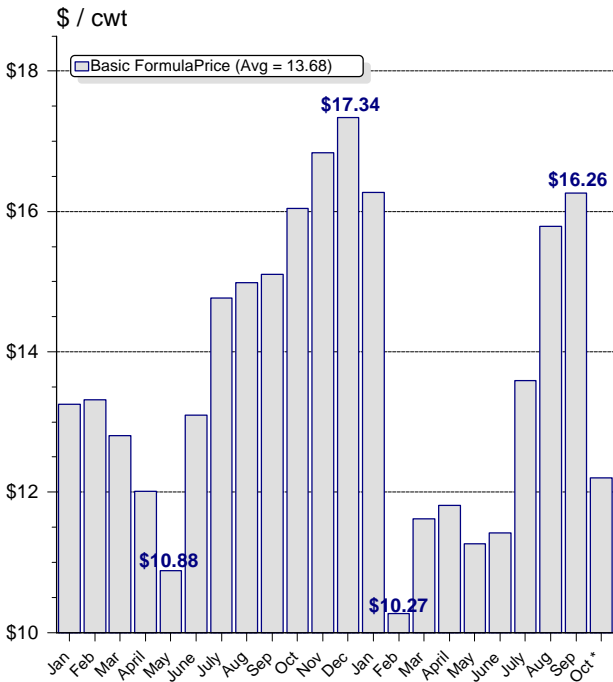
Federal Order Basic Formula Price* vs 3.5% Support Price



OCTOBER 1999



**Basic Formula Price :
January 1998 thru October* 1999**



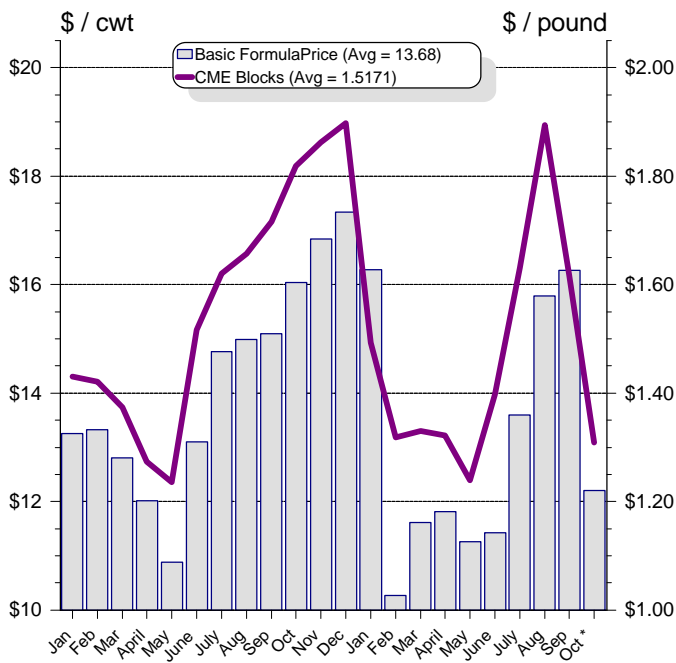
* October 1999 data is projected.

Numerous factors affect the level and volatility of the BFP. Conventional wisdom stipulates that the wholesale price of cheese is the number one influence on this price series. The final two graphs on this page depict the BFP over the most recent 22 months versus the CME block cheese price and the NASS U.S. average block cheese price. (Note: The NASS price series is the only one used in the formula that calculates the BFP.)

The level of total cheese stocks (government and industry) is frequently cited as a primary influence on cheese prices, and hence, the BFP. The first graph on page three depicts total American cheese stocks versus the BFP over the past 22 months.

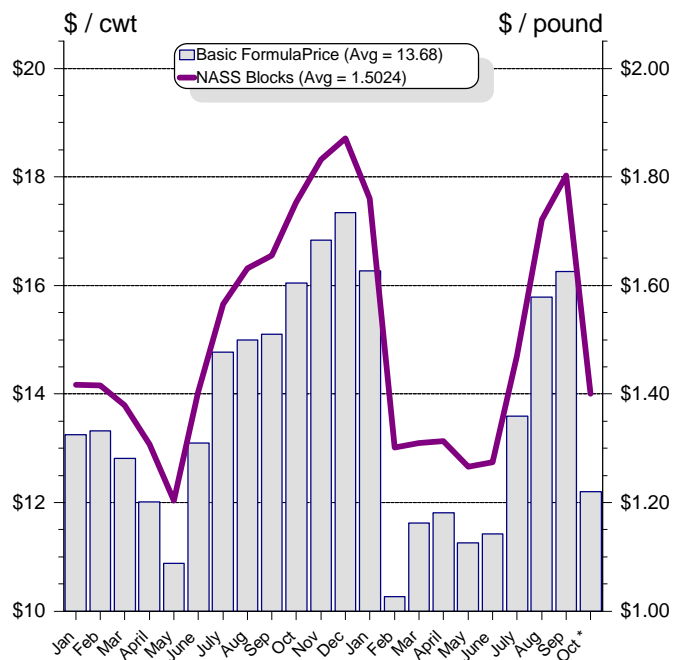
Other factors frequently cited as influences on the BFP include milk production and the stock level for other manufactured dairy products such as butter and nonfat dry milk powder (NFDN). The final three graphs in this bulletin depict the BFP series versus these items for the period of January 1998 through October 1999.

**Basic Formula Price vs CME Block
Cheese Price :
January 1998 thru October* 1999**



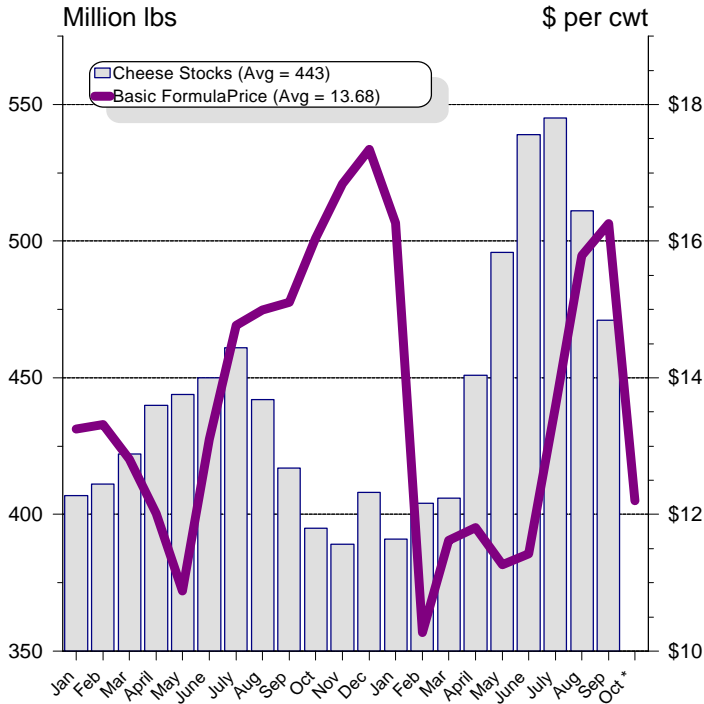
* October 1999 data is projected.

**Basic Formula Price vs NASS U.S.
Average Block Cheese Price :
January 1998 thru October* 1999**



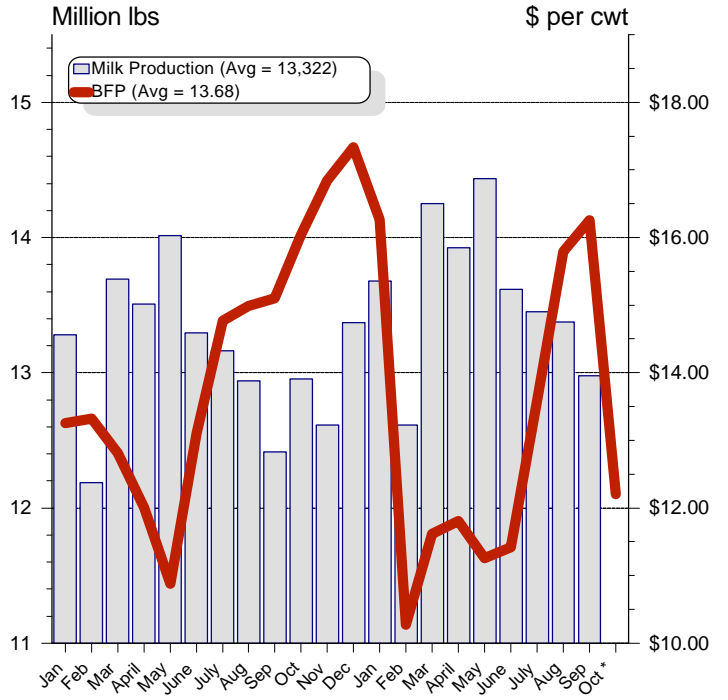
* October 1999 data is projected.

Total Natural American Cheese Stocks vs the Basic Formula Price :
January 1998 thru October* 1999



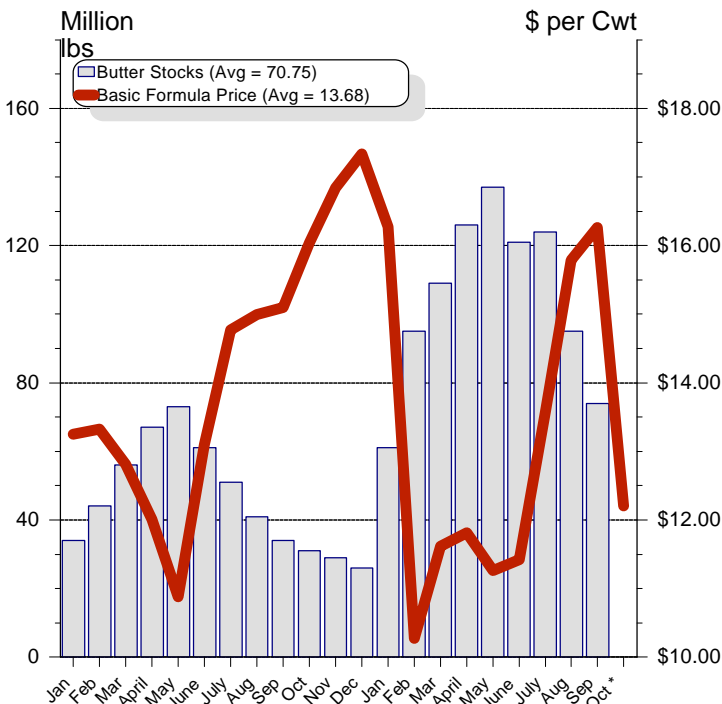
* October 1999 Basic Formula Price is projected.

United States Milk Production vs the Basic Formula Price :
January 1998 thru October* 1999



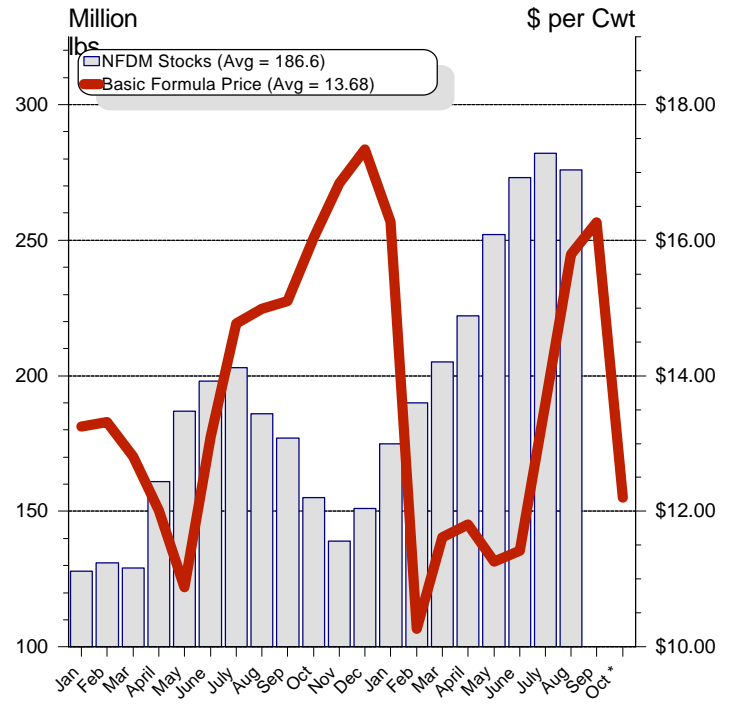
* October 1999 Basic Formula Price is projected.

Total Butter Stocks vs the Basic Formula Price :
January 1998 thru October* 1999



* October 1999 Basic Formula Price is projected.

Total NFDM Stocks vs the Basic Formula Price :
January 1998 thru October* 1999



* October 1999 Basic Formula Price is projected.

A comparison of Blend Prices for milk of 3.5% butterfat content is provided for selected Federal milk marketing orders:		Sep 1999	Aug 1999	Sep 1998
	Southeast (Zone 7)	\$16.47	\$14.42	\$17.52
	Chicago Regional (Zone I)	14.99	13.26	15.50
	Greater Kansas City	15.52	13.54	16.65
	Indiana	14.98	12.94	16.18
	Iowa (Zone I)	14.89	12.91	15.68
	Southwest Plains (Zone I)	16.04	14.19	16.58
	Central Illinois (Zone I)	15.24	13.19	16.17
	Southern Illinois - Eastern Missouri (Base Zone)	15.16	13.11	16.14

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