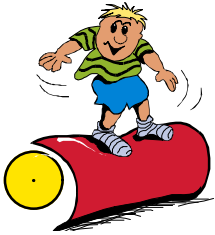
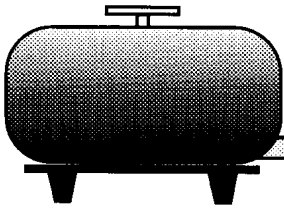


MARKETING SERVICE

B U L L E T I N



A Balancing Act

The federal milk marketing program which has been in existence for over 60 years was designed to promote a balance between seasonal dairy product demand and contra-seasonal milk supplies. Federal milk orders were designed to provide an adequate milk supply for fluid use throughout the year. Order provisions were originally formulated to preserve tight, localized milk supplies which maintained a closely monitored supply/demand balance. Federal orders were requested and approved by dairy farmers for localized milk markets in urban population centers. During the early years of federal milk orders existence, milk was collected daily and hauled in cans from farms located close to a milk plant or receiving station. Fluid dairy products were delivered in glass containers directly to homes.

The structure of milk markets changed dramatically over the next fifty years. Advancements and innovations such as refrigerated farm bulk tanks and improved transportation have given way to the potential for "condensing" milk at the farm for transport to far-removed markets. Farms converting to Grade "A" status is so remote many do not remember manufacturing grade milk. Farm numbers continue to decline and "mega" farms no longer seem novel. The federal milk order system has also evolved -- declining in number by more than half through 1999, as small localized markets gave way to larger regional marketing areas. Regional orders took on a new meaning as Congress mandated federal milk order reform which resulted in the current 11 orders.

During this evolution, federal milk order provisions were continually amended by dairy producers and industry requests to accommodate the pooling of Grade "A" milk well beyond the Class I requirements and a necessary reserve. This resulted in a shift in the responsibility of balancing the milk supply -- from order language constraints to milk supplier/handler obligations. Handlers took on the task of balancing the market by owning and operating manufacturing plants and storage facilities. This created a Catch-22 situation for handlers. On one hand, they wanted to pool all of their producer milk and to market milk from all producers who wanted to participate. On the other hand, they incurred the cost of balancing this milk supply.

In addition to the normal contra-seasonal milk supply and demand imbalances, the job becomes more difficult to manage with existing weekly and daily supply/demand factors. The Class I and Class II (i.e. packaged milk and soft products such as cottage cheese, yogurt, and ice cream) requirements of distributing pool handlers on the Central federal milk order were examined in an attempt to quantify this daily supply/demand imbalance. Differences between the total producer milk associated with the market and the Class I and Class II utilization were examined to illustrate the magnitude of the "balancing act" problem. In this analysis, it was assumed that all producer milk not used in Class I and Class II was excess for the market on any given day and would be handled by manufacturing plants. The volume of milk utilized in Class III and Class IV is arbitrarily counted as surplus.

Over time, federal milk orders have been successful in keeping the last 100 pounds of milk in a market from establishing the price for all of the milk in that market. The supply of milk continues to increase relative to fluid demands while marketing firms desire to include all of the supply in the federal order pool. Milk markets, once designed to ensure a disciplined milk supply with high Class I utilizations, have evolved to where slightly less than 40 percent of the milk draws a Class I price. How individual markets and participants attempt to allocate these Class I dollars over an ever-increasing milk supply remains to be seen.

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Fluid bottling and Class II production records from 35 Central federal milk order regulated handlers were examined for a seven-day period in April 2001 (23rd-29th). Reviewing Class I bottling records found that most fluid processors were "down" on Sunday, 19 were "down" on Wednesday, and 12 were "down" on Saturday. Some plants did package Class II products on the "down" fluid days. This creates the daily variation in demand that manufacturing facilities must confront when dealing with a relatively constant milk supply. The graphics included on this page include both Class I (fluid) and Class II products as a measure of the milk needed to supply "packaged" products during this week.

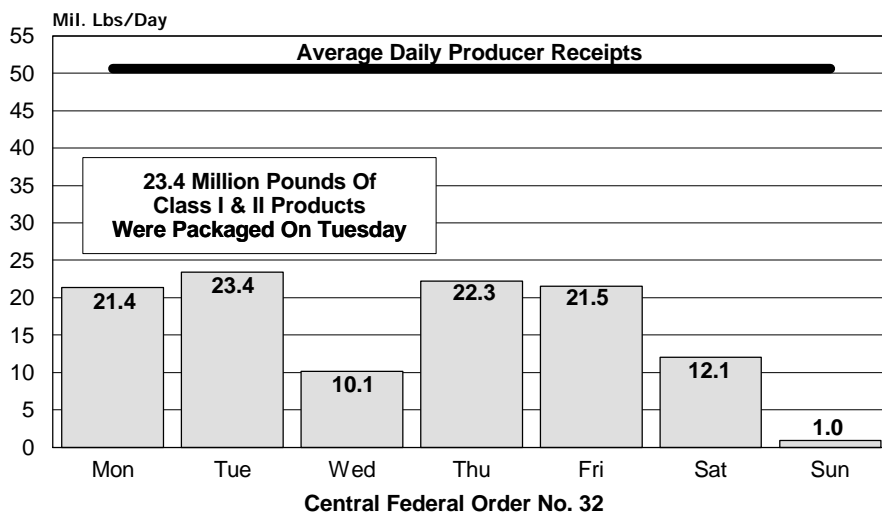
During April 2001 an average of 50.6 million pounds of producer milk was pooled on the order each day. During this week an average of 16.0 million pounds of milk per day was processed into Class I & II products.

The top graphs illustrates the average pounds (line) of producer milk pooled on the market each day along with the actual pounds (bar) of milk packaged in Class I fluid and Class II products. The greatest volume of milk in these two classes was utilized on Tuesday at 23.4 million pounds.

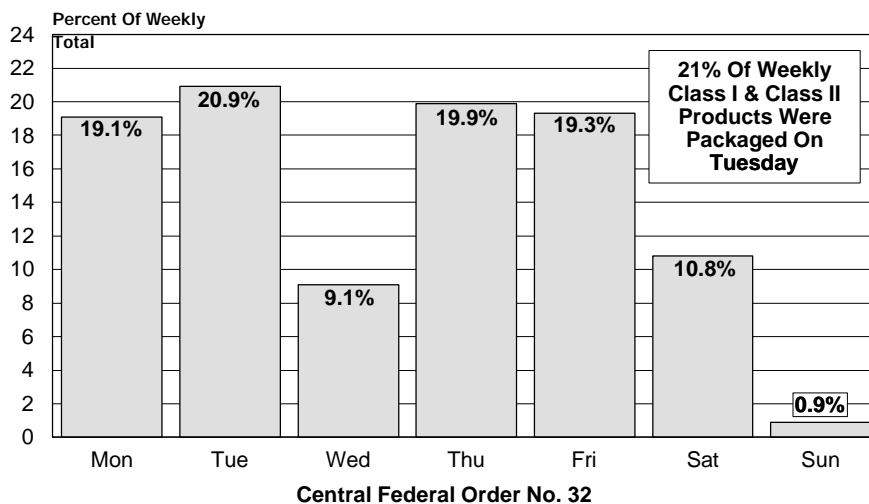
The second graphic illustrates by day the percent Class I & II products are of the weekly total. Tuesday's Class I & II packaged products represented 20.9 percent of the weekly total.

Given a fairly consistent milk supply that dairy farmers deliver to the market each day, this variation in Class I & II utilization compounds another problem for processors.

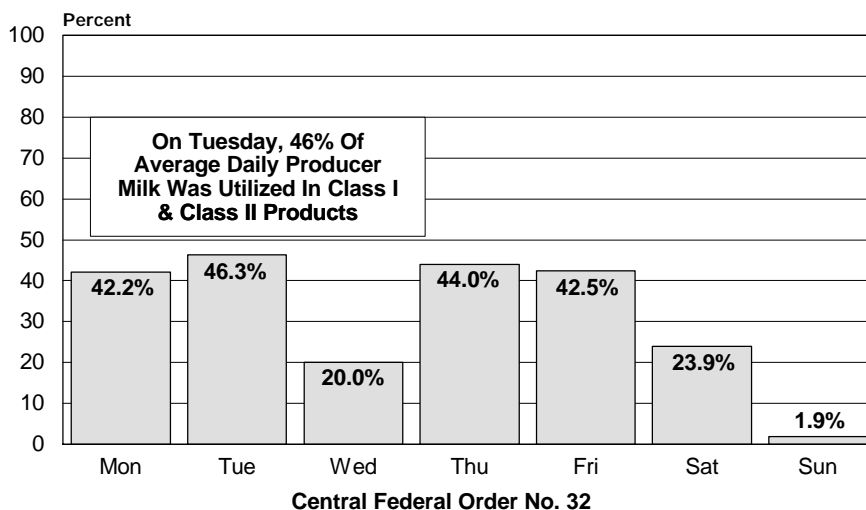
**Class I & Class II Utilization For The Week Of April 23-29, 2001
With April 2001 Average Daily Producer Receipts**



**Class I & Class II Utilization For The Week Of April 23-29, 2001
As A Percent Of Total Class I & Class II Utilization For The Week**



**Class I & Class II Utilization For The Week Of April 23-29, 2001
As A Percent Of April 2001 Average Daily Producer Receipts**



That is, the available daily milk supply is greater than what is necessary to meet any fluid demands.

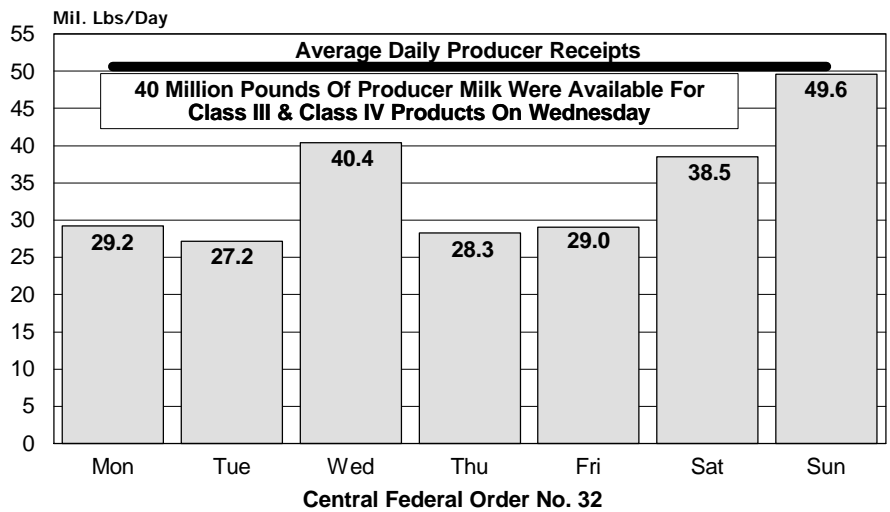
The bottom graph (previous page) illustrates this imbalance by comparing the daily Class I & II needs to the daily producer milk supply. Even on Tuesday, the 23.4 million pounds utilized in Class I & II accounted for only 46.3 percent of the average daily producer milk available to the market.

Thus, on a daily basis, marketing firms must continually find other uses for over half of the milk they market. This "excess" must be moved into Class III and IV manufactured products.

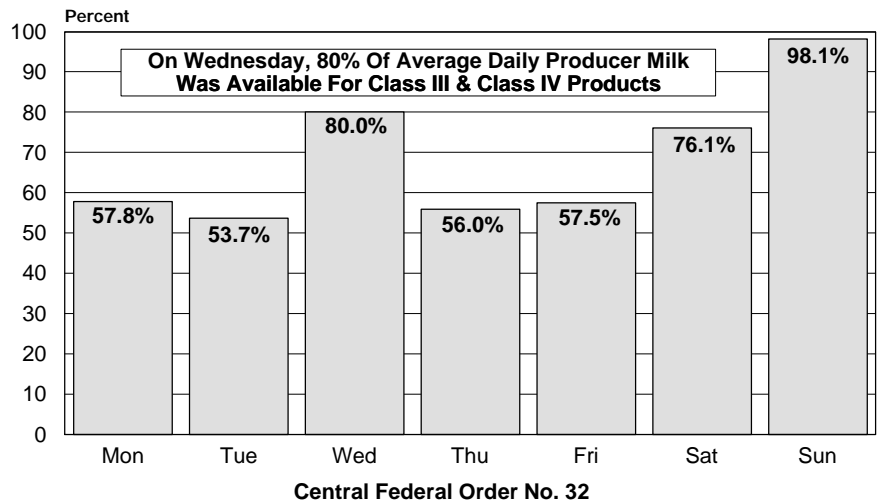
The graphics on this page depict the pounds of milk available for use in Classes III & IV on a daily basis compared with the average daily producer milk. On the "down" days such as Wednesday handlers must balance 80 percent of the available producer milk supply while on Sunday they must find a home for 98 percent of the available supply.

The two graphics below illustrate the product mix for Class I and Class II for the week of April 23-29, 2001.

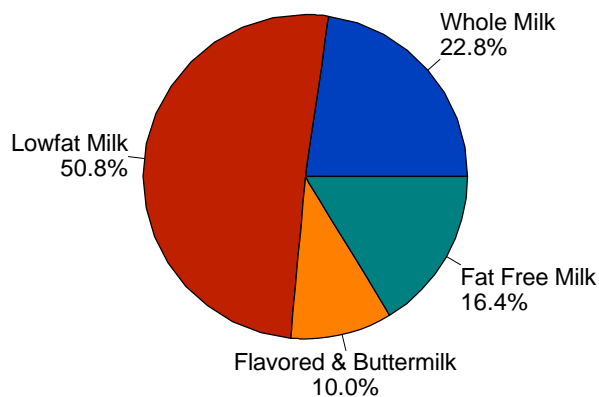
**Class III & Class IV Utilization For The Week Of April 23-29, 2001
With April 2001 Average Daily Producer Receipts**



**Class III & Class IV Utilization For The Week Of April 23-29, 2001
As A Percent Of April 2001 Average Daily Producer Receipts**

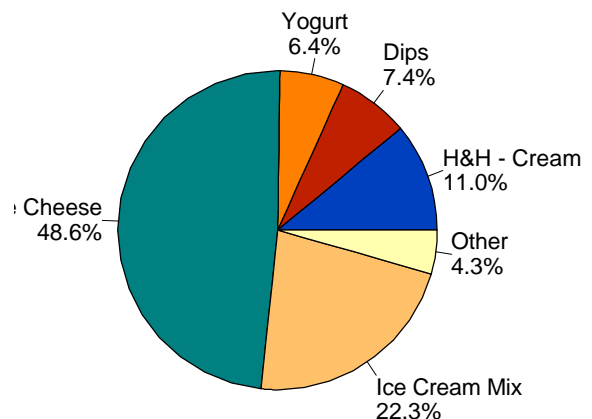


**Class I Utilization By Product
For The Week Of April 23-29, 2001**



Central Federal Order No. 32

**Class II Utilization By Product
For The Week Of April 23-29, 2001**



Central Federal Order No. 32

	Statistical Uniform Price		Producer Price Differential		Class I Utilization	
	10/2001	09/2001	10/2001	09/2001	10/2001	09/2001
Pacific Northwest	14.38	16.34	(0.22)	0.44	33.40	27.40
Western	14.35	16.32	(0.25)	0.42	31.20	18.30
Arizona-Las Vegas	15.01	16.70	-----	-----	34.89	35.04
Central	14.92	16.56	0.32	0.66	29.99	28.23
Southwest	16.05	17.60	1.45	1.70	49.37	49.42
Upper Midwest	14.75	16.28	0.15	0.38	19.93	18.73
Southeast	16.70	18.09	-----	-----	66.19	64.55
Mideast	15.03	16.87	0.43	0.97	41.58	40.99
Appalachian	16.73	18.17	-----	-----	73.38	68.96
Northeast	16.04	17.76	1.44	1.86	47.76	44.59
Florida	18.30	19.45	-----	-----	91.96	89.39

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