

# MARKETING SERVICE

## BULLETIN

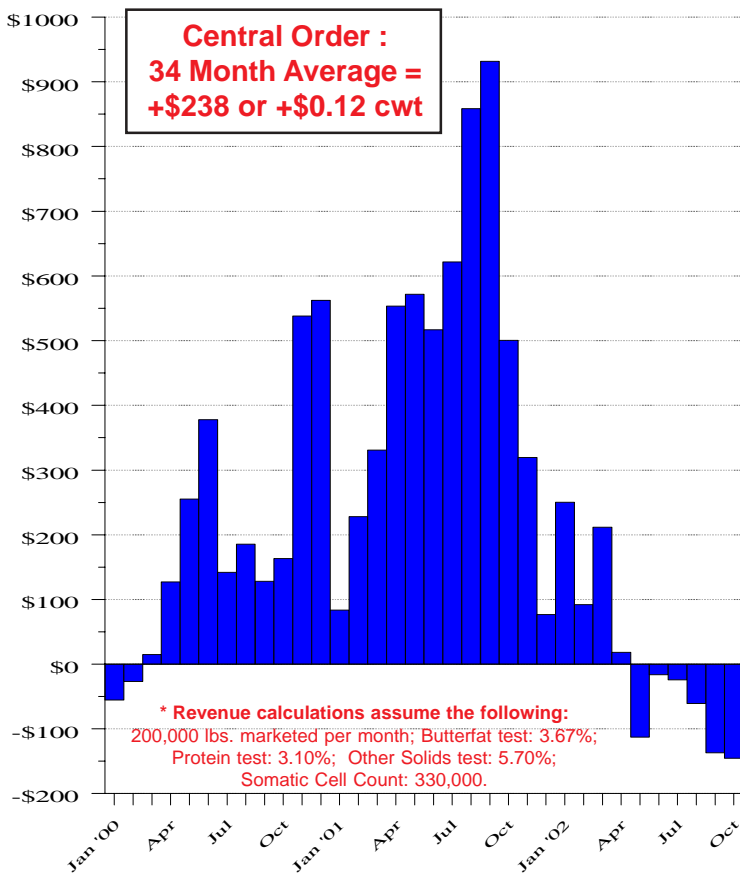
### Final Decision: Class III and IV Price Formulas

The final decision to amend pricing formulas for milk marketed for Class III and IV manufacturing use under all federal milk orders was released in early November. Each amended order must be approved by either two-thirds of the producers supplying milk to the order or by producers marketing two-thirds of the milk pooled on the order during May 2002. Voting and tabulation of results will be concluded within 4-6 weeks of the final decision release date.

Although these federal order pricing formula changes will directly impact Class III and IV prices, milk utilized in the other classes will also be affected since Class I and II prices are computed by adding a differential to the manufacturing use prices. Data presented in this bulletin depict impacts of the final decision pricing formula changes had they been in effect since the January 2000 implementation of federal order reform.

### Producer Revenue\* Changes

**Final Decision Prices versus  
Announced Prices**



January 2000 thru October 2002

### Central Order Comparisons

This graph illustrates revenue changes from January 2000 through October 2002 for a "typical" Central order producer. The "typical" producer, as defined by the footnote in the graph, would have gained an average of 12 cents per hundredweight over this 34-month period. This computes to approximately \$238 per month, or over \$8,000 since January 2000. The additional revenue is a result of the changes in producer pay prices for protein, butterfat, other solids, and the producer price differential (PPD). (For a detailed description of producer revenue calculation see the March and August 2001 issues of this bulletin.)

**Protein price changes** are depicted by the top graph on page 2. Computing the protein price using the formulas specified in the final decision results in a 13.3 cents per pound average increase over the past 34 months. The protein price would have been higher in every month with the increases ranging from 4.25 cents during January 2000 to 27.55 cents in September 2001.

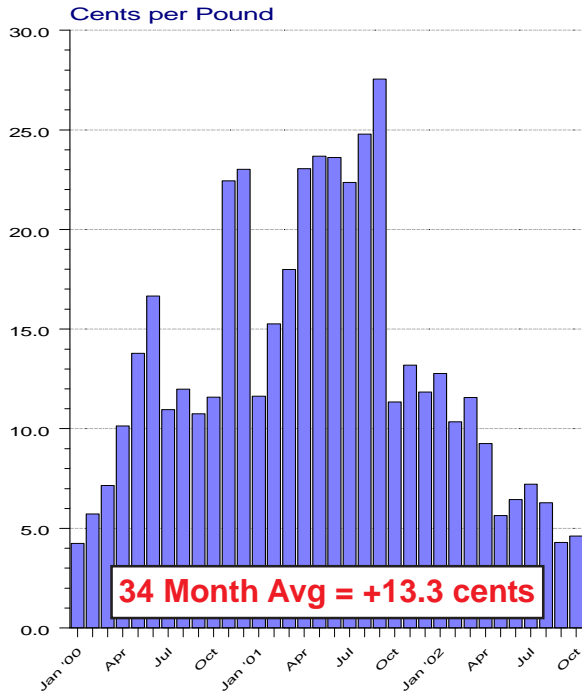
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# Protein Price Changes

Final Decision Prices versus Announced Prices



January 2000 thru October 2002

**Butterfat price changes** are depicted by the lower left graph. Butterfat prices would have been lower during every month, averaging 2.4 cents per pound less over the past 34 months. The largest decrease occurred in September 2001 at 3.91 cents, while the smallest drop would have been 1.62 cents during January 2000 and September 2002.

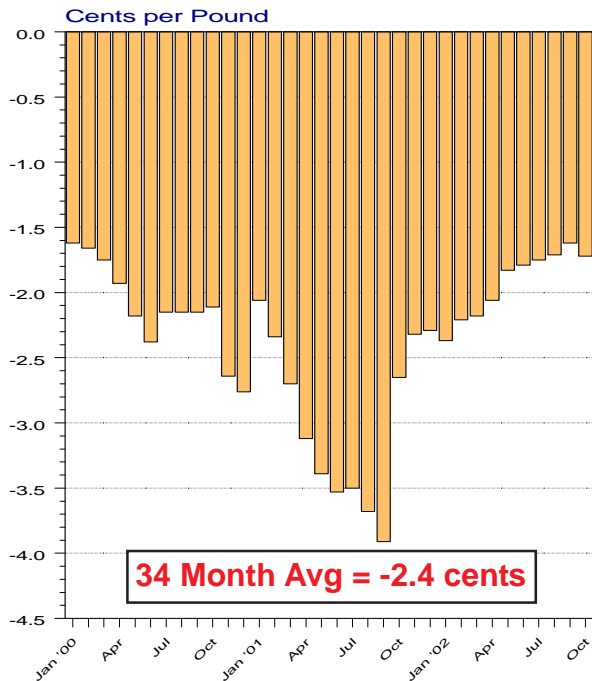
The graph below depicts price changes for **Class III and IV** along with changes in the **Central order statistical uniform price**. Using the final decision pricing formulas to compute Class III prices results in a 20 cents per hundredweight average increase, while Class IV prices would have declined by an average of 11 cents since January 2000. The Central order statistical uniform price would have averaged 11 cents per hundredweight more during this period.

The **other solids price** and the **Central order PPD**, although not illustrated in this bulletin, also change using the final decision formulas. The Central order PPD would have averaged 9 cents less and the other solids price would have been 0.33 cents lower on average. However, revenue generated from other solids and the Central order PPD comprise less than 13% of a Central order "typical" producer's total revenue, while protein and butterfat account for over 87%. (Based on January 2000 through October 2002 Central order pool data.)

Computing **Class II prices** using the final decision formulas results in a 12 cent average decrease over the past 34 months.

# Butterfat Price Changes

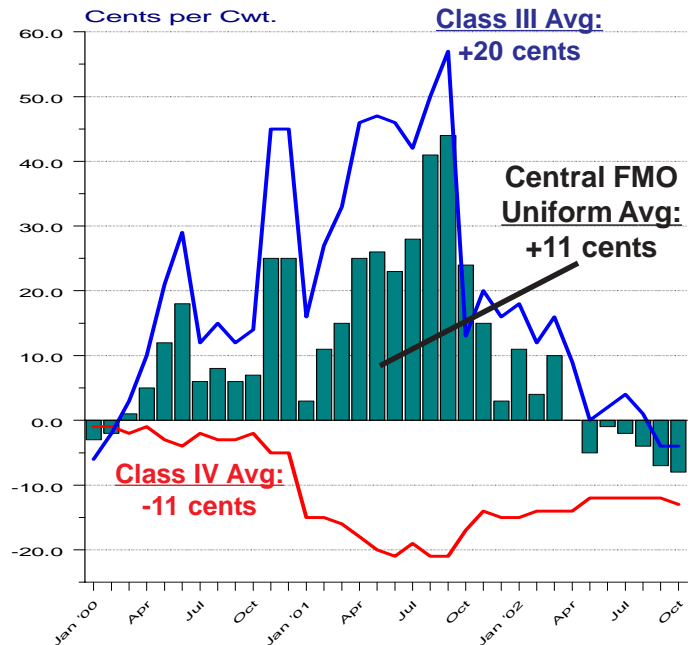
Final Decision Prices versus Announced Prices



January 2000 thru October 2002

# Price Changes : Class III, IV, and the Statistical Uniform Price

Final Decision Prices versus Announced Prices



January 2000 thru October 2002

## Class I Fluid Milk Cost Changes at Federal Milk Order Prices

Depicted on this page are changes in fluid milk costs at federal milk order prices based on the final decision pricing formulas. Per gallon **whole milk** average cost changes at 3.25% butterfat are illustrated by the graph to the right. The average cost for this product would have been virtually unchanged during the January 2000 through November 2002 time period. However, whole milk cost changes ranged from -1.6 cents per gallon in May and June 2001 to +5.5 cents during October 2001.

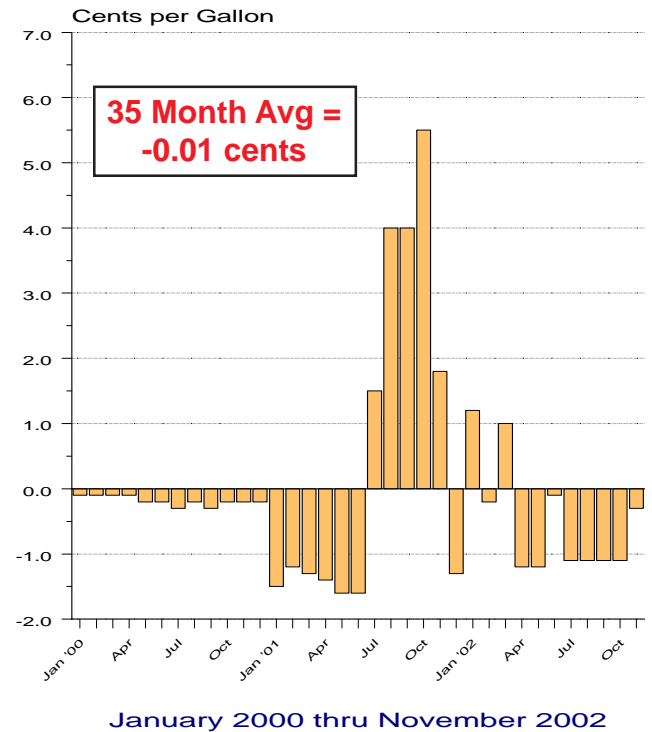
The graph below illustrates **reduced fat** milk cost changes at 2.0% butterfat. The per gallon cost for this product would have averaged 0.26 cents higher during this 35-month period using the final decision formulas. The range in cost changes varies from -1.2 cents per gallon during several months of 2001 to +5.9 cents in October 2001.

The lower right graph depicts **fat free** milk cost changes at 0.2% butterfat. Fat free milk costs at federal milk order prices would have averaged 0.66 cents more during this period if the final decision pricing formulas had been used. The range for these cost changes is -0.7 cents per gallon during several months of 2001 to +6.8 cents during October 2001.

## Whole Milk Price Changes

FMO Values at 3.25% Butterfat

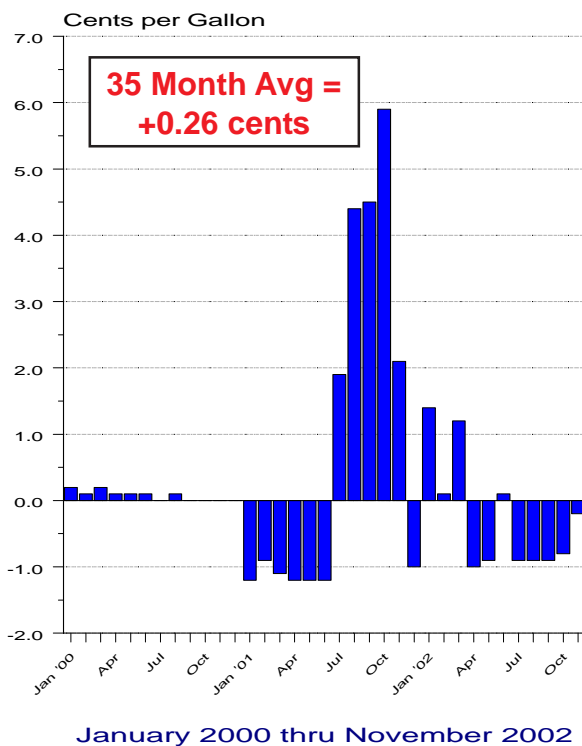
Final Decision Prices vs Announced Prices



## Reduced Fat Milk Price Changes

FMO Values at 2.0% Butterfat

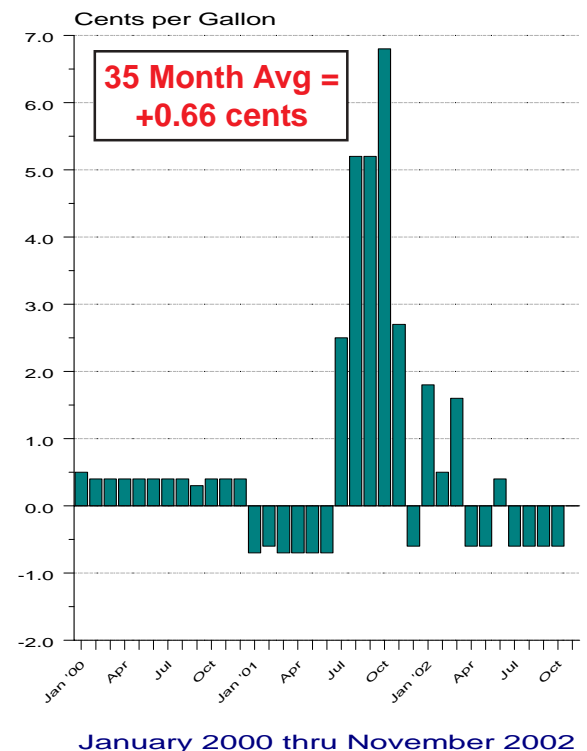
Final Decision Prices vs Announced Prices



## Fat Free Milk Price Changes

FMO Values at 0.2% Butterfat

Final Decision Prices vs Announced Prices



	Statistical Uniform Price		Producer Price Differential		Class I Utilization	
	<u>10/2002</u>	<u>9/2002</u>	<u>10/2002</u>	<u>9/2002</u>	<u>10/2002</u>	<u>9/2002</u>
Pacific Northwest	10.94	10.66	0.22	0.74	28.68	27.24
Western	11.01	10.55	0.29	0.63	20.09	17.31
Arizona-Las Vegas	11.38	11.03	-----	-----	35.73	36.02
<b>Central</b>	<b>11.18</b>	<b>10.74</b>	<b>0.46</b>	<b>0.82</b>	<b>26.75</b>	<b>26.33</b>
Southwest	12.07	11.92	1.35	2.00	45.64	45.25
Upper Midwest	11.03	10.46	0.31	0.54	23.50	20.60
Southeast	12.81	12.56	-----	-----	69.68	65.60
Mideast	11.32	11.09	0.60	1.17	40.10	38.69
Appalachian	12.91	12.76	-----	-----	75.85	71.22
Northeast	12.40	12.20	1.68	2.28	48.50	46.30
Florida	14.03	13.97	-----	-----	91.74	89.20

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