March Milk: No Negative PPPs, But Almost 3 Billion Pounds Depoiled

Washington—Rapidly increasing cheese and class III prices didn’t result in any negative producer price differentials (PPDs) in federal milk marketing orders during March, just as almost 3.2 billion pounds of milk appear to have been depoiled during the month.

PPDs in the seven applicable orders ranged from just six cents per hundredweight in the Pacific Northwest order to $1.07 per hundred in the Northeast order.

The amount of milk pooled on all seven orders in March was less than was pooled on those orders in March of 2003. Those differences ranged from 41.2 million pounds less on the Pacific Northwest order to 1.26 billion pounds less on the Upper Midwest order.

For the seven orders combined, the amount of milk pooled in March was about 2.52 billion pounds less than the amount pooled in March of 2003.

During the months of July through November, 2002, negative PPPs were reported for between three and seven of the federal orders that report PPPs. As a result of those negative PPPs, billions of pounds of milk was depoiled during those months. The amount of milk pooled during all federal orders last year was about 13.5 billion pounds less than was pooled in 2002.

For the 2003 milk marketing season, USDA said an emergency hearing on a proposal that would limit the repurchasing of producer milk after depooling on the Upper Midwest order. USDA is accepting additional proposals through the end of this month before deciding whether to call a hearing.

Following is a look at pooling situations and PPDs for March, for the seven orders that report PPPs.

Upper Midwest Order

A total of 467.4 million pounds of milk was pooled on the Upper Midwest order during March, down 1.32 billion pounds from March of 2003. The March PPD was 23 cents per hundredweight.

Class III utilization on the Upper Midwest order was 66.1 just 12.73 per cent, 71.3 per cent in March of 2003. Just 83 million pounds of milk was pooled in Class III, compared to about 1.5 billion pounds in March of 2003.

March utilization and product pools for the other three classes as well as follow Class I, 56.7 per cent and 399.8 million pounds, compared to 17.5 per cent and 339.8 million pounds in March of 2003; Class II, 1.7 per cent and 75.8 million pounds, compared to 2.7 per cent and 35.4 million pounds in March of 2003; and Class IV, 11.6 per cent and 124.2 million pounds, compared to 2.5 per cent and 49.4 million pounds in March of 2003.

Central Order

A total of 710.1 million pounds of milk was pooled on the Central order during March, down 774.6 million pounds from March of 2003. The Central order’s PPD for March was 14 cents per hundredweight.

Class III utilization on the Central order during March was 19.8 percent, down from 27.9 percent in March of 2003. A total of 140.7 million pounds of milk was sold in Class III last month, down from 855.9 million pounds in March of 2003.

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In a competitive market, the law of supply and the "marginal unit," determines the price for all units sold, Cornell noted. This means that Northeast farmers should be capturing a fair market price that is equal to the Midwest farm price plus transportation.

Why Northeast Farmers Are Losing One reason Northeast dairy farmers are losing out in the milk supply arena is the inability in bargaining power between sellers and processors to influence the Northeast, Cornell stated.

The higher prices that are being paid to Midwest farmers for milk and milk products sold in the Northeast over the past two years are not being paid to Northeast farmers, he noted.

A second reason that Northeast farmers are losing out to other regions is that they are being cut out of the state, regional and national economic games that are being played in the milk pricing arena, Cornell continued. The Northeast federal order has not limited the ability of dairy milk to join the Northeast milk pool to take advantage of and share the impact of the higher fluid price on the fluid price that Northeast farmers receive.

Yet farmers and co-ops in the Northeast cannot control depositing in other orders, Cornell noted. Upper Midwest farmers and their co-ops deposit "marginal amounts" of milk during price surges in cheese and butter markets. This happened in 2003 and is now occurring in 2004.

In the first instance, depositing affects only the distribution of milk revenue among farmers in a milk marketing order where it occurs to non-co-ops who ship to manufacturing plants and deposit at the expense of farmers or co-ops that supply the fluid milk market, Cornell stated.

Yet there may be a secondary effect in markets dominated by manufacturers that milk such as in the Midwest, he said. Fluid plants then routinely must pay "give-up" changes, i.e., overcenter premiums, to attract milk from cheese plants. These give-up charges may be higher when the manufacturing prices are inverted, which is, above the announced Class I prices.

A third reason that Northeast farmers get paid less than the higher farm price is the fact that the Class I differential in the federal order system has not been increased in over 25 years, Cornell explained. At Boston, the Class I differential is $3.25 per hundredweight, which is only $1.55 per hundredweight more than the $2.70 Class I differential in the Upper Midwest order.

Regulatory Solution Needed Traditionally, the balance of market power in the Northeast "determines the viability of New England dairy farming, farm processes and consumers, and invites regulation," Cornell said.

State regulations can reduce the market power premium to the advantage of Northeast farmers and can also reduce consumer prices, according to Cornell. Regulation can also offer regional inequality in the milk policy game "as currently played in Washington and other regions of the country that disfranchise Northeast farmers." The redistribution of retailers' margins generated by both easing farm milk prices and reducing retail prices should not affect the processed marg in at supermarket accounts, "which our research shows are not excessive," Cornell said.

Some observers, including lobbyists representing supermarkets, have opposed increased state-level regulation in New England, Cornell noted. Their most common complaint is a philosophical aversion to regulation, which "badly masquerades" consideration given the current level of regulation in the milk industry and documented poor performance for Northeast farmers and New England consumers. Cornell's Proposed Regulation Under the proposed regulatory authority in Connecticut General Assembly Revised Bill No. 562, the Connecticut Milk Regulation Board would gain regulatory authority more in line with its other states, including New York, Pennsylvania, Maine and California, Cornell said.

Under the legislation, Connecticut would adopt regulations by January 1, 2005, setting minimum farm milk prices, and possibly premiums paid by dealers or retailers.

Under this proposed regulation, a higher farm price is justified as part of a regulatory program that restores more competitive pricing in the market channel, Cornell believes. That regulatory program can also neutralize policy impacts from other regions and the national level that disadvantages Northeast farmers.

Cornell listed three reasons why farmers should be focused on channel margins and much as the raw price, that farmers receive:

• Under the Northeast Dairy Compact, farmers received a higher milk price and the expectation was that a more stable milk price would reduce the market margin to offset part of the higher farm price. But results mixed the results noted for the last more than the constant-declining milk price increase and attributed all of that retail increased to the dairy compact.

• Channel forceswigged opposed and deflated the extension of the Dairy Compact in 2003 with the assertion that lower farm milk prices would translates into much lower retail prices. While their economic analysis predicted that the $1.50 per hundredweight, and the farm milk price that happened after the compact was not a gain of 150 cents drop in retail milk, retail prices only dropped 10 cents, while retail margins widened from the already uncontrollable level.

• Retail prices in New England may be as much as a dollar above actual costs that include a competitive profit, this situation is not economically efficient.