Consensus Analysis of the Final Rule for Reform of the Federal Milk Marketing Order System

June 9, 1999
Assumptions

- Higher of Concept for Class I Price Mover - $0.10
- Butter/NFD Survey Prices - $-0.01 per Pound
- Cheese Survey Price - $-0.03 per Pound
- Revenue to Cheese Processors - 75% Returned to Farmers
- Over-Order Premiums
  - NOPREM
  - 50PREM
  - MOD1A
- California
BFP vs Minimum Class III
Price Given Dairy Product Prices

BFP

Min Class III

$.30

$.22
Reduced Class I Differentials Result in Less Milk Production and More Fluid Use, Thus Less Milk is Available for Manufactured Uses

"Effective" Class III Price

Higher Cheese Prices

Class I Price

Class I Differential

Mover Enhancement

Higher Cheese Prices

Min Class III

BFP

Min Class III
What Happens When Premiums or Differentials Increase for Class I Milk?

"Effective" Class III Price

- Higher Cheese Prices
- Min Class III
- Additional Premium
- Class I Differential
- Mover Enhancement
- Higher Cheese Prices
- Min Class III

This area declines as more milk becomes available for manufacture.
U.S. Fluid Use

Change in Fluid Use
U.S. Retail Fluid Milk Price

Dollars per Half Gallon

- BASE
- 50PREM
- NOPREM
- MOD1A

Dollars per Half Gallon

2000 2001 2002 2003 2004 2005 2006

-0.020 -0.015 -0.010 -0.005 0.000 0.005 0.010 0.015

2000 2001 2002 2003 2004 2005 2006

NOPREM MOD1A 50PREM
U.S. Wholesale Butter Price

Change in Wholesale Butter Price
U.S. Wholesale NFD Price

Change in Wholesale NFD Price
U.S. Wholesale Cheese Price

Change in Wholesale Cheese Price
Change in State Level All Milk Prices
Avg. 2000-06 MOD1A - NOPREM

CA, 20.0%
WI, 14.2%
NY, 7.5%
PA, 6.9%
MN, 5.3%
ID, 4.7%
NM, 3.7%
WA, 3.4%
TX, 3.2%
MI, 3.1%
OH, 2.5%
IA, 2.2%
AZ, 1.8%
VT, 1.7%
FL, 1.5%
IN, 1.4%
IL, 1.2%
MO, 1.1%
VI, 1.1%
CO, 1.0%
OR, 0.9%
UT, 0.9%
MD, 0.9%
KS, 0.8%
Change in State Level All Milk Prices
Avg. 2000-06 MOD1A - 50PREM

CA, 20.0%
WI, 14.2%
NY, 7.5%
PA, 6.9%
MN, 5.3%
ID, 4.7%
NM, 3.7%
WA, 3.4%
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MO, 1.1%
VI, 1.1%
CO, 1.0%
OR, 0.9%
UT, 0.9%
MD, 0.9%
KS, 0.8%

Change in Dollars per Hundredweight
Change in State-Level All Milk Prices

- CA, 20.0%
- WI, 14.2%
- NY, 7.5%
- PA, 6.9%
- MN, 5.3%
- ID, 4.7%
- NM, 3.7%
- WA, 3.4%
- TX, 3.2%
- MI, 3.1%
- OH, 2.5%
- IA, 2.2%
- AZ, 1.8%
- VT, 1.7%
- FL, 1.5%
- IN, 1.4%
- IL, 1.2%
- MO, 1.1%
- WI, 1.1%
- CO, 1.0%
- OR, 0.9%
- UT, 0.9%
- MD, 0.9%
- KS, 0.8%
Summary

- Small Changes to the U.S. Dairy Sector Under Any of the Scenarios
- Testing the Ability of Any Model to Quantify Such Small Changes
- In Many Cases, 50PREM and MOD1A Give Similar Results at the Regional Level
  - MOD1A - Legislated Class I Differentials
  - 50PREM - Premiums Must be Extracted From the Market