

ANALYSIS OF THE USDA'S FINAL RULE FOR REFORM OF THE FEDERAL MILK MARKETING ORDER SYSTEM

This analysis responds to a request from the United States House of Representatives, Subcommittee on Livestock and Horticulture, to analyze the effects of the recently released final rule for Federal Milk Market Order (FMMO) reform. The Congressional request also asked the Food and Agricultural Policy Research Institute (FAPRI) to summarize other analysis, including the USDA's regulatory impact analysis related to the final rule.

First, the final rule reorganizes the current 31 FMMOs and some previously unregulated counties into 11 new order areas. Second, the final rule establishes four classifications for milk: 1) Class I – fluid milk products, 2) Class II – soft manufactured products, 3) Class III – hard cheeses and cream cheese, and, 4) Class IV – butter and milk powders. Third, and perhaps most significant, the final rule sets out formulas that will be used to compute minimum prices for each of the milk classifications.

The degree of complexity necessary in administering the current FMMO system makes development of an economic model that replicates the FMMO system extremely difficult. Exploring the effect of changes in the FMMO system produces additional difficulties. The FAPRI dairy model has been modified substantially over the past several months to try to answer questions relating to FMMO reform. However, until FMMO administrators actually implement policy change, the complete impacts will be unknown.

This report includes background information on the assumptions made in providing analysis of the final rule. Details on major components of the final rule (e.g., minimum classified pricing formulas) help lead to the results found in this analysis. A list of these results follows a thorough discussion of the assumptions. The remaining portion of the report will provide a summary of other analysis conducted on the final rule.

Assumptions

The assumptions needed to analyze the final rule can be categorized into four major areas: 1) the new minimum classified price formulas, 2) the new Class I differentials in the final rule, 3) the reorganization of the FMMOs, and, 4) other features of the final rule.

Minimum Classified Price Formulas

The formula used to set the minimum price for Class IV milk in the final rule is:

$$\text{Class IV price} = .965 * (((\text{NASS nonfat dry milk survey price} - .137)/1.02)*9) + 3.5 * ((\text{NASS AA butter survey price} - .114)/.82)$$

NASS has collected the survey prices for butter and nonfat dry milk since September of 1998, providing a limited number of observations about the relationship between these survey prices and other cash product prices with longer histories. Appendix Table 1 shows that the butter and nonfat dry milk survey prices both run below the central states' prices for these same products. We assume that the NASS survey prices for butter and nonfat dry milk will remain three cents per pound lower than the central states prices.

The minimum Class III price is determined by the following formula:

$$\text{Class III price} = .965 * (3.1 * (((\text{NASS cheese survey price} - .1702) * 1.405) + (((\text{NASS cheese survey price} - .1702) * 1.582) - ((\text{NASS AA butter survey price} - .114)/.82)) * 1.28) + 5.9 * ((\text{NASS dry whey survey price} - .137)/.968)) + 3.5 * ((\text{NASS AA butter survey price} - .114)/.82)$$

The survey price information for cheese has been published since April 1997. For purposes of the final rule, the cheese survey price equals the weighted average of survey prices for 40-pound blocks and for barrels (the barrel price is adjusted to 39 percent moisture, and 3 cents per pound is added to reflect the added cost of producing barrels). Consistent with the observed prices reported in Appendix Table 1, this analysis assumes the survey cheese price used to compute the minimum Class III price to be five cents per pound less than the Wisconsin assembly points price.

The minimum Class II price is defined in the federal rule as:

$$\text{Class II price} = .965 * (((\text{NASS nonfat dry milk survey price} - .137)/1.02)*9 + .7) + 3.5 * (.007 + (\text{NASS AA butter survey price} - .114)/.82)$$

Class I Differentials

The minimum Class I price is defined as the higher of the Class III or Class IV price plus the appropriate Class I differential from the final rule.

Appendix Table 2 shows the Class I differentials under the final rule. These new differentials provide reduced geographic variability in comparison to current Class I differentials. The western and southwestern portions of the U.S. will see differentials decline, in some cases by over one dollar per hundredweight. In New York City, the Class I differential is \$0.49 per hundredweight lower. Conversely, the upper midwest will experience higher differentials under the final rule than currently. At the Chicago pricing point, Class I differentials are \$0.55 per hundredweight higher under the final rule. The northeast will see lower Class I differentials under the final rule. The FMMO average change in Class I differentials is \$0.29 per hundredweight.

Consolidation of Orders

The consolidation of the current 31 FMMOs into 11 under the final rule is an important factor in this study (see Appendix Maps 1 and 2 for the current 31 orders and the new 11 orders). Among other issues, we must examine changes in utilization. For example, the Class I utilization in the new Southwest order must be examined as the current Texas and New Mexico-West Texas orders are combined and currently have different utilization rates. There will likely be some effects from consolidation found only when Market Administrators begin to balance these new pools.

Other Considerations

The final rule changes the farm-point pricing provisions of the current New York order. In this analysis, the all-milk price in New York was reduced by \$0.15 per hundredweight to try to account for the elimination of farm-point pricing in that area.

This analysis assumes no changes in the level of premiums for fluid milk. If additional premiums are captured in those areas of the country where Class I differentials decline under the final rule then the results presented here will be moderated. This analysis does assume changes in the premiums for milk destined for the cheese market. Discussion of these milk for cheese premiums are left until the results section.

Other changes to the FMMO system are not assumed to have major impacts on the sector.

Results

Table 1 provides a summary of the effects of the final rule on the U.S. dairy sector. The results show that U.S. all-milk prices will decline on average over the 2000-2006 period by \$0.08 per hundredweight. The largest decline in all-milk prices occurs in 2000 when they are \$0.16 per hundredweight below levels expected under the current FMMO system. As a result of the decline in milk prices, producers reduce milk production by nearly 400 million pounds or 0.2%.

The results shown in Table 1 are dependent upon a few key features of the final rule. The reduction in Class I differentials that occurs in some areas of the country outweighs the increase in Class I differentials in other regions. This difference amounts to a reduction of the minimum Class 1 price by nearly \$0.30 per hundredweight. This analysis assumes that premiums paid remain unchanged from baseline fluid premiums. Producers successful at negotiating additional premiums in areas where Class I differentials are set to decline offset some of the price declines otherwise expected.

The change in Class I differentials, however, is not the most important factor causing the reduction in Class I prices. For a given set of cheese, butter, and dry whey prices, the new Class III price formula generates a price close to \$0.50 per hundredweight

lower than that generated by the current basic formula price. The combination of lower Class I differentials and lower minimum Class III prices, in absence of changes in any dairy product prices, results in an FMMO average minimum Class I price more than \$0.75 per hundredweight below that generated by the current FMMO system.

Lower average milk prices will reduce production. Less milk production results in higher cheese prices that, in turn, moderate the estimated reduction in Class III prices. For the 2000-2006 period, cheese prices exceed baseline levels by four cents per pound, and minimum Class III prices are reduced 13 cents per hundredweight relative to the baseline.

Table 1. Impact of USDA's Final Rule on the U.S. Dairy Industry

	2000	2006	Average 2000-2006
(Million Pounds)			
U.S. Milk Production			
Baseline	161,333	171,418	166,248
Scenario	160,964	171,054	165,857
Change	(369)	(364)	(390)
(Dollars per Hundredweight)			
Class II Price			
Baseline	12.31	12.32	12.36
Scenario	12.25	12.47	12.39
Change	-0.06	0.15	0.02
Class III Price			
Baseline - BFP	12.01	12.02	12.06
Scenario - Class III	11.88	11.90	11.93
Change	-0.13	-0.12	-0.13
Class IV Price			
Baseline - Class IIIa	11.79	11.61	11.52
Scenario - Class IV	11.55	11.77	11.69
Change	-0.24	0.16	0.16
U.S. All Milk Price			
Baseline	13.11	13.07	13.12
Scenario	12.95	13.03	13.05
Change	-0.16	-0.04	-0.08
(Cents per Pound)			
Cheese Price			
Baseline	132.45	132.56	132.98
Scenario	136.86	136.77	137.17
Change	4.42	4.21	4.18
(Dollars per Half Gallon)			
Fluid Milk Price			
Baseline	1.60	1.62	1.61
Scenario	1.56	1.58	1.58
Change	-0.03	-0.03	-0.03

The final rule does allow the minimum Class I price to use the higher of the Class III or Class IV price as the base to which Class I differentials are added. In our analysis of the final rule, Class III prices remain slightly above Class IV prices each year of the analysis (see Appendix Tables 3 and 4). A slightly stronger demand in the butter or powder sector of the FAPRI baseline would cause the Class IV price to come into play in the Class I formula. It is quite possible, over the next few years, that the Class IV price will be the base price during certain months.

Consumers can expect fluid milk prices to be lower under the final rule than under the baseline. On average over the 2000-2006 period, fluid milk prices decline \$0.03 per half gallon. The result at the retail level depends on margins remaining near baseline levels so that the lower prices are indeed passed forward.

Under the final rule, if cheese processors only pay the minimum Class III price to obtain milk to make cheese, their revenue will increase relative to baseline revenue levels. FAPRI analysis assumes that through either additional premiums or through increased cooperative patronage refunds, milk producers can recover a portion of additional dollars generated to cheese processors paying only the minimum Class III price. Exactly how much of these additional dollars indeed flow back to milk producers? The answer is unclear.

In areas of the country in which competition for the milk supplies is high, a large part would likely flow back. Also, cooperatives could send some of these additional dollars back to producers, especially if the cooperative is not looking to invest in new facilities. However, in areas where competition for milk supplies is low, the amount of the additional dollars generated by paying only the minimum Class III price could also be regained.

The FAPRI analysis assumes that in 2000, 15 percent of the additional revenue returns to producers, in 2001, 30 percent returns to producers, and after 2001, 50 percent returns to producers. Please remember that this analysis used assumed percentages, and that figures could be significantly higher or lower in practice. After 2002, the effective Class III milk price (minimum Class III price plus market premium) is \$0.28 per hundredweight higher than the formula Class III price.

The driving factor behind the minimum Class III price falling below the BFP for a given set of product prices results from the assumption about cheese survey prices being 5 cents per pound less than the Wisconsin assembly points cheese prices. Had this wedge not been introduced, the minimum Class III price would have neared the BFP for a given set of product prices. However, given the historical difference between cheese prices, the five cent wedge appeared appropriate for this analysis.

Table 2 provides the impact that will occur on a state-level basis under the final rule. One half of the contiguous 48 states see all-milk prices decline more than \$0.25 per hundredweight in 2000, while only five states see all-milk prices that are higher than the

baseline in 2000. This trend results in large part from the lower Class III minimum price driving Class I prices lower across the nation.

By 2006, fewer states are displaying prices which vary from the baseline by more than \$0.25 per hundredweight than in 2000. The lower milk price in the early years reduces milk supplies and thus raises overall milk prices. In 2006, thirty states have all-milk prices that are below baseline levels.

Table 2. State Level Results of USDA's Final Rule for FMMO Reform : Change in All Milk Prices Relative to the Current FMMO System

Change in All Milk Price in 2000				Change in All Milk Price in 2006			
Decline is greater than \$0.25	Decline is between \$0.00 and \$0.25	Increase is between \$0.00 and \$0.10	Increase is greater than \$0.10	Decline is greater than \$0.25	Decline is between \$0.00 and \$0.25	Increase is between \$0.00 and \$0.10	Increase is greater than \$0.10
Alabama	Georgia	California	Florida	Arizona	Alabama	California	Florida
Arizona	Idaho	Illinois		Arkansas	Connecticut	Idaho	Illinois
Arkansas	Indiana	Iowa		Colorado	Delaware	Michigan	Indiana
Colorado	Kansas	Wisconsin		Louisiana	Georgia	Minnesota	Iowa
Connecticut	Kentucky			Maryland	Kansas	Montana	Wisconsin
Delaware	Michigan			North Carolina	Kentucky	Nebraska	
Louisiana	Minnesota			Oklahoma	Maine	Nevada	
Maine	Missouri			Pennsylvania	Massachusetts	New Mexico	
Maryland	Montana			South Carolina	Mississippi	North Dakota	
Massachusetts	Nebraska			Tennessee	Missouri	Ohio	
Mississippi	Nevada			Texas	New Hampshire	South Dakota	
New Hampshire	New Mexico			Virginia	New Jersey	West Virginia	
New Jersey	North Dakota				New York	Wyoming	
New York	Ohio				Oregon		
North Carolina	Oregon				Rhode Island		
Oklahoma	South Dakota				Utah		
Pennsylvania	Utah				Vermont		
Rhode Island	West Virginia				Washington		
South Carolina	Wyoming						
Tennessee							
Texas							
Vermont							
Virginia							
Washington							

Comparison to other analysis

A couple of important differences exist between this analysis and that published in the USDA's Regulatory Impact Analysis (RIA). The first relates to differences between the USDA and FAPRI baselines. The differences between the two baselines is particularly noticeable during the first year of the analysis. In the USDA's baseline, butter and nonfat dry milk prices are much higher relative to cheese prices in 2000 than they are in the FAPRI baseline. That is, the USDA shows the value of milk used to make butter and nonfat dry milk as being higher than the value generated from milk entering the cheese vat in 2000. This causes the USDA's analysis of the final rule to show an increase in Class I prices in 2000 relative to the baseline as the Class I mover uses the higher Class IV price. It also masks the more important difference surrounding the minimum Class III price.

The other feature relates to the price wedge that is introduced in the FAPRI analysis that continues the historical difference between the cheese survey prices and the Wisconsin assembly points price. Given that the USDA shows minimum Class III prices

close to the baseline BFP, it appears that the USDA's analysis does not assume any change as a result of moving to the survey prices. This difference results in the biggest discrepancy between the two sets of results.

Having highlighted the differences between both sets of analysis, it should be noted that after the first year, the aggregate results are not polar opposites. The USDA shows that in 2001, U.S. all-milk prices decline by \$0.02 per hundredweight while FAPRI shows a decline of \$0.11 per hundredweight. In percentage terms, the USDA suggests a change in the all-milk price of -0.2% while our analysis suggests a -0.6% change during the same year, a difference of less than half a percent.

The National Milk Producers Federation (NMPF) has conducted their own analysis of the final rule. They look at historical price changes that would have occurred had price formulas in the final rule been implemented in 1994. The NMPF analysis does not try to evaluate supply and demand changes that would have likely occurred had the new system been in place starting in 1994. Their historical examination also tends to show that the minimum Class III price has a larger impact through minimum Class I prices than any other aspect of the final rule.

Dr. Tom Cox at the University of Wisconsin has also evaluated the impact of the final rule on the U.S. dairy sector. His modeling framework analyzes the medium term impact of the final rule off of a 1995 base period. His results appear to be quite similar to ours. U.S. farm level prices are \$0.06 per hundredweight below the 1995 base when the final rule is incorporated into the model. Dr. Cox is currently updating to a 1997 base which could cause different impacts.

Summary

Any analysis of the reform of the FMMO system must be interpreted with some caution. The change in policy incorporated in the final rule becomes difficult to analyze with any economic model since these models are not able to capture in full detail the FMMO system.

FAPRI's analysis of the final rule points out two areas in which the final rule will change the outlook for industry. The calculation of the minimum Class III price is shown to cause a reduction in the minimum Class I price for each of the 11 new orders. This effect on the Class I price is larger for most areas of the country than the reduction in the Class I differential.

At the U.S. level, the changes in prices and production that result from the final rule are not vast changes from current policy. However, the regional changes that result are much larger. Even though U.S. milk production is reduced by only 0.2% by the year 2000, Texas milk production is expected to decline by nearly 3%. Other states show similar results.

Appendix Tables and Maps

Appendix Table 1. Dairy Product Prices

	January	February	March	April	May	June	July	August	September	October	November	December
40lb Block Cheese Survey - 1997				1.25	1.16	1.16	1.19	1.32	1.38	1.38	1.39	1.42
39% Moisture, Barrel Cheese Survey - 1997				1.21	1.14	1.12	1.13	1.27	1.32	1.33	1.33	1.26
Difference				0.04	0.02	0.04	0.06	0.05	0.06	0.05	0.05	0.14
New Cheese Survey/Price - 1997*				1.25	1.16	1.15	1.17	1.30	1.36	1.37	1.37	1.35
Amer. Cheese, 40lb. W/ assembly - 1997				1.26	1.17	1.19	1.23	1.39	1.41	1.42	1.44	1.46
Difference				-0.01	-0.00	-0.03	-0.07	-0.07	-0.06	-0.05	-0.06	-0.11
40lb Block Cheese Survey - 1998	1.42	1.42	1.37	1.29	1.20	1.41	1.58	1.64	1.67	1.78	1.84	1.87
39% Moisture, Barrel Cheese Survey - 1998	1.32	1.40	1.34	1.25	1.19	1.39	1.51	1.48	1.60	1.75	1.81	1.83
Difference	0.10	0.01	0.03	0.04	0.01	0.01	0.07	0.15	0.07	0.03	0.03	0.05
New Cheese Survey/Price - 1998	1.38	1.42	1.37	1.28	1.21	1.42	1.55	1.57	1.65	1.78	1.84	1.86
Amer. Cheese, 40lb. W/ assembly - 1998	1.45	1.45	1.39	1.30	1.23	1.51	1.63	1.67	1.71	1.84	1.89	1.93
Difference	-0.07	-0.02	-0.01	-0.02	-0.02	-0.10	-0.07	-0.10	-0.06	-0.06	-0.05	-0.06
Butter Survey/Price - 1998									2.70	2.41	1.85	1.35
Butter, Central States - 1998									2.73	2.42	1.88	1.41
Difference									-0.03	-0.01	-0.03	-0.04
NFD Survey/Price - 1998									1.05	1.08	1.07	1.08
NFD, Central States - 1998									1.10	1.12	1.13	1.11
Difference									-0.05	-0.04	-0.05	-0.03
Why Survey Price - 1998									0.26	0.25	0.24	0.24
40lb Block Cheese Survey - 1999	1.73	1.30	1.31									
39% Moisture, Barrel Cheese Survey - 1999	1.63	1.25	1.27									
Difference	0.10	0.04	0.03									
New Cheese Survey/Price - 1999	1.68	1.29	1.31									
Amer. Cheese, 40lb. W/ assembly - 1999	1.62	1.32										
Difference	0.06	-0.02										
Butter Survey/Price - 1999	1.41	1.30	1.30									
Butter, Central States - 1999	1.44	1.33										
Difference	-0.03	-0.03										
NFD Survey/Price - 1999	1.06	1.04	1.02									
NFD, Central States - 1999	1.09	1.04										
Difference	-0.03	-0.01										
Why Survey Price - 1999	0.21	0.19	0.19									

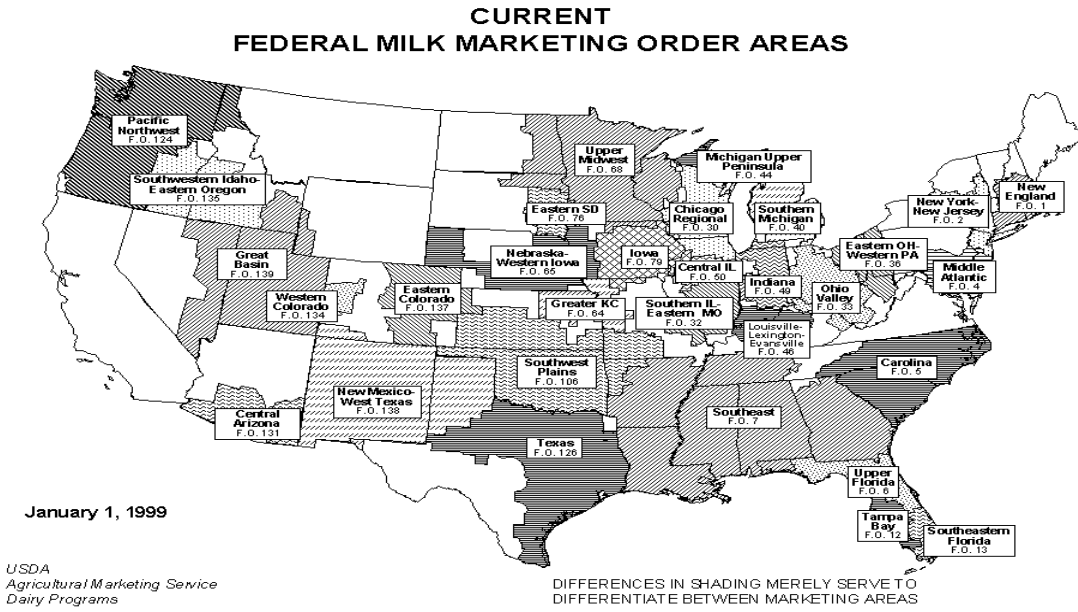
* - New Cheese Survey Price Equals Weighted Block Survey Price and Barrel Survey Price Plus Three Cents

Appendix Table 2. Class I Differentials Under the Current System and Final Decision

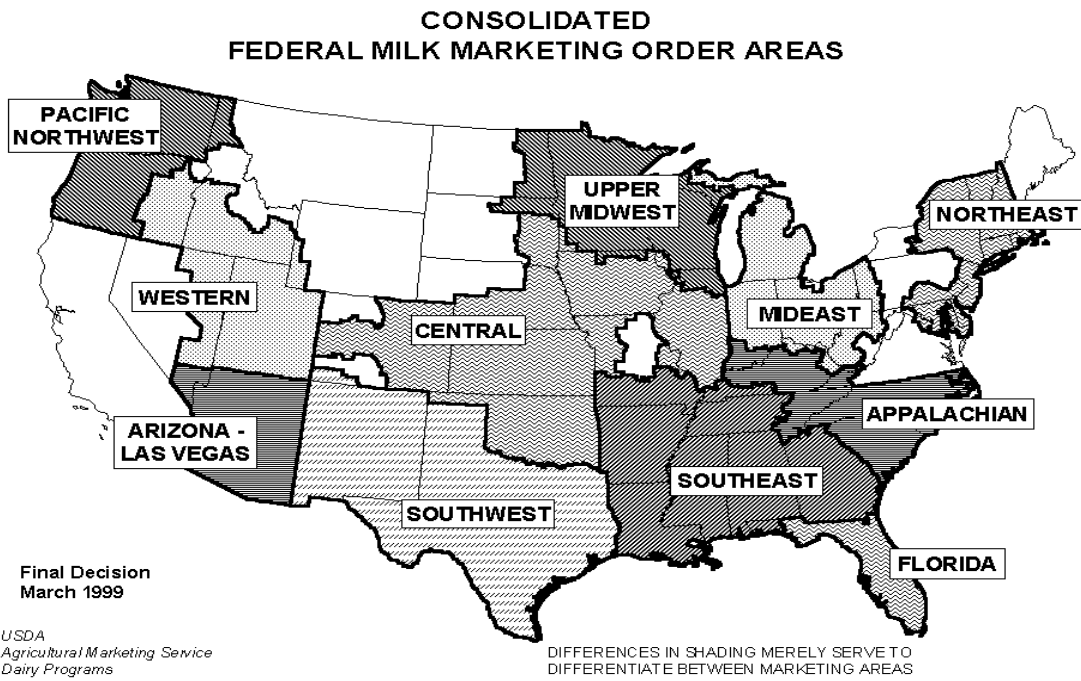
Consolidated Order (Pricing Point) Current order (Pricing Point)	Unit	Current	Final Decision	Final Decision Minus Current
<u>Northeast (New York City)</u>				
New England (Boston)	dol. / cwt	3.24	2.75	-0.49
New York-New Jersey (New York City)	dol. / cwt	3.14	2.50	-0.64
Middle Atlantic (Philadelphia)	dol. / cwt	3.09	2.20	-0.89
Unregulated NY and New England	dol. / cwt	2.54	2.05	-0.49
<u>Appalachian (Charlotte)</u>				
Carolina (Charlotte)	dol. / cwt	3.08	2.55	-0.53
Tennessee Valley (Knoxville)	dol. / cwt	2.77	2.25	-0.52
Louisville-Lexington-Evansville (Louisville)	dol. / cwt	2.11	1.95	-0.16
<u>Southeast (Atlanta)</u>				
	dol. / cwt	3.08	2.90	-0.18
<u>Florida (Tampa)</u>				
Upper Florida (Jacksonville)	dol. / cwt	3.58	3.80	0.22
Tampa Bay (Tampa)	dol. / cwt	3.88	4.20	0.32
Southeastern Florida (Miami)	dol. / cwt	4.18	4.75	0.57
<u>Mideast (Cleveland)</u>				
Michigan Upper Peninsula (Marquette)	dol. / cwt	1.35	1.50	0.15
Southern Michigan (Detroit)	dol. / cwt	1.85	1.85	0.00
E. Ohio-W. Pennsylvania (Cleveland)	dol. / cwt	2.00	2.00	0.00
Ohio Valley (Columbus)	dol. / cwt	2.04	2.00	-0.04
Indiana (Indianapolis)	dol. / cwt	1.90	2.00	0.10
<u>Upper Midwest (Chicago)</u>				
Chicago Regional (Chicago)	dol. / cwt	1.40	1.95	0.55
Upper Midwest (Minneapolis)	dol. / cwt	1.20	1.60	0.40
<u>Central (Kansas City)</u>				
Iowa (Des Moines)	dol. / cwt	1.55	1.95	0.40
Nebraska-Western Iowa (Omaha)	dol. / cwt	1.75	2.00	0.25
Eastern S. Dakota (Sioux Falls)	dol. / cwt	1.50	1.60	0.10
Central Illinois (Peoria)	dol. / cwt	1.61	2.00	0.39
Southern Illinois-Eastern Missouri (Alton)	dol. / cwt	1.92	2.10	0.18
Southwest Plains (Oklahoma City)	dol. / cwt	2.77	1.95	-0.82
Eastern Colorado (Denver)	dol. / cwt	2.73	1.55	-1.18
Western Colorado (Grand Junction)	dol. / cwt	2.00	2.20	0.20
Greater Kansas City (Kansas City)	dol. / cwt	1.92	1.90	-0.02
<u>Southwest (Dallas)</u>				
Texas (Dallas)	dol. / cwt	3.16	2.10	-1.06
New Mexico-West Texas (El Paso)	dol. / cwt	2.35	1.75	-0.60
<u>Western (Salt Lake City)</u>				
Southwestern Idaho-Eastern Oregon (Boise)	dol. / cwt	1.50	1.35	-0.15
Great Basin (Salt Lake City)	dol. / cwt	1.90	1.50	-0.40
<u>Arizona-Las Vegas (Phoenix)</u>				
	dol. / cwt	2.52	1.55	-0.97
<u>Pacific Northwest (Seattle)</u>				
	dol. / cwt	1.90	1.45	-0.45

Source: USDA Regulatory Impact Analysis, March 1999

Appendix Map 1. Current Federal Milk Marketing Order Areas



Appendix Map 2. Final Rule Federal Milk Marketing Order Areas



Appendix Table 3. Impacts of USDA's Final Rule on the U.S. Milk Sector

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Milk Production										
					(Million Pounds)					
Baseline	156,091	157,604	160,453	161,333	162,744	164,403	166,199	167,951	169,686	171,418
Scenario	156,091	157,604	160,453	160,964	162,325	163,997	165,799	167,563	169,299	171,054
Change	0	0	0	(369)	(419)	(406)	(400)	(388)	(387)	(364)
% Change	0.0%	0.0%	0.0%	-0.2%	-0.3%	-0.2%	-0.2%	-0.2%	-0.2%	-0.2%
Milk Cows					(Thousands)					
Baseline	9,252	9,185	9,100	9,015	8,946	8,898	8,864	8,833	8,804	8,777
Scenario	9,252	9,185	9,100	9,003	8,928	8,879	8,844	8,813	8,784	8,757
Change	0	0	0	(12)	(18)	(20)	(20)	(20)	(20)	(20)
% Change	0.0%	0.0%	0.0%	-0.1%	-0.2%	-0.2%	-0.2%	-0.2%	-0.2%	-0.2%
All Milk Price					(Dollars Per Hundredweight)					
Baseline	13.34	15.39	13.46	13.11	13.08	13.14	13.19	13.17	13.12	13.07
Scenario	13.34	15.39	13.46	12.95	12.96	13.06	13.14	13.12	13.07	13.03
Change	0.00	0.00	0.00	-0.16	-0.11	-0.07	-0.06	-0.05	-0.05	-0.04
% Change	0.0%	0.0%	0.0%	-1.2%	-0.9%	-0.6%	-0.4%	-0.4%	-0.4%	-0.3%
BFP/Class III Price										
Baseline - BFP	12.05	14.18	12.23	12.01	12.01	12.08	12.14	12.11	12.07	12.02
Scenario - Class III	12.05	14.18	12.23	11.88	11.88	11.95	12.00	11.97	11.95	11.90
Change	0.00	0.00	0.00	-0.13	-0.14	-0.13	-0.14	-0.14	-0.11	-0.12
% Change	0.0%	0.0%	0.0%	-1.1%	-1.1%	-1.1%	-1.2%	-1.1%	-0.9%	-1.0%
Class III-A/Class IV Price										
Baseline - IIIA	12.80	15.71	13.63	11.79	11.31	11.33	11.51	11.62	11.51	11.61
Scenario - IV	12.80	15.71	13.63	11.55	11.53	11.60	11.81	11.86	11.68	11.77
Change	0.00	0.00	0.00	-0.24	0.22	0.27	0.30	0.24	0.17	0.16
% Change	0.0%	0.0%	0.0%	-2.1%	1.9%	2.4%	2.6%	2.1%	1.5%	1.4%
Fluid Product Use					(Million Pounds)					
Baseline	56,666	56,590	57,328	57,727	58,090	58,409	58,768	59,077	59,354	59,633
Scenario	56,666	56,590	57,328	58,045	58,413	58,734	59,097	59,405	59,676	59,958
Change	0	0	0	319	323	324	328	328	322	325
% Change	0.0%	0.0%	0.0%	0.6%	0.6%	0.6%	0.6%	0.6%	0.5%	0.5%
Mfg. Product Use										
Baseline	92,970	93,239	95,894	96,816	98,295	99,653	101,103	102,557	104,026	105,489
Scenario	92,970	93,239	95,894	96,128	97,552	98,922	100,374	101,841	103,318	104,800
Change	0	0	0	(688)	(743)	(731)	(729)	(716)	(708)	(689)
% Change	0.0%	0.0%	0.0%	-0.7%	-0.8%	-0.7%	-0.7%	-0.7%	-0.7%	-0.7%

Appendix Table 4. Impact of USDA's Final Rule on the U.S. Dairy Product Markets

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Butter Production										
					(Million Pounds)					
Baseline	1,151	1,040	1,041	1,032	1,035	1,037	1,040	1,042	1,045	1,046
Scenario	1,151	1,040	1,041	1,029	1,027	1,029	1,031	1,034	1,038	1,039
Change	0	0	0	(4)	(8)	(9)	(9)	(8)	(7)	(7)
% Change	0.0%	0.0%	0.0%	-0.3%	-0.8%	-0.8%	-0.9%	-0.8%	-0.7%	-0.7%
Butter Per Cap. Cons.										
					(Pounds)					
Baseline	4.12	3.92	3.88	3.82	3.77	3.75	3.71	3.67	3.64	3.60
Scenario	4.12	3.92	3.88	3.80	3.74	3.72	3.67	3.64	3.61	3.58
Change	0.00	0.00	0.00	-0.01	-0.03	-0.03	-0.03	-0.03	-0.03	-0.02
% Change	0.0%	0.0%	0.0%	-0.3%	-0.8%	-0.8%	-0.9%	-0.8%	-0.7%	-0.7%
Butter Wholesale Price										
					(Cents Per Pound)					
Baseline	116.25	178.09	147.58	133.10	124.80	122.98	125.32	127.41	126.24	127.65
Scenario	116.25	178.09	147.58	135.96	131.43	129.98	132.74	134.37	132.40	133.82
Change	0.00	0.00	0.00	2.86	6.63	7.00	7.42	6.96	6.16	6.17
% Change	0.0%	0.0%	0.0%	2.1%	5.3%	5.7%	5.9%	5.5%	4.9%	4.8%
Cheese Production										
					(Million Pounds)					
Baseline	7,329	7,460	7,810	7,952	8,142	8,320	8,504	8,692	8,880	9,071
Scenario	7,329	7,460	7,810	7,860	8,057	8,238	8,423	8,611	8,798	8,991
Change	0	0	0	(92)	(85)	(82)	(81)	(81)	(82)	(80)
% Change	0.0%	0.0%	0.0%	-1.2%	-1.0%	-1.0%	-1.0%	-0.9%	-0.9%	-0.9%
Cheese Per Cap. Cons.										
					(Pounds)					
Baseline	28.1	28.4	29.5	29.8	30.2	30.6	31.0	31.4	31.8	32.2
Scenario	28.1	28.4	29.5	29.4	29.9	30.3	30.7	31.1	31.6	32.0
Change	0.0	0.0	0.0	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3
% Change	0.0%	0.0%	0.0%	-1.1%	-1.0%	-1.0%	-0.9%	-0.9%	-0.9%	-0.9%
Cheese Wholesale Price										
					(Cents Per Pound)					
Baseline	132.40	154.08	135.17	132.45	132.49	133.18	133.74	133.44	133.03	132.56
Scenario	132.40	154.08	135.17	136.86	136.64	137.24	137.80	137.57	137.29	136.77
Change	0.00	0.00	0.00	4.42	4.15	4.07	4.06	4.13	4.26	4.21
% Change	0.0%	0.0%	0.0%	3.3%	3.1%	3.1%	3.0%	3.1%	3.2%	3.2%
NFD Production										
					(Million Pounds)					
Baseline	1,218	1,114	1,135	1,133	1,130	1,125	1,122	1,118	1,114	1,109
Scenario	1,218	1,114	1,135	1,127	1,115	1,110	1,106	1,103	1,101	1,096
Change	0	0	0	(6)	(15)	(16)	(16)	(15)	(13)	(13)
% Change	0.0%	0.0%	0.0%	-0.5%	-1.3%	-1.4%	-1.5%	-1.4%	-1.2%	-1.2%
NFD Per Cap. Cons.										
					(Pounds)					
Baseline	3.35	2.90	3.18	3.46	3.50	3.47	3.43	3.39	3.36	3.31
Scenario	3.35	2.90	3.18	3.43	3.44	3.41	3.38	3.34	3.31	3.27
Change	0.00	0.00	0.00	-0.02	-0.05	-0.06	-0.06	-0.05	-0.05	-0.05
% Change	0.0%	0.0%	0.0%	-0.6%	-1.5%	-1.6%	-1.7%	-1.6%	-1.4%	-1.4%
NFD Wholesale Price										
					(Cents Per Pound)					
Baseline	110.01	109.19	102.43	89.63	88.74	89.97	90.70	90.80	90.19	90.54
Scenario	110.01	109.19	102.43	91.36	93.44	95.02	96.10	95.88	94.69	95.09
Change	0.00	0.00	0.00	1.73	4.70	5.05	5.40	5.07	4.49	4.56
% Change	0.0%	0.0%	0.0%	1.9%	5.3%	5.6%	6.0%	5.6%	5.0%	5.0%
Fluid Milk Price										
					(Dollars per Half Gallon)					
Baseline	1.56	1.77	1.61	1.60	1.60	1.61	1.61	1.62	1.62	1.62
Scenario	1.56	1.77	1.61	1.56	1.57	1.58	1.58	1.58	1.58	1.58
Change	0.00	0.00	0.00	-0.03	-0.03	-0.03	-0.03	-0.03	-0.03	-0.03
% Change	0.0%	0.0%	0.0%	-2.0%	-2.0%	-2.0%	-2.0%	-2.0%	-1.9%	-2.0%