



Agricultural
Marketing Service

Impacts of NASS Nonfat Dry Milk Price and Sales Volume Revisions on Federal Order Prices

June 28, 2007

On June 28, 2007, USDA National Agricultural Statistics Service (NASS) published revised prices and sales volumes for nonfat dry milk (NFDM) for the weeks ending April 29, 2006, through April 14, 2007. NFDM prices as reported by NASS are used to calculate nonfat solids pricing factors used in Federal order formulas. These formulas set minimum classified prices that handlers must pay for milk pooled in the Federal order system. This report provides the impacts that these revisions would have had for the Federal order system. The following bullet points and tables highlight the differences.

- The revised data provided by NASS cover a period of 51 weeks and would have affected the minimum Federal order milk prices announced by AMS over 14 months.
- The total classified value of milk regulated under the Federal milk marketing order (FMMO) program for the period covered by the NASS revision was understated by \$50 million, or about 0.25 percent. On a per hundredweight basis, the value was understated an average of \$0.04.
- Only the skim milk values of Class II products (such as yogurt, ice cream, and cottage cheese) and Class IV products (such as butter, nonfat dry milk, and skim milk powders) were affected.
- Class I (bottled milk) and Class III (cheese) milk values were not affected. No butterfat values were affected in any class.
- The three FMMO markets with the greatest understatement of total classified value were the Northeast, the Mideast, and the Central markets.
- The two FMMO markets with the greatest understatement in classified value per hundredweight were the Pacific Northwest and the Arizona markets.
- Impact in a market depends on the total volume of milk regulated and the proportion of milk in the market that is Class II and Class IV.
- The average change in the 2-week price of NFDM used in advanced Class II price calculations is an increase of \$0.0218 per pound. The changes range from a decrease of \$0.0032 to an increase of \$0.0754 per pound. The average decrease in volume for the two-week period is 8.6 million pounds, ranging from 250,000 to 14 million pounds.
- With respect to the 4- or 5- week NFDM prices used in Class IV pricing, the average revision is an increase of \$0.0193 per pound. The changes range from a decrease of \$0.0042 to an increase of \$0.0719 per pound. The average change in volume is a decrease of 17.9 million pounds. Decreases in volume range from 250,000 to 34.6 million pounds.
- The 2-week NFDM revisions affected the Class II nonfat solids price range from a decrease of \$0.0033 to an increase of \$0.0744 per pound in the component pricing orders. The average difference between the previous and revised Class II nonfat solids price is an increase of \$0.0216 per pound. In marketing order using fat and skim pricing, the change in the Class II skim milk price ranged from a decrease of \$0.03 to an increase of \$0.67 per cwt. The average difference was an increase of \$0.19 per cwt.
- The 4- or 5-week revisions affected the Class IV nonfat solids price as well as a Class IV skim milk price. The changes in the nonfat solids price ranged from a decrease of \$0.0041 to an increase of \$0.0712 per pound with an average increase of \$0.0191 per

pound. The Class IV skim price changes average up \$0.17 per hundredweight, varying from a decrease of \$0.04 to an increase of \$0.64.

- All FMMO pools for the period covered by the NASS revisions have been settled and all revenues have been distributed. The previously announce FMMO minimum prices remain unchanged. There are no milk order provisions that could generate additional revenues for these settled pools.
- It is possible that some milk would have been reallocated among classes of milk in the Federal order system had the NASS revisions been in effect when Federal order prices were announced. Reallocation effects have not been considered for this analysis.

Table 1. Revisions to Nonfat Dry Milk (NFDM) Prices

Time Period to Which Prices Apply		Used in Class II Pricing		Used in Class IV Pricing	
Year	Month	Volume Revision (pounds)	Price Revision (dollars/pound)	Volume Revision (pounds)	Price Revision (dollars)
2006	April			-3,524,562	-0.0011
	May			-26,356,906	-0.0042
	June	-10,981,885	-0.0032	-28,730,459	-0.0022
	July	-14,110,649	-0.0011	-34,577,140	0.0039
	August	-11,614,636	0.0045	-14,696,607	0.0048
	September	-4,124,756	0.0028	-18,375,033	0.0152
	October	-9,283,063	0.0148	-12,042,813	0.0084
	November	-7,154,410	0.0068	-4,882,462	0.0121
	December	-2,122,459	0.0114	-9,246,367	0.0271
	January	-3,812,276	0.0307	-21,676,317	0.0443
	February	-13,284,895	0.0449	-28,997,468	0.0719
	March	-13,123,451	0.0737	-28,906,479	0.0693
2007	April	-13,493,676	0.0754	-251,772	0.0009
	May	-251,772	0.0014		
Average		-8,613,161	0.0218	-17,866,491	0.0193

Table 2. Changes to Pricing Factors

Time Period to Which Revisions Apply		Used in Class II Pricing		Used in Class IV Pricing	
		Nonfat Solids Price	Skim Milk Price	Nonfat Solids Price	Skim Milk Price
Year	Month	<i>(dollars/pound)</i>	<i>(dollars/cwt)</i>	<i>(dollars/pound)</i>	<i>(dollars/cwt)</i>
2006	April			-0.0011	-0.01
	May			-0.0041	-0.04
	June	-0.0033	-0.03	-0.0022	-0.02
	July	-0.0011	-0.01	0.0039	0.03
	August	0.0044	0.04	0.0048	0.04
	September	0.0033	0.03	0.0150	0.13
	October	0.0156	0.14	0.0083	0.07
	November	0.0067	0.06	0.0119	0.10
	December	0.0111	0.10	0.0268	0.24
2007	January	0.0300	0.27	0.0439	0.39
	February	0.0445	0.40	0.0712	0.64
	March	0.0722	0.65	0.0686	0.61
	April	0.0744	0.67	0.0009	0.01
	May	0.0011	0.01		
Average		0.0216	0.19	0.0191	0.17

Table 3. Change in Classified Value by Market, April 2006-May 2007

Marketing Order	Total Receipts	Total Change	
	<i>(pounds)</i>	<i>(dollars)</i>	<i>(dollars/cwt)</i>
Northeast	26,207,099,258	11,560,613	0.04
Appalachian	7,217,642,433	2,997,602	0.04
Southeast	9,346,736,677	2,676,221	0.03
Florida	3,732,974,652	769,212	0.02
Mideast	19,765,200,494	8,018,463	0.04
Upper Midwest	30,740,868,826	4,746,736	0.02
Central	14,682,769,571	6,337,677	0.04
Southwest	13,164,669,265	4,889,276	0.04
Arizona	4,227,309,502	2,366,580	0.06
Pacific Northwest	8,650,140,605	5,419,840	0.06
All Markets Combined	137,735,411,283	49,782,219	0.04

Table 4. Changes in Class II and Class IV Value by Market, April 2006-May 2007

Marketing Order	Class II Value	Class IV Value
	<i>(dollars)</i>	<i>(dollars)</i>
Northeast	8,431,122	3,129,491
Appalachian	1,823,178	1,174,425
Southeast	1,827,137	849,084
Florida	485,906	283,307
Mideast	6,196,182	1,822,281
Upper Midwest	3,037,575	1,709,160
Central	3,840,346	2,497,330
Southwest	2,495,435	2,393,841
Arizona	625,630	1,740,950
Pacific Northwest	957,813	4,462,027
All Markets Combined	29,720,325	20,061,895

Table 5. Changes in Classified Value Across All Markets

Time Period to Which Revisions Apply		Total Receipts	Class II Value	Class IV Value	Total
Year	Month	<i>(pounds)</i>	<i>(dollars)</i>	<i>(dollars)</i>	<i>(dollars)</i>
2006	April	10,567,930,973	0	-143,010	-143,010
	May	11,028,391,124	0	-495,192	-495,192
	June	10,014,081,041	-363,138	-225,176	-588,314
	July	10,390,897,869	-121,885	391,873	269,988
	August	10,055,647,186	512,587	284,444	797,031
	September	8,662,212,073	346,184	794,621	1,140,805
	October	9,849,920,875	1,695,191	481,312	2,176,504
	November	9,543,046,912	721,226	676,803	1,398,029
	December	9,629,650,802	1,040,944	2,535,729	3,576,673
	2007 January	10,515,282,843	3,254,865	3,715,451	6,970,316
2007	February	8,950,612,827	4,438,592	5,885,799	10,324,391
	March	9,878,108,944	8,753,729	6,072,940	14,826,669
	April	9,599,929,923	9,304,343	86,300	9,390,643
	May	9,049,697,891	137,687	0	137,687
	Total	137,735,411,283	29,720,325	20,061,895	49,782,219