

Analysis of USDA's Proposed Rule for Federal Milk Marketing Orders: Options 1A and 1B

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Executive Summary

The United States dairy sector is posed to undergo changes as the Federal Milk Marketing Order (FMMO) system is reformed. Since the passage of the 1996 farm bill, attention has been focused on what effect reform of the FMMO system will have on the dairy sector. With the release of USDA's proposed rule, some light has been shed regarding potential changes to the FMMO system. FAPRI's analysis provides a quantitative impact of both Options 1A and 1B as laid out in the proposed rule.

The pricing classification scheme under the proposed rule provides for differences relative to the current system. Regulated prices for manufactured milk are higher for given dairy product prices under the proposed rule than under the current system. This results in a higher base price used in calculating fluid prices under the proposed rule. The higher base price provides some offset under the 1B option when fluid differentials are lower for many regions of the country. The manufacturing milk sector will likely adapt to the higher regulated prices by reducing over-order premiums for manufactured milk and by cooperatives re-blending milk.

Neither Option 1A or 1B results are dramatic when examining the aggregate results. Milk production increases less than 0.5% under either option analyzed. The change in milk prices at the U.S. level is also small for both options. Over the 2003-07 average, U.S. all milk prices increase by \$0.04 per hundredweight under Option 1A and decline by \$0.03 per hundredweight under Option 1B.

The regional impacts of the proposed rule are larger than what is seen at the aggregate level. This is especially true under the 1B option in which Texas all milk prices decline on average over the 2003-07 period by \$0.47 per hundredweight while Wisconsin all milk prices increase by \$0.24 per hundredweight over the same period.

At the aggregate level, consumers are not likely to experience large changes in product prices under either option 1A or 1B. However, on a state-level basis, consumers will see much different results under the 1B option. In areas of the country where differentials do not change much relative to current differentials, consumers will see increases in fluid milk prices. In states where fluid differentials decline substantially under the 1B option, however, consumers will see lower fluid milk prices when they head to the store.

Introduction

The Federal Agriculture Improvement and Reform (FAIR) Act of 1996 instructed the United States Department of Agriculture (USDA) to make changes to the current U.S. Federal Milk Marketing Order (FMMO) system. Congress instructed that the FMMO reform be completed by April of 1999. As a part of this FMMO reform process, USDA set forth a proposed rule in January of 1998.

This report attempts to provide an economic analysis of the proposed rule and examine two options which it contains. The report will examine Option 1B (the option preferred by USDA) and Option 1A. Although there are other options within the proposed rule, FAPRI was instructed by the U.S. House Agriculture Committee to examine only Options 1A and 1B.

Before presenting analysis of the proposed rule, FAPRI offers a cautionary note. Anytime one uses an econometric model to analyze a policy change that could dramatically change the structure of the industry, the results must be interpreted with extreme care. Such policy shifts may become difficult to measure with a quantitative model. Although many will argue over the extent to which the proposed rule alters current policy, the changes to the FMMO system represent ones unseen for many years.

Assumptions

A number of assumptions underlie analysis of both FMMO reform options leading to final conclusions outlined in the pages that follow. Many of the assumptions have the ability to change dramatically, resulting in different conclusions than are determined in this analysis.

Many experts were polled to provide input into the assumption process, and they deserve thanks for the time they took to help in our process. Any errors that remain are solely ours and do not reflect the quality of information received from outside dairy experts.

To begin, we must explain the proposed rule's new structure of classified pricing, which sets forth four classes of milk. The Class IV milk price is used to price milk used

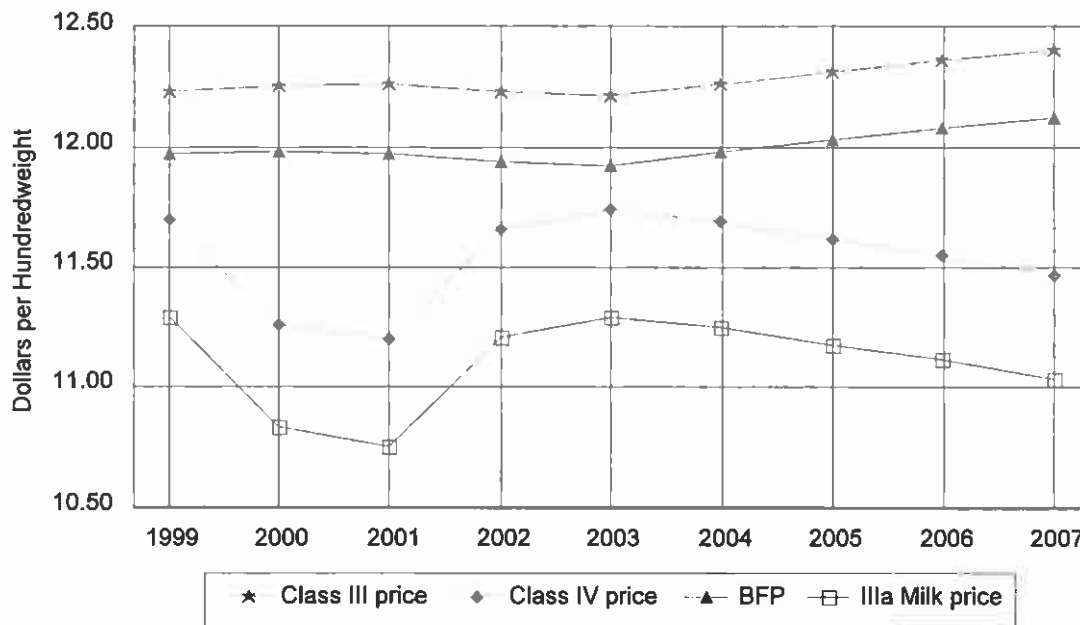
for butter and milk powders. In general, milk used to produce cheese will be priced at the Class III price. Class I and Class II prices are used in a similar manner as the current classification system, with the Class I price used for fluid milk products and Class II prices used for soft manufactured products.

Both Class III and Class IV milk prices are derived from product formulas that are laid out explicitly in the proposed rule. The product prices that are used in the proposed rule are survey prices that are to be gathered by the National Agricultural Statistics Service (NASS). With the exception of cheese, we do not have an abundance of information on how these survey prices will compare to current market prices. We had to make some assumptions regarding wedges between the market prices used by the FAPRI system and the new survey prices. Since limited history exists on surveyed cheese prices, we took the average difference from May 1997 to February 1998 between the Wisconsin assembly point price for 40lb blocks that FAPRI forecasts and the survey price. This results in a cheese survey price that runs \$0.04 per pound below the market price forecasted in the FAPRI model. For both the butter and nonfat survey prices, little information existed to help derive the appropriate price wedge between the market and survey prices. After consulting with several people, it was determined that the FAPRI analysis would assume both butter and nonfat dry survey prices are \$0.025 per pound below the corresponding market price. By NASS beginning to collect these survey prices as soon as possible, the industry could form an idea of how market prices will change under this new system.

Under the proposed rule Class II prices are computed to be the Class IV price plus \$0.70 per hundredweight. The Class I price formula adds location-specific differentials to a declining weighted six month average of the higher of the Class III or Class IV skim milk price. Since the FAPRI model is annual in nature, it is not designed to address issues related to monthly price variability. For this analysis, the higher of the annual Class III or Class IV skim milk price is used. Given baseline prices, the Class III skim milk price is used each year of the analysis.

The new regulated class pricing structure deserves further comment. Figure 1 plots the Basic Formula Price and Class IIIa price from the FAPRI baseline along with the Class III and Class IV prices that would be generated with product prices from the FAPRI baseline adjusted by the appropriate wedge.

Figure 1. Class Price Comparison Using Baseline Product Prices



In comparing the Class III price to the Basic Formula Price (BFP) under the baseline, the new regulated price generates on average a \$0.28 per hundredweight higher price than the BFP given a particular set of product prices. The new Class IV price generates a \$0.44 per hundredweight higher price than the current Class IIIa price generates. Thus, for both Class III and Class IV milk, higher regulated prices are generated under the proposed rule. In the analysis, it is assumed that declines in current premiums paid for manufacturing milk or reblending of milk by cooperatives will offset a portion of the higher regulated prices. Reblending and premium adjustments are assumed to reduce prices paid to producers for Class III and Class IV milk by \$0.20 per hundredweight. However, the regulated price levels are used to generate both Class I and II prices.

Over-order fluid premiums are not changed relative to baseline levels under either of the options analyzed. Strong arguments have been made by those on both sides of the

issue regarding whether fluid over-order premiums will adjust in response to changing Class I differentials. The FAPRI dairy model does not provide insight into how over-order premiums might be affected under either option 1A or 1B.

The difference between Option 1A and 1B rests in the level of Class I differentials that are in effect under each option. In general, Option 1A results in Class I differentials that are close to current Class I differentials while Option 1B adjusts Class I differentials downward over the 1999 to 2003 so that in many cases these differentials are below current Class I differentials by 2003. Note that this analysis does not incorporate the short-run increases in differentials proposed under two of the USDA alternatives under Option 1B. For a concise table of these differentials, one can examine appendix Table 1 in USDA's preliminary regulatory impact analysis.

Class I utilization is also adjusted under the proposed rule for each state depending on which new order or orders it falls within. For many states this did not result in significant change in utilization rates. In Missouri, Class I utilization is increased due to the reclassification of some southern counties into the new Southeast order.

Results

Tables 1 and 2 provide a concise summary of the impact of Options 1A and 1B relative to the baseline for both the short and longer run. Appendix tables are attached which provide the year by year effects of each of the proposed options.

Examination of Table 1 shows that neither option results in a substantial change in aggregate U.S. milk production in 1999. Both options show an increase in milk production of less than 400 million pounds. With the increased level of milk production, product prices are all lower in 1999. The Class III price is higher under both options in 1999 even with lower cheese prices. This result is a function of the regulated Class III price that lowers the margin to processors. The market price for milk for cheese would not show the gain presented in Table 1, since reduced premiums for manufactured milk and reblending are expected to curb the market price received by producers. Proprietary plants that are not currently paying any premiums for manufactured milk would see the

full increase in the Class III price. A similar story can be told for the Class IV price. In addition, the impact of these options is relatively small with respect to national consumer fluid prices. Under Option 1A, an increase of \$0.02 per half gallon of milk is expected in the short and long run, with a range of +\$0.01 to -\$0.01 under Option 1B. It is important to note that while national consumer impacts are small, state and regional effects could be much larger.

State-level all milk prices are higher in 1999 under both options in every state except California. This analysis does not make any changes from current policy in California nor does it assume that California becomes a part of the FMMO system. Therefore, lower cheese prices result in lower 4b prices in California, and thus the lower all milk prices. Other states' prices are above the baseline in large part because of the increase in fluid milk prices that result from the combination of higher Class I differentials and higher Class III prices.

The longer-run results presented in Table 2 also suggest that in the aggregate, milk production increases modestly under both options. U.S. milk prices remain above baseline levels under Option 1A by \$0.04 per hundredweight. Under the 1B option, the U.S. all milk price declines on average over the 2003 to 2007 period by \$0.03 per hundredweight. The decline is a result of the lower Class I differentials experienced under 1B in the latter years of the phase-in. The perverse result that milk production is higher than the baseline level with lower than baseline farm prices is a consequence of lags in the supply side of the system. If this analysis were to extend over a longer period, supply response, in aggregate, would likely be negative. Table 2 shows that of the top six dairy-producing states, only Wisconsin and Minnesota receive higher prices under Option 1B. In addition, under Option 1A New York and Pennsylvania also see higher prices.

Figures 2 and 3 show the impact on state-level all milk prices under option 1A. With the exception of the Southwest, almost all states show increases in all milk prices in excess of \$0.10 per hundredweight in 1999. After milk production has a chance to respond, additional states fall into the area with all milk prices +/- \$0.10 per hundredweight of the baseline (Figure 3). California is the only state with a decline in all milk prices in excess of \$0.10 per hundredweight.

Table 1. Short-run Impacts of Proposed Rule

	1999	<u>Change from baseline</u>	
	Baseline	Option 1A	Option 1B
U.S. milk production (bil. lbs.)	159.87	0.36	0.28
Cheese wholesale price (cents/lb.)	131.64	-2.13	-1.57
Butter wholesale price (cents/lb.)	98.50	-3.56	-3.27
Nonfat dry milk wholesale price (cents/lb.)	102.72	-0.90	-1.23
BFP/Class III price (\$/cwt)	11.97	0.25	0.31
Class III-A/Class IV price (\$/cwt)	11.29	0.17	0.16
U.S. all-milk price (\$/cwt)	13.15	0.14	0.10
State all-milk prices (\$/cwt)			
California	12.42	-0.08	-0.06
Wisconsin	13.23	0.17	0.14
New York	13.13	0.12	0.07
Pennsylvania	13.89	0.14	0.01
Minnesota	13.03	0.19	0.14
Texas	13.51	0.05	0.02
Retail milk price (\$/half gal.)	1.56	0.02	0.01

Table 2. Longer-run Impacts of Proposed Rule

	2003-07 Avg.	<u>Change from baseline</u>	
	Baseline	Option 1A	Option 1B
U.S. milk production (bil. lbs.)	168.14	0.64	0.23
Cheese wholesale price (cents/lb.)	132.21	-3.35	-1.06
Butter wholesale price (cents/lb.)	93.30	-4.31	-2.86
Nonfat dry milk wholesale price (cents/lb.)	104.25	-0.88	-1.72
BFP/Class III price (\$/cwt)	12.03	0.15	0.38
Class III-A/Class IV price (\$/cwt)	11.18	0.17	0.16
U.S. all-milk price (\$/cwt)	13.14	0.04	-0.03
State all-milk prices (\$/cwt)			
California	12.48	-0.13	-0.05
Wisconsin	13.28	0.07	0.24
New York	13.18	0.01	-0.25
Pennsylvania	13.91	0.03	-0.12
Minnesota	13.08	0.09	0.20
Texas	13.42	-0.05	-0.47
Retail milk price (\$/half gal.)	1.58	0.02	-0.01

Under Option 1B (depicted in Figure 4), short-run results are similar to those in Option 1A. The Northeast fares worse under Option 1B in 1999 than under Option 1A. The longer-run shows a much larger area of the country that loses more than \$0.10 per hundredweight (Figure 5). The Upper Midwest shows gains in excess of \$0.10 per hundredweight in the 2003-07 average. Figure 6 shows which option results in higher milk prices for each state over the 2003-07 period. Producers in the Upper Midwest region, California and Florida should expect higher prices under Option 1B, while those in the remainder of the U.S. should expect higher prices under Option 1A. In several cases, the difference between the two options is quite small.

Figure 2. Change in All Milk Prices Under USDA's Proposed Rule, Option 1A, 1999

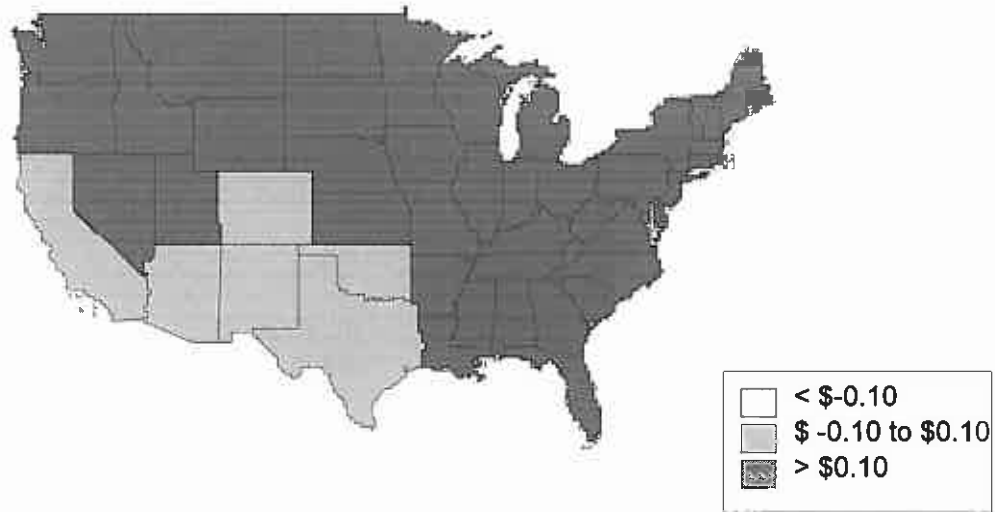
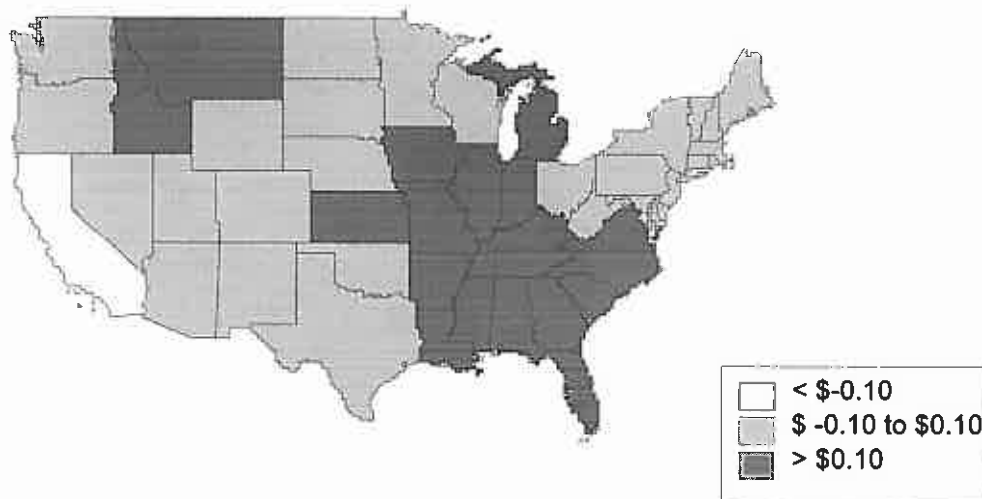


Figure 3. Change in All Milk Prices Under USDA's Proposed Rule, Option 1A, Avg. 2003-07



Impact of USDA's Proposed Rule, Option 1A on U.S. Dairy Products

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Butter Production											
	(Million Pounds)										
Baseline	1,161	1,171	1,174	1,181	1,188	1,193	1,202	1,215	1,228	1,242	1,257
Scenario	1,161	1,171	1,178	1,187	1,194	1,199	1,207	1,221	1,233	1,246	1,261
Change	0	0	4	6	5	6	5	6	4	4	4
% Change	0.0%	0.0%	0.4%	0.5%	0.4%	0.5%	0.4%	0.5%	0.4%	0.3%	0.4%
Butter Per Cap. Cons.											
	(Pounds)										
Baseline	4.18	4.16	4.14	4.14	4.13	4.11	4.11	4.12	4.14	4.15	4.17
Scenario	4.18	4.16	4.16	4.16	4.15	4.13	4.13	4.14	4.15	4.17	4.18
Change	0.00	0.00	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.01	0.02
% Change	0.0%	0.0%	0.4%	0.5%	0.4%	0.5%	0.5%	0.5%	0.4%	0.3%	0.4%
Butter Wholesale Price											
	(Cents Per Pound)										
Baseline	106.80	100.08	98.50	94.42	89.71	91.46	91.44	92.64	93.48	94.23	94.70
Scenario	106.80	100.08	94.94	89.50	85.73	86.52	86.86	87.53	89.49	90.45	90.61
Change	0.00	0.00	-3.56	-4.93	-3.98	-4.94	-4.58	-5.11	-3.99	-3.78	-4.09
% Change	0.0%	0.0%	-3.6%	-5.2%	-4.4%	-5.4%	-5.0%	-5.5%	-4.3%	-4.0%	-4.3%
Cheese Production											
	(Million Pounds)										
Baseline	7,362	7,559	7,710	7,852	8,006	8,156	8,302	8,441	8,582	8,727	8,875
Scenario	7,362	7,559	7,776	7,922	8,087	8,244	8,397	8,534	8,678	8,821	8,966
Change	0	0	66	70	82	88	95	93	96	95	91
% Change	0.0%	0.0%	0.9%	0.9%	1.0%	1.1%	1.1%	1.1%	1.1%	1.1%	1.0%
Cheese Per Cap. Cons.											
	(Pounds)										
Baseline	28.2	28.7	29.1	29.4	29.7	30.0	30.2	30.5	30.7	31.0	31.2
Scenario	28.2	28.7	29.3	29.6	30.0	30.3	30.6	30.8	31.1	31.3	31.5
Change	0.0	0.0	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
% Change	0.0%	0.0%	0.8%	0.9%	1.0%	1.1%	1.1%	1.1%	1.1%	1.1%	1.0%
Cheese Wholesale Price											
	(Cents Per Pound)										
Baseline	132.39	132.76	131.64	131.73	131.64	131.36	131.20	131.70	132.24	132.75	133.16
Scenario	132.39	132.76	129.50	129.46	128.93	128.38	127.93	128.43	128.62	129.31	129.60
Change	0.00	0.00	-2.13	-2.28	-2.72	-2.98	-3.26	-3.27	-3.42	-3.44	-3.36
% Change	0.0%	0.0%	-1.6%	-1.7%	-2.1%	-2.3%	-2.5%	-2.5%	-2.6%	-2.6%	-2.5%
NFD Production											
	(Million Pounds)										
Baseline	1,221	1,085	1,075	1,073	1,068	1,061	1,063	1,073	1,084	1,095	1,107
Scenario	1,221	1,085	1,080	1,081	1,072	1,068	1,068	1,079	1,087	1,098	1,110
Change	0	0	5	8	5	6	5	6	3	3	3
% Change	0.0%	0.0%	0.5%	0.7%	0.4%	0.6%	0.4%	0.5%	0.3%	0.2%	0.3%
NFD Per Cap. Cons.											
	(Pounds)										
Baseline	3.26	3.27	3.24	3.25	3.23	3.18	3.16	3.17	3.18	3.20	3.21
Scenario	3.26	3.27	3.26	3.28	3.24	3.20	3.18	3.19	3.19	3.20	3.22
Change	0.00	0.00	0.02	0.03	0.02	0.02	0.02	0.02	0.01	0.01	0.01
% Change	0.0%	0.0%	0.6%	0.9%	0.5%	0.7%	0.5%	0.6%	0.3%	0.3%	0.3%
NFD Wholesale Price											
	(Cents Per Pound)										
Baseline	109.85	102.60	102.72	99.85	101.43	105.63	106.55	105.43	104.17	103.14	101.85
Scenario	109.85	102.60	101.83	98.02	100.53	104.13	105.44	103.92	103.57	102.70	101.24
Change	0.00	0.00	-0.90	-1.83	-0.90	-1.51	-1.11	-1.51	-0.61	-0.45	-0.71
% Change	0.0%	0.0%	-0.8%	-1.8%	-0.9%	-1.4%	-1.0%	-1.4%	-0.6%	-0.4%	-0.7%

Impact of USDA's Proposed Rule, Option 1A on Selected State All Milk Prices

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2008	2007	
California All Milk Price												
					(Dollars Per Hundredweight)							
Baseline	12.50	12.54	12.42	12.43	12.42	12.38	12.38	12.43	12.48	12.53	12.58	
Scenario	12.50	12.54	12.34	12.35	12.32	12.28	12.25	12.30	12.35	12.40	12.44	
Change	0.00	0.00	-0.08	-0.08	-0.10	-0.12	-0.13	-0.13	-0.14	-0.14	-0.13	
% Change	0.0%	0.0%	-0.6%	-0.7%	-0.8%	-0.9%	-1.1%	-1.0%	-1.1%	-1.1%	-1.1%	
Wisconsin All Milk Price												
Baseline	13.36	13.34	13.23	13.22	13.21	13.20	13.19	13.24	13.28	13.33	13.37	
Scenario	13.36	13.34	13.40	13.35	13.32	13.31	13.28	13.31	13.35	13.38	13.41	
Change	0.00	0.00	0.17	0.13	0.11	0.11	0.09	0.08	0.06	0.05	0.05	
% Change	0.0%	0.0%	1.3%	1.0%	0.9%	0.8%	0.7%	0.6%	0.5%	0.4%	0.4%	
New York All Milk Price												
Baseline	13.28	13.24	13.13	13.11	13.09	13.10	13.08	13.13	13.18	13.22	13.26	
Scenario	13.28	13.24	13.25	13.13	13.11	13.15	13.15	13.16	13.19	13.22	13.23	
Change	0.00	0.00	0.12	0.02	0.02	0.05	0.06	0.02	0.01	-0.00	-0.03	
% Change	0.0%	0.0%	0.9%	0.1%	0.1%	0.4%	0.4%	0.2%	0.1%	-0.0%	-0.2%	
Pennsylvania All Milk Price												
Baseline	14.04	14.01	13.89	13.87	13.85	13.85	13.83	13.87	13.91	13.95	13.98	
Scenario	14.04	14.01	14.03	13.95	13.92	13.92	13.90	13.92	13.95	13.97	13.99	
Change	0.00	0.00	0.14	0.08	0.07	0.07	0.07	0.04	0.03	0.02	0.01	
% Change	0.0%	0.0%	1.0%	0.6%	0.5%	0.5%	0.5%	0.3%	0.2%	0.2%	0.1%	
Minnesota All Milk Price												
Baseline	13.16	13.14	13.03	13.02	13.00	13.00	12.99	13.03	13.08	13.13	13.16	
Scenario	13.16	13.14	13.22	13.18	13.15	13.13	13.10	13.13	13.17	13.21	13.24	
Change	0.00	0.00	0.19	0.17	0.15	0.13	0.11	0.10	0.09	0.08	0.08	
% Change	0.0%	0.0%	1.5%	1.3%	1.1%	1.0%	0.9%	0.8%	0.7%	0.6%	0.6%	
Texas All Milk Price												
Baseline	13.71	13.64	13.51	13.46	13.42	13.41	13.38	13.40	13.43	13.44	13.45	
Scenario	13.71	13.64	13.56	13.41	13.37	13.40	13.37	13.36	13.38	13.38	13.36	
Change	0.00	0.00	0.05	-0.05	-0.05	-0.02	-0.01	-0.04	-0.05	-0.07	-0.09	
% Change	0.0%	0.0%	0.4%	-0.4%	-0.4%	-0.1%	-0.1%	-0.3%	-0.4%	-0.5%	-0.7%	
Michigan All Milk Price												
Baseline	13.55	13.56	13.45	13.45	13.44	13.42	13.41	13.46	13.51	13.56	13.60	
Scenario	13.55	13.56	13.78	13.64	13.63	13.67	13.68	13.67	13.71	13.74	13.74	
Change	0.00	0.00	0.31	0.19	0.19	0.24	0.25	0.21	0.20	0.18	0.15	
% Change	0.0%	0.0%	2.3%	1.4%	1.4%	1.8%	1.9%	1.6%	1.5%	1.3%	1.1%	
Washington All Milk Price												
Baseline	13.31	13.13	13.02	12.93	12.90	12.98	12.98	13.01	13.03	13.06	13.07	
Scenario	13.31	13.13	13.15	12.99	12.98	13.04	13.05	13.04	13.08	13.10	13.09	
Change	0.00	0.00	0.13	0.06	0.08	0.07	0.07	0.04	0.05	0.04	0.02	
% Change	0.0%	0.0%	1.0%	0.4%	0.6%	0.5%	0.5%	0.3%	0.4%	0.3%	0.2%	

Change in State All Milk Prices From USDA's Proposed Rule, Option 1A

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
	(Dollars Per Hundredweight)										
Alabama	0.00	0.00	0.25	0.25	0.22	0.19	0.16	0.15	0.14	0.13	0.14
Alaska	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Arizona	0.00	0.00	0.08	0.01	0.01	0.00	-0.00	-0.03	-0.03	-0.04	-0.05
Arkansas	0.00	0.00	0.38	0.32	0.31	0.30	0.28	0.27	0.26	0.25	0.24
California	0.00	0.00	-0.08	-0.08	-0.10	-0.12	-0.13	-0.13	-0.14	-0.14	-0.13
Colorado	0.00	0.00	0.06	-0.01	-0.01	-0.01	-0.01	-0.04	-0.04	-0.05	-0.07
Connecticut	0.00	0.00	0.13	0.02	0.02	0.06	0.07	0.03	0.02	0.00	-0.03
Delaware	0.00	0.00	0.13	0.02	0.02	0.06	0.06	0.03	0.02	0.00	-0.02
Florida	0.00	0.00	0.32	0.28	0.26	0.26	0.24	0.23	0.21	0.20	0.19
Georgia	0.00	0.00	0.22	0.18	0.16	0.16	0.14	0.13	0.11	0.10	0.10
Hawaii	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Idaho	0.00	0.00	0.37	0.35	0.36	0.31	0.30	0.28	0.29	0.29	0.29
Illinois	0.00	0.00	0.22	0.20	0.18	0.17	0.15	0.13	0.12	0.11	0.11
Indiana	0.00	0.00	0.21	0.08	0.07	0.14	0.16	0.12	0.10	0.08	0.05
Iowa	0.00	0.00	0.42	0.39	0.38	0.36	0.34	0.33	0.32	0.31	0.31
Kansas	0.00	0.00	0.28	0.21	0.20	0.22	0.21	0.19	0.18	0.16	0.15
Kentucky	0.00	0.00	0.25	0.14	0.13	0.19	0.19	0.16	0.14	0.12	0.10
Louisiana	0.00	0.00	0.22	0.18	0.16	0.16	0.14	0.13	0.11	0.10	0.10
Maine	0.00	0.00	0.13	0.02	0.02	0.06	0.07	0.03	0.02	0.00	-0.03
Maryland	0.00	0.00	0.11	-0.01	-0.01	0.04	0.04	0.01	-0.00	-0.02	-0.05
Massachusetts	0.00	0.00	0.13	0.01	0.01	0.06	0.06	0.03	0.02	-0.00	-0.03
Michigan	0.00	0.00	0.31	0.19	0.19	0.24	0.25	0.21	0.20	0.18	0.15
Minnesota	0.00	0.00	0.19	0.17	0.15	0.13	0.11	0.10	0.09	0.08	0.08
Mississippi	0.00	0.00	0.22	0.18	0.17	0.16	0.15	0.13	0.11	0.11	0.10
Missouri	0.00	0.00	0.57	0.48	0.48	0.50	0.50	0.47	0.46	0.44	0.42
Montana	0.00	0.00	0.40	0.38	0.39	0.34	0.33	0.31	0.32	0.32	0.31
Nebraska	0.00	0.00	0.16	0.07	0.07	0.09	0.09	0.08	0.05	0.04	0.02
Nevada	0.00	0.00	0.12	0.06	0.06	0.06	0.05	0.03	0.03	0.02	0.01
New Hampshire	0.00	0.00	0.13	0.02	0.02	0.06	0.07	0.03	0.02	0.00	-0.03
New Jersey	0.00	0.00	0.12	0.02	0.02	0.05	0.06	0.02	0.01	-0.00	-0.03
New Mexico	0.00	0.00	0.05	0.01	0.01	-0.01	-0.02	-0.04	-0.04	-0.04	-0.05
New York	0.00	0.00	0.12	0.02	0.02	0.05	0.06	0.02	0.01	-0.00	-0.03
North Carolina	0.00	0.00	0.21	0.15	0.13	0.15	0.14	0.12	0.10	0.09	0.07
North Dakota	0.00	0.00	0.15	0.13	0.11	0.09	0.07	0.06	0.05	0.04	0.04
Ohio	0.00	0.00	0.12	-0.02	-0.02	0.05	0.06	0.02	0.01	-0.02	-0.05
Oklahoma	0.00	0.00	0.05	-0.04	-0.04	-0.02	-0.01	-0.04	-0.05	-0.06	-0.09
Oregon	0.00	0.00	0.11	0.03	0.06	0.05	0.05	0.02	0.04	0.03	0.01
Pennsylvania	0.00	0.00	0.14	0.08	0.07	0.07	0.07	0.04	0.03	0.02	0.01
Rhode Island	0.00	0.00	0.13	0.02	0.02	0.06	0.07	0.03	0.02	0.00	-0.03
South Carolina	0.00	0.00	0.21	0.15	0.13	0.15	0.14	0.12	0.10	0.09	0.07
South Dakota	0.00	0.00	0.14	0.12	0.10	0.08	0.06	0.05	0.04	0.03	0.03
Tennessee	0.00	0.00	0.22	0.17	0.16	0.16	0.15	0.13	0.11	0.10	0.09
Texas	0.00	0.00	0.05	-0.05	-0.05	-0.02	-0.01	-0.04	-0.05	-0.07	-0.09
Utah	0.00	0.00	0.12	0.06	0.08	0.05	0.05	0.02	0.02	0.01	-0.00
Vermont	0.00	0.00	0.13	0.02	0.02	0.06	0.07	0.03	0.02	0.00	-0.03
Virginia	0.00	0.00	0.21	0.15	0.13	0.15	0.14	0.12	0.10	0.09	0.07
Washington	0.00	0.00	0.13	0.06	0.08	0.07	0.07	0.04	0.05	0.04	0.02
West Virginia	0.00	0.00	0.12	-0.02	-0.02	0.05	0.06	0.02	0.01	-0.02	-0.05
Wisconsin	0.00	0.00	0.17	0.13	0.11	0.11	0.09	0.08	0.06	0.05	0.05
Wyoming	0.00	0.00	0.16	0.07	0.07	0.09	0.08	0.06	0.05	0.04	0.02

Impact of USDA's Proposed Rule, Option 1B on U.S. Milk

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Milk Production											
	(Million Pounds)										
Baseline	156,606	158,491	159,869	161,204	162,665	163,986	165,362	166,703	168,094	169,530	171,003
Scenario	156,606	158,491	160,146	161,462	162,928	164,267	165,631	166,956	168,333	169,749	171,193
Change	0	0	277	257	263	281	269	252	239	219	190
% Change	0.0%	0.0%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.1%	0.1%	0.1%
Milk Cows											
	(Thousands)										
Baseline	9,242	9,154	9,098	9,049	9,009	8,975	8,945	8,918	8,892	8,870	8,851
Scenario	9,242	9,154	9,108	9,063	9,024	8,991	8,962	8,934	8,908	8,884	8,863
Change	0	0	10	13	15	16	17	16	15	14	13
% Change	0.0%	0.0%	0.1%	0.1%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.1%
All Milk Price											
	(Dollars Per Hundredweight)										
Baseline	13.30	13.27	13.15	13.11	13.09	13.08	13.07	13.10	13.14	13.18	13.21
Scenario	13.30	13.27	13.25	13.13	13.09	13.08	13.05	13.08	13.11	13.15	13.17
Change	0.00	0.00	0.10	0.03	0.01	-0.00	-0.02	-0.03	-0.03	-0.03	-0.04
% Change	0.0%	0.0%	0.7%	0.2%	0.1%	-0.0%	-0.1%	-0.2%	-0.2%	-0.2%	-0.3%
Baseline-BFP Price											
Baseline	12.05	12.09	11.97	11.98	11.97	11.94	11.93	11.98	12.03	12.08	12.13
Scenario-Class III Price	12.05	12.09	12.28	12.34	12.34	12.32	12.31	12.37	12.41	12.46	12.51
Change	0.00	0.00	0.31	0.36	0.36	0.37	0.38	0.39	0.37	0.38	0.39
% Change	0.0%	0.0%	2.6%	3.0%	3.0%	3.1%	3.2%	3.2%	3.1%	3.1%	3.2%
Baseline-Class III-A Price											
Baseline	12.33	11.35	11.29	10.84	10.75	11.21	11.29	11.25	11.18	11.12	11.04
Scenario-Class IV Price	12.33	11.35	11.45	10.87	10.93	11.29	11.42	11.32	11.37	11.34	11.22
Change	0.00	0.00	0.16	0.03	0.18	0.08	0.13	0.07	0.20	0.22	0.18
% Change	0.0%	0.0%	1.4%	0.3%	1.7%	0.7%	1.2%	0.6%	1.8%	2.0%	1.6%
Fluid Product Use											
	(Million Pounds)										
Baseline	57,613	58,073	58,396	58,573	58,793	58,961	59,078	59,143	59,219	59,306	59,385
Scenario	57,613	58,073	58,326	58,524	58,777	58,975	59,123	59,185	59,264	59,351	59,435
Change	0	0	(69)	(49)	(17)	15	45	42	46	45	40
% Change	0.0%	0.0%	-0.1%	-0.1%	-0.0%	0.0%	0.1%	0.1%	0.1%	0.1%	0.1%
Mfg. Product Use											
Baseline	93,440	95,040	96,252	97,483	98,794	100,000	101,310	102,636	104,000	105,395	106,823
Scenario	93,440	95,040	96,600	97,790	99,073	100,268	101,534	102,847	104,192	105,568	106,972
Change	0	0	348	307	280	267	224	210	192	173	149
% Change	0.0%	0.0%	0.4%	0.3%	0.3%	0.3%	0.2%	0.2%	0.2%	0.2%	0.1%

Impact of USDA's Proposed Rule, Option 1B on U.S. Dairy Products

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Butter Production											
	(Million Pounds)										
Baseline	1,181	1,171	1,174	1,181	1,189	1,193	1,202	1,215	1,228	1,242	1,257
Scenario	1,161	1,171	1,178	1,187	1,193	1,198	1,206	1,219	1,231	1,245	1,259
Change	0	0	4	5	4	5	4	4	3	2	3
% Change	0.0%	0.0%	0.3%	0.5%	0.3%	0.4%	0.3%	0.4%	0.2%	0.2%	0.2%
Butter Per Cap. Cons.											
	(Pounds)										
Baseline	4.18	4.16	4.14	4.14	4.13	4.11	4.11	4.12	4.14	4.15	4.17
Scenario	4.18	4.16	4.18	4.18	4.14	4.13	4.12	4.14	4.15	4.16	4.18
Change	0.00	0.00	0.02	0.02	0.01	0.02	0.01	0.02	0.01	0.01	0.01
% Change	0.0%	0.0%	0.4%	0.5%	0.3%	0.4%	0.3%	0.4%	0.2%	0.2%	0.2%
Butter Wholesale Price											
	(Cents Per Pound)										
Baseline	106.80	100.08	88.50	94.42	89.71	91.46	91.44	92.64	93.48	94.23	94.70
Scenario	106.80	100.08	95.23	90.05	86.53	87.56	88.15	88.92	90.85	91.97	92.17
Change	0.00	0.00	-3.27	-4.37	-3.19	-3.90	-3.29	-3.72	-2.53	-2.26	-2.52
% Change	0.0%	0.0%	-3.3%	-4.6%	-3.6%	-4.3%	-3.6%	-4.0%	-2.7%	-2.4%	-2.7%
Cheese Production											
	(Million Pounds)										
Baseline	7,362	7,559	7,710	7,852	8,006	8,156	8,302	8,441	8,582	8,727	8,875
Scenario	7,362	7,559	7,758	7,882	8,047	8,193	8,336	8,470	8,613	8,756	8,900
Change	0	0	49	40	41	37	33	30	31	29	25
% Change	0.0%	0.0%	0.6%	0.5%	0.5%	0.5%	0.4%	0.4%	0.4%	0.3%	0.3%
Cheese Per Cap. Cons.											
	(Pounds)										
Baseline	28.2	28.7	29.1	29.4	29.7	30.0	30.2	30.5	30.7	31.0	31.2
Scenario	28.2	28.7	29.3	29.5	29.8	30.1	30.3	30.6	30.8	31.1	31.3
Change	0.0	0.0	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
% Change	0.0%	0.0%	0.6%	0.5%	0.5%	0.4%	0.4%	0.3%	0.4%	0.3%	0.3%
Cheese Wholesale Price											
	(Cents Per Pound)										
Baseline	132.39	132.76	131.64	131.73	131.64	131.36	131.20	131.70	132.24	132.75	133.16
Scenario	132.39	132.76	130.06	130.42	130.27	130.12	130.05	130.66	131.13	131.69	132.23
Change	0.00	0.00	-1.57	-1.32	-1.37	-1.25	-1.14	-1.04	-1.11	-1.06	-0.93
% Change	0.0%	0.0%	-1.2%	-1.0%	-1.0%	-0.9%	-0.9%	-0.8%	-0.8%	-0.8%	-0.7%
NFD Production											
	(Million Pounds)										
Baseline	1,221	1,085	1,075	1,073	1,068	1,061	1,063	1,073	1,084	1,095	1,107
Scenario	1,221	1,085	1,080	1,081	1,072	1,068	1,068	1,079	1,087	1,098	1,110
Change	0	0	5	8	5	6	5	6	3	3	3
% Change	0.0%	0.0%	0.5%	0.7%	0.4%	0.6%	0.4%	0.5%	0.3%	0.2%	0.3%
NFD Per Cap. Cons.											
	(Pounds)										
Baseline	3.26	3.27	3.24	3.25	3.23	3.18	3.16	3.17	3.18	3.20	3.21
Scenario	3.26	3.27	3.26	3.28	3.24	3.20	3.18	3.19	3.19	3.20	3.22
Change	0.00	0.00	0.02	0.03	0.02	0.02	0.02	0.02	0.01	0.01	0.01
% Change	0.0%	0.0%	0.6%	0.9%	0.5%	0.7%	0.5%	0.6%	0.3%	0.3%	0.3%
NFD Wholesale Price											
	(Cents Per Pound)										
Baseline	109.85	102.60	102.72	99.85	101.43	105.63	106.55	105.43	104.17	103.14	101.85
Scenario	109.85	102.60	101.49	97.55	99.82	103.38	104.57	103.06	102.72	101.87	100.42
Change	0.00	0.00	-1.23	-2.30	-1.51	-2.25	-1.98	-2.36	-1.45	-1.28	-1.53
% Change	0.0%	0.0%	-1.2%	-2.3%	-1.5%	-2.1%	-1.9%	-2.2%	-1.4%	-1.2%	-1.5%

Impact of USDA's Proposed Rule, Option 1B on Selected States Milk Cows

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
California Cows											
Baseline	1,295	1,303	1,310	1,318	1,325	1,331	1,336	1,340	1,345	1,348	1,352
Scenario	1,295	1,303	1,310	1,317	1,324	1,329	1,334	1,339	1,343	1,346	1,350
Change	0	0	(0)	(1)	(1)	(1)	(1)	(2)	(2)	(2)	(2)
% Change	0.0%	0.0%	-0.0%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.2%
Wisconsin Cows											
Baseline	1,394	1,353	1,323	1,299	1,282	1,269	1,259	1,252	1,246	1,242	1,239
Scenario	1,394	1,353	1,325	1,304	1,289	1,279	1,273	1,268	1,265	1,263	1,262
Change	0	0	3	5	8	11	14	17	19	21	22
% Change	0.0%	0.0%	0.2%	0.4%	0.6%	0.8%	1.1%	1.3%	1.5%	1.7%	1.8%
New York Cows											
Baseline	699	695	695	694	694	693	693	692	692	691	691
Scenario	699	695	695	694	693	693	692	691	690	690	689
Change	0	0	0	(0)	(1)	(1)	(1)	(1)	(1)	(2)	(2)
% Change	0.0%	0.0%	0.0%	-0.0%	-0.1%	-0.1%	-0.2%	-0.2%	-0.2%	-0.2%	-0.2%
Pennsylvania Cows											
Baseline	639	639	639	639	639	638	638	637	635	634	633
Scenario	639	639	639	639	638	638	637	635	634	633	631
Change	0	0	0	(0)	(0)	(1)	(1)	(1)	(1)	(2)	(2)
% Change	0.0%	0.0%	0.0%	-0.0%	-0.1%	-0.1%	-0.2%	-0.2%	-0.2%	-0.2%	-0.3%
Minnesota Cows											
Baseline	584	576	568	561	556	551	547	542	539	535	532
Scenario	584	576	569	564	559	556	553	550	547	544	542
Change	0	0	1	2	4	5	6	7	8	9	10
% Change	0.0%	0.0%	0.2%	0.4%	0.6%	0.9%	1.1%	1.3%	1.5%	1.7%	1.8%
Texas Cows											
Baseline	388	383	377	373	369	366	363	362	361	360	360
Scenario	388	383	377	372	368	364	361	358	356	355	354
Change	0	0	0	(0)	(1)	(2)	(3)	(3)	(4)	(5)	(6)
% Change	0.0%	0.0%	0.0%	-0.1%	-0.3%	-0.5%	-0.7%	-1.0%	-1.2%	-1.4%	-1.6%
Michigan Cows											
Baseline	306	297	290	283	277	272	268	265	262	259	257
Scenario	306	297	290	283	277	272	268	264	261	259	257
Change	0	0	0	0	(0)	(0)	(0)	(0)	(0)	(1)	(1)
% Change	0.0%	0.0%	0.1%	0.0%	-0.1%	-0.1%	-0.1%	-0.1%	-0.2%	-0.2%	-0.3%
Washington Cows											
Baseline	264	264	265	266	266	266	266	266	266	266	266
Scenario	264	264	265	266	266	266	266	266	266	266	266
Change	0	0	0	0	0	0	(0)	(0)	(0)	(0)	(0)
% Change	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-0.0%	-0.1%	-0.1%	-0.1%	-0.2%

Change in State All Milk Prices From USDA's Proposed Rule, Option 1B

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
	(Dollars Per Hundredweight)										
Alabama	0.00	0.00	0.21	0.15	0.07	-0.03	-0.11	-0.10	-0.11	-0.11	-0.09
Alaska	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Arizona	0.00	0.00	0.20	0.06	-0.03	-0.13	-0.22	-0.23	-0.22	-0.21	-0.21
Arkansas	0.00	0.00	0.37	0.28	0.22	0.16	0.10	0.10	0.10	0.10	0.09
California	0.00	0.00	-0.06	-0.05	-0.06	-0.05	-0.05	-0.05	-0.05	-0.05	-0.04
Colorado	0.00	0.00	0.03	-0.14	-0.24	-0.33	-0.43	-0.44	-0.43	-0.43	-0.43
Connecticut	0.00	0.00	0.07	-0.10	-0.15	-0.17	-0.22	-0.25	-0.25	-0.26	-0.28
Delaware	0.00	0.00	0.04	-0.16	-0.25	-0.30	-0.38	-0.40	-0.40	-0.41	-0.43
Florida	0.00	0.00	0.26	0.24	0.25	0.27	0.28	0.28	0.26	0.26	0.26
Georgia	0.00	0.00	0.16	0.05	-0.03	-0.10	-0.18	-0.19	-0.20	-0.20	-0.20
Hawaii	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Idaho	0.00	0.00	0.37	0.35	0.37	0.33	0.32	0.31	0.33	0.34	0.34
Illinois	0.00	0.00	0.18	0.19	0.20	0.22	0.24	0.24	0.23	0.23	0.23
Indiana	0.00	0.00	0.13	-0.03	-0.05	-0.01	-0.01	-0.05	-0.06	-0.08	-0.11
Iowa	0.00	0.00	0.32	0.32	0.34	0.35	0.36	0.36	0.36	0.36	0.36
Kansas	0.00	0.00	0.26	0.13	0.06	0.01	-0.06	-0.07	-0.08	-0.08	-0.09
Kentucky	0.00	0.00	0.11	-0.09	-0.18	-0.23	-0.31	-0.34	-0.35	-0.37	-0.39
Louisiana	0.00	0.00	0.16	0.05	-0.03	-0.10	-0.18	-0.18	-0.19	-0.19	-0.19
Maine	0.00	0.00	0.07	-0.10	-0.15	-0.17	-0.22	-0.25	-0.25	-0.26	-0.28
Maryland	0.00	0.00	0.04	-0.16	-0.26	-0.30	-0.38	-0.40	-0.41	-0.42	-0.44
Massachusetts	0.00	0.00	0.07	-0.10	-0.15	-0.17	-0.21	-0.24	-0.24	-0.25	-0.27
Michigan	0.00	0.00	0.08	-0.07	-0.08	-0.01	-0.00	-0.04	-0.04	-0.07	-0.10
Minnesota	0.00	0.00	0.14	0.15	0.17	0.19	0.20	0.20	0.20	0.20	0.20
Mississippi	0.00	0.00	0.16	0.05	-0.03	-0.10	-0.18	-0.18	-0.19	-0.20	-0.20
Missouri	0.00	0.00	0.43	0.34	0.33	0.34	0.33	0.31	0.31	0.30	0.29
Montana	0.00	0.00	0.40	0.38	0.39	0.35	0.35	0.34	0.36	0.36	0.36
Nebraska	0.00	0.00	0.14	0.06	0.07	0.11	0.12	0.10	0.10	0.09	0.07
Nevada	0.00	0.00	0.11	0.02	-0.00	-0.03	-0.06	-0.07	-0.06	-0.07	-0.07
New Hampshire	0.00	0.00	0.07	-0.10	-0.15	-0.17	-0.22	-0.25	-0.25	-0.26	-0.28
New Jersey	0.00	0.00	0.07	-0.09	-0.15	-0.18	-0.23	-0.25	-0.25	-0.26	-0.28
New Mexico	0.00	0.00	0.11	0.04	0.01	-0.05	-0.09	-0.10	-0.09	-0.09	-0.09
New York	0.00	0.00	0.07	-0.09	-0.15	-0.18	-0.23	-0.25	-0.25	-0.26	-0.28
North Carolina	0.00	0.00	0.04	-0.19	-0.36	-0.50	-0.67	-0.69	-0.70	-0.71	-0.72
North Dakota	0.00	0.00	0.14	0.15	0.17	0.19	0.20	0.20	0.20	0.20	0.20
Ohio	0.00	0.00	0.11	-0.06	-0.08	-0.04	-0.04	-0.08	-0.09	-0.10	-0.13
Oklahoma	0.00	0.00	0.05	-0.13	-0.20	-0.25	-0.32	-0.34	-0.33	-0.33	-0.35
Oregon	0.00	0.00	0.11	0.02	0.04	0.02	0.02	-0.01	0.02	0.02	0.01
Pennsylvania	0.00	0.00	0.01	-0.06	-0.09	-0.09	-0.11	-0.12	-0.12	-0.13	-0.14
Rhode Island	0.00	0.00	0.07	-0.10	-0.15	-0.17	-0.22	-0.25	-0.25	-0.26	-0.28
South Carolina	0.00	0.00	0.04	-0.19	-0.38	-0.50	-0.67	-0.69	-0.70	-0.71	-0.72
South Dakota	0.00	0.00	0.13	0.13	0.13	0.14	0.14	0.14	0.13	0.13	0.14
Tennessee	0.00	0.00	0.13	-0.01	-0.11	-0.19	-0.29	-0.30	-0.31	-0.31	-0.32
Texas	0.00	0.00	0.02	-0.19	-0.29	-0.36	-0.45	-0.47	-0.46	-0.47	-0.48
Utah	0.00	0.00	0.11	0.02	-0.00	-0.03	-0.06	-0.07	-0.07	-0.07	-0.07
Vermont	0.00	0.00	0.07	-0.10	-0.15	-0.17	-0.22	-0.25	-0.25	-0.26	-0.28
Virginia	0.00	0.00	0.04	-0.19	-0.36	-0.50	-0.67	-0.69	-0.70	-0.71	-0.72
Washington	0.00	0.00	0.10	-0.00	-0.02	-0.06	-0.09	-0.11	-0.09	-0.09	-0.10
West Virginia	0.00	0.00	0.11	-0.06	-0.08	-0.04	-0.04	-0.08	-0.09	-0.10	-0.13
Wisconsin	0.00	0.00	0.14	0.15	0.18	0.22	0.25	0.24	0.24	0.23	0.23
Wyoming	0.00	0.00	0.14	0.06	0.07	0.11	0.12	0.10	0.10	0.09	0.07

