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What Will be the Impact of the Recommended Decision?

Following a six-month hearing to consider updates to federal milk marketing order (FMMO) price formulas, USDA's Agricultural Marketing Service (AMS) published a recommended decision on July 1. The seven proposed amendments are:

1. Update the milk composition factors used in the Class III and Class IV skim milk price formulas to be 3.3% protein, 6.0% other solids, and 9.3% nonfat solids. The advanced Class III and Class IV skim milk prices are used to set the Class I skim milk price in all federal orders and the Class II, III, and IV skim milk prices in the four fat-skim orders (Appalachian, Arizona, Florida, and Southeast).
2. Remove the 500-pound barrel cheddar cheese price from the protein price formula. Only the 40-pound block cheddar cheese price will be used.
3. Update the manufacturing allowances in the Class III and Class IV price formulas to: Cheese: $0.2504; Butter: $0.2257; NFDM: $0.2268; and Dry Whey: $0.2653.
4. Update the butterfat recovery factor in the protein price formula to be 91% from 90%.
5. Change the Class I price to be the higher of the advanced Class III or Class IV prices instead of being the average of the Class III and Class IV prices, plus $0.74/cwt.
6. Initiate a new Class I price for extended shelf life (ESL) products which will be a 24-month rolling average of the Class I price.
7. Updated the Class I differential values to reflect the increased costs of serving the Class I market. Each of the over 3,100 U.S. counties and parishes has its own Class I differential.

The impact of some of these changes themselves can be determined. For example, the increases in the make allowances will lower component prices for butterfat, other solids, and nonfat solids by a set amount regardless of the prices for butter, dry whey, and nonfat dry milk.

Impact of make allowances on component prices *(per pound)*:

Butterfat	-$0.0656
Other solids	-$0.0682
Nonfat solids	-$0.0584

The impact of updated make allowances on the protein price will vary because the protein price is a function of both the cheese price and the butter price. From January 2023 through May 2024 the impact on the protein price would have varied between -$0.0896 to -$0.1054 per pound given the price relationship between butter and cheese.

However, determining the overall impact on prices is more complex due to the interaction between the price formula updates. For example, the updated make allowances will lower component prices which in turn will lower Class III and Class IV prices. Because the Class I price is determined from the Class III and Class IV prices, the Class I price will also be lower. However, three other price updates will serve to increase the Class I price.

- Increasing the skim component factors.
- Basing the Class I price on the higher of the advanced Class III or Class IV prices.
- Updating the Class I differentials.

In conjunction with the recommended decision, AMS published an economic impact analysis (Economic Impact Analysis (usda.gov). Pooled revenue was reconstructed for each of the 11 FMMOs from 2019 through 2023 using the recommended price formulas. This analysis showed an average gain of $0.32 per hundredweight across all orders for those five years. The three orders in the southeast showed the largest gains, ranging from $1.49 in the Florida Order to $1.97 in the Appalachian Order. This was expected as all three orders have high Class I utilization and benefited from the changes to the Class I price. Conversely, the Upper Midwest Order (-$0.10) and California Order (-$0.20) showed net losses. Given that both orders have low Class I utilization, and the vast majority of pooled milk is used for Class III and Class IV, the impact of higher make allowances were not offset by the higher Class I prices.

However, this static analysis has shortcomings. First, it assumes that milk production and use would have remained the same regardless of the price changes. That assumption is likely not valid. There is a delicate dynamic between higher Class I prices and pooled revenue. On the one hand higher Class I prices would seem to increase pooled revenue. On the other hand, higher Class I prices can be expected to result in lower Class I sales. Would the higher Class I price generate enough additional revenue to offset the lower sales

volume? That is a critical question for producers in high Class I utilization areas. By the same token, higher make allowances will depress component prices. Would dairies in high manufacturing areas have produced as much milk if butterfat and protein prices were lower?

The five-year time frame of the AMS analysis included the severe market disruption caused by the COVID 19 pandemic. The U.S. government entered the market in mid-2020 buying cheese in conjunction with the Farmers to Families Food Box program which continued through mid-2021. The cheese purchases helped to provide a much-needed lifeline to people significantly impacted by the pandemic and provided a market for one segment of the hard-hit dairy industry. However, the market intervention also dramatically impacted regulated milk pricing. The cheese purchases spiked the block cheese price but had little impact on the barrel price. Nevertheless, the Class III price jumped while the Class IV price languished.

These price dynamics affect the economic impact analysis in two ways. First, retroactively applying the 'higher of' Class I price formula during the time when there was great divergence between the Class III and Class IV prices theoretically added significantly more Class I revenue to FMMOs than the existing 'average of, plus $0.74' formula. If the typical Class III and Class IV price relationships observed outside the pandemic had existed during the pandemic, the economic impact analysis would show significantly less Class I revenue being added to pooled revenue.

The second impact is associated with the block-barrel price relationship. The recommended decision eliminates the barrel cheese price from the protein price formula. Because block prices were significantly higher than barrel prices during the pandemic, the net result is a sharp increase in the protein price. In fact, the AMS analysis showed the protein price would have been $0.07 higher during the five-year period despite increasing the make allowance for cheese which by itself would lower the protein price by about $0.09.

The Program on Dairy Markets and Policy (Dairy Markets & Policy) analyzed the potential impact of the recommended decision using a dynamic, forward-looking model. The analysis projected prices from 2024 through 2028 and incorporated expected changes in milk production, manufactured products, and exports in response to price changes. The results showed that the US All Milk price will be lower in the first three years following implementation and higher in years four and five. The cumulative impact over the five-year period is for lower All Milk and Class III prices than with the current price formulas, but higher Class I, Class II, and Class IV prices. The impact on individual FMMOs will vary depending on each order's utilization.

What Comes Next

There are five more steps to complete the hearing process.

1. Interested parties have 60 days to file comments and exceptions to the recommended decision, which will be mid-September.
2. Then AMS has 60 days to issue a final decision (mid-November).
3. After the final decision is published AMS will conduct a producer referendum on whether the final decision should be adopted. For the final decision to be approved, either two-thirds of the producers voting in an order or producers representing two-thirds of the volume of milk voting in the order must approve the amendments. If neither of the two-thirds majority vote in favor, the order is disbanded. The producer referendum is expected to occur in December or January.
4. Following the producer referendum the final rule will be published in the Federal Register.
5. AMS will implement the changes to pricing, which will likely not happen until mid-2025.

NAJ Milk & Component Outlook - *July 2024 Jersey Price Comparisons*

July '24 STATISTICAL BLEND PRICE

Northeast (Boston)	$22.26
Appalachian (Charlotte)	$23.72
Southeast (Atlanta)	$24.25
Florida (Tampa)	$25.66
Mideast (Cleveland)	$21.21
Upper Midwest (Chicago)	$20.04
Central (Kansas City)	$20.62
California (Los Angeles)	$20.84
Southwest (Dallas)	$21.44
Arizona (Phoenix)	$21.48
Pacific Northwest (Seattle)	$20.87
ALL FMMO MARKET AVERAGE	**$22.04**

Prices reflect Federal Order minimum blend prices for city shown.

July '24 MONTHLY MILK VOLUME (Million #)

Northeast (Boston)	2,288
Appalachian (Charlotte)	426
Southeast (Atlanta)	274
Florida (Tampa)	190
Mideast (Cleveland)	1,545
Upper Midwest (Chicago)	2,670
Central (Kansas City)	1,311
California (Los Angeles)	2,033
Southwest (Dallas)	1,068
Arizona (Phoenix)	284
Pacific Northwest (Seattle)	612
ALL FMMO MARKET TOTAL	**12,701**

Total Grade A milk volume sold under FMMO during month.

July '24 JERSEY REGULATED BLEND PRICE

Northeast (Boston)	$26.72
Appalachian (Charlotte)	$27.38
Southeast (Atlanta)	$27.73
Florida (Tampa)	$29.55
Mideast (Cleveland)	$25.25
Upper Midwest (Chicago)	$23.94
Central (Kansas City)	$24.80
California (Los Angeles)	$21.82
Southwest (Dallas)	$25.94
Arizona (Phoenix)	$25.02
Pacific Northwest (Seattle)	$24.30
ALL FMMO MARKET AVERAGE	**$25.68**

Prices reflect FMMO minimum prices at Jersey component values.

July, '24 JERSEY BLEND WITH ESTIMATED PROTEIN OR CHEESE YIELD PREMIUMS

Northeast (Boston)	$26.94
Appalachian (Charlotte) (includes protein prem.)	$27.70
Southeast (Atlanta)	$27.73
Florida (Tampa)	$29.55
Mideast (Cleveland) (includes protein premium)	$25.69
Upper Midwest (Chicago) (includes cy premium)	$24.20
Central (Kansas City)	$24.80
California (Los Angeles)	$21.82
Southwest (Dallas)	$25.94
Arizona (Phoenix) (includes protein)	$25.33
Pacific Northwest (Seattle)	$24.30
ALL FMMO MARKET AVERAGE	**$25.82**

Includes a protein premium of $0.05 for every 0.01% increase in protein over the market average.

July '24 DOLLAR DIFFERENCE: JERSEY MILK WITH PREMIUMS VS. STATISTICAL BLEND PRICE

Northeast (Boston)	$4.68
Appalachian (Charlotte)	$3.98
Southeast (Atlanta)	$3.48
Florida (Tampa)	$3.89
Mideast (Cleveland)	$4.48
Upper Midwest (Chicago)	$4.16
Central (Kansas City)	$4.18
California (Los Angeles)	$0.98
Southwest (Dallas)	$4.50
Arizona (Phoenix)	$3.85
Pacific Northwest (Seattle)	$3.43
ALL FMMO MARKET AVERAGE	**$3.78**

Prices reflect difference between Jersey price with premiums, and the statistical blend price.

July '24 PERCENT DIFFERENCE: JERSEY MILK WITH PREMIUMS VS. STATISTICAL BLEND PRICE

Northeast (Boston)	21.0%
Appalachian (Charlotte)	16.8%
Southeast (Atlanta)	14.4%
Florida (Tampa)	15.2%
Mideast (Cleveland)	21.1%
Upper Midwest (Chicago)	20.7%
Central (Kansas City)	20.3%
California (Los Angeles)	4.7%
Southwest (Dallas)	21.0%
Arizona (Phoenix)	17.9%
Pacific Northwest (Seattle)	16.5%
ALL FMMO MARKET AVERAGE	**17.2%**

Percent difference in Jersey price with premiums, over the statistical blend price.

ESTIMATED JERSEY MILK COMPOSITION	Jul-24
Butterfat	4.93
TRUE Protein	3.71
Other Solids	5.73
Solids Not Fat (SNF)	9.44
Cheese Yield (90% Fat Recovery, 38% Moisture)	12.85
CME Block Cheese Price	$ 1.91

REGULATED MILK PRICES	Jul-24
FMMO Milkfat	$ 3.5720
FMMO True Protein	$ 1.9466
FMMO Other Solids	$ 0.2571

AVERAGE JERSEY PRICE ADJUSTMENT PER CWT:	Jul-24
FMMO Milkfat Adjustment	$3.29
FMMO True Protein Adjustment	$1.10
FMMO Other Solids Adjustment	($0.01)

NAJ Milk & Component Outlook - *2024 Prices through July*

2024 AVERAGE STATISTICAL BLEND PRICE FOR EACH FEDERAL ORDER

Northeast (Boston)	$20.61
Appalachian (Charlotte)	$21.96
Southeast (Atlanta)	$22.41
Florida (Tampa)	$23.87
Mideast (Cleveland)	$19.22
Upper Midwest (Chicago)	$17.73
Central (Kansas City)	$18.69
California (Los Angeles)	$18.60
Southwest (Dallas)	$19.28
Arizona (Phoenix)	$19.81
Pacific Northwest (Seattle)	$19.00
ALL FMMO MARKET AVERAGE	**$20.11**

Prices reflect Federal Order minimum blend prices for city shown.

2024 MILK VOLUME (Million #)

Northeast (Boston)	15,814
Appalachian (Charlotte)	3,105
Southeast (Atlanta)	2,088
Florida (Tampa)	1,464
Mideast (Cleveland)	10,001
Upper Midwest (Chicago)	17,581
Central (Kansas City)	8,892
California (Los Angeles)	14,247
Southwest (Dallas)	7,542
Arizona (Phoenix)	2,528
Pacific Northwest (Seattle)	4,258
ALL FMMO MARKET TOTAL	**87,520**

Total Grade A milk volume sold under FMMO.

2024 AVERAGE JERSEY REGULATED BLEND PRICE

Northeast (Boston)	$24.53
Appalachian (Charlotte)	$25.75
Southeast (Atlanta)	$26.20
Florida (Tampa)	$27.86
Mideast (Cleveland)	$23.18
Upper Midwest (Chicago)	$21.27
Central (Kansas City)	$22.46
California (Los Angeles)	$19.53
Southwest (Dallas)	$23.09
Arizona (Phoenix)	$23.43
Pacific Northwest (Seattle)	$22.04
ALL FMMO MARKET AVERAGE	**$23.58**

Prices reflect FMMO minimum prices at Jersey component values.

2024 AVERAGE JERSEY BLEND WITH ESTIMATED PROTEIN OR CHEESE YIELD PREMIUMS

Northeast (Boston)	$24.81
Appalachian (Charlotte) (includes protein prem.)	$26.14
Southeast (Atlanta)	$26.20
Florida (Tampa)	$27.86
Mideast (Cleveland) (includes protein premium)	$23.72
Upper Midwest (Chicago) (includes cy premium)	$21.57
Central (Kansas City)	$22.46
California (Los Angeles)	$19.53
Southwest (Dallas)	$23.09
Arizona (Phoenix) (includes protein)	$23.82
Pacific Northwest (Seattle)	$22.04
ALL FMMO MARKET AVERAGE	**$23.75**

Includes a protein premium of $0.05 for every 0.01% increase in protein over the market average.

2024 AVERAGE DOLLAR DIFFERENCE: JERSEY MILK WITH PREMIUMS VS. STATISTICAL BLEND PRICE

Northeast (Boston)	$4.21
Appalachian (Charlotte)	$3.85
Southeast (Atlanta)	$3.56
Florida (Tampa)	$3.94
Mideast (Cleveland)	$4.54
Upper Midwest (Chicago)	$3.93
Central (Kansas City)	$3.79
California (Los Angeles)	$0.92
Southwest (Dallas)	$3.79
Arizona (Phoenix)	$3.87
Pacific Northwest (Seattle)	$3.04
ALL FMMO MARKET AVERAGE	**$3.59**

Prices reflect difference between Jersey price with premiums, and the statistical blend price.

2024 AVERAGE PERCENT DIFFERENCE: JERSEY MILK WITH PREMIUMS VS. STATISTICAL BLEND PRICE

Northeast (Boston)	20.4%
Appalachian (Charlotte)	17.3%
Southeast (Atlanta)	15.8%
Florida (Tampa)	16.5%
Mideast (Cleveland)	23.7%
Upper Midwest (Chicago)	22.4%
Central (Kansas City)	20.3%
California (Los Angeles)	5.0%
Southwest (Dallas)	19.6%
Arizona (Phoenix)	19.5%
Pacific Northwest (Seattle)	16.0%
ALL FMMO MARKET AVERAGE	**17.8%**

Percent difference in Jersey price with premiums, over the statistical blend price.

ESTIMATED JERSEY MILK COMPOSITION	2024
Butterfat	5.09
TRUE Protein	3.88
Other Solids	5.73
Solids Not Fat (SNF)	9.61
Cheese Yield (90% Fat Recovery, 38% Moisture)	13.43
CME Block Cheese Price	$1.69

REGULATED MILK PRICES	2024
FMMO Milkfat	$3.3145
FMMO True Protein	$1.4356
FMMO Other Solids	$0.2497

AVERAGE JERSEY PRICE ADJUSTMENT PER CWT:	2024
FMMO Milkfat Adjustment	$2.73
FMMO True Protein Adjustment	$1.11
FMMO Other Solids Adjustment	($0.01)