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*Outlook for New York Farm Milk Prices
With or Without an Emergency Order*

Andrew M. Novakovic

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*Testimony Presented at the
State of New York Department of Agriculture and Markets
Hearing to Consider the Adoption of an Emergency Milk Marketing Order
16 April 1991*

Outlook for New York Farm Milk Prices With or Without an Emergency Order

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My name is Andrew Novakovic. I am an associate professor in the Department of Agricultural Economics at Cornell University, where I have been employed since 1979. My business address is 314 Warren Hall, Cornell University, Ithaca, New York, 14853. In my role as director of the Cornell Program on Dairy Markets and Policy, I have research, extension, and teaching responsibilities exclusively in the dairy marketing area.

At the invitation of the Department, I am testifying to provide information pursuant to marketplace conditions and other such pertinent factors cited in Section 258-m(3). The primary focus of my testimony is on current prices for farm milk in New York and what they might be with or without the proposed emergency order. To help us understand where market prices may go, I will begin by discussing the market factors that led to the collapse of farm prices for milk during the last few months of 1990 and expected national market conditions through 1992.

Current Status of National Dairy Markets and Prices

Since December 1983, when the U.S. government initiated the first of seven reductions in the federal support price for milk, farm prices for milk have shown increasing volatility. In the span of the last two years, milk prices have reached record heights and experienced record declines. Following the record high M-W price of \$14.93 in December 1989, this national benchmark milk price fell to \$12.02 in March 1990.¹ It recovered to \$13.43 by July 1990 but has since fallen to \$10.02 in March 1991, including a one month crash of \$2.02 in October 1990. These data are illustrated in Figure 1, which compares the M-W price to the federal support price, both measured at 3.5% fat test. The historical data shown in Figure 1 make it clear that the volatility experienced in the three years since 1988 is unmatched since USDA began the M-W price series.

¹ Unless otherwise specified, all farm milk prices quoted herein are measured as dollars per cwt of milk testing 3.5% milkfat.

Figure 1. M-W and Support Prices for Manufacturing Grade Milk (3.5% bf), 1950-1991

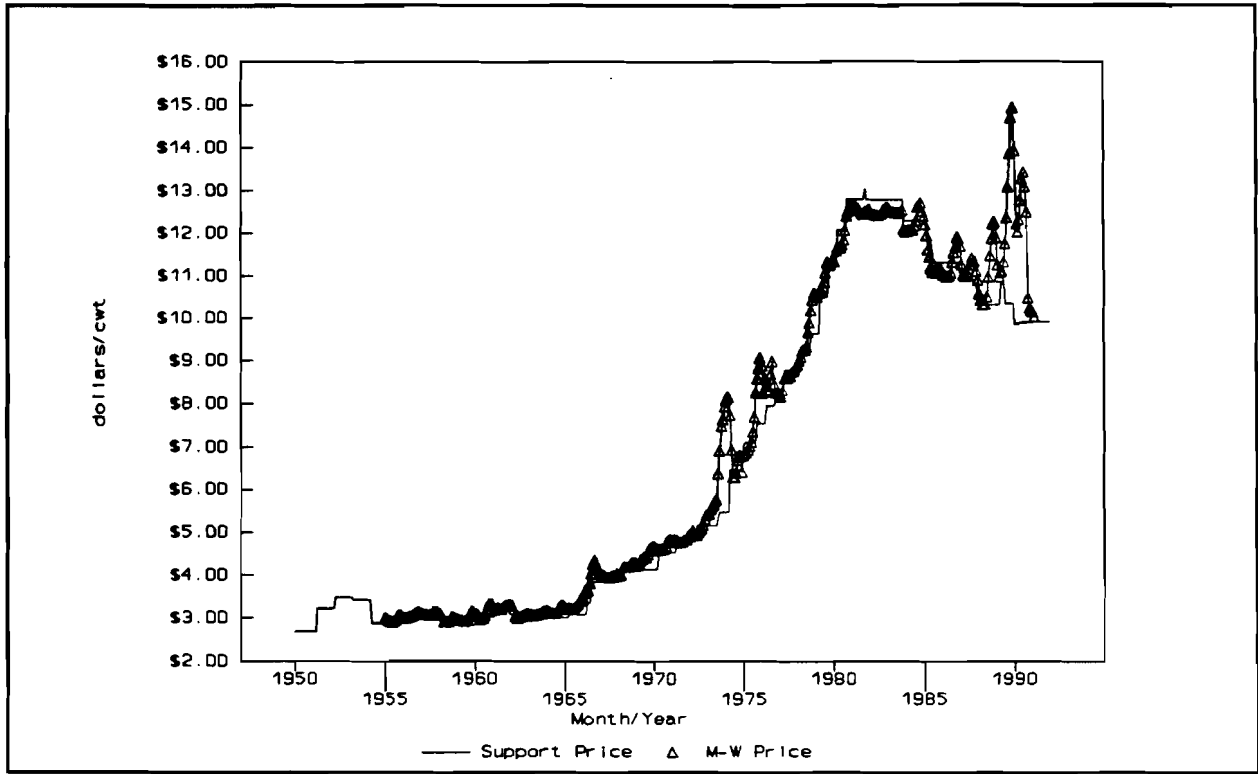
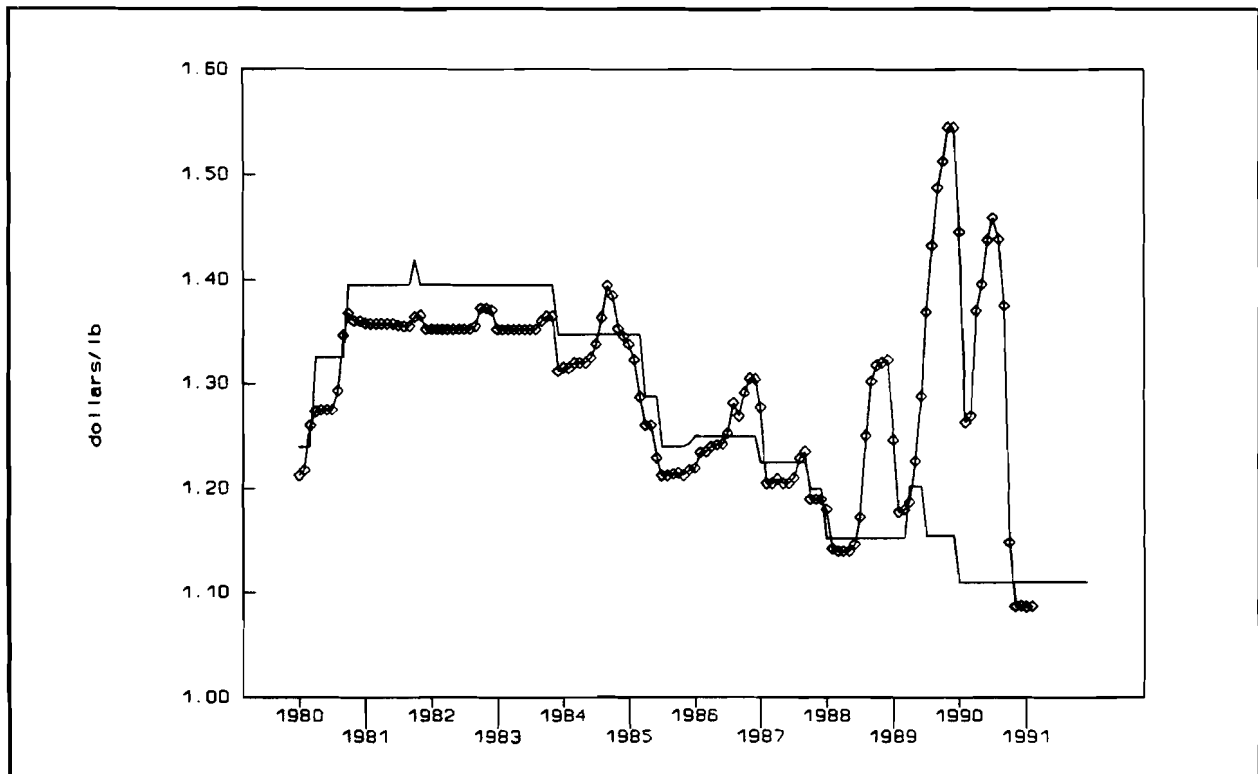


Figure 2. National Cheese Exchange and Purchase Prices for 40-Pound Block Cheddar, 1980-1991



The M-W price is used as the basic formula price for establishing class prices, and subsequently blend prices, throughout the federal milk marketing order system, representing about two-thirds of the nation's milk supply and 85% of the milk marketed by New York farms. It is also the basis for prices in the

Western New York State Milk Marketing Order, representing another 11% of New York's milk marketings, and it directly or indirectly undergirds prices for much of the remaining U.S. milk supply. Hence, national average milk prices, and prices in New York and all other parts of the U.S. have been affected similarly.

To understand the movements in farm prices, it is essential to understand changes in wholesale prices for dairy products and to appreciate that farm prices and wholesale prices ultimately affect one another. Although conditions can be such that either one can drive the other, most of the time farm prices follow wholesale prices of basic manufactured dairy commodities. Figure 2 illustrates the pattern of wholesale prices for cheddar cheese, comparing the National Cheese Exchange price for 40 pound blocks to the corresponding CCC purchase price. It can easily be seen that the M-W price follows this pattern closely, usually moving up and down about one month behind changes in the wholesale price.

Why Farm Prices Fell

Basic market supply and demand conditions, combined with the decline in the federal support price from \$12.80 in November 1983 to \$9.88 in January 1990, have resulted in an unusually volatile pattern of milk prices over the last several years. Because of the large surpluses that existed in the early 1980s, the initial declines in the support price resulted in corresponding reductions in market prices. However, the Milk Diversion Program in 1984 and early 1985 helped strengthen milk prices then; as did the Dairy Termination Program in 1986 and 1987. Following the final implementation of sellouts under the DTP in late 1987, it appeared that milk prices would quickly tumble to the support price of \$10.33 or even lower. Instead, serious drought conditions, especially in the Midwest, led to speculative increases in market prices in the second half of 1988. The M-W peaked at \$12.27 in December.

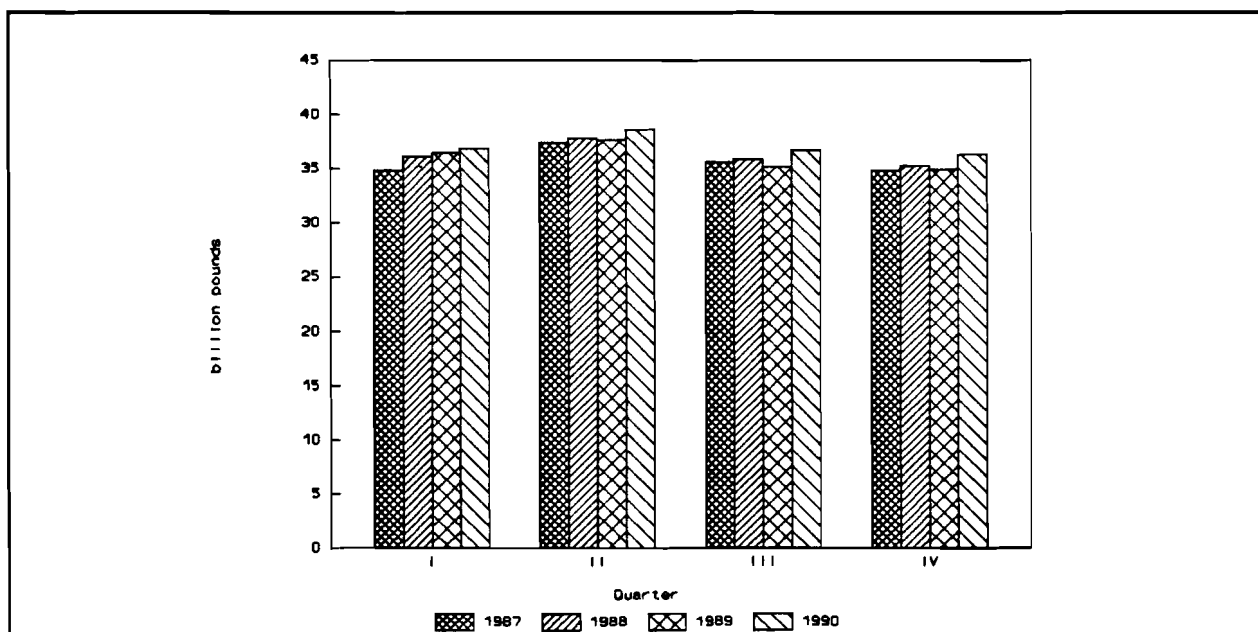
After buyers of farm milk realized that milk production was not being seriously curtailed, market prices began to fall in early 1989. However, as often occurs with a drought, the effects of poor planting and growing conditions started to impact on milk production by the summer of 1989. Overall, annual national milk production declined only 0.4% in 1989 (on a daily average basis); yet this seemingly insignificant tightening of milk supplies resulted in competitive pressures that pushed the M-W price up to \$14.93 in December 1989. Although milk production was still increasing slowly in early 1990, milk prices weakened from this peak, reflecting in part the fact that milk prices had probably attained a higher level than the market could bear and in part reflecting seasonal declines.

When milk prices increased in late 1988 and late 1989, farm level conditions, or expectations about what might happen at the farm level, were probably the leading factors in moving prices. Corresponding increases were occurring at the wholesale level, but they were more driven by manufacturers' concerns about their sources of supply than the result of any basic wholesale or retail demand factors.

In April 1990, the M-W price started doing something virtually unheard of; it started a Spring increase. In fact, the M-W rose \$1.20 from March to July. This unusually early seasonal increase was driven by two key factors. First, milk production appeared to be growing only modestly in early 1990. This is illustrated in Figure 3 which shows quarterly national milk production data for 1987 to 1990.

Second, buyers of cheese were aggressively purchasing cheese, driving up cheese prices at a time of year when wholesale prices are usually weak. The National Cheese Exchange price for 40 pound blocks rose 19.6 cents/lb from February to July, which is approximately equal to a \$1.94 rise in milk value. Thereafter, cheese markets began to soften, and then they collapsed in October. In retrospect, it appears that cheese buyers, after having seen cheese prices run up in late 1988 and then run up to a record high in late 1989, were determined not to get stung again in 1990. Hence, they purchased more than normal amounts early in 1990 and built precautionary stocks. The level of stocks built, coupled with what may have been a recession induced weakening in retail sales, not only kept cheese prices from rising in the Fall; they contributed to a very unusual, contraseasonal collapse in cheese markets. With butter prices already riding at support levels and no strength in nonfat dry milk markets, this meant there was no way to sustain milk prices. Moreover, with milk production apparently increasing by leaps and bounds in late 1990, processors were not worried about their ability to obtain adequate amounts of milk.

Figure 3. Quarterly, U.S. Milk Production, 1987-1990



New York Farm Prices

Using public data on producer deliveries to handlers regulated under the respective orders during December 1989, my Cornell colleague Walter Wasserman has calculated how much milk by New York farmers is marketed in federal orders and the Western New York State Order, as shown in Table 1. The percentages marketed under each order should be indicative of annual averages and probably have not changed significantly since December 1989.

Clearly the vast majority of milk sold by New York farmers is priced under one of four milk marketing orders. As of April 1991, all of the milk under these federal orders is priced according to the three class system. The Western New York Order still uses the two class system, which prevailed in Federal Orders 1 and 2 prior to April.

Table 1. Marketings of New York Farm Milk in Federal and State Marketing Orders, December 1989.

	Total Pounds	Percent
Total NY Marketings	875,135	100%
Total Producer Deliveries:		
All Marketing Orders	852,272	97%
Federal Order 2	624,761	71%
Federal Order 1	116,311	13%
State Order 127	100,059	11%
Federal Order 36	11,141	1%

Under either system, the class I price equals the M-W price from two months prior plus a class I differential. The M-W price for the current month determines the class III price for the same month under a three class system; it equals the class II price under the two class system. The intermediate class II price in a three class system is based on a formula which includes the M-W price from two months prior plus other factors. These relationships will be discussed further later in the testimony.

Blend prices are simply the average of the class prices for any given month, weighted by the amount of milk used in each respective class during that month. Thus, the blend price is a direct function of the M-W price and will over time move up and down directly with the M-W.

Table 2 shows the M-W price, blend prices from these marketing orders, and the New York average price of all milk since 1970. The M-W price and blend prices are standardized to 3.5% milkfat, as reported by the responsible agencies. The New York all milk price is reported at average fat test by the New York Agricultural Statistics Service.

Table 2. M-W, Blend, and New York Average All Milk Prices, 1970-1991.

Month/Year	M-W	FO2 Blend	FO1 Blend	WNY [*] Blend	FO36 Blend	New York All Milk
1970						
JAN	\$4.67	\$5.83	\$6.20	\$6.13	\$6.01	\$6.03
FEB	\$4.63	\$5.82	\$6.12	\$6.10	\$5.96	\$5.99
MAR	\$4.58	\$5.55	\$5.89	\$5.81	\$5.79	\$5.71
APR	\$4.60	\$5.51	\$5.78	\$5.82	\$5.86	\$5.65
MAY	\$4.58	\$5.30	\$5.54	\$5.58	\$5.70	\$5.44
JUN	\$4.61	\$5.31	\$5.51	\$5.48	\$5.70	\$5.37
JUL	\$4.60	\$5.83	\$6.01	\$5.97	\$5.77	\$5.88
AUG	\$4.61	\$6.15	\$6.32	\$6.22	\$5.82	\$6.19
SEP	\$4.66	\$6.37	\$6.52	\$6.48	\$6.03	\$6.46
OCT	\$4.77	\$6.48	\$6.64	\$6.63	\$6.14	\$6.63
NOV	\$4.82	\$6.36	\$6.50	\$6.52	\$6.21	\$6.54
DEC	\$4.83	\$6.17	\$6.40	\$6.35	\$6.24	\$6.34
1971						
JAN	\$4.79	\$6.07	\$6.31	\$6.29	\$6.20	\$6.26
FEB	\$4.83	\$6.04	\$6.28	\$6.30	\$6.19	\$6.20
MAR	\$4.81	\$5.86	\$6.13	\$6.11	\$6.13	\$6.01
APR	\$4.83	\$5.65	\$5.93	\$5.89	\$5.81	\$5.79
MAY	\$4.77	\$5.47	\$5.71	\$5.73	\$5.70	\$5.60
JUN	\$4.76	\$5.38	\$5.62	\$5.58	\$5.61	\$5.45
JUL	\$4.77	\$5.92	\$6.13	\$6.08	\$5.71	\$5.95
AUG	\$4.77	\$6.27	\$6.44	\$6.37	\$5.99	\$6.31
SEP	\$4.83	\$6.44	\$6.66	\$6.68	\$6.44	\$6.54
OCT	\$4.82	\$6.44	\$6.69	\$6.70	\$6.48	\$6.60
NOV	\$4.84	\$6.43	\$6.71	\$6.67	\$6.52	\$6.65
DEC	\$4.93	\$6.24	\$6.52	\$6.42	\$6.54	\$6.46
1972						
JAN	\$4.97	\$6.17	\$6.47	\$6.41	\$6.26	\$6.35
FEB	\$4.97	\$6.21	\$6.53	\$6.42	\$6.32	\$6.38
MAR	\$5.04	\$5.89	\$6.24	\$6.10	\$6.27	\$6.07
APR	\$4.96	\$5.62	\$5.97	\$5.84	\$5.95	\$5.78
MAY	\$4.94	\$5.54	\$5.91	\$5.71	\$5.90	\$5.68
JUN	\$4.95	\$5.50	\$5.76	\$5.61	\$5.83	\$5.60
JUL	\$5.01	\$6.06	\$6.30	\$6.12	\$5.88	\$6.10
AUG	\$5.07	\$6.64	\$6.86	\$6.63	\$6.26	\$6.68
SEP	\$5.10	\$6.88	\$7.16	\$6.94	\$6.73	\$6.96
OCT	\$5.18	\$6.97	\$7.27	\$7.06	\$6.79	\$7.15
NOV	\$5.32	\$6.87	\$7.23	\$6.98	\$6.95	\$7.08
DEC	\$5.41	\$6.61	\$6.98	\$6.73	\$6.98	\$6.79

*Prior to March 1987, these data are for the Niagara Frontier State Order

Table 2. (Continued)

Month/Year	M-W	FO2 Blend	FO1 Blend	WNY [*] Blend	FO36 Blend	New York All Milk
1973						
JAN	\$5.43	\$6.66	\$7.06	\$6.79	\$6.80	\$6.80
FEB	\$5.45	\$6.72	\$7.10	\$6.82	\$6.83	\$6.82
MAR	\$5.55	\$6.48	\$6.87	\$6.63	\$6.83	\$6.57
APR	\$5.63	\$6.29	\$6.64	\$6.39	\$6.51	\$6.36
MAY	\$5.66	\$6.22	\$6.53	\$6.37	\$6.55	\$6.31
JUN	\$5.73	\$6.27	\$6.54	\$6.38	\$6.58	\$6.31
JUL	\$5.78	\$6.89	\$7.18	\$6.99	\$6.64	\$6.92
AUG	\$6.38	\$7.76	\$8.02	\$7.83	\$7.25	\$7.80
SEP	\$6.91	\$8.42	\$8.68	\$8.60	\$8.08	\$8.50
OCT	\$7.49	\$8.59	\$8.89	\$8.71	\$8.27	\$8.77
NOV	\$7.64	\$8.70	\$9.12	\$8.83	\$8.70	\$8.92
DEC	\$7.94	\$8.54	\$8.98	\$8.64	\$9.02	\$8.74
1974						
JAN	\$8.10	\$8.65	\$9.12	\$8.75	\$8.79	\$8.85
FEB	\$8.14	\$8.79	\$9.19	\$8.85	\$8.98	\$8.95
MAR	\$8.15	\$8.72	\$9.10	\$8.89	\$9.11	\$8.88
APR	\$7.73	\$8.68	\$9.08	\$8.82	\$8.91	\$8.82
MAY	\$6.93	\$8.03	\$8.53	\$8.29	\$8.46	\$8.19
JUN	\$6.31	\$7.37	\$7.73	\$7.55	\$7.83	\$7.46
JUL	\$6.29	\$7.66	\$7.96	\$7.79	\$7.50	\$7.74
AUG	\$6.39	\$7.95	\$8.20	\$8.18	\$7.48	\$8.04
SEP	\$6.69	\$8.22	\$8.47	\$8.59	\$7.98	\$8.38
OCT	\$6.82	\$8.43	\$8.70	\$8.73	\$8.18	\$8.66
NOV	\$6.76	\$8.47	\$8.79	\$8.51	\$8.43	\$8.66
DEC	\$6.41	\$7.87	\$8.30	\$7.99	\$8.36	\$8.10
1975						
JAN	\$6.80	\$8.09	\$8.39	\$8.21	\$8.12	\$8.24
FEB	\$6.85	\$8.09	\$8.38	\$8.20	\$8.14	\$8.25
MAR	\$6.86	\$7.74	\$8.09	\$7.89	\$8.10	\$7.86
APR	\$6.94	\$7.63	\$7.95	\$7.84	\$7.86	\$7.84
MAY	\$7.02	\$7.47	\$7.79	\$7.64	\$7.75	\$7.60
JUN	\$7.11	\$7.53	\$7.77	\$7.71	\$7.78	\$7.59
JUL	\$7.35	\$8.33	\$8.51	\$8.42	\$8.03	\$8.43
AUG	\$7.70	\$9.00	\$9.15	\$9.11	\$8.55	\$9.11
SEP	\$8.27	\$9.57	\$9.72	\$9.68	\$9.29	\$9.68
OCT	\$8.60	\$9.94	\$10.10	\$10.00	\$9.63	\$10.10
NOV	\$8.84	\$10.13	\$10.32	\$10.20	\$10.08	\$10.30
DEC	\$9.08	\$10.10	\$10.33	\$10.21	\$10.39	\$10.40
1976						
JAN	\$8.90	\$8.93	\$10.46	\$10.25	\$10.20	\$10.30
FEB	\$8.25	\$8.27	\$10.20	\$9.92	\$10.02	\$9.95
MAR	\$8.60	\$9.65	\$10.08	\$9.75	\$9.99	\$9.83
APR	\$8.44	\$9.05	\$9.39	\$9.12	\$9.22	\$9.19
MAY	\$8.30	\$8.90	\$9.28	\$9.07	\$9.24	\$9.04
JUN	\$8.32	\$8.88	\$9.20	\$8.91	\$9.12	\$8.95
JUL	\$8.71	\$9.63	\$9.88	\$9.67	\$9.31	\$9.69
AUG	\$8.99	\$10.22	\$10.44	\$10.23	\$9.71	\$10.30
SEP	\$8.46	\$10.30	\$10.68	\$10.35	\$10.16	\$10.40
OCT	\$8.26	\$10.40	\$10.81	\$10.45	\$10.31	\$10.60
NOV	\$8.26	\$10.01	\$10.44	\$10.04	\$10.09	\$10.30
DEC	\$8.25	\$9.54	\$9.94	\$9.58	\$9.87	\$9.79

*Prior to March 1987, these data are for the Niagara Frontier State Order

Table 2. continued

Table 2. (Continued)

Month/Year	M-W	FO2 Blend	FO1 Blend	WNY ¹ Blend	FO36 Blend	New York All Milk
1977						
JAN	\$8.19	\$9.42	\$9.82	\$9.48	\$9.51	\$9.65
FEB	\$8.16	\$9.38	\$9.78	\$9.48	\$9.47	\$9.60
MAR	\$8.31	\$9.13	\$9.54	\$9.21	\$9.42	\$9.30
APR	\$8.60	\$9.02	\$9.45	\$9.16	\$9.20	\$9.15
MAY	\$8.62	\$8.98	\$9.29	\$9.03	\$9.20	\$9.05
JUN	\$8.60	\$9.06	\$9.44	\$9.13	\$9.36	\$9.10
JUL	\$8.65	\$9.63	\$9.96	\$9.64	\$9.40	\$9.65
AUG	\$8.64	\$10.09	\$10.40	\$10.00	\$9.72	\$10.10
SEP	\$8.74	\$10.34	\$10.69	\$10.36	\$10.24	\$10.40
OCT	\$8.74	\$10.35	\$10.70	\$10.39	\$10.23	\$10.60
NOV	\$8.79	\$10.12	\$10.65	\$10.24	\$10.38	\$10.40
DEC	\$8.87	\$9.83	\$10.38	\$9.99	\$10.39	\$10.10
1978						
JAN	\$8.91	\$9.82	\$10.38	\$10.03	\$10.10	\$10.10
FEB	\$9.00	\$9.87	\$10.42	\$10.03	\$10.15	\$10.10
MAR	\$9.09	\$9.65	\$10.24	\$9.85	\$10.15	\$9.90
APR	\$9.24	\$9.60	\$10.09	\$9.80	\$9.93	\$9.80
MAY	\$9.25	\$9.55	\$10.05	\$9.66	\$9.94	\$9.70
JUN	\$9.26	\$9.60	\$10.06	\$9.70	\$9.98	\$9.70
JUL	\$9.33	\$10.16	\$10.55	\$10.27	\$10.04	\$10.10
AUG	\$9.68	\$10.84	\$11.22	\$10.90	\$10.54	\$10.80
SEP	\$9.90	\$11.12	\$11.57	\$11.26	\$11.10	\$11.20
OCT	\$10.18	\$11.45	\$11.92	\$11.58	\$11.42	\$11.70
NOV	\$10.44	\$11.54	\$12.02	\$11.62	\$11.74	\$11.90
DEC	\$10.60	\$11.42	\$11.78	\$11.52	\$11.94	\$11.70
1979						
JAN	\$10.55	\$11.49	\$11.94	\$11.60	\$11.77	\$11.80
FEB	\$10.52	\$11.57	\$11.97	\$11.62	\$11.85	\$11.80
MAR	\$10.59	\$11.12	\$11.76	\$11.46	\$11.80	\$11.40
APR	\$10.63	\$10.95	\$11.50	\$11.14	\$11.42	\$11.20
MAY	\$10.67	\$10.93	\$11.36	\$11.07	\$11.41	\$11.10
JUN	\$10.76	\$11.03	\$11.44	\$11.10	\$11.47	\$10.90
JUL	\$10.87	\$11.60	\$11.96	\$11.73	\$11.54	\$11.60
AUG	\$11.09	\$12.23	\$12.59	\$12.28	\$12.03	\$12.30
SEP	\$11.32	\$12.51	\$12.86	\$12.65	\$12.53	\$12.60
OCT	\$11.25	\$12.64	\$13.07	\$12.75	\$12.72	\$12.90
NOV	\$11.27	\$12.62	\$13.09	\$12.69	\$12.91	\$12.90
DEC	\$11.34	\$12.25	\$12.67	\$12.35	\$12.85	\$12.50
1980						
JAN	\$11.37	\$12.25	\$12.70	\$12.40	\$12.54	\$12.60
FEB	\$11.35	\$12.24	\$12.70	\$12.41	\$12.57	\$12.70
MAR	\$11.59	\$12.08	\$12.52	\$12.29	\$12.59	\$12.50
APR	\$11.68	\$11.96	\$12.39	\$12.10	\$12.32	\$12.30
MAY	\$11.66	\$11.90	\$12.35	\$12.04	\$12.41	\$12.20
JUN	\$11.68	\$11.92	\$12.30	\$12.04	\$12.37	\$12.10
JUL	\$11.73	\$12.48	\$12.86	\$12.59	\$12.42	\$12.60
AUG	\$11.86	\$13.01	\$13.36	\$13.13	\$12.86	\$13.10
SEP	\$12.07	\$13.31	\$13.71	\$13.47	\$13.35	\$13.60
OCT	\$12.42	\$13.57	\$13.97	\$13.76	\$13.60	\$14.00
NOV	\$12.52	\$13.54	\$13.93	\$13.70	\$13.76	\$14.10
DEC	\$12.61	\$13.34	\$13.90	\$13.59	\$14.00	\$14.00

¹Prior to March 1987, these data are for the Niagara Frontier State Order

Table 2. (Continued)

Month/Year	M-W	FO2 Blend	FO1 Blend	WNY [*] Blend	FO36 Blend	New York All Milk
1981						
JAN	\$12.64	\$13.46	\$13.98	\$13.64	\$13.76	\$14.00
FEB	\$12.66	\$13.46	\$13.98	\$13.63	\$13.76	\$13.90
MAR	\$12.67	\$13.20	\$13.72	\$13.45	\$13.72	\$13.60
APR	\$12.64	\$13.00	\$13.59	\$13.17	\$13.41	\$13.40
MAY	\$12.61	\$12.83	\$13.38	\$13.02	\$13.33	\$13.20
JUN	\$12.59	\$12.83	\$13.35	\$12.92	\$13.31	\$13.00
JUL	\$12.53	\$13.33	\$13.82	\$13.39	\$13.34	\$13.50
AUG	\$12.47	\$13.68	\$14.13	\$13.80	\$13.56	\$13.90
SEP	\$12.46	\$13.83	\$14.31	\$13.97	\$13.93	\$14.20
OCT	\$12.52	\$13.87	\$14.39	\$14.06	\$13.94	\$14.50
NOV	\$12.52	\$13.74	\$14.18	\$13.87	\$13.90	\$14.30
DEC	\$12.56	\$13.41	\$13.92	\$13.60	\$14.01	\$14.00
1982						
JAN	\$12.55	\$13.35	\$13.77	\$13.54	\$13.64	\$13.90
FEB	\$12.46	\$13.30	\$13.68	\$13.50	\$13.64	\$13.80
MAR	\$12.45	\$13.02	\$13.43	\$13.19	\$13.58	\$13.60
APR	\$12.45	\$12.82	\$13.23	\$12.94	\$13.23	\$13.30
MAY	\$12.43	\$12.61	\$12.97	\$12.76	\$13.06	\$13.00
JUN	\$12.42	\$12.63	\$12.98	\$12.74	\$13.10	\$13.00
JUL	\$12.42	\$13.16	\$13.48	\$13.29	\$13.11	\$13.40
AUG	\$12.44	\$13.59	\$13.87	\$13.64	\$13.42	\$13.90
SEP	\$12.46	\$13.74	\$14.05	\$13.86	\$13.79	\$14.20
OCT	\$12.56	\$13.81	\$14.11	\$13.90	\$13.85	\$14.40
NOV	\$12.56	\$13.71	\$14.02	\$13.80	\$13.92	\$14.30
DEC	\$12.62	\$13.41	\$13.75	\$13.53	\$13.98	\$14.10
1983						
JAN	\$12.62	\$13.35	\$13.70	\$13.50	\$13.63	\$13.90
FEB	\$12.59	\$13.35	\$13.70	\$13.46	\$13.64	\$13.90
MAR	\$12.53	\$13.01	\$13.40	\$13.11	\$13.56	\$13.50
APR	\$12.51	\$12.85	\$13.25	\$12.98	\$13.53	\$13.40
MAY	\$12.51	\$12.64	\$13.00	\$12.77	\$13.37	\$13.10
JUN	\$12.50	\$12.61	\$13.03	\$12.71	\$13.17	\$12.90
JUL	\$12.50	\$13.12	\$13.52	\$13.18	\$13.19	\$13.40
AUG	\$12.48	\$13.59	\$13.95	\$13.66	\$13.43	\$13.90
SEP	\$12.48	\$13.75	\$14.13	\$13.83	\$13.54	\$14.10
OCT	\$12.52	\$13.74	\$14.06	\$13.79	\$13.53	\$14.30
NOV	\$12.56	\$13.63	\$13.93	\$13.69	\$13.57	\$14.30
DEC	\$12.11	\$13.07	\$13.46	\$13.14	\$13.39	\$13.70
1984						
JAN	\$12.05	\$12.99	\$13.39	\$13.05	\$13.33	\$13.60
FEB	\$12.06	\$12.79	\$13.15	\$12.89	\$13.10	\$13.40
MAR	\$12.08	\$12.55	\$12.95	\$12.65	\$13.10	\$13.20
APR	\$12.07	\$12.36	\$12.76	\$12.42	\$13.02	\$12.90
MAY	\$12.08	\$12.26	\$12.67	\$12.43	\$13.11	\$12.80
JUN	\$12.09	\$12.29	\$12.68	\$12.38	\$13.08	\$12.70
JUL	\$12.17	\$12.84	\$13.21	\$12.98	\$13.16	\$13.20
AUG	\$12.30	\$13.39	\$13.75	\$13.54	\$13.33	\$13.70
SEP	\$12.64	\$13.74	\$14.00	\$13.90	\$13.54	\$14.20
OCT	\$12.64	\$13.83	\$14.10	\$13.96	\$13.69	\$14.50
NOV	\$12.72	\$13.91	\$14.18	\$14.04	\$13.93	\$14.70
DEC	\$12.52	\$13.38	\$13.71	\$13.49	\$13.76	\$14.10

*Prior to March 1987, these data are for the Niagara Frontier State Order

Table 2. (Continued)

Month/Year	M-W	FO2 Blend	FO1 Blend	WNY [*] Blend	FO36 Blend	New York All Milk
1985						
JAN	\$12.40	\$13.34	\$13.69	\$13.51	\$13.80	\$14.00
FEB	\$12.21	\$13.13	\$13.47	\$13.22	\$13.60	\$13.80
MAR	\$11.95	\$12.64	\$13.03	\$12.72	\$13.32	\$13.30
APR	\$11.62	\$12.19	\$12.60	\$12.24	\$13.00	\$12.80
MAY	\$11.46	\$11.78	\$12.23	\$11.93	\$12.67	\$12.30
JUN	\$11.20	\$11.47	\$11.88	\$11.57	\$12.36	\$11.80
JUL	\$11.10	\$11.93	\$12.33	\$11.94	\$12.27	\$12.30
AUG	\$11.08	\$12.27	\$12.60	\$12.27	\$12.18	\$12.60
SEP	\$11.12	\$12.37	\$12.64	\$12.38	\$12.19	\$12.80
OCT	\$11.21	\$12.40	\$12.70	\$12.46	\$12.25	\$13.00
NOV	\$11.19	\$12.30	\$12.59	\$12.28	\$12.31	\$12.90
DEC	\$11.18	\$12.01	\$12.26	\$12.09	\$12.27	\$12.70
1986						
JAN	\$11.12	\$11.92	\$12.26	\$11.98	\$12.24	\$12.60
FEB	\$11.04	\$11.84	\$12.16	\$11.90	\$12.19	\$12.50
MAR	\$11.02	\$11.50	\$11.86	\$11.55	\$12.08	\$12.10
APR	\$10.98	\$11.31	\$11.69	\$11.40	\$11.98	\$11.90
MAY	\$10.98	\$11.25	\$11.67	\$11.29	\$11.96	\$11.70
JUN	\$11.00	\$11.27	\$11.61	\$11.29	\$11.92	\$11.70
JUL	\$11.06	\$11.86	\$12.25	\$11.89	\$12.03	\$12.20
AUG	\$11.33	\$12.46	\$12.80	\$12.50	\$12.24	\$12.90
SEP	\$11.55	\$12.79	\$13.08	\$12.83	\$12.49	\$13.30
OCT	\$11.69	\$13.05	\$13.32	\$13.06	\$12.74	\$13.80
NOV	\$11.91	\$13.05	\$13.30	\$13.11	\$12.94	\$13.90
DEC	\$11.88	\$12.78	\$13.10	\$12.84	\$13.01	\$13.50
1987						
JAN	\$11.70	\$12.76	\$13.16	\$12.79	\$13.03	\$13.40
FEB	\$11.27	\$12.42	\$12.86	\$12.46	\$12.77	\$13.10
MAR	\$11.03	\$11.92	\$12.36	\$12.07	\$12.42	\$12.50
APR	\$11.00	\$11.55	\$11.99	\$11.70	\$12.15	\$12.10
MAY	\$11.00	\$11.30	\$11.70	\$11.44	\$11.94	\$11.70
JUN	\$11.07	\$11.35	\$11.74	\$11.46	\$11.98	\$11.70
JUL	\$11.17	\$11.96	\$12.35	\$12.06	\$12.08	\$12.20
AUG	\$11.27	\$12.44	\$12.79	\$12.56	\$12.21	\$12.70
SEP	\$11.42	\$12.75	\$13.10	\$12.90	\$12.43	\$13.30
OCT	\$11.35	\$12.80	\$13.14	\$12.93	\$12.53	\$13.50
NOV	\$11.34	\$12.69	\$12.97	\$12.79	\$12.53	\$13.40
DEC	\$11.12	\$12.21	\$12.59	\$12.30	\$12.35	\$12.90
1988						
JAN	\$10.91	\$12.03	\$12.41	\$12.15	\$12.25	\$12.80
FEB	\$10.60	\$11.80	\$12.14	\$11.85	\$12.00	\$12.50
MAR	\$10.43	\$11.29	\$11.71	\$11.38	\$11.71	\$12.00
APR	\$10.33	\$10.92	\$11.36	\$11.11	\$11.48	\$11.60
MAY	\$10.34	\$10.71	\$11.09	\$10.91	\$11.33	\$11.30
JUN	\$10.34	\$10.66	\$11.03	\$10.72	\$11.26	\$11.10
JUL	\$10.52	\$11.31	\$11.66	\$11.31	\$11.42	\$11.70
AUG	\$10.98	\$12.03	\$12.37	\$12.00	\$11.73	\$12.50
SEP	\$11.48	\$12.50	\$12.79	\$12.45	\$12.08	\$13.30
OCT	\$11.88	\$12.94	\$13.21	\$12.85	\$12.54	\$14.00
NOV	\$12.23	\$13.18	\$13.48	\$13.11	\$12.98	\$14.40
DEC	\$12.27	\$13.07	\$13.41	\$13.03	\$13.17	\$14.20

^{*}Prior to March 1987, these data are for the Niagara Frontier State Order

Table 2. (Continued)

Month/Year	M-W	FO2 Blend	FO1 Blend	WNY ¹ Blend	FO36 Blend	New York All Milk
1986						
JAN	\$11.90	\$12.95	\$13.37	\$12.97	\$13.21	\$14.30
FEB	\$11.26	\$12.55	\$13.08	\$12.59	\$13.05	\$13.90
MAR	\$10.98	\$11.95	\$12.53	\$11.98	\$12.51	\$13.30
APR	\$11.09	\$11.59	\$12.01	\$11.67	\$12.22	\$12.80
MAY	\$11.12	\$11.42	\$11.83	\$11.45	\$12.09	\$12.60
JUN	\$11.33	\$11.62	\$12.02	\$11.62	\$12.23	\$12.60
JUL	\$11.76	\$12.38	\$12.69	\$12.37	\$12.53	\$13.30
AUG	\$12.37	\$13.29	\$13.53	\$13.25	\$12.94	\$14.10
SEP	\$13.10	\$14.00	\$14.24	\$13.95	\$13.53	\$15.10
OCT	\$13.87	\$14.67	\$14.85	\$14.65	\$14.19	\$16.00
NOV	\$14.69	\$15.28	\$15.47	\$15.26	\$14.89	\$16.70
DEC	\$14.93	\$15.47	\$15.72	\$15.45	\$15.49	\$16.90
1987						
JAN	\$13.94	\$15.17	\$15.72	\$15.24	\$15.67	\$16.60
FEB	\$12.22	\$14.22	\$15.02	\$14.27	\$15.07	\$15.60
MAR	\$12.02	\$13.45	\$14.20	\$13.54	\$14.17	\$14.60
APR	\$12.32	\$12.75	\$13.13	\$12.74	\$13.32	\$13.90
MAY	\$12.78	\$12.83	\$13.14	\$12.88	\$13.44	\$13.90
JUN	\$13.28	\$13.25	\$13.53	\$13.25	\$13.78	\$14.30
JUL	\$13.43	\$14.02	\$14.29	\$14.04	\$14.11	\$15.10
AUG	\$13.09	\$14.43	\$14.90	\$14.43	\$14.38	\$15.50
SEP	\$12.50	\$14.27	\$14.80	\$14.31	\$14.30	\$15.50
OCT	\$10.48	\$13.10	\$13.89	\$13.10	\$13.50	\$14.20
NOV	\$10.25	\$12.52	\$13.22	\$12.54	\$12.96	\$13.50
DEC	\$10.19	\$11.23	\$11.56	\$11.27	\$11.33	\$12.20
1991						
JAN	\$10.16	\$11.11	\$11.47	\$11.12	\$11.35	\$11.80
FEB	\$10.04	\$10.99	\$11.31	\$11.00	\$11.37	\$11.70
MAR	\$10.02	\$10.90		\$10.90	\$11.11	\$11.60

¹Prior to March 1987, these data are for the Niagara Frontier State Order

The last background item I would offer is illustrated with the data in Table 3. This table shows class II prices from January 1990 to March 1991. The class II price for group A refers to the intermediate class II price used under most federal orders. This is what the class II price would have looked like for Federal Orders 2 and 1 if they had a three class system during this time period. The Federal Order 2 class II price reported in Table 3 would have been the class III price, had a three class system been in effect for Federal Order 2. The three class system is in effect for Federal Orders 2 and 1, as of April 1; hence this table provides an indication of what a three class price system would have looked like and what it might look like in the future.

Table 3. Intermediate and Lowest Use Class Prices, 1990 to 1991.

	M-W Price	Class II Price Group A, FMMOs	Class II Price Federal Order 2
(dollars per hundredweight, 3.5% milkfat)			
<u>1990</u>			
January	13.94	15.43	13.97
February	12.22	14.22	12.24
March	12.02	11.80	11.97
April	12.32	12.42	12.23
May	12.78	13.18	12.66
June	13.28	13.16	13.17
July	13.43	13.51	13.46
August	13.09	13.77	13.19
September	12.50	13.73	12.56
October	10.48	12.61	10.54
November	10.25	11.28	10.31
December	10.19	8.77	10.25
<u>1991</u>			
January	10.16	10.26	10.19
February	10.04	11.63	10.06
March	10.02	10.12	9.97

Milk Prices Through 1992

Virtually all forecasters agree that milk prices will be depressed throughout 1991. A certain amount of seasonal strengthening is expected for the Fall; however even then most forecasters seem doubtful that the M-W price will peak at much beyond \$11.00. Opinions begin to diverge beyond 1992, although it would seem that a majority of forecasters foresee a continuation of low prices, with the M-W price averaging below \$11.00 for the next couple of years.

Although experiences of the last three years teach us that milk prices can change rapidly, it does appear most likely that they will remain depressed throughout 1991. However, there are good reasons to believe that market prices should show more significant improvement in 1992. As alluded to above, three factors led to depressed milk prices: 1) increases in milk production, 2) the collapse of wholesale cheese prices, and

3) a federal policy that did not so much cause prices to decline as it failed to prevent a collapse. Federal policy may or may not be changed, but eventually market forces will reverse or correct the first two factors and lead to better prices for farmers.

Federal policy can always be changed legislatively, and there are and have been proposals for reopening the 1990 farm bill. Senator Leahy introduced legislation which would have increased all federal order class I prices substantially for the remainder of 1991. In Federal Order 2, the metropolitan area class I price would have been set at \$16.23, compared to its level in April, 1991 of \$13.18. This bill was eventually defeated.

The Food, Agriculture, Conservation, and Trade Act of 1990 (FACT Act) specifies that the Secretary of Agriculture make a recommendation to Congress regarding "inventory management" programs by August 1, 1991. Recognizing the severe strains dairy farmers are presently under, Secretary Madigan has agreed to present his recommendation by June 15, and the chair of the House Subcommittee on Livestock, Dairy, and Poultry has announced that his committee will begin the mark-up process on new legislation on or about June 18. In the meantime we may also see legislation to increase the federal standards for the minimum level of nonfat solids in beverage milks, which would tend to increase nonfat dry milk prices and consequently farm prices as well.

One change that stands a very good chance of being made is that of replacing the M-W price as the basic formula price used to set class prices in federal orders. The FACT Act instructs the Secretary of Agriculture to recommend an alternative to the M-W and, by October 1, 1991, to announce a system-wide federal order hearing to consider the proposed replacement. Furthermore, the National Agricultural Statistics Service of USDA has already indicated that it does not wish to calculate an M-W price beyond that for May 1992. Until it is changed, we have no basis for assuming what the basic formula price after May 1992 or any other date will be. In the analysis that I will present later in this testimony, I assume that the M-W continues to be the basic formula price for marketing orders under which New York milk is priced. This is an appropriate assumption under the circumstances, but the distinct possibility of a change in the basic formula price should be recognized.

Another item that should be kept in mind is that sometime in 1992, perhaps early in the year, we should receive the Secretary's recommended decision with respect to the massive federal order hearing which took place in Fall 1990. This decision could result in a large reduction in the class I differentials in federal milk marketing orders outside of the Midwest, including the federal orders under which most New York milk is priced. At this point, one can only guess what decision will be reached; however it is safe to say that any change from the status quo is almost certainly to be to the detriment of New York dairy farmers.

For several reasons, it remains questionable whether significant changes in federal price support policy will be made. First, when we strip away the rhetoric and look at what has actually been done, the signals from Congress and the Administration are very clear. The federal government wants to allow prices to go down as well as up in response to

market supply and demand. A closely related second point is that the constraint of an overburdened federal budget is very real and seriously limits what Congress can do. Third, although more farmers are becoming supportive of the concept of supply management, it is far from certain that this approach to improving farm prices will have sufficient support from dairy farmers and others in the political process. After a half year of low prices, it should be easier to obtain a strong farm consensus, but even if farmers stand relatively united in favor of a price and profit improving supply management program, they will still have to confront the challenge of a federal budget constraint and the innate opposition of most dairy processor and consumer organizations and most members of Congress and the Administration to more government regulation in dairy markets. Even if a new policy is put into place, it is likely to be several months before it could be implemented.

If there is no change in federal policy, *when* farmers will see more favorable prices will depend on market conditions. More than adequate milk supplies and the collapse of cheese markets in 1990 led to depressed milk prices. Thus, a tightening of supplies and a reinvigoration of cheese markets is essential to the improvement of milk prices. In my opinion, there are good reasons to believe that both will occur and that it won't take a particularly long period of time.

To the extent that cheese markets were depressed by an excessive buildup of precautionary stocks, it is literally just a matter of time before these stocks are worked off. Thereafter, changes in cheese prices will depend on the underlying strength of consumer demand. Many macroeconomic forecasters point to signs that the current recession is beginning to turn around. To the extent that the recession has held back the growth in cheese sales, this bodes well for the cheese industry. Although it is possible to be more pessimistic, overall the potential for a resumption of a strong cheese market seems good. It is of course difficult to predict precisely when this corner will be turned, but I would expect cheese markets to show significant signs of improvement before the end of 1991.

It also shouldn't take terribly long for milk supplies to tighten up. First, the magnitude of excess supplies in 1990 wasn't particularly great. Although annual rates of gain of four percent or so in the last half of 1990 looked impressive, they are as much a reflection of lower production in 1989 as they are an indication of longer term increases in 1990, as illustrated by the year to year changes shown in Figure 3. Thus, it seems to me that while a tightening of supplies is probably needed, the amount of change required is fairly modest.

The second factor that leads me to think production will come into line with product sales fairly soon is simply the fact that farm prices are as low as they are. Even farms that have done very well over the last few years are or soon will be experiencing serious cash flow problems. Longer term profitability will be at best low and more likely negative for a large number of farms. As was true in the early 1950s, the mid-1960s, and the mid-1970s, the marketplace can correct itself when farm prices become unreasonably low. However, for some farmers these market induced corrections do not come fast enough.

On net, the bad news is that prices will not recover until enough farmers go out of business to tighten up milk supplies (assuming no change in federal support policies). In my opinion at least, the good news is that the reductions that are needed are not terribly large. Stabilizing milk production would have a substantial impact on milk prices. A one to two percent reduction in production could have an enormous impact. Which brings us back to where we started: milk prices cannot increase unless there is money at the wholesale level to support the higher farm price. Wholesale prices will have to increase as well; this should be possible, unless the demand for cheese is much weaker than I expect.

Milk Prices Without an Emergency Order

Projections of the M-W through December 1992 are offered in Tables 4 and 5. Given the unavoidable uncertainty about where the M-W will go over the next year and a half, two projections are offered. These projections might be characterized as pessimistic and optimistic, but neither are, in my opinion, far-fetched. Neither of these projections assumes any change in federal dairy policy. It is conceivable that some change in federal support policy or federal order policy could occur which would require an adjustment in an M-W forecast. As I indicated above, it is highly speculative to anticipate any particular change at this time. Also, as I indicated earlier, my projections implicitly assume that the M-W continues as the basic formula price through 1992. Although present indications are that a new basic formula price will be adopted in 1992, at this point I have no good basis for substituting an alternative in these calculations.

Based on existing class I differentials and monthly class I utilization factors from 1989, blend prices are projected under each scenario. The weighted average price for the four marketing orders is based on the relative weights from Table 3. The pessimistic scenario has an average annual M-W price of \$10.28 in 1991 and \$10.60 in 1992. The four order weighted average blend price averages \$11.14 in 1991 and \$11.49 in 1992. Under the more optimistic scenario, the M-W price averages 22¢ higher in 1991 and 48¢ higher in 1992. The average blend price is affected similarly, being \$11.33 in 1991 and \$11.90 in 1992.

Milk Prices With an Emergency Order as Proposed by RCBA

The four marketing order blend prices are adjusted to reflect the emergency order prices that would be superimposed on the marketing order minimum blend prices under the proposal advanced by RCBA, as shown in Tables 6 and 7. It was assumed that the emergency order would be in effect for the 12 months from September 1991 to August 1992. It was assumed that the emergency order prices would have no impact on the M-W price or class I utilization in any of the marketing order areas. The former is a reasonable assumption. The latter assumption implies that there will be no impact on production from the higher prices associated with the emergency order. It would probably be more reasonable to assume that class I utilization would be somewhat lower with the higher prices; however, in my opinion the effect would not be very large. Hence, the error in the projected blend price is probably not terribly significant.

Table 4. Pessimistic M-W Prices and Corresponding Blend Prices with No Emergency Order.

Month/ Year	M-W Price	FO2 Blend	FO1 Blend	WNY Blend	FO36 Blend	Weighted Average
1991						
January	\$10.16	\$11.11	\$11.47	\$11.12	\$11.35	\$11.16
February	\$10.04	\$10.99	\$11.31	\$11.00	\$11.37	\$11.03
March	\$10.02	\$10.90	\$11.31	\$10.90	\$11.11	\$10.95
April	\$9.95	\$10.75	\$11.22	\$10.85	\$10.99	\$10.83
May	\$9.90	\$10.71	\$11.19	\$10.80	\$10.91	\$10.78
June	\$9.95	\$10.69	\$11.15	\$10.95	\$10.90	\$10.78
July	\$10.05	\$10.75	\$11.17	\$11.01	\$10.94	\$10.84
August	\$10.25	\$10.94	\$11.39	\$11.20	\$11.16	\$11.03
September	\$10.50	\$11.18	\$11.56	\$11.45	\$11.34	\$11.26
October	\$10.75	\$11.46	\$11.86	\$11.64	\$11.62	\$11.54
November	\$10.90	\$11.64	\$12.04	\$11.83	\$11.85	\$11.71
December	\$10.85	\$11.65	\$12.03	\$11.86	\$11.89	\$11.73
<i>Average</i>	<i>\$10.28</i>	<i>\$11.07</i>	<i>\$11.47</i>	<i>\$11.22</i>	<i>\$11.28</i>	<i>\$11.14</i>
1992						
January	\$10.60	\$11.58	\$12.11	\$11.60	\$11.90	\$11.66
February	\$10.35	\$11.39	\$11.93	\$11.40	\$11.72	\$11.46
March	\$10.25	\$11.22	\$11.76	\$11.23	\$11.52	\$11.30
April	\$10.20	\$11.03	\$11.50	\$11.12	\$11.27	\$11.10
May	\$10.20	\$10.98	\$11.45	\$11.08	\$11.18	\$11.06
June	\$10.40	\$11.07	\$11.49	\$11.32	\$11.25	\$11.15
July	\$10.50	\$11.15	\$11.54	\$11.40	\$11.32	\$11.23
August	\$10.70	\$11.39	\$11.84	\$11.65	\$11.61	\$11.48
September	\$10.80	\$11.54	\$11.94	\$11.82	\$11.72	\$11.62
October	\$10.90	\$11.75	\$12.19	\$11.92	\$11.95	\$11.83
November	\$11.25	\$11.97	\$12.36	\$12.16	\$12.17	\$12.04
December	\$11.10	\$11.86	\$12.23	\$12.07	\$12.08	\$11.93
<i>Average</i>	<i>\$10.60</i>	<i>\$11.41</i>	<i>\$11.86</i>	<i>\$11.56</i>	<i>\$11.64</i>	<i>\$11.49</i>

Under the more pessimistic M-W price scenario, the RCBA proposal would increase the weighted average price by 29¢ in 1991 and 51¢ in 1992. During the time period in which they were in effect, the weighted average New York marketing order price would be about 80¢ higher. Under the optimistic M-W price scenario, prices are similarly higher with the RCBA emergency order than without it; however the impact is slightly less as the maximum class III price is assumed to prevail during November and December 1991, and August 1992.

Table 5. Optimistic M-W Prices and Corresponding Blend Prices with No Emergency Order.

Month/ Year	M-W Price	FO2 Blend	FO1 Blend	WNY Blend	FO36 Blend	Weighted Average
1991						
January	\$10.16	\$11.11	\$11.47	\$11.12	\$11.35	\$11.16
February	\$10.04	\$10.99	\$11.31	\$11.00	\$11.37	\$11.03
March	\$10.02	\$10.90	\$11.31	\$10.90	\$11.11	\$10.95
April	\$10.00	\$10.78	\$11.24	\$10.88	\$11.01	\$10.86
May	\$10.00	\$10.77	\$11.24	\$10.87	\$10.96	\$10.84
June	\$10.10	\$10.80	\$11.25	\$11.06	\$11.00	\$10.89
July	\$10.25	\$10.92	\$11.32	\$11.17	\$11.09	\$11.00
August	\$10.75	\$11.30	\$11.69	\$11.55	\$11.47	\$11.38
September	\$10.90	\$11.49	\$11.85	\$11.76	\$11.63	\$11.57
October	\$11.10	\$11.88	\$12.30	\$12.06	\$12.06	\$11.96
November	\$11.40	\$12.09	\$12.48	\$12.28	\$12.28	\$12.17
December	\$11.25	\$12.03	\$12.41	\$12.24	\$12.26	\$12.10
Average	\$10.50	\$11.26	\$11.66	\$11.41	\$11.47	\$11.33
1992						
January	\$10.80	\$11.91	\$12.48	\$11.90	\$12.27	\$11.99
February	\$10.50	\$11.64	\$12.21	\$11.64	\$12.01	\$11.72
March	\$10.25	\$11.31	\$11.87	\$11.29	\$11.63	\$11.38
April	\$10.20	\$11.08	\$11.58	\$11.17	\$11.35	\$11.16
May	\$10.20	\$10.98	\$11.45	\$11.08	\$11.18	\$11.06
June	\$10.40	\$11.07	\$11.49	\$11.32	\$11.25	\$11.15
July	\$10.75	\$11.30	\$11.66	\$11.55	\$11.44	\$11.38
August	\$11.25	\$11.72	\$12.08	\$11.96	\$11.86	\$11.80
September	\$11.75	\$12.20	\$12.50	\$12.45	\$12.28	\$12.26
October	\$12.00	\$12.60	\$12.96	\$12.78	\$12.72	\$12.67
November	\$12.50	\$13.08	\$13.44	\$13.28	\$13.23	\$13.15
December	\$12.30	\$13.02	\$13.38	\$13.23	\$13.22	\$13.09
Average	\$11.08	\$11.83	\$12.26	\$11.97	\$12.04	\$11.90

Milk Prices With an Emergency Order as Proposed by Oneida-Lewis

In Tables 8 and 9, blend prices are adjusted to reflect the effects of the emergency prices implied by the proposal made by the Oneida-Lewis Milk Producers Cooperative (O/L). Under the more pessimistic M-W price scenario, the O/L proposal would increase the weighted average order blend plus emergency premiums by \$1.48 in 1991 and \$3.06 in 1992. During the time period in which they were in effect, the weighted average New York marketing order price would be about \$4.54 higher. Under the optimistic M-W price scenario, prices are similarly higher with the O/L emergency order than without it; however the impact is slightly less as the O/L proposal specifies constant prices, not premiums above a prevailing M-W or class price.

Table 6. Pessimistic M-W Prices and Corresponding Blend Prices Plus Premiums with RCBA Emergency Order.

Month/ Year	M-W Price	FO2 Blend	FO1 Blend	WNY Blend	FO36 Blend	Weighted Average
1991						
January	\$10.16	\$11.11	\$11.47	\$11.12	\$11.35	\$11.16
February	\$10.04	\$10.99	\$11.31	\$11.00	\$11.37	\$11.03
March	\$10.02	\$10.90	\$11.31	\$10.90	\$11.11	\$10.95
April	\$9.95	\$10.75	\$11.22	\$10.85	\$10.99	\$10.83
May	\$9.90	\$10.71	\$11.19	\$10.80	\$10.91	\$10.78
June	\$9.95	\$10.69	\$11.15	\$10.95	\$10.90	\$10.78
July	\$10.05	\$10.75	\$11.17	\$11.01	\$10.94	\$10.84
August	\$10.25	\$10.94	\$11.39	\$11.20	\$11.16	\$11.03
September	\$10.50	\$12.15	\$12.73	\$12.54	\$12.83	\$12.27
October	\$10.75	\$12.40	\$12.98	\$12.61	\$13.08	\$12.50
November	\$10.90	\$12.45	\$12.99	\$12.68	\$13.17	\$12.55
December	\$10.85	\$12.31	\$12.78	\$12.58	\$12.98	\$12.41
Average	\$10.28	\$11.35	\$11.81	\$11.52	\$11.73	\$11.43
1992						
January	\$10.60	\$12.19	\$12.81	\$12.18	\$12.94	\$12.28
February	\$10.35	\$12.01	\$12.64	\$11.99	\$12.75	\$12.10
March	\$10.25	\$11.94	\$12.62	\$11.89	\$12.69	\$12.03
April	\$10.20	\$11.81	\$12.45	\$11.87	\$12.49	\$11.91
May	\$10.20	\$11.80	\$12.46	\$11.86	\$12.40	\$11.90
June	\$10.40	\$11.89	\$12.51	\$12.22	\$12.49	\$12.01
July	\$10.50	\$11.98	\$12.55	\$12.32	\$12.58	\$12.10
August	\$10.70	\$12.18	\$12.81	\$12.52	\$12.88	\$12.31
September	\$10.80	\$11.54	\$11.94	\$11.82	\$11.72	\$11.62
October	\$10.90	\$11.75	\$12.19	\$11.92	\$11.95	\$11.83
November	\$11.25	\$11.97	\$12.36	\$12.16	\$12.17	\$12.04
December	\$11.10	\$11.86	\$12.23	\$12.07	\$12.08	\$11.93
Average	\$10.60	\$11.91	\$12.47	\$12.07	\$12.43	\$12.00

Compliance and Competitive Premiums

The analysis presented above assumes that the prices specified under the proposed emergency order are completely and fully added to marketing order minimum prices that would otherwise exist. Three additional factors affect the extent to which this would be true: 1) the ability of the state to enforce the emergency order premiums; 2) the extent to which regulated handlers would seek to circumvent enforcement; and 3) the extent to which regulated handlers would fully or partially offset emergency order premiums by lowering competitive premiums.

Table 7. Optimistic M-W Prices and Corresponding Blend Prices Plus Premiums with RCBA Emergency Order.

Month/ Year	M-W Price	FO2 Blend	FO1 Blend	WNY Blend	FO36 Blend	Weighted Average
1991						
January	\$10.16	\$11.11	\$11.47	\$11.12	\$11.35	\$11.16
February	\$10.04	\$10.99	\$11.31	\$11.00	\$11.37	\$11.03
March	\$10.02	\$10.90	\$11.31	\$10.90	\$11.11	\$10.95
April	\$10.00	\$10.78	\$11.24	\$10.88	\$11.01	\$10.86
May	\$10.00	\$10.77	\$11.24	\$10.87	\$10.96	\$10.84
June	\$10.10	\$10.80	\$11.25	\$11.06	\$11.00	\$10.89
July	\$10.25	\$10.92	\$11.32	\$11.17	\$11.09	\$11.00
August	\$10.75	\$11.30	\$11.69	\$11.55	\$11.47	\$11.38
September	\$10.90	\$12.38	\$12.90	\$12.76	\$13.00	\$12.50
October	\$11.10	\$12.59	\$13.12	\$12.81	\$13.22	\$12.69
November	\$11.40	\$12.61	\$13.12	\$12.85	\$13.29	\$12.71
December	\$11.25	\$12.46	\$12.90	\$12.72	\$13.09	\$12.55
Average	\$10.50	\$11.47	\$11.91	\$11.64	\$11.83	\$11.55
1992						
January	\$10.80	\$12.31	\$12.90	\$12.31	\$13.02	\$12.39
February	\$10.50	\$12.10	\$12.71	\$12.09	\$12.82	\$12.18
March	\$10.25	\$11.94	\$12.62	\$11.89	\$12.69	\$12.03
April	\$10.20	\$11.81	\$12.45	\$11.87	\$12.49	\$11.91
May	\$10.20	\$11.80	\$12.46	\$11.86	\$12.40	\$11.90
June	\$10.40	\$11.89	\$12.51	\$12.22	\$12.49	\$12.01
July	\$10.75	\$12.13	\$12.67	\$12.47	\$12.71	\$12.25
August	\$11.25	\$12.36	\$12.99	\$12.75	\$13.06	\$12.50
September	\$11.75	\$12.20	\$12.50	\$12.45	\$12.28	\$12.26
October	\$12.00	\$12.60	\$12.96	\$12.78	\$12.72	\$12.67
November	\$12.50	\$13.08	\$13.44	\$13.28	\$13.23	\$13.15
December	\$12.30	\$13.02	\$13.38	\$13.23	\$13.22	\$13.09
Average	\$11.08	\$12.27	\$12.80	\$12.43	\$12.76	\$12.36

Competitive premiums have been as high as \$1 per cwt, on a monthly average basis, in 1989 and 1990. In recent months, premiums paid by manufacturers directly to farmers have probably fallen to 80¢ or less. Premiums paid by class I handlers may be even lower. It would be fair to expect that handlers regulated under an emergency order would reduce or eliminate their competitive premiums as soon as possible and to the extent practicable. As a rough estimate, the premium on class II and III milk might be reduced by 20¢ to 30¢, reflecting the full amount of the RCBA emergency premium. Competitive premiums on class I milk might be eliminated altogether.

Table 8. Pessimistic M-W Prices and Corresponding Blend Prices Plus Premiums with Onelda-Lewis Emergency Order.

Month/ Year	M-W Price	FO2 Blend	FO1 Blend	WNY Blend	FO36 Blend	Weighted Average
1991						
January	\$10.16	\$11.11	\$11.47	\$11.12	\$11.35	\$11.16
February	\$10.04	\$10.99	\$11.31	\$11.00	\$11.37	\$11.03
March	\$10.02	\$10.90	\$11.31	\$10.90	\$11.11	\$10.95
April	\$9.95	\$10.75	\$11.22	\$10.85	\$10.99	\$10.83
May	\$9.90	\$10.71	\$11.19	\$10.80	\$10.91	\$10.78
June	\$9.95	\$10.69	\$11.15	\$10.95	\$10.90	\$10.78
July	\$10.05	\$10.75	\$11.17	\$11.01	\$10.94	\$10.84
August	\$10.25	\$10.94	\$11.39	\$11.20	\$11.16	\$11.03
September	\$10.50	\$15.89	\$16.28	\$16.23	\$16.38	\$15.98
October	\$10.75	\$15.96	\$16.38	\$16.19	\$16.48	\$16.04
November	\$10.90	\$15.94	\$16.35	\$16.18	\$16.51	\$16.02
December	\$10.85	\$15.86	\$16.21	\$16.12	\$16.38	\$15.94
Average	\$10.28	\$12.54	\$12.95	\$12.71	\$12.87	\$12.62
1992						
January	\$10.60	\$15.88	\$16.31	\$15.95	\$16.43	\$15.95
February	\$10.35	\$15.85	\$16.27	\$15.94	\$16.38	\$15.92
March	\$10.25	\$15.85	\$16.28	\$15.91	\$16.37	\$15.92
April	\$10.20	\$15.79	\$16.20	\$15.92	\$16.26	\$15.86
May	\$10.20	\$15.78	\$16.20	\$15.91	\$16.21	\$15.85
June	\$10.40	\$15.76	\$16.17	\$16.06	\$16.20	\$15.85
July	\$10.50	\$15.78	\$16.17	\$16.08	\$16.22	\$15.86
August	\$10.70	\$15.83	\$16.28	\$16.14	\$16.36	\$15.93
September	\$10.80	\$11.54	\$11.94	\$11.82	\$11.72	\$11.62
October	\$10.90	\$11.75	\$12.19	\$11.92	\$11.95	\$11.83
November	\$11.25	\$11.97	\$12.36	\$12.16	\$12.17	\$12.04
December	\$11.10	\$11.86	\$12.23	\$12.07	\$12.08	\$11.93
Average	\$10.60	\$14.47	\$14.88	\$14.66	\$14.86	\$14.55

Inasmuch as the State has limited ability to enforce pricing requirements on out-of-state handlers who only partially procure New York milk and sell dairy products in New York, less than full compliance would also likely cause actual average price effects to be less than that illustrated in the above tables. Under the O/L proposal, processors would have enormous incentives to procure milk in such a fashion as to avoid paying New York State emergency order premiums, or to at least make enforcement difficult. Similar but smaller incentives would exist under the RCBA proposed prices. In my judgement, the incentives for class II and III handlers would not be very sizable. The incentives for class I handlers would be much more significant.

To the extent that either competitive premiums were reduced or milk pooled under the New York emergency order was lessened, the benefits of the emergency order for New York farm milk prices would be reduced.

Table 9. Optimistic M-W Prices and Corresponding Blend Prices Plus Premiums with Oneida-Lewis Emergency Order.

Month/ Year	M-W Price	FO2 Blend	FO1 Blend	WNY Blend	FO36 Blend	Weighted Average
1991						
January	\$10.16	\$11.11	\$11.47	\$11.12	\$11.35	\$11.16
February	\$10.04	\$10.99	\$11.31	\$11.00	\$11.37	\$11.03
March	\$10.02	\$10.90	\$11.31	\$10.90	\$11.11	\$10.95
April	\$10.00	\$10.78	\$11.24	\$10.88	\$11.01	\$10.86
May	\$10.00	\$10.77	\$11.24	\$10.87	\$10.96	\$10.84
June	\$10.10	\$10.80	\$11.25	\$11.06	\$11.00	\$10.89
July	\$10.25	\$10.92	\$11.32	\$11.17	\$11.09	\$11.00
August	\$10.75	\$11.30	\$11.69	\$11.55	\$11.47	\$11.38
September	\$10.90	\$15.89	\$16.28	\$16.23	\$16.38	\$15.98
October	\$11.10	\$15.96	\$16.38	\$16.19	\$16.48	\$16.04
November	\$11.40	\$15.94	\$16.35	\$16.18	\$16.51	\$16.02
December	\$11.25	\$15.86	\$16.21	\$16.12	\$16.38	\$15.94
Average	\$10.50	\$12.60	\$13.00	\$12.77	\$12.93	\$12.67
1992						
January	\$10.80	\$15.88	\$16.31	\$15.95	\$16.43	\$15.95
February	\$10.50	\$15.85	\$16.27	\$15.94	\$16.38	\$15.92
March	\$10.25	\$15.85	\$16.28	\$15.91	\$16.37	\$15.92
April	\$10.20	\$15.79	\$16.20	\$15.92	\$16.26	\$15.86
May	\$10.20	\$15.78	\$16.20	\$15.91	\$16.21	\$15.85
June	\$10.40	\$15.76	\$16.17	\$16.06	\$16.20	\$15.85
July	\$10.75	\$15.78	\$16.17	\$16.08	\$16.22	\$15.86
August	\$11.25	\$15.83	\$16.28	\$16.14	\$16.36	\$15.93
September	\$11.75	\$12.20	\$12.50	\$12.45	\$12.28	\$12.26
October	\$12.00	\$12.60	\$12.96	\$12.78	\$12.72	\$12.67
November	\$12.50	\$13.08	\$13.44	\$13.28	\$13.23	\$13.15
December	\$12.30	\$13.02	\$13.38	\$13.23	\$13.22	\$13.09
Average	\$11.08	\$14.78	\$15.18	\$14.97	\$15.16	\$14.86

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