

# Negative PPDs: What Do They Mean?

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## What is a PPD?

The Producer Price Differential, or PPD, is the difference between the statistical uniform price (which is the weighted average value of all milk in a federal order) and the Class III price. The producer pay price formula starts with the Class III price and adds or deducts the PPD to arrive at the federal order pay price.

## What causes the PPD to be negative?

Since the federal order formulas provide for the payment to producers of all of the proceeds of milk value pooled in the order, the PPD factor adjusts the Class III base price to the value of milk pooled in the order. When the weighted average value of all the milk in a federal order is less than the Class III price, the PPD is negative. There is no money taken away from any producer — the PPD is simply adjusting the Class III value to the federal order weighted average value. The Mideast Market Administrator has estimated the April PPD to be a negative \$3.61.

## Why is this happening for April milk production?

There are three factors contributing to the current negative PPD situation:

1. A lag in the Class I price increase occurs due to the advance-pricing procedures in the federal order for establishing *next month's* Class I price. Next month's Class I price is based on the higher of the National Agriculture Statistical Service (NASS) Class III or Class IV price during the *first two weeks of the current month*. We do expect the May Class I price to catch up and exceed the May Class III price

For April milk, the Class III price will be set on April 30 and is expected to be around \$19.50 because of rapidly increasing cheese prices in March and April. The April Class I price of \$15.44 was set in advance on March 19. Thus, the April Class III price will be more than \$4 greater than the April Class I price.

2. Class II and Class IV prices for April will also be \$4-5 less than the Class III price. This spread also contributes to the negative PPD.

3. Manufacturing plants pool milk on the federal order on a voluntary basis. If the value of the milk they purchase is greater than the projected federal order blend price, they can choose to depool. Because the April Class III price will be substantially greater than all other milk classes, there will be depooling of most of the Class III milk in our federal order, which will cause the PPD to be more negative. Even if all of the Class III milk was pooled in the federal order, there would still be a negative PPD.

Manufacturing plants will continue to receive milk for cheese production and will pay the applicable Class III price to their suppliers. However, because this milk is depooled, the higher value will not be shared with pool participants.

## How long will the negative PPD's last?

While we cannot predict how long cheese prices will remain at record levels, we do know from past experience that when cheese prices fall, the Class III prices will also drop. Typically, there has been a lag of Class I and Class III prices going down. When cheese prices level off, the Class I price will catch-up and exceed the Class III prices. However, Class II and Class IV prices are expected to remain \$4-5 below Class III prices which could cause the PPD to remain negative as it did in last September and October. Based on the current futures market, we expect the PPD to be negative for April, May and possibly June.

Historically, this is the fifth series (lasting one or more months) of negative PPDs since 1998. In 2003, the PPD was negative in July, August, September and October when similar factors were also present and caused by rapidly advancing cheese prices.

## What does depooling mean?

Manufacturing plants generally participate in federal order pooling of milk in order to participate in the positive price benefits of higher Class I and Class II milk. Milk from these plants is associated with this federal order market to, theoretically, be available when needed as supply milk for the Class I market.

In recent years, milk from distant markets has been qualified in our federal order to take advantage of the PPDs. Since this milk is pooled voluntarily, it can be depooled or disassociated from our federal order when the Class III price is higher than the blend price.

Liberal pooling provisions for distant milk allows such milk to ride the pool when beneficial and to disassociate when not. This is particularly troubling when significant volumes of distant milk are not needed to meet the fluid milk needs of our market. We believe the pooling and depooling provisions need to be addressed in a federal order hearing to provide for more orderly marketing of milk.

## Why doesn't MMPA just depool?

MMPA has not supported depooling under normal market conditions because it can create inefficiencies in milk marketing. However, when other organizations and cheese manufacturing plants are allowed to retain the higher proceeds from Class III milk, MMPA must also consider depooling to keep our producer pay prices competitive under these market conditions. Accordingly, MMPA will depool its Class III milk as long as necessary to ensure our members receive their fair share of milk value in the marketplace.

## What is MMPA doing to correct this situation?

MMPA is talking to other cooperatives and the Mideast Market Administrator for this federal order to develop recommendations for a federal order hearing to address the depooling and repooling issue.

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tendency to leak.

"Last year our vet, Robert Vlietstra, suggested we use the teat sealant," Alvern says. "We also dip teats with our regular teat dip once a day for about one week when they are first dried off. It helps to sanitize them and prevent bugs."

Rick uses the CMT paddle on all fresh cows to check for any problems. Their milk is kept out of the bulk tank for at least six milkings, depending on the cow. After the fifth or sixth milking, they are milked last in the milking string and their milk is put into a glass jar for visual evaluation. Low SCC milk with a yellowish cast is fed to the

calves. Mastitic milk is never fed to calves. The herd is tested yearly for Johne's Disease and is Johne's free.

In addition to producing top quality milk, the Poests maintain a closed herd and raise all of their own replacements and market registered Holstein heifers.

The Poests also have two married daughters who help out on the farm from time to time: Karen and her husband Keith Ykema, and Dawn and her husband Bob Brinks. Even the next generation likes to help out: granddaughters Courtney, 5 and Kaylie, 2 1/2, Ykema help Mary feed calves when they come to the farm.



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