

NASS Dairy Products Prices; How does that work?

USDA-NASS

Over the years there has been some confusion surrounding the National Agricultural Statistics Service (NASS) Dairy Products Prices (DPP) program and the use of these data in the class price formulas. Why are NASS's DPP reports used in the Agricultural Marketing Service's (AMS) class price formulas? How are NASS reports compiled? Is there a magic formula used to generate NASS DPP reports? What prevents manufacturing plants from misreporting or manipulating the prices?

Prior to the 1996 Farm Bill, USDA's AMS used the Basic Formula Price (BFP) to determine Federal Order minimum Class III milk prices. Price differentials were added to the BFP to establish minimum prices for Class I and Class II milk. The BFP was based on a monthly survey of prices paid for manufacturing grade (Grade B) milk in Minnesota and Wisconsin which established a Base Month Price. The BFP was then calculated by adjusting the preceding month's Base Month Price by a formula to reflect the most recent changes in cheddar cheese prices.

In 1996, due to concerns regarding the cheddar cheese price data from the now closed National Cheese Exchange, AMS asked NASS to implement a survey to provide accurate and timely information on cheddar cheese prices. NASS began collecting weekly data on cheddar cheese sales, volumes and prices, and published the first set of numbers for the week ending March 7, 1997. The NASS cheddar cheese prices were then used by AMS as an input for computation of the BFP, until the 1996 Farm Bill became law. The bill changed language in the USDA's FMMO Reform Final Rule to include the following statement, "commodity prices (cheddar cheese, butter, dry whey, and nonfat dry milk) determined by surveys conducted by USDA's NASS will be used in the formulas that replace the BFP." NASS published the first set of data on butter, nonfat dry milk, and dry whey for week ending September 5, 1998. NASS continues to collect and publish this information under contract for AMS.

Each week, NASS statisticians receive data from all plants in the U.S. that produce and sell more than 1 million pounds annually of any of the qualifying products (Cheddar 40 blocks, Cheddar 500 barrels, butter, nonfat dry milk, and dry whey) according to AMS's reporting criteria. There are several reporting criteria for each individual product. For example, all sales priced more than 30 days in advance are excluded from reporting. Products of interest must meet strict grade standards (Grade AA butter, Extra Grade dry whey, etc) along with several other strict pricing criteria that ensure prices represent the weekly wholesale commodity price for initial product sale. Each product must adhere to strict product specifications for example cheddar cheese; prices are only collected for 40 pound blocks and 500 barrels, eliminating price differentials for product sizes. Manufacturers must also exclude specialty types of cheddar like organic, aged, or faith-based products.

Every Wednesday, manufacturers are required by law to submit, no later than noon, their qualifying total sales volume and total dollars received for the previous 7-day period ending on Saturday. All reports received from manufacturers are summed together for total volume and total dollars then divided to calculate regional and national average prices.

Once each year, statisticians from NASS sit down with each reporter to ensure they understand all program requirements, products specifications, and misreporting penalties. Each reporter also indicates their understanding of the product specifications weekly. AMS conducts on-site report verifications of all reporting plants; they audit plants under authority from the mandatory reporting law. All plants have been through a least two verifications, with some plants experiencing as many as seven since the verification program was established. Discrepancies are issued, tracked, and addressed to prevent continued misreporting. AMS has broader regulatory authority if misreporting persists.

Prices that NASS publishes each Friday at 8:30am ET represent wholesale commodity sales completed in the previous week. Based on the reporting requirements and AMS's verification program, the value of the dairy products prices used in the Federal Market Order pricing formulas are accurate. Whether we agree or disagree with the current pricing process, dairymen should be confident NASS is generating the most accurate components possible, based on the current laws guiding the program.