

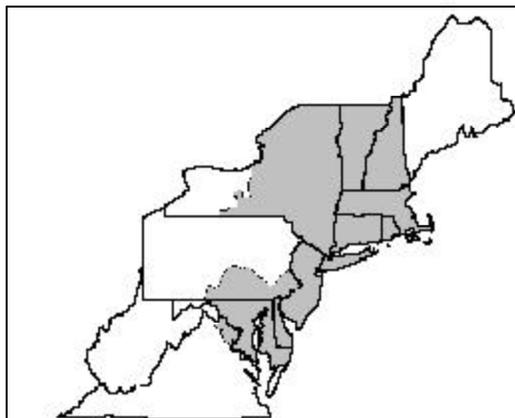
# The Market Administrator's BULLETIN

## NORTHEAST MARKETING AREA

*Erik Rasmussen*, Market Administrator

January 2000

Federal Order No. 1



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 Boston, MA: phone (617) 542-8966; Albany, NY: phone (518) 452-4410; Alexandria, VA: phone (703) 549-7000  
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### January Pool Price Calculation

The January statistical uniform price for the Northeast Marketing Order was announced at \$12.35 per hundredweight, at the pricing point for the Northeast order of Suffolk County, Massachusetts (Boston). The statistical uniform price is calculated at a standard component composition of 3.5 percent butterfat, 2.99 percent protein, and 5.69 percent other solids. The January producer price differential (PPD) at Suffolk County was \$2.30 per hundredweight. Since producers are paid on the total pounds of butterfat, true protein, and other solids they produce together with a per hundredweight PPD adjusted to the location(s) of the plants to where their milk was delivered, the actual price received by an individual dairy farmer likely will vary from the announced statistical uniform price.

The statistical uniform price, at the standard component composition, is computed by combining the Class III price (January equals \$10.05) and the PPD. The PPD takes into account the value of Class I, II, and IV milk and represents each producer's share of the value generated by the marketwide pool on a hundredweight basis. (See table on page 4 for January's price computation.) The statistical uniform price and PPD decrease by scheduled amounts the more distant the plant(s) to where a producer's milk is delivered is from Suffolk County, Massachusetts. The January PPD is \$2.20 in New York, NY, and \$2.10 in Philadelphia, PA.

#### January Prices

The prices used in the calculation of the January pool and for the component values paid to producers are based on dairy product prices for the month of January, as calculated by the National Agricultural Statistics Service (NASS). The prices, therefore, are reflective of current wholesale market price conditions. See *Market Situation* article for more information on product prices. ❖

### Welcome to the Northeast Order

This *Bulletin* represents the first market information release under the consolidated Northeast Marketing Area. All dairy farmers delivering milk to handlers regulated under the Northeast Marketing Area will receive a copy of the monthly *Bulletin*. The *Bulletin* will serve to keep producers informed of USDA policy decisions impacting federal orders and the dairy industry, summarize the calculation of the statistical uniform price and producer price differential, and report on other issues relevant to the Northeast Marketing Area. The *Bulletin* generally will be published by the third week of the month. ❖

### Pool Summary

- A total of 18,024 producers were pooled under the order with an average daily delivery per producer of 3,844 pounds.
- Producer milk receipts totaled 2.148 billion pounds.
- Usage as Class I milk for bottling accounted for the largest class volume at 42.2 percent of total receipts.
- The average butterfat test of producer receipts was 3.78 percent.
- The average true protein test of producer receipts was 2.99 percent.
- The average other solids test of producers receipts was 5.59 percent. ❖

#### Class Utilization

Producer Milk	Percent	Pounds
Class I	42.2	905,503,608
Class II	14.7	316,772,976
Class III	27.4	589,450,606
Class IV	15.7	<u>336,299,091</u>
Total Producer Milk		2,148,026,281

#### Producer Component Prices

Protein Price	\$2.1677 /lb
Butterfat Price	\$0.9366 /lb
Other Solids Price	\$0.0503 /lb

#### Class Price Factors

	\$/cwt
Class I	14.15
Class II	11.43
Class III	10.05
Class IV	10.73

## Class III and IV Price Formula Proceedings

As required by Congress under the Consolidated Appropriations Act 2000, the Secretary of Agriculture has announced a formal rulemaking proceeding to reconsider the newly adopted Class III and Class IV pricing formulas. Under the provisions of the new consolidated orders, the higher of the monthly advanced Class III or Class IV skim milk price serves as the base price from which the Class I skim milk price is set. The Class II skim milk price is determined by adding a fixed 70 cents per hundredweight to the advanced Class IV skim milk price.

USDA is requesting that interested persons submit proposals to modify the computation of Class III and IV prices, as adopted under federal order reform and published in the Federal Register on September 1, 1999 (64 Fed. Reg. 47897-48021). It is anticipated that a hearing to obtain additional input on submitted proposals will be held in late April or early May 2000. The formulas resulting from the required proceeding are to be implemented on January 1, 2001.

### Scope of Proposals

In addition to the Class III and Class IV price formulas adopted under federal order reform, the hearing will consider proposals that address changes to any of the factors, such as the specification of the products whose prices are identified, the yield factors, and the make allowances included in the computation of component prices. A brief but comprehensive statement should accompany each proposal justifying the proposed changes. The statement will be used in deciding whether the submitted proposals should be considered at the hearing. Those proposing changes to the Class III and Class IV price calculations contained in the final rule should plan to support their proposals with data, as well as arguments, at the hearing. The hearing would be limited to the proposals included in a hearing notice. All known interested persons will be mailed a copy of the hearing notice when one is issued. Anyone who desires to present evidence on proposals set forth in the hearing notice will have an opportunity to do so at the hearing.

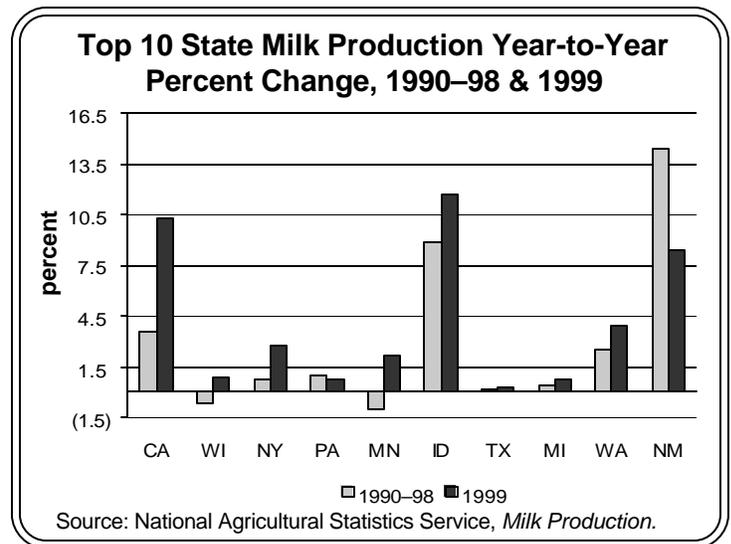
The legislation requiring the hearing describes the proceeding as an emergency. An emergency rulemaking proceeding omits a recommended decision with the opportunity to file comments on the decision. The potential omission of a recommended decision will be an issue that will be considered at the hearing.

To submit a proposal, send two copies to: Deputy Administrator, Dairy Programs, Agricultural Marketing Service, United States Department of Agriculture, Room 2968, South Building, P.O. Box 96456, Washington, D.C. 20090-6456 by **February 29, 2000**. For questions concerning the filing of a proposal or to obtain a copy of the final rule for order consolidation and reform of federal milk orders, please contact any market administrator office.❖

## U.S. Milk Production Has Strong Year

The estimated annual U.S. milk production during 1999 finished 3.4 percent above the total for 1998. This was the largest year-over-year percentage increase of the 1990s. Excluding 1999's increase, the average year-over-year U.S. milk production change for the 1990-1998 period was 0.8 percent; less than one-fourth the year-over-year increase achieved in 1999.

The accompanying chart shows the 1999 percentage change in milk production for the current top ten dairy states, along with the 1990-98 average of the year-over-year changes for these same states. Seven of the ten states experienced larger than average milk production gains during 1999. Of the three states where 1999 production growth did not exceed their respective 1990's average, Pennsylvania and Texas were affected by severe drought and heat during 1999. The third state, New Mexico, experienced the third highest rate of production growth of all states in 1999 at 8.4 percent. This was, however, below the state's 1990-98 average change of 14.3 percent.❖



## Dairy Assistance Program

Agriculture Secretary Dan Glickman has announced the program details for USDA's *Dairy Market Loss Assistance Program*, which will provide \$125 million in direct cash payments to dairy farmers who have been hurt by low prices. This money was made available in the Agricultural Appropriations Bill signed into law in October 1999.

Eligible dairy farmers will receive a per hundredweight payment based on an operation's milk production in 1997 or 1998, up to the first 26,000 hundredweight of production. All dairy farmers who produced milk during the last quarter of calendar year 1998 are eligible for the program. Eligible dairy farmers who did not participate in the program last summer (1999 *Dairy Income Loss Assistance Program*) must sign up at their local Farm Service Agency office or USDA Service Centers by **February 28, 2000**. Farmers who participated in last summer's program will automatically receive payments and do not need to reapply.❖

# MARKET SITUATION

## Price Indicators Under Order Reform

With payment for milk now largely based on the volume and value of milk's components, some of the pricing signals that producers have been accustomed to—namely the basic formula price (BFP)—have changed. Under component pricing, USDA begins with the product prices of cheese, butter, nonfat dry milk, and whey, calculated from weekly surveys conducted by USDA's National Agricultural Statistics Service (NASS). From these prices USDA calculates the value for a pound of butterfat, protein, other solids, and nonfat milk solids. The butterfat, protein, and other solids prices form the basis for what farmers will be paid. These component values are also used by USDA to calculate per hundredweight class prices.

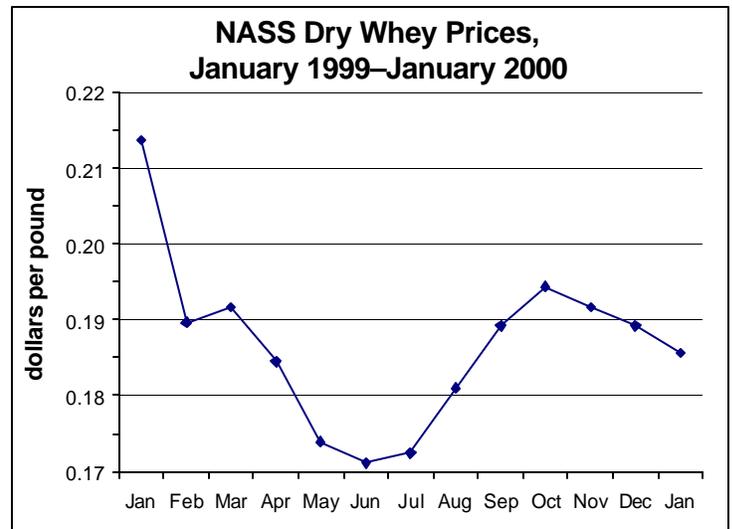
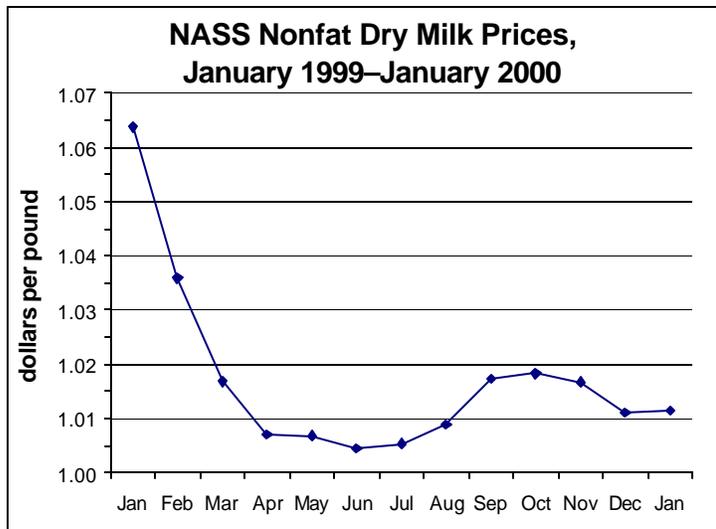
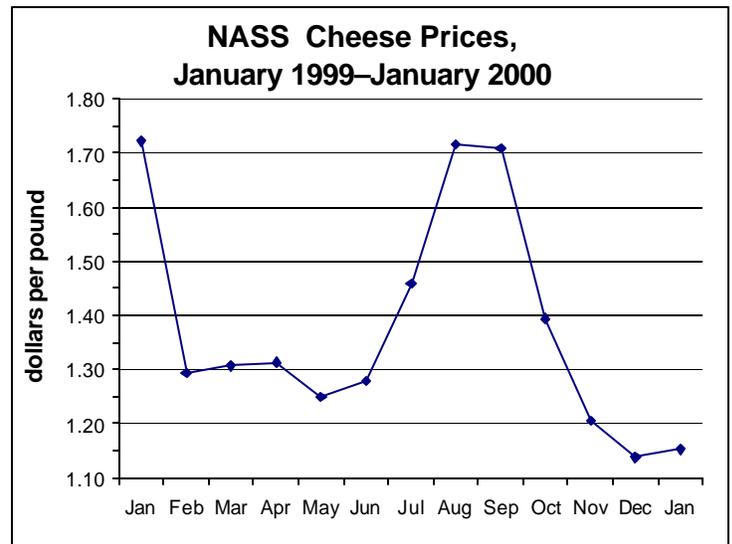
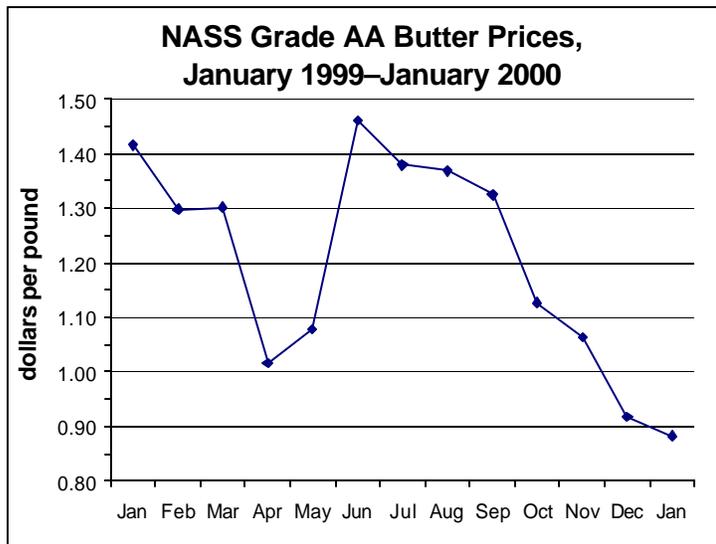
### New Benchmark Price

Prior to order reform the M-W and BFP price series were often used by the industry as a reference point for

price changes. The new Class III has been adopted by the futures exchanges as the price that will be used for hedging. At this time you cannot hedge component values directly, but you can hedge a Class III price. Although this is not a perfect predictor of changes in farm milk prices, it is relatively similar to the former M-W/BFP price series and may serve as a price-signaling indicator.

### Commodity Values

The following charts show the weighted monthly average NASS product prices for the commodities that are used in the calculation of component prices under federal orders. Since these prices will be used to calculate component values, monitoring changes in the commodity values may also serve as pricing signals. The charts present prices for the period January 1999–January 2000. Component prices for milk produced in January 2000 were based on NASS survey prices for January. ❖





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**Computation of Producer Price Differential and Statistical Uniform Price**

	<u>Product Pounds</u>	<u>Price per cwt/lb</u>	<u>Component Value</u>	<u>Total Value</u>
Class I— Skim	886,686,337	\$10.97	97,269,491.21	
Butterfat	18,817,271	1.0179	19,154,100.18	
Less: Location Adjustment to Handlers			(2,709,590.62)	\$113,714,000.77
Class II— Butterfat	21,514,505	0.9436	20,301,086.98	
Nonfat Solids	26,703,768	0.9356	24,984,045.37	45,285,132.35
Class III— Butterfat	22,264,123	0.9366	20,852,577.56	
Protein	17,078,974	2.1677	37,022,091.96	
Other Solids	32,589,344	0.0503	1,639,244.02	59,513,913.54
Class IV— Butterfat	18,611,661	0.9366	17,431,681.73	
Nonfat Solids	28,454,702	0.8574	24,397,061.50	41,828,743.23
<b>Total Classified Value</b>				<b>\$260,341,789.89</b>
Add: Overage—All Classes				140,348.76
Inventory Reclassification—All Classes				(331,415.81)
Other Source Receipts	1,044,955			41,275.69
Less: Producer Component Valuations				(221,479,313.82)
<b>Subtotal</b>				<b>\$38,712,684.71</b>
Add: Location Adjustment to Producers				10,484,211.52
One-half Unobligated Balance—Producer Settlement Fund				1,209,379.57
<b>Total Pool Milk &amp; Aggregate Value</b>	2,149,071,236			50,406,275.80
Less: Producer Settlement Fund—Reserve				(977,637.37)
<b>Producer Price Differential @ Suffolk County, MA (Boston)</b>		<b>\$2.30</b>		49,428,638.43
<b>Statistical Uniform Price @ Suffolk County, MA (Boston)</b>		<b>\$12.35</b>		