



The Market Administrator's

BULLETIN

NORTHEAST MARKETING AREA

Erik F. Rasmussen, Market Administrator

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To contact the Northeast Marketing Area offices:

Boston, MA: phone (617) 542-8966, e-mail address: MABoston@fedmilk1.com; *Albany, NY:* phone (518) 452-4410, e-mail address: MAAlbany@fedmilk1.com; *Alexandria, VA:* phone (703) 549-7000, e-mail address: MAAlexandria@fedmilk1.com; *website address:* www.fmmone.com

May Pool Price Calculation

The May statistical uniform price for the Northeast Marketing Area was announced at \$12.90 per hundredweight at Suffolk County, Massachusetts (Boston), the pricing point for the Northeast Order. This was an increase of 44 cents per hundredweight from April. The producer price differential (PPD) at Suffolk County was \$3.53 per hundredweight, an increase of 48 cents per hundredweight from April. The PPD is \$3.43 for shipment to plants in the New York City differential zone and \$3.33 for plants in the Philadelphia differential zone.

Producer Price Differential Rises Again

The increase in the PPD, which has increased every month since January, is a result of the widening spread between the Class III and Class IV prices. The spread between the two class prices has increased from 68 cents per hundredweight in January to \$2.54 per hundredweight in May. This has occurred as wholesale cheese values have declined, which are reflected in the decline in the Class III price (\$10.05 in January; \$9.37 in May). In contrast, rising butter prices have driven the Class IV price higher (from \$10.73 to \$11.91) for the same period. As the Class IV price has risen, so have the Class I and II prices, which have had a positive impact on the PPD.

Class Price Changes Affect PPD

If cheese values increase later this year as expected (see Market Situation article), the effect will be an increase in the Class III price. If the rise in cheese values is greater than the increase in butter/powder values, or if butter/powder values decline during the period, then the price spread between Class III and IV will be reduced. This could cause a *reduction* in the PPD. As cheese values increase, however, the value for protein and the amount producers receive for the protein in their milk also increase, serving to offset a declining PPD.

Partial Payment

Order rules specify that payment to producers for milk received during the first 15 days of the month be *not less* than the lowest announced class price for the preceding month. With the weakness in cheese product prices, the Class III price has been the lowest monthly price. The partial payment for **June** (due producers by June 26) will be based on the **May** Class III price of \$9.37. Of course, cooperatives and handlers can pay more than the absolute allowable minimum. The final payment, paid after the monthly statistical uniform price has been calculated, adjusts payments to producers so that the appropriate "blend price" is received for the month.❖

Pool Summary

- A total of 17,187 producers were pooled under the order with an average daily delivery per producer of 3,973 pounds.
- Producer milk receipts totaled 2.117 billion pounds.
- Class I usage (milk for bottling) accounted for 41.0 percent of total milk receipts, an increase of 2.0 percentage points from April.
- The average butterfat test of producer receipts was 3.68 percent.
- The average true protein test of producer receipts was 2.91 percent.
- The average other solids test of producer receipts was 5.63 percent.❖

Class Utilization

<u>Producer Milk</u>	<u>Percent</u>	<u>Pounds</u>
Class I	41.0	868,007,141
Class II	18.3	386,785,471
Class III	28.9	613,421,710
Class IV	11.8	249,125,390
Total Producer Milk		2,117,339,712

Producer Component Prices

Protein Price	\$1.5514 /lb
Butterfat Price	\$1.2854 /lb
Other Solids Price	\$0.0403 /lb

Class Price Factors

	<u>\$/cwt</u>
Class I	14.73
Class II	12.63
Class III	9.37
Class IV	11.91

How Federal Order Prices Are Derived

The restructured federal orders have been in operation for nearly 6 months now, and producers' milk has been priced under the new methodology for 5 complete months. Order reform brought about many changes including milk classifications, timing of price announcements and payment dates, and changes in how milk prices and component values are determined.

Processor Prices

Both plant and producer prices are based off of product price surveys. Class prices are derived from formulas that combine the values of dairy commodities with volumes sold. In addition, adjustments are made for manufacturing yields and make allowances.

The values of the individual commodities are calculated using data gathered by the National Agricultural Statistics Service (NASS). Each week NASS surveys eligible dairy plants to obtain price and sales volume data for various dairy products. The products include Cheddar cheese (500-pound barrels and 40-pound blocks); grade AA butter; nonfat dry milk; and dry whey. Certain specifications apply to each product. For example, cheese must be only 4 to 30 days in age; butter must be 80 percent butterfat and salted; and nonfat dry milk may be extra grade or grade A. Some specifications differ from products sold on the Chicago Mercantile Exchange (CME) and, therefore, may not be directly comparable when looking at CME prices.

The survey used by NASS covers all firms producing a million or more pounds of these products annually. Firms that do not meet the production specifications are excluded from the survey. On a percentage basis, firms reporting cheese data represent 75 percent of the eligible production in the United States. For the other surveyed products, butter plants account for 71 percent; nonfat dry milk

survey respondents represent 92 percent; and dry whey plants surveyed account for 70 percent of eligible production.

The weekly data gathered is used to calculate the advance Class I price and the three other class prices. Classes II, III, and IV are announced after the applicable month has ended and a full month of price information is available.

Producer Prices

In addition to generating class price values, component prices are calculated and reported from the NASS survey data. Component prices are the values for the various components in milk that are used to make manufactured dairy products. Producers are paid based on the amounts of these components in their milk.

Determination of Component Values

Protein is an important component in the manufacture of cheese. Its price is derived by using the NASS survey data for cheese mentioned above. After gathering 4-5 weeks of data, the average cheese price is put into the protein price formula to get a monthly protein value (see table below). This price is used to calculate producers' protein value of milk. The value per pound is multiplied by the amount of protein in producers' milk (producer protein test times total milk volume in pounds). The same procedure is followed to determine the butterfat value by using the NASS butter price in the butterfat formula. To determine the nonfat solids and other solids values, the respective prices are used in their respective formulas.

In addition to component values, producers also receive a producer price differential (PPD) that is adjusted to the location of the plant(s) receiving their milk. See related information in the article on page 1.❖

NASS Prices and Determination of Component Values

Weekly NASS Survey Prices

	Cheddar Cheese				Butter	
	40-Lb Block		500-Lb Barrel		Grade AA	
	Price \$/lb	Volume pounds	Price \$/lb	Volume pounds	Price \$/lb	Volume pounds
May 6	1.0897	6,152,451	1.0709	11,079,241	1.0904	3,960,316
May 13	1.0927	5,622,433	1.0816	9,822,293	1.1363	4,206,477
May 20	1.0863	6,316,567	1.0855	11,026,106	1.2045	4,122,202
May 27	1.0882	5,269,880	1.0793	10,796,993	1.2618	3,100,351

Weighted average price for May: **\$1.1022 per pound*** **\$1.1680 per pound**

Component price formula:

$$\text{Butterfat} = ((1.1680 - 0.114) / 0.82) = \mathbf{1.2854 \text{ per pound}}$$

$$\text{Protein} = (1.1022 - 0.1702) \times 1.405 + (((1.1022 - 0.1702) \times 1.582) - 1.2854) \times 1.28 = \mathbf{1.5514 \text{ per pound}}$$

Producer Prices:

$$\mathbf{\text{Protein} = \$1.5514 \text{ per pound}}$$

$$\mathbf{\text{Butterfat} = \$1.2854 \text{ per pound}}$$

* Weighted average price of block and barrel prices. Barrel prices reported at 39% moisture level.



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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	850,329,584	\$10.95	93,111,089.50	
Butterfat	17,677,557	1.1884	21,008,008.74	
Less: Location Adjustment to Handlers			(2,486,481.83)	\$111,632,616.41
Class II— Butterfat	27,202,204	1.2924	35,156,128.47	
Nonfat Solids	31,625,536	0.9333	29,516,112.81	64,672,241.28
Class III— Butterfat	23,385,642	1.2854	30,059,904.28	
Protein	17,771,728	1.5514	27,571,058.85	
Other Solids	34,318,080	0.0403	1,383,018.66	59,013,981.79
Class IV— Butterfat	9,697,377	1.2854	12,465,008.40	
Nonfat Solids	20,650,135	0.8530	17,614,565.20	30,079,573.60
Total Classified Value				\$265,398,413.08
Add: Overage—All Classes				111,724.59
Inventory Reclassification—All Classes				(84,116.40)
Other Source Receipts	353,225			20,548.31
Less: Producer Component Valuations				(200,746,675.38)
Subtotal				\$64,699,894.20
Add: Location Adjustment to Producers				10,085,520.49
One-half Unobligated Balance—Producer Settlement Fund				908,483.01
Total Pool Milk & Aggregate Value	2,117,692,937			75,693,897.70
Less: Producer Settlement Fund—Reserve				(951,805.87)
Producer Price Differential @ Suffolk County, MA (Boston)		\$3.53		74,742,091.83
Statistical Uniform Price @ Suffolk County, MA (Boston)		\$12.90		

* Price at 3.5 percent butterfat, 2.99 percent protein, and 5.69 percent other solids.