

The Market Administrator's

BULLETIN

NORTHEAST MARKETING AREA

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June 2000

Federal Order No. 1

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June Pool Price Calculation

The June statistical uniform price for the Northeast Marketing Area was announced at \$13.25 per hundredweight at Suffolk County, Massachusetts (Boston), the pricing point for the Northeast Order. This was an increase of 35 cents per hundredweight from May. The producer price differential (PPD) at Suffolk County was \$3.79 per hundredweight, an increase of 26 cents from the previous month. The PPD was \$3.69 for shipment to plants in the New York City differential zone and \$3.59 for plants in the Philadelphia differential zone.

PPD Continues to Increase

The PPD has increased every month since its introduction in January. A reflection of the spread between Class III and other class prices, it has continued to increase as cheese prices have dropped and butter prices have remained strong. During June, cheese prices rose slightly, but the monthly average butter price was significantly higher, even with a sharp decline mid-month (see related article under Market Situation). The increase in butter resulted in a 47-cent increase in the Class IV price, compared to only a 9-cent increase in the Class III price. As a result, the spread between Class III and Class IV prices increased to \$2.92 per hundredweight.

As mentioned last month, cheese prices may be finally on an upswing while butter prices for the first 2 weeks of July have been declining. This could result in the Class III price being used as the Class I mover. Remember, it is the higher of the Class III or Class IV prices that is used as the Class I price mover. Such a change could result in a lower PPD due to a greater value placed upon producer components within the pool. Offsetting a lower PPD, however, would be a greater value received by producers for the protein content of their milk. The statistical uniform price may still increase due to higher class prices resulting from a higher Class I mover.

Price Varies Due to Location

The average price each producer receives is affected by many factors, such as component tests, cooperative dues, and hauling. In addition, the PPD and statistical uniform price vary for each individual producer by the location of the plant to which a producer's milk is shipped. The first paragraph (above) reports the PPD and statistical uniform price for milk shipped to plants in Suffolk County, Massachusetts. The table on page 3 reports this information for other locations in the Northeast Order.

Pool Summary

- A total of 17,054 producers were pooled under the order with an average daily delivery per producer of 3,808 pounds.
- Producer milk receipts totaled 1.949 billion pounds, a decrease of 4.9 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 42.1 percent of total milk receipts, an increase of 1.1 percentage points from May.
- The average butterfat test of producer receipts was 3.63 percent.
- The average true protein test of producer receipts was 2.97 percent.
- The average other solids test of producer receipts was 5.78 percent.

Class Utilization

Producer Milk	Percent	Pounds
Class I	42.1	819,879,257
Class II	17.9	347,807,832
Class III	30.1	587,590,685
Class IV	9.9	193,681,414
Total Producer Milk		1,948,959,188

Producer Component Prices

Protein Price	\$1.4278 /lb
Butterfat Price	\$1.4128 /lb
Other Solids Price	\$0.0438 /lb

Class Price Factors

	\$/cwt
Class I	14.95
Class II	13.08
Class III	9.46
Class IV	12.38

Dairy Product Per Capita Consumption Increases in 1999

On a milk-equivalent, milkfat basis, per capita consumption of dairy products reached 598 pounds in 1999, the largest amount since the mid 1960s. This was a jump of 16 pounds from 1998 and occurred despite high and volatile prices. The accompanying table shows per capita consumption for selected products.

Per capita consumption of fluid milk and cream remained flat from 1998 to 1999 at 219 pounds. Nonfat dry milk use declined to 3.0 pounds per person from 3.3 pounds in 1998. Per capita use of evaporated and condensed products increased 0.5 pounds in 1999 to 6.6 pounds; ice cream consumption grew 0.2 pounds to 16.8 pounds.

Most of the increase in per capita consumption was due to the 1.5 pound rise in

cheese use, the largest absolute increase ever and the largest percentage rise (5.1 percent) since 1982. In 1999, cheese accounted for more than 40 percent of total dairy consumption on a milkfat basis.

Total cheese use equaled 29.8 pounds in 1999, this compares with 22.6 pounds in 1985 and 9.5 pounds in 1965. Consumption of American varieties was up 0.8 pounds (6.7 percent) and provided the largest share of the increase. Italian cheese consumption grew 0.5 pounds (4.1 percent);

mozzarella growth was 5.4 percent.

Per capita consumption of butter rose 0.3 pounds (6.7 percent) in 1999 to 4.8 pounds. This was the second year that butter use has risen after 2 years of declining consumption.

Year	Fluid Milk and Cream	Butter	Cheese	Evap. and Condensed	Ice Cream	Nonfat Dry Milk
1965	299	6.4	9.5	10.6	18.5	5.6
1975	261	4.7	14.5	8.9	18.5	3.3
1985	241	4.9	22.6	7.4	18.1	2.3
1995	223	4.5	27.2	6.8	15.7	3.5
1999	219	4.8	29.8	6.6	16.8	3.0

Source: Economic Research Service, USDA.

Forward Pilot Program to Begin

The final rule authorizing implementation of the Dairy Forward Pricing Program has been approved, with a starting date of **July 19, 2000**. The program will exempt participating handlers regulated under a federal milk order from paying producers and cooperative associations the minimum federal order price(s) for that portion of their *non-Class I* milk that is under a forward contract. The pilot program was created by Congress through a November 1999 amendment to the Agricultural Marketing Agreement Act of 1937—the underlying legislation authorizing federal milk orders. The pilot program will be in effect for milk marketed August 1, 2000, through December 31, 2004.

Operation of Program

The pilot program is a voluntary program that allows dairy farmers and handlers to enter into a forward contract whereby they mutually agree to the terms by which the handler buys raw milk and the dairy farmer is paid. The agreed upon payment rate and terms (e.g. payment on milk components or not) may or may not have any relation to the minimum prices of the federal order to which the producer and handler are associated. By entering into a forward contract under this program, a dairy farmer gives up the right to receive the minimum federal order prices for the amount of their milk under contract. Dairy farmers entering into a forward contract should understand all of the terms of the contract, including how their milk will be priced, the length of the contract, and any charges or deductions that will be made. If a formula will be used to price a producer's milk, the producer should understand how the formula

works and what factors affect its movement. Producers should understand what will happen if they cannot fulfill the terms of the contract. They also should understand what remedies are available if the process defaults on the contract.

Producer Participation

To participate in the program, the handler to which a dairy farmer delivers milk must be willing to offer the producer a forward contract. In addition, the handler must have some non-Class I uses of milk (e.g. butter, powder, cheese, ice cream, etc.) to cover the quantity of milk under forward contract. A participating handler must provide a producer with a disclosure statement along with the agreed upon forward contract. Both documents will be forwarded by the handler to the appropriate market administrator office.

Market Administrator Involvement

Market administrators are limited to reviewing completed forward contracts to be certain that they are in compliance with the rules governing the pilot program. Market administrator staff will ensure that the contract is signed by both parties and will make certain that a signed disclosure statement is attached to each contract entered into by a dairy farmer under the pilot program. Other than reviewing the contract for these items, the market administrator will not comment on or seek to change a contract that has been approved by a producer and a handler.

Additional information about the program is available from any market administrator office, or can be downloaded from USDA's AMS website at www.ams.usda.gov/dairy.

MARKET SITUATION

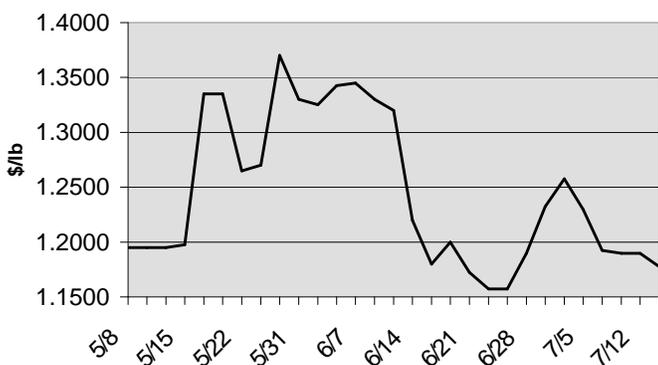
Butter Prices on Roller Coaster

The price of Grade AA butter on the Chicago Mercantile Exchange (CME) recently has been on a roller coaster ride (see chart below). The year began with butter prices in the upper 80-cent per pound range. In mid-February, their ascent began, dipping slightly in mid-April, then climbing slowly to \$1.1950 per pound in May. On May 17, the price soared 13.75 cents to \$1.3350 per pound. It dropped to \$1.2650 the following week, then peaked later that week at \$1.3700 per pound. Prices hung around the low \$1.30s for a couple of weeks and then dropped 10 cents on the heels of a revision in CME butter stocks. The butter price continued to decline, reaching \$1.1575 per pound. On June

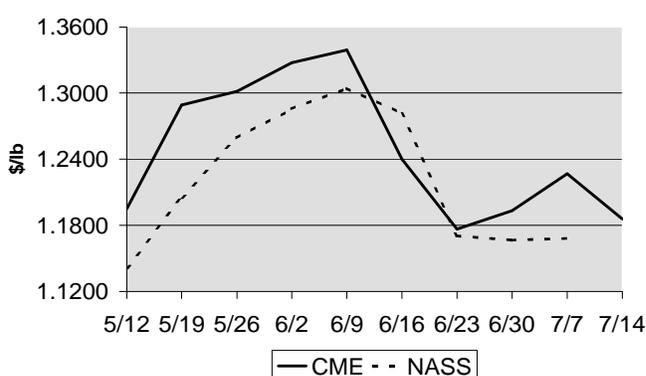
28, it began climbing again, hitting \$1.2575 per pound. As of July 14, the Grade AA butter price equaled \$1.1775 per pound.

Weekly National Agricultural Statistics Service (NASS) survey butter prices have followed a similar path as CME prices (see chart below). The spread between the two prices averaged about 5 cents until the decline in mid-June. For the week ending June 23, prices were nearly identical. Due to the lag in NASS reporting, prices continued downward, reinstating the price spread to about 3 cents. As of the last NASS data available (week ending July 8), the spread was about 6 cents.

Daily Grade AA Butter Prices, CME



Weekly Grade AA Butter Prices, CME and NASS



Location Adjustment, PPD, and Statistical Uniform Price for Selected Cities, June 2000

Location	Adjustment from Boston \$/cwt	PPD	Statistical Uniform Price
Albany, NY	(0.55)	3.24	12.70
Baltimore, MD	(0.25)	3.54	13.00
Canton, NY	(0.95)	2.84	12.30
Lansdale, PA	(0.20)	3.59	13.05
Reading, PA	(0.45)	3.34	12.80
St. Albans, VT	(0.85)	2.94	12.40
Syracuse, NY	(0.75)	3.04	12.50
Wallington, NJ	(0.10)	3.69	13.15
West Springfield, MA	(0.25)	3.54	13.00

CME Adds Class IV Futures and Options

On July 10, the Chicago Mercantile Exchange (CME) began trading Class IV milk futures; options began July 11. The CME already trades futures and options on Class III milk, which is used to manufacture cheese.

The Class IV milk contract mirrors the specifications of the Class III milk contract with the exception of the formulas that are used in the method of cash settlement. Each contract represents 200,000 pounds of milk, quoted in U.S. dollars per hundredweight (cwt) and has a minimum price increment of \$0.01 per cwt, valued at \$20 per contract. All calendar months will be listed for trading and will trade via open outcry from 9:00 a.m. to 1:10 p.m. (Central Time).

The contracts will be cash-settled, based upon the USDA Class IV price for milk used in manufacturing butter/powder at 3.5 percent butterfat for fluid milk for that particular month. As of July 14, futures settled at \$12.49 for October, \$12.42 for November, and \$12.50 for December, per hundredweight. About 55 contracts traded the first week.



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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	803,011,274	\$10.95	87,929,734.54	
Butterfat	16,867,983	1.2520	21,118,714.68	
Less: Location Adjustment to Handlers			(2,316,256.26)	\$106,732,192.96
Class II— Butterfat	24,952,564	1.4198	35,427,650.40	
Nonfat Solids	30,177,300	0.9333	28,164,474.14	63,592,124.54
Class III— Butterfat	21,118,497	1.4128	29,836,212.58	
Protein	17,503,218	1.4278	24,991,094.68	
Other Solids	34,086,148	0.0438	1,492,973.31	56,320,280.57
Class IV— Butterfat	7,825,555	1.4128	11,055,944.11	
Nonfat Solids	16,728,522	0.8556	14,312,923.41	25,368,867.52
Total Classified Value				\$252,013,465.59
Add: Overage—All Classes				52,725.95
Inventory Reclassification—All Classes				(216,915.70)
Other Source Receipts	231,277			14,158.49
Less: Producer Component Valuations				(187,474,954.04)
Subtotal				\$64,388,480.29
Add: Location Adjustment to Producers				9,288,587.09
One-half Unobligated Balance—Producer Settlement Fund				1,161,861.49
Total Pool Milk & Aggregate Value	1,949,190,465			74,838,928.87
Less: Producer Settlement Fund—Reserve				(964,610.25)
Producer Price Differential @ Suffolk County, MA (Boston)		\$3.79		73,874,318.62
Statistical Uniform Price @ Suffolk County, MA (Boston)		\$13.25		

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