

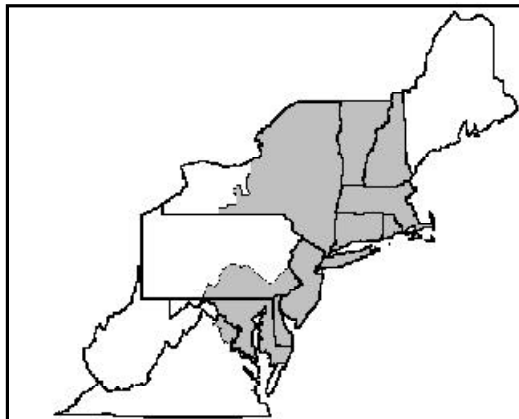
The Market Administrator's BULLETIN

NORTHEAST MARKETING AREA

Erik F. Rasmussen, Market Administrator

September 2000

Federal Order No. 1



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September Pool Price Calculation

The September statistical uniform price for the Northeast Marketing Area was announced at \$13.63 per hundredweight for milk delivered to plants located in Suffolk County, Massachusetts (Boston), the pricing point for the Northeast Order. The statistical uniform price is calculated at 3.5 percent butterfat, 2.99 percent protein, and 5.69 percent other solids. Prices received by individual dairy farmers will vary as the component composition of a farm's milk differs from the standard component tests. The price also will vary depending on the location of the plant to which the milk is delivered. The September producer price differential (PPD) at Suffolk County was \$2.87 per hundredweight.

Uniform Price and PPD Move Opposite

The September statistical uniform price was 24 cents per hundredweight above the August price and is the highest statistical uniform price to date. The statistical uniform price is determined by adding the Class III price and the PPD value. The September Class III price of \$10.76 also was the highest for the year to date, boosted by the highest monthly average cheese price since order reform was implemented. Wholesale cheese values are a significant factor in the Class III price calculation. Given the recent declines in wholesale cheese values (see cheese price article on page 3), it is likely that the September statistical uniform price will be the peak for the year. This likely will be the case as the October Class III price declines due to a drop in wholesale market cheese prices.

October Prices Likely to Reverse

The September PPD dropped by 39 cents per hundredweight from August. The PPD accounts for the value of Classes I, II, and IV milk in the pool and rises and falls as the "spread" between the value of Class III and Class IV changes. With an anticipated decline in the October Class III price, and if Class IV (butter/powder) prices stay about the same, the price "spread" between Classes III and IV will again increase. As a result, the October PPD will likely increase—just the opposite of what the statistical uniform price will do. Due to the large volumes of milk in Order 1 utilized in Classes I, II, and IV, the October PPD (accounting for the value of milk in Classes I, II, and IV) for the Northeast will again likely be the highest of any federal order calculating a PPD (see pool summary table on page 2). ❖

Pool Summary

- A total of 16,977 producers were pooled under the order with an average daily delivery per producer of 3,603 pounds.
- Producer milk receipts totaled 1.835 billion pounds, a decrease of 1.1 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 49.3 percent of total milk receipts, an increase of 4.1 percentage points from August.
- The average butterfat test of producer receipts was 3.64 percent.
- The average true protein test of producer receipts was 2.96 percent.
- The average other solids test of producer receipts was 5.64 percent.

Class Utilization

Producer Milk	Percent	Pounds
Class I	49.3	903,908,890
Class II	17.8	327,327,620
Class III	28.8	529,482,353
Class IV	4.1	74,574,627
Total Producer Milk		1,835,293,490

Producer Component Prices

Protein Price	\$2.0137 /lb
Butterfat Price	\$1.2707 /lb
Other Solids Price	\$0.0502 /lb

Class Price Factors

	\$/cwt
Class I	15.09
Class II	12.58
Class III	10.76
Class IV	11.94

Change in Shipping Percentage

On September 29, pool handlers were notified that the shipping percentage in Section 1001.7 (c) would be increased from 20 to 25 percent for the month of October. This change resulted from an investigation by the Market Administrator's Office followed by a notice and comment period, as required in Section 1001.7 (g).

The investigation was initiated at the written request of pool handlers. As was reported in the August *Bulletin*, the milk supply was tightening during September due to a combination of seasonally lower production and increased demand.

It was determined that a shipping increase of 5 percent would bring forth the additional supply needed, but not be so high as to cause uneconomical movements of milk. At this time, no decision has been made to increase the shipping percentage for the month of November. ❖

National Dairy Board Appointments

Agriculture Secretary Dan Glickman appointed 11 new members and reappointed 2 incumbents to the National Dairy Promotion and Research Board. All will serve 3-year terms from November 1, 2000, through October 31, 2003. Locally, Lewis Gardner, Galeton, Pennsylvania (region 11), and Edgar A. King, Schuylerville, New York (region 12), were among the newly appointed.

The Board is composed of 36 dairy farmers representing 13 regions of the contiguous United States. It administers a coordinated program of promotion, research, and nutrition education, and is financed by a mandatory 15-cent per hundredweight processor assessment. ❖

More Northeast Milk Moves South

During the month of September, a net amount of over 23 million pounds (nearly 470 tankers) of bulk milk pooled under the Northeast Order (Order 1) was shipped to plants in the southeastern United States. Federal orders in the South receiving Order 1 milk include Appalachian (Order 5), Florida (Order 6), and Southeast (Order 7).

Compared with last month, September's net shipments were up 50 percent. The milk supply has tightened considerably; September's pooled volume was the lowest of any month since the orders were consolidated. In the Northeast, the tightness is resulting in an increase in the required shipping percentage for October (see related article on this page).

As reported in August, the shipping volume reported is a net figure. The total amount shipped to the southeastern orders was over 33 million pounds; Order 1 received nearly 10 million pounds of milk pooled under southeastern orders. Much of this milk went to plants located in the southern portion of the Northeast Marketing Area. About 74 percent of the volume shipped to the South was classified as Class I. Nearly 90 percent of the milk received from the South was classified as Class IV.

In addition to the South, bulk milk shipments of Order 1 milk were shipped to and from other federal order areas. Overall, the amount of milk moving to other federal order areas totaled about 45 million pounds; receipts from other federal orders equaled 21 million pounds. The result is a net of 24 million pounds in September, about 1.3 percent of the total producer milk for the month. This compares to 1.7 percent of the total in August. ❖

Pool Summary for All Federal Orders, September 2000

Federal Order Number	Federal Order Name	Total Producer Milk pounds	Class I		Producer Price Differential# dollars per hundredweight	Statistical Uniform Price#*	
			Producer Milk	Utilization percent			Price# dollars per hundredweight
1	Northeast	1,835,293,490	903,908,890	49.3	15.09	2.87	13.63
5	Appalachian	469,034,164	357,920,097	76.3	14.94	N/A	14.41
6	Florida	203,777,649	186,789,213	91.7	15.84	N/A	15.59
7	Southeast	563,356,612	405,277,537	71.9	14.94	N/A	14.16
30	Upper Midwest	1,708,010,895	344,976,141	20.2	13.64	0.7	11.46
32	Central	1,331,781,248	418,044,183	31.4	13.84	1.21	11.97
33	Mideast	1,259,412,458	577,626,165	45.9	13.84	1.77	12.53
124	Pacific Northwest	598,367,378	180,778,592	30.2	13.74	1.35	12.11
126	Southwest	681,901,783	334,954,124	49.1	14.84	2.52	13.28
131	Arizona-Las Vegas	229,400,576	79,581,137	34.7	14.19	N/A	12.32
135	Western	290,936,625	85,454,730	29.4	13.74	1.18	11.94
All Market Total/Average		9,171,272,878	3,875,310,809	42.3	14.42	1.66	13.04

Price at designated order location.

* Price at 3.5% butterfat.

N/A = Not applicable.

MARKET SITUATION

Cheese Prices Plummet

Prices for 40-pound block Cheddar on the Chicago Mercantile Exchange (CME) peaked at \$1.3350 per pound on September 1. They remained within a 3-cent range for about 2 weeks, but on September 18 began a descent that as of October 16 had reached \$1.0450 per pound. On the same day, 500-pound barrel cheese prices equaled \$1.0000 per pound on the CME.

From January through mid-June, block prices were in \$1.0825 to \$1.2000 per pound range (see Figure 1). On June 15, the price jumped to \$1.2500 per pound from the previous day's \$1.1800 per pound. This was the beginning of a volatile period where prices ranged from \$1.1100 per pound to \$1.3350 per pound, the aforementioned high point.

Prices for block cheese reported on the National Agricultural Statistics Service (NASS) survey have averaged 1.5 cents less than the CME prices since the beginning of 2000 (see Figure 2). As of October 7 (the most recent NASS data), the survey block price was \$1.2621 per pound. In addition, the barrel cheese price (at 39% moisture) was \$1.2096 per pound, compared to \$1.0255 per pound for 500-pound barrels on the CME for the week ending October 6. NASS barrel prices have averaged only 1 cent less than CME prices this year (see Figure 3). Both of the NASS block and barrel prices are used in calculating federal order minimum prices. The decline in producer prices resulting from weak cheese prices will be felt in the upcoming months.

With cheese prices currently below the support level (\$1.1220 for blocks, \$1.0920 for barrels, per pound), it is expected that the Commodity Credit Corporation (CCC) will begin buying surplus product. The last time the CCC purchased block cheese was in June. During the marketing year that ended September 30, 2000, CCC cheese purchases included 1,162,919 pounds of block cheese, 5,583,600 pounds of process cheese, and no barrel cheese. ❖

Figure 1

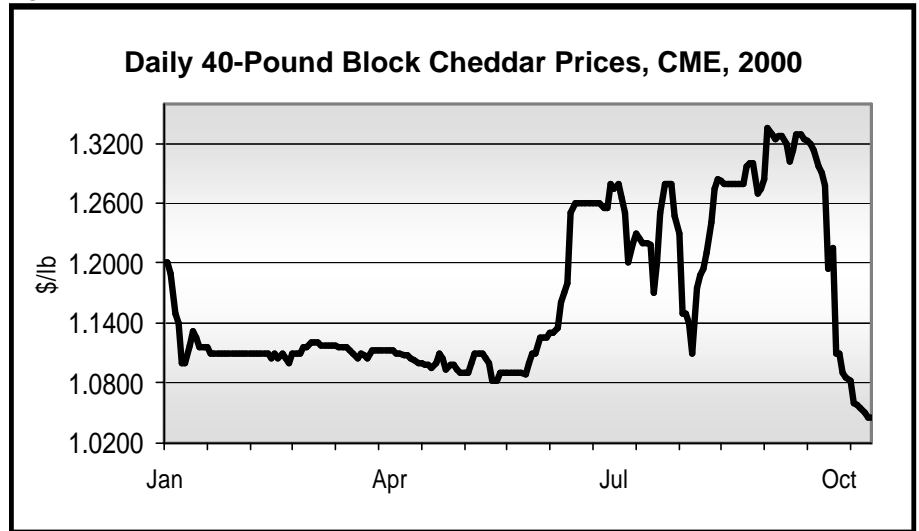


Figure 2

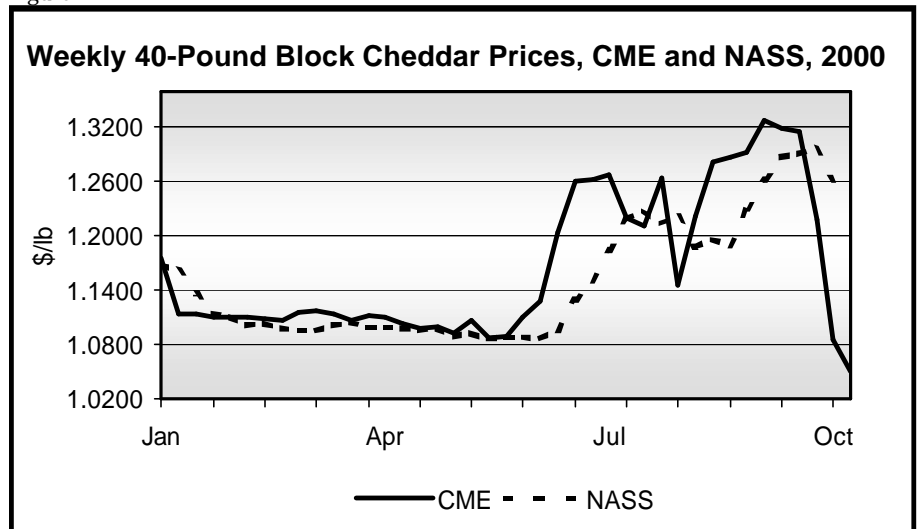
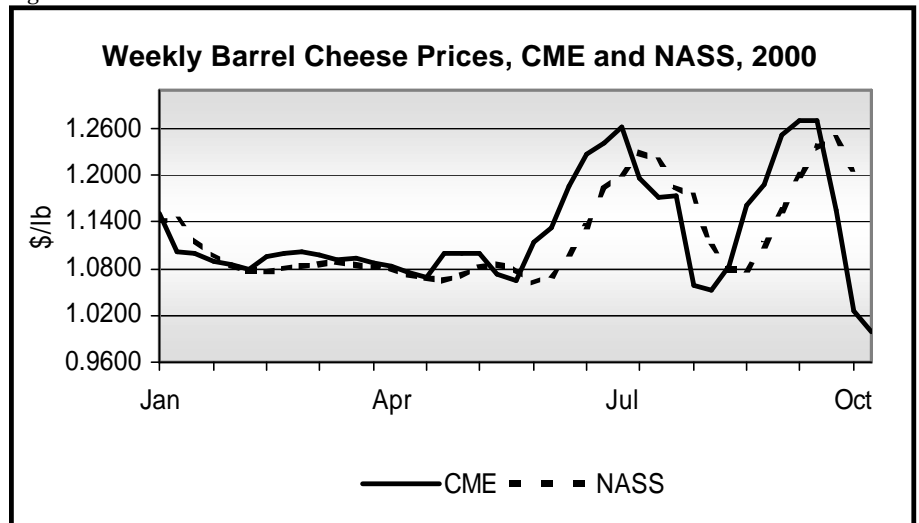


Figure 3





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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	885,431,720	\$10.95	96,954,773.38	
Butterfat	18,477,170	1.2916	23,865,112.82	
Less: Location Adjustment to Handlers			(2,638,733.71)	\$118,181,152.49
Class II— Butterfat	24,125,014	1.2777	30,824,530.43	
Nonfat Solids	27,149,098	0.9333	25,338,253.21	56,162,783.64
Class III— Butterfat	19,130,411	1.2707	24,309,013.28	
Protein	15,684,711	2.0137	31,584,302.59	
Other Solids	29,801,119	0.0502	1,496,016.18	57,389,332.05
Class IV— Butterfat	5,084,199	1.2707	6,460,491.67	
Nonfat Solids	6,219,341	0.8624	5,363,559.70	11,824,051.37
Total Classified Value				\$243,557,319.55
Add: Overage—All Classes				70,823.69
Inventory Reclassification—All Classes				(94,586.60)
Other Source Receipts	58,865			2,672.89
Less: Producer Component Valuations				(199,645,399.82)
Subtotal				\$43,890,829.71
Add: Location Adjustment to Producers				8,499,705.82
One-half Unobligated Balance—Producer Settlement Fund				1,019,243.90
Total Pool Milk & Aggregate Value	1,835,352,355			53,409,779.43
Less: Producer Settlement Fund—Reserve				(735,166.84)
Producer Price Differential @ Suffolk County, MA (Boston)		\$2.87		52,674,612.59
Statistical Uniform Price @ Suffolk County, MA (Boston)		\$13.63		

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