



The Market Administrator's

BULLETIN

NORTHEAST MARKETING AREA

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December 2000

Federal Order No. 1

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December Pool Price Calculation

The December statistical uniform price for the Northeast Marketing Area was announced at \$13.72 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 December producer price differential (PPD) at Suffolk County was \$4.35 per hundredweight.

Uniform Price Highest of the Year

The December statistical uniform price was 36 cents per hundredweight above the November price and is the highest statistical uniform price for the year. The gain was caused by an 80-cents per hundredweight increase in the December Class III price (due to moderately stronger cheese prices) combined with the second highest PPD value for the year. Remember, the value of the PPD is affected by the "spread" between the Class III and Class IV prices. As the difference between these prices increases or decreases, so does the PPD. The strong butter prices of late November and early December also were factors pushing both the producer butterfat price and Class IV price to year-end highs.

Revised Formulas for January Pool

The revised price formulas, approved by producers in the December 2000 referendum on the Tentative Final Decision (see November *Bulletin* for more information) will become effective with the calculation of the *January* pool in mid-February. While the changes are in the formulas for Class III and IV milk, which determine the minimum prices that handlers must pay for milk utilized in Classes III or IV, the changes also impact Class I and II prices and the way that the value for producer butterfat will be determined. Producers will now be paid for butterfat on a weighted average butterfat price rather than the current Class III butterfat price. This weighted average will be based on the combined value of butterfat in all classes of milk. This value will be determined during the calculation of the statistical uniform price and will be announced along with the statistical uniform price and PPD. The monthly class price announcement will now include distinct butterfat prices for all four classes of milk, but will no longer report a producer butterfat price. ❖

Pool Summary

- A total of 17,113 producers were pooled under the order with an average daily delivery per producer of 3,677 pounds.
- Producer milk receipts totaled 1.954 billion pounds, an increase of 1.8 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 47.9 percent of total milk receipts, a decrease of 1.3 percentage points from November.
- The average butterfat test of producer receipts was 3.82 percent.
- The average true protein test of producer receipts was 3.07 percent.
- The average other solids test of producer receipts was 5.67 percent.

Class Utilization

Pooled Milk	Percent	Pounds
Class I	47.9	936,890,448
Class II	14.1	275,142,776
Class III	29.4	575,461,479
Class IV	8.6	166,950,876
Total Pooled Milk		1,954,445,579

Producer Component Prices

Protein Price	\$1.0378 /lb
Butterfat Price	\$1.6534 /lb
Other Solids Price	\$0.0829 /lb

Class Price Factors

	\$/cwt
Class I	15.38
Class II	13.97
Class III	9.37
Class IV	13.27

2000 Northeast Order Statistics Summarized

During its first year of operation, the Northeast Order pooled a total of nearly 24 billion pounds of milk from producers shipping to handlers regulated under the order. This total was down 1 percent from the total combined volume pooled on the three predecessor federal orders (New England, New York–New Jersey, and Middle Atlantic) during 1999. The accompanying table compares the statistics for the new order for 2000 with combined data for the former orders for 1999. Changes in order provisions may have affected the pooled volume.

Class Utilization Changes

Total Class I utilization averaged 43.9 percent in 2000, an increase of 1.6 percentage points. Class II usage also increased. It equaled 17.4 percent for the year, up from 16.7 percent in 1999. Milk used for Class III purposes dropped 3.2 percentage points. The remaining milk was used in Class IV—new in 2000. This class represents milk used for butter and dry products, such as nonfat dry milk and whole milk powder. It is not directly comparable to the former Class III-A, which accounted for milk used only in nonfat dry milk. Some of the other classes also contain provision changes that may have had an impact on utilization.

Class Prices Decline

Even though order reform included changes to pricing formulas, prices still were based on supply and demand market factors as in previous years. The decline in prices in 2000 was due to a combination of factors. Milk production increased nationally. Commodity prices for cheese and butter declined once inventories peaked. Since federal order class prices are formulated using wholesale market prices, the decline in market values was reflected in lower class prices.

The Class I price averaged \$14.80 per hundredweight at Suffolk County, Massachusetts (Boston) during 2000. For 1999, the simple average Class I price for the three former federal orders at their respective base-zone locations (Boston, New York City, and Philadelphia) was \$16.82 per hundredweight. The Class II price formula also was changed in 2000. Regardless, the Class II price averaged \$1.45 per hundredweight less than in 1999. The Class III price was \$2.72 per hundredweight less than the previous year. The Class IV price was only 34 cents per hundredweight less than the Class III-A price in 1999. While these prices are not directly comparable to class prices as calculated prior to order reform, they are similar enough to show the magnitude of class price declines during 2000.

The effect of Class IV pricing on the overall scheme of the market took some by surprise. The new formulas called for Class I pricing to be set by the higher of the Class III or IV price. It was not expected that the Class IV price would be the price-setter for the entire year, as was the case in 2000 due to low cheese values and relatively stronger

Northeast Order Pool Statistics, 1999–2000

Pool statistics	1999	2000	1999-2000
	million pounds		Change
			percent
Class I	10,241.3	10,513.1	2.7
Class II	4,041.7	4,170.9	3.2
Class III	7,808.6	6,955.0	-10.9
Class III-A/IV	2,134.6	2,333.4	9.3
Total Receipts	24,226.2	23,972.4	-1.0
	pounds		
DDP	3,713	3,787	2.0
	utilization percentage		change
Class I	42.3	43.9	1.6
Class II	16.7	17.4	0.7
Class III	32.2	29.0	-3.2
Class III-A/IV	8.8	9.7	0.9
	dollars/cwt		percent
Class I	16.82	14.80	-12.0
Class II	13.98	12.53	-10.4
Class III	12.46	9.74	-21.8
Class III-A/IV	12.17	11.83	-2.8
Blend (Uniform)	14.78	13.04	-11.8

butter and milk powder prices. In addition, under federal reform, the Class II price is formulated by adding 70 cents to the Class IV price. As a result, Class IV pricing proved to be a significant and positive influence on producer prices during 2000.

Component Pricing

Multiple component pricing was enacted for all producers under the new order. Producers were paid based on the levels of certain components in their milk. For 2000, the price paid to producers—reflected in the statistical uniform price—averaged \$13.04 per hundredweight (at Suffolk County, Massachusetts). The simple average uniform price for the combined former orders (at their base zones) equaled \$14.23 per hundredweight for 1999. The average producer price differential (PPD) equaled \$3.30 per hundredweight. This number reflects the difference between the statistical uniform price and the average Class III price.

The average butterfat test for producers pooled during 2000 was 3.71 percent. True protein averaged 2.99 percent; other solids averaged 5.67 percent.

Producer Numbers

The average number of producers pooled by handlers regulated under the order equaled 17,294 in 2000, a decline of 3.3 percent from the 1999 combined total of the former three orders. The year finished with 689 less producers than in December of 1999, although this number was affected by more pooling changes than was likely the case in the three prior orders. Average daily deliveries per producer (DDP) totaled 3,787 in 2000, an increase of 2 percent from 1999. ❖

MARKET SITUATION

CCC Purchases Highest Since 1992

For the marketing year (MY) October 1, 1999 through September 30, 2000, the Commodity Credit Corporation (CCC) purchased over 3.5 billion pounds of dairy products (on a total solids milk equivalent basis) under the dairy price support program. This was a volume increase of 168 percent from MY 1998-99. See accompanying table.

Total purchases were the highest since 1992 when they equaled 4.2 billion pounds (total solids milk equivalent). At that time, the CCC was purchasing butter, cheese, and nonfat dry milk under the support program. After peaking at nearly 19 billion pounds during MY 1982-83, purchases generally declined as changes were made to the program and CCC purchase prices. From MY 1990-91 until MY 1995-96, support purchases declined each year; there were none in MY 1995-96. During MY 1996-97, only cheese and nonfat dry milk were purchased; in MYs 1997-98 and 1998-99, only nonfat dry milk was purchased.

During the last week of February 2000, the CCC purchased process cheese for the first time since July 1997. In April, the CCC made its first block cheese purchase since June 1997. Since the second week of November, the CCC has been making weekly purchases of cheese. This coincides with the drop in the cheese price on the Chicago Mercantile Exchange (CME). Once the market price

fell below the support price, cheese makers began selling to the CCC.

As of January 12, 2001, the CCC had purchased 3.1 million pounds of block cheese, 3.7 million pounds of barrel

cheese, and 3.7 million pounds of process cheese so far during MY 2000-01. Nonfat dry milk purchases totaled 143.7 million pounds since October 1, 2000. On a total solids milk equivalent basis, CCC purchases for MY 2000-01 equal 1.1 billion pounds as of January 12. No butter has been purchased, as the market price for butter is considerably higher than the support price. As of January 17, cheese prices on the CME were \$1.0800 per pound for barrels and \$1.0825 per pound for blocks. This compares to support prices of \$1.0920 and \$1.1220 per pound for barrels and blocks, respectively.

The support price program was to expire on December 31, 2000. It was extended through calendar year 2001 by the Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations

Act, 2001. As of December 29, 2000, the USDA had not changed any of the CCC purchase prices for dairy products, but stated that the prices will be reconsidered as the 2001 calendar year begins. As of this printing, no changes have been made. ❖

CCC Purchases of Dairy Products Under the Support Program, Selected Years*

MY Ending	Butter	Cheese	NFDM	Milk Equivalent Total
(million pounds)				
1983	409.1	832.4	1041.2	18,977.9
1987	145.1	261.1	556.8	7,728.3
1991	442.8	76.9	269.5	6,539.7
1992	403.5	56.3	9.4	4,156.2
1993	327.6	4.9	18.0	3,055.2
1994	168.6	0.0	50.8	1841.1
1995	26.4	0.0	24.6	406.2
1996	0.0	0.0	0.0	0.0
1997	0.0	1.9	31.9	244.1
1998	0.0	0.0	121.3	857.6
1999	0.0	0.0	186.1	1,315.9
2000	0.0	6.9	490.0	3,532.1
2001#	0.0	10.4	143.7	1,116.3

Sources: Commodity Credit Corporation; Dairy Market News

* Does not include purchases under Dairy Export Incentive Program.

Marketing year to date.



Market Services Fee to Increase

The deduction for market services, which is required according to Sections 1000.86 and 1001.86 of the milk marketing order, will be increased beginning with milk shipped January 2001. The increase from 3.0 cents per hundredweight to 5.0 cents per hundredweight will raise the deduction back to the level previously paid by producers pooled under the former New England and Middle Atlantic

marketing orders. The provisions are for producers who do not receive services from a cooperative association (nonmember producers) and those members of cooperatives whose cooperative has not been exempted from the deduction. The market services program provides for the establishment or verification of weights, samples, and tests of producer milk and for the distribution of market information. ❖



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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	916,241,095	\$11.00	100,786,520.45	
Butterfat	20,649,353	1.3608	28,099,639.62	
Less: Location Adjustment to Handlers			(2,822,809.79)	\$126,063,350.28
Class II— Butterfat	22,110,336	1.6604	36,712,001.95	
Nonfat Solids	23,030,560	0.9389	21,623,392.83	58,335,394.78
Class III— Butterfat	23,016,860	1.6534	38,056,076.37	
Protein	17,611,881	1.0378	18,277,610.15	
Other Solids	32,594,439	0.0829	2,702,079.03	59,035,765.55
Class IV— Butterfat	8,823,170	1.6534	14,588,229.30	
Nonfat Solids	14,428,563	0.8616	12,431,649.92	27,019,879.22
Total Classified Value				\$270,454,389.83
Add: Overage—All Classes				264,736.55
Inventory Reclassification—All Classes				(166,385.17)
Other Source Receipts	275,260			20,208.91
Less: Producer Component Valuations				(194,856,078.74)
Subtotal				\$75,716,871.38
Add: Location Adjustment to Producers				9,510,395.80
One-half Unobligated Balance—Producer Settlement Fund				623,337.05
Total Pool Milk & Aggregate Value	1,954,720,839			85,850,604.23
Less: Producer Settlement Fund—Reserve				(820,247.73)
Producer Price Differential @ Suffolk County, MA (Boston)		\$4.35		85,030,356.50
Statistical Uniform Price @ Suffolk County, MA (Boston)		\$13.72		

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