



The Market Administrator's

BULLETIN

NORTHEAST MARKETING AREA

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Federal Order No. 1

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May Pool Price Calculation

The May 2001 statistical uniform price for the Northeast Marketing Area was announced at \$16.32 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. The May producer price differential (PPD) at Suffolk County was \$2.49 per hundredweight.

The May statistical uniform price was \$1.08 per hundredweight above April's price and a new record high (since the inception of the Northeast Order). May's PPD decreased 69 cents from the previous month. All class values increased from the previous month largely due to the increase in component prices. Class III experienced the largest gain, a jump of \$1.77 per hundredweight from April. With the spread between the Class III price and the other class prices decreasing, the PPD decreased. If component prices remain high, higher class prices will hold resulting in lower PPDs but strong statistical uniform prices (see milk futures article on page 3).

The value for producer butterfat in the May pool increased more than 14 percent from April's total resulting in a new record-high value. This occurred because the May butterfat price increased nearly 9 percent from April, even though the monthly average producer butterfat test declined 0.07 percentage points.

May's producer milk receipts totaled the largest pool since the Northeast Order's inception. Average daily deliveries per producer at 4,099 pounds were also record-setting for the Order.❖

Processor Board Appointments

Agriculture Secretary Ann M. Veneman appointed five new members and reappointed two incumbents to the National Fluid Milk Processor Promotion Board. All will serve 3-year terms that will expire May 31, 2004. Locally, Peter Ross, Franklin, Massachusetts (Region 1), was among the newly appointed.

The board is composed of 15 fluid milk processors from 15 geographic regions, and 5 at-large members. Of the at-large members, at least three must be fluid milk processors and at least one must be from the general public. The board was established by the Fluid Milk Promotion Act of 1990 to develop and administer a coordinated program of advertising and promotion to increase the demand for fluid milk products.❖

Pool Summary

- A total of 17,279 producers were pooled under the order with an average daily delivery per producer of 4,099 pounds.
- Pooled milk receipts totaled 2.196 billion pounds, an increase of 3.7 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 41.2 percent of total milk receipts, no change from April.
- The average butterfat test of producer receipts was 3.63 percent.
- The average true protein test of producer receipts was 2.96 percent.
- The average other solids test of producer receipts was 5.71 percent.

Class Utilization

| Pooled Milk | Percent | Pounds |
|-------------------|---------|---------------|
| Class I | 41.1 | 903,958,014 |
| Class II | 14.9 | 326,685,497 |
| Class III | 33.5 | 735,318,054 |
| Class IV | 10.5 | 229,948,061 |
| Total Pooled Milk | | 2,195,909,626 |

Producer Component Prices

| | 2001 | 2000 |
|--------------------|--------|--------|
| | \$/lb | |
| Protein Price | 1.9108 | 1.5514 |
| Butterfat Price | 2.1191 | 1.2854 |
| Other Solids Price | 0.1229 | 0.0403 |

Class Price Factors

| | 2001 | 2000 |
|-----------|--------|-------|
| | \$/cwt | |
| Class I | 17.46 | 14.73 |
| Class II | 15.72 | 12.63 |
| Class III | 13.83 | 9.37 |
| Class IV | 15.04 | 11.91 |

Fluid Sales Decline Slightly

During 2000, sales of packaged fluid milk products in federal milk marketing areas and California equaled nearly 52 billion pounds, a decline of 0.4 percent from 1999 (adjusted for leap year). The accompanying chart shows packaged fluid sales for the 11 federal orders (Arizona-Las Vegas and Western are combined) and California. These figures represent approximately 93 percent of total fluid milk sales in the United States.

Sales by Area

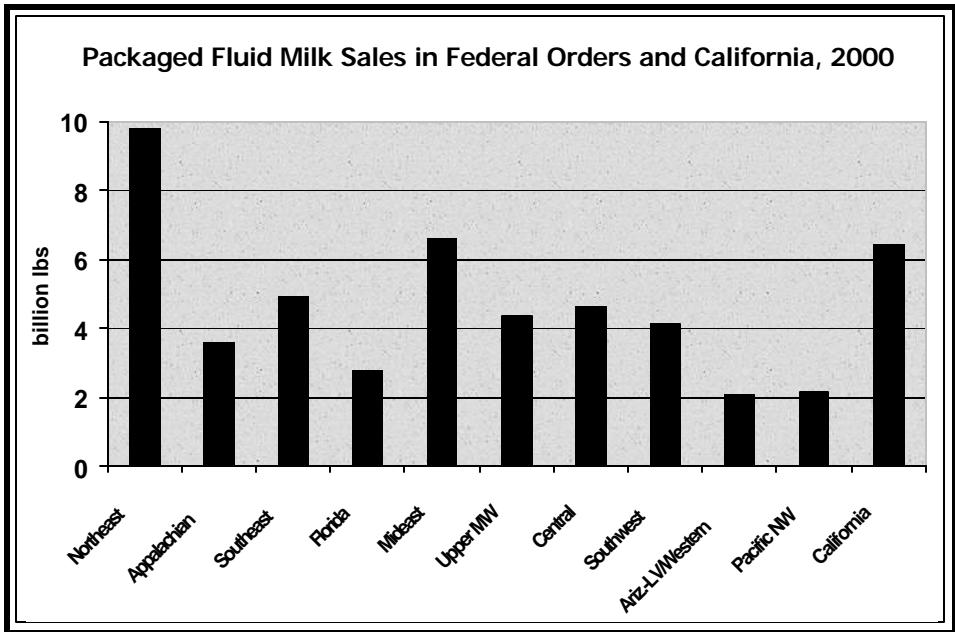
The Northeast Milk Marketing Area had the largest volume of sales in 2000 and accounted for 19 percent of the total volume of sales in federal order areas and California. The Mideast Order ranked second with 12.8 percent and California finished third with 12.5 percent.

The Florida Order experienced the largest increase in sales from 1999 with 1.7 percent. Sales in the Upper Midwest grew 1.2 percent; California's sales increased 0.4 percent; and the Northeast and Southwest Orders gained 0.1 percent. The remaining orders' sales declined: Appalachian—2.6 percent; Central—2.0 percent; Pacific Northwest—1.5 percent; Mideast—1.3 percent; the combined Arizona-Las Vegas/Western orders—0.9 percent; and the Southeast Order—0.4 percent.

Sales by Product

Based on type of product, only whole milk and lowfat (1%) milk had increased sales in 2000. Whole milk sales grew 1.6 percent while lowfat increased slightly with 0.1 percent. Skim milk sales had the greatest drop with 4.9 percent; buttermilk declined 1.4 percent; and reduced fat (2%) milk decreased 0.7 percent.

Overall, whole milk was still the most popular product with 35.9 percent of total sales. Reduced fat accounted for 31.6 percent; lowfat had 16.0 percent; skim milk totaled 15.4 percent; and buttermilk equaled 1.1 percent.♦



Top Ten Supply Counties

During the month of December 2000, the top ten counties supplying milk to the Northeast Order accounted for 28.7 percent of all milk and 28.0 percent of the producers pooled. The accompanying table shows these counties along with the number of producers and their respective volumes of milk pooled during December 2000. There were 271 counties supplying milk that month.

It should be noted that the volumes shown for each county do not necessarily account for all milk produced in the county. Milk shipped to other federal orders, state orders, or unregulated areas is not included here. As a result, volumes and producer numbers change from month to month, and county rankings could change correspondingly.

Lancaster County, PA, supplied the largest volume of milk to the Northeast Order during December 2000. This was the number one ranked county for both of the former New York-New Jersey and Middle Atlantic orders. Alone, Lancaster County accounted for nearly 8 percent of all milk pooled in December 2000 under the Northeast Order. It had nearly 2.5 times the volume of the second largest supply county, Franklin County, PA, and 4 times its number of producers.

The third and fourth largest supply counties, Franklin County, VT, and Addison County, VT, were the first and second largest suppliers, respectively, under the former New England Order. All

of the top supply counties are located in the three largest supply states (New York, Pennsylvania, and Vermont). The highest-ranking New York county was St. Lawrence, which came in fifth in December 2000.♦

Northeast Order Producer Milk Receipts by Top Ten Counties, December 2000*

| County | State | Number of Producers | Pounds of Milk |
|---------------|-------|---------------------|----------------|
| Lancaster | PA | 1,938 | 154,631,654 |
| Franklin | PA | 468 | 62,680,759 |
| Franklin | VT | 340 | 57,354,206 |
| Addison | VT | 233 | 49,603,407 |
| St. Lawrence | NY | 418 | 46,226,539 |
| Wyoming | NY | 133 | 43,473,478 |
| Jefferson | NY | 337 | 43,229,213 |
| Bradford | PA | 419 | 34,075,011 |
| Lewis | NY | 319 | 33,984,777 |
| Cayuga | NY | 152 | 33,926,109 |
| Top Ten Total | | 4,757 | 559,185,153 |
| Pool Total | | 17,009 | 1,948,723,309 |

* Figures based on payroll data.

MARKET SITUATION

Support Purchase Prices Adjusted

USDA has adjusted the purchase prices for butter and nonfat dry milk (NFDM) under the Commodity Credit Corporation (CCC) support program effective May 31, 2001. The CCC purchase price for butter will be increased by 19.9 cents to \$0.8548 per pound and the purchase price for NFDM will decrease by 10.32 cents to \$0.9000 per pound. The purchase prices for block Cheddar and barrel cheese remain unchanged at \$1.1314 and \$1.1014 per pound, respectively.

The 2001 Appropriations Bill extended the price support program through 2001 at a per hundredweight price of \$9.90 (for milk with 3.67 percent butterfat), the same per hundredweight level since 1999. The support program works through the CCC's standing offer to purchase butter, NFDM, and Cheddar cheese at specified prices. The individual product prices are computed in relation to the \$9.90 per hundredweight support price.

Effect on Producer Prices

Market values for butter, cheese, and NFDM, collected monthly via the National Agricultural Statistics Service (NASS) commodity price surveys, are used in the calculation of federal order class and component prices. The May average market price for NFDM was \$1.0180 per pound or 11.8 cents above the new CCC support price. The May average market price for butter was \$1.8527 per pound, nearly \$1.00 above the CCC support price. The May market price for cheese was about 40 cents per pound above the CCC support prices.

Since order reform was implemented in January 2000, the

monthly market value for NFDM has effectively been at or very near the level of the former (prior to May 31, 2001) support price (\$1.0132 per pound, fortified 25-kg bags). With the decline in the NFDM support price, it is expected that market prices for NFDM also will decline. This will have the effect of lowering the Class IV price. A lower Class IV price will affect the Class II price and the Class I price, which has been set off of the "higher-of" Class IV skim price for every month to date. At this time it is difficult to calculate an exact price impact based on this change, not knowing how market prices will respond over time. As perhaps a leading indicator, Class IV futures prices on the Chicago Mercantile Exchange reacted immediately to the news, dropping 40-50 cents per hundredweight for the months June-September 2001; however, much of this initial drop has been regained.

Adjustment Rationale

Cited as factors behind USDA's decision to change the butter and nonfat dry milk purchase prices were an accumulation by USDA of nonfat dry milk stocks in quantities well above their ability to use the product; the level of expenditures the purchases were requiring; and significant market distortions. During 2000, USDA purchases under the support program accounted for approximately 38 percent of the domestic production of NFDM for the year. The Agricultural Market Transition Act permits the USDA to adjust the balance between the individual product purchase prices twice each year, if deemed necessary. ♦

Futures and Commodity Markets Point to Strong Prices

Five months into the year, 2001 looks to be headed towards a strong annual average uniform price for the Northeast Order. For the first 5 months of 2001, the average uniform price was \$14.69 compared to \$14.52 for the same period of 1998, the year of record-high prices. Lower production nationwide in 1998 led to decreased cheese production and butter shortages, strengthening prices in the latter part of that year. A similar situation is occurring in 2001.

Chicago Mercantile Exchange (CME) Grade AA butter prices in both 2001 and 1998 began the year at about \$1.13 per pound. Since the end of February, butter prices averaged 27 cents higher this year than in 1998. Starting the year below 1998 levels, 2001 CME 40-pound block Cheddar cheese prices have been higher than 1998 prices since early April. From that point, 2001 has trended 1998 closely, but about 26 cents higher.

On June 13, 2001, average futures for June-December 2001 settled at \$13.90 and \$14.63 for Class III and Class IV, respectively (see table). The actual average prices for June-December 2000 were \$9.85 and \$12.31 for Class III

and Class IV, respectively. If futures hold true, the result would be average annual prices of \$12.91 for Class III, \$14.18 for Class IV, and a resulting higher annual average blend price. In addition, the spread between Classes III and IV is tightening. ♦

Actual 2000 Class Prices vs. 2001 Futures Prices,
June-December, as of June 13, 2001

| | Class III | | Class IV | |
|---------|----------------|---------------------|----------------|---------------------|
| | Actual 2000 | CME Futures 2001 | Actual 2000 | CME Futures 2001 |
| Jun | \$ 9.46 | \$14.88 | \$12.38 | \$15.10 |
| Jul | 10.66 | 14.70 | 11.87 | 15.10 |
| Aug | 10.13 | 14.70 | 11.87 | 15.00 |
| Sep | 10.76 | 14.65 | 11.94 | 14.70 |
| Oct | 10.02 | 13.64 | 11.81 | 14.45 |
| Nov | 8.57 | 12.78 | 13.00 | 14.20 |
| Dec | 9.37 | 11.95 | 13.27 | 13.86 |
| Average | \$ 9.85 | \$13.90 | \$12.31 | \$14.63 |



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Computation of Producer Price Differential and Statistical Uniform Price

| | | Product Pounds | Price per cwt/lb | Component Value | Total Value |
|--|---|----------------|------------------|-----------------|-------------------------|
| Class I— | Skim | 885,693,942 | \$11.13 | 98,577,735.74 | |
| | Butterfat | 18,264,072 | 1.9212 | 35,088,935.13 | |
| | Less: Location Adjustment to Handlers | | | (2,787,621.58) | \$130,879,049.31 |
| Class II— | Butterfat | 25,381,677 | 2.1261 | 53,963,983.48 | |
| | Nonfat Solids | 27,099,109 | 0.9533 | 25,833,580.61 | 79,797,564.09 |
| Class III— | Butterfat | 25,640,788 | 2.1191 | 54,335,393.85 | |
| | Protein | 21,749,107 | 1.9108 | 41,558,193.69 | |
| | Other Solids | 42,071,472 | 0.1229 | 5,170,583.92 | 101,064,171.46 |
| Class IV— | Butterfat | 10,353,976 | 2.1191 | 21,941,110.51 | |
| | Nonfat Solids | 19,818,992 | 0.8780 | 17,401,074.98 | 39,342,185.49 |
| Total Classified Value | | | | | \$351,082,970.35 |
| Add: | Overage—All Classes | | | | 205,812.02 |
| | Inventory Reclassification—All Classes | | | | 247,592.22 |
| | Other Source Receipts | 235,779 | | | 10,025.55 |
| | Less: Producer Component Valuations | | | | (308,242,640.52) |
| | Subtotal | | | | \$43,303,759.62 |
| Add: | Location Adjustment to Producers | | | | 11,587,190.01 |
| | One-half Unobligated Balance—Producer Settlement Fund | | | | 843,849.74 |
| Total Pool Milk & Aggregate Value | | 2,196,145,405 | | | 55,734,799.37 |
| Less: | Producer Settlement Fund—Reserve | | | | (1,050,778.51) |
| Producer Price Differential @ Suffolk County, MA (Boston) | | | \$2.49 | | 54,684,020.86 |
| Statistical Uniform Price @ Suffolk County, MA (Boston) | | | \$16.32 | | |

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