

The Market Administrator's **BULLETIN**

NORTHEAST MARKETING AREA

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January 2003

Federal Order No. 1

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January Pool Price Calculation

The January 2003 statistical uniform price (SUP) for the Northeast Marketing Area was announced at \$12.19 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 January producer price differential (PPD) at Suffolk County was \$2.41 per hundredweight.

The January statistical uniform price was 5 cents per hundredweight below December's price and the January PPD was 9 cents below the previous month's. Prices for milk used in Classes I and III increased, while the prices for Classes II and IV declined. The producer protein price increased nearly 7 cents per pound; the butterfat price decreased slightly. ❖

Producers Approve Amendments Revising Class III and IV Price Formulas

Producers supplying milk for each of the 11 federal milk markets have approved amendments to the current Class III and IV federal milk order pricing formulas. USDA determined producer approval by polling the producer cooperative associations in nine of the markets and conducting referenda in the Northeast and Mideast markets. The amended orders will become effective for milk marketed on or after **April 1, 2003**.

Congress mandated that USDA review the pricing formulas following the reform effort under the 1996 Farm Bill. A public hearing was held May 8-12, 2000, to consider proposals to change the formulas. Effective January 1, 2001, USDA issued revised formulas that were enjoined by a U.S. District Court at the end of January. In October 2001, following the court injunction, USDA issued a recommended decision to alter the pricing formulas. A final decision altering the formulas was issued October 25, 2002, and printed in the *Federal Register* November 7, 2002.

The estimated impacts indicate that the formula changes would increase component prices for protein and reduce the prices for butterfat and nonfat solids. The results are higher Class III prices and lower Class I, Class II, and Class IV prices. The estimated impact of the annual
(continued on Page 3)

Pool Summary

- A total of 16,376 producers were pooled under the Order with an average daily delivery per producer of 4,054 pounds.
- Pooled milk receipts totaled 2.058 billion pounds, a decrease of 1.6 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 45.3 percent of total milk receipts, an increase of 0.7 percentage points from December.
- The average butterfat test of producer receipts was 3.80 percent.
- The average true protein test of producer receipts was 3.04 percent.
- The average other solids test of producer receipts was 5.70 percent. ❖

Class Utilization

<u>Pooled Milk</u>	<u>Percent</u>	<u>Pounds</u>
Class I	45.3	932,007,966
Class II	16.9	348,725,202
Class III	28.4	584,415,569
Class IV	9.4	193,018,308
Total Pooled Milk		2,058,167,045

Producer Component Prices

	<u>2003</u>	<u>2002</u>
	\$/lb	
Protein Price	1.8164	1.9660
Butterfat Price	1.1856	1.4846
Other Solids Price	0.0339	0.1392

Class Price Factors

	<u>2003</u>	<u>2002</u>
	\$/cwt	
Class I	13.81	15.21
Class II	11.29	12.69
Class III	9.78	11.87
Class IV	10.07	11.93

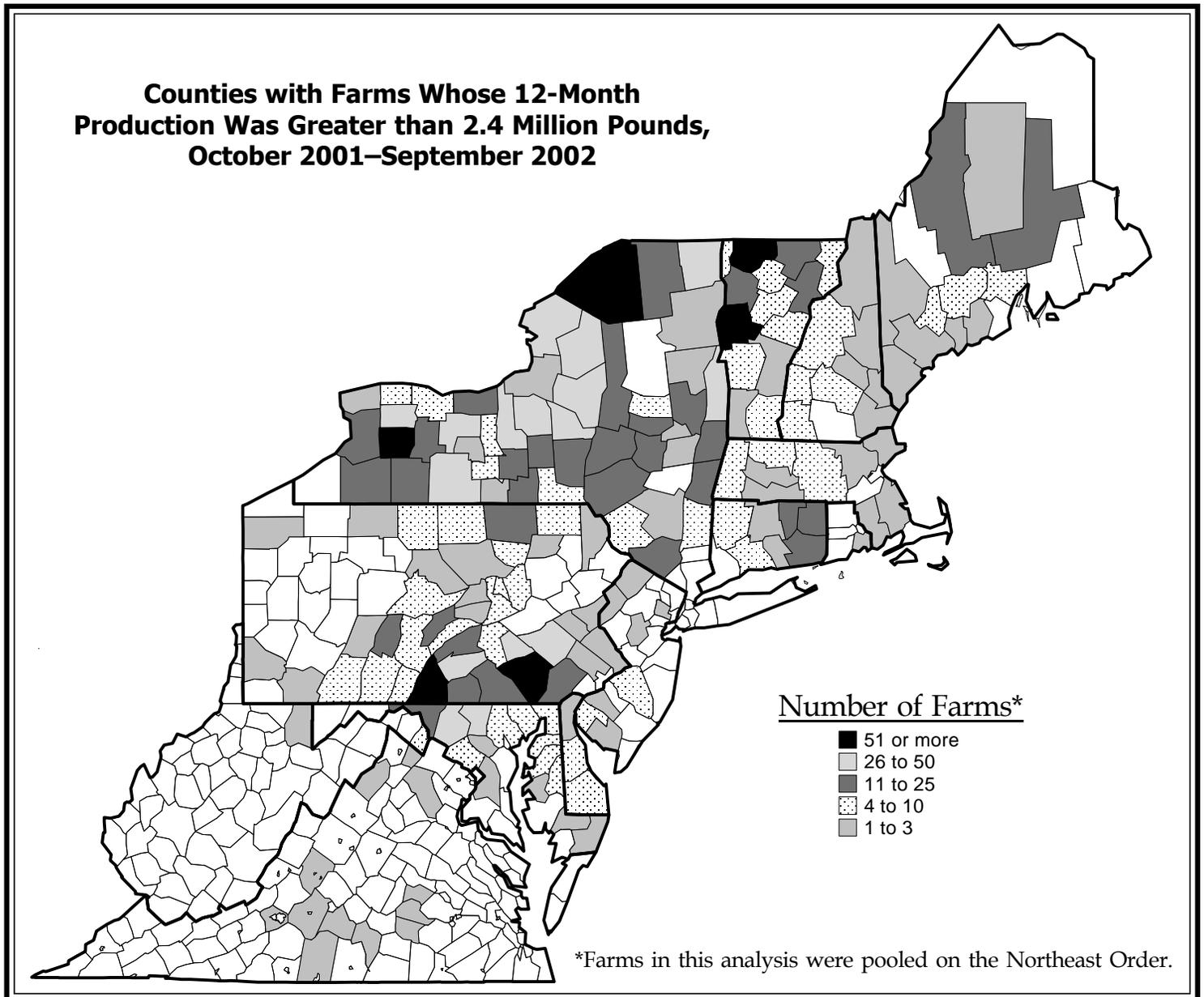
Larger Farms Impacted by MILC Cap

Farmers have been receiving Milk Income Loss Contract Program (MILC) payments since October 15, 2001.

The program places a 2.4 million pound annual cap on production eligible for MILC payments. For the 12-month period October 1, 2001, through September 30, 2002, our analysis indicates that there were 2,083 producers who produced more than 2.4 million pounds that, theoretically, will be impacted by this cap over the course of the program. New York was home to 897 of these farms, followed by Pennsylvania with 517, Vermont with 260, and Maryland with 140. Franklin County, PA, led all counties in the Northeast Order with 96 farms pooling more than 2.4 million pounds in 2002. Franklin County, VT, ranked second with 79; Addison County, VT, and Lancaster County, PA, followed with 73 each. The attached map shows the location by county of these farms in the Northeast Order. There were 35 farms from outside the

traditional Northeast milkshed that pooled more than 2.4 million pounds on the Northeast Order in 2002. These farms were in Idaho, Michigan, Minnesota, Nevada, Utah, and Wisconsin.

MILC payments occur in months when the price of Class I milk in Suffolk County, Massachusetts (Boston), under the Northeast Milk Marketing Order, falls below \$16.94 per hundredweight. Payment rates will be 45 percent of the difference between \$16.94 and the Boston Class I price for that month. Dairy operations will not receive a payment for months during which the Class I price in Boston is \$16.94 or higher. A MILC program calculator that estimates the upcoming months payment is provided at www.fmmone.com. For more information and requirements, or to sign up for the program, dairy producers should visit their local USDA Farm Service Agency offices. The MILC program runs through September 30, 2005. ❖



MARKET SITUATION

Dairy Programs Releases Forward Contract Study

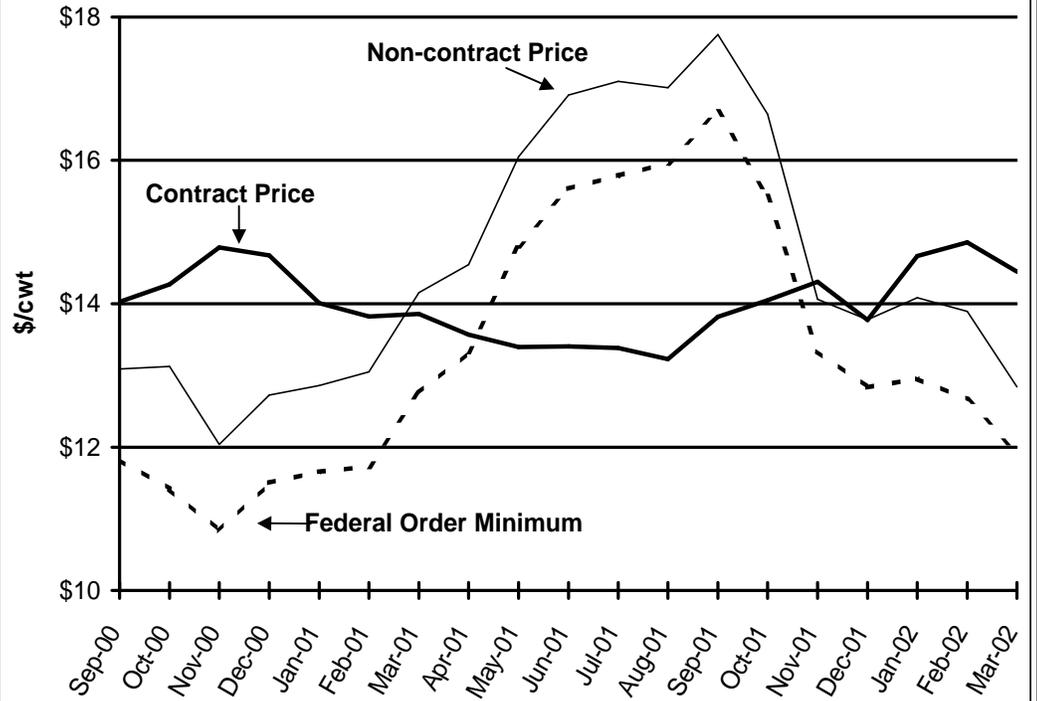
USDA's Agricultural Marketing Services' Dairy Programs has recently released a study of the Dairy Forward Pricing Pilot Program and its effect on milk prices paid to producers. The program exempts handlers, receiving **pooled milk** under the Federal Milk Order Program, from paying producers and cooperative associations the minimum federal order blend price for that portion of program-eligible milk that is under forward contract.

For the period September 2000 through March 2002, the study calculated milk prices received by producers under fixed forward contracts versus what they would have received if they had *not* opted for a fixed-contract price. The average monthly price received for contract milk was \$14.02, ranging from a low of \$13.23 to a high of \$14.86. The average monthly price of the same milk, had it not been under contract, was \$14.51, ranging from a low of \$12.04 to a high of \$17.75 (see chart). Over the study period, the volume of milk marketed under contract was greatest in months when contract prices were below non-contract prices. Significantly, the study found that the price volatility of producers under contract was much less during this time than producers receiving the more varied federal order prices.

Participation in the program has been small when considered in terms of the number of producers, number of handlers, or milk quantities eligible on a nationwide basis. On a monthly average basis, 3.9 percent of eligible producers and 5.7 percent of proprietary manufacturing plants participated. Participation by producers peaked in April 2001 with 1,141 producers participating nationwide, but dropped off sharply in 2002, reaching a low point of 137 producers in February 2002.

In a survey mailed to eligible producers, respondents indicated that participating producers were generally more accustomed to using price protection tools than were non-participants. Nearly three-fourths of participants

Average Price at Test: Contract Price, Non-Contract Price, and Federal Order Minimum, September 2000–March 2002



Source: USDA-AMS-Dairy Programs.

indicated that they contracted in order to assure a more stable cash flow. Participants were more likely to have more than one potential buyer than non-participants, and they were much more aware of handler contract offerings than non-participants. Most participants relied on futures markets or their own forecasts to evaluate contract prices. Most participants whose contract prices were below actual non-contract prices indicated that they would discontinue forward contracting or reduce contract volumes in the future. The completed report can be accessed on the web at http://www.ams.usda.gov/dairy/For_Contr/report_complete.pdf. ❖

Producers Approve (continued from page 1)

average change for producers pooled on the Northeast Marketing Order is a 3-cents per hundredweight increase in the minimum blend price.

The final rule and additional background information can be accessed on the web at http://www.ams.usda.gov/dairy/hearing-III_IV.htm. ❖



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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	912,973,188	\$9.92	90,566,940.25	
Butterfat	19,034,778	1.2109	23,049,212.68	
Less: Location Adjustment to Handlers			(2,760,850.56)	\$110,855,302.40
Class II— Butterfat	25,769,505	1.1926	30,732,711.71	
Nonfat Solids	29,352,920	0.8189	24,037,106.19	54,769,817.90
Class III— Butterfat	20,614,885	1.1856	24,441,007.69	
Protein	17,725,503	1.8164	32,196,603.62	
Other Solids	33,328,439	0.0339	1,129,834.08	57,767,445.39
Class IV— Butterfat	12,855,657	1.1856	15,241,666.93	
Nonfat Solids	16,424,509	0.6807	11,180,163.26	26,421,830.19
Total Classified Value				\$249,814,395.88
Add: Overage—All Classes				21,423.19
Inventory Reclassification—All Classes				17,262.18
Other Source Receipts	458,817			14,626.67
Less: Producer Component Valuations				(210,251,566.71)
Subtotal				\$39,616,141.21
Add: Location Adjustment to Producers				9,693,587.14
One-half Unobligated Balance—Producer Settlement Fund				1,145,340.43
Total Pool Milk & Aggregate Value	2,058,625,862			50,455,068.78
Less: Producer Settlement Fund—Reserve				(842,185.49)
Producer Price Differential @ Suffolk County, MA (Boston)		\$2.41		49,612,883.29
Statistical Uniform Price @ Suffolk County, MA (Boston)		\$12.19		

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