

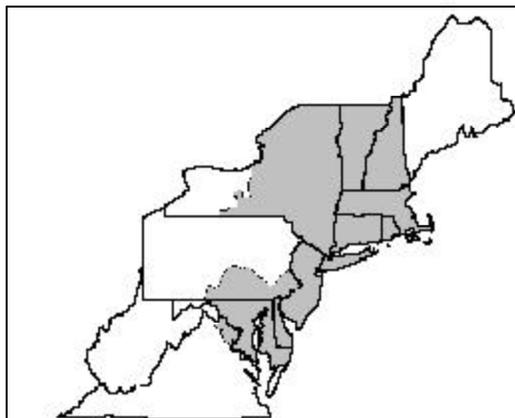
The Market Administrator's BULLETIN

NORTHEAST MARKETING AREA

Erik F. Rasmussen, Market Administrator

March 2003

Federal Order No. 1



To contact the Northeast Marketing Area offices:
 Boston, MA: phone (617) 542-8966, e-mail address: MABoston@fedmilk1.com; Albany, NY: phone (518) 452-4410,
 e-mail address: MAAlbany@fedmilk1.com; Alexandria, VA: phone (703) 549-7000, e-mail address: MAAlexandria@fedmilk1.com;
 website address: www.fmmone.com

March Pool Price Calculation

The March 2003 statistical uniform price (SUP) for the Northeast Marketing Area was announced at \$11.43 per hundredweight for milk delivered to plants located in Suffolk County, Massachusetts (Boston), the pricing point for the Northeast Order. This was the lowest SUP reported since order reform took effect in January 2000. The statistical uniform price is calculated at 3.5 percent butterfat, 2.99 percent protein, and 5.69 percent other solids. The March producer price differential (PPD) at Suffolk County was \$2.32 per hundredweight.

The March statistical uniform price was 36 cents per hundredweight below February's price and the March PPD was 19 cents above the previous month's. All class prices declined from last month, with the largest drop occurring in the Class III price. These changes caused an increase in the spread between the Class I, II, and IV prices and the Class III price, which resulted in an increased PPD. ❖

New Formulas Take Effect

The revised Class III and IV pricing formulas became effective for milk marketed on or after April 1, 2003. The first price announced using the new formulas was the April Class I price that was announced on March 21. The Class II, III, and IV prices for April will be announced on May 2.

Review of the pricing formulas was mandated by Congress under the 1996 Farm Bill. A final decision altering the formulas was printed in the November 7, 2002, Federal Register. Producers approved the formulas in a referendum that concluded on November 25, 2002.

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

Market Services Tank Calibration Program

The Market Administrator's bulk tank verification program resumes operation with the onset of warmer weather. The program verifies the proper calibration of new and existing farm bulk tanks for all non-member producers on a once every 5-to-10-year basis. Members of cooperative associations, whose cooperative has been exempted from the deduction for marketing services, receive such calibration services from their cooperative or approved provider. The Market Service Department checked 240 farm bulk tanks throughout the Northeast Marketing Area during 2002. In addition to the tanks checked, 170 bulk tanks were also recalibrated/calibrated.

(continued on Page 3)

Pool Summary

- A total of 16,208 producers were pooled under the Order with an average daily delivery per producer of 4,279 pounds.
- Pooled milk receipts totaled 2.150 billion pounds, an increase of 2.1 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 41.3 percent of total milk receipts, a decrease of 3.5 percentage points from February.
- The average butterfat test of producer receipts was 3.77 percent.
- The average true protein test of producer receipts was 3.01 percent.
- The average other solids test of producer receipts was 5.70 percent. ❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	41.3	888,284,740
Class II	18.8	403,368,008
Class III	29.0	624,578,911
Class IV	10.9	<u>233,606,000</u>
Total Pooled Milk		2,149,837,659

Producer Component Prices

	2003	2002
	\$/lb	
Protein Price	1.6648	1.8342
Butterfat Price	1.1459	1.3638
Other Solids Price	0.0206	0.0688

Class Price Factors

	2003	2002
	\$/cwt	
Class I	13.06	14.87
Class II	10.54	12.19
Class III	9.11	10.65
Class IV	9.79	11.42

Growth and Consolidation in Federal Milk Orders

Since federal milk marketing orders began in the 1930s, many changes have occurred in the dairy industry and in the dynamics surrounding the order system. Population in the United States has grown substantially, yet the number of farmers supplying milk to the market has decreased dramatically. Milk production has continued to increase signifying a trend toward less but larger farms. The accompanying table shows measurements of growth and consolidation for selected years between 1947 and 2002.

When federal orders began, most were initially centered by a metropolitan area. The goal was to stabilize conditions for fluid milk by making the buying and selling of fluid milk an orderly process upon which dairy farmers, milk dealers, and consumers could depend. Over the years, transportation and refrigeration have improved such that federal order areas have expanded and consolidated, incorporating numerous metropolitan centers.

The population included in federal milk marketing areas grew nearly 400 percent since 1955. Today federal orders account for about 74 percent of all milk produced in the United States. The largest milk producing state, California, is not regulated under the federal order system.

The number of federal orders increased throughout the 1950s and early 1960s, peaking at 83 in 1962. The number of milk handlers peaked at 2,314 in 1961. Due to

such changes in infrastructure, population movements, and largely pricing reform, the number of federal orders has declined dramatically since 1990. The 1996 Farm Bill mandated a consolidation of federal orders to between 10 and 13, resulting in the present configuration of 11 federal milk market orders.

The number of producers shipping milk to federal orders also peaked in the early 1960s (192,947 in 1961). Since then, the decline in dairy farms has been consistent, as has an increase in daily deliveries per producer. Due to technological and managerial advances, eight times more milk is produced and marketed today through federal orders by less than half the number of producers 55 years ago. Daily deliveries per producer have grown nearly 1,700 percent since 1947.

Even though the main purpose of federal milk orders is to regulate the supply of fluid milk (Class I), the percentage of milk regulated under federal orders that was utilized for Class I purposes has declined. The total volume of milk used for Class I purposes has grown, but not at the same rate as total milk receipts. In 1947, for example, 9.8 million pounds of producer milk were used in Class I or 65.5 percent of the total. In 2002, 46.0 million pounds were utilized in Class I, 36.7 percent of total milk pooled

Over the years shown, the blend price paid to producers has increased 174 percent. During this time, inflation has risen over 700 percent. ❖

Changes in Federal Milk Order Markets, Selected Years, 1947–2002

Year	No. of Markets ^{1/}	Population in FMMAs millions	No. of Handlers ^{1/}	No. of Producers ^{2/}	Producer Receipts ^{3/} million lbs	DDP pounds	Used in Class I percent	Blend Price at 3.5% BF \$/cwt
1947	29	N/A	991	135,830	14,980	302	65.5	4.34
1955	63	47.0	1,483	188,611	28,948	420	62.3	4.08
1965	73	102.4	1,891	158,077	54,444	944	63.5	4.31
1975	56	150.7	1,315	123,855	69,249	1,532	57.9	8.64
1985	44	176.4	884	116,765	97,762	2,294	43.2	13.88
1995	33	207.5	571	88,717	108,548	3,350	41.5	12.79
2002	11	234.3	338	63,856	125,546	5,387	36.7	11.91

^{1/} End of year.

^{2/} Average for year.

^{3/} Beginning in 1989, does not include milk handlers electing not to pool due to disadvantageous price situations.

N/A = Not available.

FMMA = Federal Milk Marketing Area.

DDP = Daily delivery per producer.

Source: *Dairy Market News*.

MARKET SITUATION

Demand Remains Weak, Signs for Improvement Mixed

Dairy demand has been weak since it dropped off late in 2001. According to the USDA's "World Agricultural Supply and Demand Estimates," the situation has not improved, as reflected by the reduced forecast for commercial use (see accompanying table). Commercial use on a milkfat basis declined from 174.1 billion pounds in February 2003 to 173.3 billion pounds in March and is projected to decline to 172.5 billion pounds in April. Though these figures exceed commercial use at this time last year, the percent gain over the previous year has fallen from 2.4 percent in February, to 1.7 percent in March, to 1.2 percent in April.

Ending commercial stocks for March 2003 were about the same as the previous year, but projections for April show stocks to be higher than last year by 0.6 billion pounds.

The weak economy has played a large role in slow demand recovery as consumers have reacted to the economy by either spending somewhat less or by shifting their spending habits. A sharp decline in The Conference Board's Consumer Confidence Index in February 2003 to 64.8 followed by another decline in March to a level of 62.5 (1985=100) would not lead to expectations that the shift in spending patterns will reverse soon.

According to USDA's Economic Research Service, growth in dairy demand is expected to resume in 2003 as slow economic improvement is expected. However, such modest demand growth may not be large enough to absorb increases in milk production and draw down beginning stocks, except at low prices.

Cheese demand is projected to expand in 2003, but may be held back somewhat due to unsettled restaurant use. Sales of butter are expected to grow, but demand is still predicted to be sluggish. Butter demand will be impacted by restaurant weakness, but sales of premium products that use butter may not recover much as processors are seen as reluctant to change formulations on the heels of high and volatile butter prices from 1998-2001. The majority of 2003's increase in butter sales is expected to be at retail.

International market prices of nonfat dry milk are projected to be near domestic prices for most of the year. This should help lead to growth of commercial use as level prices should weaken demand for imported milk proteins. ❖

U.S. Milk Supply and Use

Commodity	FY 2002			FY 2003		
	February	March	April	February	March	April
Supply:						
Beg. Commercial stocks ^{1/}	8.8	8.8	8.8	11.3	11.2	11.2
Production	168.9	169.2	169.2	170.7	171.0	171.0
Marketings	167.6	167.9	167.9	169.5	169.8	169.8
Imports ^{1/}	5.2	5.2	5.2	5.0	5.0	5.0
Total Cml. Supply ^{1/}	181.6	181.9	181.9	185.9	186.0	186.1
Use:						
Commercial Use ^{1/}	170.0	170.4	170.4	174.1	173.3	172.5
Ending Commercial Stocks ^{1/}	11.3	11.2	11.2	10.6	11.3	11.9
CCC net removals:						
Milkfat basis ^{2/}	0.3	0.3	0.3	1.1	1.5	1.7
Skim-solids basis ^{2/}	9.6	9.6	9.6	6.9	8.2	8.8

^{1/} Milk equivalent, milkfat basis.

^{2/} Includes products exported under the Dairy Export Incentive Program.

Source: *World Agricultural Outlook Board*.

Market Services (continued from Pg. 1)

The following schedule indicates the planned areas where the calibration trucks will be working during the next several months. The office coordinates farm calibration visits with handlers, concentrating first on tanks that are suspected of being out of calibration or were checked many years ago. Anyone having a concern about the calibration of their bulk tank, should contact their handler who will work with the Market Administrator to schedule a calibration check.

Bulk tanks need to be firmly fastened to the milkhouse floor. If the concrete surrounding the legs on the bulk tank is missing or cracked, then it must be replaced before the tank check or calibration. Any bulk tank equipped with an external gauge (sight tube) must have clear tubing, plastic, or glass. If the tubing is discolored, replace with clear tubing so that the technicians can easily see the readings.

Tentative Calibration Truck Schedule, 2003

Month	Area
April	Eastern/Central New York
May	Northern Pennsylvania/New Jersey
June	Southern Pennsylvania
July	Central Pennsylvania
August	Eastern New York
September	Central New York
October	Southern Pennsylvania
November	Eastern/Central New York



MARKET ADMINISTRATOR
 One Columbia Circle
 Albany, NY 12203-6379

PRESORTED
 FIRST-CLASS MAIL
 U.S. Postage
PAID
 Alexandria, VA
 Permit 355

RETURN SERVICE REQUESTED

FIRST CLASS MAIL

The U.S. Department of Agriculture (USDA) prohibits discrimination in all its programs and activities on the basis of race, color, national origin, gender, religion, age, disability, political beliefs, sexual orientation, or marital or family status. (Not all prohibited bases apply to all programs.) Persons with disabilities who require alternative means for communication of program information (Braille, large print, audiotape, etc.) should contact USDA's TARGET Center at (202) 720-2600 (voice and TDD). To file a complaint of discrimination, write USDA, Director, Office of Civil Rights, Room 326W, Whitten Building, 1400 Independence Avenue, SW, Washington, DC 20250-9410 or call (202) 720-5964 (voice or TDD). USDA is an equal opportunity provider and employer.

Computation of Producer Price Differential and Statistical Uniform Price

COMPUTATION OF PRODUCER PRICE DIFFERENTIAL

	<u>Product Pounds</u>	<u>Price per cwt/lb</u>	<u>Component Value</u>	<u>Total Value</u>
Class I— Skim	870,314,901	\$9.29	80,852,254.30	
Butterfat	17,969,839	1.1699	21,022,914.65	
Less: Location Adjustment to Handlers			(2,682,053.67)	\$99,193,115.25
Class II— Butterfat	28,752,269	1.1529	33,148,490.90	
Nonfat Solids	33,913,848	0.7489	25,398,080.80	58,546,571.70
Class III— Butterfat	23,550,997	1.1459	26,987,087.46	
Protein	18,724,033	1.6648	31,171,770.13	
Other Solids	35,504,508	0.0206	731,392.88	58,890,250.47
Class IV— Butterfat	10,734,790	1.1459	12,300,995.86	
Nonfat Solids	20,240,792	0.6651	13,462,150.76	<u>25,763,146.62</u>
Total Classified Value				\$242,393,084.04
Add: Overage—All Classes				71,708.81
Inventory Reclassification—All Classes				13,305.90
Other Source Receipts	1,519,401			45,655.90
Less: Producer Component Valuations				<u>(202,976,198.96)</u>
Subtotal				\$39,547,555.69
Add: Location Adjustment to Producers				10,247,375.98
One-half Unobligated Balance—Producer Settlement Fund				<u>985,704.33</u>
Total Pool Milk & Aggregate Value	2,151,357,060			50,780,636.00
Less: Producer Settlement Fund—Reserve				<u>(869,152.12)</u>
Producer Price Differential @ Suffolk County, MA (Boston)		\$2.32		49,911,483.88
Statistical Uniform Price @ Suffolk County, MA (Boston)		\$11.43		

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