

# The Market Administrator's BULLETIN

## NORTHEAST MARKETING AREA

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Federal Order No. 1

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### July Pool Price Calculation

The July 2003 statistical uniform price (SUP) for the Northeast Marketing Area was announced at \$12.46 per hundredweight for milk delivered to plants located in Suffolk County, Massachusetts (Boston), the pricing point for the Northeast Order. The July producer price differential (PPD) at Suffolk County was \$0.68 per hundredweight. The PPD becomes negative at the \$2.50 differential zone (Syracuse, New York) and all other more distant zones. See June *Bulletin* for an explanation of negative PPD.

The July statistical uniform price was 80 cents per hundredweight above June's price and the first time since January that the SUP was over \$12.00. The July PPD was \$1.23 below the previous month's. Even though the PPD was lower and the other solids price was negative, the SUP increased due to higher butterfat and protein prices. The July protein price was the second highest reported since federal order reform began. This was reflected in the higher class prices, especially the Class III price, which jumped \$2.03 per hundredweight over June's. ❖

### Negative Other Solids Price

For the fourth month in a row the component price for other solids (largely the lactose, minerals, and ash in milk) has been negative. The July other solids price was a negative 1.24 cents per pound of other solids. As discussed more thoroughly in the April *Bulletin*, there are two factors behind the negative price: 1) the market price for dry whey (upon which the other solids price is based) has been at record lows during the past several months; and 2) recent changes to the Class III and Class IV price formulas including a modified other solids price formula.

The same formula revisions that resulted in a negative other solids price increased the protein price, while slightly lowering the butterfat component price, than would have been the case if the revised formulas were not implemented. The table on page 2 reports the component prices for the last 4 months as calculated under the old and new formulas. Note that the higher protein prices in all months offset the combined loss from butterfat and other solids.

Due to how the federal order pool is calculated, the producer price differential (PPD) paid to producers rose during the months when the other solids value was negative, that is after accounting for the fact that the classified value of the Northeast Order pool starts off lower than if the other solids price was positive. The PPD has risen because of how the (continued on page 2)

### Pool Summary

- A total of 16,175 producers were pooled under the Order with an average daily delivery per producer of 4,022 pounds.
- Pooled milk receipts totaled 2.017 billion pounds, a decrease of 2.5 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 41.9 percent of total milk receipts, an increase of 0.6 percentage points from June.
- The average butterfat test of producer receipts was 3.57 percent.
- The average true protein test of producer receipts was 2.91 percent.
- The average other solids test of producer receipts was 5.67 percent. ❖

#### Class Utilization

Pooled Milk	Percent	Pounds
Class I	41.9	845,717,857
Class II	20.3	409,623,111
Class III	30.0	604,183,536
Class IV	7.8	157,299,353
Total Pooled Milk		2,016,823,857

#### Producer Component Prices

	2003	2002
	\$/lb	
Protein Price	2.5480	1.8095
Butterfat Price	1.2055	1.0929
Other Solids Price	(0.0124)	0.0150

#### Class Price Factors

	2003	2002
	\$/cwt	
Class I	13.02	13.87
Class II	10.63	11.14
Class III	11.78	9.33
Class IV	9.95	10.45

## Negative Price *(continued from page 1)*

value of producer milk components (protein, butterfat, other solids) payable to producers is deducted from the classified value of the pool. Other value generated in the pool (created by milk in Classes I, II, and IV) is lumped together and returned to producers via the PPD. The negative other solids price only affects the value of milk pooled in Class III—about 30 percent of the pool. While producers see the result of the negative other solids in their milk checks they do not see the inverse affect, which is a higher PPD. The value of other solids deducted from producer component values that is in excess of the Class

### Component Price Differences Under New and Old Class III and IV Price Formulas

2003	Protein Price		Butterfat Price		Other Solids Price		Net Difference All Components
	Old	New	Old	New	Old	New	
	dollars per pound						
April	1.7097	1.8006	1.1690	1.1503	0.0188	-0.0008	0.0526
May	1.8447	1.9275	1.1699	1.1512	0.0052	-0.0144	0.0445
June	1.8602	1.9434	1.1765	1.1576	0.0000	-0.0200	0.0443
July	2.4953	2.5480	1.2251	1.2055	0.0072	-0.0124	0.0135

III portion of the total is returned to producers via an increase in the PPD. For the July pool this value was \$993,424.72 or a 4.9 cents per hundredweight higher PPD.❖

## Average Component Tests for Selected Northeast States/Areas

The accompanying map compares the weighted average of producer butterfat, protein, and other solids levels for Northeast states for April 2003. The other New England states group includes Connecticut, Massachusetts, New Hampshire, and Rhode Island. Other Mid-Atlantic states group includes Delaware, New Jersey, Virginia, and West Virginia. The figures are derived from Northeast Order payroll data as submitted by Northeast Order handlers.

Maryland averaged the highest level of butterfat at 3.78 percent. Maine averaged the lowest at 3.65 percent. The

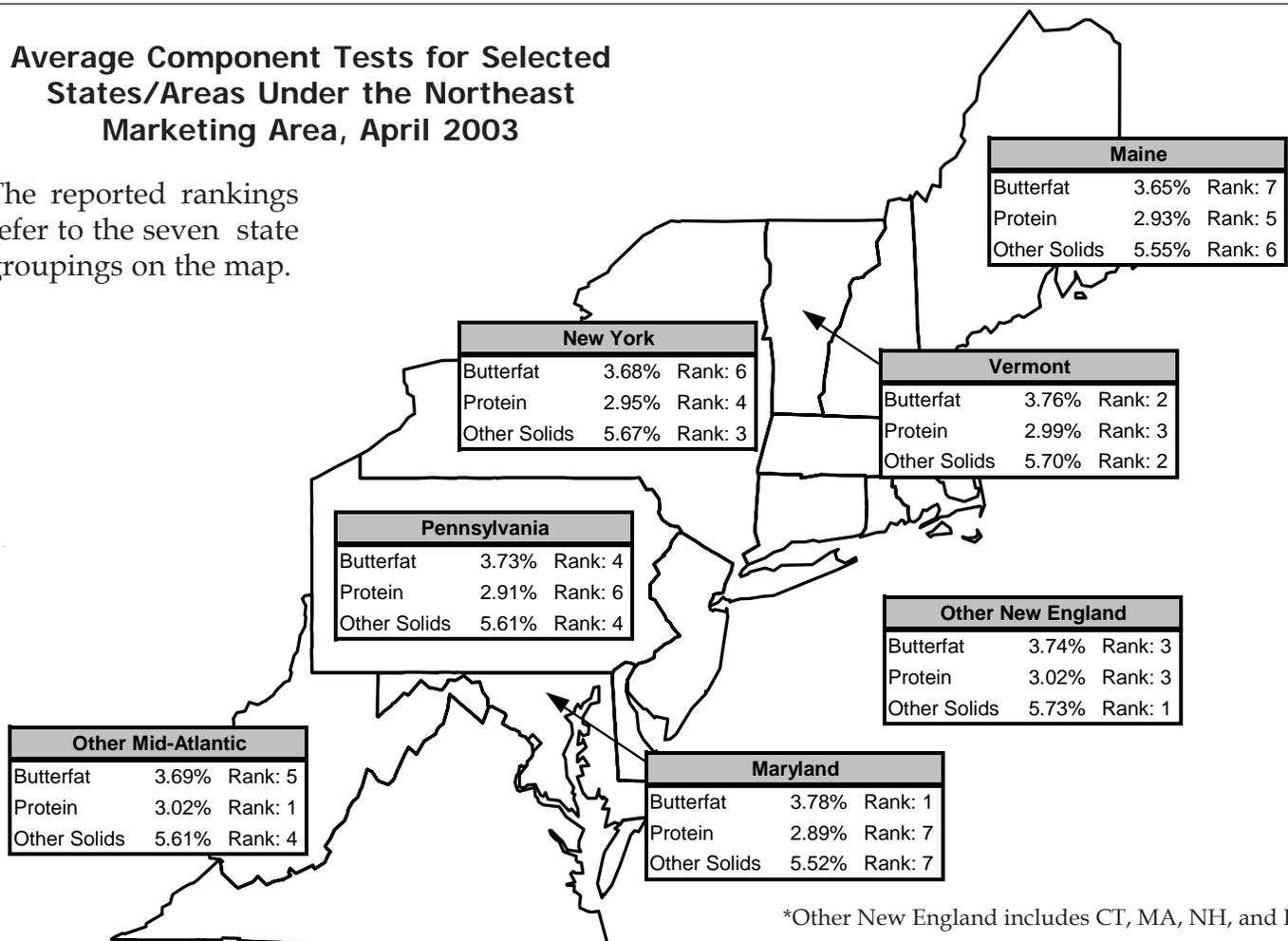
simple average for all selected states represented on the map was 3.72 percent.

Average protein tests were highest in Other Mid-Atlantic and Other New England states at 3.02 percent and lowest in Maryland at 2.89 percent. The simple average for all selected states represented on the map was 2.99 percent.

Average other solids tests were highest in Other New England states at 5.73 percent and lowest in Maryland at 5.52 percent. The simple average for all selected states represented on the map was 5.65 percent.❖

### Average Component Tests for Selected States/Areas Under the Northeast Marketing Area, April 2003

The reported rankings refer to the seven state groupings on the map.



# MARKET SITUATION

## Milk Production Declines; Prices Rise

During the first quarter of 2003, milk production was on the rise in most of the top-ten milk producing states and in the nation as a whole. U.S. milk production increased 1.3 percent from January–March 2003 over the same period in 2002. During each month of 2003, the increase over the previous year's corresponding month declined, and beginning with May, national milk production dropped below the previous year's for the first time in 18 months. This decrease, followed by another in June, resulted in a second quarter decline of 0.3 percent. Overall, milk production was up 0.5 percent for the first 6 months of 2003.

In May, only five of the top-twenty milk producing states showed increases from the previous year as hotter temperatures began taking their toll on cows and milk production. Most of the southern states began seeing a seasonal decline with the northern states peaking a few weeks later. By mid-July, most of the country was affected by hot and humid weather that resulted in reduced milk receipts and lowered the milk solids content, impacting cheese production.

As the situation tightened, commodity prices for cheese and butter began to rise on the Chicago Mercantile Exchange (CME) as depicted in the accompanying chart. Both block Cheddar and barrel cheese prices, which had not changed more than 3 cents since the first week of March, jumped over 4 cents on June 18. The next week they both increased over 5 cents per pound. For the week ending July 3, cheese prices increased over 17 cents per pound; the following week a 9-cent jump occurred. A slight decrease occurred during the week ending July 18, followed by a slight gain and another 7-cent gain the next week. As of August 15, the weekly block Cheddar cheese price equaled \$1.6000 per pound while the barrel price averaged \$1.5780 per pound. This equates to increases of nearly 47 cents and 48 cents per pound, respectively, for blocks and barrels since the end of May.

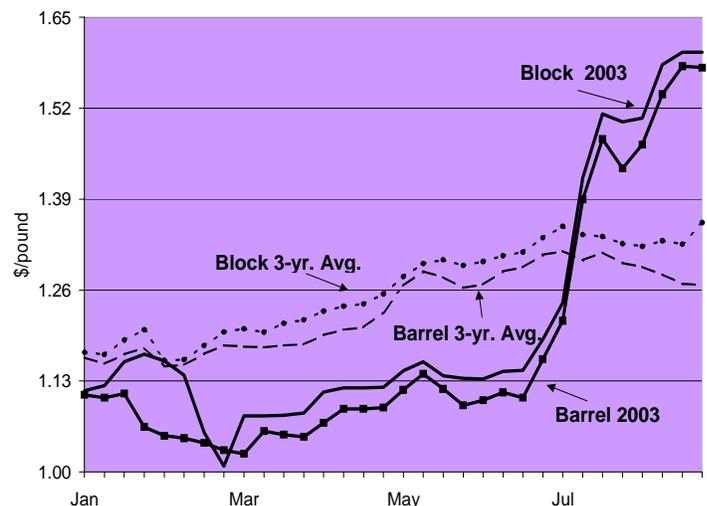
Prices for Grade butter on the CME also rose during this period. As of August 15, the CME weekly butter price was \$1.17 per pound, an increase of 7 cents since the beginning of June and 8 cents higher than the beginning of 2003 (see chart).

As a result of commodity market price increases, the price for raw milk used in cheese-making jumped over \$2.00 per hundredweight for July and the Class I price for August will be \$1.20 higher than July's. In addition, it is estimated that the Class III price will jump nearly another \$2.00 per hundredweight in

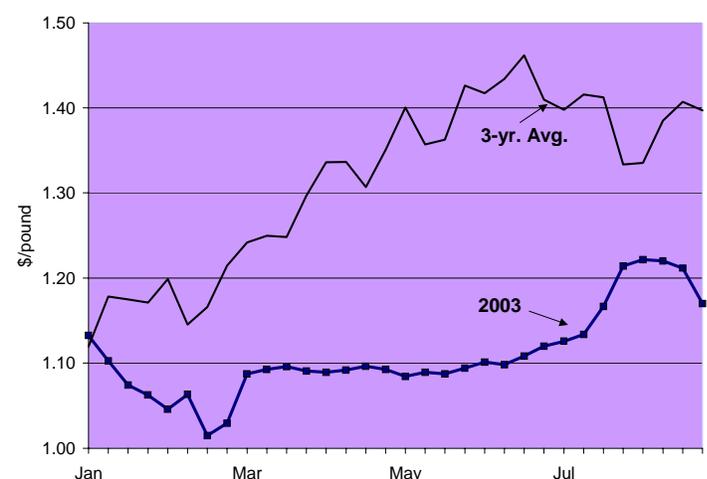
August, while the Class II and IV prices will increase about 40 cents over July's prices.

Other impacts from the price increase include suspended sales of cheese and butter by the Commodity Credit Corporation (CCC). Since the last week of June, CCC net purchases total only 79,200 pounds of cheese, with no sales the past 3 weeks. No butter has been purchased since mid-June. Stocks of butter and cheese remain high, with butter cold storage holdings reporting volumes 20 percent higher than at mid-year of 2002 and cheese stocks about 1 percent greater. Compared to the first half of 2001, butter stocks are up 89 percent and cheese is 6 percent higher. ❖

CME Weekly Cheese Prices, 2003 vs. 2000–2002 Average



CME Weekly Grade A Butter Price, 2003 vs. 2000–2002 Average





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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	828,018,577	\$9.17	75,929,303.51	
Butterfat	17,699,280	1.1915	21,088,692.12	
Less: Location Adjustment to Handlers			(2,550,500.44)	\$94,467,495.23
Class II— Butterfat	28,605,758	1.2125	34,684,481.65	
Nonfat Solids	33,913,903	0.7356	24,947,067.04	59,631,548.69
Class III— Butterfat	21,096,094	1.2055	25,431,341.31	
Protein	17,634,878	2.5480	44,933,669.16	
Other Solids	34,188,672	(0.0124)	(423,939.55)	69,941,070.92
Class IV— Butterfat	4,628,957	1.2055	5,580,207.69	
Nonfat Solids	13,608,438	0.6605	8,988,373.31	14,568,581.00
<b>Total Classified Value</b>				<b>\$238,608,695.84</b>
Add: Overage—All Classes				18,363.27
Inventory Reclassification—All Classes				148,382.11
Other Source Receipts	85,942			989.98
Less: Producer Component Valuations				(235,177,695.07)
<b>Subtotal</b>				<b>\$3,598,736.13</b>
Add: Location Adjustment to Producers				9,879,144.31
One-half Unobligated Balance—Producer Settlement Fund				1,122,869.15
<b>Total Pool Milk &amp; Aggregate Value</b>	2,016,909,799			14,600,749.59
Less: Producer Settlement Fund—Reserve				(885,763.05)
<b>Producer Price Differential @ Suffolk County, MA (Boston)</b>		<b>\$0.68</b>		13,714,986.54
<b>Statistical Uniform Price @ Suffolk County, MA (Boston)</b>		<b>\$12.46</b>		

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