

The Market Administrator's **BULLETIN**

NORTHEAST MARKETING AREA

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Federal Order No. 1

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August Pool Price Calculation

The August 2003 statistical uniform price (SUP) 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. The August producer price differential (PPD) at Suffolk County was -\$0.08 per hundredweight.

The August statistical uniform price was \$1.26 per hundredweight above July's price. The August PPD was 76 cents below the previous month's.

Negative PPD

This is the first time in the Northeast Order that the PPD was negative in all differential zones. Despite appearing contradictory, a negative PPD does not indicate a loss of money for producers, but rather it signifies that producers are receiving a higher amount for their components (protein, butterfat, and other solids) than the pool generated.

Remember, a federal order pool is a pool of money generated by the volume and value of milk used in Classes I, II, III, and IV. Producers are paid for their protein, butterfat, and other solids components from the pool at the same dollars-per-pound value as Class III milk. Any remaining value in the pool generated by Classes I, II, and IV is returned to producers in the PPD. In August, the value for protein was a record high \$3.1438 per pound reflecting the sharp increase in cheese prices that occurred in late June and July. With the producer component valuations (producer payout for protein, butterfat, and other solids) higher than the total classified value (pool value based on usage of milk by class) the result was a negative PPD necessary to balance the pool.

Again, this result did not diminish the total value of the pool payable to producers, only the breakdown in how the payment to producers was made. A negative PPD can only occur in a period of significant and rapid price increases when, due to how class prices are calculated, some of the class prices reflect the commodity price increases and some do not. By next month's (September) pool the alignment of class prices will likely be back to a normal \$3.00 plus spread between the Class I price and Class III price (as opposed to the August spread of only \$0.42) thereby increasing the classified value of the pool and generating a positive PPD. ❖

Pool Summary

- A total of 16,157 producers were pooled under the Order with an average daily delivery per producer of 3,880 pounds.
- Pooled milk receipts totaled 1.943 billion pounds, a decrease of 3.6 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 44.9 percent of total milk receipts, an increase of 3.0 percentage points from July.
- 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 5.66 percent.

Class Utilization

<u>Pooled Milk</u>	<u>Percent</u>	<u>Pounds</u>
Class I	44.9	871,730,669
Class II	20.3	395,270,444
Class III	28.3	549,932,511
Class IV	6.5	126,423,698
Total Pooled Milk		1,943,357,322

Producer Component Prices

	<u>2003</u>	<u>2002</u>
	\$/lb	
Protein Price	3.1438	1.9021
Butterfat Price	1.2514	1.0701
Other Solids Price	0.0026	0.0177

Class Price Factors

	<u>2003</u>	<u>2002</u>
	\$/cwt	
Class I	14.22	13.73
Class II	10.81	11.07
Class III	13.80	9.54
Class IV	10.14	10.41

Hearing on Reclassification Proposals

A hearing to consider proposals to amend all federal milk marketing orders will convene on October 21 in Alexandria, Virginia. Proponents have requested that the proposals be handled on an emergency basis.

One of the proposals to be considered would reclassify evaporated milk and sweetened condensed milk in consumer-type packages from Class III products to Class IV products. Another proposal would reclassify bulk ending inventory each month to the lower-priced class of Class III or Class IV.

The hearing will be held at the Holiday Inn and Suites Alexandria (Historic District), 625 First Street, Alexandria, Virginia, 22314, convening at 8:30 a.m. The hearing notice can be accessed via a link on our website at www.fmmone.com or by contacting the Albany office. ❖

Gross Payment Comparison

In the Northeast Order, producers are paid on a multiple component pricing (MCP) basis. This means that producers are paid on the pounds of butterfat, "true" protein, and other solids in their milk. A fourth factor called the producer price differential (PPD) also contributes to the total pay price. The PPD is the producer's per hundredweight share of the value generated by the market wide pool. In August 2003, the producer component valuations were higher than the total classified value, resulting in a negative PPD.

In the "Composition" example shown, the component tests are the average tests for that month's pool. The component prices are the producer component prices for

No MILC Payment in September

There will be no Milk Income Loss Contract Program (MILC) payment issued for milk produced in September 2003. 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. The Class I price for September is \$16.96 per hundredweight.

The program became effective October 2001 and payments began December 2001 when the Class I price dropped below the threshold of \$16.94. With the Class I price remaining below this level, payments have been consistent through August 2003 with annual production (October through September) up to 2.4 million pounds.

Since the program began, over 1 billion dollars have been paid to dairy producers nationwide; the average monthly payment was \$1.35 per hundredweight. ❖

the corresponding months. This hypothetical farmer's gross payment in August 2003 was greater than in August 2002, even though the 2002 PPD was \$2.70 higher. The reported gross price does not include any deductions for hauling, cooperative dues, or any premiums or quality payments. In 2003, 100 percent of the total gross payment for the example was derived from components (see chart). In 2002, 78 percent of the total gross payment for the example was derived from components. Butterfat's proportion of the total gross payment was roughly the same in both months. The protein portion of the total gross payment increased from 45 percent to 66 percent in August 2003. ❖

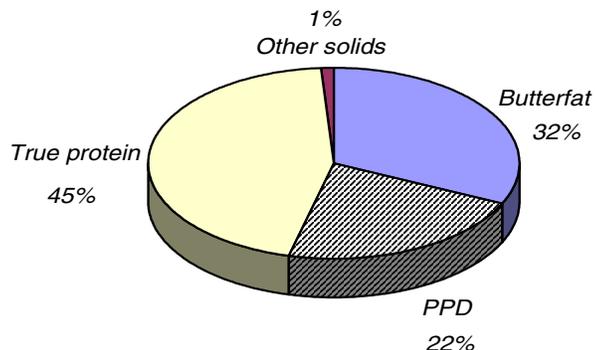
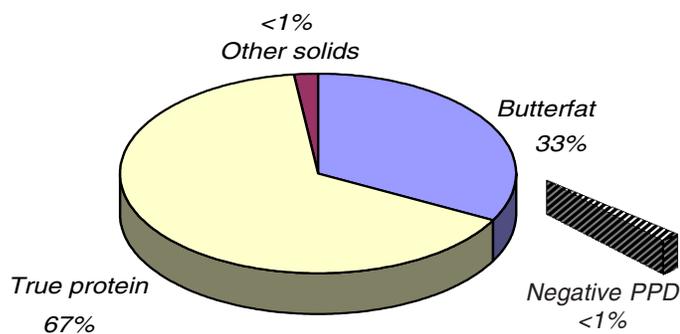
Composition of Total Gross Payment*

	August 2003				August 2002			
	Test percent	Pounds	Price per pound	Gross dollars	Test percent	Pounds	Price per pound	Gross dollars
Butterfat	3.57	3570 x	1.2514 =	\$4,467.50	3.54	3,540 x	1.0701 x	\$3,788.15
True protein	2.91	2910 x	3.1438 =	\$9,148.46	2.89	2,890 x	1.9021 x	5,497.07
Other solids	5.66	5660 x	0.0026 =	\$14.72	5.68	5,680 x	0.0177 x	100.54
PPD		1,000 cwt	-0.08	-\$80.00		1,000 cwt	2.62	2,620.00
Total gross payment				\$13,550.68				\$12,005.76

Gross price per cwt

\$13.55

\$12.01



*For a hypothetical farm producing 100,000 pounds of milk at pool average component tests.

MARKET SITUATION

Whey Price Increasing, Other Solids Positive

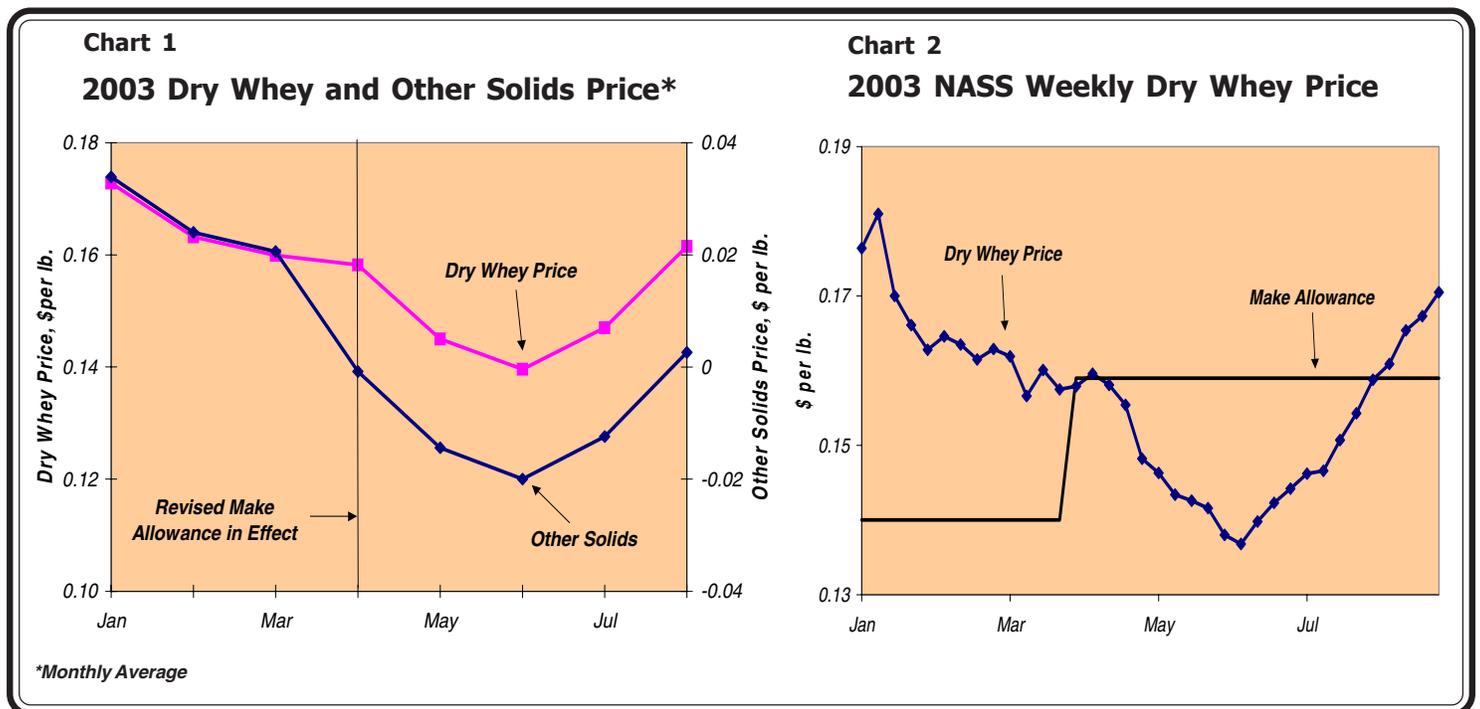
After 4 months of a negative other solids price, the August 2003 other solids price was a positive \$0.0026 per pound. Whenever the National Agricultural Statistics Service (NASS) average monthly dry whey price goes above \$0.159, the other solids price will be positive. The August NASS dry whey price was \$0.1615 per pound. The formula used to calculate the other solids price is:

$$\text{Other Solids} = (\text{NASS Dry Whey Price} - 0.159) \times 1.03$$

Chart 1 shows the relationship between the dry whey price and the other solids price and the change in the make allowance that occurred in April.

The dry whey price dropped from \$0.1810 the week of January 11, 2003, to a low of \$0.1368 the week of June 14 (see Chart 2). The dry whey price has risen steadily since and, at \$0.1705 per pound for September 6, has regained almost 80 percent of the value it lost during the first half of 2003. The 3.37-cent increase in the dry whey price increases the Class III price by about 20 cents.

Tightening milk supplies, lower cheese production, and the assessing of fall needs has tightened stocks and has put upward pressure on the dry whey price. ❖



Milk Movements

During August, bulk milk shipments received by handlers pooled on the Northeast Order that came from handlers pooled on other federal orders totaled 11.7 million pounds. Bulk shipments to other federal order plants from handlers regulated under the Northeast Order totaled 26.0 million pounds. Net bulk milk movements equaled 14.3 million pounds more shipments (total shipments less total receipts). During August 2002, net movements totaled 1.5 million pounds more receipts; in August 2001 net movements equaled 13.0 million pounds more shipments.

Orders Involved

Federal orders involved in these movements include Appalachian (Order No. 5), Florida (Order No. 6),

Southeast (Order No. 7), Mideast (Order No. 33), and Upper Midwest (Order No. 30). During August 2003, milk was received from Orders No. 5, 30, and 33. Shipments went to Orders No. 5, 6, 7, and 33.

Breakdown of Movements to South

As is typical during this time of year, a majority of the movements are between the Northeast Order and orders located in the southeastern United States (5, 6, and 7). In August 2003, net movements equaled 18.2 million pounds more shipments than receipts. During the same month in 2002, the net amount was 9.7 million pounds more shipments than receipts to the southeastern United States. In August 2001, shipments heading south outweighed receipts by nearly 8.9 million pounds. ❖



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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>
<i>Class I—Skim</i>	853,194,631	\$10.32	88,049,685.92	
<i>Butterfat</i>	18,536,038	1.2179	22,575,040.68	
<i>Less: Location Adjustment to Handlers</i>			(2,681,785.78)	\$107,942,940.83
<i>Class II—Butterfat</i>	26,865,159	1.2584	33,807,116.07	
<i>Nonfat Solids</i>	32,738,611	0.7378	24,154,547.20	57,961,663.27
<i>Class III—Butterfat</i>	19,510,783	1.2514	24,415,793.89	
<i>Protein</i>	16,012,860	3.1438	50,341,229.28	
<i>Other Solids</i>	31,020,815	0.0026	80,654.11	74,837,677.28
<i>Class IV—Butterfat</i>	4,454,082	1.2514	5,573,838.21	
<i>Nonfat Solids</i>	10,851,629	0.6638	7,203,311.32	12,777,149.53
Total Classified Value				\$253,519,430.91
Add: <i>Overage—All Classes</i>				74,229.68
Add: <i>Inventory Reclassification—All Classes</i>				102,113.31
Add: <i>Other Source Receipts</i>	64,705			239.94
Less: <i>Producer Component Valuations</i>				(264,995,225.09)
Subtotal				(\$11,299,211.25)
Add: <i>Location Adjustment to Producers</i>				9,382,867.06
Add: <i>One-half Unobligated Balance—Producer Settlement Fund</i>				1,269,593.59
Total Pool Milk & Aggregate Value	1,943,422,027			(646,750.60)
Less: <i>Producer Settlement Fund—Reserve</i>				(907,986.98)
Producer Price Differential @ Suffolk County, MA (Boston)		(\$0.08)		(1,554,737.58)
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.