

The Market Administrator's **BULLETIN**

NORTHEAST MARKETING AREA

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April Pool Price Calculation

The April 2004 statistical uniform price (SUP) for the Northeast Marketing Area was announced at \$17.28 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 April producer price differential (PPD) at Suffolk County was -\$2.38 per hundredweight.

April's statistical uniform price was \$1.72 per hundredweight above the March price; the April PPD was \$3.45 below the previous month's. All class prices increased as commodity prices for butter and cheese increased sharply during April. The Class III price jumped over \$5.00 per hundredweight, making it the highest class price for the month and causing an inverted price relationship (normally, the Class I price is the highest class price).

Negative PPD and Depooling

The PPD was negative at all zones. This situation occurs when the combined value of producer milk components exceeds the total value of the Northeast Order pool. A negative PPD represents a producer's per-hundredweight share of the amount that producer milk components exceed the value of milk in the pool.

Due to the advance pricing of Class I milk, the April Class I price was based off of the National Agricultural Statistics Service (NASS) dairy product prices reported for the weeks ending March 6 and March 13. As such, the April Class I price did not reflect the dramatic, rapid increases that occurred especially in the commodity cheese market during April. The other class prices (II, III, and IV) reflect the current month (April) increases that were reported by NASS for the weeks ending April 3, 10, 17, and 24. The largest increase was in the NASS cheese price, which is used in the Class III price calculation and resulted in a record-high \$19.66 per hundredweight.

Producers are paid at the same per-hundredweight value as the Class III component prices for protein, butterfat, and other solids. However, when the April pool was calculated, only about 20 percent of the milk was used in Class III and priced as such. The remaining 80 percent of the milk was priced at lower class prices as it was utilized. As a result, the total producer milk value exceeded the pool value (see circled items in the "Computation of Producer" (continued on page 2)

Pool Summary

- A total of 14,049 producers were pooled under the Order with an average daily delivery per producer of 4,366 pounds.
- Pooled milk receipts totaled 1.841 billion pounds, a decrease of 8.8 percent from last month on an average daily basis. Approximately 226 million pounds of milk were depooled during April.
- Class I usage (milk for bottling) accounted for 48.5 percent of total milk receipts, an increase of 3.9 percentage points from March. This also was affected by the depooling.
- The average butterfat test of producer receipts was 3.66 percent.
- The average true protein test of producer receipts was 3.01 percent.
- The average other solids test of producer receipts was 5.69 percent.

Class Utilization

<u>Pooled Milk</u>	<u>Percent</u>	<u>Pounds</u>
Class I	48.5	892,302,398
Class II	19.8	365,276,077
Class III	19.6	361,298,375
Class IV	12.1	221,879,839
Total Pooled Milk		1,840,756,689

Producer Component Prices

	<u>2004</u>	<u>2003</u>
	\$/lb	
Protein Price	3.4465	1.8006
Butterfat Price	2.5013	1.1503
Other Solids Price	0.1042	(0.0008)

Class Price Factors

	<u>2004</u>	<u>2003</u>
	\$/cwt	
Class I	16.89	12.89
Class II	15.21	10.44
Class III	19.66	9.41
Class IV	14.57	9.73

Dairy Cooperative Operations

According to USDA's Rural Business-Cooperative Service, dairy cooperatives' share of total milk volume sold by farmers to plants and dealers increased from 83 percent to 86 percent between 1997 and 2002. During the same period, the number of dairy cooperatives in the nation declined from 226 to 196, and the number of cooperatives that processed and manufactured dairy products dropped from 63 to 46. In 2002, 88 percent of all dairy cooperatives were headquartered in three regions that closely resemble the area covered by the Northeast, Mideast, and Upper Midwest marketing orders. The study's North Atlantic region, the area that most closely resembles the Northeast Order area, had the most with 85 and was the only region in the nation to experience a growth in the number of cooperatives between 1997 and 2002. By comparison, the East North Central and the West North Central, each with more producers than the North Atlantic region, had 53 cooperatives each. The other three regions totaled 40 cooperatives combined. In the Northeast Order, 77 percent of the milk pooled was from cooperative members during March 2004. Cooperative members made up 75 percent of producers pooling on the Northeast Order that month.

Dairy cooperatives operated 209 plants in 2002, down from 279 in 1997. The attached table breaks down these

plants by their various marketing functions. Dairy cooperatives also had investment in 75 dairy plants that they did not directly operate.

Though the number of plants operated by cooperatives declined from 1997 to 2002, cooperatives' share of total butter production increased from 61 percent to 71 percent, and their share of dry milk product production increased from 76 percent to 85 percent. Cooperatives' share of U.S. total cheese production remained unchanged at 40 percent.

Data from the report also reflect the growth of large dairy cooperatives. The four largest cooperatives accounted for 49 percent of milk from member-producers in 2002, up from 36 percent in 1997. The eight largest cooperatives accounted for 63 percent. In 2002, the four largest cooperatives accounted for 80 percent of butter marketed by all cooperatives and 56 percent of total U.S. butter production, up from 53 percent and 32 percent, respectively, for 1997. The four largest cooperatives accounted for 76 percent of nonfat dry milk marketed by all cooperatives

and 66 percent of total U.S. nonfat dry milk production in 2002, up from 52 percent and 41 percent, respectively, for 1997. The four largest cooperatives accounted for 74 percent cheese marketed by all cooperatives and 29 percent of total U.S. cheese production, up from 63 percent and 25 percent, respectively. ❖

Dairy Plants Owned and Operated by Cooperatives Performing Various Functions, 1997 and 2002

Marketing Function	1997	2002
Receive & Ship Milk	151	87
Make American Cheese	61	49
Make Italian Cheese	30	21
Process cheese	8	20
Churn butter	35	27
Make dry products	43	43
Make dry whey products	40	28
Make condensed products	60	69
Package fluid milk	41	30
Make ice cream	19	16
Make cottage cheese	12	12
Other activities	42	24
Total	279	209

Note: Totals do not add because some plants perform more than one function.

Source: USDA, Rural Business-Cooperative Service

April Pool Price Calculation *(continued from page 1)*

Price Differential and Statistical Uniform Price" on page 4). In order to balance the pool, the PPD becomes negative and essentially reduces the component payments from a class value of \$19.66 per hundredweight down to the pool's blend value (milk in each class multiplied by its class price) of \$17.28 per hundredweight. As class prices regain their normal alignment (Class I being the highest price) the PPD will return to a more normal and, generally, positive value.

This price inversion resulted in some handlers electing to depool a portion of their Class III milk from the Northeast Order pool, thus reducing the normal Class III utilization percentage of about 28 percent down to 20 percent. The estimated impact of this

depoiled milk was a 31-cent per hundredweight reduction in the SUP. The producer definition of the Northeast Order stipulates that any depooled producers must remain off the Northeast Order for the next 2 months and must requalify by delivering one day's production to a pool plant to become reassociated with the Order.

Even though producer butterfat and protein tests were below recent months, the total value of producer components was the highest ever under the Northeast Order. This was due to the record-setting producer butterfat and protein pay prices. The total producer protein value was the second highest, surpassed only by the value set in October 2003. ❖

Manufactured Dairy Products—2003 Summary

USDA's National Agricultural Statistics Service recently released their *Dairy Products 2003 Summary*. This publication summarizes dairy products manufactured in the United States.

Cheese Production

Total cheese production (excluding cottage cheese) grew only 0.6 percent (50 million pounds) in 2003. Total American cheese production was down 0.6 percent from 2002 with Cheddar dropping 2.6 percent. Cheddar accounted for 74.9 percent of all American production, down from 76.5 percent in 2002. The balance of other American includes Colby, Monterey, and Jack cheeses and grew 5.9 percent in 2003.

Total Italian cheese production increased 1.5 percent in 2003 with mozzarella growing 0.8 percent. Mozzarella accounted for about 80 percent of all Italian (unchanged from 2002). Other Italian varieties, which include Provolone and ricotta, grew 4.3 percent in 2003.

American cheese remained the dominant cheese, accounting for 42.7 percent of all cheese manufactured in the U.S. in 2003, but this proportion was down from 43.2 percent in 2002. Italian cheese production, which has grown continuously over the years, accounted for 41.0 percent in 2003, up from 40.6 percent in 2002.

Hispanic cheese increased 7.4 percent and accounted for 1.6 percent of total cheese, up from 1.5 percent in 2002. Production of cream and Neufchatel declined 1.4 percent in 2003.

Other Products

Butter production dropped 8.3 percent in 2003, after increasing 10 percent in 2002. Yogurt (plain and fruit flavored) increased 3.3 percent while frozen yogurt declined 3.9 percent. Ice cream production grew 1 percent from 2002 and nonfat dry milk (NFDM) declined 0.4 percent.

During 2003, the Commodity Credit Corporation (CCC) purchased 645 million pounds of NFDM, about 41 percent of the total produced. This was down 36.9 million pounds from the total purchased in 2002. Purchases of cheese more than doubled, from 12.9 million pounds in 2002 to 35.5 million pounds in 2003. During 2003, the CCC also purchased 11.4 million pounds of butter; none was purchased in 2002.

Leading States

Wisconsin held the lead as the top cheese-producing state with 26.5 percent of the national total; this was up 0.5 percentage points from 2002. Second-ranked California had 21.2 percent of total production, up from 20 percent the previous year. New York remained in third place even

though its total cheese production declined, lowering its proportion to 8.2 percent of the national total compared to 8.4 percent in 2002.

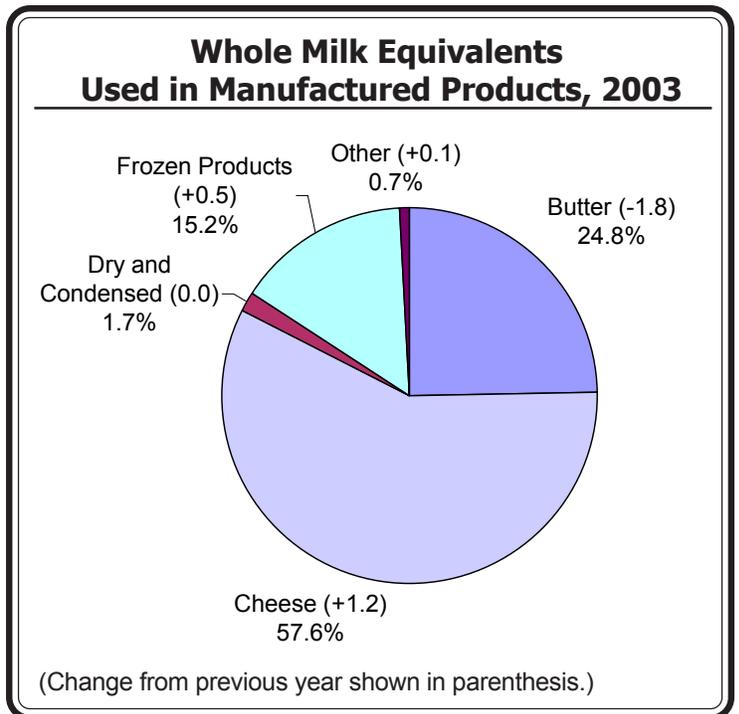
California continued to produce the largest amounts of butter, yogurt, NFDM, and ice cream. In addition, California became the leader in mozzarella production in 2003, displacing Wisconsin. Wisconsin remained the leading manufacturer of Cheddar and other Italian cheese. New York and Pennsylvania ranked third and fourth, respectively, in total mozzarella production. New York was second in yogurt and other Italian cheese production.

Wisconsin reported the highest number of manufacturing plants (200), followed by California (121), and New York (116). Overall, the number of plants declined by 2 percent in 2003.

Utilization of Milk Marketings

Of the total amount of milk marketed in 2003, 61.5 percent was used for manufactured dairy products, down from record-highest 62.6 percent in 2002. This decline may have been partially due to the tightness in the milk supply during 2003.

The accompanying chart shows the proportions on a whole milk equivalent basis used in the manufacture of selected dairy products. The change in proportion from 2002 is shown in parenthesis. ❖



Annual Bulletin Available

The 2003 Annual Statistical Bulletin for the Northeast Milk Marketing Area is now available. The report provides information about the operation of the Northeast Marketing Area. The report, numbering 53 pages, can be found on our website at www.fmmone.com. Copies may be requested free of charge by contacting the Albany office at (518) 452-4410 or E-mail: MAAlbany@fedmilk1.com. ❖



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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	874,140,181	\$9.21	80,508,310.67	
Butterfat	18,162,217	2.2850	41,500,665.85	
Less: Location Adjustment to Handlers			(2,809,276.91)	\$119,199,699.68
Class II— Butterfat	26,154,668	2.5083	65,603,753.75	
Nonfat Solids	30,641,956	0.7400	22,675,047.44	88,278,801.19
Class III— Butterfat	14,237,070	2.5013	35,611,183.20	
Protein	10,863,359	3.4465	37,440,566.81	
Other Solids	20,456,744	0.1042	2,131,592.74	75,183,342.75
Class IV— Butterfat	8,892,867	2.5013	22,243,728.23	
Nonfat Solids	19,270,147	0.6703	12,916,779.52	<u>35,160,507.75</u>
Total Classified Value			Total value of milk in the pool	→ (\$317,822,351.37)
Add: Overage—All Classes				57,690.73
Inventory Reclassification—All Classes				442,604.23
Other Source Receipts	105,484			0.00
Less: Producer Component Valuations			Total value of producer components	→ (\$370,853,173.46)
Subtotal				(52,530,527.13)
Add: Location Adjustment to Producers				8,409,917.87
One-half Unobligated Balance—Producer Settlement Fund				1,083,368.98
Total Pool Milk & Aggregate Value	1,840,862,173			(43,037,240.28)
Less: Producer Settlement Fund—Reserve				(775,279.47)
Producer Price Differential @ Suffolk County, MA (Boston)		(\$2.38)		(43,812,519.75)
Statistical Uniform Price @ Suffolk County, MA (Boston)		\$17.28		

Negative value from which PPD per hundredweight is calculated

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