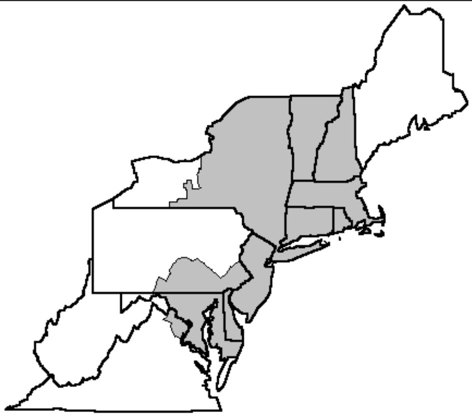

The Market Administrator's

BULLETIN

NORTHEAST MARKETING AREA

Erik F. Rasmussen, Market Administrator

May 2005 Federal Order No. 1

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May Pool Price Calculation

The May 2005 statistical uniform price (SUP) for the Northeast Marketing Area was announced at $15.35 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 May producer price differential (PPD) at Suffolk County was $1.58 per hundredweight.

May's statistical uniform price was 17 cents per hundredweight less than the April price; the May PPD was 67 cents above last month's. During May, butter and cheese prices decreased resulting in lower producer butterfat and protein prices. All class prices declined except for Class I, which is announced on an advanced basis using the higher market prices in place during April. The spread in prices between Class I and the other classes, most notably Class III, widened resulting in a higher PPD.

The producer protein test averaged 3.00 percent, the highest for May since the Order's inception.❖

Amendments to Order Take Effect in June

The amendments to the Northeast Marketing Order, approved by dairy farmers in a producer referendum conducted in February 2005, become effective with milk produced and pooled on the Northeast Order during June. Two of the more noticeable changes to the Order are as follows: For handlers, the implementation of year-round performance standards. This means that supply plants and cooperatives operating as handlers will now be required to ship a minimum percentage of their receipts to pool distributing (bottling) plants in all months. The prior order language required minimum shipments only during the shorter milk production period of July through December once they were qualified.

Another change that will take place is the revision of certain pool reporting and payment date provisions. The date that handlers must submit their monthly pool reports will be moved from the 9th of the month to the 10th of the month to allow more time for handlers to complete and submit their report of milk receipts and utilization. For some months this change could result in a slight delay in the calculation and completion of the monthly statistical uniform price. In addition, the date that non-cooperative producers must receive their final payment will no longer be a fixed date, but will be dependent upon the date that the statistical

(continued on page 3)

Pool Summary

- A total of 15,073 producers were pooled under the Order with an average daily delivery per producer of 4,584 pounds.
- Pooled milk receipts totaled 2.142 billion pounds, an increase of 3.2 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 42.1 percent of total milk receipts, a decrease of 0.8 percentage points from April.
- The average butterfat test of producer receipts was 3.62 percent.
- The average true protein test of producer receipts was 3.00 percent.
- The average other solids test of producer receipts was 5.72 percent.❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	42.1	900,998,027
Class II	19.0	406,723,799
Class III	22.4	480,512,542
Class IV	16.5	353,690,410
Total Pooled Milk		2,141,924,778

Producer Component Prices

	2005	2004
	$/lb	
Protein Price	2.5965	3.7639
Butterfat Price	1.5475	2.4282
Other Solids Price	0.1043	0.1444

Class Price Factors

	2005	2004
	$/cwt	
Class I	18.05	22.90
Class II	12.78	15.03
Class III	13.77	20.58
Class IV	12.20	14.50

Return of MILC Payments

June 2005 will see the first Milk Income Loss Contract (MILC) payment since April 2004. June's MILC payment will be $0.03 per hundredweight. The Class I price in Boston, MA, has averaged $19.06 from May 2004 through May 2005. Prior to that time, from the inception of the MILC program in December 2001 through April 2004, the Class I price averaged $14.62.

Based on Chicago Mercantile Exchange futures prices as of June 10, the reappearance of MILC payments will be a one-month occurrence and are not predicted to return again until December 2005 (see attached table), assuming the program is extended. The MILC program is scheduled to expire September 2005; however, the President's budget extends the program through fiscal year 2007 with a 5 percent reduction in payments. According to these same futures prices, December's MILC payment is forecast to be $0.06 per hundredweight.

Actual and Predicted Class Prices and MILC Payments, 2005

	Class I	Class II	Class III	Class IV	MILC
January	19.90	13.04	14.14	12.52	$0.00
February	17.04	13.36	14.70	12.74	$0.00
March	18.68	13.25	14.08	12.66	$0.00
April	17.38	13.24	14.61	12.61	$0.00
May	18.05	12.78	13.77	12.20	$0.00
June	16.87	*13.38*	*13.87*	*12.69*	$0.03
July	*17.22*	*13.45*	*13.85*	*12.74*	*$0.00*
August	*17.06*	*13.79*	*14.35*	*13.05*	*$0.00*
September	*17.47*	*13.96*	*14.48*	*13.10*	*$0.00*
October	*17.73*	*13.97*	*13.88*	*13.10*	*$0.00*
November	*17.13*	*14.00*	*13.50*	*13.05*	*$0.00*
December	*16.80*	*13.72*	*13.28*	*13.00*	*$0.06*

Note: Figures in italics based on June 10, 2005, Chicago Mercantile Exchange futures market prices.

The latest *Milk Production* report from the National Agricultural Statistics Service shows about a 3 percent increase in production in the top 23 producing states for March and April over last year. If this trend continues, it could put downward pressure on prices. However, milk production may have peaked seasonally, and commercial disappearance of dairy products is running strong with disappearance during the first quarter of 2005 above last year.

Even though the current price outlook results in just 2 months with MILC payments during the final 7 months of the year, the average Class I price is predicted to be $17.24 for the last 6 months, just $0.30 above the $16.94 threshold price for the program. It would only take small changes in the supply and demand situation to change the outlook for the number of MILC payments that may be made through the remainder of the year.❖

Class I Sales Decline Slightly in 2004

Sales of fluid milk products in the Northeast Milk Marketing Area totaled 9.2 billion pounds in 2004, down 47.6 million pounds from 2003. When adjusted for leap year, the decline is 0.8 percent. This follows a decline of 1.3 percent in 2003. The accompanying table shows total in-area sales by type of product for 2003 and 2004. The chart shows per capita sales by product for 2004.

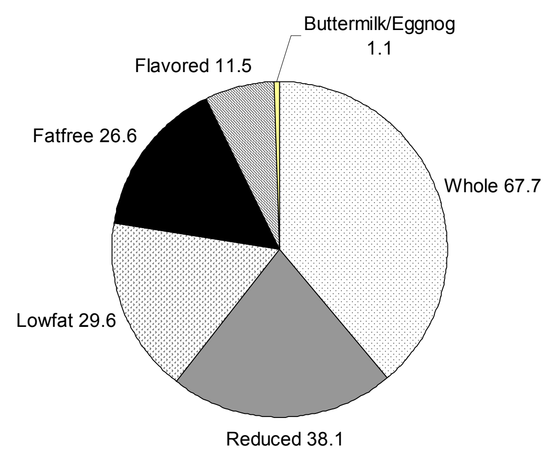
Whole milk had the largest drop with 3.2 percent. The other categories facing declines included lowfat (1 percent), fatfree (skim), and the combined category of buttermilk and eggnog. Flavored milk jumped 7.7 percent in 2004, and reduced fat (2 percent) increased a slight 0.5 percent.

Sales of Fluid Milk Products in the Northeast Milk Marketing Area, 2003–2004

	Total In-area Sales		2003–04
	2003	2004	change*
Product	million pounds		percent
Whole Milk	3,680.7	3,572.6	(3.2)
Reduced Fat – 2%	1,994.3	2,009.0	0.5
Lowfat – 1%	1,563.6	1,562.5	(0.3)
FatFree	1,400.1	1,402.4	(0.1)
Flavored Milk and Drinks	559.4	604.4	7.7
Buttermilk/Eggnog	57.6	57.3	(0.8)
Total	9,255.6	9,208.0	(0.8)

* Adjusted for leap year.

Northeast Area Per Capita Sales (pounds) by Product, 2004



On a per capital basis, total fluid sales declined 1.2 percent in 2004. This is less than the 2.6 percent drop in 2003. Whole continues to be the dominant product with 67.7 pounds, down from 70.2 pounds in 2003. Reduced fat was up 0.1 pound, lowfat decline 0.2 pounds, and fatfree dropped

(continued on page 3)

Changes in Utilization

For the first 4 months of 2005, cumulative producer milk receipts totaled 7.84 billion pounds, a leap-year-adjusted increase of 1.1 percent from the same period in 2004. The breakdown of milk by class has changed considerably from the previous year. The accompanying table shows total volume and percent utilization by class for the January–April period and the 2004 annual averages.

The volume of milk utilized in Class I declined 1.3 percent for the January through April period. Class II usage increased 3.6 percent while the Class III volume declined 11.9 percent due in part to the closure of cheese manufacturing facilities. Effective in May 2004, the Northeast Order was amended whereby milk used to produce evaporated milk or sweetened condensed milk was changed from Class III to Class IV. As such, the volume of milk classified as Class IV has increased significantly—44.5 percent—for the period. However, the increase was not due entirely to the change in condensed classification. In addition, the amount of milk used to produce other Class IV products such as butter and dried milk products in the Order has increased significantly as the market prices for these products were favorable, and milk volumes have been more plentiful.

As shown in the table, even with large volume changes the utilization percentages do not change drastically. The Northeast Order has steadily maintained a fairly well balanced class utilization since its inception in January 2000. This is due to a combination of factors. The Northeast Milk Marketing Area covers a large geographical area and encompasses numerous metropolitan centers (see related article on Class I Sales). This results in a fairly large and consistent volume of milk needed for fluid consumption. Also, the area includes many manufacturing operations that produce a wide variety of products, which allows for balancing of milk throughout the year as supply and demand vary.

Northeast Order Producer Milk Receipts, by Volume and Class, January–April 2004–05, and Annual Average Class Utilization

	January–April 2004	January–April 2005	2004–05 change*
	million pounds		percent
Class I	3,595.6	3,520.5	(1.3)
Class II	1,490.0	1,530.2	3.6
Class III	2,022.0	1,767.2	(11.9)
Class IV	713.5	1,022.3	44.5
Total	7,821.1	7,840.1	1.1

	2004	2005	5 Year Avg
	percent utilization		
Class I	46.0	44.9	44.2
Class II	19.1	19.5	17.9
Class III	25.9	22.5	28.5
Class IV	9.1	13.0	9.3

* Adjusted for leap year.

Some of the other Federal Milk Marketing Orders are not as diversified. The Florida and Southeast Orders, for example, are largely based on Class I usage, and the Upper Midwest Order has a high concentration of Class III usage. In these orders, large commodity price swings tend to have a very pronounced effect on producer prices. For example, when the cheese price rose significantly last spring resulting in a Class III price that was higher than the Class I price, some handlers chose to depool manufacturing milk. In the Northeast Order, the amount depooled was approximately 226 million pounds during April 2004. This had a negative impact on the price, but due to the size of the Northeast Order pool, the effect was mitigated. In the Upper Midwest Order, about 1.6 billion pounds of milk was depooled during April. This had a much greater impact due to the fact that the Upper Midwest Order pool is normally about 2 billion pounds. As a result, Class I utilization in that order went from 17.8 percent in January to 62.8 percent in April. In the Northeast Order, Class I utilization was 47.4 percent in January and 48.5 percent in April.❖

Class I Sales *(continued from page 2)*

0.1 pound. Flavored milk increased 0.8 pounds, and combined buttermilk and eggnog were unchanged.

The Northeast Marketing Area includes the entire states of Connecticut, Delaware, Massachusetts, New Hampshire, New Jersey, Rhode Island, and Vermont; the District of Columbia; most of Maryland and New York; and portions of Pennsylvania and Virginia. This area includes many metropolitan centers such as New York City, Boston, Philadelphia, Baltimore, and Washington, DC. The total estimated population for 2004 in the marketing area was 52.6 million people based on the 2000 Census.❖

Amendments to Order *(continued from page 1)*

uniform price is announced. To alert producers of the applicable final payment date, the back page of the statistical uniform price announcement (mailed to all non-member producers and also accessible at www.fmmone.com) will report the final payment date to producers for the particular month. There is no change in the required partial payment date for milk produced during the first 15 days of the month.

For additional information regarding the Order changes, refer to the March 2005 *Bulletin* or visit the Northeast Order Final Decision link at the following web address: http://www.ams.usda.gov/dairy/ne_hear.htm❖

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Computation of Producer Price Differential and Statistical Uniform Price*

		Product Pounds	Price per cwt./lb.	Component Value	Total Value
Class I—	Skim	883,290,401	$12.39	109,439,680.68	
	Butterfat	17,707,626	1.7417	30,841,372.20	
Less:	Location Adjustment to Handlers			(2,821,955.15)	$137,459,097.72
Class II—	Butterfat	30,665,792	1.5545	47,669,973.70	
	Nonfat Solids	33,997,056	0.8456	28,747,910.60	76,417,884.30
Class III–	Butterfat	18,184,924	1.5475	28,141,169.94	
	Protein	14,403,413	2.5965	37,398,461.87	
	Other Solids	27,390,723	0.1043	2,856,852.46	68,396,484.27
Class IV–	Butterfat	10,896,202	1.5475	16,861,872.68	
	Nonfat Solids	31,013,749	0.7810	24,221,737.97	41,083,610.65
Total Classified Value					**$323,357,076.94**
Add:	Overage—All Classes				33,792.66
	Inventory Reclassification—All Classes				(70,649.85)
	Other Source Receipts	44,884			1,611.24
Less:	Producer Component Valuations				(299,473,823.86)
	Subtotal				**$23,848,007.13**
Add:	Location Adjustment to Producers				10,099,358.62
	One-half Unobligated Balance—Producer Settlement Fund				843,862.33
Total Pool Milk & Aggregate Value		2,141,969,662			34,791,228.08
Less:	Producer Settlement Fund—Reserve				(948,107.31)
Producer Price Differential @ *Suffolk County, MA (Boston)*			**$1.58**		33,843,120.77
Statistical Uniform Price @ *Suffolk County, MA (Boston)*			**$15.35**		

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