

# The Market Administrator's **BULLETIN**

## **NORTHEAST MARKETING AREA**

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Federal Order No. 1

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### **June Pool Price Calculation**

The June 2005 statistical uniform price (SUP) for the Northeast Marketing Area was announced at \$15.23 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 June producer price differential (PPD) at Suffolk County was \$1.31 per hundredweight.

June's statistical uniform price was 12 cents per hundredweight less than the May price; the June PPD was 27 cents less than last month's. During June, butter prices rose at a greater rate than did cheese prices. This resulted in a higher butterfat price, but lower protein prices because the butterfat price is a component in the protein price. Overall, all class prices increased except for Class I, which is announced on an advanced basis. The Class I price is based on lower May commodity prices that dipped during the first and second week, especially for butter. The tightening in the spread in prices between Class I and the other classes resulted in a lower PPD.

The producer butterfat test averaged 3.55 percent, the lowest since June 2004; the producer protein test averaged 2.93 percent, the lowest test since August 2003. ❖

### **Low Volatility; High Prices?**

When discussing milk prices, many in the industry use such terms as volatile or unstable. Since the Northeast Order's inception, blend prices have ranged from \$11.43 per hundredweight in March 2003 to \$19.84 per hundredweight in May 2004, a difference of \$8.41 per hundredweight (see chart on page 3). During 2000, blend prices were in a relatively tight range (\$1.51), but on the low side, between \$12.21 and \$13.72 per hundredweight. In 2001, blend prices ranged from \$13.62 to \$17.76 per hundredweight (over \$4.00) and averaged \$15.67 per hundredweight for the year. During the next 2 years prices were not as volatile, but also they were not as high. In 2004, blend prices ranged over \$6.00 per hundredweight and averaged a record high.

For the past 16 months, blend prices have been consistently above \$15.00 per hundredweight averaging \$16.52 per hundredweight with a range of \$4.61. From April 2002 through July 2003, blend prices were consistently below \$13.00 per hundredweight. During that 16-month period, prices averaged \$12.12 per hundredweight but ranged only \$1.51. (continued on page 3)

### **Pool Summary**

- A total of 14,923 producers were pooled under the Order with an average daily delivery per producer of 4,461 pounds.
- Pooled milk receipts totaled 1.997 billion pounds, a decrease of 3.7 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 41.4 percent of total milk receipts, a decrease of 0.7 percentage points from May.
- The average butterfat test of producer receipts was 3.55 percent.
- The average true protein test of producer receipts was 2.93 percent.
- The average other solids test of producer receipts was 5.70 percent. ❖

#### **Class Utilization**

<u>Pooled Milk</u>	<u>Percent</u>	<u>Pounds</u>
Class I	41.4	827,425,660
Class II	21.1	420,391,250
Class III	22.7	454,018,115
Class IV	14.8	<u>295,263,285</u>
Total Pooled Milk		1,997,098,310

#### **Producer Component Prices**

	<u>2005</u>	<u>2004</u>
	\$/lb	
Protein Price	2.5741	3.1086
Butterfat Price	1.5932	2.1768
Other Solids Price	0.1139	0.1339

#### **Class Price Factors**

	<u>2005</u>	<u>2004</u>
	\$/cwt	
Class I	16.87	24.38
Class II	13.06	14.31
Class III	13.92	17.68
Class IV	12.33	13.72

## Utilization Changes Impact on Price

In the Northeast marketing area, the uniform price is impacted by the overall utilization of all milk pooled on Order No. 1. Reaction to class prices can impact the volume of milk used in each class. However, a region's ability to produce products in various classes of milk can be influenced by the total manufacturing capacity that region has for producing products in those classes. This leads to the question of how recent plant closings, or plans for future plant closing or new plants, may affect the Order's utilization and, thus, the uniform price paid to the producer.

### Comparing Utilizations

During the first 6 months of 2005, Class I milk accounted for roughly 43.8 percent of pooled milk. Class III accounted for the second highest portion at 22.5 percent with Class II slightly lower at 19.7 percent. Class IV accounted for 14 percent. Six-month utilizations are represented by the accompanying pie charts. Though the portions have varied from year-to-year, the ranking of highest use class to lowest use class for the same period has not changed since the Northeast Order's inception in 2000. June 2005's market prices and the utilization for the first 6 months of 2005 generates a uniform price of \$15.33 per hundredweight.

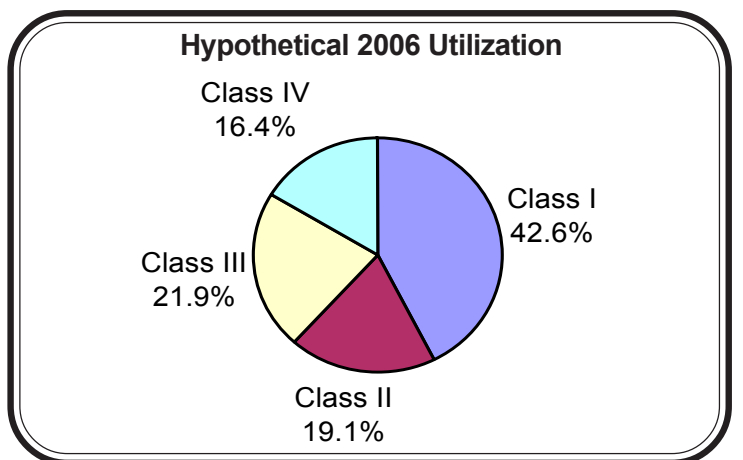
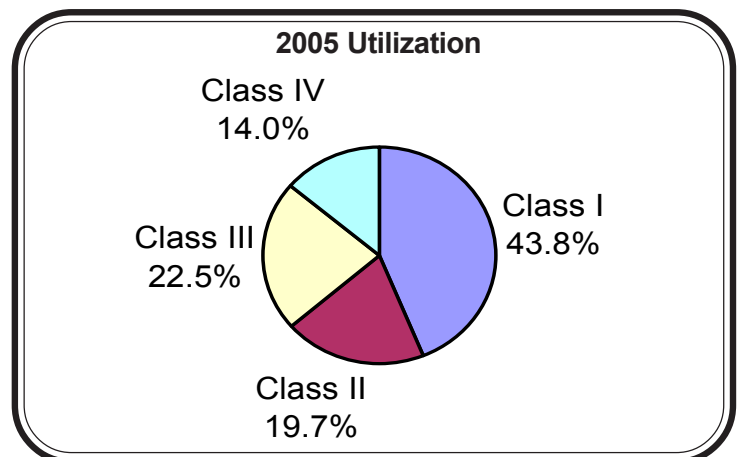
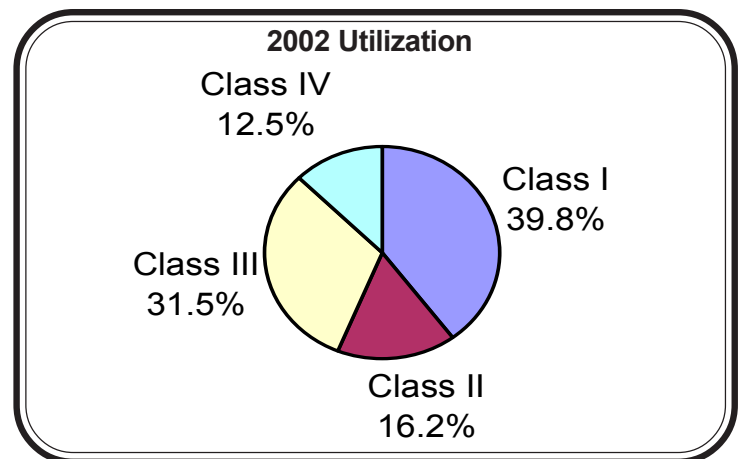
For comparison, using June 2005's market prices, but with the utilization for the first 6 months of 2002 instead, would yield a uniform price of \$15.27 per hundredweight. Holding the market price structure constant highlights the impact a change in utilization has on the uniform price, in this case, a \$0.06 difference. In 2002, milk pooled for the first 6 months topped 13 billion pounds. When the Class I market could not consume more, the extra milk went to manufacturing. In fact, 31.5 percent went to Class III, 16.2 percent went to Class II, and 12.5 percent went to Class IV. During the same period in 2005, just 12.0 billion pounds were pooled.

### Plant Closings' Impact

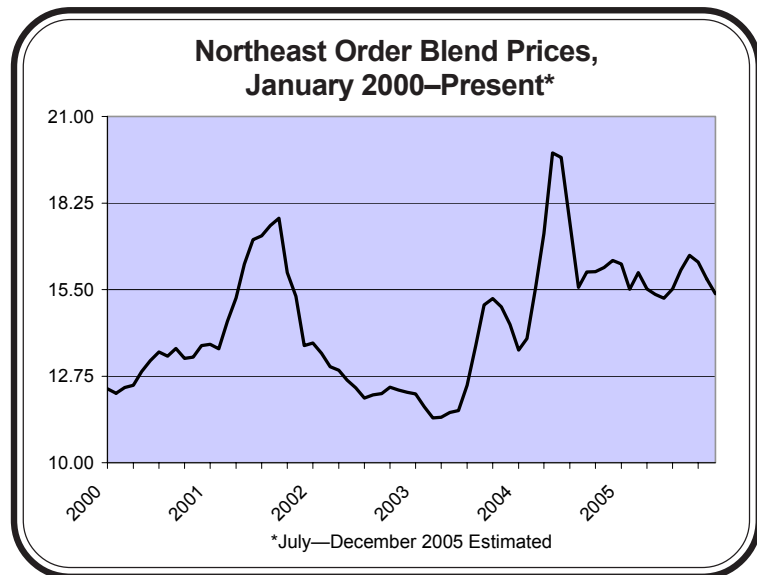
Recently, the region has experienced plant closings that in total used to receive approximately 500 million pounds of milk during the first half of the year. In light of reduced regional manufacturing capacity, what would the resulting uniform price be if the pool in 2006 were closer to the average volume pooled since 2000? By taking the average volume during the first half of the year, a hypothetical 2006 pool for the first 6 months would have totaled 12.3 billion pounds. If this volume is spread across classes exactly as it was in 2005, with the exception that all the additional milk end up in Class IV, the resulting utilization would have been 42.6 percent Class I, 19.1 percent Class II, 21.9 percent Class III, and 16.4 percent Class IV. The resulting uniform price would be \$15.26 per hundredweight. This would mean a \$0.07 per hundredweight lower uniform price as a result of the lack of ability to put extra milk production in classes other than Class IV (assuming identical market prices).

This analysis indicates that the current uniform price has not been severely affected by recent plant closings and

utilization changes given current pooling volumes. The impact could be lower or higher if the spread between class prices were different. The impact becomes more significant if pool volumes were to return to 2002 levels. However, with other opportunities to market the milk outside of the Northeast, it is unclear if and when the Northeast Order pool could reach that level again. There are possible plans to build new plants that would produce Class II and Class III products that could help compensate for the recent lost regional capacity. ❖



## Low Volatility; High Prices? *(continued from page 1)*



During this time, volatility was greater while prices were higher. Understandably, stable prices help in managing any operation, whether at the farm or retail level. Blend prices are not as high as last year, but when compared to blend prices during the 1990's for the combined predecessor orders (New York-New Jersey, Middle Atlantic, and New England), volatility has been the consistent factor. Even after changes in pricing formulas and product classifications, monthly changes have not significantly been muted and, as the table shows, ranges vary greatly each year.

Using milk futures prices reported on the Chicago Mercantile Exchange (CME), blend prices are projected to

remain in the \$15.37 to \$16.59 range for the remainder of 2005. This would result in an average blend price of \$15.82 per hundredweight for 2005, the second highest average blend price for the Northeast Order. With prices only ranging \$1.36 during the year, this would represent the least volatile period in many years, which is surprising since it coincides with higher prices. ❖

	Annual			
	Avg	Lowest	Highest	Range
dollars per hundredweight				
1990	14.31	12.00	16.07	4.07
91	12.56	11.62	14.11	2.49
92	13.59	12.73	14.30	1.57
93	13.32	12.54	14.14	1.60
94	13.65	12.74	14.23	1.49
95	13.23	12.67	14.28	1.61
96	15.15	14.03	16.58	2.55
97	13.53	12.47	14.65	2.18
98	15.43	13.73	17.90	4.17
99	14.71	12.38	17.87	5.49
2000	13.04	12.21	13.72	1.51
01	15.67	13.62	17.76	4.14
02	12.64	12.05	13.81	1.76
03	12.99	11.43	15.21	3.78
04	16.49	13.58	19.84	6.26
05	15.82	15.23	16.59	1.36

\* Average for combined Order Nos. 1, 2, & 4 from 1990-99; actual Northeast Order price at Boston from January 2000-June 2005; Jul-Dec 2005 are estimated

### Pool Summary for All Federal Orders, January– June, 2004–2005

Federal Order Number	Federal Order Name	Total Producer Milk			Producer Price Differential#		Statistical Uniform Price#*	
		2004	2005	Change**	2004	2005	2004	2005
		pounds			percent		dollars per hundredweight	
1	Northeast	11,500,888,948	11,979,170,127	4.7	0.67	1.46	16.65	15.66
5	Appalachian	3,136,428,881	3,409,354,373	9.3	N/A	N/A	17.00	16.21
6	Florida	1,523,588,413	1,661,432,550	9.6	N/A	N/A	18.40	17.62
7	Southeast	3,763,691,525	4,001,756,054	6.9	N/A	N/A	16.83	16.11
30	Upper Midwest	8,212,841,160	9,831,050,400	20.4	(0.79)	0.19	15.20	14.39
32	Central	5,649,631,774	6,308,884,144	12.3	(0.68)	0.32	15.31	14.53
33	Mideast	7,563,007,988	9,254,007,277	23.0	(0.40)	0.53	15.58	14.73
124	Pacific Northwest	3,243,321,171	3,232,343,931	0.2	(1.07)	0.01	14.91	14.21
126	Southwest	4,210,861,415	4,545,991,198	8.6	0.09	1.18	16.07	15.39
131	Arizona-Las Vegas	1,527,371,082	1,539,825,468	1.4	N/A	N/A	15.77	14.61
135	Western <sup>^</sup>	1,096,283,946	0	N/A	0.45	N/A	13.12	N/A
<b>All Market Total/Average</b>		<b>51,427,916,303</b>	<b>55,763,815,522</b>	<b>9.0</b>	<b>(0.25)</b>	<b>0.62</b>	<b>16.13</b>	<b>15.35</b>

# Price at designated order location.

\* Price at 3.5% butterfat.

\*\* Adjusted for leap year.

<sup>^</sup> The Western Milk Marketing Order was terminated effective April 1, 2004; pounds for 2004 are only Jan-Mar total; Uniform Price is average for Jan-Mar 2004.

N/A = Not applicable.



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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	810,966,074	\$11.83	95,937,286.55	
Butterfat	16,459,586	1.5591	25,662,140.53	
Less: Location Adjustment to Handlers			(2,543,957.39)	\$119,055,469.69
Class II— Butterfat	30,299,908	1.6002	48,485,912.81	
Nonfat Solids	34,907,004	0.8589	29,981,625.72	78,467,538.53
Class III— Butterfat	16,821,759	1.5932	26,800,426.44	
Protein	13,308,180	2.5741	34,256,586.12	
Other Solids	25,806,817	0.1139	2,939,396.49	63,996,409.05
Class IV— Butterfat	7,232,116	1.5932	11,522,207.25	
Nonfat Solids	25,827,464	0.7780	20,093,766.97	31,615,974.22
<b>Total Classified Value</b>				<b>\$293,135,391.49</b>
Add: Overage—All Classes				107,416.48
Inventory Reclassification—All Classes				213,417.96
Other Source Receipts	55,672			1,695.64
Less: Producer Component Valuations				(276,667,403.68)
<b>Subtotal</b>				<b>\$16,790,517.89</b>
Add: Location Adjustment to Producers				9,462,320.56
One-half Unobligated Balance—Producer Settlement Fund				880,056.39
<b>Total Pool Milk &amp; Aggregate Value</b>	1,997,153,982			27,132,894.84
Less: Producer Settlement Fund—Reserve				(970,177.66)
<b>Producer Price Differential @ Suffolk County, MA (Boston)</b>		<b>\$1.31</b>		26,162,717.18
<b>Statistical Uniform Price @ Suffolk County, MA (Boston)</b>		<b>\$15.23</b>		

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