

# The Market Administrator's BULLETIN

## NORTHEAST MARKETING AREA

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**December 2005**

Federal Order No. 1

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### December Pool Price Calculation

The December 2005 statistical uniform price (SUP) for the Northeast Marketing Area was announced at \$14.83 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 December producer price differential (PPD) at Suffolk County was \$1.46 per hundredweight.

December's statistical uniform price was 58 cents per hundredweight below the November price; the December PPD was 60 cents below last month's. During December, commodity butter and cheese prices declined while powder prices rose slightly. As a result, all class prices declined except the Class III price, which rose 2 cents from November. The spread between class prices tightened, reducing the PPD.

The producer butterfat test was 3.84 percent, the highest butterfat since the Order's inception. Producer protein remained at 3.13 percent and the highest test on record under the Order. ❖

### Hearing on Class III and IV Make Allowances

On January 5, the U. S. Department of Agriculture announced that it would hold a national public hearing to consider a proposal seeking to amend the Class III and Class IV milk price formula manufacturing allowances for all federal milk marketing orders. The hearing will begin at 8:30 a.m. on January 24, 2006, at the Sheraton Suites Old Town Alexandria, 801 North Saint Asaph Street, Alexandria, Va. 22314.

The hearing was requested by Agri-Mark, Inc. dairy cooperative to reconsider the manufacturing cost allowances provided for in the pricing formulas for cheese, whey powder, butter, and nonfat dry milk powder. The proponent stated that the current fixed allowances were calculated using 1998-2000 California and Department of Agriculture Cooperative Service surveys. While the product price formulas have been amended since 2000, the proponent claims that manufacturing costs have continued to increase, leaving them unable to recoup these additional costs from the marketplace.

Manufacturing or make allowances are part of the Class III and IV price formulas from which all federal order class prices are determined. These formulas convert the survey of wholesale prices of cheese, butter, nonfat dry milk, and dry whey back to an equivalent price for raw milk. In this manner, federal order class prices are a reflection of market supply and demand factors. ❖

### Pool Summary

- A total of 14,657 producers were pooled under the Order with an average daily delivery per producer of 4,298 pounds.
- Pooled milk receipts totaled 1.953 billion pounds, an increase of 2.9 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 47.4 percent of total milk receipts, a decrease of 1.3 percentage points from November.
- The average butterfat test of producer receipts was 3.84 percent.
- The average true protein test of producer receipts was 3.13 percent.
- The average other solids test of producer receipts was 5.70 percent.

#### Class Utilization

Pooled Milk	Percent	Pounds
Class I	47.4	926,153,395
Class II	17.4	340,139,174
Class III	22.3	435,735,775
Class IV	12.9	250,909,982
Total Pooled Milk		1,952,938,326

#### Producer Component Prices

	2005	2004
	\$/lb	
Protein Price	2.3846	2.8486
Butterfat Price	1.5036	2.0366
Other Solids Price	0.1702	0.0858

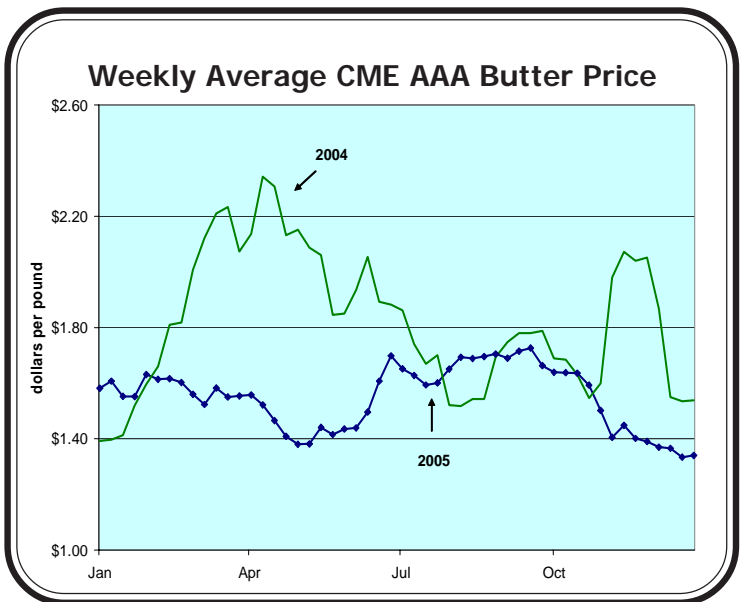
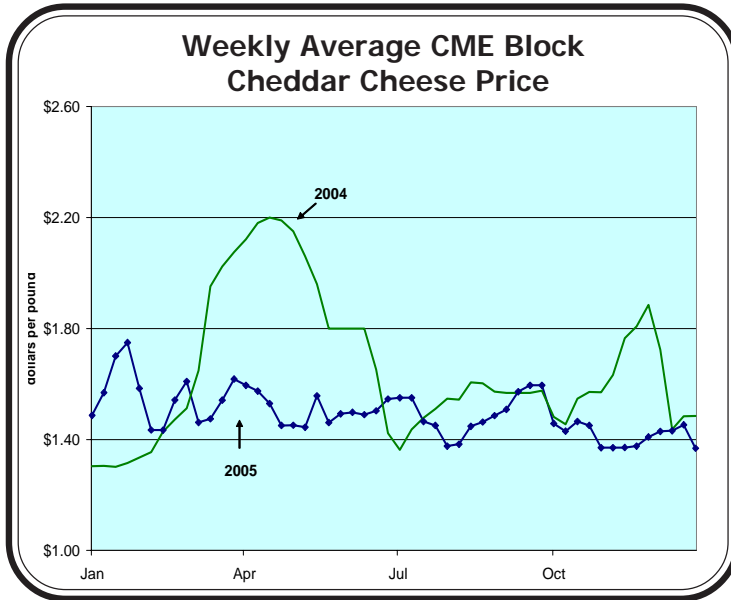
#### Class Price Factors

	2005	2004
	\$/cwt	
Class I	16.82	17.68
Class II	13.22	13.98
Class III	13.37	16.14
Class IV	12.57	13.42

## Commodity Prices

Both cheese and butter prices on the Chicago Mercantile Exchange (CME) were less volatile in 2005 than 2004. However, both commodities' prices have averaged lower than the previous year.

The CME 40-pound block Cheddar cheese price averaged \$1.49 per pound in 2005, compared to \$1.65 per pound in 2004. The commodity has traded within a range of 38 cents during 2005, with a high of \$1.75 per pound and a low of \$1.37 per pound. Cheese traded within a range of 90 cents during the same time period in 2004, reaching a high of \$2.20 per pound and a low of \$1.30 per pound.



The CME AA butter price averaged \$1.55 per pound in 2005, compared to \$1.82 per pound in 2004. Butter traded within a range of 39 cents in 2004, much less than the 95-cent range the commodity traded within during 2004. During 2004, butter reached a high of \$2.34 per pound. The high weekly butter price for 2005 is \$1.73 per pound for the week ending September 23.

During the fourth quarter of 2005, cheese averaged \$1.41 per pound, 20 cents lower than the fourth quarter of 2004. Butter averaged \$1.45 per pound during the fourth quarter of 2005, almost 30 cents less than the same period in 2004.

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

Federal Order		Total Producer Milk			Producer Price Differential#		Statistical Uniform Price#*	
Number	Name	2004	2005	Change**	2004	2005	2004	2005
		pounds			percent	dollars per hundredweight		
1	Northeast	22,669,950,549	23,565,272,087	4.2	1.10	1.60	16.49	15.64
5	Appalachian	6,202,493,443	6,399,812,315	3.5	N/A	N/A	17.01	16.23
6	Florida	2,873,014,359	3,125,345,158	9.1	N/A	N/A	18.40	17.57
7	Southeast	7,164,432,271	7,543,717,206	5.6	N/A	N/A	16.94	16.14
30	Upper Midwest	17,302,476,567	22,449,887,923	30.1	(0.35)	0.27	15.05	14.32
32	Central	11,589,392,846	13,965,746,351	20.8	(0.20)	0.42	15.20	14.47
33	Mideast	15,939,908,456	18,060,092,544	13.6	0.05	0.66	15.44	14.70
124	Pacific Northwest	6,517,689,890	7,045,825,851	8.4	(0.58)	0.15	14.82	14.20
126	Southwest	8,790,403,560	9,578,701,979	9.3	0.61	1.33	16.00	15.37
131	Arizona-Las Vegas	2,901,186,995	2,947,498,446	1.9	N/A	N/A	15.52	14.66
135	Western	1,096,283,946 ^	0	N/A	0.45	N/A	13.12	N/A
All Market Total/Average		103,047,232,882	114,681,899,860	11.6	0.16	0.74	15.82	15.33

# Price at designated order location.  
N/A = Not applicable.

\* Price at 3.5% butterfat.  
^ Order was terminated April 1, 2004.

\*\* Adjusted for leap year.

## 2005 Northeast Order Statistics Summarized

During 2005, the volume of milk received from producers shipping to handlers regulated under the Northeast Order totaled 23.6 billion pounds, an increase of 4.2 percent from 2004. The average number of producers declined only 0.9 percent, while average daily deliveries per producer (DDP) increased 5.1 percent. The accompanying table compares selected pool statistics for 2004 and 2005. Comparisons have been adjusted for leap year in 2004.

### Class Utilization Changes

Class I utilization averaged 45.0 percent in 2005, a decrease of 2.2 percentage points from the previous year. The total volume of milk used in Class I decreased slightly (0.5 percent), but because of a larger volume of producer milk receipts, the change was accentuated. Class II usage increased 6.2 percent, but because of the overall volume increase only resulted in a utilization increase of 0.4 percentage points. Class III volume grew 1.8 percent, but when compared to the increase in total producer milk receipts, the utilization dropped 0.6 percentage points. In actuality, the 2005 Class III volume was less than the previous year. Over 650 million pounds were depooled during April, May, and June of 2004. If that milk had been included on the Order, the 2005 Class III volume would have shown a decline of over 9.0 percent. Less milk was used in Class III partially due to the closure of cheese manufacturing facilities. The amount of milk used in Class IV jumped 28.6 percent in 2005; utilization increased 2.3 percentage points. This was mainly due to the change in the Order in May 2004 that reclassified milk used to produce evaporated milk or sweetened condensed as Class IV instead of Class III.

### Prices Lower

National milk production started to gain momentum in the early spring of 2005. With the tightness in milk easing, prices began to decline. All federal order class prices averaged less than 2004's record-setting prices.

The Class I price averaged \$17.65 per hundredweight in 2005, 58 cents below the 2004 annual average. The highest Class I price during 2005 was \$19.90 in January, \$4.48 less than the record high in June of 2004. The Class II price averaged 38 cents less than the previous year and the Class IV price was down 32 cents from 2004. The Class III price was hit the hardest, averaging \$1.34 per hundredweight less than the 2004 average. Overall, the statistical uniform price (blend) reported at Suffolk County, Massachusetts (Boston) averaged \$15.64 per hundredweight, 85 cents (5.1 percent) less than the 2004 price.

### Component Pricing

The price paid to producers for butterfat averaged \$1.7105 per pound, 16.6 percent less than in 2004. The per-pound annual average protein price declined 5.5 percent. The other solids price increased 63.5 percent, jumping

from \$0.0751 to \$0.1228 per pound. The nonfat solids rose 14.3 percent.

The annual average producer butterfat test was unchanged from 2004 although tests varied significantly throughout the year. The average protein test was 1 hundredth of a point less than the previous year while the other solids test averaged 2 hundredths of a point higher than 2004.

### Producer Changes

The simple average number of producers equaled 135 less than 2004. This decline is less than last year, but is also skewed by the depooling that occurred in 2004, which resulted in a lower annual average than would have occurred had there not been any depooling. The year ended with 430 fewer producers than at the end of 2004. ❖

Order Pool Statistics, 2004–2005

Pool Statistics	2004	2005	2004-05
	million pounds		Change
			percent
Class I	10,691.8	10,612.9	-0.5
Class II	4,441.2	4,701.5	6.2
Class III	5,297.3	5,378.0	1.8
Class IV	2,239.7	2,872.8	28.6
Total	22,670.0	23,565.3	4.2
	pounds		
DDP	4,121	4,330	5.1
	utilization percentage		change
Class I	47.1	45.0	-2.1
Class II	19.6	20.0	0.4
Class III	23.4	22.8	-0.6
Class IV	9.9	12.2	2.3
	dollars/cwt		percent
Class I	18.23	17.65	-3.2
Class II	13.86	13.48	-2.7
Class III	15.39	14.05	-8.8
Class IV	13.20	12.88	-2.5
SUP	16.49	15.64	-5.1

## No CCC Purchases in 2005

During the 2005 calendar year, the Commodity Credit Corporation (CCC) did not purchase any products under the price support program. This is the first year ever since the dairy price support program began operation in 1949 that no purchases were made during an entire calendar year. The program reports on a fiscal year basis that runs from October 1–September 30 of the following year.

The last CCC purchase was in November 2004 for nonfat dry milk. The last time butter was purchased was in June 2003; the last cheese purchase was in July 2003. There have been no uncommitted inventories of any product since October 2004. ❖



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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	906,375,492	\$11.28	102,239,155.50	
Butterfat	19,777,903	1.6958	33,539,367.91	
Less: Location Adjustment to Handlers			(2,917,853.98)	\$132,860,669.41
Class II— Butterfat	27,028,210	1.5106	40,828,814.05	
Nonfat Solids	28,717,995	0.9133	26,228,144.83	67,056,958.88
Class III— Butterfat	17,512,328	1.5036	26,331,536.37	
Protein	13,599,956	2.3846	32,430,455.07	
Other Solids	24,758,521	0.1702	4,213,900.32	62,975,891.76
Class IV— Butterfat	10,758,653	1.5036	16,176,710.68	
Nonfat Solids	22,026,763	0.8414	18,533,318.39	34,710,029.07
<b>Total Classified Value</b>				<b>\$297,603,549.12</b>
Add: Overage—All Classes				107,713.32
Inventory Reclassification—All Classes				9,452.14
Other Source Receipts	10,146			282.06
Less: Producer Component Valuations				(277,549,941.40)
<b>Subtotal</b>				<b>\$20,171,055.24</b>
Add: Location Adjustment to Producers				9,194,970.04
One-half Unobligated Balance—Producer Settlement Fund				0.00**
<b>Total Pool Milk &amp; Aggregate Value</b>	1,952,948,472			29,366,025.28
Less: Producer Settlement Fund—Reserve				(852,977.59)
<b>Producer Price Differential @ Suffolk County, MA (Boston)</b>		<b>\$1.46</b>		28,513,047.69
<b>Statistical Uniform Price @ Suffolk County, MA (Boston)</b>		<b>\$14.83</b>		

For November, December, and January pool this value is "0"

PPD is 4 to 5 cents lower

\* Price at 3.5 percent butterfat, 2.99 percent protein, and 5.69 percent other solids.  
 \*\* Zero due to obligation for settlement of the *H.P. Hood et. al.* 7 U.S.C. Sec.608(15)(A) decision.