



The Market Administrator's BULLETIN

NORTHEAST MARKETING AREA

Erik F. Rasmussen, Market Administrator

November 2006

Federal Order No. 1

To contact the Northeast Marketing Area offices:

Boston, MA: phone (617) 737-7199, e-mail address: MABoston@fedmilk1.com; *Albany, NY:* phone (518) 452-4410, e-mail address: MAAlbany@fedmilk1.com; *Alexandria, VA:* phone (703) 549-7000, e-mail address: MAAlexandria@fedmilk1.com; *website address:* www.fmmone.com

November Pool Price Calculation

The November 2006 statistical uniform price (SUP) for the Northeast Marketing Area was announced at \$14.21 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 November producer price differential (PPD) at Suffolk County was \$1.37 per hundredweight.

November's statistical uniform price was 17 cents per hundredweight above the October price; the November PPD was 35 cents below last month's. During November, all commodity prices increased except butter. The nonfat dry milk price jumped considerably and mitigated the butter decline. This resulted in an increase in the Class IV price. For the first time since the Order's inception, the Class II price was below the Class IV (see article on page 3 for more explanation).

Total producer receipts were down 100 million pounds from November 2005 and was the smallest volume on record for the Northeast Order. Class I usage was up 12 million pounds and, combined with the decrease in total receipts, resulted in the highest Class I utilization on record (52.3 percent).

Federal Order Decisions and Hearing

Make Allowances—In late November the U.S. Department of Agriculture issued a tentative final decision to amend the manufacturing (make) allowances contained in the Class III and IV price formulas applicable for all federal orders. A producer referendum is underway, concluding on December 22, with referendum results to be announced by the Secretary of Agriculture at a later date. This decision was based on an emergency public hearing held in Alexandria, Virginia, in January 2006 and a subsequent continuation session of this hearing held in Strongsville, Ohio, in September 2006.

The Federal milk order system currently uses product price formulas to compute prices handlers must account for in the marketwide pooling of milk used in Class III and IV products. Class III and IV prices also form the base from which Class I and Class II prices are determined. As a simplified explanation, producers receive the average of the class prices weighted by the volume of milk in each class for the respective order(s) under which they are pooled.

(continued on page 3)

Pool Summary

- A total of 14,057 producers were pooled under the Order with an average daily delivery per producer of 4,118 pounds.
- Pooled milk receipts totaled 1.737 billion pounds, an increase of 1.0 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 52.3 percent of total milk receipts, an increase of 0.7 percentage points from October (see article on price calculation).
- The average butterfat test of producer receipts was 3.79 percent.
- The average true protein test of producer receipts was 3.11 percent.
- The average other solids test of producer receipts was 5.70 percent.

Class Utilization

Pooled Milk	Percent	Pounds
Class I	52.3	907,700,961
Class II	20.8	360,550,981
Class III	22.5	391,315,232
Class IV	4.4	77,305,727
Total Pooled Milk		1,736,872,901

Producer Component Prices

	2006	2005
	\$/lb	
Protein Price	2.2383	2.2724
Butterfat Price	1.3852	1.6114
Other Solids Price	0.2276	0.1606

Class Price Factors

	2006	2005
	\$/cwt	
Class I	15.65	17.81
Class II	11.98	13.49
Class III	12.84	13.35
Class IV	12.11	12.90

Regional Dairy Outlook Conference Held

The 2006 Northeast Regional Dairy Outlook Conference was held November 21 at the Northeast Marketing Area's Albany office. The annual conference brings together economists and statisticians from the Northeast's market administrator offices, state and federal agricultural statistical services, university extension offices, and cooperatives to review regional production and price statistics for the past year and develop projections for the upcoming year. The Northeast region includes Delaware, Maryland, New England (Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont), New Jersey, New York, and Pennsylvania.

Crop Situation

As is typical in the Northeast, mixed weather conditions throughout the region resulted in varied crop yields. Participants noted that the late spring rain delayed planting, resulting in a short growing season and crops left standing in the field, primarily in New England and parts of New York. Overall, hay production was up and corn was down; a shortage of feed in the late winter and early spring is likely. In Pennsylvania, the situation looks somewhat more optimistic with a good hay crop in both quality and quantity. Corn should be sufficient going into winter.

Production Estimates

Nationally, milk cow numbers are projected to finish up nearly 1 percent in 2006, compared to 2005. For 2007, the total number of cows is estimated to decline about half of 1 percent. Regionally, cow numbers are projected to finish down about 1 percent in 2006 and another 0.3 percent in 2007. New York estimates a slight increase, while Pennsylvania and the combined New England states (Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont) expect declines. New Jersey, Delaware, and Maryland predict no change.

Replacement heifers are less scarce than during the past couple of years. Due to lower prices this past year, an increase in farm exits is anticipated. Even though milk prices are expected to increase during 2007, it is not anticipated that prices will be as high as in 2004. With relatively high input costs (i.e., fuel, feed) expansions will be limited.

Nationally, milk production per cow is projected to finish 2 percent higher in 2006 and another 1.6 percent in 2007 due to improved management and sufficient feed. The Northeast situation is similar: 1.7 percent higher in 2006 and 1.6 percent in 2007.

Even though milk cow numbers are expected to drop, the increases in milk production per cow are expected to generate an overall increase in milk production of nearly 1 percent in 2006 and 1.2 percent in 2007 in the Northeast.

Northeast Milk Marketing Area Statistical Uniform Prices, 2005–2007*

Month	2005 Actual	2006 Actual and Estimated	2007 Estimated
January	16.31	14.78	15.24
February	15.51	14.25	15.21
March	16.04	13.43	15.23
April	15.52	12.64	15.20
May	15.35	12.61	15.28
June	15.23	12.66	15.43
July	15.85	12.79	15.69
August	15.84	13.06	16.04
September	15.92	13.43	16.28
October	15.88	14.04	16.09
November	15.41	14.32	15.83
December	14.83	14.53	15.78
Average	15.64	13.55	15.61

* Estimated prices for November and December 2006 and all of 2007. All estimates are subject to change. Prices are reported at Suffolk County, MA. The actual price for November is \$14.16 per cwt, announced in this issue.

Nationally, 2006 should finish with an increase of 2.9 percent and 2007 is estimated at 1 percent higher.

Price Estimates

The group's consensus for the Northeast Order statistical uniform price is an annual average of \$13.55 per hundredweight for 2006. This is \$2.09 less than the 2005 annual average blend price. The forecast for 2007 is considerably higher: an annual average of \$15.61 per hundredweight, similar to prices paid during 2005. This forecast did not take into account the currently proposed amended order (see Referendum article). Should the amendments become effective, prices are anticipated to decline slightly. There are other changes currently proposed that would affect pricing also.

The increase in milk prices is due to less milk production during 2006 and fairly strong demand. The 5 percent increases that occurred at the beginning of 2006 shrunk as production leveled off during the spring and summer months. This helped prices rebound somewhat during the fall. Production increases are not expected to bounce back to previous levels with limited feed and less use of rBST. Current Chicago Mercantile Exchange futures prices predict blend prices in the \$15–15.20 per hundredweight for the spring of 2007 and increases into the \$16.00 range during the summer and early fall (see accompanying table). Once again, the Class III price is expected to be the dominant mover for Class I prices next year, although Order changes may alter that resulting in a butter/nonfat dry milk mover instead of a cheese mover. At this time, no negative producer price differentials (PPD) are predicted for 2007. ❖

Payment Dates to Producers

The calendar below shows the dates for partial payments to producers who are not members of cooperatives. As required by the Order, payment must be made so that a producer receives it no later than the date shown. The table dates vary due to weekends and national holidays.

The final payment date that non-member producers must be paid is dependent on the date that the statistical uniform price is announced. Each month, this date (that final payments to producers must be received by) is printed on the back of the Producer Pool Price Announcement. ❖

Required Producer Payments Under the Northeast Order, 2007

Month Milk Produced	Partial Payment Due	
	Day	Date
January	Friday	1/26/07
February	Monday	2/26/07
March	Monday	3/26/07
April	Thursday	4/26/07
May	Tuesday	5/29/07
June	Tuesday	6/26/07
July	Thursday	7/26/07
August	Monday	8/27/07
September	Wednesday	9/26/07
October	Friday	10/26/07
November	Monday	11/26/07
December	Wednesday	12/26/07

Class II Price Below III and IV

The November Class II price was the lowest class price for the first time since the Order's inception. The Class II price has averaged \$0.73 more than the Class IV price since January 2000. This price scenario is a result of the current Class II formula:

$$(.965 \times \text{Advance Class II Skim}) + (3.5 \times \text{Class II Butterfat})$$

The Advance Class II skim portion of the price is derived from the weighted average of nonfat dry milk prices as reported by National Agricultural Statistics Service (NASS) on October 7 and 14. The Class II butterfat portion of the price is derived from the weighted average of butter prices reported by NASS on November 4, 11, 18, and 25. The butterfat portion of the class II formula for November reflects November market prices, whereas the advanced skim portion of the formula reflects market prices that existed during the first half of October. The weighted average price of nonfat dry milk for October 7 and 14, which helps set the November Class II price, was \$0.8891 per pound. The price for nonfat dry milk for the month of November averaged \$0.9837 per pound. Due to the pricing formula, the November Class II price did not reflect these higher November commodity prices.

Until this month, Class III or Class IV has been the lowest class price for the month. The Class III and Class IV prices are set using the current month's butterfat, other solids, and nonfat NASS prices. Prices for these components for the November Class III and Class IV prices were set using NASS prices on November 4, 11, 18, and 25.

Section 1001.73(a)(1) of the Order states that partial payments to producers for milk shipped during the first 15 days of the month shall be paid "at not less than the lowest announced class price for the preceding month." For the first time, that partial payment could be based on the Class II price. ❖

Decisions and Hearing *(continued from page 1)*

The price formulas used to compute Class III and Class IV prices contain a factor called a manufacturing allowance. The make allowance factor represents the cost manufacturers incur in making raw milk into one pound of product and as used in the class price formula is a subtracted value. The decision amends the manufacturing allowances for cheese, butter, nonfat dry milk (NFD), and dry whey. Specifically, the decision would adopt the following increased manufacturing allowances: cheese \$0.1682 per pound; butter \$0.1202 per pound; NFD \$0.1570 per pound; and dry whey \$0.1956 per pound.

Since this decision was published as a tentative final decision in the November 22 *Federal Register*, interested parties have 60 days, or until January 22, 2007, to submit comments on this action that will be taken into consideration before the eventual issuance of a final decision on this hearing issue. Comments (four copies) should be filed with the Hearing Clerk, Stop 9200-Room 1031, United States Department of Agriculture, 1400

Independence Avenue, SW., Washington, DC 20250-9200. Comments may also be submitted at the Federal Rulemaking portal at: <http://www.regulations.gov> or by submitting comments via e-mail to: amsdairycomments@usda.gov. Reference should be made to the action "Manufacturing Allowance" and docket number "AO-14-A74."

Class I and Class II Formulas—During the week of December 11–15, the U.S. Department of Agriculture held a national public hearing to consider proposals seeking to amend the Class I and Class II price formulas applicable to all Federal milk marketing orders. This hearing was requested on an emergency basis by National Milk Producers Federation to reconsider formulas for Class I and II milk. Also, testimony was taken at the hearing to determine whether emergency marketing conditions existed that would warrant omission of a recommended decision. Additional information on the hearing is available on the AMS website http://www.ams.usda.gov/dairy/class_I_II/classI_II_pr_for.htm ❖



MARKET ADMINISTRATOR
 One Columbia Circle
 Albany, NY 12203-6379

PRESORTED
 FIRST-CLASS MAIL
 U.S. Postage
PAID
 Alexandria, VA
 Permit 355

RETURN SERVICE REQUESTED

FIRST CLASS MAIL

The U.S. Department of Agriculture (USDA) prohibits discrimination in all its programs and activities on the basis of race, color, national origin, age, disability, and where applicable, sex, marital status, familial status, parental status, religion, sexual orientation, genetic information, political beliefs, reprisal, or because all or part of an individual's income is derived from any public assistance program. (Not all prohibited bases apply to all programs.) Persons with disabilities who require alternative means for communication of program information (Braille, large print, audiotape, etc.) should contact USDA's TARGET Center at (202) 720-2600 (voice and TDD). To file a complaint of discrimination, write to USDA, Director, Office of Civil Rights, 1400 Independence Avenue, SW, Washington, DC 20250-9410 or call (800) 795-3272 (voice) or (202) 720-6382 (TDD). USDA is an equal opportunity provider and employer.

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	888,918,461	\$11.02	97,958,814.40	
Butterfat	18,782,500	1.4329	26,913,444.25	
Less: Location Adjustment to Handlers			(2,879,773.16)	\$121,992,485.48
Class II— Butterfat	26,845,608	1.3922	37,374,455.42	
Nonfat Solids	30,532,042	0.8189	25,002,689.21	62,377,144.63
Class III— Butterfat	15,337,489	1.3852	21,245,489.77	
Protein	12,142,605	2.2383	27,178,792.74	
Other Solids	22,287,790	0.2276	5,072,701.02	53,496,983.53
Class IV— Butterfat	4,910,467	1.3852	6,801,978.89	
Nonfat Solids	6,645,789	0.8353	5,551,227.54	12,353,206.43
Total Classified Value				\$250,219,820.07
Add: Overage—All Classes				101,324.32
Inventory Reclassification—All Classes				195,668.72
Other Source Receipts	613,008 Pounds			16,183.41
Total Pool Value				\$250,532,996.52
Less: Producer Component Valuations @ Class III Component Prices				(234,656,406.47)
Total PPD Value Before Adjustments				\$15,876,590.05
Add: Location Adjustment to Producers				8,048,253.47
One-half Unobligated Balance—Producer Settlement Fund				740,291.43
Less: Producer Settlement Fund—Reserve				(861,577.91)
Total Pool Milk & PPD Value	1,737,485,909 Producer pounds			\$23,803,557.04
Producer Price Differential		\$1.37		
Statistical Uniform Price		\$14.21		

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