



The Market Administrator's BULLETIN

NORTHEAST MARKETING AREA

Erik F. Rasmussen, Market Administrator

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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

May Pool Price Calculation

The May 2007 statistical uniform price (SUP) for the Northeast Marketing Area was announced at \$18.60 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. If reported at the average tests of producer pooled milk, the SUP would be \$18.87 per hundredweight. May's statistical uniform price was \$1.58 per hundredweight above the April price.

The May producer price differential (PPD) at Suffolk County was \$1.00 per hundredweight, 7 cents above last month's. All commodity prices increased except dry whey, which declined slightly. Similar to last month, all class prices rose considerably. The Class I price rose 92 cents; Class II increased \$2.11; Class III rose \$1.51, and the Class IV price jumped \$2.36 per hundredweight. For the third month in a row, Class II was the lowest priced class even though May's price (\$16.62) was the highest Class II price since the Order's inception. The Class IV price for May (\$18.48) was the highest on record, beating last month's record-setting \$16.12 per hundredweight. See related article on Class II.❖

Contribution to Producer Price by Components

Under component pricing, the proportion each component contributes to the overall producer blend price varies each month based on the respective tests and prices of each component. The table on page 2 shows the contribution by component for the month of May from 2004 through 2007 using a hypothetical farmer producing 100,000 pounds of milk at the pool average component tests during that month. The examples do not take into account premiums, hauling, or any other producer payments or deductions.

During **May 2004**, the protein price contributed 56 percent of the value of the average producer's blend price. The protein price was a record-high \$3.7639 per pound; butterfat was \$2.4282 per pound; and other solids were only \$0.1444 per pound. That month the producer price differential (PPD) was negative. Butterfat contributed 43.6 percent of the price and value added by other solids was 4.1 percent.

In the example for **May 2005**, the contribution from butterfat was only 36.0 percent even though the average producer butterfat test was higher. During that month, both protein and other solids accounted for (continued on page 2)

Pool Summary

- A total of 13,931 producers were pooled under the Order with an average daily delivery per producer of 4,604 pounds.
- Pooled milk receipts totaled 1.989 billion pounds, an increase of 1.2 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 44.6 percent of total milk receipts, an increase of 0.3 percentage points from April.
- The average butterfat test of producer receipts was 3.63 percent.
- The average true protein test of producer receipts was 3.01 percent.
- The average other solids test of producer receipts was 5.71 percent.❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	44.6	887,595,430
Class II	21.8	434,025,163
Class III	22.8	453,715,557
Class IV	10.8	213,424,005
Total Pooled Milk		1,988,760,155

Producer Component Prices

	2007	2006
	\$/lb	
Protein Price	2.9424	1.9115
Butterfat Price	1.5706	1.2582
Other Solids Price	0.5791	0.1251

Class Price Factors

	2007	2006
	\$/cwt	
Class I	19.17	14.22
Class II	16.62	11.13
Class III	17.60	10.83
Class IV	18.48	10.33

Contribution *(continued from page 1)*

less of the producer's total payment than in the previous year, but the PPD's share jumped up to 10.1 percent of the payment value. In **May 2006**, the PPD was credited with an even greater share of the total, 13.8 percent, while both butterfat and protein percentages declined, even though producer tests increased. Other solids took on greater importance as both the test value and price increased resulting in a 5.6 percent share of the total value.

The most current example, **May 2007**, shows even greater significance for other solids. With the increase in the dry

whey price, which has more than doubled since last May, the other solids portion of the producer value has grown to 17.5 percent of the total payment. Protein, which is still valued fairly high due to the tightness in the cheese market, accounted for the largest share of the producer's pay price; butterfat's share has continually declined. Since class prices for May 2007 are in a fairly tight range, the PPD value is a smaller component than in the other examples. For June, it is expected that the PPD will decrease further, possibly equaling a negative value at some zones. ❖

Contribution to Total Gross Payment*

	May 2007				May 2006			
	Test percent	Price per pound	Gross dollars	Contribution percent	Test percent	Price per pound	Gross dollars	Contribution percent
Butterfat	3.63	1.5706	\$5,701.28	30.2	3.67	1.2582	\$4,617.59	35.8
True Protein	3.01	2.9424	\$8,856.62	46.9	3.02	1.9115	\$5,772.73	44.8
Other Solids	5.71	0.5791	\$3,306.66	17.5	5.74	0.1251	\$718.07	5.6
PPD		1.00	\$1,000.00	5.3		1.78	\$1,780.00	13.8
Total gross payment			\$18,864.56				\$12,888.40	
Gross price per cwt			\$18.86				\$12.89	

	May 2005				May 2004			
	Test percent	Price per pound	Gross dollars	Contribution percent	Test percent	Price per pound	Gross dollars	Contribution percent
Butterfat	3.62	1.5475	\$5,601.95	36.0	3.59	2.4282	\$8,717.24	43.6
True Protein	3.00	2.5965	\$7,789.50	50.0	2.97	3.7639	\$11,178.78	56.0
Other Solids	5.72	0.1043	\$596.60	3.8	5.70	0.1444	\$823.08	4.1
PPD		1.58	\$1,580.00	10.1		-0.74	-\$740.00	(3.7)
Total gross payment			\$15,568.05				\$19,979.10	
Gross price per cwt			\$15.57				\$19.98	

*For a hypothetical farm producing 100,000 pounds of milk at pool average component tests. Totals may not add due to rounding.

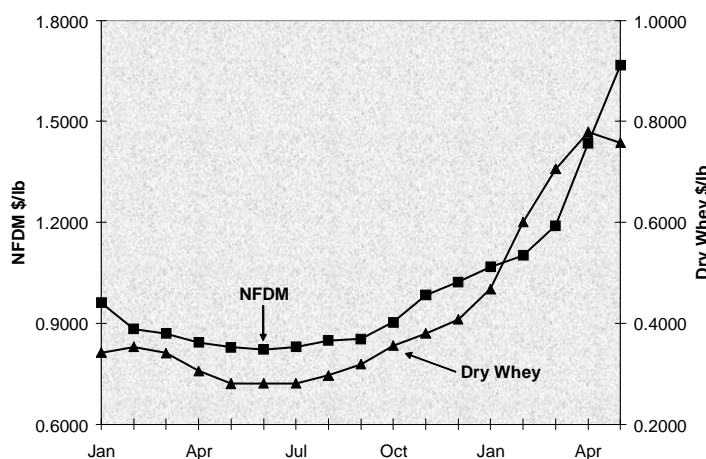
Class II—Lowest Class Price

For the past 3 months under the Northeast Order, the Class II price has been the lowest class price of the four classes. Class prices are calculated by entering average product prices as announced by the National Agricultural Statistics Service (NASS) for the given month into the corresponding formulas which account for yield factors and make allowances for the end products that the particular class represents. For example, the Class III price is mainly derived from the NASS average cheese and dry whey prices, which are translated into the protein and other solids values. The NASS survey prices reflect the market value for these commodities based on current supply and demand conditions.

Class Formulas

The Class II price uses a combination of butter and nonfat dry milk prices as the Class II category is made up of such products as cottage and ricotta cheese, sour cream, yogurt, and ice cream (i.e. the "soft" products). The products in this category use both butterfat and nonfat solids prices, which are derived from the butter and nonfat dry milk prices (NFDM). The Class IV price also uses butter and nonfat dry milk prices as this category prices milk used to make these products and some

NFDM and Dry Whey Prices, 2006–2007



As reported by the National Agricultural Statistics Service.

condensed and other dried milk products. Although both Class II and IV use the NASS butter and NFDM prices, the Class II price uses different weeks of data in its calculation *(continued on page 3)*

Class II *(continued from page 2)*

as its skim milk and nonfat solids prices are announced in advance. For the past few months, those prices have been lower than the final prices used in setting the NFDM prices used in calculating the Class IV nonfat solids value.

Class IV Higher

For all of 2000 and most of 2001, the Class III price was the lowest of the class prices. Since that time, the lowest price has bounced back and forth between Class III and Class IV, with Class IV predominantly being the lower priced class. This began in 2004 and continued until November 2006 when, for the first time, the Class II price was the lowest. With the value for the products used in calculating these formulas—particularly dry whey and nonfat dry milk—rising considerably in the past 2 months (see chart on page 2), the prices derived from these

products have increased dramatically and are reflected in the Class IV price, putting it above the Class II price again in April and May. For the second half of 2007, the situation should return to a more ‘normal’ pattern with the Class II price higher.

Partial Payment

According to section 1001.73 of the Order, the partial payment to producers (the amount paid by handlers for the first 15 days of the month) must be not less than the lowest announced class price for the preceding month. This would mean that a producer may receive \$16.62 per cwt (the May Class II price) for milk produced during the first 15 days of June. Once the month (June) is finished, the final payment paid to producers should be high enough to equate to the blend price for the month. ❖

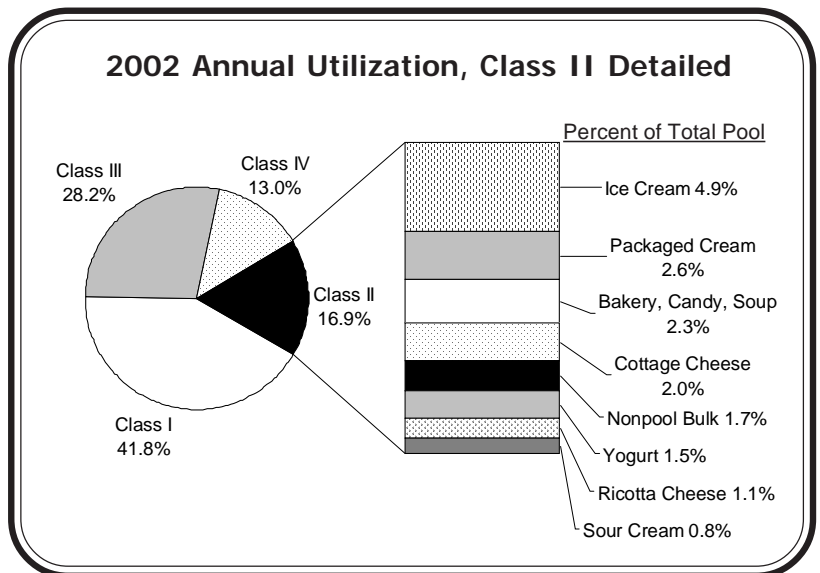
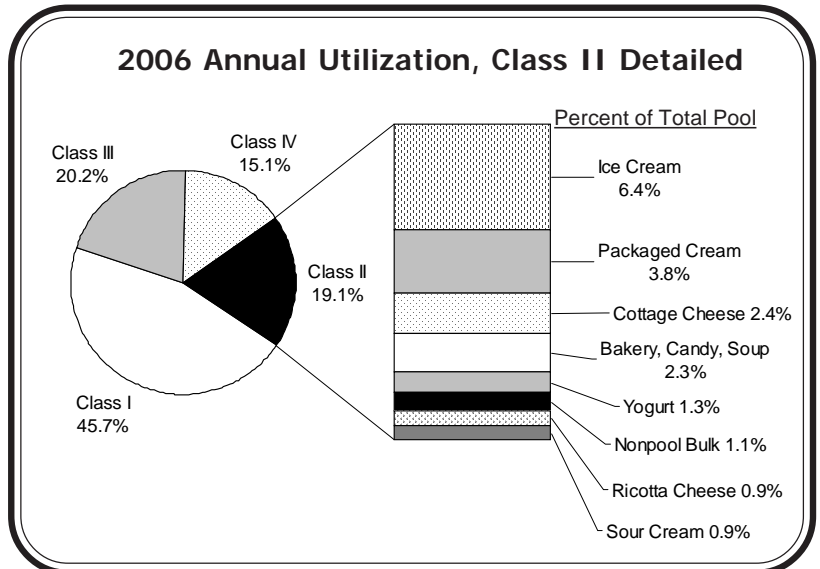
Northeast Utilization, Class II Detailed

The Northeast Order pooled 19.1 percent of its milk as Class II in 2006. From 2000 through 2003, Class I utilization in the Northeast Order averaged 17.3, 16.7, 17.4, and 18.5 percent for the year. Since then, the Order has averaged at or above 19.6 percent. To start this year, the Order set record-high Class II utilizations for the first four months. The higher utilization reflects less milk pooled on the Order. Total pounds pooled as Class II have been fairly similar since 2002 at about 4.4 billion pounds a year. As the only exception, about 4.7 billion pounds were pooled as Class II in 2005. In 2000 and 2001, 4.1 billion pounds were pooled as Class II.

The accompanying charts show annual utilization for the Northeast Order in 2002 and 2006, and detail the make-up of Class II utilization by product. Though the 2006 total volume of producer milk for the year was 2.4 billion less pounds than in 2002, the annual volume of Class II in 2006 was 148 million pounds more than in 2002. The effect was a Class II utilization that was 2.2 percentage points higher for the year than in 2002 when the annual utilization was 16.9 percent.

Of the products comprising Class II, ice cream’s portion grew the most, increasing from 4.9 percent of the pool in 2002 to 6.4 percent in 2006. Ice cream represented 33.4 percent of Class II pounds in 2006, up from 28.9 of Class II pounds in 2002. Packaged cream was the second biggest growth product as a percentage of the pool, increasing from 2.6 percent to 3.8 percent of the pool. Packaged cream accounted for 20 percent of the Class II pounds in 2006 compared to 15.4 percent in 2002.

Nonpool Bulk is a function of the allocation of milk during pool as dictated by the Northeast Order language. Nonpool bulk is milk from other markets, or nonOrder milk, that is allocated to manufacturing classes to the extent available in that particular class—first Class IV, then Class III, and then Class II. ❖





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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	870,867,825	\$14.53	126,537,094.97	
Butterfat	16,727,605	1.4714	24,612,998.00	
Less: Location Adjustment to Handlers			(2,817,216.01)	\$148,332,876.98
Class II— Butterfat	30,146,486	1.5776	47,559,096.30	
Nonfat Solids	36,572,086	1.2778	46,731,811.50	94,290,907.80
Class III— Butterfat	16,703,611	1.5706	26,234,691.41	
Protein	13,670,430	2.9424	40,223,873.26	
Other Solids	25,908,234	0.5791	15,003,458.32	81,462,022.99
Class IV— Butterfat	8,631,016	1.5706	13,555,873.73	
Nonfat Solids	18,521,133	1.4949	27,687,241.74	41,243,115.47
Total Classified Value				\$365,328,923.24
Add: Overage—All Classes				76,010.82
Inventory Reclassification—All Classes				394,615.55
Other Source Receipts	11,407 Pounds			195.72
Total Pool Value				\$365,799,745.33
Less: Producer Component Valuations @ Class III Component Prices				(355,443,391.21)
Total PPD Value Before Adjustments				\$10,356,354.12
Add: Location Adjustment to Producers				9,582,811.39
One-half Unobligated Balance—Producer Settlement Fund				851,508.56
Less: Producer Settlement Fund—Reserve				(902,958.37)
Total Pool Milk & PPD Value	1,988,771,562 Producer pounds			\$19,887,715.70
Producer Price Differential		\$1.00		
Statistical Uniform Price		\$18.60		

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