

The Market Administrator's BULLETIN

NORTHEAST MARKETING AREA

Erik F. Rasmussen, Market Administrator

July 2007

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

July Pool Price Calculation

The July 2007 statistical uniform price (SUP) for the Northeast Marketing Area was announced at \$22.94 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 \$23.01 per hundredweight. July's statistical uniform price was \$2.14 per hundredweight above the June price and the highest ever under the Order.

The July producer price differential (PPD) at Suffolk County was \$1.56 per hundredweight, 93 cents above last month's. Classes II, III, and IV all had prices greater than \$21.00 and were record-setting. The July Class I price was the highest used in a blend price calculation so far, but August, which has already been released, will set a new record at \$25.01 per hundredweight. The July NASS cheese price increased resulting in a record-setting protein price. ❖

Milk Price Outpaces Feed Price

The milk-feed price ratio is the price of a pound of milk divided by the price of a pound of feed. USDA calculates a feed price index using corn, soybean, and hay prices. Though this may not reflect exactly an actual farm's feed price, corn, soybean, and hay are common energy, protein, and forage components of dairy rations and their prices are representative of other substitutes. The milk price portion of the ratio uses the U.S. all-milk price, which is an estimate of the average market price at the farm level. It does not include over-order premiums, check-offs, and hauling costs. The milk-feed price ratio is thus derived by dividing the U.S. all-milk price by the feed index. Prices used in the ratio are national and may not be indicative of milk and feed prices that exist in a particular region. The accompanying chart shows the milk-feed price ratio relative to the Northeast blend price (not the U.S. all-milk price).

The ratio is an indicator of the profitability of producing milk that focuses on the cost of feed, typically the largest input cost on a farm. A ratio below 2.5 generally signals a cutback in production. When the ratio rises above 3.0, there are signals to expand milk production.

Based on the futures prices of corn and soybeans and the outlook for alfalfa as of February 2007, we predicted that the all-milk price would have to rise above \$19.01 per hundredweight to achieve a milk-feed (continued on page 3)

Pool Summary

- A total of 13,892 producers were pooled under the Order with an average daily delivery per producer of 4,507 pounds.
- Pooled milk receipts totaled 1.941 billion pounds, an increase of 1.1 percent from last month on an average daily basis (not adjusted for the depooled milk in June).
- Class I usage (milk for bottling) accounted for 42.0 percent of total milk receipts, a decrease of 2.8 percentage points from June.
- The average butterfat test of producer receipts was 3.57 percent.
- The average true protein test was 2.98 percent, record-setting for July.
- The average other solids test was 5.71 percent, also record-setting for July. ❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	42.0	815,648,288
Class II	21.4	415,825,694
Class III	24.2	469,179,586
Class IV	12.4	240,327,188
Total Pooled Milk		1,940,980,756

Producer Component Prices

	2007	2006
	\$/lb	
Protein Price	4.2068	1.9807
Butterfat Price	1.6110	1.2228
Other Solids Price	0.5534	0.1257

Class Price Factors

	2007	2006
	\$/cwt	
Class I	24.16	14.59
Class II	21.40	10.83
Class III	21.38	10.92
Class IV	21.64	10.21

Northeast Utilization, Class IV Detailed

The Northeast Order pooled 15.1 percent of its milk as Class IV in 2006. From 2000 through 2004, Class IV volume average 2.247 billion pounds per year. In 2005 and 2006, 2.871 billion pounds and 2.581 billion pounds were pooled, respectively. Through the first half of 2007, 1.1 billion pounds were pooled as Class IV milk, the smallest Class IV volume for the first half of a year going back to 2000. Prior to 2007, the Northeast Order had pooled an average of 1.5 billion pounds as Class IV each year during the first 6 months. At the same time, the average Class IV price (\$15.72 per cwt) for the first half of this year has been the highest of any other year going back to 2000. The previous high average Class IV price for the first six months was \$13.85 per cwt during 2001.

The accompanying charts show annual utilization for the Northeast Order in 2002 and 2006, and detail the make-up of Class IV utilization by product. The 2006 volume of pooled receipts for the year totaled 2.4 billion less pounds than in 2002. Total Class IV volume was 205 million pounds higher (6 percent) than in 2002.

Dried Products

Dried milk products totaled 2.1 billion pounds, or 41.7 percent of milk used as Class IV. Total volume of milk used for dried milk products was actually higher in 2002 (2.3 billion pounds) but only comprised 28.9 percent of the Class IV total. Dried milk products made up about the same portion of the total pool in 2002 and 2006, totaling 8.2 percent and 8.4 percent, respectively.

Ending Inventory

In both years, ending inventory was the second highest category of Class IV use and in both years totaled almost 900 million pounds for the year. Ending inventory was 17.4 percent of the Class IV volume in 2006, but only 11.4 percent of Class IV in 2002. Ending inventory is milk that was packaged as Class IV at the end of a month but was not identified by type of product.

Condensed Products

Condensed products totaled 258 million pounds in 2006, equaling 1 percent of the total pool, and 5 percent of the Class IV volume - the third highest volume in Class IV. Condensed products totaled just 4.8 million pounds in 2002, representing

not even a half percent of the total pool or Class IV volume. This difference is due to a change in the Order whereby condensed products, formerly classified as Class III, became Class IV effective May 2004.

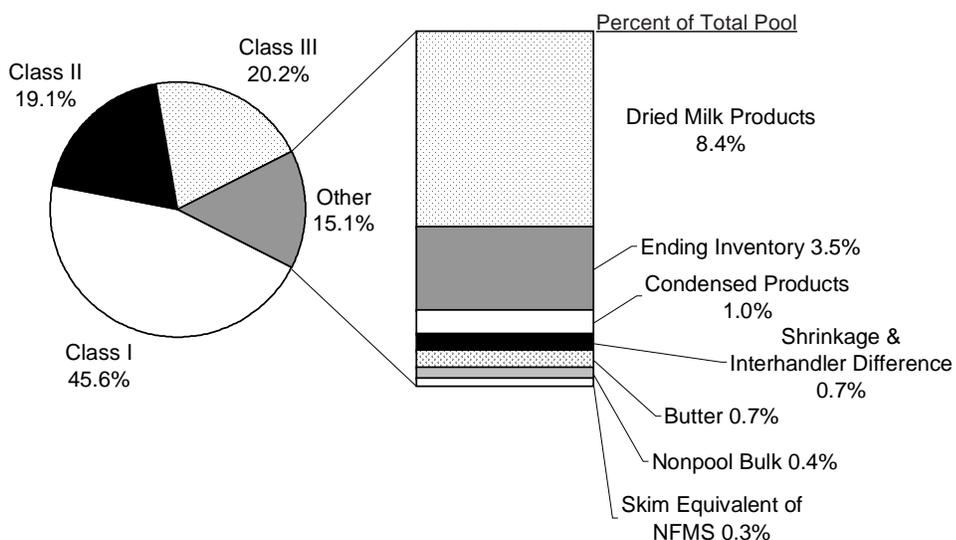
Butter

Butter, which ranked third highest volume in 2002, with 271 million pounds, fell to fifth highest volume category in Class IV in 2006 with 181 million pounds.

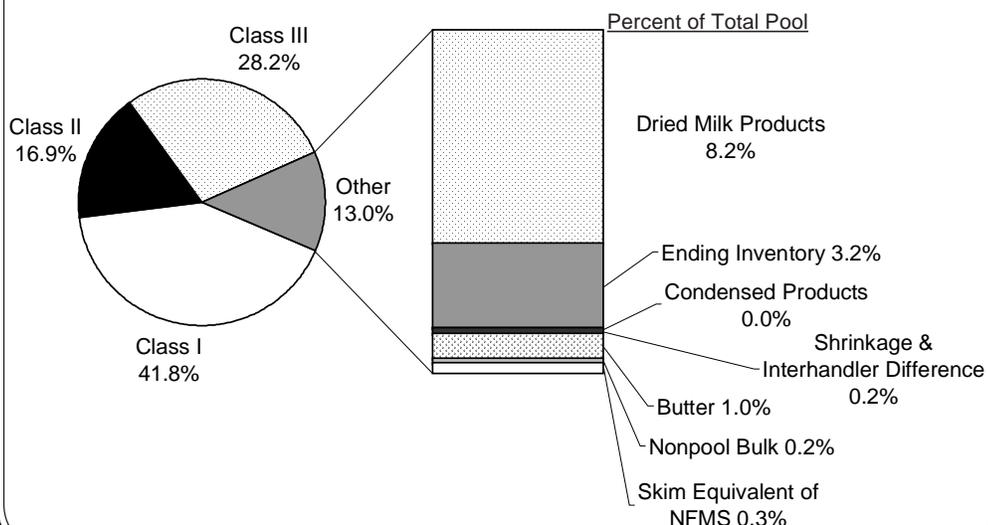
Shrinkage

Class IV shrinkage was more than 3 times higher in 2006 than in 2002. During 2006, the Class IV price was the lowest-priced class each month except in November when the Class III price was the lowest. As a result, Class IV shrinkage was a larger volume than in 2002 when the Class III price was higher in 3 months of the year. ❖

2006 Annual Utilization, Class IV Detailed



2002 Annual Utilization, Class IV Detailed



Milk Production Rises, But Less Than Last Year

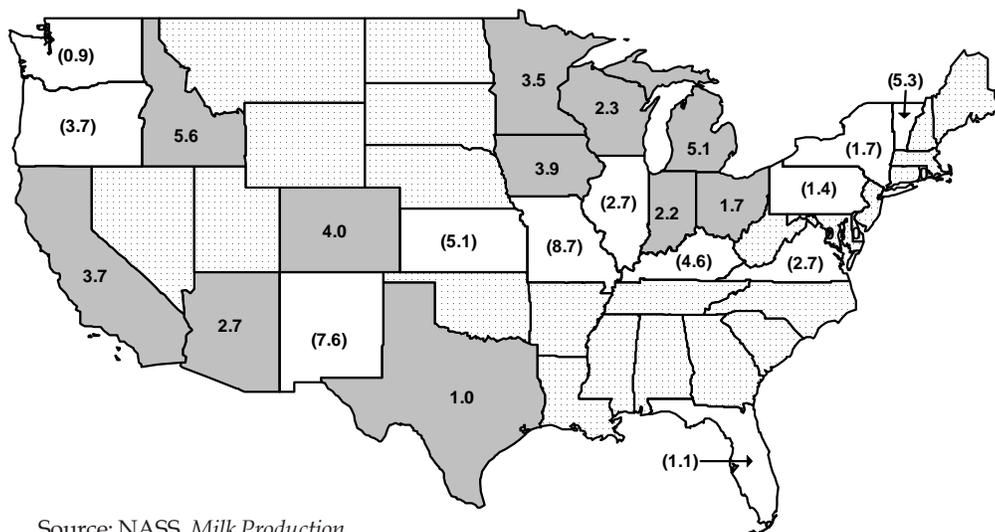
For the first 6 months of 2007, total milk production in the United States was up only 1.0 percent compared to the same period in 2006. During January-June last year, US milk production rose 3.7 percent compared to the same 6-month period in 2005.

During 2006, such states as New Mexico and Texas were experiencing double-digit increases. Also during that time, the only top-ten milk producing state to lose production was Washington. For the 2007 January-June period, New Mexico has seen a 7.6 percent decline in production while Texas reported conservative growth of 1.0 percent. Washington again is showing a decline, but so are such top-ten states as Pennsylvania and New York. The accompanying map shows year-to-year changes for selected states.

Top-Ten States

Overall, the top-ten milk producing states are up a combined 1.7 percent for the first six months of 2007. This compares with a year-to-year increase of 4.7 during the same period in 2006. Nationally, cow numbers are down slightly, but not significant on a percentage basis. Individually, states reporting a decline in cow numbers from last include New York, Pennsylvania, Washington,

January–June 2007 Milk Production in the Top 23 Milk Producing States (Year-to-Year Percent Change)



Source: NASS, Milk Production.

and New Mexico that has experienced a drop of 4.2 percent for the first half of 2007.

Northeast Changes

In the Northeast, the states making up New England (Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont) had a combined drop of 4.5 percent for the January-June period in 2007. When the other states supplying the Northeast market (New York, New Jersey, Pennsylvania, Delaware, Maryland, Virginia, and West Virginia) are added, the combined decline was 2.3 percent for the period. ❖

Milk Price *(continued from page 1)*

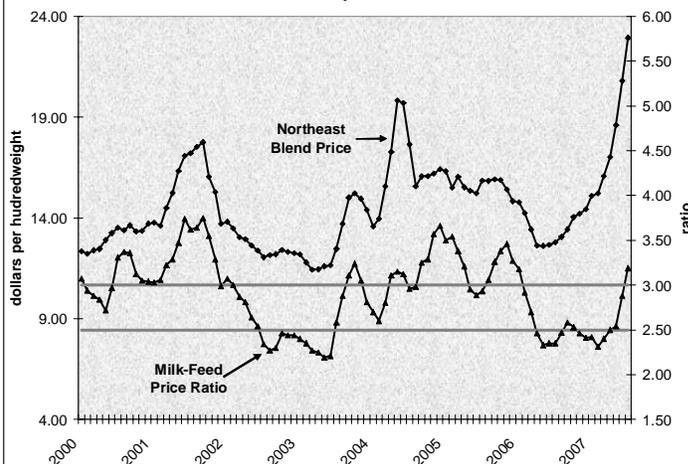
price ratio of 3.00. It was difficult to determine how profitable the year 2007 might be for producers, since feed costs also were predicted to be very high.

The preliminary all-milk price for July was \$21.70 per hundredweight, well over the required price to reach a 3.00 milk-feed price ratio. The high July feed cost portion of the ratio needed an all-milk price of no less than \$20.40 just to surpass a 3.00 ratio. July's milk-feed price ratio was 3.19. Through 7 months of the year, overall feed costs, as listed by the Chicago Board of Trade, have been higher than originally predicted back in February, particularly for soybeans. In fact, it wasn't until the milk price soared towards record levels that the price was strong enough to pull the ratio above 3.00.

Using the formula to calculate the milk-feed price ratio with current projected prices of corn, soybeans, and alfalfa for December, the all-milk price would have to remain at July's level of \$21.70 for a ratio of 3.05. The milk price is projected to remain high through the end of the year, but softened to some degree. That would result in a ratio that falls back below the "expansion signal" of 3.00

by December, if not sooner. A strong harvest could soften feed crop prices and change the equation. ❖

Northeast Order Blend Price vs Milk-Feed Price Ratio, 2000–2007



Source: NASS, Agricultural Prices and Northeast Order.



MARKET ADMINISTRATOR
 302A Washington Avenue Ext.
 Albany, NY 12203-7303

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	799,529,688	\$18.86	150,791,299.16	
Butterfat	16,118,600	1.7033	27,454,811.38	
Less: Location Adjustment to Handlers			(2,648,605.07)	\$175,597,505.48
Class II— Butterfat	28,729,851	1.6180	46,484,898.88	
Nonfat Solids	34,861,279	1.8122	63,175,609.84	109,660,508.72
Class III— Butterfat	16,881,367	1.6110	27,195,882.29	
Protein	14,000,156	4.2068	58,895,856.24	
Other Solids	26,796,735	0.5534	14,829,313.13	100,921,051.66
Class IV— Butterfat	7,640,797	1.6110	12,309,323.99	
Nonfat Solids	20,984,873	1.8424	38,662,530.03	50,971,854.02
Total Classified Value				\$437,150,919.88
Add: Overage—All Classes				93,593.37
Inventory Reclassification—All Classes				55,670.21
Other Source Receipts	29,204 Pounds			659.85
Total Pool Value				\$437,300,843.31
Less: Producer Component Valuations @ Class III Component Prices				(416,437,127.50)
Total PPD Value Before Adjustments				\$20,863,715.81
Add: Location Adjustment to Producers				9,465,407.15
One-half Unobligated Balance—Producer Settlement Fund				839,019.31
Less: Producer Settlement Fund—Reserve				(888,386.87)
Total Pool Milk & PPD Value	1,941,009,960 Producer pounds			\$30,279,755.40
Producer Price Differential		\$1.56		
Statistical Uniform Price		\$22.94		

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