The Market Administrator's

BULLETIN

NORTHEAST MARKETING AREA

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August 2007 Federal Order No. 1

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August Pool Price Calculation

The August 2007 statistical uniform price (SUP) for the Northeast Marketing Area was announced at $23.14 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 $23.25 per hundredweight. August's statistical uniform price was 20 cents per hundredweight above the July price and the highest ever under the Order.

The August producer price differential (PPD) at Suffolk County was $3.31 per hundredweight, $1.75 above last month's. Classes II and IV prices increased from July and were record-setting.

During August, commodity prices for butter, cheese, and dry whey all declined, but since the Class I price and the Class II skim and nonfat solids prices are set in advance, both the Class I and Class II prices rose from July. The only commodity to increase was nonfat dry milk, which offset the butter decrease and resulted in a higher Class IV price. The Class III price dropped $1.55 per hundredweight due to the decline in the cheese price. The Class I, II, and IV prices (see prices in table at the bottom of this page) were all record-setting, but the Class I price for September, which has already been released, will set a new record at $25.16 per hundredweight.❖

Milk to Other Orders Down from Last Year

During August, bulk shipments to other federal orders totaled 19.6 million pounds. Of this total, 17.1 million pounds (87.6 percent) were sent south to the Appalachian, Florida, and Southeast federal milk marketing orders. This is down considerably compared to the volumes sent the past 3 years (see table on page 3).

Milk received by handlers pooled on the Northeast Order that came from handlers pooled on other federal orders totaled 17.9 million pounds during August. Of this total, 9.9 million pounds came from the southern federal orders, down almost 50 percent compared to the same month last year. Most of this milk came from the neighboring Appalachian Order.

Overall, these movements resulted in a net amount of 1.7 million pounds more shipments than receipts to the other federal orders combined. In contrast, receipts have exceeded shipments during the past 3 years. *(continued on page 3)*

Pool Summary

- A total of 13,935 producers were pooled under the Order with an average daily delivery per producer of 4,626 pounds.
- Pooled milk receipts totaled 1.999 billion pounds, an increase of 3.0 percent from last month on an average daily basis due to additional milk previously pooled on another order.
- Class I usage (milk for bottling) accounted for 43.9 percent of total milk receipts, an increase of 1.9 percentage points from July.
- The average butterfat test of producer receipts was 3.58 percent.
- The average true protein test was 2.99 percent, a new record for August.
- The average other solids test was 5.68 percent.❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	43.9	876,169,291
Class II	21.3	425,774,163
Class III	27.6	552,313,110
Class IV	7.2	144,578,373
Total Pooled Milk		1,998,834,937

Producer Component Prices

	2007	2006
	$/lb	
Protein Price	3.9412	1.9050
Butterfat Price	1.5872	1.3008
Other Solids Price	0.4368	0.1416

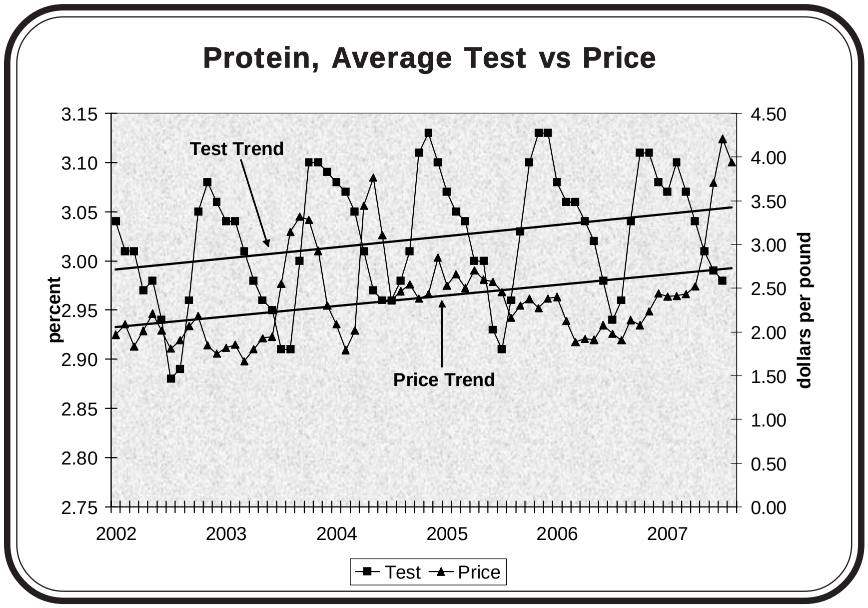
Class Price Factors

	2007	2006
	$/cwt	
Class I	25.01	14.22
Class II	22.41	11.16
Class III	19.83	11.06
Class IV	21.87	10.64

Component Prices and Tests

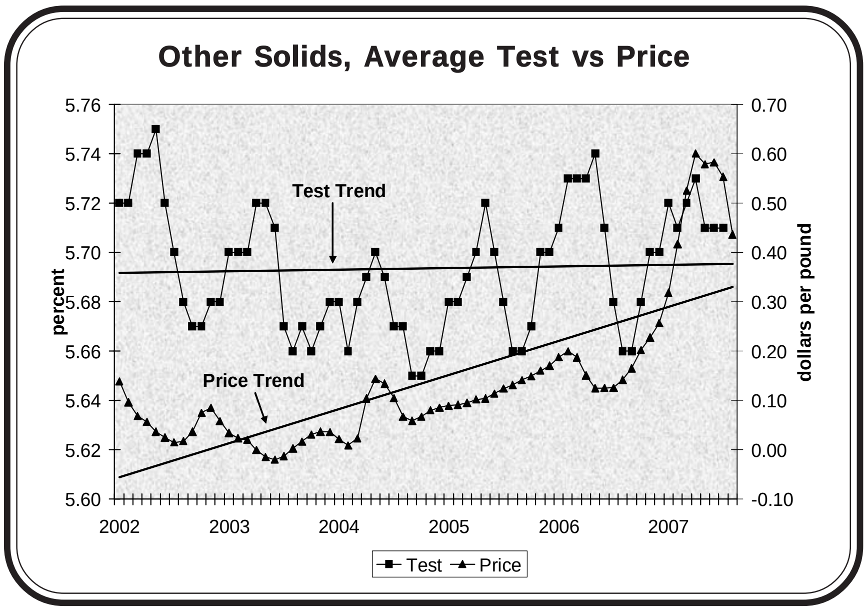
Under component pricing, producers are paid on the level of butterfat, protein, and other solids in their milk. The price received for these components and the percentage of these components in the milk largely determine how much a producer will receive for their milk. Although producers cannot directly affect the prices paid for components, their dairying practices may affect the level of components in the milk their herd produces.

The accompanying charts compare the monthly component price and the average component test since January 2002 to highlight the relationship between the two. Since the charts depict the actual monthly component tests, the seasonality of each component can be seen. A linear trendline is included on each chart for both component test and price that represents the long term trend.



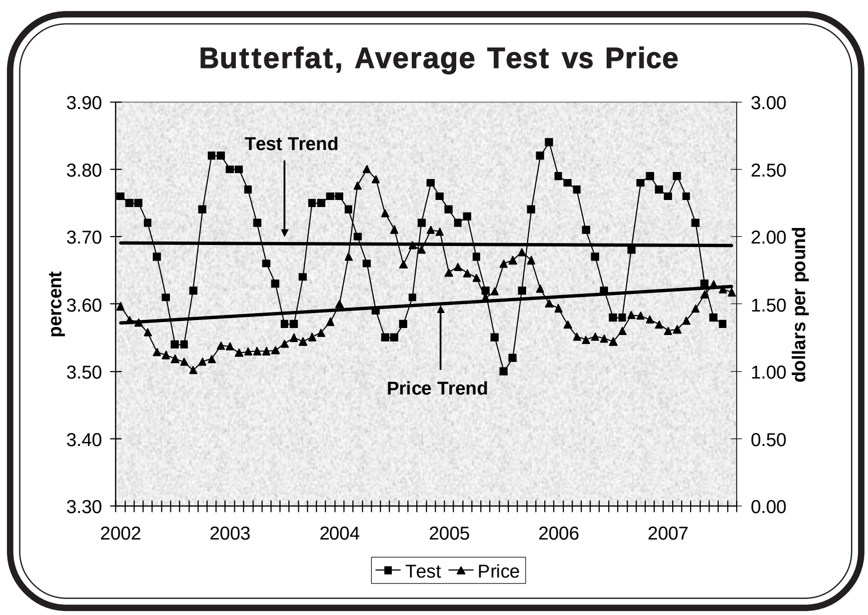
Protein

A look at the protein chart shows the trendlines for test and price rising over time at an almost equal pace. It could be argued that in the long run, producers have responded to the increasing importance of protein as a portion of their milk check, but not so much as to stabilize the price of the component. As of August 2007, protein accounted for more than twice the portion of the milk check than butterfat almost 5 times the contribution of other solids. See related article on page 3.



Other Solids

The other solids price has shown a strong and consistent increase since 2002 that coincides with its growth as a portion of a producer's milk check. The trendline for the other solids tests, however, is flat. The increase in price over time is responding to increasing demand for this component while the availability of other solids has not responded.



Butterfat

The trendline for butterfat tests since 2002 is flat to slightly declining while the price has trended only slightly higher over that period. The chart would indicate that demand for butterfat has been generally stable.

Though average component tests can be higher or lower, it does not necessarily indicate the total volume of the component available to the market as these charts to do not show total production during this period. A period with lower component tests may be compensated by higher total production. The three charts together tell a story of increased value from protein and other solids relative to the value derived from butterfat.❖

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 accompanying table shows the contribution by component for the month of August 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 **August 2004** the protein price contributed 47 percent of the value of the average producer's blend price. The protein price was relatively strong, as was the producer protein test. Other solids were negligible due to the low price and the producer price differential (PPD) contributed less than 10 percent due to its lower value during that time. In the **August 2005** example, both the other solids and PPD took on added importance as their respective prices increased while protein decreased. A decline in the butterfat test countered an increase in the butterfat price, causing no change in the contributory level. In **August 2006**, as the price for other solids grew, so did its contribution percent. The same was true for the PPD percentage. As expected, both butterfat and protein contributions declined as their respective prices dropped.

The most current example, **August 2007**, shows even greater significance for other solids. With the increase in the dry whey price, the other solids price has tripled since last August, increasing its significance in the blend price. Due to high commodity cheese prices protein had the largest contribution with nearly 51 percent, while butterfat had its lowest percentage of the years compared. The PPD during August was the highest of the years shown and contributed the same level as in 2005.❖

Contribution to Total Gross Payment*

	August 2007				August 2006			
	Test percent	*Price per pound*	*Gross dollars*	*Contribution percent*	*Test percent*	*Price per pound*	*Gross dollars*	*Contribution percent*
Butterfat	3.58	1.5872	$5,682.18	**24.4**	3.58	1.3008	$4,656.86	**35.6**
True Protein	2.99	3.9412	$11,784.19	**50.7**	2.96	1.9050	$5,638.80	**43.1**
Other Solids	5.68	0.4368	$2,481.02	**10.7**	5.66	0.1416	$801.46	**6.1**
PPD		3.31	$3,310.00	**14.2**		2.00	$2,000.00	**15.3**
Total gross payment			$23,257.39				$13,097.12	
Gross price per cwt			**$23.26**				**$13.10**	

	August 2005				August 2004			
	Test percent	*Price per pound*	*Gross dollars*	*Contribution percent*	*Test percent*	*Price per pound*	*Gross dollars*	*Contribution percent*
Butterfat	3.52	1.8246	$6,422.59	**40.6**	3.57	1.7941	$6,404.94	**40.9**
True Protein	2.96	2.1619	$6,399.22	**40.5**	2.98	2.4663	$7,349.57	**46.9**
Other Solids	5.66	0.1317	$745.42	**4.7**	5.67	0.0676	$383.29	**2.4**
PPD		2.24	$2,240.00	**14.2**		1.53	$1,530.00	**9.8**
Total gross payment			$15,807.24				$15,667.80	
Gross price per cwt			**$15.81**				**$15.67**	

**For a hypothetical farm producing 100,000 pounds of milk at pool average component tests.*

Milk Moving *(continued from page 1)*

When you compare just the movements to and from the southern states, the net amount going south was 7.2 million more in shipments than receipts, which is typically the case during the late summer and early fall months. The southern states' milk production falls short of meeting the fluid demands, especially as schools reopen. This year, though, the volumes transported between the Northeast Order and the southern orders were approximately half of those last year.

The total volume of milk pooled on the Northeast Order was up nearly 190 million pounds compared to the same month last year as handlers chose to keep more milk on the Order instead of pooling it on neighboring orders due to pricing and marketing dynamics. In addition, demands in the South for rbst-free milk changed shipping patterns as these demands were met by shipments from other federal orders instead of the Northeast. Some remaining southern milk was shipped to the Northeast and utilized in Class IV.❖

Milk Movements: Northeast To/From Other Federal Orders

		August 2004	2005	2006	2007
		million pounds			
Total*	Shipped	21.33	20.82	32.54	19.60
	Received	24.78	21.69	43.89	17.90
	Net	**(3.45)**	**(0.87)**	**(11.35)**	**1.70**
South**	Shipped	20.68	20.02	31.45	17.10
	Received	12.16	8.62	18.89	9.90
	Net	**8.52**	**11.40**	**12.56**	**7.20**

* Includes Order Nos. 5, 6, 7, 30, 32, and 33.
** Includes Order Nos. 5, 6, and 7.

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Computation of Producer Price Differential and Statistical Uniform Price*

		Product Pounds	Price per cwt./lb.	Component Value	Total Value
Class I—	Skim	858,859,543	$19.99	171,686,022.65	
	Butterfat	17,309,748	1.6335	28,275,473.36	
Less:	Location Adjustment to Handlers			(2,824,635.96)	$197,136,860.09
Class II—	Butterfat	29,649,770	1.5942	47,267,663.36	
	Nonfat Solids	35,615,862	1.9378	69,016,417.43	116,284,080.79
Class III–	Butterfat	19,554,863	1.5872	31,037,478.60	
	Protein	16,528,209	3.9412	65,140,977.32	
	Other Solids	31,436,340	0.4368	13,731,393.29	109,909,849.21
Class IV–	Butterfat	4,973,642	1.5872	7,894,164.58	
	Nonfat Solids	12,569,786	1.8785	23,612,343.01	31,506,507.59
Total Classified Value					**$454,837,297.68**
Add:	Overage—All Classes				82,505.90
	Inventory Reclassification—All Classes				(198,281.49)
	Other Source Receipts	258,762	Pounds		13,045.22
Total Pool Value					**$454,734,567.31**
Less:	Producer Component Valuations @ Class III Component Prices				(398,644,447.01)
Total PPD Value Before Adjustments					**$56,090,120.30**
Add:	Location Adjustment to Producers				10,159,110.79
	One-half Unobligated Balance—Producer Settlement Fund				803,088.19
Less:	Producer Settlement Fund—Reserve				(882,317.80)
Total Pool Milk & PPD Value		1,999,093,699	Producer pounds		**$66,170,001.48**
	Producer Price Differential		**$3.31**		
	Statistical Uniform Price		**$23.14**		

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