

The Market Administrator's **BULLETIN**

NORTHEAST MARKETING AREA

Erik F. Rasmussen, Market Administrator

October 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

October Pool Price Calculation

The October 2007 statistical uniform price (SUP) for the Northeast Marketing Area was announced at \$22.38 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 \$23.06 per hundredweight. October's statistical uniform price was 61 cents per hundredweight below September's price. The October producer price differential (PPD) at Suffolk County was \$3.68 per hundredweight, 76 cents above last month's.

During October, all commodity prices declined except nonfat dry milk. As a result, product prices for butterfat, protein, and other solids dropped, while the price for nonfat solids set a new record. Lower product prices equated to lower class prices, especially Class III. The difference between class prices was reflected in the higher PPD.

Total milk receipts of 1.996 billion pounds were the largest volume ever pooled for the month of October since the Order's inception. For the first half of 2007, producer milk receipts were trailing behind 2006; since July, receipts have been above last year when compared to the same month. This is the result of a combination of milk previously pooled on another order being repooled by handlers on Order No. 1 and farmers increasing production in response to higher prices. ❖

Comment Period Extended

On November 2, USDA reopened the comment period for an additional 30 days for the interim final rule for the Dairy Product Mandatory Reporting program that was published in the Federal Register on July 3, 2007. The reopening will provide interested parties with an additional opportunity to submit comments on all aspects of the program, including but not limited to the product specifications and whether there should be a minimum price transaction volume for reported transactions.

Comments must be submitted on or before December 3, 2007, to John R. Mengel, Chief Economist, USDA/AMS/Dairy Programs, Office of the Chief Economist, STOP 0229-Room 2753, 1400 Independence Ave., SW., Washington, DC 20250-0229. They can also be faxed to (202) 690-0552 or submitted at <http://www.regulations.gov>. ❖

Pool Summary

- A total of 13,827 producers were pooled under the Order with an average daily delivery per producer of 4,657 pounds.
- Pooled milk receipts totaled 1.996 billion pounds, an increase of 1.3 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 46.4 percent of total milk receipts, an increase of 1.9 percentage points from September.
- The average butterfat test of producer receipts was 3.70 percent.
- The average true protein test was 3.08 percent.
- The average other solids test was 5.70 percent. ❖

Class Utilization

<u>Pooled Milk</u>	<u>Percent</u>	<u>Pounds</u>
Class I	46.4	925,550,254
Class II	20.3	406,050,808
Class III	26.9	536,399,788
Class IV	6.4	128,316,822
Total Pooled Milk		1,996,317,672

Producer Component Prices

	<u>2007</u>	<u>2006</u>
	\$/lb	
Protein Price	4.1695	2.0775
Butterfat Price	1.4092	1.4149
Other Solids Price	0.2286	0.2026

Class Price Factors

	<u>2007</u>	<u>2006</u>
	\$/cwt	
Class I	24.84	15.67
Class II	21.90	11.79
Class III	18.70	12.32
Class IV	21.31	11.51

Regional Dairy Outlook Conference Held

The 2007 Northeast Regional Dairy Outlook Conference was held November 8 at the Northeast Marketing Area's Albany office. The annual conference brings together economists and statisticians from the Northeast's market administrator office, 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

The Northeast is known to have mixed weather conditions and this year was typical. The New England states experienced favorable conditions throughout most of the spring and summer, allowing for timely planting and harvesting. Overall, both quantity and quality were good, especially compared with last year when New England faced severe flooding during the fall. In other parts of the Northeast, such as Pennsylvania, crop yields were less consistent.

Lancaster County, the largest milk producing state in the Northeast milkshed, luckily was one of the areas least affected by roving drought conditions. Hay quality was good, but quantity was lacking; corn silage yields were adequate but there were quality issues. In New York, results were mixed; grain corn was up, silage about the same as 2006, and soybeans were down. Hay yields were down due to less planted and rainy conditions that prohibited harvesting.

Production Estimates

Nationally, milk cow numbers are projected to finish up 0.4 percent in 2007, compared to 2006. For 2008, the total number of cows is estimated to increase another 0.7 percent. Regionally, cow numbers are projected to finish down about 1.5 percent in 2007 and 0.5 percent in 2008. New York estimates a slight increase, while Pennsylvania, the combined New England states, and New Jersey predict declines. No change is expected in Delaware and Maryland.

Conference participants reported that even though 2007 has been a banner year for farmers, breaking records as far as prices go, many farmers cannot afford to expand. Replacement heifers are still fairly expensive, and farmers are using the extra income to pay down past debt and keep up with rising fuel and feed costs.

Milk production per cow is projected to finish 1.6 percent higher in 2007 and another 1.8 in 2008. The Northeast predicts less growth: 0.5 percent in 2007 and 0.3 in 2008 with only New York and New Jersey forecasting slight increases; the other Northeast states expect milk per cow to remain constant. Less acceptance of rBst milk

Northeast Milk Marketing Area, Statistical Uniform Prices, 2006–2008*

Month	2006 Actual	2007 Actual and Estimated	2008 Estimated
January	14.78	15.09	20.64
February	14.25	15.21	20.18
March	13.43	16.08	19.79
April	12.64	17.02	19.42
May	12.61	18.60	19.08
June	12.66	20.80	19.02
July	12.79	22.94	18.82
August	13.06	23.14	18.93
September	13.43	22.99	19.01
October	14.04	22.43	18.98
November	14.21	22.34	18.86
December	14.42	21.34	18.63
Average	13.53	19.83	19.28

* Estimated prices for November and December 2007 and all of 2008. All estimates are subject to change. Prices are reported at Suffolk County, MA. The actual price for October is \$22.38 per cwt, announced in this issue.

and higher feed and fuel costs will keep milk per cow increase to a minimum.

As a result, milk production in the Northeast states is expected to finish down 1.0 percent in 2007 and about 0.5 percent in 2008. These numbers have been adjusted for leap year in 2008. Declines are forecasted for New England, Pennsylvania, Delaware, and Maryland in both 2007 and 2008. New York expects 2007 to finish up slightly higher than 2006, but no change is projected for 2008. New Jersey forecasts no change for 2007, but a decline in 2008. U.S. milk production is projected to finish 2.0 percent higher in 2007 and grow another 2.2 percent in 2008.

Price Estimates

The group's consensus for the Northeast Order statistical uniform price is an annual average of \$19.83 per hundredweight for 2007. This is \$6.30 higher than the 2006 annual average blend price. At last year's conference, attendees predicted that prices would rise, but not nearly to the magnitude we have witnessed this past year. For the upcoming year, the group forecasts prices to decline somewhat averaging \$19.28 per hundredweight for 2008 (see accompanying table). Even though milk production is predicted to grow, demand is expected to remain strong particularly from developing countries. Due to higher nonfat dry milk and butter prices, the Class IV price is predicted to be the mover throughout the upcoming year. No negative producer price differentials (PPDs) are expected; based on the commodity and futures prices forecasted, PPDs are expected to say in the high \$2.00 to high \$3.00 range. ❖

Dairy Exports Grow

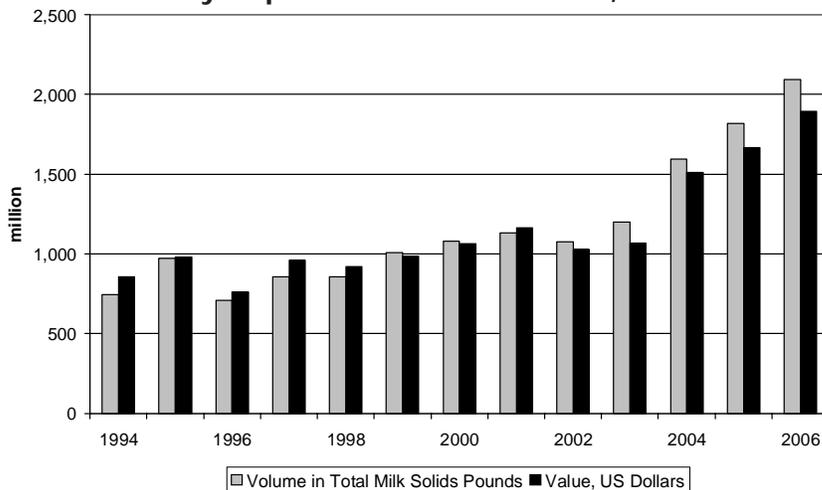
As 2007 comes to a close, the big story of the year is no doubt record high milk prices. The average uniform price in the Northeast looks to finish the year having averaged \$19.83 a hundredweight. Increased exports have played a big role in maintaining such high prices. According to the U.S. Dairy Export Council (USDEC), in the first half of 2007, exports increased 32 percent over the same period in 2006 and have accounted for 11 percent of the U.S. milk production on a total solids basis. During the first 6 months of the year, lactose exports were roughly 92 percent higher than the same period in 2006. Exports of whey grew by 21 percent, and cheese grew by 37 percent. The accompanying charts show exports of selected products by volume and value for the first half of 2006 and 2007. In 2006 the United States exported 47 percent of U.S. produced whey proteins and 43 percent of U.S. produced milk powder.

The value of U.S. exports in 1995 was \$982 million. That value grew to \$1.89 billion in 2006 and at the current pace will reach \$2.5 billion in 2007. During the first 6 months of 2007 the value of whey exported grew \$124.2 million dollars, or by about 84 percent. The value of lactose exported grew by \$67.5 million, or by 85 percent. The value of cheese and curd exported grew by \$56.5 million. Although the volume of nonfat dry milk exported was down about 37 million pounds, the value of those exports were up \$10 million.

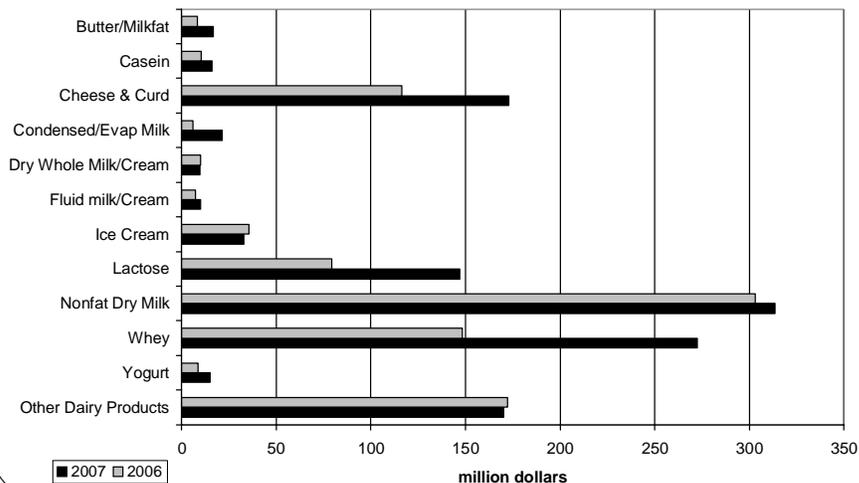
Traditional exporters of dairy products have faced constraints in meeting the world's increasing demand, demand growth that is expected to continue. Some industry analysts are projecting global dairy consumption to grow at a rate of 2.5 to 3 percent per year through the year 2010. This growth will come largely from China, India, Pakistan, Latin America and the Middle East.

Though domestic demand has remained solid during this period of record high prices, issues such as U.S. consumer debt, housing market troubles, and rising prices could slow down dairy consumption in the coming year in the United States – which still consumes the bulk of the U.S. milk production. ❖

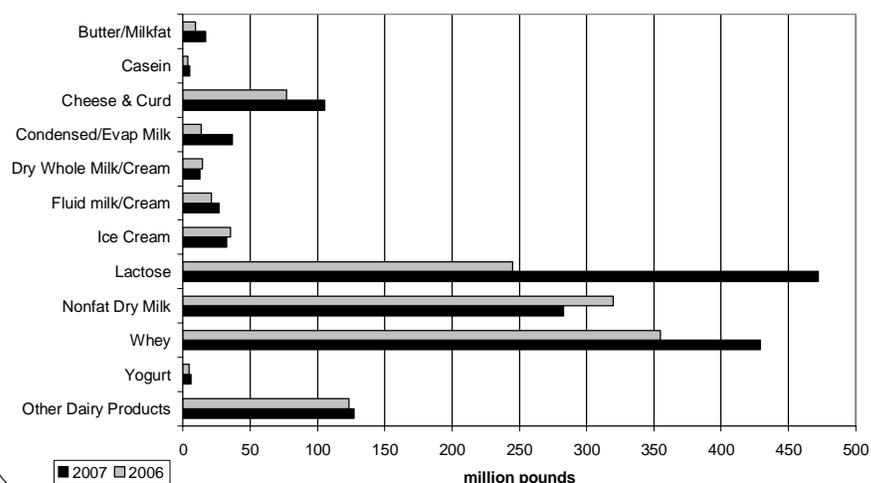
U.S. Dairy Export Volume and Value, 1994–2006



U.S. Dairy Export Value, Selected Products January–June, 2006–2007



U.S. Dairy Export Volume, Selected Products January–June, 2006–2007





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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	907,416,144	\$20.11	182,481,386.56	
Butterfat	18,134,110	1.5534	28,169,526.47	
Less: Location Adjustment to Handlers			(2,999,313.92)	\$207,651,599.14
Class II— Butterfat	29,509,216	1.4162	41,790,951.71	
Nonfat Solids	34,318,080	1.9511	66,958,005.88	108,748,957.59
Class III— Butterfat	20,146,660	1.4092	28,390,673.23	
Protein	16,538,131	4.1695	68,955,737.25	
Other Solids	30,570,083	0.2286	6,988,321.04	104,334,731.52
Class IV— Butterfat	6,112,804	1.4092	8,614,163.38	
Nonfat Solids	11,154,233	1.8855	21,031,306.29	29,645,469.67
Total Classified Value				\$450,380,757.92
Add: Overage—All Classes				161,437.96
Inventory Reclassification—All Classes				(423,526.96)
Other Source Receipts	290,970 Pounds			16,614.61
Total Pool Value				\$450,135,283.53
Less: Producer Component Valuations @ Class III Component Prices				(386,790,904.26)
Total PPD Value Before Adjustments				\$63,344,379.27
Add: Location Adjustment to Producers				9,993,965.90
One-half Unobligated Balance—Producer Settlement Fund				959,265.37
Less: Producer Settlement Fund—Reserve				(822,412.48)
Total Pool Milk & PPD Value	1,996,608,642 Producer pounds			\$73,475,198.06
Producer Price Differential		\$3.68		
Statistical Uniform Price		\$22.38		

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