



# The Market Administrator's BULLETIN

## NORTHEAST MARKETING AREA

*Erik F. Rasmussen*, Market Administrator

**May 2008**

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 2008 statistical uniform price (SUP) for the Northeast Marketing Area was announced at \$18.18 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 \$18.59 per hundredweight. May's statistical uniform price was \$0.37 per hundredweight below April's price. The May producer price differential (PPD) at Suffolk County was \$0.00 per hundredweight; last month the PPD was \$1.79 per hundredweight. This is the first time since the Order's inception that the PPD was zero; it has been negative 4 times.

All commodity prices rose during May resulting in higher component prices. Due to advance pricing for Class I milk, the Class I price decreased from April while all other class prices rose. This tightened the spread between the Class I and III prices. Based on the Order's utilization of milk, the producer payout value nearly equaled the value of the pool, thus no pool revenue was returned in the PPD.

#### Depooled Milk

During May, approximately 115 million pounds of milk were depooled by handlers regulated under the Order. Most of this milk came out of Class III. Handlers with milk utilized in classes other than Class I can elect to depool milk depending on pricing relationships and their perceived value in being part of the federal order pool. ❖

### Changes to Class III and IV Price Formula

The U.S. Department of Agriculture issued a tentative partial 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 July 11 in the Northeast Order, with referendum results to be announced by the Secretary of Agriculture at a later date. This decision was based on the record of the first session of a public hearing held in Strongsville, Ohio, on February 26, 2007; a second session held in Indianapolis, Indiana, on April 9, 2007; and a third session held in Pittsburgh, Pennsylvania, on July 9, 2007.

(continued on page 3)

### Pool Summary

- A total of 13,253 producers were pooled under the Order with an average daily delivery per producer of 5,077 pounds.
- Pooled milk receipts totaled 2.086 billion pounds, a decrease of 4.9 percent from last month on an average daily basis. Approximately 115 million pounds of milk were depooled during May.
- Class I usage (milk for bottling) accounted for 42.9 percent of total milk receipts, 2.8 percentage points above April.
- The average butterfat test of producer receipts was 3.67 percent.
- The average true protein test of producer receipts was 3.03 percent, highest ever for May.
- The average other solids test of producer receipts was 5.73 percent. ❖

#### Class Utilization

Pooled Milk	Percent	Pounds
Class I	42.9	895,285,234
Class II	20.3	422,332,586
Class III	19.1	398,058,193
Class IV	17.7	<u>370,086,754</u>
Total Pooled Milk		2,085,762,767

#### Producer Component Prices

	2008	2007
	\$/lb	
Protein Price	4.1108	2.9424
Butterfat Price	1.5562	1.5706
Other Solids Price	0.0766	0.5791

#### Class Price Factors

	2008	2007
	\$/cwt	
Class I	19.87	19.17
Class II	15.51	16.62
Class III	18.18	17.60
Class IV	15.26	18.48

## Contribution to Producer Price by Components

Under component pricing, the proportion each component (butterfat, protein, and other solids) contributes to the overall producer blend price varies each month based on the respective average component tests and prices of each component. The accompanying table shows the contribution by component for the month of May for the years 2004, 2006, 2007 and 2008 using a hypothetical farmer producing 100,000 pounds of milk at the pool average component tests during that month. The year 2005 was omitted since it was quite similar to 2006 with very similar proportions. The examples do not take into account premiums, hauling charges, or any other producer payments or deductions.

### Protein Contribution

During May 2008, the producer protein price was \$4.1108 per pound, the highest value of the years compared. Based on the example, protein contributed nearly 67 percent of the total value of the average producer's pay price. For comparison, the protein price was \$1.9115 per pound in May 2006 and contributed 45 percent of the pay price.

from 2.4 percent in 2008 to 17.5 percent in 2007. Of course, the value is highly correlated with the price: in 2007, it was \$0.5791 per pound as the value of nonfat dry milk, underlying the other solids price, soared; in 2008, it had dropped to \$0.0766 per pound.

### Producer Price Differential

The contributing value of the producer price differential (PPD) is probably the most variable of the factors. For example, in May 2004 it had a negative value, while in May 2006 when it was \$1.78 per hundredweight, it contributed 13.8 percent. In the most recent example, May 2008, the PPD had no contributory value because all of the producers' price came from the value of their components. In May 2004, when it was negative, the Statistical Uniform Price (Blend) was \$19.98 per hundredweight; in May 2006, when it equaled \$1.78, the blend was only \$12.89 per hundredweight. In addition, the average test value of the individual component also affects the contributed proportion of each individual producer's pay price. ❖

### Contribution to Total Gross Payment\*

	May 2008				May 2007			
	Test percent	Price per pound	Gross dollars	Contribution percent	Test percent	Price per pound	Gross dollars	Contribution percent
<b>Butterfat</b>	3.67	1.5562	\$5,711.25	<b>30.7</b>	3.63	1.5706	\$5,701.28	<b>30.2</b>
<b>True Protein</b>	3.03	4.1108	\$12,455.72	<b>66.9</b>	3.01	2.9424	\$8,856.62	<b>46.9</b>
<b>Other Solids</b>	5.73	0.0766	\$438.92	<b>2.4</b>	5.71	0.5791	\$3,306.66	<b>17.5</b>
<b>PPD</b>		0.00	\$0.00	<b>0.0</b>		1.00	\$1,000.00	<b>5.3</b>
<b>Total gross payment</b>			\$18,605.90				\$18,864.56	
<b>Gross price per cwt</b>			<b>\$18.61</b>				<b>\$18.86</b>	

  

	May 2006				May 2004			
	Test percent	Price per pound	Gross dollars	Contribution percent	Test percent	Price per pound	Gross dollars	Contribution percent
<b>Butterfat</b>	3.67	1.2582	\$4,617.59	<b>35.8</b>	3.59	2.4282	\$8,717.24	<b>43.6</b>
<b>True Protein</b>	3.02	1.9115	\$5,772.73	<b>44.8</b>	2.97	3.7639	\$11,178.78	<b>56.0</b>
<b>Other Solids</b>	5.74	0.1251	\$718.07	<b>5.6</b>	5.70	0.1444	\$823.08	<b>4.1</b>
<b>PPD</b>		1.78	\$1,780.00	<b>13.8</b>		(0.74)	-\$740.00	<b>(3.7)</b>
<b>Total gross payment</b>			\$12,888.40				\$19,979.10	
<b>Gross price per cwt</b>			<b>\$12.89</b>				<b>\$19.98</b>	

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

### Butterfat Contribution

The producer butterfat price was \$1.5562 per pound during May 2008 and contributed nearly 31 percent of the total value to the average producer's price. During May 2004, when the butterfat price was \$2.4282 per pound, butterfat accounted for almost 44 percent of the average pay price. During May 2006 when the producer butterfat value was only \$1.2582 per pound, butterfat accounted for nearly 36 percent of the total value of the producer price.

### Other Solids

As the examples show, the proportion that the other solids component has contributed has varied greatly –

## Farm Bill Passed

On June 19, 2008, both the Senate and House of Representatives voted to override the President's veto of the Food, Conservation and Energy Act—the new farm bill. The Dairy section of the bill includes the following:

- Continuation of the Dairy Product Price Support Program, Dairy Forward Pricing Program, Dairy Export Incentive Program, and Dairy Indemnity Program

(continued on page 3)

## Reporting Program Final Rule Issued

On June 17, the USDA issued a final rule that adopts amendments to the Dairy Products Mandatory Reporting Program that was established on August 2, 2007. For more information and background on this rule see the June 2007 *Bulletin*.

All comments received in response to the interim final rule, issued June 28, 2007, were considered in developing the final rule. All changes in the final rule from the interim rule concern price reporting; there are no changes concerning stock reporting. Certain products are now excluded in the reporting specifications:

- Products that are produced under faith-based close supervision and are marketed at a higher price than the manufacturer's wholesale market price for the basic commodity.
- Dairy Export Incentive Program sales or other premium-assisted sales.
- Products certified as organic by USDA-accredited certifying agents.

Another substantive change is that in calculating the total dollars received or dollars per pound, the reporting entity shall not deduct brokerage fees or clearing charges paid by the manufacturer. Other changes have been made in organization or content for greater clarity.

The final rule appeared in the June 17, 2008, Federal Register and became effective June 22, 2008.❖

.....

## Class III and IV Price *(continued from page 1)*

### **Product Price Formulas**

The federal milk order system uses product price formulas to compute class prices which are the minimum prices handlers must pay for milk depending upon how it is utilized. 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 in the form of the statistical uniform price or blend price.

The product price formulas contain a factor called a manufacturing (make) allowance. The make allowance factor is meant to represent an average cost manufacturers incur in converting raw farm milk into a finished product and, as used in the class price formula, is a subtracted value. Since USDA's National Agricultural Statistics Service (NASS) weekly survey of the selling prices of finished dairy products (cheese, butter, nonfat dry milk, dry whey) form the basis of federal order class prices (and what producers ultimately receive for their milk), by subtracting a make allowance in the product price formula, a value for the milk used in making those products can be established.

### **Make Allowance Changes**

The decision amends the manufacturing allowances for cheese, butter, nonfat dry milk (NFDm), and dry

whey. Specifically, the decision would adopt the following increased manufacturing allowances: cheese \$0.2003 per pound; butter \$0.1715 per pound; NFDm \$0.1678 per pound; and dry whey \$0.1991 per pound. This decision also proposes to increase the butterfat yield factor in the butterfat price formula from 1.20 to 1.211. The last time these formulas were changed was February 2007.

Had these new make allowances and butterfat yield factor been in effect for May 2008 pricing, the Class I price would have been 35 cents lower, the Class II price 27 cents lower, the Class III price 35 cents lower, the Class IV price 26 cents lower with a resulting 30 cents lower uniform price.

USDA has calculated in a dynamic analysis for the period 2008-2016 (an analysis that takes into account projected supply and demand responses on behalf of producers, processors and consumers from changing milk prices as a result of this formula change) the U.S. all milk price falling an average of \$0.06 per hundredweight from their baseline projection.

### **Comment Period**

Since this decision was published as a tentative partial final decision in the June 20 *Federal Register*, interested parties have 60 days, or until August 19, 2008, 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 (six 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](mailto:amsdairycomments@usda.gov). ❖

.....

## Farm Bill *(continued from page 2)*

- Revision of Federal Marketing Order Amendment Procedures
- Continuation of the Milk Income Loss Contract Program with adjustments made to the percentage used along with the addition of a National Average Dairy Feed Ration Cost factor used in calculating the price.
- Extension of the Dairy Promotion and Research Program
- Report on USDA Reporting Procedures for Nonfat Dry Milk
- Establishment of a Federal Milk Marketing Order Review Commission
- Mandatory Reporting of Dairy Commodities and Verification

For more detail on each of these topics, go to USDA's webpage: <http://www.usda.gov/wps/portal/usdahome> and click on the link for Farm Bill.❖



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	878,484,544	\$15.15	133,090,408.42	
Butterfat	16,800,690	1.4988	25,180,874.17	
Less: Location Adjustment to Handlers			(2,860,955.78)	\$155,410,326.88
Class II— Butterfat	30,821,422	1.5632	48,180,046.89	
Nonfat Solids	35,557,104	1.1556	41,089,789.38	89,269,836.27
Class III— Butterfat	16,624,732	1.5562	25,871,407.91	
Protein	12,019,229	4.1108	49,408,646.57	
Other Solids	22,649,253	0.0766	1,734,932.80	77,014,987.28
Class IV— Butterfat	12,291,779	1.5562	19,128,466.50	
Nonfat Solids	32,560,794	1.1301	36,796,953.31	55,925,419.81
<b>Total Classified Value</b>				<b>\$377,620,570.24</b>
Add: Overage—All Classes				116,102.86
Inventory Reclassification—All Classes				412,401.10
Other Source Receipts	45,627 Pounds			662.51
<b>Total Pool Value</b>				<b>\$378,149,736.71</b>
Less: Producer Component Valuations @ Class III Component Prices				(387,838,818.76)
<b>Total PPD Value Before Adjustments</b>				<b>(\$9,689,082.05)</b>
Add: Location Adjustment to Producers				9,871,586.22
One-half Unobligated Balance—Producer Settlement Fund				836,089.10
Less: Producer Settlement Fund—Reserve				(1,018,593.27)
<b>Total Pool Milk &amp; PPD Value</b>	2,085,808,394 Producer pounds			<b>\$0.00</b>
Producer Price Differential		<b>\$0.00</b>		
Statistical Uniform Price		<b>\$18.18</b>		

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