

The Market Administrator's BULLETIN

NORTHEAST MARKETING AREA

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July 2008

Federal Order No. 1

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July Pool Price Calculation

The July 2008 statistical uniform price (SUP) for the Northeast Marketing Area was announced at \$20.61 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 \$20.59 per hundredweight due to the pool protein test averaging 2.95 percent. July's statistical uniform price was \$1.05 per hundredweight above June's price. The July producer price differential (PPD) at Suffolk County was \$2.37 per hundredweight, an increase of \$3.06 per hundredweight from last month.

Commodity prices for butter and nonfat dry milk rose during July, while prices for cheese and dry whey declined. As a result, butterfat and nonfat solids price rose while protein and other solids prices dropped. Correspondingly, there was an increase in Class II and Class IV prices, which are based off of butter and nonfat dry milk (butterfat and nonfat solids). The Class III price, based mainly off of cheese (protein), declined.

Depooled Milk Back on Order

During July, milk that had been depooled during May and June was repooled onto the Order. The increase in pooled volume did not account for the depooled milk in June. If that milk had been part of the June pool, the actual change in pooled volume for July would have been a decrease of 1.8 percent on an average daily basis. ❖

USDA Releases Interim Final Rule

On July 31, the U.S. Department of Agriculture issued an interim final rule amending the Class III and Class IV product price formulas in all Federal milk marketing orders.

These amendments are the result of the recently concluded referendum and will be effective September 1, 2008. The amendments will be used in the computation of the September Class I Price and Advanced Pricing Factors announced on August 22. The Class and Component Prices announced on September 5 for August milk will not use the amended provisions; the announcement on October 3 will use these provisions.

A copy of the interim final rule may be obtained by contacting the Market Administrator's office or may be accessed at the Northeast Order website, www.fmmone.com, under the Hearings and Proposals for Hearings section. ❖

Pool Summary

- A total of 13,796 producers were pooled under the Order with an average daily delivery per producer of 4,794 pounds.
- Pooled milk receipts totaled 2.051 billion pounds, an increase of 8.2 percent from last month on an average daily basis, not adjusting for the depooled milk in June.
- Class I usage (milk for bottling) accounted for 40.5 percent of total milk receipts, a decrease of 3.3 percentage points from June.
- The average butterfat test of producer receipts was 3.58 percent.
- The average true protein test of producer receipts was 2.95 percent.
- The average other solids test of producer receipts was 5.70 percent. ❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	40.5	831,107,629
Class II	21.1	432,240,210
Class III	23.6	484,025,367
Class IV	14.8	303,157,631
Total Pooled Milk		2,050,530,837

Producer Component Prices

	2008	2007
	\$/lb	
Protein Price	4.0025	4.2068
Butterfat Price	1.6774	1.6110
Other Solids Price	0.0707	0.5534

Class Price Factors

	2008	2007
	\$/cwt	
Class I	24.03	24.16
Class II	16.81	21.40
Class III	18.24	21.38
Class IV	16.60	21.64

Milk Production Strong for First Half of Year

During the first 6 months of 2008, total milk production in the United States grew 2.4 percent, compared to 1.0 percent for the same period in 2007. All comparisons have been adjusted for leap year. See accompanying map for individual state year-to-year changes.

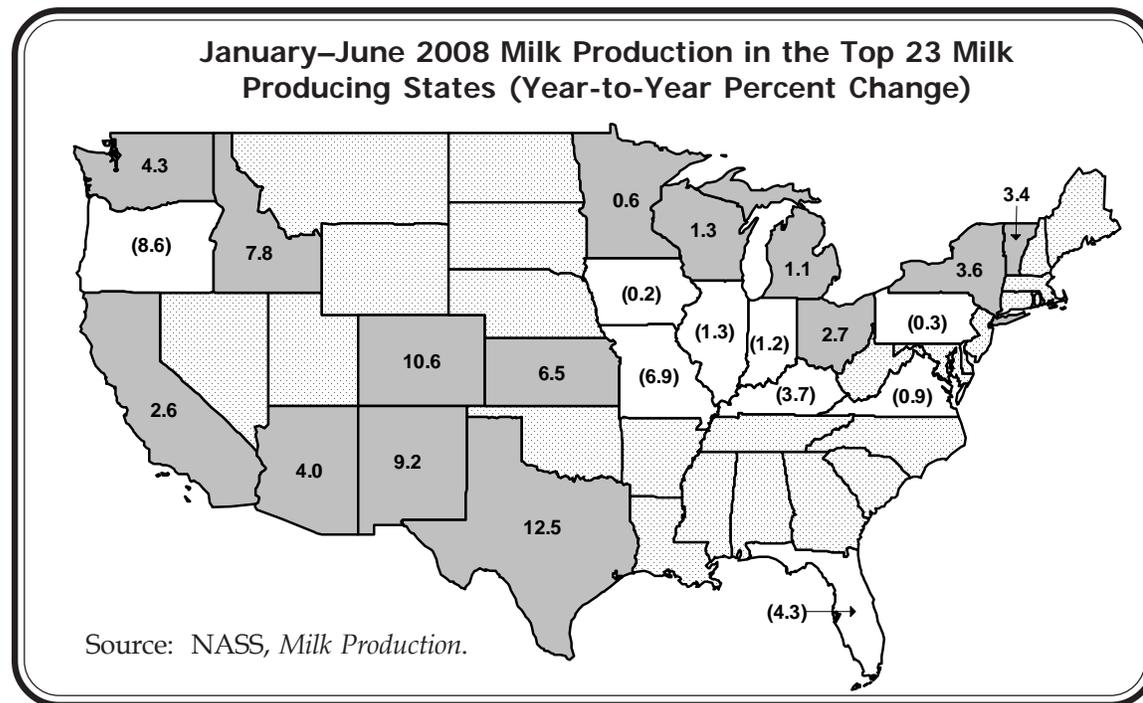
Texas (12.5 percent), Colorado (10.6 percent), and New Mexico (9.2 percent). Of the top-23 states, only 8 showed decreases in production.

Overall, the top-ten milk producing states are up a combined 3.4 percent for the first six months of 2008. This

compares with a year-to-year increase of 1.7 during the same period in 2007. Texas and New Mexico, with their substantial increases, moved up in the ranking and pushed Michigan down to ninth place.

Northeast Changes

In the Northeast, the states making up New England (Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont) had a combined increase of 2.9 percent for the January-June 2008 period. When the other states supplying the Northeast market (New York,



Top Producing States

California, Wisconsin, and New York continue to be the top three milk producing states, although Idaho is closing in on New York – especially with an increase of 7.8 percent for the six month period. The only other top-23 states to show greater increases during this period were

New Jersey, Pennsylvania, Delaware, Maryland, Virginia, and West Virginia) are added, the combined increase was 1.7 percent for the period. The top 3 contributing states in the Northeast Marketing Area (NY, PA, and VT) had a combined increase of 1.9 percent from last year. During the same period in 2007, these combined states showed decreases.❖

Commodity Prices Unsettled

During the past few weeks, prices for cheese on the Chicago Mercantile Exchange (CME) have been changing dramatically-increasing and decreasing significantly within the same week. In addition, CME Grade AA butter prices have risen suddenly.

Block Prices

During the week ending July 25, 40-pound block Cheddar prices jumped 9.3 cents per pound. During the week ending August 1, block prices rose slightly on Monday and Tuesday and then plummeted 11.25 cents on Wednesday and another 13.25 cents per pound on Thursday. For the week they averaged 8.65 cents per pound less than the prior week. The following week (ending August 8), block prices continued to decline through Thursday and then jumped 6.25 cents on Friday, averaging 21.05 cents per pound below the previous week. In summary, average weekly prices dropped 29.7 cents per pound in just 2 weeks. Since the end of May block prices have declined 50.25 cents per pound.

Barrel Prices

For the week ending July 18, the barrel price had increased 7 cents per pound. During the week ending July 25, barrel prices rose another 2.05 cents. For the week ending August 1, barrels rose 5.25 cents per pound on Monday, dropped 9.25 cents on Tuesday, and then plummeted an unprecedented 28 cents per pound on Wednesday. Surprisingly, on Thursday barrel prices recovered somewhat, rising 15 cents, and held on Friday. They averaged 9.8 cents per pound less than the previous week. During the week ending August 8, they declined through Wednesday, and then increased on both Thursday and Friday, averaging 12.4 cents per pound less than the prior week. Overall, barrel prices dropped 22.2 cents in 2 weeks and 50.85 cents per pound since the end of May.

Some industry experts claim that higher retail prices for dairy products, coupled with weakening consumer (continued on page 3)

Farm Bill Extends, Strengthens MILC, Adds Feed Cost Adjustor

The recently signed farm bill extended the Milk Income Loss Contract (MILC) program through August 31, 2012. While the MILC program has not paid out since 2006 due to high milk prices, it historically has returned over \$1.2 billion to dairy farmers. Under the revised MILC program, the calculation of any MILC payments will include a feed cost adjustor (detailed below). It also bases the payment on 45 percent of the difference between the Class I price at Boston, MA, and the program's base price beginning October 1, 2008, and ending August 31, 2012. The program will still pay on 34 percent of the difference for the period October 1, 2007, through September 30, 2008. It returns to a 34 percent rate September 1, 2012, and thereafter.

How Feed Adjustor Works

The feed adjustor sets a baseline feed cost of \$7.35 per hundredweight, a starting point based on average corn, soybeans, and alfalfa hay prices in 2007. This number represents the weighted average of corn prices (51 percent), alfalfa prices (41 percent), and soybeans prices (8 percent) that USDA currently uses in establishing the Milk-Feed Price Ratio. Each month, USDA will use this formula to produce a new weighted average based on the most current pricing. USDA will then calculate the percentage change between the \$7.35 baseline and the new monthly figure. After that, it takes 45 percent of that percentage increase, and adds it to the \$16.94 base price to create a new, higher trigger price. This new trigger price is what

is compared to the Class I price in Boston, MA, for that month and used in the calculation.

When or if the feed prices fall below the \$7.35 per hundredweight index, the current \$16.94 per hundredweight MILC target will remain. Thus in the case that commodity prices were to fall, the feed adjustor calculation can never decrease the trigger price for any reason.

The result is that MILC payments would be made when milk is at a higher price than in the 2002 Farm Bill based on cost of feed. This will strengthen the MILC program to help farmers when prices are low relative to their feed costs but still higher than \$16.94. The accompanying table shows the new feed adjusted MILC base price under this new calculation for the fiscal year 2007-08, using the most recent final feed prices. Though the changes will be retroactive to October 1, 2007, no date has been set for making claims under the new calculation. No payments have been triggered since October 1, 2007, based on the new calculations.

Production Cap Increased

In addition, the program has increased the production cap from 2.4 billion pounds per fiscal year, to 2.985 billion pounds per fiscal year, for the period beginning October 1, 2008, and ending August 31, 2012. The cap returns to 2.4 billion pounds per fiscal year beginning September 1, 2012. ❖

**MILC Base Trigger Price with Feed Cost Adjustor,
2008 Fiscal Year (October 2007–September 2008)**

	2007			2008							
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
Class I Price:	24.84	24.70	23.29	24.22	22.93	19.95	21.86	19.87	21.43	24.03	21.72
MILC Base Trigger Price:	16.94	16.94	16.94	16.94	16.94	16.94	16.94	16.94	16.94	16.94	16.94
Feed Cost Adjusted Base Trigger Price:	16.94	16.94	17.14	17.31	18.15	18.39	19.18	19.74	19.98	20.34 *	
MILC Payment with Feed Cost Index:	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

*Based on preliminary feed prices.

Commodity *(continued from page 2)*

purchasing power, have slowed sales. During the April-July 2008 period, prices for dairy products were 10 percent higher than a year ago, according to the Bureau of Labor Statistics' Consumer Price Index data. In addition, US milk production has been strong making milk available for cheese production (see related article on page 2).

Butter Prices

CME Grade AA butter prices had been hovering in the low to mid \$1.50's per pound range since the end of June. On August 1, the price increased 3.5 cents per pound, rose

2.25 cents the following Monday and then jumped 7.25 cents on Tuesday to \$1.67 per pound, the highest cash price since September 2005. It held for 2 days and then dropped 2 cents on Friday, averaging 10.45 cents per pound higher than the previous week. According to USDA's Dairy Market News, cream supplies for churning have tightened; CME butter inventories are the lowest they have been in the past 4 years. For the January-June 2008 period, butterfat exports were up 7-fold from the same period in the previous year, likely lifting butter prices. ❖



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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	815,233,050	\$18.95	154,486,662.98	
Butterfat	15,874,579	1.6411	26,051,771.60	
Less: Location Adjustment to Handlers			(2,681,748.37)	\$177,856,686.25
Class II— Butterfat	30,680,333	1.6844	51,677,952.89	
Nonfat Solids	36,018,833	1.2567	45,264,867.44	96,942,820.33
Class III— Butterfat	17,626,241	1.6774	29,566,256.65	
Protein	14,353,447	4.0025	57,449,671.68	
Other Solids	27,572,606	0.0707	1,949,383.25	88,965,311.58
Class IV— Butterfat	9,137,389	1.6774	15,327,056.30	
Nonfat Solids	26,461,132	1.2358	32,700,666.97	48,027,723.27
Total Classified Value				\$411,792,541.43
Add: Overage—All Classes				107,991.04
Inventory Reclassification—All Classes				193,093.50
Other Source Receipts	72,277 Pounds			4,027.90
Total Pool Value				\$412,097,653.87
Less: Producer Component Valuations @ Class III Component Prices				(373,697,451.46)
Total PPD Value Before Adjustments				\$38,400,202.41
Add: Location Adjustment to Producers				10,264,229.97
One-half Unobligated Balance—Producer Settlement Fund				763,337.16
Less: Producer Settlement Fund—Reserve				(828,475.65)
Total Pool Milk & PPD Value	2,050,603,114 Producer pounds			\$48,599,293.89
Producer Price Differential		\$2.37		
Statistical Uniform Price		\$20.61		

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