



# The Market Administrator's BULLETIN

## NORTHEAST MARKETING AREA

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**August 2008**

Federal Order No. 1

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### August Pool Price Calculation

The August 2008 statistical uniform price (SUP) for the Northeast Marketing Area was announced at \$19.50 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 \$19.76 per hundredweight. August's statistical uniform price was \$1.11 per hundredweight below July's price. The August producer price differential (PPD) at Suffolk County was \$2.18 per hundredweight, a decrease of 19 cents per hundredweight from last month.

All commodity prices decreased except butter. As a result, component prices for protein, other solids and nonfat solids all declined while butterfat rose slightly. The Class I price, set in advance, dropped over \$2.00 due mainly to the decline in cheese prices during the first 2 weeks of July. The continued drop in cheese prices was reflected in the Class III price that decreased nearly \$1.00 from the previous month. The Class II price rose 64 cents from July, bringing it above the Class III price for the first time in 6 months; the Class IV price rose slightly.

The average producer component tests for butterfat, protein, and other solids were record-setting for the month of August. ❖

### Formula Changes Delayed

On August 29, the USDA issued a statement delaying the implementation of the Interim Final Rule published July 31, 2008, that amended the manufacturing cost allowances and butterfat yield factor used in Class III and IV product price formulas. The effective date, which had been September 1, 2008, was moved to October 1, 2008. A complaint had been filed in the U.S. District Court for the District of Columbia to block the implementation. It was thought that the 1 month delay would allow sufficient time for a preliminary injunction hearing, which took place on September 16, 2008.

At that time it was expected that the Advanced Prices and Pricing Factors for the month of October 2008 would be released on its scheduled date, September 19, and use the new formulas. On September 17, USDA and the District Court agreed to postpone the release of this announcement until September 23, 2008, in order to  
(continued on page 3)

### Pool Summary

- A total of 13,677 producers were pooled under the Order with an average daily delivery per producer of 4,674 pounds.
- Pooled milk receipts totaled 1.982 billion pounds, a decrease of 3.4 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 42.1 percent of total milk receipts, an increase of 1.6 percentage points from July.
- The average butterfat test of producer receipts was 3.62 percent.
- The average true protein test of producer receipts was 3.01 percent.
- The average other solids test of producer receipts was 5.69 percent. ❖

#### Class Utilization

| Pooled Milk       | Percent | Pounds        |
|-------------------|---------|---------------|
| Class I           | 42.1    | 835,115,077   |
| Class II          | 21.9    | 434,618,292   |
| Class III         | 22.9    | 452,808,414   |
| Class IV          | 13.1    | 259,199,796   |
| Total Pooled Milk |         | 1,981,741,579 |

#### Producer Component Prices

|                    | 2008   | 2007   |
|--------------------|--------|--------|
|                    | \$/lb  |        |
| Protein Price      | 3.6497 | 3.9412 |
| Butterfat Price    | 1.7413 | 1.5872 |
| Other Solids Price | 0.0529 | 0.4368 |

#### Class Price Factors

|           | 2008   | 2007  |
|-----------|--------|-------|
|           | \$/cwt |       |
| Class I   | 21.72  | 25.01 |
| Class II  | 17.45  | 22.41 |
| Class III | 17.32  | 19.83 |
| Class IV  | 16.64  | 21.87 |

# Milk Components Above Average

Average pool component tests in the Northeast market area have been running higher than the component averages for the Order's first 8 years. In fact, the August 2008 pool had a record high average test for all three components producers are paid on.

Though all components still follow a typical pattern of seasonality, they have done so at higher levels. The increase in average protein tests has been the most dramatic, averaging .04 percentage points higher than the 8-year average in 2007, and .03 percentage points higher in 2008. Butterfat tests averaged .02 percentage points higher than the 8-year average in 2007, and .01 percentage points higher in 2008. Other solids tests averaged .02 percentage points higher than the 8-year average in both 2007 and 2008.

The range in high and low average monthly tests has remained very consistent. During 2000 through 2002, the range from high to low of the average monthly tests for butterfat, protein, and other solids, was .25, .17, and .07 percentage points, respectively. During the most recent 3 years, the range from high to low of the average monthly tests for butterfat, protein, and other solids, was .26, .17, and .07 percentage points, respectively.

## Protein

The average protein test at pool set or matched a record high for the month in 7 of the 12 months from September 2007 to August 2008. Typically, protein tests reach their highest level during the month of November and lowest in July. An all time record of 3.15 percent was set in November 2007.

## Butterfat

The average butterfat test at pool set or matched a record high for the month in 5 of the past 9 months since December 2007. Typically, butterfat tests peak between November and January of the year and are lowest in July. The all time record of 3.84 percent was matched in December 2007.

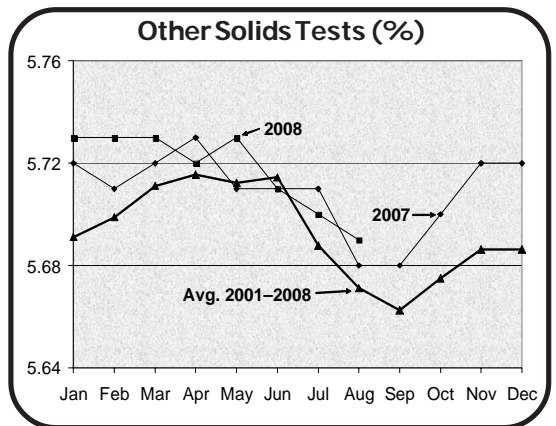
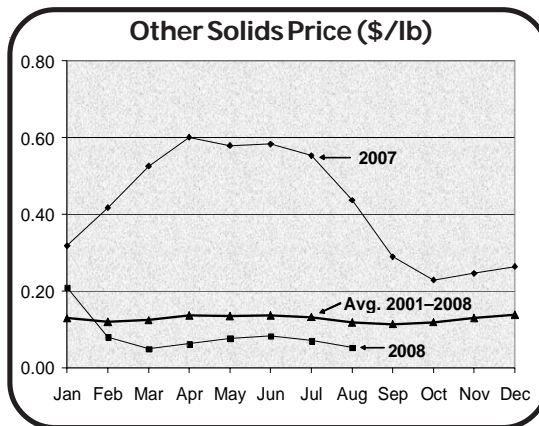
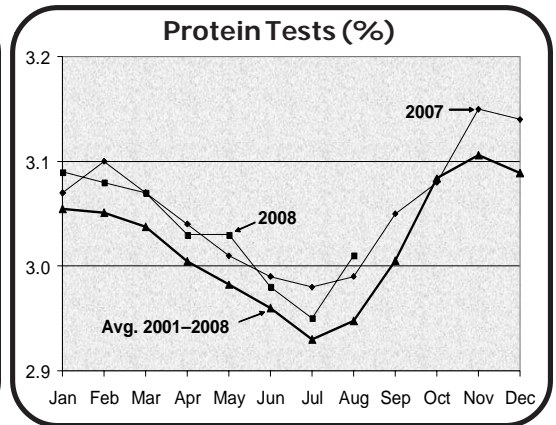
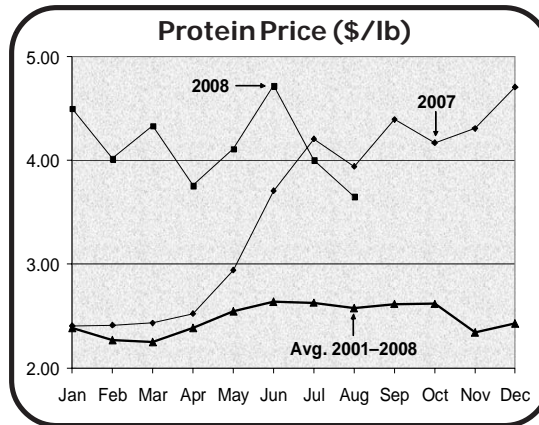
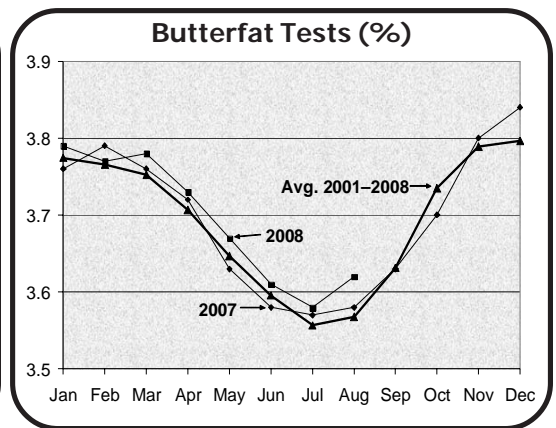
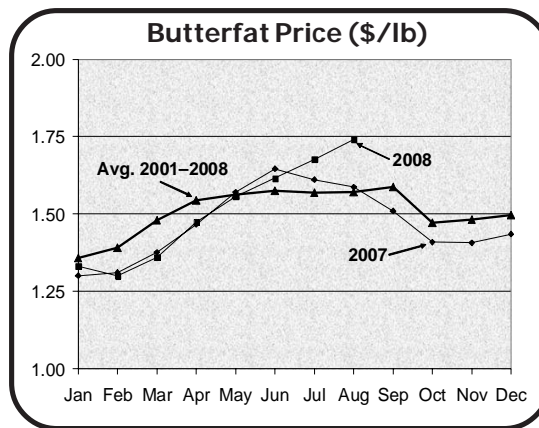
## Other Solids

The average other solids test at pool set or matched a record high for the month in 7 of the 12 months from

September 2007 to August 2008. Typically, other solids tests peak during May of the year and are lowest in September.

## Tests Respond to Price Levels

Herd component levels can be increased through feed and genetics management, among other things. Average component tests rising simultaneously with component values, as has been the case in 2008, suggests that producers are responding to component price signals. The average annual protein price has risen fairly consistently (except in 2005 and 2006) and has averaged \$4.14 per pound in 2008. Unlike the up and down nature seen in butterfat and other solids prices, increasing protein prices appear to be a more bankable outcome and producers may be managing their herds in response to that signal. The accompanying charts show average monthly component tests and prices for 2007 and 2008 and the average for all years under the Northeast Order. ❖



## Changes in Utilization

For the January through August 2008 period, there have been notable changes in how milk pooled on the Northeast Order has been utilized in the respective classes. In addition to milk received from producers each month, utilization accounts for ending inventory, shipments to nonpool plants, milk used for fortification, shrinkage, overages, and interhandler differences.

Overall, utilization has risen 5.4 percent for the 8-month period compared to 2007. Utilization is categorized by the different use classes. Class I includes fluid milk products; Class II primarily includes mostly “soft” products such as cottage and ricotta cheese, sour cream, yogurt, ice cream, and packaged creamers; Class III mainly consists of the “hard” cheeses such as American, mozzarella, and Swiss, but also includes cream cheese; and Class IV includes butter, dried products, and condensed products. The accompanying table shows changes for selected products by class.

### **Class I Usage Declined**

Total Class I utilization has declined 1.5 percent. The volume used as sales in the marketing area declined 1.2 percent from the previous year. The difference includes sales out of the marketing area and other categories mentioned above. Decreases occurred in whole milk, flavored milk and drinks (lowfat), and buttermilk and eggnog. Reduced fat (2%), lowfat (1%), and fatfree (skim) all showed increases for the 8-month period.

### **Class II Down**

Milk used for Class II purposes declined 2.0 percent compared to the same period in 2007. Decreases occurred in cottage and ricotta cheese, yogurt, and sour cream. The volume of milk used for prepared foods such as bakery, candy, and soup products increased, as did ice cream; packaged cream grew slightly.

### **Class III Volume Rises Slightly**

Overall, Class III utilization rose 1.1 percent. Increases occurred in cream cheese, Italian cheeses, and Swiss and other cheeses; American cheese usage declined.

### **Class IV Usage Jumps**

Pooled milk used in making Class IV products increased 47.3 percent. Dried milk products jumped 57.4 percent from 2007 and condensed products rose 14.3 percent. Milk used in making butter declined 3.3 percent.

**Northeast Order Utilization for Selected Products  
for January–August, 2008**

|                          | Product                 | Volume Utilized<br>million pounds | Change from<br>Previous Year<br>percent |
|--------------------------|-------------------------|-----------------------------------|---|
| <b>Class I</b>           | Whole                   | 1,994.7                           | (6.0)                                   |
|                          | Reduced                 | 1,461.6                           | 2.9                                     |
|                          | Lowfat                  | 1,093.4                           | 1.9                                     |
|                          | Fatfree                 | 966.8                             | 0.5                                     |
|                          | Flavored                | 350.8                             | (2.4)                                   |
|                          | <i>Total Class I*</i>   | 7,561.0                           | (1.5)                                   |
| <b>Class II</b>          | Prepared foods          | 417.9                             | 5.8                                     |
|                          | Cottage                 | 378.5                             | (5.6)                                   |
|                          | Ricotta                 | 117.1                             | (5.4)                                   |
|                          | Sour Cream              | 135.6                             | (2.3)                                   |
|                          | Yogurt                  | 226.7                             | (9.9)                                   |
|                          | Ice Cream               | 1,248.7                           | 4.9                                     |
| <i>Total Class II*</i>   | 3,394.7                 | (2.0)                             |   |
| <b>Class III</b>         | American                | 1,103.7                           | (4.7)                                   |
|                          | Cream cheese            | 446.2                             | 6.6                                     |
|                          | Italian                 | 1,988.8                           | 5.3                                     |
|                          | Swiss & Other           | 172.5                             | 3.1                                     |
|                          | <i>Total Class III*</i> | 3,738.7                           | 1.1                                     |
| <b>Class IV</b>          | Condensed               | 182.1                             | 14.3                                    |
|                          | Butter                  | 120.4                             | (3.3)                                   |
|                          | Dried Products          | 1,791.7                           | 57.4                                    |
|                          | <i>Total Class IV*</i>  | 3,323.8                           | 47.3                                    |
| <b>Total Utilization</b> |                         | 18,075.6                          | 5.4                                     |

\* Class totals do not add as they include other categories not shown such as inventory, shrinkage, and overages.

### **Price Response**

Class I prices during this time period have averaged the highest ever since the Order’s inception. The decline in fluid milk sales (Class I utilization) is likely impacted by these high prices. In addition, nonfat dry milk prices were their highest during 2007, doubling from the previous year. In response, manufacturers have increased production in an attempt to meet demand. The increase in milk used in dried products has grown nearly 60 percent during the first 8 months of 2008; in turn, the nonfat dry milk price has declined 20 percent compared to the 2007 average.❖

### **Formulas** (continued from page 1)

provide sufficient opportunity for the Court’s consideration of the motion for preliminary injunction. At the time of publication of this *Bulletin*, the District Court had not yet issued a decision on the legal challenge.

The announcement of September Class III and Class IV prices and the Class II butterfat price (Announcement of Class and Component Prices) scheduled for October 3, 2008, will not be affected by this delay.❖





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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  | 818,902,761                   | \$16.30                   | 133,481,150.04         |                         |
| Butterfat  | 16,212,316                    | 1.7129                    | 27,770,076.08          |                         |
| Less: Location Adjustment to Handlers                            |                               |                           | (2,691,822.63)         | \$158,559,403.54        |
| Class II— Butterfat  | 29,239,199                    | 1.7483                    | 51,118,891.62          |                         |
| Nonfat Solids  | 36,578,124                    | 1.3044                    | 47,712,504.96          | 98,831,396.58           |
| Class III— Butterfat   | 17,313,410                    | 1.7413                    | 30,147,840.86          |                         |
| Protein  | 13,622,789                    | 3.6497                    | 49,719,093.04          |                         |
| Other Solids   | 25,686,657                    | 0.0529                    | 1,358,824.16           | 81,225,758.06           |
| Class IV— Butterfat  | 8,905,307                     | 1.7413                    | 15,506,811.08          |                         |
| Nonfat Solids  | 22,656,266                    | 1.2147                    | 27,520,566.29          | 43,027,377.37           |
| <b>Total Classified Value</b>                                    |                               |                           |                        | <b>\$381,643,935.55</b> |
| Add: Overage—All Classes   |                               |                           |                        | 69,155.09               |
| Inventory Reclassification—All Classes                           |                               |                           |                        | 134,871.27              |
| Other Source Receipts  | 49,576 Pounds                 |                           |                        | 2,054.33                |
| <b>Total Pool Value</b>  |                               |                           |                        | <b>\$381,850,016.24</b> |
| Less: Producer Component Valuations @ Class III Component Prices |                               |                           |                        | (348,307,639.44)        |
| <b>Total PPD Value Before Adjustments</b>                        |                               |                           |                        | <b>\$33,542,376.80</b>  |
| Add: Location Adjustment to Producers                            |                               |                           |                        | 9,742,495.69            |
| One-half Unobligated Balance—Producer Settlement Fund            |                               |                           |                        | 753,891.64              |
| Less: Producer Settlement Fund—Reserve                           |                               |                           |                        | (835,716.97)            |
| <b>Total Pool Milk &amp; PPD Value</b>                           | 1,981,791,155 Producer pounds |                           |                        | <b>\$43,203,047.16</b>  |
| Producer Price Differential                                      |                               | <b>\$2.18</b>             |                        |                         |
| Statistical Uniform Price  |                               | <b>\$19.50</b>            |                        |                         |

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