

The Market Administrator's BULLETIN

NORTHEAST MARKETING AREA

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October Pool Price Calculation

The October 2009 statistical uniform price (SUP) for the Northeast Marketing Area was announced at \$14.06 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 \$14.82 per hundredweight. The October statistical uniform price was \$1.13 per hundredweight above the September price. The October producer price differential (PPD) at Suffolk County was \$1.24 per hundredweight, an increase of 42 cents per hundredweight from last month.

During October, all commodity prices rose resulting in higher component and class prices. The Class I price (announced in advance) increased \$1.42 per hundredweight, the Class II price rose 92 cents, and the Class III and IV prices both were up 71 cents per hundredweight. With the Class I utilization up and the Class IV utilization down, the corresponding prices for these classes resulted in a higher PPD. The Class IV price was the lowest class price for the month.

The producer protein test averaged 3.15 percent, a new record for the month of October. The producer butterfat test averaged 3.79 percent and tied with 2008 as the highest for the month of October since the Order's inception. ❖

Temporary CCC Increase Over, but Market Prices Remain High

On July 31, 2009, Agriculture Secretary Vilsack announced an increase in the amount paid for dairy products through the Dairy Product Price Support Program operated by the Commodity Credit Corporation (CCC). The increase was in effect from August 1 through October 31, 2009.

The temporary increase raised the price for nonfat dry milk (NFD) from \$0.80 to \$0.92 per pound, the price for Cheddar blocks from \$1.13 to \$1.31 per pound, and the price of Cheddar barrels from \$1.10 to \$1.28 per pound. As of November 1, the CCC purchase prices reverted back to their previous levels. The support price for butter was not changed, remaining at \$1.05 per pound.

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Pool Summary

- A total of 13,272 producers were pooled under the Order with an average daily delivery per producer of 4,558 pounds.
- Pooled milk receipts totaled 1.875 billion pounds, a decrease of 1.4 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 48.9 percent of total milk receipts, an increase of 2.2 percentage points from September.
- The average butterfat test of producer receipts was 3.79 percent.
- The average true protein test of producer receipts was 3.15 percent.
- The average other solids test of producer receipts was 5.67 percent. ❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	48.9	917,479,953
Class II	21.7	406,631,642
Class III	22.5	421,003,154
Class IV	6.9	130,216,373
Total Pooled Milk		1,875,331,122

Producer Component Prices

	2009	2008
	\$/lb	
Protein Price	2.5584	3.5490
Butterfat Price	1.2752	1.8507
Other Solids Price	0.1228	(0.0047)

Class Price Factors

	2009	2008
	\$/cwt	
Class I	15.60	18.78
Class II	11.93	16.60
Class III	12.82	17.06
Class IV	11.86	13.62

Mailbox Price—What Does It Mean?

The market administrator calculates an average mailbox price for the Northeast Order every month using producer payroll data. As the name suggests, it is meant to reflect the net value per hundredweight a producer receives for their milk once the check is in their mailbox. To get a mailbox price, we add the value of components, the producer price differential (PPD) and any type of premiums received and then subtract cooperative dues, hauling, the market administrator fee, Cooperatives Working Together (CWT) assessment, and national and local promotion assessments.

Table 1:

Average PPD by Mailbox Region, July 2008 and June 2009

Region	Jul '08	Jun '09
	\$/cwt	
All Northeast	1.83	1.52
New England	1.99	1.85
New York	1.64	1.29
Pennsylvania	1.98	1.60
Actual PPD at Boston, MA	2.37	1.96

Table 2:

Percent of Milk Produced that was Received by Differential Zone, July 2008 and June 2009

Differential Zone Range	Vermont		New York		Pennsylvania	
	Jul '08	Jun '09	Jul '08	Jun '09	Jul '08	Jun '09
	percent					
>\$2.95	43.3	49.6	16.1	21.0	33.6	34.4
\$2.55 – \$2.95	25.8	28.7	9.3	12.0	61.6	61.0
<\$2.55	30.9	21.7	74.6	67.0	4.9	4.6

For the purpose of reporting mailbox prices in the Northeast Order, the market area has been divided into three sub regions: New England, New York, and Pennsylvania. The three regions have different characteristics with respect to how and where the milk is marketed and the costs involved that can impact the mailbox price. Of the three major regions within the Northeast Marketing Area, the average mailbox price for New England tends to be the highest, followed by Pennsylvania and then New York. For the period January through August 2009, the average mailbox price was \$12.75 per hundredweight in New England, \$12.27 in Pennsylvania, and \$12.00 in New York.

Gross Value Portion

The gross value makes up the largest portion of the mailbox price, and differences in the gross value account for a majority of the difference that exists between regions. The gross value portion of the mailbox price includes the value of producer milk components and the PPD. It does not include any premiums. Since the PPD is part of the gross value, differences in where a region's producers' milk is shipped impacts the gross value, and in turn, the mailbox price. PPDs in the Northeast are higher along the metropolitan areas closer to the coast, and are lower further inland. Table 1 shows the average PPD received by producers in each of the three regions for the months of July 2008 and June 2009 (a high and low price month). New England producers received the highest PPD in both months; New York producers received the lowest.

Table 2 shows what percent of producers' milk in a region went to selected differential zones. Daily delivery data, which indicate

Table 3:

Northeast Order Regions Average Hauling Cost, 2009

	New England	NY	PA
	\$/cwt		
Jan	0.64	0.63	0.79
Feb	0.64	0.65	0.78
Mar	0.63	0.64	0.76
Apr	0.63	0.63	0.77
May	0.63	0.63	0.77
Jun	0.64	0.64	0.78
Jul	0.63	0.63	0.76
Aug	0.64	0.64	0.76
Average	0.64	0.64	0.77

the pickup and final destination of farm milk, collected by the market administrator for both periods, was used to show into which differential zone milk from each region ends up. The data show that over two-thirds of the milk produced in New York is marketed to plants in the central, western and northern part of the state where a lower PPD is received. In Pennsylvania, almost two-thirds of the milk produced is marketed to plants in the southeastern part of the state and much of the rest to plants in New Jersey and the New York City metro area, where PPDs are among the highest. Data for Vermont was used as representative of New England. In Vermont, a much larger portion of the milk is marketed to plants in metropolitan areas that return some of the highest PPDs in the order. When accounting for producers in other New England states, the portion marketed in metropolitan areas is likely even higher.

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Table 4: Northeast Order Regions Average Premiums, 2009

	New England	NY	PA
	\$/cwt		
Jan	1.02	0.88	0.89
Feb	1.01	0.92	0.88
Mar	1.01	0.91	0.92
Apr	0.98	0.87	0.89
May	0.94	0.85	0.87
Jun	0.91	0.84	0.84
Jul	0.90	0.84	0.87
Aug	0.91	0.83	0.88
Average	0.96	0.87	0.88

Mailbox (continued from page 2)

Hauling Cost and Premiums

Average hauling costs and premiums per hundredweight are depicted in Tables 3 and 4. The value for hauling includes the hauling cost and stop charges. New England and New York show similar hauling costs pre hundredweight while Pennsylvania averaged 13 cents higher during the period shown. Premiums however, averaged roughly the same level in New York and Pennsylvania, but averaged 11 cents per hundredweight higher in New England. These differences also could be attributable to where and what type of plant the milk is marketed to, the premium structure, state mandated premium programs, and the competition in the marketplace. ❖

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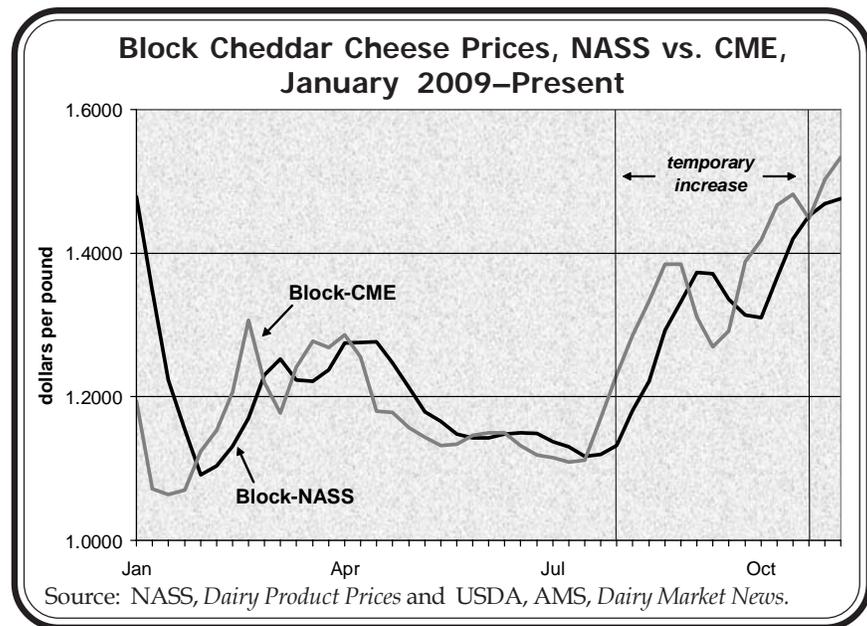
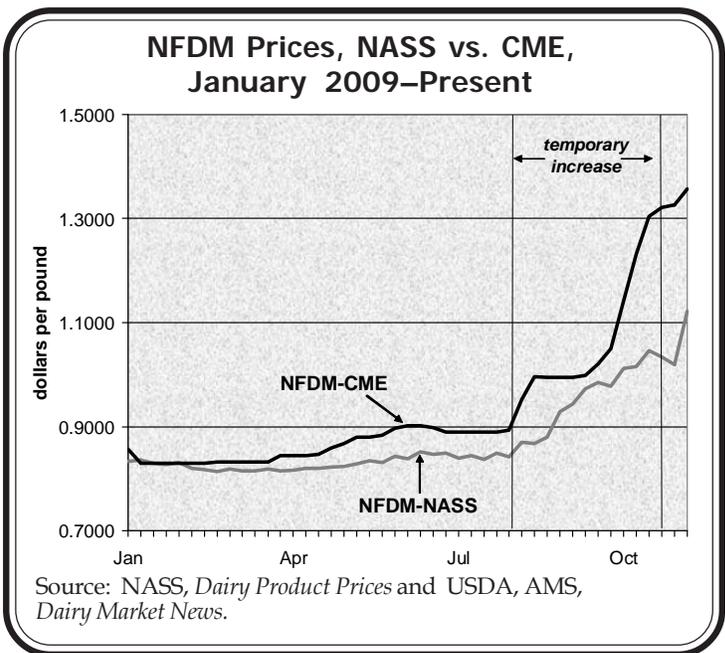
Temporary CCC Increase Over (continued from page 1)

Prices Rise

Prices of dairy products traded on the Chicago Mercantile Exchange (CME) responded to the initial announcement of higher CCC purchase prices almost immediately. The accompanying charts show prices for block Cheddar cheese and NFDm on the CME and National Agricultural Statistics Service (NASS) price survey from January through November 7. Block prices were \$1.2850 per pound on July 31; they continued to rise throughout August, averaging \$1.3850 on August 21 before declining for a few weeks, and then ascending again from mid-September to the most recent week reported where they averaged \$1.5335 per pound. NASS block prices followed a similar pattern, starting with an average of \$1.1318 on August 1 and rising to \$1.3730 per pound by September 5. This was about 2 weeks later than the CME, which is the typically expected lag between the CME and NASS prices. NASS blocks declined through the beginning of October, and then started climbing, reaching \$1.4756 by the first week of November. This is currently almost 35 cents above the CCC support price.

CME barrel prices lagged slightly behind blocks and peaked a little lower, but overall, rose from \$1.2600 per pound on July 31 to an average of \$1.5035 by November 7. NASS barrel prices were \$1.1602 on August 1, hit \$1.3794 by September 5, declined 2 weeks, and then rose to \$1.5029 by November 7—40 cents higher than the current support price.

CME Grade A nonfat dry milk averaged \$0.8940 per pound for the week ending July 31; by November 6, prices had risen to \$1.3570 per pound. NASS NFDm prices started at \$0.8420, rose to \$1.0460 by October 17, declined to \$1.0193 by October 31, but then jumped to \$1.1215 by November 7. This is 32 cents above the current support price.



During the 3 months of the temporary price increase, CCC purchases of NFDm totaled 3.4 million pounds, but cancellations totaled nearly 4 million pounds resulting in a net decrease of over 500,000 pounds. Cancellations occur when sellers who previously had agreed to sell to the CCC choose to sell on the commercial market.

Market Response

The average uniform price in the Northeast Order was over \$13.00 per hundredweight during the 3-month period. For the prior 6 months, it averaged less than \$12.00 per hundredweight. The temporary support price increase appears to have impacted the commodity prices that are used in the calculation of producers' end pay prices. The fact that commodity prices rose well above support levels, and have remained higher since the temporary support levels expired, would indicate that other market forces may have played a role. ❖



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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	900,092,816	\$11.68	105,130,840.91	
Butterfat	17,387,137	1.2366	21,500,933.61	
Less: Location Adjustment to Handlers			(2,966,673.36)	\$123,665,101.19
Class II— Butterfat	29,324,220	1.2822	37,599,514.87	
Nonfat Solids	34,593,996	0.8567	29,636,676.34	67,236,191.21
Class III— Butterfat	16,658,218	1.2752	21,242,559.57	
Protein	13,273,543	2.5584	33,959,032.41	
Other Solids	23,825,289	0.1228	2,925,745.50	58,127,337.48
Class IV— Butterfat	7,739,572	1.2752	9,869,502.20	
Nonfat Solids	11,211,466	0.8506	9,536,473.02	19,405,975.22
Total Classified Value				\$268,434,605.10
Add: Overage—All Classes				52,659.63
Inventory Reclassification—All Classes				232,758.21
Other Source Receipts	274,087 Pounds			7,206.12
Total Pool Value				\$268,727,229.06
Less: Producer Component Valuations @ Class III Component Prices				(254,707,288.72)
Total PPD Value Before Adjustments				\$14,019,940.34
Add: Location Adjustment to Producers				9,088,176.61
One-half Unobligated Balance—Producer Settlement Fund				950,849.79
Less: Producer Settlement Fund—Reserve				(801,462.24)
Total Pool Milk & PPD Value	1,875,605,209 Producer pounds			\$23,257,504.50
Producer Price Differential		\$1.24		
Statistical Uniform Price		\$14.06		

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