

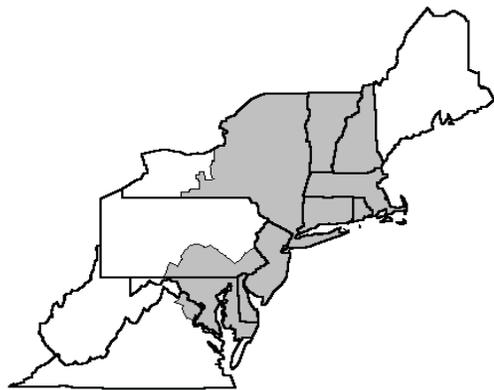
# BULLETIN

## NORTHEAST MARKETING AREA

Erik F. Rasmussen, Market Administrator

February 2010

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

### February Pool Price Calculation

The February 2010 statistical uniform price (SUP) for the Northeast Marketing Area was announced at \$16.30 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 \$16.92 per hundredweight. The February statistical uniform price was 4 cents per hundredweight above the January price. The February producer price differential (PPD) at Suffolk County was \$2.02 per hundredweight, an increase of 26 cents per hundredweight from last month.

During February, all commodity prices declined except dry whey. The NASS average butter price decreased slightly but the nonfat dry milk dropped 11 cents, lowering the Class IV price 95 cents. The dry whey price increased nearly 54 cents, but because of the 2.64 cent decline in the cheese price, which weighs more heavily into the formula, the Class III price dropped 22 cents per hundredweight. The only class price to rise was the Class II price (increased 43 cents) mainly due to the advanced pricing of the skim and nonfat solids components.

The producer other solids test of 5.73 percent tied with 2006 and 2008 as the highest for February. ❖

### Change to the Producer-Handler Definition

The U.S. Department of Agriculture has issued a final decision to amend the producer-handler definition in all federal milk marketing orders. A producer referendum is underway, concluding on March 24 in the Northeast Order, with referendum results to be announced by the Secretary of Agriculture at a later date. The final decision is based on the record of a public hearing held in Cincinnati, Ohio, on May 4-20, 2009, pursuant to a notice of hearing published April 9, 2009, and a previously issued recommended decision published October 21, 2009.

The decision proposes that the producer-handler definition of all federal milk marketing orders be amended by placing a limit on the exemption from pooling and pricing provisions to handlers with total route dispositions and sales of packaged fluid milk products to other plants of 3 million pounds or less per month. The exempt plant definition would continue to limit route disposition and sales of packaged fluid milk products to other plants

(continued on page 3)

### Pool Summary

- A total of 13,324 producers were pooled under the Order with an average daily delivery per producer of 4,863 pounds.
- Pooled milk receipts totaled 1.814 billion pounds, an increase of 2.5 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 44.4 percent of total milk receipts, an increase of 0.8 percentage points from January.
- The average butterfat test of producer receipts was 3.77 percent.
- The average true protein test of producer receipts was 3.08 percent.
- The average other solids test of producer receipts was 5.73 percent. ❖

#### Class Utilization

Pooled Milk	Percent	Pounds
Class I	44.4	804,528,559
Class II	19.9	360,987,290
Class III	22.6	410,473,001
Class IV	13.1	238,406,516
Total Pooled Milk		1,814,395,366

#### Producer Component Prices

	2010	2009
	\$/lb	
Protein Price	2.7066	1.9139
Butterfat Price	1.4404	1.0941
Other Solids Price	0.1992	(0.0437)

#### Class Price Factors

	2010	2009
	\$/cwt	
Class I	18.09	13.97
Class II	15.65	10.25
Class III	14.28	9.31
Class IV	12.90	9.45

## Market Situation Outlook

Projections for milk prices in 2010 have declined somewhat in recent weeks. Basing projections on the Chicago Mercantile Exchange's future prices for Class III and Class IV milk, an annual average uniform price in Boston, MA, for 2010 was in the range of \$16.65 to \$16.85 per hundredweight throughout the month of January. During recent weeks, the projection for the annual average uniform price at Boston, MA, for 2010 has been roughly \$15.80 to \$16.05 per hundredweight. The more cautious outlook may be the result of current supply and demand signals.

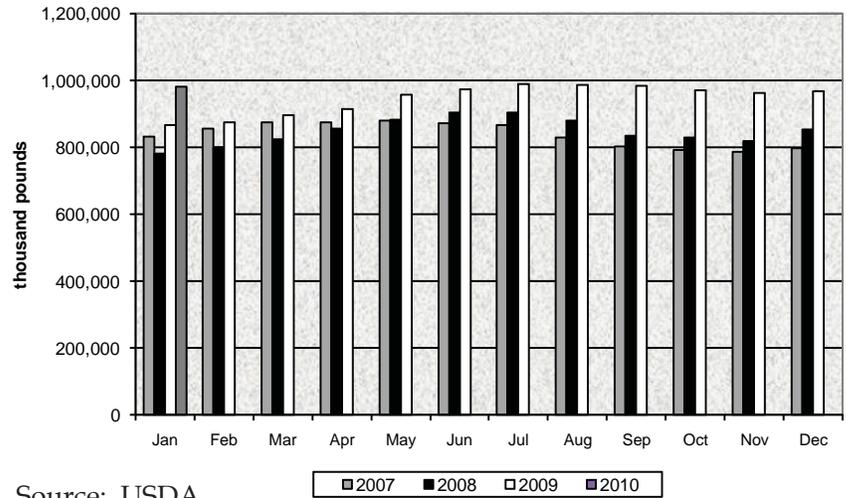
### Supply

Total stocks of dairy products on a total milk equivalent, milkfat basis were running between roughly 3.0 and 6.0 percent over 2008 levels for the first 6 months of 2009. Total stocks had risen to between 15 and 20 percent higher than 2008 levels (the last year of strong milk prices) for the months of August through November 2009. Total stocks in December 2009 were 12.5 percent higher than the year previous.

Total natural cheese stocks were 981 million pounds in January 2010 – the third highest for that month dating back to 1970 and the highest since 1984. Total butter stocks were 133 million pounds in December, over 14 million pounds more than December 2008. Total nonfat dry milk stocks were 287 million pounds in December 2009, down 32 percent from June 2009. Analysts feel stocks need to be at lower levels to support price recovery.

The USDA revised its 2010 price forecast lower due in part to the high stocks of dairy products discussed earlier. In addition, cow slaughter is relatively low and January's milk cow numbers were higher than expected. The milk-feed price ratio rose to 2.38 in February, just under the 2.5

**Total Natural Cheese Stocks, January 2007-January 2010**



Source: USDA.

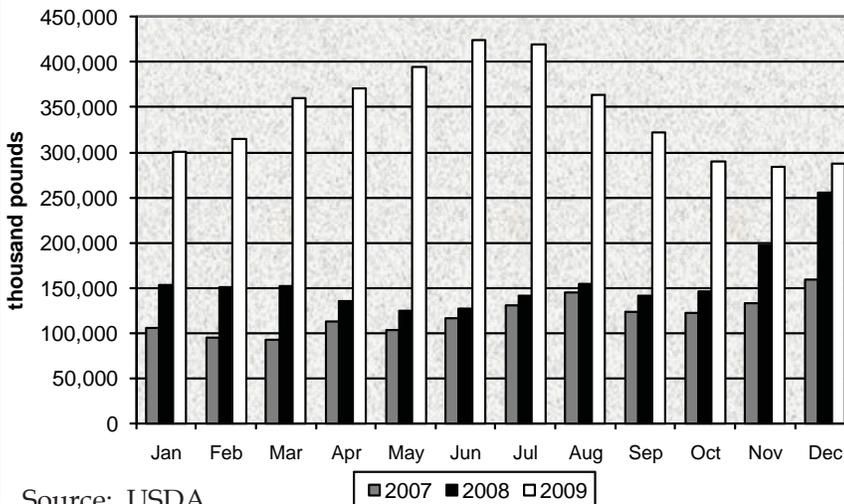
to 3.0 range that tends to indicate more of a steady state in U.S. herd growth.

Milk production declined by 0.1 percent in 2009 (see article on page 3) and was accompanied by low milk prices. With signs pointing to steady or slightly growing milk production for 2010, increased demand will need to soak up extra stocks and production to support increasing milk prices.

### Demand

The Conference Board's *Consumer Confidence Index*, often used as an economic indicator of demand, declined sharply in February to 46.0 from 56.5 in January. The index is important since consumer spending makes up such a large portion of economic growth. If consumers are uncertain about the economy, they will buy less, and the economy will slow further. If consumer confidence increases, the economy tends to grow.

**Total NFDM Stocks, 2007-2009**



Source: USDA.

The National Restaurant Association's *Restaurant Performance Index (RPI)*, a monthly composite index that tracks the health of and outlook for the U.S. restaurant industry, stood at 98.3 in January, down 0.3 percent from December's level. An index value below 100 signifies contraction in the index of key industry indicators. Although the current situation indicators remained soft in January, the Expectations Index rose above 100 for the first time in 9 months. Restaurant operators are relatively optimistic about improving sales growth and economic conditions in the months ahead, and their capital spending plans rose to the highest level in five months. Improved restaurant sales are an important facet of dairy demand.

In 2010, domestic commercial use is (continued on page 3)

## U.S. Milk Production Down Slightly for 2009

Total milk production in the United States declined a slight 0.1 percent in 2009, when compared to leap year adjusted production in 2008. This was the first year-over-year decline in total U.S. production since 2001. The top ten milk-producing states showed no change, nor did the top 23 states as reported by the National Agricultural Statistics Service (NASS). The accompanying table shows the top ten states ranked by their total 2009 production. All comparisons have been adjusted for leap year.

**Top Ten States Ranked by Milk Production, 2009**

Rank	State	2008	2009	Percent Change
million pounds				
1	California	41,203	39,512	(3.8)
2	Wisconsin	24,472	25,239	3.4
3	New York	12,432	12,424	0.2
4	Idaho	12,315	12,150	(1.1)
5	Pennsylvania	10,575	10,551	0.0
6	Minnesota	8,782	9,019	3.0
7	Texas	8,416	8,840	5.3
8	Michigan	7,763	7,968	2.9
9	New Mexico	7,865	7,904	0.8
10	Washington	5,696	5,561	(2.1)
Top Ten Total		139,519	139,168	0.0
U.S. Total		189,982	189,320	(0.1)

Source: NASS, *Milk Production*.

### Top Producing States

The top ten list contained the same states as in 2008; the only changes being a displacement of New Mexico by Michigan for the number 8 spot. California, which reported an average annual production increase of 4.1 percent each year since 1980 (29 years), had a decrease of 3.8 percent last year. The only other top ten states reporting decreases were Idaho and Washington. Once again, Texas had the strongest growth of the top ten states with an increase of 5.3 percent in 2009. Last year its production jumped 13.7 percent. Wisconsin, Minnesota, and Michigan, three states whose production had been relatively stagnant for the past few years, each averaged growth around 3 percent in 2009.

NASS changed their list of the top 23 states slightly, adding Utah and removing Kentucky. Based on the past 2 years of rankings, South Dakota should have been included as it ranked 21, and Missouri, which ranked 24, would be left off the list. Other ranking changes included Iowa (number 12 in 2009) switching places with Arizona (now 13) and Kansas (number 16 in 2009) bumping Vermont to 17.

### Northeast Below National Average

Milk production in the Northeast milkshed (the area from which milk is traditionally pooled by handlers selling into the marketing area) decreased 0.5 percent in 2009 compared to the national decline of only 0.1 percent. The 3 top producing states (New York, Pennsylvania, and

Vermont) had a combined decrease of 0.3 percent. Production in New York and Pennsylvania was relatively flat, while Vermont declined 3.9 percent. The combined New England states (Connecticut, Massachusetts, Maine, New Hampshire, Rhode Island, and Vermont) reported a decline of 3.1 percent while the remaining milkshed states (Delaware, Maryland, New Jersey, Virginia, and West Virginia) showed a combined drop of 1.3 percent from 2008.

### Cow Numbers and Production per Cow

Nationally, the number of milk cows decreased 1.2 percent in 2009. In the Northeast, milk cow numbers declined 1.4 percent. Average milk production per cow grew 1.2 percent nationally; for the Northeast, the increase was 1.0 percent. ❖

### Market *(continued from page 2)*

expected to increase 1.4 percent on a milk equivalent milkfat basis. USDA expects U.S. commercial dairy exports to increase significantly in 2010 over 2009, from 4.1 to 4.8 billion pounds on a milk equivalent fat solids basis (though not close to the 8.7 billion pounds exported in 2008). Some analysts believe global dairy demand will clear U.S. surpluses but may not be enough to drive prices up significantly.

Given a steady to slightly increasing national milk production expectation with mixed demand expectations, it becomes more clear why the milk price outlook has become somewhat more cautious since the relatively higher projections made in January. Even so, the annual average milk price for 2010 still is predicted to be roughly \$3.00 per hundredweight higher than in 2009, with uniform prices from August through December higher than recent January and February levels. ❖

### Producer-Handler *(continued from page 1)*

to 150,000 pounds or less per month. Producer-handlers are dairy farmers that process their own milk production. Exempt plants are plants not subject to full regulation under federal milk marketing orders on the basis of their size.

The proposed order as amended would obligate some large producer-handlers under the federal milk marketing order system to the same terms as other fully regulated handlers, of their respective order, provided they meet the criteria for qualification as fully regulated plants. An entity currently defined as a producer-handler under the terms of its order will be subject to the pooling and pricing provision of the order if the total route disposition and sales of packaged fluid milk products to other plants are more than 3 million pounds per month. A producer-handler with total route disposition and sales of packaged fluid milk products to other plants of 3 million pounds or less during the month will *not* be subject to the pooling and pricing provisions of any order as a result of this rulemaking.

The decision can be downloaded from the following website: <http://www.ams.usda.gov/AMSV1.0/dairy>. ❖



**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	789,734,059	\$13.52	106,772,044.78	
Butterfat	14,794,500	1.4415	21,326,271.75	
Less: Location Adjustment to Handlers			(2,638,822.75)	\$125,459,493.76
Class II— Butterfat	25,153,058	1.4474	36,406,536.15	
Nonfat Solids	30,720,202	1.2189	37,444,854.22	73,851,390.37
Class III— Butterfat	16,679,096	1.4404	24,024,569.90	
Protein	12,615,591	2.7066	34,145,358.57	
Other Solids	23,428,812	0.1992	4,667,019.38	62,836,947.85
Class IV— Butterfat	11,726,454	1.4404	16,890,784.35	
Nonfat Solids	20,816,016	0.9043	18,823,923.25	35,714,707.60
<b>Total Classified Value</b>				<b>\$297,862,539.58</b>
Add: Overage—All Classes				93,902.83
Inventory Reclassification—All Classes				65,747.71
Other Source Receipts	428,070 Pounds			15,241.37
<b>Total Pool Value</b>				<b>\$298,037,431.49</b>
Less: Producer Component Valuations @ Class III Component Prices				(270,309,681.22)
<b>Total PPD Value Before Adjustments</b>				<b>\$27,727,750.27</b>
Add: Location Adjustment to Producers				8,862,661.46
One-half Unobligated Balance—Producer Settlement Fund				908,016.89
Less: Producer Settlement Fund—Reserve				(838,995.23)
<b>Total Pool Milk &amp; PPD Value</b>	1,814,823,436 Producer pounds			<b>\$36,659,433.39</b>
Producer Price Differential		<b>\$2.02</b>		
Statistical Uniform Price		<b>\$16.30</b>		

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