

The Market Administrator's

# BULLETIN

## NORTHEAST MARKETING AREA

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Federal Order No. 1

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### May Pool Price Calculation

The May 2010 statistical uniform price (SUP) for the Northeast Marketing Area was announced at \$15.91 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 \$16.14 per hundredweight. The May statistical uniform price was 80 cents per hundredweight above the April price. The May producer price differential (PPD) at Suffolk County was \$2.53 per hundredweight, an increase of 34 cents per hundredweight from last month.

During May, all commodity prices increased resulting in higher class prices. The NASS average butter price rose 10 cents per pound while the nonfat dry milk price increased 13 cents. As a result, the Class IV price rose \$1.56 per hundredweight. The cheese price rose 4 cents, translating to a 46-cent increase in the Class III price. This was the lowest of the class prices for the third consecutive month. With all other class prices rising at a greater amount than the Class III price, the spread between Classes I, II, and IV versus Class III widened resulting in a higher PPD. ❖

### Fluid Milk Product Definition Decision Issued

USDA issued a final decision to amend the fluid milk product definition in all federal milk marketing orders. The final decision is based on the record of a public hearing held in Pittsburgh, PA, on June 20-23, 2005, pursuant to a notice of hearing published April 9, 2005, and a previously issued recommended decision published May 17, 2006.

The decision proposes amendments to the fluid milk product definition under federal milk marketing orders. The fluid milk product definition specifies the compositional standards that define whether a fluid milk product is a Class I product or whether the product qualifies to be in some other class. Under classified pricing (pricing milk based on its use), federal orders assign finished dairy products to one of four classes. The classification determines the applicable minimum federal order price that handlers must pay for the milk utilized to produce the respective product.

Specifically, the decision maintains the current fluid milk product definition minimum standard of 6.5 percent nonfat milk solids while adopting an equivalent 2.25 percent true protein content for determining if a product meets the compositional standard for Class I. The decision (continued on page 3)

### Pool Summary

- A total of 13,374 producers were pooled under the Order with an average daily delivery per producer of 5,254 pounds, the highest ever reported under the Order.
- Pooled milk receipts totaled 2.178 billion pounds, an increase of 1.1 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 39.7 percent of total milk receipts, a decrease of 2.1 percentage points from April.
- The average butterfat test of producer receipts was 3.62 percent.
- The average true protein test of producer receipts was 3.00 percent.
- The average other solids test of producer receipts was 5.73 percent. ❖

#### Class Utilization

Pooled Milk	Percent	Pounds
Class I	39.7	865,557,556
Class II	21.1	459,317,046
Class III	24.3	528,070,831
Class IV	14.9	325,269,457
Total Pooled Milk		2,178,214,890

#### Producer Component Prices

	2010	2009
	\$/lb	
Protein Price	2.1523	1.7454
Butterfat Price	1.7058	1.2648
Other Solids Price	0.1704	0.0336

#### Class Price Factors

	2010	2009
	\$/cwt	
Class I	17.05	14.22
Class II	14.90	10.71
Class III	13.38	9.84
Class IV	15.29	10.14

## Class IV Prices Higher than Class III

The Advanced Class IV Skim Milk Pricing Factor has been used to set the Base Skim Milk Price for Class I for four of the first 6 months of 2010, including the two most recent months. In addition, the Class IV price has been higher than the Class III price for the past three months. These two trends in class prices can be attributed, at least in part, to trends in the stocks of commodities that are used to establish these prices.

### Class Prices Related to the Commodity Prices

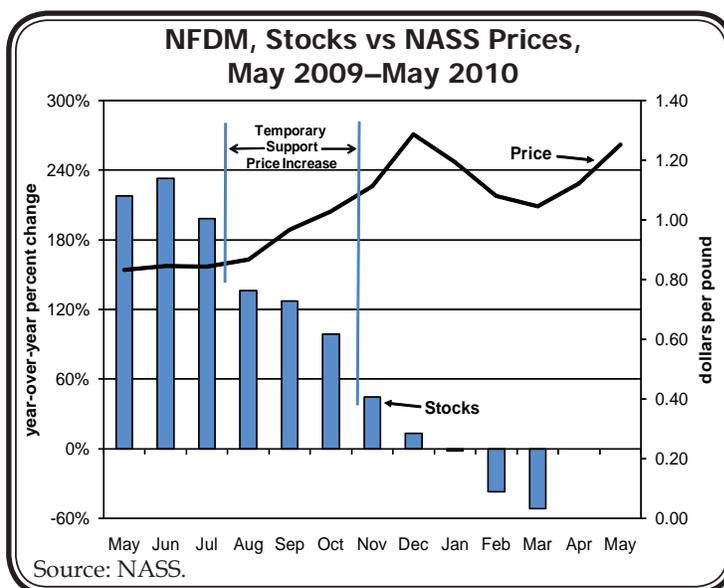
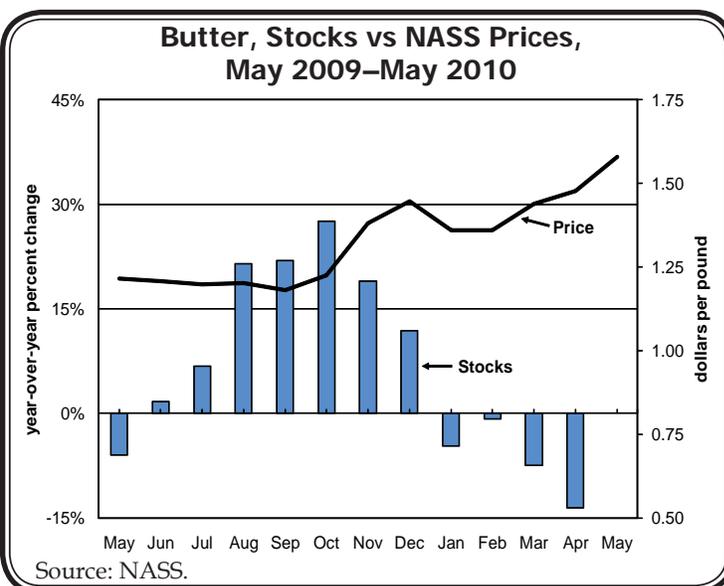
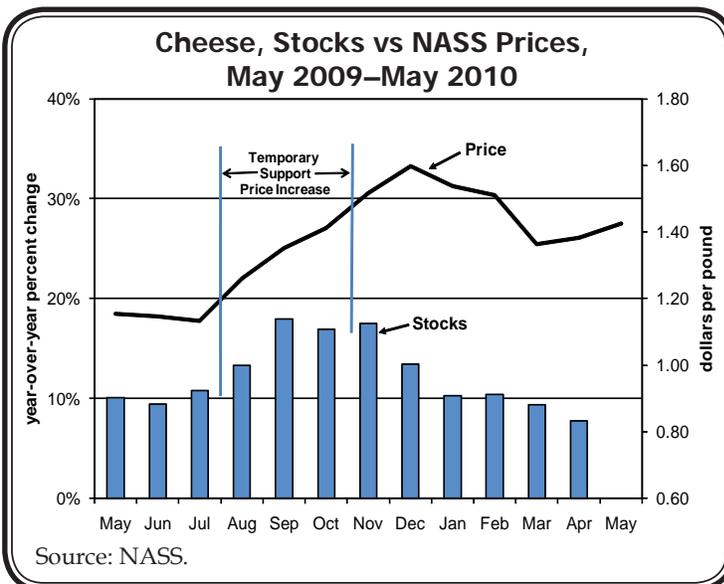
The Advanced Class IV Skim Milk Pricing Factor is established using the National Agricultural Statistics Service (NASS) nonfat dry milk price. The Advanced Class III Skim Milk Pricing Factor is largely affected by the NASS price of cheese and, to a lesser extent, NASS prices of dry whey and butter. Relative weakness in NASS cheese prices have led, in part, to a lower Advanced Class III Skim Milk Pricing Factor. On the other hand, relative strength in the NASS nonfat dry milk price (where the NASS monthly NFDM has been over \$1.00 per pound all year and \$1.25 per pound in May) has boosted the Advanced Class IV Skim Milk Pricing Factor.

### Commodity Prices Related to Commodity Stocks

Knowing which commodities impact which prices, the relationship between the stocks of those commodities and the resulting class prices can be seen. The accompanying charts show commodity stocks versus their respective NASS prices. Month ending stocks of natural cheese (as defined by the NASS Cold Storage Report) have been higher than the previous year for 24 consecutive months and were over 1 billion pounds in March and April. These near record high levels of cheese stocks added to the supply equation make it difficult to sustain any strength in the NASS cheese price. Stocks of butter, whose price can bolster the Class IV price, have been below year ago levels all year, and increasingly so. The result of tighter butter stocks and consistent current demand was the highest monthly price for butter since November 2008 (\$1.5801 per pound for May). Nonfat dry milk stocks also have been below last year's levels since January, and in March, were less than half of the previous year. NASS NFDM prices, which averaged \$0.92 per pound last year, have been averaging \$1.14 per pound so far this year. Combined, the NASS butter and NFDM prices have resulted in a May Class IV price of \$15.29, the highest Class IV price since September 2008.

### Implications for Prices Going Forward

The stocks situation would imply that we can expect stronger Class IV prices than Class III prices for much of, if not all, the remainder of the year. Additionally, the Class I price may be established using the Advanced Class IV Skim Milk Pricing Factor for much of the remainder of the year. Stronger than expected milk production may make milk price increases more difficult without significant improvements in demand. Current Chicago Mercantile Exchange futures prices for the remainder of 2010 range from \$1.58 - \$1.70 per pound for butter and \$1.18 - \$1.26 per pound for NFDM. ❖



## Sales by Non Northeast Order Handlers Continues to Increase

The Northeast Marketing Area (NMA) reported a significant increase in Class I sales by handlers not designated as pool distributing plants under the order (plants that bottle and sell Class I milk products in the NMA.) From 2008 to 2009, the total volume of Class I sales in the NMA by non-regulated handlers increased by 25.0 percent, and over the past 5 years has increased 82.3 percent. These figures have been adjusted for leap years in 2004 and 2008.

### Handler Definitions

These handlers (non NMA) include producer-handlers (handlers who operate a dairy farm and a processing plant that has route sales in the NMA), exempt distributing plants (operations such as colleges and governmental agencies and those having sales less than 150,000 pounds a month) partially regulated handlers (operate plants that are not fully regulated under any federal order, but have route sales in the NMA and possibly also in one or more other federal orders), and handlers regulated by other federal orders (operate plants regulated by another federal milk marketing order, but have sales of packaged product in the NMA). Sales include packaged products sold in the marketing area, but not transfers of bulk product to plants regulated under the NMA. Overall, these handlers accounted for 6.8 percent (643.0 million pounds) of total route sales in the marketing area, up from 5.4 percent in 2008 and 3.7 percent in 2004.

### Sales by Type of Handler

The largest proportion of sales in the NMA from non Northeast order handlers comes from handlers regulated by other federal orders (3.2 percent of total in-area sales.) In total volume, these sales grew about 100 million pounds from 2008 to 2009, and have almost tripled since 2004. The majority of the other federal order sales (85.7 percent) came from handlers regulated by the neighboring Mideast Order (#33.) In volume, handlers from the Mideast Order have increased their NMA sales from 81.1 million pounds in 2004 to 255.9 million pounds in 2009 largely due to a Mideast handler gaining additional accounts supplying to the NMA. Partially regulated handlers accounted for the second largest portion of non Northeast order handler sales, followed by producer-handlers (see accompanying table.)

Exempt Handlers are the only non regulated group whose sales have decreased within the NMA (down 6.9 percent from 2004). The total volume, and corresponding

**Sales in the Northeast Marketing Area by Handler Type**

Year	Other Fed Orders	Partially Regulated	Producer Handlers	Exempt Distributors	Total Non NE Order	Fully Regulated Pool Distributors	Total In-Area Sales
million pounds							
2009	298.6	167.5	140.5	36.4	643.0	8,811.0	9,454.0
2008	208.8	136.4	133.0	37.6	515.8	8,961.1	9,476.9
2004	100.0	139.9	74.6	39.2	353.7	9,208.0	9,561.7
Percentage of Sales: percent							
2009	3.2	1.8	1.5	0.4	6.8	93.2	100.0
2008	2.2	1.4	1.4	0.4	5.4	94.6	100.0
2004	1.0	1.5	0.8	0.4	3.7	96.3	100.0
Change in Sales:							
2009-2008	43.4	23.1	5.9	(2.9)	25.0	(1.4)	0.0
2009-2004	199.4	20.1	88.9	(6.9)	82.3	(4.1)	(0.9)

\* For handler definitions, see sections 1000.5-1001.10 of the Northeast Order.

percentage, of all in-area sales accounted for by fully regulated pool handlers has declined also.

The definitions given above for the various types of handlers are general. For more information, see section 1001.7-1001.10 of the Northeast Order. ❖

## Market Service Tank Calibrations

The Market Service department's bulk tank calibration trucks have been performing calibration checks of non-member producers' tanks. See the schedule for the remainder of 2010:

### Tentative Calibration Truck Schedule, 2010

Month	Area
July	Western NY/Eastern NY
August	Central NY/Eastern NY/NJ/CT
September	Maine/Northern PA
October	Central PA/Western NY
November	Southern PA/Eastern NY

## Fluid Milk Product *(continued from page 1)*

also specifies how milk and milk derived ingredients should be priced under all federal milk marketing orders when used in products meeting the fluid milk product definition. Under the decision, drinkable yogurt products containing at least 20 percent yogurt (by weight), kefir, infant formulas, dietary products (meal replacements) and other products that may contain milk derived ingredients from the fluid milk product definition would be exempted from the Class I definition.

The decision can be downloaded from the following website: <http://www.ams.usda.gov/AMSV1.0/dairy>. A producer referendum on this decision is underway. ❖



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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	849,822,094	\$11.78	100,109,042.67	
Butterfat	15,735,462	1.6245	25,562,258.02	
Less: Location Adjustment to Handlers			(3,111,810.54)	\$122,559,490.06
Class II— Butterfat	31,454,977	1.7128	53,876,084.58	
Nonfat Solids	38,739,096	1.0256	39,730,816.81	93,606,901.39
Class III— Butterfat	20,295,304	1.7058	34,619,729.57	
Protein	15,888,106	2.1523	34,195,970.57	
Other Solids	30,161,316	0.1704	5,139,488.26	73,955,188.40
Class IV— Butterfat	11,301,596	1.7058	19,278,262.46	
Nonfat Solids	28,435,936	1.0734	30,523,133.70	49,801,396.16
<b>Total Classified Value</b>				<b>\$339,922,976.01</b>
Add: Overage—All Classes				12,050.64
Inventory Reclassification—All Classes				162,108.86
Other Source Receipts	178,951 Pounds			6,533.20
<b>Total Pool Value</b>				<b>\$340,103,668.71</b>
Less: Producer Component Valuations @ Class III Component Prices				(296,433,651.66)
<b>Total PPD Value Before Adjustments</b>				<b>\$43,670,017.05</b>
Add: Location Adjustment to Producers				11,176,529.60
One-half Unobligated Balance—Producer Settlement Fund				1,191,281.31
Less: Producer Settlement Fund—Reserve				(924,463.73)
<b>Total Pool Milk &amp; PPD Value</b>	2,178,393,841 Producer pounds			<b>\$55,113,364.23</b>
Producer Price Differential		<b>\$2.53</b>		
Statistical Uniform Price		<b>\$15.91</b>		

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