

The Market Administrator's

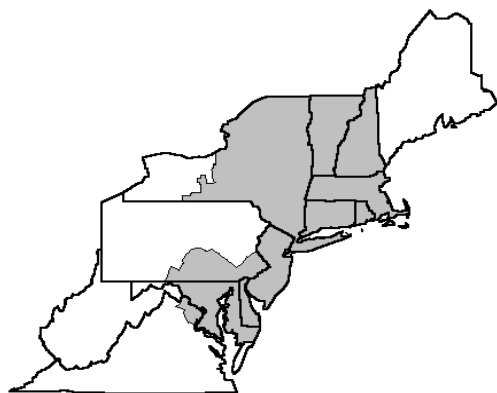
BULLETIN

NORTHEAST MARKETING AREA

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Federal Order No. 1



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July Pool Price Calculation

The July 2010 statistical uniform price (SUP) for the Northeast Marketing Area was announced at \$17.43 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 \$17.37 per hundredweight. The July statistical uniform price was 70 cents per hundredweight above the June price. The July producer price differential (PPD) at Suffolk County was \$3.69 per hundredweight, an increase of 58 cents per hundredweight from last month.

During July, commodity cheese prices rose slightly, nonfat dry milk and dry whey declined, and butter jumped 14 cents per pound. This resulted in a higher butterfat component price, but declines in protein, and nonfat and other solids prices. All class prices increased since they all have a butterfat component in their respective formulas. The Class II price had the largest increase, \$1.09 per hundredweight, and with considerable volume of producer receipts used for Class II purposes (largely ice cream), increased its contribution to the total pool value. Class I volume was higher than predicted, the largest volume for July since 2004. This, combined with the highest Class I price since January 2009 (the August Class I price is even higher at \$19.02 per hundredweight), also contributed significantly to the highest total pool value since September 2008.

The Class II volume has set a record as the largest for that particular month during each month of 2010, and July's volume was the highest on record for all months since the Order's inception. After setting records each of the past 4 months as the highest average daily deliveries per producer (DDP) for that respective month, July's DDP dropped. The average producer butterfat test for July was the lowest since August 2005; protein was the lowest since July 2006. ❖

Midyear Price Outlook and Review

In the November 2009 *Bulletin*, we reported that representatives attending the Northeast Regional Dairy Outlook Conference were predicting, as a group, an average uniform price of \$17.12 per hundredweight (cwt) for 2010, as reported at Boston, Massachusetts. The prediction included an average uniform price of \$16.68 per cwt for the first 6 months of the year. The uniform price in fact has *(continued on page 3)*

Pool Summary

- A total of 13,554 producers were pooled under the Order with an average daily delivery per producer of 4,989 pounds.
- Pooled milk receipts totaled 2.096 billion pounds, a decrease of 3.9 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 40.2 percent of total milk receipts, an increase of 1.6 percentage points from June.
- The average butterfat test of producer receipts was 3.54 percent.
- The average true protein test of producer receipts was 2.93 percent.
- The average other solids test of producer receipts was 5.70 percent. ❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	40.2	843,171,092
Class II	22.8	476,544,172
Class III	26.5	555,970,425
Class IV	10.5	220,698,337
Total Pooled Milk		2,096,384,026

Producer Component Prices

	2010	2009
	\$/lb	
Protein Price	2.0515	1.6970
Butterfat Price	1.8964	1.2438
Other Solids Price	0.1700	0.0949

Class Price Factors

	2010	2009
	\$/cwt	
Class I	18.91	13.51
Class II	17.10	10.87
Class III	13.74	9.97
Class IV	15.75	10.15

Milk Production Compared to Receipts Pooled on the Order

During the first 6 months of 2010, milk production in the United States totaled 97.1 billion pounds, an increase of 0.8 percent from the same period in 2009. During January–June last year, U.S. milk production rose 0.3 percent compared to the same six-month period of 2008. Milk pooled on the Northeast Order increased by 1.3 percent for January–June 2010 compared to the same period in 2009. The accompanying table shows changes in milk production and producer receipts for the first 6 months of 2009 and 2010.

Top Ten States Ranked by Milk Production and Northeast Order Pooled Receipts, January–June 2010

Rank	State	2009	2010	Percent Change
		million pounds		
1	California	20,325	20,311	(0.1)
2	Wisconsin	12,458	13,160	5.6
3	New York	6,293	6,321	0.4
4	Idaho	5,995	6,185	3.2
5	Pennsylvania	5,360	5,410	0.9
6	Minnesota	4,519	4,637	2.6
7	Texas	4,570	4,447	(2.7)
8	Michigan	3,972	4,136	4.1
9	New Mexico	4,071	3,963	(2.7)
10	Washington	2,764	2,932	6.1
Top 10 States Total		70,327	71,502	1.7
National Total		96,262	97,076	0.8
Pooled Receipts		12,073	12,228	1.3

Source: NASS, *Milk Production*.

National Production

Nationally, the number of milk cows was down 1.2 percent for the first 6 months compared to the same period last year. The overall increase in production came from a 2.8 percent increase in milk production per cow.

California, Wisconsin, and New York continue to be the top three milk producing states, closely followed by Idaho. The top ten states accounted for 73.7 percent of total U.S. milk production. Washington showed the largest growth in milk production out of the top ten states with an increase of 6.1 percent for the six-month period. Wisconsin reported an increase of 5.6 percent, over 700 million pounds—the largest volume increase of any state. In addition to Wisconsin, both Minnesota and Michigan, each a large contributor in the Upper Midwest, showed growth (2.6 and 4.1 percent, respectively). Together those 3 states reported an increase of 4.7 percent; in recent years, those states have reported declines in milk production. In contrast, states such as California, New Mexico, and Texas that had reported significant growth in recent years, showed flat or declining production for the six-

month period. Together those 3 states had a decline of 0.8 percent.

In the Northeast, milk production increased by only 0.4 percent for the period. The states making up New England (Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont) had a combined increase of 1.5 percent, but this was offset by the declining production in states such as Delaware, Maryland, New Jersey, Virginia, and West Virginia and the modest growth in New York and Pennsylvania. The top 3 contributing states for the Northeast Marketing Area (New York, Pennsylvania, and Vermont) had a combined increase of 0.8 percent, equivalent to the national average.

Pooled Receipts

As mentioned above, pooled milk receipts on the Northeast Order grew 1.3 percent for the six-month period; a greater increase than the Northeast states combined average. The pooled increase largely is due to changes in pooling. Beginning in April 2010, a large pool distributing plant formerly pooled on the neighboring Mideast Order became a pool plant on the Northeast Order. ❖

Dairy Products Update

In last month's *Bulletin*, we highlighted changes in utilization in the Northeast Order and the changes in specific products within the various classes. Interestingly, some of the changes reported in the Northeast seem to run counter to the overall production of certain dairy products as reported by the National Agricultural Statistics Service (NASS) in their monthly *Dairy Products* publication.

Production

Nationally, total cheese manufactured was up 2.5 percent for January–June 2010 as compared to the same period in 2009. American cheese types were up only 0.2 percent; in the Northeast Milk Marketing Area (NMMA), milk utilized in making American cheese was up 5.9 percent compared to the first 6 months of last year. Nationally, Italian cheese production grew 5.7 percent for the January–June period; in the NMMA, milk used to make Italian cheese declined 0.1 percent. Mozzarella was the driving force nationally, increasing 7.0 percent while other Italian types decline 6.2 percent. U.S. butter production decline 6.2 percent from last year; in the NMMA, milk utilized in butter jumped 18.6 percent. The production of regular hard ice cream dropped 1.0 percent nationally while lowfat ice cream production rose 4.7 percent. In the NMMA, milk used to make ice cream grew 12.3 percent from the previous year. Yogurt production showed growth of 7.2 percent nationally and 14.7 percent in the NMMA.

Stocks

Stocks of product in all warehouses as reported by NASS' *Cold Storage* showed butter declining 24.7 percent (continued on page 3)

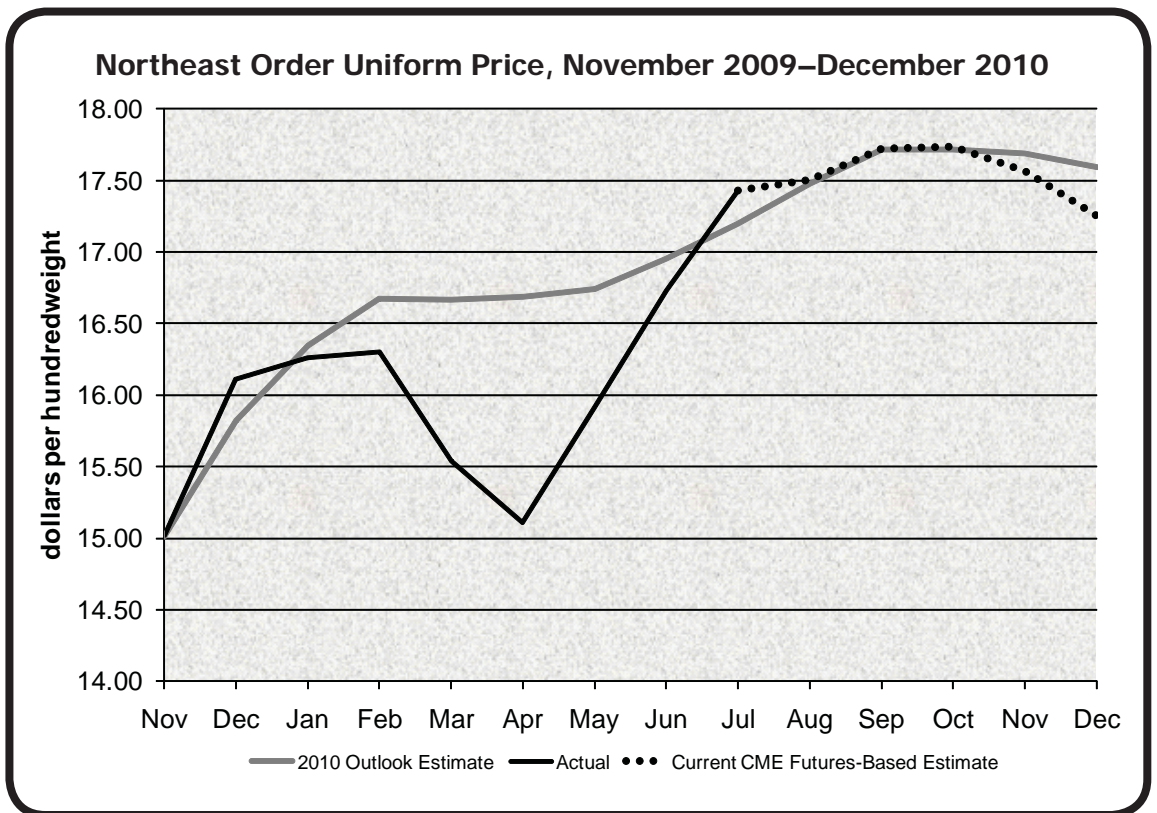
Midyear Prices *(continued from page 1)*

averaged \$15.98 per cwt through the first half of 2010, \$3.71 per cwt higher than the same period last year. The accompanying chart shows the original uniform price estimate made in November 2009 versus the actual uniform price from January through July 2010 and current projections for the remainder of the year.

Noticeable in the chart is a dip in prices from March through May, where the actual price did not meet earlier expectations. A Milk Income Loss Contract payment was triggered during the month of April when the Class I price was \$16.47 per cwt in Boston, Massachusetts. The June and July uniform price, as well as current projections for the remainder of the year based on Chicago Mercantile Exchange (CME) Class III and Class IV futures prices on August 9 return much closer to the expectations that existed before the year started. The August Class I price topped \$19.00 per cwt for the first time since November 2008. The annual average uniform price for 2010 at Boston, Massachusetts, is predicted to be \$16.59 per cwt.

The initial projections made by the group in the Fall of 2009 included expectations that milk production in the Northeast would decline by about 0.5 percent in 2010 and by about 1 percent nationally. Contrary to those expectations, nationally, milk production has risen each month over last year from March to June. In the Northeast, production in Pennsylvania and Vermont also have been positive during those same months. Production in New York has been positive for three months and negative for three months so far in 2010. The stronger than expected production is driven by improvements in milk per cow. Such improvements are somewhat of a surprise in an economic environment that includes relatively high feed and other costs. See related article on milk production.

Since National Agricultural Statistics Service (NASS) prices tend to track closely with but follow CME prices, a look at CME prices can give an idea of where near future NASS prices may be headed. As of August 13, the CME block cheese price was trading at over \$1.60 per pound. Butter was trading at over \$1.90 per pound, the first time butter has traded above \$1.90 per pound since December



2004. CME cheese futures are currently trading between \$1.57 and \$1.64 per pound through December. CME butter futures remain above \$1.80 per pound through November. Nonfat dry milk futures prices for the remainder of the year are currently trading near \$1.16 per pound, below the current price level of about \$1.22 per pound.

Factors such as milk production, level of stocks, and domestic and foreign demand for U.S. dairy products will all have a bearing on how the remainder of the year plays out. ❖

Dairy Products *(continued from page 2)*

from last year as of June 30, 2010. According to USDA's *Dairy Market News*, cream is tight, and demand is good, so it is not surprising that butter prices as surveyed by NASS have been increasing, reaching \$1.8025 per pound as of August 7. Similarly, prices on the Chicago Mercantile Exchange (CME) were \$1.9175 per pound as of August 13. Conversely, stocks of American cheese were up 4.4 percent over June 2009 and the highest since November 1984. With such record-setting stocks it is somewhat surprising that block cheddar and barrel cheese prices surveyed by NASS show increases from \$1.40 to \$1.55 per pound for the month of July; they were at \$1.58 per pound as of August 7. Block cheddar prices on the CME were \$1.6200 and barrel prices were \$1.5850 per pound as of August 13. ❖



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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	827,223,846	\$13.37	110,599,828.21	
Butterfat	15,947,246	1.7164	27,371,853.03	
Less: Location Adjustment to Handlers			(3,075,253.67)	\$134,896,427.54
Class II— Butterfat	30,799,856	1.9034	58,624,445.89	
Nonfat Solids	39,834,932	1.2022	47,889,555.27	106,514,001.16
Class III— Butterfat	20,151,129	1.8964	38,214,601.07	
Protein	16,355,669	2.0515	33,553,654.97	
Other Solids	31,604,542	0.1700	5,372,772.14	77,141,028.18
Class IV— Butterfat	7,223,646	1.8964	13,698,922.30	
Nonfat Solids	19,123,395	1.0493	20,066,178.38	33,765,100.68
Total Classified Value				\$352,316,557.56
Add: Overage—All Classes				241,469.30
Inventory Reclassification—All Classes				189,925.84
Other Source Receipts	160,222 Pounds			8,910.24
Total Pool Value				\$352,756,862.94
Less: Producer Component Valuations @ Class III Component Prices				(286,768,017.35)
Total PPD Value Before Adjustments				\$65,988,845.59
Add: Location Adjustment to Producers				11,168,016.05
One-half Unobligated Balance—Producer Settlement Fund				1,084,484.29
Less: Producer Settlement Fund—Reserve				(878,863.17)
Total Pool Milk & PPD Value	2,096,544,248 Producer pounds			\$77,362,482.76
Producer Price Differential		\$3.69		
Statistical Uniform Price		\$17.43		

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