

The Market Administrator's

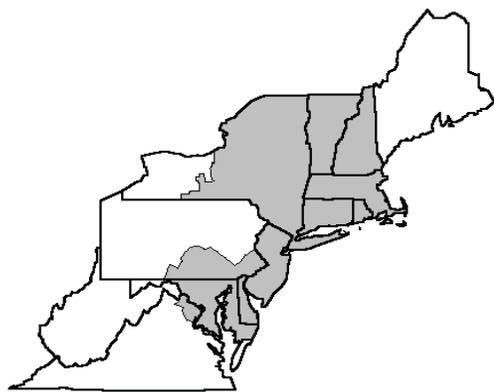
BULLETIN

NORTHEAST MARKETING AREA

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August 2010

Federal Order No. 1



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August Pool Price Calculation

The August 2010 statistical uniform price (SUP) for the Northeast Marketing Area was announced at \$17.74 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 \$17.81 per hundredweight. The August statistical uniform price was 31 cents per hundredweight above the July price. The August producer price differential (PPD) at Suffolk County was \$2.56 per hundredweight, a decrease of \$1.13 per hundredweight from last month.

During August, commodity cheese and butter prices rose while nonfat dry milk and dry whey declined. The Class III price jumped \$1.44 per hundredweight while the Class II and IV prices both declined slightly. Even though the Class II price declined, it was still strong (third highest since Order's inception), and when combined with the highest volume of Class II ever, contributed to the overall higher blend price. The Class I price was the highest since November 2008 and also added significant value as the Class I volume was the highest for the month of August since 2007.

The average producer other solids test for August was the highest for that month since the Order's inception. ❖

Fluid Milk Product Definition Final Rule Issued

On August 24, 2010, USDA issued a final rule amending the definition of Class I fluid milk products in all federal milk marketing orders effective January 1, 2011.

The amended order was approved by producers in a referendum held in June. The rule maintains the current 6.5 percent nonfat milk solid standard and incorporates an alternative 2.25 percent true milk protein criterion to determine whether a product meets the compositional standard for fluid milk products. This rule also amends the fluid milk product definition to provide exemptions for drinkable yogurt products containing at least 20 percent yogurt (by weight), kefir, and products intended to be meal replacements.

For more information, see the May 2010 *Bulletin*, USDA's website: <http://www.ams.usda.gov/AMSV1.0/dairy> or contact the Albany Office at the information above. ❖

Pool Summary

- A total of 13,622 producers were pooled under the Order with an average daily delivery per producer of 4,870 pounds.
- Pooled milk receipts totaled 2.054 billion pounds, a decrease of 2.0 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 40.7 percent of total milk receipts, an increase of 0.5 percentage points from July.
- The average butterfat test of producer receipts was 3.55 percent.
- The average true protein test of producer receipts was 2.98 percent.
- The average other solids test of producer receipts was 5.70 percent. ❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	40.7	837,020,617
Class II	24.0	493,603,823
Class III	26.0	533,087,930
Class IV	9.3	190,747,963
Total Pooled Milk		2,054,460,333

Producer Component Prices

	2010	2009
	\$/lb	
Protein Price	2.3788	2.1009
Butterfat Price	2.0336	1.2491
Other Solids Price	0.1647	0.0962

Class Price Factors

	2010	2009
	\$/cwt	
Class I	19.02	13.29
Class II	16.98	10.86
Class III	15.18	11.20
Class IV	15.61	10.38

Contribution to Producer Price by Components

The uniform price varies each month based on the respective average component tests and prices of each component. The accompanying table shows the contribution by component for the month of August for the years 2007-2010. It uses a hypothetical farmer producing 100,000 pounds of milk at the pool average component tests during that month. The examples do not take into account premiums, hauling charges, or any other producer payments or deductions.

Component Proportions

Since component pricing was adopted in the Northeast Order, protein typically has been the largest contributor to a producer's milk check. In the examples shown, protein accounted for at least 50 percent of a producer's milk check in August 2007, 2008, and 2009. In August 2010, the percentage protein contributed dropped to about 40 percent because of a significantly higher butterfat price than in the past 3 years. The proportion a component contributes to the overall producer milk check is a combination of the component price and the component test. The protein test for 2010 was the same as 2009 and the price was higher, but the butterfat price was significantly higher than in past years. Actually, the August 2010 butterfat component price was the highest for any month since December 2004 and the highest for the month of August since 2001. So even with a lower butterfat test, it contributed a higher proportion to the overall producer price.

For the examples shown, the other solids contribution has ranged from 1.5 percent to 10.7 percent, mainly affected by the other solids price; test has little variation or effect.

Producer Price Differential

The Producer Price Differential (PPD) reflects

producers' per hundredweight share of the higher-priced classes (usually Class I and II) during a month.

As shown in the examples, the PPD has ranged from \$1.15 to \$3.31 per hundredweight and contributed, on average, about 12 percent of the price value during August. ❖

Milk Movements to Other Orders

According to *Dairy Market News*, supplemental milk shipments began moving to the Southeast part of the United States during the first week of August, 2 weeks earlier than last year. It is expected that these shipments should continue into November. This is typical during late summer and early fall as milk production tapers off and supplies become tight in certain parts of the country. For many years, the Southeast part of the country (Appalachian-5, Florida-6, and Southeast-7 federal orders) has needed additional milk shipments from other federal orders, and based on logistics, the Northeast would help meet these needs.

During August 2010, the amount shipped by handlers regulated under the Northeast Order to southern orders was more than double the amounts during the past 2 years. The amount received from southern orders grew slightly from August 2009 resulting in a smaller, but still negative, net value.

The table on page 3 shows bulk milk shipments and receipts from other federal orders for the month of August during the past 5 years. Shipments of cream, concentrate, and packaged products are not included. More milk was shipped to the southeast orders than *(continued on page 3)*

Contribution to Total Gross Payment*

	August 2007				August 2008			
	Test percent	Price per pound	Gross dollars	Contribution percent	Test percent	Price per pound	Gross dollars	Contribution percent
Butterfat	3.58	1.5872	\$5,682.18	24.4	3.62	1.7413	\$6,303.51	31.9
True Protein	2.99	3.9412	\$11,784.19	50.7	3.01	3.6497	\$10,985.60	55.6
Other Solids	5.68	0.4368	\$2,481.02	10.7	5.69	0.0529	\$301.00	1.5
PPD		3.31	\$3,310.00	14.2		2.18	\$2,180.00	11.0
Total gross payment			\$23,257.39				\$19,770.10	
Gross price per cwt			\$23.26				\$19.77	
	August 2009				August 2010			
	Test percent	Price per pound	Gross dollars	Contribution percent	Test percent	Price per pound	Gross dollars	Contribution percent
Butterfat	3.61	1.2491	\$4,509.25	36.2	3.55	2.0336	\$7,219.28	40.5
True Protein	2.98	2.1009	\$6,260.68	50.2	2.98	2.3788	\$7,088.82	39.8
Other Solids	5.67	0.0962	\$545.45	4.4	5.7	0.1647	\$938.79	5.3
PPD		1.15	\$1,150.00	9.2		2.56	\$2,560.00	14.4
Total gross payment			\$12,465.39				\$17,806.89	
Gross price per cwt			\$12.47				\$17.81	

*For a hypothetical farm producing 100,000 pounds of milk at pool average component tests.

Seasonality of Milk Production

Historically, milk production has been seasonal in nature. Milk production is highest in the spring and lowest in the fall. The accompanying chart shows daily average pooled receipts on the Northeast Order for each year since 2000. Though there may be some variation due to producers pooled elsewhere or additional producers pooled on the Order, this can be used as a good representation of milk production trends. In months where milk was depooled from the Order, that milk was added back to the receipts to better reflect northeast production. The chart highlights just two years: 2007, because it was the one year that did not follow the seasonal pattern, and the current year.

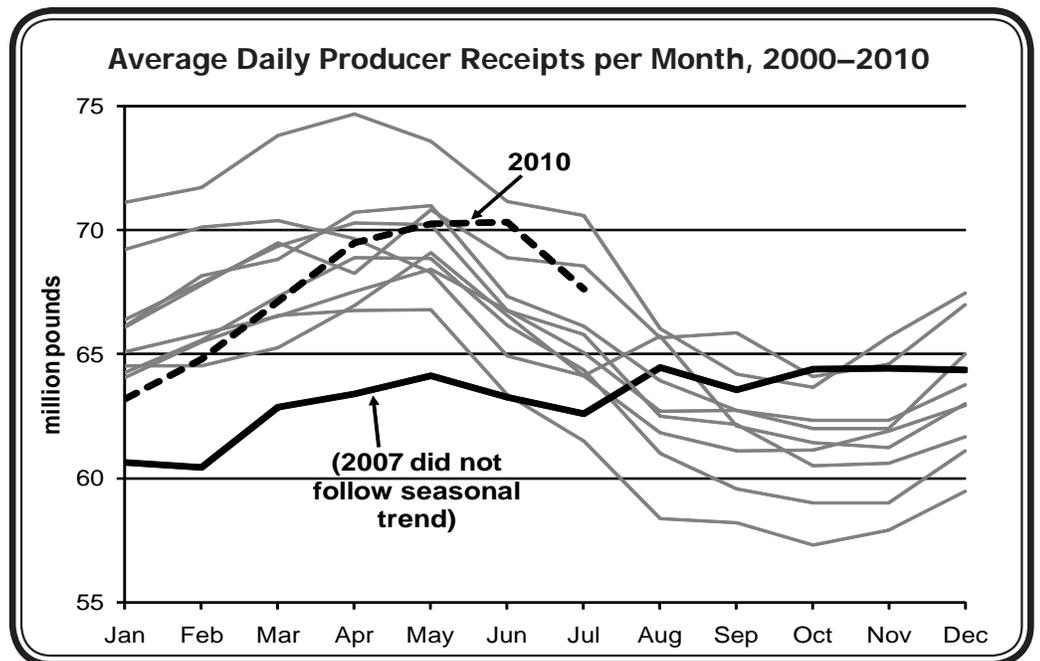
In all but one year (2007) average daily receipts follow a familiar seasonal trend, highest in the spring and lowest in the fall. In fact, the highest average occurred in May five times, in April four times, and in March twice. The lowest average occurred during October eight times.

The highest average daily receipts ranged from between 10.5 percent and 16.8 percent more than the lowest average for that year. The exception was in 2007 when the highest average daily receipts for a month were just 6.7 percent higher than the lowest month. In 2007, the lowest average occurred in February.

The year 2007 stands out on the chart as a year in which the normal seasonal trend did not occur. Average daily receipts began that year much lower than any other

year. That same year, milk prices began to rise dramatically in March until hitting a record-high uniform price (at Boston, Massachusetts) of \$23.14 per hundredweight in August. Though production costs also were hitting record highs, it's possible milk production was responding to the high price signal coming off a low price year in 2006 in which the annual average uniform price in Boston was \$13.53. By October of 2007, average receipts, though in line with seasonal lows, were actually the highest for the month of October for the period in the chart.

Though the past 10 years price volatility has increased, familiar seasonal trends in milk supplies during the year persist. Thus far, 2010 milk receipts, though second strongest for the month of June, are following the seasonal pattern. ❖



Milk Movements *(continued from page 2)*

received during 2006 and 2007. Most of those shipments were used to meet Class I needs. For the past 3 years, plants regulated by the Northeast Order have received more than has been shipped to the southern orders. Most of the milk received was utilized in Class IV as a balancing function since the southern orders lack manufacturing and drying facilities.

In addition, receipts have outweighed shipments from other nearby orders (primarily the Midwest-30, Central-32, and Mideast-33 federal orders). Changes in shipments do not necessarily reflect less need for milk. Handlers who have producers in multiple orders can switch the order their producers are pooled on to meet varying needs. ❖

Milk Movements: Northeast to/from Other Federal Orders, August, 2006–2010

		August				
		2006	2007	2008	2009	2010
		million pounds				
Total*	Shipped	32.5	19.6	4.9	4.4	8.6
	Received	43.9	17.9	17.5	26.3	21.1
	Net	(11.4)	1.7	(12.6)	(21.9)	(12.4)
South**	Shipped	31.5	17.1	3.8	3.0	8.5
	Received	18.9	9.9	6.5	13.0	13.5
	Net	12.6	7.2	(2.7)	(10.0)	(5.0)

* Includes Order Nos. 5, 6, 7, 30, 32, and 33.

** Includes Order Nos. 5, 6, and 7.



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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	821,198,696	\$12.74	104,620,713.87	
Butterfat	15,821,921	1.9224	30,416,060.93	
Less: Location Adjustment to Handlers			(3,074,004.83)	\$131,962,770.00
Class II— Butterfat	30,797,194	2.0406	62,844,754.08	
Nonfat Solids	41,624,707	1.1322	47,127,493.28	109,972,247.36
Class III— Butterfat	19,351,616	2.0336	39,353,446.32	
Protein	15,953,519	2.3788	37,950,231.01	
Other Solids	30,318,050	0.1647	4,993,382.86	82,297,060.19
Class IV— Butterfat	6,975,633	2.0336	14,185,647.28	
Nonfat Solids	16,534,491	0.9780	16,170,732.21	30,356,379.49
Total Classified Value				\$354,588,457.04
Add: Overage—All Classes				95,918.74
Inventory Reclassification—All Classes				274,754.00
Other Source Receipts	154,206 Pounds			6,037.70
Total Pool Value				\$354,965,167.48
Less: Producer Component Valuations @ Class III Component Prices				(313,284,855.76)
Total PPD Value Before Adjustments				\$41,680,311.72
Add: Location Adjustment to Producers				10,884,157.40
One-half Unobligated Balance—Producer Settlement Fund				964,752.91
Less: Producer Settlement Fund—Reserve				(931,089.88)
Total Pool Milk & PPD Value	2,054,614,539 Producer pounds			\$52,598,132.15
Producer Price Differential		\$2.56		
Statistical Uniform Price		\$17.74		

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