

The Market Administrator's

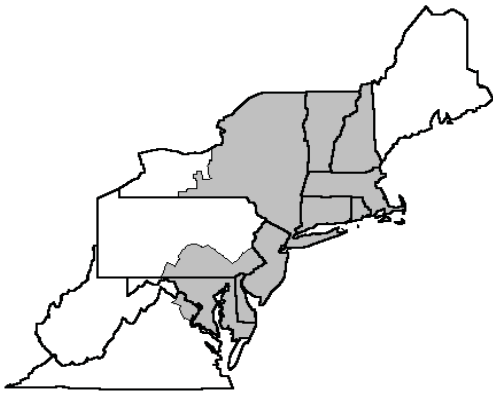
BULLETIN

NORTHEAST MARKETING AREA

Erik F. Rasmussen, Market Administrator

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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

September Pool Price Calculation

The October 2010 statistical uniform price (SUP) for the Northeast Marketing Area was announced at \$18.61 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 \$19.61 per hundredweight. The October statistical uniform price was 28 cents per hundredweight above the September price. The October producer price differential (PPD) at Suffolk County was \$1.67 per hundredweight, a decrease of 40 cents per hundredweight from last month.

During October, all commodity prices rose resulting in higher component prices. All class prices rose except the Class II price, which declined only 3 cents and is calculated using data announced in advance (prior month's data) and some data from the current month. The Class I price increased \$1.08 per hundredweight; the Class III price rose 68 cents but remained the lowest class price, and the Class IV increased 39 cents. With over two-thirds of the pooled milk used in the higher priced classes (I and II), the blend price rose. The spread between the class prices tightened, lowering the PPD.

The Class I volume was the lowest ever for the month of October, while the Class II volume was the highest for that month since the Order's inception. The average producer other solids test was the highest for the month of October since the Northeast Order began. ❖

MILC Payments Projected

After 2009, a year in which Milk Income Loss Contract (MILC) Payments were made in 10 of 12 months, it appears that 2010 will finish with just a single payment made of 21 cents per hundredweight in April when the Class I price at Boston, Massachusetts, dipped below the \$16.94 per hundredweight MILC trigger price.

Using Chicago Mercantile Exchange (CME) futures prices for milk and feed prices, MILC payments are currently projected for all months in 2011. Current Class III and Class IV futures prices do not result in a single month with a Class I price below \$16.94 per hundredweight and, in fact, do not go below \$17.74 (continued on page 3)

Pool Summary

- A total of 13,459 producers were pooled under the Order with an average daily delivery per producer of 4,746 pounds.
- Pooled milk receipts totaled 1.980 billion pounds, a decrease of 1.5 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 45.1 percent of total milk receipts, a decrease of 0.2 percentage points from September.
- The average butterfat test of producer receipts was 3.77 percent.
- The average true protein test of producer receipts was 3.13 percent.
- The average other solids test of producer receipts was 5.73 percent. ❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	45.1	894,112,695
Class II	24.1	476,408,614
Class III	22.8	451,170,910
Class IV	8.0	158,298,075
Total Pooled Milk		1,979,990,294

Producer Component Prices

	2010	2009
	\$/lb	
Protein Price	2.4739	2.5584
Butterfat Price	2.4436	1.2752
Other Solids Price	0.1736	0.1228

Class Price Factors

	2010	2009
	\$/cwt	
Class I	19.83	15.60
Class II	17.57	11.93
Class III	16.94	12.82
Class IV	17.15	11.86

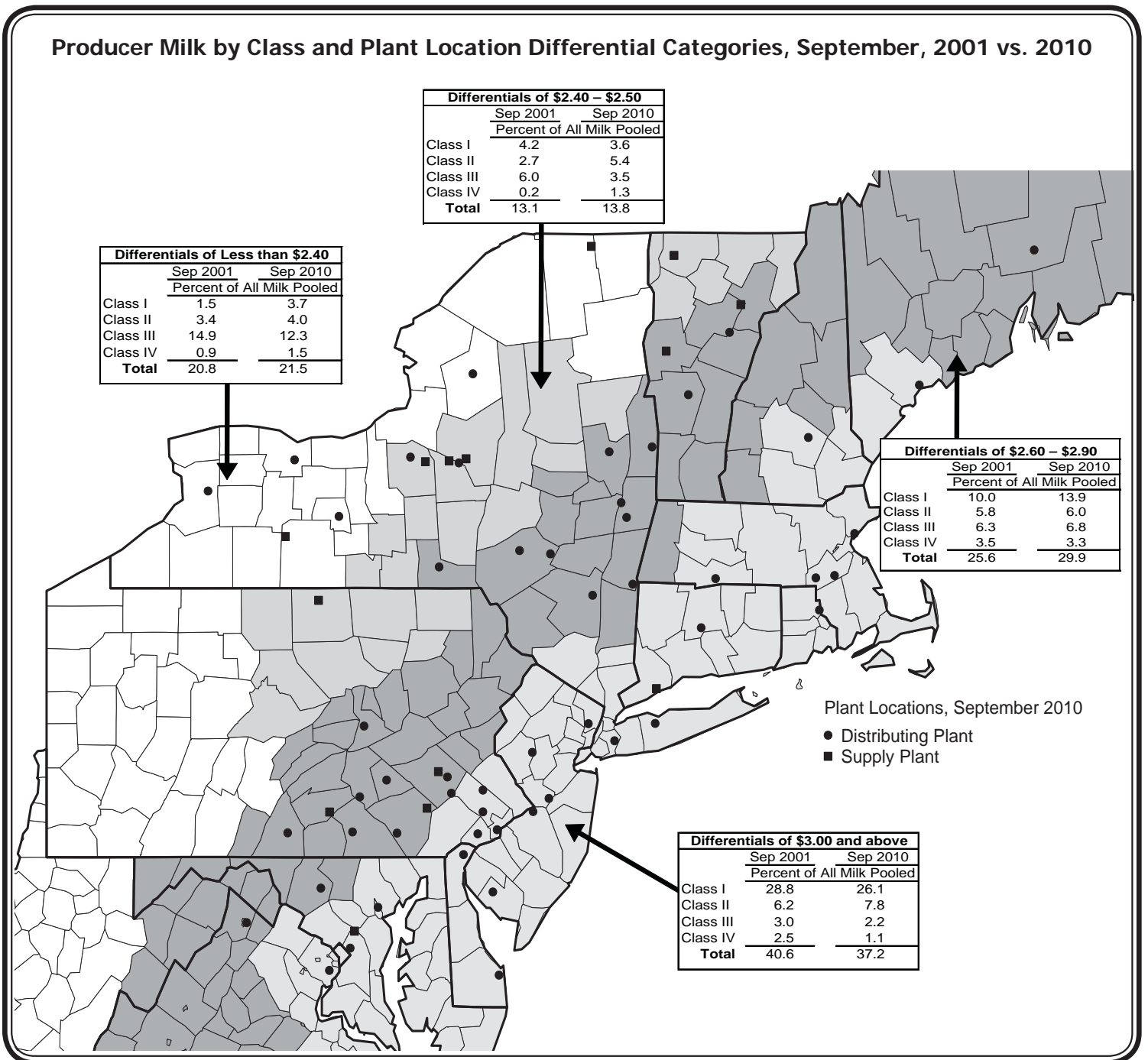
Producer Milk by Location Received

Historically, fluid milk processing plants tended to be concentrated in higher populated areas while dairy manufacturing plants generally were located close to where the milk was produced. For example in the Northeast, most bottling plants were located in or near such large metropolitan centers as New York City, Boston, and Philadelphia. Over the years, with improvements in transportation, processor mergers, and plant closures, fluid milk products are transported greater distances and the remaining plants now service larger geographic areas.

The accompanying map shows the location of distributing (bottling) and supply (manufacturing) plants

in the Northeast and compares producer milk by class of use and location differential for September 2001 and 2010. As depicted in the map, a majority of the bottling plants are located in the \$3.00 and above differential zone (encompasses the higher populated areas). The differential is the value added to the base milk price to set the respective Class I price. The differential also factors into the level of the Producer Price Differential (PPD). In 2001, just over 40 percent of all milk ended up at plants in that zone; in 2010, a little over 37 percent was received at plants in the highest zone. Of these totals, a majority was utilized as Class I.

(continued on page 3)



Producer Milk *(continued from page 2)*

The percentage of milk received at plants located in the \$2.60 to \$2.90 range increased slightly since 2001. These plants include many located in southeastern Pennsylvania, eastern New York, and southern Vermont. Smaller cities located in this region include Harrisburg, PA; Albany, NY; and Rutland, VT. Even in this range, most milk was used for Class I.

The percentage of milk received at plants located in the \$2.40-\$2.50 zone (the zone where the greatest milk production occurs in the Northeast Order), was the smallest one and has changed little when comparing the two years shown. Most of the plants in this zone are manufacturing plants. Overtime, a majority of the utilization has migrated from Class III to Class II reflecting a changing product demand.

The lowest differential zone (less than \$2.40) showed a slight increase in 2010. The fewest number of plants regulated by the Northeast Milk Marketing Order are located in this range. Of the milk received in this zone, the largest percentage was used in Class III as most of the plants in this area are cheese plants.

One of the factors that effects how much producers receive for their milk is the plant location where their milk is first received. For example, if a producer ships to a handler that sends the milk to a plant located in Boston, MA, the producer would receive a higher PPD value for the milk because of the differential for that location versus a producer whose milk is processed at a local plant in the "countryside". However, the difference would be offset by the transportation cost of getting milk to that plant versus a plant located in closer proximity to the farm; that is the responsibility of the producer. ❖

MILC *(continued from page 1)*

per hundredweight. However, the feed-adjusted MILC trigger price is predicted to average \$18.89 per hundredweight next year, almost \$2.00 higher than the standard trigger price, and above the predicted average Class I price of \$18.62 per hundredweight. Based on current information, MILC payments would average \$0.58 per hundredweight for the months a payment is predicted.

Feed Prices Driving Possible MILC Payments

The predicted MILC feed-adjusted trigger price is being elevated by high corn and soybean futures prices. As of early November, the CME futures price for corn in 2011 ranged from \$5.55 to \$6.11 per bushel. The CME futures price for soybeans in 2011 ranged from \$12.22 to \$13.00 per bushel. If those prices come to pass, it would set a new record high for corn and a near record high for soybeans.

Many factors are behind higher feed prices. USDA recently revised 2010/11 ending stocks down 75 million bushels to 827 million bushels, the lowest since 1995/96. Ethanol producers, foreign buyers, livestock growers, and food business all are expected to increase purchases next year. A drought in Russia forced that country to ban wheat exports in August and many countries are looking to the United States for animal feed. Canada and Europe also have had weather related grain problems. Lastly, a weak U.S. dollar is making U.S. grain more affordable.

The Market Administrator is hosting the Northeast Regional Dairy Outlook Conference on November 18. We will report on the highlights of that conference in the November issue of the *Bulletin*. ❖

Pool Summary for All Federal Orders, January–September, 2009–2010

Federal Order		Total Producer Milk			Producer Price Differential#		Statistical Uniform Price#*	
Number	Name	2009	2010	Change	2009	2010	2009	2010
		pounds			percent	dollars per hundredweight		
1	Northeast	17,891,927,798	18,323,411,532	2.4	1.83	2.52	12.32	16.59
5	Appalachian	4,468,272,092	4,525,178,057	1.3	N/A	N/A	13.34	17.55
6	Florida	2,274,335,206	2,155,920,809	(5.2)	N/A	N/A	15.49	19.74
7	Southeast	5,427,178,385	5,242,062,421	(3.4)	N/A	N/A	13.55	17.67
30	Upper Midwest	24,312,436,688	25,654,997,221	5.5	0.32	0.43	10.81	14.50
32	Central	9,825,156,156	9,894,230,261	0.7	0.58	1.06	11.07	15.13
33	Mideast	12,560,919,834	12,129,104,875	(3.4)	0.95	1.45	11.44	15.53
124	Pacific Northwest	5,565,031,812	6,048,478,625	8.7	0.55	1.01	11.04	15.08
126	Southwest	8,539,652,244	8,386,220,126	(1.8)	1.60	2.08	12.08	16.15
131	Arizona	3,070,279,418	3,171,253,906	3.3	N/A	N/A	11.33	15.48
All Market Total/Average		93,935,189,633	95,530,857,833	1.7	0.97	1.42	12.25	16.34

Price at designated order location.

* Price at 3.5% butterfat.

N/A = Not applicable.



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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	877,138,605	\$11.87	104,116,352.41	
Butterfat	16,974,090	2.3919	40,600,325.87	
Less: Location Adjustment to Handlers			(3,303,349.18)	\$141,413,329.15
Class II— Butterfat	31,276,212	2.4506	76,645,485.17	
Nonfat Solids	40,938,377	1.0356	42,395,783.28	119,041,268.45
Class III— Butterfat	19,102,219	2.4436	46,678,182.37	
Protein	14,060,596	2.4739	34,784,508.43	
Other Solids	25,709,884	0.1736	4,463,235.84	85,925,926.64
Class IV— Butterfat	7,276,464	2.4436	17,780,767.43	
Nonfat Solids	13,914,451	0.9896	13,769,740.69	31,550,508.12
Total Classified Value				\$377,931,032.36
Add: Overage—All Classes				142,970.56
Inventory Reclassification—All Classes				151,541.52
Other Source Receipts	157,110 Pounds			4,050.42
Total Pool Value				\$378,229,594.86
Less: Producer Component Valuations @ Class III Component Prices				(355,172,610.02)
Total PPD Value Before Adjustments				\$23,056,984.84
Add: Location Adjustment to Producers				10,243,614.27
One-half Unobligated Balance—Producer Settlement Fund				756,419.49
Less: Producer Settlement Fund—Reserve				(988,556.91)
Total Pool Milk & PPD Value	1,980,147,404 Producer pounds			\$33,068,461.69
Producer Price Differential		\$1.67		
Statistical Uniform Price		\$18.61		

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