

The Market Administrator's

BULLETIN

NORTHEAST MARKETING AREA

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January Pool Price Calculation

The January 2011 statistical uniform price (SUP) for the Northeast Marketing Area was announced at \$17.01 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 \$17.95 per hundredweight. The January statistical uniform price was 10 cents per hundredweight above the December price. The January producer price differential (PPD) at Suffolk County was \$3.53 per hundredweight, an increase of 45 cents per hundredweight from last month.

During January, all commodity prices increased except cheese. As a result, component prices for butterfat, other solids, and nonfat solids all rose while protein dropped. The Class I price, set in advanced, declined \$1.76 per hundredweight due to lower prices during December. Class II and IV prices rose over \$1.00 per hundredweight each and the Class III price fell 35 cents. Overall, these changes resulted in a higher uniform price and PPD.

All producer component (butterfat, protein, and other solids) tests set new records for the month of January. The total volume of producer pooled milk receipts was the highest since May 2010 and the second highest since May 2003. The increase in pooled volume between December and January was the largest percentage increase for those 2 months on record. The Class II volume also was record-setting as the highest for the month of January since the Order's inception. ❖

Class I Sales Decline in 2010, But Less Than The National Average

Sales of fluid milk products in the Northeast Milk Marketing Area (NMA) as reported by pool handlers regulated under the Order totaled 8.7 billion pounds in 2010, down 1.1 percent from 2009. This follows a decrease of 1.4 percent (the largest decline since the Order's inception) during 2009. The total does not include sales from producer-handlers, exempt plants, or plants fully or partially regulated by other federal orders with packaged milk sales within the NMA.

(continued on page 3)

Pool Summary

- A total of 13,295 producers were pooled under the Order with an average daily delivery per producer of 5,197 pounds.
- Pooled milk receipts totaled 2.142 billion pounds, an increase of 3.9 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 42.5 percent of total milk receipts, a decrease of 2.8 percentage points from December.
- The average butterfat test of producer receipts was 3.84 percent.
- The average true protein test of producer receipts was 3.13 percent.
- The average other solids test of producer receipts was 5.74 percent. ❖

Class Utilization

| Pooled Milk | Percent | Pounds |
|-------------------|---------|---------------|
| Class I | 42.5 | 910,663,896 |
| Class II | 21.2 | 454,474,230 |
| Class III | 26.4 | 566,093,535 |
| Class IV | 9.9 | 210,931,172 |
| Total Pooled Milk | | 2,142,162,833 |

Producer Component Prices

| | 2011 | 2010 |
|--------------------|--------|--------|
| | \$/lb | |
| Protein Price | 1.7590 | 2.7916 |
| Butterfat Price | 2.0239 | 1.4405 |
| Other Solids Price | 0.2002 | 0.1946 |

Class Price Factors

| | 2011 | 2010 |
|-----------|--------|-------|
| | \$/cwt | |
| Class I | 18.45 | 18.28 |
| Class II | 16.79 | 15.22 |
| Class III | 13.48 | 14.50 |
| Class IV | 16.42 | 13.85 |

Benefits from "Higher Of" Pricing

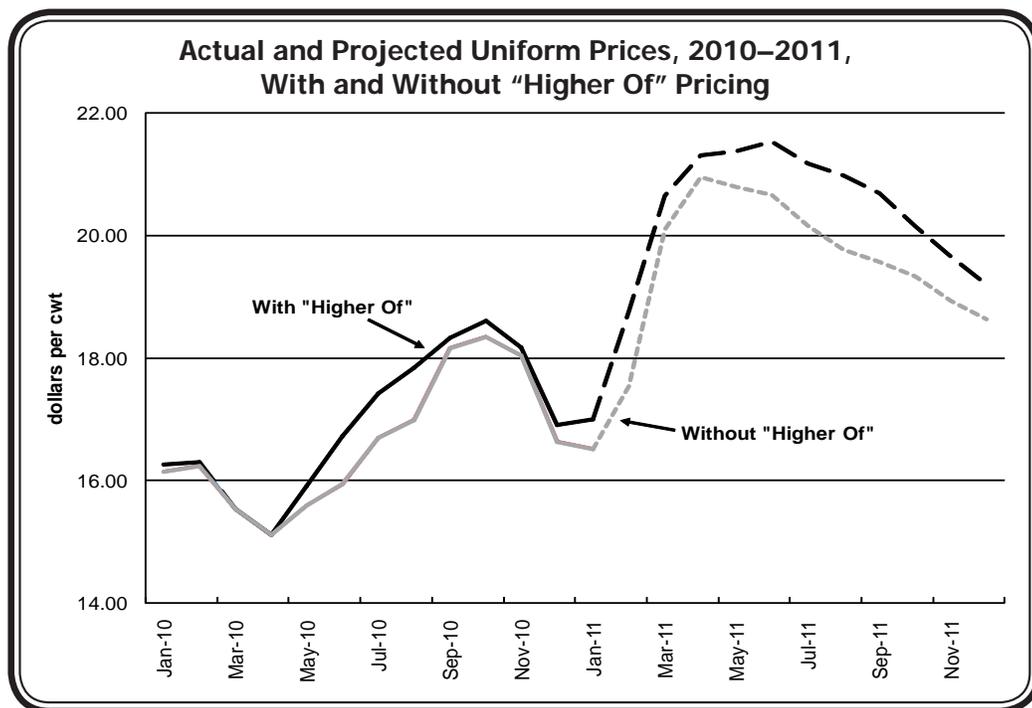
With the adoption of federal order reform provisions in January 2000, the Class I price has been set by the higher of the Class III or Class IV advanced skim milk pricing factor. The Class III price is largely determined by cheese prices, and the Class IV price by nonfat dry milk and butter. Since January 2000, Class IV has been the mover 56 months out of a possible 132 months through December 2010 (42 percent of the time). Current projections point to Class IV being the mover for all of 2011, which would bring the total to 68 times out of a possible 144 months (47 percent, or almost half of the time). Class IV was the mover for 19 months between January 2000 and July 2001, for 12 months between April 2002 and July 2003, for 7 months in 2007, and for 13 months since June 2009.

Using Chicago Mercantile Exchange (CME) futures prices as a proxy (federal order prices are based on National Agricultural Statistics Service prices, which closely follow the CME) and projected pool volumes for 2011, a uniform price was calculated using the current "higher of" Class I pricing and another uniform price was calculated using just Class III as the Class I mover, as was done under the Basic Formula Price prior to order reform. Both cases were priced at the Boston, Massachusetts, location, the pricing base for the Order. The "higher of" Class I pricing could result in almost \$280 million more total pool value from January 2010 through December 2011 (about \$77 million in 2010 and \$203 million in 2011). In the accompanying chart, the gap between the two lines represents this added value to producers during this time period. Assuming the 2010 average number of producers pooled of 13,429 producers, the total value over the 2-year time period translates to about \$20,850, on average, per producer.

Price Levels

The Class IV price has been relatively strong during the last 9 months due to a strong butter and nonfat dry milk price and outlook. The CME butter price was \$2.0775 per pound on February 14 and futures remain above \$1.90 per pound through November 2011. The CME nonfat dry milk price was over \$1.75 per pound on February 14 and futures prices remain above \$1.60 per pound through August of this year.

All this being said, the gap between Class III and Class IV prices could close if trends in the cheese market continue. The CME block Cheddar cheese price reached



\$1.9350 per pound on February 14, following reports that cheese exports were a record high 19,989 tons in December, up 63 percent over last year. If the cheese market continues to strengthen, the predicted gap between Class III and Class IV prices could close, or even reverse, even without a major decline in Class IV prices.

Though the gap between the Class III and Class IV mover could narrow, the actual and currently projected values still reflect the actual and potential benefits "higher of" Class I pricing has for producers. ❖

Market Services 2010 Summary

The Northeast Order's market services department operates a program that verifies farm bulk tank calibrations and a milk sample program that checks the accuracy of producer component tests. These checks are conducted for nonmember producers who do not belong to a qualified cooperative that provides such verification measures for the producer-members. This article will summarize the farm calibration work performed by the market services department with a future month's *Bulletin* providing a summary of other verification work conducted during 2010.

Calibration Program

The Northeast Order normally operates two calibration trucks; during 2010 there were three operating during August while a new truck was being prepared to replace one taken out of service. Together, these trucks covered over 33,000 miles and checked 356 tanks throughout the Northeast Marketing Area milkshed. In addition, market service technicians calibrated/recalibrated 97 bulk tanks. (continued on page 3)

Class I Sales Decline *(continued from page 1)*

The accompanying table shows Northeast sales by product for 2010, change from previous year, and proportion of total estimated U.S. sales.

Northeast Sales by Product

Whole, reduced fat (2%), flavored fat-reduced, and buttermilk (includes eggnog, yogurt drink, and other miscellaneous products) all showed declines in sales in 2010. Low fat (1%) and fat-free (skim) showed slight increases; flavored whole milk increased 12.8 percent, but overall, this category only accounts for 0.2 percent of total sales in the NMA.

The Northeast Marketing Area includes the entire states of Connecticut, Delaware, Massachusetts, New Hampshire, New Jersey, Rhode Island, and Vermont; the District of Columbia; most of Maryland and New York; and portions of Pennsylvania and Virginia. This area includes many metropolitan centers such as New York City, Boston, Philadelphia, Baltimore, and Washington, DC.

Growth in Organic Sales

Organic whole milk jumped 20.1 percent from 2009, while organic fat-reduced milk (includes reduced fat, low fat, fat-free, and lower-fat flavored products) grew 8.5 percent. Nationally, organic sales grew considerably with a 15.7 percent increase in organic whole and 11.2 percent growth in organic fat-reduced products.

Comparison to US Sales

On a national basis, estimated sales of Class I products (all federal order marketing areas and California, the total of which accounts for approximately 92 percent of total U.S. sales) declined 1.5 percent in

Sales of Fluid Milk Products in the Northeast Marketing Area, 2010, With Comparisons to U.S. Totals

| Product | Total Sales | | Change from 2009 | | Proportion of Total Sales |
|---------------------------|--------------|---------------|------------------|--------------|---------------------------|
| | Northeast | U.S. | Northeast | U.S. | |
| | million lbs | | percent | | |
| Whole Milk | 2,741 | 14,093 | (3.7) | (5.8) | 19.4 |
| Organic Whole Milk | 91 | 429 | 20.1 | 15.7 | 21.3 |
| Reduced Fat Milk | 1,972 | 18,578 | (1.1) | (0.5) | 10.6 |
| Low Fat Milk | 1,679 | 7,069 | 0.5 | 2.5 | 23.7 |
| Fat-Free Milk | 1,447 | 8,016 | 0.4 | (1.4) | 18.0 |
| Flavored Milk and Drinks | 491 | 4,467 | (2.6) | 0.7 | 11.0 |
| Organic Fat-Reduced Milk | 238 | 1,369 | 8.5 | 11.2 | 17.4 |
| Buttermilk, eggnog, other | 57 | 652 | (5.6) | (18.5) | 8.8 |
| Total | 8,715 | 54,674 | (1.1) | (1.5) | 15.9 |

2010. By product type, the whole milk, reduced fat, and buttermilk categories exhibited declines. In addition, fat-free and flavored whole milk sales dropped nationally. U.S. totals showed increases in low fat and flavored fat-reduced products.

As a proportion of total U.S. sales, NMA sales accounted for 15.9 percent of the total. The Northeast continues to be a large consumer of whole milk, accounting for 19.4 percent of the U.S. total. In addition, the Northeast accounts for 23.7 percent of all low fat and 18.0 percent of all fat-free sales. NMA sales also accounted for 21.3 percent of total organic whole and 17.4 percent of organic fat-reduced, which equaled a combined total of 18.3 percent of total U.S. organic milk sales.

Retail Prices

Prices for milk in the Northeastern states tend to be higher than the national average. The larger metropolitan centers average about 15 to 50 cents higher than the national average; organic prices tend to be closer to the national average. For more information see the Retail Prices section on the AMS Dairy Programs website under Milk Marketing Order Statistics, Prices. ❖

Market Services *(continued from page 2)*

2010 Tank Calibrations, Work by Tank Size

| Tank Size (gallons) | Checks | Calibrations/Recalibrations |
|---------------------|------------|-----------------------------|
| 0-500 | 30 | 3 |
| 501-1000 | 160 | 32 |
| 1001-1500 | 60 | 31 |
| 1501-2000 | 35 | 12 |
| 2001-3000 | 43 | 6 |
| 3001-6000 | 24 | 12 |
| 6001+ | 4 | 1 |
| Total | 356 | 97 |

Briefly, a tank check involves measuring the tank at about four or five different levels as opposed to performing a complete calibration, which involves checking the tank at each increment on the dipstick. The levels that a tank is checked at vary depending on the tank size and a farm's production range. If the tank proves to be out of tolerance when checked, the tank is then recalibrated. Depending on scheduling, recalibrations may be performed the same day or be rescheduled for another day.

Checks/Calibration Results

Of the 356 tanks checked, 21 were out of tolerance and recalibrated. An additional 76 tank calibrations were performed for other reasons such as a tank being moved, a new tank installed, or due to a special request. Of the tanks calibrated/recalibrated, 68 percent were 1,500 gallon tanks or smaller. A breakdown of checks and calibrations/recalibrations are shown in the accompanying table. A tentative schedule for the calibration trucks will be published in the *Bulletin* near the start of the spring season. ❖



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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 | 893,725,639 | \$12.58 | 112,430,685.39 | |
| Butterfat | 16,938,257 | 1.8021 | 30,524,432.94 | |
| Less: Location Adjustment to Handlers | | | (3,386,639.99) | \$139,568,478.33 |
| Class II— Butterfat | 29,509,222 | 2.0309 | 59,930,278.96 | |
| Nonfat Solids | 39,156,620 | 1.1144 | 43,636,137.32 | 103,566,416.28 |
| Class III— Butterfat | 22,505,348 | 2.0239 | 45,548,573.81 | |
| Protein | 17,678,232 | 1.7590 | 31,096,010.15 | |
| Other Solids | 32,398,456 | 0.2002 | 6,486,170.92 | 83,130,754.88 |
| Class IV— Butterfat | 13,294,662 | 2.0239 | 26,907,066.42 | |
| Nonfat Solids | 18,247,429 | 1.0743 | 19,603,212.99 | 46,510,279.41 |
| Total Classified Value | | | | \$372,775,928.90 |
| Add: Overage—All Classes | | | | 366,000.37 |
| Inventory Reclassification—All Classes | | | | 185,667.68 |
| Other Source Receipts | 388,453 Pounds | | | 21,591.49 |
| Total Pool Value | | | | \$373,349,188.44 |
| Less: Producer Component Valuations @ Class III Component Prices | | | | (308,817,202.39) |
| Total PPD Value Before Adjustments | | | | \$64,531,986.05 |
| Add: Location Adjustment to Producers | | | | 11,379,005.22 |
| One-half Unobligated Balance—Producer Settlement Fund | | | | 784,728.61 |
| Less: Producer Settlement Fund—Reserve | | | | (1,063,659.52) |
| Total Pool Milk & PPD Value | 2,142,551,286 Producer pounds | | | \$75,632,060.36 |
| Producer Price Differential | | \$3.53 | | |
| Statistical Uniform Price | | \$17.01 | | |

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