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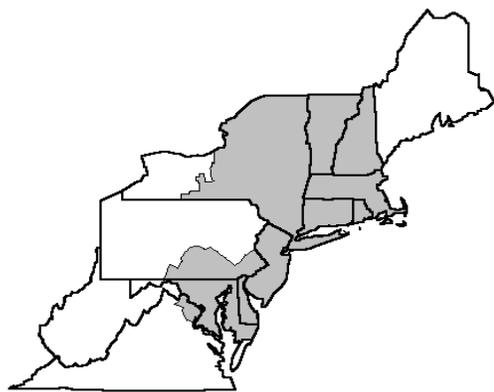
BULLETIN

NORTHEAST MARKETING AREA

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Federal Order No. 1



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February Pool Price Calculation

The February 2011 statistical uniform price (SUP) for the Northeast Marketing Area was announced at \$18.75 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 \$19.82 per hundredweight. The February statistical uniform price was \$1.74 per hundredweight above the January price. The February producer price differential (PPD) at Suffolk County was \$1.75 per hundredweight, a decrease of \$1.78 per hundredweight from last month.

During February, all commodity prices rose resulting in higher component and class prices. The NASS cheese price increased 33 cents per pound, which was reflected in an 80-cent per pound protein price and \$3.52 per hundredweight jump in the Class III price. Overall, the higher class prices contributed to an increase in the blend price and the tightening of prices between the classes resulted in a lower PPD.

All producer component (butterfat, protein, and other solids) tests set or tied records for the month of February. The Class II volume set a new record as the highest for the month of February since the Order's inception, topping last year's record by nearly 67 million pounds. ❖

NFDM Continues to Move Prices

Based on Chicago Mercantile Exchange (CME) commodity futures prices, the Class IV price is predicted to be above the Class III price for the remainder of 2011. In 2010, the Class IV price was higher than the Class III price 10 months of the year.

Usage of Class III/IV Price Components

Each month, the class prices and their respective components are derived from the values of commodities sold by plants that manufacture specific products that meet certain standards and are surveyed by the National Agriculture Statistics Service (NASS). For this comparison, CME futures prices are used as estimates for the NASS commodity prices since the two price series move similarly.

The Class III and IV prices calculated for a month reflect the prices for certain products sold during the month. The Class III price mainly (continued on page 3)

Pool Summary

- A total of 13,232 producers were pooled under the Order with an average daily delivery per producer of 5,158 pounds.
- Pooled milk receipts totaled 1.911 billion pounds, a decrease of 1.2 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 42.5 percent of total milk receipts, no change from January on a percentage point basis.
- The average butterfat test of producer receipts was 3.82 percent.
- The average true protein test of producer receipts was 3.11 percent.
- The average other solids test of producer receipts was 5.73 percent. ❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	42.5	813,086,606
Class II	22.4	427,576,450
Class III	24.6	470,182,637
Class IV	10.5	200,238,674
Total Pooled Milk		1,911,084,367

Producer Component Prices

	2011	2010
	\$/lb	
Protein Price	2.5586	2.7066
Butterfat Price	2.2967	1.4404
Other Solids Price	0.2310	0.1992

Class Price Factors

	2011	2010
	\$/cwt	
Class I	19.14	18.09
Class II	17.97	15.65
Class III	17.00	14.28
Class IV	18.40	12.90

Record High Component Tests

The calculated average producer component tests have been reaching record highs in recent months. Both butterfat and protein tests averaged a record high every month from November 2010 through February 2011. Average other solids tests set a record high every month from August 2010 through February 2011. Growth in component test levels has been driven by increases occurring across all size ranges of volume of milk pooled per producer. However, the degree of improvement in each component varies depending on the size category.

Component Tests By Farm Size

Using data from December 2001 and December 2010, average component tests were calculated for five monthly volume pooled size categories (as seen in the accompanying tables). Table 1 shows that weighted average butterfat and protein tests tend to be higher for the smaller size categories and lower for the larger size categories for both December 2001 and 2010.

Improvements in Component Test Levels

When the change in weighted average component tests by size category between the two time periods are compared, the first thing that stands out is that weighted average tests for all three components, in all size categories, increased from December 2001 to December 2010. This would imply that a general improvement in component tests by all size producers have contributed to recent record-setting average pool tests. Interestingly, the improvement in butterfat tests is greater for smaller operations, with somewhat less improvement as size categories increased. The opposite is true of protein, but to a lesser degree. The improvement

Table 1

Weighted Average Component Tests by Size Category, December, 2001 and 2010

Volume Pooled	Weighted Average Butterfat			Weighted Average Protein			Weighted Average Other Solids		
	2001	2010	Change	2001	2010	Change	2001	2010	Change
0-49,999	3.92	4.10	0.18	3.11	3.21	0.10	5.60	5.62	0.02
50,000-99,999	3.77	3.94	0.17	3.04	3.16	0.12	5.65	5.69	0.04
100,000-249,999	3.76	3.90	0.14	3.05	3.16	0.11	5.69	5.72	0.03
250,000-599,999	3.76	3.90	0.14	3.05	3.17	0.13	5.70	5.74	0.03
600,000 up	3.66	3.77	0.10	3.00	3.14	0.14	5.71	5.74	0.03
All Producers	3.75	3.86	0.11	3.04	3.15	0.11	5.68	5.72	0.03

in other solids tests is about even across all categories. Large producers have improved their protein tests at a greater rate than smaller producers. Given that the annual average protein price has been higher than the butterfat price every year since 2000, it is plausible that large farms have been more responsive to this fact. To state something more concrete regarding trends in improvements by size would require looking at data from entire years.

It does seem clear that there have been improvements in component levels by all size categories. These improvements have measureable benefits to producers' total value they receive for their milk. Table 2 uses Decembers 2010's component prices, the average production in each size category, and that category's change in average tests over the 10-year period to calculate the extra value (in total and by hundredweight) received by typical producers in each category due to higher tests in December 2010 versus 2001.

Changes in Farm Size

If component levels improve at different rates based on farm size, trends in the number of farms and volume of milk by farm size over time may impact future trends

in average component levels at pool. From 2001 to 2010, the volume of milk from farms pooling more than 600,000 pounds per month on the Northeast Order has grown from 18 percent to 37 percent in 2010. At the same time, the volume from all other size categories defined above has declined. This trend, if continued, could result in larger overall gains in protein tests, relative to gains in butterfat tests over time. ❖

Table 2

Additional Value to Northeast Order Producers from Higher Component Tests in December 2010 vs Lower Tests in 2001

Size Category (average)	Added Value From Improved:					
	Butterfat Test		Protein Test		Other Solids Test	
	total \$	per cwt	total \$	per cwt	total \$	per cwt
0-49,999 (27,521)	91	0.33	62	0.22	1	0.00
50,000-99,999 (73,310)	224	0.31	189	0.26	6	0.01
100,000-249,999 (149,821)	370	0.25	349	0.23	8	0.01
250,000-599,999 (362,869)	916	0.25	985	0.27	22	0.01
600,000 up (1,486,422)	2,777	0.19	4,481	0.30	74	0.00
All Producers	314	0.20	388	0.24	10	0.01

U.S. Milk Production Grows During 2010

Total milk production in the United States increased 1.8 percent in 2010. This follows a decline of 0.9 percent in 2009, the first year-over-year decline in total U.S. production since 2001. The top ten milk-producing states grew 2.5 percent, compared to no change during 2009. The top 23 states as reported by the National Agricultural Statistics Service (NASS) increased 2.2 percent. The table shows the top ten states ranked by their total 2010 production.

Top Producing States-Idaho Rises in Rank

The top ten list contained the same states as in 2009, but Idaho, which had experienced annual average growth of 6.6 percent during the past 10 years, displaced New York as number three. New York held the number three spot since 1972 when it was surpassed by California. All top ten states reported increases except Texas and New Mexico, which showed slight declines. Washington and Idaho reported the largest increases; these two states were the only top ten states last year to show decreases.

The only other change within NASS' list of the top 23, was the displacement of Kansas by Vermont (switched the number 16 and 17 positions). NASS includes Missouri in their top 23, although that state has ranked 24 since 2008.

South Dakota, which is not included in the top 23, actually ranks 21. NASS does not change the make-up of their top 23 list each year.

Rank	State	2009 thousand lbs	2010 thousand lbs	Percent Change
1	California	39,512	40,385	2.2
2	Wisconsin	25,239	26,035	3.2
3	Idaho	12,150	12,779	5.2
4	New York	12,424	12,713	2.3
5	Pennsylvania	10,551	10,734	1.7
6	Minnesota	9,019	9,102	0.9
7	Texas	8,840	8,828	(0.1)
8	Michigan	7,968	8,327	4.5
9	New Mexico	7,904	7,881	(0.3)
10	Washington	5,561	5,901	6.1
	Top Ten Total	139,168	142,685	2.5
	U.S. Total	189,334	192,818	1.8

Source: NASS, Milk Production.

Northeast Below National Average

Milk production in the Northeast milkshed (the area from which milk is traditionally pooled by handlers selling into the marketing area) increased 1.6 percent in 2010, slightly below the national average. The 3 top producing states in the milkshed (New York, Pennsylvania, and Vermont) had a combined increase of 2.1 percent. The only other states in the milkshed with increases in production were Connecticut (3.7 percent) and New Hampshire (1.7 percent). The remaining 8 states had declines ranging from 0.3 percent to 13.0 percent, but those states only account for 12.9 percent of the total milkshed states' production.

Cow Numbers and Production per Cow

Nationally, the number of milk cows decreased 0.9 percent in 2010. Only 13 states increased their cow numbers; of these, five were in the top ten states. Eight states had no change and 29 states reduced cow numbers. In the Northeast milkshed states, milk cow numbers declined 1.1 percent. The combined total for New York, Pennsylvania, and Vermont was slightly below the national average (down 0.8 percent) due to Vermont's increase of 0.7 percent.

Average milk production per cow grew 2.8 percent nationally; this follows an increase of 1.2 percent in 2009. For the Northeast, the increase was 2.7 percent. The U.S. average milk per cow was 21,149 pounds in 2010; the average was 19,846 pounds in the Northeast states. Milk per cow for the Northeast states has risen, but tends to trail behind the national average with this gap widening in the past 10 years. States in the western part of the country, such as Arizona, California, Idaho, Washington, and the leader-New Mexico, tend to have higher milk per cow than the U.S. average. ❖

NFDM Continues *(continued from page 1)*

reflects the price of cheese and, to a lesser extent, butter and dry whey. The Class IV price reflects the prices of nonfat dry milk (NFDM) and butter.

The values of the commodities during the previous month also are used to generate the Class I price and some of the Class II components (skim and nonfat solids). This is reflected in the Class I price mover, which is a combination of the advanced butterfat pricing factor and the higher of the Class III or IV advanced skim milk pricing factor.

Projections Emphasize NFDM

CME futures indicate that both butter and NFDM prices are estimated to remain strong through the end of the year. Butter is expected to average over \$2.00 per pound for most of the year, while NFDM is projected to

be above \$1.50 per pound for about half of 2011. If this occurs, the blend price could average about \$20.00 per hundredweight for 2011, a new record price for the Order. Record-highs were set in 2007 when NFDM prices were over \$2.00 per pound. At that time, butter prices were lower and higher cheese prices occurred later in the year.

Estimated strong NFDM prices largely are the driving force behind the continuity of the Class IV price as a mover of the Class I price. If NFDM prices declined to 2010 levels, even with projected butter prices, the Class III price would be higher than the Class IV price during 8 months of 2011. Conversely, if butter prices dropped to 2010 levels and NFDM prices remain at projected levels, the Class III price would set the price in only 2 months. ❖



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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	798,086,268	\$12.82	102,314,659.56	
Butterfat	15,000,338	1.9328	28,992,653.29	
Less: Location Adjustment to Handlers			(3,041,583.37)	\$128,265,729.51
Class II— Butterfat	27,952,015	2.3037	64,393,056.95	
Nonfat Solids	36,746,544	1.1411	41,931,481.36	106,324,538.31
Class III— Butterfat	19,220,972	2.2967	44,144,806.40	
Protein	14,641,209	2.5586	37,460,997.36	
Other Solids	26,864,540	0.2310	6,205,708.77	87,811,512.53
Class IV— Butterfat	10,919,889	2.2967	25,079,709.09	
Nonfat Solids	17,433,863	1.1930	20,798,598.62	45,878,307.71
Total Classified Value				\$368,280,088.06
Add: Overage—All Classes				316,122.38
Inventory Reclassification—All Classes				345,327.28
Other Source Receipts	175,068 Pounds			4,835.17
Total Pool Value				\$368,946,372.89
Less: Producer Component Valuations @ Class III Component Prices				(345,284,913.68)
Total PPD Value Before Adjustments				\$23,661,459.21
Add: Location Adjustment to Producers				10,006,586.56
One-half Unobligated Balance—Producer Settlement Fund				680,865.38
Less: Producer Settlement Fund—Reserve				(901,870.96)
Total Pool Milk & PPD Value	1,911,259,435 Producer pounds			\$33,447,040.19
Producer Price Differential		\$1.75		
Statistical Uniform Price		\$18.75		

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