

The Market Administrator's

BULLETIN

NORTHEAST MARKETING AREA

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Federal Order No. 1

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May Pool Price Calculation

The May 2011 statistical uniform price (SUP) for the Northeast Marketing Area was announced at \$20.79 per hundredweight (cwt) 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 \$21.26 per cwt. The May statistical uniform price was 41 cents per cwt above the April price. The May producer price differential (PPD) at Suffolk County was \$4.27 per cwt, an increase of 76 cents from last month.

During May, all commodity prices rose except cheese. This resulted in higher component prices that were reflected in higher Class II and IV prices and, along with the higher Class I price, caused an even larger spread than last month between these prices and the Class III price. As a result, the PPD rose and for only the third time since the Order's inception, hit over \$4.00 per cwt.

The average producer component test for other solids set a record for the month of May. The Class II volume set a new record high for the month of May while the Class I volume set a record low for the month. ❖

Record Low Class I Utilization Percentage

The May Class I utilization, 37.8 percent, was the lowest since the order's inception. The utilization percentage is a reflection of the total volume of milk used for Class I purposes in relation to the total pounds pooled on the order. Trends in both the Class I pounds and total pounds pooled play a part in the record low utilization. Long term trends in consumption also may be a factor.

Total Volume

There were 2.211 billion pounds pooled on the Order in May 2011, the second highest ever for the month of May and fourth highest for any months since the Order's inception. Seasonally speaking, it isn't surprising to see somewhat lower Class I utilization during May. April through July are the four months that have averaged the lowest Class I utilization since 2000, having averaged 41.6, 41.6, 42.0, and 41.1, respectively. May Class I utilization has been below 40 percent since 2009. Before that, you have to go back to March through July 2002 to find Class I utilization (continued on page 3)

Pool Summary

- A total of 12,840 producers were pooled under the Order with an average daily delivery per producer of 5,554 pounds.
- Pooled milk receipts totaled 2.211 billion pounds, a decrease of 0.5 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 37.8 percent of total milk receipts, a decrease of 0.5 percentage points from April.
- The average butterfat test of producer receipts was 3.67 percent.
- The average true protein test of producer receipts was 3.02 percent.
- The average other solids test of producer receipts was 5.76 percent. ❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	37.8	835,764,012
Class II	22.3	493,462,359
Class III	26.8	592,170,018
Class IV	13.1	289,518,258
Total Pooled Milk		2,210,914,647

Producer Component Prices

	2011	2010
	\$/lb	
Protein Price	2.3133	2.1523
Butterfat Price	2.2497	1.7058
Other Solids Price	0.3026	0.1704

Class Price Factors

	2011	2010
	\$/cwt	
Class I	23.00	17.05
Class II	20.63	14.90
Class III	16.52	13.38
Class IV	20.29	15.29

Contribution to Producer Price by Components

The uniform price varies each month based on the respective average component tests and prices of each component. Looking at some examples will give a better understanding of how these factors impact a producer's milk check. The table shows the contribution by component using a hypothetical farmer producing 100,000 pounds of milk at the pool average component tests for that month using the base Producer Price Differential (PPD). Examples do not take into account premiums, hauling charges, or any other producer payments or deductions.

May 2003 was chosen since it had the "average" PPD for the month of May; May 2008 because it had no PPD for May, but one of the highest butterfat prices; and November 2000 because it had the highest PPD since the Order's inception.

Component Proportions

Protein typically has been the largest contributor to a producer's milk check, having been the highest over 80 percent of the time, but it really depends on the combination of component price and test. In May 2011, butterfat was the largest contributor to a producer's price due to a fairly strong butterfat price combined with a strong butterfat test. Even though the PPD was the third highest ever for the Order, it only contributed to 20 percent of the price because of the strong butterfat and protein component values.

In November 2000, butterfat held the highest proportion; its component price was not as high, but much higher than the protein price that month. The record-setting PPD contributed the second-highest percentage to the overall producer price. May 2008 had no PPD; the Class III price and the uniform price for that month

were the same. That was not the lowest PPD ever; there have been months where the PPD has been negative. Protein had the highest percentage due to a strong test and even stronger price.

May 2003 had below-average butterfat and protein prices and tests. It also had a negative other solids price, which reduced a producer's overall price based on their level of other solids.

Blend Prices

Overall, uniform prices received by producers are affected by the factors mentioned above in addition to the location where the producer's milk is received. PPD's vary due to location and decrease the farther away the milk is received from the basing point (Suffolk County, MA). ❖

Mandatory Reporting Program

On June 10, the USDA issued a proposed rule to amend the Dairy Product Mandatory Reporting Program that would, among other things, provide for the establishment of an electronic reporting system for manufacturers to report sales information for specific dairy products. Price data reported are used by USDA to determine minimum class prices for raw milk under the Federal Milk Marketing Order Program.

The rule requires the Secretary to publish a report on Wednesday of each week of the information obtained for the previous week and transfers the data collection responsibilities from the National Agricultural Statistics Service (NASS) to the Agricultural Marketing Service (AMS).

Public comments must be received by August 9, 2011, and may be filed by visiting www.regulations.gov. For additional information, contact Joe Gaynor at Joseph.Gaynor@ams.usda.gov. ❖

Contribution to Total Gross Payment*

	May 2011				May 2003			
	Test percent	Price per pound	Gross dollars	Contribution percent	Test percent	Price per pound	Gross dollars	Contribution percent
Butterfat	3.67	2.2497	\$8,256.40	38.8	3.66	1.1512	\$4,213.39	35.9
True Protein	3.02	2.3133	\$6,986.17	32.9	2.96	1.9275	\$5,705.40	48.7
Other Solids	5.76	0.3026	\$1,742.98	8.2	5.72	(0.0144)	(\$82.37)	(0.7)
PPD		4.27	\$4,270.00	20.1		1.89	\$1,890.00	16.1
Total gross payment			\$21,255.54				\$11,726.42	
Gross price per cwt			\$21.26				\$11.73	
	May 2008				November 2000			
	Test percent	Price per pound	Gross dollars	Contribution percent	Test percent	Price per pound	Gross dollars	Contribution percent
Butterfat	3.67	1.5562	\$5,711.25	30.7	3.78	1.5745	\$5,951.61	42.9
True Protein	3.03	4.1108	\$12,455.72	66.9	3.07	0.9149	\$2,808.74	20.3
Other Solids	5.73	0.0766	\$438.92	2.4	5.66	0.0565	\$319.79	2.3
PPD		0.00	\$0.00	0.0		4.79	\$4,790.00	34.5
Total gross payment			\$18,605.90				\$13,870.14	
Gross price per cwt			\$18.61				\$13.87	

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

Record Low Class I *(continued from page 1)*

below 40 percent. Those months included the other top three months for total pounds pooled.

Class I Volume

Total pool volumes are not the only factor in lower Class I percentages, however. Total Class I volume for May was 835.8 million pounds, a record low for the month of May. In fact, record low Class I volumes also were set in the previous two months. Total Class I pounds pooled through the first five months of the year are the second lowest, behind 2009.

Are High Prices a Factor in Lower Class I Pounds?

The May Class I price was \$23.00 per hundredweight, the seventh highest out of the 137 months a Class I price was announced under the Order. To date, there have been three distinct periods of time since the order originated in which the Class I price surpassed the \$20 mark; May–June 2004, June 2007–November 2008, and November 2010–May 2011 and looks to continue.

The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by consumers for a market basket of consumer goods. During the first period, the CPI for milk (Dec. 1997=100) ranged between 133.5 and 137.4. See Chart 1. These numbers were well above index levels between 108.0 and 117.5 that occurred between January 2001 and April 2004. The \$20 prices were not around long but were a stark contrast with recent prices at that time. In fact, the Class I price jumped about \$6.00 per cwt from April to May 2004.

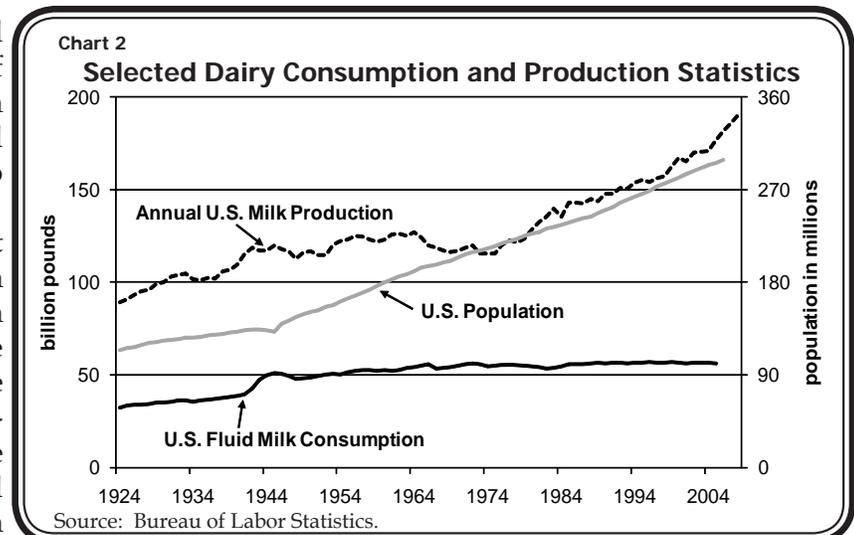
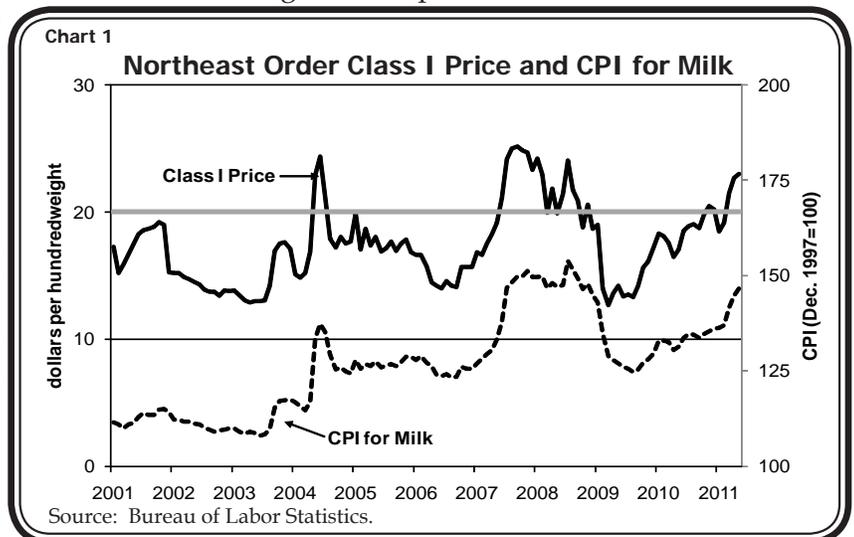
During the second period in 2007–08, the CPI for milk ranged from 137 to 154 in months with over \$20 Class I prices. CPI numbers during 2005 and 2006 were in the mid 120s. The 2007–08 period was characterized by both a dramatic increase in the index and a prolonged nature of the higher price level.

The CPI for milk during the current period of over \$20 Class I prices starting November 2010 ranges from 135 to 145, only topping the 140 level in March 2011. This period comes on the heels of CPI values for milk that more gently climbed from the mid-to-high 120s in 2009, to the low-to-mid 130s in 2010, and to the high 130s to low 140s so far in 2011.

Given the longer, slower rise in prices to current levels on the recent heels of a long period of high prices, consumers may be slower to react with respect to their fluid milk purchasing habits, or the effect may be less detectable. The price increase has not been as attention grabbing as the \$6.00 one-month increase that occurred in 2004. That price movement coincided with a 44.1 million pound decline in Class I pounds pooled, during a month

when Class I pounds pooled usually increases. Not all high-priced periods seem to coincide exactly with declines in Class I utilization. There appears to be a noticeable drop in Class I pounds in 2009, but that was a relatively lower price year following the very high price period.

According to USDA, consumption of fluid milk has declined by 1.8 gallons per capita during the period from 2000 to 2009. Between 1970 and 2001, fluid milk consumption dropped to 23 gallons from 31. Chart 2 shows long run increases in both U.S. population and milk production, while fluid milk consumption has been relatively flat the last half century. Increases in population are compensating for declining per capita consumption to result in a flat total consumption. These trends generate the underlying long run trend in declining Class I utilization and utilization percentage. Price responses may be evident as short run deviations from the long run trend, up or down, but also may be one factor contributing to the downward trend, at least during the last several years. Competing choices of beverage continue to pose a challenge to milk's portion of a fairly stable per capita total beverage consumption. ❖





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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	820,668,385	\$15.74	129,173,203.80	
Butterfat	15,095,627	2.2309	33,676,834.27	
Less: Location Adjustment to Handlers			(2,835,383.94)	\$160,014,654.13
Class II— Butterfat	30,773,551	2.2567	69,446,672.55	
Nonfat Solids	42,148,135	1.4656	61,772,306.65	131,218,979.20
Class III— Butterfat	22,770,436	2.2497	51,226,649.87	
Protein	17,907,389	2.3133	41,425,162.98	
Other Solids	33,997,100	0.3026	10,287,522.44	102,939,335.29
Class IV— Butterfat	12,552,173	2.2497	28,238,623.63	
Nonfat Solids	25,254,038	1.4298	36,108,223.53	64,346,847.16
Total Classified Value				\$458,519,815.78
Add: Overage—All Classes				100,961.83
Inventory Reclassification—All Classes				(136,106.00)
Other Source Receipts	2,518,868 Pounds			132,086.90
Total Pool Value				\$458,616,758.51
Less: Producer Component Valuations @ Class III Component Prices				(375,700,048.63)
Total PPD Value Before Adjustments				\$82,916,709.88
Add: Location Adjustment to Producers				11,623,915.02
One-half Unobligated Balance—Producer Settlement Fund				973,642.91
Less: Producer Settlement Fund—Reserve				(1,000,656.77)
Total Pool Milk & PPD Value	2,213,433,515 Producer pounds			\$94,513,611.04
Producer Price Differential		\$4.27		
Statistical Uniform Price		\$20.79		

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