

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) 542-8966, 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

August Pool Price Calculation

The August statistical uniform price for the Northeast Marketing Area was announced at \$13.39 per hundredweight at Suffolk County, Massachusetts (Boston), the pricing point for the Northeast Order. This was a decrease of 13 cents per hundredweight from July. The producer price differential (PPD) at Suffolk County was \$3.26 per hundredweight, an increase of 40 cents per hundredweight from July. The PPD was \$3.16 for shipments to plants in the New York City differential zone and \$3.06 for plants in the Philadelphia differential zone.

Prices Move in Opposing Directions Again

In July, the statistical uniform price increased while the PPD declined. For August, the statistical uniform price declined while the PPD increased. Like last month, this was the result of changes in the component values from month to month. The value for protein in August decreased 18 cents per pound from July; the butterfat value stayed nearly level. The decline in protein resulted in a decrease of 53 cents in the Class III price from July to August while the Class IV price saw no change. The spread between the Class III and IV prices grew in August resulting in more revenue returned to producers via the PPD. The lower statistical uniform price reflected the lower protein value as butterfat and other solids were relatively unchanged from July. ❖

Class I Supplies Tighten

Throughout the first 2 weeks of September, numerous fluid milk handlers pooled under the Northeast Order reported difficulties in procuring adequate supplies of milk for Class I use. While Class I contracts generally are being met, there is increasing concern about handlers' continued ability to fulfill fluid milk supply commitments. The Market Administrator has responded to handler concerns by requesting information on expected milk receipts and projected Class I needs from fluid handlers pooled under the Northeast Order. This data should provide more definitive information on the availability of milk for fluid use and help determine the need for any further action.

Seasonal Pattern

Tightening of milk supplies during this time of year is normal. Milk receipts in the Northeast historically peak in May, decline through September, and are at their lowest levels during the late summer and fall months. Conversely, sales of Class I fluid milk are at their lowest
(continued on Page 2)

Pool Summary

- A total of 17,000 producers were pooled under the order with an average daily delivery per producer of 3,640 pounds.
- Producer milk receipts totaled 1.918 billion pounds, a decrease of 3.5 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 45.2 percent of total milk receipts, an increase of 4.7 percentage points from July.
- The average butterfat test of producer receipts was 3.60 percent.
- The average true protein test of producer receipts was 2.93 percent.
- The average other solids test of producer receipts was 5.67 percent.

Class Utilization

| Producer Milk | Percent | Pounds |
|---------------------|---------|-------------------|
| Class I | 45.2 | 867,869,987 |
| Class II | 19.3 | 369,400,232 |
| Class III | 30.4 | 582,375,860 |
| Class IV | 5.1 | <u>98,581,743</u> |
| Total Producer Milk | | 1,918,227,822 |

Producer Component Prices

| | |
|--------------------|--------------|
| Protein Price | \$1.7952 /lb |
| Butterfat Price | \$1.2659 /lb |
| Other Solids Price | \$0.0577 /lb |

Class Price Factors

| | \$/cwt |
|-----------|--------|
| Class I | 15.20 |
| Class II | 12.56 |
| Class III | 10.13 |
| Class IV | 11.87 |

Market Services and Milk Testing

Each month the market services verification program collects up to 6,000 milk samples for testing and comparison against handlers' reported test results. As explained in the March *Bulletin*, the objective of verifying component tests is to guard against incorrect payment to producers for milk components. With the normal summertime decline in component tests another aspect of the verification program, that of preventing incorrect pool credits to fluid handlers, becomes prominent.

Handler Credits

At pool time, the process where the statistical uniform price and producer price differential (PPD) are calculated, a handler's payment obligation or credit is determined. The pool obligation of *Class I* (fluid handlers) is based on the skim and butterfat content of the milk they purchase, the respective prices, and the location differential for their plant. A fluid handler's obligation to *producers*, however, is on the pounds of protein, butterfat, and other solids in producers' milk plus the PPD. *Class I* handlers receive a credit toward their pool obligation for the value of the protein that they purchase from producers. If handlers inadvertently report producer protein tests in excess of the actual protein content of the milk, the handler would receive an inflated pool credit for protein. While this scenario would benefit the producer and handler reporting inflated tests, it would be at the expense of all other producers

sharing in the value of the marketwide pool. The inserted table illustrates the pool "cost" of an overstated protein test from a hypothetical *Class I* plant with monthly production of 35 million pounds (a mid-size fluid plant).

In this example the hypothetical plant's pool obligation would have been credited \$31,416.00 more than it should have been as a result of the incorrect protein tests. The "cost" of this error would have been drawn from the pool valuation, which is shared by all producers in the form of the PPD.

Laboratory Verification

In addition to verifying producer samples, the market services department monitors laboratories testing samples for processors. The market administrator lab sends "blind" samples to various laboratories for analysis on a monthly basis. The lab's results are returned to the market administrator and compared against test results previously determined by the market administrator lab. If excessive variances are found, the market services staff works with the laboratories to review their testing procedures and ensure that their testing equipment is properly calibrated. In addition, periodic visits are made to laboratories testing producer samples to evaluate test procedures. The market services staff also works with milk haulers to ensure that proper sample collection and processing practices are followed. It is our goal to assure that producers are receiving proper payment for their milk. ❖

| August Protein Test | Percent | Protein Pounds | Price Per lb. | Protein Value |
|----------------------------|-------------|------------------|---------------|-----------------------|
| Reported Protein Test | 2.98 | 1,043,000 | 1.7952 | \$1,872,393.60 |
| Actual Protein Test | 2.93 | 1,025,500 | 1.7952 | \$1,840,977.60 |
| Excess Protein Credit | | | | \$31,416.00 |



Class I Tightens *(continued from page 1)*

levels in June and July, begin to increase in August or September, and continue to build through the fall. The increase in monthly *Class I* sales during the fall coincides with the reopening of schools.

Production Changes

Milk production in New York State, the source for more than 40 percent of the total milk pooled under the order, has declined by an average of -0.86 percent during June, July, and August compared to an average increase for the top 20 dairy states of 4.1 percent for the same period. Milk Production in Pennsylvania and Vermont (both top 20 dairy states) averaged gains of 2.0 and 2.4 percent, respectively, for that period. In addition, this is the time of year when some milk from the Northeast traditionally is shipped to southern states to take advantage of profitable spot market premiums.

Typically, manufacturing handlers reduce their

production schedules in the fall as a result of lower milk supplies and greater *Class I* demand. Any significant and unanticipated reductions in milk production during the fall months can cause manufacturing handlers to readjust their production output and tighten available milk supplies for the fluid market.

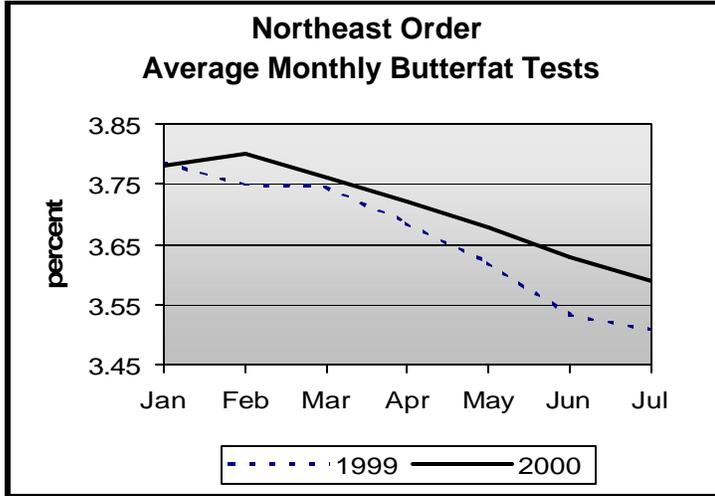
Order Provisions

During the months of August through December, order provisions require pool supply plants and cooperative association handlers to provide a fixed percentage of their milk supplies to *Class I* handlers. These volumes (known as shipping percentages) can be increased or decreased, if the Market Administrator finds that such an adjustment is necessary, to encourage needed shipments to *Class I* handlers or to prevent uneconomical shipments of milk. ❖

MARKET SITUATION

Butterfat Tests Increase

For the first 7 months of 2000, the average butterfat tests for the Northeast Order averaged 1.3 percent higher than during the same period in 1999. The chart below



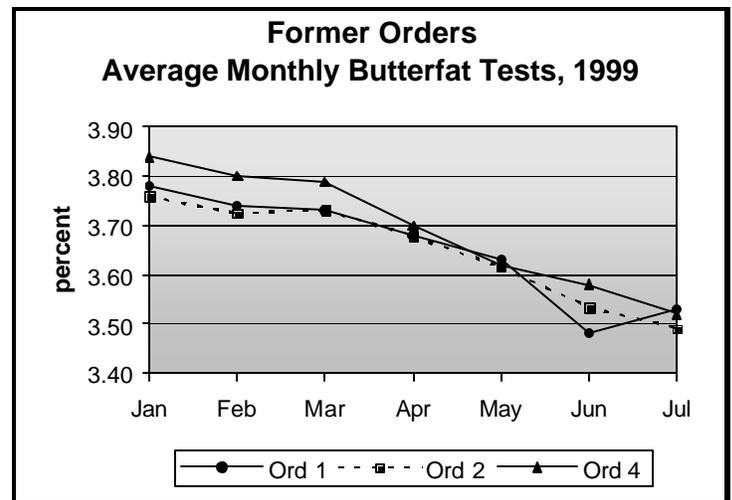
compares butterfat tests reported for the combined Northeast Order with weighted average tests calculated from data for the former New England, Middle Atlantic, and New York–New Jersey federal orders.

Of the three former orders, the New York–New Jersey average butterfat tests were usually the lowest (see next chart). This is reflected in the 1999 weighted average for the combined orders due to the larger volume of the

former Order 2 that was approximately equal to the other two orders combined.

January was the only month of 2000 where the average butterfat test was below last year's combined average. The increase in average butterfat tests has grown in the past 2 months. Favorable temperatures and decent feed have attributed to the higher tests.

With pricing of milk in the Northeast Order now based on components, butterfat levels have taken on greater importance. For the first 7 months of 2000, the average butterfat price was \$1.1453 per pound, down 19.4 percent from the same period in 1999. ❖



Northeast Milk Moves South

During the month of August, a net amount of almost 16 million pounds (approximately 313 tankers) of bulk milk pooled under the Northeast Order (Order 1) was shipped to plants in the southeastern United States. Federal orders receiving Order 1 milk include Appalachian, Florida, and Southeast.

As stated, this number is a net figure. The total amount shipped to the southeastern orders was over 26 million pounds; Order 1 received nearly 11 million pounds of milk pooled under southeastern orders. Much of this milk went to plants located in the southern portion of the Northeast Marketing Area. About 70 percent of the volume shipped to the southeastern orders was classified as Class I.

In addition to the South, bulk milk shipments of Order 1 milk were sent to and received from other federal order areas. Overall, the net amount of milk shipped to other federal order areas totaled about 33 million pounds in August. This is about 1.7 percent of total producer milk receipts for the month.

USDA Proposes Changes to Dry Whole Milk Standards

The USDA is soliciting comments on its proposal to change the voluntary United States Standards for Grades of Dry Whole Milk. These standards have been in effect since May 13, 1983.

The proposed changes would reduce the maximum bacterial estimate for both Extra Grade and Standard Grade, incorporate a maximum titratable acidity requirement for both grades, delete the provisions for dry whole milk produced by roller process, and include protein content as an optional test among other changes.

The proposed changes were published in the July 28 Federal Register. Comments must be submitted by September 26. For more information, call USDA's Agricultural Marketing Service (AMS) at (202) 720-8998 or visit the AMS Home Page at www.ams.usda.gov/dairy/stand.htm. ❖



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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 | 849,617,864 | \$10.95 | 93,033,156.17 | |
| Butterfat | 18,252,123 | 1.3238 | 24,162,160.48 | |
| Less: Location Adjustment to Handlers | | | (2,500,098.40) | \$114,695,218.25 |
| Class II— Butterfat | 26,078,715 | 1.2729 | 33,195,596.35 | |
| Nonfat Solids | 30,657,430 | 0.9333 | 28,612,579.46 | 61,808,175.81 |
| Class III— Butterfat | 20,547,065 | 1.2659 | 26,010,529.62 | |
| Protein | 17,053,975 | 1.7952 | 30,615,295.96 | |
| Other Solids | 33,060,076 | 0.0577 | 1,907,566.40 | 58,533,391.98 |
| Class IV— Butterfat | 4,267,498 | 1.2659 | 5,402,225.74 | |
| Nonfat Solids | 8,424,019 | 0.8567 | 7,216,857.10 | 12,619,082.84 |
| Total Classified Value | | | | \$247,655,868.88 |
| Add: Overage—All Classes | | | | 139,211.07 |
| Inventory Reclassification—All Classes | | | | (67,419.26) |
| Other Source Receipts | 233,581 | | | 11,826.78 |
| Less: Producer Component Valuations | | | | (194,650,547.11) |
| Subtotal | | | | \$53,088,940.36 |
| Add: Location Adjustment to Producers | | | | 9,083,271.70 |
| One-half Unobligated Balance—Producer Settlement Fund | | | | 1,210,144.37 |
| Total Pool Milk & Aggregate Value | 1,918,461,403 | | | 63,382,356.43 |
| Less: Producer Settlement Fund—Reserve | | | | (840,514.69) |
| Producer Price Differential @ Suffolk County, MA (Boston) | | \$3.26 | | 62,541,841.74 |
| Statistical Uniform Price @ Suffolk County, MA (Boston) | | \$13.39 | | |

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