

# The Market Administrator's **BULLETIN**

## **NORTHEAST MARKETING AREA**

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**June 2003**

Federal Order No. 1

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### **June Pool Price Calculation**

The June 2003 statistical uniform price (SUP) for the Northeast Marketing Area was announced at \$11.66 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. The June producer price differential (PPD) at Suffolk County was \$1.91 per hundredweight.

The June statistical uniform price was 6 cents per hundredweight above May's price and the June PPD was 2 cents above the previous month's. All class prices increased slightly. The SUP increased slightly due to higher butterfat and protein prices even though the other solids price was negative again. ❖

### **July Blend to Increase, PPD May be Negative**

Higher prices for cheese and butter on the Chicago Mercantile Exchange (CME) indicate that a significant price rebound is likely on the way. On June 20, the CME price for block cheese was \$1.2350 per pound. As of July 10, the CME block price was \$1.5200 per pound, a 23 percent increase in less than 3 weeks. While federal order milk prices are based on wholesale cheese, butter, nonfat dry milk, and dry whey prices collected by the National Agricultural Statistical Service (NASS), these prices generally closely follow price movements on the CME cash market. There is, however, about a 2-week lag between price changes on the CME and changes in NASS prices.

#### **Timing of Higher Prices**

The lag between the CME and NASS price movements mean that the increase will first be noticed in the final milk check for July (the check received around August 18). The July advance payment (payable by July 28) will be based on the lowest class price of the previous month—June's Class III price of \$9.75 per hundredweight (cwt). Assuming wholesale commodity prices hold or continue to rise, the full impact will not be seen until August and September milk checks.

The significant increase in cheese prices over a short period of time will cause a big jump in the Class III price beginning in July. While this will boost prices received by producers, it will cause the producer price differential (PPD) value to be very small and in some locations negative. The federal order pool, where the monthly statistical uniform price (SUP) and PPD is calculated, is a pool of dollars collected (continued on page 2)

### **Pool Summary**

- A total of 16,135 producers were pooled under the Order with an average daily delivery per producer of 4,137 pounds.
- Pooled milk receipts totaled 2.002 billion pounds, a decrease of 5.0 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 41.3 percent of total milk receipts, a decrease of 0.8 percentage points from May.
- The average butterfat test of producer receipts was 3.63 percent.
- The average true protein test of producer receipts was 2.95 percent.
- The average other solids test of producer receipts was 5.71 percent. ❖

Pooled Milk	Percent	Pounds
Class I	41.3	826,980,772
Class II	19.6	392,591,886
Class III	30.7	614,563,061
Class IV	8.4	168,248,394
Total Pooled Milk		2,002,384,113

#### **Producer Component Prices**

	2003	2002
	\$/lb	
Protein Price	1.9434	2.0148
Butterfat Price	1.1576	1.1211
Other Solids Price	(0.0200)	0.0247

#### **Class Price Factors**

	2003	2002
	\$/cwt	
Class I	12.99	14.28
Class II	10.46	11.19
Class III	9.75	10.09
Class IV	9.76	10.52

## July Blend Prices *(continued from page 1)*

from processors making Class I, II, III and IV products and who contribute to the pool based on the products they make and the respective class prices. All producers are paid for protein, butterfat, and other solids components out of the pool at the same value as the protein, butterfat, and other solids components in Class III milk. Generally, there is money remaining in the pool after producers are paid for their components that is generated by Classes I, II and IV. This money is returned to producers on a per cwt basis through the PPD. In fact, subtracting the Class III price from the SUP will exactly equal the PPD.

### **Advance Pricing Impacts PPD**

Class I milk under federal orders is priced on an advanced basis. The July price for Class I fluid milk processors was released on June 20 based on NASS cheese, butter, nonfat dry milk, and dry whey prices during the first 2 weeks of June. The Class III price for July will be released on August 1, based on NASS prices during July. Cheese prices for the first 2 weeks of June, used in the calculation of the Class I price, averaged \$1.1387 per pound. Cheese prices for the month of July (used in the Class III calculation) will likely average about \$1.37 per pound. This will result in a July Class III price just below the uniform price. Our office has estimated a PPD of 41 cents per cwt in Boston that will be negative in the more distant zones.

### **Negative PPD is Not Negative**

Despite what producers may think, a very low or negative PPD in July *does not* result in their receiving less money for their milk. The total amount of money generated by the federal order marketwide pool is fixed based on the level of commodity prices. The

## Northeast Order Price Estimates, July–September 2003

Differential Zone	July		August		September	
	SUP	PPD	SUP	PPD	SUP	PPD
	(\$/cwt)					
Boston (3.25 zone)	12.34	0.41	13.41	0.27	14.50	1.20
New York Metro (3.15 zone)	12.24	0.31	13.31	0.17	14.40	1.10
Philadelphia, PA (3.05 zone)	12.14	0.21	13.21	0.07	14.30	1.00
Syracuse, NY (2.50 zone)	11.59	(0.34)	12.66	(0.48)	13.75	0.45

Note: Per cwt MILC payments are \$1.76 for July, and estimated at \$1.17 for August and \$0.25 for September.

money in the pool can be dispersed to producers via higher component prices and a low PPD (which will be the case in July) or via a high PPD and low component prices, or something in between. The low or negative PPD is simply the result of a calculation that is needed to balance the pool. In fact, it can be viewed as a positive price signal in that it can only happen when milk prices are rising rapidly. It is likely that the August pool will also result in negative PPD values in the more distant zones, but by August the SUP could be about \$1.75 per cwt higher than June.

### **Affect on MILC**

As higher commodity prices work their way through federal order class prices, the monthly payment under the Milk Income Loss Contract (MILC) program will begin to decrease. The decline will not be that noticeable until September, but by that time if commodity markets remain at current levels, the SUP under the Northeast Order is projected to be about 3 dollars per cwt higher than June's price. The accompanying table reports SUP, PPD, and MILC estimates for the next 3 months based on current market indicators.❖

## Pool Summary for All Federal Orders, January–June, 2002–03

Federal Order		Total Producer Milk			Producer Price Differential#		Statistical Uniform Price#*	
Number	Name	2002	2003	Change	2002	2003	2002	2003
		pounds			percent	dollars per hundredweight		
1	Northeast	13,160,315,636	12,397,934,583	(5.8)	2.06	2.12	13.05	11.69
5	Appalachian	3,546,790,570	3,284,786,402	(7.4)	N/A	N/A	13.57	12.29
6	Florida	1,408,385,783	1,513,134,462	7.4	N/A	N/A	15.06	13.37
7	Southeast	4,300,241,112	3,690,872,186	(14.2)	N/A	N/A	13.34	12.12
30	Upper Midwest	10,335,834,450	11,244,488,942	8.8	0.51	0.47	11.49	10.04
32	Central	9,222,831,621	9,106,326,065	(1.3)	0.81	0.80	11.79	10.37
33	Mideast	9,396,763,888	8,744,275,762	(6.9)	1.03	1.07	12.01	10.64
124	Pacific Northwest	3,901,081,135	3,716,933,088	(4.7)	0.75	0.81	11.73	10.38
126	Southwest	5,033,438,366	5,374,074,779	6.8	1.84	1.80	12.83	11.37
131	Arizona-Las Vegas	1,613,182,234	1,634,258,852	1.3	N/A	N/A	11.89	10.53
135	Western	2,767,925,058	3,224,794,544	16.5	0.65	0.60	11.69	10.17
All Market Total/Average		64,686,789,853	63,931,879,665	(1.2)	1.09	1.10	12.59	11.18

# Price at designated order location.

\* Price at 3.5% butterfat.

N/A = Not applicable; order prices on skim and butterfat basis.

# MARKET SITUATION

## 2002 Component Levels Compared for Selected Orders

The levels of butterfat, protein, and other solids vary by federal milk marketing order. The accompanying charts show component tests for the year 2002 for the Northeast, Southwest, Upper Midwest, and Western Federal Milk Marketing Orders. These orders were chosen to give a sampling from various regions around the country. Other federal orders not shown in the charts are discussed in this article. In addition, not all federal orders pay on a component basis.

### Butterfat Tests

Data published by USDA indicate that the Upper Midwest averaged the highest butterfat levels during 2002 with 3.73 percent, followed by the Central Order at 3.70 percent. The Northeast and Mideast orders finished third with 3.69 percent. Throughout 2002, the Mideast nearly mirrored the Northeast average on a monthly basis. Orders in the western and southwestern United States averaged the lowest butterfat tests. All other federal orders averaged between 3.63 and 3.67 percent for the year.

The highest average monthly butterfat test reported in 2002 for all eleven orders was 3.84 percent in November in the Upper Midwest. The lowest butterfat test was 3.48 percent in July in the Western Order.

### Protein Tests

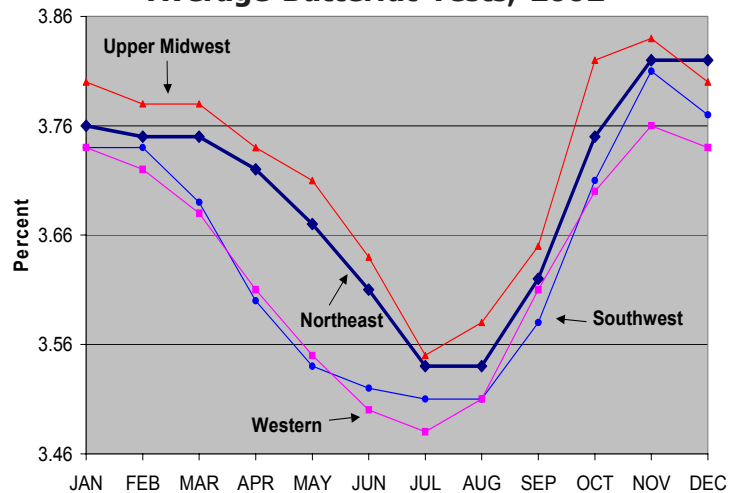
The Western Order had the highest protein levels of the orders reporting with an average test of 3.07 percent during 2002. All other federal orders averaged between 3.00 and 3.05 percent for the year. The highest monthly average protein test reported was 3.16 percent, by both the Western and Southwestern Orders during November. The Northeast reported the lowest average protein levels throughout the year and experienced the lowest monthly average with 2.88 percent in July.

### Other Solids Tests

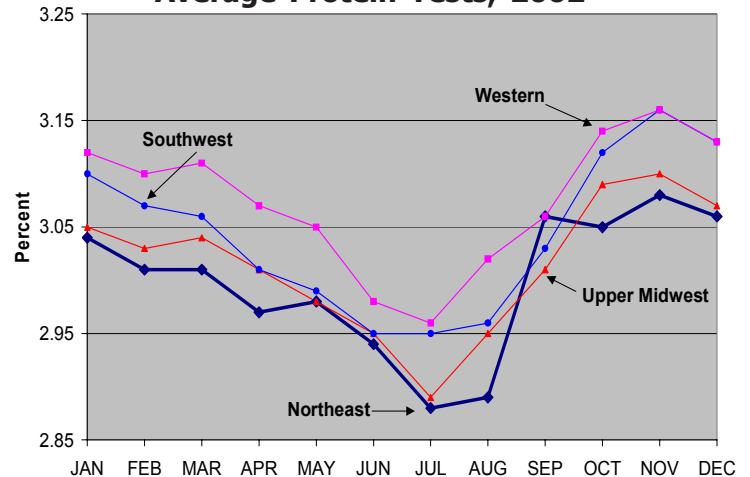
A look at the other solids chart shows a less clear picture than for butterfat and protein. This component does not have as distinct a seasonal pattern as the other components. The Western Order reported the highest annual average of 5.72 percent for the year, while the Southwest had the lowest average with 5.69 percent. All other orders averaged 5.71 percent for the year.

The variance between highest and lowest average test during the year by all orders was largest for butterfat at 0.36 percentage points. Protein showed a 0.28 percentage point variance. Other solids stayed within a 0.11 percentage point range. ❖

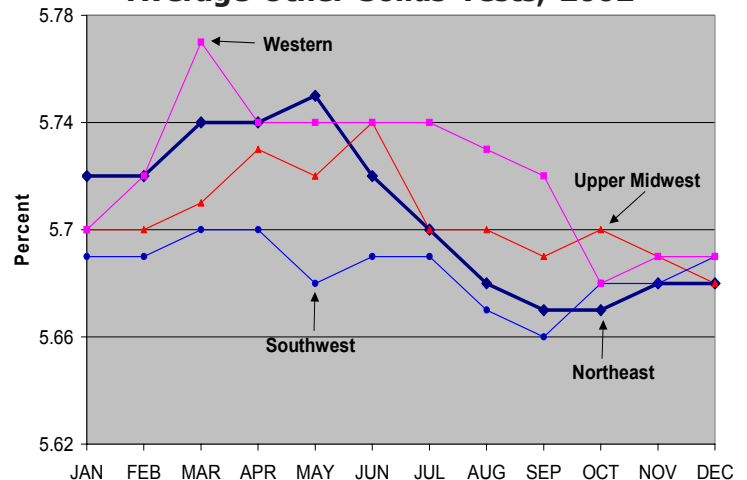
### Average Butterfat Tests, 2002



### Average Protein Tests, 2002



### Average Other Solids Tests, 2002





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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	809,908,290	\$9.17	74,268,590.19	
Butterfat	17,072,482	1.1825	20,188,209.97	
Less: Location Adjustment to Handlers			(2,499,495.91)	\$91,957,304.23
Class II— Butterfat	27,891,782	1.1646	32,482,769.30	
Nonfat Solids	32,798,266	0.7356	24,126,404.46	56,609,173.76
Class III— Butterfat	21,412,012	1.1576	24,786,545.06	
Protein	18,110,437	1.9434	35,195,823.26	
Other Solids	35,045,423	(0.0200)	(700,908.46)	59,281,459.86
Class IV— Butterfat	6,366,309	1.1576	7,369,639.29	
Nonfat Solids	14,574,309	0.6574	9,581,150.77	16,950,790.06
<b>Total Classified Value</b>				<b>\$224,798,727.91</b>
Add: Overage—All Classes				4,014.15
Inventory Reclassification—All Classes				72,440.93
Other Source Receipts	113,493			3,372.88
Less: Producer Component Valuations				(196,605,278.56)
<b>Subtotal</b>				<b>\$28,273,277.31</b>
Add: Location Adjustment to Producers				9,685,436.51
One-half Unobligated Balance—Producer Settlement Fund				1,131,769.59
<b>Total Pool Milk &amp; Aggregate Value</b>	2,002,497,606			39,090,483.41
Less: Producer Settlement Fund—Reserve				(842,779.15)
<b>Producer Price Differential @ Suffolk County, MA (Boston)</b>		<b>\$1.91</b>		38,247,704.26
<b>Statistical Uniform Price @ Suffolk County, MA (Boston)</b>		<b>\$11.66</b>		

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