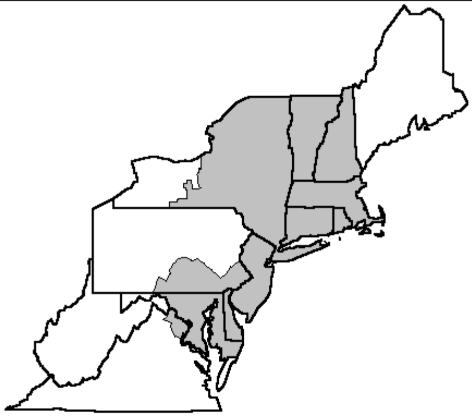


The Market Administrator's

BULLETIN

NORTHEAST MARKETING AREA

***Erik F. Rasmussen**, Market Administrator*

February 2005 Federal Order No. 1

To contact the Northeast Marketing Area offices:
Boston, MA: phone (617) 737-7199, 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

February Pool Price Calculation

The February 2005 statistical uniform price (SUP) for the Northeast Marketing Area was announced at $15.51 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 February producer price differential (PPD) at Suffolk County was $0.81 per hundredweight.

February's statistical uniform price was 80 cents per hundredweight below the January price; the February PPD was $1.36 below last month's. All class prices were higher than last month's except for the Class I price that reflected commodity prices from January. During February, butter and cheese prices increased resulting in higher producer butterfat and protein prices. This resulted in a 30-cent drop in producer butterfat and protein prices for January. These components are incorporated into the Class II, III, and IV prices, which were up from January. The rapid increase in prices was reflected in a tightening of the spread between the class prices and resulted in a much lower PPD. For producers shipping to plants with a $2.40 or less differential, the PPD will be negative.❖

U.S. Milk Production Flat in 2004

Total milk production in the United States was relatively unchanged during 2004 when compared to 2003. The National Agricultural Statistics Service (NASS) reported an increase of 0.2 percent for 2004, but when this figure is adjusted for leap year, there was no change from the previous year. This follows a slight increase of 0.2 percent in 2003 and 2.9 percent in 2002. The total number of cows declined 0.8 percent in 2004, and milk production per cow increased 1.1 percent. For the remainder of this article, all milk production comparisons for 2004 have been adjusted for leap year.

Factors Affecting Milk Production

The total number of cows was down during 2004 and replacement heifers were in short supply, further stunted by BSE (mad cow) scares that stopped shipments from Canada. The average number of cows during the first quarter of 2004 was down 1.6 percent from the previous year. This, combined with the decline in milk per cow during the same quarter, resulted in a drop of 1.9 percent in total milk production. The cow number situation improved throughout the year with 2004 actually finishing above the previous year during the last 2 months. Feed quality and

(continued on page 2)

Pool Summary

- A total of 15,021 producers were pooled under the Order with an average daily delivery per producer of 4,297 pounds.
- Pooled milk receipts totaled 1.8 billion pounds, relatively unchanged from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 46.4 percent of total milk receipts, an increase of 0.7 percentage points from January.
- The average butterfat test of producer receipts was 3.72 percent.
- The average true protein test of producer receipts was 3.05 percent.
- The average other solids test of producer receipts was 5.68 percent.❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	46.4	839,181,394
Class II	19.3	348,789,732
Class III	22.0	396,838,247
Class IV	12.3	222,612,032
Total Pooled Milk		1,807,421,405

Producer Component Prices

	2005	2004
	$/lb	
Protein Price	2.6613	1.7911
Butterfat Price	1.7754	1.8518
Other Solids Price	0.0915	0.0090

Class Price Factors

	2005	2004
	$/cwt	
Class I	17.04	14.84
Class II	13.36	12.90
Class III	14.70	11.89
Class IV	12.74	12.21

MILC Payments

As of December 28, 2004, Milk Income Loss Contract (MILC) payments made to U.S. dairy farmers during the October 2003–September 2004 fiscal year (FY 2004) totaled $198 million dollars. The Northeast's share of that total was $43 million dollars, or 21.6 percent. Since the start of the MILC program, $2.018 billion dollars were paid to qualifying producers, $503 million paid to farmers in Northeast states, or 24.9 percent.

In 2004, New York led all Northeast states with payments received totaling $16.4 million, followed by Pennsylvania at $14.5 million and Vermont with $4.2 million. The accompanying table shows payments for states in the Northeast.

MILC Payments Received by Northeast States, FY 2004 and Overall

State	2004	Program to Date
	dollar amount	
Connecticut	677,744	6,842,592
Delaware	162,113	1,952,723
Maine	1,035,823	11,235,506
Maryland	1,598,981	19,930,796
Massachusetts	601,855	7,502,501
New Hampshire	502,637	5,615,256
New Jersey	369,902	4,386,388
New York	16,383,024	186,699,972
Pennsylvania	14,511,957	180,213,514
Rhode Island	36,430	488,331
Vermont	4,207,243	45,223,308
Virginia	2,732,040	32,877,262
Northeast Total	42,819,750	502,968,147
U.S. Total	197,993,535	2,017,814,476

In 2004, Wisconsin led all states nationwide with farmers receiving a total of $37 million in payments, almost 19 percent of the national total. California ranked second with $24 million. New York and Pennsylvania ranked third and fifth respectively. Minnesota was fourth with $14.7 million paid. Since the start of the program, Wisconsin producers have received $414 million, the most of any state and over 20 percent of all payments made. New York and Pennsylvania rank second and third with $187 million and $180 million, respectively.

Producers received MILC payments just 4 months during FY 2004, averaging $0.65 per hundredweight. The highest payment made during FY 2004 was $0.95 per hundredweight, recorded in February 2004. To date, there have been no MILC payments made during the October 2004–September 2005 fiscal year. Based on current Chicago Mercantile Exchange futures prices, the Class I price at Boston is projected to stay at or above the $16.94 per hundredweight threshold price resulting in no payments through the remainder of 2005.❖

U.S. Milk Production *(continued from page 1)*

decreased availability of BST both stunted milk production per cow, especially during the first half of 2004. Milk per cow improved throughout the year, and combined with the increase in cow numbers helped balance the declines that occurred during the first half of 2004. Overall, this resulted in an increase of only 411 million pounds, which equates to a relatively insignificant percentage change for the year.

Top Producing States

There was no change in rank of any of the top ten milk-producing states. Within the top twenty, Kansas displaced Colorado for the number 18 spot; last year it was nineteenth.

Of the top ten ranked states (see table), only four finished the year with increases in production. Idaho was the only state to experience year-to-year increases each month during 2004. Texas had the highest overall percentage increase, but had a slight (0.6 percent) drop in December 2004. Even California, which has had steady growth in the past years, saw declines during the first quarter of 2004.

Nationally, only 17 states reported positive changes in milk production. Eight states faced double-digit percentage decreases in 2004.

Top Ten States Ranked by Milk Production, 2004

Rank	State	2003	2004	Percent Change
		million pounds		
1	California	35,437	36,465	2.6
2	Wisconsin	22,266	22,085	(1.1)
3	New York	11,952	11,650	(2.8)
4	Pennsylvania	10,338	10,062	(2.9)
5	Idaho	8,774	9,093	3.4
6	Minnesota	8,258	8,102	(2.2)
7	New Mexico	6,666	6,710	0.4
8	Michigan	6,375	6,315	(1.2)
9	Texas	5,630	6,009	6.4
10	Washington	5,581	5,416	(3.2)
	Top Ten Total	121,277	121,907	0.2
	U.S. Total	170,395	170,805	(0.0)

Source: National Agricultural Statistics Service, *Milk Production*.

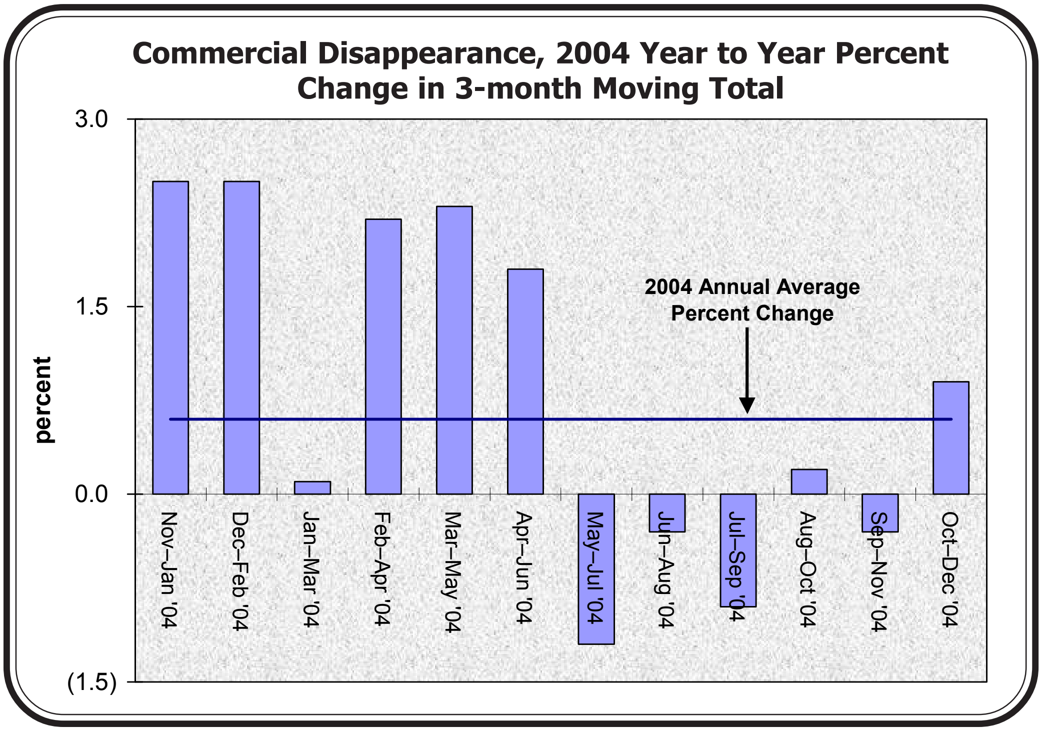
The National Agricultural Statistics Service (NASS) has reported milk production for the top twenty milk-producing states for a number of years. Beginning with January 2005, they added Colorado, Kansas, and Oregon to the list of states, increasing the number to 23 and capturing about 91 percent of U.S. milk production. During 2004, the top 20 states reported by NASS accounted for 87.1 percent.

Northeast Production Declines Again

In the Northeast, the states that normally contribute to the Northeast Order milkshed had a combined decline of 3.0 percent in 2004. These states accounted for 19.6 percent of total U.S. production, down from 20.2 percent in 2003. The New England states (Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont) had a combined decline of 3.2 percent. The top three milk producing states in the Northeast (New York, Pennsylvania, and Vermont) had a combined drop of 2.8 percent.

Cow numbers declined 3.1 percent in the northeastern states during 2004. Average milk per cow in these states increased 1.5 percent from 2003.❖

2004 Dairy Demand



Commercial disappearance (USDA's measurement of total milk usage) finished 2004 up 0.3 percent (adjusted for leap year) over 2003. Demand was stronger in the first half of the year, and when coupled with a decreasing or flat milk supply during that period, resulted in high commodity and producer prices. During the second half of the year, demand was below or about even with previous year's levels 5 out of 6 months. The accompanying chart shows the change in demand over the previous year for each month relative to the annual percent change in demand. The softening of demand is likely a response to the very high prices that resulted from the early year environment of increasing demand and tight supply. It may also reflect some delayed holiday purchasing as buyers waited for further price declines. Demand returned in December 2004 and was accompanied by a short duration of increases in prices.

Cheese sales rose about 2.4 percent from 2003 to 2004 (see table). Year-to-year commercial disappearance of American cheese grew 2.0 percent. Commercial disappearance for other cheeses increased 2.6 percent. Demand for butter increased 0.5 percent in 2004, less than half of the increase of the previous year.

Demand for nonfat dry milk increased 41.6 percent in 2004. The weakened U.S. dollar has led to increased exports of nonfat dry milk, and the environment of relatively high international prices is expected to remain throughout 2005. Normally, the decline in fluid milk sales during the holidays leads to more milk moving through balancing plants that manufacture nonfat dry milk, and a portion of that milk is sold to the government. This year, exports of nonfat dry milk absorbed this surplus, and the government reported some sales of old powder.

Fluid milk sales were down 1.4 percent compared to 2003. The decrease also reflected the response to high retail prices for milk seen in 2004. The decrease is the fourth time since 2000 that annual fluid milk sales have slipped.

Ending commercial stocks declined for the second year in a row to 7.1 billion pounds in 2004. Ending commercial stocks were 9.9 billion pounds and 8.3 billion pounds in 2002 and 2003, respectively.

USDA forecasts predict a 1.5 percent increase in demand during the first half of 2005 compared to 2004 and a 1.4 percent increase in demand for the year overall.❖

Commercial Disappearance: Total Milk and Selected Dairy Products, 2003–2004

Item	Jan–Dec 2003	Jan–Dec 2004	Percent change [1/]
	mil. lbs	mil. lbs	
Milk			
Production	170,394	170,338	(0.3)
Marketings	169,280	169,291	(0.3)
Beginning Commercial Stocks [2/]	9,891	8,308	(16.2)
Imports [2/]	5,040	5,227	3.4
Total Supply	184,211	182,826	(1.0)
Ending Commercial Stocks [2/]	8,331	7,130	(14.6)
Net Removals [2/]	1,162	(64)	(105.5)
Commercial Disappearance	174,718	175,759	0.3
Selected products [3/]			
Butter	1,309	1,319	0.5
American Cheese	3,708	3,792	2.0
Other Cheese	5,341	5,496	2.6
Nonfat Dry Milk	922	1,309	41.6
Fluid Milk Products [4/]	54,981	54,375	(1.4)

1/ Adjusted for leap year.
2/ Milk-equivalent, milkfat basis.
3/ Commercial disappearance in product pounds.
4/ Sales. Estimate based on actual sales in federal milk order marketing areas and California.
Source: *Dairy Market News*, USDA.

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Computation of Producer Price Differential and Statistical Uniform Price*

		Product Pounds	Price per cwt./lb.	Component Value	Total Value
Class I—	Skim	822,378,603	$11.22	92,270,879.26	
	Butterfat	16,802,791	1.7763	29,846,797.65	
Less:	Location Adjustment to Handlers			(2,627,560.51)	$119,490,116.43
Class II—	Butterfat	25,498,965	1.7824	45,449,355.22	
	Nonfat Solids	29,297,208	0.8200	24,023,710.56	69,473,065.78
Class III–	Butterfat	15,781,046	1.7754	28,017,669.09	
	Protein	12,097,806	2.6613	32,195,891.09	
	Other Solids	22,441,405	0.0915	2,053,388.56	62,266,948.74
Class IV–	Butterfat	9,216,629	1.7754	16,363,203.12	
	Nonfat Solids	19,363,607	0.7514	14,549,814.27	30,913,017.39
Total Classified Value					**$282,143,148.34**
Add:	Overage—All Classes				29,359.89
	Inventory Reclassification—All Classes				167,518.57
	Other Source Receipts	38,776			884.10
Less:	Producer Component Valuations				(275,774,372.83)
	Subtotal				**$6,566,538.07**
Add:	Location Adjustment to Producers				8,521,127.53
	One-half Unobligated Balance—Producer Settlement Fund				401,619.04
Total Pool Milk & Aggregate Value		1,807,460,181			15,489,284.64
Less:	Producer Settlement Fund—Reserve				(848,857.23)
Producer Price Differential @ *Suffolk County, MA (Boston)*			**$0.81**		14,640,427.41
Statistical Uniform Price @ *Suffolk County, MA (Boston)*			**$15.51**		

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