

The Market Administrator's BULLETIN

NORTHEAST MARKETING AREA

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Federal Order No. 1

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November Pool Price Calculation

The November 2005 statistical uniform price (SUP) for the Northeast Marketing Area was announced at \$15.41 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 November producer price differential (PPD) at Suffolk County was \$2.06 per hundredweight.

November's statistical uniform price was 47 cents per hundredweight below the October price; the November PPD was 53 cents above last month's. During November, commodity butter and cheese prices declined while powder prices rose. As a result, all class prices declined except the Class I price, which is announced on an advanced basis and was based on October data.

The producer butterfat test jumped 0.08 percentage points to 3.82 percent, the highest butterfat test since December 2002. Protein increased another 0.03 percentage points to 3.13 percent, equivalent to November 2004 and the highest test on record under the Order. ❖

Product Reclassification Impacts PPD

As reported in the October 2005 *Bulletin*, a USDA Administrative Law Judge ruled in October on a challenge initiated by HP Hood LLC over the classification of Hood's Carb Countdown dairy beverage. The ruling held that Carb Countdown is not a Class I fluid milk product, as had been defined by the Agricultural Marketing Service (AMS) of USDA, but rather is a Class II product. The decision also stated that Hood was entitled to a refund of the difference between the class values of the product for the period in which the product was regulated as Class I under the Northeast Order.

The cost of reclassifying Hood's Carb Countdown from Class I to Class II exceeds \$3 million. Since Hood had previously been charged the higher Class I price for Carb Countdown, reimbursement money will be deducted from the Northeast Order pool during calculation of the monthly statistical uniform price (SUP) for the months of November, December, and January. This will have the effect of reducing the SUP by between 4 and 5 cents per hundredweight for each of these months. Refer to the "Computation of Producer Price Differential and Statistical Uniform Price" on page 4 of this *Bulletin* for an explanation of how this adjustment occurs in the pool calculation. ❖

Pool Summary

- A total of 14,636 producers were pooled under the Order with an average daily delivery per producer of 4,184 pounds.
- Pooled milk receipts totaled 1.837 billion pounds, a decrease of 0.3 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 48.7 percent of total milk receipts, an increase of 0.5 percentage points from October.
- The average butterfat test of producer receipts was 3.82 percent.
- The average true protein test of producer receipts was 3.13 percent.
- The average other solids test of producer receipts was 5.70 percent. ❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	48.7	895,118,330
Class II	20.0	367,889,400
Class III	21.9	401,395,461
Class IV	9.4	172,445,717
Total Pooled Milk		1,836,848,908

Producer Component Prices

	2005	2004
	\$/lb	
Protein Price	2.2724	2.4297
Butterfat Price	1.6114	2.0489
Other Solids Price	0.1606	0.0800

Class Price Factors

	2005	2004
	\$/cwt	
Class I	17.81	17.54
Class II	13.49	14.09
Class III	13.35	14.89
Class IV	12.90	13.34

More Milk Moves South

During the months of October and November, net bulk milk shipments to the Appalachian, Florida, and Southeast federal milk marketing orders increased by 47.6 percent compared to the same period in 2004. The net total is calculated by taking total bulk shipments from plants regulated by the Northeast Order to plants regulated by the orders mentioned above and subtracting out receipts from plants regulated by those same orders to plants regulated by the Northeast Order. This amounted to 7.7 million pounds more than last year. It is normal during this time of the year for shipments to increase to the southern states, but additional demands were placed on the South due to shortages resulting from the hurricanes that hit late this summer.

Overall, more milk was received from other federal orders around the country than shipped from the Northeast Order during October and November, resulting in a net amount of 5.4 million pounds more receipts than shipments. This actually was down 61 percent from the same period in

2004. Other orders shipping in and out of the Northeast Order include the Upper Midwest, Central, and Mideast. ❖

Limitation on Producer-Handlers

On December 9, 2005, the USDA announced a final decision that adopts amendments to the current provisions of the Pacific Northwest and Arizona-Las Vegas milk marketing orders. The amendments reflect a decision that establishes a 3 million pound per month route disposition limit, which if exceeded, would subject a producer-handler to the pooling and pricing provisions of the Pacific Northwest and the Arizona-Las Vegas milk marketing orders. The final decision was published in the Dec. 14 Federal Register. USDA will conduct a referendum to determine producer approval. If producers approve the order as amended by the final decision, a final rule will follow to implement the changes. ❖

Blend Prices and Milk Production

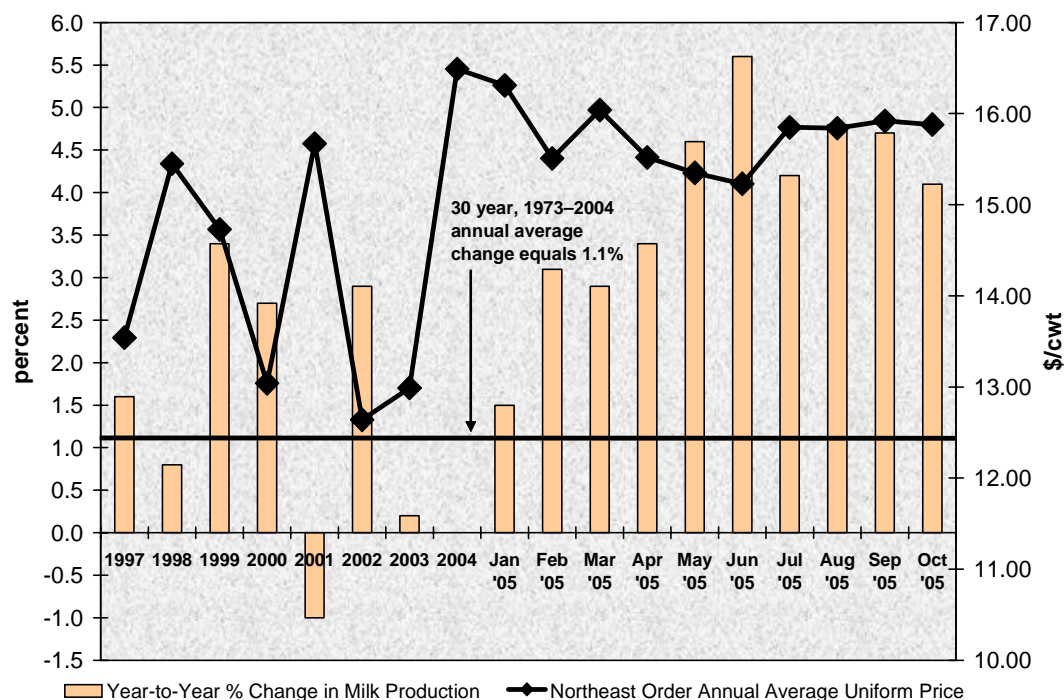
The accompanying graph shows year-to-year changes in U.S. milk production from 1997 to 2004 and monthly changes for 2005, as reported by USDA. Contrasting this data is the annual average statistical uniform price for the Northeast Order (monthly for 2005). From 2000 to present, this price is reported at the base (Boston differential); prior to 2000, the price represents the average statistical uniform price for the three predecessor orders.

Generally, there is a cause and effect relationship between the two sets of data. It is the basic supply and demand relationship—increases in milk production tend to result in decreases in milk prices and vice versa. As depicted in the graph, when milk production dropped, as in 1998, the blend price jumped. Similar scenarios occurred in 2001, 2003, and most notably, 2004. Price declines occurred in 1999, 2000, and 2002 when milk production saw substantial gains.

In contrast, since the beginning of 2005 milk production has increased significantly above the prior year levels. At the same time blend prices have remained relatively stable and at levels that may result in the second highest annual average blend price since the Order became effective.

Over the long-term (1973-2004), U.S. milk production has averaged an annual change of 1.1 percent. Since January 2005, milk production has averaged a monthly increase of 3.9 percent. During that same period, blend prices have averaged 74 cents less than during 2004. With milk production forecasted to continue upward, it is expected that blend prices will decline further in 2006. ❖

Change in U.S. Milk Production and Uniform Price, 1997–October 2005



Source: National Agricultural Statistics Service's *Agricultural Prices*.

Payment Dates to Producers

The calendar below shows the dates for partial payments to producers that are not members of cooperatives. As required by the Order, payment must be made so that a producer receives it no later than the date shown. The table dates vary due to weekends and national holidays.

The Order was amended effective with milk produced and pooled in June 2005. As a result, the final payment date that non-member producers must be paid became dependent on the date that the statistical uniform price is announced. Each month, this date (that final payments to producers must be received by) is printed on the back of the Pool Price Announcement. ❖

Northeast Plant Closings Since 2004

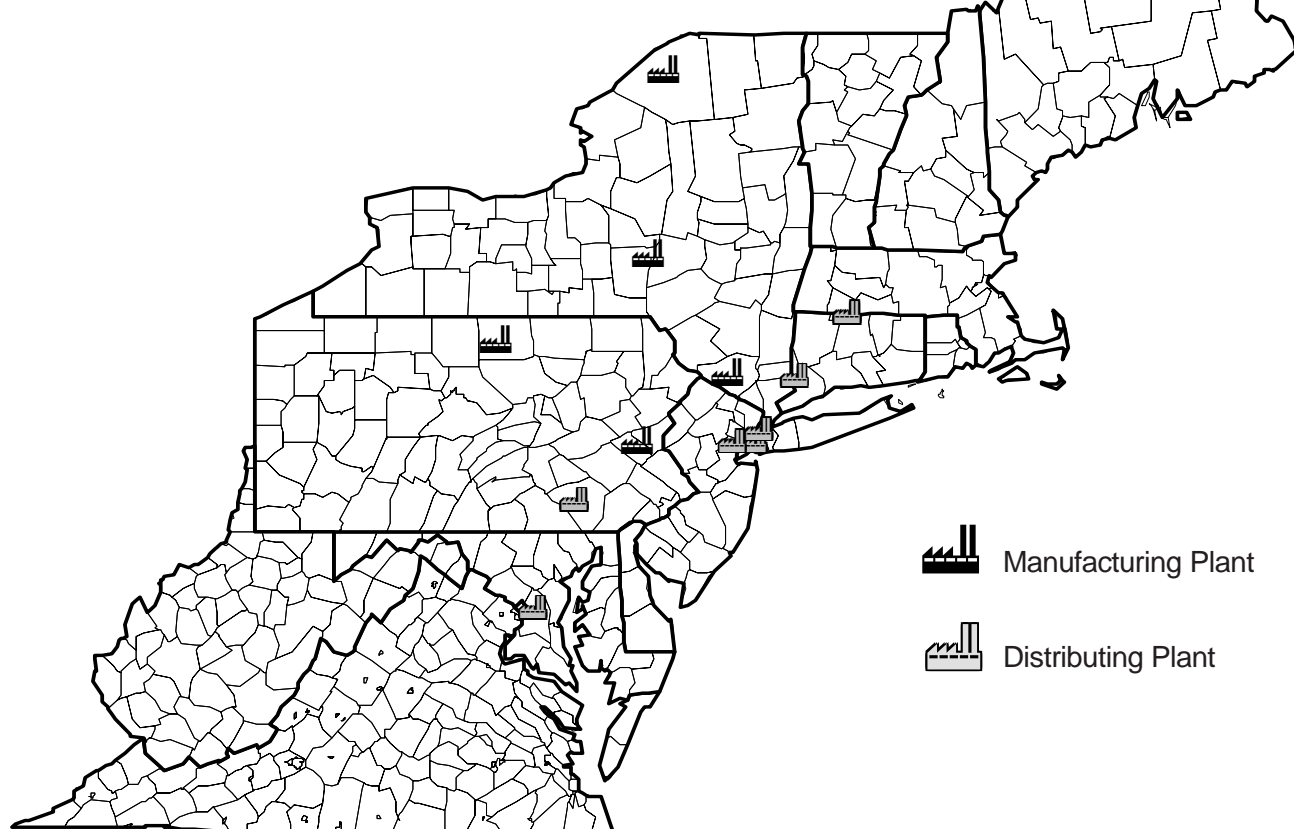
Since January 2004, there have been 12 plant closings or contractions that have had an impact on the Northeast Order pool. Of these, 7 were pool distributing plants whose combined utilization averaged 106 million pounds per month. The other 5 plants were manufacturing plants whose combined utilization averaged 47 million pounds per month. The locations of these plants are depicted on the accompanying map.



Required Producer Payments Under the Northeast Order

2006 Month Milk Produced	Partial Payment Due	
	Day	Date
January	Thursday	1/26/06
February	Monday	2/27/06
March	Monday	3/27/06
April	Wednesday	4/26/06
May	Friday	5/26/06
June	Monday	6/26/06
July	Wednesday	7/26/06
August	Monday	8/28/06
September	Tuesday	9/26/06
October	Thursday	10/26/06
November	Monday	11/27/06
December	Tuesday	12/26/06

The majority of the milk that was processed at these plants remains pooled on the Northeast Order. Some of the milk may be processed in a different class, impacting the Order's utilization and, thus, uniform price. ❖

Northeast Plant Closings, January 2004 Through Present



-  Manufacturing Plant
-  Distributing Plant



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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	876,256,337	\$11.73	102,784,868.33	
Butterfat	18,861,993	1.8551	34,990,883.21	
Less: Location Adjustment to Handlers			(2,849,561.38)	\$134,926,190.17
Class II— Butterfat	28,744,468	1.6184	46,520,047.00	
Nonfat Solids	31,085,361	0.9011	28,011,018.83	74,531,065.83
Class III— Butterfat	15,477,105	1.6114	24,939,806.97	
Protein	12,564,087	2.2724	28,550,631.29	
Other Solids	22,842,149	0.1606	3,668,449.16	57,158,887.42
Class IV— Butterfat	7,135,044	1.6114	11,497,409.87	
Nonfat Solids	15,198,425	0.8351	12,692,204.77	24,189,614.64
Total Classified Value				\$290,805,758.06
Add: Overage—All Classes				119,451.78
Inventory Reclassification—All Classes				(241,558.39)
Less: Producer Component Valuations				(260,643,995.59)
Subtotal				\$30,039,655.86
Add: Location Adjustment to Producers				8,587,717.22
One-half Unobligated Balance—Producer Settlement Fund				0.00 **
Total Pool Milk & Aggregate Value	1,836,848,908			38,627,373.08
Less: Producer Settlement Fund—Reserve				(788,285.55)
Producer Price Differential @ Suffolk County, MA (Boston)		\$2.06		37,839,087.53
Statistical Uniform Price @ Suffolk County, MA (Boston)		\$15.41		

For November, December, and January pool this value will be "0"

PPD will be 4 to 5 cents lower

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

** Zero due to obligation for settlement of the *H.P. Hood et. al.* 7 U.S.C. Sec.608(15)(A) decision.