The Market Administrator's

BULLETIN

NORTHEAST MARKETING AREA

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January 2007 Federal Order No. 1

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January Pool Price Calculation

The January 2007 statistical uniform price (SUP) for the Northeast Marketing Area was announced at $15.09 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 January producer price differential (PPD) at Suffolk County was $1.53 per hundredweight.

January's statistical uniform price was 67 cents per hundredweight above the December price; the January PPD was 58 cents above last month's. Commodity butter and cheese prices declined while nonfat dry milk and dry whey prices increased. As a result, butterfat and protein prices dropped while nonfat and other solids prices rose. All class prices rose with the Class I price, announced on an advanced basis, jumping $1.16 per hundredweight. The spread between the prices increased resulting in a higher PPD.

The producer other solids test averaged 3.72 percent, and when combined with the record-high other solids price, resulted in the largest other solids value since the Order's inception. (See related article on contribution to producer payment on page 3.)❖

Hearing on Proposed Order Amendments

The U.S. Department of Agriculture will hold a national public hearing to consider and take evidence on proposals seeking to amend the Class III and Class IV product price formulas applicable to all Federal Milk Marketing Orders. The hearing will commence February 26, 2007, at the Holiday Inn Select–Strongsville, 15471 Royalton Road, Strongsville, OH. Phone (440)238-8800.

This hearing follows USDA's request in September 2006 for industry proposals that would examine all features of the existing Class III and Class IV product price formulas. Both producer organizations and milk product manufacturers submitted proposals. In December 2006, USDA held a public information session on the submitted proposals enabling proponents to better prepare testimony and questions for this now announced hearing.

Additional information is available via internet at: http://www.ams.usda.gov/dairy/class_III_IV_pr_formulas/class_III_IV_hearing.htm or by contacting any Market Administrator's office. Anyone interested in participating in the Strongsville hearing should notify a USDA official upon arrival. ❖

Pool Summary

- A total of 13,901 producers were pooled under the Order with an average daily delivery per producer of 4,361 pounds.
- Pooled milk receipts totaled 1.879 billion pounds, an increase of 1.9 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 48.6 percent of total milk receipts, a decrease of 0.4 percentage points from December.
- The average butterfat test of producer receipts was 3.76 percent.
- The average true protein test of producer receipts was 3.07 percent.
- The average other solids test of producer receipts was 5.72 percent.❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	48.6	913,633,477
Class II	19.7	370,135,496
Class III	23.0	432,832,414
Class IV	8.7	162,696,233
Total Pooled Milk		1,879,297,620

Producer Component Prices

	2007	2006
	$/lb	
Protein Price	2.4053	2.3994
Butterfat Price	1.3009	1.4684
Other Solids Price	0.3183	0.1881

Class Price Factors

	2007	2006
	$/cwt	
Class I	16.84	16.63
Class II	12.85	13.25
Class III	13.56	13.39
Class IV	12.53	12.20

U.S. Milk Production Up in 2006

Milk production in the United States registered an increase of 2.8 percent in 2006. This follows an increase of 3.8 percent in 2005. The top ten milk-producing states showed an increase of 3.5 percent, while the top 23 states as reported by the National Agricultural Statistics Service (NASS) grew 3.1 percent.

Top Producing States

Nationally, milk production was strong during the first quarter of 2006 compared to the same quarter in 2005, averaging 5.1 percent higher. Of course, this was before production began to rebound in May 2005. During the spring and summer, production tapered off, increasing slightly during the last 4 months of 2006.

The accompanying table shows the top ten milk-producing states during 2006. There were some changes in rankings: Idaho surpassed Pennsylvania in the number 4 spot and Texas bumped Michigan to number 9. Texas and Idaho had the largest percentage increases with 10.9 and 7.2 percent, respectively. Only New York and Washington registered declines in annual production among the group of top ten states.

Top Ten States Ranked by Milk Production, 2006

Rank	State	2005	2006	Percent Change
		million pounds		
1	California	37,564	38,830	3.4
2	Wisconsin	22,866	23,398	2.3
3	New York	12,078	12,045	(0.3)
4	Idaho	10,161	10,895	7.2
5	Pennsylvania	10,503	10,742	2.3
6	Minnesota	8,195	8,364	2.1
7	New Mexico	6,951	7,638	9.9
8	Texas	6,442	7,145	10.9
9	Michigan	6,750	7,100	5.2
10	Washington	5,608	5,464	(2.6)
	Top Ten Total	127,118	131,621	3.5
	U.S.Total	176,929	181,798	2.8

Source: NASS *Milk Production.*

Each month, NASS reports milk production from the top producing 23 states. NASS includes Kentucky in this group, but for the past 3 years, Utah has had higher milk production. Kentucky's production declined 4.8 percent in 2006.

Nationally, more than half of the states showed production declines during 2006. Besides Texas, the only other state to experience a double-digit increase was 47th ranked Wyoming with 61.9 percent; Wyoming's production accounted for less than 0.1 percent of the nation's total. Other states with significant increases include New Mexico (9.9 percent) and Colorado (8.5 percent).

Northeast Production Below National Average

Milk production in the Northeast milkshed (the area from which milk is traditionally pooled by handlers selling into the Northeast Milk Marketing Area) was nearly flat in 2006 (0.1 percent). This region covers New England and the contiguous states down the east coast including Virginia and as far west as Pennsylvania and West Virginia (see map on front cover). The top three contributing states (New York, Pennsylvania, and Vermont) showed a combined increase of only 0.1 percent, thanks to Pennsylvania—the only one of the three to have an increase. The combined New England states (Connecticut, Massachusetts, Maine, New Hampshire, Rhode Island, and Vermont) reported a decline of 2.5 percent. The rest of the milkshed states (Delaware, Maryland, New Jersey, Virginia, and West Virginia) had a combined drop of 2.1 percent in 2006. Besides Pennsylvania, Rhode Island and West Virginia were the only other milkshed states to post increases.

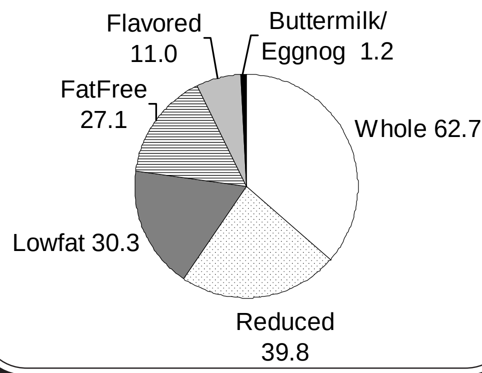
Cow Numbers and Production per Cow

Nationally, the number of milk cows increased 0.8 percent in 2006. In the Northeast, milk cow numbers declined 2.1 percent. Average milk production per cow grew 2.0 percent nationally. For the Northeast, the increase was 2.2 percent during 2006.❖

Class I Sales Decline Slightly

Sales of fluid milk products in the Northeast Milk Marketing Area totaled 9.1 billion pounds in 2006, down 0.6 percent from 2005. This follows a decline of 0.6 percent in 2005. The chart shows per capita sales by product for 2006. The accompanying table on page 3 shows total in-area sales by type of product for 2005 and 2006.

Northeast Area Per Capita Sales (pounds) by Product, 2006



Whole milk had the largest decline during 2006, dropping 4.0 percent, despite an increase in organic sales. This follows an increase of 3.3 percent in 2005. The only other category that recorded a decline during 2006 was fatfree milk (skim); during 2005, fatfree sales showed the largest growth with an increase of 2.5 percent. During 2006, the combined buttermilk and eggnog category had the largest percentage increase with 17.9 percent, but as a proportion of total sales, this category only accounts for 0.7 percent of all fluid milk product sales. Reduced fat sales grew 2.9 percent during 2006, partially due to an increase in organic sales.

On a per capital basis, total fluid sales declined 0.9 percent in 2006, up slightly from the 0.7 percent drop in 2005. Whole milk was still the dominant product with 62.7 pounds, down from 65.5 in 2005. Reduced fat per capita sales grew slightly in 2006, to 39.8 pounds from 38.8 pounds the previous year. Lowfat sales were

(continued on page 3)

Other Solids as Portion of Gross Payment

With multiple component pricing, the composition of a producer's gross payment can vary each month. In the Northeast Order, producers are paid on the pounds of butterfat, "true" protein, and other solids in their milk. In addition to these three factors, the producer price differential (PPD) has an effect on the final price producers receive.

In the example shown, the composition of a hypothetical producer's gross payment was calculated for January 2007. A similar calculation was made for January 2006. The component prices are the actual prices for the corresponding months; the tests are the average tests reported for all producers for the corresponding months.

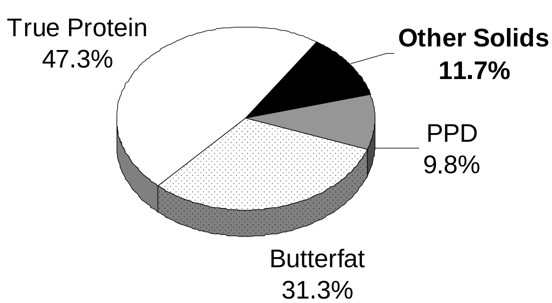
The hypothetical farmer's payment was 21 cents higher in January 2007 when compared to the previous year. The contribution to the gross payment by each component has changed. Between these two periods, other solids contributed 11.7 percent of the total payment versus just 7.0 percent in 2006. Not shown in the figure, but noteworthy, the same exercise for 2005 and 2004 shows the other solids contribution at 3.0 and 0.9 percent, respectively.

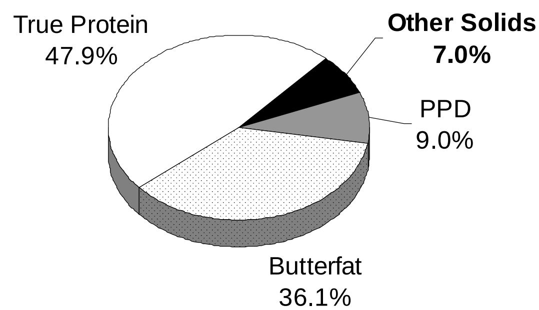
As mentioned in last month's *Bulletin*, strong nonfat dry milk prices are being reflected in recent other solids prices and have resulted in record high other solids prices during the last four months. From April through July of 2003, the other solids price was actually negative. Since 2003, the annual average other solids price has risen above the previous year. The annual average other solids price per pound for 2003, 2004, 2005, and 2006 was $0.0129, $0.0751, $0.1228, $0.1746, respectively.

Historically, butterfat and protein contribute the most value to a producer, usually over 75 percent combined. However, the data show an increasing importance of the other solids component in the farmer's milk check over the last four years. Current price projections would indicate that trend to continue at least through 2007.❖

Composition of Total Gross Payment*

	January 2007				January 2006			
	Test percent	Pounds	Price per pound	Gross dollars	Test percent	Pounds	Price per pound	Gross dollars
Butterfat	3.76	3760 x	1.3009 =	$4,891.38	3.79	3,790 x	1.4684 x	$5,565.24
True protein	3.07	3070 x	2.4053 =	$7,384.27	3.08	3,080 x	2.3994 x	7,390.15
Other solids	5.72	5720 x	0.3183 =	$1,820.68	5.71	5,710 x	0.1881 x	1,074.05
PPD		1,000 cwt	1.53	$1,530.00		1,000 cwt	1.39	1,390.00
Total gross payment				$15,626.33				$15,419.44
Gross price per cwt				**$15.63**				**$15.42**





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

Class I Sales *(continued from page 2)*

unchanged at 30.3 pounds while fatfree declined 0.2 pounds. Both flavored milk/drinks and buttermilk/eggnog increased 0.2 pounds.

The Northeast Marketing Area includes the entire states of Connecticut, Delaware, Massachusetts, New Hampshire, New Jersey, Rhode Island, and Vermont; the District of Columbia; most of Maryland and New York; and portions of Pennsylvania and Virginia. This area includes many metropolitan centers such as New York City, Boston, Philadelphia, Baltimore, and Washington, DC. The total estimated population for 2006 in the marketing area was 52.8 million people, as reported by the Bureau of Census.❖

Sales of Fluid Milk Products in the Northeast Milk Marketing Area, 2005– 2006

	Total In-area Sales		2005–06
	2005	2006	change
Product	million pounds		percent
Whole Milk	3,446.8	3,310.5	(4.0)
Reduced Fat – 2%	2,039.0	2,098.1	2.9
Lowfat – 1%	1,592.2	1,599.8	0.5
FatFree	1,434.1	1,429.3	(0.3)
Flavored Milk and Drinks	570.6	579.3	1.5
Buttermilk/Eggnog	54.4	64.1	17.9
Total	9,137.1	9,081.2	(0.6)

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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	896,057,181	$12.42	111,290,301.88	
	Butterfat	17,576,296	1.3872	24,381,837.81	
Less:	Location Adjustment to Handlers			(2,908,592.19)	$132,763,547.52
Class II—	Butterfat	28,230,936	1.3079	36,923,241.22	
	Nonfat Solids	31,179,941	0.9522	29,689,539.82	66,612,781.04
Class III–	Butterfat	16,454,595	1.3009	21,405,782.65	
	Protein	13,274,656	2.4053	31,929,530.08	
	Other Solids	24,699,471	0.3183	7,861,841.61	61,197,154.34
Class IV–	Butterfat	8,325,688	1.3009	10,830,887.48	
	Nonfat Solids	14,124,143	0.9184	12,971,612.93	23,802,500.41
Total Classified Value					**$284,375,983.31**
Add:	Overage—All Classes				99,677.34
	Inventory Reclassification—All Classes				186,179.82
	Other Source Receipts	364,916	Pounds		11,191.73
Total Pool Value					**$284,673,032.20**
Less:	Producer Component Valuations @ Class III Component Prices				(264,667,267.94)
Total PPD Value Before Adjustments					**$20,005,764.26**
Add:	Location Adjustment to Producers				8,814,366.12
	One-half Unobligated Balance—Producer Settlement Fund				798,761.15
Less:	Producer Settlement Fund—Reserve				(860,054.82)
Total Pool Milk & PPD Value		1,879,662,536	Producer pounds		**$28,758,836.71**
	Producer Price Differential		**$1.53**		
	Statistical Uniform Price		**$15.09**		

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