

# The Market Administrator's BULLETIN

## NORTHEAST MARKETING AREA

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Federal Order No. 1

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### April Pool Price Calculation

The April 2008 statistical uniform price (SUP) for the Northeast Marketing Area was announced at \$18.55 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. If reported at the average tests of producer pooled milk, the SUP would be \$19.06 per hundredweight. April's statistical uniform price was \$0.66 per hundredweight above March's price. The April producer price differential (PPD) at Suffolk County was \$1.79 per hundredweight, \$1.90 per hundredweight above last month's.

Cheese and nonfat dry milk prices dropped during April, while butter and dry whey prices rose. This resulted in higher butterfat and other solids prices, and lower protein and nonfat solids prices. Correspondingly, prices for Classes II and III declined, while Class IV increased; the Class I price also rose, based on March's increases in cheese and butter. With the Class I increase and Class III decrease, the prices returned to a more 'normal' spread resulting in a positive PPD.

The average producer butterfat test at 3.73 percent was the highest on record under the Order for the month of April. ❖

### Class I Sales by Non NMA Handlers Increases

In 2007 the total volume of Class I sales sold in the Northeast Marketing Area (NMA) by handlers not designated as pool distributing plants under the order (plants that bottle and sell Class I milk products in the NMA) rose 8.2 percent from the previous year. This follows an increase in 2006 of 10.4 percent and is up 19.5 percent over the last 5 years.

#### Handler Definitions

These handlers (non NMA) include producer-handlers (handlers who operate a dairy farm and a processing plant that has route sales in the NMA), exempt distributing plants (operations such as colleges and governmental agencies and those having sales less than 150,000 pounds a month) partially regulated handlers (operate plants that are not fully regulated under any federal order, but have route sales in the NMA and possibly also in one or more other federal orders), and handlers regulated by other federal orders (operate plants regulated by another federal milk marketing order, but have sales of packaged product in the NMA). Sales include package products sold in the marketing area, but (continued on page 2)

### Pool Summary

- A total of 13,839 producers were pooled under the Order with an average daily delivery per producer of 5,110 pounds.
- Pooled milk receipts totaled 2.122 billion pounds, an increase of 2.7 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 40.1 percent of total milk receipts, a decrease of 0.8 percentage points from March.
- The average butterfat test of producer receipts was 3.73 percent.
- The average true protein test of producer receipts was 3.03 percent.
- The average other solids test of producer receipts was 5.72 percent. ❖

#### Class Utilization

Pooled Milk	Percent	Pounds
Class I	40.1	850,244,520
Class II	19.6	417,027,999
Class III	24.0	508,950,231
Class IV	16.3	345,296,237
Total Pooled Milk		2,121,518,987

#### Producer Component Prices

	2008	2007
	\$/lb	
Protein Price	3.7579	2.5212
Butterfat Price	1.4748	1.4657
Other Solids Price	0.0622	0.6008

#### Class Price Factors

	2008	2007
	\$/cwt	
Class I	21.86	18.25
Class II	15.29	14.51
Class III	16.76	16.09
Class IV	14.56	16.12

## Manufactured Dairy Products—2007 Summary

USDA's National Agricultural Statistics Service recently released their *Dairy Products 2007 Summary*. This publication summarizes dairy products manufactured in the United States. The accompanying table shows total production and annual change for selected products.

### Cheese Production

Total cheese production (excluding cottage cheese) grew 1.8 percent in 2007 (down from 4.1 percent in 2006). American cheese production decreased 0.9 percent (compared to an increase of 2.7 percent in 2006) while Italian rose 4.1 percent (down from 4.5 in 2006).

American production accounted for 40.0 percent of all cheese, down from 41.1 percent in 2006. Italian accounted for 42.6 percent of all cheese, up from 41.7 the previous year. Hispanic cheese production rose 4.8 percent; this follows increases of 8.6 and 17.8 percent in 2006 and 2005, respectively.

### Other Products

Butter production rose 5.8 percent in 2007 (compared to 7.5 percent in 2006). Yogurt (plain and fruit flavored) grew 5.3 percent (compared to 7.9 percent last year). Nonfat dry milk (NFDM) increased 4.4 percent; last year it rose 2.7

percent. The production of canned evaporated and condensed whole milk increased 2.4 percent (compared to last year's decline of 7.9 percent) while unsweetened skim condensed jumped 34.5 percent (compared to 15.1 percent in 2006). Production (for human use) of dry whey rose a slight 0.8 percent and whey protein concentrate dropped 5.6 percent. During 2006 these products both rose over 10 percent.

### Leading States

There was no change in the top cheese producing states during 2007: Wisconsin led, followed by California, Idaho, New York, and Minnesota. New York remained the largest producer of lowfat and creamed cottage cheese and sour cream; it was second in yogurt and dry whey and fourth in butter and mozzarella. Pennsylvania ranked third in butter and mozzarella production and fourth in the production of ice cream.

Wisconsin still recorded the largest number of dairy manufacturing plants (206), followed by New York (116), and California (108). Overall, the number of plants increased 1.4 percent in 2007; this follows an increase of 0.6 percent in 2006. ❖

### Selected U.S. Manufactured Dairy Products, 2006–2007

	2006	2007	Yr-to-Yr
	million pounds	million pounds	Change percent
<b>Cheese</b>			
American <sup>^</sup>	3,913	3,878	(0.9)
Italian	3,973	4,134	4.1
Other*	1,639	1,688	3.0
<b>Total Cheese#</b>	9,525	9,700	1.8
<b>Butter</b>	1,448	1,533	5.8
<b>Nonfat Dry Milk~</b>	1,244	1,298	4.4
Condensed Skim**	1,218	1,639	34.5
Dry Whey~	1,064	1,073	0.8
Whey Protein Concentrate~	379	357	(5.6)
<b>Yogurt</b>	3,301	3,478	5.3
<b>Ice Cream</b>	982	951	(3.2)

<sup>^</sup> Includes Cheddar, Colby, Monterey, and Jack.

\* Includes Swiss, Muenster, brick, limburger, blue, Hispanic, cream/Neufchatel, and other varieties.

# Excludes cottage cheese.

\*\* Unsweetened.

~ For human use.

## Class I Sales (continued from page 1)

not transfers of bulk product to plants regulated under the NMA. Overall these handlers accounted for 4.5 percent (428.3 million pounds) of total route sales in the marketing area, up from 4.2 percent in 2006 and 3.7 percent in 2002.

### Sales by Type of Handler

Of the non NE order handlers, partially regulated plants accounted for the largest percentage of sales in the

marketing area (1.5 percent of total in-area sales). Other federal order handlers accounted for the second largest portion (see accompanying table). The largest proportion of these other federal order sales (almost 89 percent) comes from plants regulated by the neighboring Mideast (#33) and Appalachian (#5) orders. The remaining volume is from handlers regulated under other distant federal

orders who package specialty products that are sold in the Northeast area.

Sales by producer-handlers accounted for 1.2 percent of total in-area sales, but on a volume basis, their 2007 total was up 19.7 percent from 2006 and 65.4 percent from 2002.

The definitions given above for the various types of handlers are general. For more information, see sections 1001.7–1001.10 of the Northeast Order. ❖

### Northeast Order In-Area Route Sales by Handler Type

Year	Other Fed Orders	Partially Regulated	Producer Handlers	Exempt Distributors	Total Non NE Order	Fully Regulated	Total In-Area Sales
						Pool Distributors	
million pounds							
2007	136.7	140.8	114.3	36.5	428.3	9,052.0	9,480.3
2006	124.2	139.0	95.5	37.2	395.9	9,040.2	9,436.1
2002	90.9	158.0	69.1	40.1	358.1	9,414.2	9,772.3
Percentage of Sales: percent							
2007	1.4	1.5	1.2	0.4	4.5	95.5	100.0
2006	1.3	1.5	1.0	0.4	4.2	95.8	100.0
2002	0.9	1.6	0.7	0.4	3.7	96.3	100.0
Change in Sales:							
2007–2006	10.1	1.3	19.7	(1.9)	8.2	0.1	0.5
2007–2002	50.4	(10.9)	65.4	(9.0)	19.6	(3.8)	(3.0)

\* For handler definitions, see sections 1000.5–1001.10 of the Northeast Order.

## Milk-Feed Price Ratio at Record Low

The April Milk-Feed Price Ratio, as reported by the USDA, National Agricultural Statistics Service, dipped to 1.90, its lowest level since the statistic was first reported in January 1985. The ratio is a commonly referred to indicator of the profitability of producing milk that focuses on the cost of feed, typically the largest input cost on a farm. A ratio below 2.5 generally signals a cutback in production. When the ratio rises above 3.0, there are signals to producers that it's profitable to expand milk production.

The price portion of the ratio does not include such things as over-order premiums, check-offs, or hauling costs. Prices used in the ratio are national and may not be indicative of milk and feed prices that exist in a particular region. The projected portion of the accompanying chart shows the milk-feed price ratio relative to the Northeast blend price (not the U.S. all-milk price).

### How Low, For How Long?

Using Chicago Mercantile Exchange (CME) futures prices for Class III and Class IV milk to predict a Northeast Order uniform price for the milk price portion of the milk-feed price ratio, and using the Chicago Board of Trade futures prices for corn and soybeans, and the most recent NASS hay price for the feed portion, the milk-feed price ratio projects to remain near or below 2.00 for the remainder of 2008, and may be as low as 1.74 in May. As of May 12, corn futures ranged from \$6.27 to \$6.55 per bushel through December 2008. Soybean futures ranged from \$12.85 to \$13.50 per bushel through December. In 2007, the corn price ranged from \$3.05 to \$3.76 per bushel, and the soybean price ranged from \$6.38 to \$10.00 per bushel.

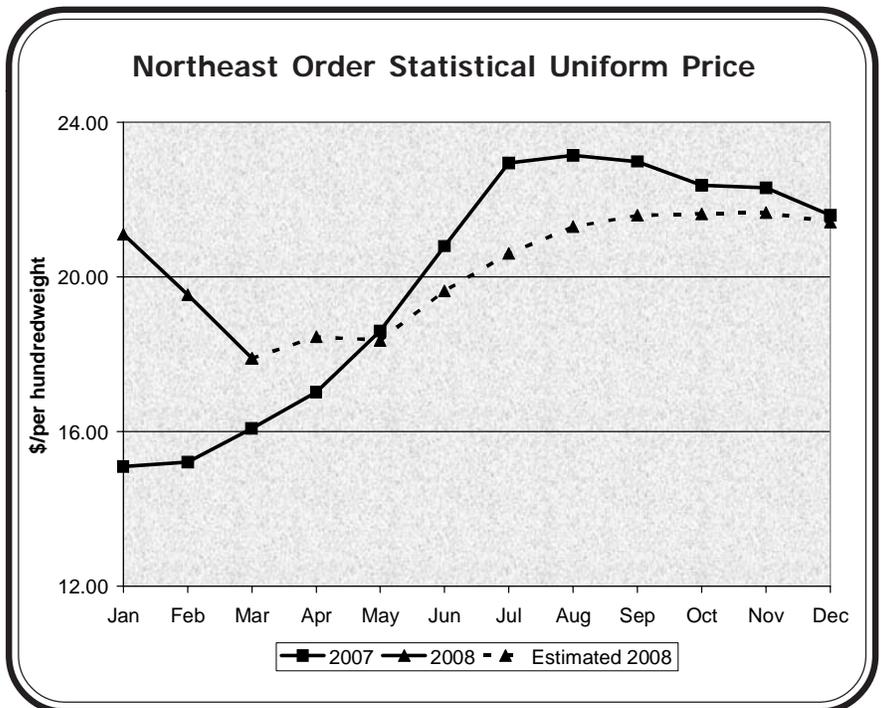
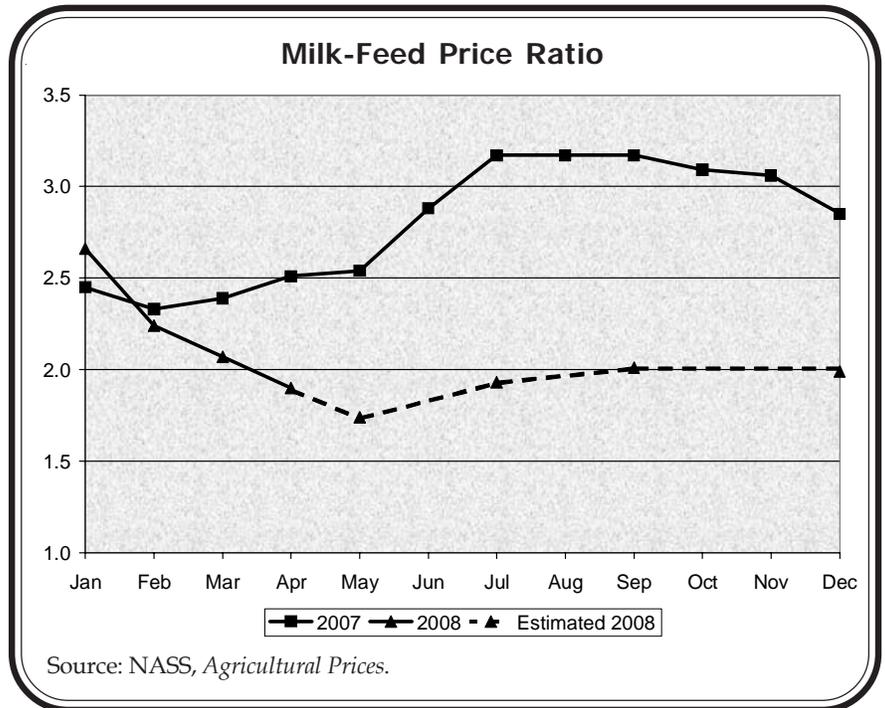
### Historically High Milk Price; High Enough?

The impact of high feed costs is apparent, in that the 2008 Northeast uniform price was higher than in 2007 for the first four months of the year, but the milk-feed price ratio has been lower in 2008 than in 2007 from February through April. Though the 2008 average uniform price projects to the highest annual average on record, it will combine with possibly the lowest annual average milk-feed price ratio. So producers may see similar milk prices to last year, but they likely may see smaller profit margins.

### Many Factors Could Impact Future Direction

It seems evident, that at current and projected feed costs, it may take record high milk prices for the industry to avoid contraction in supply. If feed prices remain high but consumer demand declines because of high product prices or a slowing economy, even

lower ratio levels could result. Concerns about a contraction in the milk supply are playing a part in the strength in the CME cheese market, as buyers look to secure cheese for their needs later in the year. Once buyers are satisfied those needs will be met, the cheese market could fall back some. Currently, the export market, which, in March, saw significant volume gains in skim milk powder/nonfat dry milk, cheese, butterfat, and whey protein concentrate, is also continuing to buoy domestic milk prices. Continued strength in the export market may also be dependent on consumer reactions abroad to high food prices. ♦





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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	834,390,172	\$17.64	147,186,426.34	
Butterfat	15,854,348	1.3808	21,891,683.72	
Less: Location Adjustment to Handlers			(2,729,401.94)	\$166,348,708.15
Class II— Butterfat	30,131,485	1.4818	44,648,834.47	
Nonfat Solids	35,124,892	1.1633	40,860,786.88	85,509,621.35
Class III— Butterfat	19,549,944	1.4748	28,832,257.42	
Protein	15,483,203	3.7579	58,184,328.57	
Other Solids	29,011,700	0.0622	1,804,527.74	88,821,113.73
Class IV— Butterfat	13,669,259	1.4748	20,159,423.20	
Nonfat Solids	30,202,912	1.0827	32,700,692.79	52,860,115.99
<b>Total Classified Value</b>				<b>\$393,539,559.22</b>
Add: Overage—All Classes				106,379.40
Inventory Reclassification—All Classes				157,324.44
Other Source Receipts	47,977 Pounds			2,482.07
<b>Total Pool Value</b>				<b>\$393,805,745.13</b>
Less: Producer Component Valuations @ Class III Component Prices				(366,285,487.20)
<b>Total PPD Value Before Adjustments</b>				<b>\$27,520,257.93</b>
Add: Location Adjustment to Producers				10,461,866.35
One-half Unobligated Balance—Producer Settlement Fund				1,036,734.00
Less: Producer Settlement Fund—Reserve				(1,042,809.57)
<b>Total Pool Milk &amp; PPD Value</b>	2,121,566,964 Producer pounds			<b>\$37,976,048.71</b>
Producer Price Differential		<b>\$1.79</b>		
Statistical Uniform Price		<b>\$18.55</b>		

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