



# The Market Administrator's BULLETIN

## NORTHEAST MARKETING AREA

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**December 2008**

Federal Order No. 1

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### December Pool Price Calculation

The December 2008 statistical uniform price (SUP) for the Northeast Marketing Area was announced at \$15.06 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 \$16.02 per hundredweight. December's statistical uniform price was \$2.03 per hundredweight below November's price. The December producer price differential (PPD) at Suffolk County was -\$0.22 per hundredweight, a decrease of \$1.80 per hundredweight from last month.

During December, all commodity prices dropped except cheese, which rose slightly. As a result, all component prices declined except protein. All class prices declined, even Class III, because although the protein price had risen, the butterfat price, which is also a factor in the Class III price, declined considerably. The Class II price dropped over \$3.00 and Class IV price dropped nearly \$2.00 per hundredweight. As a result, the December Class II price was \$4.07 less than the Class III price, and the Class IV price was \$4.93 less than the Class III price. It was the Class II and IV prices being significantly below the Class III price, coupled with the sizeable volume of milk in the combined two classes (31.4 percent of the pool), that led to this month's negative PPD.

The total value of the federal order pool is determined by the respective class prices and the volume of milk utilized in each class. For the month of December, the "classified value" equaled \$307,442,625.21. The total value of all producer components equaled \$321,060,648.56 or \$13.8 million more than the pool classified value (see page 4 for pool computation). Since the payout to producers must equal the value of the milk utilized in the pool, a negative PPD has to occur. Any class price higher than the Class III price contributes to the pool of money normally returned to producers in a positive PPD. With Class II and IV prices significantly below the Class III price, the classified value of the pool was diminished and producers received all of the pool value in their component payments.

The Class IV usage for December was a record-setting high for that month. The average producer component test for butterfat tied with last year's record-setting high. ❖

### Pool Summary

- A total of 13,603 producers were pooled under the Order with an average daily delivery per producer of 4,687 pounds.
- Pooled milk receipts totaled 1.977 billion pounds, an increase of 2.3 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 46.3 percent of total milk receipts, an increase of 1.0 percentage points from November.
- The average butterfat test of producer receipts was 3.84 percent.
- The average true protein test of producer receipts was 3.13 percent.
- The average other solids test of producer receipts was 5.69 percent. ❖

#### Class Utilization

Pooled Milk	Percent	Pounds
Class I	46.3	914,673,273
Class II	16.0	316,388,353
Class III	22.3	441,334,219
Class IV	15.4	304,530,662
Total Pooled Milk		1,976,926,507

#### Producer Component Prices

	2008	2007
	\$/lb	
Protein Price	3.6390	4.7061
Butterfat Price	1.2998	1.4348
Other Solids Price	(0.0269)	0.2637

#### Class Price Factors

	2008	2007
	\$/cwt	
Class I	18.68	23.29
Class II	11.21	20.82
Class III	15.28	20.60
Class IV	10.35	19.18

## MILC Payments Expected

The Milk Income Loss Contract (MILC) program, which was extended through August 2012 in the 2008 farm Bill, has not paid out any payments since February 2007 because of high milk prices. With falling milk prices expected due to declining commodity prices, a MILC payment appears likely by February 2009. However, any possible payment made in February will be based on a new calculation that includes a dairy feed ration adjustment.

The USDA Farm Service Agency (FSA) makes MILC payments on a monthly basis when the Boston Class I price falls below \$16.94 per hundredweight (cwt) plus the dairy ration adjustment. The payment rate received by producers is determined by subtracting that month's Boston Class I price from the base \$16.94 and ration adjustment, multiplied by 45 percent.

### Feed Ration Adjustment

The feed adjustor sets a base feed cost of \$7.35 per hundredweight, a starting point based on average corn, soybeans, and alfalfa hay prices in 2007. Each month, USDA will use this formula to produce a new weighted average based on the most current feed pricing. USDA will use the difference between the base feed cost and that month's feed cost to calculate a new, higher base (or trigger) price, above \$16.94. If feed prices drop to very low levels, the base or trigger price will not drop below \$16.94.

### Timing of Price Data

The feed prices used in the feed ration adjustor are the "entire month" price as published in the USDA *Agricultural Prices* report that is released at the end of each month. For instance, December 2008 "entire month" feed prices will be released January 30, 2009. Therefore, the MILC payment rate for the month of December will not be available until the end of January. Contact your local FSA office to determine when payments will be made.

### MILC Price Examples

The accompanying table presents some price projections using Chicago Mercantile Exchange (CME) and Chicago Board of Trade (CBOT) prices for January and February 2009 to show how the MILC payment with the feed adjustor works. The January MILC trigger price is raised \$0.51 above \$16.94 to \$17.46 per cwt due to January feed prices. However, the January Class I price at Boston is still higher at \$18.99 per cwt. No MILC payment is triggered. The February MILC trigger price is raised \$0.51 to \$17.45 per cwt, and is \$1.89 above the estimated February Boston Class I price of \$15.56 per cwt. The estimated MILC payment rate is \$0.85 per cwt (45 percent of \$1.89). Additionally, current price and feed estimates for the remainder of the year indicate MILC payments are likely from February through December.

The annual maximum eligible pound limit per dairy operation per fiscal year was increased to 2,985,000 pounds starting October 1, 2008. It is important to contact your local FSA office for details regarding eligibility, signup, and payments. Additional information about the MILC program is available at [www.fsa.usda.gov](http://www.fsa.usda.gov). ❖

### Estimated MILC Program Prices

	January	February
Corn* (per bushel)	\$3.79	\$3.79
Soybeans* (per bushel)	\$10.37	\$10.36
Alfalfa Hay* (Per ton)	\$147	\$147
<b>MILC Base</b>	<b>\$16.94</b>	<b>\$16.94</b>
Feed Adjustor Value	\$0.52	\$0.51
<b>New MILC Base</b>	<b>\$17.46</b>	<b>\$17.45</b>
Class I Price** (Boston)	\$18.99	\$15.56
<b>MILC Payment</b>	<b>\$0.00</b>	<b>\$0.85</b>

\* Chicago Board of Trade Prices January 9.

\*\* Estimated January 13.

## Dairy Product Price Support Program

Under the 2008 Farm Bill, the Milk Price Support Program has been renamed the Dairy Product Price Support Program. As the name change indicates, the price support program was changed to support the price of *dairy products* instead of the price of *milk*.

The government will continue to purchase cheddar cheese, butter and nonfat dry milk through USDA's Commodity Credit Corporation (CCC), but the purchase prices of these products will no longer be linked to a price of manufactured milk. Each product has an established trigger price for purchasing. The levels established for CCC purchases are set at \$1.13 per pound for 40-pound cheddar blocks, \$1.10 per pound for cheddar barrels, \$1.05 per pound for butter, and \$.80 per pound for nonfat dry milk. If net removals of these products exceed specified limits, the Secretary of Agriculture has the authority to reduce the purchase price by \$0.05 to \$0.20 per pound depending on the product and the level exceeded. The government will no longer buy processed cheese, 1-pound prints of butter or fortified or instant Nonfat Dry Milk.

### No More Butter-Powder Tilt

Supporting levels by product eliminates the need to balance one product with another. The issue of a "butter-powder tilt" will no longer exist.

### Recent Support Purchases

During the week ending October 10, 2008, the CCC began purchasing nonfat dry milk; the first purchases since July 2006. As of January 16, 2009, the CCC has purchased a total of 134.3 million pounds. During the week ending January 9, 2009, the CCC began purchasing butter under the support program. These were the first purchases since June 2003. As of January 16, 2009, butter purchases totaled 375,658 pounds. No cheese has been purchased under the program since July 2003, although Chicago Mercantile Exchange cheese prices have been trading below the support level in recent weeks. ❖

## 2008 Northeast Order Statistics Summarized

During 2008, the volume of milk received from producers shipping to handlers regulated under the Northeast Order totaled 23.9 billion pounds, an increase of 3.4 percent from 2007. The blend price for 2008 averaged 6.2 percent less than 2007's, but was still the second highest under the Order. The accompanying table compares selected pool statistics for 2007 and 2008. All figures have been adjusted for leap year.

### Class Utilization Changes

Total producer milk receipts increased significantly in 2008. Some of this growth was due to milk production increases, while part of the rise was due to pooling changes that resulted in some milk coming back on the Order. During 2008, milk production responded to the record-setting prices in 2007. Nationally, milk production has increased about 2.0 from last year. In the Northeast, the production has grown about 1.0 percent. Due to disadvantageous pricing during May and June, some milk was depooled during those months (approximately 300 million pounds). Even with the depooling, total pooled receipts on the Order increased 3.4 percent from 2007.

Class I utilization averaged 43.4 percent in 2008, a decrease of 2.1 percentage points from the previous year. The total volume of milk used in Class I decreased 1.3 percent. Class II usage decreased 1.7 percent, resulting in a decrease in utilization of 1.0 percentage point. Class III volume was down 5.9 percent with a drop in utilization of 2.2 percentage points. The amount of milk used in Class IV jumped 61.6 percent in 2008; utilization rose 5.3 percentage points. The increase in Class IV usage was the result of changes in processing plant activity (closures, temporary down time) and some other disadvantageous conditions in making Class II and III products.

### Prices Lower

The increases in milk production that occurred during late 2007 and early 2008 depressed prices as the year progressed. For the year, all federal order class prices averaged less than during 2007, some with double-digit declines.

The Class I price averaged \$21.25 per hundredweight in 2008, only 14 cents (0.7 percent) below the 2007 annual average. Class I prices were record-setting for the months of January through April. The Class II price averaged \$2.12 less than the previous year, down 11.5 percent, while the Class III price declined 60 cents (3.3 percent) from 2007. The Class IV price was hit the hardest, averaging \$3.71 per hundredweight (20.2 percent) less than the 2007 average. Overall, the statistical uniform price (blend) reported at Suffolk County, Massachusetts (Boston) averaged \$18.62 per hundredweight, \$1.23 (6.2 percent) less than the 2007 price. The producer price differential (PPD) averaged \$1.18 per hundredweight, 34.8 percent less than the average in 2007 and the second lowest average PPD since the Order's inception.

### Component Pricing

The price paid to producers for butterfat averaged \$1.5668 per pound, 6.6 percent higher than in 2007. The per-pound annual average protein price was \$3.8898, up 10.8 percent. The other solids price dropped 86.8 percent, with negative values the last 3 months of 2008. The nonfat solids declined 30.7 percent.

The annual average producer butterfat test increased from 3.70 percent in 2007 to 3.73 percent in 2008. During 6 of the months, butterfat tests set new records for the corresponding month. Both the producer protein and other solids tests averaged the same as in 2007, 3.06 and 5.71 percent, respectively. The protein test set new records 5 of the months, while the other solids test was record-setting 3 months during 2008.

### Producer Changes

The year ended with 490 less producers than at the end of 2007. Annual average daily deliveries per producer (DDP) equaled 4,807 pounds, up 5.7 percent from 2007. ❖

### Northeast Order Pool Statistics, Annual Totals and Averages, 2007–2008

Pool Statistics	2007	2008	2007–08 Change percent
million pounds			
Class I	10,495.80	10,384.80	(1.3)
Class II	4,725.00	4,655.20	(1.7)
Class III	5,638.90	5,323.10	(5.9)
Class IV	2,180.20	3,531.90	61.6
Total	23,039.90	23,895.00	3.4
pounds			
DDP	4,547	4,807	5.7
utilization percentage			
Class I	45.5	43.4	(2.1)
Class II	20.5	19.5	(1.0)
Class III	24.5	22.3	(2.2)
Class IV	9.5	14.8	5.3
dollars/cwt			
Class I	21.39	21.25	(0.7)
Class II	18.36	16.24	(11.5)
Class III	18.04	17.44	(3.3)
Class IV	18.36	14.65	(20.2)
SUP	19.85	18.62	(6.2)
Producer Component:			
Tests:			
percent			
Butterfat	3.70	3.73	0.03
Protein	3.06	3.06	0.00
Other Solids	5.71	5.71	0.00
Prices:			
dollars/lb			
Butterfat	1.4693	1.5668	6.6
Protein	3.5121	3.8898	10.8
Other Solids	0.4201	0.0555	(86.8)
Nonfat Solids	1.5218	1.0552	(30.7)



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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	896,397,724	\$12.74	114,201,070.04	
Butterfat	18,275,549	1.8250	33,352,876.93	
Less: Location Adjustment to Handlers			(2,951,430.19)	\$144,602,516.90
Class II— Butterfat	26,317,384	1.3068	34,391,557.45	
Nonfat Solids	26,611,126	0.7644	20,341,544.74	54,733,102.19
Class III— Butterfat	18,070,505	1.2998	23,488,042.39	
Protein	13,823,287	3.6390	50,302,941.43	
Other Solids	24,989,853	(0.0269)	(672,227.04)	73,118,756.78
Class IV— Butterfat	13,184,257	1.2998	17,136,897.24	
Nonfat Solids	26,723,581	0.6680	17,851,352.10	34,988,249.34
<b>Total Classified Value</b>				<b>\$307,442,625.21</b>
Add: Overage—All Classes				109,355.28
Inventory Reclassification—All Classes				(285,488.35)
Other Source Receipts	276,201 Pounds			4,499.66
<b>Total Pool Value</b>				<b>\$307,270,991.80</b>
Less: Producer Component Valuations @ Class III Component Prices				(321,060,648.56)
<b>Total PPD Value Before Adjustments</b>				<b>(\$13,789,656.76)</b>
Add: Location Adjustment to Producers				9,522,698.11
One-half Unobligated Balance—Producer Settlement Fund				842,971.01
Less: Producer Settlement Fund—Reserve				(925,858.39)
<b>Total Pool Milk &amp; PPD Value</b>	1,977,202,708 Producer pounds			<b>(\$4,349,846.03)</b>
Producer Price Differential		<b>(\$0.22)</b>		
Statistical Uniform Price		<b>\$15.06</b>		

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