

# The Market Administrator's BULLETIN

## NORTHEAST MARKETING AREA

*Erik F. Rasmussen*, Market Administrator

**August 2009**

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

### August Pool Price Calculation

The August 2009 statistical uniform price (SUP) for the Northeast Marketing Area was announced at \$12.35 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 \$12.45 per hundredweight. The August statistical uniform price was 36 cents per hundredweight above July's price. The August producer price differential (PPD) at Suffolk County was \$1.15 per hundredweight, a decrease of 87 cents per hundredweight from last month.

During August, all commodity prices rose. Effective August 1 through October 31, prices for nonfat dry milk and cheese prices purchased through the Dairy Product Price Support Program were increased. As a result, prices reported on the NASS survey rose in response, although not reaching the support price until later in the month. With commodity prices increasing, component prices rose resulting in higher prices for Classes III and IV; Classes I and II have components announced in advance using prior month's data. Class III had the larger gain, rising \$1.23 per hundredweight from July. The higher proportion of pooled milk utilized in the two highest-priced classes (I and III), and a much lower proportion of Class IV, resulted in an overall higher uniform price than last month. The lower PPD was the result of the tightening of the spread between the class prices, primarily I and III. ❖

### Commodity Prices

On July 31, 2009, Agriculture Secretary Vilsack announced an increase in the amount paid for dairy products through the Dairy Product Price Support Program. The increase will be in effect from August through October 2009. The temporary increase raised the purchase prices for nonfat dry milk (NFDM) from \$0.80 to \$0.92 per pound, cheddar blocks from \$1.13 to \$1.31 per pound, and cheddar barrels from \$1.10 to \$1.28 per pound.

The charts on page 3 show National Agricultural Statistics Service (NASS) and Chicago Mercantile Exchange (CME) Block Cheddar and nonfat dry milk prices for 2009 compared to the support prices. For the (continued on page 3)

### Pool Summary

- A total of 13,353 producers were pooled under the Order with an average daily delivery per producer of 4,680 pounds.
- Pooled milk receipts totaled 1.937 billion pounds, a decrease of 5.0 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 42.6 percent of total milk receipts, an increase of 1.8 percentage points from July.
- The average butterfat test of producer receipts was 3.61 percent.
- The average true protein test of producer receipts was 2.98 percent.
- The average other solids test of producer receipts was 5.67 percent. ❖

#### Class Utilization

Pooled Milk	Percent	Pounds
Class I	42.6	824,391,844
Class II	22.6	437,019,538
Class III	25.0	485,344,861
Class IV	9.8	190,589,579
Total Pooled Milk		1,937,345,822

#### Producer Component Prices

	2009	2008
	\$/lb	
Protein Price	2.1009	3.6497
Butterfat Price	1.2491	1.7413
Other Solids Price	0.0962	0.0529

#### Class Price Factors

	2009	2008
	\$/cwt	
Class I	13.29	21.72
Class II	10.86	17.45
Class III	11.20	17.32
Class IV	10.38	16.64

## MILC and Price Outlook

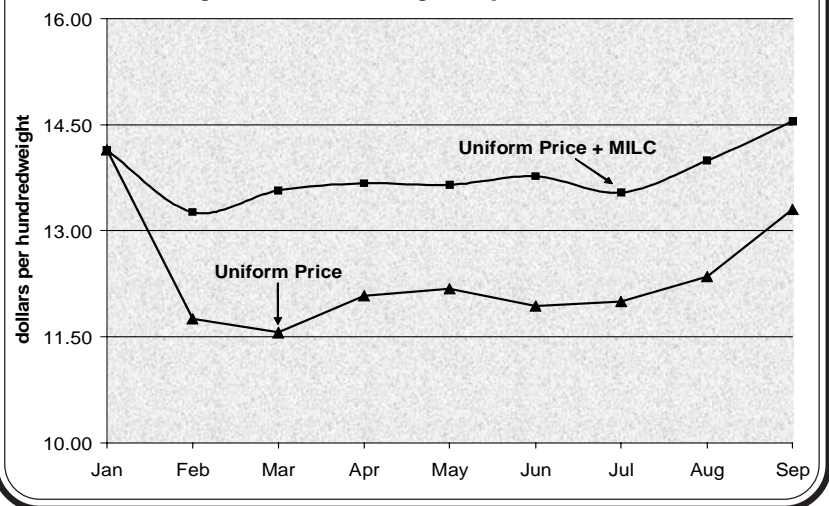
The Northeast uniform price was under \$12.50 per hundredweight for the seventh month in a row in August. September will be the eighth month in a row in which a Milk Income Loss Contract (MILC) payment will be made. Using Chicago Mercantile Exchange (CME) futures prices for the remainder of the year, the uniform price likely will average about \$12.87 per hundredweight for the year. Including MILC payments, producers are projected to average \$14.08 per hundredweight (not including premiums and adjustments for components) for their milk in 2009.

Dairy product support prices have been increased temporarily through October (see article on page 1). The impact of the change will be felt in the September class prices and uniform price. Currently, the NASS Cheddar cheese block price is above the support price.

Feed prices have declined to a degree that current projections show no additional value will be added to the MILC payment from the feed cost adjustor for at least the remainder of this year and the first six months of 2010. MILC payments are projected to decline through January 2010, after which time no MILC payment is projected. The average uniform price at Boston, MA, projects to average \$15.28 per hundredweight for the first half of 2010, based on CME futures prices.

The implication of declining MILC payments and lack of feed cost adjustor value is that milk price recovery is expected, though modest, in 2010 as well as somewhat lower feed costs. Some price recovery may occur as milk

**Northeast Uniform Price vs Uniform Price + MILC Payment, January–September 2009**



production is expected to contract in 2010. Milk production in 2009 is projected to decline to 187.7 billion pounds and to 186.8 billion pounds in 2010 as herd contraction outpaces output per cow increases. On the demand side, weakness in domestic demand and a large decline in exports have played a major role in low milk prices. Milk equivalent exports on a milkfat basis totaled 8.8 billion pounds in 2008; the projected total for 2009 is 3.7 billion pounds. USDA forecasts for 2010 exports are 3.8 billion pounds. If the U.S. economic recovery is slow, the lack of increased exports in 2010 will limit expectations for large improvements in prices to producers. ❖

**Actual and Estimated Milk and Feed Prices, January–September 2009**

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
<b>Feed Prices, Actual &amp; Estimated</b>	<b>dollars (actual prices in bold)</b>								
Corn (per bushel)	4.36	3.87	3.86	3.85	3.97	4.03	3.60	3.31	3.14
Soybean (per bushel)	9.97	9.55	9.12	9.79	10.70	11.40	10.80	10.70	9.84
Alfalfa hay (per ton)	149	143	137	133	138	128	120	111	115
Feed-adjusted MILC Trigger Price (\$/cwt)	17.98	17.33	17.14	17.14	17.48	17.42	16.94	16.94	16.94
<b>Milk Price, Actual &amp; Estimated</b>	<b>dollars per hundredweight (actual prices in bold)</b>								
Class I	18.99	13.97	12.68	13.61	14.22	13.33	13.51	13.29	14.18
Uniform Price (at Suffolk Co., MA)	14.14	11.75	11.56	12.08	12.18	11.93	11.99	12.35	13.30
PPD	3.36	2.44	1.12	1.30	2.34	1.96	2.02	1.15	1.26
Value Added from Feed Adjustor*	0.00	0.18	0.09	0.09	0.24	0.22	0.00	0.00	0.00
Total MILC Payment	0.00	1.51	2.01	1.59	1.47	1.84	1.54	1.64	1.24
Uniform Price + MILC	14.14	13.26	13.57	13.67	13.65	13.77	13.54	13.99	14.55
Class II	10.41	10.25	10.36	10.49	10.71	10.79	10.87	10.86	11.76
Class III	10.78	9.31	10.44	10.78	9.84	9.97	9.97	11.20	12.04
Class IV	9.59	9.45	9.64	9.82	10.14	10.22	10.15	10.38	11.06

Note: September Corn & soybean prices and Class prices based on CBOT prices as settled on September 11, 2009.

Uniform price estimates based on utilizations predicted as of November 2008. All prices are per hundredweight except where indicated otherwise.

\* Difference in value from the MILC program with vs. without the feed cost adjustor. ((Feed-adjusted MILC Trigger Price minus \$16.94)\* 45 percent) when the Class I prices is under \$16.94.

## Milk Movements to Other Orders

Typically around this time of year, late summer and early fall, milk production tapers off and supplies become tight in certain parts of the country. For many years, the Southeast part of the United States (Appalachian-5, Florida-6, and Southeast-7 federal orders) would need additional milk shipments from other federal orders, and based on logistics, the Northeast would help meet these needs.

The accompanying table shows bulk milk shipments and receipts from other federal orders for the month of August during the past 6 years. Shipments of cream, concentrate, and packaged products are not included. As depicted in the table, more milk was shipped to the southeast orders than received during 2004-2007. Most of those shipments were used to meet Class I needs. For the past 2 years, plants regulated by the Northeast Order have received more than has been shipped from the southern orders. Most of the milk received was utilized in Class IV as a balancing function since the southern orders lack manufacturing and drying facilities.

In addition, receipts have outweighed shipments from other nearby orders (primarily

the Midwest-30, Central-32, and Midwest-30 federal orders). Changes in shipments do not necessarily reflect less need for milk. Handlers who have producers in multiple orders can switch the order their producers are pooled on to meet varying needs. ❖

**Milk Movements: Northeast to/from Other Federal Orders, August, 2004-2009**

		August					
		2004	2005	2006	2007	2008	2009
		million pounds					
Total*	Shipped	21.3	20.8	32.5	19.6	4.9	4.4
	Received	24.8	21.7	43.9	17.9	17.5	26.3
	<b>Net</b>	<b>(3.5)</b>	<b>(0.9)</b>	<b>(11.4)</b>	<b>1.7</b>	<b>(12.6)</b>	<b>(21.9)</b>
South**	Shipped	20.7	20.0	31.5	17.1	3.8	3.0
	Received	12.2	8.6	18.9	9.9	6.5	13.0
	<b>Net</b>	<b>8.5</b>	<b>11.4</b>	<b>12.6</b>	<b>7.2</b>	<b>(2.7)</b>	<b>(10.0)</b>

\* Includes Order Nos. 5, 6, 7, 30, 32, and 33.

\*\* Includes Order Nos. 5, 6, and 7.

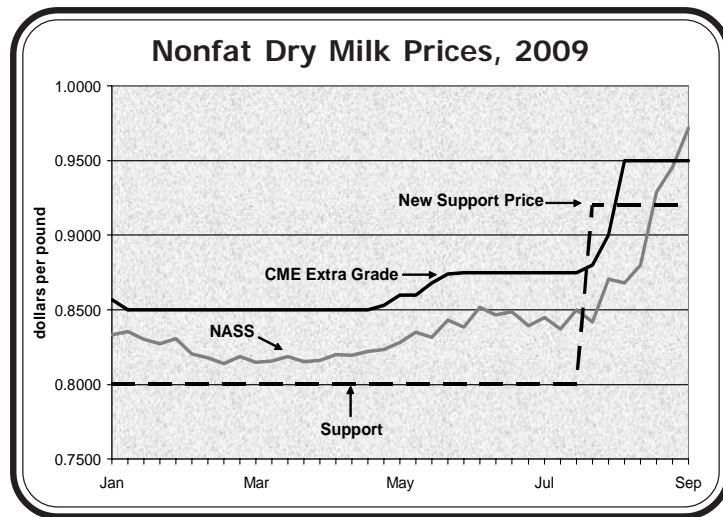
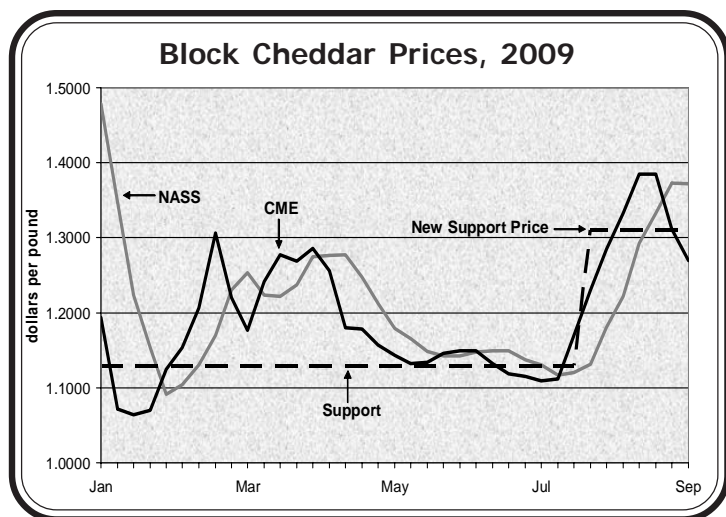
## Commodity *(continued from page 1)*

weeks of May 23 through August 1, the weekly average price for NASS Block Cheddar and nonfat dry milk averaged \$1.14 and \$0.84 per pound, respectively. Pricing was very flat, as neither commodity's price varied from that average by much more than a penny during those 11 weeks. By August 8, both commodities' prices began to increase in response to the policy change. Both commodities' weekly average price exceeded the new support price by the week of August 29.

The August Class II, III, and IV prices included weeks ending August 1, 8, 15, 22, and 29, so reflected some of the extra value that resulted from the increase to the support prices. The September Class I price reflected some benefit from the policy change as the price was established using

weeks ending August 8 and August 15. The October Class I price of \$15.60 was calculated using commodity prices for weeks ending September 5 and 12. Both Block Cheddar and nonfat dry milk average prices were above the new support levels during those weeks and resulted in a Class I price above \$15.00 for the first time since January 2008.

Some softening has occurred in the cheese market since, as the CME Block Cheddar price averaged \$1.27 per pound for the week ending September 12, and was still just under the new support price the following week, but prices are significantly higher than before the Secretary's announcement. Nonfat dry milk prices were at, or above, \$1.00 per pound the week ending September 19. ❖





**MARKET ADMINISTRATOR**  
 302A Washington Avenue Ext.  
 Albany, NY 12203-7303

PRESORTED  
 FIRST-CLASS MAIL  
 U.S. Postage  
**PAID**  
 Alexandria, VA  
 Permit 355

RETURN SERVICE REQUESTED

**FIRST CLASS MAIL**

The U.S. Department of Agriculture (USDA) prohibits discrimination in all its programs and activities on the basis of race, color, national origin, age, disability, and where applicable, sex, marital status, familial status, parental status, religion, sexual orientation, genetic information, political beliefs, reprisal, or because all or part of an individual's income is derived from any public assistance program (not all prohibited bases apply to all programs). Persons with disabilities who require alternative means for communication of program information (Braille, large print, audiotape, etc.) should contact USDA's TARGET Center at (202) 720-2600 (voice and TDD). To file a complaint of discrimination, write to USDA, Director, Office of Civil Rights, 1400 Independence Avenue, SW, Washington, DC 20250-9410 or call (800) 795-3272 (voice) or (202) 720-6382 (TDD). USDA is an equal opportunity provider and employer.

**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	808,610,172	\$9.25	74,796,440.91	
Butterfat	15,781,672	1.2474	19,686,057.65	
Less: Location Adjustment to Handlers			(2,631,194.29)	\$91,851,304.28
Class II— Butterfat	29,046,144	1.2561	36,484,861.48	
Nonfat Solids	36,597,721	0.7444	27,243,343.56	63,728,205.04
Class III— Butterfat	17,951,606	1.2491	22,423,351.03	
Protein	14,531,147	2.1009	30,528,486.72	
Other Solids	27,495,639	0.0962	2,645,080.47	55,596,918.22
Class IV— Butterfat	7,063,901	1.2491	8,823,518.73	
Nonfat Solids	16,454,187	0.6918	11,383,006.59	20,206,525.32
<b>Total Classified Value</b>				<b>\$231,382,952.86</b>
Add: Overage—All Classes				238,743.76
Inventory Reclassification—All Classes				72,186.35
Other Source Receipts	380,345 Pounds			7,324.07
<b>Total Pool Value</b>				<b>\$231,701,207.04</b>
Less: Producer Component Valuations @ Class III Component Prices				(218,977,845.68)
<b>Total PPD Value Before Adjustments</b>				<b>\$12,723,361.36</b>
Add: Location Adjustment to Producers				9,561,540.72
One-half Unobligated Balance—Producer Settlement Fund				823,676.26
Less: Producer Settlement Fund—Reserve				(824,727.45)
<b>Total Pool Milk &amp; PPD Value</b>	1,937,726,167 Producer pounds			<b>\$22,283,850.89</b>
Producer Price Differential		<b>\$1.15</b>		
Statistical Uniform Price		<b>\$12.35</b>		

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