

The Market Administrator's

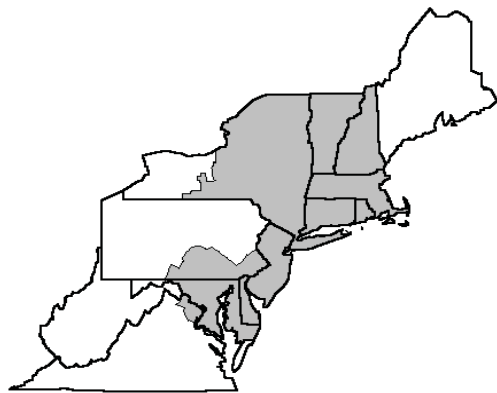
BULLETIN

NORTHEAST MARKETING AREA

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Federal Order No. 1



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December Pool Price Calculation

The December 2009 statistical uniform price (SUP) for the Northeast Marketing Area was announced at \$16.11 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 \$16.97 per hundredweight. The December statistical uniform price was \$1.09 per hundredweight above the November price. The December producer price differential (PPD) at Suffolk County was \$1.13 per hundredweight, an increase of 19 cents per hundredweight from last month.

During December, all commodity prices rose again resulting in higher component and class prices. Most of the commodities surveyed by NASS reported price increases during November and December. Block Cheddar prices increased significantly during December causing an abnormal spread between the block and barrel prices (see related article below). The Class I price (announced in advance) increased \$1.13 per hundredweight, the Class II price rose \$1.01, the Class III price increased \$0.90, and the Class IV price went up \$1.76 per hundredweight. The Class II price again was the lowest class price for the month. ❖

Block and Barrel Cheddar Price Spread Returns to Normal

The abnormal block and barrel Cheddar cheese price spread that characterized the Chicago Mercantile Exchange (CME) spot market recently has returned to normal. The block and barrel Cheddar cheese prices historically have been less than 10 cents apart. The week of November 14, the CME block Cheddar cheese price rose to 10 cents above the barrel Cheddar cheese price and traded more than 10 cents higher for 7 weeks straight. Block prices traded as much as 24 cents higher than barrels for 2 weeks during that time. This spread between the two price series can be seen clearly in the chart on page 3.

NASS Cheese Price Spread

National Agricultural Statistics Service (NASS) block and barrel Cheddar *monthly* cheese prices have averaged a 2-cent spread since the beginning of 2002, with the highest spread being 10 cents until December 2009 when it was 13 cents. The highest spread between NASS *weekly* (continued on page 3)

Pool Summary

- A total of 13,187 producers were pooled under the Order with an average daily delivery per producer of 4,676 pounds.
- Pooled milk receipts totaled 1.912 billion pounds, an increase of 1.8 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 47.3 percent of total milk receipts, an increase of 1.0 percentage point from November.
- The average butterfat test of producer receipts was 3.80 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	47.3	904,159,885
Class II	17.3	331,365,702
Class III	23.1	442,007,411
Class IV	12.3	234,606,365
Total Pooled Milk		1,912,139,363

Producer Component Prices

	2009	2008
	\$/lb	
Protein Price	2.8751	3.6390
Butterfat Price	1.5433	1.2998
Other Solids Price	0.1727	(0.0269)

Class Price Factors

	2009	2008
	\$/cwt	
Class I	17.24	18.68
Class II	14.25	11.21
Class III	14.98	15.28
Class IV	15.01	10.35

2009 Northeast Order Statistics Summarized

During 2009, the volume of milk received from producers shipping to handlers regulated under the Northeast Order totaled 23.5 billion pounds, a decrease of 1.4 percent from 2008. The decline was due to decreased milk production in the region, most likely a response to lower prices during 2008. Total U.S. milk production from January through November basically was flat on a percentage basis. Total pounds were down about 600 million pounds. In the Northeast and the surrounding states that make up part of the Order's milkshed, milk production declined with only New York and Virginia reporting increases for the year.

A small amount (23.5 million pounds) was depooled during 2009, significantly less than the approximately 300 million pounds during 2008. If the depooled pounds were included in the total pooled milk receipts for both years, the actual change would have been a decline of 2.5 percent in 2009. The accompanying table compares selected pool statistics for 2008 and 2009. All volume comparisons have been adjusted for leap year.

Class Utilization Changes

Class I utilization averaged 43.7 percent in 2009, an increase of 0.3 percentage points from the previous year. The total volume of milk used in Class I decreased 0.9 percent but due to the decline in total milk receipts, the utilization percent increased. Class II usage increased 2.3 percent, resulting in an increase in utilization of 0.7 percentage points and an overall pool utilization of 20.2 percent.

Class III volume was up 4.2 percent with an increase in utilization of 1.3 percentage points. Class III usage averaged 23.5 percent. The amount of milk used in Class IV dropped 16.2 percent in 2009 and the corresponding utilization declined 2.2 percentage points. Class IV utilization accounted for an annual average of 12.6 percent. Most of the decline was in milk used to make dried milk products, mainly nonfat dry milk.

Prices Lower

The increases in milk production that occurred during late 2007 and early 2008 caused a decline in prices that began during the second half of 2008 and continued throughout most of 2009. For the year, all federal order class prices averaged less than during 2008; most were down about 30 percent from the previous year.

The Class I price averaged \$14.73 per hundredweight in 2009, \$6.52 below the 2008 annual average. The Class II price averaged \$11.26 per hundredweight, nearly \$5.00 less than the previous year. The Class III price was hit the hardest, averaging \$11.36 per hundredweight, a drop of over \$6.00 from the 2008 average. The Class IV price declined \$3.76 and averaged \$10.89 per hundredweight.

Overall, the statistical uniform price (blend) reported at Suffolk County, Massachusetts (Boston) averaged \$13.01 per hundredweight, \$5.61 less than the 2008 price, and the second lowest blend price on record for the Order. The producer price differential (PPD) averaged \$1.65 per hundredweight, 39.8 percent higher than the average in 2008.

Component Pricing

The price paid to producers for butterfat averaged \$1.2571 per pound, 19.8 percent lower than in 2008. The per-pound annual average protein price was \$2.2087, down 43.2 percent from 2008. The other solids price increased 10.3 percent and averaged \$0.0612 per pound. Negative other solids values were reported during the first 4 months of 2009. The nonfat solids price declined 29.2 percent and averaged \$0.7469 per pound.

Producer Tests

The annual average producer butterfat test equaled 3.72 percent in 2009, a drop of 1 percentage point from last year. New records were set during the months of January and July. The annual average producer protein test of 3.06 percent was unchanged from 2008. Record highs were set during the months of January, June, September, and October. The annual average producer other solids test dropped 2 percentage points to 5.69 percent in 2009.

The year ended with 416 less producers than at the end of 2008. Annual average daily deliveries per producer (DDP) equaled 4,810 pounds, relatively unchanged from 2008. ❖

Northeast Order Pool Statistics, 2008–2009

Pool Statistics	2008	2009	2008-09 Change percent
	million pounds		
Class I	10,384.8	10,267.8	(0.9)
Class II	4,655.2	4,748.5	2.3
Class III	5,323.1	5,531.2	4.2
Class IV	3,531.9	2,949.9	(16.2)
Total	23,895.0	23,497.4	(1.4)
	pounds		
DDP	4,807	4,810	0.1
	utilization percentage		change
Class I	43.4	43.7	0.3
Class II	19.5	20.2	0.7
Class III	22.3	23.5	1.2
Class IV	14.8	12.6	(2.2)
	dollars/cwt		percent
Class I	21.25	14.73	(30.7)
Class II	16.24	11.26	(30.7)
Class III	17.44	11.36	(34.9)
Class IV	14.65	10.89	(25.7)
SUP	18.62	13.01	(30.1)
Producer Component:			
Tests:	percent		change
Butterfat	3.73	3.72	(0.0)
Protein	3.06	3.06	0.0
Other Solids	5.71	5.69	(0.0)
Prices:	dollars/lb		percent
Butterfat	1.5668	1.2571	(19.8)
Protein	3.8898	2.2087	(43.2)
Other Solids	0.0555	0.0612	10.3
Nonfat Solids	1.0552	0.7469	(29.2)

Block and Barrel Cheddar Price *(continued from page 1)*

block and barrel Cheddar prices was 12 cents during the period of January 2002 to November 2009. The spread between blocks and barrels for the week of January 9, 2010 (the most recent data available at publication), was 16 cents. The spread between NASS block and barrel prices appeared about the fourth week of November.

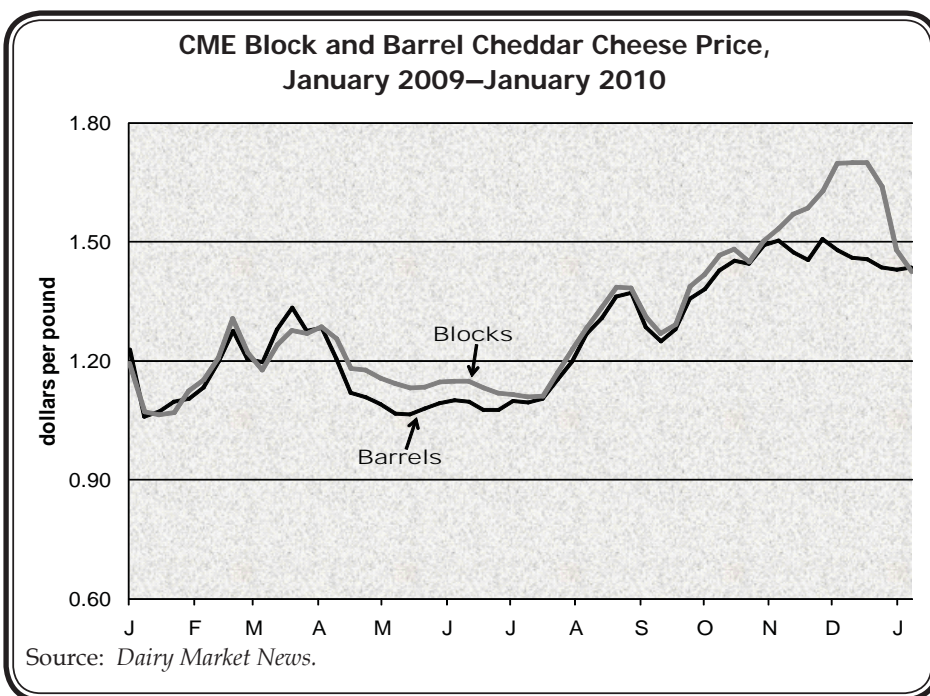
As of January 2, the spread between CME weekly block and barrel prices returned to a more normal 5 cents, and then just 1 cent the next week (most recent data available). NASS weekly prices were still exhibiting the spread as of January 9, as NASS prices generally lag CME price movements by a couple weeks. Some of the additional value that existed in the block price will benefit the January class prices.

Impact on Federal Order Prices

The increased value in blocks over barrels resulted in a 68-cent higher Class III price and a 16-cent higher uniform price in December than if blocks had been within their normal distance from the much lower barrel price. The impact in November was a 10-cent higher Class III price and a 2-cent higher uniform price. The Class I price for December and January was not affected because the Class III skim price was still not high enough to be the mover. The Class I price formula uses the higher of the advanced Class III or Class IV skim milk pricing factor to establish the Class I skim price. Though the advanced Class III skim milk pricing factor increased due to the increase in block prices, it remained below the Class IV skim pricing factor for both December and January.

Price Movement Briefly Explained

According to Dairy Market News, there were a couple of factors behind the unusual price spread. Cheese in storage was affecting sales of barrel cheese in particular, keeping barrel prices soft. Meanwhile, holiday demand seems to have bolstered block prices, resulting in the spread. With holiday demand behind us, and some milk shifting away from barrel production, the higher block prices were no longer supported and returned to a level close to the barrel price. The barrel price has held and did not mirror the decline in block prices. ❖



Pool Summary for All Federal Orders, January–December, 2008–2009

Federal Order Number	Federal Order Name	Total Producer Milk			Producer Price Differential#		Statistical Uniform Price#*	
		2008	2009	Change~ percent	2008	2009	2008	2009
		pounds			dollars per hundredweight			
1	Northeast	23,895,032,867	23,497,425,683	(1.4)	1.18	1.65	18.62	13.01
5	Appalachian	5,882,231,758	5,950,397,772	1.4	N/A	N/A	19.90	14.00
6	Florida	3,130,160,081	3,027,183,629	(3.0)	N/A	N/A	21.87	16.12
7	Southeast	6,922,833,240	7,169,318,086	3.8	N/A	N/A	20.17	14.25
30	Upper Midwest	28,040,611,738	32,183,931,975	15.1	0.19	0.26	17.63	11.62
32	Central	11,564,480,710	12,685,174,559	10.0	(0.07)	0.41	17.37	11.77
33	Mideast	15,707,154,391	16,595,746,586	5.9	0.43	0.75	17.86	12.11
124	Pacific Northwest	6,881,681,377	7,470,190,925	8.8	(0.57)	0.41	16.87	11.76
126	Southwest	9,687,446,649	10,808,789,521	11.9	0.83	1.46	18.26	12.82
131	Arizona	4,155,785,979	4,042,238,490	(2.5)	N/A	N/A	17.46	12.10
All Market Total/Average		115,867,418,790	123,430,397,226	6.8	0.33	0.83	18.60	12.96

Price at designated order location.

* Price at 3.5% butterfat.

~ Adjusted for leap year.

N/A = Not applicable.



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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	886,662,446	\$12.56	111,364,803.22	
Butterfat	17,497,439	1.4635	25,607,501.98	
Less: Location Adjustment to Handlers			(2,916,276.25)	\$134,056,028.99
Class II— Butterfat	25,379,739	1.5503	39,346,209.41	
Nonfat Solids	28,028,879	1.0156	28,466,129.52	67,812,338.93
Class III— Butterfat	17,863,535	1.5433	27,568,793.60	
Protein	13,844,991	2.8751	39,805,733.58	
Other Solids	25,083,041	0.1727	4,331,841.17	71,706,368.35
Class IV— Butterfat	11,877,973	1.5433	18,331,275.75	
Nonfat Solids	20,475,758	1.1068	22,662,568.95	40,993,844.70
Total Classified Value				\$314,568,580.97
Add: Overage—All Classes				168,463.64
Inventory Reclassification—All Classes				398,045.07
Other Source Receipts	382,316 Pounds			8,899.28
Total Pool Value				\$315,143,988.96
Less: Producer Component Valuations @ Class III Component Prices				(302,817,577.64)
Total PPD Value Before Adjustments				\$12,326,411.32
Add: Location Adjustment to Producers				9,255,525.86
One-half Unobligated Balance—Producer Settlement Fund				933,874.68
Less: Producer Settlement Fund—Reserve				(904,316.94)
Total Pool Milk & PPD Value	1,912,521,679 Producer pounds			\$21,611,494.92
Producer Price Differential		\$1.13		
Statistical Uniform Price		\$16.11		

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