

The Market Administrator's

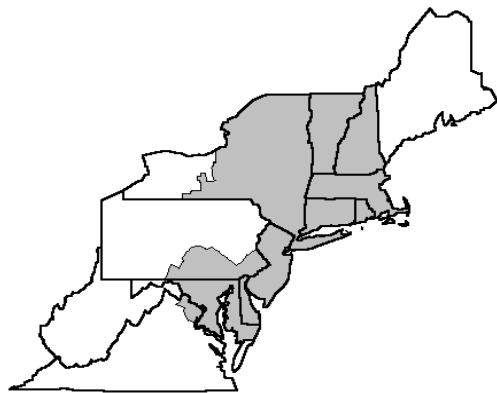
BULLETIN

NORTHEAST MARKETING AREA

Erik F. Rasmussen, Market Administrator

March 2011

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

March Pool Price Calculation

The March 2011 statistical uniform price (SUP) for the Northeast Marketing Area was announced at \$20.28 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 \$21.27 per hundredweight. The March statistical uniform price was \$1.53 per hundredweight above the February price. The March producer price differential (PPD) at Suffolk County was \$0.88 per hundredweight, a decrease of \$0.87 per hundredweight from last month.

During March, all commodity prices rose except butter, which resulting in higher component prices except butterfat. The NASS cheese price increased 12 cents per pound, which was reflected in a 74-cent per pound protein price and \$2.40 per hundredweight jump in the Class III price. The Class III and IV prices were 1 cent apart and nearly 60 cents greater than the Class II price—this month's lowest of the classes. All class prices were higher than in February and contributed to the increase in the blend price.

All producer component (butterfat, protein, and other solids) tests set records for the month of March. The Class II volume set a new record as not only the highest for the month of March, but as the largest volume ever for Class II since the Order's inception. ❖

Trends in Milk Production

Over the past ten years, the annual average number of producers pooled on the Northeast Order has declined 2.5 percent. The drop has not been consistent, ranging from 0.7 to 6.7 percent, and there has even been an increase (0.3 percent in 2010); overall, the trend is toward fewer farmers producing more milk.

Various factors affect the number of producers pooled on an order. As pooling requirements and plant supply needs change, handlers may choose to move producers and their associated milk production to be pooled on another federal order, a state order, or delivered as non-pool milk. Depending on the volumes needed and logistics, handlers may move fewer large-volume producers or a greater number (continued on page 3)

Pool Summary

- A total of 13,069 producers were pooled under the Order with an average daily delivery per producer of 5,254 pounds.
- Pooled milk receipts totaled 2.129 billion pounds, an increase of 0.6 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 41.4 percent of total milk receipts, a decrease of 1.1 percentage points from February.
- The average butterfat test of producer receipts was 3.79 percent.
- The average true protein test of producer receipts was 3.09 percent.
- The average other solids test of producer receipts was 5.75 percent. ❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	41.4	880,662,248
Class II	24.2	516,239,465
Class III	24.1	513,349,073
Class IV	10.3	218,440,812
Total Pooled Milk		2,128,691,598

Producer Component Prices

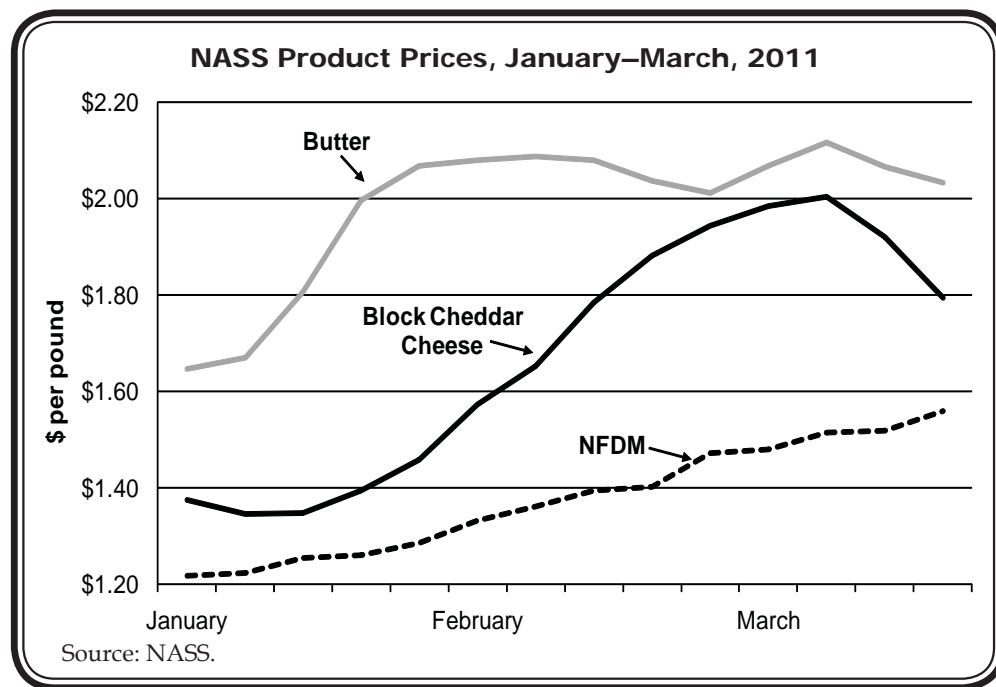
	2011	2010
	\$/lb	
Protein Price	3.3024	2.1311
Butterfat Price	2.2859	1.5347
Other Solids Price	0.2665	0.1823

Class Price Factors

	2011	2010
	\$/cwt	
Class I	21.48	17.59
Class II	18.83	14.46
Class III	19.40	12.78
Class IV	19.41	12.92

Market Situation

The March 2011 Northeast uniform price topped \$20 per hundredweight. The last time the uniform price topped \$20 per cwt was July 2008. Using current Chicago Mercantile Exchange (CME) futures prices to predict the direction and level of National Agricultural Statistics Service (NASS) survey prices (upon which federal order prices are based) would suggest a 2011 average uniform price for the Northeast Order of \$20.18 per cwt and no Milk Income Loss Contract (MILC) payments for the year. The accompanying chart shows NASS prices since the beginning of the year. Notable is a dramatic increase and subsequent tapering off of the cheese price and a butter price that continues to hover near or above the \$2.00 per pound level.



Demand Outlook

The demand outlook for dairy products is one of mixed signals domestically, but looks strong internationally. Domestically speaking, the most recent Restaurant Performance Index increased to 99.0, its highest level since November 2007. The National Restaurant Association, which publishes the index, claims the strong February gain was a result of "broad-based improvements in forward-looking indicators." Since restaurant purchases comprise a large portion of domestic demand for dairy products, such an outlook would have positive implications for dairy demand. However, the Consumer Confidence Index tells a different story, as it declined in March to 63.4 from 72.0 in February. This index measures consumer optimism toward current conditions and future expectations. A sharp decline in the expectations portion of the index is largely to blame for the overall decline. Though this

may impact spending decisions, the opinion of current conditions actually improved, a sign that the economy is expanding.

Internationally, February export volumes of U.S. milk powder, whey, lactose, cheese, and butterfat were up 41 percent, combined. Exports of cheese hit record levels for the first two months of 2011. Cheese exports were equivalent to an all-time high 5.0 percent of U.S. cheese production in January-February. Major U.S. customers during those months were Mexico, Korea, the Middle East, and Japan. Those two months also saw an increase in the NASS Cheddar cheese block price from \$1.37 per pound on January 1, to \$2.00 per pound by March 19. In the wake of the

Japanese earthquake and tsunami, many commodity prices, including cheese, weakened. As of the week ending April 9, the NASS Cheddar block price was \$1.69 per pound and using CME prices as an indicator, can be expected to decline further in the immediate future. Although the impact of the events in Japan on U.S. dairy are difficult to predict, some argue that Japanese imports from trade partners such as the U.S. will likely increase. Estimates by Rabobank indicate Japan could lose between 1 to 7 percent of its milk production, and the U.S. accounts for about 20 percent of its imported dairy products.

The events in Japan as well as favorable exchange rates and other weather-related events indicate

continued strong international demand for U.S. dairy products.

Supply

Milk production continues to increase each month over 2 percent compared to the same month previous year. Total cheese stocks in February, over 1 billion pounds, remain higher than they have been since 1984, and second highest ever for the month. These two facts would tend to have a softening effect on milk prices. Conversely, butter stocks in February were as low as they have been since 2005 and manufacturers' stocks of nonfat dry milk are down 34 percent over last year.

Overall, current indicators appear to suggest continuing strong milk prices in 2011. Some softening in the nonfat dry milk price may occur with a spring flush, as continued strong exports of U.S. dairy products will help support strong milk prices in general. ❖

Trends *(continued from page 1)*

of lower-volume producers, which cause variations in the counts of producers associated with an order

When the Northeast Order began in 2000, there were 18,009 producers pooled. As of December 2010, the number dropped to 13,402; the most current month, March 2011, reported 13,069. Average daily deliveries per producer (DDP) have risen from 3,843 pounds in January 2000 to 4,963 in December 2010, and 5,254 pounds in March 2011. Figure 1 shows the comparison of producers and DDP from 2000 to 2010 using annual averages. During this time, the total volume of milk pooled on the Northeast Order has ranged from 22.7 billion pounds to 25.4 billion pounds. As the producer count as decreased, the milk volume has stayed relatively stable, due largely to the increase in daily deliveries per producer signifying the trend to fewer but larger farms.

Milk Production Per Cow

Another factor contributing to the relative stability of milk volume while producer numbers have declined is the increase in milk production per cow. Figure 2 shows the annual average number of cows for the combined 3 largest milk contributing states of the Northeast Order (New York, Pennsylvania, and Vermont). Together these states account for about 88 percent of all milk pooled under the Order. The number of milk cows in these states has declined 1.2 percent from 2000 to 2010. Conversely, the milk production per cow has risen 1.2 percent over the same period.

Nationally, milk cow numbers have declined only 0.1 percent from 2000 to 2010, while milk per cow has grown 1.5 percent. The rest of the Northeastern states that normally have producers pooled on the Order reported a combined drop in cows of 3.3 percent and a combined average increase in milk per cow of 1.0 percent. For comparison, Wisconsin showed a decline in milk cows of 0.6 percent and growth in milk per cow of 1.8 percent. ❖

Figure 1 Northeast Order Producers and Milk Deliveries, 2000–2010

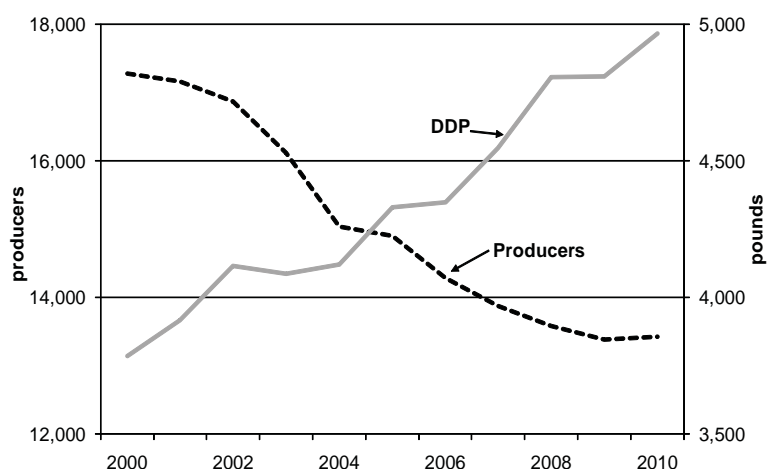
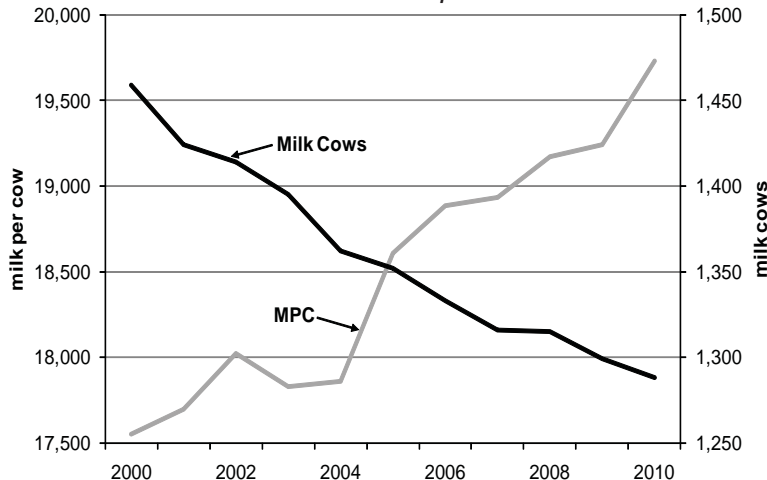


Figure 2 Northeast Milk Cows and Production Per Cow, 2000–2010



Pool Summary for All Federal Orders, January–March, 2010–2011

Federal Order Number	Federal Order Name	Total Producer Milk			Producer Price Differential#		Statistical Uniform Price##*	
		2010 pounds	2011	Change percent	2010 dollars per hundredweight	2011	2010	2011
1	Northeast	5,854,783,239	6,181,938,798	5.6	2.18	2.05	16.03	18.68
5	Appalachian	1,517,331,785	1,468,758,088	(3.2)	N/A	N/A	17.14	19.65
6	Florida	761,625,393	771,083,647	1.2	N/A	N/A	19.40	21.53
7	Southeast	1,783,455,621	1,854,293,083	4.0	N/A	N/A	17.33	19.63
30	Upper Midwest	8,468,058,036	8,032,117,915	(5.1)	0.38	0.30	14.23	16.93
32	Central	3,301,065,099	3,195,833,415	(3.2)	0.71	0.71	14.57	17.34
33	Mideast	4,149,849,076	3,883,591,235	(6.4)	1.21	0.99	15.07	17.62
124	Pacific Northwest	2,025,032,685	1,971,645,151	(2.6)	0.60	0.97	14.46	17.59
126	Southwest	2,659,435,245	2,552,197,961	(4.0)	1.86	1.70	15.72	18.33
131	Arizona	1,073,731,074	1,161,920,835	8.2	N/A	N/A	14.79	18.04
All Market Total/Average		31,594,367,253	31,073,380,128	(1.6)	1.16	1.12	15.87	18.53

Price at designated order location.

* Price at 3.5% butterfat.

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	864,632,989	\$13.75	118,887,035.99	
Butterfat	16,029,259	2.3461	37,606,244.54	
Less: Location Adjustment to Handlers			(2,970,075.41)	\$153,523,205.28
Class II— Butterfat	32,309,639	2.2929	74,082,771.24	
Nonfat Solids	44,422,869	1.2444	55,279,818.20	129,362,589.44
Class III— Butterfat	20,905,674	2.2859	47,788,280.19	
Protein	15,868,470	3.3024	52,404,035.29	
Other Solids	29,386,158	0.2665	7,831,411.15	108,023,726.63
Class IV— Butterfat	11,442,513	2.2859	26,156,440.47	
Nonfat Solids	19,014,989	1.3134	24,974,286.56	51,130,727.03
Total Classified Value				\$442,040,248.38
Add: Overage—All Classes				119,823.70
Inventory Reclassification—All Classes				103,708.25
Other Source Receipts	2,432,237 Pounds			14,705.89
Total Pool Value				\$442,278,486.22
Less: Producer Component Valuations @ Class III Component Prices				(433,964,627.71)
Total PPD Value Before Adjustments				\$8,313,858.51
Add: Location Adjustment to Producers				10,780,553.35
One-half Unobligated Balance—Producer Settlement Fund				657,657.64
Less: Producer Settlement Fund—Reserve				(998,179.83)
Total Pool Milk & PPD Value	2,131,123,835 Producer pounds			\$18,753,889.67
Producer Price Differential		\$0.88		
Statistical Uniform Price		\$20.28		

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