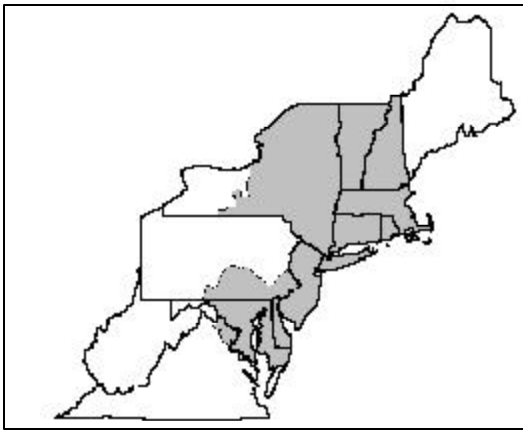


The Market Administrator's

BULLETIN

NORTHEAST MARKETING AREA

Erik Rasmussen, Market Administrator

January 2000 Federal Order No. 1

To contact the Northeast Marketing Area offices:
Boston, MA: phone (617) 542-8966; *Albany, NY*: phone (518) 452-4410; *Alexandria, VA*: phone (703) 549-7000
website address: www.fmmone.com; *email address*: fmma@fedmilk1.com

January Pool Price Calculation

The January statistical uniform price for the Northeast Marketing Order was announced at $12.35 per hundredweight, at the pricing point for the Northeast order of Suffolk County, Massachusetts (Boston). The statistical uniform price is calculated at a standard component composition of 3.5 percent butterfat, 2.99 percent protein, and 5.69 percent other solids. The January producer price differential (PPD) at Suffolk County was $2.30 per hundredweight. Since producers are paid on the total pounds of butterfat, true protein, and other solids they produce together with a per hundredweight PPD adjusted to the location(s) of the plants to where their milk was delivered, the actual price received by an individual dairy farmer likely will vary from the announced statistical uniform price.

The statistical uniform price, at the standard component composition, is computed by combining the Class III price (January equals $10.05) and the PPD. The PPD takes into account the value of Class I, II, and IV milk and represents each producer's share of the value generated by the marketwide pool on a hundredweight basis. (See table on page 4 for January's price computation.) The statistical uniform price and PPD decrease by scheduled amounts the more distant the plant(s) to where a producer's milk is delivered is from Suffolk County, Massachusetts. The January PPD is $2.20 in New York, NY, and $2.10 in Philadelphia, PA.

January Prices

The prices used in the calculation of the January pool and for the component values paid to producers are based on dairy product prices for the month of January, as calculated by the National Agricultural Statistics Service (NASS). The prices, therefore, are reflective of current wholesale market price conditions. See *Market Situation* article for more information on product prices.❖

Welcome to the Northeast Order

This *Bulletin* represents the first market information release under the consolidated Northeast Marketing Area. All dairy farmers delivering milk to handlers regulated under the Northeast Marketing Area will receive a copy of the monthly *Bulletin*. The *Bulletin* will serve to keep producers informed of USDA policy decisions impacting federal orders and the dairy industry, summarize the calculation of the statistical uniform price and producer price differential, and report on other issues relevant to the Northeast Marketing Area. The *Bulletin* generally will be published by the third week of the month.❖

Pool Summary

- A total of 18,024 producers were pooled under the order with an average daily delivery per producer of 3,844 pounds.
- Producer milk receipts totaled 2.148 billion pounds.
- Usage as Class I milk for bottling accounted for the largest class volume at 42.2 percent of total receipts.
- The average butterfat test of producer receipts was 3.78 percent.
- The average true protein test of producer receipts was 2.99 percent.
- The average other solids test of producers receipts was 5.59 percent.❖

Class Utilization

Producer Milk	Percent	Pounds
Class I	42.2	905,503,608
Class II	14.7	316,772,976
Class III	27.4	589,450,606
Class IV	15.7	336,299,091
Total Producer Milk		2,148,026,281

Producer Component Prices

Protein Price	$2.1677 /lb
Butterfat Price	$0.9366 /lb
Other Solids Price	$0.0503 /lb

Class Price Factors

	$/cwt
Class I	14.15
Class II	11.43
Class III	10.05
Class IV	10.73

Class III and IV Price Formula Proceedings

As required by Congress under the Consolidated Appropriations Act 2000, the Secretary of Agriculture has announced a formal rulemaking proceeding to reconsider the newly adopted Class III and Class IV pricing formulas. Under the provisions of the new consolidated orders, the higher of the monthly advanced Class III or Class IV skim milk price serves as the base price from which the Class I skim milk price is set. The Class II skim milk price is determined by adding a fixed 70 cents per hundredweight to the advanced Class IV skim milk price.

USDA is requesting that interested persons submit proposals to modify the computation of Class III and IV prices, as adopted under federal order reform and published in the Federal Register on September 1, 1999 (64 Fed. Reg. 47897-48021). It is anticipated that a hearing to obtain additional input on submitted proposals will be held in late April or early May 2000. The formulas resulting from the required proceeding are to be implemented on January 1, 2001.

Scope of Proposals

In addition to the Class III and Class IV price formulas adopted under federal order reform, the hearing will consider proposals that address changes to any of the factors, such as the specification of the products whose prices are identified, the yield factors, and the make allowances included in the computation of component prices. A brief but comprehensive statement should accompany each proposal justifying the proposed changes. The statement will be used in deciding whether the submitted proposals should be considered at the hearing. Those proposing changes to the Class III and Class IV price calculations contained in the final rule should plan to support their proposals with data, as well as arguments, at the hearing. The hearing would be limited to the proposals included in a hearing notice. All known interested persons will be mailed a copy of the hearing notice when one is issued. Anyone who desires to present evidence on proposals set forth in the hearing notice will have an opportunity to do so at the hearing.

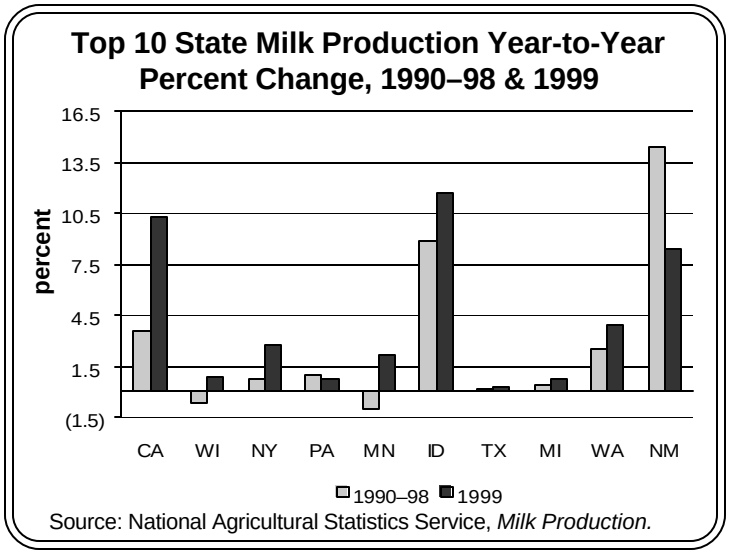
The legislation requiring the hearing describes the proceeding as an emergency. An emergency rulemaking proceeding omits a recommended decision with the opportunity to file comments on the decision. The potential omission of a recommended decision will be an issue that will be considered at the hearing.

To submit a proposal, send two copies to: Deputy Administrator, Dairy Programs, Agricultural Marketing Service, United States Department of Agriculture, Room 2968, South Building, P.O. Box 96456, Washington, D.C. 20090-6456 by **February 29, 2000**. For questions concerning the filing of a proposal or to obtain a copy of the final rule for order consolidation and reform of federal milk orders, please contact any market administrator office.❖

U.S. Milk Production Has Strong Year

The estimated annual U.S. milk production during 1999 finished 3.4 percent above the total for 1998. This was the largest year-over-year percentage increase of the 1990s. Excluding 1999's increase, the average year-over-year U.S. milk production change for the 1990–1998 period was 0.8 percent; less than one-fourth the year-over-year increase achieved in 1999.

The accompanying chart shows the 1999 percentage change in milk production for the current top ten dairy states, along with the 1990–98 average of the year-over-year changes for these same states. Seven of the ten states experienced larger than average milk production gains during 1999. Of the three states where 1999 production growth did not exceed their respective 1990's average, Pennsylvania and Texas were affected by severe drought and heat during 1999. The third state, New Mexico, experienced the third highest rate of production growth of all states in 1999 at 8.4 percent. This was, however, below the state's 1990–98 average change of 14.3 percent.❖



Source: National Agricultural Statistics Service, *Milk Production.*

Dairy Assistance Program

Agriculture Secretary Dan Glickman has announced the program details for USDA's *Dairy Market Loss Assistance Program*, which will provide $125 million in direct cash payments to dairy farmers who have been hurt by low prices. This money was made available in the Agricultural Appropriations Bill signed into law in October 1999.

Eligible dairy farmers will receive a per hundredweight payment based on an operation's milk production in 1997 or 1998, up to the first 26,000 hundredweight of production. All dairy farmers who produced milk during the last quarter of calendar year 1998 are eligible for the program. Eligible dairy farmers who did not participate in the program last summer (1999 *Dairy Income Loss Assistance Program*) must sign up at their local Farm Service Agency office or USDA Service Centers by **February 28, 2000**. Farmers who participated in last summer's program will automatically receive payments and do not need to reapply.❖

MARKET SITUATION

Price Indicators Under Order Reform

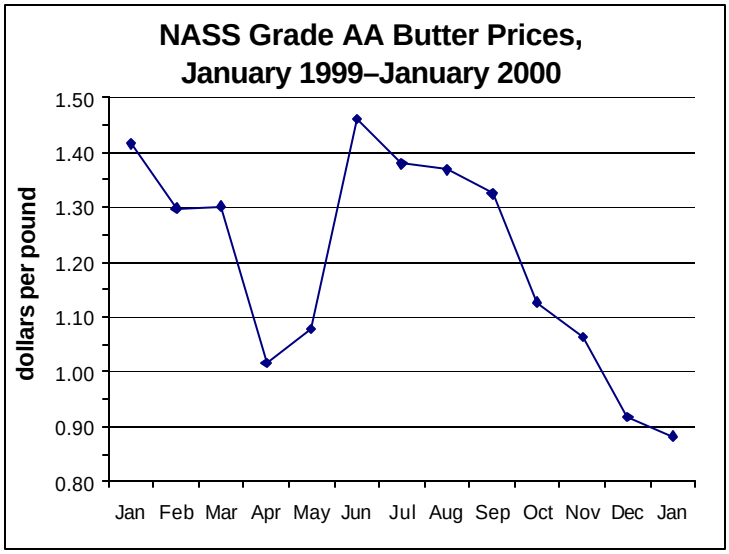
With payment for milk now largely based on the volume and value of milk's components, some of the pricing signals that producers have been accustomed to—namely the basic formula price (BFP)—have changed. Under component pricing, USDA begins with the product prices of cheese, butter, nonfat dry milk, and whey, calculated from weekly surveys conducted by USDA's National Agricultural Statistics Service (NASS). From these prices USDA calculates the value for a pound of butterfat, protein, other solids, and nonfat milk solids. The butterfat, protein, and other solids prices form the basis for what farmers will be paid. These component values are also used by USDA to calculate per hundredweight class prices.

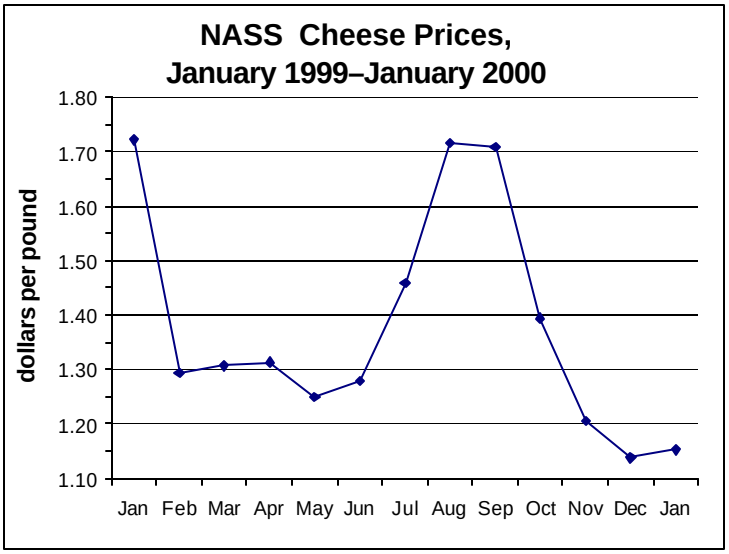
New Benchmark Price

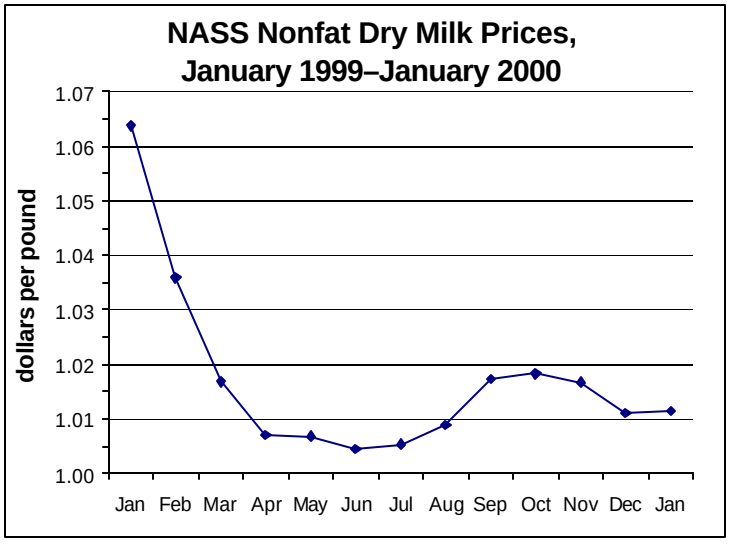
Prior to order reform the M-W and BFP price series were often used by the industry as a reference point for price changes. The new Class III has been adopted by the futures exchanges as the price that will be used for hedging. At this time you cannot hedge component values directly, but you can hedge a Class III price. Although this is not a perfect predictor of changes in farm milk prices, it is relatively similar to the former M-W/BFP price series and may serve as a price-signaling indicator.

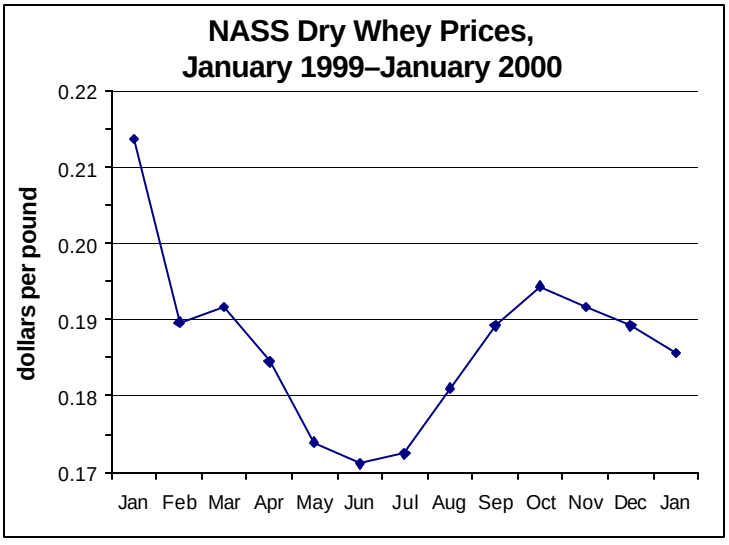
Commodity Values

The following charts show the weighted monthly average NASS product prices for the commodities that are used in the calculation of component prices under federal orders. Since these prices will be used to calculate component values, monitoring changes in the commodity values may also serve as pricing signals. The charts present prices for the period January 1999–January 2000. Component prices for milk produced in January 2000 were based on NASS survey prices for January. ❖









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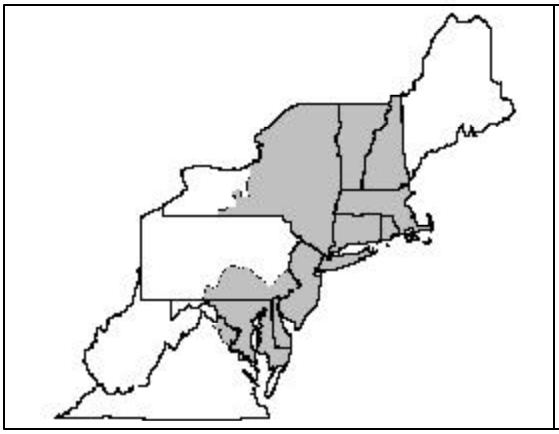
Computation of Producer Price Differential and Statistical Uniform Price

		Product Pounds	Price per cwt/lb	Component Value	Total Value
Class I—	Skim	886,686,337	$10.97	97,269,491.21	
	Butterfat	18,817,271	1.0179	19,154,100.18	
Less:	Location Adjustment to Handlers			(2,709,590.62)	$113,714,000.77
Class II—	Butterfat	21,514,505	0.9436	20,301,086.98	
	Nonfat Solids	26,703,768	0.9356	24,984,045.37	45,285,132.35
Class III—	Butterfat	22,264,123	0.9366	20,852,577.56	
	Protein	17,078,974	2.1677	37,022,091.96	
	Other Solids	32,589,344	0.0503	1,639,244.02	59,513,913.54
Class IV—	Butterfat	18,611,661	0.9366	17,431,681.73	
	Nonfat Solids	28,454,702	0.8574	24,397,061.50	41,828,743.23
Total Classified Value					**$260,341,789.89**
Add:	Overage—All Classes				140,348.76
	Inventory Reclassification—All Classes				(331,415.81)
	Other Source Receipts	1,044,955			41,275.69
Less:	Producer Component Valuations				(221,479,313.82)
	Subtotal				**$38,712,684.71**
Add:	Location Adjustment to Producers				10,484,211.52
	One-half Unobligated Balance—Producer Settlement Fund				1,209,379.57
Total Pool Milk & Aggregate Value		2,149,071,236			50,406,275.80
Less:	Producer Settlement Fund—Reserve				(977,637.37)
Producer Price Differential	***@ Suffolk County, MA (Boston)***		**$2.30**		49,428,638.43
Statistical Uniform Price	***@ Suffolk County, MA (Boston)***		**$12.35**		



The Market Administrator's

BULLETIN

NORTHEAST MARKETING AREA

Erik F. Rasmussen, Market Administrator

February 2000 Federal Order No. 1

To contact the Northeast Marketing Area offices:
Boston, MA: phone (617) 542-8966; *Albany, NY*: phone (518) 452-4410; *Alexandria, VA*: phone (703) 549-7000
website address: www.fmmone.com; *email address*: fmma@fedmilk1.com

February Pool Price Calculation

The February statistical uniform price for the Northeast Marketing Order was announced at $12.21 per hundredweight at Suffolk County, Massachusetts (Boston), the pricing point for the Northeast Order. This was a decrease of 14 cents per hundredweight from January. The February producer price differential (PPD) at Suffolk County was $2.67 per hundredweight, an *increase* of 37 cents from January. The PPD is $2.57 for shipment to plants in the New York City differential zone and $2.47 for plants in the Philadelphia differential zone.

Prices Moved Inversely

The February statistical uniform price declined while the PPD increased. This was due to changes in the component values, from January to February, that are used to calculate class prices and are factors in the statistical uniform price and PPD. The February Class III price dropped 51 cents from January as the value for protein declined. The protein value, a significant factor in the Class III price, is calculated from the National Agricultural Statistics Service (NASS) cheese plant surveys. NASS surveys reported during February that wholesale values of Cheddar declined by an average of 4.5 cents per pound for 40-pound blocks and 500-pound barrrels.

The PPD takes into account the value of Class I, II, and IV milk in the pool. Since the Class III price dropped by a greater amount than declines in other class prices, the "spread" between the Class III price and all other class prices increased in February, thereby contributing a greater amount to the PPD. This value, plus adjustments, is divided by the pounds of milk in the pool to arrive at a per hundredweight PPD. February's total value was nearly 5 million dollars greater than the January value, which combined with less milk in the February pool resulted in a higher PPD.❖

Forward Contract Pilot Program

USDA recently proposed rules to implement the federal milk order forward contract pilot program mandated by Congress. A period of public comment on the proposed program concluded March 16, with implementation anticipated for later this spring.

Forward contracting is voluntary for both dairy farmers and milk handlers. The program only applies to federally regulated milk used for manufactured dairy products. Manufacturing uses include milk used

(continued on Page 3)

Pool Summary

- A total of 17,961 producers were pooled under the order with an average daily deliveries per producer of 3,906 pounds.
- Producer milk receipts totaled 2.034 billion pounds.
- Usage as Class I milk for bottling accounted for the largest class volume at 41.3 percent of total receipts.
- The average butterfat test of producer receipts was 3.79 percent.
- The average true protein test of producer receipts was 3.03 percent.
- The average other solids test of producer receipts was 5.66 percent.❖

Class Utilization

Producer Milk	Percent	Pounds
Class I	41.3	840,449,914
Class II	17.2	348,877,010
Class III	27.4	557,863,355
Class IV	14.1	287,175,024
Total Producer Milk		2,034,365,303

Producer Component Prices

Protein Price	$1.9849 /lb
Butterfat Price	$0.9588 /lb
Other Solids Price	$0.0432 /lb

Class Price Factors

	$/cwt
Class I	13.96
Class II	11.51
Class III	9.54
Class IV	10.80

Former Order No. 2 Producers See Higher Hauling Charges

For many producers pooled under the former New York–New Jersey Marketing Order No. 2, implementation of Federal Order Reform brought about increases in hauling charges. The switch from farm-point to plant-point pricing (an issue only for former Order No. 2 producers) has changed the method by which hauling costs are charged to such producers. A better understanding of how hauling costs were paid may help to clarify that it is the manner of hauling cost payments that is changed and not actual hauling costs. Producers formerly associated with the New England or Middle Atlantic Marketing Orders have operated under a plant-point pricing system and are accustomed to this hauling structure.

Milk Value and Transportation Costs

Milk has a higher value at major consumption areas relative to its production area. This value is attributed, in large part, to the cost of transporting milk to markets. Under a plant-point system producers selling milk to markets close to major consumption areas (Boston, New York City, Philadelphia) receive a higher value based on the plant's location (FOB plant price), but are responsible for the cost of transporting the milk to the market. Producers receive the higher value via the producer price differential (PPD) that varies depending on the location of the plant. The PPD, through the location adjustments of the Northeast Order, is designed to help offset the cost of transporting milk to various plant locations. In the Northeast Order, PPDs increase by scheduled amounts the closer the plant is to Suffolk County Massachusetts (Boston).

Under farm-point pricing producers received a lower farm location price (FOB farm price), but had less deducted for hauling. Under either system milk transported similar distances would incur similar costs. It is the manner by which producers were paid and the method that hauling costs were charged that differed.

Farm-Point Hauling Charges

Under farm-point pricing, adjustments in the pool price calculation were used to cover a portion of actual hauling costs. This meant that producers' milk-check deductions for hauling did not cover the total cost of hauling, with the pool adjustments making up the difference. The following illustrates how Order 2 provisions partially offset producer hauling costs using a hypothetical New York farm located in the former 201-210 mile zone and shipping milk to a New York City area bottling plant in the former 1-10 mile zone. An *estimate* of the cost to move milk this distance is $1.25 per hundredweight.

Transportation Credit—Under Order 2 a deduction of $0.15 cents per hundredweight was made during the calculation of the uniform price on all producer milk. This had the effect of reducing the uniform price by 15 cents.

Up-zone Value—Under Order 2 the location value of milk increased by $0.72 cents per hundredweight from the 201-210 mile farm zone to the 1-10 mile plant zone. (Location adjustments and the amount of increase / decrease in zone values varied by the location and zone of the producers and the zone of the receiving plants.) This means that the cost to the handler for milk at their city location was 72 cents more than at the location of the farm.

Allowable Charges—Order 2 rules required handlers to subtract the transportation credit (a deduction from the uniform price and thus producers) and any increase in the up-zone value (which they could recoup by charging more for their product) from the total hauling cost.

Allowable Charge	**per cwt**
Estimated Hauling Cost	$1.25
— Transportation Credit	(0.15)
— Up-zone Value Adjustment	(0.72)
Estimated Allowable Charge	0.38

The remaining figure (38 cents per hundredweight in this example) is what could be negotiated or charged to the producer.

Deduction Larger But Cost Remains

Under plant-point pricing there are no adjustments in the pool price calculation to offset hauling costs, which is why former Order 2 producers may have seen hauling rates increase to the actual total cost of hauling. While charges will vary depending on the respective practices of cooperatives and handlers and the location of producers and plants, the cost of hauling remains a cost borne by producers. This is uniform across the federal order system. For additional information contact the Albany office at (518) 452-4410.❖

Market Order Information Available on Website or Through Order Offices

All price announcements, the monthly *Bulletin*, and most other reports and publications released by this office are available on the Northeast Marketing Area's web site at http://www.fmmone.com. Price information will be posted on the web site on the same day and time that the applicable price announcement or report is required to be publicly released. Links to USDA Dairy Programs and web sites of other federal milk marketing orders are included on the site. E-mail comments or messages can be sent to fmma@fedmilk1.com. In addition, the offices of the former New York–New Jersey Marketing Area (Albany, NY) (518) 452-4410 and the Middle Atlantic Marketing Area (Alexandria, VA) (703) 549-7000 remain open and are available to answer questions along with the main Northeast Order office in Boston, MA, (617) 542-8966.❖

MARKET SITUATION

Commodity Values Remain Depressed

Process cheese was purchased under the Commodity Credit Corporation (CCC) support program during the first 2 weeks of March, the first process cheese purchase since July 1997. The CCC purchase price for 40-pound blocks is $1.10 per pound; for 500-pound barrels it's $1.07 per pound. The NASS average cheese price for February was $1.1067, slightly above the support price and a drop of 4.5 cents from the January average. The February drop means that the value producers will receive for protein will be less in February than January. The CCC has been making considerable purchases of nonfat dry milk for the fiscal period October 1, 1999, through September 30, 2000, with purchases to date over 600 percent larger than purchases for the same period last year. NASS butter prices for February, $0.9002 per pound, gained 1.8 cents above January's price, thus the value received for butterfat will be slightly higher. The CCC purchase price for butter is $0.65 per pound, considerably lower than current market prices.❖

Positive Letter Renewed For New England Dairy Promotion

As requested by New England cooperative associations that represent a majority of the producers in the New England States, the Market Administrator has renewed the "positive letter" procedure for handlers to make promotion deductions from producer payments at the rate of 10 cents a hundredweight for the benefit of New England Dairy Promotion Board (NEDPB), formerly Milk Promotion Services, Inc.

Under the National Dairy Promotion and Research Order, which became effective on May 1, 1984, 15-cents per hundredweight is deducted by handlers from each producer for remittance to the National Dairy Promotion Research Board. A credit of up to 10 cents a hundredweight, however, may be taken from the 15 cents for payments to NEDPB, a qualified regional promotion program. If the producer's state imposes a milk promotion assessment or tax, the 10-cent deduction must be reduced by the amount to be paid to the state.

Handlers who elect to use the positive letter must promptly notify each affected producer that the promotional deduction of 10 cents per hundredweight for NEDPB will be made, effective on March milk, unless the producer objects in writing. Any handler who receives a written producer request to discontinue the NEDPB deduction must immediately discontinue payments to NEDPB for the producer's account. The positive letter is not sent to a producer who belongs to a cooperative that has specifically authorized the handler to make the promotional deduction for NEDPB.

Any producer who starts or resumes delivering milk after March 1, 2000, and is subject to the positive letter procedure should be promptly notified of the proposed deduction and of his right to object to it. The money deducted from producers for NEDPB, pursuant to the positive letter, must be paid in a timely manner to New England Dairy Promotion Board, 1 Kennedy Drive, Unit L7, South Burlington, Vermont 05403.❖

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Contract Pilot Program *(continued from Page 1)*

for cream products, yogurt, dry milk, butter, and all types of cheeses. Fluid (Class I) milk is not eligible for forward contracting under the pilot program.

Under the proposed rule, a handler will be able to enter into forward contracts with farmers and cooperatives for any milk receipts that do not exceed the handler's manufacturing uses of milk for the month. For the volume of milk covered by forward contracts, a handler is exempt from paying minimum federal order prices to producers and cooperatives. The prices agreed to in the forward contract will be paid instead.

Handlers participating in the program will be required to submit to the market administrator a copy of the forward contract with each producer or cooperative, as well as a disclosure statement signed by the producer or cooperative. This disclosure statement verifies that a producer received a USDA fact sheet that described the nature of the program and risks involved. The fact sheet, along with questions and answers relating to the program, is available from any market administrator, or can be downloaded from the USDA's AMS website at www.ams.usda.gov/dairy.

The proposed rule also requires that every forward contract under the pilot program contain a clause that gives the producer the opportunity to change his or her mind within 3 days of signing the contract. Any contract not containing the right to rescind clause will not be considered valid for purposes of this pilot program. The proposed rule also requires that first-time contracts not be written for more than 6 months, and that no contract may extend beyond December 31, 2004, the program's expiration date. All other provisions of the order still apply.❖

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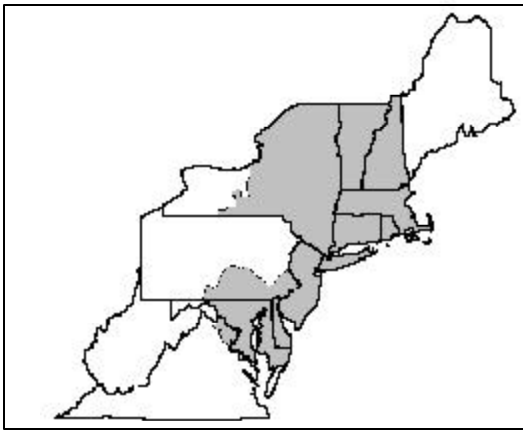
Computation of Producer Price Differential and Statistical Uniform Price

		Product Pounds	Price per cwt/lb	Component Value	Total Value
Class I—	Skim	823,063,201	$10.97	90,290,033.14	
	Butterfat	17,386,713	0.9627	16,738,188.61	
Less:	Location Adjustment to Handlers			(2,594,872.31)	$104,433,349.44
Class II—	Butterfat	23,625,776	0.9658	22,817,774.49	
	Nonfat Solids	29,362,349	0.9356	27,471,413.76	50,289,188.25
Class III—	Butterfat	21,515,752	0.9588	20,629,303.06	
	Protein	16,843,591	1.9849	33,432,843.82	
	Other Solids	31,458,511	0.0432	1,359,007.69	55,421,154.57
Class IV—	Butterfat	14,737,410	0.9588	14,130,228.74	
	Nonfat Solids	24,639,756	0.8565	21,103,951.10	35,234,179.84
Total Classified Value					**$245,377,872.10**
Add:	Overage—All Classes				144,703.83
	Inventory Reclassification—All Classes				(109,705.79)
	Other Source Receipts	1,657,416			75,516.87
Less:	Producer Component Valuations				(201,354,445.45)
	Subtotal				**$44,133,941.56**
Add:	Location Adjustment to Producers				10,054,433.76
	One-half Unobligated Balance—Producer Settlement Fund				1,181,461.10
Total Pool Milk & Aggregate Value		2,036,022,719			55,369,836.42
Less:	Producer Settlement Fund—Reserve				(1,008,029.82)
	Producer Price Differential		**$2.67**		54,361,806.60
	Statistical Uniform Price*		**$12.21**		

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



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website address: www.fmmone.com

March Pool Price Calculation

The March statistical uniform price for the Northeast Marketing Order was announced at $12.39 per hundredweight at Suffolk County, Massachusetts (Boston), the pricing point for the Northeast Order. This was an increase of 18 cents per hundredweight from February. The March producer price differential (PPD) at Suffolk County was $2.85 per hundredweight, also an increase of 18 cents from February. The PPD is $2.75 for shipment to plants in the New York City differential zone and $2.65 for plants in the Philadelphia differential zone.

New Order Provisions Help Prices

March is the third consecutive month in which the new order pricing provisions have had a beneficial impact on producer prices. The new method for calculating Class I milk prices uses the *higher of* the Class III or Class IV price as the base price from which the Class I price is determined. As the value for protein has declined (as reflected in *decreases* in the monthly average National Agricultural Statistics Service (NASS) cheese survey prices), so has the Class III price. Conversely, the value for butterfat has increased during this period (as reflected in *increases* in NASS butter survey prices), and that has increased the Class IV price. Under the former order provisions the Class III price was the exclusive mover of Class I prices. In March, the Class III was $1.46 per hundredweight less than the Class IV price. While producers do not receive class prices for payment purposes, the greater the pool value generated by Classes I, II, and IV, the larger the amount of money that will be returned to producers through a higher PPD. With cheese prices remaining low and butter prices rising, it is expected that the Class IV (butter/powder) based price will continue to be higher than the Class III (cheese) based price for the next few months.❖

Hearing on Class III & IV Price Formulas

USDA has announced that the hearing on proposed amendments to Class III and IV price formulas, for all federal milk marketing orders, will begin *May 8* in Alexandria, Virginia. The hearing is required under legislation enacted by Congress last fall in the Consolidated Appropriations Act, 2000. Under the legislation, USDA is required to reconsider the Class III and Class IV price formulas adopted under Federal Order Reform, and now in place in all federal orders.

In February USDA invited interested parties to submit proposals for *(continued on Page 3)*

Pool Summary

- A total of 17,485 producers were pooled under the order with an average daily delivery per producer of 4,026 pounds.
- Producer milk receipts totaled 2.182 billion pounds.
- Usage as Class I milk for bottling accounted for the largest class volume at 42.0 percent of total receipts, an increase of 0.7 percentage points from February.
- The average butterfat test of producer receipts was 3.76 percent.
- The average true protein test of producer receipts was 3.00 percent.
- The average other solids test of producer receipts was 5.71 percent.❖

Class Utilization

Producer Milk	Percent	Pounds
Class I	42.0	915,877,349
Class II	17.6	385,143,091
Class III	27.9	609,622,807
Class IV	12.5	271,735,770
Total Producer Milk		2,182,379,017

Producer Component Prices

Protein Price	$1.9166 /lb
Butterfat Price	$1.0191 /lb
Other Solids Price	$0.0424 /lb

Class Price Factors

	$/cwt
Class I	14.09
Class II	11.71
Class III	9.54
Class IV	11.00

Market Services Milk Test Verification

The market services program of verifying component tests is well underway in the Northeast Order. Producers who are *not* members of a cooperative and cooperative members whose cooperative has been determined to be not providing adequate testing, are covered under the verification program. The objective of verifying tests is to guard against incorrect payments to producers for milk components, as well as preventing incorrect pool credits to fluid handlers. The verification program is only one aspect of market services under the Federal Order.

Verification Procedure

Producer milk samples are collected and independently sampled every 3 months, and the results are compared to handlers' reported tests. Three or four samples will be collected during the verification month with the sample average used for comparison. Producers receive a report of their component test results (see example below) along with somatic cell count levels. The somatic cell information is extra information in that there is not a price adjustment under the Northeast Order provisions for somatic cell count levels. While it is normal to have some difference between the handler and Market Administrator samples, evaluation of testing accuracy is based on a statistical analysis of the test results. Any variance between test results must fall within specified tolerance levels. If a significant variance is found, the handler could be required to use the Market Administrator component test results for producer payment for all producers in the group whose tests have been verified. For the months of January, *(continued on Page 3)*

MARKETING SERVICE PROGRAM
FRESH MILK SAMPLE TEST RESULTS

January 2000

Handler and producer identification numbers.

000 00000000-1 000-1

To:
Topnotch Dairy
Dairy Lane
Anywhere, USA 00000

From:
Federal Milk Market Administrator
P.O. Box 1478 (Ft. Point Station)
Boston, MA 02205-1478

Exclusive FMMA code number for your farm. (From the bar-coded sample identification labels in your milkroom.)

SAMPLE DATES AND TESTS

Sample Period/ Sample Date	Butterfat %	Protein %	Other Solids %	Somatic Cell
Sampling period. 1-10				
1/7/99	3.8300	3.0100	5.4400	207,000
Period Avg	3.8300	3.0100	5.4400	207,000
11-20				
This line shows date of individual sample and component tests. 1/19/99	3.8800	2.9900	5.5000	227,000
Period Avg	3.8800	2.9900	5.5000	227,000
21-EOM				
1/27/99	3.8200	3.0300	5.5200	244,000
If more than one sample in a period, this is average of all. Period Avg	3.8200	3.0300	5.5200	244,000
Overall average of the three sampling periods. Monthly Avg	3.8433	3.0100	5.4867	226,000

Footnotes: *Because of normal day-to-day variation, some difference with your handler's tests from different days is expected. Overall evaluation of testing accuracy is based on statistical analysis of the entire producer group tested.*

Footnotes are used to explain exceptions and problems that may affect test results, such as: missing samples, tank problems noted at the time of sampling (ice, churning, excessive foaming, poor agitation), or irregular milk pickups.

MARKET SITUATION

Federal Order Pool Summary—March 2000

The following table summarizes March pool information for the 11 consolidated federal orders. Four of the orders do not pay producers on a component basis and, therefore, do not calculate a producer price differential (PPD). For each of the first 3 months of the new orders the Northeast Order PPD, at the Suffolk County pricing point, was the highest value of all federal orders.❖

Federal Order		Total Producer	Class I			Producer Price	Statistical Uniform
Number	Name	Milk	Producer Milk	Utilization	Price#	Differential#	Price# *
		pounds		percent	dollars per hundredweight		
1	**Northeast**	**2,182,379,017**	**915,877,349**	**42.0**	**14.09**	**2.85**	**12.39**
5	Appalachain	593,201,208	379,954,274	64.1	13.94	N/A	13.15
6	Florida	270,661,047	236,388,135	87.3	14.84	N/A	14.47
7	Southeast	681,378,764	425,455,306	62.4	13.94	N/A	12.83
30	Upper Midwest	2,260,589,375	367,942,717	16.3	12.64	0.64	10.18
32	Central	1,318,780,261	419,091,135	31.8	12.84	1.37	10.91
33	Mideast	1,165,677,993	586,081,597	50.3	12.84	2.14	11.68
124	Pacific Northwest	594,152,814	183,764,078	30.9	12.74	1.63	11.17
126	Southwest	820,957,744	345,574,497	42.1	13.84	2.36	11.90
131	Arizona–Las Vegas	286,582,318	86,292,630	30.1	13.19	N/A	11.28
135	Western	367,224,598	92,266,755	25.1	12.74	1.48	11.02
All Market Total/Average		10,541,585,139	4,038,688,473	38.3	13.42	1.78	11.91

Price at designated order location. *Price at 3.5% butterfat. N/A = Not applicable.

Class III & IV *(continued from page 1)*

modifying the current formulas. A total of 32 proposals (and any appropriate modifications thereof) will be heard. The May 8 hearing will gather testimony and industry comments on these proposals that address changes to the factors included in the pricing formulas, such as the yield factors and the make allowances included in the computation of component prices. Parties interested in commenting on the proposals are invited to present evidence or testimony at the hearing concerning the economic impact of any of the proposals on producers, handlers, or the national economy.

A number of other proposals were rejected and will not be considered at the hearing in that they lack authority, were beyond the scope of the hearing, or were otherwise deemed inappropriate. *All* proposals that were received are available for public inspection at USDA / AMS / Dairy Programs, Room 2968, South Building, 14th and Independence Ave., S.W., Washington, DC 20250. To receive a copy of the hearing notice, which includes summaries of the proposals and some preliminary analysis, or for information on the proposals contact any Market Administrator's office or the Dairy Programs Order Formulation Branch, Room 2968-S, P.O. Box 96456, Washington, D.C. 20090 (202) 720-4392. The hearing notice is also available on the Northeast Marketing Area web site, at www.fmmone.com.❖

Market Services *(continued from page 2)*

February, and March, 2000 such large-scale adjustments have not been required. In a few instances of obvious error, individual producers' tests have been adjusted. In order to reduce the chances for variances, the Market Administrator works with handlers, haulers, and laboratories to assure that proper testing procedures are being followed, and that testing equipment is accurate.

Testing Schedule

At this time not all eligible producers have had check testing performed on their milk. With over 4,500 non-member producers and revised regulations, the transition to the new program has been complex. By this time, you may have had bar-code sample labels placed in your milkhouse, or have been mailed a package of labels and asked to leave them in your milkhouse. These items are crucial to maintaining producer confidentiality throughout the testing process. Collection and analysis of milk will follow in the next couple of months.

If you have questions about this program please contact the Boston office at (617) 542-8966.❖

MARKET ADMINISTRATOR
One Columbia Circle
Albany, NY 12203-6379

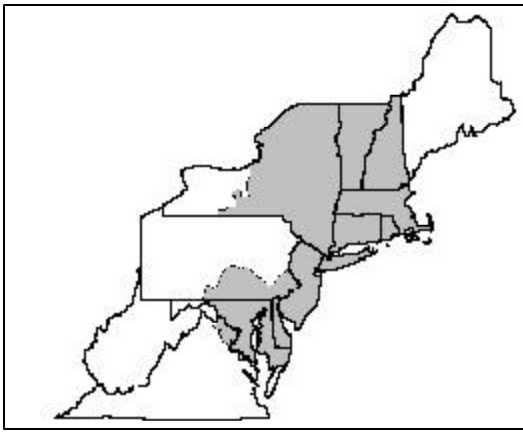
RETURN SERVICE REQUESTED

FIRST CLASS MAIL

Computation of Producer Price Differential and Statistical Uniform Price

		Product Pounds	Price per cwt/lb	Component Value	Total Value
Class I—	Skim	897,058,005	$10.96	98,317,557.43	
	Butterfat	18,819,344	1.0038	18,890,857.53	
Less:	Location Adjustment to Handlers			(2,826,382.40)	$114,382,032.56
Class II—	Butterfat	26,894,984	1.0261	27,596,943.14	
	Nonfat Solids	32,447,798	0.9344	30,319,222.47	57,916,165.61
Class III—	Butterfat	24,910,288	1.0191	25,386,074.48	
	Protein	18,204,306	1.9166	34,890,372.92	
	Other Solids	34,668,333	0.0424	1,469,937.35	61,746,384.75
Class IV—	Butterfat	11,591,156	1.0191	11,812,547.10	
	Nonfat Solids	23,595,053	0.8553	20,180,848.84	31,993,395.94
Total Classified Value					**$266,037,978.86**
Add:	Overage—All Classes				26,984.83
	Inventory Reclassification—All Classes				(126,268.81)
	Other Source Receipts	1,679,182			80,092.84
Less:	Producer Component Valuations				(214,589,847.94)
	Subtotal				**$51,428,939.78**
Add:	Location Adjustment to Producers				10,596,385.02
	One-half Unobligated Balance—Producer Settlement Fund				1,195,420.34
Total Pool Milk & Aggregate Value		2,184,058,199			63,220,745.14
Less:	Producer Settlement Fund—Reserve				(975,086.47)
	Producer Price Differential		**$2.85**		62,245,658.67
	Statistical Uniform Price		**$12.39**		

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



The Market Administrator's

BULLETIN

NORTHEAST MARKETING AREA

Erik F. Rasmussen, Market Administrator

April 2000 Federal Order No. 1

To contact the Northeast Marketing Area offices:
Boston, MA: phone (617) 542-8966, 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

April Pool Price Calculation

The April statistical uniform price for the Northeast Marketing Area was announced at $12.46 per hundredweight at Suffolk County, Massachusetts (Boston), the pricing point for the Northeast Order. This was an increase of 7 cents per hundredweight from March. The producer price differential (PPD) at Suffolk County was $3.05 per hundredweight, an increase of 20 cents per hundredweight from March. The PPD is $2.95 for shipment to plants in the New York City differential zone and $2.85 for plants in the Philadelphia differential zone.

Producer Price Differential Increases

Since January the PPD for the Northeast Order has increased by 75 cents per hundredweight. April's PPD of $3.05 at Boston was the highest PPD again for all federal orders that calculate a PPD. The Southwest Marketing Area reported the next highest PPD at $2.64.

The factors behind the increase are changes in wholesale commodity values (as measured by National Agricultural Statistics Service (NASS) weekly surveys) that have resulted in changing class milk prices and the method by which the PPD is calculated. As cheese prices have declined so has the Class III price, dropping from $10.05 in January to $9.41 in April. Conversely the Class IV price has risen from $10.73 to $11.38, during this same period, driven by increases in butter prices (see Market Situation article for more price information). As reported in prior *Bulletins*, the PPD reflects the value of Classes I, II, and IV milk in the pool. As the Class IV price has risen so has the Class II price (determined by adding a fixed 70 cents to the Class IV price). In addition, the Class I price (determined by adding a fixed differential value to the *higher of* the Class III or Class IV price) also has increased. Thus, the values of Classes I, II, and IV milk have increased and this has had a positive impact on the PPD.

Northeast Order Pools Most Milk

In April the Northeast Order surpassed the Upper Midwest Marketing Area as the largest federal order on the basis of volume of milk pooled. (This shift is more a factor of handlers in the Upper Midwest Order switching producers to the Central Marketing Area, for pricing purposes, than an influx of producers into the Northeast Marketing Area.) In addition to the largest *total volume* the Northeast Order also had the largest volume of milk in Classes I, II, and IV, during April, of any of the 11 federal orders. The combination of *higher-class prices* and *larger volumes of milk* in Classes I, II, and IV is a significant factor as to why the Northeast Order has generated a higher PPD than other federal orders, despite many of the other orders having a higher *percentage* of milk utilized as Class I.❖

Pool Summary

- A total of 17,433 producers were pooled under the order with an average daily delivery per producer of 3,997 pounds.
- Producer milk receipts totaled 2.091billion pounds.
- Class I usage (milk for bottling) accounted for 39.0 percent of total milk receipts, a decrease of 3.0 percentage points from March.
- The average butterfat test of producer receipts was 3.72 percent.
- The average true protein test of producer receipts was 2.98 percent.
- The average other solids test of producer receipts was 5.72 percent.❖

Class Utilization

Producer Milk	Percent	Pounds
Class I	39.0	816,079,865
Class II	17.4	364,726,009
Class III	30.2	631,296,207
Class IV	13.4	279,273,353
Total Producer Milk		2,091,375,434

Producer Component Prices

Protein Price	$1.7399 /lb
Butterfat Price	$1.1352 /lb
Other Solids Price	$0.0408 /lb

Class Price Factors

	$/cwt
Class I	14.18
Class II	12.10
Class III	9.41
Class IV	11.38

Manufactured Dairy Products—1999 Summary

USDA's National Agricultural Statistics Service recently released their Dairy Products Annual for 1999. The total amount of cheese manufactured in the United States (excluding cottage cheese) equaled 7.9 billion pounds, an increase of 6.0 percent from 1998. Butter production was up 9.2 percent from 1998, and the amount of nonfat dry milk (NFDM) produced nationally jumped 21.4 percent.

Cheese Production Continues to Grow

American cheese production totaled 3.6 billion pounds in 1999, an increase of 7.9 percent from the previous year. It accounted for 45.0 percent of all cheese manufactured (not including cottage cheese), up from 44.2 percent in 1998. Italian cheese production totaled 3.1 billion pounds, an increase of 4.6 percent from 1998. Mozzarella production continued to grow, totaling 2.5 billion pounds; this was an increase of 6.5 percent from 1998. Mozzarella accounted for 80.2 percent of total Italian cheese in 1999.

Swiss cheese production grew 6.8 percent in 1999 to 220.5 million pounds. The production of Hispanic cheese increased 13.9 percent and totaled 86.5 million pounds, overtaking Muenster production which declined 15.3 percent from the previous year. Other American varieties of cheese, which include colby, Monterey, and Jack, grew 11.5 percent from 1998.

Other Manufactured Products

Butter production totaled 1.3 billion pounds in 1999. As mentioned above, this was an increase of 9.2 percent from the previous year. Yogurt production grew 6.5 percent and totaled 1.7 billion pounds in 1999. The production of nonfat dry milk (used for human food) totaled 1.4 billion pounds. As noted earlier, this was an increase of 21.4 percent from 1998.

During 1999, the Commodity Credit Corporation (CCC) purchased a total of 236.9 million pounds of NFDM, but no butter or cheese. This compares to 113.5 million pounds of NFDM and, again, no butter or cheese during 1998. As of May 10, 2000, the CCC has purchased 5.6 million pounds of cheese, 240.0 million pounds of NFDM, but no butter.

Leading Manufacturing States

Wisconsin continues to lead in cheese making with 27.1 percent of all U.S. cheese, excluding cottage cheese, in 1999. California followed with 17.4 percent. New York and Minnesota tied with 8.6 percent. Idaho rounded out the top five with 7.1 percent.

California led the nation in NFDM production with 47.2 percent of the total in 1999. Washington ranked second with 13.2 percent; New Mexico was third with 3.5 percent.

The top butter producing states were California (26.9 percent), Wisconsin (22.8 percent), and Washington (9.3 percent).

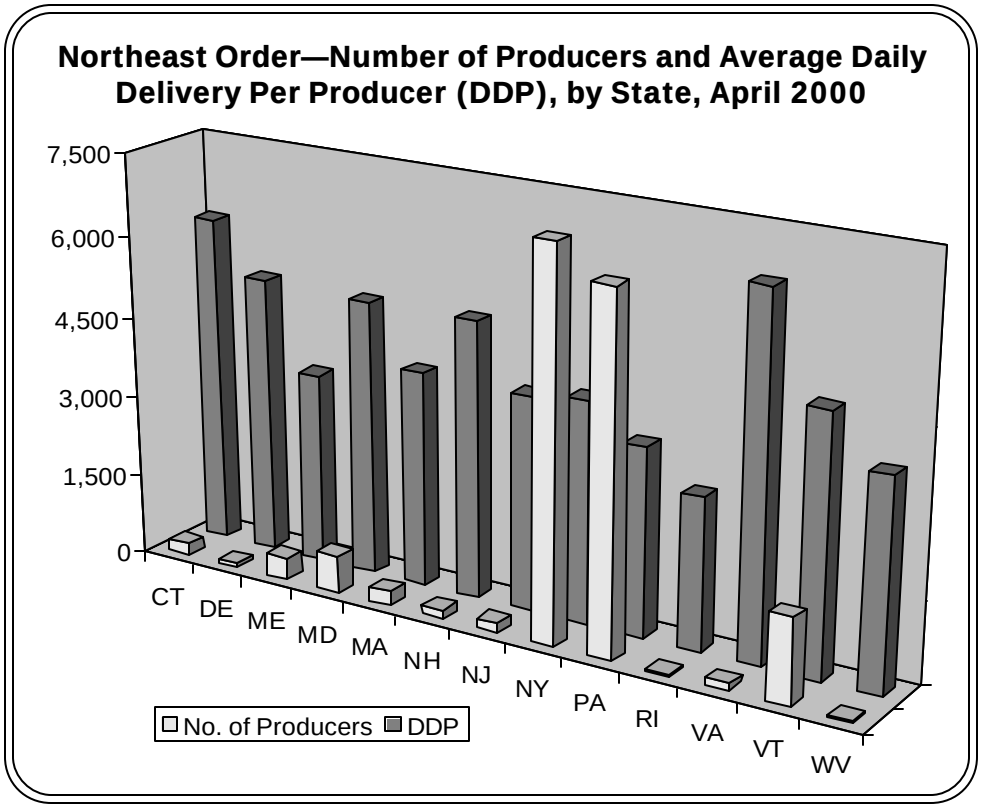
The total number of dairy plants in the United States equaled 1,258 in 1999, down 4.9 percent from 1998. Wisconsin had 211 plants, down from 217 in the previous year. California had 130, a decline of 17 from 1998, and New York had 121, down 9 from the previous year.

Utilization of Milk Marketings

Of the total amount of milk marketed in the United States in 1999, 62 percent was used for manufactured products. In 1998, the amount was 61 percent of total marketings, the same as in 1990. In 1980, manufactured products accounted for 58 percent of total marketings.❖

Milk Receipts Under the Northeast Order

The following table summarizes the number of producers and average daily delivery per producer (DDP) for the 13 states from which producers are pooled under the Northeast Order. These numbers are as reported by handlers at pool time and could vary on audit verification. While New York and Pennsylvania account for the majority of all producers, states such as Virginia, Connecticut, and Delaware lead the way on a DDP basis. This suggests that the few farms in these states tend to be larger than average compared to the total population of dairy farms in New York and Pennsylvania.❖



MARKET SITUATION

Commodity Prices Are Mixed

Prices of 40-pound block Cheddar cheese reported on the National Agricultural Statistics Service (NASS) survey have shown little change during 2000. The year began with low block prices, hovering around $1.15 per pound. By the end of January, prices hit $1.1140 per pound and have remained in a tight range of $1.0958 to $1.1106 from February through April. They dipped slightly below $1.09 per pound as reported for the week ending May 6. These changes are relatively flat compared to 1999's sharp decline from $1.8745 per pound in the beginning of January to $1.2990 per pound in the first week of May (see chart 1).

Compared to the Chicago Mercantile Exchange (CME), NASS cheese prices have run fairly close (see chart 2). The difference between the two prices has been less than 5 cents for most of 2000. When comparing simple averages for the 19-week period, the difference is only $0.004 per pound. Prices for 40-pound block Cheddar and 500-pound barrel cheese have maintained a spread of about 2 cents per pound for the first 19 weeks of 2000 on both the CME and NASS survey.

Grade AA butter prices have been increasing since the beginning of 2000. The year began with prices in the mid-80-cent per pound range. On the NASS survey, prices climbed to nearly $1.09 per pound for the week ending May 6. As depicted in chart 3, weekly CME prices have averaged higher. They reached $1.2375 per pound on May 5, but dropped to $1.1950 per pound for the week ending May 12. The difference between CME and NASS prices has averaged about 5 cents (CME higher). Compared to the same period in 1999, butter prices on the NASS survey are down 22 cents per pound; CME prices are 28 cents less per pound.

Nonfat dry milk prices (Extra Grade) on the NASS survey averaged 2 cents less per pound during the first four months of 2000 compared to the same period in 1999 (see chart 4). CME prices equaled $1.03 per pound for both Extra Grade and Grade A NFDM since early last fall. ❖

Note: Charts have different scales.

Chart 1. Weekly Prices for 40-pound Block Cheddar, NASS, 1999–2000

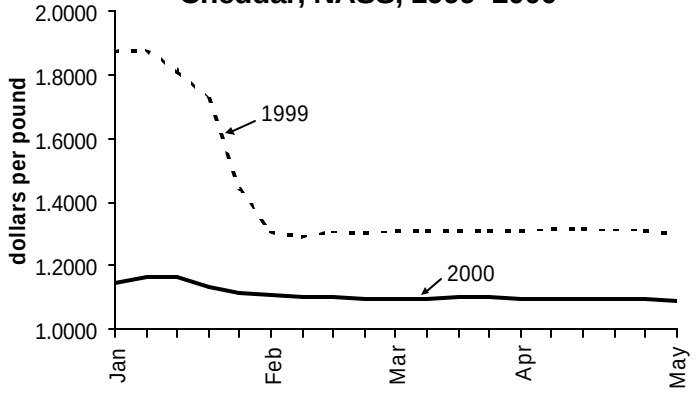


Chart 2. Weekly Prices for 40-pound Block Cheddar, NASS and CME, 2000

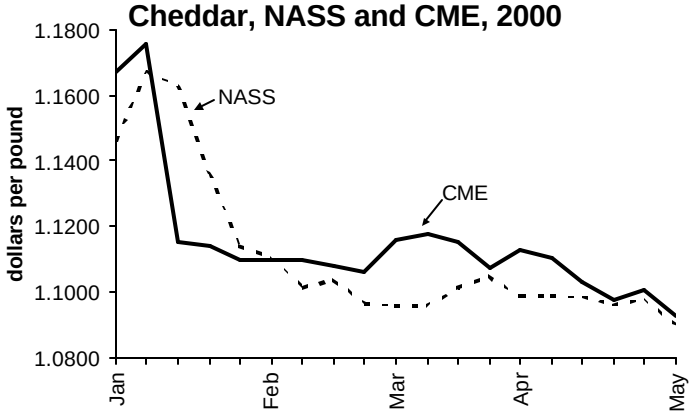


Chart 3. Weekly Prices for Grade AA Butter, NASS and CME, 2000

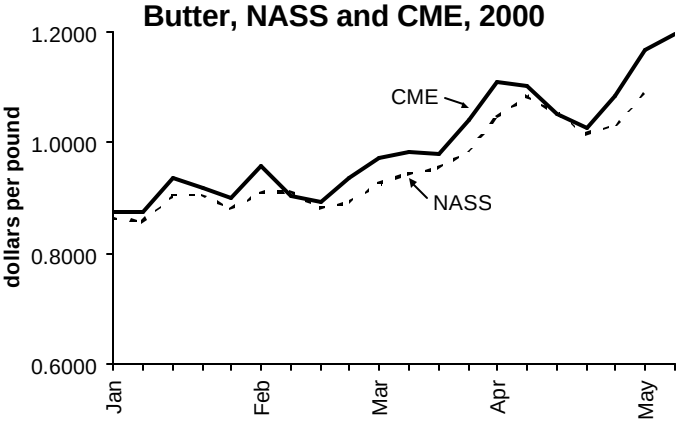
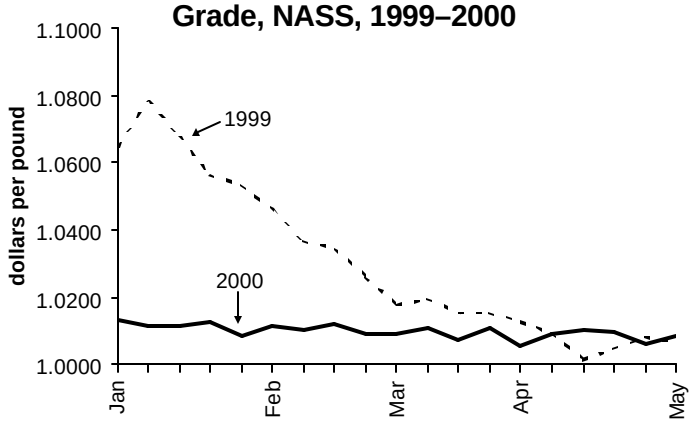


Chart 4. Weekly Prices for NFDM Extra Grade, NASS, 1999–2000



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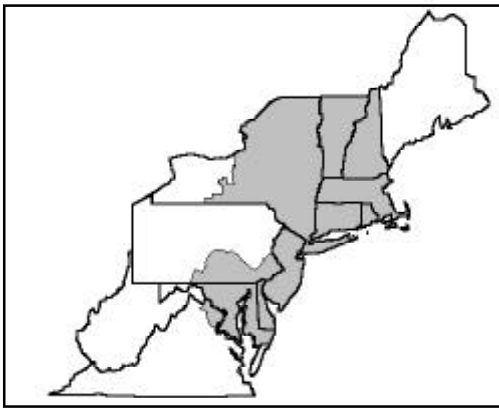
FIRST CLASS MAIL

Computation of Producer Price Differential and Statistical Uniform Price

		Product Pounds	Price per cwt/lb	Component Value	Total Value
Class I—	Skim	799,362,677	$10.95	87,530,213.20	
	Butterfat	16,717,188	1.0314	17,242,107.76	
Less:	Location Adjustment to Handlers			(2,348,399.00)	$102,423,921.96
Class II—	Butterfat	25,100,777	1.1422	28,670,107.54	
	Nonfat Solids	30,709,399	0.9333	28,661,082.11	57,331,189.65
Class III—	Butterfat	24,261,477	1.1352	27,541,628.69	
	Protein	18,734,212	1.7399	32,595,655.48	
	Other Solids	36,040,888	0.0408	1,470,468.24	61,607,752.41
Class IV—	Butterfat	11,816,121	1.1352	13,413,660.58	
	Nonfat Solids	24,236,844	0.8537	20,690,993.76	34,104,654.34
Total Classified Value					**$255,467,518.36**
Add:	Overage—All Classes				28,279.10
	Inventory Reclassification—All Classes				(25,155.03)
	Other Source Receipts	482,384			25,660.77
Less:	Producer Component Valuations				(201,772,075.48)
	Subtotal				**$53,724,227.72**
Add:	Location Adjustment to Producers				10,052,999.58
	One-half Unobligated Balance—Producer Settlement Fund				906,773.98
Total Pool Milk & Aggregate Value		2,091,857,818			64,684,001.28
Less:	Producer Settlement Fund—Reserve				(882,337.83)
Producer Price Differential @ *Suffolk County, MA (Boston)*			**$3.05**		63,801,663.45
Statistical Uniform Price @ *Suffolk County, MA (Boston)*			**$12.46**		

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



The Market Administrator's

BULLETIN

NORTHEAST MARKETING AREA

Erik F. Rasmussen, Market Administrator

May 2000 Federal Order No. 1

To contact the Northeast Marketing Area offices:
Boston, MA: phone (617) 542-8966, 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

May Pool Price Calculation

The May statistical uniform price for the Northeast Marketing Area was announced at $12.90 per hundredweight at Suffolk County, Massachusetts (Boston), the pricing point for the Northeast Order. This was an increase of 44 cents per hundredweight from April. The producer price differential (PPD) at Suffolk County was $3.53 per hundredweight, an increase of 48 cents per hundredweight from April. The PPD is $3.43 for shipment to plants in the New York City differential zone and $3.33 for plants in the Philadelphia differential zone.

Producer Price Differential Rises Again

The increase in the PPD, which has increased every month since January, is a result of the widening spread between the Class III and Class IV prices. The spread between the two class prices has increased from 68 cents per hundredweight in January to $2.54 per hundredweight in May. This has occurred as wholesale cheese values have declined, which are reflected in the decline in the Class III price ($10.05 in January; $9.37 in May). In contrast, rising butter prices have driven the Class IV price higher (from $10.73 to $11.91) for the same period. As the Class IV price has risen, so have the Class I and II prices, which have had a positive impact on the PPD.

Class Price Changes Affect PPD

If cheese values increase later this year as expected (see Market Situation article), the effect will be an increase in the Class III price. If the rise in cheese values is greater than the increase in butter/powder values, or if butter/powder values decline during the period, then the price spread between Class III and IV will be reduced. This could cause a *reduction* in the PPD. As cheese values increase, however, the value for protein and the amount producers receive for the protein in their milk also increase, serving to offset a declining PPD.

Partial Payment

Order rules specify that payment to producers for milk received during the first 15 days of the month be *not less* than the lowest announced class price for the preceding month. With the weakness in cheese product prices, the Class III price has been the lowest monthly price. The partial payment for **June** (due producers by June 26) will be based on the **May** Class III price of $9.37. Of course, cooperatives and handlers can pay more than the absolute allowable minimum. The final payment, paid after the monthly statistical uniform price has been calculated, adjusts payments to producers so that the appropriate "blend price" is received for the month.❖

Pool Summary

- A total of 17,187 producers were pooled under the order with an average daily delivery per producer of 3,973 pounds.
- Producer milk receipts totaled 2.117 billion pounds.
- Class I usage (milk for bottling) accounted for 41.0 percent of total milk receipts, an increase of 2.0 percentage points from April.
- The average butterfat test of producer receipts was 3.68 percent.
- The average true protein test of producer receipts was 2.91 percent.
- The average other solids test of producer receipts was 5.63 percent.❖

Class Utilization

Producer Milk	Percent	Pounds
Class I	41.0	868,007,141
Class II	18.3	386,785,471
Class III	28.9	613,421,710
Class IV	11.8	249,125,390
Total Producer Milk		2,117,339,712

Producer Component Prices

Protein Price	$1.5514 /lb
Butterfat Price	$1.2854 /lb
Other Solids Price	$0.0403 /lb

Class Price Factors

	$/cwt
Class I	14.73
Class II	12.63
Class III	9.37
Class IV	11.91

How Federal Order Prices Are Derived

The restructured federal orders have been in operation for nearly 6 months now, and producers' milk has been priced under the new methodology for 5 complete months. Order reform brought about many changes including milk classifications, timing of price announcements and payment dates, and changes in how milk prices and component values are determined.

Processor Prices

Both plant and producer prices are based off of product price surveys. Class prices are derived from formulas that combine the values of dairy commodities with volumes sold. In addition, adjustments are made for manufacturing yields and make allowances.

The values of the individual commodities are calculated using data gathered by the National Agricultural Statistics Service (NASS). Each week NASS surveys eligible dairy plants to obtain price and sales volume data for various dairy products. The products include Cheddar cheese (500-pound barrels and 40-pound blocks); grade AA butter; nonfat dry milk; and dry whey. Certain specifications apply to each product. For example, cheese must be only 4 to 30 days in age; butter must be 80 percent butterfat and salted; and nonfat dry milk may be extra grade or grade A. Some specifications differ from products sold on the Chicago Mercantile Exchange (CME) and, therefore, may not be directly comparable when looking at CME prices.

The survey used by NASS covers all firms producing a million or more pounds of these products annually. Firms that do not meet the production specifications are excluded from the survey. On a percentage basis, firms reporting cheese data represent 75 percent of the eligible production in the United States. For the other surveyed products, butter plants account for 71 percent; nonfat dry milk survey respondents represent 92 percent; and dry whey plants surveyed account for 70 percent of eligible production.

The weekly data gathered is used to calculate the advance Class I price and the three other class prices. Classes II, III, and IV are announced after the applicable month has ended and a full month of price information is available.

Producer Prices

In addition to generating class price values, component prices are calculated and reported from the NASS survey data. Component prices are the values for the various components in milk that are used to make manufactured dairy products. Producers are paid based on the amounts of these components in their milk.

Determination of Component Values

Protein is an important component in the manufacture of cheese. Its price is derived by using the NASS survey data for cheese mentioned above. After gathering 4–5 weeks of data, the average cheese price is put into the protein price formula to get a monthly protein value (see table below). This price is used to calculate producers' protein value of milk. The value per pound is multiplied by the amount of protein in producers' milk (producer protein test times total milk volume in pounds). The same procedure is followed to determine the butterfat value by using the NASS butter price in the butterfat formula. To determine the nonfat solids and other solids values, the respective prices are used in their respective formulas.

In addition to component values, producers also receive a producer price differential (PPD) that is adjusted to the location of the plant(s) receiving their milk. See related information in the article on page 1.❖

NASS Prices and Determination of Component Values

Weekly NASS Survey Prices

	Cheddar Cheese				*Butter*	
	40-Lb Block		500-Lb Barrel		Grade AA	
	Price $/lb	Volume pounds	Price $/lb	Volume pounds	Price $/lb	Volume pounds
May 6	1.0897	6,152,451	1.0709	11,079,241	1.0904	3,960,316
May 13	1.0927	5,622,433	1.0816	9,822,293	1.1363	4,206,477
May 20	1.0863	6,316,567	1.0855	11,026,106	1.2045	4,122,202
May 27	1.0882	5,269,880	1.0793	10,796,993	1.2618	3,100,351

Weighted average price for May: **$1.1022 per pound*** **$1.1680 per pound**

Component price formula:

Butterfat = ((**1.1680**-0.114)/0.82) = **1.2854 per pound**

Protein = (**1.1022**-0.1702)x1.405+(((**1.1022**-0.1702)x1.582)-**1.2854**)x1.28 = **1.5514 per pound**

Producer Prices:

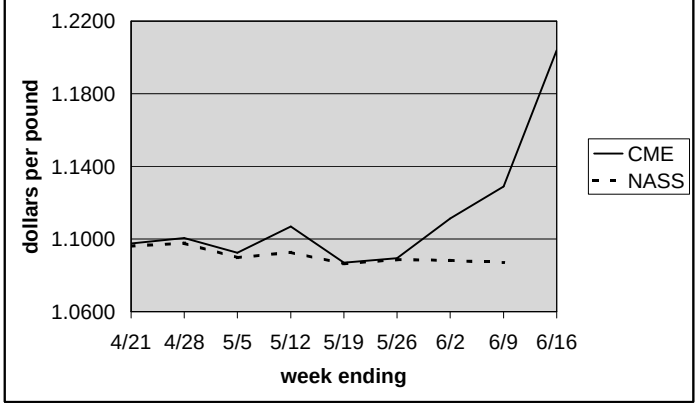
Protein = $1.5514 per pound **Butterfat = $1.2854 per pound**

* Weighted average price of block and barrel prices. Barrel prices reported at 39% moisture level.

MARKET SITUATION

Cheese Prices Trend Upward

Prices of 40-pound block Cheddar cheese on the Chicago Mercantile Exchange (CME) and National Agricultural Statistics Service (NASS) survey have trended closely since the beginning of 2000. For the first 23 weeks of this year, the spread between them was only $0.0057 per pound. Beginning in May, the spread widened slightly, and for the past 4 weeks averaged nearly 2 cents per pound. Although the weekly average prices have stayed within the $1.08 to $1.13 per pound range since the end of January, the daily CME price closed at $1.26 per pound on June 16. This may be an indicator that cheese prices are on the rise. As seen in the past, NASS prices usually follow the trend set by the CME while lagging by l to 2 weeks.❖



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DOPP Round II Training Sessions

The next round of the Dairy Options Pilot Program (DOPP) is about to get under way. The program, authorized under the 1996 Farm Bill, provides hands-on training for dairy producers to learn how to protect their market price by buying options contracts. By purchasing futures options, dairy farmers have the ability to "lock in" a base price for their milk in a future month.

This second round will last for 12 months and extend training to 61 counties. In New York, Madison and Wyoming have been added; in Pennsylvania, Lebanon and Tioga; in Vermont, Washington; in Virginia, Franklin and Rockingham; in Maryland, Carroll and Frederick; and in Massachusetts, Franklin. To participate, producers must operate a dairy farm in a designated county and have had total milk production of at least 100,000 pounds over any consecutive 6-month period during the last 12 months.

Round III, which is expected to begin in September, will revisit the same counties as Rounds I and II. Round IV, included in the Agricultural Risk Protection Act of 2000, is speculated to begin later this fall. This new legislation allows further extension of the program and additional counties (maximum total of 300 participating counties).

Both producers and brokers are required to attend 4-hour training sessions. The accompanying schedule shows upcoming sessions for producers in the Northeast Order states. Actual locations for July and August are not yet available. For additional information, contact your local county cooperative extension office, or Sandra Strayhorn at the RMA Regional Office at 919-875-4880, or visit their website at www.usda.gov/rma/❖

DOPP Training Session Schedule

Month	Date	Place
July	18	Rockingham County, VA
	19	Wyoming County, NY
	19	Franklin County, VA
	20	Madison County, NY
	21	Carroll County, MD
	26	Washington County, VT
	27	Franklin County, MA
August	17	Frederick County, MD

Note: Sessions for Pennsylvania were held in early June.

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Extension to Class III and IV Comment Period

The period for filing corrections to the hearing transcript for the Class III and IV price formula hearing, held May 8–12, has been extended from June 19 to June 30. Also extended is the time for filing briefs on the hearing record, from June 30 to July 14. Hearing transcripts and other information related to the hearing are available on USDA's website: www.ams.usda.gov/dairy/hearing-III_IV.htm❖

USDA **MARKET ADMINISTRATOR**
One Columbia Circle
Albany, NY 12203-6379

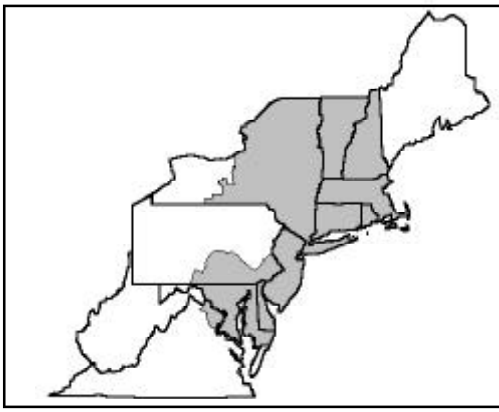
RETURN SERVICE REQUESTED

FIRST CLASS MAIL

Computation of Producer Price Differential and Statistical Uniform Price

		Product Pounds	Price per cwt/lb	Component Value	Total Value
Class I—	Skim	850,329,584	$10.95	93,111,089.50	
	Butterfat	17,677,557	1.1884	21,008,008.74	
Less:	Location Adjustment to Handlers			(2,486,481.83)	$111,632,616.41
Class II—	Butterfat	27,202,204	1.2924	35,156,128.47	
	Nonfat Solids	31,625,536	0.9333	29,516,112.81	64,672,241.28
Class III—	Butterfat	23,385,642	1.2854	30,059,904.28	
	Protein	17,771,728	1.5514	27,571,058.85	
	Other Solids	34,318,080	0.0403	1,383,018.66	59,013,981.79
Class IV—	Butterfat	9,697,377	1.2854	12,465,008.40	
	Nonfat Solids	20,650,135	0.8530	17,614,565.20	30,079,573.60
Total Classified Value					**$265,398,413.08**
Add:	Overage—All Classes				111,724.59
	Inventory Reclassification—All Classes				(84,116.40)
	Other Source Receipts	353,225			20,548.31
Less:	Producer Component Valuations				(200,746,675.38)
	Subtotal				**$64,699,894.20**
Add:	Location Adjustment to Producers				10,085,520.49
	One-half Unobligated Balance—Producer Settlement Fund				908,483.01
Total Pool Milk & Aggregate Value		2,117,692,937			75,693,897.70
Less:	Producer Settlement Fund—Reserve				(951,805.87)
Producer Price Differential @ *Suffolk County, MA (Boston)*			**$3.53**		74,742,091.83
Statistical Uniform Price @ *Suffolk County, MA (Boston)*			**$12.90**		

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



The Market Administrator's

BULLETIN

NORTHEAST MARKETING AREA

Erik F. Rasmussen, Market Administrator

June 2000 Federal Order No. 1

To contact the Northeast Marketing Area offices:
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e-mail address: MAAlbany@fedmilk1.com; *Alexandria, VA*: phone (703) 549-7000, e-mail address: MAAlexandria@fedmilk1.com;
website address: www.fmmone.com

June Pool Price Calculation

The June statistical uniform price for the Northeast Marketing Area was announced at $13.25 per hundredweight at Suffolk County, Massachusetts (Boston), the pricing point for the Northeast Order. This was an increase of 35 cents per hundredweight from May. The producer price differential (PPD) at Suffolk County was $3.79 per hundredweight, an increase of 26 cents from the previous month. The PPD was $3.69 for shipment to plants in the New York City differential zone and $3.59 for plants in the Philadelphia differential zone.

PPD Continues to Increase

The PPD has increased every month since its introduction in January. A reflection of the spread between Class III and other class prices, it has continued to increase as cheese prices have dropped and butter prices have remained strong. During June, cheese prices rose slightly, but the monthly average butter price was significantly higher, even with a sharp decline mid-month (see related article under Market Situation). The increase in butter resulted in a 47-cent increase in the Class IV price, compared to only a 9-cent increase in the Class III price. As a result, the spread between Class III and Class IV prices increased to $2.92 per hundredweight.

As mentioned last month, cheese prices may be finally on an upswing while butter prices for the first 2 weeks of July have been declining. This could result in the Class III price being used as the Class I mover. Remember, it is the higher of the Class III or Class IV prices that is used as the Class I price mover. Such a change could result in a lower PPD due to a greater value placed upon producer components within the pool. Offsetting a lower PPD, however, would be a greater value received by producers for the protein content of their milk. The statistical uniform price may still increase due to higher class prices resulting from a higher Class I mover.

Price Varies Due to Location

The average price each producer receives is affected by many factors, such as component tests, cooperative dues, and hauling. In addition, the PPD and statistical uniform price vary for each individual producer by the location of the plant to which a producer's milk is shipped. The first paragraph (above) reports the PPD and statistical uniform price for milk shipped to plants in Suffolk County, Massachusetts. The table on page 3 reports this information for other locations in the Northeast Order.

Pool Summary

- A total of 17,054 producers were pooled under the order with an average daily delivery per producer of 3,808 pounds.
- Producer milk receipts totaled 1.949 billion pounds, a decrease of 4.9 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 42.1 percent of total milk receipts, an increase of 1.1 percentage points from May.
- The average butterfat test of producer receipts was 3.63 percent.
- The average true protein test of producer receipts was 2.97 percent.
- The average other solids test of producer receipts was 5.78 percent.

Class Utilization

Producer Milk	Percent	Pounds
Class I	42.1	819,879,257
Class II	17.9	347,807,832
Class III	30.1	587,590,685
Class IV	9.9	193,681,414
Total Producer Milk		1,948,959,188

Producer Component Prices

Protein Price	$1.4278 /lb
Butterfat Price	$1.4128 /lb
Other Solids Price	$0.0438 /lb

Class Price Factors

	$/cwt
Class I	14.95
Class II	13.08
Class III	9.46
Class IV	12.38

Dairy Product Per Capita Consumption Increases in 1999

On a milk-equivalent, milkfat basis, per capita consumption of dairy products reached 598 pounds in 1999, the largest amount since the mid 1960s. This was a jump of 16 pounds from 1998 and occurred despite high and volatile prices. The accompanying table shows per capita consumption for selected products.

Per capita consumption of fluid milk and cream remained flat from 1998 to 1999 at 219 pounds. Nonfat dry milk use declined to 3.0 pounds per person from 3.3 pounds in 1998. Per capita use of evaporated and condensed products increased 0.5 pounds in 1999 to 6.6 pounds; ice cream consumption grew 0.2 pounds to 16.8 pounds.

Most of the increase in per capita consumption was due to the 1.5 pound rise in cheese use, the largest absolute increase ever and the largest percentage rise (5.1 percent) since 1982. In 1999, cheese accounted for more than 40 percent of total dairy consumption on a milkfat basis.

Total cheese use equaled 29.8 pounds in 1999, this compares with 22.6 pounds in 1985 and 9.5 pounds in 1965. Consumption of American varieties was up 0.8 pounds (6.7 percent) and provided the largest share of the increase. Italian cheese consumption grew 0.5 pounds (4.1 percent); mozzarella growth was 5.4 percent.

Per capita consumption of butter rose 0.3 pounds (6.7 percent) in 1999 to 4.8 pounds. This was the second year that butter use has risen after 2 years of declining consumption.

Per Capita Consumption of Selected Dairy Products

Year	Fluid Milk and Cream	Butter	Cheese	Evap. and Condensed	Ice Cream	Nonfat Dry Milk
1965	299	6.4	9.5	10.6	18.5	5.6
1975	261	4.7	14.5	8.9	18.5	3.3
1985	241	4.9	22.6	7.4	18.1	2.3
1995	223	4.5	27.2	6.8	15.7	3.5
1999	219	4.8	29.8	6.6	16.8	3.0

Source: Economic Research Service, USDA.

Forward Pilot Program to Begin

The final rule authorizing implementation of the Dairy Forward Pricing Program has been approved, with a starting date of ***July 19, 2000***. The program will exempt participating handlers regulated under a federal milk order from paying producers and cooperative associations the minimum federal order price(s) for that portion of their *non-Class I* milk that is under a forward contract. The pilot program was created by Congress through a November 1999 amendment to the Agricultural Marketing Agreement Act of 1937—the underlying legislation authorizing federal milk orders. The pilot program will be in effect for milk marketed August 1, 2000, through December 31, 2004.

Operation of Program

The pilot program is a voluntary program that allows dairy farmers and handlers to enter into a forward contract whereby they mutually agree to the terms by which the handler buys raw milk and the dairy farmer is paid. The agreed upon payment rate and terms (e.g. payment on milk components or not) may or may not have any relation to the minimum prices of the federal order to which the producer and handler are associated. By entering into a forward contract under this program, a dairy farmer gives up the right to receive the minimum federal order prices for the amount of their milk under contract. Dairy farmers entering into a forward contract should understand all of the terms of the contract, including how their milk will be priced, the length of the contract, and any charges or deductions that will be made. If a formula will be used to price a producer's milk, the producer should understand how the formula works and what factors affect its movement. Producers should understand what will happen if they cannot fulfill the terms of the contract. They also should understand what remedies are available if the process defaults on the contract.

Producer Participation

To participate in the program, the handler to which a dairy farmer delivers milk must be willing to offer the producer a forward contract. In addition, the handler must have some non-Class I uses of milk (e.g. butter, powder, cheese, ice cream, etc.) to cover the quantity of milk under forward contract. A participating handler must provide a producer with a disclosure statement along with the agreed upon forward contract. Both documents will be forwarded by the handler to the appropriate market administrator office.

Market Administrator Involvement

Market administrators are limited to reviewing completed forward contracts to be certain that they are in compliance with the rules governing the pilot program. Market administrator staff will ensure that the contract is signed by both parties and will make certain that a signed disclosure statement is attached to each contract entered into by a dairy farmer under the pilot program. Other than reviewing the contract for these items, the market administrator will not comment on or seek to change a contract that has been approved by a producer and a handler.

Additional information about the program is available from any market administrator office, or can be downloaded from USDA's AMS website at www.ams.usda.gov/dairy.

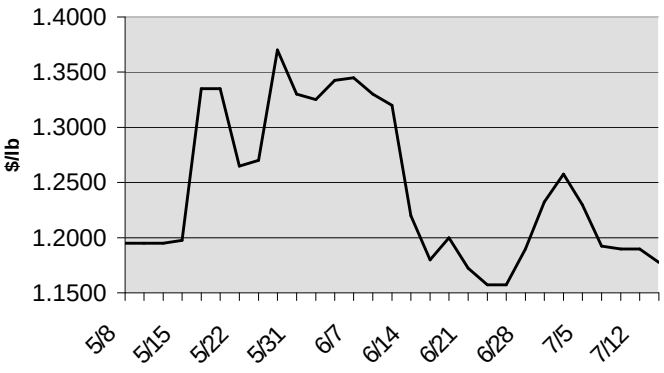
MARKET SITUATION

Butter Prices on Roller Coaster

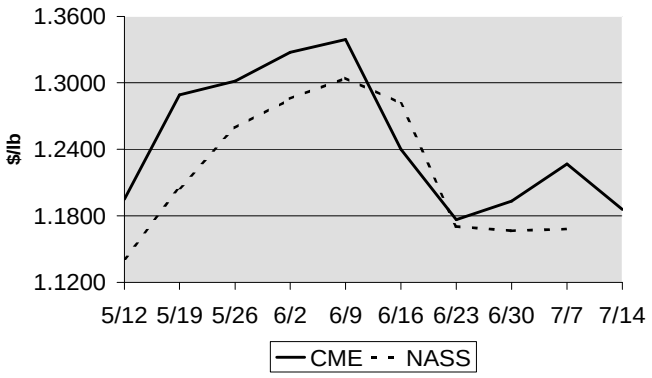
The price of Grade AA butter on the Chicago Mercantile Exchange (CME) recently has been on a roller coaster ride (see chart below). The year began with butter prices in the upper 80-cent per pound range. In mid-February, their ascent began, dipping slightly in mid-April, then climbing slowly to $1.1950 per pound in May. On May 17, the price soared 13.75 cents to $1.3350 per pound. It dropped to $1.2650 the following week, then peaked later that week at $1.3700 per pound. Prices hung around the low $1.30s for a couple of weeks and then dropped 10 cents on the heels of a revision in CME butter stocks. The butter price continued to decline, reaching $1.1575 per pound. On June 28, it began climbing again, hitting $1.2575 per pound. As of July 14, the Grade AA butter price equaled $1.1775 per pound.

Weekly National Agricultural Statistics Service (NASS) survey butter prices have followed a similar path as CME prices (see chart below). The spread between the two prices averaged about 5 cents until the decline in mid-June. For the week ending June 23, prices were nearly identical. Due to the lag in NASS reporting, prices continued downward, reinstating the price spread to about 3 cents. As of the last NASS data available (week ending July 8), the spread was about 6 cents.

Daily Grade AA Butter Prices, CME



Weekly Grade AA Butter Prices, CME and NASS



Location Adjustment, PPD, and Statistical Uniform Price for Selected Cities, June 2000

Location	Adjustment from Boston $/cwt	PPD	Statistical Uniform Price
Albany, NY	(0.55)	3.24	12.70
Baltimore, MD	(0.25)	3.54	13.00
Canton, NY	(0.95)	2.84	12.30
Lansdale, PA	(0.20)	3.59	13.05
Reading, PA	(0.45)	3.34	12.80
St. Albans, VT	(0.85)	2.94	12.40
Syracuse, NY	(0.75)	3.04	12.50
Wallington, NJ	(0.10)	3.69	13.15
West Springfield, MA	(0.25)	3.54	13.00

CME Adds Class IV Futures and Options

On July 10, the Chicago Mercantile Exchange (CME) began trading Class IV milk futures; options began July 11. The CME already trades futures and options on Class III milk, which is used to manufacture cheese.

The Class IV milk contract mirrors the specifications of the Class III milk contract with the exception of the formulas that are used in the method of cash settlement. Each contract represents 200,000 pounds of milk, quoted in U.S. dollars per hundredweight (cwt) and has a minimum price increment of $0.01 per cwt, valued at $20 per contract. All calendar months will be listed for trading and will trade via open outcry from 9:00 a.m. to 1:10 p.m. (Central Time).

The contracts will be cash-settled, based upon the USDA Class IV price for milk used in manufacturing butter/powder at 3.5 percent butterfat for fluid milk for that particular month. As of July 14, futures settled at $12.49 for October, $12.42 for November, and $12.50 for December, per hundredweight. About 55 contracts traded the first week.

USDA
MARKET ADMINISTRATOR
One Columbia Circle
Albany, NY 12203-6379

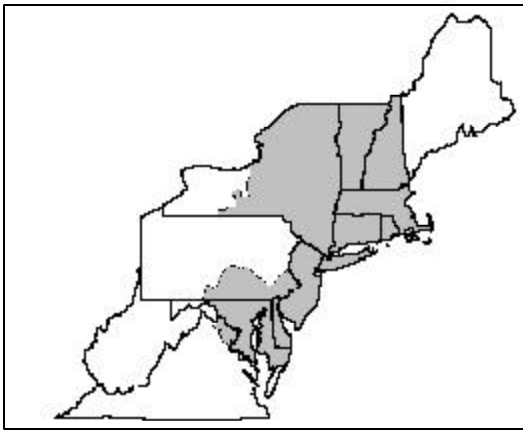
RETURN SERVICE REQUESTED

FIRST CLASS MAIL

Computation of Producer Price Differential and Statistical Uniform Price

		Product Pounds	Price per cwt/lb	Component Value	Total Value
Class I—	Skim	803,011,274	$10.95	87,929,734.54	
	Butterfat	16,867,983	1.2520	21,118,714.68	
Less:	Location Adjustment to Handlers			(2,316,256.26)	$106,732,192.96
Class II—	Butterfat	24,952,564	1.4198	35,427,650.40	
	Nonfat Solids	30,177,300	0.9333	28,164,474.14	63,592,124.54
Class III—	Butterfat	21,118,497	1.4128	29,836,212.58	
	Protein	17,503,218	1.4278	24,991,094.68	
	Other Solids	34,086,148	0.0438	1,492,973.31	56,320,280.57
Class IV—	Butterfat	7,825,555	1.4128	11,055,944.11	
	Nonfat Solids	16,728,522	0.8556	14,312,923.41	25,368,867.52
Total Classified Value					**$252,013,465.59**
Add:	Overage—All Classes				52,725.95
	Inventory Reclassification—All Classes				(216,915.70)
	Other Source Receipts	231,277			14,158.49
Less:	Producer Component Valuations				(187,474,954.04)
	Subtotal				**$64,388,480.29**
Add:	Location Adjustment to Producers				9,288,587.09
	One-half Unobligated Balance—Producer Settlement Fund				1,161,861.49
Total Pool Milk & Aggregate Value		1,949,190,465			74,838,928.87
Less:	Producer Settlement Fund—Reserve				(964,610.25)
Producer Price Differential @ *Suffolk County, MA (Boston)*			**$3.79**		73,874,318.62
Statistical Uniform Price @ *Suffolk County, MA (Boston)*			**$13.25**		

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



The Market Administrator's

BULLETIN

NORTHEAST MARKETING AREA

Erik F. Rasmussen, Market Administrator

July 2000 Federal Order No. 1

To contact the Northeast Marketing Area offices:
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e-mail address: MAAlbany@fedmilk1.com; *Alexandria, VA*: phone (703) 549-7000, e-mail address: MAAlexandria@fedmilk1.com;
website address: www.fmmone.com

July Pool Price Calculation

The July statistical uniform price for the Northeast Marketing Area was announced at $13.52 per hundredweight at Suffolk County, Massachusetts (Boston), the pricing point for the Northeast Order. This was an increase of 27 cents per hundredweight from June. The producer price differential (PPD) at Suffolk County was $2.86 per hundredweight, a decrease of 93 cents per hundredweight from June. The PPD is $2.76 for shipment to plants in the New York City differential zone and $2.66 for plants in the Philadelphia differential zone.

Prices Move in Opposite Directions

The July statistical uniform price increased while the PPD declined. This was due to changes in the values for components from June to July, which are used in setting class prices and are factors in calculating the statistical uniform price and PPD. The value for protein in July increased by over 54 cents per pound from June (the largest month-to-month change in any component price since January) while the butterfat value dropped by more than 14 cents. As a result, the Class III price (protein-cheese price) increased $1.20 per hundredweight from June while the Class IV price (butter-powder) dropped by 51 cents. The "spread" between the Class III and IV prices, therefore, declined from $2.92 per hundredweight in June to $1.21 in July, resulting in less revenue to be returned to producers via the PPD. Countering the decline in PPD values was a higher statistical uniform price for July, which producers saw in the form of higher values for the protein and other solids components of their milk.

Contribution to Price Changes

The contribution made to a producer's price from protein, butterfat, other solids, and the PPD changed significantly from June to July. For a hypothetical farm producing 100,000 pounds of milk at the market average component test and delivered to a Suffolk County plant, the portion of their milk check based on protein increased from 31.6 percent in June to 42.7 percent in July. The portion coming from butterfat dropped from 38.2 percent to 33.8 percent, and the portion coming from the PPD dropped from 28.3 percent to 21.2 percent. Other solids remained relatively stable in the under 3 percent range.

With cheese values at year-to-date highs and butter prices down from their highs, it is likely that protein will continue to contribute the largest portion of a producer's milk check, so long as commodity prices maintain a similar alignment.❖

Pool Summary

- A total of 17,196 producers were pooled under the order with an average daily delivery per producer of 3,730 pounds.
- Producer milk receipts totaled 1.988 billion pounds, a decrease of 1.3 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 40.5 percent of total milk receipts, a decrease of 1.6 percentage points from June.
- The average butterfat test of producer receipts was 3.59 percent.
- The average true protein test of producer receipts was 2.92 percent.
- The average other solids test of producer receipts was 5.69 percent.❖

Class Utilization

Producer Milk	Percent	Pounds
Class I	40.5	805,463,366
Class II	17.9	356,622,522
Class III	31.8	631,497,892
Class IV	9.8	194,698,652
Total Producer Milk		1,988,282,432

Producer Component Prices

Protein Price	$1.9726 /lb
Butterfat Price	$1.2691 /lb
Other Solids Price	$0.0557 /lb

Class Price Factors

	$/cwt
Class I	15.71
Class II	12.58
Class III	10.66
Class IV	11.87

Milk Production Increases Steadily

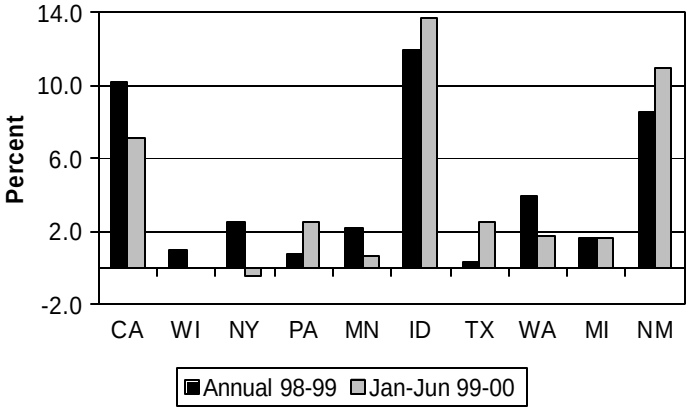
For the first 6 months of 2000, milk production in the United States increased 3.3 percent from the same period in 1999. All of the top ten milk-producing states, except New York and Wisconsin, recorded increases during this period. The top ten states experienced a combined increase of 3.9 percent from last year. All comparisons have been adjusted for leap year.

The accompanying chart shows the annual change in milk production between 1998 and 1999 and the change for the first 6 months of both 1999 and 2000. The data is depicted on a percentage basis for the top ten U.S. milk producing states.

California, the top producing state, posted an increase of 7.1 percent for the January through June period. During 1999, California's production grew 10.2 percent. Idaho and New Mexico were the biggest gainers so far this year with growth of 13.8 and 10.9 percent, respectively. Both are ahead of last year when they recorded increases of 11.9 and 8.5 percent, respectively. Other states showing double-digit growth during the first 6 months were Indiana and Nebraska.

Both New York and Wisconsin recorded increases in actual pounds of production. When adjusted for leap year, however, New York's production decreased by 0.4 percent; Wisconsin's adjusted production was unchanged from 1999. During 1999, New York's production rose 2.5 percent while Wisconsin's increased 1.0 percent. Alaska was the only state to show a double-digit decline (10.5 percent) during the first half of 2000; its 1999 annual production was less than 14 million pounds. The next biggest losers were New Jersey and Connecticut with milk production decreases of 7.3 and 7.2 percent, respectively.

Top 10 States Percent Change in Milk Production, 1989–99 and January–June, 1999-2000



Source: National Agricultural Statistics Service, *Milk Production*

The only New England state to show an increase was Vermont (3.2 percent). Combined, New England's milk production declined 0.1 percent for the 6-month period. Other states showing increased milk production worth noting include Pennsylvania and Texas with 2.5 percent each and Minnesota with 0.7 percent.❖

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Support Prices Adjusted

On August 15, the USDA announced that the Commodity Credit Corporation (CCC) purchase prices for butter, cheese, and nonfat dry milk (NFDM) have been adjusted. The Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriation Act, 2000, extended the price support program through calendar year 2000 at the 1999 support price of $9.90 per hundredweight of milk with an annual average milkfat content of 3.67 percent.

The Secretary of Agriculture is permitted to change the purchase prices twice during this calendar year. Using that authority, the following adjustments were made in order to reflect the new pricing formulas under the reformed Federal Milk Marketing Orders. CCC will increase the price it pays for block Cheddar and barrel cheese by 2.2 cents per pound to $1.1220 and $1.0920 per pound, respectively. The purchase price for butter will increase by 1.8 cents per pound to $0.6680 per pound, and the purchase price for NFDM will remain at $1.0100 per pound. The support price remains at $9.90 per hundredweight. These prices were effective July 31, 2000.❖

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Fluid Milk Board Members Named

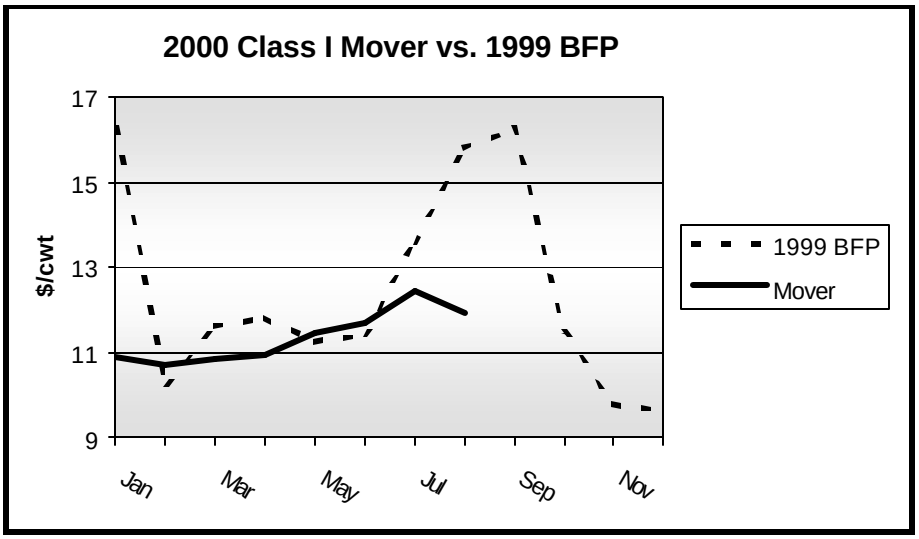
Agriculture Secretary Dan Glickman announced the appointment of two incumbents and seven new members to the National Fluid Milk Processor Promotion Board. Locally, in region 2, Mary E. Spencer, Chelsea, Massachusetts, was newly appointed. This appointment will expire on May 31, 2002.

The Fluid Milk Promotion Act of 1990 established the Board to develop and administer a coordinated program of advertising and promotion to increase the consumption of fluid milk products. It is composed of 15 fluid milk processors from 15 geographic regions, and five at-large members. The program is financed by a mandatory 20-cent per hundredweight assessment on all fluid milk processed and marketed commercially in consumer-type packages.❖

MARKET SITUATION

Comparison of Price Movers

The accompanying chart shows the Basic Formula Price (BFP) for 1999 and the Class I Mover Factor (CIM) for year-to-date 2000. Prior to Order Reform, the BFP was the basis for Class I, II, and III prices under federal orders. Beginning in 2000, the CIM is used to calculate comparable Class I prices. It is derived by adding the higher of the advanced Class III or IV skim milk pricing factor plus the advanced butterfat pricing factor (converted to dollars per hundredweight). As were added to the BFP, Class I differentials are added to the CIM to arrive at Class I prices for various locations.



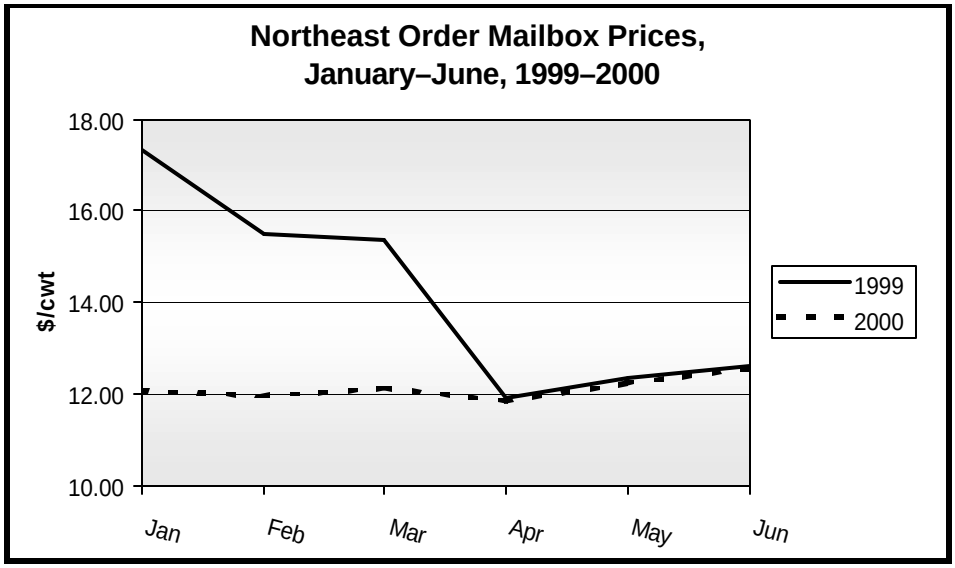
The chart shows that the CIM has been relatively constant, staying within a $1.75 range. In 1999, the BFP moved wildly, ranging from $16.27 to $9.63 per hundredweight, a difference of $6.64. The BFP, largely based on cheese prices, moved up and down as cheese prices soared and tumbled. As mentioned above, the CIM is based on the higher of the Class III or Class IV advanced price. The Class III price incorporates cheese prices, whereby the Class IV price uses butter and powder prices. So far in 2000, these formulas resulted in a CIM based on the butter and powder markets since market prices for butter have been the strongest.

The consistency of the CIM is no surprise when looking at the individual commodity prices. Powder prices averaged $1.01 per pound with a range of only $0.0044 for the first 7 months. Butter prices bobbed somewhat, but overall increased during the January to July period, varying by $0.3905 per pound. Cheese prices varied only $0.1178 per pound from January to July, but due to their lower average, they were not used in basing the CIM.

For the remainder of 2000, it is uncertain which will be the price setter. Butter prices have been declining recently, but so have cheese prices. Powder prices are relatively unchanged. On the futures market as of August 15, milk futures (Class III) ranged from $10.15 to $11.05 per hundredweight for August through December. Class IV futures ranged from $11.50 to $11.74 per hundredweight for the last 3 months of 2000.❖

Mailbox Prices

For the first 6 months of 2000, mailbox prices in the Northeast Order averaged 14.4 percent less than prices in 1999. Due to different pricing methods and new order areas, prices may not be directly comparable. The accompanying chart shows the monthly prices. Mailbox prices during 2000 have averaged $12.14 per hundredweight with a range of 71 cents. In 1999, mailbox prices averaged $14.18 per hundredweight for the first 6 months with a range of $5.44. Since April , prices averaged only 8 cents lower than last year's. ❖



MARKET ADMINISTRATOR
One Columbia Circle
Albany, NY 12203-6379

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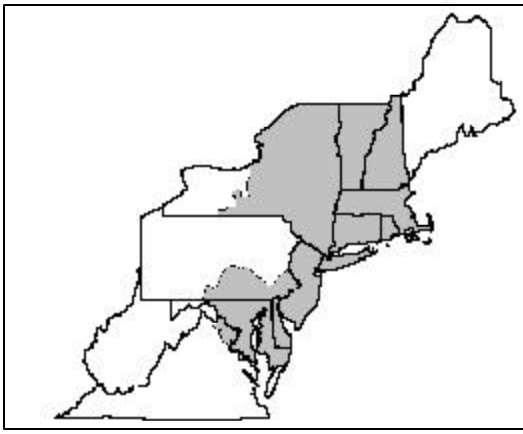
FIRST CLASS MAIL

Computation of Producer Price Differential and Statistical Uniform Price

		Product Pounds	Price per cwt/lb	Component Value	Total Value
Class I—	Skim	788,717,431	$10.96	86,443,430.49	
	Butterfat	16,745,935	1.4680	24,583,032.58	
Less:	Location Adjustment to Handlers			(2,241,475.68)	$108,784,987.39
Class II—	Butterfat	25,630,970	1.2761	32,707,680.84	
	Nonfat Solids	29,549,973	0.9344	27,611,494.81	60,319,175.65
Class III—	Butterfat	21,967,359	1.2691	27,878,775.30	
	Protein	18,426,009	1.9726	36,347,145.39	
	Other Solids	36,006,452	0.0557	2,005,559.48	66,231,480.17
Class IV—	Butterfat	6,944,816	1.2691	8,813,665.99	
	Nonfat Solids	16,823,332	0.8561	14,402,454.52	23,216,120.51
Total Classified Value					**$258,551,763.72**
Add:	Overage—All Classes				43,349.56
	Inventory Reclassification—All Classes				(125,335.92)
	Other Source Receipts	168,921			7,523.11
Less:	Producer Component Valuations				(211,348,788.64)
	Subtotal				**$47,128,511.83**
Add:	Location Adjustment to Producers				9,419,448.42
	One-half Unobligated Balance—Producer Settlement Fund				1,306,638.11
Total Pool Milk & Aggregate Value		1,988,451,353			57,854,598.36
Less:	Producer Settlement Fund—Reserve				(984,889.66)
Producer Price Differential @ *Suffolk County, MA (Boston)*			**$2.86**		56,869,708.70
Statistical Uniform Price @ *Suffolk County, MA (Boston)*			**$13.52**		

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



The Market Administrator's

BULLETIN

NORTHEAST MARKETING AREA

Erik F. Rasmussen, Market Administrator

August 2000 Federal Order No. 1

To contact the Northeast Marketing Area offices:
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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 statistical uniform price for the Northeast Marketing Area was announced at $13.39 per hundredweight at Suffolk County, Massachusetts (Boston), the pricing point for the Northeast Order. This was a decrease of 13 cents per hundredweight from July. The producer price differential (PPD) at Suffolk County was $3.26 per hundredweight, an increase of 40 cents per hundredweight from July. The PPD was $3.16 for shipments to plants in the New York City differential zone and $3.06 for plants in the Philadelphia differential zone.

Prices Move in Opposing Directions Again

In July, the statistical uniform price increased while the PPD declined. For August, the statistical uniform price declined while the PPD increased. Like last month, this was the result of changes in the component values from month to month. The value for protein in August decreased 18 cents per pound from July; the butterfat value stayed nearly level. The decline in protein resulted in a decrease of 53 cents in the Class III price from July to August while the Class IV price saw no change. The spread between the Class III and IV prices grew in August resulting in more revenue returned to producers via the PPD. The lower statistical uniform price reflected the lower protein value as butterfat and other solids were relatively unchanged from July.❖

Class I Supplies Tighten

Throughout the first 2 weeks of September, numerous fluid milk handlers pooled under the Northeast Order reported difficulties in procuring adequate supplies of milk for Class I use. While Class I contracts generally are being met, there is increasing concern about handlers' continued ability to fulfill fluid milk supply commitments. The Market Administrator has responded to handler concerns by requesting information on expected milk receipts and projected Class I needs from fluid handlers pooled under the Northeast Order. This data should provide more definitive information on the availability of milk for fluid use and help determine the need for any further action.

Seasonal Pattern

Tightening of milk supplies during this time of year is normal. Milk receipts in the Northeast historically peak in May, decline through September, and are at their lowest

(continued on Page 2)

Pool Summary

- A total of 17,000 producers were pooled under the order with an average daily delivery per producer of 3,640 pounds.
- Producer milk receipts totaled 1.918 billion pounds, a decrease of 3.5 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 45.2 percent of total milk receipts, an increase of 4.7 percentage points from July.
- The average butterfat test of producer receipts was 3.60 percent.
- The average true protein test of producer receipts was 2.93 percent.
- The average other solids test of producer receipts was 5.67 percent.

Class Utilization

Producer Milk	Percent	Pounds
Class I	45.2	867,869,987
Class II	19.3	369,400,232
Class III	30.4	582,375,860
Class IV	5.1	98,581,743
Total Producer Milk		1,918,227,822

Producer Component Prices

Protein Price	$1.7952 /lb
Butterfat Price	$1.2659 /lb
Other Solids Price	$0.0577 /lb

Class Price Factors

	$/cwt
Class I	15.20
Class II	12.56
Class III	10.13
Class IV	11.87

Market Services and Milk Testing

Each month the market services verification program collects up to 6,000 milk samples for testing and comparison against handlers' reported test results. As explained in the March *Bulletin*, the objective of verifying component tests is to guard against incorrect payment to producers for milk components. With the normal summertime decline in component tests another aspect of the verification program, that of preventing incorrect pool credits to fluid handlers, becomes prominent.

Handler Credits

At pool time, the process where the statistical uniform price and producer price differential (PPD) are calculated, a handler's payment obligation or credit is determined. The pool obligation of *Class I* (fluid handlers) is based on the skim and butterfat content of the milk they purchase, the respective prices, and the location differential for their plant. A fluid handler's obligation to *producers*, however, is on the pounds of protein, butterfat, and other solids in producers' milk plus the PPD. Class I handlers receive a credit toward their pool obligation for the value of the protein that they purchase from producers. If handlers inadvertently report producer protein tests in *excess* of the actual protein content of the milk, the handler would receive an inflated pool credit for protein. While this scenario would benefit the producer and handler reporting inflated tests, it would be at the expense of all other producers sharing in the value of the marketwide pool. The inserted table illustrates the pool "cost" of an overstated protein test from a hypothetical Class I plant with monthly production of 35 million pounds (a mid-size fluid plant).

August Protein Test	Percent	Protein Pounds	Price Per lb.	Protein Value
Reported Protein Test	2.98	1,043,000	1.7952	$1,872,393.60
Actual Protein Test	**2.93**	**1,025,500**	**1.7952**	**$1,840,977.60**
Excess Protein Credit				$31,416.00

In this example the hypothetical plant's pool obligation would have been credited $31,416.00 more than it should have been as a result of the incorrect protein tests. The "cost" of this error would have been drawn from the pool valuation, which is shared by all producers in the form of the PPD.

Laboratory Verification

In addition to verifying producer samples, the market services department monitors laboratories testing samples for processors. The market administrator lab sends "blind" samples to various laboratories for analysis on a monthly basis. The lab's results are returned to the market administrator and compared against test results previously determined by the market administrator lab. If excessive variances are found, the market services staff works with the laboratories to review their testing procedures and ensure that their testing equipment is properly calibrated. In addition, periodic visits are made to laboratories testing producer samples to evaluate test procedures. The market services staff also works with milk haulers to ensure that proper sample collection and processing practices are followed. It is our goal to assure that producers are receiving proper payment for their milk.❖

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Class I Tightens *(continued from page 1)*

levels in June and July, begin to increase in August or September, and continue to build through the fall. The increase in monthly Class I sales during the fall coincides with the reopening of schools.

Production Changes

Milk production in New York State, the source for more than 40 percent of the total milk pooled under the order, has declined by an average of -0.86 percent during June, July, and August compared to an average increase for the top 20 dairy states of 4.1 percent for the same period. Milk Production in Pennsylvania and Vermont (both top 20 dairy states) averaged gains of 2.0 and 2.4 percent, respectively, for that period. In addition, this is the time of year when some milk from the Northeast traditionally is shipped to southern states to take advantage of profitable spot market premiums.

Typically, manufacturing handlers reduce their production schedules in the fall as a result of lower milk supplies and greater Class I demand. Any significant and unanticipated reductions in milk production during the fall months can cause manufacturing handlers to readjust their production output and tighten available milk supplies for the fluid market.

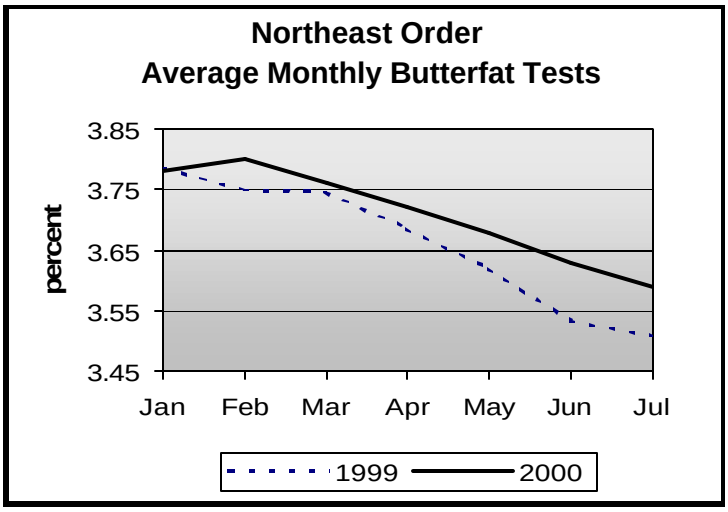
Order Provisions

During the months of August through December, order provisions require pool supply plants and cooperative association handlers to provide a fixed percentage of their milk supplies to Class I handlers. These volumes (known as shipping percentages) can be increased or decreased, if the Market Administrator finds that such an adjustment is necessary, to encourage needed shipments to Class I handlers or to prevent uneconomical shipments of milk.❖

MARKET SITUATION

Butterfat Tests Increase

For the first 7 months of 2000, the average butterfat tests for the Northeast Order averaged 1.3 percent higher than during the same period in 1999. The chart below

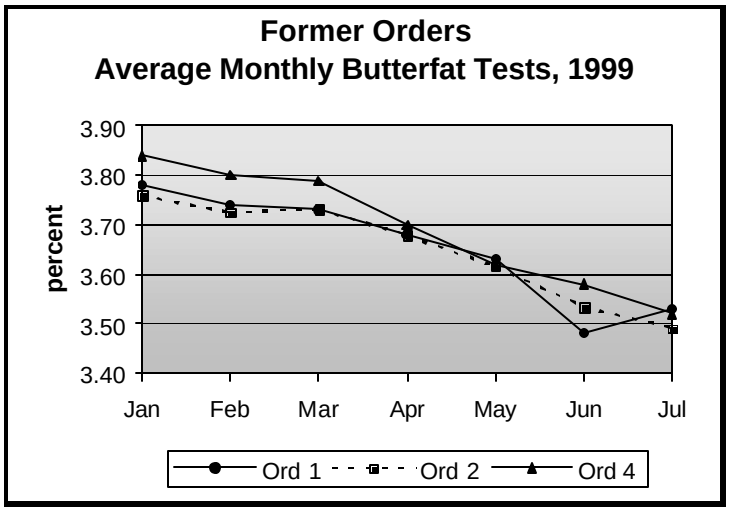


compares butterfat tests reported for the combined Northeast Order with weighted average tests calculated from data for the former New England, Middle Atlantic, and New York–New Jersey federal orders.

Of the three former orders, the New York–New Jersey average butterfat tests were usually the lowest (see next chart). This is reflected in the 1999 weighted average for the combined orders due to the larger volume of the former Order 2 that was approximately equal to the other two orders combined.

January was the only month of 2000 where the average butterfat test was below last year's combined average. The increase in average butterfat tests has grown in the past 2 months. Favorable temperatures and decent feed have attributed to the higher tests.

With pricing of milk in the Northeast Order now based on components, butterfat levels have taken on greater importance. For the first 7 months of 2000, the average butterfat price was $1.1453 per pound, down 19.4 percent from the same period in 1999.❖



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Northeast Milk Moves South

During the month of August, a net amount of almost 16 million pounds (approximately 313 tankers) of bulk milk pooled under the Northeast Order (Order 1) was shipped to plants in the southeastern United States. Federal orders receiving Order 1 milk include Appalachian, Florida, and Southeast.

As stated, this number is a net figure. The total amount shipped to the southeastern orders was over 26 million pounds; Order 1 received nearly 11 million pounds of milk pooled under southeastern orders. Much of this milk went to plants located in the southern portion of the Northeast Marketing Area. About 70 percent of the volume shipped to the southeastern orders was classified as Class I.

In addition to the South, bulk milk shipments of Order 1 milk were sent to and received from other federal order areas. Overall, the net amount of milk shipped to other federal order areas totaled about 33 million pounds in August. This is about 1.7 percent of total producer milk receipts for the month.

USDA Proposes Changes to Dry Whole Milk Standards

The USDA is soliciting comments on its proposal to change the voluntary United States Standards for Grades of Dry Whole Milk. These standards have been in effect since May 13, 1983.

The proposed changes would reduce the maximum bacterial estimate for both Extra Grade and Standard Grade, incorporate a maximum titratable acidity requirement for both grades, delete the provisions for dry whole milk produced by roller process, and include protein content as an optional test among other changes.

The proposed changes were published in the July 28 Federal Register. Comments must be submitted by September 26. For more information, call USDA's Agricultural Marketing Service (AMS) at (202) 720-8998 or visit the AMS Home Page at www.ams.usda.gov/dairy/stand.htm.❖

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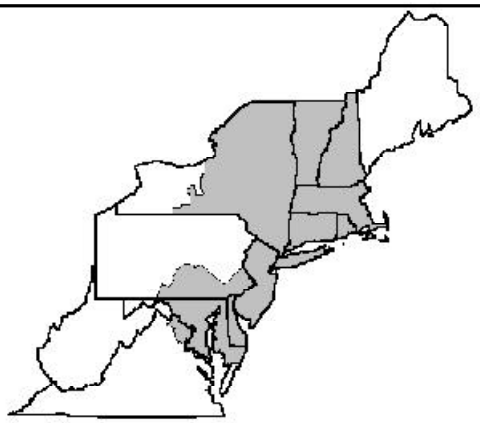
Computation of Producer Price Differential and Statistical Uniform Price

		Product Pounds	Price per cwt/lb	Component Value	Total Value
Class I—	Skim	849,617,864	$10.95	93,033,156.17	
	Butterfat	18,252,123	1.3238	24,162,160.48	
Less:	Location Adjustment to Handlers			(2,500,098.40)	$114,695,218.25
Class II—	Butterfat	26,078,715	1.2729	33,195,596.35	
	Nonfat Solids	30,657,430	0.9333	28,612,579.46	61,808,175.81
Class III—	Butterfat	20,547,065	1.2659	26,010,529.62	
	Protein	17,053,975	1.7952	30,615,295.96	
	Other Solids	33,060,076	0.0577	1,907,566.40	58,533,391.98
Class IV—	Butterfat	4,267,498	1.2659	5,402,225.74	
	Nonfat Solids	8,424,019	0.8567	7,216,857.10	12,619,082.84
Total Classified Value					**$247,655,868.88**
Add:	Overage—All Classes				139,211.07
	Inventory Reclassification—All Classes				(67,419.26)
	Other Source Receipts	233,581			11,826.78
Less:	Producer Component Valuations				(194,650,547.11)
	Subtotal				**$53,088,940.36**
Add:	Location Adjustment to Producers				9,083,271.70
	One-half Unobligated Balance—Producer Settlement Fund				1,210,144.37
Total Pool Milk & Aggregate Value		1,918,461,403			63,382,356.43
Less:	Producer Settlement Fund—Reserve				(840,514.69)
Producer Price Differential @ *Suffolk County, MA (Boston)*			**$3.26**		62,541,841.74
Statistical Uniform Price @ *Suffolk County, MA (Boston)*			**$13.39**		

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



The Market Administrator's

BULLETIN

NORTHEAST MARKETING AREA

Erik F. Rasmussen, Market Administrator

September 2000 Federal Order No. 1

To contact the Northeast Marketing Area offices:
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e-mail address: MAAlbany@fedmilk1.com; *Alexandria, VA*: phone (703) 549-7000, e-mail address: MAAlexandria@fedmilk1.com;
website address: www.fmmone.com

September Pool Price Calculation

The September statistical uniform price for the Northeast Marketing Area was announced at $13.63 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. Prices received by individual dairy farmers will vary as the component composition of a farm's milk differs from the standard component tests. The price also will vary depending on the location of the plant to which the milk is delivered. The September producer price differential (PPD) at Suffolk County was $2.87 per hundredweight.

Uniform Price and PPD Move Opposite

The September statistical uniform price was 24 cents per hundredweight above the August price and is the highest statistical uniform price to date. The statistical uniform price is determined by adding the Class III price and the PPD value. The September Class III price of $10.76 also was the highest for the year to date, boosted by the highest monthly average cheese price since order reform was implemented. Wholesale cheese values are a significant factor in the Class III price calculation. Given the recent declines in wholesale cheese values (see cheese price article on page 3), it is likely that the September statistical uniform price will be the peak for the year. This likely will be the case as the October Class III price declines due to a drop in wholesale market cheese prices.

October Prices Likely to Reverse

The September PPD dropped by 39 cents per hundredweight from August. The PPD accounts for the value of Classes I, II, and IV milk in the pool and rises and falls as the "spread" between the value of Class III and Class IV changes. With an anticipated decline in the October Class III price, and if Class IV (butter/powder) prices stay about the same, the price "spread" between Classes III and IV will again increase. As a result, the October PPD will likely increase—just the opposite of what the statistical uniform price will do. Due to the large volumes of milk in Order 1 utilized in Classes I, II, and IV, the October PPD (accounting for the value of milk in Classes I, II, and IV) for the Northeast will again likely be the highest of any federal order calculating a PPD (see pool summary table on page 2).❖

Pool Summary

- A total of 16,977 producers were pooled under the order with an average daily delivery per producer of 3,603 pounds.
- Producer milk receipts totaled 1.835 billion pounds, a decrease of 1.1 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 49.3 percent of total milk receipts, an increase of 4.1 percentage points from August.
- The average butterfat test of producer receipts was 3.64 percent.
- The average true protein test of producer receipts was 2.96 percent.
- The average other solids test of producer receipts was 5.64 percent.

Class Utilization

Producer Milk	Percent	Pounds
Class I	49.3	903,908,890
Class II	17.8	327,327,620
Class III	28.8	529,482,353
Class IV	4.1	74,574,627
Total Producer Milk		1,835,293,490

Producer Component Prices

Protein Price	$2.0137 /lb
Butterfat Price	$1.2707 /lb
Other Solids Price	$0.0502 /lb

Class Price Factors

	$/cwt
Class I	15.09
Class II	12.58
Class III	10.76
Class IV	11.94

Change in Shipping Percentage

On September 29, pool handlers were notified that the shipping percentage in Section 1001.7 (c) would be increased from 20 to 25 percent for the month of October. This change resulted from an investigation by the Market Administrator's Office followed by a notice and comment period, as required in Section 1001.7 (g).

The investigation was initiated at the written request of pool handlers. As was reported in the August *Bulletin*, the milk supply was tightening during September due to a combination of seasonally lower production and increased demand.

It was determined that a shipping increase of 5 percent would bring forth the additional supply needed, but not be so high as to cause uneconomical movements of milk. At this time, no decision has been made to increase the shipping percentage for the month of November.❖

National Dairy Board Appointments

Agriculture Secretary Dan Glickman appointed 11 new members and reappointed 2 incumbents to the National Dairy Promotion and Research Board. All will serve 3-year terms from November 1, 2000, through October 31, 2003. Locally, Lewis Gardner, Galeton, Pennsylvania (region 11), and Edgar A. King, Schuylerville, New York (region 12), were among the newly appointed.

The Board is composed of 36 dairy farmers representing 13 regions of the contiguous United States. It administers a coordinated program of promotion, research, and nutrition education, and is financed by a mandatory 15-cent per hundredweight processor assessment.❖

More Northeast Milk Moves South

During the month of September, a net amount of over 23 million pounds (nearly 470 tankers) of bulk milk pooled under the Northeast Order (Order 1) was shipped to plants in the southeastern United States. Federal orders in the South receiving Order 1 milk include Appalachian (Order 5), Florida (Order 6), and Southeast (Order 7).

Compared with last month, September's net shipments were up 50 percent. The milk supply has tightened considerably; September's pooled volume was the lowest of any month since the orders were consolidated. In the Northeast, the tightness is resulting in an increase in the required shipping percentage for October (see related article on this page).

As reported in August, the shipping volume reported is a net figure. The total amount shipped to the southeastern orders was over 33 million pounds; Order 1 received nearly 10 million pounds of milk pooled under southeastern orders. Much of this milk went to plants located in the southern portion of the Northeast Marketing Area. About 74 percent of the volume shipped to the South was classified as Class I. Nearly 90 percent of the milk received from the South was classified as Class IV.

In addition to the South, bulk milk shipments of Order 1 milk were shipped to and from other federal order areas. Overall, the amount of milk moving to other federal order areas totaled about 45 million pounds; receipts from other federal orders equaled 21 million pounds. The result is a net of 24 million pounds in September, about 1.3 percent of the total producer milk for the month. This compares to 1.7 percent of the total in August.❖

Pool Summary for All Federal Orders, September 2000

Federal Order Number	Federal Order Name	Total Producer Milk	Class I Producer Milk	Class I Utilization	Class I Price#	Producer Price Differential#	Statistical Uniform Price#*
		pounds		percent	dollars per hundredweight		
1	**Northeast**	**1,835,293,490**	**903,908,890**	**49.3**	**15.09**	**2.87**	**13.63**
5	Appalachian	469,034,164	357,920,097	76.3	14.94	N/A	14.41
6	Florida	203,777,649	186,789,213	91.7	15.84	N/A	15.59
7	Southeast	563,356,612	405,277,537	71.9	14.94	N/A	14.16
30	Upper Midwest	1,708,010,895	344,976,141	20.2	13.64	0.7	11.46
32	Central	1,331,781,248	418,044,183	31.4	13.84	1.21	11.97
33	Mideast	1,259,412,458	577,626,165	45.9	13.84	1.77	12.53
124	Pacific Northwest	598,367,378	180,778,592	30.2	13.74	1.35	12.11
126	Southwest	681,901,783	334,954,124	49.1	14.84	2.52	13.28
131	Arizona-Las Vegas	229,400,576	79,581,137	34.7	14.19	N/A	12.32
135	Western	290,936,625	85,454,730	29.4	13.74	1.18	11.94
	All Market Total/Average	9,171,272,878	3,875,310,809	42.3	14.42	1.66	13.04

Price at designated order location. * Price at 3.5% butterfat. N/A = Not applicable.

MARKET SITUATION

Cheese Prices Plummet

Prices for 40-pound block Cheddar on the Chicago Mercantile Exchange (CME) peaked at $1.3350 per pound on September 1. They remained within a 3-cent range for about 2 weeks, but on September 18 began a descent that as of October 16 had reached $1.0450 per pound. On the same day, 500-pound barrel cheese prices equaled $1.0000 per pound on the CME.

From January through mid-June, block prices were in $1.0825 to $1.2000 per pound range (see Figure 1). On June 15, the price jumped to $1.2500 per pound from the previous day's $1.1800 per pound. This was the beginning of a volatile period where prices ranged from $1.1100 per pound to $1.3350 per pound, the aforementioned high point.

Prices for block cheese reported on the National Agricultural Statistics Service (NASS) survey have averaged 1.5 cents less than the CME prices since the beginning of 2000 (see Figure 2). As of October 7 (the most recent NASS data), the survey block price was $1.2621 per pound. In addition, the barrel cheese price (at 39% moisture) was $1.2096 per pound, compared to $1.0255 per pound for 500-pound barrels on the CME for the week ending October 6. NASS barrel prices have averaged only 1 cent less than CME prices this year (see Figure 3). Both of the NASS block and barrel prices are used in calculating federal order minimum prices. The decline in producer prices resulting from weak cheese prices will be felt in the upcoming months.

With cheese prices currently below the support level ($1.1220 for blocks, $1.0920 for barrels, per pound), it is expected that the Commodity Credit Corporation (CCC) will begin buying surplus product. The last time the CCC purchased block cheese was in June. During the marketing year that ended September 30, 2000, CCC cheese purchases included 1,162,919 pounds of block cheese, 5,583,600 pounds of process cheese, and no barrel cheese.❖

Figure 1

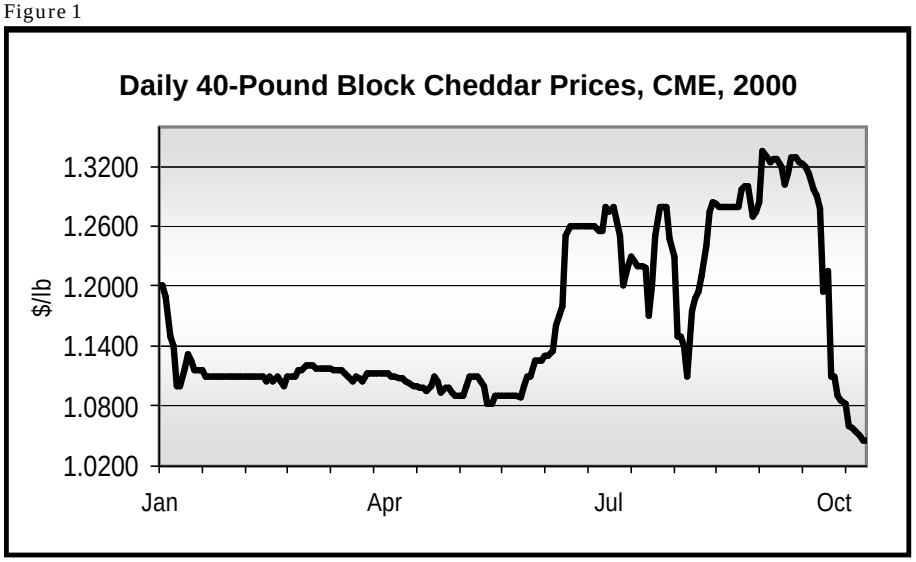


Figure 2

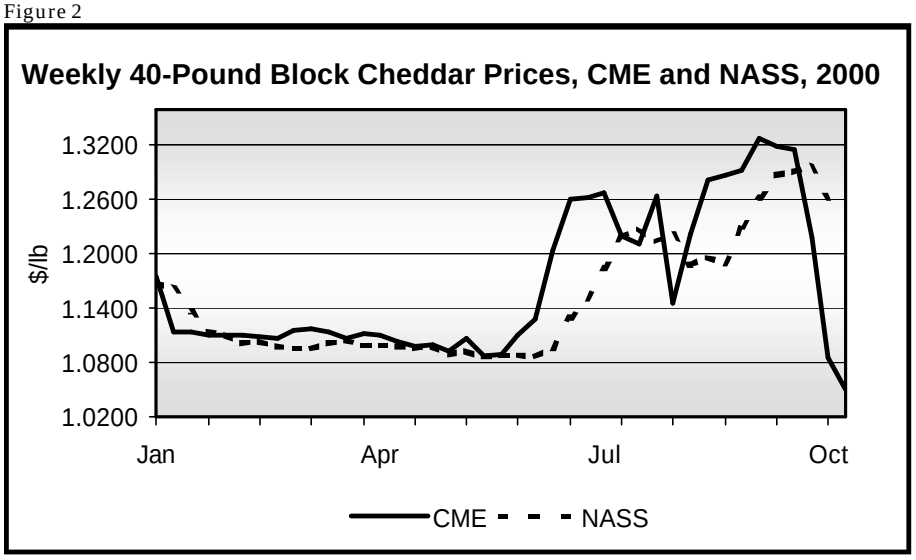
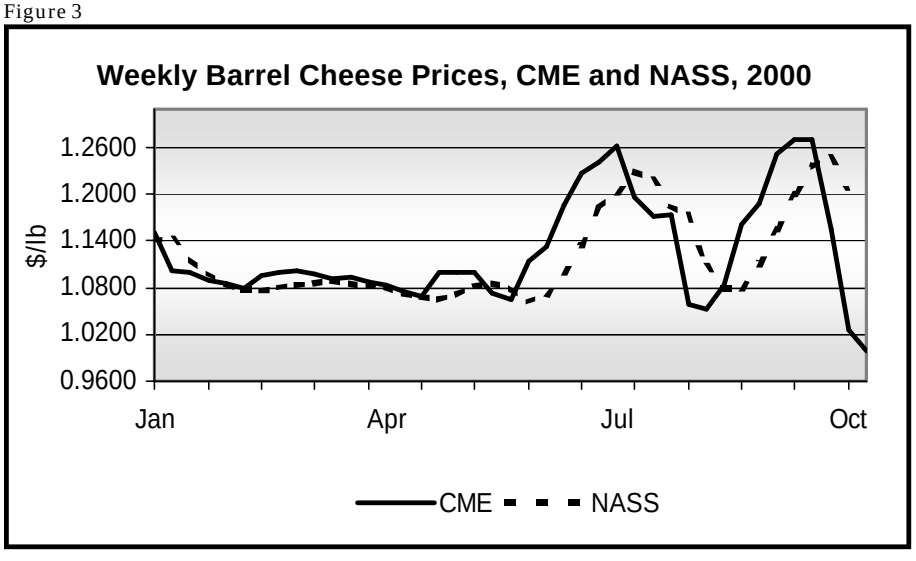


Figure 3



MARKET ADMINISTRATOR
One Columbia Circle
Albany, NY 12203-6379

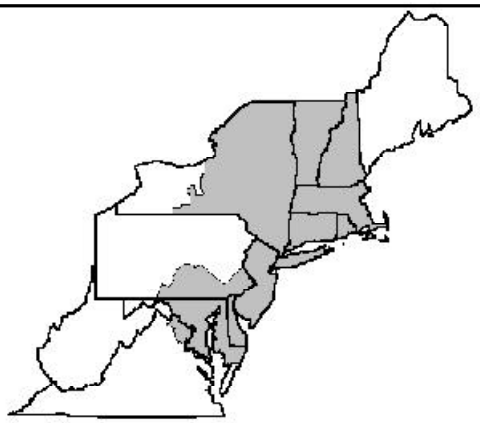
RETURN SERVICE REQUESTED

FIRST CLASS MAIL

Computation of Producer Price Differential and Statistical Uniform Price

		Product Pounds	Price per cwt/lb	Component Value	Total Value
Class I—	Skim	885,431,720	$10.95	96,954,773.38	
	Butterfat	18,477,170	1.2916	23,865,112.82	
Less:	Location Adjustment to Handlers			(2,638,733.71)	$118,181,152.49
Class II—	Butterfat	24,125,014	1.2777	30,824,530.43	
	Nonfat Solids	27,149,098	0.9333	25,338,253.21	56,162,783.64
Class III—	Butterfat	19,130,411	1.2707	24,309,013.28	
	Protein	15,684,711	2.0137	31,584,302.59	
	Other Solids	29,801,119	0.0502	1,496,016.18	57,389,332.05
Class IV—	Butterfat	5,084,199	1.2707	6,460,491.67	
	Nonfat Solids	6,219,341	0.8624	5,363,559.70	11,824,051.37
Total Classified Value					**$243,557,319.55**
Add:	Overage—All Classes				70,823.69
	Inventory Reclassification—All Classes				(94,586.60)
	Other Source Receipts	58,865			2,672.89
Less:	Producer Component Valuations				(199,645,399.82)
	Subtotal				**$43,890,829.71**
Add:	Location Adjustment to Producers				8,499,705.82
	One-half Unobligated Balance—Producer Settlement Fund				1,019,243.90
Total Pool Milk & Aggregate Value		1,835,352,355			53,409,779.43
Less:	Producer Settlement Fund—Reserve				(735,166.84)
Producer Price Differential @ *Suffolk County, MA (Boston)*			**$2.87**		52,674,612.59
Statistical Uniform Price @ *Suffolk County, MA (Boston)*			**$13.63**		

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



The Market Administrator's

BULLETIN

NORTHEAST MARKETING AREA

Erik F. Rasmussen, Market Administrator

October 2000 Federal Order No. 1

To contact the Northeast Marketing Area offices:
Boston, MA: phone (617) 542-8966, 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

October Pool Price Calculation

The October statistical uniform price for the Northeast Area was announced at $13.30 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. Prices received by individual dairy farmers will vary as the component composition of a farm's milk differs from the standard component tests. The price also will vary depending on the location of the plant to which the milk is delivered. The October producer price differential (PPD) at Suffolk County was $3.32 per hundredweight.

The October statistical uniform price was 33 cents per hundredweight below the September price. Conversely, the October PPD increased 43 cents from the previous month. The PPD is the difference between the statistical uniform price and the Class III price. As predicted in last month's *Bulletin*, the Class III price declined as a result of a drop in wholesale market cheese prices. This 74-cent drop in the Class III price was partially offset by declines in both Class II and Class IV prices and changes in class utilizations.

For November, the statistical uniform price should be close to October's. The PPD will probably be much higher as the Class III price declines with lower cheese prices, and the Class II and IV prices increase due to the sudden rise in wholesale butter prices (see related article on page 3).❖

Change in Shipping Percentage

On October 30, pool handlers were notified that the shipping percentage in Section 1001.7 (c) would be increased from 20 to 25 percent for the month of November. This change resulted from an investigation by the Market Administrator's Office followed by a notice and comment period, as required in Section 1001.7 (g).

The investigation was initiated at the written request of pool handlers. As was reported in the September *Bulletin*, the milk supply was tightening during October due to a combination of seasonally lower production and increased demand.

It was determined that a shipping increase of 5 percent would bring forth the additional supply needed, but not be so high as to cause uneconomical movements of milk. ❖

Pool Summary

- A total of 16,895 producers were pooled under the order with an average daily delivery per producer of 3,618 pounds.
- Producer milk receipts totaled 1.895 billion pounds, a decrease of less than 0.1 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 48.5 percent of total milk receipts, a decrease of 0.8 percentage points from September.
- The average butterfat test of producer receipts was 3.73 percent.
- The average true protein test of producer receipts was 3.05 percent.
- The average other solids test of producer receipts was 5.67 percent.

Class Utilization

Producer Milk	Percent	Pounds
Class I	48.5	919,292,257
Class II	19.7	374,030,233
Class III	27.3	517,381,149
Class IV	4.5	84,179,819
Total Producer Milk		1,894,883,458

Producer Component Prices

Protein Price	$1.8028 /lb
Butterfat Price	$1.2444 /lb
Other Solids Price	$0.0471 /lb

Class Price Factors

	$/cwt
Class I	15.14
Class II	12.54
Class III	10.02
Class IV	11.81

Ag Bill = Dairy Assistance

President Clinton signed the Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act, 2001, on October 28. The bill provides for $3.5 billion in disaster assistance for America's farmers and ranchers including $1.3 billion for crop loss assistance, $667 million for Dairy Market Loss Assistance (DMLA) payments, and $450 million for livestock assistance.

Section 805 of the bill authorized the Commodity Credit Corporation (CCC) to make supplemental payments to dairy producers who received payments under the previous income assistance program (DMLA-II—when producers received funds in the spring of 2000) and to new dairy producers. The payments are to offset 35 percent of the reduction in 2000 milk prices from the past 5-year average. USDA expects to make at least $650 million in DMLA-III payments to dairy producers. Payment calculations for all participants will be limited to the first 39,000 hundredweight (cwt) of production to better target small to medium-sized producers.

To expedite delivery of benefits and eliminate the need for a signup for most of the participants, payments will be made at the payment rate of $0.6468 per cwt to all dairy operations that were paid under DMLA-II. Payments were based on the highest of 1997 or1998 production, not to exceed 39,000 cwt. For new producers under DMLA-II, the production base period will be 1999 production (not to exceed 39,000 cwt).

All producers whose base production was less than 12 months for DMLA-II have the option to change their production base to their milk production during October 1, 1999 to September 30, 2000. This will also be the production base period for new producers under DMLA-III. New producers and producers electing to change their production base will receive payments (at the same rate) after regulations concerning new operations and operations with less than 12 months' production are published in the Federal Register. A 4-week signup will be held for new dairy operations and for dairy operations that were paid under DMLS-II for production representing less than 12 months.

The maximum payment that any dairy operation can receive will be $25,225. Average payments per operation are expected to be about $8,300 for about 80,000 dairy operations in the United States.

For more information, contact your local Farm Service Agency (FSA) office.❖

Dairy Outlook Conference Held

The 2000 Northeast Regional Dairy Outlook Conference was held November 9 at the Albany office. The annual conference brings together economists and statisticians from the Northeast's market administrator offices, state and federal agricultural statistical services, university extension offices, and cooperatives to review regional production and price statistics for the past year and develop projections for the upcoming year. The Northeast region includes Maine, New England (Connecticut, Massachusetts, New Hampshire, Rhode Island, and Vermont), New York, New Jersey, Pennsylvania, Maryland, and Delaware.

Crop Situation

Nearly all participants reported experiencing extremely wet weather during the spring and summer of 2000. For most of the northeastern states, this resulted in delayed planting and late developing crops due to the lack of sun and over abundance of rain. In many areas, corn is still being harvested and, while total yields may be down only slightly, quality has suffered due to the poor growing conditions. Nationally, the feed situation is more favorable with only localized areas experiencing forage problems. Overall, feed prices should remain relatively stable into 2000 although quality forages may be at a premium in the Northeast.

Production and Price Estimates

Even though milk prices during 2000 have been the lowest in 3 years, national milk production has continued to increase. A favorable feed situation based on quantity, quality, and price has resulted in strong gains in milk production per cow. The number of milk cows has risen nationally every month since October 1999, but due to the high prices of milk replacements in the past year, total cow numbers are expected to decline in 2001. The increase in milk per cow is expected to outweigh the decrease in cow numbers resulting in a slight gain (less than 1 percent) in total U.S. milk production in 2001.

In the Northeast, milk production is projected to increase at about the same rate as nationally during 2001. Cow numbers are expected to decline about 0.8 percent; milk production per cow is projected to increase 1.4 percent.

For 2001, milk prices are expected to be similar to 2000, again with less volatility than has been seen in the past few years. Prices may recover slightly near the end of 2001 as milk production eases. For the Northeast Order, conference participants predicted about a 30-cent increase in the annual average statistical uniform price for 2001.❖

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USDA Proposes Changes to Standards for Nonfat Dry Milk and Dry Buttermilk

The USDA recently solicited comments on proposals to revise the U.S. Standards for Grades of Nonfat Dry Milk (Spray Process), the U.S. Standards for Instant Nonfat Dry Milk, and the U.S. Standards for Grades of Dry Buttermilk and Dry Buttermilk Product. Recently, USDA proposed changes to the voluntary U.S. Standards for Grades of Dry Whole Milk (see the September *Bulletin*).

The proposed changes would reduce the Standard Plate Count (bacterial estimates) for U.S. Extra Grade nonfat dry milk (spray process) and instant nonfat dry milk to a maximum of 10,000 per gram, for U.S. Extra Grade dry buttermilk and dry buttermilk product to a maximum of 20,000 per gram, and for U.S. Standard Grade dry buttermilk and dry buttermilk product to a maximum of 75,000 per gram.

The proposed changes were published in the September 8 Federal Register.❖

MARKET SITUATION

Butter Price Rises

Prices for Grade AA Butter on the Chicago Mercantile Exchange (CME) increased $0.5125 to close the day at $1.73 per pound on November 8, an increase of 42 percent. The butter price closed at $1.795 on November 10 and, as of November 17, has held at this level. For the period of January through November 3, the weekly butter price averaged $1.15 per pound. This included prices below $1.00 per pound during each of the first 11 weeks of the year. The average weekly butter price increased 32 percent from the week ending November 3 to the week ending November 10 reaching $1.5809, a level not achieved in about 2 years (see Figure 1).

USDA's *Dairy Market News* is reporting that current butter demand has outpaced production, and manufacturers trying to meet demand are having limited success finding available cream, as cream is being used to make other cream-based holiday products. This seasonally strong demand for butter and competition for cream as an input are putting upward pressure on the butter price.

Higher Class IV milk prices may be seen as the CME butter price increase is reflected in the National Agricultural Statistics Service's (NASS) butter price. The NASS butter survey prices are used in the calculation of the Class IV prices and in the valuation of the butterfat component.❖

Figure 1

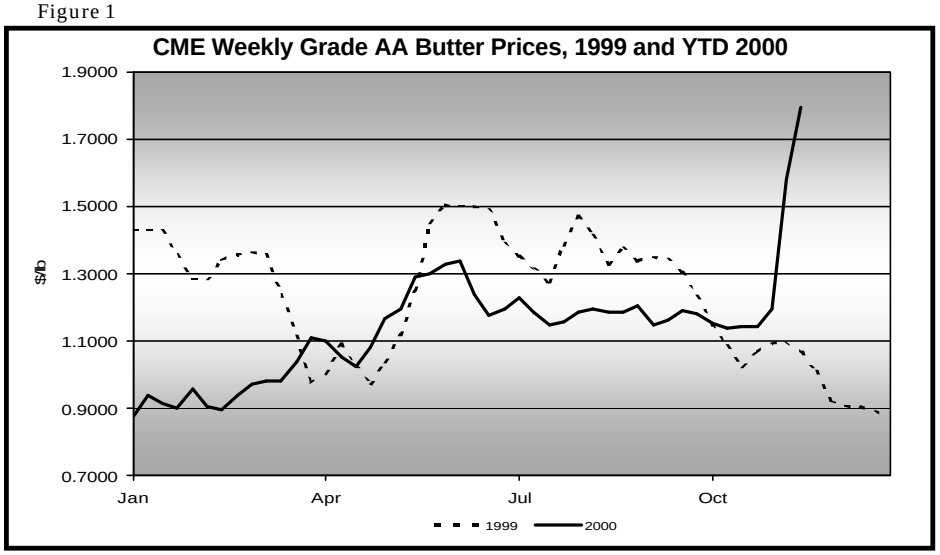
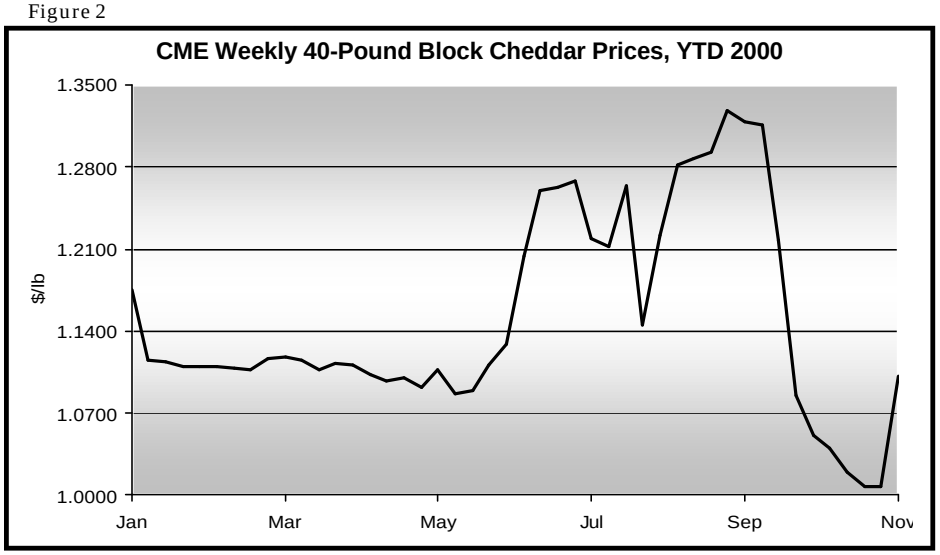


Figure 2

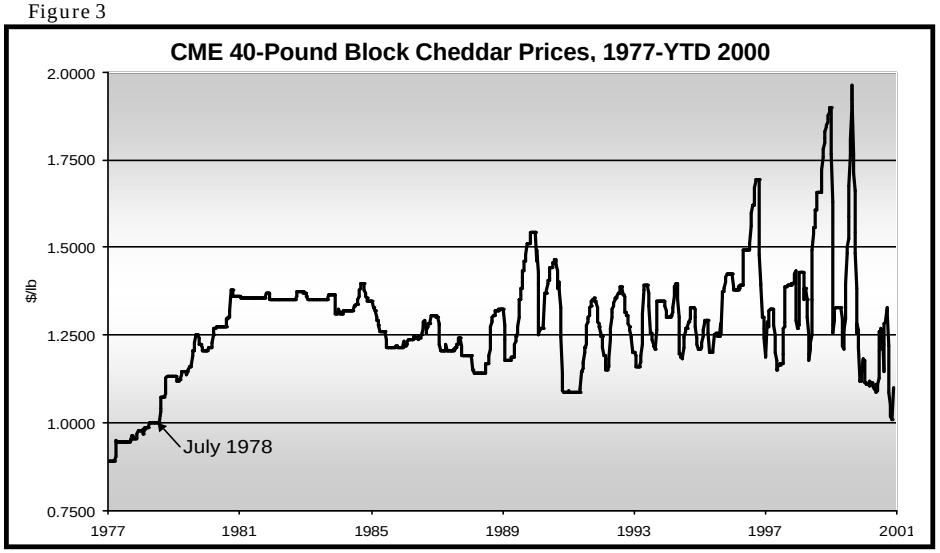


Cheese Prices Fall

Prices for 40-pound block Cheddar on the CME dropped to a low of $0.98 per pound November 3 and remained there until November 8. The price has risen to $1.12 per pound as of November 17. The average weekly price for the week ending November 10 was $1.0080 per pound (see Figure 2), the lowest average weekly price for 40-pound block Cheddar since July 1978's $1.00 (see Figure 3). January 1978 was the last time the daily 40-pound block Cheddar price was below $0.98 per pound.

From November 3 through November 8, 2000, the CME 500-pound barrel cheese price was $1.00; it was $1.06 as of November 17.❖

Figure 3



USDA
MARKET ADMINISTRATOR
One Columbia Circle
Albany, NY 12203-6379

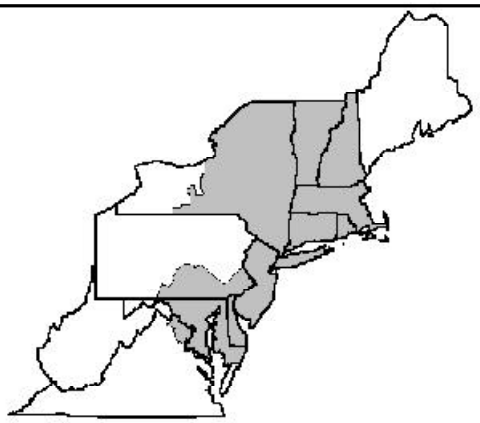
RETURN SERVICE REQUESTED

FIRST CLASS MAIL

Computation of Producer Price Differential and Statistical Uniform Price

		Product Pounds	Price per cwt/lb	Component Value	Total Value
Class I—	Skim	900,057,975	$11.01	99,096,383.10	
	Butterfat	19,234,282	1.2891	24,794,912.96	
Less:	Location Adjustment to Handlers			(2,752,694.59)	$121,138,601.47
Class II—	Butterfat	27,352,629	1.2514	34,229,079.96	
	Nonfat Solids	31,474,088	0.9400	29,585,642.72	63,814,722.68
Class III—	Butterfat	18,620,536	1.2444	23,171,395.02	
	Protein	15,811,730	1.8028	28,505,386.93	
	Other Solids	29,403,148	0.0471	1,384,888.28	53,061,670.23
Class IV—	Butterfat	5,431,369	1.2444	6,758,795.60	
	Nonfat Solids	7,152,916	0.8585	6,140,778.41	12,899,574.01
Total Classified Value					**$250,914,568.39**
Add:	Overage—All Classes				92,450.19
	Inventory Reclassification—All Classes				(49,851.95)
	Other Source Receipts	73,727			5,014.77
Less:	Producer Component Valuations				(197,319,287.26)
	Subtotal				**$53,642,894.14**
Add:	Location Adjustment to Producers				8,690,466.88
	One-half Unobligated Balance—Producer Settlement Fund				1,005,139.31
Total Pool Milk & Aggregate Value		1,894,957,185			63,338,500.33
Less:	Producer Settlement Fund—Reserve				(804,913.22)
Producer Price Differential @ *Suffolk County, MA (Boston)*			**$3.30**		62,533,587.11
Statistical Uniform Price @ *Suffolk County, MA (Boston)*			**$13.32**		

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



The Market Administrator's

BULLETIN

NORTHEAST MARKETING AREA

Erik F. Rasmussen, Market Administrator

November 2000 Federal Order No. 1

To contact the Northeast Marketing Area offices:
Boston, MA: phone (617) 542-8966, 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

November Pool Price Calculation

The November statistical uniform price for the Northeast Marketing Area was announced at $13.36 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. Prices received by individual dairy farmers will vary as the component composition of a farm's milk differs from the standard component tests. The price also will vary depending on the location of the plant to which the milk is delivered. The November producer price differential (PPD) at Suffolk County was $4.79 per hundredweight.

The statistical uniform price was 4 cents per hundredweight above the October price, and for the first time since June, the PPD also increased from the previous month. The November PPD increased $1.49 from October largely due to the drop in the Class III price, as the PPD is the difference between the statistical uniform price and the Class III price. The Class III price is primarily based on the cheese market. In November, the monthly average cheese price reported by the National Agricultural Statistics Service (NASS) survey was $1.0245 per pound, compared with $1.1602 in October. This decline was in contrast to an increase in butter prices. The Class IV price is based off of butter and nonfat dry milk prices. In November, the Grade AA butter prices reported by NASS equaled $1.4051 per pound, up from $1.1344 per pound in October. This increase also affected both Class II and Class IV prices, resulting in a slightly higher blend price.

Class III/IV Price Formulas to Change

On December 1, 2000, the United States Department of Agriculture announced a tentative final decision to amend the current Class III and Class IV pricing formulas under federal milk orders. This decision is based on testimony and data presented at a public hearing held to consider proposals submitted by the industry to change the formulas. The hearing was held May 8-12, 2000, in Alexandria, Virginia.

As with any changes to federal milk orders, implementation may only occur if the amended orders are approved by dairy farmers in a referendum. During the first week of December, each market administrator's office sent out notices of a referendum. Block-vote ballots were sent to cooperatives that elected to vote collectively, and individual ballots were sent to all other eligible producers. Completed

(continued on Page 2)

Pool Summary

- A total of 17,080 producers were pooled under the order with an average daily delivery per producer of 3,625 pounds.
- Producer milk receipts totaled 1.859 billion pounds, an increase of 1.4 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 49.2 percent of total milk receipts, an increase of 0.7 percentage points from October.
- The average butterfat test of producer receipts was 3.78 percent.
- The average true protein test of producer receipts was 3.07 percent.
- The average other solids test of producer receipts was 5.66 percent.

Class Utilization

Pooled Milk	Percent	Pounds
Class I	49.2	913,858,316
Class II	17.1	318,248,889
Class III	28.5	529,559,747
Class IV	5.2	97,160,154
Total Pooled Milk		1,858,827,106

Producer Component Prices

Protein Price	$0.9149 /lb
Butterfat Price	$1.5745 /lb
Other Solids Price	$0.0565 /lb

Class Price Factors

	$/cwt
Class I	15.07
Class II	13.68
Class III	8.57
Class IV	13.00

Fluid Milk Sales Decline

For the first 9 months of 2000, total sales of fluid milk products in the combined federal milk marketing areas were down nearly a percent from the same period in 1999. The only marketing areas to show increases were Florida with 0.9 percent and Upper Midwest with 1.5 percent.

Surprisingly, sales of fat-free milk (skim) experienced a decline of 7.3 percent. The only other losing category was reduced fat milk (2%) that dropped 1.0 percent. Whole milk grew 1.3 percent; low fat milk (1%) jumped 3.0 percent; and buttermilk increased 0.6 percent. Overall, these increases were not enough to offset the declines in the other categories.

The Central order witnessed the largest decline during the January–September period (2.4 percent). The Appalachian Order was a close second—down 2.1 percent. The Northeast Order had the smallest decline with a 0.2 percent drop; it had the largest volume of sales—7.3 billion pounds. The Mideast Order had the second-highest sales with 4.9 billion pounds. Overall, sales in federal marketing areas totaled 38.4 billion pounds for the 9-month period.

Sales totaled 4.8 billion pounds in California, an increase of 0.3 percent from the same period last year.

Formulas to Change *(continued from page 1)*

ballots were to be postmarked by December 14. Results of the referendum were not complete at the time of this publication.

The decision provides for separate butterfat prices for milk used in Class III (cheese) and Class IV (butter and dry milk products) based on the value of butterfat in cheese and butter. The manufacturing (make) allowance for cheese is proposed to be reduced from 17.02 cents per pound of cheese to 16.5 cents. For dry whey, also a factor in calculating the Class III value, the make allowance would be increased from 13.7 cents to 14 cents per pound of dry whey.

The make allowances used in calculating the Class IV value are proposed to increase from 11.4 to 11.5 cents per pound of butter and from 13.7 cents to 14 cents per pound of nonfat dry milk.

These changes are expected to have limited impact on returns to dairy farmers. Under the new formula, Class I, II, and IV prices in 2000 would have been about $0.12 higher than were reported. Recalculating the Class III price under the new formula results in prices ranging from a decrease of $0.05 to an increase of $0.18 compared to the 2000 prices reported. The accompanying table shows the reported class prices for November 2000 and the corresponding class prices using the new formulas in the tentative decision. The Class III price in November was affected the most by the change in formulas.

Interested persons have until February 5, 2001, to file comments in response to the tentative decision. A tentative final decision was issued because the congressional deadlines—December 1, 2000, for publication of a final decision and January 1, 2001, for effectuating order amendments—do not allow enough time to issue a recommended decision and receive and consider comments before issuance of a final decision.

November 2000 Class Price Comparison

	Class I	Class II	Class III	Class IV
Reported Price (Current Formula)	15.07	13.68	8.57	13.00
New Price Under Tentative Decision	15.19	13.80	8.75	13.11
Difference	0.12	0.12	0.18	0.11

Regional Information Meetings

New York

The New York State Department of Agriculture and Markets is holding informational meetings on proposed revisions to the Department's Dairy Farm and Milk Plant Sanitation Regulations.

The proposed rule will require farmers to reimburse purchasers for drug-contaminated milk and require producers to only sell raw milk in containers that provide information regarding the potential health impact of raw milk. Also included are requirements to ensure that milk haulers' tank trucks are properly cleaned and sanitized, and plant operators will not be allowed to sell any milk or milk products containing pathogenic Coliform. Meetings will be held :

January 3, 2001	*The Demonstration Kitchen*
11 a.m.	*Art and Home Center*
	State Fair Grounds
	Syracuse, NY
January 4, 2001	*NYS Department of Ag. & Markets*
11 a.m.	*1 Winners Circle*
	Albany, NY

Any questions regarding the above information should be directed to the Division of Milk Control at (518) 457-1772.

New England

The New England Dairy Conferences sponsored by the Cooperative Extension in New England will be held in five locations throughout New England. This year's main theme will be herd health. The meetings will be held at the following locations during 2001:

March 5	*The Colony Inn – Vernon, CT*
March 6	*The Elks Lodge – Waterville, ME*
March 7	*The Cabot Motor Inn – Lancaster, NH*
March 8	*The Fireside Inn & Suites – W. Lebanon, NH*
March 9	*The Abbey – Sheldon, VT*

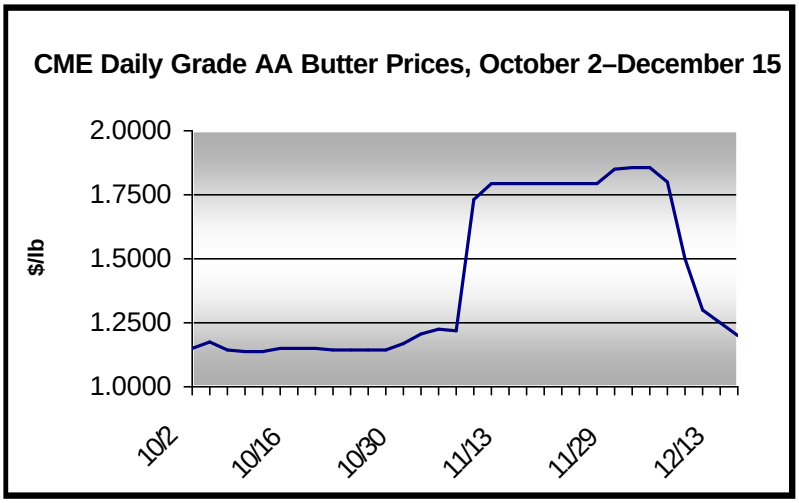
For more information, contact Extension Specialist, John Porter at (603) 225-5505 ext. 22.

MARKET SITUATION

Market Prices Unsteady

As reported in the October Monthly *Bulletin*, prices of Cheddar cheese and butter on the Chicago Mercantile Exchange (CME) have been unpredictable during the last 6 weeks.

On November 8, the price of Grade AA butter on the CME shot up over 51 cents to $1.73 per pound. Two days later it hit $1.7950 per pound. For the next few weeks, prices stayed relatively stable, reaching a high of $1.8525 per pound. On December 6, the CME Grade AA price dropped to $1.80 per pound. Just 2 days later it plummeted 30 cents and on December 11 another 20 cents, bringing it to $1.30 per pound. As of December 15, the price was $1.20 per pound. The accompanying chart shows these dramatic changes.



Normally, butter is in high demand at this time of year, and prices will increase correspondingly. The November 8 increase was the largest ever experienced since trading increased from weekly to three times per week. The decrease that followed also set a record as the largest drop over such a short period. This price situation implies that the tightness in the butter market was only temporary, even though Dairy Market News reports that butter stocks may be the lowest they have been in a few years. Based on the inability for the market to hold at such a high level, it suggests that holiday demand has been or is being met.

Block Cheddar cheese prices on the CME reached $1.12 per pound on November 17. During the next week, they dropped down to $1.07 per pound, but rebounded to $1.12 by November 30. They declined again the next week, hitting $1.09 per pound on December 7. By December 15, they stood at $1.1250 per pound.

With cheese prices remaining below the support price ($1.1220 and $1.0920 per pound for blocks and barrels, respectively), the Commodity Credit Corporation has been buying either block or barrel cheese, or both, each week since November 17. As of December 15, purchases totaled 2.8 million pounds of block and 3.4 million pounds of barrel cheese. In addition, the CCC has purchased 2.4 million pounds of process cheese since the marketing year began October 1, 2000.

The increases in butter prices in mid-November were reflected in the November Class II and IV prices and the December Class I price. Likewise, the low cheese prices were reflected in the November Class III price.

Mailbox Prices for Selected Federal Milk Orders and California, January–June 2000

Federal Milk Order		Jan	Feb	Mar	Apr	May	Jun	6 mo Avg
Number	Name	dollars per hundredweight						
1	**Northeast**	**12.08**	**11.96**	**12.13**	**11.85**	**12.24**	**12.56**	**12.14**
5	Appalachian	13.10	12.87	12.93	12.98	13.26	13.59	13.12
6	Florida	14.88	14.91	14.77	14.95	15.25	15.66	15.07
7	Southeast	12.55	12.34	12.27	12.25	12.52	12.80	12.46
30	Upper Midwest	11.42	11.04	11.04	11.12	11.10	11.35	11.18
32	Central	11.50	11.20	11.13	11.06	11.02	11.16	11.18
33	Mideast	12.14	12.03	11.93	12.03	12.24	12.25	12.10
124	Pacific Northwest	11.26	11.20	11.30	11.37	11.68	11.83	11.44
126	Southwest	12.06	11.77	11.66	11.49	11.73	11.59	11.72
135	Western	10.67	10.69	10.35	10.08	10.13	10.13	10.34
	All-Market Average	11.92	11.70	11.72	11.66	11.84	12.01	11.81
	California	10.88	10.72	10.80	11.03	11.20	11.62	11.04

USDA
MARKET ADMINISTRATOR
One Columbia Circle
Albany, NY 12203-6379

RETURN SERVICE REQUESTED

FIRST CLASS MAIL

Computation of Producer Price Differential and Statistical Uniform Price

		Product Pounds	Price per cwt/lb	Component Value	Total Value
Class I—	Skim	894,008,487	$10.99	98,251,532.78	
	Butterfat	19,849,829	1.2760	25,328,381.78	
Less:	Location Adjustment to Handlers			(2,733,655.95)	$120,846,258.61
Class II—	Butterfat	24,510,850	1.5815	38,763,909.31	
	Nonfat Solids	26,705,262	0.9378	25,044,194.71	63,808,104.02
Class III—	Butterfat	20,511,175	1.5745	32,294,845.12	
	Protein	16,236,136	0.9149	14,854,440.88	
	Other Solids	29,973,029	0.0565	1,693,476.20	48,842,762.20
Class IV—	Butterfat	5,328,566	1.5745	8,389,827.20	
	Nonfat Solids	8,372,265	0.8617	7,214,380.76	15,604,207.96
Total Classified Value					**$249,101,332.79**
Add:	Overage—All Classes				256,919.02
	Inventory Reclassification—All Classes				88,633.53
	Other Source Receipts	215,916			17,263.80
Less:	Producer Component Valuations				(168,727,617.65)
	Subtotal				**$80,736,531.49**
Add:	Location Adjustment to Producers				8,614,594.76
	One-half Unobligated Balance—Producer Settlement Fund				494,516.12
Total Pool Milk & Aggregate Value		1,859,043,022			89,845,642.37
Less:	Producer Settlement Fund—Reserve				(797,481.62)
Producer Price Differential @ *Suffolk County, MA (Boston)*			**$4.79**		89,048,160.75
Statistical Uniform Price @ *Suffolk County, MA (Boston)*			**$13.36**		

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

The Market Administrator's

BULLETIN

NORTHEAST MARKETING AREA

Erik F. Rasmussen, Market Administrator

December 2000 Federal Order No. 1

To contact the Northeast Marketing Area offices:
Boston, MA: phone (617) 542-8966, 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

December Pool Price Calculation

The December statistical uniform price for the Northeast Marketing Area was announced at $13.72 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. Prices received by individual dairy farmers will vary as the component composition of a farm's milk differs from the standard component tests. The price also will vary depending on the location of the plant to which the milk is delivered. The December producer price differential (PPD) at Suffolk County was $4.35 per hundredweight.

Uniform Price Highest of the Year

The December statistical uniform price was 36 cents per hundredweight above the November price and is the highest statistical uniform price for the year. The gain was caused by an 80-cents per hundredweight increase in the December Class III price (due to moderately stronger cheese prices) combined with the second highest PPD value for the year. Remember, the value of the PPD is affected by the "spread" between the Class III and Class IV prices. As the difference between these prices increases or decreases, so does the PPD. The strong butter prices of late November and early December also were factors pushing both the producer butterfat price and Class IV price to year-end highs.

Revised Formulas for January Pool

The revised price formulas, approved by producers in the December 2000 referendum on the Tentative Final Decision (see November *Bulletin* for more information) will become effective with the calculation of the *January* pool in mid-February. While the changes are in the formulas for Class III and IV milk, which determine the minimum prices that handlers must pay for milk utilized in Classes III or IV, the changes also impact Class I and II prices and the way that the value for producer butterfat will be determined. Producers will now be paid for butterfat on a weighted average butterfat price rather than the current Class III butterfat price. This weighted average will be based on the combined value of butterfat in all classes of milk. This value will be determined during the calculation of the statistical uniform price and will be announced along with the statistical uniform price and PPD. The monthly class price announcement will now include distinct butterfat prices for all four classes of milk, but will no longer report a producer butterfat price.❖

Pool Summary

- A total of 17,113 producers were pooled under the order with an average daily delivery per producer of 3,677 pounds.
- Producer milk receipts totaled 1.954 billion pounds, an increase of 1.8 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 47.9 percent of total milk receipts, a decrease of 1.3 percentage points from November.
- The average butterfat test of producer receipts was 3.82 percent.
- The average true protein test of producer receipts was 3.07 percent.
- The average other solids test of producer receipts was 5.67 percent.

Class Utilization

Pooled Milk	Percent	Pounds
Class I	47.9	936,890,448
Class II	14.1	275,142,776
Class III	29.4	575,461,479
Class IV	8.6	166,950,876
Total Pooled Milk		1,954,445,579

Producer Component Prices

Protein Price	$1.0378 /lb
Butterfat Price	$1.6534 /lb
Other Solids Price	$0.0829 /lb

Class Price Factors

	$/cwt
Class I	15.38
Class II	13.97
Class III	9.37
Class IV	13.27

2000 Northeast Order Statistics Summarized

During its first year of operation, the Northeast Order pooled a total of nearly 24 billion pounds of milk from producers shipping to handlers regulated under the order. This total was down 1 percent from the total combined volume pooled on the three predecessor federal orders (New England, New York–New Jersey, and Middle Atlantic) during 1999. The accompanying table compares the statistics for the new order for 2000 with combined data for the former orders for 1999. Changes in order provisions may have affected the pooled volume.

Class Utilization Changes

Total Class I utilization averaged 43.9 percent in 2000, an increase of 1.6 percentage points. Class II usage also increased. It equaled 17.4 percent for the year, up from 16.7 percent in 1999. Milk used for Class III purposes dropped 3.2 percentage points. The remaining milk was used in Class IV—new in 2000. This class represents milk used for butter and dry products, such as nonfat dry milk and whole milk powder. It is not directly comparable to the former Class III-A, which accounted for milk used only in nonfat dry milk. Some of the other classes also contain provision changes that may have had an impact on utilization.

Class Prices Decline

Even though order reform included changes to pricing formulas, prices still were based on supply and demand market factors as in previous years. The decline in prices in 2000 was due to a combination of factors. Milk production increased nationally. Commodity prices for cheese and butter declined once inventories peaked. Since federal order class prices are formulated using wholesale market prices, the decline in market values was reflected in lower class prices.

The Class I price averaged $14.80 per hundredweight at Suffolk County, Massachusetts (Boston) during 2000. For 1999, the simple average Class I price for the three former federal orders at their respective base-zone locations (Boston, New York City, and Philadelphia) was $16.82 per hundredweight. The Class II price formula also was changed in 2000. Regardless, the Class II price averaged $1.45 per hundredweight less than in 1999. The Class III price was $2.72 per hundredweight less than the previous year. The Class IV price was only 34 cents per hundredweight less than the Class III-A price in 1999. While these prices are not directly comparable to class prices as calculated prior to order reform, they are similar enough to show the magnitude of class price declines during 2000.

The effect of Class IV pricing on the overall scheme of the market took some by surprise. The new formulas called for Class I pricing to be set by the higher of the Class III or IV price. It was not expected that the Class IV price would be the price-setter for the entire year, as was the case in 2000 due to low cheese values and relatively stronger butter and milk powder prices. In addition, under federal reform, the Class II price is formulated by adding 70 cents to the Class IV price. As a result, Class IV pricing proved to be a significant and positive influence on producer prices during 2000.

Northeast Order Pool Statistics, 1999–2000

Pool statistics	1999	2000	1999-2000 Change
	million pounds		percent
Class I	10,241.3	10,513.1	2.7
Class II	4,041.7	4,170.9	3.2
Class III	7,808.6	6,955.0	-10.9
Class III-A/IV	2,134.6	2,333.4	9.3
Total Receipts	24,226.2	23,972.4	-1.0
	pounds		
DDP	3,713	3,787	2.0
	utilization percentage		change
Class I	42.3	43.9	1.6
Class II	16.7	17.4	0.7
Class III	32.2	29.0	-3.2
Class III-A/IV	8.8	9.7	0.9
	dollars/cwt		percent
Class I	16.82	14.80	-12.0
Class II	13.98	12.53	-10.4
Class III	12.46	9.74	-21.8
Class III-A/IV	12.17	11.83	-2.8
Blend (Uniform)	14.78	13.04	-11.8

Component Pricing

Multiple component pricing was enacted for all producers under the new order. Producers were paid based on the levels of certain components in their milk. For 2000, the price paid to producers—reflected in the statistical uniform price—averaged $13.04 per hundredweight (at Suffolk County, Massachusetts). The simple average uniform price for the combined former orders (at their base zones) equaled $14.23 per hundredweight for 1999. The average producer price differential (PPD) equaled $3.30 per hundredweight. This number reflects the difference between the statistical uniform price and the average Class III price.

The average butterfat test for producers pooled during 2000 was 3.71 percent. True protein averaged 2.99 percent; other solids averaged 5.67 percent.

Producer Numbers

The average number of producers pooled by handlers regulated under the order equaled 17,294 in 2000, a decline of 3.3 percent from the 1999 combined total of the former three orders. The year finished with 689 less producers than in December of 1999, although this number was affected by more pooling changes than was likely the case in the three prior orders. Average daily deliveries per producer (DDP) totaled 3,787 in 2000, an increase of 2 percent from 1999.❖

MARKET SITUATION

CCC Purchases Highest Since 1992

For the marketing year (MY) October 1, 1999 through September 30, 2000, the Commodity Credit Corporation (CCC) purchased over 3.5 billion pounds of dairy products (on a total solids milk equivalent basis) under the dairy price support program. This was a volume increase of 168 percent from MY 1998-99. See accompanying table.

Total purchases were the highest since 1992 when they equaled 4.2 billion pounds (total solids milk equivalent). At that time, the CCC was purchasing butter, cheese, and nonfat dry milk under the support program. After peaking at nearly 19 billion pounds during MY 1982-83, purchases generally declined as changes were made to the program and CCC purchase prices. From MY 1990-91 until MY 1995-96, support purchases declined each year; there were none in MY 1995-96. During MY 1996-97, only cheese and nonfat dry milk were purchased; in MYs 1997-98 and 1998-99, only nonfat dry milk was purchased.

During the last week of February 2000, the CCC purchased process cheese for the first time since July 1997. In April, the CCC made its first block cheese purchase since June 1997. Since the second week of November, the CCC has been making weekly purchases of cheese. This coincides with the drop in the cheese price on the Chicago Mercantile Exchange (CME). Once the market price fell below the support price, cheese makers began selling to the CCC.

As of January 12, 2001, the CCC had purchased 3.1 million pounds of block cheese, 3.7 million pounds of barrel cheese, and 3.7 million pounds of process cheese so far during MY 2000-01. Nonfat dry milk purchases totaled 143.7 million pounds since October 1, 2000. On a total solids milk equivalent basis, CCC purchases for MY 2000-01 equal 1.1 billion pounds as of January 12. No butter has been purchased, as the market price for butter is considerably higher than the support price. As of January 17, cheese prices on the CME were $1.0800 per pound for barrels and $1.0825 per pound for blocks. This compares to support prices of $1.0920 and $1.1220 per pound for barrels and blocks, respectively.

The support price program was to expire on December 31, 2000. It was extended through calendar year 2001 by the Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act, 2001. As of December 29, 2000, the USDA had not changed any of the CCC purchase prices for dairy products, but stated that the prices will be reconsidered as the 2001 calendar year begins. As of this printing, no changes have been made. ❖

CCC Purchases of Dairy Products Under the Support Program, Selected Years*

MY Ending	Butter	Cheese	NFDM	Milk Equivalent Total
		(million pounds)		
1983	409.1	832.4	1041.2	18,977.9
1987	145.1	261.1	556.8	7,728.3
1991	442.8	76.9	269.5	6,539.7
1992	403.5	56.3	9.4	4,156.2
1993	327.6	4.9	18.0	3,055.2
1994	168.6	0.0	50.8	1841.1
1995	26.4	0.0	24.6	406.2
1996	0.0	0.0	0.0	0.0
1997	0.0	1.9	31.9	244.1
1998	0.0	0.0	121.3	857.6
1999	0.0	0.0	186.1	1,315.9
2000	0.0	6.9	490.0	3,532.1
2001#	0.0	10.4	143.7	1,116.3

Sources: Commodity Credit Corporation; Dairy Market News
* Does not include purchases under Dairy Export Incentive Program.
# Marketing year to date.

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Market Services Fee to Increase

The deduction for market services, which is required according to Sections 1000.86 and 1001.86 of the milk marketing order, will be increased beginning with milk shipped January 2001. The increase from 3.0 cents per hundredweight to 5.0 cents per hundredweight will raise the deduction back to the level previously paid by producers pooled under the former New England and Middle Atlantic marketing orders. The provisions are for producers who do not receive services from a cooperative association (nonmember producers) and those members of cooperatives whose cooperative has not been exempted from the deduction. The market services program provides for the establishment or verification of weights, samples, and tests of producer milk and for the distribution of market information. ❖

USDA
MARKET ADMINISTRATOR
One Columbia Circle
Albany, NY 12203-6379

RETURN SERVICE REQUESTED

FIRST CLASS MAIL

Computation of Producer Price Differential and Statistical Uniform Price

		Product Pounds	Price per cwt/lb	Component Value	Total Value
Class I—	Skim	916,241,095	$11.00	100,786,520.45	
	Butterfat	20,649,353	1.3608	28,099,639.62	
Less:	Location Adjustment to Handlers			(2,822,809.79)	$126,063,350.28
Class II—	Butterfat	22,110,336	1.6604	36,712,001.95	
	Nonfat Solids	23,030,560	0.9389	21,623,392.83	58,335,394.78
Class III—	Butterfat	23,016,860	1.6534	38,056,076.37	
	Protein	17,611,881	1.0378	18,277,610.15	
	Other Solids	32,594,439	0.0829	2,702,079.03	59,035,765.55
Class IV—	Butterfat	8,823,170	1.6534	14,588,229.30	
	Nonfat Solids	14,428,563	0.8616	12,431,649.92	27,019,879.22
Total Classified Value					**$270,454,389.83**
Add:	Overage—All Classes				264,736.55
	Inventory Reclassification—All Classes				(166,385.17)
	Other Source Receipts	275,260			20,208.91
Less:	Producer Component Valuations				(194,856,078.74)
	Subtotal				**$75,716,871.38**
Add:	Location Adjustment to Producers				9,510,395.80
	One-half Unobligated Balance—Producer Settlement Fund				623,337.05
Total Pool Milk & Aggregate Value		1,954,720,839			85,850,604.23
Less:	Producer Settlement Fund—Reserve				(820,247.73)
Producer Price Differential @ *Suffolk County, MA (Boston)*			**$4.35**		85,030,356.50
Statistical Uniform Price @ *Suffolk County, MA (Boston)*			**$13.72**		

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