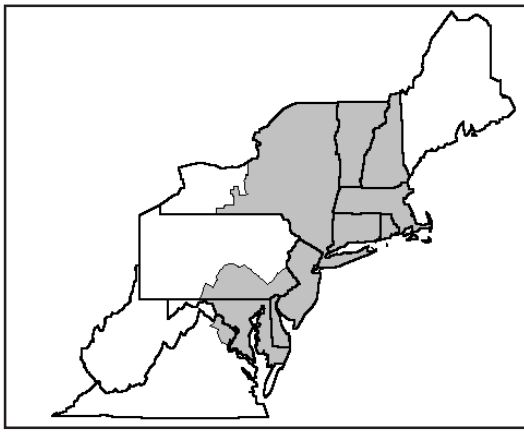


The Market Administrator's

BULLETIN

NORTHEAST MARKETING AREA

Erik F. Rasmussen, Market Administrator

January 2004 Federal Order No. 1

To contact the Northeast Marketing Area offices:
Boston, MA: phone (617) 737-7199, e-mail address: MABoston@fedmilk1.com; *Albany, NY*: phone (518) 452-4410, e-mail address: MAAlbany@fedmilk1.com; *Alexandria, VA*: phone (703) 549-7000, e-mail address: MAAlexandria@fedmilk1.com; *website address*: www.fmmone.com

January Pool Price Calculation

The January 2004 statistical uniform price (SUP) for the Northeast Marketing Area was announced at $13.58 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. The January producer price differential (PPD) at Suffolk County was $1.97 per hundredweight.

January's statistical uniform price was 81 cents per hundredweight below the December 2003 price. The Class I price was nearly $2.00 per hundredweight below last month due to the decline in the cheese price in December. Class II and IV prices increased as a result of higher butter prices. The January PPD was 55 cents lower than the previous month's as the spread between the class prices tightened.

Even though the PPD for January 2004 was 44 cents below January 2003's PPD, the SUP was $1.39 per hundredweight higher than last year's. Based on current market conditions and tighter milk supplies, prices are projected to continue increasing throughout the year (see article on page 2). It is likely that January may be the lowest SUP for 2004.

The producer butterfat price was the highest since October 2001 and resulted in the highest producer butterfat value since March 2002. The producer protein test was a record high for the month of January.❖

Proposal Deadline Extended

The USDA has extended the time period for interested parties to submit additional proposals for consideration of a hearing that would amend the fluid milk product definition in all federal milk marketing orders. The deadline for submitting proposals is now **September 30, 2004**. This is extended from the January 30 deadline.

Additional information may be obtained by visiting www.ams.usda.gov/dairy and selecting "Request for Class I Proposals – Northeast et. al." or by calling the Albany Office.❖

Commodity Markets Update

Cheese Prices

Prices for 40 lb. block Cheddar on the Chicago Mercantile Exchange (CME) averaged $1.3200 per pound for 2003, nearly 14 cents per pound higher than in 2002 (see chart 1). Prices for barrel cheese averaged $1.2740 per pound, almost 13 cents per pound higher than the 2002 average.

(continued on page 2)

Pool Summary

- A total of 15,760 producers were pooled under the Order with an average daily delivery per producer of 4,078 pounds.
- Pooled milk receipts totaled 1.993 billion pounds, a decrease of 1.1 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 47.4 percent of total milk receipts, an increase of 0.8 percentage points from December.
- The average butterfat test of producer receipts was 3.76 percent.
- The average true protein test of producer receipts was 3.08 percent.
- The average other solids test of producer receipts was 5.68 percent.❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	47.4	944,384,207
Class II	17.7	353,393,903
Class III	26.5	527,982,915
Class IV	8.4	166,897,248
Total Pooled Milk		1,992,658,273

Producer Component Prices

	2004	2003
	$/lb	
Protein Price	2.0875	1.8164
Butterfat Price	1.4978	1.1856
Other Solids Price	0.0217	0.0339

Class Price Factors

	2004	2003
	$/cwt	
Class I	15.10	13.81
Class II	11.67	11.29
Class III	11.61	9.78
Class IV	10.97	11.07

Commodity Markets *(continued from page 1)*

Since the beginning of 2004, block prices have been hovering in the low $1.30s per pound—about 18 cents higher than during the same period last year. As of the week ending February 13, the block price averaged $1.3545 per pound; the barrel price averaged $1.3170 per pound. Near the end of November 2003, the spread between block and barrel prices grew to 21 cents; they are now back to the "normal" 4-cent spread.

Butter Prices

Tight cream supplies led to fresh butter shortages and with strong sales, prices held through the holidays. Beginning with the first week of January, butter prices have remained firm or increased amounting to an ascent of over 39 cents as of the week ending February 13 (see chart 2). As mentioned in *Dairy Market News*, this was surprising to those in the industry as butter demand was considered only fair and cream supplies were sufficient, except for the week prior to the Super Bowl where cream was needed to make cream cheese, sour cream, and dips. However, as mentioned in USDA's "Dairy Products" report, total butter output trailed year-ago levels for the 10th straight month.

As of February 9, the butter price reached the highest level ever for that date. The previous high for that date was in 1982 and 1983 when butter was $1.48 per pound. In the 2 years that butter topped $2.00 per pound, 1998 and 2001, the price at the same point in time was $1.40 and $1.32, respectively. As of February 13, butter averaged $1.6608 per pound.

Effect on Milk Prices

Even though the CME prices are not incorporated into the formulas used to calculate federal order milk prices, the direction and impact is usually similar in the commodity prices reported by the National Agricultural Statistics Service (NASS) that are used in the formulas.

CME Class III and IV futures prices have increased considerably since last fall especially with the most recent release of U.S. milk production figures, which showed an estimated decline of about 1 percent nationally for January. Based on current market prices, Northeast producer prices are projected to increase in the upcoming months. The February statistical uniform price will be relatively unchanged from January's, but should increase about 30 cents a month for the next 3 months making January the lowest price of 2004.

Chart 1

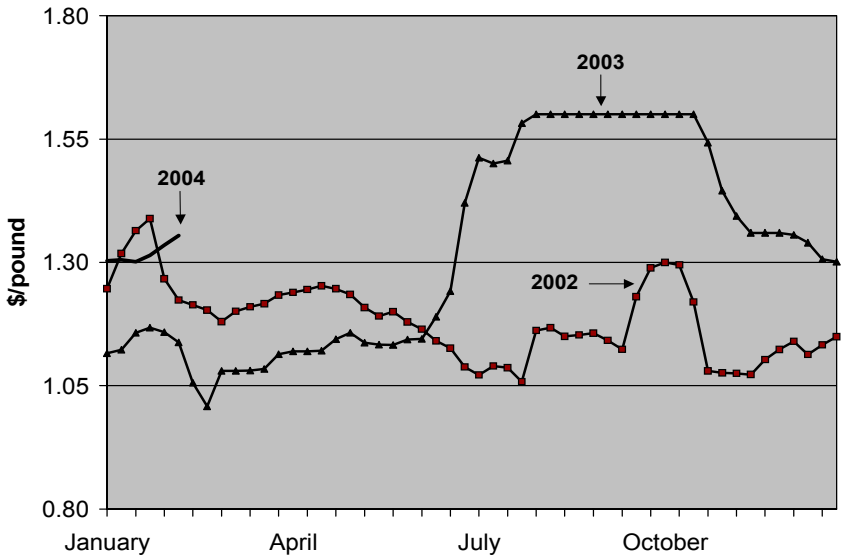
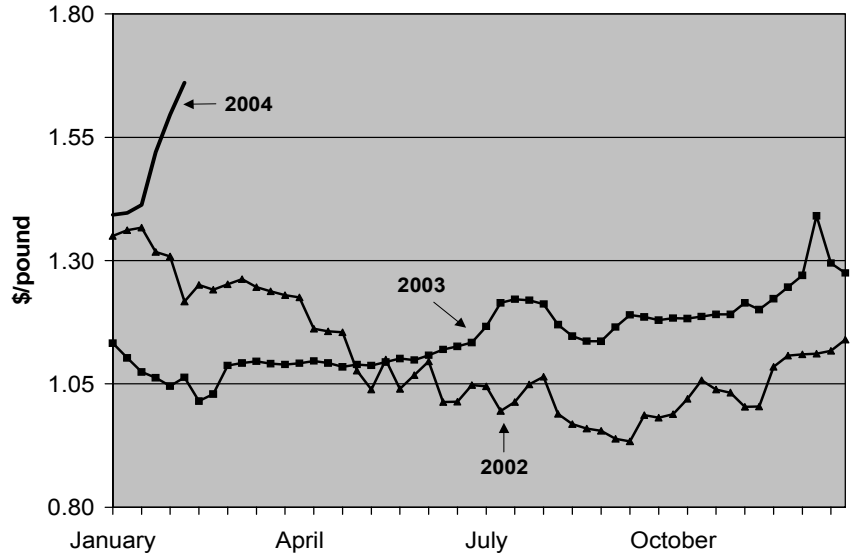


Chart 2



MILC Payments

Again, based on CME futures prices, the Class I price for March, April, and May will be $15.07, $15.20, and $16.76 per hundredweight, respectively. These prices will result in MILC payments for March, April, and May or $0.84, $0.33, and $0.08 per hundredweight, respectively. It is likely there will be no MILC payment for June if these market conditions continue, but the trade-off will be higher prices overall.❖

Average Component Tests Compared

The accompanying table compares average producer butterfat, protein, and other solids levels for Northeast states for 2003. The Other New England states group includes Connecticut, Massachusetts, New Hampshire, and Rhode Island. The Other Mid-Atlantic states group includes Delaware, New Jersey, Virginia, and West Virginia. The figures are derived from Northeast Order payroll data as submitted by Northeast Order handlers.

Maryland averaged the highest level of butterfat at 3.77 percent. New York averaged the lowest at 3.67 percent. The average for all selected states was 3.71 percent.

Average Component Tests for Selected States/Areas, 2003

State/Area	Butterfat		Protein		Other Solids	
	Avg.	Rank	Avg.	Rank	Avg.	Rank
	percent		percent		percent	
Maryland	3.77	**1**	2.99	5	5.60	7
Maine	3.70	5	3.02	3	5.63	5
New York	3.67	6	2.98	6	5.66	3
Pennsylvania	3.72	4	2.97	7	5.64	4
Vermont	3.74	2	3.03	2	5.69	**1**
Other New England*	3.74	2	3.05	**1**	5.69	**1**
Other Mid-Atlantic**	3.68	7	3.01	4	5.63	5

* Other New England includes CT, MA, NH, and RI.

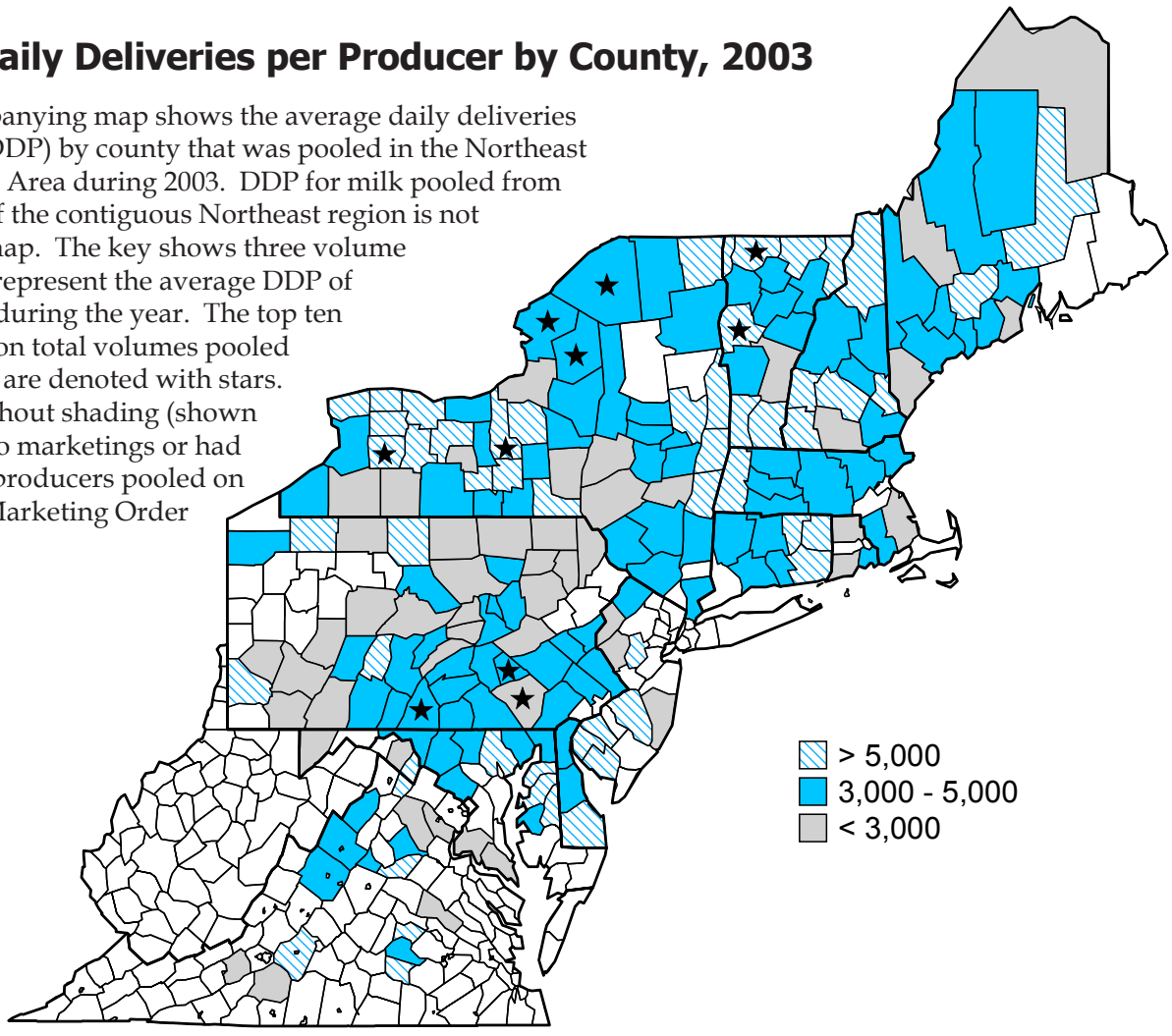
** Other Mid-Atlantic includes DE, NJ, VA, and WV.

Average protein tests were highest in Other New England states at 3.05 percent and lowest in Pennsylvania at 2.97 percent. The simple average for all selected states was 3.02 percent.

Average other solids tests were highest in Vermont and the Other New England states at 5.69 percent and lowest in Maryland at 5.60 percent. The average for all selected states was 5.65 percent.❖

Average Daily Deliveries per Producer by County, 2003

The accompanying map shows the average daily deliveries per producer (DDP) by county that was pooled in the Northeast Milk Marketing Area during 2003. DDP for milk pooled from states outside of the contiguous Northeast region is not shown on the map. The key shows three volume categories that represent the average DDP of milk marketed during the year. The top ten counties based on total volumes pooled during the year are denoted with stars. Any county without shading (shown as white) had no marketings or had less than three producers pooled on the Northeast Marketing Order in 2003.❖



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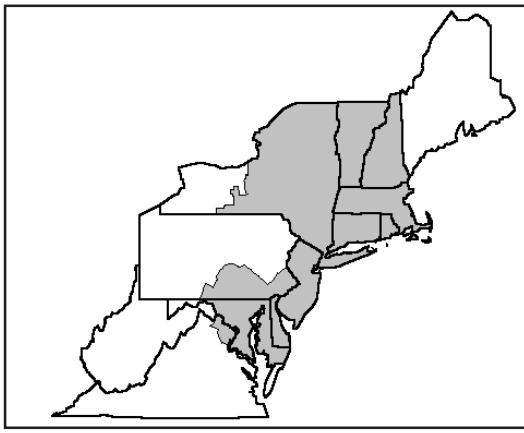
Computation of Producer Price Differential and Statistical Uniform Price*

	Product Pounds	Price per cwt./lb.	Component Value	Total Value
Class I— Skim	924,889,945	$10.71	99,055,713.11	
Butterfat	19,494,262	1.3608	26,527,791.73	
Less: Location Adjustment to Handlers			(2,934,132.70)	$122,649,372.18
Class II— Butterfat	26,022,483	1.5048	39,158,632.46	
Nonfat Solids	29,779,118	0.7378	21,971,033.25	61,129,665.71
Class III– Butterfat	20,220,938	1.4978	30,286,920.96	
Protein	16,257,528	2.0875	33,937,589.72	
Other Solids	29,917,197	0.0217	649,203.18	64,873,713.86
Class IV– Butterfat	9,155,254	1.4978	13,712,739.41	
Nonfat Solids	14,367,447	0.6595	9,475,331.31	23,188,070.72
Total Classified Value				**$271,840,822.47**
Add: Overage—All Classes				78,229.98
Inventory Reclassification—All Classes				190,194.27
Other Source Receipts	62,368			2,469.77
Less: Producer Component Valuations				(242,835,146.94)
Subtotal				**$29,276,569.55**
Add: Location Adjustment to Producers				9,614,462.91
One-half Unobligated Balance—Producer Settlement Fund				1,260,168.40
Total Pool Milk & Aggregate Value	1,992,720,641			40,151,200.86
Less: Producer Settlement Fund—Reserve				(894,604.23)
Producer Price Differential @ *Suffolk County, MA (Boston)*		**$1.97**		39,256,596.63
Statistical Uniform Price @ *Suffolk County, MA (Boston)*		**$13.58**		

* 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

February 2004 Federal Order No. 1

To contact the Northeast Marketing Area offices:
Boston, MA: phone (617) 737-7199, e-mail address: MABoston@fedmilk1.com; *Albany, NY*: phone (518) 452-4410,
e-mail address: MAAlbany@fedmilk1.com; *Alexandria, VA*: phone (703) 549-7000, e-mail address: MAAlexandria@fedmilk1.com;
website address: www.fmmone.com

February Pool Price Calculation

The February 2004 statistical uniform price (SUP) for the Northeast Marketing Area was announced at $13.95 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. The February producer price differential (PPD) at Suffolk County was $2.06 per hundredweight.

February's statistical uniform price was 37 cents per hundredweight above the January price; the February PPD was 9 cents above the previous month's. The Class I price was 26 cents per hundredweight below last month due to the decline in the cheese price in mid January and advanced pricing. All other class prices increased as commodity prices for butter and cheese increased during February.

The producer butterfat price was the highest since September 2001 and resulted in the highest producer butterfat value since that same month. The producer protein test was a record high for the month of February.❖

Dairy Farmers Vote on Amended Milk Order

The U.S. Department of Agriculture announced a tentative final decision that would adopt proposals to amend the classification provisions in all 10 federal milk marketing orders. The decision, upon which the current referendum is being conducted, would change the product classification of milk used to produce evaporated milk or sweetened condensed milk in consumer-type packages from Class III to Class IV. The decision is based on testimony presented at a public hearing held October 21, 2003, in Alexandria, Virginia.

In the Northeast Order, the referendum concludes on March 18 with the outcome to be announced at the direction of the Secretary of Agriculture.❖

Changes in the Northeast Order

The table on page 2 compares selected statistics for the Northeast Order for the month of January for 2000 and 2004. Total milk pooled for January was down 7.2 percent in 2004 compared to 2000. Changes in volume occur as a result of farm exits, handler pooling changes, and other

(continued on page 2)

Pool Summary

- A total of 15,634 producers were pooled under the Order with an average daily delivery per producer of 4,194 pounds.
- Pooled milk receipts totaled 1.901 billion pounds, an increase of 2.0 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 43.6 percent of total milk receipts, a decrease of 3.8 percentage points from January.
- The average butterfat test of producer receipts was 3.74 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	43.6	828,222,597
Class II	18.5	352,575,518
Class III	28.8	548,195,445
Class IV	9.1	172,360,626
Total Pooled Milk		1,901,354,186

Producer Component Prices

	2004	2003
	$/lb	
Protein Price	1.7911	1.8538
Butterfat Price	1.8518	1.1373
Other Solids Price	0.0090	0.0240

Class Price Factors

	2004	2003
	$/cwt	
Class I	14.84	13.48
Class II	12.90	10.66
Class III	11.89	9.66
Class IV	12.21	9.81

U.S. Milk Production Up Slightly

Total milk production in the United States grew only 0.1 percent during 2003. This follows an increase of 2.8 percent in 2002. The total number of milk cows declined 0.6 percent in 2003, and milk production per cow (MPC) increased 0.8 percent.

Factors That Stunted Production

The year began strong with a 1.4 percent increase during the first quarter of 2003 compared to the same period in 2002. The previous year's strong production drove prices down during the latter half of 2002 and into the first half of 2003, discouraging milk production. In addition, hot and humid weather during the summer affected production resulting in declines of 0.3 and 0.2 percent, respectively, for the second and third quarters of 2003.

During the last quarter, milk production declined an addition 0.3 percent. Analysts have noted that the use of rBST was down, compared to previous years, due to the cost of the drug when compared to the lower milk prices received. Cow numbers declined throughout the year as farm exits increased, and expansion was stunted as a result of the low prices. In addition, the Cooperatives Working Together (CWT) program was implemented, a component of which included reduced marketings and herd retirements.

Top Producing States

The top twenty milk-producing states remained the same as in 2002, although some change in rank occurred. The National Agricultural Statistics Service (NASS) does not include Colorado, Oregon, or Kansas in their monthly top twenty list. NASS includes Missouri, Virginia, and Kentucky, and they have dropped to numbers 21, 22, and 24, respectively, in national rankings. Combined, the top twenty states production increased 1.0 percent and accounted for 87.6 percent of the U.S. total, up from 86.9 percent in 2002.

The top ten ranked states (see table) also were unchanged, except for Idaho that moved up to the number five spot (Minnesota dropped to number six) and Texas that moved from number ten to nine (replacing Washington). The top ten states combined production grew 1.0 percent and accounted for 71.2 percent of national production, compared to 70.6 percent in 2002.

Only fifteen states experienced increases in milk production during 2003, six of them being top-ten ranked states. Indiana (ranked 14 overall in total production) had the largest percentage increase in 2003, followed by Idaho with 7.6 percent and Texas with 6.2 percent. The biggest losers were Louisiana, Arkansas, Mississippi, South Carolina, and Wyoming that all had double-digit declines.

Northeast Production Declines

In the Northeast, the states that normally contribute to the Northeast Order milkshed had a combined decline of 3.7 percent. These states accounted for 17.7 percent of total U.S. production, down from 18.4 percent in 2002. The New England states (Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont) had a combined decline of 4.1 percent in 2003. The top three milk producing states in the Northeast (New York, Pennsylvania, and Vermont) had a combined drop of 3.0 percent from 2002.

Cow numbers declined 2.2 percent in the northeastern states during 2003. Average MPC in these states dropped 0.8 percent from 2002.❖

Top Ten States Ranked by Milk Production, 2003

Rank	State	2002	2003	Percent Change
		million pounds		
1	California	35,065	35,437	1.1
2	Wisconsin	22,074	22,266	0.9
3	New York	12,218	11,952	(2.2)
4	Pennsylvania	10,775	10,338	(4.1)
5	Idaho	8,155	8,774	7.6
6	Minnesota	8,458	8,258	(2.4)
7	New Mexico	6,316	6,666	5.5
8	Michigan	6,120	6,360	3.9
9	Texas	5,300	5,630	6.2
10	Washington	5,620	5,581	(0.7)
	Top Ten Total	120,101	121,262	1.0
	U.S. Total	170,063	170,312	0.1

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

Northeast Changes *(continued from page 1)*

production related factors such as feed quality and weather. Daily deliveries per producer (DDP) increased 6.1 percent and, along with the decline in total producers pooled, signify a trend toward larger-size farms.

The decline in the numbers of cooperatives and pool distributing and supply plants is attributed to consolidation in the Northeast. Producer component tests have shown opposing changes for the years compared. These tests also are affected by such factors as feed quality and weather.❖

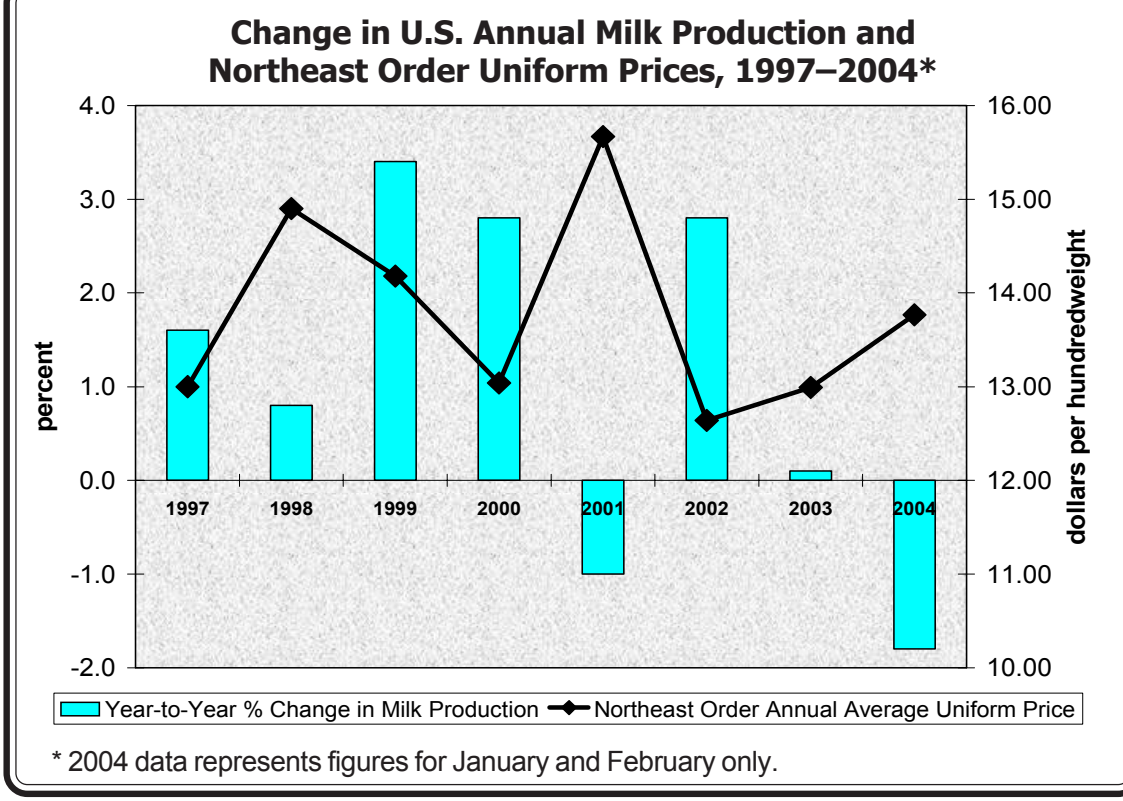
Changes in the Northeast Order, January 2000 vs. 2004

Selected Statistic	2000	2004	Change
	pounds		percent
Total Milk Receipts	2,148,026,281	1,992,658,273	(7.2)
DDP	3,843	4,078	6.1
	number		
Producers	18,009	15,760	(2,249)
Cooperatives	81	76	(5)
Producer-Handlers	16	15	(1)
Pool Distributing Plants	64	63	(1)
Pool Supply Plants	17	11	(6)
			percentage points
Producer Tests:	percent		
Butterfat	3.78	3.76	(0.02)
Protein	2.99	3.08	0.09
Other Solids	5.59	5.68	0.09

Uniform Prices and U.S. Milk Production

The accompanying graph presents the year-to-year percentage change in U.S. milk production, as reported by USDA, and the annual average statistical uniform price for the Northeast Order at the base, or Boston differential. Prior to 2000, the annual uniform price figures represented the average of the uniform prices for the three predecessor federal orders that were merged to form the Northeast Order. The 2004 figures represent data through February.

The relationship between the two sets of data generally shows a cause and effect relationship between U.S. milk production, as represented by the percent change in year-over-year milk production, and the average uniform price. As would be expected, in a year when the growth in U.S. milk production is minimal or negative producer milk prices generally increase. An inverse relationship is also apparent in that when the growth rate of U.S. milk production is strong, producer prices are generally lower. The long-term (30-year, 1973-2003) annual average year-over-year change in U.S. milk production equals 1.2 percent. When milk production deviates significantly from the long-run average, in either direction, is when substantial price movements typically occur. While other factors such as imports or consumer demand also affect prices, milk supply is the most significant factor behind milk prices and is currently the driver behind forecasts of significantly higher producer prices for the remainder of the year.❖



Market Services Tank Calibration Program

The Market Administrator's bulk tank verification program resumes operation with the onset of warmer weather. The program verifies the proper calibration of new and existing farm bulk tanks for all non-member producers on a once every 5-to-10-year basis. The following schedule indicates the planned areas where the calibration trucks will be working during the next several months.

The office coordinates farm calibration visits with handlers, concentrating first on tanks that are suspected of being out of calibration or were checked many years ago. If you have a concern about the calibration of your bulk tank, please contact your handler who will work with the Market Administrator to schedule a calibration check.

The Market Service Department checked 200 farm bulk tanks throughout the Northeast Marketing Area during 2003. In addition, 175 bulk tanks were calibrated/recalibrated.❖

Tentative Calibration Truck Schedule, 2004

Month	Area
April	Southern Pennsylvania
	Eastern New York/Northern New Jersey
May	Northern Pennsylvania
	Western New York
June	Central Pennsylvania
	Maine
July	Central/Northern New York
	Vermont/New Hampshire
August	Northern Pennsylvania
	Eastern/Central New York
September	Southern Pennsylvania
	Central New York
October	Southern/Central Pennsylvania
	Eastern New York
November	Eastern New York
	Vermont/New Hampshire

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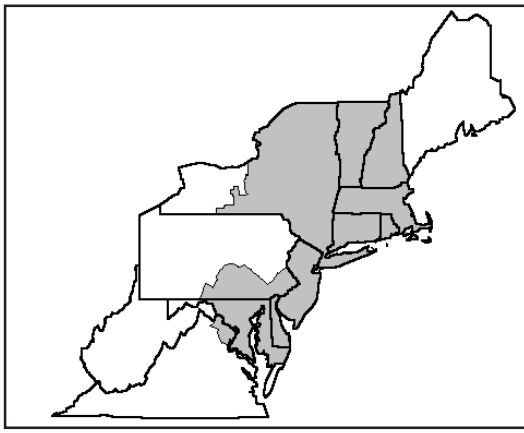
Computation of Producer Price Differential and Statistical Uniform Price*

	Product Pounds	Price per cwt./lb.	Component Value	Total Value
Class I— Skim	811,366,436	$9.80	79,513,910.73	
Butterfat	16,856,161	1.5369	25,906,233.84	
Less: Location Adjustment to Handlers			(2,641,959.27)	$102,778,185.35
Class II— Butterfat	24,993,292	1.8588	46,457,531.19	
Nonfat Solids	29,673,111	0.7367	21,860,180.86	68,317,712.05
Class III– Butterfat	20,967,097	1.8518	38,826,870.20	
Protein	16,796,372	1.7911	30,083,981.92	
Other Solids	30,965,027	0.0090	278,685.29	69,189,537.41
Class IV– Butterfat	8,267,215	1.8518	15,309,228.76	
Nonfat Solids	14,881,963	0.6597	9,817,630.96	25,126,859.72
Total Classified Value				**$265,412,294.53**
Add: Overage—All Classes				103,475.80
Inventory Reclassification—All Classes				498,441.35
Other Source Receipts	47,286			1,910.36
Less: Producer Component Valuations				(237,235,620.54)
Subtotal				**$28,780,501.50**
Add: Location Adjustment to Producers				9,398,797.92
One-half Unobligated Balance—Producer Settlement Fund				1,917,154.63
Total Pool Milk & Aggregate Value	1,901,401,472			40,096,454.05
Less: Producer Settlement Fund—Reserve				(927,583.69)
Producer Price Differential @ *Suffolk County, MA (Boston)*		**$2.06**		39,168,870.36
Statistical Uniform Price @ *Suffolk County, MA (Boston)*		**$13.95**		

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



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Erik F. Rasmussen, Market Administrator

March 2004 Federal Order No. 1

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website address: www.fmmone.com

March Pool Price Calculation

The March 2004 statistical uniform price (SUP) for the Northeast Marketing Area was announced at $15.56 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. The March producer price differential (PPD) at Suffolk County was $1.07 per hundredweight.

March's statistical uniform price was $1.61 per hundredweight above the February price; the March PPD was 99 cents below the previous month's. All class prices increased as commodity prices for butter and cheese rose during February and March, tightening the spread and lowering the PPD. Producers shipping to plants located in zones having a Class I differential of $2.10 or less would see a negative PPD (see related article).

The March producer butterfat price was the second highest since order reform and generated a record-high producer butterfat value. The producer protein test was a record high for the month of March.❖

Negative PPD Expected in April Price

The April calculation of the statistical uniform price (SUP) will inevitably include a negative value for the producer price differential (PPD) at all zones. A negative PPD occurs when commodity prices rise rapidly during the approximately 6-week period between the time the Class I price is announced and the time the Class III price is announced. The lag in prices (see article on page 2) can result in the Class III price (which is based on more current market prices) ending up higher than the Class I price (based on comparatively older market prices), thus yielding a negative PPD. Conversely, when prices fall, the lag usually results in the Class I price falling later than the Class III price, yielding a larger-than-normal PPD.

Based on how milk is used during the month, the classification of the milk generates a finite amount of money in the Order's pool. Producers are paid for their protein, butterfat, and other solids components from the pool at the same dollar per pound value as Class III milk. The PPD is an adjustment made to the producer pay prices for the additional value generated by milk used in the other classes (I, II, and IV). During a normal relationship where the Class I price is higher than the Class III price, the 'extra' money generated by Class I (and sometimes, the other classes) is returned to producers in the form of a positive PPD.

(continued on page 2)

Pool Summary

- A total of 15,547 producers were pooled under the Order with an average daily delivery per producer of 4,330 pounds.
- Pooled milk receipts totaled 2.086 billion pounds, an increase of 2.6 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 44.6 percent of total milk receipts, an increase of 1.0 percentage points from February.
- The average butterfat test of producer receipts was 3.70 percent.
- The average true protein test of producer receipts was 3.05 percent.
- The average other solids test of producer receipts was 5.68 percent.❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	44.6	930,661,315
Class II	20.1	418,798,482
Class III	28.0	584,531,204
Class IV	7.3	152,332,685
Total Pooled Milk		2,086,323,686

Producer Component Prices

	2004	2003
	$/lb	
Protein Price	2.0133	1.6648
Butterfat Price	2.3813	1.1459
Other Solids Price	0.0234	0.0206

Class Price Factors

	2004	2003
	$/cwt	
Class I	15.19	13.06
Class II	14.79	10.54
Class III	14.49	9.11
Class IV	14.10	9.79

Class I Prices to Hit Record Highs

In upcoming months, the Class I price is expected to equal about $23.00 per hundredweight, setting the highest federal order Class I price ever. Due to the dramatic increases in the commodity prices for cheese and butter in the past 2 months, Class II, III, and IV prices also have increased with the Class III price so far experiencing the greatest jump.

Advanced Pricing

The method used to calculate the Class I price uses National Agricultural Statistics Service (NASS) surveyed cheese, butter, nonfat dry milk, and dry whey prices for a 2-week period from the month the price is announced to generate the Class I price for the upcoming month (see example). Class I prices have always been announced on an advanced basis because of the perishable nature of Class I fluid milk products.

The other class prices are announced for a particular month after the month is finished and use NASS commodity prices reported essentially for the entire month the prices represent. In this manner, these prices are more current, and they more accurately reflect the particular month's activity. As shown in the example, the product prices for April are expected to finish much higher than those in March. This results in much higher manufacturing class prices and, particularly, a Class III price that is nearly $2.75 per hundredweight higher than the same month's Class I price.

Projected Prices

Based on Chicago Mercantile Exchange (CME) futures prices for Class III and IV milk reported on April 19, Class I prices are projected to be possibly over $23 per hundredweight (at Boston) for May and at least $22 for June and July. This would result in record-setting Class I prices; the previous highest Class I price was $20.58 (at Boston) in February 1999.

In addition, using these futures prices and estimated class usage, the blend price at Boston is estimated to top $20 per hundredweight in May. Even though the CME futures prices tend to be higher than the NASS prices, blend prices are estimated to be substantially higher than last year through September.

Connection Between Butterfat and Protein

In the months ahead, producer component prices are expected to remain strong assuming that commodity prices hold at current levels or continue to increase. What may surprise some is that producers' butterfat and protein component prices may not continue to increase as butter and cheese prices rise. The reason is that while the butterfat component price is tied directly to the butter price, the protein price formula does not depend solely on the cheese price.

The federal order calculation that derives the producer protein price includes an adjustment for the butterfat in cheese. Since the formula subtracts the butterfat value, increases in the butterfat price can cause a reduction in the overall protein price. This is due to the fact that all of the butterfat used in Class III is priced on the basis of its value in butter. As such, an adjustment is made to account for the difference in butterfat values between cheese and butter. As butter prices rise, butterfat prices rise, causing a decrease in protein prices if the butter price rises faster than the cheese price.❖

Dairy Product Prices Used in April 2004 Class Price Calculation

Week Ending	Cheese: Block	Cheese: Barrel	Cheese: Average	Butter	NFDM	Dry Whey
	dollars/pound					
Mar 6	1.4082	1.4274		1.8888	0.8084	0.1681
Mar 13	1.4490	1.4788		2.0537	0.8096	0.1730
Weighted Average Prices:			**1.4582**	**1.9921**	**0.8090**	**0.1706**
April Class I Price = $16.89 (based on first 2 weeks of March survey prices)						
Apr 3	1.8711	1.9609		2.1924	0.8139	0.2388
Apr 10	1.9745	2.0468		2.1134	0.8135	0.2549
Apr 17	*2.0800*	*2.1300*		*2.0300*	*0.8130*	*0.2500*
Apr 24	*2.1000*	*2.1500*		*1.9500*	*0.8130*	*0.2500*
Weighted Average Prices:			***2.0617***	***2.0717***	***0.8134***	***0.2487***

Estimated April Prices: *(based on survey prices for all weeks of April)*
Class II = $14.67
Class III = $19.63
Class IV = $14.01

Source: Actual prices were reported by NASS; estimated prices are shown in italics.

Negative PPD *(continued from page 1)*

Conversely, in a month when the Class III price is higher than Class I, the producer payout value is higher than the entire pool value. As such, producers will see their total milk value reduced by this 'loss', which is the negative PPD. Refer to the pool computation on page 4 of next month's *Bulletin* to see how much the producer component valuation exceeds the total classified value and its effect on the PPD. It is estimated that the blend price for April will equal about $17.50 per hundredweight (at Boston). That is even with a PPD projected to equal about a negative $2.10 at Boston and a negative $3.25 at the futher away differential zones and a $16.25 blend price. With the Class III price likely exceeding the SUP in April, it is anticipated that there will be some "depooling" of manufacturing milk on the Order that will have the effect of reducing the SUP.❖

Recovering Demand

The increasing demand for milk since late 2003 explains part of the current strengthening of milk prices. According to the USDA's, *Dairy Market News,* commercial use on a milkfat basis has increased 2.5 percent from November–January 2002–03 to November–January 2003–04. Beginning and ending commercial stocks were lower by 1.8 percent and 11.7 percent, respectively, for the same comparison period.

Dairy product demand had been weak since late 2001 and continued to be weak into 2003. Late in 2003, restaurant spending increased, though not at levels shown from 1999 to 2001. The autumn holiday season was the strongest in a number of years for the retail sector. Food processor use of dairy products as ingredients also showed some improvement.

Cheese sales rose about 1 percent from 2002 to 2003, with gains in use of all cheeses being offset by some slippage in the use of American cheese. Year-to-year commercial disappearance of American cheese for the November–January period decreased 1 percent. Commercial disappearance of "other than American" cheeses increased 2.7 percent.

Commercial disappearance of butter rose 5 percent during November–January 2003–04 compared to the previous year.

Other broader demand indicators are pointing towards recovery, as the gross domestic product (GDP) increased 4.1 percent during the fourth quarter of 2003 and March 2004 showed positive job-growth numbers. Overall, demand recovery is expected to continue in 2004 as the restaurant sector is projected to do better, ingredient use should pick up, and the general economy continues to improve. The magnitude or pace of continued demand recovery may rely on the impact, if any, of current rising prices.❖

Commercial Disappearance: Total Milk and Selected Dairy Products, 2003–2004

Item	Nov.–Jan. 2002–03	Percent change	Nov.–Jan. 2003–04	Percent change
Milk	Mil.lbs.		Mil.lbs.	
Production	42,330	1.6	42,012	(0.8)
Marketings	42,048	1.7	41,747	(0.7)
Beginning Commercial Stocks 1/	9,956	21.9	9,777	(1.8)
Imports 1/	1,370	4.0	1,366	(0.3)
Total Supply	53,374	5.0	52,890	(0.9)
Ending Commercial Stocks 1/	11,186	35.5	9,879	(11.7)
Net Removals 1/	126	129.1	(103)	(181.7)
Commercial Disappearance	42,062	(1.1)	43,114	2.5
Selected Products 2/				
Butter	341	(8.3)	358	5.0
American Cheese	924	(1.3)	914	(1.0)
Other Cheese	1,334	3.3	1,370	2.7
Nonfat Dry Milk	160	(24.0)	200	25.2
Fluid Milk Products 3/	14,315	0.8	14,122	(1.3)

1/ Milk-equivalent, milkfat basis.
2/ Commercial disappearance in product pounds.
3/ Sales. Estimate based on actual sales in federal milk order marketing areas and California.
Source: *Dairy Market News,* USDA

Pool Summary for All Federal Orders, January–March, 2003–2004

Federal Order Number	Federal Order Name	Total Producer Milk 2003	Total Producer Milk 2004	Change	Producer Price Differential# 2003	Producer Price Differential# 2004	Statistical Uniform Price#* 2003	Statistical Uniform Price#* 2004
		pounds		percent	dollars per hundredweight			
1	Northeast	6,109,338,389	5,980,336,145	-2.1	2.29	1.70	11.80	14.36
5	Appalachian	1,635,579,950	1,589,831,082	-2.8	N/A	N/A	12.51	14.85
6	Florida	740,865,675	782,040,984	5.6	N/A	N/A	13.71	15.83
7	Southeast	1,863,808,768	1,938,058,418	4.0	N/A	N/A	12.30	14.62
30	Upper Midwest	5,512,032,818	4,828,475,637	-12.4	0.53	0.35	10.05	13.01
32	Central	4,758,543,675	3,150,701,258	-33.8	0.87	0.53	10.39	13.20
33	Mideast	4,307,421,586	4,218,328,231	-2.1	1.19	0.69	10.71	13.35
124	Pacific Northwest	1,828,834,297	1,795,727,347	-1.8	0.93	0.43	10.44	13.10
126	Southwest	2,603,379,984	2,126,856,790	-18.3	1.95	1.40	11.47	14.06
131	Arizona-Las Vegas	808,845,092	784,963,188	-3.0	N/A	N/A	10.63	13.32
135	Western	1,415,783,605	1,096,283,946	-22.6	0.70	0.45	10.22	13.12
	All Market Total/Average	31,584,433,839	28,291,603,026	-10.4	1.21	0.79	11.29	13.89

Price at designated order location. * Price at 3.5% butterfat.
N/A = Not applicable; order prices on skim and butterfat basis.

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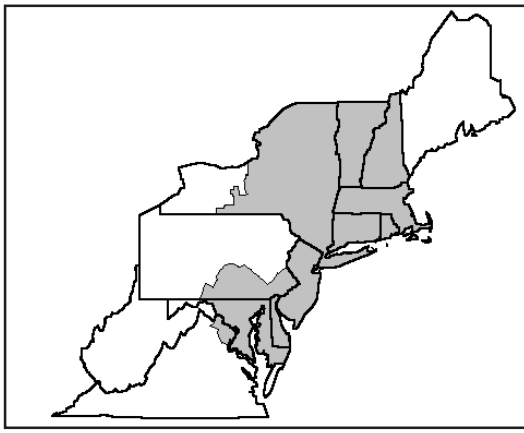
Computation of Producer Price Differential and Statistical Uniform Price*

	Product Pounds	Price per cwt./lb.	Component Value	Total Value
Class I— Skim	911,744,116	$9.21	83,971,633.08	
Butterfat	18,917,199	1.8000	34,050,958.20	
Less: Location Adjustment to Handlers			(2,924,038.50)	$115,098,552.91
Class II— Butterfat	28,867,821	2.3883	68,945,016.86	
Nonfat Solids	35,362,817	0.7400	26,168,484.58	95,113,501.44
Class III— Butterfat	22,012,328	2.3813	52,417,956.67	
Protein	17,788,056	2.0133	35,812,693.14	
Other Solids	33,148,729	0.0234	775,680.24	89,006,330.05
Class IV— Butterfat	7,446,459	2.3813	17,732,252.82	
Nonfat Solids	13,117,541	0.6634	8,702,176.73	26,434,429.55
Total Classified Value				**$325,652,813.95**
Add: Overage—All Classes				75,379.12
Inventory Reclassification—All Classes				779,243.24
Other Source Receipts	132,891			2,242.74
Less: Producer Component Valuations				(314,739,902.14)
Subtotal				**$11,769,776.91**
Add: Location Adjustment to Producers				10,277,464.15
One-half Unobligated Balance—Producer Settlement Fund				1,200,248.02
Total Pool Milk & Aggregate Value	2,086,456,577			23,247,489.08
Less: Producer Settlement Fund—Reserve				(922,403.67)
Producer Price Differential @ *Suffolk County, MA (Boston)*		**$1.07**		22,325,085.41
Statistical Uniform Price @ *Suffolk County, MA (Boston)*		**$15.56**		

* 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 2004 Federal Order No. 1

To contact the Northeast Marketing Area offices:
Boston, MA: phone (617) 737-7199, e-mail address: MABoston@fedmilk1.com; *Albany, NY*: phone (518) 452-4410,
e-mail address: MAAlbany@fedmilk1.com; *Alexandria, VA*: phone (703) 549-7000, e-mail address: MAAlexandria@fedmilk1.com;
website address: www.fmmone.com

April Pool Price Calculation

The April 2004 statistical uniform price (SUP) for the Northeast Marketing Area was announced at $17.28 per hundredweight for milk delivered to plants located in Suffolk County, Massachusetts (Boston), the pricing point for the Northeast Order. The statistical uniform price is calculated at 3.5 percent butterfat, 2.99 percent protein, and 5.69 percent other solids. The April producer price differential (PPD) at Suffolk County was -$2.38 per hundredweight.

April's statistical uniform price was $1.72 per hundredweight above the March price; the April PPD was $3.45 below the previous month's. All class prices increased as commodity prices for butter and cheese increased sharply during April. The Class III price jumped over $5.00 per hundredweight, making it the highest class price for the month and causing an inverted price relationship (normally, the Class I price is the highest class price).

Negative PPD and Depooling

The PPD was negative at all zones. This situation occurs when the combined value of producer milk components exceeds the total value of the Northeast Order pool. A negative PPD represents a producer's per-hundredweight share of the amount that producer milk components exceed the value of milk in the pool.

Due to the advance pricing of Class I milk, the April Class I price was based off of the National Agricultural Statistics Service (NASS) dairy product prices reported for the weeks ending March 6 and March 13. As such, the April Class I price did not reflect the dramatic, rapid increases that occurred especially in the commodity cheese market during April. The other class prices (II, III, and IV) reflect the current month (April) increases that were reported by NASS for the weeks ending April 3, 10, 17, and 24. The largest increase was in the NASS cheese price, which is used in the Class III price calculation and resulted in a record-high $19.66 per hundredweight.

Producers are paid at the same per-hundredweight value as the Class III component prices for protein, butterfat, and other solids. However, when the April pool was calculated, only about 20 percent of the milk was used in Class III and priced as such. The remaining 80 percent of the milk was priced at lower class prices as it was utilized. As a result, the total producer milk value exceeded the pool value (see circled items in the "Computation of Producer

(continued on page 2)

Pool Summary

- A total of 14,049 producers were pooled under the Order with an average daily delivery per producer of 4,366 pounds.
- Pooled milk receipts totaled 1.841 billion pounds, a decrease of 8.8 percent from last month on an average daily basis. Approximately 226 million pounds of milk were depooled during April.
- Class I usage (milk for bottling) accounted for 48.5 percent of total milk receipts, an increase of 3.9 percentage points from March. This also was affected by the depooling.
- The average butterfat test of producer receipts was 3.66 percent.
- The average true protein test of producer receipts was 3.01 percent.
- The average other solids test of producer receipts was 5.69 percent.

Class Utilization

Pooled Milk	Percent	Pounds
Class I	48.5	892,302,398
Class II	19.8	365,276,077
Class III	19.6	361,298,375
Class IV	12.1	221,879,839
Total Pooled Milk		1,840,756,689

Producer Component Prices

	2004	2003
	$/lb	
Protein Price	3.4465	1.8006
Butterfat Price	2.5013	1.1503
Other Solids Price	0.1042	(0.0008)

Class Price Factors

	2004	2003
	$/cwt	
Class I	16.89	12.89
Class II	15.21	10.44
Class III	19.66	9.41
Class IV	14.57	9.73

Dairy Cooperative Operations

According to USDA's Rural Business-Cooperative Service, dairy cooperatives' share of total milk volume sold by farmers to plants and dealers increased from 83 percent to 86 percent between 1997 and 2002. During the same period, the number of dairy cooperatives in the nation declined from 226 to 196, and the number of cooperatives that processed and manufactured dairy products dropped from 63 to 46. In 2002, 88 percent of all dairy cooperatives were headquartered in three regions that closely resemble the area covered by the Northeast, Mideast, and Upper Midwest marketing orders. The study's North Atlantic region, the area that most closely resembles the Northeast Order area, had the most with 85 and was the only region in the nation to experience a growth in the number of cooperatives between 1997 and 2002. By comparison, the East North Central and the West North Central, each with more producers than the North Atlantic region, had 53 cooperatives each. The other three regions totaled 40 cooperatives combined. In the Northeast Order, 77 percent of the milk pooled was from cooperative members during March 2004. Cooperative members made up 75 percent of producers pooling on the Northeast Order that month.

Dairy Plants Owned and Operated by Cooperatives Performing Various Functions, 1997 and 2002

Marketing Function	1997	2002
Receive & Ship Milk	151	87
Make American Cheese	61	49
Make Italian Cheese	30	21
Process cheese	8	20
Churn butter	35	27
Make dry products	43	43
Make dry whey products	40	28
Make condensed products	60	69
Package fluid milk	41	30
Make ice cream	19	16
Make cottage cheese	12	12
Other activities	42	24
Total	279	209

Note: Totals do not add because some plants perform more than one function.
Source: USDA, Rural Business-Cooperative Service

Dairy cooperatives operated 209 plants in 2002, down from 279 in 1997. The attached table breaks down these plants by their various marketing functions. Dairy cooperatives also had investment in 75 dairy plants that they did not directly operate.

Though the number of plants operated by cooperatives declinedfrom 1997 to 2002, cooperatives' share of total butter production increased from 61 percent to 71 percent, and their share of dry milk product production increased from 76 percent to 85 percent. Cooperatives' share of U.S. total cheese production remained unchanged at 40 percent.

Data from the report also reflect the growth of large dairy cooperatives. The four largest cooperatives accounted for 49 percent of milk from member-producers in 2002, up from 36 percent in 1997. The eight largest cooperatives accounted for 63 percent. In 2002, the four largest cooperatives accounted for 80 percent of butter marketed by all cooperatives and 56 percent of total U.S. butter production, up from 53 percent and 32 percent, respectively, for 1997. The four largest cooperatives accounted for 76 percent of nonfat dry milk marketed by all cooperatives and 66 percent of total U.S. nonfat dry milk production in 2002, up from 52 percent and 41 percent, respectively, for 1997. The four largest cooperatives accounted for 74 percent cheese marketed by all cooperatives and 29 percent of total U.S. cheese production, up from 63 percent and 25 percent, respectively.❖

April Pool Price Calculation *(continued from page 1)*

Price Differential and Statistical Uniform Price"on page 4). In order to balance the pool, the PPD becomes negative and essentially reduces the component payments from a class value of $19.66 per hundredweight down to the pool's blend value (milk in each class multiplied by its class price) of $17.28 per hundredweight. As class prices regain their normal alignment (Class I being the highest price) the PPD will return to a more normal and, generally, positive value.

This price inversion resulted in some handlers electing to depool a portion of their Class III milk from the Northeast Order pool, thus reducing the normal Class III utilization percentage of about 28 percent down to 20 percent. The estimated impact of this depooled milk was a 31-cent per hundredweight reduction in the SUP. The producer definition of the Northeast Order stipulates that any depooled producers must remain off the Northeast Order for the next 2 months and must requalify by delivering one day's production to a pool plant to become reassociated with the Order.

Even though producer butterfat and protein tests were below recent months, the total value of producer components was the highest ever under the Northeast Order. This was due to the record-setting producer butterfat and protein pay prices. The total producer protein value was the second highest, surpassed only by the value set in October 2003.❖

Manufactured Dairy Products—2003 Summary

USDA's National Agricultural Statistics Service recently released their *Dairy Products 2003 Summary*. This publication summarizes dairy products manufactured in the United States.

Cheese Production

Total cheese production (excluding cottage cheese) grew only 0.6 percent (50 million pounds) in 2003. Total American cheese production was down 0.6 percent from 2002 with Cheddar dropping 2.6 percent. Cheddar accounted for 74.9 percent of all American production, down from 76.5 percent in 2002. The balance of other American includes Colby, Monterey, and Jack cheeses and grew 5.9 percent in 2003.

Total Italian cheese production increased 1.5 percent in 2003 with mozzarella growing 0.8 percent. Mozzarella accounted for about 80 percent of all Italian (unchanged from 2002). Other Italian varieties, which include Provolone and ricotta, grew 4.3 percent in 2003.

American cheese remained the dominant cheese, accounting for 42.7 percent of all cheese manufactured in the U.S. in 2003, but this proportion was down from 43.2 percent in 2002. Italian cheese production, which has grown continuously over the years, accounted for 41.0 percent in 2003, up from 40.6 percent in 2002.

Hispanic cheese increased 7.4 percent and accounted for 1.6 percent of total cheese, up from 1.5 percent in 2002. Production of cream and Neufchatel declined 1.4 percent in 2003.

Other Products

Butter production dropped 8.3 percent in 2003, after increasing 10 percent in 2002. Yogurt (plain and fruit flavored) increased 3.3 percent while frozen yogurt declined 3.9 percent. Ice cream production grew 1 percent from 2002 and nonfat dry milk (NFDM) declined 0.4 percent.

During 2003, the Commodity Credit Corporation (CCC) purchased 645 million pounds of NFDM, about 41 percent of the total produced. This was down 36.9 million pounds from the total purchased in 2002. Purchases of cheese more than doubled, from 12.9 million pounds in 2002 to 35.5 million pounds in 2003. During 2003, the CCC also purchased 11.4 million pounds of butter; none was purchased in 2002.

Leading States

Wisconsin held the lead as the top cheese-producing state with 26.5 percent of the national total; this was up 0.5 percentage points from 2002. Second-ranked California had 21.2 percent of total production, up from 20 percent the previous year. New York remained in third place even though its total cheese production declined, lowering its proportion to 8.2 percent of the national total compared to 8.4 percent in 2002.

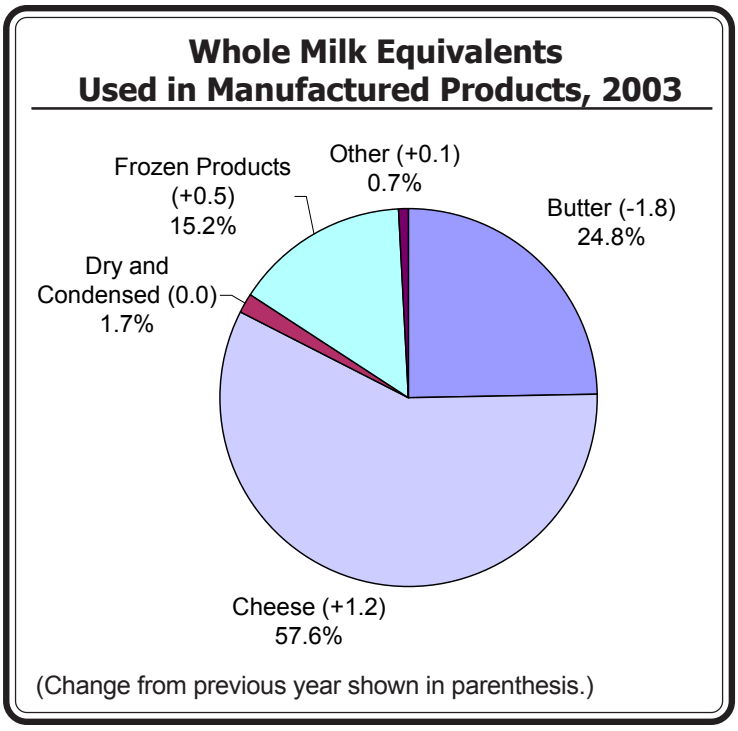
California continued to produce the largest amounts of butter, yogurt, NFDM, and ice cream. In addition, California became the leader in mozzarella production in 2003, displacing Wisconsin. Wisconsin remained the leading manufacturer of Cheddar and other Italian cheese. New York and Pennsylvania ranked third and fourth, respectively, in total mozzarella production. New York was second in yogurt and other Italian cheese production.

Wisconsin reported the highest number of manufacturing plants (200), followed by California (121), and New York (116). Overall, the number of plants declined by 2 percent in 2003.

Utilization of Milk Marketings

Of the total amount of milk marketed in 2003, 61.5 percent was used for manufactured dairy products, down from record-highest 62.6 percent in 2002. This decline may have been partially due to the tightness in the milk supply during 2003.

The accompanying chart shows the proportions on a whole milk equivalent basis used in the manufacture of selected dairy products. The change in proportion from 2002 is shown in parenthesis.❖



Annual Bulletin Available

The 2003 Annual Statistical Bulletin for the Northeast Milk Marketing Area is now available. The report provides information about the operation of the Northeast Marketing Area. The report, numbering 53 pages, can be found on our website at www.fmmone.com. Copies may be requested free of charge by contacting the Albany office at (518) 452-4410 or E-mail: MAAlbany@fedmilk1.com.❖

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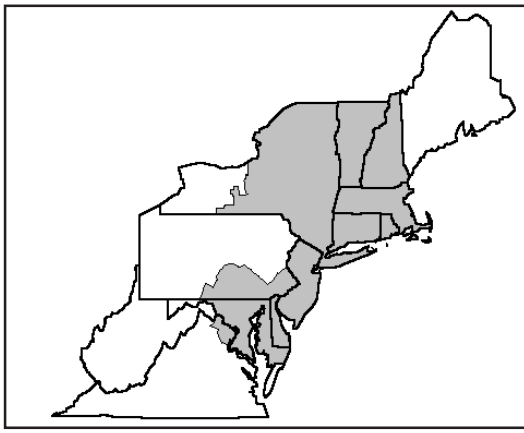
Computation of Producer Price Differential and Statistical Uniform Price*

	Product Pounds	Price per cwt./lb.	Component Value	Total Value
Class I— Skim	874,140,181	$9.21	80,508,310.67	
Butterfat	18,162,217	2.2850	41,500,665.85	
Less: Location Adjustment to Handlers			(2,809,276.91)	$119,199,699.68
Class II— Butterfat	26,154,668	2.5083	65,603,753.75	
Nonfat Solids	30,641,956	0.7400	22,675,047.44	88,278,801.19
Class III— Butterfat	14,237,070	2.5013	35,611,183.20	
Protein	10,863,359	3.4465	37,440,566.81	
Other Solids	20,456,744	0.1042	2,131,592.74	75,183,342.75
Class IV— Butterfat	8,892,867	2.5013	22,243,728.23	
Nonfat Solids	19,270,147	0.6703	12,916,779.52	35,160,507.75
Total Classified Value			***Total value of milk in the pool*** →	**$317,822,351.37**
Add: Overage—All Classes				57,690.73
Inventory Reclassification—All Classes				442,604.23
Other Source Receipts	105,484			0.00
Less: Producer Component Valuations			***Total value of producer components*** →	(370,853,173.46)
Subtotal				**($52,530,527.13)**
Add: Location Adjustment to Producers				8,409,917.87
One-half Unobligated Balance—Producer Settlement Fund				1,083,368.98
Total Pool Milk & Aggregate Value	1,840,862,173			(43,037,240.28)
Less: Producer Settlement Fund—Reserve				(775,279.47)
Producer Price Differential @ *Suffolk County, MA (Boston)*		**($2.38)**		(43,812,519.75)
Statistical Uniform Price @ *Suffolk County, MA (Boston)*		**$17.28**		

Negative value from which PPD per hundredweight is calculated

* 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 2004 Federal Order No. 1

To contact the Northeast Marketing Area offices:
Boston, MA: phone (617) 737-7199, e-mail address: MABoston@fedmilk1.com; *Albany, NY*: phone (518) 452-4410,
e-mail address: MAAlbany@fedmilk1.com; *Alexandria, VA*: phone (703) 549-7000, e-mail address: MAAlexandria@fedmilk1.com;
website address: www.fmmone.com

May Pool Price Calculation

The May 2004 statistical uniform price (SUP) for the Northeast Marketing Area was announced at $19.84 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. The May producer price differential (PPD) at Suffolk County was -$0.74 per hundredweight.

May's statistical uniform price was $2.56 per hundredweight above the April price. The May PPD was again negative, but not to the extent as in April. The Class I price finally reflected the commodity price increases that took place in April. Both the Class II and IV prices declined slightly, while the Class III price jumped another 92 cents and set a new record high.

Even though the producer butterfat price declined and the overall butterfat test was the lowest since August 2003, the increase in the producer protein price contributed to the largest producer component valuation since the Order's inception. As in April, since the producer valuation was higher than the classified value, the difference was depicted in a negative PPD. The negative PPD was exacerbated by the decrease in Class I utilization. It appears the jump in the Class I price affected retail sales. In addition, it seems that bottlers packaged as much product as possible at the end of April prior to the increase in the May Class I price, thereby reducing reported May Class I sales. These combined factors resulted in the lowest per day utilization figure for May since the Order began. Also, the price discrepancy between classes II, III, and IV encouraged higher utilization in the lower priced classes.

The Order requires that milk that was depooled in April had to remain out of the pool for May and must remain out during June also. Depooled milk totaled approximately 240 million pounds in May; its estimated impact was a 13-cent per hundredweight reduction in the SUP.❖

Organic Comment Deadline Extended

The USDA extended the period in which to submit written comments on proposed changes to commodity research and promotion programs. Comments are now due by June 25, 2004.

This proposal would exempt producers and marketers of solely 100 percent organic products from paying commodity promotion assessments. Details of the proposed exemption were published in the April 26 *Federal Register*. The proposed rule and public comments are available at http://www.ams.usda.gov/2002farmbill/organicexempt.❖

Pool Summary

- A total of 14,057 producers were pooled under the Order with an average daily delivery per producer of 4,349 pounds.
- Pooled milk receipts totaled 1.895 billion pounds, a decrease of 0.4 percent from last month on an average daily basis. Approximately 240 million pounds of milk were depooled during May.
- Class I usage (milk for bottling) accounted for 44.8 percent of total milk receipts, a decrease of 3.7 percentage points from April.
- The average butterfat test of producer receipts was 3.59 percent; a record low for May.
- The average true protein test of producer receipts was 2.97 percent.
- The average other solids test of producer receipts was 5.70 percent.❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	44.8	848,154,904
Class II	20.4	387,282,405
Class III	17.1	324,100,801
Class IV	17.7	335,506,618
Total Pooled Milk		1,895,044,728

Producer Component Prices

	2004	2003
	$/lb	
Protein Price	3.7639	1.9275
Butterfat Price	2.4282	1.1512
Other Solids Price	0.1444	(0.0144)

Class Price Factors

	2004	2003
	$/cwt	
Class I	22.90	12.96
Class II	15.03	10.43
Class III	20.58	9.71
Class IV	14.50	9.74

2003 United States Dairy Exports

Supply and demand of milk is the principal driver of the final milk price received by producers. U.S. dairy exports make up one component of the demand equation. There is much debate regarding the impact of U.S. dairy imports on milk pricing. However, the success of U.S. dairy exports can help the U.S. producer's bottom line. According to the *U.S. Dairy Export Council 2003 Annual Report*, total exports in 2003 were $1.07 billion, up 4 percent from 2002 and the fourth year in a row in which U.S. dairy exports topped $1 billion. The United States imported $1.8 billion worth of dairy products in 2003.

U.S. dairy exports tend to fall into one of three categories: (a) products that are not priced out of international markets by U.S. tariffs or USDA's price support program, such as whey and lactose; (b) products that can be exported with subsidy, such as nonfat dry milk, selected cheeses and butter; and (c) selected differentiated dairy products including fluid milk and cream, ice cream, and most cheese.

2003 U.S. Dairy Exports

	metric tons	% change from 2002
Whey proteins	173,429	(6)
Skim milk powder	148,044	32
Lactose	142,710	21
Cheese, all types	52,112	(3)
Fluid milk & cream*	29,863	30
Ice cream	29,203	(21)
Butteroil	7,567	500
Butter	3,476	157
Yogurt	2,020	2

* In kiloliters.
Source: U.S. Dairy Export Council.

During 2003, the largest dairy export was whey proteins (see accompanying table). Although total volume was down 6 percent from 2002, total dollar value returned for whey exports was up 2 percent. Shipments of whey protein concentrate and dry (sweet) whey dropped due to economic recession in some markets and a pullback in sales to the livestock sector. The United States is the world's leading whey supplier and China was the largest recipient, accounting for 25 percent of all exports. Canada was second with 17 percent, followed by Mexico with almost 12 percent.

Skim milk powder was the second largest dairy export, up 32 percent from the previous year. The increase was due to increased food aid and commercial sales. Mexico was the primary destination for skim milk powder, receiving almost 39 percent of that total. The Philippines and Afghanistan followed with 9 percent and 6 percent, respectively.

Lactose ranked as the third largest U.S. dairy export in 2003; exports increased 21 percent from 2002. Lactose exports to New Zealand increased 315 percent and largely were used to fortify skim milk powder. The United States is the world's largest lactose exporter with Japan the principal destination, accounting for almost 33 percent of total exports. Mexico and China were the second and third largest receivers of U.S. lactose, respectively.

U.S. cheese exports were down 3 percent from 2002, but were valued at $152 million. Mexico received almost one third of U.S. cheese exports. Japan ranked second, followed by Canada.

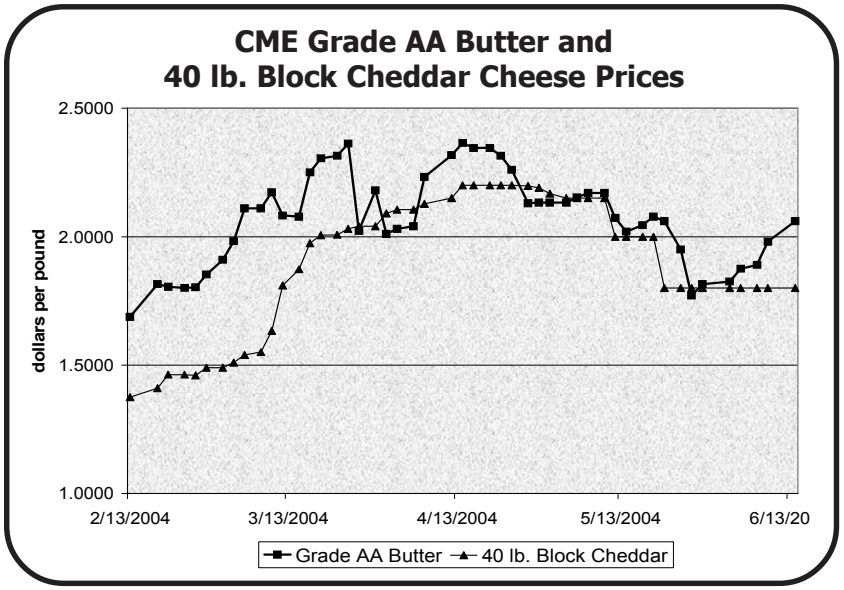
Butter exports increased 157 percent, but totaled just 3,746 metric tons. Ice Cream exports were 21 percent below 2002 levels, primarily due to customers shifting to European sources. The United Kingdom, the second largest importer of U.S. ice cream, reduced their imports by 37 percent from 2002. The United States increased exports of fluid milk and cream by 30 percent to almost 30 thousand kiloliters with increased sales to Canada and Mexico.

The latest USDA *Agricultural Quarterly Export Forecast* claims that the weaker U.S. dollar and global economic growth favor exports in 2004.❖

Market Situation

After hitting a high of $2.365 per pound on April 14, Chicago Mercantile Exchange (CME) Grade AA butter prices dipped to $1.77 per pound by May 26. Since that time, the price has recovered $0.29 mainly due to lower than anticipated butter stocks. Globally, some European countries' milk production is 2 to 5 percent lower than the previous year, and Australian production lags last year by about 3 percent. The firm global dairy product markets will hinder sales from those regions.

CME block Cheddar cheese prices have held steady at $1.80 per pound for 3 weeks since falling from a high in April of $2.20 per pound. Cheese companies have about 4-6 more weeks to build inventory before they start to draw off stocks for fall and holiday needs. Butter manufacturers have even less time.❖



Top Ten Northeast Order Counties—Milk Receipts

In 2003, the top ten counties in terms of milk pooled on the Northeast Order accounted for 30.5 percent of all milk pooled during the year, up from 29.5 percent in 2002, and 28.6 percent in 2001. It should be noted that pooled milk receipts do not necessarily account for all milk produced in the county. Milk shipped to other federal orders, state orders, or unregulated areas is not included in these figures.

Lancaster County, PA, led all counties for the year with just over 2 billion pounds pooled, over 2.5 times second-ranked Franklin County, PA, which pooled 746 million pounds. Franklin County, VT, was third with 705 million pounds. The accompanying figure ranks the top ten counties by pooled milk receipts and includes statistics on daily deliveries by producer (DDP) and average herd size.

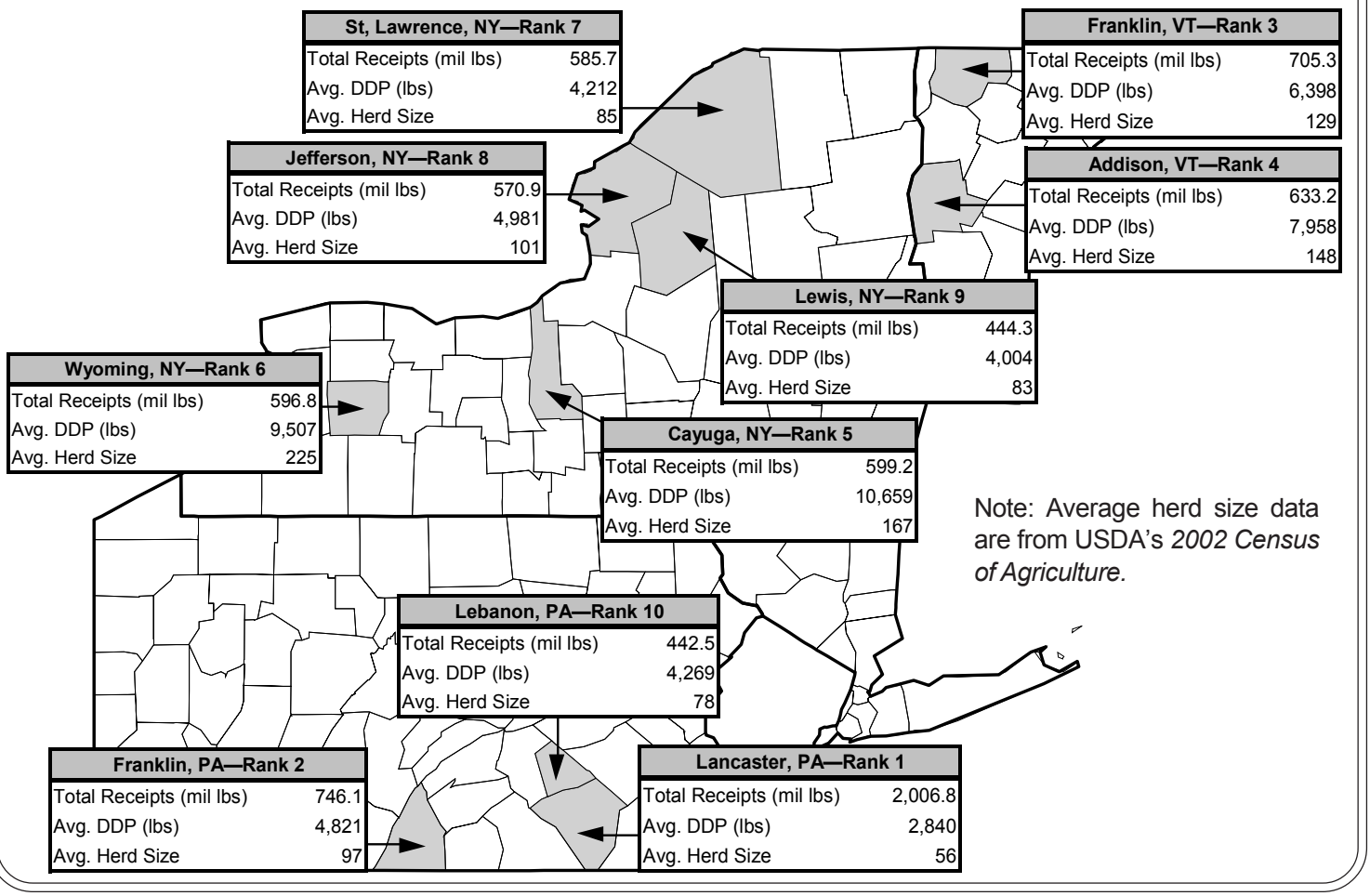
The top three counties in 2003 maintained the same rank as in 2002. Wyoming County, NY, slid two positions from fourth to sixth. Cayuga County, NY, climbed three positions to fifth from eighth. Addison, VT, moved from fifth in 2002 to fourth in 2003 while St. Lawrence County, NY, and Jefferson County, NY, each slipped a spot.

Lancaster County had the largest number of producers of the top ten counties averaging 1,936 producers during 2003, roughly the same as in 2002. Cayuga County averaged the smallest number of producers of the top ten counties with 154, just one less than in 2002. In total, the top ten counties accounted for an average of 27.9 percent of all pool producers during 2003, up from 27.5 in 2002.

Cayuga County had the highest DDP in 2003 at 10,659 pounds, up 20.5 percent from 8,843 in 2002. Though still ranked second in DDP, Wyoming County dropped almost 20 percent from 11,830 pounds in 2002 to 9,507 pounds in 2003. Top-ranked Lancaster County had the lowest DDP at 2,840 pounds. Overall, the Northeast Order averaged a DDP of 4,086 pounds. Vermont and New York were above the Order average with DDPs of 5,338 pounds and 4,597 pounds, respectively. Pennsylvania's DDP averaged 3,268 pounds for the year.

Wyoming County had the largest average herd size with 225 cows, while Lancaster County had the smallest with 56 cows, according to the USDA's *2002 Census of Agriculture*. Average herd size for 13 Northeast states, including all of New England, New York, New Jersey, Pennsylvania, Delaware, Maryland, Virginia, and West Virginia, was 75 cows. Based on the *2002 Census*, the states listed totaled 23,231 milking farms and 1,735,281 milk cows. Vermont had a herd size of 100 cows, the largest in the Northeast. New York herds averaged 91 cows, and Pennsylvania averaged 61 cows. West Virginia had the smallest herd size with 29 cows.❖

Northeast Order Top Ten Supply Counties and Selected Statistics, 2003



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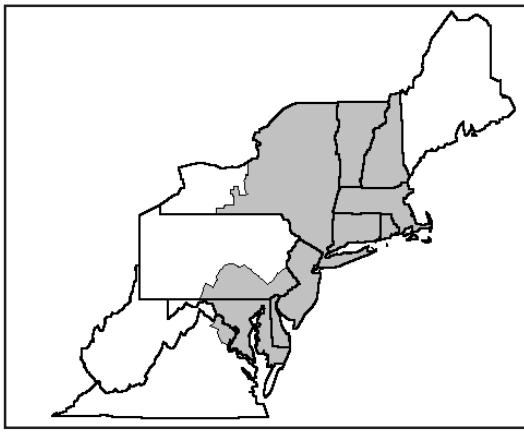
Computation of Producer Price Differential and Statistical Uniform Price*

	Product Pounds	Price per cwt./lb.	Component Value	Total Value
Class I— Skim	831,146,399	$14.75	122,594,093.85	
Butterfat	17,008,505	2.4762	42,116,460.08	
Less: Location Adjustment to Handlers			(2,649,271.66)	$162,061,282.45
Class II— Butterfat	27,093,636	2.4352	65,978,422.38	
Nonfat Solids	32,373,720	0.7489	24,244,678.93	90,223,101.31
Class III— Butterfat	13,164,261	2.4282	31,965,458.58	
Protein	9,598,352	3.7639	36,127,237.10	
Other Solids	18,341,601	0.1444	2,648,527.18	70,741,222.86
Class IV— Butterfat	10,721,177	2.4282	26,033,162.00	
Nonfat Solids	29,204,689	0.6913	20,189,201.56	46,222,363.56
Total Classified Value			***Total value of milk in the pool*** →	**$369,247,970.18**
Add: Overage—All Classes				496,785.84
Inventory Reclassification—All Classes				265,053.36
Other Source Receipts	55,088			1,145.83
Less: Producer Component Valuations			***Total value of producer components*** →	(392,620,342.35)
Subtotal				**($22,609,387.14)**
Add: Location Adjustment to Producers				8,530,953.04
One-half Unobligated Balance—Producer Settlement Fund				904,455.58
Total Pool Milk & Aggregate Value	1,895,099,816			(13,173,978.52)
Less: Producer Settlement Fund—Reserve				(849,760.10)
Producer Price Differential @ *Suffolk County, MA (Boston)*		**($0.74)**		(14,023,738.62)
Statistical Uniform Price @ *Suffolk County, MA (Boston)*		**$19.84**		

Negative value from which PPD per hundredweight is calculated

* 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 2004 Federal Order No. 1

To contact the Northeast Marketing Area offices:
Boston, MA: phone (617) 737-7199, e-mail address: MABoston@fedmilk1.com; *Albany, NY*: phone (518) 452-4410,
e-mail address: MAAlbany@fedmilk1.com; *Alexandria, VA*: phone (703) 549-7000, e-mail address: MAAlexandria@fedmilk1.com;
website address: www.fmmone.com

June Pool Price Calculation

The June 2004 statistical uniform price (SUP) for the Northeast Marketing Area was announced at $19.70 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. The June producer price differential (PPD) at Suffolk County was $2.02 per hundredweight.

June's statistical uniform price was 14 cents per hundredweight below the May price. The June PPD was positive, following 2 months of negative values. The June Class I price was $1.48 per hundredweight above May's due to the lag in the pricing formula. All other class prices declined as commodity market prices fell during June. The spread between the class prices was back to its more 'normal' pattern. The class valuation of milk was higher than the producer payout (see circled items on page 4), partially due to the class prices, but also due to a decline in both producer component tests and pay prices.

As is required under the Order, milk that was depooled in April had to remain out of the pool for May and June. Depooled milk totaled approximately 200 million pounds in June. Most of this milk would have been included as Class III utilization, which was valued much lower than in the past 2 months. As a result, depooling had a positive impact in June—increasing the uniform price about 18 cents per hundredweight. Combined with the reductions in the SUP of 31 cents in April and 13 cents in May, depooling had an overall impact of reducing the SUP by 26 cents per hundredweight during the past 3-month period.❖

Market Prices Peak as Demand Softens

After reaching $2.20 per pound the week ending April 23, an all time high, the weekly average price for 40 lb. block Cheddar cheese on the Chicago Mercantile Exchange (CME) has dropped to $1.3625 per pound for the week ending July 9. In fact, it is the first time this year that the weekly average price has been below the same week the previous year. The weekly cheese price has averaged about $0.60 per pound above previous year levels through the first half of 2004. Analysts speculated that buyers are waiting for prices to bottom-out before ordering more aggressively for summer and fall needs.

Butter prices peaked at an average of $2.3425 per pound for the week ending April 19 and have trended downward since, finishing the week of

(continued on page 3)

Pool Summary

- A total of 14,049 producers were pooled under the Order with an average daily delivery per producer of 4,234 pounds.
- Pooled milk receipts totaled 1.785 billion pounds, a decrease of 2.7 percent from last month on an average daily basis. Approximately 215 million pounds of milk were depooled during June.
- Class I usage (milk for bottling) accounted for 45.8 percent of total milk receipts, an increase of 1.0 percentage point from May.
- The average butterfat test of producer receipts was 3.55 percent; a record low for June.
- The average true protein test of producer receipts was 2.96 percent.
- The average other solids test of producer receipts was 5.69 percent.❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	45.8	818,054,434
Class II	22.2	396,137,170
Class III	18.1	322,430,376
Class IV	13.9	248,129,406
Total Pooled Milk		1,784,751,386

Producer Component Prices

	2004	2003
	$/lb	
Protein Price	3.1086	1.9434
Butterfat Price	2.1768	1.1576
Other Solids Price	0.1339	(0.0200)

Class Price Factors

	2004	2003
	$/cwt	
Class I	24.38	12.99
Class II	14.31	10.46
Class III	17.68	9.75
Class IV	13.72	9.76

Container Survey Completed

The results from the November 2003 container sales survey for the Northeast Milk Marketing Area were recently released. The survey is conducted biennially and records packaged sales data for the month of November. Information is collected from handlers operating plants regulated under Federal Order No. 1 that sell fluid packaged milk products on routes.

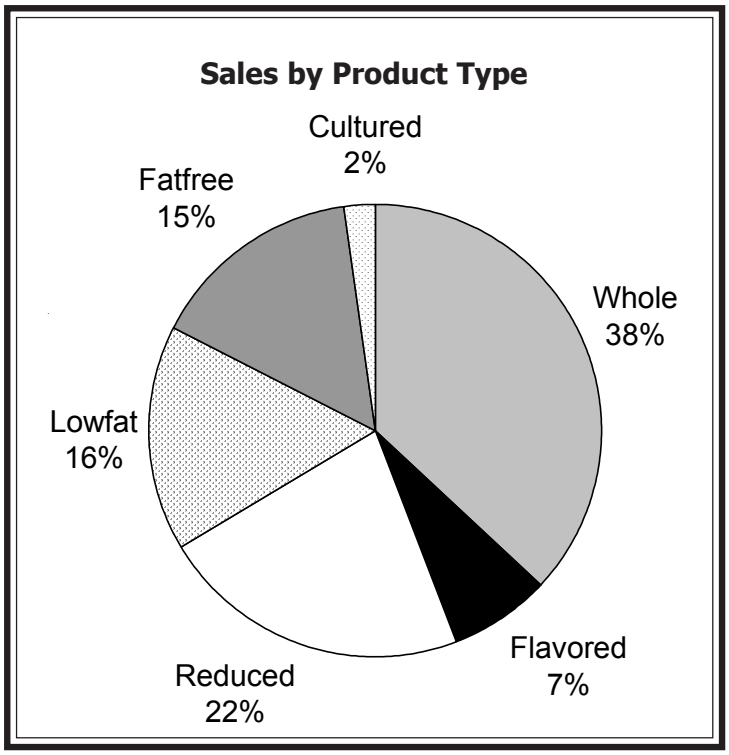
Packaged sales totaled 882.5 million pounds in November 2003. Packaged sales include whole, reduced fat (2%), low fat (1%), fat free (skim), flavored milk and drinks (low fat and skim), buttermilk, and eggnog. Data are collected for three container types (glass, paper, and plastic) and for seven container sizes (gallon, half-gallon, quart, pint, half-pint, 6-gallon, and 5-gallon). In addition, data are collected for self-serve round containers, such as chugs.

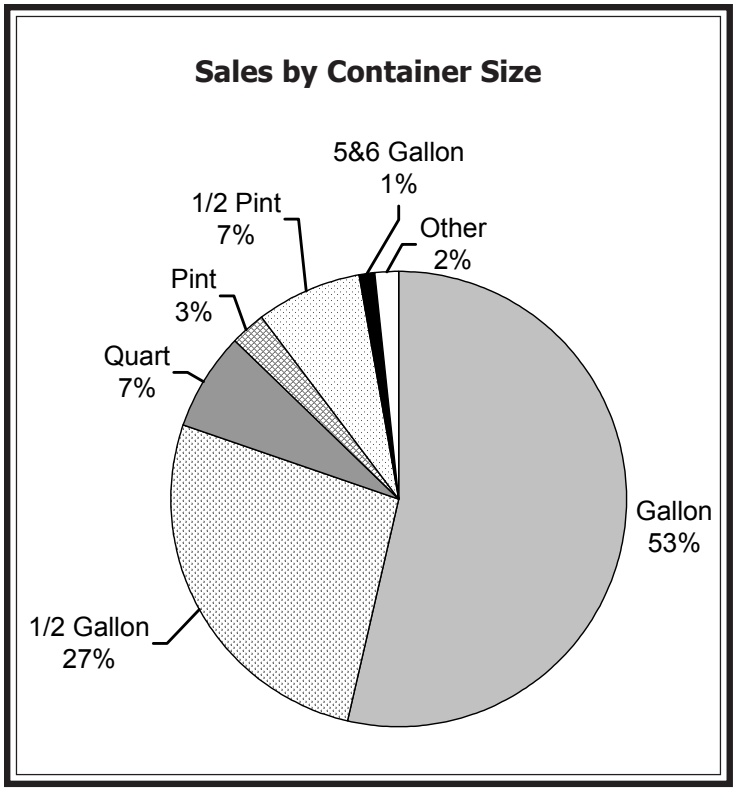
The survey also records the method of distribution by handler. All data are based on sales volume in pounds unless otherwise noted.

Container Type

More than three-quarters (75.9 percent) of all route sales were sold in plastic containers. Paper containers accounted for 23.9 percent, while glass held only 0.2 percent. This trend has accelerated over the years with plastic replacing paper; glass is practically nonexistent, mainly associated with a tiny niche home delivery segment.

Over half of the handlers surveyed reported sales in single serve plastic containers with most in 16-ounce (1 pint) and 8-ounce (half-pint) size containers. Total volume neared 19 million pounds during the month surveyed.





Container Size

Sales in gallon containers accounted for 53.5 percent of total sales (see chart). This was down slightly from the last survey in November 2001 when gallons made up 54.4 percent of the total. Half-gallon containers had 26.9 percent (up from 25.2 percent in 2001); quarts equaled 6.8 percent, pints had 2.6 percent, and half-pints accounted for 7.4 percent. Sales in 6-gallon and 5-gallon reported 0.4 percent and 0.7 percent, respectively. The remaining 1.7 percent was sold in other unidentified sizes.

All gallon containers were made of plastic, as were the 6 and 5-gallon sizes. No other glass containers besides half-gallons, quarts, and half-pints were reported.

Product Type

Whole milk sales accounted for 36.9 percent of the total sales in November 2003 (see chart). Reduced fat had 22.0 percent, low fat had 16.1 percent, and fat free had 15.3 percent. Flavored milk and drinks accounted for a combined 7.4 percent, buttermilk held 0.4 percent, and eggnog had 1.9 percent of total sales that month.

Method of Distribution

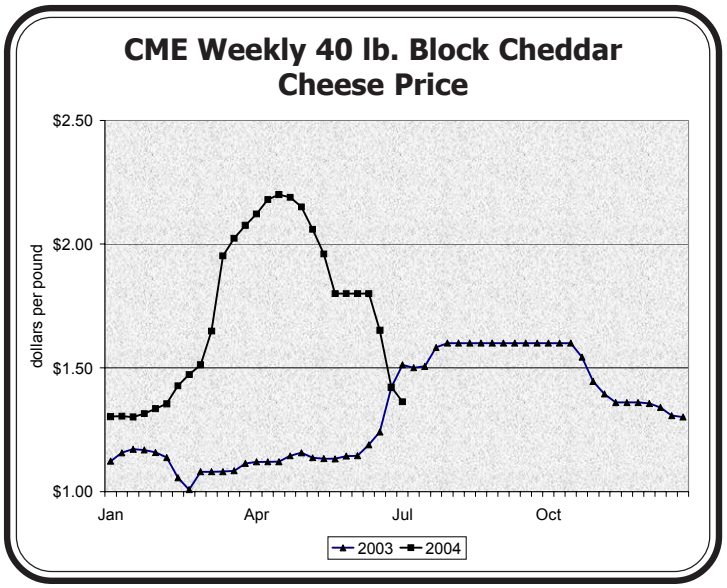
In the Order No. 1 area, wholesale deliveries accounted for 99.8 percent of total sales in the 2003 survey; home deliveries made up the remaining 0.2 percent. Of the wholesale total, 46.8 percent were to supermarkets; 18.4 percent to dairy and convenience stores; 7.6 percent to institutions such as schools and military; and 27.2 percent to other wholesales establishments such as superstores/hypermarkets and wholesales clubs.❖

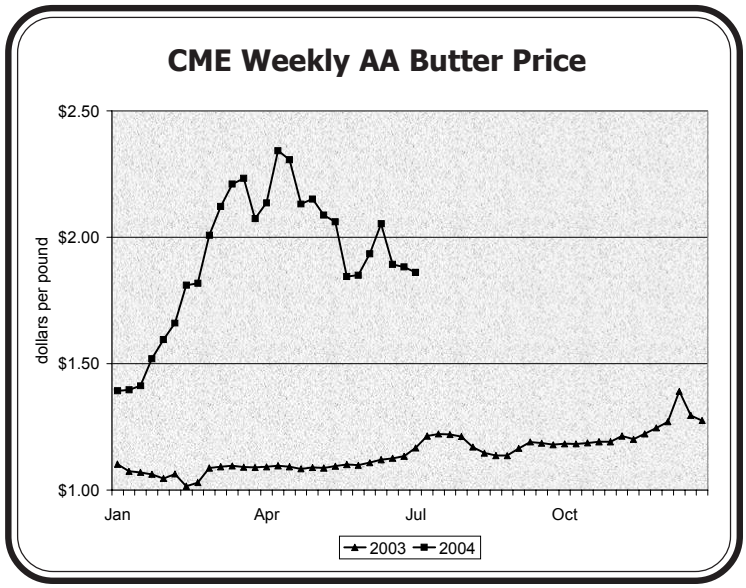
Market Prices Peak *(continued from page 1)*

July 9 at $1.8613 per pound. Though dropping, the current average weekly butter price is about $0.70 per pound higher than at this time last year and has averaged about $0.80 per pound higher for the first half of the year.

Higher retail prices have been cooling demand across all product lines. The Consumer Price Index (CPI) for dairy products rose 6.8 percent in May, following a 1.6 percent rise in April. According to *Dairy Market News*, retail sales of cheese have been slow due to the markets delay in reflecting the decline in CME prices. Retail demand for packaged butter is slow to fair and has been fair for food service.

High retail prices have even been impacting fluid milk sales. Fluid milk sales dropped off in May 6.9 percent from a year ago due to higher retail prices, marking the largest year-over-year decline in at least 8 years. In fact, through the first 5 months of 2004, fluid milk sales in federal orders and California were down 2.1 percent vs. last year, a pace that would result in the biggest single year drop since 1974. However, considering that the June Class I price (the basis for retail fluid milk product prices) was 88 percent above the level of the prior year, the decrease in retail sales is quite small and reflects the inelastic nature of fluid milk.❖





Pool Summary for All Federal Orders, January–June, 2003–2004

Federal Order		Total Producer Milk			Producer Price Differential#		Statistical Uniform Price#*	
Number	Name	2003	2004**	Change**	2003	2004	2003	2004
		pounds		percent	dollars per hundredweight			
1	Northeast	12,397,934,583	11,500,888,948	(7.2)	2.12	0.7	11.69	16.65
5	Appalachian	3,284,786,402	3,136,428,881	(4.5)	N/A	N/A	12.29	17.00
6	Florida	1,513,134,462	1,523,588,413	0.7	N/A	N/A	13.37	18.40
7	Southeast	3,690,872,186	3,763,691,525	2.0	N/A	N/A	12.12	16.83
30	Upper Midwest	11,244,488,942	8,212,841,160	(27.0)	0.47	(0.8)	10.04	15.20
32	Central	9,106,326,065	5,649,631,774	(38.0)	0.80	(0.7)	10.37	15.31
33	Mideast	8,744,275,762	7,563,007,988	(13.5)	1.07	(0.4)	10.64	15.58
124	Pacific Northwest	3,716,933,088	3,243,321,171	(12.7)	0.81	(1.1)	10.38	14.91
126	Southwest	5,374,074,779	4,210,861,415	(21.6)	1.80	0.1	11.37	16.07
131	Arizona-Las Vegas	1,634,258,852	1,527,371,082	(6.5)	N/A	N/A	10.53	15.77
135	Western^	3,224,794,544	1,096,283,946	N/A	0.60	0.5	10.17	13.12
	All Market Total/Average	63,931,879,665	51,427,916,303	(19.6)	1.10	(0.4)	11.18	16.13

Price at designated order location. * Price at 3.5% butterfat.

** A significant amount of milk was depooled during April, May, and June.

^ The Western Milk Marketing Order was terminated effective April 1, 2004; pounds for 2004 are only January–March total; Uniform Price is average for January–March 2004.

N/A = Not applicable; order prices on skim and butterfat basis.

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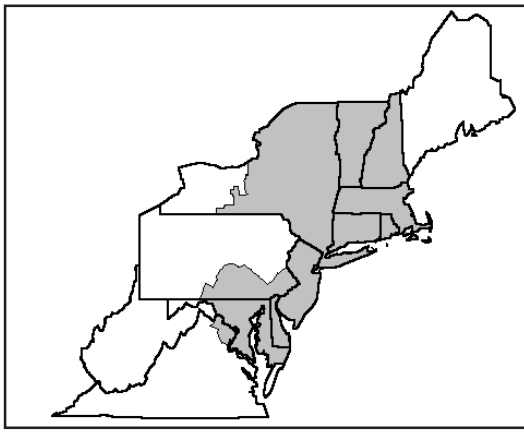
Computation of Producer Price Differential and Statistical Uniform Price*

	Product Pounds	Price per cwt./lb.	Component Value	Total Value
Class I— Skim	801,407,999	$16.23	130,068,518.24	
Butterfat	16,646,435	2.4905	41,457,946.37	
Less: Location Adjustment to Handlers			(2,546,480.66)	$168,979,983.98
Class II— Butterfat	26,844,766	2.1838	58,623,600.00	
Nonfat Solids	33,087,367	0.7678	25,404,480.38	84,028,080.38
Class III— Butterfat	12,087,768	2.1768	26,312,653.38	
Protein	9,553,926	3.1086	29,699,334.40	
Other Solids	18,290,792	0.1339	2,449,137.08	58,461,124.86
Class IV— Butterfat	7,726,267	2.1768	16,818,537.98	
Nonfat Solids	21,530,332	0.7026	15,127,211.26	31,945,749.24
Total Classified Value			***Total value of milk in the pool*** →	**$343,414,938.46**
Add: Overage—All Classes				50,284.53
Inventory Reclassification—All Classes				(112,839.15)
Other Source Receipts	41,976			2,371.65
Less: Producer Component Valuations			***Total value of producer components*** →	(315,658,112.57)
Subtotal				**$27,696,642.92**
Add: Location Adjustment to Producers				8,171,309.19
One-half Unobligated Balance—Producer Settlement Fund				906,112.11
Total Pool Milk & Aggregate Value	1,784,793,362			36,774,064.22
Less: Producer Settlement Fund—Reserve				(721,238.39)
Producer Price Differential @ *Suffolk County, MA (Boston)*		**$2.02**		36,052,825.83
Statistical Uniform Price @ *Suffolk County, MA (Boston)*		**$19.70**		

Positive value from which PPD per hundredweight is calculated

* 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 2004 Federal Order No. 1

To contact the Northeast Marketing Area offices:
Boston, MA: phone (617) 737-7199, e-mail address: MABoston@fedmilk1.com; *Albany, NY*: phone (518) 452-4410,
e-mail address: MAAlbany@fedmilk1.com; *Alexandria, VA*: phone (703) 549-7000, e-mail address: MAAlexandria@fedmilk1.com;
website address: www.fmmone.com

July Pool Price Calculation

The July 2004 statistical uniform price (SUP) for the Northeast Marketing Area was announced at $17.64 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. The July producer price differential (PPD) at Suffolk County was $2.79 per hundredweight.

July's statistical uniform price was $2.06 per hundredweight below the June price; the July PPD was 77 cents above last month's. The July Class I price was $3.18 per hundredweight below June's record high. All other class prices declined as commodity market prices continued to fall during July. The spread between the class prices was back to its more 'normal' pattern.

Milk that was depooled in April, May, and June was included in the July pool. The price relationship in July did not favor depooling. The situation was similar in June, but the producers that were depooled in April had to remain out until at least July.

The producer protein test averaged 2.96 percent (unchanged from June) and was the highest for the month of July since the Order's inception. ❖

Utilization of Milk by Product

During the first half of 2004, the utilization of milk pooled under Order No. 1 has changed little in some categories and greatly in others, when compared to the same period in 2003. Pool handlers must report how milk they receive at their plants is used. Based on the product in which the milk is used, it is classified into one of four classes. Class I products include those used for fluid drinking; Class II includes the 'soft' products (ice cream, cottage cheese, ricotta cheese, and yogurt); Class III mainly includes the 'hard' cheeses (American, Italian, and Swiss); and Class IV includes butter, dry, and condensed products. The accompanying table shows changes by volume and percent for selected products in each class. All percentages are adjusted for leap year.

For the 6-month period, total sales in the marketing area were down slightly (0.5 percent). Sales out of the marketing area were up 5.8 percent, and total Class I utilization increased 0.2 percent. Class II utilization grew 3.3 percent; the main increases were in cottage cheese (22.5 percent) and packaged cream (18.0 percent). Milk used in making ricotta cheese dropped 8.7 percent while milk used in sour cream products (aerated cream and dips)

(continued on page 2)

Pool Summary

- A total of 15,340 producers were pooled under the Order with an average daily delivery per producer of 4,197 pounds.
- Pooled milk receipts totaled 1.996 billion pounds, an increase of 8.2 percent from last month on an average daily basis. There was no known depooling of milk during July.
- Class I usage (milk for bottling) accounted for 43.4 percent of total milk receipts, a decrease of 2.4 percentage points from June, but the total volume was higher.
- The average butterfat test of producer receipts was 3.55 percent.
- The average true protein test of producer receipts was 2.96 percent.
- The average other solids test of producer receipts was 5.67 percent.

Class Utilization

Pooled Milk	Percent	Pounds
Class I	43.4	865,366,308
Class II	19.2	383,025,504
Class III	25.0	499,088,940
Class IV	12.4	248,513,606
Total Pooled Milk		1,995,994,358

Producer Component Prices

	2004	2003
	$/lb	
Protein Price	2.3625	2.5480
Butterfat Price	2.0543	1.2055
Other Solids Price	0.1048	(0.0124)

Class Price Factors

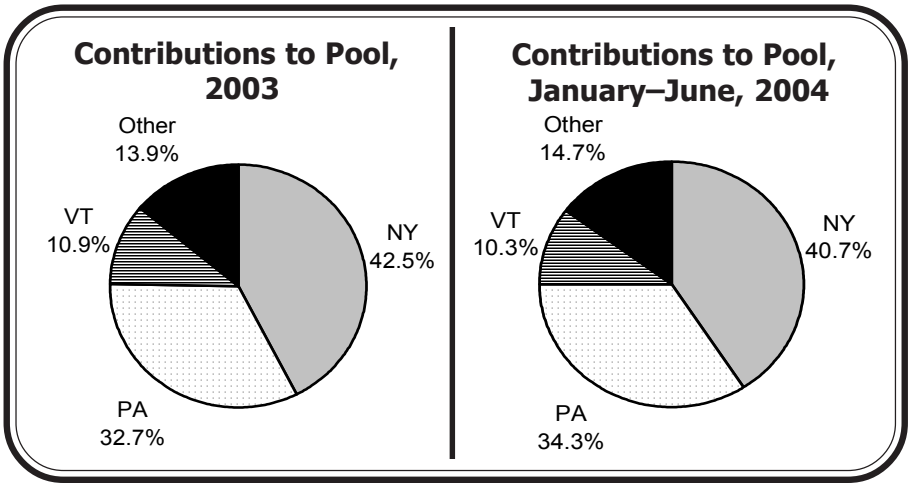
	2004	2003
	$/cwt	
Class I	21.20	13.02
Class II	14.00	10.63
Class III	14.85	11.78
Class IV	13.31	9.95

Pooled Receipts by State

In the Northeast Marketing Area milkshed, New York, Pennsylvania, and Vermont are the three largest contributing states based on the volume of producer milk receipts. Other states containing producers shipping to handlers regulated under the Order include Massachusetts, Maine, Rhode Island, Connecticut, Delaware, Virginia, West Virginia, New Jersey, New Hampshire, Maryland, and at times states located in the West and Upper Midwest. The milkshed is the area that milk is drawn from, whereas the marketing area is the area where a majority of fluid milk sales occur as is defined in the Northeast Order language.

During 2003, New York accounted for 42.5 percent of all the milk pooled in Order No. 1; Pennsylvania had 32.7 percent; and Vermont contributed 10.9 percent. All the other states combined for the remaining 13.9 percent (see charts). For the first quarter of 2004 the percentages were relatively unchanged with New York holding 41.9 percent, Pennsylvania averaging 33.2 percent, and Vermont accounting for 10.8 percent. During the second quarter of 2004, large quantities of milk were depooled due to disadvantageous price relationships, mainly during April and May. Most of the depooled milk came from producers located in New York and Vermont. As such, New York's contribution to total pooled receipts dropped to 39.5 percent and Vermont's declined to 9.7 percent. Pennsylvania's total receipts declined, but not at the same proportion; consequently, the state's contribution of total pooled receipts increased to 35.5 percent.

Beginning with July, it is anticipated that all milk depooled will be back on the Order. As a result, the percentages held by the top contributing states should return to their past levels. ❖



Utilization of Milk *(continued from page 1)*

increased 8.2 percent. Utilization of milk used in ice cream declined 0.9 percent.

Overall, Class III utilization dropped 21.0 percent largely due to depooling during April, May, and June (for more information, see the April, May, and June *Bulletins*). Nearly all of the milk depooled would have been Class III. Depooled milk means the milk was not part of the federal order pool, but the product was still made at the plant with "non pool" milk. Within Class III, the category that includes Swiss and other cheeses and the category that includes condensed products had the largest decreases.

Class IV usage declined 5.2 percent during the comparison period. Producer receipts used in making butter dropped 20.2 percent, and milk used in dry products declined 17.6 percent. A large increase occurred in the category containing condensed products. In April 2004, a change was instituted that reclassified milk used to produce evaporated milk or sweetened condensed milk from Class III to Class IV. The amount of milk classified for animal feed or dumped increased 12.8 percent; milk in this category is priced at the minimum class price for that month. ❖

Utilization of Milk by Selected Products

Class	Product*	January-June 2003	January-June 2004	2003-04 Change
		million pounds		percent
I	Whole Milk	1,836.1	1,783.1	(3.4)
	Fluid Sales in Area	5,076.3	5,076.8	(0.5)
	Out of Area Sales	711.0	756.5	5.8
	Total	5,787.3	5,833.2	0.2
II	Cottage Cheese	279.2	343.9	22.5
	Ice Cream	686.4	688.1	(0.3)
	Ricotta Cheese	139.7	128.3	(8.7)
	Total	2,358.5	2,449.9	3.3
III	Condensed Products	147.7	109.1	(26.6)
	American Cheese	1,060.7	917.9	(13.9)
	Swiss and Other Cheeses	162.6	117.3	(28.2)
	Total	3,590.0	2,852.1	(21.0)
IV	Condensed Products	30.0	95.8	217.3
	Butter	129.9	104.3	(20.2)
	Dried Products	1,317.3	1,091.1	(17.6)
	Total	1,944.4	1,852.8	(5.2)

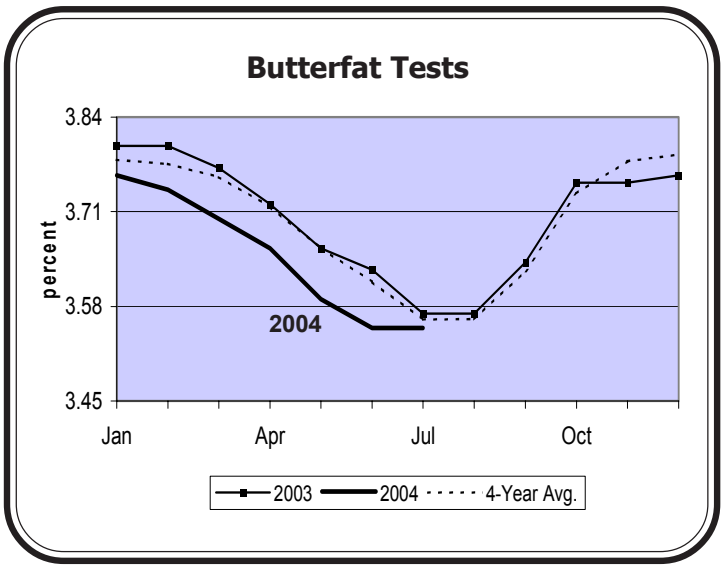
* Categories contain additional products not listed.

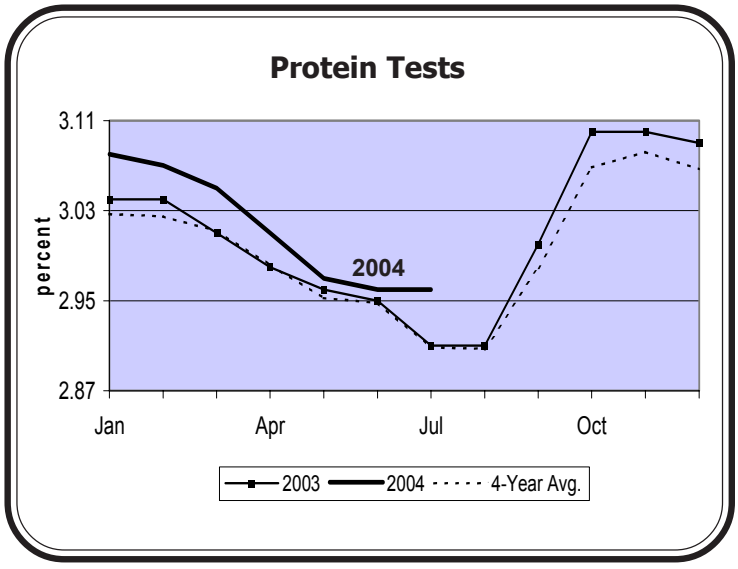
Component Levels and Prices

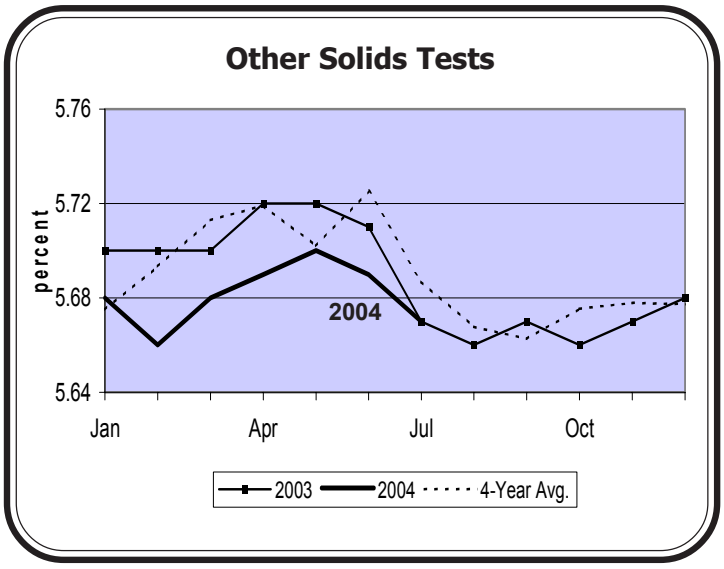
Through the first 7 months of 2004, butterfat levels in the Northeast Order have been averaging 0.06 percentage points lower than in the previous year and 0.05 percentage points lower than the average for the previous 4 years. In fact, average butterfat levels established new lows in each month between February and June of 2004. Of the 5 months in 2004 that saw record low butterfat levels, 4 coincided with record high butterfat prices for those same months. Butterfat prices for the first 7 months of the year, averaging $2.1274 per pound, have been $0.97 higher than for the same period in the previous year and $0.76 higher for the 4-year average of the same period.

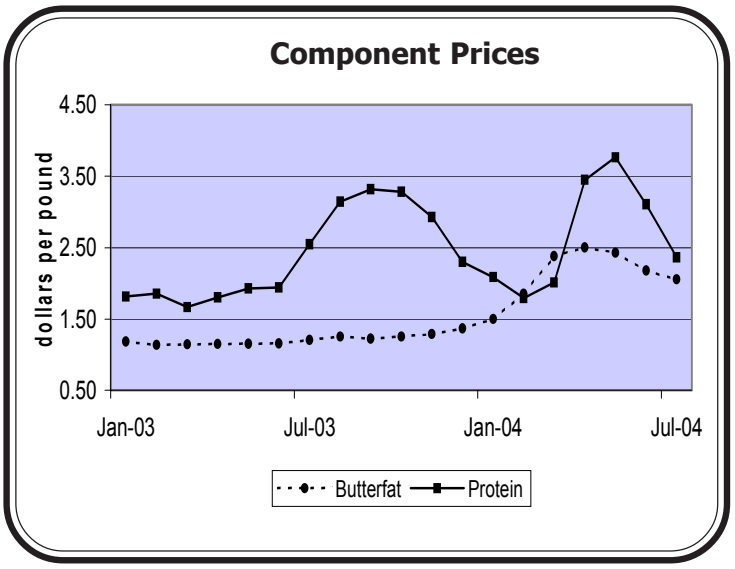
Through the first 7 months of 2004, protein levels in the Northeast Order have been averaging 0.03 percentage points higher than in the previous year and 0.04 percentage points higher than the previous 4-year average for that period. Average protein levels reached new highs during the first 4 months of 2004 and in July, but had been establishing new highs each month since September 2003. Record high protein levels have coincided with record high producer protein prices. Except for February 2004, the protein price hit a new high for that month each month since July 2003. Protein prices for the first 7 months of the year, averaging $2.6533 per pound, have been $0.72 higher than for the same period in the previous year and $0.76 higher for the 4-year average of the same period.

Through the first 7 months of 2004, other solids levels in the Northeast Order have been averaging $0.02 per pound lower than in 2003 and the previous 4-year average. The other solids price has averaged about $0.07 per pound higher over the first 7 months of 2004 than the same period in the previous year, but just $0.02 per pound higher than the 4-year average for that period.❖









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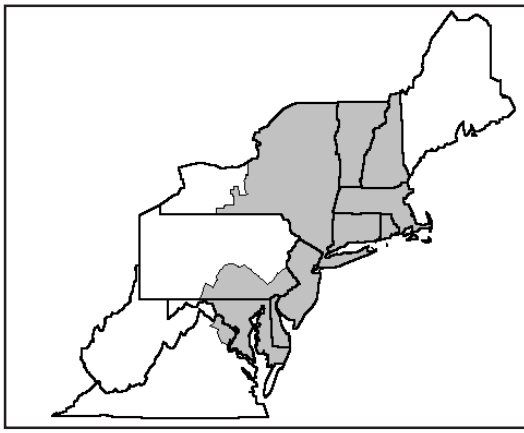
Computation of Producer Price Differential and Statistical Uniform Price*

	Product Pounds	Price per cwt./lb.	Component Value	Total Value
Class I— Skim	847,638,573	$14.20	120,364,677.37	
Butterfat	17,727,735	2.1413	37,960,398.96	
Less: Location Adjustment to Handlers			(2,676,183.63)	$155,648,892.70
Class II— Butterfat	28,284,360	2.0613	58,302,551.22	
Nonfat Solids	31,722,526	0.7811	24,778,465.06	83,081,016.28
Class III— Butterfat	17,895,152	2.0543	36,762,010.75	
Protein	14,751,466	2.3625	34,850,338.47	
Other Solids	28,262,550	0.1048	2,961,915.24	74,574,264.46
Class IV— Butterfat	6,853,481	2.0543	14,079,105.99	
Nonfat Solids	21,636,522	0.7042	15,236,438.79	29,315,544.78
Total Classified Value				**$342,619,718.22**
Add: Overage—All Classes				40,774.12
Inventory Reclassification—All Classes				80,982.59
Other Source Receipts	127,800			7,789.21
Less: Producer Component Valuations				(296,602,354.71)
Subtotal				**$46,146,909.43**
Add: Location Adjustment to Producers				9,846,232.71
One-half Unobligated Balance—Producer Settlement Fund				579,922.10
Total Pool Milk & Aggregate Value	1,996,122,158			56,573,064.24
Less: Producer Settlement Fund—Reserve				(881,255.99)
Producer Price Differential @ *Suffolk County, MA (Boston)*		**$2.79**		55,691,808.25
Statistical Uniform Price @ *Suffolk County, MA (Boston)*		**$17.64**		

* 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 2004 Federal Order No. 1

To contact the Northeast Marketing Area offices:
Boston, MA: phone (617) 737-7199, e-mail address: MABoston@fedmilk1.com; *Albany, NY*: phone (518) 452-4410,
e-mail address: MAAlbany@fedmilk1.com; *Alexandria, VA*: phone (703) 549-7000, e-mail address: MAAlexandria@fedmilk1.com;
website address: www.fmmone.com

August Pool Price Calculation

The August 2004 statistical uniform price (SUP) for the Northeast Marketing Area was announced at $15.57 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. The August producer price differential (PPD) at Suffolk County was $1.53 per hundredweight.

August's statistical uniform price was $2.07 per hundredweight below the July price; the August PPD was $1.26 below last month's. All class prices declined from the previous month with the Class I price facing the largest drop–$3.33 per hundredweight. ❖

New Administrator of USDA Dairy Programs

Dana Coale has been selected as the new deputy administrator of USDA's Agricultural Marketing Service Dairy Programs. In this position Ms. Coale is responsible for overseeing various programs, including the administration of the Federal milk marketing order program and the dairy producer promotion and research programs. Ms. Coale replaces Richard McKee who retired in April 2004.❖

Review of Federal Order Price Calculation

There is sometimes a misconception that the USDA "sets" the federal order minimum class prices—the monthly prices that processors pay for milk and that collectively drive the statistical uniform price (SUP). While the USDA does calculate and announce class prices each month through federal milk marketing orders, they are not "set" arbitrarily.

Commodities Used

Class milk prices are based on competitive market surveys of certain wholesale dairy commodities (unaged Cheddar cheese, butter, nonfat dry milk powder, and dry whey powder). Thus, when there is a change in the supply of milk and the ability to make these dairy commodities and/or a change in the demand for these products, a corresponding price movement generally occurs in the federal order class price series.

Each week the National Agricultural Statistics Service (NASS) surveys plants across the country that are producing the surveyed commodities and reports a weighted average price for 40-pound blocks of Cheddar cheese, 500-pound barrel Cheddar cheese, Grade AA butter, and Extra Grade nonfat dry milk and dry whey. The summarized survey prices are

(continued on page 2)

Pool Summary

- A total of 15,359 producers were pooled under the Order with an average daily delivery per producer of 3,971 pounds.
- Pooled milk receipts totaled 1.891 billion pounds, a decrease of 5.3 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 45.6 percent of total milk receipts, an increase of 2.2 percentage points from July but the total volume was less.
- The average butterfat test of producer receipts was 3.57 percent.
- The average true protein test of producer receipts was 2.98 percent.
- The average other solids test of producer receipts was 5.67 percent.

Class Utilization

Pooled Milk	Percent	Pounds
Class I	45.6	862,261,147
Class II	20.2	381,170,877
Class III	24.1	456,751,246
Class IV	10.1	190,363,193
Total Pooled Milk		1,890,546,463

Producer Component Prices

	2004	2003
	$/lb	
Protein Price	2.4663	3.1438
Butterfat Price	1.7941	1.2514
Other Solids Price	0.0676	0.0026

Class Price Factors

	2004	2003
	$/cwt	
Class I	17.87	14.22
Class II	13.13	10.81
Class III	14.04	13.80
Class IV	12.46	10.14

Review of Federal Order Price Calculation *(continued from page 1)*

then used by federal orders to generate class prices and component milk prices. The formulas convert the survey's finished product prices (cheese, butter, nonfat dry milk, and dry whey) back to an equivalent price for raw milk by using make allowances and yield factors. In this manner, federal order class prices are a reflection of market supply and demand factors. (Copies of the price formulas can be obtained by contacting the Albany Office of the Market Administrator or at the USDA website www.ams.usda.gov/dairy/). The current price formulas were adopted following order reform in 2000, although there have been more recent modifications through the hearing and producer referendum process.

Class Prices Announced

There are four classes of milk. The price for fluid drinking milk (Class I) is announced by the 23rd of the month prior to the month the price is effective. For example, the August Class I price was announced on July 23. Class I prices are based on survey data from the most recent 2-week period prior to the price announcement date (see example 1). The prices for other classes (Class II includes "soft" products such as ice cream, yogurt, cottage cheese, and cream; Class III includes the "hard" cheeses like American, mozzarella, Swiss, but also cream cheese; and Class IV includes butter and dried milk products) are announced by the 5th of the month following the month they are effective. For example, the August Class II, III, and IV prices were announced on September 3. These prices are based on the most recent 4- or 5-week period commodity survey prices (see example 2).

Because the two price announcements are based on different survey data, it is entirely possible for commodity prices to increase or decrease significantly within the time period used to calculate class prices for a particular month. This situation occurred earlier this year when rapid price increases in the cheese market resulted in an April Class III price that was higher than the April Class I price. When a price inversion occurs, it can result in a negative producer price differential (PPD). Even though producers may receive a higher SUP or blend price at the time, the price inversion and corresponding negative PPD value can cause confusion.

Chicago Mercantile Exchange Influence

Adding to the confusion is the reporting and sometimes comparison to dairy commodity prices on the Chicago Mercantile Exchange (CME). The CME operates a cash market where chese and nonfat dry milk are traded daily, and butter trading occurs three times per week. In general the survey prices reported by NASS (and used by federal orders) and the CME trading prices track each other closely. However, due to the method of collecting and reporting the NASS price there is at least a one-week lag between the NASS and CME prices with the NASS prices generally following changes first occurring on the CME.

For 2003, CME block prices averaged only 2 cents higher than NASS prices; barrel prices were 1 cent lower; and butter prices were 2 cents higher. The NASS prices tend to not peak as high as the CME prices, but in contrast they do not drop as far either. Due to their easy access and frequent reporting many people in the dairy industry look at the CME prices as an indicator of the current supply and demand situation and a precursor of future federal order price levels. California, which is not regulated by a federal marketing order, uses CME prices in its state milk marketing order pricing. ❖

Example 1

NASS Dairy Products Prices—July 23 Release

Week Ending:	July 10		July 17	
Commodity	Dol./Lb.	Pounds	Dol./Lb.	Pounds
Cheddar Cheese				
40 Lb. Blocks	1.5958	7,489,342	1.5164	9,237,096
500 Lb. Barrels	1.5586	9,272,745	1.4669	11,692,580
Butter	1.8741	2,719,328	1.8486	2,875,270
Nonfat Dry Milk	0.8590	17,409,519	0.8522	22,275,846
Dry Whey	0.2624	10,724,145	0.2574	9,768,967

U.S. prices weighted by sales volumes reported by participating manufacturers.

Example 2

NASS Dairy Products Prices—September 3 Release

Week Ending:	July 31		August 7		August 14		August 21		August 28	
Commodity	Dol./Lb.	Pounds	Dol./Lb.	Pounds	Dol./Lb.	Pounds	Dol./Lb.	Pounds	Dol./Lb.	Pounds
Cheddar Cheese										
40 Lb. Blocks	1.4459	9,129,245	1.4743	8,830,695	1.4947	8,277,269	1.5072	9,321,606	1.5537	7,156,097
500 Lb. Barrels	1.4475	8,627,868	1.4811	9,599,973	1.5085	8,601,147	1.5288	9,388,573	1.5644	10,674,258
Butter	1.7139	3,099,520	1.6650	3,292,724	1.5339	2,710,936	1.5395	2,672,294	1.5592	2,112,271
Nonfat Dry Milk	0.8596	31,248,684	0.8573	17,306,610	0.8614	20,182,852	0.8583	18,257,397	0.8544	18,632,427
Dry Whey	0.2335	10,762,366	0.2311	10,794,562	0.2244	9,201,132	0.2196	11,276,152	0.2154	11,439,549

U.S. prices weighted by sales volumes reported by participating manufacturers.

Supply and Demand

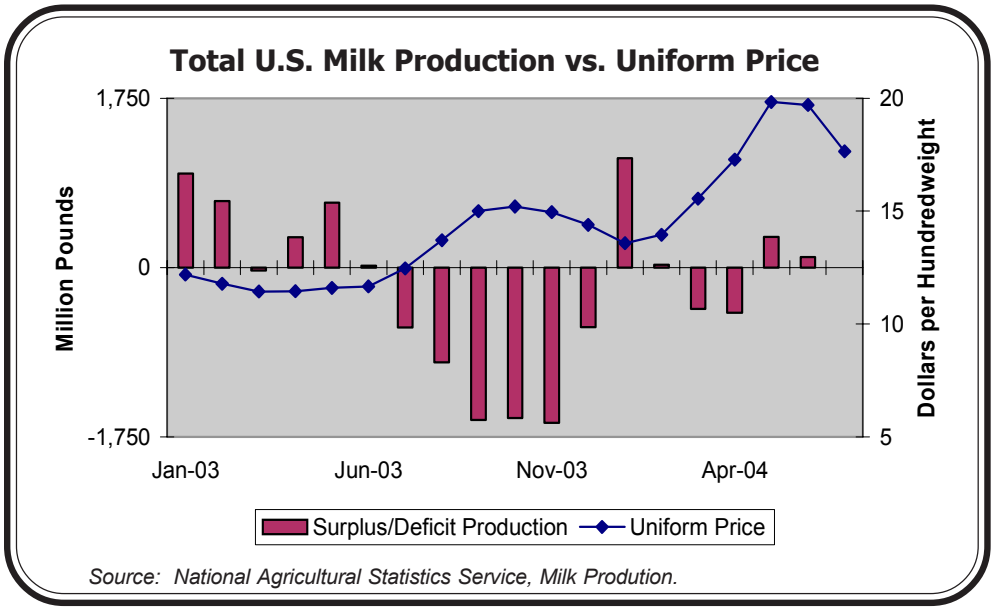
July milk production was up 0.7 percent over the previous year in the top 20 states. Regionally, the Western states of Texas, California, Idaho, Arizona, and New Mexico accounted for much of the increase while the Midwestern states of Minnesota and Wisconsin and the Northeast states of New York, Pennsylvania, and Vermont showed declines. Although milk cow numbers were still below year-ago levels in July, each month since April, the total number of milk cows has been closer to previous year levels. Through July, the culling rate has trailed last year's rate by 17.4 percent nationally. Total herd numbers in New York, Pennsylvania, and Vermont still declined by a combined 30,000 cows. Since March, milk production per cow has averaged at or below 1 percent of previous year levels.

Through June, commercial disappearance of all milk was up by about 1.6 percent in 2004 over the previous year. In fact, during the second quarter when dairy prices were peaking, there was a bigger percent increase over the previous year than the first quarter (1.8 percent and 1.3 percent respectively). Commercial disappearance of American cheese was higher than the previous year in both first and second quarters, 3.5 percent and 1.3 percent, respectively. The smaller increase in the second quarter coincided with peaking dairy prices. Commercial disappearance of butter was down 7.6 percent in the first quarter of 2004, compared to 2003; however, butter rebounded in the second quarter with a 9.4 percent increase over the second quarter of 2003.

The latest USDA Cold Storage Report showed American cheese inventories in July 2004 up 12.5 percent versus July 2003. Total cheese inventories were up 8.1 percent compared to July 2003. Butter inventories were down 34.1 percent in July 2004 versus the same month last year.

Supply and demand continues to shape trends in dairy pricing. The chart shows the amount of surplus or deficit production and the uniform price each month. The chart also depicts higher or rising prices when production is in deficit and low or falling prices when production is in surplus. Recently, stronger demand coupled with shorter milk supplies have resulted in strong prices for dairy products and higher pay prices to producers.

A look at the current situation shows growing demand for cheese, but not at a rate that has slowed the growth of cheese inventories. Butter inventories are currently low, but at the same time demand has been mixed this year. There has been a lack of evidence that would suggest milk production would be increasing substantially in the near future. The number of cows has increased some, but cull rates have been low. Lack of major milk production gains combined with solid, if not stellar, product demand offer an environment that will support current uniform price levels in the $14.00 to mid $15.00 per hundredweight range through the remainder of the year, based on current market information. ❖



Source: National Agricultural Statistics Service, Milk Prodution.

Milk Movements

During August, bulk milk shipments received by handlers pooled on the Northeast Order that came from handlers pooled on other federal orders totaled 24.8 million pounds. These orders include Appalachian (Order No. 5), Mideast (Order No. 33), and Upper Midwest (Order No. 30). Bulk shipments to other federal orders for August totaled 21.3 million pounds. Shipments were sent to Appalachian, Florida (Order No. 6), and Mideast.

Normally during the end of summer and into the fall months, there are a large volume of shipments between the Northeast Order and orders located in the southeastern United States. In August, the Northeast Order received 12.2 million pounds from Order No. 5 and shipped 20.7 million pounds to Orders No. 5 and 6. This equaled a net amount of 8.5 million pounds shipped South, the smallest volume in the past 3 years. ❖

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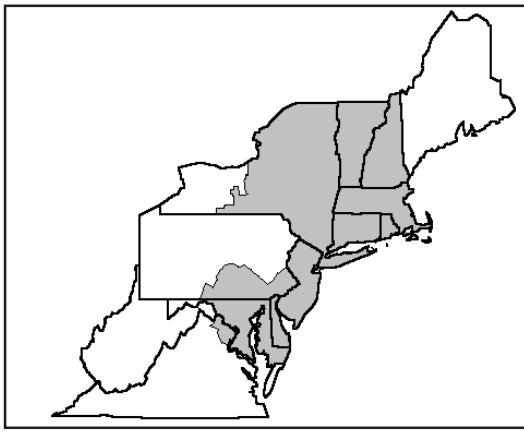
Computation of Producer Price Differential and Statistical Uniform Price*

	Product Pounds	Price per cwt./lb.	Component Value	Total Value
Class I— Skim	844,544,052	$10.80	91,210,757.62	
Butterfat	17,717,095	2.1277	37,696,663.03	
Less: Location Adjustment to Handlers			(2,698,827.17)	$126,208,593.49
Class II— Butterfat	26,576,249	1.8011	47,866,482.13	
Nonfat Solids	31,799,415	0.7856	24,981,620.47	72,848,102.60
Class III— Butterfat	17,376,925	1.7941	31,175,941.13	
Protein	13,625,865	2.4663	33,605,470.87	
Other Solids	25,812,938	0.0676	1,744,954.61	66,526,366.61
Class IV— Butterfat	5,833,140	1.7941	10,465,236.44	
Nonfat Solids	16,580,302	0.7112	11,791,910.76	22,257,147.20
Total Classified Value				**$287,840,209.90**
Add: Overage—All Classes				38,760.77
Inventory Reclassification—All Classes				(225,756.19)
Other Source Receipts	76,568			2,309.85
Less: Producer Component Valuations				(267,508,759.85)
Subtotal				**$20,146,764.48**
Add: Location Adjustment to Producers				8,971,688.82
One-half Unobligated Balance—Producer Settlement Fund				568,648.93
Total Pool Milk & Aggregate Value	1,890,623,031			29,687,102.23
Less: Producer Settlement Fund—Reserve				(760,569.85)
Producer Price Differential @ *Suffolk County, MA (Boston)*		**$1.53**		28,926,532.38
Statistical Uniform Price @ *Suffolk County, MA (Boston)*		**$15.57**		

* 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 2004 Federal Order No. 1

To contact the Northeast Marketing Area offices:
Boston, MA: phone (617) 737-7199, e-mail address: MABoston@fedmilk1.com; *Albany, NY*: phone (518) 452-4410,
e-mail address: MAAlbany@fedmilk1.com; *Alexandria, VA*: phone (703) 549-7000, e-mail address: MAAlexandria@fedmilk1.com;
website address: www.fmmone.com

September Pool Price Calculation

The September 2004 statistical uniform price (SUP) for the Northeast Marketing Area was announced at $16.06 per hundredweight for milk delivered to plants located in Suffolk County, Massachusetts (Boston), the pricing point for the Northeast Order. The statistical uniform price is calculated at 3.5 percent butterfat, 2.99 percent protein, and 5.69 percent other solids. The September producer price differential (PPD) at Suffolk County was $1.34 per hundredweight.

September's statistical uniform price was 49 cents per hundredweight higher than the August price; the September PPD was 19 cents below last month's. All class prices increased from the previous month as a result of higher dairy product prices. The only exception was the Class I price which, due to advance pricing, declined 68 cents per hundredweight.

The producer protein test averaged 3.01 percent and was the highest for the month of September since the Order's inception. Due to higher Class I usage and a lower total volume of producer milk receipts, Class I utilization equaled 51.1 percent. This was the highest Class I utilization percentage since the Northeast Order's inception.❖

Producer Referendum

The U. S. Department of Agriculture has announced a final decision that would permanently adopt amendments to the classification of milk provisions in all ten Federal milk marketing orders. These provisions were previously implemented on May 1, 2004, on an interim basis. This final decision adopts amendments that reclassify milk used to produce evaporated milk or sweetened condensed milk in consumer-type packages from Class III to Class IV.

Given the urgency of this issue, the USDA issued a tentative final decision on these same amendments that was voted on and approved by producers in March 2004. Although the classification change was implemented effective May 1, 2004, it was done so on a temporary or interim basis, pending an opportunity for producers and interested parties to comment on the change. After receiving and considering comments to the tentative final decision, USDA issued a final decision triggering the current referendum. Before the change to the order can be implemented permanently, USDA needs to again determine from voting that producers favor adopting the amendment on a permanent basis.

(continued on page 2)

Pool Summary

- A total of 15,260 producers were pooled under the Order with an average daily delivery per producer of 3,905 pounds.
- Pooled milk receipts totaled 1.788 billion pounds, a decrease of 2.3 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 51.1 percent of total milk receipts, a new record under the Order. This was an increase of 5.5 percentage points from August.
- The average butterfat test of producer receipts was 3.61 percent.
- The average true protein test of producer receipts was 3.01 percent.
- The average other solids test of producer receipts was 5.65 percent.

Class Utilization

Pooled Milk	Percent	Pounds
Class I	51.1	914,579,508
Class II	20.0	357,069,355
Class III	22.7	406,549,539
Class IV	6.2	110,071,594
Total Pooled Milk		1,788,269,996

Producer Component Prices

	2004	2003
	$/lb	
Protein Price	2.5431	3.3180
Butterfat Price	1.9354	1.2218
Other Solids Price	0.0589	0.0170

Class Price Factors

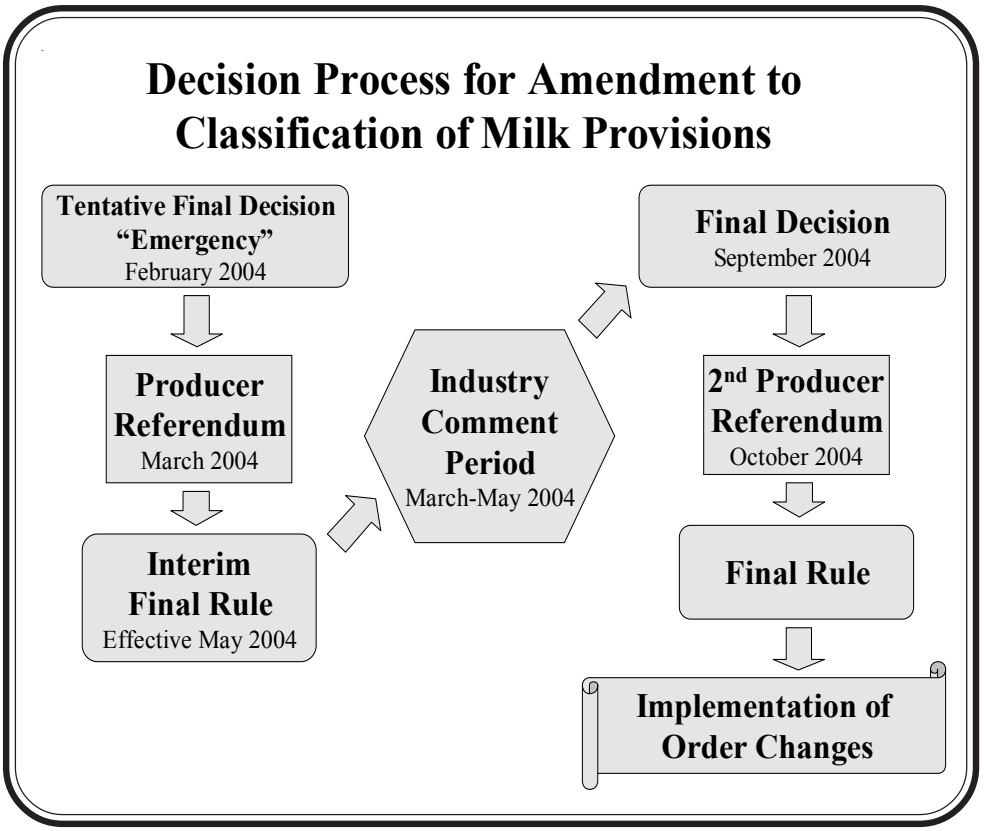
	2004	2003
	$/cwt	
Class I	17.19	16.96
Class II	13.66	10.76
Class III	14.72	14.30
Class IV	13.00	10.05

Producer Referendum *(continued from page 1)*

In short, voting is conducted twice. The first time is to determine approval on a temporary basis (responding to the emergency nature of the issue) and a second time to determine approval on a permanent basis.

Had this issue not been handled on an emergency basis, USDA would have issued a recommended decision following a review and evaluation of the hearing record. This would have been followed by a comment period for interested parties, after which the USDA would reconsider the decision in light of any comments made. Only following that would a final decision have been issued and put before producers for vote in a referendum, the only referendum required under the non-emergency process.

The referendum ends October 15, 2004, and all ballots are required to be postmarked by that date. Results will be released once all ballots are tabulated and approved by USDA.❖



Milk Moving South Increases

During September, bulk milk shipments to other Federal orders totaled nearly 31.0 million pounds. Of this total, 30.4 million pounds (98.1 percent) were sent south to the Appalachian, Florida, and Southeast Federal Milk Marketing Orders. This is up from the 20.7 million pounds sent south in August. During September 2003, 29.6 million pounds were shipped to the South.

Milk received by handlers pooled on the Northeast Order that came from handlers pooled on other Federal orders totaled 20.3 million pounds during September. Of this total, only 6.9 million came from the southern Federal orders, the same amount as received in September 2003. In August, 12.2 million pounds came from the South.

Overall, these movements resulted in a net amount of 10.6 million pounds more shipments than receipts. This is normal for this time of year as milk production in the southern United States falls short of fluid demands, especially as schools open. Additional demands were placed on the South, primarily Florida, due to shortages resulting from the numerous hurricanes that have hit that area during the past month. Hurricane damage caused power outages that led to milk dumping.

In addition to the bulk shipments pooled on the Northeast Order, some milk was pooled directly on one or more of the southern orders resulting in lower overall producer milk receipts. When combined with an increased volume of fluid milk sales, Class I utilization equaled 51.1 percent, the highest ever recorded since the Northeast Order's inception. ❖

Deadline for Proposals Extended

The USDA extended the time period for interested parties to submit additional proposals for consideration with a public hearing request currently under review that would amend the fluid milk product definition in all Federal milk marketing orders. The deadline for submitting proposals is extended from September 30, 2004, to **January 31, 2005.**

For more information regarding the proposal, a link to Dairy Programs is provided under the *Hearings and Proposals for Hearings* section on our website at www.fmmone.com or contact Antoinette Carter by phone at (202) 690-3465 or by e-mail at Antoinette.Carter@usda.gov. Proposals should be mailed to: Deputy Administrator, USDA/AMS/Dairy Programs, STOP-0225-Room 2968, 1400 Independence Avenue, SW, Washington, DC 20250-0225.❖

CCC Purchases Down From Last Year

For the marketing year (MY) October 1, 2003, through September 30, 2004, the Commodity Credit Corporation (CCC) purchased only nonfat dry milk (NFDM) under the dairy price support program. On a total solids milk equivalent basis, purchases equaled about 2.6 billion pounds, only about half of last year's volume. Purchases during MY 2002-03 were the highest since 1991 (see accompanying table).

The CCC did not purchase any cheese or butter during the MY. Near the end of 2003, milk production declined. Production continued to decline during the first half of 2004, further tightening milk supplies and limiting the availability of cheese and butter on the open market. The only activity involving butter during the MY was a cancellation of butter that had been offered during the previous MY. With no other activity during the MY, the actual net amount of CCC butter purchases equaled a negative 42,309 pounds. The last time the CCC purchased butter was in mid-June 2003.

There was no cheese activity during MY 2003-04. The last time the CCC purchased cheese under the program was during the third week of July 2003; the last activity consisted of cancellations (of previous purchases) during September 2003.

Uncommitted inventories of NFDM totaled 606.9 million at MY end. This was down considerably from the previous MY 2003-04 total of 1,180.0 million pounds. There were no uncommitted inventories of butter or cheese at the end of either MY.❖

CCC Purchases of Dairy Products Under the Support Program, 1991–2004*

MY** Ending	Butter	Cheese	NFDM	Milk Equivalent Total
		(million pounds)		
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	1,841.1
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	1.1	398.9	2,927.7
2002	0.0	7.4	653.2	4,690.0
2003	11.4	41.1	624.6	4,913.5
2004	**0.0 #**	**0.0**	**362.1**	**2,560.2**

Sources: Commodity Credit Corporation; *Dairy Market News*.
* Does not include purchases under Dairy Export Incentive Program
** Marketing year; October 1 through September 30.
# Negative value less than 50,000 pounds (sellbacks were greater than purchases).

Pool Summary for All Federal Orders, January–September 2003–2004

Federal Order Number	Federal Order Name	Total Producer Milk 2003	Total Producer Milk 2004**	Change**	Producer Price Differential# 2003	Producer Price Differential# 2004	Statistical Uniform Price#* 2003	Statistical Uniform Price#* 2004
		pounds		percent	dollars per hundredweight			
1	Northeast	18,240,550,624	17,175,699,765	-5.8	1.56	1.07	12.37	16.58
5	Appalachian	4,728,168,440	4,684,414,094	-0.9	N/A	N/A	12.81	17.07
6	Florida	2,148,297,822	2,165,721,943	0.8	N/A	N/A	13.91	18.51
7	Southeast	5,262,320,505	5,459,289,222	3.7	N/A	N/A	12.71	16.96
30	Upper Midwest	13,192,668,555	13,706,832,240	3.9	-0.03	-0.41	10.79	15.10
32	Central	11,230,271,240	8,911,401,056	-20.6	0.32	-0.25	11.13	15.25
33	Mideast	11,776,900,463	11,933,019,679	1.3	0.53	0.02	11.34	15.52
124	Pacific Northwest	4,915,287,486	4,992,351,530	1.6	0.01	-0.63	10.82	14.87
126	Southwest	7,059,472,808	6,607,675,833	-6.4	1.15	0.58	11.96	16.08
131	Arizona-Las Vegas	2,323,377,278	2,195,487,409	-5.5	N/A	N/A	11.29	15.61
135	Western@	3,752,672,672	1,096,283,946	N/A	0.08	0.45	10.89	0.00
	All Market Total/Average	84,629,987,893	78,928,176,717	-6.7	0.52	0.05	11.82	16.13

Price at designated order location. * Price at 3.5% butterfat.
** A significant amount of milk was depooled during April, May, and June.
@ The Western Milk Marketing Order was terminated effective April 1, 2004; pounds for 2004 are only Jan-Mar total; Uniform Price is average for Jan-Mar 2004.
N/A = Not applicable; order prices on skim and butterfat basis.

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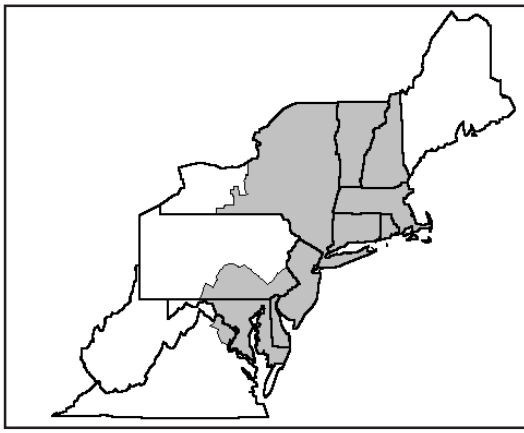
Computation of Producer Price Differential and Statistical Uniform Price*

		Product Pounds	Price per cwt./lb.	Component Value	Total Value
Class I—	Skim	896,156,756	$11.21	100,459,172.35	
	Butterfat	18,422,752	1.8215	33,557,042.77	
Less:	Location Adjustment to Handlers			(2,896,172.92)	$131,120,042.30
Class II—	Butterfat	25,659,847	1.9424	49,841,686.83	
	Nonfat Solids	29,799,912	0.7900	23,541,930.48	73,383,617.31
Class III—	Butterfat	15,640,781	1.9354	30,271,167.56	
	Protein	12,292,720	2.5431	31,261,616.21	
	Other Solids	22,913,288	0.0589	1,349,592.68	62,882,376.45
Class IV—	Butterfat	4,833,310	1.9354	9,354,388.16	
	Nonfat Solids	9,470,310	0.7167	6,787,371.16	16,141,759.32
Total Classified Value					**$283,527,795.38**
Add:	Overage—All Classes				56,538.61
	Inventory Reclassification—All Classes				294,435.13
	Other Source Receipts	75,581			2,116.81
Less:	Producer Component Valuations				(267,937,342.51)
	Subtotal				**$15,943,543.42**
Add:	Location Adjustment to Producers				8,276,035.66
	One-half Unobligated Balance—Producer Settlement Fund				532,030.05
Total Pool Milk & Aggregate Value		1,788,345,577			24,751,609.13
Less:	Producer Settlement Fund—Reserve				(787,778.39)
Producer Price Differential @ Suffolk County, MA (Boston)			**$1.34**		23,963,830.74
Statistical Uniform Price @ Suffolk County, MA (Boston)			**$16.06**		

* 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 2004 Federal Order No. 1

To contact the Northeast Marketing Area offices:
Boston, MA: phone (617) 737-7199, e-mail address: MABoston@fedmilk1.com; *Albany, NY*: phone (518) 452-4410,
e-mail address: MAAlbany@fedmilk1.com; *Alexandria, VA*: phone (703) 549-7000, e-mail address: MAAlexandria@fedmilk1.com;
website address: www.fmmone.com

October Pool Price Calculation

The October 2004 statistical uniform price (SUP) for the Northeast Marketing Area was announced at $16.07 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. The October producer price differential (PPD) at Suffolk County was $1.91 per hundredweight.

October's statistical uniform price was 1 cent per hundredweight higher than the September price; the October PPD was 57 cents above last month's. All class prices decreased from the previous month except the Class I price which increased 84 cents per hundredweight. The producer protein test averaged 3.11 percent, a new record high under the Order.❖

Producer Receipts Decline

For the months of August–October 2004, U.S. milk production increased a combined 1.3 percent compared to the same period in 2003. In contrast, milk production in the combined states of New York, Pennsylvania, and Vermont declined 1.3 percent during the same 3-month period in 2004. These states are the top three milk producing states in the Northeast Order and account for over 86 percent of milk pooled on the Order. Milk pooled on an order does not necessarily represent all milk produced in a particular state.

Total producer milk receipts pooled on the Northeast Order decreased 4.2 percent during the August–October period in 2004 compared to last year. The larger decrease in pooled receipts compared to the decline in the top three milk producing states indicates that some of the milk normally pooled on the Northeast Order was pooled elsewhere during those months. Cooperatives have the ability to move pool producers between orders as their supply commitments and price relationships change.

For example, the amount of milk pooled in the neighboring Mideast Order (Order 33) that came from producers located in New York and Pennsylvania increased a combined 57 million pounds during September 2004 compared to the previous year. Conversely, the volume from these two states pooled on the Northeast Order declined 77 million pounds during that same month compared to the previous year. Some of the Mideast's increase was due to milk coming back on the Mideast Order that had been depooled during September 2003. It is likely some of the additional milk pooled on the Mideast Order in 2004 was from farms that had been pooled on the Northeast Order during September 2003.❖

Pool Summary

- A total of 15,194 producers were pooled under the Order with an average daily delivery per producer of 3,883 pounds.
- Pooled milk receipts totaled 1.830 billion pounds, a decrease of 1.0 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 50.8 percent of total milk receipts, a new record under the Order. This was a decrease of 0.3 percentage points from September.
- The average butterfat test of producer receipts was 3.72 percent.
- The average true protein test of producer receipts was 3.11 percent.
- The average other solids test of producer receipts was 5.65 percent.❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	50.8	929,646,827
Class II	20.1	367,516,930
Class III	23.5	430,596,218
Class IV	5.6	101,972,034
Total Pooled Milk		1,829,732,009

Producer Component Prices

	2004	2003
	$/lb	
Protein Price	2.3814	3.2815
Butterfat Price	1.9020	1.2553
Other Solids Price	0.0677	0.0311

Class Price Factors

	2004	2003
	$/cwt	
Class I	18.03	17.52
Class II	13.57	10.84
Class III	14.16	14.39
Class IV	12.81	10.16

Regional Dairy Outlook Conference Held

The 2004 Northeast Regional Dairy Outlook Conference was held November 9 at the Northeast Marketing Area's 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 Delaware, Maryland, New England (Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont), New Jersey, New York, and Pennsylvania.

Northeast Milk Marketing Area
Statistical Uniform Prices, 2003–2005*

Month	2003 Actual	2004 Actual and **Estimated**	**2005 Estimated**
January	12.19	13.58	**14.57**
February	11.79	13.95	**14.23**
March	11.43	15.56	**14.18**
April	11.45	17.28	**14.27**
May	11.60	19.84	**14.29**
June	11.66	19.70	**14.60**
July	12.46	17.64	**15.05**
August	13.72	15.57	**15.37**
September	15.01	16.06	**15.54**
October	15.21	16.07	**15.33**
November	14.95	**15.63**	**14.94**
December	14.39	**15.22**	**14.41**
Average	12.99	**16.34**	**14.73**

* Estimated prices for November and December 2004 and all of 2005. All estimates are subject to change. Prices are reported at Suffolk County, MA, at 3.5 percent butterfat, 2.99 percent protein, and 5.69 percent other solids.

Crop Situation

Mixed weather conditions throughout the Northeast surprisingly resulted in above average yields for corn and soybeans, but hay yields were inconsistent. Wet weather experienced earlier in the season hindered hay harvesting. Even though yields varied throughout the Northeast, more hay went into haylage than normal. Nationally, the forage situation is mixed, although grain prices are predicted to be favorable for dairy farmers.

Production Estimates

Both in the Northeast and nationally, cow numbers are expected to continue declining. Even though milk prices were higher during the past year, replacement heifer prices were high due to short supply further stunted by BSE (mad cow) scares that stopped shipments from Canada. Any extra cash producers had was used to pay down debt that limited expansion. Milk production per cow varied among the Northeast states during 2004 with an overall decline, but is estimated to increase in all Northeast states in 2005. Overall U.S. milk production per cow is projected to be up from last year and increase again in 2005 mainly due to better quality feed and increased BST usage.

The decline in cow numbers coupled with the decrease in milk per cow will result in an overall decline of 3.1 percent in milk production for the Northeast region for 2004. Nationally, the increase in milk per cow should offset the decline in cow numbers enough to raise total milk production just slightly (0.1 percent) over 2003. For 2005, milk production per cow is expected to offset the decline in cow numbers resulting in an increase of 1.3 percent in the Northeast. Nationally, milk production is estimated to increase 2.1 percent for 2005. These predictions have been adjusted for leap year.

Price Estimates

Milk prices were much higher during 2004 than initially projected this time last year. Milk production was down during the first half of 2004 due to a combination of factors. This, combined with fairly strong demand for cheese and butter, resulted in price spikes in early spring. Milk production began to recover somewhat near the end of the summer, and prices systematically have declined. It is anticipated that they will continue to drop throughout the winter and into early spring 2005. By summer, prices should rebound somewhat and continue to rise into the fall months, but drop again next winter (see accompanying table).

Prices are not expected to reach the levels seen in 2004 and overall average about 10 percent less. Once again, the Class III price is expected to be the mover for Class I prices during all of 2005. At this time, no negative producer price differentials (PPD) are predicted for 2005.❖

Processor Promotion Board Seeks Nominations

The USDA is seeking nominations for the National Fluid Milk Processor Promotion Board. Six individuals will be appointed to serve 3-year terms beginning July 1, 2005. Locally, Region 2 (New Jersey and New York) is one of the regions with an opening.

For nominating forms and procedures, contact Promotion and Research Branch, Dairy Programs, AMS, MRP, USDA, 1400 Independence Ave., SW, Stop 0233, Room 2958 S, Washington, DC 20250-0233 or by telephone at (202) 720-6909. Blank forms are also available on the Dairy Promotion and Research Branch's website at www.ams.usda.gov/dairy/dairyrp.htm. Nomination forms should be submitted by December 3, 2004.❖

"Tanker Load Per Day" Farms by State

During September 2004 (verified payroll data), there were 58 farm operations (defined as a single farm location) that marketed at least 1.5 million pounds of milk per month on the Northeast Order. This amount of milk roughly equates to a single tractor-trailer size load per day. In total, these farms marketed 119 million pounds on the Order in September 2004. This number of farms, producing at least 1.5 million pounds a month, decreased by 2 since September 2003. These "large" farms represented 6.7 percent of the total milk pooled on the Northeast Order in September 2004, compared to 6.9 percent in 2003 and 5.3 percent in 2002.

These 58 farms represent just 0.4 percent of the 15,294 farms pooled on the Northeast Order. Roughly 80 percent of farms pooling on the Northeast Order marketed between 30,000 and 249,999 pounds of milk during September.

Most of the "large" farms pooled on the Order are located in New York; they total 41 farms and account for 88 million pounds. Most of the growth in these size farms in the Northeast was in New York. Of the increase in large farms that has occurred since 2001, New York accounted for 10 of the 16 farms. The number of these "large" farms doubled in Vermont, from 6 in 2002 to 12 in 2004.

Interestingly, there are no "tanker load per day" farms in Pennsylvania that are pooled on the Northeast Order. Farms marketing over 1.5 million pounds a month on the Northeast Order from outside the traditional marketing area have remained at zero since 2002.

The number of farms in a size category may change due to changes in production and/or changes in pooling location. Increases or decreases do not necessarily imply a new farm or a farm going out of business. During any given year, the total number of farms producing greater than 1.5 million pounds a month may change due to the number of days in a month or the seasonality of milk production.❖

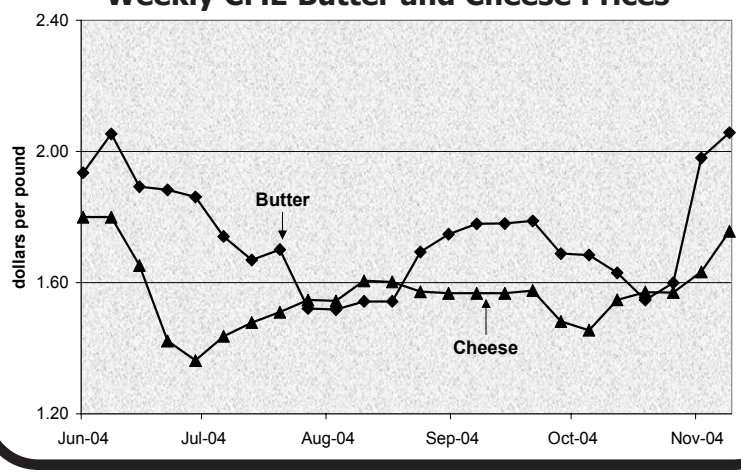
Milk by State and Farm Size, Month of September

	Total Pooled		Farms Marketing 1.5 Million Lbs. or More Per Month on Northeast Order							
	2004		2004		2003		2002		2001	
State/Area	No. of Farms	Million Pounds	No. of Farms	Million Pounds	No. of Farms	Million Pounds	No. of Farms	Million Pounds	No. of Farms	Million Pounds
ME	384	49	<=3	3	<=3	3	<=3	3	<=3	2
VT	1,256	205	12	21	9	16	6	11	6	10
Other New England[1/]	529	74	<=3	3	<=3	3	<=3	3	<=3	3
NJ	123	15	0	0	0	0	0	0	0	0
NY	5,825	753	41	88	48	108	39	85	31	70
PA	6,308	588	<=3	4	0	0	0	0	0	0
Other Inside Area[2/]	816	99	0	0	0	0	0	0	0	0
Other Outside Area[3/]	53	6	0	0	0	0	0	0	2	4
Total	15,294	1,789	58	119	60	130	48	102	42	89

1/ Other New England includes CT, MA, NH, and RI.
2/ Other Inside Area includes DE, MD, VA.
3/ Other Outside Area includes ID, MI, MN, ND, NV, UT, WI, and WV.

Current Commodity Situation

Market signals remain mixed as Chicago Mercantile Exchange (CME) AA Butter and 40-lb. block Cheddar cheese prices increase. The CME AA butter price reached $2.1050 per pound on November 17 and 40-lb. block Cheddar cheese closed the day at $1.7825 per pound on November 18. Weekly averages, including partial week ending November 19, are shown in the accompanying chart. Cash prices have been on the rise due to some tightness in the supply of current product. October's *Milk Production* report showed an increase of 1.3 percent in the 20 selected states. Based on the latest milk production trends, prices are expected to decline after holiday purchases are complete.❖



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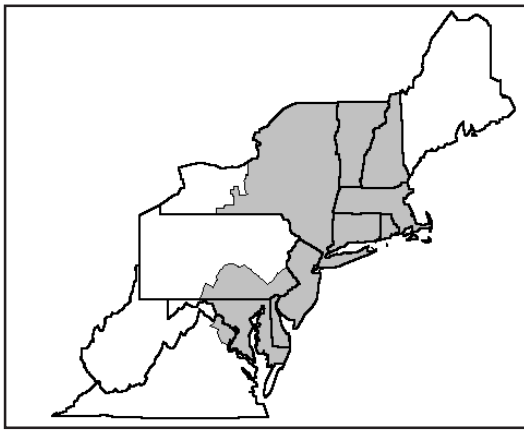
Computation of Producer Price Differential and Statistical Uniform Price*

	Product Pounds	Price per cwt./lb.	Component Value	Total Value
Class I— Skim	910,540,743	$11.78	107,261,699.53	
Butterfat	19,106,084	1.9040	36,377,983.94	
Less: Location Adjustment to Handlers			(2,939,557.07)	$140,700,126.43
Class II— Butterfat	26,854,921	1.9090	51,266,044.20	
Nonfat Solids	30,964,508	0.7933	24,564,144.21	75,830,188.41
Class III— Butterfat	16,810,544	1.9020	31,973,654.70	
Protein	13,404,514	2.3814	31,921,509.64	
Other Solids	24,263,588	0.0677	1,642,644.91	65,537,809.25
Class IV— Butterfat	5,261,953	1.9020	10,008,234.63	
Nonfat Solids	8,780,322	0.7093	6,227,882.41	16,236,117.04
Total Classified Value				**$298,304,241.13**
Add: Overage—All Classes				129,737.48
Inventory Reclassification—All Classes				81,209.66
Other Source Receipts	48,130			1,853.01
Less: Producer Component Valuations				(271,873,679.60)
Subtotal				**$26,643,361.68**
Add: Location Adjustment to Producers				8,546,350.70
One-half Unobligated Balance—Producer Settlement Fund				599,448.41
Total Pool Milk & Aggregate Value	1,829,780,139			35,789,160.79
Less: Producer Settlement Fund—Reserve				(840,360.20)
Producer Price Differential @ *Suffolk County, MA (Boston)*		**$1.91**		34,948,800.59
Statistical Uniform Price @ *Suffolk County, MA (Boston)*		**$16.07**		

* 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 2004 Federal Order No. 1

To contact the Northeast Marketing Area offices:
Boston, MA: phone (617) 737-7199, e-mail address: MABoston@fedmilk1.com; *Albany, NY*: phone (518) 452-4410,
e-mail address: MAAlbany@fedmilk1.com; *Alexandria, VA*: phone (703) 549-7000, e-mail address: MAAlexandria@fedmilk1.com;
website address: www.fmmone.com

November Pool Price Calculation

The November 2004 statistical uniform price (SUP) for the Northeast Marketing Area was announced at $16.20 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. The November producer price differential (PPD) at Suffolk County was $1.31 per hundredweight.

November's statistical uniform price was 13 cents per hundredweight higher than the October price; the November PPD was 60 cents below last month's. All class prices increased from the previous month as a result of higher dairy product prices during the month. The only exception was the Class I price that decreased 49 cents per hundredweight.

The producer protein test averaged 3.13 percent and set a new record high under the Order. The producer butterfat test averaged 3.78 percent, the highest test since February 2003.❖

Payment Dates to Producers

The calendar below shows the dates for partial and final payments to producers that are not members of cooperatives. As required by the Order, payment must be made so that a producer receives it no later than the date shown. The table dates vary due to weekends and national holidays. Note payment dates could change pending the outcome of the Northeast Order hearing held September 2002.❖

Northeast Order Required Producer Payments

2005 Month Milk Produced	Payment Due			
	Partial		Final	
	Day	Date	Day	Date
January	Wednesday	1/26/05	Thursday	2/17/05
February	Monday	2/28/05	Thursday	3/17/05
March	Monday	3/28/05	Tuesday	4/19/05
April	Tuesday	4/26/05	Tuesday	5/17/05
May	Thursday	5/26/05	Friday	6/17/05
June	Monday	6/27/05	Tuesday	7/19/05
July	Tuesday	7/26/05	Wednesday	8/17/05
August	Friday	8/26/05	Monday	9/19/05
September	Monday	9/26/05	Tuesday	10/18/05
October	Wednesday	10/26/05	Thursday	11/17/05
November	Monday	11/28/05	Monday	12/19/05
December	Tuesday	12/27/05	Wednesday	1/18/06

Pool Summary

- A total of 15,128 producers were pooled under the Order with an average daily delivery per producer of 3,901 pounds.
- Pooled milk receipts totaled 1.771 billion pounds, relatively unchanged from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 52.0 percent of total milk receipts, a new record under the Order. This was an increase of 1.2 percentage points from October.
- The average butterfat test of producer receipts was 3.78 percent.
- The average true protein test of producer receipts was 3.13 percent.
- The average other solids test of producer receipts was 5.66 percent.

Class Utilization

Pooled Milk	Percent	Pounds
Class I	52.0	920,209,409
Class II	19.9	351,519,864
Class III	23.4	415,161,735
Class IV	4.7	83,957,121
Total Pooled Milk		1,770,848,129

Producer Component Prices

	2004	2003
	$/lb	
Protein Price	2.4297	2.9287
Butterfat Price	2.0489	1.2877
Other Solids Price	0.0800	0.0368

Class Price Factors

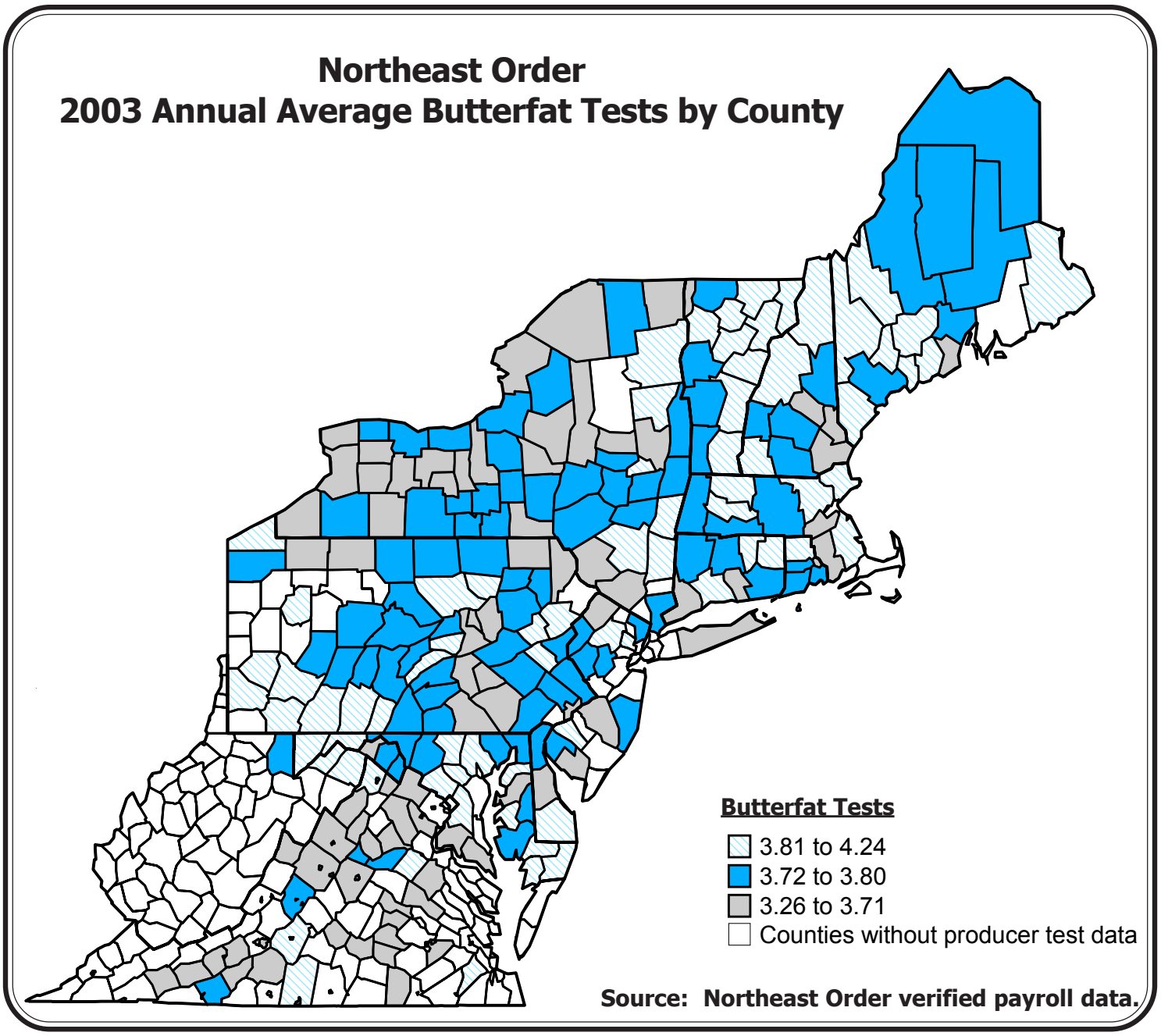
	2004	2003
	$/cwt	
Class I	17.54	17.62
Class II	14.09	10.99
Class III	14.89	13.47
Class IV	13.34	10.30

Average Butterfat Test by County

The statistical uniform per-hundredweight price is announced each month at the standard component levels of 3.5 percent butterfat, 2.99 percent protein, and 5.69 percent other solids. An individual producer's milk may contain component percentages that look much different than the basis for the price announcement. Genetics, stage of lactation, level of milk production, age of cow, environment, disease, and nutrition all affect the level of components in milk. The result is a "uniform price" for each producer that may be different from the announced order average.

The accompanying map shows annual average butterfat tests by county for 2003 and gives an idea of regional differences in levels of butterfat. Only counties in the contiguous Northeast milkshed are shown here. Of note, six of the top ten counties in terms of milk production in 2003 fall in the low range. The other four fall in the middle. These counties are ranked based on their volume of milk that is pooled on the Northeast Order; it does not necessarily represent all milk produced in a particular county. Many of the counties in western and northern New York fell in the low range as well. New England and an area that runs from southwest Pennsylvania through Maryland tended to have average butterfat tests in the high range. The majority of counties in Virginia fell in the low range.

Annual average tests for protein and other solids by county will be shown in subsequent *Bulletins*.❖



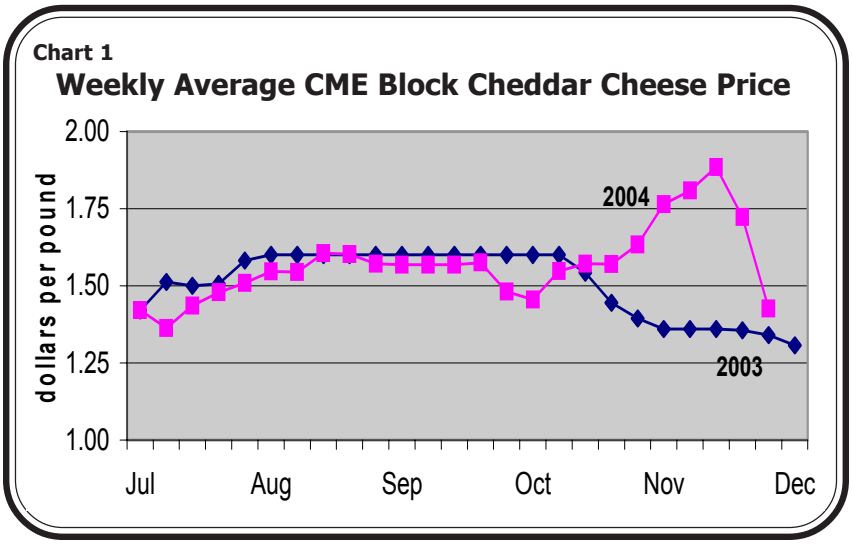
Commodity Markets Tumble

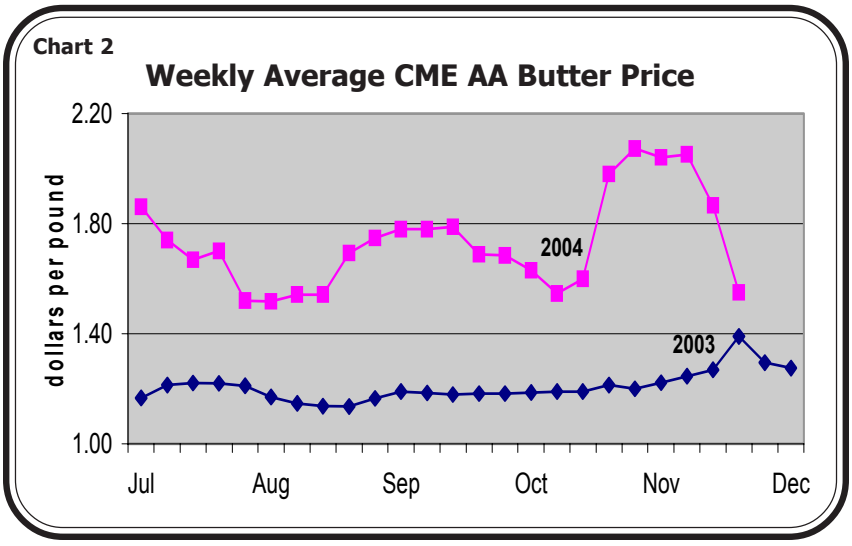
Chicago Mercantile Exchange (CME) cheese and butter prices have dropped considerably during recent trading sessions. According to USDA's *Dairy Market News*, much of the holiday season demand for cheese and butter has been filled, and buyers are no longer supporting prices near the two-dollar level that existed for both commodities at the beginning of December.

Although prices were expected to decline, the butter price dropped 40 cents in one trading day, the largest single-day decline since three-times-a-week trading of butter began at the CME in March 1999. In addition, the $0.4525 drop for the week is the largest ever. *Dairy Market News* notes that buyers may now hold off additional purchases in anticipation of still weaker prices. At the time this was published, the average weekly butter price for the week ending December 17 was hovering around $1.55 per pound. The average weekly butter price has not been below $1.50 since the week ending January 20, 2003. Chart 1 compares CME butter prices from July through December for 2003 and 2004.

The 40-lb. block Cheddar cheese price dropped $0.2525 the week ending December 10 and opened up the following trading week dropping 28 cents the first day. This was the largest single-day decline since daily trading at the CME began in September 1998. Again, at print time, the average weekly price for the week ending December 17 was $1.4258 per pound. From July through October, this year's Cheddar cheese price tracked relatively close to last year's. With the start of November, the 2004 cheese price began to steadily rise, compared to last year when the price began a steady decline. Chart 2 shows the quick return to last year's price levels.

Even though prices have dropped dramatically in the past 2 weeks, USDA's outlook for the upcoming year is still positive. It is forecasted that prices will be lower than during 2004, but still above those in 2003. Even with the decline in cheese and butter prices, the 2005-year is expected to begin with higher class prices than those at the beginning of 2004. The Northeast Order blend price for January is forecasted to be above $15.00 per hundredweight.❖





USDA Amends All Federal Milk Orders

Producers supplying milk for each of the ten federal milk markets have approved amendments to the classification of milk provisions. The announcement follows a referendum conducted in the Northeast Marketing Order during October in which producers had the opportunity to vote on the proposed Order as amended. USDA determined dairy farmers' approval by polling cooperative associations in eight of the marketing areas and by conducting referenda in the Northeast and Mideast marketing areas.

This final rule permanently adopts classification of milk use provisions that reclassify milk used to produce evaporated milk in consumer-type packages or sweetened condensed milk in consumer-type packages from Class III to Class IV.

The final rule was published in the November 26 *Federal Register* and became effective on December 1, 2004. This final rule includes no new changes to the Order since the amendments were previously approved and implemented on an interim basis effective on May 1, 2004.

The final order rule and additional background information can be accessed on the web at http://www.ams.usda.gov/dairy/hearings.htm. Copies of the final order and additional information also may be obtained by contacting the Northeast Market Administrator's Albany office.❖

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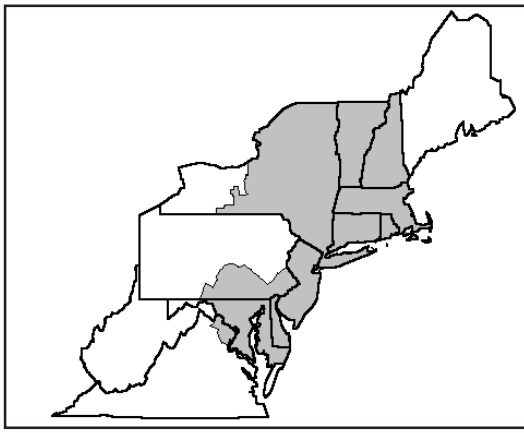
Computation of Producer Price Differential and Statistical Uniform Price*

		Product Pounds	Price per cwt./lb.	Component Value	Total Value
Class I—	Skim	900,591,142	$11.06	99,605,380.31	
	Butterfat	19,618,267	1.9613	38,477,307.07	
Less:	Location Adjustment to Handlers			(2,915,316.97)	$135,167,370.39
Class II—	Butterfat	26,655,366	2.0559	54,800,766.99	
	Nonfat Solids	29,639,456	0.7933	23,512,980.42	78,313,747.41
Class III–	Butterfat	15,998,220	2.0489	32,778,752.96	
	Protein	12,998,346	2.4297	31,582,081.31	
	Other Solids	23,426,876	0.0800	1,874,150.08	66,234,984.35
Class IV–	Butterfat	4,602,302	2.0489	9,429,656.59	
	Nonfat Solids	7,229,817	0.7098	5,131,724.08	14,561,380.67
Total Classified Value					**$294,277,482.82**
Add:	Overage—All Classes				139,449.03
	Inventory Reclassification—All Classes				385,196.32
	Other Source Receipts	111,387			2,957.89
Less:	Producer Component Valuations				(279,628,984.13)
	Subtotal				**$15,176,101.93**
Add:	Location Adjustment to Producers				8,182,187.34
	One-half Unobligated Balance—Producer Settlement Fund				572,674.22
Total Pool Milk & Aggregate Value		1,770,959,516			23,930,963.49
Less:	Producer Settlement Fund—Reserve				(731,393.88)
Producer Price Differential @ *Suffolk County, MA (Boston)*			**$1.31**		23,199,569.61
Statistical Uniform Price @ *Suffolk County, MA (Boston)*			**$16.20**		

* 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 2004 Federal Order No. 1

To contact the Northeast Marketing Area offices:
Boston, MA: phone (617) 737-7199, e-mail address: MABoston@fedmilk1.com; *Albany, NY*: phone (518) 452-4410,
e-mail address: MAAlbany@fedmilk1.com; *Alexandria, VA*: phone (703) 549-7000, e-mail address: MAAlexandria@fedmilk1.com;
website address: www.fmmone.com

December Pool Price Calculation

The December 2004 statistical uniform price (SUP) for the Northeast Marketing Area was announced at $16.43 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. The December producer price differential (PPD) at Suffolk County was $0.29 per hundredweight.

December's statistical uniform price was 23 cents per hundredweight higher than the November price; the December PPD was $1.02 below last month's. The considerably lower PPD was the result of a tightening in the spread between the class prices. The Class I price for December was based on dairy product price data from November when prices had declined from the previous month. Near the end of November, prices began to increase and held through most of December. The other class prices were calculated using data from December when prices were still relatively high. A surprising factor is that the National Agricultural Statistics Service survey prices, which are used in the federal order formulas, did not decline at the same rate as those announced on the Chicago Mercantile Exchange. This resulted in higher Class III and IV prices, and since producers are paid based on their components at the Class III value, the PPD was much lower at Boston and will be negative for producers shipping to plants with a $2.90 or less differential.❖

2004 Northeast Order Statistics Summarized

During 2004, the volume of milk received from producers shipping to handlers regulated under the Northeast Order totaled 22.7 billion pounds, a decrease of 5.7 percent from last year. The average number of producers declined 6.7 percent from 2003, while average daily deliveries per producer (DDP) increased 0.8 percent. The accompanying table compares selected pool statistics for 2003 and 2004.

Class Utilization Changes

Class I utilization averaged 47.2 percent in 2004, an increase of 2.6 percentage points from the previous year. The total volume of milk used in Class I actually decreased a slight 0.1 percent but because of a smaller volume of producer milk receipts, the utilization percentage increased. Class II usage decreased 0.5 percent, but again, due to a smaller overall volume of pooled milk, resulted in a utilization increase of 1 percentage point. Class III volume declined 22.0 percent, with a corresponding utilization drop of 4.9 percentage

(continued on page 3)

Pool Summary

- A total of 15,087 producers were pooled under the Order with an average daily delivery per producer of 4,049 pounds.
- Pooled milk receipts totaled 1.894 billion pounds, an increase of 3.5 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 49.5 percent of total milk receipts, a decrease of 2.5 percentage points from November.
- The average butterfat test of producer receipts was 3.76 percent.
- The average true protein test of producer receipts was 3.10 percent.
- The average other solids test of producer receipts was 5.66 percent.

Class Utilization

Pooled Milk	Percent	Pounds
Class I	49.5	937,916,690
Class II	17.3	327,455,567
Class III	22.2	420,586,339
Class IV	11.0	207,712,050
Total Pooled Milk		1,893,670,646

Producer Component Prices

	2004	2003
	$/lb	
Protein Price	2.8486	2.2997
Butterfat Price	2.0366	1.3688
Other Solids Price	0.0858	0.0362

Class Price Factors

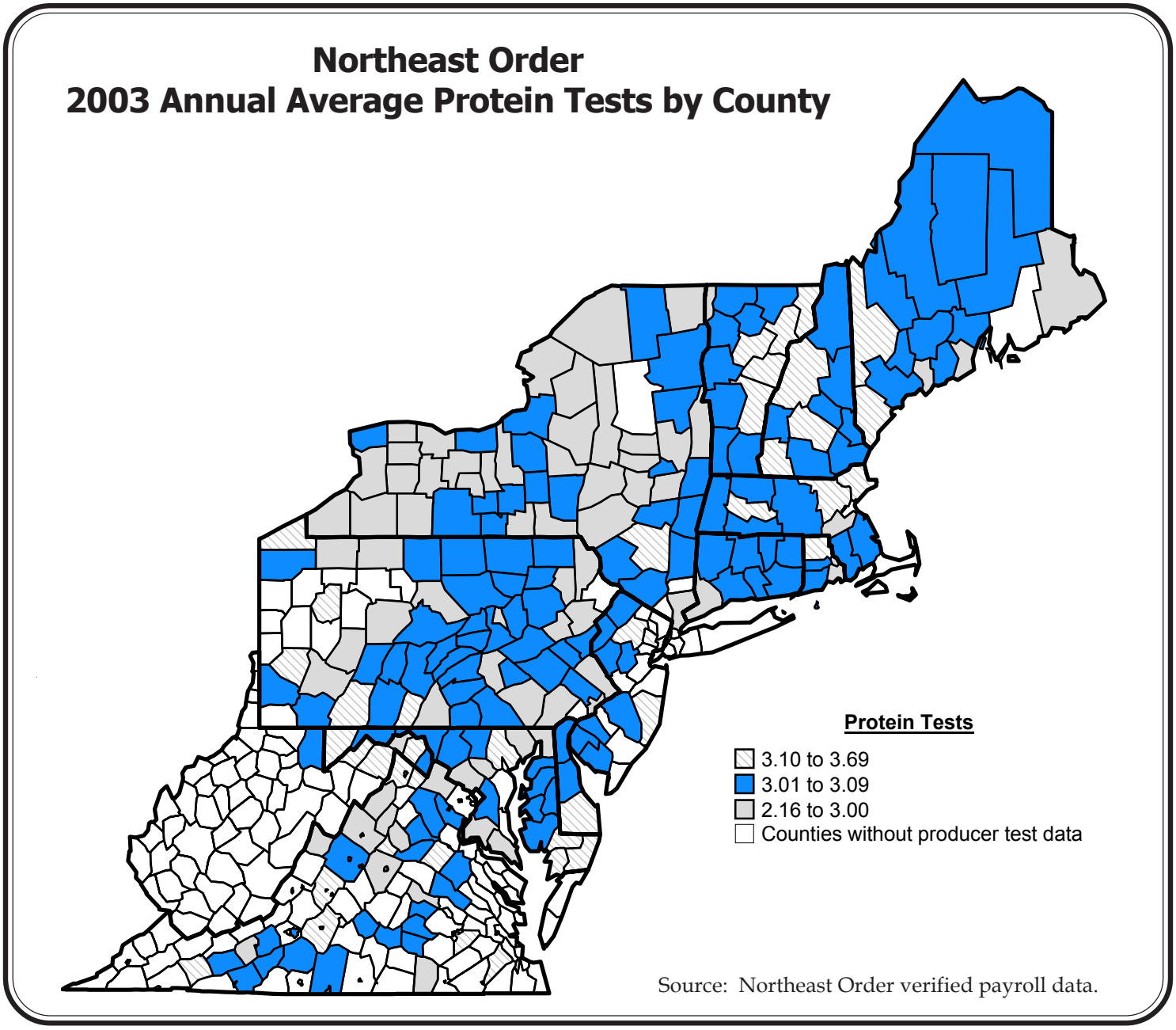
	2004	2003
	$/cwt	
Class I	17.68	17.09
Class II	13.98	11.30
Class III	16.14	11.87
Class IV	13.42	10.52

Average Protein Tests by County

A per-hundredweight statistical uniform price to producers is announced each month at the Boston, MA, location based on 3.5 percent butterfat, 2.99 percent protein, and 5.69 percent other solids in the milk. An individual producer's milk may contain component percentages that look much different than the basis for the price announcement. Genetics, stage of lactation, level of milk production, age of cow, environment, disease, and nutrition all affect the level of components in milk. The result is a uniform price to each producer that may be different from the one announced.

The accompanying map shows annual average protein tests by county for 2003 and gives an idea of regional differences in levels of protein. Only counties in the contiguous Northeast milkshed are shown here. Of note, 7 of the top 10 counties in milk production in 2003 fall in the low range; the other 3 fall in the middle. These counties are ranked based on their volume of milk that is pooled on the Northeast Order; it does not necessarily represent all milk produced in a particular county. Only one county in New York averaged in the high range. Many of the counties in western and northern New York fell in the low range as well. New England tended to have average protein tests in the mid to high range. Maryland and Virginia counties were mixed.

Annual average tests for other solids by county will be highlighted in the next *Bulletin*. Annual average butterfat tests by county were highlighted in the November 2004 *Bulletin*.❖



2004 Northeast Order Statistics *(continued from page 1)*

points. This decrease was largely the result of depooling that occurred during April, May, and June when the Class III price exceeded the uniform price. Milk used in Class IV grew 7.5 percent on a volume basis and 1.2 percentage points in utilization.

Prices Higher

National milk production lagged behind the previous year during the first half of 2004. This tightness in milk was reflected in higher commodity prices for cheese and butter, which resulted in higher federal order prices. All class prices averaged considerably higher than in 2003.

The Class I price averaged $18.23 per hundredweight for 2004, the highest average price since the Order's inception. In addition, the Class I price set a record high in June at $24.38 per hundredweight. The Class I price in May and July was also above $20.00 per hundredweight. Class III prices followed a similar pattern with the increase coming a month sooner due to the method of calculation that incorporates more current commodity prices. The Class III price averaged $15.39 per hundredweight for 2004; the highest price since the Order began. In addition, it reached a record-setting $20.58 per hundredweight in May. Overall, the statistical uniform price (blend) reported at Suffolk County, Massachusetts (Boston) averaged $16.49 per hundredweight in 2004. This was up 27.0 percent from the previous year.

Component Pricing

The average price paid per pound to producers for butterfat increased 69.5 percent in 2004.The per-pound annual average protein price rose 9.5 percent from the previous year, while the annual average other solids price jumped 482.2 percent.

The annual average producer butterfat test declined 4 hundredths of a point during 2004 with tests running considerably lower during the first half of the year when compared to the same months in 2003. The average producer protein test increased 3 hundredths of a point, while the other solids test averaged 2 hundredths of a point lower.

Producer Changes

The simple average number of producers continued to decline. This number was somewhat skewed by the depooling that occurred during April, May, and June. The year ended with 735 producers less than at the end of 2003. ❖

Northeast Order Pool Statistics, 2003–04

Pool Statistics	2003	2004	2003-04 Change
	million pounds		percent
Class I	10,701.2	10,691.8	-0.1
Class II	4,464.6	4,441.2	-0.5
Class III	6,788.3	5,297.3	-22.0
Class IV	2,084.1	2,239.7	7.5
Total	24,038.2	22,670.0	-5.7
	pounds		
DDP	4,087	4,121	0.8
	utilization percentage		change
Class I	44.5	47.1	2.6
Class II	18.6	19.6	1.0
Class III	28.2	23.4	-4.8
Class IV	8.7	9.9	1.2
	dollars/cwt		percent
Class I	14.64	18.23	24.5
Class II	10.76	13.86	28.8
Class III	11.42	15.39	34.8
Class IV	10.00	13.20	32.0
SUP	12.99	16.49	26.9

Pool Summary for All Federal Orders, 2003–2004

Federal Order Number	Federal Order Name	Total Producer Milk 2003	Total Producer Milk 2004**	Change**	Producer Price Differential# 2003	Producer Price Differential# 2004	Statistical Uniform Price#* 2003	Statistical Uniform Price#* 2004
		pounds		percent	dollars per hundredweight			
1	Northeast	24,038,200,386	22,669,950,549	(5.69)	1.57	1.10	12.99	16.49
5	Appalachian	6,314,715,438	6,202,493,443	(1.78)	N/A	N/A	13.55	17.01
6	Florida	2,832,854,182	2,873,014,359	1.42	N/A	N/A	14.79	18.40
7	Southeast	7,070,944,238	7,164,432,271	1.32	N/A	N/A	13.46	16.94
30	Upper Midwest	17,017,744,806	17,302,476,567	1.67	(0.05)	(0.35)	11.37	15.05
32	Central	14,411,410,608	11,589,392,846	(19.58)	0.33	(0.20)	11.75	15.20
33	Mideast	15,750,290,711	15,939,908,456	1.20	0.54	0.05	11.96	15.44
124	Pacific Northwest	6,336,455,790	6,517,689,890	2.86	(0.10)	(0.58)	11.32	14.82
126	Southwest	9,174,097,345	8,790,403,560	(4.18)	1.16	0.61	12.58	16.00
131	Arizona-Las Vegas	3,061,198,555	2,901,186,995	(5.23)	N/A	N/A	11.89	15.52
135	Western@	4,573,111,956	1,096,283,946	N/A	0.06	0.45	11.48	13.12
	All Market Total/Average	110,581,024,015	103,047,232,882	(6.81)	0.50	0.09	12.47	15.82

Price at designated order location. * Price at 3.5% butterfat.

** A significant amount of milk was depooled during April, May, and June.

@ The Western Milk Marketing Order was terminated effective April 1, 2004; pounds for 2004 are only Jan-Mar total; Uniform Price is average for Jan-Mar 2004. N/A = Not applicable.

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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	918,162,590	$11.37	104,395,086.48	
Butterfat	19,754,100	1.9159	37,846,880.19	
Less: Location Adjustment to Handlers			(2,935,486.86)	$139,306,479.84
Class II— Butterfat	25,709,452	2.0436	52,539,836.14	
Nonfat Solids	27,449,968	0.7856	21,564,694.83	74,104,530.97
Class III— Butterfat	16,447,688	2.0366	33,497,361.38	
Protein	13,019,300	2.8486	37,086,777.98	
Other Solids	23,765,238	0.0858	2,039,057.42	72,623,196.78
Class IV— Butterfat	9,233,824	2.0366	18,805,605.99	
Nonfat Solids	18,074,375	0.7240	13,085,847.53	31,891,453.52
Total Classified Value				**$317,925,661.11**
Add: Overage—All Classes				95,399.65
Inventory Reclassification—All Classes				214,151.58
Other Source Receipts	32,624			469.88
Less: Producer Component Valuations				(321,128,328.97)
Subtotal				**($2,892,646.75)**
Add: Location Adjustment to Producers				8,799,945.84
One-half Unobligated Balance—Producer Settlement Fund				457,032.49
Total Pool Milk & Aggregate Value	1,893,703,270			6,364,331.58
Less: Producer Settlement Fund—Reserve				(872,592.14)
Producer Price Differential @ *Suffolk County, MA (Boston)*		**$0.29**		5,491,739.44
Statistical Uniform Price @ *Suffolk County, MA (Boston)*		**$16.43**		

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