

The Market Administrator's BULLETIN

NORTHEAST MARKETING AREA

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August 2001

Federal Order No. 1

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August Pool Price Calculation

The August 2001 statistical uniform price for the Northeast Marketing Area was announced at \$17.53 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 \$1.98 per hundredweight.

The August statistical uniform price set another record for the Northeast Order, topping July's price by \$0.32 per hundredweight. The August PPD increased \$0.23 from the previous month. All class prices were higher than July's with the Class I and III prices setting record-highs for post-federal order reform prices. Prices for Classes II and IV were second only to June 2001. ❖

Change in Shipping Percentage for September 2001

For the month of September 2001, the shipping percentage, specified in Section 1001.7(c)(2) of the Order for supply plants and cooperative Section 1000.9(c) handlers, was increased from 20 to 25 percent. This increase is a result of an investigation by this office followed by a notice and comment period, as specified in Section 1001.7(g).

The investigation was initiated at the written request of Dairy Marketing Services, Dairylea Cooperative Inc., Dairy Farmers of America-Northeast Council, Garelick Farms, and Lehigh Valley Dairies. The petitioners cited diminished milk production throughout the Northeast, demand at or above last year's levels, and concern that Class I handlers would be unable to obtain their necessary milk supplies as reasons for requesting an investigation.

After reviewing the submitted data and comments and investigating current market conditions, it was determined that a 5 percentage point increase in the September shipping percentage would help bring forth the additional supply needed, but not be so high as to cause uneconomical movements of milk.

A similar investigation to determine if there is a need to adjust the shipping percentage for October and November has been requested, and results of those investigations will be forthcoming. ❖

Pool Summary

- A total of 17,143 producers were pooled under the Order with an average daily delivery per producer of 3,832 pounds.
- Pooled milk receipts totaled 2.037 billion pounds, a decrease of 4.2 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 43.7 percent of total milk receipts, an increase of 4.4 percentage points from July.
- The average butterfat test of producer receipts was 3.53 percent.
- The average true protein test of producer receipts was 2.90 percent.
- The average other solids test of producer receipts was 5.67 percent.

Class Utilization

Pooled Milk	Percent	Pounds
Class I	43.7	889,524,951
Class II	19.7	401,896,942
Class III	31.6	644,273,410
Class IV	5.0	100,970,885
Total Pooled Milk		2,036,666,188

Producer Component Prices

	2001	2000
	\$/lb	
Protein Price	2.2188	1.7952
Butterfat Price	2.2976	1.2659
Other Solids Price	0.1535	0.0577

Class Price Factors

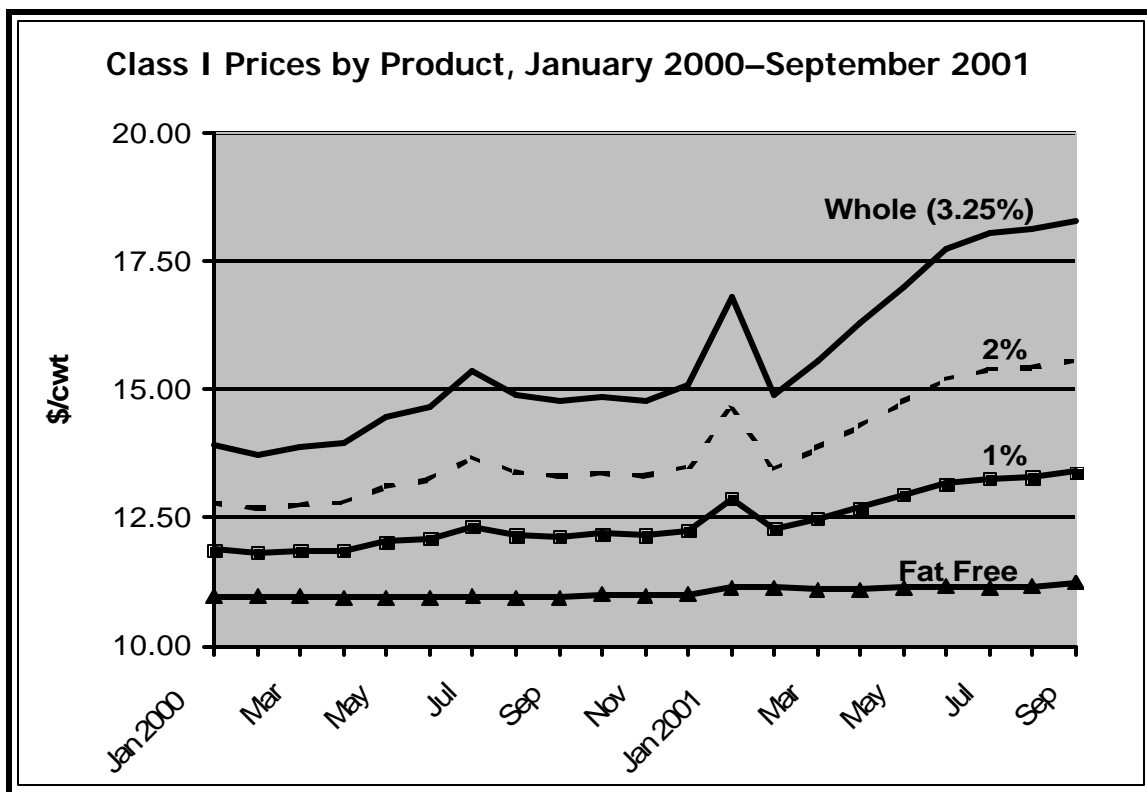
	2001	2000
	\$/cwt	
Class I	18.65	15.20
Class II	15.98	12.56
Class III	15.55	10.13
Class IV	15.06	11.87

Class I Prices Vary by Product

The accompanying chart shows the Class I prices for whole, reduced fat (2%), lowfat (1%), and fat-free milk under the Northeast Order from January 2000 through September 2001. The Class I price is the minimum price milk handlers must pay producers for milk used for fluid purposes. As depicted, prices for packaged fluid milk products have risen during this period, largely due to the value of butterfat. The chart shows that as the butterfat content of a product increases, so does its price. In addition, the spread between the various products widened over time as the price for butterfat increased.

About 94 percent of all packaged fluid milk products sold in the Northeast Marketing Area are either whole, reduced, lowfat, or fat-free milk. Other products sold include buttermilk, flavored milk and drinks, and eggnog. The Northeast Order's Class I price is announced at a butterfat test of 3.5 percent. Packaged whole milk contains 3.25 percent butterfat. As such, its price is adjusted for this butterfat content. Because butterfat has had a much higher value than skim, especially during the past 6 months, the price spread between the higher-fat and the lower-fat products has increased. As shown in the chart, the price for fat-free milk has been nearly flat due to little variation in the price of skim.

Under the Northeast Order, the amount of pooled milk used for Class I purposes (fluid drinking milk) averages about 43 percent each month. The rest is used for Class II (soft products—about 17 percent); Class III (hard cheeses—about 30 percent); and Class IV (butter and nonfat dry milk—about 10 percent). The butterfat values vary by usage. The Class I butterfat value is based on the butter price for the previous month's first 2 weeks. The Class II, III, and IV butterfat prices are based on the current month's butter price for the most recent 4- or 5-week period. The butterfat value paid to producers is the same as the butterfat price for Classes III and IV. Producers receive the butterfat values for Classes I, II and IV via the producer price differential. ❖



Milk Movements

During August, milk pooled on the Northeast Order coming from other states accounted for 3.2 percent of the total pooled volume. Other states having milk pooled under the Order during 2001 include Idaho, Michigan, Minnesota, Nevada, Utah, Wisconsin, and Wyoming. This is the second lowest percentage this year; January's total was 3.0 percent. Receipts from other states has increased each month this year, peaking at 5.0 percent in June.

The decline coincides with the decrease in the monthly producer price differential (PPD), which makes pooling out-of-area milk on this Order less profitable than in other months. In addition, higher shipping percentages during

the fall period make it more costly for out-of-area milk to be pooled on the Order.

As expected at this time of year, some milk—22 million pounds—from this Order was sent to plants located in the southeastern United States to meet seasonal demand. In addition, 13 million pounds was received in Order No. 1 from southeastern federal orders. Much of the milk received in this Order ends up in plants located in the southern portion of the Northeast Marketing Area. The net shipment of 9 million pounds of Order No. 1 milk to plants in the southeastern United States is less than the net shipment of almost 16 million pounds in August 2001. ❖

MARKET SITUATION

CME Cheese and Butter Prices

For the first 37 weeks of 2001, the Chicago Mercantile Exchange (CME) Grade AA butter price averaged \$1.7597 per pound. The butter price crested the \$2.00 per pound mark for the first time in the year at the week ending June 22, 2001. It increased slightly, then dipped below \$2.00 for 5 weeks, but has remained above that level since. Butter prices averaged \$1.1047 per pound throughout the first 37 weeks of 2000 and \$1.1782 per pound for the entire year.

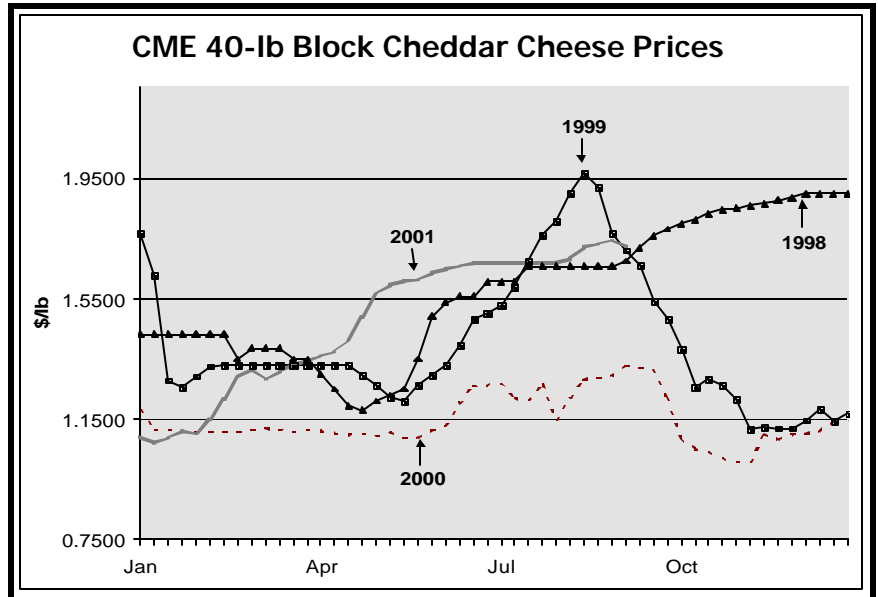
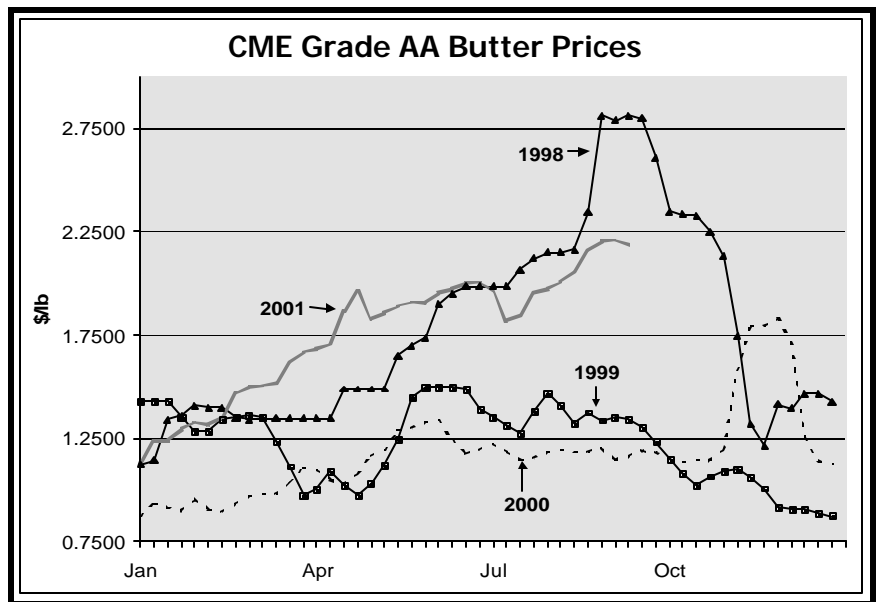
In 1998, the butter price averaged \$1.7349 per pound during the same 37-week period and \$1.7782 per pound for the year. At about this time of year in 1998, butter spiked to about \$2.80 and remained there for 4 weeks, but then declined consistently, ending the year at \$1.4500 per pound.

The average CME 40-lb. block Cheddar cheese price was \$1.4772 per pound throughout the first 37 weeks of 2001. The average weekly price of Cheddar cheese peaked at \$1.7440 per pound for the week ending August 31, 2001. The Cheddar cheese price throughout the first 37 weeks of 2000 averaged \$1.1651 per pound; it averaged \$1.1468 per pound over the entire year. About this time of year in 1999, the Cheddar cheese price reached \$1.9655 per pound and then declined for much of the remainder of that year. The average price of Cheddar cheese in 1998 was \$1.4634 per pound throughout the same 37-week time period and \$1.5752 per pound for the year.

Weekly average Cheddar cheese prices are currently at a level only exceeded by the final months of 1998 and by 6 weeks during the late summer of 1999. The CME is reporting a slight increase in the demand for natural cheese following the Labor Day weekend. They also report an increase in demand for mozzarella, a trend that is typically seen as schools reopen.

Although milk production has started to rebound in the western United States, most of the key producing states are still below last year as seen in the accompanying table. Overall, milk production nationally is down 1.5 percent from the same period in 2000 (adjusted for leap year) resulting in strong commodity prices.

Trading on the CME did not take place on September 11 and September 12 due to the terrorist attacks in New York City and Washington, DC, on September 11. Trading resumed on September 13. Any impact on the dairy industry was unknown at the time of this report. ❖



State	2000	2001	Percent change
	thousand pounds		
CA	21,675	22,147	2.6
WI	15,751	15,086	(3.8)
NY	8,130	7,884	(2.6)
PA	7,590	7,309	(3.3)
MN	6,483	6,087	(5.7)
Top 20 States	98,024	96,242	(1.4)
US*	113,734	111,519	(1.5)

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



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Computation of Producer Price Differential and Statistical Uniform Price

	<u>Product Pounds</u>	<u>Price per cwt/lb</u>	<u>Component Value</u>	<u>Total Value</u>
Class I— Skim	870,965,508	\$11.15	97,112,654.14	
Butterfat	18,559,443	2.2537	41,827,416.69	
Less: Location Adjustment to Handlers			(2,696,767.65)	\$136,243,303.22
Class II— Butterfat	26,920,308	2.3046	62,040,541.80	
Nonfat Solids	33,302,213	0.9111	30,341,646.31	92,382,188.11
Class III— Butterfat	22,518,607	2.2976	51,738,751.47	
Protein	18,651,634	2.2188	41,384,245.52	
Other Solids	36,563,856	0.1535	5,612,551.94	98,735,548.93
Class IV— Butterfat	3,986,205	2.2976	9,158,704.63	
Nonfat Solids	8,626,133	0.8073	6,963,877.18	16,122,581.81
Total Classified Value				\$343,483,622.07
Add: Overage—All Classes				250,642.56
Inventory Reclassification—All Classes				231,217.12
Other Source Receipts	199,471			6,278.51
Less: Producer Component Valuations				(314,237,697.76)
Subtotal				\$29,734,062.50
Add: Location Adjustment to Producers				10,456,312.37
One-half Unobligated Balance—Producer Settlement Fund				1,087,419.38
Total Pool Milk & Aggregate Value	2,036,865,659			41,277,794.25
Less: Producer Settlement Fund—Reserve				(947,854.21)
Producer Price Differential @ Suffolk County, MA (Boston)		\$1.98		40,329,940.04
Statistical Uniform Price @ Suffolk County, MA (Boston)		\$17.53		

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