

The Market Administrator's BULLETIN

NORTHEAST MARKETING AREA

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October Pool Price Calculation

The October 2001 statistical uniform price for the Northeast Marketing Area was announced at \$16.04 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 \$1.44 per hundredweight.

After increasing each month since March 2001, the October statistical uniform price experienced a decline from the previous month. This decline of \$1.72 per hundredweight was largely due to the drop in butterfat prices used in the calculation of Class II, III, and IV prices. The Class I price remained high as it was set off of September's peaking butter prices. October's National Agricultural Statistics Service butter price declined nearly 65 cents per pound from September and resulted in a 79-cent lower producer butterfat price for the month.

The October PPD was the lowest since order reform. Even though the Class I price was the highest on record since order reform, the other classes declined dramatically from September. The protein test for October tied with the prior record high reached in November and December 2000 and contributed to the largest producer protein value since the Northeast Order's inception.

Although the total valuation of producer milk components (amount paid for protein, butterfat, and other solids) was not record setting, it was considerable compared to the total value of the pool, which takes into account not only how milk is priced, but also how it is used by class. The producer component value accounted for nearly 94 percent of the total pool value leaving little residual value to be returned to producers in the PPD. As a comparison, November 2000 had the highest PPD since order reform, but the producer component value only accounted for 68 percent of the total pool value of milk. ❖

Decision on Class III/IV Pricing Released

On October 23, the USDA issued a recommended decision to amend the current Class III and Class IV pricing formulas under federal milk marketing orders. This decision follows a tentative final decision and interim amendment, released December 2000, responding to a Congressional mandate to reconsider the pricing formulas adopted in the final rule for the

(continued on Page 2)

Pool Summary

- A total of 17,008 producers were pooled under the Order with an average daily delivery per producer of 3,768 pounds.
- Pooled milk receipts totaled 1.988 billion pounds, an increase of 2.6 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 47.8 percent of total milk receipts, an increase of 3.2 percentage points from September.
- The average butterfat test of producer receipts was 3.72 percent.
- The average true protein test of producer receipts was 3.07 percent.
- The average other solids test of producer receipts was 5.70 percent. ❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	47.8	949,350,601
Class II	17.7	351,420,856
Class III	27.7	550,679,739
Class IV	6.8	<u>136,168,186</u>
Total Pooled Milk		1,987,619,382

Producer Component Prices

	2001	2000
	\$/lb	
Protein Price	2.6664	1.8028
Butterfat Price	1.6526	1.2444
Other Solids Price	0.1482	0.0471

Class Price Factors

	2001	2000
	\$/cwt	
Class I	19.18	15.14
Class II	13.53	12.54
Class III	14.60	10.02
Class IV	12.77	11.81

Dairy Outlook Conference Held

The 2001 Northeast Regional Dairy Outlook Conference was held November 8 at the Albany office. The annual conference brings together economists and statisticians from the Northeast's market administrator offices, state and federal agricultural statistical services, university extension offices, and cooperatives to review regional production and price statistics for the past year and develop projections for the upcoming year. The Northeast region includes Maine, New England (Connecticut, Massachusetts, New Hampshire, Rhode Island, and Vermont), New York, New Jersey, Pennsylvania, Maryland, and Delaware.

Crop Situation

Overall, participants reported that crop production was fairly good throughout the Northeast during the 2001 growing season. While there were some localized exceptions, growing conditions were generally good resulting in better than expected yields. Supplies of forages and corn silage should be plentiful, although the quality may be lacking. Nationally, the situation is similar. Due to these conditions, feed prices are predicted to remain favorable into 2002.

Production Estimates

In the Northeast, 2002 milk production is expected to decline slightly (0.5 percent). This compares with the expected 2.6 percent drop during 2001. These declines are largely the result in lower overall cow numbers in the region, as milk production per cow is projected to finish the year nearly unchanged from 2000 and increase slightly in 2002 (up 0.9 percent). Nationally, milk production is expected to finish 2001 with an overall decline of 1.3 percent, but rebound in 2002 with an increase of 2.6 percent based on a 3.3 percent increase in milk production per cow. Cow numbers are estimated to decline across the country, and the high price of milk replacements and their overall unavailability will contribute to this trend.

Price Forecasts

Milk prices in the Northeast are projected to decline

Statistical Uniform Prices, 2000–2002			
Month	2000 Actual	2001 Actual & Estimated*	2002 Estimated
January	12.35	13.76	13.89
February	12.21	13.62	13.89
March	12.39	14.50	13.97
April	12.46	15.24	14.09
May	12.90	16.32	14.12
June	13.25	17.08	14.33
July	13.52	17.21	14.56
August	13.39	17.53	14.86
September	13.63	17.76	15.09
October	13.32	16.04	15.10
November	13.36	14.47	14.86
December	13.72	13.84	14.50
Average	13.04	15.61	14.44

* Estimated statistical uniform price for November and December 2001. All estimates are subject to change.

somewhat from 2001 (see table), which has seen the highest prices since 1998. The group consensus predicts a \$14.44 per hundredweight average statistical uniform price at Suffolk County, Massachusetts (Boston) for 2002, down \$1.18 per hundredweight from this year's expected average, but \$1.42 per hundredweight higher than the 2000 annual average. Most participants project the Class IV price to be the mover for Class I prices throughout most of 2002, based on current federal order pricing formulas.

Much of the price decrease will be demand driven, with national demand growing slower than it has in recent years, but not necessarily declining. Overall, there appears to be a general tone of optimism in the Northeast dairy industry, although some concerns remain including the increasing age of farm operators, availability of herd replacements and farm laborers, lower prices looming on the horizon, and an uncertain U.S. economic situation. ❖

Decision Released *(continued from page 1)*

consolidation and reform of federal milk orders. Portions of the interim amendments were enjoined by a U.S. District Court on January 31, 2001, with a requirement that changes be made to the tentative final decision.

The recommended decision would leave in place the revised manufacturing allowances for butter, cheese, and nonfat dry milk, but reverse the previous determination (as per the district court injunction) that there should be separate butterfat prices for milk used in Class III (cheese) and Class IV (butter and dry milk products). Technical modifications are made to the protein price formula, and the make allowance for dry whey would be increased from the \$0.140 per pound to \$0.159 per pound.

In USDA's economic analysis of the proposed changes, it's reported that the changes incorporated in the recommended decision will increase the annual average Class III price (at 3.5 percent butterfat) by about 38 cents per hundredweight during 2002-2006. The change in the Class III price results primarily from a combination of changes in the protein formula that reduces the impact of the butterfat price on the protein price. The estimated impact of the formula changes on the Northeast Order's minimum blend price (at market average component tests) is a positive 16 cents per hundredweight for the 2002-2006 period. The recommended formulas would somewhat reduce financial incentives to shift milk out of the Upper Midwest, Western, and Central orders and onto orders with higher blend prices.

The recommended decision was published in the October 25 Federal Register. It can be viewed at www.ams.usda.gov/dairy/ClassIIIIV.pdf. Interested persons have until November 26 to file comments in response to the recommended decision and the amendments that have been in place under the injunction. To receive a printed copy of the recommended decision, contact the Albany office. ❖

MARKET SITUATION

Component Pricing

December 2001 will complete the second year of multiple component pricing under the Northeast Order. Under this pricing system, the pounds of butterfat, true protein, and other solids in a producer's milk largely determine that producer's pay price. The producer price differential (PPD), or the producer's per hundredweight share of the value generated by the market wide pool, makes up the balance of the total gross payment to a farmer. The PPD varies due to changes in class prices and milk utilization from month to month. PPD values are also affected by the zone location of the plant(s) to which the milk is shipped during the month.

Explanation of Calculation

To get a better idea of how the PPD and component pricing result in the total gross payment to the farmer, we will look at an example of a hypothetical farm that produces 100,000 pounds of milk per month and has average component tests. The example will compare this hypothetical farm in October 2000 to October 2001. The example will ignore any other price adjustments such as hauling, premiums, or other negotiable arrangements. It also ignores any possible change in zone location of the plant(s) this farm ships to between the 2 months.

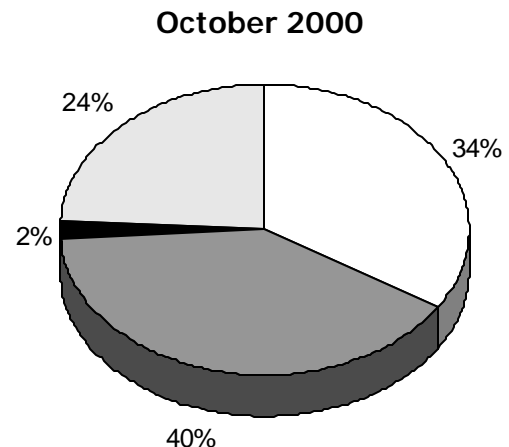
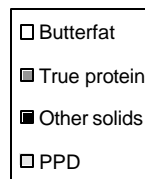
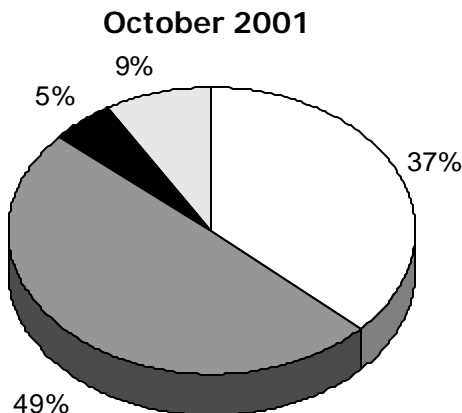
To derive this farmer's gross payment, first multiply the test percent of a component by the total pounds of milk produced (see example below). Then multiply the result by that component's price per pound. Doing this for each component—butterfat, true protein, and other solids—will result in the total component value. Multiply the PPD by the total pounds produced and divide by 100. The sum of the total component value and the PPD value is the total gross payment to the farmer.

Gross Payment

This farmer's gross payment in October 2001 was \$2,911.05 larger than in October 2000. The PPD was \$1.86 less. Butterfat tested 0.01 percentage points lower in 2001 than in 2000, but true protein and other solids tested higher by 0.02 and 0.03 percentage points, respectively. October 2001 also witnessed higher component prices. The butterfat price in 2001 was \$0.41 above its value from a year earlier, true protein was about \$0.86 higher, and the price of other solids was almost double. The result was 91 percent of the total gross payment being derived from component values in 2001 and the balance from the PPD (see chart). The total gross payment in October 2000 was comprised of 76 percent from components and 24 percent from the PPD. ❖

Composition of Total Gross Payment

	October 2001				October 2000			
	Test percent	Pounds	Price per pound	Gross dollars	Test percent	Pounds	Price per pound	Gross dollars
Butterfat	3.72	3,720	x 1.6526	\$6,147.67	3.73	3,730	x 1.2444	\$4,641.61
True protein	3.07	3,070	x 2.6664	8,185.85	3.05	3,050	x 1.8028	5,498.54
Other solids	5.70	5,700	x 0.1482	844.74	5.67	5,670	x 0.0471	267.06
PPD		1,000 cwt	1.44	1,440.00		1,000 cwt	3.30	3,300.00
Total gross payment				\$16,618.26				\$13,707.21
Gross price per cwt				\$16.62				\$13.71





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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	929,672,673	\$10.63	98,824,205.14	
Butterfat	19,677,928	2.5485	50,149,199.51	
Less: Location Adjustment to Handlers			(2,916,848.30)	\$146,056,556.36
Class II— Butterfat	25,812,893	1.6596	42,839,077.22	
Nonfat Solids	29,656,220	0.8889	26,361,413.95	69,200,491.17
Class III— Butterfat	19,805,861	1.6526	32,731,165.90	
Protein	16,939,101	2.6664	45,166,418.91	
Other Solids	31,451,289	0.1482	4,661,081.05	82,558,665.86
Class IV— Butterfat	8,689,695	1.6526	14,360,589.96	
Nonfat Solids	11,583,952	0.8041	9,314,655.82	<u>23,675,245.78</u>
Total Classified Value				\$321,490,959.17
Add: Overage—All Classes				237,723.87
Inventory Reclassification—All Classes				(760,716.02)
Other Source Receipts	214,940			2,722.57
Less: Producer Component Valuations				<u>(301,855,352.15)</u>
Subtotal				\$19,115,337.44
Add: Location Adjustment to Producers				9,503,673.18
One-half Unobligated Balance—Producer Settlement Fund				<u>921,668.12</u>
Total Pool Milk & Aggregate Value	1,987,834,322			29,540,678.74
Less: Producer Settlement Fund—Reserve				<u>(915,864.45)</u>
Producer Price Differential @ Suffolk County, MA (Boston)		\$1.44		28,624,814.29
Statistical Uniform Price @ Suffolk County, MA (Boston)		\$16.04		

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