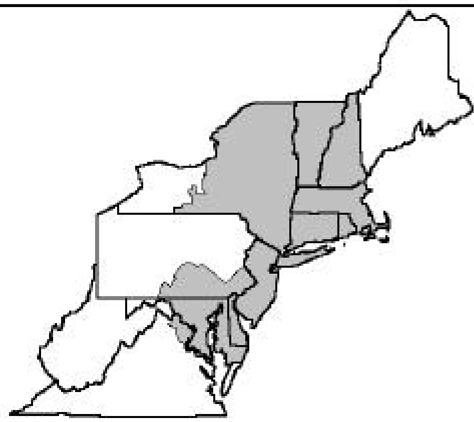

The Market Administrator's

BULLETIN

NORTHEAST MARKETING AREA

Erik F. Rasmussen, Market Administrator

April 2002 Federal Order No. 1

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April Pool Price Calculation

The April 2002 statistical uniform price for the Northeast Marketing Area was announced at $12.94 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 $2.09 per hundredweight.

The April statistical uniform price was 11 cents per hundredweight below March's price. The April PPD was 31 cents below the previous month. Class I, II, and IV prices declined while the Class III price increased slightly due to an increase in the producer protein price. This tightening of the spread between the Class I, II, and IV prices and the Class III price resulted in a reduced PPD. With commodity prices declining, it is expected that the PPD will continue to decline in upcoming months (see "Butter and Cheese" on page 3).

Even though total producer milk receipts for April were below March, on an average daily basis production increased by 1.2 percent resulting in a new record high (see "Pool Summary").❖

2002 Farm Bill Signed

President Bush signed the 2002 Farm Bill on May 13, 2002. The bill includes the National Dairy Market Loss Payments Program.

Under this program, producers will be paid 45 percent of the difference between $16.94 per hundredweight and the Class I milk price per hundredweight at the Boston location differential under the Northeast Order. This formula closely resembles the payment formula established under the Northeast Interstate Dairy Compact. The 45 percent figure used in the 2002 Farm Bill reflects the approximate average Class I utilization rate in the Northeast. Producers can estimate their payment by tracking each month's Class I price and their farm's production for that month. The Class I price is announced in advance by the 23rd of the month and applies to the *upcoming month*. The monthly Class I price can be obtained from our website www.fmmone.com under the Advanced Pricing Factors heading or contact the Albany Office for mailing information.

The Farm Bill legislation requires USDA to begin signing up farmers to participate in the program no later than 60 days after the bill was

(continued on Page 3)

Pool Summary

- A total of 17,092 producers were pooled under the Order with an average daily delivery per producer of 4,370 pounds.
- Pooled milk receipts totaled 2.241 billion pounds, an increase of 1.2 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 38.9 percent of total milk receipts, a decline of 0.3 percentage points from March.
- The average butterfat test of producer receipts was 3.72 percent.
- The average true protein test of producer receipts was 2.97 percent.
- The average other solids test of producer receipts was 5.74 percent.❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	38.9	872,294,635
Class II	15.4	345,758,759
Class III	31.7	709,405,826
Class IV	14.0	313,621,715
Total Pooled Milk		2,241,080,935

Producer Component Prices

	2002	2001
	$/lb	
Protein Price	2.0109	1.5443
Butterfat Price	1.2890	1.9483
Other Solids Price	0.0566	0.1081

Class Price Factors

	2002	2001
	$/cwt	
Class I	14.72	16.69
Class II	11.88	15.10
Class III	10.85	12.06
Class IV	11.09	14.41

Manufactured Dairy Products—2001 Summary

USDA's National Agricultural Statistics recently released their *Dairy Products Annual for 2001*. This publication summarizes dairy products manufactured in the United States. The production of cheese (excluding cottage), butter, and nonfat dry milk declined. Cheese and butter production each fell 1.3 percent while nonfat dry milk production dropped 2.3 percent. All comparisons have been adjusted for leap year.

Cheese Production Declines

American continued to be the top cheese type produced in the United States, although production declined 3.1 percent in 2001. Over 3.5 billion pounds were made during the year, accounting for 43 percent of all cheese manufactured. Italian cheese was the next largest product, increasing 1.5 percent from 2000 to 3.3 billion pounds. The gap between American and Italian has been tightening over the years and, with American's decline in 2001, has closed to less than 200 million pounds (from over 350 million pounds in 2000). Mozzarella production increased 1.4 percent and remained about 80 percent of all Italian cheese produced nationally.

Swiss cheese production grew 7.3 percent, cream and Neufchatel decreased 6.0 percent, and all other cheese production dropped 4.4 percent. The "other cheese" category includes Muenster, brick, Limburger, blue, Hispanic, and other varieties. Of these, Hispanic cheese rose 6.9 percent in 2001.

Other Manufactured Products

Butter production was down 1.3 percent from 2000 and totaled about 1.2 billion pounds. Yogurt increased 9.1 percent and totaled 2.0 billion pounds in 2001. Ice cream production increased 0.4 percent while unsweetened condensed milk declined 8.6 percent.

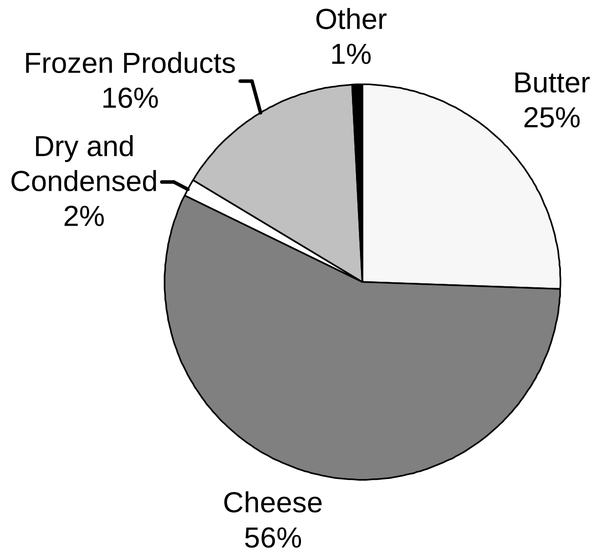
Leading Manufacturing States

Once again, Wisconsin led the nation as the top cheese-producing state with 26.2 percent of all cheese made (excluding cottage). This percentage was down slightly from 26.5 in 2000. California ranked second in cheese production with 19.9 percent of total U.S. cheese, up from 18.1 percent in 2000. New York was the third largest cheese manufacturing state with 8.6 percent; Minnesota ranked fourth with 7.3 percent; and Idaho finished fifth with 7.0 percent.

Wisconsin continued as the leading manufacturer of American cheese followed by California and Minnesota. Wisconsin also ranked first in the production of Italian cheese; California came in second; and New York was third.

The top butter producing states were California (27.5 percent), Wisconsin (26.3 percent), and Washington (8.3 percent). Of the states reporting, California had the largest yogurt production followed closely by New York. California also ranked first in nonfat dry milk production (for human food) with nearly 49.1 percent of total production.

Whole Milk Equivalents Used in Manufactured Products



Utilization of Milk Marketings

Of the total amount of milk marketed in 2001, 61 percent was used for manufactured dairy products, down from 62 percent in 2000. On a net whole milk equivalent basis, the proportions used in selected dairy products changed slightly in 2001 (see accompanying chart). The total amount used in dairy products increased 1.5 percent on a daily average basis. Total product used in cheese decreased 0.2 percentage points while the amount used in butter remained unchanged. Proportions for evaporated, dry, and condensed dropped 0.4; frozen desserts went up 0.5; and other products increased 0.1 percentage points.❖

Forward Contract Study

Congress authorized The Dairy Forward Pricing Pilot Program in 2000. The program is voluntary and allows dairy farmers and milk handlers to enter into forward contracts for that portion of milk that handlers use for non-fluid milk products. The program exempts handlers receiving pooled milk under the Federal Milk Order Program from paying producers and cooperative associations the minimum federal order blend price for that portion of milk that is under forward contract.

The law requires that a study of this program be conducted to determine its impact on prices received by dairy farmers. The results of the study are to be provided to Congress in October 2002. To gather information for the study, questionnaires were mailed April 4, 2002 to milk producers, handlers, and cooperatives concerning the program. Respondents were asked to submit the questionnaires by April 30, 2002, although late questionnaires will be accepted.❖

MARKET SITUATION

Butter and Cheese Prices Fall Below Last Year

Butter Prices

Figure 1 shows the weekly Chicago Mercantile Exchange (CME) Grade AA butter price for all of 2000, 2001, and the first 18 weeks of 2002. Butter prices began the year at $1.3500 per pound, rose slightly, and then trended downward until the ninth week. They increased slightly, hitting $1.2625 per pound on week ten. They began to decline the following week, reaching $1.0383 on week 19. For the 18-week period, the average was $1.2453 per pound compared to $1.5128 per pound in 2001.

The National Agricultural Statistics Service (NASS) reported butter price averaged $1.2391 per pound for the 18-week period, less than a one-cent difference from the CME price. During 2001, these prices differed by 2 cents per pound.

Cheese Prices

The CME block Cheddar cheese price was strong at the beginning of the year, but began trending downward by February (see figure 2). In March, prices began to climb only to fall again in mid-April. During the first 10 weeks of 2002, prices averaged considerably higher than the previous year. By week 18 the average was $1.2491 per pound, compared to $1.2722 per pound during the same period in 2001.

The NASS cheese price averaged $1.2419 per pound during the first 18 weeks of 2002, a difference of less than one cent from the CME prices.

Effect on Producer Prices

With both butter and cheese prices declining, component prices paid to producers have declined and will likely continue to decline. The strong milk production in recent months has created an abundant supply of milk for manufacturing. Production is surpassing demand, building stocks. Seasonally, milk supplies should decline in upcoming months, but until demand catches up, prices will likely remain depressed.❖

Figure 1

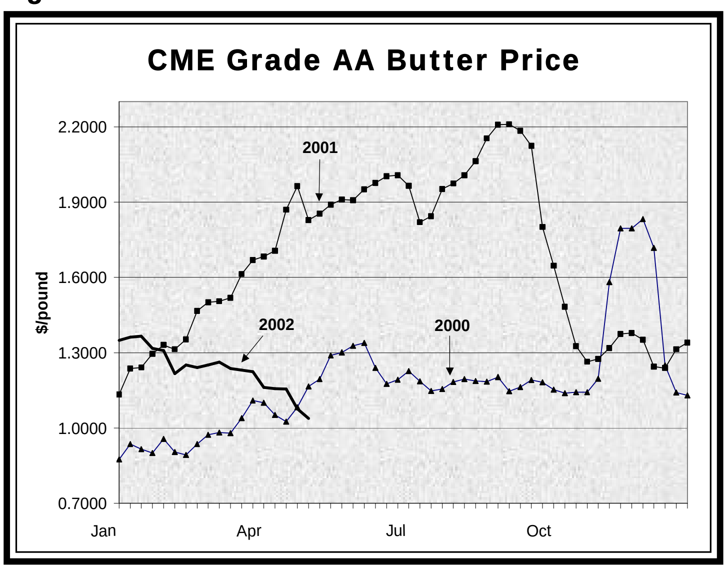
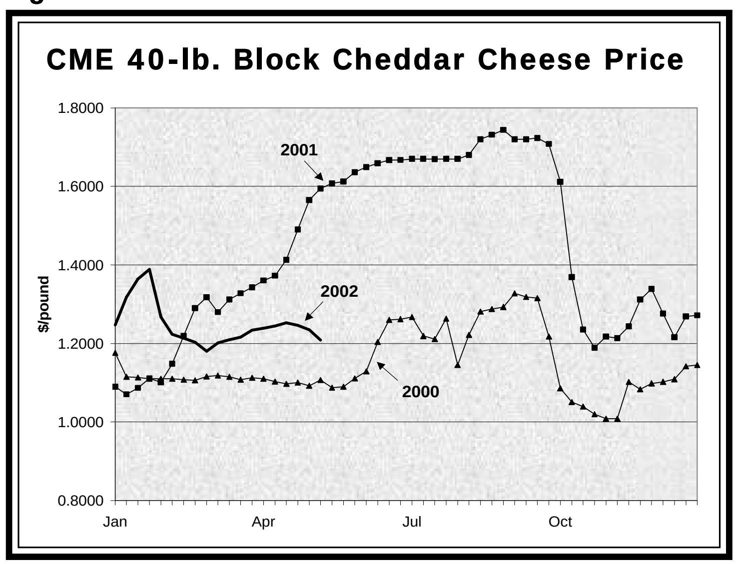


Figure 2



2002 Farm Bill *(continued from page 1)*

signed. USDA, who is responsible for interpreting the legislation and preparing regulations to implement the program, has not released any details at this time.

The legislation caps annual payments under the program at 2.4 million pounds. Milk production marketed in months when no payment is made to farmers is not to be counted toward the cap.

For purposes of determining whether producers are producers on separate dairy operations or a single dairy operation, USDA will apply standards used for previous emergency payments. All producers will receive payments on a monthly basis, no later than 60 days after the end of each month for which a payment is made. It is expected that the Farm Service Agency will handle the sign-up and payment for this program.

The program is retroactive to December 1, 2001. Producers will receive these retroactive payments at the same time they receive their first payments, perhaps early this fall. The average retroactive payment to farmers pooled on the Northeast Order for the December 2001 to May 2002 period will be about $4,986. The estimate is conservative as the figure is based on December 2001 production used as a proxy during the period January 2002 through May 2002.

The National Dairy Market Loss Payments Program is authorized through September 30, 2005.

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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	854,680,944	$10.16	86,835,583.91	
	Butterfat	17,613,691	1.4058	24,761,326.81	
Less:	Location Adjustment to Handlers			(2,576,464.86)	$109,020,445.83
Class II—	Butterfat	26,491,728	1.2960	34,333,279.51	
	Nonfat Solids	28,929,046	0.8456	24,462,401.28	58,795,680.79
Class III–	Butterfat	24,726,479	1.2890	31,872,431.46	
	Protein	21,085,349	2.0109	42,400,528.29	
	Other Solids	40,791,623	0.0566	2,308,805.86	76,581,765.61
Class IV–	Butterfat	14,535,199	1.2890	18,735,871.51	
	Nonfat Solids	27,102,991	0.7575	20,530,515.71	39,266,387.22
Total Classified Value					**$283,664,279.45**
Add:	Overage—All Classes				25,810.95
	Inventory Reclassification—All Classes				1,603.69
	Other Source Receipts	52,502			1,806.07
Less:	Producer Component Valuations				(248,768,970.45)
	Subtotal				**$34,924,529.71**
Add:	Location Adjustment to Producers				11,565,616.62
	One-half Unobligated Balance—Producer Settlement Fund				1,276,435.15
Total Pool Milk & Aggregate Value		2,241,133,437			47,766,581.48
Less:	Producer Settlement Fund—Reserve				(926,892.67)
Producer Price Differential @ *Suffolk County, MA (Boston)*			**$2.09**		46,839,688.81
Statistical Uniform Price @ *Suffolk County, MA (Boston)*			**$12.94**		

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