

# The Market Administrator's BULLETIN

## NORTHEAST MARKETING AREA

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June 2002

Federal Order No. 1

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### June Pool Price Calculation

The June 2002 statistical uniform price for the Northeast Marketing Area was announced at \$12.38 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 \$2.29 per hundredweight.

The June statistical uniform price was 25 cents per hundredweight below May's price. The June PPD was 48 cents above the previous month's. All class prices declined, with the Class III price dropping the most due to a decline in the protein price. These changes caused an increase in the spread between the Class I, II, and IV prices and the Class III price, which resulted in a higher PPD. Overall, the decline in the statistical uniform price signifies the current weakness in the commodity markets. ❖

### National Dairy Market Loss Program

The Farm Service Agency (FSA) will administer the 2002 Farm Bill's National Dairy Market Loss Program. As of July 18, 2002, FSA has not released sign-up regulations for the program or the specific details concerning the allocation of the 2.4 million pound cap and how the legislation defines a dairy operation. These program regulations are expected soon. As posted on their website, FSA's responses to some frequently asked questions are listed below.

***Must dairy producers visit their local FSA office each month for the next 3 years in order to apply for dairy benefits?***

FSA is still in the process of determining the most effective method of reducing the reporting burden on the producers.

***Are there provisions for manure cleanup and storage in dairy operations?***

The 2002 Farm Bill does not have provisions for manure cleanup and storage in dairy operations.

***Does the dairy direct payment count towards a producer's \$40,000 limit if the producer is receiving payment for grain farming?***

(continued on Page 2)

### Pool Summary

- A total of 17,028 producers were pooled under the Order with an average daily delivery per producer of 4,179 pounds.
- Pooled milk receipts totaled 2.135 billion pounds, a decrease of 3.5 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 38.1 percent of total milk receipts, a decrease of 1.7 percentage points from May.
- The average butterfat test of producer receipts was 3.60 percent.
- The average true protein test of producer receipts was 2.94 percent.
- The average other solids test of producer receipts was 5.72 percent. ❖

#### Class Utilization

| Pooled Milk       | Percent | Pounds        |
|-------------------|---------|---------------|
| Class I           | 38.1    | 813,217,927   |
| Class II          | 17.3    | 369,831,455   |
| Class III         | 32.3    | 689,444,922   |
| Class IV          | 12.3    | 262,150,178   |
| Total Pooled Milk |         | 2,134,644,482 |

#### Producer Component Prices

|                    | 2002   | 2001   |
|--------------------|--------|--------|
|                    | \$/lb  |        |
| Protein Price      | 2.0148 | 2.1670 |
| Butterfat Price    | 1.1211 | 2.2089 |
| Other Solids Price | 0.0247 | 0.1409 |

#### Class Price Factors

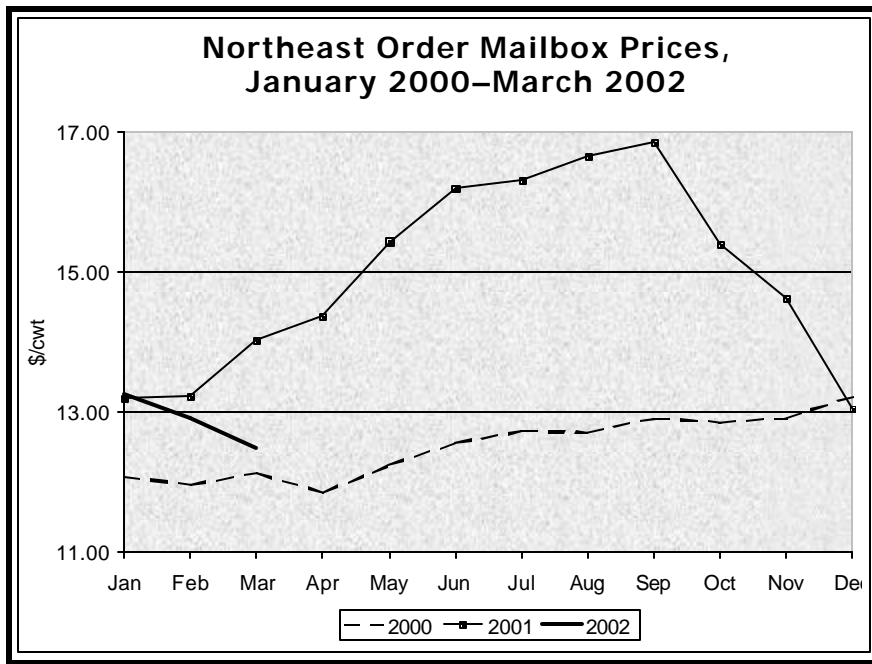
|           | 2002   | 2001  |
|-----------|--------|-------|
|           | \$/cwt |       |
| Class I   | 14.28  | 18.24 |
| Class II  | 11.19  | 16.05 |
| Class III | 10.09  | 15.02 |
| Class IV  | 10.52  | 15.33 |

## Mailbox Prices Reported

The mailbox price is defined as the net price received by dairy farmers. It includes all payments received for milk sold and deductions associated with marketing the milk. Mailbox prices are reported at test, unlike statistical uniform prices that are adjusted to 3.5 percent butterfat, 2.99 percent protein, and 5.69 percent other solids.

The accompanying chart shows the average mailbox prices for the Northeast Order from January 2000 through March 2002. If statistical uniform prices were charted, the pattern would be very similar to the one shown in the chart as both prices are affected by the same factors.

The accompanying table shows the average mailbox prices during the first 3 months of 2001 and 2002 for selected areas. As has been the trend, farmers in the southeastern part of the country, primarily Florida, continue to receive the highest mailbox price. Farmers in the Northeast, Northwest, California, New Mexico, Appalachian States, and Southeast all received less on a mailbox basis during the first quarter of 2002 compared to the same period last year. Interestingly, farmers in Idaho and the central part of the country, primarily Upper Midwest and the Corn Belt States, received a higher average mailbox price during the period. Wisconsin, which usually lags behind the Northeast in pay prices, reported a higher average price for the 3-month period in 2002. ❖



## National Dairy (continued from page 1)

No. Dairy is limited only by 2.4 million pounds per operation.

### **Does the 2.4 million pound annual cap on dairy payments apply to 2002 losses?**

No. The payment will be based on the quantity of eligible production marketed by the producer during the month.

### **How will the marketing year be defined?**

Payments will be based on each fiscal year, which is from October 1 through September 30.

### **Will dairy farmers receive payments under the dairy market loss payment program for low prices of 2002?**

The 2002 Farm Bill requires payments to dairy farmers if the Class I milk price (i.e., the price of milk for beverage use) is below \$16.94 per hundredweight in Boston under the applicable federal milk marketing order. The price of Class I milk has been below \$16.94 per hundredweight since the benefit period began on December 1, 2001; therefore, dairy farmers will receive payments for milk marketings from that date until the price moves above \$16.94 per hundredweight.

For new developments or for additional questions, the FSA website is <http://www.fsa.usda.gov/pas/default.asp> or <http://www.fsa.usda.gov/pas/farmbill/> or contact your local or state FSA office.

Our office has added a calculator to our webpage that will compute the monthly dairy market loss payment. Go to <http://www.fmmone.com>, National Dairy Market Loss Program Calculator. ❖

**Simple Average Mailbox Prices in Selected Areas, January–March 2001–2002**

|                    | 2001     | 2002  | Percent Change* |
|--------------------|----------|-------|-----------------|
|                    | (\$/cwt) |       |                 |
| Northeast          | 13.48    | 12.88 | (4.5)           |
| Appalachian States | 14.44    | 13.37 | (7.4)           |
| Southeast States   | 14.67    | 13.62 | (7.1)           |
| Florida            | 16.37    | 15.43 | (5.7)           |
| Wisconsin          | 12.82    | 13.05 | 1.8             |
| Minnesota          | 12.78    | 12.82 | 0.3             |
| Northwest States   | 12.76    | 12.44 | (2.5)           |
| California*        | 12.40    | 12.11 | (2.4)           |
| New Mexico         | 12.39    | 12.08 | (2.6)           |
| Corn Belt States   | 12.53    | 12.63 | 0.8             |
| Idaho              | 11.69    | 11.87 | 1.5             |

\* Prices reported under the California State Milk Marketing Order; March 2002 data not available.

# MARKET SITUATION

## Third Quarter Price Estimates

During the first 6 months of 2002, the statistical uniform price declined steadily and ranged from a high of \$13.81 per hundredweight in January to a low of \$12.38 per hundredweight in June. The decreases in the statistical uniform price reflected similar declines in the Class III and Class IV prices during the same 6-month period. The Class III price dropped \$1.78 from January's \$11.87 per hundredweight to a June price of \$10.09. The Class IV price declined \$1.41 from \$11.93 per hundredweight in January to \$10.52 in June.

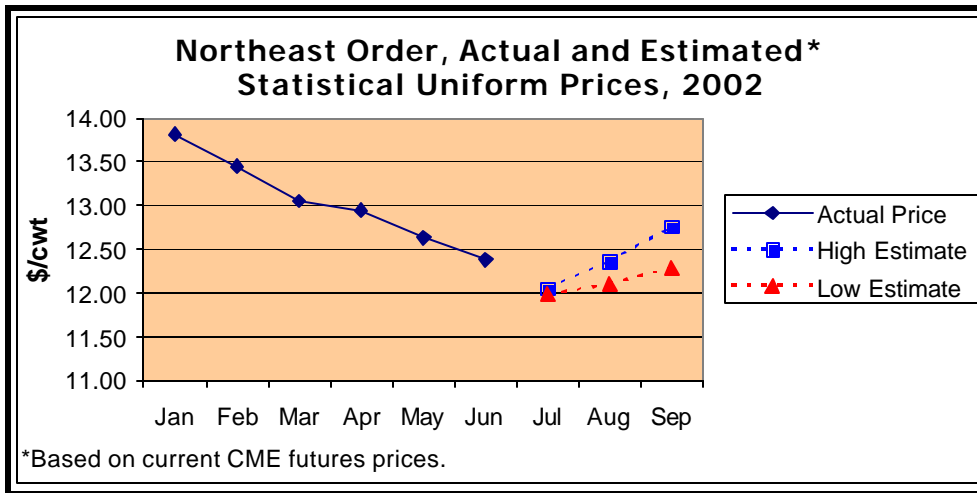
Many looking for an indication of where dairy prices might be headed look to the Chicago Mercantile Exchange's (CME) Class III and Class IV futures market. In both Class III and Class IV markets, futures prices have tended to underestimate prices on a rising

price trend and overstate prices on a downward price trend when looking 3 months out. CME Class III futures prices reported on July 15 were \$9.35, \$10.38, and \$11.90 per hundredweight for July, August, and September, respectively. CME Class IV futures prices reported on

July 15 were \$10.50, \$10.50, and \$10.70 per hundredweight for July, August, and September, respectively.

Based on the CME futures prices and trends described here, third quarter statistical uniform prices look like they will increase from

about \$12.00 per hundredweight in July, but remain in the \$12.00 to \$13.00 per hundredweight range. The accompanying chart shows actual statistical uniform prices for 2002 with high and low estimates for the third quarter. ❖



## Pool Summary for All Federal Orders, January–June, 2001–2002

| Federal Order            |                   | Total Producer Milk |                |                | Producer Price Differential# |      | Statistical Uniform Price#* |       |
|--------------------------|-------------------|---------------------|----------------|----------------|------------------------------|------|-----------------------------|-------|
| Number                   | Name              | 2001                | 2002           | Change percent | 2001                         | 2002 | 2001                        | 2002  |
|                          |                   | pounds              |                |                | dollars per hundredweight    |      |                             |       |
| 1                        | Northeast         | 12,417,168,957      | 13,160,315,636 | 6.0            | 2.99                         | 2.06 | 15.09                       | 13.05 |
| 5                        | Appalachian       | 3,518,752,073       | 3,546,790,570  | 0.8            | N/A                          | N/A  | 15.76                       | 13.57 |
| 6                        | Florida           | 1,453,786,118       | 1,408,385,783  | (3.1)          | N/A                          | N/A  | 17.30                       | 15.06 |
| 7                        | Southeast         | 4,020,399,399       | 4,300,241,112  | 7.0            | N/A                          | N/A  | 15.53                       | 13.34 |
| 30                       | Upper Midwest     | 9,834,220,201       | 10,335,834,450 | 5.1            | 0.78                         | 0.51 | 12.88                       | 11.49 |
| 32                       | Central           | 8,914,580,132       | 9,222,831,621  | 3.5            | 1.31                         | 0.81 | 13.40                       | 11.79 |
| 33                       | Mideast           | 8,283,478,326       | 9,396,763,888  | 13.4           | 1.75                         | 1.03 | 13.85                       | 12.01 |
| 124                      | Pacific Northwest | 3,418,780,492       | 3,901,081,135  | 14.1           | 1.73                         | 0.75 | 13.83                       | 11.73 |
| 126                      | Southwest         | 4,299,635,350       | 5,033,438,366  | 17.1           | 2.71                         | 1.84 | 14.81                       | 12.83 |
| 131                      | Arizona-Las Vegas | 1,564,334,712       | 1,613,182,234  | 3.1            | N/A                          | N/A  | 13.87                       | 11.89 |
| 135                      | Western           | 2,114,380,781       | 2,767,925,058  | 30.9           | 1.27                         | 0.65 | 13.37                       | 11.69 |
| All Market Total/Average |                   | 59,839,516,541      | 64,686,789,853 | 8.1            | 1.79                         | 1.09 | 14.52                       | 12.59 |

# 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**

|  | <u>Product Pounds</u> | <u>Price per cwt./lb.</u> | <u>Component Value</u> | <u>Total Value</u>      |
|--|-----------------------|---------------------------|------------------------|-------------------------|
| Class I— Skim  | 796,683,066           | \$10.48                   | 83,492,385.32          |                         |
| Butterfat  | 16,534,861            | 1.1902                    | 19,679,791.56          |                         |
| Less: Location Adjustment to Handlers                            |                       |                           | (2,377,854.81)         | \$100,794,322.07        |
| Class II— Butterfat  | 26,434,713            | 1.1281                    | 29,820,999.74          |                         |
| Nonfat Solids  | 30,868,925            | 0.8333                    | 25,723,075.20          | 55,544,074.94           |
| Class III— Butterfat   | 24,717,086            | 1.1211                    | 27,710,325.14          |                         |
| Protein  | 20,226,040            | 2.0148                    | 40,751,425.41          |                         |
| Other Solids   | 39,384,663            | 0.0247                    | 972,801.14             | 69,434,551.69           |
| Class IV— Butterfat  | 9,279,745             | 1.1211                    | 10,403,522.12          |                         |
| Nonfat Solids  | 22,606,676            | 0.7605                    | 17,192,377.10          | <u>27,595,899.22</u>    |
| <b>Total Classified Value</b>                                    |                       |                           |                        | <b>\$253,368,847.92</b> |
| Add: Overage—All Classes   |                       |                           |                        | 33,558.20               |
| Inventory Reclassification—All Classes                           |                       |                           |                        | 13,275.64               |
| Other Source Receipts  | 43,447                |                           |                        | 1,711.81                |
| Less: Producer Component Valuations                              |                       |                           |                        | <u>(215,600,018.14)</u> |
| <b>Subtotal</b>  |                       |                           |                        | <b>\$37,817,375.43</b>  |
| Add: Location Adjustment to Producers                            |                       |                           |                        | 10,956,733.58           |
| One-half Unobligated Balance—Producer Settlement Fund            |                       |                           |                        | <u>1,126,993.41</u>     |
| <b>Total Pool Milk &amp; Aggregate Value</b>                     | 2,134,687,929         |                           |                        | 49,901,102.42           |
| Less: Producer Settlement Fund—Reserve                           |                       |                           |                        | <u>(1,016,748.87)</u>   |
| <b>Producer Price Differential @ Suffolk County, MA (Boston)</b> |                       | <b>\$2.29</b>             |                        | 48,884,353.55           |
| <b>Statistical Uniform Price @ Suffolk County, MA (Boston)</b>   |                       | <b>\$12.38</b>            |                        |                         |

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