

# BULLETIN

## NORTHEAST MARKETING AREA

*Erik F. Rasmussen*, Market Administrator

**September 2002**

Federal Order No. 1



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### September Pool Price Calculation

The September 2002 statistical uniform price for the Northeast Marketing Area was announced at \$12.20 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 September producer price differential (PPD) at Suffolk County was \$2.28 per hundredweight.

The September statistical uniform price was 4 cents per hundredweight below August's price. The September PPD was 34 cents below the previous month's. All class prices declined except the Class III price, which increased 38 cents due to an increase in the protein price. These changes caused a decrease in the spread between the Class I, II, and IV prices and the Class III price, which resulted in a lower PPD.❖

### Gross Payment Comparison

In the Northeast Order, producers are paid on a multiple component pricing (MCP) basis. This means that producers are paid on the pounds of butterfat, "true" protein, and other solids in their milk. A fourth factor called the producer price differential (PPD) also contributes to the total pay price. The PPD is the producer's per hundredweight share of the value generated by the market wide pool. It varies due to changes in class prices and milk utilization from month to month. PPD values also are affected by the zone location of the plant(s) to which the milk is shipped during the month.

In the "Composition" example shown on page 2, the component tests are the average tests for that month's pool. The component prices are the producer component prices for the corresponding months. This hypothetical farmer's gross payment in September 2002 was \$5,558.78 less than in September 2001. The reported gross price does not include any deductions for hauling, cooperative dues, or any premiums or quality payments. In 2002, 82 percent of the total gross payment for the example was derived from components (see charts). In 2001, 90 percent of the total gross payment for the example was derived from components. Butterfat's proportion of the total gross payment decreased from 49 percent in 2001 to 29 percent in 2002. The protein portion of the total gross payment increased from 36 percent to 51 percent.❖

(see example on page 2)

### Pool Summary

- A total of 16,558 producers were pooled under the Order with an average daily delivery per producer of 3,877 pounds.
- Pooled milk receipts totaled 1.926 billion pounds, a decrease of 2.8 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 46.3 percent of total milk receipts, an increase of 3.0 percentage points from August.
- The average butterfat test of producer receipts was 3.62 percent.
- The average true protein test of producer receipts was 3.06 percent.
- The average other solids test of producer receipts was 5.67 percent.❖

#### Class Utilization

Pooled Milk	Percent	Pounds
Class I	46.3	891,773,036
Class II	19.9	383,197,214
Class III	28.4	547,220,636
Class IV	5.4	103,902,830
Total Pooled Milk		1,926,093,716

#### Producer Component Prices

	2002	2001
	\$/lb	
Protein Price	2.0646	2.1647
Butterfat Price	1.0099	2.4449
Other Solids Price	0.0367	0.1520

#### Class Price Factors

	2002	2001
	\$/cwt	
Class I	13.71	18.81
Class II	10.91	16.24
Class III	9.92	15.90
Class IV	10.22	15.59

## CCC Purchases, Highest Since 1991

For the marketing year (MY) October 1, 2001, through September 30, 2002, the Commodity Credit Corporation (CCC) purchased nearly 4.7 billion pounds of dairy products (on a total solids milk equivalent basis) under the dairy price support program. This was the largest volume purchased in over 10 years and an increase of 60 percent from the previous MY.

The accompanying table shows purchases since 1991. After peaking at nearly 19 billion pounds during MY 1982-83, CCC purchases declined as changes were made to the program and CCC purchase prices. The decline continued through MY 1995-96 when the CCC did not purchase any product under the support program. Since then, the CCC has purchased nonfat dry milk (NFD) each year and cheese in some years. No butter has been bought under the program since MY 1994-95.

Stronger prices in the late 90s spurred growth in dairy operations and increased overall supply. The support price program was initially terminated in the 1996 Farm Bill and was set to expire on December 30, 2000. It was extended through calendar year 2001 by Congress and again in the 2002 Farm Bill through 2007.

CCC purchases declined slightly in MY 2000-01 from the previous year as the milk supply tightened. Milk production began to rebound late in 2001 and has continued to increase throughout the first 9 months of 2002. With milk production growth of about 3 percent nationally and demand slightly declining (based on January-July commercial disappearance), a surplus has been generated resulting in increased CCC purchases particularly for NFD.

Commercial disappearance data reported for the first

### CCC Purchases of Dairy Products Under the Support Program, 1991-2002\*

MY# Ending	Butter	Cheese	NFD	Milk Equivalent
	(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

\* Does not include purchases under Dairy Export Incentive Program.

# Marketing year = October 1 through September 30.

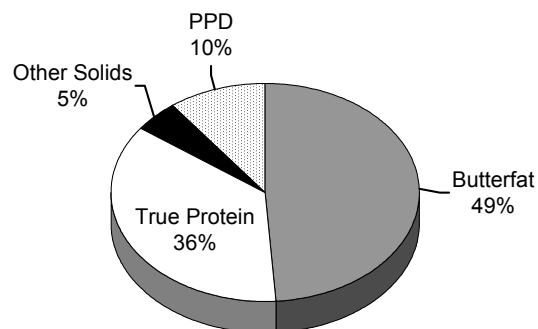
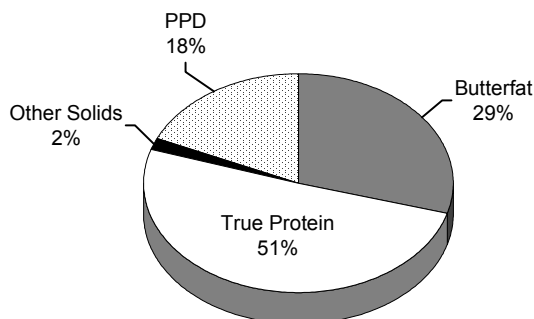
Sources: Commodity Credit Corporation; Dairy Market News.

6 months of 2002 showed essentially no change in fluid milk products or cheese. Commercial disappearance of butter was up 1.7 percent; NFD was down 30.7 percent.

Commercial disappearance is calculated by adding milk production, beginning commercial stocks, and imports. To that total, ending commercial stocks and net removals are subtracted. The residual (commercial disappearance) represents civilian and military purchases for domestic and foreign use. It excludes farm household use and USDA donations. Most of the data used to calculate commercial disappearance is estimated and can be affected by inaccuracies in estimation, but it is still used as a gauge of the national demand situation. ❖

### Composition of Total Gross Payment\*

	September 2002				September 2001			
	Test percent	Pounds	Price per pound	Gross dollars	Test percent	Pounds	Price per pound	Gross dollars
Butterfat	3.62	3,620	x 1.0099 =	\$3,655.84	3.61	3,610	x 2.4449 =	\$8,826.09
True protein	3.06	3,060	x 2.0646 =	6,317.68	2.99	2,990	x 2.1647 =	6,472.45
Other solids	5.67	5,670	x 0.0367 =	208.09	5.67	5,670	x 0.1520 =	861.84
PPD		1,000 cwt	2.28	2,280.00		1,000 cwt	1.86	1,860.00
Total gross payment				\$12,461.61				\$18,020.38
Gross price per cwt				\$12.46				\$18.02



\* For a hypothetical farm producing 100,000 pounds of milk at pool average component tests.

# MARKET SITUATION

## Comparison of Average Component Tests

Average component tests for the Northeast Order are announced each month with the statistical uniform price announcement on or before the 13<sup>th</sup> of the month. The average is calculated by dividing the total pounds of components in the pool (butterfat, protein, other solids) by the total volume of milk pooled.

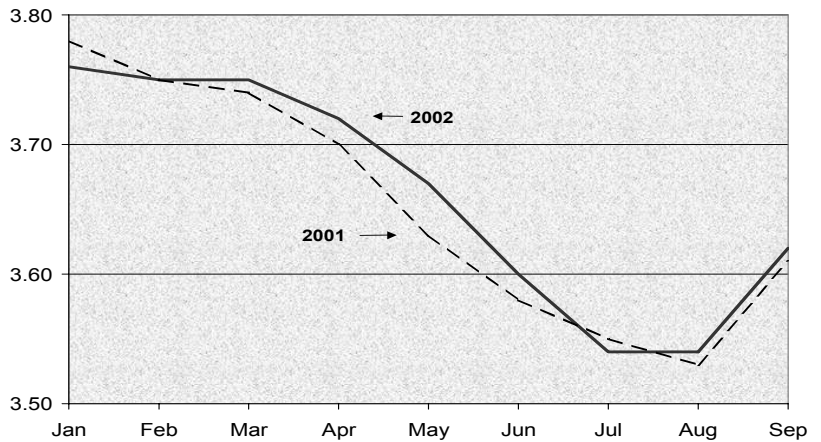
The accompanying graphs compare average component tests for the first 3 quarters of 2001 and 2002. The three graphs show that each component generally follows a typical seasonal pattern for the particular component each year.

Butterfat averaged 3.66 percent for the three-quarter period in 2002, compared with 3.65 percent in 2001. Butterfat tests tend to vary more than the other components, ranging as much as 0.25 percentage points from high to low, as seen in 2001. As depicted in the graph, butterfat tests are higher during the cooler months and decline in the warmer months. Overall, milk production tends to decline in hotter months, but the proportion of butterfat in the milk declines even more as evidenced by the lower average test.

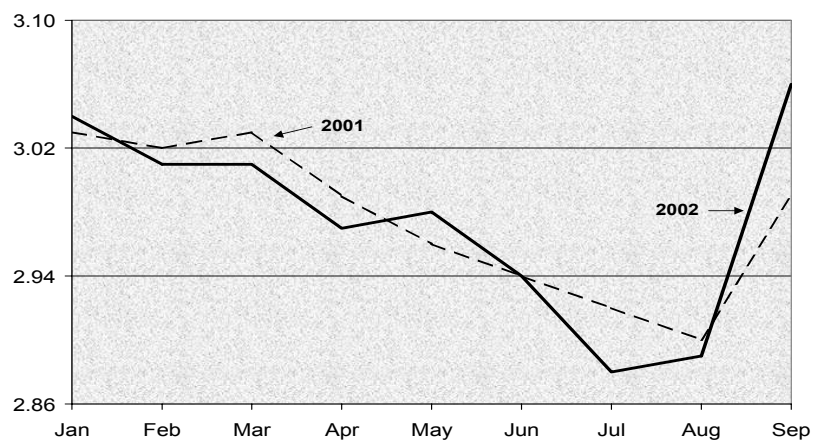
Protein averaged 2.98 percent for the first 3 quarters during both 2001 and 2002. Protein tests varied more this year, ranging 0.18 percentage points from a high of 3.06 percent in September to a low of 2.88 percent in July. The range from highest average monthly test to lowest has tended to increase during the past 2 years. Protein tests follow a similar pattern as butterfat, higher in the cooler months and lower in warmer weather.

The average other solids test for the three-quarter period has increased during the past 2 years: 5.69 percent in 2001 and 5.72 percent in 2002. The spread from lowest to highest other solids test has tightened in the past 2 years and shows that there is much less seasonal variation in the proportion of other solids in milk. ❖

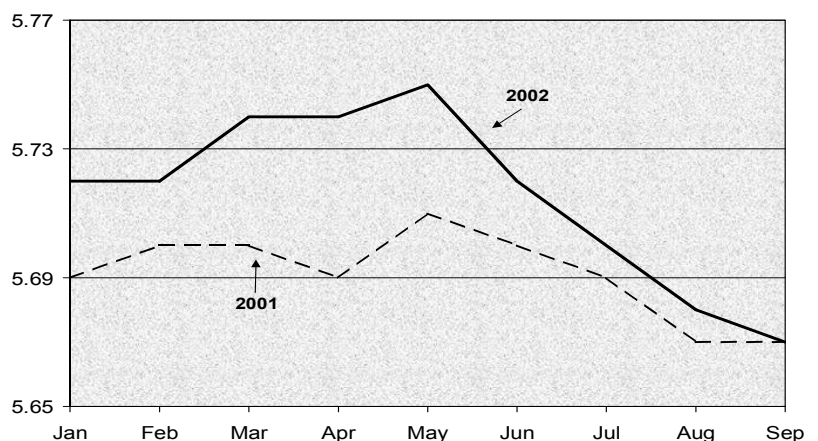
**Average Butterfat Test of Producer Receipts, January–September, 2001–2002**



**Average Protein Test of Producer Receipts, January–September, 2001–2002**



**Average Other Solids Test of Producer Receipts, January–September, 2001–2002**





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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	873,705,798	\$10.17	88,855,879.66	
Butterfat	18,067,238	1.1130	20,108,835.89	
Less: Location Adjustment to Handlers			(2,636,568.66)	\$106,328,146.94
Class II— Butterfat	25,865,758	1.0169	26,302,889.28	
Nonfat Solids	32,043,715	0.8467	27,131,413.52	53,434,302.80
Class III— Butterfat	19,366,857	1.0099	19,558,588.86	
Protein	17,936,118	2.0646	37,030,909.21	
Other Solids	31,060,315	0.0367	1,139,913.55	57,729,411.62
Class IV— Butterfat	6,414,423	1.0099	6,477,925.77	
Nonfat Solids	8,738,714	0.7696	6,725,314.29	13,203,240.06
<b>Total Classified Value</b>				<b>\$230,695,101.42</b>
Add: Overage—All Classes				102,972.20
Inventory Reclassification—All Classes				(73,538.70)
Other Source Receipts	80,364			2,732.37
Less: Producer Component Valuations				(195,980,042.64)
<b>Subtotal</b>				<b>\$34,747,224.65</b>
Add: Location Adjustment to Producers				8,930,059.64
One-half Unobligated Balance—Producer Settlement Fund				1,170,485.69
<b>Total Pool Milk &amp; Aggregate Value</b>	1,926,174,080			44,847,769.98
Less: Producer Settlement Fund—Reserve				(931,001.02)
<b>Producer Price Differential @ Suffolk County, MA (Boston)</b>		<b>\$2.28</b>		43,916,768.96
<b>Statistical Uniform Price @ Suffolk County, MA (Boston)</b>		<b>\$12.20</b>		

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