

The Market Administrator's BULLETIN

NORTHEAST MARKETING AREA

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July Pool Price Calculation

The July 2006 statistical uniform price (SUP) for the Northeast Marketing Area was announced at \$12.79 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 \$1.87 per hundredweight.

July's statistical uniform price was 13 cents per hundredweight above the June price; the July PPD was 50 cents above last month's. During July, commodity prices for butter and cheese declined while dry whey and nonfat dry milk prices rose slightly. This resulted in lower producer component prices for butterfat and protein; nonfat and other solids prices rose slightly. All class prices declined except the Class I price, which is based on prices from the previous month.

The average producer tests for all components declined. This combined with lower component prices for butterfat and protein resulted in a lower overall producer component valuation and a higher PPD. ❖

Milk Production Tapering Off

For the first 7 months of 2006, total milk production in the United States was up 3.4 percent when compared to the same period in 2005. During the first quarter of 2006, milk production grew 5.1 percent. By the second quarter, production slowed somewhat with increases of 3.2, 2.4, and 1.5 percent, respectively for April, May, and June, averaging 2.3 percent for the quarter.

According to USDA reports, the initial increases during the first quarter were the combined result of increased cow numbers and higher milk production per cow. Replacement heifers became more easily available as prices for them declined. As the spring and summer months arrived, both the heat and a weaker ratio have affected milk per cow and slowed overall production to more expected levels. Milk production is projected to average about 2 to 2.4 percent for the remaining months of 2006.

Milk production in the top 23 milk producing states as reported by the National Agricultural Statistics Service (NASS) increased 3.8 percent for the same period of 2006. These states account for over 91 percent of total US milk production. The top ten milk producing states had a (continued on page 2)

Pool Summary

- A total of 14,356 producers were pooled under the Order with an average daily delivery per producer of 4,284 pounds.
- Pooled milk receipts totaled 1.906 billion pounds, a decrease of 3.0 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 42.7 percent of total milk receipts, a decrease of 1.6 percentage points from June.
- The average butterfat test of producer receipts was 3.58 percent.
- The average true protein test of producer receipts was 2.94 percent.
- The average other solids test of producer receipts was 5.68 percent. ❖

Class Utilization

| Pooled Milk | Percent | Pounds |
|-------------------|---------|---------------|
| Class I | 42.7 | 814,916,142 |
| Class II | 20.2 | 384,051,330 |
| Class III | 24.2 | 460,889,394 |
| Class IV | 12.9 | 246,429,786 |
| Total Pooled Milk | | 1,906,286,652 |

Producer Component Prices

| | 2006 | 2005 |
|--------------------|--------|--------|
| | \$/lb | |
| Protein Price | 1.9807 | 2.4558 |
| Butterfat Price | 1.2228 | 1.8007 |
| Other Solids Price | 0.1257 | 0.1240 |

Class Price Factors

| | 2006 | 2005 |
|-----------|--------|-------|
| | \$/cwt | |
| Class I | 14.59 | 17.14 |
| Class II | 10.83 | 13.79 |
| Class III | 10.92 | 14.35 |
| Class IV | 10.21 | 13.17 |

Milk Production *(continued from page 1)*

combined increase of 4.3 percent for the first 7 months. Changes in production for the first 2 quarters of 2006 and the January–June period are shown in the accompanying table. Most of the states showed large production increases during the first quarter, but then slowed considerably during the second. Both Texas and New Mexico continued to see double-digit growth during the second quarter, and Idaho even had higher growth than during the first quarter. Washington was the only top-ten state to have declines during the period. In the Northeast, New York reported an increase of 2.0 percent; Pennsylvania had 2.9 percent; and Vermont decreased 1.0 percent from the previous year.

The surprising volumes seen earlier this year contributed to the lower milk prices paid to producers (see related article Price Forecast). As milk production tapers off, prices should rebound somewhat, although they are not expected to rise to levels witnessed during the past 2 years. ❖

Change in Milk Production, Top-Ten States, by Rank January–July 2005 and 2006

| | 2005-06 Percent Change | | |
|---------------|------------------------|---------|---------|
| | 1st Qtr | 2nd Qtr | Jan-Jul |
| California | 6.1 | 2.5 | 3.6 |
| Wisconsin | 4.7 | 1.8 | 2.8 |
| New York | 4.3 | 0.4 | 2.0 |
| Pennsylvania | 6.4 | 0.7 | 2.9 |
| Idaho | 8.0 | 8.7 | 8.1 |
| Minnesota | 2.9 | 0.3 | 1.7 |
| New Mexico | 16.0 | 14.4 | 14.8 |
| Texas | 14.7 | 11.0 | 12.1 |
| Michigan | 6.9 | 2.6 | 4.6 |
| Washington | (1.4) | (2.3) | (2.2) |
| Top 10 States | 6.3 | 3.2 | 4.3 |
| Top 23 States | 5.7 | 2.8 | 3.8 |
| United States | 5.1 | 2.3 | 3.4 |

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

Price Forecast

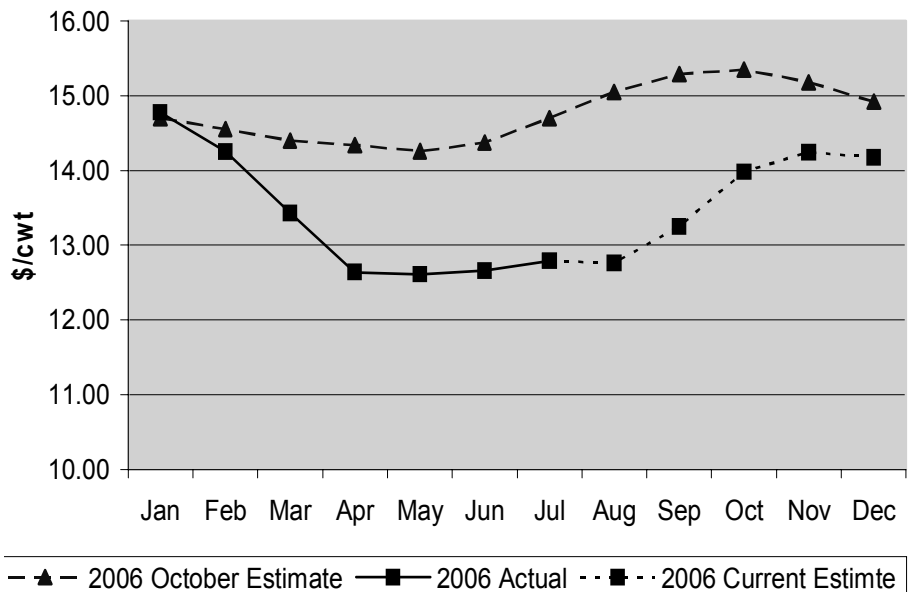
In the fall of 2005, the Northeast Regional Dairy Outlook Conference consensus estimate correctly predicted lower prices in 2006, but underestimated how low. Through 7 months of this year, the actual price has averaged \$1.17 per hundredweight lower than the 2006 price level projected at that time. The actual July blend price was \$1.91 per hundredweight below the originally projected blend price, the largest margin during the year.

Projections made in October 2005 were based on the Chicago Mercantile Exchange futures prices as well as other indicators of dairy supply and demand at that time. In fact, demand in 2006 has been relatively strong. Commercial disappearance of milk on a milkfat basis was up 3.5 percent in the first quarter of the year and up 4.2 percent and 1.0 percent in April and May, respectively. Fluid milk sales were up 1.4 percent in the first half of 2006, a pace that, if continues, could result in the third time in 20 years fluid milk sales increased by over 1 percent from the year prior.

Gains in milk production through the first half of the year have averaged 4.2 percent over the same month in 2005 (see related article Milk Production). Each month in the first quarter of 2006

had over 5 percent increases in milk production. In October 2005, when projections for 2006 were made, 2006 milk production was estimated to be up just 0.8 percent over the previous year in the Northeast, and up 2.6 percent nationally. The larger than expected increase in milk *(continued on page 3)*

2006 Uniform Price, Estimated vs. Actual



Forecast *(continued from page 2)*

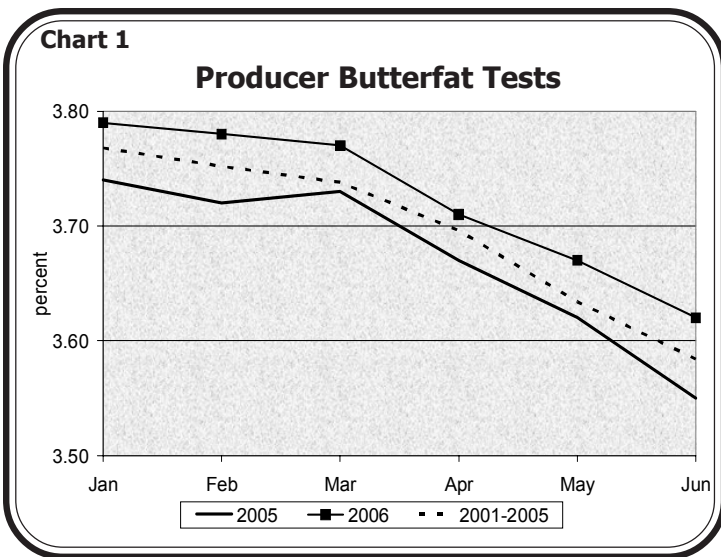
production overwhelmed any effect from better than expected demand, resulting in the lower than projected milk price.

Milk production increases have tailed off from over 4 percent increases, reaching just 1.9 percent and 1.5 percent in June and July, respectively. Milk production growth in July was also affected by nationwide record heat that month. According to the National Oceanic and Atmospheric Administration's National Climatic Data Center, it was the second hottest July recorded in the United States, the hottest since Roosevelt was president in

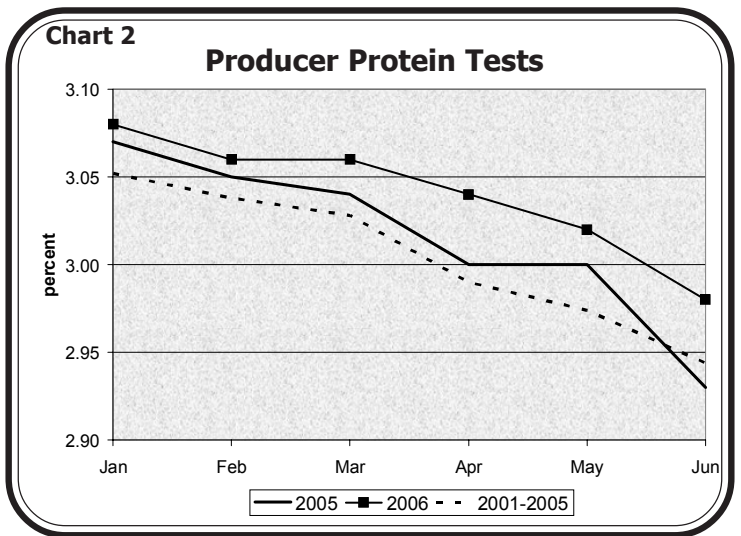
1936. It's conceivable that milk production could rebound a bit when temperatures moderate. Additionally, commercial disappearance increases also tailed off in May 2006 at just 1 percent over the previous year; this may indicate a worsening demand situation for the second half of 2006. Based on estimates of slower but still increasing milk production, softer demand for the remainder of the year, and CME futures prices as of August 18, the Northeast statistical uniform price is predicted to average \$13.68 per hundredweight over the last 5 months of 2006, reaching \$14.25 per hundredweight in November. ❖

Component Tests Compared

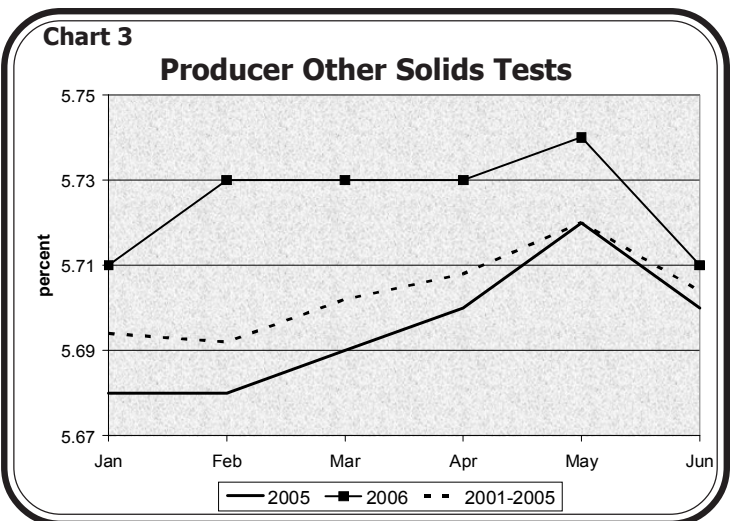
During the first 6 months of 2006, producer butterfat tests averaged 3.72 percent, 0.05 percentage points above the same period in 2005 and 0.01 percentage points above the average for the previous 5 years (see Chart 1). The highest January-June average butterfat test since the Order's inception was 3.73 percent, which occurred in both 2000 and 2003. For the January through June period, the highest monthly test recorded for the Northeast Order was 3.80 percent (February 2000; January and February 2003). The lowest test was 3.55 percent (June 2004 and 2005).



Producer protein tests averaged 3.04 percent for the first 6 months of 2006, 0.02 percentage points above last year and 0.04 percentage points above the 2001-05 average (see Chart 2). Protein tests have increased consistently since the Order's inception averaging 2.98 percent during January-June 2000, 2.99 percent in 2001 and 2002, 3.00 percent in 2003, and 3.02 percent in 2004 and 2005. The highest monthly test for the first 6 months was 3.08 percent, which occurred in January 2004 and January 2006. The lowest test for the period was 2.91 percent in May 2000.



For the first 6 months of 2006, other solids averaged 5.73 percent, up 0.03 percentage points from 2005 and the previous 5-year average (see Chart 3). This tied the previous highest 6-month average in 2002; the lowest 6-month average was 5.68 percent in 2000 and 2004. For the 6-month period, the highest monthly test recorded was 5.78 percent in June 2000; the lowest was 5.59 percent in January 2000.





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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 | 798,742,660 | \$10.49 | 83,788,105.03 | |
| Butterfat | 16,173,482 | 1.2755 | 20,629,276.29 | |
| Less: Location Adjustment to Handlers | | | (2,539,317.78) | \$101,878,063.56 |
| Class II— Butterfat | 28,020,935 | 1.2298 | 34,460,145.90 | |
| Nonfat Solids | 31,810,621 | 0.7511 | 23,892,957.46 | 58,353,103.36 |
| Class III— Butterfat | 17,143,320 | 1.2228 | 20,962,851.69 | |
| Protein | 13,527,674 | 1.9807 | 26,794,263.88 | |
| Other Solids | 26,122,355 | 0.1257 | 3,283,580.02 | 51,040,695.59 |
| Class IV— Butterfat | 6,964,705 | 1.2228 | 8,516,441.25 | |
| Nonfat Solids | 21,441,194 | 0.6831 | 14,646,479.61 | <u>23,162,920.86</u> |
| Total Classified Value | | | | \$234,434,783.37 |
| Add: Overage—All Classes | | | | 28,894.77 |
| Inventory Reclassification—All Classes | | | | 17,817.28 |
| Other Source Receipts | 11,995 | | | 417.59 |
| Less: Producer Component Valuations | | | | (208,174,305.76) |
| Subtotal | | | | \$26,307,607.25 |
| Add: Location Adjustment to Producers | | | | 9,168,868.04 |
| One-half Unobligated Balance—Producer Settlement Fund | | | | <u>981,029.87</u> |
| Total Pool Milk & Aggregate Value | 1,906,298,647 | | | 36,457,505.16 |
| Less: Producer Settlement Fund—Reserve | | | | <u>(809,720.37)</u> |
| Producer Price Differential @ Suffolk County, MA (Boston) | | \$1.87 | | 35,647,784.79 |
| Statistical Uniform Price @ Suffolk County, MA (Boston) | | \$12.79 | | |

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