

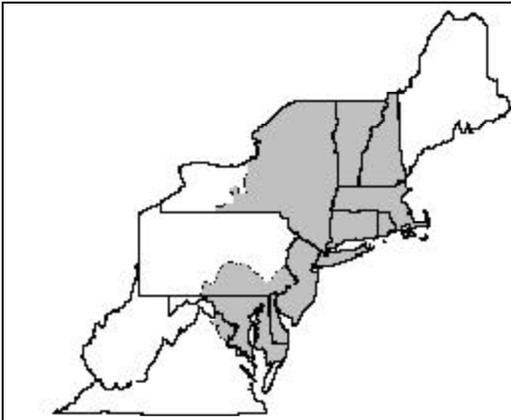
The Market Administrator's BULLETIN

NORTHEAST MARKETING AREA

Erik F. Rasmussen, Market Administrator

July 2000

Federal Order No. 1



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July Pool Price Calculation

The July statistical uniform price for the Northeast Marketing Area was announced at \$13.52 per hundredweight at Suffolk County, Massachusetts (Boston), the pricing point for the Northeast Order. This was an increase of 27 cents per hundredweight from June. The producer price differential (PPD) at Suffolk County was \$2.86 per hundredweight, a decrease of 93 cents per hundredweight from June. The PPD is \$2.76 for shipment to plants in the New York City differential zone and \$2.66 for plants in the Philadelphia differential zone.

Prices Move in Opposite Directions

The July statistical uniform price increased while the PPD declined. This was due to changes in the values for components from June to July, which are used in setting class prices and are factors in calculating the statistical uniform price and PPD. The value for protein in July increased by over 54 cents per pound from June (the largest month-to-month change in any component price since January) while the butterfat value dropped by more than 14 cents. As a result, the Class III price (protein-cheese price) increased \$1.20 per hundredweight from June while the Class IV price (butter-powder) dropped by 51 cents. The "spread" between the Class III and IV prices, therefore, declined from \$2.92 per hundredweight in June to \$1.21 in July, resulting in less revenue to be returned to producers via the PPD. Countering the decline in PPD values was a higher statistical uniform price for July, which producers saw in the form of higher values for the protein and other solids components of their milk.

Contribution to Price Changes

The contribution made to a producer's price from protein, butterfat, other solids, and the PPD changed significantly from June to July. For a hypothetical farm producing 100,000 pounds of milk at the market average component test and delivered to a Suffolk County plant, the portion of their milk check based on protein increased from 31.6 percent in June to 42.7 percent in July. The portion coming from butterfat dropped from 38.2 percent to 33.8 percent, and the portion coming from the PPD dropped from 28.3 percent to 21.2 percent. Other solids remained relatively stable in the under 3 percent range.

With cheese values at year-to-date highs and butter prices down from their highs, it is likely that protein will continue to contribute the largest portion of a producer's milk check, so long as commodity prices maintain a similar alignment. ❖

Pool Summary

- A total of 17,196 producers were pooled under the order with an average daily delivery per producer of 3,730 pounds.
- Producer milk receipts totaled 1.988 billion pounds, a decrease of 1.3 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 40.5 percent of total milk receipts, a decrease of 1.6 percentage points from June.
- The average butterfat test of producer receipts was 3.59 percent.
- The average true protein test of producer receipts was 2.92 percent.
- The average other solids test of producer receipts was 5.69 percent. ❖

Class Utilization

Producer Milk	Percent	Pounds
Class I	40.5	805,463,366
Class II	17.9	356,622,522
Class III	31.8	631,497,892
Class IV	9.8	<u>194,698,652</u>
Total Producer Milk		1,988,282,432

Producer Component Prices

Protein Price	\$1.9726 /lb
Butterfat Price	\$1.2691 /lb
Other Solids Price	\$0.0557 /lb

Class Price Factors

	\$/cwt
Class I	15.71
Class II	12.58
Class III	10.66
Class IV	11.87

Milk Production Increases Steadily

For the first 6 months of 2000, milk production in the United States increased 3.3 percent from the same period in 1999. All of the top ten milk-producing states, except New York and Wisconsin, recorded increases during this period. The top ten states experienced a combined increase of 3.9 percent from last year. All comparisons have been adjusted for leap year.

The accompanying chart shows the annual change in milk production between 1998 and 1999 and the change for the first 6 months of both 1999 and 2000. The data is depicted on a percentage basis for the top ten U.S. milk producing states.

California, the top producing state, posted an increase of 7.1 percent for the January through June period. During 1999, California's production grew 10.2 percent. Idaho and New Mexico were the biggest gainers so far this year with growth of 13.8 and 10.9 percent, respectively. Both are ahead of last year when they recorded increases of 11.9 and 8.5 percent, respectively. Other states showing double-digit growth during the first 6 months were Indiana and Nebraska.

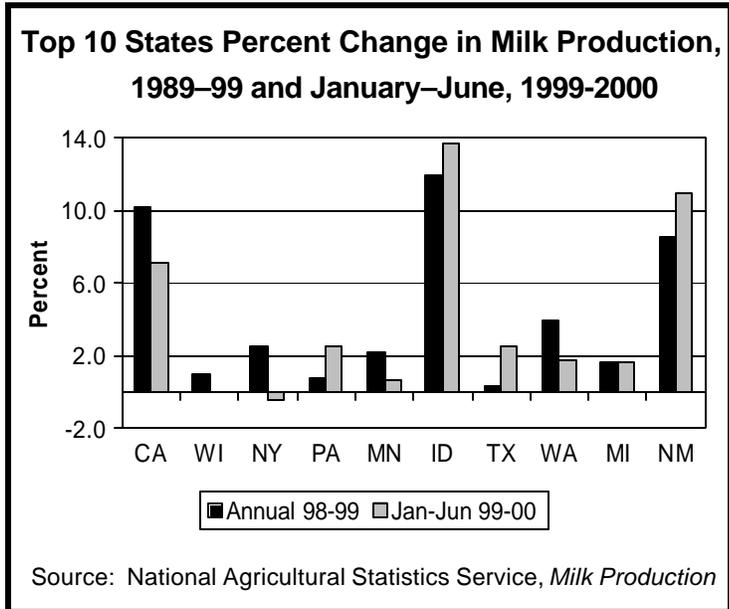
Both New York and Wisconsin recorded increases in actual pounds of production. When adjusted for leap year,

however, New York's production decreased by 0.4 percent; Wisconsin's adjusted production was unchanged from 1999. During 1999, New York's production rose 2.5 percent while Wisconsin's increased 1.0 percent. Alaska

was the only state to show a double-digit decline (10.5 percent) during the first half of 2000; its 1999 annual production was less than 14 million pounds. The next biggest losers were New Jersey and Connecticut with milk production decreases of 7.3 and 7.2 percent, respectively.

The only New England state to show an increase

was Vermont (3.2 percent). Combined, New England's milk production declined 0.1 percent for the 6-month period. Other states showing increased milk production worth noting include Pennsylvania and Texas with 2.5 percent each and Minnesota with 0.7 percent. ❖



Support Prices Adjusted

On August 15, the USDA announced that the Commodity Credit Corporation (CCC) purchase prices for butter, cheese, and nonfat dry milk (NFD) have been adjusted. The Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriation Act, 2000, extended the price support program through calendar year 2000 at the 1999 support price of \$9.90 per hundredweight of milk with an annual average milkfat content of 3.67 percent.

The Secretary of Agriculture is permitted to change the purchase prices twice during this calendar year. Using

that authority, the following adjustments were made in order to reflect the new pricing formulas under the reformed Federal Milk Marketing Orders. CCC will increase the price it pays for block Cheddar and barrel cheese by 2.2 cents per pound to \$1.1220 and \$1.0920 per pound, respectively. The purchase price for butter will increase by 1.8 cents per pound to \$0.6680 per pound, and the purchase price for NFD will remain at \$1.0100 per pound. The support price remains at \$9.90 per hundredweight. These prices were effective July 31, 2000. ❖



Fluid Milk Board Members Named

Agriculture Secretary Dan Glickman announced the appointment of two incumbents and seven new members to the National Fluid Milk Processor Promotion Board. Locally, in region 2, Mary E. Spencer, Chelsea, Massachusetts, was newly appointed. This appointment will expire on May 31, 2002.

The Fluid Milk Promotion Act of 1990 established

the Board to develop and administer a coordinated program of advertising and promotion to increase the consumption of fluid milk products. It is composed of 15 fluid milk processors from 15 geographic regions, and five at-large members. The program is financed by a mandatory 20-cent per hundredweight assessment on all fluid milk processed and marketed commercially in consumer-type packages. ❖

MARKET SITUATION

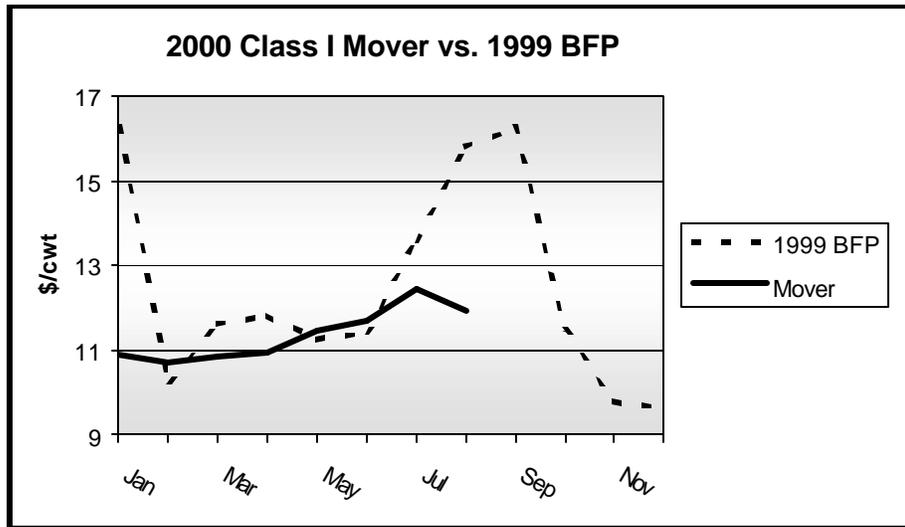
Comparison of Price Movers

The accompanying chart shows the Basic Formula Price (BFP) for 1999 and the Class I Mover Factor (CIM) for year-to-date 2000. Prior to Order Reform, the BFP was the basis for Class I, II, and III prices under federal orders. Beginning in 2000, the CIM is used to calculate comparable Class I prices. It is derived by adding the higher of the advanced Class III or IV skim milk pricing factor plus the advanced butterfat pricing factor (converted to dollars per

hundredweight, ranging from \$16.27 to \$9.63 per hundredweight, a difference of \$6.64. The BFP, largely based on cheese prices, moved up and down as cheese prices soared and tumbled. As mentioned above, the CIM is based on the higher of the Class III or Class IV advanced price. The Class III price incorporates cheese prices, whereby the Class IV price uses butter and powder prices. So far in 2000, these formulas resulted in a CIM based on the butter and powder markets since market prices for butter have been the strongest.

The consistency of the CIM is no surprise when looking at the individual commodity prices. Powder prices averaged \$1.01 per pound with a range of only \$0.0044 for the first 7 months. Butter prices bobbed somewhat, but overall increased during the January to July period, varying by \$0.3905 per pound. Cheese prices varied only \$0.1178 per pound from January to July, but due to their lower average, they were not used in basing the CIM.

For the remainder of 2000, it is uncertain which will be the price setter. Butter prices have been declining recently, but so have cheese prices. Powder prices are relatively unchanged. On the futures market as of August 15, milk futures (Class III) ranged from \$10.15 to \$11.05 per hundredweight for August through December. Class IV futures ranged from \$11.50 to \$11.74 per hundredweight for the last 3 months of 2000. ❖

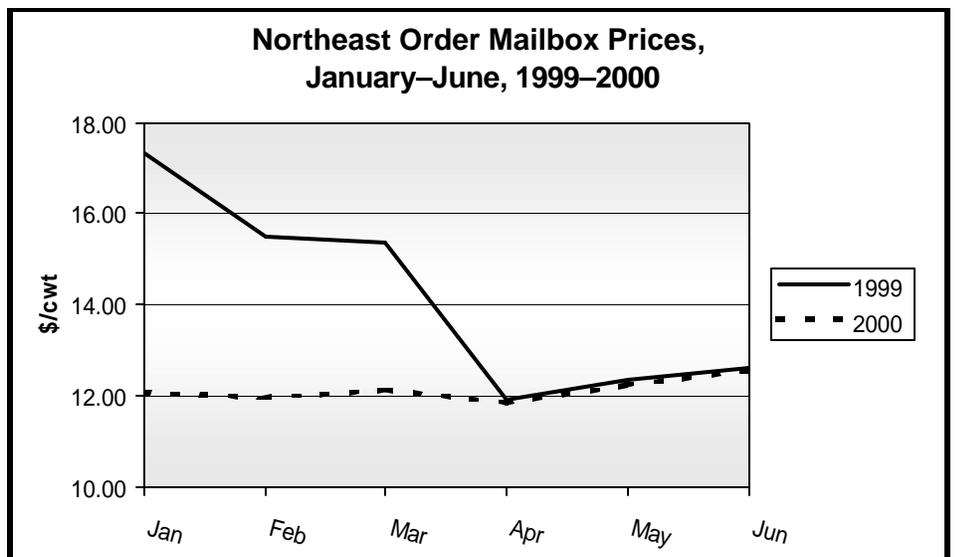


hundredweight). As were added to the BFP, Class I differentials are added to the CIM to arrive at Class I prices for various locations.

The chart shows that the CIM has been relatively constant, staying within a \$1.75 range. In 1999, the BFP

Mailbox Prices

For the first 6 months of 2000, mailbox prices in the Northeast Order averaged 14.4 percent less than prices in 1999. Due to different pricing methods and new order areas, prices may not be directly comparable. The accompanying chart shows the monthly prices. Mailbox prices during 2000 have averaged \$12.14 per hundredweight with a range of 71 cents. In 1999, mailbox prices averaged \$14.18 per hundredweight for the first 6 months with a range of \$5.44. Since April, prices averaged only 8 cents lower than last year's. ❖





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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	788,717,431	\$10.96	86,443,430.49	
Butterfat	16,745,935	1.4680	24,583,032.58	
Less: Location Adjustment to Handlers			(2,241,475.68)	\$108,784,987.39
Class II— Butterfat	25,630,970	1.2761	32,707,680.84	
Nonfat Solids	29,549,973	0.9344	27,611,494.81	60,319,175.65
Class III— Butterfat	21,967,359	1.2691	27,878,775.30	
Protein	18,426,009	1.9726	36,347,145.39	
Other Solids	36,006,452	0.0557	2,005,559.48	66,231,480.17
Class IV— Butterfat	6,944,816	1.2691	8,813,665.99	
Nonfat Solids	16,823,332	0.8561	14,402,454.52	<u>23,216,120.51</u>
Total Classified Value				\$258,551,763.72
Add: Overage—All Classes				43,349.56
Inventory Reclassification—All Classes				(125,335.92)
Other Source Receipts	168,921			7,523.11
Less: Producer Component Valuations				<u>(211,348,788.64)</u>
Subtotal				\$47,128,511.83
Add: Location Adjustment to Producers				9,419,448.42
One-half Unobligated Balance—Producer Settlement Fund				<u>1,306,638.11</u>
Total Pool Milk & Aggregate Value	1,988,451,353			57,854,598.36
Less: Producer Settlement Fund—Reserve				<u>(984,889.66)</u>
Producer Price Differential @ Suffolk County, MA (Boston)		\$2.86		56,869,708.70
Statistical Uniform Price @ Suffolk County, MA (Boston)		\$13.52		

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