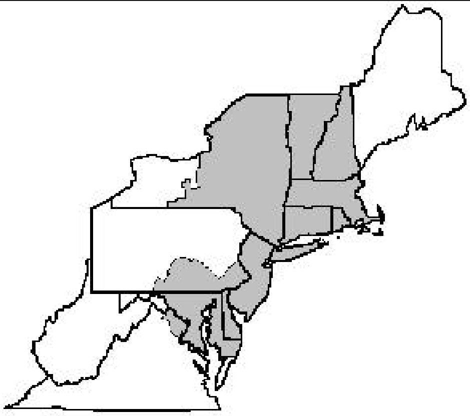

The Market Administrator's

BULLETIN

NORTHEAST MARKETING AREA

Erik F. Rasmussen, Market Administrator

July 2001 Federal Order No. 1

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July Pool Price Calculation

The July 2001 statistical uniform price for the Northeast Marketing Area was announced at $17.21 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 July producer price differential (PPD) at Suffolk County was $1.75 per hundredweight.

The July statistical uniform price set another record for the Northeast Order, topping June's price by $0.13 per hundredweight. July's PPD decreased 31 cents from the previous month. The Class I price increased $0.35 and the Class III price increased $0.44 cents, while both the Class II and IV prices declined. For the first time since Federal Order Reform, the Class III price was higher than the Class IV price. With the spread between the Class III price and the other class prices decreasing, the PPD decreased.

The value for producer butterfat in the July pool increased from June, even though the butterfat price and average producer test declined, due to a higher total volume of producer milk. The producer protein value for July was the highest since the Order's inception.❖

Shipping Requirements Investigation

The Market Administrator has received requests from pool handlers and cooperative associations to investigate the need to increase the shipping requirements under Section 1001.7(c)(1) and (2) of Order 1. Section 1001.7(g) allows the Market Administrator to adjust the shipping percentage—the percentage of their milk receipts that cooperative handlers and pool supply plants must deliver to Class I bottling plants during the period August through December. The Market Administrator is commencing an investigation into the expected Class I needs and available milk supplies for the months of September, October, and November of 2001. If the investigation shows that an adjustment of the shipping percentages might be appropriate, the Market Administrator shall issue a notice stating that an adjustment is being considered and invite data, views, and arguments. Any decision to revise an applicable shipping percentage will be issued in writing at least one day before the effective date.

Tightness in the milk supply is historically experienced in the fall, coinciding with the start of the school year and seasonal declines in milk production. Most schools in major metropolitan areas of the Northeast are opening in early September this year.❖

Pool Summary

- A total of 17,620 producers were pooled under the order with an average daily delivery per producer of 3,891 pounds.
- Pooled milk receipts totaled 2.125 billion pounds, a decrease of 0.5 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 39.3 percent of total milk receipts, a decrease of 1.4 percentage points from June.
- The average butterfat test of producer receipts was 3.55 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

Pooled Milk	Percent	Pounds
Class I	39.3	834,144,194
Class II	17.3	368,545,342
Class III	33.1	704,094,563
Class IV	10.3	218,425,691
Total Pooled Milk		2,125,209,790

Producer Component Prices

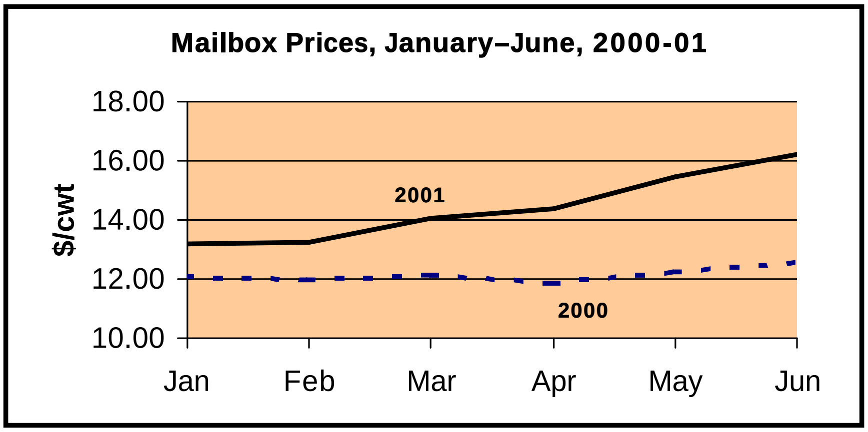
	2001	2000
	$/lb	
Protein Price	2.3175	1.9726
Butterfat Price	2.1883	1.2691
Other Solids Price	0.1510	0.0557

Class Price Factors

	2001	2000
	$/cwt	
Class I	18.59	15.71
Class II	15.96	12.58
Class III	15.46	10.66
Class IV	14.81	11.87

Mailbox Prices Compared

For the first 6 months of 2001, the estimated mailbox price for the Northeast Order averaged $14.41 per hundredweight, an increase of nearly 19 percent from the same period in 2000. The mailbox price is an estimate of what farmers receive in their milk check. It changes in the same direction as the statistical uniform price because it is affected by the same market factors. The accompanying chart shows mailbox prices for January–June of 2000 and 2001.❖



Consumer Expenditures for Dairy Products

The Bureau of Labor Statistics (BLS) collects consumer expenditure data. The data show the amount, on average, spent annually by a household on a very detailed list of items. A household is loosely defined as a unit that makes the majority of its spending decisions together. This definition includes various types of families as well as singles. Average expenditure figures include households in the survey that may have spent nothing on an item and households that regularly purchase that item, so the average may be lower.

A clearer picture may be obtained by looking at expenditures as a portion of total spending or as a portion of spending on a particular category of items. A change in purchase frequency, price inflation, or a change in spending on other items might have an impact on the spending share of the item of interest. The survey collects household characteristic information to allow the comparison of spending by different population groups. The most recent annual expenditure data available are for 1999.

Average Annual Dairy and Other Food Expenditures by Northeast Households, 1984 and 1999, as a Percent of "Food at Home" Expenditures

Item	1984		1999	
	dollars	percent	dollars	percent
Food at home	2,089	100.0	3,084	100.0
Cereal and bakery products	285	13.6	487	15.8
Meats, poultry, fish, & eggs	654	31.3	830	26.9
Fruits & vegetables	360	17.2	564	18.3
Dairy products	277	13.3	361	11.7
Fresh milk and cream	131	6.3	135	4.4
Butter	16	0.8	25	0.8
Cheese	79	3.8	101	3.3
Ice cream and related products	37	1.8	63	2.0
Miscellaneous dairy products	14	0.7	37	1.2
Other food at home	483	23.1	843	27.3

Source: Bureau of Labor Statistics, Consumer Expenditure Survey
Note: Totals may not add due to rounding.

Spending in the Northeast

The table shown may be used to get a picture of household spending patterns for "food at home" in the Northeast. In 1984, spending on dairy products made up 13.3 percent of the food at home budget. By 1999, dairy's portion of household's food at home budget dropped to 11.7 percent. In 1984, cereal and bakery products accounted for 13.6 percent of the food at home budget, an amount similar to dairy. In contrast to dairy, cereal and bakery products' share rose to 15.8 percent by 1999. Spending on meats represented the largest share of the food at home budget in 1984 with the "other food at home" category commanding the top place in 1999. Other food at home, which includes items such as frozen prepared foods, snacks, and condiments, had the largest increase between 1984 and 1999. The portion spent on fruits and vegetables went up 1.1 percentage points.

In 1984, fresh milk and cream made up the largest portion of a Northeast household's dairy expenditures–47 percent. In 1999, fresh milk and cream accounted for just 37 percent of those expenditures; cheese accounted for the second largest portion–29 percent; and ice cream accounted for the third largest portion–17 percent.

Regional Differences

Of the four U.S. regions reported by BLS (Northeast, Midwest, South, and West), dairy's portion of the food at home budget was larger in the Northeast than in other regions in 1999. Dairy accounted for 10.6 percent in the South, the smallest portion of the four regions. In 1984, the West had the largest portion at 14 percent; the South had the smallest at 12.5 percent.

In 1984, the Northeast and West spent the largest portion of food at home on cheese—3.8 percent. The Midwest and South spent 3.4 percent and 2.9 percent in 1984, respectively. By 1999, the Midwest's portion remained at 3.4 percent, but this was the largest of the regions. The Northeast and West regions' portions dropped to about 3.3 percent. The South remained about the same.❖

MARKET SITUATION

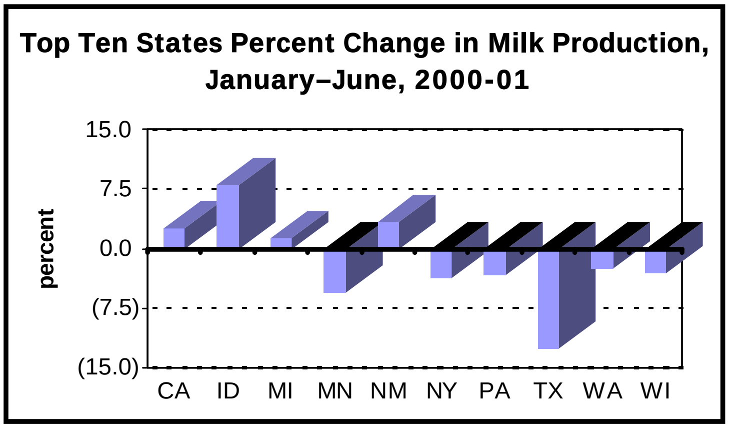
Milk Production Still on Decline

For the first half of 2001, total U.S. milk production was down 1.7 percent when compared with the same period in 2000. The accompanying chart shows the top ten milk producing states' percent changes in production for the first 6 months of 2001. Overall, these states posted a 1.2 percent decline for the period. All percentages have been adjusted for the extra day during the comparison period in 2000 (leap year).

The total number of milk cows is down from last year, and milk production per cow has been below the previous year during each month of 2001 except for June, which was up a slight 0.4 percent.

Nationally, only thirteen states increased milk production during the first 6 months of 2001. Of the top 20 milk producing states reported by the National Agricultural Statistics Service (NASS), California, Idaho, Indiana, Michigan, and New Mexico showed increases. Indiana's production jumped 11.7 percent during the period, the highest of any state largely due to an increase in cow numbers. During June, its production increased 17.1 percent.

Of the twenty NASS-reported states, the biggest loser was Texas with a 12.6 percent decline for the 6-month period. All states in the Northeast marketing area (except New Hampshire) declined; New York and Pennsylvania had a combined decrease of 3.5 percent. The New England states (Conn., Mass., N.H., R.I., and Vt.) combined for a drop of 5.3 percent. Delaware's production declined 11.5 percent; Maine was down 5.3 percent; Maryland dropped 7.4 percent; and Virginia decreased 2.5 percent. ❖



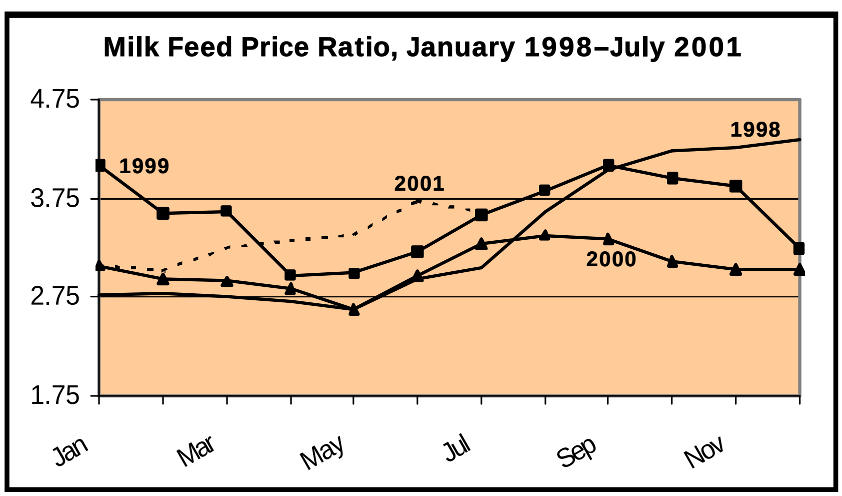
Milk Feed Price Ratio Remains Favorable

For the past 12 months, the milk feed price ratio averaged 3.27. The milk feed price ratio (MFPR) is a measure of the value of 16% protein ration to one pound of whole milk. It is calculated by dividing the "all milk" price by the value of 16% protein mixed dairy feed (a combination of corn, soybeans, and alfalfa hay). It does not include supplements. The ration is based on U.S. average prices collected by the National Agricultural Statistics Service (NASS).

The current calculation reported by NASS began in 1995. From that point until mid-1998, the monthly MFPR was below 3.0 (see chart). It hit 4.04 in September 1998, peaked at 4.34 in December, and averaged 3.34 for the year. It remained favorable throughout 1999, dipping below 3.0 only twice and averaging 3.59 for the year. As prices decreased in 2000, the ratio corresponded similarly, and averaged 3.04. During the first 7 months of 2001, the MFPR has been solidly above 3.0, reaching 3.73 in June.

The MFPR is an indicator of the profitability of milk production. Usually the higher the number, the more profitable it is producing milk, since feed is often the largest cost of producing milk. A high MFPR indicates that producers have more money to spend on other things than feed. For example, producers could use the difference to pay down debt or expand their operation. Favorable MFPRs usually encourage increases in milk production. The high prices in 1998 gave way to growth in both cow numbers and milk production per cow. Milk production increased 3.4 percent; in 1999, and grew another 3.0 percent in 2000. Although demand was fairly strong during 1999 and 2000, the increase in supply resulted in weaker prices, which led to a decline in farm expansions, increased farm exits, and overall lower production.

The decrease in production, accompanied by strong demand, has resulted in increased prices for the first half of 2001, reflected in the strong MFPR. When milk production recovers, prices will respond, and the MFPR will likely decrease.❖



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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	816,700,183	$11.13	90,898,730.37	
	Butterfat	17,444,011	2.2429	39,125,172.27	
Less:	Location Adjustment to Handlers			(2,573,471.82)	$127,450,430.84
Class II—	Butterfat	26,326,008	2.1953	57,793,485.38	
	Nonfat Solids	30,538,781	0.9533	29,112,619.93	86,906,105.31
Class III–	Butterfat	24,732,133	2.1883	54,121,326.63	
	Protein	20,479,884	2.3175	47,462,131.24	
	Other Solids	40,087,749	0.1510	6,053,250.10	107,636,707.97
Class IV–	Butterfat	6,986,928	2.1883	15,289,494.58	
	Nonfat Solids	18,894,804	0.8234	15,557,981.65	30,847,476.23
Total Classified Value					**$352,840,717.35**
Add:	Overage—All Classes				40,328.80
	Inventory Reclassification—All Classes				67,479.10
	Other Source Receipts	197,937			5,589.65
Less:	Producer Component Valuations				(327,209,223.27)
	Subtotal				**$25,744,891.63**
Add:	Location Adjustment to Producers				11,267,979.94
	One-half Unobligated Balance—Producer Settlement Fund				1,108,240.58
Total Pool Milk & Aggregate Value		2,125,407,727			38,121,112.15
Less:	Producer Settlement Fund—Reserve				(926,476.92)
Producer Price Differential @ *Suffolk County, MA (Boston)*			**$1.75**		37,194,635.23
Statistical Uniform Price @ *Suffolk County, MA (Boston)*			**$17.21**		

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