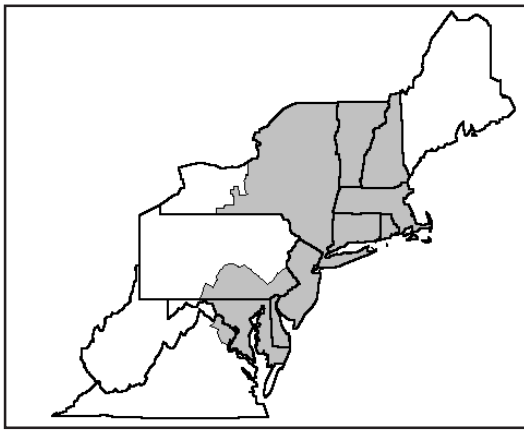

The Market Administrator's

BULLETIN

NORTHEAST MARKETING AREA

Erik F. Rasmussen, Market Administrator

March 2004 Federal Order No. 1

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March Pool Price Calculation

The March 2004 statistical uniform price (SUP) for the Northeast Marketing Area was announced at $15.56 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 March producer price differential (PPD) at Suffolk County was $1.07 per hundredweight.

March's statistical uniform price was $1.61 per hundredweight above the February price; the March PPD was 99 cents below the previous month's. All class prices increased as commodity prices for butter and cheese rose during February and March, tightening the spread and lowering the PPD. Producers shipping to plants located in zones having a Class I differential of $2.10 or less would see a negative PPD (see related article).

The March producer butterfat price was the second highest since order reform and generated a record-high producer butterfat value. The producer protein test was a record high for the month of March.❖

Negative PPD Expected in April Price

The April calculation of the statistical uniform price (SUP) will inevitably include a negative value for the producer price differential (PPD) at all zones. A negative PPD occurs when commodity prices rise rapidly during the approximately 6-week period between the time the Class I price is announced and the time the Class III price is announced. The lag in prices (see article on page 2) can result in the Class III price (which is based on more current market prices) ending up higher than the Class I price (based on comparatively older market prices), thus yielding a negative PPD. Conversely, when prices fall, the lag usually results in the Class I price falling later than the Class III price, yielding a larger-than-normal PPD.

Based on how milk is used during the month, the classification of the milk generates a finite amount of money in the Order's pool. Producers are paid for their protein, butterfat, and other solids components from the pool at the same dollar per pound value as Class III milk. The PPD is an adjustment made to the producer pay prices for the additional value generated by milk used in the other classes (I, II, and IV). During a normal relationship where the Class I price is higher than the Class III price, the 'extra' money generated by Class I (and sometimes, the other classes) is returned to producers in the form of a positive PPD.

(continued on page 2)

Pool Summary

- A total of 15,547 producers were pooled under the Order with an average daily delivery per producer of 4,330 pounds.
- Pooled milk receipts totaled 2.086 billion pounds, an increase of 2.6 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 44.6 percent of total milk receipts, an increase of 1.0 percentage points from February.
- The average butterfat test of producer receipts was 3.70 percent.
- The average true protein test of producer receipts was 3.05 percent.
- The average other solids test of producer receipts was 5.68 percent.❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	44.6	930,661,315
Class II	20.1	418,798,482
Class III	28.0	584,531,204
Class IV	7.3	152,332,685
Total Pooled Milk		2,086,323,686

Producer Component Prices

	2004	2003
	$/lb	
Protein Price	2.0133	1.6648
Butterfat Price	2.3813	1.1459
Other Solids Price	0.0234	0.0206

Class Price Factors

	2004	2003
	$/cwt	
Class I	15.19	13.06
Class II	14.79	10.54
Class III	14.49	9.11
Class IV	14.10	9.79

Class I Prices to Hit Record Highs

In upcoming months, the Class I price is expected to equal about $23.00 per hundredweight, setting the highest federal order Class I price ever. Due to the dramatic increases in the commodity prices for cheese and butter in the past 2 months, Class II, III, and IV prices also have increased with the Class III price so far experiencing the greatest jump.

Advanced Pricing

The method used to calculate the Class I price uses National Agricultural Statistics Service (NASS) surveyed cheese, butter, nonfat dry milk, and dry whey prices for a 2-week period from the month the price is announced to generate the Class I price for the upcoming month (see example). Class I prices have always been announced on an advanced basis because of the perishable nature of Class I fluid milk products.

The other class prices are announced for a particular month after the month is finished and use NASS commodity prices reported essentially for the entire month the prices represent. In this manner, these prices are more current, and they more accurately reflect the particular month's activity. As shown in the example, the product prices for April are expected to finish much higher than those in March. This results in much higher manufacturing class prices and, particularly, a Class III price that is nearly $2.75 per hundredweight higher than the same month's Class I price.

Projected Prices

Based on Chicago Mercantile Exchange (CME) futures prices for Class III and IV milk reported on April 19, Class I prices are projected to be possibly over $23 per hundredweight (at Boston) for May and at least $22 for June and July. This would result in record-setting Class I prices; the previous highest Class I price was $20.58 (at Boston) in February 1999.

In addition, using these futures prices and estimated class usage, the blend price at Boston is estimated to top $20 per hundredweight in May. Even though the CME futures prices tend to be higher than the NASS prices, blend prices are estimated to be substantially higher than last year through September.

Connection Between Butterfat and Protein

In the months ahead, producer component prices are expected to remain strong assuming that commodity prices hold at current levels or continue to increase. What may surprise some is that producers' butterfat and protein component prices may not continue to increase as butter and cheese prices rise. The reason is that while the butterfat component price is tied directly to the butter price, the protein price formula does not depend solely on the cheese price.

The federal order calculation that derives the producer protein price includes an adjustment for the butterfat in cheese. Since the formula subtracts the butterfat value, increases in the butterfat price can cause a reduction in the overall protein price. This is due to the fact that all of the butterfat used in Class III is priced on the basis of its value in butter. As such, an adjustment is made to account for the difference in butterfat values between cheese and butter. As butter prices rise, butterfat prices rise, causing a decrease in protein prices if the butter price rises faster than the cheese price.❖

Dairy Product Prices Used in April 2004 Class Price Calculation

Week Ending	Cheese Block	Cheese Barrel	Cheese Average	Butter	NFDM	Dry Whey
	dollars/pound					
Mar 6	1.4082	1.4274		1.8888	0.8084	0.1681
Mar 13	1.4490	1.4788		2.0537	0.8096	0.1730
Weighted Average Prices:			**1.4582**	**1.9921**	**0.8090**	**0.1706**
April Class I Price = $16.89 (based on first 2 weeks of March survey prices)						
Apr 3	1.8711	1.9609		2.1924	0.8139	0.2388
Apr 10	1.9745	2.0468		2.1134	0.8135	0.2549
Apr 17	*2.0800*	*2.1300*		*2.0300*	*0.8130*	*0.2500*
Apr 24	*2.1000*	*2.1500*		*1.9500*	*0.8130*	*0.2500*
Weighted Average Prices:			***2.0617***	***2.0717***	***0.8134***	***0.2487***

Estimated April Prices: *(based on survey prices for all weeks of April)*
Class II = $14.67
Class III = $19.63
Class IV = $14.01

Source: Actual prices were reported by NASS; estimated prices are shown in italics.

Negative PPD *(continued from page 1)*

Conversely, in a month when the Class III price is higher than Class I, the producer payout value is higher than the entire pool value. As such, producers will see their total milk value reduced by this 'loss', which is the negative PPD. Refer to the pool computation on page 4 of next month's *Bulletin* to see how much the producer component valuation exceeds the total classified value and its effect on the PPD. It is estimated that the blend price for April will equal about $17.50 per hundredweight (at Boston). That is even with a PPD projected to equal about a negative $2.10 at Boston and a negative $3.25 at the futher away differential zones and a $16.25 blend price. With the Class III price likely exceeding the SUP in April, it is anticipated that there will be some "depooling" of manufacturing milk on the Order that will have the effect of reducing the SUP.❖

Recovering Demand

The increasing demand for milk since late 2003 explains part of the current strengthening of milk prices. According to the USDA's, *Dairy Market News,* commercial use on a milkfat basis has increased 2.5 percent from November–January 2002–03 to November–January 2003–04. Beginning and ending commercial stocks were lower by 1.8 percent and 11.7 percent, respectively, for the same comparison period.

Dairy product demand had been weak since late 2001 and continued to be weak into 2003. Late in 2003, restaurant spending increased, though not at levels shown from 1999 to 2001. The autumn holiday season was the strongest in a number of years for the retail sector. Food processor use of dairy products as ingredients also showed some improvement.

Cheese sales rose about 1 percent from 2002 to 2003, with gains in use of all cheeses being offset by some slippage in the use of American cheese. Year-to-year commercial disappearance of American cheese for the November–January period decreased 1 percent. Commercial disappearance of "other than American" cheeses increased 2.7 percent.

Commercial disappearance of butter rose 5 percent during November–January 2003–04 compared to the previous year.

Other broader demand indicators are pointing towards recovery, as the gross domestic product (GDP) increased 4.1 percent during the fourth quarter of 2003 and March 2004 showed positive job-growth numbers. Overall, demand recovery is expected to continue in 2004 as the restaurant sector is projected to do better, ingredient use should pick up, and the general economy continues to improve. The magnitude or pace of continued demand recovery may rely on the impact, if any, of current rising prices.❖

Commercial Disappearance: Total Milk and Selected Dairy Products, 2003–2004

Item	Nov.–Jan. 2002–03	Percent change	Nov.–Jan. 2003–04	Percent change
Milk	Mil.lbs.		Mil.lbs.	
Production	42,330	1.6	42,012	(0.8)
Marketings	42,048	1.7	41,747	(0.7)
Beginning Commercial Stocks 1/	9,956	21.9	9,777	(1.8)
Imports 1/	1,370	4.0	1,366	(0.3)
Total Supply	53,374	5.0	52,890	(0.9)
Ending Commercial Stocks 1/	11,186	35.5	9,879	(11.7)
Net Removals 1/	126	129.1	(103)	(181.7)
Commercial Disappearance	42,062	(1.1)	43,114	2.5
Selected Products 2/				
Butter	341	(8.3)	358	5.0
American Cheese	924	(1.3)	914	(1.0)
Other Cheese	1,334	3.3	1,370	2.7
Nonfat Dry Milk	160	(24.0)	200	25.2
Fluid Milk Products 3/	14,315	0.8	14,122	(1.3)

1/ Milk-equivalent, milkfat basis.
2/ Commercial disappearance in product pounds.
3/ Sales. Estimate based on actual sales in federal milk order marketing areas and California.
Source: *Dairy Market News,* USDA

Pool Summary for All Federal Orders, January–March, 2003–2004

Federal Order Number	Federal Order Name	Total Producer Milk 2003	Total Producer Milk 2004	Change	Producer Price Differential# 2003	Producer Price Differential# 2004	Statistical Uniform Price#* 2003	Statistical Uniform Price#* 2004
		pounds		percent	dollars per hundredweight			
1	Northeast	6,109,338,389	5,980,336,145	-2.1	2.29	1.70	11.80	14.36
5	Appalachian	1,635,579,950	1,589,831,082	-2.8	N/A	N/A	12.51	14.85
6	Florida	740,865,675	782,040,984	5.6	N/A	N/A	13.71	15.83
7	Southeast	1,863,808,768	1,938,058,418	4.0	N/A	N/A	12.30	14.62
30	Upper Midwest	5,512,032,818	4,828,475,637	-12.4	0.53	0.35	10.05	13.01
32	Central	4,758,543,675	3,150,701,258	-33.8	0.87	0.53	10.39	13.20
33	Mideast	4,307,421,586	4,218,328,231	-2.1	1.19	0.69	10.71	13.35
124	Pacific Northwest	1,828,834,297	1,795,727,347	-1.8	0.93	0.43	10.44	13.10
126	Southwest	2,603,379,984	2,126,856,790	-18.3	1.95	1.40	11.47	14.06
131	Arizona-Las Vegas	808,845,092	784,963,188	-3.0	N/A	N/A	10.63	13.32
135	Western	1,415,783,605	1,096,283,946	-22.6	0.70	0.45	10.22	13.12
	All Market Total/Average	31,584,433,839	28,291,603,026	-10.4	1.21	0.79	11.29	13.89

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*

	Product Pounds	Price per cwt./lb.	Component Value	Total Value
Class I— Skim	911,744,116	$9.21	83,971,633.08	
Butterfat	18,917,199	1.8000	34,050,958.20	
Less: Location Adjustment to Handlers			(2,924,038.50)	$115,098,552.91
Class II— Butterfat	28,867,821	2.3883	68,945,016.86	
Nonfat Solids	35,362,817	0.7400	26,168,484.58	95,113,501.44
Class III— Butterfat	22,012,328	2.3813	52,417,956.67	
Protein	17,788,056	2.0133	35,812,693.14	
Other Solids	33,148,729	0.0234	775,680.24	89,006,330.05
Class IV— Butterfat	7,446,459	2.3813	17,732,252.82	
Nonfat Solids	13,117,541	0.6634	8,702,176.73	26,434,429.55
Total Classified Value				**$325,652,813.95**
Add: Overage—All Classes				75,379.12
Inventory Reclassification—All Classes				779,243.24
Other Source Receipts	132,891			2,242.74
Less: Producer Component Valuations				(314,739,902.14)
Subtotal				**$11,769,776.91**
Add: Location Adjustment to Producers				10,277,464.15
One-half Unobligated Balance—Producer Settlement Fund				1,200,248.02
Total Pool Milk & Aggregate Value	2,086,456,577			23,247,489.08
Less: Producer Settlement Fund—Reserve				(922,403.67)
Producer Price Differential @ *Suffolk County, MA (Boston)*		**$1.07**		22,325,085.41
Statistical Uniform Price @ *Suffolk County, MA (Boston)*		**$15.56**		

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