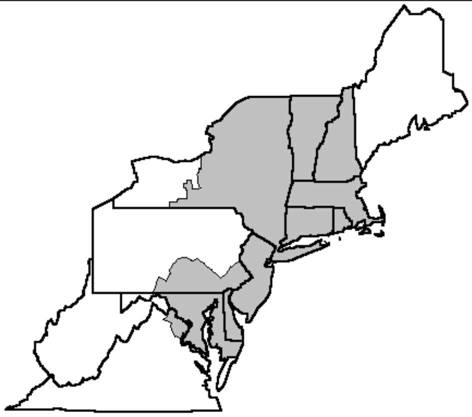

The Market Administrator's

BULLETIN

NORTHEAST MARKETING AREA

Erik F. Rasmussen, Market Administrator

May 2004 Federal Order No. 1

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May Pool Price Calculation

The May 2004 statistical uniform price (SUP) for the Northeast Marketing Area was announced at $19.84 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 May producer price differential (PPD) at Suffolk County was -$0.74 per hundredweight.

May's statistical uniform price was $2.56 per hundredweight above the April price. The May PPD was again negative, but not to the extent as in April. The Class I price finally reflected the commodity price increases that took place in April. Both the Class II and IV prices declined slightly, while the Class III price jumped another 92 cents and set a new record high.

Even though the producer butterfat price declined and the overall butterfat test was the lowest since August 2003, the increase in the producer protein price contributed to the largest producer component valuation since the Order's inception. As in April, since the producer valuation was higher than the classified value, the difference was depicted in a negative PPD. The negative PPD was exacerbated by the decrease in Class I utilization. It appears the jump in the Class I price affected retail sales. In addition, it seems that bottlers packaged as much product as possible at the end of April prior to the increase in the May Class I price, thereby reducing reported May Class I sales. These combined factors resulted in the lowest per day utilization figure for May since the Order began. Also, the price discrepancy between classes II, III, and IV encouraged higher utilization in the lower priced classes.

The Order requires that milk that was depooled in April had to remain out of the pool for May and must remain out during June also. Depooled milk totaled approximately 240 million pounds in May; its estimated impact was a 13-cent per hundredweight reduction in the SUP.❖

Organic Comment Deadline Extended

The USDA extended the period in which to submit written comments on proposed changes to commodity research and promotion programs. Comments are now due by June 25, 2004.

This proposal would exempt producers and marketers of solely 100 percent organic products from paying commodity promotion assessments. Details of the proposed exemption were published in the April 26 *Federal Register*. The proposed rule and public comments are available at http://www.ams.usda.gov/2002farmbill/organicexempt.❖

Pool Summary

- A total of 14,057 producers were pooled under the Order with an average daily delivery per producer of 4,349 pounds.
- Pooled milk receipts totaled 1.895 billion pounds, a decrease of 0.4 percent from last month on an average daily basis. Approximately 240 million pounds of milk were depooled during May.
- Class I usage (milk for bottling) accounted for 44.8 percent of total milk receipts, a decrease of 3.7 percentage points from April.
- The average butterfat test of producer receipts was 3.59 percent; a record low for May.
- The average true protein test of producer receipts was 2.97 percent.
- The average other solids test of producer receipts was 5.70 percent.❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	44.8	848,154,904
Class II	20.4	387,282,405
Class III	17.1	324,100,801
Class IV	17.7	335,506,618
Total Pooled Milk		1,895,044,728

Producer Component Prices

	2004	2003
	$/lb	
Protein Price	3.7639	1.9275
Butterfat Price	2.4282	1.1512
Other Solids Price	0.1444	(0.0144)

Class Price Factors

	2004	2003
	$/cwt	
Class I	22.90	12.96
Class II	15.03	10.43
Class III	20.58	9.71
Class IV	14.50	9.74

2003 United States Dairy Exports

Supply and demand of milk is the principal driver of the final milk price received by producers. U.S. dairy exports make up one component of the demand equation. There is much debate regarding the impact of U.S. dairy imports on milk pricing. However, the success of U.S. dairy exports can help the U.S. producer's bottom line. According to the *U.S. Dairy Export Council 2003 Annual Report*, total exports in 2003 were $1.07 billion, up 4 percent from 2002 and the fourth year in a row in which U.S. dairy exports topped $1 billion. The United States imported $1.8 billion worth of dairy products in 2003.

U.S. dairy exports tend to fall into one of three categories: (a) products that are not priced out of international markets by U.S. tariffs or USDA's price support program, such as whey and lactose; (b) products that can be exported with subsidy, such as nonfat dry milk, selected cheeses and butter; and (c) selected differentiated dairy products including fluid milk and cream, ice cream, and most cheese.

2003 U.S. Dairy Exports

	metric tons	% change from 2002
Whey proteins	173,429	(6)
Skim milk powder	148,044	32
Lactose	142,710	21
Cheese, all types	52,112	(3)
Fluid milk & cream*	29,863	30
Ice cream	29,203	(21)
Butteroil	7,567	500
Butter	3,476	157
Yogurt	2,020	2

* In kiloliters.
Source: U.S. Dairy Export Council.

During 2003, the largest dairy export was whey proteins (see accompanying table). Although total volume was down 6 percent from 2002, total dollar value returned for whey exports was up 2 percent. Shipments of whey protein concentrate and dry (sweet) whey dropped due to economic recession in some markets and a pullback in sales to the livestock sector. The United States is the world's leading whey supplier and China was the largest recipient, accounting for 25 percent of all exports. Canada was second with 17 percent, followed by Mexico with almost 12 percent.

Skim milk powder was the second largest dairy export, up 32 percent from the previous year. The increase was due to increased food aid and commercial sales. Mexico was the primary destination for skim milk powder, receiving almost 39 percent of that total. The Philippines and Afghanistan followed with 9 percent and 6 percent, respectively.

Lactose ranked as the third largest U.S. dairy export in 2003; exports increased 21 percent from 2002. Lactose exports to New Zealand increased 315 percent and largely were used to fortify skim milk powder. The United States is the world's largest lactose exporter with Japan the principal destination, accounting for almost 33 percent of total exports. Mexico and China were the second and third largest receivers of U.S. lactose, respectively.

U.S. cheese exports were down 3 percent from 2002, but were valued at $152 million. Mexico received almost one third of U.S. cheese exports. Japan ranked second, followed by Canada.

Butter exports increased 157 percent, but totaled just 3,746 metric tons. Ice Cream exports were 21 percent below 2002 levels, primarily due to customers shifting to European sources. The United Kingdom, the second largest importer of U.S. ice cream, reduced their imports by 37 percent from 2002. The United States increased exports of fluid milk and cream by 30 percent to almost 30 thousand kiloliters with increased sales to Canada and Mexico.

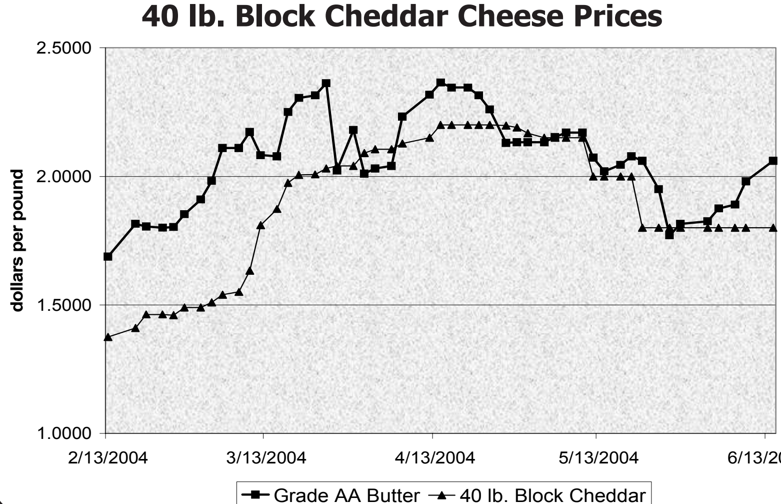
The latest USDA *Agricultural Quarterly Export Forecast* claims that the weaker U.S. dollar and global economic growth favor exports in 2004.❖

Market Situation

After hitting a high of $2.365 per pound on April 14, Chicago Mercantile Exchange (CME) Grade AA butter prices dipped to $1.77 per pound by May 26. Since that time, the price has recovered $0.29 mainly due to lower than anticipated butter stocks. Globally, some European countries' milk production is 2 to 5 percent lower than the previous year, and Australian production lags last year by about 3 percent. The firm global dairy product markets will hinder sales from those regions.

CME block Cheddar cheese prices have held steady at $1.80 per pound for 3 weeks since falling from a high in April of $2.20 per pound. Cheese companies have about 4-6 more weeks to build inventory before they start to draw off stocks for fall and holiday needs. Butter manufacturers have even less time.❖

CME Grade AA Butter and 40 lb. Block Cheddar Cheese Prices



Top Ten Northeast Order Counties—Milk Receipts

In 2003, the top ten counties in terms of milk pooled on the Northeast Order accounted for 30.5 percent of all milk pooled during the year, up from 29.5 percent in 2002, and 28.6 percent in 2001. It should be noted that pooled milk receipts do not necessarily account for all milk produced in the county. Milk shipped to other federal orders, state orders, or unregulated areas is not included in these figures.

Lancaster County, PA, led all counties for the year with just over 2 billion pounds pooled, over 2.5 times second-ranked Franklin County, PA, which pooled 746 million pounds. Franklin County, VT, was third with 705 million pounds. The accompanying figure ranks the top ten counties by pooled milk receipts and includes statistics on daily deliveries by producer (DDP) and average herd size.

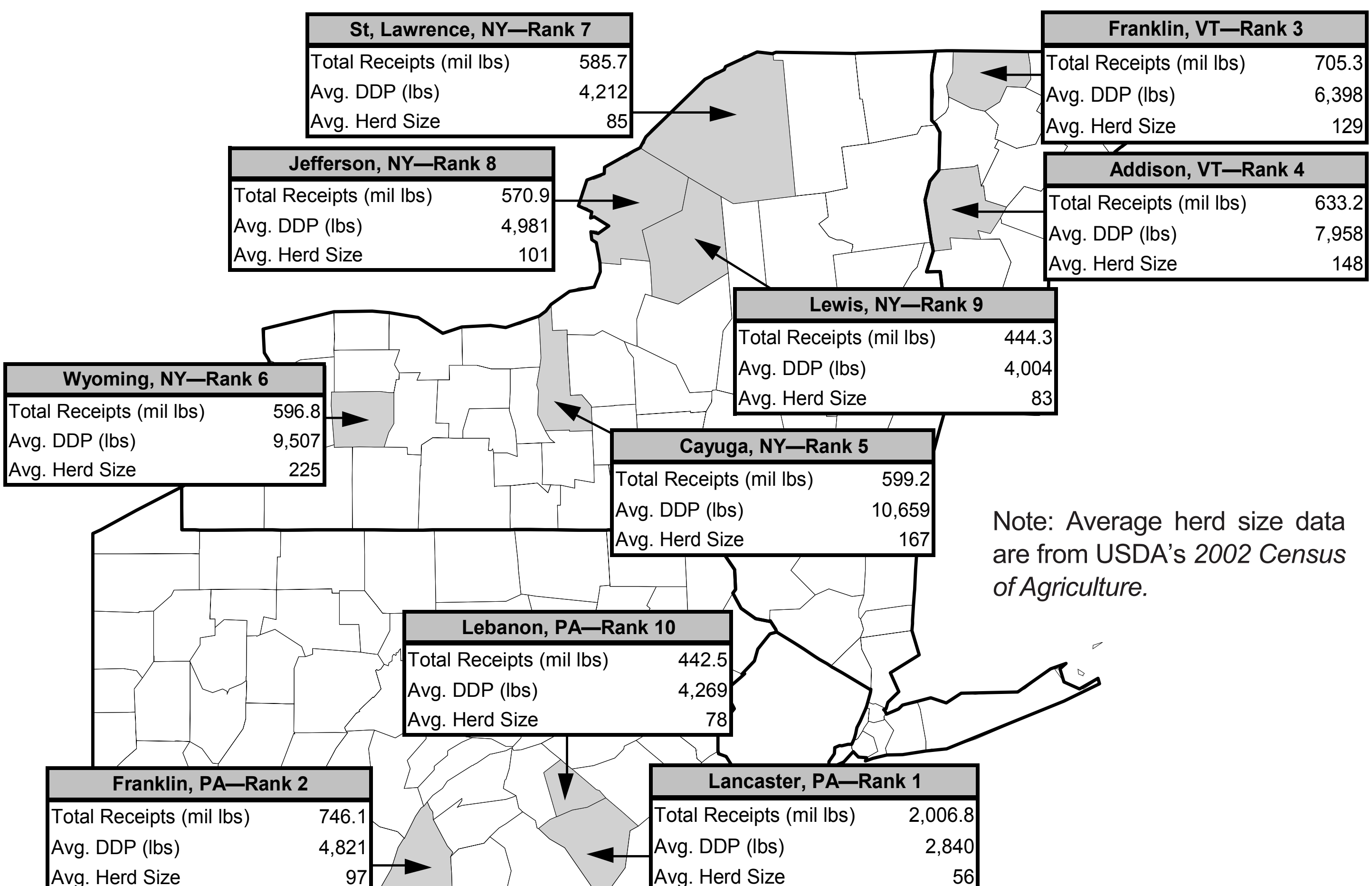
The top three counties in 2003 maintained the same rank as in 2002. Wyoming County, NY, slid two positions from fourth to sixth. Cayuga County, NY, climbed three positions to fifth from eighth. Addison, VT, moved from fifth in 2002 to fourth in 2003 while St. Lawrence County, NY, and Jefferson County, NY, each slipped a spot.

Lancaster County had the largest number of producers of the top ten counties averaging 1,936 producers during 2003, roughly the same as in 2002. Cayuga County averaged the smallest number of producers of the top ten counties with 154, just one less than in 2002. In total, the top ten counties accounted for an average of 27.9 percent of all pool producers during 2003, up from 27.5 in 2002.

Cayuga County had the highest DDP in 2003 at 10,659 pounds, up 20.5 percent from 8,843 in 2002. Though still ranked second in DDP, Wyoming County dropped almost 20 percent from 11,830 pounds in 2002 to 9,507 pounds in 2003. Top-ranked Lancaster County had the lowest DDP at 2,840 pounds. Overall, the Northeast Order averaged a DDP of 4,086 pounds. Vermont and New York were above the Order average with DDPs of 5,338 pounds and 4,597 pounds, respectively. Pennsylvania's DDP averaged 3,268 pounds for the year.

Wyoming County had the largest average herd size with 225 cows, while Lancaster County had the smallest with 56 cows, according to the USDA's *2002 Census of Agriculture*. Average herd size for 13 Northeast states, including all of New England, New York, New Jersey, Pennsylvania, Delaware, Maryland, Virginia, and West Virginia, was 75 cows. Based on the *2002 Census*, the states listed totaled 23,231 milking farms and 1,735,281 milk cows. Vermont had a herd size of 100 cows, the largest in the Northeast. New York herds averaged 91 cows, and Pennsylvania averaged 61 cows. West Virginia had the smallest herd size with 29 cows.❖

Northeast Order Top Ten Supply Counties and Selected Statistics, 2003



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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	831,146,399	$14.75	122,594,093.85	
	Butterfat	17,008,505	2.4762	42,116,460.08	
Less:	Location Adjustment to Handlers			(2,649,271.66)	$162,061,282.45
Class II—	Butterfat	27,093,636	2.4352	65,978,422.38	
	Nonfat Solids	32,373,720	0.7489	24,244,678.93	90,223,101.31
Class III–	Butterfat	13,164,261	2.4282	31,965,458.58	
	Protein	9,598,352	3.7639	36,127,237.10	
	Other Solids	18,341,601	0.1444	2,648,527.18	70,741,222.86
Class IV–	Butterfat	10,721,177	2.4282	26,033,162.00	
	Nonfat Solids	29,204,689	0.6913	20,189,201.56	46,222,363.56
Total Classified Value				***Total value of milk in the pool*** →	**$369,247,970.18**
Add:	Overage—All Classes				496,785.84
	Inventory Reclassification—All Classes				265,053.36
	Other Source Receipts	55,088			1,145.83
Less:	Producer Component Valuations			***Total value of producer components*** →	(392,620,342.35)
	Subtotal				**($22,609,387.14)**
Add:	Location Adjustment to Producers				8,530,953.04
	One-half Unobligated Balance—Producer Settlement Fund				904,455.58
Total Pool Milk & Aggregate Value		1,895,099,816			(13,173,978.52)
Less:	Producer Settlement Fund—Reserve				(849,760.10)
Producer Price Differential @ *Suffolk County, MA (Boston)*			**($0.74)**	***Negative value from which PPD per hundredweight is calculated***	(14,023,738.62)
Statistical Uniform Price @ *Suffolk County, MA (Boston)*			**$19.84**		

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