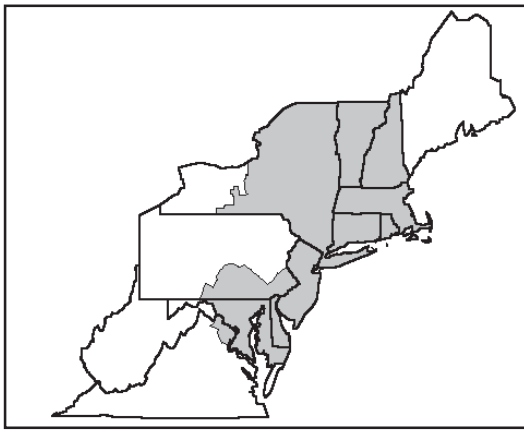

The Market Administrator's

BULLETIN

NORTHEAST MARKETING AREA

Erik F. Rasmussen, Market Administrator

February 2007 Federal Order No. 1

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February Pool Price Calculation

The February 2007 statistical uniform price (SUP) for the Northeast Marketing Area was announced at $15.21 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. If reported at the average tests of producer pooled milk, the SUP would be $15.87 per hundredweight. February's statistical uniform price was 12 cents per hundredweight above the January price.

The February producer price differential (PPD) at Suffolk County was $1.03 per hundredweight, 50 cents below last month's. All commodity prices increased resulting in higher component prices. As a result, all class prices rose except the Class I price, which is announced on an advanced basis and uses prior month commodity prices in its formula. The Class III price rose 62 cents per hundredweight and, combined with the decline in the Class I price, tightened the spread between the prices resulting in a lower PPD.

The producer protein test averaged 3.10 percent, the highest protein test for the month of February since the Order's inception. Pooled producer milk receipts totaled 1.693 billion pounds, the smallest pool on record for the Northeast Order.❖

New Formulas Take Effect

Changes to the Class III and Class IV price formulas that incorporated new make allowances became effective with the prices announced on March 2, 2007. This affected the February Class II butterfat price and final Class II price, and the final Class III and Class IV prices and their factors which include the producer component prices. The Class I price for February, along with the Class II skim and nonfat solids prices were calculated using the make allowances under the "old" formulas.

The decision to amend the make allowances was released in November 2006 and approved by producers in a referendum held in December. The decision was based on an emergency hearing held in January 2006 and a subsequent continuation session held in September 2006. Once approved, the changes were initially expected to take effect with the Advanced

(continued on page 3)

Pool Summary

- A total of 13,853 producers were pooled under the Order with an average daily delivery per producer of 4,363 pounds.
- Pooled milk receipts totaled 1.693 billion pounds, a decrease of 0.3 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 48.6 percent of total milk receipts, unchanged from January.
- The average butterfat test of producer receipts was 3.79 percent.
- The average true protein test of producer receipts was 3.10 percent.
- The average other solids test of producer receipts was 5.71 percent.❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	48.6	822,054,435
Class II	20.0	338,314,939
Class III	22.9	388,576,585
Class IV	8.5	143,676,822
Total Pooled Milk		1,692,622,781

Producer Component Prices

	2007	2006
	$/lb	
Protein Price	2.4125	2.1220
Butterfat Price	1.3112	1.3469
Other Solids Price	0.4170	0.1999

Class Price Factors

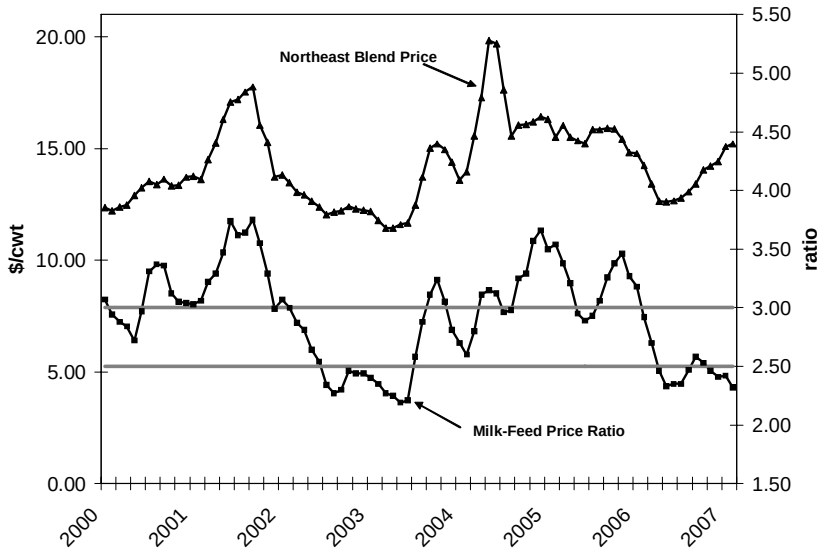
	2007	2006
	$/cwt	
Class I	16.64	16.63
Class II	13.08	12.62
Class III	14.18	12.20
Class IV	12.71	11.10

Milk-Feed Price Ratio Trends Lower

The milk-feed price ratio is calculated by dividing the price of a pound of milk by the price of a pound of 16% protein ration composed of corn, soybean meal, and alfalfa hay. The milk-feed price ratio is often used as an indicator for dairy industry expansion and contraction. A ratio between 2.5 to 3.0 is interpreted as a range in which there would be no expected change to milk production. A ratio higher than 3.0 indicates an economic environment that would result in production expansion. A ratio below 2.5 would typically result in a period of production contraction. Since 1985, the milk-feed price ratio has been as low as 2.06 in May 1996 and as high as 4.34 in December 1998. The ratio was 2.32 in February 2006, the lowest it's been since June 2003, when the blend price was $3.55 per hundredweight less.

Chart 1 shows the milk-feed price ratio, Northeast Order blend price, and highlights the 2.50 and 3.00 thresholds. In general, the ratio and the blend price trend with each other, reflecting the impact of the milk price portion of the ratio. Corn prices in 2000, 2001, and 2005 averaged below $2.00 per bushel, years in which the milk-feed price ratio topped 3.00. The milk price has risen slowly but steadily since April 2006; however since September 2006, the milk-feed price ratio has been falling. This would indicate that higher feed costs are dominating the ratio; indeed, the cost of corn has risen from $2.09 per bushel in August 2006 to $3.23 per bushel in January 2007. In addition, Alfalfa hay finished 2006 with the highest average cost per U.S. ton at $108.82, in at least the past 7 years. In Chart 2, the increase in all three feed crops since about September of 2006 is evident. The milk-feed price ratio during the past 13 months resembles the period from March 2002 to August 2003, which was followed by record high milk prices.

Chart 1 **Northeast Order Blend Price vs. Milk-Feed Price Ratio, 2000–2007**

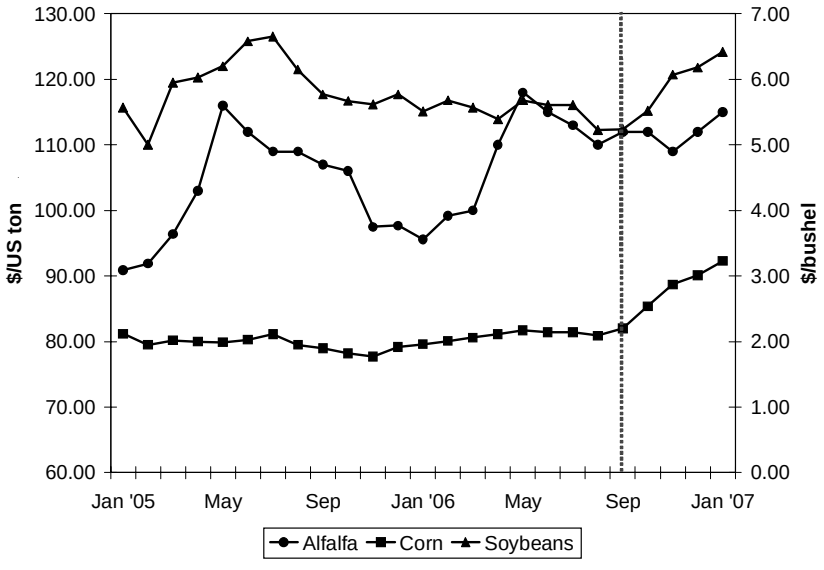


Source: USDA, National Agricultural Statistics Service.

During the 2006 Northeast Regional Outlook Conference, and reported in the November 2006 *Bulletin*, a shortage of feed in the late winter and early spring was expected for many Northeast producers who faced poor crops due to weather last season. For producers in the Northeast who find themselves short of feed supply, current high feed prices are more severely effecting profitability.

Looking forward, the cost of feed is likely to remain relatively high, as Chicago Board of Trade corn futures are between $3.99 and $4.10 per bushel for the rest of 2007. Soybean meal futures are in a $6.00 to $6.40 per bushel range, which would result in a higher annual average price than the past 2 years. If holding the feed cost portion of the milk-feed price calculation constant, the all milk price would have to reach at least $15.84 per hundredweight for the ratio to reach at least 2.50, or a "neutral" level, and $19.01 per hundredweight to reach a ratio of 3.00. On the milk price side, Chicago Mercantile Exchange futures prices from March 29 peak in September for Class III milk at $16.27 per hundredweight and Class IV milk at $15.90 per hundredweight, translating to an estimated blend price over $18.00. Based on futures prices, it appears that both feed costs and the milk price are trending higher. However, it looks like a milk-feed price ratio over 3.00 will be hard to achieve even in a year where record high milk prices are possible.❖

Chart 2 **Feed Prices, 2005–2007**



Source: USDA, National Agricultural Statistics Service.

Top Northeast Counties Based on Milk Receipts

In 2006, the top ten counties in terms of milk pooled on the Northeast Order accounted for 32.1 percent of all milk pooled during the year; this was up from 31.9 percent in 2005. It should be noted that pooled milk receipts do not necessarily account for all milk produced in a given county. Milk shipped to other federal orders, state orders, or unregulated areas is not included in these figures.

Changes in rank occurred within the top ten contributing counties during 2006. The accompanying table shows the top ten ranked counties for 2006 and their respective ranks in 2005. Lancaster County, PA, continued to hold the number one spot with over 2 billion pounds pooled. Franklin County, VT, surpassed Franklin County, PA, to become ranked second. Jefferson County, NY, jumped up from seventh place in 2005 to the number five spot in 2006. Lebanon County, PA, and Wyoming County, NY, switched places with Lebanon rising to the eighth position and displacing Wyoming to the tenth. These changes were largely due to milk pooled on other orders such as the Mideast Federal Order and Western New York State Order during 2006 that had been pooled on Order No. 1 during 2005.

During 2006, the Northeast received milk from producers located in 306 different counties in 20 different states.❖

Top Pooled Milk Contributing Counties, Northeast Order, 2006

2006 Rank	County	State	Pounds (millions)	2005 Rank
1	Lancaster	PA	2,118.6	1
2	Franklin	VT	709.1	3
3	Franklin	PA	705.4	2
4	Addison	VT	665.4	4
5	Jefferson	NY	598.2	7
6	St. Lawrence	NY	552.5	5
7	Cayuga	NY	550.8	6
8	Lebanon	PA	486.9	10
9	Lewis	NY	478.4	9
10	Wyoming	NY	415.0	8
	Top 10 Total		7,280.3	
	Northeast Total		22,679.7	
	Percent of Order No. 1		32.1	

Tentative Calibration Truck Schedule, 2007

Month	Area
April	Eastern/Central NewYork
May	Eastern New York Central Pennsylvania
June	Western New York Southern Pennsylvania
July	Western New York Northern Pennsylvania
August	Vermont/New Hampshire Central Pennsylvania
September	Maine/Southern New England Northern Pennsylvania
October	Southern Pennsylvania Western New York
November	Eastern New York Southern Pennsylvania

New Formulas *(continued from page 1)*

Pricing Factors (Class I Price) for February 2007, which was announced on January 19, 2007. On January 17, 2007, a court order halted the changes and set a date for a preliminary injunction hearing to be held February 15, 2007. That resulted in a denial of the injunction on February 22 allowing the changes to take effect with the prices announced on February 23, 2007 (Class I for March 2007).

The revised make allowances contained in the Interim Final Rule published in the Federal Register on December 29, 2006, will be used from February 23 and forward. The February Class I price announced in January used the "old" formulas; it will not be revised. The rest of the class prices for February used the new formulas, and all of the March prices and months forward will use the new formulas.

Since this decision was published as a tentative final decision, the USDA allowed comments to be submitted until January 22, 2007. These comments are to be taken into consideration before the issuance of a final decision, which would require another referendum be held. For additional information regarding this decision, go to USDA's Dairy Programs website at: http://www.ams.usda.gov/dairy/proposals/classIII_IV_make_all.htm.❖

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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	806,189,739	$12.44	100,290,003.53	
Butterfat	15,864,696	1.3231	20,990,579.28	
Less: Location Adjustment to Handlers			(2,621,103.63)	$118,659,479.18
Class II— Butterfat	24,345,966	1.3182	32,092,852.39	
Nonfat Solids	28,733,351	0.9744	27,997,777.21	60,090,629.60
Class III— Butterfat	15,179,530	1.3112	19,903,399.74	
Protein	12,029,342	2.4125	29,020,787.62	
Other Solids	22,161,052	0.4170	9,241,158.70	58,165,346.06
Class IV— Butterfat	8,751,365	1.3112	11,474,789.78	
Nonfat Solids	12,402,216	0.9356	11,603,513.27	23,078,303.05
Total Classified Value				**$259,993,757.89**
Add: Overage—All Classes				64,124.84
Inventory Reclassification—All Classes				350,326.68
Other Source Receipts	444,183 Pounds			10,660.39
Total Pool Value				**$260,418,869.80**
Less: Producer Component Valuations @ Class III Component Prices				(251,140,576.33)
Total PPD Value Before Adjustments				**$9,278,293.47**
Add: Location Adjustment to Producers				8,000,771.12
One-half Unobligated Balance—Producer Settlement Fund				914,913.72
Less: Producer Settlement Fund—Reserve				(755,388.58)
Total Pool Milk & PPD Value	1,693,066,964 Producer pounds			**$17,438,589.73**
Producer Price Differential		**$1.03**		
Statistical Uniform Price		**$15.21**		

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