

# The Market Administrator's BULLETIN

## NORTHEAST MARKETING AREA

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**June 2008**

Federal Order No. 1

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### June Pool Price Calculation

The June 2008 statistical uniform price (SUP) for the Northeast Marketing Area was announced at \$19.56 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. If reported at the average tests of producer pooled milk, the SUP would be \$19.68 per hundredweight. June's statistical uniform price was \$1.38 per hundredweight above May's price. The June producer price differential (PPD) at Suffolk County was -\$0.69 per hundredweight; last month the PPD was \$0.00 per hundredweight. This is the fifth time since the Order's inception that the PPD was negative.

All commodity prices rose during June resulting in higher component prices. In addition, all class prices rose. Since the Class III price was the second highest of the class prices (only \$1.18 below the Class I price), but had the lowest volume of any of the classes, the overall pool value was lowered considerably. When compared to the payout value to producers, who are paid at the Class III component values, the result was a negative PPD. For more information, see article below.

#### Depooled Milk

During June, approximately 187 million pounds of milk were depooled by handlers regulated under the Order. Approximately 88 percent of this milk came out of Class III, with 4 percent from Class II and the remaining 8 percent from Class IV. Due to the volume and classification of the milk depooled, the estimated impact was a 6-cent per hundredweight reduction to the SUP. Under the Order, milk depooled during May had to remain out of the pool during June also. This milk can come back onto the pool in July; any producers not brought back onto the pool during July cannot be pooled on the Northeast Order from December 2008 through June 2009. ❖

### Referendum and the Rulemaking Process

The just concluded producer referendum on the amended Northeast Milk Marketing Order—incorporating changes to the Class III and Class IV make allowances and the butterfat yield factor—and upon which producers or their cooperatives recently voted, is the first of two referendums to be held on this issue.

*(continued on page 3)*

### Pool Summary

- A total of 12,578 producers were pooled under the Order with an average daily delivery per producer of 4,858 pounds.
- Pooled milk receipts totaled 1.833 billion pounds, a decrease of 9.2 percent from last month on an average daily basis. Approximately 187 million pounds of milk were depooled during June.
- Class I usage (milk for bottling) accounted for 43.8 percent of total milk receipts, an increase of 0.9 percentage points from May.
- The average butterfat test of producer receipts was 3.61 percent.
- The average true protein test of producer receipts was 2.98 percent.
- The average other solids test of producer receipts was 5.71 percent. ❖

#### Class Utilization

Pooled Milk	Percent	Pounds
Class I	43.8	802,122,472
Class II	22.7	415,780,752
Class III	16.7	306,574,510
Class IV	16.8	308,705,633
Total Pooled Milk		1,833,183,367

#### Producer Component Prices

	2008	2007
	\$/lb	
Protein Price	4.7193	3.7059
Butterfat Price	1.6160	1.6457
Other Solids Price	0.0826	0.5831

#### Class Price Factors

	2008	2007
	\$/cwt	
Class I	21.43	21.09
Class II	16.19	18.89
Class III	20.25	20.17
Class IV	15.92	20.76

## Negative PPD, but Higher SUP

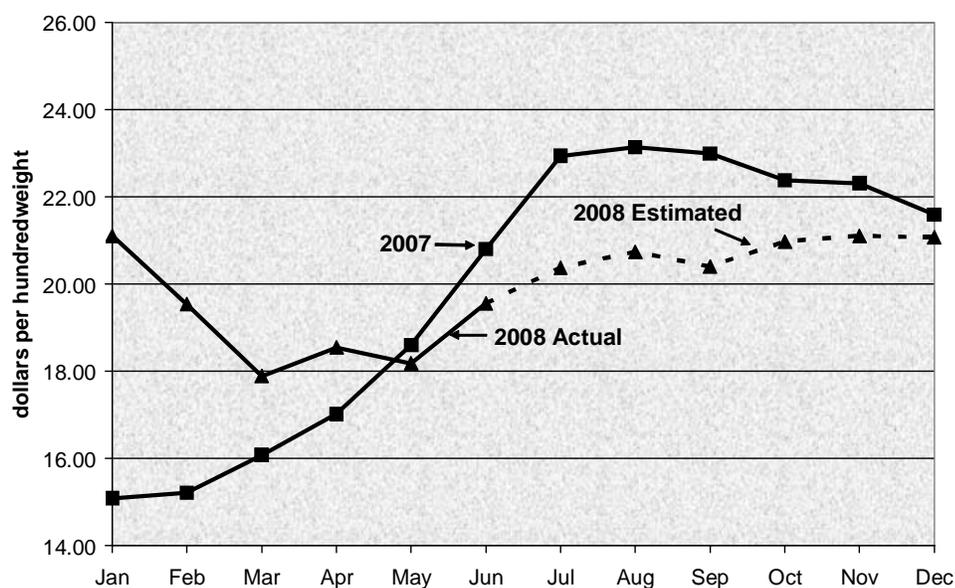
Even though the producer price differential (PPD) was negative for all zones in the Northeast Order in June, the statistical uniform price (SUP) was the highest since January. As mentioned in the March 2008 Bulletin, a negative PPD represents a producer's per-hundredweight share of the amount that producer milk components exceed the value of milk in the pool.

When prices rise or fall rapidly, the spread between class prices widens or tightens causing inversions in the prices that, when combined with changes in class utilization, affect the value of the pool. Since producers are always paid based on their components at the Class III value, these changes cause wide swings in the PPD. Regardless of the level of the PPD, producers who are not members of cooperatives still receive an amount represented by the SUP, of course, each producer's SUP will vary depending on their individual component tests, location of the plant to which their milk was shipped, and other hauling, premiums, and negotiated payments. Cooperative members may receive a different price depending on cooperative policy.

### Prices to Rise

Based on Chicago Mercantile Exchange (CME) futures dated July 15, commodity prices are expected to continue to rise throughout the rest of the year. Through December,

Northeast Order Statistical Uniform Price, 2007–2008



CME futures prices for butter range from \$1.4400 to \$1.5725 per pound; nonfat dry milk futures ranged from \$1.4100 to \$1.4500 per pound; and dry whey futures ranged from \$.2425 to \$.2800 per pound. Class III futures ranged from \$18.12 per cwt in July to \$19.91 per cwt in November; Class IV futures ranged from \$16.95 per cwt for July to \$17.50 per cwt in November and December. Uniform prices are expected to be over \$20.00 per hundredweight; the PPD is projected to be positive during this period (see accompanying chart). ❖

## Pool Summary for All Federal Orders, January–June, 2007–2008

Federal Order		Total Producer Milk			Producer Price Differential#		Statistical Uniform Price#*	
Number	Name	2007	2008**	Change~	2007	2008	2007	2008
		pounds			percent	dollars per hundredweight		
1	Northeast	11,268,311,582	12,202,045,700	7.7	1.02	0.88	17.13	19.14
5	Appalachian	2,998,262,688	2,928,588,628	(2.9)	N/A	N/A	17.43	20.35
6	Florida	1,705,104,733	1,631,301,631	(4.9)	N/A	N/A	18.43	21.93
7	Southeast	4,059,309,257	3,561,935,017	(12.7)	N/A	N/A	17.43	20.42
30	Upper Midwest	12,420,308,118	13,379,910,426	7.1	0.06	0.09	16.17	18.35
32	Central	5,430,219,142	5,648,429,998	3.4	(0.08)	(0.30)	16.03	17.96
33	Mideast	8,334,764,546	8,023,319,966	(4.3)	0.05	0.14	16.62	18.40
124	Pacific Northwest	3,567,691,553	3,380,641,534	(5.8)	(0.02)	(0.82)	16.10	17.44
126	Southwest	4,792,201,919	4,709,549,746	(2.3)	0.82	0.47	16.93	18.73
131	Arizona	1,977,205,798	2,172,705,243	9.3	N/A	N/A	16.38	17.95
All Market Total/Average		56,553,379,336	57,638,427,889	1.4	0.31	0.08	16.86	19.06

# Price at designated order location.

\* Price at 3.5% butterfat.

N/A = Not applicable.

~ Adjusted for leap year.

\*\*A significant amount of milk was depooled during May and June 2008.

## Producer Referendum *(continued from page 1)*

The more normal process requires a recommended decision and comment period, followed by a single referendum on a final decision and then a final rule. Because it was determined in this case that emergency marketing conditions existed, a tentative final decision was issued instead. The decision was also partial, which is explained later. Due to the tentative nature of the decision, the process results in an interim order. A 60-day comment period is opened, which in this case ends August 19, during which the industry can submit comments on the already released decision. After receiving and considering comments to the tentative final decision, USDA will issue a final decision on the same topic, which will trigger the second referendum on the same issue. Before the change to the order can be implemented permanently, USDA needs to again determine from voting that producers favor adopting the order as amended on a permanent basis.

The tentative decision process allows for quicker implementation of order amendments to address the emergency nature of the issue, while still allowing for additional comments and possible changes to the interim order before a final decision is released.

In short, when the rulemaking process is on an emergency basis, voting is conducted twice. The first time is to determine approval on a temporary basis (responding to the emergency nature of the issue), and a second time to determine approval on a permanent basis. The accompanying diagram depicts the rulemaking process on this issue; completed steps are bold-framed.

### **Decision Partial in Nature**

Nineteen proposals were published in the hearing notice with a 20<sup>th</sup> published in a supplemental hearing

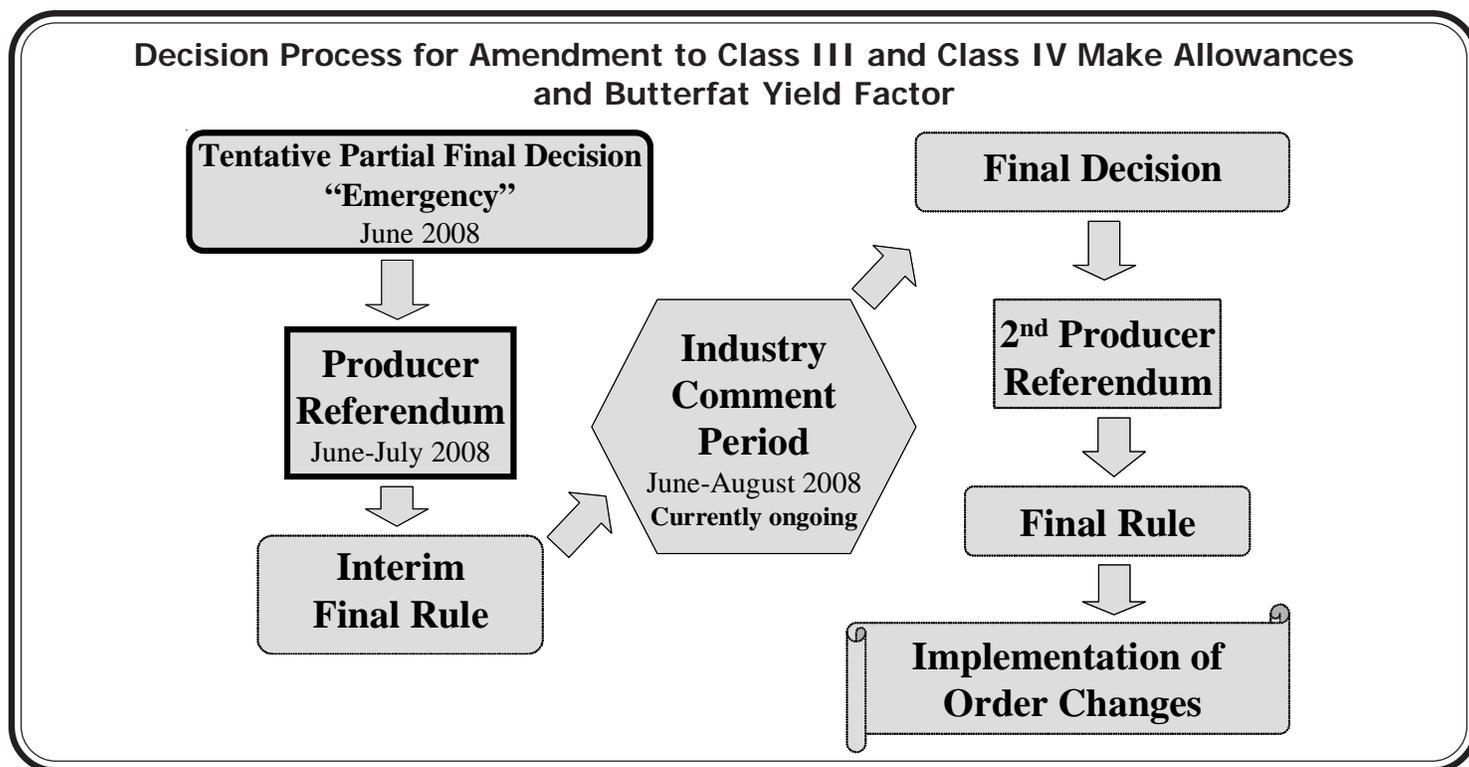
notice. The current referendum addresses Proposal 1, which seeks to amend the Class III and lass IV make allowances, and a portion of Proposal 6, which seeks to amend the butterfat yield factor. This partial tentative decision also addresses Proposals 3-16 and 18 which all sought to change various features of the Class III and Class IV product-price formulas. Proposal 2, seeking to establish a manufacturing cost survey that would be used to update make allowances annually; Proposal 17, seeking to establish a monthly energy cost adjustment; and Proposal 20, seeking to establish a cost of production add-on that manufacturers could include in their selling price but would not be included in the determination of NASS survey prices, will be addressed in a separate recommended decision, thus the partial nature of the current decision.

### **Farm Bill Sets Rulemaking Timeline**

The recently signed farm bill included a revision of federal marketing order amendment procedures. The new guidelines state that a final decision on a proposed amendment shall be issued no later than 60 days after the deadline for submission of comments. The decision process with regard to the current Class III and Class IV make allowance decision is not covered by the new farm bill guidelines as the procedures began prior to the effective date of the legislation.

### **Referendum Conclusion**

Results will be released once all ballots are tabulated and approved by USDA, with the Secretary of Agriculture announcing the results of the referendum and the implementation date of the amended order, if approved❖.





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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	786,983,321	\$16.42	129,222,661.31	
Butterfat	15,139,151	1.5950	24,146,945.85	
Less: Location Adjustment to Handlers			(2,588,425.23)	\$150,781,182.03
Class II— Butterfat	29,966,082	1.6230	48,634,951.13	
Nonfat Solids	34,751,244	1.2100	42,049,005.24	90,683,956.37
Class III— Butterfat	12,028,356	1.6160	19,437,823.28	
Protein	9,140,715	4.7193	43,137,776.30	
Other Solids	17,426,076	0.0826	1,439,393.88	64,014,993.46
Class IV— Butterfat	9,040,445	1.6160	14,609,359.13	
Nonfat Solids	27,062,091	1.1819	31,984,685.34	46,594,044.47
<b>Total Classified Value</b>			<i>Total value of milk in the pool</i> →	<b>\$352,074,176.33</b>
Add: Overage—All Classes				93,320.11
Inventory Reclassification—All Classes				228,625.88
Other Source Receipts	46,421 Pounds			383.94
<b>Total Pool Value</b>			<i>Total value of producer components</i> →	<b>\$352,396,506.26</b>
Less: Producer Component Valuations @ Class III Component Prices				(373,499,584.08)
<b>Total PPD Value Before Adjustments</b>				<b>(\$21,103,077.82)</b>
Add: Location Adjustment to Producers				8,570,177.64
One-half Unobligated Balance—Producer Settlement Fund				758,964.08
Less: Producer Settlement Fund—Reserve				(875,349.44)
<b>Total Pool Milk &amp; PPD Value</b>	1,833,229,788 Producer pounds			<b>(\$12,649,285.54)</b>
Producer Price Differential		<b>(\$0.69)</b>		
Statistical Uniform Price		<b>\$19.56</b>		

*Negative value from which PPD per hundredweight is calculated*

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