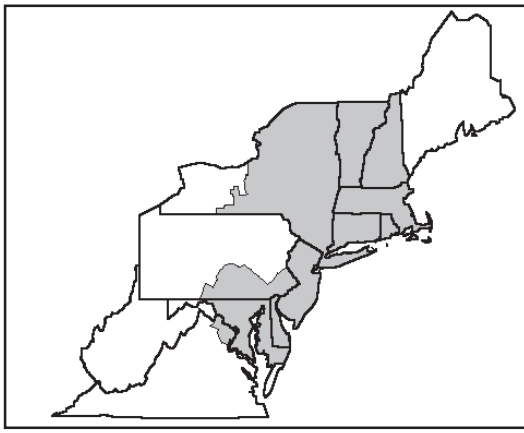

The Market Administrator's

BULLETIN

NORTHEAST MARKETING AREA

Erik F. Rasmussen, Market Administrator

September 2008 Federal Order No. 1

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September Pool Price Calculation

The September 2008 statistical uniform price (SUP) for the Northeast Marketing Area was announced at $18.90 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 $19.49 per hundredweight. September's statistical uniform price was 60 cents per hundredweight below August's price. The September producer price differential (PPD) at Suffolk County was $2.62 per hundredweight, an increase of 44 cents per hundredweight from last month.

Similar to August, all commodity prices decreased except butter. As a result, component prices for protein, other solids and nonfat solids all declined while butterfat rose slightly. The Class I price, set in advance, declined 82 cents due to the continued decline in cheese prices during the 2 weeks of August that were used in calculating the September price. Cheese prices dropped further, but rebounded slightly during the last week of the month; still the Class III price declined over $1.00 from the previous month. The Class II price was down 13 cents from August and the Class IV price dropped $1.19 per hundredweight. September prices were not affected by the Interim Final Rule; changes to price formulas took effect with prices for October. See article on page 2.

The average producer component tests for butterfat and protein were record-setting for the month of September while the other solids test tied the previous September record.❖

First CCC Purchase in Over 2 Years

During the week of October 6-10, the Commodity Credit Corporation (CCC) purchased 8,287,414 pounds of nonfortified nonfat dry milk. This was the first purchase of nonfat dry milk since July 2006.

In addition, there were no purchases of butter or cheese during the marketing year (MY) that recently ended on September 30, 2008. The last purchases of butter were in June 2003; cheese was last purchased in July 2003. The MY ended with no uncommitted inventories. The last inventories were reported at the end of MY 2004 when 609 million pounds of nonfat dry milk were held.❖

Pool Summary

- A total of 13,675 producers were pooled under the Order with an average daily delivery per producer of 4,587 pounds.
- Pooled milk receipts totaled 1.882 billion pounds, a decrease of 1.9 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 46.5 percent of total milk receipts, an increase of 4.4 percentage points from August.
- The average butterfat test of producer receipts was 3.69 percent.
- The average true protein test of producer receipts was 3.06 percent.
- The average other solids test of producer receipts was 5.68 percent.❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	46.5	874,930,974
Class II	21.6	406,969,095
Class III	23.2	435,902,740
Class IV	8.7	163,819,500
Total Pooled Milk		1,881,622,309

Producer Component Prices

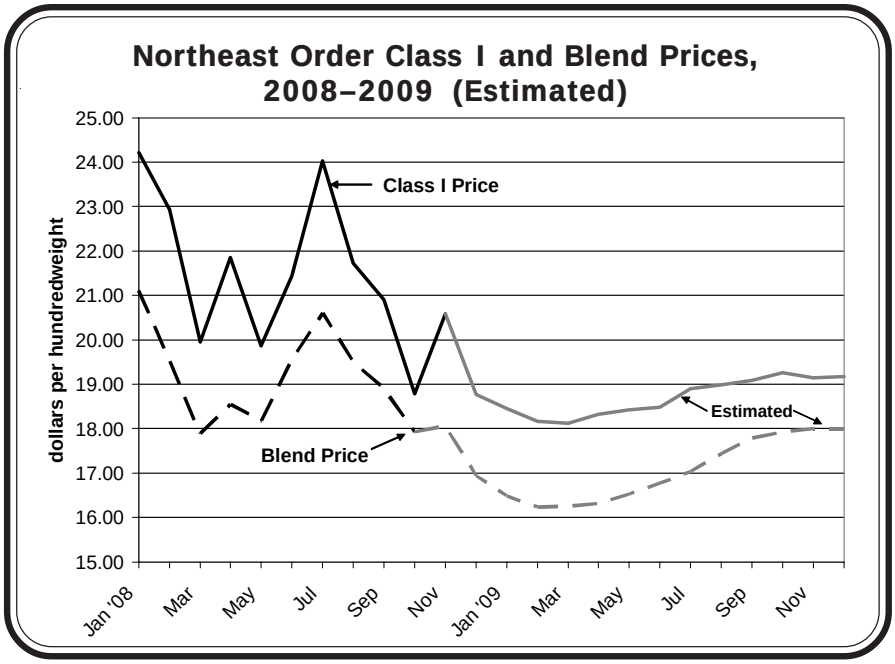
	2008	2007
	$/lb	
Protein Price	3.2689	4.3929
Butterfat Price	1.8196	1.5101
Other Solids Price	0.0234	0.2890

Class Price Factors

	2008	2007
	$/cwt	
Class I	20.90	25.16
Class II	17.58	22.16
Class III	16.28	20.07
Class IV	15.45	21.61

Class I Price Affected by Many Factors

The October Class I price announced on September 23 equaled $18.78 per hundredweight (cwt). This price was calculated using the formulas containing the revised manufacturing allowances and butterfat yield factor contained in the Interim Final Rule published in the Federal Register July 31, 2008. There was a delay in releasing the price, which was originally scheduled to be announced on September 19, due to a complaint filed in the U.S. District Court for the District of Columbia (see August 2008 *Bulletin*). USDA agreed to delay the announcement in order to provide the Court sufficient opportunity for consideration of the motion for preliminary injunction, which sought to enjoin implementation of the revised make allowances. The Court denied the motion, which was then appealed to the D.C. Circuit Court; that was also rejected.



Overall, the October Class I price was $2.12 per cwt below September's price. Most of the decrease in the price was due to the decline in market prices for some of the commodities that are used in the price formulas: block and barrel cheese, nonfat dry milk, and dry whey. Grade AA butter also is part of the formula, but butter prices increased slightly during the weeks used in the calculation. About 30 cents of the decline was due to the change in the price formula.

Class I Price Calculation

Only 2 weeks of prices are used in calculating the Class I price. The change in the market prices used to calculate the Class I price from September to October reflected a decline of nearly 18 cents for cheese, almost 12 cents for nonfat dry milk, and 2 cents for dry whey.

Using Chicago Mercantile Exchange (CME) futures for the last 3 months of 2008, blend prices are projected to fall slightly below $17.00 per cwt by December, but average in the high $18.00 per cwt range for the year (see accompanying chart). This is based on the already announced October Class I price and projected prices for November above $20.00 and December below $19.00 per hundredweight, possibly the lowest price for the year. Looking ahead, Class I prices are expected to remain in the low $18.00 to low $19.00 per cwt range during 2009. Next month we will publish a revised 2009 price estimate.❖

Pool Summary for All Federal Orders, January–September, 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	17,115,292,250	18,115,940,425	5.8	1.54	1.38	19.10	19.32
5	Appalachian	4,415,186,284	4,374,224,696	(0.9)	N/A	N/A	19.56	20.59
6	Florida	2,435,658,053	2,360,941,969	(3.1)	N/A	N/A	20.57	22.43
7	Southeast	5,760,496,194	5,191,794,824	(9.9)	N/A	N/A	19.50	20.79
30	Upper Midwest	19,415,003,795	20,922,092,230	7.8	0.23	0.25	17.78	18.18
32	Central	8,290,338,947	8,634,131,331	4.1	0.41	0.17	17.97	18.10
33	Mideast	12,354,589,903	11,994,732,510	(2.9)	0.57	0.61	18.43	18.54
124	Pacific Northwest	5,321,753,167	5,332,283,990	0.2	0.45	(0.30)	18.01	17.63
126	Southwest	7,590,738,558	7,571,118,510	(0.3)	1.28	0.99	18.83	18.92
131	Arizona	2,860,112,930	3,130,079,422	9.4	N/A	N/A	18.30	18.13
All Market Total/Average		85,559,170,081	87,627,339,907	2.4	0.75	0.52	18.80	19.26

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.

Northeast Mailbox Prices Vary by Region

The mailbox price of milk represents the net price a producer receives for a hundredweight of milk, taking into account the gross value (the value received for components and producer price differential) of the milk plus premiums for that milk. From this value, cooperative dues, hauling, the market administrator fee, Cooperatives Working Together (CWT) assessment, and national and local promotion assessments are subtracted.

For the purpose of reporting mailbox prices in the Northeast Order, the market area has been divided into three sub regions: New England, New York, and Pennsylvania. Of the three major regions within the Northeast Marketing Area, the average mailbox price for New England tends to be the highest, followed by Pennsylvania and then New York. For the period January 2007 through July 2008, the average mailbox price was $19.98 per hundredweight in New England, $19.58 in Pennsylvania, and $19.02 in New York (See accompanying chart). The gross value portion of the mailbox price reflects the difference in the differentials at the location the milk is marketed. Thus, if a larger portion of milk produced in New England is marketed at locations with higher differentials compared to the milk produced in New York, the gross value portion of the mailbox price will be higher for New England than New York.

Total Pounds of Milk Delivered by Region and Differential Zone Delivered To, June 2008

Location Differentials	New England*		New York		Pennsylvania	
	pounds	percent	pounds	percent	pounds	percent
2.35 and below	4,049,943	1.4	286,090,448	38.0	7,529,611	1.2
2.40–2.55	43,858,144	15.3	180,165,806	23.9	14,252,182	2.3
2.60–2.70	30,881,641	10.8	95,404,066	12.7	27,865,460	4.5
2.80–2.95	9,115,616	3.2	5,998,004	0.8	361,636,057	58.3
3.00–3.10	81,454,958	28.5	60,880,886	8.1	196,771,765	31.7
3.15 and above	116,611,651	40.8	124,440,785	16.5	12,698,631	2.0
Total	285,971,953	100.0	752,979,995	100.0	620,753,706	100.0

* New England states include Connecticut, Maine, Massachusetts, New Hampshire, and Rhode Island.

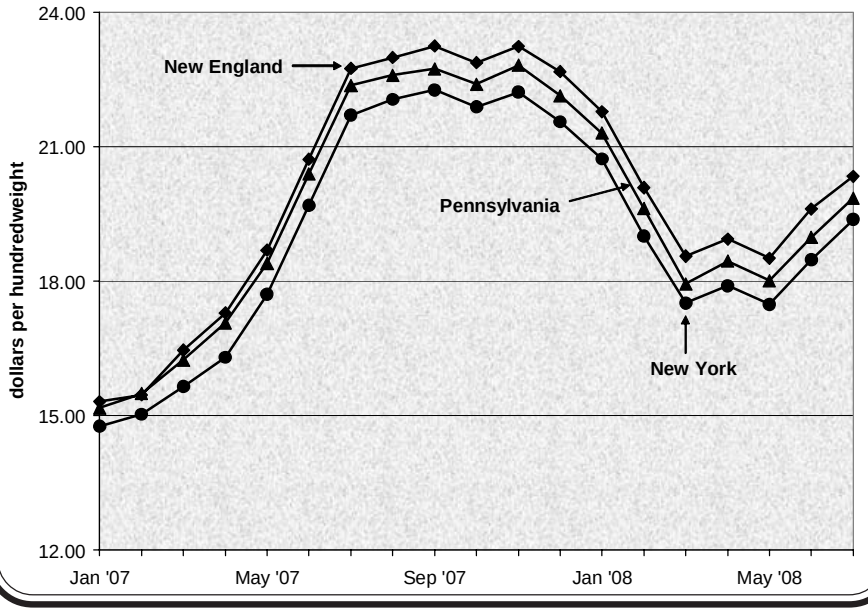
Deliveries by Zone

Daily delivery data, which indicate the pickup and final destination of farm milk, collected by the market administrator for June 2008 can be used to show into which differential zone milk from each region mentioned ends up (See accompanying table). The market administrator does not yet collect daily delivery data from all handlers, but the data represent 98 percent of total pounds pooled in June 2008. These data show that 69.3 percent of milk produced in New England is marketed to plants in a $3.00 or higher differential zone, 40.8 percent in the $3.15 or higher zone. Though just 2 percent of Pennsylvania milk is marketed in the $3.15 zone or higher, 90 percent is marketed in the $2.80 to $3.10 zones. Almost 75 percent of the milk produced in New York is marketed in zones $2.70 or lower, 38 percent in zones below $2.35. These data provide evidence indicating that where a region's milk is marketed within the Northeast Marketing Area impacts the average mailbox price received by producers within that region.

Premiums and Hauling

There are differences between these three regions with respect to average premiums paid and average hauling charged, but these differences make up a smaller portion of the overall differences in mailbox prices. For the January 2007 through July 2008 period, premiums averaged $0.21 higher than hauling in New England, premiums averaged $0.15 higher than hauling in New York, and premiums averaged $0.04 higher than hauling in Pennsylvania. These differences could also be attributable to the where and what type of plant the milk is marketed to. Class I milk tends to earn higher premiums. If a greater portion of New England milk also goes to Class I plants, this could also explain higher premiums in that region. A larger portion of Pennsylvania milk goes to higher differential zones but the milk travels further to do so, which may reduce the margin between premiums and hauling for that region.❖

Mailbox Prices by Regions within the Northeast, January 2007–June 2008



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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	858,478,588	$15.23	130,746,288.95	
Butterfat	16,452,386	1.7736	29,179,951.81	
Less: Location Adjustment to Handlers			(2,842,084.17)	$157,084,156.59
Class II— Butterfat	28,755,725	1.8266	52,525,207.27	
Nonfat Solids	34,339,029	1.2878	44,221,801.59	96,747,008.86
Class III— Butterfat	17,105,448	1.8196	31,125,073.19	
Protein	13,346,445	3.2689	43,628,194.03	
Other Solids	24,690,687	0.0234	577,762.02	75,331,029.24
Class IV— Butterfat	7,211,006	1.8196	13,121,146.54	
Nonfat Solids	14,273,861	1.0455	14,923,321.67	28,044,468.21
Total Classified Value				**$357,206,662.90**
Add: Overage—All Classes				199,120.11
Inventory Reclassification—All Classes				147,608.26
Other Source Receipts	73,137 Pounds			3,267.52
Total Pool Value				**$357,556,658.79**
Less: Producer Component Valuations @ Class III Component Prices				(317,391,122.66)
Total PPD Value Before Adjustments				**$40,165,536.13**
Add: Location Adjustment to Producers				9,118,845.99
One-half Unobligated Balance—Producer Settlement Fund				801,028.51
Less: Producer Settlement Fund—Reserve				(784,989.90)
Total Pool Milk & PPD Value	1,881,695,446 Producer pounds			**$49,300,420.73**
Producer Price Differential		**$2.62**		
Statistical Uniform Price		**$18.90**		

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