The Market Administrator's

BULLETIN

NORTHEAST MARKETING AREA

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October 2008 Federal Order No. 1

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October Pool Price Calculation

The October 2008 statistical uniform price (SUP) for the Northeast Marketing Area was announced at $17.44 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 $18.48 per hundredweight. October's statistical uniform price was $1.46 per hundredweight below September's price. The October producer price differential (PPD) at Suffolk County was 38 cents per hundredweight, a decrease of $2.24 per hundredweight from last month.

During October, commodity prices for butter and cheese rose while prices for nonfat dry milk and dry whey declined. As a result, component prices for butterfat and protein increased while the nonfat solids price and other solids price both dropped. The decline in the whey price put it below its make allowance resulting in a negative value (see related article on page 2). The Class I price, set in advance, declined $2.12 per hundredweight due to the lower prices during the first 2 weeks of September that were used in calculating the October price. Cheese prices rebounded during October raising the Class III price 78 cents over September. The Class II price fell nearly $1.00 while the Class IV price dropped $1.83 from the previous month.

Class I usage for October was the smallest volume for that month since the Order's inception. The average producer component tests for butterfat and protein were record-setting for the month of October.❖

Dairy Forward Pricing Program

U.S. Department of Agriculture announced a final rule establishing the Dairy Forward Pricing Program as directed by the Food, Conservation and Energy Act of 2008. This program will allow milk producers and cooperative associations to voluntarily enter into forward price contracts with milk handlers for milk used for non-fluid purposes. The program exempts handlers regulated under the federal milk order program from paying producers and cooperative associations of producers the minimum federal order price for milk under forward contract.

Under the program milk handlers may pay producers or cooperatives a negotiated contract price, rather than the federal order minimum price

(continued on page 3)

Pool Summary

- A total of 13,641 producers were pooled under the Order with an average daily delivery per producer of 4,570 pounds.
- Pooled milk receipts totaled 1.932 billion pounds, a decrease of 0.6 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 47.4 percent of total milk receipts, an increase of 0.9 percentage points from September.
- The average butterfat test of producer receipts was 3.79 percent.
- The average true protein test of producer receipts was 3.13 percent.
- The average other solids test of producer receipts was 5.69 percent.❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	47.4	916,367,009
Class II	19.4	375,817,576
Class III	21.6	416,872,273
Class IV	11.6	223,327,334
Total Pooled Milk		1,932,384,192

Producer Component Prices

	2008	2007
	$/lb	
Protein Price	3.5490	4.1695
Butterfat Price	1.8507	1.4092
Other Solids Price	(0.0047)	0.2286

Class Price Factors

	2008	2007
	$/cwt	
Class I	18.78	24.84
Class II	16.60	21.90
Class III	17.06	18.70
Class IV	13.62	21.31

Other Solids Price Goes Negative

The October other solids price is $-0.0047 per pound, the first time the other solids price has been negative since July 2003. The negative price occurs because the market price for dry whey is less than the make allowance in the other solids price formula. Since federal orders use manufactured product prices to set the base milk price, the market prices are adjusted back to a milk value price via a formula. The formula used to calculate the other solid price is: **Other Solids = (NASS Dry Whey Price - 0.1991) × 1.03**

The Values in the formula consist of:

- National Agricultural Statistical Service (NASS) dry whey price that is based on a nationwide survey of plants that manufacture dry whey.
- 0.1991 is the "make allowance" and represents the cost of transforming liquid whey into dry whey. It is subtracted from the wholesale commodity price to determine the raw ingredient price.
- 1.03 is the yield factor and represents the number of pounds of dry whey it takes to produce a pound of other solids.

The dry whey make allowance was increased from 0.1956 to 0.1991 effective in October 2008, reflecting higher costs of drying/manufacturing dry whey. Had the previous make allowance been in effect for October, the dry whey price would have been $-0.0011, still negative, but slightly less so.

As an example of how this negative price impacts a farm's bottom line, for a farm producing 100,000 pounds of milk a month, with an average other solids test of 5.69, the October other solids price would have cost the producer $26.74 total in the month's milk check.

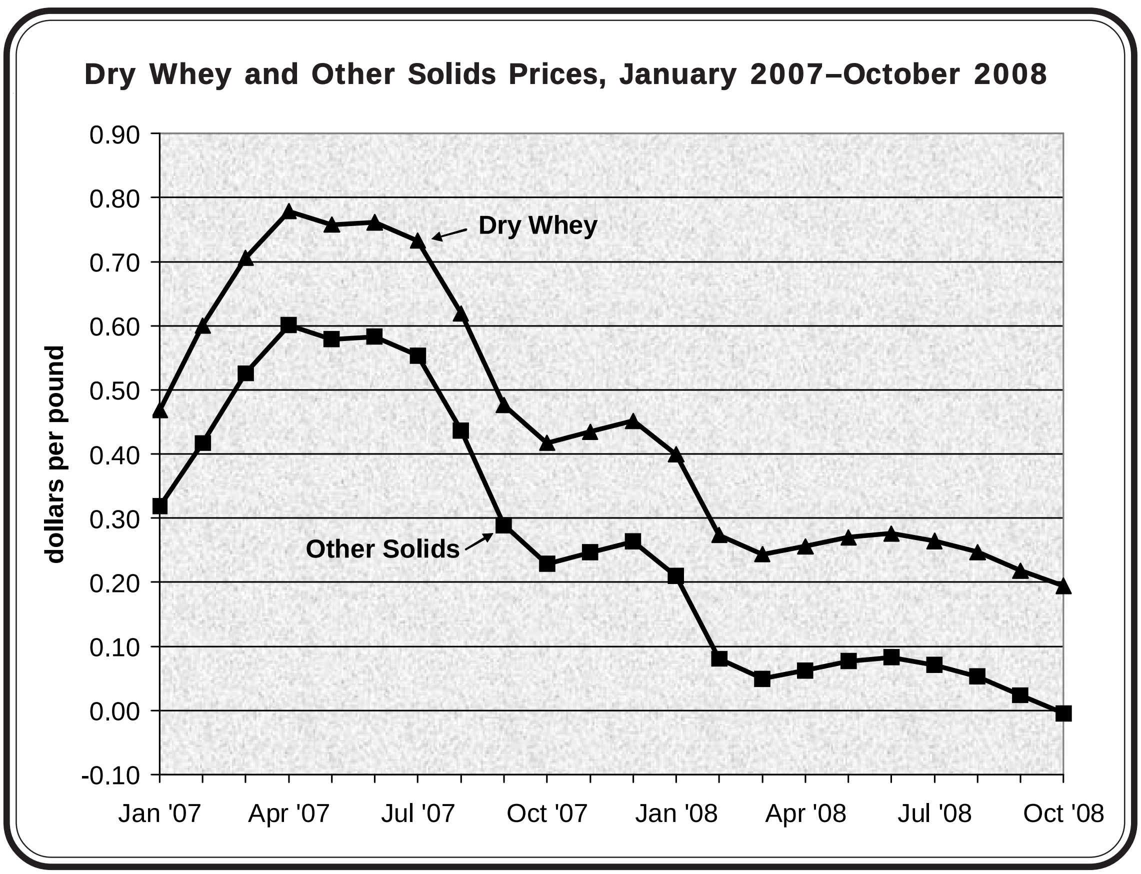
From Record High Price to Negative

In 2007, the other solids price hit a record high of $0.6008 per pound in April and was above $0.40 per pound for 7 months. Other solids averaged $0.08 per pound from January 2000 through September 2006. The record high other solids price in April 2007 was a result of the record high dry whey price that same month. Since that time, in just 18 months, the dry whey market price has fallen 75 percent. Though negative, the current other solids price level is closer to the historical average than last year's prices were. The accompanying chart shows the dry whey and other solids price since January 2007.

Dry Whey Market

The reason the dry whey market, and thus the other solids price, behaved this way the past two years lies in multiple supply and demand factors changing direction. Dry whey is considered an excellent source of protein. As the middle class in developing countries grow, they tend to eat higher protein diets. The combination of a weakening United States currency and supply constrictions in Oceania in 2007 resulted in the U.S. being positioned as an ideal source for dry whey (and its high protein qualities) in the global market. The increasing demand and constricted global supply pushed dry whey prices to record levels. That in turn generated higher other solids prices and boosted milk prices in general to U.S. farmers.

By the second half of 2008, the very supply and demand conditions that led to high prices combined in the opposite direction. The very high 2007 dry whey prices have moved buyers to look for substitute ingredients, reducing demand in 2008. In addition, worsening economies have hurt sales both domestically and globally and the U.S. dollar has regained some strength, making U.S. exports less attractive. Production in Oceania is expected to recover as their higher production season draws near. These conditions may lead to continued lower prices for dry whey for the near future.❖



Class IV Utilization Sets Record

The volume of pooled milk receipts utilized in making Class IV products for the month of October was 223.3 million pounds, the highest on record since the Order's inception. For the past 8 years, Class IV utilization in October has averaged 109 million pounds or about 5.7 percent of the total pool. During this period, Class IV usage ranged from a low of 74.7 million pounds (4.2 percent) in 2006 to a high of 172.7 million pounds (9.1 percent) in 2005. During October 2008, the record-setting volume equated to 11.6 percent of the pool.

Class IV usage includes mainly butter, nonfat dry milk, and condensed products. Nearly two-thirds of the total volume in October went into nonfat dry milk. Recently, changes in processing plant activity and other market conditions disadvantageous to making Class II and III products have contributed to the rise in Class IV utilization.

Since the Class IV price is currently considerably lower than both the Class II and III prices, additional volume utilized in this class contributes to a lower overall uniform price.❖

DDP Increases

For the first ten months of 2008, daily deliveries per producer (DDP) have averaged 4,842 pounds. This is up 317 pounds compared to the same period last year and is the largest gain recorded since the Order's inception. DDP has risen each year during the comparable period except for 2003 when it declined slightly.

For each comparable month of 2008, DDP has been higher than the same month of 2007 except for October. The top contributing states: New York, Pennsylvania, and Vermont have all averaged higher DDP during the 10-month period. New York has had the largest increase, averaging nearly 600 pounds higher in 2008 even with declines the past 3 months. Both Pennsylvania and Vermont have averaged about 200 pounds higher during this period than last year.

Overall, the number of producers continues to decline. October averaged 13,641 producers, down 186 from October 2007. This decline is the lowest in 7 years.

Some of this data may have been affected by depooling during May and June of 2008 and June 2007.❖

New AMS Administrator

James E. Link was recently appointed as Administrator of the Agricultural Marketing Service (AMS). One of the many programs overseen by the AMS is the Federal Milk Marketing Order program.

Link's new role will be to help market U.S. agricultural products in domestic and international markets. He replaces Lloyd Day, who held the position since August 2005.❖

Dairy Forward Pricing *(continued from page 1)*

for producer milk subject to the terms of the contract, provided that the volume of such milk does not exceed the handler's Class II, III, and IV utilization for the month on the order that regulated the milk.

Program Rules:

(a) Any handler defined in 7 CFR 1000.9 may enter into forward contracts with producers or cooperative associations of producers for the handler's eligible volume of milk. Milk under forward contract in compliance with the provisions of this part will be exempt from the minimum payment provisions that would apply to such milk pursuant to 7 CFR 1001.73, 1005.73, 1006.73, 1007.73, 1030.73, 1032.73, 1033.73, 1124.73, 1126.73 and 1131.73 for the period of time covered by the contract.

(b) No forward price contract may be entered into under the program after September 30, 2012, and no forward contract entered into under the program may extend beyond September 30, 2015.

(c) Forward contracts must be signed and dated by the contracting handler and producer (or cooperative association) prior to the 1st day of the 1st month for which they are to be effective and must be received by the federal milk market administrator by the 15th day of that month. The disclosure statement must be signed on the same date as the contract by each producer entering into a forward contract, and this signed disclosure statement must be attached to or otherwise included in each contract submitted to the market administrator.

(d) In the event that a handler's contract milk exceeds the handler's eligible milk for any month in which the specified contract price(s) are below the order's minimum prices, the handler must designate which producer milk shall not be contract milk. If the handler does not designate the suppliers of the over-contracted milk, the market administrator shall prorate the over-contracted milk to each producer and cooperative association having a forward contract with the handler.

(e) Payments for milk covered by a forward contract must be made on or before the dates applicable to payments for milk that are not under forward contract under the respective federal milk marketing order.

(f) Nothing in this part shall impede the contractual arrangements that exist between a cooperative association and its members.

In addition, a handler may not require participation in a forward pricing contract as a condition of the handler receiving milk from a producer or cooperative association of producers. USDA will investigate all complaints made by producers or cooperative associations alleging coercion by handlers to enter into forward contracts and based on the results of the investigation will take appropriate action.❖

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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	898,532,517	$13.01	116,899,080.46	
	Butterfat	17,834,492	1.7776	31,702,592.98	
Less:	Location Adjustment to Handlers			(2,954,868.05)	$145,646,805.43
Class II—	Butterfat	29,462,854	1.8577	54,733,143.87	
	Nonfat Solids	31,745,875	1.1622	36,895,055.93	91,628,199.80
Class III–	Butterfat	17,178,437	1.8507	31,792,133.38	
	Protein	13,015,769	3.5490	46,192,964.21	
	Other Solids	23,605,701	(0.0047)	(110,946.76)	77,874,150.83
Class IV–	Butterfat	8,780,202	1.8507	16,249,519.83	
	Nonfat Solids	19,695,173	0.8226	16,201,249.34	32,450,769.17
Total Classified Value					**$347,599,925.23**
Add:	Overage—All Classes				136,535.23
	Inventory Reclassification—All Classes				157,222.44
	Other Source Receipts	105,677	Pounds		1,720.29
Total Pool Value					**$347,895,403.19**
Less:	Producer Component Valuations @ Class III Component Prices				(349,714,335.56)
Total PPD Value Before Adjustments					**($1,818,932.37)**
Add:	Location Adjustment to Producers				9,243,075.71
	One-half Unobligated Balance—Producer Settlement Fund				818,167.92
Less:	Producer Settlement Fund—Reserve				(898,849.74)
Total Pool Milk & PPD Value		1,932,489,869	Producer pounds		**$7,343,461.52**
	Producer Price Differential		**$0.38**		
	Statistical Uniform Price		**$17.44**		

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