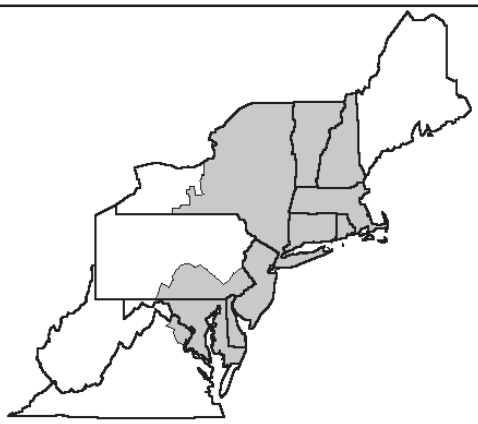

The Market Administrator's

# BULLETIN

## NORTHEAST MARKETING AREA

***Erik F. Rasmussen***, Market Administrator

**April 2009** Federal Order No. 1

To contact the Northeast Marketing Area offices:
*Boston, MA*: phone (617) 737-7199, e-mail address: MABoston@fedmilk1.com; *Albany, NY*: phone (518) 452-4410,
e-mail address: MAAlbany@fedmilk1.com; *Alexandria, VA*: phone (703) 549-7000, e-mail address: MAAlexandria@fedmilk1.com;
*website address*: www.fmmone.com

## April Pool Price Calculation

The April 2009 statistical uniform price (SUP) for the Northeast Marketing Area was announced at $12.08 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 $12.45 per hundredweight. April's statistical uniform price was 52 cents per hundredweight above March's price. The April producer price differential (PPD) at Suffolk County was $1.30 per hundredweight, an increase of 18 cents per hundredweight from last month.

During April, all commodity prices increased slightly from the previous month resulting in higher class prices. Since the Class II skim and nonfat solids prices are announced in advance (at the same time as the Class I price) and use the same NASS data as the Class I price, there was a slight decline in those prices due to the decrease in the nonfat dry milk price. This also kept the Class II price below the Class III price for the second month in a row. Even though the dry whey price rose, it was still below the formula's make allowance, resulting in a negative value.❖

## MILC Payments Projected

Based on market conditions and outlook as of May 15, Milk Income Loss Contract program (MILC) payments are projected through November of this year. In recent weeks milk and dairy product prices decreased while feed prices increased. MILC payments currently project to average almost $2.00 per hundredweight for the months of April through July. That translates to a monthly MILC payment of about $2,000 for a farm producing 100,000 pounds of milk per month.

### *Feed Prices*

Feed prices have been historically strong, but are projected by USDA to average below last year. Total feed grain supplies for 2009-10 are forecast down 1 percent. However, strong domestic use of feed grains, boosted by a 9-percent rise in corn used to make ethanol, is expected to keep feed grains ending stocks very low, down 27 percent from 2008–09. For the months of May through September, about $0.54 of the total MILC payment rate value is derived from the feed adjustor portion of the MILC formula.

*(continued on page 3)*

## Pool Summary

- A total of 13,444 producers were pooled under the Order with an average daily delivery per producer of 5,023 pounds.
- Pooled milk receipts totaled 2.027 billion pounds, an increase of 1.5 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 41.7 percent of total milk receipts, a decrease of 1.4 percentage points from March.
- The average butterfat test of producer receipts was 3.72 percent.
- The average true protein test of producer receipts was 3.04 percent.
- The average other solids test of producer receipts was 5.70 percent.❖

**Class Utilization**

| Pooled Milk | Percent | Pounds |
|---|---|---|
| Class I | 41.7 | 845,963,058 |
| Class II | 19.0 | 385,058,724 |
| Class III | 23.1 | 467,190,203 |
| Class IV | 16.2 | 328,309,798 |
| Total Pooled Milk | | 2,026,521,783 |

**Producer Component Prices**

| | 2009 | 2008 |
|---|---|---|
| | $/lb | |
| Protein Price | 2.2009 | 3.7579 |
| Butterfat Price | 1.2049 | 1.4748 |
| Other Solids Price | (0.0043) | 0.0622 |

**Class Price Factors**

| | 2009 | 2008 |
|---|---|---|
| | $/cwt | |
| Class I | 13.61 | 21.86 |
| Class II | 10.49 | 15.29 |
| Class III | 10.78 | 16.76 |
| Class IV | 9.82 | 14.56 |

## Contribution to Producer Price by Components

The uniform price varies each month based on the respective average component tests and prices of each component. The accompanying table shows the contribution by component for the month of April for the years 2006-2009 using a hypothetical farmer producing 100,000 pounds of milk at the pool average component tests during that month. The examples do not take into account premiums, hauling charges, or any other producer payments or deductions.

### *Protein Contribution*

As has been the case since component pricing was implemented, protein is the largest contributor to a producer's milk check. In the examples shown, the percentage protein accounts for has varied from 43.8 percent in 2007 to 59.8 percent in 2008. Obviously, when the component price is higher, it adds more value, but the test is also a factor: a higher test will maximize payout. In the examples, the test is nearly constant, but for the first six years of the Northeast Order, April protein tests were much lower ranging from 2.97 percent in 2002 to 3.01 percent in 2004. Annual averages have increased from 2.99 in 2000 to 3.06 in 2008 leading one to believe that producers have changed their management practices to increase their herds' protein production to capture the value protein adds to their pay price.

### *Butterfat Contribution*

Butterfat remains the second largest contributor to the producers' pay price. Like protein, it is a combination of the butterfat test and the monthly butterfat price. In the examples shown, butterfat value ranges from 28.9 percent in 2008 to 36.0 percent in 2009. This is somewhat distorted because the butterfat price in 2008 was higher, but since the overall uniform price was higher, the butterfat percent was lower.

### *Other Solids Effect*

As shown in the examples, other solids can have a positive or a negative impact on a producer's price. During April 2007 when the price for dry whey hit record levels, other solids contributed nearly 20 percent of a producer's price. In February of that year, formula changes resulted in an increase in the make allowance from $0.1590 to $0.1956 per pound. This wasn't a significant issue because the whey price was relatively high at the time, averaging $0.6004 per pound for 2007. As it declined in 2008 and fell below the make allowance (changed to $0.1991 in October 2008), the value of other solids to a producer became negative as reflected in the April 2009 example. Beginning in May, the price had risen back up over the make allowance and it is expected that the other solids value will be positive for May.

### *Producer Price Differential*

The value the PPD contributes to a producer's uniform price is a residual value that can be positive or negative and is probably the most variable of the factors. In the examples shown it ranges from 5.3 percent to 13.2 percent of the uniform price. None of the accompanying examples reflect this as the most recent negative PPD was in December 2008.

A negative PPD results when the total pool value is not sufficient to pay producers at the Class III component value. Since producers are paid for their components at the Class III value, the PPD usually represents the extra value that the other higher-valued classes (typically I and II) add to the total pool. When the Class I and, sometimes Class II, price is below the Class III price, this residual can be a negative amount. This occurs partially because of the advance pricing of Class I and part of Class II prices, but also it is affected by the utilization of milk in the various classes during the month. When these combine for a pool value less than the total component value, they negatively affect the price by taking from the producer payout to balance the pool. Negative PPDs have occurred with uniform prices ranging from $15.06 to $19.84 per hundredweight.❖

### Contribution to Total Gross Payment*

| | April 2009 | | | | April 2008 | | | |
|---|---|---|---|---|---|---|---|---|
| | *Test percent* | *Price per pound* | *Gross dollars* | *Contribution percent* | *Test percent* | *Price per pound* | *Gross dollars* | *Contribution percent* |
| ***Butterfat*** | 3.72 | 1.2049 | $4,482.23 | **36.0** | 3.73 | 1.4748 | $5,501.00 | **28.9** |
| ***True Protein*** | 3.04 | 2.2009 | $6,690.74 | **53.7** | 3.03 | 3.7579 | $11,386.44 | **59.8** |
| ***Other Solids*** | 5.70 | -0.0043 | (24.51) | **(0.2)** | 5.72 | 0.0622 | $355.78 | **1.9** |
| ***PPD*** | | 1.30 | $1,300.00 | **10.4** | | 1.79 | $1,790.00 | **9.4** |
| ***Total gross payment*** | | | $12,448.45 | | | | $19,033.23 | |
| ***Gross price per cwt*** | | | **$12.45** | | | | **$19.03** | |

| | April 2007 | | | | April 2006 | | | |
|---|---|---|---|---|---|---|---|---|
| | *Test percent* | *Price per pound* | *Gross dollars* | *Contribution percent* | *Test percent* | *Price per pound* | *Gross dollars* | *Contribution percent* |
| ***Butterfat*** | 3.72 | 1.4657 | $5,452.40 | **31.2** | 3.71 | 1.2343 | $4,579.25 | **35.2** |
| ***True Protein*** | 3.04 | 2.5212 | $7,664.45 | **43.8** | 3.04 | 1.9238 | $5,848.35 | **45.0** |
| ***Other Solids*** | 5.73 | 0.6008 | $3,442.58 | **19.7** | 5.73 | 0.1508 | $864.08 | **6.6** |
| ***PPD*** | | 0.93 | $930.00 | **5.3** | | 1.71 | $1,710.00 | **13.2** |
| ***Total gross payment*** | | | $17,489.44 | | | | $13,001.69 | |
| ***Gross price per cwt*** | | | **$17.49** | | | | **$13.00** | |

**For a hypothetical farm producing 100,000 pounds of milk at pool average component tests.*

## Changes in Utilization

For the first 3 months of 2009, total producer receipts (milk pooled from producers shipping to handlers regulated under the Order) declined 2.8 percent. The utilization of this milk shows a similar 2.4 percent decline. The difference is due to the addition of inventories when calculating utilization. The accompanying table shows changes for selected products by class. All comparisons have been adjusted for leap year.

### *Class Changes*

Overall Class I usage decreased 0.9 percent during the first quarter compared to last year. Declines occurred in whole milk, flavored milk and drinks, and fatfree, while lowfat, reduced fat, buttermilk and eggnog, and organic milk all had increases. Class II utilization grew 5.5 percent. Increases occurred in yogurt and ice cream; cottage, ricotta, sour cream, and prepared products all dropped. Overall, Class III usage declined 5.8 percent with decreases in Italian and cream cheese. American, Swiss, and other cheeses showed growth. Class IV utilization had the largest decline (8.9 percent). Condensed products, butter, and dried milk products all had considerable decreases compared to 2008.❖

**Northeast Order Utilization for Selected Products, January–March, 2009**

| | Product | Volume in* million pounds | Percent Change from 2008 |
|---|---|---|---|
| **Class I** | Whole | 718.7 | (2.4) |
| | Lowfat | 422.2 | 2.9 |
| | Flavored | 147.4 | (3.2) |
| | Organic | 72.1 | 11.8 |
| | *Total Class I*** | 2,842.1 | (0.9) |
| **Class II** | Ricotta | 53.4 | (6.0) |
| | Sour Cream | 47.2 | (7.4) |
| | Yogurt | 98.3 | 40.6 |
| | Ice Cream | 410.4 | 7.8 |
| | *Total Class II* | 1,201.0 | 5.5 |
| **Class III** | American | 448.0 | 3.4 |
| | Cream cheese | 159.3 | (8.6) |
| | Italian | 660.4 | (16.1) |
| | Swiss & Other | 82.0 | 41.2 |
| | *Total Class III* | 1,383.4 | (5.8) |
| **Class IV** | Condensed | 61.3 | (11.5) |
| | Butter | 40.9 | (7.3) |
| | Dried Products | 601.2 | (12.2) |
| | *Total Class IV* | 1,120.6 | (8.9) |
| **Total Utilization** | | 6,565.8 | (2.4) |

* Class totals include other categories not shown such as bulk shipments to nonorder plants, inventory, and shrinkage.
** Only includes sales by Fully Regulated Pool Handlers.

## MILC *(continued from page 1)*

### *Milk Prices*

The Northeast Uniform Price at Boston, Massachusetts, is projected to average $13.64 per hundredweight for the year. Including MILC payments, the average minimum payment to producers in the Northeast Order will average $14.77. In April, Chicago Mercantile Exchange (CME) futures prices indicated stronger prices than currently are being predicted. Cheese prices strengthened in April as buyers were filling orders for the Easter holiday period. The buying led to higher prices on the CME futures market. Since then, cheese prices have sagged to support levels, or below, and futures prices have followed.

As exports and domestic demand recover and milk production declines, prices are expected to move higher as the year progresses, with the Northeast Uniform Price reaching over $16.00 per hundredweight in November and December.❖

**Estimated Prices, April–December 2009, and Annual Average 2009**

| | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Annual Average |
|---|---|---|---|---|---|---|---|---|---|---|
| **CBOT Futures-based Estimates *(May 15)*** | dollars | | | | | | | | | |
| Corn (per bushel) | 4.04 | 4.21 | 4.19 | 4.17 | 4.22 | 4.26 | 4.30 | 4.34 | 4.38 | 4.18 |
| Soybean (per bushel) | 10.39 | 11.66 | 11.48 | 11.30 | 10.85 | 10.23 | 9.99 | 9.75 | 9.76 | 10.34 |
| Alfalfa hay (per ton) | 151 | 157 | 156 | 155 | 155 | 154 | 154 | 154 | 154 | 152 |
| Feed-adjusted MILC Trigger Price (per cwt) | 17.77 | 18.24 | 18.18 | 18.12 | 18.09 | 18.03 | 18.03 | 18.04 | 18.09 | 17.92 |
| **CME Futures-based Estimates *(May 15 )*** | dollars per hundredweight *(actual prices in bold)* | | | | | | | | | |
| Class I | **13.61** | **14.22** | 13.35 | 13.90 | 15.10 | 16.54 | 17.40 | 17.97 | 18.16 | 15.49 |
| Uniform Price | **12.08** | 12.28 | 12.23 | 12.88 | 13.95 | 15.04 | 15.69 | 16.04 | 16.00 | 13.64 |
| PPD | **1.30** | 2.45 | 1.91 | 1.03 | 0.66 | 0.89 | 0.97 | 1.13 | 1.01 | 1.52 |
| Value Added from Feed Adjustor* | 0.37 | 0.58 | 0.56 | 0.53 | 0.52 | 0.49 | 0.27 | 0.03 | 0.00 | 0.30 |
| Total MILC Payment | 1.87 | 1.81 | 2.17 | 1.90 | 1.35 | 0.67 | 0.28 | 0.03 | 0.00 | 1.13 |
| Uniform Price + MILC | 13.95 | 14.09 | 14.40 | 14.78 | 15.30 | 15.71 | 15.97 | 16.08 | 16.00 | 14.77 |
| Class II | **10.49** | 10.80 | 11.35 | 11.77 | 12.00 | 12.38 | 12.59 | 12.63 | 12.65 | 11.47 |
| Class III | **10.78** | 9.83 | 10.32 | 11.85 | 13.29 | 14.15 | 14.72 | 14.91 | 14.99 | 12.11 |
| Class IV | **9.82** | 10.10 | 10.65 | 11.07 | 11.30 | 11.68 | 11.89 | 11.93 | 11.95 | 10.76 |

Note: Corn & soybean prices based on CBOT prices as settled on day indicated. Months in between contract months are extrapolated from surrounding months assuming directional trend. Class I price is estimated using a higher of CME Class III and Class IV futures prices as settled on the day indicated. Uniform price estimates based on utilization predicted as of November 2008.
* Difference in value from the MILC program with vs. without the feed cost adjustor. ((Feed-adjusted MILC Trigger Price minus $16.94)* 45 percent) when the Class I prices is under $16.94.

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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 | 830,126,465 | $9.81 | 81,435,406.22 | |
| Butterfat | 15,836,593 | 1.1825 | 18,726,771.22 | |
| Less: Location Adjustment to Handlers | | | (2,707,292.37) | $97,454,885.00 |
| Class II— Butterfat | 28,722,551 | 1.2119 | 34,808,859.58 | |
| Nonfat Solids | 32,325,115 | 0.7189 | 23,238,525.17 | 58,047,384.75 |
| Class III— Butterfat | 19,799,199 | 1.2049 | 23,856,054.86 | |
| Protein | 14,201,131 | 2.2009 | 31,255,269.21 | |
| Other Solids | 26,450,525 | (0.0043) | (113,737.30) | 54,997,586.77 |
| Class IV— Butterfat | 10,968,792 | 1.2049 | 13,216,297.45 | |
| Nonfat Solids | 28,782,993 | 0.6452 | 18,570,787.08 | 31,787,084.53 |
| **Total Classified Value** | | | | **$242,286,941.05** |
| Add: Overage—All Classes | | | | 49,704.46 |
| Inventory Reclassification—All Classes | | | | 96,262.08 |
| Other Source Receipts | 115,080 Pounds | | | 3,214.80 |
| **Total Pool Value** | | | | **$242,436,122.39** |
| Less: Producer Component Valuations @ Class III Component Prices | | | | (225,906,220.45) |
| **Total PPD Value Before Adjustments** | | | | **$16,529,901.94** |
| Add: Location Adjustment to Producers | | | | 9,874,392.29 |
| One-half Unobligated Balance—Producer Settlement Fund | | | | 810,860.57 |
| Less: Producer Settlement Fund—Reserve | | | | (868,875.56) |
| **Total Pool Milk & PPD Value** | 2,026,636,863 Producer pounds | | | **$26,346,279.24** |
| Producer Price Differential | | **$1.30** | | |
| Statistical Uniform Price | | **$12.08** | | |

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