



The Market Administrator's BULLETIN

NORTHEAST MARKETING AREA

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Federal Order No. 1

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June Pool Price Calculation

The June 2009 statistical uniform price (SUP) for the Northeast Marketing Area was announced at \$11.93 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 \$12.10 per hundredweight. June's statistical uniform price was 25 cents per hundredweight below May's price. The June producer price differential (PPD) at Suffolk County was \$1.96 per hundredweight, a decrease of 38 cents per hundredweight from last month.

During June, commodity prices for butter and cheese decreased while nonfat dry milk and dry whey increased. This resulted in higher prices for nonfat and other solids and lower prices for butterfat and protein. The Class I price, announced in advance, declined 89 cents from May; all other class prices rose slightly.

The producer butterfat test averaged 3.63 percent, tying 2000 and 2003 for the record-high June test. The producer protein test set a new record for June with 3.00 percent, while other solids recorded its lowest test since the Order's inception averaging 5.68 percent. ❖

Changes in Utilization

For the first 6 months of 2009, total producer receipts (milk pooled from producers shipping to handlers regulated under the Order) declined less than 1 percent. The utilization of this milk shows a similar 0.7 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 continued to follow the trend seen in the first quarter of 2009, a slight decrease (0.7 percent). The only difference in trend was a decline in buttermilk and eggnog, which increased during the first quarter. Class II utilization increased 1.6 percent (5.5 percent during first quarter). Ricotta usage bounced back and yogurt production continued strong. Overall, Class III usage grew 3.4 percent reversing a first quarter decline of 5.8 percent. American, Swiss, and cream cheese were all up; Italian continued to decline, but at a lower rate. Class IV (continued on page 3)

Pool Summary

- A total of 13,402 producers were pooled under the Order with an average daily delivery per producer of 4,980 pounds.
- Pooled milk receipts totaled 2.002 billion pounds, a decrease of 2.4 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 41.2 percent of total milk receipts, an increase of 1.3 percentage points from May.
- The average butterfat test of producer receipts was 3.63 percent.
- The average true protein test of producer receipts was 3.00 percent.
- The average other solids test of producer receipts was 5.68 percent. ❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	41.2	825,014,634
Class II	20.3	406,230,712
Class III	24.9	498,165,565
Class IV	13.6	272,960,209
Total Pooled Milk		2,002,371,120

Producer Component Prices

	2009	2008
	\$/lb	
Protein Price	1.7283	4.7193
Butterfat Price	1.2544	1.6160
Other Solids Price	0.0723	0.0826

Class Price Factors

	2009	2008
	\$/cwt	
Class I	13.33	21.43
Class II	10.79	16.19
Class III	9.97	20.25
Class IV	10.22	15.92

Market Situation

June was the fifth month in a row with a statistical uniform price below \$12.25 per hundredweight at Boston, Massachusetts. For the first half of 2009, the uniform price at Boston averaged \$12.27 per hundredweight. Currently, 2002 stands as the year with the lowest annual average uniform price, \$12.64 per hundredweight. Including price projections based on the Chicago Mercantile Exchange (CME) futures markets, 2009 is estimated to average just above that, at \$12.75 per hundredweight. Taking into account Milk Income Loss Contract (MILC) payments, producers are projected to receive an average of \$14.02 per hundredweight for 2009, without including market or handler premiums. The low prices are the result of supply and demand factors, which a look at some measures of these factors will show.

Prices for dairy products, which feed into the federal order pricing formulas, are close to support levels. CME futures prices indicate an expectation that prices will increase over the next several months, but not to levels that will lead to favorable returns to operating costs, considering that MILC payments are still projected through the early part of 2010. Any strengthening in milk prices will depend upon increased demand or a decrease in supply.

General Economic Measures of Demand

Domestic demand has suffered in response to the recession. In fact, the Consumer Price Index (CPI) for the first half of 2009 is down compared to the same period last

year, the first time that has happened since at least 1984 (the base period for the CPI). Such deflation reflects the lack of demand in the economy in general. Interestingly, the CPI for food for the first half of 2009 is up, despite dairy prices being down. Restaurants are large users of dairy products and the Restaurant Performance Index (RPI) is a barometer that tracks the health of the restaurant industry based on same-store sales, traffic, labor and capital expenditures. The RPI for May was down slightly following 5 months of increases. It was still below 100 (a threshold indicating contraction) for the 19th consecutive month, but the recent upward trend is promising. The Consumer Confidence Index (CCI) measures the degree of optimism consumers feel about the economy and their finances and is a key indicator of the overall shape of the economy. The CCI stood at 49.3 in June, still historically low, but above February 2009's all time low of 25.0. Taken together, these economic indicators seem to imply that the demand situation is still very weak, but there are some signs of slow recovery.

Dairy Stocks

Overall, manufacturer and government stocks of dairy commodities have risen, further indication of the weak demand. Manufacturer stocks of nonfat dry milk as of May 2009 were 189.2 million pounds, up 43.7 percent from the previous year. Manufacturer stocks of cheese reached 957 million pounds in May 2009, about 9 percent above last year. Butter stocks for May, at 251,027 million pounds, are down 6.8 percent. The Commodity Credit Corporation has purchased 4.6 million pounds of butter and almost 273 million pounds of nonfat dry milk since October 2008.

For the January through April period, commercial disappearance of nonfat dry milk and butter are down 12.6 and 4.8 percent, respectively, compared to the previous year.

Demand for U.S. Exports

As a component of the demand equation, the export market has been unable to offer any benefit. USDA estimates that dairy exports for the year will be down 57 percent on a fat-basis. For the first 4 months compared to last year, nonfat dry milk/skim milk powder is down 52 percent, cheese is down 29 percent, and butter is down 79 percent. Total whey exports were up 3 percent. Help from exports in the near future will be hindered by the fact that major importers of U.S. dairy products are also struggling economically. The Mexican economy, which relies in large part on oil revenue and U.S. tourism, shrunk at an annualized (continued on page 3)

Commercial Disappearance: Total Milk and Selected Dairy Products Year to Date, 2008-2009 1/

	Jan-Apr 2008		Jan-Apr 2009	
	million lbs	Percent change ^{2/}	million lbs	Percent change ^{2/}
MILK				
Production	63,726	2.2	63,423	0.3
Marketings	63,371	2.2	63,062	0.3
Beginning Commercial Stocks ^{3/}	10,355	8.9	10,045	(3.0)
Imports ^{3/}	1,200	(18.5)	1,190	(0.1)
Total Supply ^{4/}	74,926	2.2	74,297	0.4
Ending Commercial Stocks ^{3/}	12,989	(1.8)	13,279	2.2
Net Removals ^{3/}	0	0.0	128	100.0
Commercial Disappearance ^{4/}	61,937	3.7	60,890	(0.9)
SELECTED PRODUCTS ^{5/}				
Butter	523.1	21.2	494.1	(4.8)
American Cheese	1,313.7	1.5	1,354.7	4.0
Other Cheese	1,987.1	(0.8)	1,998.3	1.4
Nonfat dry Milk	525.1	21.6	455.1	(12.6)
Fluid Milk Products ^{6/}	18,513.0	(1.2)	18,575.3	1.2

1/ Commercial disappearance includes civilian and military purchases of milk and dairy products for domestic and foreign use, but excludes farm household use and USDA donations of dairy products. Disappearance is a residual figure and therefore can be affected by any inaccuracies in estimating milk production, on-farm use, stocks, and imports. 2/ From year earlier on a daily average basis. 3/ Milk-equivalent, milkfat basis.

4/ Totals may not add because of rounding. 5/ Commercial disappearance in product pounds. 6/ Sales. Estimate based on actual sales in Federal milk order marketing areas and California. These sales figures have not been adjusted for calendar composition. Source: Economic Research Service, USDA. *Fluid Milk Products*—AMS, USDA.

Market *(continued from page 2)*

rate of 21 percent in the first quarter. The Japanese economy shrunk by 15 percent.

USDA allocated volumes for the Dairy Export Incentive Program (DEIP) for the 2009-10 marketing year that began July 1. Initial allocations are for 106.2 million pounds of nonfat dry milk, 42.4 million pounds of butterfat, and 6.3 million pounds of cheese.

Supply

Milk production has been above last year by just a tenth or two tenths of a percent from March through May. Milk prices will not rebound significantly until the milk supply contracts to a level more in line with decreased demand brought about by the U.S. and worldwide economic downturn. The milk-feed price ratio has been below 2.00 for all but 2 months since April 2008 and was at a record low 1.47 in May and June. Milk-feed price ratios below 2.5 signal contraction. The lag in the milk supply response to such dramatically low levels of profitability is somewhat surprising. Using pooled pounds as a proxy for supply for the Northeast order, Northeast order pooled pounds for January-June are down 0.5 percent in 2009 (from 2008) in the face of a 36 percent decline in the uniform price.

According to USDA, the number of milk cows for the first quarter of 2009 was still 11,000 head above the previous year. Cooperatives Working Together (CWT) removed 101,000 cows from the national herd this spring, representing almost 2 billion pounds of milk production. On July 10, CWT announced a second herd retirement round for 2009 (the fourth round in about 12 months).

Outlook

The current U.S. and worldwide recession appears to be deep and broad in scope with expectations that recovery will be slow. Milk prices may increase somewhat with seasonal reductions in production, though price gains on a larger scale will depend on a realignment of supply and demand. ❖

Utilization *(continued from page 1)*

utilization declined 7.0 percent, down somewhat from a first quarter 8.9 percent drop. Condensed products decreased 30.4 percent; they were down 11.5 percent first quarter. For the January-June period, butter increased 3.7 percent; first quarter butter declined 7.3 percent. Dried milk products increased 4.1 percent for the 6 month period; quite a change from the 12.2 percent decline during the first quarter.

2008 Depooling Effect

During May and June of 2008, a total of about 300 million pounds were depooled. If this milk had been on the Order, the year-to-year change from 2008 for the first 6 months of 2009 period would have been a decline of 2.9 percent. Most of the effect of this milk would have occurred in Class III negating the increase seen this year. ❖

Northeast Order Utilization for Selected Products, January-June, 2008 and 2009

Class	Product	Volume*	Change from
		Utilized	Previous Year
		million pounds	percent
Class I	Whole	1,420.0	(2.3)
	Fatfree	720.3	(0.6)
	Flavored	276.5	(7.1)
	<i>Total Class I**</i>	5,644.4	(0.7)
Class II	Ricotta	95.0	5.0
	Yogurt	212.8	33.0
	Ice Cream	884.7	(1.5)
	<i>Total Class II</i>	2,502.1	1.6
Class III	American	897.8	8.9
	Italian	1,384.7	(6.2)
	Swiss & Other	173.0	34.5
	<i>Total Class III</i>	2,873.1	3.4
Class IV	Condensed	96.1	(30.4)
	Butter	98.2	3.7
	Dried Products	1,470.2	4.1
	<i>Total Class IV</i>	2,385.8	(7.0)
Total Utilization		13,445.0	(0.7)

* 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.

Pool Summary for All Federal Orders, January-June 2009

Federal Order Number	Federal Order Name	Total Producer Milk			Producer Price Differential#		Statistical Uniform Price#*	
		2008	2009	Change~	2008	2009	2008	2009
		pounds			dollars per hundredweight			
1	Northeast	12,202,045,700	12,073,098,375	(0.5)	0.88	2.09	19.14	12.27
5	Appalachian	2,928,588,628	3,025,288,161	3.9	N/A	N/A	20.35	13.43
6	Florida	1,631,301,631	1,560,321,822	(3.8)	N/A	N/A	21.93	15.64
7	Southeast	3,561,935,017	3,744,243,856	5.7	N/A	N/A	20.42	13.58
30	Upper Midwest	13,379,910,426	16,351,094,218	22.9	0.09	0.41	18.35	10.59
32	Central	5,648,429,998	6,755,867,916	20.3	(0.30)	0.77	17.96	10.96
33	Mideast	8,023,319,966	8,416,253,148	5.5	0.14	1.20	18.40	11.39
124	Pacific Northwest	3,380,641,534	3,858,975,635	14.8	(0.82)	0.72	17.44	10.91
126	Southwest	4,709,549,746	5,880,545,884	25.6	0.47	1.75	18.73	11.94
131	Arizona	2,172,705,243	2,177,023,956	0.8	N/A	N/A	17.95	11.16
All Market Total/Average		57,638,427,889	63,842,712,971	11.4	0.08	1.16	19.06	12.19

Price at designated order location.

* Price at 3.5% butterfat.

~ Adjusted for leap year.

N/A = Not applicable.



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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	809,597,799	\$9.16	74,159,158.39	
Butterfat	15,416,835	1.2842	19,798,299.51	
Less: Location Adjustment to Handlers			(2,646,580.30)	\$91,310,877.62
Class II— Butterfat	30,217,161	1.2614	38,115,926.92	
Nonfat Solids	33,857,016	0.7344	24,864,592.54	62,980,519.46
Class III— Butterfat	17,757,078	1.2544	22,274,478.65	
Protein	15,001,977	1.7283	25,927,916.89	
Other Solids	28,367,967	0.0723	2,051,004.00	50,253,399.54
Class IV— Butterfat	9,252,941	1.2544	11,606,889.18	
Nonfat Solids	23,664,451	0.6715	15,890,678.86	27,497,568.04
Total Classified Value				\$232,042,364.66
Add: Overage—All Classes				61,302.54
Inventory Reclassification—All Classes				57,023.12
Other Source Receipts	182,613 Pounds			5,683.28
Total Pool Value				\$232,166,373.60
Less: Producer Component Valuations @ Class III Component Prices				(203,059,216.31)
Total PPD Value Before Adjustments				\$29,107,157.29
Add: Location Adjustment to Producers				9,891,104.61
One-half Unobligated Balance—Producer Settlement Fund				1,055,150.52
Less: Producer Settlement Fund—Reserve				(803,359.27)
Total Pool Milk & PPD Value	2,002,553,733 Producer pounds			\$39,250,053.15
Producer Price Differential		\$1.96		
Statistical Uniform Price		\$11.93		

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