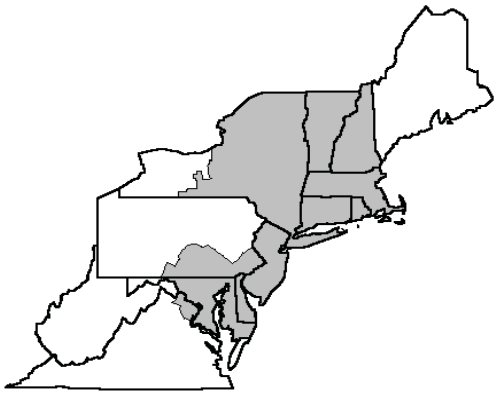

The Market Administrator's

BULLETIN

NORTHEAST MARKETING AREA

Erik F. Rasmussen, Market Administrator

October 2012 Federal Order No. 1

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October Pool Price Calculation

The October 2012 statistical uniform price (SUP) for the Northeast Marketing Area was announced at $20.78 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 $21.98 per hundredweight. The October statistical uniform price was $1.33 per hundredweight above the September price. The October producer price differential (PPD) at Suffolk County was negative $0.24 per hundredweight, a decrease of 69 cents per hundredweight from last month.

Price Increases

During October, product prices for all commodities rose resulting in higher component prices. Cheese jumped over 18 cents per pound from September, resulting in a $2.02 increase in the Class III price. All other class prices rose at least $1.00 per hundredweight from September. The Class II price was the lowest of the class prices for the third month in a row. The tightening spread between the Class I and III prices resulted in a negative value for the PPD. As reflected in the higher overall SUP, components contributed a greater proportion to producers' payments.

Class Volume Changes

For the first time since the Order's inception, the volume of producer milk receipts for the month of October was over 2 billion pounds. This was only the second time in the past 13 years that the October per day volume grew from the previous month. The Class II volume set a new record for the month of October, but was the smallest year-over-year increase in the past 6 months. The slower growth in Class II is most likely due to the decrease in milk used in yogurt, which dropped from September; in 2011, the volume rose in October over September, but then declined in November. Class III volume was the highest in 5 years; this helped raise the blend price since the Class III price was the second-highest class price at $21.02 per hundredweight.

The Class I volume for October was higher than the same month of the previous year for the first time in 20 months. This unexpected increase may have been the result of pre-storm purchases as Superstorm Sandy hit the east coast the last three days of the month. Even though

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Pool Summary

- A total of 12,562 producers were pooled under the Order with an average daily delivery per producer of 5,206 pounds.
- Pooled milk receipts totaled 2.027 billion pounds, an decrease of 0.5 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 42.8 percent of total milk receipts, an increase of 2.1 percentage points from September.
- The average butterfat test of producer receipts was 3.80 percent.
- The average true protein test of producer receipts was 3.14 percent.
- The average other solids test of producer receipts was 5.73 percent.❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	42.8	867,747,054
Class II	26.5	537,481,591
Class III	23.9	484,462,368
Class IV	6.8	137,570,311
Total Pooled Milk		2,027,261,324

Producer Component Prices

	2012	2011
	$/lb	
Protein Price	3.7278	2.9211
Butterfat Price	2.1136	1.9592
Other Solids Price	0.4340	0.4286

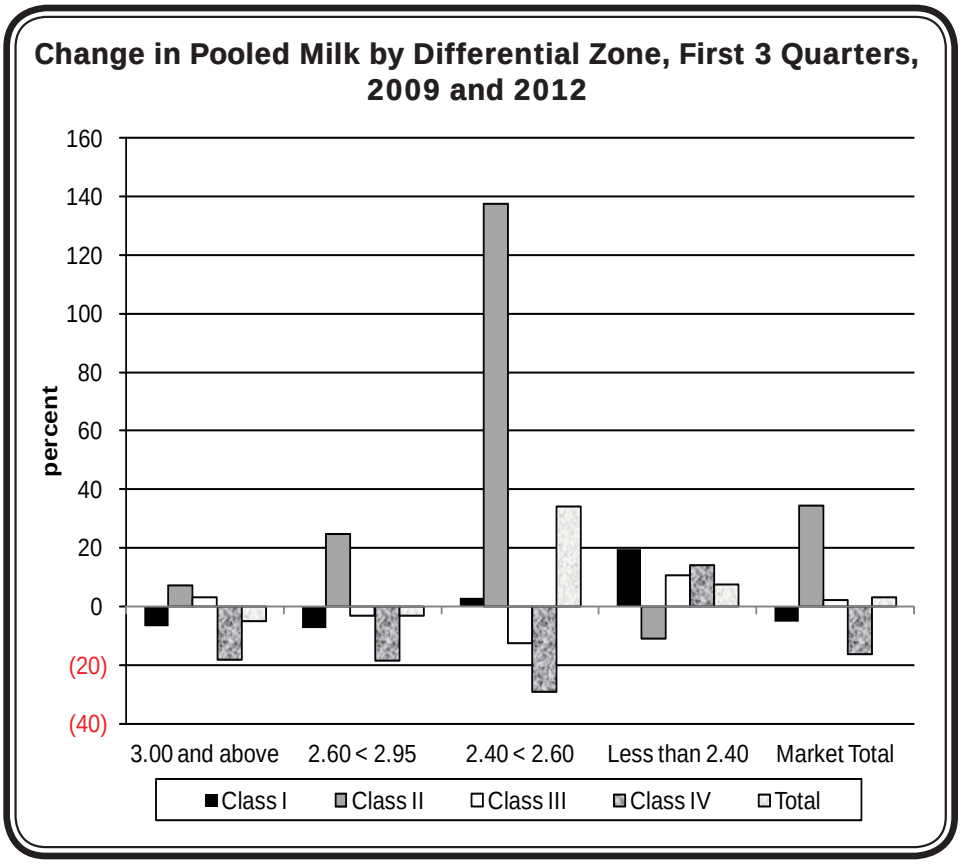
Class Price Factors

	2012	2011
	$/cwt	
Class I	22.13	22.81
Class II	18.44	19.41
Class III	21.02	18.03
Class IV	18.54	18.41

Milk Production and Pooled Milk

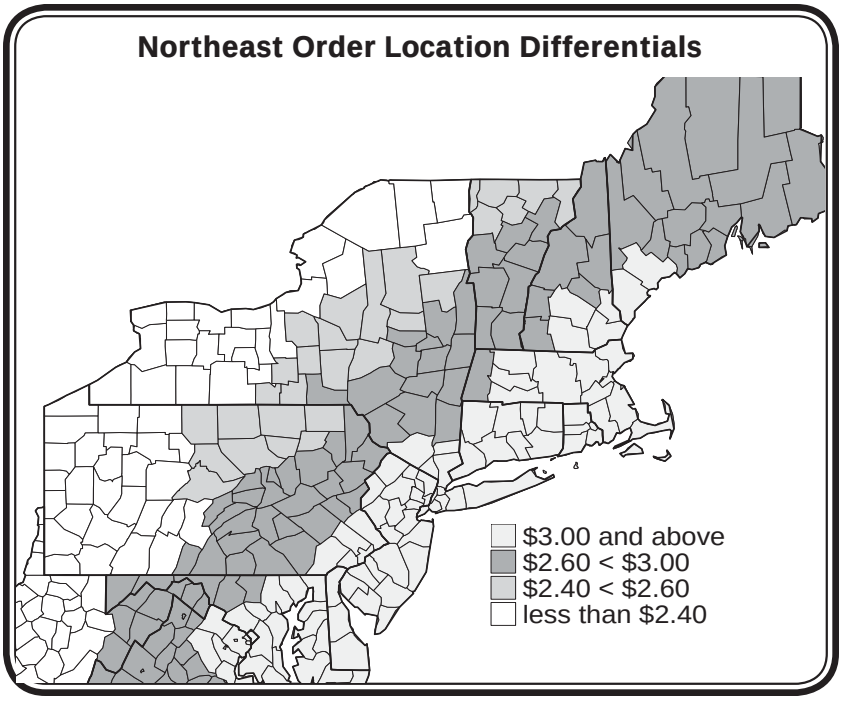
For the January through September 2012 period, the total volume of pooled milk receipts on the Northeast Order was essentially flat, declining by 0.2 percent from the same period in 2011, when adjusting for leap year. Pooled milk receipts represent the volume of milk that was reported by handlers regulated under the Northeast Order. This milk met the pooling requirements under the Order and was used in the calculation of the uniform price. It does not include all milk produced in the states usually associated with the Northeast Order; some milk is pooled on neighboring federal or state orders.

During the same period of time, milk production in the states typically associated with the Northeast Order increased 0.6 percent, adjusting for leap year. This implies that although more milk was produced in the region, much of that additional milk found a destination somewhere other than the Northeast Order pool. Some of New York's milk is pooled on the Western New York State Order. Additional milk produced in western New York or western Pennsylvania could have been pooled on the Mideast Milk Marketing Order as well, rather than on the Northeast Order.



Pool Milk Destinations

The accompanying chart depicts the Northeast Order pool receipts from producers by class and by plant location as determined by differential zone, including a total for all classes. These data are for the first three quarters of 2009 and 2012. When compared to 3 years ago, of the milk that was pooled on the Order, an increasing percent is finding a home in outer, or lower, differential zones. Milk received in the $2.40 to under $2.60 and the under $2.40 and below differential zones increased by 34.3 and 7.6 percent, respectively. Declining volumes received were the case for all zones above $2.55.



The yogurt story also shows up in these data as the very tall bar for Class II in the $2.40 to under $2.60 zone largely is due to increases in yogurt production in plants falling in that zone. The large increase in Class II volume for that zone also resulted in the total volume for that zone growing 34.3 percent. Much smaller, but of note, was an increase in Class I received in this same zone.

Though the bar showing Class II growth in the $2.40 to under $2.60 zone seems to dominate the picture, it should be pointed out that strong Class II growth (25 percent) also occurred in the $2.60 to under $3.00 zone. Class II increased in the $3.00 and above zones as well.

Also somewhat hidden in the shadow of the Class II increase for the $2.40 to under

(continued on page 3)

Negative PPD, But Higher SUP

The total value of the federal order pool is determined by the respective class prices and the volume of milk utilized in each class. For the month of October, the "classified value" equaled $434,174,126.42. The total value of all producer components (butterfat, protein, and other solids) equaled $450,368,254.97, or $16.2 million more than the pool classified value (see page 4 for pool computation). Since the payout to producers must equal the value of the milk utilized in the pool, a negative producer price differential (PPD) has to occur. This scenario occurs due to the Class I and Class II skim milk prices being set in advance, based on wholesale market prices that are less than the more current and higher wholesale prices used in the calculation of Class III and IV prices and the component prices paid to producers.

Any class price higher than the Class III price contributes to the pool of money normally returned to producers in a positive PPD. With Class II and IV prices significantly below (about $2.50) the Class III price, and the sizeable volumes (33.3 percent) in the combined lower-priced classes, the classified value of the pool was diminished and producers received all of the pool value in their component payments.

We had predicted the possibility of a negative PPD in at least some of the zones for upcoming months in the August *Bulletin*. The last time the PPD was negative at all zones was in December 2008. The statistical uniform price (SUP) at that time was $15.06 per hundredweight. The SUP for October 2012 was $20.78 per hundredweight, signifying that a negative PPD does not necessarily reflect a lower price for producers.

Regardless of the level of the PPD, producers who are not members of cooperatives 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 their cooperative policy.❖

Milk Production *(continued from page 2)*

$2.60 zone was an increase in Class I received in that zone. In fact, looking at the lowest zone depicted on the chart, under $2.40, there is also an increase in total receipts, led by Class I, which rose almost 20 percent. Class III and Class IV receipts also grew in the lowest zone by 10.7 and 14.4 percent, respectively. Class II volume declined in this zone. The conclusion would be that there is growth, for both Class I and manufacturing purposes, in plants in more distant (less metropolitan) areas of the Northeast Order marketing area.❖

2013 Payment Dates to Producers

The calendar below shows the dates for partial payments to producers that are not members of cooperatives. Partial payments are paid to producers for the milk received by pool handlers during the first 15 days of the month and are paid at not less than the lowest announced class price for the preceding month, less proper deductions authorized in writing by the producer. As required by the Order, payment must be made so that a producer receives it no later than the date shown. The table dates vary due to weekends and national holidays.

The final payment date that non-member producers must be paid is dependent on the date that the statistical uniform price is announced. Each month, the date that final payments to producers must be received by is printed on the back of the Pool Price Announcement. The final payment is for the remaining milk received and is priced such that the producer should receive an average price for the entire month's milk at roughly the uniform price with adjustments for zone differential, component values, and other deductions relevant to that producer.

Producers that are members of cooperatives usually receive payments at the same time, although it is not required by the Order.❖

Required Producer Payments Under the Northeast Order

Month Milk Produced	Partial Payment Due	
	Day	Date
January	Monday	1/28/13
February	Tuesday	2/26/13
March	Tuesday	3/26/13
April	Friday	4/26/13
May	Tuesday	5/28/13
June	Wednesday	6/26/13
July	Friday	7/26/13
August	Monday	8/26/13
September	Thursday	9/26/13
October	Monday	10/28/13
November	Tuesday	11/26/13
December	Thursday	12/26/13

October Pool *(continued from page 1)*

there were numerous power outages and damage, there was not a significant loss of milk reported by processing plants. Lack of power continued into the first couple of weeks of November and may affect bottling operations, schools, and retail outlets, but it is too soon to estimate the effect.

The average producer butterfat test set a new record for the current month and the average producer other solids test tied with the record set October 2010.❖

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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	851,157,445	$15.56	132,440,098.44	
Butterfat	16,589,609	2.0333	33,731,651.98	
Less: Location Adjustment to Handlers			(2,968,878.26)	$163,202,872.10
Class II— Butterfat	30,104,170	2.1206	63,838,902.92	
Nonfat Solids	46,801,479	1.2689	59,386,396.72	123,225,299.64
Class III– Butterfat	21,839,762	2.1136	46,160,520.97	
Protein	15,126,781	3.7278	56,389,614.23	
Other Solids	27,583,002	0.4340	11,971,022.87	114,521,158.07
Class IV– Butterfat	8,497,342	2.1136	17,959,982.01	
Nonfat Solids	11,899,606	1.2828	15,264,814.60	33,224,796.61
Total Classified Value			***Total value of milk in the pool*** →	**$434,174,126.42**
Add: Overage—All Classes				163,498.63
Inventory Reclassification—All Classes				639,141.53
Other Source Receipts	291,629 Pounds			3,492.80
Total Pool Value			**Total value of**	**$434,980,259.38**
Less: Producer Component Valuations @ Class III Component Prices			***producer components*** →	(450,368,254.97)
Total PPD Value Before Adjustments				**($15,387,995.59)**
Add: Location Adjustment to Producers				10,564,099.38
One-half Unobligated Balance—Producer Settlement Fund				785,979.67
Less: Producer Settlement Fund—Reserve				(828,210.57)
Total Pool Milk & PPD Value	2,027,552,953 Producer pounds			**($4,866,127.11)**
Producer Price Differential		**($0.24)**		
Statistical Uniform Price		**$20.78**		

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.