

The Market Administrator's

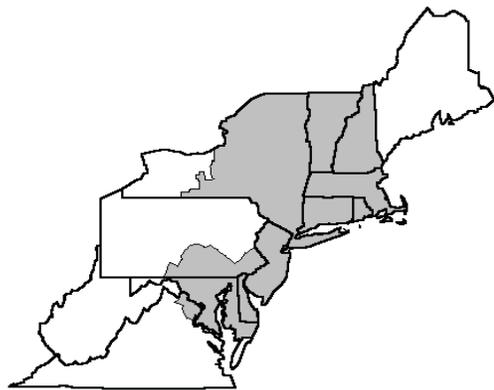
BULLETIN

NORTHEAST MARKETING AREA

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November 2012

Federal Order No. 1



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November Pool Price Calculation

The November 2012 statistical uniform price (SUP) for the Northeast Marketing Area was announced at \$21.35 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 \$22.75 per hundredweight. The November statistical uniform price was 57 cents per hundredweight above the October price. The November producer price differential (PPD) at Suffolk County was \$0.52 per hundredweight, an increase of 76 cents per hundredweight from last month.

Price Changes

During November, product prices for butter dropped nearly 20 cents per pound and cheese prices declined 14 cents for blocks and 21 cents for barrels; nonfat dry milk and whey rose. As a result, component prices for butterfat and protein dropped while nonfat and other solids increased. All class prices rose except the Class III price that is largely derived from the cheese price. The Class II price remained the lowest of the class prices. With the Class III price decreasing, the spread between the Class I and III prices increased, resulting in a positive value for the PPD. Similar to October, components contributed a greater proportion to producers' payments.

Class I Sales

The Class I volume for November was higher than the same month of the previous year for only the second time since February 2011. It was expected that sales would be lost due to power outages resulting from Superstorm Sandy, which hit the east coast late October. Even though lack of power continued into the first few weeks of November in some areas, changes in buying behavior and localized school closings did not appear to adversely affect fluid sales for the entire Order.

Record Tests

The average producer butterfat test set a new record for the current month. The average producer protein test for November set a record as the highest protein test ever for the Order since its inception. November tends to be the highest month for protein tests; combined with the relatively high protein price, this component has been the major contributor to producers' pay for the past 6 months. ❖

Pool Summary

- A total of 12,533 producers were pooled under the Order with an average daily delivery per producer of 5,311 pounds.
- Pooled milk receipts totaled 1.997 billion pounds, an increase of 1.8 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 42.9 percent of total milk receipts, an increase of 0.1 percentage points from October.
- The average butterfat test of producer receipts was 3.85 percent.
- The average true protein test of producer receipts was 3.17 percent.
- The average other solids test of producer receipts was 5.72 percent. ❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	42.9	855,726,520
Class II	24.7	492,492,713
Class III	23.3	466,060,652
Class IV	9.1	182,465,925
Total Pooled Milk		1,996,745,810

Producer Component Prices

	2012	2011
	\$/lb	
Protein Price	3.7172	3.2341
Butterfat Price	2.0218	1.9508
Other Solids Price	0.4624	0.4521

Class Price Factors

	2012	2011
	\$/cwt	
Class I	23.95	21.70
Class II	18.81	19.26
Class III	20.83	19.07
Class IV	18.66	17.87

Regional Dairy Outlook Conference Held

The 2012 Northeast Regional Dairy Outlook Conference was held November 28 at the National Agricultural Statistics Service (NASS) New York field office. The annual conference brings together economists and statisticians from the Northeast's market administrator office, state and federal agricultural statistical services, university extension offices, cooperatives and agribusinesses to review regional production and price statistics for the past year and develop projections for the upcoming year. The Northeast region includes Delaware, Maryland, New England, (Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont), New Jersey, New York, and Pennsylvania.

Crop Situation

The crop situation varied across the region and not all yield data has been collected yet, but overall it was a much improved picture compared to last year after the devastating effects of Tropical Storms Irene and Lee. The drought that affected much of the nation during 2012 did not impact Northeast crops as severely. In some areas, good weather conditions contributed to an abundant hay crop, while other areas harvested less than in the past 2 years. Corn conditions were also mixed – too dry, too wet – to guarantee an increased yield. Again though, compared to the losses caused by the storm damage in 2011, farmers should be in a better situation with overall quantity and quality. Nationally, feed prices are expected to stay higher and continue to affect farmers' bottom line.

Production Estimates

Due to the continued challenges in paying for feed and other inputs such as fuel and fertilizer, the Northeast as a whole is estimating an increase of 0.8 percent in milk production for 2013. This is slightly up from the projected increase of 0.6 percent for 2012. Most of this increase is expected in New York, with some in New England; the other Northeast states predict declines. Nationally, the Economic Research Service (ERS) predicts milk production to finish up 1.5 percent in 2012 and only increase a slight 0.3 percent in 2013.

Once again, the forecasted growth in milk production is predicted to be the result of increased milk per cow as cow numbers are projected to decline 0.5 percent in the Northeast and 1.1 percent nationally for 2013. For 2012, Northeast cow numbers are expected to finish 0.6 percent below 2011 while U.S. totals are estimated up 0.3 percent. Milk per cow is projected to increase 1.6 percent in the Northeast and 1.4 percent nationally for 2013. For 2012, the Northeast milk per cow is expected to finish up 0.9 percent, while the U.S. number is estimated 1.1 percent above 2011.

In New York State, the volume of milk, cream, and

Northeast Milk Marketing Area Statistical Uniform Prices, 2011–2013*

Month	2011	2012	2013
	Actual	Actual and Estimated	Estimated
January	17.01	19.37	20.43
February	18.75	18.09	20.42
March	20.28	17.64	20.47
April	20.38	17.20	20.50
May	20.79	16.79	20.62
June	22.09	16.58	20.67
July	22.76	17.26	20.66
August	23.22	18.40	20.49
September	22.23	19.45	20.38
October	20.42	20.78	20.18
November	20.23	21.78	20.11
December	19.57	21.49	19.81
Average	20.64	18.74	20.40

* Estimated prices for November and December 2012 and all of 2013. All estimates are subject to change. Prices are reported at Suffolk County, MA.

skim used in making yogurt nearly doubled from 2009 to 2010 and from 2010 to 2011; this year is expected to finish up by about 25 percent. Most of the growth has been in the Greek-style yogurt and more plants are expected to be up and running in 2013. Industry representatives are hoping to take advantage of this situation and are trying to grow production to meet the needs of these new plants. Even though prices to producers are projected to increase in 2013, input costs are still prohibitively high, and tend to restrict expansion.

Price Estimates

The group consensus for the Northeast Order statistical uniform price (at Boston) is an annual average of \$18.74 per hundredweight (cwt) for 2012. For the upcoming year, the group is forecasting \$20.40 per cwt for 2013 (see accompanying table), an increase of about 9 percent.

Milk Income Loss Payments (MILC) were paid during 7 months of 2012 and averaged \$1.16 per cwt. This was not due to the Class I price falling below the \$16.94 per cwt trigger price, but rather falling below the feed cost adjusted trigger price that averaged \$21.85 per cwt due to continued high prices for inputs. With the expiration of the Farm Bill, the status of future payments is unknown.

Participants expect the Class III (cheese) price will be the mover in 2013 for a majority, if not all, of the months, although the Class IV (butter/powder) price may be a close competitor during the first few months of the year. Cheese, butter, and nonfat dry milk prices are projected to increase, while whey prices may decline. The producer price differential (PPD) is predicted to average \$1.24 (at Boston) per cwt for 2012 and \$1.74 per cwt for 2013. ❖

PPD and Rising and Falling Price Dynamics

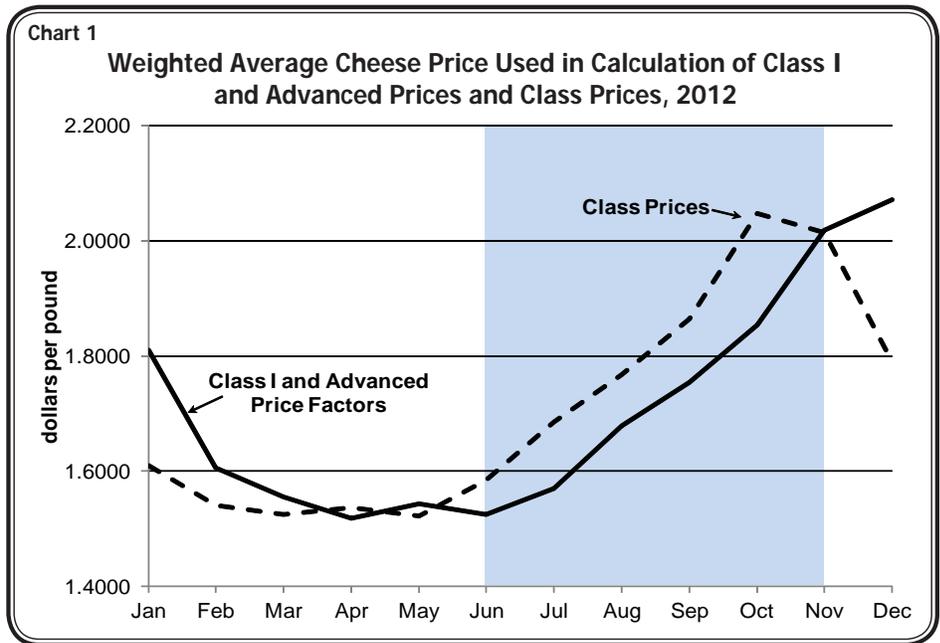
The rise and fall of commodity prices on the Agricultural Marketing Service's National Dairy Product Sales Report (NDPSR), combined with establishing Class I and Class II skim prices earlier than the remaining class prices, can contribute to the occurrence of negative producer price differentials (PPD). This dynamic has occurred in recent months and projects to change as of December.

Dynamics Explained

Prices in 2012 tended to decline across the first half of the year, then rise after June, and are expected to soften in December. This is particularly true of the Class III price. Due to product characteristics, the Class I price and Class II skim price are calculated and announced in advance, with the remaining minimum class prices being calculated and announced after the month has concluded. When commodity prices are moving downward, the remaining class prices are incorporating lower commodity prices for a given month than did the Advance Class I and Class II skim. This results in the uniform price generally above the Class III price (and a positive PPD). When commodity prices rise, particularly the cheese price, the remaining class prices are incorporating higher commodity prices for a given month than did the Advance Class I and Class II skim. This results in the uniform price that can be much closer to the Class III price, and if prices are increasing fast enough, even lower than the Class III price. This results in negative PPDs in some differential zones when the spread between the uniform price and Class III price is narrow, or negative in all zones if the uniform price at Boston is below the Class III price. (See October 2012 *Bulletin*.)

Chart 1 shows the weighted average Class III price from the NDPSR that was used to calculate Order prices for the Minimum Class I Prices and Advanced Price Factors and for the Class and Component Prices for 2012. The shaded area highlights the period of rising prices in which the cheese price captured for Order price formulas is higher for Class and Component prices than for Class I and Advance prices.

Chart 2 shows the resulting relationship between the Northeast Order uniform price at Boston and the Class III price for each month during 2012. The shaded area also highlights the period of rising prices. The narrowing gap between the two lines from June to September is the period in which some zones in the Northeast experienced negative PPDs. The Class III line

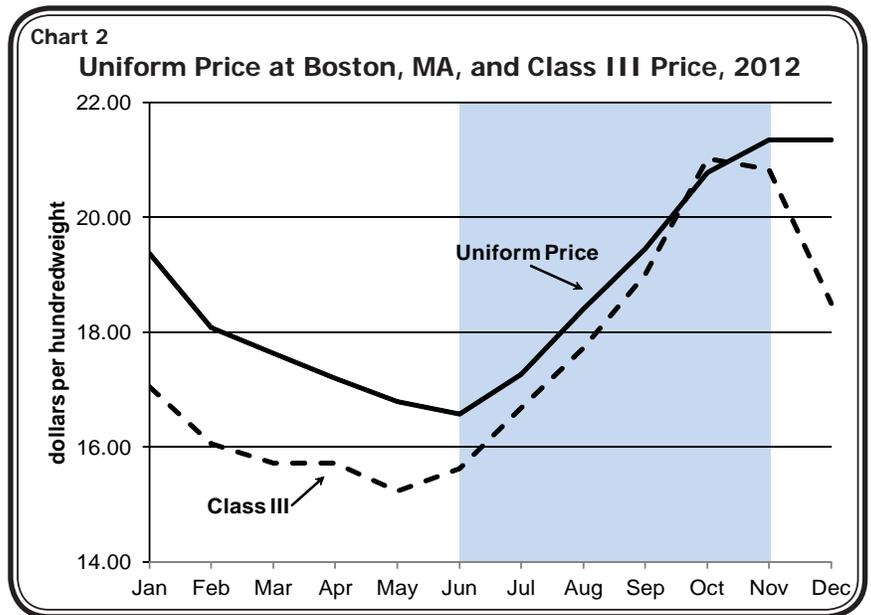


peaks above the uniform price line in October, depicting the negative PPD for all zones last month.

Positive PPD Predicted

Using Chicago Mercantile Futures prices for December, the charts show the Class III price dropping substantially in Chart 1, and are below the cheese price level that has already established the minimum Class I price. In chart 2, the Class III price line is dropping well below the uniform price, resulting in a positive PPD of \$2.85 per hundredweight, however at the same time the uniform price is projected to be \$21.34 per hundredweight.

These dynamics often are the reason negative PPDs tend to be associated with rising prices and not as likely when prices are softening, or when the PPD may be high, but the uniform price has dropped below the preceding month's price. ❖





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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	838,674,710	\$17.02	142,742,435.64	
Butterfat	17,051,810	2.1496	36,654,570.78	
Less: Location Adjustment to Handlers			(2,901,091.85)	\$176,495,914.56
Class II— Butterfat	29,428,749	2.0288	59,705,046.00	
Nonfat Solids	42,828,482	1.3478	57,724,228.05	117,429,274.05
Class III— Butterfat	21,414,186	2.0218	43,295,201.24	
Protein	14,683,488	3.7172	54,581,461.59	
Other Solids	26,465,978	0.4624	12,237,868.19	110,114,531.02
Class IV— Butterfat	9,073,001	2.0218	18,343,793.43	
Nonfat Solids	16,039,528	1.3330	21,380,690.85	39,724,484.28
Total Classified Value				\$443,764,203.91
Add: Overage—All Classes				178,196.75
Inventory Reclassification—All Classes				54,240.79
Other Source Receipts	373,424 Pounds			9,372.90
Total Pool Value				\$444,006,014.35
Less: Producer Component Valuations @ Class III Component Prices				(443,831,488.31)
Total PPD Value Before Adjustments				\$174,526.04
Add: Location Adjustment to Producers				10,304,781.59
One-half Unobligated Balance—Producer Settlement Fund				776,806.85
Less: Producer Settlement Fund—Reserv	1,997,119,234 Producer pounds			(871,094.48)
Total Pool Milk & PPD Value				\$10,385,020.00
Producer Price Differential		\$0.52		
Statistical Uniform Price		\$21.35		

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