

## The Market Administrator's

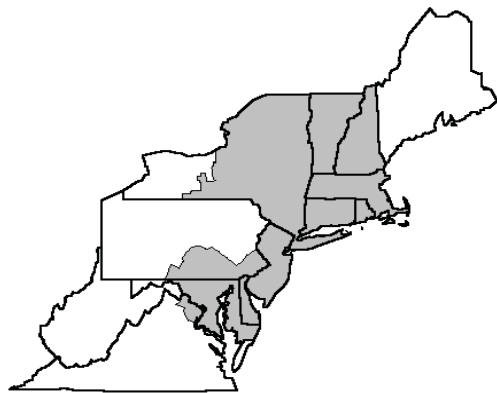
# BULLETIN

## NORTHEAST MARKETING AREA

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Federal Order No. 1



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### May Pool Price Calculation

The May 2013 statistical uniform price (SUP) for the Northeast Marketing Area was announced at \$19.78 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 \$20.29 per hundredweight. The May statistical uniform price was 28 cents per hundredweight above the April price. The May producer price differential (PPD) at Suffolk County was \$1.26 per hundredweight, a decrease of 65 cents per hundredweight from last month.

### Product Prices Effect

Similar to last month, the overall price situation resulted in a higher uniform price, tightening of prices between the classes, and a lower PPD. During May product prices for cheese and nonfat dry milk increased about ten cents per pound while dry whey rose slightly and butter declined. As a result, all component prices rose except butterfat. All class prices increased except the Class II price (affected by the butter price), which became the lowest of the class prices for the first time since October 2012. The Class III price grew 93 cents from April largely due to the higher cheese price. The Class IV price rose 79 cents, mainly due to the increase in the nonfat dry milk price and in spite of the decline in the butter price.

### Records Set

Total pooled milk receipts were the highest ever for the month of May and the second highest total on record for the Order, only surpassed by March 2002. Class I volume was the lowest ever for the month of May while Class II usage set a record for May as the highest volume and the first time May Class II usage hit over 600 million pounds. For the first time ever under the Order, average daily deliveries per producer (DDP) were over 6,000 pounds. The average producer butterfat test for May set a new record high while both protein and other solids tests tied with prior record-highs for the month. ❖

### Pool Summary

- A total of 12,243 producers were pooled under the Order with an average daily delivery per producer of 6,016 pounds.
- Pooled milk receipts totaled 2.283 billion pounds, an increase of 1.0 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 35.6 percent of total milk receipts, a decrease of 0.9 percentage points from April.
- The average butterfat test of producer receipts was 3.69 percent.
- The average true protein test of producer receipts was 3.03 percent.
- The average other solids test of producer receipts was 5.77 percent. ❖

#### Class Utilization

| Pooled Milk       | Percent | Pounds        |
|-------------------|---------|---------------|
| Class I           | 35.6    | 813,380,937   |
| Class II          | 26.4    | 603,074,884   |
| Class III         | 23.5    | 535,190,453   |
| Class IV          | 14.5    | 331,595,762   |
| Total Pooled Milk |         | 2,283,242,036 |

#### Producer Component Prices

|                    | 2013   | 2012   |
|--------------------|--------|--------|
|                    | \$/lb  |        |
| Protein Price      | 3.3597 | 2.7344 |
| Butterfat Price    | 1.7884 | 1.4462 |
| Other Solids Price | 0.3887 | 0.3500 |

#### Class Price Factors

|           | 2013   | 2012  |
|-----------|--------|-------|
|           | \$/cwt |       |
| Class I   | 21.01  | 19.10 |
| Class II  | 18.43  | 15.19 |
| Class III | 18.52  | 15.23 |
| Class IV  | 18.89  | 13.55 |

## Market Situation and Outlook

Through the first five months of 2013, the Northeast Order uniform price at the Boston, MA, location averaged \$19.55 per hundredweight (cwt), \$1.73 above the first five months of the previous year. Chart 1 shows weekly National Dairy Product Sales Report (NDPSR) prices through June 8 for weighted cheese, butter, and nonfat dry milk and the resulting level of uniform prices. The dry whey price, not shown on the chart, ranged from a high of about 65 cents per pound early in the year to just above 56 cents per pound more recently.

Estimates of product prices and resulting uniform prices for the remainder of 2013 also are shown on the chart and are based on Chicago Mercantile Exchange (CME) futures prices for cheese, butter, nonfat dry milk, and whey as of June 12. CME prices track fairly close to NDPSR prices, so the use of CME futures prices can be a reasonable estimate of where those prices are expected to head in light of current market factors. Given the CME futures-based estimate, the uniform price projects to average \$20.86 per cwt for the remainder of 2013, and \$20.32

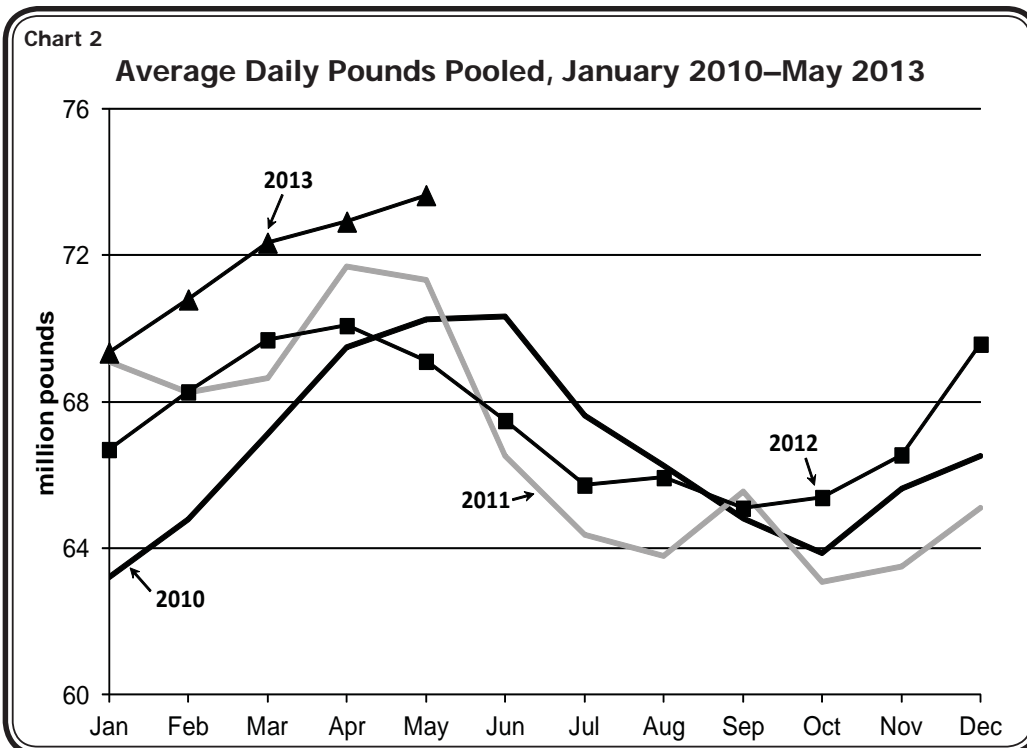
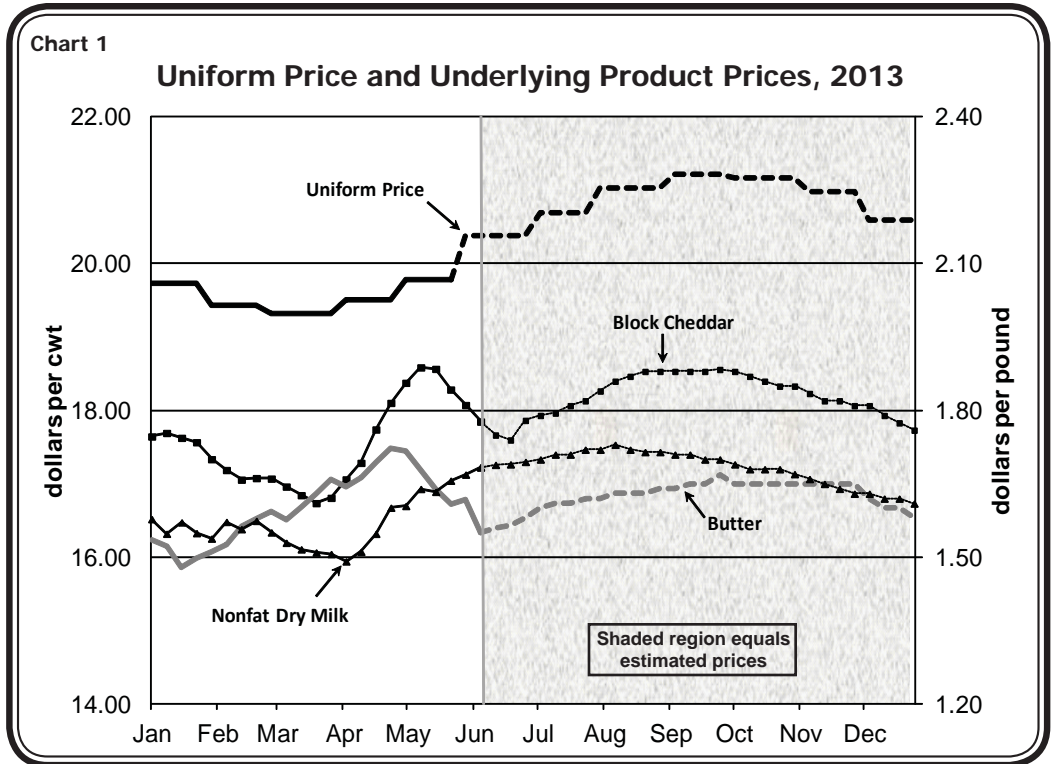
per cwt for the entire year. This would be \$1.69 per cwt above the 2012 average.

### ***Strong Northeast Pool, Weaker Production Nationally***

Chart 2 shows average daily pounds pooled on the Northeast Order from 2010 through 2013. Pooled pounds may be different than total milk production,

as milk can be pooled on and off a federal order. Depicted in the chart are large volumes of milk pooled from October 2012 on. Record volumes pooled were set during five of those months, and near records during the other three. Added plant capacity in the Northeast and demand for milk utilized by those plants are the driving factor behind large pool volume. Additional Class II plants now and in the near future are expected to demand still more milk.

Interestingly, a Milk Income Loss Contract (MILC) payment was triggered in all but two months since October 2012, signalling a period with difficult *(continued on page 3)*



## Market Situation *(continued from page 2)*

margins for producers due to elevated feed costs. However, this fact does not seem to be curtailing overall production growth in the Northeast. Margins from producer to producer can vary based on individual farm business models and likely explain this.

### **Northeast vs. National Milk Production**

Nationally, milk production began the year weaker than in the Northeast. Milk production in the top 23 states had year-over-year changes between -0.1 to 0.6 percent between January and April. New York production grew between 1.5 to 3.1 percent, Pennsylvania by zero to 1.6 percent, and Vermont by 1.9 to 2.6 percent, during the same time period (as is evident in the Northeast Order pool volumes). Some analysts predict stronger national milk production during the second half of the year due to higher milk prices and lower feed prices.

### **Stocks**

Butter stocks in 2013 are strong and were higher to start the year than any year since 2003. American cheese stocks and total cheese stocks also are strong and above last year levels. April nonfat dry milk stocks were about 14 percent lower than April 2012.

### **Steady Demand**

To gauge demand, both domestic and international trends have to be taken into account. Domestically, the United States economy continues to grow modestly in 2013. During the first quarter, the economy grew at a pace of 2.4 percent. Consumer spending rose at an annual rate of 3.4 percent in the first quarter.

The Conference Board Consumer Confidence Index, rose to 76.2 in May, its highest level since February 2008. The Confidence Index measures the level of optimism on the state of the economy that consumers are expressing through their activities of savings and spending. The Restaurant Performance Index hit a 10-month high in April at 101. This is the third time in the last four months the index topped 100, which signifies expansion in the industry. Restaurant demand is an important component of domestic demand for dairy products.

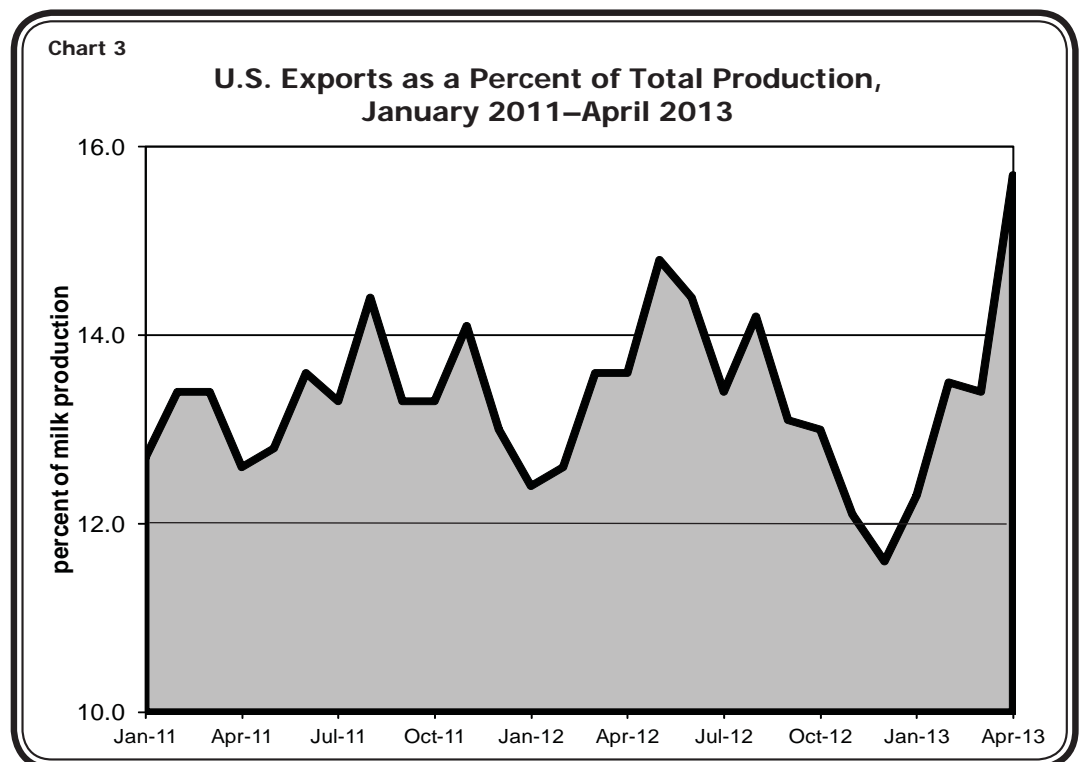
Overall, the domestic demand picture seems optimistic, but according to some analysts, could be tempered as the full impact of this year's tax increases and austerity budgets may not be felt until later this year and into 2014.

### **Record Exports**

United States' exports reached record levels in April, supported by steady global demand for dairy products, supply challenges faced by other exporting regions, and favorable pricing relationships. The U.S. exported 15.7 percent (see Chart 3) of its dairy production on a total-solids basis. Exports were led by milk powder, as the U.S. exported 61 percent of all nonfat dry milk and skim milk powder production. Cheese exports also are steady at near-record levels. According to the U.S. Dairy Export Council, current and forecast conditions are favorable to U.S. suppliers as prices have returned to a favorable relationship with Oceania and European prices. A lack of alternative supplies in the months ahead should allow the U.S. to increase share versus global competitors.

### **In Summary**

Steady moderate growth in the domestic economy and potentially very strong exports in the months ahead should soak up the expected stronger milk production and support a uniform price above \$20 per cwt for the remainder of 2013. Optimism should be guarded by always unpredictable weather-related shocks and the possible economic drag that may be posed by increased taxes and austerity budgets. ❖





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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  | 798,417,769                   | \$15.14                   | 120,880,450.23         |                         |
| Butterfat  | 14,963,168                    | 1.8280                    | 27,352,671.10          |                         |
| Less: Location Adjustment to Handlers                            |                               |                           | (2,715,651.60)         | \$145,517,469.70        |
| Class II— Butterfat  | 31,907,118                    | 1.7954                    | 57,286,039.68          |                         |
| Nonfat Solids  | 52,230,301                    | 1.3989                    | 73,064,968.09          | 130,351,007.77          |
| Class III— Butterfat   | 23,100,808                    | 1.7884                    | 41,313,485.04          |                         |
| Protein  | 16,180,045                    | 3.3597                    | 54,360,097.20          |                         |
| Other Solids   | 30,668,143                    | 0.3887                    | 11,920,707.20          | 107,594,289.44          |
| Class IV— Butterfat  | 14,218,385                    | 1.7884                    | 25,428,159.73          |                         |
| Nonfat Solids  | 28,969,370                    | 1.4549                    | 42,147,536.39          | 67,575,696.12           |
| <b>Total Classified Value</b>                                    |                               |                           |                        | <b>\$451,038,463.03</b> |
| Add: Overage—All Classes   |                               |                           |                        | 217,335.51              |
| Inventory Reclassification—All Classes                           |                               |                           |                        | 50,585.63               |
| Other Source Receipts  | 569,160 Pounds                |                           |                        | 10,464.42               |
| <b>Total Pool Value</b>  |                               |                           |                        | <b>\$451,316,848.59</b> |
| Less: Producer Component Valuations @ Class III Component Prices |                               |                           |                        | (434,423,114.79)        |
| <b>Total PPD Value Before Adjustments</b>                        |                               |                           |                        | <b>\$16,893,733.80</b>  |
| Add: Location Adjustment to Producers                            |                               |                           |                        | 11,891,071.30           |
| One-half Unobligated Balance—Producer Settlement Fund            |                               |                           |                        | 1,061,020.76            |
| Less: Producer Settlement Fund—Reserve                           |                               |                           |                        | (1,069,804.77)          |
| <b>Total Pool Milk &amp; PPD Value</b>                           | 2,283,811,196 Producer pounds |                           |                        | <b>\$28,776,021.09</b>  |
| Producer Price Differential                                      |                               | <b>\$1.26</b>             |                        |                         |
| Statistical Uniform Price  |                               | <b>\$19.78</b>            |                        |                         |

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