

The Market Administrator's

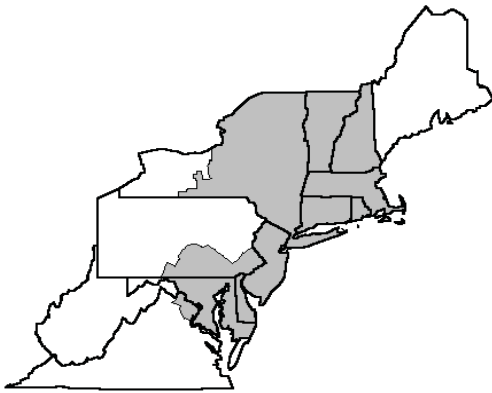
BULLETIN

NORTHEAST MARKETING AREA

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September 2013

Federal Order No. 1



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September Pool Price Calculation

The September 2013 statistical uniform price (SUP) for the Northeast Marketing Area was announced at \$20.58 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 \$21.22 per hundredweight. The September statistical uniform price was 30 cents per hundredweight above the August price. The September producer price differential (PPD) at Suffolk County was \$2.44 per hundredweight, an increase of 7 cents per hundredweight from last month.

Product Prices Effect

During September, all prices for products used in calculating component prices rose. As a result, all component and class prices increased. Of the component prices, protein had the largest per pound increase (6 cents) but combined with the increase in butterfat, translated to a 23-cent per hundredweight increase in the Class III price, the smallest of the class price increases. The Class III price remained the lowest of the class prices. Class I grew 28 cents per hundredweight from August while the Class IV price rose 36 cents. The largest increase was in the Class II price; it jumped 51 cents per hundredweight from August.

The higher class prices contributed to the increase in the statistical uniform price and with the relationship between classes remaining similar to last month, the PPD value rose slightly. This is the fourth month in a row that the uniform price was over \$20.00 per hundredweight.

Volume and Test Records Set

Similar to last month, September total pooled milk receipts and daily deliveries per producer set a record as the highest ever for the month. Class I volume was the lowest ever for the month of September. The volume of milk used in Class II was less than the same month of the previous year, but it was still the second highest volume ever for the month of September.

The producer butterfat test set a record high for the month of September, averaging .04 points higher than the previous record; the protein test tied with 2009's record for September. ❖

Pool Summary

- A total of 12,366 producers were pooled under the Order with an average daily delivery per producer of 5,385 pounds.
- Pooled milk receipts totaled 1.998 billion pounds, a decrease of 3.1 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 38.9 percent of total milk receipts, an increase of 2.0 percentage points from August.
- The average butterfat test of producer receipts was 3.73 percent.
- The average true protein test of producer receipts was 3.07 percent.
- The average other solids test of producer receipts was 5.71 percent. ❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	38.9	776,354,050
Class II	28.2	563,383,108
Class III	26.8	535,131,206
Class IV	6.1	122,845,345
Total Pooled Milk		1,997,713,709

Producer Component Prices

	2013	2012
		\$/lb
Protein Price	3.5419	3.2521
Butterfat Price	1.5196	2.0047
Other Solids Price	0.3914	0.3971

Class Price Factors

	2013	2012
		\$/cwt
Class I	22.41	20.84
Class II	19.78	17.04
Class III	18.14	19.00
Class IV	19.43	17.41

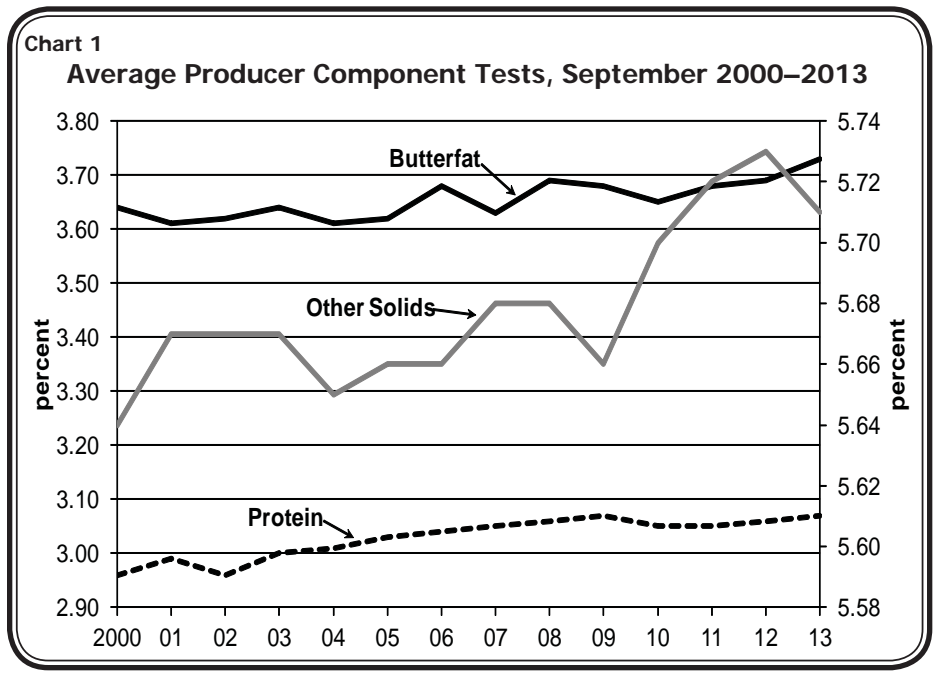
Higher Component Tests Enhance Value of Strong Component Prices

During September, the average producer butterfat test (3.73 percent) exceeded the previous record high by .04 percentage points. The average producer true protein test (3.07 percent) tied a record high for September. The average producer other solids test (5.71 percent) did not reach record levels, but was fourth highest since the Northeast Order was established in 2000. These results are typical of a continued trend that has seen average component tests increasing over time, often setting new record highs along the way. Charting these tests for the month of September, from 2000 through 2013, shows that these records are not the result of a random spike, but a steady increase over time (see Chart 1).

By contrast, component prices look much more variable, though each price series also trends upward since 2000 (see Chart 2). The protein price in September was the second highest for the month since 2000, and the other solids price was the third highest for the month. The butterfat prices rank about in the middle.

How are Higher Tests Benefiting Bottom Line?

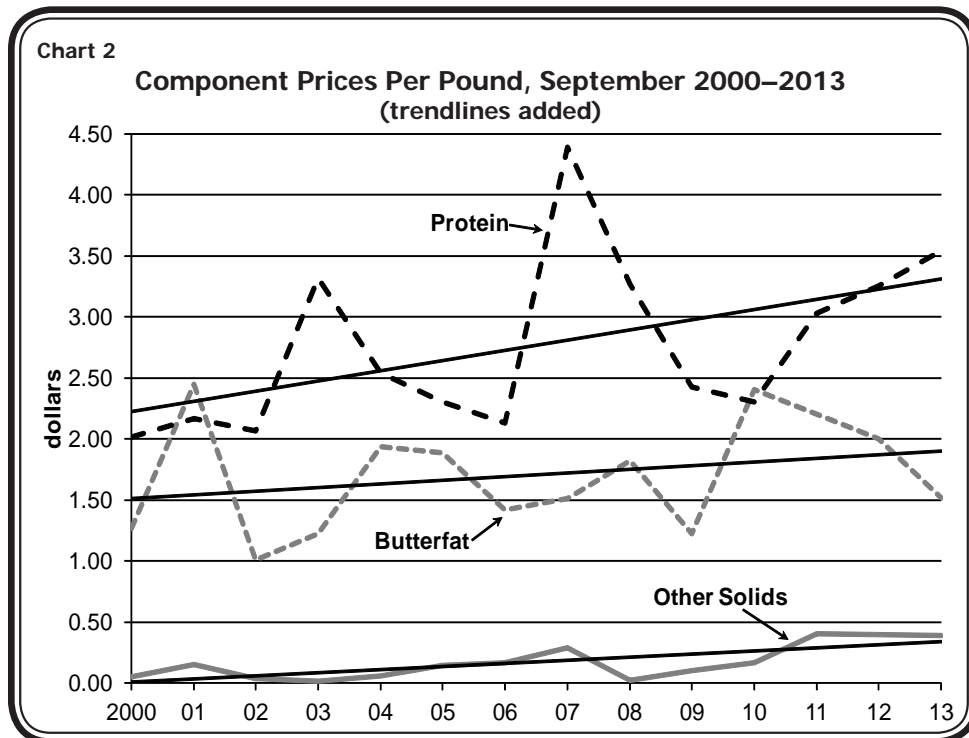
Strong component prices enhance producer revenue, referred to here as gross value, and so it follows that producing higher components must magnify the price effect. Gross value refers to the total dollars a farm



generates from the component pounds multiplied by the corresponding component price plus the producer price differential (PPD) multiplied by the total pounds. We want to measure how much of the increase in gross value is attributable to just the increased component tests. This can be done using a method called standardization, which allows us to see how much of the increase in total gross value from an earlier date, September 2000, to the current period, September 2013, is attributable to higher test levels. Simply stated, standardization is holding some factors (prices) constant while letting another

factor(s) (components) change, letting you see the impact one factor is having on a changing variable (gross value). The accompanying table shows components, component prices, and PPD for September 2013 and 2000 and calculates gross value for a hypothetical 100,000 pound a month producer. The same table then calculates a gross value with all prices and PPD held constant at the 2013 level, while the component test averages used are from September 2000. The difference between the resulting values show the extra value producers receive as a result of producing higher levels of components (measured at current price levels). For the purpose of this analysis, the PPD was held constant for simplicity, and any impact on component prices that

(continued on page 3)



Higher Component Tests Enhance *(continued from page 2)*

lower production of components may have had are ignored.

The results indicate that at current price levels, a 100,000 pounds a month producer would receive \$554 more gross value for the month (or \$0.55 per hundredweight) than if component levels had not increased from their 2000 levels. Of this, 70 percent (or \$390) is attributable to the higher protein test, \$137 from a higher butterfat test, and about \$27 more for other solids. It should be noted that these data only reflect minimum price impacts and that the market may pay premiums for higher components as well.

Contribution by Component

Also shown in the table is the contribution percent by component to the total value received by producers. For September 2013, producers received, on average, over 51 percent of their value from the protein they produced, almost double the value from butterfat and five times the value from either other solids or PPD. In September 2000, protein and butterfat contributed 45 percent and 35 percent, respectively, to the total gross value received.

The relative levels of prices for components do change over time. Business practices on the farm that can be responsive to these changing price relationships and levels can impact profitability. ❖

September 2013 Component Tests and Prices

	Test percent	Price per pound	Gross dollars	Contribution percent
Butterfat	3.73	1.5196	5,668.11	26.7%
True Protein	3.07	3.5419	10,873.63	51.3%
Other Solids	5.71	0.3914	2,234.89	10.5%
PPD		2.44	2,440.00	11.5%
Gross Payment*			21,216.64	
Gross Price per cwt			21.22	

September 2013 Prices with September 2000 Tests

	Test percent	Price per pound	Gross dollars	Contribution percent
Butterfat	3.64	1.5196	5,531.34	26.8%
True Protein	2.96	3.5419	10,484.02	50.7%
Other Solids	5.64	0.3914	2,207.50	10.7%
PPD		2.44	2,440.00	11.8%
Gross Payment*			20,662.86	
Gross Price per cwt			20.66	

Differences

	Gross dollars
Benefit from Higher BF test	136.76
Benefit from Higher Protein test	389.61
Benefit from Higher Other Solids test	27.398
Difference in Gross Total Gross Value*	\$553.77
Difference per cwt	\$0.55

* Totals may not add due to rounding.

Pool Summary for All Federal Orders, January–September, 2012–2013

Federal Order Number	Federal Order Name	Total Producer Milk			Producer Price Differential#		Statistical Uniform Price#*	
		2012	2013	Change [^]	2012	2013	2012	2013
		pounds			dollars per hundredweight			
1	Northeast	18,514,220,269	19,237,138,240	4.3	1.3	2.1	17.86	19.89
5	Appalachian	4,437,344,529	4,346,497,769	(1.7)	N/A	N/A	18.82	20.92
6	Florida	2,151,617,668	2,112,926,573	(1.4)	N/A	N/A	21.04	23.10
7	Southeast	5,181,374,897	4,700,821,221	(8.9)	N/A	N/A	19.19	21.30
30	Upper Midwest	23,609,437,191	25,877,733,689	10.0	0.1	0.3	16.67	18.05
32	Central	10,659,283,909	11,397,576,782	7.3	0.1	0.8	16.64	18.54
33	Mideast	12,837,753,038	12,800,288,312	0.1	0.3	1.1	16.85	18.88
124	Pacific Northwest	5,191,346,970	6,245,455,255	20.7	(0.1)	0.8	16.45	18.53
126	Southwest	7,735,928,218	9,827,855,115	27.5	1.1	1.6	17.65	19.36
131	Arizona	3,479,284,383	3,488,424,233	0.6	N/A	N/A	16.76	19.00
All Market Total/Average		93,797,591,072	100,034,717,189	7.0	0.5	1.1	17.79	19.76

Price at designated order location.

* Price at 3.5% butterfat.

N/A = Not applicable.

[^] Adjusted for leap year.



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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	761,522,297	\$17.51	133,342,554.20	
Butterfat	14,831,753	1.5745	23,352,595.10	
Less: Location Adjustment to Handlers			(2,598,973.49)	\$154,096,175.78
Class II— Butterfat	29,079,758	1.5266	44,393,158.61	
Nonfat Solids	48,842,681	1.6622	81,186,304.36	125,579,462.97
Class III— Butterfat	22,617,225	1.5196	34,369,135.09	
Protein	16,448,554	3.5419	58,259,133.43	
Other Solids	30,473,061	0.3914	11,927,156.06	104,555,424.58
Class IV— Butterfat	7,950,225	1.5196	12,081,161.90	
Nonfat Solids	10,475,524	1.6243	17,015,393.62	29,096,555.52
Total Classified Value				\$413,327,618.85
Add: Overage—All Classes				40,884.84
Inventory Reclassification—All Classes				(13,350.56)
Other Source Receipts	999,696 Pounds			38,390.61
Total Pool Value				\$413,393,543.74
Less: Producer Component Valuations @ Class III Component Prices				(375,231,003.70)
Total PPD Value Before Adjustments				\$38,162,540.04
Add: Location Adjustment to Producers				10,523,828.86
One-half Unobligated Balance—Producer Settlement Fund				935,454.41
Less: Producer Settlement Fund—Reserve				(853,216.17)
Total Pool Milk & PPD Value	1,998,713,405 Producer pounds			\$48,768,607.14
Producer Price Differential		\$2.44		
Statistical Uniform Price		\$20.58		

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