

The Market Administrator's

BULLETIN

NORTHEAST MARKETING AREA

Erik F. Rasmussen, Market Administrator

November 2013

Federal Order No. 1

To contact the Northeast Marketing Area offices:

Boston, MA: phone (617) 737-7199, e-mail address: MABoston@fedmilk1.com; Albany, NY: phone (518) 452-4410, e-mail address: MAAlbany@fedmilk1.com; Alexandria, VA: phone (703) 549-7000, e-mail address: MAAlexandria@fedmilk1.com; website address: www.fmmone.com

November Pool Price Calculation

The November 2013 statistical uniform price (SUP) for the Northeast Marketing Area was announced at \$21.28 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 \$22.66 per hundredweight. The November statistical uniform price was 40 cents per hundredweight above the October price. The November producer price differential (PPD) at Suffolk County was \$2.45 per hundredweight, a decrease of 21 cents per hundredweight from last month.

Product Prices Effect

During November, all prices for products used in calculating component prices rose except butter, which declined slightly. As a result increases occurred in all component prices except butterfat. All class prices increased from the previous month: Classes I rose \$1.00 per hundredweight; Classes II and IV had modest increases of 20 cents and 35 cents, respectively, and Class III increased 61 cents, but remained the lowest price of the classes. The higher prices, combined with an overall increase in utilization in the higher priced classes (I, II, and IV), resulted in an increase in the SUP. For the first time since last November, the uniform price averaged greater than \$21.00 per hundredweight. In addition, it was the third highest uniform price ever reported for the month of November.

Records Set

Total pooled milk receipts were the second highest ever for the month of November and only 363,122 pounds less than the record set last November. 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 November. The volume of milk used in Class II was less than the same month of the previous year, but it was the second highest volume ever for the month of November. The Class IV volume also was the second highest ever for the month.

Both the producer butterfat and protein tests were not only the highest ever for the month of November, but the highest ever reported for the Order since its inception. ❖

Pool Summary

- A total of 12,324 producers were pooled under the Order with an average daily delivery per producer of 5,400 pounds.
- Pooled milk receipts totaled 1.996 billion pounds, an increase of 0.5 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 41.0 percent of total milk receipts, an increase of 0.8 percentage points from October.
- The average butterfat test of producer receipts was 3.90 percent.
- The average true protein test of producer receipts was 3.19 percent.
- The average other solids test of producer receipts was 5.70 percent. ❖

Class Utilization

| Pooled Milk | Percent | Pounds |
|-------------------|---------|---------------|
| Class I | 41.0 | 818,706,552 |
| Class II | 24.2 | 482,197,032 |
| Class III | 24.4 | 487,465,960 |
| Class IV | 10.4 | 208,013,144 |
| Total Pooled Milk | | 1,996,382,688 |

Producer Component Prices

| | 2013 | 2012 |
|--------------------|--------|--------|
| | \$/lb | |
| Protein Price | 3.6316 | 3.7172 |
| Butterfat Price | 1.6336 | 2.0218 |
| Other Solids Price | 0.3955 | 0.4624 |

Class Price Factors

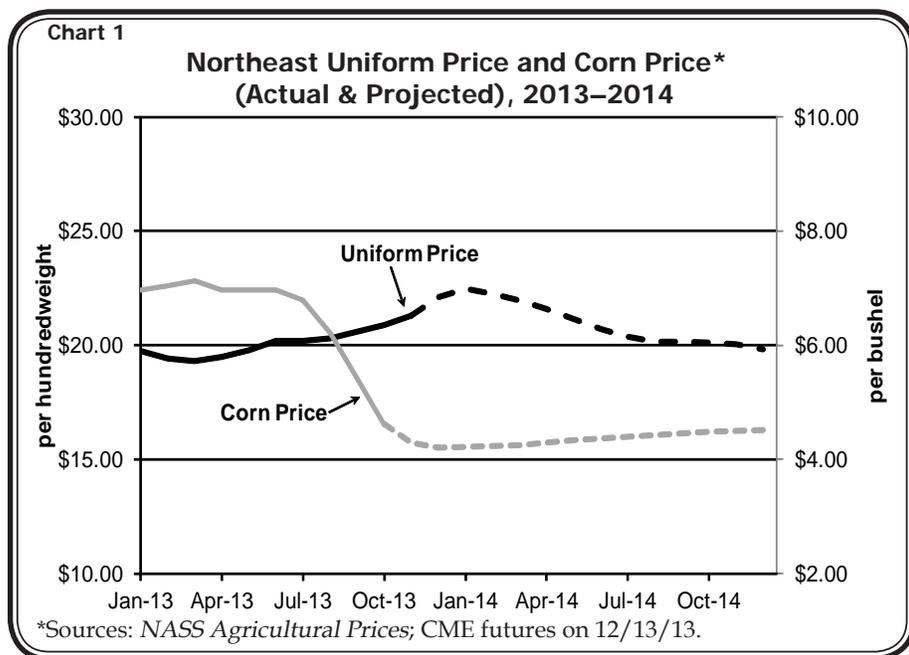
| | 2013 | 2012 |
|-----------|--------|-------|
| | \$/cwt | |
| Class I | 23.45 | 23.95 |
| Class II | 20.76 | 18.81 |
| Class III | 18.83 | 20.83 |
| Class IV | 20.52 | 18.66 |

Dairy Outlook

With just a couple weeks remaining in 2013, we'll take a look at demand and supply factors to give some context before forecasting 2014 price levels.

Supply Factors

The USDA forecasts an all-time high level of U.S. milk production in 2014 (205.3 billion pounds). The combination of stronger milk prices and lower feed costs are expected to drive a more rapid increase in cow numbers and milk per cow. The 2013 projected total of 201.6 billion pounds will set the current record high. Feed prices have declined, evidenced by a corn price that has dropped from a 2012 high of \$7.04 per bushel in February to a projected \$4.29 in November. Based on CME futures prices, the 2014 average corn price will be almost 30 percent lower than in 2013. The corn price is shown in Chart 1.



In the Northeast, the corn crop yield was above trend levels in New York and Pennsylvania (based on a state-by-state corn yield study by the University of Illinois). Northern New England experienced yield losses due to a number of factors including late plantings. Corn in New York was rated good and excellent condition, while Pennsylvania corn was rated even better. Corn and hay in New England were rated in fair to good condition.

Demand Factors

Exports are continuing to be an increasingly important factor in U.S. milk prices. According to the United States Dairy Export Council, the U.S. exported 15.6 percent of total milk solids produced from January through October 2013. On a total solids basis, exports were equivalent to 16.3 percent of U.S. milk production

in October. The ability of the export market to soak up record-high milk production has allowed milk prices to avoid a more typical decline associated with such high volume periods, at least thus far. Exports of various products are shown in the table.

Though exports have consumed record levels of milk production, the domestic market is still home for about 85 percent of production, and must remain solid as well to support milk prices. The

| | Jan–Oct 2013 | Year Ago |
|-------------------|--------------|----------|
| | percent | |
| NDM/SMP | 58.0 | 47.0 |
| Total Cheese | 6.1 | 5.4 |
| Butterfat | 10.1 | 5.7 |
| Dry sweet whey | 56.0 | 49.0 |
| Lactose | 74.0 | 66.0 |
| Total milk solids | 15.6 | 13.5 |

Source: U.S. Dairy Export Council.

Restaurant Performance Index (that tracks the health and outlook of the U.S. restaurant industry) hit a four-month high in October driven by stronger same-store sales and traffic and a more optimistic outlook among operators. The October index was 100.9, the eighth consecutive month above 100, the threshold that signifies expansion in the industry. Restaurant sales are an important outlet for dairy products and so the index is used as an indicator of domestic dairy sales. Less optimistically, consumer confidence, as measured by the Conference Board Consumer Confidence Index, decreased in November to 70.4 after having dropped sharply the previous month. The consumer confidence index is used as an indicator of consumer demand; values under 100 generally signify soft demand. According to the Conference Board, consumers felt somewhat better about job prospects, but were worried about economic conditions. Still, the economy has been slowly improving. Unemployment levels are declining and Gross Domestic Product (GDP) grew by 2.8 percent during the third quarter of 2013. GDP is an indicator of economic activity. Most indicators support a forecast that the domestic market should be strong enough to consume additional milk production at a pace to support prices near current levels.

Prices Forecasts

The USDA forecasts the U.S. all milk price for 2014 to range between \$19.70 and \$20.50 per cwt. Using Chicago Mercantile Exchange (CME) futures prices from December 13 for Class III and Class IV milk, (continued on page 3)

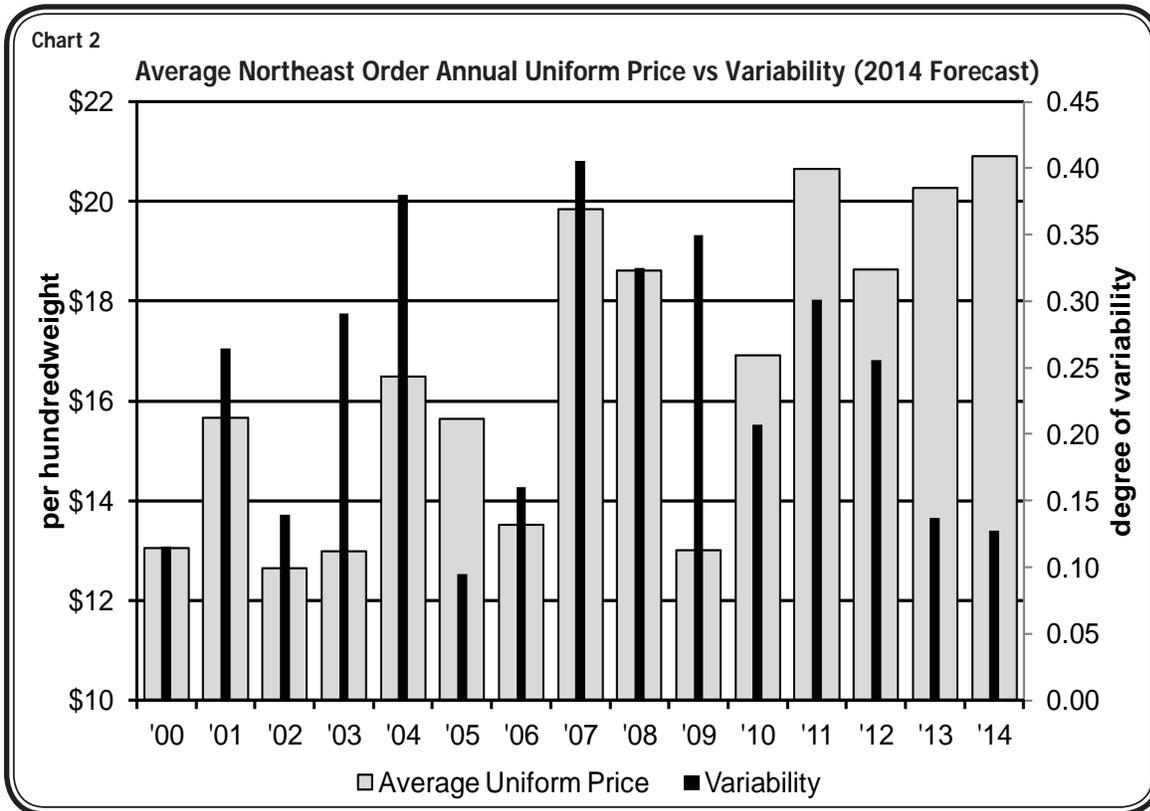
Dairy Outlook *(continued from page 2)*

the Northeast Order Uniform Price projects to finish 2013 averaging \$20.27 per hundredweight for the year (Chart 1). This would make 2013 the second highest average annual uniform price ever, surpassed only by 2011. Using the same day's CME futures prices, the 2014 Northeast Order uniform price is forecast to average \$20.90 per cwt for the year (which would set a record high).

Prices and Variability

The combination of historically very high milk prices with low price variability is notable. We divide the range for the year by the average price for the year to calculate a measure of variability. The high to low range in monthly prices for 2013 projects to \$2.77. Dividing that by the projected average price of \$20.27 results in a value of 0.14 (or 14 percent). This is the third lowest variability measure since 2000 (a year with the second highest price). Doing the same for 2014 forecasted prices results in the second lowest variability with the highest price. Price levels and associated variability are depicted on Chart 2. The thick

bar in the chart represents the uniform price level for that year while the thinner, darker bar reflects the degree of variability in the price that year. Years 2001 and 2004 do not appear to be high price years by today's standards, but both were record highs at the time and coincided with a high degree of variability. The traditional mindset has been that low variability comes with low prices (in some years due to milk prices being near support levels). The export market has been a key factor in reducing price variability that has been a more regular occurrence for much of the past 13 years. ❖



2014 Payment Dates to Producers

The accompanying schedule 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.

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 | 1/27/14 |
| February | Wednesday | 2/26/14 |
| March | Wednesday | 3/26/14 |
| April | Monday | 4/28/14 |
| May | Tuesday | 5/27/14 |
| June | Thursday | 6/26/14 |
| July | Monday | 7/28/14 |
| August | Tuesday | 8/26/14 |
| September | Friday | 9/26/14 |
| October | Monday | 10/27/14 |
| November | Wednesday | 11/26/14 |
| December | Friday | 12/26/14 |



MARKET ADMINISTRATOR
302A Washington Avenue Ext.
Albany, NY 12203-7303

PRESORTED
FIRST-CLASS MAIL
U.S. Postage
PAID
Albany, NY
Permit 1011

RETURN SERVICE REQUESTED

FIRST CLASS MAIL

The U.S. Department of Agriculture (USDA) prohibits discrimination in all its programs and activities on the basis of race, color, national origin, age, disability, and where applicable, sex, marital status, familial status, parental status, religion, sexual orientation, political beliefs, genetic information, reprisal, or because all or part of an individual's income is derived from any public assistance program. (Not all prohibited bases apply to all programs.) Persons with disabilities who require alternative means for communication of program information (Braille, large print, audiotape, etc.) should contact USDA's TARGET Center at (202) 720-2600 (voice and TDD). To file a complaint of discrimination, write to USDA, Assistant Secretary for Civil Rights, Office of the Assistant Secretary for Civil Rights, 1400 Independence Avenue, S.W., Stop 9410, Washington, DC 20250-9410 or call toll-free at (866) 632-9992 (English) or (800) 877-8339 (TDD) or (866) 377-8642 (English Federal-relay) or (800) 845-6136 (Spanish Federal-relay). USDA is an equal opportunity provider and employer.

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 | 802,309,294 | \$18.11 | 145,298,213.14 | |
| Butterfat | 16,397,258 | 1.7080 | 28,006,516.66 | |
| Less: Location Adjustment to Handlers | | | (2,743,384.42) | \$170,561,345.40 |
| Class II— Butterfat | 30,337,048 | 1.6406 | 49,770,960.95 | |
| Nonfat Solids | 41,800,534 | 1.7289 | 72,268,943.21 | 122,039,904.16 |
| Class III— Butterfat | 22,080,535 | 1.6336 | 36,070,761.98 | |
| Protein | 15,485,868 | 3.6316 | 56,238,478.27 | |
| Other Solids | 27,597,390 | 0.3955 | 10,914,767.76 | 103,224,008.01 |
| Class IV— Butterfat | 8,949,876 | 1.6336 | 14,620,517.46 | |
| Nonfat Solids | 18,408,037 | 1.7042 | 31,370,976.63 | 45,991,494.09 |
| Total Classified Value | | | | \$441,816,751.66 |
| Add: Overage—All Classes | | | | 176,326.02 |
| Inventory Reclassification—All Classes | | | | (84,771.04) |
| Other Source Receipts | 938,584 Pounds | | | 39,217.31 |
| Total Pool Value | | | | \$441,947,523.95 |
| Less: Producer Component Valuations @ Class III Component Prices | | | | (403,436,589.38) |
| Total PPD Value Before Adjustments | | | | \$38,510,934.57 |
| Add: Location Adjustment to Producers | | | | 10,349,580.92 |
| One-half Unobligated Balance—Producer Settlement Fund | | | | 990,390.12 |
| Less: Producer Settlement Fund—Reserve | | | | (916,534.38) |
| Total Pool Milk & PPD Value | 1,997,321,272 Producer pounds | | | \$48,934,371.23 |
| Producer Price Differential | | \$2.45 | | |
| Statistical Uniform Price | | \$21.28 | | |

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