

The Market Administrator's

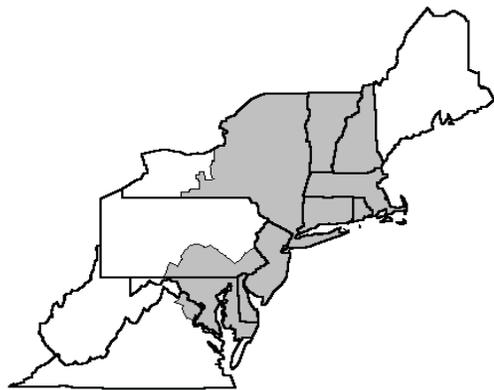
BULLETIN

NORTHEAST MARKETING AREA

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September 2014

Federal Order No. 1



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September Pool Price Calculation

The September 2014 statistical uniform price (SUP) for the Northeast Marketing Area was announced at \$26.16 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 \$27.20 per hundredweight. The September statistical uniform price was 75 cents per hundredweight above the August price. The September producer price differential (PPD) at Suffolk County was \$1.56 per hundredweight, a decrease of \$1.60 per hundredweight from last month.

Product Prices Effect

Similar to August, September product prices for butter and cheese increased while nonfat dry milk dropped and dry whey declined slightly. The butter price jumped over 33 cents per pound and the cheese price rose nearly 24 cents per pound. This resulted in a record-setting September butterfat price, and an almost 35-cent higher protein price. The nonfat dry milk decline of about 32 cents equated to a drop of nearly 50 cents in the nonfat solids price. The Class I price was 24 cents less than the previous month; the Class II price rose 77 cents higher; Class III jumped \$2.35 higher; and Class IV was down \$1.31 per hundredweight. With over 62 percent of total producer milk utilized in the higher-priced classes, the SUP rose to a record-setting level. Since the spread between the higher two class prices and the Class III price tightened, the PPD declined.

Records Set

For the first time under the Order, the total volume of producer milk receipts for the month of September was over 2 billion pounds. Class I volume was the lowest ever for the month of September, while Class IV was the highest ever for the month.

The SUP was the highest ever for the Order and the first time it was over \$26.00 per hundredweight. All class prices were the highest for the month of September; the Class II and III prices set record-highs for the Order. Both the producer butterfat and other solids tests tied with record-highs set for the month of September. ❖

Pool Summary

- A total of 12,116 producers were pooled under the Order with an average daily delivery per producer of 5,700 pounds.
- Pooled milk receipts totaled 2.072 billion pounds, a decrease of 2.1 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 36.7 percent of total milk receipts, an increase of 3.2 percentage points from August.
- The average butterfat test of producer receipts was 3.73 percent.
- The average true protein test of producer receipts was 3.06 percent.
- The average other solids test of producer receipts was 5.73 percent. ❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	36.7	760,224,266
Class II	26.0	537,813,265
Class III	24.9	515,707,211
Class IV	12.4	258,066,004
Total Pooled Milk		2,071,810,746

Producer Component Prices

	2014	2013
	\$/lb	
Protein Price	3.4991	3.5419
Butterfat Price	3.2467	1.5196
Other Solids Price	0.4876	0.3914

Class Price Factors

	2014	2013
	\$/cwt	
Class I	26.88	22.41
Class II	26.11	19.78
Class III	24.60	18.14
Class IV	22.58	19.43

Class III Price Above Class IV, Declines Expected

September 2014 marks just the second time since January 2013 that the Class III price exceeded the Class IV price. The other instance occurred in April 2014, five months ago. Class III and Class IV prices since January 2013 and projected, using futures prices from the Chicago Mercantile Exchange (CME), through 2015 are shown in Chart 1.

The Class III price surpassed the Class IV price level primarily due to strengthening cheese prices that returned to the near \$2.35 per pound level they were at in April of this year and, in turn, helped push the Class III price to \$24.60 per hundredweight (cwt). April 2014 was the only other time the Class III price topped \$24.00. At the same time, the Class IV price dropped to its lowest level since April 2014. The Class IV price decline followed downward trending nonfat dry milk prices, but was muted by a simultaneous dramatic increase in butter prices. Nonfat dry milk and butter are the two commodities that establish the Class IV price level in federal order class price formulas. Product prices since January 2013 are presented in Chart 2.

Looking Towards 2015

Looking ahead, we use CME commodity futures prices as settled on October 15, 2014. CME prices track

fairly close to Agricultural Marketing Service National Dairy Product Sales Report (NDPSR) prices, so the use of CME futures prices can be a reasonable estimate of where those prices are expected to head into 2015 in light of current market factors. Doing this would indicate that the Class III price is expected to be higher than the Class IV price in 13 of the next 15 months. However, the projected difference between the two classes is very small, averaging just 10 cents from March to December, 2015. Long range forecasts can include a great deal of uncertainty, and the narrow gap between these prices

may be, to a degree, a reflection of this. Class III and Class IV prices are projected to average roughly \$22.50 per cwt and \$22.25 per cwt, respectively, for 2014. In 2015, Class III and Class IV prices both project to average roughly \$17.00 per cwt, using current market information.

Market Factors Pressuring Prices Downward

A number of factors are expected to push commodity and milk prices lower. U.S. prices of butter, cheese, and nonfat dry milk have remained above world prices for those commodities. World prices declined in large part due to improved milk production in other major milk exporting countries. (continued on page 3)

Chart 1
Class III & Class IV Prices, January 2013–Projected 2015

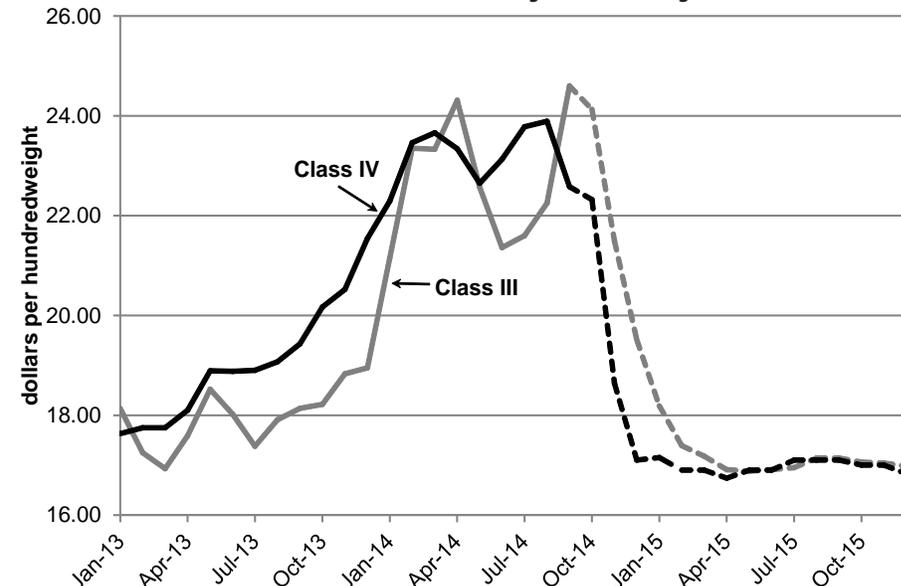
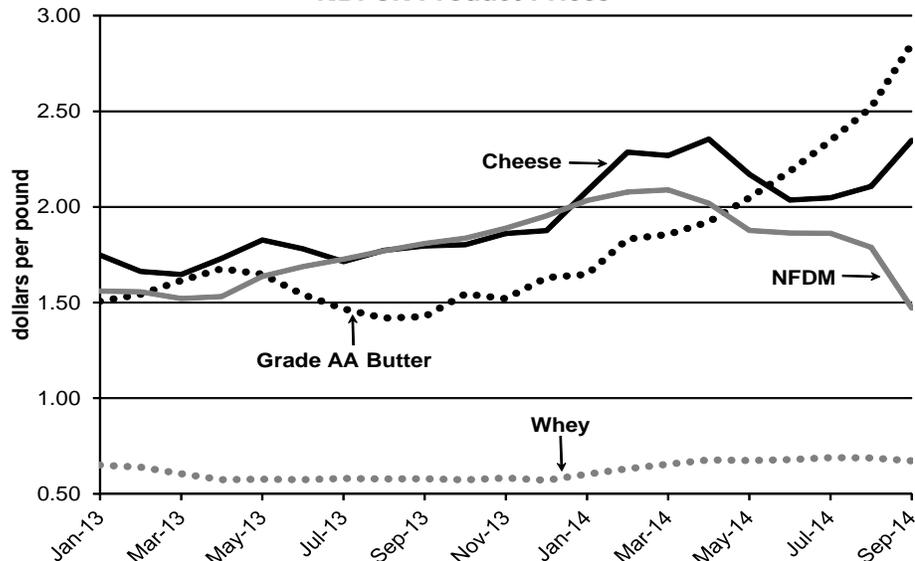


Chart 2
NDPSR Product Prices



Source: USDA-AMS, National Dairy Product Sales Report.

Class Utilization Changes from Last Year and Five Years Ago

For the first 9 months of 2014, utilization of milk products and cream by pool plants was slightly higher than the same period in 2013. Compared to the same period in 2009, utilization grew 8.2 percent. These comparisons include sales to nonpool manufacturing plants, inventory, shrinkage, milk used to fortify Class I, overages, and interhandler differences.

Class I usage decreased 3.7 percent during the first 9 months compared to last year; this was a drop of 10.5 percent from 5 years ago. Whole milk was slightly above last year, but down nearly 11 percent from 2009. Declines occurred in all categories except organic milk that rose 11.4 percent from last year. Compared to 2009, organic is up 30 percent.

The percentage of producer milk receipts (used in calculating uniform price) assigned to Class I has continuously declined on a year-to-year basis for nearly every month since 2011. Class I volume for September was above August due to seasonality as schools are back in session, but it was still the smallest volume ever for the month of September.

Class II utilization dropped 5.8 percent from 2013, but was up 29.4 percent over 2009. Compared to 2013, milk used in yogurt has declined 20.1 percent, but this volume is up nearly 377 percent from 2009. Class II usage rose significantly beginning in 2010 with the growth of Greek-style yogurt. Even though this type of yogurt continues to be popular and operations have sprung up around the country, its need for milk in the Northeast Order seems to

have peaked about a year ago and, has since, tapered off.

Class III usage rose 5.1 percent from 2013 and 19.8 percent from 2009 with increases in American, Italian-type, and cream cheeses in both periods. The category that includes Swiss and other-type cheeses (Hispanic, Feta, and other non-Italian ethnic cheeses) declined 3.6 percent from 2013, but was up 29.8 percent from 2009.

Class IV utilization increased 15.1 percent from 2013 and 16.7 percent from 2009. Butter decreased 4.8 percent from 2013, but was up 25.9 percent from 2009. Dried products rose 24.5 and 31.7 percent from 2013 and 2009, respectively. Typically, Class IV is seen as a balancing, or surplus class, but in the future, the manufacture of items such as value-added powders may create a higher and consistent need for milk.

The percentage of producer pooled volume assigned to Class IV has been at record-setting levels for the past 4 months. The September volume was 57.5 percent higher than the next highest level set in 2008. ❖

Class III *(continued from page 2)*

Analysts predict the difference in world and U.S. prices is unsustainable and expect U.S. prices to adjust downward. Exports, though still strong, have been less robust with butter and dry whey exports below year ago levels. In addition, strong margins for U.S. producers are expected to encourage higher milk production and, consequently, larger volumes of milk products. ❖

Pool Summary for All Federal Orders, January–September, 2013–2014

Federal Order Number	Federal Order Name	Total Producer Milk			Producer Price Differential#		Statistical Uniform Price#*	
		2013	2014	Change^	2013	2014	2013	2014
		pounds			percent		dollars per hundredweight	
1	Northeast	19,237,138,240	19,392,019,423	0.8	2.12	2.13	19.89	24.86
5	Appalachian	4,346,497,769	4,195,382,536	(3.5)	N/A	N/A	20.92	25.98
6	Florida	2,112,926,573	2,069,639,783	(2.0)	N/A	N/A	23.10	28.10
7	Southeast	4,700,821,221	4,014,896,231	(14.6)	N/A	N/A	21.30	26.47
30	Upper Midwest	25,877,733,689	25,219,942,061	(2.5)	0.29	0.28	18.05	23.00
32	Central	11,397,576,782	11,487,888,775	0.8	0.78	0.67	18.54	23.40
33	Mideast	12,800,288,312	12,762,284,403	(0.3)	1.12	1.02	18.88	23.74
124	Pacific Northwest	6,245,455,255	6,229,097,392	(0.3)	0.76	0.61	18.53	23.33
126	Southwest	9,827,855,115	9,476,559,201	(3.6)	1.60	1.43	19.36	24.16
131	Arizona	3,488,424,233	3,652,357,474	4.7	N/A	N/A	19.00	23.88
All Market Total/Average		100,034,717,189	98,500,067,279	(1.5)	1.11	1.02	19.76	24.69

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	745,370,691	\$17.81	132,750,520.07	
Butterfat	14,853,575	2.7698	41,141,432.04	
Less: Location Adjustment to Handlers			(2,579,884.72)	\$171,312,067.40
Class II— Butterfat	29,640,653	3.2537	96,441,792.67	
Nonfat Solids	46,414,784	1.6956	78,700,907.77	175,142,700.44
Class III— Butterfat	22,289,514	3.2467	72,367,365.10	
Protein	15,764,816	3.4991	55,162,667.67	
Other Solids	29,416,267	0.4876	14,343,371.81	141,873,404.58
Class IV— Butterfat	10,551,298	3.2467	34,256,899.21	
Nonfat Solids	22,602,476	1.2910	29,179,796.54	63,436,695.75
Total Classified Value				\$551,764,868.17
Add: Overage—All Classes				71,841.14
Inventory Reclassification—All Classes				622,611.16
Other Source Receipts	787,950 Pounds			29,172.59
Total Pool Value				\$552,488,493.06
Less: Producer Component Valuations @ Class III Component Prices				(531,108,732.91)
Total PPD Value Before Adjustments				\$21,379,760.15
Add: Location Adjustment to Producers				11,086,807.72
One-half Unobligated Balance—Producer Settlement Fund				809,327.69
Less: Producer Settlement Fund—Reserve				(943,355.94)
Total Pool Milk & PPD Value	2,072,598,696 Producer pounds			\$32,332,539.62
Producer Price Differential		\$1.56		
Statistical Uniform Price		\$26.16		

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