

The Market Administrator's

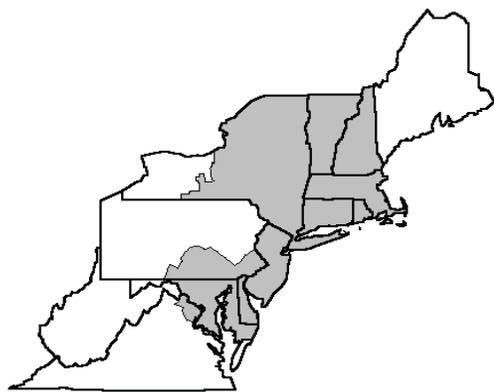
BULLETIN

NORTHEAST MARKETING AREA

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November 2014

Federal Order No. 1



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November Pool Price Calculation

The November 2014 statistical uniform price (SUP) for the Northeast Marketing Area was announced at \$22.26 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 \$23.79 per hundredweight. The November statistical uniform price was \$2.09 per hundredweight below the October price. The November producer price differential (PPD) at Suffolk County was \$0.32 per hundredweight, a decrease of \$0.21 per hundredweight from last month.

Product Prices Effect

All commodity product prices declined in November. Butter prices continued their downward spiral, falling nearly 54 cents per pound compared to October. Cheese prices dropped 16 cents, nonfat dry milk fell 10 cents, and dry whey declined about 2 cents, all on a per pound basis. These decreases resulted in lower prices for all components except protein, which rose nearly 16 cents per pound due to the lower butterfat price. The Class I price declined 13 cents per hundredweight, as it was calculated before the considerable declines that occurred in November. The Class II price fell \$2.02, Class III was down \$1.88, and Class IV dropped \$3.14, all on a per hundredweight basis. With continued lower volume in Class I, the SUP fell to its lowest level so far this year. The PPD decreased due to lower overall value in the pool generated from Classes I, II, and IV when compared to Class III that, for the second month in a row, was the second highest class price. Producers in the \$2.90 differential zone and further out (compared to the base zone, Boston, MA) will see negative PPD values in their checks.

Records Set

The total volume of producer receipts topped 2 billion pounds, the first time over for the month of November. The Class I volume was the lowest ever for November, while the Class IV volume was the highest ever for the month. The Class I and III prices were the highest ever for the month of November, and even though the SUP declined, it was the second highest ever for the month. ❖

Pool Summary

- A total of 12,090 producers were pooled under the Order with an average daily delivery per producer of 5,723 pounds.
- Pooled milk receipts totaled 2.076 billion pounds, an increase of 0.1 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 36.3 percent of total milk receipts, a decrease of 1.6 percentage points from October.
- The average butterfat test of producer receipts was 3.89 percent.
- The average true protein test of producer receipts was 3.16 percent.
- The average other solids test of producer receipts was 5.72 percent. ❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	36.3	753,625,507
Class II	22.0	457,294,817
Class III	24.8	514,276,804
Class IV	16.9	350,662,066
Total Pooled Milk		2,075,859,194

Producer Component Prices

	2014	2013
	\$/lb	
Protein Price	3.9018	3.6316
Butterfat Price	2.2011	1.6336
Other Solids Price	0.4505	0.3955

Class Price Factors

	2014	2013
	\$/cwt	
Class I	27.31	23.45
Class II	19.91	20.76
Class III	21.94	18.83
Class IV	18.21	20.52

Dairy Outlook Looking Toward 2015

Based on current projections, the uniform price at Boston, MA, will average over \$24.00 per hundredweight (cwt) for 2014. This is a roughly 20 percent increase over 2013 and about \$3.50 per cwt higher than the previous record high set in 2011. At the same time, the annual average corn price dropped by almost a third from its 2013 level. Record high milk prices, coupled with moderated feed prices, resulted in strong positive margins. We'll take a look at supply and demand factors as we head toward the new year, look at how milk prices and selected input prices have moved with respect to each other, and present a forecast for the milk price in 2015.

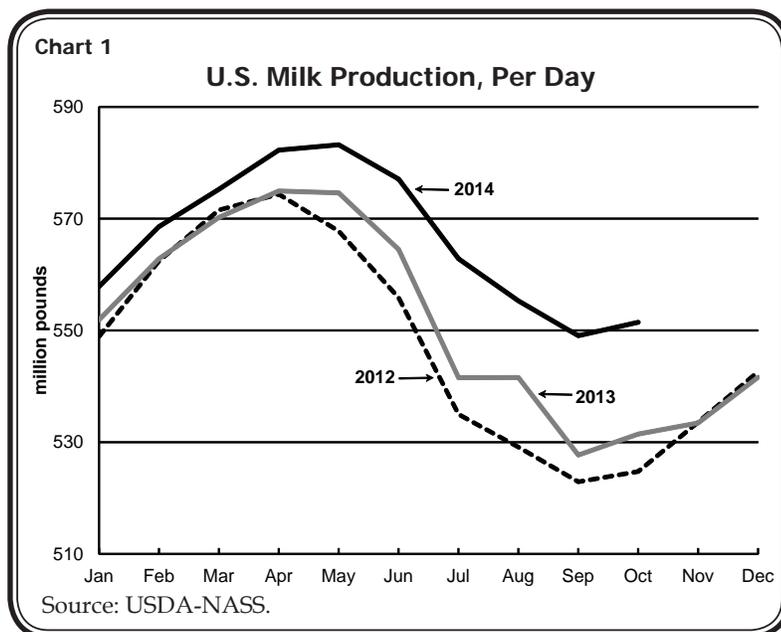
Supply Factors

Last year at this time, USDA forecast an all-time high U.S. milk production level. Indeed, the Northeast Order pool volume has set a record high level through 11 months and will likely set a new record high for the year. Strong margins led producers to send fewer cows to slaughter in 2014 than in 2013 and resulted in larger cow numbers. Milk production per cow also strengthened due in large part to a strong growing season, in yield and quality, and decreased feed prices. These forces are resulting in markedly increased overall production as can be seen in Chart 1.

Demand Factors

Exports have been an increasing factor of the demand equation and have played a large role in record-setting milk prices. The U.S. exported 15.7 percent of its milk production, on a total milk solids basis, for the period January through October 2014. This compares with 15.6 percent for the same period a year earlier. As the year progressed, a combination of factors came to negatively bear on the export situation. U.S. dairy product prices were at a premium relative to other foreign suppliers, eroding U.S. competitiveness. Additionally, China's early year overstocked position, coupled with Russia's import embargo, resulted in new demand being outpaced by production increases in the major milk producing regions. Though export volume for the first 10 months of 2014 match the previous year, the October level, at 14.4 percent of total solids, is below October 2013's 16.1 percent, and is indicative of this more recent trend and the current situation.

Relying on export markets means currency exchange rates can impact relative value of U.S. dairy products. Though economic growth in China, Europe, Japan and other areas has been slow to recessionary, U.S. economic growth has been steady (as will be discussed later). The result of this is a stronger U.S. dollar that



makes U.S. products more expensive on the global market. U.S. products must either be priced lower to maintain competitiveness or lose market share and have to find a home domestically; both have happened to some degree.

Still, the U.S. Dairy Export Council projects that steady demand growth over time will drive current market recovery and long-term growth, and point to infrastructure investments being made to maintain U.S. advances in export markets.

Domestic Situation

With exports facing some challenges, the domestic market, still the destination of about 85 percent of the milk produced, will be counted on to support prices. We'll touch on a few demand indicators to get a feel for what to expect from the domestic market. The unemployment rate has declined steadily since its high near 10 percent in 2009 to reach below 6 percent by September 2014. In October, the Restaurant Performance Index (that tracks the health and outlook of the U.S. restaurant industry) was above 100 for the 20th consecutive month driven by stronger same-store sales and traffic and a more optimistic outlook among operators. Values above 100 signify 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. The Consumer Confidence Index remains below 100, indicating soft demand, but at 88.7 in November, is near levels last reached in 2007. November's index dropped from 94.1 in October, so some additional concern is being expressed by consumers. Most indicators suggest the domestic market will continue to grow steadily in 2015.

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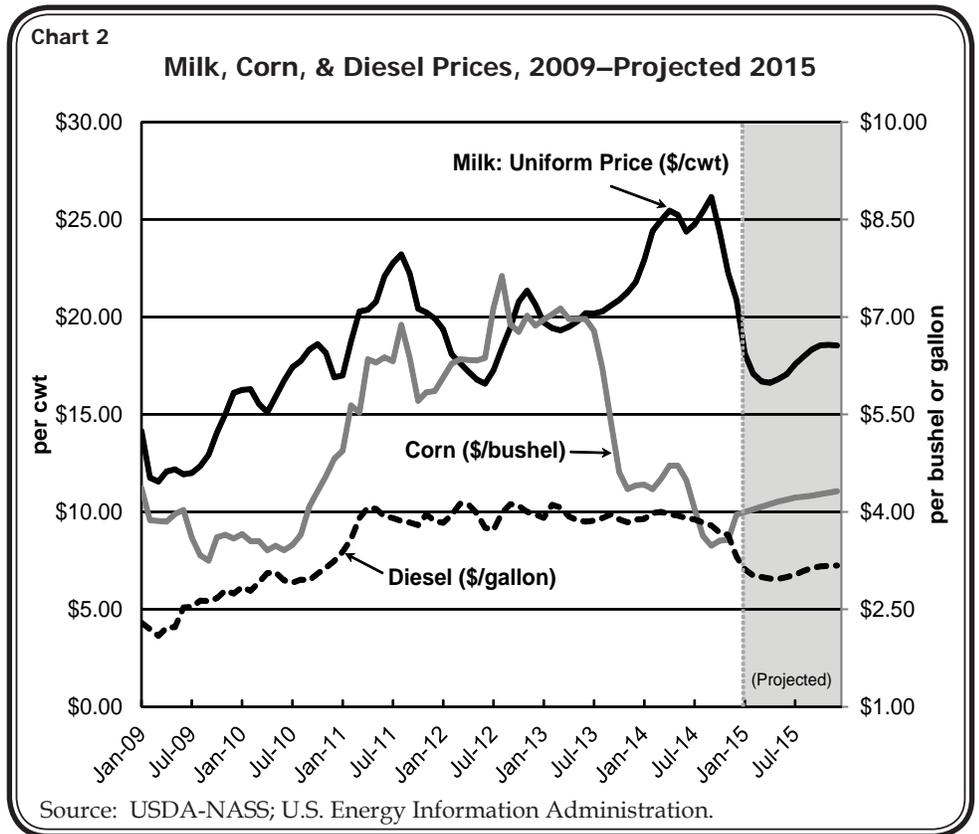
Dairy Outlook *(continued from page 2)*

Looking to 2015

The USDA forecasts the U.S. all milk price for 2015 to range between \$17.00 and \$20.00 per cwt. Using Chicago Mercantile Exchange (CME) futures prices from December 15 for Class III and Class IV milk, the Northeast Order Uniform Price projects to finish 2014 averaging \$24.27 per cwt for the year, the highest average annual uniform price ever. Using the same day's CME futures prices, the 2015 Northeast Order uniform price is forecast to average \$17.66 per cwt for the year.

Milk Price Declining, But So Are Input Costs

All indications are that milk prices may soften considerably in 2015, declining by nearly 25 percent from 2014 levels. That said, this is a decline from unprecedented price and margin levels. While milk prices decline, so to are the price of inputs such as feed and fuel. Chart 2 presents historical and projected prices for milk, corn, and on-highway diesel fuel. During 2012, the Northeast uniform price averaged \$18.63 per cwt and the corn price averaged \$6.67 per bushel, while gas averaged \$3.63 per gallon. A lower 2015 milk price will be met by



projected prices for corn and gas of \$4.18 per bushel and \$2.60 per gallon, respectively. While input costs project to decline to near 2009 levels, stronger exports and domestic economy than in 2009 should support milk prices well above those in 2009. ❖

2015 Payment Dates to Producers

The calendar below 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.

The final payment date that non-member producers must be paid is dependent on the date

that the statistical uniform price is announced. Each month, the date that final payments to producers must be received by is printed on the back of the Pool Price Announcement. The final payment is for the remaining milk received and is priced such that the producer should receive an average price for the entire month's milk at roughly the uniform price with adjustments for zone differential, component values, and other deductions relevant to that producer.

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	1/26/15
February	Wednesday	2/25/15
March	Wednesday	3/25/15
April	Monday	4/27/15
May	Tuesday	5/26/15
June	Thursday	6/25/15
July	Monday	7/27/15
August	Tuesday	8/25/15
September	Friday	9/25/15
October	Monday	10/26/15
November	Wednesday	11/25/15
December	Monday	12/28/15



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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	737,953,584	\$16.50	121,762,341.36	
Butterfat	15,671,923	3.2541	50,998,004.63	
Less: Location Adjustment to Handlers			(2,556,967.42)	\$170,203,378.63
Class II— Butterfat	29,298,681	2.2081	64,694,417.49	
Nonfat Solids	39,524,455	1.4022	55,421,190.80	120,115,608.29
Class III— Butterfat	23,083,391	2.2011	50,808,851.97	
Protein	16,168,859	3.9018	63,087,654.01	
Other Solids	29,265,574	0.4505	13,184,141.08	127,080,647.06
Class IV— Butterfat	12,773,605	2.2011	28,115,981.96	
Nonfat Solids	31,212,760	1.2102	37,773,682.15	65,889,664.11
Total Classified Value				\$483,289,298.09
Add: Overage—All Classes				47,911.12
Inventory Reclassification—All Classes				(811,838.19)
Other Source Receipts	1,223,856 Pounds			19,809.22
Total Pool Value				\$482,545,180.24
Less: Producer Component Valuations @ Class III Component Prices				(487,134,469.53)
Total PPD Value Before Adjustments				(\$4,589,289.29)
Add: Location Adjustment to Producers				11,089,171.03
One-half Unobligated Balance—Producer Settlement Fund				1,097,830.03
Less: Producer Settlement Fund—Reserve				(951,046.06)
Total Pool Milk & PPD Value	2,077,083,050 Producer pounds			\$6,646,665.71
Producer Price Differential		\$0.32		
Statistical Uniform Price		\$22.26		

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