

The Market Administrator's

BULLETIN

NORTHEAST MARKETING AREA

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May Pool Price Calculation

The May 2015 statistical uniform price (SUP) for the Northeast Marketing Area was announced at \$16.82 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 \$17.27 per hundredweight. The May statistical uniform price was 31 cents per hundredweight above the April price. The May producer price differential (PPD) at Suffolk County was \$0.63 per hundredweight, a decrease of 7 cents per hundredweight from last month.

Product Prices Effect

For the third month in a row, commodity prices increased from the previous month for cheese and butter, while nonfat dry milk and dry whey decreased. Butter jumped nearly 14 cents and cheese rose over 4 cents per pound. Nonfat dry milk and dry whey each dropped about 2 cents per pound. These changes resulted in similar movements in the component prices for other solids and nonfat solids. The butterfat price rose almost 17 cents per pound, but the protein price that incorporates the butterfat price, decline 3 cents per pound.

Class price changes were minimal: the Class I price rose 33 cents, Class II dropped 17 cents, Class III was up 38 cents and Class IV increased 40 cents, all on a per hundredweight basis. The changes resulted in a slightly higher SUP but a lower PPD due to the tightening of the spread between classes. Class III remained above both Class II and Class IV.

Depooling Occurred

Some milk was depooled during the month of May, but not enough to affect the SUP. Handlers with milk utilization in Classes II, III, or IV may elect to "depool", or remove, a specified volume of milk from the order pool if the respective class price exceeds the adjusted SUP for the month. If such volume remained as part of the pool, the pooling handler would incur a pool payment on the respective volume of milk, similar to pool payments incurred on Class I milk.

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Pool Summary

- A total of 11,399 producers were pooled under the Order with an average daily delivery per producer of 6,374 pounds.
- Pooled milk receipts totaled 2.252 billion pounds, a decrease of 1.1 percent from last month on an average daily basis, not adjusting for depooled milk in May.
- Class I usage (bottling) accounted for 32.5 percent of total milk receipts, down 0.3 percentage points from April.
- The average butterfat test of producer receipts was 3.70 percent.
- The average true protein test of producer receipts was 3.00 percent.
- The average other solids test of producer receipts was 5.77 percent. ❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	32.5	731,894,885
Class II	24.9	561,942,292
Class III	21.6	485,466,928
Class IV	21.0	472,947,540
Total Pooled Milk		2,252,251,645

Producer Component Prices

	2015	2014
	\$/lb	
Protein Price	2.5206	3.9553
Butterfat Price	2.0599	2.2721
Other Solids Price	0.2533	0.4897

Class Price Factors

	2015	2014
	\$/cwt	
Class I	19.08	27.72
Class II	14.81	24.44
Class III	16.19	22.57
Class IV	13.91	22.65

Manufactured Dairy Products—2014 Summary

USDA's National Agricultural Statistics Service recently released their *Dairy Products 2014 Summary*. This publication summarizes dairy products manufactured in the United States. The accompanying table highlights selected products' changes from 2013 and 2009, and a comparison of Northeast Order milk used in the manufacture of these products.

Cheese Production

Nationally, total cheese production (excluding cottage cheese) was up 3.7 percent from 2013 and 13.7 percent from 2009. Similar increases were seen in all categories:

American, Italian, cream and Neufchâtel, and other cheese that includes Swiss, Hispanic, Muenster, feta, and other varieties.

In the Northeast Order, milk used in 2014 cheese production (excluding cottage) increased 2.8 percent from 2013 and 17.6 percent from 2009. Increases similar to the national trends occurred in all categories except other cheese that was down 2.5 percent from 2013. For the first 4 months of 2015, milk used in all cheese production was down 7.1 percent from 2014 with Italian experiencing the largest decline.

Other Products

U.S. butter production declined slightly from 2013 to 2014, but was up 18.1 percent from 2009. Yogurt (plain and fruit flavored) rose only 0.9 percent in 2014, but compared to 2009 grew 23.9 percent. Nonfat dry milk (NFDM) experienced double-digit growth from both 2013 (19.4 percent) and 2009 (16.7 percent).

In the Northeast Order, milk used in butter production rose 2.8 percent in 2014 and 30.5 percent from 2009. Milk used in making yogurt dropped significantly in 2014, 18.3 percent, but compared to 2009 (before Greek-style yogurt became a major contributor to the category), was up 368.3 percent. Milk used in the production of dry milk products (mostly nonfat) rose 33.4 percent from 2013 and 45 percent from 2009.

Leading States

The top five cheese producing states during 2014 were Wisconsin, California, Idaho, New York, and New Mexico. Both Wisconsin and California had more than double the volume of the number three state and accounted for 25 and 21 percent of the total cheese manufactured in the country, respectively. New York topped New Mexico by

Change in Selected Manufactured Dairy Products, 2014

	Total U.S. Production of Manufactured Products		Total Northeast Order Milk Used to Manufacture#		
	2014 from:		2015 YTD from:		2014
	2009	2013	2009	2013	
	(percent change)				
Cheese					
American [^]	7.9	2.6	37.4	6.8	0.5
Italian	18.4	4.5	5.9	1.4	(17.7)
Cream and Neufchâtel	11.1	1.1	21.3	2.8	(3.3)
Other*	20.6	0.9	29.4	(2.5)	7.7
Total Cheese(excludes cottage)	13.7	3.7	17.6	2.8	(7.1)
Butter	18.1	(0.3)	30.5	2.8	14.0
NFDM~	16.7	19.4	45.0	33.4	37.0
Yogurt	23.9	0.9	368.3	(18.3)	(4.7)

Source: USDA, NASS - Dairy Products 2014 Summary; Northeast Order pool report data.

Based on total milk used in manufacture of products. 2015 comparison is for January-April only.

[^] Includes Cheddar, Colby, Monterey, and Jack.

* Includes Swiss, Hispanic, Muenster, feta, and other varieties.

~ For human use; Northeast data includes some whole milk powder.

only 26 million pounds. Pennsylvania ranked seventh in total cheese production. Wisconsin remained the number one producer of American cheese and dry whey production. California led in Italian cheese, butter, ice cream, and nonfat dry milk. New York remained the largest producer of lowfat and creamed cottage cheese and sour cream. State rankings for other products such as yogurt and cream cheese were not given due to having fewer than 3 handlers reporting.

Percent of Total Milk Production

Of U.S. total milk production, 75.7 percent was used in manufactured products (24.3 percent sold for fluid use) in 2014, up from 74.3 percent in 2013 and 70.7 percent in 2009.

In the Northeast Order, the total amount of pooled milk utilized in manufactured products equaled 64.4 percent in 2014; this compares to percents of 62.6 and 56.6 in 2013 and 2009, respectively. The increases seen in recent years are in sync with the trend of less milk in the Northeast utilized for fluid drinking products (Class I decline). For the first 4 months of 2015, milk used in manufactured products accounted for 65.2 percent. ❖

Market Situation

In the November 2014 Bulletin, Chicago Mercantile Exchange (CME) futures prices suggested that the 2015 annual average uniform price projected to be \$17.66 per hundredweight. That projection remains close to the mark through May 2015 and looking ahead. The uniform price at the Boston, MA, zone has averaged \$16.79 per cwt for the January through May period of this year. Using CME Class III and Class IV milk futures prices settled on June 15, the uniform price for 2015 projects to average \$17.35 per (continued on page 3)

Market Situation *(continued from page 2)*

cwt for the year, averaging \$17.76 per cwt over the remaining seven months of the year. These projections predict a peak for the year of \$18.27 per cwt in the month of November. The uniform price since 2012 is presented in the accompanying chart.

Export Volumes Return, if not Value

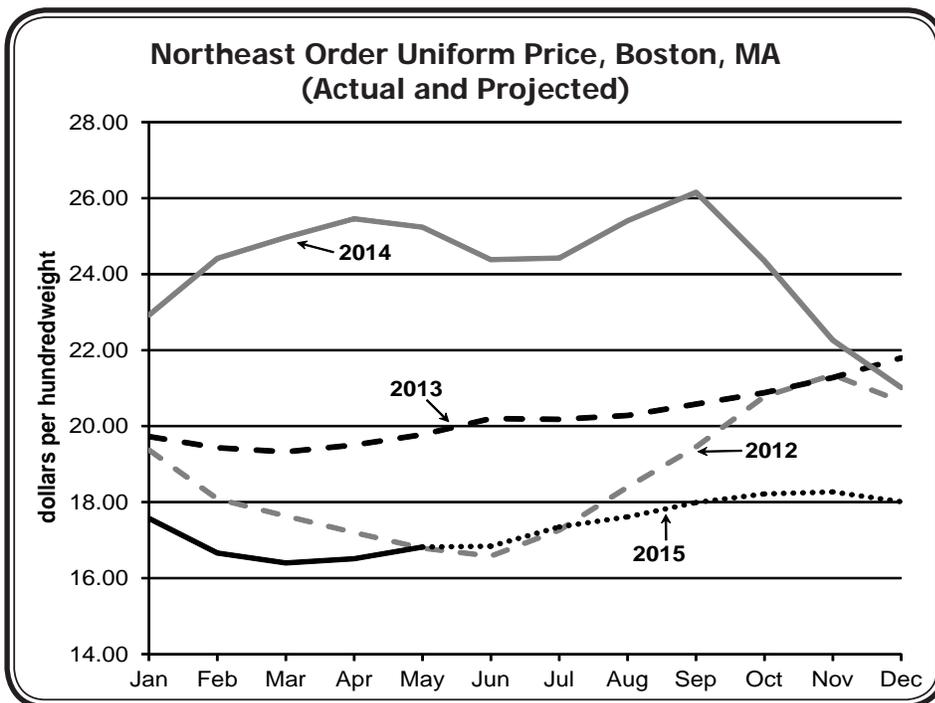
Through 2014, the U.S. volume and value of exports declined substantially until reaching a low at the end of the year; they remained low at the start of 2015. The latest data from the U.S. Dairy Export Council indicate that export volumes for the month of April 2015 reached their second-highest level ever, on a daily-average basis and are about the same levels as a year ago. U.S. exports were equivalent to 16.7 percent of total U.S. milk production on a total milk solids basis, the most since June 2014. U.S. export value is down about 22 percent from year-ago levels.

Other Demand Factors

The Restaurant Performance Index (RPI) gained 0.5 percent in April (to 102.7) from 102.2 in March. April represents the 26th consecutive month in which the index has been above 100. A level above 100 indicates expansion in the industry. The index is an important measure of domestic demand as a large volume of dairy products are used by the restaurant industry. Another important measure of domestic demand is the Conference Board's Consumer Confidence Index. This index increased moderately from 94.3 in April to 95.4 in May. The improvement was driven by an increasingly positive view of the present situation. Consumer expectations of the future edged down slightly.

Supply Side

Compared to the previous year, monthly milk production increases have been running below 2 percent, but above 1 percent since February. During a period in



mid-2014, production was increasing from between 2.6 to 4.3 percent from the previous year. Still, strong milk production is lifting the total milk pooled on the Northeast Order to record levels in May (when including milk that was depooled). As of March 31, butter stocks were 3.9 percent lower, American cheese stocks were 1.5 percent lower, and total cheese stocks were 4.4 percent higher compared to a year ago. Nonfat dry milk stocks were 17.8 percent higher. Currently higher butter and cheese prices paired with much lower nonfat dry milk prices are reflecting some of the relative tightness in the butter and cheese market compared to the nonfat dry milk market.

Looking ahead

Overall, solid domestic demand and returned strength of U.S. exports will help milk prices rise steadily, if not largely, during the second half of the year. Some analysts question whether current strength in the cheese market is due to securing of future needs. If that is the case, cheese prices may not remain as strong later in the year. ❖

May Pool Price *(continued from page 1)*

Order provisions stipulate when depooled producers may be repooled on the Order and provide economic disincentives that effectively limit the amount of milk depooled on the Northeast Order during the course of a year.

Records Set

The total volume of producer milk receipts was the third highest ever for the month of May and the fourth

highest ever under the Order. If the depooled milk was included, it would have been the largest volume ever for the Order since its inception. Daily deliveries per producer averaged 6,374 pounds, the highest ever for the Order. Class I volume was the smallest ever for the month while the Class II volume was the second highest ever for May. The Class IV was the largest ever for the Order.

Both the average producer butterfat and other solids tests in May tied with the highest record for the month. ❖

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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	717,913,337	\$12.77	91,677,533.13	
Butterfat	13,981,548	1.9297	26,980,193.18	
Less: Location Adjustment to Handlers			(2,566,187.12)	\$116,091,539.20
Class II— Butterfat	32,499,860	2.0669	67,173,960.59	
Nonfat Solids	48,214,922	0.8722	42,053,054.97	109,227,015.56
Class III— Butterfat	21,481,685	2.0599	44,250,122.95	
Protein	14,555,080	2.5206	36,687,534.66	
Other Solids	27,772,180	0.2533	7,034,693.22	87,972,350.83
Class IV— Butterfat	15,350,424	2.0599	31,620,338.39	
Nonfat Solids	41,633,773	0.7708	32,091,312.24	63,711,650.63
Total Classified Value				\$377,002,556.22
Add: Overage—All Classes				48,145.42
Inventory Reclassification—All Classes				230,438.80
Other Source Receipts	130,169 Pounds			4,195.45
Total Pool Value				\$377,285,335.89
Less: Producer Component Valuations @ Class III Component Prices				(374,838,151.44)
Total PPD Value Before Adjustments				\$2,447,184.45
Add: Location Adjustment to Producers				11,924,334.41
One-half Unobligated Balance—Producer Settlement Fund				924,947.74
Less: Producer Settlement Fund—Reserve				(1,106,461.17)
Total Pool Milk & PPD Value	2,252,381,814 Producer pounds			\$14,190,005.43
Producer Price Differential		\$0.63		
Statistical Uniform Price		\$16.82		

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