

# The Market Administrator's

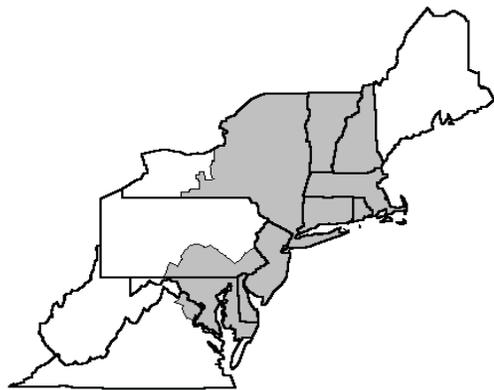
# BULLETIN

## NORTHEAST MARKETING AREA

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Federal Order No. 1



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## August Pool Price Calculation

The August 2015 statistical uniform price (SUP) for the Northeast Marketing Area was announced at \$16.90 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 \$17.20 per hundredweight. The August statistical uniform price was 1 cent per hundredweight below the July price. The August producer price differential (PPD) at Suffolk County was \$0.63 per hundredweight, an increase of 5 cents per hundredweight from last month.

### Product Prices Effect

Product prices for butter and cheese rose while nonfat dry milk and dry whey declined. As a result, all component prices dropped except butterfat; the protein price declined due to the increase in the butterfat price that is a factor in the protein component price formula. Class prices all decreased somewhat: Classes I and IV fell 25 cents; Class II declined 16 cents; and Class III dropped 6 cents, all on a per hundredweight basis.

Class I sales were below the same month last year; Classes II and IV were above last year. The small changes in prices resulted in a relatively unchanged SUP and slightly higher PPD. Milk delivered to plants in the outer zones (\$2.60 or less) will receive a negative PPD as was expected and mentioned in recent *Bulletins*.

### Highs and Lows

The volume for August was the highest ever for the month and the fifth largest volume ever for Order. The Class I volume was the lowest ever for the month of August, but up slightly from July due to some schools getting back in session. The Class II volume was the second largest for the month of August and the largest volume since May 2013. The Class IV volume dropped significantly from July, but was the highest ever for the month of August.

The average producer other solids test set a record high for the month. ❖

## Pool Summary

- A total of 11,854 producers were pooled under the Order with an average daily delivery per producer of 6,018 pounds.
- Pooled milk receipts totaled 2.211 billion pounds, a decrease of 2.7 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 32.2 percent of total milk receipts, an increase of 0.9 percentage points from July.
- The average butterfat test of producer receipts was 3.64 percent.
- The average true protein test of producer receipts was 2.98 percent.
- The average other solids test of producer receipts was 5.77 percent. ❖

### Class Utilization

Pooled Milk	Percent	Pounds
Class I	32.2	712,938,102
Class II	26.8	592,646,965
Class III	25.6	565,110,160
Class IV	15.4	340,750,650
Total Pooled Milk		2,211,445,877

### Producer Component Prices

	2015	2014
	\$/lb	
Protein Price	2.5692	3.1496
Butterfat Price	2.2674	2.8448
Other Solids Price	0.1151	0.5036

### Class Price Factors

	2015	2014
	\$/cwt	
Class I	19.53	27.12
Class II	14.54	25.34
Class III	16.27	22.25
Class IV	12.90	23.89

## Market Situation & Outlook

The accompanying chart presents the USDA, Agricultural Marketing Service, National Dairy Product Sales Report Prices (NDPSR) that are used in federal order price formulas when establishing class prices. The most recent five years are shown. Prices of all products were declining rapidly from September 2014 through the last quarter of 2014. Since January 2015, butter and cheese prices have increased while nonfat dry milk and dry whey prices have continued their downward trend. Of note, the most recent NDPSR nonfat dry milk price (\$0.7443 per pound) was the lowest it has been since at least the year 2000. Comparing August 2015 product prices to the most recent 5-year averages, the butter price is about 23 cents above the average, the weighted average cheese price is about 8 cents below, dry whey is about 25 cents below, and the NFDM price stands at roughly 73 cents below.

### NFDM Stocks Pressuring Price Lower

The record low NFDM price contributed to a Class IV price of \$12.90 per hundredweight, a relatively low price not matched since February 2010. Analysts report that milk powder supply is plentiful on the world market, reflected in record U.S. NFDM stocks of almost 270 million pounds in July. Part of the story is the continued Russian ban on dairy products from the European Union and the decline in purchasing from China. The U.S. Dairy Export Council reported a 56 percent decline in the purchase of whole milk powder by China. Large stocks may impede price recovery into 2016.

Compounding the impact a lower Class IV price has had on the uniform price for Northeast Order producers is the effect of recent changes in Northeast Order utilization. Class IV utilization has been setting record highs, increasing the relative weight attributed to the lowest class price. At the same time, Class I utilization has declined. Using utilizations that existed in August 2010 with 2015 prices would have resulted in a 53-cent higher uniform price.

### Butter Prices Surge

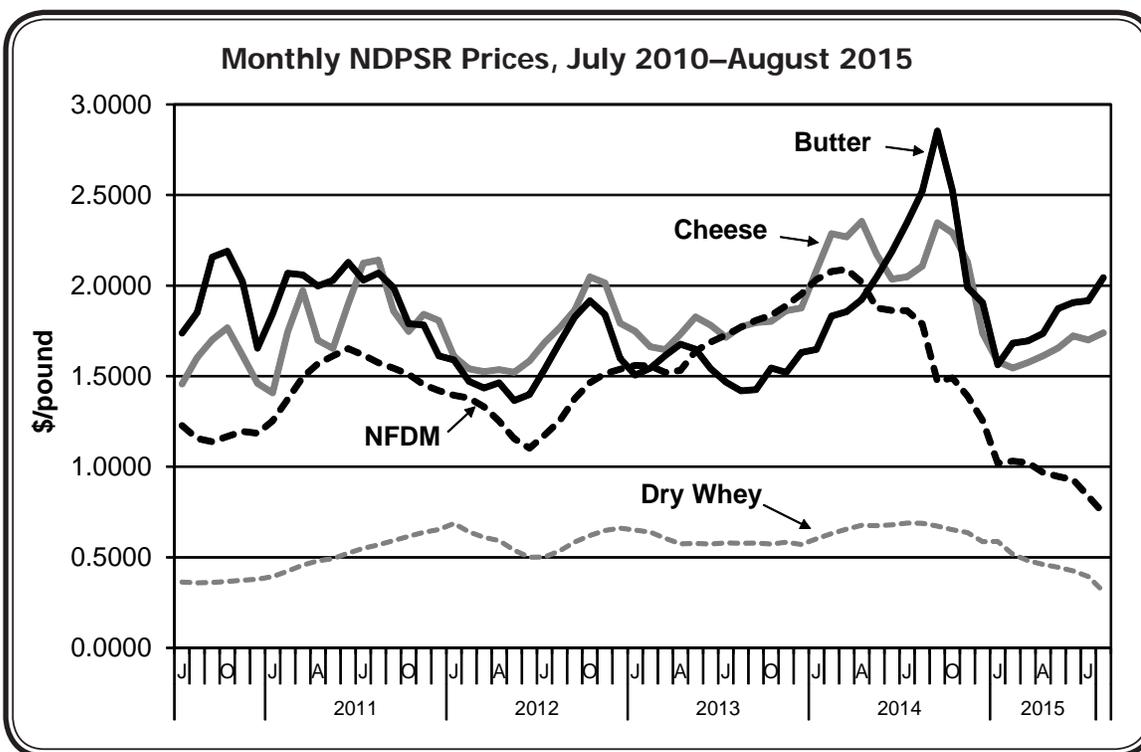
Though stocks of cheese and butter are higher than is typical into July, product demand has led to increases in prices through 2015. The NDPSR butter price moved above \$2.00 per pound in August and looks to move even higher, at least in the near term (based on Chicago Mercantile Exchange (CME) butter prices topping \$2.50 per pound in mid-September). Though lagging behind, NDPSR prices tend to follow CME prices, approximately. Some analysts suggest that a renewed interest by consumers in dairy fat as a healthy part of a diet lies behind support of higher butter prices. Recent increases in whole milk consumption and even McDonald's announcement of a transition from margarine to butter in many of their menu items reflect this recent trend.

The strong butter price has strengthened the Class IV price to a degree that, if it continues, will result in a uniform price, high enough relative to the Class III price,

where the producer price differential (PPD) will be positive in all zones. Based on CME Class III and IV futures prices from September 14, the PPD projects to be positive in all zones as soon as September.

### Looking Ahead

Higher U.S. prices relative to world prices may hurt U.S. exporters when establishing contracts for 2016. This threat to export volume combined with possible higher stocks of all U.S. dairy products could combine to retard significant price recovery into 2016. ❖



## Whole Milk Sales Increase in Contrast to Other Products

Sales of packaged fluid *whole* milk products in the Northeast Marketing Area during the first 6 months of 2015 grew 1.7 percent over the same period in 2014. This increase is in contrast to the overall sales of fluid milk products, which declined 2.8 percent for the same period. The same trend in whole milk occurred between 2013 and 2014, although the decline in total fluid sales was less. The accompanying table shows sales for the January-June period for 2013-2015 in the Northeast Marketing Area and U.S. estimated total sales.

Whole milk sales include white, flavored, organic and lactose-free products that have a butterfat level of at least 3.25 percent (the minimum standard for packaged whole milk products). The average butterfat level for the past 3 years has been 3.28 percent for these products in the Northeast Marketing Area, based on reporting by handlers regulated under the Order. The overall average of all packaged fluid products averaged 1.88 percent for the January-June 2015 period; the average was 1.84 and 1.80 for same period in 2014 and 2013, respectively, indicating a majority of sales in lower fat products.

As a proportion of total fluid sales in marketing area, whole milk products accounted for 35.5 percent for the first 6 months of 2015. This is up from 33.9 in 2014 and 32.8 in 2013.

### Possible Causes

There have been news stories and studies recently promoting whole milk touting its benefit in diets as both healthier and helpful in lowering overall body weight. Northeast Order data appears to indicate that there has been some consumer response to such information. In addition, the increase in organic sales seem to be concentrated more on the whole milk side versus lower fat organic products, at least for this past year in the Northeast marketing area.

### National Scene

Nationally, the increase in whole milk sales is showing a similar trend. For the January through June period, whole milk sales were up 3.4 percent from the same period in 2014. Overall, fluid sales for this period were down 1.7 percent nationally. Between 2013 and 2014, all sales declined.

### Sales of Fluid Milk Products, January–June, 2013–2015

Product	Fluid Milk Sales (billion pounds)			Percent Change	
	2013	2014	2015	2013-14	2014-15
<i>Northeast Marketing Area</i>					
Whole Milk	1.314	1.336	1.359	1.7	1.7
Lower Fat	2.689	2.602	2.468	(3.2)	(5.1)
Total	4.003	3.938	3.827	(1.6)	(2.8)
<i>Estimated United States*</i>					
Whole Milk	6.793	6.779	7.009	(0.2)	3.4
Lower Fat	18.828	18.231	17.564	(3.2)	(3.7)
Total	25.621	25.010	24.573	(2.4)	(1.7)

\* Source: AMS, *Estimated Fluid Milk Products Sales Report*.

### Effect on Butterfat

Butter prices on the Chicago Mercantile Exchange have been on the rise since the beginning of 2015 (for more on this topic, see the Market Situation & Outlook article on page 2). As mentioned, consumers' interest in dairy fat is likely a contributing factor to the higher butter prices. A higher volume of butterfat remaining in fluid products reduces the amount available for other uses, such as butter and other manufactured products that rely heavily on butterfat. ❖

## California Market Order Hearing

The USDA will hold a public hearing starting on September 22, 2015, in Clovis, California, to consider the establishment of a Federal Milk Marketing Order (FMMO) for California. USDA will hear testimony and receive evidence regarding four proposals for a FMMO in California. The hearing is expected to last several weeks and is open to the public.

California's dairy industry represents 20 percent of all U.S. milk production; it is currently regulated under a state marketing order. The 2014 Farm Bill allows for a California FMMO that recognizes certain state-specific aspects of the current order, if recommended by USDA and approved by California dairy producers. USDA's Agricultural Marketing Service has received formal requests from California Dairies, Inc.; Land O'Lakes, Inc.; Dairy Farmers of America, Inc.; Dairy Institute of California; the California Producer Handler Association; and Ponderosa Dairy.

To view the proposals and get additional information, visit [www.ams.usda.gov/CAOrder](http://www.ams.usda.gov/CAOrder). ❖

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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	698,340,421	\$12.38	86,454,544.12	
Butterfat	14,597,681	2.1657	31,614,197.74	
Less: Location Adjustment to Handlers			(2,540,430.17)	\$115,528,311.70
Class II— Butterfat	32,288,307	2.2744	73,436,525.46	
Nonfat Solids	50,892,126	0.7578	38,566,053.08	112,002,578.54
Class III— Butterfat	24,432,297	2.2674	55,397,790.20	
Protein	16,780,951	2.5692	43,113,619.33	
Other Solids	32,381,287	0.1151	3,727,086.11	102,238,495.64
Class IV— Butterfat	9,286,480	2.2674	21,056,164.75	
Nonfat Solids	30,119,114	0.5707	17,188,978.38	38,245,143.13
<b>Total Classified Value</b>				<b>\$368,014,529.01</b>
Add: Overage—All Classes				57,261.14
Inventory Reclassification—All Classes				331,719.65
Other Source Receipts	2,019,902 Pounds			66,727.72
<b>Total Pool Value</b>				<b>\$368,470,237.52</b>
Less: Producer Component Valuations @ Class III Component Prices				(366,513,029.81)
<b>Total PPD Value Before Adjustments</b>				<b>\$1,957,207.71</b>
Add: Location Adjustment to Producers				12,159,631.03
One-half Unobligated Balance—Producer Settlement Fund				911,752.27
Less: Producer Settlement Fund—Reserve				(1,083,756.67)
<b>Total Pool Milk &amp; PPD Value</b>	2,213,465,779 Producer pounds			<b>\$13,944,834.34</b>
Producer Price Differential		<b>\$0.63</b>		
Statistical Uniform Price		<b>\$16.90</b>		

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