

The Market Administrator's

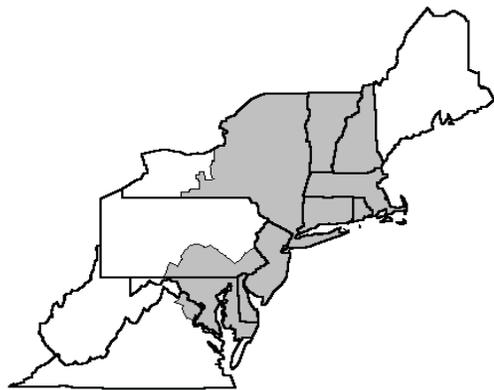
BULLETIN

NORTHEAST MARKETING AREA

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Federal Order No. 1



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October Pool Price Calculation

The October 2015 statistical uniform price (SUP) for the Northeast Marketing Area was announced at \$17.60 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 \$18.86 per hundredweight. The October statistical uniform price was 8 cents per hundredweight below the September price. The October producer price differential (PPD) at Suffolk County was \$2.14 per hundredweight, an increase of 28 cents per hundredweight from last month.

Product Prices Effect

Similar to last month, October product prices for butter and nonfat dry milk rose while cheese and dry whey declined. Butter rose 13 cents per pound, equating to a nearly 16-cent per pound increase in the butterfat component price, which was the highest butterfat price ever for the month of October since Federal Order Reform. Cheese dropped 3.5 cents per pound, resulting in a 28-cent drop in the protein component price and the lowest protein price ever reported for October. Nonfat dry milk's 9-cent per pound increase equaled a similar rise in the nonfat solids price; dry whey and the corresponding other solids price declined slightly.

The Class I price was down 50 cents per hundredweight from the previous month, and the Class III price declined 36 cents per hundredweight. The Class II price rose \$1.08 per hundredweight from September, while the Class IV price jumped \$1.35 per hundredweight. Combined with the class utilizations, these prices resulted in a slight decline in the statistical price but an increase in the PPD.

Highs and Lows

The volume for October was the second highest ever for the month. For the first time this year, the Class I volume was over 800 million pounds, but it still was the lowest ever recorded for the month. The Class IV volume was the highest ever for the month of October, the 17th straight month that it has set a new monthly record.

The average producer butterfat test set a new record high and was 0.04 points above the previous record. The average producer other solids test tied with 2010, 2012, and 2014 as a record high for the month. ❖

Pool Summary

- A total of 11,791 producers were pooled under the Order with an average daily delivery per producer of 5,844 pounds.
- Pooled milk receipts totaled 2.136 billion pounds, a decrease of 2.6 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 37.6 percent of total milk receipts, an increase of 2.4 percentage points from September.
- The average butterfat test of producer receipts was 3.85 percent.
- The average true protein test of producer receipts was 3.14 percent.
- The average other solids test of producer receipts was 5.73 percent. ❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	37.6	804,040,242
Class II	23.2	495,628,237
Class III	24.8	529,151,784
Class IV	14.4	307,150,915
Total Pooled Milk		2,135,971,178

Producer Component Prices

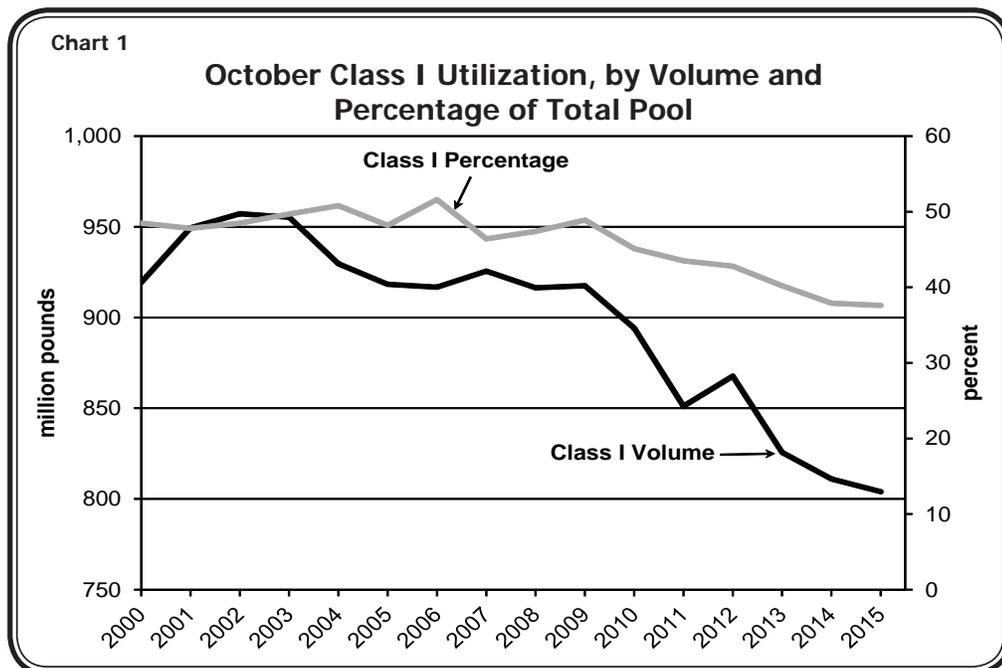
	2015	2014
	\$/lb	
Protein Price	1.7019	3.7362
Butterfat Price	2.9087	2.8507
Other Solids Price	0.0328	0.4670

Class Price Factors

	2015	2014
	\$/cwt	
Class I	19.09	27.44
Class II	16.44	21.93
Class III	15.46	23.82
Class IV	16.43	21.35

Class I Utilization Trends

October's Class I utilization in the Northeast by volume (804.0 million pounds) and by percentage (37.6) continued to hit record low levels for the month. This has been the case for 48 of the past 50 months. However, as depicted in Chart 1, the rate of decline in October's Class I utilization appears to have slowed. In October, year-over-year Class I utilization declined an average of 2.4 percent since 2009 by volume, but declined just 0.9 percent in 2015. By percent of total Northeast Order pool volume for the month of October, Class I declined an average of 4.9 percent per year since 2009, but declined just 0.8 percent in 2015.



In Area Sales by Milk Type Show Changes

Using data from the Northeast Market Administrator's *Monthly Statistical Report*, Chart 2 presents changes over time for Class I in-area fluid milk sales. In-area sales refer to sales of fluid milk products that occur within the geographic area defined as the Northeast Marketing Area. The table uses 12-month moving averages in order to smooth seasonality beginning with December 2006. A fairly strong decline in whole milk sales between 2006 and 2012 can be seen. This period had very small increases in percent of sales that reduced fat, low fat, and fat-free accounted for. Since 2012, whole milk sales have been growing as a percent of all in-area sales, while the fat-free milk portion of sales has declined. More recently, reduced-

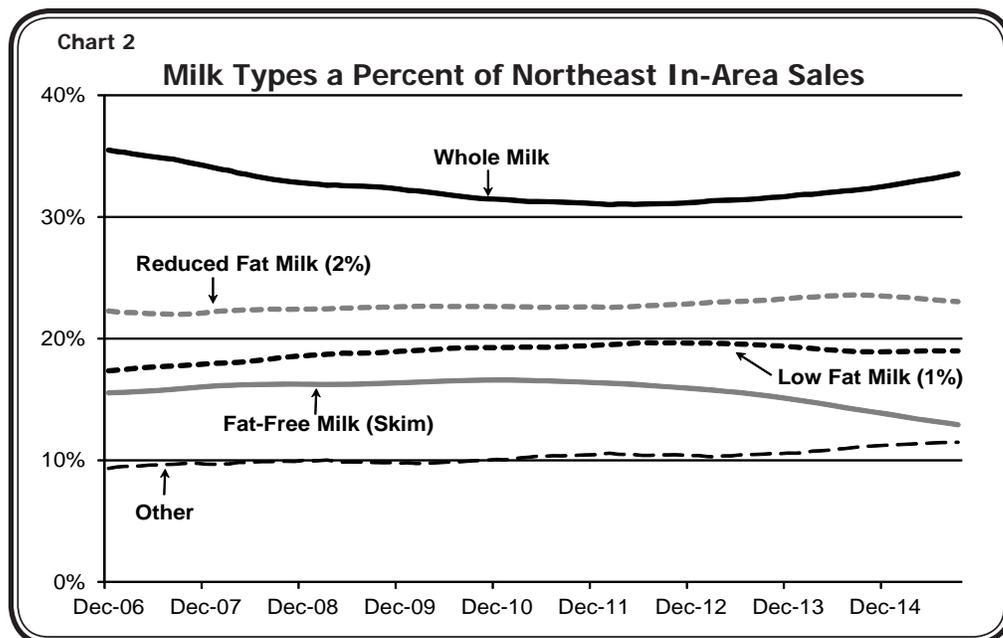
fat milk sales have begun to account for fewer sales. The "other" category has shown more notable growth since 2013 as well. The "other" category includes organic milk and drinks, flavored milk and drinks, buttermilk, eggnog and miscellaneous products.

Recent Reports Leading to Within Category Switching?

During the last few years, medical journals to popular media have been reporting the benefits of full fat dairy and whole milk. Much of the discussion often compares whole milk to lesser fat milk options. Northeast Order in-area sales data presented in Chart 2 seem to support the idea that consumers may be trading lower fat options for whole milk, within the category. Since Class I utilization continues to decline, it can't yet be said that consumers that left fluid milk are returning, but it's possible that the more rapid departure from fluid milk all together has, at least, slowed.

Price Response?

The Northeast Order Class I price for October 2015 was \$19.73 per hundredweight. This is 28 percent below the Class I price for October 2014 and the lowest for October since 2009. Fluid milk sales may be aided by consumers' response to notably lower prices, and the result is the slower decline in Class I utilization. ❖



Contribution to Producer Price by Components

The statistical uniform price (SUP) varies each month based on the respective average component tests, prices of each component, utilization of producer milk by class, and the value of the producer price differential (PPD). The accompanying chart shows the proportion components contributed to for the weighted average SUP for the month of October for the years 2000, 2005, 2010, and 2015.

Contribution of Total Gross Payment,* October								
	2000				2005			
	Test percent	Price per pound	Gross dollars	Contribution percent	Test percent	Price per pound	Gross dollars	Contribution percent
Butterfat	3.73	1.2444	\$4,641.61	33.9	3.74	1.8256	\$6,827.74	41.2
True Protein	3.05	1.8028	\$5,498.54	40.1	3.10	2.3780	\$7,371.80	44.5
Other Solids	5.67	0.0471	\$267.06	1.9	5.67	0.1491	\$845.40	5.1
PPD		3.30	\$3,300.00	24.1		1.53	\$1,530.00	9.2
Total gross payment			\$13,707.21				\$16,574.94	
Gross price per cwt			\$13.71				\$16.57	
	2010				2015			
	Test percent	Price per pound	Gross dollars	Contribution percent	Test percent	Price per pound	Gross dollars	Contribution percent
Butterfat	3.77	2.4436	\$9,210.32	47.0	3.85	2.9087	\$11,198.50	59.3
True Protein	3.13	2.4739	\$7,733.66	39.4	3.14	1.7019	\$5,343.97	28.3
Other Solids	5.73	0.1736	\$994.12	5.1	5.73	0.0328	\$187.94	1.0
PPD		1.67	\$1,670.00	8.5		2.14	\$2,140.00	11.3
Total gross payment			\$19,608.10				\$18,870.41	
Gross price per cwt			\$19.61				\$18.87	

*For a hypothetical farm producing 100,000 pounds of milk at pool average component tests.

Butterfat and Protein

Proportions vary due to a multitude of factors. As the chart shows, depending on the combination of a component's price and test, the proportion changes. For example, the protein price and test for October 2010 were both higher than those in 2000 and 2005, but the butterfat price and test for October 2010 were considerably higher than in both of those years, resulting in protein contributing a smaller proportion of the gross payment than butterfat. In 2015, the butterfat price and test were both record-setting and, correspondingly, contributed the highest proportion of the total price and the largest proportion of the examples shown.

Other Solids

Butterfat and protein tend to have the largest proportions of the overall value. Conversely, other solids usually have the smallest proportion. In the examples, 2010 and 2015 had the same other solids test but the 2010 higher price resulted in a 5 percent contribution versus the 1 percent in 2015 when the price was considerably smaller. A similar situation is seen when comparing 2000 and 2005.

PPD Value

As the chart also shows, the percentage that the PPD contributed varies and its proportion is not only a reflection of a higher overall price, but is impacted by the utilization of milk in the pool as well as the amount of difference between the respective class prices and the SUP. For example, in 2000, the PPD equaled \$3.30 per hundredweight and contributed 24 percent of the total price, yet the SUP was only \$13.71 per hundredweight.

Effect in 2015

In 2015, it is the combination of recent high tests and butterfat prices that are resulting in the higher value of butterfat accounting for nearly 60 percent of the average producer gross price for the month. In fact, during no other month since January 2000 has the butterfat price been as far above the protein price as October 2015. This relative pricing is a large contributor to such high butterfat value contribution. ❖

Organic Hearing Request Update

As mentioned in last month's *Bulletin*, in late September USDA received a request from the Organic Trade Association to hold a national hearing amending all Federal Milk Marketing Orders (FMMO) concerning how organic milk would be treated for pricing and pooling purposes under FMMOs. Under the rules for amending a Federal Order, USDA could determine that such a request was sufficiently supported to grant a hearing, deny the requested hearing while providing explanation, or request additional information from the requesting party before making a determination as how to proceed with the request. In late October, USDA requested additional information from the hearing proponent to be provided by November 29. This additional information will be considered along with the original request as USDA considers how to proceed with the hearing request. The proposal can be found at www.ams.usda.gov/rules-regulations/moa/dairy/organic-amendment. ❖

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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	787,627,729	\$9.82	77,345,042.99	
Butterfat	16,412,513	2.7477	45,096,661.97	
Less: Location Adjustment to Handlers			(2,829,731.46)	\$119,611,973.51
Class II— Butterfat	30,494,110	2.9157	88,911,676.50	
Nonfat Solids	42,912,589	0.7178	30,802,656.42	119,714,332.92
Class III— Butterfat	23,563,597	2.9087	68,539,434.58	
Protein	16,569,934	1.7019	28,200,370.68	
Other Solids	30,152,552	0.0328	989,003.68	97,728,808.94
Class IV— Butterfat	11,676,983	2.9087	33,964,840.43	
Nonfat Solids	27,249,054	0.7200	19,619,318.88	53,584,159.31
Total Classified Value				\$390,639,274.68
Add: Overage—All Classes				4,542.62
Inventory Reclassification—All Classes				414,142.02
Other Source Receipts	495,182 Pounds			19,471.72
Total Pool Value				\$391,077,431.04
Less: Producer Component Valuations @ Class III Component Prices				(357,055,772.52)
Total PPD Value Before Adjustments				\$34,021,658.52
Add: Location Adjustment to Producers				11,686,445.13
One-half Unobligated Balance—Producer Settlement Fund				901,839.96
Less: Producer Settlement Fund—Reserve				(889,563.49)
Total Pool Milk & PPD Value	2,136,466,360 Producer pounds			\$45,720,380.12
Producer Price Differential		\$2.14		
Statistical Uniform Price		\$17.60		

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