

The Market Administrator's

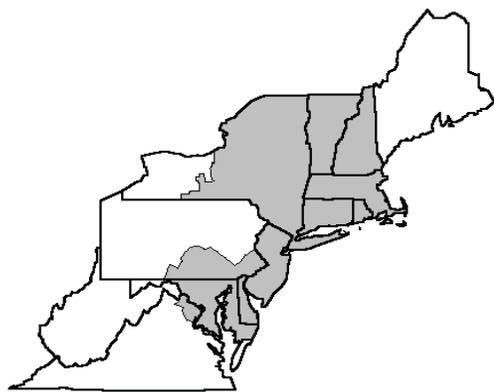
BULLETIN

NORTHEAST MARKETING AREA

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Federal Order No. 1



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August Pool Price Calculation

The August 2016 statistical uniform price (SUP) for the Northeast Marketing Area was announced at \$16.97 per hundredweight (cwt) 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 \$17.35 per cwt. The August statistical uniform price was \$0.75 per cwt above the July price. The August producer price differential (PPD) at Suffolk County was \$0.06 per cwt, a decrease of 92 cents per cwt from last month.

Product Prices Effect

During August, all product prices increased except butter that fell 9 cents per pound. Nonfat dry milk and dry whey rose slightly; cheese rose 17 cents per pound. As a result, the protein component price jumped over 66 cents per pound while the nonfat solids and other solids prices increased slightly. The butterfat component price declined 11 cents per pound. All class prices were higher than the previous month except the Class IV price that dropped 19 cents per hundredweight. The Class I price rose \$1.37; Class II was up 5 cents; and Class III increased \$1.67, all on a per hundredweight basis. With the Class III price considerably higher than both the Class II and IV prices, the PPD tightened to only 6 cents per hundredweight. The combination of higher prices and less milk utilized in the lowest price class equated to a higher SUP for August.

Class Utilization

The total volume of producer milk was the highest ever for the month of August. The Class I volume was the smallest ever for the month of August, a slight decrease from last year. Class II volume was below last year, but the highest it has been in 2016. Class IV volume was above last year, but the lowest it has been this year. Class III volume was higher than the same month previous year for the twelfth month in a row. The minimum price class volume, which includes milk used in animal feed and dumpage, was higher than last year, but less than half the amount last month. ❖

Pool Summary

- A total of 11,519 producers were pooled under the Order with an average daily delivery per producer of 6,286 pounds.
- Pooled milk receipts totaled 2.245 billion pounds, a decrease of 2.4 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 31.7 percent of total milk receipts, an increase of 2.4 percentage points from July.
- The average butterfat test of producer receipts was 3.65 percent.
- The average true protein test of producer receipts was 2.99 percent.
- The average other solids test of producer receipts was 5.73 percent. ❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	31.7	711,621,254
Class II	26.1	585,212,100
Class III	26.4	592,810,306
Class IV	15.8	355,032,858
Total Pooled Milk		2,244,676,518

Producer Component Prices

	2016	2015
	\$/lb	
Protein Price	2.5738	2.5692
Butterfat Price	2.4873	2.2674
Other Solids Price	0.0881	0.1151

Class Price Factors

	2016	2015
	\$/cwt	
Class I	18.32	19.53
Class II	15.21	14.54
Class III	16.91	16.27
Class IV	14.65	12.90

Milk Volume Strong but Utilized by Market Place

The total volume of producer milk pooled on the Northeast has surpassed the previous year's figure for each month for the past 10 months in a row. The first half of 2016 averaged nearly 4 percent higher than the same period in 2015, adjusted for leap year. During the summer months of July and August, milk volume pooled continued to grow, but at a lower rate of about 1.4 percent. Still, total producer milk pooled has set a new monthly record each month since November 2015.

Balanced Utilization by Class

Class I volume (fluid beverage milk) has continued to decline, but at a slower rate for the first eight months of the year compared to the same period the past 2 years. So far, 3 out of 8 months of 2016, Class I volume was higher than the previous year, but for the year-end, it is expected to finish below 2015.

The volume of milk used for Class II purposes (yogurt, ice cream, packaged cream) has been above the same month previous year for each month during 2016, with the exception of August. Volumes have not quite returned to the record-setting levels of 2013, but have been higher than the past 2 years for most of 2016. In fact, through the first 8 months, the 2016 level was only 0.6 percent below the same period in 2013.

Class III utilization has been above the same month previous year for the past 12 months. With strong milk production and pool volume reported during the late spring/early summer months of 2016, Class III volume was the largest since 2002. Considerable increases in milk used for cheese were reported for the January through August period: cream cheese 5.1; American 7.7; Italian 11.8, and Swiss and other cheeses 16.5, all up on a year-over-year percent basis.

As mentioned above, the strong milk production in the region resulted in significant pool volumes and also significant volumes in Class IV. Five months during the January through August period, the volume set new record highs; the remaining months it was

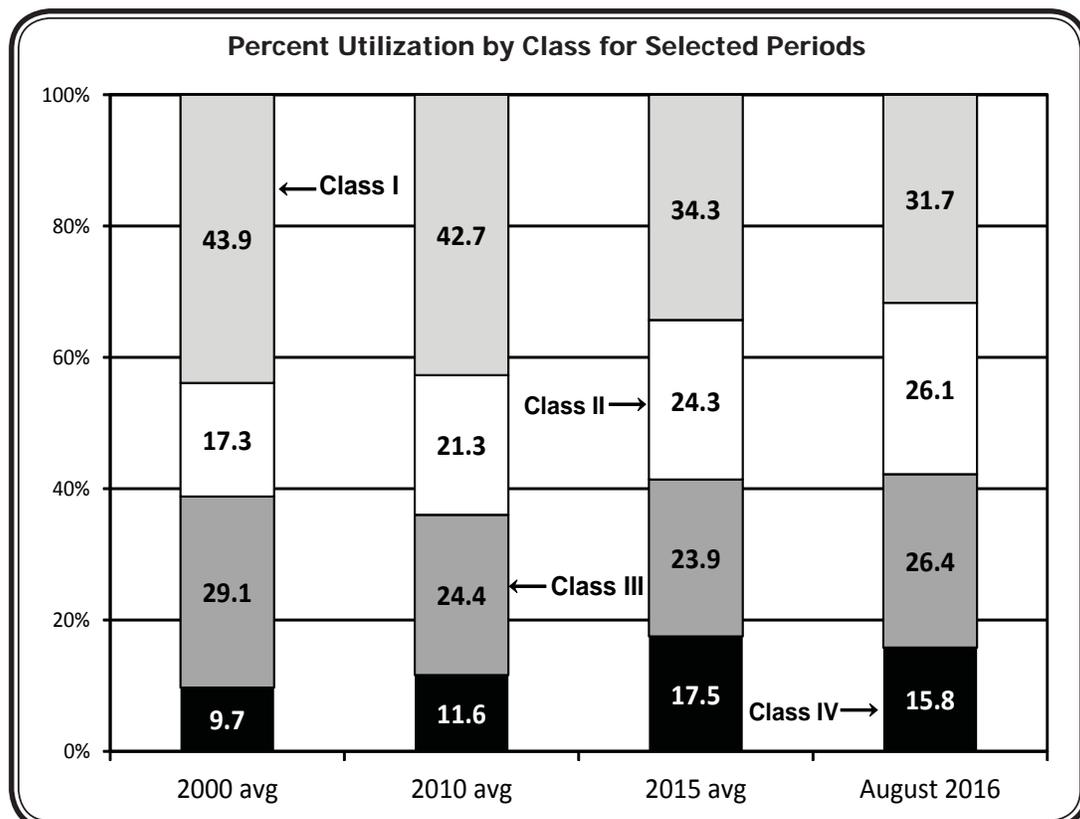
only surpassed by the same month the previous year. Overall, for this 8 month period, Class IV usage was nearly flat compared to last year. Milk used in dry milk products rose 1.2 percent, condensed grew 3.9 percent, and butter increased 7.6 percent.

The accompanying chart shows utilization by class for selected prior years and August 2016.

Minimum Price Class

The Class IV price has been the lowest of the class prices for all but 2 months: May and June. During those months, the Class III price was the lowest. As such, Class III volume spiked during those months due to additional volumes of milk assigned to the lowest class price. Milk that is discarded due to surplus situations, route returns, or processing issues is assigned to the lowest class price per Order regulations.

Even though regional milk production slowed somewhat during the summer months, Northeast Order pool volumes continued to set new monthly highs. Despite the significant volume of total milk pooled, steady increases in Classes II and III – as shown in pool utilization figures – along with milk utilized and balanced in Class IV, production was able to utilize the majority of the milk pooled on the Order. During August, the volume of milk disposed of as surplus dropped substantially from the surplus volume reported during May and June. ❖



Negative PPDs Received in Most Zones

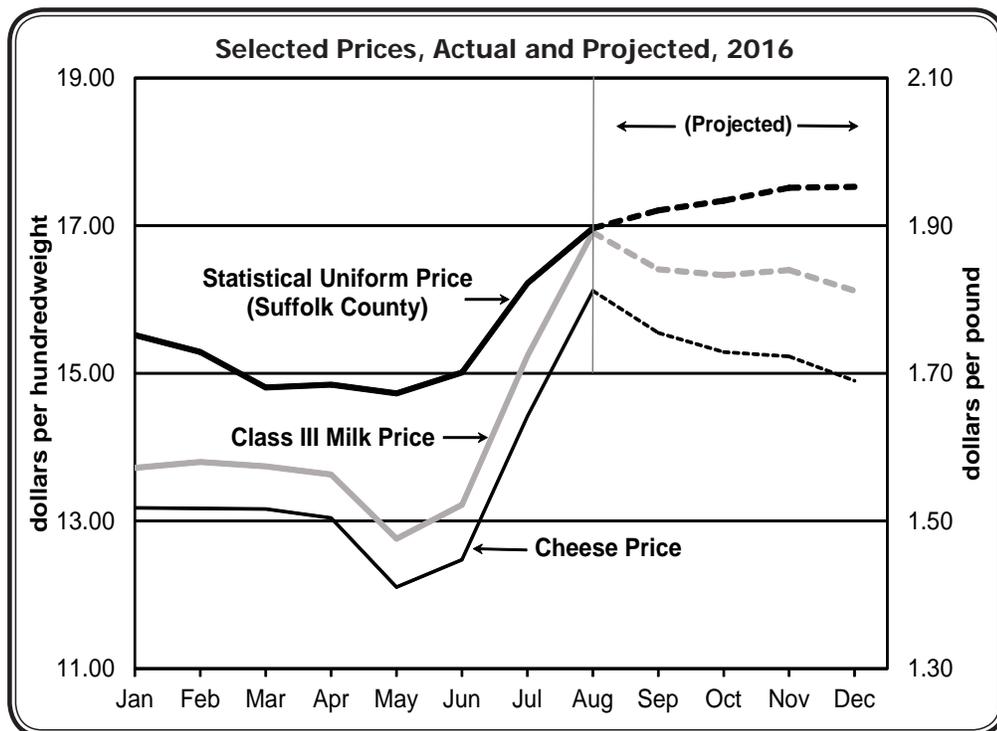
The Producer Price Differential (PPD) for August 2016 equaled \$0.06 per hundredweight at Suffolk County, Massachusetts (Boston), the basing point for the Northeast Order. Producers are paid for their milk based on the location where their milk is delivered during the month. Producers' milk delivered to plants in Suffolk County, or any other county that has a \$3.25 differential, would receive the 6-cent PPD. Plants located in differential zones less than \$3.25 have a lower PPD obligation to producers whose milk is delivered to those plants. Differential values determine the relative PPD value and are meant to help cover the cost of hauling milk from the farm location of where the milk is produced to the plant of first receipt. For the month of August, milk delivered to plants located in the zones (\$3.15 or less), further away from the Boston base point, received a negative PPD.

Negative PPDs Explained

Producers are paid for their protein, butterfat, and other solids components from the pool at the same dollar per pound value as Class III milk. The PPD is an adjustment made to the producer pay prices for the additional value generated by milk used in the other classes (I, II, and IV). In the case of recent months, the statistical uniform price (SUP) has been rising, but not dramatically so. Due to low Class II and Class IV prices, relative to the Class III price, there is little to no value left to be paid out in the form of a PPD, after paying producers for the value of their Class III components. In short, nearly the full classified value of the monthly pool is being received by producers in their milk components valuation and not the PPD.

Current PPD Dynamics

The August negative PPDs are largely a dynamic of the recent cheese price movements. The August Class I price, established in advance, was based on a market in which the cheese price level was \$1.6231 per pound. The Class III price for August was established with a cheese price that had risen to \$1.8119 per pound. Cheese is the contributing product price in the protein price formula. The result was that a jump in the August Class III protein value paid to producers left little to no value remaining in the pool to pay out to producers in the form of a PPD.



For the month of August, the “classified value” equaled \$376,531,790.77. The total value of all producer components (butterfat, protein, and other solids) equaled \$388,018,593.38, or \$11.5 million more than the pool classified value (see page 4 for pool computation). The location adjustment to producers in August totaled \$12,774,127.98, enough to result in a very small positive PPD value. The location adjustment being the difference between the Boston location and plant locations where milk was received.

Looking Ahead

Price projections based on Chicago Mercantile Exchange futures prices of Class III and Class IV milk predict that, as prices modestly rise, the Northeast Order will continue to be negative in the \$2.40 and lower zones during September with possible negative PPDs in the outermost \$2.10 zone in October. The chart presents the SUP at the Boston zone, the Class III milk price, and the *National Dairy Products Sales Report* weighted average cheese price for 2016. Class III milk price projections reflect the CME Class III milk futures, and cheese price projections reflect CME cheese futures, both as settled on September 15, 2016. The chart shows the discussed increase in the cheese price, narrowing the gap between the resulting Class III and SUP, which largely contributed to the very low and negative August PPDs. As the cheese price declines, the Class III-SUP gap widens, decreasing the magnitude and likelihood for negative PPDs moving forward. ❖

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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	696,641,722	\$9.41	65,553,986.04	
Butterfat	14,979,532	2.6398	39,542,968.57	
Less: Location Adjustment to Handlers			(2,597,582.92)	\$102,499,371.74
Class II— Butterfat	32,995,744	2.4943	82,301,284.27	
Nonfat Solids	50,003,683	0.7456	37,282,746.03	119,584,030.30
Class III— Butterfat	24,616,354	2.4873	61,228,257.31	
Protein	17,747,971	2.5738	45,679,727.76	
Other Solids	33,832,833	0.0881	2,980,672.61	109,888,657.68
Class IV— Butterfat	9,307,545	2.4873	23,150,656.68	
Nonfat Solids	31,295,241	0.6841	21,409,074.37	44,559,731.05
Total Classified Value			Total value of milk in the pool →	\$376,531,790.77
Add: Overage—All Classes				37,086.02
Inventory Reclassification—All Classes				(19,406.03)
Other Source Receipts	252,955 Pounds		Total value of producer components →	1,187.28
Total Pool Value				\$376,550,658.04
Less: Producer Component Valuations @ Class III Component Prices				(388,018,593.38)
Total PPD Value Before Adjustments				(\$11,467,935.34)
Add: Location Adjustment to Producers				12,774,127.98
One-half Unobligated Balance—Producer Settlement Fund				1,140,327.54
Less: Producer Settlement Fund—Reserve				(1,099,562.42)
Total Pool Milk & PPD Value	2,244,929,473 Producer pounds			\$1,346,957.76
Producer Price Differential		\$0.06		
Statistical Uniform Price		\$16.97		

Value from which PP per hundredweight is calculated

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