

The Market Administrator's

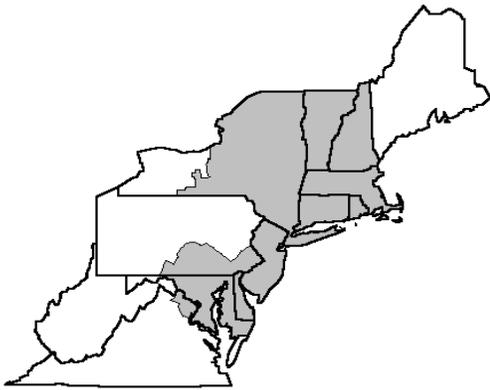
BULLETIN

NORTHEAST MARKETING AREA

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Federal Order No. 1



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October Pool Price Calculation

The October 2016 statistical uniform price (SUP) for the Northeast Marketing Area was announced at \$16.23 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 \$17.32 per cwt. The October statistical uniform price was 87 cents per cwt below the September price. The October producer price differential (PPD) at Suffolk County was \$1.41 per cwt, an increase of 70 cents per cwt from last month.

Product Prices Effect

Both butter and cheese prices dropped considerably during October--butter over 21 cents per pound, cheese nearly 17 cents. Nonfat dry milk rose about 4 cents per pound and dry whey was up nearly 3 cents. These changes resulted in lower butterfat and protein prices and slightly higher nonfat solids and other solids prices. As a result, all class prices declined except Class I, based off of slightly higher prices in September, which rose 4 cents per cwt. The Class II price dropped 57 cents, Class III fell \$1.57, and Class IV decreased 59 cents, all on a per cwt basis.

The lower prices, combined with increased utilization in the lower price classes instead of Class I, translated into a decrease in the SUP with a higher PPD due to the larger spread between the Class I price and the manufacturing class prices. Unlike last month, there were no negative PPDs paid to producers shipping from the normal milkshed (see related article on page 2).

Highlights

The total volume of producer receipts for the month of October was the largest ever for that month, 109 million pounds more pooled than October 2015. The Class I volume was the lowest ever for the month, while the Class II, III, and IV volumes were their highest ever for the month of October. The producer protein test set a new record for October while the other solids test tied with previous years' record high. ❖

Pool Summary

- A total of 11,509 producers were pooled under the Order with an average daily delivery per producer of 6,293 pounds.
- Pooled milk receipts totaled 2.245 billion pounds, a decrease of 0.2 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 33.8 percent of total milk receipts, a decrease of 0.8 percentage points from September.
- The average butterfat test of producer receipts was 3.84 percent.
- The average true protein test of producer receipts was 3.16 percent.
- The average other solids test of producer receipts was 5.73 percent. ❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	33.8	758,498,453
Class II	24.0	539,364,362
Class III	25.3	567,757,965
Class IV	16.9	379,482,154
Total Pooled Milk		2,245,102,934

Producer Component Prices

	2016	2015
	\$/lb	
Protein Price	2.2975	1.7019
Butterfat Price	2.0493	2.9087
Other Solids Price	0.1351	0.0328

Class Price Factors

	2016	2015
	\$/cwt	
Class I	19.85	19.09
Class II	14.09	16.44
Class III	14.82	15.46
Class IV	13.66	16.43

PPD Positive in All Zones, Expected Negative in November

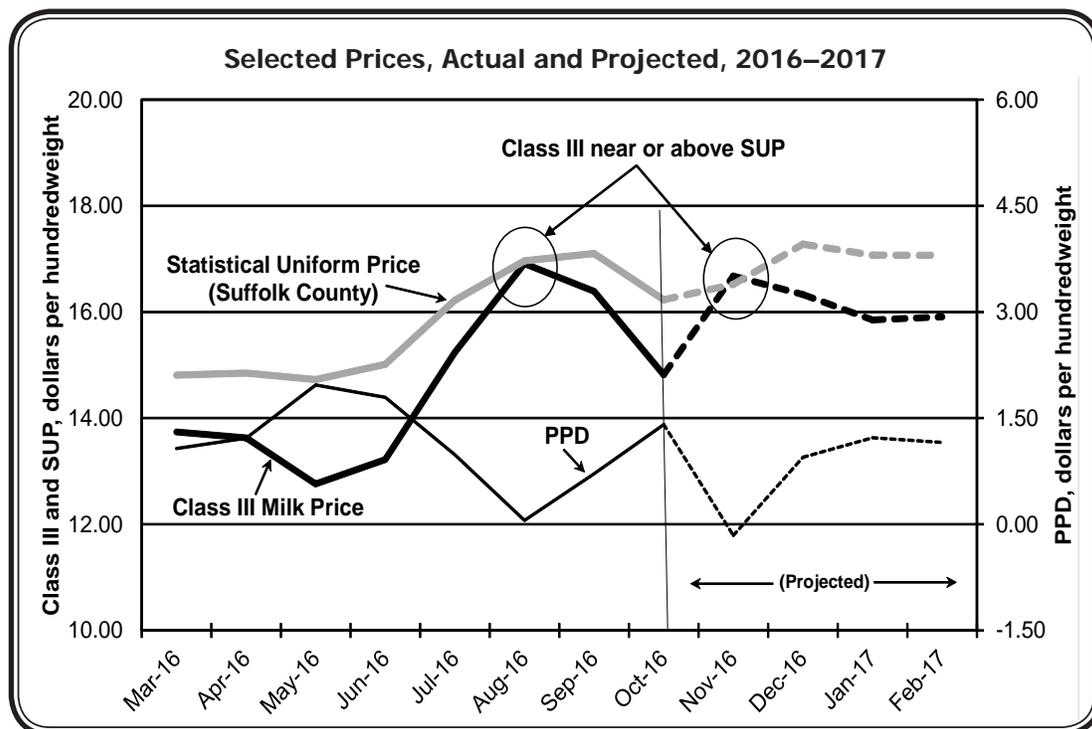
The Producer Price Differential (PPD) for October 2016 equaled \$1.41 per hundredweight at Suffolk County, Massachusetts (Boston), the basing point for the Northeast Order. Producers are paid for their milk based on the location where their milk is delivered during the month. Producers' milk delivered to plants in Suffolk County, or any other county that has a \$3.25 differential, would receive the \$1.41 per hundredweight (cwt) 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. The Northeast Order's outermost zone (in far Western New York and Pennsylvania) has a \$2.10 differential, \$1.15 per cwt below the Suffolk County base zone level. Any time the PPD at Suffolk County is below \$1.15 per cwt, one or more zones will experience negative PPDs.

PPDs Return to Positive in October

For the month of October, milk delivered to plants located in all zones received a positive PPD. September's \$0.71 per cwt PPD at Suffolk County resulted in negative PPDs in outer zones. The higher PPD this month can be attributed to the larger spread between the Class III price and the Statistical Uniform Price (SUP) in October, due to the Class III price declining by \$1.57 per cwt in October, and to a lesser degree the Class II and Class IV prices declining each by almost 60 cents per cwt. At the same time, the Class I price increased 4 cents per cwt in October.

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 uniform price had been rising, but not



dramatically so. Due to low Class II and Class IV prices, relative to the Class III price, there was 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 was being received by producers in their milk components valuation and not the PPD. This situation changed in October with Class II and Class IV prices closer to the Class III price and the Class I price high enough above the other 3 classes to result in enough classified value to share as higher PPD. Still, the return to positive PPDs were attributable to a notable decline in cheese prices, which directly led to the lower Class III price.

Turning Negative in November

November's Class I price has already been announced as \$18.03 per cwt (\$1.82 per cwt lower than in October). It was established during the market in which the cheese and Class III price had softened, as mentioned in the previous paragraph. Since that time, the cheese market has rallied to a degree in which the Class III price in November is expected to increase over \$1.80 per cwt. This will tighten the spread between the Class III price and the SUP estimated for November - in fact, based on November 14 Chicago Mercantile Exchange futures prices, the November Class III price may be above the November SUP. This would mean negative PPDs in all zones. The relationship between the Class III, SUP, and Cheese prices are presented in the accompanying chart. ❖

Manufacturing Class Utilization Grows

During the first 10 months of 2016, utilization of milk products and cream by pool plants was up 3.6 percent from the same period in 2015. All classes of utilization experienced growth except Class I that fell 1.4 percent. The other classes reported considerable increases. All comparisons have been adjusted for leap year.

The decline in **Class I** usage has been discussed in many *Bulletin* articles throughout this year. While the decrease continues, it appears to have slowed somewhat – for the January-October period in 2015 compared to the same period in 2014, the drop was 1.9 percent. The percent of total pooled milk receipts used for Class I has decreased 1.8 percentage points, but that is impacted more by the overall increase in pooled milk, which is up 3.3 percent from last year for the same 10-month period.

Class II utilization rose 3.7 percent for the same period over last. Milk used in making yogurt has bounced back from a decline during the past 2 years after rising steadily from 2010 to peaking in 2013; it rose 10.1 percent. Other categories with growth include ice cream and desserts, bakery-candy-soup, and ricotta cheese. Declines occurred in sour cream and cottage cheese. Overall, the Class II utilization percentage has averaged 24.7 percent, but that represents a higher volume in 2016 since total pooled milk is up, as mentioned earlier.

Class III usage experienced the largest increase of the manufacturing classes. It jumped 9.6 percent for the 10-month period over last year. All product categories had growth. Cream cheese rose 3.5 percent; American cheese increase 6.0 percent; Italian cheese was up 11.5 percent; and Swiss and other type cheeses jumped 21.0 percent. Other cheese includes mostly Hispanic, but also feta, Muenster, and other varieties. Overall, the Class III utilization percentage of total pooled milk increased to 25.4 percent from 23.5 percent last year.

The October 2016 Class III volume was the largest on record for the month; the previous high was in 2001. Compared to 15 years ago, Italian cheese still dominates Class III usage, followed by American cheese, but both have lost shares to the other cheese category. In 2001, the combination of cream cheese, Swiss, and other varieties only accounted for 11 percent of all Class III utilization; in 2016 they made up 21 percent of all Class III.

Class IV utilization increased 4.0 percent from last year. Milk used in butter grew 6.3 percent while the categories of dried milk products and condensed products rose 3.7 and 2.4 percent, respectively. Overall the total volume used in Class IV is higher than last year, but the utilization percentage declined slightly due to the higher overall pooled milk volume.

The total volume of milk assigned to the **Minimum Price Class** jumped 79.5 percent when compared to last year. Typically, milk supplies peak during the months of

May through July. This year, the surge in pool volume began in April and, combined with lower Class I demand, the excessive supplies resulted in milk being disposed of as surplus at a higher than normal rate. Milk that is disposed of or dumped at a plant or farm due to excess milk supplies, if eligible, is pooled and classified at the “minimum price class” for the applicable month. In most cases, this is Class IV, but during May and June 2016, it was Class III that was the lowest price for the respective month. Milk utilized or “disposed of” in this manner is reported under the category “animal feed and dumpage” under that month’s Minimum Price Class.

During 2015, June and July experienced a similar situation with excess milk disposed of this way. In addition, due to weather conditions and plant closures over the holiday period, milk was allowed to be dumped during December. A similar situation is anticipated for this year with an allowance for on-farm dumping approved (see related article below).❖

Temporary Dumping of Surplus Milk

Handlers regulated under the Northeast Order have again requested the Market Administrator to temporarily authorize the pooling of milk disposed or dumped at a farm or non-plant location while allowing the milk to retain the status of pooled producer milk, during the upcoming Thanksgiving through New Year’s holiday period.

Similar requests allowing for the on-farm disposal of surplus milk have been made and approved by the Market Administrator in selective periods during the past two years as handlers in the Northeast have struggled with milk supplies exceeding commercial demand as well as sometimes exceeding available plant processing capacity in the immediate and nearby regions.

In times of excess milk and lack of demand, handlers first seek to find a plant with the ability to separate and remove the cream from the raw milk. If no outlets for the residual skim milk can be found, the skim portion may be disposed of at the plant or returned to a farm location for disposal. Dumping of milk or skim milk at a plant can occur as a regular part of milk processing and is an allowable utilization under the Order. It is the dumping of raw milk on the farm, when no other options can be found, that is addressed by this temporary dumping allowance for surplus milk. Neither scenario results in the seller receiving the full value for the milk as if it had been commercially utilized; however, in most instances handlers have been paying their producers for the full value of any of the dumped milk. This practice is required by Order provisions for proprietary handlers with their own producers but may be handled differently by cooperative organizations depending upon their circumstances.❖

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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	742,363,237	\$12.03	89,306,297.41	
Butterfat	16,135,216	2.3548	37,995,206.64	
Less: Location Adjustment to Handlers			(2,833,501.30)	\$124,468,002.75
Class II— Butterfat	31,440,229	2.0563	64,650,542.91	
Nonfat Solids	46,941,886	0.7933	37,238,998.12	101,889,541.03
Class III— Butterfat	26,395,100	2.0493	54,091,478.46	
Protein	17,843,208	2.2975	40,994,770.45	
Other Solids	32,235,828	0.1351	4,355,060.37	99,441,309.28
Class IV— Butterfat	12,349,951	2.0493	25,308,754.60	
Nonfat Solids	33,930,277	0.7469	25,342,523.92	50,651,278.52
Total Classified Value				\$376,450,131.58
Add: Overage—All Classes				47,739.57
Inventory Reclassification—All Classes				(198,076.86)
Other Source Receipts	734,646 Pounds			27,021.79
Total Pool Value				\$376,326,816.08
Less: Producer Component Valuations @ Class III Component Prices				(357,293,109.81)
Total PPD Value Before Adjustments				\$19,033,706.27
Add: Location Adjustment to Producers				12,710,693.41
One-half Unobligated Balance—Producer Settlement Fund				906,359.73
Less: Producer Settlement Fund—Reserve				(984,449.43)
Total Pool Milk & PPD Value	2,245,837,580 Producer pounds			\$31,666,309.98
Producer Price Differential		\$1.41		
Statistical Uniform Price		\$16.23		

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