

The Market Administrator's

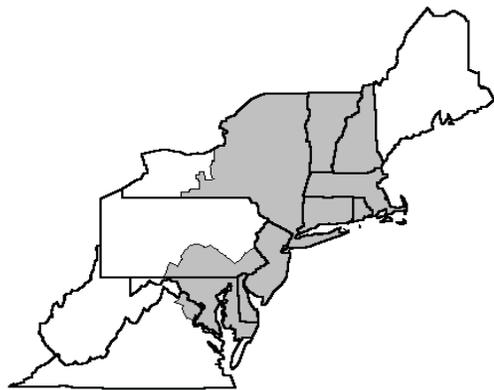
BULLETIN

NORTHEAST MARKETING AREA

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November 2016

Federal Order No. 1



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November Pool Price Calculation

The November 2016 statistical uniform price (SUP) for the Northeast Marketing Area was announced at \$16.34 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 \$17.77 per cwt. The November statistical uniform price was 11 cents per cwt above the October price. The November producer price differential (PPD) at Suffolk County was -\$0.42 per cwt, a decrease of \$1.83 per cwt from last month.

Product Prices Effect

All product prices rose during November except nonfat dry milk that decreased slightly. Butter increased nearly 5 cents per pound, dry whey rose 4 cents per pound, and cheese jumped almost 18 cents per pound. These changes resulted in higher component prices for butterfat, other solids, and protein, which rose to \$2.8085 per pound, the highest protein price since December 2014. All class prices increased except the Class I price, announced in advance, and based on lower product prices in early and mid-October. The Class II price increased 51 cents, Class III jumped \$1.94, and Class IV rose 10 cents, all on a per cwt basis.

The higher prices, combined with increased utilization in the higher price classes (Classes I and III), translated into an increase in the SUP. The tightening between the Class I and III prices resulted in a negative value for the PPD at all zones (see related article on page 3). The last time this happened was October 2012.

Highlights

Total producer receipts continued to set a record volume for the month. Daily deliveries per producer were over 6,000 pounds for the first time for the month of November. The Class I volume was the lowest ever for the month, while the Class IV volume was the highest ever for the month of November. The producer other solids test set a new record high for November; the butterfat test set a new record high for the Order. ❖

Pool Summary

- A total of 11,458 producers were pooled under the Order with an average daily delivery per producer of 6,326 pounds.
- Pooled milk receipts totaled 2.175 billion pounds, an increase of 0.1 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 34.6 percent of total milk receipts, an increase of 0.8 percentage points from October.
- The average butterfat test of producer receipts was 3.92 percent.
- The average true protein test of producer receipts was 3.18 percent.
- The average other solids test of producer receipts was 5.75 percent. ❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	34.6	752,915,843
Class II	22.4	486,670,057
Class III	26.3	571,592,823
Class IV	16.7	363,428,456
Total Pooled Milk		2,174,607,179

Producer Component Prices

	2016	2015
	\$/lb	
Protein Price	2.8085	1.3205
Butterfat Price	2.1044	3.1830
Other Solids Price	0.1750	0.0361

Class Price Factors

	2016	2015
	\$/cwt	
Class I	18.03	19.73
Class II	14.60	18.26
Class III	16.76	15.30
Class IV	13.76	16.89

2017 Outlook — Higher Average Price Anticipated

Based on current projections, the statistical uniform price (SUP) at Boston, MA, will finish the year averaging a little under \$16.00 per hundredweight (cwt) for 2016. This is a 7.2 percent decrease from 2015, or a \$1.23 per cwt drop. At the same time, the annual average corn price projects to finish 2016 dropping by 5 percent from its 2015 level if Chicago Mercantile Exchange (CME) corn futures play out as they settled on December 13. Looking back, the average annual Northeast Order SUP, corn, and soybean prices for 2016 were lower than any year at least as far back as 2009 (though 2016 soybeans may average just slightly below last year). We'll take a look at supply and demand factors as we head toward the new year, look at how milk prices and selected input prices have moved with respect to each other, and present a futures market based forecast for the milk price in 2017.

Supply Factors

In the December *World Agricultural Supply and Demand Estimates* Report, USDA forecast record high milk production for 2016 totaling 212.4 billion pounds. This would be an increase of 1.8 percent over 2015 U.S. milk production. Based on the same report, USDA expects 2017 U.S. milk production to increase another 2.1 percent over 2016 to total 216.8 billion pounds.

Record high milk production and strong growth are the story for the Northeast U.S. as well – if not more so. Northeast Order pool volume set record high levels each month through November and will likely set a record for the entire year as well. Through the first 11 months, pool volume is up 3.7 percent over the same period last year. Though pooled volume does not equate to total milk production, it is indicative of how strong milk production has been. Year-over-year milk production growth in the top 23 milk producing states, as reported by the National Agricultural Statistics Service *Milk Production* report, grew an average of 1.5 percent per month for the first ten months of the year. Milk production in New York grew an average of 4.6 percent per month during the same period. Vermont grew faster than the top 23 producing states as well averaging 2.0 percent per month, while Pennsylvania trailed the top 23 state average at 0.6 percent per month.

Stocks of dairy products in the U.S. have been building. October butter stocks were 27 percent higher than a year ago and 45.2 percent above the 5-year average for the month. October total cheese stocks were 6.1 percent higher than a year ago and 17.5 percent above the 5-year average. Nonfat dry milk stocks were 20.1 percent above a year ago, and 54.0 percent above the 5-year average for the month. October dry whey stocks were 6.6 percent higher than a year ago and 21.2 percent above the 5-year average.

Demand Factors

The U.S. exported 14.0 percent of its milk production, on a total milk solids basis, for the period January through September 2016. This compares with 14.2 percent for the same period a year earlier, however, most exports were at lower prices. Still, this equates to one day's milk production per week finding a home in the export market and highlights the importance this part of the dairy demand equation has become. The U.S. exported 15.7 percent of its milk production compared to 13.5 percent the previous October, perhaps a sign of a beginning recovery in the export market.

Export market analysts stated that difficult conditions and low margins have led to global milk production falling faster than expected. Globally, price recovery is viewed as being driven by falling supply rather than new demand and ongoing recovery may be limited by significant stock overhang. China appears to have increased imports, but this as well has been driven by falling domestic supplies rather than increased demand. Chinese imports were up 16 percent versus last year, but still 15 percent off 2014 levels.

U.S. exports are influenced by currency exchange rates that impact the relative value of U.S. dairy products. As predicted last year, the U.S. dollar did strengthen throughout the year, just reaching a 13 year high. In spite of this, as mentioned, there has been some recovery in U.S. dairy exports. Expectations are that the U.S. dollar will strengthen further in 2017, due to expected fiscal stimulus (tax cuts and infrastructure spending) being promised by a Trump administration. A strong U.S. economy relative to other developed economies also will support a strong dollar. Too strong a dollar may have adverse impacts on other countries, including making U.S. products relatively more expensive and potential for debt pressures. Rising protectionism may also be a concern for a dairy industry that has become increasingly tied to global markets to help clear domestic production.

Domestic Situation

The U.S. domestic market will continue to be counted on as a home to the large majority of milk produced here. We'll briefly look at some demand indicators important to dairy consumption to get a feel for what to expect from the domestic market. The unemployment rate has declined steadily since its high near 10 percent in 2009 and has been below 6 percent since September 2014, reaching 4.6 percent for November 2016. In September, the Restaurant Performance Index (RPI) (that tracks the health and outlook of the U.S. restaurant industry) stood at 100.8, driven by a stronger Current Situation Index. The Expectations Index component of the RPI was above (continued on page 3)

2017 Outlook *(continued from page 2)*

100, but was below 101 for the fourth straight month – the first time this occurred since 2012. Values above 100 signify expansion in the industry. Restaurant sales are an important outlet for dairy products and the index is used as an indicator of domestic dairy sales. The Consumer Confidence Index reached 107.1 in November, indicating strong demand; most indicators suggest reason to have some optimism in the domestic market in 2017.

Looking to 2017

The USDA forecasts the U.S. all-milk price for 2017 to range between \$16.85 and \$17.65 per cwt. Using CME

futures prices from December 13 for Class III and Class IV milk, the Northeast Order SUP projects to finish 2016 averaging \$15.91 per cwt for the year, a little over a dollar below what was expected when predictions were made last year. Again, using the December 17 CME futures prices, **the 2017 Northeast SUP is forecast to average \$18.71 per cwt for the year, approximately \$2.80 higher than the 2016 price level.** Supply and demand conditions heading into 2017 support some price recovery, potentially led by export recovery and continued strong domestic demand. Continued robust milk production, coupled with higher level stocks, may dampen recovery somewhat. ❖

Negative PPD, But Higher SUP

The total value of the federal order pool is determined by the respective class prices and the volume of milk utilized in each class. For the month of November, the “classified value” equaled \$373,909,160.79. The total value of all producer components (butterfat, protein, and other solids) equaled \$395,531,622.65, or \$21.6 million more than the pool classified value (see page 4 for pool computation). Since the payout to producers cannot exceed the value of the milk utilized in the pool, a negative producer price differential (PPD) has to occur to balance the respective valuations.

This scenario occurs due to the Class I and Class II skim milk prices being set in advance, based on wholesale market prices that are less than the more current and higher wholesale prices used in the calculation of Class III and IV prices and the component prices paid to producers.

Any class price higher than the Class III price contributes to the pool of money normally returned to producers in a positive PPD. With Class II and IV prices significantly below (\$2.16 and \$3.00, respectively) the Class III price, and the sizeable volumes (utilization of 39.1 percent) in the combined lower-priced classes, the classified value of the pool was diminished and producers received all of the pool value in their component payments.

Last month, we predicted that the PPD would be negative in all zones for November. Except for October, there have been negative PPD’s in some zones since July and extensive discussion and explanations in the August and October *Bulletins*. The SUP for November 2016 was \$16.34 per cwt; in October the SUP was \$16.23 per cwt with a PPD of \$1.41 per cwt signifying that a negative PPD does not necessarily reflect a lower price for producers. While perhaps difficult to understand and accept, a negative PPD typically signals that higher prices will in place the next month. The article on page 2 discusses the upcoming outlook for milk prices. ❖

2017 Payment Dates to Producers

The calendar below shows the dates for partial payments to producers that are not members of cooperatives. Partial payments are paid to producers for the milk received by pool handlers during the first 15 days of the month and are paid at not less than the lowest announced class price for the preceding month, less proper deductions authorized in writing by the producer. As required by the Order, payment must be made so that a producer receives it no later than the date shown. The table dates vary due to weekends and national holidays.

The final payment date that non-member producers must be paid is dependent on the date that the statistical uniform price is announced. Each month, the date that final payments to producers must be received by is printed on the back of the Pool Price Announcement. The final payment is for the remaining milk received and is priced such that the producer should receive an average price for the entire month’s milk at roughly the uniform price with adjustments for zone differential, component values, and other deductions relevant to that producer.

Producers that are members of cooperatives usually receive payments at the same time, although it is not required by the Order. ❖

Required Producer Payments Under the Northeast Order		
Month Milk Produced	Partial Payment Due	
	Day	Date
January	Thursday	1/26/17
February	Monday	2/27/17
March	Monday	3/27/17
April	Wednesday	4/26/17
May	Friday	5/26/17
June	Monday	6/26/17
July	Wednesday	7/26/17
August	Monday	8/28/17
September	Tuesday	9/26/17
October	Thursday	10/26/17
November	Monday	11/27/17
December	Tuesday	12/26/17

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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	736,394,451	\$11.04	81,297,947.39	
Butterfat	16,521,392	2.1074	34,817,181.50	
Less: Location Adjustment to Handlers			(2,846,174.94)	\$113,268,953.97
Class II— Butterfat	29,814,299	2.1114	62,949,910.87	
Nonfat Solids	42,439,222	0.8300	35,224,554.26	98,174,465.13
Class III— Butterfat	26,214,918	2.1044	55,166,673.45	
Protein	18,069,257	2.8085	50,747,508.29	
Other Solids	32,648,490	0.1750	5,713,485.90	111,627,667.64
Class IV— Butterfat	12,737,148	2.1044	26,804,054.26	
Nonfat Solids	32,623,890	0.7367	24,034,019.79	50,838,074.05
Total Classified Value			Total value of milk in the pool →	\$373,909,160.79
Add: Overage—All Classes				97,371.71
Inventory Reclassification—All Classes				204,582.73
Other Source Receipts	278,669 Pounds		Total value of producer components →	2,551.76
Total Pool Value				\$374,213,666.99
Less: Producer Component Valuations @ Class III Component Prices				(395,531,622.65)
Total PPD Value Before Adjustments				(\$21,317,955.66)
Add: Location Adjustment to Producers				12,325,457.87
One-half Unobligated Balance—Producer Settlement Fund				809,496.72
Less: Producer Settlement Fund—Reserve				(951,519.52)
Total Pool Milk & PPD Value	2,174,885,848 Producer pounds			(\$9,134,520.59)
Producer Price Differential		(\$0.42)		
Statistical Uniform Price		\$16.34		

Negative value from which PPD per hundredweight is calculated

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