

# The Market Administrator's

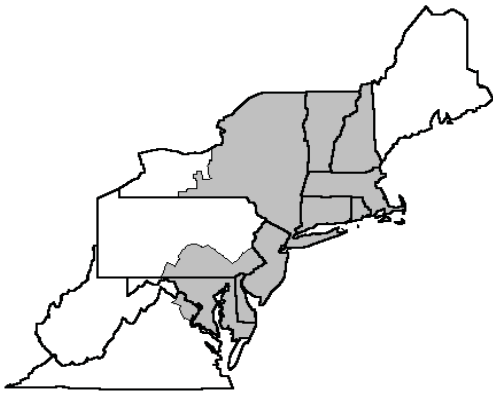
# BULLETIN

## NORTHEAST MARKETING AREA

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### May Pool Price Calculation

The May 2017 statistical uniform price (SUP) for the Northeast Marketing Area was announced at \$16.51 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 \$17.32 per hundredweight. The May statistical uniform price was 12 cents per hundredweight above the April price. The May producer price differential (PPD) at Suffolk County was \$0.94 per hundredweight, a decrease of 23 cents per hundredweight from last month.

#### Product Prices Effect

In contrast to the past 3 months, all commodity product prices increased from the previous month except dry whey. Cheese increased 4.3 cents, butter rose 4.8 cents, and nonfat dry milk was up 3.2 cents, all on a per pound basis. The dry whey price decreased slightly. These changes resulted in a nearly 8 cent jump in the protein price, a 6-cent increase in the butterfat price and a 3-cent rise in the nonfat solids component price. The average butterfat price for the January-May 2017 period is the highest on record for federal order pricing since order reform in 2000.

All class prices increased except the Class I price that was calculated on lower prices in April; it dropped 85 cents per hundredweight. The Class II price increased a slight 3 cents; Class III rose 35 cents; and Class IV was up 48 cents, per hundredweight, respectively. The tightening of the spread between the highest and lowest class prices, resulted in slightly higher SUP but a lower PPD.

#### Highlights

The total volume of producer milk receipts set a new record high for the Order, and for the first time ever topped 2.4 billion pounds. After decreasing each year from 2009-2014, the Class I volume for May has increased each year for the past 2 years. The Class II volume for May was the second highest ever for the month and the third highest ever for the Order. The Class IV volume was the highest for the month of May and the second highest ever for the Order. The average producer butterfat set a new record for May while the other solids test tied with past year's record for the month. ❖

### Pool Summary

- A total of 11,022 producers were pooled under the Order with an average daily delivery per producer of 7,119 pounds.
- Pooled milk receipts totaled 2.432 billion pounds, unchanged from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 30.7 percent of total milk receipts, an increase of 1.3 percentage points from April.
- The average butterfat test of producer receipts was 3.80 percent.
- The average true protein test of producer receipts was 3.03 percent.
- The average other solids test of producer receipts was 5.77 percent. ❖

#### Class Utilization

Pooled Milk	Percent	Pounds
Class I	30.7	745,548,247
Class II	24.4	593,685,186
Class III	25.3	616,211,124
Class IV	19.6	476,918,204
Total Pooled Milk		2,432,362,761

#### Producer Component Prices

	2017	2016
	\$/lb	
Protein Price	1.7723	1.4935
Butterfat Price	2.4134	2.2846
Other Solids Price	0.3196	0.0529

#### Class Price Factors

	2017	2016
	\$/cwt	
Class I	18.45	16.95
Class II	14.84	13.53
Class III	15.57	12.76
Class IV	14.49	13.09

## Whole Milk Sales, Butterfat Prices—Both Higher

Even though the total volume of packaged fluid milk sales in the Northeast Marketing Area (NMA) by regulated pool handlers has been on a constant decline since the Order's inception, sales of whole milk have actually experienced growth in recent years. The accompanying table shows the change in annual sales from 2012 to 2016. In addition, it compares the first 5 months of 2017 with the same period in 2016 and 2012. Leap year adjustments have been made.

### Conventional Sales

As shown in the table, annual sales of whole milk grew 3.2 percent from 2012 to 2016 while total fluid sales in the NMA dropped 9.5 percent. When comparing the January-May period, sales of whole milk in 2017 have risen 2.7 percent from the same period in 2016 and 5.2 percent from 2012. Overall, total fluid sales are down 2.3 percent for the 5-month period compared to 2016 and down 11.2 percent compared to 2012. Flavored conventional whole milk rose 46.7 percent from 2012 to 2016, but for the January-May period in 2017, it is down nearly a percent from 2016.

### Organic Sales

Organic whole milk experienced an even greater increase than conventional whole, but overall only accounted for 2.4 percent of total packaged sales in the NMA during the 5-month period in 2017. This is up from 2.2 percent in 2016 and 1.2 percent in 2012.

In total, whole milk (conventional, organic, plain, and flavored) accounted for 39.2 percent of total packaged sales in the NMA during the January-May period in 2017. This is up from 37.2 percent for the same period in 2016, and 32.1 percent in 2012. Many articles in the media have been highlighting research that touts the benefits of whole milk over lower fat varieties--everything from brain development in young children to helping control weight in adults. In the Northeast, an area that historically had a higher percentage of its fluid sales in the whole milk category, versus the rest of the US, it appears this trend is continuing and even growing.

### Higher Butterfat Prices

Whole milk is of course a higher fat product than the

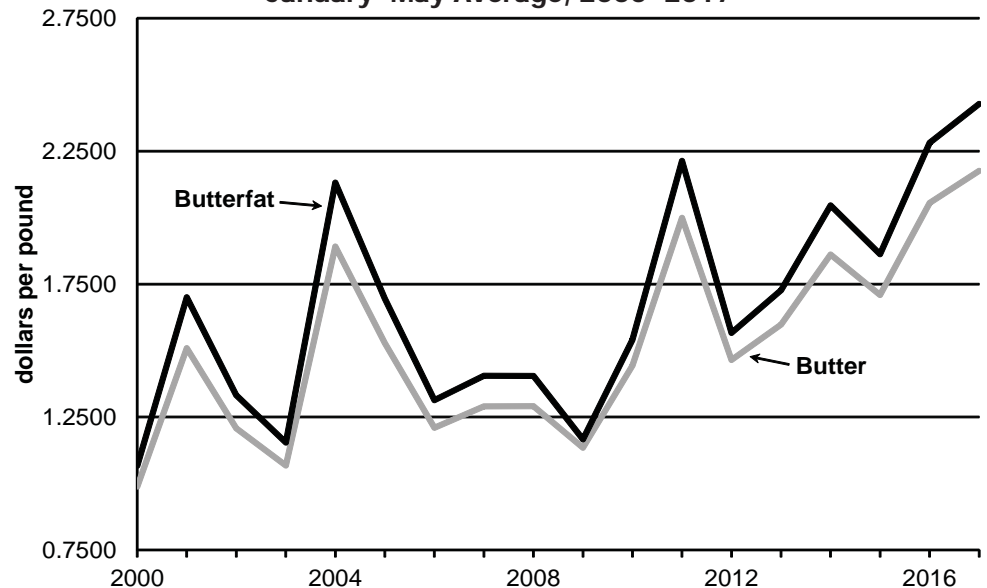
**Northeast Marketing Area—Change in Fluid Packaged Sales\***

	Annual 2012-16	January-May	
		2012-17	2016-17
	(percent)		
Whole Milk	3.2	5.2	2.7
Organic Whole Milk	67.7	82.5	7.9
Organic Reduced Fat Milk	1.5	3.1	(0.9)
Reduced Fat Milk (2%)	(9.7)	(11.0)	(2.6)
Low Fat Milk (1%)	(17.0)	(21.1)	(6.5)
Fat-Free Milk (Skim)	(36.0)	(42.2)	(12.2)
Flavored Whole Milk	46.7	46.3	(0.7)
Flavored Lower Fat Milk	(3.4)	(9.1)	(3.6)
Buttermilk/eggnog/misc	(7.3)	17.1	29.6
<b>Total</b>	<b>(9.5)</b>	<b>(11.2)</b>	<b>(2.3)</b>

\* Includes sales in the marketing area by regulated pool handlers.

other fluid milk products normally consumed. With its standardized minimum butterfat level of at least 3.25 percent, the quantity sold in the NMA absorbs a considerable volume of butterfat from the total amount of producer milk pooled under the Order. The use of fat keeps the butter price competitively high on the commercial market, which then results in higher NASS product prices for butter, and ultimately higher butterfat component prices for producers. This may be one of the contributing factors to the record-setting producer component butterfat price experienced during the first 5 months of 2017 (see chart). Another factor may be that the increase in the use of pooled milk in manufacturing butter, which has grown 21 percent in 2017 for the January-May period compared to 2016 and 54.4 percent compared to 2012, is also increasing demand for butterfat. ❖

**NASS Butter and Federal Order Butterfat Prices, January–May Average, 2000–2017**



Source: National Agricultural Statistics Service.

## Utilization Adjusts to Record Milk Volumes

Since November 2015, each month's total pool volume of milk has surpassed the same month of the previous year. This 19-month trend has resulted in record-setting volumes that have resulted in pool handlers facing some difficulty in balancing all of the milk pooled on the Order.

One of the factors contributing to the difficulty in utilizing the large volumes of milk has been the decrease in fluid packaged milk (Class I) that we have discussed many times in the *Bulletin*. In this issue, we will compare the changes in utilization in other classes for the first 5 months of 2017 to the same period 5 years ago; comparisons are adjusted for leap year in 2012.

### **What Has Changed?**

As expected, Class I volume is down 11.3 percent from 2012 to 2017. All of the other classes have experienced significant growth. Class II usage grew 7 percent from 2012 to 2017 for the 5-month period. Double-digit increases were recorded in the bakery/candy/soup category, ricotta cheese, and the ice cream/frozen desserts category. Yogurt, which saw extreme growth between 2010 and 2012, still showed a respectable 5.9 percent increase from 2012 to 2017.

### **Manufacturing Classes Absorb Milk**

Class III utilization rose 21.8 percent for the period compared from 2012 to 2017. Italian cheese grew 11 percent, American increased 24.5 percent, and Swiss and Other Cheeses (which includes the growing Hispanic cheese category) jumped 76.6 percent. Historically, Class IV was used for balancing and considered to be the surplus class since the manufactured products in this class, mainly butter and dried milk products, were the most storable. Levels would vary greatly depending on the need to utilize surplus milk. In more recent years, the volume of dried products manufactured has become more constant, and with the addition of processing capacity in the region for value-added high protein milk powders, Class IV has continued to increase in volume. For the 5-month period, Class IV rose 45.6 percent from 2012 to 2017. For 11 months straight, the monthly total utilized in Class IV has surpassed the same month during the previous year. Record-setting volumes have occurred in 14 out of the last 16 months. As discussed in the article on page 2, butter has grown 54.4 percent from 2012 to 2017. Dried milk products have jumped 64.7 percent for the same period.

### **Surplus Milk**

As mentioned above, the record-setting pooled volumes have been largely utilized in Classes II, III, and IV but in some months in the past year volumes have been too large to accommodate. As a result, the surplus has ended up in the Other Uses/Minimum Price Class category. Milk assigned to this class is paid at the minimum class

price for the current month. This is usually the Class IV price, but can be the Class II or III price. The assignment of this milk has been discussed in several past *Bulletins*.

Continuing large volumes of milk production have not only driven high utilizations in manufacturing classes in the Northeast, but have resulted in a decision by the Northeast Market Administrator to temporarily reauthorize the pooling of milk disposed of or "dumped" at farm or other non-plant locations for the requested period of June 1, 2017–August 31, 2017, subject to some conditions and audit verification by the Market Administrator. ❖

## Negative PPDs Below \$2.40 Zone

The May 2017 producer price differential (PPD) was \$0.94 per hundredweight (cwt) at Suffolk County, Massachusetts (Boston), the basing point for the Northeast Order and a \$3.25 differential zone. For the month of May, milk delivered to plants located in the zones below \$2.40, further away from the Boston base point, received a negative PPD. For the month of May, 23.3 percent of the milk pooled on the Order was received at plants in these zones.

### **Current PPD Dynamics**

The PPD in April (\$1.17 per cwt) was just positive enough to result in a positive PPD in all differential zones. In May, a 35 cents increase in the Class III price while the Class I price dropped 85 cents contributed to the decline in the PPD level that resulted in negative PPDs in some zones. The May Class I price was established in advance, when market prices used in the Class I price formula had declined. Since then, the Class III price recovered, narrowing the gap between the Statistical Uniform Price (SUP) and the Class III price. The Class I price for June has already been established at just 11 cents above May's Class I price. At this time all other Class prices are expected to rise, based on Chicago Mercantile Exchange futures prices. The result of these expected price dynamics is a higher SUP, higher Class II price, and a PPD that will be higher than May, but possibly still not high enough to avoid a negative PPD in some of the lower zones. Utilization percentages between the four classes have narrowed to some degree due to the large volume of milk finding a market in manufacturing classes while Class I stays fairly constant. The result is that the effective weight on the Class I price is much less than over a decade ago so it takes a larger degree of difference between the Class I price and other classes in order to generate large PPDs. This tightening of utilization percent levels makes the Order more susceptible to small and negative PPDs. ❖

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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	730,464,395	\$10.39	75,895,250.64	
Butterfat	15,083,852	2.4061	36,293,256.30	
Less: Location Adjustment to Handlers			(2,823,128.94)	\$109,365,378.03
Class II— Butterfat	34,510,469	2.4204	83,529,139.22	
Nonfat Solids	51,014,380	0.7333	37,408,844.89	120,937,984.11
Class III— Butterfat	26,904,876	2.4134	64,932,227.78	
Protein	18,401,788	1.7723	32,613,488.87	
Other Solids	35,363,632	0.3196	11,302,216.80	108,847,933.45
Class IV— Butterfat	15,841,886	2.4134	38,232,807.67	
Nonfat Solids	42,312,921	0.6956	29,432,867.86	67,665,675.53
<b>Total Classified Value</b>				<b>\$406,816,971.12</b>
Add: Overage—All Classes				317,936.13
Inventory Reclassification—All Classes				223,262.04
Other Source Receipts	181,962 Pounds			4,987.14
<b>Total Pool Value</b>				<b>\$407,363,156.43</b>
Less: Producer Component Valuations @ Class III Component Prices				(398,405,281.96)
<b>Total PPD Value Before Adjustments</b>				<b>\$8,957,874.47</b>
Add: Location Adjustment to Producers				13,749,068.09
One-half Unobligated Balance—Producer Settlement Fund				1,252,535.33
Less: Producer Settlement Fund—Reserve				(1,093,557.53)
<b>Total Pool Milk &amp; PPD Value</b>	2,432,544,723 Producer pounds			<b>\$22,865,920.36</b>
Producer Price Differential		<b>\$0.94</b>		
Statistical Uniform Price		<b>\$16.51</b>		

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