

The Market Administrator's

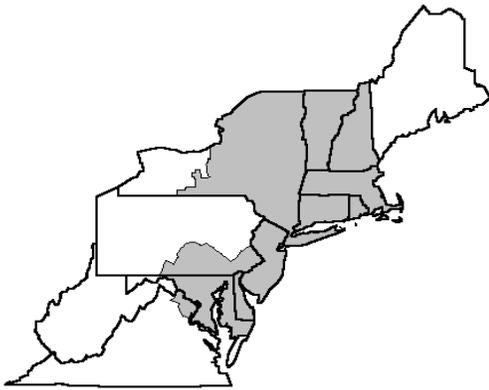
BULLETIN

NORTHEAST MARKETING AREA

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November 2017

Federal Order No. 1



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November Pool Price Calculation

The November 2017 statistical uniform price (SUP) for the Northeast Marketing Area was announced at \$17.14 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 \$18.71 per hundredweight. The November statistical uniform price was 30 cents per hundredweight below the October price. The November producer price differential (PPD) at Suffolk County was \$0.26 per hundredweight, a decrease of 49 cents per hundredweight from last month.

Product Prices Effect

All commodity product prices declined from the previous month except cheese, which rose about 4 cents per pound. Butter declined 9 cents, nonfat dry milk fell 5 cents, and dry whey decreased 2 cents, all on a per pound basis. These changes resulted in a 23-cent increase in the protein price and decreases of 11 cents in butterfat, 5 cents in the nonfat solids price, and 2 cents in the other solids price.

The Class III price rose 19 cents per hundredweight. All other class prices decreased. Class I declined 3 cents, Class II fell 63 cents, and Class IV dropped 86 cents, all on a hundredweight basis. The resulting SUP declined slightly from last month. The PPD decreased as the Class III price rose, tightening the difference between the Class III price and the Class I and II prices. Producers shipping to plants in the \$2.90 zone and further out received negative PPDs. With a higher December Class I price based off of the higher prices in November, it is expected that the PPD will return to a positive level in December for most, if not all, zones.

Highlights

The total volume of producer milk receipts set a new record high for the month, as did the Class IV volume. November's Class I volume was above the previous year's.

The average producer component butterfat test set a new record high for the month of November. ❖

Pool Summary

- A total of 11,036 producers were pooled under the Order with an average daily delivery per producer of 6,587 pounds.
- Pooled milk receipts totaled 2.181 billion pounds, an increase of 0.5 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 35.1 percent of total milk receipts, up 0.8 percentage points from October.
- The average butterfat test of producer receipts was 3.95 percent.
- The average true protein test of producer receipts was 3.17 percent.
- The average other solids test of producer receipts was 5.74 percent. ❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	35.1	766,319,055
Class II	21.7	472,825,281
Class III	26.2	570,524,470
Class IV	17.0	371,074,397
Total Pooled Milk		2,180,743,203

Producer Component Prices

	2017	2016
	\$/lb	
Protein Price	2.3412	2.8085
Butterfat Price	2.5546	2.1044
Other Solids Price	0.1644	0.1750

Class Price Factors

	2017	2016
	\$/cwt	
Class I	19.66	18.03
Class II	15.32	14.60
Class III	16.88	16.76
Class IV	13.99	13.76

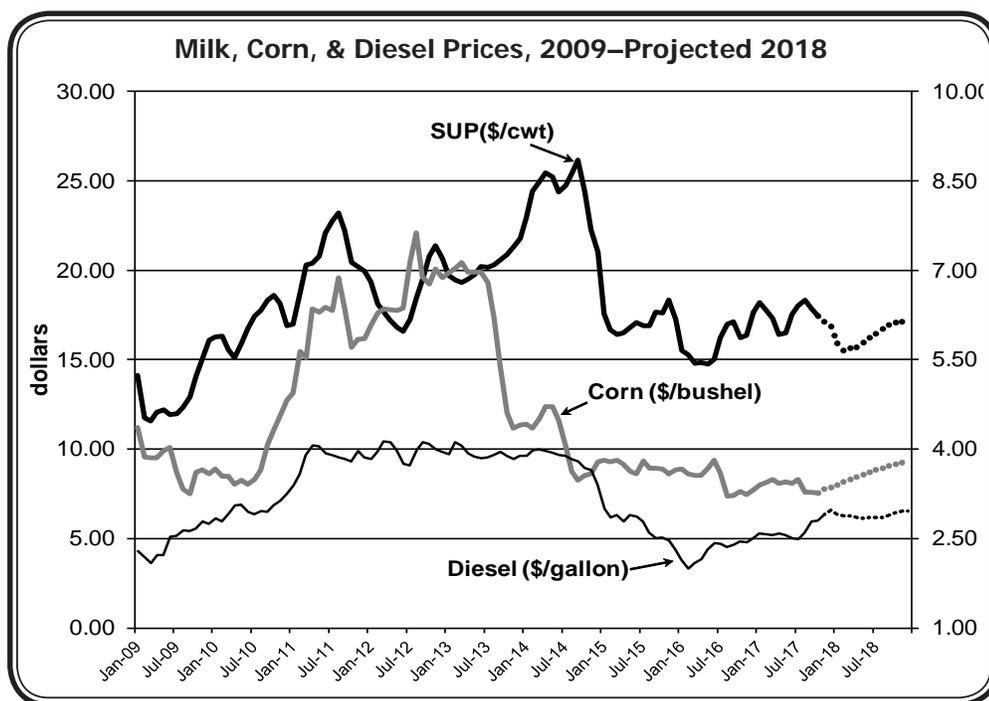
2018 Outlook

Based on current projections, the statistical uniform price (SUP) at Boston, MA, will finish the year averaging \$17.45 per hundredweight (cwt) for 2017. This is a 9.8 percent increase from 2016, or a \$1.55 per cwt increase. At the same time, the annual average corn price projects to finish 2017 dropping by 2.7 percent from its 2016 level if Chicago Mercantile Exchange (CME) corn futures play out as they settled on December 13. Looking back, the average annual corn price for 2017 was lower than any year at least as far back as 2009. Despite regional challenges in marketing strong milk production, according to a report on Northeast Dairy Farms by Farm Credit East, profitability increased marginally in 2016 due in large part to declining costs (such as feed, labor, and fuel). The accompanying chart presents where the statistical uniform price and feed and fuel costs have been and where they may be headed. 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 2018.

Supply Factors

In the December World Agricultural Supply and Demand Estimates Report, USDA forecast record high milk production for 2017 totaling 215.7 billion pounds. This would be an increase of 1.6 percent over 2016 U.S. milk production. Based on the same report, USDA expects 2018 U.S. milk production to increase another 1.7 percent over 2017 to total 219.3 billion pounds.

Northeast Order pool volume set record high levels 10 of 11 months through November and will likely set a record for the entire year as well. Through the first 11 months, pool volume is up 1.6 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 2.0 percent per month for the first ten months of the year. Closer to home, milk production in New York grew an average of 1.9 percent per month during the same period. This was characterized by averaging 3.7 percent over the first 5 months and just 0.1 percent from June through October. Vermont grew by an average of



0.7 percent per month, while Pennsylvania also trailed the top 23 state average at 1.7 percent per month.

Stocks of dairy products in the U.S. have been building. October stocks of butter were 3.7 percent lower than a year ago and 24.6 percent higher than the 5-year average for the month. October total cheese stocks were 3.7 percent higher than a year ago and 17.8 percent higher than the 5-year average. Nonfat dry milk stocks were 46.5 percent above a year ago, and 101.8 percent above the 5-year average for the month. October dry whey stocks were 53.8 percent higher than a year ago and 70.4 percent above the 5-year average.

Demand Factors

The U.S. exported 14.3 percent of its milk production, on a total milk solids basis, for the period January through October 2017. This compares with 14.1 percent for the same period a year earlier. October exports accounted for 15.2 percent of U.S. production, down from 17.5 percent the previous October. Still, this equates to roughly one day's milk production per week finding a home other than in the U.S. and highlighting the importance of exports.

Export market analysts stated due to lukewarm powder exports, U.S. inventories of nonfat dry milk continue to build counter-seasonally, as evidenced by stocks data reported above. The global oversupply of skim milk powder has pushed prices near their lowest level in 14 years. Cheese exports are above year ago levels led by increased exports to China (up 82 percent) and Central America (up 42 percent).

U.S. exports are influenced by currency exchange
(continued on page 3)

Outlook (continued from page 2)

rates that impact the relative value of U.S. dairy products. Contrary to expectations headed into 2017, the dollar decreased in value throughout most of the year, reaching a low in September. Analysts tie some of the contrary result to strengthening of the Euro that resulted from political victories that supported the European Union. This movement would have made U.S. product relatively cheaper on international markets and supported exports this past year. Current expectations seem to indicate the U.S. dollar will strengthen in 2018, largely based on assumptions that the United States passes a new tax plan and a possible infrastructure program being executed during the next year. Too strong a dollar may have adverse impacts on further export recovery.

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 domestic demand indicators. The unemployment rate has continued to decline steadily since its high near 10 percent in 2009; it averaged 4.9 percent in 2016 and reached 4.1 percent in November 2017. Per capita disposable personal income fell 0.3 percent in the third quarter of 2017. In October, the Restaurant Performance Index (RPI), which tracks the health and outlook of the U.S. restaurant industry, stood at 100.9. This was driven by an improving outlook by restaurant operators, as 4 in 10 operators expect their sales to be higher in 6 months. However, the current situation index fell to a 6-month low of 99.5. This was the fourth consecutive month below the 100 level. Values above 100 signify expansion in the industry, and below that level signify contraction. Restaurant sales are an important outlet for dairy products and so the index is used as an indicator of domestic dairy sales.

The Consumer Confidence Index reached 129.5 in November, indicating strong demand. Consumers improved their outlook of current and near term business conditions. A larger proportion of consumers expect there to be more jobs in the months ahead. However, the percentage of consumers expecting improvement in short-term income prospects declined marginally. There is reason to be optimistic that the domestic market will continue to buoy demand for dairy products, though recent data on disposable income and income expectations are something to watch for moving into 2018. Also posing a challenge may be the current restaurant performance situation failing to meet current operator optimism for 2018.

Looking to 2018

The USDA forecasts the U.S. all-milk price for 2018 to range between \$16.90 and \$17.80 per cwt – very similar

to their forecasted price range made at this time of year for 2017. Using CME futures prices from December 13 for Class III and Class IV milk, the Northeast Order SUP projects to finish 2017 averaging \$17.45 per cwt for the year, about \$1.25 below what was expected when predictions were made last year. Again, using the December 13 CME futures prices, **the 2018 Northeast SUP is forecast to average \$16.36 per cwt for the year, 6.3 percent and \$1.09 below the 2017 price level.** Supply and demand conditions are mixed heading into 2018. Continued robust milk production nationally, coupled with higher level stocks, may hinder price recovery. ❖

2018 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	Friday	1/26/18
February	Monday	2/26/18
March	Monday	3/26/18
April	Thursday	4/26/18
May	Tuesday	5/29/18
June	Tuesday	6/26/18
July	Thursday	7/26/18
August	Monday	8/27/18
September	Wednesday	9/26/18
October	Friday	10/26/18
November	Monday	11/26/18
December	Wednesday	12/26/18

RETURN SERVICE REQUESTED

FIRST CLASS MAIL

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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	749,113,457	\$10.53	78,881,647.02	
Butterfat	17,205,598	2.7129	46,677,066.81	
Less: Location Adjustment to Handlers			(2,937,804.20)	\$122,620,909.62
Class II— Butterfat	31,090,459	2.5616	79,641,319.78	
Nonfat Solids	40,955,970	0.7311	29,942,909.68	109,584,229.46
Class III— Butterfat	25,305,417	2.5546	64,645,218.28	
Protein	18,055,087	2.3412	42,270,569.70	
Other Solids	32,598,024	0.1644	5,359,115.15	112,274,903.13
Class IV— Butterfat	12,522,346	2.5546	31,989,585.09	
Nonfat Solids	33,275,442	0.5816	19,352,997.05	51,342,582.14
Total Classified Value				\$395,822,624.35
Add: Overage—All Classes				15,926.44
Inventory Reclassification—All Classes				31,168.10
Other Source Receipts	1,891,730 Pounds			35,865.02
Total Pool Value				\$395,905,583.91
Less: Producer Component Valuations @ Class III Component Prices				(402,421,376.66)
Total PPD Value Before Adjustments				(\$6,515,792.75)
Add: Location Adjustment to Producers				12,111,487.79
One-half Unobligated Balance—Producer Settlement Fund				970,498.86
Less: Producer Settlement Fund—Reserve				(891,343.14)
Total Pool Milk & PPD Value	2,182,634,933 Producer pounds			\$5,674,850.76
Producer Price Differential		\$0.26		
Statistical Uniform Price		\$17.14		

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