

The Market Administrator's

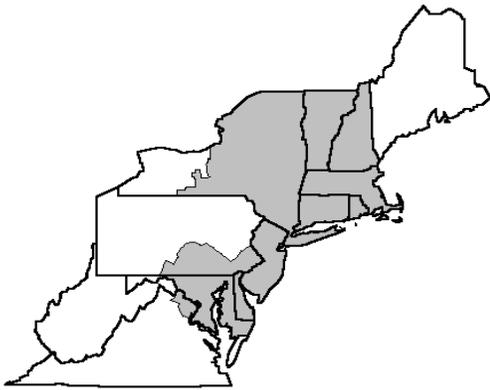
BULLETIN

NORTHEAST MARKETING AREA

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Federal Order No. 1



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August Pool Price Calculation

The August 2018 statistical uniform price (SUP) for the Northeast Marketing Area was announced at \$16.21 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 \$16.78 per hundredweight. The August statistical uniform price was 7 cents per hundredweight above the July price. The August producer price differential (PPD) at Suffolk County was \$1.26 per hundredweight, a decrease of 78 cents per hundredweight from last month.

Product Prices Effect

All commodity product prices increased from the previous month. The butter price rose 6 cents, cheese was up 7 cents, and nonfat dry milk and dry whey both increased 3 cents, all on a per pound basis. These changes translated into the butterfat pricing rising 7 cents, the protein price jumping 14 cents, and the nonfat solids and other solids prices increasing 3 cents, all on a per pound basis.

The Class I price, announced in advance and based on lower prices in July, decreased \$1.21 per hundredweight. The Class II price, which also is based on some of July's prices, declined 13 cents. Due to the increases in the commodity prices, the Class III price rose 85 cents and the Class IV price increased 49 cents, both on a per hundredweight basis. The Class IV price became the lowest priced class.

With some schools back in session, a higher proportion of milk pooled was utilized in the higher prices classes. This resulted in a higher SUP than the previous month. The PPD declined as the spread between the higher priced classes and the lower ones tightened.

Selected Statistics

Total pooled milk receipts for August 2018 were the second largest volume ever reported for the month. Total Class III volume was the highest ever for the month of August since the Order's inception. Class IV volume was the second highest ever for the month. For the seventh month in a row, average daily deliveries per producer were over 7,000 pounds. ❖

Pool Summary

- A total of 10,383 producers were pooled under the Order with an average daily delivery per producer of 7,048 pounds.
- Pooled milk receipts totaled 2.268 billion pounds, a decrease of 1.9 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 31.1 percent of total milk receipts, up 2.0 percentage points from July.
- The average butterfat test of producer receipts was 3.71 percent.
- The average true protein test of producer receipts was 3.00 percent.
- The average other solids test of producer receipts was 5.74 percent. ❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	31.1	706,439,285
Class II	25.0	567,592,742
Class III	28.7	649,880,500
Class IV	15.2	344,498,747
Total Pooled Milk		2,268,411,274

Producer Component Prices

	2018	2017
	\$/lb	
Protein Price	1.6245	1.5536
Butterfat Price	2.6009	3.0109
Other Solids Price	0.1741	0.2425

Class Price Factors

	2018	2017
	\$/cwt	
Class I	17.40	19.97
Class II	15.07	17.56
Class III	14.95	16.57
Class IV	14.63	16.61

Component Prices and Tests

Under component pricing, producers are paid on the level of butterfat, protein, and other solids in their milk. The price received for these components and the percentage of these components in the milk largely determine how much a producer will receive for their milk. Although producers cannot directly affect the prices paid for components, their dairying practices may affect the level of components in the milk their herd produces.

The accompanying charts compare the August average component price and the average component test since 2000 to highlight the relationship between the two. Since only the month of August over time is presented, some variability from year to year may be related to a weather or feed related issue. Component tests have generally increased over time since 2000. Both protein and butterfat reached record highs for the month of August during 2017, compared to previous years. Protein tests set or tied record highs during eight months in 2017. Through August of this year, test levels have come down somewhat. Butterfat tests have not broken any record highs, and they have matched a previous high, just twice. Protein broke a record high in January of this year and ties a previous high during one other month.

Protein

A look at the protein chart shows stronger increases in tests and prices the first half of the period shown. However, since 2011, protein prices have shown a consistent and large decline, from \$3.8305 per pound to \$1.6245 per pound in 2018, a roughly 57 percent decline. Still, an increasing trend for protein tests exists overall.

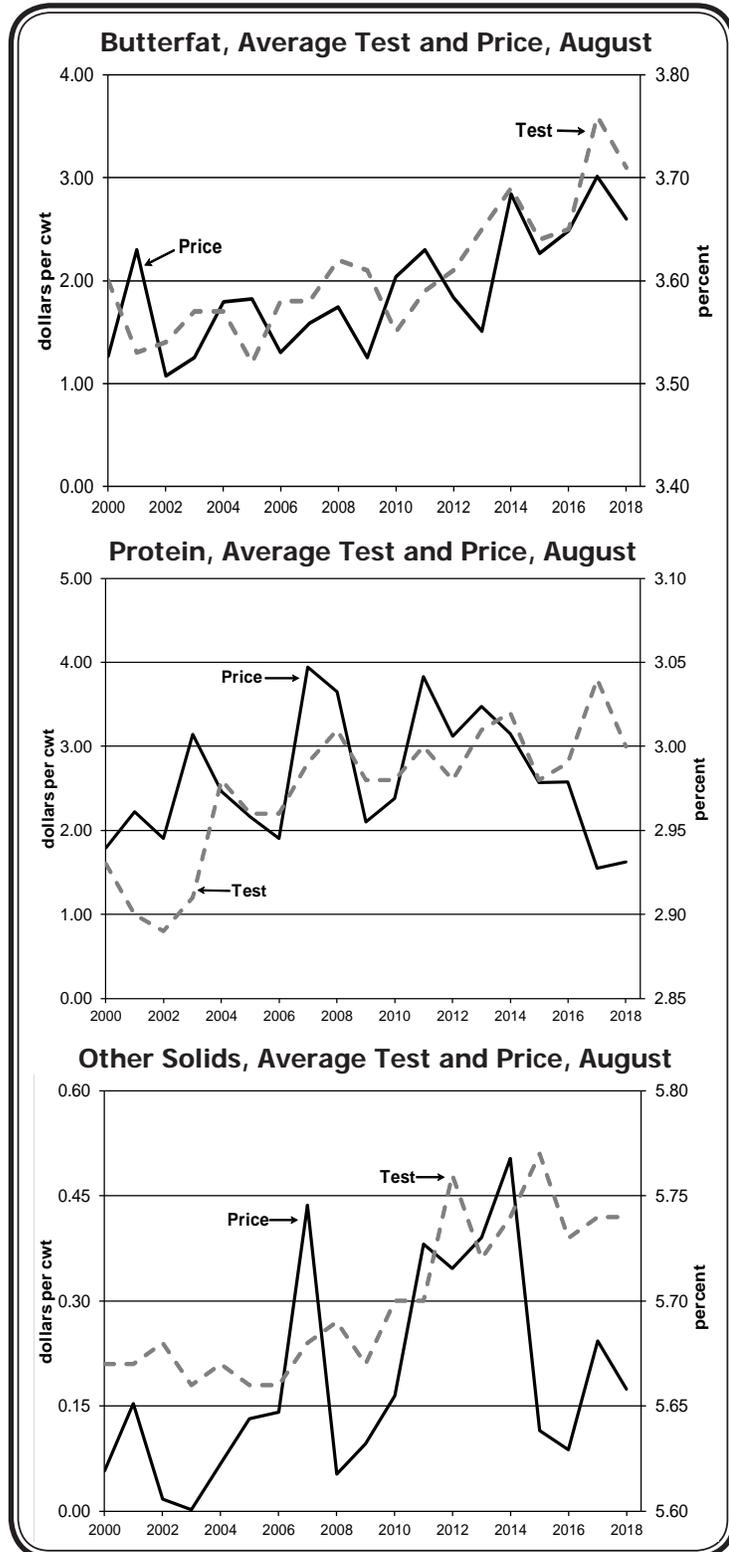
Butterfat

The trend for butterfat tests from 2000 to 2010 is fairly flat, but positive, while the price trend was about flat over that period. Since 2009 and 2010, average butterfat prices and tests have increased more notably, with some occasional dips. This trend may be attributable to the change in consumer sentiment towards butter. As consumers have returned to butter, butterfat prices have increased, and producers appear to have responded to the market signal by producing more butterfat in the milk. Butterfat prices for August averaged \$1.00 per pound more for the 2014 through 2018 period compared to 2000 through 2013.

Other Solids

Other solids average test levels have shown steady growth since 2006. The August other solids price has averaged just 15.5 cents since 2015, reflecting lower dry whey prices over the same time that are used to calculate the other solids price.

Though average component tests can be higher or lower, it does not necessarily indicate the total volume of the component available to the market as these charts do not show total production during this period. A period with lower component tests may be compensated by higher total production. The three charts together tell a story of increasing value from butterfat in recent years relative to the value derived from protein and other solids during this time period. ❖



Minimum Price Class Usage Back to Normal

The total volume of pooled producer receipts assigned to the minimum price class for August 2018 was slightly below the same month last year, a more “normal” range. With strong milk production this spring and summer that resulted in record-setting volumes, milk assigned to this class were significantly above May, June, and July of the previous year (see accompanying table). Changes in manufacturing plant processing schedules, affected by holidays and other shut downs, resulted in no alternative options and contributed to the higher volumes. As the table shows, volumes in March and April were below the same months in 2017, following a record-setting February. The volumes that occurred in May, June, and July factored into the decision to reduce fall month shipping requirements to Class I plants. Though volumes assigned to the minimum price class have returned to more normal levels, the Northeast Order still experienced near record level milk volume and a record low Class I utilization percent in August.

Milk assigned to the minimum price class includes milk used for animal feed, dumpage, and other uses as defined in section 1000.40 of the Order. Usually, the

**Milk Assigned to Minimum Price Class*,
January–August, 2017–2018**

	2017	2018	Yr-to-Yr Change
	pounds		percent
January	11,554,401	14,779,895	27.9
February	16,633,715	25,386,127	52.6
March	16,670,847	9,083,444	(45.5)
April	38,796,873	13,973,828	(64.0)
May	25,184,645	27,359,268	8.6
June	17,481,856	30,649,059	75.3
July	12,360,871	23,559,956	90.6
August	6,238,802	6,153,897	(1.4)
	144,922,010	150,945,474	4.2

* Includes milk used for animal feed, dumpage, and other uses as defined in section 1000.40 of the Order.

minimum price is the Class IV price, but it can be the Class II or III price as occurred during May (Class II) and July (Class III). It also was the Class III price during July and August of 2017. ❖

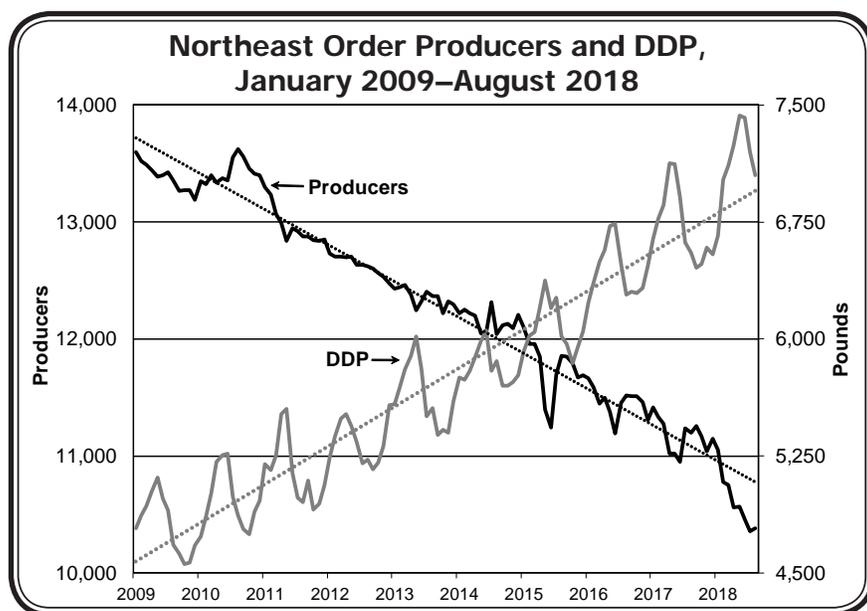
Strong Volume Reflected in Daily Deliveries Per Producer

The levels of producer milk receipts have been discussed many times in the monthly Bulletin during 2018. These volumes also have been reflected in record-setting average daily deliveries per producer (DDP). DDP topped 7,000 in February 2018 for the first time ever under the Order. It has remained over 7,000 pounds for the past 7 months. For the January through August period, DDP averaged 7,141 pounds, up 4.6 percent compared to the same period in 2017.

The accompanying chart shows DDP and producer numbers from January 2009 through August 2018. Trend lines have been added to show the degree in change

more easily. As depicted in the chart, even though there is obvious seasonality in DDP, it continues to increase overall at a fairly consistent level. In contrast, the number of producers has declined steadily over the same period. While the decline has been consistent for about the past 7 years, the current year shows a sharper decline than the trend would suggest. Since DDP continues to increase, this would indicate that the producers leaving are likely smaller, rather than larger, which has been a trend discussed in the past.

Last month we discussed how pooled producer receipts are not always reflective of milk production in an area. National Agricultural Statistics Service (NASS) milk production data in the Northeast states that contribute to the Northeast Order pool show a decrease in milk production of 1.3 percent for the January-June period. NASS data also show cow numbers declining 0.7 percent and milk production per cow (MPC) decreasing 0.6 percent for the first 6 months of 2018 compared to the same period in 2017. Northeast Order pool data for the same period show a decline in total pooled receipts of 0.9 percent. DDP for the 6-month period have risen 3.5 percent while producer numbers have dropped 4.2 percent. Based on this data, DDP is not growing due to additional cows or higher MPC, but rather the proportion of larger farms compared to smaller farms has increased. ❖



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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	690,898,115	\$8.71	60,177,225.82	
Butterfat	15,541,170	2.5688	39,922,157.50	
Less: Location Adjustment to Handlers			(2,639,450.56)	\$97,459,932.77
Class II— Butterfat	31,727,086	2.6079	82,741,067.61	
Nonfat Solids	48,637,544	0.6844	33,287,535.13	116,028,602.74
Class III— Butterfat	26,162,229	2.6009	68,045,341.44	
Protein	19,510,949	1.6245	31,695,536.65	
Other Solids	37,241,007	0.1741	6,483,659.33	106,224,537.42
Class IV— Butterfat	10,776,547	2.6009	28,028,721.07	
Nonfat Solids	30,328,639	0.6369	19,316,310.19	47,345,031.26
Total Classified Value				\$367,058,104.19
Add: Overage—All Classes				414,182.49
Inventory Reclassification—All Classes				206,614.80
Other Source Receipts	301,127 Pounds			6,705.82
Total Pool Value				\$367,685,607.30
Less: Producer Component Valuations @ Class III Component Prices				(352,167,881.40)
Total PPD Value Before Adjustments				\$15,517,725.90
Add: Location Adjustment to Producers				13,028,028.32
One-half Unobligated Balance—Producer Settlement Fund				1,139,115.73
Less: Producer Settlement Fund—Reserve				(1,099,093.60)
Total Pool Milk & PPD Value	2,268,712,401 Producer pounds			\$28,585,776.35
Producer Price Differential		\$1.26		
Statistical Uniform Price		\$16.21		

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