



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 2019 statistical uniform price (SUP) for the Northeast Marketing Area was announced at \$18.72 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 \$20.27 per hundredweight. The October statistical uniform price was 6 cents per hundredweight below the September price. The October producer price differential (PPD) at Suffolk County was \$0.00 per hundredweight, a decrease of 47 cents per hundredweight from last month.

Product Prices Effect

Commodity product price changes continued to be mixed. The October butter price fell 8 cents and the dry whey price declined 3 cents per pound while the cheese price increased 6 cents per pound and nonfat dry milk rose 4 cents. These changes resulted in a 10-cent drop in the butterfat price, a 31-cent jump in the protein price, a 4-cent increase in the nonfat solids price, and a 3-cent decline in the other solids price.

Class prices also were mixed. The Class I price decreased 1 cent, Class II dropped 25 cents, Class III rose 41 cents and Class IV increased 4 cents, all on a per hundredweight basis. Overall, class prices were fairly similar to last month, and combined with the slight changes in utilizations, resulted in a 6-cent lower SUP. Since the total value of the pool was nearly equal to the producer payout for components with adjustments, the PPD was zero (see page 4 of this *Bulletin*). Producers shipping to plants located in all of the zones except the base zone received a negative PPD (see article on page 2).

Selected Statistics

Average daily deliveries per producer set a new record high for the month of October. The Class IV volume was the second highest ever for October. The PPD equaled zero for only the second time ever under the Order; the last time was May 2008. The average producer butterfat and other solids tests set record-highs for the month; the average producer protein test was the second highest ever for the month of October. ❖

Pool Summary

- A total of 9,571 producers were pooled under the Order with an average daily delivery per producer of 7,492 pounds.
- Pooled milk receipts totaled 2.223 billion pounds, a decrease of 0.6 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 32.9 percent of total milk receipts, up 1.1 percentage points from September.
- The average butterfat test of producer receipts was 3.94 percent.
- The average true protein test of producer receipts was 3.15 percent.
- The average other solids test of producer receipts was 5.75 percent. ❖

Class Utilization

| Pooled Milk | Percent | Pounds |
|-------------------|---------|---------------|
| Class I | 32.9 | 730,411,252 |
| Class II | 24.7 | 550,197,991 |
| Class III | 26.4 | 586,064,825 |
| Class IV | 16.0 | 356,162,424 |
| Total Pooled Milk | | 2,222,836,492 |

Producer Component Prices

| | 2019 | 2018 |
|--------------------|--------|--------|
| | \$/lb | |
| Protein Price | 3.1700 | 1.7185 |
| Butterfat Price | 2.4031 | 2.5551 |
| Other Solids Price | 0.1447 | 0.2553 |

Class Prices

| | 2019 | 2018 |
|-----------|--------|-------|
| | \$/cwt | |
| Class I | 21.09 | 19.58 |
| Class II | 16.68 | 15.54 |
| Class III | 18.72 | 15.53 |
| Class IV | 16.39 | 15.01 |

Milk Received by Zone; Negative PPD in Most

The October 2019 producer price differential (PPD) was \$0.00 per hundredweight at Suffolk County, Massachusetts (Boston), the basing point for the Northeast Order and a \$3.25 differential zone. For the month of October, milk delivered to plants located in every other zone below the base zone received a negative PPD. This encompasses nearly the entire Northeast milkshed that covers Maine through New England, to western New York and Pennsylvania, and south to Virginia. Producer milk received at plants in the \$3.25 zone, which includes Rhode Island and eastern Massachusetts, would be paid no PPD. This is only the second time a zero PPD has occurred since the Order's inception in January 2000; the last time was in May 2008.

Zero PPD Explained

As mentioned on page 1 of this *Bulletin*, a zero PPD occurs when the total value of the pool based on the usage of the milk by class and the corresponding class price values is nearly equal to the total value of producer components. 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 October, due to lower Class II and Class IV prices, relative to the Class III price, there is 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, the full classified value of the monthly pool is being received by

producers in their milk components valuation and not the PPD.

While the Class III price has increased, largely due to higher cheese prices, the Class II declined and Class I and Class IV was about steady. The Agricultural Marketing Service National Dairy Product Sales Report price for weighted average cheese was \$1.9694 per pound in October, the highest level since November 2014.

In September, the PPD was \$0.47 per hundredweight resulting in negative PPDs for milk received at plants in the \$2.70 and further out zones. Prior to September 2019, the last time there were any negative PPDs was in September 2018.

Milk by Zone

The accompanying table shows the October pooled milk receipts by class and plant differential zone at which priced. Less than 3 percent of milk pooled in October was received at plants in the \$3.25 base zone (Boston, MA, and surrounding area). About 25 percent of all milk pooled was received at plants in the \$3.00 to \$3.15 zone range. This range includes the other major metropolitan centers of the Northeast Order: New York, NY; Philadelphia, PA; and Washington, DC. The zones ranging from \$2.40 to \$2.90 cover most of the more rural areas of Vermont, central New York and eastern Pennsylvania. About 48 percent of the total pool was received at plants in this range. Plants located in the \$2.30 and lower zones received about 24 percent of the total pool. This area covers the northern areas
(continued on page 3)

Northeast Order Pool Milk from Producers by Plant Location at Which Priced, October 2019

| Selected Locations | Location | | | Class | | | | Total Pool Pounds | Percent of Pool Total by Zone (percent) |
|--------------------------------------|---------------|---------------|-------------|------------------|----------|-----------|----------|-------------------|---|
| | Differential* | PPD | SUP | Class I | Class II | Class III | Class IV | | |
| | | | | (million pounds) | | | | | |
| New York, NY/Boston, MA | 3.10-3.25 | (0.15)-0.00 | 18.57-18.72 | 109.9 | 31.1 | 48.5 | 2.1 | 191.6 | 8.6 |
| Philadelphia, PA | 3.05 | (0.20) | 18.52 | 120.6 | 34.8 | 0.5 | 2.1 | 158.0 | 7.1 |
| Agawam, MA/Baltimore, MD | 3.00 | (0.25) | 18.47 | 131.0 | 41.2 | 2.5 | 91.1 | 265.8 | 12.0 |
| Frederick, MD/New Holland, PA | 2.90 | (0.35) | 18.37 | 41.1 | 14.8 | 6.4 | 0.9 | 63.2 | 2.8 |
| Mt. Holly Springs, PA | 2.80 | (0.45) | 18.27 | 102.0 | 92.4 | 52.3 | 136.4 | 383.0 | 17.2 |
| Middelbury, VT/Albany/Binghamton, NY | 2.60-2.70 | (0.65)-(0.55) | 18.07-18.17 | 90.0 | 31.0 | 90.0 | 1.3 | 212.3 | 9.6 |
| St. Albans/Swanton, VT/Syracuse, NY | 2.40-2.50 | (0.85)-(0.75) | 17.77-17.87 | 86.1 | 191.4 | 93.9 | 40.1 | 411.5 | 18.5 |
| Watertown/Rochester, NY | 2.30 | (0.95) | 17.77 | 18.0 | 82.0 | 242.4 | 50.0 | 392.4 | 17.7 |
| Buffalo, NY | 2.20 | (1.05) | 17.67 | 31.8 | 30.7 | 45.8 | 30.3 | 138.6 | 6.2 |
| Jamestown, NY | 2.10 | (1.15) | 17.57 | 0.0 | 0.6 | 1.8 | 0.0 | 2.4 | 0.1 |
| All Other Locations | | | | 0.0 | 0.0 | 2.1 | 1.8 | 3.9 | 0.2 |
| Market Total | | | | 730.4 | 550.2 | 586.1 | 356.2 | 2,222.8 | |
| Percent of Pool Total by Class | | | | 32.9 | 24.8 | 26.4 | 16.0 | | |

* Some zones have been combined to prevent disclosure of confidential data.

Milk Received (continued from page 2)

of Vermont and New York and the western areas of New York and Pennsylvania.

By class, the largest volumes of milk received at plants for Class I usage in October were in the \$3.00 and \$3.05 differential zones. For Class II usage, the

largest volume went to plants in the \$2.50 zone. The largest volume received at plants for Class III usage was in the \$2.30 zone, while the largest amount of milk used for Class IV purposes was in the \$2.80 zone. ❖

Contribution to Producer Price by Components

The statistical uniform price (SUP) varies each month based on the respective average component tests, prices of each component, utilization of producer milk by class, and the value of the producer price differential (PPD). The accompanying tables show the proportion components contributed to the weighted average SUP (at average pool test) for the month of October for the years 2012, 2015, 2018, and 2019 for a hypothetical farm producing 100,000 pounds of milk at pool average component tests. Various years were chosen to show the effect of component prices, component tests, and the PPD.

Butterfat and Protein

Proportions vary due to a multitude of factors. As the table shows, depending on the combination of a component's price and test, the proportion changes. For example, even though the protein test was the same in 2012, 2015, and 2018, the considerably high protein price during 2012 contributed to a greater portion of the SUP than in 2015 and 2018. In contrast, the combination of higher butterfat tests and prices in 2015 and 2018 resulted in higher butterfat proportion

of the SUP in those months than in 2012. Prices for butterfat and protein in October 2019 fall somewhere in the middle of the other years shown.

Other Solids and PPD

Butterfat and protein tend to have the largest proportions of the overall value. Due to its lower price per pound, other solids contributes a smaller proportion to the overall price. In the table, 2015 and 2018 show fairly similar price and tests for butterfat and protein. Due to different other solids prices and PPDs, the proportion contributed to the SUP varies greatly.

Depending on the month and its respective price, the PPD could contribute a significant value, no value, or actually reduce the overall price. In months where the PPD is negative, producers receive all of their value from components and does not necessarily represent a low SUP (see article on page 2 for a more detailed explanation). The percentage that the PPD contributes varies and is impacted by the utilization by class of milk in the pool as well as the difference between the respective class prices and the SUP. As the charts show, a higher PPD is not directly correlated with a higher SUP. ❖

Contribution to Total Gross Payment*, October

| | 2012 | | | | 2015 | | | |
|----------------------------|--------------|-----------------|----------------|----------------------|--------------|-----------------|----------------|----------------------|
| | Test percent | Price per pound | Gross dollars | Contribution percent | Test percent | Price per pound | Gross dollars | Contribution percent |
| Butterfat | 3.80 | 2.1136 | \$8,031.68 | 36.5 | 3.85 | 2.9087 | \$11,198.50 | 59.3 |
| Protein | 3.14 | 3.7278 | \$11,705.29 | 53.2 | 3.14 | 1.7019 | \$5,343.97 | 28.3 |
| Other Solids | 5.73 | 0.4340 | \$2,486.82 | 11.3 | 5.73 | 0.0328 | \$187.94 | 1.0 |
| PPD | | (0.24) | (\$240.00) | (1.1) | | 2.14 | \$2,140.00 | 11.3 |
| Total gross payment | | | \$21,983.79 | | | | \$18,870.41 | |
| Gross price per cwt | | | \$21.98 | | | | \$18.87 | |
| | 2018 | | | | 2019 | | | |
| | Test percent | Price per pound | Gross dollars | Contribution percent | Test percent | Price per pound | Gross dollars | Contribution percent |
| Butterfat | 3.89 | 2.5551 | \$9,939.34 | 53.8 | 3.94 | 2.4031 | \$9,468.21 | 46.7 |
| Protein | 3.14 | 1.7185 | \$5,396.09 | 29.2 | 3.15 | 3.1700 | \$9,985.50 | 49.2 |
| Other Solids | 5.73 | 0.2553 | \$1,462.87 | 7.9 | 5.75 | 0.1447 | \$832.03 | 4.1 |
| PPD | | 1.66 | \$1,660.00 | 9.0 | | 0.00 | \$0.00 | 0.0 |
| Total gross payment | | | \$18,458.30 | | | | \$20,285.74 | |
| Gross price per cwt | | | \$18.46 | | | | \$20.29 | |

* For a hypothetical farm producing 100,000 pounds of milk at pool average component tests. Percents may not equal 100 percent due to rounding.

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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 | 713,722,905 | \$12.54 | 89,500,852.29 | |
| Butterfat | 16,688,347 | 2.5695 | 42,880,707.62 | |
| Less: Location Adjustment to Handlers | | | (2,900,939.59) | \$129,480,620.40 |
| Class II— Butterfat | 33,547,192 | 2.4101 | 80,852,087.49 | |
| Nonfat Solids | 47,825,959 | 0.9489 | 45,382,052.51 | 126,234,140.00 |
| Class III— Butterfat | 25,367,590 | 2.4031 | 60,960,855.53 | |
| Protein | 18,427,423 | 3.1700 | 58,414,930.91 | |
| Other Solids | 33,566,227 | 0.1447 | 4,857,033.03 | 124,232,819.47 |
| Class IV— Butterfat | 11,876,125 | 2.4031 | 28,539,515.99 | |
| Nonfat Solids | 31,914,085 | 0.9186 | 29,316,278.46 | 57,855,794.45 |
| Total Classified Value | | | | \$437,803,374.32 |
| Add: Overage—All Classes | | | | 255,736.91 |
| Inventory Reclassification—All Classes | | | | (13,486.72) |
| Other Source Receipts | 390,375 Pounds | | | 6,438.68 |
| Total Pool Value | | | | \$438,052,063.19 |
| Less: Producer Component Valuations @ Class III Component Prices | | | | (450,519,318.22) |
| Total PPD Value Before Adjustments | | | | (\$12,467,255.03) |
| Add: Location Adjustment to Producers | | | | 12,758,969.34 |
| One-half Unobligated Balance—Producer Settlement Fund | | | | 809,656.56 |
| Less: Producer Settlement Fund—Reserve | | | | (1,101,370.81) |
| Total Pool Milk & PPD Value | 2,223,226,867 Producer pounds | | | \$0.06 |
| Producer Price Differential | | \$0.00 | | |
| Statistical Uniform Price | | \$18.72 | | |

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