

The Market Administrator's

BULLETIN

NORTHEAST MARKETING AREA

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August 2020

Federal Order No. 1

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August Pool Price Calculation

The August 2020 statistical uniform price (SUP) for the Northeast Marketing Area was announced at \$18.02 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 \$18.64 per hundredweight. The August statistical uniform price was \$1.06 per hundredweight below the July price. The August producer price differential (PPD) at Suffolk County was -\$1.75 per hundredweight, an increase of \$3.71 from the previous month.

Product Prices Effect

In contrast to the past few months, all commodity prices used in federal order pricing decreased during August. The National Dairy Product Sales Report price for butter dropped 27 cents, while the nonfat dry milk and dry whey prices each declined 1 cent, all on a per pound basis. Cheese prices fell from the previous month's record highs: barrel cheese decreased 46 cents and block cheese dropped 48 cents, resulting in a 48-cent weighted average per-pound decline in the monthly cheese price.

The commodity price changes resulted in a per-pound decrease of 33 cents in the butterfat price. The plummeting cheese prices translated to a \$1.19 per-pound drop in the protein price. The nonfat solids and other solids prices each declined 1 cent per pound.

All class prices decreased from the previous month except the Class I price that was calculated from the higher prices in July and rose \$3.22 per hundredweight. The Class II price declined 52 cents; Class III fell \$4.77; and Class IV dropped \$1.23, all on a per hundredweight basis. The mostly lower prices resulted in a lower SUP, and as the Class I price regained its usual status as the highest class price, the PPD increased. Due to the Class III price having the largest volume within the pool, the PPD was still a negative value, but at a much lower magnitude.

Selected Statistics

Average daily deliveries per producer set a new record high for the month of August. Total pooled receipts was the third highest ever for the month; Class IV volume was the highest ever for August. The average producer butterfat test set new record high for the month while both protein and other solids tests were the second highest ever for the month of August. ❖

Pool Summary

- A total of 9,144 producers were pooled under the Order with an average daily delivery per producer of 7,973 pounds.
- Pooled milk receipts totaled 2.26 billion pounds, a decrease of 3.6 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 28.6 percent of total milk receipts, up 0.5 percentage points from July.
- The average butterfat test of producer receipts was 3.77 percent.
- The average true protein test of producer receipts was 3.03 percent.
- The average other solids test of producer receipts was 5.76 percent. ❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	28.6	646,066,326
Class II	26.3	594,998,739
Class III	27.8	628,498,632
Class IV	17.3	390,613,356
Total Pooled Milk		2,260,177,053

Producer Component Prices

	2020	2019
	\$/lb	
Protein Price	4.4394	2.4453
Butterfat Price	1.6275	2.6574
Other Solids Price	0.1387	0.1730

Class Prices

	2020	2019
	\$/cwt	
Class I	23.03	21.14
Class II	13.27	17.60
Class III	19.77	17.60
Class IV	12.53	16.74

U.S. Milk Production Up: Northeast Pooled Volume Down

Estimated U.S. milk production for the first 6 months of 2020 was up 1.8 percent from 2019, a considerable increase compared to last year when milk production was flat compared to the same period in 2018. Total pooled milk volume for the Northeast Order declined 1.8 percent during the January-June period.

Milk Production

The top ten states, ranked by total production during the first 6 months, also increased 1.8 percent from 2019. The accompanying table shows the change along with a comparison for some selected areas. Same as in 2019, Texas reported the largest increase, followed by Idaho. The only top ten states showing declines were Wisconsin and New Mexico. Total production for the major 24 states as reported by NASS (National Agricultural Statistics Service) also rose 1.8 percent for January-June period compared to the previous year.

The accompanying map shows year-to-year percent changes for the January-June period for the major 24 milk production states. Of this group, South Dakota reported the largest increase, followed by Colorado, and Texas. Only seven of the 24 states reported declines with Vermont reporting the largest drop with 2.3 percent. In the Northeast, the states contributing to the Northeast Order milkshed had a combined increase of 1.0 percent; this compares to a combined decrease of 2.4 percent in 2019. The combined New England states decreased 1.6 percent compared to a combined increase of 0.3 percent for the 2019 period. Northeast milkshed states showing

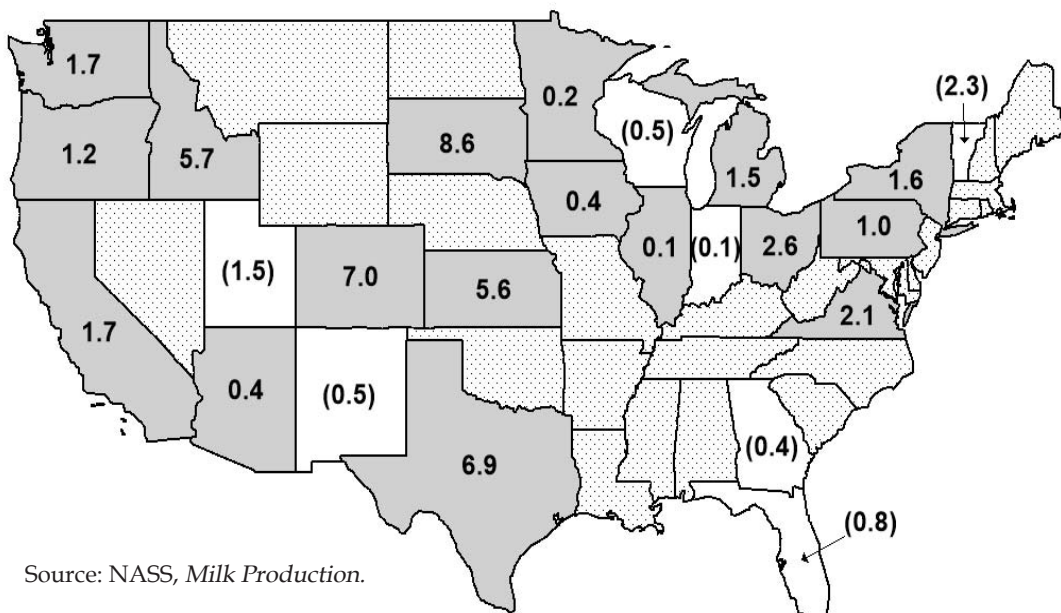
Milk Production in the Top Ten States, and Selected Areas, January–June, 2019 vs. 2020

Rank	State	2019 (million pounds)	2020 (million pounds)	Percent Change
1	California	20,621	20,964	1.7
2	Wisconsin	15,372	15,291	(0.5)
3	Idaho	7,674	8,108	5.7
4	New York	7,574	7,692	1.6
5	Texas	6,892	7,366	6.9
6	Michigan	5,720	5,806	1.5
7	Pennsylvania	5,169	5,222	1.0
8	Minnesota	4,982	4,992	0.2
9	New Mexico	4,139	4,120	(0.5)
10	Washington	3,362	3,420	1.7
	Top Ten Total	81,505	82,981	1.8
	24 Major States	104,770	106,696	1.8
	Northeast Milkshed	16,210	16,370	1.0
	Top 3 Northeast	14,104	14,244	1.0
	U.S. Total	110,139	112,068	1.8

Source: NASS, Milk Production

increases included Connecticut, Maryland, Massachusetts, New York, Pennsylvania, and Rhode Island. The top three contributing states (New York, Pennsylvania, and Vermont) had a combined increase of 1.0 percent.

January–June 2020 Milk Production in the NASS 24 Major States (Year-to-Year Percent Change)



Source: NASS, Milk Production.

Pool Volume

As mentioned, total producer volume for the first 6 months for the Northeast Order was down 1.8 percent from the same period in 2019 due to milk depooled in June and industry efforts to curtail some production in light of surplus milk that resulted at the onset of the Covid-19 pandemic. If the depooled milk was included, Northeast total pooled volume would be slightly above last year. This compares to decreases of 1.9 percent for the 6-month period in 2019 and 0.9 percent in 2018. Based on projections for the rest of 2020, total annual pooled volume is expected to finish about even with 2019. ❖

Market Situation

The August statistical uniform price declined about a dollar per hundredweight (cwt) below July's high for the year thus far. The August Class III price saw a sharp decline of \$4.77 per cwt, but it coincided with the highest Class I price for the year, priced in advance when the cheese price was very high. Agricultural Marketing Service National Dairy Product Sales Report (NDPSR) prices of cheddar cheese, butter, nonfat dry milk, and dry whey are the inputs to federal milk market order class and component prices.

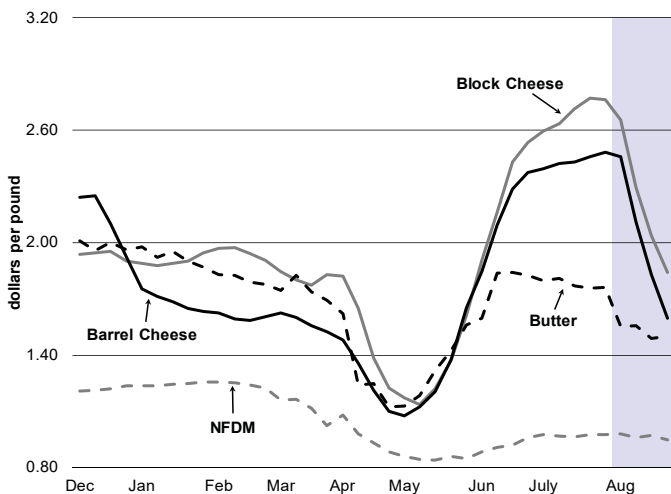
Chart 1 presents these weekly prices for selected products that established federal order minimum prices over the past 9 months. The chart shows the decline in product prices as August progressed. Producers are paid for their milk components (butterfat, protein, and other solids). The protein price moved lower, but was still a strong \$4.4394 per pound. The protein price reflects the strength in the cheese market.

The August Statistical Uniform Price (SUP) reflected NDPSR prices for weeks ending August 8 through August 29. The shaded area on the chart highlights the prices during this period.

NDPSR tends to lag Chicago Mercantile Exchange (CME) prices by approximately 2 weeks. Looking at average CME prices for the week ending September 11, block and barrel cheese averaged \$2.16 and \$1.65 per pound, respectively. The butter price averaged \$1.49 per pound, and nonfat dry milk was \$1.04 per pound. This would indicate that NDPSR prices may start increasing again at least in the short term, and in turn, the SUP.

Government programs intended to support the dairy industry are contributing to some of the near term uptick in prices. The third round of USDA Farmers to Families Food Box Program purchases has contributed to the near term increase being seen in prices, as mentioned previously. The third round supports purchases with distributions of

Chart 1 NDPSR Weekly Prices



Source: USDA/AMS.

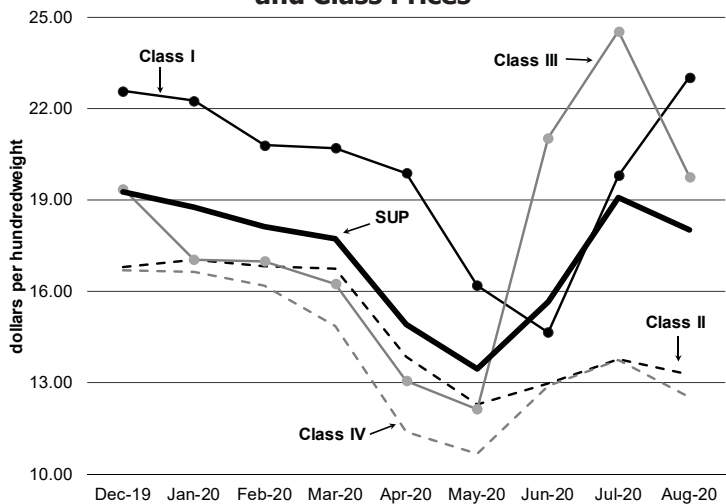
food box distributions occurring from September 1 through October 31. Prices beyond near term still face challenges in the form of uncertainty in restaurant demand for dairy products, reduced school demand due to online or hybrid formats, among other things.

Negative PPD

Though the August Class I price returned to its more typical highest priced class, followed by Class III, the Class II and Class IV prices remained relatively low enough, with a combined utilization of about 45 percent, to still result in a negative producer price differential, though much less negative (-\$1.75 per cwt) than the prior two months. Chart 2 shows the dynamic in class prices and the SUP. In that chart, the Class III price can be seen declining below the Class I price, but remaining above the SUP in August. The relatively lower Class II and Class IV prices can be seen as increasing since May, but not to the degree seen in the Class III and Class I prices.

The mechanics of the calculation of the PPD is complex, and though explained in the prior two months' *Bulletins*, is still worth stating again here. The PPD represents, on a per cwt basis, total dollars accumulated by the market-wide pool minus the amount paid out to producers for priced components – protein, butterfat, and other solids. Market-wide pool revenue, or the *pool classified value*, is determined by the amount of milk utilized in each class, along with the price level for each class. When the total value of producer components exceeds the pool's classified value, the result is a negative PPD since money out of the FMMO pool at producer component values plus the PPD must equal money in the pool's classified value (pool revenue). In this measure, the calculation of a PPD can be thought of as an accounting method to "balance the books" of the monthly federal order pool. ❖

Chart 2 Northeast Order Statistical Uniform and Class Prices



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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	631,158,692	\$16.59	\$104,709,227.00	
Butterfat	14,907,634	2.0068	29,916,639.91	
Less: Location Adjustment to Handlers			(2,689,469.06)	\$131,936,397.85
Class II— Butterfat	31,166,549	1.6345	50,941,724.37	
Nonfat Solids	51,517,228	0.8689	44,763,319.41	95,705,043.78
Class III— Butterfat	26,895,720	1.6275	43,772,784.37	
Protein	19,077,313	4.4394	84,691,823.31	
Other Solids	36,074,399	0.1387	5,003,519.17	133,468,126.85
Class IV— Butterfat	12,165,764	1.6275	19,799,780.97	
Nonfat Solids	34,606,282	0.7862	27,207,458.89	47,007,239.86
Total Classified Value				\$408,116,808.34
Add: Overage—All Classes				33,360.18
Inventory Reclassification—All Classes				(91,931.80)
Other Source Receipts	44,193			767.19
Total Pool Value				\$408,059,003.91
Less: Value of Producer Butterfat	85,135,667	1.6275	(138,558,298.19)	
Value of Producer Protein	68,547,991	4.4394	(304,311,951.25)	
Value of Producer Other Solids	130,189,960	0.1387	(18,057,347.45)	(460,927,596.89)
Total PPD Value Before Adjustments				(\$52,868,592.98)
Add: Location Adjustment to Producers				13,327,186.74
One-half Unobligated Balance—Producer Settlement Fund				938,975.66
Less: Producer Settlement Fund—Reserve				(951,441.26)
Total Pool Milk & PPD Value	2,260,221,246			(\$39,553,871.84)
Producer Price Differential		(\$1.75)		
Statistical Uniform Price		\$18.02		

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