

# The Market Administrator's

# BULLETIN

## NORTHEAST MARKETING AREA

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### November Pool Price Calculation

The November 2020 statistical uniform price (SUP) for the Northeast Marketing Area was announced at \$18.27 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 \$20.29 per hundredweight. The November statistical uniform price was \$1.20 per hundredweight above the October price. The November producer price differential (PPD) at Suffolk County was -\$5.07 per hundredweight, a decrease of 53 cents from the previous month.

#### Product Prices Effect

All commodity prices used in federal order pricing increased during November except butter. National Dairy Product Sales Report prices increased 1 cent for nonfat dry milk, 4 cent for dry whey, and 16 cents for cheese, all on a per pound basis. The cheese price rose mainly on the 33-cent jump in the barrel price. The butter price fell 7 cents per pound.

The commodity price changes resulted in per-pound changes in the component prices: butterfat dropped 8 cents while nonfat solids and other solids rose correspondingly to the commodity prices, 1 cent and 4 cents, respectively. The combination of the decrease in the butter price and the increase in the cheese price resulted in a 61-cent rise in the protein price.

All class prices increased from the previous month except the Class IV price, which was affected by the butter price and decreased 17 cents. The Class I price increased \$2.84; Class II grew 23 cents; and Class III rose \$1.73, all on a per hundredweight basis. These prices, combined with the month's class utilizations, generated a higher SUP, but again with the Class III price as the highest class price, resulted in a largely negative PPD. For more information on negative PPDs, refer to the June *Bulletin*.

#### Selected Statistics

Average daily deliveries per producer set a new record high for the month. Total producer receipts, Class II, and Class IV volumes were all record setting highs for November; the Class III volume was the third highest ever for the month. The November average producer butterfat test set a new record high for the Order. The other solids set a new record for November while the protein test tied with 2019 for the second highest for the month. ❖

### Pool Summary

- A total of 9,003 producers were pooled under the Order with an average daily delivery per producer of 8,100 pounds.
- Pooled milk receipts totaled 2.188 billion pounds, a decrease of 0.1 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 31.2 percent of total milk receipts, down 0.7 percentage points from October.
- The average butterfat test of producer receipts was 4.05 percent.
- The average true protein test of producer receipts was 3.20 percent.
- The average other solids test of producer receipts was 5.76 percent. ❖

#### Class Utilization

Pooled Milk	Percent	Pounds
Class I	31.2	683,120,996
Class II	23.3	509,294,873
Class III	26.5	580,110,356
Class IV	19.0	415,098,652
Total Pooled Milk		2,187,624,877

#### Producer Component Prices

	2020	2019
	\$/lb	
Protein Price	5.6226	3.9118
Butterfat Price	1.5553	2.3195
Other Solids Price	0.1894	0.1112

#### Class Prices

	2020	2019
	\$/cwt	
Class I	21.29	21.39
Class II	13.86	16.85
Class III	23.34	20.45
Class IV	13.30	16.60

## Looking Ahead 2021

Projections using the Chicago Mercantile Exchange (CME) futures prices as settled on December 14, 2020, imply that the Northeast statistical uniform price (SUP) will finish the year 2020 averaging \$17.12 per hundredweight (cwt), which is a \$1.01 decrease from last year's average and 18 cents above the previous 5-year average. This article reviews some supply and demand factors and some economic indicators with a look to 2021. It is typically a challenge to forecast dairy prices beyond a few months in what might be considered a more normal year. A projection of where prices are expected to go in 2021 is offered based on futures prices. Still, futures prices are a reflection of how the market may see the upcoming year, and fairly flat futures prices may reflect a high level of uncertainty on the part of futures markets participants.

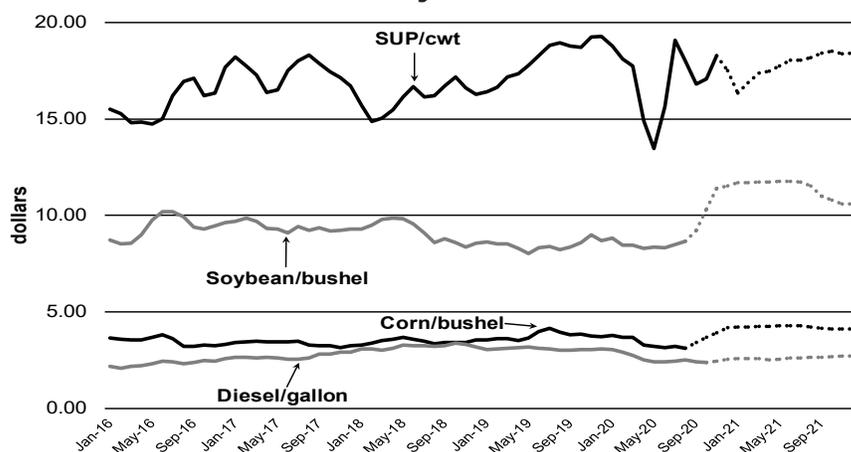
### Selected Cost Factors

Production costs due to feed and fuel have been mixed compared to 2019. Corn prices decreased 6.1 percent year-over-year, and CME corn futures settled on December 14 suggest prices rising about 19 percent in 2021. Soybean prices project to finish the year 9.2 percent above 2019, averaging \$9.20 per bushel, but largely due to expected increases to finish the year. CME soybean futures settled on December 14 indicate prices may rise more substantially in 2021, as futures average about 35 percent above the 2020 annual average. According to the U.S. Energy Information Administration (USEIA) the cost of retail diesel fuel declined from about \$3.00 per gallon in January to about \$2.40 by May and has held near that level through November. The USEIA anticipates future diesel fuel energy prices slowly and moderately climbing throughout 2021, peaking above \$2.70 per gallon late in the year. The accompanying graph shows the SUP, corn, soybeans, and USEIA retail diesel prices since January 2016 and projected through 2021.

### Supply Factors

The United States Department of Agriculture's (USDA) *World Agricultural Supply and Demand* December report projects dairy production in the U.S. to be 226.3 billion pounds in 2021. This is a 1.6 percent increase over the 2020 estimated milk production of 222.7 billion pounds. According to the *Milk Production* report by the USDA National Agricultural Statistics Service (NASS) as of December 17, milk production in the 24 major milk producing states has been between 1.3 and 3.0 percent above the same month in the prior year with the exception of May and June (-0.5 and 0.8 percent, respectively). May and June were impacted by farmers' and cooperatives'

**Northeast Order SUP vs Corn, Soybean, and Diesel Prices, 2016–Projected 2021**



Source: Diesel prices/projections are from U.S. Energy Information Administration; Corn/Soybeans Prices from USDA/NASS/Agricultural Prices and CME Futures; and SUP from USDA/FMMO1 and CME Class III and Class IV futures prices.

efforts to curtail production in light of collapsed food service demand resulting from the onset of the COVID-19 pandemic in the U.S. Milk production per cow has increased 1.5 percent through the first 10 months of 2020, while milk cows have averaged 0.4 percent higher than in 2019. With the exception of May and June, Northeast Order pool volume has been between 0.2 and 5.4 percent above the prior year for the first 11 months of the year. Record high pool volumes were set during 4 out of the first 11 months of the year. Despite substantial depooling during June and efforts to reduce production in late spring, total pool volume through 11 months is about 0.2 percent above 2019 for the same period. According to NASS's *Cold Storage* report, stocks of butter are up 28 percent nationally from October 2019 while cheese stocks are about even with last year. As heavy stocks can put downward pressure on milk prices, how the level of stocks respond to strong milk production and likely weaker overall demand bears watching.

### Demand Factors

According to the U.S. Dairy Export Council (USDEC), the U.S. exported 16.2 percent of its dairy production through the first 9 months of 2020, on a milk solids basis. September marked the 13<sup>th</sup> straight month of year-over-year increases in exports. In 2019, exports finished the year accounting for 14.5 percent of U.S. milk production on a total milk solids basis. Dairy exports still account for roughly one seventh of total dairy production. Notably, growth in exports of whey products, primarily to China, and cheese exports to Asia-Pacific markets contributed to strong exports. Exports of whey products are up 23.3 percent over 2019 through October. Exports of nonfat dry milk and skim milk powder also have shown strength (up 22.5 percent over 2019 through October) particularly to markets (continued on page 3)

## Looking Ahead (continued from page 2)

in Southeast Asia, Latin America, and China. Exports to Southeast Asia accounted for 28 percent of all U.S. dairy exports in 2020 through September on a milk solids basis (4.5 percent of U.S. milk production on a milk solids basis).

Dairy trade with China is expected to contribute continued strength to U.S. dairy exports into 2021. A combination of the Phase One trade deal with China and China's recovering hog herd (and their appetite for lactose) should support increased levels of exports in the next year.

### Domestic Situation

The domestic market still accounts for the disappearance of more than 8 percent of U.S. milk produced. A broad measurement of the health of the U.S. economy is the unemployment rate, which was at 6.7 percent in November. Unemployment is a critical issue as it reflects the balancing act of re-opening the economy and public safety. At the height of the pandemic-related shutdowns, unemployment grew to 14.7 percent. The Conference Board's Consumer Confidence Index (CCI), a measurement of the consumer's view of the health of the economy, is at 96.1 for November, a decline from 101.4 in October and well below the 125.5 it stood at in November 2019. Impacting consumers' sentiment is their lack of confidence that the economy or labor market will gain much strength amidst the uncertainty created from the upturn in COVID-19 cases.

The Restaurant Performance Index (RPI) stood at 98.3 in October, up from 98.1 in September and the fourth consecutive monthly gain. A measure above 100 signifies expansion in the industry, but the index has been trending downward since 2017. The Expectations Index component of the RPI, which measures restaurant operators' six-month outlook for four industry indicators, stood at 100.2,

up 0.7 percent from the previous month. Although the Expectations Index topped 100 for the first time since the coronavirus outbreak in the U.S., restaurant operators continue to signal uncertainty about business conditions in the coming months. Colder climates do not lend themselves to outdoor dining in order to sustain business and the industry will remain challenged. Drive-thru and pizza delivery business are better able to operate and recent experience has shown demand can remain fairly strong through those outlets as they move large volumes of cheese on their menu options.

Also of note is the beginning of operations at the Glanbia cheese and whey plant in Michigan. Once fully operational, the plant will process 8 million pounds of milk per day into block cheese and whey products for U.S. and international markets. This will help use milk but also may impact cheese prices with additional supply of block cheese.

### Outlook 2021

USDA forecasts the all-milk price for 2021 to be \$16.60 per cwt. Using December 14 CME Class III and Class IV future prices, the 2021 Northeast SUP is estimated to average \$17.82 per cwt. In its projection, USDA noted that weaker demand expectations and large milk supplies would put downward pressure on cheese and butter prices in 2021. The severity of the pandemic in the early part of 2021, how the pandemic impacts dairy operations (from farm to plant to retail and transportation), government response to the pandemic with respect to business and school lockdowns, or support of the industry through additional purchases of dairy products, are all unknown and a source of great uncertainty. ❖

## 2021 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	Tuesday	1/26/21
February	Friday	2/26/21
March	Friday	3/26/21
April	Monday	4/26/21
May	Wednesday	5/26/21
June	Monday	6/28/21
July	Monday	7/26/21
August	Thursday	8/26/21
September	Monday	9/27/21
October	Tuesday	10/26/21
November	Friday	11/26/21
December	Monday	12/27/21

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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	666,649,207	\$16.03	\$106,863,867.88	
Butterfat	16,471,789	1.6641	27,410,704.07	
Less: Location Adjustment to Handlers			(2,813,925.62)	\$131,460,646.34
Class II— Butterfat	29,802,535	1.5623	46,560,500.43	
Nonfat Solids	44,733,066	0.9667	43,243,454.86	89,803,955.29
Class III— Butterfat	27,182,883	1.5553	42,277,537.94	
Protein	18,497,346	5.6226	104,003,177.63	
Other Solids	33,196,530	0.1894	6,287,422.78	152,568,138.35
Class IV— Butterfat	15,137,088	1.5553	23,542,712.95	
Nonfat Solids	37,323,454	0.9047	33,766,528.86	57,309,241.81
<b>Total Classified Value</b>				<b>\$431,141,981.79</b>
Add: Overage—All Classes				35,673.19
Inventory Reclassification—All Classes				219,445.86
Other Source Receipts	382,891			0.00
<b>Total Pool Value</b>				<b>\$431,397,100.84</b>
Less: Value of Producer Butterfat	88,594,295	1.5553	(137,790,707.04)	
Value of Producer Protein	69,929,649	5.6226	(393,186,444.50)	
Value of Producer Other Solids	125,932,659	0.1894	(23,851,645.60)	(554,828,797.14)
<b>Total PPD Value Before Adjustments</b>				<b>(\$123,431,696.30)</b>
Add: Location Adjustment to Producers				12,764,059.77
One-half Unobligated Balance—Producer Settlement Fund				724,023.76
Less: Producer Settlement Fund—Reserve				(988,381.09)
<b>Total Pool Milk &amp; PPD Value</b>	<b>2,188,007,768</b>			<b>(\$110,931,993.86)</b>
Producer Price Differential		<b>(\$5.07)</b>		
Statistical Uniform Price		<b>\$18.27</b>		

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