

The Market Administrator's

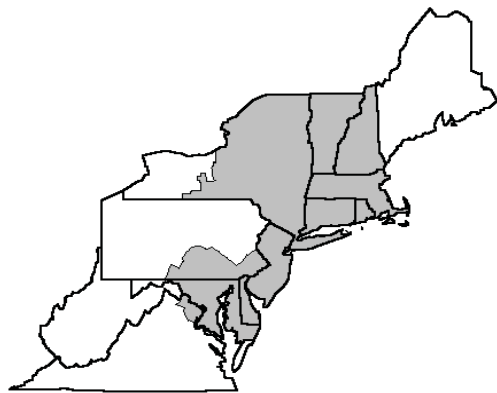
BULLETIN

NORTHEAST MARKETING AREA

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April 2017

Federal Order No. 1



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April Pool Price Calculation

The April 2017 statistical uniform price (SUP) for the Northeast Marketing Area was announced at \$16.39 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 \$17.42 per hundredweight. The April statistical uniform price was 91 cents per hundredweight below the March price. The April producer price differential (PPD) at Suffolk County was \$1.17 per hundredweight, a decrease of 32 cents per hundredweight from last month.

Product Prices Effect

For the third month in a row, all commodity product prices decreased from the previous month except dry whey. Cheese dropped 6 cents, butter fell 5 cents, and nonfat dry milk declined 1 cent, all on a per pound basis. These changes resulted in a 12-cent drop in the protein price, a 6-cent drop in the butterfat price and a 1-cent decline in the nonfat solids component price. Even though the butterfat price fell slightly, it was the second highest ever for the month of April since federal order reform.

All class prices decreased. The Class I price dropped 85 cents per hundredweight; the Class II price fell \$1.40; Class III declined 59 cents; and Class IV decreased 31 cents, per hundredweight, respectively. The declining prices, combined with a decrease in the highest-valued class and an increase in the lowest-valued class, resulted in both a lower SUP and PPD.

Highlights

The total volume of producer milk receipts set a new record high for the month of April. In addition, April's daily delivery per producer set a new record for the Order and topped 7,000 pounds for the first time ever. The Class IV volume was the highest ever for the Order and the first time the total was greater than 500 million pounds. The average producer butterfat set a new record for April while the protein test tied with last year's record for the month. ❖

Pool Summary

- A total of 11,017 producers were pooled under the Order with an average daily delivery per producer of 7,125 pounds.
- Pooled milk receipts totaled 2.355 billion pounds, an increase of 1.6 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 29.4 percent of total milk receipts, a decrease of 2.7 percentage points from March.
- The average butterfat test of producer receipts was 3.86 percent.
- The average true protein test of producer receipts was 3.09 percent.
- The average other solids test of producer receipts was 5.75 percent. ❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	29.4	692,036,936
Class II	23.2	545,899,855
Class III	25.2	593,623,306
Class IV	22.2	523,274,699
Total Pooled Milk		2,354,834,796

Producer Component Prices

	2017	2016
	\$/lb	
Protein Price	1.6955	1.8450
Butterfat Price	2.3548	2.2376
Other Solids Price	0.3350	0.0489

Class Price Factors

	2017	2016
	\$/cwt	
Class I	19.30	16.99
Class II	14.81	13.54
Class III	15.22	13.63
Class IV	14.01	12.68

Market Situation

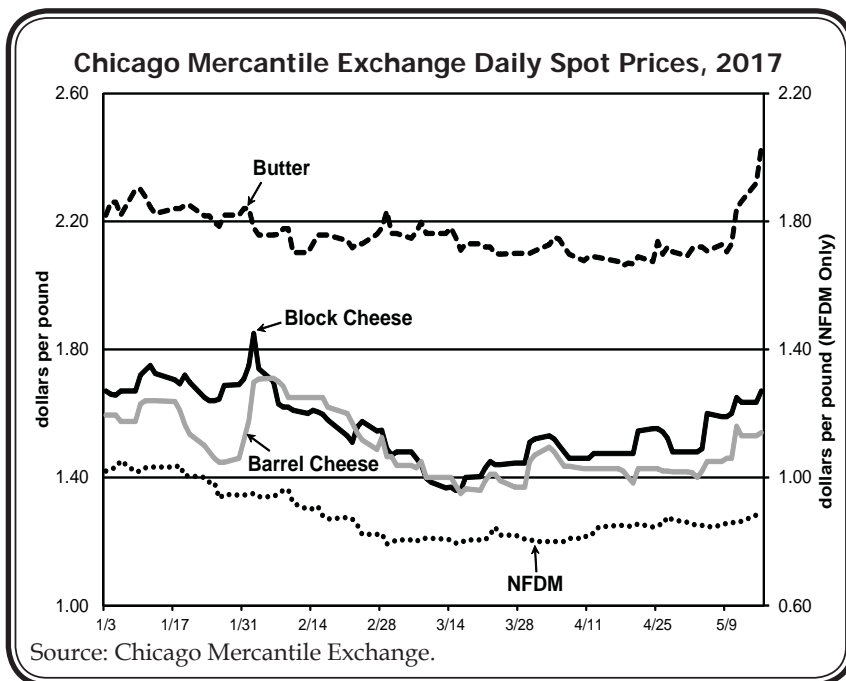
In the November 2016 *Bulletin*, Chicago Mercantile Exchange (CME) futures prices suggested that the 2017 annual average uniform price projected to be \$18.71 per hundredweight. The Statistical Uniform price (SUP) at the Boston, MA, zone has averaged \$17.42 per cwt for the January through April period of this year. Using CME Class III and Class IV milk futures prices settled on May 16, the SUP for 2017 projects to average \$17.87 per cwt for the year, averaging \$18.10 per cwt over the remaining eight months of the year and just over \$18.60 during each of the final 4 months of the year. Current projections suggest a SUP that is almost \$2.00 per hundredweight higher by August, and \$2.40 per cwt higher by October. Projected prices are presented on the accompanying table.

Currently, strength in the butter market, domestically and internationally, is a source of optimism for milk prices, though Class III is still projected as the mover of Class I pricing throughout 2017. The accompanying chart presents daily spot commodity prices on the Chicago Mercantile Exchange (CME) since the beginning of 2017. CME prices track fairly close to National Dairy Product Sales Report (NDPSR) prices, so the use of CME futures prices can be a reasonable estimate of where those prices are expected to head. The most recent 2 weeks show improving cheese and nonfat dry milk prices, and, most notably, a more dramatic jump in butter prices. Internationally, the butter price on the Global Dairy Trade reached an all-time high on March 16 at \$2.42 per pound at an 80 percent butterfat equivalent. Sustained strength in the butter price largely is seen as a result of continuing new consumer perspectives regarding butter. The higher prices are seen as demand driven and analysts predict butter prices to remain firm.

Milk Production

United States milk production for the top-23 milk producing states in March was 1.8 percent higher than the previous year level. New York milk production increased 3.6 percent over the previous year, an increase only surpassed by 5 other top-23 milk producing states (though Texas and New Mexico increases may reflect recovery from the previous year's devastating winter storm). Pennsylvania was up 3.0 percent and Vermont was 0.9 percent higher. Pennsylvania's growth ranked eighth highest among the top-23 producing states. Regionally, the Northeast is still experiencing strong milk production through the spring flush months, contributing to record breaking Northeast Order pool volume.

Though record pool volumes have resulted in strong Class IV utilization as a balancing class, there has been



strength in milk utilized in other classes. Class II volume is just 11 million pounds below the 2013 record level for April. Class IV volume surpassed 500 million pounds for the first time, and at 523 million pounds, fell just 23 million pounds short of NOT being the lowest volume class. Due to surplus milk supplies, milk was priced at Class IV this month where it was brought to a plant, had the cream removed, and remaining skim dumped due to lack of processing capacity and demand for product. Still, even without this allocation of pounds to Class IV, the category would have finished above 500 million for the month. Class III volume was the highest since 2003.

Demand Indicators

The Restaurant Performance Index (RPI) gained 1.1 percent in March (to 101.8) from 100.7 in February, it's highest level since February 2016, on the strength of improving sales and customer traffic levels. Restaurant operators remain generally optimistic about business conditions in the months ahead. The index is an important measure of domestic demand as a large volume of dairy products are used by the restaurant industry. Another important measure of domestic demand is the Conference Board's Consumer Confidence Index (CCI). This index decreased from 124.9 in March to 120.3 in April. Despite the decline, the index sat at 94.7 a year ago. Current signals suggest the domestic market should continue to support strong consumption of dairy products in the near term. In their May Global Dairy Market Outlook, the U.S. Dairy Export Council reported that U.S. exports accounted for 14.1 percent of total U.S. production on a solids basis in March 2017, up from 12.1 percent the previous year. ❖

Manufactured Dairy Products — 2016 Summary

USDA's National Agricultural Statistics Service recently released their *Dairy Products 2016 Summary*. This publication summarizes dairy products manufactured in the United States. The accompanying table highlights selected products' changes from 2016 to 2015 and 2011, and the first 4 months of 2017.

Cheese Production

Nationally, total cheese production (excluding cottage cheese) grew 2.5 percent from 2015. Increases were seen in American (1 percent), Italian (3.9 percent), and cream and Neufchatel (3.4 percent). Swiss experienced a slight decline. The other cheese category increased 2.2 percent with growth in Hispanic, feta, and Muenster; blue and gorgonzola, brick, Gouda and some other varieties declined. In the Northeast Order, milk used in 2016 cheese production (excluding cottage) increased 8.5 percent from 2015. American and cream cheese each increased over 4 percent while Italian grew 11.5 percent and Swiss and other type (includes Hispanic) jumped nearly 21 percent. Ricotta cheese increased 1.5 percent in the Northeast; nationally the production of ricotta rose 3.3 percent.

For the first 4 months of 2017, milk used in making cheese in the Northeast Order is up 6.8 percent, largely due to the increase in Italian-type cheese and Swiss and other-type cheeses.

Other Products

U.S. butter production decreased slightly from 2015 to 2016 (down 0.8 percent); in the Northeast it rose 4.7 percent. Yogurt (plain and fruit flavored) declined 4.3 percent in 2016 nationally, but grew 9 percent in the Northeast Order. Nonfat dry milk (NFDM) dropped 4 percent from 2015, nationally. In the Northeast, milk used in the production of dry milk products (mostly nonfat, but does include some whole milk powder) grew 5 percent from 2015.

For the January-April 2017 period, Northeast milk used in butter is nearly 20 percent higher than during the same period in 2016, dried milk products are up 8.6 percent, and yogurt is down a slight 0.6 percent.

During 2016, a large increase occurred in milk used in the minimum price class, *other uses* as defined by Section 1000.40 of the Order. Other uses includes milk that is dumped, used for animal feed, destroyed, or lost by a handler in a vehicular accident, flood, fire, or similar occurrence beyond the handler's control. Due to the large volume of producer milk receipts during 2016, more milk was assigned to the minimum price class than in

Change in Selected Manufactured Dairy Products, 2016

	Total US Production of Manufactured Products		Total Northeast Order Milk Used to Manufacture#		2017 YTD from: 2016
	2016 from:				
	2011	2015	2011	2015	
	(percent change)				
Cheese					
American [^]	12.2	1.0	16.1	4.5	0.3
Italian ⁺	15.1	3.9	4.8	11.5	10.0
Cream and Neufchatel	26.9	3.4	16.9	4.3	(7.1)
Other [*]	19.8	2.2	45.1	20.9	38.5
Total Cheese(excludes cottage)	14.4	2.5	12.5	8.5	6.8
Butter	1.3	(0.8)	32.4	4.7	19.7
NFDM-	16.6	(4.0)	104.2	5.0	8.6
Yogurt	4.0	(4.3)	37.3	9.0	(0.6)

Source: USDA, NASS - *Dairy Products 2016 Summary*; Northeast Order pool report data; percent change adjusted for leap year.

Based on total milk used in manufacture of products. 2017 comparison is for January-April only.

[^] Includes Cheddar, Colby, Monterey, and Jack.

⁺ Includes ricotta, mozzarella, parmesan, provolone, and other Italian varieties.

^{*} Includes Swiss, Hispanic, Muenster, feta, and other varieties.

- For human use; Northeast data includes some whole milk powder.

prior years. In many cases, surplus milk supplies were brought to a plant, the cream was removed, and the remaining skim was dumped due to lack of processing capacity and demand for the product. For the first 4 months of 2017, this category is more than double the same period in 2016 as milk production continues to be record setting.

Leading States

The top three cheese-producing states continue to be Wisconsin, California, and Idaho in 2016; New York ranks fourth. Wisconsin remained the number one producer of American cheese and dry whey production, and became the number one producer of Italian cheese in 2016, surpassing California that continued to lead in butter, unsweetened condensed, ice cream, and nonfat dry milk. New York remained the largest producer of yogurt, sour cream, and lowfat and creamed cottage cheese. State rankings for certain products such as cream cheese were not given due to having fewer than 3 handlers reporting.

Percent of Total Milk Production

Of U.S. total milk production, 76.9 percent was used in manufactured products (23.1 percent sold for fluid use) in 2016, up from 76.4 percent in 2015 and 72.6 percent in 2011.

In the Northeast Order, the total amount of pooled milk utilized in manufactured products equaled 66.9 percent in 2016; this compares to 65.2 in 2015 and 58.8 in 2011. The increase in milk used for manufacturing correlates with the decrease in milk utilized for fluid drinking products—the Class I decline—that has been consistent for the past six years. ❖

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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	677,910,815	\$11.00	74,570,189.65	
Butterfat	14,126,121	2.4808	35,044,080.98	
Less: Location Adjustment to Handlers			(2,635,518.13)	\$106,978,752.59
Class II— Butterfat	32,485,063	2.3618	76,723,221.78	
Nonfat Solids	47,231,491	0.7533	35,579,482.16	112,302,703.94
Class III— Butterfat	26,943,062	2.3548	63,445,522.39	
Protein	18,314,954	1.6955	31,053,004.54	
Other Solids	33,922,054	0.3350	11,363,888.23	105,862,415.16
Class IV— Butterfat	17,282,233	2.3548	40,696,202.26	
Nonfat Solids	46,511,773	0.6641	30,888,468.49	71,584,670.75
Total Classified Value				\$396,728,542.44
Add: Overage—All Classes				89,979.70
Inventory Reclassification—All Classes				68,778.37
Other Source Receipts	212,067 Pounds			7,435.30
Total Pool Value				\$396,894,735.81
Less: Producer Component Valuations @ Class III Component Prices				(382,617,943.82)
Total PPD Value Before Adjustments				\$14,276,791.99
Add: Location Adjustment to Producers				13,312,809.68
One-half Unobligated Balance—Producer Settlement Fund				1,140,036.39
Less: Producer Settlement Fund—Reserve				(1,175,589.70)
Total Pool Milk & PPD Value	2,355,046,863 Producer pounds			\$27,554,048.36
Producer Price Differential		\$1.17		
Statistical Uniform Price		\$16.39		

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