

The Market Administrator's

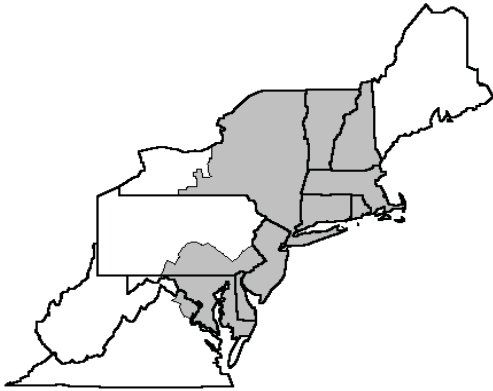
BULLETIN

NORTHEAST MARKETING AREA

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July 2018

Federal Order No. 1



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July Pool Price Calculation

The July 2018 statistical uniform price (SUP) for the Northeast Marketing Area was announced at \$16.14 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 \$16.60 per hundredweight. The July statistical uniform price was 56 cents per hundredweight below the June price. The July producer price differential (PPD) at Suffolk County was \$2.04 per hundredweight, an increase of 55 cents per hundredweight from last month.

Product Prices Effect

All commodity product prices decreased from the previous month, except dry whey. The butter price dropped almost 12 cents, cheese fell nearly 13 cents, and nonfat dry milk declined 3 cents, all on a per pound basis. The dry whey price increased about 3 cents per pound. These changes translated into the butterfat pricing falling 14 cents, the protein price dropping 26.5 cents, and the nonfat solids price declining 3 cents, all on a per pound basis. The other solids price increase 3 cents per pound.

The Class I price, announced in advance and based on higher prices in June, increased 11 cents per hundredweight. All other class prices declined from June: Class II decreased 28 cents, Class III dropped \$1.11, and Class IV fell 77 cents, all on a per hundredweight basis. The Class III price became the lowest priced class.

The result was a lower SUP than the previous month. The PPD increased as the spread between the lower classes and the Class I price widened.

Selected Statistics

Total pooled milk receipts for July 2018 were the largest volume ever reported for the month. Total Class III volume was the highest ever for the month since 2002, partially due to it being the lowest priced class. Class I volume was the lowest ever for the month and the smallest ever for the Order on a per day basis.

The average producer butterfat test was the second highest ever for the month of July. ❖

Pool Summary

- A total of 10,358 producers were pooled under the Order with an average daily delivery per producer of 7,199 pounds.
- Pooled milk receipts totaled 2.311 billion pounds, a decrease of 3.9 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 29.1 percent of total milk receipts, down 0.2 percentage points from June.
- The average butterfat test of producer receipts was 3.70 percent.
- The average true protein test of producer receipts was 2.97 percent.
- The average other solids test of producer receipts was 5.75 percent. ❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	29.1	672,098,878
Class II	24.4	563,372,728
Class III	29.1	673,452,800
Class IV	17.4	402,542,155
Total Pooled Milk		2,311,466,561

Producer Component Prices

	2018	2017
	\$/lb	
Protein Price	1.4827	1.2248
Butterfat Price	2.5287	2.9456
Other Solids Price	0.1422	0.2599

Class Price Factors

	2018	2017
	\$/cwt	
Class I	18.61	19.84
Class II	15.20	17.48
Class III	14.10	15.45
Class IV	14.14	16.60

Price Outlook

After four months of increasing Statistical Uniform Prices, July's price declined 56 cents per hundredweight (cwt) from the previous month. During the increasing months, the price had risen \$1.83 per cwt. The Statistical Uniform Price (SUP) for the first seven months of 2018 has averaged \$15.73 per hundredweight (cwt) at the Boston, MA, base zone for the Northeast Order. Using Chicago Mercantile Exchange (CME) futures prices as of August 14, 2018, the SUP projects to average \$16.34 per cwt for this year. This would be 6.3 percent below 2017. The accompanying chart presents the SUP for the most recent three years and the projected prices for the remainder of 2018.

Butter

A strong butter price continues to bolster the current SUP. National Dairy Product Sales Report (NDPSR) prices, which are used in Federal Order pricing, averaged \$2.3197 per pound from April through June, each month recording a record high for the month. July's butter price softened somewhat at \$2.2596 per pound, but was still above the previous 5-year average for July of \$2.13 per pound. The CME spot butter price on August 14 closed at \$2.3875 per pound. CME Butter futures range from \$2.32 to \$2.41 per pound, from August through December.

Cheese

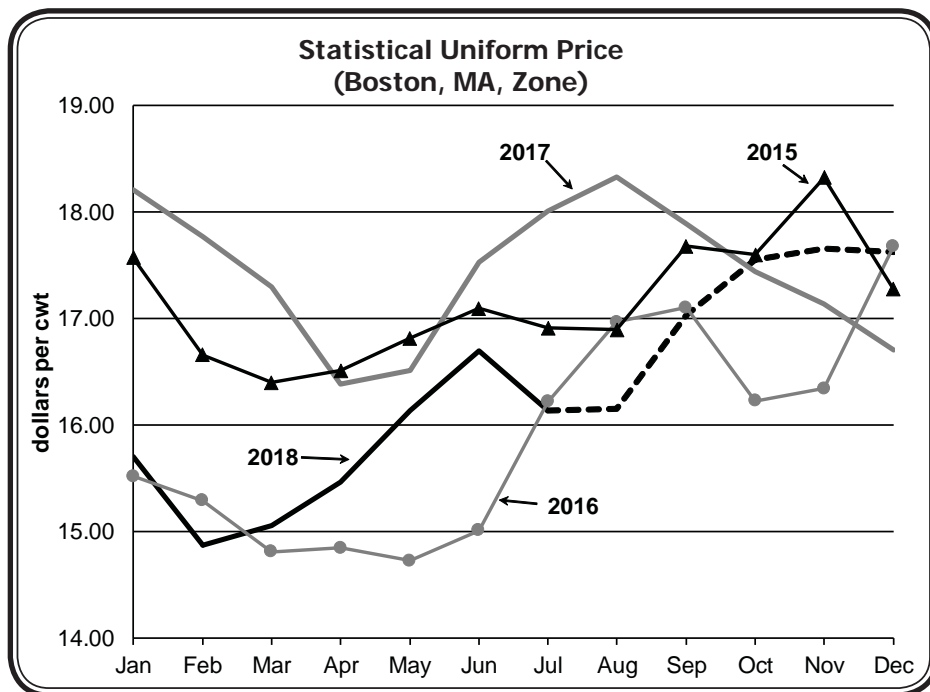
Monthly NDPSR cheese prices, have averaged \$1.5507 per pound over the first seven months of 2018. Monthly prices have averaged almost 18 cents per pound below the most recent five-year average, over 24 cents below during July. As of August 14, the block and barrel cheese CME spot prices were \$1.6550 and \$1.6700 per pound, respectively. CME Cheese futures through 2018 peak just above \$1.68 per pound during October.

NFDM

Monthly NDPSR Nonfat dry milk (NFDM) prices average \$0.7437 for the first seven months of 2018. During this period, the NFDM price has averaged 50 cents below its previous five year average. The CME Spot price for NFDM on August 14 was \$0.8200 and CME futures for NFDM climb to a peak of \$0.9043 per pound in December.

Northeast Pool Volume

Stronger price recovery can be aided if milk supplies relative to demand slow or contract. Through seven months, total Northeast Order pool volume for the year



is down about 119 million pounds. The lower volume is attributable to year-over-year declines during January through April. Since then, monthly pool volumes have again been higher than the previous year, setting record highs each month. The accompanying article in this month's *Bulletin* provides further detail on milk production overall.

Exports

It's often stated how important exports have become in the current U.S. dairy demand equation with the large volume now exported and increasing responsiveness to world pricing. Amid the news of tariffs and trade wars, the United States Dairy Export Council (USDEC) reported in August that U.S. dairy exports were a record 16.8 percent of milk solids for the first half of 2018. This is the highest percentage in history for the first half of the year. The previous record was 16.4 percent exported during the first half of 2014. Still, this period mostly preceded the discussions and impositions of new tariffs. The possible impact of tariffs has created some uncertainty looking ahead. The USDEC stated that much uncertainty stems from the impact tariffs may have on China's economy, claiming China has been the engine that has driven dairy import demand for the past decade. A weaker Chinese economy could soften dairy demand in that country. June exports to Mexico were very strong, due to some buying forward by Mexican importers ahead of possible increases in tariffs in July. The two countries (as well as Canada) hope for a quick conclusion to North America Free Trade Agreement negotiations in order to avoid any tariffs now being assigned. ❖

U.S. Milk Production Stronger Than Northeast Pooled Volume

Total estimated US milk production for the first 6 months of 2018 increased 1.1 percent from the same period in 2017. During the same period, the total pooled milk volume for the Northeast Order decreased 0.9 percent.

Milk Production

The top ten states based on total production for the first 6 months increased 1.2 percent from 2017. The accompanying table shows the comparison along with selected other areas. States showing declines include Michigan, Minnesota, New York, and Pennsylvania. Total production for the top 23 states as reported by NASS (National Agricultural Statistics Service) rose 1.3 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 top 23 milk production states. In the Northeast, the states contributing to the Northeast Order milkshed had a combined decrease of 1.4 percent. The combined New England states declined 2.2 percent for the period. The only Northeast milkshed states showing increases were Connecticut, Delaware, and Maryland. The top three contributing states (New York, Pennsylvania, and Vermont) had a combined decline of 1.2 percent.

Milk Production in the Top Ten States and Selected Areas, January–June, 2017 vs. 2018

Rank	State	2017 (million pounds)	2018	Percent Change
1	California	20,281	20,601	1.6
2	Wisconsin	15,153	15,223	0.5
3	New York	7,539	7,430	(1.4)
4	Idaho	7,203	7,416	3.0
5	Texas	6,094	6,464	6.1
6	Michigan	5,642	5,639	(0.1)
7	Pennsylvania	5,579	5,541	(0.7)
8	Minnesota	4,961	4,937	(0.5)
9	New Mexico	4,170	4,267	2.3
10	Washington	3,246	3,345	3.0
Top Ten Total		79,868	80,863	1.2
Top 23 Total		102,132	103,480	1.3
Northeast Milkshed		16,766	16,540	(1.3)
Top 3 Northeast		14,495	14,322	(1.2)
U.S. Total		108,906	110,157	1.1

Source: NASS, *Milk Production*.

Pool Volume

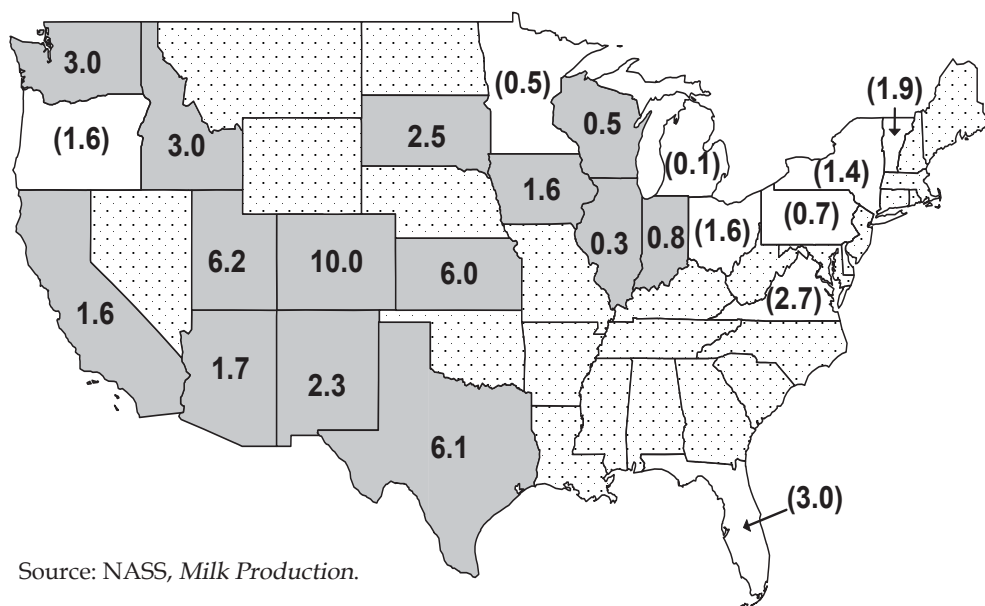
Total producer volume for the first six months for the Northeast Order was down 0.9 percent from the same period in 2017. This compares to an increase of 3.2 percent (leap year adjusted) for the 6 month period in 2017 over 2016. July pooled receipts set a monthly record

but were 3.8 percent below June on an average daily basis, the largest June to July decline since 2013. Based on estimated pooled volume for the last five months of 2018, total annual pooled volume is projected to decline about 0.4 percent from the previous year.

Even though the pooled volume is expected to slow down somewhat for the remainder of 2018, the annual total likely will be the second highest ever for the Order. Pooled milk volume has set record highs for the past 3 months and in ten out of 12 months in 2017. The strong volumes have contributed to significant volumes in the lowest class price category (animal feed, dumpage, other uses) and a reduction in the required shipping percentage for fall months (see the June *Bulletin*).

Strong milk volume has coincided with lower prices. Declining volumes could aid in price recovery (see Price Outlook article on page 2). ❖

January–June 2018 Milk Production in the Top 23 States (Year-to-Year Percent Change)



Source: NASS, *Milk Production*.

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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	657,386,065	\$9.50	62,451,676.18	
Butterfat	14,712,813	2.6966	39,674,571.54	
Less: Location Adjustment to Handlers			(2,508,746.47)	\$99,617,501.37
Class II— Butterfat	32,961,273	2.5357	83,579,899.98	
Nonfat Solids	48,006,371	0.7278	34,939,036.82	118,518,936.80
Class III— Butterfat	26,863,621	2.5287	67,930,038.47	
Protein	20,001,037	1.4827	29,655,537.53	
Other Solids	38,659,879	0.1422	5,497,434.81	103,083,010.81
Class IV— Butterfat	10,908,229	2.5287	27,583,638.63	
Nonfat Solids	35,500,569	0.6085	21,602,096.23	49,185,734.86
Total Classified Value				\$370,405,183.84
Add: Overage—All Classes				208,535.76
Inventory Reclassification—All Classes				(200,845.36)
Other Source Receipts	1,173,082 Pounds			43,091.03
Total Pool Value				\$370,455,965.27
Less: Producer Component Valuations @ Class III Component Prices				(336,646,914.17)
Total PPD Value Before Adjustments				\$33,809,051.10
Add: Location Adjustment to Producers				13,234,173.52
One-half Unobligated Balance—Producer Settlement Fund				1,190,297.84
Less: Producer Settlement Fund—Reserve				(1,055,673.74)
Total Pool Milk & PPD Value	2,312,639,643 Producer pounds			\$47,177,848.72
Producer Price Differential		\$2.04		
Statistical Uniform Price		\$16.14		

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