

The Market Administrator's

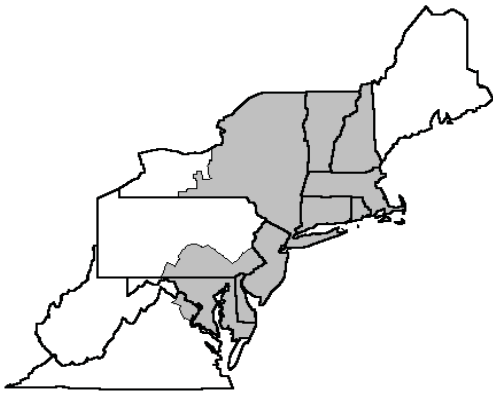
BULLETIN

NORTHEAST MARKETING AREA

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Federal Order No. 1



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November Pool Price Calculation

The November 2018 statistical uniform price (SUP) for the Northeast Marketing Area was announced at \$16.62 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 \$18.22 per hundredweight. The November statistical uniform price was 57 cents per hundredweight below the October price. The November producer price differential (PPD) at Suffolk County was \$2.18 per hundredweight, an increase of 52 cents per hundredweight from last month.

Product Prices Effect

Commodity product price changes were mixed. The cheese price dropped 12 cents per pound resulting in a nearly 38-cent per pound decline in the protein. Other prices were less severe. Butter declined 1 cent and nonfat dry milk and dry whey each rose about 1 cent, all on a per pound basis. These changes translated to similar changes in the butterfat, nonfat solids and other solids component prices.

The decrease in the protein price was reflected in a \$1.09 drop in the Class III price. The Class I price, based on the declines that occurred in October, also fell considerably (81 cents). The Class II price increased 9 cents and the Class IV price rose 5 cents, all on a per hundredweight basis. With the overall lower prices, the SUP declined. The PPD rose as the spread between the higher priced classes and the Class III price grew, resulting in the highest PPD since July 2017.

Selected Statistics

Average daily deliveries per producer set a new record high for the month of November, as did the Class III volume.

The average producer butterfat set a record high for the Order, topping 4.0 percent for the first time ever. The producer protein test also set a record high for the Order. The producer other solids test tied with 2016 as a record high for the month of November. ❖

Pool Summary

- A total of 10,431 producers were pooled under the Order with an average daily delivery per producer of 6,767 pounds.
- Pooled milk receipts totaled 2.118 billion pounds, a decrease of 1.4 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 35.7 percent of total milk receipts, up 0.8 percentage points from October.
- The average butterfat test of producer receipts was 4.01 percent.
- The average true protein test of producer receipts was 3.21 percent.
- The average other solids test of producer receipts was 5.75 percent. ❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	35.7	755,389,369
Class II	22.4	474,333,164
Class III	27.6	584,755,987
Class IV	14.3	303,255,370
Total Pooled Milk		2,117,733,890

Producer Component Prices

	2018	2017
	\$/lb	
Protein Price	1.3419	2.3412
Butterfat Price	2.5385	2.5546
Other Solids Price	0.2714	0.1644

Class Price Factors

	2018	2017
	\$/cwt	
Class I	18.77	19.66
Class II	15.63	15.32
Class III	14.44	16.88
Class IV	15.06	13.99

2019 Outlook

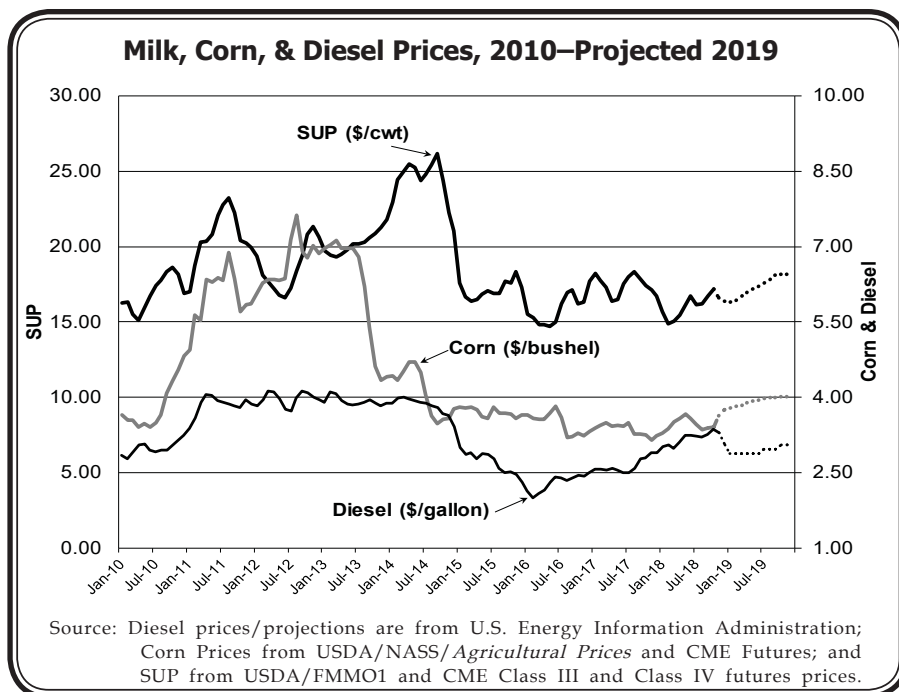
Based on current projections using Chicago Mercantile Exchange (CME) Class III and Class IV futures prices as settled on December 12, the statistical uniform price (SUP) at Boston, MA, will finish the year averaging \$16.10 per hundredweight (cwt) for 2018. This is a 7.7 percent decrease from 2017, or a \$1.33 per cwt decrease. At the same time, the annual average corn price projects to finish 2018 increasing by 4.3 percent from its 2017 level if CME corn futures play out as they settled on December 12. The projected average annual corn price for 2018, \$3.50 per bushel, is slightly higher than the previous two years, (\$3.36 and \$3.48 per bushel for 2017 and 2016, respectively). The accompanying chart presents where the Northeast statistical uniform price and corn and fuel costs have been and where they may be headed. We'll take a look at supply and demand factors as we head toward the new year, and present a futures market-based forecast for the milk price in 2019.

Supply Factors

In the December *World Agricultural Supply and Demand Estimates* report, USDA forecast record high milk production for 2018 totaling 217.8 billion pounds. This would be an increase of about 1.1 percent over 2017 U.S. milk production. USDA expects 2019 U.S. milk production to increase another 1.3 percent over 2018 to total 220.6 billion pounds.

Record high milk production and strong growth have been the story for the Northeast U.S. as well, though there is some more recent indications of leveling off. Northeast Order pool volume set record high levels during 3 of 11 months through November, but the year ultimately could fall below 2017 total pool volumes. Through November, total pool volume for the year is down almost 1 percent from the prior year. Though pooled volume does not equate to total milk production in the region, it is generally indicative of milk production trends. Year-over-year milk production in the top 23 milk producing states, as reported by the National Agricultural Statistics Service (NASS) *Milk Production* report, grew an average of 1.3 percent per month for the first ten months of the year. Closer to home, New York declined an average of 0.4 percent per month during the same period. Vermont declined by an average of negative 1.8 percent per month, while Pennsylvania declined by 1.5 percent.

According to the USDA, NASS, *Cold Storage* report, October stocks of butter were 5.9 percent higher than a year ago. October total cheese stocks were 8.0 percent



higher. According to USDA, NASS, *Dairy Products* report, October nonfat dry milk stocks were 20.2 percent below a year ago and dry whey stocks were 21.1 percent below.

Demand Factors

The U.S. exported 16.3 percent of its milk production, on a total milk solids basis, for the period January through October 2018. This compares with 14.3 percent for the same period a year earlier. October exports accounted for 15.3 percent of U.S. production, up from 15.2 percent the previous October. Still, these levels equate to over one day's milk production per week finding a home in the export market and highlights the importance of this part of the dairy demand equation.

U.S. Dairy Exports may finish with a record year measured by volume or by value, despite flat sales in October. According to the U.S. Dairy Export Council, milk powder, whey, lactose, cheese and butterfat to China were down 47 percent in October, while exports to elsewhere were up 14 percent, with large sales gains to Southeast Asia and Mexico. In the first 10 months of 2018, dairy exports totaled \$4.71 billion, 4 percent more than the same period last year, while overall volume was up 15 percent.

International, political, and policy issues have created some uncertainty in export markets. Some dairy analysts expect international dairy markets to be tighter with firmer prices into spring 2019. Global milk supply growth is slowing and more closely matches steady demand growth.

The European Union Commissioner of Agriculture has stated there has been a very fast reduction in the quantities (continued on page 3)

Outlook (continued from page 2)

of skim milk powder held in European intervention stocks. Expectations are the remaining stocks could be gone by spring 2019. Analysts have often claimed significant price recovery will only happen once these European intervention stocks disappear.

Currency Impacts

U.S. exports are influenced by currency exchange rates that impact the relative value of U.S. dairy products. The dollar has generally strengthened in value throughout much of the year, particularly since about midyear. Analysts currently tie the strengthening to the view of the U.S. dollar as a safe haven amid signs of weakness in the Chinese economy, and concerns over budgets, taxes, and policy changes in some European countries. This movement would have made U.S. product relatively more expensive on international markets. Current expectations seem to indicate the U.S. dollar will remain close to current levels through early 2019. Too strong a dollar may have adverse impacts on further export growth.

Domestic Situation

The U.S. domestic market will continue to be counted on as a home to the large majority of milk produced here. Following are some demand indicators important to U.S. dairy domestic consumption. The unemployment rate has continued to decline steadily since its high near 10 percent in 2009 and averaged 4.4 percent in 2017, reaching 3.7 percent in November 2018. Per capita disposable personal income increased 1.6 percent in the third quarter of 2018. In October, the Restaurant Performance Index (that tracks the health and outlook of the U.S. restaurant industry) stood at 101.2, driven by improving stronger same-store sales and customer traffic levels. The current situation index was 100.9, above 100 for the ninth consecutive month. The expectations index was 101.6, having been fairly steady in recent months. Values above 100 signify expansion in the industry, and below that level signify contraction. Restaurant sales are an important outlet for dairy products and so the index is used as an indicator of demand for dairy products. The Consumer Confidence Index reached 135.7 in November, roughly a 2-decade high, indicating strong demand. A larger proportion of consumers expect there to be more jobs in the months ahead. However, the percentage of consumers expecting improvement in short-term income prospects declined marginally from 115.1 in October to 111.0 in November. The Conference Board, which publishes the index, cautioned that if expectations soften further in the coming months, the pace of growth is likely to moderate. There is reason to be optimistic that the domestic market will continue to buoy demand for dairy products, though some softening of expectations of the short-term outlook of income and labor bear watching.

Looking to 2019

The USDA forecasts the U.S. all-milk price for 2019 to range between \$16.40 and \$17.20 per cwt. Using CME futures prices from December 12 for Class III and Class IV milk, the Northeast Order SUP projects to finish 2018 averaging \$16.10 per cwt for the year, about \$0.26 below what was expected when predictions were made last year. Again, using the December 12 CME futures prices, **the 2019 Northeast SUP is forecast to average \$17.42 per cwt for the year, 8.2 percent and \$1.32 above the 2018 price level.** Supply conditions show some signs of slow down, and demand conditions appear strong heading into 2019. Still, price recovery is projected to be stronger from spring through later in the year. ❖

2019 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	Monday	1/28/19
February	Tuesday	2/26/19
March	Tuesday	3/26/19
April	Friday	4/26/19
May	Tuesday	5/28/19
June	Wednesday	6/26/19
July	Friday	7/26/19
August	Monday	8/26/19
September	Thursday	9/26/19
October	Monday	10/28/19
November	Tuesday	11/26/19
December	Thursday	12/26/19

RETURN SERVICE REQUESTED

FIRST CLASS MAIL

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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	737,724,914	\$10.06	74,215,126.35	
Butterfat	17,664,455	2.5903	45,756,237.79	
Less: Location Adjustment to Handlers			(2,900,311.35)	\$117,071,052.83
Class II— Butterfat	29,397,680	2.5455	74,831,794.47	
Nonfat Solids	41,518,770	0.7733	32,106,464.86	106,938,259.33
Class III— Butterfat	26,504,439	2.5385	67,281,518.42	
Protein	18,742,426	1.3419	25,150,461.46	
Other Solids	33,424,921	0.2714	9,071,523.57	101,503,503.45
Class IV— Butterfat	11,323,299	2.5385	28,744,194.51	
Nonfat Solids	27,250,611	0.7110	19,375,184.43	48,119,378.94
Total Classified Value				\$373,632,194.55
Add: Overage—All Classes				162,227.43
Inventory Reclassification—All Classes				(8,492.64)
Other Source Receipts	294,922			12,028.69
Total Pool Value				\$373,797,958.03
Less: Producer Component Valuations @ Class III Component Prices				(339,779,814.14)
Total PPD Value Before Adjustments				\$34,018,143.89
Add: Location Adjustment to Producers				12,076,685.75
One-half Unobligated Balance—Producer Settlement Fund				957,807.40
Less: Producer Settlement Fund—Reserve				(879,608.89)
Total Pool Milk & PPD Value	2,118,028,812			\$46,173,028.15
Producer Price Differential		\$2.18		
Statistical Uniform Price		\$16.62		

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