

The Market Administrator's

BULLETIN

NORTHEAST MARKETING AREA

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Federal Order No. 1

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July Pool Price Calculation

The July 2020 statistical uniform price (SUP) for the Northeast Marketing Area was announced at \$19.08 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 \$19.64 per hundredweight. The July statistical uniform price was \$3.42 per hundredweight above the June price. The July producer price differential (PPD) at Suffolk County was -\$5.46 per hundredweight, a decrease of 8 cents from the previous month.

Product Prices Effect

Similar to June, prices for all commodities used in federal order pricing increased during July, except dry whey. The National Dairy Product Sales Report prices for butter rose 8 cents and nonfat dry milk increased 6 cents, both on a per pound basis. Cheese prices set new record highs: barrel cheese increased 29 cents and block cheese jumped 44 cents, resulting in a 37-cent per-pound increase in the monthly cheese price. Dry whey declined 2 cents per pound.

The commodity price changes resulted in per-pound increases of 10 cents in the butterfat price and 6 cents in the nonfat solids price. The rise in the cheese price translated to a \$1.09 per-pound increase in the protein price and a new record high. The other solids price fell 2 cents per pound.

All class prices increased from the previous month: Class I jumped \$5.14; Class II increased 80 cents; Class III rose \$3.50; and Class IV was up 86 cents, all on a per hundredweight basis. The overall higher prices combined for a higher SUP, but because the highest class price again was Class III, which was significantly higher than all the other classes, the PPD again returned a negative value to balance the pool.

Even though Class III was the highest of the prices, and may have been viewed at a disadvantageous price relationship by handlers, most milk depooled during June was brought back onto the pool. See page 3 for more explanation on pooling regulations.

Selected Statistics

Average daily deliveries per producer set a new record high for the Order. Total pooled receipts, Class II volume, and the average producer butterfat test set record highs for the month of July. The July PPD was the smallest ever since the Order's inception. ❖

Pool Summary

- The large volume of milk depooled during June was brought back in July affecting changes in producer count, total pool volume, and Class I utilization percentage.
- A total of 9,135 producers were pooled under the Order with an average daily delivery per producer of 8,282 pounds.
- Pooled milk receipts totaled 2.345 billion pounds, an increase of 22.3 percent from June on an average daily basis.
- Class I usage accounted for 28.1 percent of total milk receipts, down 6.8 percentage points from June.
- The average producer tests were as follows: butterfat 3.76 percent, protein 3.00 percent, other solids 5.76 percent. ❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	28.1	658,990,190
Class II	24.7	580,129,752
Class III	28.4	664,654,994
Class IV	18.8	441,577,227
Total Pooled Milk		2,345,352,163

Producer Component Prices

	2020	2019
	\$/lb	
Protein Price	5.6294	2.4032
Butterfat Price	1.9583	2.6858
Other Solids Price	0.1492	0.1689

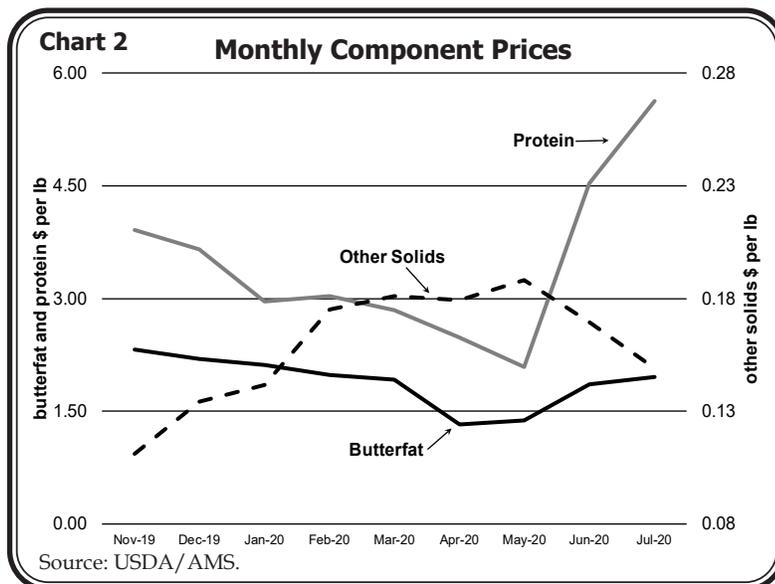
Class Prices

	2020	2019
	\$/cwt	
Class I	19.81	20.43
Class II	13.79	17.61
Class III	24.54	17.55
Class IV	13.76	16.90

Market Situation

Change and uncertainty continue to characterize the market situation as the COVID-19 pandemic challenges the industry. In a short period of time, the industry has faced panic buying, supply chain challenge from disappearance of food service demand, very low price levels, record high cheese prices, and record negative producer price differentials in federal order price calculations. This article offers an updated look at how dairy product and milk prices have responded. 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 extent of price declines in April and May resulting from the shock to the industry, followed by rapid price recovery since. A combination of increased activity in the food service sector, government purchases, exports, and supply chain adjustments, have helped prices recover (particularly for cheese and butter).

The July Statistical Uniform Price (SUP) reflected NDPSR prices for weeks ending July 4 through August 1. 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 August 18, block and barrel cheese averaged \$1.67 and \$1.48 per pound, respectively. The butter price averaged \$1.48 per pound, and nonfat dry milk was \$0.95 per pound. This would indicate that NDPSR prices may start declining as well moving forward, and thus, the SUP, in the near term.

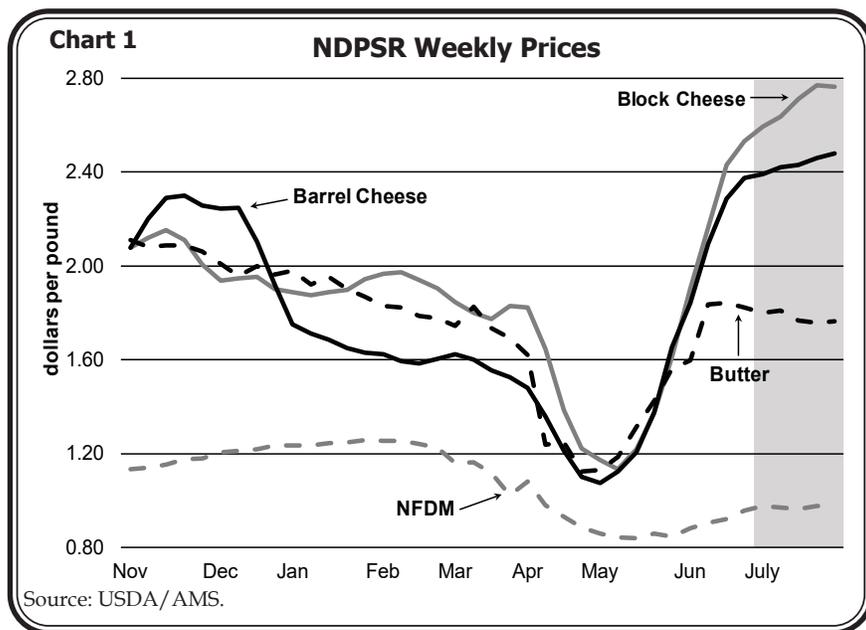


Producers are paid for their milk components (butterfat, protein, and other solids). Component prices are based on the product prices discussed above. Chart 2 depicts component prices for the same 9-month period. The chart shows the movement in the protein price to a record high of \$5.6294 per pound, due to the high prices in the cheese market. It is this very high value of components, relative to the pool classified value, that results in the negative PPD. It is also this high value of components that results in the higher statistical uniform price, increasing \$3.48 per hundredweight (cwt) in one month, to \$19.08 per cwt.

Negative PPD

The July 2020 Northeast Order producer price differential was -\$5.46 per cwt. at the Boston, MA, zone. Last month's edition of the *Bulletin* explained and covered the dynamics of the PPD and negative PPD. Recall that 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 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

(continued on page 3)



USDA Milk Donation Reimbursement Program Update

On August 4, 2020, USDA announced it is accepting applications through March 31, 2021, for participation in the Milk Donation Reimbursement Program (MDRP) during fiscal year 2021 (FY21).

Under the program, eligible dairy organizations partner with non-profit organizations to distribute food to low-income individuals and donate fluid milk products to the non-profit partner. After donations are made, the eligible dairy organization may apply for and receive limited reimbursements to cover expenses related to their fluid milk product donations. To participate, the eligible dairy organization must be the entity that has an

obligation to a Federal Milk Marketing Order pool. More information can be found at www.ams.usda.gov/mdrp.

An eligible organization is a dairy farmer, either individually or as part of a cooperative, or a dairy processor that incurs qualified expenses to a Federal Milk Marketing Order pool for fluid milk product donations. Program reimbursements offset a portion of the raw milk cost for milk donated to food assistance programs. Congress directed USDA to develop the program to reduce food waste and provide nutrition assistance to low-income individuals and has authorized \$5 million for the program in FY21. ❖

Market (continued from page 2)

method to “balance the books” of the monthly federal order pool.

Return of Depooled Milk

As explained in the prior month’s *Bulletin*, only milk delivered to pool distributing plants is required to be producer milk under the federal order system. In June 2020, some handlers chose to not pool a significant volume of Class III milk due to its higher value. Though a similar price relationship existed during July, most of the milk that was not pooled in June was once again pooled on the Order. The Northeast Order includes a provision, namely, “Dairy Farmer for Other Markets” (DFOM), which discourages handlers from voluntarily depooling producer milk to take advantage of inverted class price relationships. Under the provision, the producer definition does not include a dairy farmer if during any month of July through November a pool plant or a cooperative association caused the dairy farmer’s milk to be delivered to any plant *as other than producer milk*, as defined under this Order, or any other federal

milk order, during the same month. Additionally, the dairy farmer is not eligible for producer status during the subsequent December through June period. This is done to prevent a dairy farmer from being a producer during the flush production period if the dairy farmer did not supply the market during the relatively short production period.

Similarly, a dairy farmer would not be considered a producer under the Order for any month of December through June if a pool plant or a cooperative association caused the dairy farmer’s milk to be delivered to any plant *as other than producer milk*, as defined under this order, or any other federal milk order during the same month. Additionally the dairy farmer would not be eligible for producer status for up to two subsequent months.

Under the DFOM provision, not pooling during the month of June does not result in any subsequent months in which a farmer is not eligible for producer status. The month of June is the only month in which this is the case. ❖

Pool Summary for All Federal Orders, January–June, 2019–2020

Federal Order Number	Federal Order Name	Total Producer Milk			Producer Price Differential#		Statistical Uniform Price#	
		2019	2020*	Change^	2019	2020	2019	2020
		pounds			dollars per hundredweight			
1	Northeast	13,562,910,378	13,319,546,417	(1.8)	2.03	0.36	17.28	16.45
5	Appalachian	2,719,416,766	2,685,290,102	(1.3)	N/A	N/A	18.46	18.01
6	Florida	1,273,768,147	1,279,577,171	0.5	N/A	N/A	20.56	20.02
7	Southeast	2,601,656,551	2,379,606,044	(8.5)	N/A	N/A	18.81	18.25
30	Upper Midwest	18,581,244,661	13,598,880,348	(26.8)	0.24	(0.48)	15.49	15.61
32	Central	8,710,080,682	7,923,548,070	(9.0)	0.65	(1.06)	15.90	15.03
33	Mideast	9,849,820,136	10,025,152,490	1.8	1.09	(0.57)	16.34	15.52
51	California^	13,244,595,138	11,842,867,989	(10.6)	0.89	(1.35)	16.14	14.75
124	Pacific Northwest	4,431,362,835	3,934,863,153	(11.2)	0.73	(1.00)	15.98	15.09
126	Southwest	7,232,764,807	6,158,050,851	(14.9)	1.49	(0.50)	16.74	15.59
131	Arizona	2,610,780,867	2,586,226,650	(0.9)	N/A	N/A	16.37	15.49
All Market Total/Average		84,818,400,968	75,733,609,285	(10.7)	1.02	(0.66)	17.10	16.35

Price at designated order location.

^ Adjusted for leap year.

N/A = Not applicable.

* During the first quarter of 2020, a significant volume of milk was not pooled on federal orders.

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	643,754,332	\$13.87	\$89,288,725.85	
Butterfat	15,235,858	1.8348	27,954,752.26	
Less: Location Adjustment to Handlers			(2,731,028.34)	\$114,512,449.77
Class II— Butterfat	32,120,361	1.9653	63,126,145.48	
Nonfat Solids	49,844,286	0.7956	39,656,113.94	102,782,259.42
Class III— Butterfat	27,922,740	1.9653	54,681,101.70	
Protein	19,947,979	5.6294	112,295,152.95	
Other Solids	38,114,348	0.1492	5,686,660.74	172,662,915.39
Class IV— Butterfat	12,900,451	1.9583	25,262,953.19	
Nonfat Solids	39,037,921	0.7959	31,070,281.36	56,333,234.55
Total Classified Value				\$446,290,859.13
Add: Overage—All Classes				29,417.61
Inventory Reclassification—All Classes				638,250.00
Other Source Receipts	52,109			0.00
Total Pool Value				\$446,958,526.74
Less: Value of Producer Butterfat	88,179,410	1.9583	(172,681,738.57)	
Value of Producer Protein	70,331,332	5.6294	(395,923,200.39)	
Value of Producer Other Solids	135,068,330	0.1492	(20,152,194.89)	(588,757,133.85)
Total PPD Value Before Adjustments				(\$141,798,607.11)
Add: Location Adjustment to Producers				13,898,907.53
One-half Unobligated Balance—Producer Settlement Fund				851,523.46
Less: Producer Settlement Fund—Reserve				(1,010,897.15)
Total Pool Milk & PPD Value	2,345,404,272			(\$128,059,073.27)
Producer Price Differential		(\$5.46)		
Statistical Uniform Price		\$19.08		

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