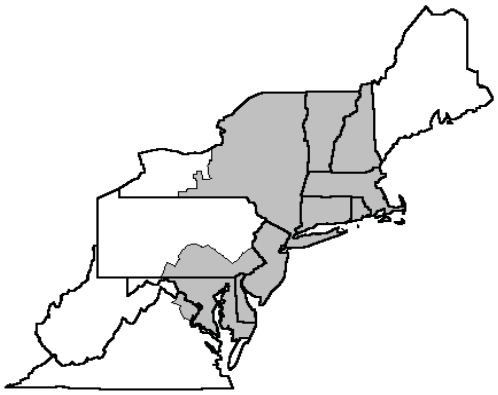

The Market Administrator's

BULLETIN

NORTHEAST MARKETING AREA

Erik F. Rasmussen, Market Administrator

December 2011 Federal Order No. 1

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December Pool Price Calculation

The December 2011 statistical uniform price (SUP) for the Northeast Marketing Area was announced at $19.57 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 $20.59 per hundredweight. The December statistical uniform price was 66 cents per hundredweight below the November price. The December producer price differential (PPD) at Suffolk County was $0.80 per hundredweight, a decrease of 36 cents per hundredweight from last month.

During December, all commodity prices declined except dry whey. Butter dropped 17 cents per pound; as a result, the butterfat component price declined, but the protein price rose. All class prices dropped except the Class I price that is announced in advance and based off of prices from the previous month. With a larger proportion of milk used in the lower-valued classes, especially Class IV, the blend price fell below $20.00 for the first time since February. The PPD dropped as the component value of the pool (what is owed to all producers for their milk components) was nearly equal to the classified value (value that handlers owe for the milk used to make respective products) and left little to be disbursed after paying producer components. (See article below regarding Negative PPDs).❖

Negative PPDs at Outer Zones

The Producer Price Differential (PPD) for December 2011 equaled $0.80 per hundredweight at Suffolk County, Massachusetts (Boston), the basing point for the Northeast Order. Producers are paid for their milk based on the location where their milk is delivered during the month. Producers' milk delivered to plants in Suffolk County, or any other county that has a $3.25 differential, would receive the 80-cent PPD. Plants located in differential zones less than $3.25 have a lower PPD obligation to producers delivering to those plants. Differential values determine the relative PPD value and are meant to help cover the higher cost of hauling milk to urban locations that do not have a local milk supply. For the month of December, milk delivered to plants located in the outer zones ($2.40 or less) would receive a negative PPD.❖

Pool Summary

- A total of 12,850 producers were pooled under the Order with an average daily delivery per producer of 5,066 pounds.
- Pooled milk receipts totaled 2.018 billion pounds, an increase of 5.9 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 43.7 percent of total milk receipts, a decrease of 0.6 percentage points from November.
- The average butterfat test of producer receipts was 3.82 percent.
- The average true protein test of producer receipts was 3.12 percent.
- The average other solids test of producer receipts was 5.73 percent.❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	43.7	881,778,475
Class II	21.0	423,227,481
Class III	22.9	463,029,562
Class IV	12.4	250,117,056
Total Pooled Milk		2,018,152,574

Producer Component Prices

	2011	2010
	$/lb	
Protein Price	3.3404	2.1706
Butterfat Price	1.7443	1.7952
Other Solids Price	0.4683	0.1852

Class Price Factors

	2011	2010
	$/cwt	
Class I	21.72	20.21
Class II	18.08	15.77
Class III	18.77	13.83
Class IV	16.87	15.03

2011 Northeast Order Statistics Summarized

During 2011, the volume of milk received from producers shipping to handlers regulated under the Northeast Order was basically unchanged from the previous year. Prices, on the other hand, set record levels in all classes and for the overall average blend. The accompanying table compares selected pool statistics for 2010 and 2011.

Class Utilization Changes

The total volume of milk pooled rose a slight 0.1 percent from 2010. Even though total receipts were nearly flat at 24.4 billion pounds, there were changes in utilization within the classes.

Class I utilization averaged 41.4 percent in 2011, a decrease of 1.3 percentage points from the previous year; the total volume of milk used in Class I declined 3.0 percent. Class II usage jumped 10.5 percent, resulting in overall utilization of 23.5 percent, an increase of 2.2 percentage points. The growth in Greek-style yogurt largely was the driving force behind the substantial increase in the Class II volume during the past two years.

Class III volume grew 2.4 percent and averaged 25.1 percent, up 0.6 percentage points. The amount of milk used in Class IV dropped 12.5 percent and accounted for an annual average of 10.1 percent utilization, down 3.5 percentage points.

Record Setting Prices

Commodity prices were fairly strong throughout most of 2011, with record-setting levels in many months. Correspondingly, component prices rose setting record-high prices in all classes.

The Class I price averaged $22.38 per hundredweight in 2011, $3.78 (20.3 percent) above the 2010 annual average and nearly a dollar higher than the 2007 average. The Class II price averaged $19.62 per hundredweight, $3.60 and 22.4 percent higher than the previous year. The Class III price averaged $18.37, up $3.96 and 27.5 percent over 2010. The Class IV price rose $3.95, an increase of 26.2 percent, and averaged $19.04 per hundredweight.

Overall, the statistical uniform price (blend) reported at Suffolk County, Massachusetts (Boston) averaged $20.64 per hundredweight, the first time since the Order's inception that the blend averaged over $20.00. Throughout the year, it was higher than $20.00 during 9 months, compared to 7 months in 2007. The annual average was $3.72 (22.0 percent) higher than the 2010 price and nearly a dollar over the previous record set in 2007. The producer price differential (PPD) averaged $2.28 per hundredweight in 2011, 23 cents less than the average in 2010, but was the fourth highest annual average on record.

Component Pricing

The price paid to producers for butterfat averaged $2.1535 per pound, 16.2 percent higher than in 2010, and set a record high since the Order's inception. The per-pound annual average protein price was $2.9663 per pound (third highest on record), up 28.5 percent from 2010. The other solids price increased 93.2 percent and averaged $0.3434 per pound, the second highest other solids price ever. The nonfat solids price rose 33.7 percent and averaged $1.3246 per pound, the second highest reported.

Producer Tests

The annual average producer butterfat test equaled 3.73 percent in 2011, an increase of 3 percentage points from last year and tied with 2008 for the highest annual average. Records were set during the first four months of 2011. The annual average producer protein test was 3.07 percent, up 2 percentage points from 2010 and a new record for the Order. Records also were set during the first four months of the year. The annual average producer other solids test increased 1 percentage point to 5.73 percent, setting a new record high annual average. Record highs were set or tied with previous records in ten months of 2011.

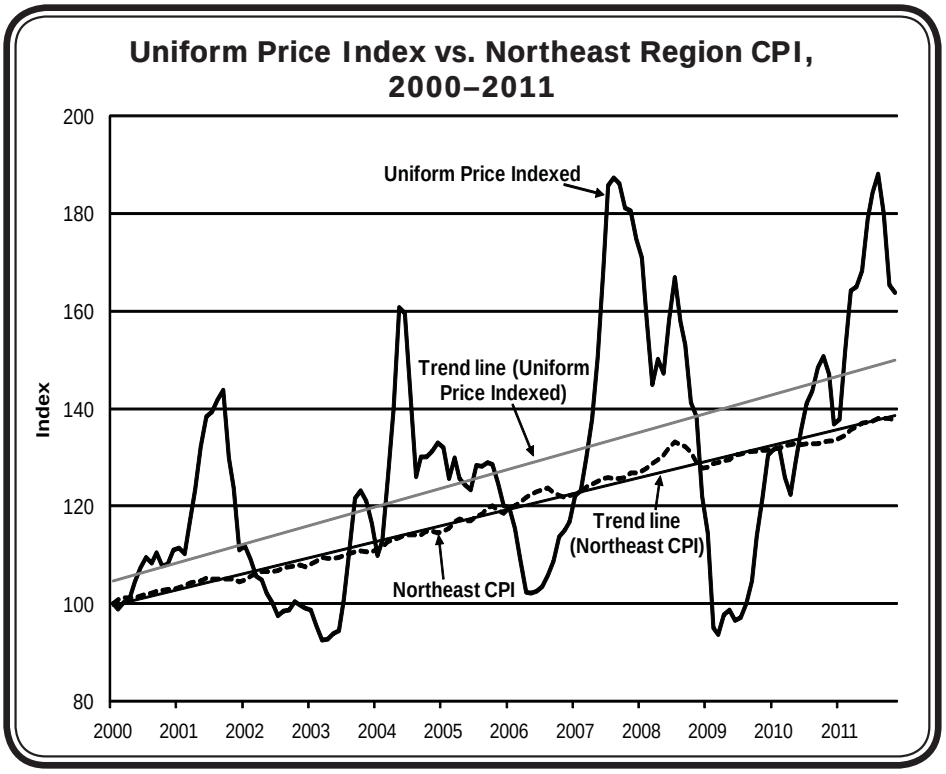
The year ended with 552 less producers than at the end of 2010. Annual average daily deliveries per producer (DDP) equaled 5,147 pounds, an increase of 3.7 percent from 2010.❖

Northeast Order Pool Statistics, 2010–2011

Pool Statistics	2010	2011	2010–11 Change
	million pounds		percent
Class I	10,386.4	10,074.9	(3.0)
Class II	5,181.5	5,723.2	10.5
Class III	5,951.7	6,097.1	2.4
Class IV	2,815.1	2,463.0	(12.5)
Total	24,334.7	24,358.2	0.1
	pounds		
DDP	4,965	5,147	3.7
	utilization percentage		change
Class I	42.7	41.4	(1.3)
Class II	21.3	23.5	2.2
Class III	24.4	25.0	0.6
Class IV	11.6	10.1	(1.5)
	dollars/cwt		percent
Class I	18.60	22.38	20.3
Class II	16.02	19.62	22.4
Class III	14.41	18.37	27.5
Class IV	15.09	19.04	26.2
SUP	16.92	20.64	22.0
Producer Component:			
Tests:	percent		change
Butterfat	3.70	3.73	0.03
Protein	3.05	3.07	0.02
Other Solids	5.72	5.73	0.01
Prices:	dollars/lb		percent
Butterfat	1.8535	2.1535	16.2
Protein	2.3091	2.9663	28.5
Other Solids	0.1777	0.3434	93.2
Nonfat Solids	0.9909	1.3246	33.7

Uniform Price vs. CPI

Much of the period following the inception of the Northeast Order in 2000 has been characterized by large variability in the uniform price for milk. The variability makes it difficult to determine what the long run trend in the uniform price actually is. The accompanying chart shows the Northeast Order uniform price as announced in Boston and the Consumer Price Index (CPI) for the Northeast region also indexed to January 2000. Trend lines for the two series also are shown. The CPI is a measure of the average change over time in the prices paid by consumers for a market basket of consumer goods and services.



The first thing that stands out is the previously mentioned variability in the uniform price compared to the much less variable CPI. The CPI fluctuates minimally around its trend line, while the uniform price index fluctuates to a much greater degree around the trend. However, what may be less obvious in the picture is that the uniform price has increased at a greater rate than the CPI. The uniform price has increased, on average, 6.8 percent annually since 2000. The CPI has increased on average 2.7 percent annually. The price received by farmers for their milk has risen at a faster rate than the prices consumers pay for a representative market basket of goods.

The chart also shows how the uniform price index has dipped below, or very near, 100 three times since 2000. This implies that the price farmers receive for milk has shown a propensity to return to, or drop below, the price they received in 2000. However, it has just as many times risen to levels well above, and in some cases almost 90 percent above, prices in 2000. By contrast, the CPI more consistently rises, not often returning to price levels from previous time periods, and certainly not to the level of prices in 2000. The periods of low uniform prices can obscure the underlying fact that the uniform price, on average, has been rising faster than general consumer prices.

These data highlight the importance of managing risk in a way that allows producers to benefit to the greatest extent from the long run trend of increasing prices while avoiding the negative effects of large price swings. They also imply that although sometimes out of cycle with current supplies, the demand for milk and dairy products has been strong enough to support long term increases in milk prices to farmers.❖

Pool Summary for All Federal Orders, January–December, 2010–2011

Federal Order Number	Name	Total Producer Milk 2010	Total Producer Milk 2011	Change	Producer Price Differential# 2010	Producer Price Differential# 2011	Statistical Uniform Price#* 2010	Statistical Uniform Price#* 2011
		pounds		percent	dollars per hundredweight			
1	**Northeast**	**24,334,721,891**	**24,358,273,875**	**0.1**	**2.51**	**2.28**	**16.92**	**20.64**
5	Appalachian	6,041,773,553	6,128,146,669	1.4	N/A	N/A	17.94	21.68
6	Florida	2,901,728,440	2,919,070,100	0.6	N/A	N/A	20.12	23.77
7	Southeast	7,001,123,700	7,057,077,942	0.8	N/A	N/A	18.07	21.79
30	Upper Midwest	33,805,660,004	32,767,000,141	(3.1)	0.43	0.35	14.84	18.72
32	Central	13,351,663,213	13,937,840,934	4.4	1.05	0.77	15.46	19.14
33	Mideast	16,021,616,543	15,938,483,727	(0.5)	1.43	1.18	15.84	19.54
124	Pacific Northwest	8,010,815,734	8,022,762,894	0.1	1.02	0.83	15.42	19.20
126	Southwest	11,210,369,525	11,233,315,480	0.2	2.08	1.85	16.48	20.22
131	Arizona	4,231,877,559	4,517,903,674	6.8	N/A	N/A	15.86	19.70
	All Market Total/Average	126,911,350,162	126,879,875,436	(0.0)	1.42	1.21	16.69	20.44

Price at designated order location. * Price at 3.5% butterfat. N/A = Not applicable.

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Computation of Producer Price Differential and Statistical Uniform Price*

	Product Pounds	Price per cwt./lb.	Component Value	Total Value
Class I— Skim	864,476,072	$15.07	130,276,544.05	
Butterfat	17,302,403	2.0516	35,497,609.99	
Less: Location Adjustment to Handlers			(2,971,406.06)	$162,802,747.95
Class II— Butterfat	27,591,289	1.7513	48,320,624.40	
Nonfat Solids	36,417,257	1.3756	50,095,578.74	98,416,203.14
Class III– Butterfat	20,749,483	1.7443	36,193,323.18	
Protein	14,384,337	3.3404	48,049,439.30	
Other Solids	26,331,737	0.4683	12,331,152.45	96,573,914.93
Class IV– Butterfat	11,467,041	1.7443	20,001,959.64	
Nonfat Solids	22,001,629	1.2398	27,277,619.64	47,279,579.28
Total Classified Value				**$405,072,445.30**
Add: Overage—All Classes				62,171.81
Inventory Reclassification—All Classes				(43,111.69)
Other Source Receipts	3,307,737 Pounds			34,643.08
Total Pool Value				**$405,126,148.50**
Less: Producer Component Valuations @ Class III Component Prices				(399,318,449.80)
Total PPD Value Before Adjustments				**$5,807,698.70**
Add: Location Adjustment to Producers				10,278,582.29
One-half Unobligated Balance—Producer Settlement Fund				915,732.70
Less: Producer Settlement Fund—Reserve				(830,331.20)
Total Pool Milk & PPD Value	2,021,460,311 Producer pounds			**$16,171,682.49**
Producer Price Differential		**$0.80**		
Statistical Uniform Price		**$19.57**		

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