

## The Market Administrator's

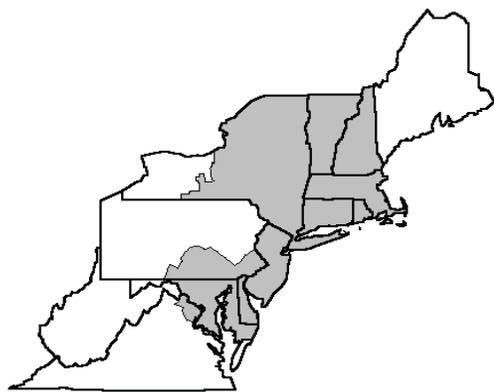
# BULLETIN

## NORTHEAST MARKETING AREA

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Federal Order No. 1



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### August Pool Price Calculation

The August 2012 statistical uniform price (SUP) for the Northeast Marketing Area was announced at \$18.40 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 \$18.57 per hundredweight. The August statistical uniform price was \$1.14 per hundredweight above the July price. The August producer price differential (PPD) at Suffolk County was \$0.67 per hundredweight, an increase of 9 cents per hundredweight from last month.

During August, product prices for all commodities rose resulting in higher component prices. All class prices rose at least \$1.00 per hundredweight from July. The Class II price was the lowest of the class prices for the first time since March 2011 (see related article on page 3). The spread between the Class I and III prices was about the same as last month and resulted in little change in the PPD.

The volume of producer milk receipts utilized in Class I in August was the smallest for that month since the Order's inception. The Class II volume set a new record as the largest ever for the Order and the first time the total utilized in Class II was over 600 million pounds. The average producer other solids test continued to set a new record for the current month. ❖

### Negative PPDs at Outer Zones

As predicted last month, producers' milk delivered to plants located in zones further away from the Boston will receive a negative Producer Price Differential (PPD) for August 2012. Since the PPD equaled \$0.67 per hundredweight at Suffolk County, Massachusetts (Boston), the basing point for the Northeast Order, milk delivered to plants located in the outer zones (\$2.50 or less) would receive a negative PPD.

As discussed in the July *Bulletin*, 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 67-cent PPD. Plants located in differential zones less than \$3.25 have a lower PPD (continued on page 2)

### Pool Summary

- A total of 12,619 producers were pooled under the Order with an average daily delivery per producer of 5,225 pounds.
- Pooled milk receipts totaled 2.044 billion pounds, an increase of 0.3 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 39.6 percent of total milk receipts, an increase of 2.3 percentage points from July.
- The average butterfat test of producer receipts was 3.61 percent.
- The average true protein test of producer receipts was 2.98 percent.
- The average other solids test of producer receipts was 5.76 percent. ❖

#### Class Utilization

Pooled Milk	Percent	Pounds
Class I	39.6	810,430,058
Class II	29.8	609,579,127
Class III	24.1	492,104,118
Class IV	6.5	131,963,721
Total Pooled Milk		2,044,077,024

#### Producer Component Prices

	2012	2011
	\$/lb	
Protein Price	3.1211	3.8305
Butterfat Price	1.8339	2.2985
Other Solids Price	0.3462	0.3811

#### Class Price Factors

	2012	2011
	\$/cwt	
Class I	19.80	24.68
Class II	15.64	21.55
Class III	17.73	21.67
Class IV	15.76	20.14

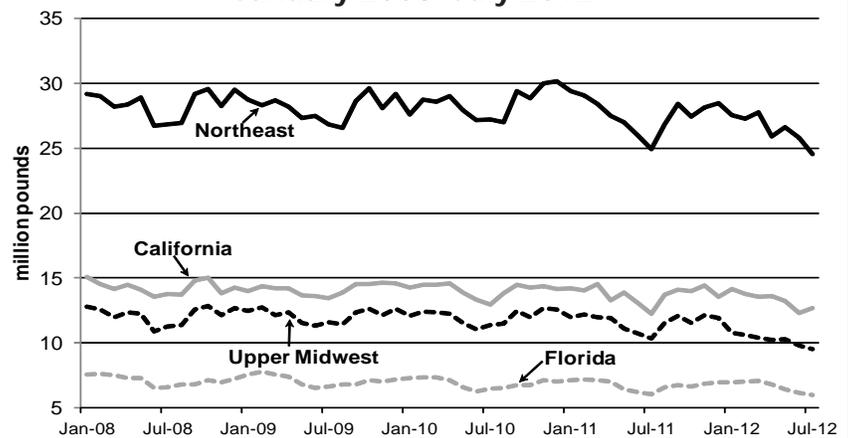
## Class I Utilization

It's a well known issue in the dairy industry that fluid milk sales are down. Industry analysts will theorize many reasons, including competing beverage choices, and new dairy product offerings.

Chart 1 highlights Class I utilization, on a per day basis, by month, from January 2008 to August 2012, for the Northeast Order, the Upper Midwest Order, the Florida Order and the California State Order. The Upper Midwest and Florida are shown as representative of orders with low and high Class I utilization percentages. The California State Order also is shown for comparison. Chart 2 highlights Class I utilization for all Federal Orders combined, on a per day basis, by month, over the same time period. This

Chart 1

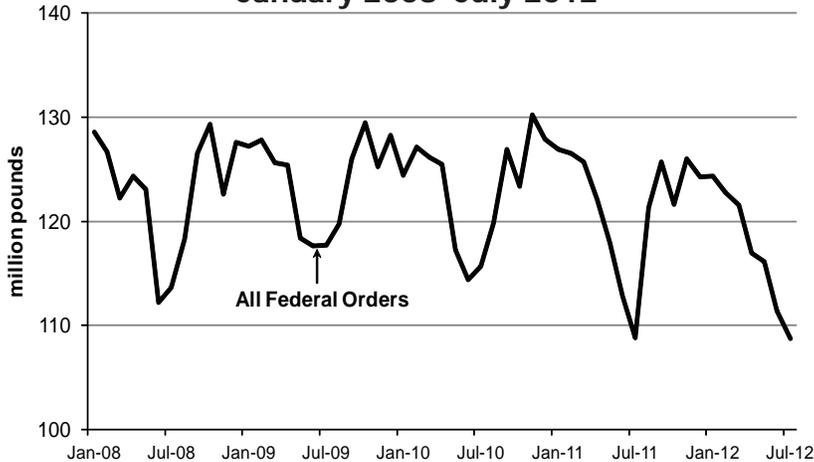
Class I Utilization, Per Day Basis, by Month, January 2008–July 2012



Source: USDA/AMS/Dairy Programs.

Chart 2

Class I Utilization, Per Day Basis, by Month, January 2008–July 2012



Source: USDA/AMS/Dairy Programs.

comparison shows that, at least for the time period mentioned, the Northeast Order is not alone in facing declining utilization. Class I utilization of all ten Federal Orders combined has declined as well. These series show

that the low points in the cycle have become lower, and the most recent high point did not return to the same level as the previous 3 cycles. The trend for all Federal Orders combined was more negative than for the Northeast Order by itself. The Upper Midwest Order declined at about the same pace as the Northeast order. The Florida Order and California State Order also saw a decline over this period of time, but somewhat less than the Northeast Order. The conclusion here is that the declining Class I utilization is not just an issue faced by Northeast Order producers.

The discussion of utilization is important to Federal Order producers in that the value shared by producers in pooling milk is derived from Class I. Declining Class I utilization can result in reduced producer price differentials.

Although lower Class I utilization is not the mechanism that causes occurrences of negative producer price differentials, lower Class I utilization can make them more likely to occur. ❖

## Negative PPDs *(continued from page 1)*

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.

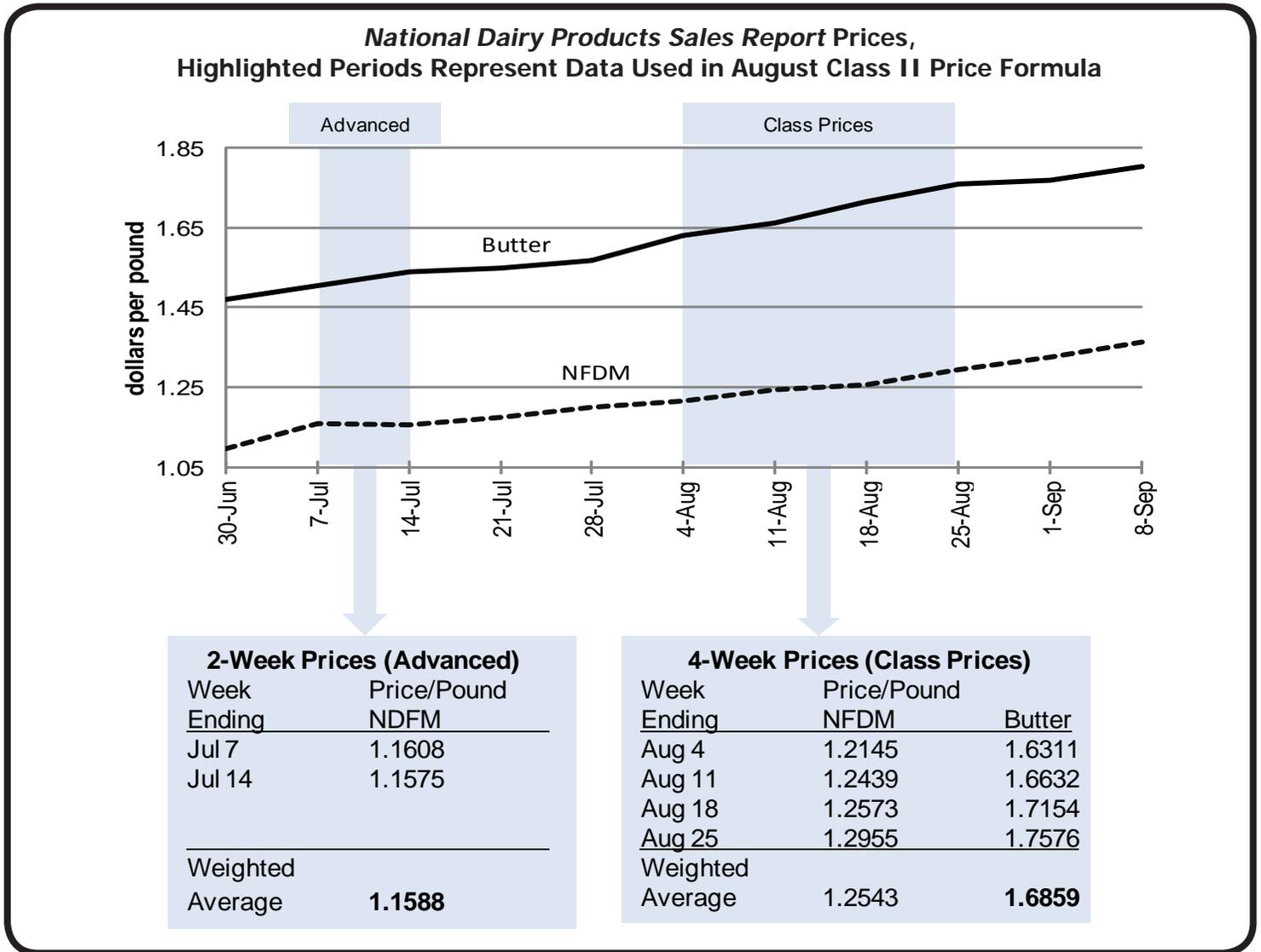
Minimum or negative PPD values can arise during periods of significant price changes where the Class I price (announced in advance) does not reflect the full price increase that is reflected in the Class III price component values. With the value of the pool fixed (as determined by the class prices) the majority of the pool value is paid

out to producers in their components with little or, in some cases, no value left to be paid out in the PPD. Based on Chicago Mercantile Exchange futures prices, as an estimate for actual product prices, this scenario is possible for the next 2 months in at least some more distant differential zones.

In addition, with Class I volumes declining (see article above), there is an additional downward effect on the overall value of the pool. This tightens the spread between the pool generated value and the component value paid out to producers, lowering the PPD. ❖

## Class II Price Lowest

The August Class II price was the lowest of the class prices. This situation occurs due to the Class II price formula's use of market prices from the 'previous month', along with prices from the 'current month' as reported in the *National Dairy Products Sales Report* (NDPSR). The table below shows the prices reported on the NDPSR; the averages used in calculating the Class II price are in bold. The chart shows the nonfat dry milk and butter prices from June 30 through September 8. The shaded areas highlight the periods used to calculate the Class II price.



### Class II Price Formula

$$\text{Class II Price} = (.965 \times \text{Advanced Class II Skim Price}) + (3.5 \times \text{Class II Butterfat Prices})$$

The Advanced Class II Skim portion of the price is derived from the weighted average of nonfat dry milk prices reported on the NDPSR on *July 7* and *14*. The weighted average price of nonfat dry milk for these 2 weeks was \$1.1588 per pound. The Class II butterfat portion of the price is derived from the weighted average of butter prices reported on the NDPSR on *August 4, 11, 18, and 25*. The butterfat portion of the Class II formula for *August* reflects *August* market prices, whereas the advanced skim portion of the formula reflects market prices that existed during the first half of *July*. The price for nonfat dry milk for the month of *August* averaged \$1.2543 per pound. Due to the pricing formula, the August Class II price did not reflect the higher August nonfat dry milk prices.

Like the Class II price, the Class III and IV prices are calculated using the current month's butterfat, but they also use the current month's other solids and nonfat prices derived from the reported NDPSR commodity prices. All component prices (butterfat, nonfat solids, other solids, and protein) used in the August Class III and IV price formulas were derived from the NDPSR prices from August 4, 11, 18, and 25. ❖



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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	794,903,556	\$14.46	114,943,054.20	
Butterfat	15,526,502	1.6711	25,946,337.49	
Less: Location Adjustment to Handlers			(2,731,522.82)	\$138,157,868.84
Class II— Butterfat	30,538,248	1.8409	56,217,860.80	
Nonfat Solids	52,491,150	1.0589	55,582,878.77	111,800,739.57
Class III— Butterfat	20,989,012	1.8339	38,491,749.11	
Protein	14,607,163	3.1211	45,590,416.43	
Other Solids	28,149,091	0.3462	9,745,215.29	93,827,380.83
Class IV— Butterfat	6,656,352	1.8339	12,207,083.95	
Nonfat Solids	11,387,508	1.0756	12,248,403.62	24,455,487.57
<b>Total Classified Value</b>				<b>\$368,241,476.81</b>
Add: Overage—All Classes				35,744.94
Inventory Reclassification—All Classes				538,247.13
Other Source Receipts	4,575,908 Pounds			64,676.86
<b>Total Pool Value</b>				<b>\$368,880,145.74</b>
Less: Producer Component Valuations @ Class III Component Prices				(365,852,140.78)
<b>Total PPD Value Before Adjustments</b>				<b>\$3,028,004.96</b>
Add: Location Adjustment to Producers				10,737,445.68
One-half Unobligated Balance—Producer Settlement Fund				909,698.07
Less: Producer Settlement Fund—Reserve				(949,174.09)
<b>Total Pool Milk &amp; PPD Value</b>	2,048,652,932 Producer pounds			<b>\$13,725,974.62</b>
Producer Price Differential		<b>\$0.67</b>		
Statistical Uniform Price		<b>\$18.40</b>		

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