

# The Market Administrator's

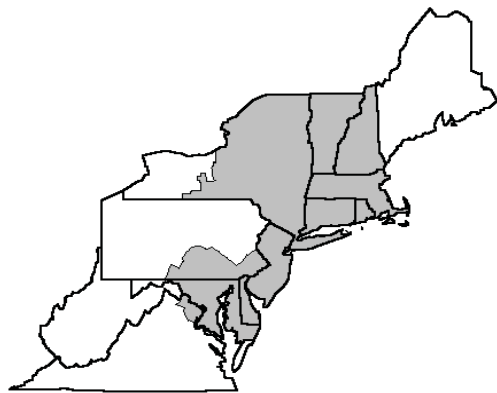
# BULLETIN

## NORTHEAST MARKETING AREA

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September 2012

Federal Order No. 1



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## September Pool Price Calculation

The September 2012 statistical uniform price (SUP) for the Northeast Marketing Area was announced at \$19.45 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 \$20.07 per hundredweight. The September statistical uniform price was \$1.05 per hundredweight above the August price. The September producer price differential (PPD) at Suffolk County was \$0.45 per hundredweight, a decrease of 22 cents per hundredweight from last month.

During September, product prices for all commodities rose resulting in higher component prices. All class prices rose at least \$1.00 per hundredweight from August. The Class II price was the lowest of the class prices for the second month in a row. The spread between the Class I and III prices decreased slightly, lowering the PPD. Producers shipping to handlers located in the \$2.70 and farther out zones received a negative value for the PPD portion of their payment. As reflected in the higher overall SUP, components contributed a greater proportion to producers' payments.

The volume of producer milk receipts utilized in Class I in September was the smallest for that month since the Order's inception and the first time the Class I volume was below 800 million pounds for September. The Class II volume set a new record for the month of September. The average producer other solids test continued to set a new record for the current month and the average producer butterfat test tied with record set September 2008. ❖

## Fall Months' Shipping Percentage Increase

Each year the percentage of milk that pool supply plants and cooperative Section 1000.9(c) handlers (any cooperative qualified by USDA with their own member-producers pooling producers and regulated as a handler on the Order) must deliver to Class I pool distributing plants during the months of September, October, and November increases. This provision of the Order, Section 1001.7(c)(2), commonly referred to as the "shipping percentage", stipulates that during the months of September (continued on page 3)

## Pool Summary

- A total of 12,602 producers were pooled under the Order with an average daily delivery per producer of 5,166 pounds.
- Pooled milk receipts totaled 1.953 billion pounds, a decrease of 1.3 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 40.7 percent of total milk receipts, an increase of 1.1 percentage points from August.
- The average butterfat test of producer receipts was 3.69 percent.
- The average true protein test of producer receipts was 3.06 percent.
- The average other solids test of producer receipts was 5.73 percent. ❖

### Class Utilization

Pooled Milk	Percent	Pounds
Class I	40.7	795,047,960
Class II	29.3	572,666,123
Class III	23.6	461,271,890
Class IV	6.4	124,049,047
Total Pooled Milk		1,953,035,020

### Producer Component Prices

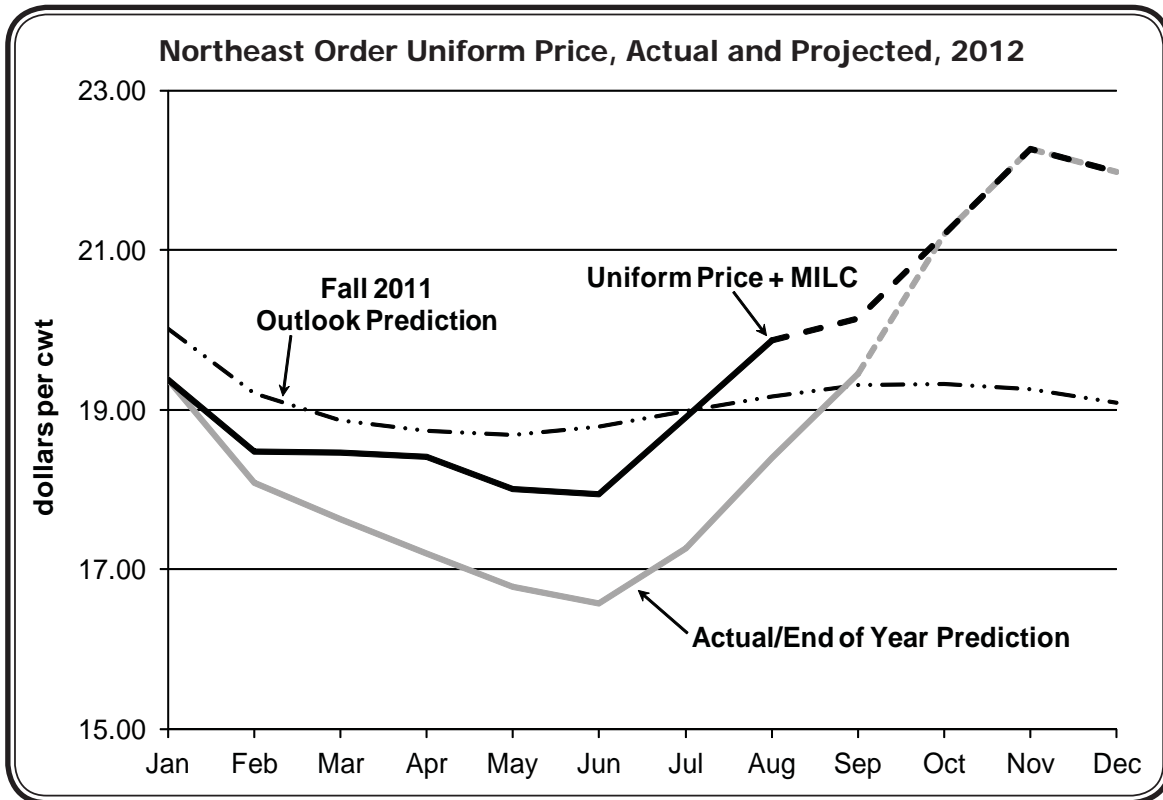
	2012	2011
	\$/lb	
Protein Price	3.2521	3.0282
Butterfat Price	2.0047	2.2005
Other Solids Price	0.3971	0.4053

### Class Price Factors

	2012	2011
	\$/cwt	
Class I	20.84	25.03
Class II	17.04	20.55
Class III	19.00	19.07
Class IV	17.41	19.53

## Market Situation

The September uniform price at Boston, MA, was \$19.45 per hundredweight (cwt), the highest uniform price for 2012 so far. From January through June 2012, the uniform price declined \$2.79 per cwt. Since June, the price has recovered \$2.87 per cwt. Presently, the price is expected to rise further to a peak in November of a little over \$22.00 per cwt, and finish the year with a price just under \$22.00 per cwt in December, based on data from October 12 Chicago Mercantile Exchange (CME) futures prices.



### Actual vs. Estimated Prices

A consensus price projection made by attendees of November 2011's Northeast Regional Dairy Outlook Conference resulted in a predicted annual average uniform price of \$19.12 per cwt for 2012. Including the October 12-based projections for the remainder of 2012, the annual average uniform price for 2012 is currently averaging \$18.85 per cwt. Though a fairly accurate prediction on average, the projection made last year did not account for the low level the price would reach in the months of April through July, due to unexpected higher milk volumes during the first six months of the year. Also, this prediction did not foresee the high level to which the price would rise by year's end, attributed to tightening milk supplies as a result of drought conditions. The consensus price projected was fairly flat (though somewhat due to the averaging of individual projections submitted).

Milk production was much stronger than expected early in the year, largely attributed to the mild winter experienced by much of the nation. As of November 2011, USDA's Economic Research Service expected production to increase by 1.3 percent in 2012. Production was up by 3.1 percent through the first half of 2012.

Severe drought conditions coupled with poor margins from high feed costs relative to the milk price have resulted in a rapidly rising milk price. By September, National Agricultural Statistics Service production estimates for corn and soybeans were down 27.5 and 16 percent, respectively, from estimates made in May. Drought conditions represent the second of two unforeseeable weather related shocks

to the industry this year.

Taking into account Milk Income Loss Contract (MILC) payments, the 2012 average minimum total price received by producers is roughly \$19.59 per cwt at Boston, MA.

### End of Year Projections

As mentioned, the uniform price for the fourth quarter of 2012 is expected to rise to a relatively high level. The drought's impact on feed quality and availability, and the resulting impact on milk production, will be watched carefully as the winter progresses. Looking ahead, CME futures-based projections result in a uniform price at Boston over \$20.00 per cwt for the first six months of 2013 and for 2013 as a whole. Currently, the cost of feed in 2013, as measured by the formula used in the MILC program, projects to be almost identical to the average level of 2012. A higher milk price with similar feed costs should result in somewhat better margins for producers next year.

At \$18.85 per cwt for the year, 2012's average uniform price would be the third highest for the Northeast Order ever. Including a current CME futures-based estimate of \$20.18 per cwt for 2013, the average uniform price at Boston for the most recent seven years including 2007 through estimated 2013 would be \$18.30 per cwt, with five of seven years over \$18.00 per cwt. The average uniform price at Boston for the first seven years of the Order is \$14.29 per cwt with no years averaging over \$17.00 per cwt. ❖

## Farm Bill Expires

Many programs and policies of the USDA were authorized under the Food, Conservation and Energy Act of 2008 ("2008 Farm Bill") through September 30, 2012. Beginning October 1, 2012, the authority or funding provided under the 2008 Farm Bill for USDA to operate a number of these programs including farm commodity and price support, conservation, research, nutrition, food safety, and agricultural trade expired.

One such program is the Dairy Forward Pricing Program. Due to the expiration of the program's authorization, proprietary handlers establishing new forward contracts on or after October 1, 2012, will not be exempt from paying minimum federal order prices. Previously established contracts that extend through September 30, 2015, are not impacted.

Another program is the Milk Income Loss Contract (MILC) program. Payments under the program for Fiscal Year 2012 (October 1, 2011 to September 30, 2012) have been reported and paid through August. Payments authorized, but not yet received, will still be paid out since they were budgeted under the 2008 Farm Bill. September's payment has not yet been finalized, but is estimated at about \$0.69 per hundredweight. For the months of February through August, payments have averaged \$1.16 per hundredweight.

Under the 2008 Farm Bill, the Dairy Product Price Support Program is authorized through December 31, 2012. This program supports the price of milk at a minimal level of about \$10.00 per hundredweight.

Federal milk marketing orders are authorized under a separate permanent law so the operations of the federal milk orders are not directly affected, at this time, by the expiration of authorizations contained in the 2008 Farm Bill. ❖

## Shipping *(continued from page 1)*

through November, shipments and transfers by pool supply plants and cooperative handlers must equal not less than 20 percent of the total quantity of producer milk pooled by such handlers. This includes milk received at the plant or diverted from it; the Order defines specific qualifications.

The rationale behind this provision of the Order is that it helps assure that an adequate supply of milk will be available for Class I distributing plants at a time of the year when milk production typically is slowing, and Class I demand increases as schools reopen. For all other months of the year, the shipping percentage to distributing plants is 10 percent.

In years past, milk supplies would occasionally be so tight during the fall months that pool handlers would request that the market administrator conduct an investigation to determine if it was necessary to increase the shipping percentage even higher than 20 percent to meet the needs of the Class I market. The last time that an increase occurred was for the months of September through November 2001. The percentage was raised to 25 percent to bring forth the additional supply needed, but not cause uneconomical movements of milk.

The most recent consideration to increase the shipping percentage was September 2011, but after reviewing comments and data submitted by milk handlers regarding volumes received and utilization, it was determined that no increase was justified. In the past 18 months, milk utilized for Class I purposes has been declining at a more accelerated rate of decline than the historical average. Even with varying production volumes over the years, including declines in pool volumes, the needs of the Class I handlers have been met without any administrative intervention. ❖

### Pool Summary for All Federal Orders, January–September, 2011–2012

Federal Order		Total Producer Milk			Producer Price Differential#		Statistical Uniform Price#*	
Number	Name	2011	2012	Change	2011	2012	2011	2012
		pounds			percent	dollars per hundredweight		
<b>1</b>	<b>Northeast</b>	<b>18,479,671,915</b>	<b>18,514,220,269</b>	<b>(0.2)</b>	<b>2.56</b>	<b>1.33</b>	<b>20.83</b>	<b>17.86</b>
5	Appalachian	4,558,781,176	4,437,344,529	(3.0)	N/A	N/A	21.88	18.82
6	Florida	2,188,779,744	2,151,617,668	(2.1)	N/A	N/A	23.94	21.04
7	Southeast	5,343,683,266	5,181,374,897	(3.4)	N/A	N/A	21.90	19.19
30	Upper Midwest	24,849,303,828	23,609,437,191	(5.3)	0.43	0.14	18.71	16.67
32	Central	10,535,421,272	10,659,283,909	0.8	1.03	0.11	19.31	16.64
33	Mideast	11,817,467,956	12,837,753,038	8.2	1.45	0.32	19.73	16.85
124	Pacific Northwest	6,080,625,854	5,191,346,970	(14.9)	1.14	(0.09)	19.42	16.45
126	Southwest	8,489,385,697	7,735,928,218	(9.2)	2.12	1.11	20.40	17.65
131	Arizona	3,405,377,815	3,479,284,383	1.8	N/A	N/A	19.91	16.76
All Market Total/Average		95,748,498,523	93,797,591,072	(2.4)	1.45	0.49	20.60	17.79

# 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\***

	<u>Product Pounds</u>	<u>Price per cwt./lb.</u>	<u>Component Value</u>	<u>Total Value</u>
Class I— Skim	780,077,192	\$14.82	115,607,439.85	
Butterfat	14,970,768	1.8686	27,974,377.08	
Less: Location Adjustment to Handlers			(2,675,949.27)	\$140,905,867.70
Class II— Butterfat	28,253,185	2.0117	56,836,932.28	
Nonfat Solids	49,689,389	1.1511	57,197,455.67	114,034,387.95
Class III— Butterfat	20,507,942	2.0047	41,112,271.36	
Protein	14,040,844	3.2521	45,662,228.76	
Other Solids	26,224,134	0.3971	10,413,603.64	97,188,103.76
Class IV— Butterfat	8,407,034	2.0047	16,853,581.03	
Nonfat Solids	10,566,111	1.1969	12,646,578.26	29,500,159.29
<b>Total Classified Value</b>				<b>\$381,628,518.70</b>
Add: Overage—All Classes				24,640.79
Inventory Reclassification—All Classes				327,219.65
Other Source Receipts	3,375,800 Pounds			23,278.86
<b>Total Pool Value</b>				<b>\$382,003,658.00</b>
Less: Producer Component Valuations @ Class III Component Prices				(383,265,866.52)
<b>Total PPD Value Before Adjustments</b>				<b>(\$1,262,208.52)</b>
Add: Location Adjustment to Producers				10,194,253.85
One-half Unobligated Balance—Producer Settlement Fund				676,062.95
Less: Producer Settlement Fund—Reserve				(804,259.55)
<b>Total Pool Milk &amp; PPD Value</b>	1,956,410,820 Producer pounds			<b>\$8,803,848.73</b>
Producer Price Differential		<b>\$0.45</b>		
Statistical Uniform Price		<b>\$19.45</b>		

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