

The Market Administrator's

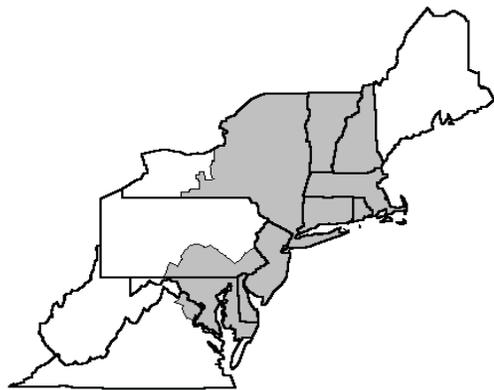
BULLETIN

NORTHEAST MARKETING AREA

Erik F. Rasmussen, Market Administrator

April 2013

Federal Order No. 1



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April Pool Price Calculation

The April 2013 statistical uniform price (SUP) for the Northeast Marketing Area was announced at \$19.50 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 \$20.27 per hundredweight. The April statistical uniform price was 18 cents per hundredweight above the March price. The April producer price differential (PPD) at Suffolk County was \$1.91 per hundredweight, a decrease of 48 cents per hundredweight from last month.

Overall, the price situation resulted in a higher uniform price and with the tightening of prices between the classes, a lower PPD. During April product prices for butter, cheese, and nonfat dry milk increased while dry whey declined. As a result, all component prices rose except other solids. The Class III price remained the lowest of the class prices even though it rose 66 cents. Its increase largely was due to the higher cheese price. Increases in butter and nonfat dry milk prices combined for a higher Class IV price in April.

Total pooled milk receipts were the second highest total for the month of April since the Order's inception, only surpassed by 2002. Class II usage set a record for the largest volume for the month of April. The average producer protein and butterfat tests for April set new record highs for the month. ❖

Final Rule Issued

On April 25, 2013, a final rule was published in the Federal Register that permanently adopts changes to the manufacturing cost allowances (make allowances) and the butterfat yield factor used in Class III and IV product-price formulas applicable to all federal milk marketing orders. A referendum was conducted in February with more than the required number of producers approving the issuance of the orders as amended.

The amendments were adopted by an interim final rule issued on July 25, 2008, that became effective October 1, 2008. This final rule is effective July 1, 2013; there is no change to the price formulas in existence since October 2008. For more information regarding this issue, refer to the January 2013 *Bulletin* or our webpage: www.fmmone.com for links to the Federal Register document. ❖

Pool Summary

- A total of 12,380 producers were pooled under the Order with an average daily delivery per producer of 5,891 pounds.
- Pooled milk receipts totaled 2.188 billion pounds, an increase of 0.8 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 36.5 percent of total milk receipts, an increase of 0.4 percentage points from March.
- The average butterfat test of producer receipts was 3.77 percent.
- The average true protein test of producer receipts was 3.07 percent.
- The average other solids test of producer receipts was 5.76 percent. ❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	36.5	798,837,542
Class II	25.5	557,183,499
Class III	24.4	534,758,324
Class IV	13.6	297,094,703
Total Pooled Milk		2,187,874,068

Producer Component Prices

	2013	2012
	\$/lb	
Protein Price	3.0130	2.6568
Butterfat Price	1.8227	1.5645
Other Solids Price	0.3863	0.4048

Class Price Factors

	2013	2012
	\$/cwt	
Class I	20.91	18.91
Class II	18.73	16.20
Class III	17.59	15.72
Class IV	18.10	14.80

Manufactured Dairy Products—2012 Summary

USDA's National Agricultural Statistics Service recently released their *Dairy Products 2012 Summary*. This publication summarizes dairy products manufactured in the United States. The accompanying table highlights selected products' changes from 2011 and 2007, and a comparison of Northeast Order milk used in the manufacture of these products. All comparisons have been adjusted for leap year in 2012.

Cheese Production

Total cheese production (excluding cottage cheese) grew 2.5 percent in 2012, up from 1.5 in 2011. Compared to 5 years ago, cheese production has risen 11.1 percent. American cheese production in 2012 increased 2.8 percent from the previous year, following a slight decline in 2011. Italian cheese grew less in 2012 (0.8 percent) than in 2011 (3.3 percent). Both American and Italian cheese production show double-digit growth from 2007. Hispanic cheese dropped slightly in 2012 after rising over 4.0 percent the past 2 years, but compared to 2007, it has risen 17.4 percent.

In the Northeast Order, milk used in 2012 cheese production (excluding cottage) decreased 5.0 percent, following an increase of 2.5 percent in 2011. Compared to 5 years ago, milk used in total cheese was up 4.2 percent. In 2012, declines occurred in American, Italian (mozzarella, provolone, and other hard Italian types), and ricotta. Cream cheese, Swiss, and other types grew. The other category contains Hispanic cheese, growing considerably in the past few years.

Other Products: Yogurt Continues Growth

Nationally, butter production rose 2.5 percent in 2012, following the strong increase of 15.7 percent in 2011. Yogurt (plain and fruit flavored) increased 3.1 percent, up from the 2.2 percent rise in 2011. Nonfat dry milk (NFDM) jumped 17.3 percent in 2012; the previous year it dropped 3.1 percent. Compared to 2007, butter has risen 21.0 percent, yogurt 26.7 percent, and NFDM 35.5 percent.

In the Northeast Order, milk used in butter production grew 5.7 percent; in 2011 in grew 2.0 percent. Milk used in making yogurt rose a considerable 40.4 percent; not as dramatic as the jump of 174.7 percent in 2011, but similar to the rise in 2010. The volume used in yogurt in 2012 is more than six times that of 2007—a leap of 528.4 percent. Greek-style yogurt's popularity has been the significant factor. Milk used in the production of dry milk products (mostly nonfat) grew 8.1 percent; in 2011, it dropped 14.9 percent.

Change in Selected Manufactured Dairy Products, 2012

Product	Total U.S. Production of Manufactured Products		Total Northeast Order Milk Used to Manufacture#	
	2012 Percent Change from:			
	2007	2011	2007	2011
Cheese				
American [^]	12.1	2.8	16.6	(4.3)
Italian	10.1	0.8	(10.6)	(9.1)
Other [*]	25.0	3.8	28.5	4.0
Total Cheese (excludes cottage)	11.1	2.5	4.2	(5.0)
Butter	21.0	2.5	30.2	5.7
NFDM~	35.5	17.3	43.3	8.1
Yogurt	26.7	3.1	528.4	40.4

Based on total milk used in manufacture of products.

[^] Includes Cheddar, Colby, Monterey, and Jack.

^{*} Includes Swiss, Muenster, brick, Hispanic, cream, and other varieties.

~ For human use; Northeast data includes some whole milk powder.

Leading States

The top three cheese producing states were unchanged during 2012 and included, in order of rank, Wisconsin, California, and Idaho. New York regained the number four spot after being displaced in 2011 by New Mexico that dropped back to number five. Wisconsin remained number one in American cheese; California led in Italian. New York remained the leader of lowfat and creamed cottage cheese and sour cream. Rankings for most of the other products were not given due to having fewer than 3 handlers reporting. One such product is yogurt; according to the NYS Governor's office, New York surpassed California in 2012 as the top producing yogurt state.

Percent of Total Milk Production

About 68.0 percent of U.S. total milk production was used in manufactured products (32.0 percent sold for fluid or other use); in 2011 manufacturing accounted for 67.0 percent and in 2007, it equaled 65.0 percent. In the Northeast, total milk used in manufactured products equaled 60.1 percent in 2012, compared to percents of 58.8 in 2011 and 54.9 in 2007. ❖

Benefits from "Higher Of" Pricing

The Class I price is set by the higher of the Class III or Class IV advanced price mover factor. The Class III price largely is determined by cheese prices, and the Class IV price by nonfat dry milk and butter. Since January 2000, Class IV has been the mover 68 times out of a possible 161 months through May 2013 (42 percent of the time). Current projections point to Class IV being the mover for the remainder of 2013, bringing the total to 75 times out (continued on page 3)

Benefits from "Higher Of" (continued from page 2)

of a possible 168 months (45 percent, or almost half of the time).

Recent Trend

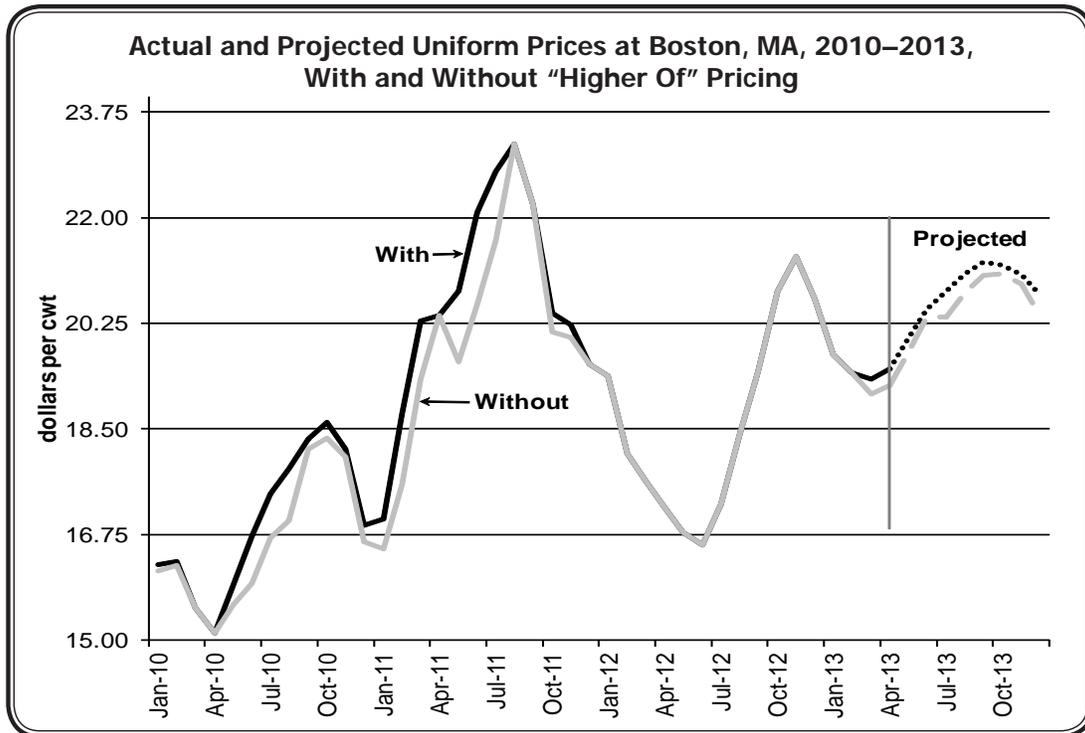
Class III had been the mover from December 2011 through February 2013, but Class IV has been the mover the most recent three months. The weighted average cheese price, which drives Class III prices, has softened from over \$2.00 per pound in October 2012, to the \$1.64 to \$1.68 per pound range during February to April. The butter and nonfat dry milk prices, drivers of Class IV prices, have risen or held steady in recent months, which has supported the Class IV price level at a time when Class III softened. The current spread between the Class III and Class IV mover has been running less than 80 cents the most recent four months. Only relatively small market activity would be required to change the current Class III/Class IV price relationship.

Value to Producers

Using Chicago Mercantile Exchange (CME) futures prices as a proxy (federal order prices are based on the National Dairy Product Sales Report, which closely follow the CME) as of May 15, 2013, and projected pool volumes for 2013, a uniform price was calculated using the current "higher of" Class I pricing. Another uniform price was calculated using just Class III as the Class I mover. Both cases were priced at the Boston, Massachusetts, location - the pricing base for the Order. The "higher of" Class I pricing has resulted in almost \$231 million more total Northeast Order pool value from January 2010 through April 2013. In the accompanying chart, the gap between the two lines represents this added value to producers during this time period. Assuming the 2010 average number of producers pooled of 12,965 producers, the total value benefit since January 2010 translates to about \$17,836, on average, per producer.

With Class IV predicted as the mover for the rest of 2013, an additional value benefit of about \$41 million is projected in Northeast Order pool value (for an estimated 2013 total of \$53 million).

Though the gap between the Class III and

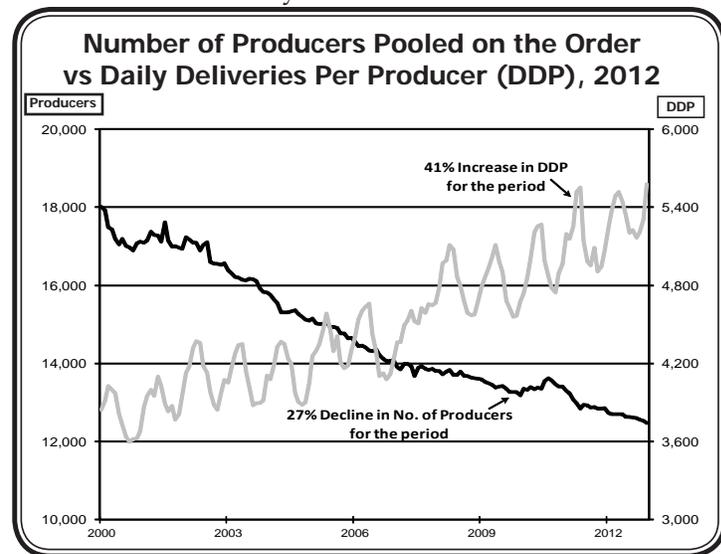


Class IV mover could narrow or Class IV drop below Class III, the actual and currently projected values still reflect the actual and potential benefits "higher of" Class I pricing has for producers. ❖

Annual Bulletin Available

The 2012 Annual Statistical *Bulletin* for the Northeast Milk Marketing Area is now available. The report summarizes pool and price data through a series of tables and charts such as the one shown below and featured on the cover highlighting the Number of Producers Pooled on the Order vs Daily Deliveries Per Producer.

The *Bulletin* can be found on our website at www.fmmone.com. Copies may be requested free of charge by contacting the Albany office at (518)452-4410 or E-mail: MAAlbany@fedmilk1.com. ❖





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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	784,047,673	\$15.32	120,116,103.50	
Butterfat	14,789,869	1.7514	25,902,976.57	
Less: Location Adjustment to Handlers			(2,688,148.60)	\$143,330,931.44
Class II— Butterfat	30,260,110	1.8297	55,366,923.28	
Nonfat Solids	48,403,103	1.4189	68,679,162.85	124,046,086.13
Class III— Butterfat	24,126,759	1.8227	43,975,843.59	
Protein	16,394,962	3.0130	49,398,020.57	
Other Solids	30,523,983	0.3863	11,791,414.67	105,165,278.83
Class IV— Butterfat	13,275,861	1.8227	24,197,911.83	
Nonfat Solids	26,033,841	1.3498	35,140,478.59	59,338,390.42
Total Classified Value				\$431,880,686.82
Add: Overage—All Classes				18,207.89
Inventory Reclassification—All Classes				146,601.98
Other Source Receipts	808,083 Pounds			23,735.16
Total Pool Value				\$432,069,231.85
Less: Producer Component Valuations @ Class III Component Prices				(401,591,556.81)
Total PPD Value Before Adjustments				\$30,477,675.04
Add: Location Adjustment to Producers				11,474,013.35
One-half Unobligated Balance—Producer Settlement Fund				921,106.34
Less: Producer Settlement Fund—Reserve				(1,068,965.71)
Total Pool Milk & PPD Value	2,188,682,151 Producer pounds			\$41,803,829.02
Producer Price Differential		\$1.91		
Statistical Uniform Price		\$19.50		

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