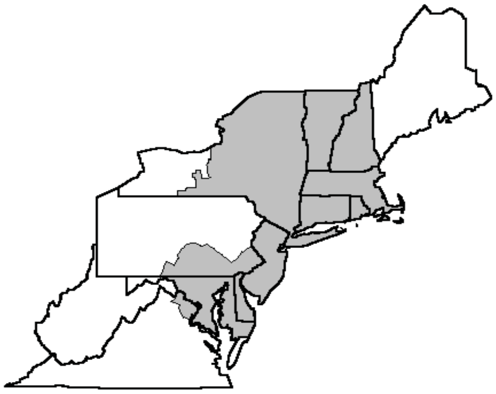

The Market Administrator's BULLETIN

NORTHEAST MARKETING AREA

Erik F. Rasmussen, Market Administrator

August 2013

Federal Order No. 1

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August Pool Price Calculation

The August 2013 statistical uniform price (SUP) for the Northeast Marketing Area was announced at $20.28 per hundredweight (cwt) 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 $20.60 per cwt. The August statistical uniform price was 10 cents per cwt above the July price. The August producer price differential (PPD) at Suffolk County was $2.37 per cwt, a decrease of 43 cents per cwt from last month.

Product Prices Effect

During August, product prices for butter and dry whey declined, while nonfat dry milk and cheese rose. As reported on the National Dairy Product Sales Report, butter dropped about 5 cents per pound, while nonfat dry milk increased about 4 cents and cheese rose nearly 6 cents per pound. This resulted in the butterfat component price decreasing about 6 cents, but the protein component price jumping over 25 cents per pound. Both Class I and II prices were nearly unchanged from July; the Class IV price increased 17 cents per cwt. The Class III price rose the most, 53 cents per cwt, but was still the lowest of the class prices. Similar to last month, with little change in the prices for three out of the four classes, the statistical uniform price grew slightly. The spread between the higher class prices (I and II) versus the lower (mainly III) tightened, resulting in a lower PPD value. For the third month in a row, the uniform price was over $20.00 per cwt.

Volume and Test Records Set

Total pooled milk receipts set a record as the highest ever for the month of August, as were daily deliveries per producer. Class I volume was the lowest ever for the month of August. For the first time since June 2009, the volume of milk used in Class II was less than the same month of the previous year, but it was still the second highest volume ever for the month of August. The Class IV volume also was the second highest for the month August.

The producer butterfat test set a record high for the month of August; the protein test tied with 2008's record for August.❖

Pool Summary

- A total of 12,367 producers were pooled under the Order with an average daily delivery per producer of 5,558 pounds.
- Pooled milk receipts totaled 2.131 billion pounds, an increase of 0.7 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 36.9 percent of total milk receipts, an increase of 1.4 percentage points from July.
- The average butterfat test of producer receipts was 3.65 percent.
- The average true protein test of producer receipts was 3.01 percent.
- The average other solids test of producer receipts was 5.72 percent.❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	36.9	786,016,780
Class II	27.7	589,945,869
Class III	25.9	551,689,909
Class IV	9.5	203,130,168
Total Pooled Milk		2,130,782,726

Producer Component Prices

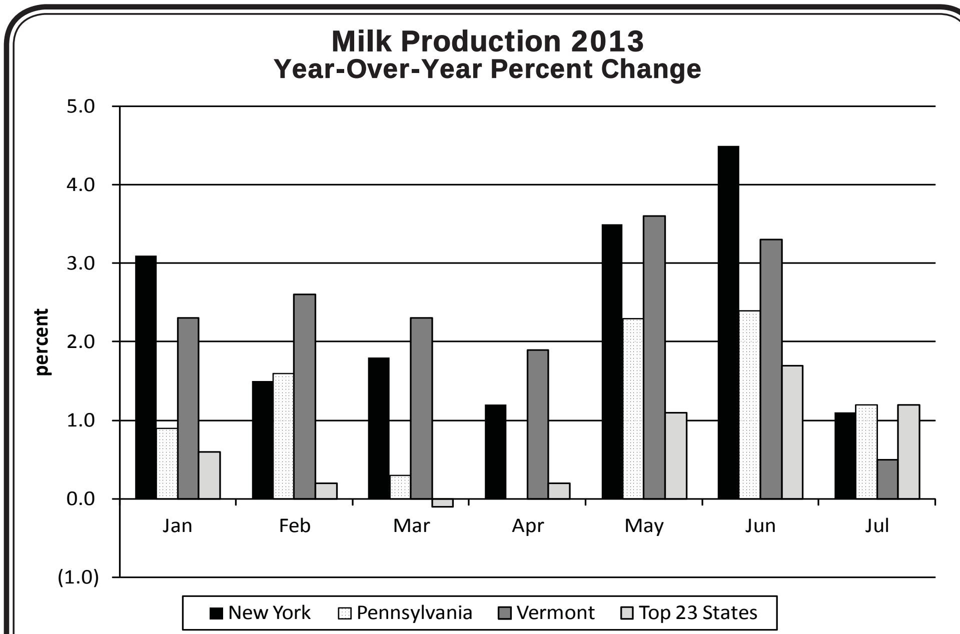
	2013	2012
	$/lb	
Protein Price	3.4775	3.1211
Butterfat Price	1.5104	1.8339
Other Solids Price	0.3901	0.3462

Class Price Factors

	2013	2012
	$/cwt	
Class I	22.13	19.80
Class II	19.27	15.64
Class III	17.91	17.73
Class IV	19.07	15.76

Northeast Production and Utilization

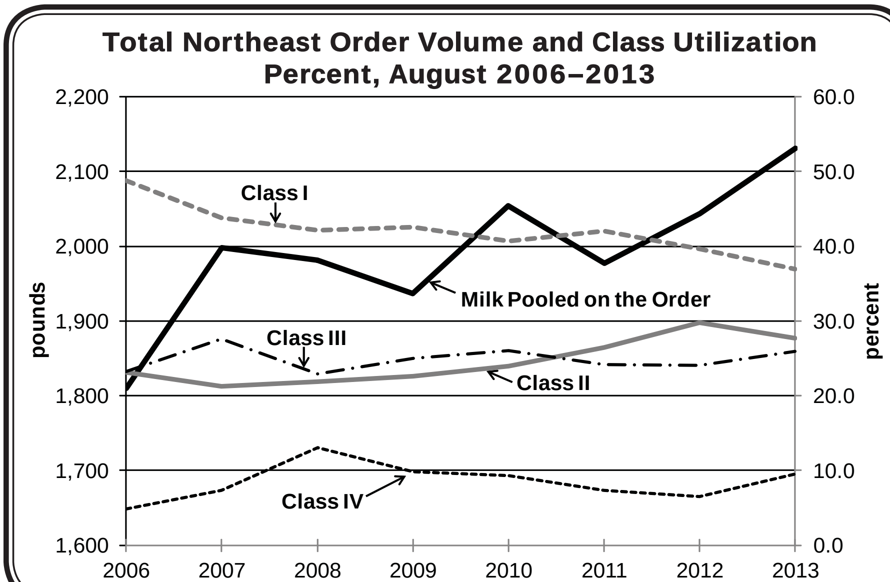
Milk production has been strong in the Northeast and relative to other parts of the country during 2013. The accompanying chart shows year-over-year milk production in New York, Pennsylvania, Vermont, and the top-23 milk producing states (as reported by the National Agricultural Statistics Service) for months in 2013 through July. In all but the month of July, New York and Vermont growth outpaced the top-23 state average. In July, New York growth was a percentage point lower than the top-23 state average. Year-over-year growth in the Northeast was impacted somewhat by hot, humid weather that occurred during July, and may partly explain why the region's milk production gains are more closely in line with the top-23 state average.



Source: NASS *Milk Production*.

Northeast Order Volume

The Northeast Order pooled the largest volume of milk (2.131 billion pounds) ever for the month of August. Total Northeast pooled volumes also had set all time highs in May and June 2013. The same heat and humidity referred to earlier also may have been a factor in July total Order volume falling to a third place ranking for that month. With total receipts returning to setting a new high for the month in August, it would not be surprising to see year-over-year milk production increases for August above July levels when those data are released. However, pooled milk does not necessarily reflect production as movement of milk on and off the Order can occur due to economic reasons.



The Milk is Flowing; Where's it Going?

Both milk production and Northeast Order volume data indicate that there is a lot of milk in the Northeast. Increased plant capacity in the region, most notably related to the growing Greek-style yogurt industry, and more favorable margins are likely factors in the supply response.

Class I

Class I utilization set a new low for the month of August (786 million pounds), by about 24 million pounds. This follows an all time record-low (751.3 million pounds) set the previous month. September Class I utilization has averaged 23 million pounds higher than August. This would indicate that September Class I utilization may top last September's current low of 795 million pounds, but still remain second lowest for September.

Class II, III, and IV

Class II utilization, the associated class of milk used in yogurt, indeed has been strong and setting records. However, for only the second time in 50 months, Class II utilization in August did not establish a new record-high for the particular month. At 27.7 percent, it did reach the highest utilization percentage so far this year.

At 551.7 million pounds, Class III usage fell short of the highest volume since 2002 for August by just 0.2 million pounds. For

(continued on page 3)

Northeast Production (continued from page 2)

the second August ever, Class IV pounds exceeded the 200 million pounds mark, hitting 203.1 million pounds for the month.

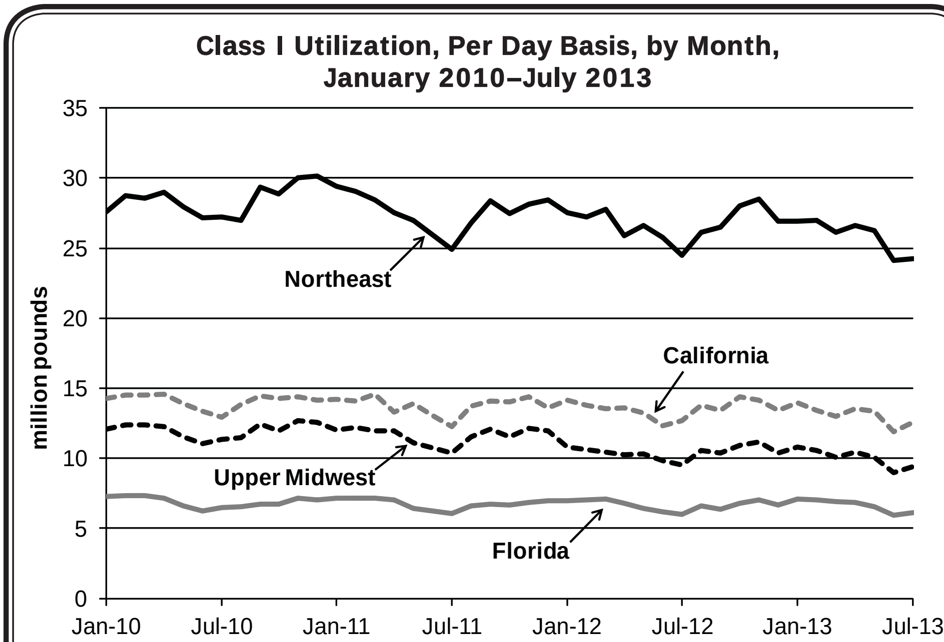
At a glance, Northeast Order pooled milk set an August record-high, which is resulting in the second highest Class II and Class IV volumes and very strong Class III volume, while Class I usage continues to establish new lows.

Looking Ahead, High Volumes to Continue?

According to the World Agricultural Supply and Demand Estimates report, USDA anticipates record-high levels of U.S. milk production for both 2013 and 2014. Such an outlook would imply that at this time, conditions with respect to margins and feed are not expected to change to any sustained degree that would indicate a curtailing of strong production, at least nationally.❖

Class I Utilization and Sales Continue Downward Trend

It has been mentioned frequently that Class I utilization continues to decline, and not just in the Northeast, but in all federal orders combined. The accompanying chart shows Class I Utilization, on a per day basis from January 2010-July 2013 for the Northeast, Florida, and Upper Midwest Federal Orders, and the California State Order. The Upper Midwest and Florida Orders are shown as representative of orders with low and high Class I utilization percentages, respectively. The California Order is shown as evidence that declining Class I utilization is not isolated to federal orders.



Source: USDA Dairy Programs.

Class I utilization varies throughout the year, with the summer months typically being the lowest when schools are not in session. Even though the chart shows peaks and troughs for all orders, the overall trend shows a decline, which appears to be more dramatic since 2011, especially in the Northeast Order. Comparing Class I from January through July since 2011, the average decline in all federal orders combined averaged 1.5 percent; in the Northeast, the decline was 2.6 percent. As also has been stated frequently, Class II utilization has increased significantly in the Northeast, showing an average increase of 9.4 percent during the same time period.

Packaged Sales

Related to, but not necessarily equal to Class I utilization, sales of packaged fluid milk products in the Northeast Marketing Area as reported by pool handlers regulated under the Order also have continued to decline. Most recent data through August 2013 show a decline of 2.8 percent from the same period in 2012 (adjusted for leap year); when compared to 2011, the drop is 5.5 percent (see table). The only category to show an increase is organic whole milk, which only accounts for 1.3 percent of all sales in the marketing area.

Nationally, estimated sales through June (most recent data available) report a decline of 2.2 percent from the same period in 2012. US sales show increases in organic whole and reduced fat products, and flavored milk products; similar to the Northeast, all other categories report declines.❖

Sales of Fluid Milk Products in the Northeast Milk Marketing Area, January–August 2013

Product	Total Sales Northeast	Change from: 2012*	Change from: 2011
	million pounds	percent	percent
Whole Milk	1,686	(1.3)	(4.3)
Organic Whole Milk	69	5.7	2.1
Reduced Fat Milk	1,237	(1.2)	(3.1)
Low Fat Milk	1,041	(3.8)	(5.0)
Fat-Free Milk	816	(7.4)	(12.5)
Flavored Milk and Drinks	287	(2.6)	(2.0)
Organic Whole and Fat-Reduced	157	(2.7)	(10.1)
Buttermilk, eggnog, other	17	(4.2)	(12.5)
Total	5,310	(2.8)	(5.5)

*Adjusted for leap year.

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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	770,738,925	$17.02	131,179,765.04	
	Butterfat	15,277,855	1.6294	24,893,736.94	
Less:	Location Adjustment to Handlers			(2,651,910.86)	$153,421,591.10
Class II—	Butterfat	31,101,251	1.5174	47,193,038.25	
	Nonfat Solids	50,704,868	1.6078	81,523,286.75	128,716,325.00
Class III–	Butterfat	23,201,956	1.5104	35,044,234.29	
	Protein	16,598,580	3.4775	57,721,562.01	
	Other Solids	31,416,672	0.3901	12,255,643.74	105,021,440.04
Class IV–	Butterfat	8,261,228	1.5104	12,477,758.77	
	Nonfat Solids	17,643,540	1.5868	27,996,769.28	40,474,528.05
Total Classified Value					**$427,633,884.19**
Add:	Overage—All Classes				31,480.38
	Inventory Reclassification—All Classes				(138,997.31)
	Other Source Receipts	312,801	Pounds		11,511.22
Total Pool Value					**$427,537,878.48**
Less:	Producer Component Valuations @ Class III Component Prices				(388,542,305.65)
Total PPD Value Before Adjustments					**$38,995,572.83**
Add:	Location Adjustment to Producers				11,408,653.74
	One-half Unobligated Balance—Producer Settlement Fund				1,030,066.60
Less:	Producer Settlement Fund—Reserve				(927,329.17)
Total Pool Milk & PPD Value		2,131,095,527	Producer pounds		**$50,506,964.00**
	Producer Price Differential		**$2.37**		
	Statistical Uniform Price		**$20.28**		

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