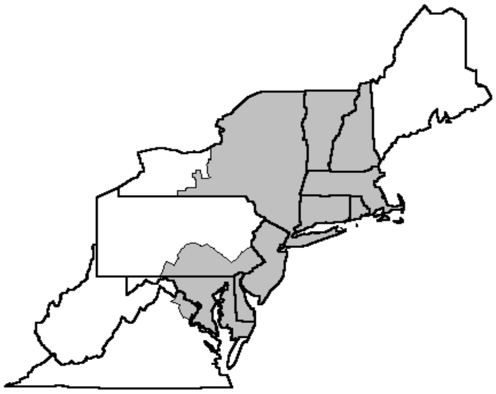

The Market Administrator's BULLETIN

NORTHEAST MARKETING AREA

Erik F. Rasmussen, Market Administrator

June 2014 Federal Order No. 1

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June Pool Price Calculation

The June 2014 statistical uniform price (SUP) for the Northeast Marketing Area was announced at $24.38 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 $24.80 per hundredweight. The June statistical uniform price was 86 cents per hundredweight below the May price. The June producer price differential (PPD) at Suffolk County was $3.02 per hundredweight, an increase of 35 cents per hundredweight from last month.

Product Prices Effect

During June, butter and dry whey product prices increased while cheese and nonfat dry milk prices decreased. As a result, the butterfat and other solids component prices rose and the protein and nonfat solids prices declined. All class prices decreased from the previous month except the Class IV price that rose 48 cents per hundredweight. The Class I price dropped $1.61 per hundredweight; the Class II price decreased 50 cents; the Class III price was down $1.21 per hundredweight from the prior month and remained below the Class IV price. With the decline in prices, the SUP decreased and, after two record-setting months, fell below $25.00 per hundredweight.

Records Set

The total volume of producer receipts was the largest ever for the month of June. Daily deliveries per producer (DDP) were the highest ever under the Order and the second time ever that DDP was over 6,000 pounds. For the first time ever under the Order, Class I volume was less than 700 million pounds. Combined with the significant total volume, the Class I utilization percentage was the lowest ever since the Order's inception and the first time that Class I accounted for less than one-third of the pool volume. The Class II volume was the highest ever for the month of June and the largest volume since August 2013. Class IV volume was the highest ever for the month of June.

Even though the SUP did not set a new record-high for the Order, it was the highest SUP for the month of June. All class prices were the highest for the month of June.❖

Pool Summary

- A total of 12,051 producers were pooled under the Order with an average daily delivery per producer of 6,053 pounds.
- Pooled milk receipts totaled 2.188 billion pounds, an increase of 1.1 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 31.9 percent of total milk receipts, a decrease of 2.7 percentage points from May.
- The average butterfat test of producer receipts was 3.65 percent.
- The average true protein test of producer receipts was 3.00 percent.
- The average other solids test of producer receipts was 5.74 percent.❖

Pooled Milk	Percent	Pounds
Class I	31.9	699,101,130
Class II	26.1	570,514,485
Class III	27.0	590,367,738
Class IV	15.0	328,339,470
Total Pooled Milk		2,188,322,823

Producer Component Prices

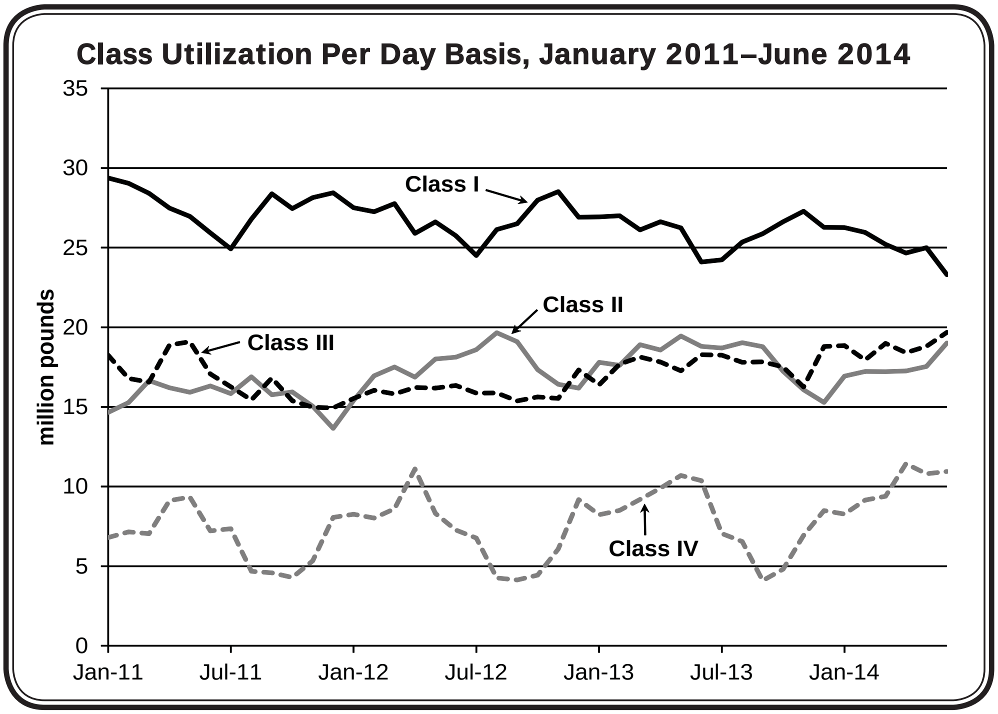
	2014	2013
	$/lb	
Protein Price	3.3437	3.3455
Butterfat Price	2.4413	1.6599
Other Solids Price	0.4942	0.3859

Class Price Factors

	2014	2013
	$/cwt	
Class I	26.11	22.18
Class II	23.94	19.14
Class III	21.36	18.02
Class IV	23.13	18.88

With More Milk Available, Still Less Used as Fluid

It is not surprising that during June 2014, when a record high volume of milk was pooled on the order for the month, record class utilizations for the month were established. Class II and Class IV volumes each hit a record high for the month and total Class III volume was the highest it's been since June 2003. While the order is pooling record volumes of milk, less of that milk is going to fluid use. With record utilizations established in Class II, largely attributable to the recent demand trends in the yogurt category, Class IV, generally considered a balancing class with the manufacture of storable products, set a record for the second June in a row. The accompanying chart presents utilizations for all four classes since January 2011.



Price Impact of Changing Utilizations

In theory, declining utilization in Class I (the class with the highest value) erodes the uniform price to producers. For comparison purposes, the average utilization percentages for each class over the first 10 years of the Northeast Order were Class I, 42.4; Class II, 19.9; Class III, 25.4; and Class IV, 12.3. The June 2014 utilizations were Class I, 31.9; Class II, 26.1; Class III 27.0; and Class IV, 15.0. To get a sense of price impact, substituting the average utilizations for June from the first 10 years of the Order for June 2014's utilizations, at the June 2014 class price levels, would result in a uniform price of \$24.68 per hundredweight (cwt), or \$0.30 per cwt higher than actual. Still, it must be noted that the uniform price averaged \$15.43 per cwt during June of those first 10 years of the Northeast Order, \$8.95 per cwt lower than this June's uniform price, the driver of higher prices now being higher commodity values boosting base milk prices under federal orders.

Looking Ahead

Using the average difference in Class I utilization between the month of June and each proceeding month of the year for the Northeast Order, a rough projection of the volume of Class I pounds pooled can be made. For instance, September's level of Class I utilization averages 64.3 million pounds higher than June's. October Class I utilization averages 100.6 million pounds more than June's. This method does not account for specific calendar composition factors in the given month, but offers a reasonable look ahead. With June's Class I utilization of 699.1 million pounds, the result predicts Class I utilization from July through December (in million pounds) to be 707.1, 742.8, 763.4, 799.7, 773.8, and 795.0, respectively. If these occur, they each would be the lowest ever for the respective month for the 15 years of the Northeast Order. While the result is continued record-setting low Class I utilizations, most analysts expect stronger year-over-year milk production during the second half of 2014. This would imply a greater need for balancing by the other classes for at least the remaining months of this year.❖

Class Utilization Changes From Last Year and Five Years Ago

For the first 6 months of 2014, utilization of milk products and cream by pool plants was nearly flat compared to the same period in 2013, which analysts attribute to weather and feed conditions. When compared to the same period in 2009, milk receipts grew 7.1 percent. The table on page 3 shows changes for selected products by class.

Class I usage decreased 3.8 percent during the first six months compared to last year; this was a drop of 10 percent from 5 years ago. Declines occurred in lowfat, fatfree, flavored milk and drinks, and buttermilk and eggnog when comparing to the same period in 2013. Organic milk rose 13.5 percent; very slight increases were seen in whole and reduced fat milk. Compared to 2009, reductions occurred in all product categories except organic milk, which grew 34.1 percent.

(continued on page 3)

Class Utilization Changes *(continued from page 2)*

Class II utilization dropped 5.8 percent from 2013, but was up 32.6 percent over 2009. Class II usage rose significantly beginning in 2010 with the growth of Greek-style yogurt. Even though this type of yogurt continues to be popular and operations have sprung up around the country, its need for milk in the Northeast Order tapered off. Compared to 2013, milk used in yogurt has declined 19.3 percent, but this volume is up 400.9 percent from 2009. US production of yogurt rose 3.2 percent for the January-May period in 2014 (June data were not available for this publication).

Ice cream usage has risen 8.5 percent from last year, but is down 19.2 percent from 2009. Milk used for bakery, candy, and other prepared foods is down slightly from 2013; it rose 22.3 percent from 2009. Cottage cheese usage declined 8.6 and 22.7 percent compared to 2013 and 2009, respectively. Nationally, ice cream production dropped 5.7 percent while cottage cheese production declined 5.0 percent for the first 5 months of 2014.

Class III usage rose 6.7 percent from 2013 and 19.8 percent from 2009 with increases in American, Italian-type, and cream cheeses in both periods. The category that includes Swiss and other-type cheeses declined 5.9 percent from 2013, but was up 32.2 percent from 2009. This category includes Hispanic, Feta, and other ethnic cheeses, but not Italian. Nationally, total cheese production was 1.7 percent higher for the first 5 months of 2014; American production was down 0.2 percent, while Italian was up 4.6 percent. US production of cream cheese declined 6.1 percent for the January-May period in 2014.

Northeast Order Utilization for Selected Products, January–June, 2014 vs. 2013 and 2009

	Product	Volume in* million pounds	Percent Change from 2013	Percent Change from 2009
Class I	Whole	1,261.1	0.7	(11.2)
	Fatfree	558.5	(9.6)	(22.5)
	Organic	298.5	13.5	34.1
	*Total Class I***	5,077.7	(3.8)	(10.0)
Class II	Ice Cream	715.0	8.5	(19.2)
	Prepared Foods	333.5	(0.1)	22.3
	Yogurt	1,066.0	(19.3)	400.9
	Total Class II	3,319.1	(5.8)	32.6
Class III	American	1,175.7	6.7	30.9
	Cream Cheese	402.4	8.6	22.1
	Italian	1,513.2	6.7	9.3
	Total Class III	3,442.3	6.7	19.8
Class IV	Butter	131.9	(8.4)	34.4
	Dried Products	1,768.0	9.4	20.3
	Total Class IV	2,530.7	3.4	6.1
Total Utilization		14,404.6	(0.7)	7.1

* Class totals include other categories now shown such as bulk shipments to nonorder plants, inventory, and shrinkage. Product totals are derived from reports submitted by pooled handlers.
** Only includes sales by fully regulated pool handlers.

Class IV utilization increased 3.4 percent from 2013 and 6.1 percent from 2009. Butter decreased 8.4 percent from 2013, but was up 34.4 percent from 2009. Dried products rose 9.4 and 20.3 percent from 2013 and 2009, respectively. Nationally, butter production was down 3.6 percent for the first 5 months of 2014; nonfat dry milk production was up 3.6 percent.❖

Pool Summary for All Federal Orders, January–June 2014

Federal Order Number	Federal Order Name	Total Producer Milk 2013 (pounds)	Total Producer Milk 2014 (pounds)	Change^ (percent)	Producer Price Differential# 2013 (dollars per hundredweight)	Producer Price Differential# 2014	Statistical Uniform Price#* 2013	Statistical Uniform Price#* 2014
1	**Northeast**	**12,993,203,063**	**12,920,474,605**	**(0.6)**	**1.92**	**1.89**	**19.66**	**24.57**
5	Appalachian	2,981,901,846	2,863,565,142	(4.0)	N/A	N/A	20.66	25.65
6	Florida	1,439,141,066	1,410,105,003	(2.0)	N/A	N/A	22.84	27.81
7	Southeast	3,249,886,587	2,811,671,028	(13.5)	N/A	N/A	21.04	26.10
30	Upper Midwest	17,326,457,542	16,551,408,472	(4.5)	0.25	0.24	17.99	22.92
32	Central	7,660,978,390	7,683,724,595	0.3	0.62	0.48	18.36	23.16
33	Mideast	8,733,158,782	8,417,724,332	(3.6)	0.91	0.81	18.65	23.49
124	Pacific Northwest	4,264,978,182	4,024,873,368	(5.6)	0.60	0.46	18.34	23.14
126	Southwest	6,848,370,319	6,130,306,300	(10.5)	1.45	1.28	19.19	23.96
131	Arizona	2,432,833,458	2,536,199,645	4.2	N/A	N/A	18.77	23.67
	All Market Total/Average	67,930,909,235	65,350,052,490	(3.8)	0.96	0.86	19.55	24.45

\# Price at designated order location. * Price at 3.5% butterfat. N/A = Not applicable. ^ 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	685,462,699	$18.83	129,072,626.22	
	Butterfat	13,638,431	2.2681	30,933,325.35	
Less:	Location Adjustment to Handlers			(2,392,774.56)	$157,613,177.06
Class II—	Butterfat	31,090,099	2.4483	76,117,889.38	
	Nonfat Solids	48,928,455	1.7700	86,603,365.35	162,721,254.73
Class III–	Butterfat	24,103,874	2.4413	58,844,787.61	
	Protein	17,678,437	3.3437	59,111,389.81	
	Other Solids	33,779,359	0.4942	16,693,759.24	134,649,936.66
Class IV–	Butterfat	11,129,784	2.4413	27,171,141.72	
	Nonfat Solids	28,724,345	1.6785	48,213,813.11	75,384,954.83
Total Classified Value					**$530,369,323.28**
Add:	Overage—All Classes				36,630.74
	Inventory Reclassification—All Classes				213,889.43
	Other Source Receipts	2,498,885	Pounds		127,677.36
Total Pool Value					**$530,747,520.81**
Less:	Producer Component Valuations @ Class III Component Prices				(476,589,159.73)
Total PPD Value Before Adjustments					**$54,158,361.08**
Add:	Location Adjustment to Producers				11,898,488.62
	One-half Unobligated Balance—Producer Settlement Fund				1,024,218.97
Less:	Producer Settlement Fund—Reserve				(918,253.12)
Total Pool Milk & PPD Value		2,190,821,708	Producer pounds		**$66,162,815.55**
	Producer Price Differential		**$3.02**		
	Statistical Uniform Price		**$24.38**		

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