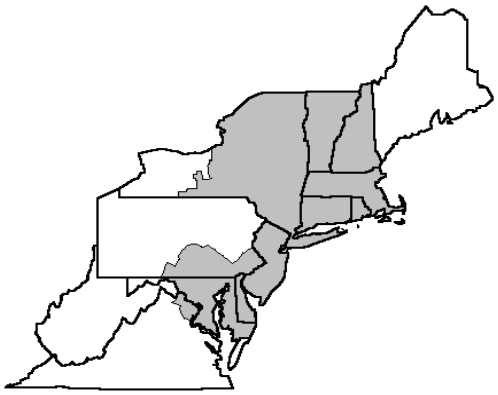

The Market Administrator's

BULLETIN

NORTHEAST MARKETING AREA

Erik F. Rasmussen, Market Administrator

August 2014 Federal Order No. 1

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August Pool Price Calculation

The August 2014 statistical uniform price (SUP) for the Northeast Marketing Area was announced at $25.41 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 $26.04 per cwt. The August statistical uniform price was 66 cents per cwt above the July price. The August producer price differential (PPD) at Suffolk County was $3.16 per cwt, an increase of 1 cent per cwt from last month.

Product Prices Effect

During August, product prices for butter and cheese increased while nonfat dry milk dropped and dry whey declined slightly. The butter price jumped over 17 cents per pound and the cheese price rose nearly 6 cents per pound. This resulted in a nearly 21-cent higher August butterfat price, but a 3-cent lower protein price. The nonfat solids price dropped over 7 cents per pound and the other solids price declined slightly. All class prices increased from the previous month: the Class I price was up 85 cents per cwt; the Class II price rose 93 cents; the Class III price increased 65 cents per cwt; and the Class IV price grew 11 cents from the prior month. With the increase in class prices, the SUP rose. Since the spread between the higher class prices and the lowest (Class III) was similar to last month, the PPD was nearly the same as in July.

Records Set

The total volume of producer receipts and the average daily deliveries per producer (DDP) both set records as the largest ever for the month of August. Class I volume was the lowest ever for the month of August. Combined with the significant total volume, the Class I utilization percentage was the lowest ever for the month of August. Class IV was the highest volume ever for August.

The SUP was the highest ever for the month of August and the second highest for the Order. All class prices were the highest for the month of August. Both the Class II and IV prices set record-highs for the Order while the Class I price was the second highest ever. Both the producer butterfat and protein tests set record-highs for the month of August.❖

Pool Summary

- A total of 12,039 producers were pooled under the Order with an average daily delivery per producer of 5,857 pounds.
- Pooled milk receipts totaled 2.186 billion pounds, a decrease of 1.2 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 33.5 percent of total milk receipts, an increase of 0.9 percentage points from July.
- The average butterfat test of producer receipts was 3.69 percent.
- The average true protein test of producer receipts was 3.02 percent.
- The average other solids test of producer receipts was 5.74 percent.❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	33.5	731,444,686
Class II	25.2	551,073,550
Class III	27.3	596,444,458
Class IV	14.0	307,082,136
Total Pooled Milk		2,186,044,830

Producer Component Prices

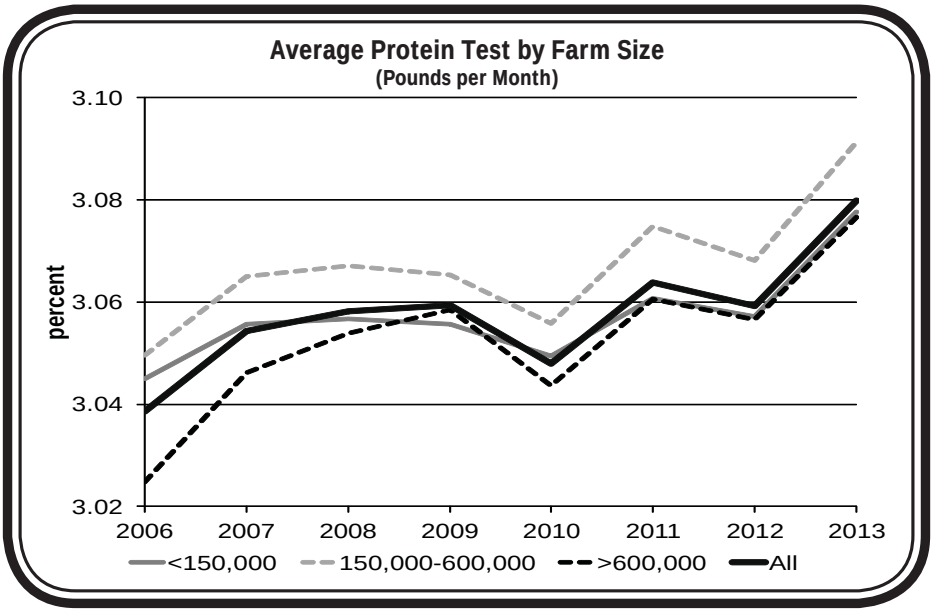
	2014	2013
	$/lb	
Protein Price	3.1496	3.4775
Butterfat Price	2.8448	1.5104
Other Solids Price	0.5036	0.3901

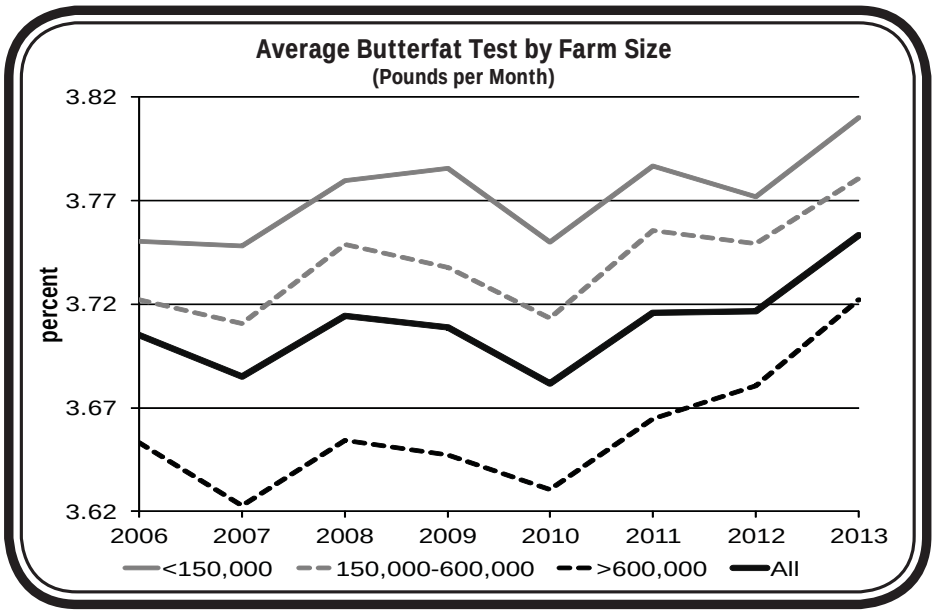
Class Price Factors

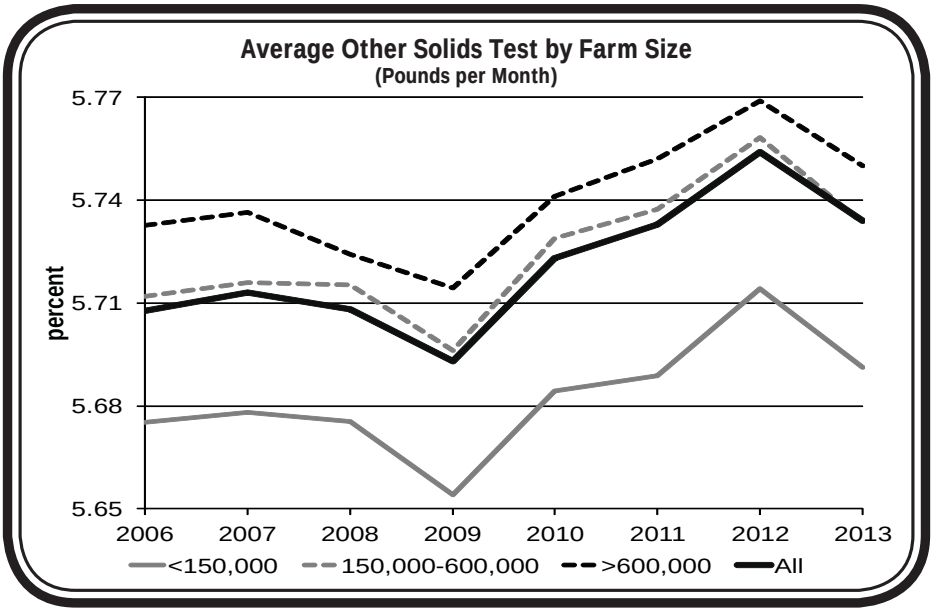
	2014	2013
	$/cwt	
Class I	27.12	22.13
Class II	25.34	19.27
Class III	22.25	17.91
Class IV	23.89	19.07

Component Test Levels by Farm Size

The Northeast Order is one of 6 federal orders that have used multiple component pricing since 2000, in which producers' pay price, simply stated, is determined by the quantity of each component times the corresponding price of the component, plus the total volume of milk times the producer price differential associated with the plant location at which the milk was received. Based on average tests completed during the monthly uniform price calculation, protein, butterfat, and other solids test levels of producer receipts all have increased since 2000. Record level average tests for the uniform price calculation are regularly set for all three components, with a greater degree of increases during the most recent years. With the exception of butterfat in October 2007, any record low averages of components for the pool occurred in 2005 or earlier.







Though Levels Vary by Farm Size, Increases Across All

When looking at component level data by different farm size categories, there appear to be fairly consistent differences in the level of components. However, the upward trend in levels has occurred similarly across all sizes. Verified payroll data from 2006 through 2013 were used to look at weighted average annual test levels broken out by three farm size categories based on pounds per month pooled: below 150,000; between 150,000 and 600,000; and above 600,000. For reference, a farm producing 150,000 pounds of milk per month roughly equates to an 80-cow dairy; a 600,000 pound production farm roughly equates to a 325-cow dairy. The accompanying charts present the resulting averages for each component, from 2006 through 2013, for the three size categories, including the average for all producers.

Difference in Levels

The results indicate that small differences do exist in the average

(continued on page 3)

Component Tests *(continued from page 2)*

component levels by farm size. The smallest size category tends to produce the highest levels of butterfat, while the largest size farms produce the lowest butterfat of the three categories. Farms in the largest size category tend to produce lower levels of protein on average than the other two categories as well, but the gap has been narrowing. Protein test average was highest in the middle farm size category. The largest size farms average the highest tests of other solids, on average, while smallest size farms average the least of the three categories. Differences may be attributable to herd and business characteristics that are not investigated here.

Similarities in Trends

Though there are some differences across sizes, all three categories exhibit increasing levels of components over this time period and for the most part, increase and decrease alike from year to year. There are two implications of this. The first is that regardless of reason different size farms have different levels of average tests, they all seem to be impacted by year-to-year impacts of prices, economics, and weather and feed conditions, among other things, in similar fashion. Secondly, as record-high levels of components are being set during pool, as mentioned earlier, it appears that all size groups are contributing to those results.❖

Market Update: Butter Hits Record High

On Friday, September 12, the price for Grade AA butter hit $3.00 for the first time ever on the Chicago Mercantile Exchange (CME). On September 17 (at time of publication), it closed even higher, at $3.01 per pound. The accompanying chart shows CME butter prices from January 3, 2000, to September 17, 2014.

Butter prices have been on a fairly steady climb since late August 2013 when the price was $1.36 per pound. Domestic demand for butter has been strong and stocks are lower than a year ago. Even though exports have been higher year to date, they have declined during the summer months and with U.S. prices outpacing world prices, they likely will continue to decline. Even so, exports are projected to end above last year.

Butter's Effect on Pay Prices

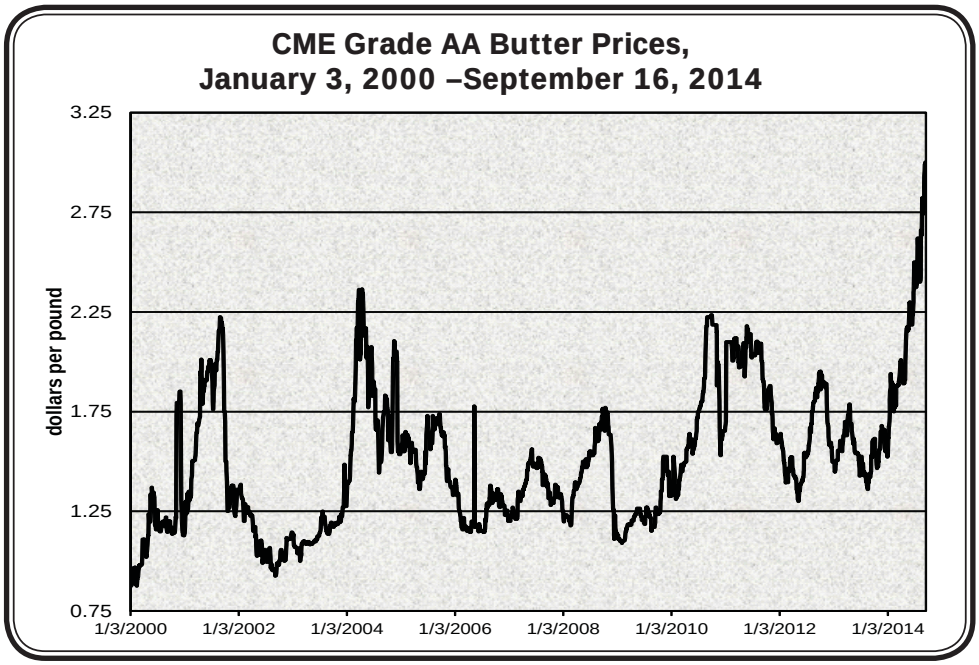
Producer pay prices use the National Dairy Products Sales Reports (NDPSR) announced prices in their formulas, not the CME prices, but the NDPSR prices follow the CME prices closely. The butter prices translate into producers' butterfat component prices and factor into all of the class prices. Butter has been a main driving factor for the past several months as its price rose while the nonfat dry milk (NFDM) price fell after peaking in December 2013. Butter and NDFM are the main components of the Class IV price, which has been higher than the Class III price in all but one month so far in 2014. In addition, the higher of the Class III and IV skim milk pricing factors drives the Class I price.

Other CME Commodity Prices

Barrel cheese prices also have been at record high levels, closing at $2.4225 on September 17. Block Cheddar prices have been near record at $2.4150 per pound; the highest level was in late March at $2.4325. On the CME, futures prices indicate the market expects butter and cheese prices to drop below $2.00 per pound by January. In addition, prices for NFDM and dry whey are expected to decline.

Prices May Decline by Year End

Based on CME futures dated September 17, Northeast Order statistical uniform prices at Boston are expected to peak in September at about $25.88 per hundredweight (cwt). For October through December, the price is projected to decline, on average, about $1.30 each month, ending the year at about $21.93 per cwt. Based on these predictions, the annual average blend price would be about $24.56 per cwt, the highest on record. This is about $4.00 above last year's $20.25 and the previous record-high, $20.64 in 2011.❖



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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	716,641,310	$18.47	132,363,649.96	
Butterfat	14,803,376	2.6560	39,317,766.66	
Less: Location Adjustment to Handlers			(2,485,734.06)	$169,195,682.59
Class II— Butterfat	31,068,363	2.8518	88,600,757.63	
Nonfat Solids	47,296,730	1.7689	83,663,185.70	172,263,943.33
Class III– Butterfat	25,276,301	2.8448	71,906,021.07	
Protein	17,954,330	3.1496	56,548,957.78	
Other Solids	34,159,774	0.5036	17,202,862.15	145,657,841.00
Class IV– Butterfat	9,455,332	2.8448	26,898,528.45	
Nonfat Solids	27,054,619	1.6047	43,414,547.06	70,313,075.51
Total Classified Value				**$557,430,542.43**
Add: Overage—All Classes				7,608.32
Inventory Reclassification—All Classes				192,845.01
Other Source Receipts	434,920 Pounds			23,254.78
Total Pool Value				**$557,654,250.54**
Less: Producer Component Valuations @ Class III Component Prices				(500,224,147.58)
Total PPD Value Before Adjustments				**$57,430,102.96**
Add: Location Adjustment to Producers				11,833,799.81
One-half Unobligated Balance—Producer Settlement Fund				840,641.43
Less: Producer Settlement Fund—Reserve				(1,011,784.10)
Total Pool Milk & PPD Value	2,186,479,750 Producer pounds			**$69,092,760.10**
Producer Price Differential		**$3.16**		
Statistical Uniform Price		**$25.41**		

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