

The Market Administrator's

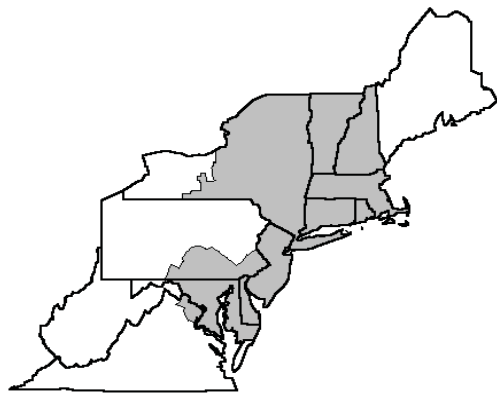
BULLETIN

NORTHEAST MARKETING AREA

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October 2014

Federal Order No. 1



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October Pool Price Calculation

The October 2014 statistical uniform price (SUP) for the Northeast Marketing Area was announced at \$24.35 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 \$25.71 per cwt. The October statistical uniform price was \$1.81 per cwt below the September price. The October producer price differential (PPD) at Suffolk County was \$0.53 per cwt, a decrease of \$1.03 per cwt from last month.

Product Prices Effect

After peaking in mid-September, butter prices tumbled resulting in a nearly 33-cent drop in the average price for October. Cheese and dry whey prices also declined while the nonfat dry milk price rose slightly. These changes resulted in lower component prices for butterfat and other solids and a slight increase in the nonfat solids price. The protein price increased nearly 24 cents due to the lower butterfat price. The Class I price, based on the higher butter and cheese prices in September, was 56 cents higher than the previous month. The Class II price dropped \$4.18; Class III declined 78 cents; and Class IV fell \$1.23 per cwt. With over 62 percent of total producer milk utilized in the lower-priced classes, the SUP declined. The PPD decreased due to lower overall value in the pool generated from Classes I, II, and IV when compared to Class III. Producers in the \$2.70 differential zone and further out (compared to the Boston, MA, base zone) will see negative PPD values in their checks (see article on page 2).

Records Set

The total volume of producer receipts was the largest ever for the month of October. The Class I volume was the lowest ever, while the Class IV volume was the highest ever for the month. Even though all class prices except the Class I price declined, they were all the highest ever for the month of October, including the SUP. The Class I price set a record as the highest ever for the Order. Both the producer butterfat and other solids tests tied with record-highs set for the month of October. ❖

Pool Summary

- A total of 12,129 producers were pooled under the Order with an average daily delivery per producer of 5,699 pounds.
- Pooled milk receipts totaled 2.143 billion pounds, an increase of 0.1 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 37.9 percent of total milk receipts, an increase of 1.2 percentage points from September.
- The average butterfat test of producer receipts was 3.81 percent.
- The average true protein test of producer receipts was 3.11 percent.
- The average other solids test of producer receipts was 5.73 percent. ❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	37.9	811,049,041
Class II	24.0	513,728,416
Class III	24.1	517,333,682
Class IV	14.0	300,625,650
Total Pooled Milk		2,142,736,789

Producer Component Prices

	2014	2013
	\$/lb	
Protein Price	3.7362	3.4107
Butterfat Price	2.8507	1.6638
Other Solids Price	0.4670	0.3852

Class Price Factors

	2014	2013
	\$/cwt	
Class I	27.44	22.45
Class II	21.93	20.56
Class III	23.82	18.22
Class IV	21.35	20.17

Class IV Utilization Continues to Rise

Last month's *Bulletin* compared changes in class utilization for the current year with last year and 5 years ago. This article highlights Class IV utilization.

What Has Changed?

Historically, Class IV was used for balancing and considered to be the surplus class since the manufactured products in this class, mainly butter and dried milk products, were the most storable. In recent years, there seems to be more consistency in the volume of dried products manufactured, and with such products as value-added powders being added, Class IV may continue to grow as a category and increase in volume.

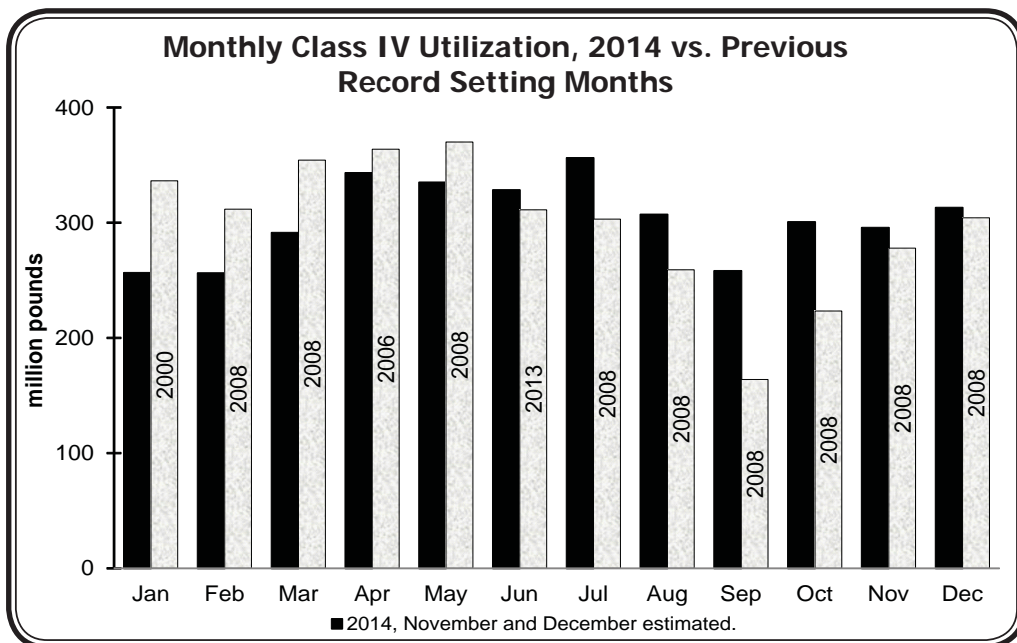
Class IV utilization for the January through October period in 2014 was 25.7 percent higher than the same period in 2013. A majority of that increase was due to the jump in dried milk products that grew 29.4 percent for the period; butter rose 0.7 percent.

The percentage of producer pooled volume assigned to Class IV has been at record-setting levels for the past 5 months. The October volume was 34.6 percent higher than the next highest level set in 2008, a year following record-setting (at the time) prices that encouraged higher production, which resulted in surplus milk. Using the past 3 year's trend for November and December, Class IV utilization for 2014 is projected to set a new record, topping the previous one of 3.5 billion pounds set in 2008. Due to overall higher receipts predicted for 2014, the average utilization percentage is estimated to be 14.1 percent; the record high was 14.8 percent in 2008. See accompanying chart showing current year and previous record-setting months.

Price Effect

Prices for butter and nonfat dry milk, the two main products in Class IV under the Northeast Order, hit record highs during 2014. Prices for nonfat dry milk topped \$2.00 per pound on the Chicago Mercantile Exchange (CME) near the end of 2013 and also in the National Dairy Products Sales Report (NDPSR) at the beginning of 2014; NDPSR prices are used in federal order price calculations. Butter prices topped \$3.00 per pound on the CME late September and in the NDPSR early October.

The high value of these products has been a significant factor in setting record high Class IV federal order prices. Each month during 2014 through October, the Class IV



price has set a record. These higher prices, combined with the higher Class IV utilization, have contributed to a higher overall blend price. For the January-October period, Class IV has contributed 13.5 percent of the overall value to the pool compared to 12.0 percent for the same period in 2008, the next highest Class IV utilization year. ❖



Negative PPDs

The October 2014 producer price differential (PPD) at the Boston, MA, location was \$0.53 per hundredweight (cwt). Milk priced at plants located in differential zones of \$2.70 or lower will result in a negative PPD.

The total value of the federal order pool is determined by the respective class prices and the volume of milk utilized in each class. For the month of October, the "classified value" equaled \$539,572,393.64. The total value of all producer components (butterfat, protein, and other solids) equaled \$539,167,720.62, or only about \$400,000 less than the pool classified value (see page 4 for pool computation). Since the payout to producers must equal the value of the milk utilized in the pool, a negative PPD occurs in lower differential zones since a relatively small classified value remains after paying producers for component value. This scenario occurs due to the Class I and Class II skim milk prices being set in advance, based on wholesale market prices that are less than the more current and higher wholesale prices used in the calculation of Class III and IV prices and the component prices paid to producers.

Any class price higher than the Class III price contributes to the pool of money normally returned to producers in a positive PPD. With Class II and IV prices (continued on page 3)

Changes in Milk: Produced vs. Pooled

There have been significant changes in where milk is produced in the Northeast and where it ends up during the past 5 years.

Production Growth

For the January through September 2014 period, the total volume of pooled milk receipts on the Northeast Order was up 8.4 percent compared to the same period in 2009. Milk production in the Northeast Order milkshed states (New England, DE, MD, NJ, NY, PA, VA, and WV) rose 4.6 percent. Changes in volumes pooled on the Order may not mirror changes in state production volumes due to changes in where the milk is being utilized and pooled. The map in Figure 1 shows the 5-year percentage change for the U.S. and selected states. New York and Vermont show the most growth; Other New England includes CT, MA, ME, NH, and RI.

Pooled Location Changes

During this five-year period, there have been significant changes in where the milk ends up. Historically, a majority of the plants were located in the higher differential zones that correspond to the metropolitan centers with the goal of moving milk to those areas where there was less production but greater need. This has changed in recent years mainly with the growth in yogurt processing in more central locations of the milkshed where differentials are lower.

Figure 2 shows a map of the differential zones and the percent change from 2009 to 2014 for the January-September period in pooled milk moving to these zones. As depicted in the chart, milk moving to plants in the highest zone has declined by over 10 percent. This decrease is due to a combination of less milk moving to Class I operations and the closing of plants located in this zone. The largest increase has been in the \$2.40-\$2.60 zone mainly due to increased milk usage at yogurt manufacturing plants. The furthest zone, less than \$2.40, also had considerable growth with more milk tending to be utilized in manufacturing plants. ❖

Figure 1

Percent Change in Pooled Milk Receipts at Selected Differential Zones, January – September, 2009–2014

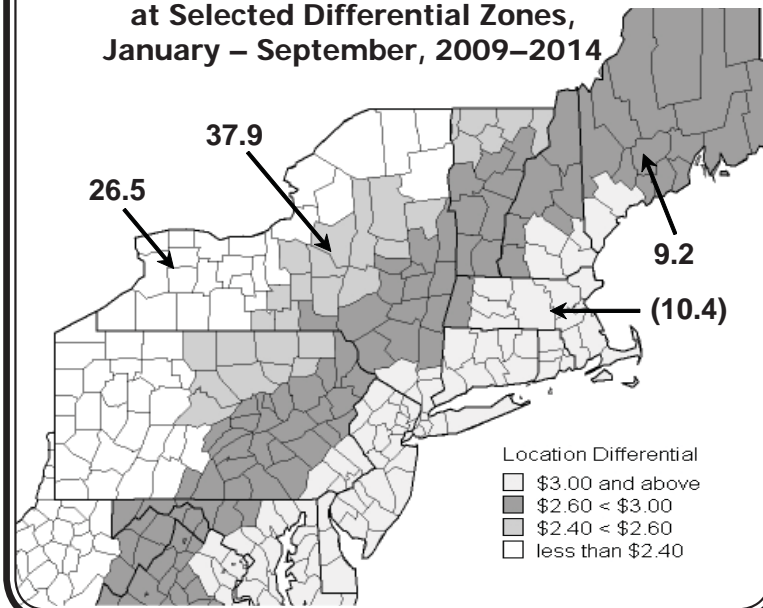
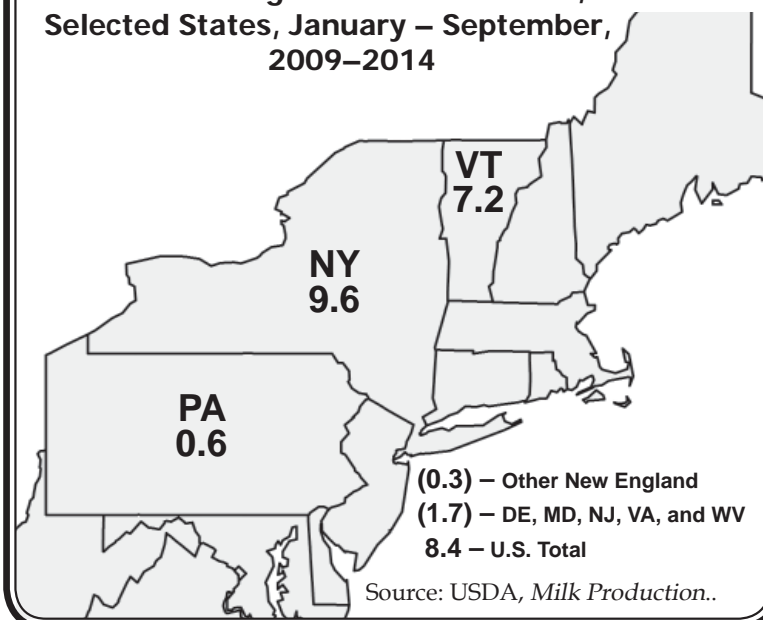


Figure 2

Percent Change in Milk Production, Selected States, January – September, 2009–2014



Negative *(continued from page 2)*

significantly below (\$1.89 and \$2.47 per cwt, respectively) the Class III price, and the sizeable volumes (38 percent) in the combined lower-priced classes, the classified value of the pool was diminished and producers received most of the pool value in their component payments. This was due, in large part, to the strong Class III protein price (\$3.7362 per pound).

The SUP for October 2014 set a record for the month at \$24.35 per cwt, signifying that a negative PPD does not

necessarily reflect a lower price for producers.

Regardless of the level of the PPD, producers who are not members of cooperatives receive an amount represented by the SUP. Of course, each producer's SUP will vary depending on their individual component tests, location of the plant to which their milk was shipped, and other hauling, premiums, and negotiated payments. Cooperative members may receive a different price depending on their cooperative policy. ❖



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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	794,739,315	\$16.92	134,469,892.10	
Butterfat	16,309,726	3.1735	51,758,915.46	
Less: Location Adjustment to Handlers			(2,775,872.55)	\$183,452,935.06
Class II— Butterfat	30,306,346	2.8577	86,606,445.00	
Nonfat Solids	44,441,771	1.3733	61,031,884.10	147,638,329.10
Class III— Butterfat	22,836,326	2.8507	65,099,514.57	
Protein	16,030,803	3.7362	59,894,286.18	
Other Solids	29,517,844	0.4670	13,784,833.17	138,778,633.92
Class IV— Butterfat	12,277,029	2.8507	34,998,126.56	
Nonfat Solids	26,512,123	1.3090	34,704,369.00	69,702,495.56
Total Classified Value				\$539,572,393.64
Add: Overage—All Classes				54,078.57
Inventory Reclassification—All Classes				(465,173.89)
Other Source Receipts	279,436 Pounds			6,422.30
Total Pool Value				\$539,167,720.62
Less: Producer Component Valuations @ Class III Component Prices				(539,561,771.94)
Total PPD Value Before Adjustments				(\$394,051.32)
Add: Location Adjustment to Producers				11,453,326.00
One-half Unobligated Balance—Producer Settlement Fund				1,275,091.93
Less: Producer Settlement Fund—Reserve				(976,380.69)
Total Pool Milk & PPD Value	2,143,016,225 Producer pounds			\$11,357,985.92
Producer Price Differential		\$0.53		
Statistical Uniform Price		\$24.35		

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