

The Market Administrator's

BULLETIN

NORTHEAST MARKETING AREA

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Federal Order No. 1



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December Pool Price Calculation

The December 2014 statistical uniform price (SUP) for the Northeast Marketing Area was announced at \$21.02 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 \$22.24 per hundredweight. The December statistical uniform price was \$1.24 per hundredweight below the November price. The December producer price differential (PPD) at Suffolk County was \$3.20 per hundredweight, an increase of \$2.88 per hundredweight from last month.

Product Prices Effect

All commodity product prices declined in December. Butter prices dropped 8 cents; nonfat dry milk fell 13 cents; cheese prices tumbled 39 cents; and dry whey declined about 5 cents, all on a per pound basis. These decreases resulted in lower prices for all component prices, especially protein that dropped \$1.16 per pound to the lowest protein price since May 2012. All class prices decreased: Class I declined \$1.53; Class II was down 82 cents; Class III fell \$4.12; and Class IV dropped \$1.51, all on a per hundredweight basis. The SUP fell again and marked its lowest level so far this year. The PPD increased due to the large spread between the prices, primarily the nearly \$8.00 difference between the Class I and III prices (see article on page 3 for further explanation).

Records Set

The total volume of producer milk receipts topped was the highest ever for the month of December, while the Class I volume was the lowest ever for the month. The Class IV volume was the highest ever for the Order. The Class I price was the highest ever for the month of December. The SUP was the lowest since October 2013; the PPD was the highest since May 2011. The average producer butterfat test tied with November and December 2013 as the highest ever for the Order. The average producer other solids test tied with 2012 as the highest for the month of December. ❖

Pool Summary

- A total of 12,204 producers were pooled under the Order with an average daily delivery per producer of 5,768 pounds.
- Pooled milk receipts totaled 2.182 billion pounds, an increase of 1.7 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 37.0 percent of total milk receipts, an increase of 0.7 percentage points from November.
- The average butterfat test of producer receipts was 3.90 percent.
- The average true protein test of producer receipts was 3.13 percent.
- The average other solids test of producer receipts was 5.74 percent. ❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	37.0	808,442,871
Class II	21.3	463,894,142
Class III	24.2	528,807,631
Class IV	17.5	381,209,736
Total Pooled Milk		2,182,354,380

Producer Component Prices

	2014	2013
	\$/lb	
Protein Price	2.7387	3.5390
Butterfat Price	2.0991	1.7672
Other Solids Price	0.3996	0.3826

Class Price Factors

	2014	2013
	\$/cwt	
Class I	25.78	23.62
Class II	19.09	21.66
Class III	17.82	18.95
Class IV	16.70	21.54

2014 Northeast Order Statistics Summarized

During 2014, the volume of milk received from producers shipping to handlers regulated under the Northeast Order set a new record high since the Order's inception in 2000, surpassing last year's record-setting volume by 1.7 percent. The uniform price also was a record-high for the Order. The year ended with 91 less producers than at the end of 2013. Annual average daily deliveries per producer (DDP) equaled 5,813 pounds, an increase of 3.1 percent from 2013. The accompanying table compares selected pool statistics for 2013 and 2014.

Class Utilization Changes

Class I utilization averaged 35.4 percent in 2014, a decrease of 2.0 percentage points from the previous year. The total volume of milk used in Class I continued its decline, dropping 3.8 percent, and resulted in the smallest ever for the Order. Class II usage decreased 4.8 percent, resulting in overall utilization of 24.2 percent, down from 25.9 percent in 2013.

Class III volume rose 3.5 percent with utilization averaging 25.8 percent, up 0.4 percentage points. The amount of milk used in Class IV jumped 30.9 percent and accounted for an annual average of 14.6 percent utilization, up 3.3 percentage points. The total volume used in Class IV set a record high for the Order; significant increases were reported in milk used in nonfat dry milk.

Record-setting Class and Component Prices

Prices for all commodities used in calculating minimum federal order prices not only rose during 2014, but set record highs. Butter finished the year with a \$2.1361 per pound average price after topping \$3.00 per pound for the first time ever in mid-late September on the Chicago Mercantile Exchange (CME) and in early October as reported by the National Dairy Products Sales Report. Cheese prices averaged over \$2.00 per pound for the first time, and as mentioned above, nonfat dry milk and dry whey also reported record high annual averages.

High commodity prices translated into record, or near-record high component prices and record-high class prices. The price paid to producers for butterfat averaged \$2.3792 per pound, 43 percent higher than in 2013. The per-pound annual average protein price was \$3.7935 per pound, up 15 percent from 2013. The other solids price rose 16 percent and averaged \$0.4684 per pound. The nonfat solids price averaged \$1.5844 per pound, an increase of 4 percent. Prices for producer butterfat, other solids, and nonfat solids were the highest ever reported for the Order; the protein price was the second-highest ever, surpassed only by the average price in 2008.

The Class I price averaged \$26.54 per hundredweight

in 2014, \$4.45 (20 percent) above the 2013 annual average. The Class II price averaged \$23.34 per hundredweight, \$3.92 and 20 percent higher than the previous year. The Class III price averaged \$22.34, up \$4.35 and 24 percent from 2013. The Class IV price rose \$3.04 to \$22.09, an increase of 16 percent. For the first time under the Order, all class prices averaged over \$20 per hundredweight!

Overall, the statistical uniform price (blend) reported at Suffolk County, Massachusetts (Boston) averaged \$24.28 per hundredweight, the highest since the Order's inception, and \$4.03 and 20 percent higher than the 2013 average.

Producer Tests

The annual average producer butterfat test equaled 3.78 percent in 2014, up .01 from last year, and set a new record. Records were set during 6 months and tied in 5 months. The annual average producer protein test was 3.08 percent, unchanged from 2013 and also tied with last year's record-high. Records were set in 4 months and tied in 2 months during the year. The producer other solids test averaged 5.73 percent, also unchanged from 2013 and tied for second highest annual average. ❖

Northeast Order Pool Statistics, 2013–2014

Pool Statistics	2013	2014	2013–14
	million pounds		Change
			percent
Class I	9,507.9	9,122.9	(3.8)
Class II	6,578.7	6,247.0	(4.8)
Class III	6,449.5	6,659.1	3.5
Class IV	2,883.8	3,763.9	30.9
Total	25,419.9	25,792.9	1.7
	pounds		
DDP	5,638	5,813	3.1
	utilization percentage		change
Class I	37.4	35.4	(2.0)
Class II	25.9	24.2	(1.7)
Class III	25.4	25.8	0.4
Class IV	11.3	14.6	3.3
	dollars/cwt		percent
Class I	22.09	26.54	20.1
Class II	19.42	23.34	20.2
Class III	17.99	22.34	24.2
Class IV	19.05	22.09	16.0
SUP	20.25	24.28	19.9
Producer Component:			
Tests:	percent		change
Butterfat	3.77	3.78	0.01
Protein	3.08	3.08	0.00
Other Solids	5.73	5.73	0.00
Prices:	dollars/lb		percent
Butterfat	1.6634	2.3792	43.0
Protein	3.3010	3.7935	14.9
Other Solids	0.4029	0.4684	16.3
Nonfat Solids	1.5234	1.5844	4.0

Large Class I–Class III Price Spread

The December Class I price of \$25.78 per hundredweight (cwt) was \$7.98 above the December Class III price, the largest spread since January 2009 when the difference was \$8.21. Then as now, the Class III price declined substantially while the Class I price remained relatively high due to significant changes in underlying market prices and the fact that Class I prices are announced at a different time than are manufacturing class prices.

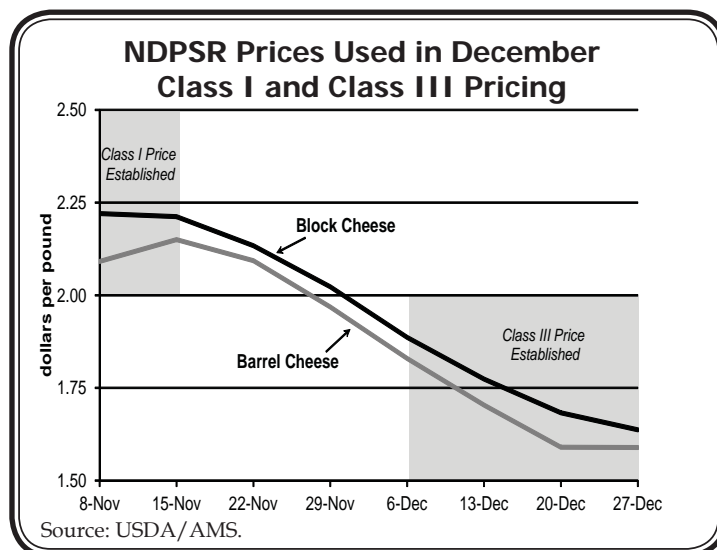
Advanced Pricing Dynamic

Due to advance pricing of Class I milk, the December Class I price was based off of the National Dairy Product Sales Report (NDPSR) product prices reported for weeks ending November 8 and 15. The December Class I price did not reflect the large price decline in the commodity cheese market during the following 6 weeks and through December. The other class prices (II, III, and IV) reflect the current month (December) decreases that were reported by NDPSR for weeks ending December 6, 13, 20, and 27. Producer component prices for protein, butterfat, and nonfat solids are calculated from the same market prices as the Class III price, so component prices reflect the drop in market prices. NDPSR cheese price levels are depicted in the accompanying chart.

The same dynamic resulted in a Producer Price Differential (PPD) of \$3.20 per cwt, the highest since May 2011, when higher Class IV prices were moving the Class I price, contributing to a higher uniform price while the Class III price had not yet begun to move higher.

What It Means

The PPD is the difference between the Class III price and the uniform price. The uniform price is essentially



a pounds weighted average of all class prices. A high Class I price relative to Class III pulls up that weighted average price and results in more shared classified value paid to producers through the pool as the PPD.

For producers, December's high PPD and lower Class III price means they are receiving relatively less value from components and more from the PPD. Handlers, on the other hand, will notice higher payments into the federal pool, but pay less for the component value for milk they purchased. Assuming market prices stabilize, the following month the proportion of a producer's milk check that comes from the PPD value will decline and the portion received from components will return to a more normal share. A similar, but opposite, adjustment will occur for handlers. ❖

Production Records for Class Action Settlement

The recently approved settlement by Dairy Farmers of America, Inc. (DFA) and Dairy Marketing Services (DMS) in the class action case of Allen et al, v Dairy Farmers of America et al, (case number 5:09-cv-230, U.S. District Court for the District of Vermont) means that eligible dairy farmers, upon submitting their production history, may be entitled to a payment as part of the settlement.

Although the Northeast Market Administrator's Office has no interest, involvement, or role in this case or in any determinations issued, we are offering to compile the production records for eligible producers for the entire stipulated period (January 1, 2002–December 31, 2014), regardless if a producer has switched handlers during the period. This summary data will be provided to whoever is the current handler that has eligible producers pooled on the Northeast Order. Retired producers may request their production history directly from the Market Administrator's Office if a handler no longer has such records.

Authorization to Release Data

The Agricultural Marketing Agreement Act requires the Market Administrator's Office keep all information provided by handlers as confidential. This would include producer production records as submitted on monthly producer payrolls. However, such information may be released if so authorized by the handler. Before the Market Administrator compiles and provides producer data to handlers, we are obtaining such authorizations from all Northeast Order handlers. Since the court issued an amendment to the original determination allowing claim forms to be submitted until May 30, 2015, we anticipate providing producer production records to handlers and individual producers by mid-March, once the producer payroll verification process and compilation of historical records are completed by our office. For additional information visit the settlement website: www.northeastdairyclass.com or contact the claims administrator 1-855-460-1533. ❖



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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	791,590,001	\$18.64	147,552,376.19	
Butterfat	16,852,870	2.2260	37,514,488.62	
Less: Location Adjustment to Handlers			(2,813,093.34)	\$182,253,771.42
Class II— Butterfat	28,852,470	2.1061	60,766,187.07	
Nonfat Solids	40,125,224	1.3489	54,124,914.61	114,891,101.68
Class III— Butterfat	24,637,067	2.0991	51,715,667.32	
Protein	16,462,621	2.7387	45,086,180.13	
Other Solids	30,126,480	0.3996	12,038,541.40	108,840,388.85
Class IV— Butterfat	14,797,983	2.0991	31,062,446.14	
Nonfat Solids	33,771,101	1.0767	36,361,344.46	67,423,790.60
Total Classified Value				\$473,409,052.55
Add: Overage—All Classes				64,181.86
Inventory Reclassification—All Classes				38,791.00
Other Source Receipts	4,365,028 Pounds			322,515.68
Total Pool Value				\$473,834,541.09
Less: Producer Component Valuations @ Class III Component Prices				(415,593,547.16)
Total PPD Value Before Adjustments				\$58,240,993.93
Add: Location Adjustment to Producers				11,675,066.26
One-half Unobligated Balance—Producer Settlement Fund				990,963.63
Less: Producer Settlement Fund—Reserve				(932,002.77)
Total Pool Milk & PPD Value	2,186,719,408 Producer pounds			\$69,975,021.05
Producer Price Differential		\$3.20		
Statistical Uniform Price		\$21.02		

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