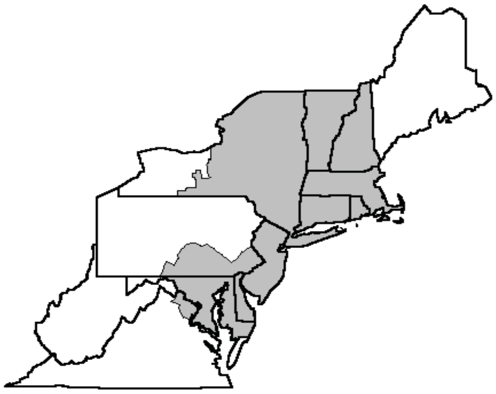

The Market Administrator's BULLETIN

NORTHEAST MARKETING AREA

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June 2016 Federal Order No. 1

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June Pool Price Calculation

The June 2016 statistical uniform price (SUP) for the Northeast Marketing Area was announced at $15.01 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 $15.49 per cwt. The June statistical uniform price was 28 cents per cwt above the May price. The June producer price differential (PPD) at Suffolk County was $1.79 per cwt, a decrease of 18 cents per cwt from last month.

Product Prices Effect

During June, all product prices rose with butter experiencing the largest increase, over 10 cents per pound. Cheese and nonfat dry milk each rose about 3 cents per pound, while dry whey increased slightly. As a result, producer prices increased for all components except protein due to the considerable increase in butterfat. These prices translated into higher class prices for all classes except Class I, which was based off of lower prices in May and fell 56 cents per cwt. On a per cwt basis, the Class II price grew 59 cents, the Class IV price rose 68 cents, and the Class III price was up 46 cents; it remained the lowest of the class prices. The slightly higher prices and the tightening of the spread between the class prices resulted in a higher SUP and a lower PPD.

Class Utilization

The total volume of producer milk was the highest ever for the month of June. The Class I volume was the smallest ever for the Order. For the eighth month in a row, the Class II volume surpassed the same month of the previous year. Class III was more than 200 million pounds higher than last year due to depooling in June 2015 and increased volume in June 2016 since Class III is the lowest priced class. The minimum price class volume, which includes milk used in animal feed and dumpage, set a new high due to surplus milk.

The producer butterfat and protein component tests each set new record highs for the month of June, the third month in a row that both components have set new records for the respective month. The average daily deliveries per producer (DDP) set a record high for the Order with 6,740 pounds.❖

Pool Summary

- A total of 11,192 producers were pooled under the Order with an average daily delivery per producer of 6,740 pounds.
- Pooled milk receipts totaled 2.263 billion pounds, a decrease of 1.5 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 30.1 percent of total milk receipts, a decrease of 0.9 percentage points from May.
- The average butterfat test of producer receipts was 3.68 percent.
- The average true protein test of producer receipts was 3.01 percent.
- The average other solids test of producer receipts was 5.76 percent.❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	30.1	680,955,896
Class II	24.7	559,382,538
Class III	27.6	624,494,705
Class IV	17.6	398,276,549
Total Pooled Milk		2,263,109,688

Producer Component Prices

	2016	2015
	$/lb	
Protein Price	1.4807	2.6915
Butterfat Price	2.4109	2.1011
Other Solids Price	0.0628	0.2322

Class Price Factors

	2016	2015
	$/cwt	
Class I	16.39	19.39
Class II	14.12	14.77
Class III	13.22	16.72
Class IV	13.77	13.90

Higher Fat Products on the Rise Despite Overall Sales Decline

In the past couple of years, the media has touted the benefit of drinking whole milk instead of lower fat fluid dairy products. For many years, lower fat products were recommended as healthier, but recent studies claim higher fat milk helps maintain a healthy body weight and is necessary in the brain development of young children. Recent federal order data may be showing evidence of consumer response to this line of thinking.

Table 1

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

	Pounds 2008	2010	2012 (millions)	2015	2016	2015-16 (% change)
Product:						
Whole Milk	1,462	1,353	1,284	1,276	1,313	2.9
Organic Milk and Drinks	137	152	171	196	213	8.6
Reduced Fat Milk (2%)	995	974	940	876	853	(2.6)
Low Fat Milk (1%)	824	837	825	736	693	(5.8)
Fat-Free Milk (Skim)	728	719	671	494	438	(11.3)
Flavored Milk and Drinks	299	269	252	237	245	3.6
Buttermilk/eggnog/misc	16	14	13	12	12	(1.2)
Totals:						
Regulated Handlers	4,462	4,319	4,156	3,827	3,767	(1.6)
Nonregulated Handlers	236	306	341	397	397	0.2
Northeast Area Sales	4,698	4,625	4,497	4,223	4,165	(1.4)

Sales by Product

Looking at Northeast Order data, total sales of fluid milk products have declined in the region consistently since 2010, and June 2016's Class I utilization was the lowest ever since the Order's inception in both total volume and utilization percent, but when you break down sales by category, there are some increases in specific products. The accompanying tables show sales of fluid products, the average butterfat tests of products, and the proportion of sales by product in the Northeast Marketing Area for the first 6 months of 2010, 2012, 2015, and 2016. Table 1 shows a consistent decline in total sales and the proportion from regulated handlers (pool handers). In addition, the table shows declines in the lower fat products—reduced fat (2 percent), lowfat (1 percent), and fatfree (skim) milk. Increases appear in the organic milk category and sales from nonregulated handlers, of which a considerable portion is organic. We are unable to show the detail from nonregulated handlers due to handlers' confidentiality, but the proportion of organic sales within the total sales from nonregulated handlers has increased from 13.9 percent in 2010 to 20.4 in 2016. In addition, the growth in this category reflects both changes in handler regulation and product sales demand.

Changes in Butterfat Levels

When looking at the average fat level of products sold in Table 2, there has been a fairly consistent increase over the years, except flavored milk and drinks. A large portion of that category is school milk sales, which have been influenced by health regulations toward lower fat products. The overall average test of all products sold has increased from 1.79 percent in 2010 to 1.95 percent in 2016. Within their respective categories, most products have remained constant except organic and a slight uptick in whole milk. Again the nonregulated category shows increased butterfat percents, likely due to organic products. Within the nonregulated organic sales, whole milk products have grown from 26.8 percent in 2010 to 38.0 percent in 2016.

(continued on page 3)

Table 2

Average Butterfat Tests and Proportion of Fluid Milk Products Sold in the Northeast Marketing Area, January–June

	Butterfat Test 2008	2010	2012 (average percent)	2015	2016	Proportion of Sales 2008	2010	2012 (percent)	2015	2016
Product:										
Whole Milk	3.28	3.25	3.27	3.28	3.28	32.8	31.3	30.9	33.3	34.8
Organic Milk and Drinks	1.67	1.69	1.69	1.89	2.01	3.1	3.5	4.1	5.1	5.6
Reduced Fat Milk (2%)	1.96	1.94	1.94	1.96	1.95	22.3	22.6	22.6	22.9	22.6
Low Fat Milk (1%)	0.98	0.96	0.96	0.95	0.96	18.5	19.4	19.9	19.2	18.4
Fat-Free Milk (Skim)	0.10	0.10	0.09	0.10	0.09	16.3	16.7	16.1	12.9	11.6
Flavored Milk and Drinks	1.12	0.98	0.79	0.70	0.72	6.7	6.2	6.1	6.2	6.5
Buttermilk/eggnog/misc	1.08	1.15	1.18	1.17	1.15	0.3	0.3	0.3	0.3	0.3
Totals:										
Regulated Handlers	1.84	1.78	1.78	1.88	1.93	95.0	93.4	92.4	90.6	90.5
Nonregulated Handlers	1.85	1.81	1.78	1.95	2.06	5.0	6.6	7.6	9.4	9.5
Northeast Area Sales	1.84	1.79	1.78	1.89	1.95	100.0	100.0	100.0	100.0	100.0

Higher Fat Products *(continued from page 2)*

Proportion of Sales

As Table 2 depicts, even though whole milk sales have declined over the years, their proportion of total sales has increased. Fatfree milk has experienced the greatest decline in proportion of sales. For many years, the Northeast region has had a higher proportion of whole milk sales (out of total fluid sales) than the rest of the nation, due to cultural preferences and demographics. Based on estimated sales of fluid milk products in the U.S. for the first 5 months of 2016 (most recent data available), whole milk accounted for 28.5, up from 27.1, 25.0, and 25.5 in 2015, 2012, and 2010, respectively, about 6 percentage points less than the proportion in the Northeast.

Overall, estimated sales in the U.S. for January-May 2016 compared to the same period the previous year, showed a decline of 0.3 percent, but an increase of 5.0 percent in whole milk and 5.4 percent in organic milk products. For this same period, the Northeast region reported a decrease of 1.0 percent in total sales and increases of 3.0 percent in whole milk and 8.8 percent in organic products.❖

Reported Dumping of Excess Milk

The current milk marketing environment includes robust milk production (New York, which accounts for nearly one-half of all milk pooled on the Order has experienced year-over-year milk production growth averaging 4.7 percent through the first 5 months of 2016), changes in demand (particularly less demand for Class I), regional balancing plants operating at capacity, and unfavorable economics of moving milk to facilities outside of the Northeast often at significant price discounts.

As discussed in the April *Bulletin*, some handlers have had to resort to dumping excess milk and in fact 12 handlers (including cooperatives and proprietary handlers with their own producer supply) notified the Market Administrator of dumped milk to be included in the June pool. The vast majority of this milk is delivered and processed at a manufacturing plant that utilizes or sells the cream and discards of the skim milk portion. This type of transaction is no different in terms of the raw milk being included in the Federal Order pool and either incurring a payment into the pool or receiving a credit from the pool depending upon how the milk was utilized and classified. For example, this milk would receive Class II classification for the butterfat in the milk converted to cream and the lowest Class price for the discarded skim milk. The same classification process would be followed if there had been adequate plant capacity to convert the excess skim milk into nonfat dry milk powder. The financial difference to the seller of the milk is that they receive only a portion of the value of the milk than if it had been fully converted into a commercial manufactured dairy product; however, the general industry practice is that the producers of the milk have been receiving the full value for their production regardless if a portion of the milk had to be discarded.

Order rules allow that milk delivered to a plant is eligible to be included in the monthly pool price calculation with the overall value of the pool shared by the 11,000 plus dairy producers associated with the Northeast Order. This value is determined by the ultimate utilization of all 2.3 billion pounds of milk that were part of the pool that respective month including milk dumped at a plant (or farm location) resulting from excess milk conditions along with milk routinely dumped at a plant due to processing problems and or returns of previously packaged route sales that were unable to be sold.❖

Pool Summary for All Federal Orders, January–June 2015–2016

Federal Order		Total Producer Milk			Producer Price Differential#		Statistical Uniform Price#*	
Number	Name	2015	2016	Change^	2015	2016	2015	2016
		pounds		percent	dollars per hundredweight			
1	Northeast	13,023,217,185	13,597,809,126	4.4	0.86	1.56	16.84	15.04
5	Appalachian	2,863,579,179	2,879,849,082	0.6	N/A	N/A	18.25	16.21
6	Florida	1,385,619,527	1,392,656,618	0.5	N/A	N/A	20.66	18.36
7	Southeast	2,692,442,378	2,836,437,086	5.3	N/A	N/A	18.97	16.58
30	Upper Midwest	15,324,724,264	18,876,520,153	23.2	0.07	0.21	16.05	13.68
32	Central	7,276,993,527	8,360,249,502	14.9	(0.04)	0.48	15.95	13.96
33	Mideast	9,233,053,108	10,291,090,215	11.5	(0.00)	0.68	15.99	14.16
124	Pacific Northwest	3,065,668,101	4,164,600,271	35.8	(0.64)	0.34	15.34	13.82
126	Southwest	5,257,127,527	7,304,822,873	39.0	0.82	1.35	16.81	14.83
131	Arizona	2,482,134,166	2,678,727,622	7.9	N/A	N/A	15.63	14.06
All Market Total/Average		62,604,558,962	72,382,762,548	15.6	0.18	0.77	17.05	15.07

Price at designated order location.
^ A signficant volume of milk was depooled during 2015.
* Price at 3.5% butterfat.
N/A = Not applicable.

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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	667,022,356	$8.56	57,097,113.67	
Butterfat	13,933,540	2.3233	32,371,793.48	
Less: Location Adjustment to Handlers			(2,467,779.69)	$87,001,127.47
Class II— Butterfat	33,728,042	2.4179	81,551,032.76	
Nonfat Solids	47,851,790	0.6511	31,156,300.43	112,707,333.19
Class III– Butterfat	23,929,299	2.4109	57,691,146.95	
Protein	18,844,559	1.4807	27,903,138.52	
Other Solids	35,932,607	0.0628	2,256,567.71	87,850,853.18
Class IV– Butterfat	11,788,862	2.4109	28,421,767.41	
Nonfat Solids	35,169,926	0.6148	21,622,470.51	50,044,237.92
Total Classified Value				**$337,603,551.76**
Add: Overage—All Classes				48,333.81
Inventory Reclassification—All Classes				339,434.46
Other Source Receipts	749,508	Pounds		23,533.64
Total Pool Value				**$338,014,853.67**
Less: Producer Component Valuations @ Class III Component Prices				(309,963,472.06)
Total PPD Value Before Adjustments				**$28,051,381.61**
Add: Location Adjustment to Producers				12,722,417.18
One-half Unobligated Balance—Producer Settlement Fund				769,860.71
Less: Producer Settlement Fund—Reserve				(1,020,579.87)
Total Pool Milk & PPD Value	2,263,859,196	Producer pounds		**$40,523,079.63**
Producer Price Differential		**$1.79**		
Statistical Uniform Price		**$15.01**		

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