

The Market Administrator's

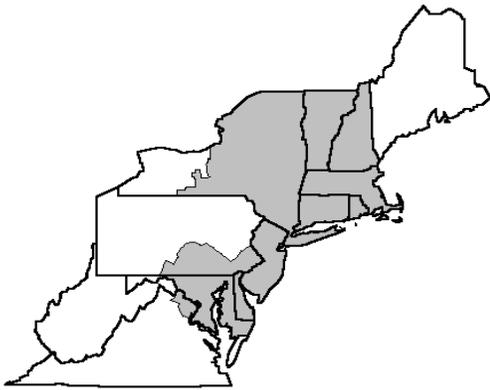
BULLETIN

NORTHEAST MARKETING AREA

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August 2017

Federal Order No. 1



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August Pool Price Calculation

The August 2017 statistical uniform price (SUP) for the Northeast Marketing Area was announced at \$18.33 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 \$19.19 per hundredweight. The August statistical uniform price was 32 cents per hundredweight above the July price. The August producer price differential (PPD) at Suffolk County was \$1.76 per hundredweight, a decrease of 80 cents per hundredweight from last month.

Product Prices Effect

Commodity product prices for butter and cheese increased from the previous month. Cheese jumped more than 12 cents per pound; butter rose over 5 cents per pound. Nonfat dry milk and dry whey each fell about 2 cents per pound. As a result of the commodity price changes, producer component prices for butterfat and protein both increases while nonfat solids and other solids prices both dropped slightly. Butterfat rose to over \$3.00 per pound for the first time since November 2015. Even though it was an increase from last month, the protein price was the lowest ever for the month of August.

All class prices rose from July and combined with slightly stronger utilization in the higher priced classes (I and II) resulted in an increase in the SUP. The spread in prices between the classes tightened somewhat and generated a lower PPD. The August SUP is the highest since December 2014.

Highlights

The total volume of producer milk receipts set a new record high for the month of August. Daily deliveries per producer (DDP) for August were the highest on record for the month, but the lowest seen this year. Class I volume topped the previous year for the fourth month in a row.

The average producer butterfat and protein tests set new record highs for August. The butterfat test has surpassed the previous year's test for the past 10 months in a row. ❖

Pool Summary

- A total of 11,200 producers were pooled under the Order with an average daily delivery per producer of 6,551 pounds.
- Pooled milk receipts totaled 2.274 billion pounds, a decrease of 1.4 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 31.6 percent of total milk receipts, up 2.0 percentage points from July.
- The average butterfat test of producer receipts was 3.76 percent.
- The average true protein test of producer receipts was 3.04 percent.
- The average other solids test of producer receipts was 5.74 percent. ❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	31.6	718,998,546
Class II	25.9	589,273,454
Class III	27.4	623,422,244
Class IV	15.1	342,603,375
Total Pooled Milk		2,274,297,619

Producer Component Prices

	2017	2016
	\$/lb	
Protein Price	1.5536	2.5738
Butterfat Price	3.0109	2.4873
Other Solids Price	0.2425	0.0881

Class Price Factors

	2017	2016
	\$/cwt	
Class I	19.97	18.32
Class II	17.56	15.21
Class III	16.57	16.91
Class IV	16.61	14.65

Federal Order Class I Comparison

The volume of producer milk receipts used in Class I (fluid drinking milk) is an important figure for federal orders since milk used in this class is almost always priced at the highest value of the four classes. Unfortunately, as has been well documented, this volume has been declining for years as sales of fluid drinking milk have dropped nationwide.

The accompanying table shows the Class I volume and average annual utilization percentages for all of the federal orders for the years 2012-2016 and the first 6 months of 2017. As the table depicts, all federal orders have experienced a decline in Class I utilization.

Volume

The Northeast Order has the largest volume of milk utilized for Class I, accounting for about 22 percent of all federal order Class I volume. The Mideast Order ranks second, but its volume is only about two-thirds as much as the Northeast. During 2016, some of the orders experienced a modest increase in Class I from the previous year. Based on data for the first 6 months, it is unlikely this will occur again, but according to federal order data the decline in Class I seems to have slowed a bit.

Percentage

In addition to increases in Class I volume, which can be impacted by changes in where plants are distributing packaged products, the increase in the utilization percentages may be due to depooling of milk on some of these orders. This can skew the Class I percentage as the milk depooled would have been utilized in classes other than Class I.

The orders that pay producers on a skim and butterfat only basis typically have higher Class I usage; these include the Appalachian, Florida, and Southeast Orders. Of the orders that pay on a multiple component basis, the Northeast Order has the highest Class I utilization percentage followed closely by the Southwest Order. Compared to the all-federal order average, the Northeast Order has always had a higher Class I percentage although the gap is tightening as Class I usage continues to decline. ❖

Class I Volume and Utilization Percentage for Federal Orders

Federal Order		Class I Volume					Jan-Jun
		2012	2013	2014	2015	2016	2017
Number	Name	million pounds					
1	Northeast	9,802	9,508	9,123	8,943	8,828	4,344
5	Appalachian	3,985	3,845	3,783	3,871	3,892	1,950
6	Florida	2,439	2,424	2,343	2,319	2,276	1,095
7	Southeast	4,483	4,163	3,905	3,906	3,839	1,889
30	Upper Midwest	3,818	3,686	3,587	3,502	3,421	1,631
32	Central	4,875	4,867	4,816	4,803	4,866	2,409
33	Mideast	6,218	6,448	6,245	6,279	6,427	3,183
124	Pacific Northwest	2,189	2,120	2,021	1,980	1,944	943
126	Southwest	4,283	4,324	4,310	4,293	4,353	2,086
131	Arizona	1,400	1,357	1,287	1,310	1,295	637
All Order Total		43,492	42,742	41,420	41,206	41,141	20,167
Federal Order		Class I Utilization					Jan-Jun
		2012	2013	2014	2015	2016	2017
Number	Name	percent					
1	Northeast	39.7	37.4	35.4	34.3	32.7	31.1
5	Appalachian	68.0	67.1	67.6	68.6	69.6	67.9
6	Florida	84.4	85.6	84.5	84.6	83.9	82.7
7	Southeast	66.0	67.9	73.8	75.0	71.2	65.3
30	Upper Midwest	12.4	10.7	10.9	11.6	10.4	10.2
32	Central	36.4	32.0	32.0	33.2	32.3	29.4
33	Mideast	37.0	38.6	36.1	34.2	32.7	30.1
124	Pacific Northwest	32.6	25.7	25.6	29.8	24.7	26.0
126	Southwest	42.9	33.5	35.5	36.1	34.2	31.0
131	Arizona	30.7	29.4	26.8	27.4	26.0	24.2
All Order Average		35.5	32.4	32.0	32.7	30.7	29.3

Price Buoying Benefits of Butter

For the third month in a row, the butterfat price set a record high for the month. The August butterfat component price of \$3.0109 per pound marked just the third time since the order's inception that the price surpassed \$3.00 per pound. Reports of butter being described as anywhere from a healthy choice to not as bad as once thought, have painted a newer, healthier picture of butter, and consumers appear to be responding. Also not difficult to find are reports of restaurants and ingredient purchasers switching to butter. Reenergized demand for butter is lifting butter prices.

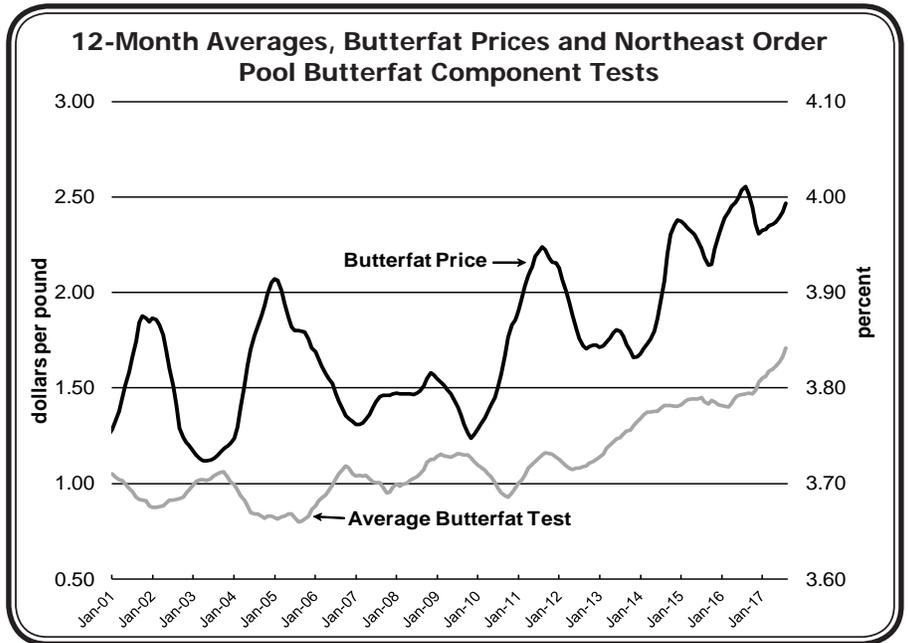
Strength in the butter price likewise is lending support to the Northeast statistical uniform price (SUP) received by producers. The August SUP as reported at Boston, MA, was \$18.33 per hundredweight (cwt). Using the average butter price for August from 2000 through 2016 in the price formula instead, while holding all else the same, the SUP at Boston, MA, would be \$15.84 per cwt, or \$2.49 per cwt less. In a market that has been characterized by strong milk production, this type of demand-side support of milk prices has made a difference.

(continued on page 3)

Price Buoying Benefits *(continued from page 2)*

Producers Responding

While the price of butterfat hits record highs, producer average component tests in the Northeast Order pool also have been setting records, and by large margins, relatively speaking. As an example, August's pool average 3.76 percent butterfat topped the previous August record of 3.69 in 2012. The accompanying chart depicts a 12-month moving average for butterfat tests and prices. This moving average was used to eliminate seasonality impacts. Most typically, the chart reflects that when butterfat tests are lower, the butterfat price increases, and vice-versa. Since 2014, the chart shows very high butterfat prices but with more of a steady, and then increasing, butterfat content in the milk. This would imply that the market is still calling for more butterfat.



International Dynamics

U.S. butter prices, though strong, are still below prices in Europe and Oceania. In fact, September butter prices in Europe are about 50 percent higher than U.S. prices, while Oceania prices were nearly 10 percent higher. Until early 2017, U.S. butter prices generally were well above world prices going back to mid 2014. The U.S. butter trade balance turned positive in June 2017, the first time since January 2015. This result roughly coincides with the U.S. price becoming the lowest in the world market. There is some expectation that there will be growth in

New Zealand production that may pressure U.S. butter prices. At the same time, Russia has increased butter imports and, if continued, may help support world butter prices.

Looking Ahead

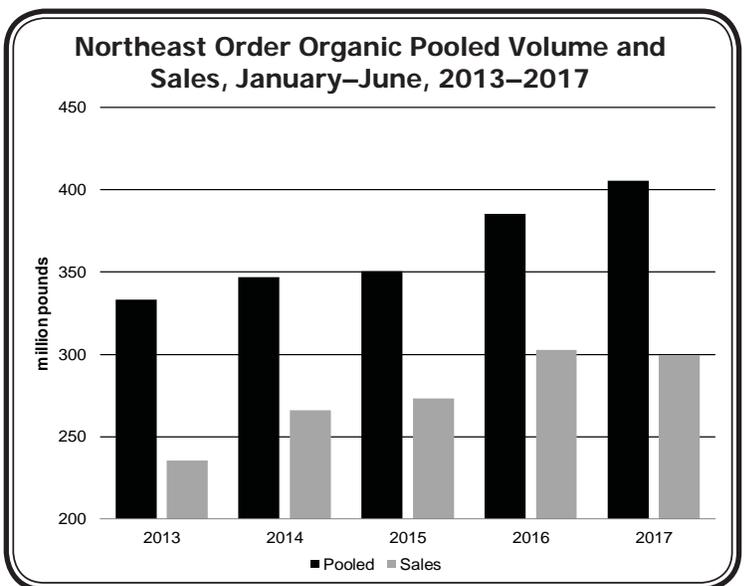
Chicago Mercantile Exchange butter futures remain above \$2.50 per pound through the end of this year, and continue above \$2.25 per pound through 2018. This would imply an expectation that butter demand and prices should continue to support milk prices in the near and middle terms. ❖

Organic Sales Down But Production Continues

Recently there have been media reports about the sales of organic dairy products slowing while the production of milk on organic dairy operations continues to grow. The accompanying chart shows the Northeast Order pooled volume of milk from producers identified as organic compared to the total sales of organic fluid milk products as reported by handlers in the Northeast Milk Marketing Area for January through June for 2013-2017.

As seen in the chart, sales of organic products rose from 2013 through 2016 with the gap between sales and pooled volume decreasing until 2016 when it rose slightly as organic production outpaced sales. Organic pooled milk not sold as organic fluid sales may be utilized as conventional fluid sales or in manufactured products. For the first 6 months of 2017, organic milk pooled on the Northeast Order grew 5.2 percent from the same period in 2016. During the same time, organic sales in the Northeast Area have declined 1.1 percent. Data reported

by USDA's Agricultural Marketing Service estimate the same percent decline for the nation as a whole. ❖





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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	703,440,555	\$9.80	68,937,174.39	
Butterfat	15,557,991	3.0044	46,742,428.16	
Less: Location Adjustment to Handlers			(2,739,032.41)	\$112,940,570.18
Class II— Butterfat	34,399,691	3.0179	103,814,827.51	
Nonfat Solids	50,602,044	0.8056	40,765,006.66	144,579,834.17
Class III— Butterfat	26,502,982	3.0109	79,797,828.49	
Protein	18,936,243	1.5536	29,419,347.17	
Other Solids	35,652,672	0.2425	8,645,773.06	117,862,948.72
Class IV— Butterfat	8,986,204	3.0109	27,056,561.61	
Nonfat Solids	30,433,192	0.6984	21,254,541.29	48,311,102.90
Total Classified Value				\$423,694,455.97
Add: Overage—All Classes				18,634.89
Inventory Reclassification—All Classes				162,915.60
Other Source Receipts	178,463 Pounds			5,848.30
Total Pool Value				\$423,881,854.76
Less: Producer Component Valuations @ Class III Component Prices				(396,349,472.81)
Total PPD Value Before Adjustments				\$27,532,381.95
Add: Location Adjustment to Producers				12,799,303.89
One-half Unobligated Balance—Producer Settlement Fund				788,687.83
Less: Producer Settlement Fund—Reserve				(1,089,594.59)
Total Pool Milk & PPD Value	2,274,476,082 Producer pounds			\$40,030,779.08
Producer Price Differential		\$1.76		
Statistical Uniform Price		\$18.33		

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