

The Market Administrator's

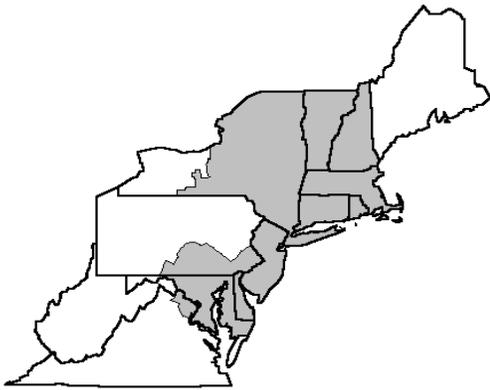
BULLETIN

NORTHEAST MARKETING AREA

Shawn M. Boockoff, Market Administrator

October 2020

Federal Order No. 1



To contact the Northeast Marketing Area offices:
 Boston, MA: phone (617) 737-7199, Albany, NY: phone (518) 452-4410, Alexandria, VA: phone (703) 549-7000;
 e-mail address: NortheastOrder@fedmilk1.com
 website address: www.fmmone.com

October Pool Price Calculation

The October 2020 statistical uniform price (SUP) for the Northeast Marketing Area was announced at \$17.07 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 \$18.82 per hundredweight. The October statistical uniform price was 27 cents per hundredweight above the September price. The October producer price differential (PPD) at Suffolk County was -\$4.54 per hundredweight, a decrease of \$4.91 from the previous month.

Product Prices Effect

All commodity prices used in federal order pricing increased during October. National Dairy Product Sales Report prices increased 4 cents for butter, 7 cents for nonfat dry milk, 3 cent for dry whey, and 52 cents for cheese, all on a per pound basis. The cheese price jump was the result of the weighted average drop of the blocks (up 62 cents) and the barrels (up 39 cents).

The commodity price changes resulted in per-pound increases of 5 cents in the butterfat price, 6 cents in the nonfat solids price, and 3 cents in the other solids price. The rise in cheese prices resulted in a \$1.62 per pound increase in the protein price.

All class prices increased from the previous month except the Class I price that was based on lower prices in September and dropped \$3.24 per hundredweight. The Class II prices increased 47 cents; Class IV rose 72 cents; and Class III, based on cheese prices, jumped \$5.18, all on a per hundredweight basis. The price changes resulted in a higher SUP, but with the Class III price as the highest class price, generated a largely negative PPD. For more information on negative PPDs, refer to the June *Bulletin*.

Selected Statistics

Average daily deliveries per producer set a new record high for the month of October. The Class IV volume was the highest ever for the month while the Class II and III were each the second highest volumes ever for October. The average producer tests for all components (butterfat, protein, and other solids) set new record highs for the month of October. ❖

Pool Summary

- A total of 9,147 producers were pooled under the Order with an average daily delivery per producer of 7,976 pounds.
- Pooled milk receipts totaled 2.262 billion pounds, an increase of 1.0 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 31.9 percent of total milk receipts, up 1.7 percentage points from September.
- The average butterfat test of producer receipts was 3.99 percent.
- The average true protein test of producer receipts was 3.18 percent.
- The average other solids test of producer receipts was 5.77 percent. ❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	31.9	721,679,371
Class II	24.9	562,050,191
Class III	26.0	588,765,509
Class IV	17.2	389,218,915
Total Pooled Milk		2,261,713,986

Producer Component Prices

	2020	2019
	\$/lb	
Protein Price	5.0146	3.1700
Butterfat Price	1.6388	2.4031
Other Solids Price	0.1534	0.1447

Class Prices

	2020	2019
	\$/cwt	
Class I	18.45	21.09
Class II	13.63	16.68
Class III	21.61	18.72
Class IV	13.47	16.39

Market Situation

Agricultural Marketing Service National Dairy Product Sales Report (NDPSR) prices of Cheddar cheese, butter, nonfat dry milk, and dry whey are the inputs to federal milk market order class and component prices. Chart 1 presents weekly NDPSR cheese prices that established federal order minimum prices over the past 9 months. Additionally, the chart presents weekly average Chicago Mercantile Exchange (CME) prices.

The October Statistical Uniform Price (SUP) reflected NDPSR prices for weeks ending October 3 through October 31. The shaded area on the chart highlights the NDPSR cheese prices during this period. NDPSR prices for the first week of November also are shown. This recent period bears a similarity to the pricing dynamic that existed from mid-May to late June. The rapid rise in the cheese prices largely contributed to the record negative PPDs during June and July. Likewise, the similar rapid, substantial rise in cheese prices has led to a large negative PPD in October. For more information on negative PPDs, refer to the June *Bulletin*.

CME Prices Indicate Declining NDPSR Prices

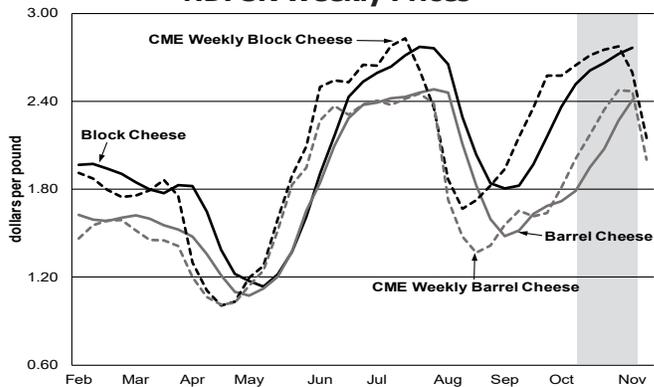
NDPSR prices tend to lag CME prices by approximately 2 weeks. Looking at average CME prices for the week ending November 13, block and barrel cheese averaged \$2.15 and \$2.00 per pound, respectively. The CME cheese prices can be seen as the dashed lines in Chart 1, with the more recent decline evident at the far right of the chart. These prices would indicate that NDPSR prices for cheese are moving downward, in the short term. CME daily spot prices for block and barrel cheese as settled on November 18, were \$1.64 and \$1.40 per pound, respectively, and hint at larger declines still. The weekly butter price averaged \$1.43 per pound, and the nonfat dry milk price was \$1.09 per pound. Both commodities' prices have remained fairly steady since the beginning of August.

Stocks of Dairy Products

With demand negatively impacted by pandemic restrictions and supply chain impacts, particularly to food service, the expectation might be that of building stocks. Charts 2, 3, and 4 present National Agricultural Statistics Service (NASS) stocks of cheese, butter, and nonfat dry milk from 2017-2020. Butter stocks in 2020 have been strong relative to recent year levels; this is a reflection of softer food service demand (though retail sales have been strong). Higher stocks have played a part in relatively lower Class IV prices, also playing a role in negative PPDs. Meanwhile, after peaking well above recent years in April, both cheese and nonfat dry milk stocks were drawn down to a 4-year low by September, in part due to the Farmers to Families Food Box Program, steady retail demand, strong demand in the fast food and pizza market, and strong nonfat dry milk exports.

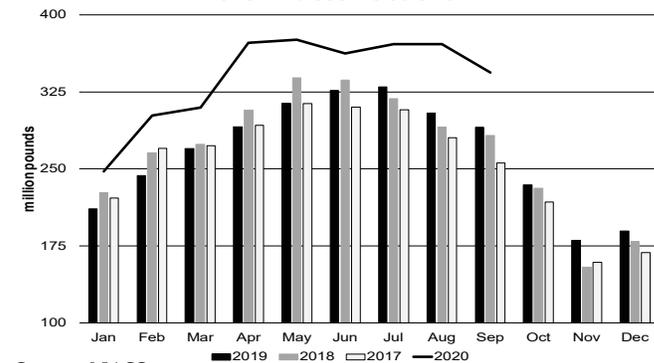
(continued on page 3)

Chart 1 NDPSR Weekly Prices



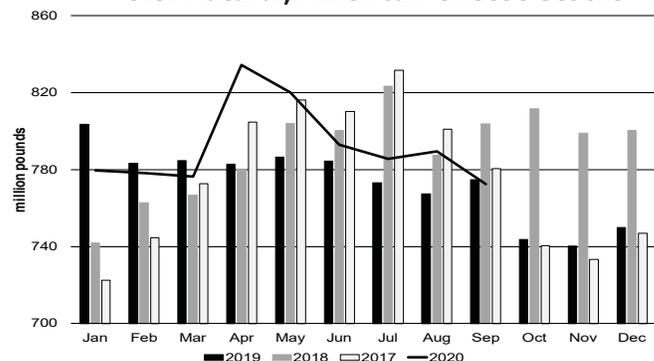
Source: USDA/AMS.

Chart 2 U.S. Butter Stocks



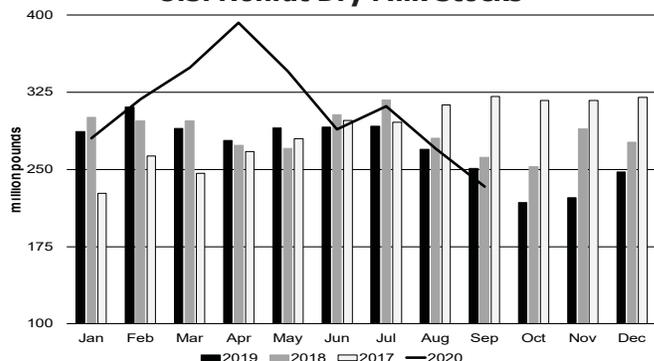
Source: NASS

Chart 3 U.S. Natural, American Cheese Stocks



Source: NASS

Chart 4 U.S. Nonfat Dry Milk Stocks



Source: NASS

Changes in Milk Received by Differential Zone

The accompanying table compares pooled milk receipts by class and plant differential zone at which priced for the month of October for 2015 and 2020. Total producer milk receipts were 5.9 percent higher in October 2020 over 2015.

Change by Zone

Milk received at plants in \$3.25 base zone (Boston, MA, and surrounding areas) accounted for 2.4 percent in October 2020, down from 4.5 percent 5 years earlier. Only 24.4 percent of all milk pooled was received at plants in the \$3.00 to \$3.15 zone range in 2020, down from 26.3 percent in 2015. This range includes the other major metropolitan centers of the Northeast Order: New York, NY; Philadelphia, PA; and Washington, DC. The zones ranging from \$2.40 to \$2.90 cover most of the more rural areas of Vermont, central New York and eastern Pennsylvania. There was a slight increase from 2015 to 2020, from 47.2 to 47.8 percent, in total pool volume received at plants in this range. Plants located in the \$2.30 and lower zones received about 25.3 percent of the total pool in 2020, up from 23.2 percent in 2015. This area covers the northern areas of Vermont and New York and the western areas of New York and Pennsylvania.

The total volume of milk received at plants in the highest zones (\$3.10-\$3.25) declined from 12.7 of the total pool in October 2015 to 8.4 percent in 2020. Most of this milk was, and is still, processed for Class I purposes. Since 2015, Class I sales have declined as mentioned above and two large bottling plants have closed in these zones resulting in a 44.2 percent drop in milk processed in the highest zones. There has been some shifting to plants in other zones as shown in the table.

The zone receiving the largest volume of pooled receipts changed from the \$2.80 zone in 2015 to the \$2.30 zone in 2020 although the zones receiving the largest volumes remained the same in both years: the \$2.80, \$2.40-2.50, and the \$2.30 zones.

Change by Class

Pooled milk in October 2020 was down 10.2 percent for Class I but up 13.4 percent for Class II, 11.3 percent for Class III, and 26.7 percent for Class IV. The largest volumes of milk received at plants for Class I usage in 2020 were in the \$3.00 to \$3.25 differential zones (though down since 2015 by over 105 million pounds). In 2015, there was a large volume in the \$2.80 zone in addition to the \$3.00 to \$3.25 zones. For Class II usage, the largest volume went to plants in the \$2.40 to \$2.50 zone for both years. Similarly, during both years, the largest volume received at plants for Class III usage was in the \$2.30 zone. The largest amount of milk used for Class IV purposes was in the \$2.80 zone in 2015, but for 2020, there was a considerable volume in both the \$2.80 and \$3.00 zones. Changes like this one and the one in Class I may be due to changes in plant status or changes in production of certain products like nonfat dry milk. In addition, even though the statistical uniform price was only 53 cents lower per hundredweight in October 2020 than in 2015, the 2020 producer price differential (PPD) was negative \$4.54 per hundredweight at Boston, \$6.68 less per hundredweight than in 2015. Large negative PPDs may affect handlers' decisions in pooling milk. ❖

Northeast Order Pool Milk from Producers by Plant Location at which Priced, October, 2015 vs 2020

Selected Locations#	Location Differential*	Class I		Class II		Class III		Class IV		Total Pool Pounds		Percent of Pool Total by Zone	
		2015	2020	2015	2020	2015	2020	2015	2020	2015	2020	2015	2020
		(million pounds)											
New York, NY/Boston, MA	3.10-3.25	185.1	103.3	42.5	28.2	43.3	56.4	0.7	1.8	271.6	189.7	12.7	8.4
Philadelphia, PA	3.05	137.4	105.6	31.2	32.8	0.9	0.8	0.2	2.3	169.7	141.4	7.9	6.3
Agawam, MA/Baltimore, MD	3.00	123.8	131.7	52.2	35.3	1.2	1.2	39.3	107.8	216.4	276.0	10.1	12.2
Frederick, MD/New Holland, PA	2.90	26.9	53.5	8.5	19.9	6.4	5.7	0.0	0.9	41.7	80.0	2.0	3.5
Mt. Holly Springs, PA	2.80	136.8	96.8	82.7	86.7	22.6	50.7	151.3	152.6	393.5	386.9	18.4	17.1
Middelbury, VT/Albany, NY	2.60-2.70	84.4	90.3	36.6	31.8	83.5	86.9	0.5	2.5	205.1	211.5	9.6	9.3
St. Albans, VT/Syracuse, NY	2.40-2.50	61.4	80.7	162.1	199.6	70.4	86.5	47.6	37.1	341.5	403.8	16.0	17.9
Watertown/Rochester, NY	2.30	23.4	16.9	52.3	94.9	253.2	260.4	37.9	50.4	366.8	422.6	17.2	18.7
Buffalo, NY	2.20	24.9	42.9	26.4	32.3	43.9	31.2	29.3	32.4	124.5	138.8	5.8	6.1
Jamestown, NY and All Other	<=2.10	0.0	0.0	1.2	0.5	3.8	9.0	0.3	1.6	5.3	11.0	0.2	0.5
Pool Total		804.0	721.7	495.6	562.1	529.2	588.8	307.2	389.2	2,136.0	2,261.7		
Percent of Pool Total by Class		37.6	31.9	23.2	24.9	24.8	26.0	14.4	17.2				

Cities listed are for reference purposes only and not all inclusive for the zone.

* Some zones have been combined to prevent disclosure of confidential data.

Market Situation (continued from page 2)

Still contributing to some of the more recent increase in prices are government programs intended to support the dairy industry and aid families during the pandemic. Prices beyond near term may face challenges in the form of restaurant demand impacted in some regions where outdoor dining is seasonally no longer an option. Reduced

school demand due to online or hybrid formats are expected to continue. U.S. milk production appears to be responding to recent improved pricing and direct payments from federal government programs. Strong milk production may pose a challenge if demand is hindered by pandemic-related lockdowns or supply chain breakdowns. ❖

RETURN SERVICE REQUESTED

FIRST CLASS MAIL

The U.S. Department of Agriculture (USDA) prohibits discrimination in all its programs and activities on the basis of race, color, national origin, age, disability, and where applicable, sex, marital status, familial status, parental status, religion, sexual orientation, political beliefs, genetic information, reprisal, or because all or part of an individual's income is derived from any public assistance program. (Not all prohibited bases apply to all programs.) Persons with disabilities who require alternative means for communication of program information (Braille, large print, audiotape, etc.) should contact USDA's TARGET Center at (202) 720-2600 (voice and TDD). To file a complaint of discrimination, write to USDA, Assistant Secretary for Civil Rights, Office of the Assistant Secretary for Civil Rights, 1400 Independence Avenue, S.W., Stop 9410, Washington, DC 20250-9410 or call toll-free at (866) 632-9992 (English) or (800) 877-8339 (TDD) or (866) 377-8642 (English Federal-relay) or (800) 845-6136 (Spanish Federal-relay). USDA is an equal opportunity provider and employer.

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	704,750,703	\$13.22	\$93,168,042.94	
Butterfat	16,928,668	1.6258	27,522,628.43	
Less: Location Adjustment to Handlers			(2,958,063.02)	\$117,732,608.35
Class II— Butterfat	32,734,828	1.6458	53,874,979.94	
Nonfat Solids	49,325,645	0.9056	44,669,304.10	98,544,284.04
Class III— Butterfat	27,215,923	1.6388	44,601,454.59	
Protein	18,658,126	5.0146	93,563,038.66	
Other Solids	33,777,620	0.1534	5,181,486.93	143,345,980.18
Class IV— Butterfat	13,392,035	1.6388	21,946,866.92	
Nonfat Solids	35,070,016	0.8902	31,219,328.27	53,166,195.19
Total Classified Value				\$412,789,067.76
Add: Overage—All Classes				61,884.14
Inventory Reclassification—All Classes				378,350.28
Other Source Receipts	66,925			0.00
Total Pool Value				\$413,229,302.18
Less: Value of Producer Butterfat	90,271,454	1.6388	(147,936,858.78)	
Value of Producer Protein	71,884,107	5.0146	(360,470,043.01)	
Value of Producer Other Solids	130,510,233	0.1534	(20,020,269.73)	(528,427,171.52)
Total PPD Value Before Adjustments				(\$115,197,869.34)
Add: Location Adjustment to Producers				13,105,477.93
One-half Unobligated Balance—Producer Settlement Fund				462,320.00
Less: Producer Settlement Fund—Reserve				(1,054,781.98)
Total Pool Milk & PPD Value	2,261,780,911			(\$102,684,853.39)
Producer Price Differential		(\$4.54)		
Statistical Uniform Price		\$17.07		

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