

The Market Administrator's

BULLETIN

NORTHEAST MARKETING AREA

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January Pool Price Calculation

The January 2023 statistical uniform price (SUP) for the Northeast Marketing Area was announced at \$21.86 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 \$24.34 per hundredweight. The January statistical uniform price was \$1.20 per hundredweight below the December price. The January producer price differential (PPD) at Suffolk County was \$2.43 per hundredweight, a decrease of 13 cents from the previous month.

Product Prices Effect

All commodity prices reported on the National Dairy Product Sales Report declined in January. Butter plummeted 32 cents, nonfat dry milk fell 9 cents, and dry whey declined 3 cents, all on a per pound basis. The cheese price decreased 8 cents per pound with the block price declining 4 cents and the barrel price dropping 11 cents. The commodity price changes translated to a 38-cent drop in the butterfat price, a 9-cent decrease in nonfat solids, and a 3-cent decline in other solids. The protein price rose almost 15 cents per pound due mainly to the decline in the butterfat price, which is a factor in the protein price formula. Even though the butterfat price fell, it was the second highest ever for the month of January.

All class prices declined: Class I decreased 17 cents; Class II fell \$1.50; Class III was down \$1.07; and Class IV dropped \$2.11, all on a per hundredweight basis. The spread between the higher- and lower-class prices decreased, resulting in a lower PPD.

Selected Statistics

Average daily deliveries per producer (DDP) topped 9,000 for the first time for the month of January. Total producer receipts and Class III volume were the second highest ever for the month. Class II volume was the highest ever for January. The Class I price was a record-high for the month. The average producer butterfat and protein tests tied with January 2022 as record-highs for the month. ❖

Pool Summary

- A total of 7,924 producers were pooled under the Order with an average daily delivery per producer of 9,398 pounds.
- Pooled milk receipts totaled 2.309 billion pounds, an increase of 2.4 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 29.9 percent of total milk receipts, down 0.9 percentage points from December.
- The average butterfat test of producer receipts was 4.16 percent.
- The average true protein test of producer receipts was 3.22 percent.
- The average other solids test of producer receipts was 5.76 percent. ❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	29.9	690,685,972
Class II	24.8	571,461,297
Class III	28.4	655,807,212
Class IV	16.9	390,615,304
Total Pooled Milk		2,308,569,785

Producer Component Prices

	2023	2022
	\$/lb	
Protein Price	2.8058	2.3563
Butterfat Price	2.7713	2.9567
Other Solids Price	0.2343	0.5249

Class Prices

	2023	2022
	\$/cwt	
Class I	25.66	22.96
Class II	21.61	22.83
Class III	19.43	20.38
Class IV	20.01	23.09

Block and Barrel Spread

Brief History

The Federal Milk Marketing Orders first adopted a pricing system that incorporated the commodity price of cheese in 1995. The price of 40-pound block cheddar, as announced by the National Cheese Exchange (NCE), was used to adjust the base price of milk for current market conditions. The decision to use specifically cheddar in the price calculation was, in part, due to cheddar having a well-established national market price, widely accepted standards for manufacturing and grading, a majority of other cheeses manufactured in the U.S. were traded in relation to cheddar, the formula to calculate yields was well-known and verifiable, and it significantly simplified the process. The block price was selected to be used over the barrel price because, after reviewing various formulas, it was found to be the better updater and representative price series. As well, it made little difference using either for the purpose of reflecting change in the cheddar cheese market as both products' prices moved very similarly with the barrel price around 3 to 4 cents less per pound than the block price between 1991 and 1993. In 1997,

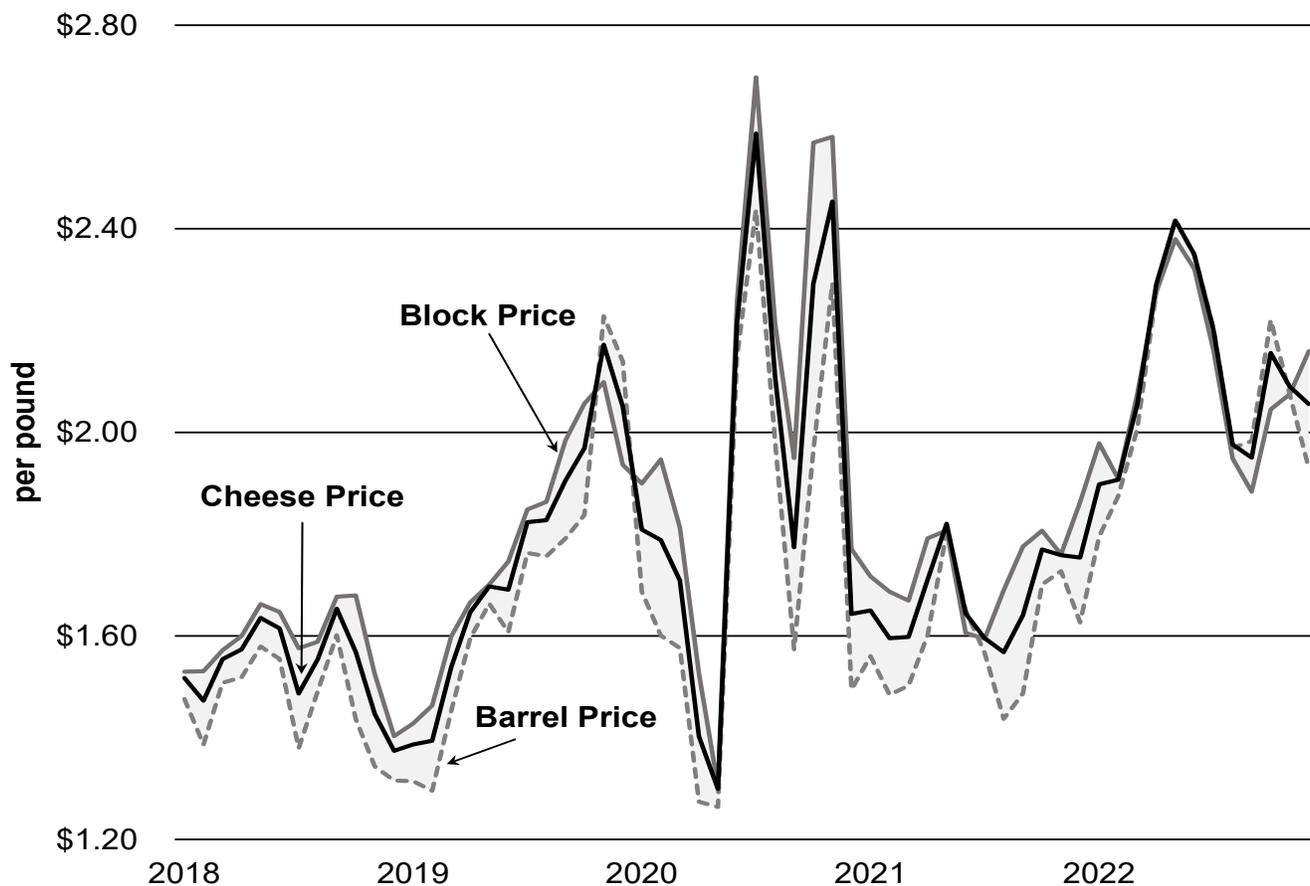
federal orders began using the National Agricultural Statistics Service (NASS) 40-pound cheddar cheese price as a replacement after the closing of the NCE.

Most federal orders adopted multiple component pricing as a part of order reform in 2000. Currently, a combined weighted average of block and barrel cheddar cheese prices are used to calculate the protein price, and thus, the Class III price. The 500-pound barrel price began to be included with the 40-pound block price as a part of order reform because, at the time, more barrel cheese was being produced than block, which increased the sample size by about 150 percent, giving a better representation of the cheese market.

Calculation of Protein Price

As previously stated, NASS published a weekly report entitled the National Dairy Products Sales Report (NDPSR), as of 2012 the NDPSR is published by the Agricultural Marketing Service (AMS). The NDPSR reports the pounds sold and price per pound paid for (continued on page 3)

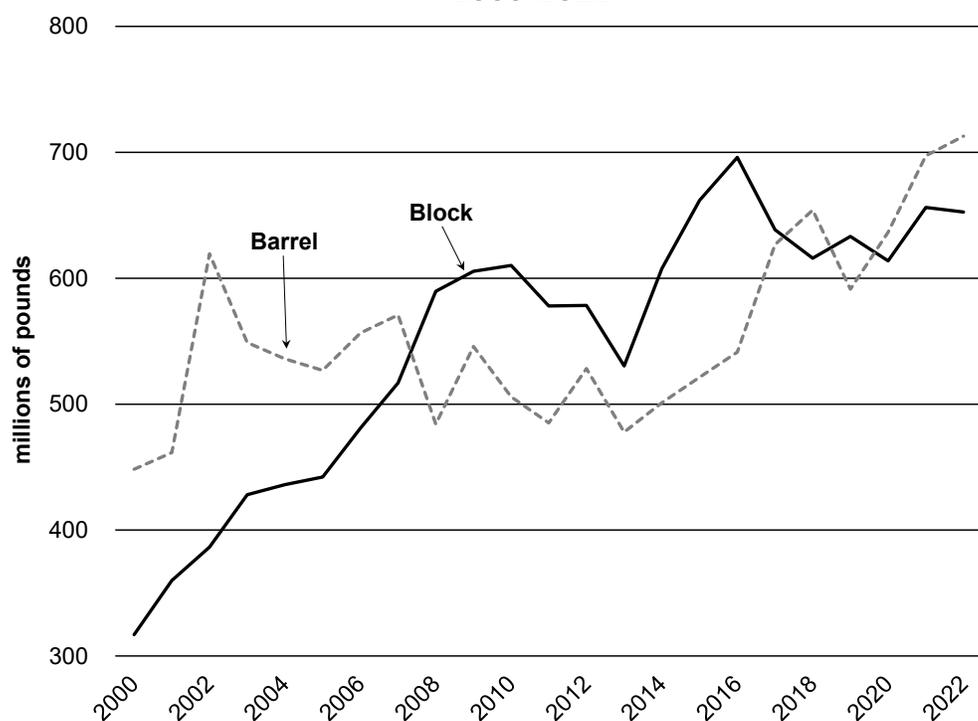
Chart 1- Monthly 40-Pound Block, 500-Pound Barrel, and Cheese Prices, 2018-2022



Source: USDA/AMS.

Block and Barrel Spread (continued from page 2)

Chart 2 - Annual 40-Pound Block vs 500-Pound Barrel Cheese Sales, 2000-2022



Source: USDA/AMS.

butter, dry whey, nonfat dry milk, and cheddar cheese (in 40-pound blocks and 500-pound barrels) sold in the listed week for processors selling at least one million pounds of such bulk product per year. The block and barrel figures are combined into a weighted average called the “cheese price”. In the process of calculating the weighted average, 3 cents per pound are added to the barrel price because it was generally considered to be the industry standard cost difference between processing barrel and block cheese. The cheese price is then placed into a formula that accounts for the cost of production, yields, and butterfat differences; the resulting calculation is the protein price. The protein price is then used in the computation of the Class III price. An increase in the cheese price will cause upward pressure in the protein and Class III prices, and a decrease in the cheese price will have a corresponding effect on the previously mentioned prices.

The Class I and Statistical Uniform Price (SUP) are also impacted by the cheese price. Since May 2019, the Class I skim price is derived from the average of the Class III and Class IV skim prices plus 74 cents. This leads to the Class I price having a similar but less direct relationship to the cheese price than the Class III price; an increase or decrease in the cheese price will have a similar effect in the Class I price calculation. The SUP

is approximately calculated by totaling the percent of pooled milk utilized in each class multiplied by the applicable class price. An increase in the cheese price puts an upward force on the SUP, with the opposite being true when the cheese price drops.

The Spread

Using the average monthly prices used in price discovery from 2000 to 2016, the average difference between the block and barrel prices was 1 cent per pound in favor of the block price. Since 2016, the spread has significantly increased, with a monthly average per pound difference of 7 cents in 2017, 12 cents in 2018, 8 cents in 2019, 27 cents in 2020, and 14 cents in 2021. There has been a return to “normal” in 2022, with block prices having a monthly

average difference of 1 cent per pound over barrel.

Over the last six years, during the increased block and barrel spread, the block price for the majority of the time has been the higher of the two. This has led to a protein and Class III price that is not representative of either cheese price but reflects an over-valued barrel price and an under-valued block price, the reverse is true on the occasions when the barrel price has overtaken the block price. As the spread increases, the less reflective the cheese price is of the block or barrel price. This relationship between the block, barrel, and cheese price is shown in chart 1.

The other value involved in calculating the weighted average is the sales volume as reported by AMS in the given week. In 2000, when barrel cheddar figures were first used in price computation, reported barrel sales were 58.6 percent of total annual block and barrel sales. As shown in chart 2, block sales significantly increased between 2000 and 2016, surpassing barrel sales in 2008. Production was able to facilitate this increase in demand for blocks without any significant change in price difference from barrel. Since 2013, barrel sales have had a mostly upward trajectory brought on by an increased demand for white whey (a byproduct of barrel production), and since 2017 both have shared a closer percent of total combined sales. ❖

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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	674,558,158	\$14.57	\$98,283,123.62	
Butterfat	16,127,814	3.3152	53,466,928.97	
Less: Location Adjustment to Handlers			3,030,237.76	\$148,719,814.83
Class II— Butterfat	34,668,210	2.7783	96,318,687.84	
Nonfat Solids	50,240,116	1.3689	68,773,694.83	165,092,382.67
Class III— Butterfat	28,372,913	2.7713	78,629,853.81	
Protein	21,096,108	2.8058	59,191,459.78	
Other Solids	37,761,382	0.2343	8,847,491.83	146,668,805.42
Class IV— Butterfat	16,950,568	2.7713	46,975,109.09	
Nonfat Solids	35,013,234	1.1864	41,539,700.82	88,514,809.91
Total Classified Value				\$548,995,812.83
Add: Overage—All Classes				184,528.21
Inventory Reclassification—All Classes				(816,846.44)
Other Source Receipts	384,853			16,104.37
Total Pool Value				\$548,379,598.97
Less: Value of Producer Butterfat	96,119,505	2.7713	(266,375,984.24)	
Value of Producer Protein	74,255,152	2.8058	(208,345,105.45)	
Value of Producer Other Solids	133,007,967	0.2343	(31,163,766.70)	(505,884,856.39)
Total PPD Value Before Adjustments				\$42,494,742.58
Add: Location Adjustment to Producers				13,800,295.72
One-half Unobligated Balance—Producer Settlement Fund				965,076.71
Less: Producer Settlement Fund—Reserve				(1,152,517.25)
Total Pool Milk & PPD Value	2,308,954,638			\$56,107,597.76
Producer Price Differential		\$2.43		
Statistical Uniform Price		\$21.86		

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