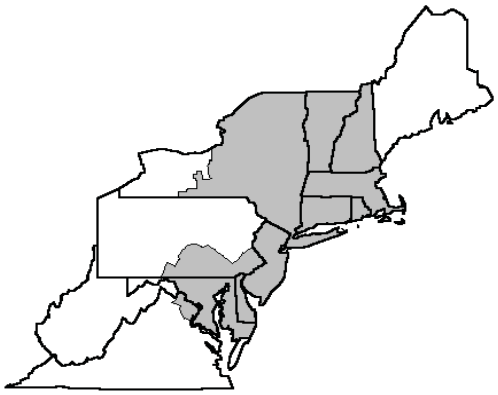

The Market Administrator's

BULLETIN

NORTHEAST MARKETING AREA

Erik F. Rasmussen, Market Administrator

January 2016 Federal Order No. 1

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January Pool Price Calculation

The January 2016 statistical uniform price (SUP) for the Northeast Marketing Area was announced at $15.52 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 $16.70 per cwt. The January statistical uniform price was $1.75 per cwt below the December price. The January producer price differential (PPD) at Suffolk County was $1.80 per cwt, a decrease of $1.03 per cwt from last month.

Product Prices Effect

During January all product prices declined except dry whey that rose slightly. Cheese dropped over 5 cents per pound, nonfat dry milk declined slightly and butter plummeted nearly 50 cents per pound but was still the highest ever for January; this follows a 23-cent per pound drop in December. These changes translated to decreases of nearly 60 cents per pound in the butterfat component price, but only slight changes in the other solids and nonfat solids prices. The protein component price rose about 25 cents per pound due to the decrease in the butterfat price.

All class prices fell. The Class I price was 67 cents lower in January, Class II was down $2.52; Class III fell $0.72; and Class IV declined $2.21, all on a per cwt basis. Class I and III utilization fell while II and IV rose. These changes, combined with the class price changes, resulted in both a lower PPD and SUP.

Highs and Lows

The total volume of pooled milk for January was the highest ever for the month. Class I usage was the lowest ever for the month of January. Both Class II and IV utilizations were the second highest ever for the month.

Similar to last month, even though the butterfat price dropped, it was still the highest ever for the month of January. The nonfat solids price was the lowest ever for January and the second lowest ever for the Order.

Both the average producer butterfat and protein tests were the second highest ever for the month of January. The producer other solids test tied with 2011 and 2013 for second place high for the month.❖

Pool Summary

- A total of 11,664 producers were pooled under the Order with an average daily delivery per producer of 6,231 pounds.
- Pooled milk receipts totaled 2.253 billion pounds, an increase of 2.8 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 33.8 percent of total milk receipts, a decrease of 1.7 percentage points from December.
- The average butterfat test of producer receipts was 3.89 percent.
- The average true protein test of producer receipts was 3.14 percent.
- The average other solids test of producer receipts was 5.74 percent.❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	33.8	761,432,946
Class II	23.8	535,334,608
Class III	24.3	548,642,382
Class IV	18.1	407,675,199
Total Pooled Milk		2,253,085,135

Producer Component Prices

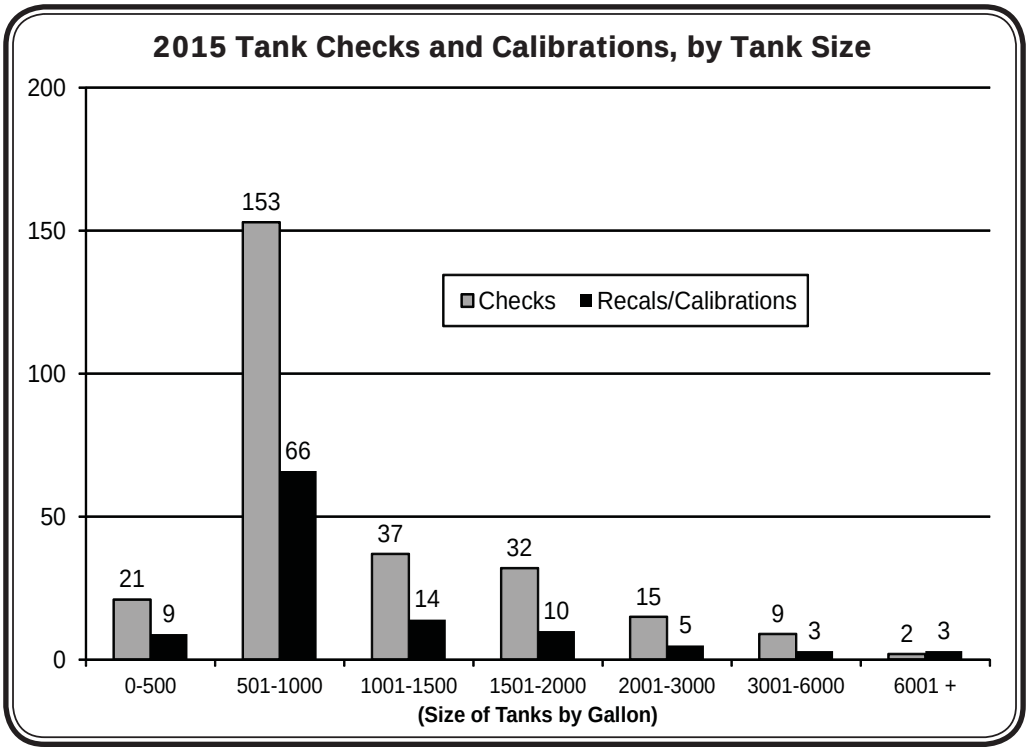
	2016	2015
	$/lb	
Protein Price	1.8169	2.6731
Butterfat Price	2.3062	1.6855
Other Solids Price	0.0371	0.4001

Class Price Factors

	2016	2015
	$/cwt	
Class I	19.29	21.83
Class II	14.19	16.18
Class III	13.72	16.18
Class IV	13.31	13.23

Market Services 2015 Summary

The Market Administrator (MA) verifies or establishes weights, samples and tests producer milk, and provides market information for producers who are not receiving such services from a cooperative association.



Calibration Program

One aspect of the Market Administrator's market service program is the bulk tank calibration program. The Northeast Order operates two calibration trucks. In providing calibration services, the two trucks combined covered 24,184 miles in 2015. The market service department checked 269 farm bulk tanks throughout the Northeast Marketing Area Milkshed during the 2015 season. Briefly, a tank check involves measuring the tank at about four or five different levels as opposed to performing a complete calibration, which involves checking the tank at each increment on the dipstick. The levels that a tank is checked at vary depending on the tank size and a farm's production range. If the tank proves to be out of tolerance when checked, the tank is then recalibrated. Depending on scheduling, recalibrations may be performed the same day or may be rescheduled for another day.

Tentative Calibration Truck Schedule, 2016

Month	Area
April	Eastern and Central New York
	Southern Pennsylvania
May	Western New York
June	Central Pennsylvania
July	Central New York
	Southern Pennsylvania
August	Western New York
	Eastern New York
September	Central Pennsylvania
	Vermont, New Hampshire, and Maine
October	Southern Pennsylvania
	Central New York
November	Western New York
	Eastern New York
	Southern Pennsylvania

Checks/Calibration Results

Of the 269 tanks checked, 27 (10 percent) were out of tolerance and were recalibrated. Of the tanks requiring recalibration, there was an almost even split between tanks that were over measuring and under measuring the amount of milk. An additional 110 calibrations were performed for other reasons that did not involve an initial check, such as a tank being installed, a tank being moved, or a special request. Of the tanks that were recalibrated or calibrated, 81 percent were 1,500 gallon tanks or smaller. The 290 checks and the 95 additional calibrations total at least 379 farm visits. A breakdown of checks and calibrations/recalibrations by tank size are shown in the accompanying table. A tentative schedule for the calibration trucks during the upcoming season will be presented in the *Bulletin* as spring approaches.❖

Federal Orders Compared

The table on page 3 is a pool summary for all federal orders and reports total producer milk pooled, year-to-year change in milk pooled, and average producer price differentials and statistical uniform prices for 2014 and 2015. It should be noted that pooled milk does not necessarily include all milk of a particular state or region regardless of the name of the federal order pooling. Some milk within the particular state or

(continued on page 3)

Federal Orders *(continued from page 2)*

region may be pooled on a state order or be considered non-order or depooled milk. During 2015, a significant volume of milk was depooled from federal orders because of disadvantageous price relationships. This was evidenced by the overall decline of 2.5 percent in milk pooled under federal orders while U.S. milk production grew 1.2 percent.

Orders Increasing

The only orders reporting increases in pooled milk were the Northeast (Order 1), Appalachian (Order 5), and Mideast (Order 33). The Mideast Order had the largest increase with 6.2 percent. Order 33's main contributing states (IN, MI, and OH) had a combined increase of 4.4 percent. In addition, Order 33 pooled and additional 3.7 percent from New York when compared to 2014. The Northeast had the second highest increase with 1.0 percent. The top contributing states in the Northeast Order (NY, PA, and VT) had a combined increase of 1.8 percent.

Orders Decreasing

The Pacific Northwest Order (Order 124) reported the largest decline in total producer milk pooled (15.8 percent) in 2015. Overall, milk production in the top contributing states (ID, OR, and WA) had a combined modest increase of 1.0 percent from 2014 to 2015. The Upper Midwest (Order 30) experienced the second largest decline (7.5 percent). Order 30 had a 13.0 percent drop in Class III usage, which accounts for nearly 80 percent of milk pooled on that order. Milk production in Order 30's top contributing states (IL, MN, SD, and WI) rose a combined 4.5 percent in 2015.

Northeast Compared to All Orders

The Northeast Order had a decline in Class I utilization (fluid drinking milk) of 2.0 percent during 2015. For the other federal orders combined, Class I utilization declined a slight 0.1 percent. During 2015, Class II utilization (soft products such as ice cream and yogurt) rose only 1.2 percent compared to the 32.8 jump for all the other orders combined. Class III usage (hard cheese such as American and Italian) in the Northeast declined 6.6 percent in 2015, less than the 14.6 percent drop for all other orders combined. For Class IV (butter and dry milk products), the Northeast had a jump of 21.0 percent in utilization, higher than the all other order combined increase of 10.2 percent. As mentioned earlier, total pooled milk in the Northeast rose 1.0 percent, a contrast to the all other order combined decrease of 3.4 percent. For a more detailed definition of the various products within each class, see page 2 of the *Monthly Statistical Report* available on our website: fmmone.com.

The Northeast Order is the second largest of the federal orders in total volume of milk pooled and accounted for 20.6 percent of the total in 2015. The Northeast ranked first in total volume of milk used in Classes I, II, and IV; the Mideast was second in all of these. The Northeast ranked second in Class III usage, a category dominated by the Upper Midwest that accounted for 48.0 percent of the total in 2015.

Typically, the Northeast Order statistical uniform price averages fairly close to the overall federal order annual average for all orders (see table). The only orders with higher average prices are Appalachian, Florida, and Southeast.❖

Pool Summary for All Federal Orders, January–December, 2014–2015

Federal Order		Total Producer Milk			Producer Price Differential#		Statistical Uniform Price#*	
Number	Name	2014	2015	Change^	2014	2015	2014	2015
		pounds		percent	dollars per hundredweight			
1	**Northeast**	**25,792,969,786**	**26,038,698,509**	**1.0**	**1.94**	**1.35**	**24.28**	**17.14**
5	Appalachian	5,593,496,667	5,645,890,392	0.9	N/A	N/A	25.62	18.58
6	Florida	2,771,209,577	2,741,348,121	(1.1)	N/A	N/A	27.84	20.90
7	Southeast	5,288,969,005	5,204,719,534	(1.6)	N/A	N/A	26.21	19.29
30	Upper Midwest	32,785,024,973	30,318,026,869	(7.5)	0.24	0.16	22.58	15.96
32	Central	15,062,651,701	14,476,383,447	(3.9)	0.57	0.34	22.91	16.13
33	Mideast	17,297,061,662	18,376,366,688	6.2	0.82	0.44	23.16	16.23
124	Pacific Northwest	7,891,609,288	6,645,733,354	(15.8)	0.31	(0.20)	22.66	15.59
126	Southwest	12,137,191,892	11,890,997,395	(2.0)	1.35	1.18	23.69	16.98
131	Arizona	4,800,450,180	4,788,031,826	(0.3)	N/A	N/A	23.25	16.05
All Market Total/Average		129,420,634,731	126,126,196,135	(2.5)	0.87	0.54	24.22	17.28

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

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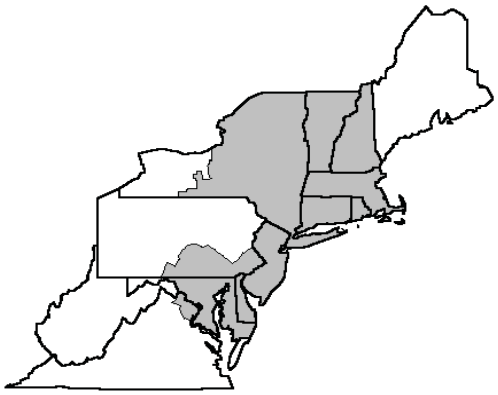
Computation of Producer Price Differential and Statistical Uniform Price*

	Product Pounds	Price per cwt./lb.	Component Value	Total Value
Class I— Skim	746,339,051	$8.86	66,125,639.92	
Butterfat	15,093,895	3.0687	46,318,635.59	
Less: Location Adjustment to Handlers			(2,707,731.23)	$109,736,544.30
Class II— Butterfat	30,182,225	2.3132	69,817,522.85	
Nonfat Solids	46,688,567	0.7011	32,733,354.29	102,550,877.14
Class III– Butterfat	24,343,062	2.3062	56,139,969.59	
Protein	17,245,434	1.8169	31,333,229.05	
Other Solids	31,308,769	0.0371	1,161,555.36	88,634,754.00
Class IV– Butterfat	18,051,339	2.3062	41,629,998.02	
Nonfat Solids	36,043,221	0.6037	21,759,292.53	63,389,290.55
Total Classified Value				**$364,311,465.99**
Add: Overage—All Classes				77,641.39
Inventory Reclassification—All Classes				(478,685.10)
Other Source Receipts	255,503 Pounds			6,327.65
Total Pool Value				**$363,916,749.93**
Less: Producer Component Valuations @ Class III Component Prices				(335,624,496.17)
Total PPD Value Before Adjustments				**$28,292,253.76**
Add: Location Adjustment to Producers				12,282,523.98
One-half Unobligated Balance—Producer Settlement Fund				907,625.55
Less: Producer Settlement Fund—Reserve				(922,271.82)
Total Pool Milk & PPD Value	2,253,340,638 Producer pounds			**$40,560,131.47**
Producer Price Differential		**$1.80**		
Statistical Uniform Price		**$15.52**		

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



The Market Administrator's

BULLETIN

NORTHEAST MARKETING AREA

Erik F. Rasmussen, Market Administrator

February 2016 Federal Order No. 1

To contact the Northeast Marketing Area offices:
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website address: www.fmmone.com

February Pool Price Calculation

The February 2016 statistical uniform price (SUP) for the Northeast Marketing Area was announced at $15.29 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 $16.48 per cwt. The February statistical uniform price was 23 cents per cwt below the January price. The February producer price differential (PPD) at Suffolk County was $1.49 per cwt, a decrease of 31 cents per cwt from last month.

Product Prices Effect

Unlike the past 2 months, February product prices experienced relatively slight changes when compared to the previous month. The largest change occurred in butter, which rose about 6 cents per pound. Dry whey increased 1 cent per pound, nonfat dry milk declined nearly 2 cents per pound, and cheese was basically unchanged. As a result, producer butterfat and other solids prices increased while nonfat solids and protein decreased.

The Class I price, based on the declining prices in January, dropped $2.40 per cwt. All other class prices rose slightly; the largest increase was 18 cents per cwt in the Class IV price. Class I and II utilization increased slightly, but due to the large drop in the Class I price and relatively small increases in the other class prices, both the SUP and PPD declined.

Highs and Lows

The total volume of pooled milk for February was the highest ever for the month, even when adjusted for leap year. Both Class II and IV utilizations were the highest ever for the month.

The butterfat price for February was the highest ever for the month. Similar to last month, the nonfat solids price was the lowest ever for February and the second lowest ever for the Order.

The average producer butterfat test was the second highest ever for the month of February. The producer protein and other solids tests tied with previous years for record highs for the month.❖

Pool Summary

- A total of 11,589 producers were pooled under the Order with an average daily delivery per producer of 6,361 pounds.
- Pooled milk receipts totaled 2.138 billion pounds, an increase of 1.4 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 34.0 percent of total milk receipts, an increase of 0.2 percentage points from January.
- 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 5.75 percent.❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	34.0	725,856,968
Class II	24.6	526,985,280
Class III	24.5	523,330,022
Class IV	16.9	361,594,340
Total Pooled Milk		2,137,766,610

Producer Component Prices

	2016	2015
	$/lb	
Protein Price	1.7389	2.4051
Butterfat Price	2.3778	1.8296
Other Solids Price	0.0492	0.3273

Class Price Factors

	2016	2015
	$/cwt	
Class I	16.89	19.49
Class II	14.30	14.48
Class III	13.80	15.46
Class IV	13.49	13.82

U.S. Milk Production Increases; Northeast Even Stronger

Total year-over-year milk production in the United States grew 1.3 percent in 2015. This follows 2.4 percent in 2014 and 0.3 percent in 2013.

The increase in the top ten milk-producing states combined was only 0.8 percent; last year these states' increase matched the national average. The combined total for the top 23 milk-producing states, as reported by the National Agricultural Statistics Service (NASS), rose 1.2 percent. The accompanying table shows the top ten states ranked by their total 2015 production.

Top Ten States Ranked by Milk Production, 2015

Rank	State	2014	2015	Percent Change	2015 Cows	2015 MPC*
		(million pounds)			(1,000 head)	(pounds)
1	California	42,339	40,898	(3.4)	1,778	23,002
2	Wisconsin	27,795	29,030	4.4	1,279	22,697
3	Idaho	13,873	14,114	1.7	585	24,126
4	New York	13,730	14,100	2.7	618	22,816
5	Pennsylvania	10,664	10,805	1.3	530	20,387
6	Texas	10,310	10,295	(0.1)	463	22,235
7	Michigan	9,609	10,253	6.7	408	25,130
8	Minnesota	9,127	9,466	3.7	460	20,578
9	New Mexico	8,105	7,831	(3.4)	323	24,245
10	Washington	6,576	6,606	0.5	277	23,848
	Top Ten Total	152,128	153,398	0.8	6,721	22,824
	U.S. Total	206,054	208,633	1.3	9,317	22,393

Source: NASS, *Milk Production.* * Milk Produced per Cow.

Top Producing States-New York Closing in on Idaho

The top ten list was unchanged from 2014. The top ranking state, California, reported a decline of 3.4 percent in 2015. The only other top-ten states showing decreases were New Mexico, also with a drop of 3.4 percent, and Texas that had a slight decline of 0.1 percent. Texas milk production was on track to be about even for the year, but the late December severe snow storms in that area of the country resulted in an annual average decline in Texas and amplified the decrease in New Mexico; January 2016 production showed even more dramatic drops in these two states.

Number two ranked Wisconsin had strong production in 2015 with an increase of 4.4, as did the other Upper Midwest states, Minnesota and Michigan, with 3.7 and 6.7 percent, respectively. In the number three spot, Idaho, reported growth of only 1.7 percent, while number four ranked New York had an increase of 2.7 percent and tightened the gap between these two states from 143 million pounds in 2014 to only 14 million pounds in 2015.

NASS revised the states included in their top 23 selected group in 2014, adding South Dakota and removing Missouri. For 2015, Georgia actually ranked 23 and Virginia, which is still included in the NASS reporting group, ranked 24 based on total annual production.

Northeast Above National Average

Milk production in the Northeast milkshed (the area from which milk is traditionally pooled by handlers selling into the marketing area) increased 1.6 percent in 2015, greater than both the U.S. and the top 23 averages. Combined production in the three top producing states in the milkshed (New York, Pennsylvania, and Vermont) rose 1.9 percent. Changes for New York and Pennsylvania are shown in the table; Vermont's production was unchanged from 2014. Within the Northeast Order milkshed, decreases were reported in Maine, Maryland, Massachusetts, Rhode Island, and Virginia. Connecticut, Delaware, and New York all reported increases above the national average.

Cow Numbers and Production per Cow

Nationally, the number of milk cows increased 0.6 percent in 2015, up slightly from the 0.4 percent increase in 2014. Eleven states showed declining cow numbers, 18 states reporting increases, and the remainder had no change. Of those with increasing cow numbers, five were in the top ten states. In the Northeast milkshed states, milk cow numbers declined a slight 0.1 percent. The combined total for New York, Pennsylvania, and Vermont was up a 0.2 percent due to an increase of 0.5 percent in New York; the other two states were unchanged.

Average milk production per cow (MPC) grew 0.6 percent nationally; this follows an increase of 2.0 percent in 2014. For the Northeast, the increase was 1.6 percent. The U.S. average MPC per cow was 22,393 pounds in 2015; the average was 21,225 pounds in the Northeast states. MPC for the Northeast states continues to rise, but lag behind the national average. Fourteen states had MPC greater than the national average, and similar to last year, seven of them are in the top ten and most are in the western part of the country. New York is the only state located in the Northeast with MPC above the national average.❖

Shift to Large Farm Operations in Northeast Continues

The United States Department of Agriculture's Economic Research Service, released a March 2016 report titled "Changing Structure, Financial Risks, and Government Policy for the U.S. Dairy Industry." The report claims that dairy farming has changed dramatically with cows and production shifting to much larger operations. The report finds that costs are a driving force behind the change and that the largest farms have "substantially higher" net returns per hundredweight of milk and strong incentives to expand. Northeast Order Data provide evidence that this change is taking place and is ongoing in the Northeast as well.

Based on producer payroll data, the number of farms pooled on the Northeast Order in December 2006 (13,596 farms) compared to December 2015 (11,269 farms), a span of 10 years, dropped by 17.1 percent. For the same period, the milk pooled on the Order by the remaining respective farms increased by 18.4 percent. Of course, the implication of the trend is that, overall, more milk is being produced by larger farms.

Less Farms, More Milk

Using the same December 2006 and 2015 data, farms were grouped into six size categories, from the smallest farm category (less than 100,000 pounds per month) to the largest farm category (at least 1.5 million pounds per month). The accompanying table presents the portion of total milk pooled on the Northeast Order by each farm size category for the month of December in 2006 and 2015. The table includes a herd size range that approximately equates to the production range for better understanding of the types of operations in each grouping. The Market Administrator does not capture information on herd size. Estimates for the herd size range use average milk per cow data from New York, Pennsylvania, and Vermont as reported by USDA.

Portion of Total Pool by Farm Size

The data show that total volume pooled declined in each of the three smallest farm size categories. All of the increase in pool volume in 2015 compared to 2006 comes from the top three size categories, particularly the largest size category. The volume of milk pooled by the largest farm size category grew dramatically since 2006, rising from 213 million pounds pooled in December 2006 to 686 million pounds pooled in December 2015 (a 221 percent increase). This category accounted for 31.4 percent of the Northeast Order pool volume in December 2015, up from 11.6 percent in 2006. The top three categories combined accounted for 50 percent of the total pool volume in December 2015, up from 30 percent in 2006.

Portion of Farms by Size

In 2006, the largest category had 88 farms (0.7 percent of all producers). This has grown to 231 farms during December 2015 (2.0 percent of all producers) and reflects a 163 percent increase. The top three categories combined represent 6.4 percent of producers (pooling 50 percent of the milk). Conversely, though they declined as group by 22.8 percent since 2006, farms producing less than 100,000 pounds a month account for 58.7 percent of all farms (pooling 15.5 percent of the milk).

Largest Farms by State

Of the largest farms in 2015, 161 are located in New York, nearly triple the number (57) in 2006. Vermont ranks second in number of these farms with 33, up from 19 in 2006. Pennsylvania ranks third with 27, compared to only 6 in 2006.❖

December Pooled Pounds and Producers by Farm Size Category, 2006 and 2015

Pool Volume Range		Producers		Pounds		Percent Change	
Monthly Pounds	Herd Size (approx.)	2006	2015	2006	2015	Producers	Pounds
0-99,999	0-50	8,573	6,620	458,995,942	337,557,085	(28.8)	(26.5)
100,000-249,999	50-150	3,718	3,149	562,800,741	476,014,597	(15.3)	(15.4)
250,000-499,999	150-275	801	782	270,490,800	264,946,256	(2.4)	(2.0)
500,000-999,999	275-550	319	343	219,230,340	242,051,578	7.5	10.4
1,000,000-1,499,999	550-800	97	144	117,742,435	175,819,752	48.5	49.3
>= 1,500,000	>=800	88	231	213,463,088	686,108,986	162.5	221.4
Total/Percent Change		13,596	11,269	1,842,723,346	2,182,498,254	(17.1)	18.4

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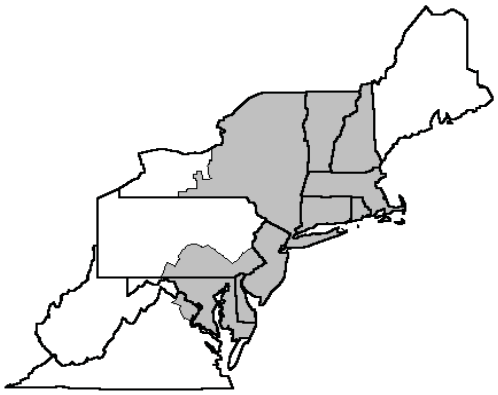
Computation of Producer Price Differential and Statistical Uniform Price*

	Product Pounds	Price per cwt./lb.	Component Value	Total Value
Class I— Skim	711,411,855	$9.16	65,165,325.92	
Butterfat	14,445,113	2.3003	33,228,093.43	
Less: Location Adjustment to Handlers			(2,610,935.54)	$95,782,483.78
Class II— Butterfat	29,650,819	2.3848	70,711,273.16	
Nonfat Solids	45,958,013	0.6856	31,508,813.71	102,220,086.87
Class III– Butterfat	23,517,671	2.3778	55,920,318.11	
Protein	16,397,570	1.7389	28,513,734.46	
Other Solids	29,904,770	0.0492	1,471,314.71	85,905,367.28
Class IV– Butterfat	15,711,277	2.3778	37,358,274.47	
Nonfat Solids	31,969,512	0.5951	19,025,056.59	56,383,331.06
Total Classified Value				**$340,291,268.99**
Add: Overage—All Classes				65,984.67
Inventory Reclassification—All Classes				181,775.89
Other Source Receipts	2,752,548 Pounds			83,458.77
Total Pool Value				**$340,622,488.32**
Less: Producer Component Valuations @ Class III Component Prices				(320,549,444.74)
Total PPD Value Before Adjustments				**$20,073,043.58**
Add: Location Adjustment to Producers				11,755,802.78
One-half Unobligated Balance—Producer Settlement Fund				949,851.09
Less: Producer Settlement Fund—Reserve				(884,961.90)
Total Pool Milk & PPD Value	2,140,519,158 Producer pounds			**$31,893,735.55**
Producer Price Differential		**$1.49**		
Statistical Uniform Price		**$15.29**		

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



The Market Administrator's

BULLETIN

NORTHEAST MARKETING AREA

Erik F. Rasmussen, Market Administrator

March 2016 Federal Order No. 1

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March Pool Price Calculation

The March 2016 statistical uniform price (SUP) for the Northeast Marketing Area was announced at $14.81 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 $15.81 per cwt. The March statistical uniform price was 48 cents per cwt below the February price. The March producer price differential (PPD) at Suffolk County was $1.07 per cwt, a decrease of 42 cents per cwt from last month.

Product Prices Effect

During March, all product prices declined except dry whey that had a slight increase. Butter dropped 14 cents per pound while cheese and nonfat dry milk decreased slightly. As a result, the producer butterfat component price fell 17.5 cents per pound, the nonfat solids price decreased about 2 cents and the protein price rose 18 cents per pound due to the decrease in the butterfat price. The other solids price was relatively unchanged.

The Class I price, based on the higher prices in February, increased 14 cents per cwt. All other class prices decreased: the Class II price fell 73 cents, the Class III price was down 6 cents, and the Class IV price dropped 75 cents, all on a per cwt basis. The lower prices and larger volumes in lower-priced classes (II, III, and IV), both the SUP and PPD declined from the previous month. The SUP was the lowest since October 2009.

Highs and Lows

The total volume of pooled milk for March was not only the highest ever for the month, but also the highest ever for the Order and the first time the total pooled volume was over 2.3 billion pounds for a month. Class I volume was the lowest ever for the month, while Class IV was the highest for the month of March.

The average producer butterfat test was the second highest ever for the month of March. The producer protein and other solids tests tied with previous years for record highs for the month.❖

Pool Summary

- A total of 11,450 producers were pooled under the Order with an average daily delivery per producer of 6,494 pounds.
- Pooled milk receipts totaled 2.305 billion pounds, an increase of 0.9 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 33.0 percent of total milk receipts, a decrease of 1.0 percentage points from February.
- The average butterfat test of producer receipts was 3.86 percent.
- The average true protein test of producer receipts was 3.10 percent.
- The average other solids test of producer receipts was 5.76 percent.❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	33.0	761,896,131
Class II	25.0	576,827,426
Class III	23.7	545,381,810
Class IV	18.3	420,916,976
Total Pooled Milk		2,305,022,343

Producer Component Prices

	2016	2015
	$/lb	
Protein Price	1.9206	2.4875
Butterfat Price	2.2028	1.8444
Other Solids Price	0.0501	0.2918

Class Price Factors

	2016	2015
	$/cwt	
Class I	17.03	18.81
Class II	13.57	14.50
Class III	13.74	15.56
Class IV	12.74	13.80

Milk Utilization By Class

In recent years, there has been a lot of focus on Class II trends in the Northeast, led by the yogurt boom leading to record high volumes and percentages of pooled receipts as Class II milk. An opposing trend in the Northeast Marketing Area in recent years has been the decline in Class I utilization and the growth in Class IV utilization. Class I utilization continues to set lows by both volume and percent, and Class IV utilization has established new highs by both volume and percent.

Classes Defined

Class I includes fluid milk that is meant to be consumed as a beverage such as whole milk, 2 percent, 1 percent, and skim. Class II includes soft dairy products such as yogurt, ice cream, and cottage cheese. It also includes high butterfat products such as whipping cream and half and half. Class III milk includes "hard" cheeses (e.g. American, Italian, and Swiss, but also cream cheese), while Class IV includes milk used to produce butter, nonfat dry milk and other dried products.

Northeast Trends

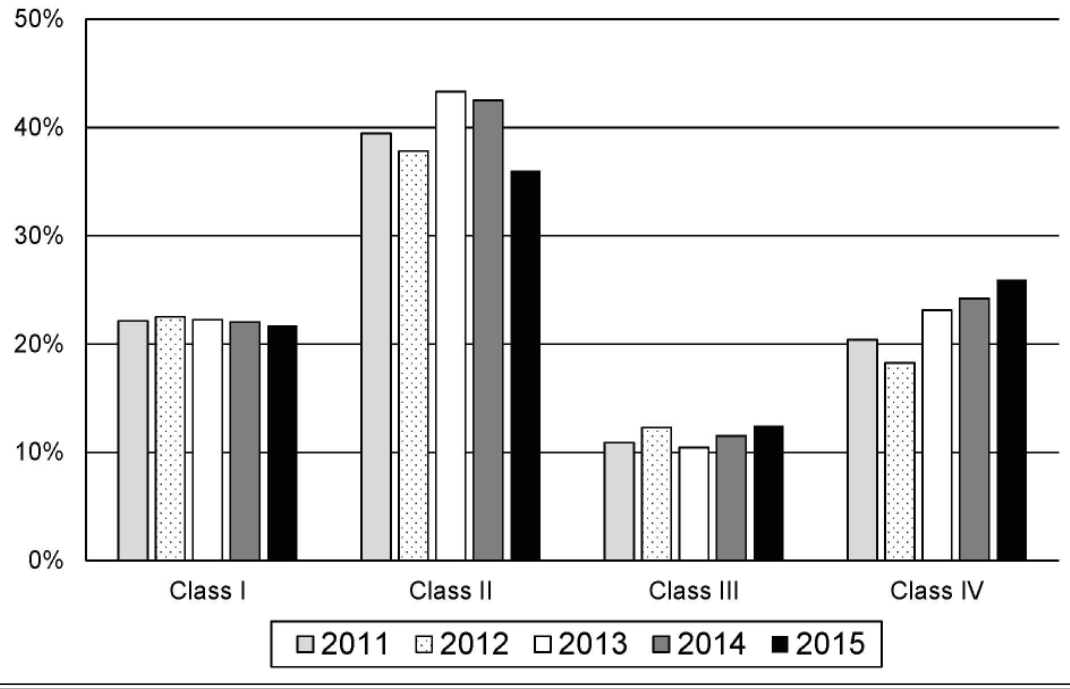
Class I utilization still leads all classes in the Northeast in terms of pounds pooled at 8.9 billion (34.3 percent) in 2015. In 2004, Class I volume for the year reached almost 10.7 billion pounds and accounted for 47.2 percent of the Northeast Order pool. More recently, Class I utilization has declined by an average 1.8 percentage points a year since 2011. Meanwhile, Class IV utilization has grown an average of 1.8 percentage points a year since 2011. Class IV represented 8.6 percent of the pool volume in 2003; it accounted for 17.5 percent for 2015. By volume, this is a 120 percent increase from 2.1 billion pounds in 2003 to roughly 4.6 billion pounds in 2015. Class IV utilization generally reflects the balancing of milk needs in the market with utilizations increasing during periods of excess milk that is not demanded in the other classes or declining when production is diminished and demand in Classes I, II, and III is strong.

Class II volume in the Northeast increased from 5.7 billion pounds in 2011 to 6.3 billion pounds in 2015, peaking at 6.6 billion pounds in 2013 along the way. Class III volume in the Northeast in 2015 (6.2 billion pounds) was slightly above the 2011 level, up 122 million pounds; it reached 6.7 billion pounds in 2014.

Northeast Proportion of All Federal Order Milk

The accompanying chart presents Northeast Order volume as a proportion of all federal order area volume from 2011 to 2015. The Northeast Order represented 20.6 percent of all milk pooled on a federal order in 2015, an increase from 19.0 percent in 2011. Class I pooled on the Northeast Order accounted for 21.7 percent of all Class I milk pooled on all federal orders in 2015, declining slightly from 22.1 percent in 2011. The Northeast accounted for 36.0 percent of all federal order Class II volume in 2015. Northeast's portion of all federal order Class II volume peaked in 2013 at 43.3 percent and has declined since; its portion of all order Class III milk was 12.5 percent in 2015, 1.6 percentage points above 2011. Growth in Class IV volume in the Northeast, highlighted earlier, resulted in an increased contribution to total federal order Class IV volume from 20.4 percent in 2011 to 26.0 percent in 2015.❖

Northeast Pool Volume as a Proportion of All Federal Order Areas Combined Pool Volumes, 2011–2015



Fluid Milk Container Sales Survey

The 2015 container sales survey of Class I handlers regulated under the Northeast Order was recently completed. This survey is conducted biennially and records sales of fluid milk products by various package types and sizes for the month of November. Sales reported by these handlers include those in the Marketing Area, along with sales to unregulated areas and other federal order areas.

Started in 1964, the survey was conducted annually through 1967 and biennially since. Its purpose is to monitor trends in bottling in the industry from various containers such as glass to paper and plastic, and from various sizes such as quarts to gallons and in later years, round single serve plastic containers. The most recent survey was redesigned to include more detailed information on organic products, extended shelf life (ultra and aseptic pasteurized), and methods of distribution.

November 2015 Container Sales Survey

Method of Distribution*	Percent
Supermarket chains	38.0
Mass merchandisers	9.9
Club Stores	4.5
Convenience stores	9.1
Drug Stores	1.6
Schools	3.8
Institutions	2.5
Wholesale distributors	25.2
Home delivery routes	0.2
Other	5.3
Total	100.0

* Sales of packaged fluid milk products in the Northeast Marketing Area, unregulated areas, and other federal order areas from regulated handlers.

Container Size and Type

Packaged sales reported by handlers in the Northeast continue to decline and totaled 791 million pounds in November 2015, down from 872 million in 2013 and 881 million in 2011. Gallons still account for over half of all milk sold in the Northeast (53.7 percent) although their proportion declined slightly from the last survey. They were followed, with significantly smaller proportions, by half gallons at 27.3 percent, quarts at 5.5 percent, and half pints at 8.1 percent. Slight increases occurred in half gallons, quarts, pints, half pints, and 12 ounce single serve containers. The proportion accounted for by 14 and 10 ounce containers and other sizes (include 2 ½, 5 and 6 gallon, and various smaller sizes) was unchanged at 4.4 percent.

There was little change in the proportions of type of container. Glass continues to hold a 0.4 percent share of sales in the marketing area. Paper rose slightly to 21.1 percent, while plastic declined slightly to 78.5 percent.

Product Type

Whole milk (regular, unflavored) continued to hold the largest market share with 31.8 percent, up from 29.7 percent in 2013. Sales of reduced fat (2 %), low fat (1%), and fat free (skim) accounted for a combined total of 53.3 percent, a decline of 3.5 percentage points from the last survey. Flavored milk and drinks (lower fat flavored milk) had 6.8 percent of all sales, up from 6.2 in 2013. Buttermilk and eggnog were relatively unchanged at 0.5 and 1.8 percent, respectively.

Organic milk (included regular and flavored, whole and lower fat) rose to 5.9 percent of all sales, up from 5.1 during the last survey. Within the organic category, 37.3 percent was whole milk, the remaining 62.7 percent lower fat products. Only 0.3 percent of organic milk sold was flavored.

As mentioned above, this survey broke out extended shelf life (ESL) products. Of the total packaged sales reported, 8.7 percent were ESL. Within product categories, ESL accounted for 7.1 percent of whole milk, 11.8 percent of reduced fat, 5.3 percent of low fat, 18.3 percent of fat free, and 7.0 percent of flavored milk and drinks. ESL products predominantly are sold in paper half gallons and quarts.

Method of Distribution

This survey expanded the Methods of Distribution section to gather more detail. Supermarket sales accounted for the largest volume at 38 percent (see accompanying table). Wholesale distributors were second, followed by mass merchandisers (Wal-Mart, Target, etc.). Club stores (Costco, Sam's Club, BJs Wholesale, etc.) had about half the sales of mass merchandisers. Convenience stores (not drug stores) accounted for nearly 5 times the volume of drug stores (CVS, Rite Aid, Walgreens, etc.). School sales declined from previous surveys and institutional now includes hospitals, nursing homes, and prisons, in addition to military. Home delivery held its 0.2 percent share and 5.3 percent were reported as "other", which include such outlets as farmers' markets and own-farm plant stores.❖

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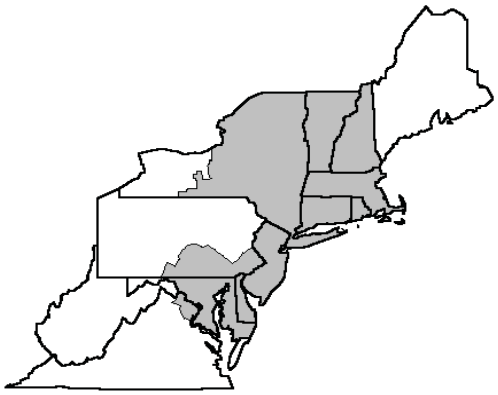
Computation of Producer Price Differential and Statistical Uniform Price*

	Product Pounds	Price per cwt./lb.	Component Value	Total Value
Class I— Skim	746,744,139	$8.79	65,638,809.82	
Butterfat	15,151,992	2.4428	37,013,286.06	
Less: Location Adjustment to Handlers			(2,761,630.38)	$99,890,465.54
Class II— Butterfat	34,335,822	2.2098	75,875,299.46	
Nonfat Solids	49,969,721	0.6722	33,589,646.47	109,464,945.93
Class III– Butterfat	24,872,371	2.2028	54,788,858.81	
Protein	16,904,547	1.9206	32,466,872.96	
Other Solids	31,195,320	0.0501	1,562,885.50	88,818,617.27
Class IV– Butterfat	14,610,254	2.2028	32,183,467.51	
Nonfat Solids	37,379,429	0.5786	21,627,737.61	53,811,205.12
Total Classified Value				**$351,985,233.86**
Add: Overage—All Classes				30,117.53
Inventory Reclassification—All Classes				(77,229.70)
Other Source Receipts	2,875,789 Pounds			60,195.42
Total Pool Value				**$351,998,317.11**
Less: Producer Component Valuations @ Class III Component Prices				(339,663,630.49)
Total PPD Value Before Adjustments				**$12,334,686.62**
Add: Location Adjustment to Producers				12,658,771.88
One-half Unobligated Balance—Producer Settlement Fund				683,753.83
Less: Producer Settlement Fund—Reserve				(982,702.33)
Total Pool Milk & PPD Value	2,307,898,132 Producer pounds			**$24,694,510.00**
Producer Price Differential		**$1.07**		
Statistical Uniform Price		**$14.81**		

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



The Market Administrator's

BULLETIN

NORTHEAST MARKETING AREA

Erik F. Rasmussen, Market Administrator

April 2016 Federal Order No. 1

To contact the Northeast Marketing Area offices:
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website address: www.fmmone.com

April Pool Price Calculation

The April 2016 statistical uniform price (SUP) for the Northeast Marketing Area was announced at $14.85 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 $15.77 per cwt. The April statistical uniform price was 4 cents per cwt above the March price. The April producer price differential (PPD) at Suffolk County was $1.22 per cwt, an increase of 15 cents per cwt from last month.

Product Prices Effect

During April, all product prices declined except butter that had a slight increase. Decreases were not drastic but did result in lower prices for all producer components except butterfat. All class prices dropped slightly from the previous month. With the overall lower prices, it would be expected that the SUP would decline but due to the decreased payout to producers from components (combined result of lower tests and prices compared to March), the PPD increased and when added to the Class III price, resulted in a slightly higher SUP than the previous month. See comparison on page 2.

Record Highs

The total volume of pooled milk for April was the highest ever for the month, while the average daily deliveries per producer (DDP) at 6,569 pounds were the highest ever for the Order. Class IV was the highest for the month of April and the second highest ever for the Order. Both the average producer butterfat and protein tests were the highest ever for the month of April.❖

Annual Bulletin Available

The 2015 Annual Statistical Bulletin for the Northeast Milk Marketing Area is now available. The report summarizes pool and price data through a series of tables and charts. The Bulletin can be found on our website at www.fmmone.com. Copies may be requested free of charge by contacting the Albany office at (518) 452-4410 or E-mail: MAAlbany@fedmilk1.com.❖

Pool Summary

- A total of 11,498 producers were pooled under the Order with an average daily delivery per producer of 6,569 pounds.
- Pooled milk receipts totaled 2.266 billion pounds, an increase of 1.6 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 32.0 percent of total milk receipts, a decrease of 1.0 percentage points from March.
- The average butterfat test of producer receipts was 3.83 percent.
- The average true protein test of producer receipts was 3.09 percent.
- The average other solids test of producer receipts was 5.75 percent.❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	32.0	725,155,128
Class II	24.4	552,945,957
Class III	24.1	545,367,435
Class IV	19.5	442,461,800
Total Pooled Milk		2,265,930,320

Producer Component Prices

	2016	2015
	$/lb	
Protein Price	1.8450	2.5551
Butterfat Price	2.2376	1.8940
Other Solids Price	0.0489	0.2698

Class Price Factors

	2016	2015
	$/cwt	
Class I	16.99	18.75
Class II	13.54	14.98
Class III	13.63	15.81
Class IV	12.68	13.51

Component Levels By Production Size

The February 2016 *Bulletin* highlighted the increasing number of large farm operations in the Northeast. In this article, we present average tests of butterfat, protein, and other solids components by five production size ranges. The accompanying table depicts annual average tests and proportion of pool volume and producers for these five size categories for 2015.

Average Component Tests and Proportion of Pool Volumes and Producers, by Production Size, 2015

Production Range Pounds Per Month	Milk	Producers	Butterfat	Protein	Other Solids
			Percent		
0-99,999	16.1	58.2	3.86	3.07	5.70
100,000-249,999	22.6	28.7	3.78	3.06	5.74
250,000-499,999	12.1	6.8	3.78	3.06	5.75
500,000-999,999	11.2	3.1	3.80	3.06	5.76
>=1,000,000	37.9	3.2	3.74	3.06	5.76
All Milk Pooled	100.0	100.0	3.78	3.06	5.75

The 2015 data show overall there is little to no difference in average producer tests of protein for the year as a whole. Four size categories averaged 3.06 percent protein, with the 0-99,999 pounds per month category averaging 3.07 percent.

The average butterfat test for the year was highest for the smallest production category (0-99,999 pounds) at 3.86 percent, lower for the next two largest categories (each at 3.78 percent butterfat), and lowest for the largest production size category (at least 1 million pounds) at 3.74 percent. The exception to a trend of lower butterfat percent as production range increases for 2015 was the second highest production range category, which averaged 3.80 percent butterfat for the year.

The average other solids test was highest for the largest production size category at 5.76 percent for 2015. The average other solids test averaged somewhat lower with lower production ranges, with the smallest production range 0-99,999 pounds operations averaging 5.70 percent other solids for the year.

The implication might be that assuming the same total volume, the shift to larger operations supplying that volume may result in somewhat less butterfat but more other solids in the milk marketed without such a shift, with no impact on how much protein is available. Still, the increase in total volume led by the large farm categories overwhelms underlying trend of lower butterfat percent in higher production categories, thus resulting in more of all components available to the market. Average tests for all three components have increased over the past 12 years.❖

Calculation of Price

As mentioned on page 1, the April statistical uniform price (SUP) was higher than the March price even though all class prices were lower. This was the first time under the Order that this has occurred and is largely the result of slight declines in component tests when compared to March. This means that out of the total classified value of the pool, a smaller proportion was attributable to the value of producer milk components—butterfat, protein, and other solids. This increased the extra value in the pool payable to the producer price differential (PPD). As a result, the PPD increased by 15 cents. The accompanying table shows the changes in prices and pool calculation for March and April; it is a simplified version of the computation shown on page 4.❖

Calculation of PPD

	March	April	Change from previous month
Price per cwt		(dollars)	
Class I	17.03	16.99	(0.04)
Class II	13.57	13.54	(0.03)
Class III	13.74	13.63	(0.11)
Class IV	12.74	12.68	(0.06)
Pool Value			
Classified Value*	351,998,317.11	345,117,517.72	
Per cwt value	**15.27**	**15.23**	**(0.04)**
Less Producer Component Valuations			
Butterfat	195,984,083.04	194,186,041.35	
Protein	137,029,411.19	129,109,585.47	
Other Solids	6,650,136.26	6,367,863.91	
Total	339,663,630.49	329,663,490.73	
Per cwt value	**(14.74)**	**(14.55)**	**0.19**
PPD Total Value**			
Total	24,694,510.00	27,662,701.77	
Per cwt value	**1.07**	**1.22**	**0.15**
Class III price	**13.74**	**13.63**	**(0.11)**
SUP#	**14.81**	**14.85**	**0.04**

* Include Overages, Inventory Reclassification, and Other Source Receipts.
** Includes Location Adjustment to Producers and Producer Settlement Fund Administration.
# SUP=Class III price + PPD

Surplus Milk During April

As expected, the volume of milk pooled on the Order during April 2016 was the largest ever for the month of April since the Northeast Order was formed in 2000. In fact, April was the sixth month in a row where the volume of milk pooled set a new record for that respective month. As a further frame of reference, the volume of milk pooled during April was nearly 9 percent greater than the average April pool volume for the first 16 years of the Order.

With such a large milk supply in the milk shed, it was anticipated that dumping of surplus milk might occur and this turned out to be the case. For the month of April, Class IV milk under the usage category "animal feed and dumpage" jumped to 22.6 million pounds. This is up from 5.9 million pounds reported in March and 5.4 million pounds during April 2015. Only a very small portion of this volume was reported as raw milk dumped at farms, and that was the result of extended plant unloading delays (impacted by excessive milk volumes) delaying farm pickup trucks from returning to routes prior to the next day's milking.

The majority of the reported dumped milk was picked up at farms, delivered to a plant where the cream was processed and removed, and the residual skim milk dumped due to lack of plant processing capacity. Under such a scenario, the handler receives some value for the cream or condensed that is extracted from the farm milk, but receives no value for the skim milk dumped other than the producer price differential (PPD) value from the monthly federal order pool. Typically the producer is fully paid for all of the milk they produce, regardless if their milk is ultimately dumped or utilized for less than the milk's full value. This is required under the Order provisions if the producer was a nonmember producer, and this practice is generally followed by cooperatives for their members located in this market.

Plant milk dumps are a regular and allowable utilization of milk under the provisions of the Order and occur on a monthly basis for a variety of reasons including instances where there is more milk than processing capacity. The volume of reported dumps on the Order generally increases significantly only during periods of excessive surplus milk as is the current situation in the Northeast. Along with the record pool volume noted above, the volume of milk utilized in Class IV—generally considered the balancing class for the market—was at a record high for the month of April and was 47 percent greater than the average Class IV utilization volume for April during the Order's first 16 years.

To help handlers through this period of surplus milk, the Market Administrator—at the request of pool handlers—authorized a temporary relaxation of the pooling of requirements for dumped milk during the spring flush and summer 2016 holiday period. The temporary provision allows handlers to report and pool dumped surplus milk at a farm rather than such milk having to first be loaded on a truck, taken to plant for testing, and then returned to a farm dump location. As mentioned earlier, only a small volume of the April dumped milk had to utilize the temporary dumped milk policy with the vast majority of the reported surplus milk processed through a plant where at least some of the value of the raw milk, principally in the form of butterfat, was removed and utilized.❖

Pool Summary for All Federal Orders, January–March, 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**	**6,476,447,844**	**6,695,874,088**	**2.3**	**1.14**	**1.45**	**16.88**	**15.21**
5	Appalachian	1,419,849,518	1,442,154,740	0.5	N/A	N/A	18.59	16.44
6	Florida	716,651,934	725,038,699	0.1	N/A	N/A	20.99	18.61
7	Southeast	1,350,338,120	1,406,816,670	3.0	N/A	N/A	19.31	16.90
30	Upper Midwest	8,663,443,981	9,484,212,479	8.3	0.15	0.17	15.89	13.93
32	Central	3,986,729,830	4,038,256,764	0.2	0.20	0.40	15.94	14.15
33	Mideast	4,819,453,425	5,072,467,874	4.1	0.26	0.56	15.99	14.31
124	Pacific Northwest	1,535,576,348	2,063,653,089	32.9	(0.31)	0.21	15.42	13.97
126	Southwest	3,340,178,426	3,663,285,758	8.5	1.08	1.28	16.81	15.03
131	Arizona	1,228,972,637	1,329,516,986	7.0	N/A	N/A	15.64	14.21
	All Market Total/Average	33,537,642,063	35,921,277,147	5.9	0.42	0.68	17.15	15.28

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

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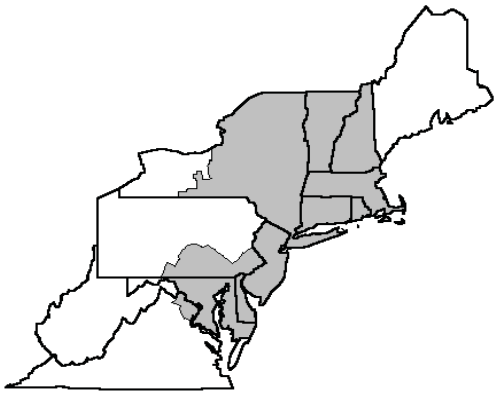
Computation of Producer Price Differential and Statistical Uniform Price*

	Product Pounds	Price per cwt./lb.	Component Value	Total Value
Class I— Skim	710,769,441	$9.47	67,309,866.06	
Butterfat	14,385,687	2.2431	32,268,534.51	
Less: Location Adjustment to Handlers			(2,622,232.70)	$96,956,167.87
Class II— Butterfat	32,228,969	2.2446	72,341,143.79	
Nonfat Solids	47,833,488	0.6544	31,302,234.58	103,643,378.37
Class III– Butterfat	24,169,750	2.2376	54,082,232.59	
Protein	16,844,481	1.8450	31,078,067.55	
Other Solids	31,141,450	0.0489	1,522,816.89	86,683,117.03
Class IV– Butterfat	15,998,773	2.2376	35,798,854.47	
Nonfat Solids	39,152,426	0.5573	21,819,647.01	57,618,501.48
Total Classified Value				**$344,901,164.75**
Add: Overage—All Classes				26,744.12
Inventory Reclassification—All Classes				144,327.40
Other Source Receipts	1,504,260 Pounds			45,281.45
Total Pool Value				**$345,117,517.72**
Less: Producer Component Valuations @ Class III Component Prices				(329,663,490.73)
Total PPD Value Before Adjustments				**$15,454,026.99**
Add: Location Adjustment to Producers				12,649,413.04
One-half Unobligated Balance—Producer Settlement Fund				543,333.56
Less: Producer Settlement Fund—Reserve				(984,071.82)
Total Pool Milk & PPD Value	2,267,434,580 Producer pounds			**$27,662,701.77**
Producer Price Differential		**$1.22**		
Statistical Uniform Price		**$14.85**		

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



The Market Administrator's

BULLETIN

NORTHEAST MARKETING AREA

Erik F. Rasmussen, Market Administrator

May 2016 Federal Order No. 1

To contact the Northeast Marketing Area offices:
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May Pool Price Calculation

The May 2016 statistical uniform price (SUP) for the Northeast Marketing Area was announced at $14.73 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 $15.46 per cwt. The May statistical uniform price was 12 cents per cwt below the April price. The May producer price differential (PPD) at Suffolk County was $1.97 per cwt, an increase of 75 cents per cwt from last month.

Product Prices Effect

During May, all product prices increased except cheese that dropped over 9 cents per pound. Butter was up about 4 cents, nonfat dry milk increased 3 cents, and dry whey rose slightly. These product prices translated into higher prices for all components except protein that fell 35 cents per pound. Due to lower prices during April, the Class I and II prices declined slightly in May. The Class IV price was the only price to increase for May, while the Class III price dropped the most (87 cents per cwt) and became the lowest price for the month for the first time this year. The combination of lower prices and a larger volume in the lowest price class (Class III) resulted in a decline in the SUP and an increase in the PPD.

Class Utilization

The total volume of producer milk was the highest ever under the Order. All classes reported higher utilization volumes except Class IV. Class I had stronger sales than the same month last year. Class II is moving closer to the levels seen in 2013 with increased usage in yogurt and ice cream. Class III has reported larger usage with growth in all cheese categories. Class IV is showing higher volumes in butter; overall this class was down partially due to the excess milk going to Class III since that was the lowest price class. In this case, some surplus milk was delivered to plants where the cream was removed and processed, and the residual skim milk disposed of due to lack of plant capacity.

Plant milk dumps are a regular and allowable utilization of milk under provisions of the Order. A temporary adjustment allows surplus milk to be dumped at the farm rather than taken to a plant first, although there was minimal volume disposed of this way.❖

Pool Summary

- A total of 11,380 producers were pooled under the Order with an average daily delivery per producer of 6,726 pounds.
- Pooled milk receipts totaled 2.373 billion pounds, an increase of 1.3 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 31.0 percent of total milk receipts, a decrease of 1.0 percentage points from April.
- The average butterfat test of producer receipts was 3.77 percent.
- The average true protein test of producer receipts was 3.06 percent.
- The average other solids test of producer receipts was 5.75 percent.❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	31.0	736,478,246
Class II	24.6	582,245,469
Class III	26.2	621,741,832
Class IV	18.2	432,429,483
Total Pooled Milk		2,372,895,030

Producer Component Prices

	2016	2015
	$/lb	
Protein Price	1.4935	2.5206
Butterfat Price	2.2846	2.0599
Other Solids Price	0.0529	0.2533

Class Price Factors

	2016	2015
	$/cwt	
Class I	16.95	19.08
Class II	13.53	14.81
Class III	12.76	16.19
Class IV	13.09	13.91

Manufactured Dairy Products—2015 Summary

USDA's National Agricultural Statistics Service recently released their *Dairy Products 2015 Summary*. This publication summarizes dairy products manufactured in the United States.

Cheese Production

Nationally, total cheese production (excluding cottage cheese) grew 2.8 percent from 2014. Increases were seen in all categories: American, Italian, cream and Neufchatel, and other cheese that includes Swiss, Hispanic, Muenster, feta, and other varieties. In the Northeast Order, milk used in 2015 cheese production (excluding cottage) decreased 4.3 percent from 2014. Decreases occurred in all categories except other cheese that rose 11 percent; it is predominantly made up of Swiss and Hispanic. Within the Italian cheese category, ricotta increased in the Northeast (U.S. production reported a slight decline), but due to mozzarella making up a majority, Italian cheese declined overall (10.9 percent). For the first 5 months of 2016, all varieties of cheese are reporting increases in the Northeast Order.

Other Products

U.S. butter production increased slightly from 2014 to 2015; in the Northeast it rose 8.5 percent. Yogurt (plain and fruit flavored) declined a slight 0.3 percent in 2015 nationally, but grew 4.2 percent in the Northeast Order. Nonfat dry milk (NFDM) rose 3.3 percent from 2014, nationally. In the Northeast, milk used in the production of dry milk products (mostly nonfat, but does include some whole milk powder) grew 15.8 from 2014. For the January-May period in 2016, milk used in butter is up 6.6 percent; yogurt is up 12.1 percent, and dried milk products are down 1 percent. In the past 2 months, a large increase has occurred in milk used in the minimum price class (animal feed and dumpage). This is a result of surplus milk supplies where milk is being brought to a plant, the cream is removed, and remaining skim is dumped due to lack of processing capacity and demand for the product.

The accompanying table highlights selected products' changes from 2015 to 2014 and 2010, and a comparison of Northeast Order milk used in the manufacture of these products and the first 5 months of this year.

Leading States

The top five cheese-producing states continue to be Wisconsin, California, Idaho, New York, and New Mexico in 2015. There has been no change in this ranking since 2010. Wisconsin had nearly 4 times the production of New York; California had 3 times New York's production. Pennsylvania ranked seventh in total cheese production. Wisconsin remained the number one producer of American cheese and dry whey production. California led in Italian cheese, butter, unsweetened condensed, ice cream, and nonfat dry milk. New York remained the largest producer of lowfat and creamed cottage cheese and sour cream. State rankings for other products such as yogurt and cream cheese were not given due to having fewer than 3 handlers reporting.

Percent of Total Milk Production

Of U.S. total milk production, 76.3 percent was used in manufactured products (23.7 percent sold for fluid use) in 2015, up from 75.7 percent in 2014 and 71.4 percent in 2010.

In the Northeast Order, the total amount of pooled milk utilized in manufactured products equaled 65.2 percent in 2015; this compares to percents of 64.4 in 2014 and 57.7 in 2010. The increases seen in recent years are consistent with the trend of less milk in the Northeast utilized for fluid drinking products—the Class I decline—although that appears to have leveled off recently.❖

Change in Selected Manufactured Dairy Products, 2015

	Total US Production of Manufactured Products		Total Northeast Order Milk Used to Manufacture#		
	2015 from:		2015 from:		2016 YTD from:
	2010	2014	2010	2014	2015
	(percent change)				
Cheese					
American^	9.5	2.3	18.2	(0.9)	8.1
Italian+	15.2	2.8	(6.8)	(10.9)	8.4
Cream and Neufchatel	17.6	2.9	15.9	(3.9)	8.8
Other*	31.9	5.1	20.9	11.0	15.7
Total Cheese(excludes cottage)	13.4	2.8	5.9	(4.3)	8.7
Butter	18.8	0.1	29.1	8.5	6.6
NFDM~	16.6	3.3	65.4	15.8	(1.0)
Yogurt	13.4	(0.3)	246.1	4.2	12.1

Source: USDA, NASS - Dairy Products 2015 Summary; Northeast Order pool report data.

\# Based on total milk used in manufacture of products. 2016 comparison is for January-May only and adjusted for leap year.

^ Includes Cheddar, Colby, Monterey, and Jack.

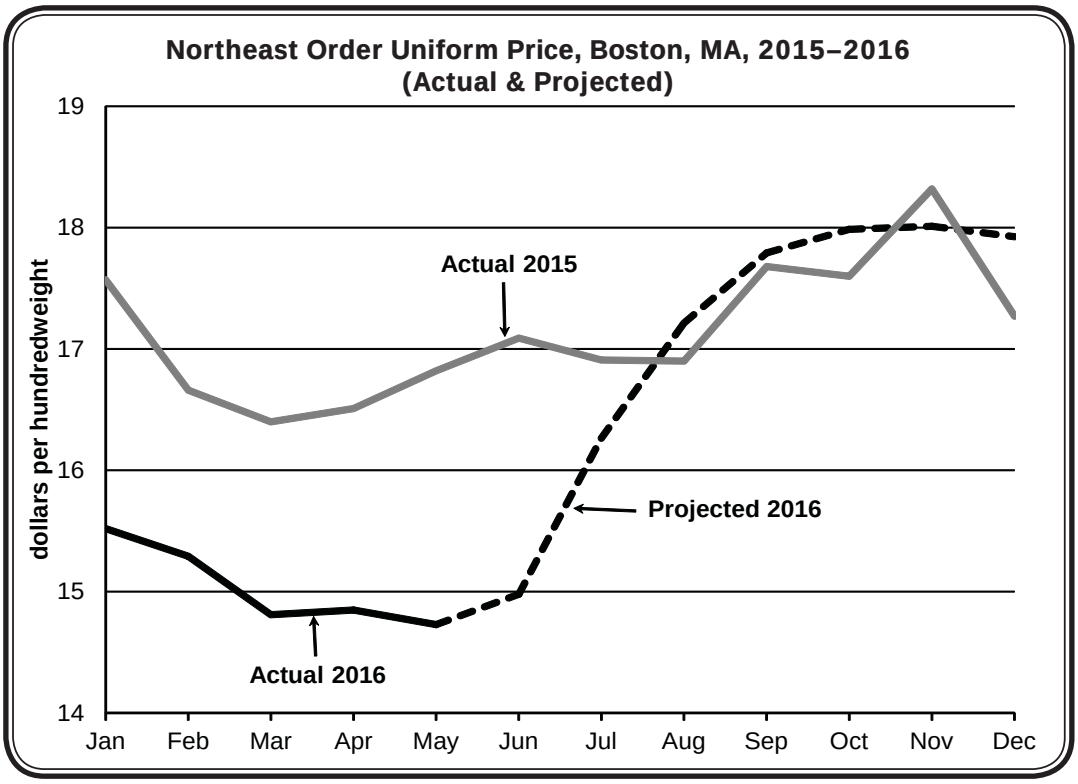
\+ Includes ricotta, mozzarella, parmesan, provolone, and other Italian varieties.

* Includes Swiss, Hispanic, Muenster, feta, and other varieties.

~ For human use; Northeast data includes some whole milk powder.

Market Situation

In the November 2015 *Bulletin*, Chicago Mercantile Exchange (CME) futures prices suggested that the 2016 annual average uniform price projected to be $17.16 per hundredweight (cwt). The uniform price at the Boston, MA, zone has averaged $15.04 per cwt for the January through May period of this year. Using CME Class III and Class IV milk futures prices settled on June 13, the uniform price for 2016 projects to average $16.28 per cwt for the year, averaging $17.17 per cwt over the remaining seven months of the year. Current projections suggest a statistical uniform price that is $1.50 per cwt higher by July, and $2.50 per cwt higher by August. Projected prices are presented on the accompanying chart.



Milk Production

United States milk production for the top 23 milk producing states in April was 1.2 percent higher than previous year levels. New York milk production increased 5.3 percent over the previous year, an increase only surpassed by South Dakota (10.5 percent) and Michigan (6.5 percent). Pennsylvania was up 0.5 percent and Vermont was 2.7 percent higher. Vermont's growth ranked seventh highest among the top 23 producing states. Regionally, the Northeast is still experiencing strong milk production gains through the spring flush months, contributing to record breaking Northeast Order pool volume.

Though record pool volumes have resulted in strong Class IV utilization as a balancing class, there has been strength in milk utilized in other classes. Class I utilization, which has steadily declined the past 5 years, showed a year-over-year increase for the second straight month as of May. Class II volume has shown a return to levels just below the record highs of 2013. Class III volume reached a very strong level even excluding milk allocated to the minimum price class. Due to surplus milk supplies, milk was priced at Class III this month where it was brought to a plant, had the cream removed, and remaining skim dumped due to lack of processing capacity and demand for product. Though the pool volume was record setting, milk is still finding robust usage in classes other than Class IV balancing.

Demand

The Restaurant Performance Index (RPI) gained 0.9 percent in April (to 101.6) from 100.7 in March. The Expectations Index component of the overall RPI, stood at 101.0, down 0.2 percent. Although April represented the third consecutive monthly decline, it marked the 42nd consecutive month above 100, which continues to suggest a positive business environment in the coming months. The index is an important measure of domestic demand as a large volume of dairy products are used by the restaurant industry.

Another important measure of domestic demand is the Conference Board's Consumer Confidence Index (CCI). This index decreased from 94.7 in April to 92.6 in May. The decline was driven by an increasingly negative view of the present situation, though the Present Situation Index component of the CCI was still in favorable territory at 112.9 (down from 117.1 in April). The Expectations Index portion of the CCI remained below 80. Current signals suggest the domestic market should continue to support strong consumption of dairy products in the near term.

In their May *Global Dairy Market Outlook*, the U.S. Dairy Export Council reported that U.S. exports accounted for 12.1 percent of total U.S. production on a solids basis in March 2016, down from 15.8 the previous year. With oil prices still stagnant, reducing buying power of some large dairy importers, and the Russian import ban expected to remain throughout 2016, global demand is not expected to rebound significantly this year.❖

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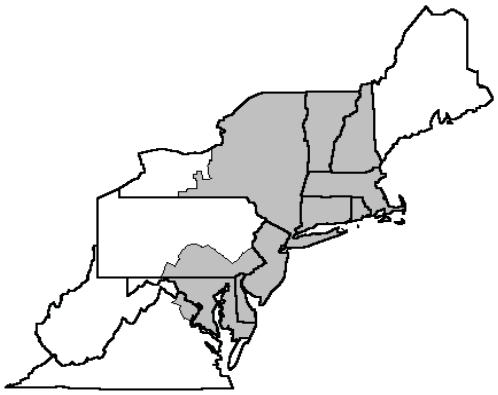
Computation of Producer Price Differential and Statistical Uniform Price*

	Product Pounds	Price per cwt./lb.	Component Value	Total Value
Class I— Skim	721,856,277	$9.37	67,637,933.15	
Butterfat	14,621,969	2.2580	33,016,406.00	
Less: Location Adjustment to Handlers			(2,645,636.60)	$98,008,702.60
Class II— Butterfat	33,788,041	2.2916	77,428,674.71	
Nonfat Solids	50,225,788	0.6344	31,863,239.89	109,291,914.60
Class III– Butterfat	25,475,644	2.2846	58,201,656.30	
Protein	19,068,720	1.4935	28,479,133.36	
Other Solids	35,633,006	0.0529	1,884,986.01	88,565,775.67
Class IV– Butterfat	15,680,032	2.2846	35,822,601.08	
Nonfat Solids	38,138,739	0.5870	22,387,439.78	58,210,040.86
Total Classified Value				**$354,076,433.73**
Add: Overage—All Classes				75,860.71
Inventory Reclassification—All Classes				91,696.97
Other Source Receipts	1,152,049 Pounds			45,714.23
Total Pool Value				**$354,289,705.64**
Less: Producer Component Valuations @ Class III Component Prices				(320,209,444.84)
Total PPD Value Before Adjustments				**$34,080,260.80**
Add: Location Adjustment to Producers				13,209,294.40
One-half Unobligated Balance—Producer Settlement Fund				635,281.70
Less: Producer Settlement Fund—Reserve				(1,156,109.41)
Total Pool Milk & PPD Value	2,374,047,079 Producer pounds			**$46,768,727.49**
Producer Price Differential		**$1.97**		
Statistical Uniform Price		**$14.73**		

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



The Market Administrator's

BULLETIN

NORTHEAST MARKETING AREA

Erik F. Rasmussen, Market Administrator

June 2016 Federal Order No. 1

To contact the Northeast Marketing Area offices:
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website address: www.fmmone.com

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	2015	2016	2015-16
	(millions)					(% 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					Proportion of Sales				
	2008	2010	2012	2015	2016	2008	2010	2012	2015	2016
	(average percent)					(percent)				
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.
* Price at 3.5% butterfat.
^ A signficant volume of milk was depooled during 2015.
N/A = Not applicable.

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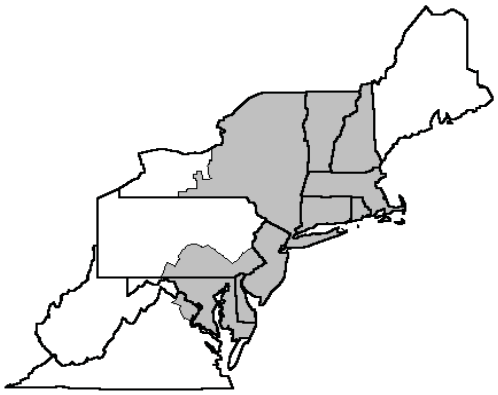
Computation of Producer Price Differential and Statistical Uniform Price*

	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.



The Market Administrator's

BULLETIN

NORTHEAST MARKETING AREA

Erik F. Rasmussen, Market Administrator

July 2016 Federal Order No. 1

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

July Pool Price Calculation

The July 2016 statistical uniform price (SUP) for the Northeast Marketing Area was announced at $16.22 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 $16.63 per cwt. The July statistical uniform price was $1.21 per cwt above the June price. The July producer price differential (PPD) at Suffolk County was $0.98 per cwt, a decrease of 81 cents per cwt from last month.

Product Prices Effect

July was the second month in a row that all product prices increased. Butter rose over 15 cents per pound and cheese jumped over 19 cents per pound. All component prices increased along with class prices. Class I increased 56 cents, Class II rose $1.04, Class III jumped $2.02, and Class IV was up $1.07, all on a per hundredweight basis. The Class IV price was the lowest for the month; the past two months the Class III price was the lowest. The 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 July and the second highest ever under the Order. The Class I volume was the smallest ever for the Order and the first time the Class I utilization percentage was below 30 percent. Class IV volume was the largest ever for the month of July and included the minimum price class volume since the Class IV price was the lowest of the class prices. The minimum price class volume, which includes milk used in animal feed and dumpage, was higher than last year, but down considerably from last month.

The producer butterfat component test set a new record high for the month of July. The protein and other solids tests tied with the record highs set in prior years.❖

Pool Summary

- A total of 11,451 producers were pooled under the Order with an average daily delivery per producer of 6,481 pounds.
- Pooled milk receipts totaled 2.301 billion pounds, a decrease of 1.6 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 29.3 percent of total milk receipts, a decrease of 0.8 percentage points from June.
- The average butterfat test of producer receipts was 3.66 percent.
- The average true protein test of producer receipts was 2.98 percent.
- The average other solids test of producer receipts was 5.76 percent.❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	29.3	673,939,414
Class II	25.1	577,070,021
Class III	25.7	592,715,875
Class IV	19.9	457,066,628
Total Pooled Milk		2,300,791,938

Producer Component Prices

	2016	2015
	$/lb	
Protein Price	1.9112	2.6070
Butterfat Price	2.5964	2.1125
Other Solids Price	0.0774	0.2004

Class Price Factors

	2016	2015
	$/cwt	
Class I	16.95	19.78
Class II	15.16	14.70
Class III	15.24	16.33
Class IV	14.84	13.15

Shipping Percentages Changed for Fall Months

In June, the Market Administrator received a request from a plant operator to lower the percentage of milk that pool supply plants and cooperative Section 1000.9(c) handlers must deliver to Class I pool distributing plants during the months of September, October, and November. It was requested that the shipping percentages specified in Section 1001.7 (c) (2) be lowered from 20 to 10 percent for the months listed until further notice. This is the fourth consecutive year that a reduction has been requested.

As has been the situation for the past few years, the requesting handler cited declining Class I sales, a decline in the number of Class I customers seeking to purchase milk for Class I usage, and no instances where Class I needs have not been covered as arguments for their petition. The petition also stated that the reduction in shipping percentages would have an insignificant effect on individual producer's pay prices.

Following receipt of the request, the Market Administrator's office sent a letter to pool handlers inviting them to submit comments, data, or views regarding the request. The office reviewed the comments received and conducted an analysis of milk volumes pooled on the Order and milk utilization. Pool volumes for 2016 have been strong, while Class I sales have continued to decline. The June Class I utilization was the lowest ever under the Order. In contrast, the total volume of milk pooled through the first 6 months of this year was the largest since the Order's inception.

After reviewing the data and comments, the Market Administrator's office, as permitted by Section 1001.7(g) of the Northeast Order, decided that the shipping percentage will be reduced from 20 to 15 percent for the months of September, October, and November, for both 2016 and 2017. For additional information, copies of the request, comments, and the decision, see the links on our webpage at www.fmmone.com.❖

Pool Milk Projections

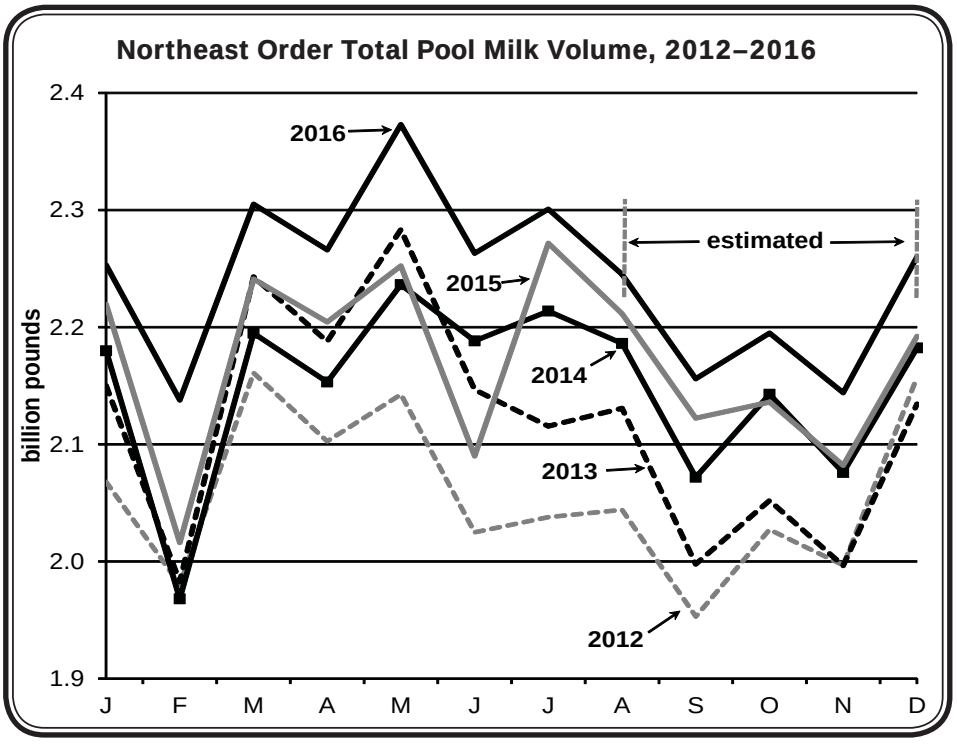
The total pooled milk volume for the Northeast Order for the first 6 months of 2016 was 575 million pounds higher (4.4 percent) than the same period last year. The simple average monthly year-over-year increase was 3.9 percent.

Using the first half of 2016 as an estimate for the second half would result in nearly 1 billion pounds higher total pool volume than in 2015. But there are a couple of factors to look at that adjust these projections downward. First, a significant volume of milk was depooled during May and June of 2015 by handlers taking advantage of pricing alignments. This inflates the growth seen during May (5.4 percent) and June (8.2 percent) of 2016, although milk production has been strong, especially in New York, all of 2016. Second, the extra day in February 2016 (leap year) resulted in some additional volume.

After adjusting for the factors mentioned above (depooling and leap year) and using the average monthly change as a projection for the rest of 2016, with milk production following historical production patterns for the Order where it generally slows in August and September before increasing again in the late fall, 2016 could finish about 860 million pounds higher than last year. This would be an increase of 3.3 percent, the largest since 2010.

The accompanying chart shows pooled milk volumes from 2012 to 2016. Seasonality is fairly consistent with the exceptions of leap year and depooling. These can be seen clearly as the less than usual decline in February of 2012 and 2016 (leap years), and the less than usual increase in May 2015 and the drastic decrease in June 2015 (depooling).

Milk production has been strong nationally (see article on page 3) and pooled milk volumes in the Northeast reflect strong production in the some of the main contributing states to the Northeast Order (New York, Vermont, Maine, and to a lesser extent, Pennsylvania).❖

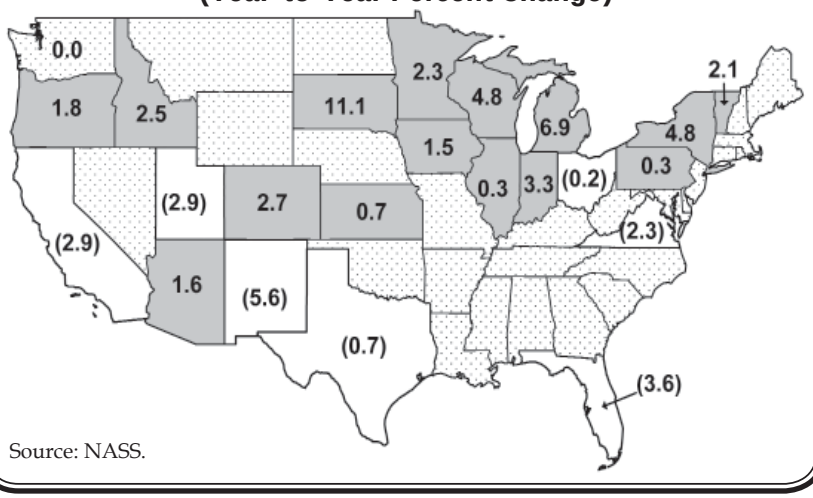


Northeast Pool Reflects Strong Production

During the first 5 months of 2016, total pooled milk receipts on the Northeast Order rose 3.4 percent from the same period in 2015. Comparatively, milk production in the National Agricultural Statistics Service (NASS) 23 selected states has risen by 1.1 percent. All data have been adjusted for leap year in 2016. This article focuses on the first 5 months of 2016, the most recent county data available.

Map 1

January–May 2016 Milk Production in Selected States (Year-to-Year Percent Change)



Source: NASS.

National Production

Map 1 shows year-to-year changes in milk production for the first 5 months of 2016 compared to the same months in 2015 for NASS 23 selected states. Of the top producing states, New York production grew by 4.8 percent, tied for third with Wisconsin. South Dakota and Michigan ranked ahead with 11.1 and 6.9 percent increases, respectively. Seven states had declines in production, including California, New Mexico, and Texas (first, seventh, and ninth ranked states by production).

Northeast Pool Volumes

During 2016, pooled milk on the Order has shown an increase over the same January through May period a year prior, setting record pool volume each of those months. Pooling does not necessarily reflect production as movements on and off the Order occur. Total combined production in the Northeast region's typical milk shed states (New England, New Jersey, New York, Pennsylvania, and some of the Middle Atlantic States) is up over last year by 2.7 percent. This increase is led by New York, up 5.8 percent. New England as a whole was up by 2.4 percent. Milk pooled from Pennsylvania was down 0.5 percent for the first five months of 2016. Maryland, Delaware, and New Jersey also declined.

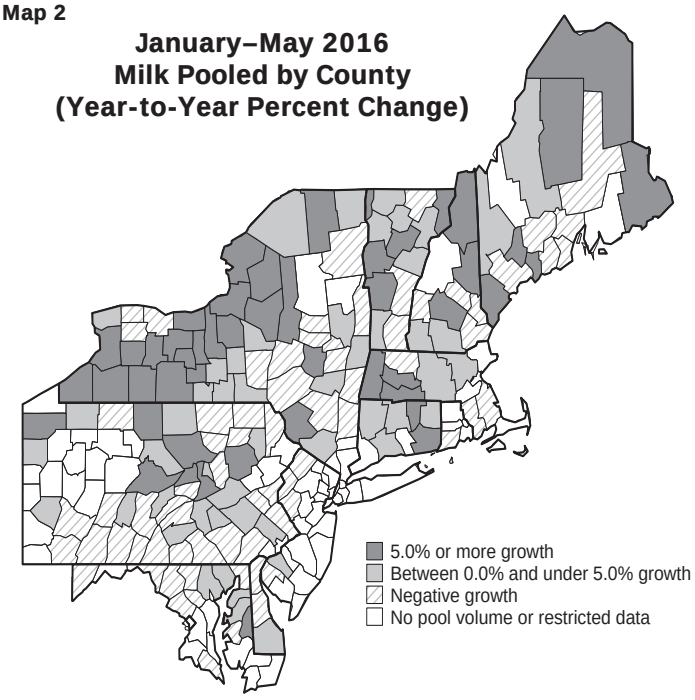
Contributions to Northeast by County

Within the Northeast milkshed, there are differences with respect to growing and shrinking contributions to the Northeast Order pool evident when looking at volume by county. Map 2 presents the percent change in milk pooled by county for the January through May period in 2016 versus the same period in 2015. Recalling the difference between milk produced in a county versus milk pooled on the Northeast Order from that county, some counties further west and south in the milkshed, in particular, may not correlate as closely with milk production in the county, since all the milk produced may not be pooled on the Northeast Order.

Of 173 counties depicted, 100 showed growth. Of those, 49 counties grew by 5 percent or more, and of those counties, 22 were in New York. When ranking the 49 counties that grew by 5 percent or more by pooled pounds, 19 of the top 22 by pool volume in this group are New York counties. These data show that growth in Northeast pool volumes is concentrated largely in western and west-central New York as well as Jefferson and Lewis counties, with some smaller pockets of growth in New England and Pennsylvania. The counties growing 5 percent or more in New York accounted for combined growth of 283 million pounds pooled, while the those counties with over 5 percent growth in Maine accounted for just 4 million additional pounds pooled.❖

Map 2

January–May 2016 Milk Pooled by County (Year-to-Year Percent Change)



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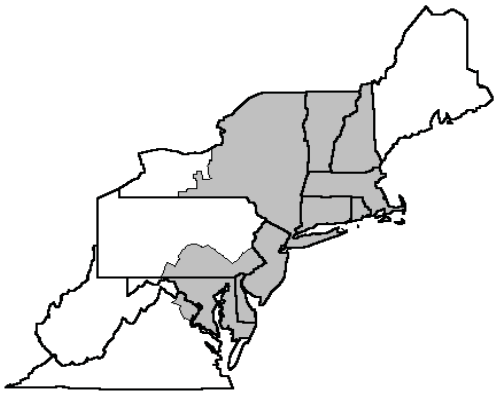
Computation of Producer Price Differential and Statistical Uniform Price*

		Product Pounds	Price per cwt./lb.	Component Value	Total Value
Class I—	Skim	659,549,714	$8.82	58,172,284.77	
	Butterfat	14,389,700	2.4114	34,699,322.58	
Less:	Location Adjustment to Handlers			(2,465,644.38)	$90,405,962.99
Class II—	Butterfat	34,106,490	2.6034	88,792,836.10	
	Nonfat Solids	49,244,517	0.6967	34,308,654.98	123,101,491.08
Class III–	Butterfat	23,610,205	2.5964	61,301,536.27	
	Protein	17,705,023	1.9112	33,837,839.97	
	Other Solids	34,029,300	0.0774	2,633,867.82	97,773,244.06
Class IV–	Butterfat	12,180,553	2.5964	31,625,587.81	
	Nonfat Solids	40,349,128	0.6618	26,703,052.93	58,328,640.74
Total Classified Value					**$369,609,338.87**
Add:	Overage—All Classes				37,407.89
	Inventory Reclassification—All Classes				305,223.18
	Other Source Receipts	1,883,416 Pounds			37,362.48
Total Pool Value					**$369,989,332.42**
Less:	Producer Component Valuations @ Class III Component Prices				(360,163,432.72)
Total PPD Value Before Adjustments					**$9,825,899.70**
Add:	Location Adjustment to Producers				12,978,000.42
	One-half Unobligated Balance—Producer Settlement Fund				890,025.03
Less:	Producer Settlement Fund—Reserve				(1,127,706.70)
Total Pool Milk & PPD Value		2,302,675,354 Producer pounds			**$22,566,218.45**
	Producer Price Differential		**$0.98**		
	Statistical Uniform Price		**$16.22**		

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



The Market Administrator's

BULLETIN

NORTHEAST MARKETING AREA

Erik F. Rasmussen, Market Administrator

August 2016 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

August Pool Price Calculation

The August 2016 statistical uniform price (SUP) for the Northeast Marketing Area was announced at $16.97 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 $17.35 per cwt. The August statistical uniform price was $0.75 per cwt above the July price. The August producer price differential (PPD) at Suffolk County was $0.06 per cwt, a decrease of 92 cents per cwt from last month.

Product Prices Effect

During August, all product prices increased except butter that fell 9 cents per pound. Nonfat dry milk and dry whey rose slightly; cheese rose 17 cents per pound. As a result, the protein component price jumped over 66 cents per pound while the nonfat solids and other solids prices increased slightly. The butterfat component price declined 11 cents per pound. All class prices were higher than the previous month except the Class IV price that dropped 19 cents per hundredweight. The Class I price rose $1.37; Class II was up 5 cents; and Class III increased $1.67, all on a per hundredweight basis. With the Class III price considerably higher than both the Class II and IV prices, the PPD tightened to only 6 cents per hundredweight. The combination of higher prices and less milk utilized in the lowest price class equated to a higher SUP for August.

Class Utilization

The total volume of producer milk was the highest ever for the month of August. The Class I volume was the smallest ever for the month of August, a slight decrease from last year. Class II volume was below last year, but the highest it has been in 2016. Class IV volume was above last year, but the lowest it has been this year. Class III volume was higher than the same month previous year for the twelfth month in a row. The minimum price class volume, which includes milk used in animal feed and dumpage, was higher than last year, but less than half the amount last month.❖

Pool Summary

- A total of 11,519 producers were pooled under the Order with an average daily delivery per producer of 6,286 pounds.
- Pooled milk receipts totaled 2.245 billion pounds, a decrease of 2.4 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 31.7 percent of total milk receipts, an increase of 2.4 percentage points from July.
- The average butterfat test of producer receipts was 3.65 percent.
- The average true protein test of producer receipts was 2.99 percent.
- The average other solids test of producer receipts was 5.73 percent.❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	31.7	711,621,254
Class II	26.1	585,212,100
Class III	26.4	592,810,306
Class IV	15.8	355,032,858
Total Pooled Milk		2,244,676,518

Producer Component Prices

	2016	2015
	$/lb	
Protein Price	2.5738	2.5692
Butterfat Price	2.4873	2.2674
Other Solids Price	0.0881	0.1151

Class Price Factors

	2016	2015
	$/cwt	
Class I	18.32	19.53
Class II	15.21	14.54
Class III	16.91	16.27
Class IV	14.65	12.90

Milk Volume Strong but Utilized by Market Place

The total volume of producer milk pooled on the Northeast has surpassed the previous year's figure for each month for the past 10 months in a row. The first half of 2016 averaged nearly 4 percent higher than the same period in 2015, adjusted for leap year. During the summer months of July and August, milk volume pooled continued to grow, but at a lower rate of about 1.4 percent. Still, total producer milk pooled has set a new monthly record each month since November 2015.

Balanced Utilization by Class

Class I volume (fluid beverage milk) has continued to decline, but at a slower rate for the first eight months of the year compared to the same period the past 2 years. So far, 3 out of 8 months of 2016, Class I volume was higher than the previous year, but for the year-end, it is expected to finish below 2015.

The volume of milk used for Class II purposes (yogurt, ice cream, packaged cream) has been above the same month previous year for each month during 2016, with the exception of August. Volumes have not quite returned to the record-setting levels of 2013, but have been higher than the past 2 years for most of 2016. In fact, through the first 8 months, the 2016 level was only 0.6 percent below the same period in 2013.

Class III utilization has been above the same month previous year for the past 12 months. With strong milk production and pool volume reported during the late spring/ early summer months of 2016, Class III volume was the largest since 2002. Considerable increases in milk used for cheese were reported for the January through August period: cream cheese 5.1; American 7.7; Italian 11.8, and Swiss and other cheeses 16.5, all up on a year-over-year percent basis.

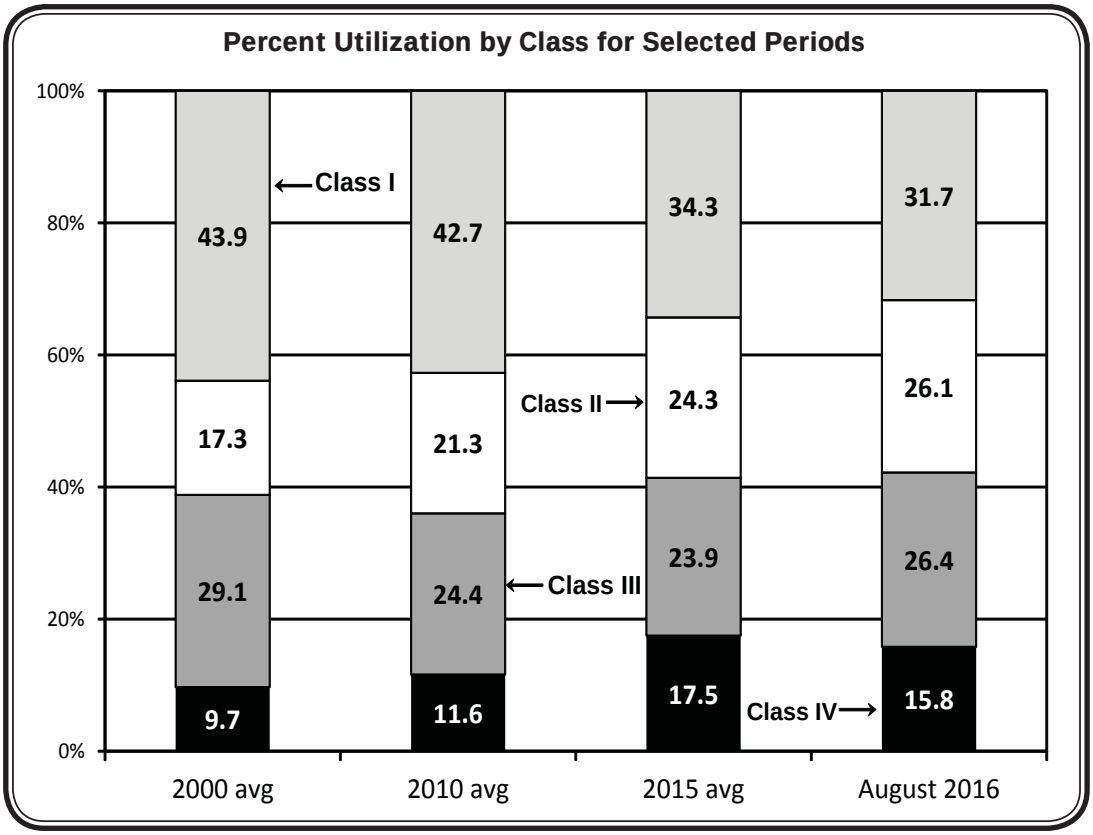
As mentioned above, the strong milk production in the region resulted in significant pool volumes and also significant volumes in Class IV. Five months during the January through August period, the volume set new record highs; the remaining months it was only surpassed by the same month the previous year. Overall, for this 8 month period, Class IV usage was nearly flat compared to last year. Milk used in dry milk products rose 1.2 percent, condensed grew 3.9 percent, and butter increased 7.6 percent.

The accompanying chart shows utilization by class for selected prior years and August 2016.

Minimum Price Class

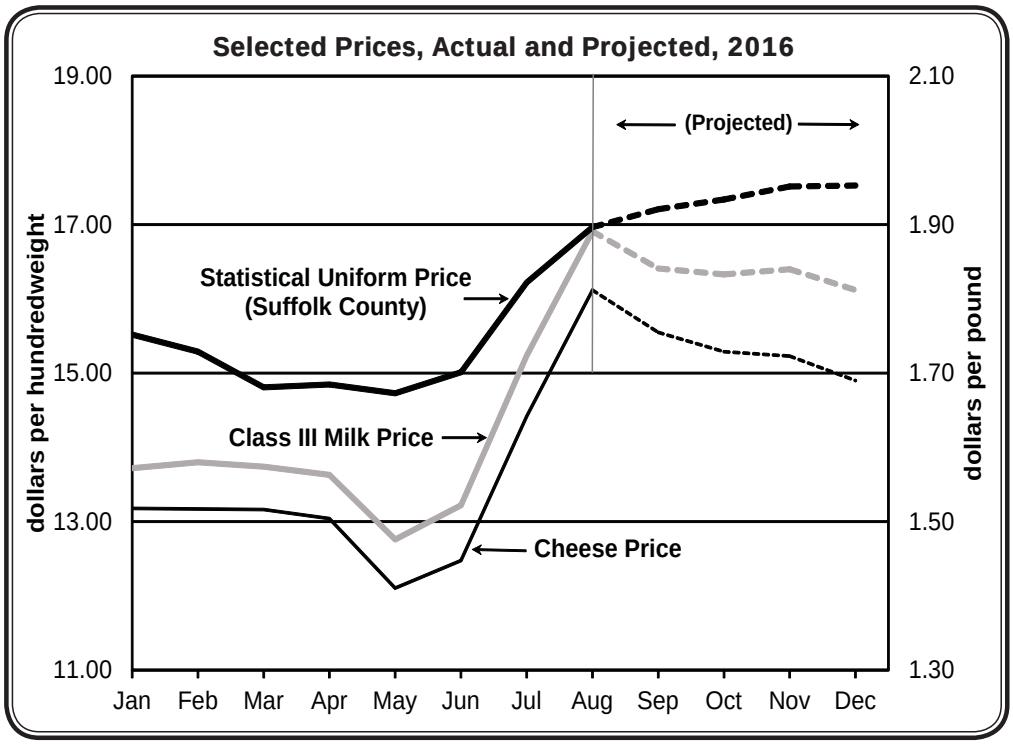
The Class IV price has been the lowest of the class prices for all but 2 months: May and June. During those months, the Class III price was the lowest. As such, Class III volume spiked during those months due to additional volumes of milk assigned to the lowest class price. Milk that is discarded due to surplus situations, route returns, or processing issues is assigned to the lowest class price per Order regulations.

Even though regional milk production slowed somewhat during the summer months, Northeast Order pool volumes continued to set new monthly highs. Despite the significant volume of total milk pooled, steady increases in Classes II and III – as shown in pool utilization figures – along with milk utilized and balanced in Class IV, production was able to utilize the majority of the milk pooled on the Order. During August, the volume of milk disposed of as surplus dropped substantially from the surplus volume reported during May and June.❖



Negative PPDs Received in Most Zones

The Producer Price Differential (PPD) for August 2016 equaled $0.06 per hundredweight at Suffolk County, Massachusetts (Boston), the basing point for the Northeast Order. Producers are paid for their milk based on the location where their milk is delivered during the month. Producers' milk delivered to plants in Suffolk County, or any other county that has a $3.25 differential, would receive the 6-cent PPD. Plants located in differential zones less than $3.25 have a lower PPD obligation to producers whose milk is delivered to those plants. Differential values determine the relative PPD value and are meant to help cover the cost of hauling milk from the farm location of where the milk is produced to the plant of first receipt. For the month of August, milk delivered to plants located in the zones ($3.15 or less), further away from the Boston base point, received a negative PPD.



Negative PPDs Explained

Producers are paid for their protein, butterfat, and other solids components from the pool at the same dollar per pound value as Class III milk. The PPD is an adjustment made to the producer pay prices for the additional value generated by milk used in the other classes (I, II, and IV). In the case of recent months, the statistical uniform price (SUP) has been rising, but not dramatically so. Due to low Class II and Class IV prices, relative to the Class III price, there is little to no value left to be paid out in the form of a PPD, after paying producers for the value of their Class III components. In short, nearly the full classified value of the monthly pool is being received by producers in their milk components valuation and not the PPD.

Current PPD Dynamics

The August negative PPDs are largely a dynamic of the recent cheese price movements. The August Class I price, established in advance, was based on a market in which the cheese price level was $1.6231 per pound. The Class III price for August was established with a cheese price that had risen to $1.8119 per pound. Cheese is the contributing product price in the protein price formula. The result was that a jump in the August Class III protein value paid to producers left little to no value remaining in the pool to pay out to producers in the form of a PPD.

For the month of August, the "classified value" equaled $376,531,790.77. The total value of all producer components (butterfat, protein, and other solids) equaled $388,018,593.38, or $11.5 million more than the pool classified value (see page 4 for pool computation). The location adjustment to producers in August totaled $12,774,127.98, enough to result in a very small positive PPD value. The location adjustment being the difference between the Boston location and plant locations where milk was received.

Looking Ahead

Price projections based on Chicago Mercantile Exchange futures prices of Class III and Class IV milk predict that, as prices modestly rise, the Northeast Order will continue to be negative in the $2.40 and lower zones during September with possible negative PPDs in the outermost $2.10 zone in October. The chart presents the SUP at the Boston zone, the Class III milk price, and the *National Dairy Products Sales Report* weighted average cheese price for 2016. Class III milk price projections reflect the CME Class III milk futures, and cheese price projections reflect CME cheese futures, both as settled on September 15, 2016. The chart shows the discussed increase in the cheese price, narrowing the gap between the resulting Class III and SUP, which largely contributed to the very low and negative August PPDs. As the cheese price declines, the Class III-SUP gap widens, decreasing the magnitude and likelihood for negative PPDs moving forward.❖

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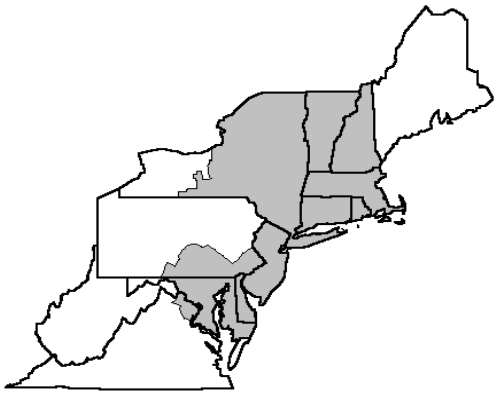
Computation of Producer Price Differential and Statistical Uniform Price*

	Product Pounds	Price per cwt./lb.	Component Value	Total Value
Class I— Skim	696,641,722	$9.41	65,553,986.04	
Butterfat	14,979,532	2.6398	39,542,968.57	
Less: Location Adjustment to Handlers			(2,597,582.92)	$102,499,371.74
Class II— Butterfat	32,995,744	2.4943	82,301,284.27	
Nonfat Solids	50,003,683	0.7456	37,282,746.03	119,584,030.30
Class III– Butterfat	24,616,354	2.4873	61,228,257.31	
Protein	17,747,971	2.5738	45,679,727.76	
Other Solids	33,832,833	0.0881	2,980,672.61	109,888,657.68
Class IV– Butterfat	9,307,545	2.4873	23,150,656.68	
Nonfat Solids	31,295,241	0.6841	21,409,074.37	44,559,731.05
Total Classified Value			*Total value of milk in the pool* →	**$376,531,790.77**
Add: Overage—All Classes				37,086.02
Inventory Reclassification—All Classes				(19,406.03)
Other Source Receipts	252,955 Pounds		*Total value of producer components* →	1,187.28
Total Pool Value				**$376,550,658.04**
Less: Producer Component Valuations @ Class III Component Prices				(388,018,593.38)
Total PPD Value Before Adjustments				**($11,467,935.34)**
Add: Location Adjustment to Producers				12,774,127.98
One-half Unobligated Balance—Producer Settlement Fund				1,140,327.54
Less: Producer Settlement Fund—Reserve				(1,099,562.42)
Total Pool Milk & PPD Value	2,244,929,473 Producer pounds		*Value from which PP per hundredweight is calculated*	**$1,346,957.76**
Producer Price Differential		**$0.06**		
Statistical Uniform Price		**$16.97**		

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



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Erik F. Rasmussen, Market Administrator

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website address: www.fmmone.com

September Pool Price Calculation

The September 2016 statistical uniform price (SUP) for the Northeast Marketing Area was announced at $17.10 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 $17.79 per cwt. The September statistical uniform price was 13 cents per cwt above the August price. The September producer price differential (PPD) at Suffolk County was $0.71 per cwt, an increase of 65 cents per cwt from last month.

Product Prices Effect

Product prices for butter and cheese declined while nonfat dry milk and dry whey increased. Butter fell nearly 16 cents per pound resulting in an almost 18-cent decline in the butterfat component price. Cheese declined 6 cents per pound and the protein component price decrease about a penny. Nonfat dry milk's 2.6-cent and dry whey's 2-cent per pound increases equaled similar rises in the nonfat solids and other solids prices, respectively. All class prices dropped from the previous month except the Class I price, announced in advance and based on higher prices in August, which rose $1.49 per cwt. The Class II price dropped 55 cents, Class III fell 52 cents, and Class IV decreased 40 cents, all on a per cwt basis.

Class I utilization was above the same month last year. Combined with the higher Class I price, this contributed to a higher SUP. The larger spread in prices between Class I and the other classes resulted in a higher PPD, but producers shipping to plants located in the outer zones (Syracuse and beyond) will still receive a negative PPD.

Highlights

Pooled milk receipts continued to be strong resulting in the highest volume ever for the month of September. Deliveries per day per producer were greater than 6,000 pounds for the first time ever for the month. Class IV utilization set a record high, topping 300 million for the first time for September. Class III utilization recorded the second highest level for the month. The average producer protein test tied with 2009 and 2013 as a record high for the month. The butterfat test was the second highest on record for September.❖

Pool Summary

- A total of 11,512 producers were pooled under the Order with an average daily delivery per producer of 6,303 pounds.
- Pooled milk receipts totaled 2.177 billion pounds, an increase of 0.2 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 34.6 percent of total milk receipts, an increase of 2.9 percentage points from August.
- The average butterfat test of producer receipts was 3.71 percent.
- The average true protein test of producer receipts was 3.07 percent.
- The average other solids test of producer receipts was 5.71 percent.❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	34.6	754,289,397
Class II	24.9	542,177,528
Class III	26.1	567,738,047
Class IV	14.4	312,474,392
Total Pooled Milk		2,176,679,364

Producer Component Prices

	2016	2015
	$/lb	
Protein Price	2.5675	1.9801
Butterfat Price	2.3082	2.7531
Other Solids Price	0.1096	0.0465

Class Price Factors

	2016	2015
	$/cwt	
Class I	19.81	19.59
Class II	14.66	15.36
Class III	16.39	15.82
Class IV	14.25	15.08

Market Situation and PPDs

Using Chicago Mercantile Exchange (CME) Class III and Class IV milk futures prices settled on October 13, the statistical uniform price (SUP) for 2016 projects to average $17.90 per hundredweight (cwt) at the Boston, MA, differential zone for the year. CME prices track fairly close to National Dairy Product Sales Report (NDPSR) prices, so the use of CME futures prices can be a reasonable estimate of where those prices are expected to head. These projections suggest that the SUP has peaked for the year at $17.10 per cwt in the month of September. The 2016 SUP is presented in Chart 1. The same chart also depicts the uniform price as projected based on May information and October 13, 2016, data. Using current data, the producer price differential (PPD) projects to return to positive in all differential zones in the typical Northeast Order milkshed for October, but return to negative in the outermost zones during November and December.

Chart 1

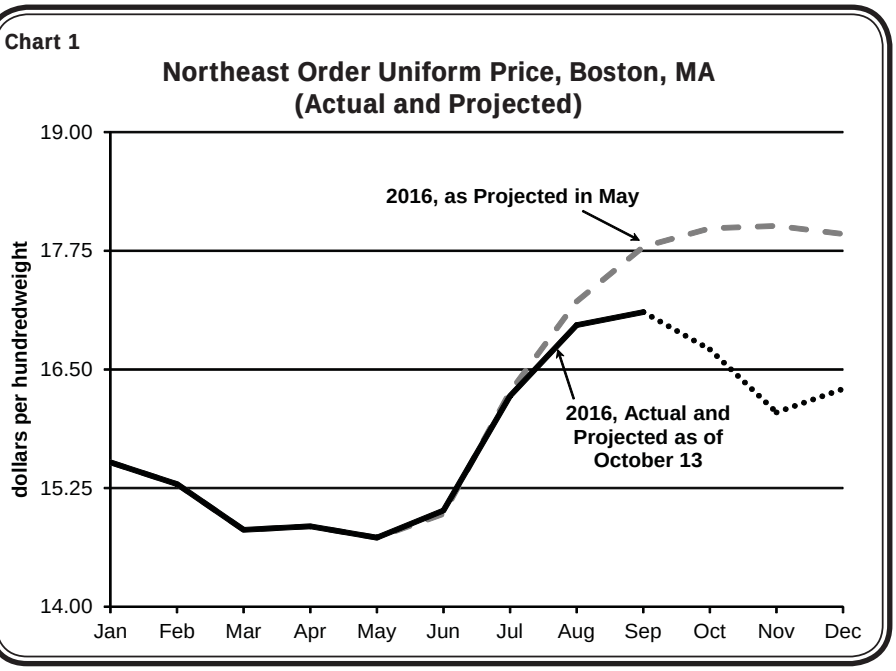

Chart 2

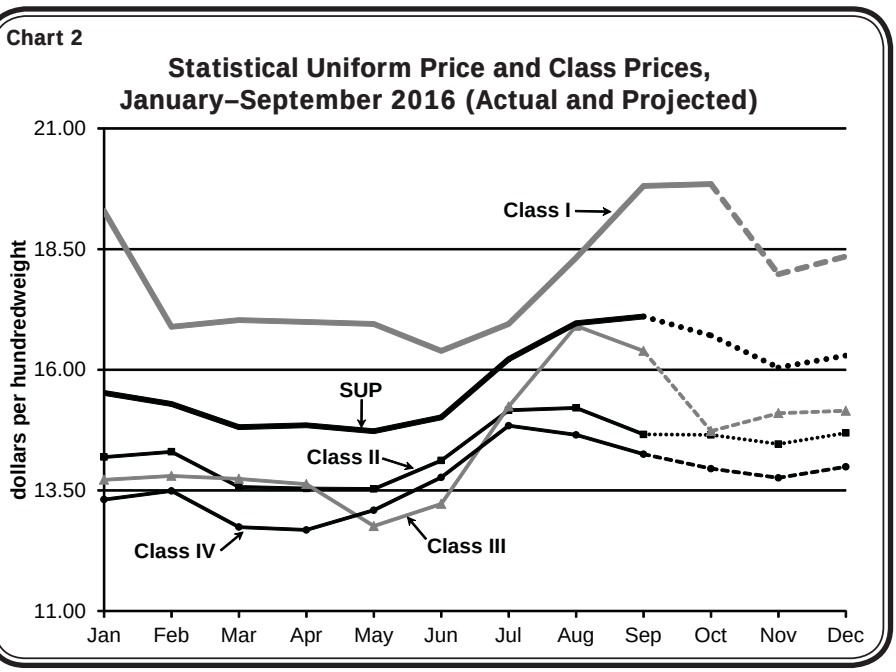

Chart 2 presents the statistical uniform price at the Boston, MA, zone as well as class prices from January to September 2016. Projected class prices through the end of 2016 also are shown. In this chart, the notable increase in the Class III price from $12.76 per cwt in May to $16.91 per cwt in August can be seen, the result of a cheese market that strengthened from a weighted average of $1.41 per pound in May to $1.81 per pound in August. The PPD is calculated by subtracting the Class III price from the SUP. When the difference becomes small (below $1.15 at Boston, MA) or negative, negative PPDs will result. Chart 2 shows the Class III line increasing, narrowing the difference between it and the SUP line to almost nothing by August ($0.06 per cwt PPD at Boston). The Class III price is expected to decline in October due to softening cheese prices. The October SUP, however, will remain relatively higher since it includes a higher Class I price that was established in advance during higher prices. The result of this is a PPD at Boston of just under $2.00 per cwt for October.

As class prices narrow due to the declining Class I price in November and December, the possibility of negative PPDs in outermost zones returns. The SUP level is impacted by the Order's utilization. When class prices narrow, the occurrence of a negative PPD may depend on the month's utilization, particularly, the Class I utilization – typically the highest Class price.❖

Seasonal Shipments and Fluid Sales

Several years ago, during August and September, the Northeast Order would see an increase in shipments of milk to other Federal Order Areas, primarily those in the Southeastern part of the United States. Bulk shipments of milk from pool handlers regulated by the Northeast Order to handlers regulated by other orders would be higher during those months. This would coincide with the beginning of the school year, a time of year when milk supplies tended to be lower, particularly in the Southern states. Over the years shipments from the Northeast to

(continued on page 3)

Seasonal Shipments *(continued from page 2)*

the Southeast have declined as Texas and other western states began shipping to the milk deficit areas in the South.

Change in Shipments

The accompanying table shows bulk shipments to the Southern Orders (Appalachian, Florida, and Southeast) and other orders (predominantly the Central, Mideast, and Upper Midwest) for the combined months of August and September of 2006 and 2016. As shown, the volume shipped south declined from 68.2 million pounds in 2006 to 9.6 million during August and September 2016. Shipments to other orders increased slightly. Of the shipments from the Northeast, only 33.4 percent were Class I in 2016 compared to 52.5 percent in 2006. Class IV accounted for 55 percent of shipments in 2016, up considerably from 2006.

The table also shows bulk shipments of milk to handlers regulated by the Northeast Order from handlers regulated by other orders. Milk received from the southern orders increased slightly from 2006 to 2016, while receipts from the other orders (primarily the Mideast) dropped from 54.7 to 19.2 million pounds. Of the shipments received in the Northeast, 88.4 percent were Class IV, up from 80.3 percent in 2006. The rest were mainly Class II and some Class III; there were no Class I bulk shipments received.

Shipments of Milk by Regulated Handlers to and from the Northeast Order (Combined Months of August and September)

	Transferred to: Other Order Areas		Received from: Other Order Areas	
	2006	2016	2006	2016
	(million pounds)			
South	68.2	9.6	38.1	39.5
Other	5.0	6.1	54.7	19.2
Total	73.2	15.7	92.8	58.7
	Percent of shipments utilized as:			
Class I	52.5	33.4	0	0
Class IV	30.7	55.0	80.3	88.4

Decline in Fluid Sales

The decline in shipments for Class I use from 2006 to 2016 is reflective of the consistent drop in fluid milk sales in the Northeast and nationally. This trend has been fairly consistent since 2009. For the January-September period, total fluid sales in the Northeast Marketing Area (the area regulated by the Order that stretches from New England to the Middle Atlantic States, and includes the metropolitan centers of Boston, New York City, Philadelphia, and Washington, D.C.) reported a decline of 1.5 percent compared to the same period in 2015. Of these sales, 90.4 percent are from handlers regulated by the Northeast Order. The rest comes from handlers that are not regulated by the Northeast Order; they may be regulated by another federal order, partially regulated by the Northeast Order, are Producer-Handlers, or are exempt from regulation. This proportion of sales from handlers not regulated under the Northeast Order has increased over the years from only 3.4 percent in 2000 to 4.2 percent in 2006 to nearly 10 percent this year.

Comparison to Utilization

Annual Class I utilization has consistently declined since 2003, with the exception of 2010. Year-to-year declines occurred for 35 months straight, from May 2013 to March 2016. Year-over-year increases have occurred during three months in 2016, including September, but this is not necessarily indicative of a change in the overall decline in fluid sales.❖

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

Federal Order Number	Name	Total Producer Milk 2015	Total Producer Milk 2016	Change^	Producer Price Differential# 2015	Producer Price Differential# 2016	Statistical Uniform Price#* 2015	Statistical Uniform Price#* 2016
		pounds		percent	dollars per hundredweight			
1	**Northeast**	**19,628,544,598**	**20,319,956,946**	**3.1**	**0.91**	**1.23**	**16.95**	**15.61**
5	Appalachian	4,220,148,143	4,221,498,707	(0.3)	N/A	N/A	18.42	16.69
6	Florida	2,039,735,659	2,029,351,261	(0.9)	N/A	N/A	20.81	18.81
7	Southeast	3,922,871,089	4,082,093,799	3.7	N/A	N/A	19.16	17.13
30	Upper Midwest	21,643,916,747	26,075,666,897	20.0	0.09	0.12	16.12	14.50
32	Central	10,638,544,004	11,735,859,065	9.9	0.07	0.22	16.10	14.60
33	Mideast	13,657,628,130	14,979,476,766	9.3	0.06	0.38	16.10	14.76
124	Pacific Northwest	4,458,702,160	6,132,821,841	37.0	(0.65)	0.03	15.38	14.41
126	Southwest	8,396,521,622	10,261,379,495	21.8	0.95	1.09	16.99	15.47
131	Arizona	3,594,143,556	3,788,409,010	5.0	N/A	N/A	15.80	14.69
All Market Total/Average		92,200,755,708	103,626,513,787	12.0	0.24	0.51	17.18	15.66

Price at designated order location. * Price at 3.5% butterfat. N/A = Not applicable.
^ A signficant volume of milk was depooled during several months of 2015 and August 2016.

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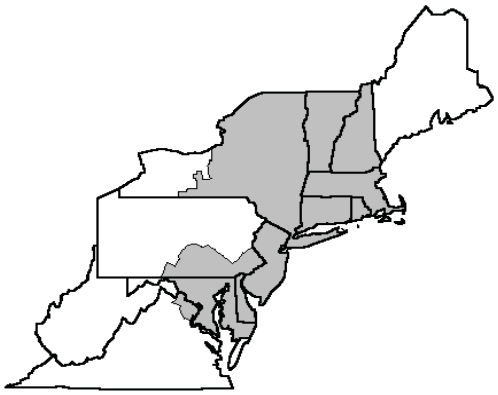
Computation of Producer Price Differential and Statistical Uniform Price*

	Product Pounds	Price per cwt./lb.	Component Value	Total Value
Class I— Skim	738,637,696	$11.42	84,352,424.88	
Butterfat	15,651,701	2.5100	39,285,769.51	
Less: Location Adjustment to Handlers			(2,766,838.53)	$120,871,355.91
Class II— Butterfat	30,017,301	2.3152	69,496,055.29	
Nonfat Solids	46,739,925	0.7544	35,260,599.47	104,756,654.76
Class III— Butterfat	23,856,371	2.3082	55,065,275.54	
Protein	17,425,871	2.5675	44,740,923.82	
Other Solids	32,202,361	0.1096	3,540,338.75	103,346,538.11
Class IV— Butterfat	11,307,624	2.3082	26,100,257.74	
Nonfat Solids	27,431,335	0.7097	19,468,018.47	45,568,276.21
Total Classified Value				**$374,542,824.99**
Add: Overage—All Classes				154,753.56
Inventory Reclassification—All Classes				100,590.17
Other Source Receipts	1,729,661 Pounds			41,086.83
Total Pool Value				**$374,839,255.55**
Less: Producer Component Valuations @ Class III Component Prices				(371,784,944.47)
Total PPD Value Before Adjustments				**$3,054,311.08**
Add: Location Adjustment to Producers				12,329,818.54
One-half Unobligated Balance—Producer Settlement Fund				1,010,118.16
Less: Producer Settlement Fund—Reserve				(927,543.69)
Total Pool Milk & PPD Value	2,178,409,025 Producer pounds			**$15,466,704.09**
Producer Price Differential		**$0.71**		
Statistical Uniform Price		**$17.10**		

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



The Market Administrator's

BULLETIN

NORTHEAST MARKETING AREA

Erik F. Rasmussen, Market Administrator

October 2016 Federal Order No. 1

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e-mail address: Northeast Order@fedmilk1.com;
website address: www.fmmone.com

October Pool Price Calculation

The October 2016 statistical uniform price (SUP) for the Northeast Marketing Area was announced at $16.23 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 $17.32 per cwt. The October statistical uniform price was 87 cents per cwt below the September price. The October producer price differential (PPD) at Suffolk County was $1.41 per cwt, an increase of 70 cents per cwt from last month.

Product Prices Effect

Both butter and cheese prices dropped considerably during October--butter over 21 cents per pound, cheese nearly 17 cents. Nonfat dry milk rose about 4 cents per pound and dry whey was up nearly 3 cents. These changes resulted in lower butterfat and protein prices and slightly higher nonfat solids and other solids prices. As a result, all class prices declined except Class I, based off of slightly higher prices in September, which rose 4 cents per cwt. The Class II price dropped 57 cents, Class III fell $1.57, and Class IV decreased 59 cents, all on a per cwt basis.

The lower prices, combined with increased utilization in the lower price classes instead of Class I, translated into a decrease in the SUP with a higher PPD due to the larger spread between the Class I price and the manufacturing class prices. Unlike last month, there were no negative PPDs paid to producers shipping from the normal milkshed (see related article on page 2).

Highlights

The total volume of producer receipts for the month of October was the largest ever for that month, 109 million pounds more pooled than October 2015. The Class I volume was the lowest ever for the month, while the Class II, III, and IV volumes were their highest ever for the month of October. The producer protein test set a new record for October while the other solids test tied with previous years' record high.❖

Pool Summary

- A total of 11,509 producers were pooled under the Order with an average daily delivery per producer of 6,293 pounds.
- Pooled milk receipts totaled 2.245 billion pounds, a decrease of 0.2 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 33.8 percent of total milk receipts, a decrease of 0.8 percentage points from September.
- The average butterfat test of producer receipts was 3.84 percent.
- The average true protein test of producer receipts was 3.16 percent.
- The average other solids test of producer receipts was 5.73 percent.❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	33.8	758,498,453
Class II	24.0	539,364,362
Class III	25.3	567,757,965
Class IV	16.9	379,482,154
Total Pooled Milk		2,245,102,934

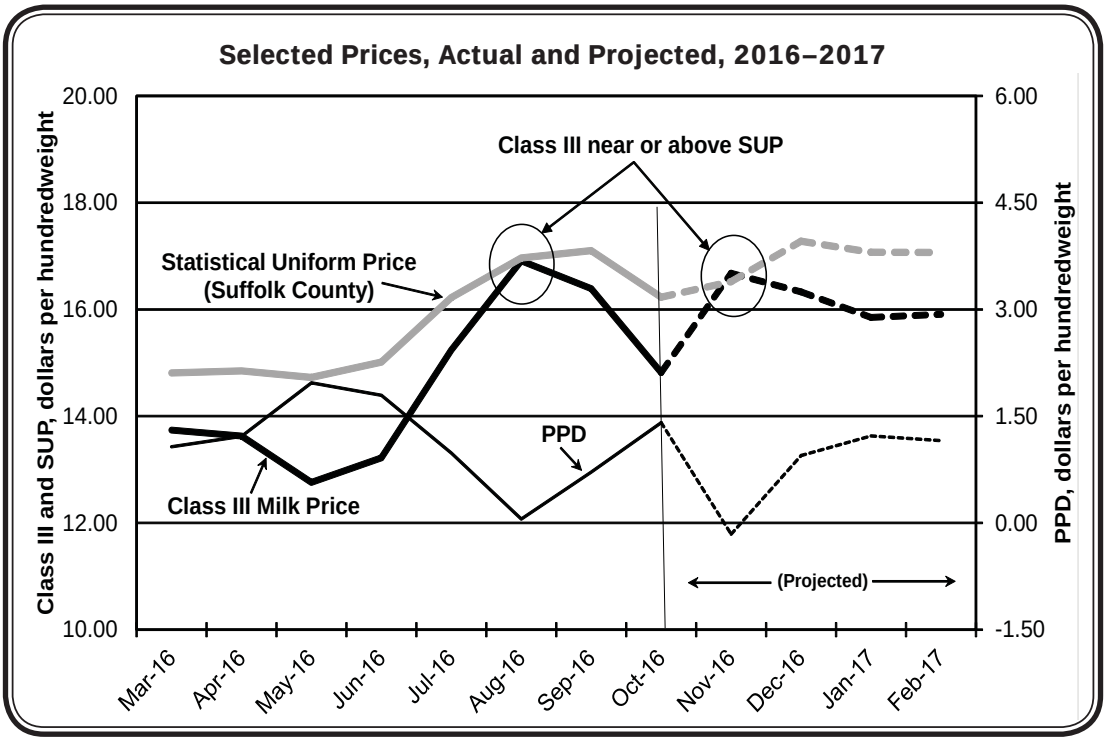
Producer Component Prices

	2016	2015
	$/lb	
Protein Price	2.2975	1.7019
Butterfat Price	2.0493	2.9087
Other Solids Price	0.1351	0.0328

Class Price Factors

	2016	2015
	$/cwt	
Class I	19.85	19.09
Class II	14.09	16.44
Class III	14.82	15.46
Class IV	13.66	16.43

PPD Positive in All Zones, Expected Negative in November



The Producer Price Differential (PPD) for October 2016 equaled $1.41 per hundredweight at Suffolk County, Massachusetts (Boston), the basing point for the Northeast Order. Producers are paid for their milk based on the location where their milk is delivered during the month. Producers' milk delivered to plants in Suffolk County, or any other county that has a $3.25 differential, would receive the $1.41 per hundredweight (cwt) PPD. Plants located in differential zones less than $3.25 have a lower PPD obligation to producers whose milk is delivered to those plants. Differential values determine the relative PPD value and are meant to help cover the cost of hauling milk from the farm location of where the milk is produced to the plant of first receipt. The Northeast Order's outermost zone (in far Western New York and Pennsylvania) has a $2.10 differential, $1.15 per cwt below the Suffolk County base zone level. Any time the PPD at Suffolk County is below $1.15 per cwt, one or more zones will experience negative PPDs.

PPDs Return to Positive in October

For the month of October, milk delivered to plants located in all zones received a positive PPD. September's $0.71 per cwt PPD at Suffolk County resulted in negative PPDs in outer zones. The higher PPD this month can be attributed to the larger spread between the Class III price and the Statistical Uniform Price (SUP) in October, due to the Class III price declining by $1.57 per cwt in October, and to a lesser degree the Class II and Class IV prices declining each by almost 60 cents per cwt. At the same time, the Class I price increased 4 cents per cwt in October.

Producers are paid for their protein, butterfat, and other solids components from the pool at the same dollar per pound value as Class III milk. The PPD is an adjustment made to the producer pay prices for the additional value generated by milk used in the other classes (I, II, and IV). In the case of recent months, the uniform price had been rising, but not dramatically so. Due to low Class II and Class IV prices, relative to the Class III price, there was little to no value left to be paid out in the form of a PPD after paying producers for the value of their Class III components. In short, nearly the full classified value of the monthly pool was being received by producers in their milk components valuation and not the PPD. This situation changed in October with Class II and Class IV prices closer to the Class III price and the Class I price high enough above the other 3 classes to result in enough classified value to share as higher PPD. Still, the return to positive PPDs were attributable to a notable decline in cheese prices, which directly led to the lower Class III price.

Turning Negative in November

November's Class I price has already been announced as $18.03 per cwt ($1.82 per cwt lower than in October). It was established during the market in which the cheese and Class III price had softened, as mentioned in the previous paragraph. Since that time, the cheese market has rallied to a degree in which the Class III price in November is expected to increase over $1.80 per cwt. This will tighten the spread between the Class III price and the SUP estimated for November – in fact, based on November 14 Chicago Mercantile Exchange futures prices, the November Class III price may be above the November SUP. This would mean negative PPDs in all zones. The relationship between the Class III, SUP, and Cheese prices are presented in the accompanying chart.❖

Manufacturing Class Utilization Grows

During the first 10 months of 2016, utilization of milk products and cream by pool plants was up 3.6 percent from the same period in 2015. All classes of utilization experienced growth except Class I that fell 1.4 percent. The other classes reported considerable increases. All comparisons have been adjusted for leap year.

The decline in **Class I** usage has been discussed in many *Bulletin* articles throughout this year. While the decrease continues, it appears to have slowed somewhat—for the January-October period in 2015 compared to the same period in 2014, the drop was 1.9 percent. The percent of total pooled milk receipts used for Class I has decreased 1.8 percentage points, but that is impacted more by the overall increase in pooled milk, which is up 3.3 percent from last year for the same 10-month period.

Class II utilization rose 3.7 percent for the same period over last. Milk used in making yogurt has bounced back from a decline during the past 2 years after rising steadily from 2010 to peaking in 2013; it rose 10.1 percent. Other categories with growth include ice cream and desserts, bakery-candy-soup, and ricotta cheese. Declines occurred in sour cream and cottage cheese. Overall, the Class II utilization percentage has averaged 24.7 percent, but that represents a higher volume in 2016 since total pooled milk is up, as mentioned earlier.

Class III usage experienced the largest increase of the manufacturing classes. It jumped 9.6 percent for the 10-month period over last year. All product categories had growth. Cream cheese rose 3.5 percent; American cheese increase 6.0 percent; Italian cheese was up 11.5 percent; and Swiss and other type cheeses jumped 21.0 percent. Other cheese includes mostly Hispanic, but also feta, Muenster, and other varieties. Overall, the Class III utilization percentage of total pooled milk increased to 25.4 percent from 23.5 percent last year.

The October 2016 Class III volume was the largest on record for the month; the previous high was in 2001. Compared to 15 years ago, Italian cheese still dominates Class III usage, followed by American cheese, but both have lost shares to the other cheese category. In 2001, the combination of cream cheese, Swiss, and other varieties only accounted for 11 percent of all Class III utilization; in 2016 they made up 21 percent of all Class III.

Class IV utilization increased 4.0 percent from last year. Milk used in butter grew 6.3 percent while the categories of dried milk products and condensed products rose 3.7 and 2.4 percent, respectively. Overall the total volume used in Class IV is higher than last year, but the utilization percentage declined slightly due to the higher overall pooled milk volume.

The total volume of milk assigned to the **Minimum Price Class** jumped 79.5 percent when compared to last year. Typically, milk supplies peak during the months of May through July. This year, the surge in pool volume began in April and, combined with lower Class I demand, the excessive supplies resulted in milk being disposed of as surplus at a higher than normal rate. Milk that is disposed of or dumped at a plant or farm due to excess milk supplies, if eligible, is pooled and classified at the "minimum price class" for the applicable month. In most cases, this is Class IV, but during May and June 2016, it was Class III that was the lowest price for the respective month. Milk utilized or "disposed of" in this manner is reported under the category "animal feed and dumpage" under that month's Minimum Price Class.

During 2015, June and July experienced a similar situation with excess milk disposed of this way. In addition, due to weather conditions and plant closures over the holiday period, milk was allowed to be dumped during December. A similar situation is anticipated for this year with an allowance for on-farm dumping approved (see related article below).❖

Temporary Dumping of Surplus Milk

Handlers regulated under the Northeast Order have again requested the Market Administrator to temporarily authorize the pooling of milk disposed or dumped at a farm or non-plant location while allowing the milk to retain the status of pooled producer milk, during the upcoming Thanksgiving through New Year's holiday period.

Similar requests allowing for the on-farm disposal of surplus milk have been made and approved by the Market Administrator in selective periods during the past two years as handlers in the Northeast have struggled with milk supplies exceeding commercial demand as well as sometimes exceeding available plant processing capacity in the immediate and nearby regions.

In times of excess milk and lack of demand, handlers first seek to find a plant with the ability to separate and remove the cream from the raw milk. If no outlets for the residual skim milk can be found, the skim portion may be disposed of at the plant or returned to a farm location for disposal. Dumping of milk or skim milk at a plant can occur as a regular part of milk processing and is an allowable utilization under the Order. It is the dumping of raw milk on the farm, when no other options can be found, that is addressed by this temporary dumping allowance for surplus milk. Neither scenario results in the seller receiving the full value for the milk as if it had been commercially utilized; however, in most instances handlers have been paying their producers for the full value of any of the dumped milk. This practice is required by Order provisions for proprietary handlers with their own producers but may be handled differently by cooperative organizations depending upon their circumstances.❖

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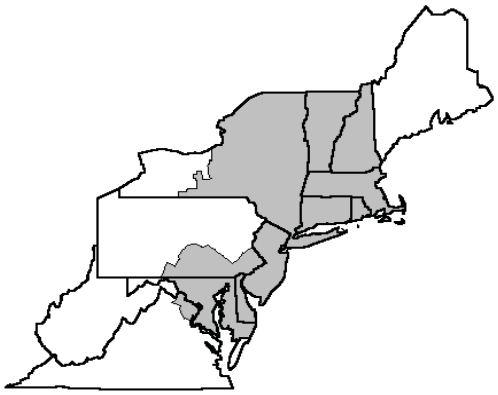
Computation of Producer Price Differential and Statistical Uniform Price*

	Product Pounds	Price per cwt./lb.	Component Value	Total Value
Class I— Skim	742,363,237	$12.03	89,306,297.41	
Butterfat	16,135,216	2.3548	37,995,206.64	
Less: Location Adjustment to Handlers			(2,833,501.30)	$124,468,002.75
Class II— Butterfat	31,440,229	2.0563	64,650,542.91	
Nonfat Solids	46,941,886	0.7933	37,238,998.12	101,889,541.03
Class III– Butterfat	26,395,100	2.0493	54,091,478.46	
Protein	17,843,208	2.2975	40,994,770.45	
Other Solids	32,235,828	0.1351	4,355,060.37	99,441,309.28
Class IV– Butterfat	12,349,951	2.0493	25,308,754.60	
Nonfat Solids	33,930,277	0.7469	25,342,523.92	50,651,278.52
Total Classified Value				**$376,450,131.58**
Add: Overage—All Classes				47,739.57
Inventory Reclassification—All Classes				(198,076.86)
Other Source Receipts	734,646 Pounds			27,021.79
Total Pool Value				**$376,326,816.08**
Less: Producer Component Valuations @ Class III Component Prices				(357,293,109.81)
Total PPD Value Before Adjustments				**$19,033,706.27**
Add: Location Adjustment to Producers				12,710,693.41
One-half Unobligated Balance—Producer Settlement Fund				906,359.73
Less: Producer Settlement Fund—Reserve				(984,449.43)
Total Pool Milk & PPD Value	2,245,837,580 Producer pounds			**$31,666,309.98**
Producer Price Differential		**$1.41**		
Statistical Uniform Price		**$16.23**		

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



The Market Administrator's

BULLETIN

NORTHEAST MARKETING AREA

Erik F. Rasmussen, Market Administrator

November 2016 Federal Order No. 1

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website address: www.fmmone.com

November Pool Price Calculation

The November 2016 statistical uniform price (SUP) for the Northeast Marketing Area was announced at $16.34 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 $17.77 per cwt. The November statistical uniform price was 11 cents per cwt above the October price. The November producer price differential (PPD) at Suffolk County was -$0.42 per cwt, a decrease of $1.83 per cwt from last month.

Product Prices Effect

All product prices rose during November except nonfat dry milk that decreased slightly. Butter increased nearly 5 cents per pound, dry whey rose 4 cents per pound, and cheese jumped almost 18 cents per pound. These changes resulted in higher component prices for butterfat, other solids, and protein, which rose to $2.8085 per pound, the highest protein price since December 2014. All class prices increased except the Class I price, announced in advance, and based on lower product prices in early and mid-October. The Class II price increased 51 cents, Class III jumped $1.94, and Class IV rose 10 cents, all on a per cwt basis.

The higher prices, combined with increased utilization in the higher price classes (Classes I and III), translated into an increase in the SUP. The tightening between the Class I and III prices resulted in a negative value for the PPD at all zones (see related article on page 3). The last time this happened was October 2012.

Highlights

Total producer receipts continued to set a record volume for the month. Daily deliveries per producer were over 6,000 pounds for the first time for the month of November. The Class I volume was the lowest ever for the month, while the Class IV volume was the highest ever for the month of November. The producer other solids test set a new record high for November; the butterfat test set a new record high for the Order.❖

Pool Summary

- A total of 11,458 producers were pooled under the Order with an average daily delivery per producer of 6,326 pounds.
- Pooled milk receipts totaled 2.175 billion pounds, an increase of 0.1 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 34.6 percent of total milk receipts, an increase of 0.8 percentage points from October.
- The average butterfat test of producer receipts was 3.92 percent.
- The average true protein test of producer receipts was 3.18 percent.
- The average other solids test of producer receipts was 5.75 percent.❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	34.6	752,915,843
Class II	22.4	486,670,057
Class III	26.3	571,592,823
Class IV	16.7	363,428,456
Total Pooled Milk		2,174,607,179

Producer Component Prices

	2016	2015
	$/lb	
Protein Price	2.8085	1.3205
Butterfat Price	2.1044	3.1830
Other Solids Price	0.1750	0.0361

Class Price Factors

	2016	2015
	$/cwt	
Class I	18.03	19.73
Class II	14.60	18.26
Class III	16.76	15.30
Class IV	13.76	16.89

2017 Outlook — Higher Average Price Anticipated

Based on current projections, the statistical uniform price (SUP) at Boston, MA, will finish the year averaging a little under $16.00 per hundredweight (cwt) for 2016. This is a 7.2 percent decrease from 2015, or a $1.23 per cwt drop. At the same time, the annual average corn price projects to finish 2016 dropping by 5 percent from its 2015 level if Chicago Mercantile Exchange (CME) corn futures play out as they settled on December 13. Looking back, the average annual Northeast Order SUP, corn, and soybean prices for 2016 were lower than any year at least as far back as 2009 (though 2016 soybeans may average just slightly below last year). We'll take a look at supply and demand factors as we head toward the new year, look at how milk prices and selected input prices have moved with respect to each other, and present a futures market based forecast for the milk price in 2017.

Supply Factors

In the December *World Agricultural Supply and Demand Estimates* Report, USDA forecast record high milk production for 2016 totaling 212.4 billion pounds. This would be an increase of 1.8 percent over 2015 U.S. milk production. Based on the same report, USDA expects 2017 U.S. milk production to increase another 2.1 percent over 2016 to total 216.8 billion pounds.

Record high milk production and strong growth are the story for the Northeast U.S. as well – if not more so. Northeast Order pool volume set record high levels each month through November and will likely set a record for the entire year as well. Through the first 11 months, pool volume is up 3.7 percent over the same period last year. Though pooled volume does not equate to total milk production, it is indicative of how strong milk production has been. Year-over-year milk production growth in the top 23 milk producing states, as reported by the National Agricultural Statistics Service *Milk Production* report, grew an average of 1.5 percent per month for the first ten months of the year. Milk production in New York grew an average of 4.6 percent per month during the same period. Vermont grew faster than the top 23 producing states as well averaging 2.0 percent per month, while Pennsylvania trailed the top 23 state average at 0.6 percent per month.

Stocks of dairy products in the U.S. have been building. October butter stocks were 27 percent higher than a year ago and 45.2 percent above the 5-year average for the month. October total cheese stocks were 6.1 percent higher than a year ago and 17.5 percent above the 5-year average. Nonfat dry milk stocks were 20.1 percent above a year ago, and 54.0 percent above the 5-year average for the month. October dry whey stocks were 6.6 percent higher than a year ago and 21.2 percent above the 5-year average.

Demand Factors

The U.S. exported 14.0 percent of its milk production, on a total milk solids basis, for the period January through September 2016. This compares with 14.2 percent for the same period a year earlier, however, most exports were at lower prices. Still, this equates to one day's milk production per week finding a home in the export market and highlights the importance this part of the dairy demand equation has become. The U.S. exported 15.7 percent of its milk production compared to 13.5 percent the previous October, perhaps a sign of a beginning recovery in the export market.

Export market analysts stated that difficult conditions and low margins have led to global milk production falling faster than expected. Globally, price recovery is viewed as being driven by falling supply rather than new demand and ongoing recovery may be limited by significant stock overhang. China appears to have increased imports, but this as well has been driven by falling domestic supplies rather than increased demand. Chinese imports were up 16 percent versus last year, but still 15 percent off 2014 levels.

U.S. exports are influenced by currency exchange rates that impact the relative value of U.S. dairy products. As predicted last year, the U.S. dollar did strengthen throughout the year, just reaching a 13 year high. In spite of this, as mentioned, there has been some recovery in U.S. dairy exports. Expectations are that the U.S. dollar will strengthen further in 2017, due to expected fiscal stimulus (tax cuts and infrastructure spending) being promised by a Trump administration. A strong U.S. economy relative to other developed economies also will support a strong dollar. Too strong a dollar may have adverse impacts on other countries, including making U.S. products relatively more expensive and potential for debt pressures. Rising protectionism may also be a concern for a dairy industry that has become increasingly tied to global markets to help clear domestic production.

Domestic Situation

The U.S. domestic market will continue to be counted on as a home to the large majority of milk produced here. We'll briefly look at some demand indicators important to dairy consumption to get a feel for what to expect from the domestic market. The unemployment rate has declined steadily since its high near 10 percent in 2009 and has been below 6 percent since September 2014, reaching 4.6 percent for November 2016. In September, the Restaurant Performance Index (RPI) (that tracks the health and outlook of the U.S. restaurant industry) stood at 100.8, driven by a stronger Current Situation Index. The Expectations Index component of the RPI was above

(continued on page 3)

2017 Outlook *(continued from page 2)*

100, but was below 101 for the fourth straight month – the first time this occurred since 2012. Values above 100 signify expansion in the industry. Restaurant sales are an important outlet for dairy products and the index is used as an indicator of domestic dairy sales. The Consumer Confidence Index reached 107.1 in November, indicating strong demand; most indicators suggest reason to have some optimism in the domestic market in 2017.

Looking to 2017

The USDA forecasts the U.S. all-milk price for 2017 to range between $16.85 and $17.65 per cwt. Using CME futures prices from December 13 for Class III and Class IV milk, the Northeast Order SUP projects to finish 2016 averaging $15.91 per cwt for the year, a little over a dollar below what was expected when predictions were made last year. Again, using the December 17 CME futures prices, **the 2017 Northeast SUP is forecast to average $18.71 per cwt for the year, approximately $2.80 higher than the 2016 price level**. Supply and demand conditions heading into 2017 support some price recovery, potentially led by export recovery and continued strong domestic demand. Continued robust milk production, coupled with higher level stocks, may dampen recovery somewhat.❖

Negative PPD, But Higher SUP

The total value of the federal order pool is determined by the respective class prices and the volume of milk utilized in each class. For the month of November, the "classified value" equaled $373,909,160.79. The total value of all producer components (butterfat, protein, and other solids) equaled $395,531,622.65, or $21.6 million more than the pool classified value (see page 4 for pool computation). Since the payout to producers cannot exceed the value of the milk utilized in the pool, a negative producer price differential (PPD) has to occur to balance the respective valuations.

This scenario occurs due to the Class I and Class II skim milk prices being set in advance, based on wholesale market prices that are less than the more current and higher wholesale prices used in the calculation of Class III and IV prices and the component prices paid to producers.

Any class price higher than the Class III price contributes to the pool of money normally returned to producers in a positive PPD. With Class II and IV prices significantly below ($2.16 and $3.00, respectively) the Class III price, and the sizeable volumes (utilization of 39.1 percent) in the combined lower-priced classes, the classified value of the pool was diminished and producers received all of the pool value in their component payments.

Last month, we predicted that the PPD would be negative in all zones for November. Except for October, there have been negative PPD's in some zones since July and extensive discussion and explanations in the August and October *Bulletins*. The SUP for November 2016 was $16.34 per cwt; in October the SUP was $16.23 per cwt with a PPD of $1.41 per cwt signifying that a negative PPD does not necessarily reflect a lower price for producers. While perhaps difficult to understand and accept, a negative PPD typically signals that higher prices will in place the next month. The article on page 2 discusses the upcoming outlook for milk prices.❖

2017 Payment Dates to Producers

The calendar below shows the dates for partial payments to producers that are not members of cooperatives. Partial payments are paid to producers for the milk received by pool handlers during the first 15 days of the month and are paid at not less than the lowest announced class price for the preceding month, less proper deductions authorized in writing by the producer. As required by the Order, payment must be made so that a producer receives it no later than the date shown. The table dates vary due to weekends and national holidays.

The final payment date that non-member producers must be paid is dependent on the date that the statistical uniform price is announced. Each month, the date that final payments to producers must be received by is printed on the back of the Pool Price Announcement. The final payment is for the remaining milk received and is priced such that the producer should receive an average price for the entire month's milk at roughly the uniform price with adjustments for zone differential, component values, and other deductions relevant to that producer.

Producers that are members of cooperatives usually receive payments at the same time, although it is not required by the Order.❖

Required Producer Payments Under the Northeast Order

Month Milk Produced	Partial Payment Due	
	Day	Date
January	Thursday	1/26/17
February	Monday	2/27/17
March	Monday	3/27/17
April	Wednesday	4/26/17
May	Friday	5/26/17
June	Monday	6/26/17
July	Wednesday	7/26/17
August	Monday	8/28/17
September	Tuesday	9/26/17
October	Thursday	10/26/17
November	Monday	11/27/17
December	Tuesday	12/26/17

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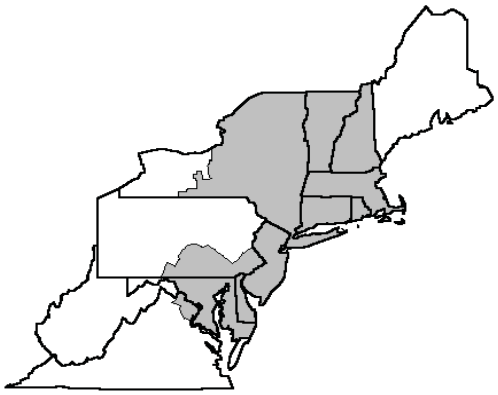
Computation of Producer Price Differential and Statistical Uniform Price*

	Product Pounds	Price per cwt./lb.	Component Value	Total Value
Class I— Skim	736,394,451	$11.04	81,297,947.39	
Butterfat	16,521,392	2.1074	34,817,181.50	
Less: Location Adjustment to Handlers			(2,846,174.94)	$113,268,953.97
Class II— Butterfat	29,814,299	2.1114	62,949,910.87	
Nonfat Solids	42,439,222	0.8300	35,224,554.26	98,174,465.13
Class III– Butterfat	26,214,918	2.1044	55,166,673.45	
Protein	18,069,257	2.8085	50,747,508.29	
Other Solids	32,648,490	0.1750	5,713,485.90	111,627,667.64
Class IV– Butterfat	12,737,148	2.1044	26,804,054.26	
Nonfat Solids	32,623,890	0.7367	24,034,019.79	50,838,074.05
Total Classified Value			*Total value of milk in the pool* →	**$373,909,160.79**
Add: Overage—All Classes				97,371.71
Inventory Reclassification—All Classes				204,582.73
Other Source Receipts	278,669 Pounds		*Total value of producer components* →	2,551.76
Total Pool Value				**$374,213,666.99**
Less: Producer Component Valuations @ Class III Component Prices				(395,531,622.65)
Total PPD Value Before Adjustments				**($21,317,955.66)**
Add: Location Adjustment to Producers				12,325,457.87
One-half Unobligated Balance—Producer Settlement Fund				809,496.72
Less: Producer Settlement Fund—Reserve				(951,519.52)
Total Pool Milk & PPD Value	2,174,885,848 Producer pounds			**($9,134,520.59)**
Producer Price Differential		**($0.42)**		
Statistical Uniform Price		**$16.34**		

Negative value from which PPD per hundredweight is calculated

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



The Market Administrator's

BULLETIN

NORTHEAST MARKETING AREA

Erik F. Rasmussen, Market Administrator

December 2016 Federal Order No. 1

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December Pool Price Calculation

The December 2016 statistical uniform price (SUP) for the Northeast Marketing Area was announced at $17.68 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 $19.28 per hundredweight. The December statistical uniform price was $1.34 per hundredweight above the November price. The December producer price differential (PPD) at Suffolk County was $0.28 per hundredweight, an increase of 70 cents per hundredweight from last month.

Product Prices Effect

All commodity product prices increased in December. Butter prices jumped 19 cents; nonfat dry milk rose nearly 5 cents; cheese prices increased about 4 cents; and dry whey was up 3 cents, all on a per pound basis. These increases resulted in higher prices for all component prices, except protein due to the butterfat component that is part of its formula. All class prices rose: Class I increased $2.10; Class II was up 66 cents; Class III rose 64 cents; and Class IV grew $1.21, all on a per hundredweight basis. With higher prices in all classes, and the higher utilizations in the higher priced classes, the SUP increased. The spread between Class I and Class III increased, helping the PPD return to a positive value at the base zone. Producers shipping to plants in the $2.90 zone and further out would still see negative PPDs (see article on page 3 for more explanation).

Records Set

The total volume of producer milk receipts topped was the highest ever for the month of December. As expected, the year finished with a new record total pooled volume. Class IV volume also was the highest ever for the month. The average producer butterfat test was the highest ever for the Order. Both the average producer protein and other solids were the highest for the month of December. For more highlights, see the article on page 2 that summarizes Order statistics for 2016.❖

Pool Summary

- A total of 11,306 producers were pooled under the Order with an average daily delivery per producer of 6,470 pounds.
- Pooled milk receipts totaled 2.268 billion pounds, an increase of 0.9 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 34.6 percent of total milk receipts, unchanged from November.
- The average butterfat test of producer receipts was 3.96 percent.
- The average true protein test of producer receipts was 3.18 percent.
- The average other solids test of producer receipts was 5.75 percent.❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	34.6	784,957,265
Class II	21.5	487,905,032
Class III	25.2	572,103,220
Class IV	18.7	422,559,290
Total Pooled Milk		2,267,524,807

Producer Component Prices

	2016	2015
	$/lb	
Protein Price	2.6922	1.3599
Butterfat Price	2.3354	2.9057
Other Solids Price	0.2063	0.0355

Class Price Factors

	2016	2015
	$/cwt	
Class I	20.13	19.96
Class II	15.26	16.71
Class III	17.40	14.44
Class IV	14.97	15.52

2016 Northeast Order Statistics Summarized

The volume of milk received from producers shipping to handlers regulated under the Northeast Order during 2016 set a new record high for the Order, topping 27 billion pounds for the first time ever. Total volume has increased for the past seven years in a row, with the past three setting new Order record highs.

The year ended with 384 less producers than at the end of 2015. Annual average daily deliveries per producer (DDP) equaled 6,440 pounds, an increase of 6.1 percent from 2015. With significant milk production nationwide, coupled with sofness in demand, average prices during 2016 were the lowest since 2009.

The accompanying table compares selected pool statistics for 2015 and 2016; all changes have been adjusted for leap year in 2016.

Northeast Order Pool Statistics, 2015–2016

Pool Statistics	2015	2016	2015-16 Change
	million pounds		percent
Class I	8,943.4	8,828.0	(1.6)
Class II	6,322.4	6,552.1	3.4
Class III	6,219.1	6,873.7	10.2
Class IV	4,553.8	4,753.4	4.1
Total	26,038.7	27,007.2	3.4
	pounds		
DDP	6,071	6,440	6.1
	utilization percentage		change
Class I	34.3	32.7	(1.6)
Class II	24.3	24.3	0.0
Class III	23.9	25.4	1.5
Class IV	17.5	17.6	0.1
	dollars/cwt		percent
Class I	19.59	18.05	(7.9)
Class II	15.48	14.35	(7.3)
Class III	15.80	14.87	(5.9)
Class IV	14.35	13.77	(4.0)
SUP	17.14	15.90	(7.2)
Producer Component:			
Tests:	percent		change
Butterfat	3.78	3.81	0.03
Protein	3.07	3.09	0.02
Other Solids	5.75	5.75	0.00
Prices:	dollars/lb		percent
Butterfat	2.2954	2.3084	0.6
Protein	2.2393	2.0955	(6.4)
Other Solids	0.1867	0.0910	(51.3)
Nonfat Solids	0.7265	0.6548	(9.9)

Class Utilization Changes

Class I utilization averaged 32.7 percent in 2016, a decrease of 1.6 percentage points from the previous year. The total volume of milk used in Class I continued its decline, but at a slower rate than in 2015. During 4 months of 2016, Class I volume surpassed the same month of the previous year. Class II usage increased 3.4 percent and was only 27 million pounds below the record-setting total in 2013. Overall, utilization was 24.3 percent, the same percent as in 2015, but based on a larger total volume.

Class III volume jumped 10.2 percent and ended the year with the second largest total since the Order's inception, surpassed only by the volume in 2000. Utilization averaged 25.4 percent, up 1.5 percentage points from 2015. The amount of milk used in Class IV rose for the fifth straight year, setting a new record high for the Order. It accounted for an annual average of 17.6 percent utilization, up slightly from 2015.

Lower Prices

As mentioned above, milk supplies were plentiful during 2016. Butterfat demand was strong due to increased interest in higher fat products that began in 2015. As a result, butter was the only National Dairy Products Sales Report (NDPSR) product to experience an increase, albeit slight, in price during 2016. Even so, the annual average was the second highest NDPSR butter price on record. The NDPSR prices follow the Chicago Mercantile Exchange (CME) prices. During 2016, butter prices were less volatile than in 2015. Prices in 2016 peaked at $2.3675 in June (compared to $3.1350 in September 2015) but never fell below October's $1.7550 per pound (compared to January 2015's $1.5400). Cheese prices followed a similar pattern as in 2015, although they bottomed out lower and peaked higher. Overall they averaged about 4 cents per pound less than in 2015. Both nonfat dry milk and dry whey prices continued to climb throughout 2016, but averaged less than 2015.

All component prices averaged below the previous year except butterfat, which was up slightly. Lower component prices translated into lower class prices, and ultimately, lower statistical uniform prices. The price paid to producers for butterfat averaged $2.3084 per pound, up slightly from 2015 and the second highest reported since the Order's inception in 2000. The per-pound annual average protein price was $2.0955 per pound, the lowest since 2006, and a decline of 6.4 percent from 2015. The other solids price averaged $0.0910 per pound, less than half the previous year's price and the lowest in 7 years. The nonfat solids price averaged $0.6548 per pound, the lowest since the Order's inception.

The Class I price averaged $18.05 per hundredweight in 2016, a drop of 7.9 percent from the 2015 annual average. The Class II price averaged $14.35 per hundredweight, down 7.3 percent from the previous year. The Class III price averaged $14.87, down 5.9 percent from 2015. The Class IV price dropped to $13.77, a decrease of 4.0 percent. Overall, the statistical uniform price (blend) reported at

(continued on page 3)

Negative PPDs in Zones Below $3.00–December Expected to be Last Month

The December 2016 producer price differential (PPD) was $0.28 per hundredweight (cwt) at Suffolk County, Massachusetts (Boston), the basing point for the Northeast Order and a $3.25 differential zone. Producers' milk delivered to plants in Suffolk County, or any other county that has a $3.25 differential, would receive the 28-cent PPD. Plants located in differential zones less than $3.25 have a lower PPD obligation to producers whose milk is delivered to those plants. Differential values determine the relative PPD value and are meant to help cover the cost of hauling milk from the farm location of where the milk is produced to the plant of first receipt. For the month of December, milk delivered to plants located in the zones below $3.00, further away from the Boston base point, received a negative PPD.

Negative PPDs Explained

Producers are paid for their protein, butterfat, and other solids components from the pool at the same dollar per pound value as Class III milk. The PPD is an adjustment made to the producer pay prices for the additional value generated by milk used in the other classes (I, II, and IV). In December, due to lower Class II and Class IV prices, relative to the Class III price, there is little to no value left to be paid out in the form of a PPD, after paying producers for the value of their Class III components. In short, nearly the full classified value of the monthly pool is being received by producers in their milk components valuation and not the PPD.

Current PPD Dynamics

Higher Class III price levels in November that contributed to negative PPDs in all zones that month, increased again in December, but less substantially. The December Class I price was established in advance, and already captured much of the value of increased Class III pricing in using the higher of Class III or Class IV pricing factor. This resulted in the December Class I price being high enough relative to the December Class III price to keep the statistical uniform price above the Class III price—and thus a positive PPD at Boston.

Looking Ahead

Price projections based on January 17th Chicago Mercantile Exchange futures prices of Class III and Class IV milk predict that the Northeast Order will average a $1.21 per cwt PPD from January through June. A PPD over $1.15 at the Boston location will result in positive PPDs in most Northeast differential zones.❖

2016 Northeast Order *(continued from page 2)*

Suffolk County, Massachusetts (Boston) averaged $15.90 per hundredweight, 7.2 percent below the 2015 average. All class and uniform prices were their lowest in the past 6 or 7 years.

Producer Tests

The annual average producer butterfat test equaled 3.81 percent in 2016, up 0.03 points from the previous year, setting a new Order record high. Records were set during 6 months. The annual average producer protein test was 3.09 percent, up 0.02 points from 2015 and also a new record for the Order. The producer other solids test averaged 5.75 percent, unchanged from the previous year and tied as a record with 2012 and 2015.❖

Pool Summary for All Federal Orders, January–December, 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**	**26,038,698,509**	**27,007,191,866**	**3.4**	**1.35**	**1.03**	**17.14**	**15.90**
5	Appalachian	5,645,890,392	5,595,157,423	(1.2)	N/A	N/A	18.58	17.09
6	Florida	2,741,348,121	2,714,073,908	(1.3)	N/A	N/A	20.90	19.23
7	Southeast	5,204,719,534	5,389,646,521	3.3	N/A	N/A	19.29	17.55
30	Upper Midwest	30,318,026,869	32,817,621,049	7.9	0.16	0.05	15.96	14.91
32	Central	14,476,383,447	15,088,319,343	3.9	0.54	0.05	16.13	14.92
33	Mideast	18,376,366,688	19,655,419,521	6.7	0.44	0.17	16.23	15.03
124	Pacific Northwest	6,645,733,354	7,882,929,743	18.3	(0.20)	(0.19)	15.59	14.67
126	Southwest	11,890,997,395	12,717,094,999	6.7	1.18	0.88	16.98	15.75
131	Arizona	4,788,031,826	4,979,072,172	3.7	N/A	N/A	16.05	14.99
	All Market Total/Average	126,126,196,135	133,846,526,545	5.8	0.54	0.33	17.28	16.00

Price at designated order location. * Price at 3.5% butterfat.

^ A signficant volume of milk was depooled during several months of 2015 and 2016. 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	767,872,656	$13.09	100,514,530.67	
Butterfat	17,084,609	2.1429	36,610,608.63	
Less: Location Adjustment to Handlers			(2,897,626.21)	$134,227,513.12
Class II— Butterfat	28,819,371	2.3424	67,506,494.66	
Nonfat Solids	42,665,174	0.8133	34,699,586.06	102,206,080.72
Class III– Butterfat	27,270,185	2.3354	63,686,790.05	
Protein	18,091,981	2.6922	48,707,231.28	
Other Solids	32,593,115	0.2063	6,723,959.63	119,117,980.96
Class IV– Butterfat	16,650,533	2.3354	38,885,654.78	
Nonfat Solids	37,773,281	0.7822	29,546,260.39	68,431,915.17
Total Classified Value				**$423,983,489.97**
Add: Overage—All Classes				49,359.10
Inventory Reclassification—All Classes				497,971.76
Other Source Receipts	493,953 Pounds			14,555.25
Total Pool Value				**$424,545,376.08**
Less: Producer Component Valuations @ Class III Component Prices				(430,753,603.41)
Total PPD Value Before Adjustments				**($6,208,227.33)**
Add: Location Adjustment to Producers				12,867,008.02
One-half Unobligated Balance—Producer Settlement Fund				805,376.43
Less: Producer Settlement Fund—Reserve				(1,113,704.49)
Total Pool Milk & PPD Value	2,268,018,760 Producer pounds			**$6,350,452.63**
Producer Price Differential		**$0.28**		
Statistical Uniform Price		**$17.68**		

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