

The Market Administrator's

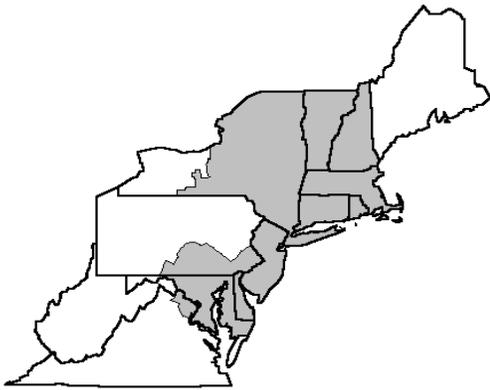
BULLETIN

NORTHEAST MARKETING AREA

Erik F. Rasmussen, Market Administrator

June 2012

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

June Pool Price Calculation

The June 2012 statistical uniform price (SUP) for the Northeast Marketing Area was announced at \$16.58 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 \$16.76 per hundredweight. The June statistical uniform price was 21 cents per hundredweight below the May price. The June producer price differential (PPD) at Suffolk County was \$0.95 per hundredweight, a decrease of 61 cents per hundredweight from last month.

During June, product prices for butter and cheese rose while nonfat dry milk and dry whey fell. This resulted in higher butterfat and protein prices, but lower nonfat and other solids prices. The only class price to increase was the Class III price.

The volume of producer milk receipts utilized in Class I continued the trend this year as being the smallest for the current month since the Order's inception. Conversely, the Class II volume was record-setting as the largest for the current month. So far in 2012, the average producer other solids test has set a new record for the current month. ❖

Midwest Order Decision Announced

The USDA announced a Final Decision that amends the pool plant definition of the Midwest Milk Marketing Order to more adequately identify the plants that service the fluid needs of that order. Specifically, the amendment will regulate fluid milk plants physically located within the Midwest marketing area that have a Class I utilization of at least 30 percent and whose combined Class I route disposition and transfers into federal milk marketing areas is greater than 50 percent.

For background information regarding this issue, see the June and August, 2011, *Bulletins*. The final decision was published in the June 28, 2012, *Federal Register*. The amendment is subject to a producer referendum. It was originally proposed in a recommended decision issued on February 24, 2012. For additional information contact: Paul Huber; USDA/AMS/Dairy Programs; 1325 Industrial Parkway North, Brunswick, OH, 44212; telephone (330)225-4758; email: phuber@fmmaclev.com. ❖

Pool Summary

- A total of 12,635 producers were pooled under the Order with an average daily delivery per producer of 5,342 pounds.
- Pooled milk receipts totaled 2.025 billion pounds, a decrease of 2.3 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 38.1 percent of total milk receipts, a decrease of 0.4 percentage points from May.
- The average butterfat test of producer receipts was 3.61 percent.
- The average true protein test of producer receipts was 2.99 percent.
- The average other solids test of producer receipts was 5.77 percent. ❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	38.1	772,509,250
Class II	26.9	543,838,368
Class III	24.2	490,539,629
Class IV	10.8	218,013,528
Total Pooled Milk		2,024,900,775

Producer Component Prices

	2012	2011
	\$/lb	
Protein Price	2.8952	2.9807
Butterfat Price	1.4866	2.3702
Other Solids Price	0.3113	0.3339

Class Price Factors

	2012	2011
	\$/cwt	
Class I	18.49	23.57
Class II	14.32	21.37
Class III	15.63	19.11
Class IV	13.24	21.05

Price Projections Suggest June is Low Point, Now Moving Up

The Northeast Order uniform price at Boston, MA, declined each month during the first half of 2012, continuing a descent that began in September 2011. The uniform price has decreased about 15 percent, from a January price of \$19.37 per hundredweight (cwt) to June's price of \$16.58 per cwt. The uniform price has declined about 30 percent since its previous September 2011 peak of \$23.22 per cwt.

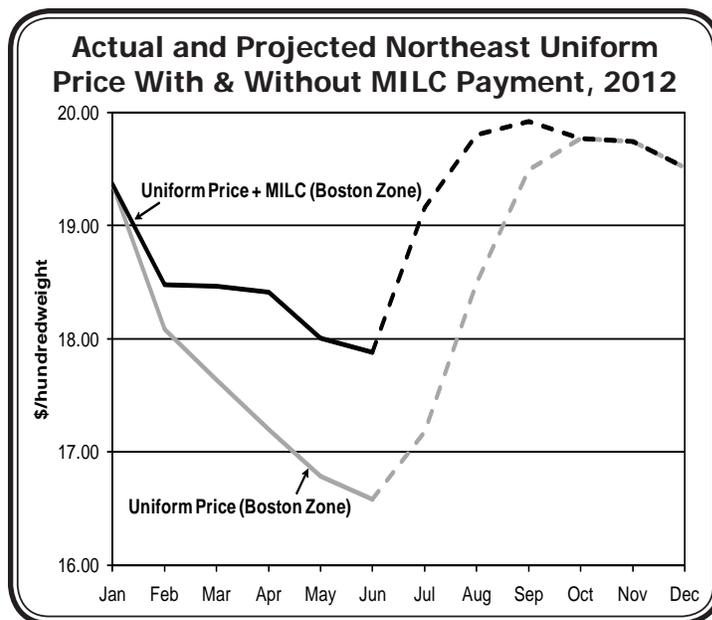
The lower prices triggered Milk Income Loss Contract (MILC) payments starting in February 2012. MILC payments have averaged \$0.91 per cwt in the four months that they have been paid out. The combined uniform price and projected June MILC payment result in a price of \$17.88 per cwt, which is 8 percent below the January 2012 price.

Current Projections Higher

On July 11, USDA's *World Agriculture Supply and Demand Estimates* reported the first upward revision of its projection for the annual average 2012 all milk price. The report projected between \$17.05 to \$17.35 per cwt. Looking ahead using Chicago Mercantile Exchange (CME) Class III and Class IV futures prices (as an indicator of where Agricultural Marketing Service *National Dairy Product Sales Report* prices that are used by federal orders may be headed), suggests that June was the bottom of the price cycle and prices beyond June will begin to trend higher. If current CME futures prices were to remain as is for the next four months (an increasing unlikelihood given dry weather conditions and growing concerns about crop conditions), CME futures as of July 12 imply a uniform price at Boston, MA, between \$19.49 and \$19.77 per cwt during the last four months of 2012. The predicted annual average 2012 uniform price at Boston now sits at \$18.32 per cwt. The projected uniform price at Boston, plus projected MILC payments, result in a combined average price of \$19.63 for the months of July through September. The MILC program is currently only authorized through September 2012. The chart shows actual and projected uniform prices with and without MILC payments added.

Weather Impacts

As weather impacted dairy prices this past winter in the form of a mild winter resulting in higher than typical or expected milk production, it is again coming to bear in the form of drought and heat this early summer. Extreme heat has been the story during the early summer in the U.S. Though not as extreme in the northeast, such conditions may curtail milk production to a greater extent than normal, at least nationally. Meanwhile, weather also may play a part in increasing already high feed costs. At the time of this writing, CME corn futures were as high as \$7.71 a bushel and soybean futures as high as \$16.25, largely in response to the drought and reports that the



U.S. corn crop was rated in as low a condition as it has been since 1988. Very high levels of feed prices also can impact producers' production levels. Projected feed prices are pushing the MILC trigger price to as high as \$23.26 in July, higher than it has ever been during the program. The trigger price is the level that the Class I price in Boston must drop below to result in a MILC program payout. If milk production were to slow or decline in future months, this may eventually lead to increased milk prices, although at this point, it is too early to predict with much certainty how such market dynamics will unfold.

Demand Signals Still Mixed

As is always the case, demand for dairy products plays a critical factor in milk pricing as well. Domestic and foreign demand for U.S. dairy products face challenges in the second half of 2012 that bear watching. The U.S. economy still appears sluggish and the increasing value of the U.S. dollar against the Euro and other currencies may negatively impact exports. The Consumer Confidence Index, which gauges the degree of optimism consumers are expressing in terms of their saving and spending decisions, fell in June after falling the previous month as well. The Restaurant Performance Index, however, was at 101.2 in May, the seventh consecutive month above 100. Values above 100 generally signify expansion in the industry. This index is important as many dairy products are purchased and consumed through restaurant business.

The U.S. dollar's value against other currencies is an important factor to U.S. dairy exports. Recently the dollar has increased in value versus many other currencies, which may hurt the export outlook. Through April, The U.S. is still exporting the same percent of its production on a total milk solids basis. ❖

Steady Increase in DDP

Since the Northeast Order was formed in 2000, until today (a period of 12 and a half years), total milk pooled monthly on the Order has remained fairly consistent despite changes in pooling plants and producers (see Chart 1). Overall, monthly receipts have ranged from a low of 1.692 billion pounds in October 2006 to a high of 2.289 billion in March 2002. The average of 1.989 billion pounds was not adjusted for seasonality or depooling.

This stability has occurred despite a considerable drop in the number of producers on the Northeast Order. The offsetting factor has been an ever-increasing daily deliveries per producer (DDP). Over the period, the total number of producers has fallen at a fairly consistent rate of 0.22 percent per month, from over 18,000 producers down to a current 12,635. In contrast, DDP have risen at a rate of 0.27 percent (see Chart 2), growing from an average of 3,843 pounds to the current 5,342 pounds.

The trend is reflective of the consistent transition in the dairy industry from small to large operations. Even though there are nearly one-third less farms pooled on the Order than just 12 years ago, collectively these farms are now producing about the same total volume.

Within the Northeast, individual state's average DDP varies considerably (see Chart 3). Connecticut has consistently reported the highest DDP, but overall, accounts for less than 2 percent of the total volume pooled on the Order with just 123 farms. Massachusetts, which had about 10 more producers than Connecticut and represents less than 1 percent of total Order volume, has reported some of the lowest DDP over the years. Of the three largest contributing states, Vermont has reported the highest DDP, New York next, and Pennsylvania has ranked the lowest until this year. The only other Northeast state to report lower DDP is Rhode Island, which currently only has

Chart 1

Receipts of Milk From Producers Pooled on the Northeast Order, January 2000–June 2012

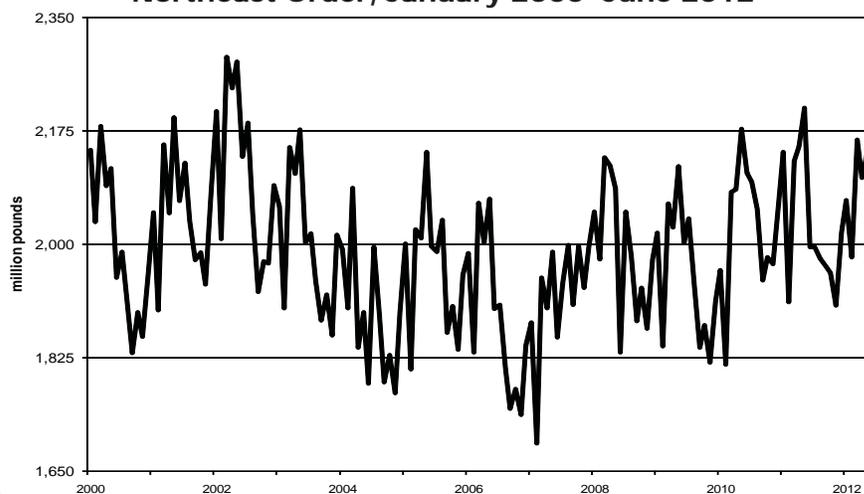


Chart 2

Number of Producers vs DDP, January 2000–June 2012

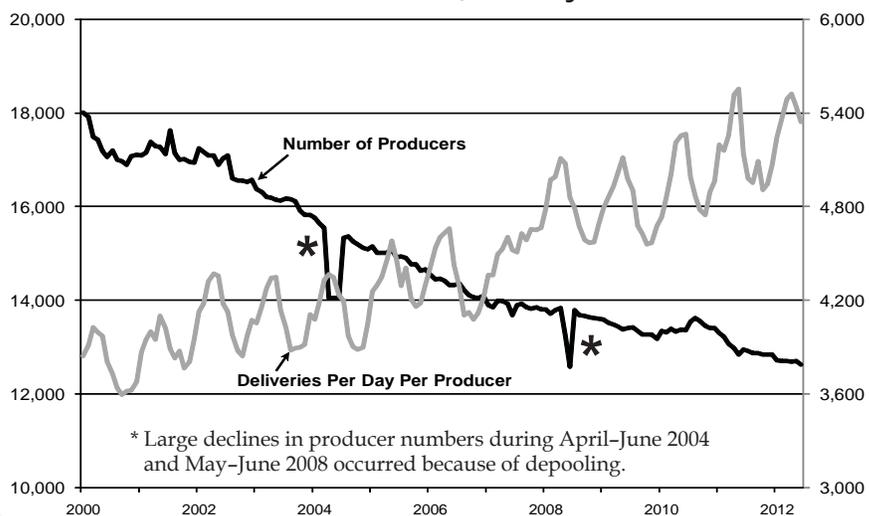
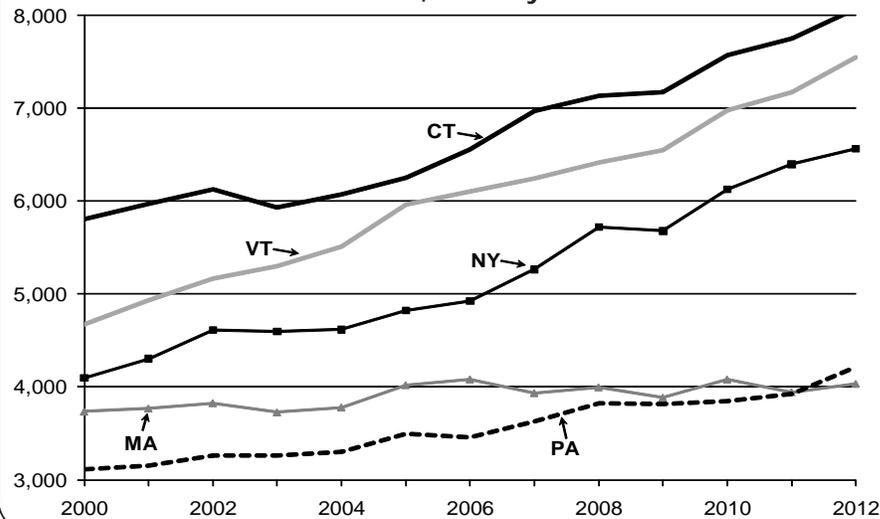


Chart 3

DDP for Selected States, January 2000–June 2012





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Computation of Producer Price Differential and Statistical Uniform Price*

	<u>Product Pounds</u>	<u>Price per cwt./lb.</u>	<u>Component Value</u>	<u>Total Value</u>
Class I— Skim	757,897,732	\$13.86	105,044,625.66	
Butterfat	14,611,518	1.4604	21,338,660.89	
Less: Location Adjustment to Handlers			(2,587,538.31)	\$123,795,748.30
Class II— Butterfat	29,777,101	1.4936	44,475,078.05	
Nonfat Solids	46,731,146	1.0467	48,913,490.53	93,388,568.58
Class III— Butterfat	20,564,154	1.4866	30,570,671.33	
Protein	14,604,055	2.8952	42,281,660.04	
Other Solids	28,136,447	0.3113	8,758,876.00	81,611,207.37
Class IV— Butterfat	8,184,462	1.4866	12,167,021.22	
Nonfat Solids	19,106,034	0.9252	17,676,902.64	29,843,923.86
Total Classified Value				\$328,639,448.11
Add: Overage—All Classes				12,207.74
Inventory Reclassification—All Classes				211,541.74
Other Source Receipts	3,287,298 Pounds			50,568.07
Total Pool Value				\$328,913,765.66
Less: Producer Component Valuations @ Class III Component Prices				(320,173,602.93)
Total PPD Value Before Adjustments				\$8,740,162.73
Add: Location Adjustment to Producers				10,538,144.66
One-half Unobligated Balance—Producer Settlement Fund				889,249.63
Less: Producer Settlement Fund—Reserve				(899,770.35)
Total Pool Milk & PPD Value	2,028,188,073 Producer pounds			\$19,267,786.67
Producer Price Differential		\$0.95		
Statistical Uniform Price		\$16.58		

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