

The Market Administrator's

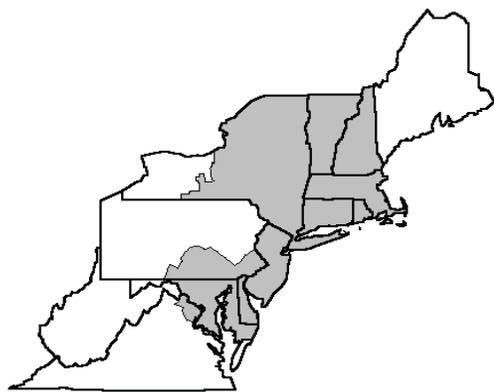
BULLETIN

NORTHEAST MARKETING AREA

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July 2012

Federal Order No. 1



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July Pool Price Calculation

The July 2012 statistical uniform price (SUP) for the Northeast Marketing Area was announced at \$17.26 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 \$17.27 per hundredweight. The July statistical uniform price was 68 cents per hundredweight above the June price. The July producer price differential (PPD) at Suffolk County was \$0.58 per hundredweight, a decrease of 37 cents per hundredweight from last month.

During July, product prices for all commodities rose resulting in higher component and class prices. The protein price was \$3.0430 per pound, the first time it has been over \$3.00 since December 2011. For the third month in a row, the Class III price was higher than both the Class II and IV prices.

The volume of producer milk receipts utilized in Class I in July was the smallest since the Order's inception. Conversely, the Class II volume was the largest ever for the Order. The average producer other solids test continued to set a new record for the current month. ❖

Negative PPDs at Outer Zones

The Producer Price Differential (PPD) for July 2012 equaled \$0.58 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 58-cent PPD. Plants located in differential zones less than \$3.25 have a lower PPD obligation to producers delivering to those plants. Differential values determine the relative PPD value and are meant to help cover the higher cost of hauling milk to urban locations that do not have a local milk supply. For the month of July, milk delivered to plants located in the outer zones (\$2.60 or less) would receive a negative PPD.

Minimum or negative PPD values can arise during periods of significant price changes where the Class I price (announced in advance) does not reflect the full price increase that is reflected in the Class III price component values. With the value of the pool fixed (as determined by (continued on page 3)

Pool Summary

➤ A total of 12,631 producers were pooled under the Order with an average daily delivery per producer of 5,204 pounds.

➤ Pooled milk receipts totaled 2.038 billion pounds, a decrease of 2.6 percent from last month on an average daily basis.

➤ Class I usage (milk for bottling) accounted for 37.3 percent of total milk receipts, a decrease of 0.8 percentage points from June.

➤ The average butterfat test of producer receipts was 3.58 percent.

➤ The average true protein test of producer receipts was 2.95 percent.

➤ The average other solids test of producer receipts was 5.76 percent. ❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	37.3	759,816,881
Class II	28.3	576,419,013
Class III	24.1	491,920,151
Class IV	10.3	209,660,536
Total Pooled Milk		2,037,816,581

Producer Component Prices

	2012	2011
	\$/lb	
Protein Price	3.0430	3.8292
Butterfat Price	1.6556	2.2511
Other Solids Price	0.3123	0.3608

Class Price Factors

	2012	2011
	\$/cwt	
Class I	18.76	24.28
Class II	14.51	21.29
Class III	16.68	21.39
Class IV	14.45	20.33

Market Situation

The northeast uniform price increased over the previous month for the first time since August 2011. Based on August 16, 2012, Chicago Mercantile Exchange (CME) futures prices for Class III and Class IV milk, it may signal the beginning of a price trend that could result in uniform prices above \$21.00 per hundredweight (cwt) by October 2012 at the Boston, MA, zone. Actual and projected uniform prices compute to an annual average of \$18.86 per cwt. Actual and projected prices for April through December 2012 are shown on the accompanying table. Dairy product prices on the CME are reacting to anticipated lower levels of milk production. The CME prices for Cheddar blocks closed at \$1.90 per pound; butter closed at \$1.79 per pound. Nonfat Dry Milk Grade A and Extra Grade closed at \$1.60 and \$1.575 per pound, respectively. Historically, dairy product prices used in federal order formulas track fairly closely to CME prices, though lagged. These levels of CME prices would imply sizeable increases over USDA's July average monthly dairy product prices used to calculate the July uniform price.

Feed Prices & MILC

A return to uniform prices above \$20 will provide some relief to producers faced with historically high feed prices. With Class I prices well above the \$16.94 per cwt threshold for Milk Income Loss Contract Program (MILC) payments, it is the feed adjustment in the calculation that has resulted in MILC payments for every month since February 2012. Payments are currently expected to peak at around \$1.75 per cwt for July before declining through September. At this time, the status of the MILC program

after September 2012 is unknown as farm bill negotiations continue. Including actual and projected uniform prices and MILC payments, producers may average a total payment of \$19.62 per cwt for their milk for the year. The MILC payment by itself could average \$1.14 per cwt for the year in months with a payment.

Drought, Heat Create Feed Price & Quantity Fears

Drought conditions and extreme heat across much of the U.S. may result in very high feed costs through the upcoming fall and winter. There also is concern whether producers will have access to the needed quantity of feed to maintain their current herd size. Decisions regarding herd sizes over the winter could impact total milk production and thus impact milk prices. Currently, the uniform price at the Boston, MA, zone projects to average \$19.81 per cwt for 2013, based on CME futures prices. With the total impact of this year's drought still unknown, it is hard to predict how high feed prices may go or how much of a decline in milk production may result.

Higher Price Expected, But Temper Expectations

As signs point to increased milk prices, some analysts suggest that expectations as to how high they may go need to be tempered with the idea that higher prices for milk and dairy products may result in lost sales. If corn prices remain very high, Americans may be paying more for many items on their grocery list beyond just the dairy items. Domestic demand could suffer. Similarly, higher U.S. dairy product prices could limit exports as a price discrepancy between domestic and foreign prices could send foreign buyers looking for alternatives elsewhere. ❖

Estimated Prices, 2012 (Actual in Bold)

	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual Average
CBOT Futures-based Estimate (August 16 data)										
Corn (per bushel)	\$6.34	\$6.33	\$6.37	\$7.36	\$7.67	\$7.97	\$7.99	\$8.02	\$8.04	\$7.07
Soybean (per bushel)	\$13.70	\$14.00	\$13.90	\$15.60	\$16.80	\$16.56	\$16.41	\$16.25	\$16.20	\$14.71
Alfalfa hay (per ton)	\$207	\$215	\$201	\$198	\$200	\$205	\$205	\$200	\$200	\$202
Feed-adjusted MILC Trigger Price (\$/cwt)	\$21.60	\$21.80	\$21.53	\$22.64	\$23.13	\$23.49	\$23.49	\$23.39	\$23.40	\$22.32
CME Futures-based Estimates (August 16 data)										
Class I (\$/cwt) (Boston zone)	18.91	19.10	18.49	18.76	19.80	20.91	22.87	23.56	23.36	\$20.64
Uniform Price (\$/cwt) (Boston zone)	17.20	16.79	16.58	17.26	18.36	20.07	21.55	21.83	21.62	\$18.86
PPD (\$/cwt) (Boston zone)	1.48	1.56	0.95	0.58	0.70	0.45	1.24	1.72	1.59	\$1.38
Value Added from Feed Adjustor* (\$/cwt)	\$1.21	\$1.22	\$1.37	\$1.75	\$1.50	\$0.88	N/A	N/A	N/A	\$1.01
Total MILC Payment (\$/cwt)	\$1.21	\$1.22	\$1.37	\$1.75	\$1.50	\$0.88	N/A	N/A	N/A	\$1.01
Uniform Price + MILC (\$/cwt) Boston zone)	\$18.41	\$18.00	\$17.95	\$19.01	\$19.86	\$20.94	\$21.55	\$21.83	\$21.62	\$19.62
Class II (\$/cwt)	16.20	15.19	14.32	14.51	16.39	18.38	19.55	19.50	19.50	\$17.06
Class III (\$/cwt)	15.72	15.23	15.63	16.68	17.66	19.62	20.31	20.11	20.03	\$17.49
Class IV (\$/cwt)	14.80	13.55	13.24	14.45	15.69	17.68	18.85	18.80	18.80	\$16.14

Note: Corn & soybean prices based on CBOT prices as settled on day indicated. Months in between contract months are extrapolated from surrounding months assuming directional trend. CBOT Contract months are shaded. Class I price is estimated using a higher of CME Class III and Class IV futures prices as settled on the day indicated. All prices are per hundredweight except where indicated otherwise.

* Difference in value from the MILC program with vs. without the feed cost adjustor. ((Feed-adjusted MILC Trigger Price minus \$16.94) * 45 percent) when the Class I prices is under \$16.94.

N/A = not applicable—continuation of program uncertain.

Contribution to Producer Price by Components

The uniform price varies each month based on the respective average component tests and prices of each component. Looking at some examples will give a better understanding of how these factors impact a producer's milk check. The accompanying table shows the contribution by component for the month of July for 2001, 2010, and 2012 using a hypothetical farmer producing 100,000 pounds of milk at the pool average component tests during that month using the base zone (Suffolk County, MA) Producer Price Differential (PPD). The examples do not take into account premiums, hauling charges, or any other producer payments or deductions. In addition, uniform prices received by producers are affected by the location where the producer's milk is received. PPD's vary due to location and typically decrease the farther away the milk is received from the basing point.

The years 2001 and 2010 were chosen because their average blend prices were similar to 2012. As the examples show, nearly equal blend prices can be generated with greatly varying PPDs. In 2010, the PPD (sixth highest ever on the Order) accounted for over 21 percent of the overall price. In 2012, the PPD accounted for less than 3 percent of the blend price.

The value butterfat and protein contribute depend on the combination of each component's price and test. As the examples show, butterfat typically accounted for a greater proportion of the price, but when the protein price is significantly higher than the butterfat price, as in 2012, it contributes a much higher proportion. In the examples, other solids appear to be fairly consistent in their contribution, but since the Order's inception, there have been eleven instances when other solids had a negative effect on the overall price. ❖

Contribution to Total Gross Payment*

July 2001				
	Test percent	Price per pound	Gross dollars	Contribution percent
Butterfat	3.54	2.1883	\$7,746.58	45.2
True Protein	2.92	2.3175	\$6,767.10	39.5
Other Solids	5.69	0.1510	\$859.19	5.0
PPD		1.75	\$1,750.00	10.2
Total gross payment			\$17,122.87	
Gross price per cwt			\$17.12	

July 2010				
	Test percent	Price per pound	Gross dollars	Contribution percent
Butterfat	3.54	1.8964	\$6,713.26	38.6
True Protein	2.93	2.0515	\$6,010.90	34.6
Other Solids	5.70	0.1700	\$969.00	5.6
PPD		3.69	\$3,690.00	21.2
Total gross payment			\$17,383.15	
Gross price per cwt			\$17.38	

July 2012				
	Test percent	Price per pound	Gross dollars	Contribution percent
Butterfat	3.58	1.6556	\$5,927.05	26.0
True Protein	2.95	3.0430	\$8,976.85	39.3
Other Solids	5.76	0.3123	\$1,798.85	7.9
PPD		0.58	\$580.00	2.5
Total gross payment			\$17,282.75	
Gross price per cwt			\$17.28	

*For a hypothetical farm producing 100,000 pounds of milk at pool average component tests.

Negative PPDs (continued from page 1)

the class prices) the majority of the pool value is paid out to producers in their components with little or, in some cases, no value left to be paid out in the PPD. Based on Chicago Mercantile Exchange futures prices, as an estimate for actual product prices, PPDs for the next couple of months are expected to remain low enough to result in negative PPDs in at least some differential zones. ❖

Pool Summary for All Federal Orders, January–June, 2010–2011

Federal Order		Total Producer Milk			Producer Price Differential#		Statistical Uniform Price#*	
Number	Name	2011	2012	Change	2011	2012	2011	2012
		pounds			percent	dollars per hundredweight		
1	Northeast	12,539,489,621	12,479,291,644	(1.0)	2.82	1.71	19.88	17.61
5	Appalachian	3,024,939,440	3,043,460,999	0.1	N/A	N/A	20.95	18.62
6	Florida	1,500,465,568	1,467,498,026	(2.7)	N/A	N/A	22.95	20.88
7	Southeast	3,693,812,966	3,631,879,780	(2.2)	N/A	N/A	20.80	18.87
30	Upper Midwest	16,469,916,168	17,040,277,110	2.9	0.46	0.24	17.52	16.14
32	Central	6,836,658,903	8,037,090,729	16.9	1.23	0.38	18.29	16.28
33	Mideast	7,697,872,957	9,101,211,938	17.6	1.64	0.64	18.70	16.55
124	Pacific Northwest	3,990,857,576	3,912,053,266	(2.5)	1.50	0.23	18.56	16.13
126	Southwest	5,663,948,548	6,079,515,574	6.7	2.32	1.38	19.39	17.29
131	Arizona	2,358,332,793	2,486,611,454	4.9	N/A	N/A	19.10	16.32
All Market Total/Average		63,776,294,540	67,278,890,520	4.9	1.66	0.76	19.61	17.47

Price at designated order location.

* Price at 3.5% butterfat.

N/A = Not applicable.



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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	745,238,424	\$14.03	104,556,950.89	
Butterfat	14,578,457	1.4919	21,749,600.00	
Less: Location Adjustment to Handlers			(2,574,998.70)	\$123,731,552.20
Class II— Butterfat	29,393,115	1.6626	48,868,993.00	
Nonfat Solids	49,389,584	1.0011	49,443,912.56	98,312,905.56
Class III— Butterfat	20,182,025	1.6556	33,413,360.56	
Protein	14,482,112	3.0430	44,069,066.86	
Other Solids	28,153,024	0.3123	8,792,189.39	86,274,616.81
Class IV— Butterfat	8,782,164	1.6556	14,539,750.71	
Nonfat Solids	18,174,195	0.9965	18,110,585.30	32,650,336.01
Total Classified Value				\$340,969,410.58
Add: Overage—All Classes				24,498.76
Inventory Reclassification—All Classes				388,701.99
Other Source Receipts	3,067,120 Pounds			29,795.76
Total Pool Value				\$341,412,407.09
Less: Producer Component Valuations @ Class III Component Prices				(340,068,704.25)
Total PPD Value Before Adjustments				\$1,343,702.84
Add: Location Adjustment to Producers				10,616,794.21
One-half Unobligated Balance—Producer Settlement Fund				827,187.49
Less: Producer Settlement Fund—Reserve				(950,559.14)
Total Pool Milk & PPD Value	2,040,883,701 Producer pounds			\$11,837,125.40
Producer Price Differential		\$0.58		
Statistical Uniform Price		\$17.26		

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