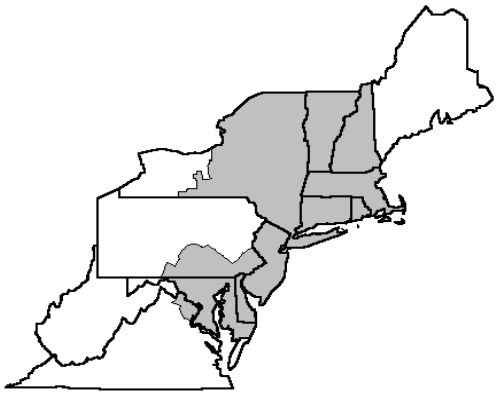

The Market Administrator's

BULLETIN

NORTHEAST MARKETING AREA

Erik F. Rasmussen, Market Administrator

February 2014 Federal Order No. 1

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February Pool Price Calculation

The February 2014 statistical uniform price (SUP) for the Northeast Marketing Area was announced at $24.42 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 $25.76 per hundredweight. The February statistical uniform price was $1.49 per hundredweight above the January price. The February producer price differential (PPD) at Suffolk County was $1.07 per hundredweight, a decrease of 71 cents per hundredweight from last month.

Product Prices Effect

During February, all product prices rose. The butter price increased over 18 cents per pound and the cheese price rose over 20 cents per pound. All component prices increased; the nonfat solids price set a new record at $1.8914 per pound while the protein price was the third highest at $4.6044 per pound, only surpassed by Dec 2007 and June 2008.

All class prices increased from the previous month. The Class I price rose 54 cents; Class II increased $1.52; Class III jumped $2.20 (same as last month), and Class IV was up $1.17, all on a per hundredweight basis. Overall, the SUP increased, setting a new record-high since the Order's inception and for the first time ever was over $24.00 per hundredweight. The spread between the classes tighten and resulted in a lower PPD than last month.

Records Set

The SUP set a record-high not only for the month of February, but for the Order, and was $1.20 higher than the previous record set in August 2011. Although total pooled milk receipts declined for February, they were the third highest ever for the month on a per day basis. Class I volume was the lowest ever for the month of February. The volume of milk used in Class II was less than the same month of the previous year, but it was the second highest volume ever for the month of February on a per day basis. Both the producer butterfat and protein test set records as the highest ever for the month of February. ❖

Pool Summary

- A total of 12,251 producers were pooled under the Order with an average daily delivery per producer of 5,737 pounds.
- Pooled milk receipts totaled 1.968 billion pounds, relatively unchanged from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 37.0 percent of total milk receipts, a decrease of 0.3 percentage points from January.
- The average butterfat test of producer receipts was 3.87 percent.
- The average true protein test of producer receipts was 3.12 percent.
- The average other solids test of producer receipts was 5.72 percent. ❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	37.0	727,032,063
Class II	24.5	482,201,638
Class III	25.5	502,627,688
Class IV	13.0	256,156,638
Total Pooled Milk		1,968,018,027

Producer Component Prices

	2014	2013
	$/lb	
Protein Price	4.6044	2.9609
Butterfat Price	2.0109	1.6619
Other Solids Price	0.4453	0.4534

Class Price Factors

	2014	2013
	$/cwt	
Class I	25.27	21.46
Class II	23.73	18.49
Class III	23.35	17.25
Class IV	23.46	17.75

U.S. Milk Production Increase Lower Than in Previous Years

Total milk production in the United States grew 0.6 percent in 2013, a lower rate than the past 3 years. U.S. milk production grew 1.9, 1.8, and 1.9 percent in 2010, 2011, and 2012, respectively. Percent changes have been adjusted for leap year in 2012.

The top ten milk-producing states combined production only rose 0.5 percent, considerably less than the 1.6 percent in 2012 and 2.0 percent in 2011 and 2.5 percent in 2010. The top 23 states as reported by the National Agricultural Statistics Service (NASS) increased 0.7 percent. The accompanying table shows the top ten states ranked by their total 2013 production.

Top Producing States-No Changes in Rank

The top ten list contained the same states as in 2012 although the order has changed. New York regained the number three spot that it lost to Idaho in 2010, finishing 38 million pounds higher. Idaho experienced double-digit increases from 1994-2000, an average increase of 6.9 percent from 2001-2008, slower growth in recent years, but reported a decrease of 0.7 percent in 2013. Another switch in the top ten rankings: Michigan displaced Minnesota in the number seven position, finishing 24 million pounds higher. California, Idaho, and New Mexico were the only top ten states reporting decreases in milk production in 2013.

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 2013, more than double the U.S. average. Production in the 3 top producing states in the milkshed (New York, Pennsylvania, and Vermont) rose a combined 1.8 percent. Changes for New York and Pennsylvania are shown in the table; Vermont (ranked number 17) rose 1.7 percent. About half of the states in the milkshed reported decreases, but this group only accounted for 7.0 percent of Northeast milk production and had a combined decrease of 1.0 percent. The remaining states had a combined increase of 1.8 percent with New York, Connecticut, and Massachusetts all reporting growth greater than the combined average.

Cow Numbers and Production per Cow

Nationally, the number of milk cows decreased a slight 0.1 percent in 2013; in 2012, they increased 0.4 percent. Twenty-one states showed declining cow numbers, 14 states reporting increases, and the remainder had no change. Of those with decreasing cow numbers, five were in the top ten states. In the Northeast milkshed states, milk cow numbers declined 0.4 percent; this follows the decrease in 2012 of 0.6 percent. The combined total for New York, Pennsylvania, and Vermont was down a 0.2 percent; Pennsylvania dropped 0.6 percent; Vermont increased 0.8 percent; and New York had no change.

Average milk production per cow (MPC) grew 0.7 percent nationally (leap year adjusted); this follows an increase of 1.4 percent in 2012. For the Northeast, the increase was 2.0 percent. The U.S. average milk per cow was 21,822 pounds in 2013; the average was 20,545 pounds in the Northeast states. Milk per cow for the Northeast states has continue to rise, but continues to lag behind the national average. Only thirteen states had MPC greater than the national average; seven of them are in the top ten and most are in the western part of the country. For the first time since 1995, New York's MPC was above the national average.❖

Top Ten States, Ranked by Milk Production, 2013

Rank	State	2012	2013	Percent Change	2013 Cows	2013 MPC*
		(million pounds)			(1,000 head)	(pounds)
1	California	41,801	41,256	(1.0)	1,780	23,178
2	Wisconsin	27,224	27,572	1.6	1,271	21,693
3	New York	13,190	13,469	2.4	610	22,080
4	Idaho	13,558	13,431	(0.7)	573	23,440
5	Pennsylvania	10,478	10,565	1.1	533	19,822
6	Texas	9,596	9,610	0.4	437	21,984
7	Michigan	8,991	9,164	2.2	380	24,116
8	Minnesota	9,073	9,140	1.0	464	19,698
9	New Mexico	8,149	8,057	(0.9)	323	24,944
10	Washington	6,234	6,336	1.9	266	23,820
	Top Ten Total	148,294	148,600	0.5	6,637	22,390
	U.S. Total	200,537	201,218	0.6	9,221	21,822

Source: NASS, *Milk Production.* * Milk produced per cow.

Market Outlook

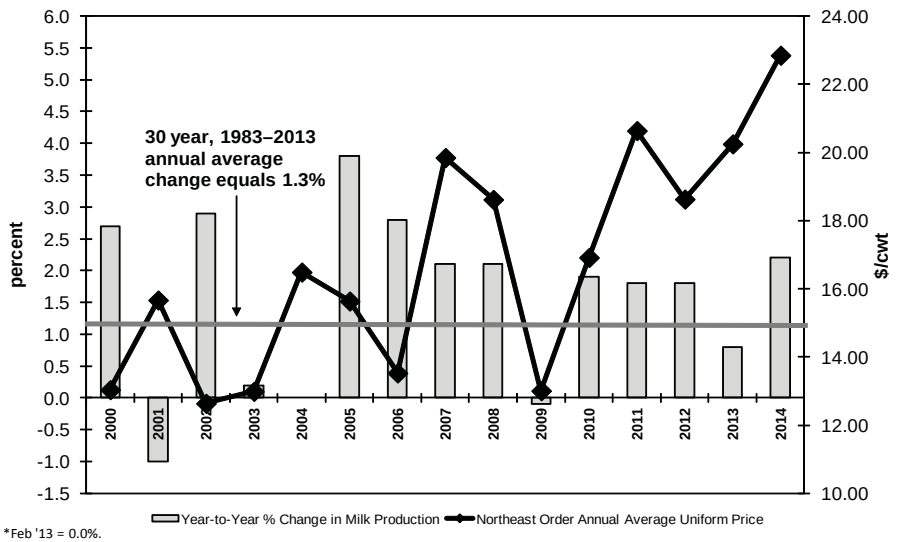
Based on Chicago Mercantile Exchange futures prices that settled on March 14, 2014, for the Northeast Order at Boston, MA, the uniform price is forecast to average $22.85 for the year in 2014. Based on the same data, the 2014 Class I price is forecast to average $24.91 per cwt.

Production and Price Relationships

Historically, high milk prices and margins signal expansion in supply, which is in turn followed by a softening of prices. Chart 1 shows the annual percent change in milk production and the average annual uniform price at Boston, MA, from 2000 through projected 2014. The chart also includes a horizontal line indicating the 30-year annual average change in milk production of 1.3 percent. In the first half of the chart, production changes that were above that long term average production change tend to correspond to low and/or declining uniform prices. From 2007 on, production changes above the long term trend do not seem to reflect this negative correlation, at least as regularly. The increasing role of exports in the U.S. dairy demand equation are playing a factor.

Chart 1

Relationship Between U.S. Milk Production and Uniform Price, 2000–2014*



*Feb '13 = 0.0%.

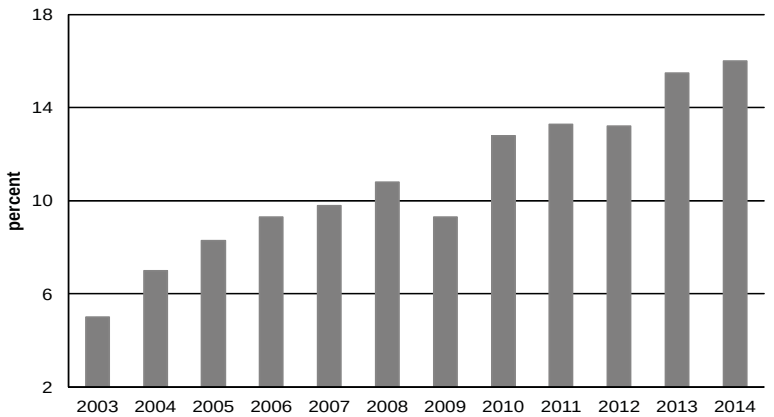
Source: NASS, *Milk Production*.

Role of Exports

Chart 2 shows the increasing percent of U.S. milk that is exported (on a solids basis). A record 15.5 percent of U.S. milk production was exported in 2013, and that figure is estimated to rise to 16 percent in 2014. About twice as much production than in 2005, on a percent of total basis, now finds a home outside of the U.S. The onset of the increase in U.S. dairy exports aligns with the period in which the typical production and price relationship becomes less apparent. The uniform price in Boston, MA, was or is projected to be above $18.00 for 6 of the 8 years since 2007, most of which were strong domestic milk production years. The only exceptions to $18 or higher uniform prices since 2007 are 2009 and 2010. Those years include, and immediately follow, a global recession and corresponding softening of exports (though still 9.8 percent of U.S. milk production in 2009). Still, 2009 may offer insight into the risk of future global economic downturns and their impact on domestic prices as we rely increasingly on global markets. In all, it appears that increasing strength of U.S. exports is playing a factor in supporting historically high minimum milk prices generated under federal order pricing formulas, resulting in record high prices for Northeast Order producers.

Chart 2

Percent of U.S. Milk Production Exported, 2003–2014



Source: U.S. Dairy Export Council; milk solids basis; 2014 estimated.

Outlook

For various reasons, U.S. production to favorable margins has been uneven thus far. If a production response becomes much more widespread, exports will need to remain strong to support prices. Evidence suggests this will be the case. Exports began 2014 at roughly the same volume as the final four months of 2013. Milk production from other global major suppliers has been on the rise but easily has been absorbed by the market. According to the U.S. Dairy Export Council, China is buying at unprecedented levels, supporting the entire dairy complex. China has squeezed out other buyers in recent months, such as Mexico and Japan.❖

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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	713,000,367	$19.82	141,316,672.74	
Butterfat	14,031,696	1.7550	24,625,626.48	
Less: Location Adjustment to Handlers			(2,474,063.40)	$163,468,235.86
Class II— Butterfat	26,184,395	2.0179	52,837,490.68	
Nonfat Solids	41,956,437	1.9189	80,510,206.97	133,347,697.65
Class III– Butterfat	21,972,999	2.0109	44,185,503.67	
Protein	15,660,447	4.6044	72,106,962.21	
Other Solids	28,606,352	0.4453	12,738,408.54	129,030,874.42
Class IV– Butterfat	13,908,975	2.0109	27,969,557.78	
Nonfat Solids	22,280,202	1.8914	42,140,774.06	70,110,331.84
Total Classified Value				**$495,957,139.77**
Add: Overage—All Classes				67,761.44
Inventory Reclassification—All Classes				265,280.52
Other Source Receipts	3,481,020 Pounds			86,711.94
Total Pool Value				**$496,376,893.67**
Less: Producer Component Valuations @ Class III Component Prices				(485,935,076.51)
Total PPD Value Before Adjustments				**$10,441,817.16**
Add: Location Adjustment to Producers				10,471,919.90
One-half Unobligated Balance—Producer Settlement Fund				1,004,816.91
Less: Producer Settlement Fund—Reserve				(823,514.08)
Total Pool Milk & PPD Value	1,971,499,047 Producer pounds			**$21,095,039.89**
Producer Price Differential		**$1.07**		
Statistical Uniform Price		**$24.42**		

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