

The Market Administrator's

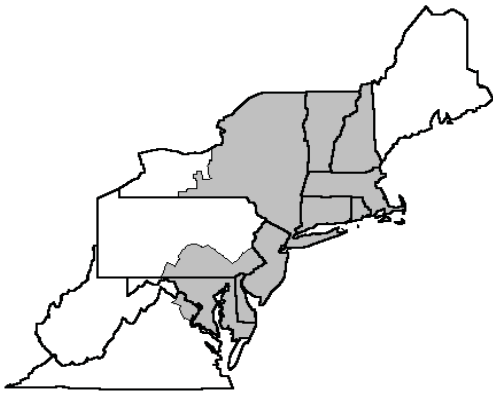
BULLETIN

NORTHEAST MARKETING AREA

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March 2014

Federal Order No. 1



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March Pool Price Calculation

The March 2014 statistical uniform price (SUP) for the Northeast Marketing Area was announced at \$24.97 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 \$26.26 per hundredweight. The March statistical uniform price was 55 cents per hundredweight above the February price. The March producer price differential (PPD) at Suffolk County was \$1.64 per hundredweight, an increase of 57 cents per hundredweight from last month.

Product Prices Effect

During March, all product prices rose except cheese. As a result, all component prices increased except protein. The nonfat solids price set a new record at \$1.9027. All class prices increased from the previous month except the Class III price, which dropped only 2 cents per hundredweight. The Class I price had the largest increase (\$1.62 per hundredweight), based off of the higher butter and cheese prices during mid-February. The Class II price rose 49 cents and the Class IV price was up 20 cents per hundredweight. Overall, the SUP increased, setting another record-high and neared the \$25.00 mark. The spread between the classes was slightly wider than last month and resulted in a higher PPD.

Records Set

As mentioned above, the SUP set a record-high not only for the month of March, but it was the highest SUP since the Order's inception in 2000. Class I volume was the lowest ever for the month of March and the first time for that month that Class I was below 800 million pounds. The March Class I price set a new record at \$26.89 per hundredweight; April's price is 1 cent higher. Based on Chicago Mercantile Futures, prices are expected to decline in future months. Both the producer butterfat and protein tests set records as the highest ever for the month of March. ❖

Pool Summary

- A total of 12,218 producers were pooled under the Order with an average daily delivery per producer of 5,795 pounds.
- Pooled milk receipts totaled 2.195 billion pounds, an increase of 0.7 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 35.6 percent of total milk receipts, a decrease of 1.4 percentage points from February.
- The average butterfat test of producer receipts was 3.85 percent.
- The average true protein test of producer receipts was 3.12 percent.
- The average other solids test of producer receipts was 5.73 percent. ❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	35.6	781,363,132
Class II	24.3	533,745,841
Class III	26.8	588,601,333
Class IV	13.3	291,166,302
Total Pooled Milk		2,194,876,608

Producer Component Prices

	2014	2013
	\$/lb	
Protein Price	4.5172	2.8204
Butterfat Price	2.0402	1.7476
Other Solids Price	0.4700	0.4179

Class Price Factors

	2014	2013
	\$/cwt	
Class I	26.89	21.05
Class II	24.22	18.82
Class III	23.33	16.93
Class IV	23.66	17.75

Contribution to the Statistical Uniform Price

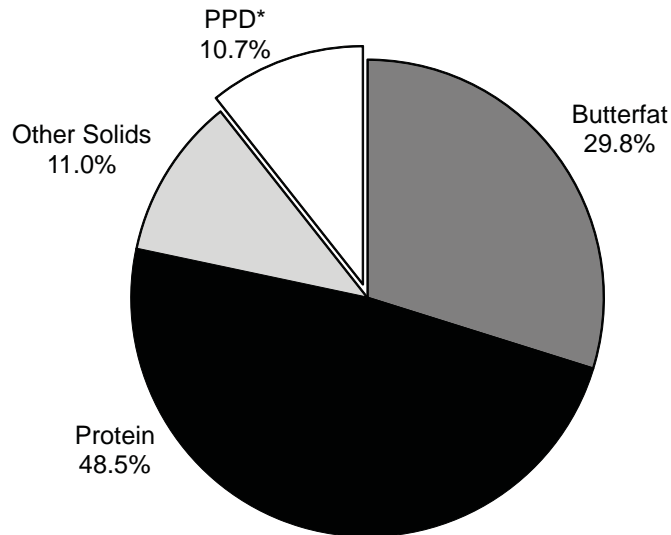
The statistical uniform price that is calculated and announced each month as a representation of the minimum per hundredweight price that producers receive, combines values for milk components together with the Producer Price Differential (PPD). The component value paid to producers reflects their respective farms' component tests and is paid at the same value as the announced component prices for Class III milk for butterfat, protein, and other solids. The PPD price is the residual value left in the pool after producers are paid for their milk components, and is impacted by the utilization of milk in the respective four classes as well as overall price levels.

Chart 1 shows the percentage contribution of the three components and the PPD to the annual average statistical uniform price. For 2013, milk components combined for a total of 89.3 percent of the value. This valuation is determined by the levels of all producers' respective component tests combined with the respective component prices for the year. Over the years, the proportion of the statistical uniform price attributed to the value of milk components generally has increased (see Chart 2). This largely is due to increases in the component price levels of protein and other solids. Increases in the level of producer tests also have occurred, which have contributed to higher overall values.

As Chart 2 depicts, while there have been some dips in the value of the component proportion during this time, such occurrences reflected lower market prices for the commodities that generate component prices, with 2009 of particular note. These dips do not necessarily correspond with lower overall uniform prices, as the chart is depicting the proportion of the components, not the level of prices.

Chart 1

Contribution to the Statistical Uniform Price, 2013 Annual Average



Shifts in how milk is utilized in the Order also have had an effect on the contribution of the PPD since it largely is the Class I valuation of the pool that generates the revenue for the PPD. As Class I utilization has declined, there has been less value to be returned to producers via the PPD and thus the increasing value of milk components. ❖

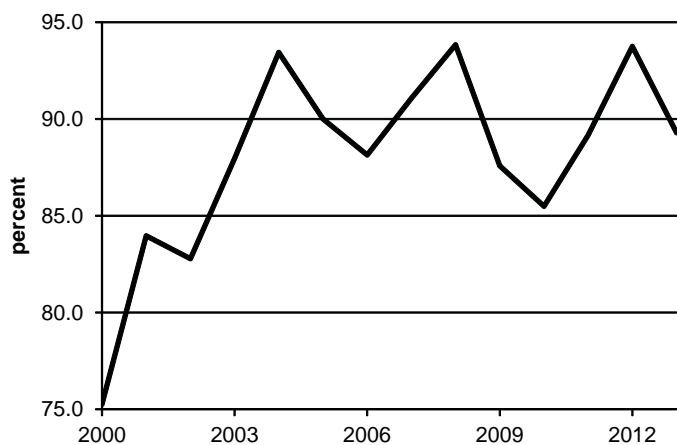
Dairy Forward Pricing Program Extended

The recently passed Agricultural Act of 2014 (2014 Farm Bill) included language extending the Dairy Forward Pricing Program (DFPP) under Federal Milk Marketing Orders. The DFPP was first authorized as part of the Food, Conservation and Energy Act of 2008 and allowed forward price contracts between handlers and dairy farmers to be entered into through September 30, 2012. Legislation signed in January 2013 renewed authority for the program through September 30, 2013. The current extension renews the program's authority allowing contracts to be entered into through September 30, 2018, with all terms of the contracts expiring September 30, 2021.

The DFPP allows handlers to pay producers or cooperative associations a negotiated price, rather than the Federal order minimum blend price for producer milk, subject to conditions and terms of the agreed upon forward contract. A limitation is that the volume of milk cannot exceed the handler's volume of milk that they utilize in Classes II, III, and (continued on page 3)

Chart 2

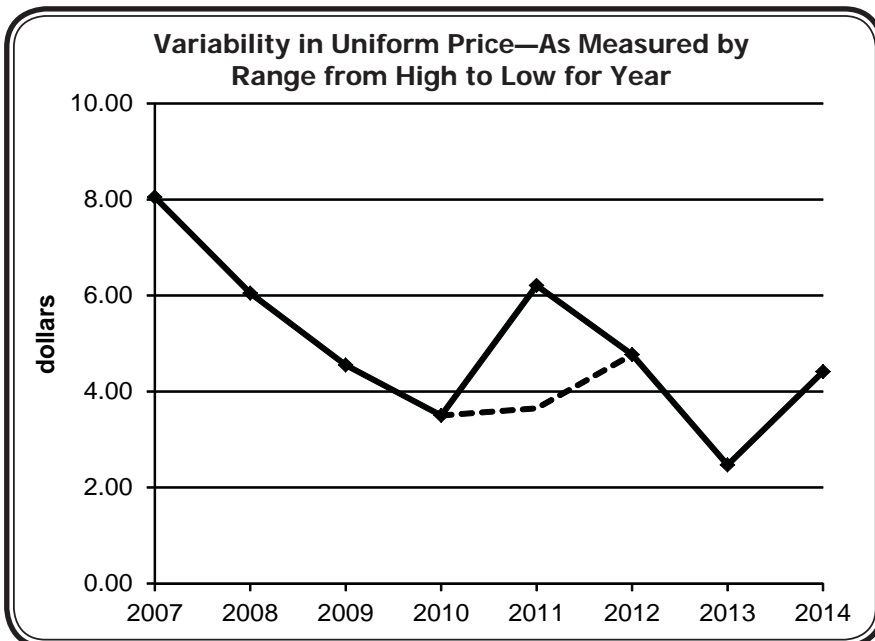
Contribution Percentage of Components to the Statistical Uniform Price, 2000–2013



Price Variability Lower While at Higher Levels

Historically, it's been the case that high milk prices exist with high milk price variability. More recently that has not been the case. The uniform price at the Boston, MA, differential zone has averaged above \$18.50 per hundredweight (cwt) all but 2 years since 2007. The uniform price has been above \$20.00 per cwt two of the last 3 years and currently projects to finish above that level again in 2014 (based on April 10, Chicago Mercantile Class III and IV futures prices). When prices hit then-record high levels in 2004 and in 2007, they corresponded with some of the highest levels of variability, as measured by the low to high range in monthly uniform prices for the year. This measure of variability since 2007 is presented in the accompanying chart. The low variability in 2013 (a range of just \$2.47 per cwt) was coupled with the second highest uniform price ever. The fact that 2013 was the fifth lowest variability by year with an average price over \$20.00 is all the more notable when considering that the 4 years with lower variability averaged a uniform price of just \$13.71.

It should be noted that in 2011, when the uniform price averaged the highest ever for the Order (\$20.64 per cwt), the range in prices would have been just \$3.65 per cwt instead of \$6.21 per cwt, if not counting the first 2 months of that year (this result is depicted as the dashed line on the chart). The price in January and February of 2011 was \$17.01 and \$18.75, respectively, and had not yet responded to supply and demand conditions that supported a price over \$20.00 per cwt and at a narrower range most of the remainder of that year. ❖



Dairy Forward *(continued from page 2)*

IV only, for the month on the order that regulates the milk. Therefore, handlers with Class I utilization only cannot offer a fixed price forward contract to dairy producers or cooperatives. There are a number of rules and safeguards that apply before a contract can be officially executed. For more information, contact the office of the Northeast Milk Market Administrator to receive a copy of the applicable rules or go to the Northeast Order website link: http://www.fmmone.com/Misc_Docs/Dairy_Forwarding_Pricing_Extension_03_21_14.pdf. ❖

Pool Summary for All Federal Orders, January–March 2014

Federal Order Number	Federal Order Name	Total Producer Milk			Producer Price Differential#		Statistical Uniform Price#*	
		2013	2014	Change^	2013	2014	2013	2014
		pounds			dollars per hundredweight			
1	Northeast	6,375,507,340	6,342,707,932	(0.5)	2.05	1.50	19.49	24.11
5	Appalachian	1,495,961,808	1,419,468,103	(5.1)	N/A	N/A	20.68	25.23
6	Florida	735,621,120	736,454,411	0.1	N/A	N/A	22.94	27.20
7	Southeast	1,648,260,449	1,389,447,793	(15.7)	N/A	N/A	21.08	25.71
30	Upper Midwest	8,738,500,475	7,973,841,683	(8.8)	0.28	0.15	17.72	22.76
32	Central	3,714,562,505	3,788,135,447	2.0	0.74	0.20	18.18	22.81
33	Mideast	4,334,778,430	4,066,965,501	(6.2)	1.00	0.46	18.44	23.07
124	Pacific Northwest	2,070,815,601	1,921,221,641	(7.2)	0.64	0.27	18.08	22.88
126	Southwest	3,607,371,562	2,984,481,193	(17.3)	1.52	1.04	18.96	23.65
131	Arizona	1,211,496,004	1,258,353,603	3.9	N/A	N/A	18.54	23.51
All Market Total/Average		33,932,875,294	31,881,077,307	(6.0)	1.04	0.60	19.41	24.09

Price at designated order location.

* Price at 3.5% butterfat.

N/A = Not applicable.

^ Adjusted for leap year.



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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	766,479,046	\$20.39	156,285,077.48	
Butterfat	14,884,086	2.0623	30,695,450.56	
Less: Location Adjustment to Handlers			(2,683,129.31)	\$184,297,398.79
Class II— Butterfat	30,753,075	2.0472	62,957,695.20	
Nonfat Solids	46,239,883	1.9633	90,782,762.27	153,740,457.47
Class III— Butterfat	26,144,518	2.0402	53,340,045.72	
Protein	18,291,444	4.5172	82,626,110.83	
Other Solids	33,521,339	0.4700	15,755,029.33	151,721,185.88
Class IV— Butterfat	12,688,633	2.0402	25,887,349.03	
Nonfat Solids	25,608,289	1.9027	48,724,891.49	74,612,240.52
Total Classified Value				\$564,371,282.66
Add: Overage—All Classes				230,692.42
Inventory Reclassification—All Classes				76,971.18
Other Source Receipts	4,836,338 Pounds			153,633.31
Total Pool Value				\$564,832,579.57
Less: Producer Component Valuations @ Class III Component Prices				(540,454,216.08)
Total PPD Value Before Adjustments				\$24,378,363.49
Add: Location Adjustment to Producers				11,770,926.47
One-half Unobligated Balance—Producer Settlement Fund				1,023,428.96
Less: Producer Settlement Fund—Reserve				(1,097,426.67)
Total Pool Milk & PPD Value	2,199,712,946 Producer pounds			\$36,075,292.25
Producer Price Differential		\$1.64		
Statistical Uniform Price		\$24.97		

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