

The Market Administrator's

BULLETIN

NORTHEAST MARKETING AREA

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Federal Order No. 1



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April Pool Price Calculation

The April 2014 statistical uniform price (SUP) for the Northeast Marketing Area was announced at \$25.46 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 \$26.39 per hundredweight. The April statistical uniform price was 49 cents per hundredweight above the March price. The April producer price differential (PPD) at Suffolk County was \$1.15 per hundredweight, a decrease of 49 cents per hundredweight from last month.

Product Prices Effect

During April, all product prices rose except nonfat dry milk. As a result, all component prices increased except nonfat solids that dropped 7 cents per pound from last month's record-setting high. The producer protein component price for April was the second highest ever under the Order. All class prices increased from the previous month except the Class IV price that dropped 32 cents per hundredweight. The Class I price was only 1 cent higher than in March, the Class II price rose 52 cents per hundredweight, and the Class III price jumped nearly a dollar and, for the first time since January 2013, was above the Class IV price. Overall, the SUP increased, setting another record-high since the Order's inception and for the first time ever was above \$25.00 per hundredweight. The spread between the classes tightened somewhat, resulting in a lower PPD.

Records Set

As mentioned above, the SUP set a record-high not only for the month of April, but it was the highest SUP since the Order's inception. Class I, II, and III prices set record-highs in April; May's Class I price is even higher. Class I volume continued its downward trend and was the lowest ever for the month of April. The producer butterfat test tied with last year as the highest for the month of April. For the first time since October 2013, the producer protein test did not set a record for the month. ❖

Pool Summary

- A total of 12,201 producers were pooled under the Order with an average daily delivery per producer of 5,883 pounds.
- Pooled milk receipts totaled 2.153 billion pounds, an increase of 1.4 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 34.4 percent of total milk receipts, a decrease of 1.2 percentage points from March.
- 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 5.74 percent. ❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	34.4	739,964,714
Class II	24.0	517,775,463
Class III	25.7	552,294,456
Class IV	15.9	343,158,160
Total Pooled Milk		2,153,192,793

Producer Component Prices

	2014	2013
	\$/lb	
Protein Price	4.7089	3.0130
Butterfat Price	2.1207	1.8227
Other Solids Price	0.4926	0.3863

Class Price Factors

	2014	2013
	\$/cwt	
Class I	26.90	20.91
Class II	24.74	18.73
Class III	24.31	17.59
Class IV	23.34	18.10

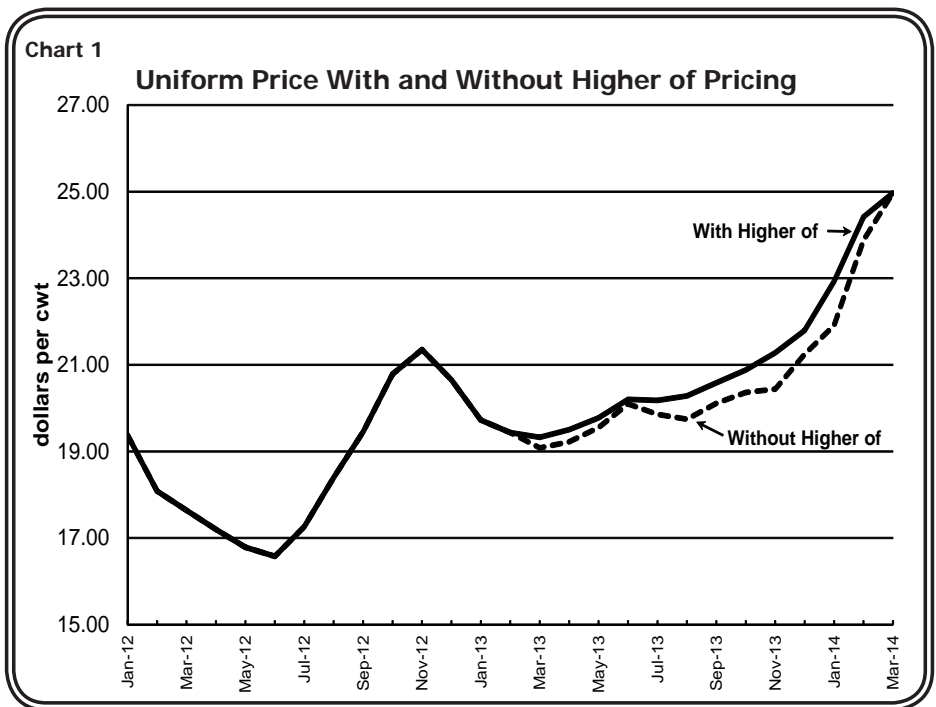
Class III Returns as Mover

With the adoption of federal order reform provisions in January 2000, the Class I price has been set by the higher of the Class III or Class IV advanced skim milk pricing factor. The Class III price largely is determined by cheese prices, and the Class IV price by nonfat dry milk and butter. For 12 months from March 2013 to February 2014, the Class I price was set by the Class IV skim milk pricing factor. The Class III skim milk pricing factor has established the Class I price for two of the past 3 months, however. Since January 2000, Class IV has been the mover 78 months out of a possible 174 months through May 2014, close to an even split (45 percent of the time).

Impact of Using "Higher Of"

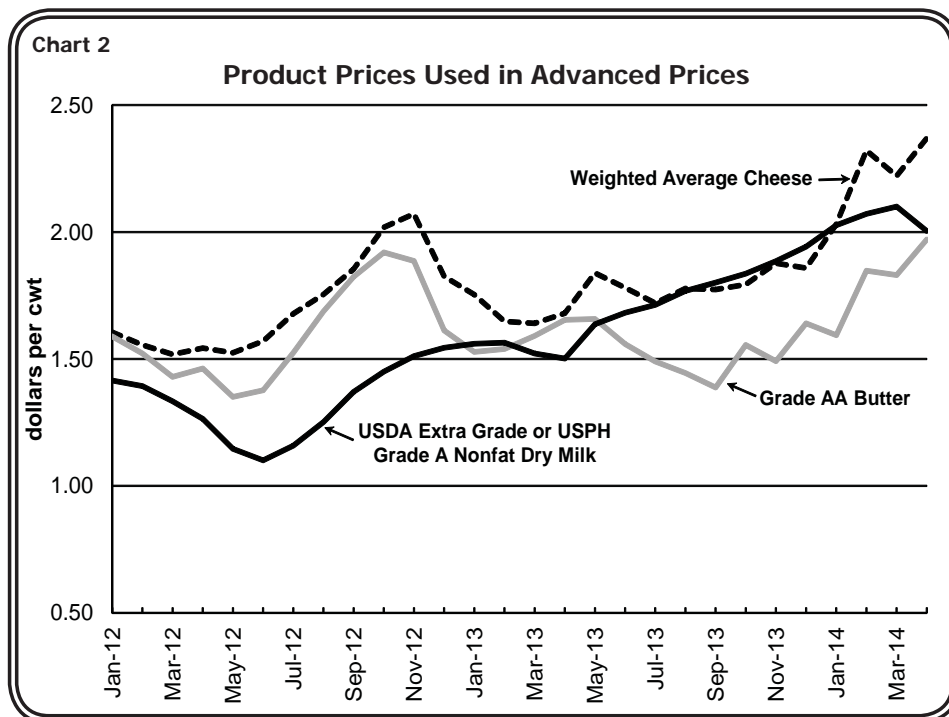
Chart 1 presents the uniform price at the Suffolk County base location (Boston) since January 2012 as well as what the uniform price may have been had the Class III skim milk price factor established the Class I price for all months. The Class I price based on Class IV skim milk pricing factor, instead of the lower Class III for the 12 months of March 2013 to February 2014 resulted in a uniform price that was, on average, \$0.47 per hundredweight (cwt) higher.

Using Chicago Mercantile Exchange (CME) futures prices as settled on May 8, 2014, as a proxy (federal order prices are based on Agricultural Marketing Service's National Dairy Product Sales Report prices, which closely



follow the CME), Class III is expected to establish the Class I price for June, while Class IV returns as the Class I mover for the remainder of the year. Those same futures prices indicate the Class III price dropping \$5.59 per cwt and the Class IV price dropping \$3.37 per cwt from their April levels by December 2014. That said, a uniform price at Boston, MA, estimated based on December 2014 futures prices would be \$21.49 per cwt.

The underlying product prices for weighted average cheese, butter, and nonfat dry milk that were used to establish the Class I price and advanced pricing factors are presented in Chart 2.



Price Dynamics

Demand for nonfat dry milk in the export market played a key role in boosting Class IV prices, and though still a factor, that demand has softened somewhat. Global Dairy Trade (an online dairy product auction) prices have declined at the most recently held auctions, which, according to analysts, is partially due to the absence of Chinese buyers who had been aggressively buying, indicating less demand. As milk was directed to meet the demand of the powder market, the cheese market eventually responded to meeting tightened milk availability with rising wholesale cheese prices, reflected in the Dairy Product Mandatory Reporting Program price surveys, thereby boosting the Class III price. ❖

Fluid Milk Container Sales Survey

The 2013 container sales survey was recently completed for the Northeast Milk Marketing Area. This survey is conducted biennially and records sales of fluid milk products by various package types and sizes for the month of November. The survey collects sales data for any type of handler that has sales of packaged fluid milk within the defined geographic region of the Northeast Milk Marketing Area.

Product Type

Packaged sales totaled 725 million pounds in November 2013, down from 739 million in 2011 and 748 million in 2009. Whole milk (regular, unflavored) accounted for the largest proportion of sales (29.7 percent), followed by reduced fat (2% butterfat) with 24.4 percent, lowfat (1% butterfat) with 17.8 percent, and fatfree (skim) with 14.6 percent. Whole milk consistently has been the top selling product by butterfat content in the Northeast, but its sales have declined; in 2003 whole accounted for 36.9 percent of sales. Organic sales were not separated at that time, but even including them in this survey, whole milk only has 31.2 percent of the total in 2013.

Reduced fat and lowfat have risen slowly, while fat free has declined slightly. Flavored milk and drinks (lower-fat and skim) sales accounted for 6.2 percent in 2013, down from 6.7 percent in 2011 and 7.4 percent in 2003. Organic sales (recorded since 2009) have increased modestly from 3.8 percent in 2009 to 5.1 percent in 2013. Buttermilk and eggnog sales have changed little over the years; in 2003 buttermilk was 0.4 percent, in 2013 it had 0.5 percent of the total. Eggnog was 1.9 percent of the total in 2003; it was 1.7 percent in 2013.

Container Type

The proportion of products sold in plastic containers grew 0.5 percentage points to 78.7 percent while paper containers declined to 20.9 percent and glass rose slightly to 0.4 percent of all sales in November 2013. Sales of products in glass containers have been negligible for many years, accounting for only 0.2 percent of the total in 2003. There has been a very slight increase in the past few surveys, and in the most recent survey they accounted for 0.4 percent; the increase most likely correlating with the increase in organic sales.

Sales of milk in single serve plastic containers declined from a high of 3.4 percent of all plastic in 2009 to 2.7 percent in 2013. Overall they accounted for 2.1 percent of all sales in the area. These containers mainly consist of half-pints, followed by pints, but also include 14, 13.5, 12, and 10 ounce sizes.

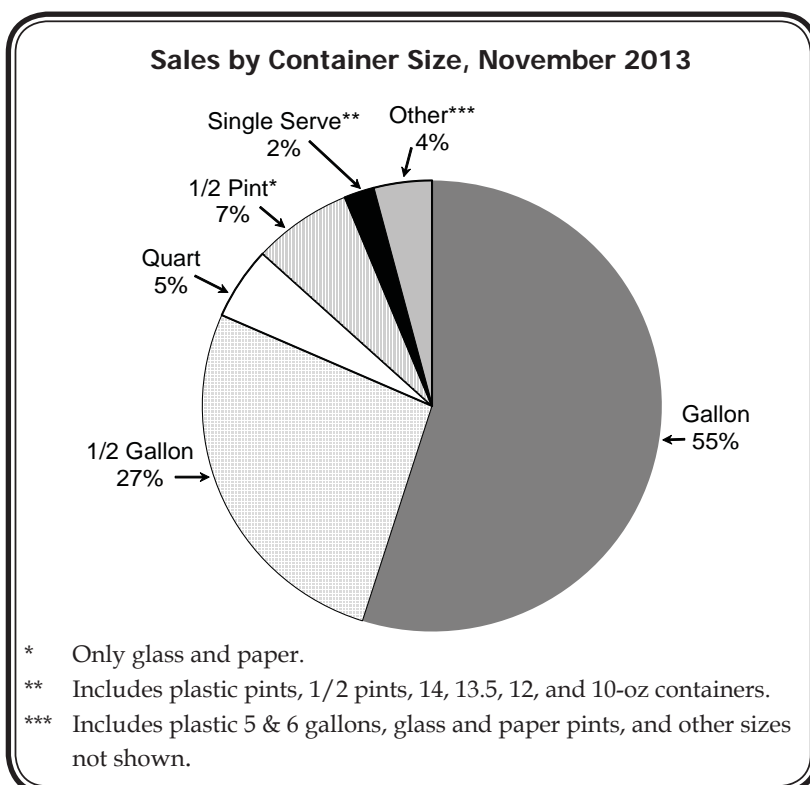
Container Size

Gallon-size containers continued to be the predominate size in the Northeast Area with 54.9 percent (see accompanying chart). Half-gallons (both plastic and paper) had the second-largest share with 26.7 percent. These proportions have changed little since 2003 when gallons made up 53.5 percent and half-gallons had 26.9 percent; percentages have ranged from 53.1 to 55.3 for gallons, while half-gallons have ranged from 26.3 to 27.2 since 2003.

Quart containers have declined consistently since 2003 when they accounted for 6.8 percent; in 2013 they were 5.2 percent. Pints also have declined, from 2.6 percent in 2003 to 0.7 in 2013, while half-pints accounted for 8.0 percent in 2013, which is also the average since 2003. These include both paper and plastic for quarts, pints, and half-pints. In the largest container sizes, 6-gallons have declined from 0.4 to 0.2 percent since 2003, while 5-gallons have hovered around 1.0 percent over the years.

Method of Distribution

Sales to supermarkets accounted for 35.8 percent, dairy and convenience stores 12.6 percent, institutional (military and schools) 6.8 percent, and other wholesale (superstores, hyper markets, wholesales clubs) had 44.8 percent 2013. Home delivery has represented less than half of a percent of the total sales for many years, and most recently, dropped to only 0.2 percent of the total in 2013. Other wholesale have grown over the years, from a 27.2 in 2003 to nearly 45 percent in 2013. ❖





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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	725,816,097	\$20.47	148,574,555.06	
Butterfat	14,148,617	2.0419	28,890,061.05	
Less: Location Adjustment to Handlers			(2,549,236.12)	\$174,915,379.98
Class II— Butterfat	30,055,408	2.1277	63,948,891.65	
Nonfat Solids	44,612,562	1.9911	88,828,072.23	152,776,963.88
Class III— Butterfat	23,945,752	2.1207	50,781,756.28	
Protein	16,884,957	4.7089	79,509,574.04	
Other Solids	31,514,560	0.4926	15,524,072.28	145,815,402.60
Class IV— Butterfat	12,985,329	2.1207	27,537,987.21	
Nonfat Solids	30,196,174	1.8328	55,343,547.70	82,881,534.91
Total Classified Value				\$556,389,281.37
Add: Overage—All Classes				122,201.79
Inventory Reclassification—All Classes				209,881.09
Other Source Receipts	855,886 Pounds			22,407.11
Total Pool Value				\$556,743,771.36
Less: Producer Component Valuations @ Class III Component Prices				(543,416,622.83)
Total PPD Value Before Adjustments				\$13,327,148.53
Add: Location Adjustment to Producers				11,517,842.17
One-half Unobligated Balance—Producer Settlement Fund				934,136.52
Less: Producer Settlement Fund—Reserve				(1,007,567.47)
Total Pool Milk & PPD Value	2,154,048,679 Producer pounds			\$24,771,559.75
Producer Price Differential		\$1.15		
Statistical Uniform Price		\$25.46		

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