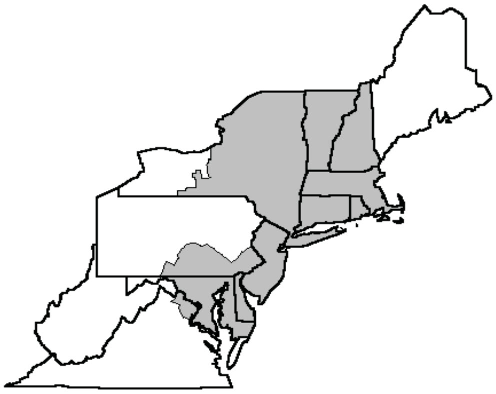


The Market Administrator's BULLETIN

NORTHEAST MARKETING AREA

Erik F. Rasmussen, Market Administrator

July 2014 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

July Pool Price Calculation

The July 2014 statistical uniform price (SUP) for the Northeast Marketing Area was announced at $24.75 per hundredweight (cwt) 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 $25.06 per cwt. The July statistical uniform price was 37 cents per cwt above the June price. The July producer price differential (PPD) at Suffolk County was $3.15 per cwt, an increase of 13 cents per cwt from last month.

Product Prices Effect

During July, all product prices increased except nonfat dry milk, which declined slightly. As a result, the butterfat and other solids component prices rose, the nonfat solids price dropped slightly, and the protein price decreased due to the increase in the butterfat that is a component of the protein price formula. All class prices increased from the previous month: the Class I price was up 16 cents per cwt; the Class II price rose 47 cents; the Class III price increased 24 cents per cwt; and the Class IV price grew 65 cents from the prior month. With the increase in class prices, and the increase in the spread between the higher class prices and the lowest (Class III), both the SUP and PPD rose.

Records Set

The total volume of producer receipts was the largest ever for the month of July, and the second highest since May 2013. Daily deliveries per producer (DDP) were the highest ever for the month of July. Class I volume was the lowest ever for the month of July, but compared to June there was unchanged on a per day basis. Combined with the significant total volume, the Class I utilization percentage was the lowest ever for the month of July. Class III was the highest volume for July since 2003. Class IV volume was the highest ever for the month of July and the third highest ever for the Order.

The SUP was the highest ever for the month of July and the fourth highest for the Order. All class prices were the highest for the month of July. The producer butterfat test set a record-high for the month of July. Both the producer protein and other solids tests were the second highest for the month.❖

Pool Summary

- A total of 12,316 producers were pooled under the Order with an average daily delivery per producer of 5,798 pounds.
- Pooled milk receipts totaled 2.214 billion pounds, a decrease of 2.1 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 32.6 percent of total milk receipts, an increase of 0.7 percentage points from June.
- The average butterfat test of producer receipts was 3.63 percent.
- The average true protein test of producer receipts was 2.97 percent.
- The average other solids test of producer receipts was 5.75 percent.❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	32.6	721,819,768
Class II	24.9	550,446,706
Class III	26.4	585,304,096
Class IV	16.1	356,118,672
Total Pooled Milk		2,213,689,242

Producer Component Prices

	2014	2013
	$/lb	
Protein Price	3.1798	3.2257
Butterfat Price	2.6349	1.5693
Other Solids Price	0.5046	0.3927

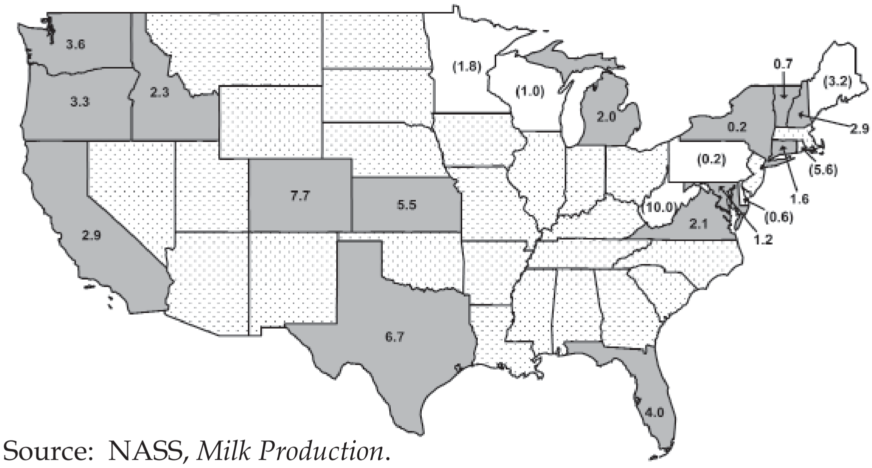
Class Price Factors

	2014	2013
	$/cwt	
Class I	26.27	22.16
Class II	24.41	19.22
Class III	21.60	17.38
Class IV	23.78	18.90

Pooled Milk vs. Milk Production

During the first 6 months of 2014, total pooled milk receipts on the Northeast Order decreased a 0.6 percent from the same period in 2013. Comparatively, milk production in the Northeast states rose a slight 0.1 percent.

January–June 2014 Milk Production in Selected States (Year-to-Year Percent Change)



Source: NASS, *Milk Production*.

National Production

The accompanying map shows year-to-year changes in milk production for the first 6 months of 2014 compared to the same months in 2013 for selected states. Overall, U.S. milk production is up 1.3 percent for the period. The top 23 states (as reported by the National Agricultural Statistics Service) in total report an increase of 1.4 percent, the same as the top ten states in total. Of the top producing states, most of the growth is in the western part of the country. Colorado reported the greatest increase for the first 6 months—7.7 percent, followed by Texas with 6.7 percent and Kansas with 5.5 percent. In the Upper Midwest, Minnesota, and Wisconsin reported declines, while Michigan reported an increase.

Pooled Receipts

Pooled milk on the Order during the first 6 months of 2014 showed year-over-year increases in January and June, but declines for the other 4 months resulting in an overall drop of 0.6 percent. Adding in July, which also was above 2013, equates to an increase of 0.2 percent in total pooled receipts for the first 7 months. Pooling does not necessarily reflect production as movements on and off the Order occur. Production in the Northeast region's typical milkshed states was up a slight 0.1 percent for the January-June period. New York and Vermont showed slight increases. Decreases occurred in Maine, Rhode Island, Pennsylvania, Delaware, and West Virginia. There was no change in production in Massachusetts and New Jersey.

July's total pooled volume had the largest year-over-year increase since August 2013. Nationally, milk production has been increasing when comparing year-to-year changes for the first 6 months of 2014. During the first months of 2014, cold weather impeded milk production in the Northeast states. Analysts in the Northeast predict that the higher milk prices, better growing conditions, and lower feed costs will encourage further growth in production. As a result, total pooled receipts on the Order are likely to grow as well. Annual pooled volume is estimated to be about 1.8 percent higher than last year.❖

Shipping Percentages Changed for Fall Months

In June, the Market Administrator received a request from a plant operator to lower the percentage of milk that pool supply plants and cooperative Section 1000.9(c) handlers must deliver to Class I pool distributing plants during the months of September, October, and November. It was requested that the shipping percentages specified in Section 1001.7 (c) (2) be lowered from 20 to 15 percent for the months listed. This is the second consecutive year that a reduction has been requested.

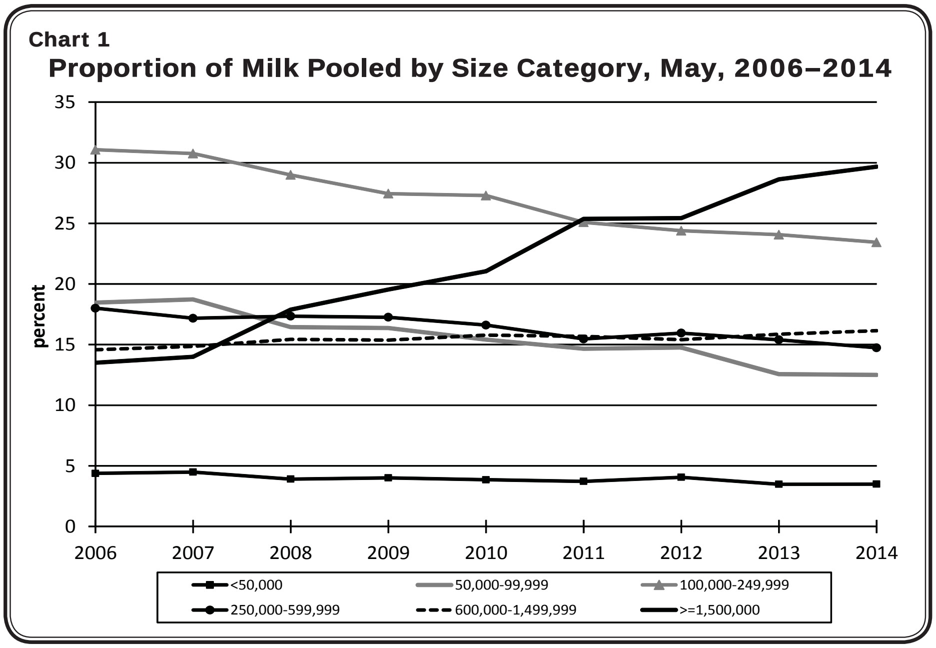
Cited in the request were declining Class I sales, a decline in the number of Class I customers seeking to purchase milk for Class I usage, and no instances where Class I needs have not been covered.

Following receipt of the request, the Market Administrator's office sent a letter to pool handlers inviting them to submit comments, data, or views regarding the request. The office reviewed the comments received and conducted an analysis of milk volumes pooled on the Order and milk utilization. Pool volumes for 2014 have been strong, while Class I sales have continued to decline. For the first time since the Order's inception, the June Class I utilization accounted for less than one-third of the total pool volume. Class IV volume, typically considered a balancing class, has been the highest each of the respective months from January through May 2014, and June set a record high. In addition, two long operating, significant volume plants pooled on the Order closed since last year's decision to lower the shipping percentage.

After reviewing the data and comments, the Market Administrator's office, as permitted by Section 1001.7(g) of the Northeast Order, decided that the shipping percentage will be reduced from 20 to 15 percent for the months of September, October, and November, but limited to 2014. For additional information, copies of the request, comments, and the decision, see the links on our webpage at www.fmmone.com.❖

Number of "Large Farms" Increase

Producing more food with fewer farms is not a new story, and Northeast Order data show that trend continues in the Northeast. Based on verified payroll data, when comparing the number of farms pooled on the Northeast Order in May 2006 (13,808 farms) to May 2014 (11,553 farms), a span of 9 years, that figure has dropped by roughly 16 percent. For the same period, the milk pooled on the order by these respective farms increased by 8 percent. Of course, the implication of the trend is that, overall, more milk is being pooled by larger farms.



Portion of Total Pool by Farm Size

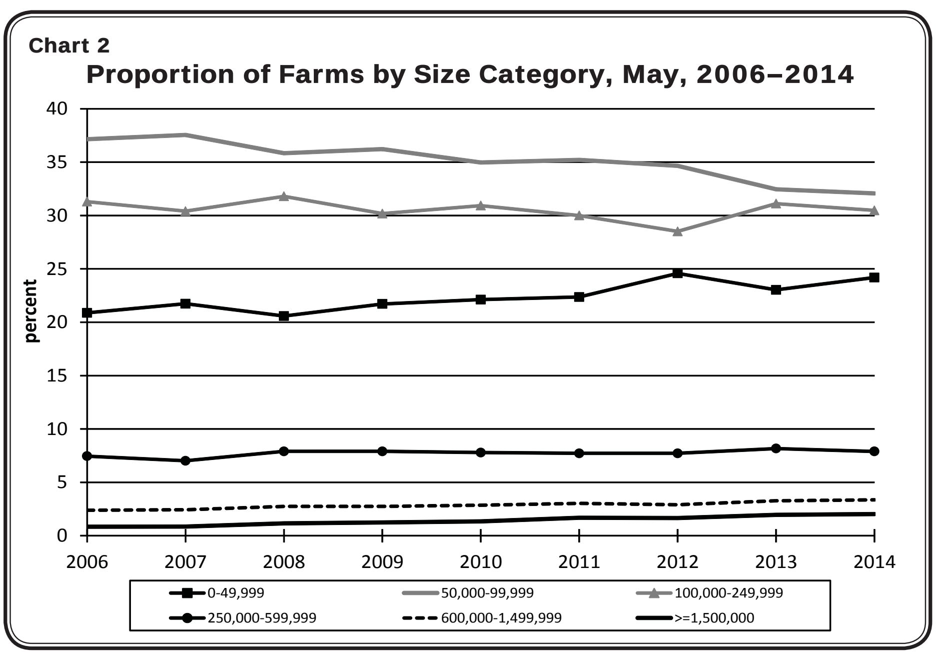
Using data from May for each year from 2006 to 2014, farms were grouped into 6 size categories, from the smallest farm category (less than 50,000 pounds per month) to the largest farm category (at least 1.5 million pounds per month). Chart 1 presents the portion of total milk pooled on the Northeast Order by each farm size category for the month of May from 2006 to 2014. Notable is the increase in the portion pooled by the largest category. This group of farms pooled 13.5 percent of the total Northeast volume in 2006, which ranked second lowest at that time, by portion pooled, of the 6 size categories. By 2014, this group pools the largest portion and almost 30 percent of the total Northeast volume. The only other group to grow by proportion pooled was the second largest farm size group (600,000 to fewer than 1.5 million pounds per month), but their proportion grew by just 1.6 percentage points since 2006. What was once the group that accounted for the largest portion of Northeast volume, farms producing 100,000 to 249,999 pounds per month, dropped from 31.1 percent of the total volume to 23.4 percent.

Portion of Farms by Size

Chart 2 presents the proportion of farms by size category. Even though the total number of farms in the under 50,000 pounds a month size has declined since 2006 (down 3.1 percent), their portion of all farms has increased from about 21 to 24 percent. In fact, within that smallest farm category, farms pooling less than 20,000 pounds a month grew in number by 50 percent. Farms pooling between 50,000 and 100,000 pounds per month declined the most, by 27.8 percent, and their portion of all farms pooling on the Order declined 5.1 percent. Farms pooling more than 1.5 million pounds grew in number from 116 in 2006 to 233 in 2014, an over 100 percent increase. They represent 2 percent of all producers pooling on the Order in May 2014.

Large Farms by State

Of the 233 farms pooling over 1.5 million pounds a month on the Order in May 2014, 152, or 65 percent, are in New York. Vermont had 35 of these farms, while Pennsylvania had 32. As a proportion of milk pooled by state, these large farms pooled 45 percent of the milk from New York. They represented 38 percent of the milk pooled from Vermont, but just 11 percent of Pennsylvania's pooled milk.❖



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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	707,363,620	$18.26	129,164,597.01	
Butterfat	14,456,148	2.4702	35,709,576.79	
Less: Location Adjustment to Handlers			(2,474,101.02)	$162,400,072.76
Class II— Butterfat	31,668,124	2.6419	83,664,016.81	
Nonfat Solids	46,960,601	1.7456	81,974,425.09	165,638,441.90
Class III– Butterfat	23,660,670	2.6349	62,343,499.42	
Protein	17,378,841	3.1798	55,261,238.67	
Other Solids	33,595,294	0.5046	16,952,185.40	134,556,923.49
Class IV– Butterfat	10,519,867	2.6349	27,718,797.55	
Nonfat Solids	31,234,895	1.6770	52,380,918.93	80,099,716.48
Total Classified Value				**$542,695,154.63**
Add: Overage—All Classes				13,932.05
Inventory Reclassification—All Classes				102,353.01
Other Source Receipts	3,728,644	Pounds		185,989.20
Total Pool Value				**$542,997,428.89**
Less: Producer Component Valuations @ Class III Component Prices				(484,913,494.08)
Total PPD Value Before Adjustments				**$58,083,934.81**
Add: Location Adjustment to Producers				11,864,091.49
One-half Unobligated Balance—Producer Settlement Fund				794,263.86
Less: Producer Settlement Fund—Reserve				(893,626.73)
Total Pool Milk & PPD Value	2,217,417,886	Producer pounds		**$69,848,663.43**
Producer Price Differential		**$3.15**		
Statistical Uniform Price		**$24.75**		

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