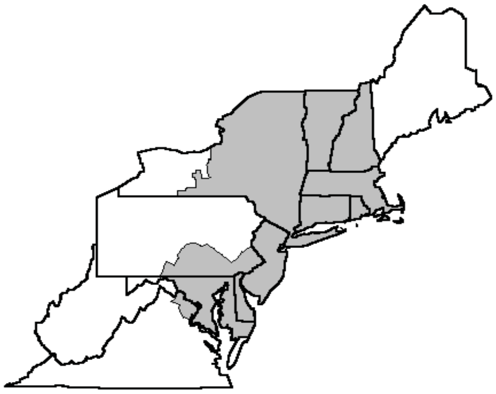

The Market Administrator's

# BULLETIN

## NORTHEAST MARKETING AREA

**Erik F. Rasmussen, Market Administrator**

**February 2016** Federal Order No. 1

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## February Pool Price Calculation

The February 2016 statistical uniform price (SUP) for the Northeast Marketing Area was announced at $15.29 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 $16.48 per cwt. The February statistical uniform price was 23 cents per cwt below the January price. The February producer price differential (PPD) at Suffolk County was $1.49 per cwt, a decrease of 31 cents per cwt from last month.

### *Product Prices Effect*

Unlike the past 2 months, February product prices experienced relatively slight changes when compared to the previous month. The largest change occurred in butter, which rose about 6 cents per pound. Dry whey increased 1 cent per pound, nonfat dry milk declined nearly 2 cents per pound, and cheese was basically unchanged. As a result, producer butterfat and other solids prices increased while nonfat solids and protein decreased.

The Class I price, based on the declining prices in January, dropped $2.40 per cwt. All other class prices rose slightly; the largest increase was 18 cents per cwt in the Class IV price. Class I and II utilization increased slightly, but due to the large drop in the Class I price and relatively small increases in the other class prices, both the SUP and PPD declined.

### *Highs and Lows*

The total volume of pooled milk for February was the highest ever for the month, even when adjusted for leap year. Both Class II and IV utilizations were the highest ever for the month.

The butterfat price for February was the highest ever for the month. Similar to last month, the nonfat solids price was the lowest ever for February and the second lowest ever for the Order.

The average producer butterfat test was the second highest ever for the month of February. The producer protein and other solids tests tied with previous years for record highs for the month.❖

## Pool Summary

- A total of 11,589 producers were pooled under the Order with an average daily delivery per producer of 6,361 pounds.
- Pooled milk receipts totaled 2.138 billion pounds, an increase of 1.4 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 34.0 percent of total milk receipts, an increase of 0.2 percentage points from January.
- The average butterfat test of producer receipts was 3.90 percent.
- The average true protein test of producer receipts was 3.13 percent.
- The average other solids test of producer receipts was 5.75 percent.❖

**Class Utilization**

| Pooled Milk | Percent | Pounds |
|---|---|---|
| Class I | 34.0 | 725,856,968 |
| Class II | 24.6 | 526,985,280 |
| Class III | 24.5 | 523,330,022 |
| Class IV | 16.9 | 361,594,340 |
| Total Pooled Milk | | 2,137,766,610 |

**Producer Component Prices**

| | 2016 | 2015 |
|---|---|---|
| | $/lb | |
| Protein Price | 1.7389 | 2.4051 |
| Butterfat Price | 2.3778 | 1.8296 |
| Other Solids Price | 0.0492 | 0.3273 |

**Class Price Factors**

| | 2016 | 2015 |
|---|---|---|
| | $/cwt | |
| Class I | 16.89 | 19.49 |
| Class II | 14.30 | 14.48 |
| Class III | 13.80 | 15.46 |
| Class IV | 13.49 | 13.82 |

# U.S. Milk Production Increases; Northeast Even Stronger

Total year-over-year milk production in the United States grew 1.3 percent in 2015. This follows 2.4 percent in 2014 and 0.3 percent in 2013.

The increase in the top ten milk-producing states combined was only 0.8 percent; last year these states' increase matched the national average. The combined total for the top 23 milk-producing states, as reported by the National Agricultural Statistics Service (NASS), rose 1.2 percent. The accompanying table shows the top ten states ranked by their total 2015 production.

**Top Ten States Ranked by Milk Production, 2015**

| Rank | State | 2014 | 2015 | Percent Change | 2015 Cows | 2015 MPC* |
|---|---|---|---|---|---|---|
| | | (million pounds) | | | (1,000 head) | (pounds) |
| 1 | California | 42,339 | 40,898 | (3.4) | 1,778 | 23,002 |
| 2 | Wisconsin | 27,795 | 29,030 | 4.4 | 1,279 | 22,697 |
| 3 | Idaho | 13,873 | 14,114 | 1.7 | 585 | 24,126 |
| 4 | New York | 13,730 | 14,100 | 2.7 | 618 | 22,816 |
| 5 | Pennsylvania | 10,664 | 10,805 | 1.3 | 530 | 20,387 |
| 6 | Texas | 10,310 | 10,295 | (0.1) | 463 | 22,235 |
| 7 | Michigan | 9,609 | 10,253 | 6.7 | 408 | 25,130 |
| 8 | Minnesota | 9,127 | 9,466 | 3.7 | 460 | 20,578 |
| 9 | New Mexico | 8,105 | 7,831 | (3.4) | 323 | 24,245 |
| 10 | Washington | 6,576 | 6,606 | 0.5 | 277 | 23,848 |
| | Top Ten Total | 152,128 | 153,398 | 0.8 | 6,721 | 22,824 |
| | U.S. Total | 206,054 | 208,633 | 1.3 | 9,317 | 22,393 |

Source: NASS, *Milk Production.* * Milk Produced per Cow.

### *Top Producing States-New York Closing in on Idaho*

The top ten list was unchanged from 2014. The top ranking state, California, reported a decline of 3.4 percent in 2015. The only other top-ten states showing decreases were New Mexico, also with a drop of 3.4 percent, and Texas that had a slight decline of 0.1 percent. Texas milk production was on track to be about even for the year, but the late December severe snow storms in that area of the country resulted in an annual average decline in Texas and amplified the decrease in New Mexico; January 2016 production showed even more dramatic drops in these two states.

Number two ranked Wisconsin had strong production in 2015 with an increase of 4.4, as did the other Upper Midwest states, Minnesota and Michigan, with 3.7 and 6.7 percent, respectively. In the number three spot, Idaho, reported growth of only 1.7 percent, while number four ranked New York had an increase of 2.7 percent and tightened the gap between these two states from 143 million pounds in 2014 to only 14 million pounds in 2015.

NASS revised the states included in their top 23 selected group in 2014, adding South Dakota and removing Missouri. For 2015, Georgia actually ranked 23 and Virginia, which is still included in the NASS reporting group, ranked 24 based on total annual production.

### *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 2015, greater than both the U.S. and the top 23 averages. Combined production in the three top producing states in the milkshed (New York, Pennsylvania, and Vermont) rose 1.9 percent. Changes for New York and Pennsylvania are shown in the table; Vermont's production was unchanged from 2014. Within the Northeast Order milkshed, decreases were reported in Maine, Maryland, Massachusetts, Rhode Island, and Virginia. Connecticut, Delaware, and New York all reported increases above the national average.

### *Cow Numbers and Production per Cow*

Nationally, the number of milk cows increased 0.6 percent in 2015, up slightly from the 0.4 percent increase in 2014. Eleven states showed declining cow numbers, 18 states reporting increases, and the remainder had no change. Of those with increasing cow numbers, five were in the top ten states. In the Northeast milkshed states, milk cow numbers declined a slight 0.1 percent. The combined total for New York, Pennsylvania, and Vermont was up a 0.2 percent due to an increase of 0.5 percent in New York; the other two states were unchanged.

Average milk production per cow (MPC) grew 0.6 percent nationally; this follows an increase of 2.0 percent in 2014. For the Northeast, the increase was 1.6 percent. The U.S. average MPC per cow was 22,393 pounds in 2015; the average was 21,225 pounds in the Northeast states. MPC for the Northeast states continues to rise, but lag behind the national average. Fourteen states had MPC greater than the national average, and similar to last year, seven of them are in the top ten and most are in the western part of the country. New York is the only state located in the Northeast with MPC above the national average.❖

## Shift to Large Farm Operations in Northeast Continues

The United States Department of Agriculture's Economic Research Service, released a March 2016 report titled "Changing Structure, Financial Risks, and Government Policy for the U.S. Dairy Industry." The report claims that dairy farming has changed dramatically with cows and production shifting to much larger operations. The report finds that costs are a driving force behind the change and that the largest farms have "substantially higher" net returns per hundredweight of milk and strong incentives to expand. Northeast Order Data provide evidence that this change is taking place and is ongoing in the Northeast as well.

Based on producer payroll data, the number of farms pooled on the Northeast Order in December 2006 (13,596 farms) compared to December 2015 (11,269 farms), a span of 10 years, dropped by 17.1 percent. For the same period, the milk pooled on the Order by the remaining respective farms increased by 18.4 percent. Of course, the implication of the trend is that, overall, more milk is being produced by larger farms.

### *Less Farms, More Milk*

Using the same December 2006 and 2015 data, farms were grouped into six size categories, from the smallest farm category (less than 100,000 pounds per month) to the largest farm category (at least 1.5 million pounds per month). The accompanying table presents the portion of total milk pooled on the Northeast Order by each farm size category for the month of December in 2006 and 2015. The table includes a herd size range that approximately equates to the production range for better understanding of the types of operations in each grouping. The Market Administrator does not capture information on herd size. Estimates for the herd size range use average milk per cow data from New York, Pennsylvania, and Vermont as reported by USDA.

### *Portion of Total Pool by Farm Size*

The data show that total volume pooled declined in each of the three smallest farm size categories. All of the increase in pool volume in 2015 compared to 2006 comes from the top three size categories, particularly the largest size category. The volume of milk pooled by the largest farm size category grew dramatically since 2006, rising from 213 million pounds pooled in December 2006 to 686 million pounds pooled in December 2015 (a 221 percent increase). This category accounted for 31.4 percent of the Northeast Order pool volume in December 2015, up from 11.6 percent in 2006. The top three categories combined accounted for 50 percent of the total pool volume in December 2015, up from 30 percent in 2006.

### *Portion of Farms by Size*

In 2006, the largest category had 88 farms (0.7 percent of all producers). This has grown to 231 farms during December 2015 (2.0 percent of all producers) and reflects a 163 percent increase. The top three categories combined represent 6.4 percent of producers (pooling 50 percent of the milk). Conversely, though they declined as group by 22.8 percent since 2006, farms producing less than 100,000 pounds a month account for 58.7 percent of all farms (pooling 15.5 percent of the milk).

### *Largest Farms by State*

Of the largest farms in 2015, 161 are located in New York, nearly triple the number (57) in 2006. Vermont ranks second in number of these farms with 33, up from 19 in 2006. Pennsylvania ranks third with 27, compared to only 6 in 2006.❖

**December Pooled Pounds and Producers by Farm Size Category, 2006 and 2015**

| Pool Volume Range | | | | | | Percent Change | |
|---|---|---|---|---|---|---|---|
| Monthly Pounds | Herd Size (approx.) | Producers | | Pounds | | Producers | Pounds |
| | | 2006 | 2015 | 2006 | 2015 | | |
| 0-99,999 | 0-50 | 8,573 | 6,620 | 458,995,942 | 337,557,085 | (28.8) | (26.5) |
| 100,000-249,999 | 50-150 | 3,718 | 3,149 | 562,800,741 | 476,014,597 | (15.3) | (15.4) |
| 250,000-499,999 | 150-275 | 801 | 782 | 270,490,800 | 264,946,256 | (2.4) | (2.0) |
| 500,000-999,999 | 275-550 | 319 | 343 | 219,230,340 | 242,051,578 | 7.5 | 10.4 |
| 1,000,000-1,499,999 | 550-800 | 97 | 144 | 117,742,435 | 175,819,752 | 48.5 | 49.3 |
| >= 1,500,000 | >=800 | 88 | 231 | 213,463,088 | 686,108,986 | 162.5 | 221.4 |
| Total/Percent Change | | 13,596 | 11,269 | 1,842,723,346 | 2,182,498,254 | (17.1) | 18.4 |

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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 | 711,411,855 | $9.16 | 65,165,325.92 | |
| | Butterfat | 14,445,113 | 2.3003 | 33,228,093.43 | |
| Less: | Location Adjustment to Handlers | | | (2,610,935.54) | $95,782,483.78 |
| Class II— | Butterfat | 29,650,819 | 2.3848 | 70,711,273.16 | |
| | Nonfat Solids | 45,958,013 | 0.6856 | 31,508,813.71 | 102,220,086.87 |
| Class III– | Butterfat | 23,517,671 | 2.3778 | 55,920,318.11 | |
| | Protein | 16,397,570 | 1.7389 | 28,513,734.46 | |
| | Other Solids | 29,904,770 | 0.0492 | 1,471,314.71 | 85,905,367.28 |
| Class IV– | Butterfat | 15,711,277 | 2.3778 | 37,358,274.47 | |
| | Nonfat Solids | 31,969,512 | 0.5951 | 19,025,056.59 | 56,383,331.06 |
| **Total Classified Value** | | | | | **$340,291,268.99** |
| Add: | Overage—All Classes | | | | 65,984.67 |
| | Inventory Reclassification—All Classes | | | | 181,775.89 |
| | Other Source Receipts | 2,752,548 | Pounds | | 83,458.77 |
| **Total Pool Value** | | | | | **$340,622,488.32** |
| Less: | Producer Component Valuations @ Class III Component Prices | | | | (320,549,444.74) |
| **Total PPD Value Before Adjustments** | | | | | **$20,073,043.58** |
| Add: | Location Adjustment to Producers | | | | 11,755,802.78 |
| | One-half Unobligated Balance—Producer Settlement Fund | | | | 949,851.09 |
| Less: | Producer Settlement Fund—Reserve | | | | (884,961.90) |
| **Total Pool Milk & PPD Value** | | 2,140,519,158 | Producer pounds | | **$31,893,735.55** |
| | Producer Price Differential | | **$1.49** | | |
| | Statistical Uniform Price | | **$15.29** | | |

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