

The Market Administrator's

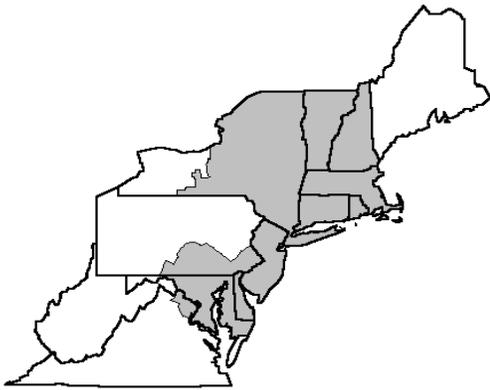
BULLETIN

NORTHEAST MARKETING AREA

Erik F. Rasmussen, Market Administrator

May 2016

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

May Pool Price Calculation

The May 2016 statistical uniform price (SUP) for the Northeast Marketing Area was announced at \$14.73 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 \$15.46 per cwt. The May statistical uniform price was 12 cents per cwt below the April price. The May producer price differential (PPD) at Suffolk County was \$1.97 per cwt, an increase of 75 cents per cwt from last month.

Product Prices Effect

During May, all product prices increased except cheese that dropped over 9 cents per pound. Butter was up about 4 cents, nonfat dry milk increased 3 cents, and dry whey rose slightly. These product prices translated into higher prices for all components except protein that fell 35 cents per pound. Due to lower prices during April, the Class I and II prices declined slightly in May. The Class IV price was the only price to increase for May, while the Class III price dropped the most (87 cents per cwt) and became the lowest price for the month for the first time this year. The combination of lower prices and a larger volume in the lowest price class (Class III) resulted in a decline in the SUP and an increase in the PPD.

Class Utilization

The total volume of producer milk was the highest ever under the Order. All classes reported higher utilization volumes except Class IV. Class I had stronger sales than the same month last year. Class II is moving closer to the levels seen in 2013 with increased usage in yogurt and ice cream. Class III has reported larger usage with growth in all cheese categories. Class IV is showing higher volumes in butter; overall this class was down partially due to the excess milk going to Class III since that was the lowest price class. In this case, some surplus milk was delivered to plants where the cream was removed and processed, and the residual skim milk disposed of due to lack of plant capacity.

Plant milk dumps are a regular and allowable utilization of milk under provisions of the Order. A temporary adjustment allows surplus milk to be dumped at the farm rather than taken to a plant first, although there was minimal volume disposed of this way. ❖

Pool Summary

- A total of 11,380 producers were pooled under the Order with an average daily delivery per producer of 6,726 pounds.
- Pooled milk receipts totaled 2.373 billion pounds, an increase of 1.3 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 31.0 percent of total milk receipts, a decrease of 1.0 percentage points from April.
- 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 5.75 percent. ❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	31.0	736,478,246
Class II	24.6	582,245,469
Class III	26.2	621,741,832
Class IV	18.2	432,429,483
Total Pooled Milk		2,372,895,030

Producer Component Prices

	2016	2015
	\$/lb	
Protein Price	1.4935	2.5206
Butterfat Price	2.2846	2.0599
Other Solids Price	0.0529	0.2533

Class Price Factors

	2016	2015
	\$/cwt	
Class I	16.95	19.08
Class II	13.53	14.81
Class III	12.76	16.19
Class IV	13.09	13.91

Manufactured Dairy Products—2015 Summary

USDA's National Agricultural Statistics Service recently released their *Dairy Products 2015 Summary*. This publication summarizes dairy products manufactured in the United States.

Cheese Production

Nationally, total cheese production (excluding cottage cheese) grew 2.8 percent from 2014. Increases were seen in all categories: American, Italian, cream and Neufchatel, and other cheese that includes Swiss, Hispanic, Muenster, feta, and other varieties. In the Northeast Order, milk used in 2015 cheese production (excluding cottage) decreased 4.3 percent from 2014. Decreases occurred in all categories except other cheese that rose 11 percent; it is predominantly made up of Swiss and Hispanic. Within the Italian cheese category, ricotta increased in the Northeast (U.S. production reported a slight decline), but due to mozzarella making up a majority, Italian cheese declined overall (10.9 percent). For the first 5 months of 2016, all varieties of cheese are reporting increases in the Northeast Order.

Other Products

U.S. butter production increased slightly from 2014 to 2015; in the Northeast it rose 8.5 percent. Yogurt (plain and fruit flavored) declined a slight 0.3 percent in 2015 nationally, but grew 4.2 percent in the Northeast Order. Nonfat dry milk (NFDM) rose 3.3 percent from 2014, nationally. In the Northeast, milk used in the production of dry milk products (mostly nonfat, but does include some whole milk powder) grew 15.8 from 2014. For the January-May period in 2016, milk used in butter is up 6.6 percent; yogurt is up 12.1 percent, and dried milk products are down 1 percent. In the past 2 months, a large increase has occurred in milk used in the minimum price class (animal feed and dumpage). This is a result of surplus milk supplies where milk is being brought to a plant, the cream is removed, and remaining skim is dumped due to lack of processing capacity and demand for the product.

The accompanying table highlights selected products' changes from 2015 to 2014 and 2010, and a comparison of Northeast Order milk used in the

manufacture of these products and the first 5 months of this year.

Leading States

The top five cheese-producing states continue to be Wisconsin, California, Idaho, New York, and New Mexico in 2015. There has been no change in this ranking since 2010. Wisconsin had nearly 4 times the production of New York; California had 3 times New York's production. Pennsylvania ranked seventh in total cheese production. Wisconsin remained the number one producer of American cheese and dry whey production. California led in Italian cheese, butter, unsweetened condensed, ice cream, and nonfat dry milk. New York remained the largest producer of lowfat and creamed cottage cheese and sour cream. State rankings for other products such as yogurt and cream cheese were not given due to having fewer than 3 handlers reporting.

Percent of Total Milk Production

Of U.S. total milk production, 76.3 percent was used in manufactured products (23.7 percent sold for fluid use) in 2015, up from 75.7 percent in 2014 and 71.4 percent in 2010.

In the Northeast Order, the total amount of pooled milk utilized in manufactured products equaled 65.2 percent in 2015; this compares to percents of 64.4 in 2014 and 57.7 in 2010. The increases seen in recent years are consistent with the trend of less milk in the Northeast utilized for fluid drinking products – the Class I decline – although that appears to have leveled off recently. ❖

Change in Selected Manufactured Dairy Products, 2015

	Total US Production of Manufactured Products		Total Northeast Order Milk Used to Manufacture#		
	2015 from:		2016 YTD from:		2015
	2010	2014	2010	2014	
	(percent change)				
Cheese					
American [^]	9.5	2.3	18.2	(0.9)	8.1
Italian ⁺	15.2	2.8	(6.8)	(10.9)	8.4
Cream and Neufchatel	17.6	2.9	15.9	(3.9)	8.8
Other [*]	31.9	5.1	20.9	11.0	15.7
Total Cheese(excludes cottage)	13.4	2.8	5.9	(4.3)	8.7
Butter	18.8	0.1	29.1	8.5	6.6
NFDM [~]	16.6	3.3	65.4	15.8	(1.0)
Yogurt	13.4	(0.3)	246.1	4.2	12.1

Source: USDA, NASS - Dairy Products 2015 Summary; Northeast Order pool report data.

Based on total milk used in manufacture of products. 2016 comparison is for January-May only and adjusted for leap year.

[^] Includes Cheddar, Colby, Monterey, and Jack.

⁺ Includes ricotta, mozzarella, parmesan, provolone, and other Italian varieties.

^{*} Includes Swiss, Hispanic, Muenster, feta, and other varieties.

[~] For human use; Northeast data includes some whole milk powder.

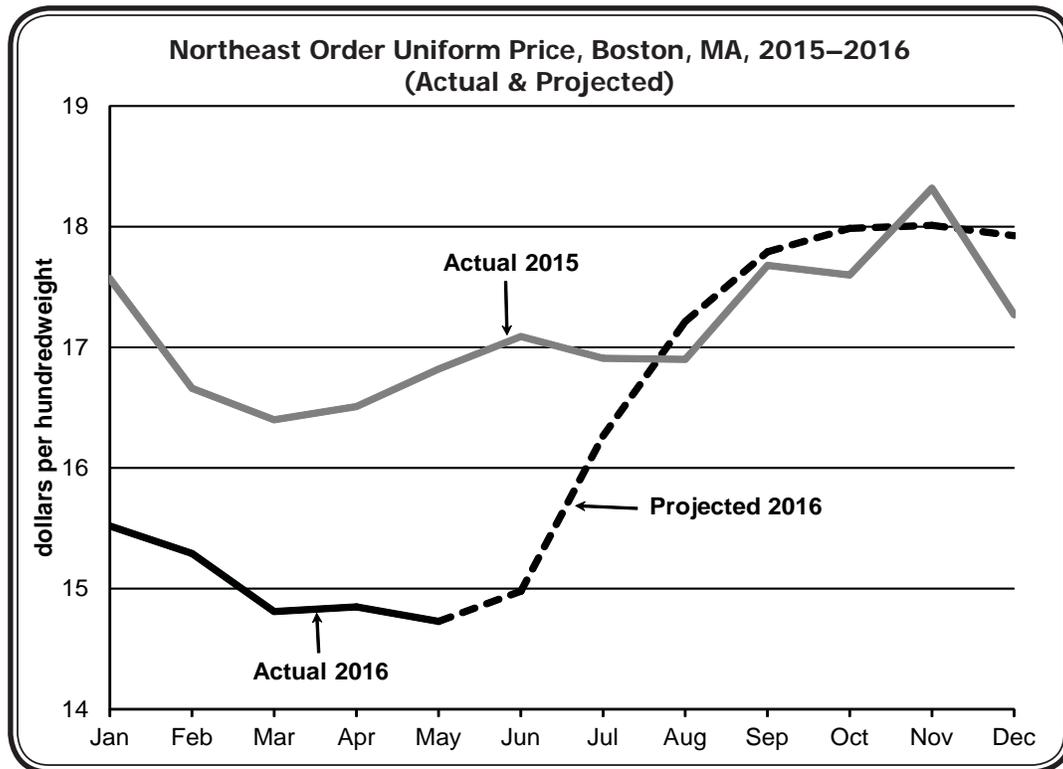
Market Situation

In the November 2015 *Bulletin*, Chicago Mercantile Exchange (CME) futures prices suggested that the 2016 annual average uniform price projected to be \$17.16 per hundredweight (cwt). The uniform price at the Boston, MA, zone has averaged \$15.04 per cwt for the January through May period of this year. Using CME Class III and Class IV milk futures prices settled on June 13, the uniform price for 2016 projects to average \$16.28 per cwt for the year, averaging \$17.17 per cwt over the remaining seven months of the year. Current projections suggest a statistical uniform price that is \$1.50 per cwt higher by July, and \$2.50 per cwt higher by August. Projected prices are presented on the accompanying chart.

Milk Production

United States milk production for the top 23 milk producing states in April was 1.2 percent higher than previous year levels. New York milk production increased 5.3 percent over the previous year, an increase only surpassed by South Dakota (10.5 percent) and Michigan (6.5 percent). Pennsylvania was up 0.5 percent and Vermont was 2.7 percent higher. Vermont's growth ranked seventh highest among the top 23 producing states. Regionally, the Northeast is still experiencing strong milk production gains through the spring flush months, contributing to record breaking Northeast Order pool volume.

Though record pool volumes have resulted in strong Class IV utilization as a balancing class, there has been strength in milk utilized in other classes. Class I utilization, which has steadily declined the past 5 years, showed a year-over-year increase for the second straight month as of May. Class II volume has shown a return to levels just below the record highs of 2013. Class III volume reached a very strong level even excluding milk allocated to the minimum price class. Due to surplus milk supplies, milk was priced at Class III this month where it was brought to a plant, had the cream removed, and remaining skim dumped due to lack of processing capacity and demand for product. Though the pool volume was record setting, milk is still finding robust usage in classes other than Class IV balancing.



Demand

The Restaurant Performance Index (RPI) gained 0.9 percent in April (to 101.6) from 100.7 in March. The Expectations Index component of the overall RPI, stood at 101.0, down 0.2 percent. Although April represented the third consecutive monthly decline, it marked the 42nd consecutive month above 100, which continues to suggest a positive business environment in the coming months. The index is an important measure of domestic demand as a large volume of dairy products are used by the restaurant industry.

Another important measure of domestic demand is the Conference Board's Consumer Confidence Index (CCI). This index decreased from 94.7 in April to 92.6 in May. The decline was driven by an increasingly negative view of the present situation, though the Present Situation Index component of the CCI was still in favorable territory at 112.9 (down from 117.1 in April). The Expectations Index portion of the CCI remained below 80. Current signals suggest the domestic market should continue to support strong consumption of dairy products in the near term.

In their May *Global Dairy Market Outlook*, the U.S. Dairy Export Council reported that U.S. exports accounted for 12.1 percent of total U.S. production on a solids basis in March 2016, down from 15.8 the previous year. With oil prices still stagnant, reducing buying power of some large dairy importers, and the Russian import ban expected to remain throughout 2016, global demand is not expected to rebound significantly this year. ❖

RETURN SERVICE REQUESTED

FIRST CLASS MAIL

The U.S. Department of Agriculture (USDA) prohibits discrimination in all its programs and activities on the basis of race, color, national origin, age, disability, and where applicable, sex, marital status, familial status, parental status, religion, sexual orientation, political beliefs, genetic information, reprisal, or because all or part of an individual's income is derived from any public assistance program. (Not all prohibited bases apply to all programs.) Persons with disabilities who require alternative means for communication of program information (Braille, large print, audiotape, etc.) should contact USDA's TARGET Center at (202) 720-2600 (voice and TDD). To file a complaint of discrimination, write to USDA, Assistant Secretary for Civil Rights, Office of the Assistant Secretary for Civil Rights, 1400 Independence Avenue, S.W., Stop 9410, Washington, DC 20250-9410 or call toll-free at (866) 632-9992 (English) or (800) 877-8339 (TDD) or (866) 377-8642 (English Federal-relay) or (800) 845-6136 (Spanish Federal-relay). USDA is an equal opportunity provider and employer.

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	721,856,277	\$9.37	67,637,933.15	
Butterfat	14,621,969	2.2580	33,016,406.00	
Less: Location Adjustment to Handlers			(2,645,636.60)	\$98,008,702.60
Class II— Butterfat	33,788,041	2.2916	77,428,674.71	
Nonfat Solids	50,225,788	0.6344	31,863,239.89	109,291,914.60
Class III— Butterfat	25,475,644	2.2846	58,201,656.30	
Protein	19,068,720	1.4935	28,479,133.36	
Other Solids	35,633,006	0.0529	1,884,986.01	88,565,775.67
Class IV— Butterfat	15,680,032	2.2846	35,822,601.08	
Nonfat Solids	38,138,739	0.5870	22,387,439.78	58,210,040.86
Total Classified Value				\$354,076,433.73
Add: Overage—All Classes				75,860.71
Inventory Reclassification—All Classes				91,696.97
Other Source Receipts	1,152,049 Pounds			45,714.23
Total Pool Value				\$354,289,705.64
Less: Producer Component Valuations @ Class III Component Prices				(320,209,444.84)
Total PPD Value Before Adjustments				\$34,080,260.80
Add: Location Adjustment to Producers				13,209,294.40
One-half Unobligated Balance—Producer Settlement Fund				635,281.70
Less: Producer Settlement Fund—Reserve				(1,156,109.41)
Total Pool Milk & PPD Value	2,374,047,079 Producer pounds			\$46,768,727.49
Producer Price Differential		\$1.97		
Statistical Uniform Price		\$14.73		

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