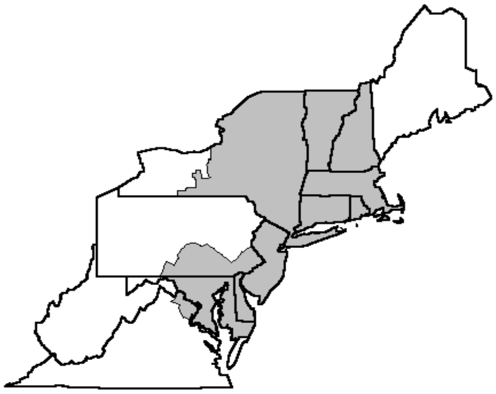

The Market Administrator's

BULLETIN

NORTHEAST MARKETING AREA

Erik F. Rasmussen, Market Administrator

September 2016 Federal Order No. 1

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September Pool Price Calculation

The September 2016 statistical uniform price (SUP) for the Northeast Marketing Area was announced at $17.10 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 $17.79 per cwt. The September statistical uniform price was 13 cents per cwt above the August price. The September producer price differential (PPD) at Suffolk County was $0.71 per cwt, an increase of 65 cents per cwt from last month.

Product Prices Effect

Product prices for butter and cheese declined while nonfat dry milk and dry whey increased. Butter fell nearly 16 cents per pound resulting in an almost 18-cent decline in the butterfat component price. Cheese declined 6 cents per pound and the protein component price decrease about a penny. Nonfat dry milk's 2.6-cent and dry whey's 2-cent per pound increases equaled similar rises in the nonfat solids and other solids prices, respectively. All class prices dropped from the previous month except the Class I price, announced in advance and based on higher prices in August, which rose $1.49 per cwt. The Class II price dropped 55 cents, Class III fell 52 cents, and Class IV decreased 40 cents, all on a per cwt basis.

Class I utilization was above the same month last year. Combined with the higher Class I price, this contributed to a higher SUP. The larger spread in prices between Class I and the other classes resulted in a higher PPD, but producers shipping to plants located in the outer zones (Syracuse and beyond) will still receive a negative PPD.

Highlights

Pooled milk receipts continued to be strong resulting in the highest volume ever for the month of September. Deliveries per day per producer were greater than 6,000 pounds for the first time ever for the month. Class IV utilization set a record high, topping 300 million for the first time for September. Class III utilization recorded the second highest level for the month. The average producer protein test tied with 2009 and 2013 as a record high for the month. The butterfat test was the second highest on record for September.❖

Pool Summary

- A total of 11,512 producers were pooled under the Order with an average daily delivery per producer of 6,303 pounds.
- Pooled milk receipts totaled 2.177 billion pounds, an increase of 0.2 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 34.6 percent of total milk receipts, an increase of 2.9 percentage points from August.
- The average butterfat test of producer receipts was 3.71 percent.
- The average true protein test of producer receipts was 3.07 percent.
- The average other solids test of producer receipts was 5.71 percent.❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	34.6	754,289,397
Class II	24.9	542,177,528
Class III	26.1	567,738,047
Class IV	14.4	312,474,392
Total Pooled Milk		2,176,679,364

Producer Component Prices

	2016	2015
	$/lb	
Protein Price	2.5675	1.9801
Butterfat Price	2.3082	2.7531
Other Solids Price	0.1096	0.0465

Class Price Factors

	2016	2015
	$/cwt	
Class I	19.81	19.59
Class II	14.66	15.36
Class III	16.39	15.82
Class IV	14.25	15.08

Market Situation and PPDs

Using Chicago Mercantile Exchange (CME) Class III and Class IV milk futures prices settled on October 13, the statistical uniform price (SUP) for 2016 projects to average $17.90 per hundredweight (cwt) at the Boston, MA, differential zone for the year. CME prices track fairly close to National Dairy Product Sales Report (NDPSR) prices, so the use of CME futures prices can be a reasonable estimate of where those prices are expected to head. These projections suggest that the SUP has peaked for the year at $17.10 per cwt in the month of September. The 2016 SUP is presented in Chart 1. The same chart also depicts the uniform price as projected based on May information and October 13, 2016, data. Using current data, the producer price differential (PPD) projects to return to positive in all differential zones in the typical Northeast Order milkshed for October, but return to negative in the outermost zones during November and December.

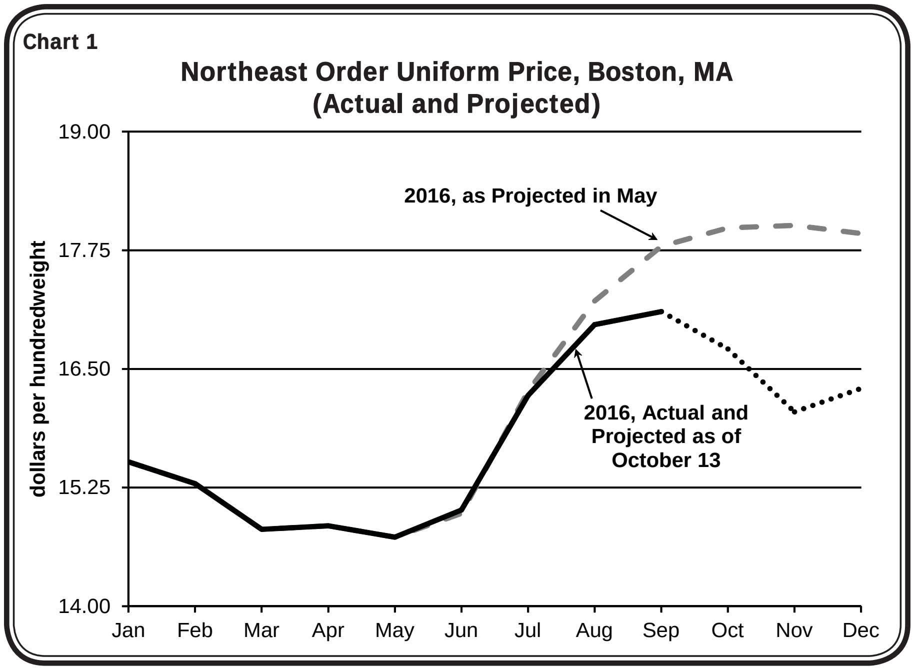
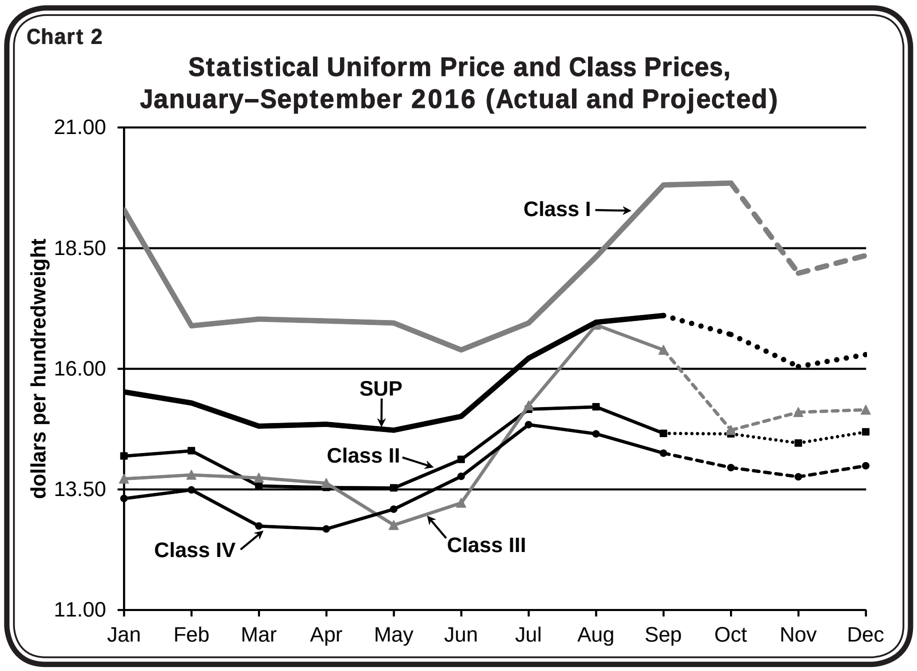


Chart 2 presents the statistical uniform price at the Boston, MA, zone as well as class prices from January to September 2016. Projected class prices through the end of 2016 also are shown. In this chart, the notable increase in the Class III price from $12.76 per cwt in May to $16.91 per cwt in August can be seen, the result of a cheese market that strengthened from a weighted average of $1.41 per pound in May to $1.81 per pound in August. The PPD is calculated by subtracting the Class III price from the SUP. When the difference becomes small (below $1.15 at Boston, MA) or negative, negative PPDs will result. Chart 2 shows the Class III line increasing, narrowing the difference between it and the SUP line to almost nothing by August ($0.06 per cwt PPD at Boston). The Class III price is expected to decline in October due to softening cheese prices. The October SUP, however, will remain relatively higher since it includes a higher Class I price that was established in advance during higher prices. The result of this is a PPD at Boston of just under $2.00 per cwt for October.



As class prices narrow due to the declining Class I price in November and December, the possibility of negative PPDs in outermost zones returns. The SUP level is impacted by the Order's utilization. When class prices narrow, the occurrence of a negative PPD may depend on the month's utilization, particularly, the Class I utilization – typically the highest Class price.❖

Seasonal Shipments and Fluid Sales

Several years ago, during August and September, the Northeast Order would see an increase in shipments of milk to other Federal Order Areas, primarily those in the Southeastern part of the United States. Bulk shipments of milk from pool handlers regulated by the Northeast Order to handlers regulated by other orders would be higher during those months. This would coincide with the beginning of the school year, a time of year when milk supplies tended to be lower, particularly in the Southern states. Over the years shipments from the Northeast to

(continued on page 3)

Seasonal Shipments *(continued from page 2)*

the Southeast have declined as Texas and other western states began shipping to the milk deficit areas in the South.

Change in Shipments

The accompanying table shows bulk shipments to the Southern Orders (Appalachian, Florida, and Southeast) and other orders (predominantly the Central, Mideast, and Upper Midwest) for the combined months of August and September of 2006 and 2016. As shown, the volume shipped south declined from 68.2 million pounds in 2006 to 9.6 million during August and September 2016. Shipments to other orders increased slightly. Of the shipments from the Northeast, only 33.4 percent were Class I in 2016 compared to 52.5 percent in 2006. Class IV accounted for 55 percent of shipments in 2016, up considerably from 2006.

The table also shows bulk shipments of milk to handlers regulated by the Northeast Order from handlers regulated by other orders. Milk received from the southern orders increased slightly from 2006 to 2016, while receipts from the other orders (primarily the Mideast) dropped from 54.7 to 19.2 million pounds. Of the shipments received in the Northeast, 88.4 percent were Class IV, up from 80.3 percent in 2006. The rest were mainly Class II and some Class III; there were no Class I bulk shipments received.

Shipments of Milk by Regulated Handlers to and from the Northeast Order (Combined Months of August and September)

	Transferred to:		Received from:	
	Other Order Areas			
	2006	2016	2006	2016
	(million pounds)			
South	68.2	9.6	38.1	39.5
Other	5.0	6.1	54.7	19.2
Total	73.2	15.7	92.8	58.7
	Percent of shipments utilized as:			
Class I	52.5	33.4	0	0
Class IV	30.7	55.0	80.3	88.4

Decline in Fluid Sales

The decline in shipments for Class I use from 2006 to 2016 is reflective of the consistent drop in fluid milk sales in the Northeast and nationally. This trend has been fairly consistent since 2009. For the January-September period, total fluid sales in the Northeast Marketing Area (the area regulated by the Order that stretches from New England to the Middle Atlantic States, and includes the metropolitan centers of Boston, New York City, Philadelphia, and Washington, D.C.) reported a decline of 1.5 percent compared to the same period in 2015. Of these sales, 90.4 percent are from handlers regulated by the Northeast Order. The rest comes from handlers that are not regulated by the Northeast Order; they may be regulated by another federal order, partially regulated by the Northeast Order, are Producer-Handlers, or are exempt from regulation. This proportion of sales from handlers not regulated under the Northeast Order has increased over the years from only 3.4 percent in 2000 to 4.2 percent in 2006 to nearly 10 percent this year.

Comparison to Utilization

Annual Class I utilization has consistently declined since 2003, with the exception of 2010. Year-to-year declines occurred for 35 months straight, from May 2013 to March 2016. Year-over-year increases have occurred during three months in 2016, including September, but this is not necessarily indicative of a change in the overall decline in fluid sales.❖

Pool Summary for All Federal Orders, January–September, 2015–2016

Federal Order		Total Producer Milk			Producer Price Differential#		Statistical Uniform Price#*	
Number	Name	2015	2016	Change^	2015	2016	2015	2016
		pounds		percent	dollars per hundredweight			
1	**Northeast**	**19,628,544,598**	**20,319,956,946**	**3.1**	**0.91**	**1.23**	**16.95**	**15.61**
5	Appalachian	4,220,148,143	4,221,498,707	(0.3)	N/A	N/A	18.42	16.69
6	Florida	2,039,735,659	2,029,351,261	(0.9)	N/A	N/A	20.81	18.81
7	Southeast	3,922,871,089	4,082,093,799	3.7	N/A	N/A	19.16	17.13
30	Upper Midwest	21,643,916,747	26,075,666,897	20.0	0.09	0.12	16.12	14.50
32	Central	10,638,544,004	11,735,859,065	9.9	0.07	0.22	16.10	14.60
33	Mideast	13,657,628,130	14,979,476,766	9.3	0.06	0.38	16.10	14.76
124	Pacific Northwest	4,458,702,160	6,132,821,841	37.0	(0.65)	0.03	15.38	14.41
126	Southwest	8,396,521,622	10,261,379,495	21.8	0.95	1.09	16.99	15.47
131	Arizona	3,594,143,556	3,788,409,010	5.0	N/A	N/A	15.80	14.69
	All Market Total/Average	92,200,755,708	103,626,513,787	12.0	0.24	0.51	17.18	15.66

\# Price at designated order location. * Price at 3.5% butterfat. N/A = Not applicable.

^ A signficant volume of milk was depooled during several months of 2015 and August 2016.

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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	738,637,696	$11.42	84,352,424.88	
	Butterfat	15,651,701	2.5100	39,285,769.51	
Less:	Location Adjustment to Handlers			(2,766,838.53)	$120,871,355.91
Class II—	Butterfat	30,017,301	2.3152	69,496,055.29	
	Nonfat Solids	46,739,925	0.7544	35,260,599.47	104,756,654.76
Class III–	Butterfat	23,856,371	2.3082	55,065,275.54	
	Protein	17,425,871	2.5675	44,740,923.82	
	Other Solids	32,202,361	0.1096	3,540,338.75	103,346,538.11
Class IV–	Butterfat	11,307,624	2.3082	26,100,257.74	
	Nonfat Solids	27,431,335	0.7097	19,468,018.47	45,568,276.21
Total Classified Value					**$374,542,824.99**
Add:	Overage—All Classes				154,753.56
	Inventory Reclassification—All Classes				100,590.17
	Other Source Receipts	1,729,661	Pounds		41,086.83
Total Pool Value					**$374,839,255.55**
Less:	Producer Component Valuations @ Class III Component Prices				(371,784,944.47)
Total PPD Value Before Adjustments					**$3,054,311.08**
Add:	Location Adjustment to Producers				12,329,818.54
	One-half Unobligated Balance—Producer Settlement Fund				1,010,118.16
Less:	Producer Settlement Fund—Reserve				(927,543.69)
Total Pool Milk & PPD Value		2,178,409,025	Producer pounds		**$15,466,704.09**
	Producer Price Differential		**$0.71**		
	Statistical Uniform Price		**$17.10**		

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