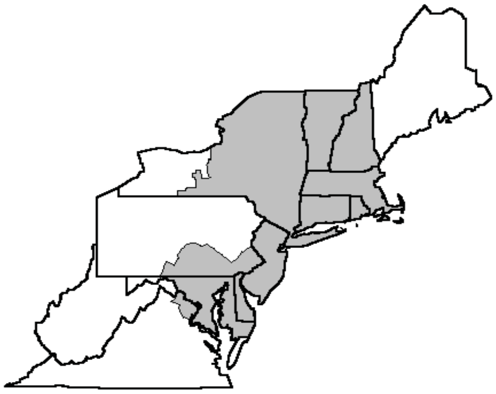

The Market Administrator's

BULLETIN

NORTHEAST MARKETING AREA

Erik F. Rasmussen, Market Administrator

December 2016 Federal Order No. 1

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December Pool Price Calculation

The December 2016 statistical uniform price (SUP) for the Northeast Marketing Area was announced at $17.68 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 $19.28 per hundredweight. The December statistical uniform price was $1.34 per hundredweight above the November price. The December producer price differential (PPD) at Suffolk County was $0.28 per hundredweight, an increase of 70 cents per hundredweight from last month.

Product Prices Effect

All commodity product prices increased in December. Butter prices jumped 19 cents; nonfat dry milk rose nearly 5 cents; cheese prices increased about 4 cents; and dry whey was up 3 cents, all on a per pound basis. These increases resulted in higher prices for all component prices, except protein due to the butterfat component that is part of its formula. All class prices rose: Class I increased $2.10; Class II was up 66 cents; Class III rose 64 cents; and Class IV grew $1.21, all on a per hundredweight basis. With higher prices in all classes, and the higher utilizations in the higher priced classes, the SUP increased. The spread between Class I and Class III increased, helping the PPD return to a positive value at the base zone. Producers shipping to plants in the $2.90 zone and further out would still see negative PPDs (see article on page 3 for more explanation).

Records Set

The total volume of producer milk receipts topped was the highest ever for the month of December. As expected, the year finished with a new record total pooled volume. Class IV volume also was the highest ever for the month. The average producer butterfat test was the highest ever for the Order. Both the average producer protein and other solids were the highest for the month of December. For more highlights, see the article on page 2 that summarizes Order statistics for 2016.❖

Pool Summary

- A total of 11,306 producers were pooled under the Order with an average daily delivery per producer of 6,470 pounds.
- Pooled milk receipts totaled 2.268 billion pounds, an increase of 0.9 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 34.6 percent of total milk receipts, unchanged from November.
- The average butterfat test of producer receipts was 3.96 percent.
- The average true protein test of producer receipts was 3.18 percent.
- The average other solids test of producer receipts was 5.75 percent.❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	34.6	784,957,265
Class II	21.5	487,905,032
Class III	25.2	572,103,220
Class IV	18.7	422,559,290
Total Pooled Milk		2,267,524,807

Producer Component Prices

	2016	2015
	$/lb	
Protein Price	2.6922	1.3599
Butterfat Price	2.3354	2.9057
Other Solids Price	0.2063	0.0355

Class Price Factors

	2016	2015
	$/cwt	
Class I	20.13	19.96
Class II	15.26	16.71
Class III	17.40	14.44
Class IV	14.97	15.52

2016 Northeast Order Statistics Summarized

The volume of milk received from producers shipping to handlers regulated under the Northeast Order during 2016 set a new record high for the Order, topping 27 billion pounds for the first time ever. Total volume has increased for the past seven years in a row, with the past three setting new Order record highs.

The year ended with 384 less producers than at the end of 2015. Annual average daily deliveries per producer (DDP) equaled 6,440 pounds, an increase of 6.1 percent from 2015. With significant milk production nationwide, coupled with sofness in demand, average prices during 2016 were the lowest since 2009.

The accompanying table compares selected pool statistics for 2015 and 2016; all changes have been adjusted for leap year in 2016.

Northeast Order Pool Statistics, 2015–2016

Pool Statistics	2015	2016	2015-16 Change
	million pounds		percent
Class I	8,943.4	8,828.0	(1.6)
Class II	6,322.4	6,552.1	3.4
Class III	6,219.1	6,873.7	10.2
Class IV	4,553.8	4,753.4	4.1
Total	26,038.7	27,007.2	3.4
	pounds		
DDP	6,071	6,440	6.1
	utilization percentage		change
Class I	34.3	32.7	(1.6)
Class II	24.3	24.3	0.0
Class III	23.9	25.4	1.5
Class IV	17.5	17.6	0.1
	dollars/cwt		percent
Class I	19.59	18.05	(7.9)
Class II	15.48	14.35	(7.3)
Class III	15.80	14.87	(5.9)
Class IV	14.35	13.77	(4.0)
SUP	17.14	15.90	(7.2)
Producer Component:			
Tests:	percent		change
Butterfat	3.78	3.81	0.03
Protein	3.07	3.09	0.02
Other Solids	5.75	5.75	0.00
Prices:	dollars/lb		percent
Butterfat	2.2954	2.3084	0.6
Protein	2.2393	2.0955	(6.4)
Other Solids	0.1867	0.0910	(51.3)
Nonfat Solids	0.7265	0.6548	(9.9)

Class Utilization Changes

Class I utilization averaged 32.7 percent in 2016, a decrease of 1.6 percentage points from the previous year. The total volume of milk used in Class I continued its decline, but at a slower rate than in 2015. During 4 months of 2016, Class I volume surpassed the same month of the previous year. Class II usage increased 3.4 percent and was only 27 million pounds below the record-setting total in 2013. Overall, utilization was 24.3 percent, the same percent as in 2015, but based on a larger total volume.

Class III volume jumped 10.2 percent and ended the year with the second largest total since the Order's inception, surpassed only by the volume in 2000. Utilization averaged 25.4 percent, up 1.5 percentage points from 2015. The amount of milk used in Class IV rose for the fifth straight year, setting a new record high for the Order. It accounted for an annual average of 17.6 percent utilization, up slightly from 2015.

Lower Prices

As mentioned above, milk supplies were plentiful during 2016. Butterfat demand was strong due to increased interest in higher fat products that began in 2015. As a result, butter was the only National Dairy Products Sales Report (NDPSR) product to experience an increase, albeit slight, in price during 2016. Even so, the annual average was the second highest NDPSR butter price on record. The NDPSR prices follow the Chicago Mercantile Exchange (CME) prices. During 2016, butter prices were less volatile than in 2015. Prices in 2016 peaked at $2.3675 in June (compared to $3.1350 in September 2015) but never fell below October's $1.7550 per pound (compared to January 2015's $1.5400). Cheese prices followed a similar pattern as in 2015, although they bottomed out lower and peaked higher. Overall they averaged about 4 cents per pound less than in 2015. Both nonfat dry milk and dry whey prices continued to climb throughout 2016, but averaged less than 2015.

All component prices averaged below the previous year except butterfat, which was up slightly. Lower component prices translated into lower class prices, and ultimately, lower statistical uniform prices. The price paid to producers for butterfat averaged $2.3084 per pound, up slightly from 2015 and the second highest reported since the Order's inception in 2000. The per-pound annual average protein price was $2.0955 per pound, the lowest since 2006, and a decline of 6.4 percent from 2015. The other solids price averaged $0.0910 per pound, less than half the previous year's price and the lowest in 7 years. The nonfat solids price averaged $0.6548 per pound, the lowest since the Order's inception.

The Class I price averaged $18.05 per hundredweight in 2016, a drop of 7.9 percent from the 2015 annual average. The Class II price averaged $14.35 per hundredweight, down 7.3 percent from the previous year. The Class III price averaged $14.87, down 5.9 percent from 2015. The Class IV price dropped to $13.77, a decrease of 4.0 percent. Overall, the statistical uniform price (blend) reported at

(continued on page 3)

Negative PPDs in Zones Below $3.00–December Expected to be Last Month

The December 2016 producer price differential (PPD) was $0.28 per hundredweight (cwt) at Suffolk County, Massachusetts (Boston), the basing point for the Northeast Order and a $3.25 differential zone. Producers' milk delivered to plants in Suffolk County, or any other county that has a $3.25 differential, would receive the 28-cent PPD. Plants located in differential zones less than $3.25 have a lower PPD obligation to producers whose milk is delivered to those plants. Differential values determine the relative PPD value and are meant to help cover the cost of hauling milk from the farm location of where the milk is produced to the plant of first receipt. For the month of December, milk delivered to plants located in the zones below $3.00, further away from the Boston base point, received a negative PPD.

Negative PPDs Explained

Producers are paid for their protein, butterfat, and other solids components from the pool at the same dollar per pound value as Class III milk. The PPD is an adjustment made to the producer pay prices for the additional value generated by milk used in the other classes (I, II, and IV). In December, due to lower Class II and Class IV prices, relative to the Class III price, there is little to no value left to be paid out in the form of a PPD, after paying producers for the value of their Class III components. In short, nearly the full classified value of the monthly pool is being received by producers in their milk components valuation and not the PPD.

Current PPD Dynamics

Higher Class III price levels in November that contributed to negative PPDs in all zones that month, increased again in December, but less substantially. The December Class I price was established in advance, and already captured much of the value of increased Class III pricing in using the higher of Class III or Class IV pricing factor. This resulted in the December Class I price being high enough relative to the December Class III price to keep the statistical uniform price above the Class III price—and thus a positive PPD at Boston.

Looking Ahead

Price projections based on January 17th Chicago Mercantile Exchange futures prices of Class III and Class IV milk predict that the Northeast Order will average a $1.21 per cwt PPD from January through June. A PPD over $1.15 at the Boston location will result in positive PPDs in most Northeast differential zones.❖

2016 Northeast Order *(continued from page 2)*

Suffolk County, Massachusetts (Boston) averaged $15.90 per hundredweight, 7.2 percent below the 2015 average. All class and uniform prices were their lowest in the past 6 or 7 years.

Producer Tests

The annual average producer butterfat test equaled 3.81 percent in 2016, up 0.03 points from the previous year, setting a new Order record high. Records were set during 6 months. The annual average producer protein test was 3.09 percent, up 0.02 points from 2015 and also a new record for the Order. The producer other solids test averaged 5.75 percent, unchanged from the previous year and tied as a record with 2012 and 2015.❖

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

Federal Order Number	Federal Order Name	Total Producer Milk 2015	Total Producer Milk 2016	Change^	Producer Price Differential# 2015	Producer Price Differential# 2016	Statistical Uniform Price#* 2015	Statistical Uniform Price#* 2016
		pounds	pounds	percent	dollars per hundredweight			
1	**Northeast**	**26,038,698,509**	**27,007,191,866**	**3.4**	**1.35**	**1.03**	**17.14**	**15.90**
5	Appalachian	5,645,890,392	5,595,157,423	(1.2)	N/A	N/A	18.58	17.09
6	Florida	2,741,348,121	2,714,073,908	(1.3)	N/A	N/A	20.90	19.23
7	Southeast	5,204,719,534	5,389,646,521	3.3	N/A	N/A	19.29	17.55
30	Upper Midwest	30,318,026,869	32,817,621,049	7.9	0.16	0.05	15.96	14.91
32	Central	14,476,383,447	15,088,319,343	3.9	0.54	0.05	16.13	14.92
33	Mideast	18,376,366,688	19,655,419,521	6.7	0.44	0.17	16.23	15.03
124	Pacific Northwest	6,645,733,354	7,882,929,743	18.3	(0.20)	(0.19)	15.59	14.67
126	Southwest	11,890,997,395	12,717,094,999	6.7	1.18	0.88	16.98	15.75
131	Arizona	4,788,031,826	4,979,072,172	3.7	N/A	N/A	16.05	14.99
	All Market Total/Average	126,126,196,135	133,846,526,545	5.8	0.54	0.33	17.28	16.00

Price at designated order location.
^ A signficant volume of milk was depooled during several months of 2015 and 2016.
* Price at 3.5% butterfat.
N/A = Not applicable.

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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	767,872,656	$13.09	100,514,530.67	
	Butterfat	17,084,609	2.1429	36,610,608.63	
Less:	Location Adjustment to Handlers			(2,897,626.21)	$134,227,513.12
Class II—	Butterfat	28,819,371	2.3424	67,506,494.66	
	Nonfat Solids	42,665,174	0.8133	34,699,586.06	102,206,080.72
Class III–	Butterfat	27,270,185	2.3354	63,686,790.05	
	Protein	18,091,981	2.6922	48,707,231.28	
	Other Solids	32,593,115	0.2063	6,723,959.63	119,117,980.96
Class IV–	Butterfat	16,650,533	2.3354	38,885,654.78	
	Nonfat Solids	37,773,281	0.7822	29,546,260.39	68,431,915.17
Total Classified Value					**$423,983,489.97**
Add:	Overage—All Classes				49,359.10
	Inventory Reclassification—All Classes				497,971.76
	Other Source Receipts	493,953	Pounds		14,555.25
Total Pool Value					**$424,545,376.08**
Less:	Producer Component Valuations @ Class III Component Prices				(430,753,603.41)
Total PPD Value Before Adjustments					**($6,208,227.33)**
Add:	Location Adjustment to Producers				12,867,008.02
	One-half Unobligated Balance—Producer Settlement Fund				805,376.43
Less:	Producer Settlement Fund—Reserve				(1,113,704.49)
Total Pool Milk & PPD Value		2,268,018,760	Producer pounds		**$6,350,452.63**
	Producer Price Differential		**$0.28**		
	Statistical Uniform Price		**$17.68**		

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