



The Market Administrator's

BULLETIN

CALIFORNIA MARKETING AREA

Cary Hunter, Interim Market Administrator

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To contact the California Marketing Area office:

Tel.: (916) 702-6455 — Fax: (833) 673-3751

Mailing Address: P.O. Box 6660, Folsom, CA 95763

e-mail address: market.admin@cafmmo.com — website address: www.cafmmo.com

August Pool Price Calculation

The August 2020 Statistical Uniform Price (SUP) for the California Marketing Area was announced at \$14.53 per hundredweight (cwt) for milk delivered to plants located in Los Angeles County, California, the pricing point for the California Federal Marketing Order (CFMO). The SUP 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 (3.77 percent butterfat, 3.11 percent protein, and 5.74 percent other solids), the August SUP would be \$15.50 per cwt, which is lower than that of July by 37 cents per cwt. August's Producer Price Differential (PPD) at Los Angeles County was -\$5.24 per cwt, which is \$4.58 above last month's PPD.

Product Prices Effect

All monthly average product prices in the National Dairy Product Sales Report (NDPSR) fell from July to August. After increasing 8 cents from June to July, the butter price declined 27 cents per pound from July to August. Following several months of large jumps, the cheese price decreased about 48 cents per pound from July to August. The prices for dry whey and nonfat dry milk experienced minimal changes, both falling about one cent per pound.

August's component prices all decreased from the previous month's prices. The protein price saw the biggest decline, \$1.19 per pound, from July to August. The butterfat price fell about 33 cents per pound. The prices for other solids and nonfat solids both experienced slight decreases of about one cent per pound.

All class prices, except the Class I price, decreased from July to August. The Class I price continued its upward trajectory, rising \$3.22 per cwt. The Class II price fell 52 cents per cwt from July to August. The Class III price declined \$4.77 per cwt following a two-month-long record-breaking climb. Finally, the Class IV price decreased \$1.23 per cwt from July to August.

Based on current futures market prices, the SUP is projected to remain relatively stable for the remainder of the year before increasing slightly after October. PPDs are expected to be negative, though not as negative as the Class III price falls. ❖

Pool Summary

- A total of 813 producers were pooled under the Order with an average daily delivery per producer of 72,674 pounds, a decrease of 1.7 percent from July.
- Pooled milk receipts totaled 1.832 billion pounds, a decrease of 2.5 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 21.8 percent of total pooled milk receipts, up 0.1 percentage points from July.
- The average butterfat test of producer receipts was 3.77 percent.
- The average true protein test of producer receipts was 3.11 percent.
- The average other solids test of producer receipts was 5.74 percent. ❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	21.8	400,039,657
Class II	8.1	148,116,110
Class III	0.7	12,019,221
Class IV	69.4	1,271,433,270
Total Pooled Milk		1,831,608,258

Producer Component Prices

	2020	2019
	\$/lb	
Protein Price	4.4394	2.4453
Butterfat Price	1.6275	2.6574
Other Solids Price	0.1387	0.1730

Class Price Factors

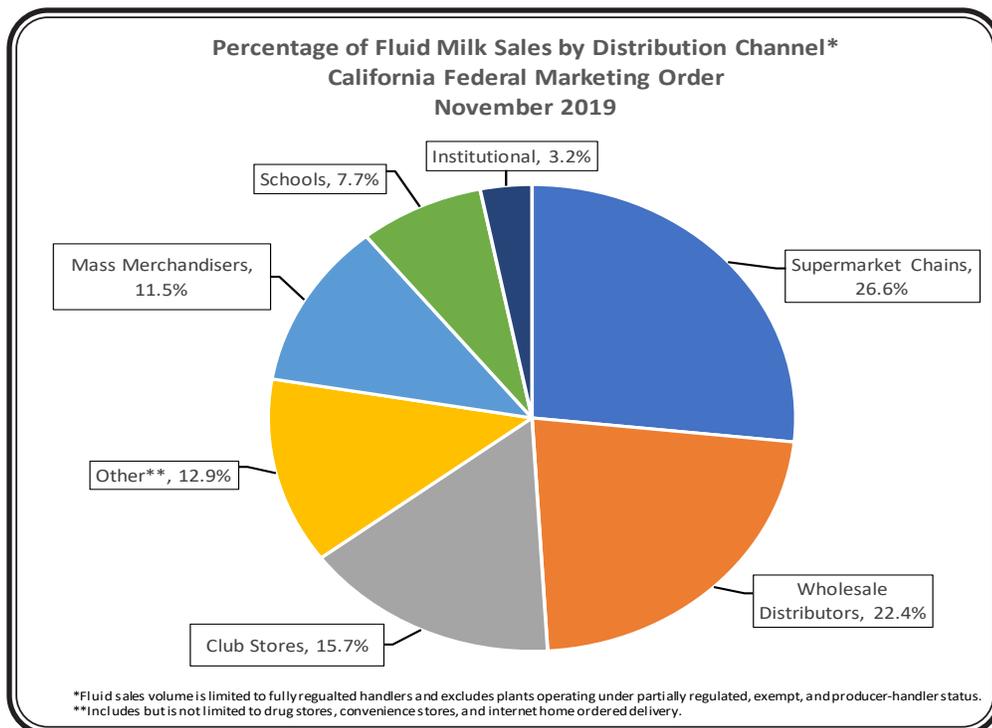
	2020	2019
	\$/cwt	
Class I	21.88	19.99
Class II	13.27	17.60
Class III	19.77	17.60
Class IV	12.53	16.74

Fluid Milk Container Sales Survey

The 2019 container sales survey of Class I handlers regulated under the California Federal Marketing Order (CFMO) was recently completed. The survey collects data on fluid sales volume by container type and size as well as method of distribution within the geographically defined area of the CFMO for the month of November 2019. The data excludes sales by handlers operating under partially regulated, exempt, or producer-handler status. This is the first year the CFMO has participated in the survey.

Fluid Sales Volume by Distribution Channel

The accompanying figure shows the percentage of sales volume of fluid milk by distribution channel in November 2019. The largest share of sales, 26.6 percent, are distributed through supermarket chains. The second largest is wholesale distributors – distributors that supply food service and other outlets – at 22.4 percent, and the third largest share of sales volume is club stores (Costco, Sam’s Club, etc.) at 15.7 percent. 12.9 percent of sales fall into the “other” category, which includes but is not limited to sales distributed to convenience stores (2.4 percent), drug stores (0.3 percent), and internet home delivery (0.05 percent). Mass merchandisers (Target, Walmart, etc.) make up more than 11 percent of sales distribution for handlers regulated under the CFMO. Notably, sales in demand channels likely most negatively affected by COVID-19 – schools and wholesale distributors – accounted for more than 30 percent of November 2019 volume.



Top Products: Conventional and Organic

Table 1 illustrates conventional fluid milk products with the highest volume of sales under the CFMO. The top two most widely distributed conventional fluid milk products on a volume basis are whole milk in plastic gallon-sized containers (over 18 percent of the market) and reduced-fat (2%) milk in plastic gallons (over 17 percent of the market). Among the top five organic fluid products (see Table 2), reduced fat milk in paper half-gallon containers captures a majority of organic sales at just over 18 percent, while whole milk in plastic gallon containers captures over 17 percent of sales. Interestingly, both the top two conventional and organic products account for over a third of fluid milk products fully regulated under the CFMO in their respective markets.

Rank	Product	Size	Container	% of Market ¹
1	Whole Milk	128oz	Plastic	16.32%
2	2% Reduced Fat	128oz	Plastic	16.07%
3	Whole Milk	64oz	Paper	4.61%
4	2% Reduced Fat	64oz	Plastic	4.02%
5	1% Lowfat	128oz	Plastic	3.64%

1/. Share of total fluid conventional sales only; organic data is excluded

reduced fat milk in paper half-gallon containers captures a majority of organic sales at just over 18 percent, while whole milk in plastic gallon containers captures over 17 percent of sales. Interestingly, both the top two conventional and organic products account for over a third of fluid milk products fully regulated under the CFMO in their respective markets.

The five most popular conventional fluid dairy products account for nearly half of all conventional milk marketed under the CFMO in November 2019; similarly, over 70 percent of organic sales are accounted for in the five most popular

Rank	Product	Size	Container	% of Market ²
1	2% Reduced Fat	64oz	Paper	18.38%
2	Whole Milk	128oz	Plastic	17.07%
3	Whole Milk	64oz	Paper	16.55%
4	2% Reduced Fat	128oz	Plastic	10.49%
5	Fat Free - Flavored	Other	Paper	7.81%

2/. Share of total fluid organic sales only; conventional data is excluded

organic products, exhibiting the large degree of concentration found in both markets. The main differences between the two sectors reside in the most popular product types and sizes. While plastic containers dominated most of the CFMO’s top five conventional fluid dairy products, paper containers were the more popular choice for organic products. Additionally, conventional products favored the larger gallon-sized containers, while half gallon and smaller containers were more prevalent among organic products. ❖

California Mailbox Prices: What Reaches the Farmgate?

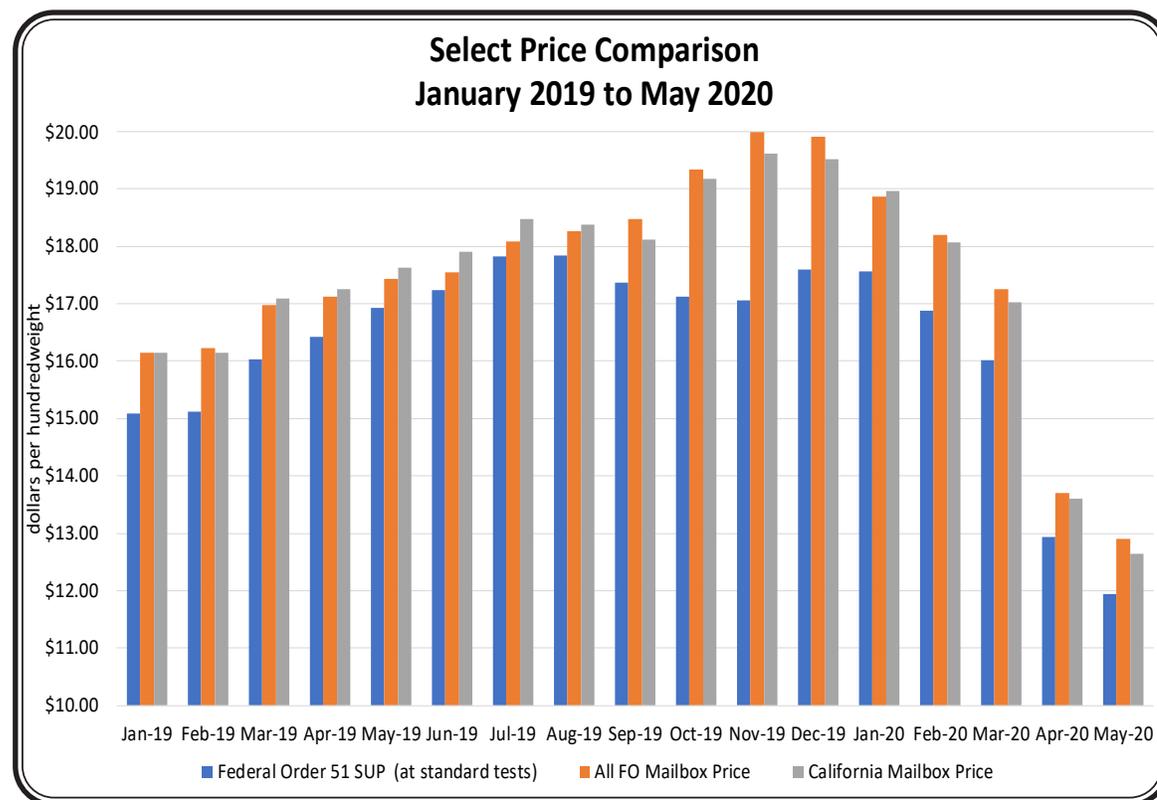
USDA Agricultural Marketing Service (AMS) publishes the California Mailbox Price using Federal Order (FO) data. The Mailbox Price is the net price received by producers for both organic and conventional milk, pooled or not, including all payments received for milk sold and deducting costs associated with marketing the milk. In short, the Mailbox Price is meant to reflect the price actually received by a producer. Prior to FO 51, the California Department of Food and Agriculture (CDFA) calculated the California Mailbox Price using the same methodology as the FO system. Further documentation can be found at www.ams.usda.gov/resources/marketing-order-statistics/mailbox-milk-prices.

The accompanying figure shows the Mailbox Price for all FOs from January 2019 to May 2020. The California Mailbox Price trends closely with that of all FOs, being either slightly above or slightly below the all FO Mailbox Price in any given month. The weighted average 2019 Mailbox Price for California was \$17.92 per hundredweight (cwt) – two cents above the weighted average for all FOs at \$17.90 per cwt.

The figure also shows the FO 51 Statistical Uniform Price (SUP) at standard tests from January 2019 to May 2020. As illustrated in the chart, the California Mailbox Price is significantly higher than the FO 51 SUP. The weighted average 2019 Mailbox Price was \$17.92 per cwt – \$1.12 above the weighted average 2019 SUP. This can be partly attributed to three key factors. First, the SUP is announced at a standard tests (3.5 percent butterfat, 2.99 percent protein, and 5.69 percent other solids) while the Mailbox Price is calculated at actual tests of producers' milk; second, the Mailbox Price includes premiums – like a quality premium – and deductions –

such as hauling – that affect the milk check; third, the SUP is calculated solely using pooled milk whereas the Mailbox Price includes depooled milk.

Since the inception of FO 51, handlers have exercised their ability to depool milk in Classes II, III, and IV – within FO 51 limitations. In November and December of 2019, for example, the Mailbox Price was \$2.05 and \$2.55 per cwt above the SUP announced at standard tests,



respectively. The Class III price in each month was also more than \$2.00 per cwt above the SUP, but Class III utilization only accounted for 1.9 percent of November's pool pounds and 3.1 percent of December's pooled pounds. In January and February of 2019, Class IV milk was priced above the SUP, but Class IV utilization was below three percent. In both months, the California Mailbox Price was more than \$1.00 per cwt above the SUP. These low Class III and IV utilizations do not represent drastic changes in Class III or IV production but rather the dynamics of milk in the FO 51 pool. While the SUP does not incorporate this higher priced depooled milk, the Mailbox Price does; therefore, it often climbs well above the SUP, especially in periods of significant depooling. The Mailbox Price will likely continue to be substantially above the SUP at standard tests through summer and fall of 2020 due to depooling of Class III milk. ❖



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FIRST CLASS MAIL

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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	390,156,720	\$15.44	\$60,240,197.57	
Butterfat	9,882,937	1.9953	19,719,424.20	
Less: Location Adjustment to Handlers			(820,321.91)	\$79,139,299.85
Class II— Butterfat	13,961,953	1.6345	22,820,812.21	
Nonfat Solids	12,317,979	0.8689	10,703,091.97	33,523,904.18
Class III— Butterfat	1,989,578	1.6275	3,238,038.20	
Protein	323,758	4.4394	1,437,291.27	
Other Solids	597,738	0.1387	82,906.27	4,758,235.74
Class IV— Butterfat	43,207,717	1.6275	70,320,559.46	
Nonfat Solids	113,122,462	0.7862	88,936,879.63	159,257,439.09
Total Classified Value			<i>Total value of milk in the pool</i>	\$276,678,878.86
Add: Overage—All Classes				141,561.09
Inventory Reclassification—All Classes				(56,483.70)
Other Source Receipts	0			0.00
Total Pool Value				\$276,763,956.25
Less: Value of Producer Butterfat	69,042,185	1.6275	(112,366,156.17)	
Value of Producer Protein	56,967,328	4.4394	(252,900,755.90)	
Value of Producer Other Solids	105,212,199	0.1387	(14,592,931.98)	(379,859,844.05)
Total PPD Value Before Adjustments			<i>Total Class III value of producer components</i>	(\$103,095,887.80)
Add: Location Adjustment to Producers				7,071,858.84
One-half Unobligated Balance—Producer Settlement Fund				789,801.51
Less: Producer Settlement Fund—Reserve				(742,045.31)
Total Pool Milk & PPD Value	1,831,608,258			(\$95,976,272.76)
Producer Price Differential		\$(5.24)		
Statistical Uniform Price		\$14.53		

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