



The Market Administrator's

BULLETIN

CALIFORNIA MARKETING AREA

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Federal Order No. 51

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August Pool Price Calculation

The August 2021 Statistical Uniform Price (SUP) for the California Marketing Area was announced at \$16.59 per hundredweight (cwt), a decrease of 35 cents per cwt from last month, 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 pooled milk (3.84 percent butterfat, 3.20 percent protein, and 5.74 percent other solids), the August SUP would be \$17.76 per cwt, which is lower than that of July by 6 cents per cwt. August's Producer Price Differential (PPD) at Los Angeles County was \$0.64 per cwt, an increase of 19 cents from last month's PPD of \$0.45 per cwt.

Product Prices Effect

All monthly average product prices in the National Dairy Product Sales Report declined from July to August, except for the nonfat dry milk price. The butter and dry whey prices decreased by roughly 4 cents per pound each from the previous month. The cheese price declined almost 3 cents per pound from July. Lastly, the nonfat dry milk price gained just over a penny per pound.

The component prices, much like the commodity prices, experienced mostly downward movements from July to August. The butterfat price saw the largest decline, dropping nearly 5 cents per pound from last month. The protein price and other solids price decreased by almost 4 cents and roughly 4.5 cents per pound, respectively. The nonfat solids price was the only price to move upward, rising just 1 cent per pound.

All class prices decreased from July to August. The Class I price lost 52 cents per cwt to \$19.00. The Class II price dropped 32 cents per cwt to \$16.51. The Class III price saw the largest decrease, losing 54 cents per cwt to \$15.95, while the Class IV price saw the smallest decrease, declining 8 cents per cwt to \$15.92. The three-cent spread between the Class III and IV prices in August is the lowest since the inception of the California Federal Marketing Order. ❖

Pool Summary

- A total of 975 producers were pooled with an average daily delivery per producer of 84,057 pounds, an increase of 11.3 percent from July.
- Pooled milk receipts totaled 2.541 billion pounds, an increase of 38.1 percent on an average daily basis.
- Class I usage (milk for bottling) accounted for 16.1 percent of total pooled milk receipts, down 4.6 percentage points from July.
- The average butterfat test of producer receipts was 3.84 percent.
- The average true protein test of producer receipts was 3.20 percent.
- The average other solids test of producer receipts was 5.74 percent. ❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	16.1	409,768,595
Class II	4.6	117,033,386
Class III	32.0	814,091,706
Class IV	47.2	1,199,714,995
Total Pooled Milk		2,540,608,682

Producer Component Prices

	2021	2020
	\$/lb	
Protein Price	2.4582	4.4394
Butterfat Price	1.8508	1.6275
Other Solids Price	0.3735	0.1387

Class Price Factors

	2021	2020
	\$/cwt	
Class I	19.00	21.88
Class II	16.51	13.27
Class III	15.95	19.77
Class IV	15.92	12.53

The Dynamics of “Repooling”

More than 800 million pounds of Class III milk were pooled on Federal Order (FO) 51 in August 2021 – an increase of more than 700 million pounds from July. This marks the highest level of Class III utilization on a daily average basis and its largest share of the pool since 2019, well before the pricing impacts of the Covid-19 pandemic and its associated policy responses. Among these impacts were several factors that led to low levels of Class III milk pooled on FO 51 for most of 2020 and 2021 to date, including wide spreads between the Class III and IV prices. This large spread and other atypical pricing relationships drove Class III prices above the Statistical Uniform Price (SUP) in several months. When a handler expects the SUP to be lower than the price for Class II, III, or IV in a given month, they may elect to withhold milk of that Class from the pool and avoid incurring a payment to the pool producer settlement fund.

As a result, only minimal Class III production was intentionally included on the Order 51 pool during this period of time.

Recently, however, pricing relationships have incentivized the pooling of Class III milk in certain location differentials; the SUP at the \$2.10 per hundredweight (cwt) differential surpassed the Class III price by \$0.09 in June, \$0.45 in July, and \$0.64 in August. Location differentials incentivize milk movements towards areas lacking the production necessary to meet the local milk demand. Accordingly, areas with low milk production but high milk demand have high differentials, while those with high milk production but low milk demand have lower differentials. A map of the differentials is available at www.cafmno.com/publications/marketing-area-maps/. Figures 1 and 2 illustrate the

Class III price and the FO 51 SUP in July and August 2021 by location differential. The Class III price is fixed across location differentials: it does not vary according to the location of the processing plant. The SUP, on the other hand, varies with the location of the plant where producer milk was received. Milk received at a plant with a higher location differential receives a higher SUP than the same milk received at a lower location differential. This means that one factor in determining whether to pool milk – the anticipated relationship between Class prices and the SUP – varies by plant location.

Figure 1 shows that some location differentials, like the \$2.10 differential, had more evident Class III pooling incentives than others in July. The SUP at the \$2.10 differential was almost half a dollar per cwt above the Class III price, but in the lowest differential in the FO 51 marketing area (\$1.60) the SUP was five cents below the Class III price. Therefore, not all handlers or producers would have received a “pay out” from pooled Class III milk in July despite the \$0.45 Producer Price Differential (PPD) at the \$2.10 differential. Some handlers and cooperatives in lower differentials likely elected to withhold

Figure 1: Federal Order 51 Statistical Uniform and Class III Prices by Location Differential, July 2021

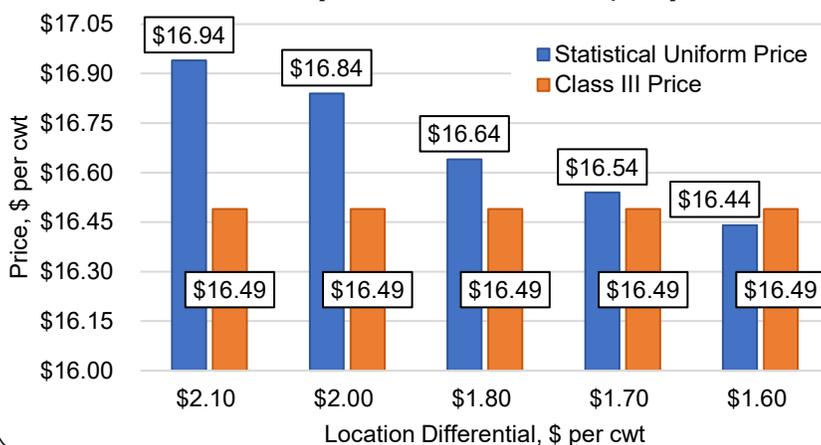
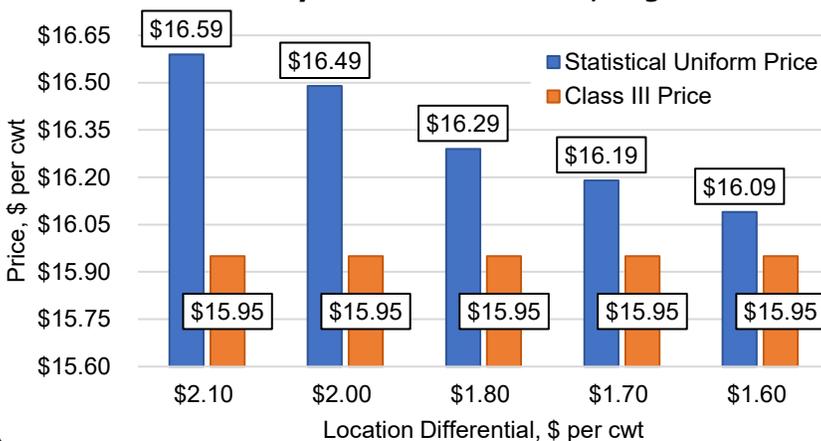


Figure 2: Federal Order 51 Statistical Uniform and Class III Prices by Location Differential, August 2021



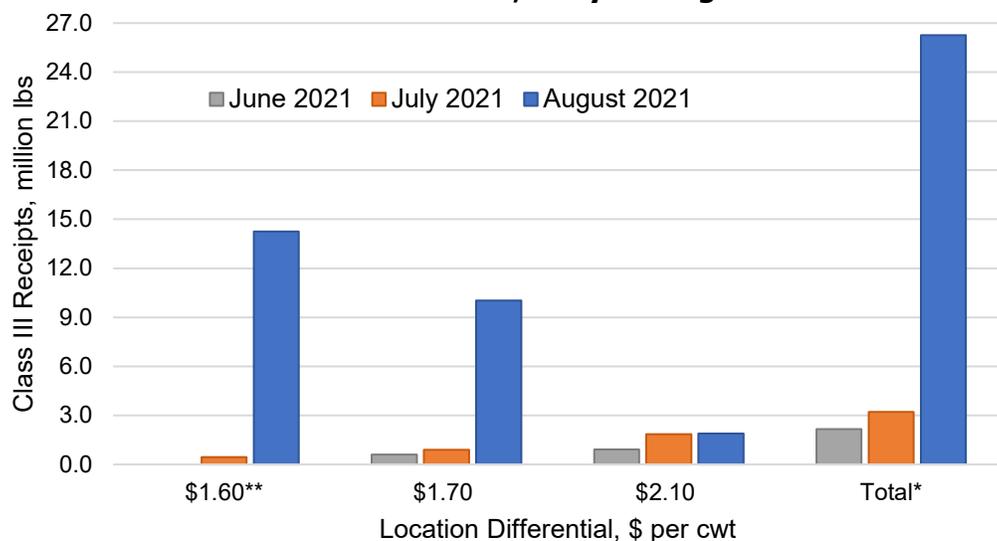
Class III milk from the pool in July as a result.

Figure 2 depicts the Class III price and the FO 51 SUP in August 2021. Unlike that of June and July, the August SUP surpassed the Class III price by more than ten cents per cwt in every differential, including the \$1.60 differential where much of California’s cheese processing occurs. Thus, the anticipated SUP offered Class III handlers, especially those in the lower differentials, a clearer pooling incentive in August than in June and July.

The last three months of FO 51 pool data illustrate handlers making economic decisions in pooling Class III milk based on price expectations as described above. Each month from June to August observed more Class III milk pooled on FO 51 than the month prior. Class III utilization accounted for 3.4 percent of the pool in June, 5.4 percent in July, and 32 percent in August. During this period, the PPDs were \$0.09 per cwt, \$0.45 per cwt, and \$0.64 per cwt, respectively. Figure 3 shows the daily average Class III receipts of producer milk pooled on FO 51 by location differential for the months of June, July, and August 2021. From June to July, Class III volume at the \$2.10 location differential grew by more than 937,000 pounds, while that at the \$1.70 location differential grew by roughly 285,000 pounds on a daily average basis. From July to August, however, Class III receipts at the \$2.10 location differential increased by about 45,000 pounds on a daily average basis, while Class III receipts at the \$1.60 and \$1.70 location differentials saw massive gains of more than 9 million pounds each.

The relationship between each month’s Class III price and the SUP at each location differential plays a major factor in the depicted differences in Class III milk receipts. For example, in July and August the SUP exceeded the Class III price at the \$2.10 differential by more than \$0.40 per cwt, offering a clear incentive to pool Class III in that area. Figure 3 illustrates handlers acting accordingly; in July and August, pooling of

Figure 3: Federal Order 51 Class III Receipts by Location Differential*, Daily Average Basis



* Restricted differentials are not pictured individually in the chart but are included in the totals.
 ** June 2021 data for the \$1.60 location differential is restricted.

Class III milk at the \$2.10 differential zone more than doubled that of June. The lowest differentials, \$1.60 and \$1.70, did not see major repooling of Class III milk until August, when the SUP exceeded the Class III price by more than ten cents per cwt in both zones for the first time since June 2019. This price relationship incentivized handlers to pool significantly more Class III milk than the previous month, increasing Class III volume from these areas in August by more than eighteen times that of July.

Although price relationships in recent months have encouraged pooling of Class III milk, movements in future price relationships—especially between the Class III and IV prices—may affect the volume of Class III milk pooled in the next several months. *Chicago Mercantile Exchange* futures as of September 20, 2021, are supportive of some Class III pooling in the fourth quarter of 2021.

While the relative price position of the SUP to the Class III price is one factor in determining whether to pool or not pool milk, it does not form the sole basis for the decision nor fully explain the Class III utilization depicted in Figure 3. Pooling provisions, as specified in the FO 51 Order Language, have a significant effect on the volume of milk eligible to return to the pool. Other factors including—but not limited to—milk production, transportation costs, and processing capacity likely also play a role. ❖



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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	400,192,818	\$12.70	\$50,824,487.89	
Butterfat	9,575,777	1.9260	18,442,946.50	
Less: Location Adjustment to Handlers			(819,089.17)	\$68,448,345.22
Class II— Butterfat	14,238,213	1.8578	26,451,752.11	
Nonfat Solids	9,531,967	1.1522	10,982,732.38	37,434,484.49
Class III— Butterfat	28,070,714	1.8508	51,953,277.46	
Protein	26,505,199	2.4582	65,155,080.20	
Other Solids	46,928,368	0.3735	17,527,745.48	134,636,103.14
Class IV— Butterfat	45,687,456	1.8508	84,558,343.58	
Nonfat Solids	107,029,764	1.0872	116,362,759.43	200,921,103.01
Total Classified Value				\$441,440,035.86
Add: Overage—All Classes				68,941.10
Inventory Reclassification—All Classes				24,566.52
Other Source Receipts	0			0.00
Total Pool Value				\$441,533,543.48
Less: Value of Producer Butterfat	97,572,160	1.8508	(180,586,553.73)	
Value of Producer Protein	81,352,495	2.4582	(199,980,703.19)	
Value of Producer Other Solids	145,731,027	0.3735	(54,430,538.60)	(434,997,795.52)
Total PPD Value Before Adjustments				\$6,535,747.96
Add: Location Adjustment to Producers				10,046,387.30
One-half Unobligated Balance—Producer Settlement Fund				811,128.84
Less: Producer Settlement Fund—Reserve				(1,133,368.58)
Total Pool Milk & PPD Value	2,540,608,682			\$16,259,895.52
Producer Price Differential		\$0.64		
Statistical Uniform Price		\$16.59		

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