



The Market Administrator's

BULLETIN

CALIFORNIA MARKETING AREA

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Federal Order No. 51

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April Pool Price Calculation

The April 2022 Statistical Uniform Price (SUP) for the California Marketing Area increased \$1.76 per hundredweight (cwt) from last month to a record \$25.08 per 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 announced at 3.5 percent butterfat, 2.99 percent protein, and 5.69 percent other solids. When reported at the average tests of pooled milk (4.03 percent butterfat, 3.31 percent protein, and 5.76 percent other solids), the April SUP is \$27.88 per cwt, \$1.80 higher than March. April's Producer Price Differential (PPD) at Los Angeles County is \$0.66 per cwt, a decrease of 21 cents from last month.

Product Prices Effect

All monthly average product prices in the National Dairy Product Sales Report improved from March to April, except for the dry whey price. The cheese price climbed almost 24 cents per pound from last month. The butter price and nonfat dry milk price each increased roughly 4 cents per pound. Meanwhile, the dry whey price declined 5 cents per pound.

All component prices, except for the other solids price, rose from March. The protein price improved by the largest amount, jumping almost 71 cents per pound from last month. The butterfat price gained just over 5 cents per pound, and the nonfat solids price increased about 4 cents per pound. The other solids price dropped roughly 6 cents per pound.

For the seventh consecutive month, all class prices moved higher. The Class I price moved up \$1.50 per cwt from last month to \$26.48, and the Class II price gained 95 cents per cwt to \$25.71. The Class III price showed the largest improvement from March, climbing \$1.97 per cwt to \$24.42. Lastly, the Class IV price rose 49 cents per cwt from the previous month to \$25.31, posting a new Federal Order record. ❖

Pool Summary

- A total of 957 producers were pooled with an average daily delivery per producer of 70,590 pounds, an increase of 2.3 percent from March.
- Pooled milk receipts totaled 2.027 billion pounds, an increase of 6.5 percent on an average daily basis.
- Class I usage (milk for bottling) accounted for 19.4 percent of total pooled milk receipts, down 1.5 percentage points from March.
- The average butterfat test of producer receipts was 4.03 percent.
- The average true protein test of producer receipts was 3.31 percent.
- The average other solids test of producer receipts was 5.76 percent. ❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	19.4	393,758,772
Class II	4.8	97,918,931
Class III	65.4	1,326,163,388
Class IV	10.3	208,801,996
Total Pooled Milk		2,026,643,087

Producer Component Prices

	2022	2021
	\$/lb	
Protein Price	3.4239	2.8136
Butterfat Price	3.1461	1.9496
Other Solids Price	0.5565	0.4268

Class Price Factors

	2022	2021
	\$/cwt	
Class I	26.48	17.61
Class II	25.71	15.56
Class III	24.42	17.67
Class IV	25.31	15.42

Price Summary and Outlook

Prices Exceed Expectations

The October 2021 *Bulletin* predicted restrained price appreciation in Q1 2022, estimating the Federal Order (FO) 51 Statistical Uniform Price (SUP) at standard tests to average \$19.08 per hundredweight (cwt). The November 2021 *World Agricultural Supply and Demand Estimates* (WASDE) expected similar movement, forecasting a \$20.25 per cwt all-milk price in 2022. Since then, dairy markets and the general economy shifted dramatically and prices—dairy and otherwise—increased substantially. The Q1 2022 SUP averaged \$22.18 per cwt, surpassing the October estimate by \$3.10. The May 2022 WASDE predicts a 2022 all-milk price of \$25.75 per cwt, exceeding the November 2021 estimate by \$5.50.

While dairy prices exceeded expectations, so did prices for feed and other inputs. According to the USDA's *Agricultural Prices* report, Q1 2022 prices for corn, alfalfa, and soybeans significantly exceeded their year prior levels: corn increased by 31 percent to an average of \$6.08 per bushel; alfalfa rose by 25 percent to \$215.33 per ton; and soybeans moved upwards by 17 percent to \$14.37 per bushel. Prices for diesel fuel have also increased substantially; data from the U.S. Energy Information Administration (USEIA) reveal that in Q1 2022 the simple average California #2 diesel price increased more than 45 percent from last year to \$5.32 per gallon. Current market indicators, as well as futures markets, suggest that milk and input prices will continue to appreciate in the near term before declining in the second half of 2022.

Outlook

April's SUP marks the eighth consecutive monthly increase in the FO 51 SUP. Recent *Chicago Mercantile Exchange* (CME) futures¹ suggest that dairy prices may be reaching their peak as they list gradual declines in Class III after May and Class IV after April. As illustrated in Figure 1, prices may remain above \$20.00 per cwt despite the gradual decreases. For the remainder of 2022, Class III

futures average \$23.76 and Class IV futures average \$24.03. The FO 51 SUP is expected to average \$24.55 per cwt in the rest of 2022 and \$21.71 in Q1 2023. The WASDE projects similar trends, expecting the all-milk price to decline by \$2.20 from 2022 to \$23.55 per cwt in 2023.

Cost Factors

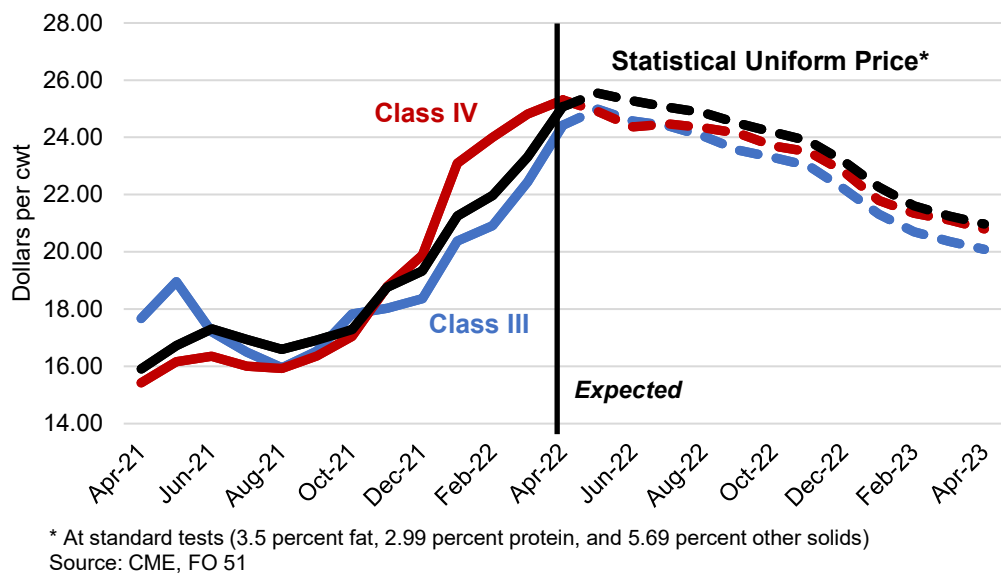
The current high prices signal some optimism in dairy markets, but expectations for feed and fuel prices remain lofty. Figure 2 illustrates price predictions for corn¹, soybeans¹, and diesel fuel². CME corn futures peak in July above \$7.81 per bushel and remain above \$7.40 through April 2023. Soybean futures also indicate a high in July (\$16.63 per bushel), but depict a more pronounced decline in Q1 2023, likely falling below 2022 levels by April. The USEIA predicts the U.S. on-highway diesel fuel price to peak at \$5.61 per gallon in May and average \$4.82 per gallon from May to December 2022. Should decreases in milk prices coincide with yet higher feed and energy costs, dairy farmers' margins could tighten. Higher input costs could also affect milk output.

Milk Production

U. S. milk production declined 1 percent year-over-year for the first four months of 2022 according

- 1 Class III, Class IV, corn, and soybean prices are sourced from *Chicago Mercantile Exchange* futures settled on May 18, 2022.
- 2 Diesel price projections come from the U.S. Energy Information Administration.

**Figure 1: Federal Order 51 Actual and Expected Values
April 2021 to April 2023**



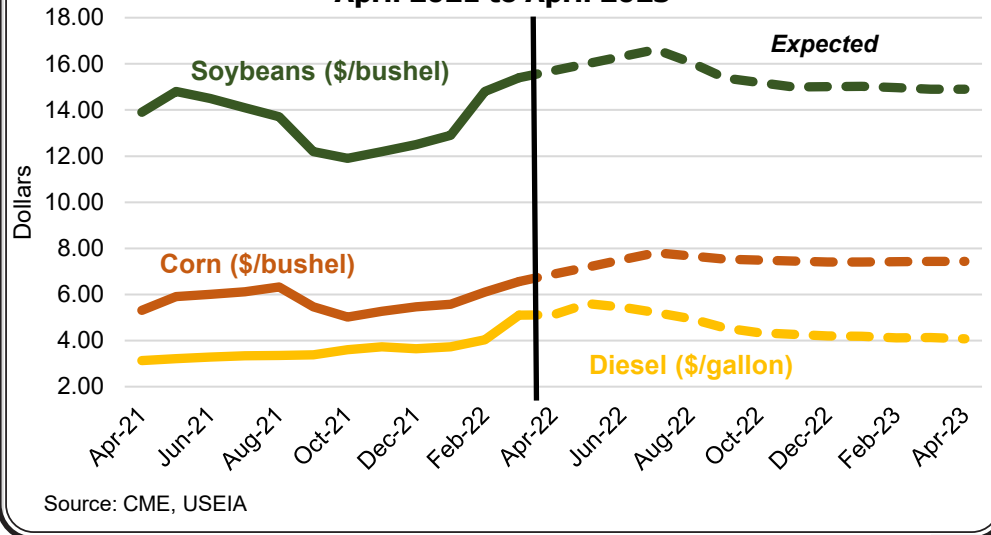
to the National Agricultural Statistics Service in its *Milk Production* report. While milk per cow was down 8 pounds year-over-year for the period, the decline was largely driven by a reduction in the number of milk cows; the national herd was down 98,000 head year-over-year in April 2022. Despite the decline, the recent *Livestock, Dairy, and Poultry Outlook* (LDP) published by the USDA Economic Research Service (ERS) raised its forecast for 2022 milk output to 226.7 billion pounds, influenced by expectations on cow numbers. ERS projects the national dairy herd to increase into Q3 2022 and stabilize in the fourth quarter.

The United States is not the only country observing yield declines from last year's levels. The USDA Foreign Agricultural Service (FAS) forecasts 2022 production lower in major dairy-producing countries. FAS projects a more than 4 percent decline in Australian milk output for the year and a one percent decline in New Zealand output. First quarter 2022 production in New Zealand dropped 6 percent year-over-year, representing the lowest first quarter yield since 2013. Dry conditions in some areas, high input costs, a smaller dairy herd, and a tight labor supply could continue to put downward pressure on Oceania production for the remainder of the year. FAS also notes a declining cow herd in the European Union (EU). If efficiency gains do not offset the declines, EU milk output could fall in 2022.

Exports

Signs of slumping milk production in major dairy exporting countries allude to significant opportunities to ship U.S. dairy products abroad. USDA's *Outlook for U.S. Agricultural Trade* forecasts dairy exports of \$7.8 billion in FY 2022, citing high prices. The LDP expects higher exports of cheese and butter in 2022 than in 2021 as U.S. dairy is competitively priced; however, the LDP projects decreases in 2023. Examining GDP growth in major overseas markets reveals some insight into economic conditions for U.S. dairy exports. The International Monetary Fund (IMF) predicts 2022 GDP growth of 4.4 percent in China, 3.9 percent in Canada, 2.4 percent in Japan, 2.5 percent

Figure 2: U.S. Diesel, Corn, and Soybean Prices
Estimated and Actual
April 2021 to April 2023



in South Korea, and 2.0 percent in Mexico. Despite the gains in GDP, rapid increases in consumer prices could weigh on foreign consumption, particularly in less developed economies where dairy demand displays higher price sensitivity.

Domestic Situation

Although inflationary trends and global military conflicts pose substantial uncertainty, current macroeconomic indicators provide some insight into the state of the 2022 U.S. economy. According to the Bureau of Labor Statistics (BLS), the April 2022 Consumer Price Index (CPI) exceeded 2021's levels by 8.3 percent. The CPI for dairy increased by 9.1 percent over the same period. BLS also reports that real average hourly earnings (earnings adjusted for changes in consumer prices) fell by 2.6 percent from the year prior in April 2022. These metrics imply that consumers may look for ways to trim their spending which could affect retail and food service dairy purchases. On the other hand, BLS reports the April 2022 unemployment rate at 3.6 percent which is below that of every month in 2021. Also illustrating signs of economic strength, the IMF projects U.S. GDP to increase by 3.7 percent in 2022 – below 2021's rate, but above the IMF's predictions for world GDP (3.6 percent). These indicators together reveal a largely unclear domestic economic outlook. Despite the uncertainty, the 2022 price projections would represent a significant improvement from 2021. If realized, the \$25.75 estimated all-milk price would be more than \$7.00 above that of 2021. ❖



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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 Butterfat	384,801,050	\$16.08	\$61,876,008.84	
Less: Location Adjustment to Handlers	8,957,722	3.1308	28,044,836.04	
			(805,080.83)	\$89,115,764.05
Class II— Butterfat	12,079,992	3.1531	38,089,422.79	
Nonfat Solids	8,038,185	1.6900	13,584,532.65	51,673,955.44
Class III— Butterfat	49,572,511	3.1461	155,960,076.84	
Protein	44,582,701	3.4239	152,646,709.96	
Other Solids	76,668,765	0.5565	42,666,167.72	351,272,954.52
Class IV— Butterfat	11,002,734	3.1461	34,615,701.42	
Nonfat Solids	18,564,887	1.6470	30,576,368.89	65,192,070.31
Total Classified Value				\$557,254,744.32
Add: Overage—All Classes				61,754.38
Inventory Reclassification—All Classes				42,471.29
Other Source Receipts	18,845			410.83
Total Pool Value				\$557,359,380.82
Less: Value of Producer Butterfat	81,612,959	3.1461	(256,762,530.34)	
Value of Producer Protein	67,159,347	3.4239	(229,946,888.19)	
Value of Producer Other Solids	116,703,523	0.5565	(64,945,510.58)	(551,654,929.11)
Total PPD Value Before Adjustments				\$5,704,451.71
Add: Location Adjustment to Producers				7,716,679.13
One-half Unobligated Balance—Producer Settlement Fund				781,853.24
Less: Producer Settlement Fund—Reserve				(827,015.27)
Total Pool Milk & PPD Value	2,026,661,932			\$13,375,968.81
Producer Price Differential		\$0.66		
Statistical Uniform Price		\$25.08		

Total value of milk in the pool →

Total Class III value of producer components →

Value from which PPD per hundredweight is calculated

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