



The Market Administrator's

BULLETIN

CALIFORNIA MARKETING AREA

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January Pool Price Calculation

The January 2020 Statistical Uniform Price (SUP) for the California Marketing Area was announced at \$17.56 per hundredweight (cwt) for milk delivered to plants located in Los Angeles County, California, the pricing point for the California Order. 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, the January SUP would be \$19.12 per cwt, lower than that of December by 29 cents per cwt. January's Producer Price Differential (PPD) at Los Angeles County was \$.51 per cwt, an increase of \$2.28 compared to the previous month's PPD of -\$1.77.

Product Prices Effect

January commodity product prices, all reported on a per pound basis, showed variations of mixed degrees compared to the previous month. After the prices of both butter and cheese rose slightly in the month of December, they both fell in January; decreasing just over 8 percent and nearly 18 percent, respectively. On the other hand, after falling slightly in December, the dry whey and nonfat dry milk prices rose over 12 percent and 8 percent, respectively.

January's component prices continued along the paths followed in December. The prices of butterfat and protein continued to decline; the butterfat price fell 9 cents after falling 12 cents in December to \$2.1117, while the protein price decreased 69 cents to \$2.9606. Component prices for other solids and nonfat solids showed improvement in December and continued to increase into the new year. After rising 2 cents in December, the increase in the other solids price slowed, gaining a penny to bring it to \$.1417. Similarly, the nonfat solids price rose in December, increasing 6 cents but slowed down in January, only gaining 2 cents to bring the price to \$1.0665.

PPD Reverses

With the exception of Class III, which dropped \$2.32 per cwt, all other Class prices saw only minor variations from their December levels. With Class I remaining above \$21 per cwt and Class III declining to \$17.05 per cwt (the lowest since last April), the "spread" between these two Class prices was \$4.06 per cwt, leaving more of the pool's value to be returned to producers via the PPD. Recall that the price for the components in producer milk — butterfat, protein, and other solids — are the same as the component prices

(Pool Price Calculation continued on page 3)

Pool Summary

- A total of 889 producers were pooled with an average daily delivery per producer of 84,379 pounds, an increase of 20.2 percent from December.
- Pooled milk receipts totaled 2.335 billion pounds, an increase of 24.2 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 19.4 percent of total pooled milk receipts, down 4.9 percentage points from December.
- The average butterfat test of producer receipts was 3.95 percent, down .01 percentage points from December.
- The average true protein test of producer receipts was 3.21 percent.
- The average other solids test of producer receipts was 5.75 percent. ❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	19.4	452,813,356
Class II	6.7	156,381,134
Class III	17.8	415,721,164
Class IV	56.1	1,310,413,051
Total Pooled Milk		2,335,328,705

Producer Component Prices

	2020	2019
	\$/lb	
Protein Price	2.9606	1.1927
Butterfat Price	2.1117	2.4981
Other Solids Price	0.1417	0.2898

Class Price Factors

	2020	2019
	\$/cwt	
Class I	21.11	17.22
Class II	17.05	15.74
Class III	17.05	13.96
Class IV	16.65	15.48

Receipts by Location Differential

Under the California Federal Marketing Order (CFMO), there are six regional location differentials. These differentials represent adjustments to Class I prices as well as Producer Price Differentials (PPD). The CFMO differentials are \$2.10, \$2.00, \$1.80, \$1.70, and \$1.60. Maps of the California and national location differentials can be found at cafmmo.com.

Table 1 and Figure A illustrate CFMO receipts by location differential in January 2020. The \$2.10 and \$1.80 per cwt differentials contain a majority, just over seventy percent, of Class I receipts. Notably, they contain the major population centers in California; the \$2.10 location differential contains the cities of Los Angeles and San Diego and the \$1.80 location differential contains the San Francisco Bay region. Class I plants are generally located close to population centers, areas of high demand for fluid milk, because fluid milk is perishable and costly to transport long distances. Accordingly, those areas receive a higher location differential, recognizing that there is not sufficient local production and the need for financial incentives to cause milk to move to those demand locations.

Table 1 and Figure A also show that the bulk of Class III and IV processing takes place in the \$1.70 and \$1.60 location differentials; the two zones account for more than eighty percent of Class III receipts and more than ninety-five percent of Class IV receipts in January 2020.

Table 2 details the leading pooled milk producing counties in California under the CFMO in January 2020. Four of the top five leading counties are in the \$1.70 and \$1.60 location differentials; the lone exception is Kern county which borders the number one milk producing county in California, Tulare County, and lies directly south of the \$1.60 differential.

Pooled Milk Production Top Counties

At 600 million pounds, Tulare County leads all California counties in January 2020 pooled milk volume, producing 300 million pounds more than Kern County, the second leading county in pooled milk production.

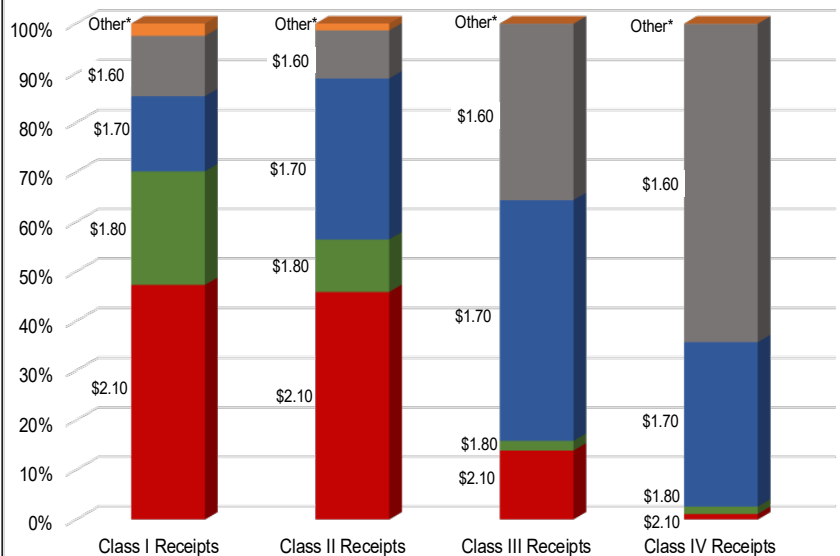
Tulare County also contains more pooled producers than any other county with 169. Merced is third in pooled milk production, followed by Stanislaus and Kings County. Notably, Kern County ranks second in production but has fewer pooled producers than the other four top milk-producing counties. In January 2020, 44 producers produced 289 million pounds of milk in Kern County, equating to an average daily delivery per producer of 211,902 pounds, nearly 100,000 pounds more than Tulare County. ❖

**Table 2: Top Pooled Milk Producing Counties in California*
January 2020**

County	Milk Pounds	Producer Count
Tulare	609,228,651	169
Kern	289,035,310	44
Merced	285,638,156	112
Stanislaus	234,151,570	117
Kings	175,126,301	57

*According to handler reports submitted to the CFMO. May not include all milk production due to handler pooling decisions.

**Figure A: Percentage of Class Receipts by Location Differential
January 2020**



**Table 1: Producer Receipts by Location Differential
January 2020**

	\$2.10	\$2.00	\$1.90	\$1.80	\$1.70	\$1.60	Other*	Total
Class I Receipts	214,186,828	R	R	103,712,203	68,574,530	55,153,447	11,186,348	452,813,356
Class II Receipts	71,734,426	R	R	16,565,252	50,781,217	15,145,334	2,154,905	156,381,134
Class III Receipts	57,786,478	R	R	8,193,871	201,737,492	147,938,307	65,016	415,721,164
Class IV Receipts	14,397,356	R	R	19,856,940	434,364,193	841,211,795	582,767	1,310,413,051
Total	358,105,088	R	R	148,328,266	755,457,432	1,059,448,883	13,207,529	2,335,328,705

*Data from location differentials with fewer than three processing plants is marked as restricted (R) and is included in "Other" category.

A Dive into De-Pooling

Now more than one year old, the California Federal Milk Marketing Order (CFMO) has experienced wide fluctuations in Class III pool volume, ranging from a low of nearly 32 million pounds in November 2019 to a high of over 1.4 billion pounds in March 2019.

De-pooling, or electing to take milk out of the Federal Order pool for a given month, marks a noticeable difference between the current CFMO and the previous program operated by the California Department of Agriculture (CDFA); under the CFMO, handlers must pool all Class I milk, but pool handlers with milk utilized in classes other than Class I can choose to de-pool Class II, III, and IV milk on a month-to-month basis.

Pool handlers make marketing decisions each month based on the projected Statistical Uniform Price (SUP) and relative class prices. If the class price is above the SUP, handlers with milk in Class II, III, and IV would generally have to pay into the pool, so they may choose to de-pool. This is exactly what happened in late fall 2019; with a high Class III price, the Class III pool volume was low due to de-pooling of Class III milk.

While it may seem like non-fluid handlers have the upper hand, they cannot simply opt in and out of the pool as they see fit. There are rules designed to incentivize non-fluid handlers to take a long-term approach to pooling decisions, smoothing out pool volumes. The CFMO includes a provision on re-pooling: a handler's pooled milk "for April through February may not exceed 125 percent, and for March may not exceed 135 percent" of its pooled milk from the prior month. For example, if a handler de-pools 75 percent of its milk one month, then it will take about six months to gradually work back to the larger volume initially had on the pool. If prices change within those six months such that the class price is below the SUP, the handler will leave revenue on the table by not fully participating in the pool. The decision to de-pool, especially a large share of milk, could mean lost revenue for the handler if prices change.

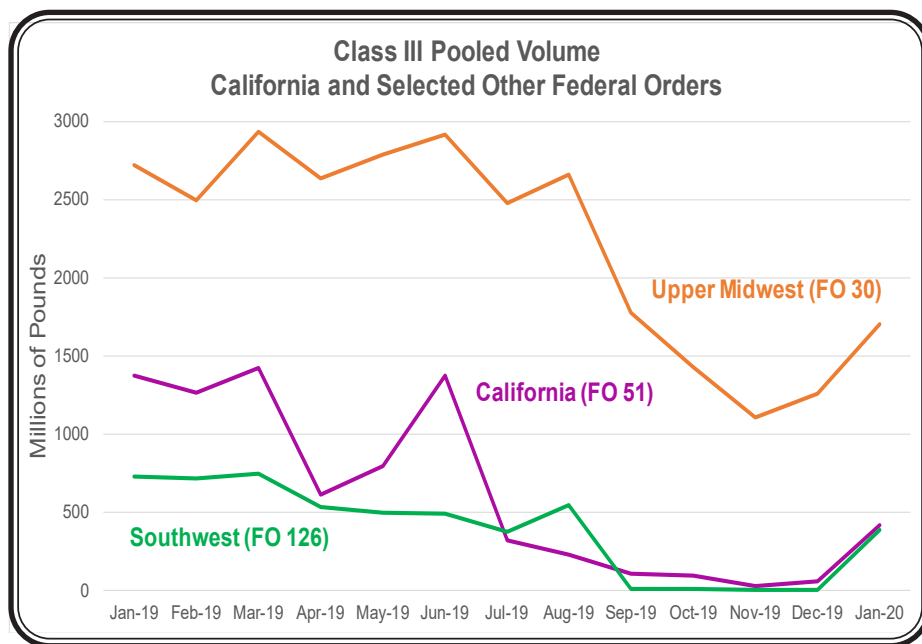
Milk Re-Pooled in January

With the Class III price below the SUP and a payout from the Federal Order pool on the line, Class III handlers accordingly re-pooled as much milk as the 125-percent provision permits. Class III pool volume increased over 600 percent from December 2019 to January 2020.

De-Pooling in Other Federal Orders

The practice of de-pooling and re-pooling Class III milk is not unique to California. As shown in the accompanying figure, other Federal Orders with significant milk volumes in Class III or IV exhibited decreasing pool volumes of Class III milk over the course of 2019 with Class III pool volumes bouncing back as the new year begins. Like California, the Southwest Order saw Class III milk in the pool approach zero by the end of the year. The Upper Midwest Order also saw a drop in Class III pounds; however, limits on re-pooling and marketplace commitments prevent the utilization from completely zeroing out in this Federal Order.

In fall 2019, high Class III component values drove a high Class III price and resulting low Class III pool volume. Due to the impact of seasonality on milk production and changes in the marketplace, January 2020 saw decreasing Class III component values and price, as often occurs this time of year. The Class III pooled volume may continue to rise and fall, albeit likely not as sharply due to CFMO re-pooling limitations, with seasonal fluctuations and class prices in relation to the SUP. ❖



Pool Price Calculation *(continued from page 1)*

that make up the Class III price. With the Class III price dropping, a portion of the pool's value was returned to producers via the PPD in January, which was the opposite of what occurred in recent months when the PPD was negative. January's PPD value of \$0.51 per cwt marks the first time in seven months that the PPD value was positive for all producers regardless of plant zone to which their milk was delivered. Refer to the price computation on Page 4 for more details on January's calculation. ❖



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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	442,523,766	\$13.81	\$61,112,532.08	
Butterfat	10,289,590	2.2225	22,868,613.78	
Less: Location Adjustment to Handlers			(872,388.27)	\$83,108,757.59
Class II— Butterfat	15,379,425	2.1187	32,584,387.77	
Nonfat Solids	13,152,742	1.1089	14,585,075.60	47,169,463.37
Class III— Butterfat	14,116,330	2.1117	29,809,454.06	
Protein	13,545,745	2.9606	40,103,532.63	
Other Solids	24,019,814	0.1417	3,403,607.64	73,316,594.33
Class IV— Butterfat	52,542,665	2.1117	110,954,345.69	
Nonfat Solids	117,205,245	1.0665	124,999,393.79	235,953,739.48
Total Classified Value			<i>Total value of milk in the pool</i> →	\$439,548,554.77
Add: Overage—All Classes				5,431.90
Inventory Reclassification—All Classes				17,689.17
Other Source Receipts	0			0.00
Total Pool Value				\$439,571,675.84
Less: Value of Producer Butterfat	92,328,010	2.1117	(194,969,058.70)	
Value of Producer Protein	75,059,684	2.9606	(222,221,700.43)	
Value of Producer Other Solids	134,233,266	0.1417	(19,020,853.81)	(436,211,612.94)
Total PPD Value Before Adjustments			<i>Total Class III value of producer components</i> ↗	\$3,360,062.90
Add: Location Adjustment to Producers				8,775,803.15
One-half Unobligated Balance—Producer Settlement Fund				793,582.67
Less: Producer Settlement Fund—Reserve				(1,019,272.43)
Total Pool Milk & PPD Value	2,335,328,705			\$11,910,176.29
Producer Price Differential		\$0.51	↖ <i>Value from which PPD per hundredweight is calculated</i>	
Statistical Uniform Price		\$17.56		

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