



The Market Administrator's

BULLETIN

CALIFORNIA MARKETING AREA

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April Pool Price Calculation

The April 2023 Statistical Uniform Price (SUP) for the California Marketing Area decreased 17 cents per hundredweight (cwt) from last month to \$18.62 per cwt for milk delivered to plants located in Los Angeles County, California, the pricing point for the California Federal Marketing Order. 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, 3.29 percent protein, and 5.76 percent other solids), the April SUP is \$20.83 per cwt, 67 cents below March. The April Producer Price Differential (PPD) at Los Angeles County is 10 cents per cwt, a decline of 59 cents from last month.

Product Prices Effect

Monthly average product prices in the National Dairy Product Sales Report observed mixed movements from March to April. The cheese and dry whey prices rose from last month, gaining almost 4 cents per pound and roughly 1 cent per pound, respectively. Meanwhile, the butter and nonfat dry milk prices declined; the butter price decreased approximately 2 cents per pound, and the nonfat dry milk price fell nearly 4 cents per pound.

Similar movements were observed in the component prices. The protein price increased by the largest magnitude, climbing just over 15 cents per pound from March. The other solids price also improved, rising roughly a penny per pound. Alternatively, the butterfat and nonfat solids prices decreased from the previous month, dropping nearly 3 cents and 4 cents per pound, respectively.

All class prices, except for the Class III price, continued to move downward from March to April. The Class I price lost 14 cents per cwt to \$20.95. The Class II price declined 32 cents per cwt to \$19.20, and the Class IV price dropped 43 cents per cwt to \$17.95. Lastly, the Class III price gained 42 cents per cwt to \$18.52. ❖

Pool Summary

- A total of 899 producers were pooled with an average daily delivery per producer of 93,530 pounds, an increase of 3.5 percent from March.
- Pooled milk receipts totaled 2.523 billion pounds, a decrease of 8.1 percent on an average daily basis.
- Class I usage (milk for bottling) accounted for 14.6 percent of total pooled milk receipts, down 0.3 percentage points from March.
- The average butterfat test of producer receipts was 4.03 percent.
- The average true protein test of producer receipts was 3.29 percent.
- The average other solids test of producer receipts was 5.76 percent. ❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	14.6	367,744,332
Class II	4.3	107,641,880
Class III	26.0	656,164,137
Class IV	55.1	1,390,954,487
Total Pooled Milk		2,522,504,836

Producer Component Prices

	2023	2022
	\$/lb	
Protein Price	2.5603	3.4239
Butterfat Price	2.7009	3.1461
Other Solids Price	0.2479	0.5565

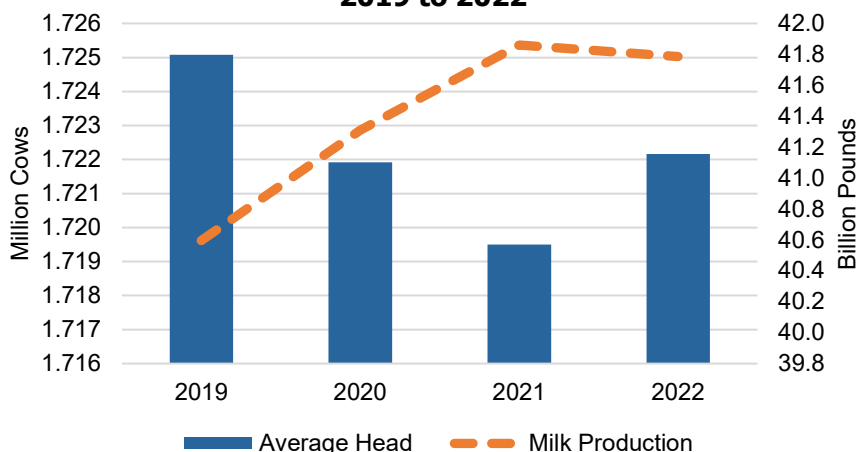
Class Price Factors

	2023	2022
	\$/cwt	
Class I	20.95	26.48
Class II	19.20	25.71
Class III	18.52	24.42
Class IV	17.95	25.31

Recent Trends in California's Milk Production

In 2022, the United States produced nearly 226.5 billion pounds of milk, an increase of 0.1 percent from 2021. While California continued to rank number one in milk production by a significant margin – accounting for 18.5 percent of all milk produced in the country – it was the only one of the top five milk-producing states to decrease in production from the previous year, declining 0.2 percent from 2021. By using data provided by USDA's National Agricultural Statistics Service, this article evaluates California's milk production trends in recent years.

Figure 1: California Milk Production and Herd Size, 2019 to 2022



Last Four Years

Figure 1 shows California's total milk production and average number of milk cows by year from 2019 to 2022. Milk production in California increased from 2019 to 2021, then declined into 2022; alternatively, cow numbers followed an opposite trend. The number of milk cows in California was relatively steady over the last four years ranging between 1.720 and 1.725 million head. While the number of milk cows for California shifted down only 5,000 head from 2019 to 2021, yearly milk production still rose due to a simultaneous increase in milk per cow. For example, in 2019 milk per cow was 23,533 pounds and later rose to 24,338 pounds in 2021. The small decline in milk production from 2021 to 2022 was most likely due to a downward shift in milk per cow to 24,267 pounds.

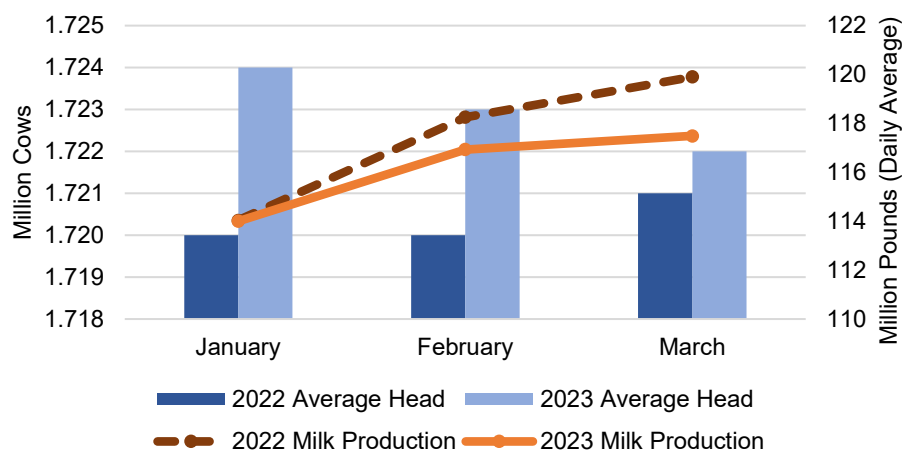
2023 Thus Far

Coming off the slight decline in production last year, California's Q1 2023 decreased about 1.1 percent year-over-year. Overall, cow numbers observed in the first quarters of 2022 and 2023 followed opposite trends, with the number of head climbing in Q1 2022 and declining in Q1 2023. From January to March 2022, the number of cows increased by 1,000, but during the same period in 2023 the California herd fell by 2,000 cows. Despite the number of milk cows in Q1 2023 being larger than Q1 2022 by 0.2 percent, milk per cow was down 1.2 percent, contributing to lower milk production over the period.

Looking Forward

According to USDA's *World Agricultural Supply and Demand Estimates*, published May 2023, milk production for the U.S. is estimated to increase in 2023 to 228.6 billion pounds, roughly 2.1 billion higher than 2022's volume. The increase in milk production follows from the anticipated rise in the national herd, but milk per cow numbers may be lower than expected at the beginning of the year. Despite the slower start to California's milk output in 2023, the overall growth in U.S. milk production is expected to continue. ❖

Figure 2: California Daily Average Milk Production and Herd Size, First Quarter 2022 and 2023



Price Outlook

In April, the Federal Order (FO) 51 Statistical Uniform Price (SUP) at standard component tests was \$18.62 per hundredweight (cwt). While dairy prices have lowered from their record-breaking levels of 2022, the SUP at average component tests of the FO 51 pool exceeded \$20 per cwt for the eighteenth straight month, recording \$20.83 in April. Despite most dairy prices declining over the last six months, *Chicago Mercantile Exchange* (CME) futures, as of May 17, 2023, suggest that Class III and IV prices may be mixed over the coming months.

Class IV Priced Above Class III

Milk pricing dynamics continue to shift as portrayed by CME futures for Class III and IV milk. A month ago, CME futures on April 14, 2023, anticipated Class III would rise above Class IV in eight months of 2023. From May to December 2023, CME futures averaged \$18.84 per cwt for Class III and \$18.70 per cwt for Class IV – a difference of 14 cents in favor of Class III. Now, just one month later, price expectations have reversed. CME futures traded on May 17, 2023, suggest that the Class IV price will surpass the Class III price in the remaining months of 2023. From May to December, CME futures averaged \$17.78 per cwt for Class III and \$18.82 per cwt for Class IV – a difference of \$1.04 in favor of Class IV. Similarly, the May 2023 *World Agricultural Supply and Demand Estimates* (WASDE) report published by the USDA forecasts the Class IV price above the Class III price for the year, averaging \$17.75 per cwt for Class III in 2023 and \$18.30 per cwt for Class IV.

The figure at right displays the actual and forecasted prices for Class III, Class IV, and the FO 51 SUP at standard component tests based on May 17, 2023 CME futures. As shown in the figure, Class III briefly peaked above Class IV in April but is expected to drop significantly in May by more than \$2.00 per cwt. CME futures support a narrowed spread between the Class III and IV prices in the fall of 2023 but

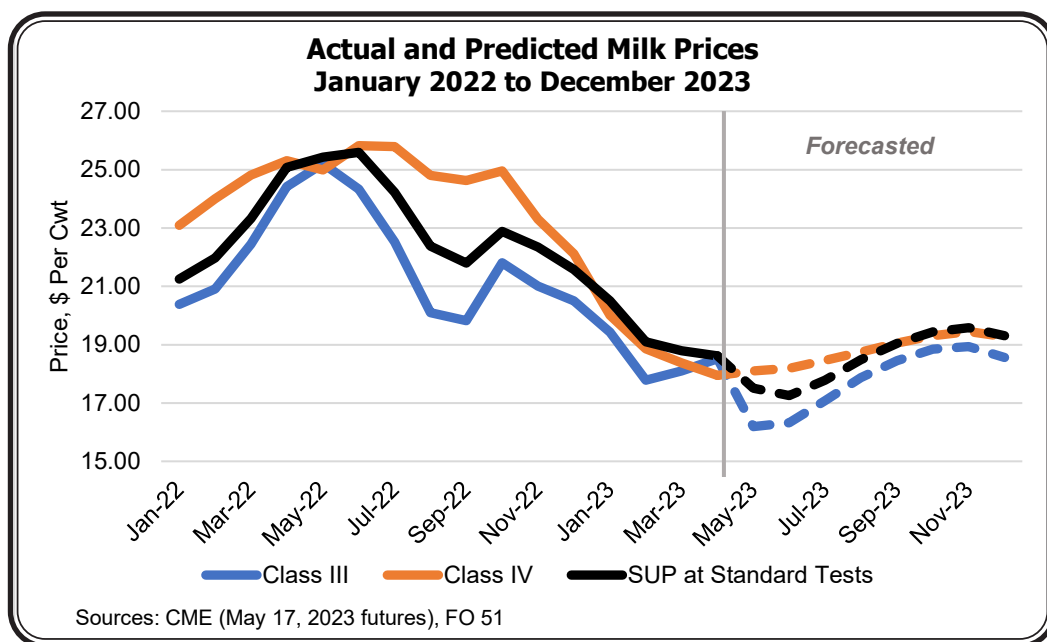
expect Class IV to remain above Class III to end the year. With lower expected Class III prices over the coming months, the FO 51 SUP may reach its low point during the second quarter of 2023 before appreciating in the second half of the year.

Lower Feed Costs

While lower dairy prices will likely put pressure on producer margins, lower feed costs could provide some relief. USDA's May 2023 WASDE report projects the 2023-2024 U.S. corn crop will be the largest on record, up 10 percent from last year. In addition, the report forecasts U.S. soybean production up 5 percent from last year's crop. Higher feed crop production is positive news for dairy farmers, as greater supplies could lead to lower prices. The WASDE report estimates the 2023-2024 season corn price will average \$4.80 per bushel, down \$1.80 from the 2022-2023 estimate, and the soybean meal price to average \$365 per ton, down \$90 from last season's estimate.

Conclusion

Recent CME futures support FO 51's minimum prices to remain above \$17.00 per cwt throughout 2023 and surpass \$19.00 toward the end of the year. Based on current projections, producer margins may be squeezed in the second quarter of 2023. While lower dairy prices mean less revenue for dairy farmers, lower feed costs may be on the way if weather conditions allow, potentially improving margins later in the year. ❖





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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 Butterfat	359,281,656	\$11.76	\$42,251,522.75	
Less: Location Adjustment to Handlers	8,462,676	2.7427	23,210,581.47	\$64,691,584.17
Class II— Butterfat	15,244,642	2.7079	41,280,966.06	
Nonfat Solids	8,687,612	1.1189	9,720,569.07	51,001,535.13
Class III— Butterfat	23,417,376	2.7009	63,247,990.86	
Protein	22,341,372	2.5603	57,200,614.73	
Other Solids	38,044,731	0.2479	9,431,288.82	129,879,894.41
Class IV— Butterfat	54,471,454	2.7009	147,121,950.11	
Nonfat Solids	125,444,825	0.9774	122,609,771.95	269,731,722.06
Total Classified Value			<i>Total value of milk in the pool</i>	\$515,304,735.77
Add: Overage—All Classes				40,073.41
Inventory Reclassification—All Classes				31,199.71
Other Source Receipts	57,876			1,365.88
Total Pool Value				\$515,377,374.77
Less: Value of Producer Butterfat	101,596,148	2.7009	(274,401,036.14)	
Value of Producer Protein	82,965,019	2.5603	(212,415,338.18)	
Value of Producer Other Solids	145,261,810	0.2479	(36,010,402.70)	(522,826,777.02)
Total PPD Value Before Adjustments			<i>Total Class III value of producer components</i>	(\$7,449,402.25)
Add: Location Adjustment to Producers				9,947,955.68
One-half Unobligated Balance—Producer Settlement Fund				1,160,386.25
Less: Producer Settlement Fund—Reserve				(1,136,376.92)
Total Pool Milk & PPD Value	2,522,562,712			\$2,522,562.76
Producer Price Differential		\$0.10	<i>Value from which PPD per hundredweight is calculated</i>	
Statistical Uniform Price		\$18.62		

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