



The Market Administrator's

BULLETIN

CALIFORNIA MARKETING AREA

Peter Fredericks, 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

September Pool Price Calculation

The September 2022 Statistical Uniform Price (SUP) for the California Marketing Area decreased 58 cents per hundredweight (cwt) from last month to \$21.80 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 (3.98 percent butterfat, 3.27 percent protein, and 5.74 percent other solids), the September SUP is \$24.07 per cwt, 22 cents lower than August. September's Producer Price Differential (PPD) at Los Angeles County is \$1.98 per cwt, a decrease of 30 cents from last month.

Product Prices Effect

Most monthly average product prices in the National Dairy Product Sales Report declined from August to September. The cheese price decreased almost 3 cents per pound from last month. The dry whey price lost roughly a penny per pound, and the nonfat dry milk price dropped just under 9 cents per pound. The butter price was the only product price to increase from August to September, rising nearly 14 cents per pound to its highest level recorded by the Federal Order at \$3.1156.

All component prices, except for the butterfat price, moved downward from August. The protein price dropped almost 26 cents per pound. The other solids and nonfat solids prices declined just under 1.5 cents and 9 cents per pound, respectively. Meanwhile, the butterfat price reached its highest value under the Federal Order at \$3.5653 per pound — an increase of roughly 17 cents from last month.

All class prices decreased from August to September. The Class I price observed the largest decline from the previous month, dropping \$1.51 per cwt to \$25.72. Coming off its record high in August, the Class II price lost 40 cents per cwt to \$26.51. The Class III price decreased 28 cents per cwt to \$19.82. Lastly, the Class IV price decreased 18 cents per cwt to \$24.63. ❖

Pool Summary

- A total of 898 producers were pooled with an average daily delivery per producer of 68,359 pounds, an increase of 1.3 percent from August.
- Pooled milk receipts totaled 1.842 billion pounds, an increase of 3.2 percent on an average daily basis.
- Class I usage (milk for bottling) accounted for 21.5 percent of total pooled milk receipts, down 0.3 percentage points from August.
- The average butterfat test of producer receipts was 3.98 percent.
- The average true protein test of producer receipts was 3.27 percent.
- The average other solids test of producer receipts was 5.74 percent. ❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	21.5	395,561,982
Class II	5.1	93,388,093
Class III	70.7	1,302,557,992
Class IV	2.7	50,085,798
Total Pooled Milk		1,841,593,865

Producer Component Prices

	2022	2021
	\$/lb	
Protein Price	1.8847	2.6010
Butterfat Price	3.5653	1.9388
Other Solids Price	0.2998	0.3445

Class Price Factors

	2022	2021
	\$/cwt	
Class I	25.72	18.69
Class II	26.51	16.89
Class III	19.82	16.53
Class IV	24.63	16.36

A Review of PPDs

The August 2022 Producer Price Differential (PPD) reached a record high for Federal Order 51 at \$2.28 per hundredweight (cwt) for milk delivered to plants located at Los Angeles County, California. One month later, September's PPD declined 30 cents while still recording the second highest value for the Order at \$1.98 per cwt. Although these record high PPDs coincide with relatively high Statistical Uniform Prices (SUPs) of \$22.38 per cwt in August and \$21.80 per cwt in September, high PPDs don't always indicate better prices.

The PPD: "Balancing the Books" of the Federal Order Pool

The PPD can be viewed as an accounting mechanism in the seven Federal Orders (including Order 51) that pay producers on the butterfat, protein, and other solids components in their milk. The PPD is determined from the difference between the value of the market-wide pool (refer to *Total Classified Value* figure of **\$436,253,304.82** in the computation calculation on page 4) and the combined valuation of all producer components (butterfat, protein, and other solids; refer to *Total Pool Value* of **\$406,737,959.88** in the page 4 calculation) included in the respective month's pool. This difference (positive or negative) is paid (or charged) to producers based upon the volume of the producer's milk that was pooled. The

valuation of producer components in the pool is at the same dollars per pound rate as Class III components. Put simply, the PPD received by a producer represents their pro rata share of the extra value of the monthly pool after the combined value of all producer components are deducted at the Class III prices. When the combined value of producer milk components exceeds the classified value of the pool, the pro rata share results in a negative PPD (for an example of a negative PPD calculation, refer to page 4 of the September 2019 *Bulletin*).

Positive versus Negative PPDs

High, positive PPDs don't always indicate higher prices for producers. For example, the Federal Order 51 SUP in September 2019 was \$17.37 per cwt with a PPD of -\$0.94 per cwt. Two years later in September 2021, the PPD gained \$1.32 to \$0.38 per cwt. While the PPD was higher two years later, the SUP was 46 cents lower at \$16.91 per cwt. In this case, the month with a lower, negative PPD had a higher SUP, and the month with a higher, positive PPD had a lower SUP. This shows that a negative PPD does not necessarily result in diminished producer revenue. The negative PPD results when the total value of producer components exceeds the pool's classified value – when the Class III price is among the highest of the class prices. ❖

Butterfat Driving Value in Producer Milk Checks

2022 has been a year of record dairy prices. As such, September 2022 continued to post new records. At \$3.1156 per pound, September 2022 recorded the highest Federal Order butter price since 2000. Because the price of butter is an input to the butterfat price formula, butterfat also reached a new high under the Federal Orders at \$3.5653 per pound. With record-high butter and butterfat prices, milk checks benefitted from fat content in September.

Components Impacting Your Milk Check: 2020 to 2022

Producers are paid on multiple component pricing under Federal Order 51, meaning that producer milk checks depend on both the price and quantity of components in their milk. (continued on page 3)

Component Prices and Tests by Pool Period			
	Sept 2020	Sept 2021	Sept 2022
Component Prices (\$/lb)			
Butterfat Price	1.5932	1.9388	3.5653
Protein Price	3.3935	2.6010	1.8847
Other Solids Price	0.1241	0.3445	0.2998
Average Component Tests of Pooled Milk (%)			
Butterfat Test	3.80%	3.87%	3.98%
True Protein Test	3.17%	3.24%	3.27%
Other Solids Test	5.73%	5.74%	5.74%

Butterfat Driving Value in Producer Milk Checks *(continued from page 2)*

The specific component providing the greatest value to producer milk checks has shifted from protein to butterfat over the last three years based on market conditions. The table on page 2 shows the component prices and average component tests of pooled milk for September 2020, 2021, and 2022. As shown in the table, the past three years of September pools resulted in butterfat gaining value in producer milk checks. Over this period, the butterfat price increased year-over-year, while the protein price decreased year-over-year. In addition, the average component levels of pooled milk rose each year.

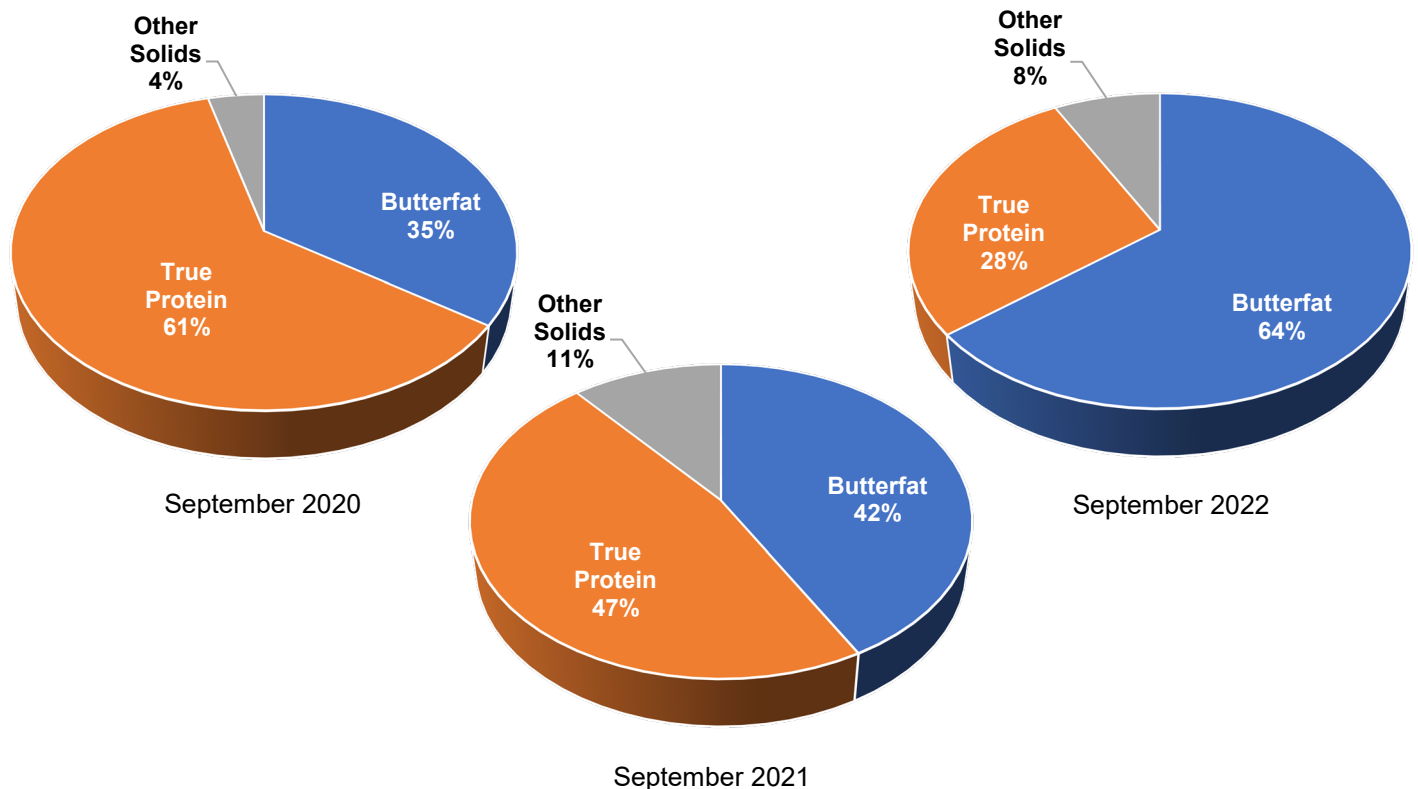
The figure below depicts the contribution of components – butterfat, protein, and other solids – to the Statistical Uniform Price (SUP) at pool average component tests for September 2020, 2021, and 2022. The average component tests of pooled milk for each month can be found in the table on page 2. As evidenced by the figure, protein represented a large share of the value of components in producer milk checks in September 2020 at 61 percent, while

butterfat accounted for 35 percent. One year later, protein and butterfat were relatively balanced contributors to the SUP at 47 percent and 42 percent, respectively. In September 2022, however, butterfat’s share of the SUP surpassed that of protein; butterfat contributed 64 percent of the value in the SUP, while protein contributed 28 percent. On a dollars-per-cwt basis, butterfat’s contribution to the SUP more than doubled from September 2020 to September 2022, while that of protein declined 43 percent.

Market Dynamics

Strong demand for cheese played a role in higher cheese and protein prices in September 2020. Since cheese prices are the main driver of the component price for protein, this resulted in protein having the greatest contribution to the SUP. Conversely, record butter and butterfat values in September 2022 led to butterfat having the strongest impact on the SUP. As butter prices remain healthy, high butterfat values in producer milk checks are likely to continue. ❖

**Component Contribution to the Statistical Uniform Price (SUP) at Pool Average Component Tests*
September 2020 to September 2022**



* Using the SUP at pool average component tests at Los Angeles County, California



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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	386,451,183	\$14.17	\$54,760,132.63	
Butterfat	9,110,799	3.4411	31,351,170.44	
Less: Location Adjustment to Handlers			(811,985.50)	\$85,299,317.57
Class II— Butterfat	13,870,486	3.5723	49,549,537.13	
Nonfat Solids	7,397,583	1.6133	11,934,520.65	61,484,057.78
Class III— Butterfat	45,309,911	3.5653	161,543,425.66	
Protein	43,248,053	1.8847	81,509,605.51	
Other Solids	75,187,025	0.2998	22,541,070.08	265,594,101.25
Class IV— Butterfat	5,048,240	3.5653	17,998,490.08	
Nonfat Solids	4,202,902	1.3984	5,877,338.14	23,875,828.22
Total Classified Value				\$436,253,304.82
Add: Overage—All Classes				73,463.59
Inventory Reclassification—All Classes				(70,340.20)
Other Source Receipts	37,005			2,427.53
Total Pool Value				\$436,258,855.74
Less: Value of Producer Butterfat	73,339,436	3.5653	(261,477,091.18)	
Value of Producer Protein	60,271,432	1.8847	(113,593,567.92)	
Value of Producer Other Solids	105,628,088	0.2998	(31,667,300.78)	(406,737,959.88)
Total PPD Value Before Adjustments				\$29,520,895.86
Add: Location Adjustment to Producers				6,938,610.50
One-half Unobligated Balance—Producer Settlement Fund				808,014.58
Less: Producer Settlement Fund—Reserve				(803,229.70)
Total Pool Milk & PPD Value	1,841,630,870			\$36,464,291.24
Producer Price Differential		\$1.98		
Statistical Uniform Price		\$21.80		

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.