



# The Market Administrator's

# BULLETIN

## CALIFORNIA MARKETING AREA

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December 2022

Federal Order No. 51

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### December Pool Price Calculation

The December 2022 Statistical Uniform Price (SUP) for the California Marketing Area decreased 77 cents per hundredweight (cwt) from last month to \$21.58 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 (4.25 percent butterfat, 3.45 percent protein, and 5.75 percent other solids), the December SUP is \$25.16 per cwt, 76 cents below November. December's pool average butterfat test represents a new record high under the CFMO. The December Producer Price Differential (PPD) at Los Angeles County is \$1.08 per cwt, a decrease of 26 cents from last month.

### Product Prices Effect

All monthly average product prices in the National Dairy Product Sales Report continued to decrease from November to December. The butter price observed the steepest decline, dropping just over 18 cents per pound from last month. The cheese price lost roughly 3 cents per pound, and the dry whey price decreased almost 2 cents per pound. The nonfat dry milk declined nearly 5 cents per pound.

All component prices, except for the protein price, decreased from last month. The butterfat price dropped almost 22 cents per pound from November. The other solids and nonfat solids prices declined roughly 2 cents and 5 cents per pound, respectively. Meanwhile, the protein price rose just under 12 cents per pound from the previous month.

All class prices moved downward from November. The Class I price lost \$1.51 per cwt to \$24.68. The Class II price dropped by the largest magnitude, losing \$1.56 per cwt to \$23.11. The Class III price decreased 51 cents per cwt to \$20.50. Lastly, the Class IV price declined \$1.18 per cwt to \$22.12. ❖

### Pool Summary

- A total of 947 producers were pooled with an average daily delivery per producer of 68,830 pounds, a decrease of 1.0 percent from November.
- Pooled milk receipts totaled 2.021 billion pounds, a decrease of 1.7 percent on an average daily basis.
- Class I usage (milk for bottling) accounted for 20.3 percent of total pooled milk receipts, down 0.4 percentage points from November.
- The average butterfat test of producer receipts was 4.25 percent.
- The average true protein test of producer receipts was 3.45 percent.
- The average other solids test of producer receipts was 5.75 percent. ❖

### Class Utilization

Pooled Milk	Percent	Pounds
Class I	20.3	409,208,495
Class II	4.4	89,349,605
Class III	70.4	1,422,987,104
Class IV	4.9	99,089,401
Total Pooled Milk		2,020,634,605

### Producer Component Prices

	2022	2021
	\$/lb	
Protein Price	2.6568	2.5937
Butterfat Price	3.1539	2.2919
Other Solids Price	0.2652	0.4532

### Class Price Factors

	2022	2021
	\$/cwt	
Class I	24.68	21.27
Class II	23.11	19.84
Class III	20.50	18.36
Class IV	22.12	19.88

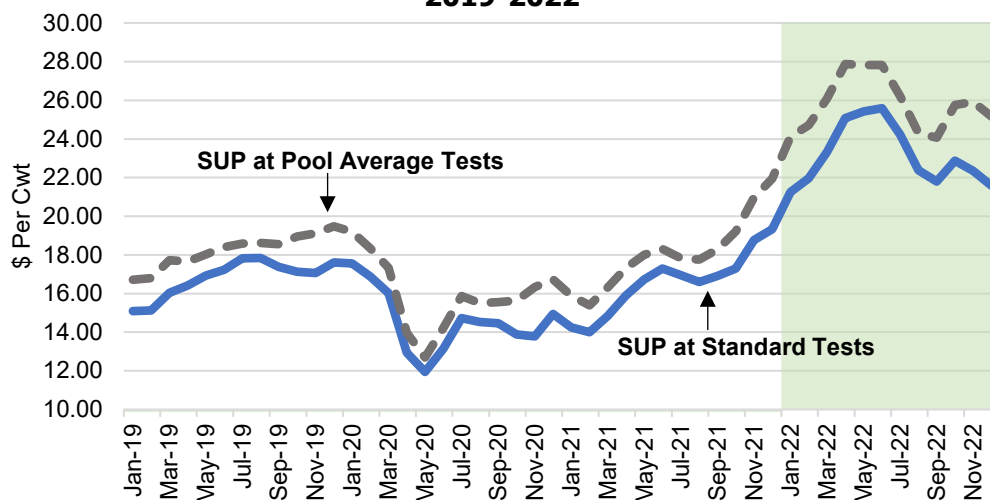
# 2022 Under the California Federal Marketing Order

## A Record Year for Milk Prices

In 2022, dairy prices reached unprecedented levels across the board as various product prices, component prices, and all class prices hit new records. Butter and butterfat prices reached new highs in October 2022, peaking at \$3.1911 and \$3.6567 per pound, respectively. The dry whey and other solids prices also recorded new Federal Order highs in March 2022. While cheese, nonfat dry milk, and nonfat solids prices did not surpass previous records, they were elevated by historical standards.

Lofty product and component prices led to record achievements in all class prices and the Statistical Uniform Price (SUP). Figure 1 displays the Federal Order (FO) 51 SUP at standard component tests and pool average component tests from 2019 to 2022. The figure shows that 2022 milk prices were clearly above the levels seen in the previous three years. The SUP at standard tests peaked at \$25.59 per cwt in June 2022, and the SUP at pool average tests peaked at \$27.88 per cwt in April 2022. Moreover, the weighted average SUP for 2022 was much higher compared to previous years. The table below lists simple and weighted average prices in FO 51 over the last four years. In 2022, the SUP at standard component tests averaged \$23.13 per hundredweight (cwt), \$6.57 (nearly 40 percent) more than the average of 2021. In addition, the SUP at pool average component tests was \$25.82 per cwt, \$7.74 (almost 43 percent) more than that of

**Figure 1: Federal Order 51 Statistical Uniform Prices\* 2019-2022**



\* For milk delivered to plants located in Los Angeles County, California

2021. Even the Producer Price Differential (PPD) was substantially larger, marking the first year of a positive average PPD in FO 51. While recent prices seem to be trending downward, the December 2022 SUP at standard tests of \$21.58 per cwt remained above January 2022's SUP by 33 cents.

2022 wasn't only a year of record prices. New peaks were also recorded in butterfat and protein tests of producer milk on the FO 51 pool. In December 2022, the average butterfat test of pooled milk receipts reached a record 4.25 percent. Further, the average protein test of pooled milk receipts peaked at 3.45 percent in both November and December 2022. With new records in component tests, the December 2022 SUP at pool average component tests remained above that of January 2022 by \$1.05 per cwt.

### A Shift in Class Utilization

Toward the final months of 2021, price dynamics shifted, and the Class IV price exceeded the Class

**Federal Order 51 Average Prices, 2019-2022**

Year	Simple Average Prices				Weighted Average Prices		
	Class I*	Class II	Class III	Class IV	PPD*	SUP at Standard Tests*	SUP at Pool Average Tests*
	\$/cwt				\$/cwt		
2019	19.09	16.76	16.96	16.30	-0.04	16.80	18.19
2020	19.01	14.29	18.16	13.49	-3.41	14.64	16.03
2021	18.93	16.44	17.08	16.09	-0.50	16.56	18.08
<b>2022</b>	<b>25.76</b>	<b>25.27</b>	<b>21.96</b>	<b>24.47</b>	<b>1.19</b>	<b>23.13</b>	<b>25.82</b>

\* For milk delivered to plants located in Los Angeles County, California

III price. In 2022, that shift became a trend; as butter prices achieved record values month after month, the Class IV price outpaced the Class III price in all but one month. Over the twelve months of 2022, the difference between the Class IV price and the Class III price averaged \$2.52 per cwt, reaching its widest margin at \$4.81 per cwt in September 2022.

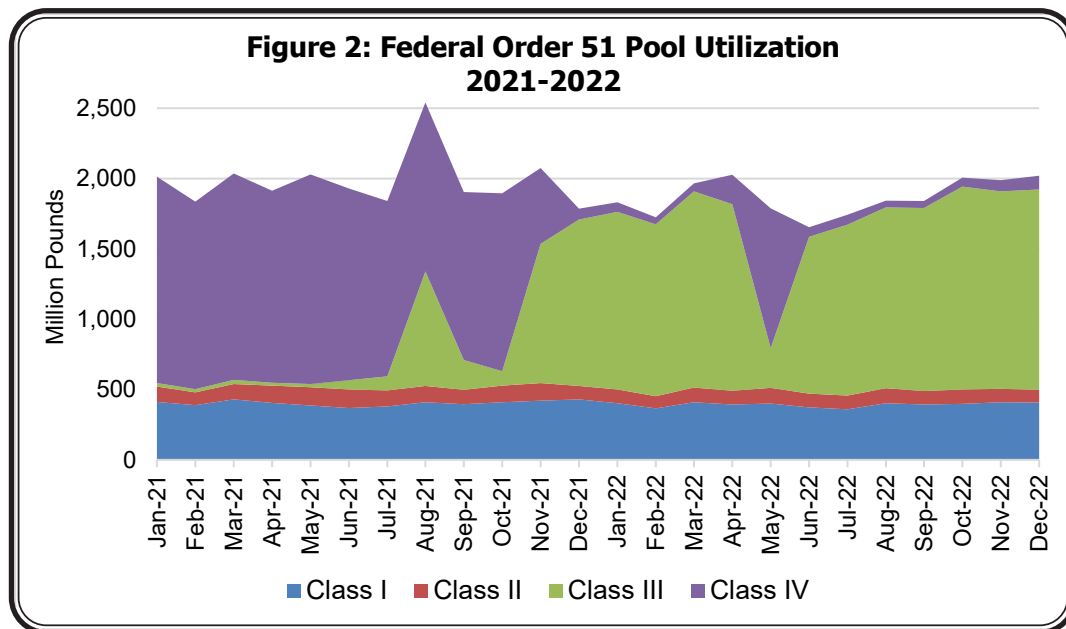
With significantly higher Class IV prices, handlers generally had no monetary incentive to pool Class IV milk. While Class III became the lowest priced class in most months, the volume of Class III milk on the FO 51 pool hit record levels. Figure 2 portrays the volumes of milk pooled on FO 51 by class from January 2021 to December 2022. As shown in the figure, Class IV maintained a larger share of the pool than Class III during most of 2021, as prices incentivized Class IV pooling and Class III depooling. On average, 299 million pounds of Class III milk and 1.17 billion pounds of Class IV milk were pooled each month in 2021. As the market shifted in November 2021, Class IV handlers depooled milk, while Class III handlers simultaneously began to pool milk. Aside from May

2022 when the Class III price exceeded the Class IV price, Class III milk stayed on the pool in 2022, while Class IV milk mainly stayed off the pool. During this period, Class III volumes grew significantly, averaging 1.22 billion pounds in 2022, while Class IV volumes shrunk enormously, dropping to an average of 155 million pounds. November 2022 marked the highest Class III volume on a daily average basis under FO 51 since its inception.

### 2023 Outlook

While 2022 marked a full year of elevated prices, 2023 price predictions are less optimistic. The November 2022 *Bulletin* noted that *Chicago Mercantile Exchange* (CME) futures on December 21, 2022, averaged \$19.46 per cwt for Class III in 2023 and \$20.07 per cwt for Class IV. CME futures as of January 17, 2023, however, suggest Class III and IV prices in 2023 will be lower, indicating averages of \$19.31 and \$19.44 per cwt, respectively. Meanwhile, the January 2023 *World Agricultural Supply and Demand Estimates* (WASDE) report predicts prices to fall even lower

than that, reporting an average 2023 Class III price at \$18.85 per cwt and Class IV price at \$19.25 per cwt. According to the WASDE, weak domestic demand and price pressure in international markets are expected to place downward pressure on dairy prices in 2023. With an all milk price forecasted at \$21.60 per cwt in 2023, farmers are likely to continue facing input cost pressures and tight margins during the new year. ❖



## See you at World Ag Expo!

California Federal Marketing Order staff are excited to meet you all at the 2023 World Ag Expo held February 14-16, 2023 in Tulare, California. Find us at booth 6133 in the Farm Credit Dairy Center to discuss dairy prices or answer any Federal Order questions you may have.

Also, join us at our seminar titled *Federal Milk Marketing Order Modernization: What the Industry Proposals Are and the Process to Follow*. USDA-Agricultural Marketing Service-Dairy Program Deputy Administrator Dana Coale will discuss various industry proposals and explain how the rulemaking process takes place. Find us in Seminar Trailer 2 on Wednesday, February 15th at 1:00 pm PST. We hope to see you all there! ❖



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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	399,158,691	\$13.55	\$54,086,002.63	
Less: Location Adjustment to Handlers	10,049,804	3.3156	33,321,130.14	
			(829,269.74)	\$86,577,863.03
Class II— Butterfat	14,432,730	3.1609	45,620,416.27	
Nonfat Solids	7,105,119	1.3867	9,852,668.52	55,473,084.79
Class III— Butterfat	51,466,967	3.1539	162,321,667.21	
Protein	49,912,861	2.6568	132,608,489.09	
Other Solids	82,400,110	0.2652	21,852,509.18	316,782,665.48
Class IV— Butterfat	9,884,931	3.1539	31,176,083.90	
Nonfat Solids	8,497,429	1.2752	10,835,921.48	42,012,005.38
<b>Total Classified Value</b>				<b>\$500,845,618.68</b>
Add: Overage—All Classes				102,867.30
Inventory Reclassification—All Classes				(186,800.86)
Other Source Receipts	0			2,507.73
<b>Total Pool Value</b>				<b>\$500,764,192.85</b>
Less: Value of Producer Butterfat	85,834,432	3.1539	(270,713,215.11)	
Value of Producer Protein	69,655,279	2.6568	(185,060,145.23)	
Value of Producer Other Solids	116,108,646	0.2652	(30,792,012.91)	(486,565,373.25)
<b>Total PPD Value Before Adjustments</b>				<b>\$14,198,819.60</b>
Add: Location Adjustment to Producers				7,629,222.68
One-half Unobligated Balance—Producer Settlement Fund				886,867.96
Less: Producer Settlement Fund—Reserve				(891,304.75)
<b>Total Pool Milk &amp; PPD Value</b>	2,020,634,605			<b>\$21,823,605.49</b>
Producer Price Differential		<b>\$1.08</b>		
Statistical Uniform Price		<b>\$21.58</b>		

*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.