



The Market Administrator's

BULLETIN

CALIFORNIA MARKETING AREA

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November 2018

Federal Order No. 51

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November Pool Price Calculation

The first pool calculation and statistical uniform price (SUP) announcement for the California Marketing Area (CMA) was issued on December 14. For the month of **November** the SUP for the CMA was **\$15.44 per hundredweight** for milk delivered to plants located in Los Angeles County, California, the announced 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 component tests of the producer milk included in the pool, the SUP would be **\$17.16 per hundredweight**. The November producer price differential (PPD) at Los Angeles County was an even \$1.00 per hundredweight.

The total volume of milk pooled by handlers was 2.1 billion pounds. As mentioned in last month's *pre-bulletin*, manufacturing plant handlers have the option of pooling or not pooling milk on a Federal Order and generally will make that determination based on the alignment of class prices and what makes economic sense for their organization.

Price Calculation

The table on page 4 of this *bulletin* reveals the figures behind the computation of the PPD and the SUP. The top part of the table shows the *total classified value*, \$349,951,086.00, which represents the value of milk as it was utilized in each class. Notice each class is broken into the components that are the pricing factors for that respective class. From this value, adjustments for overages, inventory reclassifications, and other source receipts are made before subtracting the combined value of all producer milk components in the pool valued at \$336,036,777.61. The value remaining, combined with some additional adjustments, (a value of \$20,805,109.06) is what remains to be paid out on a pro-rata per hundredweight basis as the PPD. This pool calculation procedure will remain the same month to month with the exception of changes in class utilizations, class and component prices (resulting in different *total classified values*) and different producer component valuations as component prices and component tests vary from month to month.

Product Prices Effect

The class and component prices that were in effect for this first (continued on page 3)

Pool Summary

- A total of 1,118 producers were pooled by handlers with an average daily delivery per producer of 62,009 pounds. These figures only represent milk pooled on the Order during November and not the entire milk production in California.
- Pooled milk receipts totaled 2.08 billion pounds.
- Class I usage (milk for bottling) accounted for 22.5 percent of total milk receipts.
- The average butterfat test of producer receipts was 4.00 percent.
- The average true protein test of producer receipts was 3.32 percent.
- The average other solids test of producer receipts was 5.74 percent. ❖

Class Utilization

| Pooled Milk | Percent | Pounds |
|-------------------|---------|---------------|
| Class I | 22.5 | 467,112,150 |
| Class II | 4.9 | 102,811,153 |
| Class III | 63.7 | 1,325,270,240 |
| Class IV | 8.9 | 184,602,273 |
| Total Pooled Milk | | 2,079,795,816 |

Producer Component Prices

| | \$/lb |
|--------------------|--------|
| Protein Price | 1.3419 |
| Butterfat Price | 2.5385 |
| Other Solids Price | 0.2714 |

Class Price Factors

| | \$/cwt |
|-----------|--------|
| Class I | 17.62 |
| Class II | 15.63 |
| Class III | 14.44 |
| Class IV | 15.06 |

Contributions to Producers' Total Gross Value

Under the California Milk Marketing Order multiple component pricing system, producers are paid on their respective volumes of components (butterfat, protein, and other solids) in their milk plus the Producer Price Differential (PPD). They receive the same per pound price for their components as the Class III per pound value for butterfat, protein, and other solids. Since the pool is made up of four classes of milk, it is the extra value in the pool generated by Classes I, II, and IV that is paid to producers via the PPD.

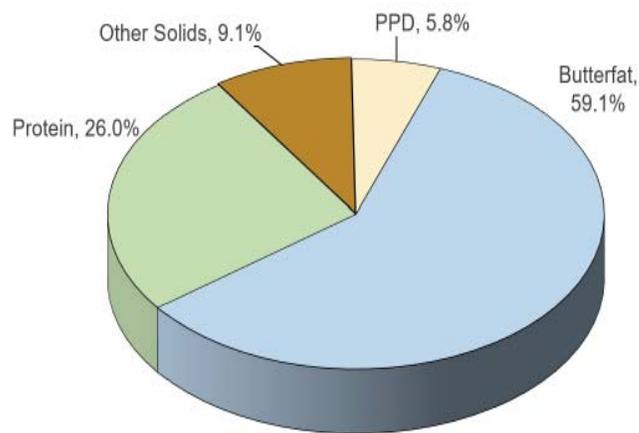
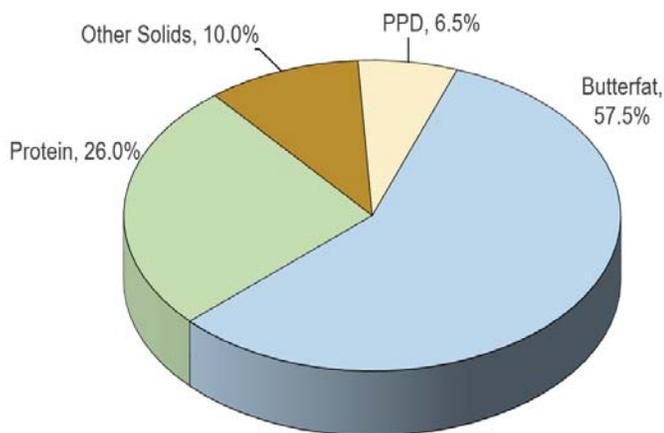
In the example below, the composition of a hypothetical producer with 2 million pounds per month pooled is shown. This hypothetical producer's total gross payment was calculated using actual component prices for November 2018. The tests are the average tests reported for all producers during that month. Additionally, an example where standardized component tests were used is shown.

During November, using the pool average tests, butterfat contributed 59.1 percent of the producer's payment. For the 2 million pounds, at 4.00 percent butterfat, 80,000 pounds of butterfat were produced. At \$2.5385 per pound, the total value generated from butterfat equaled \$203,080.00. Similarly calculating, protein and other solids contributed 26.0 and 9.1 percent of the producer's payment, respectively. The November PPD equaled \$1.00 per hundredweight and contributed in \$20,000 of value, or 5.8 percent of the producer's total payment.

The share that each component contributes to the total producer price varies month to month as dairy product market prices move relative to each other. Dairy product prices for cheese, butter, nonfat dry milk, and dry whey are the basis of the component prices. These prices are reported weekly by the USDA, Agricultural Marketing Service's National Dairy Product Price Sales Report (NDPSR). Monthly weighted average NDPSR prices are inputs to Federal Order pricing formulas. For instance, the NDPSR butter price moves the butterfat price, and the NDPSR cheese price predominantly moves the protein price. The butterfat price has exceeded the protein price for all but 5 months since September 2016 and so has generally contributed the largest share of the total producer value over that time. It is important to note that the proportions are affected by both the price of the component and its respective test value during the month.

Composition of Total Gross Payment*

| | At Standardized Tests | | | | At Pool Average Tests | | | |
|----------------------------|-----------------------|-----------------|----------------|----------------------|-----------------------|-----------------|----------------|----------------------|
| | Test percent | Price per pound | Gross dollars | Contribution percent | Test percent | Price per pound | Gross dollars | Contribution percent |
| Butterfat | 3.50 | 2.5385 x | \$177,695.00 = | 57.5 | 4.00 | 2.5385 x | \$203,080.00 = | 59.1 |
| Protein | 2.99 | 1.3419 x | \$80,245.62 = | 26.0 | 3.32 | 1.3419 x | \$89,102.16 = | 26.0 |
| Other Solids | 5.69 | 0.2714 x | \$30,885.32 = | 10.0 | 5.74 | 0.2714 x | \$31,156.72 = | 9.1 |
| PPD | | 1.00 | \$20,000.00 | 6.5 | | 1.00 | \$20,000.00 | 5.8 |
| Total gross payment | | | \$308,825.94 | | | | \$343,338.88 | |
| Gross price per cwt | | | \$15.44 | | | | \$17.16 | |



*For a hypothetical farm producing 2,000,000 pounds of milk at pool average component tests.

Marketing Services in Order 51

An important function of Federal Milk Orders is assuring that producers are accurately paid for the milk they produce. With producer payments based on pounds of components (butterfat, true protein, and other solids) together with the volume of milk produced (paid per hundredweight via the producer price differential), assuring accurate component tests and volume measurements is critical. Under Federal Orders these verification functions are conducted under the *Marketing Services* provision of the Order and, within Order 51, a marketing services program is being established to assure accurate payment to producers.

Nonmember and Cooperative Producers

Producers who do not belong to a cooperative will have verification services conducted on their behalf by the Market Administrator. To cover this expense a deduction of 5 cents per hundredweight will be made on the volume of their producer milk pooled on the Order during the month. For the first few months the deduction for marketing services will be waived while the program becomes fully implemented.

Cooperatives have the responsibility to provide such services to their membership and the Market Administrator will verify on an annual basis that a cooperative is providing such services to members. If they are deemed to be providing adequate market services, the cooperative and the volume of producer milk they pool can be exempted from the marketing services deduction. In some cases, cooperatives may elect to have such services provided directly by the Market Administrator, in which case they will be charged for the services provided.

Currently In Place

Already, Market Administrator personnel have been working with California milk testing laboratories implementing a lab performance monitoring program to assure that labs testing producer milk pooled on the Order are providing accurate component test results. Market Administrator staff also have been working with the California Department of Food and Agriculture who have long had an oversight role with the state's milk testing laboratories. In the months ahead, additional verification and monitoring procedures will be shared and implemented as appropriate with the state's milk testing laboratories.

Another significant part of the marketing services program is verification of milk weights through bulk tank calibrations and/or meter verification to assure proper milk weight measurements. Market information is another service provided under the heading of *Marketing Services* and publications such as this *Bulletin*, pricing information, and various statistical releases fall into this

category. As the *Marketing Services* program continues to be implemented in Order 51, producers who have questions about their milk testing or weighting or statistics in an article can email or call the contact information on the top of the front page. ❖

November Pool Pay Dates

Once the pool has been completed, payments for November's pooled milk are due as required under the Order. The first date applies to handlers that must pay into the Producer Settlement Fund. The next date is for payments to handlers that would receive money from the fund. In addition, on that same date handlers must have paid cooperatives for the milk they purchased from them. The last date is when producers who ship directly to handlers should have received their final payments (payment for the second half of the month's milk). The schedule below will appear each month on page 2 of the Statistical Uniform Price Announcement updated for the respective month's due dates. ❖

| Payment Schedule | |
|---|----------------------|
| <u>Payment Dates for the Month of:</u> | <u>November 2018</u> |
| Payments TO the Producer Settlement Fund due on: | December 17, 2018 |
| Payments FROM the Producer Settlement Fund made on: | December 18, 2018 |
| Final payments TO a Cooperative Association must be made on: | December 18, 2018 |
| Final payments to Producers must be RECEIVED by: | December 19, 2018 |

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Pool Calculation *(continued from page 1)*

pool were derived from the National Dairy Product Sales Report (NDPSR) that is collected weekly by USDA Dairy Program. The Class I price (announced on October 17) was based on reported sales data during the first two weeks of October. The Class III, IV and other remaining pricing factors for November were released on December 5 and were based on survey prices during the full month of November. During the time between when the advanced Class I price was issued and when the Class and Component price was issued, cheese prices declined resulting in a drop in the Class III price. As a result, the spread between the Class I price and the Class III price was \$3.18 per hundredweight, resulting in a fairly significant PPD value. If in future months, when both the advance price and class and component prices are based off of more comparable market prices (i.e. there are not significant intra-month changes in commodity prices as reported in weekly NDPSR surveys), the spread between the Class I price and Class III likely will not be as large, leading to lower PPD values. ❖



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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 | 456,388,274 | \$8.91 | \$40,664,195.21 | |
| Butterfat | 10,723,876 | 2.5788 | 27,654,731.43 | |
| Less: Location Adjustment to Handlers | | | (920,619.37) | \$67,398,307.27 |
| Class II— Butterfat | 14,808,830 | 2.5455 | 37,695,876.74 | |
| Nonfat Solids | 8,240,841 | 0.7733 | 6,372,642.34 | 44,068,519.08 |
| Class III— Butterfat | 46,773,271 | 2.5385 | 118,733,948.43 | |
| Protein | 44,642,659 | 1.3419 | 59,905,984.10 | |
| Other Solids | 76,390,931 | 0.2714 | 20,732,498.69 | 199,372,431.22 |
| Class IV— Butterfat | 10,817,580 | 2.5385 | 27,460,426.83 | |
| Nonfat Solids | 16,387,344 | 0.7110 | 11,651,401.60 | 39,111,828.43 |
| Total Classified Value | | | <i>Total value of milk in the pool</i> → | \$349,951,086.00 |
| Add: Overage—All Classes | | | | 54,014.10 |
| Inventory Reclassification—All Classes | | | | 31,417.20 |
| Other Source Receipts | 715,094 | | | 20,061.06 |
| Total Pool Value | | | | \$350,056,578.36 |
| Less: Value of Producer Butterfat | 83,123,557 | 2.5385 | (211,009,149.46) | |
| Value of Producer Protein | 69,047,752 | 1.3419 | (92,655,178.37) | |
| Value of Producer Other Solids | 119,279,476 | 0.2714 | (32,372,449.78) | (336,036,777.61) |
| Total PPD Value Before Adjustments | | | <i>Total Class III value of producer components</i> ↗ | \$14,019,800.75 |
| Add: Location Adjustment to Producers | | | | 7,692,249.62 |
| One-half Unobligated Balance—Producer Settlement Fund | | | | 0.00 |
| Less: Producer Settlement Fund—Reserve | | | | (906,941.31) |
| Total Pool Milk & PPD Value | 2,080,510,910 | | | \$20,805,109.06 |
| Producer Price Differential | | \$1.00 | | |
| Statistical Uniform Price | | \$15.44 | | |

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