



The Market Administrator's

BULLETIN

CALIFORNIA MARKETING AREA

Peter Fredericks, Market Administrator

January 2023

Federal Order No. 51

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

January Pool Price Calculation

The January 2023 Statistical Uniform Price (SUP) for the California Marketing Area decreased \$1.08 per hundredweight (cwt) from last month to \$20.50 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 (4.21 percent butterfat, 3.39 percent protein, and 5.75 percent other solids), the January SUP is \$23.59 per cwt, \$1.57 below December 2022. The January 2023 Producer Price Differential (PPD) at Los Angeles County is \$1.07 per cwt, a decrease of only 1 cent from last month.

Product Prices Effect

For the third straight month, all monthly average product prices in the National Dairy Product Sales Report decreased from the previous month. The butter price observed the sharpest decline, dropping almost 32 cents per pound from last month. The cheese price lost nearly 8 cents per pound, and the dry whey price decreased 3 cents per pound. The nonfat dry milk declined just under 9 cents per pound.

All component prices, except for the protein price, decreased from last month. The butterfat price dropped roughly 38 cents per pound from December. The other solids and nonfat solids prices declined just over 3 cents and nearly 9 cents per pound, respectively. Meanwhile, the protein price rose almost 15 cents per pound from the previous month.

All class prices continued to move downward from December to January. The Class I price declined 17 cents per cwt to \$24.51. The Class II price dropped \$1.50 per cwt to \$21.61, and the Class III price decreased \$1.07 per cwt to \$19.43. Lastly, the Class IV price declined by the largest magnitude, losing \$2.11 per cwt to \$20.01. ❖

Pool Summary

- A total of 978 producers were pooled with an average daily delivery per producer of 77,093 pounds, an increase of 12.0 percent from December.
- Pooled milk receipts totaled 2.337 billion pounds, an increase of 15.7 percent on an average daily basis.
- Class I usage (milk for bottling) accounted for 18.1 percent of total pooled milk receipts, down 2.2 percentage points from December.
- The average butterfat test of producer receipts was 4.21 percent.
- The average true protein test of producer receipts was 3.39 percent.
- The average other solids test of producer receipts was 5.75 percent. ❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	18.1	422,163,959
Class II	4.3	100,847,747
Class III	59.6	1,392,209,900
Class IV	18.1	422,088,838
Total Pooled Milk		2,337,310,444

Producer Component Prices

	2023	2022
	\$/lb	
Protein Price	2.8058	2.3563
Butterfat Price	2.7713	2.9567
Other Solids Price	0.2343	0.5249

Class Price Factors

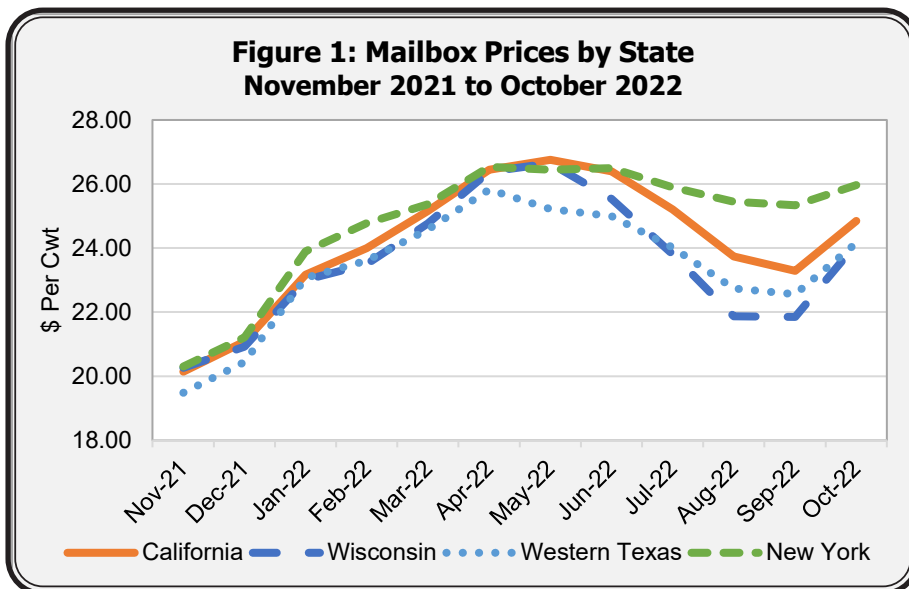
	2023	2022
	\$/cwt	
Class I	24.51	21.81
Class II	21.61	22.83
Class III	19.43	20.38
Class IV	20.01	23.09

California's Mailbox Milk Prices

Each month, the USDA Agricultural Marketing Service publishes the *Mailbox Milk Price Report*¹, listing the average mailbox milk prices in Federal Milk Marketing Order (FMMO) areas. The mailbox price is defined as the net price received by producers for their milk including all payments received for milk sold (including premiums) and deducting costs associated with marketing the milk (such as promotion dues, hauling charges, cooperative dues, quota assessments, etc.). The mailbox price reporting areas are aligned with state boundaries or specific geographic areas, which may not exactly align with the boundaries of a Federal Order (FO). The valuation of milk used in the mailbox price calculation seeks to include the milk produced within a reporting area that was pooled on a FO along with milk that might not have pooled on an Order, as long as such data is provided by handlers at the time of the price calculation. The mailbox price calculated for California does align with the milkshed of the California FMMO and does represent a significant majority of the state's milk production.

The data in the *Mailbox Milk Price Report* lags by three to four months as payroll data is collected in the Federal Orders and average prices are calculated, making October the most recent month published. Over the past twelve months of available data, the average California mailbox prices exceeded \$20 per hundredweight (cwt) in every

¹ More information on the *Mailbox Milk Price Report* can be found on the Agricultural Marketing Service's website at: www.ams.usda.gov/resources/marketing-order-statistics/mailbox-milk-prices.

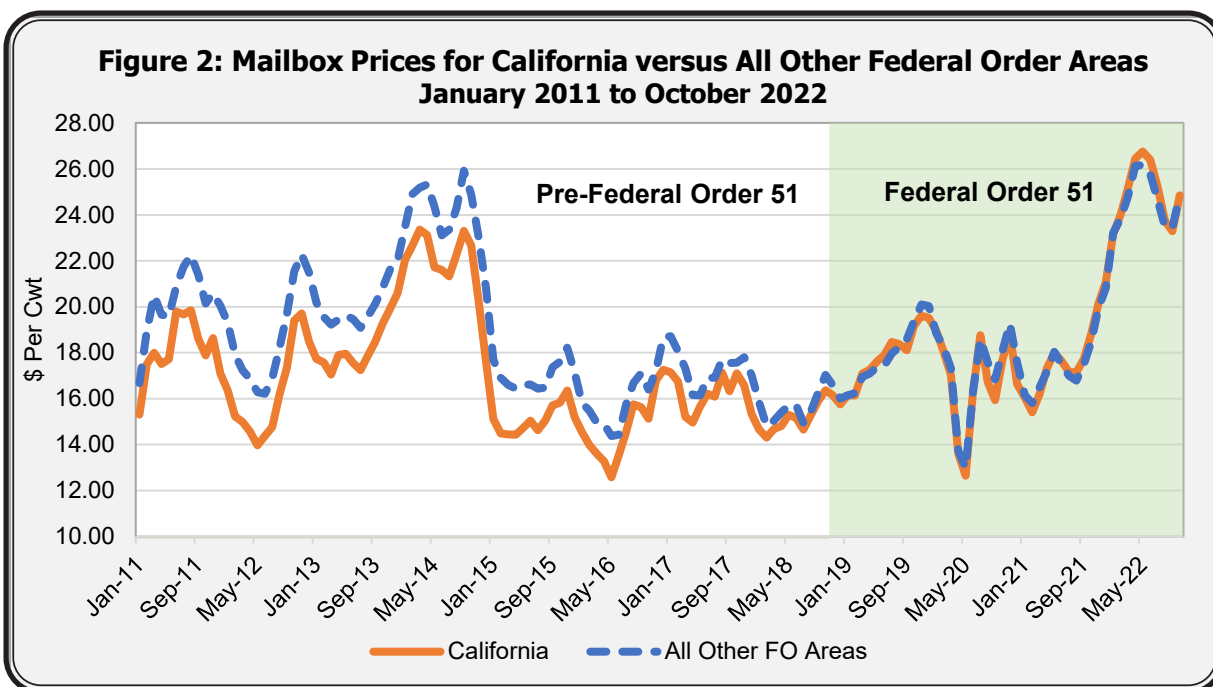


month. Further, the average California mailbox prices surpassed the average of all other FO areas in nine of those months. This article evaluates California's net pay prices to dairy farmers over the short and long terms.

Comparing California to Other Major Dairy States

In 2021, the top five largest milk-producing states were (in order) California, Wisconsin, Idaho, Texas, and New York. Of these five states, all but Idaho operate under FMMOs. Figure 1 displays the average mailbox milk prices of those four states with Federal Orders from November 2021 to October 2022. As shown in the figure, California's average mailbox price has been competitive with other major dairy states during this period of elevated milk prices. While California, Wisconsin, and New York had similar prices in November 2021, California peaked above

these other states in May 2022 at \$26.76 per cwt. On average, California ranked second in mailbox prices from November 2021 to October 2022 at \$24.19 per cwt for the period. While most states dropped off in mailbox prices after June, New York sustained a higher price in the second half of the year through October. New York had the highest
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California's Mailbox Milk Prices *(continued from page 2)*

average mailbox price over the period at \$24.81 per cwt, 62 cents higher than California. Meanwhile, Wisconsin and Western Texas averaged more than 60 cents below California at \$23.56 and \$23.39 per cwt, respectively. California's strong Class IV production along with record-high butterfat prices within the Class IV price formula in 2022 may have contributed to the state's dairy producers netting above the average prices of Wisconsin and Western Texas.

The California State Order Versus the Federal Milk Marketing Order

While there is no simple way to compare the former California State Order to the current pricing system, Figure 2 illustrates the average mailbox prices for California and all other FO areas from January 2011 to October 2022. From January 2011 to October 2018, the average California mailbox price was \$1.68 per cwt less than the average

mailbox price for FO areas. In the year preceding the FO, the average difference in mailbox prices shrank to \$0.67 per cwt. In every month displayed in the figure under the State Order, California's mailbox price was lower than the average mailbox price of FO areas, ranging from \$3.19 per cwt lower in December 2014 to \$0.15 per cwt lower in August 2018.

Since adopting the California FMMO in November 2018, the average California and all other FO area (not including California) mailbox prices have converged. From November 2018 to October 2022, California's mailbox price was just 3 cents per cwt less than that of all other FO areas, ranging from 93 cents lower in December 2020 to 63 cents higher in June 2022. While external factors play a role in the narrowed price spread, California net pay prices seem to be competitive with the rest of the country. ❖

Transportation Credit Amendment Hearing for Federal Orders 5, 6, and 7

In the final quarter of 2022, the USDA received proposals to amend provisions of the Appalachian (5), Florida (6), and Southeast (7) Federal Milk Marketing Orders. Petitions to amend existing inter-market transportation credits and adopt new credits for milk deliveries into those areas were submitted by Dairy Cooperative Marketing Association (DCMA) and Prairie Farms Dairy, Inc. Essentially, the proposals aim to incentivize milk to be delivered to Class I plants in those marketing areas. Proponents backing the proposals contend that the three southeastern Federal Order (FO) areas have continued to experience a milk deficit for some time. Recent data in support of the proposed amendments, from 2006 to 2021, shows the number of licensed dairy farms in FOs 5, 6, and 7 diminished substantially. During the same period, regional milk production also declined; simultaneously, population growth has been increasing. These variables have escalated the milk shortage issue in the southeastern U.S.

Transportation credits were initially adopted in FOs 5 and 7 following a public hearing in August 1996. This resulted in establishment of Transportation Credit Balancing Funds (TCBF) in these orders, which assists milk handlers who import supplemental bulk milk for fluid use by providing monetary credits. Regulated handlers pay into this fund at a set assessment rate on bulk milk they process into Class I. Dairy processors and cooperatives who ship supplemental milk that is delivered to fully regulated distributing plants in FOs 5 and 7 may receive payments from the TCBF. The payment is calculated by multiplying a mileage rate factor by the number of miles a load of milk traveled to arrive at a distributing plant in the order.

Evidence provided during the 1996 hearing indicated that, in some months, local supplies in these orders were insufficient to meet fluid needs and the burden of import

costs for supplemental milk fell unevenly on milk handlers and dairy farmers. Over time, there have been amendments to transportation credit provisions to address market changes. For example, two of these amendments included raising the assessment rate and adding a fuel cost adjuster in the calculation of the payout rate. Today, proponents express that supplemental milk is still needed to supply fluid markets in FOs 5, 6, and 7.

DCMA's proposal seeks to amend the transportation credit provisions in FOs 5 and 7 by raising the maximum assessment rate on Class I milk and updating the mileage rate calculation with new costs. They also recommend revising the payment months and updating the mileage factor calculations to match new travel costs. Further, DCMA recommends establishing a Distributing Plant Delivery Credit Fund (DPDCF) in FOs 5, 6, and 7. The DPDCF is a similar fund to the original TCBF, but it allows reimbursements to producers within the marketing areas year-round.

Prairie Farm's proposal seeks to establish an Assembly Performance Credit Fund (APCF) in FOs 5, 6, and 7 to provide financial assistance for the assembly, dispatch, and delivery of producer milk to fluid plants. In addition to DCMA's transportation credit amendment proposals, Prairie Farms also proposes expanding geographic eligibility for transportation credits to milk produced inside the marketing area and as well as removing some pooling qualifications for eligibility.

The hearing will begin on Tuesday, February 28, 2023, in Franklin, Tennessee. Additional information on the hearing and the industry proposals can be found at: www.ams.usda.gov/rules-regulations/milk-appalachian-southeast-and-florida-areas-hearing-proposed-amendments. ❖



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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	411,937,177	\$13.42	\$55,281,969.15	
Butterfat	10,226,782	3.3037	33,786,219.69	
Less: Location Adjustment to Handlers			(869,106.79)	\$88,199,082.06
Class II— Butterfat	15,485,413	2.7783	43,023,122.94	
Nonfat Solids	8,061,528	1.3689	11,035,425.69	54,058,548.63
Class III— Butterfat	50,312,892	2.7713	139,432,117.60	
Protein	48,152,042	2.8058	135,104,999.49	
Other Solids	80,648,632	0.2343	18,895,974.51	293,433,091.60
Class IV— Butterfat	22,335,371	2.7713	61,898,013.65	
Nonfat Solids	37,915,512	1.1864	44,982,963.42	106,880,977.07
Total Classified Value			<i>Total value of milk in the pool</i> →	\$542,571,699.36
Add: Overage—All Classes				56,405.14
Inventory Reclassification—All Classes				(173,959.88)
Other Source Receipts	80,120			2,597.12
Total Pool Value				\$542,456,741.74
Less: Value of Producer Butterfat	98,360,458	2.7713	(272,586,337.26)	
Value of Producer Protein	79,188,828	2.8058	(222,188,013.59)	
Value of Producer Other Solids	134,461,488	0.2343	(31,504,326.66)	(526,278,677.51)
Total PPD Value Before Adjustments			<i>Total Class III value of producer components</i> ↗	\$16,178,064.23
Add: Location Adjustment to Producers				9,007,918.57
One-half Unobligated Balance—Producer Settlement Fund				861,717.86
Less: Producer Settlement Fund—Reserve				(1,037,621.67)
Total Pool Milk & PPD Value	2,337,390,564			\$25,010,078.99
Producer Price Differential		\$1.07	← <i>Value from which PPD per hundredweight is calculated</i>	
Statistical Uniform Price		\$20.50		

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