



The Market Administrator's

BULLETIN

CALIFORNIA MARKETING AREA

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Federal Order No. 51

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November Pool Price Calculation

The November 2022 Statistical Uniform Price (SUP) for the California Marketing Area decreased 53 cents per hundredweight (cwt) from last month to \$22.35 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. November's pool average butterfat test (4.21 percent) and protein test (3.45 percent) reached new record highs under the CFMO. If reported at pool average tests, the November SUP is \$25.92 per cwt, 16 cents above October. November's Producer Price Differential (PPD) at Los Angeles County is \$1.34 per cwt, an increase of 27 cents from last month.

Product Prices Effect

All monthly average product prices in the National Dairy Product Sales Report decreased from October to November. The butter price exhibited the largest decline, dropping almost 24 cents per pound from last month. The cheese price decreased roughly 7 cents per pound, and the dry whey price declined just over a penny per pound. The nonfat dry milk price lost nearly 8 cents per pound.

All component prices, except for the protein price, moved downward from last month. The butterfat price observed the steepest drop, losing roughly 28 cents per pound from October. The other solids and nonfat solids prices decreased just over a penny per pound and almost 8 cents per pound, respectively. Meanwhile, the protein price rose roughly 9 cents per pound.

Aside from Class I, all class prices declined from October to November. The Class I price rose \$1.38 per cwt to \$26.19. The Class II price lost \$1.06 per cwt to \$24.67, and the Class III price decreased 80 cents per cwt to \$21.01. Lastly, the Class IV price dropped \$1.66 per cwt to \$23.30. ❖

2023 Reporting and Payment Dates

Reporting and payment dates for the California Federal Marketing Order (CFMO) have now been published to the CFMO website for 2023. Important payment, reporting, and producer price release dates can be found at: www.cafmmo.com/order/reporting-and-payment-dates. ❖

Pool Summary

- A total of 954 producers were pooled with an average daily delivery per producer of 69,499 pounds, a decrease of 0.5 percent from October.
- Pooled milk receipts totaled 1.989 billion pounds, an increase of 2.4 percent on an average daily basis.
- Class I usage (milk for bottling) accounted for 20.7 percent of total pooled milk receipts, up 0.9 percentage points from October.
- The average butterfat test of producer receipts was 4.21 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	20.7	410,870,908
Class II	4.8	95,722,388
Class III	70.5	1,401,565,199
Class IV	4.1	80,911,928
Total Pooled Milk		1,989,070,423

Producer Component Prices

	2022	2021
	\$/lb	
Protein Price	2.5374	2.7536
Butterfat Price	3.3720	2.1541
Other Solids Price	0.2837	0.3949

Class Price Factors

	2022	2021
	\$/cwt	
Class I	26.19	20.08
Class II	24.67	18.40
Class III	21.01	18.03
Class IV	23.30	18.79

Milk Price Outlook for 2023

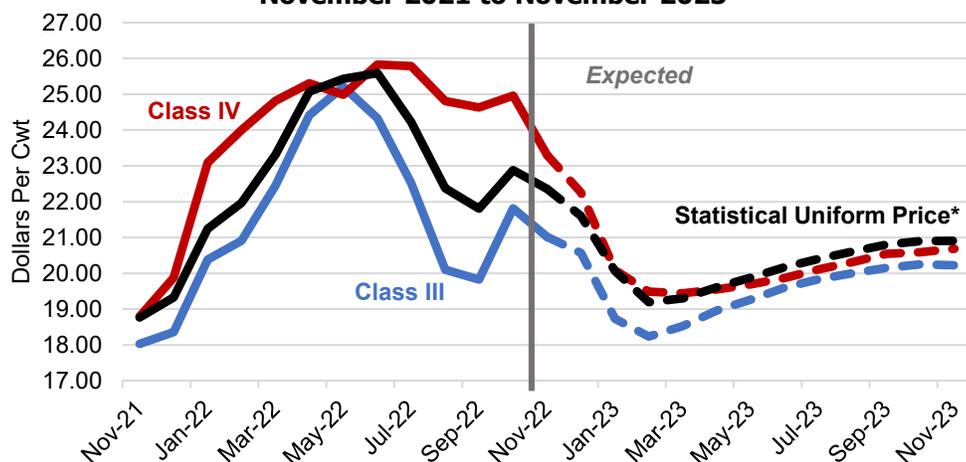
For the eleventh consecutive month, the Federal Order (FO) 51 Statistical Uniform Price (SUP) at standard component tests held above \$20.00 per cwt. Despite the high prices, the SUP in 2022 generally measured below the forecast in the April 2022 *Bulletin*. At the time, *Chicago Mercantile Exchange* (CME) futures averaged \$23.76 per cwt for Class III contracts from May to December and \$24.03 per cwt for Class IV contracts. In actuality, the Class III price for May to November was \$1.65 lower than expected, averaging \$22.11 per cwt. The Class IV price for May to November averaged \$24.90 per cwt, exceeding the prediction by 87 cents. As Class III prices dropped off more rapidly than anticipated in the second half of 2022, the actual FO 51 SUP during the period thus far (from May to November) averaged \$23.52 per cwt, \$1.03 lower than the May to December prediction.

Although most milk prices fell below expectations in the April 2022 *Bulletin*, so did feed prices. CME futures as of May 18, 2022, suggested that the corn price would peak in July at \$7.81 per bushel and remain above \$7.40 per bushel through April 2023. The USDA National Agricultural Statistics Service (NASS) recorded the peak corn price at \$7.38 per bushel in June with monthly declines after that. In October, the actual average price of corn was \$6.50 per bushel—roughly \$1.00 lower than forecasted in May but still high by historical standards. In addition, CME futures expected the soybean price to peak in July and then fall below 2022 levels by April 2023. Like the corn price, the soybean price dropped off faster than anticipated, recording \$13.50 per bushel in October compared to the forecasted \$15.19. Current market indicators as well as the futures markets suggest that both milk and feed prices will remain relatively high during the next year but not at the levels reached in 2022.

Milk Prices

As depicted in Figure 1, CME futures suggest that milk prices may dip in Q1 2023 but could regain strength in Q2 and Q3. December 21, 2022, Class III and IV futures support an average FO 51 SUP at standard tests of \$19.52 per cwt in Q1 2023. However, the futures indicate the SUP could gradually increase throughout 2023, averaging \$19.88 in Q2, \$20.60 in Q3, and \$20.78 per cwt in Q4 2022. The Class IV price is expected to average \$20.07 per cwt in 2023 while Class III price expectations average \$19.46 in 2023.

Figure 1: Actual and Forecasted Federal Order 51 Prices November 2021 to November 2023



* At standard tests for milk delivered to Los Angeles County, California
Source: CME, FO 51

The anticipated difference between the average Class III and IV prices for 2023 is significantly smaller than in 2022. Futures indicate a \$0.61 difference between the average Class III and IV prices in 2023—much lower than the \$2.52 difference expected in 2022. Close alignment in the Class III and IV prices could result in large amounts of Class III and IV utilization in the FO 51 pool. However, the narrower spread could also reflect uncertainty for both prices.

Cost Factors

Figure 2 illustrates price predictions for corn, soybeans, and diesel fuel. CME corn futures suggest that the corn price will exhibit small increases over the next few months. December 21, 2022, corn futures predict a peak corn price of \$6.62 per bushel in 2023, which is just 12 cents higher than the October 2022 average and 76 cents less than the peak of 2022. CME soybean futures, however, project more volatility. Futures expect a strong soybean price in the first half of the year, averaging \$14.85 per bushel before declining after July. Meanwhile, the U.S. Energy Information Administration predicts the U.S. on-highway diesel fuel price to decline in 2023, averaging \$4.83 per gallon in Q1 2023 and \$4.55 per gallon in Q2 2023. While feed and fuel prices remain historically high, forecasts indicate prices will likely be somewhat lower than in 2022.

Supply Factors

Milk Production

According to the NASS *Milk Production* report, November 2022 milk production in the 24 major milk producing states was up 1.4 percent from November 2021, marking the sixth consecutive monthly increase in year-over-year production. U.S. cow numbers increased from the year prior for only the third month of 2022 as the national

herd grew 38,000 head from 2021 to 9.42 million head in November. The latest *Livestock, Dairy, and Poultry Outlook* (LDP) from the USDA Economic Research Service (ERS) estimates U.S. milk production will be 229.5 billion pounds in 2023, up 1.1 percent from 2022. ERS anticipates the average number of milk cows to grow by 10,000 head from 2022 to 9.420 million head in 2023. As input costs remain high, robust herd expansions in the near term seem less likely.

While some growth in the U.S. milk supply is expected, other major dairy producing countries predict slight production declines in the coming year. The USDA Foreign Agricultural Service (FAS) estimates a continued decrease in EU-27 milk production in 2023 due to a declining dairy herd after an EU-wide drought in 2022. After anticipating year-over-year production declines in 2022, FAS also projects 2023 production to decrease in New Zealand (down marginally) and Australia (down 2 percent) due to high input costs, weather conditions in New Zealand, and a shortage of labor in Australia. Low production levels from major dairy players suggest that the milk supply alone is unlikely to place significant downward pressure on prices.

Cold Storage

According to the NASS *Cold Storage* report, butter stocks at the end of October decreased 14.1 percent from the prior year. Butter stocks have remained below prior year levels since the end of August 2021; however, the October level marks the smallest year-over-year decline in the past 12 months. Further, butter stocks declined less than usual from September to October. These data suggest that butter demand may be affected by high prices.

Demand Factors

Exports

Market indicators suggest a mixed outlook for U.S. dairy exports in 2023. The International Monetary Fund

(IMF) predicts global GDP to increase by 2.7 percent in 2023 according to its *October 2022 World Economic Outlook*. The IMF projects considerable GDP growth in China (4.4 percent) but more modest increases in Japan (1.6 percent), Mexico (1.2 percent), and the United Kingdom (0.3 percent). The IMF expects GDP in the ASEAN-5 (Indonesia, Malaysia, the Philippines, Singapore, and Thailand) to increase by 4.9 percent. However, the projected increases in all these countries except for China are below 2022 rates. These metrics indicate that modest global economic expansion may temper demand. The most recent LDP supports a similar outcome for dairy exports in 2023. ERS anticipates U.S. dairy to export 13 billion pounds on a milk-equivalent milk-fat basis, down from 2022's expected 13.5 billion pounds. On a milk-equivalent skim-solids basis, ERS projects 52.3 billion pounds of exports in 2023 which is slightly lower than the 52.4 billion pounds expected in 2022. The larger decrease on a milk-fat basis indicates that exports in 2023 may not favor high-fat dairy products over low-fat products like milk powder.

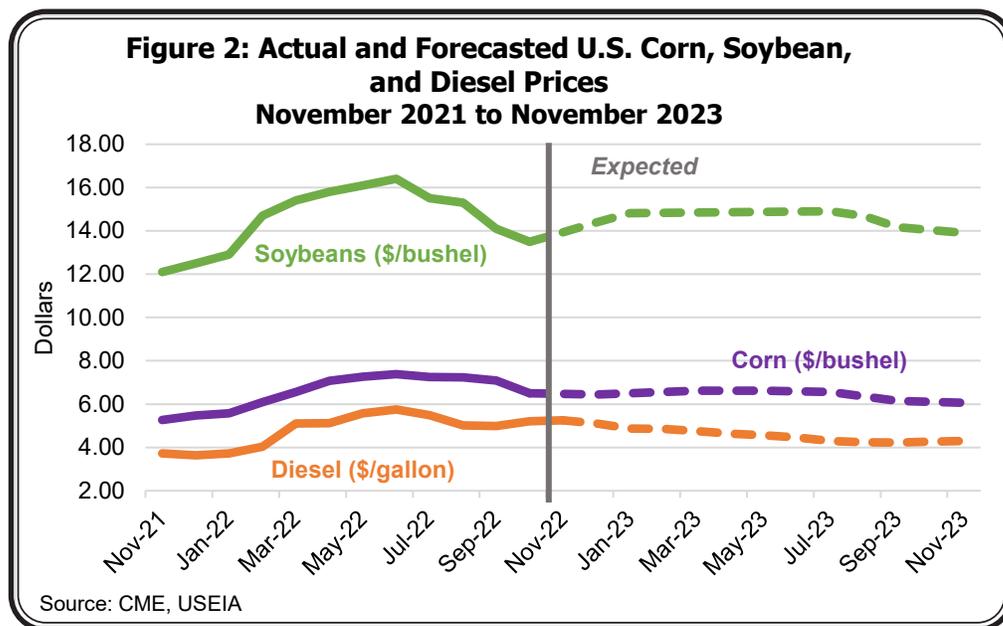
Domestic Situation

The IMF predicts a one percent increase in U.S. GDP in 2023, suggesting that the domestic economy may grow by 0.6 fewer percentage points than in 2022. The metric also likely reflects concerns over the impacts of inflation and monetary policy on domestic output. The Conference Board's Consumer Confidence Index decreased from October to November 2022. The index sits at 100.2, meaning that consumers are slightly optimistic about the domestic economy. The Present Situation Index also decreased from October to November but remains elevated at 137.4 while the Expectations Index fell to 75.4. The large difference between the Present Situation and the Expectations Indexes illustrates that consumers are apprehensive in their outlook of the domestic economy, despite optimism

about its current state. As a result, consumers may look to trim their spending on dairy products in the coming months, particularly for high-value products or at food-service outlets.

Summary

CME futures suggest that milk prices in 2023 may initially fall but recover in later months. The futures reflect modest growth in the milk supply in 2023. They also illustrate the large amount of uncertainty surrounding the general economy. Ultimately, current market indicators suggest prices in 2023 may decrease from 2022 but remain historically elevated. ❖





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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	400,845,076	\$13.73	\$55,036,028.93	
Butterfat	10,025,832	3.6984	37,079,537.07	
Less: Location Adjustment to Handlers			(829,973.48)	\$91,285,592.52
Class II— Butterfat	14,748,456	3.3790	49,835,032.79	
Nonfat Solids	7,699,218	1.4789	11,386,373.49	61,221,406.28
Class III— Butterfat	50,767,596	3.3720	171,188,333.71	
Protein	49,120,809	2.5374	124,639,140.76	
Other Solids	81,195,026	0.2837	23,035,028.86	318,862,503.33
Class IV— Butterfat	8,168,207	3.3720	27,543,193.99	
Nonfat Solids	6,959,716	1.3233	9,209,792.16	36,752,986.15
Total Classified Value				\$508,122,488.28
Add: Overage—All Classes				254,374.73
Inventory Reclassification—All Classes				(306,620.02)
Other Source Receipts	63,185			2,647.45
Total Pool Value				\$508,072,890.44
Less: Value of Producer Butterfat	83,710,091	3.3720	(282,270,426.87)	
Value of Producer Protein	68,613,808	2.5374	(174,100,676.42)	
Value of Producer Other Solids	114,451,815	0.2837	(32,469,979.90)	(488,841,083.19)
Total PPD Value Before Adjustments				\$19,231,807.25
Add: Location Adjustment to Producers				7,503,466.75
One-half Unobligated Balance—Producer Settlement Fund				845,586.17
Less: Producer Settlement Fund—Reserve				(926,469.81)
Total Pool Milk & PPD Value	1,989,133,608			\$26,654,390.36
Producer Price Differential		\$1.34		
Statistical Uniform Price		\$22.35		

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.