



The Market Administrator's

BULLETIN

CALIFORNIA MARKETING AREA

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September 2019

Federal Order No. 51

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September Pool Price Calculation

The September 2019 statistical uniform price (SUP) for the California Marketing Area was announced at \$17.37 per hundredweight for milk delivered to plants located in Los Angeles County, California, the pricing point for the California Order. The standard SUP is calculated at 3.5 percent butterfat, 2.99 percent protein, and 5.69 percent other solids. If reported at the average tests of producer pooled milk--3.76 percent butterfat, 3.18 percent protein, and 5.73 percent other solids--the SUP would be \$18.56 per hundredweight. The SUP at the average component tests of producer pooled milk was only 6 cents lower in September than in August, despite the decrease of 47 cents in the SUP as announced at standard tests. September's producer price differential (PPD) was -\$0.94 per hundredweight, a decrease of \$1.18 per hundredweight from last month.

Product Prices Effect

The butter price fell 13 cents per pound in September, a much larger fall in price than the decrease of 2 cents in August. After a slight increase in August, cheese prices increased by nearly 8 cents, driving significant increases in the protein and Class III prices. Dry whey prices were relatively unchanged, and nonfat dry milk (NFDM) increased by almost two cents after each increased by less than 1 cent in August. From August to September, the protein price climbed nearly 42 cents, reaching \$2.8633 per pound while the butterfat price decreased by more than 15 cents to \$2.4982 per pound.

All class prices decreased in September except for the Class III price. The Class I price decreased 4 cents; the Class II price fell 67 cents; the Class III price, driven by the high cheese price, rose 71 cents; and the Class IV price dropped 39 cents. With the spread between the Class I and Class III prices falling 75 cents, the PPD for September was negative at all differential zones. ❖

SUP and PPD Values

Since the inception of the California Federal Milk Order (CFMO) in November 2018, eleven monthly utilization pools have been completed and a Statistical Uniform Price (SUP) announced. During this period, the monthly SUP has varied from a low of \$14.91 per hundredweight (cwt) in December 2018 to the high of \$17.84 per (continued on page 3)

Pool Summary

- A total of 931 producers were pooled under the Order with an average daily delivery per producer of 63,310 pounds, a decrease of 6.1 percent from August.
- Pooled milk receipts totaled 1.768 billion pounds, a decrease of 2.4 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 25.8 percent of total milk receipts, up 2.2 percent from August.
- The average butterfat test was 3.76 percent.
- The average true protein test was 3.18 percent.
- The average other solids test was 5.73 percent. ❖

Class Utilization

| Pooled Milk | Percent | Pounds |
|-------------------|---------|---------------|
| Class I | 25.8 | 455,698,952 |
| Class II | 8.8 | 155,430,107 |
| Class III | 6.2 | 109,753,013 |
| Class IV | 59.2 | 1,047,363,170 |
| Total Pooled Milk | | 1,768,245,242 |

Producer Component Prices

| | \$/lb |
|--------------------|--------|
| Protein Price | 2.8633 |
| Butterfat Price | 2.4982 |
| Other Solids Price | 0.1758 |

Class Prices

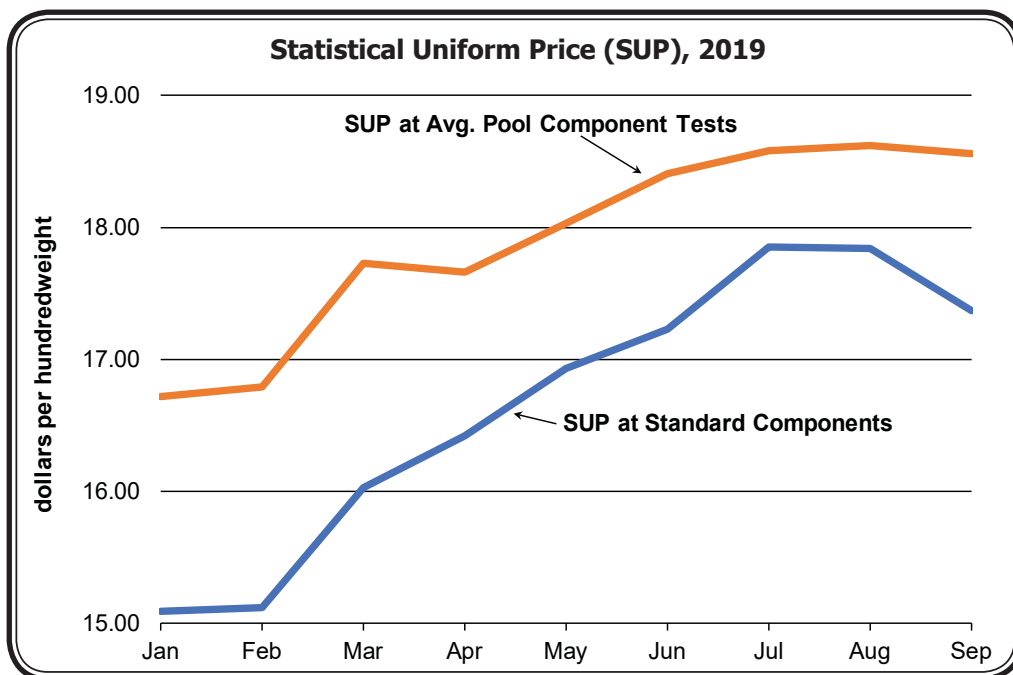
| | \$/cwt |
|-----------|--------|
| Class I | 19.95 |
| Class II | 16.93 |
| Class III | 18.31 |
| Class IV | 16.35 |

SUP: Standard vs. Pool Average

The Statistical Uniform Price (SUP) accounts for the butterfat, protein, and other solids composition of milk in addition to the shared value of milk utilized by class. The standard SUP is reported at 3.5 percent butterfat, 2.99 percent protein, and 5.69 percent other solids. Frequently the percentage of components in pooled milk is higher than the standard percentages.

As demonstrated in the accompanying chart, in 2019 the SUP at the average pool component test is \$1.26 per hundredweight higher than the SUP at standard component levels. Therefore, producers may receive prices higher than the SUP announced at standard component levels or even at the average pool test,

depending on the component levels in their milk. Notably, despite a fall in the standard SUP of nearly 50 cents in September, the SUP at the average test of pooled milk only fell by 6 cents due to large monthly increases in the butterfat and protein percentages in pooled producer milk. The California Federal Order reports the SUP at both standard component levels and at the average pool component tests in its announcements. ❖



Class I Sales Comparison

The accompanying table shows the proportion of Class I sales by product for the California Order compared to the average sales by category for all Federal Orders during May 2019. Data for all Federal Orders is compiled by the Agricultural Marketing Service Dairy Program Market Information Branch based on Federal Order Class I sales data and is published in the *Estimated Fluid Milk Product Sales Report*. California Order data is as reported by handlers on monthly pool reports. May is chosen as a representative demand month because most schools are in session and there are few holiday fluctuations in the market.

As shown in the table, sales of higher-fat products are slightly greater in California than the all-Order average, with whole milk sales about one percent higher, and reduced fat sales just under two percent higher than across all Federal Orders. The table also

shows that the sales of flavored milk are about three and a half percent lower in California compared to all Federal Orders. In addition, organic sales are more than two percent higher in California than across all Orders. ❖

| Product | CA Order | All Orders |
|--------------------------|----------|------------|
| | percent | |
| Whole | 33.6 | 32.5 |
| Reduced Fat (2%) | 32.1 | 30.3 |
| Lowfat (1%) | 12.6 | 12.5 |
| Fat Free | 6.3 | 7.4 |
| Flavored Milk and Drinks | 6.5 | 10.1 |
| Organic Milk Products | 7.7 | 5.6 |
| Other Products* | 1.1 | 1.6 |
| Total | 100.0 | 100.0 |

*Other includes Buttermilk and Eggnog.

USDA Grants Want Feedback

USDA Grants would like feedback on how they evaluate grant programs like the Dairy Business Innovation Grant. USDA Agricultural Marketing Service (AMS) is updating their performance measures and looking for feedback from farmers, producers, ranchers, farmer organizations, trade associations, universities, etc. for their grant programs including the Farmers Market and Local Food Promotion Programs, Specialty Crop Block Grant Program, and Dairy Business Innovation Initiatives. Visit their website to learn more about the Performance Measures project.

You may provide your feedback at the following national meetings or through comments to <https://nasda.foundation/contact-us>.

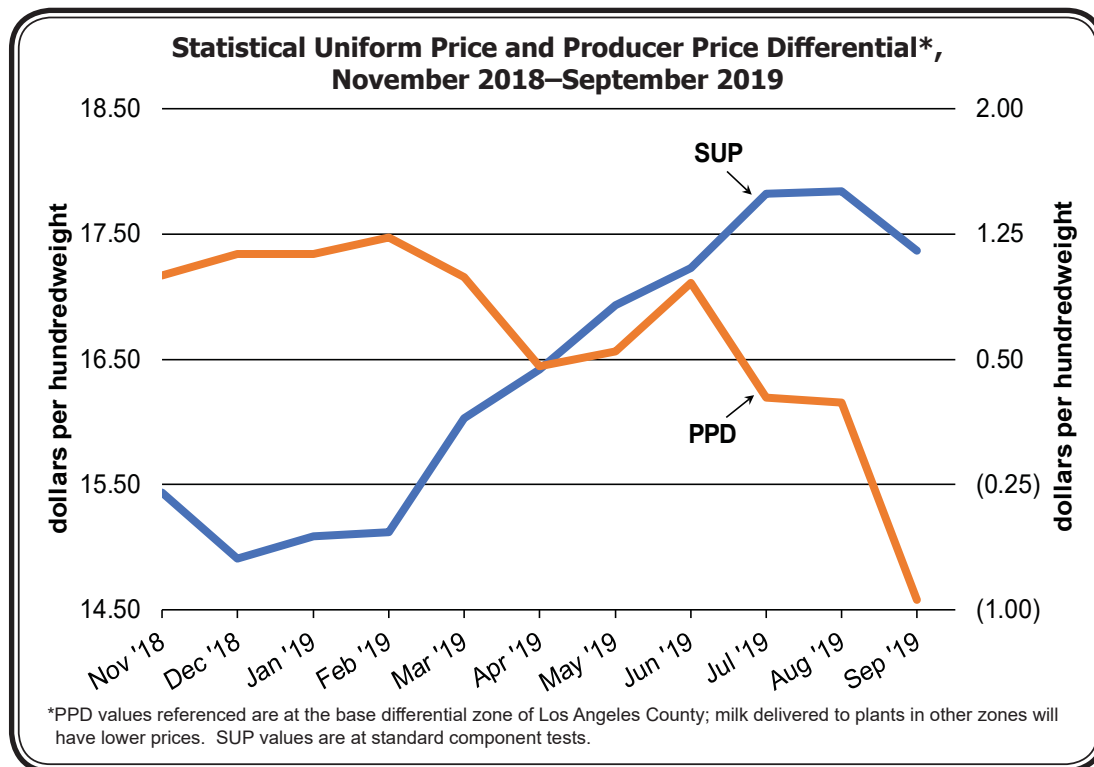
- New Haven, CT: October 25, 2019
- Tallahassee, FL: October 29, 2019
- Monterey, CA: November 5, 2019 ❖

SUP (continued from page 1)

cwt in August—a nearly 20 percent rise—before dropping 2.6 percent (or \$0.47 per cwt) in September. During this period, the producer price differential (PPD) has generally moved in an opposite and declining direction. The announced PPD under the CFMO started in November 2018 at \$1.00 per cwt and then increased to a high of \$1.23 per cwt during the February 2019 pool price calculation. Since then, the monthly PPD has declined (except for May and June that each increased above the prior month), falling to $-\$0.94$ per cwt for the September pool price calculation. The accompanying chart presents the relationship of these values during the period.

PPD Calculation

As discussed in the July *Bulletin*, the PPD is determined after the summarized value of all producer milk components in the pool (butterfat, protein, and other solids for all 931 pool producers) is subtracted from the classified value of the pool. In September, the sum total of producer components equaled **\$344,779,149.35**. The classified value is determined by the respective month's class prices and the volume of milk utilized in each class. The September classified value equaled **\$321,501,946.55**, or **\$23,230,365.78** less than the valuation of the pool's producer components, resulting in a negative PPD to balance the monthly pool. The September pool price



calculation on page 4 of this *Bulletin* highlights the values behind the classified value, the value of producer components, and the resulting negative PPD value.

Pool Volumes Change

The volume of milk pooled and utilized as Class III dropped by 53 percent to 109.8 million pounds, the lowest monthly volume since the inception of the Order. With the September Class III price rising (see article on page 1), there was an economic incentive for handlers to not pool Class III milk. Thus, the total classified value of the pool, which was over \$20 million below the classified value in August, is a factor behind the large negative PPD. With very little Class III milk pooled, the total volume of milk pooled on the Order during September was the lowest to date.❖

Dairy Business Innovation Initiatives

USDA recently announced three grant recipients for the Dairy Business Innovation (DBI) Initiatives. The DBI Initiatives support dairy businesses in the development, production and marketing and distribution of dairy products. DBI Initiatives will provide direct technical assistance and grants to dairy businesses, including niche dairy products, such as specialty cheese, or dairy products derived from the milk or a dairy animal, including cow, sheep and goat milk. These initiatives will specifically focus on: diversifying dairy product

markets to reduce risk and develop higher-value uses for dairy products; promoting business development that diversifies farmer income through processing and marketing innovation; and encouraging the use of regional milk production. The University of Tennessee, the University of Wisconsin, and the Vermont Agency of Agriculture, Food and Markets were all grant awardees. More information on the DBI Initiatives is available at <https://www.ams.usda.gov/services/grants/dbi>.❖



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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 | 445,376,958 | \$10.97 | \$48,857,852.29 | |
| Butterfat | 10,321,994 | 2.6765 | 27,626,816.94 | |
| Less: Location Adjustment to Handlers | | | (903,956.31) | \$75,580,712.92 |
| Class II— Butterfat | 15,467,426 | 2.5052 | 38,748,995.61 | |
| Nonfat Solids | 12,950,512 | 0.9400 | 12,173,481.28 | 50,922,476.89 |
| Class III— Butterfat | 3,656,588 | 2.4982 | 9,134,888.14 | |
| Protein | 3,638,293 | 2.8633 | 10,417,524.32 | |
| Other Solids | 6,340,998 | 0.1758 | 1,114,747.46 | 20,667,159.92 |
| Class IV— Butterfat | 37,036,311 | 2.4982 | 92,524,112.14 | |
| Nonfat Solids | 93,462,224 | 0.8753 | 81,807,484.68 | 174,331,596.82 |
| Total Classified Value | | | <i>Total value of milk in the pool</i> | \$321,501,946.55 |
| Add: Overage—All Classes | | | | 26,296.03 |
| Inventory Reclassification—All Classes | | | | 19,917.71 |
| Other Source Receipts | 66,989 | | | 623.28 |
| Total Pool Value | | | | \$321,548,783.57 |
| Less: Value of Producer Butterfat | 66,482,319 | 2.4982 | (166,086,129.33) | |
| Value of Producer Protein | 56,187,229 | 2.8633 | (160,880,892.80) | |
| Value of Producer Other Solids | 101,320,405 | 0.1758 | (17,812,127.22) | (344,779,149.35) |
| Total PPD Value Before Adjustments | | | <i>Total Class III value of producer components</i> | (\$23,230,365.78) |
| Add: Location Adjustment to Producers | | | | 6,456,943.87 |
| One-half Unobligated Balance—Producer Settlement Fund | | | | 925,917.24 |
| Less: Producer Settlement Fund—Reserve | | | | (774,630.22) |
| Total Pool Milk & PPD Value | 1,768,312,231 | | | (\$16,622,134.89) |
| Producer Price Differential | | \$(0.94) | | |
| Statistical Uniform Price | | \$17.37 | | |

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