The Market Administrator's

BULLETIN

CALIFORNIA MARKETING AREA

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July 2019 Federal Order No. 51

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July Pool Price Calculation

The July 2019 statistical uniform price (SUP) for the California Marketing Area was announced at $17.82 per hundredweight for milk delivered to plants located in Los Angeles County, California, the pricing point for the California Order. The statistical uniform price 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, the SUP would be $18.58 per hundredweight. The July SUP was 59 cents per hundredweight above the June price. The July producer price differential (PPD) at Los Angeles County was $0.27 per hundredweight, a decrease of 69 cents from last month.

Product Prices Effect

Similar to June, commodity product price changes were mixed in July. Butter rose 2 cents per pound while cheese jumped 13 cents per pound. Both nonfat dry milk and dry whey decreased less than 1 cent per pound. These changes resulted in a nearly 3-cent increase in the butterfat price (making it the second highest ever for the month of July) and a 40-cent jump in the protein price. The nonfat solids and other solids prices both declined less than 1 cent per pound.

All class prices increased from the previous month. The Class I price increased 11 cents, Class II rose 31 cents, Class III jumped $1.28, and Class IV increased 7 cents, all on a per hundredweight basis. Class I utilization increased from the previous month. With overall higher prices and increased utilization in the higher-priced classes, the SUP increased. The spread between the highest class and the lowest-priced class decreased resulting in a lower PPD. Though the PPD was positive at the base zone, milk delivered to plants located in the zones $1.80 and below received a negative PPD. For more information regarding negative PPD's, see the article below.❖

Negative PPD in Some Zones

The July calculation of the statistical uniform price (SUP) resulted in a producer price differential (PPD) of $0.27 per hundredweight at the principle pricing point of Los Angeles County, CA. The PPD value is adjusted by location of the plant of first receipt. There is a negative value for PPDs at the $1.80 differential zone and lower, since the

(continued on page 2)

Pool Summary

- A total of 964 producers were pooled under the Order with an average daily delivery per producer of 67,084 pounds, a decrease of 5.8 percent from June.
- Pooled milk receipts totaled 2.005 billion pounds, a decrease of 18.2 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 21.9 percent of total milk receipts, up 5.6 percentage points from June.
- The average butterfat test of producer receipts was 3.69 percent.
- The average true protein test of producer receipts was 3.09 percent.
- The average other solids test of producer receipts was 5.76 percent.❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	21.9	438,995,754
Class II	6.6	131,660,525
Class III	16.0	320,021,603
Class IV	55.6	1,114,046,714
Total Pooled Milk		2,004,724,596

Producer Component Prices

	$/lb
Protein Price	2.4032
Butterfat Price	2.6858
Other Solids Price	0.1689

Class Prices

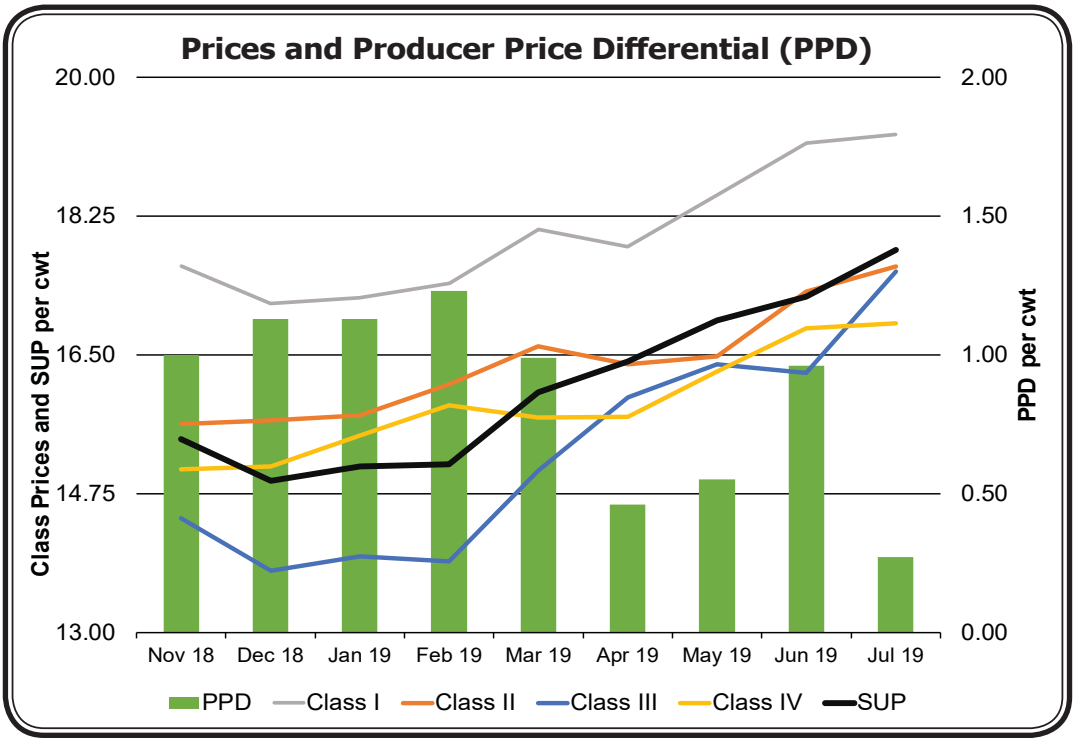
	$/cwt
Class I	19.28
Class II	17.61
Class III	17.55
Class IV	16.90

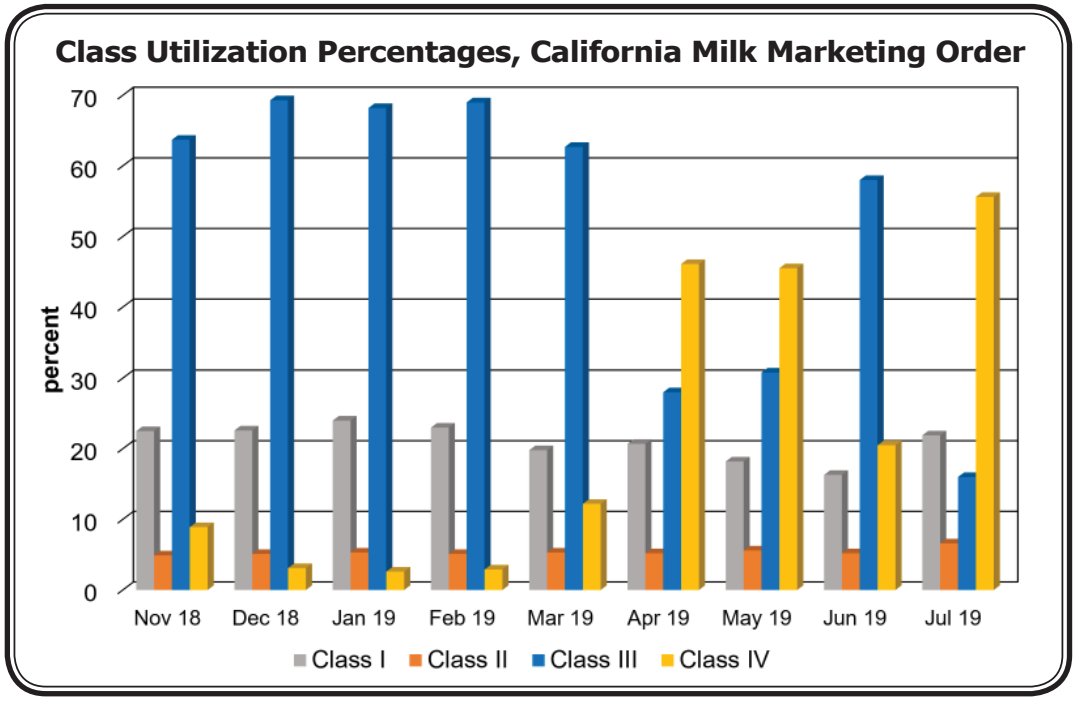
Negative PPD *(continued from page 1)*

location adjustment at those zones is greater than $0.27. These values are presented on the second page of the SUP price announcement.

PPD Dynamics

PPD values are the result of relative class prices, utilization levels, and the SUP. The PPD can be calculated as the difference between the SUP and the Class III price. A negative PPD can occur when commodity prices rise rapidly during the approximately 6-week period between the time the Class I price is announced and the time the Class III price is announced. The lag in timing of prices can result in the Class III price (which is based on more current market prices) ending up higher than the Class I price (based on comparatively older market prices), thus yielding a negative PPD. Additionally, when the Class III and/or other class prices are not greater than Class I, but are at least relatively closer to the Class I price and at relatively similar levels, combined with class utilizations can result in negative PPDs, at least in some zones as the difference between the Class III price and the SUP become smaller. This was the case in July.





Current Pricing Relationships

From June to July, Class I, II, and IV prices remained fairly stable, while the Class III price rose $1.28 per cwt. The accompanying charts depict prices and utilizations since the inception of the Order. Evident in the chart showing prices, is that a period of tighter prices, including the rising Class III price, has coincided with relatively lower PPDs (shown as bars on the chart). The Class III price movement from June to July also can be seen on the chart. These are the dynamics that resulted in the lower, and in some cases, negative PPDs.

Despite appearing contradictory, a negative PPD does not indicate a loss of money for producers, but rather it signifies that producers are receiving a higher amount for their components (protein, butterfat, and other solids) than the pool generated.

Remember, a Federal order pool is a pool of money generated by the volume and value of milk used in *(continued on page 3)*

U.S. Milk Production Flat; California Production Up

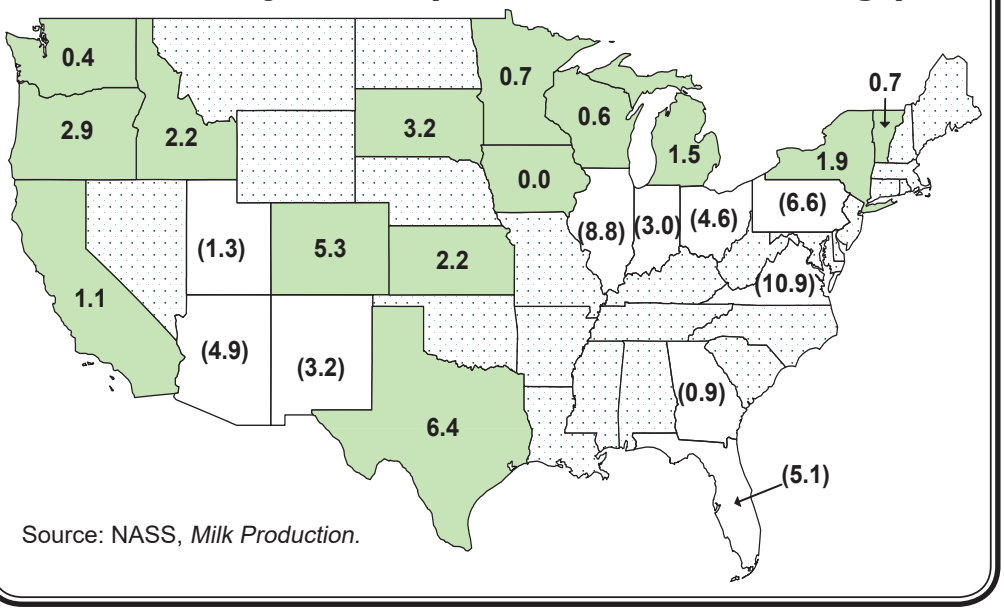
Total estimated US milk production for the first 6 months of 2019 was down only 28 million pounds from the same period in 2018, relatively unchanged on a percentage basis.

The top ten states, ranked by total production during the first 6 months, increased 0.8 percent from 2018. The accompanying table shows the change along with a comparison for other selected areas. Texas reported the largest increase, followed by Idaho that displaced New York in the number three spot. The only top ten states showing declines were Pennsylvania and New Mexico. Total production for the 24 major states as reported by NASS (National Agricultural Statistics Service) rose a slight 0.3 percent for January-June period compared to the previous year. Georgia was added this year to the major states.

The accompanying map shows year-to-year percent changes for the January-June period for the NASS 24 major milk production states. Of this group, Texas reported the largest increase, followed by Colorado, and South Dakota. Eleven of the 24 states reported declines: the largest in Virginia, Illinois, and Pennsylvania. California's production rose 1.1 percent during the period and accounted for 18.9 percent of all milk produced nationally.

Milk pooled on the California Order during the first 6 months of 2019 accounted for 63.6 percent of all milk produced in the state of California.❖

January–June 2019 Milk Production in the NASS 24 Major States (Year-to-Year Percent Change)



Source: NASS, *Milk Production.*

Milk Production in the Top Ten States and Selected Areas, January–June, 2018 vs. 2019

Rank	State	2018	2019	Percent Change
		(million pounds)		
1	California	20,596	20,824	1.1
2	Wisconsin	15,260	15,359	0.6
3	Idaho	7,484	7,648	2.2
4	New York	7,436	7,574	1.9
5	Texas	6,461	6,874	6.4
6	Michigan	5,627	5,710	1.5
7	Pennsylvania	5,519	5,153	(6.6)
8	Minnesota	4,952	4,987	0.7
9	New Mexico	4,273	4,136	(3.2)
10	Washington	3,348	3,361	0.4
	Top Ten Total	80,956	81,626	0.8
24 Major States		104,511	104,837	0.3
U.S. Total		110,230	110,202	(0.0)

Source: NASS, *Milk Production.*

Negative PPD *(continued from page 2)*

Classes I, II, III, and IV. Producers are paid for their protein, butterfat, and other solids components from the pool at the same dollars-per-pound value as Class III milk. Any remaining value in the pool generated by Classes I, II, and IV is returned to producers in the PPD. The PPD is an adjustment made to the producer pay prices for the additional value generated by milk used in the other classes (I, II, and IV). During a normal relationship where the Class I price is higher than the Class III price, the 'extra' money generated by Class I (and sometimes, the other classes) is returned to producers in the form of a positive PPD.

Conversely, in a month when the Class III price is higher than Class I, the producer payout value is higher than the entire pool value. As such, producers will see their total milk value reduced by this amount, which is the negative PPD.

Refer to the pool computation on page 4 to see how much the producer component valuation exceeds the total classified value and its effect on the PPD.❖

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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	428,630,787	$10.28	$44,063,244.90	
Butterfat	10,364,967	2.6739	27,714,885.26	
Less: Location Adjustment to Handlers			(868,282.01)	$70,909,848.15
Class II— Butterfat	15,277,359	2.6928	41,138,872.30	
Nonfat Solids	10,692,228	0.9422	10,074,217.20	51,213,089.50
Class III— Butterfat	9,805,183	2.6858	26,334,760.49	
Protein	10,123,100	2.4032	24,327,833.92	
Other Solids	18,561,968	0.1689	3,135,116.41	53,797,710.82
Class IV— Butterfat	38,616,073	2.6858	103,715,048.86	
Nonfat Solids	98,767,610	0.8628	85,216,693.91	188,931,742.77
Total Classified Value		*Total value of milk in the pool*		**$364,852,391.24**
Add: Overage—All Classes				69,575.87
Inventory Reclassification—All Classes				155,364.57
Other Source Receipts	24,400			435.40
Total Pool Value				**$365,077,767.08**
Less: Value of Producer Butterfat	74,063,582	2.6858		
Value of Producer Protein	61,878,008	2.4032		
Value of Producer Other Solids	115,549,478	0.1689		(367,141,504.19)
Total PPD Value Before Adjustments		*Total Class III value of producer components*		**($2,063,737.11)**
Add: Location Adjustment to Producers				7,287,570.97
One-half Unobligated Balance—Producer Settlement Fund				1,083,874.74
Less: Producer Settlement Fund—Reserve				(894,886.27)
Total Pool Milk & PPD Value	2,004,748,996			**$5,412,822.33**
Producer Price Differential		**$0.27**		
Statistical Uniform Price		**$17.82**		

Value from which PPD per hundredweight is calculated

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