



The Market Administrator's

BULLETIN

CALIFORNIA MARKETING AREA

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October Pool Price Calculation

The October 2021 Statistical Uniform Price (SUP) for the California Marketing Area was announced at \$17.29 per hundredweight (cwt), an increase of 38 cents per cwt from last month, for milk delivered to plants located in Los Angeles County, California, the pricing point for the California Federal Marketing Order (CFMO). The 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 pooled milk (3.98 percent butterfat, 3.31 percent protein, and 5.75 percent other solids), the October SUP would be \$19.21 per cwt, which is higher than that of September by 92 cents per cwt. October's Producer Price Differential (PPD) at Los Angeles County was -\$0.54 per cwt, a decrease of 92 cents from last month's PPD of \$0.38 per cwt.

Product Prices Effect

All monthly average product prices in the National Dairy Product Sales Report increased from the previous month, though some by small margins. The cheese price saw the largest increase, rising nearly 13 cents per pound. The nonfat dry milk price increased almost 8 cents per pound. The butter and dry whey prices increased modestly; the butter price rose less than a penny per pound, and the dry whey price gained just over a cent per pound.

Upward movements in the commodity prices led to similar improvements in the component prices. The protein price saw a large increase from September to October, gaining more than 41 cents per pound. The nonfat solids price improved almost 8 cents per pound. The butterfat and other solids prices saw small price changes from the previous month, increasing under a cent and just over a cent per pound, respectively.

All class prices improved from September to October. The Class I price increased 49 cents per cwt from the previous month to \$19.18, while the Class II price rose 19 cents per cwt to \$17.08. The Class III price saw the largest jump from September to October, rising \$1.30 per cwt to \$17.83. Lastly, the Class IV price reached \$17.04 per cwt in October — an increase of 68 cents from September and the highest Federal Order Class IV price since November 2014. ❖

Pool Summary

- A total of 825 producers were pooled with an average daily delivery per producer of 74,111 pounds, a decrease of 4.1 percent from September.
- Pooled milk receipts totaled 1.895 billion pounds, a decrease of 3.6 percent on an average daily basis.
- Class I usage (milk for bottling) accounted for 21.6 percent of total pooled milk receipts, up 0.8 percentage points from September.
- The average butterfat test of producer receipts was 3.98 percent.
- The average true protein test of producer receipts was 3.31 percent.
- The average other solids test of producer receipts was 5.75 percent. ❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	21.6	409,582,825
Class II	6.3	119,231,085
Class III	5.4	102,981,028
Class IV	66.7	1,263,584,245
Total Pooled Milk		1,895,379,183

Producer Component Prices

	2021	2020
	\$/lb	
Protein Price	3.0130	5.0146
Butterfat Price	1.9414	1.6388
Other Solids Price	0.3560	0.1534

Class Price Factors

	2021	2020
	\$/cwt	
Class I	19.18	17.30
Class II	17.08	13.63
Class III	17.83	21.61
Class IV	17.04	13.47

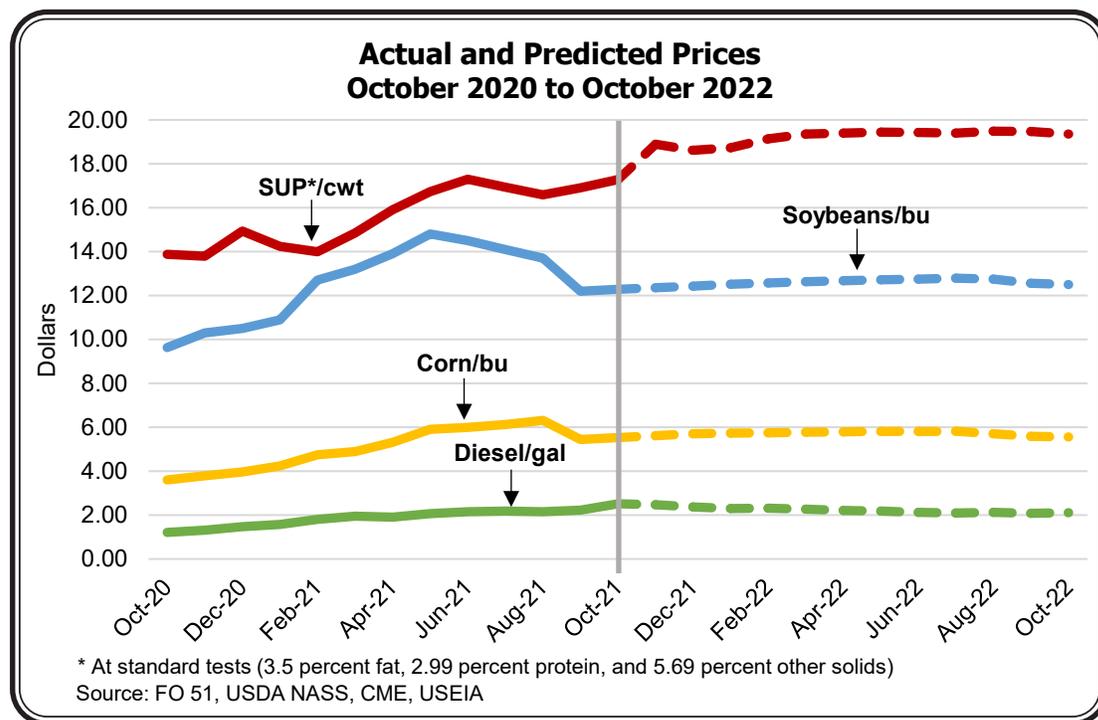
Price Outlook

For the second time since January 2020, the Federal Order (FO) 51 Statistical Uniform Price (SUP) at standard tests surpassed the \$17.00 mark, reaching \$17.29 per hundredweight (cwt) in October 2021. Recent *Chicago Mercantile Exchange* (CME) futures suggest that milk prices will continue their upward trajectory through the fourth quarter of 2021 and into early 2022. Class III and IV futures traded on November 16, 2021, support an average FO 51 SUP at standard tests of \$18.27 per cwt in Q4 2021 and \$19.08 in Q1 2022. Thereafter, CME futures indicate continued price appreciation; the SUP is expected to average \$19.32 from January 2022 to October 2022. The November 2021 *World Agricultural Supply and Demand Estimates* also reflect optimism for milk prices, projecting a 2022 all-milk price of \$20.25 per cwt.

Continued increases in milk prices bode well for California dairy farmers, especially in the context of high prices for feed and other inputs, such as labor and fuel. The accompanying figure depicts the projected FO 51 SUP, expected U.S. prices for corn and soybeans¹, and U.S. wholesale diesel price projections². The depicted U.S. wholesale diesel prices may understate the energy costs facing California dairy farmers; the California retail diesel price was nearly \$2.00 per gallon higher, on average, from October 2020 to October 2021. The corn price is anticipated to average \$5.74 per bushel (bu) from January 2022 to October 2022 – up 28 cents from the average for the same period in 2021. The January 2022 to October 2022 soybean price averages \$12.65 per bu – down more than 50 cents from the same period in 2021, but well above 2019 and 2020 values. In the November 2021 *Crop Production* report, the USDA National Agricultural Statistics Service (NASS) projects a record high corn yield per acre for the 2021/22 crop year. Despite the large forecasted supply, the market remains supportive of high prices, suggesting strong demand.

¹ Corn and soybean prices are sourced from *Chicago Mercantile Exchange* futures settled on November 16, 2021.

² Diesel prices and projections come from the U.S. Energy Information Administration (USEIA).



Milk Production

Following strong milk production in the first half of 2021, output in recent months was more restrained. According to the NASS *Milk Production* report, milk output in the major 24 dairy states decreased by 0.3 percent in October after showing modest increases of less than one percent in September and August (compared to year prior values). According to the USDA Economic Research Service (ERS) sluggish production may persist; ERS lowered its expectations for 2022 milk production to 228.1 billion pounds in the November 2021 *Livestock, Dairy, and Poultry Outlook*. ERS attributes recent production slowdowns to higher costs for inputs like feed, labor, and fuel relative to milk prices and the lowered projection to fewer cows in the national herd. If realized, decreased milk supplies are likely to result in upward price movements.

Demand

Dairy producers stand to benefit from the ongoing global economic recovery. The International Monetary Fund (IMF) projects the U.S. Gross Domestic Product (GDP) to increase by 5.2 percent in 2022. The IMF also predicts considerable GDP growth in several key export markets for U.S. dairy: Mexico (4 percent), Canada (4.9 percent), China (5.6 percent), and Southeast Asia (5.5 percent). GDP gains in these markets support continued strength in export sales.

The Consumer Confidence Index, which is published by the Conference Board and represents consumers' perspective on the health of the U.S. (continued on page 3)

Price Outlook (continued from page 2)

economy, increased from 109.8 in September 2021 to 113.8 in October 2021. The increase reveals that consumers currently anticipate the economy improving in the next six months, signaling optimism for the economy and domestic consumption of dairy products. Despite these measures, inflationary concerns as well as the uncertainty associated with the pandemic offer some hesitance moving forward. ❖

Dairy Margin Coverage Pays Out for 2021

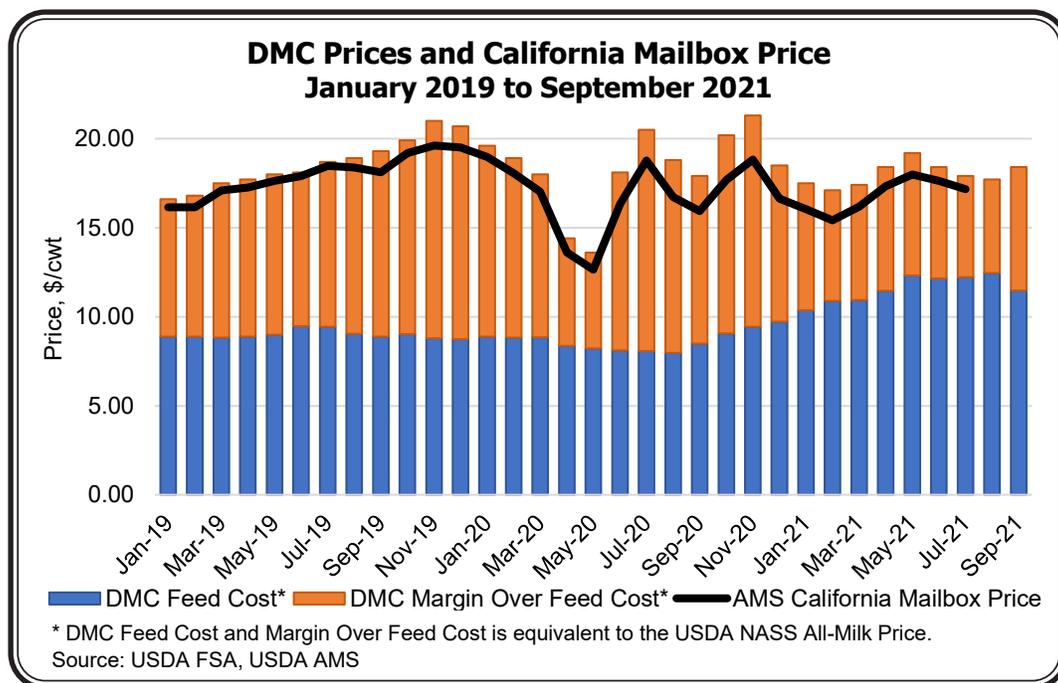
Dairy Margin Coverage (DMC) is a voluntary program administered by the USDA Farm Service Agency (FSA) that provides risk management coverage to dairy producers when the margin between the all-milk price¹ and the average feed cost² falls below a certain level selected by participants. As a reflection of recent market conditions, producers enrolled at a coverage level of \$7.50 or higher have received payments under DMC for every month of 2021 thus far. Year-to-date, DMC has paid out a total of \$1.08 billion, representing an average payment per operation of \$56,726. More than 75 percent of dairy operations in the United States with established production history are currently enrolled in the 2021 program.

In California, a total of 1,007 operations are currently enrolled in the program – an increase of 54 percent over the previous year's enrollment. California ranks second in the U.S. for total DMC payments in 2021 at \$104 million, ranking only behind Wisconsin. Also, California ranks fifth for the highest average payment per operation at \$103,333. For states with more than 100 producers enrolled, California has the highest average payment per operation.

DMC payments depend on national commodity prices for milk, corn, soybean meal, and alfalfa. With feed prices rising more rapidly than milk prices thus far in 2021, payments have been more frequent than in prior years. DMC payments for milk covered at the highest level occurred in only five months of 2020 and seven months of 2019. The figure above illustrates the monthly average feed costs and margin over feed

1 The all-milk price used in the DMC margin calculation is estimated by the USDA National Agricultural Statistics Service (NASS) for the top 24 dairy-producing states.

2 The average feed cost is calculated by the USDA FSA using NASS feed prices from the *Agricultural Prices* report.



costs calculated for the DMC program³. When added together, the DMC feed cost and margin over feed cost totals the all-milk price. The all-milk price – depicted by each full column – represents the average price paid for milk, including premiums. Additionally, the USDA Agricultural Marketing Service's (AMS) mailbox price for California is plotted in the figure as a point of reference to compare national prices to regional prices. The mailbox price – portrayed by the black line – represents the average price received for milk, including premiums and deductions such as marketing fees, hauling costs, and cooperative dues.

As shown in the figure, rising feed prices have been a driving force behind payments in 2021. August 2021 marked the lowest margin over feed cost at \$5.25 per hundredweight since the inception of the DMC program. Comparing the national commodity prices with the California mailbox price proposes even tighter margins for California producers. As discussed on page 2, *Chicago Mercantile Exchange* futures suggest that higher milk prices are on the way, potentially improving dairy farmers' margins but reducing the potential for large future DMC payments. ❖

3 More information on DMC calculations can be found on the DMC website at: www.fsa.usda.gov/programs-and-services/dairy-margin-coverage-program.



RETURN SERVICE REQUESTED

FIRST CLASS MAIL

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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	400,017,925	\$12.76	\$51,042,287.23	
Butterfat	9,564,900	1.9631	18,776,855.19	
Less: Location Adjustment to Handlers			(820,677.79)	\$68,998,464.63
Class II— Butterfat	15,045,939	1.9484	29,315,507.55	
Nonfat Solids	9,824,339	1.1811	11,603,526.81	40,919,034.36
Class III— Butterfat	1,993,377	1.9414	3,869,942.09	
Protein	3,542,529	3.0130	10,673,639.87	
Other Solids	6,039,742	0.3560	2,150,148.15	16,693,730.11
Class IV— Butterfat	48,742,091	1.9414	94,627,895.45	
Nonfat Solids	114,618,493	1.1801	135,261,283.57	229,889,179.02
Total Classified Value				\$356,500,408.12
Add: Overage—All Classes				45,425.00
Inventory Reclassification—All Classes				31,594.08
Other Source Receipts	23,742			313.39
Total Pool Value				\$356,577,740.59
Less: Value of Producer Butterfat	75,346,307	1.9414	(146,277,320.40)	
Value of Producer Protein	62,795,211	3.0130	(189,201,970.81)	
Value of Producer Other Solids	108,931,335	0.3560	(38,779,555.23)	(374,258,846.44)
Total PPD Value Before Adjustments				(\$17,681,105.85)
Add: Location Adjustment to Producers				7,285,965.19
One-half Unobligated Balance—Producer Settlement Fund				931,918.66
Less: Producer Settlement Fund—Reserve				(771,953.83)
Total Pool Milk & PPD Value	1,895,402,925			(\$10,235,175.83)
Producer Price Differential		\$(0.54)		
Statistical Uniform Price		\$17.29		

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