



# The Market Administrator's

# BULLETIN

## CALIFORNIA MARKETING AREA

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December 2021

Federal Order No. 51

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### December Pool Price Calculation

The December 2021 Statistical Uniform Price (SUP) for the California Marketing Area increased 57 cents per hundredweight (cwt) from last month to \$19.33 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 calculated at 3.5 percent butterfat, 2.99 percent protein, and 5.69 percent other solids. December's pool average butterfat test (4.18 percent) and protein test (3.39 percent) surpassed November's to reach record levels under the CFMO. If reported at pool average tests, the December SUP would be \$21.95 per cwt, which is higher than that of November by 98 cents per cwt. December's Producer Price Differential (PPD) at Los Angeles County was \$0.97 per cwt, an increase of 24 cents from last month's PPD of \$0.73 per cwt. The December 2021 SUP – calculated at both standard and pool average tests – is the highest in the Order's operation.

### Product Prices Effect

All monthly average product prices in the National Dairy Product Sales Report improved from November to December except for the cheese price. The butter price increased for the fourth consecutive month, rising more than 11 cents per pound. The dry whey and nonfat dry milk prices gained almost 6 cents and just over 7 cents per pound, respectively. Meanwhile, the cheese price declined by less than a penny per pound.

Most component prices also moved upwards. The butterfat price increased almost 14 cents per pound from the previous month. The other solids price rose roughly 6 cents per pound, and the nonfat solids price gained nearly 7 cents per pound. The protein price was the only component price to decrease from November to December, dropping just under 16 cents per pound.

All class prices rose over a dollar per cwt from the previous month except for the Class III price. The Class I price increased for the third consecutive month, increasing by \$1.19 to \$21.27 (December Pool Price Calculation continued on page 2)

### Pool Summary

- A total of 915 producers were pooled with an average daily delivery per producer of 63,002 pounds, a decrease of 14.2 percent from November.
- Pooled milk receipts totaled 1.787 billion pounds, a decrease of 16.7 percent on an average daily basis.
- Class I usage (milk for bottling) accounted for 24.1 percent of total pooled milk receipts, up 3.8 percentage points from November.
- The average butterfat test of producer receipts was 4.18 percent.
- The average true protein test of producer receipts was 3.39 percent.
- The average other solids test of producer receipts was 5.74 percent. ❖

#### Class Utilization

Pooled Milk	Percent	Pounds
Class I	24.1	430,847,202
Class II	5.4	96,187,382
Class III	66.2	1,182,518,299
Class IV	4.3	77,486,772
Total Pooled Milk		1,787,039,655

#### Producer Component Prices

	2021	2020
	\$/lb	
Protein Price	2.5937	3.0282
Butterfat Price	2.2919	1.5399
Other Solids Price	0.4532	0.2245

#### Class Price Factors

	2021	2020
	\$/cwt	
Class I	21.27	21.97
Class II	19.84	14.01
Class III	18.36	15.72
Class IV	19.88	13.36

## December Pool Price Calculation *(continued from page 1)*

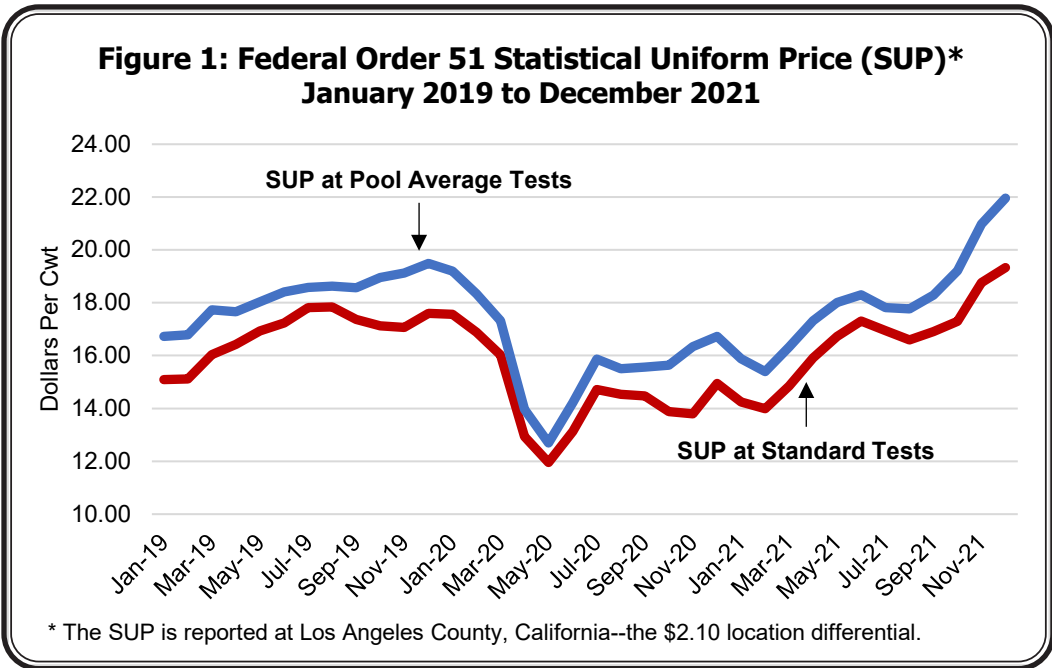
per cwt, and the Class II price gained \$1.44 to \$19.84 per cwt. The Class III price improved by 33 cents to \$18.36 per cwt. Lastly, the Class IV price rose \$1.09 to \$19.88 per cwt, its highest level since October 2014. ❖

## 2021 Under the California Federal Marketing Order

### *SUP, PPD Show Strength at Year's End*

The announcement of the December 2021 Statistical Uniform Price (SUP) marks the third full calendar year of California Federal Marketing Order (CFMO) operation. December's record high SUP finishes \$5.34 per hundredweight (cwt) above 2021's lowest price in February and \$4.69 above 2020's weighted average SUP of \$14.64 per cwt. The high price comes amid increasing input costs, continued effects of the pandemic, and inflationary concerns, but offers some optimism following the lower prices seen in 2019 and 2020.

Table 1 lists the CFMO simple average Class prices and the weighted average Producer Price Differential (PPD) and SUP for 2019, 2020, and 2021. Notably, both the average Class II and Class IV prices saw substantial gains from 2020 in 2021, increasing by \$2.14 and \$2.60 per cwt respectively. The average Class I price decreased by eight cents per cwt from 2020 to 2021, while the average Class III price fell by \$1.08 per cwt over the same period. The changes represent a second year of mixed movements in Class prices—a testament to the sharp price fluctuations in dairy markets over the last two years.



The weighted average SUP increased by \$1.92 per cwt (13.1 percent) at standard tests and by \$2.05 per cwt (12.8 percent) at pool average tests from 2020 to 2021. Both are below the weighted averages in 2019, suggesting that 2021's dairy prices on average did not fully regain their pre-pandemic levels. However, the SUP at standard tests in November and December 2021 were each more than \$1.70 per cwt above their 2019 levels. Figure 1 illustrates these prices and highlights their recent appreciation, plotting the SUP at standard and pool average tests from January 2019 to December 2021.

**Table 1: Federal Order 51 Average Prices, 2019-2021**

Year	Simple Average Prices				Weighted Average Prices		
	Class I	Class II	Class III	Class IV	PPD	SUP at Standard Tests	SUP at Pool Average Tests
	\$/cwt				\$/cwt		
<b>2021</b>	<b>18.93</b>	<b>16.44</b>	<b>17.08</b>	<b>16.09</b>	<b>-0.50</b>	<b>16.56</b>	<b>18.08</b>
2020	19.01	14.29	18.16	13.49	-3.41	14.64	16.03
2019	19.09	16.76	16.96	16.30	-0.04	16.80	18.19

## Class Utilization and Pooling Dynamics

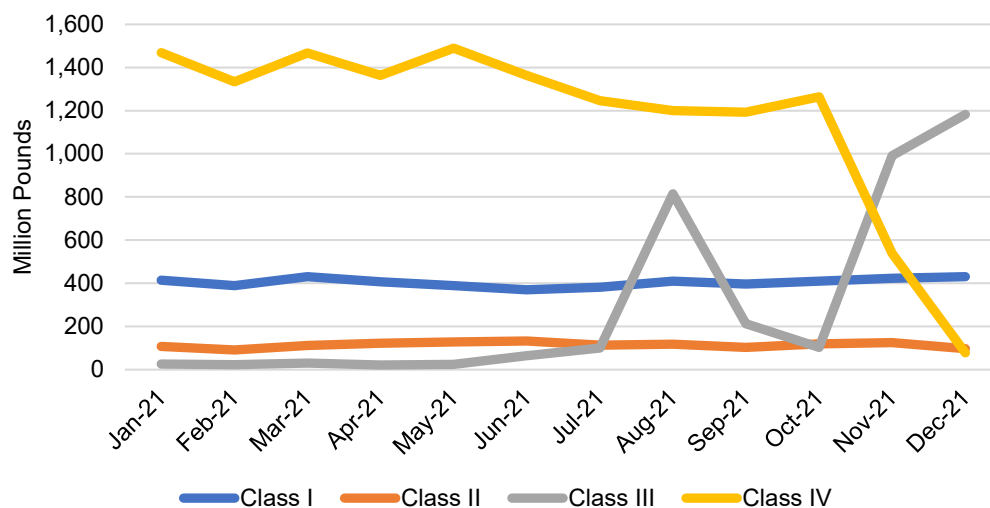
Figure 2 represents the monthly Federal Order 51 class utilizations for 2021. As shown in the figure, Class I and II utilizations were more constant over the period compared to Classes III and IV. Class I utilization saw its lowest volumes in May, June, and July – months typically associated with lower Class I demand – and peaked in November at 14.08 million pounds on a daily average

basis. Average yearly Class I volume declined 4.1 percent from 2019 to 2020 and 5.0 percent from 2020 to 2021 on a daily average basis. Class II utilization ranged between a daily average low of 3.1 million pounds in December and high of 4.43 million pounds in June, though fluctuated less substantially than the other Classes. Class II also posted a year-over-year decline in 2021 pool volume, decreasing 8.8 percent from 2020. Class I milk is required to be pooled, while most Class II pooling is optional. Thus, this decline in Class II receipts is not necessarily indicative of changing demand for Class II products.

Contrary to Classes I and II, Class III and IV utilizations exhibited dynamic shifts in the second half of 2021. Much like in most of 2020, price incentives contributed to low levels of Class III milk on the pool in the first half of 2021. In August, however, both the Class III and IV prices were more than 60 cents per cwt below the SUP at the highest location differential, contributing to the pooling of large amounts of Class III and IV milk. Large utilizations in these classes helped increase total pool receipts to the second highest volume on the CFMO at 2.54 billion pounds. The Class III price drew closer to the SUP in September, incentivizing the depooling of Class III milk at the lower location differentials<sup>1</sup>, and surpassed the SUP in October, contributing to further Class III depooling. In November, however, the Class IV price grew \$1.75 per cwt from October and exceeded the SUP by 3 cents per cwt, while the

<sup>1</sup> For more information on the relationship between location differentials and pooling incentives, see the *August 2021 Bulletin*.

**Figure 2: Federal Order 51 Pool Utilization  
January 2021 to December 2021**



Class III price dropped more than 70 cents below the SUP. This change in price position played a role in determining November's high Class III and low Class IV utilizations. These differences between the Class prices and the SUP were exacerbated in December. The Class III price was \$0.97 per cwt under the SUP, while the Class IV price was \$0.55 above the SUP, incentivizing handlers to pool Class III, but not IV, even further. From October to December, the Class III share of the pool increased 60.7 percentage points to 66.2 percent, while Class IV's share of the pool dropped 62.3 percentage points to just 4.3 percent. This shift in pool composition could persist into 2022 especially if these price relationships hold.

### 2022 Outlook

The January 2022 *World Agricultural Supply and Demand Estimates* report predicts the Class III price to average \$19.65 per cwt in 2022, the Class IV price to average \$20.90 per cwt, and the all-milk price to average \$22.60 per cwt in 2022. Moreover, the report expects prices for all dairy products listed – cheese, butter, nonfat dry milk, and dry whey – as well as for Class III and Class IV milk to move above 2021 levels in 2022. The increases across the classes and dairy products result in an expected \$3.95 per cwt gain in the average all-milk price from 2021. *Chicago Mercantile Exchange* Class III and IV futures as of January 19, 2022, are even more optimistic: Class III futures average \$21.13 per cwt across 2022 and those of Class IV average \$22.25 per cwt. Where both projections agree is that dairy prices will be significantly higher in 2022. ❖



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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	420,384,911	\$14.30	\$60,115,042.27	
Butterfat	10,462,291	2.1349	22,335,945.06	
Less: Location Adjustment to Handlers			(853,050.83)	\$81,597,936.50
Class II— Butterfat	11,838,737	2.2989	27,216,072.50	
Nonfat Solids	7,985,352	1.3578	10,842,510.93	38,058,583.43
Class III— Butterfat	42,306,174	2.2919	96,961,520.20	
Protein	40,797,168	2.5937	105,815,614.65	
Other Solids	68,336,219	0.4532	30,969,974.44	233,747,109.29
Class IV— Butterfat	10,080,537	2.2919	23,103,582.75	
Nonfat Solids	6,405,174	1.3655	8,746,265.11	31,849,847.86
<b>Total Classified Value</b>				<b>\$385,253,477.08</b>
Add: Overage—All Classes				53,455.37
Inventory Reclassification—All Classes				82,696.11
Other Source Receipts	25,839			927.62
<b>Total Pool Value</b>				<b>\$385,390,556.18</b>
Less: Value of Producer Butterfat	74,687,739	2.2919	(171,176,829.03)	
Value of Producer Protein	60,586,556	2.5937	(157,143,350.28)	
Value of Producer Other Solids	102,649,752	0.4532	(46,520,867.61)	(374,841,046.92)
<b>Total PPD Value Before Adjustments</b>				<b>\$10,549,509.26</b>
Add: Location Adjustment to Producers				6,657,848.95
One-half Unobligated Balance—Producer Settlement Fund				874,295.69
Less: Producer Settlement Fund—Reserve				(747,118.65)
<b>Total Pool Milk &amp; PPD Value</b>	1,787,065,494			<b>\$17,334,535.25</b>
Producer Price Differential		<b>\$0.97</b>		
Statistical Uniform Price		<b>\$19.33</b>		

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