



The Market Administrator's

BULLETIN

CALIFORNIA MARKETING AREA

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April Pool Price Calculation

The April 2019 statistical uniform price (SUP) for the California Marketing Area was announced at \$16.42 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 \$17.66 per hundredweight. The April SUP was 39 cents per hundredweight above the March price. The April producer price differential (PPD) at Los Angeles County was \$0.46 per hundredweight, a decrease of 53 cents from last month.

Product Prices Effect

Commodity product prices were mixed in April. Butter and nonfat dry milk prices were relatively unchanged, dry whey declined 2 cents per pound, and cheese rose almost 11 cents per pound. These changes translated to less than 1-cent changes in the butterfat and nonfat solids prices and a 2-cent drop in the other solids price. The jump in the cheese price was reflected in the nearly 36-cent per pound increase in the protein price, which ultimately translated into the 92-cent per hundredweight increase in the Class III price. The other class price changes were: Class I declined 22 cents, Class II dropped 23 cents, and Class IV increased 1 cent, all on a per hundredweight basis. After 5 months of Class III holding the minimum price, the Class IV price regained that position.

The spread between the higher and lower priced classes continued to tighten, again largely due to the increase in the Class III price, resulting in less funds available to be returned to producers via the PPD (see table on page 4).❖

Changing Class III and IV Utilizations

The volume of milk pooled by handlers with Class IV utilization in April (largely milk used to produce dried milk powders and butter) jumped more than 3.5 times above the volume pooled during the prior month. In April, milk pooled with a Class IV utilization totaled more than 1 billion pounds, or about 46 percent of the entire pool volume. For (continued on page 2)

Pool Summary

- A total of 1,008 producers were pooled under the Order with an average daily delivery per producer of 72,095 pounds, an increase of 6.6 percent from March.
- Pooled milk receipts totaled 2.18 billion pounds, a decrease of 0.2 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 20.7 percent of total milk receipts, up 0.9 percentage points from March.
- The average butterfat test of producer receipts was 3.82 percent.
- The average true protein test of producer receipts was 3.19 percent.
- The average other solids test of producer receipts was 5.77 percent.❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	20.7	451,031,629
Class II	5.2	114,061,619
Class III	28.0	610,617,234
Class IV	46.1	<u>1,004,427,422</u>
Total Pooled Milk		2,180,137,904

Producer Component Prices

	\$/lb
Protein Price	1.9890
Butterfat Price	2.5375
Other Solids Price	0.1990

Class Price

	\$/cwt
Class I	17.86
Class II	16.38
Class III	15.96
Class IV	15.72

Changing *(continued from page 1)*

the March pool, Class IV volume equaled about 12 percent of the total. Conversely, pooled milk utilized in Class III during April (largely milk used to produce hard cheese and spreadable cheeses) dropped by 805 million pounds accounting for 28 percent of the pool volume, down from about 63 percent during the prior month.

While the daily average volume of milk pooled during April differed by just 0.2 percent from the March daily average, the volume of Class IV milk pooled was the largest and the volume of Class III was the smallest, in the 6 months that the California Federal Order (CFO) has been in place.

Pooling Changes

Pool handlers must comply with milk pooling requirements but are able to elect to pool or not pool milk supplies depending upon such factors as the alignment of class prices, the projected statistical uniform price (SUP), and other handler specific demands. Changes in commodity prices (see article on page 1) resulted in the Class IV price being the lowest class price for the first time since the inception of the CFO. Since the Class IV price was below the calculated SUP in all differential zones (see accompanying table) there was an economic incentive for handlers to pool milk utilized in Class IV. The significant increase in Class IV utilization was likely influenced by these factors.

The price alignment for Class III milk was different with the Class III price below the adjusted SUP for all zones except the 1.60 differential zone where the Class III price was slightly above the adjusted SUP. With this scenario there is an economic incentive for handlers to opt not to pool milk with a Class III utilization. Since the 1.60 differential zone is a region with considerable Class III non-pool processing facilities, the alignment of April prices was a factor in handler's decisions to significantly reduce the volume of milk they choose to pool.

Changes in the volume of milk included in the Federal order pool in each class, the level of and spread between class milk prices, the component composition of the pooled milk, and the differential zone where pool milk is received at plants all impact the producer price differential (PPD). The April PPD declined 53 cents per hundredweight from the March value, and for the first time was modestly negative in the lowest \$1.60 differential zone.

Changes in Component Tests

Along with the changes in milk pooled there were

Producer Price Differential and Statistical Uniform Price, by Zone Differential, April 2019

	Zone Differential ^{1/}	Adjustment	Producer Price Differential	Statistical Uniform Price ^{2/}
	dollars per hundredweight			
As Announced:	2.10	0.00	0.46	16.42
Other Zones:	2.00	(0.10)	0.36	16.32
	1.80	(0.30)	0.16	16.12
	1.70	(0.40)	0.06	16.02
	1.60	(0.50)	(0.04)	15.92

^{1/} Differentials listed apply to zones included in the California Marketing Area. Outside of this area, differentials may be above or below this range. Differentials apply on a county basis.

^{2/} Prices at 3.5 percent butterfat, 2.99 percent protein, and 5.69 percent other solids.

changes in the component composition of milk included in the pool. The average butterfat test for April was 3.82 percent, dropping from March's 3.98 percent. April's average protein test declined to 3.19 percent from March's 3.28 percent. When reviewing pool average statistics keep in mind that changes in what milk was pooled may be playing a role in changing statistics rather than solely seasonal production or farm management changes. ❖

Manufactured Dairy Products—2018 Summary

USDA's National Agricultural Statistics Service recently released their *Dairy Products 2018 Summary*. This publication summarizes dairy products manufactured in the United States. The table on page 3 highlights selected products' changes from 2018 to 2017 and 2013.

Cheese Production

Nationally, total cheese production (excluding cottage cheese) grew 3.0 percent from 2017. The greatest increases were seen in Swiss (and other cheeses) and American, which both increased 3.6 percent. Other cheeses include such types as Hispanic, feta, Muenster, blue/gorgonzola, brick, Gouda, and some other varieties. Within this category, Hispanic jumped 8.9 percent, feta grew 6.0 percent, and blue/gorgonzola increased 3.6 percent from 2017. Total Italian cheese rose 3.0 percent; ricotta, included in Italian, increased 1.4 percent. Cream/Neufchatel, brick, Gouda, and Muenster all reported declines from the previous year.

When compared to five years earlier, total cheese was up 17.3 percent. American and Italian rose 18.9 and 17.3 percent, respectively. Swiss and other cheeses grew 17.7 percent while cream cheese increased 8.6 percent. *(continued on page 3)*

Manufactured *(continued from page 2)*

Within the other types, Hispanic cheese (which has the highest volume in this category) jumped 29.2 percent from 2013.

Other Products

U.S. butter production increased 2.4 percent from 2017 to 2018; compared to 2013, it was up 1.5 percent. Nonfat dry milk (NFDM) decreased 3.4 percent from the previous year, but rose 20.0 percent from 2013. Yogurt declined 2.0 from the previous year and 6.9 percent from 5 years ago.

Leading States

The top three cheese-producing states continued to be Wisconsin, California, and Idaho; New York was displaced in the number four position by New Mexico, which was number five in 2017. Wisconsin remained the number one producer of both American and Italian cheese. California continued to lead in Hispanic cheese, butter, unsweetened condensed, ice cream, and nonfat dry milk; it was second in yogurt production. New York remained the largest producer of yogurt, sour cream, and lowfat and creamed cottage cheese. State rankings were not available for many products due to having fewer than 3 handlers reporting.

Percent of Total Milk Production

Of U.S. total milk production, 78.4 percent was used in manufactured products (21.6 percent sold for fluid use) in 2018, up from 77.7 percent in 2017 and 74.3 percent in 2013. ❖

Change in Selected Manufactured Dairy Products, 2018

	Total US Production of Manufactured Products	
	Percent Change—2018 from:	
	2013	2017
Cheese		
American [^]	18.9	3.6
Italian ⁺	17.3	3.0
Cream and Neufchatel	8.6	(0.4)
Other [*]	17.7	3.6
Total Cheese(excludes cottage)	17.3	3.0
Butter	1.5	2.4
NFDM [~]	20.0	(3.4)
Yogurt	(6.9)	(2.0)

Source: USDA, NASS - Dairy Products 2018 Summary

[^] Includes Cheddar, Colby, Monterey, and Jack.

⁺ Includes ricotta, mozzarella, parmesan, provolone, and other Italian varieties.

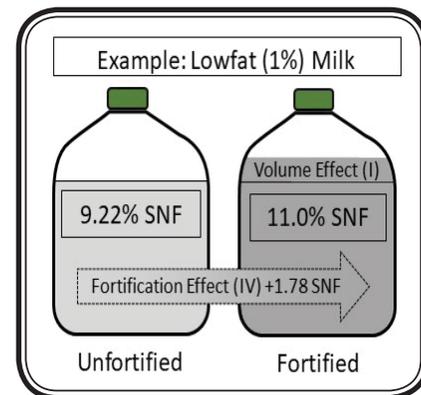
^{*} Includes Swiss, Hispanic, Muenster, feta, and other varieties.

[~] For human use.

Fortification Explained

Fortification of fluid milk products was a topic addressed at the hearing that resulted in a Federal order encompassing the State of California effective October 17 for milk marketed on and after November 1, 2018. The issue of fortification was important because the State of California establishes component standards for fluid milk products (Class I or bottled milk) that are different than Federal standards. Since farm milk is typically characterized by component tests that are less than the State's standards, bottlers need to fortify certain milk products. Most commonly, it is Reduced Fat (2%) and Low Fat (1%) milk products that need to be fortified. California bottlers use different methods to meet the State standards that include adding nonfat dry milk, purchasing condensed milk from another plant, and condensing farm milk in the plant.

Federal orders have a long history of accounting for milk products that have added solids. While fortified fluid milk products are not as common in other regions of the country as they are in California, the accounting involved in dealing with fortification is the same under all Federal orders, including the California Order's neighbors, the Pacific Northwest Order (FO 124) and Arizona Order (FO 131). The accounting of fortification may seem complicated but, in essence, it is fairly mechanical. In short, Federal orders value the increase in volume (displacement) caused by adding solids to milk as Class I, and the increased density of solids in the product as Class IV as shown in the example for 1% milk.



More information on fortification can be found on the Market administrator's website: www.cafmmo.com, including a video illustrating the concepts of fortification under Federal Order Information: [Module-Fortification](#). A fortification calculator is also available at: [Sample Fortification Calculation](#). In addition to these two resources, there is also a three-part summary covering California's standards and how California Federal Order handlers met the State standards for the month of January 2019, the milk math of fortification, and how the obligations to a Federal order pool of handlers who fortify milk products may differ. The summary can be accessed under Federal Order Information at: [Fortification of Fluid Milk Products Under Federal Orders and the Component Standards for Products Marketed in the State of California: January 2019](#). ❖



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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	440,910,634	\$9.15	\$40,343,323.01	
Butterfat	100,120,995	2.5809	26,121,276.00	
Less: Location Adjustment to Handlers			(876,397.05)	\$65,588,201.96
Class II— Butterfat	13,869,694	2.5445	35,291,436.39	
Nonfat Solids	9,356,818	0.8611	8,057,155.95	43,348,592.34
Class III— Butterfat	19,887,943	2.5375	50,465,655.39	
Protein	20,039,146	1.9890	39,857,861.41	
Other Solids	35,470,414	0.1990	7,058,612.42	97,382,129.22
Class IV— Butterfat	39,484,165	2.5375	100,191,068.72	
Nonfat Solids	89,516,366	0.7883	70,565,751.32	170,756,820.04
Total Classified Value			<i>Total value of milk in the pool</i>	\$377,075,743.56
Add: Overage—All Classes				44,393.74
Inventory Reclassification—All Classes				58,128.45
Other Source Receipts	1,106,174			16,688.73
Total Pool Value				\$377,194,954.48
Less: Value of Producer Butterfat	83,362,797	2.5375	(211,533,097.42)	
Value of Producer Protein	69,540,567	1.9890	(138,316,187.78)	
Value of Producer Other Solids	125,789,765	0.1990	(25,032,163.28)	(374,881,448.48)
Total PPD Value Before Adjustments			<i>Total Class III value of producer components</i>	\$2,313,506.00
Add: Location Adjustment to Producers				7,882,657.50
One-half Unobligated Balance—Producer Settlement Fund				887,159.24
Less: Producer Settlement Fund—Reserve				(1,049,600.04)
Total Pool Milk & PPD Value	2,181,244,078			\$10,033,722.70
Producer Price Differential		\$0.46		
Statistical Uniform Price		\$16.42		

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