The Market Administrator's

BULLETIN

CALIFORNIA MARKETING AREA

Cary Hunter, Interim Market Administrator

December 2018 Federal Order No. 51

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December Pool Price Calculation

The December 2018 statistical uniform price (SUP) for the California Marketing Area was announced at $14.91 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 $16.59 per hundredweight. The December SUP was 53 cents per hundredweight below the November price. The December producer price differential (PPD) at Los Angeles County was $1.13 per hundredweight, an increase of 13 cents per hundredweight from last month.

Product Prices Effect

Similar to November, commodity product price changes were mixed. The cheese price dropped 7 cents per pound, which equated to a 20-cent per pound decline in the protein price. The butter price declined 2.5 cents resulting in a 3-cent drop in the butterfat price. Both nonfat dry milk and dry whey each rose slightly and translated to similar changes in the nonfat solids and other solids component prices.

The Class I price declined 47 cents per hundredweight. The Class III price dropped 66 cents, again due to the decrease in the protein component. Both the Class II and Class IV prices rose slightly. The spread between the Class I price and the lowest class price (Class III) rose from last month and equaled $3.34 per hundredweight. For all Federal orders this was the greatest spread since January 2018, and was a significant factor behind the considerable increase in the PPD.❖

Federal Orders and Government Shutdown

The daily operations and all pricing and pooling functions of the California Federal Milk Order, or any other Federal Milk Marketing Order, continue to operate as usual during a USDA shutdown resulting from a lapse in Federal funding. The operations of a Federal Milk Order are individually funded via user fees and therefore are considered exempted. The monthly Class and Component Prices calculated and issued by the Market Information Branch of USDA Agricultural Marketing Service Dairy Program also will continue as scheduled during the shutdown.❖

Pool Summary

- A total of 1,045 producers were pooled under the Order with an average daily delivery per producer of 62,897 pounds, an increase of 1.4 percent from November.
- Pooled milk receipts totaled 2.038 billion pounds, a decrease of 2.0 percent from last month.
- Class I usage (milk for bottling) accounted for 22.6 percent of total milk receipts, up 0.1 percentage points from November.
- The average butterfat test of producer receipts was 4.02 percent.
- The average true protein test of producer receipts was 3.31 percent.
- The average other solids test of producer receipts was 5.73 percent.❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	22.6	459,611,193
Class II	5.1	103,247,164
Class III	69.3	1,411,252,676
Class IV	3.1	63,423,453
Total Pooled Milk		2,037,534,486

Producer Component Prices

	$/lb
Protein Price	1.1417
Butterfat Price	2.5080
Other Solids Price	0.2775

Class Price

	$/cwt
Class I	17.15
Class II	15.67
Class III	13.78
Class IV	15.09

Component Prices and Tests

Under component pricing, producers are paid on the level of butterfat, protein, and other solids in their milk. The price received for these components and the percentage of these components in the milk largely determine how much a producer will receive for their milk. Although producers cannot directly affect the prices paid for components, their dairying practices may affect the level of components in the milk their herd produces.

The accompanying charts compare the average component price and the simple average component test for the month of December for all Federal orders combined since 2009 to highlight the relationship between the two. The December 2018 component test averages for the California Order are highlighted separately for reference. Since just the month of December over time is presented, some variability from year to year may be related to weather, feed, or seasonal production related issues. Protein and other solids tests for Federal orders not using multiple component pricing (Appalachian, Southeast, Florida, and Arizona Orders) are not included in the all-order average for those components. Component tests have generally increased over time since 2009 (and though not presented on the charts, since 2000, when current Federal orders were implemented).

Butterfat

Since 2009, average butterfat prices and tests have increased fairly steadily, with butterfat tests rising more rapidly since 2015. This trend may partially be attributable to the change in consumer sentiment towards butter. As consumers and food marketers have returned to using butter, butterfat prices have increased, and producers appear to have responded to the market signal by producing more butterfat in the milk. Butterfat prices for December averaged $1.72 per pound from 2009 through 2013, and $2.47 per pound since (or 44 percent higher).

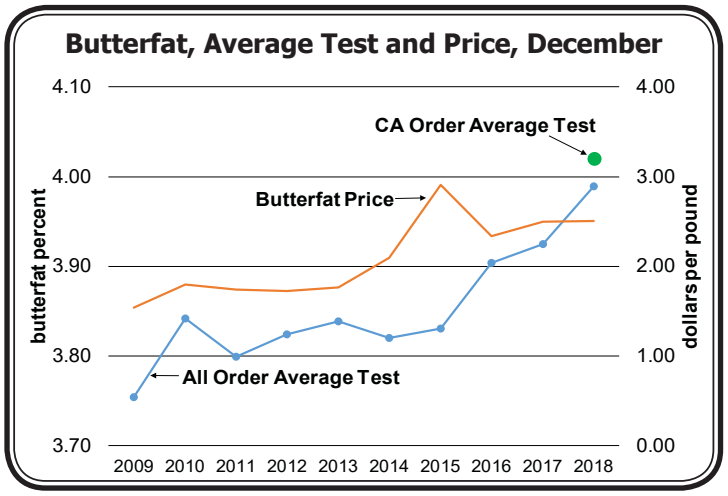
Protein

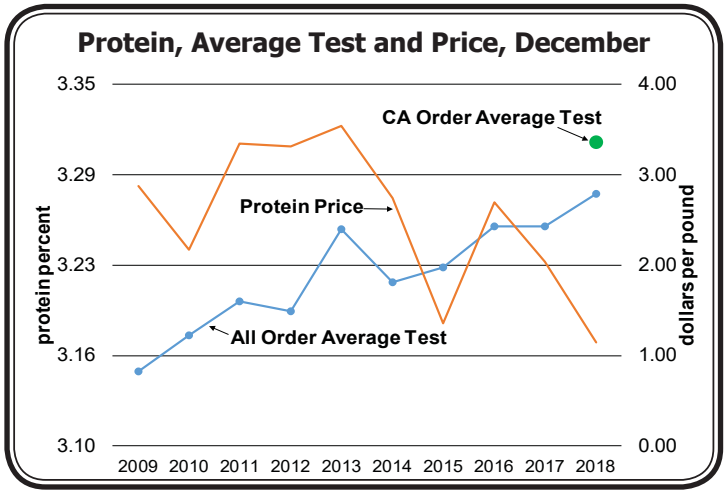
A look at the protein chart shows consistent increases in tests over the period shown. Protein prices, however, have shown a decline, averaging $3.05 per pound through 2013, but $1.99 per pound since (including the lowest price for the period—$1.1417 per pound in December 2018). In fact, the protein price for 2018 averaged $1.6497 per pound, the lowest annual average since 2000, when Federal orders adopted multiple component pricing.

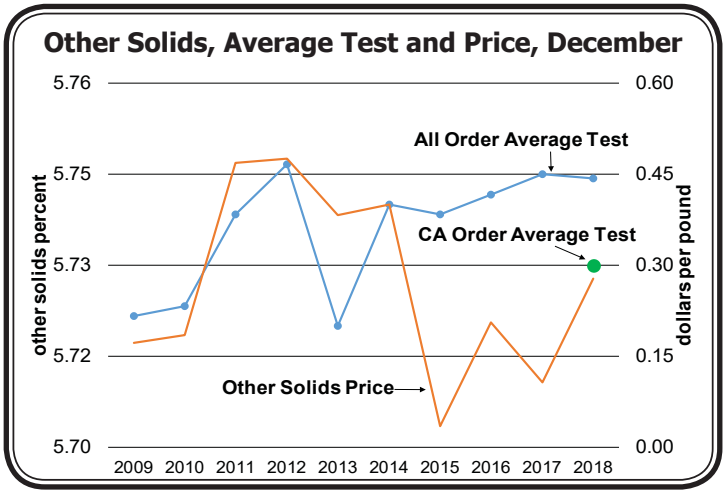
Other Solids

Other solids average test levels have shown growth since 2009, more pronounced through 2012 and fairly level since 2014. The December other solids price has averaged 16 cents per pound since 2015.

Though average component tests can be higher or lower, it does not necessarily indicate the total volume of the component available to the market as these charts do not show total production during this period. A period with lower component tests may be compensated by higher total production. The three charts together tell a story of increasing value from butterfat in recent years relative to the value derived from protein and other solids during this time period.❖







Milk by Received Location

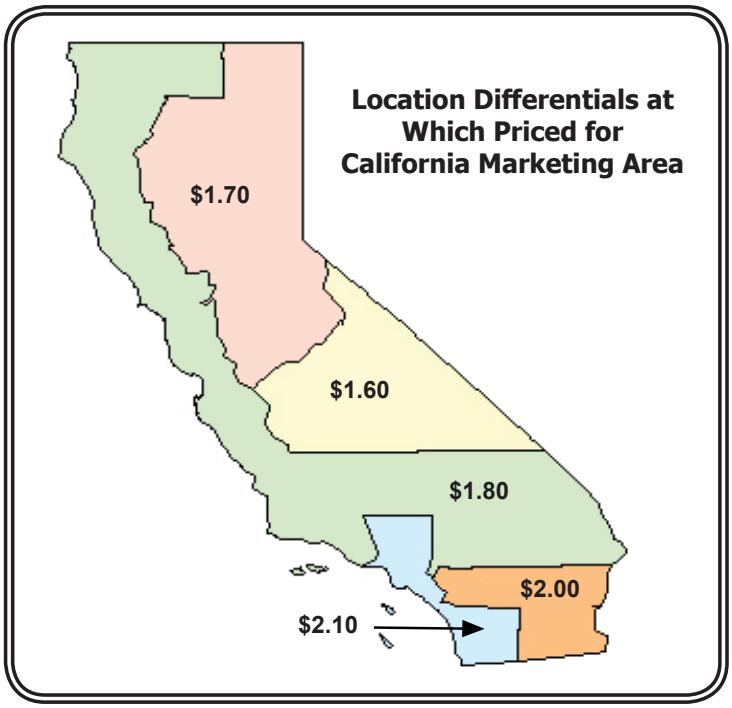
Under Federal orders, milk is priced based on the plant location where it is received. The price producers receive is adjusted for the location differential at the plant's location. All plants regulated under the California Milk Marketing Order fall into the $1.60 to $2.10 differential range. This means that milk received at these plants from producers will be paid at a producer price differential (PPD) that is adjusted for the respective location (higher price at higher differential zone).

Receipts of Producer Milk by Plant Location Differential at Which Priced for December 2018#

Location Differentials	Class I	Class II	Class III	Class IV	Total Receipts	Percent of Total Receipts
dollars/cwt			pounds			
2.00 and above*	225,522,777	45,213,339	54,230,458	6,127,587	331,094,161	16.3
1.80	105,710,113	18,349,419	14,606,267	4,554,836	143,220,635	7.0
1.70	73,750,436	28,055,234	549,491,727	41,392,339	692,689,736	34.0
1.60	54,627,867	11,629,172	792,924,224	11,348,691	870,529,954	42.7
Market Total	459,611,193	103,247,164	1,411,252,676	63,423,453	2,037,534,486	100.0

Includes milk pooled at plants located in the California Marketing Area and neighboring states.

* Differentials have been combined in ranges to assure confidentiality of data.



The accompanying table shows the total volume of producer milk received at selected location differentials and the percent of the total pooled at these zones for the month of December. As the table depicts, nearly 43 percent of all milk is received at plants in the $1.60 zone. Over 16 percent is received at the highest zone, a majority of which is priced at the $2.10 differential.

The largest portion of pooled milk is received at the $1.60 and $1.70 zones and used for Class III purposes (most likely cheese plants). The next largest volume is received at plants in the $2.00 or higher zone and is used in Class I (fluid bottling plants). Nearly half of the pool distributing plants (bottling) regulated under the Order are located in the $2.10 differential zone. The smallest portion pooled was used for Class IV products (butter and dry milk products) at the $1.80 zone during December.

The accompanying map shows the location of the various differential zones.❖

Pool Summary and Selected Statistics for all Federal Orders, December 2018

Federal Order Number	Federal Order Name	Total Pounds Pooled	Total Pounds Class I	Daily Deliveries per Producer	Class I Utilization	Producer Price Differential#	Statistical Uniform Price#*
			pounds		percent	dollars per hundredweight	
1	Northeast	2,218,945,559	753,707,768	6,910	34.0	2.49	16.27
5	Appalachian	498,068,208	331,585,712	9,496	66.6	N/A	17.45
6	Florida	227,916,773	185,341,360	56,555	81.3	N/A	19.47
7	Southeast	426,100,243	298,319,577	7,722	70.0	N/A	18.00
30	Upper Midwest	2,946,575,163	232,285,043	11,509	7.9	0.33	14.11
32	Central	1,394,021,707	408,209,160	18,800	29.3	0.96	14.74
33	Mideast	1,574,794,206	557,879,918	11,439	35.4	1.47	15.25
51	**California**	**2,037,534,486**	**459,611,193**	**62,897**	**22.6**	**1.13**	**14.91**
124	Pacific Northwest	806,781,484	169,371,105	50,145	21.0	1.18	14.96
126	Southwest	1,222,845,571	354,866,567	86,887	29.0	1.75	15.53
131	Arizona	444,569,583	105,110,254	174,890	23.6	N/A	15.30
	All Market Total	13,798,152,983	3,856,287,657				

Price at designated order location. * Price at 3.5% butterfat, 2.99% protein, and 5.69% other solids. N/A = Not applicable.

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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	448,628,219	$8.52	$38,223,124.26	
Butterfat	10,982,974	2.5496	28,002,190.51	
Less: Location Adjustment to Handlers			(898,303.75)	65,327,011.02
Class II— Butterfat	13,139,467	2.5150	33,045,759.58	
Nonfat Solids	8,405,552	0.7911	6,649,632.18	39,695,391.76
Class III— Butterfat	49,408,242	2.5080	123,915,870.95	
Protein	47,586,172	1.1417	54,329,132.58	
Other Solids	81,391,616	0.2775	22,586,173.47	200,831,177.00
Class IV— Butterfat	8,382,959	2.5080	21,024,461.15	
Nonfat Solids	5,153,210	0.7269	3,745,868.38	24,770,329.53
Total Classified Value		*Total value of milk in the pool*		**$330,623,909.31**
Add: Overage—All Classes				149,903.89
Inventory Reclassification—All Classes				(37,059.76)
Other Source Receipts	1,281,259			38,584.47
Total Pool Value				**$330,775,337.91**
Less: Value of Producer Butterfat	81,913,642	2.5080	(205,439,414.11)	
Value of Producer Protein	67,487,388	1.1417	(77,050,350.91)	
Value of Producer Other Solids	116,814,353	0.2775	(32,415,983.03)	(314,905,748.05)
Total PPD Value Before Adjustments		*Total Class III value of producer components*		**$15,869,589.86**
Add: Location Adjustment to Producers				7,571,245.15
One-half Unobligated Balance—Producer Settlement Fund				453,470.64
Less: Producer Settlement Fund—Reserve				(855,687.71)
Total Pool Milk & PPD Value	2,038,815,745			**$23,038,617.94**
Producer Price Differential		**$1.13**		
Statistical Uniform Price		**$14.91**		

Value from which PPD per hundredweight is calculated

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