The Market Administrator's

BULLETIN

CALIFORNIA MARKETING AREA

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February 2021 Federal Order No. 51

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February Pool Price Calculation

The February 2021 Statistical Uniform Price (SUP) for the California Marketing Area was announced at $13.99 per hundredweight (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. If reported at the average tests of pooled milk (3.95 percent butterfat, 3.24 percent protein, and 5.75 percent other solids), the February SUP would be $15.39 per cwt, which is lower than that of January by 49 cents per cwt. February's Producer Price Differential (PPD) at Los Angeles County was -$1.76 per cwt, an increase of 4 cents from last month's PPD of -$1.80 per cwt.

Product Prices Effect

All monthly average product prices in the National Dairy Product Sales Report (NDPSR), except for the dry whey price, decreased from January to February. The butter price saw the largest decrease, declining by almost 10 cents per pound. The cheese price decreased by about 5.5 cents per pound, while the nonfat dry milk price declined by less than 2 cents per pound. The only monthly average product price to increase, the dry whey price, gained almost 5 cents per pound, continuing its upward trend from last month.

All component prices, except for the other solids price, decreased from January to February. The butterfat price saw the largest decrease from the previous month, declining by almost 12 cents per pound. The protein price decreased by more than 5 cents per pound, and the nonfat solids price declined by less than 2 cents per pound. Unlike the other component prices, the other solids price increased by nearly 5 cents per pound.

All class prices declined this month except for the Class I price. The Class I price rose 40 cents to $17.64 per cwt. The Class II price decreased by 18 cents to $14.00 per cwt, and the Class III price decreased by 29 cents to $15.75 per cwt. The Class IV price saw the biggest change from January to February, declining by 56 cents to $13.19 per cwt.❖

Pool Summary

- A total of 820 producers were pooled with an average daily delivery per producer of 79,999 pounds, an increase of 2.1 percent from January.
- Pooled milk receipts totaled 1.837 billion pounds, an increase of 1.0 percent on an average daily basis.
- Class I usage (milk for bottling) accounted for 21.2 percent of total pooled milk receipts, up 0.7 percentage points from January.
- The average butterfat test of producer receipts was 3.95 percent.
- The average true protein test of producer receipts was 3.24 percent.
- The average other solids test of producer receipts was 5.75 percent.❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	21.2	389,554,873
Class II	5.0	90,912,913
Class III	1.3	23,045,290
Class IV	72.6	1,333,257,297
Total Pooled Milk		1,836,770,373

Producer Component Prices

	2021	2020
	$/lb	
Protein Price	2.9816	3.0309
Butterfat Price	1.4376	1.9813
Other Solids Price	0.3161	0.1750

Class Price Factors

	2021	2020
	$/cwt	
Class I	17.64	19.65
Class II	14.00	16.84
Class III	15.75	17.00
Class IV	13.19	16.20

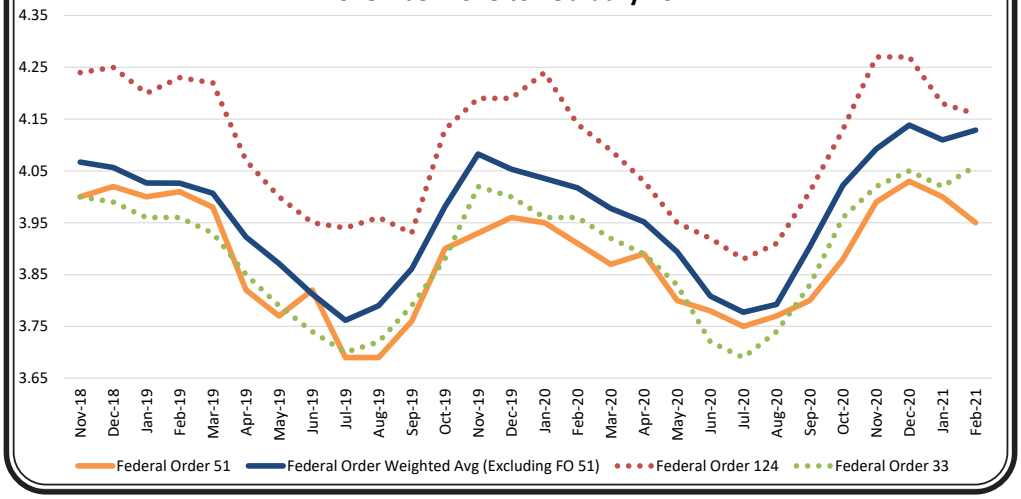
What's in Your Milk? – Examining Component Tests in Federal Orders

Producers under the California Federal Marketing Order (CFMO) are paid according to the quantity of components in their milk (pounds of butterfat, protein, and other solids) and their respective prices along with a proportionate share of the classified value of the monthly pool as accounted for in the Producer Price Differential (PPD). As has been the case in recent months, the PPD is negative when the collective value of producer components exceeds the classified value of the pool. Two components—butterfat and protein—account for most of the value in a producer's milk check. This value depends on both the price of each component as well as the concentration of each component in producer milk. This article examines the amount of protein and butterfat in pooled producer milk; for information on butterfat and protein prices, please see the *December 2020 Bulletin*. The accompanying figures illustrate the butterfat and protein tests of pooled milk on Federal Order (FO) 51 since the Order's inception and compare them to those under other FOs and to the weighted average tests of all other FOs that utilize component pricing. A map of all Federal Orders and their respective marketing area is available at https://cafmmo.com/publications/marketing-area-maps/.

Seasonal Trends

Pooled component tests under all FO areas exhibit a clear seasonal trend: butterfat and protein levels tend to peak in the early winter months, decrease through the spring months, and reach their lowest levels in the warmer summer months before climbing through the fall. This strong seasonal trend is present even in FO areas like FO 124 (Pacific Northwest) and FO 33 (Mideast), which had the highest and lowest butterfat tests, respectively, during the period.

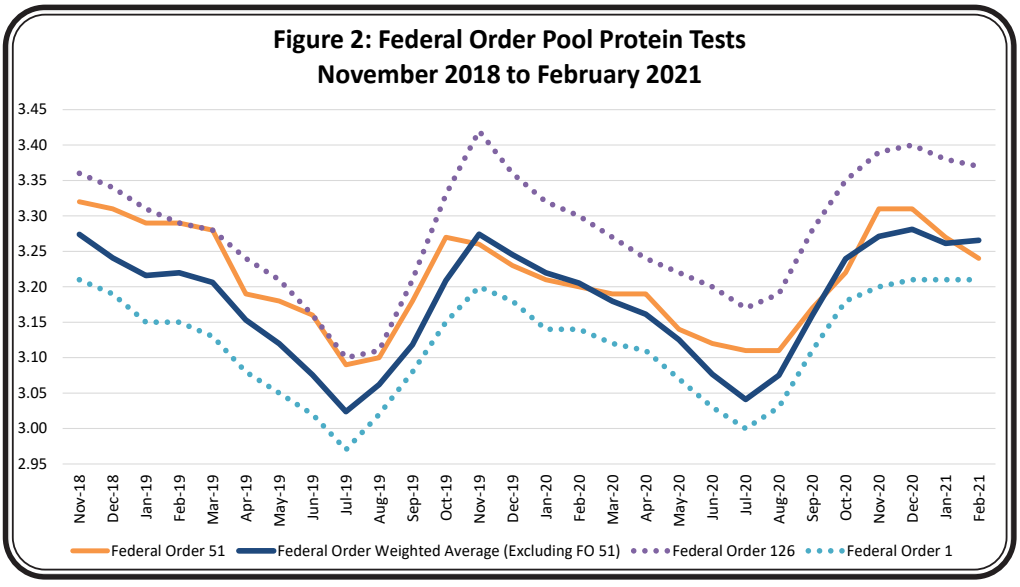
Figure 1: Federal Order Pool Butterfat Tests
November 2018 to February 2021



Regional Comparisons

As shown in Figure 1, FO 51 pool butterfat tests tend to be lower than those of other FO areas. The weighted average butterfat tests in FO 51 from November 2018 to February 2021 is 3.88 percent, the lowest among all FO areas, but only 0.01 percentage points less than FO 33. FO 124 had the highest weighted average butterfat test at 4.10 percent. Excluding FO 51, the weighted average for FO areas using component pricing is 3.96 percent. It is important to note that the low volume of milk pooled and utilized as Class III, as experienced in many orders during 2020, is likely a factor behind some Orders' lower average component tests.

Figure 2: Federal Order Pool Protein Tests
November 2018 to February 2021



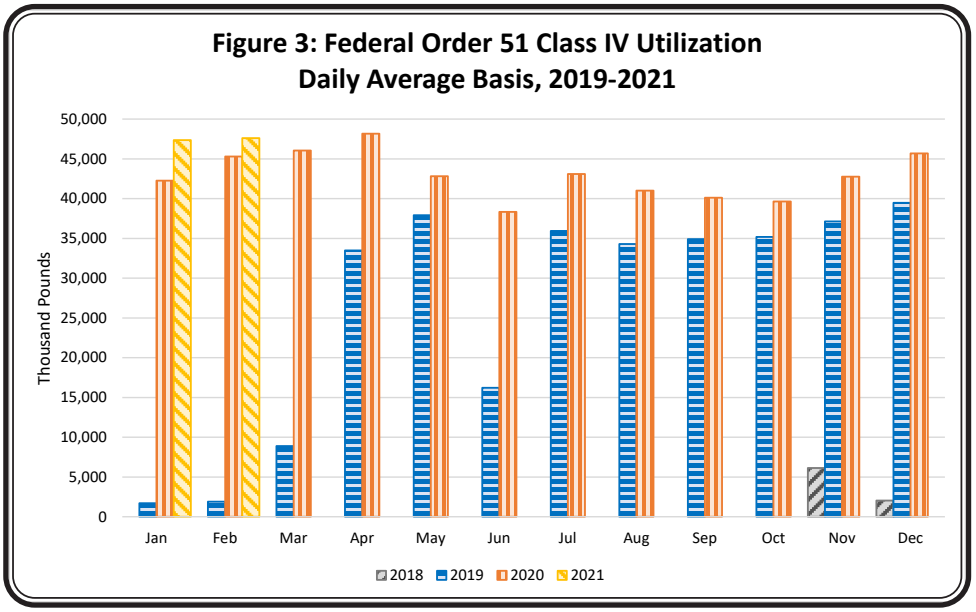
Although FO 51 had lower butterfat tests than other FO areas, Figure 2 illustrates that FO 51's pooled protein tests are significantly above the weighted average for all other FO areas in many months. In fact, FO 51 posted the third-highest weight-

ed average protein test between November 2018 and February 2021 among FOs at 3.21 percent. FO 126 (Southwest) posted the highest weighted average protein test at 3.28, while FO 1 (Northeast) had the lowest at 3.12 percent. Overall, FO 51 posted a weighted average protein test 0.03 percentage points higher than that of all other FO areas using component pricing (3.18). When viewed in the context of recent component pricing trends—namely, record high protein prices in 2020—high protein tests generated the most revenue for producers. As discussed in the *December 2020 Bulletin*, protein accounted for seventy-five percent of the gross payment to FO 51 dairy farmers in 2020 (when calculated at the average tests of pooled milk).

Market dynamics will continue to have an influence on the component tests of pooled producer milk as producers look to their milk checks and maximize their payment. Pooled component tests, although not indicative of protein and butterfat in milk withheld from the pool, still offer valuable insight into regional and seasonal variations in component levels.❖

Class IV Utilization Exceeds Year-Prior Levels

Class IV utilization in the California Federal Marketing Order (CFMO) pool in February 2021 totaled 47.6 million pounds on a daily average basis—the second highest level since the inception of the CFMO. Furthermore, since November 2019 (the first month providing year-prior comparisons), pooled Class IV utilization has posted year-over-year gains on a daily average basis, as shown in Figure 3. Adjusting for the leap year, pooled Class IV utilization for calendar year 2020 was more than 60 percent higher than that of 2019.



Class IV Pooling Incentives

Pricing dynamics and pooling incentives contributed to these increases in Class IV pool utilization. In 2019, Class IV utilization was under 3 percent of the pool for January and February, just over 12 percent in March, and roughly 20 percent in June. During these months, Class IV prices were higher than Class III prices. However, since July 2019, Class IV has been the lowest-priced class, providing ample incentive for handlers to pool Class IV milk. Class IV utilization as a percentage of the pool was greater than 50 percent for all of 2020, reaching 70 percent or more in five months of 2020. Class IV utilization on a daily average basis has continued to post year-over-year gains into 2021, increasing by 12 percent in January and just over 5 percent in February, adjusting for the leap year, compared to those months in 2020.

Production of Class IV Products

Production increases in major Class IV products, as reported by the National Agricultural Statistics Service (NASS), suggest that Class IV production is increasing generally in California. According to the NASS *Dairy Products* Report, California butter production increased 10.9 percent in December 2020 and 7.9 percent in January 2021 as compared to year-prior levels. The report also notes significant year-over-year increases in nonfat dry milk (NFDM) production in California; production increased 46 percent in December 2020 and 30.5 percent in January 2021. Plentiful milk production and a large dairy herd are supply factors that likely play a role in increased Class IV production. On the demand side, strength in exports, specifically those of NFDM, are likely to have encouraged increases in Class IV utilization. The United Dairy Export Council reports that NFDM and skim milk powder exports collectively grew 16 percent in 2020. The onset of the spring flush and current Class IV *Chicago Mercantile Exchange* futures suggest Class IV will continue to be pooled in large volumes in the near future.❖

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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	380,303,971	$12.47	$47,423,905.18	
Butterfat	9,250,902	1.6014	14,814,394.46	
Less: Location Adjustment to Handlers			(800,633.95)	$61,437,665.70
Class II— Butterfat	12,578,791	1.4446	18,171,321.47	
Nonfat Solids	7,325,036	1.0300	7,544,787.08	25,716,108.55
Class III— Butterfat	1,446,939	1.4376	2,080,119.50	
Protein	730,458	2.9816	2,177,933.57	
Other Solids	1,294,503	0.3161	409,192.41	4,667,245.48
Class IV— Butterfat	49,304,121	1.4376	70,879,604.35	
Nonfat Solids	120,147,559	0.9391	112,830,572.65	183,710,177.00
Total Classified Value		*Total value of milk in the pool* →		**$275,531,196.73**
Add: Overage—All Classes				4,274.57
Inventory Reclassification—All Classes				59,867.49
Other Source Receipts	43,585			592.75
Total Pool Value				**$275,595,931.54**
Less: Value of Producer Butterfat	72,580,753	1.4376	(104,342,090.52)	
Value of Producer Protein	59,473,213	2.9816	(177,325,331.90)	
Value of Producer Other Solids	105,594,934	0.3161	(33,378,558.63)	(315,045,981.05)
Total PPD Value Before Adjustments		*Total Class III value of producer components*		**($39,450,049.51)**
Add: Location Adjustment to Producers				7,221,756.76
One-half Unobligated Balance—Producer Settlement Fund				638,534.00
Less: Producer Settlement Fund—Reserve				(738,166.85)
Total Pool Milk & PPD Value	1,836,813,958			**($32,327,925.60)**
Producer Price Differential		**$(1.76)**		
Statistical Uniform Price		**$13.99**		

Value from which PPD per hundredweight is calculated

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