



The Market Administrator's

BULLETIN

CALIFORNIA MARKETING AREA

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February Pool Price Calculation

The February 2019 statistical uniform price (SUP) for the California Marketing Area was announced at \$15.12 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 \$16.79 per hundredweight. The February SUP was 3 cents per hundredweight above the January price. The February producer price differential (PPD) at Los Angeles County was \$1.23 per hundredweight, an increase of 10 cents from last month.

Product Prices Effect

All commodity product prices rose except dry whey. Butter and nonfat dry milk each rose about 3 cents per pound, while cheese rose nearly 1 cent per pound. Dry whey declined 2.6 cents per pound. These changes translated to increases of 3.6 cents in the butterfat price and 2.8 cents in the nonfat solids price. Due to the increase in the butterfat price, which is a component of the protein component price formula, the protein price dropped 1.5 cents per pounds. The dry whey decrease resulted in a 2.7-cent decline in the other solids price.

Class prices were mixed: Class I rose 18 cents, Class II was up 39 cents, Class III decreased 7 cents, and Class IV increased 38 cents, all on a per hundredweight basis. With a higher proportion of the total milk receipts assigned to the higher class prices, the SUP rose. The spread between the higher and lower priced classes rose resulting in an increase in the PPD.❖

Class I Skim Milk Price Formula Amended

The U.S. Department of Agriculture (USDA) has announced an amendment to the Class I skim milk price formula under the Federal Milk Marketing Order (FMMO) program, in accordance with the Agriculture Improvement Act of 2018 (2018 Farm Bill). The change is effective May 1, 2019. **The new price formulas will be reflected in the May Advanced Class I skim milk price that will be announced on April 17, 2019.**

(continued on page 2)

Pool Summary

- A total of 1,059 producers were pooled under the Order with an average daily delivery per producer (DDP) of 61,719 pounds, a decrease of 2.8 percent from January. The corrected January producer count is 1,026 with a revised DDP of 63,483 pounds.
- Pooled milk receipts totaled 1.83 billion pounds, an increase of 0.3 percent from last month on an average daily basis.
- Class I usage (milk for bottling) was down 1.0 percentage point from January.
- The average butterfat test of producer receipts was 4.01 percent.
- The average true protein test of producer receipts was 3.29 percent.
- The average other solids test of producer receipts was 5.75 percent.

Class Utilization

Pooled Milk	Percent	Pounds
Class I	23.0	420,548,672
Class II	5.1	93,579,812
Class III	69.0	1,262,883,950
Class IV	2.9	53,077,044
Total Pooled Milk		1,830,089,478

Producer Component Prices

	\$/lb
Protein Price	1.1776
Butterfat Price	2.5345
Other Solids Price	0.2631

Class Price

	\$/cwt
Class I	17.40
Class II	16.13
Class III	13.89
Class IV	15.86

Class I Skim *(continued from page 1)*

Currently, the Class I skim milk price is calculated using the higher of the monthly advanced pricing factors for Class III or Class IV skim milk, which reflect dairy product survey prices for the two weeks prior to the price announcement, plus the applicable adjusted Class I differential. Because market prices for these surveyed products fluctuate, the “higher of” factor used to determine the Class I skim milk price can change, increasing risk and uncertainty associated with hedging.

To address this issue, Congress determined that the formula for the FMMO Class I skim milk price should be the average of the monthly Class III and Class IV advanced pricing factors plus \$0.74 per hundredweight plus the applicable adjusted Class I differential.

In accordance with the 2018 Farm Bill, the amendment is effective indefinitely, until further modified, and may not be modified sooner than two years after the effective date of this rule. The Federal Register notice is available at: www.federalregister.gov/documents/2019/03/11/2019-04347/federal-milk-marketing-orders-amending-the-class-i-skim-milk-price-formula.

Hypothetical May 2019 Class I Pricing

	Class I Pricing Methodology	
	Existing Formula	New Formula
	(per hundredweight)	
Advanced Class III skim milk pricing factor	\$6.25	\$6.25
Advanced Class IV skim milk pricing factor	\$7.10	\$7.10
Class I skim @ base zone	\$9.20	\$9.52
	[HIGHER of Class III or IV skim price plus Class I differential]	[AVERAGE of Class III or IV skim price plus \$0.74 plus Class I differential]
Class I Price @ base zone	\$17.97	\$18.28

Note: Uses April 2019 Chicago Mercantile Exchange dairy product futures prices settled March 14, 2019. Priced at the \$2.10 differential zone.

Though the new Class I price formula was designed to be price neutral compared to the existing formula, varying differences in the Class III and Class IV prices could result in one methodology establishing a higher Class I price than the other methodology. In the example above, using Chicago Mercantile Exchange futures prices, the May Class I price resulting from the new formula would be higher than the resulting price if the existing formula were used. This may not always be the case. Differences in Class I prices would result in differences in statistical uniform prices, though to a lesser degree and based on the market area’s class utilization. ❖

U.S. Milk Production Growth Slows

The total milk production in the United States grew 0.9 percent in 2018, a lesser increase than in 2017 (1.7 percent). The rate of growth in 2016 was 1.6 percent.

The increase in the top ten milk-producing states combined was higher than the national average. Growth in the combined total for the top 23 milk-producing states reported by the National Agricultural Statistics Service (NASS) also was higher than the national average. The accompanying table shows the top ten states ranked by their total 2018 production and comparisons to the top 23 states total and the U.S. total for production, cows, and milk production per cow (MPC). *(continued on page 3)*

Top Ten States Ranked by Milk Production, 2018

Rank	State	2017 (million pounds)	2018	Percent Change	2018	
					Cows (1,000 head)	MPC* (pounds)
1	California	39,798	40,413	1.5	1,734	23,306
2	Wisconsin	30,333	30,579	0.8	1,274	24,002
3	Idaho	14,633	15,149	3.5	609	24,875
4	New York	14,929	14,882	(0.3)	623	23,888
5	Texas	12,054	12,852	6.6	537	23,933
6	Michigan	11,231	11,168	(0.6)	424	26,340
7	Pennsylvania	10,893	10,665	(2.1)	519	20,549
8	Minnesota	9,867	9,868	0.0	453	21,784
9	New Mexico	8,212	8,285	0.9	330	25,106
10	Washington	6,531	6,736	3.1	277	24,318
	Top Ten Total	158,481	160,597	1.3	6,780	23,687
	Top 23 Total	202,507	204,933	1.2	8,750	23,421
	U.S. Total	215,527	217,574	0.9	9,399	23,149

Source: NASS, *Milk Production*

* Milk Produced per Cow

U.S. Milk *(continued from page 2)*

Idaho Regains Number Three Spot

The top ten list contained the same states as in 2017 with a slight change in the order. California and Wisconsin remained numbers one and two. Idaho regained the number 3 spot from New York that held it for 2016 and 2017. Idaho's strong production (3.5 percent increase) pushed its total over 15 billion pounds for the first time ever. All other states' ranks remained the same as in 2017. After reporting decreases the past 2 years, number one-ranked California showed growth of 1.5 percent in 2018. Texas reported the largest increase of the top-ten states, 6.6 percent. Decreases were reported in New York, Michigan, and Pennsylvania. All other top-ten states reported increases except Minnesota that showed no change.

Of the NASS reported top 23 states, ten showed decreases from 2017. The largest increase reported by a top-23 state was in Colorado, rising 8.8 percent in 2018. The largest decrease was reported by Virginia, dropping 5.8 percent. Overall, the top 23 states combined reported an increase of 1.2 percent in 2018, not as strong as 2017 (1.8 percent).

Regionally, in the states surrounding California, Arizona (ranked 13 in the U.S.) showed a decline of 1.1 percent; Oregon (ranked 19 nationally) had a slight increase of 0.1 percent; and Nevada (29th nationally) reported an increase of 3.5 percent.

Cow Numbers and Production per Cow

Nationally, the number of milk cows decreased a slight 0.1 percent in 2018; in 2017, they rose 0.7 percent. Thirty states showed declining cow numbers, up from 20 in 2017. Nine states reported increases, compared to 15 in 2017. Eleven states had no change. Of those with increasing cow numbers, four were in the top ten states. The remaining top ten states reported decreases in cow numbers. The state with the largest increase on a percentage basis was Colorado (8.6 percent).

In the surrounding states, Arizona and Nevada both reported no change in cow numbers in 2018, while Oregon had a decline of 0.8 percent.

Average MPC grew 1.0 percent nationally, up from the 0.7 percent increase in 2017. Michigan led the nation in MPC, followed by Colorado. Only fifteen states had MPC greater than the national average; eight of them are in the top ten. The only top-ten states below the national average were Minnesota and Pennsylvania.

In nearby states, Arizona reported a decline of 1.1 percent in MPC, but was above the national average with 23,933 pounds. Nevada had an increase of 3.5 percent in MPC, but was just below the national average at 22,938 pounds. Oregon reported an increase of 0.9 percent in MPC, but is considerably below the national average at 20,577 pounds. ❖

Dairy Forward Program Extended

The Agricultural Improvement Act of 2018, signed into law on December 20, 2018, extended the authorization of the Dairy Forward Pricing Program contained in the Food, Conservation and Energy Act of 2008 (the 2008 Farm Bill), through September 30, 2023. Handlers may now enter new forward price contracts with producers or cooperative associations through September 30, 2023. Contracts may extend through September 30, 2026. All other provisions of the Dairy Forward Price Program remain the same. Forward contracts established prior to October 1, 2018, are not impacted.

The final rule extending the program was posted on the Federal Register website for public display at: www.federalregister.gov/public-inspection/current.

Program Highlights

- All new contracts must be signed by both parties prior to the effective month. The signed contract and disclosure statement must be received by the Market Administrator prior to the 15th of the applicable month. For example, to contract for April 2019 milk, the forward contract and disclosure statement must be signed prior to April 1, 2019, and received by the Market Administrator by April 15, 2019.
- The disclosure statement must be signed on the same date as the contract.
- Producer milk that has been forward contracted under the terms of the program is not subject to minimum payment to a producer or cooperative association under a Federal Order.
- For contracts signed between September 30, 2018, and March 3, 2019, if the Market Administrator has already received a copy of the contract and disclosure statement or receives them by March 15, 2019, and the contract includes March milk deliveries, the contract applies only to milk marketed on or after March 4, 2019. This holds true even if contract deliveries began in a prior month. However, contracts cannot be included in the program if the disclosure statement has a date other than the date on which the contract was signed. In this case, if a handler and producer would like to have a valid contract applicable under the program, another contract must be negotiated.
- For contracts signed between September 30, 2018, and March 3, 2019, there will be no allowance for payments less than the Federal order minimum for milk marketed between October 2018 and March 3, 2019.
- Forward Contracts established under this program may not extend past September 30, 2026. ❖



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Computation of Producer Price Differential and Statistical Uniform Price*

	<u>Product Pounds</u>	<u>Price per cwt./lb.</u>	<u>Component Value</u>	<u>Total Value</u>
Class I— Skim	411,336,449	\$8.90	\$36,608,943.96	
Butterfat	9,212,223	2.5172	23,189,007.74	
Less: Location Adjustment to Handlers			(811,904.51)	\$58,986,047.19
Class II— Butterfat	13,255,499	2.5415	33,688,850.72	
Nonfat Solids	7,519,703	0.8333	6,266,168.52	39,955,019.24
Class III— Butterfat	48,813,526	2.5345	111,045,381.66	
Protein	42,213,799	1.1776	49,710,969.73	
Other Solids	73,074,740	0.2631	19,225,964.08	179,982,315.47
Class IV— Butterfat	7,185,301	2.5345	18,211,145.37	
Nonfat Solids	4,316,177	0.8041	3,470,637.93	21,681,783.30
Total Classified Value			<i>Total value of milk in the pool</i> →	\$300,605,165.20
Add: Overage—All Classes				12,599.19
Inventory Reclassification—All Classes				(24,097.23)
Other Source Receipts	569,809			18,368.40
Total Pool Value				\$300,612,035.56
Less: Value of Producer Butterfat	73,466,549	2.5345	(186,200,968.45)	
Value of Producer Protein	60,230,023	1.1776	(70,926,875.08)	
Value of Producer Other Solids	105,310,645	0.2631	(27,707,230.73)	(284,835,074.26)
Total PPD Value Before Adjustments			<i>Total Class III value of producer components</i> ↗	\$15,776,961.30
Add: Location Adjustment to Producers				6,754,176.49
One-half Unobligated Balance—Producer Settlement Fund				800,364.02
Less: Producer Settlement Fund—Reserve				(814,392.58)
Total Pool Milk & PPD Value	1,830,659,287			\$22,517,109.23
Producer Price Differential		\$1.23		
Statistical Uniform Price		\$15.12		

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