



# The Market Administrator's

# BULLETIN

## CALIFORNIA MARKETING AREA

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### November Pool Price Calculation

The November 2020 Statistical Uniform Price (SUP) for the California Marketing Area was announced at \$13.79 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 (3.99 percent butterfat, 3.31 percent protein, and 5.73 percent other solids), the November SUP would be \$16.34 per cwt, which is higher than that of October by 70 cents per cwt. November's Producer Price Differential (PPD) at Los Angeles County was -\$9.55 per cwt, a decline from last month's PPD of -\$7.73 per cwt.

#### Product Prices Effect

All monthly average product prices in the National Dairy Product Sales Report (NDPSR), except the butter price, rose from October to November. The cheese price increased about 16 cents per pound after last month's bigger jump of nearly 52 cents. The dry whey price continued upward, gaining over 3 cents per pound. The nonfat dry milk price increased more than one cent per pound in November. The butter price declined close to 7 cents per pound.

All component prices, except the butterfat price, increased from October to November. The protein price continued its upward trajectory, climbing over 60 cents from October's already high price to a near record-breaking \$5.6226 per pound. The butterfat price fell over 8 cents per pound in November. The nonfat solids price increased over one cent per pound. The other solids price gained more than 3.5 cents per pound in November.

All class prices, except for Class IV, increased from October to November. Notably, the Class I price jumped \$2.84 per cwt after falling \$3.24 in October. The Class II price increased 23 cents per cwt. The Class III price continued to climb, increasing \$1.73 per cwt, following a jump of \$5.18 the month before. Finally, the Class IV price declined 17 cents per cwt. ❖

### Pool Summary

- A total of 835 producers were pooled with an average daily delivery per producer of 73,578 pounds, an increase of 2.4 percent from October.
- Pooled milk receipts totaled 1.843 billion pounds, an increase of 5.3 percent on an average daily basis.
- Class I usage (milk for bottling) accounted for 23.1 percent of total pooled milk receipts, down 1.1 percentage points from September.
- The average butterfat test of producer receipts was 3.99 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	23.1	425,814,689
Class II	6.6	121,010,487
Class III	0.8	13,786,605
Class IV	69.6	1,282,508,228
Total Pooled Milk		1,843,120,009

#### Producer Component Prices

	2020	2019
	\$/lb	
Protein Price	5.6226	3.9118
Butterfat Price	1.5553	2.3195
Other Solids Price	0.1894	0.1112

#### Class Price Factors

	2020	2019
	\$/cwt	
Class I	20.14	20.24
Class II	13.86	16.85
Class III	23.34	20.45
Class IV	13.30	16.60

## Looking Ahead to 2021

According to the Economic Research Service's (ERS) most recent *Livestock, Dairy and Poultry Outlook*, the all-milk price for 2021 is expected to average \$16.60 per hundredweight, a decrease of \$1.65 from 2020's projection. Using Chicago Mercantile Exchange (CME) futures as of December 16th, 2020, the California Federal Marketing Order (CFMO) Statistical Uniform Price (SUP) is expected to average \$14.58 per hundredweight in 2020, with expectations for the first and second quarter of 2021 at \$14.80 and \$15.78 respectively.

### Selected Cost Factors

Two main drivers of feed costs—corn and soybean prices—have fluctuated over the course of the year. After averaging \$3.75 per bushel in 2019, the price of corn is expected to average \$3.53 in 2020, according to current Chicago Mercantile Exchange (CME) data. Soybeans are projected to end the year at an average of \$9.03 per bushel—over a 7 percent increase from 2019's average soybean price—according to current CME data. Prices for both soybeans and corn are likely to rise heading into the first quarter of 2021, with corn estimates currently averaging \$4.24 and soybean estimates averaging \$11.86 per bushel on the CME.

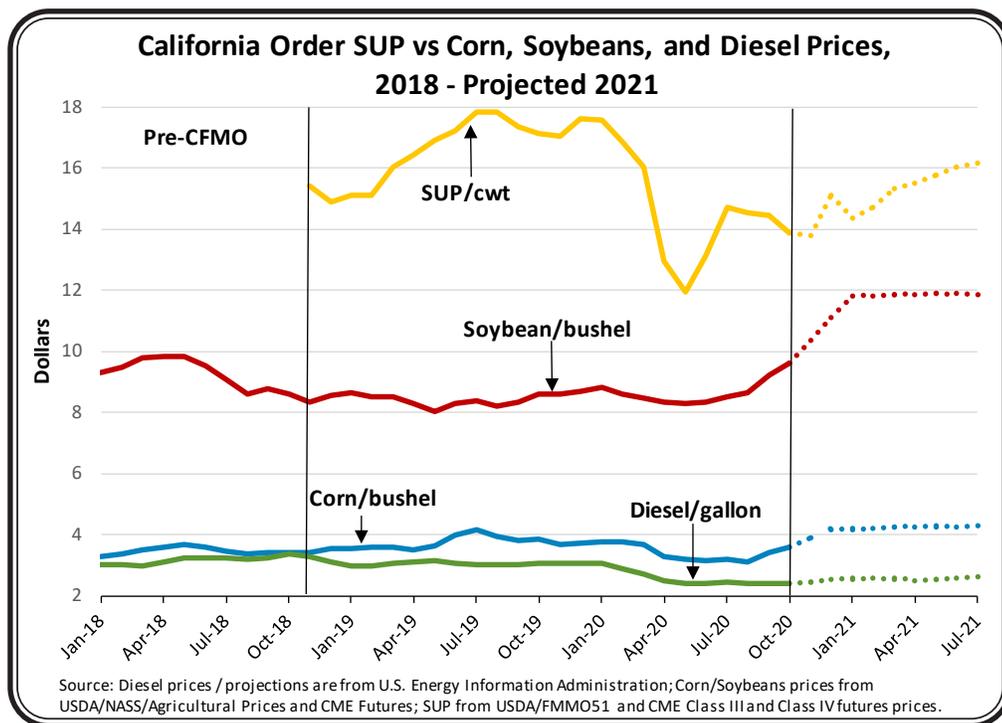
Based on data from the United States Energy Information Administration (USEIA), diesel fuel costs decreased substantially from January to May 2020, falling 60 cents from just over \$3 per gallon. Since May, diesel prices have settled around the \$2.40 mark and are expected to increase slightly heading into 2021.

Tying it all together, the above figure shows CME projected feed prices, USEIA's projection for diesel prices, as well as the estimated CFMO SUP.

### Supply Factors

#### Herd Size & Milk Production

Two related supply factors that could help paint a picture of 2021's dairy markets are herd size and milk production. While California maintained or slightly decreased its statewide herd size over the course of the year, the top 24 major dairy states, in total, expanded herd size after a Covid-19-induced period



of contraction in the spring. In November 2020, for example, the total herd size for the 24 states was over 80,000 head above November 2019, based on data published in the USDA National Agricultural Statistics Service's (NASS) *Milk Production* report.

On the milk production front, the USDA's *World Agricultural Supply and Demand Estimates* December report projects 2021 domestic dairy production to be 226.3 billion pounds, which is up 1.6 percent from the 2020 estimated milk production of 222.7 billion pounds. According to the *Milk Production* report, total production for the 24 selected states has increased year-over-year for every month of the year, except for May, pulling away from the previous two years' levels. Milk production in November 2020 increased 3 percent over the previous year, marking the largest year-over-year increase in the last 6 years. Looking at California specifically, milk production has been up year-over-year for every month in 2020 so far.

Expansion of herd size and milk production as the year wraps up could restrain dairy prices into the new year, even as the economy recovers.

*Cold Storage*

2020 butter cold storage levels—as reported by USDA NASS in its *Cold Storage Report*—have trended above the levels seen in both 2018 and 2019. High butter stocks will likely have a dampening effect on butter and related Class IV prices in the future, reflecting the plentiful supply of butter. However, the USDA recently announced plans

to purchase \$50 million in U.S. butter, which could have an impact on butter supplies and prices in 2021.

### **Demand Factors**

#### *Exports*

The aggregate export volume of major U.S. dairy products for January through October 2020 increased 14 percent from the same period in 2019, according to the U.S. Dairy Export Council (USDEC). The increase is driven primarily by total whey and nonfat dry milk/skim milk powder. Both are up 23 percent from the same period last year. Globally competitive product prices, particularly of those in Class IV, are likely to support strength in next year's export market—USDA's Economic Research Service forecasts dairy exports of 9.6 billion pounds on a milk-fat basis.

#### *Domestic Situation*

Among the impacts of Covid-19 and policies enacted to counter its proliferation is uncertainty regarding the overall health of the U.S. economy. Nonetheless, current macroeconomic indicators provide some insight into the condition of the 2021 economy. According to the U.S. Bureau of Labor Statistics, the November 2020 unemployment rate in the U.S. is 6.7 percent; while unemployment is down 8 percentage points from its 2020 peak of 14.7 percent, it is still 3.2 percentage points higher than pre-pandemic levels in February 2020. This data suggests that the U.S. economy is on a path to gradual recovery but remains well below full strength. The Consumer Confidence Index, which is published by the Conference Board and represents consumers' perspective on the health of the U.S. economy, declined from 101.4 in October 2020 to 96.1 in November 2020. The decrease reveals that consumers do not currently anticipate the economy improving in the next six months. Despite these measures, further progress in the development and distribution of COVID19 vaccines provide some reason for cautious optimism in 2021.

The Restaurant Performance Index (RPI), published by the National Restaurant Association, saw a modest increase from 98.1 in September 2020 to 98.3 in October 2020, marking the fourth consecutive monthly increase. Despite recent growth, the index indicates the restaurant industry is in a firmly contractionary period—an RPI above 100 signals expansion while an RPI below 100 signals contraction. Restaurant operators have a mixed outlook for future sales in the next six months; 36 percent expect to have higher sales volume, while 36 percent

anticipate a lower sales volume. These indicators illustrate the unpredictability of the sector's future. Further distribution and development of Covid-19 vaccines are encouraging for further recovery, though logistical difficulties are likely to dampen and delay a prompt resurgence in meals away from home. The strength of the restaurant industry—a key outlet for domestic dairy products—will be highly dependent on the future situation regarding the pandemic and its associated government policies.

### **Outlook 2021**

Due to disruptions caused by the pandemic, most global economies experienced reductions in real GDP in 2020. Typical economic powerhouses—such as the United States, Canada, France, Germany, Japan, South Korea, and the United Kingdom—all suffered from negative growth rates in 2020, ranging from -9.8 to -1.9 percent, according to the International Monetary Fund (IMF). China was one of the few countries to see a positive growth rate in 2020—1.9 percent—signaling good news for U.S. dairy exporters looking to increase their volume to China. Estimates from the USDA's Foreign Agriculture Service (FAS) suggest a return to more normal growth for China in 2021, around 8.2 percent. Despite a slowdown in the global economy, FAS projects 2021 dairy product exports at \$6.6 billion, up from the previous year due to stronger foreign demand and an increasing level of U.S. price competitiveness. Estimates provided in the FAS' *Outlook for U.S. Agricultural Trade* peg 2021 domestic real GDP growth at 3.1 percent, with much uncertainty revolving around the pandemic. ERS anticipates a decrease in the demand for butter and cheese going into 2021 but expects strength on the nonfat dry milk and whey markets as foreign demand is expected to increase. On the supply side, the ERS expects to see milk production increase alongside cow numbers in 2021. ❖

### **2021 Reporting and Payment Dates**

Reporting and payment dates for the California Federal Marketing Order (CFMO) have now been published to the CFMO website for 2021. Important payment, reporting, and producer price release dates can be found at: <https://www.cafmmo.com/order/reporting-and-payment-dates/>. ❖



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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	415,188,256	\$14.88	\$61,780,012.49	
Butterfat	10,626,433	1.6526	17,561,243.18	
Less: Location Adjustment to Handlers			(853,937.31)	\$78,487,318.36
Class II— Butterfat	13,090,969	1.5623	20,452,020.87	
Nonfat Solids	10,153,143	0.9667	9,815,043.35	30,267,064.22
Class III— Butterfat	2,234,151	1.5553	3,474,775.04	
Protein	403,466	5.6226	2,268,527.93	
Other Solids	690,606	0.1894	130,800.79	5,874,103.76
Class IV— Butterfat	47,651,059	1.5553	74,111,692.06	
Nonfat Solids	116,270,372	0.9047	105,189,805.53	179,301,497.59
<b>Total Classified Value</b>			<i>Total value of milk in the pool</i> →	<b>\$293,929,983.93</b>
Add: Overage—All Classes				39,810.85
Inventory Reclassification—All Classes				28,663.12
Other Source Receipts	63,014			(2,312.62)
<b>Total Pool Value</b>				<b>\$293,996,145.28</b>
Less: Value of Producer Butterfat	73,602,612	1.5553	(114,474,142.45)	
Value of Producer Protein	60,939,488	5.6226	(342,638,365.23)	
Value of Producer Other Solids	105,654,669	0.1894	(20,010,994.35)	<b>(477,123,502.03)</b>
<b>Total PPD Value Before Adjustments</b>			<i>Total Class III value of producer components</i> ↗	<b>(\$183,127,356.75)</b>
Add: Location Adjustment to Producers				7,131,616.18
One-half Unobligated Balance—Producer Settlement Fund				751,005.43
Less: Producer Settlement Fund—Reserve				(779,243.59)
<b>Total Pool Milk &amp; PPD Value</b>	1,843,183,023			<b>(\$176,023,978.73)</b>
Producer Price Differential		<b>\$(9.55)</b>	<i>Value from which PPD per hundredweight is calculated</i> ↖	
Statistical Uniform Price		<b>\$13.79</b>		

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