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National FMMO Hearing

On August 23rd the United States Department of Agriculture (USDA) kicked off the long-anticipated national hearing to consider proposed modifications to the price formulas in the 11 federal milk marketing orders. From the 38 proposals submitted, the USDA selected 21 to be presented during the hearing. The industry proposals were divided into five categories:

- Milk composition,
- Surveyed commodity prices,
- Class III and IV formula factors,
- Base Class I skim milk price, and
- Class I and II differentials.

NAJ had one proposal, associated with milk components, included in the hearing while NAJ's proposals to expand multiple component pricing to all federal orders and to price Class I on its actual components were declined. NAJ presented testimony and exhibits on August 25. The hearing is expected to last until the end of September and perhaps longer. This newsletter will focus on NAJ's support of updating the skim component factors used in the Class III and IV skim milk price formulas.

Purpose of Updating Skim Component Factors

The current Class III and Class IV skim milk price formulas are:

Class III skim milk price = (protein price * 3.1) + (other solids price * 5.9)

Class IV skim milk price = nonfat solids price * 9.0

The base Class I skim milk price for all federal orders is calculated using the average of the Class III and IV skim milk prices, plus $0.74/cwt. In the four fat-skim orders (Appalachian, Arizona, Florida, and Southeast) the value of skim components pooled as Class II, III, and IV are based on the Class III and IV skim price formulas and not the actual pounds of protein, other solids, and solids nonfat.

The current skim component factors were established in conjunction with federal order reform in 2000 based on the average skim components in producer milk at that time, 3.1% protein, 5.9% other solids, and 9.0% solids nonfat. These factors substantially understate the skim components in producer milk today. In 2022 the average skim components in FMMO orders were 3.39% protein, 6.02% other solids, and 9.41% solids nonfat. NAJ's proposal calls for updating the skim component factors annually, with a 12-month delay between announcement of the new factors and their implementation to accommodate risk management positions already in place by both processors and producers. For example, the average FMMO skim components for 2020 could be calculated in early 2021 and implemented for milk marketed in 2022. In 2020 the average skim components were 3.29% protein, 6.00% other solids, and 9.29% solids nonfat. Had these factors been in effect for milk marketed in 2022, the Class I price would have been $13.55 instead of $13.03. Updating the skim component factors annually will keep the Class III and IV skim milk price formulas more accurate in relation to actual components in producer milk. Furthermore, skim components can be expected to continue to increase due to ever-improving genetics, producer production quotas, and greater use of robotic milking systems.

NAJ argued that updating the skim component factors will help to reduce price inversions between Class I prices and Class III and IV values, thereby reducing incentives for manufacturing milk to disassociate (depool) from FMMOs. NAJ introduced Table 1 showing Class I skim prices, Class III and Class IV skim values, and volumes of Class III and Class IV milk pooled in 2021 and 2022. During 2021 the Class I skim milk price averaged $10.83, while Class III skim value averaged $11.13. As a result of Class III value being greater than the Class I price, only 37.5 billion pounds of Class III milk were pooled. Had NAJ's proposal been in effect the Class I skim price would have been $11.26, logically incentivizing more Class III milk to be pooled. The next year the average Class I skim price was $13.03 while the average Class III skim value was $11.36. As a result, nearly 82 billion pounds of Class III milk was pooled, an increase of 45 billion pounds.

The exact opposite scenario occurred with Class IV during 2021 and 2022. During 2021 average Class IV skim value was $9.83, a full dollar below the Class I price. Over 37 billion pounds of Class IV was pooled. The next year the Class IV skim value was $13.40 compared

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to the Class I price of $13.03. Consequently only 14.6 billion pounds of Class IV milk was pooled, a decline of 23 billion pounds. Had NAJ's proposal been in effect the Class I price would have been $13.55, and likely more Class IV would have been pooled. Two results of depooled milk are that it increases non-uniformity of prices paid by handlers and non-uniformity of prices paid to producers.

Updating the skim milk factors will bring Class II, III, and IV prices in the four fat-skim orders into better alignment with the component composition of the manufacturing milk being pooled in those orders. NAJ analyzed 2019 through 2022. In all four years Class II and IV milk in those orders averaged 9.20% SNF and higher, well above the current 9.00% standard. In addition, Class III protein averaged 3.22% and greater, again above the existing standard of 3.10%. As a result, all three manufacturing classes in the four fat-skim orders are priced below the value of their actual components. The most equitable solution to valuing components would be to expand multiple component pricing (MCP) to all federal orders as NAJ's second proposal stated. However, the USDA declined to include that proposal in this hearing characterizing it as being a regional, not a national, issue.

Comparison of Classes I, III, and IV Skim Values (at test)

	2021	2022
Class I skim (current)	10.83	13.03
Class I skim (proposed)	11.26	13.55
Class III protein %	3.22%	3.28%
Class III other solids %	5.78%	5.79%
Class III protein price	$ 2.7630	2.7238
Class III OS price	$ 0.3866	0.4188
Class III skim value	$ 11.13	$ 11.36
Class IV SNF %	9.01%	8.92%
Class IV SNF price	$ 1.0905	1.5021
Class IV skim value	$ 9.83	$ 13.40
Class III pooled	37,560,000,000	81,785,000,000
Class IV pooled	37,279,000,000	14,605,000,000
Sources:		
USDA Table 1, Milk Components by Class and Order 2008-2023		
USDA Table 4, Announcement of Advance Prices and Pricing Factors		
USDA Table 5, Announcement of Class and Component Prices		

A third reason to update skim component factors is to have pricing in the three southeastern orders to be more attractive for the supplemental milk needed to fill the area's fluid milk deficit. Orders 5, 6, and 7 do not produce enough milk to meet the Class I needs of the region. Supplemental milk must be attracted from the surrounding orders. However, the surrounding orders are priced on MCP, and average producer milk is well above the current skim factors. Therefore, the milk is worth more in the MCP orders than the fat-skim orders. Increasing the skim component factors to national averages will reduce or in some cases eliminate the gap between component content of the supplemental milk and

Updating the skim component factors will impact the skim milk price of all four Classes in the three fat-skim orders in the southeast thereby raising their statistical uniform prices by the full amount of the update. Updating the skim component factors will only affect the Class I price in the surrounding MCP orders supplying supplemental milk, and the resulting impact on their statistical uniform prices will be limited to the extent of each orders' Class I utilization. The result will be to minimize the differences in skim value between the MCP and skim-fat orders, thereby increasing the incentive for milk to move from the MCP orders to the fluid-deficit southeast orders.

However, at the end of the discussions, updating the skim solids factors will make the Class III and Class IV skim milk more accurate because producers have significantly increased the component content of milk. Continuing to price Class I milk using outdated component factors will lead to an ever-widening gap between Class I price and Class III and Class IV value, thus increasing the incentives for manufacturing milk not to participate in federal orders.

NAJ Milk & Component Outlook - *July 2023 Jersey Price Comparisons*

July '23 STATISTICAL BLEND PRICE

Northeast (Boston)	$18.23
Appalachian (Charlotte)	$19.85
Southeast (Atlanta)	$20.52
Florida (Tampa)	$21.91
Mideast (Cleveland)	$16.24
Upper Midwest (Chicago)	$14.18
Central (Kansas City)	$15.88
California (Los Angeles)	$15.53
Southwest (Dallas)	$16.33
Arizona (Phoenix)	$17.48
Pacific Northwest (Seattle)	$16.19
ALL FMMO MARKET AVERAGE	**$17.49**

Prices reflect Federal Order minimum blend prices for city shown.

July '23 MONTHLY MILK VOLUME (Million #)

Northeast (Boston)	2,323
Appalachian (Charlotte)	431
Southeast (Atlanta)	272
Florida (Tampa)	191
Mideast (Cleveland)	1,395
Upper Midwest (Chicago)	2,791
Central (Kansas City)	1,259
California (Los Angeles)	2,016
Southwest (Dallas)	1,084
Arizona (Phoenix)	417
Pacific Northwest (Seattle)	621
ALL FMMO MARKET TOTAL	**12,802**

Total Grade A milk volume sold under FMMO during month.

July '23 JERSEY REGULATED BLEND PRICE

Northeast (Boston)	$21.41
Appalachian (Charlotte)	$22.59
Southeast (Atlanta)	$23.15
Florida (Tampa)	$24.92
Mideast (Cleveland)	$18.22
Upper Midwest (Chicago)	$17.18
Central (Kansas City)	$19.02
California (Los Angeles)	$16.22
Southwest (Dallas)	$19.45
Arizona (Phoenix)	$20.22
Pacific Northwest (Seattle)	$18.63
ALL FMMO MARKET AVERAGE	**$20.09**

Prices reflect FMMO minimum prices at Jersey component values.

July, '23 JERSEY BLEND WITH ESTIMATED PROTEIN OR CHEESE YIELD PREMIUMS

Northeast (Boston)	$21.63
Appalachian (Charlotte) (includes protein prem.)	$22.91
Southeast (Atlanta)	$23.15
Florida (Tampa)	$24.92
Mideast (Cleveland) (includes protein premium)	$18.65
Upper Midwest (Chicago) (includes cy premium)	$17.41
Central (Kansas City)	$19.02
California (Los Angeles)	$16.22
Southwest (Dallas)	$19.45
Arizona (Phoenix) (includes protein)	$20.52
Pacific Northwest (Seattle)	$18.63
ALL FMMO MARKET AVERAGE	**$20.23**

Includes a protein premium of $0.05 for every 0.01% increase in protein over the market average.

July '23 DOLLAR DIFFERENCE: JERSEY MILK WITH PREMIUMS VS. STATISTICAL BLEND PRICE

Northeast (Boston)	$3.40
Appalachian (Charlotte)	$3.06
Southeast (Atlanta)	$2.63
Florida (Tampa)	$3.01
Mideast (Cleveland)	$2.41
Upper Midwest (Chicago)	$3.23
Central (Kansas City)	$3.14
California (Los Angeles)	$0.69
Southwest (Dallas)	$3.12
Arizona (Phoenix)	$3.04
Pacific Northwest (Seattle)	$2.44
ALL FMMO MARKET AVERAGE	**$2.74**

Prices reflect difference between Jersey price with premiums, and the statistical blend price.

July '23 PERCENT DIFFERENCE: JERSEY MILK WITH PREMIUMS VS. STATISTICAL BLEND PRICE

Northeast (Boston)	18.6%
Appalachian (Charlotte)	15.4%
Southeast (Atlanta)	12.8%
Florida (Tampa)	13.7%
Mideast (Cleveland)	14.8%
Upper Midwest (Chicago)	22.8%
Central (Kansas City)	19.8%
California (Los Angeles)	4.4%
Southwest (Dallas)	19.1%
Arizona (Phoenix)	17.4%
Pacific Northwest (Seattle)	15.1%
ALL FMMO MARKET AVERAGE	**15.8%**

Percent difference in Jersey price with premiums, over the statistical blend price.

ESTIMATED JERSEY MILK COMPOSITION	Jul-23
Butterfat	4.83
TRUE Protein	3.75
Other Solids	5.73
Solids Not Fat (SNF)	9.48
Cheese Yield (90% Fat Recovery, 38% Moisture)	12.94
CME Block Cheese Price	$ 1.40

REGULATED MILK PRICES	Jul-23
FMMO Milkfat	$ 2.7605
FMMO True Protein	$ 1.5144
FMMO Other Solids	$ 0.1266

AVERAGE JERSEY PRICE ADJUSTMENT PER CWT:	Jul-23
FMMO Milkfat Adjustment	$2.50
FMMO True Protein Adjustment	$0.87
FMMO Other Solids Adjustment	($0.01)

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NAJ Milk & Component Outlook - *2023 Prices through July*

2023 AVERAGE STATISTICAL BLEND PRICE FOR EACH FEDERAL ORDER

Northeast (Boston)	$19.79
Appalachian (Charlotte)	$21.65
Southeast (Atlanta)	$22.19
Florida (Tampa)	$23.82
Mideast (Cleveland)	$18.51
Upper Midwest (Chicago)	$17.26
Central (Kansas City)	$18.13
California (Los Angeles)	$18.21
Southwest (Dallas)	$18.87
Arizona (Phoenix)	$19.07
Pacific Northwest (Seattle)	$18.16
ALL FMMO MARKET AVERAGE	**$19.61**

Prices reflect Federal Order minimum blend prices for city shown.

2023 MILK VOLUME (Million #)

Northeast (Boston)	16,098
Appalachian (Charlotte)	3,259
Southeast (Atlanta)	2,105
Florida (Tampa)	1,447
Mideast (Cleveland)	10,495
Upper Midwest (Chicago)	19,588
Central (Kansas City)	9,727
California (Los Angeles)	16,101
Southwest (Dallas)	8,174
Arizona (Phoenix)	3,082
Pacific Northwest (Seattle)	4,642
ALL FMMO MARKET TOTAL	**94,718**

Total Grade A milk volume sold under FMMO.

2023 AVERAGE JERSEY REGULATED BLEND PRICE

Northeast (Boston)	$23.95
Appalachian (Charlotte)	$25.11
Southeast (Atlanta)	$25.67
Florida (Tampa)	$27.43
Mideast (Cleveland)	$22.78
Upper Midwest (Chicago)	$21.34
Central (Kansas City)	$22.05
California (Los Angeles)	$19.90
Southwest (Dallas)	$22.73
Arizona (Phoenix)	$22.50
Pacific Northwest (Seattle)	$21.36
ALL FMMO MARKET AVERAGE	**$23.16**

Prices reflect FMMO minimum prices at Jersey component values.

2023 AVERAGE JERSEY BLEND WITH ESTIMATED PROTEIN OR CHEESE YIELD PREMIUMS

Northeast (Boston)	$24.23
Appalachian (Charlotte) (includes protein prem.)	$25.49
Southeast (Atlanta)	$25.67
Florida (Tampa)	$27.43
Mideast (Cleveland) (includes protein premium)	$23.31
Upper Midwest (Chicago) (includes cy premium)	$21.62
Central (Kansas City)	$22.05
California (Los Angeles)	$19.90
Southwest (Dallas)	$22.73
Arizona (Phoenix) (includes protein)	$22.88
Pacific Northwest (Seattle)	$21.36
ALL FMMO MARKET AVERAGE	**$23.33**

Includes a protein premium of $0.05 for every 0.01% increase in protein over the market average.

2023 AVERAGE DOLLAR DIFFERENCE: JERSEY MILK WITH PREMIUMS VS. STATISTICAL BLEND PRICE

Northeast (Boston)	$4.16
Appalachian (Charlotte)	$3.24
Southeast (Atlanta)	$2.97
Florida (Tampa)	$3.35
Mideast (Cleveland)	$4.46
Upper Midwest (Chicago)	$3.88
Central (Kansas City)	$3.63
California (Los Angeles)	$1.38
Southwest (Dallas)	$3.52
Arizona (Phoenix)	$3.56
Pacific Northwest (Seattle)	$2.92
ALL FMMO MARKET AVERAGE	**$3.37**

Prices reflect difference between Jersey price with premiums, and the statistical blend price.

2023 AVERAGE PERCENT DIFFERENCE: JERSEY MILK WITH PREMIUMS VS. STATISTICAL BLEND PRICE

Northeast (Boston)	20.7%
Appalachian (Charlotte)	14.6%
Southeast (Atlanta)	13.0%
Florida (Tampa)	13.9%
Mideast (Cleveland)	23.6%
Upper Midwest (Chicago)	21.9%
Central (Kansas City)	19.7%
California (Los Angeles)	7.4%
Southwest (Dallas)	18.3%
Arizona (Phoenix)	18.4%
Pacific Northwest (Seattle)	15.9%
ALL FMMO MARKET AVERAGE	**17.0%**

Percent difference in Jersey price with premiums, over the statistical blend price.

ESTIMATED JERSEY MILK COMPOSITION	2023
Butterfat	4.97
TRUE Protein	3.86
Other Solids	5.73
Solids Not Fat (SNF)	9.59
Cheese Yield (90% Fat Recovery, 38% Moisture)	13.32
CME Block Cheese Price	$1.74

REGULATED MILK PRICES	2023
FMMO Milkfat	$2.7480
FMMO True Protein	$2.0933
FMMO Other Solids	$0.1870

AVERAGE JERSEY PRICE ADJUSTMENT PER CWT:	2023
FMMO Milkfat Adjustment	$2.43
FMMO True Protein Adjustment	$1.16
FMMO Other Solids Adjustment	($0.01)

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