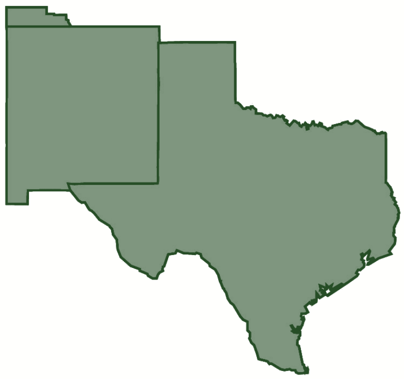


The Market Administrator's BULLETIN

SOUTHWEST MARKETING AREA

Cary Hunter, Market Administrator

August 2022 Federal Order No. 126

Market Overview

Producers who delivered milk to handlers located in Dallas/Tarrant counties (TX) received a July statistical uniform price of $24.80 for milk testing 3.5% butterfat, 2.99% true protein, 5.69% other solids and 350,000 SCC. This is an decrease in comparison to the statistical uniform price of $26.04 in June.

The Producer Price Differential (PPD) for milk delivered to handlers located in Dallas/Tarrant counties (TX) of the Southwest Milk Market Order was $2.28 for July. The July Class I price unchanged from $28.87 in June to the July level of $28.87. The Class II price increased $0.01 from $26.65 in June to $26.66 in July. The Class III price decreased $1.81 from $24.33 in June to $22.52 in July. The Class IV price decreased $ 0.04 from $25.83 in June to $25.79 in July.

In July, 358 producers delivered a total of 1,077,855,431 pounds of milk. On a daily basis, this represents a decrease of 4.47 percent from the producer receipts level in June and an increase of 3.20 percent when compared to the producer receipts level of July 2021.

Producer milk classified as Class I during July amounted to 26.50 percent of total producer receipts. This figure is down from 26.81 percent in June and down from 28.53 percent in July 2021. The average butterfat test of producer milk pooled during July was 3.938 percent, average protein test was 3.168 percent, average other solids test was 5.786 percent, and the average somatic cell count was 215,000.

The July butterfat price increased $0.0277 from $3.3323 in June to the July level of $3.3600. The protein price decreased $0.5057 from $3.4173 in June to $2.9116 in July. The other solids price decreased $0.0699 from $0.4295 in June to $0.3596 in July. The somatic cell adjustment rate in July was 0.00110 per cwt.

July 2022 Pool Summary

- ✦ The Statistical Uniform Price for the Southwest Order in July 2022 is $24.80 with a PPD of $2.28
- ✦ 1,078 million pounds were pooled in July. This is down 4.47 percent on a daily basis from June 2022
- ✦ 358 producers pooled their milk; this is up from 345 in June
- ✦ Class I milk accounted for 26.50 percent of all receipts, down from 26.81 in June

Classification of Producer Milk

	Price	*Pounds*	*Percent*
Class I	28.87	285,645,844	26.81
Class II	26.66	57,874,276	5.16
Class III	22.52	719,977,370	65.69
Class IV	25.79	14,357,941	2.34

Producer Prices

Statistical Uniform Price	$24.80	/ cwt
Producer Price Differential	$2.28	/ cwt
Butterfat Price	$3.3600	/ lb
Protein Price	$2.9116	/ lb
Other Solids Price	$0.3596	/ lb
Nonfat Solids Price	$1.6160	/ lb
Somatic Cell Adjustment Rate	$0.00110	/ cwt

To Cull or Not to Cull?

Few economic phenomena impact all industries with such wide-reaching effects as inflation, and the dairy industry is no exception. With prices rising across all sectors of the economy, dairy farmers face the choice of elevating dairy cow slaughter beyond rates necessary for herd maintenance or bearing the rising production costs to maintain dairy production. In this article, we will look at the slaughter and cull price trends since 2000, with a particular focus on 2022.

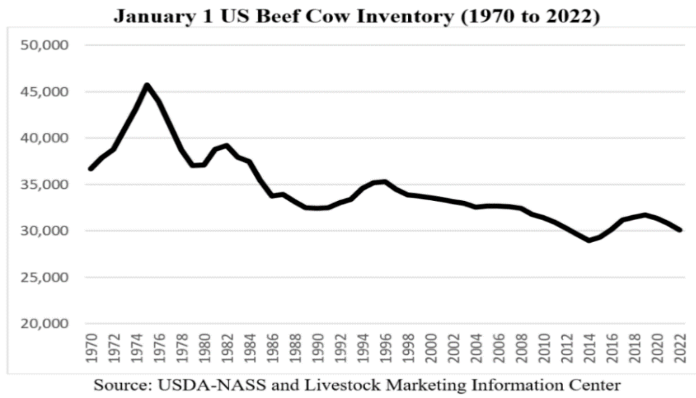


Figure 1: Beef Cow Inventories

To get an idea of the slaughter market, we looked at beef cow inventories (Figure 1). Beef herd size continued its 50-year gradual downward trend in 2022, with herd sizes in January down about 2% from January 2021. According to Beef Magazine, heifers followed a similar 2% decrease from 2021, suggesting that this decline in beef inventory will persist into the coming years. If demand holds and there is decline in supply over the short to medium term, this could trigger a rise in prices as the market moves to a new equilibrium. Figures 1 and 2 demonstrate this effect graphically. Figure 2 shows similarities between 2022 and 2011 when drought forced an increase in total cattle slaughter and a concurrent rise in prices that persisted as herds recovered.

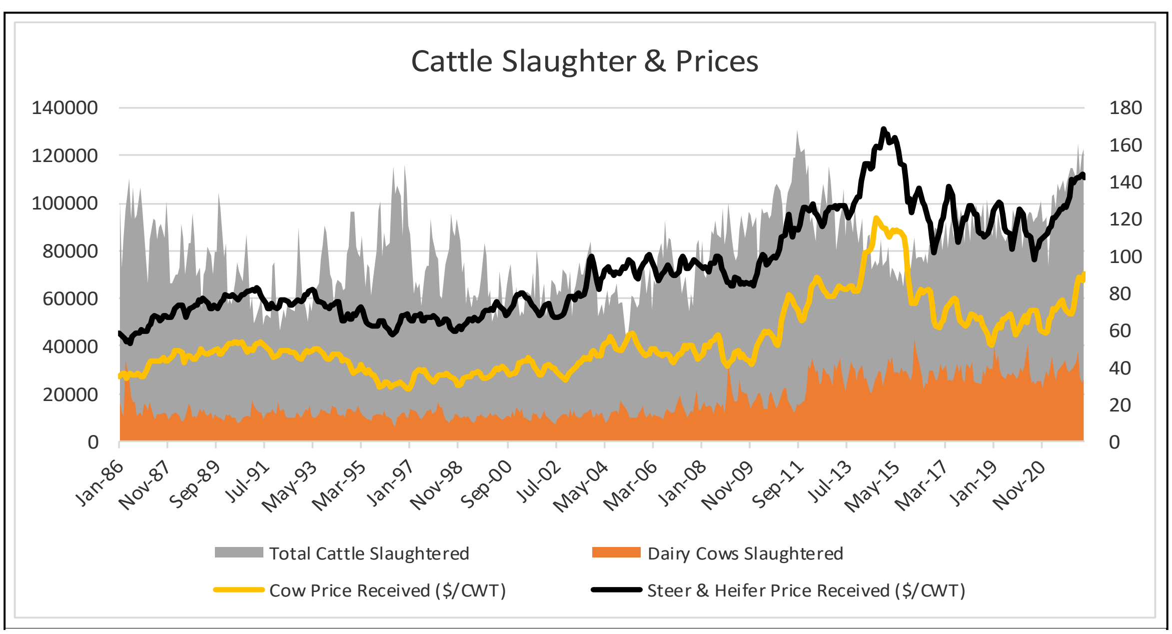


Figure 2: Slaughter Numbers and Prices for Region 6 (Texas, New Mexico, Oklahoma, Arkansas, and Louisiana)
Source: NASS data

Reporting by Bloomberg suggests that consumer beef prices are projected to follow a similar trend to 2011, at least for the near future, with nominal average prices reaching among the highest levels recorded since the 1980's when NASS's data series began. Given these market forces, economy wide inflation above 8% and particularly acute inflation in agricultural and food markets (Bureau of Labor Statistics), dairy farmers face a choice between keeping the milking herd numbers steady/growing or to cull larger volumes of cows.

Despite the average cull price per hundredweight increasing around 18.7% in 2022 relative to 2021—the 2021 prices themselves being a relative increase of 7.5% from the 2020 prices—dairy cow slaughter remains relatively stable and has been since 2011. These trends may not persist if the milk price-feed cost margin declines (USDA Agricultural Report). Dairy prices, as seen in Figure 3, remain high along with dairy cow slaughter prices, combatting the incentive for premature dairy cull, though this may change if the milk-feed margin declines and the non-dairy beef stock decreases further affecting dairy cull prices.

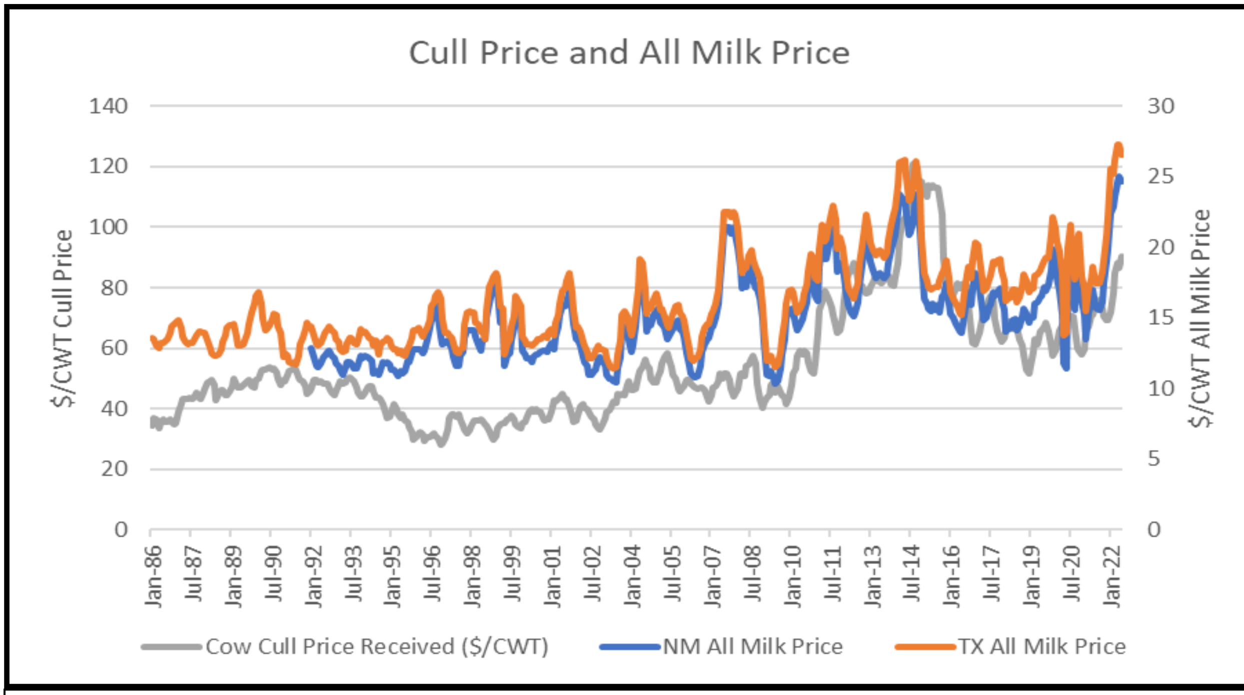
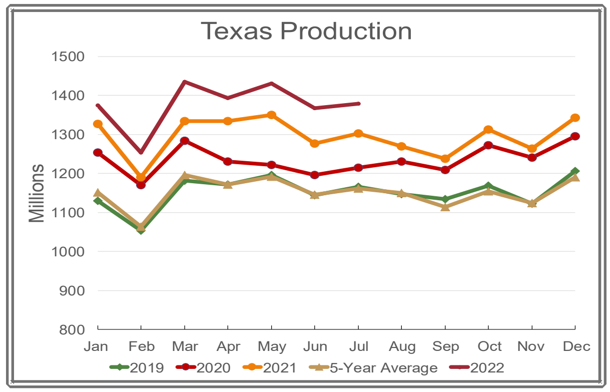


Figure 3: All milk price and dairy cow cull price for Texas and New Mexico
Source: NASS data

AgriLife Today writes that drought conditions further exasperate the beef inventory declines already present in the US beef stock, especially in Texas, where ranchers "have culled earlier and deeper than normal. "These unexpected culls combine with the "record low number of replacement heifers" relative to the rest of the herd, increasing the timeframe of herd recovery beyond that of even 2011. Compounding with these domestic environmental shocks, global agricultural shocks caused by Russia's invasion of Ukraine further worsen projections. Worldwide fertilizer shortfalls feed into rising input prices, with the war's impacts "likely to take a heavier toll on 2023 agricultural production decisions," according to the USDA Foreign Agricultural Service. Should these conditions continue or worsen, our Southwest dairy farmers will have some tough decisions to make.

Texas Dairy Production

In July, Texas dairy production totaled 1,379 million pounds. This is a 6.00 percent increase relative to July 2021 and a 18.8 percent increase from the July five year average (2017-2021). The July average butterfat for Texas production is 4.09 percent, the average protein is 3.24 percent, and the average other solids at 5.80 percent. The average somatic cell count is at 216,000.



Month	2022 Number of Producers	2022 Pounds (In Thousands)	2021 Pounds (In Thousands)	% Change from 2021/2022	2022 Butterfat	2022 Protein	2022 Other Solids	2022 SCC (In Thousands)
Jan	326	1,374,644	1,327,361	3.56	4.42	3.49	5.78	181
Feb	326	1,253,077	1,203,149	4.15	4.42	3.47	5.79	182
Mar	324	1,434,529	1,343,659	6.76	4.37	3.44	5.78	173
Apr	323	1,392,807	1,333,803	4.42	4.27	3.39	5.79	171
May	321	1,429,818	1,350,465	5.88	4.19	3.32	5.81	173
Jun	319	1,366,949	1,277,426	7.01	4.12	3.28	5.81	186
Jul	319	1,379,074	1,301,047	6.00	4.09	3.24	5.80	216
Aug			1,268,705					
Sep			1,236,659					
Oct			1,312,910					
Nov			1,264,214					
Dec			1,341,794					
Total		**9,630,898**	**15,561,192**					

1/ Revised

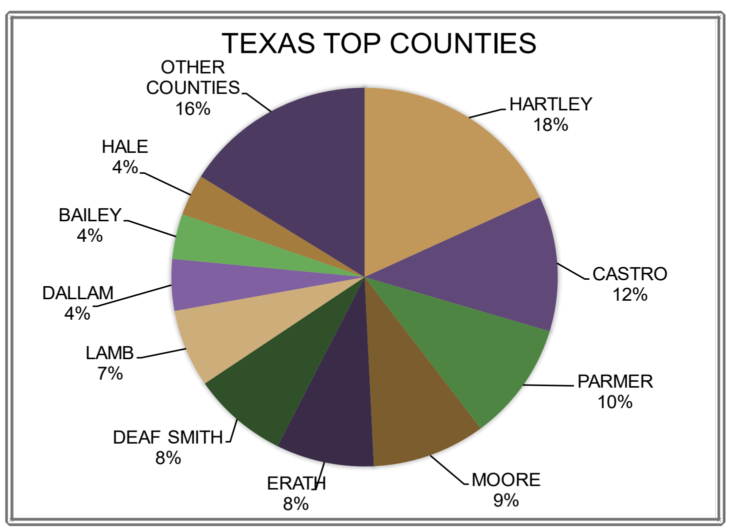
2/ Simple Average of Total

Top Texas Counties

Hartley County has the largest share of Texas production at 18 percent, followed by Castro and Parmer Counties at 12 and 10 percent, respectively. Overall, 319 producers delivered milk in Texas for the month of July.

County	Number of Producers	July 2022 Pounds	% Change 2021/2022
HARTLEY	19	249,342,734	1.49
CASTRO	15	159,119,689	15.96
PARMER	16	139,588,737	6.05
MOORE	10	130,913,906	23.41
ERATH	45	113,129,855	6.74
DEAF SMITH	15	111,150,775	6.26
LAMB	13	91,574,077	2.80
DALLAM	5	60,662,580	4.66
BAILEY	10	53,001,998	5.70
HALE	6	48,761,158	(7.21)
SUM	154	1,157,245,509	7.06
OTHER COUNTIES	165	221,828,919	0.78
TEXAS TOTAL	319	1,379,074,428	6.00

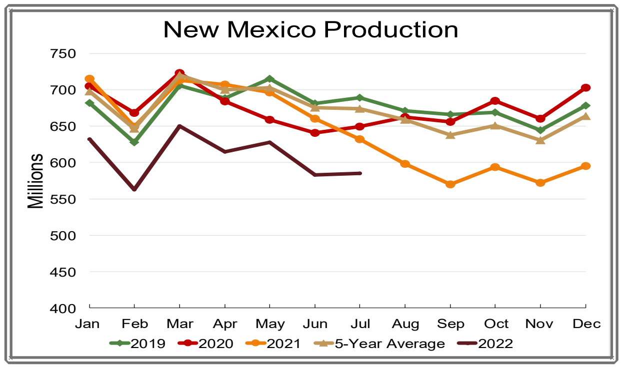
1/ Revised



Click HERE for more information on Texas Milk Production

New Mexico Dairy Production

In July, New Mexico dairy production totaled 585 million pounds. This is a 7.49 percent decrease relative to July 2021 and a 13.20 percent decrease from the July five year average (2017-2021). The July average butterfat is 3.73 percent, the average protein is 3.07 percent, and the average other solids at 5.78 percent. The average somatic cell count is at 203,000.



Month	2022 Number of Producers	2022 Pounds (In Thousands)		2021 Pounds (In Thousands)	% Change from 2021/2022	2022 Butterfat	2022 Protein	2022 Other Solids	2022 SCC (In Thousands)
Jan	109	632,112		714,908	(11.58)	4.03	3.33	5.79	171
Feb	109	563,156		649,004	(13.23)	4.02	3.31	5.79	175
Mar	109	650,082		712,738	(8.79)	3.94	3.28	5.78	161
Apr	110	614,872		706,687	(12.99)	3.85	3.23	5.78	156
May	107	628,012		696,133	(9.79)	3.78	3.17	5.80	153
Jun	105	583,485	1/	660,067	(11.60)	3.74	3.12	5.81	165
Jul	106	584,911		632,273	(7.49)	3.73	3.07	5.78	203
Aug				597,982					
Sep				570,133					
Oct				594,320					
Nov				571,659					
Dec				595,152					
Total		**4,256,630**		**7,701,056**					

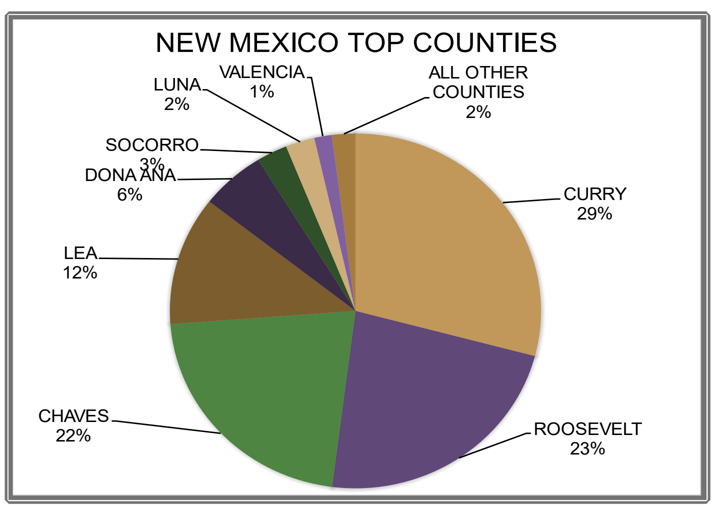
1/ Revised
2/ Simple Average of Total

Top New Mexico Counties

Curry County has the largest share of New Mexico production at 29 percent, followed by Chaves and Roosevelt Counties at 23 and 22 percent, respectively. Overall, 106 producers delivered milk in New Mexico for the month of July.

County	Number of Producers	July 2022 Pounds	% Change 2021/2022
CURRY	23	170,212,263	0.61
ROOSEVELT	31	134,059,484	(4.23)
CHAVES	22	127,475,339	(8.00)
LEA	10	68,769,696	(1.77)
DONA ANA	7	33,048,490	(14.61)
SOCORRO	4	15,660,114	(18.22)
LUNA	3	14,846,615	20.08
VALENCIA	3	8,907,094	(55.39)
SUM	103	572,979,095	(5.74)
OTHER COUNTIES	3	11,931,920	(51.04)
NM TOTAL	106	584,911,015	(7.49)

1/ Revised



Click HERE for more information on New Mexico Milk Production

COMPUTATION OF PRODUCER PRICE DIFFERENTIAL

July 2022

			Pounds	Price	Value
Add:	Class I Differential				$462,743.27
	Class I Butterfat	60(a)	7,145,207	$ 3.3843	$24,181,524.05
	Class I Skim Per Cwt		278,500,637	$17.6400	$49,127,512.36
	Class II Butterfat	60(b)	6,030,507	$ 3.3670	$20,304,717.10
	Class II Nonfat Solids		4,808,377	$ 1.7133	$8,238,192.33
	Class III Butterfat	60(c)	27,616,713	$ 3.3600	$92,792,155.68
	Class III Protein		22,914,257	$ 2.9116	$66,717,150.68
	Class III Other Solids		41,755,270	$ 0.3596	$15,015,195.11
	Class IV Butterfat	60(d)	1,655,934	$ 3.3600	$5,563,938.24
	Class IV Nonfat Solids		1,183,437	$ 1.6160	$1,912,434.21
	Class II, III, & IV Somatic Cell Adjustment	60(e)			$1,680,341.08
	Total Producer Milk- Product Pounds and Value		1,077,855,431		$285,513,114.08
Add:	Value as for 60(f) thru 60(j)				$41,068.70
Less:	Total Protein Pounds	61(b)	34,151,627	**$ 2.9116**	$99,435,877.18
	Total Other Solids Pounds		62,366,568	**$ 0.3596**	$22,427,017.87
	Total Butterfat Pounds		42,448,361	**$ 3.3600**	$142,626,492.96
	Total Value of Somatic Cell Adjustment				$1,600,762.19
	Total Milk and Value		1,077,855,431		$19,464,032.58
Add:	Location Differential Adjustments	61(c)			$5,196,545.27
	Producer - Settlement Fund Reserve	61(d)			$450,461.59
	Total Product Milk/URSP and Value		1,077,855,431	$ 2.32972	$25,111,039.44
Less:	Producer - Settlement Fund Reserve	61(f)		$ 0.04972	$535,935.61
	Producer Price Differential (Dallas County)			$2.28	$24,575,103.83

Total Value of Milk in Pool

Value of Milk in Pool after Producer Milk Value of $294,367,749.083 is removed

Remaining value from which PPD per cwt is calculated

PPD per cwt

Producer Milk Utilization Percentages						
	Product		Butterfat		Skim Milk	
	Pounds	Percent	Pounds	Percent	Pounds	Percent
Class I	285,645,844	26.50	7,145,207	16.83	278,500,637	26.90
Class II	57,874,276	5.37	6,030,507	14.21	51,843,769	5.01
Class III	719,977,370	66.80	27,616,713	65.06	692,360,657	66.86
Class IV	14,357,941	1.33	1,655,934	3.90	12,702,007	1.23
Total	1,077,855,431	100.00	42,448,361	100.00	1,035,407,070	100.00

Producer Milk Components				
	Butterfat	Protein	Other Solids	Nonfat Solids
Total Pounds	42,448,361	34,151,627	62,366,568	96,518,195
Average Test	3.938%	3.168%	5.786%	8.954%

Federal Order Prices

Federal Order	Statistical Uniform	Statistical Uniform	PPD	PPD	Class I Utilization	Class I Utilization
	Jul-22	Jun-22	Jul-22	Jun-22	Jul-22	Jun-22
Appalachian - F.O. 5	28.14	28.52	N/A	N/A	67.94	66.43
Arizona - F.O. 131	25.44	26.22	N/A	N/A	25.62	24.69
Central - F.O. 32	24.31	25.37	1.79	1.04	24.90	26.19
Florida - F.O. 6	30.29	30.60	N/A	N/A	81.30	81.14
Mideast - F.O. 33	24.70	24.33	2.18	1.45	35.70	34.90
Northeast - F.O. 1	26.36	26.98	3.84	2.65	26.90	27.50
Pacific NW - F.O. 124	24.48	25.39	1.96	1.06	19.06	20.52
California - F.O. 51	24.70	25.59	2.18	1.26	35.70	22.60
Southeast - F.O. 7	28.71	28.74	N/A	N/A	69.88	62.24
Southwest - F.O. 126	24.80	26.04	2.28	1.71	26.50	26.81
Upper Midwest - F.O. 30	22.93	24.63	0.41	0.30	6.00	6.60

Useful links:

Agricultural Marketing Service (AMS) Dairy Website: https://www.ams.usda.gov/rules-regulations/moa/dairy

Federal Order Websites: https://www.ams.usda.gov/rules-regulations/moa/dairy/mmadmin

Dairy Market News: https://www.ams.usda.gov/market-news/dairy-market-news-weekly-printed-reports

National Agriculture Statistics Service (NASS): https://www.nass.usda.gov/

Economic Research Service: https://www.ers.usda.gov/

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