

The Market Administrator's BULLETIN

SOUTHWEST MARKETING AREA

Cary Hunter, Market Administrator

March 2021

Federal Order No. 126

Market Overview

Producers who delivered milk to handlers located in Dallas/Tarrant counties (TX) received a February statistical uniform price of \$14.64 for milk testing 3.5% butterfat, 2.99% true protein, 5.69% other solids and 350,000 SCC. This is a decrease in comparison to the statistical uniform price of \$14.90 in January.

The Producer Price Differential (PPD) for milk delivered to handlers located in Dallas/Tarrant counties (TX) of the Southwest Milk Market Order was (\$1.11) for February. The February Class I price increased \$0.40 from \$18.14 in January to the February level of \$18.54. The Class II price decreased \$0.18 from \$14.18 in January to \$14.00 in February. The Class III price decreased \$0.29 from \$16.04 in January to \$15.75 in February. The Class IV price decreased \$0.56 from \$13.75 in January to \$13.19 in February.

In February, 467 producers delivered a total of 941,055,923 pounds of milk. On a daily basis, this represents a decrease of 0.97 percent from the producer receipts level in January as well as a increase of 0.36 percent when compared to the producer receipts level of February 2020.

Producer milk classified as Class I during February amounted to 32.05 percent of total producer receipts. This figure is down from 34.01 percent in January and from 35.51 percent in February 2020. The average butterfat test of producer milk pooled during February was 4.246 percent, average protein test was 3.368 percent, average other solids test was 5.789 percent, and the average somatic cell count was 216,000.

The February butterfat price decreased \$0.1165 from \$1.5541 in January to the February level of \$1.4376. The protein price decreased \$0.0539 from \$3.0355 in January to \$2.9816 in February. The other solids price increased \$0.0479 from \$0.2682 in January to \$0.3161 in February. The somatic cell adjustment rate in February was 0.00080 per cwt.

February 2021 Pool Summary

- ◆ The Statistical Uniform Price for the Southwest Order in February 2021 is \$14.64 with a PPD of (\$1.11)
- ◆ 941 million pounds were pooled in February. This is down 0.97 percent from January 2021
- ◆ 467 producers pooled their milk; this is up from 441 in January
- ◆ Class I milk accounted for 32.05 percent of all receipts, down from 34.01 in January

Classification of Producer Milk

	<i>Price</i>	<i>Pounds</i>	<i>Percent</i>
Class I	18.54	301,645,463	32.05
Class II	14.00	91,634,663	9.74
Class III	15.75	28,563,335	3.04
Class IV	13.19	519,212,462	55.17

Producer Prices

Statistical Uniform Price	\$14.64	/ cwt
Producer Price Differential	(\$1.11)	/ cwt
Butterfat Price	\$1.4376	/ lb
Protein Price	\$2.9816	/ lb
Other Solids Price	\$0.3161	/ lb
Nonfat Solids Price	\$0.9391	/ lb
Somatic Cell Adjustment Rate	\$0.00080	/ cwt

Looking Ahead to 2021 and Beyond

Dairy markets are incredibly difficult to predict in a normal year; add in a global pandemic and a once in a generation winter storm, and it becomes seemingly impossible. Nevertheless, organizations such as Texas A&M's Agricultural and Food Policy Center ([AFPC](#)), University of Missouri's Food and Agriculture Policy Research Institute ([FAPRI](#)), and USDA's World Agricultural Supply and Demand Estimates ([WASDE](#)) publish baseline projections for crop, dairy, and livestock markets. The WASDE and FAPRI are both national in scope and focus on projecting agricultural trade, aggregated financial indicators, and individual commodity markets over a ten-year period; for the dairy industry, some of these factors include milk production, yield per cow, herd size, and the all-milk price. AFPC's baseline focuses on farm-level financial indicators across different production regions and farm sizes over a five-year period.

Milk Production

Milk Production averaged 216 billion pounds from 2015-2020, increasing around 1.3 percent year over year. According to the FAPRI and WASDE baselines, milk production is expected to continue this upward trend through 2025 (Figure 1). The WASDE and FAPRI projections are almost identical, differing by less than 1 percent. The milk yield per cow follows the same increasing trend as milk production, as the two are highly correlated. The FAPRI and WASDE baselines project the average milk yield per cow to be 24,423 and 24,429, respectively, from 2020-2025.

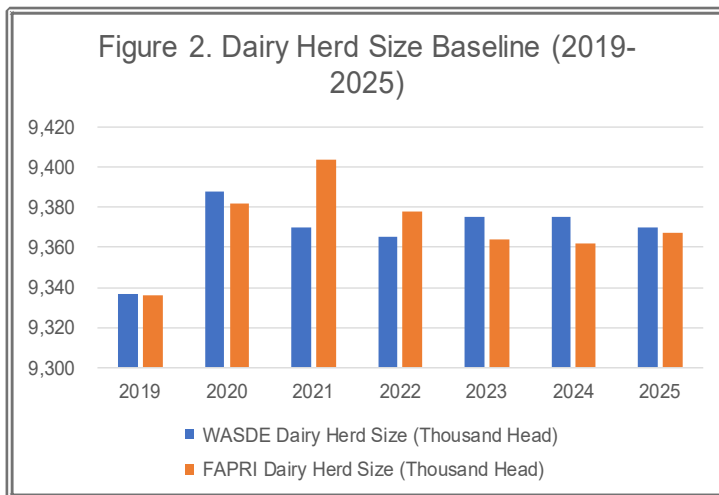
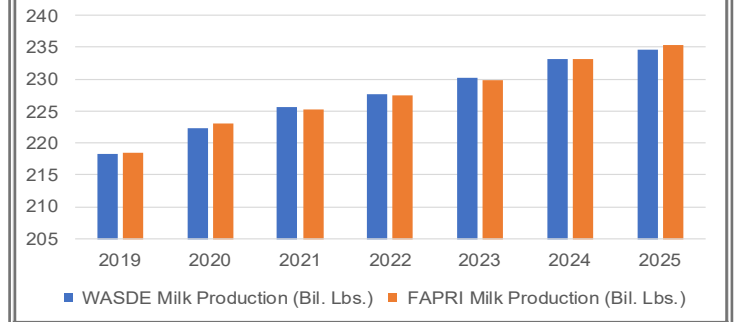


Figure 1. Milk Production Baseline (2019-2025)



FAPRI projects that the national dairy herd will increase by 22,000 cows in 2021; following this sharp increase, the herd is expected to decline slightly through 2024 before increasing slightly in 2025. WASDE projects an 18,000-cow decrease in 2021 and will continue falling until 2022. After this decline, the herd is projected to rise in 2023 and will remain relatively stable through 2025.

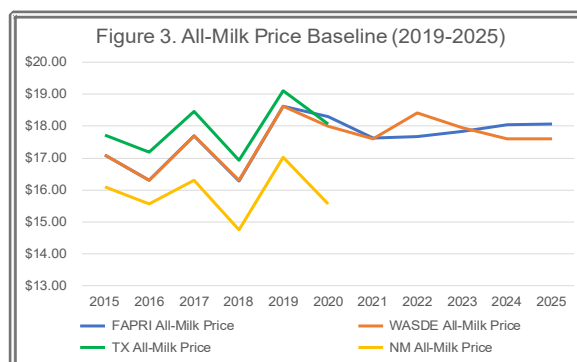
Since 2018, Texas' milk production has seen a meteoric rise ([Hoard's Dairyman](#)). Over this two

-year period, Texas has increased production by 2 billion pounds, while also increasing its herd size by 58,000 cows. This evidence suggests that Texas will continue as a top dairy state and move even higher up the rankings as a major contributor to the rising national milk production in the coming years. New Mexico's milk production increased from 2015-2018 but decreased slightly in 2019 and 2020. It remains to be seen whether milk production will resume its upward trend or continue to decline.

Milk Price

The NASS all-milk price baseline from FAPRI and WASDE track relatively close for 2020 and 2021. The WASDE baseline indicates a higher milk price in 2022, while FAPRI projects a higher price from 2023 until 2025. Over the 2020-2025 period, FAPRI and WASDE project NASS all-milk price averages around \$17.92 and \$17.86, respectively.

The Texas All-milk price was \$0.50 higher on average than the national price from 2015-2020; New Mexico averaged \$1.40 below the national price during the same period. Historically, the Texas and New Mexico All-Milk prices have followed this trend, so it is expected that this will continue over the next five years. Therefore, using the WASDE milk price, we expect Texas will average \$18.42 and New Mexico will average \$16.52 over the 2020-2025 period.



Farm Financials

The Agricultural and Food Policy Center (AFPC) at Texas A&M publishes a baseline that projects the financial performance of 94 representative crop, dairy, and livestock operations across 30 states. AFPC uses a farm-level simulation model to project financial conditions of representative farms based on data provided by panels of farmers in major production regions. The AFPC maintains representative dairy farms in three different regions of Texas: North Texas, a 3,800-cow operation in Bailey County (TXND3800), Central Texas, a 1,500-cow operation in Erath County (TXCD1500), and East Texas, a 400-cow operation in Hopkins County (TXED400). As described below, the

Cost to Receipts Ratio (%)	TXND3800	TXCD1500	TXED400
2020-2025 Average	86.28	120.64	108.6
Government Payments/Receipts (%)	0.71	1.21	5.62
2020-2025 Average			
Percentage of Acres Owned	100%	59%	50%
Percentage of Acres Leased	0%	41%	50%

Net Cash Farm Income (\$1000)			
	TXND3800	TXCD1500	TXED400
2019	3,784.77	(144.61)	82.12
2020	2,075.86	(1012.76)	(5.17)
2021	2,138.09	(1123.54)	(18.81)
2022	2,251.57	(1220.01)	(25.40)
2023	2,435.44	(1281.25)	(38.85)
2024	2,436.56	(1402.39)	(53.69)
2025	2,331.51	(1623.11)	(133.09)
Ending Cash Reserves (\$1000)			
	TXND3800	TXCD1500	TXED400
2019	1,907.79	(2,546.55)	(216.48)
2020	3,000.17	(3,931.03)	(381.04)
2021	4,124.45	(5,427.16)	(543.89)
2022	5,309.25	(7,001.89)	(710.48)
2023	6,669.45	(8,663.72)	(896.25)
2024	7,937.02	(10,445.88)	(1,103.71)
2025	9,200.07	(12,456.98)	(1,334.08)

general projections across Texas are as varied as Texas itself. Many factors play into these projections including initial financial condition, land ownership, location, and operating costs.

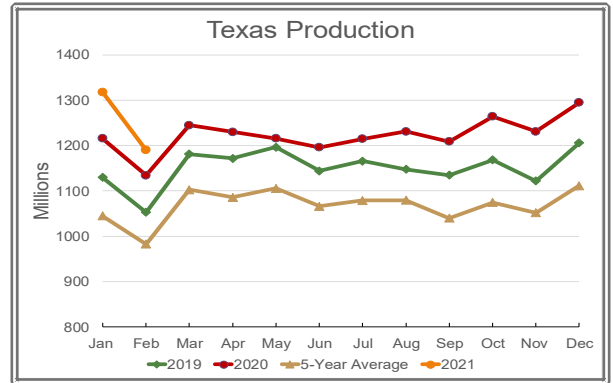
The current baseline projects total cash receipts for these farms to either increase or remain stable from 2020 to 2025. However, with differing operating costs between the farms, the cost-to-receipts ratio for these representative farms range from 87 to 121, meaning that it costs between 87 cents and \$1.21 to earn \$1 of revenue (Table1). It is projected that the North Texas representative farm will have an average net cash farm income of \$2.5 million and ending cash reserves of \$5.5 million between 2020-2025 (Table 2). This representative farm benefits from owning 100 percent of its farmland and growing corn and wheat for their silage needs. The baseline projects the North Texas farm will have a low cost-to-receipts ratio, which potentially stems from higher economies of scale.

The Central and East Texas representative farms are projected to have negative net cash farm income and ending cash reserves from 2020-2025. The cost-to-receipts ratio for these farms are higher than North Texas with both ratios above 100 percent. The results for the representative farms are based on the assumptions used in the AFPC baseline model and can be found in the [AFPC Baseline Report](#).

Baselines are useful in identifying long-term trends across the agricultural industry, and more specifically, the dairy industry. While short-term economic shocks, such as Covid-19, are virtually impossible to predict, seeing where the market is projected under normal circumstances is informative.

Texas Dairy Production

In February, Texas dairy production totaled 1,190 million pounds. This is a 1.70 percent increase relative to February 2020 and a 21.1 percent increase from the February five year average (2016-2020). The February average butterfat for Texas production is 4.36 percent, the average protein is 3.42 percent, and the average other solids at 5.80 percent. The average somatic cell count is at 221,000.



Month	2021 Number of Producers	2021 Pounds (In Thousands)	2020 Pounds (In Thousands)	% Change from 2020/2021	2021 Butterfat	2021 Protein	2021 Other Solids	2021 SCC (In Thousands)
Jan	347	1,318,082	1,253,665	5.14	4.36	3.44	5.78	195
Feb	345	1,189,774	1,169,904	1.70	4.36	3.42	5.80	221
Mar			1,283,200					
Apr			1,230,411					
May			1,221,048					
Jun			1,195,801					
Jul			1,215,313					
Aug			1,230,660					
Sep			1,208,695					
Oct			1,263,531					
Nov			1,231,430					
Dec			1,295,286					
Total		2,507,856	14,798,944					

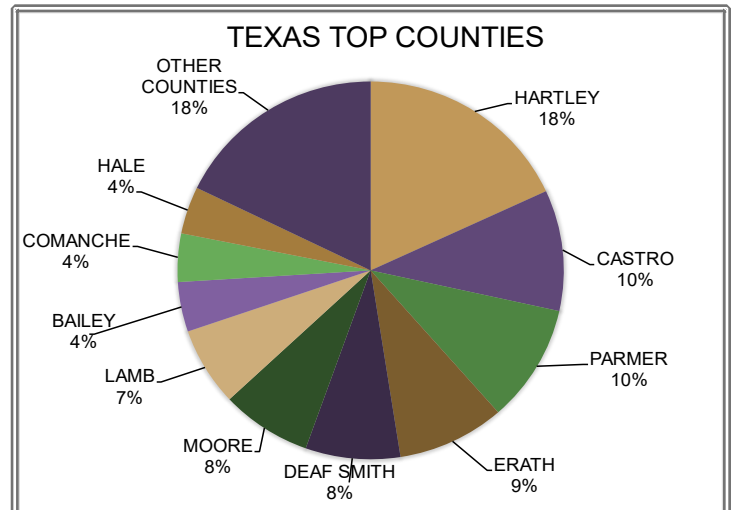
1/ Revised
2/ Simple Average of Total

Top Texas Counties

Hartley County has the largest share of Texas production at 18 percent, followed by Castro and Parmer County at 10 percent. Overall, 345 producers delivered milk in Texas for the month of February.

County	Number of Producers	February 2021 Pounds	% Change 2020/2021
HARTLEY	18	215,521,817	6.56
CASTRO	14	123,056,254	10.62
PARMER	16	119,778,983	4.43
ERATH	48	107,087,013	(0.24)
DEAF SMITH	14	94,376,364	(1.51)
MOORE	9	90,304,085	35.48
LAMB	13	79,891,704	(1.69)
BAILEY	10	50,582,085	0.78
COMANCHE	13	49,192,409	(14.08)
HALE	6	48,156,050	(4.02)
SUM	161	977,946,764	4.38
OTHER COUNTIES	184	211,826,783	(9.09)
TEXAS TOTAL	345	1,189,773,547	1.70

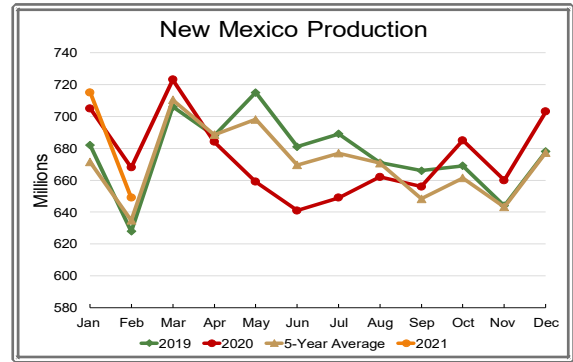
1/ Revised



Click [HERE](#) for more information on Texas Milk Production

New Mexico Dairy Production

In February, New Mexico dairy production totaled 649 million pounds. This is a 2.83 percent decrease relative to February 2020 and a 2.2 percent increase from the February five year average (2016-2020). The February average butterfat is 3.95 percent, the average protein is 3.26 percent, and the average other solids at 5.79 percent. The average somatic cell count is at 190,000.



Month	2021 Number of Producers	2021 Pounds (In Thousands)	2020 Pounds (In Thousands)	% Change from 2020/2021	2021 Butterfat	2021 Protein	2021 Other Solids	2021 SCC (In Thousands)
Jan	128	714,908	705,328	1.36	3.97	3.29	5.78	173
Feb	124	649,004	667,885	(2.83)	3.95	3.26	5.79	190
Mar			723,120					
Apr			684,417					
May			659,032					
Jun			641,179					
Jul			648,864					
Aug			662,140					
Sep			656,039					
Oct			684,537					
Nov			660,408					
Dec			703,177					
Total		1,363,912	8,096,125					

1/ Revised

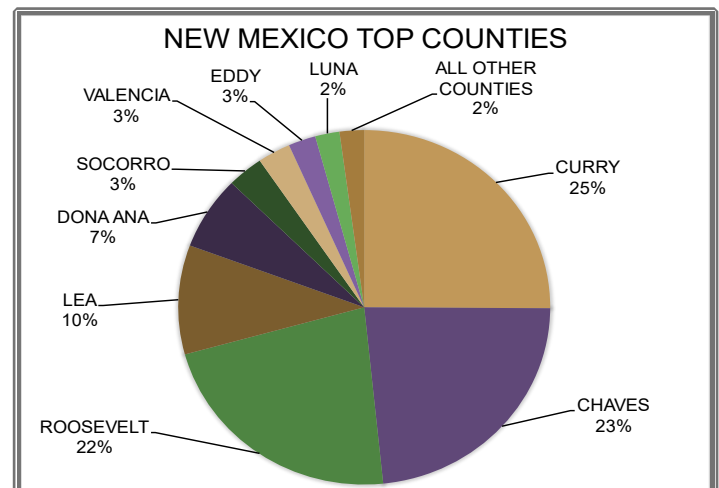
2/ Simple Average of Total Components

Top New Mexico Counties

Curry County has the largest share of New Mexico production at 25 percent, followed by Chaves County at 23 percent. Overall, 124 producers delivered milk in New Mexico for the month of February.

County	Number of Producers	February 2021 Pounds	% Change 2020/2021
CURRY	25	162,797,774	0.05
CHAVES	25	151,119,797	(8.21)
ROOSEVELT	34	145,038,460	1.09
LEA	10	64,612,124	(2.16)
DONA ANA	9	43,452,411	(5.82)
SOCORRO	7	20,394,639	(6.22)
VALENCIA	4	18,620,001	(2.06)
EDDY	3	15,431,480	(4.53)
LUNA	3	13,725,138	(1.80)
SUM	120	635,191,824	(2.86)
OTHER COUNTIES	4	13,812,408	(1.19)
NM TOTAL	124	649,004,232	(2.83)

1/ Revised



Click [HERE](#) for more information on New Mexico Milk Production

COMPUTATION OF PRODUCER PRICE DIFFERENTIAL

FEBRUARY 2021

		Pounds	Price	Value
Add: Class I Differential				\$230,926.06
Class I Butterfat	60(a)	6,951,957	\$ 1.6104	\$11,195,431.57
Class I Skim Per Cwt		294,693,506	\$13.3700	\$39,400,521.77
Class II Butterfat	60(b)	10,529,795	\$ 1.4446	\$15,211,341.88
Class II Nonfat Solids		7,719,119	\$ 1.0300	\$7,950,692.57
Class III Butterfat	60(c)	1,399,565	\$ 1.4376	\$2,012,014.64
Class III Protein		929,556	\$ 2.9816	\$2,771,564.17
Class III Other Solids		1,641,132	\$ 0.3161	\$518,761.82
Class IV Butterfat	60(d)	21,076,322	\$ 1.4376	\$30,299,320.54
Class IV Nonfat Solids		47,887,978	\$ 0.9391	\$44,971,600.16
Class II, III, & IV Somatic Cell Adjustment	60(e)			\$727,229.78
Total Producer Milk- Product Pounds and Value		941,055,923		\$155,289,404.96
Add: Value as for 60(f) thru 60(j)				\$75,506.46
Less: Total Protein Pounds	61(b)	31,699,644	\$ 2.9816	\$94,515,658.57
Total Other Solids Pounds		54,486,600	\$ 0.3161	\$17,223,214.28
Total Butterfat Pounds		39,957,639	\$ 1.4376	\$57,443,101.84
Total Value of Somatic Cell Adjustment				\$1,005,005.47
Total Milk and Value		941,055,923		\$14,822,068.74-
Add: Location Differential Adjustments	61(c)			\$4,370,377.22
Producer - Settlement Fund Reserve	61(d)			\$464,110.37
Total Product Milk/URSP and Value		941,055,923	\$1.06131-	\$9,987,581.15-
Less: Producer - Settlement Fund Reserve	61(f)		\$ 0.04868	\$458,139.60
Producer Price Differential (Dallas County)			\$1.11-	\$10,445,720.75-

PPD per cwt

Remaining value from which PPD per cwt is calculated

Producer Milk Utilization Percentages						
	Product		Butterfat		Skim Milk	
	Pounds	Percent	Pounds	Percent	Pounds	Percent
Class I	301,645,463	32.05	6,951,957	17.40	294,693,506	32.70
Class II	91,634,663	9.74	10,529,795	26.35	81,104,868	9.00
Class III	28,563,335	3.04	1,399,565	3.50	27,163,770	3.02
Class IV	519,212,462	55.17	21,076,322	52.75	498,136,140	55.28
Total	941,055,923	100.00	39,957,639	100.00	901,098,284	100.00

Producer Milk Components				
	Butterfat	Protein	Other Solids	Nonfat Solids
Total Pounds	39,957,639	31,699,644	54,486,600	86,186,244
Average Test	4.246%	3.368%	5.789%	9.158%

Federal Order Prices

Federal Order	Statistical Uniform	Statistical Uniform	PPD	PPD	Class I Utilization	Class I Utilization
	Feb-21	Jan-21	Feb-21	Jan-21	Feb-21	Jan-21
Appalachian - F.O. 5	17.56	17.42	N/A	N/A	72.04	70.57
Arizona - F.O. 131	14.69	14.98	N/A	N/A	29.75	29.70
Central - F.O. 32	14.37	14.44	(1.38)	(1.60)	43.16	41.34
Florida - F.O. 6	19.54	19.26	N/A	N/A	82.13	79.01
Mideast - F.O. 33	14.91	14.96	(0.84)	(1.08)	41.50	41.10
Northeast - F.O. 1	15.80	15.91	0.05	(0.13)	31.00	30.40
Pacific NW - F.O. 124	14.43	14.68	(1.32)	(1.36)	23.01	22.16
California - F.O. 51	13.99	14.24	(1.76)	(1.80)	21.20	20.50
Southeast - F.O. 7	17.72	17.59	N/A	N/A	71.37	67.91
Southwest - F.O. 126	14.64	14.90	(1.11)	(1.14)	32.05	34.01
Upper Midwest - F.O. 30	14.85	15.12	(0.90)	(0.92)	22.30	20.50

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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