

California
Department
of Food & Agriculture



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TO ALL INTERESTED PARTIES:

Enclosed are copies of the latest nonfat powder, bulk butter and Cheddar cheese processing costs for selected periods between July 2000 and December 2001. The cost studies have been adjusted for utility costs for August 2002 and updated for 2002 changes in wages, payroll taxes and fringe benefits. The processing cost data does not include the cost of raw product nor does it include any cost of marketing finished product.

For each of the three manufactured products, the cost data are presented in a table that shows actual weighted-average cost of plants grouped by efficiency. Also enclosed is a summary table showing the weighted-average manufacturing cost for nonfat powder, butter and Cheddar cheese as published since May 1989. Cost include packaging, processing labor, processing non-labor, general and administrative cost, return on investment and, for butter and Cheddar cheese, miscellaneous ingredients.

Should you have any questions regarding this material, please contact Eric Erba or me at the telephone number or e-mail address above.

Sincerely,

Edward Hunter
Supervising Auditor I

Enclosures

**Weighted Average Manufacturing Costs
for Butter, Nonfat Powder and Cheddar Cheese
1989 - 2002**

Costs include processing labor, non-labor processing, packaging, other ingredients (for butter and Cheddar cheese only), general and administrative and return on investments.

<u>Date of Release</u>		<u>Butter</u>		<u>Nonfat Powder</u>		<u>Cheddar Cheese</u> ¹	
<u>Year</u>	<u>Month</u>	<u>Cost per Pound</u>	<u>Number of Plants</u>	<u>Cost per Pound</u>	<u>Number of Plants</u>	<u>Cost per Pound</u>	<u>Number of Plants</u>
1989	May	\$0.0879	11	\$0.1370	11	\$0.2251	9
1990	June	\$0.0888	11	\$0.1398	11	\$0.2324	9
1991	May	\$0.0883	10	\$0.1438	11	\$0.2192	9
1992	July	\$0.0969	12	\$0.1443	12	\$0.2010	9
1993	August	\$0.0936	12	\$0.1430	11	\$0.1868	10
1994	September	\$0.0895	11	\$0.1341	11	\$0.1889	8
1995	April	\$0.0889	9	\$0.1327	9	\$0.1862	8
1995	November	\$0.0928	9	\$0.1328	9	\$0.1981	8
1996	December	\$0.0970	9	\$0.1333	9	\$0.1898	8
1997	July	\$0.0958	8	\$0.1327	9	\$0.1840	9
1999	February	\$0.0930	8	\$0.1277	9	\$0.1759	10
2000	February	\$0.0957	8	\$0.1356	10	\$0.1693	9
2001	October ²	\$0.1001	8	\$0.1590	11	\$0.1802	9
2002	November ³	\$0.1208	7	\$0.1619	11	\$0.1775	9
2002	November ⁴	\$0.1199	7	\$0.1501	11	\$0.1735	9
2002	December ⁵	\$0.1211	7	\$0.1512	11	\$0.1746	9

¹ For the 1996 Cheddar cheese cost study and subsequent cost studies, we have included costs associated with Cheddar cheese plants producing 500 pound barrels and 640 pound blocks. However, costs for packaging labor and packaging expenses were replaced with the average of those costs associated with 40 pound block plants.

² Includes the cost studies completed for periods between January 1998 and December 1999 and adjusted for utility costs. The utility cost adjustments were made using each plant's invoices for energy costs for August 2001.

³ Includes the unadjusted cost studies for periods between July 2000 and December 2001.

⁴ Includes the above current completed cost studies as well as utility cost adjustments for all plants. The utility cost adjustments were made using each plant's invoices for energy costs for August 2002.

⁵ Includes the current completed cost studies plus the August 2002 utility cost adjustments as well as 2002 data updating wages, payroll taxes and fringe benefits for all plants.

Butter Processing Costs - Adjusted for August 2002 Energy Costs and 2002 Payroll Updates

Released December 2002

1. Manufacturing cost data were collected and summarized from 7 California butter plants. The 7 plants processed 340.7 million pounds of butter in 2001, representing 99.8% of the butter processed in California.
2. The processing costs summarized in this study were incurred during an 18-month period, starting in July 2000 and ending in December 2001.
3. Costs for natural gas, electricity and payroll were updated beyond the study period. The energy costs reflect the rates that plants were charged in August 2002. The payroll updates include changes to wages, payroll taxes and fringe benefits that were effective during 2002.
4. The "Processing Non-Labor" category includes costs such as utilities, repairs and maintenance, supplies, depreciation and rent.
5. The volume total includes both bulk butter and cut butter, but the costs reflect only costs for bulk butter (25 kg and 68 lb. blocks).
6. To obtain the weighted average, individual plant costs were weighted by their butter processing volume relative to the total volume of butter processed by all plants involved in the cost study.
7. The current manufacturing cost allowance for butter is \$0.102 per pound. About 37% of the butter was processed at a cost less than the manufacturing cost allowance.

<u>Cost Groups</u>	<u>Number of Plants</u>	<u>Processing Labor</u>	<u>Processing Non-Labor</u>	<u>Package</u>	<u>Other Ingredient</u>	<u>General & Administrative</u>	<u>Return on Investment</u>	<u>Total Cost</u>	<u>Volume in Group</u>	<u>Percent in Group</u>
<i>dollars per pound of butter</i>										
Low Cost	4	\$0.0397	\$0.0407	\$0.0095	\$0.0036	\$0.0129	\$0.0079	\$0.1143	285,115,984	83.7%
High Cost	3	\$0.0545	\$0.0643	\$0.0087	\$0.0018	\$0.0184	\$0.0090	\$0.1567	55,585,020	16.3%
<u>Summary Statistics</u>										
Weighted Average		\$0.0421	\$0.0445	\$0.0093	\$0.0033	\$0.0138	\$0.0081	\$0.1211		
Range	{ Minimum	\$0.0326	\$0.0334	\$0.0071	\$0.0015	\$0.0063	\$0.0048			
	{ Maximum	\$0.1387	\$0.0811	\$0.0106	\$0.0060	\$0.0384	\$0.0119			
Total									340,701,004	100%

Powder Processing Costs - Adjusted for August 2002 Energy Costs and 2002 Payroll Updates

Released December 2002

1. Manufacturing cost data were collected and summarized from 11 California powder plants. The 11 plants processed 710.8 million pounds of powder in 2001, representing 100% of the powder processed in California.
2. The processing costs summarized in this study were incurred during a 18-month period, starting in July 2000 and ending in December 2001.
3. Costs for natural gas, electricity and payroll were updated beyond the study period. The energy costs reflect the rates that plants were charged in August 2002. The payroll updates include changes to wages, payroll taxes and fringe benefits that were effective during 2002.
4. The "Processing Non-Labor" category includes costs such as utilities, repairs and maintenance, supplies, depreciation and rent.
5. The volume total includes all grades of powder packaged in any container size, but the costs reflect only costs for 25 kg and 50 lb. bags of powder.
6. To obtain the weighted average, individual plant costs were weighted by their powder processing volume relative to the total volume of powder processed by all plants involved in the cost study.
7. The current manufacturing cost allowance for powder is \$0.161 per pound. About 89% of the powder was processed at a cost less than the manufacturing cost allowance.

<u>Cost Groups</u>	<u>Number of Plants</u>	<u>Processing Labor</u>	<u>Processing Non-Labor</u>	<u>Package</u>	<u>General & Administrative</u>	<u>Return on Investment</u>	<u>Total Cost</u>	<u>Volume in Group</u>	<u>Percent in Group</u>
<i>dollars per pound of powder</i>									
Low Cost	3	\$0.0264	\$0.0784	\$0.0137	\$0.0093	\$0.0119	\$0.1397	363,521,826	51.1%
Medium Cost	4	\$0.0331	\$0.0838	\$0.0141	\$0.0123	\$0.0125	\$0.1558	327,850,404	46.1%
High Cost	4	\$0.0918	\$0.1413	\$0.0133	\$0.0272	\$0.0136	\$0.2872	19,394,851	2.8%
<u>Summary Statistics</u>									
Weighted Average		\$0.0313	\$0.0826	\$0.0139	\$0.0112	\$0.0122	\$0.1512		
Range	{ Minimum	\$0.0246	\$0.0669	\$0.0119	\$0.0069	\$0.0066			
	{ Maximum	\$0.1369	\$0.1732	\$0.0144	\$0.0330	\$0.0191			
Total								710,767,081	100%

Cheese Processing Costs - Adjusted for August 2002 Energy Costs and 2002 Payroll Updates

Released December 2002

1. Manufacturing cost data were collected and summarized from 9 California cheese plants. The 9 plants processed 699.5 million pounds of cheese in 2001, representing 95.1% of the Cheddar and Monterey Jack cheese processed in California.
2. The processing costs summarized in this study were incurred during a 18-month period, starting in July 2000 and ending in December 2001.
3. Costs for natural gas, electricity and payroll were updated beyond the study period. The energy costs reflect the rates that plants were charged in August 2002. The payroll updates include changes to wages, payroll taxes and fringe benefits that were effective during 2002.
4. The "Processing Non-Labor" category includes costs such as utilities, repairs and maintenance, supplies, depreciation and rent.
5. The volume total includes both Cheddar and Monterey Jack cheeses, but the costs reflect only costs for 40 lb. blocks of Cheddar.
6. Three plants processed 500-lb. barrels or 640-lb. blocks. Packaging costs and packaging labor for 40 lb. blocks were substituted for these plants.
7. To obtain the weighted average, individual plant costs were weighted by their cheese processing volume relative to the total volume of cheese processed by all plants involved in the cost study.
8. The current manufacturing cost allowance for cheese is \$0.176 per pound. About 77% of the cheese was processed at a cost less than the manufacturing cost allowance.

9. The weighted average yield was 10.71 lbs. of cheese per hundredweight of milk. The weighted average moisture was 36.92%, and weighted average net tests were 2.05% fat and 8.02% SMP.

<u>Cost Groups</u>	<u>Number of Plants</u>	<u>Processing Labor</u>	<u>Processing Non-Labor</u>	<u>Package</u>	<u>Other Ingredient</u>	<u>General & Administrative</u>	<u>Return on Investment</u>	<u>Total Cost</u>	<u>Volume in Group</u>	<u>Percent in Group</u>
<i>dollars per pound of cheese</i>										
Low Cost	3	\$0.0321	\$0.0644	\$0.0186	\$0.0109	\$0.0159	\$0.0095	\$0.1514	387,330,674	55.4%
Medium Cost	3	\$0.0504	\$0.0794	\$0.0155	\$0.0131	\$0.0167	\$0.0109	\$0.1860	238,804,080	34.1%
High Cost	3	\$0.0877	\$0.1055	\$0.0242	\$0.0108	\$0.0238	\$0.0089	\$0.2609	73,386,930	10.5%
Summary Statistics										
Weighted Average		\$0.0442	\$0.0738	\$0.0181	\$0.0116	\$0.0170	\$0.0099	\$0.1746		
Range	{ Minimum	\$0.0309	\$0.0518	\$0.0139	\$0.0084	\$0.0127	\$0.0024			
	{ Maximum	\$0.0954	\$0.1834	\$0.0312	\$0.0290	\$0.0279	\$0.0153			
Total									699,521,684	100%