

PA Milk Marketing Board  
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### *Class III Milk Pricing and Its Impact on Farm Income*

Previous articles in this series have noted that milk prices are based on end-product formulas and reported prices for commodities, specifically butter, cheddar cheese, and dry milk powder. These formulas were developed many years ago and have remained unchanged. Recently, in a meeting with U. S. Congressman Fred Keller from Pa's 12<sup>th</sup> District, the PA Milk Marketing Board (PMMB) asked him to investigate whether the formulas need to be revised.

Class III milk prices figure greatly in the price paid to farmers for their milk. Remember, Class III milk end-use is hard cheese and whey. Each month manufacturers report both price and volume data for 40-pound blocks and 500-pound barrels of cheese. Prior to 2017, block cheese and barrel cheese market prices were close, usually no more than \$0.01 per pound apart.

Since 2017 there has been an increase in barrel cheese production and an increase in demand for the whey protein made from barrel cheese, which has led to a wide price difference between block cheese and barrel cheese prices. Also since 2017, that difference in price has jumped from \$0.01 per pound to an average of \$0.10 per pound, reaching a high of \$0.22 per pound in October 2018. This price difference has cost American dairy farmers about \$600 million in farm revenue in the past two and a half years.

There are two main factors that have caused the current block-barrel spread. First, growing milk supplies have often led to excess milk being dumped or sold at a discount; some has been diverted to barrel cheese production, increasing those supplies and lowering prices. Second, cheese exports (blocks) have increased considerably while there has been a corresponding decrease in the demand for processed cheeses, i.e. American Cheese (barrels).

According to Farm Bureau<sup>1</sup>, Class III prices would be as much as \$0.75 to \$1.00 per cwt higher if they were based solely on blocks. In fact, the average change in Class III milk prices since 2017 would have been \$0.23 per cwt.

The end-product pricing formulas are working exactly as intended and as designed and it is not likely that the creators anticipated the current block-barrel price spread. It does exist, however, and that is why PMMB is promoting a federal review to see if pricing formulas can be brought more in line with current and anticipated market trends.

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<sup>1</sup> *Market Intel*. September 4, 2018. American Farm Bureau Federation