

PA Milk Marketing Board  
*How USDA Prices Milk – Part 1*

This marks the first of a series of five short articles about how milk is priced in Pennsylvania. About 2/3 of Pennsylvania is in Federal Milk Marketing Orders (FMMO); under the FMMO, the US Dept. of Agriculture (USDA) establishes a producer minimum price for milk delivered in the FMMO. The process of pricing begins with an understanding of the “Three Cs” of FMMO Pricing:

- Commodity – A collective term for dairy-based products traded on markets around the world, e.g. butter, non-fat dry milk, and dry whey.
- Component – Particles contained in fluid milk that are used in pricing, e.g. butterfat, proteins, and other milk solids.
- Class – Designation of milk by its end use: 1) *Class 1*- fluid milk and milk beverages; 2) *Class 2* – soft manufactured products such as cottage cheese and yogurt; 3) *Class 3* – hard cheeses; and 4) *Class 4* – butter and dry products such as non-fat dry milk.

Around the 5<sup>th</sup> of each month, USDA’s Agriculture Marketing Service (AMS) publishes surveyed *commodity* prices: cheese, butter, dry whey, and non-fat dry milk, specifically. The prices are in the form of weighted averages for each commodity and become the basis for the 2<sup>nd</sup> step in pricing milk—to determine the *component* value of milk.

For *components*, formulas calculate protein prices from cheese and butter prices, butterfat prices from butter prices, other solids prices from dry whey prices, and nonfat solids prices from non-fat dry milk prices.

Part 2 will look at how the *component* prices described above are combined with other factors to derive Class pricing. Parts 3 and 4 will address Pennsylvania-specific milk pricing.