

PA Milk Marketing Board  
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*The Farmer's Mailbox Price - Explaining Who Gets What from A Gallon of Milk*

Last week's article generated quite a few comments and phone calls, mainly due to my lack of clarification in the very first item I addressed—who gets what from the retail price of a gallon of milk. I made people angry as they felt I misrepresented what farmers actually receive, but I am so grateful that people did call and write. I want to apologize for the lack of detail in what I wrote because it is always my intent that PMMB is transparent about what we do and how we do it. I hope this week's article provides any needed clarification.

What the farmer receives—the mailbox price—is the net price between what a farmer is paid for milk sold less the deductions taken for marketing the milk and other items. To be more precise, what the farmer actually receives for milk is the gross amount I quoted in last week's article MINUS deductions such as hauling, cooperative dues, promotion assessments and other costs. The figures also assume 100% Class I utilization. This is where my article may have seemed misleading to the reader. What I quoted was a gross amount, or the cost of the raw milk as taken from the bulk tank on the farm; however, my statements did not mention the deductions the farmer has to cover or account for class.

Staff and I revisited the current pricing data for PA's Milk Marketing Area 3. We will start with the gross figures again—this time using February 2020 data as those reflect the pre-COVID19 pricing and are not skewed by the pandemic environment.

The minimum retail price for Area 3 in February 2020 was \$3.83 for a gallon of whole milk. Retailer costs to store, stock and other things was \$0.1849, or 4.83 percent. The milk processor received 47.10 percent of the minimum retail price, covering processing, transportation and container costs, in general. The price paid for the raw milk (gross to farmer) was 48.07 percent – this figure does NOT reflect the deductions charged to the farmer and assumes Class I utilization.

To provide an example of the impact of deductions, I contacted a dairy farmer I know, a cooperative member, and asked him for gross/cwt and net/cwt amounts received for milk he sold in February. The gross amount listed on his check was \$18.35/cwt and the net amount was \$17.47, reflecting deductions of \$0.88/cwt. If this farmer shipped 1800 cwt in February, the gross amount paid was \$33,030 and the MAILBOX (net) price received would be \$31,446.

Another important factor to consider is blended price. The figures represented above in the discussion of who received what from February's minimum gallon retail price do not consider diversion and utilization in other classes of milk (other than Class 1) and the computation of a blended price.

Using PMMB actual figures for Area 3, let's suppose we have three dairy farms, each shipping 100,000 pounds, containing 3,500 pounds butterfat and 96,500 pounds skim:

- Farm ABC – with 100% utilization at Class I receives \$14,118 (class skim price) and \$4,739 (class butterfat price) for a total of \$18,857.
- Farm XYZ – with 25% utilization in each of the four classes receives a blended price which totals \$13,492.
- Farm 123 – with 100% utilization at Class IV receives \$5,855 (class skim price) and \$4,815 (class butterfat price) for a total of \$10,672.

Figures used for these calculations are available on the PMMB website at [mmb.pa.gov](http://mmb.pa.gov) under the Pricing Information, Minimum Prices, Producer Prices for May 2020.

It is easy to see how deductions and blended prices affect the farm mailbox price for milk sold. It is also easy to see how the lack of detail in last week's article made some people angry because I did not tell the whole story. The figures I reported last week were accurate, but only so far as they represented gross receipts for 100% Class I utilization. I hope I have cleared up any issues from that article.

I want to also thank staff members Steven Zalman and Gary Gojsovich who provided the data for this article. We are extremely thankful for all the people who contact us to talk about issues and to ask questions. That is the only way we know if we have made a mistake or not been clear in what we say. To those people we say, "Keep it up!"

PMMB is always available to respond to questions and concerns. I can be reached at 717-210-8244 or by email at [chardbarge@pa.gov](mailto:chardbarge@pa.gov).