

How Farm Milk is Priced

The price farmers receive for raw (unprocessed, unpasteurized) milk is largely determined by supply and demand forces that are influenced by federal and state dairy programs. Under most of these government dairy programs, the minimum farm milk price is established based on the value of the products made from it. Those products are categorized into four groups, or 'Classes', of milk. Under the federal dairy program, Class I describes milk used for fluid, or beverage, milk products. Class II refers to milk going into 'soft' manufactured products such as sour cream, cottage cheese, ice cream, and yogurt. Class III refers to milk used for making hard cheeses. Class IV milk is used to make butter and dry products such as non-fat dry milk (NFDM).

Calculating the minimum prices for these different classes begins with valuing cheese, dry whey, NFDM and butter using weekly average wholesale market price trends monitored by the U.S. Department of Agriculture (USDA). The Class IV price is based on NFDM and butter prices; the Class III price is based on cheese, dry whey and butter prices; the Class II price is based on NFDM and butter prices plus an added differential equal to 70 cents per hundred pounds of raw milk; and the Class I price is the 'higher of' the Class III or IV price plus a location differential currently ranging from \$1.60 to \$4.30 per hundred pounds of raw milk. Every county in every state in the country has a location differential assigned by USDA.

The actual minimum price received by the farmer is a blend of these prices weighted by the percentage of the milk used in each class. In addition to this minimum price derived from the federal dairy program, supply and demand conditions often result in farmers receiving premiums above this minimum.

Visit [USDA's Agricultural Marketing Service](#) website for more information.