

## IV. PRICES

### Dairy Pricing Overview

In 2009, the annual average farm milk price was \$12.81 per hundred pounds (cwt) of milk, which was a decrease of \$5.60 per cwt from 2008.

A key indicator of dairy farm profitability is the Milk-Feed Price Ratio (which relates the value of milk to the cost of dairy feed; the higher the ratio, the higher the relative value of milk is to the cost of feed), which averaged 1.78 in 2009, far below the 1999 - 2008 average of 2.89.

In the wholesale dairy product markets, the prices for Grade AA butter, cheddar cheese, nonfat dry milk and dry whey slowly rose during 2009. According to USDA, the wholesale price of Grade AA butter began 2009 at \$1.08 per pound and rose to a high of \$1.45 per pound in December 2009. The weighted average price for cheddar cheese began 2009 at \$1.30 per pound and rose to a high of \$1.60 per pound in December 2009. The price for nonfat dry milk was \$0.83 per pound in January 2009 and rose to a high of \$1.29 in December 2009. The wholesale price for dry whey began 2009 at \$0.17 per pound and rose to a high of \$0.37 per pound by December 2009.

Preliminary figures for the first half of 2010 showed that the wholesale price for Grade AA butter climbed steadily from \$1.36 per pound in January to \$1.59 per pound in June and nonfat dry milk rose slightly from \$1.19 per pound in January to \$1.26 in June. Wholesale prices for cheddar cheese and dry whey continued to slowly decline during the same period. The wholesale price for cheddar cheese dropped from \$1.54 per pound in January 2010 to \$1.45 per pound in June 2010.

In most of the United States, the federal government regulates the minimum prices milk processors and dairy product manufacturers must pay for farm milk. These regulated minimum prices are directly linked to the prices of manufactured dairy products in the wholesale market. These prices are calculated for four classes of milk based on the products made from the farm milk. The minimum price for all four federal order classes of milk dropped in 2009, with decreases in all four classes. Class I, for farm milk used to make fluid milk products decreased from \$20.78 per hundredweight in 2008 to \$14.40 per hundredweight of milk in 2009. Class II prices dropped from \$16.24 per hundredweight in 2008 to \$11.26 in 2009; Class III prices went from \$17.44 in 2008 to \$11.36 in 2009 and Class IV prices dropped from \$14.65 in 2008 to \$10.89 in 2009.