

IV. PRICES

Dairy Pricing Overview

In 2007, the annual average farm milk price was \$19.16 per hundred pounds (cwt) of milk, which was the highest ever on record.

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 2.81 in 2007.

In the wholesale dairy product markets, prices for butter and cheese rose significantly in 2007. USDA reported that the average wholesale price of Grade AA butter increased 12 cents per pound to \$1.34, while the price of cheddar cheese increased 49 cents to an average of \$1.72 per pound. The average wholesale prices for dry products soared in 2007 compared to 2006. The average nonfat dry milk price nearly doubled in 2007, rising from 89 cents per pound in 2006 to \$1.69 per pound in 2007. Additionally the average price of dry whey nearly doubled as well, rising from 33 cents per pound in 2006 to 60 cents per pound in 2007.

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 rose in 2007 to record levels, with big increases in all four classes. Class I, for farm milk used to make fluid milk products, rose from \$14.59 per hundredweight to \$20.81 per hundredweight of milk.

In 2007 farm milk posted the highest prices on record, was a year of historic high farm milk as well as world dairy product prices, affecting all U.S. dairy markets.