

Make Allowances Reduce Class I Prices

Class I or fluid milk is priced about the 3rd week of the month for the next month because retailers need to know in advance what the price is so that they can set the retail price. The class I price is set based on the higher of the class III or class IV advance pricing formulas using the surveyed prices of cheese, butter, whey and NFDM from the first two weeks of the month. For example, for December class I milk the price was announced on Nov. 18th. The price was based on the averages of the surveyed prices for cheese, butter, whey and NFDM from the weeks ending Nov. 5th and Nov. 12th. The prices surveyed were Cheese @ \$1.7788 / #, Butter @ \$1.8388 / #, Whey @ \$.6342 / # and NFDM @ \$1.4783 / # as shown in the box below. These prices are put into the formulas for pricing class III and class IV milk to calculate a value for skim milk. Using these prices the skim is valued at \$11.82 from the class III formula and \$11.68 from the class IV formula. Since the class III was higher it is used to advance price the class I milk for December. Then butterfat value is added to the skim to bring it up to 3.5% fat and becomes the class I mover for the month. Based on the value of the butterfat this month the class I mover is \$18.47. The class I price in each county is then determined by adding the class I differential which varies from \$1.60 to \$6.00.

Question # 1 What does the value of butter, cheese, whey and dry powdered milk have to do with the value of a fresh beverage product like fluid milk??? If beverages like sodas or coffee were priced like milk based strictly on the value of the components with minimal value placed on the fluid then you could buy them for pennies per serving.

Question # 2 Why are the make allowances for cheese, butter, other solids and NFDM still part of the formula when pricing class I fluid milk???

The make allowances are cost of production guarantees for the processors when they make the butter, cheese, other solids and NFDM. These are cost that are not incurred while processing fluid milk. The make allowances are listed in the box on a \$ / # for each milk product produced. If I remove the make allowances as I have done in the second box using the same prices for the month of December then the class III skim is **\$14.35** an increase of **\$2.53** and the class IV skim is **\$13.17** an increase of **\$1.50**. When the butterfat is added to calculate the class I mover for 3.5% milk then the class III formula produces a class I mover of **\$21.64** an increase of **\$3.17** while the class IV formula produces a class I mover of **\$20.50** an increase of **\$3.17**. As this illustrates the make allowances reduce the price of the skim milk significantly and has cost the average dairyman about \$1.00 / cwt. since close to 40% of the milk is processed and sold as fluid milk. Obviously this has cost the dairyman in the southeast much more because 60% to 85% of the milk is processed as fluid milk. Is this why the southeast has seen such a dramatic loss of dairy farms since 2000 when these formulas were put into place?

Class I Mover with Make Allowances as Used Currently

Butter	\$ 1.8388	Class III Skim	\$ 11.82
Cheese	\$ 1.7788	Class IV Skim	\$ 11.68
Whey	\$ 0.6342		
NFDM	\$ 1.4783	Class I Mover From III	\$ 18.47
		Class I Mover From IV	\$ 18.33
Non Fat Solids	\$ 1.2974		
Butter Fat Price	\$ 2.0191	Class II Skim	\$ 12.38
Other Solids	\$ 0.4482	Class II Butter Fat	\$ 2.03
Protein Price	\$ 2.9602	Class II	\$ 19.01
		Class III	\$ 18.47
		Class IV	\$ 18.33
Butter Make Allowance	\$ 0.1715		
NFDM Make Allowance	\$ 0.1678		
Cheese Make Allowance	\$ 0.2003		
Other Solids Make Allowance	\$ 0.1991		

Class I Mover with Make Allowances Removed from Advanced Pricing Formulas

Butter	\$ 1.8388	Class III Skim	\$ 14.35	\$ 2.53
Cheese	\$ 1.7788	Class IV Skim	\$ 13.17	\$ 1.50
Whey	\$ 0.6342			
NFDM	\$ 1.4783	Class I Mover From III	\$ 21.64	\$ 3.17
		Class I Mover From IV	\$ 20.50	\$ 2.17
Non Fat Solids	\$ 1.4635			
Butter Fat Price	\$ 2.2268	Class II Skim	\$ 13.87	
Other Solids	\$ 0.6532	Class II Butter Fat	\$ 2.23	
Protein Price	\$ 3.3869	Class II	\$ 21.18	
		Class III	\$ 21.64	
		Class IV	\$ 20.50	
Butter Make Allowance	\$ -			
NFDM Make Allowance	\$ -			
Cheese Make Allowance	\$ -			
Other Solids Make Allowance	\$ -			