

Sec. Ross orders permanent change to Class 4b pricing formula

Today CDFA Secretary Karen Ross announced she has ordered a permanent change to the dry whey scale of the Class 4b pricing formula, effective June 1, 2016. The decision comes after a milk price hearing on April 11 in Sacramento where Western United Dairymen and dairy producers voiced the desired direction the industry hoped CDFA would take.

“Once dairy product markets improve, this adjustment will provide a needed increase in revenue to producers to promote a stable milk supply. I still believe adjustments to the pricing formulas are inadequate to address long-term structural challenges facing the dairy industry. However, we must continue to respond to changing conditions in our industry by using the only tools available through the current milk pricing system”, Ross said in her announcement.

If the announced adjustments to the Class 4b formula had been in place for the past five years, it would have resulted in a Class 4b price that would have been \$0.96/cwt higher. This represents 44 cents on the overbase price. While this does not bring the Class 4b whey value exactly in line with the Class III whey value like the CDC/MPC/WUD proposal requested, it will bring the two closer than the previous formula would have.

The Secretary’s comment regarding dairy product markets improving is key to how one can look at the impact of this decision. Indeed, with current depressed dry whey prices, the whey scale that will become permanent on June 1 (which is the same one we have had in place since August 2015) does not generate more value than the previous scale. Put a different way: this announced change will very likely not impact your milk check in June. However, as dry whey markets recover, the value generated by this updated Class 4b formula should help enhance producers’ pay check a bit. Looking at the futures market, where dry whey settled at 29 cents per pound for November-December 2016, it appears this whey scale could result in approximately 8 cents more per hundredweight on the overbase. So it all depends on whey prices: if this scale had been in place in January 2015, it would have generated an extra 40 cents on the overbase price.