



## A conversation with Catherine de Ronde, VP Economics & Legislative Affairs, Agri-Mark

### **What are the key takeaway points from the recent FMMO referendum and final decision?**

There are five major changes that came out of the FMMO final decision.

#### 1. Milk composition factors

Component composition factors in the FMMO formulas for skim milk have not changed since 2000. Since that time, the composition of these milk components has increased. Farmers will see an increase in the true protein from 3.1% to 3.3%, and other solids will increase from 5.9% to 6%. With higher solids in the milk, the yield of bulk commodities is higher and therefore more revenue that should be returned to the dairy farmer, raising the announced Class I, II, III and IV milk prices. There will be a 6-month lag on implementation, so expect to see these changes start to take effect in the second half of 2025.

#### 2. Surveyed Commodity Products

Currently, the FMMO formulas weight cheese blocks and 500-pound barrels about 5/50 in reports to the Dairy Product Mandatory Reporting Program survey. However, this does not reflect the relative volumes of cheese produced and prices by these two forms of cheese. Moving forward, only the 40-pound block cheddar price will be used to determine the monthly average cheese price used in the FMMO formulas. This will lead to reduced volatility for producers and manufacturers.

#### 3. Increase Make Allowances

Current FMMO make allowances have not kept up with the costs of manufacturing dairy products. This change will see an increase to the make allowances for key dairy products like cheese, butter, whey, and nonfat dry milk to reflect rising production costs for manufacturers. Along with updated make allowances, this change will increase the butterfat recovery to 91%, representing the amount of butterfat captured during cheesemaking.

#### 4. Base Class I Skim Milk Price

The current Class I mover, which averages the Class III and IV monthly prices, carries an asymmetric risk versus the previous *higher of* calculation. This means dairy farmers are exposed to unlimited risk on the downside, while they receive minimal benefits on the upside. This asymmetric risk was exposed during the pandemic-induced market volatility in 2020. This change will return Class I skim milk price will to the ***higher of (HO)*** the advanced Class III or Class IV skim milk price for the month. In addition, a Class I extended shelf life (ESL) adjustment will be adopted for all ESL products.

#### 5. Class I differentials

The current FMMO Class I differentials have remained largely unchanged since they were implemented in 2000, while the cost of delivering bulk milk to fluid processing plants has increased. As a result, the current Class I differentials will see values increased to appropriately reflect the increased cost of servicing the Class I market. These changes will be county specific.

### **What can producers expect from these changes in their milk checks?**

Once these changes take effect, the Class II and IV prices will be lower than they would have been under the old pricing formulas while Class III will be mostly neutral (depending on block-barrel spread) and the Class I price will be higher (after accounting for increased differentials). The net impact to the milk price at the farm depends on the product mix inside their order. According to analysis by the USDA, over the past five years the impact to the Northeast would have been an increase in pay price of \$1.01.

### **What is your forecast for 2025 milk prices?**

There are two themes that are likely to impact 2025 milk prices.

1. Milk production on a national basis. Overall, milk production was down for 2024 compared to averages for 2023. We have started to see an increase over the past couple of months in 2024. Two key variables that are impacting milk production are the number of replacement animals available in the market and the cost of those replacement animals. It is likely that we will see a modest production increase in 2025.
2. Volatility and softness in the cheese market. This largely depends on exports, and if we are able to continue to secure export markets we will likely see the cheese market remain in a good place. However, we have seen a bit of a yo-yo effect of cheese markets in 2024. Based on these factors, we could see more softness in Class III prices with more opportunity for support in Class IV prices.

### **What are potential disruptions to milk pricing we could face in 2025?**

There are a few potential things that could affect milk prices in 2025. With a new administration coming in we will likely see new policies put in place. Tariffs and immigration policy could negatively impact milk prices, however how much of that is rhetoric and how much will become reality remains to be seen. It is something to keep an eye on in the coming months. Additionally, the Class III prices could go down based on cheese and whey, which has the potential for price swings. This goes back to the volatility in the cheese market and our ability to export. Another unknown for milk production and pricing is the HPAI outbreak. If there were to be a widespread outbreak and a decrease in production, there would certainly be an impact on milk prices.

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