

Pennsylvania Milk Marketing Board

Why Milk May Cost More in PA Than in A Neighboring State

Pennsylvania is 2nd in the US in the number of dairy farms and has the smallest average herd size. Unfortunately, farmers across the country are going out of business including in states where milk can be bought at much lower prices than in Pennsylvania. People are buying less fluid milk, and this has a tremendous impact on the demand and the price paid for milk. Even with a national trend toward loss of farms, we have lost fewer, by percentage, than the other large dairy states--much of this is directly attributable to Pennsylvania's milk pricing system.

As set forth in the Milk Marketing Law, the Board sets minimum wholesale and retail prices to guarantee that Pennsylvania dairy farmers produce enough milk to meet the demands of consumers. Minimum wholesale prices are based on the average costs to purchase, process, package, and deliver the milk to stores. Minimum retail price is based on the wholesale milk price plus what it costs to handle and sell the milk in stores.

If a store is selling milk for a lot lower than Pennsylvania prices, we know that someone is losing money, most likely the retailer, a practice known as "loss leader pricing." It is used to attract customers into a store with the hope the consumer will buy other products that are sold at much higher profit margins. On average the retailer's overall margins usually stay the same and the customer often pays similar total amounts for their basket of goods purchased.

Through producer, wholesale, and retail minimum pricing, the Board supports all levels of the dairy industry. Currently Pennsylvania ranks 4th in the nation in the number of dairy processing plants, which provide efficient local markets for our dairy farmers. If the Milk Marketing Law didn't require minimum pricing, the result would be price wars that could put 50% of Pennsylvania's processors out of business, ultimately harming Pennsylvania dairy farmers.

For questions or comments, contact me at chardbarge@pa.gov or call 717-787-4194.