



AgEcon SEARCH
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

AgEcon Search
<http://ageconsearch.umn.edu>
aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

[Menu](#)

Economic Research Service

Stay Connected



Finding: Food Markets & Prices

September 20, 2012



PRINT



PDF



EMAIL

Retail Dairy Prices Respond Differently to Farm Milk Price Shocks

by Donald Blayney and Hayden Stewart



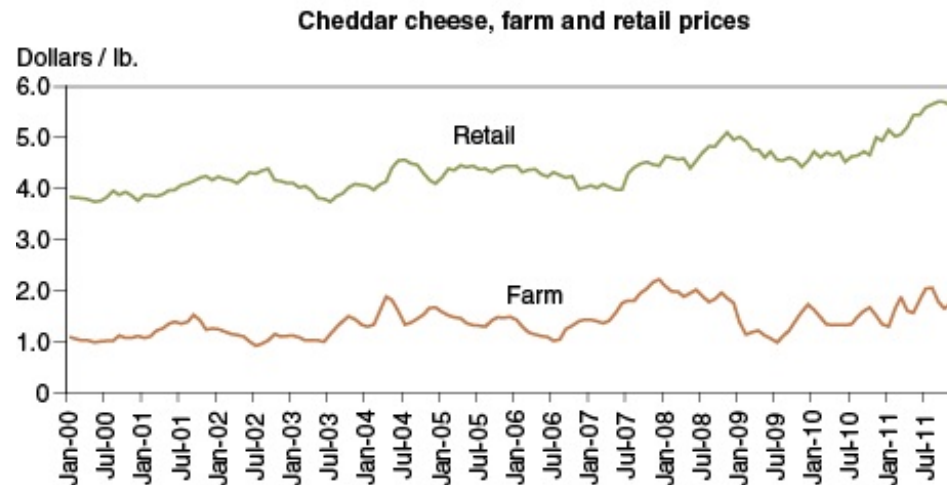
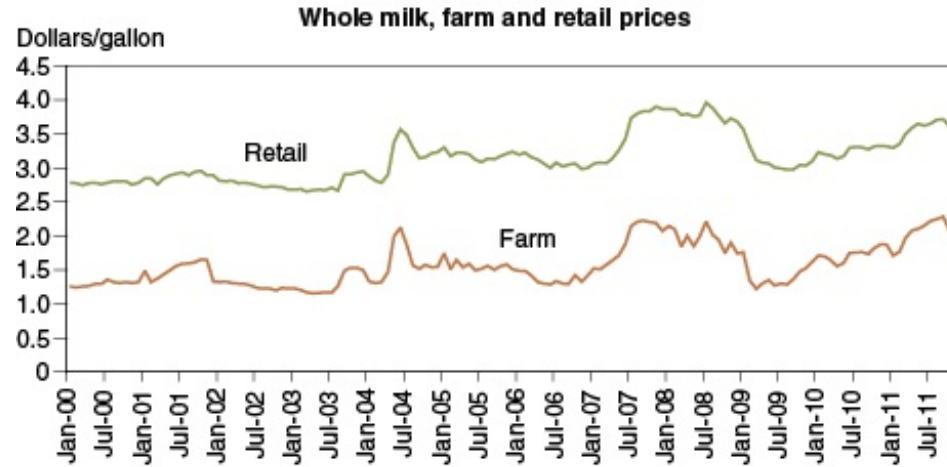
Changes in farm milk prices may not be matched by changes in retail prices for dairy products like fluid milk and cheese. ERS derived the farm value of whole milk and Cheddar cheese and then estimated models to measure the response of retail prices to changes in these farm values. Simulations based on model results revealed that farm milk price shocks are not transmitted instantaneously to retail for either dairy product. The nature of price transmission is also very different for whole milk and Cheddar cheese.

Changes in the farm value and retail price of whole milk tend to track relatively closely over time. Milk moves from farms to retail outlets, via fluid milk processors, in a matter of days. Prices paid at each end of the supply chain are thus close together in time, and changes may be transmitted quickly from level to level.

The relationship between the farm value and retail price is weaker for Cheddar cheese. The farm value of 1 pound of Cheddar cheese fell 12 cents from October to November 2008 while the retail price rose 13 cents. Cheese manufacturing is a lengthier process than fluid milk processing, and cheese may pass through several intermediaries before reaching retail outlets. Prices at each end of the supply chain are thus farther apart in time, and changes at one level are not reflected as quickly at the other.

Significant farm price declines not "seen" at the retail level may often be viewed by some as evidence that marketers are making extra profits while dairy farmers are at a disadvantage. But is that the case? Findings suggest that retail prices do move when farm milk prices drop, but it takes time for the shocks to pass through the firms that manufacture and distribute whole milk and Cheddar cheese.

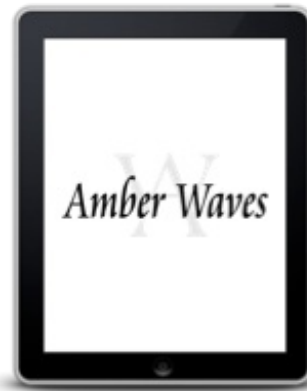
Retail and farm values track more closely for whole milk than cheddar cheese



Source: USDA, Economic Research Service using data from USDA, Agricultural Marketing Service and U.S. Department of Labor, Bureau of Labor Statistics.

This article is drawn from...

"Retail Dairy Prices Fluctuate with the Farm Value of Milk", by Hayden Stewart and Donald Blayney, Agricultural and Resource Economics Review, August 2011, Stewart, H., and D. Blayney. "Retail Dairy Prices Fluctuate with the Farm Value of Milk," Agricultural and Resource Economics Review, vol. 40, no. 1: 201-217.



Amber Waves on Your Tablet

On the go? Stay connected with our *Amber Waves* app for tablets. Subscribe to the quarterly magazine on [iTunes](#) or [Google Play](#).

[ERS Home](#) | [USDA.gov](#) | [Careers](#) | [Site Map](#) | [What's New](#) | [E-Mail Updates](#) | [RSS](#) | [Text Only](#) | [Report Fraud](#)
[FOIA](#) | [Accessibility](#) | [Information Quality](#) | [Privacy Policy & Nondiscrimination Statement](#) | [USA.gov](#) | [White House](#)