

Milk Utilization Patterns in the U.S.

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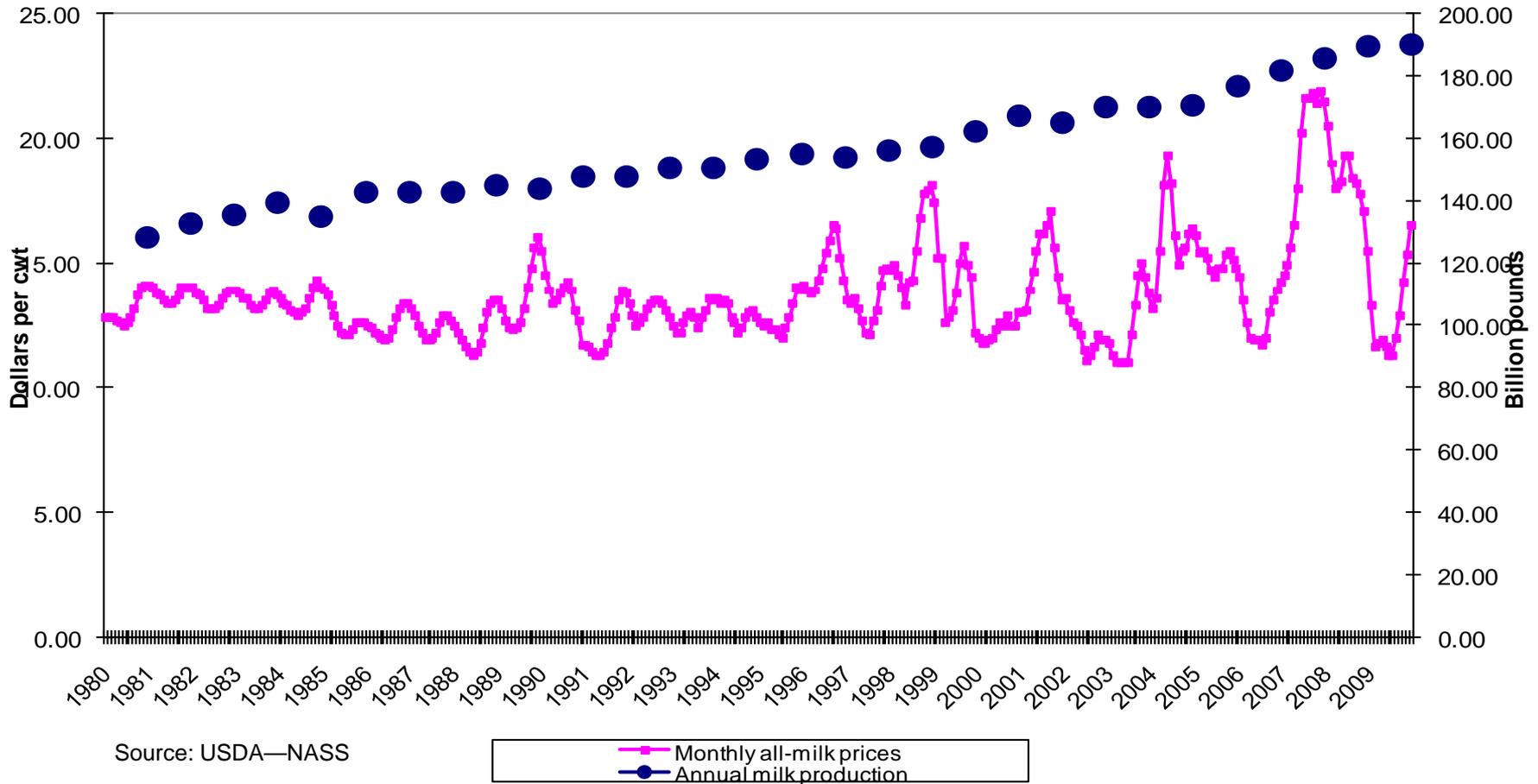


General Overview

- Utilization is a demand concept and there are alternative ways to “look” at it
 - Aggregate milk equivalent, fat basis
 - Fluid and manufactured products
 - “Markets”
 - Time frame 1980-current (2008 given some data considerations)
- Utilization effects on industry structure and dairy policies and programs?
- Closing Comments on utilization
- Some Key Non-utilization issues
 - Other issues receiving attention while Dairy Industry Advisory Committee is at work

Milk Production and Prices, 1980-2009

Milk production and prices, 1980-2009 (preliminary)



Source: USDA—NASS

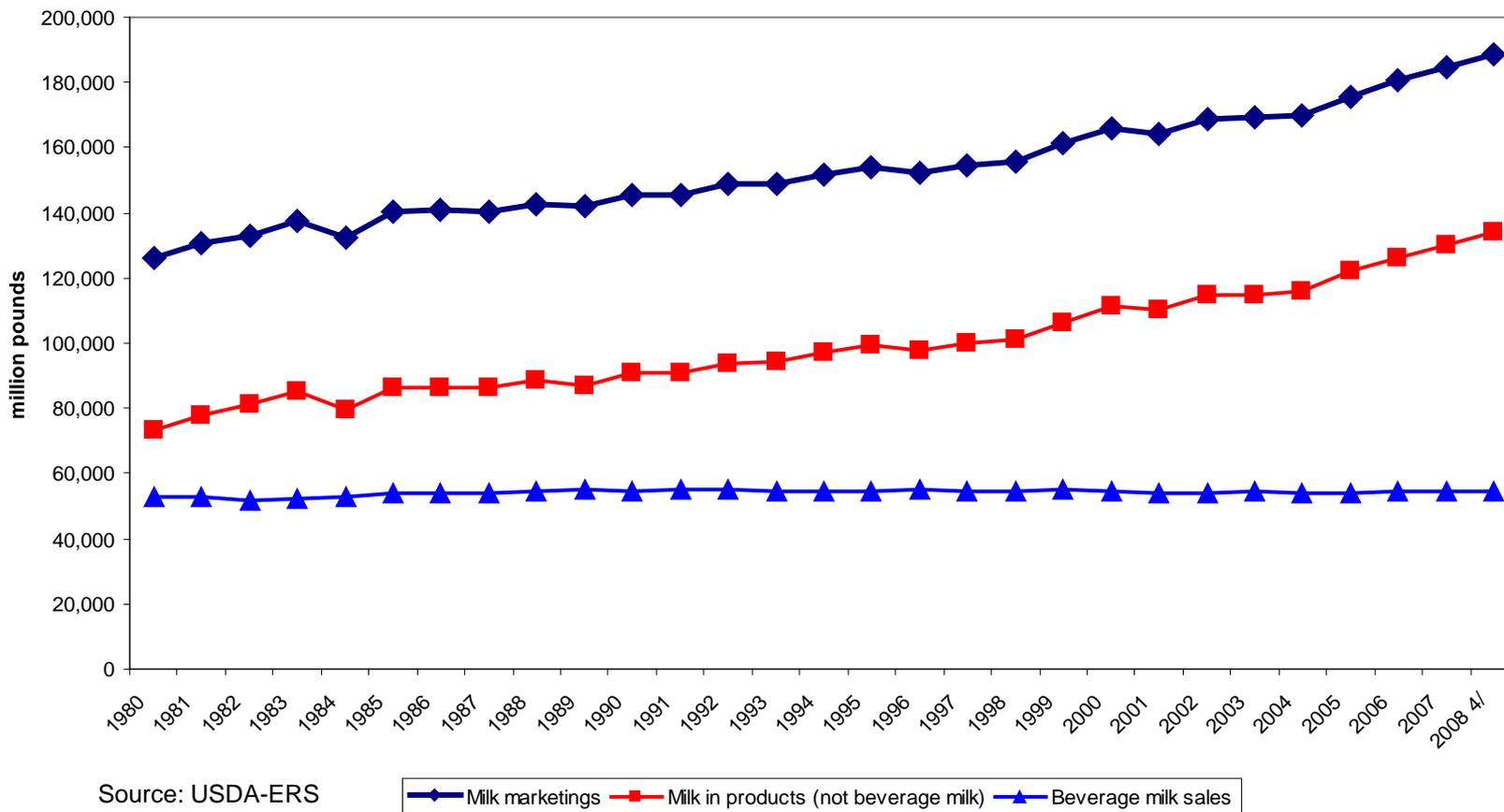


April 13 – 15 , 2010

Presentation to the Dairy Industry Advisory Committee

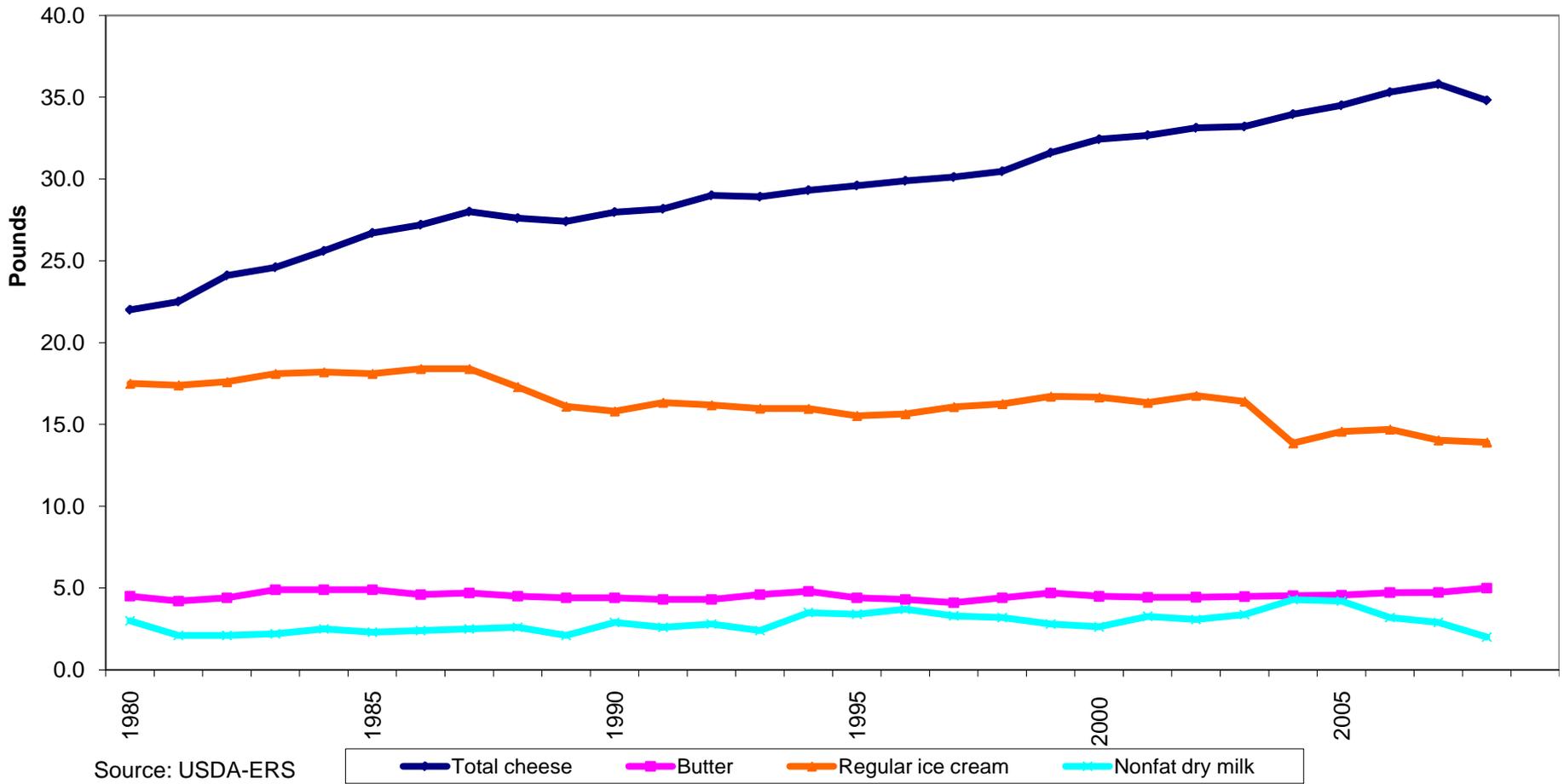
Utilization from an aggregate milk equivalent perspective

Marketings, milk in products, and beverage milk sales, 1980-2008 (preliminary)



Selected Product Utilization

Per capita consumption of selected dairy products, 1980-2008



Source: USDA-ERS



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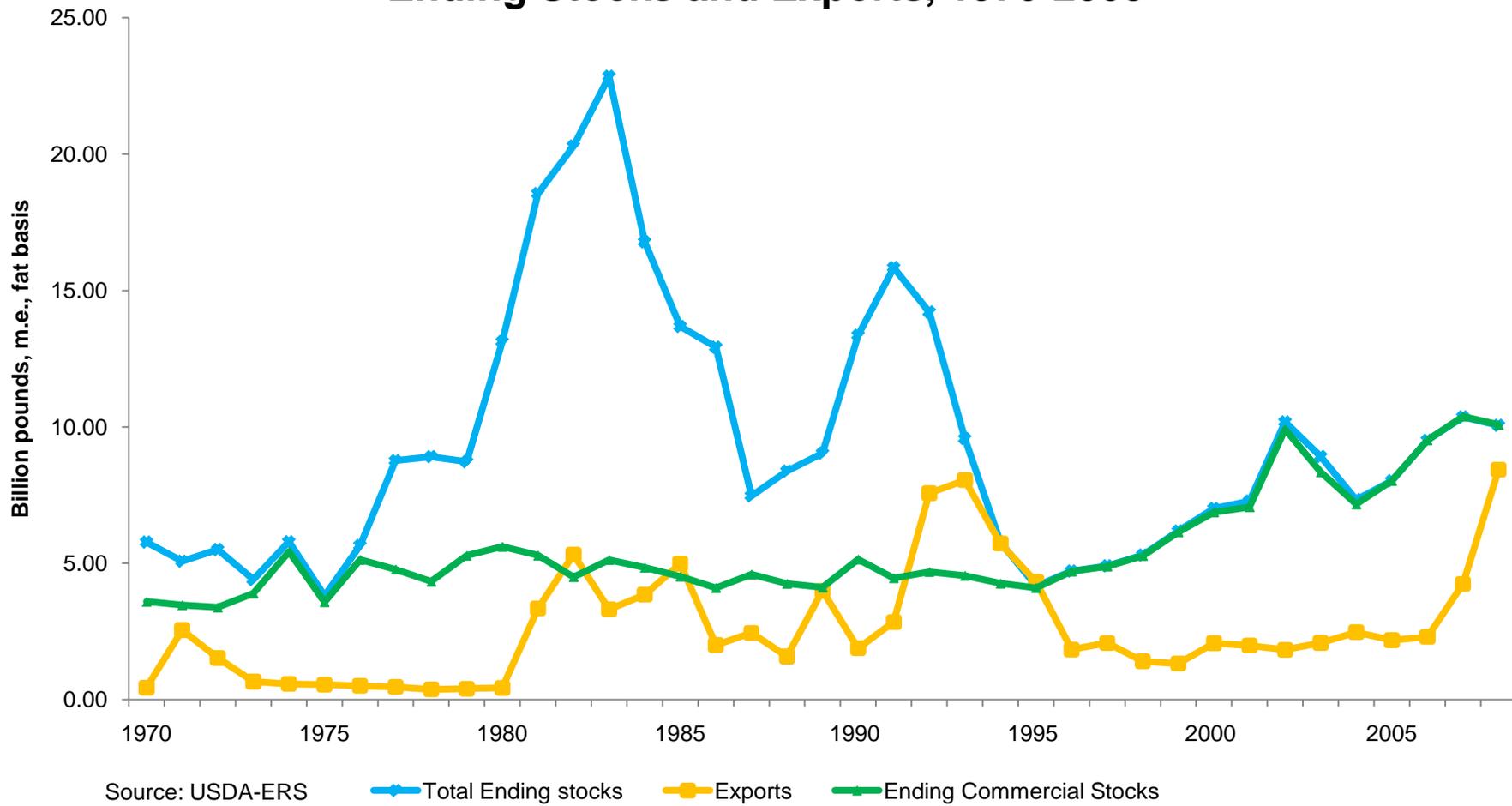
“Market” description of Utilization

- U.S. dairy industry clearly focused on the domestic U.S. market
- Largest share of U.S. marketings remain in the U.S.
 - And in the U.S. “commercial” market utilization grows as stocks are held more in commercial rather than government storage
 - Changes in utilization between home and away-from-home consumption has an impact
- However—export markets continue to be of interest
 - The question is—are these long term market opportunities or will U.S. be occasional supplier internationally
 - Answering this question will require more attention to what is happening in the rest of the world’s dairy industries (not only with respect to trade)
 - The launch of the CME International Skimmed Milk Powder Futures in May



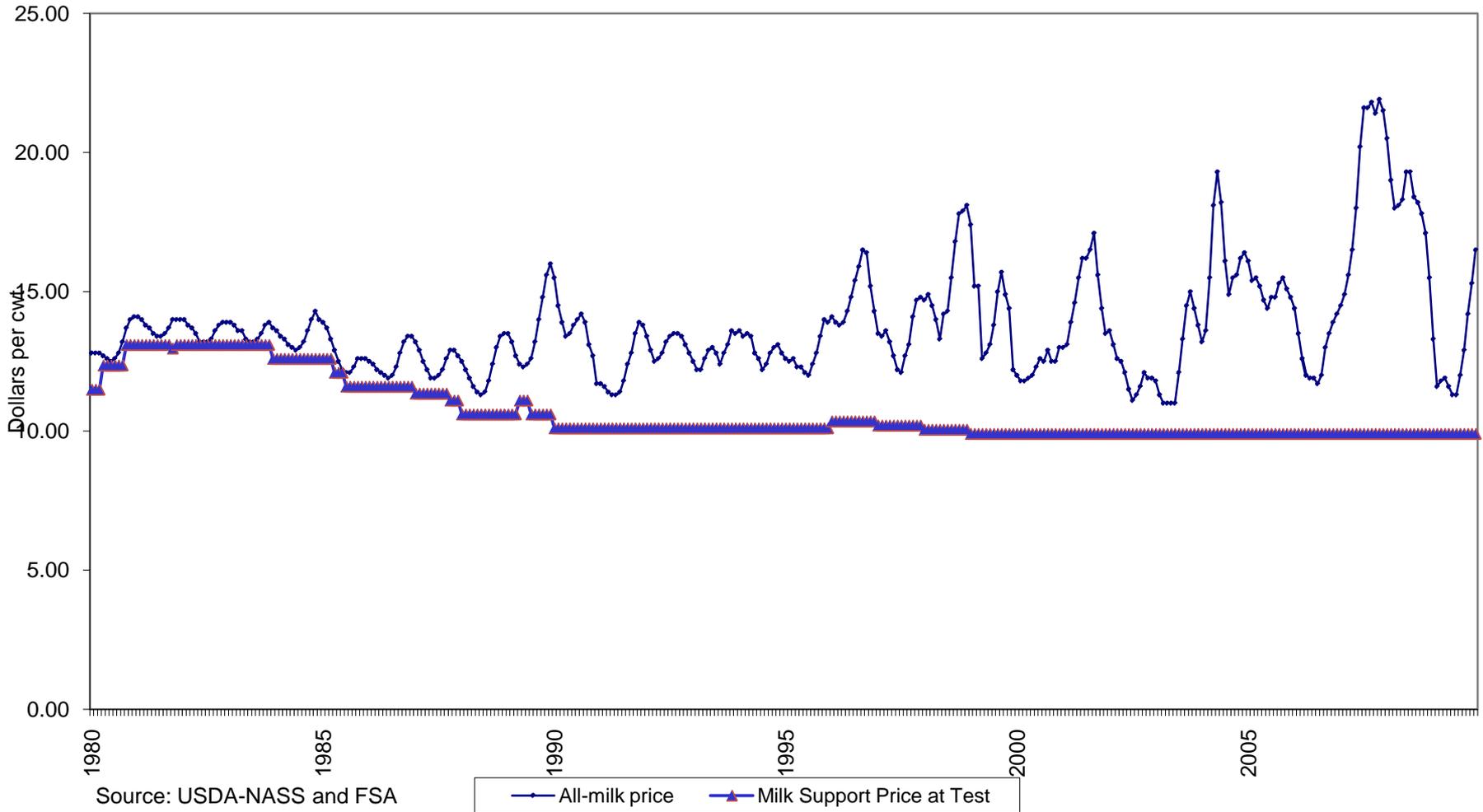
A Look at Stocks and Exports in a “Market” utilization context

Ending Stocks and Exports, 1970-2008



A Reprise of Milk Price data, 1980-2009

All-milk price and Milk Support Price at Test, monthly, Jan 1980-Dec 2009





Summary of Utilization

- Aggregate milk equivalent:
 - Beverage milk flat
 - Increases in aggregate marketings utilized in other products

- Products:
 - Declining fluid consumption
 - Relatively flat (perhaps slight declines) for most manufactured products
 - Cheese increasing

- Markets:
 - Domestic market is “more” commercial
 - Exports, also commercial, becoming more available but also carry risk



Is Utilization linked to Structural changes in the dairy industry and dairy policies/programs?

- Programs/policies first:
- Utilization most clearly “visible” in Federal milk marketing orders (and State programs as well)
 - Class prices, currently 4 in federal orders: I fluid, II cream and frozen products, III cheese, and IV butter/nfdm
 - Use of component pricing in 6 of 10 federal marketing orders recognizes value of components
- Price Support program tied to product utilization and stock decisions



Utilization and Structural changes in the industry

- Fewer and larger product production facilities, but in recent years, there has been an upturn in the number of plants producing some products; not the case for fluid products.
 - Possibly reflecting increasing niche and organic product production
- Not only what products produced at issue, it is also “who” is producing them and what the structure and business practices of those companies are:
 - Fluid product industry mainly proprietary firms
 - Other product industries have cooperative presence to varying degrees

Closing comments on utilization

- Utilization has shown steady upward trend since 1980 driven by underlying consumer choices among wide array of products—cheese being the key. Commercial decisions and exports “more” the norm today.
- Utilization **has been** incorporated in dairy policies and programs, most notably marketing orders where it has implications for pricing and appears to have had some industry structure ramifications.
- There are many questions being asked about the industry today: the Dairy Industry Advisory Committee is in a strategic position to assess the issues and offer recommendations for policy or program changes.



What are some Non-utilization issues?

- Recovery of the macro-economy: domestic and world-wide.
- Congressional actions (some already under way) to get “out in front” of the next Farm Bill debate.
- The jointly sponsored (by USDA and DOJ) workshops on issues in agricultural industries, mainly livestock (including dairy):
 - Dairy workshop to be held June 7 in Madison, Wisconsin
 - Possible topics: concentration, marketplace transparency, and vertical integration in the dairy industry

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