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 polices 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
Utilization from an aggregate milk equivalent perspective

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

Source: USDA-ERS
Selected Product Utilization

Per capita consumption of selected dairy products, 1980-2008

Source: USDA-ERS

- Total cheese
- Butter
- Regular ice cream
- Nonfat dry milk
“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

Source: USDA-ERS

- Total Ending stocks
- Exports
- Ending Commercial Stocks
A Reprise of Milk Price data, 1980-2009

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

Source: USDA-NASS and FSA
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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