BEHIND THE TRENDS: LONG-RUN SHAPERS OF THE DAIRY INDUSTRY

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Behind the Trends: Long-run Shapers of the Dairy Industry

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Dairy demand growth rests on narrow base

- Use has grown slightly faster than population.
- Most demand growth due to cheese.
- Sales of fluid milk and most products flat or declining.
- Relative milkfat and skim solids demand cyclical.
Cheese—the Dairy King

• Per capita use up 120 percent since 1975.
• Cheese now uses more than half the milk.
• Cheese easy way to add flavor.
• Cheese-heavy cuisines find favor.
• Growth formerly shared across varieties.
• Cheddar and Mozzarella account for three-fourths of growth since 1995.
Fluid milk trends fall apart

• Trends strong until late 1980s.
  – Total fluid milk sales up less than population.
  – Whole milk down, 2% up, 1% and skim milk flat.
  – Consumers found compromise between lower fat and taste.
• Sales unpredictable during last 15 years.
• No stable trends or explanation apparent.
Fluid milk sales

- Whole
- 2%
- 1%
- Skim

billion pounds


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Fat’s share of milk value has slipped BUT

- Very gradual trend since 1970.
- Cyclical changes pronounced and much more important than trend.
- Direct consumer shifts less important than ingredient changes by food processors.
Milkfat’s share of the value of milk

The graph shows the trend of milkfat’s share of the value of milk from 1970 to 2003, with a downward trend over the years. The percentage of milkfat in the value of milk decreases steadily from 1970 to 2003.
Cows, milk per cow, and milk production
Production trends driven by input substitutions

• Concentrate feeds cheaper than labor and capital.

• Rising milk per cow and falling cow numbers represent the inevitable substitution.
Milk per cow rose steadily because of…

- Genetic and management advances.
- Structural change, across and within regions.
- Increased feed.
- Boosting feeding much more complicated and difficult than in past.
Cow numbers change because of investment decisions

- Capacity more binding than in past.
- Capacity added by expansions and entry, lost by exits.
- Capacity changes driven by intermediate and long-run prospects.
- Short-run conditions have little impact on changes in numbers, may affect how soon full effects of structural change felt.
Industry less willing to carry stocks

• Information and handling technology have lessened need for stocks.
• Commercial stocks up slightly in recent years--but Government stocks gone.
• Recent stock levels too small to buffer price swings.
• Significant factor in price volatility.
Stocks: sales ratios

Milkfat basis

[Graph showing the ratio of stocks to sales as a percentage of monthly commercial use from 1970 to 2003 for both commercial and government sectors.]
Industry concentration increases

- More concentrated at all levels.
- Dairy little different from other industries.
- Concentration has aggravated thin market problems.
Low stocks, concentration contribute to price volatility
Industry has less dairy identity

- Companies less likely to be long-time dairy.
- Personnel less likely to have dairy background.
- Background diversity brings pluses and minuses.
- Companies and people jump industries much easier.
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