96th Congress } COMMITTEE PRINT
1st Session }

1980 AGRICULTURAL OUTLOOK

Papers Presented at the Agricultural Outlook Conference
Sponsored by the U.S. Department of Agriculture—
Held in Washington, D.C., November 5–8, 1979

PREPARED FOR THE

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY
UNITED STATES SENATE

DECEMBER 23, 1979

Printed for the use of the
Committee on Agriculture, Nutrition, and Forestry

U.S. GOVERNMENT PRINTING OFFICE
53-457 O WASHINGTON : 1979

OUTLOOK FOR DAIRY PRODUCT CONSUMPTION

(By Emerson M. Babb, Department of Agricultural Economics, Purdue University)

I have no serious disagreement with the 1980 outlook projected by Charles Shaw. I suspect that his projections for both milk production and commercial disappearance may be on the low side. Even if production and commercial disappearance do exceed his estimates, the figures for government purchases would not be greatly affected.

DAIRY PRODUCT CONSUMPTION THROUGH 1983

Since I have little to add to what has already been said about the 1980 dairy outlook, I want to discuss dairy product consumption during a longer run period. We used very simple models to project consumption of dairy products during 1979–83. These models were estimated using 1960–78 data. Consumption was then projected on the basis of changes in (1) the consumer price for dairy products, (2) the consumer price index for all food, (3) per capita income, and (4) time (which reflects trends in consumer preferences). The term "consumption" refers to the commercial disappearance of dairy products and excludes donations from USDA stocks. We assumed that the price of all raw milk would increase about 10 percent per year, that the consumer price index for all food would increase about 10 percent per year, that retail dairy prices would increase about 9.5 percent per year and that per capita income would increase about 11 percent per year. These are rather pessimistic assumptions from the standpoint of inflation, but the price increases were assumed to be greater during the 1979–81 period than in later years.

The following annual percentage changes in consumption (disappearance) were projected for the 1979–83 period:

Fluid whole milk	−4.7
Fluid lowfat milk	+7.2
Total fluid milk	−.2
Fresh cream	+4.1
Cottage cheese	−.4
Ice cream	+.7
Ice milk	−2.2
American Cheddar cheese	+5.7
Total natural cheese	+6.6
Butter	+.5

These projections suggest, that while total dairy product consumption will be relatively stable over time, the change for individual products will continue to be important.

The projected decline in consumption of whole milk is almost offset by increased consumption of lowfat milk. This reflects a continuation of the shift to lowfat milk which has resulted from changing consumer preferences and price incentives. Total fluid milk consumption is projected to remain about constant.

Fresh cream represents a turn-around situation. Consumption declined during 1960–70, but has since shown gains. Further gains in cream consumption are expected, but the increases may not be as large as in recent years. On the other hand, cottage cheese consumption during 1960–78 has been erratic, but has shown overall gains. Future consumption of cottage cheese is expected to decline somewhat.

Ice cream consumption increased less than 1 percent per year during 1960–78 and has been about constant for the past several years. But, consumption is projected to increase during 1979–83 at about the same rate as during 1960–70. Consumption of ice milk, which increased during 1960–78, is expected to decline.

Cheese has been the best performer among dairy products. Consumption of American Cheddar and total natural cheese is projected to increase at about the same rate as in recent years. Increased consumption of cheese is due primarily to trends in consumer preferences. These preferences, of course, could change. Further, imitation cheese could have an adverse impact on cheese consumption. Butter consumption declined from 1960 to the early 1970's, but has since stabilized. We may see modest increases in consumption.

IMPLICATIONS

The above projections of consumption will not be completely accurate. Many factors not included in the model could alter consumption patterns. But, the general trends in consumption are probably right.

In the aggregate, dairy product consumption is expected to show modest gains during 1979–83, with increases in excess of 1 percent per year. However, surpluses are not necessarily a thing of the past; 1977 demonstrated that growth in consumption is no insurance against large surpluses. If milk production increases much more than 1 percent per year during 1979–83, from a 1978 base, purchases of dairy products under the price support program could become a burden. On the other hand, if milk production does not show modest gains from 1978, consumers will face larger price increases during 1979–83 which would in turn affect their purchases. This situation emphasizes the importance of maintaining a balance between production and consumption in the years ahead.