



MCT COMPASS

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Reading the writing on the wall

Today, the dairy industry struggles with flat consumption. But what marketers are trying to figure out is whether this situation is temporary – fallout from the sluggish economy – or part of a long-term shift in the consumption patterns of Americans.

Recent reports from USDA and FAPRI suggest that over the next 10-20 years, demographic shifts could result in slow consumption growth for cheese and milk, two products that use more than three-quarters of the milk supply in this country. If this comes to pass, it could have big implications for all sectors of the dairy industry in the years ahead.

Robust growth in cheese consumption fueled the expansion of

milk production over the last three decades. Per-capita use more than doubled from 1975 to 2000, from 14.3 lbs. to 29.8 lbs. Coupled with population growth, that gain allowed cheese production to grow from 2.8 billion lbs. to 8.3 billion lbs. over the 25-year period, and milk production to expand from 115.4 billion lbs. to 167.6 billion lbs. In fact, virtually all the growth in milk production since 1975 is due to demand growth for cheese.

But in the last two years, per-capita cheese consumption has increased only 2-3 ounces, just one-tenth the growth rate of the previous 25 years.

Now markets are trying to figure out where we go from here.

Consider three alternative scenarios (*see chart on p. 2*):

1. The current, long-range consumption growth trend projected out another decade.

2. The FAPRI projection of per-capita cheese consumption from its “U.S. Baseline Briefing Book” released last month.

3. Flat consumption, suggested by USDA’s Economic Research Service in its new study, “Food and Agricultural Commodity Consumption in the United States: Looking Ahead to 2020.”

The difference in cheese production resulting from each of these scenarios is dramatic. Assuming population growth of 0.8% annually, under these three scenarios, U.S. cheese consumption could

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KEN'S CORNER



*by Ken Meyers
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This month's feature explores one of the dairy industry's challenges in the

decade ahead: meeting the needs of a shifting consumer base.

One positive in the ERS report is the conclusion that an aging population is expected to be a boon for the yogurt business. It also should help the dairy ingredient business in products like meal replacements and nutritional supplements.

But do the products, packages and marketing messages we offer consumers today have broad appeal to speak to everyone? Are today's dairy mar-

keters and marketing organizations preparing for the future by inviting consumers from various ethnicities to the dairy case? Have focus groups been conducted to help develop dairy-based products and messages to interest these consumers?

Our ability to understand the needs of these groups can play a big role in the success of the dairy industry into the next decade. □

Spring break?

The dairy markets have staggered off the starting line in 2003 and the current supply-demand situation provides little reason for optimism in the immediate future.

A modest seasonal increase in cheese prices is forecast for this summer. Blocks could climb into the \$1.20s after Memorial Day and could hit \$1.30 by Labor Day. That would lift Class III prices above \$11.00 this summer.

MCT Forecast					
	<u>Block*</u>	<u>Barrel*</u>	<u>Class III</u>	<u>Butter*</u>	<u>Class IV</u>
MAR	1.0810	1.0480	9.13	1.0940	9.79
APR	1.1300	1.1000	9.75	1.1200	9.85
MAY	1.1525	1.1225	10.05	1.1100	9.90
JUN	1.2100	1.1800	10.40	1.1275	10.00
JUL	1.2700	1.2400	11.05	1.1750	10.25
AUG	1.3000	1.2700	11.90	1.2000	10.50

** Block, barrel and butter are monthly averages of CME prices.*

Despite huge stocks, tighter cream supplies this summer should

be good for a slight bump in the butter price. □

Writing on the wall ...

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grow as little as 0.7 billion lbs. or as much as 1.9 billion lbs. over the next decade, requiring milk-production growth of anywhere from 0.4% to 1.0% per year.

Are we ready?

While ERS' forecast may be overly pessimistic (and, in fact, in USDA's own "Agricultural Baseline Projections to 2012," it projects milk production to increase 1.2% annually), it would be foolish to simply brush off the possibility of softer consumption growth in the years ahead. Changes in demographics – an aging, more ethnically diverse population – could result in shifting patterns of dairy consumption.

For instance, the

largest fluid milk demographic is kids ages 5-14, which represents 14.3% of the population today. By 2012, that group will represent just 13.2% of the population. That means that even though the overall population is projected to increase by 24 million people in the next decade, the number of 5-14 year olds will stay the same.

In addition, aging consumers – the number of Americans age 55 and up will increase by 18.2 million in the next decade, while the

number of teens and 30- and 40-somethings drop off – could spell trouble for the pizza and fast-food businesses, which have driven much of the increased cheese use over the last 30 years.

Meanwhile, the proportion of Caucasians in the population is expected to continue to drift lower, while the majority of the population increase comes from Hispanics, Blacks and Asians. All these ethnic groups tend to consume less dairy than Caucasians. □

Three scenarios for cheese consumption growth to 2012

	<u>1. Straight-line trend</u>	<u>2. FAPRI</u>	<u>3. Flat</u>
2012 per-capita cheese consumption (lbs.)	33.9	32.5	29.9
2012 total cheese consumption (lbs.), with change from 2002	10.8 billion (+1.9 billion)	10.3 billion (+1.5 billion)	9.5 billion (+0.7 billion)
2012 additional milk required by cheese plants (lbs.), with annual growth rate	19 billion (+1.0%/yr)	15 billion (+0.8%/yr)	7 billion (+0.4%/yr)

The amount of milk and plant capacity required over the next decade will depend in large part on how quickly per-capita cheese consumption increases.

