

An Outlook of the U.S. Dairy Markets

Executive Summary

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The U.S. dairy industry is a growth industry that features ever-increasing gains in milk production driven by increased production per cow and at times dairy herd expansions. In recent years, the vast majority of U.S. milk production is demand driven and has cleared the commercial market place. Unlike dairy industries that are plagued by quotas and government surpluses in other developed countries, such as those in Canada and the European Union, the U.S. dairy sector continues to grow both its milk production and dairy product demand.

Over the past three decades, there has been a continual shift in milk and cheese production from the traditional milk producing regions of the Northeast and Upper Midwest to the West. Economies of scale at the farm-level and in the processing sector are the key driving forces supporting this trend. Dairy farms in the Western region are dominated by operations with more than 1,000 cows, while the majority of dairy farms in the Midwest and Northeast have less than 100 cows. Likewise, several cheese plants in the Western region receive more than 3.0 million pounds of milk per day with the largest facility receiving over 9.0 million pounds of milk per day. Most of the Midwest and Northeast cheese plants receive less than 1.5 million pounds of milk per day.

As the dairy industry moves into the next decade, growth in milk production will come from large-scale agricultural enterprises located predominately between the Rocky Mountains and the Mississippi River. Expanding operations in the Northeast and Upper Midwest may not be able to make-up for the number of exits of smaller operations.

While it is easy to focus on the shifts in production one should not neglect the evolving changes.

- Franchising of Western-style dairy operations across the Mideast, Upper Midwest and Plain states.
- Enhancement of dairy genetics through sexed semen
- Potential for lower entry costs through sexed semen
- Impact on feed costs due to rising demand for corn by ethanol plants
- Increased interest by individual or groups of producers in vertical integration
- Continual market growth for most dairy products
- Increased product segmentation: bST-free, Antibiotic-free, Grass-fed, etc.
- Increased demand for specialty or designer milks
- Elimination of sodas in the schools — an opportunity for dairy
- Global trade continues to increase for dairy powders and other ingredients
- Trade liberalization dependent upon Doha agreement and limited sensitive product exclusions
- 2007 Farm Bill and subsequent Farm Bills are expected to continue direct income support through non-Amber box methods

- Restructuring of dairy cooperatives
- Reformulation of milk pricing formulae
- The impact of CWT and its role in maintaining or supporting milk prices