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Say Cheese! Rising Demand Drives Growth in U.S. Milk Production

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While it is true that Americans are drinking less milk, demand for other U.S.-produced dairy products continues to grow. Domestically, Americans are eating more cheese, yogurt, and butter, which more than offsets declines in fluid milk consumption. The rest of the world is also demanding more U.S. dairy products. Over the past ten years, U.S. milk production has increased by 13%, accommodating domestic and international demand growth which has resulted from rising incomes and the expansion of quick-service restaurants. Lower milk prices have also encouraged cheese manufacturers to increase production, leading to high stock levels. High stocks coupled with weak domestic prices means consumers are unlikely to face any sticker shock in the near future.

A Growing Appetite for Cheese

According to USDA data, Americans drank 149 pounds of milk per capita in 2017, down from 247 pounds in 1975. Over the same period, per capita consumption of cheese grew from 14.3 pounds to 36.9 pounds. The 22.6-pound increase in per capita cheese consumption over this period equates to 226 pounds of milk because it takes about 10 pounds of milk to produce a pound of cheese (see Figure 1). As a result, the 98-pound annual decrease in fluid milk consumption has been more than offset by the 226-pound increase in milk used to manufacture cheese.

The cheese category has grown over several decades as demand for natural cheeses like American (which includes cheddar, colby, and jack cheeses) and Italian-style cheese (dominated by mozzarella) has grown – from an annual average consumption of 11.7 pounds and 10 pounds per capita, respectively, in 1995 to more than 15 pounds each in 2017. Of the nearly 7 pounds of per capita cheese consumption not associated with the American or Italian categories, cream cheese is the next largest category, with 2.6 pounds of annual consumption, followed by Swiss cheese, with 1.1 pounds, and Hispanic cheese, with 0.8 pounds per person.

Despite recent claims that the processed cheese category is in decline, USDA per capita consumption data suggests that Americans continue to consume American singles and Velveeta. In 1995 the average American consumed 5.44 pounds of processed cheese. In 2017, the volume was 5.16 pounds. However, per capita consumption of processed cheese trended lower from 1995 through 2010, when it bottomed out at 3.53 pounds per person. Since then, per capita consumption of processed cheese has moved higher, reaching 5.16 pounds in 2017, which is the highest level since 1996.

Information Resources Incorporated (IRI) data indicates that retail sales of processed cheese have been unimpressive, declining 3.9%, to 706m pounds in 2017, from 735m pounds in 2016. That trend continued into 2018, with sales estimated at 680m pounds, down 3.8% vs. 2017. This means that processed cheese demand in the foodservice and food ingredient sectors have offset the retail slump. Think of the cheese on sandwiches, hamburgers, chicken sandwiches, veggie burgers, wraps, pitas, breakfast sandwiches, and pizzas, as well as frozen variations of all of the above.

Cheese Stocks Rise Despite Strong Demand

Rising incomes and the expansion of quick-service restaurants have grown global demand for milk and dairy products. Since 2000, U.S. dairy product exports have propelled from less than 3%

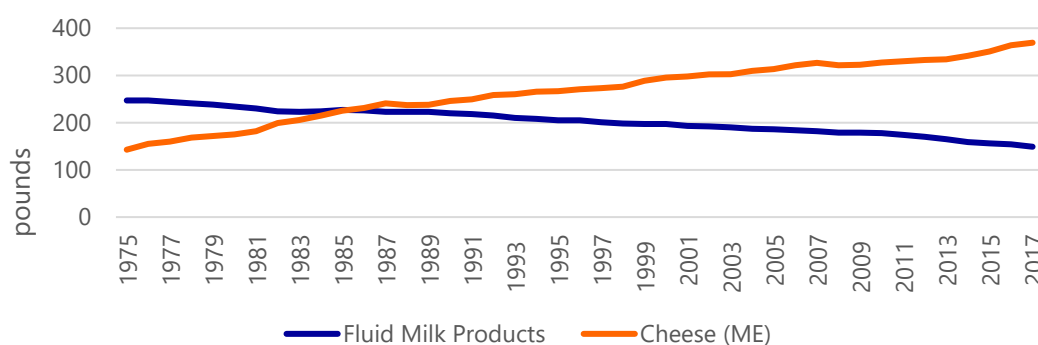
of total milk production to more than 15% in 2017. International markets claimed 57% of U.S. non-fat dry milk, 46% of the country's dry whey, 6% of its cheese, and 3.3% of its butter in 2017. Through October 2018, U.S. cheese exports totaled 294,170 metric tons, up nearly 3% from the previous year.

Despite rising domestic demand and increased exports, U.S. stocks of cheese as of November 30, 2018 topped 1.35bn pounds, up 7% (or 94m pounds) from the previous year. Higher stock levels are understandable, given that 2018 U.S. cheese production neared 13bn pounds, up 2.5% or about 316.5m pounds. Increased production has contributed to more cheese in the supply chain – from the manufacturing facility where it is produced and often held for two weeks to clear quality, to cut-and-wrap or shredding facilities, to distribution centers, and ultimately on the retail shelf or in a foodservice outlet as an ingredient.

Lower milk prices in 2018 – the lowest price since 2010 – also contributed to the bump in cheese stocks. Manufacturers of aging cheeses, such as aged cheddar, took advantage of the opportunity to put cheese that will be cured for several months, or even several years, in storage.

Higher stocks and lower-than-expected cheese exports to Mexico have contributed to weaker domestic cheese prices, particularly in the second half of 2018 and into 2019. As a result, the average consumer price index for cheese slipped 1% in the last six months of 2018, vs. the first six months of 2018 – and it is expected to be lower than the prior year during the first quarter of 2019. This means that consumers are unlikely to face any sticker shock when stocking up on cheese for their annual February Super Bowl parties.

Figure 1: U.S. Per Capita Consumption Fluid Milk and Cheese, 1975-2017



Source: USDA, Rabobank 2018

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