

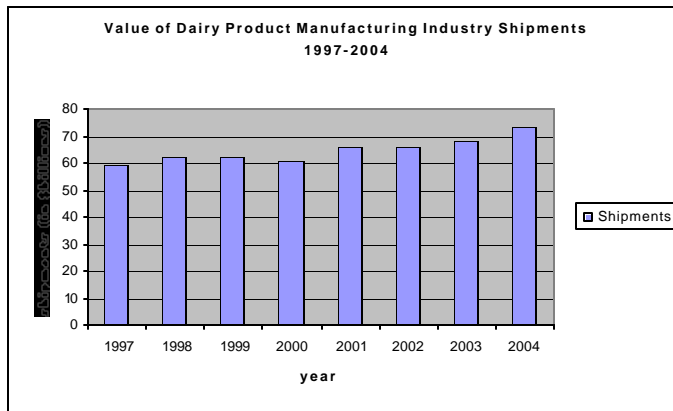
Dairy Manufacturing Industry Outlook

Dairy Product Manufacturing Industry Definition

The dairy product manufacturing industry (NAICS 3115) comprises establishments that manufacture dairy products from raw milk, processed milk, and dairy substitutes. Subsectors in this category include dairy product (except frozen) manufacturing (NAICS 31151) and ice cream and frozen dessert manufacturing (NAICS 31152).

U.S. Domestic Industry Overview

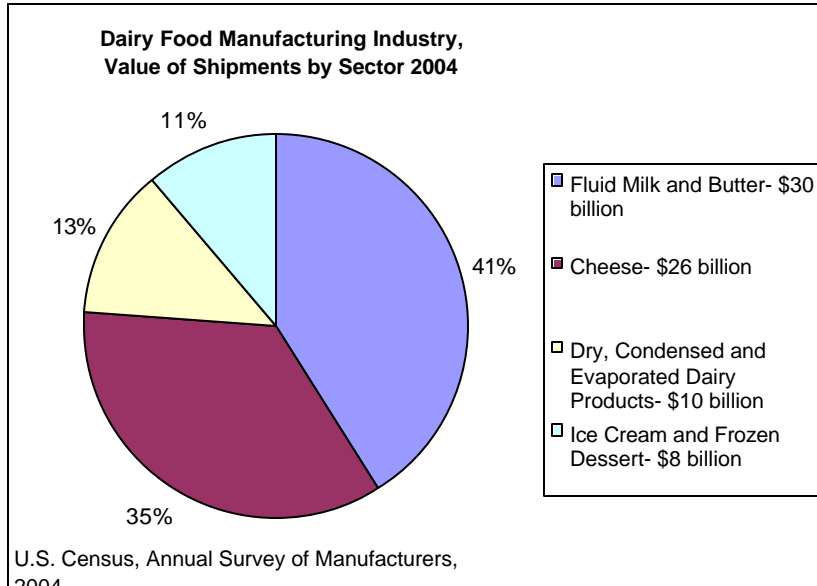
The dairy product manufacturing industry has experienced relatively steady growth over the 1997-2004 period. In 2004, the value of dairy product shipments was \$73 billion, an increase of 24 percent from 1997 shipments of \$59 billion (see chart).¹



The majority of the \$73 billion in dairy shipments were for fluid milk and butter (41%) and cheese (35%). Dry, condensed, and evaporated dairy products made up 13% of shipments while ice cream and frozen desserts made up 11%. (See pie chart below).

In 2005, the ten largest U.S. companies in this sector according to *Dairy Foods* were Dean Foods, Kraft Foods North America, Land O'Lakes, Schreiber Foods, HP Hood, Kroger Co. Dairy Operations, Dairy Farmers of America, Leprino Foods, Good Humor-Breyers Ice Cream, and Dreyer's Grand Ice Cream Holdings.

¹ This chart reflects growth in current dollars, not real dollars and does not account for changes in inflation.



According to the International Dairy Food Association, in 2004, the U.S. milk supply utilization by product was:

Fluid Milk (beverage milk, milk products, and cream and cream products)	33%
Cheese	40%
Butter	13%
Frozen dairy products	8%
Evaporated and condensed milk	1%
Used on farms where produced	1%
Other uses	5%

U.S. Dairy Policy

Federal dairy policy is comprised of two main programs: a milk price support program and federal milk marketing orders. Under the price support program, the government buys back butter, Cheddar cheese, and nonfat dry milk at a set price, which supports the price of milk. Federal milk marketing orders regulate prices for milk according to its grade. Additionally, dairy product imports are limited through a system of tariff rate quotas, which also acts to increase the domestic price of milk. Some dairy products such as milk powder, butterfat, and certain cheeses qualify for export subsidies.

Employment

Employment in the industry declined slightly by 1% from 1996 to 2005, decreasing from 133,500 to 131,700.



Source: Bureau of Labor Statistics

The dairy products, except frozen category employed the largest number of workers in 2005 employing 82 percent of total industry workers.

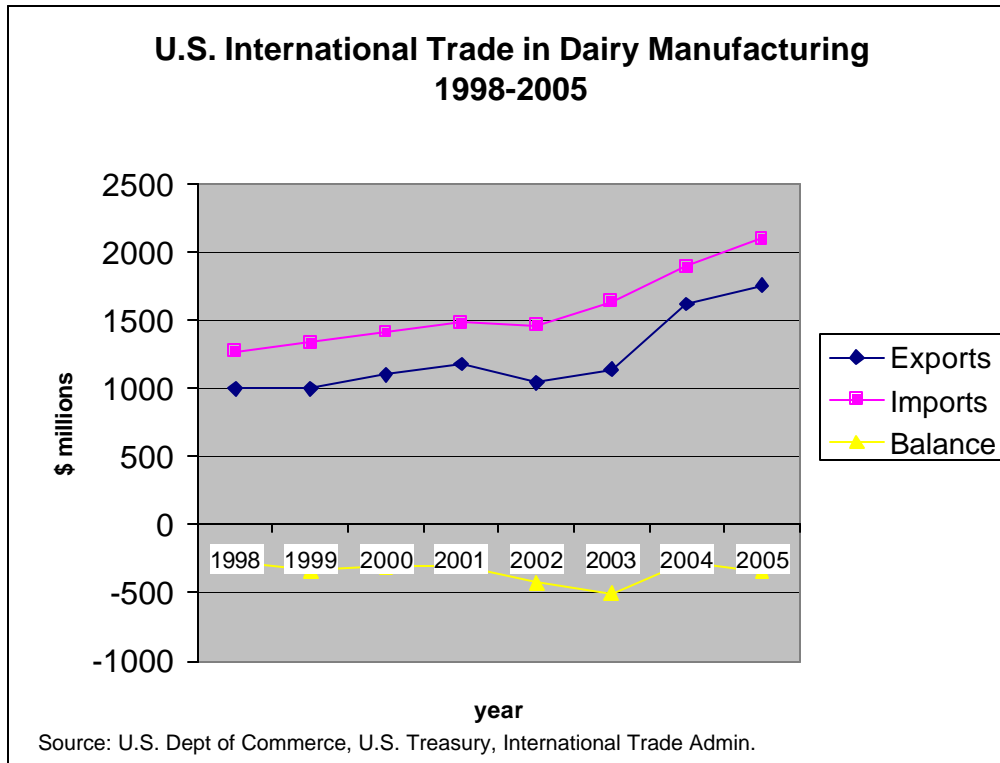
<u>Industry</u>	<u>Employment 2005</u>	<u>%</u>
Dairy Products Manufacturing	131,700	100
Dairy Products, except frozen	108,300	82
Ice Cream and Frozen Desserts	23,400	18

Source: Bureau of Labor Statistics

World Market and Trends

In 2005, the U.S. dairy food industry exported \$1.8 billion of product and imported \$2.1 billion. The dairy food industry has had a trade deficit throughout the 1998-2005 period.² (see chart).

² This chart reflects growth in current dollars, not real dollars and does not account for changes in inflation



Imports

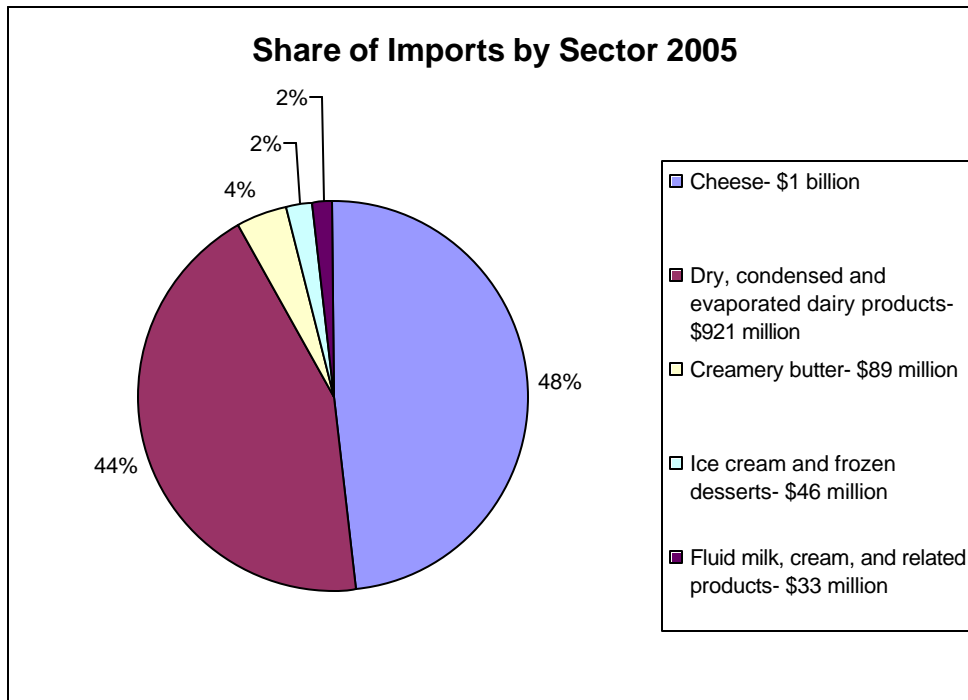
In 2005, five countries accounted for 59 percent of the \$2.1 billion in U.S. imports of dairy manufacturing products: New Zealand (21%), Italy (11%), Canada (10%), Ireland (9%), and France (8%).

U.S. Trade Patterns in Dairy Product Manufacturing (NAICS 3115) in 2005 (millions of dollars; percent)

Imports		
Region	Value	Share, %
EU 25	935	45
Rest of World	682	33
NAFTA	274	13
Lat in America	109	5
Other Asia	76	4
Japan/Chinese Economic Area	20	1
Total	2,096	100

Top 5 Countries		
	Value	Share of Total, %
New Zealand	430	21
Italy	224	11
Canada	220	10
Ireland	192	9
France	162	8

Cheese products made up the largest portion of imports (\$1 billion). This was followed closely by dry, condensed, and evaporated dairy products with imports of \$921 million.



Exports

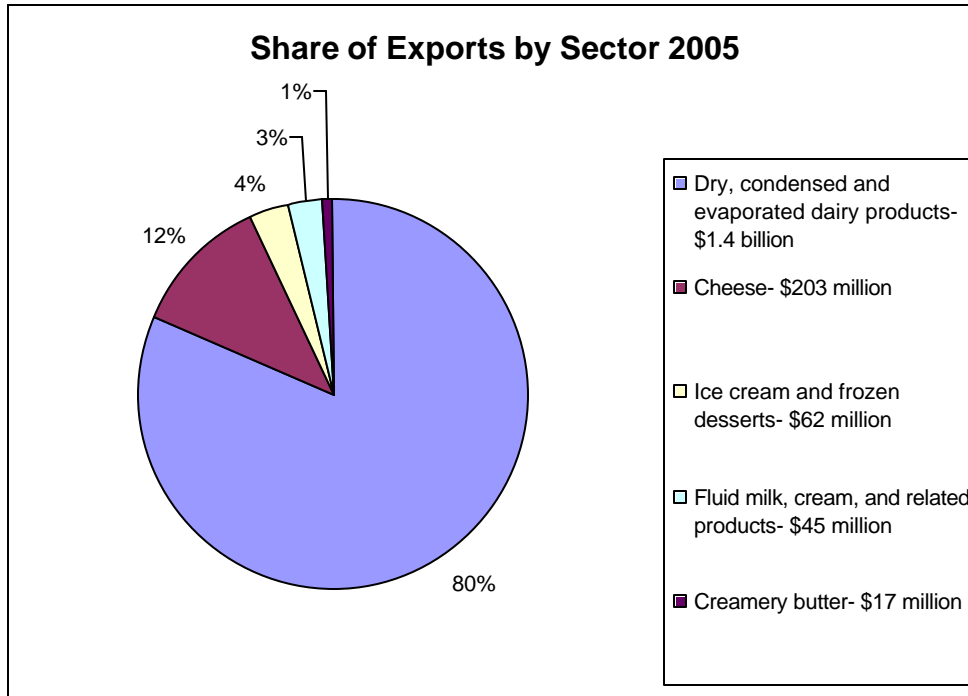
In 2005, five foreign countries accounted for 61 percent of U.S. dairy manufacturing exports: Mexico (32%), Canada (15%), Japan (6%), Philippines (4%), and China (4%).

U.S. Trade Patterns in Dairy Product Manufacturing (NAICS 3115) in 2005 (millions of dollars; percent)		
Exports		
Region	Value	Share, %
NAFTA	818	47
Other Asia	341	19
Japan/Chinese Economic Area	212	12
Rest of World	174	10
Latin America	172	10
EU 25	37	2
Total	1,754	100
Top 5 Countries	Value	Share, %
Mexico	554	32
Canada	264	15
Japan	106	6
Philippines	63	4
China	62	4

Source: U.S. Department of Commerce, Bureau of the Census

NAFTA eliminated most Mexican and Canadian tariffs on U.S. processed food exports. This particularly benefited milk and cream product producers. NAFTA currently still has tariff rate quota and over quota tariffs on imported milk powder but these will be lifted on January 1, 2008.

Dry, condensed, and evaporated dairy products made up the largest share of the \$1.8 billion in overall dairy product exports in 2005 (80%). This was followed by cheese (12%), ice cream and frozen desserts (4%), fluid milk, cream, and related products (3%) and creamery butter (1%).



According to the U.S. Department of Agriculture, following are the outlooks for the top five largest export countries:

Mexico: Imports of all dairy products are expected to rise due to demand for processing inputs, and demand from tourism and retail sectors.

Canada: The U.S. is a primary source for both Canadian dairy imports and exports and this will likely remain unchanged in the near future.

Japan: Import demand for cheese will likely be negatively affected by high international prices.

Philippines: Imports of dairy products are expected to continue to rise as domestic production supplies only 1 percent of growing Philippine dairy requirements.

China: The U.S. is the second largest dairy supplier to China's market and U.S. market share is gaining relative to the top six suppliers. Strong U.S. exports appear likely to continue in 2006 due to the devalued U.S. dollar, EU countries' quota production constraints and reduced government subsidies in dairy, as well as dry weather in Australia and New Zealand, which will continue to favor imports of U.S. products.

Industry Shows and Trade Events

World Dairy Expo

Madison, WI

October 3-7, 2006

<http://www.worlddairyexpo.com/gen.main.cfm>

Worldwide Food Expo; Food, Dairy, and Beverage Exposition

Chicago, IL

October 24-27, 2006,

<http://www.cmgexpo.com/idfa/>

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