

Growth and opportunity is here

# Confidence in the Northeast Milk Supply

In business, you can monitor harbingers that provide a glimpse of the current and future economy. For instance, if you are in advertising, marketing and promotion, ask a graphics or printing company how business is, and you can tell if a recession is around the corner or if the economy is picking up.

As the Executive Director of a trade association representing dairy product processors and manufacturers in the Northeast US, I can say it is a dramatic and exciting time for the entire dairy industry. In my 30 plus years working in the dairy processing and manufacturing industry, I have never witnessed the confidence exhibited by these companies to build, expand, purchase new equipment or remodel.

Ask me how our association is doing and I'll tell you we have never been busier. I asked myself after one of those very hectic days, what is going on? I came to realize a trade association is a focal point for the industry it represents. If the industry is growing and expanding like ours is in the Northeast, then it stands to reason there are many requests, information leads, networking, memberships, meetings, projects, press articles and events.

If you are a dairy producer in the Northeast, I encourage you to ask how the industry around you is doing. One answer could be, look at the confidence dairy processors have to invest millions of dollars in

manufacturing facilities. Another answer could be, look at the new customers in the region who need more farm milk.

How much confidence is there? Let me give you an example. It is roughly estimated that processors and manufacturers in this region have invested and spent about three quarters of a billion dollars within the past five years, with more to come soon. All of this happened during an economic downturn. The investor's goal: to process or manufacture a dairy product or food made from the vast available milk produced in the Northeast to meet growing consumer demand. Here are a few names of your customers, the companies who have invested for consideration: HP Hood, Byrne Dairy, Upstate Niagara Coop, Great Lakes Cheese, Commonwealth Dairy, Muller Quaker Dairy, Alpina Foods, O-AT-KA Milk Cooperative, Steuben Foods, CASP LLC, Yancey's Fancy, Cayuga Marketing Group, and of course, mega Greek yogurt manufacturers like Chobani and Fage USA, Inc. This doesn't even cover dozens more small start-up operations, including local artisanal cheese, and other types of entrepreneurial dairy businesses. Who knows, we could hear more about one of these start-ups as the next new mega dairy company in the future. We can even look to two of the country's finest dairy and food science universities, Cornell and Penn State. Both have recently invested millions of dollars to upgrade their dairy plants, food science and research operations.

Included in this effort and show of confidence are local and state governments. States like New York, Pennsylvania and Vermont continue to provide assistance to dairy producers, processors and manu-

*Please turn to page 26*



## FYI

■ Bruce W. Krupke is the Executive Vice President since 1992 of Northeast Dairy Foods Association, Inc., located in N. Syracuse, NY and is a full service organization since 1928 dedicated to dairy product processors, manufacturers and distributors.

## ISSUES AND PERSPECTIVES

By Edward Gallagher

Opportunities in Northeast signal positive outlook

# Manufacturing Boom Will Tighten Local Milk Markets

I am very optimistic about the long-term dairy outlook for farmers.

The US economy continues to improve. Consumer focus on health and nutrition provide opportunities for growth in dairy product demand. Globally, demand growth continues to be strong — especially for dried proteins. Although New York and other areas of the Northeast are a long distance from China, Thailand, New Zealand and other Western hemisphere countries, the impact of their consumers and dairy production sectors stretches all the way back to your milk check.

Closer to home, the Northeast is seeing unprecedented growth in manufacturing capacity — buoyed by the yogurt industry. Manufacturing growth is feeding consumer demand growth for Northeast manufactured products. Yogurt has been the “media darling” of the local dairy industry. Federal Order No. 1 statistics show that the growth in milk delivered to yogurt plants has more than offset the decline in milk delivered to Class I plants (see chart). Though we are in the midst of longer-term demand deterioration in Class I, numerous industry groups, cooperatives and milk companies are developing innovative projects to stem the decline.

Much of the plant infrastructure investment is centered in New York. The most prominent are the

Greek yogurt-fueled investments of Fage, Chobani, Alpina and Muller. Additionally, Byrne Dairy has plans for constructing a yogurt plant, and Upstate Niagara built a plant not too long ago, and purchased a shuttered facility for yogurt production.

In Vermont, Commonwealth built a new facility for Greek yogurt production. Other yogurt makers are expanding their production as well.

After fluid milk, cheese production continues to be the second largest outlet for the region’s milk supply. Since 2006, growth in Northeast cheese production has absorbed more than 700 million pounds of incremental milk production. Numerous cheese manufacturers continue to make investments in their Northeast plants to take advantage of growing domestic and international sales opportunities. Most prominent of these is the new cheese plant built by Great Lakes a few years ago.

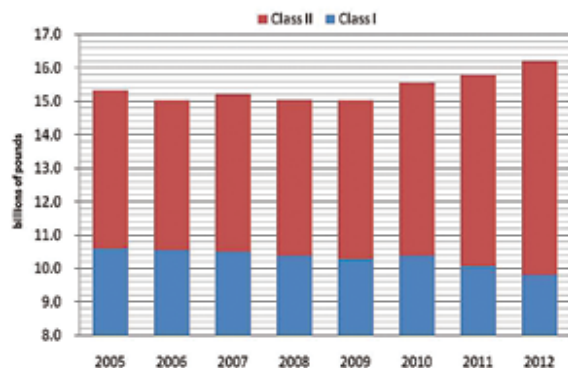
US dairy exports exceeded 17 percent of the US milk supply this summer. The largest component, by far, of these exports is milk powder. Once labeled as a surplus or balancing product, the growing global demand for milk powder has brought on new opportunities for ingredient plants to generate value-added revenue.

Northeast powder plants now are faced with new challenges of procuring enough milk to meet their growing export sales needs. New construction, and additional investment is occurring in milk ingredients plants, such as plants producing milk components, including cream, powder and condensed.

The Northeast’s milk production has grown, largely from increases in New York. During the last five years Pennsylvania’s milk production has been down a little and Vermont’s has been up a little. In New York, milk production has increased by about one billion pounds in the same time frame, although for the better part of the early 2000s, New York’s milk production was flat (see chart).

Milk production in New York is growing primarily due to the large number of dairies milking 500 or

**Class I and II Pool Pounds, Federal Order No. 1, Annual Totals**



## FYI

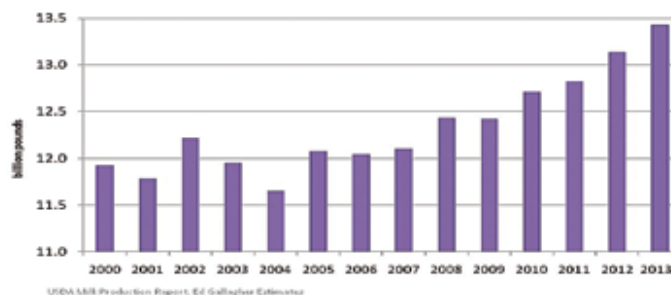
■ Edward Gallagher is President of DFA Risk Management. Email: [egallagher@dfamilk.com](mailto:egallagher@dfamilk.com).

**THE MANAGER**

more cows. During the last few years the total quantity of milk produced on these dairies appears to be outpacing the declines in milk production from all other dairies. While some dairies with fewer than 500 cows have increased production, the aggregate production from all of these farms declined. This dynamic is not occurring in other areas of the Northeast. More of the same will likely occur in New York, meaning that during the next five years we can expect to see New York milk production increase by another billion pounds.

Crop conditions play a large role in the Northeast's milk production. The quantity and quality of the region's forages can result in milk production growth, stagnation or even declines. During the last few years, many areas of the Northeast have enjoyed good home grown forages, even during last year's drought, although crops were ravaged by drought or floods in some areas. The mid-September "look ahead" on Northeast forage expectations is "mixed" at best. Discussions with dairy operators and field staff indicate that crop production may not be uniform throughout the Northeast. Western and parts of Central and Eastern New York and Pennsylvania predominantly expect good forage production. Northern New York and New England forages do not look as good and may result in reduced quantity. Forage quality is unknown.

Largely influenced by expectations of the region's forage conditions, my expectation is that Vermont and New England may see flat to declining milk production during the next 12 months, with Pennsylvania and New York up slightly. Region-wide, I do not anticipate production growth to be as strong as it has been during the last

**NY Milk Production, 2000-2013E**

12 months, and there is a chance of reduced milk production.

During 2013, the Northeast's milk supply has been in reasonably good balance with the region's demands at fluid and manufacturing plants. As New York's milk production increased during the last five years, demands from local plants increased at about the same rate, even with the decline in the Class I sector.

Additional plant capacity will come online during 2014, and demands will continue to grow at a number of other plants. In the next six to 18 months, the region's plant demands are expected to grow significantly.

Despite the potential for continued growth in the Northeast's milk supply, a production shortfall of one to two billion pounds could very well occur. This will likely tighten up Northeast markets for the next few years. □

Confidence in the Northeast Milk Supply *continued from page 24*

facturers. Just over a year ago NY State Governor Andrew Cuomo held the first Yogurt Summit in Albany. Assembled at this meeting were many leading dairy industry representatives. This meeting, in my mind, was the official start of the race. The actual public horn to signal the dairy industry is on the move. An outcome of this meeting was action by the state to actively address the opportunities and need for increased milk production to meet projected plant demand.

The growth is astounding. Trying to calculate the exact new demand for farm milk now, and in the near future, isn't easy. Estimates are still in the range of 2 to 3.5 billion more pounds of milk per year will be needed in the region by the end of 2014!

Where else are signs of encouragement? The most important area where the entire industry should look is the dairy product consumer. In the end, it is the consumer our industry always has to focus on. It is not easy, although signs are here as well. Today's consumer is looking for something in dairy, namely higher protein, lower fat and nutritious, tasty products. They continue to increase spending on dairy products. Since 1990, household spending on all dairy products is up almost 30 percent, and not all of this is due to higher prices. Much of it is due to higher consumption.

The American dairy consumer is making different choices and continues to change their eating habits. It is true, domestic fluid milk consumption has slumped over the past two to three years, although this is somewhat expected with the hundreds of other new beverage choices available.

We are adapting, and the proof is in the milk-based puddings, yogurt, cheese, extended shelf life and all kinds of innovative new dairy products. The kind we manufacture in the Northeast. Our dairy plants recognize consumers are changing, and continue to address those patterns through research, innovation and investment. Also worth mentioning, and included in this activity, are the hundreds of licensed distributors who continue to improve their fleets, warehouses and delivery methods to move fresh dairy products safely from the plants to retail, foodservice and wholesale outlets.

One more final area dairy producers and manufacturers can no longer ignore are our new export customers. Look for the signs. If our country continues to produce, process and manufacture quality dairy products efficiently and competitively, the world will be our buyer, to everyone's benefit. The US Dairy Export Council just reported we exported a record 17.6 percent of equivalent total milk solids production in July! Areas such as China, Japan, Indonesia, South America and South Korea, not to mention our biggest customer Mexico, are buying our products in record numbers. As these areas of the world increase their spending power, they are looking to purchase our nutritious, protein rich and safe quality dairy products. The dairy industry in the Northeast can compete as a major milk producing region and as a supplier to the country and to the world.

The signals are here to be seen, there is confidence in our industry, and it is flourishing here in the Northeast. □