

Challenges and Opportunities for U.S. and New York Cheese Makers in the 2020s

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All Natural Cheese Categories continue to show growth

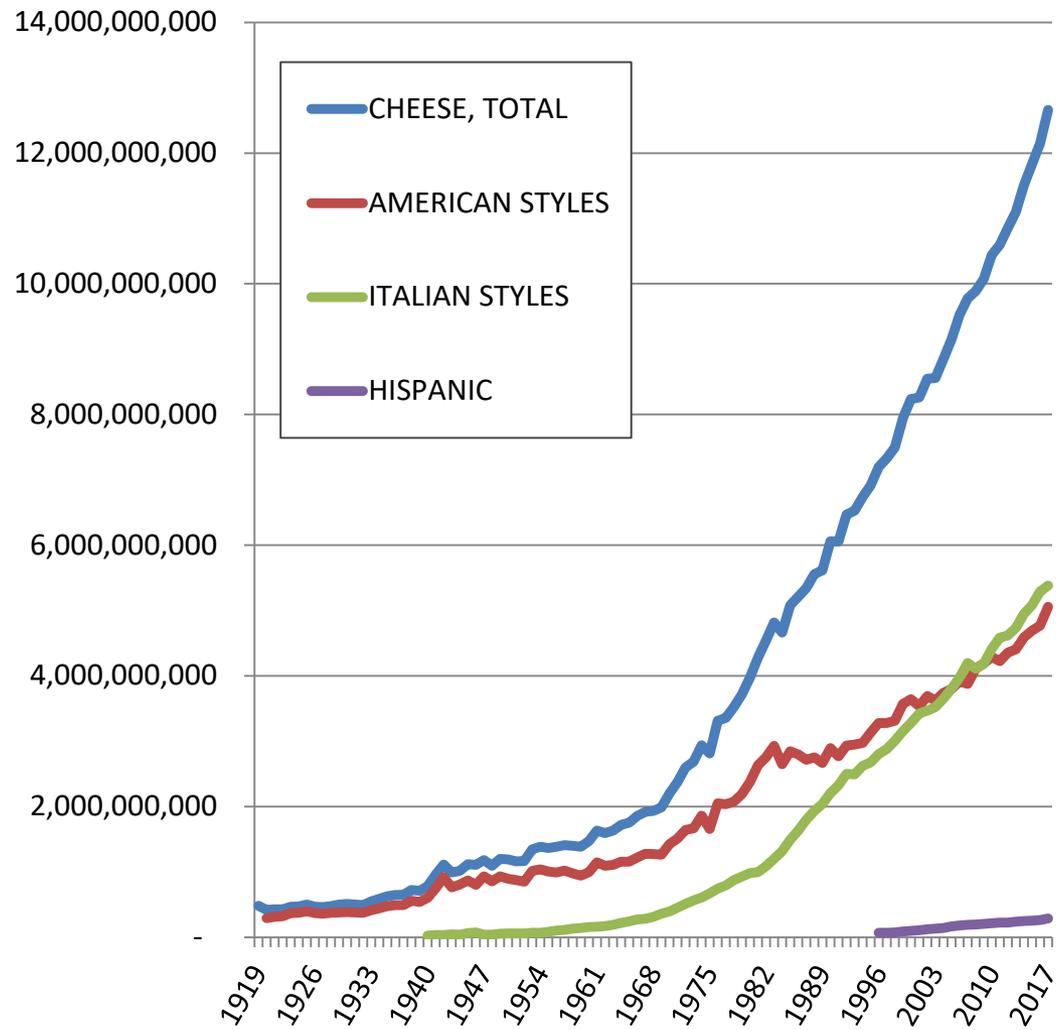
USDA collects data on cheese production for quite a large variety of cheese. Of course, many of the more current, special varieties (European, Middle Eastern, even Hispanic) are not enumerated, often because there are not enough plants to allow them to do so.

American Style cheeses are primarily Cheddar and Colby with a small volume of other washed curd styles

Italian Styles are dominated by mozzarella but include a wide variety of hard and soft style Italians

Hispanic is one of a set of miscellaneous cheese, the leading type of which is Swiss style cheeses.

U.S. Annual Production of All Cheese and Major Styles, 1940-2017, leap year adjusted pounds

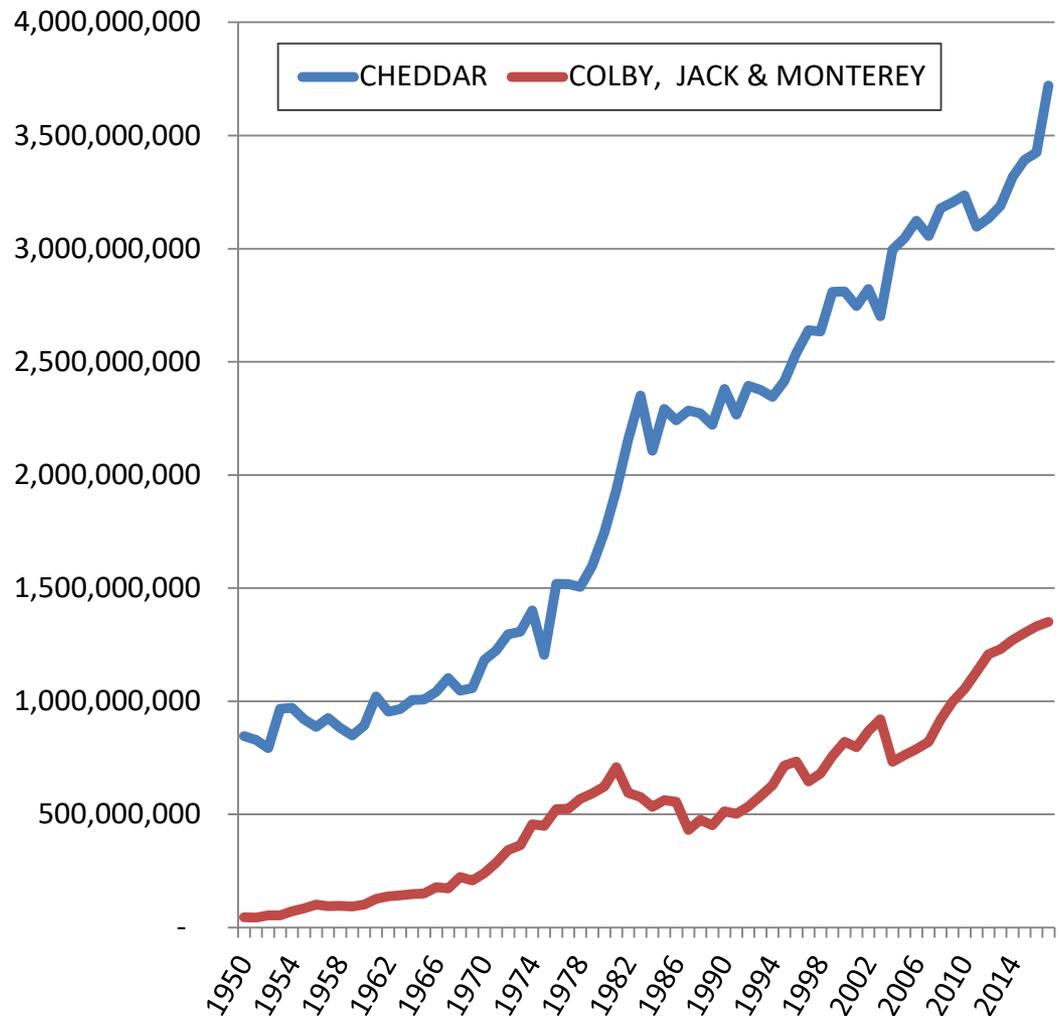


Cheddar, Colby, Jack, and Monterey cheeses remain a staple category

Cheddar was long the single most popular variety of cheese consumed in the US. For table top consumption, it probably still is, although we have eaten more mozzarella since the beginning of the 21st Century. (In the early 1970s, mozzarella was less than half of Cheddar volume.)

Since 1950, Cheddar production has increased about 44 million pounds per year. The pace of Cheddar growth has accelerated since about 2010.

U.S. Annual Production of American Style Cheese, by Major Type, 1950-2017, leap year adjusted pounds



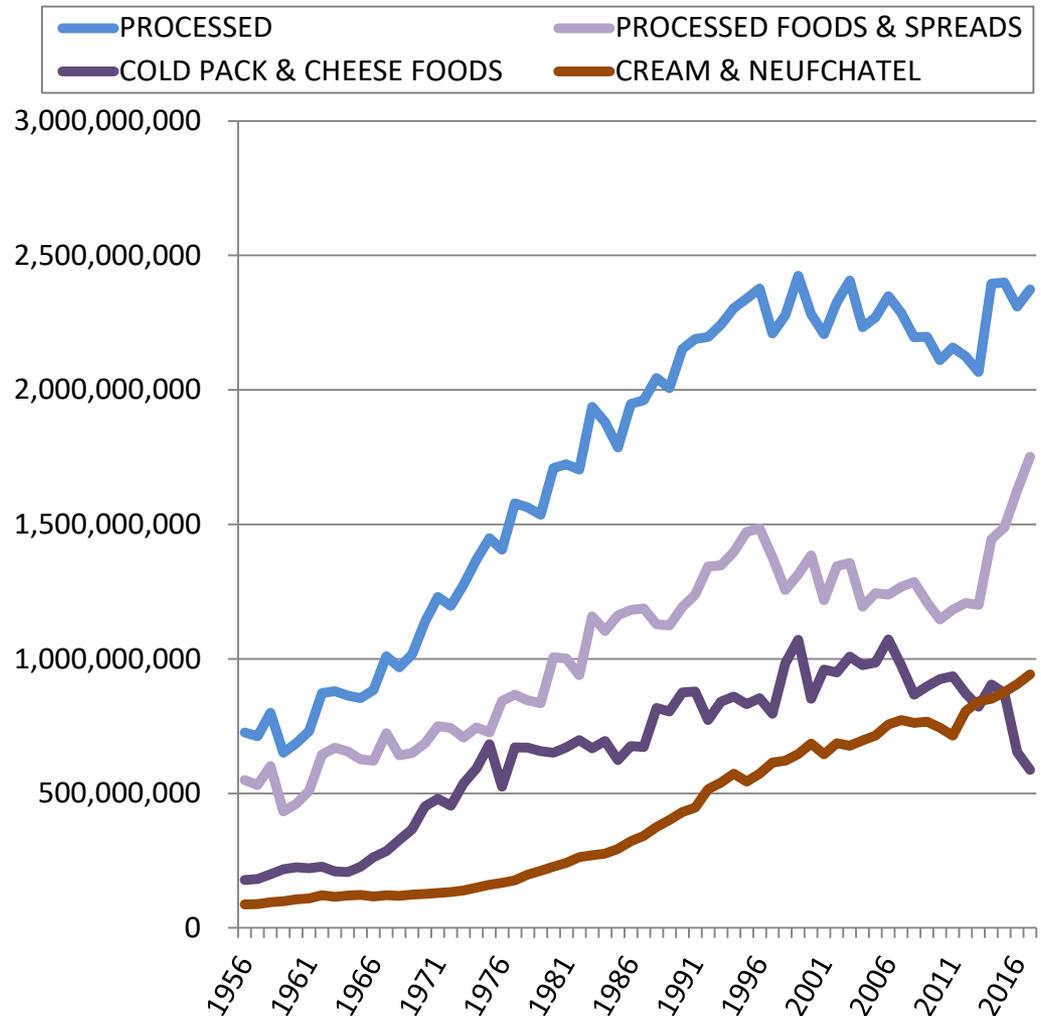
Processed Cheese, including spreads, and Cream Cheeses

Sharp and steady growth in processed cheeses from the 1950s gave way to stagnation in the 1990s and declines in the 2000s. Although there is some rebound in the last couple of years, industry reports suggest that this is a struggling category as Millennials and others are resisting processed foods in general but processed cheese in particular.

This may be part or most of the reason for the rebound in Cheddar.

On the other hand, spreadable cheeses are showing growth. Cream cheese has consistently grown but spreadable processed cheeses are showing a particular resurgence in the 2010s.

U.S. Annual Production of Processed Cheeses and Cream Cheeses, 1956-2017, leap year adjusted pounds



Italian Style Cheeses have shown steady growth but Mozzarella (pizza cheeses) has been far and away the dominant driver in terms of scale and trend.

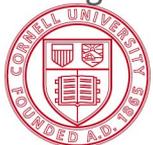
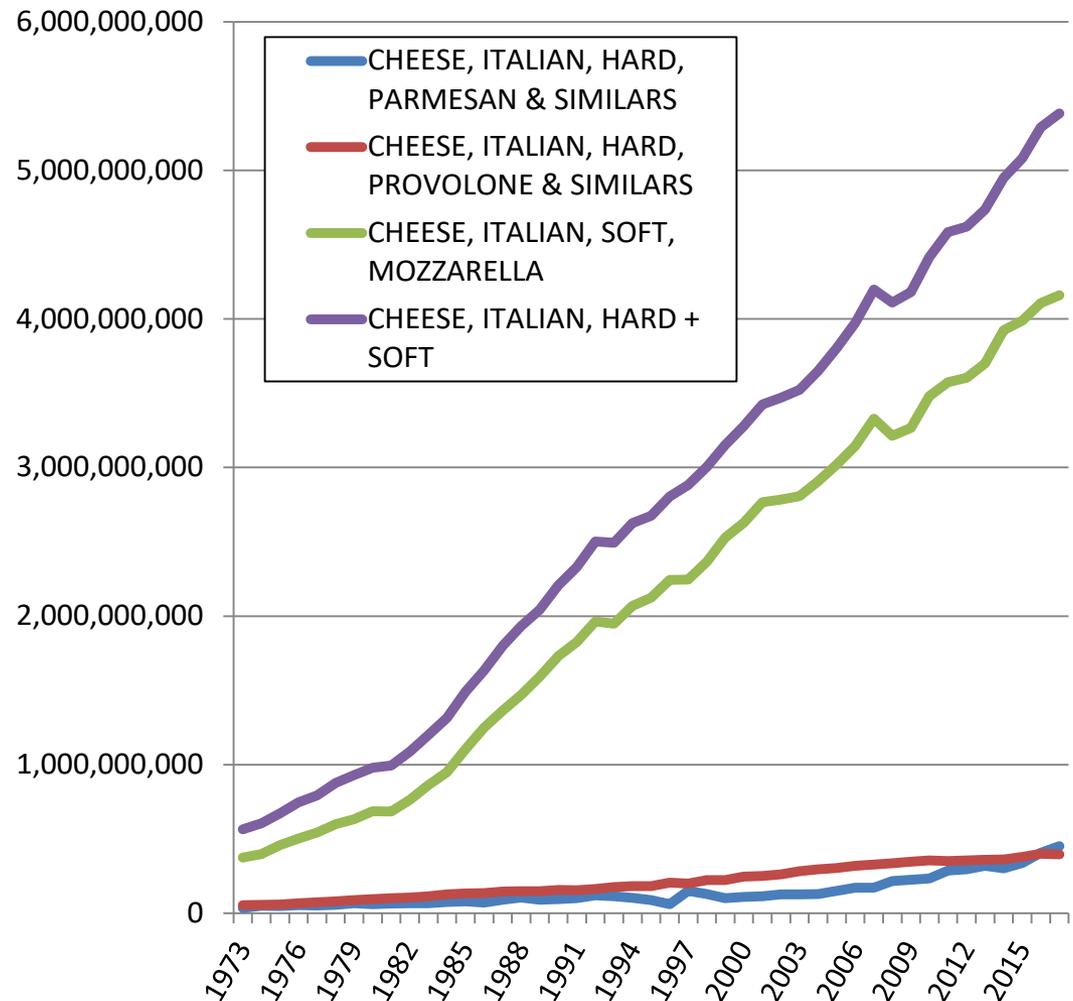
Americans continue their love affair with pizza, despite numerous alternative dining choices and formats in the last 20 years.

Although vulnerable to recessions and other events that inhibit away from home food consumption, consumption shows no signs of slowing down.

Hard Italian cheese styles probably do better in restaurant formats, with soft styles general doing better in deli formats.

This is a very important category with respect to protected European designations.

U.S. Annual Production of Italian Style Cheeses, by Major Category, 1973-2017
leap year adjusted pounds



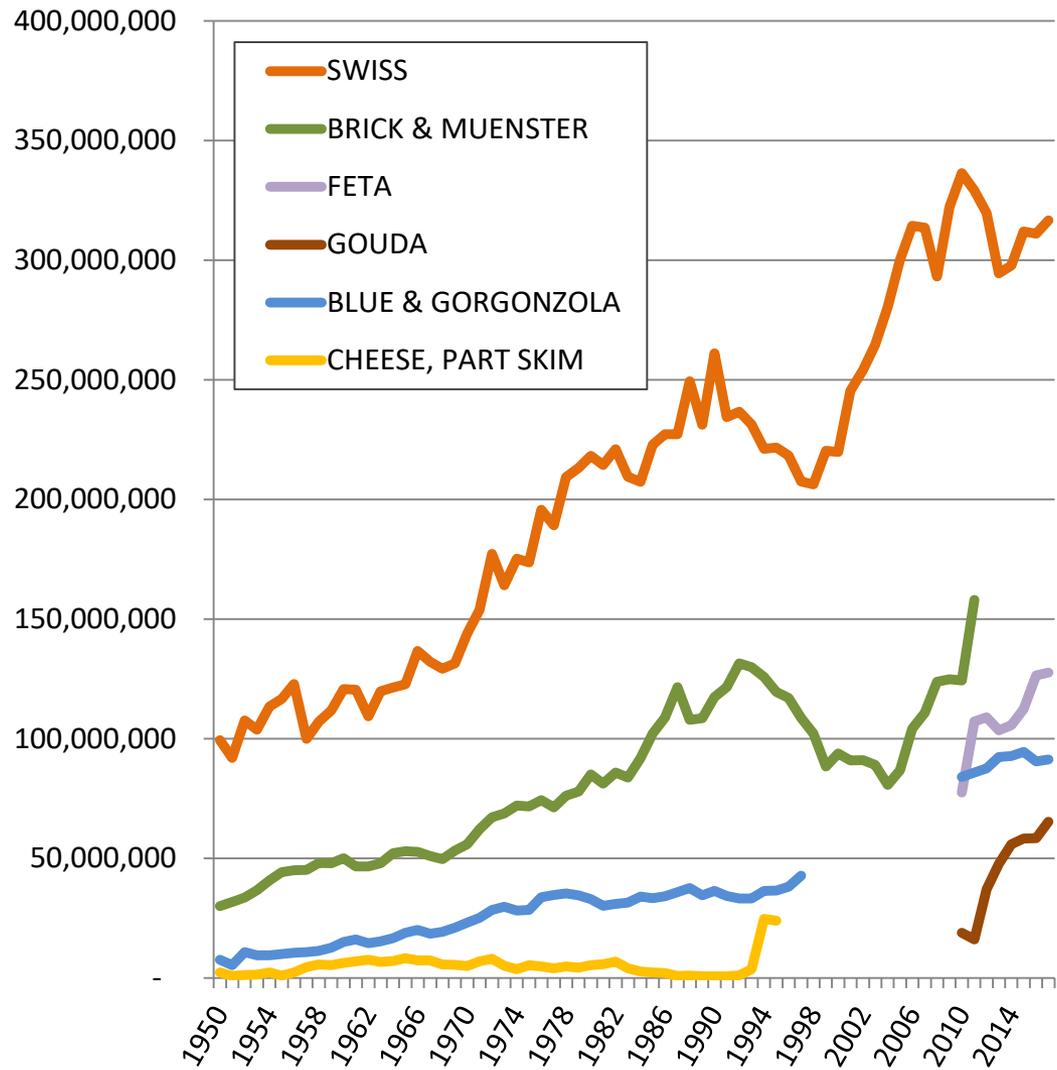
Other Cheese Varieties

Data are mixed bag

Swiss and similar styles have long been the third largest cheese type in the US, although only 5-10% of Cheddar or Mozzarella volume. Production (and Consumption) pattern are also similar for Brick and Muenster, another fairly large category, reflecting that these are popular deli cheeses.

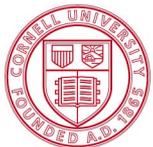
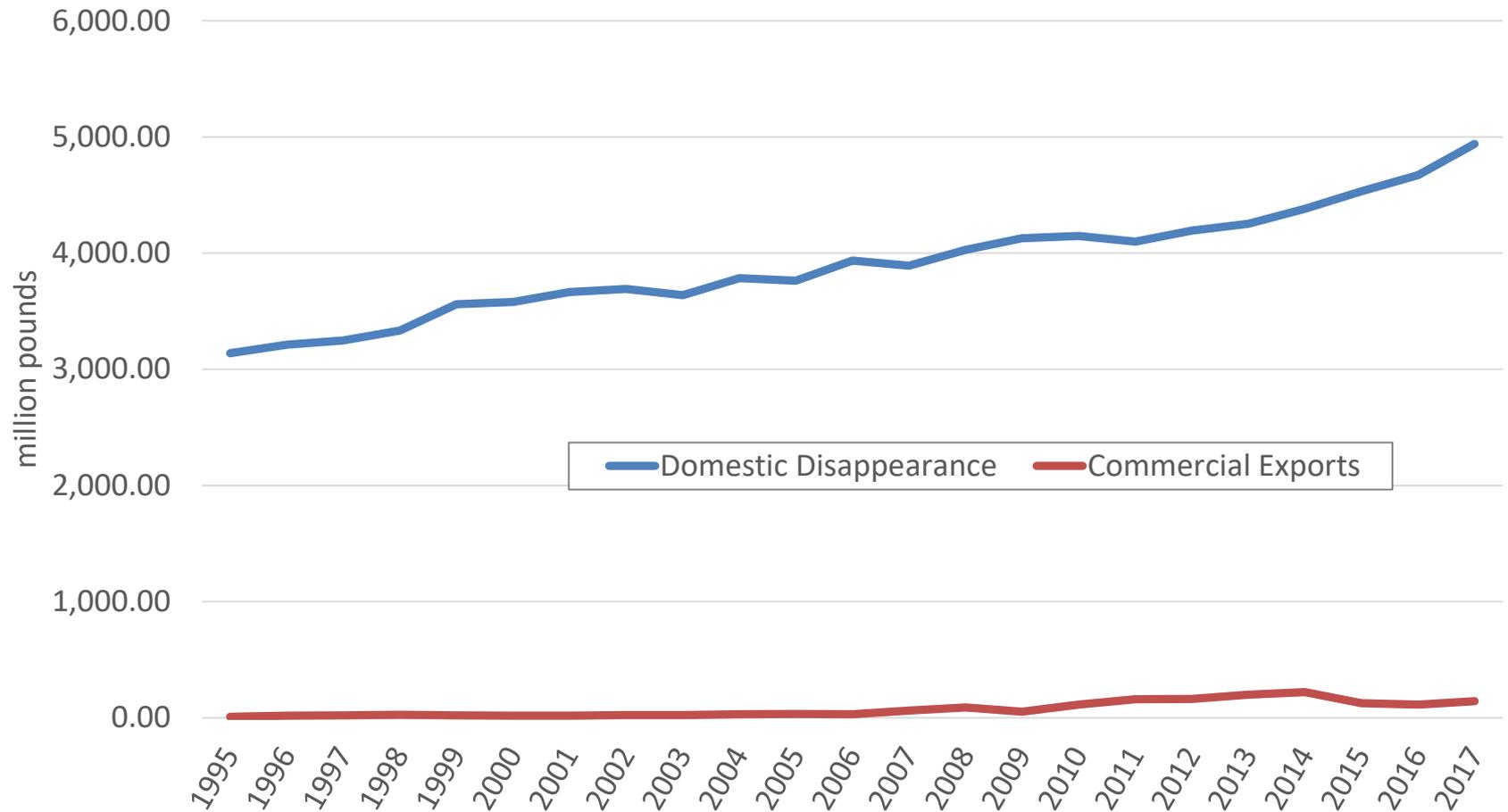
Probably reflecting a growing interest in European style cheese beyond Italian, Feta and Gouda have shown fairly steep growth in US production.

US Annual Production of Other Cheeses, 1950-2017,
leap year adjusted pounds



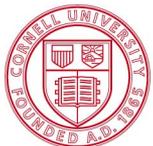
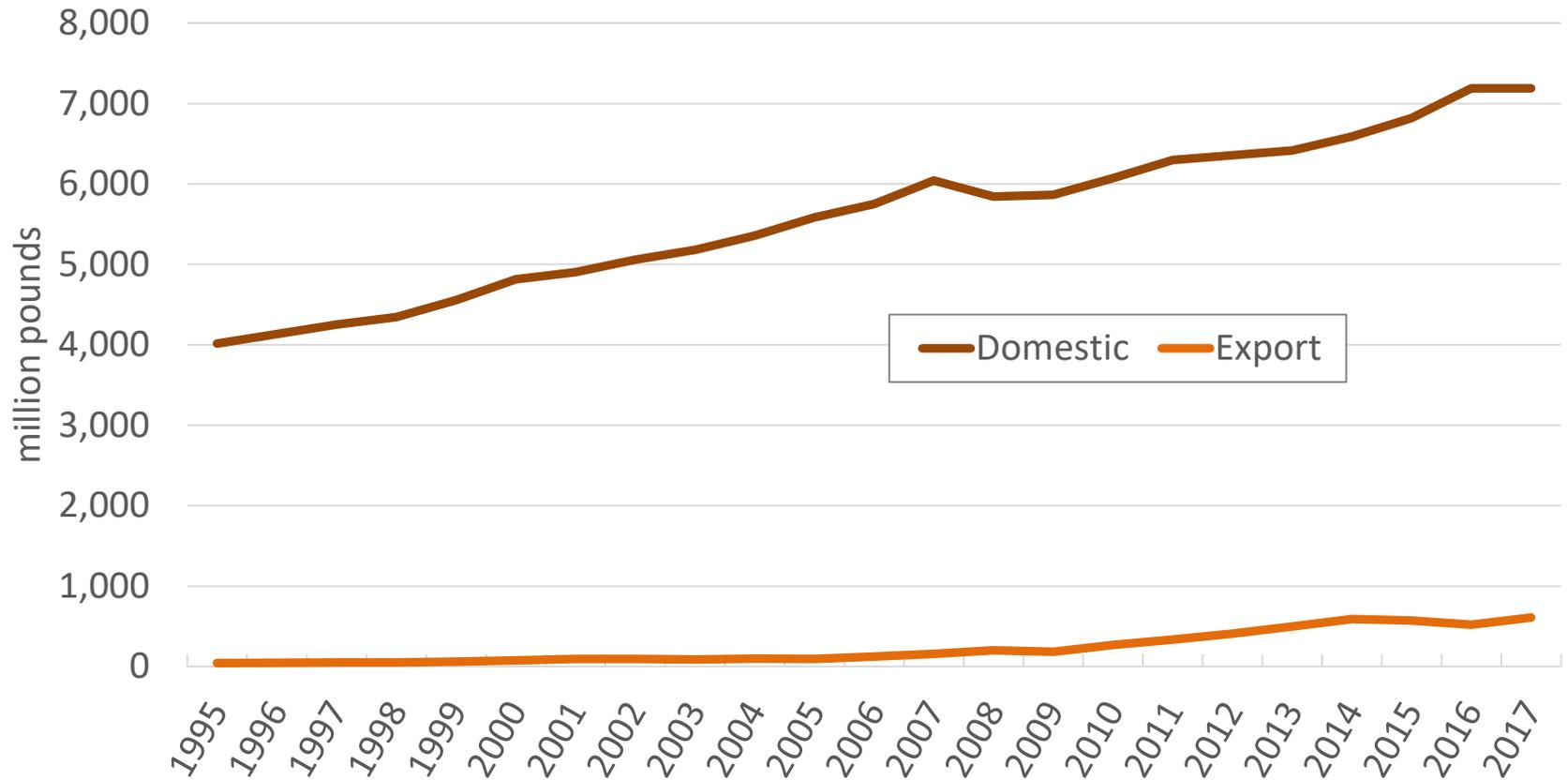
Sales of American Cheeses are primarily to domestic markets

Sales of American Cheese, 1995 to 2017



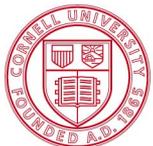
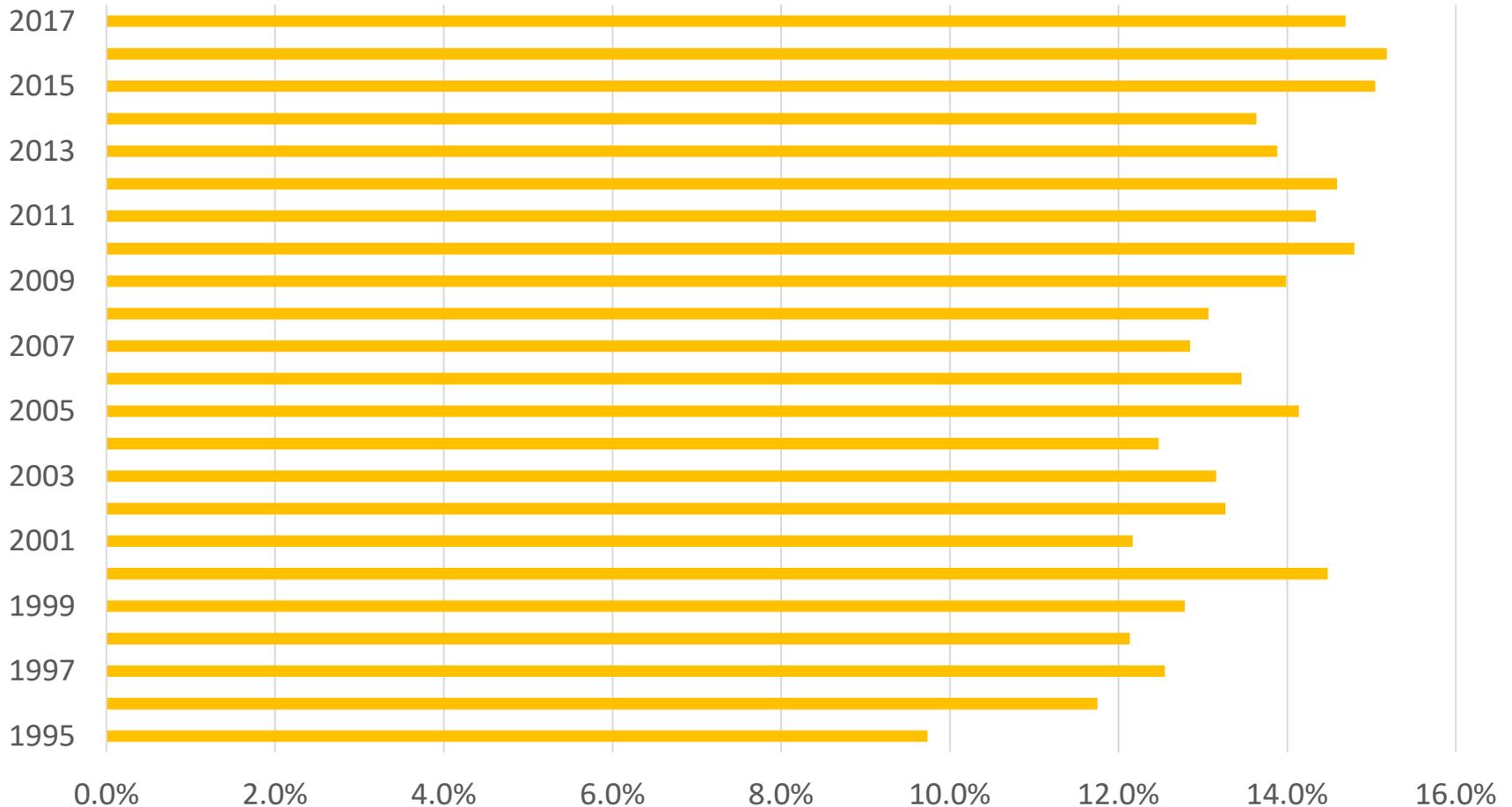
Exports Slightly Greater than for American Styles, Domestic Increasing Less

Domestic vs. Export Usage of Cheeses Other Than American,
1995 to 2017



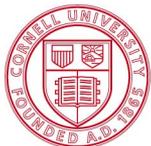
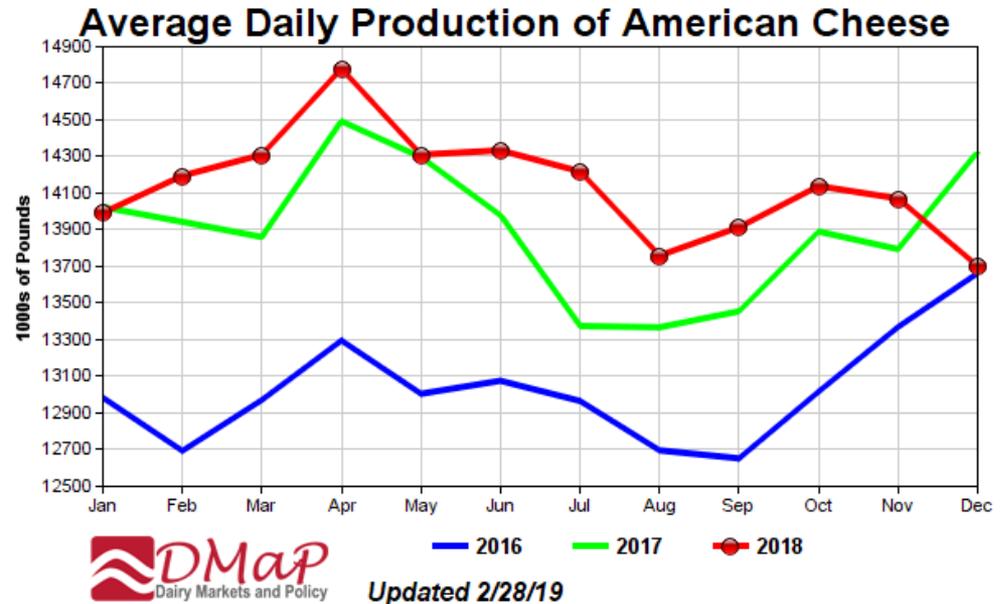
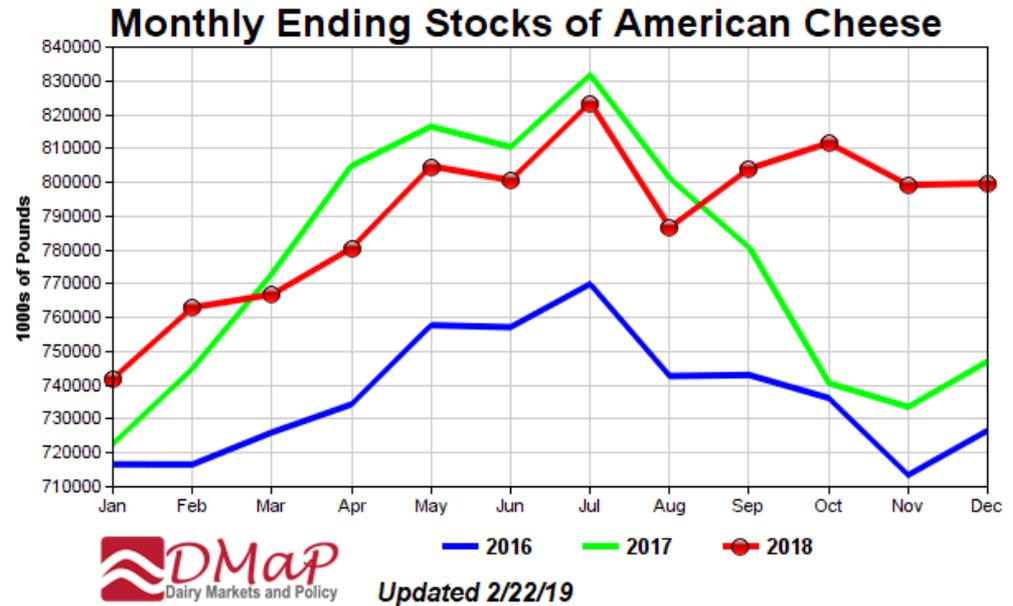
Stocks Levels are Concerning

Year Ending Stocks an Percentage of Domestic Commercial Disappearance



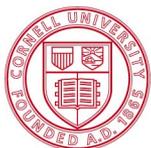
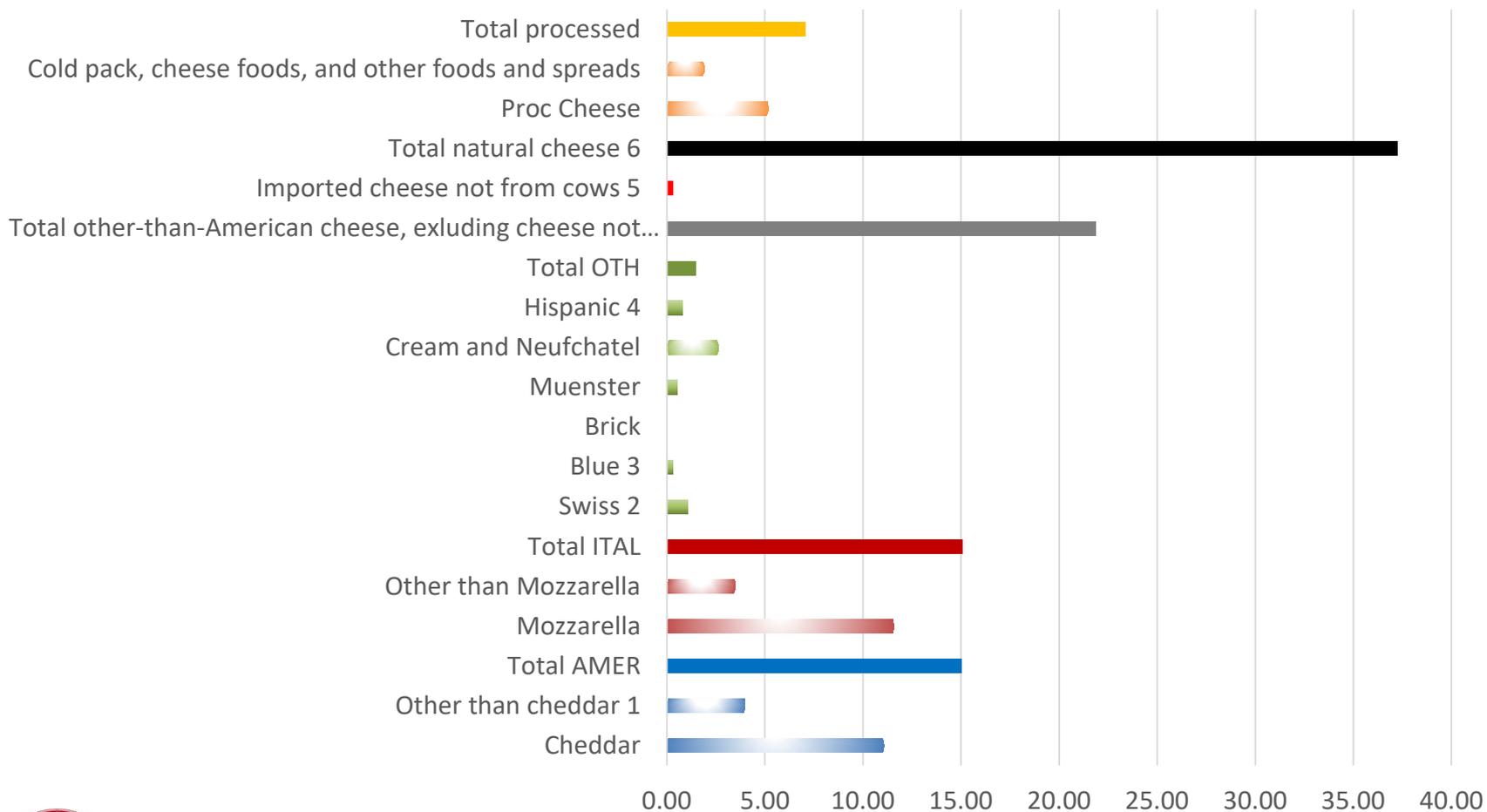
What Happened (Is Happening?)

Production is consistent with typical seasonal patterns, even down in December, but it is backing up in storage.



Per Capita Consumption Still Strongly Favors Standard, Familiar Varieties

Per Capita Consumption by Cheese Types, pounds, 2017



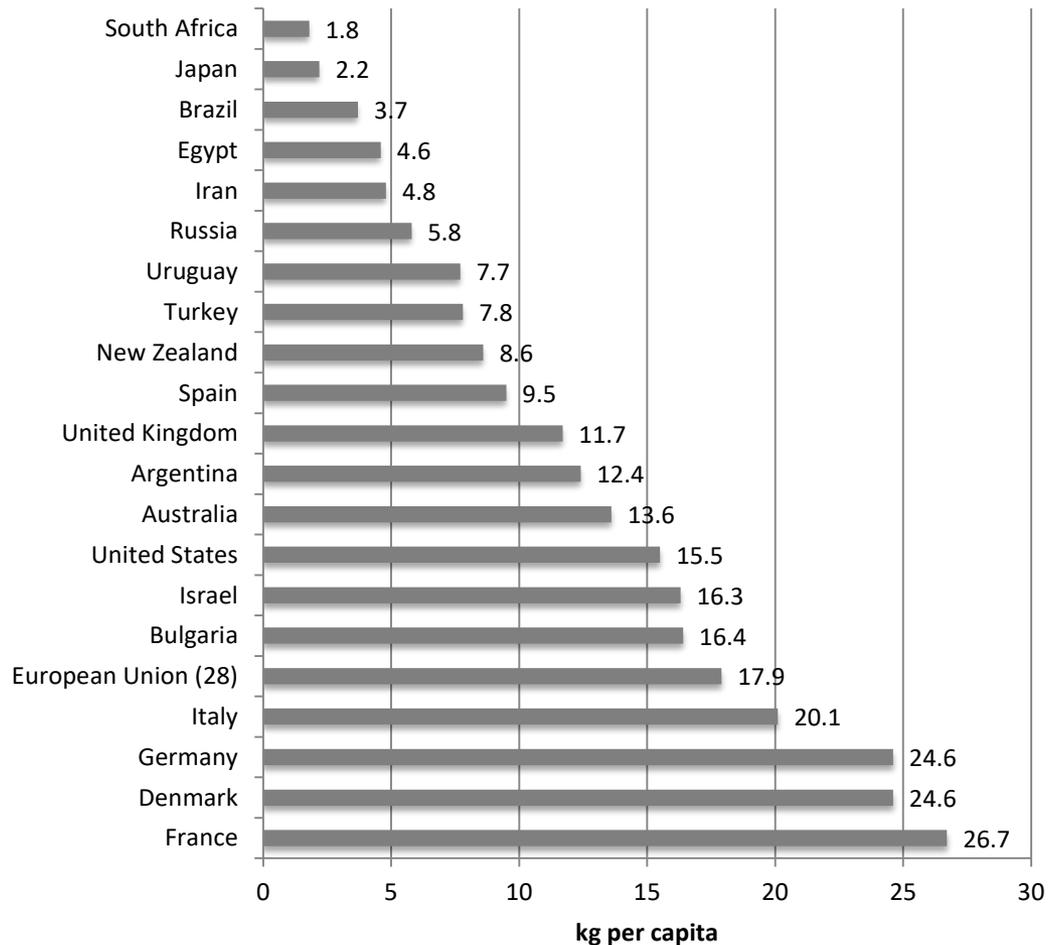
The US has some per capita head room (perhaps) but ...

US consumption of cheese is probably somewhere around a world average. Some countries with lower levels are not dairy countries. Some are but probably consume higher levels of other fermented dairy foods.

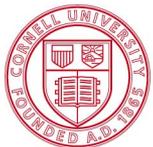
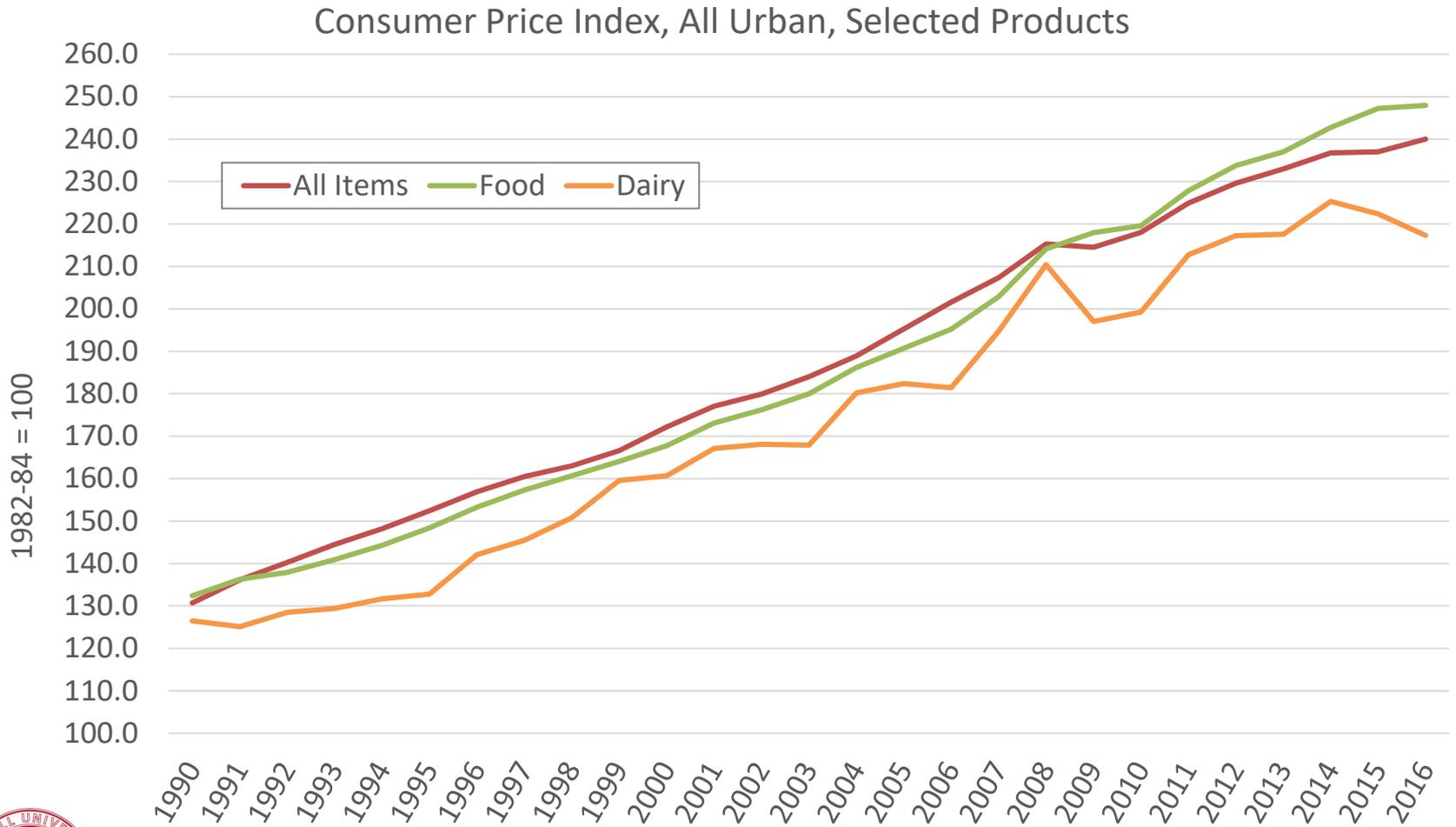
While we may have some head room, we also have some head winds.

Per Capita Consumption of All Cheeses, 2014

(from data collected by the International Dairy Federation and published by Statistics Canada)



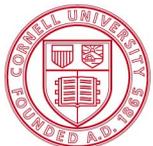
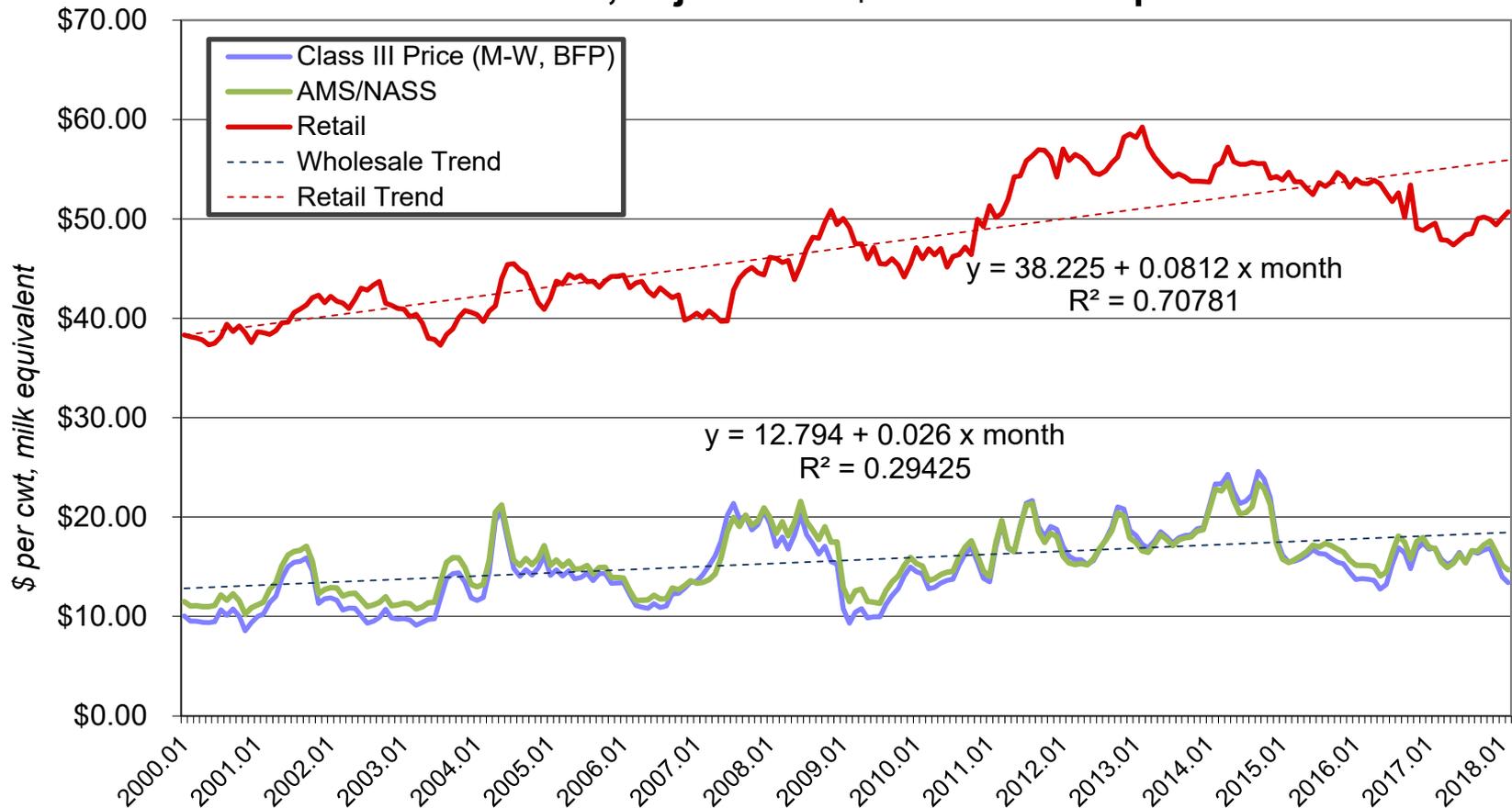
Retail Dairy Price Inflation has been considerably lower than for All Food or All Items



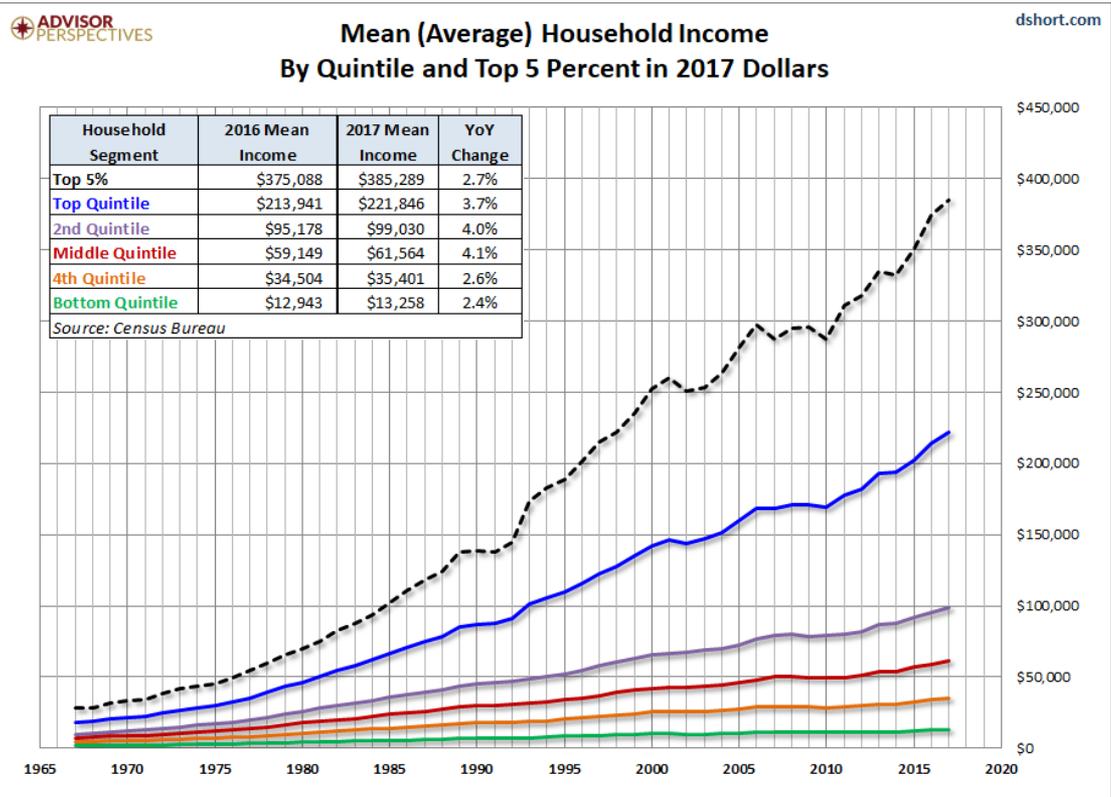
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Retail Prices Trending Up About 3x Greater, but Does Follow Market Up and Down

Class III , AMS/NASS Block Cheddar, and Retail Natural Cheddar Cheese Prices, adjusted to \$/cwt of milk equivalent



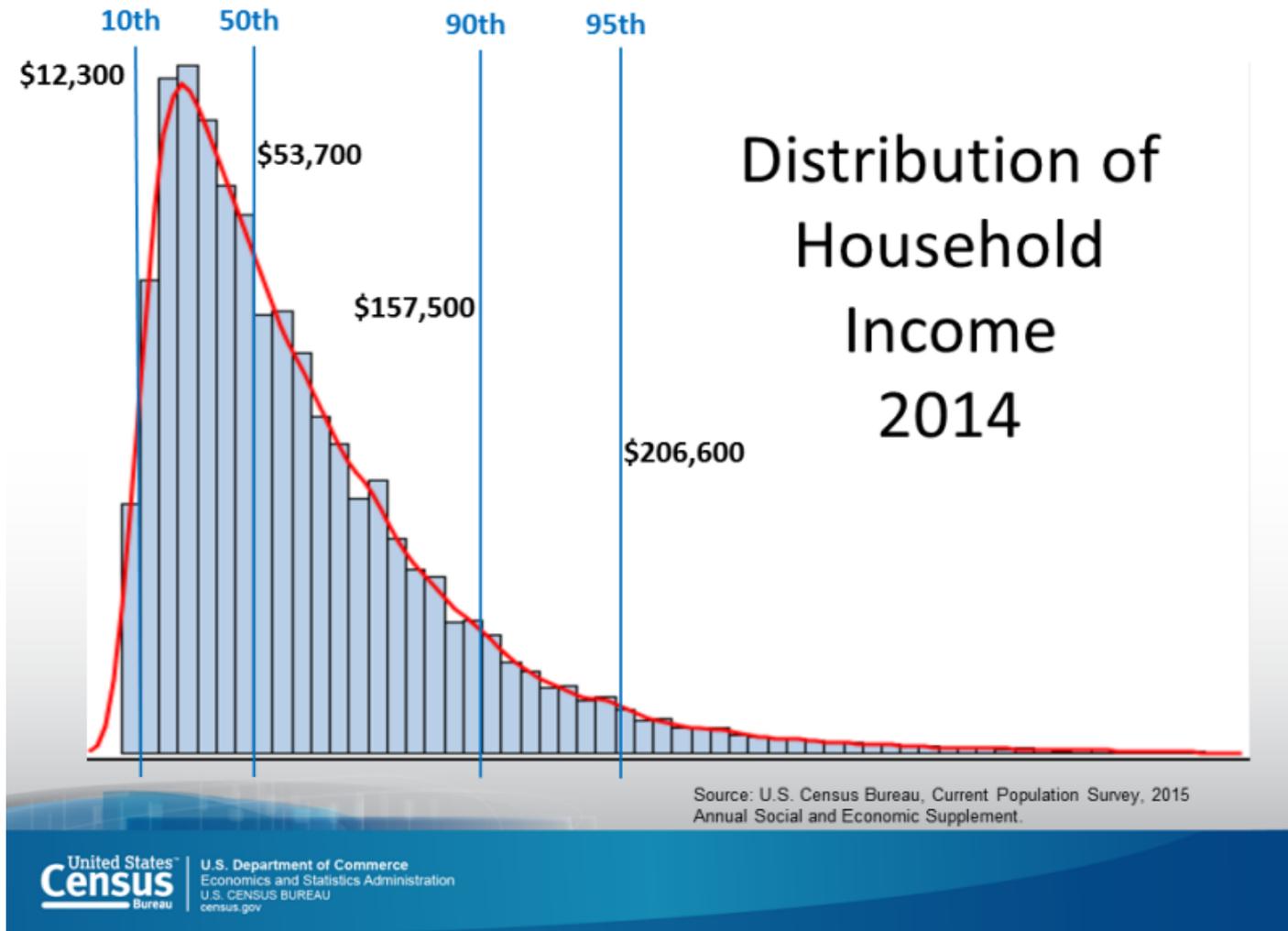
How much more milk or cheese would you buy if you had \$1,000 more of annual income.



Milk, and to a lesser extent other dairy products, is a staple good, i.e., consumption is not particularly sensitive to changes in income or price. Does that mean income or price doesn't matter? Depends on where you are on the curve!



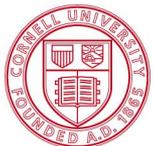
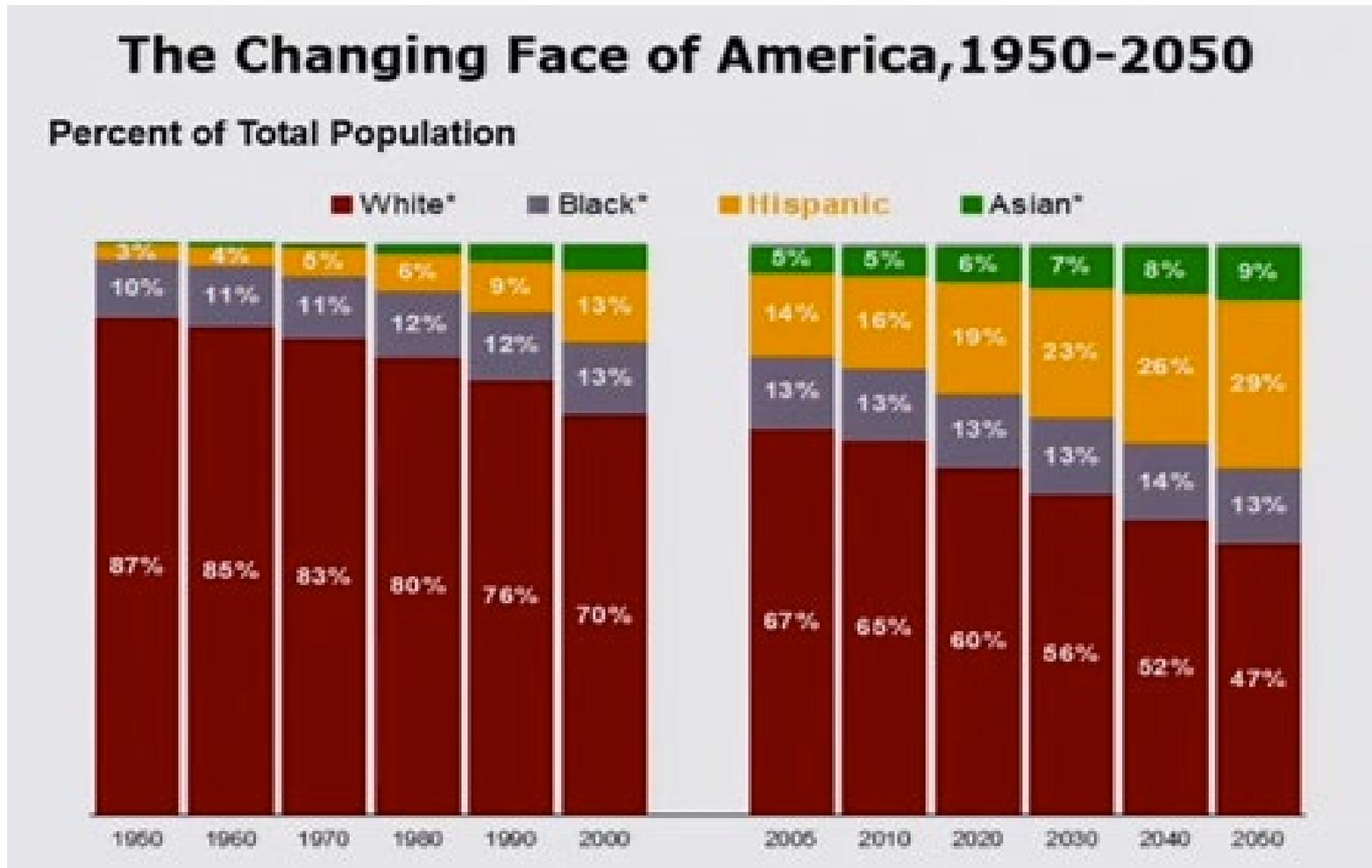
The US is a rich country, but we have a lot of families who are poor or have low incomes



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Cultural Composition of America Impacts Food Preferences

This presents many opportunities, if we are willing to adapt.



Where We Buy Food Continues to Slowly Move Outside the Home

The share of food expenditures has been slowly but steadily shifting from meals prepared at home to meals consumed outside the home.

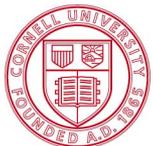
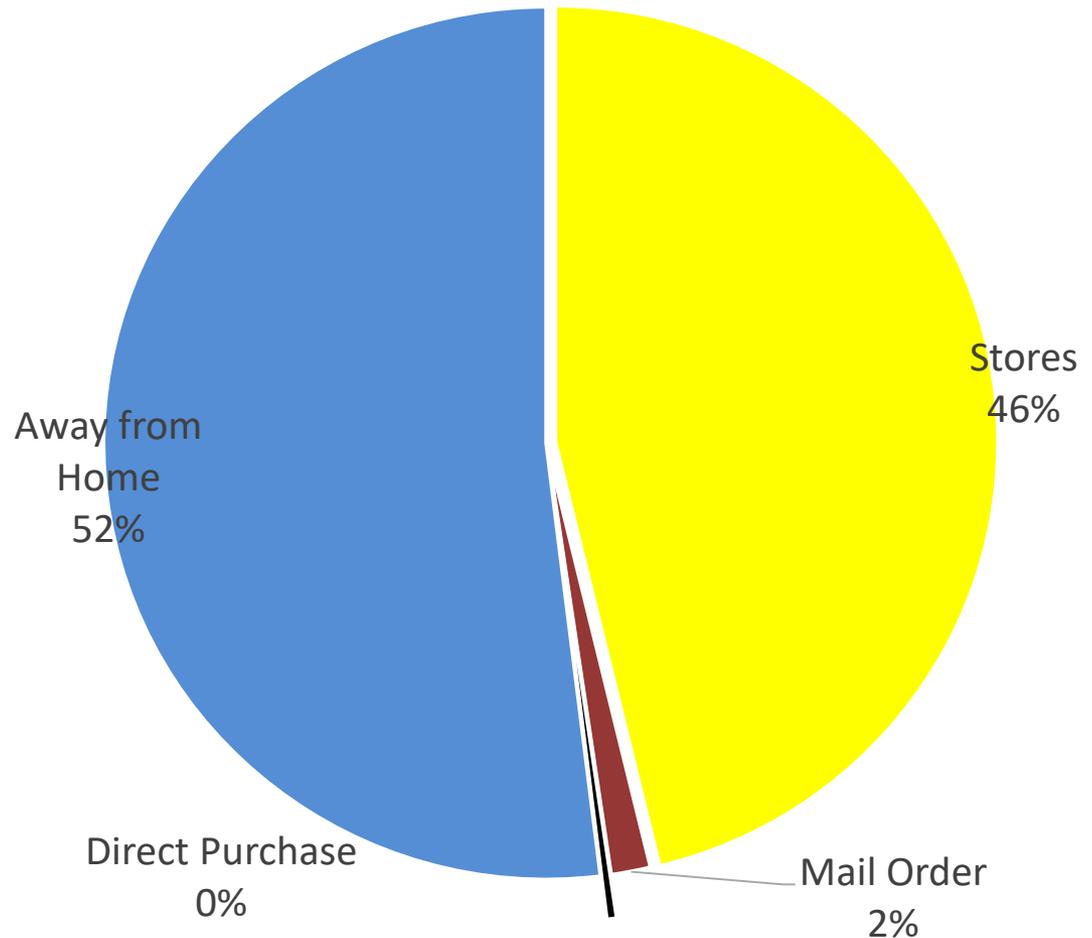
Millennials tend to have:

- Smaller family size
- Lower household income
- Eat out more often
- Spend much less money on milk (along with Gen X)
- Spend somewhat less money on dairy
- About as much on yogurt

Double Income families (working Moms) more likely to buy ready-to-eat, ready-to-prepare, and away-from-home.

Cheese industry fits well into this lifestyle BUT how well prepared is it for home delivery and food selection based on health guidelines or green agenda?

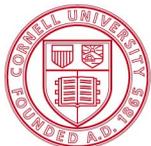
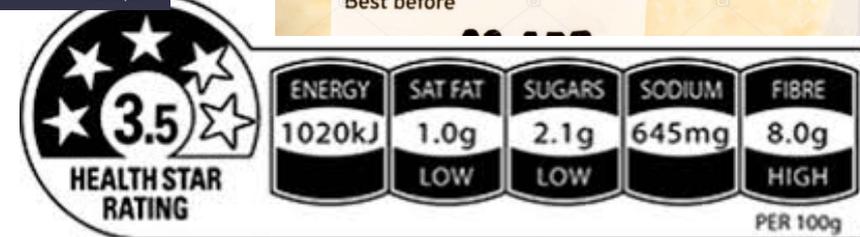
Share of Total US Consumer Expenditures on Food, 2017



Helping Consumers Make Food Choices

Labeling and standards – we will likely win the battle on what can be called milk but the victory may be Pyrrhic

Front-of-Pack (FOP) labeling is on the cusp of exploding and could be good news and bad news for dairy products



Cheeses are perhaps the most versatile of dairy foods. They continue to represent a great opportunity, but we have to be prepared to adapt to some new realities.

- Where we eat, how we eat, when we eat, what we like, what we think is good for us, what we just enjoy, our concerns for society and the environment, etc. etc. are shaping food choices like never before.
- We are challenged to
 - Maintain an enviable record of consistently high quality product at an affordable price, while
 - Also being nimble in bringing on new products and food experiences
 - Sorting price conscious foodservice customer from experience seeking retail customer
- Just about the time you think you have Millennials figure out, you have to get ready for Gen Z (or “Homelanders”)



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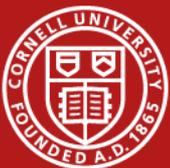
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