

A GLOBAL PERSPECTIVE ON THE MILK INDUSTRY: HIGHLIGHTS & STATISTICS

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IT'S A BIG WORLD OUT THERE

When I began my dairy-related career as a banker in 1978, 55 lbs/milk/cow/day was considered good. Exports were never monitored or discussed in milk pricing and milk was processed and sold on a local or regional basis. Fast forward 41 years and that 55 lb. cow might be beef and we use the term export in all milk pricing conversations.

In late January, I attended the International Dairy Foods Association (IDFA) conference in Orlando Florida, along with processors, risk managers, producers, and end users from around the globe.

I have attended this conference over the past several years and always found it insightful especially in bringing a global perspective to the milk industry. This year the global presence/impact of supply and demand of milk on a global perspective was a very powerful message. The US dairy industry has moved from a "local" market to a global market and your neighbor down the road is no longer your only competitor. Now, producers from around the globe are vying for the same market. The following pages have some conference highlights and statistics.

WORLD MILK PRICE*

2000 – 2006 \$11.00 per cwt.

2007 – 2016 \$17.30 per cwt.

2017 – CURRENT \$15.20 per cwt.

The world market price is the major driver for US milk price. There is a strong correlation in the world milk price average and the US milk price average from the period between 2006 and 2018, with an exception for the years 2016 to 2017, where the US was somewhat higher, the proof I needed that we are in a competitive global market.

CHANGING FAT/PROTEIN CONTENT USA

2007 – 2017*

PROTEIN-AVERAGE

2007 – 3.055%

2018 – 3.150%

FAT-AVERAGE

2007 – 3.655%

2018 – 3.855%

As the industry in general strives and achieves more components, we should focus on Energy Corrected Milk (ECM) growth as opposed to natural flow to measure national and global supply.

EXPORTS ARE NOT ALIGNED WITH FUTURE DEMAND**

	Million Tonnes ME Dairy Deficit or Surplus Forecast	
% US DAIRY EXPORT 2017	2017	2027
China	11%	-26
Asia* (*excludes China and India)	29%	-23
Africa	2%	-18
C.S. America	9%	-6
Canada and Mexico	36%	-4
Europe	2%	+18
New Zealand and Australia	5%	+19

The EU has much better long standing trade relations in the African and Asian markets.

MILK SURPLUS/DEFICIT 2017 VS 2027 PROJECTED**

	Milk Surplus/Deficit		Number of Trade Agreements		
	2017	2027	US	EU	NZ
United States	+5.0%	+12.0%	-	-	-
EU-28	+13.0%	+18.0%	0	-	1
China	-15.0%	-26.0%	0	0	1
Asia* (*excludes China and India)	-19.0%	-23.0%	3	8	11
C.S. America	0.0%	-6.0%	10	2	2
Africa	-10.0%	-18.0%	1	1	0
India	-3.0%	-6.0%			
New Zealand and Australia	+23.0%	+19.0%	1	2	1

82% of US dairy exports (by dollar) are currently not being affected by retaliatory tariffs. Asia (excluding China and India) and Africa have multiple trade agreements in place with the EU and New Zealand and these two continents will supply a large piece of the growth in demand over the next ten years according to recent projections.

TOP 20 MILK PROCESSORS 2018*

- 10 in Northwest Europe
- 6 in North America (5 in USA)
- 4 in Oceania/Asia

From a global perspective, milk processing is not centered in North America.

2019 – 2030 PROJECTIONS

SUPPLY/DEMAND*

OCEANIA

Milk Supply Growth +1.5% per year

EU-28

Milk Supply Growth +1.1% per year

Domestic Demand Growth +0.4% per year

USA

Milk Supply Growth +1.8% per year

Domestic Demand Growth +1.2% per year

2030 Projection United States is moving from 105% self-sufficiency to a projected 113% in 2030.

Supply growth is centered in the EU-28 and U.S. with demand growth centered elsewhere, which has spurred tremendous export competition.

*Dr. Torsten Hemme IFCN Dairy Research
**McKinsey & Company - Worldwide Consulting 2019

THOUGHTS

Bottom line observations are that the dairy industry is in a global market and milk price is a world competition. The US and its processors need to strengthen trade with continents where deficit milk and a growing middle class is projected in the upcoming years (e.g., China, Asia, and Africa). Currently it appears that the US may be lagging the EU and NZ in establishing trade in those areas and must increase its focus in competing on the world market. Also, producers need to give thought to improving components (ECM) that will compete internationally and evaluate the impact of the various consumer demands globally, including plant-based beverages.

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