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Agricultural Outlook Forum  
U.S. Department of Agriculture

February 21-22, 2008

## Key Developments in the Global Dairy Market

Deborah Perkins



# Key developments in the global dairy market

Deborah Perkins

22 February 2008

Rabobank International

*Rabobank International*

# Rabobank – global analytical coverage of dairy



Rabobank

- Analyst with Primary Dairy Responsibility
- Analyst with Partial Dairy Responsibility



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## Section I

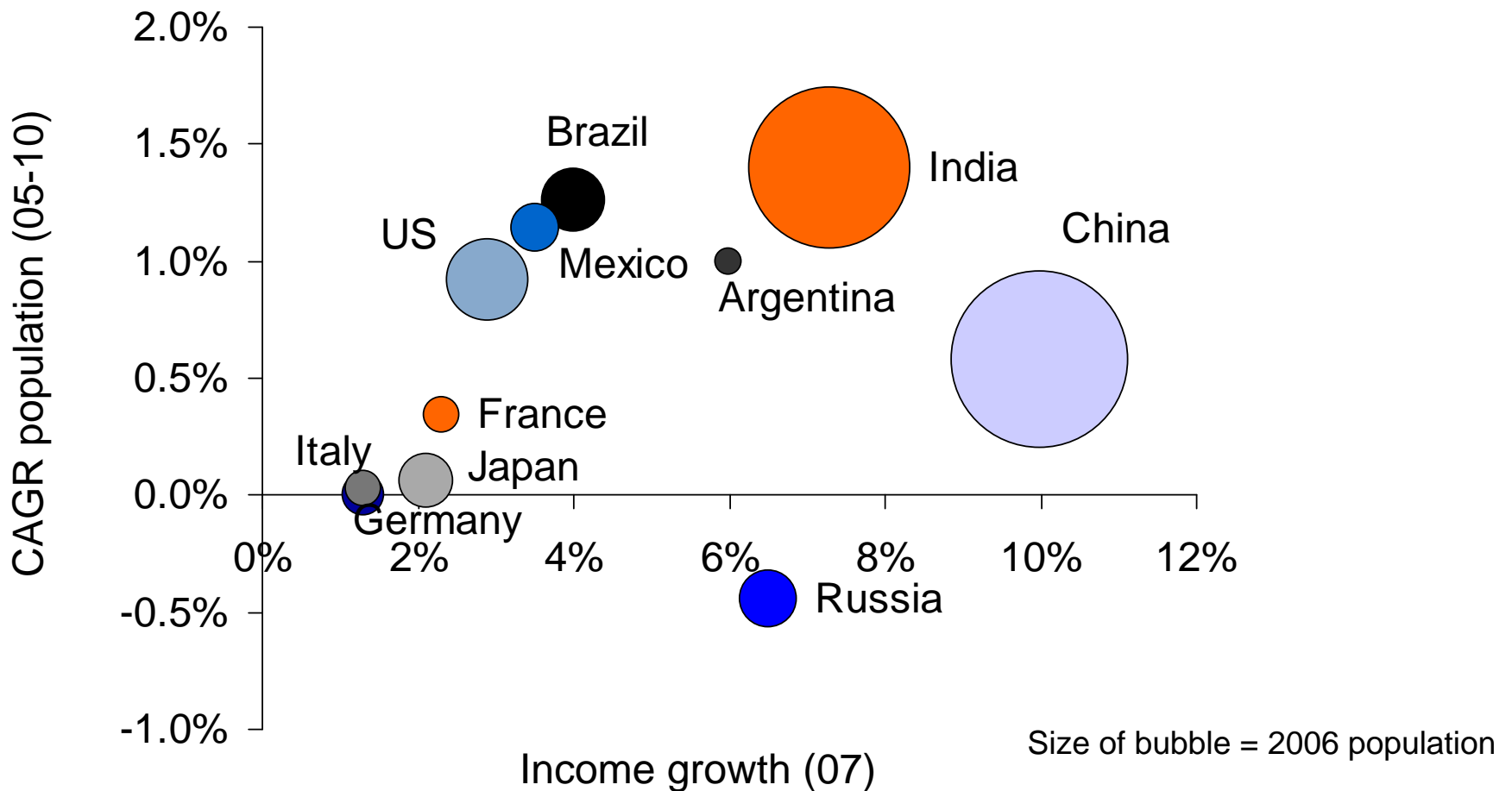
# International Demand

# Continued income and population growth are likely to be key drivers of increased dairy consumption



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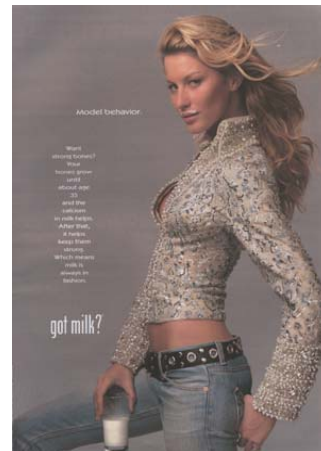
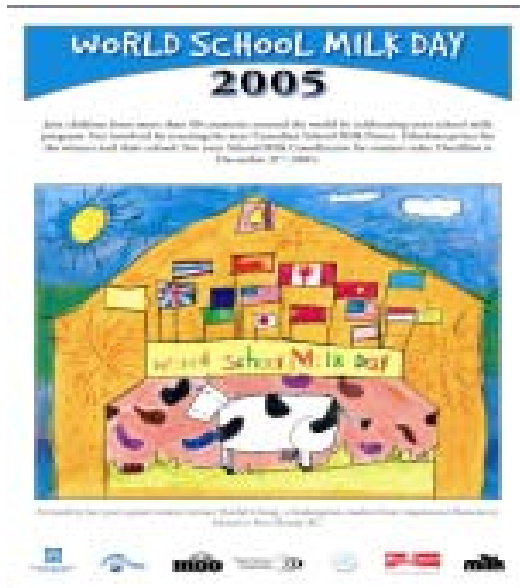
### Income and population growth in selected countries



Source: UN, IMF, Rabobank

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Global demand for dairy products has been growing at 2.6% since 2000

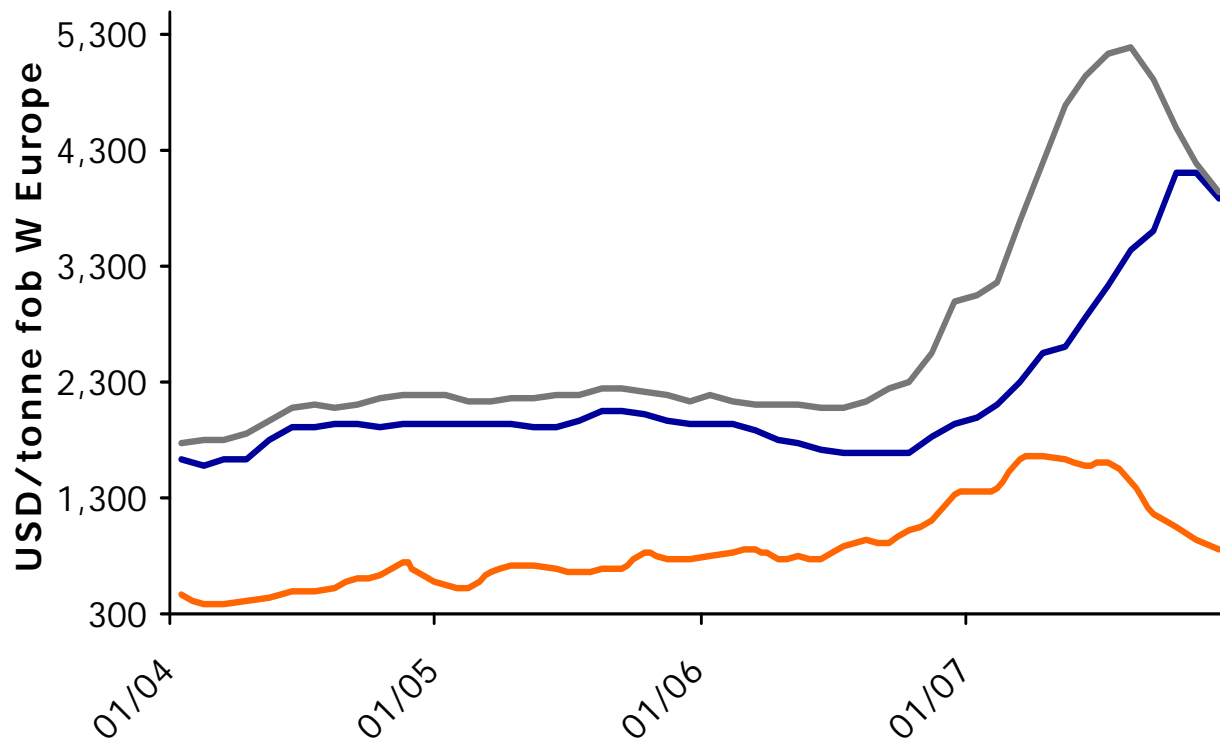




# International dairy prices rose to unprecedented levels in 2007



### Western Europe Commodity Prices



Source: ZMP, Rabobank

— Butter

— SMP

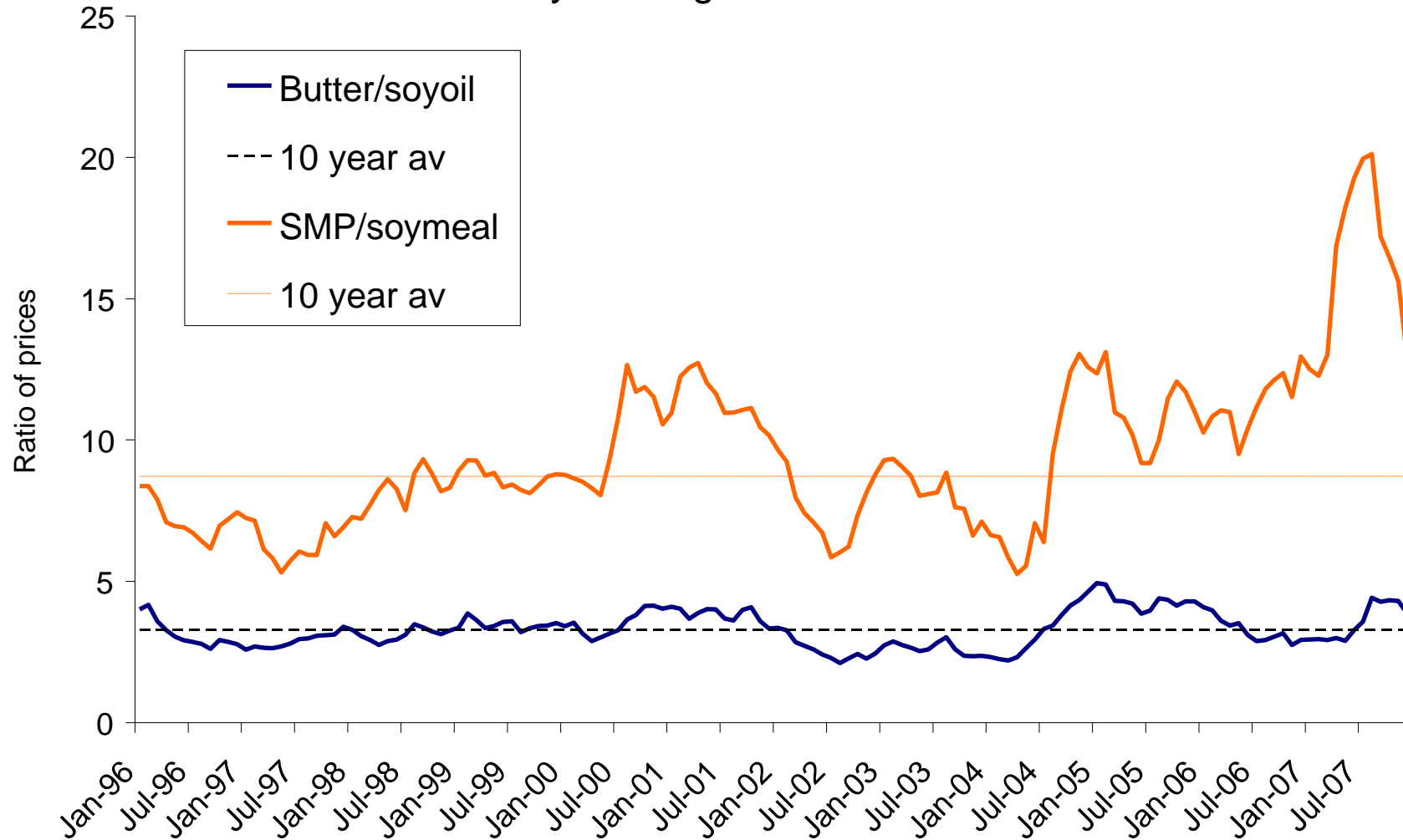
— Whey

# Competing ingredients are also expensive – limiting incentives to substitute



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### Dairy v.s Vegetable Substitutes



# Governments in some import regions working hard to shield consumers from price rises

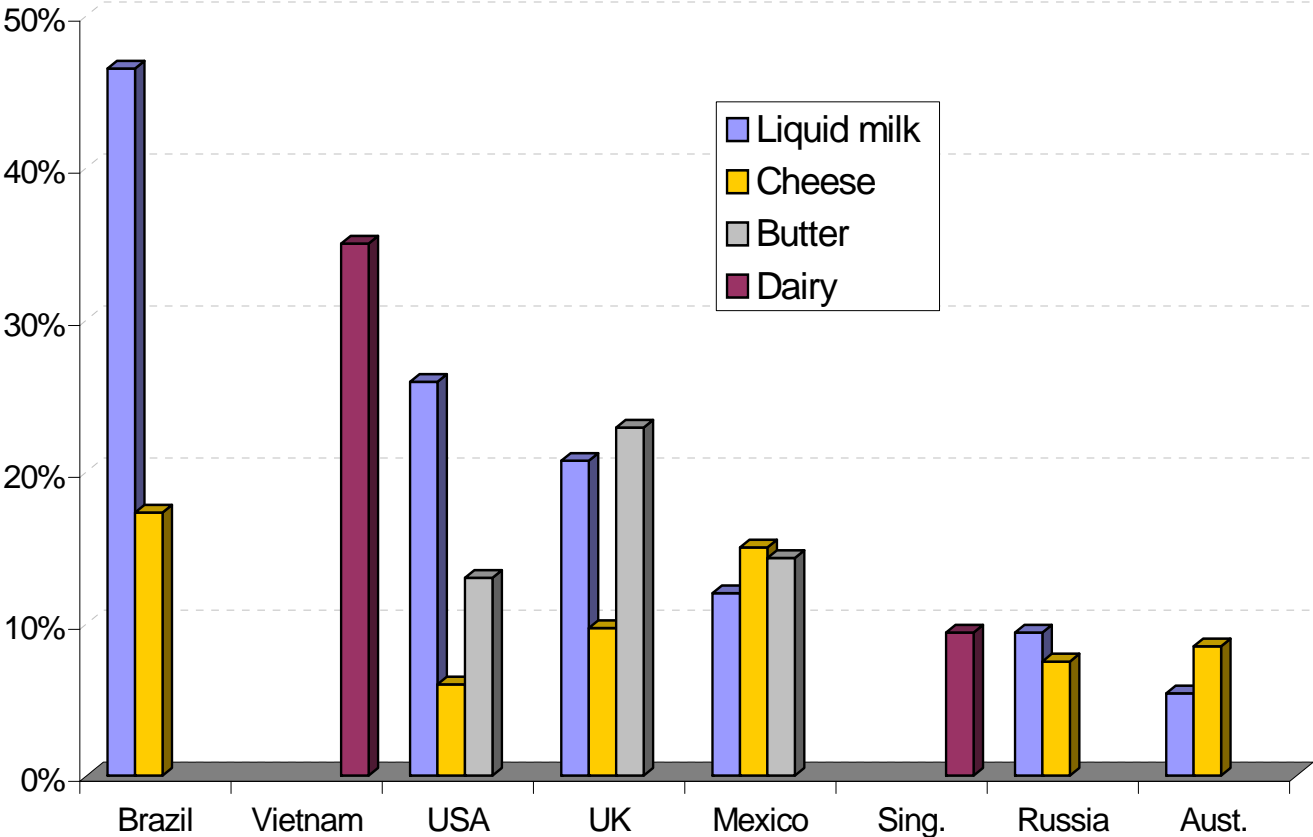


- Tariff barriers have been slashed (eg Russia, Vietnam)
- Prices have been frozen (eg Russia)
- Pace of price increases has been resisted (eg Malaysia, Thailand)
- And subsidies boosted to keep prices level (eg Algeria, Saudia Arabia)

# But price increases are still being passed on to consumers



Retail Dairy Inflation  
(Year to September 2007 unless otherwise noted)



Source: relevant national statistical agencies  
 Note: Brazilian data is change since Jan 2007, Vietnam is year to August

# Can demand hold up?

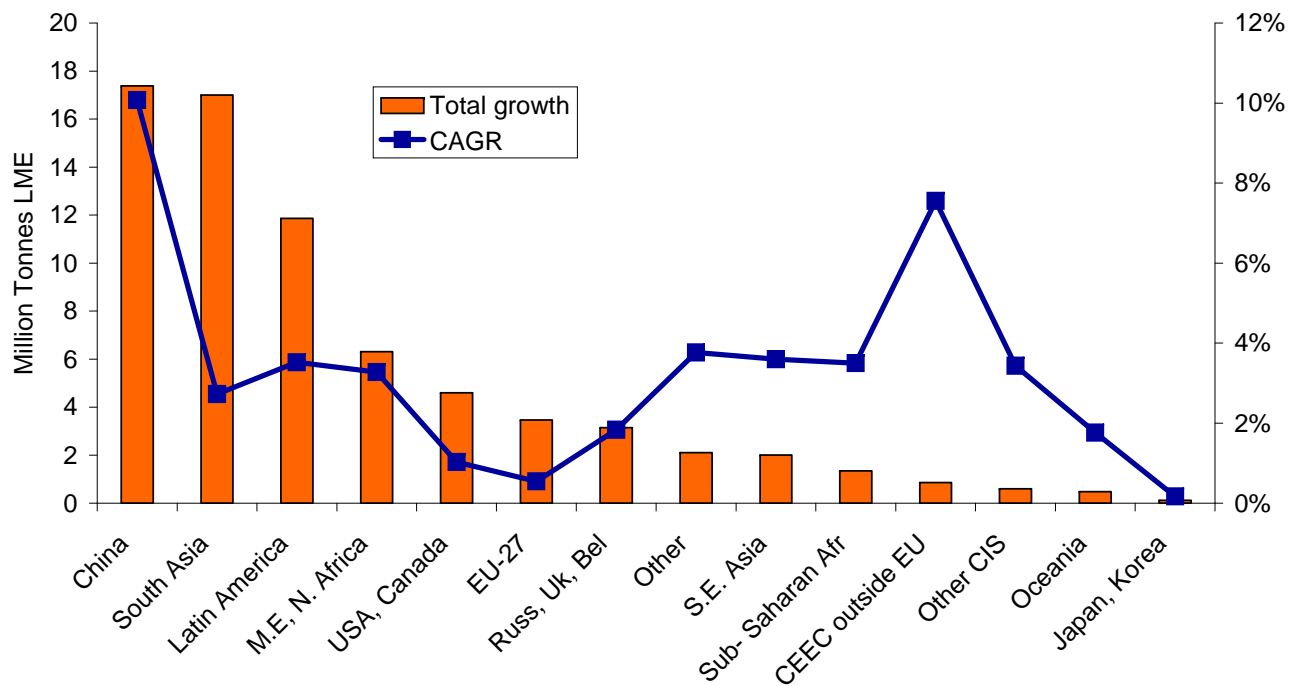


- There has been little impact in the short term
  - Prices take time to flow to end users
  - Short term substitutability is limited
- Medium term expected to bring a noticeable impact
  - Costs will be passed on
  - Buyers will investigate cheaper recipes
  - Investment committed to substitute development
- Impact greater where
  - Closer substitutes exist (incl animal feed)
  - In developing regions (eg South East Asia)
  - Where dairy is a higher share of cost of end product.

# But price increases won't completely derail demand growth



Global Dairy Demand: Growth 2005-10



Source: Rabobank/ZMP

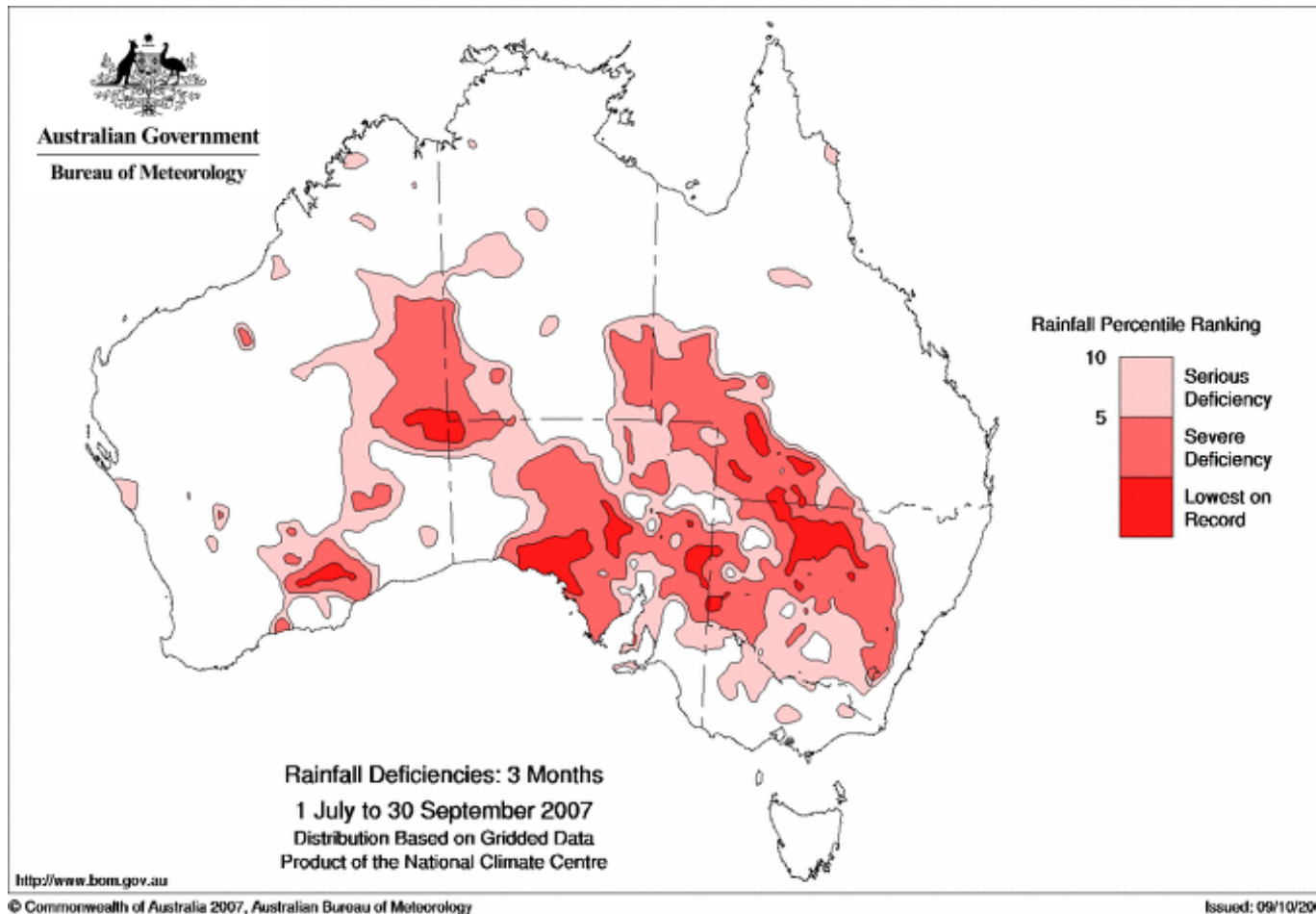
- Dairy still a staple food in many countries
- Not a large share of cost of many end products



Section I I

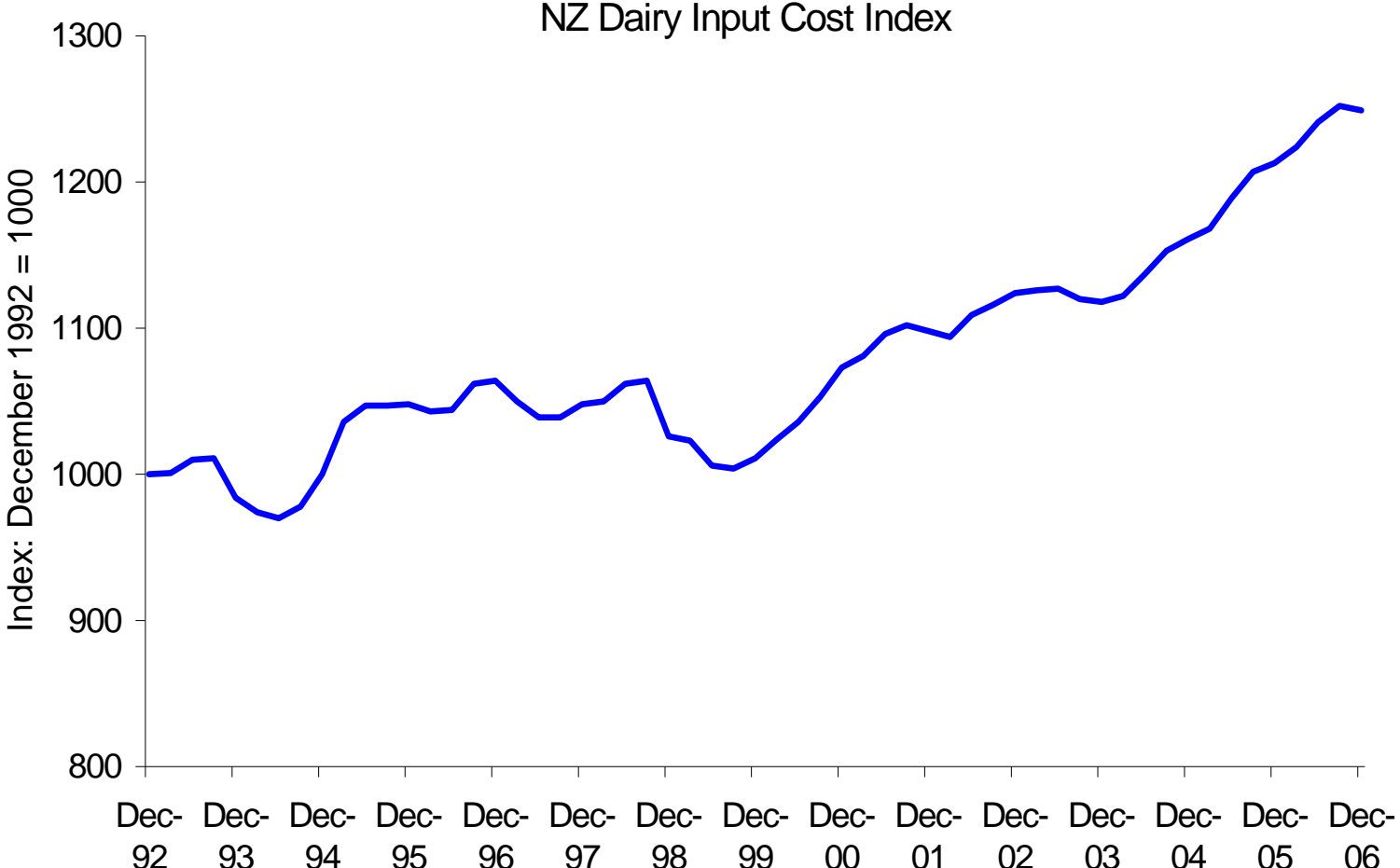
International Supply

# Australia's production is still being affected by 2007 drought





NZ production is expected to increase as current prices are compensating for the fact that costs of production have risen

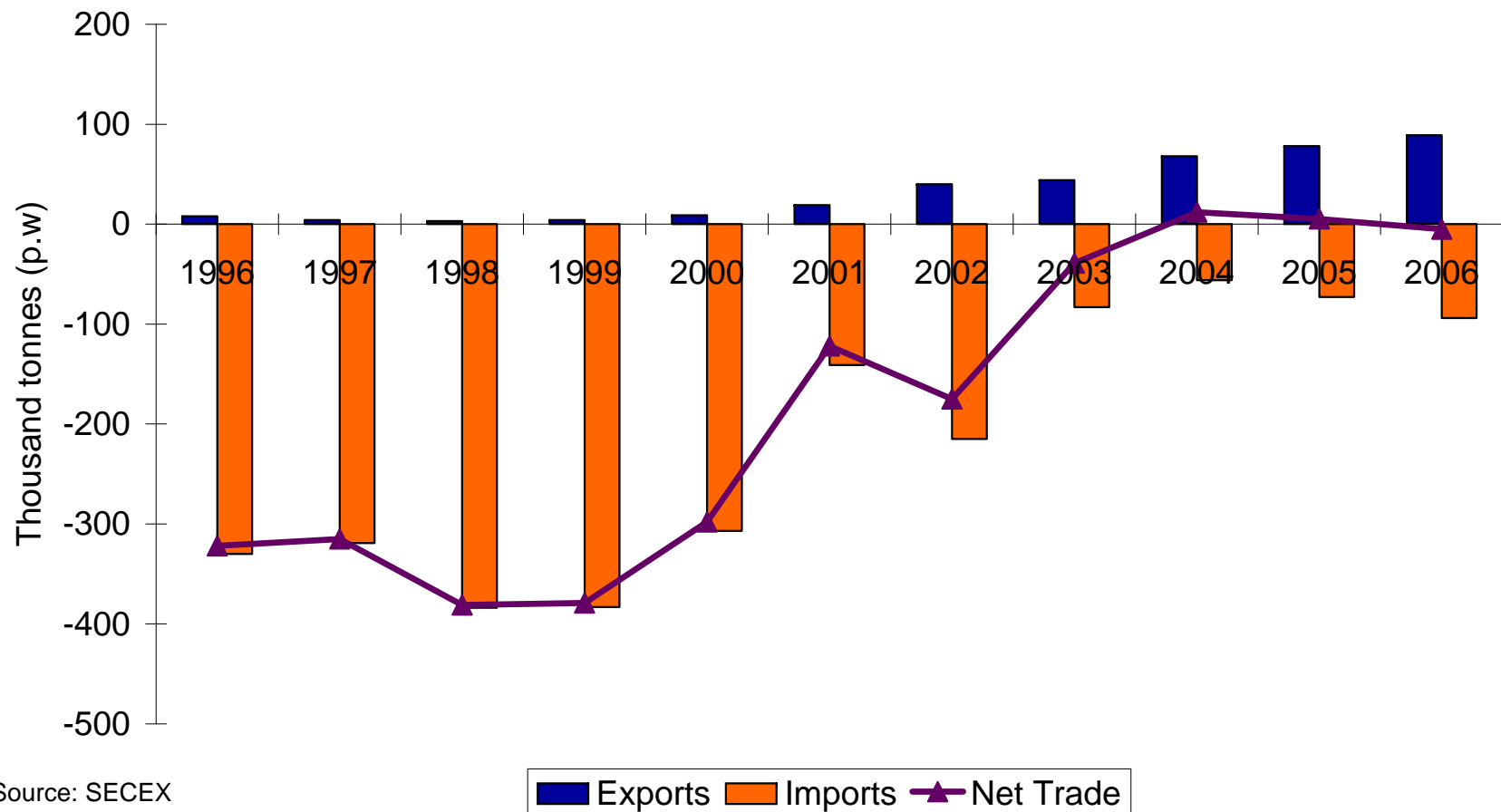


Source: Statistics NZ

# Brazil's exports are increasing slowly but domestic demand is also rising



Brazilian Dairy Trade

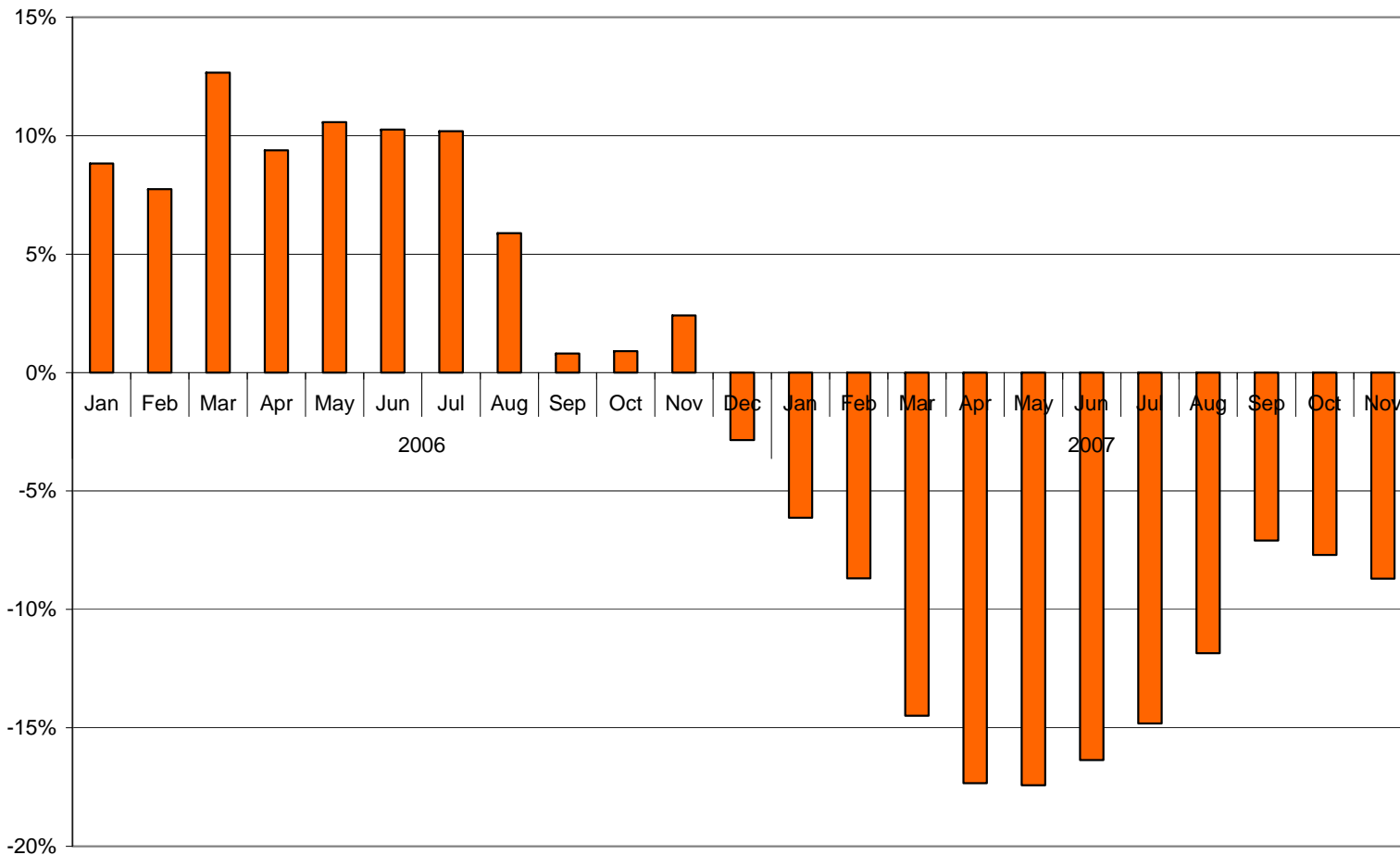


Source: SECEX

# Argentina is being affected by climatic conditions and government intervention



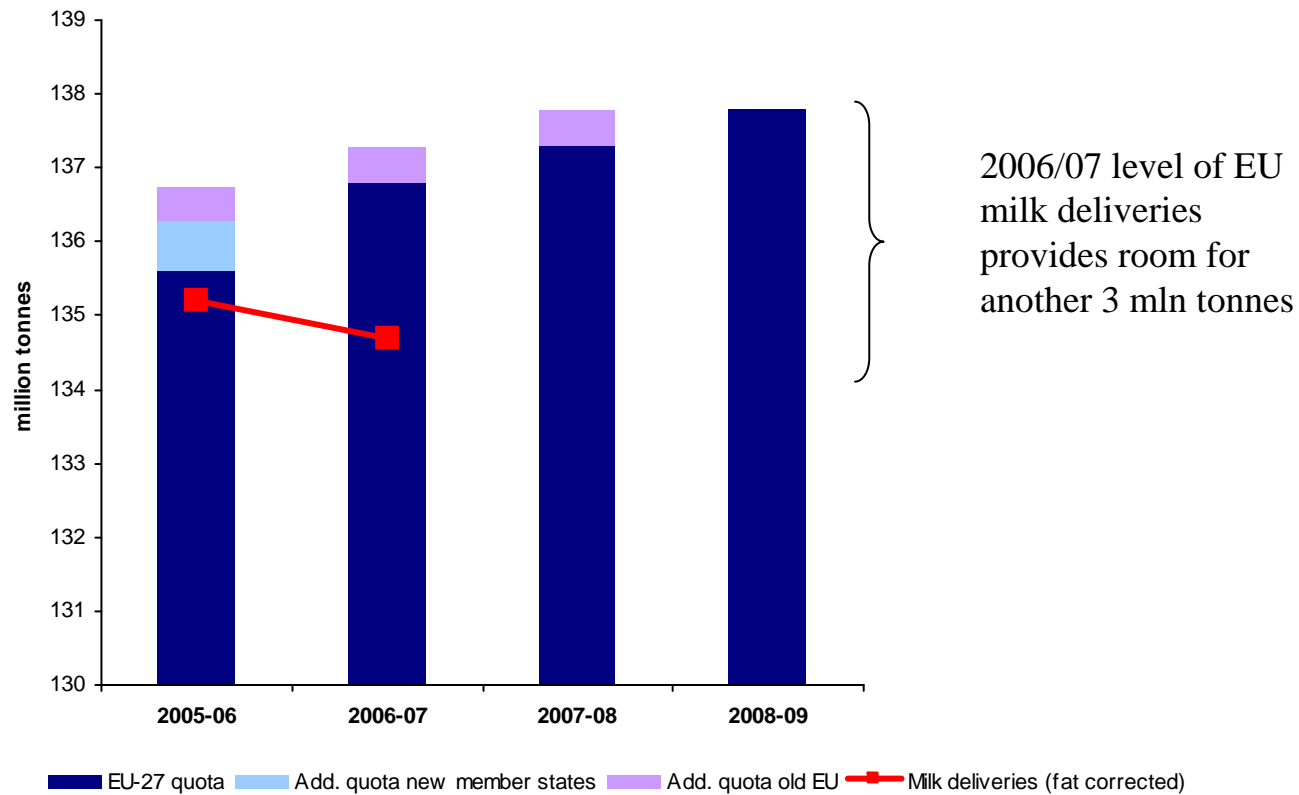
Growth in Argentinian dairy production year over year



# EU has some potential to increase production



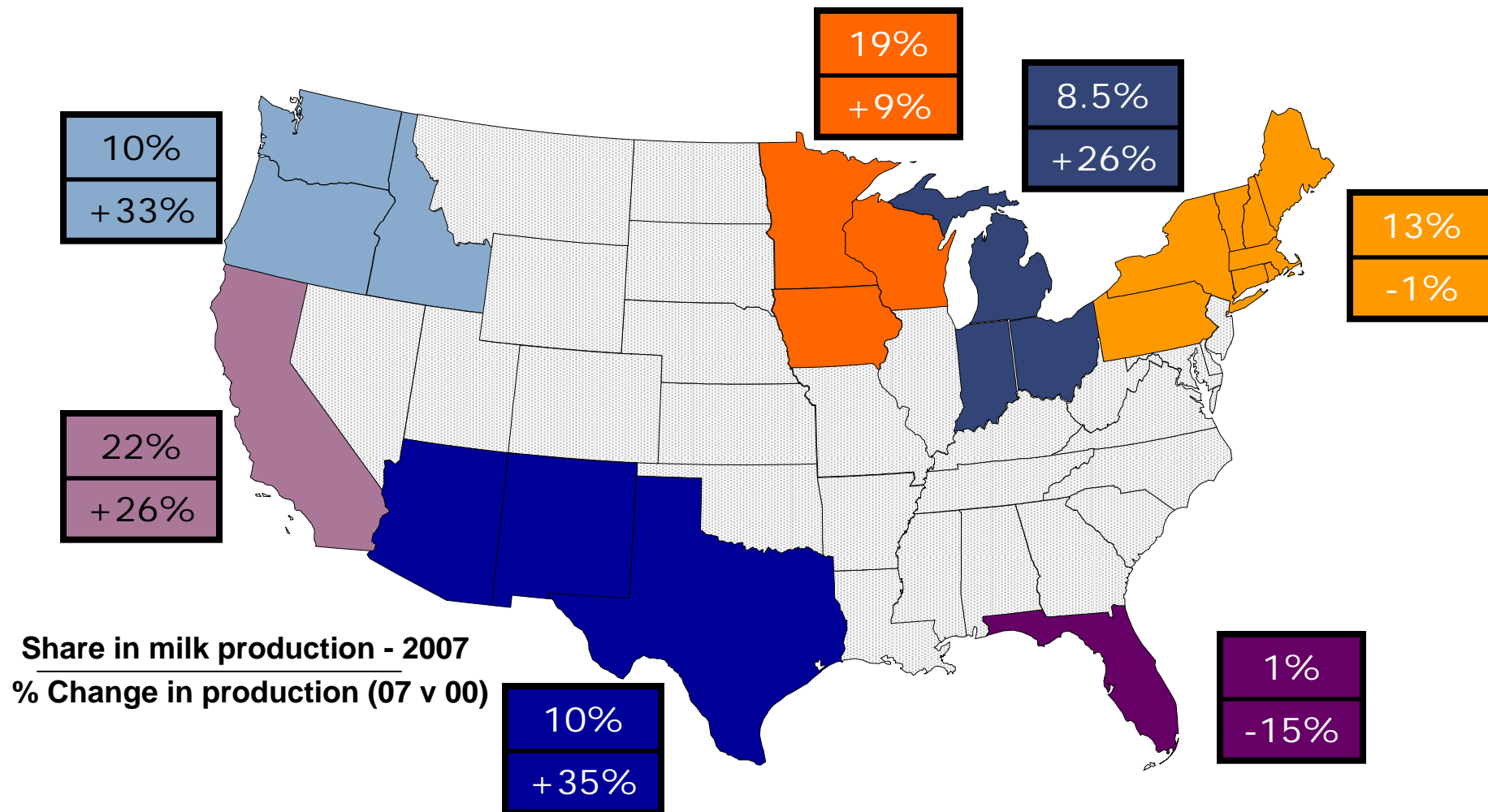
EU 27: production and production quotas



In the US dairy production is becoming more efficient as farmers become larger and relocate away from traditional production regions



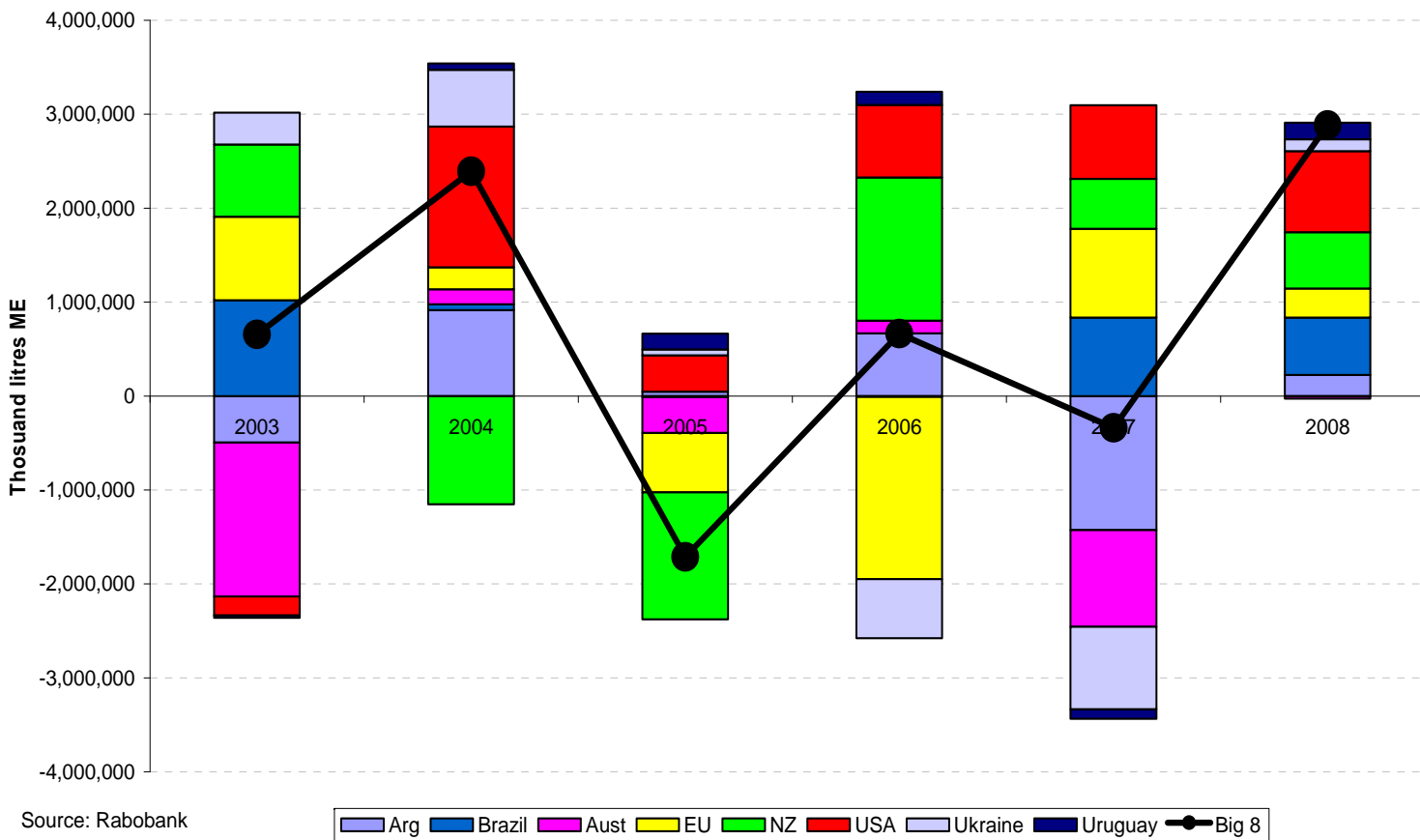
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# Globally, exportable supply will pick up, but not enough to satisfy potential demand at traditional price levels



Net change in tradeable surplus - big 8





## Section III

# International Price Implications

## Price implications: levels

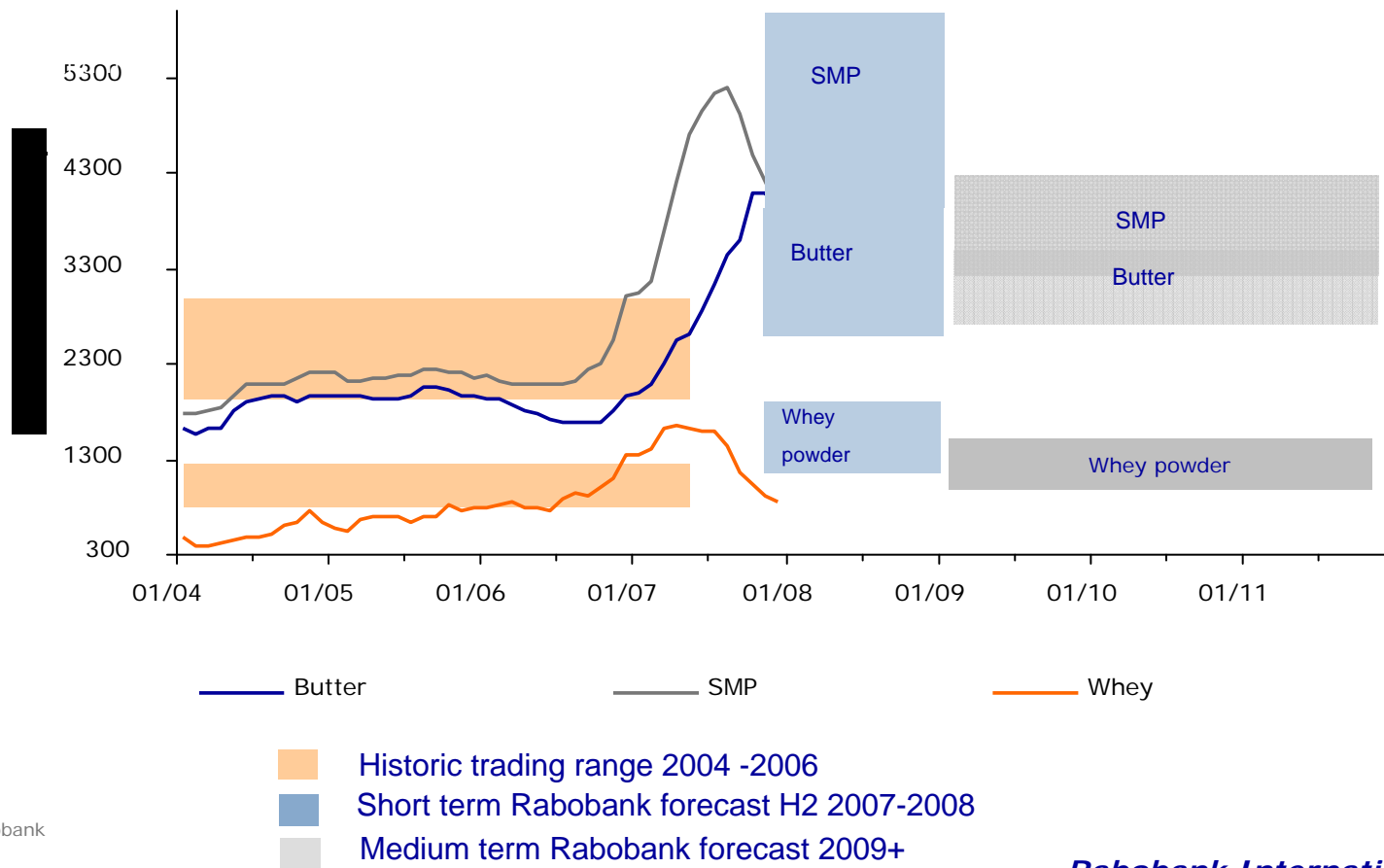
- Short term – a modest price fall
- Prices have already come off their peaks
- But limited adjustment expected prior to mid 2008
  
- Medium term - prices expected to moderate further
- Some demand will be choked off
- Record farmgate prices to encourage Northern Hemisphere supply
- Argentina (and other Latin Americans) will return to growth



But international prices expected to trade significantly above 10 year average in 2008



Western European price forecasts



Source: ZMP, Rabobank

# Price implications: risk



The market is thin – so changes can happen fast

Things that would see prices fall faster than currently anticipated:

- A global economic slowdown
- Overshooting in the US market
- Faster than anticipated response from the EU

# Rabobank International...



“The financial link in  
the global food  
chain”™