Dairy Outlook Workshop

30th - 31st March 2022, Brussels, Live event

Detailed information about the process

Join the live workshop

The importance of reviewing your dairy market outlook and how to gain meaningful insights

The global dairy industry is facing a fundamental shift from cow to consumer. It is important to be clear about how dairy markets will change in the next 12 months, but it is equally important to have perspectives of up to 10 or more years into the future. This is increasingly relevant due to growing pressure from governments, countries and the world at large to change, and it needs to happen ever more quickly. Weather events, pandemics and changing consumer interests worldwide, both for and against dairy products, add to the urgency.

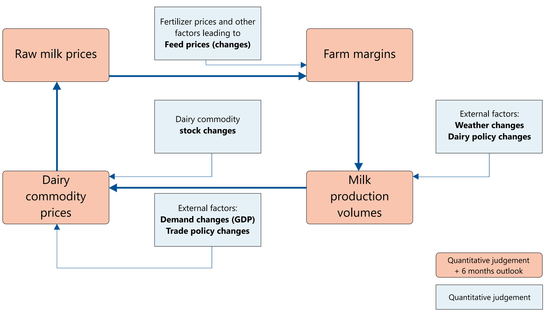
But what is a cycle in the dairy world looking like and how do the various factors affect it?

The predicted cycle (see image below) is well known, but has now become more applicable as IFCN has developed a qualitative and quantitative short-term outlook.

This is what we were used to seeing and what we expect for the future. The cycle is the basis for sharing quantitative and qualitative results with you.

If we start at the bottom right of the cycle with the globally produced volume of raw milk, we see that it leads to a specific price change for dairy commodities. Such a price change in turn leads to an adjusted farm-gate milk price and in combination with feed prices a profit margin for the dairy farm can be calculated. Based on historical analysis and correlations, certain farm margins again stimulate milk production volumes, and the cycle begins again. All these individual steps impact each other not immediately, but with a certain time delay. In addition, various external factors (which are partly assessed qualitatively) are taken into account to adjust the results.

Illustration 1. The IFCN Forecast Cycle and how everything is connected



The cycle is used as the core for the thought process and as the shift from the "old normal" to "new normal" occurs, the input factors change, and thus the output cycle is adjusted.
But what is a cycle in the dairy world looking like and how do the various factors affect it?

It is important to emphasize that none of the changes mentioned below occur overnight, but gradually. But for outlooks, only the future matters, less so the past. What was true in the past is not necessarily true for the future.

Table 1. IFCN examples for the "Old Normal" vs. "New Normal" (pre-dominantly EU focus)

Example of Milk production

2014-2019: "Old Normal"

Milk production responds proportionally to changed milk price levels, even when there is a delay.

2020 onwards: "New Normal"

Milk production does not respond proportionally to changed milk price levels, since e.g. environmental requirements (permit) act de facto as a new quota on the farm.

Example of Dairy commodity prices

2014-2019: "Old Normal"

Commodity prices have always been determined by supply and demand – until a government intervenes, as the EU did with its SMP intervention purchases and later sales.

2020 onwards: "New Normal"

Commodity prices are of course still determined by supply and demand. But milk supply, and thus commodity supply is now curtailed by increasing constraints (environmental, animal welfare, etc.) on-farm and by the aging of dairy farmers and the lack of a broad willingness to invest.

In net dairy importing countries, price elasticity is losing its meaning. Economic growth has created a broad global middle class, especially in East and Southeast Asia. Even at times when dairy commodity prices are high, they will no longer 'leave' the category; they can afford not to.

Example of Farm-gate milk prices

2014-2019: "Old Normal"

The world was connected, but market price levels and thus milk prices differed. This not only applied to traditionally closed markets like Japan, Canada, and Norway, but also for the EU versus the US and New Zealand.

2020 onwards: "New Normal"

The New Normal for those countries with relatively open markets is that dairy is now a global market with equilibrated commodity prices and thus milk prices are identical.

Example of Farm margins

2014-2019: "Old Normal"

Milk prices used to establish farm margins in conjunction with feed prices. Feed prices determined on-farm costs in almost linear proportion. The delta between milk prices and on-farm cost was the cash benefit or profit for the farmer.

2020 onwards: "New Normal"

Farmers' profit margins are no longer determined solely by feed costs. Environmental requirements and other regulations that increase costs without increasing productivity drive up on-farm production costs.

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