

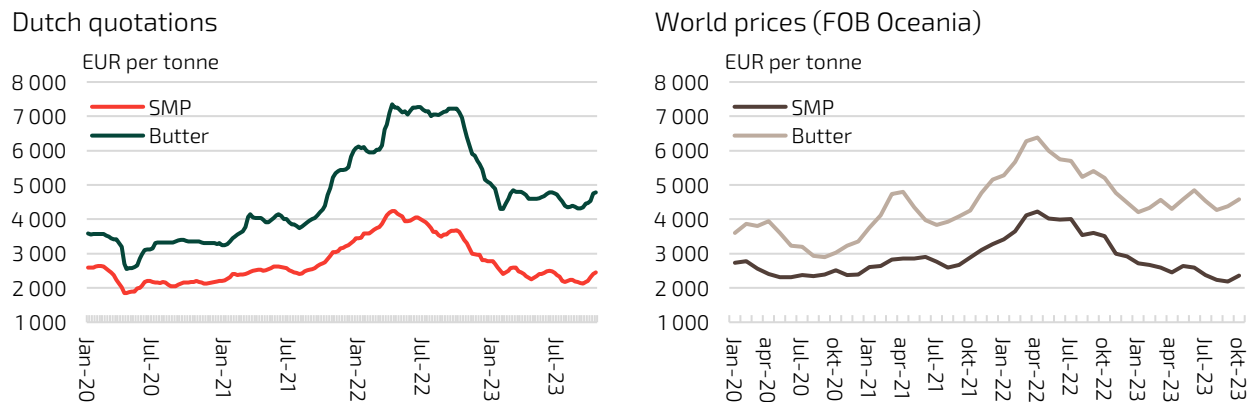
Will milk production be able to keep up if demand improves in H1 of 2024?

As already discussed in our previous insight '[How much export supply is still required for the global dairy market?](#)' most key exporting regions struggle to increase or even maintain their current milk production level. Weather disruptions, sustainability constraints in government policy and still unfavourable margins at farm level have brought milk production in the key exporting regions down to 0% growth in recent months. In previous decades, similarly weak production growth rates would have pushed dairy commodity prices to elevated levels. However, because global demand has been equally weak this year, prices have been relatively low for most of the year. If we now assume that demand can only improve from this point onwards, the next question becomes: will supply be able to keep up?

Milk supply growth gradually fell below demand growth

Despite global milk production being anything but strong, weak demand pushed dairy prices to low levels in the last 9 months. The significant decline in Chinese imports, and to a lesser extent, the slowdown in sales to Southeast Asian markets, have had a big impact on market price developments. The recent surge in dairy market prices (figure 1) seems to be closely linked to the weaker than expected development in milk production, thereby reducing the volume of milk available for exports – the exportable surplus – even further.

Figure 1. Price development butter and SMP



Source: Dairyntel analysis, 2023

Milk production trend down

All key exporting regions faced lower or at best stable y-o-y milk production volumes in August. On balance, milk supply in this month remained stable compared to the same month of the previous year. Within a year, the trend in milk production is once again declining, although this may be temporary due to improving market conditions. Stagnation was already visible from June, when the growth rate fell below 0.5%. The 0% growth in August was mostly due to unfavourable and sometimes extreme weather conditions (heat waves,

drought, floods), but also because of the significant decrease in farm gate milk prices and deteriorating margins during 2023.

Milk volumes stuck in weather patterns and government policy

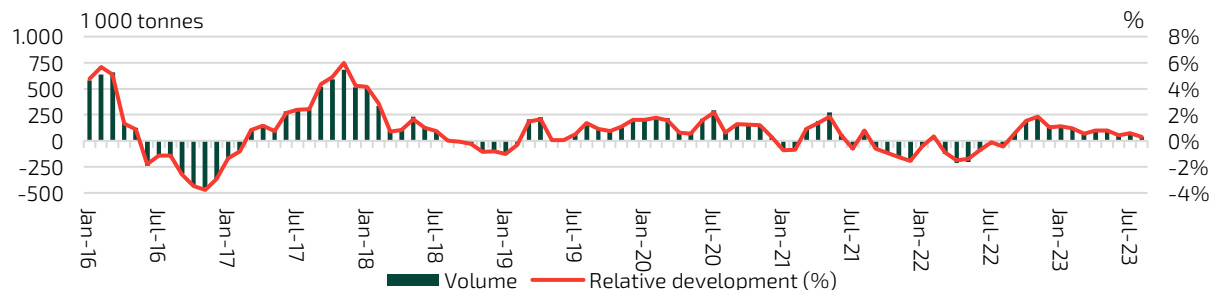
Now that dairy market prices are rising again, milk prices are expected to start recovering with some delay. What will this do to milk supply in the different export regions? Higher milk prices no longer seem to translate by default into higher milk production, as was the main lesson of the year 2022. This is especially true for the EU and Oceania, which seem to have reached their production limits due to government policy, environmental issues and weather-related constraints.

The EU recorded minimal growth in August. Since February, the growth rate has remained below 1%. A decrease in EU volume is expected for September. Based on weekly reports of milk deliveries, German milk output has only seen a slight increase. However, French milk deliveries are decreasing rapidly, which will have a significant impact on the overall EU development. Dutch September figures also indicate a decline, possibly due to the spread of the bluetongue virus since the beginning of September. In October, new cases were reported in Belgium and Germany, which could negatively affect milk production.

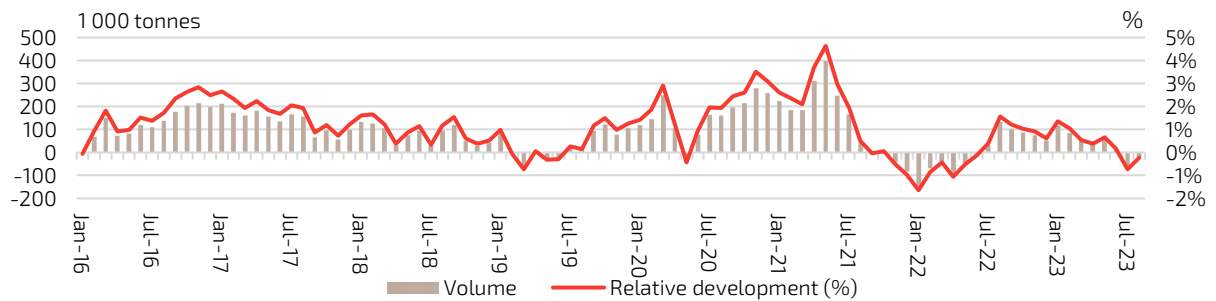
Australia is an example of a major dairy country that has suffered from severe climatic changes, primarily droughts and floods, which have significantly reduced milk production over the last decade. And drought is kicking in again, which is related to the climate pattern El Niño. For Australia as a whole, September 2023 rainfall was more than 70% below the 1961–1990 average, the driest September on record (since 1900). It is expected that El Niño may also affect milk production in New Zealand and in South America (Argentina and Uruguay) at the end of 2023 and the beginning of 2024, during the summer period, further limiting the possibilities of the key export regions in the southern hemisphere.

Figure 2. Monthly development of milk production in separate export regions (mutation compared to same month in the previous year)

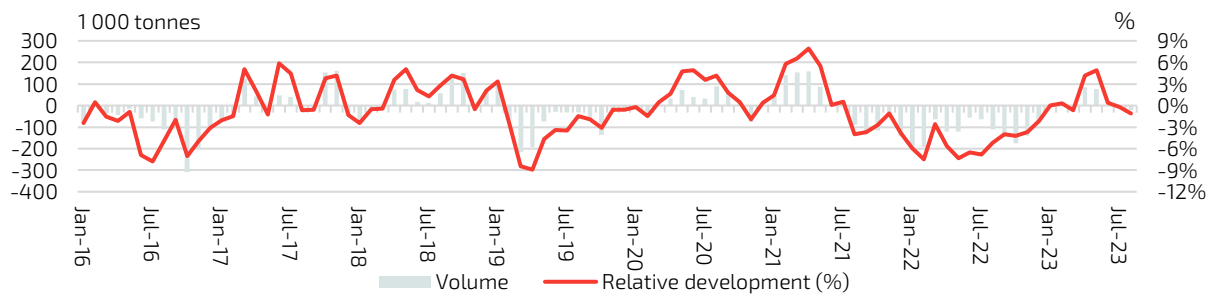
Europe (EU+UK)



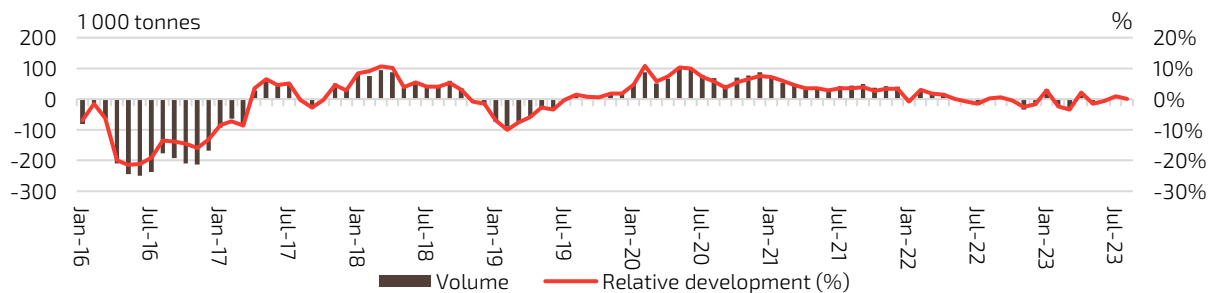
North America (USA)



Oceania (Australia + New Zealand)



South America (Argentina + Uruguay)



Source: Dairyntel analysis, 2023

No wonder to be expected from the USA

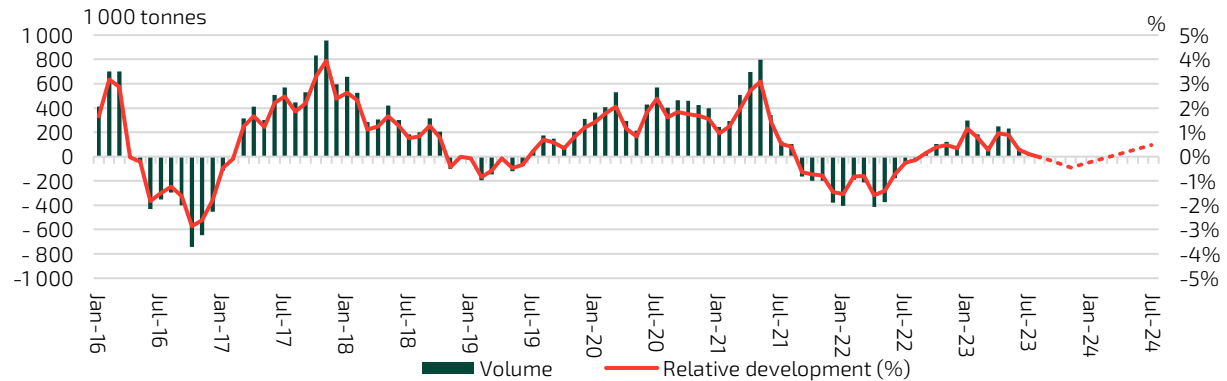
The only key exporter with some growth potential is the USA. Dairy farmers there have not yet, or to a lesser extent, been engaged in discussions about sustainability and environmental restrictions, although it remains to be seen how the new Farm Bill is expected to shape up. However, even in the USA, no substantial increase was observed from the second half of 2022 until June 2023. Margins were still not sufficient to stimulate milk production to develop at a higher pace. According to the recently published Ag Economy Barometer of the Purdue University, agricultural producer sentiment declined in September for the second consecutive month. Continuous concerns about high production costs and interest rates weighed on farmers' minds this month. Therefore, it is not expected that American dairy farms will increase herd numbers or invest in expansion in the short term.

An additional point to note in the development of American milk production is that a significant portion of the additional volume is intended for domestic consumption and keeping up with demand growth in its neighbouring export markets. About 44% of new milk between 2015 and 2022 was required to keep up with domestic demand growth. When including Canada and Mexico, then this share is 63%. This means that only around 37% of the additional volume goes to markets outside the NAFTA region. An additional kg of milk in the USA has far less impact on the world market than if this kg would be produced in New Zealand.

Will export supply show its remaining growth potential in 2024?

By analyzing the most recent production developments in the key exporting regions, it seems that we may conclude that volumes will continue to decline for the remainder of 2023. A recovery in the first half of 2024 is certainly possible when returns improve for farmers, but to what extent is the big question mark for 2024. The year 2024 may shape up to be the year when traditional export supply has to show its true colours. Demand is bound to improve from this point onwards, but there are serious doubts about the potential of the traditional export regions to continue to keep up with global demand growth in the milk deficient regions of the world.

Figure 3. Monthly development of milk production in key export regions*
(mutation compared to same month in the previous year)



*Argentina, Australia, EU-27, New Zealand, UK, Uruguay and USA
Source: Dairyntel analysis, 2023

If you are interested in our in-depth market insights or data underlying this analysis, please feel free to [contact us](#).