For internal use only. Reprints available for purchase.

AGRI-VIEW

U.S. dairy suppliers set value, volume records in 2012

Posted: Thursday, February 21, 2013 9:36 am

For the second straight year, the United States shipped more than 13 percent of its annual U.S. milk solids overseas – a continued sign that U.S. dairy suppliers are building a more major role in meeting the needs of burgeoning global dairy demand.

"U.S. dairy exports are now a $5-billion business," says Tom Suber, president U.S. Dairy Export Council (USDEC). "Export value hit a record $5.21 billion in 2012 and the nation's dairy suppliers sent 3.295 billion pounds of total milk solids into export channels last year." USDEC, primarily funded by the dairy checkoff, leads overseas market development on behalf of the U.S. dairy industry.

With more dairy products moving overseas, U.S. dairy producers have been able to grow in the last decade while minimizing the accumulation of burdensome inventories in the domestic market, notes Paul Rovey, a dairy producer from Arizona and chairman of USDEC.

"Since 2003, U.S. milk production has increased 18 percent and more than half (56 percent) of the incremental milk volume has been sold overseas," Rovey says. "USDEC's long-term engagement in overseas markets has helped make that possible."

The United States posted broad gains across geographies and product lines. Among the 2012 highlights, cheese, whey protein concentrate (WPC) and nonfat dry milk/skim milk powder (NDM/SMP) all set volume records.

U.S. cheese exports cleared 260,000 tons (573 million pounds), nearly twice the volume shipped just four years earlier in 2008, with Mexico, Japan, South Korea and China fueling gains. NDM/SMP shipments grew 2 percent to 444,727 tons (980 million pounds), driven by strong demand from across Latin America and the Middle East. WPC toppled the previous volume record, jumping 27 percent to 233,362 tons (514 million pounds), powered by Southeast Asia, Mexico and South Korea. (More specifics on U.S. export performance are included at the end of this press release.)

Key U.S. markets – Mexico (up 6 percent), China/Hong Kong (up 16 percent), Canada (up 11 percent), Japan (up 3 percent), South Korea (up 2 percent) and the Middle East/North Africa (up 16 percent) – all boosted their U.S. purchases. Only Southeast Asia (down 4 percent) declined among major U.S. customers.

U.S. suppliers leveraged USDEC programs in market development, market access and trade policy programs to improve their sales to overseas customers. Last year (and through early February 2013), they announced significant investment in WMP capacity to service the overseas growth, upgrades to NDM/SMP to cater to the high-spec demands of overseas buyers, and new whey processing capacity to meet booming protein demand here and abroad.

SECOND HALF SOFTNESS

Despite the positive overall advancement, the second half of 2012 illustrated a marked difference from the first. U.S. export volumes grew nearly 8 percent January-June, compared to the same period the previous year, but declined 2 percent July-December. And aggregate U.S. export volume in the second half was 9 percent lower than shipments in the first half.

“Our export softness in the second half primarily stems from unfavorable pricing shifts,” says Suber.

In the first half of 2012, near-perfect weather and strong returns for dairy farmers in major export regions triggered record milk production, pushing global prices about 20 percent lower, on average, than the previous year. When the U.S. drought hit, domestic supply concerns sent U.S. prices, which had been tracking closely with Oceania, sharply higher.

Meanwhile, world demand held strong. Shipments from the world’s top five exporters (Argentina, Australia, the European Union (EU), New Zealand and the United States) for July-December 2012 grew about 9 percent. But Oceania suppliers picked up shares of this growing trade at the expense of the United States.

“The underlying fundamentals behind rising global dairy consumption remain, but a cyclical price rise in the United States reined in U.S. supplier growth in the second half,” says Suber.

LOOKING AHEAD

Pricing difficulties notwithstanding, there are positives in U.S. suppliers’ second-half numbers.

“The fact that U.S. exports did not plummet, as they did following the 2008 financial crisis, supports the contention that U.S. suppliers are maturing in their approach to the export market,” says Suber. “The overall U.S. performance reflects a greater industry-wide move towards exports as a strategic growth path.”

Moving forward, USDEC contends that a major global milk oversupply of the kind that characterized the first half of 2012 is not in the cards for 2013. And even though milk powder inventories have grown in recent months, stock levels appear manageable.

“Global economic signs are starting to move in a more positive direction, demand and consumption will continue rising, and world prices are expected to come more into line with U.S. prices,” says Suber.

And while the U.S. industry is shifting its focus to make world markets an integral aspect of the business, more challenges lie ahead.

The Innovation Center for U.S. Dairy®, established through the dairy checkoff program, noted a number of key objectives necessary for the United States to solidify itself as a consistent global supplier. Work continues on many of those objectives, enumerated in the organization’s Globalization Studies in 2009 and 2011, to upgrade the United States’ global competitiveness to withstand new and emerging competitors.

“As the Innovation Center noted, we have a finite window of opportunity to reach a series of consistent exporter goals,” says Suber. “The need to quicken the pace in fulfilling some of those key objectives – U.S. pricing policy reform, beneficial trade treaties, tools to manage volatility and various paths to better meet the needs of global customers – stands as urgent as ever.”

Click **here** for online version.