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## KEY MESSAGES

**+0.3%**

Milk collection in 2023

**Stable**

Dairy consumption in 2023

**+1.5%**

Cheese exports in 2023

**+15%**

SMP exports in 2023

## MILK AND DAIRY PRODUCTS

### HIGHLIGHTS

Despite EU raw milk prices continuously declining since the beginning of the year, EU milk deliveries remain rather stable and are estimated to increase by 0.3% in 2023. Weather conditions have been more favourable than in the challenging 2022, which helps to reduce feed costs and contribute to better feed quality, thereby also increasing the milk solid content of milk (+0.2%) and supporting a 1% increase in milk yield.

While global demand for dairy products is still relatively tight, lower EU dairy prices are expected to support a recovery of some exports, especially of milk powders. EU cheese and whey production are likely to benefit from higher milk availability and competitive prices. In both cases, this could support an increase in EU exports of +1.5% and +4.5%, respectively.

Despite the decreasing dairy cow herd, and assuming normal weather conditions, EU milk supply is forecast to remain relatively stable also in 2024 (+0.2% year-on-year). Although energy and fertilizer prices are over the peak of 2022 and on a decreasing trend, they are still high compared to last years. This, combined with decreasing raw milk prices, still high inflation in the EU and globally, and increasing interest rates, create uncertainty over margins for dairy farmers in 2024.

# MILK

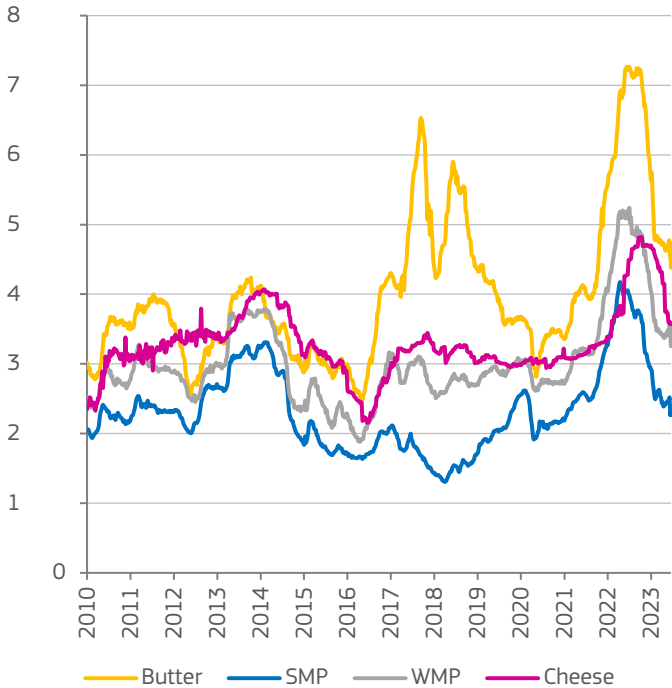
## EU RAW MILK PRICES CONTINUE DECLINING

EU raw milk prices have been declining since the beginning of the year, although at a slower pace since summer. The EU raw milk average price in August was -25% below the peak in December 2022, at around EUR 43.6/100 kg. The highest price drop in 2023 (around -43% compared to December 2022), based on September estimates, was recorded in IE, while the price decrease in FR, IT and ES was only of around -10%.

Due to more favourable weather conditions, feed costs started to decrease over the spring months. Although energy and fertilizer prices have decreased compared to 2022, they remained high and well above the average levels observed in the past, leading to tight margins for dairy farmers.

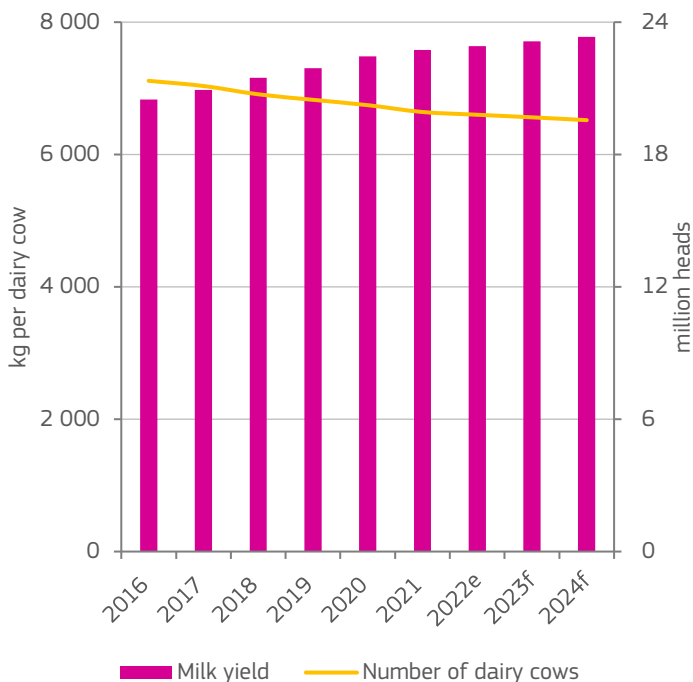
Food inflation started to decrease, but high food prices still constrain demand both in the EU and globally. Weaker purchasing power combined with a continuous price decrease of EU dairy commodities underpin lower EU raw milk prices. While some commodities showed signs of price stabilisation (in particular SMP and cheese), the overall price trends are still declining for most dairy commodities in Q1-Q3 2023. EU dairy prices became more competitive, which led to some recovery of EU exports. This increase is more pronounced for WMP, butter, SMP, and whey, and less for premium and high-value-added products.

EU weekly dairy prices (EUR/t)



Source: DG Agriculture and Rural Development, based on MS notifications.

EU dairy herd and milk yield



Source: DG Agriculture and Rural Development based on Eurostat.

## MILK DELIVERIES TO REMAIN STABLE IN 2024

Despite a decline in EU raw milk prices, EU milk deliveries were 0.7% higher in Jan-July compared to the same period in 2022. But the evolution of raw milk supply remains very heterogeneous across EU countries. In some countries, lower prices are already accompanied with lower production (e.g. IE, FR, IT). In others, increasing milk deliveries have potentially contributed to the drop in raw milk prices as demand remained less price-elastic (e.g. BE, DE, PL).

Cow slaughterings remained below the level of last year until June. Due to lower raw milk prices and high costs for important inputs, slaughterings could accelerate in the upcoming months. This could lead to a decline in the EU dairy cow herd similar to 2022 (-0.6%). On the other hand, better feed availability and quality contributes to increased milk yields in 2023 (+1% year-on-year) with increasing milk solids content. This development counterbalances the decline in the herd size and could lead to an increase in the overall EU milk deliveries (+0.3%).

In 2024, under the assumption of normal weather conditions, the increasing trend in EU milk yields is assumed to continue at a comparable rate, providing a stable raw milk supply for the dairy industry (+0.2%).



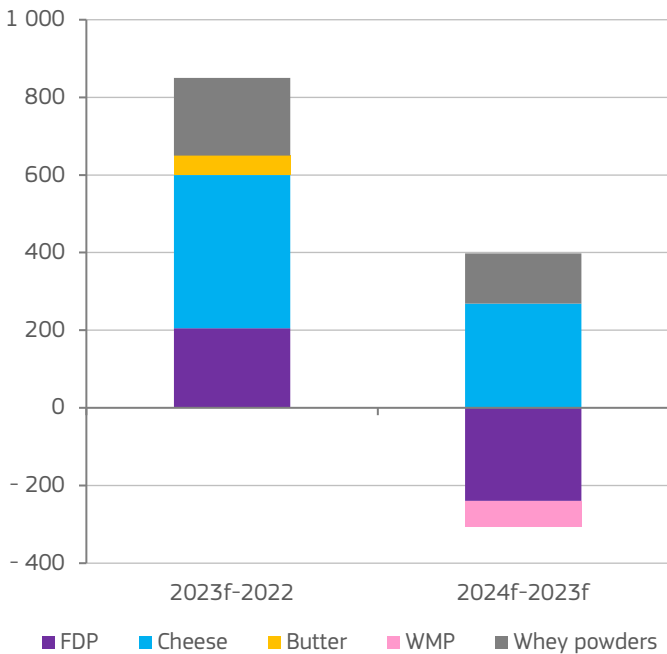
# DAIRY PRODUCTS

## CHEESE AND WHEY BENEFIT FROM HIGHER EU MILK AVAILABILITY IN 2023 AND 2024

With an expected increase in EU milk deliveries in 2023, and even higher availability of milk fat and milk protein relative to last year, EU cheese production is likely to remain the preferred option in milk processing also in 2023. As a result, its production could be 1% higher. This, supported by competitive EU export prices, could help EU exports to grow (+1.5%) while domestic use (-6%) will likely remain constrained by inflation pressures, impacting also imports, in particularly for premium cheeses. In 2024, despite a foreseen smaller increase in EU milk deliveries, EU cheese production could further increase (+0.7%), enabling further export growth (+2%) due to a likely demand recovery in some key markets. Easing EU food inflation is likely to have a positive impact also on domestic use (+0.5%).

EU whey production is expected to grow stronger in 2023 as well (+1.2%). This is driven by higher EU exports thanks to a recovery of demand in China while domestic use could decline. In 2024, production growth could continue, although at a slower pace (+0.8%). Nevertheless, this could lead to higher EU exports (+2.5%) while domestic use could remain stable.

Annual change in EU production of selected dairy products (1000 t of milk eq.)



Note: SMP and butter production could remain stable in 2024 so they don't appear in the second bar.  
Source: DG Agriculture and Rural Development, based on Eurostat.



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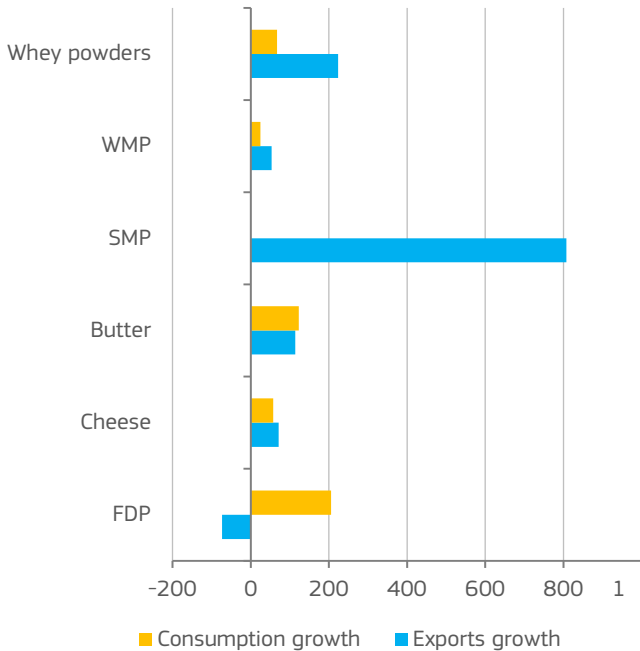
# DAIRY PRODUCTS

## EU SMP EXPORTS TO GROW STRONGLY IN 2023

While EU SMP production somewhat decreased in Jan-July (year-on-year), exports recorded a strong recovery, mainly supported by tenders for Algerian milk powder imports and strong demand from Saudi Arabia and Morocco. To meet demand, EU production could slightly grow in the remaining part of the year, and overall remain stable. At the same time, EU exports could be 15% higher, while domestic use could decrease (around -2%). This is a result of less SMP being used in processing (e.g. for fat-filled powders,). The increase in EU milk powder exports could prevent WMP production from declining, even if exported volumes are expected to decrease due to increasing competition on export markets from New Zealand in the remaining months of 2023. WMP exports could be 3% higher in 2023 year-on-year, while at the same time, the reduction in domestic use could also be lower than anticipated (around -2%). This is due to lower prices, which could benefit the use of WMP as ingredient.

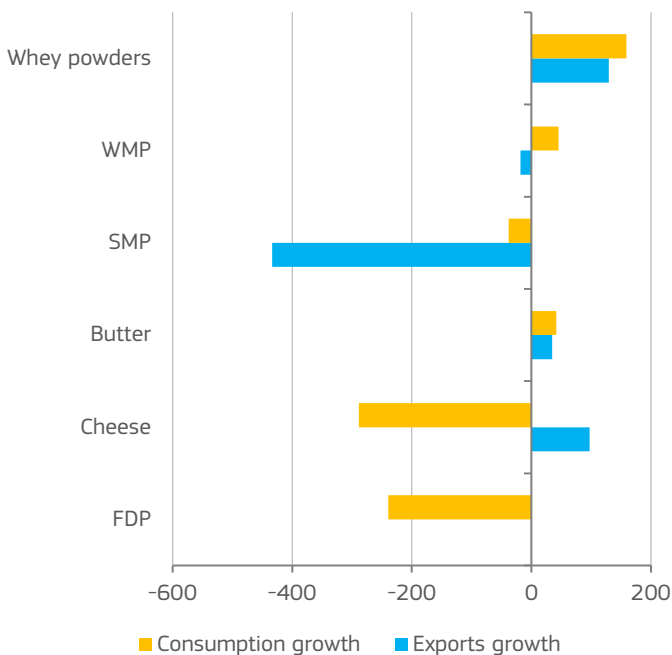
In 2024, the production of SMP could remain stable, with lower exports compared to a strong recovery expected in 2023. WMP exports could also go down (-1%), reverting to a declining trend. At the same time, the pace of decline in domestic use of WMP could be sustained while SMP use in processing could increase thanks to some demand recovery (+4%).

Annual changes of EU export and consumption in 2023f (1000 t of milk eq.)



Source: DG Agriculture and Rural Development, based on Eurostat.

Annual change of EU export and consumption in 2024f (1000 t of milk eq.)



Source: DG Agriculture and Rural Development, based on Eurostat.

## FRESH DAIRY PRODUCTS RESISTING INFLATION

With more milk channelled to WMP until now (presumably leaving some milk fat available after its processing), and an expected production increase of SMP in the coming months, EU butter production could grow in 2023 by around 0.3%. The increasing availability and more competitive EU prices (also relative to other fats) could also help EU exports grow (+7%) as well as contribute to some increase in domestic use (+0.4%), notably in processing. In 2024, it is not expected that the export recovery path will be fully sustained; the growth of EU exports could be lower (+2%), with EU domestic use likely to grow more modestly (+0.2%).

Beyond expectations, production of fresh dairy products is increasing (cream and drinking milk). As EU exports are unlikely to expand due to decreasing demand in China, extra volumes are likely to be consumed domestically, showing a higher resistance to increasing prices than other products of animal origin. This could lead to an increase in total EU consumption in 2023 (+0.7%), but this change would be hardly visible on a per capita basis due to slightly increasing population trends (+0.1%). In 2024, EU consumption will likely return to a declining trend (supported also by a slow-down in population growth), which could lead to lower EU production (-0.9%) while EU exports could remain stable.

