DAIRY MARKET OUTLOOK

Focus on factors impacting supply and demand in the short term
CDG Animal Production
2 March 2023, unit of Analysis and Outlook

Outline

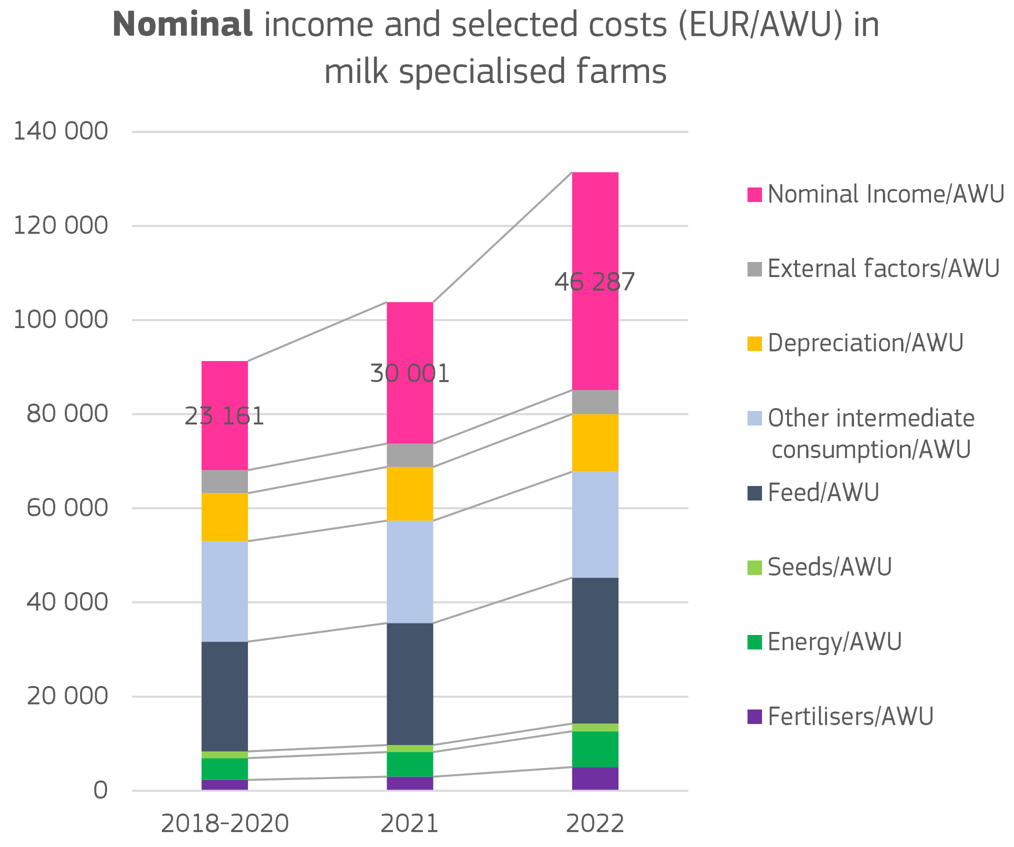
SUPPLY

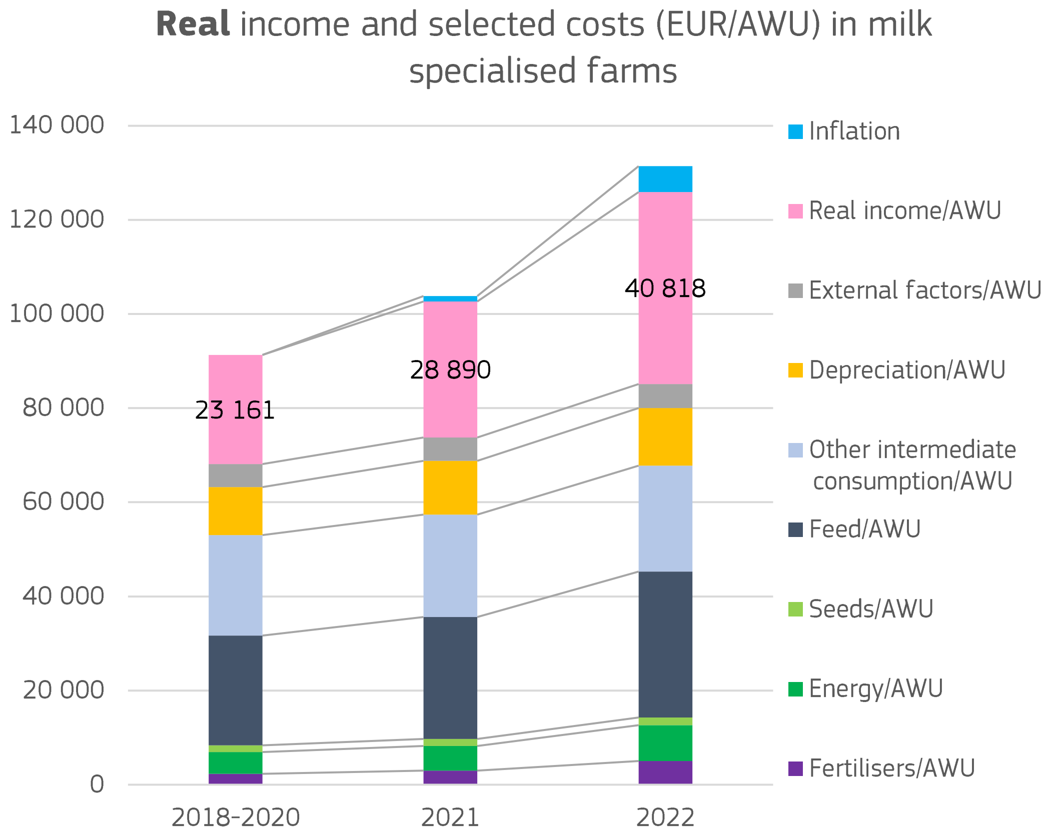
- Input costs (focus on energy and fertilisers)
- Global crops outlook
- Global milk supply
- EU milk supply

DEMAND

- EU food inflation
- Global dairy demand

Income of milk specialised farms in the EU

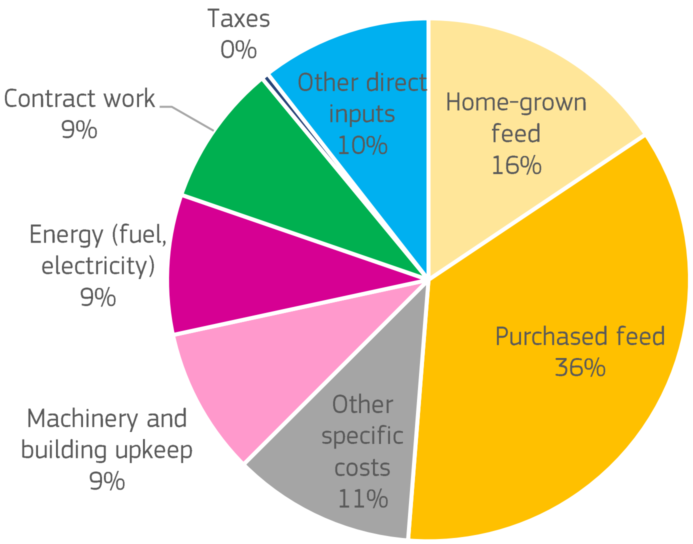




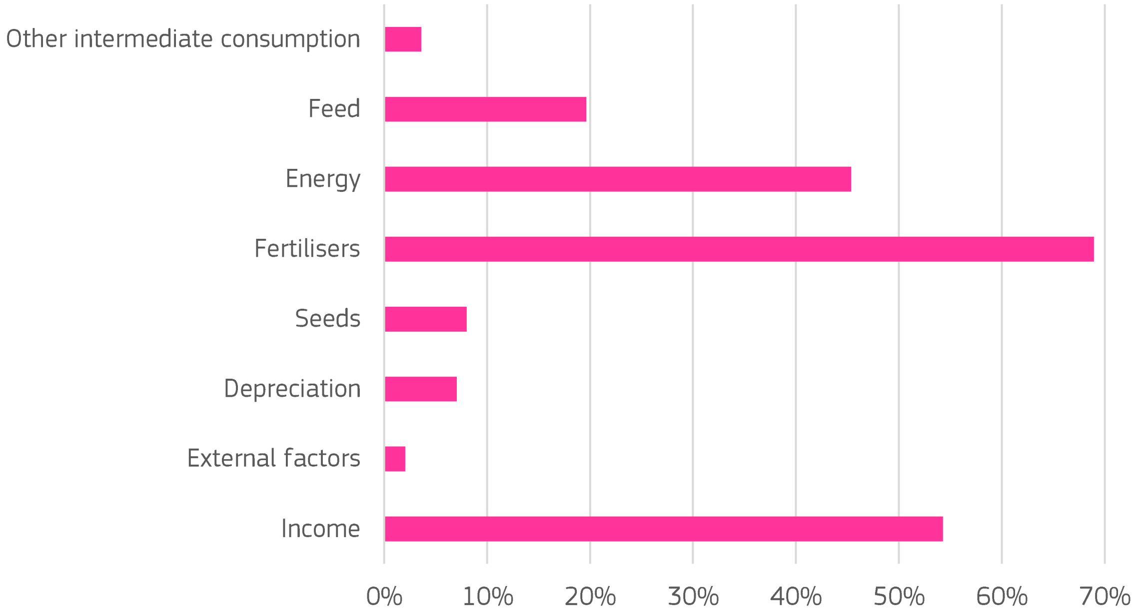
*Note: **External factors** - Remuneration of inputs (work, land and capital) which are not the property of the holder = wages, rent and interest paid; **Total intermediate consumption** - Total specific costs (including inputs produced on the holding) and overheads arising from production in the accounting year / "Other" includes all except the ones displayed separately.*
Source: DG Agriculture and Rural Developments, based on FADN data (2018-2020) and Eurostat (EAA)

Zooming into costs' structure

Operating costs structure in milk specialised farms (2018-2020)



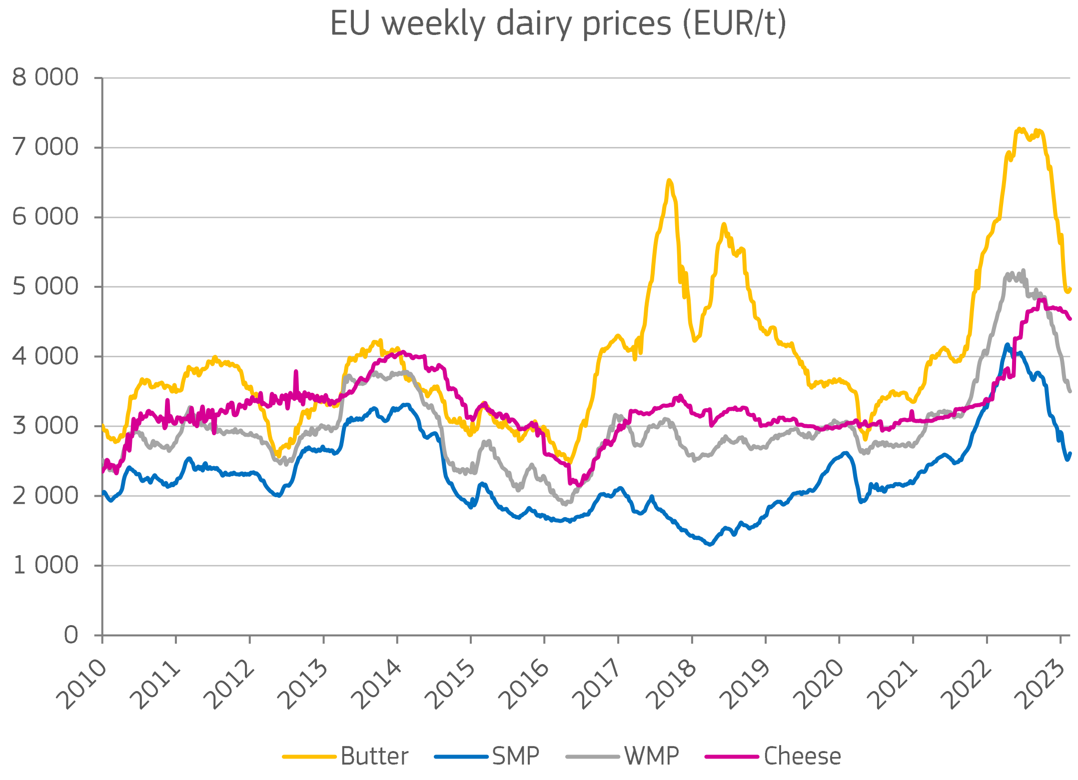
2022/2021 change of nominal income and selected costs (%, based on EUR/AWU)



Note: Other specific costs include Herd renewal purchases, Milk levy (set at 0) and others
Source: DG Agriculture and Rural Developments, based on FADN data

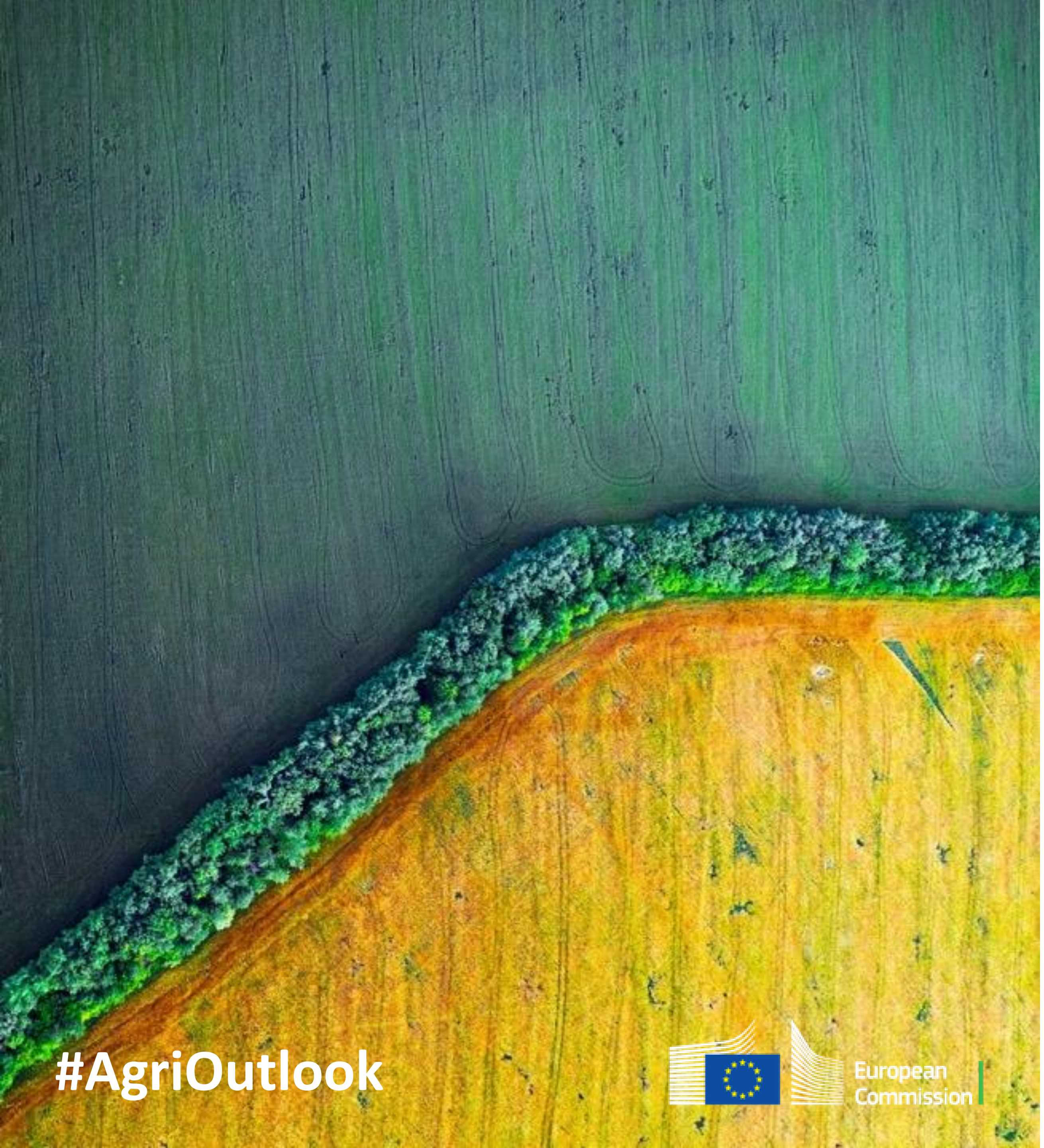
Source: DG Agriculture and Rural Developments, based on Eurostat (EAA)

EU dairy prices developments



- **Prices** dropped due to increasing supplies (and weaker demand)
- **Stockpiling at the end of the year** contributes to a larger availability on the market in upcoming months
- Buyers waiting for **even further price drops**

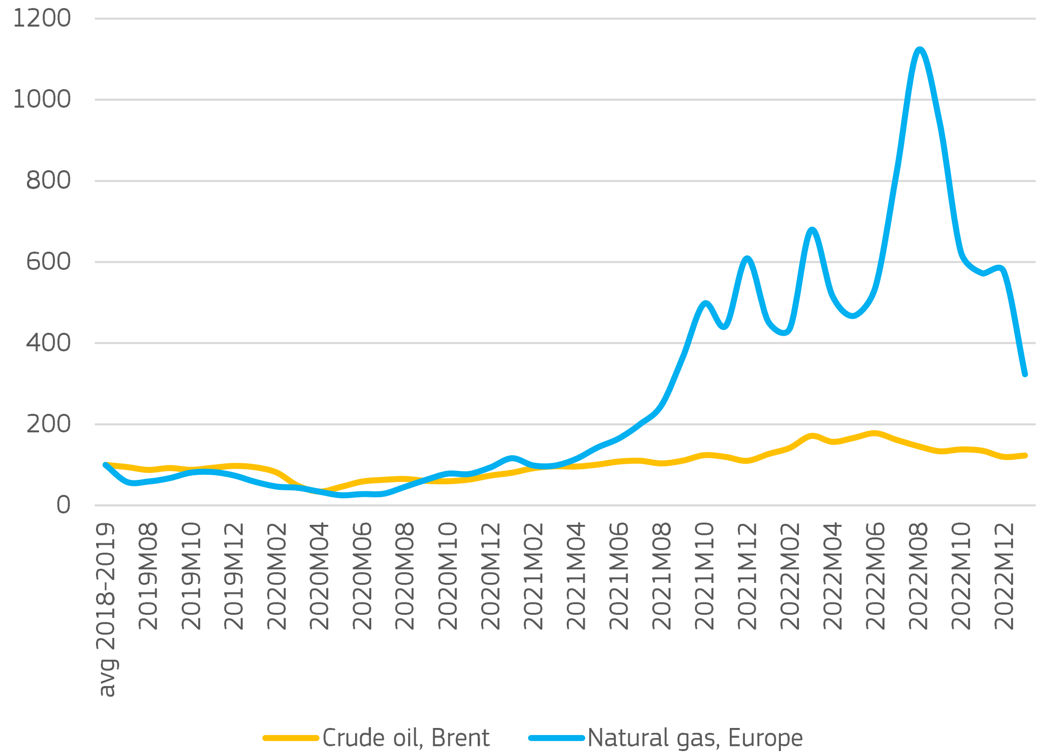
Source: DG Agriculture and Rural Developments, based on MS notifications



SUPPLY FACTORS

Supply factors – energy

Natural gas and Brent crude oil prices (index average 2018-2019=100)



Source: DG Agriculture and Rural Developments, based on World Bank

CRUDE OIL

- Based on S&P Global, **crude oil prices** will experience increases through the rest of the year
- **Brent prices** will average $85/barrel over the first quarter and grow thereafter (following an expected production decline as a result of sanctions on Russia from February)
- Uncertainty on **growth of China's demand**

NATURAL GAS

- **Average prices** over 2023 will be as much as 50% lower than average prices in 2022
- **Storage levels** are still very high (82%, 63% being 5-year average)
- **Steadiness of flows** despite price caps, strong European storage, and general bearish sentiment -> it is much less likely that flows will cease

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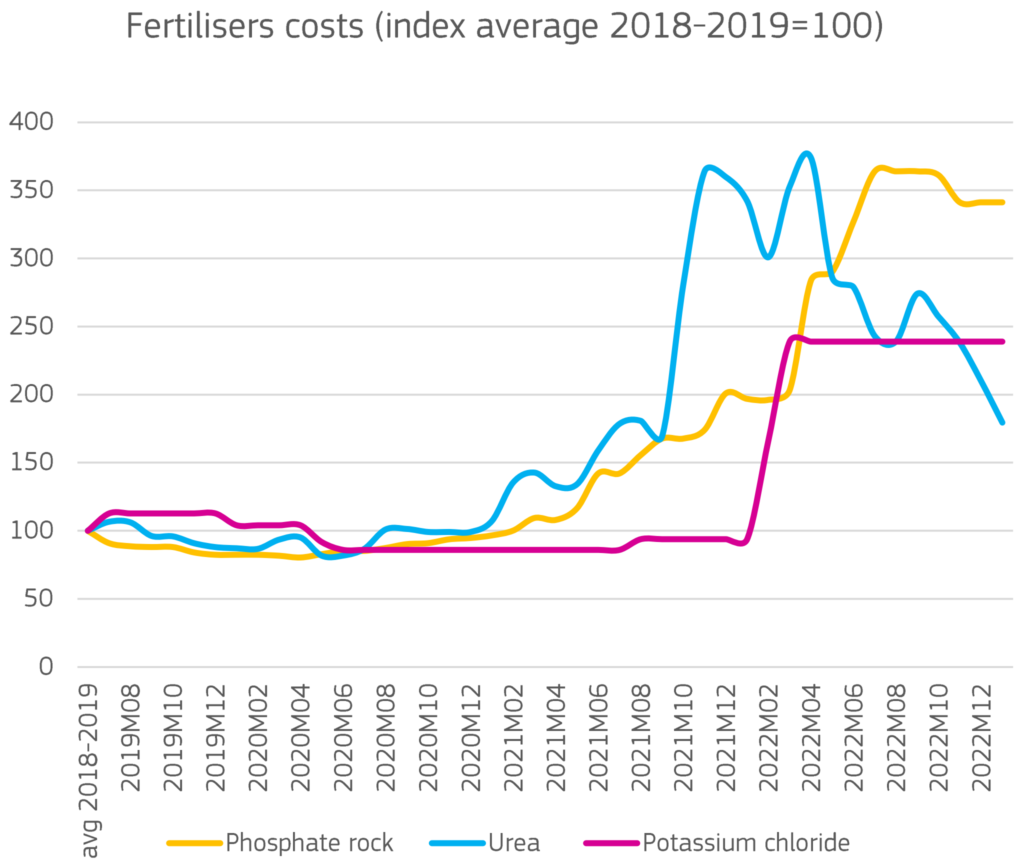
European Commission

Supply factors –fertilisers



Source: DG Agriculture and Rural Developments, based on World Bank

Fertilisers impact:

- Quality of **pastures**
- Availability and quality of **feed**

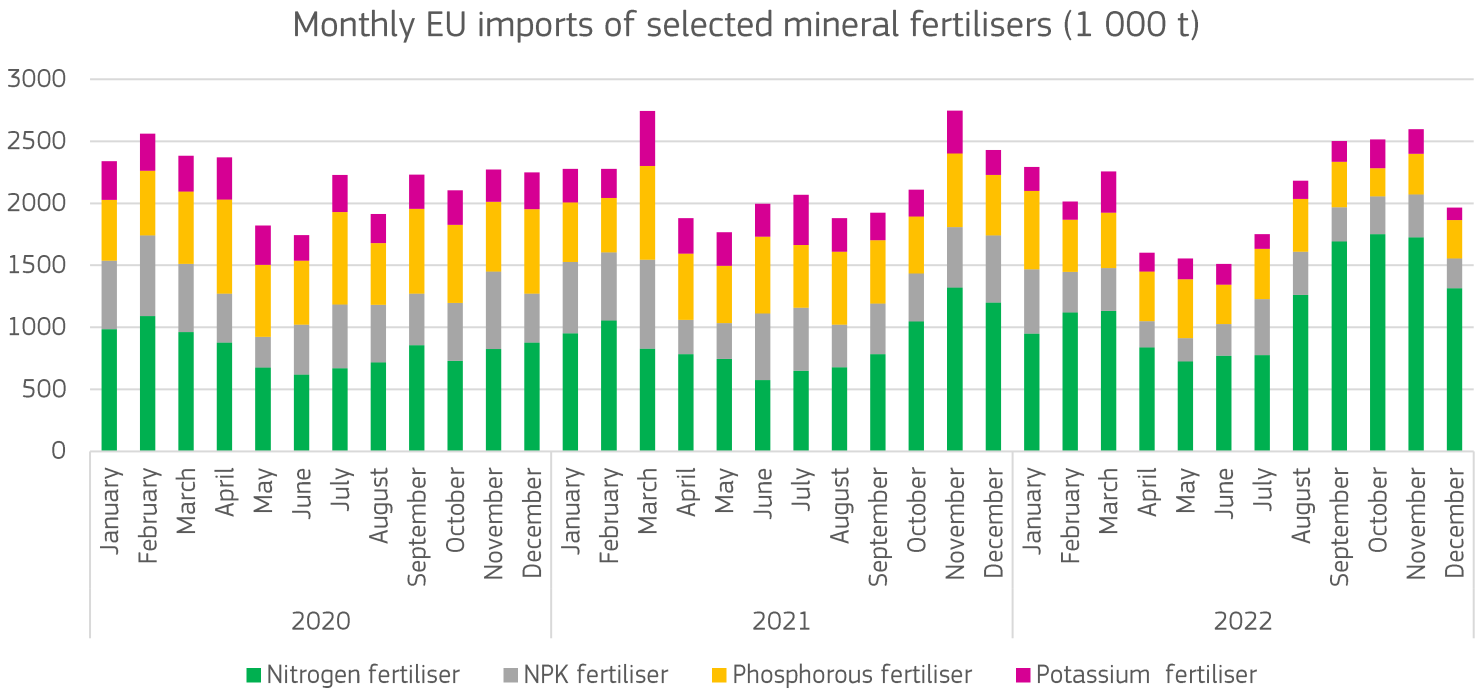
-> besides milk volumes, also milk protein and fat content

In 2019-2021:

- Average EU mineral fertiliser **production**: around 40 million t
- Average EU mineral fertilisers **imports**: around 26 million t

Any change in 2022?

Supply factors –EU mineral fertilisers imports



2022/2021 annual change of **imported volumes**:

- +32% Nitrogen fertiliser
- -32% NPF fertiliser
- -26% Phosphorus fertiliser
- -38% Potassium fertiliser

Source: DG Agriculture and Rural Developments, based on Eurostat (COMEXT)
Monthly imports available here: https://agridata.ec.europa.eu/extensions/FoodSupply/FoodSupply.html

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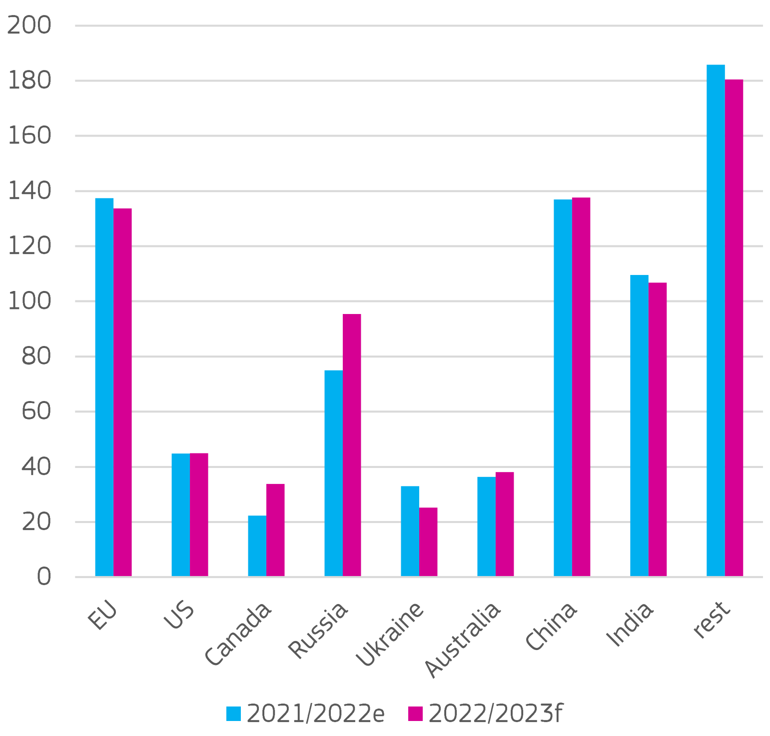
Supply factors – (feed) crops outlook

Global **wheat** production estimates



Global **maize** production estimates

+ Oilseeds:

- +30 million t (637 million t)
- **Soya beans** up (thanks to Brazil while US and Argentina down)
- **Rapeseed** up
- **Sunflower** down

Source: DG Agriculture and Rural Developments, based on IGC

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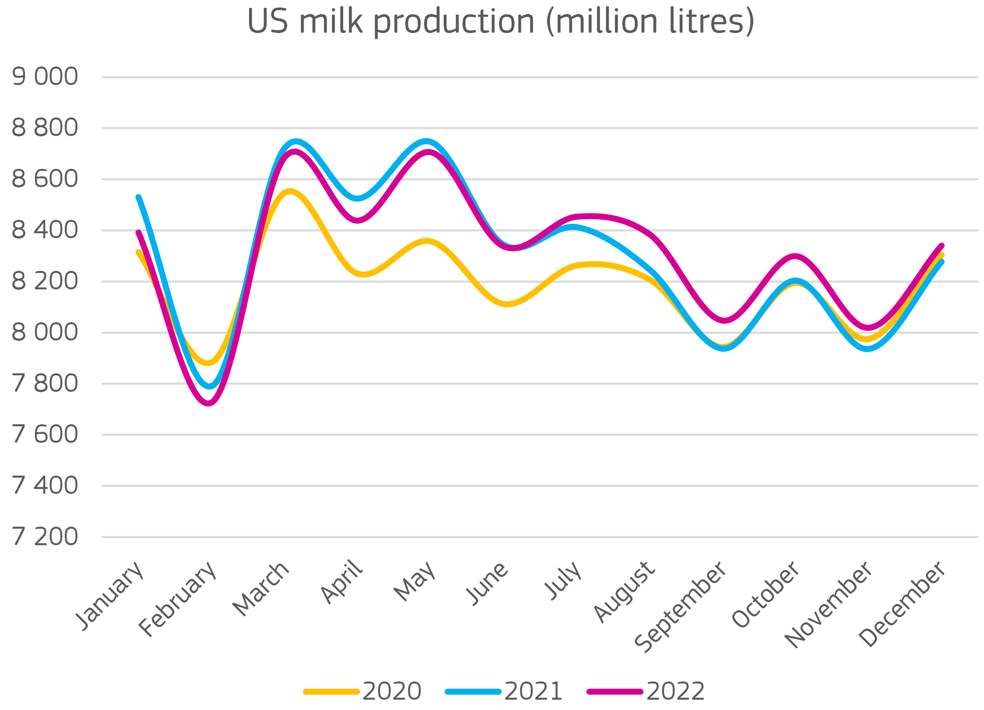
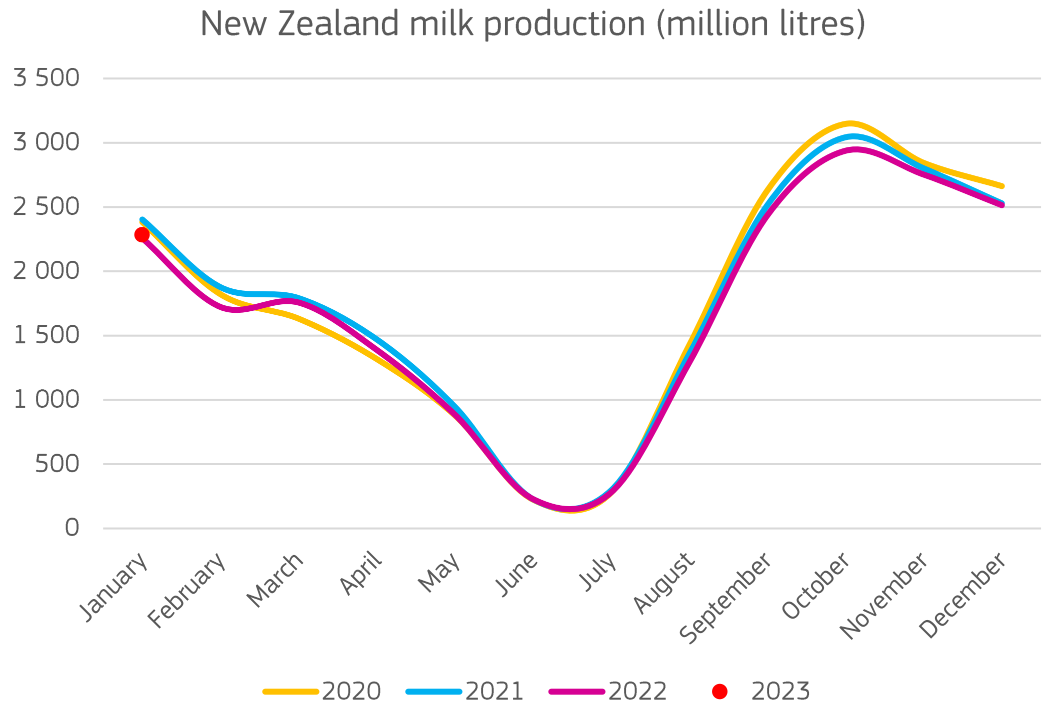
Global milk supply





Source: DG Agriculture and Rural Developments, based on AHDB

- **Dairy cow inventory** to be reduced
- Lower **milk production** estimate
- Lower **exports** (but compared to record levels due to competitive US dollar in 2022)

- La Nina **weather cycle** brought some new rainfall records
- 2023 **milk collection** could record a modest recovery
- Drop in WMP **trade** to China and Sri Lanka led to more SMP+butter, a trend which is likely to revert in 2023

EU milk supply

- Fertiliser cost
- Energy cost
- Feed cost
- Labour cost
- Domestic demand
- EU competitiveness

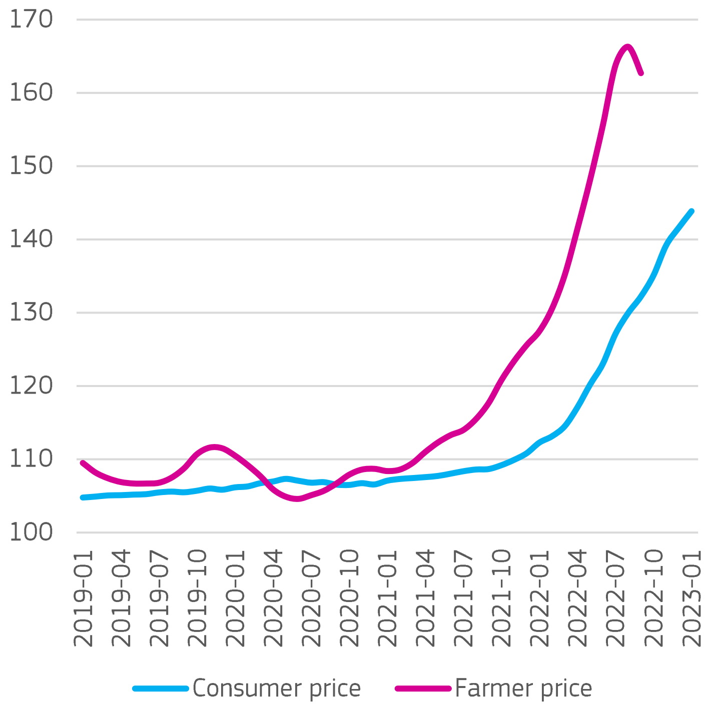
- Cost of keeping the cows/cost of herd replacement
- Profitability of dairy products (cost of processing, cost of storage vs. demand)
- Labour cost – cost of production but also available income for consumption
- EU dairy prices compared to the main competitors

DEMAND FACTORS

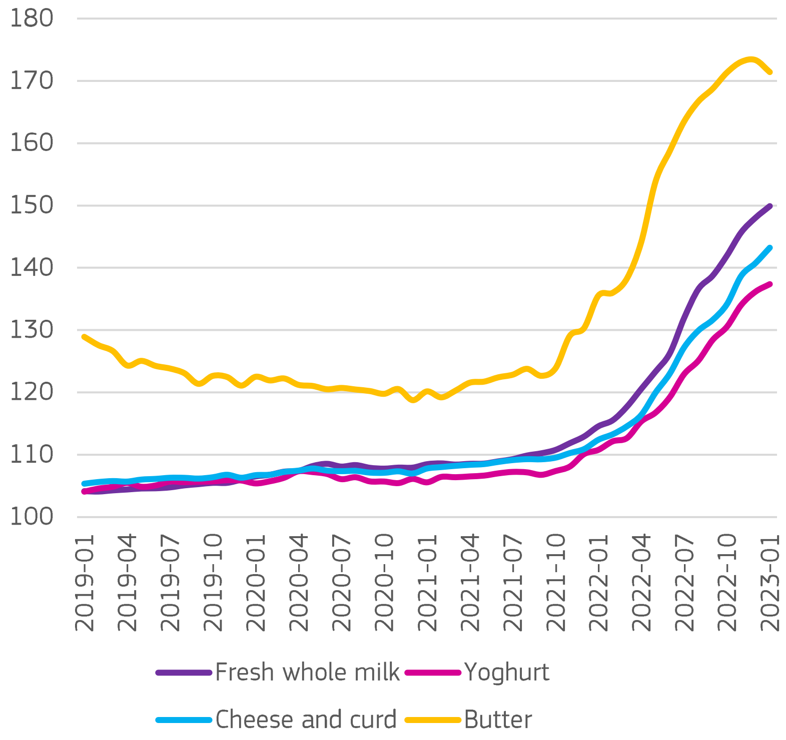
European Commission

EU consumer prices

Development of EU price indices for milk, cheese and eggs (2015=100)



Development of EU consumer price index for selected dairy products (2015=100)



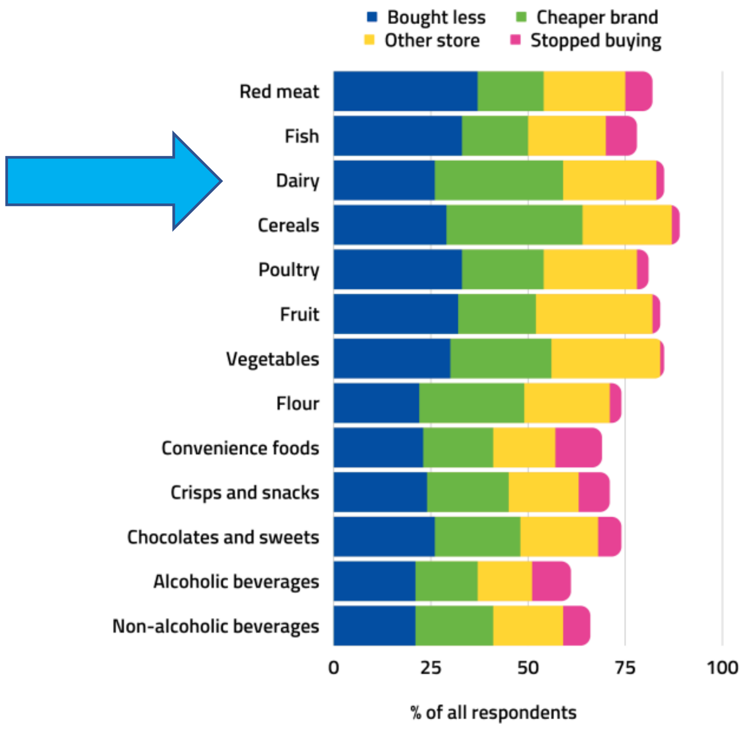
- **Food inflation** already impacts demand for cheese and butter negatively in some countries
- **Discounters'** pressure push prices down
- **Premium and branded products** affected the most
- Likely a negative impact in **foodservice** (following a recovery in 2022) – a divergent trajectory between fast foodservice and traditional restaurants as in the US?

Source: DG Agriculture and Rural Developments, based on Eurostat

Impacts of food inflation on EU consumers

Consumers cut food costs by buying less or switching brands

Consumers are reacting to increased prices by cutting costs where they can, including buying less, buying cheaper brands, and shopping at cheaper stores.



Estimated per capita impact of food inflation for 2022

Country / region	Share of food and beverages in total household consumption (2019)	Estimated per capita food and beverage spending (2021, euros)	Estimated inflation impact on per capita food and beverage spending (euros)
Eurozone	12.5%	2,456	+233
EU27	13.0%	2,287	+243
France	13.1%	2,739	+224
Italy	14.3%	2,745	+229
Germany	10.8%	2,367	+254
Spain	12.5%	2,108	+200
Poland	16.4%	1,423	+152

Methodological note: the estimated inflation impact is using Allianz central estimate of retailers passing the equivalent of 75% of the past increase in food producer prices onto consumers
Source: Eurostat, Allianz Research calculations

Source: [European consumers cut back on food costs to cope with shortages and rising prices - EIT Food]

Global dairy demand – focus on China

2022

- **Stocks** accumulated in 2020-2021 and high commodity prices led to lower **China's trade** presence in 2022
- **Stocks' release** slowed also by zero-Covid policy and repeated lockdowns
- Now stocks are getting to more normal level
- **Domestic milk supply** growing

2023?

- **Import demand** likely to return in the second half of 2023, subject to:
    - Restrictions in place due to new outbreaks
    - Stretched households' incomes
    - Willingness to eat outside even if no restrictions are in place
    - Overall economic growth
- **Domestic milk supply** could grow further (but milk prices are falling) – limitation for WMP imports and prices

Useful links

- Short-term outlook: https://agriculture.ec.europa.eu/data-and-analysis/markets/outlook/short-term_en
- Short-term outlook interactive balance sheets: https://agridata.ec.europa.eu/extensions/DataPortal/short-term-outlook.html
- Estimated MS balance sheets: https://datam.jrc.ec.europa.eu/datam/mashup/PROD_TRADE_USE/
- Food supply and security dashboard: https://agridata.ec.europa.eu/extensions/DataPortal/food-supply-security.html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