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The Market for Dairy Products
Situation and Outlook
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The Market for Dairy Products
Situation and Outlook -- Third Quarter 1992

A. International Market Developments

1. Thus far in 1992 the supply/demand situation in the OECD area has continued its gradual improvement. This improvement has resulted in a reduction in stocks of dairy products in all OECD countries. Aggregate milk production in the OECD area in 1992 is expected to be virtually the same as the 1991 volume, around 231.6 million tonnes, despite regional differences; while marginally higher total consumption is expected. Dairy cow numbers continue their long term downtrend, and average yields continue a long term uptrend. Assuming a general continuation of past trends, it is estimated that total OECD milkfat consumption in 1992 will be slightly higher than in 1991, primarily due to increased utilisation of most categories of dairy products in Japan and the United States. Estimates for the OECD area, indicate a decline of about one per cent in total butter consumption, and a two per cent rise in total cheese consumption.

2. International dairy markets and prices continue to be influenced by two major factors: stronger demand which has led to declining stocks of dairy products in OECD countries; and, movements in relative currency values especially during the second and third quarters. Export prices for dairy products rose significantly, except for butter/butteroil during the first three quarters of 1992. In the third quarter, the GATT reported world prices for skim milk powder (SMP) of \$1 800-\$2 170/tonne and butter prices of \$1 350-\$1 800/tonne.

3. The change in export demand for dairy products has been met primarily by reducing stocks, while the output of butter and SMP declined. The Secretariat estimates that in September 1992, total OECD stocks of butter were 809 000 tonnes, down from the year-earlier level of 852 000 tonnes: intervention stocks over the period declined by 26 per cent to 475 000 tonnes. Total stocks of SMP were 234 000 tonnes in September 1992, compared with 795 000 tonnes in September 1991: intervention stocks over the period declined by 85 per cent to 93 000 tonnes. The world trade outlook for 1992 for dairy products is generally favourable, except for butter, in which case the volume is expected to decline by 5 per cent (Table IX). Export volumes of butter declined primarily due to uncertainty concerning the short term outlook for commercial sales and food aid in the former USSR; while commercial sales to other destinations were restricted by stagnant demand. Export volumes of SMP are expected to rise by 6.5 per cent.), due to continued efforts by major producers to minimize their stock levels and renewed interest from traditional importers. On the other hand exports of WMP are expected to decline by 5.7 per cent. Export demand for cheese is expected to continue its annual increase, and export volumes are expected to rise by 4.7 per cent. Volume increases of 4.5 per cent and 12.5 respectively, for condensed milk and casein are expected.

B. Developments in National Markets and Policies

{Australia}

{1. Market developments and related factors}

4. According to final data, national milk production in the 1991/92 season rose 5.1 per cent to 6 732 million litres, due to exceptionally good season conditions. Output in all Australian states exceeded year-earlier levels. As the extremely good pasture conditions of the past season are unlikely to be repeated in 1992/93, national production is forecast at 6 450 millions litres.

5. Cow numbers continued to decline with the national herd estimated at 1.632 million head. Milk production per cow rose by 6 per cent in 1991-92, as a result of excellent seasonal conditions as well as some productivity gains through genetics and feed management. The average national production per cow in 1991-92 was 4 125 litres, an increase of 5.9 per cent on the 1990-91 level of 3 894 litres. The number of dairy farms declined by 3.4 per cent to an estimated 14 450 in 1991-92.

6. With increased milk production and little growth in liquid milk consumption manufacturing milk availability rose by 6.5 per cent to 4 939 million litres in 1991-92. In line with increased international prices, typical farm gate manufacturing prices in 1991-92 rose by 10 per cent to around 20-21 Australian cents per litre.

7. The fresh (market) milk component of national production in 1991-92 was 1 793 million litres, down 2 per cent on 1990-91 levels. Per capita consumption remained steady at 101 litres. The trend of previous years to lower fat milk continued with plain white milk sales dropping to 68 per cent of total drinking milk consumption in 1991-92, with low and reduced fat milk sales steadily increasing.

8. Butter production increased by 4 per cent in 1991-92 to 115 680 tonnes, reflecting production responses to improved international prices for milk powders. Butter exports rose by 6.5 per cent in 1991-92 to 59 181 tonnes while domestic sales remained static. In the retail tablesreads market butter sales were lower than in 1990-91, reflecting strong competition from margarines and the success of new monosaturate (cg canola based) tablesreads. Given the general economic climate, 1992-93 domestic sales are forecast to be similar to 1991-92 levels. Year end butter stocks of 23 700 tonnes are a slight increase on 1990-91 levels.

9. Skim milk powder production in 1991-92 of 148 500 tonnes represented an increase of 1.3 per cent on 1990-91 levels. Exports of SMP totalled 109 380 tonnes, down 8 per cent on 1990-91 levels. 1991-92 year end stocks of SMP of around 14 000 tonnes represented a 6 per cent increase over 1990-91.

10. Whole milk powder production rose by 16 per cent in 1991-92 to 69 000 tonnes, reflecting an improved market outlook. Year end stocks of 9 300 tonnes are similar to those of 1990-91. In line with increased production, whole milk powder exports rose to around 55 000 tonnes in 1991-92, and domestic sales also increased slightly in that period.

11. Cheese production in 1991-92 rose by 10 per cent to around 197 000 tonnes primarily due to higher levels of manufacturing milk availability. Although cheddar continued its dominance (13 000 tonnes), production of shredding and hard grating cheeses increased by 17 per cent and 34 per cent respectively. Production of fresh cheese rose by 6 per cent to 20 000 tonnes. Total supermarket sales of cheese were around 96 000 tonnes, an increase of 2 per cent over 1990-91 levels. Imports of cheese rose by 11.1 per cent to 25 004 tonnes, with imports from New Zealand rising by 27.2 per cent.

12. The average farmgate return for manufacturing milk in 1990-91 was 21.4 cents per litre. The average farmgate return for market milk during 1990-91 was 41.9 cents per litre. Note that the average return differ markedly from State to State. As there is little interstate trade in market milk, a key factor in the average returns for a milk producer is the proportion of milk used as market milk in the State where he is located.

13. The Australian retail food market is competitive and considerable media advertising and other sales promotion activities are a regular feature of retailing. Increasing awareness of health and nutrition aspects of diet have been a key factor in marketing strategies in recent years.

14. Butter sales continue to face strong competition from margarine (saturates, poly- and mono-saturates), which is cheaper than butter and in the 1991 calendar year held 74 per cent of the domestic tablespread market. Butter sales in this period declined (holding a 18.3 per cent share of the market), as did dairy blend sales (holding a 7.6 per cent share). Cheese sales also declined in the 1991 calendar year, especially shredding cheese types. Per capita consumption of dairy products in recent years was as follows (kg per head) :

Product	1986-87	1987-88	1988-89	1989-90	1990-91
Market milk (litres)	102.9	101.7	101.6	102.2	101.8
Butter	3.5	3.1	2.9	3.4	3.2
Cheese	8.5	8.8	9.2	8.9	8.8
Yoghurt	3.0	3.2	3.6	3.5	3.8

{Source} : ADC 1991, {Dairy Compendium}

{2. Adjustment measures and policy developments in the dairy sector}

15. Promotion of market milk (liquid milk for human consumption) including flavoured milk is carried out by State Government milk authorities. Expenditure in 1989-90 totalled about A\$ 14m.

16. A levy on all milk production is used by the Australian Dairy Corporation to fund the general promotion of dairy products. In 1990-91 the levy was 4.65 cents per kg milkfat and raised an estimated A\$ 12.89m, which was used for: butter and cheese advertising in the media; health and nutrition programmes directed at medical practitioners, dietitians and nutritionists; and

other promotional activities for school children. This levy was increased to 5.15 cents per kg milkfat, effective 1 August 1992.

{Japan}

{1. Market developments and related factors}

17. Because of the cool weather in May and June, the demand for drinking milk during the second quarter in 1992 was not strong. The recent domestic economic condition which is not as favourable as before also weakens the demand for dairy products, especially for those consumed at restaurants and hotels.

{2. Adjustment measures and policy developments in the dairy sector}

18. No change has been made since the most recent questionnaire sent in March.

{United States}

{Market developments and related factors }

19. In a rare occurrence, milk output during late spring and summer was greatly affected by weather. There was an almost complete lack of normal hot spells in both the Midwest and Northeast. Milk production per cow stayed remarkably close to the spring peak and the solids content (and product yields) of milk remained remarkably high. Production of most major products in July was more than a tenth above a year earlier.

20. Weather effects probably will dissipate rapidly with the onset of autumn, and gains in milk output will drop to much more modest levels. The extended period of favorable farm milk prices is expected to interrupt declines in milk cow numbers and to stimulate concentrate feeding and milk per cow. October-December production is projected to rise 2 per cent, as above-trend growth in milk per cow outpaces fractional year-to-year decreases in cow numbers. Poor forage quality is a major potential problem, but significant effects probably would not be felt until 1993.

21. U.S. dairy markets are very unsettled. In general, the unexpected surge in available supplies has been absorbed with remarkably little price impact. Early September cheese prices were within 5 per cent of their peaks and 14-18 per cent above late winter. Commercial cheese stocks at the end of July were relatively low, as production increases were sold quickly. This was not the case with nonfat dry milk, where growing stocks pushed prices down 10 per cent between early June and early September. In contrast, butter prices rose in early September, after heavy cream supplies had kept butter prices weak.

22. Cheese prices probably will slip in coming months. Although demand has been stronger than expected (particularly in light of a ragged economic recovery), supplies have been dramatically larger than those anticipated when prices rose sharply in April-May. However, markets are expected to remain fairly tight and nonfat dry milk prices may recover somewhat.

Table IX. World Trade in Dairy Products

1,000 TONS	1986	1987	1988	1989	1990(a)	1991(a)	1992(b)
Butter/Butteroil	630	929	944	640	794	810	770
Skim milk powder	1 160	1 007	1 156	950	906	920	980
Cheese	825	842	850	835	854	850	890
Whole milk powder	750	874	975	940	958	1 050	990
Condensed milk	620	571	538	550	450	440	460
Casein	170	185	180	160	170	160	180

Notes:

- (a) Preliminary
- (b) Estimated

{Source}: {Einblick 1991/92, Geschäftsbericht des Milchindustrie-Verbandes},
Milchindustrie-Verband, Bonn, Germany, 1992.