



Future of the U.S. Dairy Industry Hinges on Exports

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Key Points:

- Milk supply will continue its growth trajectory in the U.S. for the next several years, driven by enhanced efficiency and improved genetics.
- New plants and expansions completed in the next two to three years will relieve some of the processing capacity bottlenecks.
- U.S. dairy producers will need to shift the dairy product mix and continue to innovate to hold on to domestic consumers, in the face of growing competition from abroad.
- With domestic demand for dairy products likely to remain flat for the foreseeable future, exports will provide the biggest opportunity for U.S. dairy producers over the next several years, especially in Asia, Africa and Latin America.
- Trade policy and other international uncertainties will add to volatility in the dairy product markets that are increasingly reliant on exports.
- Dairy producers will need to implement improved risk management tools through the private sector or farm bill programs.

Poised for Modest Improvement

The focus of the U.S. dairy industry of late has been, and will continue to be finding an outlet to process its growing supply of milk. The heavy supplies of milk and lack of exports have led to low milk prices and slim margins, yet we have continued to see herd expansions on many farms. Farm expansions and efficiency improvements would make little sense if producers didn't see any hope of improvement in prices on the horizon. Milk prices will experience moderate improvement in the years ahead, but it will be less dramatic and less cyclical than over the last several years.

Supply Will Continue to Grow

Dairy processors have been hard-pressed in recent years to keep up with the strong growth in milk supply. Production has been strong around the world, but in recent months that growth has slowed across most of the major milk exporting regions of the world. The U.S. has been the exception. The size of the domestic herd has grown, and so has its efficiency in terms of milk per cow.