

Record Exports Drive U.S. Dairy Demand

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February 21, 2023

Latest News

For Hoard's Dairyman:

February 21, 2023

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U.S. dairy exports excelled again in 2022, with record shipments further cementing its role as the key demand driver for U.S. milk.

For the third consecutive year, the U.S. dairy industry set a record for the volume of dairy products exported on a milk solids equivalent basis, with the current record now surpassing 2.4 million metric tons — the equivalent of over 40 billion pounds of raw milk, or 18% of the U.S. milk supply.



Perhaps even more impressive, for the fifth time in the last six years, U.S. exports grew by more than domestic consumption. Of that six-year window, 2019 was the only time in that span when exports grew by less than domestic sales. That's the year the U.S. faced prohibitive retaliatory tariffs on dairy products destined for China. In addition, African Swine Fever was cratering China's demand for whey products. At the same time, U.S. skim milk powder exporters were facing headwinds from EU intervention storage stocks that began hitting the market at below-market prices in 2019. All this noted, with 2019 being a particularly unique exception, the international market has been the driver of U.S. dairy demand growth for the past six years.

Success can't be taken for granted

European milk production came on strong at the tail end of 2022 as favorable weather and margins boosted output. Conversely, demand within the European Union bloc has reportedly weakened as consumers feel the squeeze on their wallets, which is causing European wholesale prices to dip. With more supply, weaker internal demand, and low prices, we can expect significantly more competition from Europe in the international market than we did in 2022 when their exports dropped 10% during the first 11 months of the year.

Additionally, the international demand picture remains uncertain. Despite the clear success of U.S. dairy, the world's collective dairy trade actually dropped 4% in 2022 — primarily on account of China. The world's largest dairy product-importing nation contracted dairy imports by 21% as the country drew down inventories built in 2021, witnessed a surge in domestic milk supplies, and instituted movement restrictions, all of which damaged dairy consumption and imports.

China's return to the market in 2023 remains uncertain. The lockdowns have been lifted, but milk production in the country is still growing, and inventories of milk powder reportedly remain heavy. Optimistically, consumption in the country will rebound and stockpiles will be reduced, setting the stage for China's return as a global buyer in the middle part of the year. But until they do, New Zealand, which exported over 40% of its production to China at its peak, will have plenty of products available for customers elsewhere, meaning increased competition with the United States.

Outside of China, the demand picture will likely be mixed depending on local conditions, but broadly, slower economic growth and inflation are expected to challenge lower-income consumers and push buyers to look for bargains.

Overall, I am forecasting international demand in 2023 to return to growth, but not at a spectacular rate, and with more suppliers competing for business.

Given the expected headwinds this year, industry investment in international markets will be critical to success. To set another record in 2023, the U.S. must continue the work being done to build demand for U.S. dairy products overseas and expand market access in key markets, all while maintaining reliability with international customers by being engaged and responsive.

This column originally appeared in Hoard's Dairyman on Feb. 21, 2023.