


U.S. Dairy Exports – Outlook to 2020

Marc A.H. Beck, USDEC

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Economic Growth Will Be Slower to 2020

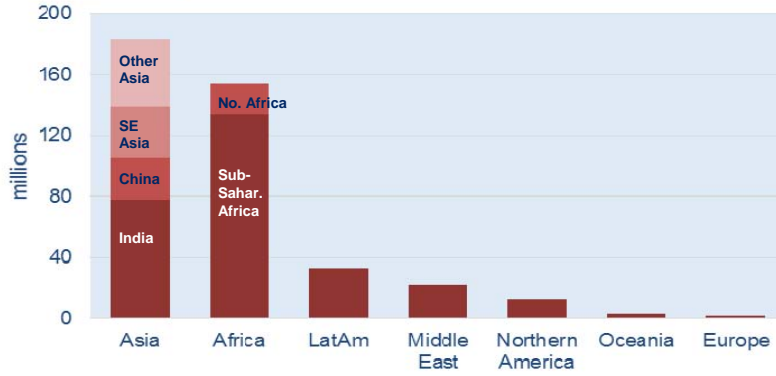
Selected countries	Per-capita GDP, CAGR		Dairy imports*, CAGR, 2009-2014
	2009-2014	Projected 2015-2020	
Mexico	6.2%	2.6%	2.6%
China	14.9%	7.7%	20.2%
Philippines	9.0%	8.1%	0.3%
South Korea	8.8%	2.2%	10.5%
Japan	-1.7%	3.5%	4.6%
Indonesia	7.5%	7.1%	8.9%
Malaysia	8.2%	8.2%	10.3%
Egypt	6.2%	4.1%	15.6%
Algeria	7.0%	0.4%	6.7%
Peru	9.2%	1.8%	17.7%

GDP is in current U.S. dollars. * Imports includes SMP, WMP, cheese, butterfat and whey. Source: IMF World Economic Outlook Database, April 2016; Global Trade Atlas.

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More than 80% of Population Growth in Asia, Africa

Population Growth, 2015 to 2020

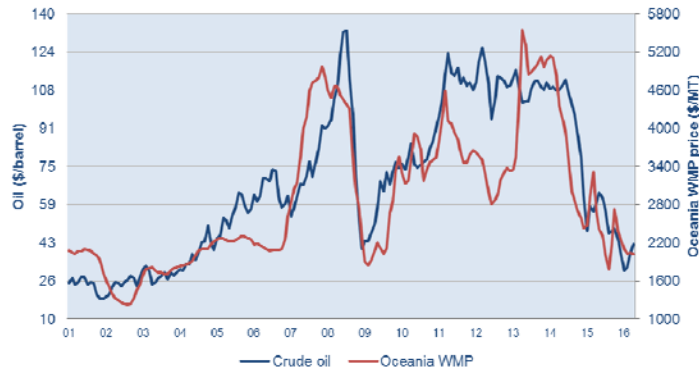


Source: United Nations

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Weak Commodity Complex Will Limit Dairy Upside

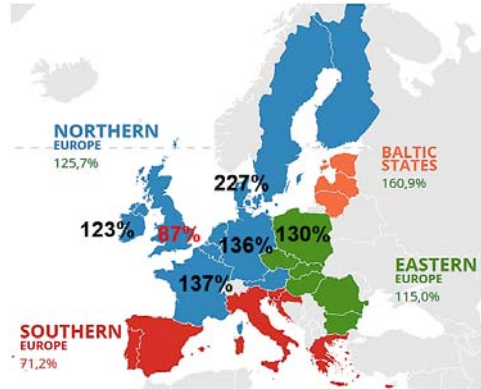
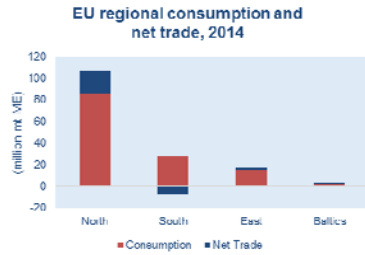
Brent Crude Oil (Europe) vs. Oceania WMP price



Source: USDEC, USDA's Dairy Market News, U.S. Energy Information Association

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Northern Europe Will Continue to Have Surplus to Export

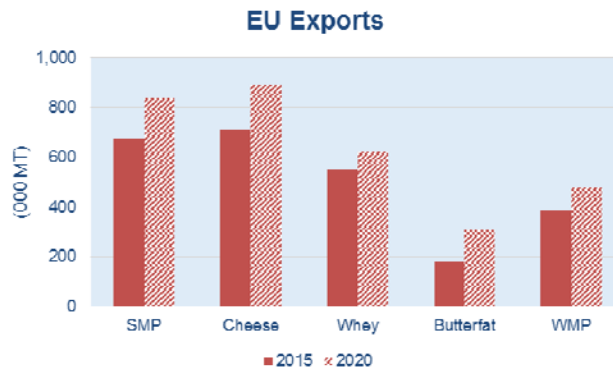


- The EU exports about 13% of its production; this will likely grow.

Source: GIRA, USDEC

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EU Exports Forecast to Grow 4-6% per year to 2020

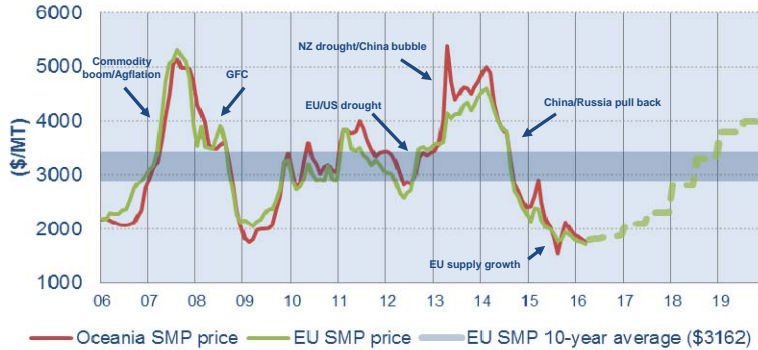


Source: USDEC 2020 report.

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The 'New Normal': Moderate Prices Barring Shocks

Oceania and EU SMP price

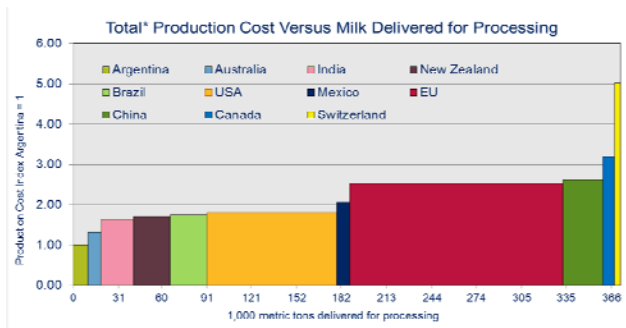


Mid-point of range. 2016-2020 is USDEC directional indication. Source: USDEC, USDA's Dairy Market News

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Five Market Features to 2020

1. The world will need our milk and we have a 'low-enough' cost of production.



Estimated and compiled by USDEC staff based on IFCN cost of production estimates for 2013 adjusted for 2014 exchange rates. *Total cost includes cash costs and opportunity costs

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Five Market Features to 2020

2. The 'Window of Opportunity' for the United States is closing.



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Five Market Features to 2020

3. Global markets will be more competitive over the next decade than they were in the last decade.



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Five Market Features to 2020

4. In an environment of heightened competition, all suppliers will likely to focus on their most “closely-aligned” markets.



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Five Market Features to 2020

5. U.S. suppliers have a strategic imperative to capture incremental gains outside their primary markets, too.

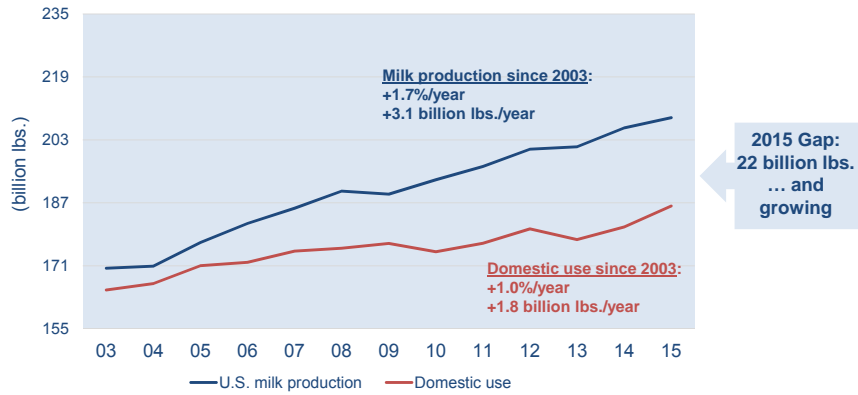


Photo courtesy Idaho Milk Products

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The U.S. Strategic Imperative to Export

U.S. Milk Production and U.S. Domestic Use

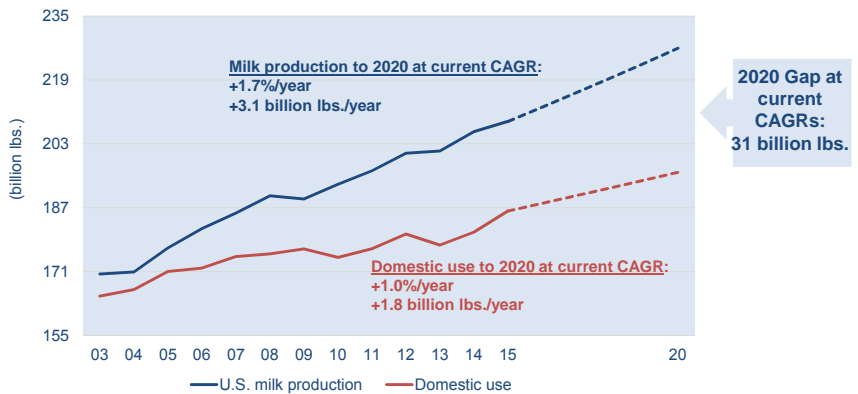


Source: USDEC, USDA

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The U.S. Strategic Imperative to Export

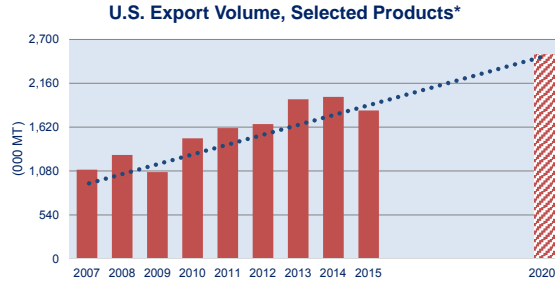
U.S. Milk Production and U.S. Domestic Use



Source: USDEC, USDA

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U.S. Export Volumes Need to Grow 7%/year to 2020 to Fill this Gap



For comparison, 2003-14 growth rate was 12%/year

* Volume includes SMP, WMP, food preps, MPC, whey, cheese, butterfat, lactose. 2020 total is hypothetical. Source: USDEC, USDA.

In a Large Sense, This is a Cheese Story

- Global cheese trade was 2.3 million tons in 2014
 - Trade grew 6.2% p.a. 2007-14, driven by developing countries
- If cheese imports grow by just 3.2% p.a. to 2020, that's an additional 464,000 tons.
- If cheese imports grow by 4.4% p.a. to 2020, that's an additional 657,000 tons.



Source: USDEC 2020 report.

Import Growth in Key U.S. Markets, Emerging Markets

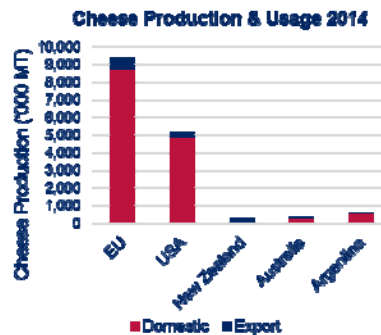
- Leading U.S. export markets will continue to grow
 - Mexico
 - South Korea
 - Japan
 - Australia
- Much of the expected growth to 2020 will come in “emerging” markets
 - Middle East
 - Southeast Asia
 - China



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EU and U.S. Best-Positioned to Increase Cheese Exports

- The EU & the U.S. are the major cheese producers in the world, and are well-positioned to supply a large proportion of the additional demand
 - Smaller cheese exporters like New Zealand, Australia and Argentina will make some incremental gains, but they lack the ability to produce anywhere near the additional product required without massive reconfiguring of their industries – at tremendous cost and risk



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U.S. Opportunity, But Must Capitalize

- The main growth sectors for cheese exports fit well with the U.S. product portfolio:
 - Cheddar (for processing)
 - Pizza cheese
 - Cream cheese
- Retail and & packaged foodservice cheese is a high-potential but underdeveloped sector for the U.S. industry

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Summary and Conclusions

- U.S. suppliers will be looking at more of a buyers' market over the balance of the decade – lower prices, more competition.
- Lower prices will help support growth in imports in emerging markets. They will also limit supply growth.
- The United States will have opportunities in cheese and SMP in particular– but we still have work to do to protect and grow share.



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Thank you
