

Milk and milk products market summary

Prices of dairy products began to decline in mid-2011, as supplies to the international market improved. In April, after a favourable outcome of the milk-producing season in the Southern Hemisphere and an equally positive opening of the season in the Northern Hemisphere, prices registered a further fall. The price slide reflected a rise in export availability but also a fall in the value of the euro against the US dollar. Yet, in spite of the recent drop, international prices for dairy products remain well above historical averages.

With publically financed inventories at minimal levels in the EU and the United States, the market is particularly sensitive to sudden changes in milk production and the availability of milk products. Nonetheless, the positive supply outlook for the rest of 2012 is likely to translate into further downward pressure on prices.

World milk production in 2012 is forecast to grow by 2.7 percent to 750 million tonnes. Asia is expected to account for most of the increase, but higher output is anticipated in most regions.

World trade in dairy products is foreseen to continue expanding in 2012. Demand remains firm, with imports anticipated to reach 52.7 million tonnes of milk equivalent. Asia will continue to be the main market, followed by North Africa, the Middle East, and Latin America and the Caribbean. Growing world import demand is expected to be met mainly through pasture-based milk supplies from Oceania and South America.

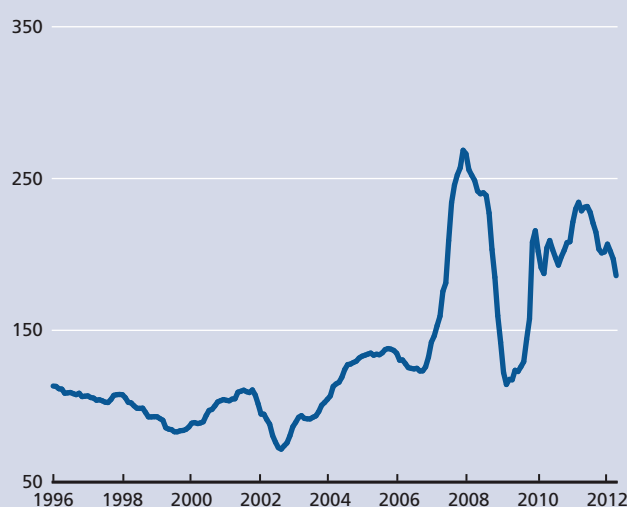
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World dairy market at a glance

	2010	2011 <i>estim.</i>	2012 <i>f'cast</i>	Change: 2012 over 2011
<i>million tonnes, milk equiv.</i>			<i>%</i>	
WORLD BALANCE				
Total milk production	713.6	730.1	750.1	2.7
Total trade	47.8	50.7	52.7	4.0
SUPPLY AND DEMAND INDICATORS				
Per caput food consumption:				
World (kg/year)	103.3	104.5	106.1	1.6
Developed (kg/year)	233.4	234.3	237.8	1.5
Developing (kg/year)	67.8	69.5	71.1	2.2
Trade share of prod. (%)	6.7	6.9	7.0	1.2
FAO DAIRY PRICE INDEX (2002-2004=100)				Change: Jan-Apr 2012 over Jan-Apr 2011 %
	2010	2011	2012 <i>Jan-Apr</i>	
	200	221	198	-13.4

FAO international dairy price index (2002-2004=100)



The index is derived from a trade-weighted average of a selection of representative internationally traded dairy products.

MILK AND MILK PRODUCTS

PRICES

Prices fall in the face of increased availability on the international market

International prices of dairy products began to decline in mid-2011, as supplies to the international market improved. During the five-month period October 2011 to February 2012, the FAO international dairy products price index (2002–2004=100) stayed within a narrow range of 200 to 207. In March, prices registered a sharp decline, reflecting the favourable conclusion of the Southern Hemisphere milk producing season and an equally positive opening of the Northern Hemisphere season. Prices have weakened for all the products that constitute the index. Comparing April 2012 with a year earlier, butter was down USD 1 250 per tonne, or 26 percent, while whole milk powder fell by USD 794 per tonne, or 19 percent. Skimmed milk powder registered a fall of USD 744 per tonne, or 20 percent, while cheddar cheese dropped by USD 725 per tonne, or 16 percent. The price slide reflected a rise in export availability and a fall in the value of the euro against the US dollar.

Yet despite the drop, international prices for dairy products still remain well above historical averages. With publicly financed inventories at minimal levels in the **EU** and the **United States**, the market remains sensitive to sudden changes in milk production and availability of milk products. The positive supply outlook for the rest of 2012 is likely to mean further downward pressure on prices.

PRODUCTION

Milk production continues to grow, especially in Asia, Oceania and South America

World milk production in 2012 is forecast to grow by 2.7 percent to 750 million tonnes. Asia is expected to account for most of the increase, with output in **India**, the world's largest milk producing country, forecast to rise by 5.2 million tonnes to 127 million tonnes. Dynamic domestic demand is the main engine stimulating growth, as India is largely absent from the international market for dairy products. Increased output is also anticipated in **China**, **Pakistan** and **Turkey**, as consumer demand continues to rise.

In Africa, a small increase in milk output is anticipated for 2012. For example, milk production in **Kenya** is expected to recover somewhat, due to favourable rains in October and March that improved pasture conditions in drought-affected areas – which are expected to last until at least mid-2012; however, a shortage of some types of feed remains a

Figure 41. FAO international dairy price index (2002–2004=100)

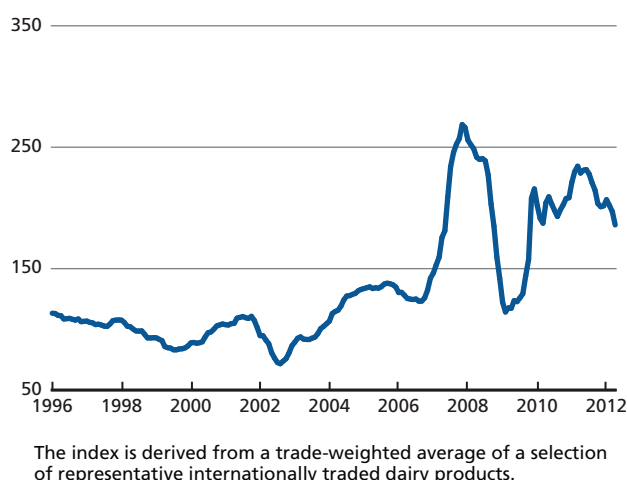


Table 21. World dairy market at a glance

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constraint. High maize prices are expected to constrain growth in milk production in **South Africa** in 2012, leaving it unchanged. Elsewhere in the region, an outbreak of foot-and-mouth disease in **Egypt** has led to higher calf mortality and may depress milk output.

Rising incomes and strong international prices have favoured production growth in several countries in Latin America and the Caribbean. Most South American countries had very good pasture conditions during the 2011/2012 production year. Overall, South American milk production grew by 4.4 percent during the 2011 calendar year to reach 68 million tonnes, registering strong gains in **Argentina**, **Ecuador** and **Uruguay**, with a similar magnitude of increase

anticipated for 2012. As international prices have remained relatively high by historical standards, good returns on overseas sales have allowed greater use of concentrated feed, further increasing milk yields per animal. The largest producer, **Brazil**, is also forecast to increase milk output this year, even though some regions suffered from drought during 2011 which has affected pasture condition. Output in **Chile** may be curbed in 2012, due to a dry end to the 2011/2012 season associated with a *la niña* weather phenomenon which adversely affected both pasture condition and feed availability. In Central America, output from the main producing countries, including **Mexico** and **Costa Rica**, is expected to be largely stable.

In North America, milk production in the **United States** is forecast to rise to 90.6 million tonnes, reflecting dairy herd expansion in response to positive national and international demand. Production in **Canada** is expected to remain stable at 8.3 million tonnes, within the limits set by the milk quota system.

In Europe, the **EU** is forecast to raise production by 1 percent to 156.5 million tonnes in 2012, as improved milk yields more than compensate for reduced cow numbers. Additionally, spring weather has been favourable for pasture growth and the new milk production season has started positively. Production limits are being raised by 1 percent per year in the EU, in preparation for the abolition of the quota system in 2015. Milk production in the **Russian Federation** is anticipated to rise as a result of falling feed prices and herd rebuilding, following a sharp contraction in the dairy herd during the drought of 2010. In neighbouring **Ukraine**, milk production may stabilize, following a period of prolonged decline, due to government programmes to support the sector and lower feed prices. In Oceania, a prolonged period of high prices for dairy products on the international market and associated levels of profitability have stimulated milk production. In **New Zealand**, output rebounded strongly during the 2011/12 season, stemming from an increase in herd size combined with above average pasture conditions, and is expected to close 9 percent above the previous season. In **Australia**, the end of the prolonged drought has encouraged farmers to rebuild their dairy herds which, combined with generally good rainfall during the 2011/12 season, could boost milk production by 4 percent.

TRADE

A favourable outcome of the season in Oceania and South America drives international prices down

World trade in dairy products is expected to continue to expand in 2012. Demand remains firm and imports are

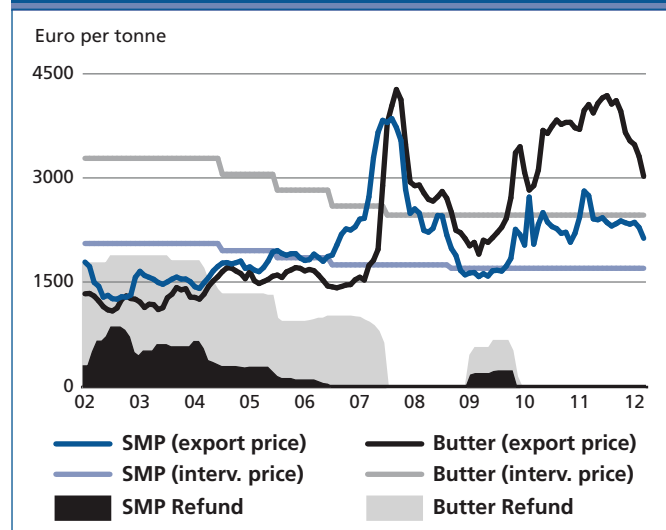
forecast to reach 52.5 million tonnes of milk equivalent. In recent months, prices have been affected by two main factors: a fall in value of the euro against the US dollar that began in mid-2011, and more recently, a strong finish to the Southern Hemisphere production season. The current market sentiment finds importers delaying placing orders in order to see if prices drop further.

Asia will continue to be the main market, with additional demand expected to come from countries such as **China**, **Saudi Arabia**, **Indonesia**, the **Republic of Korea** and **Singapore**. Elsewhere, imports by **Egypt** may also grow, as could purchases by the two principal purchasers in Latin America, **Mexico** and **Venezuela**. However, imports by third-placed **Brazil** may decrease, due to rising domestic milk production. Strong increase in availabilities from pasture-based production in **Argentina**, **New Zealand** and **Uruguay** may stimulate their exports to rise by 12 percent, 8 percent and 5 percent respectively. The other principal trading countries – **Australia**, **Belarus**, the **EU** and the **United States** – are anticipated to maintain sales levels similar to 2011.

WHOLE MILK POWDER (WMP)

International WMP prices were largely unchanged from August 2011 to February 2012, at around USD 3 575 per tonne. In the Southern Hemisphere, the strong closing of the 2011/2012 season resulted in larger than expected availability in March and April. As a consequence, prices fell, with April WMP trading some USD 280 lower at USD 3 295 per tonne. World exports of WMP are projected to show continued growth in 2012, rising by 124 000 tonnes to reach 2.4 million tonnes. Sustained demand is forecast for Asia, the main market, as well as for importers in North Africa, the Middle East and Latin America. **China**, **Egypt**, **Algeria** and **Venezuela**, the major importing countries (in order of volume of trade) make up 40 percent of world WMP trade. All four countries are expected to increase purchases in 2012, as are other important importing countries such as (in order of volume of trade) **Saudi Arabia**, **United Arab Emirates**, **Singapore**, **Sri Lanka**, **Indonesia** and **Oman**. Conversely, imports by **Brazil** and **Nigeria** may decline. Demand for WMP is very geographically diverse, due to its wide use in both the processing industry and for direct retail sale. As for exporters, **Argentina**, **Australia** and **New Zealand** will supply most of the increase in trade, as supply limitations and more profitable alternative uses are expected to curb exports from the **EU**. These four exporters supply 80 percent of the international WMP market.

Figure 42. EU intervention prices, price and export refund for butter and skim milk powder



SKIM MILK POWDER (SMP)

Trade in SMP is anticipated to rise by 3 percent in 2012, to 1.8 million tonnes. SMP prices were relatively stable during the final months of 2011 and in January of 2012, hovering around the USD 3 400 mark and reflecting a balanced market overall. Subsequently, average prices dropped each month between February and April to stand at USD 3 025. SMP is central to the milk processing industry in many countries and, as such, market demand is widespread. The principal markets are (in order of volume) **Mexico, China, Indonesia, the Philippines, Algeria and Malaysia**, followed by **Thailand, Singapore, Saudi Arabia and Egypt**. Overall demand is expected to remain firm in these markets. **China**, in particular, is anticipated to increase its purchases substantially, by 20 000 tonnes, and **is on course to become the major importer of SMP by the middle of the decade: China became the major importer of WMP in 2010**. Increased imports are also anticipated (in order of volume) for **Mexico, Indonesia, the Philippines and Malaysia**. Conversely, purchases by **Algeria**, fifth ranked in terms of volume, may decrease as the government seeks to promote domestic milk production. Slightly over three-quarters of world exports are supplied by (in order of volume) the **EU, the United States and New Zealand**. For 2012, the largest increase in supplies is expected to come from **New Zealand**, with strong growth also foreseen for fellow pasture-based milk producers, **Uruguay and Argentina**. The **United States** is also expected to increase its sales, as milk production is growing and the export of SMP is the principal vehicle for balancing its domestic dairy

market. Conversely, better returns from cheese production may cause **EU** export availabilities to decline by about 3 percent. At the same time, as in the case of the United States, SMP exports play an important role in maintaining balance in the EU milk market, as overall internal demand is biased towards milk fat for butter and cheese production, rather than milk protein.

BUTTER

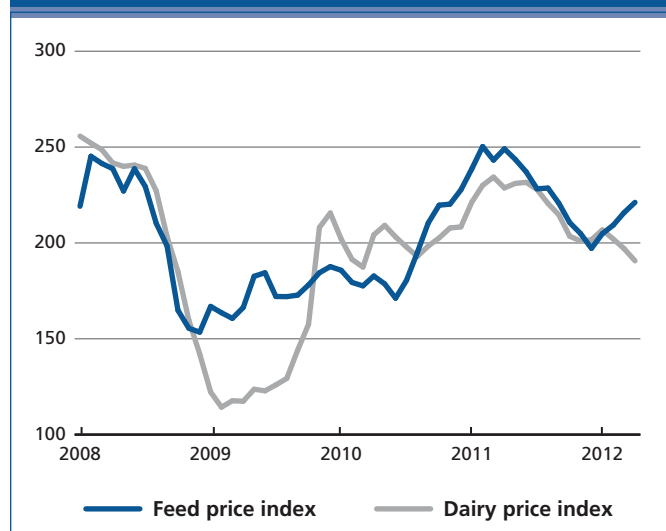
In tandem with its co-product, SMP, butter prices fell sharply in February and March during the February to April period, dropping by USD 400 to stand at USD 3 500 per tonne. Trade in butter is forecast to grow by 3.7 percent in 2012, to 856 000 tonnes. This is anticipated to be a consequence of increased deliveries by **New Zealand, Belarus, Argentina**

Table 18. Major exporters of dairy products

	2008-10 Average	2011 prelim.	2012 f'cast
thousand tonnes			
WHOLE MILK POWDER			
World	2 073	2 277	2 401
New Zealand	791	1110	1210
EU*	464	390	393
Argentina	126	200	225
Australia	130	116	122
SKIM MILK POWDER			
World	1 330	1 707	1 757
EU*	263	518	500
United States	341	436	450
New Zealand	331	362	405
Australia	142	140	136
BUTTER			
World	844	826	856
New Zealand	396	414	439
EU*	149	126	129
Belarus	69	64	68
United States	58	64	56
Australia	63	41	38
CHEESE			
World	2 061	2 412	2 485
European Union*	603	682	689
Saudi Arabia	200	284	341
New Zealand	267	253	251
United States	139	226	230
Egypt	133	175	182
Australia	160	168	172

* Excluding trade between the EU Member States. From 2007: EU-27

Figure 43. FAO indices of dairy and feed prices (2002-2004=100)



and, to a lesser extent, the **EU**, more than compensating for a fall in sales from the **United States** and **Australia**. In the case of the EU, lower profitability for butter has led to more emphasis on using milk for cheese production. Demand for butter imports comes principally from **Southeast Asia**, the **Middle East** and the **Russian Federation** and is expected to remain firm.

CHEESE

Among the dairy commodities, cheese prices have traditionally been more stable – reflecting the wide variety of cheese available, each with its own distinct characteristics, making it less subject to the same degree of supply and demand fluctuation as the standardised products, such as milk powder or butter. For most of 2011, cheese prices (cheddar) stayed within the range USD 4 400 to USD 4 500 per tonne. However, in October, they began to follow other dairy products downwards, and have remained around USD 4 000 per tonne since until March. In April, prices registered a further fall, to USD 3700. Trade in cheese is forecast to grow by 3.1 percent in 2012, to 2.5 million tonnes, sustained by robust import demand. The world cheese market is the most difficult dairy market to classify. One apparent anomaly is that a number of major cheese producing and exporting countries are also important importers, including (in order of volume) the **United States**, **Australia**, the **EU** and **Switzerland**. Most often, purchases by this group of countries reflect import quotas under trade agreements and also the highly specific nature of some cheeses, including those with restrictions on the use of

their names and areas of origin. Elsewhere, several of the most important cheese importers, including the **Russian Federation**, **Japan**, **Egypt**, **Saudi Arabia**, the **Republic of Korea** and **Mexico**, focus more on industrial cheese, both for direct consumption and for use by the processing industry. The **EU** remains the major cheese exporter, accounting for almost 30 percent of world trade, which does not include the substantial amount of cheese that is traded among the EU countries themselves. Other important exporters are **Saudi Arabia**, **New Zealand**, the **United States**, **Egypt**, **Australia**, **Belarus**, **Ukraine**, **Argentina**, **Switzerland**, **Uruguay** and **Turkey**.

FISH AND FISHERY PRODUCTS

GLOBAL FISH ECONOMY: 2012 OUTLOOK

In the aftermath of the Brussels seafood show, the market for fish and fishery products appears more influenced by supply variations for the individual species and products, rather than any clear weakening of demand. Despite slow economic growth and reduced purchasing power in many of the traditional key import markets, such as Spain, Italy and France, demand for seafood is strong overall.

The FAO Fish Price Index shows current quotations close to all-time highs, especially for captured species. Rising energy and feed costs are likely to keep fish prices high during the year. At the same time, prices are important drivers of demand as shown by the salmon market where added farmed production and lower prices in 2012 compared to 2011 are boosting consumption in all salmon

Figure 44. The FAO Fish Price Index (2002-2004=100)

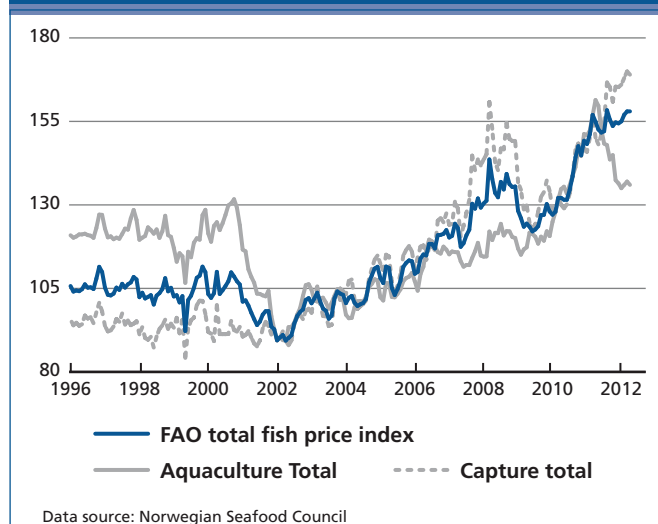


Table A19. Milk and milk products statistics (million tonnes, milk equivalent)

	Production			Imports			Exports		
	2008-2010 average	2011 <i>estim.</i>	2012 <i>f'cast</i>	2008-2010 average	2011 <i>estim.</i>	2012 <i>f'cast</i>	2008-2010 average	2011 <i>estim.</i>	2012 <i>f'cast</i>
ASIA	249.5	262.6	272.4	22.1	26.5	27.7	5.5	5.5	5.8
China	37.7	39.6	41.5	3.3	5.4	5.9	0.3	0.2	0.2
India ¹	112.2	121.8	127.0	0.2	0.4	0.3	0.4	0.2	0.2
Indonesia	1.2	1.5	1.7	1.4	1.7	1.8	0.2	0.1	0.1
Iran, Islamic Republic of	7.7	7.5	7.5	0.3	0.5	0.4	0.2	0.3	0.2
Japan	7.9	7.5	7.6	1.2	1.4	1.4	-	-	-
Korea, Republic of	2.2	1.9	1.9	0.4	0.8	0.9	-	-	-
Malaysia	0.1	0.1	0.1	1.1	1.1	1.2	0.3	0.3	0.3
Pakistan	33.1	31.8	32.5	0.1	0.2	0.3	-	-	-
Philippines	-	-	-	1.3	1.4	1.4	0.3	0.3	0.3
Saudi Arabia	1.7	2.0	2.1	2.0	2.9	3.2	1.4	1.8	2.2
Singapore	-	-	-	1.4	1.4	1.5	0.7	0.6	0.6
Thailand	0.8	0.9	0.9	0.8	0.9	1.0	0.1	0.1	0.2
Turkey	12.8	14.2	14.9	0.3	0.2	0.2	0.1	0.3	0.3
AFRICA	39.8	43.2	44.3	8.9	10.3	10.8	1.3	1.2	1.3
Algeria	2.2	3.0	3.5	2.2	2.7	2.7	-	-	-
Egypt	5.8	5.9	5.9	1.0	3.0	3.5	0.7	0.8	0.9
Kenya	4.6	5.7	5.8	-	-	-	-	-	-
South Africa	3.2	3.2	3.3	0.1	0.1	0.1	0.1	0.1	0.1
Sudan	7.5	7.8	7.9	0.2	0.4	0.4	-	-	-
Tunisia	1.1	1.1	1.1	0.1	0.1	0.1	-	-	-
CENTRAL AMERICA	16.2	16.4	16.6	4.2	4.5	4.5	0.5	0.6	0.6
Costa Rica	0.9	1.0	1.0	-	-	-	0.1	0.2	0.2
Mexico	10.8	10.7	10.7	2.3	2.5	2.5	0.1	0.2	0.1
SOUTH AMERICA	62.5	67.5	69.9	2.5	2.6	2.8	3.0	3.6	3.9
Argentina	10.4	12.0	12.5	-	-	-	1.4	2.2	2.4
Brazil	30.2	32.1	33.1	0.5	0.9	0.7	0.4	0.1	0.1
Colombia	7.5	7.4	7.4	-	0.1	0.1	-	-	-
Uruguay	1.8	2.2	2.4	-	-	-	0.7	0.9	0.9
Venezuela	2.2	2.4	2.5	1.5	1.0	1.4	-	-	-
NORTH AMERICA	94.7	97.3	98.9	2.1	1.9	2.0	4.2	5.2	5.3
Canada	8.2	8.3	8.3	0.3	0.3	0.3	0.2	0.1	0.2
United States of America	86.5	89.0	90.6	1.8	1.6	1.7	4.1	5.1	5.1
EUROPE	214.0	216.0	218.5	3.8	3.9	3.9	13.9	15.8	15.8
Belarus	6.5	6.6	6.8	-	-	-	2.0	2.2	2.2
European Union	152.5	155.3	156.5	1.1	0.8	0.8	10.4	12.2	12.2
Russian Federation	32.4	32.0	33.0	1.9	2.1	2.1	0.2	0.1	0.1
Ukraine	11.5	11.1	11.2	0.1	0.1	0.1	0.7	0.6	0.6
OCEANIA	25.2	27.0	28.9	0.8	0.8	0.8	16.2	18.7	20.0
Australia ²	9.2	9.1	9.4	0.5	0.6	0.6	3.3	3.1	3.1
New Zealand ³	16.0	17.9	19.5	0.1	0.1	0.1	12.9	15.6	16.9
WORLD	702.0	730.1	749.5	44.4	50.5	52.5	44.7	50.7	52.7
Developing countries	337.8	358.7	371.3	35.6	41.8	43.8	10.1	10.8	11.4
Developed countries	364.1	371.3	378.2	8.8	8.7	8.8	34.6	39.9	41.3
LIFDCs	254.3	269.5	279.6	14.6	18.0	18.9	4.9	4.5	4.5
LDCs	27.8	29.4	30.0	2.9	3.2	3.3	0.1	0.1	0.1

¹ Dairy years starting April of the year stated (production only).

² Dairy years ending June of the year stated (production only).

³ Dairy years ending May of the year stated (production only).

Note: Trade figures refer to the milk equivalent trade in the following products: butter (6.60), cheese (4.40), milk powder (7.60), skim condensed/evaporated milk (1.90), whole condensed/evaporated milk (2.10), yoghurt (1.0), cream (3.60), casein (7.40), skim milk (0.70). The conversion factors cited refer to the solids content method. Refer to IDF Bulletin No. 390 (March 2004).

Table A26. Selected international prices for milk products and dairy price index

	International prices (<i>USD per tonne</i>)				FAO dairy price index (2002-2004=100)
Period	Butter ¹	Skim milk powder ²	Whole milk powder ³	Cheddar cheese ⁴	
Annual (Jan/Dec)					
2005	2 128	2 223	2 261	2 838	135
2006	1 774	2 218	2 193	2 681	128
2007	2 959	4 291	4 185	4 055	212
2008	3 607	3 278	3 846	4 633	220
2009	2 335	2 255	2 400	2 957	142
2010	4 043	3 127	3 464	4 010	200
2011	4 473	3 657	3 860	4 310	221
Monthly					
2011 - April	4 750	3 769	4 088	4 425	229
2011 - May	4 750	3 807	4 075	4 500	231
2011 - June	4 763	4 000	3 938	4 488	232
2011 - July	4 675	3 853	3 825	4 462	228
2011 - August	4 500	3 622	3 585	4 405	221
2011 - September	4 225	3 476	3 522	4 332	215
2011 - October	4 075	3 346	3 475	4 029	204
2011 - November	3 825	3 400	3 588	3 944	201
2011 - December	3 784	3 433	3 658	3 946	202
2012 - January	3 912	3 425	3 619	4 113	207
2012 - February	3 825	3 322	3 563	4 019	202
2012 - March	3 650	3 200	3 481	3 950	197
2012 - April	3 500	3 025	3 294	3 700	186

¹ Butter, 82 percent butterfat, f.o.b. Oceania; indicative traded prices

² Skim Milk Powder, 1.25 percent butterfat, f.o.b. Oceania, indicative traded prices

³ Whole Milk Powder, 26 percent butterfat, f.o.b. Oceania, indicative traded prices

⁴ Cheddar Cheese, 39 percent maximum moisture, f.o.b. Oceania, indicative traded prices

Note: The FAO Dairy Price Index is derived from a trade-weighted average of a selection of representative internationally-traded dairy products

Sources: FAO for indices. Product prices: Mid-point of price ranges reported by Dairy Market News (USDA)