



The Babcock Institute

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U.S. DAIRY EXPORTS TURN SOUR

The last few years have been exhilarating ones for U.S. dairy exports. After languishing under \$1 billion annually for many years, exports increased from \$1 billion to \$1.8 billion between 2003 and 2006 and then to \$3 billion in 2007. Dairy exports in 2008 will be close to \$4 billion. Our dairy trade balance, which had been negative and eroding since the early 1990s, turned positive in 2007, and will be near \$1 billion in 2008.

In 2008, the U.S. sold more than 10 percent of the milk solids produced overseas as dairy products. This included about 3 percent of all cheese produced, 13 percent of butter, 41 percent of whey, and 51 percent of nonfat dry milk.

The dairy export boom in 2007 and 2008 was attributable less to overt export marketing strategies by dairy companies located in the U.S. than it was to fortuitous circumstances that increased world demand for dairy products and reduced world supply. On the demand side, strong economic growth in both developed and developing countries increased appetites and the ability to pay for dairy products. On the supply side, due to unfavorable weather, combined milk production in Australia and New Zealand—major dairy exporters—was flat in their marketing year ending mid 2007 and fell 3 percent in the 2007-08 marketing year. This restricted exportable supplies of dairy products, leading to escalating world market prices. With milk production up more than 2 percent in both 2007 and 2008, the U.S. had ample dairy products to exploit this market opportunity.

The export boom came to a screeching halt at the end of 2008. The global financial crisis and the melamine contamination tragedy in China dampened world demand for dairy products, especially in Asian countries. New Zealand milk production is projected to be up 6-8 percent for 2008-09, leaving large supplies of dairy products to serve a shrinking world market. World prices plummeted, as did U.S. dairy exports. The value of nonfat dry milk exports in November 2008 was down 56 percent from November 2007, whey exports were down 52 percent, and butter exports were down 45 percent. December export values are expected to show similar declines, and analysts are forecasting 2009 U.S. dairy export volume to be off by 25-50 percent from 2008.

This is bad news for U.S. dairy farmers, who are already being slammed by the lowest milk prices in six years on top of high feed costs. Lost exports mean more milk on the domestic market and larger cuts in the milk supply to balance supply and demand at profitable prices.

Value of U.S. Dairy Exports, 2007 and 2008

