

Impact of the COVID-19 crisis on the dairy sector



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This article is based on the IFCN Dairy Report 2020.

This annual report summarises the work of IFCN Research Partners from over 100 countries.

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IFCN is a global network for dairy economic research and consultancy

In 2020, researchers from over 100 countries and more than 140 agribusiness companies are members of the network. IFCN has created a better understanding of the dairy world for over 20 years.

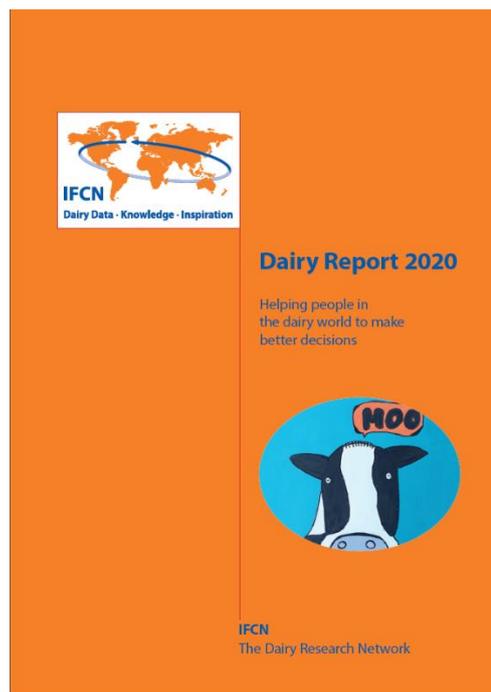
The IFCN Dairy Report has become a guideline publication for researchers and companies involved in the dairy chain, published annually since 2000. The analysis and the comprehensive data provide the background for strategic decisions and help people in the dairy world to make better decisions.

Key insights

The year 2019 was characterised by low **milk production** growth of 1.3%, compared with an average of 2.5% during the past decade. This was the result of climatic conditions and poor farm economics.

While **trade** continued its positive development in 2019, **demand** growth also slowed down substantially. The rising importance of milk alternatives as well as milk availability issues in emerging markets are likely underlying causes. Consequently, 2020 is expected to see more focus on domestic dairy sectors with the aim to increase self-sufficiency rates.

Farm economics in 2019 were moderate but stable. On the one hand, farmers may not be prepared for another milk price crisis. On the other hand, the loss of alternative opportunities due to the economic crisis might result in fewer farmers leaving the sector. The **milk price**, meanwhile, has decreased in 2020 but so far avoided a slump maintaining levels of 33 USD/100 kg milk.



IFCN monitors global milk production on an annual and monthly basis including real-time estimates to provide one of the fastest market updates available, which is crucial to understand the milk price development. The Dairy Report comprises detailed information about dairy indicators for 123 countries.

2019 lowest milk production growth in decade

In 2019, dairy supply growth dropped substantially to 1.3 %, compared with a long-term average of 2.5% (Fig 1). Milk production was impacted for example in South Asia, Oceania, and Africa/Middle East last year because of a variety of reasons with climate-related issues at the forefront.

Growth slowed down for example because of lower milk production growth in India in 2019, caused by poor farm economics, floods, and a late onset of monsoon at the start of flush season. Major dairy producers in the Southern hemisphere such as New Zealand and Australia were hit by adverse weather events, while parts of Africa had to battle with drought and locust plagues impacting production.

2020 milk production impacted by COVID-19

2020 points to higher growth in milk production than in 2019, albeit still below average levels. Climatic production conditions are more favourable in 2020, limiting the impact of the COVID-19 crisis that has led many farmers to reduce their production since they reacted fast to the shift in demand. This could be seen in the US, where cooperatives introduced A and B prices for delivered milk at the beginning of the COVID-19 pandemic when the milk price took a first dip (Fig. 3). Overall, however, the COVID-19 crisis appears to have a bigger impact on demand rather than supply in 2020.

2019 demand lower than usual

Demand is becoming a more important factor impacting the speed of milk production growth. In 2019, milk demand growth (measured in milk equivalents) slowed down in line supply growth but outpaced the latter at 1.6%. Especially per capita demand growth dropped in 2019. In emerging markets, this was driven by milk availability issues.

However, developed dairy markets also showed lower growth. It remains to be seen whether this is a long-term development, but competition from milk alternatives likely play a role. Milk alternatives are also marketed in emerging economies as a cheaper albeit less nutritious food.

Impact of the economic recession

The main impact of the COVID-19 crisis is on dairy demand, first as a result of the lockdown which resulted in many foodservice outlets having to close and a consequent shift in consumption. Second, demand will continue to be dampened by consumers' reduced purchasing power because of the ensuing recession. This could lead to consumers restricting their overall consumption, especially in emerging markets

Milk price development in 2019

The IFCN World Milk Price Indicator (Fig. 2) represents the theoretical world farmgate milk price, which stood at an average level of 37.3 USD/100 kg milk in 2019, up 9% on the previous year driven by the relatively low growth in production. Still, low growth in milk production usually causes a more substantial milk price increase, which means that a structural shift in demand could be a reason in addition to stable oil and low feed prices.

2020 milk price development analysis

In September 2020, the world milk price held up at a level of 33.4 USD/100 kg milk. While this points to a clear downward trend caused by lower demand due to the COVID-19 crisis, the decline up to this point is less than initially feared or expected.

This has also been confirmed by the more than 500 participants at the IFCN Supporter Conference 2020 who expressed their view on demand developments in 2021: 84% of participants expect average or slightly lower demand growth (1.5 – 2.2%), but no major demand “shock” for dairy as a basic food item. That is why higher price volatility is foreseen, but probably not to the extent as seen in previous milk price “crises”.

Farm economics

IFCN models 172 typical farms in 64 dairy regions and 52 countries to understand and analyse the cost of milk production and to allow actors in the dairy value chain to devise the right strategies.

While farm economics on average were moderately positive or stable in 2019, farmers' profitability are further coming under pressure in 2020 as the margin over compound feed costs continues to decrease on a global level (Fig. 4). This might impact production growth in the future but could help stabilise the world milk price. The Dairy Report analyses this in over 50 countries and thus forms a solid base to understand current and future developments in the dairy world.

Dairy world in a nutshell	Unit	2019	Change 2019 vs. 2018
Milk supply			
All milk production	mill t solid corrected milk (SCM)	890	1.3%
Milk supply drivers			
Farm number	mill	112	-0.2%
Average farm size	head / farm	3.0	1.8%
Average milk yield	t/ milk animal/ year	2.5	1.3%
Production per farm	t per farm	7.6	1.5%
Milk consumption			
All milk consumption	mill t milk equivalents (ME)	895	1.6%
Milk consumption drivers			
All milk consumption per capita	kg milk equivalents (ME) per capita	117	0.5%
Population	billion	7.64	1.1%
Price			
IFCN World Milk Price Indicator	USD/ 100kg solid corrected milk (SCM)	37.3	8.9%
Explanations:			
All milk production incl. milk from cow, buffalo, camel, goat, sheep. Data are calculated in SCM = Solid Corrected Milk (standardised to 4.0% fat and 3.3% protein).			
Milk consumption mill t milk equivalents (ME). ME = Milk Equivalents, method "fat and protein" only. Milk supply drivers based on cow and buffalo only.			
Milk yield calculation based on cow and buffalo milk and animals. Number of farms represents dairy cow and buffalo farms.			
Source: IFCN Database, Status of data: Oct 2020			

Fig. 1: Global milk production changes

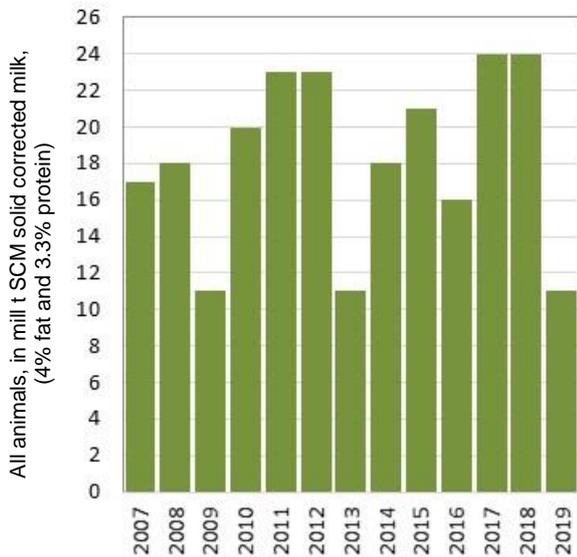
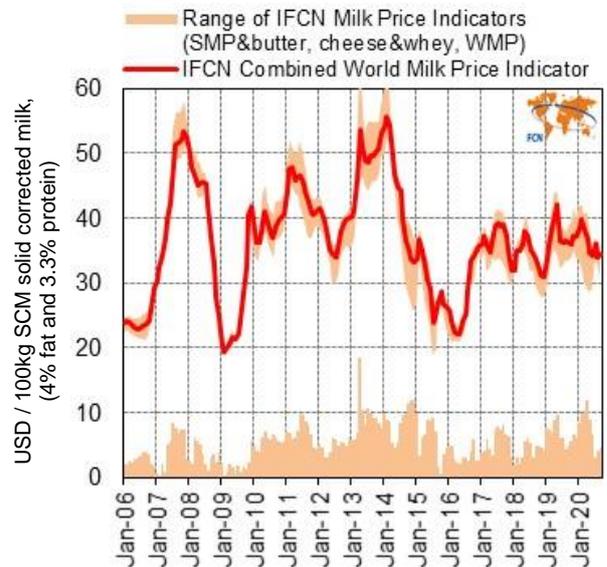


Fig. 2: IFCN World Milk Price Indicator



*SMP/WMP/Butter/Cheese: monthly weighted average of biweekly Oceania export prices, Whey Powder: monthly average of weekly German Whey powder prices

Fig. 3: Milk price comparison

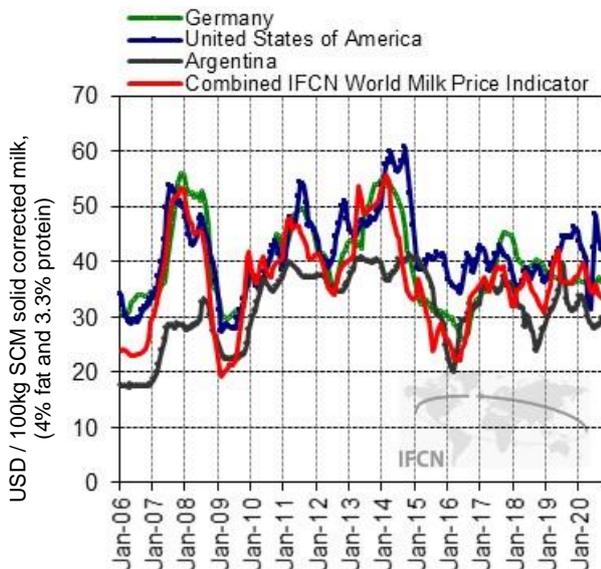
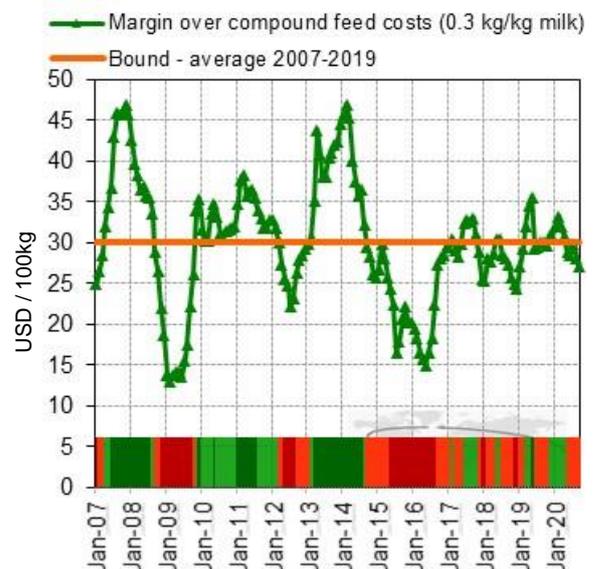


Fig. 4: Margin over compound feed costs



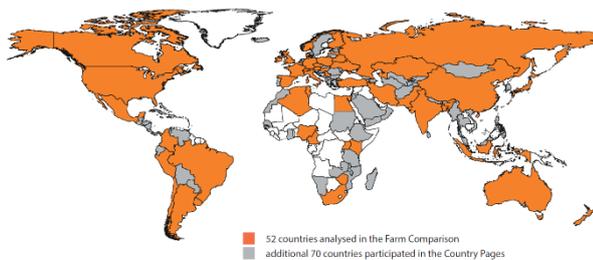
*Feed based on 70% soybean and 30% corn

Annex

IFCN is a global network for dairy economic research and consultancy.

In 2020, researchers from over 100 countries and more than 140 agribusiness companies are members of the network. IFCN serves its members with annual conferences, tools and data.

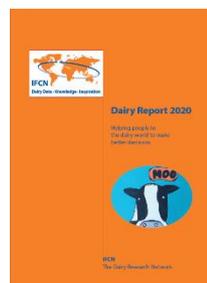
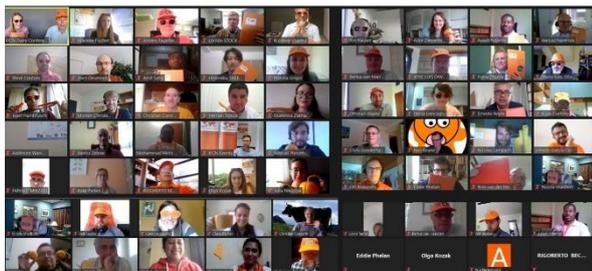
IFCN researchers' network and services



IFCN Dairy Sector Data cover 123 countries (122 plus EU), depicting 99% of the world milk production. The Farm Analysis covers 52 countries with 172 typical farms in 64 dairy regions, thus 89% of the world milk production.

IFCN offers researchers global networking platforms via the annual IFCN Dairy Conference, capacity-building in dairy economic analysis on farm and sector level and IFCN Tools and Data to convey knowledge to dairy stakeholders.

IFCN Research Conference 2020 - Online



The comprehensive IFCN Dairy Report 2020 serves as tool to standardise dairy data worldwide and includes information on: Farm comparison and farm economics, sustainability of farms, monitoring of global dairy economic indicators, status, trends and drivers of milk production, maps, 123 Country Pages.

Interested in the Dairy Report 2020 or a partnership?

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Contact veit.becker@ifcndairy.org

IFCN companies' network and services



IFCN offers 3 Partnership Packages:

Basic

- A) Global holistic picture of the dairy world
- B) Networking with your peers & companies
- C) Learning and capacity building

Premium & Ultimate

- D) World class dairy business intelligence
- E) Data: comparable, global & real time
- F) Better decisions based on full access

Which package fits you the best? – The current fast-changing and complex dairy world makes business intelligence vital for your organisation's success. IFCN's mission is to help you with dairy data, knowledge and inspiration to make better decisions.

IFCN supporting partners



Feedback welcome

The IFCN Dairy Situation Analysis is an ongoing research project. Therefore, IFCN appreciates any feedback to further improve the work. The IFCN Dairy Report is published annually in October. For any comments or questions, please contact us.