International Dairy Market Prospects: Promising Future but Ensure Seat Belts are Buckled and Crash Hats On!

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Food industry pundits are optimistic of the market environment for food globally over the next few decades and with good reason: the world population is expected to increase from its current 7 billion to 9 billion by 2050. Most of the extra 2 billion people will be in emerging countries. If their incomes increase, then demand for animal-based protein foods will soar which should be good news for producers of meat and dairy products. This is just as well as demand for these products in developed countries may well be static or only very slowly growing reflecting that: per capita consumption levels are already relatively high; consumers view full fat dairy products as being “unhealthy” (e.g. butter, cheese) and, increasingly, there may be plant-based substitute products made from soya, rice, and nuts; more esoteric concerns about the dairy industry’s impact on the environment and on animal welfare may constrain purchases; and, in slow growth developed economies, escalating dairy product prices may cause lower income shoppers to seek lower priced food product alternatives.

Global food manufacturers and retailers are focussing expansion activities on high income growth emerging countries in Asia, Africa and Latin America. The population of Africa is set to double from 1 billion to 2 billion over the next 40 years whereas Europe will at best be static and Japan, for example, is forecasted to shrink from 130 million people now to less than 100 million by 2050. Canada and the USA, with active immigration programs, are set for population growth, which make them exceptions in the OECD countries (Organization for Economic Cooperation and Development). Infant nutrition is a case in point – with the principal ingredient being whole milk powder, annual demand growth rates are projected to be 3 or 4 times higher than those for Europe, North America and developed Asia. Not all is gloomy, however, in ageing developed economies with big baby boomer consumer segments “healthy” dairy product demand will be buoyant and high protein whey-based products will flourish, as will gut/heart/joint-friendly yogurts and dairy desserts.

The reliance on emerging markets to drive international dairy demand should be embraced with caution and for two reasons:

- For both dairy and meat products, China accounts for a very high proportion of total international imports. A hiccough in economic growth, a political problem at home could cause current Chinese import behaviour to change quickly. Concern about the impact of developed country economic recession in 2007/8 caused dairy product imports to China to be curtailed sharply with consequential dramatic declines in international dairy product prices. This can and will happen again - dairy product exporters should be ready to handle considerable volatility in prices through this decade.
- Keep a close watching brief on global food price movements. The FAO global index shows sharp vacillations in food prices from 2005/6 to 2012/13. Should global food staple prices rise sharply in the coming years (e.g. for wheat, corn, rice), then emerging country consumers who spend a high proportion of their household incomes on feeding the family (e.g. 50% in the Philippines versus 10% in Canada) will curtail their purchases of discretionary food items such as dairy and meats to ensure they can afford their staple of choice.

At home, economic conditions will continue to have a significant impact on shopper purchasing behaviour and retailer responses to same. In many developed countries, the past 5 years have seen polarised shopping – growth in “value” (aka low-priced) products sold via mainline supermarket chains and championed by hard discounters such as Aldi, Dollar Store, Lidl, etc. Concomitantly, premium products (“affordable treats”) such as luxury yogurts, specialty cheeses, and premium retailers (e.g. Whole Foods in the USA, Waitrose in the UK) have bucked the price-driven trend. Shopping habits are changing too – “Big Box” stores such as Wal*Mart and Tesco have struggled to hold market share and grow sales, whereas convenience outlets have performed well. Also, food service and food retailing are converging as supermarkets increasingly offer “Meals-to-Go” and home delivery. In most markets, supermarket private label share is growing at the expense of secondary and tertiary brands. Each dairy business has to assess changing shopping behaviour and retailers’ responses to determine how best they can take opportunity and/or defend in the face of these changes.

Through tough economic times, the food industry has shown recessionary resilience but, nonetheless profit margins have been squeezed throughout the value chain. Interestingly, and it was ever thus, businesses within the wider grocery industry with the largest profit margins are non-food companies such as those in tobacco products and alcohol. The food companies with the highest profit margins are those with proprietary ownership of either intellectual property (i.e. patents on ingredients that have unique attributes loved by consumers) or powerful brands much loved by consumers. The challenge for food businesses world-wide is to own some element/service that others value and are willing to pay a premium for. Large commodity-driven dairy businesses do not fall into these categories and struggle to make attractive margins in an increasingly volatile dairy world.

The Canadian dairy industry may have a more stable decade in front of it than those in markets more open to international competitive pressures. The clear advantages to some of the well-established supply management programs for fluid and manufacturing milk in Canada must be weighed against the fact that the international market for dairy products is buoyant, albeit volatile. The moot question is whether the dairy industry in Canada is configured to take advantage of international opportunities or whether it will remain domestic based – safe at home but marooned!