



**Rabobank**

*Media Release  
February 3, 2012*

## ***Rabobank's Global Dairy Outlook: Show me the money!***

The global dairy sector looks set to be characterised by a future of solid market growth – to some extent the envy of the food world, according to a new industry report from Rabobank. But, that growth will be unevenly spread, generating important new dynamics.

In the report **Global Dairy Outlook: Show me the money** Rabobank examines not only the outlook for global dairy over the next five years, but also who is profiting from the changed market environment in which the dairy industry operates.

Rabobank senior dairy analyst Michael Harvey says growth will be dominated by developing markets, many of which will require outside assistance to supply enough product to meet rising appetites for dairy.

“This will sustain an era of trade growth and provide a substantial opportunity for many farmers, traders and processors in export regions,” Mr Harvey says.

“A lot of the global growth will come from China – and New Zealand is well-placed to capitalise on that growth given their existing trade linkages to the market which are supported by a trade agreement.”

With most of the growth in consumption volumes expected in regions that are already short of milk, such as China and South East Asia, Mr Harvey says a significant share of supply in the coming years will need to come from export regions.

Rabobank's report shows that the cost of producing milk in these exporting regions remains much higher than it was prior to the 2007 commodity price boom.

“Importantly, we also find evidence that the gap between ‘low’ cost and ‘mid-table’ cost milk producers is narrowing, providing a more level playing field for exporters in a range of regions, and increasing the importance of export cooperatives in ensuring that their farmers are best placed to benefit from opportunities abroad,” Mr Harvey says.

The report expects production costs to remain elevated for the medium-term, supporting a high trading range for dairy commodity prices.

Mr Harvey says in essence, Rabobank's analysis indicates the vast increase in money flowing through the dairy supply chain in recent years has been either ‘eaten up’ by farmers' input costs or capitalised into the value of farmland.

“On-farm profitability has improved somewhat, but not enough in most cases to improve the average return on assets despite the increased difficulty of managing what has become a more volatile business,” he says.



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“Nor has there been a large improvement in the position of the downstream dairy processing industry, though the sector has done extremely well to defend or modestly improve its position despite the challenge of rising costs.”

In reality, Mr Harvey says: “An era of strong demand and heightened prices for dairy has brought as many challenges as opportunities for the sector”.

“Experiences for dairy processors have varied depending on the which part of the sector they have exposure to – despite a step-change in ingredient costs and, for many, a difficult market environment, processors have generally maintained or improved their margins,” he says.

“Outsiders looking to enter what may in some regards appear to be an industry that has entered a ‘golden age’ will need to carefully choose their investments, while those already inside need to continue to closely track industry direction and competitor moves to ensure they manage the risks adequately to position themselves to prosper.”

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***Rabobank New Zealand is a part of the international Rabobank Group, the world’s leading specialist in food and agribusiness banking. Rabobank has more than 110 years’ experience providing customised banking and finance solutions to businesses involved in all aspects of food and agribusiness. Rabobank is structured as a cooperative operates in 48 countries, servicing the needs of approximately 10 million clients worldwide through a network of more than 1600 offices and branches. Rabobank New Zealand is one of the country’s leading rural lenders and a significant provider of business and corporate banking and financial services to the New Zealand food and agribusiness sector. The bank has 31 branches throughout New Zealand.***

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