



NEWS RELEASE

Consumer Demand Drives Organic Milk Industry Expansion

*Future opportunities should be plentiful for producers and processors
as consumers continue to push U.S. sales upward*

DENVER (April 11, 2017) — Despite the current excess supply environment, rising demand points to a bright future for the U.S. organic milk industry, leading a record number of dairies to transition to organic milk production according to a new report from CoBank. Organic milk generates the highest sales of any certified organic commodity, and steady demand growth will lift organic fluid milk market share and further stimulate product innovation.

“The substantial gap between organic and conventional on-farm milk prices, combined with more price stability, is driving the transition,” says Ben Laine, CoBank senior dairy economist. “We are seeing increasing herd sizes for many existing organic dairies looking to take advantage of size efficiencies and price premiums.”

The 12-month average national organic milk mailbox price in April 2016 (near the widest point in the price spread) was \$36.25 per hundredweight (cwt) compared to a conventional average of \$14.89 per cwt.

This sizable pay difference and the extended pressure on conventional milk prices provide considerable motivation for dairies to costly three-year process. In addition, the year-long contracts common for organic production may temper the monthly price volatility often found in the conventional milk market.

Consumers Committed to Organic

Higher prices for organic milk have not dampened consumer interest. “While demand for fluid milk overall has struggled to slow its downward trajectory over the past several years, organic milk is one segment experiencing strong growth,” notes Laine. “The price premium for organic milk at retail is typically second only to the premium for organic eggs.”

In 2016, half-gallons of organic milk commanded a more than \$2 premium over half-gallons of conventional milk. In spite of this significant difference, sales continue to increase. Valued at \$1.174 billion, milk was the top organic commodity sold in 2015.

The strong sales figures suggest that consumers are willing to pay the premium and there is room to grow—barring a downturn in the overall economy. Demand growth will also be influenced by the normalization of organic milk in the eyes of consumers.

Processing Capacity

Despite increased consumer demand, organic milk processing capacity remains rather tight. In some cases, growth in production has exceeded what processors are able to handle, forcing them to sell organic milk as conventional milk.

This factor is a near-to-medium-term concern and is not expected to be a long-term obstacle as the industry continues to mature. “The current oversupply should be viewed in the context of the current processing capacity,” explains Laine.

Private label organic milk, the evolution of other organic dairy products including cheese, butter and yogurt, as well as new industry partnerships will likely add value and additional growth opportunities to the organic dairy industry in the coming years. Food service companies are also increasing investment in organic dairy products, leading to additional demand. These factors are expected to influence processing capacity over time.

“The organic dairy industry has evolved out of niche status and is rapidly maturing,” concludes Laine. “Given the high premiums for organic milk in 2015 and 2016, a substantial addition to the organic milk supply can be expected in 2018 and 2019. But, demand growth must continue to support the additional supply.”

A brief video synopsis of the report, “The U.S. Organic Dairy Industry – Booming Demand with Room to Grow,” is available on the [CoBank YouTube channel](#). The full report is available to media upon request.

About CoBank

CoBank is a \$126 billion cooperative bank serving vital industries across rural America. The bank provides loans, leases, export financing and other financial services to agribusinesses and rural power, water and communications providers in all 50 states. The bank also provides wholesale loans and other financial services to affiliated Farm Credit associations serving more than 70,000 farmers, ranchers and other rural borrowers in 23 states around the country.

CoBank is a member of the Farm Credit System, a nationwide network of banks and retail lending associations chartered to support the borrowing needs of U.S. agriculture, rural infrastructure and rural communities. Headquartered outside Denver, Colorado, CoBank serves customers from regional banking centers across the U.S. and also maintains an international representative office in Singapore.

For more information about CoBank, visit the bank's web site at www.cobank.com.

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