

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

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Required Report - public distribution

**Date:** 11/5/2015

**GAIN Report Number:** ID1534

## **Indonesia**

### **Dairy and Products Annual**

#### **Indonesia Dairy and Products Annual 2015**

**Approved By:**

Ali Abdi

**Prepared By:**

Thom Wright, Sugiarti Meylinah

**Report Highlights:**

Weak economic performance has depressed consumer purchasing power and created business uncertainty. Consumers are prioritizing staple food consumption in 2015, resulting in a decline of whole milk powder and nonfat dry milk powder consumption and imports. Despite these declines, the fluid milk market, which serves a niche market in Indonesia, continues to grow, fueling the expansion of large-scale Indonesian dairies. Overall prospects for Indonesian dairy imports remain bullish, as imports of milk powders are expected to recover in 2016.

## **Commodities:**

Select

## **PRODUCTION**

The Government of Indonesia (GOI) regulates beef and cattle imports as part of its self-sufficiency goals. Self-sufficiency programs have driven up beef prices, resulting in small-holder dairy cattle sell-offs, including a large cull in 2012. In CY 2015, Indonesia will import an estimated 599,250 head of beef cattle and 60,000 MT of beef. This is down from 679,550 head and 85,000 MT in 2014. Lower import volumes maintain inflationary pressures, with average retail prices reaching Rp. 110,000/kg (\$8,072/MT) in July and Rp. 113,000/kg (\$8,293/MT) in August 2015. Despite growing prices, there is no indication that small-holders are selling off cattle again. Post notes that dairy culling is less likely as available stocks may be depleted and because there is more certainty surrounding the arrivals of higher quality Australian feeder calves. Based on stable small-holder cattle populations and live cattle imports, Post estimates that the CY 2015 Indonesian dairy cattle population to reach 405,000 head compared to 395,000 head in CY 2014.

Large-scale dairies continue to expand in Indonesia and are driving production growth. Interviews with leading dairy businesses note that the demand for dairy products is very strong, with local businesses unable to meet demand for fresh milk and other fresh dairy products. As a result, the local dairy population continues to grow, and Post estimates that Indonesian fresh milk production will reach 1.67 million liters per day in CY 2015 compared to 1.64 million liters in CY 2014. Post estimates that majority of growth remains concentrated within large-scale dairies.

Indonesian dairy processing companies that purchase their milk from small-holder cooperatives report that cooperative production is stable. Processing companies (that rely on cooperative-produced milk) report that in order to meet fluid milk demand, they are required to blend locally purchased milk with imported whey, lactose and nonfat dry milk (NFDM). Post notes that Indonesia does not produce NFDM. Local whole milk powder (WMP) production is expected to also increase to 73,000 MT in CY 2015 from 72,000 MT in CY 2014. Locally produced WMP only constitutes about 20 percent of total milk powder supply.

Post estimates indicate that large-scale dairies are now milking more than 10,000 head of Australian-origin Holstein-Friesian cattle. Large-scale dairies are located primarily on Java, and achieve average yields above 30 liters per cow per day. These companies continue to expand and are expected to build new production facilities in Sumatra as well as new locations in Java within the next two to three years. Despite the growth of large-scale dairies, the majority of cattle remains in the hands of smallholders. Indonesia's Ministry of Agriculture (MOA) reports there are 122,750 dairy farmers managing about three or four cows each on average. Most of these producers average 10-11 liters per cow per day. Small-holder farm yields remain limited as these farms do not benefit from scaling technologies. The majority of smallholder milk is marketed through local cooperatives.

## CONSUMPTION

Weak economic performance has depressed consumer purchasing power and created business uncertainty. October 2015 Socio-Economic Data from the Indonesian Statistics Agency (BPS) describes the economy as follows:

1. September 2015 deflation registered at 0.05 percent, while calendar year (CY) 2015 inflation is recorded at 2.24 percent. Year-on-year inflation is at 6.83 percent.
2. Second quarter CY 2015 Indonesian economic growth slowed to 4.67 percent, compared to 5.03 percent in first quarter 2014. CY 2015 second quarter economic growth grew by 3.78 percent compared to the previous quarter.
3. In August 2015 Indonesian exports reached USD12.7 billion, a 10.79 percent increase from July 2015, but a 12.28 percent fall from August 2014.
4. In August 2015 Indonesian imports reached USD 12.27 billion, a 21.69 percent increase compared to July 2015, but a 17.06 percent drop from August 2014.
5. In August 2015, farm and construction laborers' nominal wages increased by 0.12 percent and 0.06 percent compared to July 2015. However, farm and construction laborer real wages decreased by 0.34 percent and 0.33 percent in August 2015 respectively compared to the previous month.
6. The number of poor people in March 2015 was recorded at 28.59 million (11.22 percent of total population), an increase of 0.86 million compared to the number of poor people in September 2014 of 27.73 million (10.96 percent of total population).
7. In August 2015, the Indonesian Rupiah depreciated by 4.69 percent against the USD.

The decline in consumer purchasing power described above has led consumers to prioritize the consumption of staple foods in 2015. Declines in dairy consumption are expected primarily in the consumption of foods containing dairy ingredients such as WMP and NFD. For example, the Ministry of Trade's Market Information Center, retail prices of sweetened condensed milk increased from Rp. 11,700 in January 2015 to Rp. 13,400 in October 2015. Sweetened condensed milk declines will support declines in WMP consumption, which is expected to fall to 123 thousand MT in CY 2015, but rebound to 126 thousand MT in 2016. NFD consumption is also expected to fall to 204 thousand MT in 2015, but rebound to 215 thousand MT in 2016. Fluid milk, which serves a higher income consumer bracket, is expected to continue to grow.

Despite bumps, Indonesian per capita dairy consumption is expected to continue to follow a long-term growth trend and reach consumption similar to neighboring countries. Growth will be driven by an expanding middle class, growing consumer awareness of milk's health benefits, and a growing food and beverage processing sector. For example, Indonesian per capita milk consumption rose to 13.4 liters in CY2014 from 12.83 liters in CY2013. Indonesian per capita consumption is currently much lower than other ASEAN countries (The Philippines: 22.1 liters; Malaysia: 50.9 liters; and Thailand: 33.7 liters).

Indonesia's middle class has expanded significantly over the last decade. In 2010, the middle class (defined as those spending between two and 20 USD per day), was estimated at 56.5 percent of the total

population. One publication reported that the Indonesian middle class is growing by 7 percent annually and that it will have expanded to 68.2 percent of the total population in 2020

Three types of consumer products dominate Indonesia's market. Fluid UHT milk, sweetened condensed milk, and powdered milk have market shares of 26 percent, 35 percent, and 39 percent respectively.

## **TRADE**

Indonesian imports of NFD, whey, and anhydrous milk fat (AMF) slowed in CY 2015 due to a weakening rupiah against the US dollar and slowing consumer demand. Other disincentives included March 2015 Indonesian Central Bank regulations requiring import transactions to take place in rupiah. Indonesian dairy manufacturers have taken a "wait and see" approach, only buying ingredients on an as-needed basis. Based on these factors, Post estimates CY 2015 NFD imports to decrease by 4.7 percent from CY 2014 levels to 205 thousand MT. Assuming the continued expansion of food manufacturing in Indonesia and that the Indonesian economy will grow by 5.5 – 6 percent in CY 2016, Post anticipates that CY 2016 imports will rebound to 215 thousand MT.

Indonesia imports significant quantities of dairy products from Oceania, primarily due to geographic proximity and longstanding supplier-importer relationships. Aggressive marketing strategies have helped protect Oceania's market share. U.S. dairy products, however, are gaining strength as awareness of U.S. product attributes grow. According to trade data, the United States overtook New Zealand's position as the largest supplier of NFD to Indonesia with 30 percent market share in CY 2014. Australia and New Zealand followed with 22 and 18 percent market share respectively. Despite the U.S. position in 2014, U.S. dairy prices are currently uncompetitive with Oceania and EU exporters. As a result, CY 2015 exports from the United States are estimated to decline modestly to 42,000 MT from 45,000 MT CY 2014.

Indonesian sweetened condensed milk manufacturers rely on imported whole milk powder to supplement protein content. Post estimates CY 2015 Indonesian whole milk powder imports to decrease to 51,000 MT compared to 53,000 MT in CY 2014, based on the same conditions that drove down NFD imports. Indonesian WMP imports are also expected to rebound in CY 2016 to 53,000 MT. According to CY 2014 trade data, New Zealand remains Indonesia's largest WMP supplier with 83 percent market share, followed by Australia with 8 percent. The United States exported limited quantities of WMP in CY 2014.

Indonesian dairy manufacturers sometimes substitute whey for NFD when prices favor whey imports. NFD is typically substituted at a 3:1 ratio (three parts whey equal one part NFD). The economic slowdown will also reduce Indonesia's whey imports. Post estimates CY 2014 Indonesian whey imports will decline to 99,000 MT. In CY 2014, France overtook the United States' as the largest suppliers of whey to Indonesia, with 27 percent market share. The United States followed in second place with 17 percent.

## **STOCKS**

Due to slowing consumer demand and weak foreign exchange rates, importers tend to import on an as-needed basis. In CY 2015, WMP stocks are expected to slightly increase to 7,000 MT compared to 6,000 MT in CY 2014. NFD is expected to also increase slightly to 11,000 MT in CY 2015, as importers will substitute whey for NFD. CY 2016 ending stocks of both NFD and WMP are

forecast to remain stable at the same level as in CY 2015 although this will depend on whey and NFDM prices as well as exchange rates.

## POLICY

As of today, a total of 90 U.S. dairy plants have been listed by Indonesia's Ministry of Agriculture as approved for export to Indonesia, an increase from 83 in December 2014.

### PSD: Non Fat Dry Milk

Dairy, Milk, Nonfat Dry	2014		2015		2016	
Market Begin Year	Jan 2014		Jan 2015		Jan 2016	
Indonesia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	11	11	10	10	0	11
Production	0	0	0	0	0	0
Other Imports	215	215	220	205	0	215
Total Imports	215	215	220	205	0	215
Total Supply	226	226	230	215	0	226
Other Exports	1	1	1	0	0	0
Total Exports	1	1	1	0	0	0
Human Dom. Consumption	215	215	217	204	0	215
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	215	215	217	204	0	215
Total Use	216	216	218	204	0	215
Ending Stocks	10	10	12	11	0	11
Total Distribution	226	226	230	215	0	226
CY Imp. from U.S.	0	0	0	0	0	0
CY. Exp. to U.S.	0	0	0	0	0	0
TS=TD	0	0	0	0	0	0

Note: Number in the last column of each year is not official USDA figure

### PSD: Whole Milk Powder

Dairy, Dry Whole Milk Powder	2014		2015		2016	
Market Begin Year	Jan 2014		Jan 2015		Jan 2016	
Indonesia	USDA	New	USDA	New	USDA	New

	Official	Post	Official	Post	Official	Post
Beginning Stocks	7	7	6	6	0	7
Production	72	72	74	73	0	73
Other Imports	53	53	60	51	0	53
Total Imports	53	53	60	51	0	53
Total Supply	132	132	140	130	0	133
Other Exports	0	0	0	0	0	0
Total Exports	0	0	0	0	0	0
Human Dom. Consumption	126	126	133	123	0	126
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	126	126	133	123	0	126
Total Use	126	126	133	123	0	126
Ending Stocks	6	6	7	7	0	7
Total Distribution	132	132	140	130	0	133
CY Imp. from U.S.	0	0	0	0	0	0
CY. Exp. to U.S.	0	0	0	0	0	0
TS=TD	0	0	0	0	0	0

Note: Number in the last column of each year is not official USDA figure

Note: Exchange rate as of Oct 27, 2015: Rp. 13,626/US\$1.