Despite a 30 percent collapse in milk prices during 2015, global milk production has continued to rise. Much of this surplus milk supply is ending up as powder.

The current global glut of milk powder, as reflected in the large and growing inventories held in the U.S., the EU, and New Zealand, has kept world milk powder prices depressed, with little hope of a meaningful recovery until at least 2017.

Even as dairy market conditions continue to deteriorate, substantial new powder processing capacity is set to be added in 2016 and 2017 – in both the U.S. and the EU.

Despite the undeniably bearish signals prevalent in today’s market, the long-term outlook for milk powder remains positive provided that the U.S. is able to position itself competitively.

Going forward, to be the supplier of choice for milk powders, the newer powder manufacturing facilities must be able to meet the more stringent specification requests from customers, adjust production in response to changing demand, and reduce unit costs through economies of scale.

Due to the aging infrastructure of the U.S. dairy powder manufacturing industry, investments in new greenfield projects present the best opportunity for U.S. processors to compete with the newer infrastructure of European processors.

Over the next two years, planned U.S. greenfield projects could add over 400 million pounds per year of additional powder manufacturing capacity.

A surplus of milk and powder will continue to weigh on the market through 2016 and well into 2017. However, longer-term investments in milk powder infrastructure are likely to pay dividends, as world demographics and protein demand boost global sales.