Dairy Australia

Situation and Outlook

May 2023

DELIVERING *for* DAIRY

Seven key drivers

of the Australian dairy industry

Global supply

Situation (Negative) Outlook (Neutral)

Both milk production and exportable surpluses continue to grow in the United States, Europe and New Zealand on account of favourable seasonal conditions in all three regions. Coupled with quietening demand, this has driven the recent downturn in commodity prices.

Australian market

Situation (Neutral) Outlook (Neutral)

With consumers feeling the financial pinch, affordability has re-emerged as a significant driver of purchasing behaviour, including renewed growth in private label products. Dairy foods remain a more cost-effective option to plant-based products, leading more households to purchase dairy exclusively.

Global demand

Situation (Negative) Outlook (Neutral)

With inventories building, a lack of importing activity from key markets continues to weigh on commodity prices. Purchasing 'as needed' continues, and the looming threat of slowing economic growth continues to exert influence on consumers. In particular, demand from China remains subdued, though many expect an uptick later in the year.

Inputs

Situation (Positive) Outlook (Neutral)

Looking ahead, average production levels of both hay and grain crops are expected, with water resources built over the last three years likely to support through drier conditions. Temporary water prices across northern Victoria and the Murray Irrigation system remain historically low, and global indicative fertiliser prices have eased significantly.

Global economy

Situation (Negative) Outlook (Negative)

Around the world, inflation remains a key headwind to economic growth and activity. While there are initial signs of a gradual retreat back to target levels, this is not expected to occur before 2025, so further stress on the global economy is expected in 2023.

Australian production

Situation (Negative) Outlook (Neutral)

The flood events of this season, in conjunction with other medium-term drivers (high beef prices, labour shortages, continued farm exits) contributed to a likely 2022/23 season total 4% to 6% below 2021/22. With early signs of a more stable season and easing costs for some inputs, production is tipped to stabilise through 2023/24.

Exchange rates

Situation (Neutral) Outlook (Neutral)

The short term outlook for the Australian dollar remains weak, as slow economic growth around the world couples with lower commodity prices. The influence of a softer than expected recovery of the Chinese economy remains apparent; however, with some optimism around China's prospects later in the year, this may start to shift upward.

Positive Neutral Negative

Contents


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THE EDUCATION STATE

Executive summary

Competition is a key feature of Australia's economy, and the dairy industry is no exception.

With milk production decreasing, competitive pressure to secure milk has ramped up among processors in recent years. The supply squeeze has reduced Australian dairy's propensity to be drawn into price-competition on the global stage, at least in the short-term. As international values have fallen, Australian returns have proven more robust, with retail inflation helping to offset sustained increases in production costs. As both prices and interest rates rise, consumer purchasing power is tightening; high-priced plant-based products are failing to stack up against dairy, suffering larger sales declines in comparison.

Results from Dairy Australia's National Dairy Farmer Survey (NDFS) indicate that the vast majority of Australian farming businesses (86%) expect to be profitable this season, after being offered historically high farmgate milk prices. At the same time, 84 per cent are feeling positive about their own businesses. With past downturns and recent seasonal surprises in mind, many are taking a conservative approach, prioritising business stability over expansion as labour and weather challenges continue to weigh on growth.

Climate is a significant concern for 40 per cent of Australian farm businesses (up from 27% in 2022) – partly driven by the unpredictability experienced over recent seasons. After three consecutive La Niña events, the outlook is finally changing; the Bureau of Meteorology (BOM) is forecasting a 50 per cent chance of an El Niño event forming later this year. While this will bring a drying effect to large parts of the country, there will still be plenty of irrigation water around. Temporary water prices are likely to remain low, despite increased usage. A solid autumn break and more attractive fodder returns for growers should produce a rebound in national supplies, and average yields are expected for grain later in the year. Nevertheless, costs associated with feed, energy and labour are likely to remain above average; according to Dairy Farm Monitor Project analysis, these account for around 79 per cent of total operating costs.

Australia's milk production may finally find some stability as well. Despite the vast majority of farming businesses maintaining profit margins this season, wet weather conditions and various medium-term constraints (such as high beef and land values, labour challenges and continued farm exits) have weighed on Australia's milk pool. Dairy Australia's purchased inputs price index also shows that costs for feed, fertiliser and fuel costs have remained high over the season. Some positive developments have emerged however – grain and fertiliser costs have somewhat eased, and a less influential La Niña event helped stabilise autumn weather. Additionally, beef prices have dropped, and live dairy heifer export demand has softened. As such, Australia's milk production is on track to end the 2022/23 season between 8 to 8.2 billion litres, after the floods derailed the initial steady trajectory.

For the 2023/24 season, Dairy Australia is projecting production is likely to remain flat relative to 2022/23 full season volumes, with some modest potential for growth.

While there are upside and downside risks to the forecast, the same can be said for 2023/24 farmgate milk prices. Depressed dairy export commodity prices are impacting returns for processors and incentivising imports, but a tight milk pool has led to historically high prices paid to farmers nonetheless. Whilst the strain has been significant on manufacturing margins, the need for milk remains just as strong.

Australia's domestic market has been providing robust returns. The Australian dairy industry may be rationalising as the milk pool continues to contract, but it's not devoid of investment. Coles is on its way to becoming the first retailer to own and operate its own dairy manufacturing facilities (subject to ACCC approval), taking a step upstream in the farm to retail shelf dairy supply chain.

Dairy's domestic performance has remained resilient in this time of high inflation.

Shoppers are buying less to mitigate rising living costs, applying to both dairy and non-dairy products. However, with affordability a significant driver of today's purchasing behaviour, the generally higher priced plant-based products are suffering an even larger hit. Dairy is a much more cost-effective option; while two per cent of Australian households still exclusively purchase plant-based beverages (PBB), there are now less households purchasing both milk and PBB, with more exclusively buying dairy (+2.1%).[1] Demand for dairy within the ingredient and foodservice segments has remained relatively strong too. A smaller milk pool against the backdrop of a recovering foodservice sector, has led to firm domestic prices. These attractive returns for processors here at home have increased their focus on servicing the domestic market – further tightening the limited supply available for export.

Amid constrained supply and high costs for raw milk, Australian dairy export commodity prices remain relatively firm compared to international values, but they are not insulated from this global pressure. Inflation and looming recessions have hit consumer purses, and as importers order only as needed (or as a 'good deal' presents itself), global dairy export commodity prices have weakened. The world waits for Chinese buyers to purchase more substantial volumes; however, this is more likely to ramp up towards the end of this year.

Supply growth in other key exporting regions, and increased product available for export, has been a significant piece to this puzzle. The spring flush across the United States and Europe has brought additional product to market, with exportable surpluses increased by sluggish local demand. Farmgate milk prices have subsequently fallen in both key exporting regions, removing what was an incentive for increased Northern Hemisphere production over 2022. The same has occurred in New Zealand, where prices paid to farmers have followed dairy export prices downwards.

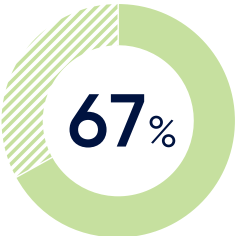
New Zealand's milk production has been growing over recent months, as wet summer weather supports pasture growth leading into autumn. Local analysts forecast milk production will end the 2022/23 season towards the upper end of a -2 per cent to +0.5 per cent range.

Competition has become an increasingly important driver for the Australian dairy industry. While high prices at home are potentially opening the door to reduced export market share, the domestic market has provided an avenue for robust returns for processors to support the competition premium paid at the farmgate. Considering large-scale changes to shopper behaviours, dairy continues to generate significant value through the retail sector, proving more sustainable compared to its plant-based competitor. The dairy supply chain remains intact despite macroeconomic disruptions, and processors' thirst for milk is likely to support firm farmgate milk prices next season, as Australia's milk production finds its way back to stability.

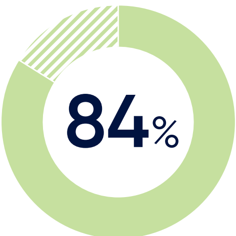
1 NielsenIQ Homescan based on a continuous panel of 10,000 households; excludes non-private dwellings and businesses, non-permanently occupied households and out-of-home/impulse purchasing. Dairy Australia calculation based in part on data reported by NielsenIQ through its Homescan Service for the dairy category for the 52-week period ending 26/03/2023, for the total Australia market, according to the NielsenIQ standard product hierarchy. © 2023, Nielsen Consumer LLC.

National Dairy Farmer Survey

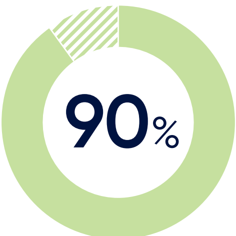
The National Dairy Farmer Survey (NDFS) is conducted each year as a means of tracking dairy farmer sentiment, views on industry challenges and own business intentions. It provides a robust set of data to support or challenge anecdotal and other information sources. In February 2023, 700 farmers were interviewed nationwide for this survey.



Sentiment
Positive about industry future
-1%

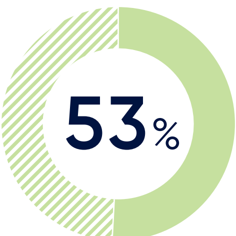


Outlook
Positive about own business
+2%



Profitability
Made operating profit in 2021/22
88% in 2020/2021

Expansion
In expansion phase
-4%



Stability
In a stable phase
+4%

The 2023 National Dairy Farmer Survey paints a picture of a stable and profitable industry that has benefited from three years of record high milk prices. While many businesses have been impacted by challenges in the past year, in particular floods and labour supply, this has done little to dampen farmer sentiment overall. Positivity about the future of the industry, as well as farm business confidence, are trending at their highest levels since the severe drought and feed shortages of 2018/19. However, as reported in 2022, this environment of positive sentiment and high profitability is not translating into industry or milk production growth, as more businesses favour stability over expansion.

Farm business sentiment continues to exceed industry confidence as profits remain high

In 2023, farmer confidence in the future of the industry is stable with two thirds (67%) of farmers feeling positive overall. This level of optimism represents a marked shift in farmer views of the industry since the lows of 2019, when only a third were positive about the industry's future. This was a time of great concern due to feed shortages following a period of severe drought.

While positivity around the industry's future has increased in some dairy regions, it has dropped in others. The New South Wales dairy region (Dairy NSW) is notably more positive this year compared to a year ago. This is despite eight in 10 businesses being recently affected by floods (more than half of which were severely impacted) and three quarters challenged by labour shortages over this same period. It appears that high milk prices and steady profits have offset the challenges faced in this region.

In contrast, farmers in Western Australia (Western Dairy) and Tasmania (DairyTas) have reported the highest drop in industry confidence since 2022. Difficulties sourcing labour may well be the main reason for this decline in sentiment since both these regions have above average farm sizes requiring a larger workforce. Furthermore, rising production costs, especially in Western Dairy, and heightened concerns about farmgate milk prices, may also be driving this increasingly negative view of the industry.

The farm business sentiment trend over the past 12 months shows less significant variations across the regions, with eight in 10 respondents (84%) nationally positive about their own businesses. This is a slightly higher result than 2022 (+2%) and builds on the steady upward trend in business confidence since 2018. The ongoing improvement in business sentiment can largely be attributed to the increasing proportion of businesses making a profit.

For the 2022 financial year, nine in 10 dairy farm businesses made an operating profit, driven by high milk prices and favourable seasonal conditions reducing hay and water costs in particular. This positive profit outcome was reported across farms of all herd sizes but was not consistent for all dairying regions. Regional results varied from more than 90 per cent of profitable businesses in Western Victoria (WestVic Dairy) and Tasmania (DairyTas) to a comparatively lower 73 per cent in Queensland (Subtropical Dairy), where the highest proportion of business were affected by floods.

In terms of anticipated profitability for the current financial period, all regions are slightly less optimistic about their returns, but the majority (86%) are still expecting to be profitable. Nearly 60 per cent (58%) of all businesses are expecting profits to be higher than the five-year average. Record high milk prices have contributed to this encouraging scenario, despite declining levels of production.

Lack of labour and floods drive changes in business practices

Positive sentiment and profitability across the industry has remained high despite challenges faced by many businesses. In the last 12 months, 60 per cent of respondent farms businesses have been impacted by difficulties finding employees and 25 per cent report being severely impacted. Labour availability has been a widespread concern across all dairy regions, with Dairy NSW and Western Dairy reporting the highest number of businesses affected by labour shortages (75% and 77% respectively).

Limited labour availability has resulted in a variety of responses from farm business, the most common being staff or farm owners taking on the additional workload and working longer hours. Offering improved working conditions to attract or keep staff has become a greater priority for 17 per cent of affected businesses, while 15 per cent actively reduced their herd or the size of their operations.

Figure 1 Industry sentiment trend

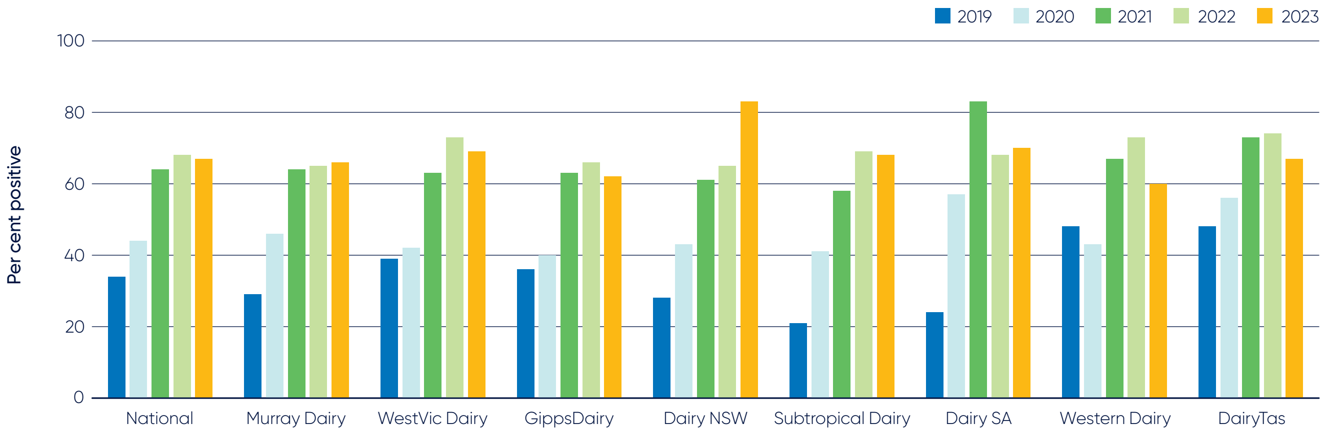


Figure 2 Business sentiment vs. profitability

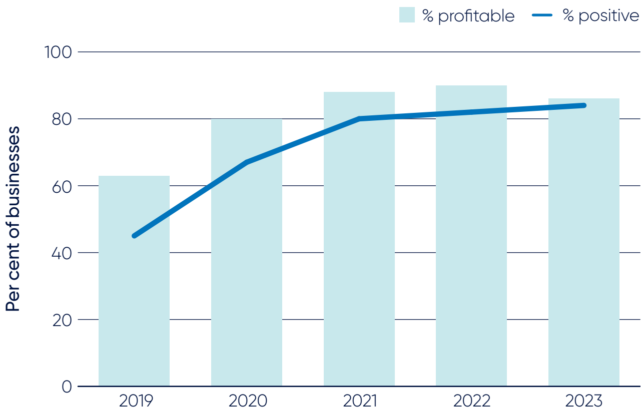


Figure 3 Enterprise phase trends

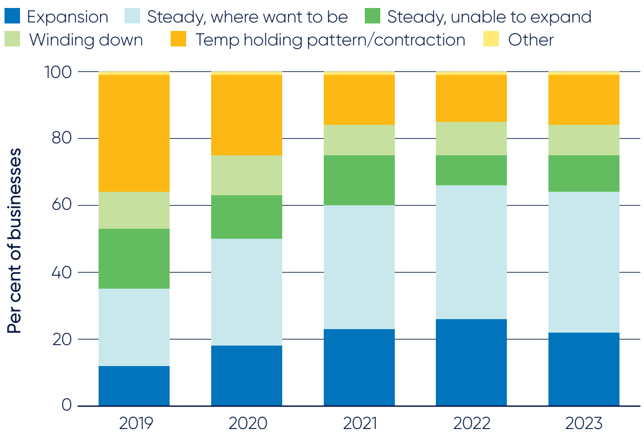
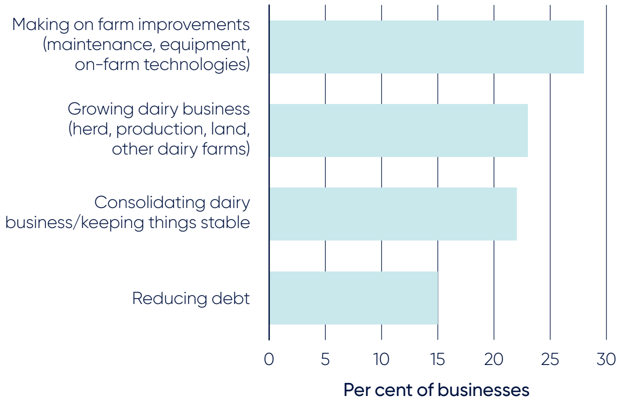


Figure 4 Top business priorities over next 5 to 10 years



Unfortunately for the six months ahead, finding enough staff and having access to adequately skilled labour remains a challenge for more than a third (36%) of farm businesses. While there is some anticipation of labour markets returning to pre-pandemic conditions, this has so far been slow to materialise, which is causing some ongoing constraints to herd or production growth.

In addition to the ongoing labour shortages, nearly half (47%) of farm businesses nationally were impacted in some way by floods or difficult seasonal conditions. Overall, one in five (21%) of businesses were severely impacted, either directly or indirectly, by the flood events. In each of the worst affected regions of Murray Dairy, Dairy NSW, and Subtropical Dairy, more than three quarters of farm businesses were either slightly or severely impacted. This resulted in significantly more farms feeding their herds without grazing for up to three months, adding substantial unexpected costs to their businesses.

There have also been other consequences from the wetter than average spring and summer. Among those farms most affected, rebuilding the farm, repairing fences and upgrading paddocks and laneways is now of greatest priority. Improving fodder management and flood protection infrastructure are other important changes being addressed on some farms, while 'scaling back' is only being considered by four per cent of these businesses.

Despite the challenges faced, at least three quarters of businesses severely impacted by either of these issues, managed to make an operating profit in the last financial year and are also expecting to be profitable this year.

Looking ahead six months, while the impacts of floods and labour difficulties have been front of mind for many, ongoing uncertainties related to climate and weather conditions is currently of greatest concern for 40 per cent of farm businesses across the country. Water availability remains strong, fodder and grain prices have begun to stabilise and fertiliser prices are easing (although remain above average), resulting in less concern about input costs in the near future.

Steady as she goes – the farm business outlook

As businesses thrive on higher profit levels and adapt to the ever-changing challenges that come their way, a strong trend towards consolidation and stability has emerged over the past three years.

Over the past year, the number of farm businesses in an expansion phase has dipped slightly from 26% to 22% while those in a 'steady and happy' position has risen consistently from 23% to 42% since 2019. This trend shows an ongoing reluctance of businesses to commit to higher levels of production, particularly in the short term. Labour continues to be a limiting factor for growth, seasonal weather conditions dampen expectations and uncertainty around profit margins all carry weight.

While approximately one in five farms have reported being in an expansion phase over the past three years, this has not been sufficient to offset the higher levels of business consolidation and the resulting decline in milk production.

Looking ahead five to 10 years, the NDFS data suggests an ongoing trend towards business consolidation.

When asked about their main priorities, the top priority for farm businesses is investing in on-farm improvements such as maintenance, equipment, or technologies with less of a focus on growth. Larger herd businesses (700 cows or more), which are typically more focused on growth, are also expecting on-farm improvements to be their greatest priority.

However, almost one in four farms (23%) are prioritising growth in the next five to 10 years and the proportion of farmers winding down remains constant (10%). This outlook tends to more prevalent among businesses with smaller herd sizes of less than 150 cows – while factors such long hours, labour issues or personal health may drive this decision, retirement or age is the main reason for exiting dairy farming.

Furthermore, the high levels of industry and business confidence underpinned by strong profitability, point to an industry that is stable and focused on investing in their farm businesses.

WHAT DOES THE AVERAGE DAIRY FARM BUSINESS LOOK LIKE IN 2023?

Seven in 10 respondents from the latest survey are owner operators.

12% are sharefarmers or own land with a sharefarmer running the business.

Almost all respondent farms are family enterprises (99%) with 86% being within their own family and 13% being from outside their family.

Only 1% are managers on corporate farms.

The average dairy farm business employs 3–4 people on either a full-time, part-time or casual basis and milks 373 cows.

On average, dairy farmers use 354 hectares for agricultural purposes and 80% of this land is used for dairying.

Diversification is evident with 8% of agricultural land being used for raising beef and a further 10% used to grow feed for selling.

Based on the responses from the 2023 National Dairy Farmer Survey

Inputs

Wet years extend a helping hand to long-term outlook

After successive seasons getting used to the wetter conditions that La Niña weather events bring, most of the country is due for a big shift, with an El Niño event expected later this year.

Being one of the key climate drivers of rainfall patterns here in Australia, this change always brings potential to upset the apple cart. However, resources built up over the past three years are likely to provide some insulation for domestic input markets.

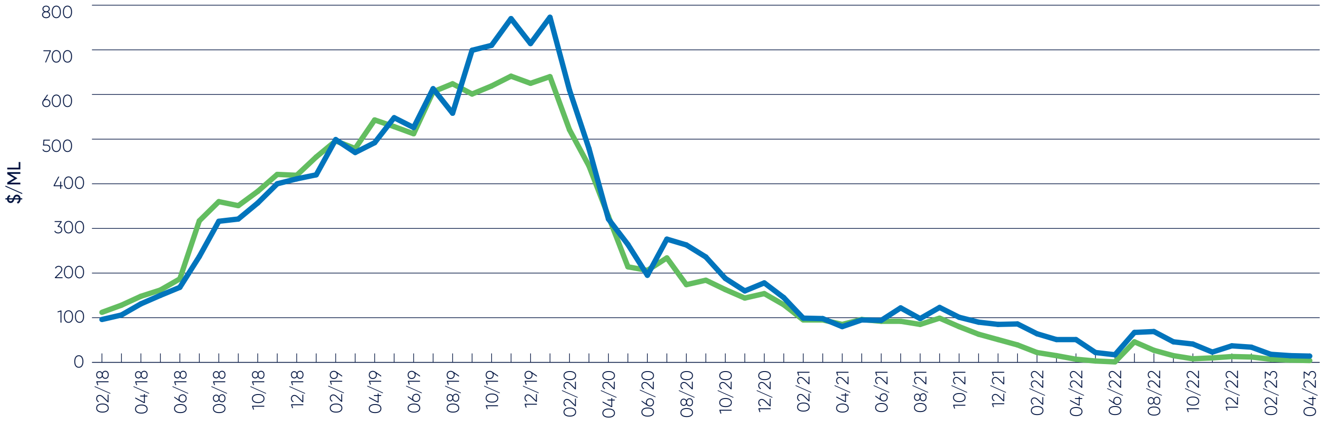
While there is speculation around the severity of this expected El Niño event later this year, the one certainty is that El Niño conditions typically suppress rainfall across eastern Australia over the winter and spring. With all models indicating that El Niño temperature thresholds within the Pacific Ocean will be met by August this year, the Bureau of Meteorology (BOM) has moved its El Niño Southern Oscillation outlook to 'El Niño WATCH'. This indicates there is a 50 per cent chance that an El Niño event will form later in 2023.

In addition to this, statistical analysis from the Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES) indicates that a transition to drought-like El Niño conditions in Year 1 after consecutive La Niña years, is the most likely outcome. With this likely to occur alongside a positive Indian Ocean Dipole event over the same period, the drying effect of El Niño may be exacerbated.

Australian agriculture is somewhat prepared though. One of the greatest legacies of the past three years has been the continually improving water availability and resources built within water storages. While the potential for drier than average conditions across large parts of the country are a concern, the wet seasons together with carryover rules in irrigation districts, have already underpinned availability for the 2023/24 water year. Even with no further rainfall for 2022/23, strong carryover reserves are expected to support high seasonal determinations across northern Victoria and the New South Wales Murray in the approach to July. Further improvements to determinations later into the season, hinge on inflow conditions throughout spring and summer.

Temporary water prices are also at the mercy of inflow conditions. If average or better inflow conditions occur over the coming months, minimal price movement is likely, while demand remains subdued. If below average inflow conditions and rainfall prevail, we are likely to see some upward price movement, although current resources and water availability will keep this in check. Temporary water prices are also expected to remain low, at the very least

Figure 5 Temporary water prices



Source: Victorian Water Register, Murray Irrigation Ltd over the short-term, as prices continue to fall despite demand from water users increasing in recent months. Heading into the 2023/24 water season, temporary water prices across northern Victoria and in the Murray Irrigation system are currently 72 per cent and 46 per cent below April last year, at $14/ML and $4/ML respectively.

While the long-term forecast will still weigh on planting decisions for many growers, a good autumn break has guaranteed a decent start to the season.

With fodder prices likely to stay close to current levels, hay returns are also looking more attractive this season, compared to last year. This could incentivise growers and mixed farmers back toward investing in hay production, rather than the opposite case seen last year.

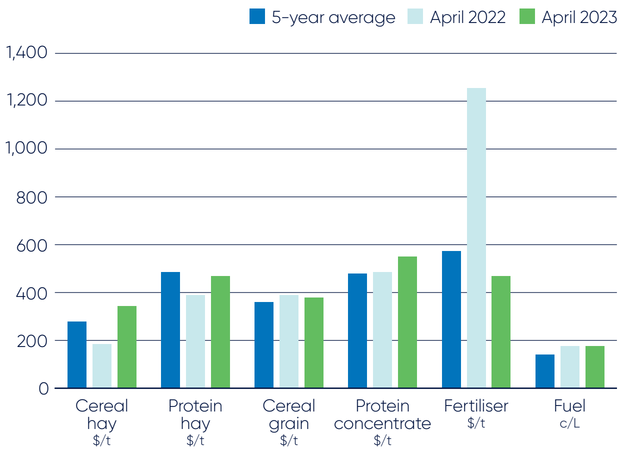
There are already some reports of mixed farmers looking to maximise protein hay type plantings in response to the shortfall experienced last season. This is alongside opportunistic hay production that occurred after the flooding in some areas, which while producing hay of lower quality, has been enough to support some farmers through the short term. In addition to the extended pasture growth period over the wet summer, this has helped in mitigating demand for purchased fodder in recent months.

Despite this, fodder prices remain significantly elevated, and this is likely to continue while reliance on last season's supply remains.

Looking ahead, fodder is likely to remain pricey, but over the course of the new season this will be increasingly mitigated by the expected return to average production, together with adequate on-farm feed supplies and low water prices.

The weather experienced over summer and into the autumn sowing period has weighed on cropping decisions. While there is some concern around the long-term rainfall forecast across the country, autumn rain in many cropping regions has lifted confidence and is likely to positively influence sowing plans and planted areas. Following the three record breaking production years from 2020 to now, ABARES is forecasting production will move back closer to average for the 2023/24 growing season. Being supported by good subsoil moisture and last season's supply still on-farm, this will likely keep some level of downward pressure on domestic grain prices throughout the year. However, as has been the case for many months, strong international demand for our product will likely limit this movement, keeping prices above longer-term averages.

Figure 6 Key input prices over time



Source: Dairy Australia, Profarmer, Australian Fodder Industry Association (AFIA), World Bank, Australian Institute of Petroleum.
**Reference region for all feed prices is Goulburn/Murray Valley.*

While the domestic water and feed input prices are more directly influenced by our climate and weather outlook, fertiliser values remain much more at the whim of geopolitical volatility and global supply pressures. After the incredibly elevated levels of the last two years, falling natural gas prices and quietening purchasing demand around the world have contributed to an easing of fertiliser prices in recent months. Compared to April last year, global indicative prices for diammonium phosphate (DAP), urea and muriate of potash (MOP) have fallen 26 per cent, 63 per cent and 20 per cent and are currently at A$953, A$469 and A$609 per tonne respectively.

Coupled with cheap irrigation water and strong water availability looking forward, falling prices are likely to incentivise increased purchasing and application rates this year, with a consequent boost to both crop production and the quality of pastures and homegrown feed. This will be further complemented by a lower likelihood of wet weather-related disruptions on-farm, holding the hope of some relief for croppers and contractors after a very testing last couple of years.

So, in weighing up the potential for drier conditions to negatively impact the input markets that dairy farmers actively operate within, it is important to consider the events of the past three seasons. Although this likely shift to drier El Niño will weigh on the availability of water and the production and supply of feed, resources built up over this same period are likely to mitigate the worst of it and support farmers through this change.

SO WHAT?

Three consecutive La Niña years brought their fair share of challenges, but at the same time many farmers are understandably nervous about a transition to drier El Niño conditions. Fortunately, this period of wet weather has had important benefits in building up resources that will likely take the edge off input pricing and market challenges as we transition to a likely drier season.

Milk production

Groundhog Day (but not quite . . .)

The size of Australia's milk pool has been a hot topic recently, with declines in production across most regions leading to intense competition at the farmgate.

A year ago, Dairy Australia forecast that the milk pool would likely neither shrink nor grow in the 2022/23 season. Unfortunately, Mother Nature doubled down; the widespread and persistent wet conditions that made for a challenging end to 2021/22 continued, creating a similarly trying start to 2022/23. Amid a broader environment of input cost pressure, workforce shortages and competition for resources, the wet weather together with severe flooding on various occasions rapidly made for a very bearish outlook.

In December 2022, Dairy Australia revised its forecast for 2022/23 milk production downwards, anticipating a decrease of between four per cent and six per cent over the course of the full season. With so much milk lost during the critical spring months and many farmers dealing with the aftermath of flooding, prospects for recovery in the short term were limited. With the season now approaching its end, the change in overall milk volumes still looks set to land in that range.

Nonetheless, the medium-term prospects for milk production have become more positive since late 2022 and as we look ahead to the 2023/24 season. For many farmers, autumn conditions have been highly favourable, with a combination of mild temperatures and timely rainfall, but fewer extremes of either. Lower fertiliser pricing (particularly for nitrogen) has added to the opportunity to kickstart pasture growth and build feed availability, even as the flow-on impacts of flooding continue to underpin hay prices. Additionally, significant falls in beef prices have reduced the incentive to cull heavily, and live export demand has pulled back, increasing the availability of surplus dairy heifers for the local market.

Looking ahead by region, milk production in Queensland and New South Wales is expected to decrease more slowly or stabilise in 2023/24 after falling sharply this season. Recovery from the impacts of repeated floods is still in progress for the more heavily affected areas, and a trickle of exits continues, albeit at a lower rate. With workforce shortages still a key issue and costs in general remaining high, many farmers are deferring to new season milk pricing for a signal on their future business direction. Hopes are high for a more settled season weather-wise, but a significant milk price drop would likely spur further consolidation, especially for smaller farms in areas with strong land values.

Workforce availability remains a challenge in Victoria, although reports suggest this has eased slightly in recent months. Irrigation water availability in northern Victoria is underwriting autumn pasture establishment and strong prospects for the 2023/24 season, even if a foreshadowed El Niño event occurs. Maize crops have been harvested, and the fodder shortfalls brought on by spring flooding have largely eased. Significant early-stage interest in new dairy herd housing infrastructure has been observed, and while these developments are unlikely to generate growth within the season, they likely reflect a broader confidence to invest.

Further south, milk production in Gippsland has seen material falls over the past two seasons, with wet spring conditions playing a role. However, in comparison to the other Victorian regions, year-on-year declines have been more evenly distributed across the season in Gippsland, suggesting a greater influence of attrition in overall farm numbers, as well as lower herd sizes. Around 15 per cent of Gippsland dairy farmers responding to the NDFS described their businesses as being in a 'winding down' phase, significantly higher than the national average of nine per cent. Strong land values together with encroachment from residential development and competing primary industries continue to constrain growth potential in Gippsland. However, the region has historically outperformed in recovery years, so favourable seasonal conditions could produce significant upside potential.

An early autumn break in southwest Victoria has contributed to something of a recovery in early 2023, paring back the expected full season decrease in volumes to around five per cent compared with 2021/22. A continuation of good weather in the context of lower fertiliser prices into next summer would augur well for milk production. However, expansion activity is relatively muted, and a relatively high proportion of farms are in a 'steady state', suggesting limited appetite for growth. Allowing for some exits, a flat to slightly lower milk pool is expected in 2023/24.

Tasmania has built up greater momentum this season, returning to growth from December and sustaining this through the season shoulder, albeit against weaker 2021/22 comparables. With over one third of NDFS-surveyed farms in expansion mode and production systems favoured by falling fertiliser prices, Tasmania is one of the most likely dairy regions to generate growth in 2023/24.

South Australia has enjoyed relatively fewer weather-related challenges this season, and consequently milk production has retreated somewhat less than across the border in southwest Victoria. With stronger comparable numbers, growth in 2023/24 will likely be incremental, albeit bolstered by the 30 per cent of the state's farmers who indicated their businesses were in an expansion phase as part of the NDFS.

Western Australia also avoided the worst of the weather this season, tracking relatively steadily towards a flat milk production outcome. The state's industry continues to walk a fine balance between growing milk intakes beyond processor demand, and contraction to the point of a supply shortfall.

Considering the overall picture, Australia's milk pool has contracted for two consecutive seasons, with a range of constraints outweighing the impact of relative profitability. There are reasons to be optimistic about a return to growth in 2023/24, especially if announced farmgate prices match farmer expectations.

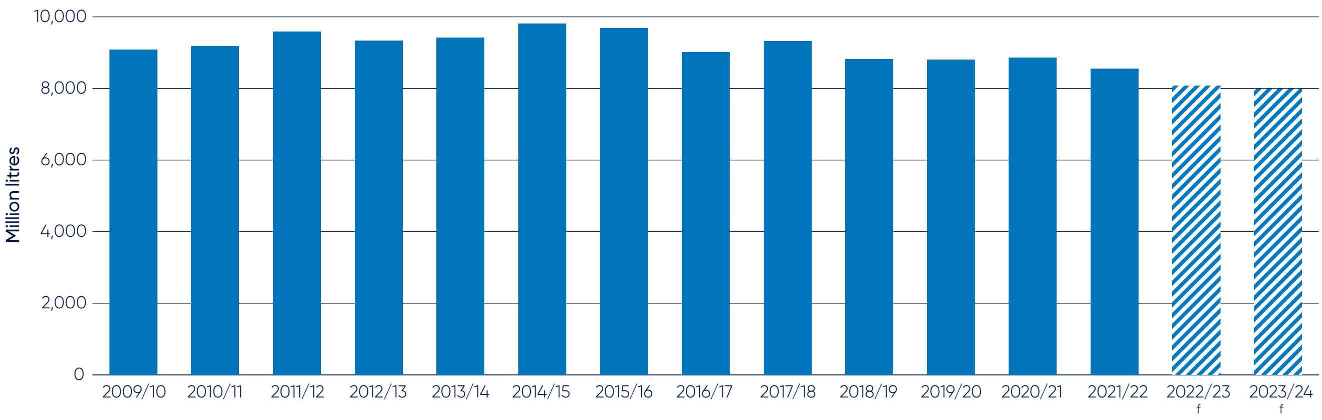
Such growth would likely be incremental, be it as a result of better seasonal conditions, reduced culling, or genuine expansion amongst a subset of businesses. Conversely, a renewed wave of exits, and more cautious posture by farmers considering expansion could tip the scales the other way – even without unexpected climatic events. Rising interest rates, geopolitical uncertainty, and the challenge of conflicting market signals are all likely to feature in farmers' calculations.

Dairy Australia's initial forecast for the 2023/24 season recognises the potential for recovery based on an optimistic start to 2023 on the ground, but is tempered by the realities of continued exits, farmer caution, and the threat of a retreat from record farmgate prices. The situation differs in many ways to that a year ago, however the forecast is similar: a flat milk pool, with only modest net changes over the course of the season.

SO WHAT?

The 2022/23 season delivered a few unpleasant surprises for the dairy industry, despite being a profitable year overall. Our forecast assumes a return to stability, on the basis of more favourable weather and continued profitability. Further exits are likely, but better spring conditions and incremental growth at the individual farm level offer significant mitigating potential.

Figure 7 Australian milk production by season



Source: Dairy manufacturers, Dairy Australia

Domestic market

Inflation withers plant-based growth

The rapid growth of dairy alternatives over the last decade has been undeniable, and yet somewhat unsustainable.

The number of new plant-based entrants to the retail market has naturally grown with developing diets and taste preferences over time, but this process has also been accelerated by social trends. The performance of these products has been substantial, particularly as environmental concerns become more prevalent among consumers and play on purchasing decisions for some. Despite all the hype these alternatives get however, their 'take down' of the overarching dairy categories has been minimal at best, and in today's retail market, undermined by inflation.

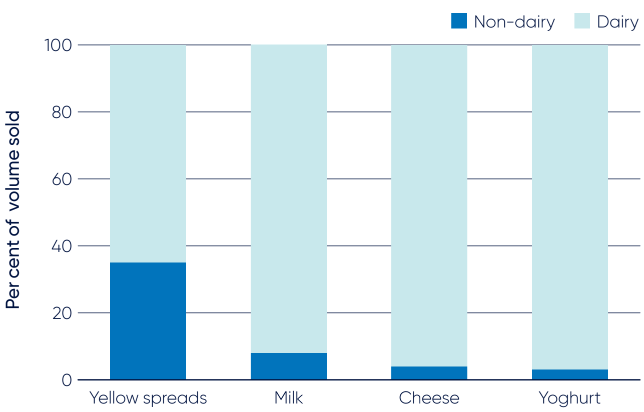
The share of non-dairy sales remains relatively small. On a volume basis, non-dairy products account for less than 10 per cent of sales in milk, cheese, and yoghurt, while in yellow spreads margarine holds a larger share. Overall, total retail sales in the four key dairy categories (milk, yellow spreads, cheese, and yoghurt) amount to around $8 billion, with non-dairy representing only eight per cent. Dairy's market share has slightly increased (+0.3%) over the last year; while retail prices for dairy may be increasing at a faster rate to that of the alternatives (except in yellow spreads), plant-based sales have dropped considerably on a volume basis.[1] The amount of dairy being purchased has also fallen (with the exception of yoghurt), but not as severely, with products like milk, cheese and yoghurt going through the checkout more frequently than before.[1]

It's no secret that consumers are more environmentally conscious these days, but right now affordability is front of mind for the majority of Australian households.

For those who are not precluded from consuming dairy by dietary constraints or perceptions around health and sustainability, higher retail prices for non-dairy alternatives are deterring shoppers. Not only are some households buying non-dairy products less often, but some are removing them from their trolleys altogether.

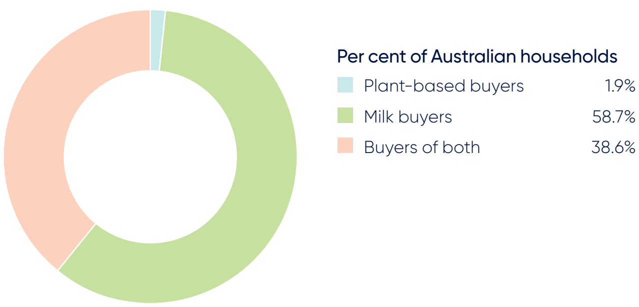
In the 52 weeks to 26 March, the volume of dairy milks sold dropped 2.2 per cent but still gained significant value (+10.9%). Plant-based beverages (PBB) however, fell 4.6 per cent in volume and three per cent in value.[1] In line with Dairy Australia's previous reports, close to two per cent of Australian households still exclusively purchase PBB, however they are now buying less (volume purchased -11%). Largely led by cost cutting behaviour, there are now less households buying both dairy and PBB, and by association more households exclusively buying dairy milk (58.7%).[1]

Figure 8 Dairy vs. non-dairy



Source: NielsenIQ and Dairy Australia

Figure 9 Exclusivity of milk and plant-based buyers



Source: NielsenIQ and Dairy Australia

Non-dairy yoghurts are losing traction too, as they're not reached for as frequently by Australian shoppers. These products cost significantly more than dairy yoghurts (average $10.53/kg against $7.34/kg), with the latter therefore presenting a much more cost-effective option for consumers.[1]

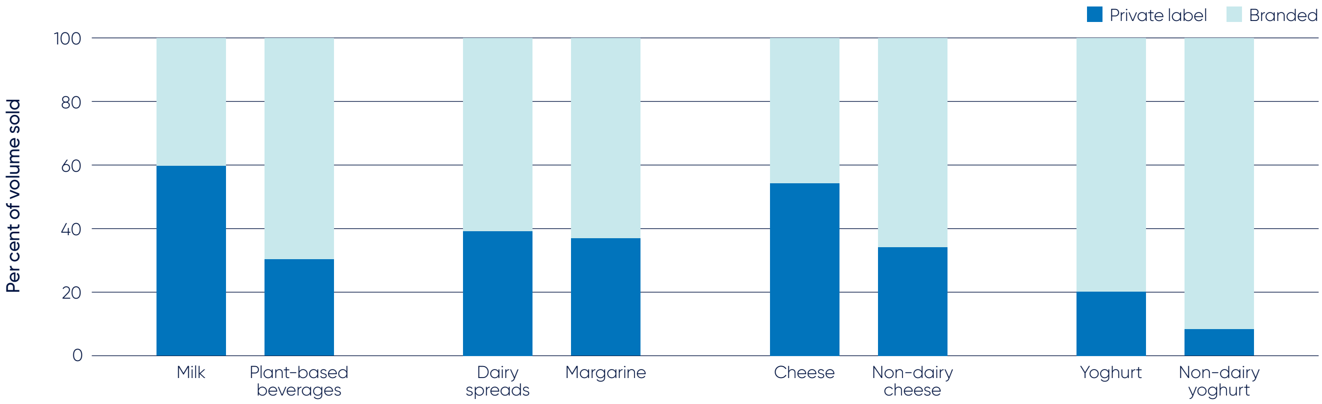
The larger offering of branded products compared to private label (PL) in non-dairy segments is a key component to higher average retail prices.

The general immaturity of non-dairy products in the retail market and their discretionary nature, particularly in the milk, cheese and yoghurt categories, has meant PL non-dairy options are much less prominent compared to dairy. In these categories, dairy presents a much more affordable option for consumers, particularly given higher rates of PL offerings providing a range of price points.

In yellow spreads however, the relationship between dairy spreads (butter and butter blends) and margarine has a much longer history. Margarine has built a much larger share of total yellow spreads sold over time, compared to non-dairy in other categories, and has long offered PL options. Unlike other categories, plant-based spreads (particularly margarine) are positioned as a cheaper alternative, with dairy attracting a premium. This is partly due to the nature and use of spreads, and the history of margarine having been developed as a low-cost alternative to butter in times of shortage.

As a result, dairy spreads are purchased more by higher affluence households compared to other dairy categories, which is more typically seen in the non-dairy segment.[1] This demographic can easily absorb the higher costs associated with both dairy spreads and plant-based products. However, while higher affluence households can hypothetically pay more, they are not isolated from feeling the current financial squeeze. Across all four key dairy categories, households in this demographic have been purchasing less non-dairy products, with some avoiding them all together.

Figure 10 Private label vs. branded in dairy and non-dairy segments



Source: NielsenIQ and Dairy Australia

1 NielsenIQ Homescan based on a continuous panel of 10,000 households; excludes non-private dwellings and businesses, non-permanently occupied households and out-of-home/impulse purchasing. Dairy Australia calculation based in part on data reported by NielsenIQ through its Homescan Service for the dairy category for the 52-week period ending 26/03/2023, for the total Australia market, according to the NielsenIQ standard product hierarchy. © 2023, Nielsen Consumer LLC.

On the other end of the spectrum, households with lower affluence continue to buy relatively steady volumes of milk and non-dairy products, while increasing their purchasing of dairy spreads, cheese and yoghurt. At the same time, they opt for increasingly more PL products out of any other demographic.[1] This is not the only cost saving strategy; many Australian households are increasing their at home consumption, spending less through takeaway or restaurant avenues. With this demographic arguably more severely impacted by higher living costs, a shift towards increased in-home consumption as a mitigation strategy could be a plausible explanation.

The social trends that have typically supported non-dairy sales have been overshadowed by the increased cost of living focus of consumers nationally. Many plant-based products are struggling to maintain share as shoppers are deterred by their high price points. While dairy sales have also fallen in response to changing shopping behaviour, its relative cost-effectiveness has allowed dairy to better endure the changing retail environment.

SO WHAT?

Non-dairy products tend to generate extensive hype, particularly as their popularity with consumers has grown over time. In reality, these products only account for a small share of the overall market and still struggle to cater to the wider demographic that dairy does. Inflation has been a catalyst for unwinding previous plant-based growth, as consumers move away, and in limited cases to cheaper dairy options. Consumers continuing to buy dairy products just as frequently as before emphasises the core positioning of dairy in the retail sector during this time of economic hardship.

1 NielsenIQ Homescan based on a continuous panel of 10,000 households; excludes non-private dwellings and businesses, non-permanently occupied households and out-of-home/impulse purchasing. Dairy Australia calculation based in part on data reported by NielsenIQ through its Homescan Service for the dairy category for the 52-week period ending 26/03/2023, for the total Australia market, according to the NielsenIQ standard product hierarchy. © 2023, Nielsen Consumer LLC.

Market dashboard

Inputs

Hay and grain

Australian dairy regions	Shedded cereal hay		%	Stockfeed wheat		%
1 South-west WA	$308	↑	37	$350	↓	-9
2 Central districts SA	$364	↑	73	$377	↓	-4
3 South-east SA	$363	↑	67	$398	↓	-2
4 South-west Victoria	$343	↑	72	$368	↑	1
5 Goulburn/Murray Valley	$344	↑	85	$379	↓	-2
6 Gippsland*	$295	↑	182	$407	→	0
7 North-west Tasmania	$278	↑	11	$497	→	0
8 Bega Valley	$359	↑	26	$414	↑	35
9 Central west NSW	$344	↑	76	$398	↑	13
10 North coast NSW	$420	↑	83	$397	↑	23
11 Darling Downs	$370	↑	40	$415	↑	6
12 Atherton Tablelands*	$350	→	0	$390	↓	-9

Shedded cereal hay: mid-range product without weather damage, of good quality and colour

The relevant stockfeed wheat available in a region (ASW, AGP, SFW1 or FED1)

Prices are estimates in $/tonne at April 2023. Compared to equivalent date April 2022.

*Note that all regions other than Atherton Tablelands and Gippsland is cereal hay. Atherton Tablelands and Gippsland is pasture hay.

Source: Australian Fodder Industry Association, Profarmer

Fertiliser

Urea (granular Black Sea)	DAP (US Gulf)	MOP (granular Vancouver)
313 US$/t	637 US$/t	408 US$/t
↓ -66% LY	↓ -33% LY	↓ -28% LY
↓ -23% 5Y	↑ +11% 5Y	↑ +35% 5Y

Price is April 2023 average, compared to the April 2022 average (LY) and 5-year (5Y) April average. Source: World Bank

Cows

Cull cows

229c/kg (lwt)	60,030 head
↓ -4% LY	↓ -13% LY
↓ -2% 5Y	↓ -12% 5Y

Dairy cattle exports

124,647 head

↑ +26% LY

↑ +28% 5Y

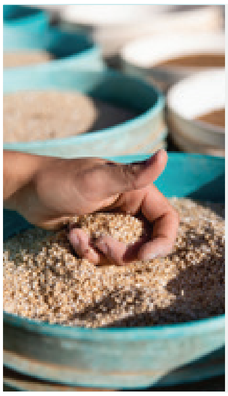
Price is April 2023 average (c/kg liveweight), compared to April 2022 (LY) and 5-year (5Y) average. Number of head is last 12 months (cull cows to April 2023, dairy cattle exports to February 2023) compared to year earlier (LY) and 5-year (5Y) average. Source: NLRS, ABS

Water

Northern Victoria	Murray Irrigation system
14$/ML	4$/ML
↓ -72% LY	↓ -46% LY
↓ -94% 5Y	↓ -97% 5Y
34$/ML MA	14$/ML MA
2,670,115 ML	196,863 ML
↑ +6% LY	↓ -22% LY
↑ +15% 5Y	↑ +40% 5Y
222,510 ML MA	16,405 ML MA

Price of water traded is April 2023 average compared to April last year (LY) and 5-year (5Y) average. Volume of water is 12 month total, to April 2023, and compared to same period last year (LY) and last 5 year (5Y) average. Monthly average (MA) is the average price and volume over the past 12 months to April. Northern Victoria prices are averaged from three key trade zones, details can be found in the monthly Production Inputs Monitor report: **dairyaustralia.com.au/industry-statistics/industry-reports/production-inputs-monitor**

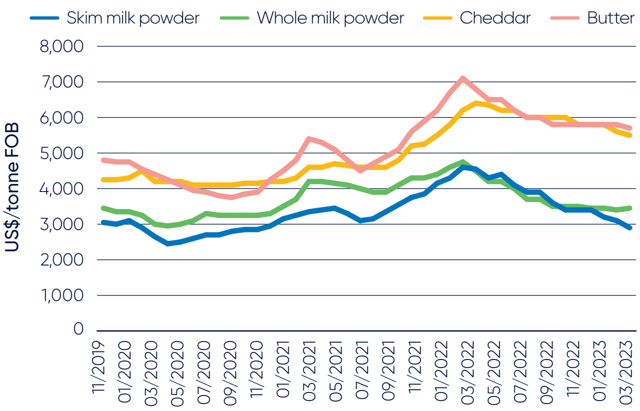
Source: Victorian Water Register, Murray Irrigation Ltd



For ongoing information and updates on farm inputs, readers can subscribe to Dairy Australia's weekly hay and grain reports and the monthly Production Inputs Monitor via **dairyaustralia.com.au/industry-statistics/industry-reports** or the byproducts report **dairyaustralia.com.au/industry-statistics/industry-reports/byproducts-report**

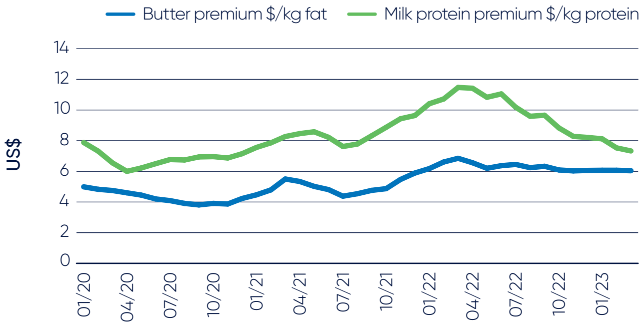
Commodity prices

Figure A1 Key dairy commodity price indicators



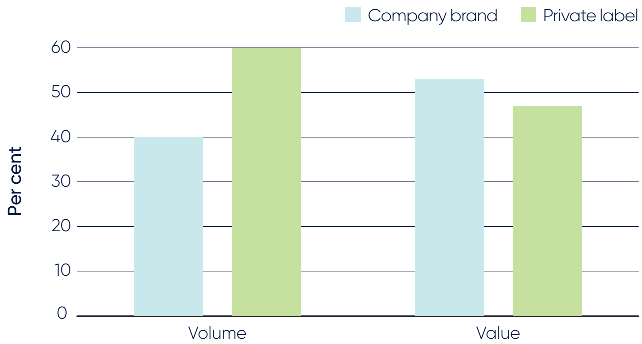
Source: Dairy Australia

Figure A2 Dairy fat and protein – pricing relative to substitutes



Source: Dairy Australia, Oil World

Figure A4 Retail sales – share of total milk sales**



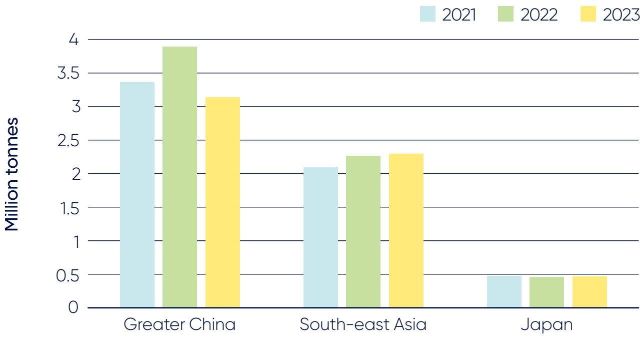
Australian market

Figure A3 Australian supermarket sales*

	Take home volume	YoY growth	Take home value $m	YoY growth
Milk *As of 26/03/23*	1,410m. L ↓	-2.2%	2,744 ↑	10.9%
Cheese *As of 26/03/23*	161kt ↓	-1.8%	2,743 ↑	9.1%
Dairy spreads *As of 26/03/23*	59kt ↓	-3.9%	719 ↑	8.8%
Yoghurt *As of 26/03/23*	174kt ↑	1.8%	1,277 ↑	10.4%

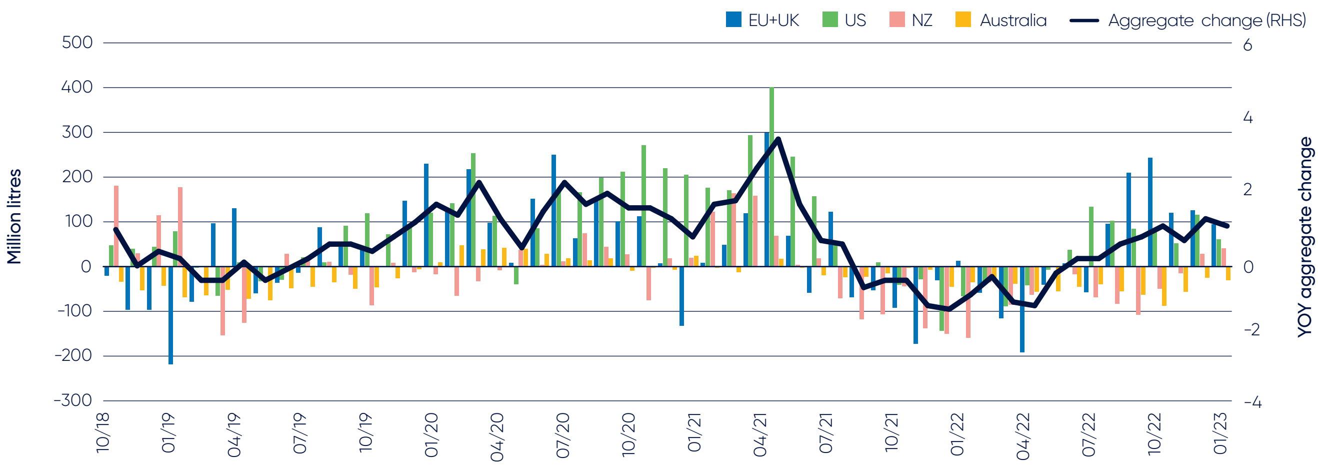
Global supply and demand

Figure A5 Exports to key markets



Source: Dairy Australia, TDM. Data represents 12 months to January 2023

Figure A6 Milk production trends for key dairy exporting regions



Source: AHDB, Dairy Australia, DCANZ, Eurostat, USDA

The charts and insights presented in this report are a combination of Dairy Australia's unique industry data collection and externally sourced information.
*Source: Dairy Australia calculation based in part on data reported by NielsenIQ through its Homescan Service for the fresh and long life milk categories, cheese, dairy spreads, and yoghurt categories to 26 Mar 2023, for the Total Australia market, according to the NielsenIQ standard hierarchy. © 2023, Nielsen Consumer LLC. product.
**Source: Dairy Australia calculation based in part on data reported by NielsenIQ through its Homescan Service for the fresh and long life milk categories to 26 Mar 2023, for the Total Australia market, according to the NielsenIQ standard hierarchy. Copyright © 2023, Nielsen Consumer LLC. product.

Dairy NSW Regional NDFS results at a glance

Over the past 12 months, flooding impacted more than 8 in 10 farms, more than half severely.

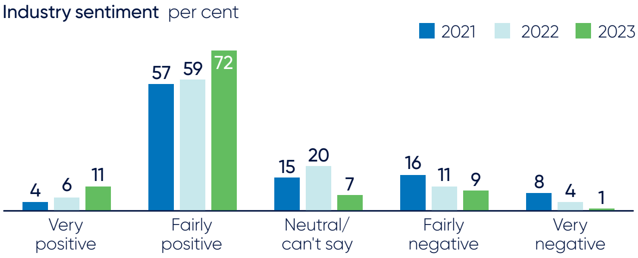
Despite these challenging conditions, the proportion of respondents positive about their own business and about the industry's future has increased, resulting in more than 8 in 10 positive towards each. This can probably be attributed to steady regional profitability.

This financial year, 83% expect to make an operating profit and more than half anticipate it will be higher than the average over the past 5 years.

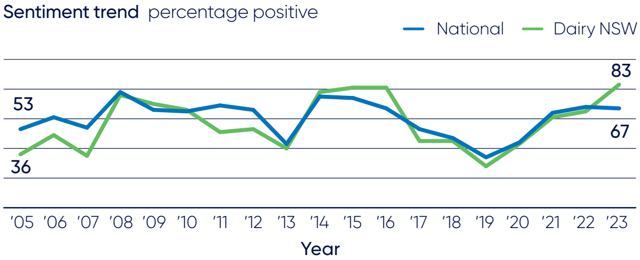
Looking ahead 6 months, almost half of respondents expect ongoing challenges with weather conditions. Labour availability and inputs costs are also of concern.

Sentiment

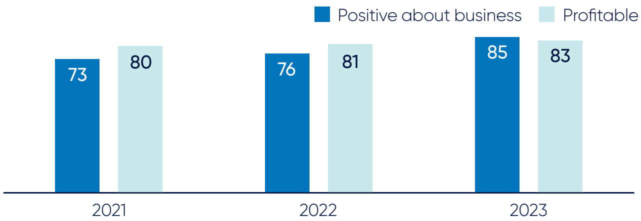
Industry sentiment per cent



Sentiment trend percentage positive



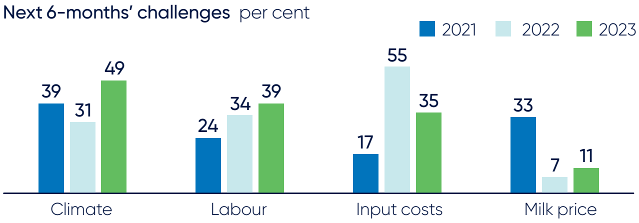
Business sentiment vs. profitability per cent



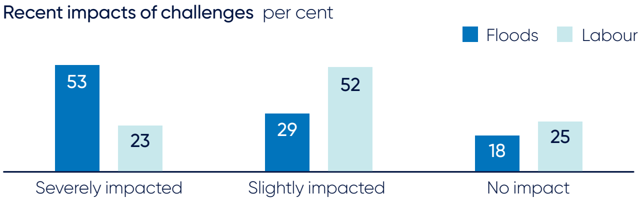
Profitability and investment

83%	Expect profit 2022/23	**85%**	Plan to invest 2023–25
57%	Profit higher than 5-year average	**28%**	Plan minor investment
35%	Profit about same/unsure	**40%**	Plan moderate investment
8%	Profit lower than 5-year average	**17%**	Plan major investment

Next 6-months' challenges per cent

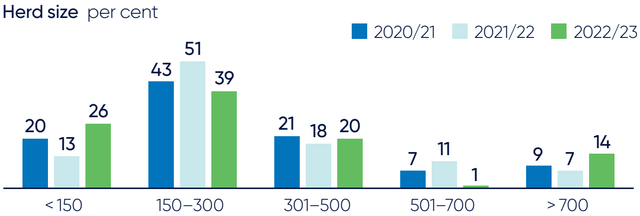


Recent impacts of challenges per cent

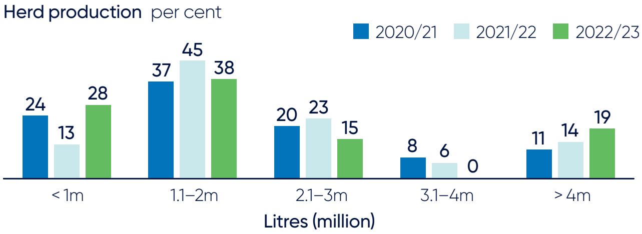


Current herd size and production

Herd size per cent

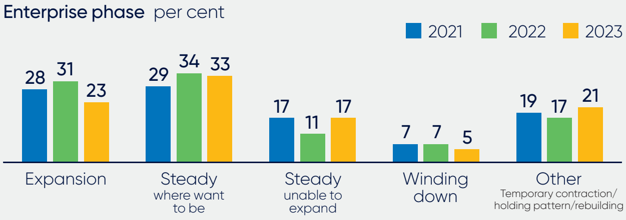


Herd production per cent



Farm profile

Enterprise phase per cent



The 'average' Dairy NSW farmer

7% Changed milk factory supplied

18% Intend/desire to change milk factory

2.1t Average tonnes fed per cow per year

362 Average herd size

3% May exit industry next 2 years

DairySA Regional NDFS results at a glance*

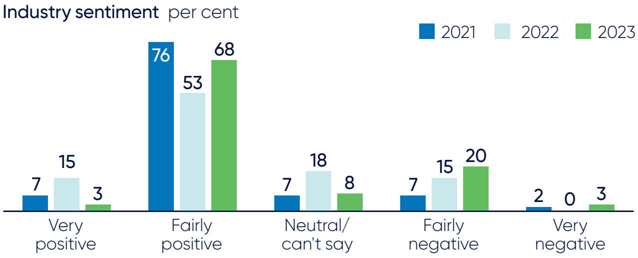
While 7 in 10 respondents continue to be positive towards the industry's future, the proportion very positive has decreased significantly over the past 12 months. In contrast, a high 9 in 10 respondents remain positive about their own businesses, probably due to widespread profitability in 2021/22 which is expected to continue this financial year.

Currently, 3 in 10 businesses are expanding (highest result since 2012) and there is evidence of milking herd growth.

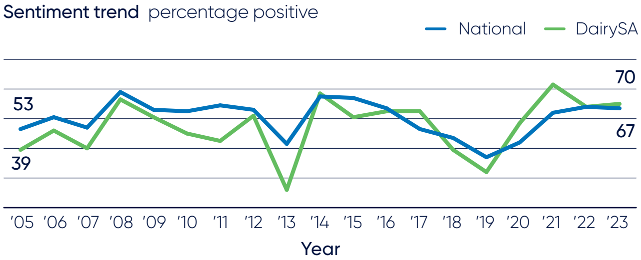
Over the next 6 months, labour is the most commonly anticipated challenge in this region. They are also the region most likely to be concerned about feed production and availability.

Sentiment

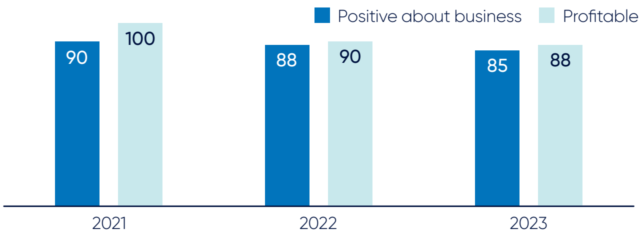
Industry sentiment per cent



Sentiment trend percentage positive



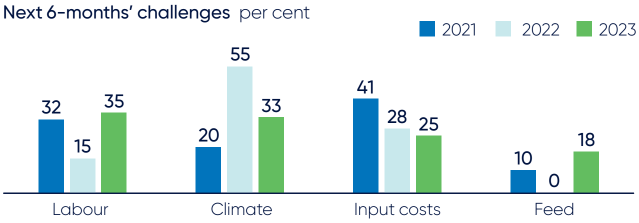
Business sentiment vs. profitability per cent



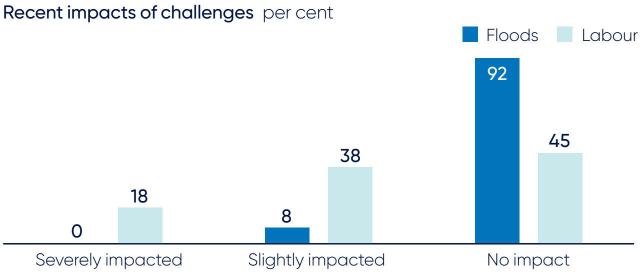
Profitability and investment

88%	Expect profit 2022/23	**80%**	Plan to invest 2023–25
55%	Profit higher than 5-year average	**28%**	Plan minor investment
30%	Profit about same/unsure	**27%**	Plan moderate investment
15%	Profit lower than 5-year average	**25%**	Plan major investment

Next 6-months' challenges per cent

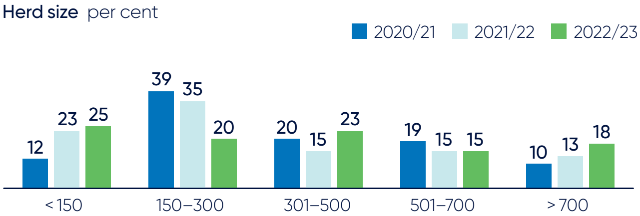


Recent impacts of challenges per cent

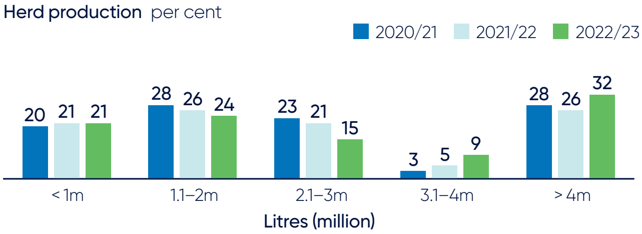


Current herd size and production

Herd size per cent

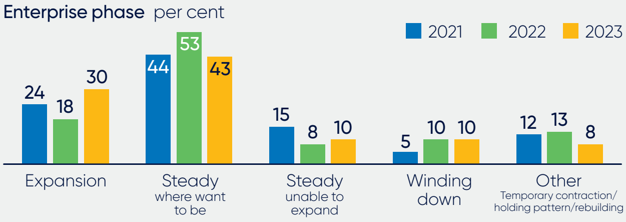


Herd production per cent



Farm profile

Enterprise phase per cent



The 'average' DairySA farmer

8% Changed milk factory supplied

13% Intend/desire to change milk factory

2.0t Average tonnes fed per cow per year

460 Average herd size

8% May exit industry next 2 years

*The NDFS was conducted before any flood impacts in this region.

DairyTas Regional NDFS results at a glance

The proportion of respondents positive about the future of the industry has declined to 67%, in line with the national average.

However, this region is the most likely nationally to be positive towards the future of their own business, due to 9 in 10 businesses being profitable over the past 3 years.

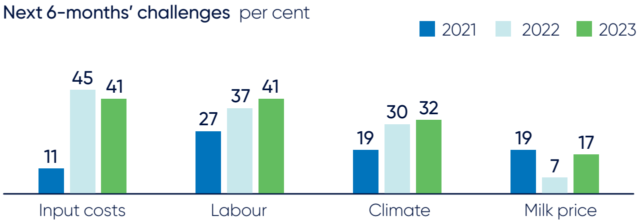
As a result, DairyTas farms are the most likely nationally to be in an expansion phase (35%).

Over the next 6 months, approximately 4 in 10 respondents anticipate challenges with input costs and labour and compared to a year ago the proportion expecting issues with farmgate prices has more than doubled.

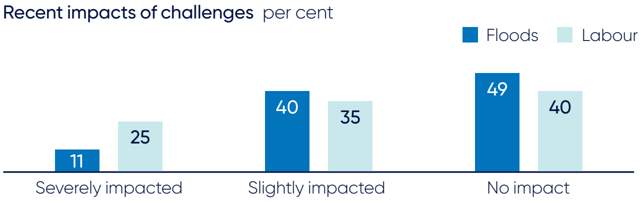
Profitability and investment

91%	Expect profit 2022/23	**91%**	Plan to invest 2023–25
67%	Profit higher than 5-year average	**40%**	Plan minor investment
24%	Profit about same/unsure	**19%**	Plan moderate investment
9%	Profit lower than 5-year average	**32%**	Plan major investment

Next 6-months' challenges per cent

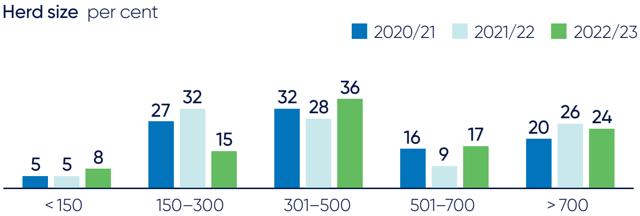


Recent impacts of challenges per cent

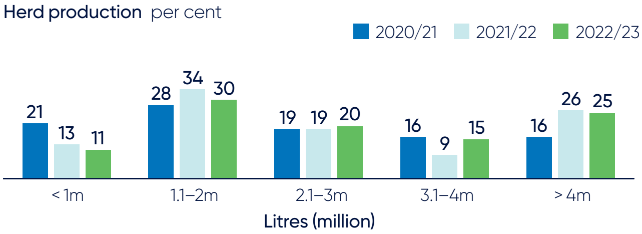


Current herd size and production

Herd size per cent

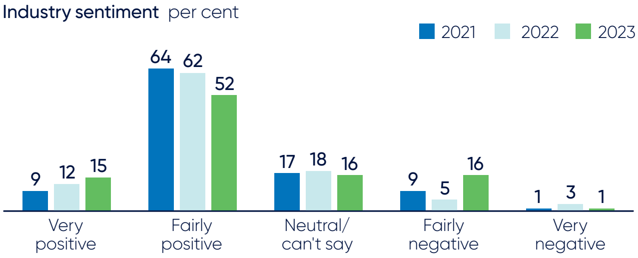


Herd production per cent

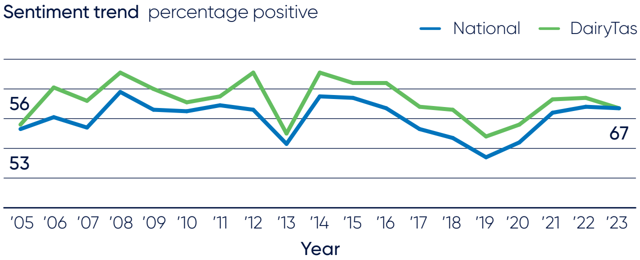


Sentiment

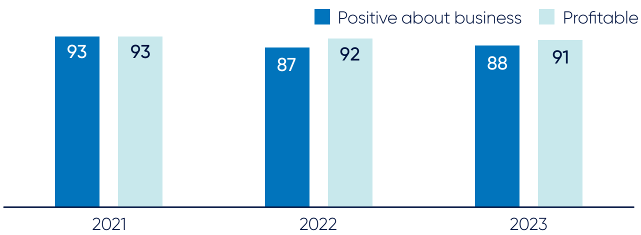
Industry sentiment per cent



Sentiment trend percentage positive

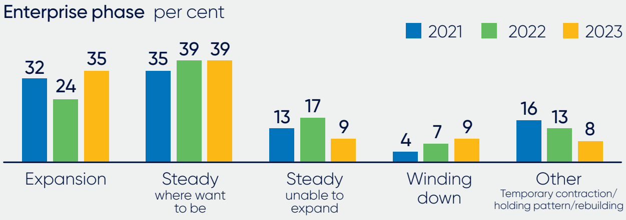


Business sentiment vs. profitability per cent



Farm profile

Enterprise phase per cent



The 'average' DairyTas farmer

11% Changed milk factory supplied

17% Intend/desire to change milk factory

1.4t Average tonnes fed per cow per year

586 Average herd size

9% May exit industry next 2 years

GippsDairy Regional NDFS results at a glance

High milk prices and strong demand for milk have contributed to 8 in 10 respondents being positive about their own business. However, there has been a slight dip in industry confidence, potentially due to considerably more farmers concerned with farmgate prices and weather conditions over the next 6 months.

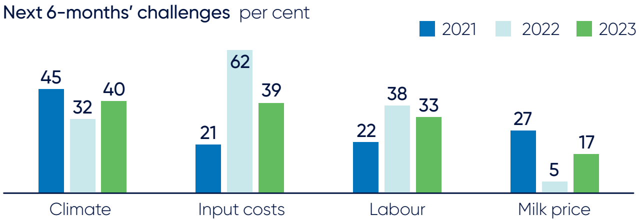
Since 2018/19, an increasing proportion of farms have been profitable, now 94% in 2021/22. Profitability is again expected to be widespread this financial year.

Despite widespread profitability, significantly fewer farms are expanding compared to 12 months ago and a higher proportion are winding down.

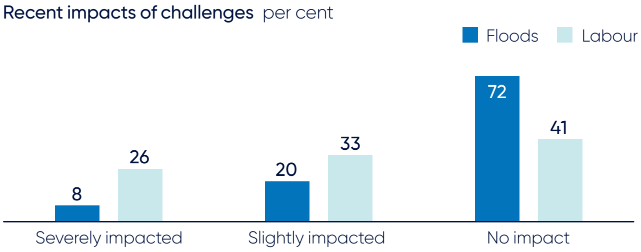
Profitability and investment

89%	Expect profit 2022/23	**85%**	Plan to invest 2023–25
56%	Profit higher than 5-year average	**39%**	Plan minor investment
36%	Profit about same/unsure	**28%**	Plan moderate investment
8%	Profit lower than 5-year average	**18%**	Plan major investment

Next 6-months' challenges per cent

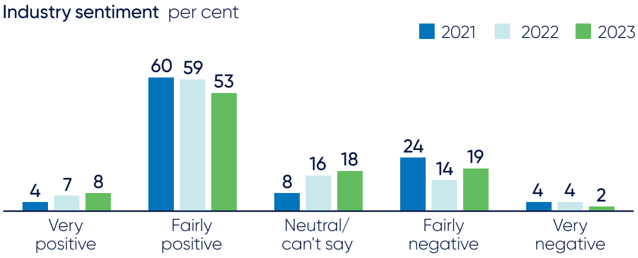


Recent impacts of challenges per cent

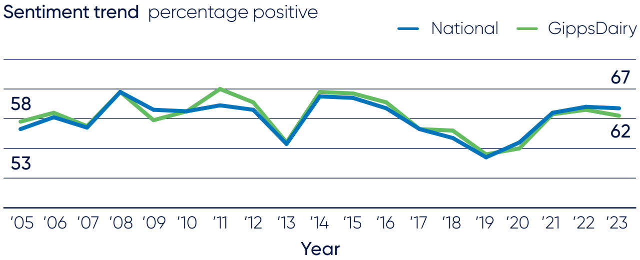


Sentiment

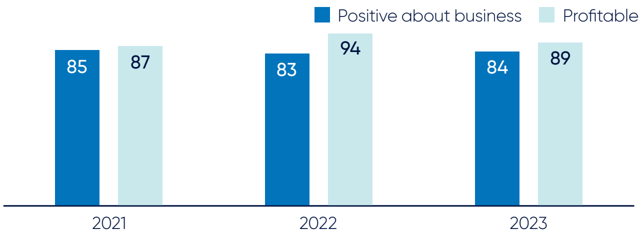
Industry sentiment per cent



Sentiment trend percentage positive

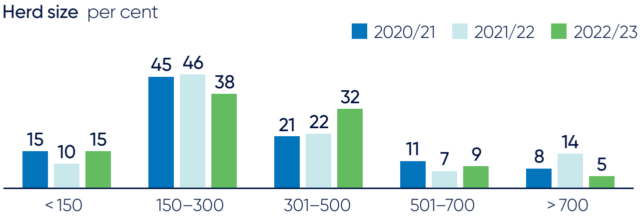


Business sentiment vs. profitability per cent

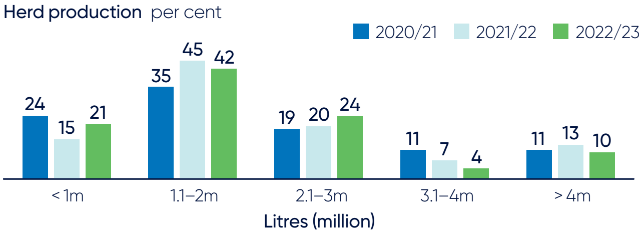


Current herd size and production

Herd size per cent

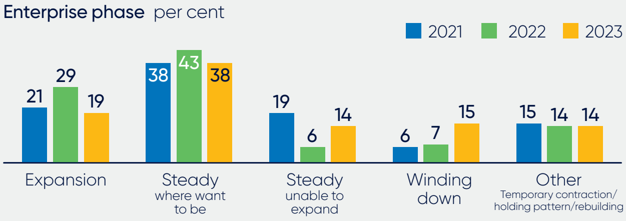


Herd production per cent



Farm profile

Enterprise phase per cent



The 'average' GippsDairy farmer

15% Changed milk factory supplied

16% Intend/desire to change milk factory

1.7t Average tonnes fed per cow per year

350 Average herd size

8% May exit industry next 2 years

Murray Dairy Regional NDFS results at a glance

Two thirds of respondents are positive about the industry's future and more than 8 in 10 are confident in their own business. Business confidence is at its highest levels since 2017, despite widespread impacts of floods.

The proportion of the regions farms making an operating profit has trended upwards since 2012/13. More than 8 in 10 expect to be profitable in 2022/23.

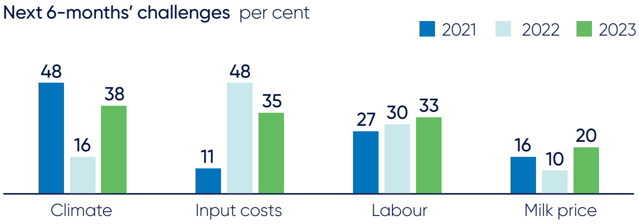
A quarter of Murray Dairy farms are currently expanding. Compared to a year ago, significantly fewer are winding down and/or planning to exit the industry.

Weather conditions, labour and the cost of inputs are of greatest concern in this region for the six months ahead.

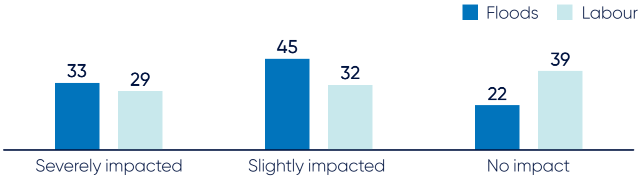
Profitability and investment

82%	Expect profit 2022/23	**92%**	Plan to invest 2023–25
55%	Profit higher than 5-year average	**35%**	Plan minor investment
33%	Profit about same/unsure	**38%**	Plan moderate investment
12%	Profit lower than 5-year average	**19%**	Plan major investment

Next 6-months' challenges per cent

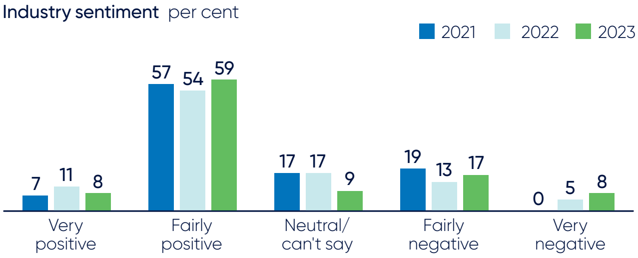


Recent impacts of challenges per cent

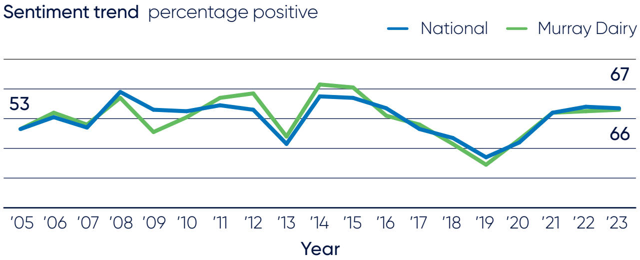


Sentiment

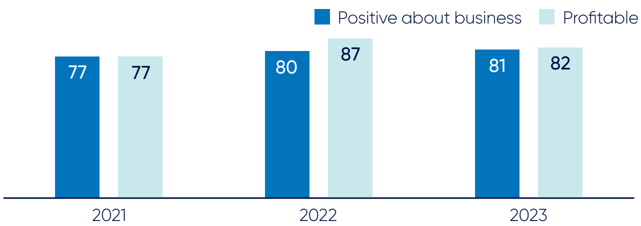
Industry sentiment per cent



Sentiment trend percentage positive

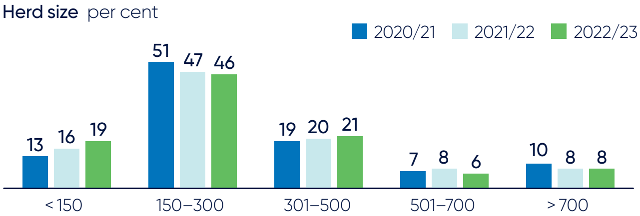


Business sentiment vs. profitability per cent

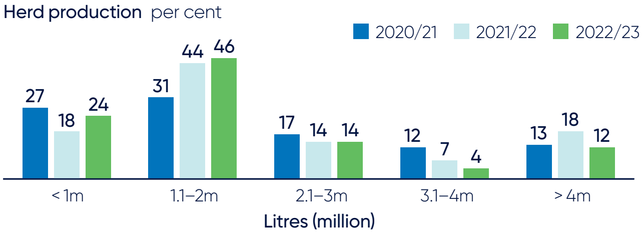


Current herd size and production

Herd size per cent

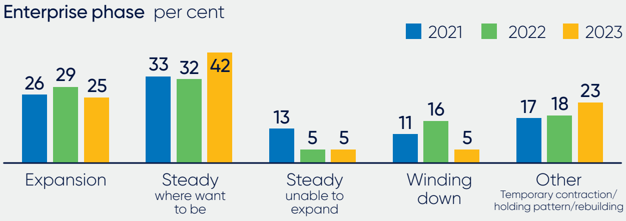


Herd production per cent



Farm profile

Enterprise phase per cent



The 'average' Murray Dairy farmer

- **16%** Changed milk factory supplied
- **23%** Intend/desire to change milk factory
- **1.7t** Average tonnes fed per cow per year
- **335** Average herd size
- **3%** May exit industry next 2 years

Subtropical Dairy Regional NDFS results at a glance

While approximately 7 in 10 respondents are positive about the future of the dairy industry, this region is the least positive about the future of their own business.

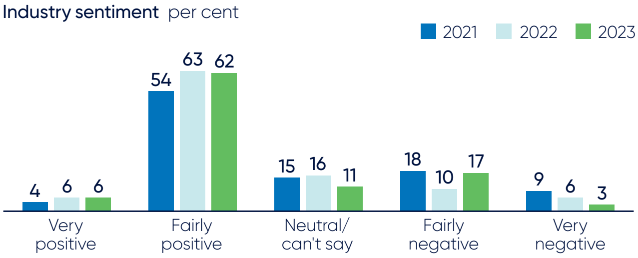
This is most likely due to flooding that has affected 8 in 10 farms in the past 12 months, including almost 6 in 10 severely (highest nationally).

This has had some impacts on regional profitability. Respondents were the least likely nationally to make an operating profit in 2021/22 and are least optimistic about this financial year.

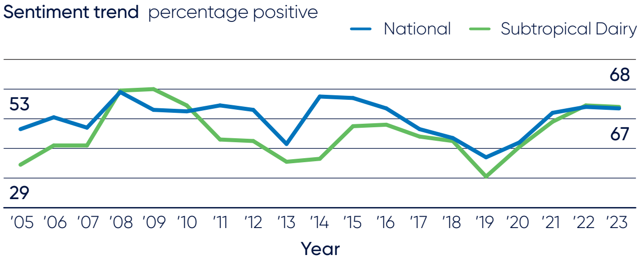
Businesses in this region are significantly more likely to be concerned about weather conditions. They are also the most likely to feel negatively about the cost of production and farmgate milk prices.

Sentiment

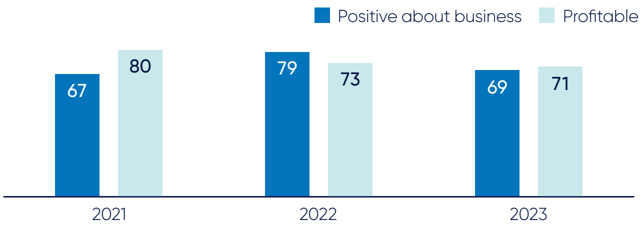
Industry sentiment per cent



Sentiment trend percentage positive



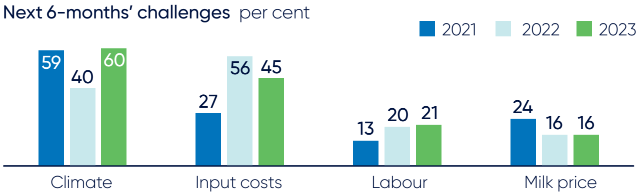
Business sentiment vs. profitability per cent



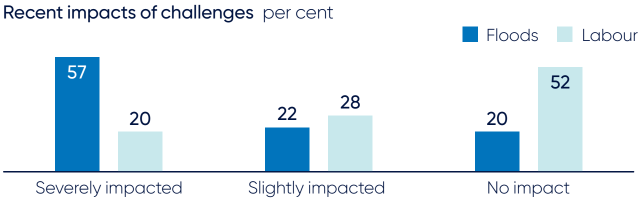
Profitability and investment

71%	Expect profit 2022/23	**87%**	Plan to invest 2023–25
49%	Profit higher than 5-year average	**34%**	Plan minor investment
31%	Profit about same/unsure	**35%**	Plan moderate investment
20%	Profit lower than 5-year average	**18%**	Plan major investment

Next 6-months' challenges per cent

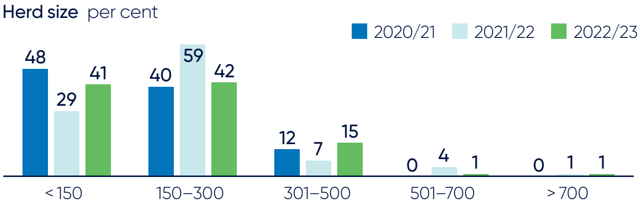


Recent impacts of challenges per cent

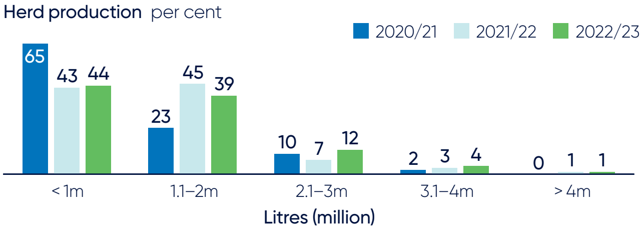


Current herd size and production

Herd size per cent

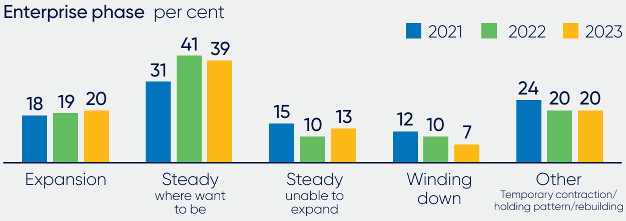


Herd production per cent



Farm profile

Enterprise phase per cent



The 'average' Subtropical Dairy farmer

9% Changed milk factory supplied

21% Intend/desire to change milk factory

1.8t Average tonnes fed per cow per year

213 Average herd size

6% May exit industry next 2 years

Western Dairy Regional NDFS results at a glance

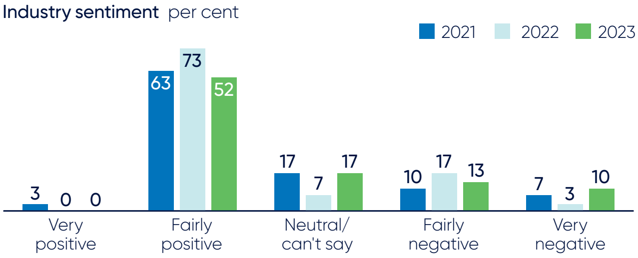
Business confidence has remained stable with 80% of respondents positive, even though fewer businesses are expecting to make an operating profit this financial year. Confidence in the future of the industry has declined and this is now the least positive region nationally.

Currently, only 1 in 10 respondents are expanding their enterprise (lowest proportion nationally) while the proportion winding down is trending upwards and the highest nationally.

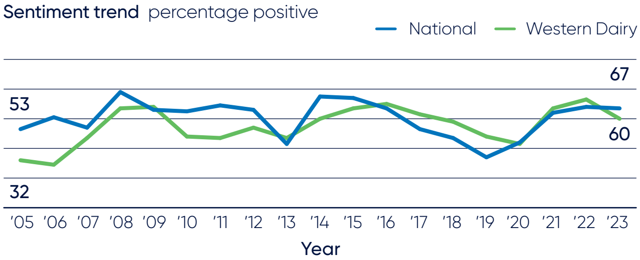
This is most likely to be a result of rising production costs, ongoing concerns with labour availability and uncertainties with milk prices.

Sentiment

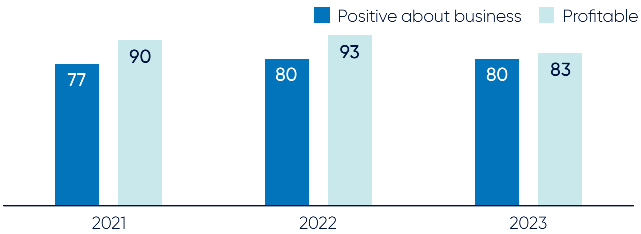
Industry sentiment per cent



Sentiment trend percentage positive



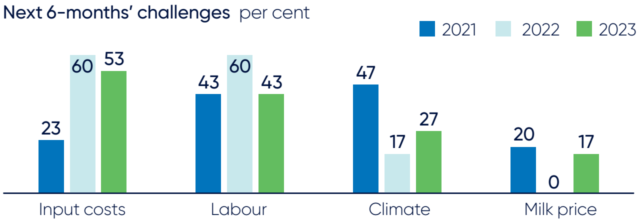
Business sentiment vs. profitability per cent



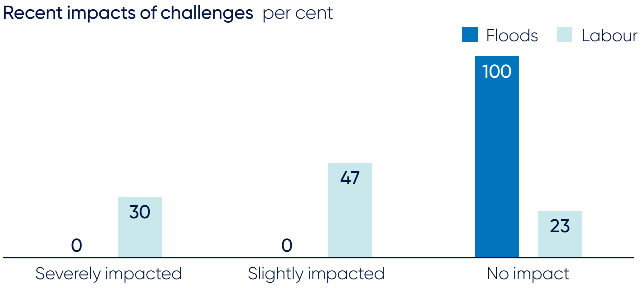
Profitability and investment

83%	Expect profit 2022/23	**73%**	Plan to invest 2023–25
57%	Profit higher than 5-year average	**33%**	Plan minor investment
33%	Profit about same/unsure	**30%**	Plan moderate investment
10%	Profit lower than 5-year average	**10%**	Plan major investment

Next 6-months' challenges per cent

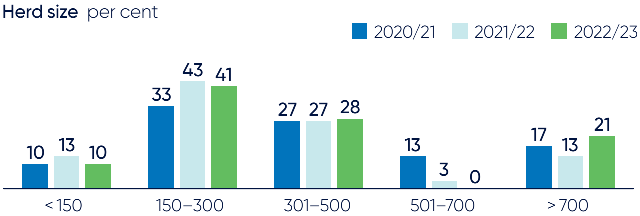


Recent impacts of challenges per cent

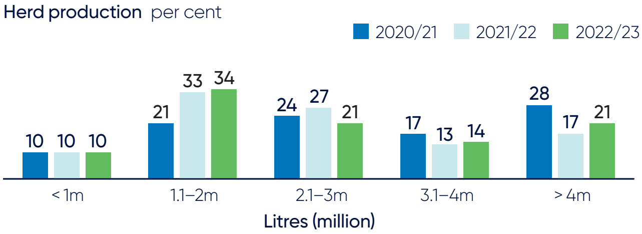


Current herd size and production

Herd size per cent

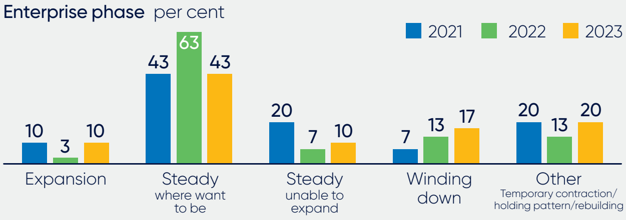


Herd production per cent



Farm profile

Enterprise phase per cent



The 'average' Western Dairy farmer

0% Changed milk factory supplied

27% Intend/desire to change milk factory

2.2t Average tonnes fed per cow per year

453 Average herd size

7% May exit industry next 2 years

WestVic Dairy Regional NDFS results at a glance

Business confidence has trended upwards since 2018, largely due to high milk prices, while industry confidence remains stable with approximately 7 in 10 positive.

Profitability has also improved with 95% of businesses making an operating profit in 2021/22 and 92% expecting to be profitable this financial year.

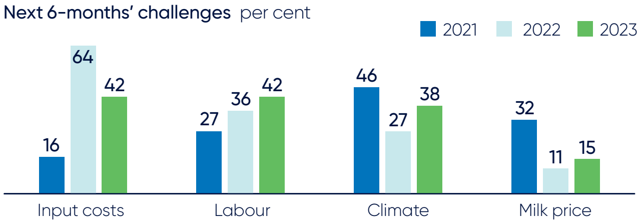
Despite strong business confidence and profits, less than 1 in 5 respondents are expanding their enterprise.

Input costs are of significantly lesser concern in this region compared to a year ago but still remain the greatest challenge for the next 6 months. Issues with labour and/or weather conditions are also anticipated.

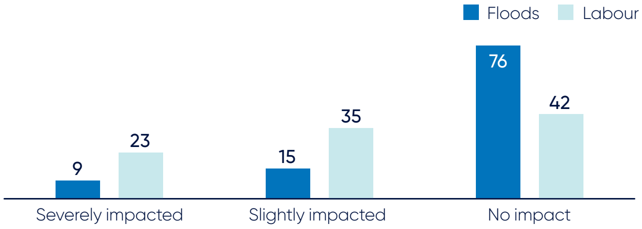
Profitability and investment

92%	Expect profit 2022/23	**92%**	Plan to invest 2023–25
63%	Profit higher than 5-year average	**32%**	Plan minor investment
31%	Profit about same/unsure	**37%**	Plan moderate investment
6%	Profit lower than 5-year average	**23%**	Plan major investment

Next 6-months' challenges per cent

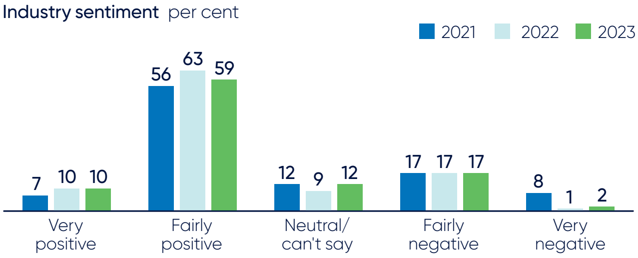


Recent impacts of challenges per cent

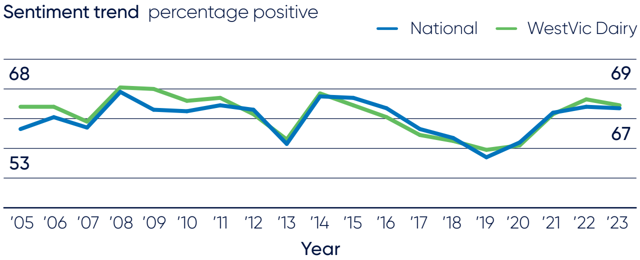


Sentiment

Industry sentiment per cent

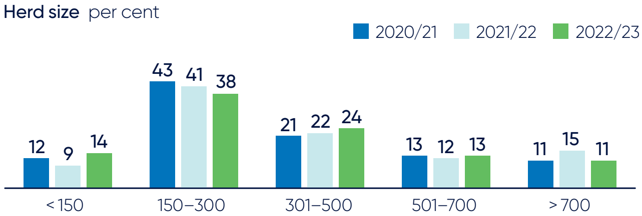


Sentiment trend percentage positive

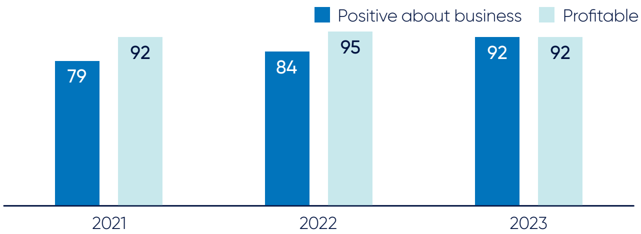


Current herd size and production

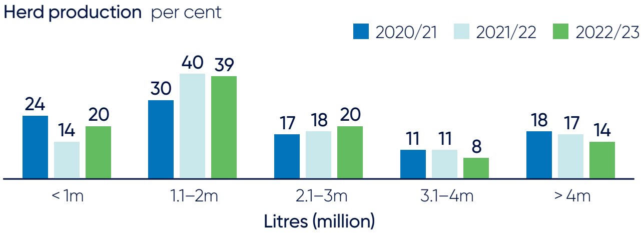
Herd size per cent



Business sentiment vs. profitability per cent

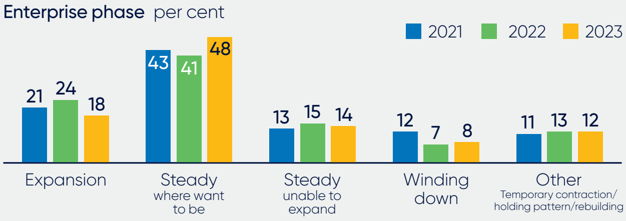


Herd production per cent



Farm profile

Enterprise phase per cent



The 'average' WestVic Dairy farmer

22% Changed milk factory supplied

18% Intend/desire to change milk factory

1.8t Average tonnes fed per cow per year

396 Average herd size

2% May exit industry next 2 years

Dairy Australia Limited ABN 60 105 227 987
Level 3, HWT Tower
40 City Road, Southbank Vic 3006 Australia
T +61 3 9694 3777 F +61 3 9694 3701
E enquiries@dairyaustralia.com.au
dairyaustralia.com.au

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