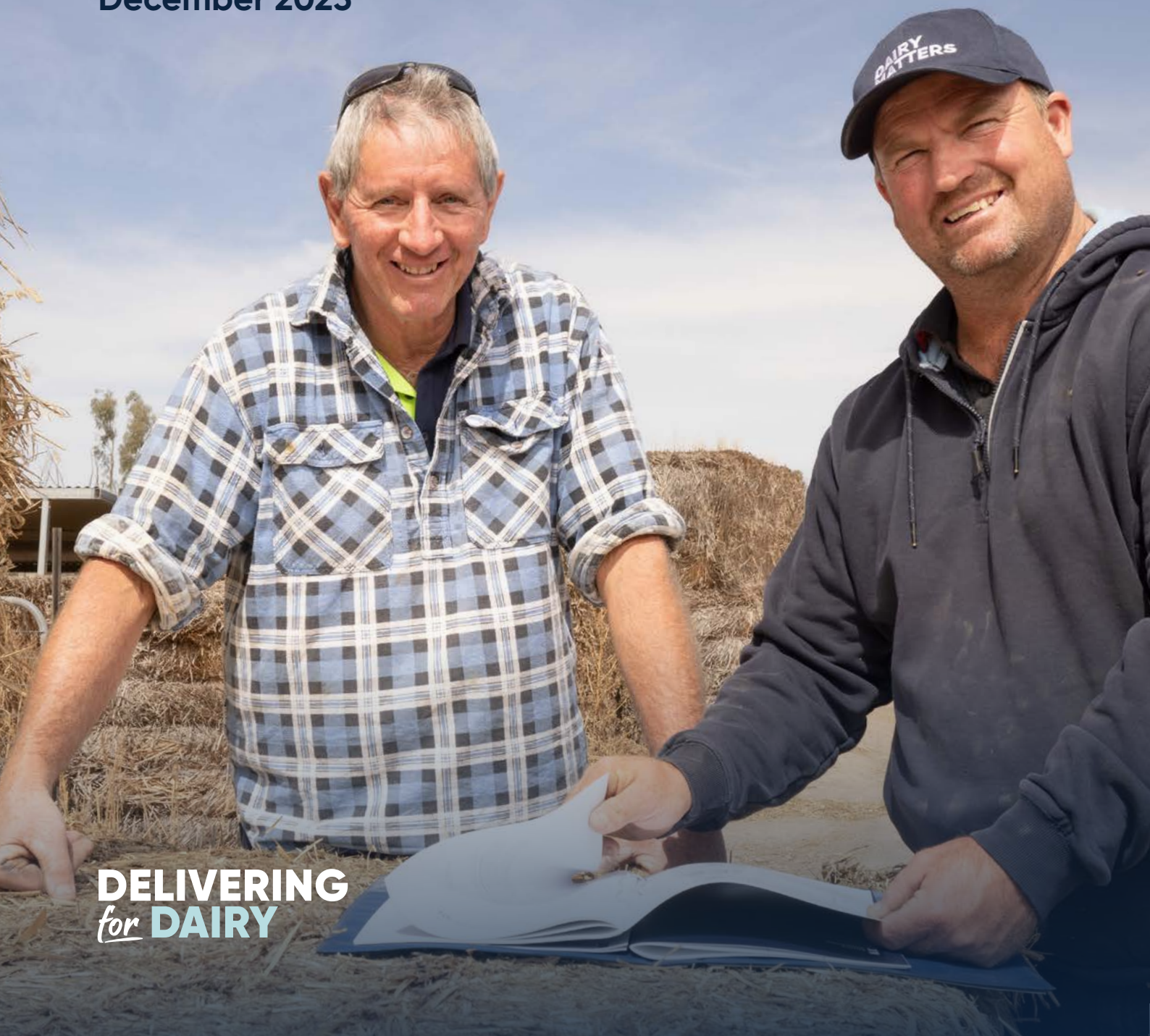
Dairy Australia

Situation and Outlook

December 2023



DELIVERING *for* DAIRY

Seven key drivers

of the Australian Dairy Industry

Global supply

Situation: Positive Outlook: Neutral

Production growth has slowed out of parts of Europe, and year-on-year production remains below last year in the United States and New Zealand (on a tonnes basis). Famers in these key exporting regions continue to adapt to high costs and relatively low farmgate milk prices, as weather challenges persist in many areas.

Australian market

Situation: Neutral Outlook: Neutral

The cost of living remains high, and consumers continue to shop conservatively. Shoppers have adapted by buying smaller volumes more frequently, with many still turning to private label products and those on promotion. Dairy imports into Australia remain high, pressuring Australian made product.

Global demand

Situation: Negative Outlook: Neutral

Demand for dairy globally remains quiet, with inflation and cost-of-living pressures continuing to drive moderated importing behaviour. Importers more broadly continue to place small but frequent orders, and improvement in volumes imported into China is not expected until later in the 2023/24 season.

Inputs

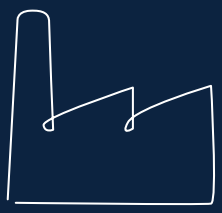
Situation: Neutral Outlook: Negative

Many Australian dairy farmers made record profits during the 2022/23 season. However, while farmgate milk prices remain high, input costs continue to squeeze margins. Grain prices are tipped to push down over harvest, but yields are likely to keep pressure on prices over the season. There are reports of high-quality hay being produced across southern Australia alongside strong demand for supplementary feed in northern regions. Indicative fertiliser prices have steadied in recent months, but temporary water prices have increased significantly since July, with expectations of the current El Nino event persisting through to autumn.

Global economy

Situation: Negative Outlook: Negative

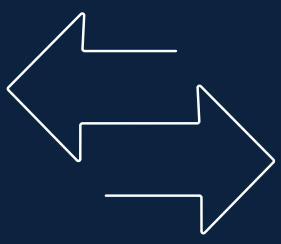
High inflation continues to influence monetary policies, especially in advanced economies. However, recent forecasts suggest a steady decline through to 2025. Policy tightening has started to bite on consumer spending, and commodity prices have fallen in many sectors. As such, over the next two years, global economic growth is tipped to be well below the historical average.



Australian production

Situation: Positive Outlook: Positive

There has been some moderate growth in milk production over the spring months of the 2023/24 season, and while some areas have started to dry out, others have been able to retain moisture and resources built up over previous seasons. As such, Dairy Australia maintains its steady forecast for 2023/24 milk production.



Exchange rates

Situation: Positive Outlook: Neutral

Softer than expected inflation across the United States in October suggested interest rates might be near their peak for the world's largest economy. As such, the Australian dollar is likely to strengthen in response, especially as signs of economic recovery develop in China.

Positive Neutral Negative

Executive summary

Record profitability last season, high farmgate milk prices this season and strong retail revenues are delivering benefits for the industry.

Emerging risks are starting to weigh heavily on the outlook, including high production costs, Australia's price competitiveness in dairy markets and economic constraints on consumers. Such challenges will be a focus over the rest of the season, in anticipation of Australian and global markets moving towards equilibrium.

Australian dairy farmers in several regions made record profits during the 2022/23 season, strengthening progress towards Dairy Australia's target of at least half of farming businesses achieving $1.50/kg MS EBIT (earnings before interest and tax) over a five-year average. Data published as part of the Dairy Farm Monitor Project (DFMP), confirmed broad-based cost pressures on farms, with substantial rises in total herd and shed, feed and overhead costs, alongside high interest rates on borrowings. Supplementary feed was brought in at high rates to combat last season's significant weather challenges and many farmers reported increased labour costs in efforts to not only attract but retain employees.

This season, the cost of producing milk remains high. Australia's grain harvest is progressing rapidly amidst expectations it will be complete in most regions by Christmas. With new season grain flowing in, prices are expected to drop, but yields in many areas will keep pressure on values, especially with the significant improvement in quality this harvest. Large volumes of fodder continue to move north into drier regions across Queensland and New South Wales, as retained soil moisture and timely rainfall in southern areas helps support feed production. Nonetheless, temporary water prices in these regions have been increasing and are likely to keep climbing as water availability tightens. Recent developments relating to the Murray Darling Basin Plan have also raised the prospect of reduced water availability for dairy in the longer term.

Geopolitical tensions continue to impact Australian input prices. Both grain and fertiliser markets are still influenced by the conflict in Ukraine, although increased fertiliser supply has seen global indicative prices drop between 20 and 40 per cent below October 2022. Additionally, the conflict between Israel and Hamas in the Gaza Strip has had minor impacts on oil prices, and the risk of surrounding countries getting involved in a broader regional conflict remains significant.

The impacts of El Niño-led drier conditions may not be as severe on milk production at the national level as past events. While several northern regions have already dried out and farmers in many regions are at risk of fodder constraints, some moisture has been retained in areas across Southern Australia. Weather conditions are vastly different to this time last year, and it shows through the moderate production growth recorded from most regions in every month of this season. Farm exits and labour challenges continue to weigh on total flows, but cow culling has notably reduced; in October, the number of head passing through saleyards declined 23 per cent on a year-to-date basis. Live heifer exports also remain below last year, down 26 per cent in the 12 months to September. As such, Dairy Australia maintains its steady forecast for 2023/24 milk production.

Dairy export commodity prices have seen some recovery in recent months. Most of this has been led by a contraction in exportable product globally. Local demand across both Europe and the United States (US) has increased in the lead up to the end of year holidays, diverting tighter milk supplies to respective domestic markets. Additionally, lower farmgate milk prices in all key exporting regions (apart from Australia) have weighed on milk flows. The US national herd has declined as a result (-0.4 per cent from October 2022), with a similar trend occurring in the Netherlands, where emission policies are taking a toll. Production growth rates across Europe have slowed on average, as milk flows declined in the US (-0.5 per cent) and New Zealand (-0.3 per cent) from October last year.

Global demand, however, remains quiet and will likely limit significant export price recovery.

Despite low farmgate milk prices and culling in China, local milk production is still higher on a year-to-date basis. Domestic stockpiles reportedly remain robust and continue to temper the appetite of importers. The uncertainty around market direction globally has also left buyers cautious; many are placing small but frequent orders. Purchasing activity from buyers across Southeast Asia and the Middle East continues to track steadily, but inflation remains a key hinderance.

The competitiveness of Australian dairy products continues to be challenged, not just globally but domestically too. Australia is becoming a much more prominent dairy importer, shipping in the largest volume of overseas dairy in a single season during 2022/23. With Australian farmgate prices keeping local product well above international levels, imported dairy has proven increasingly attractive to businesses and consumers looking to limit cost pressure. In 1999/2000, imported products accounted for 11 per cent of Australia's dairy consumption, whereas last season, 27 per cent of dairy consumed was from overseas.

Higher menu and shelf prices have led to substantial expenditure through the foodservice and retail sectors. As calculated by Dairy Australia's foodservice index, in the 12 months to September turnover has grown 16.1 per cent and 6.9 per cent over in the foodservice and retail industries respectively.

Total volumes sold in most key dairy categories, however, continue to fall; Australian households are shopping more frequently but buying less product in each shop. Many are also changing what pack sizes they purchase as another cost saving tactic, to minimise food waste[†].

Strong farmer profitability defined last season and despite high costs, better weather and another season of above average prices bode well for farmers this year. Growing pressure from imports, however, is a sign that deviation from global markets is a temporary phenomenon.

[†] NielsenIQ Homescan based on a continuous panel of 10,000 households; excludes non-private dwellings & businesses, non-permanently occupied households & out-of-home/impulse purchasing. Dairy Australia calculation based in part on data reported by NIQ through its Homescan Service for the Dairy category for the 52 weeks ending 05 November 2023, for the Total Australia market, according to the NIQ standard product hierarchy. Copyright © 2023, Nielsen Consumer LLC.

Dairy in a retail setting continues to see significant total value growth, ranging between 9 to 14 per cent depending on the category.

Milk production forecast

Australia's milk production increased 2 per cent in October, compared with the same month in 2022. For the season to date, volumes have grown just under 1 per cent, representing a modest recovery after the extended wet conditions and flooding of last spring.

Dairy Australia's initial forecast for the 2023/24 season anticipated such a recovery, but also a tighter second half as drier than average conditions and continuing cost pressures muted growth.

Most dairy regions have received below average rainfall since June, but for many, rainfall has been well-timed and effective for supporting pasture growth and homegrown fodder production. Together with good irrigation water availability, these factors suggest that later season impacts may not be as severe as initially envisaged. Workforce challenges have eased in some areas but remain acute in others, and cost pressures continue to dampen profitability which is nonetheless healthy amidst high farmgate milk prices.

With this in mind, our forecast remains at 8,129 million litres (steady relative to 2022/23) and will be revisited when conditions through the season shoulder become clearer.

Dairy Farm Monitor Project

For many participants in the Dairy Farm Monitor Project (DFMP), the 2022/23 season was characterised by balancing high farmgate milk prices against significant seasonal challenges and increased costs on-farm.

Almost every dairying region experienced the impact of flooding at some point in the season, leading to an increased reliance and cost of purchased fodder for many farmers. As a result, there were significant increases in total feed, herd and shed costs as well as overhead costs. Despite this, profits were recorded at an all-time high in some regions, strengthening progress towards Dairy Australia's target of at least half of all farming businesses achieving $1.50/kg MS EBIT (earnings before interest and tax) over a five-year average. Average profitability, both return on total assets and EBIT were particularly high in Tasmania, South Australia and Victoria.

The cost of producing milk can differ significantly across the country, influenced by the type of farming systems. Farms which rely more heavily on supplementary feed and/or irrigation water often have higher total farm costs, compared to others. Historical data has shown Queensland and New South Wales have higher costs of production on average, compared to southern states. In 2022/23, Tasmania recorded the highest average EBIT and return on total assets, as well as the lowest cost of production. While farmers in this state experienced the same input cost pressures as those on the mainland, weather conditions were more favourable in comparison. Dairy farmers in the northern regions of Australia faced significant climate challenges, and as such, the average total cost of production in Queensland and New South Wales were 44 per cent and 39 per cent above Tasmania, respectively.

Table 1 Key metrics from 2022/23 Dairy Farm Monitor Project by state

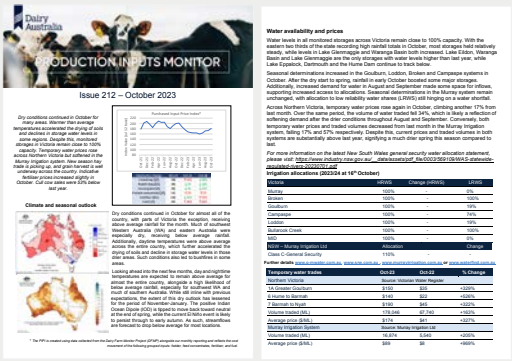
	Victoria	Tasmania (p)	South Australia (p)	New South Wales	Queensland (p)	Western Australia (p)
Average return on total assets (%)	7.0	10.0	7.4	6.0	5.0	5.6
Average EBIT* ($/kg MS)	2.87	3.67	3.08	2.78	2.53	2.65
Average EBIT* (total $/farm)	616,995	1,602,352	1,180,470	691,162	400,396	817,627
Milk income ($/kg MS)	9.77	9.95	9.84	11.43	11.78	9.30
Cost of production (incl. inventory changes) ($/kg MS)	8.03	7.02	7.94	9.73	10.11	8.53

**Based off gross farm income*
(p) = provisional data
Source: Dairy Farm Monitor Project 2022/23

To access all state DFMP reports, please go to **dairyaustralia.com.au/dfmp**. Measure and compare your farm business performance to state and top performer standards in the DairyBase online platform. Access the tool **here**.

Farm inputs reports and business tools

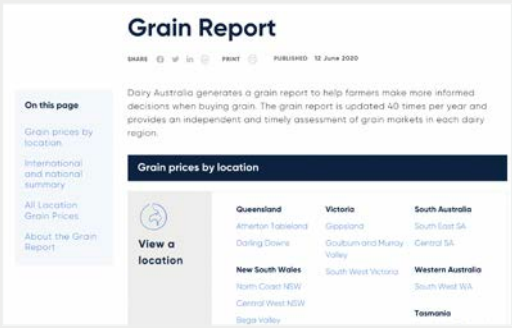
Australian dairy farmers are no stranger to operating in hot and dry seasons, some of which have been brought by El Niño events. While past wet seasons have helped the transition into such weather conditions, input costs remain high. Dairy Australia has a variety of tools and resources available to help inform decision making and manage the pressures that come along with navigating dry conditions on-farm.



Production inputs monitor

A monthly report that provides updates on key farm inputs such as the climate and seasonal outlook, water availability, temporary water for irrigation, hay and grain, fertiliser, and cull cows.

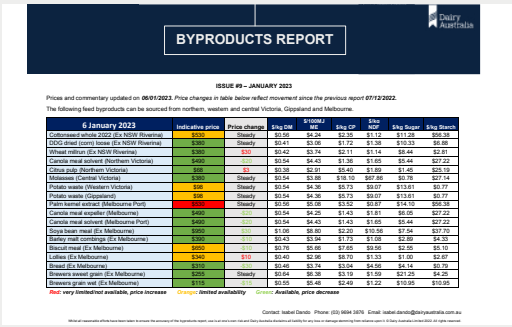
You can access the report and subscribe **here**.



Hay and grain report

Released weekly, the hay and grain reports outline indicative prices for several varieties in each of the 12 dairying regions across Australia. Commentary includes what factors are influencing prices on a national and regional level.

You can access the reports and subscribe **here**.



Byproducts report

Published monthly, the byproducts report captures the feed byproducts market across various dairying regions, focusing on Victoria and southern New South Wales.

You can access the report and subscribe **here**.

Our farm, our plan (OFOP) and the farm business snapshot

OFOP is designed to help dairy farmers set long term goals, improve business performance, and manage risk. The simple review and planning process with group workshops and one-on-one support for farmers, gets your ideas down on paper and into action. The Farm Business Snapshot provides an analysis of the historical performance of a dairy farm business, helping users better understand their production costs and overall profitability. Learn more about **OFOP** and the **Farm Business Snapshot** on the Dairy Australian website.

Dairy imports: invasive or inconsequential?

Over the last 30 years, Australia's imports of dairy have grown 536 per cent in volume terms.

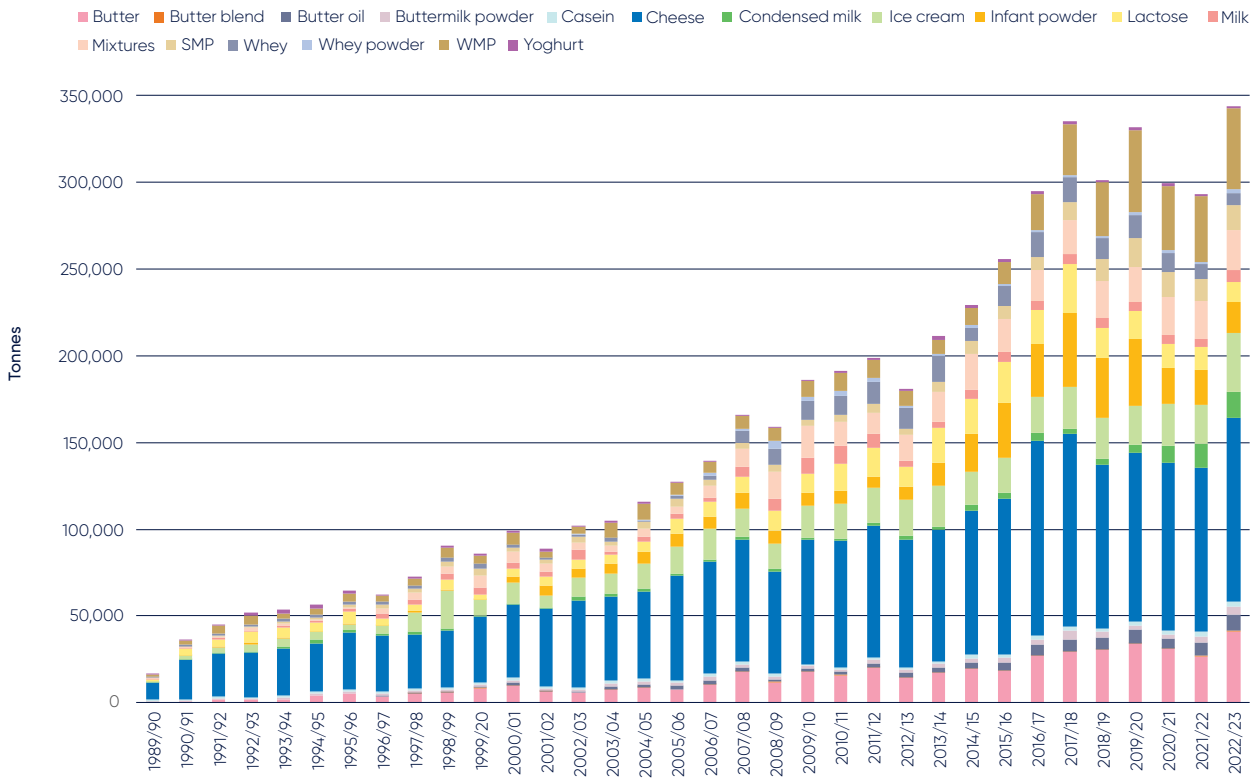
Although overseas dairy products have long had a presence in the Australian market, as the population grows, and consumption trends evolve, the nature and scale of imports has changed dramatically.

Before the 2000's, cheese accounted for over half of all imported dairy (by volume), with tonnages rising even through the peak growth years for Australian milk production in the 1990s. These days, the volume is much higher but the category represents closer to 30 per cent of imported dairy, with butter, whole milk powder (WMP), ice cream, and mixtures occupying prominent spots among the rest. Australia has generally produced more dairy than it needs, however, in the instance of casein (of which Australia is no longer a significant producer), the vast majority of requirements are imported.

The diverse nature of Australian dairy manufacturing and lack of significant category level gaps in local production has meant that imported dairy products have served a host of purposes over time. Mainly utilised in the foodservice and ingredient sectors, overseas product has traditionally been purchased for provenance marketing and/or to cut costs in low margin applications such as fast food. The former has been a major drawcard for increased offerings of imported dairy on the supermarket shelves, but the latter has been a significant consideration, especially in volume terms.

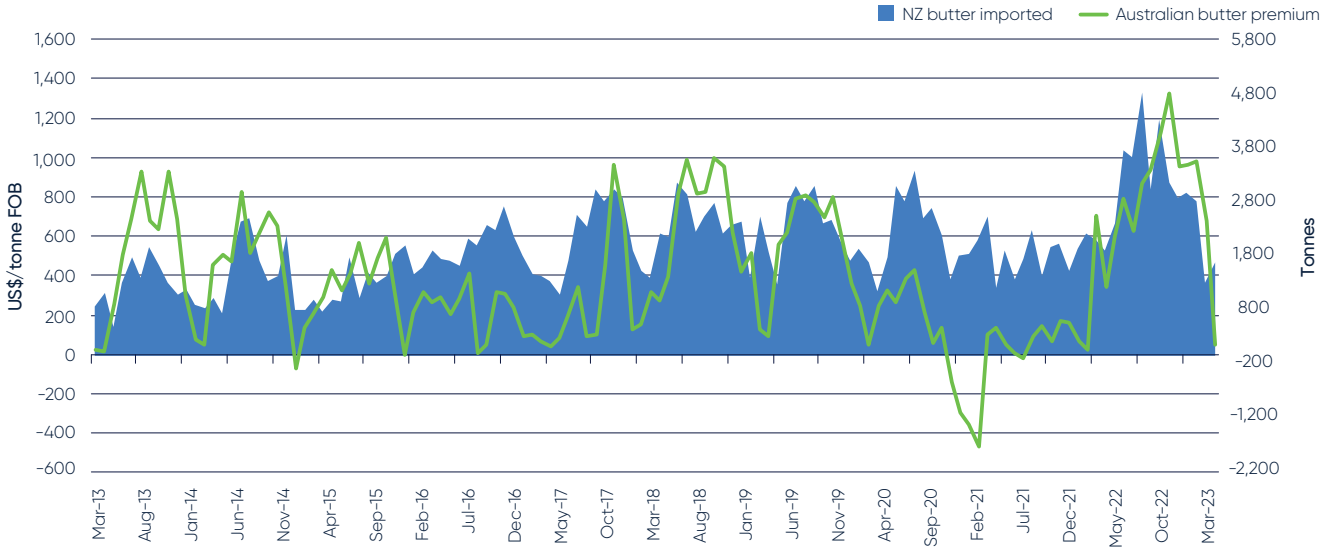
In 2022/23, close to 344 thousand tonnes of dairy was shipped into Australia, largely from New Zealand (NZ), the United States (US) and Europe – the largest volume ever imported in a single season. The price difference between Australian and NZ dairy products was at an all-time high, in conjunction with widespread inflation ramping up cost pressures for both buyers and producers. This led to a 28.8 per cent rise in imports from NZ and a 16.1 per cent increase in product from the US over 2022/23, bringing in significantly more butter, cheese and WMP.

Figure 1 Australian imports of dairy



Source: ABS

Figure 2 Australian butter premium against NZ



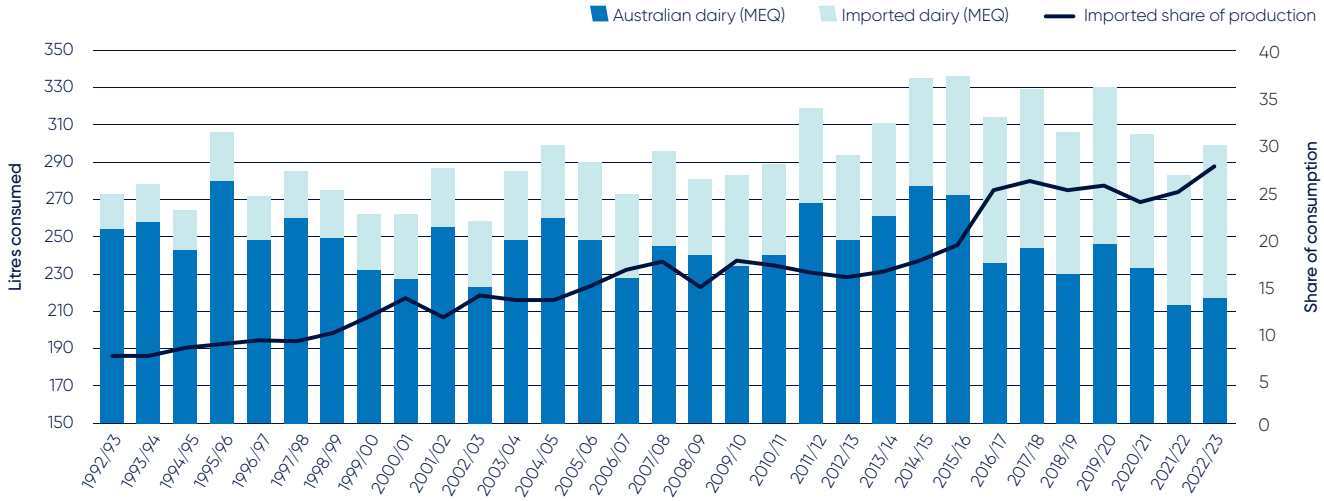
Source: Dairy Australia, GDT, ABS

Australian butter premium against NZ calculated using Dairy Australia spot price indications and GDT averages. Imported volumes are adjusted for estimated month of purchase, rather than month of arrival.

Imported product accounted for over 40 per cent of the Australian butter market by volume last season, most of which originated from NZ. Over the last decade, periods where the Australian butter export premium against NZ has risen have often been followed by increased imports of NZ butter into Australia (as shown in Figure 2).

Last season's drop in national milk supply and much less favourable returns on the export market led to Australia being a net importer of milkfats for the second time – the first being in 2019/20, when there was also a significant price difference between Australian and international product. Overall, Australia remains a net exporter of dairy (very much so in the case of protein-based products).

Figure 3 Australian per capita consumption of dairy



Source: Dairy Australia, ABS. MEQ = milk equivalents.

Nonetheless, the rise of imported dairy products has meant the Australian population has been gradually consuming more imported dairy over time. In 1999/2000, imports accounted for 11 per cent of Australian dairy consumption, whereas last season, 27 per cent of dairy consumed was from overseas. It's no secret the major Australian retailers have capitalised on cheaper imports in almost all food categories and consumers in today's market are spending their money cautiously. That being said, recent survey data has shown that products made with 100 per cent Australian ingredients, and those marketed as made in Australia, are the second and third highest rated benefits amongst consumers*.

Dairy imports have increased significantly over time and are servicing more of domestic dairy demand. But the balance of Australian made versus international dairy products in the domestic market allows Australian manufacturers to adapt to changing market conditions and put milk components to best use. The challenge more recently, however, has been in managing the difference in Australia's milk prices compared to other key exporting regions, and the attractiveness of imports to businesses and consumers.

So what?

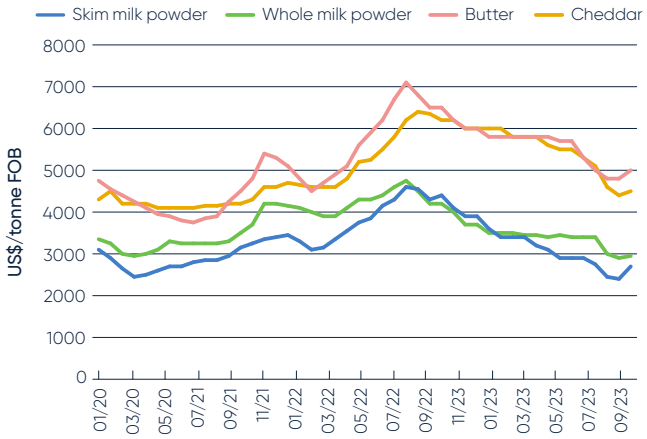
Short term supply pressures brought on by a smaller milk pool have been positive for Australian farmers in recent seasons, creating a healthy premium over world prices. Australian dairy products are ultimately still competing with international equivalents however, and the growing pressure from imports is a sign that our industry is very much part of a global market.

*Dairy Australia claim based on research conducted by NielsenIQ, [22 June 2023, 900 sample size, population details: Grocery shoppers (70% Female, 30% Male), confidence interval: 90%].

Market dashboard

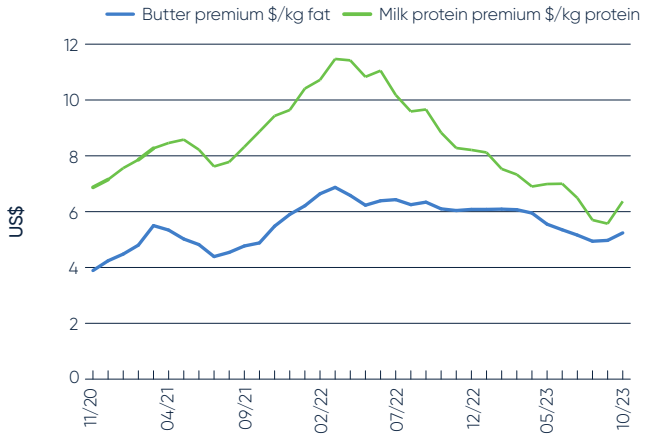
Commodity prices

Figure A1 Key dairy commodity price indicators



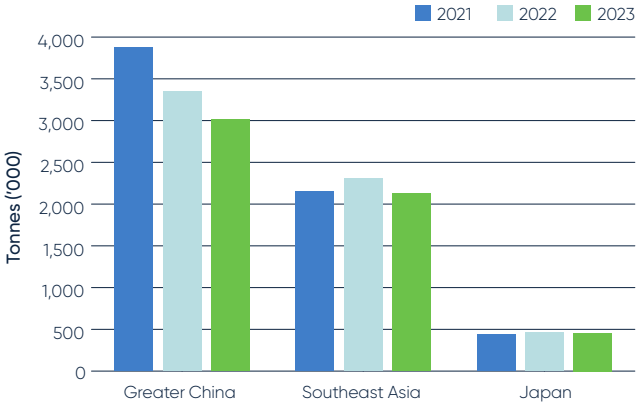
Source: Dairy Australia

Figure A2 Dairy fat and protein – pricing relative to substitutes



Source: Dairy Australia, Oil World

Figure A4 Global exports to key markets (MAT to August)



Source: Dairy Australia, TDM

Australian market

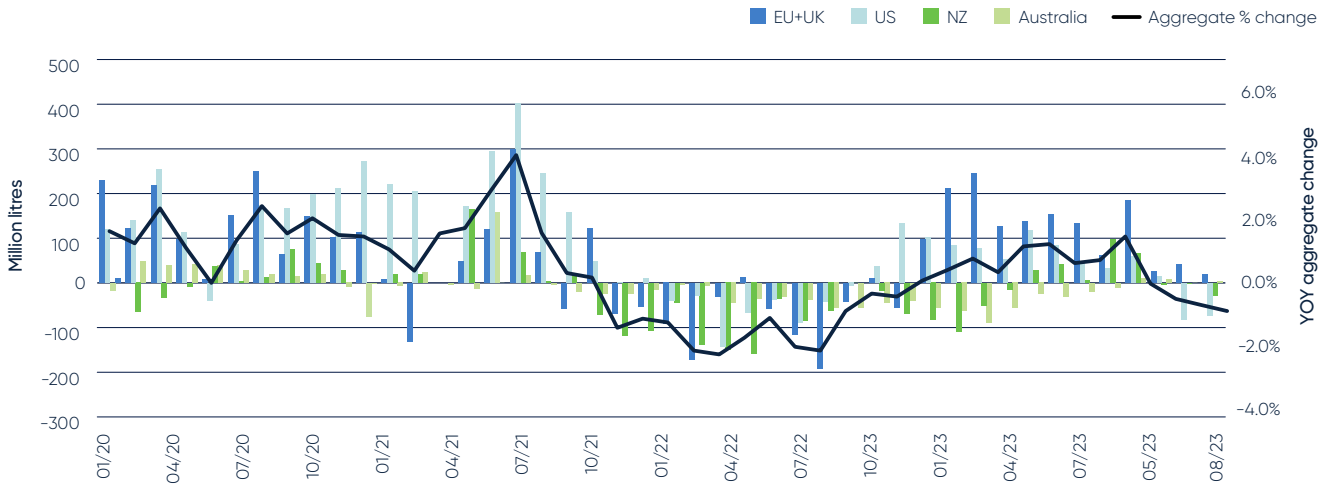
Figure A5 Australian retail sales

	Take home volume	YoY growth	Take home value $m	YoY growth
Milk *As of 05/11/23*	1,395m. L	↓ -2.2%	2,859	↑ 9.0%
Cheese *As of 18/06/23*	163kt	↓ -2.0%	2,774	↑ 10.4%
Dairy spreads *As of 05/11/23*	59kt	↓ -1.3%	780	↑ 13.8%
Yoghurts *As of 18/06/23*	187kt	↑ 2.9%	1,394	↑ 11.9%

Source: Dairy Australia calculation based in part on data reported by NIQ through its Homescan Service for the Dairy category for the 52 weeks ending 05 November 2023, for the Total Australia market, according to the NIQ standard product hierarchy. Copyright © 2023, Nielsen Consumer LLC.

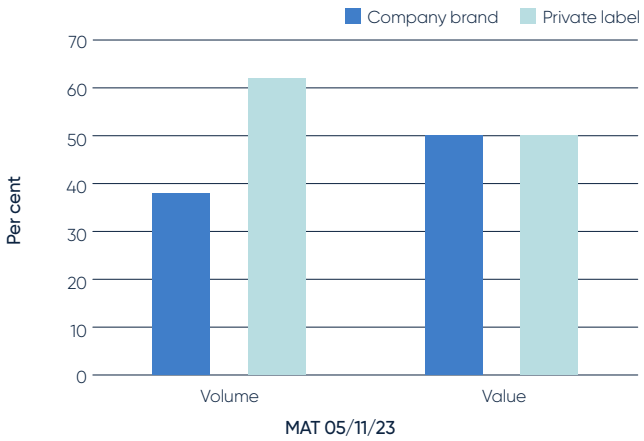
Global supply and demand

Figure A3 Milk production trends for key dairy exporters



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

Figure A6 Retail sales – private label share



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 05 Nov 2023, for the Total Australia market, according to the NielsenIQ standard hierarchy. Copyright © 2023, Nielsen Consumer LLC.

Inputs

Hay and grain

Australian dairy regions			%			%
1	Atherton Tablelands*	$410	↑ 17	$461	↑	4
2	Darling Downs	$283	↑ 11	$469	↑	18
3	North coast NSW	$319	↑ 5	$418	↑	7
4	Central west NSW	$289	↑ 44	$401	↑	1
5	Bega Valley	$300	↑ 5	$429	↑	6
6	Goulburn/Murray Valley	$298	↑ 53	$385	↓	-3
7	Gippsland*	$254	↑ 85	$414	↓	-5
8	South-west Victoria	$289	↑ 44	$389	↓	-5
9	South-east SA	$293	↑ 14	$399	↓	-6
10	Central districts SA	$298	↑ 31	$385	↓	-5
11	South-west WA	$290	↑ 13	$386	↑	11
12	North-west Tasmania	$261	↑ 1	$504	↓	-4

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 October 2023. Compared to equivalent date October 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 (AFIA), Profarmer

Fertiliser

Urea (granular Black Sea)	DAP (US Gulf)	MOP (granular Vancouver)
411 US$/t	535 US$/t	342 US$/t
↓ -35% LY	↓ -26% LY	↓ -39% LY
↓ -8% 5Y	↑ +4% 5Y	↑ +7% 5Y

Price is October 2023 average, compared to the October 2022 average (LY) and 5-year (5Y) October average.

Source: World Bank

Cows

Cull cows	
134 c/kg (lwt)	51,572 head
↓ -59% LY	↓ -18% LY
↓ -4% 5Y	↓ -22% 5Y
Dairy cattle exports	↓ -26% LY
85,239 head	↓ -11% 5Y

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

Source: NLRS, ABS

Water

Northern Victoria	Murray Irrigation System
174 $/ML	89 $/ML
↑ +327% LY	↑ +969% LY
↓ -17% 5Y	↓ -12% 5Y
2,852,045 ML	263,114 ML
↑ +1% LY	↑ +2% LY
↑ +14% 5Y	↑ +64% 5Y
Monthly average (12 months)	
61 $/ML	39 $/ML
237,670	21,926

Price of water traded is October 2023 average compared to October last year (LY) and 5-year (5Y) average. Volume of water is 12 month total, to October 2023, and compared to same period last year (LY) and last 5 year (5Y) average. Monthly average is the average price and volume over the past 12 months to October. 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/industryreports** or the byproducts report **dairyaustralia.com.au/industrystatistics/industry-reports/byproducts-report**.

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