Dairy Australia

Situation and Outlook

March 2024

DELIVERING for DAIRY

Seven key drivers

of the Australian Dairy Industry

Global supply

Situation Outlook

Milk production stalled at the end of last year across the United States and parts of Europe as winter conditions and impacts of lower farmgate milk prices took hold. In New Zealand, season-to-date production is tracking just below the previous season (on a tonnage basis), however drying conditions are likely to weigh on milk flows over the southern hemisphere autumn.

Global demand

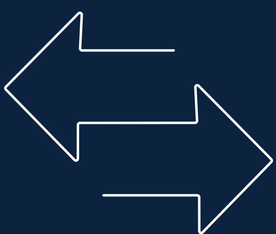
Situation Outlook

High inflation continues to dampen demand and restrict importing. Over the medium term, purchasing activity will remain relatively subdued, especially in the absence of significant economic recovery. Furthermore, China's economy continues to battle deflationary pressures and importing demand remains sluggish in the face of robust milk production and powder stockpiles.

Global economy

Situation Outlook

Tight monetary conditions (high interest rates), geopolitical shocks and high debts continue to weigh on the global economy. Inflation rates are beginning to slow however, lowering the risk of a recession. As such, global growth is forecast at 3.1 per cent in 2024.



Exchange rates

Situation Outlook

Persistent inflation has challenged expectations of interest rate cuts within the next six months, especially for the world's largest economy. As such, appreciation of the Australian dollar (A$) is less likely in the near-term.

Australian market

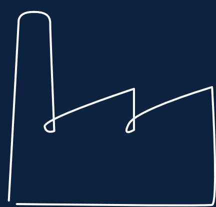
Situation Outlook

Alongside slowing inflation, retail prices are starting to steady. Inflation does however remain above target and the cost of living high. Consumers continue to employ cost-saving tactics, some of which continue to weigh on the volume sold of liquid milk. However, volume sold across all other key dairy categories are growing, supporting the total value of product sold.

Inputs

Situation Outlook

Unseasonal rainfall across southern dairying regions in December and January has improved feed availability and reduced demand for supplementary feed. In addition to the subsequent drop in feed prices in many regions, temporary water prices have also eased as a result, with additional resource available for allocation. Indicative fertiliser prices remain steady, despite global shipping challenges.



Australian production

Situation Outlook

Australian national milk production continues to grow moderately, and season-to-date production is up 2.4 per cent (to January), compared to the same period last season. This recovery been fuelled by better than expected weather conditions, particularly against lower comparable figures of last season. Dairy Australia is now forecasting national milk production to end the 2023/24 season closer to 1 per cent above last season.

Positive Neutral Negative

Executive summary

Better-than-expected weather conditions, recovering milk production, increased retail volumes and a rebound in global commodity values have bred optimism in the broader context of a persistently challenging macroeconomic environment.

Australian milk production has grown in each month of this season, fuelled by better-than-expected weather conditions, particularly against lower comparable figures of last season. Off the back of this modest recovery, Dairy Australia is now forecasting national milk production to grow slightly, ending the 2023/24 season closer to 1 per cent above last season. A significant volume of milk was lost in the wet weather woes of the 2022/23 season (relative to 2021/22), however, this season's rainfall has generally been well timed, particularly for those regions that were drying out in late Spring. Lower-than-expected demand for supplementary feed has resulted in prices dropping below last year in many regions, except in the Atherton Tablelands and southwest Western Australia, where conditions are much drier. Cheaper water has been advantageous for farms reliant on irrigation, in addition to global indicative urea prices tracking below long-term averages. Additionally, moisture built in many regions over this summer is likely to help support production leading into Autumn.

After back-to-back profitable seasons, Australian dairy farmers are well placed for the challenges ahead.

Many are feeling positive about the industry, and reduced debt has helped lower exposure to high interest rates (as highlighted by the 2023 Dairy Farm Monitor Project results), which aren't likely to fall until late 2024. However, high interest rates are adding to the challenge of attracting investment to the industry (and to existing headwinds of longer-term production, such as less farms, less cows, labour challenges and potential changes to income), particularly in the case of young or expanding farmers requiring higher levels of debt finance.

For Australian consumers, high interest rates and the cost of living remain key drivers of (or limitation to) shopping behaviour. Nonetheless, the Australian domestic market continues to perform strongly for the dairy supply chain, with the volumes sold of cheese, dairy spreads and yoghurt now returning to growth. In the 12 months to 28 January, sales of these products (in volume terms) rose 1.0 per cent, 0.4 per cent and 5.7 per cent, respectively. Shoppers are purchasing these products more frequently, as they gravitate towards increasing in-home consumption[†]. Dairy retail price rises have slowed, in line with broader trends across the sector. Whilst this provides headwinds for value growth, the increased volumes sold across key dairy categories will help support value retention.

Similar economic challenges are being faced by consumers globally and continue to limit importing activity from buyers in key markets. The total volume of dairy traded globally has dropped 2.8 per cent in the 12 months to October 2023 (in volume terms) and is close to 6 per cent below the same period in 2021. High inflation has been an existing weight on purchasing activity from buyers in key markets across Southeast Asia and the Middle East, who continue to buy product as needed, rather than accumulating inventories. Furthermore, a weakened economy in China bears down on domestic and importing demand, while local milk production and powder stockpiles remain robust.

Regardless of relatively lacklustre global demand, there has been a recent uptick in interest for dairy products from Oceania off the back of compounding shipping challenges. Drought conditions affecting water availability for the Panama Canal locks, and tensions in the Red Sea have caused vessel delays, tightened container availability and bloated freight costs. In an attempt to curtail such impacts, some dairy importers in key markets have been redirected towards southern hemisphere product, increasing demand for Australian dairy.

At the same time, there has been a supply-led recovery in commodity export prices. The United States (US) national herd reached its lowest point since June 2020 (9.357 million cows in December 2023), contributing to production falling every month of this season. Weather conditions across Europe have been challenging, in addition to managing high production costs against lower farmgate milk prices.

Volumes produced across the entirety of Europe have been declining since September, however the impacts of emissions regulations are front of mind for many farmers. Poor pasture growth conditions across New Zealand (NZ) were a hindrance for production during spring. After a hint of milk volume growth in December, NZ production declined 1.2 per cent year-on-year (on a tonnage basis) in January.

Looking ahead, a lack of substantial supply growth will likely support export prices during the second half of the season. Production growth is likely to be limited in both NZ and the US, as drier weather deteriorates pasture in the former, and a lack of replacement heifers plagues the latter. Increased milk flows may also be scarce across Europe, as farm margins remain under pressure.

There is no escaping the persistent economic challenges that lie ahead, and the 2024/25 season is likely to see increased pressure on profitability as global dynamics force an equilibrium here in Australia. However, increased export returns, strength in the Australian domestic market and growth in national milk production can all help alleviate our share of the global gloom over the rest of the 2023/24 season.

† 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 28/01/2024, for the total Australia market, according to the NielsenIQ standard product hierarchy. Copyright © 2024, Nielsen Consumer LLC.

Fragile economy to draw out demand recovery

The outlook for the global economy has remained challenging through the transition from post-pandemic uncertainty into a high inflation environment.

Rising interest rates, borrowing limitations and persistent inflation continue to amplify its fragility. While there have been some green shoots appearing of late, markets and ultimately economies remain heavily exposed to current and future risks within our increasingly volatile climate and geopolitical environment.

Over the past two years, global demand for dairy has been shaped by a feeble global economy. Accelerating inflation saw a swift response in the form of tightening of monetary policy (higher interest rates) amidst determination from many central banks to stop inflation growth in its tracks.

Both inflation and increasing interest rates greatly reduced purchasing power across both the developed and developing worlds.

Markets across Southeast Asia (SEA) are especially price sensitive, with a higher proportion of income typically going towards food and energy. Compared to 2022, when inflation began to climb across the world, the tightening of belts across major SEA markets became evident through both total and Australian exports to the region falling 7 per cent and 15 per cent respectively.

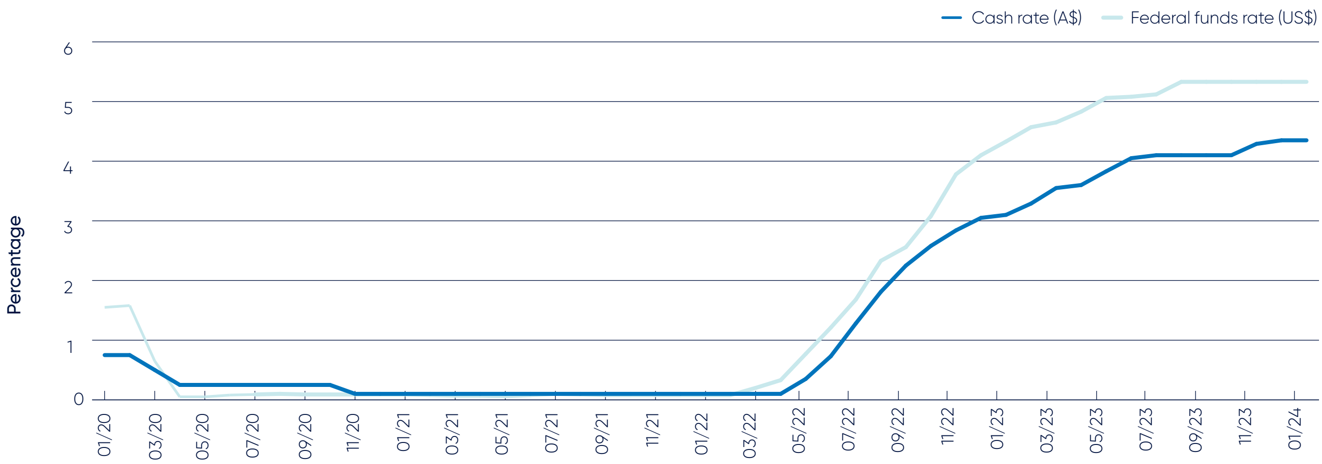
Reduced purchasing power from households quickly filtered through to importing behaviour, subsequently reducing demand for dairy. Looking ahead, market conditions are on the improve for consumers across SEA, with inflation gradually easing and foodservice demand expected to grow again over the medium-term.

What does remain a risk though, is the potential economic slowdown in China.

While demand for both local and imported dairy across China has been lacklustre, this stems from a much more structural and complex economic slowdown.

Ongoing consequences of strict COVID-19 control measures and increased regulation on private enterprise continue to emerge, creating economic headwinds on several fronts. Generally sluggish consumer demand is being amplified by a prolonged real estate crisis, uncertainty around youth employment and an ageing population. As such, the unprecedented credit growth of the last decade is tipped to slow through to 2030.

Figure 1 Historical cash rate (Australia versus United States)



Source: Reserve Bank of Australia (RBA), Federal Reserve Economic Data.

In a stark contrast to much of the developed and developing world, the world's second largest economy slipped into deflation in July last year. This has since been followed by consecutive months of the consumer price index (CPI) falling, with the fastest decline in 15 years seen in January. The risk of falling prices and persistent deflationary pressure has the potential to further undermine business and consumer confidence across China, exacerbating already weak domestic demand.

Being the world's largest importer of dairy, this has both greatly affected the global dairy market in recent years and holds potential to continue shaping market fundamentals into the future – irrespective of how other economies are recovering.

Around the world, economies are rebalancing as inflation comes under control. However, the path out is likely to be slow and unpredictable. After some recovery post-Covid, supply chains have recently been disrupted by geopolitical tensions in the Red Sea, and drought affecting water levels in the Panama Canal. While there is potential for such impacts to normalise in the coming months, the threat of further escalation adds to economic uncertainty, amidst increasing incidences of natural disasters.

While inflation rates are easing, the financial squeeze on households and businesses will continue for some time yet. As such, predictions of interest rate cuts across both the US and Australia continue to be pushed back, as both central banks aim for a 'soft landing' over the long-term.

Despite inflation now slowing across the world (and in some cases deflating), the global economy remains weak. As such, affordability is likely to continue moderating demand for dairy well into 2024. Beyond that, a rebound in food service and overall demand across SEA bodes well for importing from this region, but China's fragile economy will continue weighing on local consumption.

So what?

A fragile economy is more vulnerable to the impacts of supply chain disruptions, climate risks and geopolitical conflicts. Consequently, phenomena such as inflation are harder to control, making for a much more complex, unpredictable and drawn-out path back to normality for developed and developing economies alike. Within the global dairy market, reduced purchasing power will continue to be felt through the demand side and remain a hurdle for export commodity prices.

Consumer pain, dairy retail gain

It's been two years since the early whispers emerged about the resurgent inflation that has ultimately led to the current 'cost of living crisis'.

Over this time, Australians have been increasingly forced to adapt, making some concessions in key areas of the household budget, including food. Now that inflation in Australia has passed its peak and is slowing, the light has appeared at the end of the tunnel, but according to the Reserve Bank of Australia the financial pain is not over just yet.

The good news for consumers is in the fast-moving consumer goods (FMCG) world, the rate of price rise is slowing.

Inflationary pressures along the supply chain have been passed along to consumers, but at the risk of impacting sales. In response, Australians have been buying less, and in some instances excluding products from the trolley altogether*. With volumes sold of most foods having decreased during this time, the key foundation for value growth has been increased retail prices. These are prominent trends seen over the entire retail sector which have impacted the performance of categories with relatively high price growth, including the key dairy groups.

Table 1 Per cent of Australian households purchasing dairy

	MAT 28/01/24	MAT 29/01/2023
Milk*	96.4%	97.4%
Dairy spreads**	83.5%	85.1%
Cheese	97.2%	97.9%
Yoghurt	90.4%	91.1%

*fresh and long life, includes flavoured. **Butter and butter blends
Source: NielsenIQ[†]

As retail prices move towards a peak, the challenge will be for product categories to maintain value growth, as consumer choices continue to limit volumes sold. Dairy shelf prices have steadied but volume sold of dairy spreads, cheese and yoghurt are now rising. Australian households are gravitating towards these products more frequently, likely fuelled by the cost-saving tactic to consume more in-home. Sales of butter have increased 1 per cent in volume terms over the 12 months to 28 January and rising sales of everyday style cheeses such as the block and shredded varieties have boosted the overall cheese category. Yoghurt has continued to perform well, led by a significant jump in plain Greek yoghurt volumes[†]. The increased volumes sold of these dairy products will help maintain value growth within each respective category.

Table 2 Change in total volume and value of dairy products sold (MAT to 28/01/2024 vs 29/01/2023)

	Total volume	Total value
Milk*	**-1.6%**	**6.4%**
Fresh milk	-1.3%	6.2%
Long life milk	-3.1%	7.5%
Plant-based beverages	6.4%	5.2%
Dairy spreads**	**0.4%**	**12.0%**
Margarine	-1.3%	6.3%
Cheese	**1.0%**	**13.4%**
Everyday cheese	0.5%	14.1%
Block cheese	2.5%	17.9%
Shredded cheese	0.6%	19.1%
Sliced cheese	-3.1%	10.1%
Entertaining cheese	-3.6%	7.1%
Yoghurt	**5.7%**	**12.6%**
Greek yoghurt	6.8%	16.0%
Greek yoghurt (non-flavoured)	17.3%	28.5%

*fresh and long life, includes flavoured. **Butter and butter blends
Source: NielsenIQ[†]

The milk category remains the exception; while the total volume sold of fresh and long-life milks respectively remain lower, total value growth has dropped†. The vast majority of Australian households continue to purchase milk, however the "right-sizing" approach by many consumers has weighed on volumes sold. Historically speaking, the right-sizing tactic has been centred around environmental and sustainability concerns, aimed at limiting food and packaging waste. Now the avoidance of food waste is a much larger focus for many Australians, especially as a means to save costs. Homescan panel retail data shows buyers have been moving away from two litre varieties, towards one litre and three litre pack sizes. So much so, that three litre varieties now hold the larger share of fresh milk sales (46.6 per cent of fresh milk sold), with sales growing 3.8 per cent in the 12 months to 28 January†.

The cost-sensitive nature of consumers also continues to lead many Australian households towards private label (PL) products*. Previous Dairy Australia analysis has discussed how the milk category has the largest share of PL versus branded products compared to other key dairy groups, representing the majority of market share by volume. After the significant rise in PL milk sales over 2023, they now hold equal value market share to branded milks (refer to Figure A6)†.

Although the different milk varieties compete against each other, they also have been contending with the plant-based beverages (PBB). After initially underperforming, the shock factor of inflation appears to have worn off for many PBB consumers and the price gap between the milks and PBB has tightened.

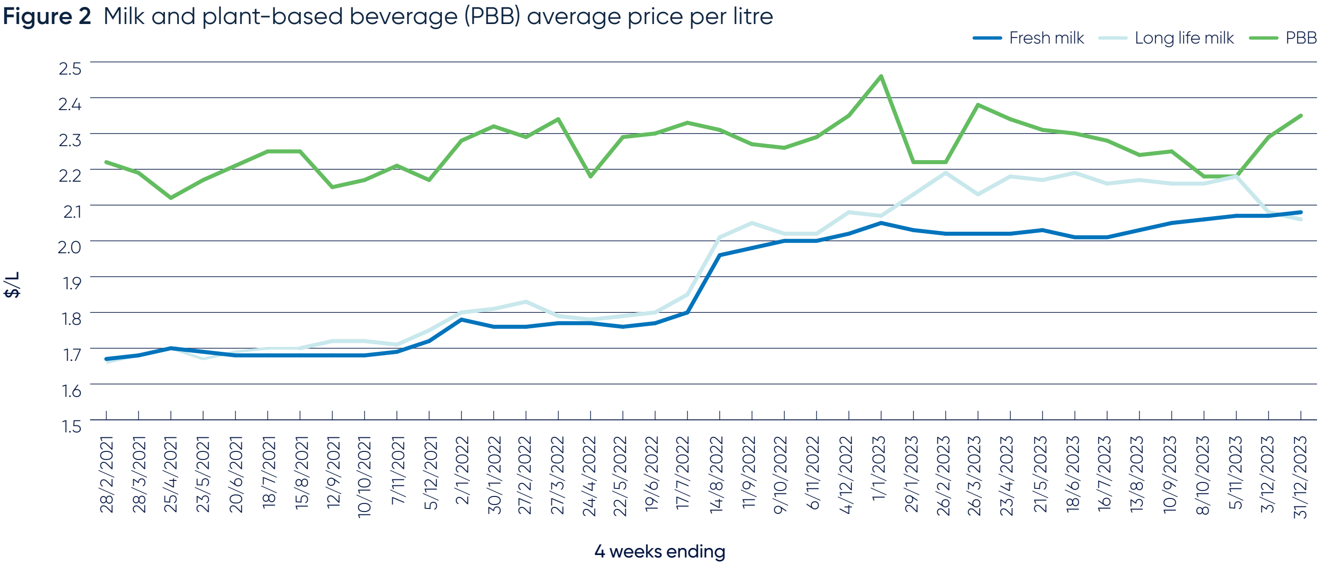
While some buyers have been moving between fresh and long-life milks, some have also swapped for PBB. In the 12 months to 28 January, the volume sold of PBB has increased 6.4 per cent, however this has been largely driven by increased quantities purchased by existing customers, especially by 'young transitionals' (households under the age of 35, with no children) or small-scale families†. These demographics (especially the former) have been economically pressured, increasing their purchasing of products on promotion and their in-home consumption.

With the cost of living and interest rates both likely to remain high for the majority of this year, many of the cost-saving tactics adopted by consumers will stick. Despite these changes, dairy is faring well. Total volumes sold of dairy across the four key categories (with the exception of yoghurt) remain below pre-inflation levels, but volume growth in some of these groups will help maintain solid value performance, especially against the backdrop of steady sticker prices.

So what?

Despite the slowdown of inflation, Australians are staring down the barrel of another year of high costs. Consumers have adopted a variety of cost-saving tactics, but dairy has managed to weather the last two years of economic challenges and the Australian domestic market continues to perform strongly for its supply chain. Unlike many other food groups, some dairy categories are now recording volume growth, as consumers purchase these products more frequently. This will help support value retention as price rises ease and smooth the transition to a new phase of the economic cycle.

Figure 2 Milk and plant-based beverage (PBB) average price per litre



Source: Dairy Australia and NielsenIQ†

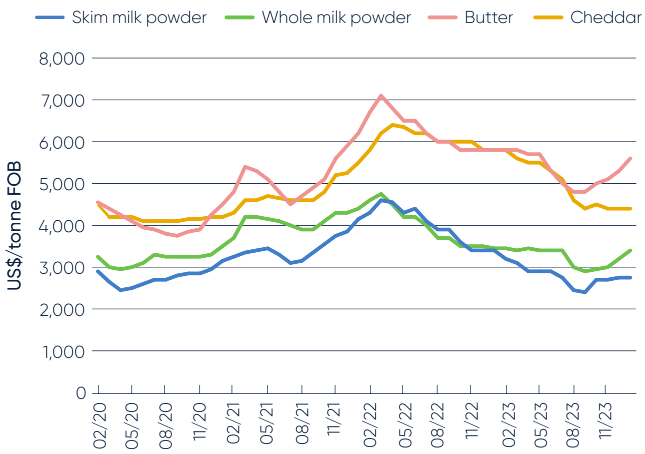
* NIQ Australian Consumer Outlook, November 2023

† 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 28/01/2024, for the total Australia market, according to the NielsenIQ standard product hierarchy. Copyright © 2024, Nielsen Consumer LLC.

Market dashboard

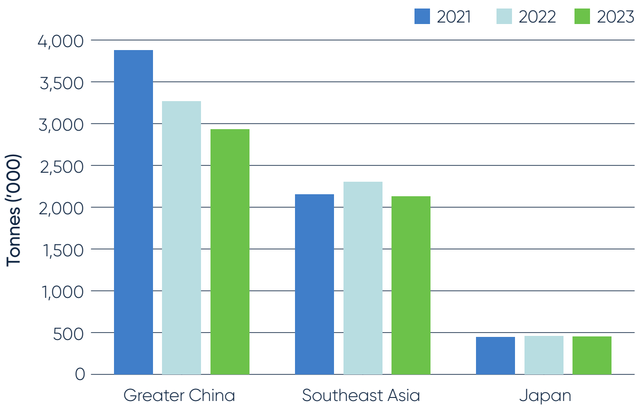
Commodity prices

Figure A1 Key dairy commodity price indicators



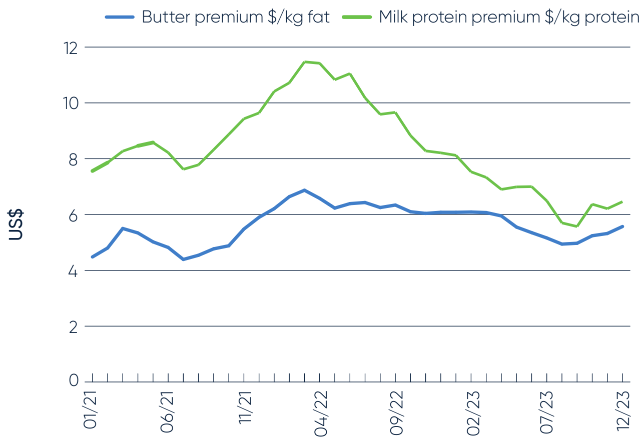
Source: Dairy Australia

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



Source: Dairy Australia, TDM

Figure A2 Dairy fat and protein – pricing relative to substitutes



Source: Dairy Australia, Oil World

Australian market

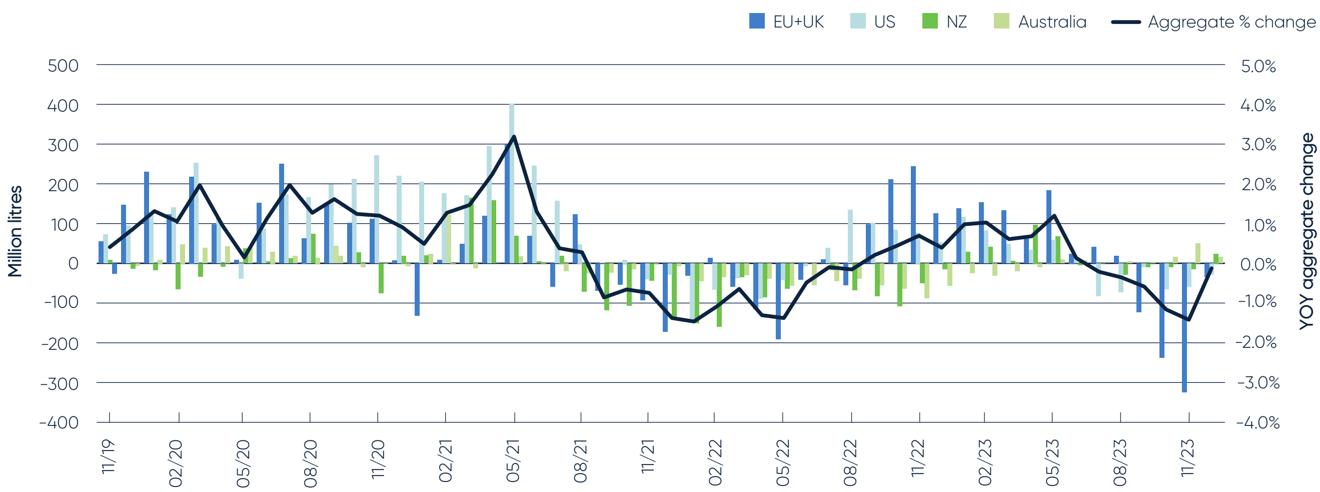
Figure A5 Australian retail sales

	Take home volume	YoY growth	Take home value $m	YoY growth
Milk *As of 28/01/24*	1,390m. L	↓ -1.6%	2,863	↑ 6.4%
Cheese *As of 28/01/24*	164kt	↑ 1.0%	2,973	↑ 13.4%
Dairy spreads *As of 28/01/24*	60kt	↑ 0.4%	793	↑ 12.0%
Yoghurts *As of 28/01/24*	188kt	↑ 5.7%	1,421	↑ 12.6%

Source: Dairy Australia calculation based in part on data reported by NielsenIQ through its Homescan Service for the fresh and long life milk categories, dairy spreads, yoghurt and cheese to 28 Jan 2024, for the Total Australia market, according to the NielsenIQ standard hierarchy. Copyright © 2024, Nielsen Consumer LLC.

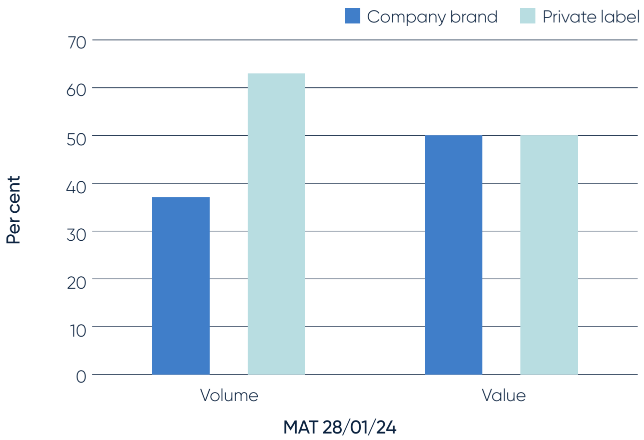
Global supply and demand

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 28 Jan 2024, for the Total Australia market, according to the NielsenIQ standard hierarchy. Copyright © 2024, Nielsen Consumer LLC.

Inputs

Hay and grain

	Australian dairy regions	Hay		%	Wheat		%
1	Atherton Tablelands'	$403	↑	15	$414	↑	2
2	Darling Downs	$284	↓	-21	$414	↑	4
3	North coast NSW	$314	↓	-19	$356	↓	-11
4	Central west NSW	$286	↑	4	$360	↓	-10
5	Bega Valley	$288	↓	-17	$374	↓	-8
6	Goulburn/Murray Valley	$303	↓	-1	$345	↓	-12
7	Gippsland'	$264	↑	1	$371	↓	-11
8	South-west Victoria	$299	↓	-2	$326	↓	-18
9	South-east SA	$295	↓	-18	$367	↓	-2
10	Central districts SA	$293	↓	-13	$351	↓	-13
11	South-west WA	$328	↑	14	$401	↑	16
12	North-west Tasmania	$265	→	0	$461	↓	-9

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

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

Prices are estimates in $/tonne at January 2024. Compared to equivalent date January 2023.
**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)
335 US$/t	596 US$/t	296 US$/t
↓ -24% LY	↓ -6% LY	↓ -47% LY
↓ -20% 5Y	↑ +14% 5Y	↓ -3% 5Y

Price is January 2024 average, compared to the January 2023 average (LY) and 5-year (5Y) January average.
Source: World Bank

Cows

Cull cows

202 c/kg (lwt)	52,127 head
↓ -15% LY	↓ -17% LY
↓ -5% 5Y	↓ -20% 5Y

Dairy cattle exports	↓ -61% LY
53,511 head	↓ -52% 5Y

Price is January 2024 average (c/kg liveweight), compared to January 2023 (LY) and 5-year (5Y) average. Number of head is last 12 months (cull cows to January 2024, dairy cattle exports to December 2023) compared to year earlier (LY) and 5-year (5Y) average.
Source: NLRS, ABS

Water

Northern Victoria	Murray Irrigation System
58 $/ML	25 $/ML
↑ +68% LY	↑ +114% LY
↓ -71% 5Y	↓ -72% 5Y
3,022,652 ML	298,253 ML
↑ +18% LY	↑ +35% LY
↓ -95% 5Y	↑ +75% 5Y
Monthly average (12 months)	
72 $/ML	41 $/ML
251,888	24,854

Price of water traded is January 2024 average compared to January last year (LY) and 5-year (5Y) average. Volume of water is 12 month total, to January 2024, 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 January. 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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