

Situation and Outlook

December 2024

Seven key drivers

of the Australian Dairy Industry



Global supply

+ Situation | Outlook

While New Zealand (NZ) milk production has tracked above last season's average spring, northern hemisphere milk flows have been limited by the spread of animal disease and weather challenges. NZ production is expected to slow over the summer months, however increased milk prices may encourage supplementary feeding. Farmgate milk prices have also risen across Europe and the United States, which may support milk flows (depending on weather conditions).



Australian market

+ Situation | Outlook

Comparatively high international prices will likely deter Australian based importers and domestic demand for dairy remains robust. In the retail sector, the volume sold of cheese, dairy spreads and yoghurt have increased, while milk holds steady. However, pressure on retail prices signals a potential shift in domestic market conditions.



Global demand

+ Situation | Outlook

The price competitiveness of Australian dairy products has improved this season, coinciding with more favourable export opportunities. Global demand has risen for New Zealand and Australian product, supporting renewed price rises. However, buyers in most key importing countries remain price sensitive and economic constraints in China are persistent. Furthermore, geopolitical and trade flow uncertainty will continue to influence global markets.



Inputs

| Situation | Outlook

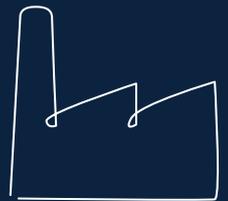
While on-farm returns were supported by strong farmgate milk prices in the 2023/24 season, operating costs remained high and drier weather conditions increased demand for supplementary feed. The dry weather conditions in several regions have contributed to rising fodder prices and water trades during this current season, while global influences have eased the pressure on grain and fertiliser values.



Global economy

- Situation - Outlook

While the world is in a state of deflation, prices remain elevated and monetary policies are being adjusted accordingly. The International Monetary Fund is suggesting global growth will remain steady (at 3.2 per cent), with decreases in some countries balanced out by increases in others. Weighing on the global economy however, is continued geopolitical conflict, supply chain disruptions and extreme weather events.



Australian production

+ Situation | Outlook

Australian milk production has continued to grow relative to last season, but drier conditions, lower incomes and longer-term challenges around labour and farm exits, may limit further increases. As such, Dairy Australia continues to forecast a slight drop in the national milk pool (relative to the previous season, to 8.3 billion litres) in 2024/25, with potential to steady on account of better-than-expected rainfall.

Exchange rates

+ Situation + Outlook

The Australian dollar (A\$) depreciated 3% to US\$0.65 in November, after the United States election results earlier in the month. Nonetheless, the A\$ is tracking relatively steady to the same time last year. If it eventuates, improvements in Chinese economic activity could place upwards pressure on the A\$, however, US policy decisions are likely to lead the A\$ lower in 2025, in addition to any interest rate cuts made by the Reserve Bank of Australia.



Executive summary

The Australian dairy industry is in many ways sitting in a vastly different position compared to last season.

On-farm profitability remained strong in the 2023/24 season. Since then, farmgate milk prices have lowered; while increasing margin pressure for dairy farming businesses, the price competitiveness of Australian dairy products has improved. This has coincided with export conditions strengthening, domestic retail sales recovering, and increased milk production finding homes in both markets.

The profitability of Australian dairy farming businesses was strong over the 2023/24 season, as shown by data published as part of the Dairy Farm Monitor Project (DFMP).

In general, operating costs remained high, while farmgate milk prices were slightly lower than the previous season in most regions. The financial performance of dairy farming businesses differed between regions, largely driven by weather variations; while conditions were relatively favourable in some, others across southern Australia began to dry. In the drier regions, feed inventories were heavily drawn down during 2023/24, contributing to the higher fodder prices seen today. Considering the flow-on impacts into 2024/25, most farming businesses are expecting lower returns, while increased interest and lease costs add further financial pressure.

As 2024/25 progresses, global influences have eased the pressure on some input markets, but others have experienced renewed price rises as a result of weather conditions here in Australia. Increased demand for supplementary feed (from all livestock industries) has led to cereal hay prices rising between 2 and 51 per cent above last year in all dairying regions. Water trades have also risen in response to drier weather, while temporary water prices remain below longer-term averages. Increased global supplies have led to lower grain values this season however, weather impacted grain and resistant grower selling has started to pressure prices. Additionally, urea prices are also tracking below last year, mostly driven by lower demand despite ongoing supply challenges.

Australian milk production has continued to grow relative to last season, but drier conditions taking hold in several regions may limit further increases. Such limitations have been evident for several months in Western Victoria, South Australia, as well as areas of Tasmania and Western Australia with parts of other regions becoming drier after lower-than-average rainfall in October. National milk production increased 1.3 per cent year-on-year (YOY) in October, tracking +1.7 per cent on a season-to-date basis. Considering the mounting weather and financial constraints this season, longer-term challenges around labour and farm exits, and modest milk production recovery during the 2023/24 season, further growth may be muted this season. As such, Dairy Australia continues to forecast a slight drop in the national milk pool (relative to the previous season, to 8.3 billion litres) in 2024/25, with potential to steady on account of better-than-expected rainfall.

The price competitiveness of Australian dairy products has improved, coinciding with more favourable export opportunities.

The availability of Australian exportable product tightened this season, as uncertainty around dairy export returns and past seasons of import pressure readjusted the focus of many Australian manufacturers towards higher specification product, and the domestic market. However, shipping challenges along key trade routes have steadily increased demand towards Oceania dairy, in addition to tighter milk supplies and elevated export prices in the northern hemisphere. Additional enquiries have been surfacing from buyers across Southeast Asia and the Middle East, and purchasing activity from Chinese importers has increased over recent months as local milk production slows and product stockpiles lessen. Accordingly, prices of product sold on the GlobalDairyTrade platform and in Australia have risen, particularly for butter, where indicative prices are sitting just shy of 2022 peaks. Increased dairy commodity prices, and lower milk production in the northern hemisphere, have boosted farmgate milk prices in other key exporting regions, with prices quoted in the European Union, United States and New Zealand above Australia.

Nonetheless, the export market maintains its underlying challenges; buyers in most key importing countries remain price sensitive and economic constraints in China are persistent. Furthermore, developing geopolitical conflicts and trade dynamics (such as those proposed by the incoming US administration) will continue to influence global markets.

Local market conditions have also improved for Australian product; comparatively high international prices will likely deter Australian based importers and domestic demand for dairy remains robust. In the retail sector, the volume sold of cheese, dairy spreads and yoghurt have increased 2.1 per cent, 3.2 per cent and 7.0 per cent, respectively, while milk holds steady†. As the retailers begin to re-target shelf prices of key private label dairy products, and the consumer watchdog closely monitors inflation in the grocery sector, value growth in the key dairy categories may soon slow. Recently released monthly consumer price index data from the Australian Bureau of Statistics indicates prices are easing (-1.8% YOY in October) in the dairy and related products category – the only food group included in the index tracking below last year.

The Australian dairy industry has been well placed to capitalise on export opportunities thus far this season, while focusing on regaining domestic market share.

However, dairy markets are not devoid of challenges; geopolitical and trade flow uncertainty looms overhead, while pressure on retail prices signal a potential shift in domestic market conditions. Although aiding Australia's realignment to global markets, lower farmgate prices will create financial pressure for some farming businesses this season. For many, hopes will be pinned on Mother Nature providing relief from the dry conditions.

† 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 periods ending 16/06/2024 and 03/11/2024, for the total Australia market, according to the NielsenIQ standard product hierarchy. Copyright © 2024, Nielsen Consumer LLC.





Dairy Farm Monitor Project

Dairy farm business profitability may have eased from the record highs of the 2022/23 season, but strong farmgate milk prices continued to support on-farm returns during 2023/24.

In most regions, prices paid to farmers were slightly lower than the previous season, due to strong competition for milk and the carry-over of multiyear contracts from 2022/23. Additionally, operating costs remained high, with differences in financial performance between regions stemming from the variety in weather conditions.

While the El Niño event was weaker than anticipated, most dairying regions transitioned towards drier conditions during the 2023/24 season (except for large parts of Queensland and New South Wales coast which faced prolonged wet conditions). Below average rainfall across southern Australia impacted operating conditions for farming businesses in Western Australia, South Australia, South-west Victoria and Tasmania. A challenging spring in these regions impeded the ability to conserve fodder, increasing utilisation of homegrown (stored and grazed) and purchased feed over the remainder of the season. As such, feed costs rose for businesses in these regions, while dropping in others (namely Gippsland and Northern Victoria). More favourable weather conditions in these parts of Victoria also led to a heavier reliance on homegrown feed, in efforts to minimise operating costs. Furthermore, those farming businesses able to irrigate cushioned the impact of lower rainfall with access to below average water prices.

Data published as part of the Dairy Farm Monitor Project also illustrated increased borrowings for many farming businesses, the majority of which was utilised for large scale investments such as buying land. However, the combination of larger borrowings and increased interest rates has resulted in some of the highest interest and lease costs in the project's 18 years. The challenge for many farming businesses over the 2024/25 season will be managing lower incomes against persistent cost pressures and servicing higher levels of debt.

The Dairy Farm Monitor Project (DFMP) and the Queensland Dairy Accounting Scheme (QDAS) records financial and production data of participant dairy farms in all major dairying regions across Australia. You can access the state level DFMP and QDAS results at dairyaustralia.com.au, as made available. Data collected is housed in DairyBase and provides high quality data to generate accurate industry benchmarks.

Milk production update

On a volume basis, the Australian milk pool has been tracking above last season, however the on-farm operating environment has changed for many businesses.

After a slow start to the 2023/24 season, the focus on rebuilding from repeat flood events, combined with comparatively favourable weather conditions in select regions spurred modest production growth from October onwards. A year later, the drier conditions that began in some regions have persisted into the 2024/25 season, with the national milk pool tracking +1.3 per cent year-on-year in October.

Weather conditions in Western Victoria, South Australia, as well as parts of Tasmania and Western Australia, remain dry. Homegrown feed stores have been heavily utilised and fodder costs have risen in all regions, adding to the financial pressure of lower incomes for many this season. Thus far, the national production picture has been mostly supported by Gippsland, where weather has been more favourable, in addition to Northern Victoria and Southern New South Wales (NSW), where temporary water prices are mostly below long-term averages.

However, after below-average rainfall in October, parts of these regions are drying as well. The Bureau of Meteorology is forecasting average to above average rainfall over all dairying regions between December to February, which may provide some relief.

While weather challenges and financial pressures will weigh on milk production this season, so too will existing longer term challenges around labour and farm exits. The new and existing challenges faced thus far, and the modest milk production growth over the second half of last season, are likely to limit further growth this season. As such, Dairy Australia maintains its forecast for the national milk pool to drop slightly over the 2024/25 season. The potential for full season volumes to flatten relative to 2023/24 hinges on better-than-expected rainfall, particularly in the regions that need it the most.

Table 1 Australian milk production

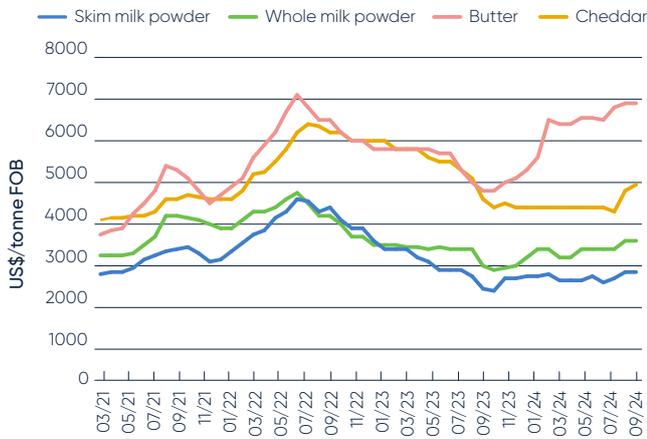
	2022/23		2023/24		2024/25	
	Million litres	YOY change %	Million litres	YOY change %	Million litres	YOY change %
Jul	570	-7.4	570	0.0	579	1.6
Aug	659	-5.8	663	0.6	682	2.9
Sep	797	-6.5	801	0.5	813	1.5
Oct	889	-6.7	906	2.0	918	1.3
Nov	819	-9.8	870	6.2		
Dec	790	-6.7	807	2.1		
Jan	691	-4.0	727	5.2		
Feb	553	-5.5	601	8.7		
Mar	580	-3.4	596	2.7		
Apr	577	-1.9	592	2.5		
May	623	1.4	645	3.5		
Jun	577	1.2	596	3.4		
TOTAL	8,127	-5.0	8,376	3.1	8,300	-0.9

Source: Dairy manufacturers and Dairy Australia

Market dashboard

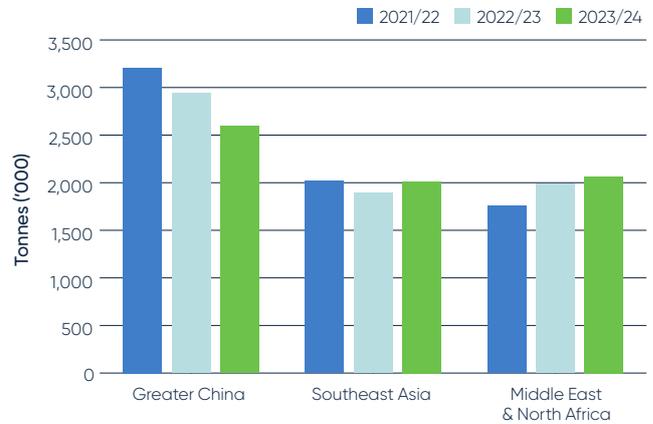
Commodity prices

Figure A1 Key dairy commodity price indicators



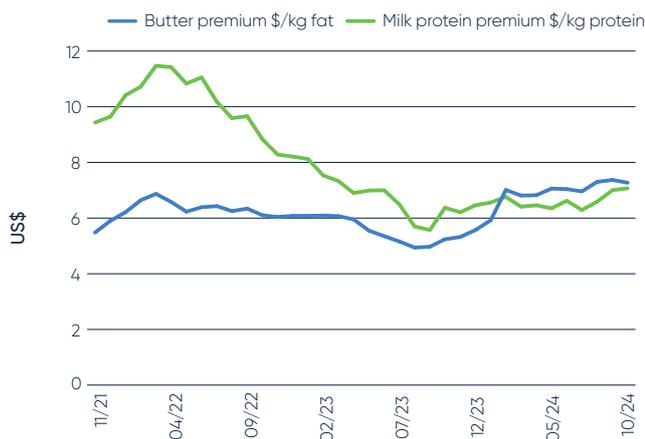
Source: Dairy Australia

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

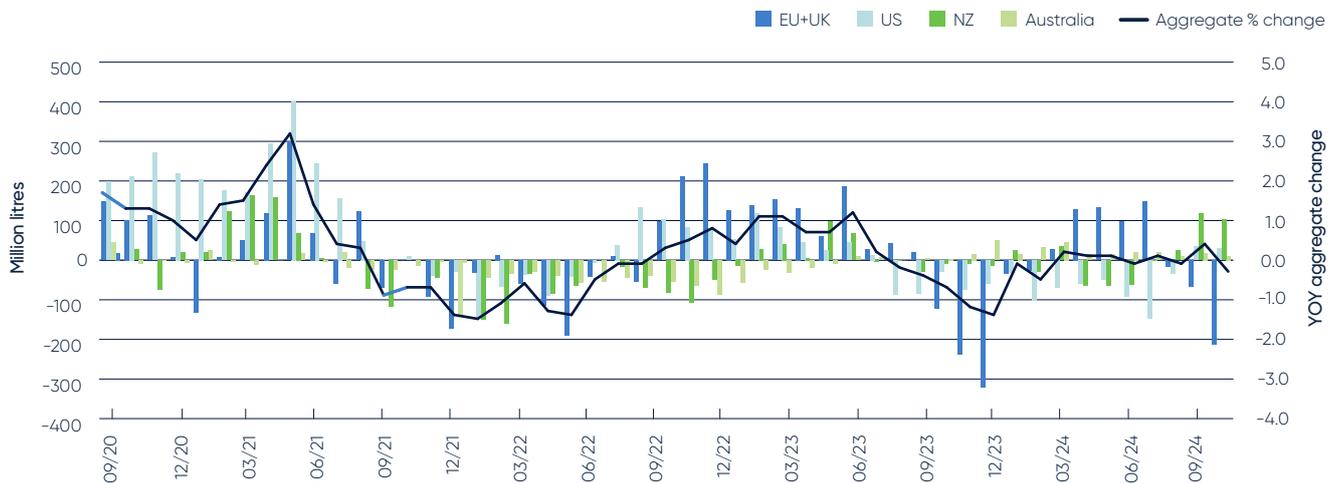
Figure A5 Australian retail sales

	Take home volume	YoY growth	Take home value \$m	YoY growth
Milk As of 03/11/24	1,403m. L	↓ -0.1%	2,903	↑ 0.6%
Cheese As of 16/06/24	150kt	↑ 3.2%	2,628	↑ 13.0%
Dairy spreads As of 03/11/24	61kt	↑ 3.4%	827	↑ 5.0%
Yoghurts As of 16/06/24	187kt	↑ 7.0%	1,448	↑ 11.6%

Source: Dairy Australia calculation based in part on data reported by NielsenIQ through its Homescan Service for the fresh and long life milk categories and dairy spreads to 3 Nov 2024, and yoghurt and cheese to 16 Jun 2024, for the Total Australia market, according to the NielsenIQ standard hierarchy. Copyright © 2024, Nielsen Consumer LLC. product.

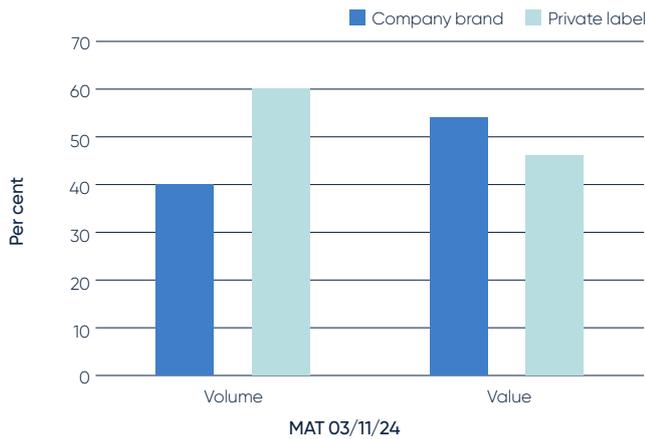
Global supply and demand

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

Inputs

Hay and grain

Australian dairy regions		%		%
1 Atherton Tablelands*	\$350	↓ -15	\$371	↓ -20
2 Darling Downs	\$350	↑ 24	\$330	↓ -30
3 North coast NSW	\$325	↑ 2	\$320	↓ -23
4 Central west NSW	\$335	↑ 16	\$300	↓ -25
5 Bega Valley	\$408	↑ 36	\$348	↓ -19
6 Goulburn/Murray Valley	\$332	↑ 12	\$338	↓ -12
7 Gippsland*	\$280	↑ 10	\$360	↓ -13
8 South-west Victoria	\$355	↑ 23	\$323	↓ -17
9 South-east SA	\$370	↑ 26	\$364	↓ -9
10 Central districts SA	\$359	↑ 21	\$320	↓ -17
11 South-west WA	\$360	↑ 24	\$349	↓ -10
12 North-west Tasmania	\$395	↑ 51	\$450	↓ -11

Shredded 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 2024. Compared to equivalent date October 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)
375 US\$/t	573 US\$/t	278 US\$/t
↓ -9% LY	↓ +7% LY	↓ -19% LY
↓ -21% 5Y	→ 0% 5Y	↓ -13% 5Y

Price is October 2024 average, compared to the October 2023 average (LY) and 5-year (5Y) October average.

Source: World Bank

Cows

Cull cows	
242 c/kg (lwt)	51,587 head
↑ +80% LY	→ 0% LY
↑ +1% 5Y	↑ -14% 5Y

Dairy cattle exports	
55,121 head	↓ -35% LY
	↓ -36% 5Y

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

Source: NLRS, ABS

Water

Northern Victoria	Murray Irrigation System
118 \$/ML	111 \$/ML
↓ 32% LY	↑ 24% LY
↓ 6% 5Y	↑ 96% 5Y
3,026,137 ML	355,552 ML
↑ 6% LY	↑ 35% LY
↑ 13% 5Y	↑ 63% 5Y

Monthly average (12 months)

75 \$/ML	38 \$/ML
252,178	29,629

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