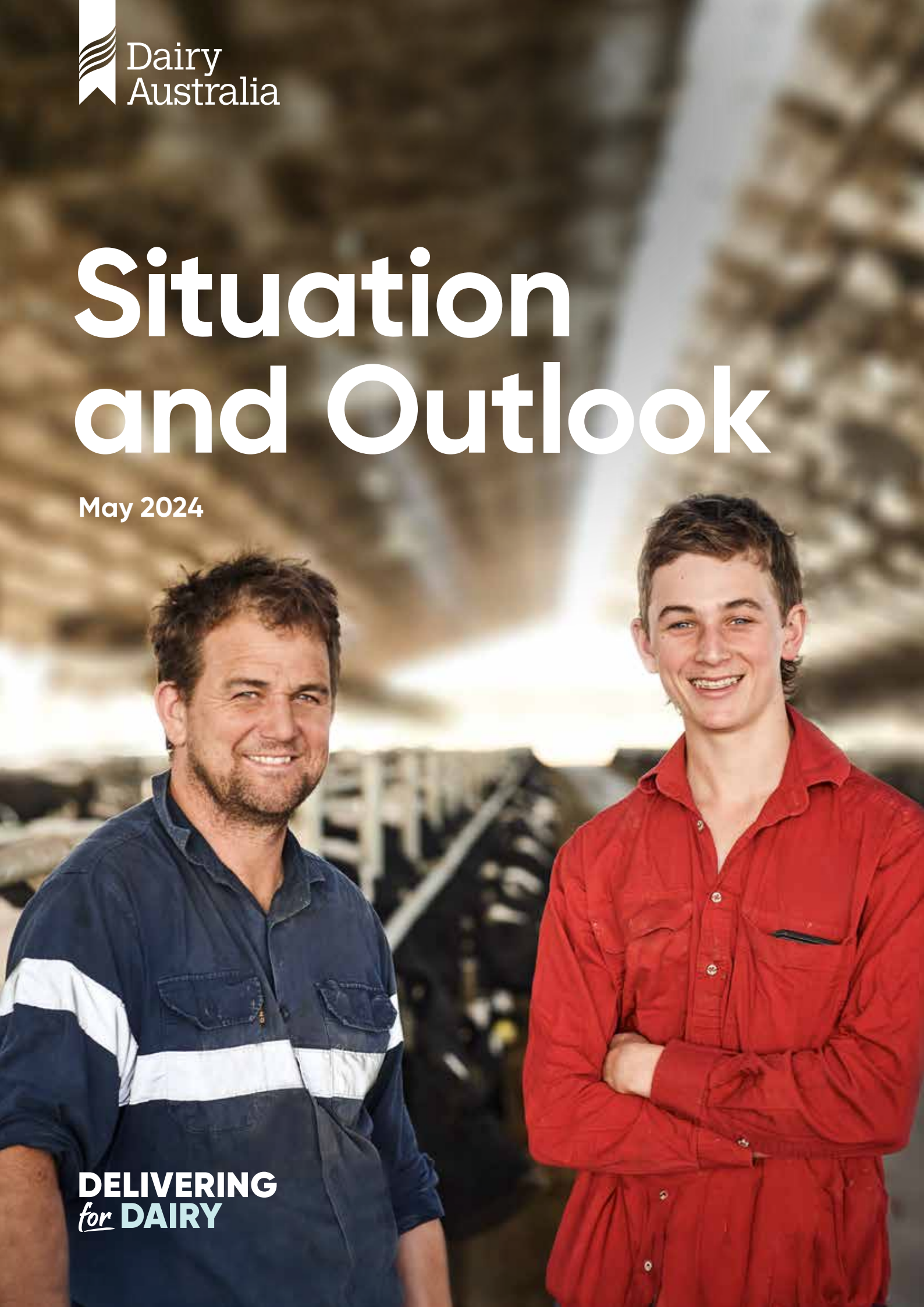
Dairy Australia

Situation and Outlook

May 2024



DELIVERING for DAIRY

Seven key drivers

of the Australian dairy industry

Global supply

Situation Outlook

A relatively flat peak season is expected for northern hemisphere milk production, as wet weather impacts linger in parts of Europe and the US milk herd continues to decrease. NZ recorded strong comparable production figures in the final months of last season and are expected to continue tracking below last year. Global supply is likely to remain stagnant over the rest of 2024.

Australian market

Situation Outlook

Cost-saving shopping behaviour has become a long-term shift for Australian consumers. Many households continue to gravitate towards private label products or increasing in-home consumption (as an alternative to out-of-home occasions). The volumes sold across most key dairy categories continue to grow, supporting value retention in retail. Additionally, Australia's imports of dairy have slowed (July to February), but competitive pressure remains. High inflation over 2024 will continue to drive cost sensitive purchasing.

Global demand

Situation Outlook

Importing activity remains dampened by low consumer demand in China and high inflation across other key export markets. With recovery expected over the longer-term, this dynamic is likely to define the remainder of 2024. Nonetheless, there have been some reports of increased demand for Oceania product, amidst the array of ocean freight disruptions currently at play.

Inputs

Situation Outlook

While drier conditions have persisted in some dairying regions, timely rainfall has bolstered winter feed production and crop prospects in others. On balance, this is expected to support feed availability into the 2024/25 season, keeping prices relatively steady. Additionally, indicative fertiliser prices are also expected to remain under pressure, and temporary water prices remain historically low.

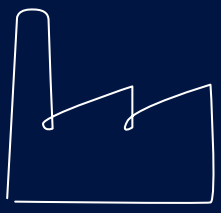
Global economy

Situation Outlook

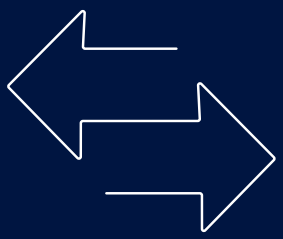
Inflation remains above target for many economies. However, global inflation is forecast to decline steadily through to 2025, while global economic growth is expected to remain steady (relative to 3.2 per cent) over the same period. Despite the strict monetary policies of the last two years, steady recovery is on the cards over the long-term, with advanced economies leading the way.

Australian production

Situation Outlook



On account of more moderate seasonal conditions, Australian milk production has bounced back from the lows of 2022/23, likely ending the 2023/24 season between 2 to 3 per cent above 8.13 billion litres. While this growth has been further supported by robust milk prices and easing input costs, expectations for 2024/25 are weighted towards a small decrease in national milk production.



Exchange rates

Situation Outlook

The Australian dollar (A$) continues to track below last year and the absence of interest rate movement in the United States continues to delay appreciation of the A$. The fragile Chinese economy and continuously developing geopolitical tensions also limit strengthening of the dollar.

Positive Neutral Negative

Contents

Executive summary

Australian dairy farmers have been largely insulated from global dairy market pressures this season, with a strong milk price, improved weather conditions and overall stable input costs providing grounds for profitability.

Confidence in the Australian dairy industry is currently in its most stable period in a decade, as outlined by the 2024 National Dairy Farmer Survey. Despite increased climate and market volatility over the last four years, the proportion of farming businesses feeling positive about the industry's future has remained relatively steady (68 per cent in 2024) over that time. Farmers are also feeling positive about their own businesses (83 per cent) and the vast majority are expecting to make an operating profit this season. Back-to-back profitable seasons have led to a growing number of farming businesses reporting they are in a "stable and happy" position.

Australia's total milk production for the 2023/24 season is now likely to exceed Dairy Australia's previous forecast.

Larger-than-expected growth in February of 5 per cent year on year (leap year adjusted), further milk recovery in March despite conditions drying out in many regions, and a return to more average weather will propel national production 2 to 3 per cent higher than the 2022/23 season.

Looking ahead to next season, early indications from processors of lower farmgate milk prices may lead to more conservative production decisions, especially in the southern export focused regions, while existing challenges around labour and farm exits limit growth more broadly. As such, Dairy Australia is expecting volumes produced over the 2024/25 season to drop slightly, between 0 to 1 per cent, maintaining a national milk pool around 8.3 billion litres.

The stabilisation of farm input costs may help mitigate some pressure during the 2024/25 season. Rainfall over eastern Australia has subdued demand for feed and water (and their respective prices) with hay and grain values remaining below last year in most regions. In parts of Western Australia, South Australia and Western Victoria however, conditions have become much drier, with demand and prices for supplementary feed rising above long-term averages. Indicative fertiliser prices have eased, as global supplies recover from previous production and export challenges.

At the consumer end of the supply chain, dairy continues to perform well in retail despite the now-entrenched cost-saving shopping behaviours of Australian households.

The volume sold of cheese, dairy spreads and yoghurts continues to grow, each increasing between 0.8 to 2 per cent in the 12 months to 24 March[1]. Australian households continue to gravitate towards private label products, purchasing less items to lower grocery bills and avoid food waste, or even increasing in-home consumption (as an alternative for out-of-home occasions).

Australian dairy markets may still be under pressure from international product both globally and domestically, but Australia's imports of overseas dairy products are slowing. Season-to-date (July to February 2024) import data shows 7.4 per cent less product has crossed the border compared to the same period last season. Over this time, significantly less overseas butter was purchased (-23.1 per cent) as local milkfat availability strengthened, but total volumes of imported whole milk powder, ice cream and cheese all increased (10.9 per cent, 2.0 per cent and 1.6 per cent, respectively). Australian buyers have imported similar volumes from New Zealand (NZ) this season (+0.2 per cent), but shipping challenges around the Red Sea and inflated costs have likely deterred purchasing from northern hemisphere exporters (-28.6 per cent from the United States (US) and -10.8 per cent from Europe).

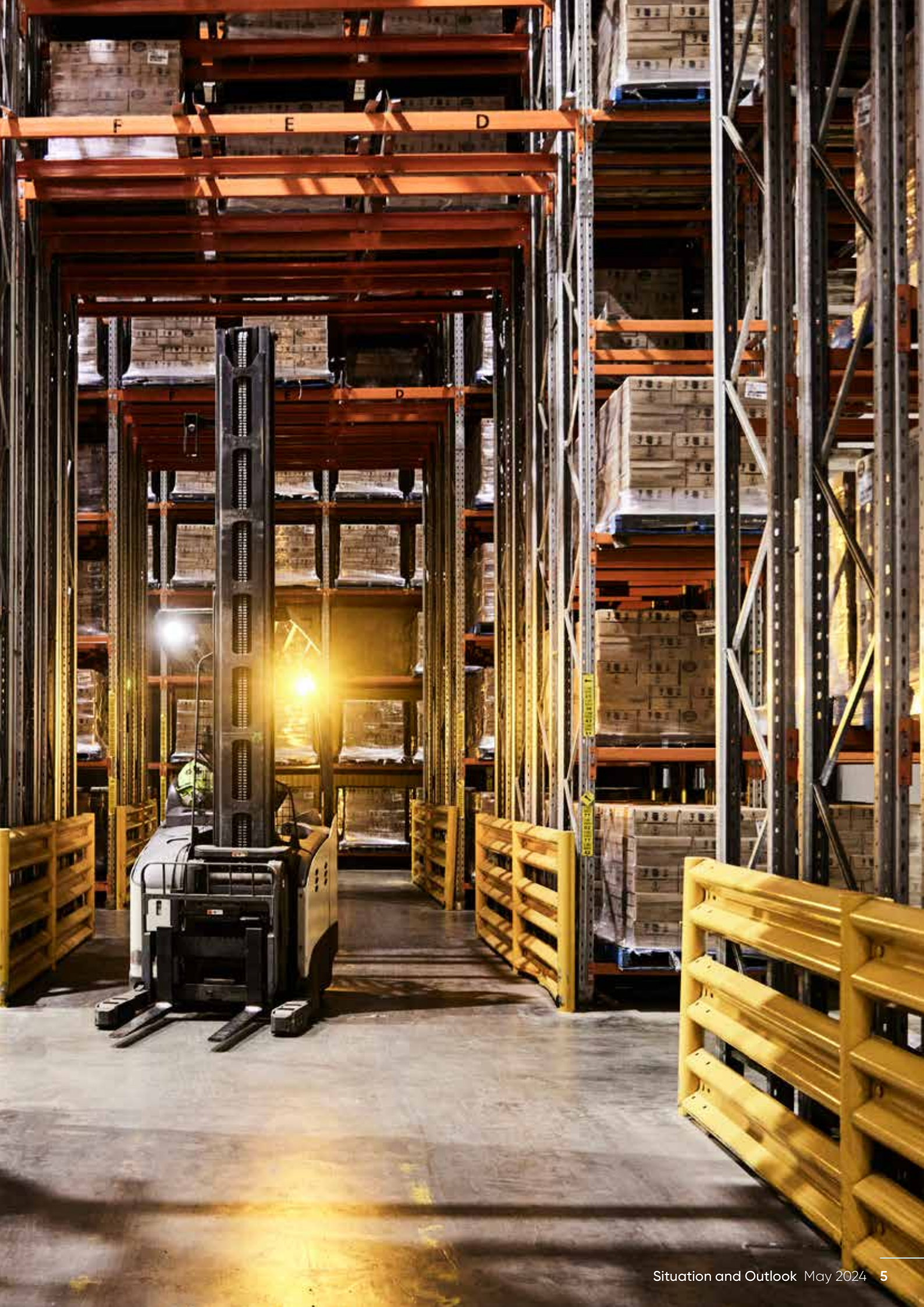
1 NielsenIQ Homescan based on a continuous panel of 10,000 households; excludes non-private dwellings and businesses, non-permanently occupied households and out-of-home/impulse purchasing. DAIRY AUSTRALIA calculation based in part on data reported by NielsenIQ through its Homescan Service for the dairy category for the 52-week period ending 24/03/2024, for the total Australia market, according to the NielsenIQ standard product hierarchy. Copyright © 2024, Nielsen Consumer LLC.

After some initial recovery leading into 2024, global dairy commodity markets are still searching for balance between supply and demand pressures. Lacklustre demand for dairy continues to limit commodity price increases – especially as importer inventories remain stocked and consumer demand is dampened by economic challenges. Global inflation may be slowly declining but remains tipped to stay above respective targets throughout 2024.

Stagnant global supply will therefore likely provide underlying support for dairy export commodity prices in the near term.

Production forecasts for NZ, the US and Europe were initially optimistic but weakened farmgate milk prices, weather challenges, smaller national herds, and a softer-than-expected spring flush, have since adjusted expectations. Milk flows in all three key exporting regions are down on a season-to-date (July to February 2024) basis; NZ -0.2 per cent, US -0.8 per cent and Europe -0.7 per cent. Over 2024, milk supplies from these exporting regions are now more likely to remain relatively steady to 2023 volumes. Longer term challenges such as emissions policies in Europe (which has implications for dairy farming) and a lack of replacement heifers in the US also hinder future growth prospects.

Global dairy markets treading water and receding weather challenges for most Australian dairy regions have provided a mild backdrop to a profitable season and sustained farmer confidence. As new season prices begin to be announced, linkages to international market realities will re-emerge; a tighter outlook for margins on farm will impact farmer confidence and ultimately milk production. With many dairy farm businesses having made good use of a solid 2023/24 however, farmers will be well placed to choose their next steps.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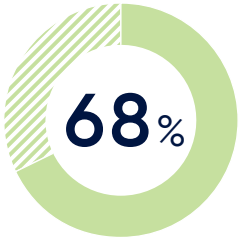
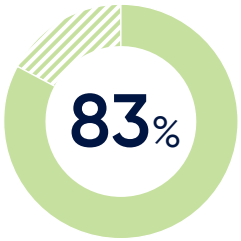
National Dairy Farmer Survey 2024

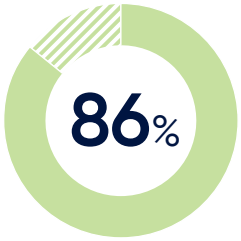
The National Dairy Farmer Survey (NDFS) is conducted each year as a means of tracking dairy farmer sentiment, views on industry challenges and own business intentions. It provides a robust set of data to support or challenge anecdotal and other information sources. In February 2024, 600 farmers were interviewed nationwide for this survey.



Sentiment
Positive about industry future
+1%

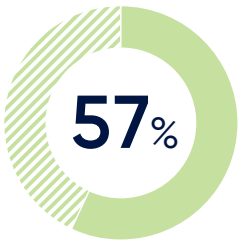


Outlook
Positive about own business
-1%



Profitability
Made operating profit in 2022/23
90% in 2021/22

Expansion
In expansion phase
+1%



Stability
In a stable phase
+4%

Confidence is stable amidst strong profitability

The 2024 National Dairy Farmer Survey highlights ongoing stability in farmer sentiment with two-thirds of farmers positive about the industry's future. This builds on the most stable period of industry confidence reported in the last ten years. Similarly, the proportion of respondents positive towards the future of their own dairy businesses remains consistently widespread with at least four in five farmers confident in their own businesses during each of the past four years.

The survey results show 86% of businesses made an operating profit in the 2022/23 financial year.

While the overall proportion of profitable businesses has declined significantly since 2021/2022, a growing number of farmers continue to report being in a "stable and happy" position (now 43%, with 57% in total in a "steady" phase). In contrast, less than a quarter of farms (23%) are in an "expansion phase" and this has not changed markedly despite four years of improved profitability. High farmgate milk prices and steady inputs costs bode well for profitability this season; 80% of businesses are expecting to make an operating profit in 2023/24, with almost half (45%) anticipating profits to be higher than the five-year average.

The "winding down" trend has declined in 2024 and is at its lowest level since 2012. Since this phase extends over several years, it is likely this trend reflects those who had been winding down in prior years having now exited the industry, rather than businesses changing to a different stage of operation. For those farmers winding down, the most probable outcome is they will continue to remain on farm but stop milking.

THOSE WHO ARE EXPECTING AN OPERATING PROFIT THIS YEAR ARE MORE LIKELY TO BE…

- Positive about the industry and about their businesses.
- In a "steady and happy" business phase.
- Prioritising consolidation rather than growth in the medium term.
- Planning on-farm capital investments in the next two years.

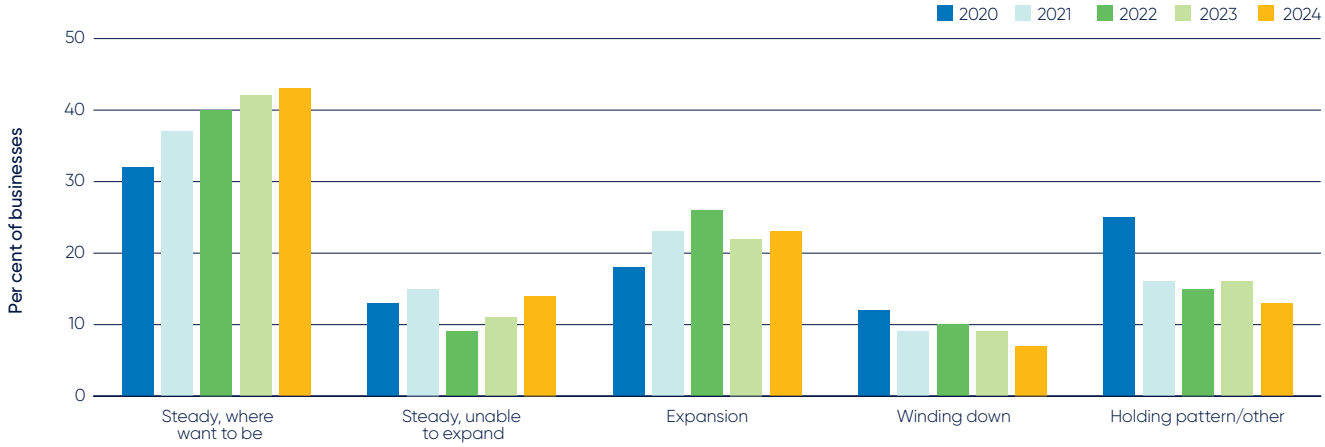
THOSE WHO ARE NOT EXPECTING AN OPERATING PROFIT THIS YEAR ARE MORE LIKELY TO BE…

- Negative about the future of their own business.
- In a steady position but not currently in a position to grow.
- Prioritising growth rather than consolidation in the medium term.
- Milking less than 150 cows.
- Concerned about input and labour costs in the short term.
- Negatively impacted by recent weather events.

While the national results show overall stability since 2023, some regional variations in sentiment and profitability are worth nothing:

- GippsDairy respondents are significantly more likely to be positive about the industry than 12 months ago (73%, up from 62%), whereas DairyNSW respondents are significantly less confident (83% to 60%) following a drier and warmer than average 2023 and above average rainfall in summer.
- Industry confidence in the Western Dairy region has been steadily declining as difficult seasonal conditions has increased the reliance on purchased feed and impacted overall production costs and profits. Future industry sentiment is also possibly being affected by farm exits.
- Compared to 12 months ago, DairyTas respondents are significantly less likely to be positive about the future of their own business (73%, down from 88%). Drought like conditions, with below average summer rainfall in some parts of the state, as well as recent animal activism in the region have likely had the strongest influence on farmer sentiment.
- Overall profitability is still widespread, but a few regions are showing a marked decline in the proportion of businesses expecting a profit in this financial year. This is most apparent in the Western Dairy, DairyNSW and Subtropical Dairy regions where extreme weather events have had the greatest impact on business operations.

Figure 1 Business enterprise phase



In terms of herd size differences, there are no significant changes in enterprise phase since 2023, but farms with herds more than 500 cows are still more likely to be expanding than smaller farm businesses in general. The latest results do however show that the proportion of farms expecting an operating profit this financial year is starting to decline across farms of all sizes.

Capital investments on-farm have been consistent since 2021 with most farmers across all regions and herd sizes making moderate or major improvements to their businesses.

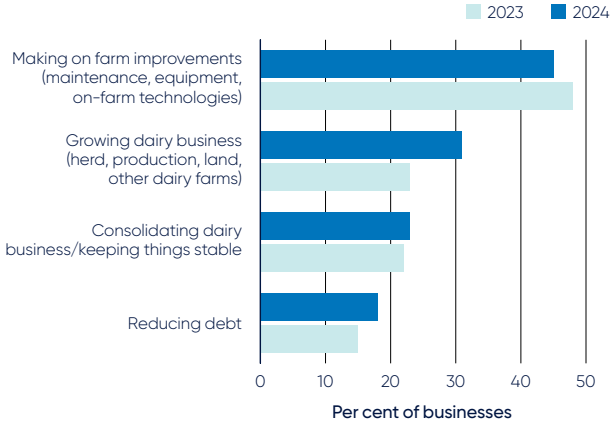
The latest results do however suggest some hesitation about the level of ongoing investment in the next two years, possibly influenced by reduced profit expectations if milk prices decrease further. Overall, a high 88% of farms are still planning to spend capital on improvements to their farms but there is a shift towards more minor to moderate investments in the years ahead.

On-farm improvements remain the top priority

With strong intentions for businesses to invest capital on-farm in the next two years, it is not surprising that making on-farm improvements continues to be the greatest priority for nearly half (45%) of businesses for the next five to ten years. These improvements represent a variety of choices farmers can make and primarily include investments in technologies, maintenance or making adaptations to farm systems.

In 2023, it was reported that despite most businesses benefiting from consecutive years of above average profits, they were reluctant to commit to higher levels of production in the medium to longer term. This trend of 'maintaining the status quo' appears to have continued in 2024, particularly in the short term as expansion remains stable. There is however emerging optimism for business growth in the next five to ten years with more businesses adjusting their priorities. Some businesses are choosing to focus on efficiencies and improving their productivity while others are looking to increase production or grow their farms by expanding their herds or buying more land.

Figure 2 Business priorities over the next five to ten years (of those not winding down)



These plans for growth are widespread across most regions although are less likely in the Subtropical Dairy region. Similarly, medium to long term growth is on the radar across businesses of all sizes although it is more likely amongst larger herd farms (>500 cows).

Survey data suggests a limited relationship between current profitability and future priorities around growth. Those who are expecting profits this financial year are no more likely to prioritise on-farm improvements in the years ahead than those who are less optimistic about their financial returns. There may be differences in the relative value of these investments that are not captured by the survey however.

Climate is the most pressing challenge for the year ahead while milk price is of rising concern

Almost half of all farmers (44%) are expressing concerns associated with climate or weather conditions for the next 6 to 12 months. This is not surprising considering summer was wetter than usual for many areas, resulting in the third highest summer rainfall on record during an El Niño event. On the other hand, while eastern parts of Australia experienced above average rainfall, conditions in Western Australia, Tasmania and central Australia were much drier than average and dairying regions were not spared widespread heatwaves and an elevated bushfire risk. Overall, this variability in weather patterns impacted

62% of farm businesses in the last 12 months with 26% severely affected. Farms in DairyNSW, Subtropical Dairy and Western Dairy regions endured the greatest consequences so it is understandable that climate or weather conditions would be of paramount concern.

The higher rainfall during summer has however presented an upside for input costs with better-than-expected pasture growth, resulting in less reliance on purchased feed and a drop in feed prices.

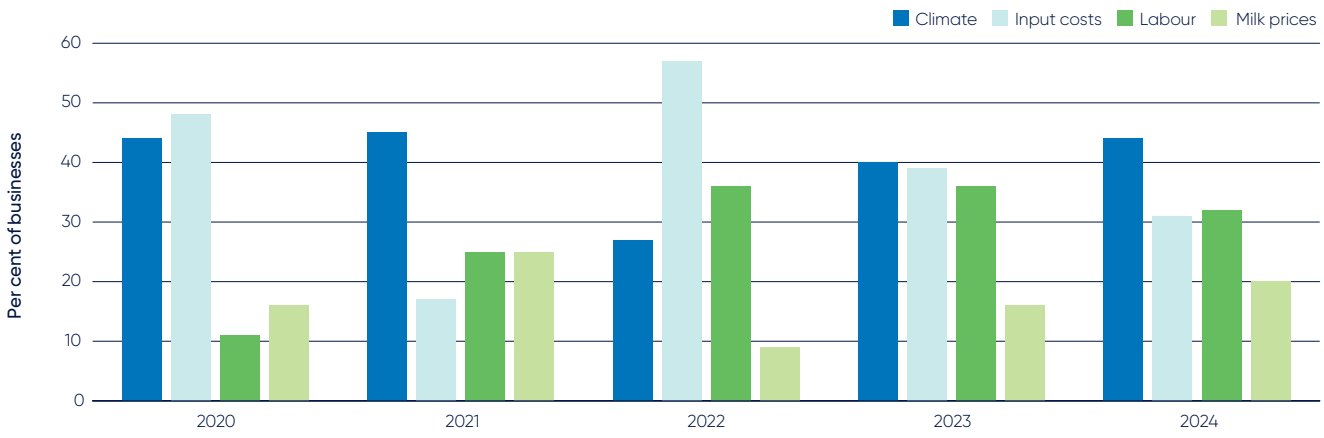
This has ensured fewer farmers are anticipating challenges related to input costs compared to prior years (now 31%) and other cost pressures have also reduced since 2022. For those farmers who may have ongoing concerns about meeting feed demands over the next six months, due to lower than average rainfall forecast in the southern regions, lower feed prices will hopefully offset the overall pressure on production costs. This has no doubt also contributed to the reduced overall concern about input costs for the next season.

Labour shortages have been one of the top three concerns for dairy businesses over the past three years following the pandemic and this has been an ongoing constraint to business growth. Although there is some easing of labour related pressures, the availability of farm workers continues to be a widespread issue in 2024. Around a third of businesses (32%) are reporting challenges accessing skilled labour or finding farm workers in general, despite an uplift in the number of backpackers available and more potential workers having entered Australia as part of the Pacific Australia Labor Mobility scheme. For larger herd businesses, access to skilled labour continues to be the greater challenge.

While Australian milk prices are expected to remain above average over 2024, the potential of a drop in farmgate milk prices is causing rising concern for farmers. In comparison to the issues raised above however, this is a lesser challenge which at the time of the survey was not seen to be having a detrimental effect on farmer sentiment.

All in all, the challenges associated with climate and the variability in seasonal conditions remain front of mind for many businesses in the short term. However, the high levels of business confidence underpinned by consistently strong profitability, point to an industry that is focused on investment in farm businesses and is more optimistic about growth in the medium to long term.

Figure 3 Anticipated challenges (for the next 6 to 12 months)



Modest production growth meets muted expectations

Mother Nature has been generally kinder to Australia's dairy farmers over the course of the 2023/24 season. The widespread wet conditions and severe flooding that characterised much of the previous two seasons were not repeated, and fears of a flip to drier than average weather were not borne out – at least during the critical points of the year. Instead, 2023/24 has been a season of recovery and consolidation, supported by modest cost relief and a gentle (in global terms) reduction in farmgate milk price.

Being one of the key climate drivers of rainfall patterns Although both profitability and confidence have remained strong, data from the National Dairy Farmer Survey (NDFS) confirms that this has not translated to a widespread return to investments in growth by farmers. Rather, an increasing share of survey respondents indicate contentment with the current scale of their business and production. Beyond the farm gate, the challenging economics of dairy processing in the 2023/24 season have provided few reasons for milk processors to encourage growth in supply.

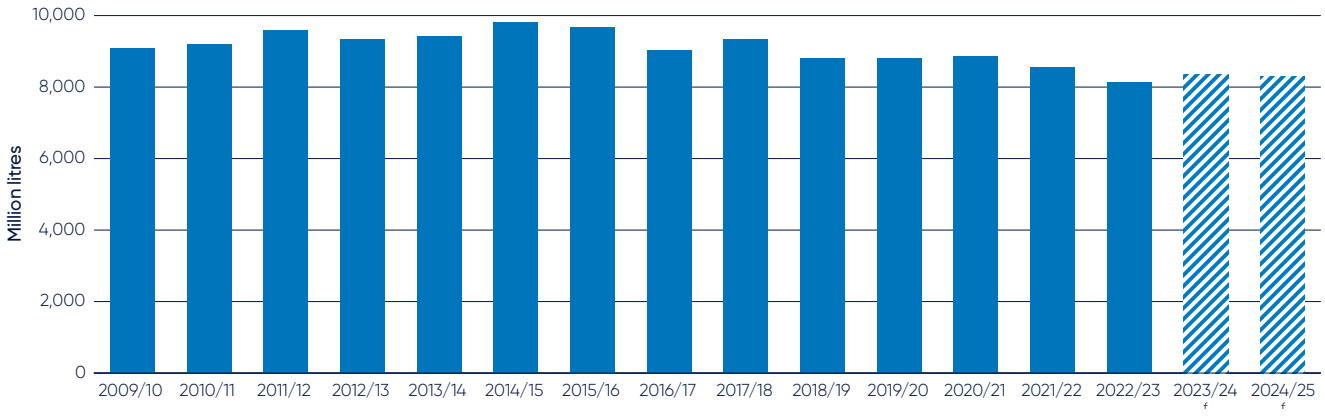
Nonetheless, milk production during the current season has outpaced expectations, looking set to finish between 2 and 3 per cent higher than the 2022/23 total of 8.13 billion litres.

The lion's share (around 85%) of the increase in milk volumes comes from three regions hardest hit by challenging weather in recent years: New South Wales, Gippsland, and Northern Victoria.

Looking ahead northern Victoria continues to ride the wave of a round of investment in more intensive farm systems that are reaching maturity and growing per-cow production as they are fine-tuned.

Aggressive expansion plans are on the table for some key producers, but continued growth in the region will be tempered by any reduction of farm profitability in the new season. In particular, the outlook for water prices remains a key decision factor for many northern Victorian farmers, which combined with milk price signals could prompt further exits if profitability tightens. Currently, the outlook for water availability is positive, autumn sowing has been met with excellent weather conditions, and a drier than

Figure 4 Australian milk production by season



Source: Dairy manufacturers, Dairy Australia

average winter offers significant operational advantages. Our expectation is that these factors will balance production at a similar level to the current season.

Southern Victoria has not seen the same investment drive around intensive farm systems, but Gippsland has rebounded strongly this season, amidst more benign weather conditions. The region has certainly experienced dry spells, but well-timed rainfall events have made a difference at key points in the season; notably extending the spring flush and providing an early autumn break. Water allocations reached 100% for High Reliability Water Shares and 100% for Low Reliability Water Shares in the Macalister Irrigation District. Assuming that such fortuitous conditions do not reoccur and that margins tighten in the new season, a slight retreat is expected in 2024/25.

On the other side of Melbourne, conditions in southwest Victoria have been drier than average for much of the season and despite a boost through persistent late spring rainfall, milk production will likely finish 2023/24 with a similar total to 2022/23.

As is the case for many farmers across export-focused regions, new season farmgate milk prices will provide an important signal that in turn will influence production decisions in 2024/25. The baseline expectation is that production will ease slightly, as farm exits combine with more conservative decision making among others.

Tasmania has also experienced drier than average conditions that have constrained milk production, but volumes have increased modestly this season. Milk production ceased on several corporate-operated farms, which will likely remain out of the supply chain for most, if not all of 2024/25. Our outlook assumes that this and lower farmgate prices will weigh on milk production in 2024/25, but those factors will be balanced by improved rainfall through the season.

Back on the mainland, South Australia has seen modest growth in 2023/24, having experienced a smaller downturn in 2022/23 compared with other states. The new season will likely bring margin pressures to farmers more directly exposed to export (or import-competing) markets, whilst those with greater domestic fresh market exposure will be somewhat insulated in the short term. Increased production from a number of growing intensive businesses will help balance out exits, and a stable pool is expected.

Across the Nullarbor, Western Australia has struggled with dry conditions and broader livestock market pressures.

Reports suggest that processing of cull cows has been caught up in a broader bottleneck as a result, which helps explain why the state is seeing an increase in milk production despite the dry. The backlog of culls is likely to be cleared late this season and with fewer cows milking in 2024/25, milk production will likely backtrack slightly. In addition to milk prices, weather conditions will be a key swing factor, influencing local feed prices and homegrown feed availability that will drive farmer decisions.

Swinging back around to the East Coast, Queensland, and New South Wales both increased production this season, with NSW in particular posting a strong increase amidst more moderate weather conditions. The impact of new season milk prices is likely to be relatively muted in these states, with many farmers on multi-year contracts and strong domestic market exposure. Nonetheless, maintaining growth beyond the recent rebound would require ongoing farmer investment that is currently isolated to certain segments of the population. Risk aversion among farmers is likely to grow if southern prices decrease materially, and processor appetite for increased milk volumes will potentially be limited by a wider price gap between states.

On the whole, recent profitable seasons and a return to relatively 'average' weather conditions have provided many farmers with an opportunity to improve their financial positions and make investments that will support their businesses in years to come.

In many regions, milk production has bounced back from the weather-induced lows of 2022/23, supported by robust milk prices and easing input costs.

Despite the current momentum, our expectations for 2024/25 are weighted towards a small decrease in national milk production.

A likely tightening in margins cross southern regions, combined with continuing challenges such as workforce and farm exits, will dampen the growth derived from expanding operations. A large proportion of farmers will remain in the middle; content to tweak their herd size and milk output higher or lower as seasons dictate.

So what?

Milk production will finish the current 2023/24 season above earlier expectations, growing between 2 to 3 per cent and likely pushing towards 8.35 billion litres. Although farm finances are in good shape and the weather outlook reasonable, the milk pool is likely to remain constrained in 2024/25. Our forecast anticipates a slight decrease in the new season of between 0 and 1 per cent, bringing the national total back to around 8.3 billion litres.


LONG
VEHICLE

Input costs – Has a balance been struck?

The 2023/24 season has so far presented differing challenges by region and time of year. However, steadying input prices, stronger than expected water availability (in some regions) and generally favourable seasonal conditions at critical times have all been, and will likely remain, a supportive force through to the end of June.

As we look ahead to 2024/25, these supportive dynamics will provide a strong resource base, even if dry conditions persist in some areas. The long-term outlook for the winter months indicates a roughly equal chance of both above and below median rainfall for much of the country. The far south of Western Australia (WA), South Australia (SA) and southwest Victoria are the exception however, with below median rainfall remaining likely over the same period.

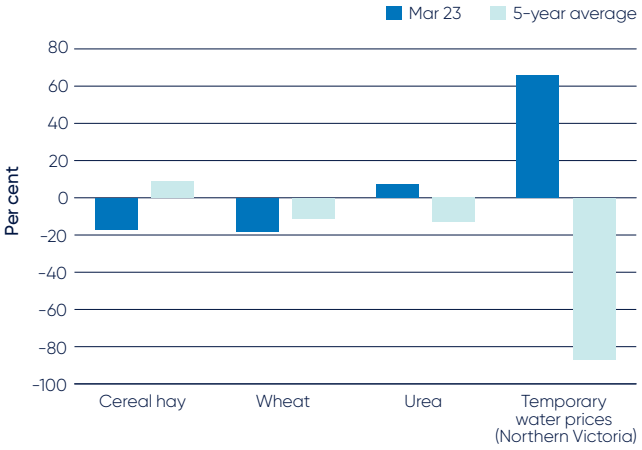
El Niño has ended and the El Niño-Southern Oscillation (ENSO) is expected to remain neutral through to the end of July. ENSO patterns and variability are likely to exert the greatest influence over Australia's climate for the coming months, with the Indian Ocean Dipole (IOD) and Southern Annular Mode (SAM) expected to remain in or return to neutral phases over this time.

After favourable rainfall over summer, some dairy regions started to dry out again over early autumn, which saw demand for, and prices of most fodder lines rise in almost immediate response. For some areas, this was then followed by a period of promising rainfall, which provided a much more positive start to the winter growing season than initially expected. In those regions, this has taken pressure off short-term feed demand, while in others, such as southwest Victoria, conditions remain drier than average and demand for supplementary feed remains elevated.

Similarly in southwest WA and parts of SA, autumn pasture growth has been hindered by low soil moisture and minimal rainfall. Across other parts of Victoria, southern New South Wales and Tasmania, the viability of grazing opportunities stemming from recent rainfall is dependent on how quickly winter temperatures set in.

In an almost complete reversal from last year, strong green feed availability, and conserved fodder stores on-farm, are both mitigating demand for purchased feed for northern and eastern NSW. Coupled with a strong start to the winter growing season, confidence around feed supply over the longer-term continues to grow in these dairying areas.

Figure 5 Change in key input costs*



Source : Profarmer, Australian Fodder Industry Association (AFIA), World Bank, Victorian Water Register

*Prices are March 2024 average. Reference region for cereal hay and wheat is Goulburn/Murray Valley.

The variability in cereal hay prices highlights the different operating conditions between dairying regions, with prices between 1 per cent to 31 per cent below last year, apart from southwest WA, where prices are up 6 per cent on average.

While dependent on follow up rainfall, there is general optimism around feed availability through to the first half of the 2024/25 season. Current fodder pricing is reflective of elevated demand from both winter feed contracting and for filling immediate feed gaps in some areas. As such, prices for most fodder lines are expected to remain relatively steady or move down over the medium to long-term, once hay production plans are realised at the end of 2024. This is on account of strong pasture availability and conserved fodder stores on-farm in some dairying regions likely balancing against higher demand out of others.

With a supportive autumn break now 'in the bag' for many cropping regions, planted areas across the country are expected to be largely on par or slightly above last season. Therefore, looking ahead, local price movement will largely depend on whether favourable conditions continue for eastern Australia and whether WA remains dry.

International demand for Australian grain has continued to wane in recent months, with the constant flow of cheaper Black Sea grain meeting global demand and pricing out Australian exports in the process. While always a volatile situation, coupled with the supply of feed grains out of South America, and emerging supply pressure from the northern hemisphere harvest, global prices are expected to remain under some level of downward pressure throughout 2024. An additional factor to watch is the large stores of grain on farms across the country, which may support grain availability longer-term, if new crop production prospects weaken.

Globally, supportive signs for buyers continue in fertiliser markets. Heading into an already typically slow demand period, assuming no surprises, prices are likely to remain subdued. Close to normal production levels across Europe, and an increasingly likely return of Chinese nitrogen-based fertiliser exports are both adding to expectations that there is little upside to prices, especially over the short to medium term.

In addition to urea prices having moved back closer to longer-term averages, the theoretical return of phosphate exports from China, and reduced phosphate subsidies across India, have also placed downwards pressure on phosphate-based fertiliser prices. Indicative values of diammonium phosphate, urea and muriate of potash (MOP) are currently 8 per cent, 25 per cent and 11 per cent below the five-year April average respectively.

Water availability remains strong across much of southern and eastern Australia, despite drying conditions in some parts over autumn. Water levels of monitored storages in Victoria remain between 55 per cent to 94 per cent of capacity, and temporary water prices remain at historically low levels. Average prices across Northern Victoria and in the Murray Irrigation system are currently 89 per cent and 78 per cent below the five-year average, at $21/ML and $14/ML respectively.

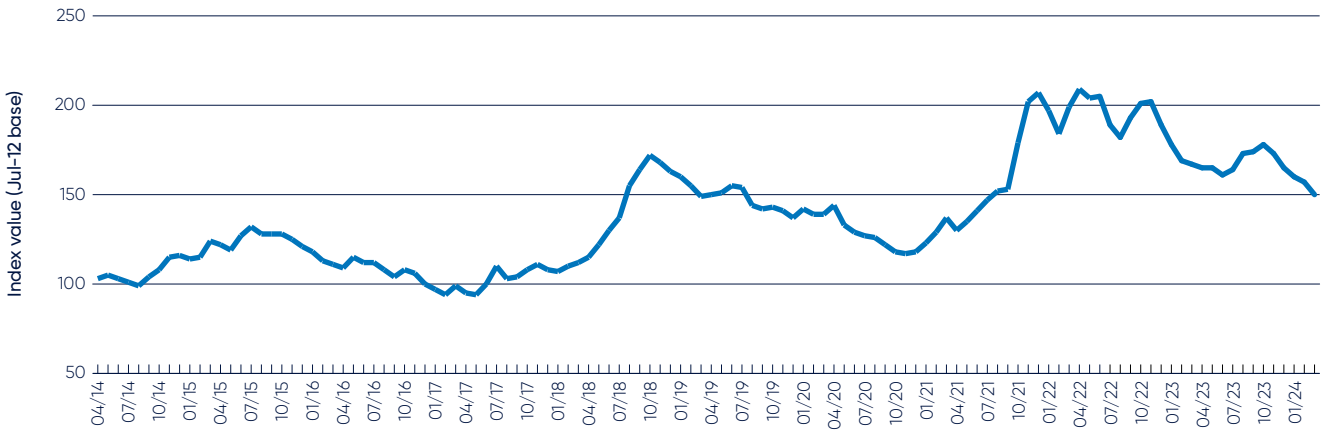
Continued strong water availability and low prices are likely to carry into next season, with favourable reserves established for future allocation and any further rainfall to June providing additional insulation. Such foundations not only bode well for 2024/25 opening seasonal determinations, but also if dry conditions weigh on feed production prospects throughout winter.

Operating conditions currently vary significantly among dairying regions; however, a sustained normalisation of feed and fertiliser prices will help to ease the unpredictability that has defined input markets over the last three years.

So what?

While the potential for dry conditions always brings additional risk, in a similar dynamic to the 2023/24 season, a generally strong resource base, timely rainfall and favourable conditions in some regions will support the stabilisation of input costs into 2024/25.

Figure 6 Purchased input price index



Source: Dairy Australia

Global supply slides back to steady

Global supply spent the first half of the 2023/24 season combatting weakened farmgate milk prices, high input costs and El Niño-exacerbated weather challenges. While some of these pressures have since eased, milk flows in key exporting regions (other than Australia) have struggled to pick back up, forcing some adjustment to production forecasts.

New Zealand (NZ)

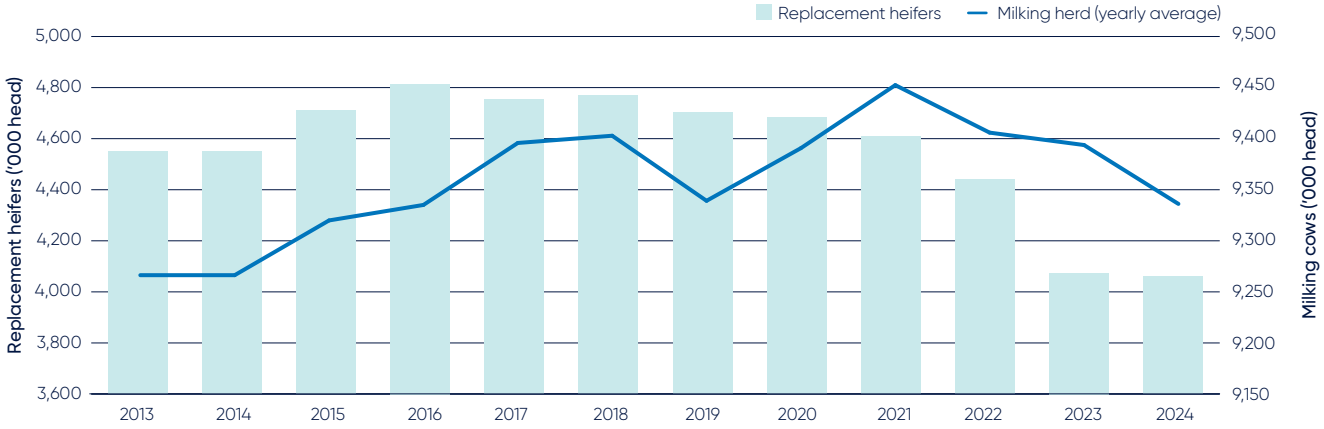
The start of the 2023/24 season retained old challenges, with a clear disparity between operating conditions across the North and South islands. Wetter and colder than usual conditions hindered pasture growth across the former, while the lack of moisture and warmer temperatures in the latter yielded a similar result. Additionally, the drop in farmgate milk prices (in response to declining dairy commodity values) pressured farm margins, resulting in less supplementary feeding and much more cautious fertiliser applications. Combined with a declining national herd, this season's spring flush was weaker than the last. Despite drier El Niño conditions kicking in at the beginning of summer, residual soil moisture, increased temperatures and a drop in farm costs proved favourable for milk production growth in December, and in the leap-year-exacerbated February (+0.9 per cent and +5.6 per cent year on year, respectively, on a tonnage basis).

Local analysts' initial forecast for NZ milk production predicted growth close to 2 per cent at the end of the 2023/24 season, however, season-to-date figures in March were tracking 0.2 per cent below 2022/23. The stronger comparable volumes produced in April and May of last season mean that NZ production will likely end this season relatively steady to the volumes produced in 2022/23.

United States (US)

Hot summer weather, tight farm margins and elevated cow slaughter rates kicked off an extended period of US milk production decline during the 2023/24 season. Costly farm inputs and low farmgate milk prices made the boost in cattle values all-the-more encouraging for culling, resulting in the national herd losing an estimated 102,000 cows since March last year. Per cow yields have been under pressure and national milk production has tracked below last year every month this season (including February when leap year adjusted). While significant weather and input cost challenges have since subsided, margins will likely remain tighter for those in cheese producing regions; the category is a significant production focus for the US with new manufacturing capacity coming online this year, weighing on cheese prices and the class III milk price. The class IV and 'all milk' prices however, are above last year, and are likely to be supported by a lack of milk production growth.

Figure 7 US milking herd and replacement heifers



Source: USDA. Replacement heifers as of January. Cattle class: Heifers 500lb+, for milk cow replacement.

Initial forecasts for total 2024 production suggested growth on 2023 volumes, however, successive monthly declines in the number of cows have led to downwards forecast revisions just as frequently. As such, the United States Department of Agriculture (USDA) currently expects national milk production to end 2024 relatively steady to the 226.4 billion pounds produced in 2023 (equivalent to almost 103 billion litres). Furthermore, a lack of replacement dairy heifers (a result of increased business diversification towards dairy beef) will slow a future return to growth.

Europe

While the 2023/24 season began somewhat poorly for New Zealand and the United States, European production was still recording growth until autumn, when the impacts of tighter farm margins hit volumes. In February, the average farmgate milk price across the European Union (EU) was 16 per cent below last year (although still above the longer term average). Weather conditions became progressively wet over winter, resulting in cows being housed longer, with lingering issues into spring, especially across northwestern Europe (including large milk producing countries including France, parts of Germany, Netherlands and the United Kingdom). Operating challenges (such as inability to access paddocks) are likely to have implications for not only the remainder of this season, but also the next; reduced quantity and quality of silage produced will particularly weigh on milk production during the cooler months of the 2024/25 season.

Milk production across the EU was initially forecast by the European Commission to remain steady over 2024 (relative to volumes produced in 2023). However, unfavourable weather conditions over peak producing months, the pressure of increased feed and other input costs during that time, as well as a decline in cow numbers are all likely to have undermined this. Nonetheless, the forecast remains the same; milk production is expected to hold steady (+0.4 per cent) upon eased input cost pressures, higher per cow yields counteracting the drop in milking cows, and the additional day of production during February this year. Over the longer term, the compounding impacts of emissions mitigation policies on agricultural production also loom.

Table 1 Season-to-date changes in European milk production (Jul 23 to Feb 24 vs Jul 22 to Feb 23)

	Million litres	% change	Share of production
Germany	20,473	-0.1%	21%
France	14,675	-2.3%	15%
United Kingdom	9,530	-0.8%	10%
Netherlands	8,755	-1.6%	9%
Poland	8,316	2.1%	8%
Italy	8,038	-0.5%	8%
Spain	4,652	1.0%	5%
Ireland	4,350	-8.4%	4%
Other[1]	20,914	0.6%	21%
Europe[2]	**99,714**	**-0.7%**	

Source: Eurostat, AHDB, Dairy Australia

All February 2024 figures are leap year adjusted.
1 includes remaining EU-27 countries not listed above
2 'Europe' includes EU-27 + United Kingdom

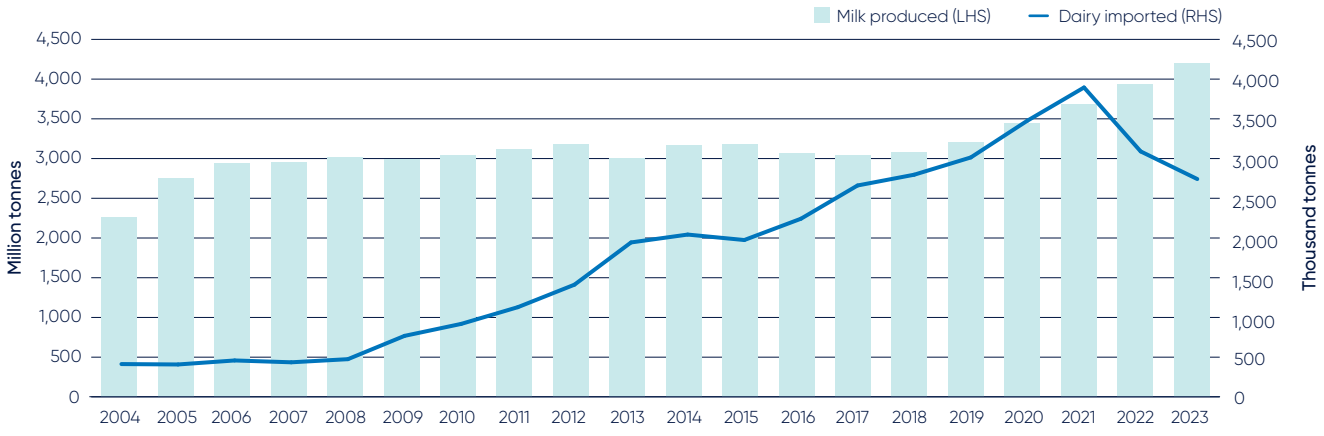
China

China may not be one of the largest dairy exporters, but substantial local milk production growth in recent years (in addition to economic challenges) has severely reduced importing. Self-sufficiency aims has led to Chinese milk production growing more than 30% in the last decade alone, surging notably over the past four years. More recently, the severe drop in local consumption has limited the country's ability to utilise domestically manufactured dairy products, and significant stockpiles remain, disrupting global demand. Chinese milk production continues to grow (albeit at slower rates to previous years), increasing between 0 to 1 per cent in the opening months of 2024. While stockpiles of skim milk powder have reportedly shrunk, inventories of whole milk powder remain robust.

So what?

Tighter global supply, especially over the first half of the 2023/24 season, aided in the recovery of global dairy commodity prices, but quiet demand continues to dampen substantial increases. Continued strength in Chinese milk production adds to the country's own (and by extension global) lacklustre import demand, however stagnant milk production in key exporting regions will be a source of support for export commodity prices in the near term.

Figure 8 China: Milk production vs dairy imports



Source: Dairy Australia, TDM, National Bureau of Statistics China

Market dashboard

Inputs

Hay and grain

Australian dairy regions			%			%
1	South-west WA	$330	↑ 7	$371	↑	6
2	Central districts SA	$296	↓ -19	$321	↑	6
3	South-east SA	$295	↓ -19	$352	↓	-12
4	South-west Victoria	$295	↓ -14	$314	↓	-19
5	Goulburn/Murray Valley	$292	↓ -15	$331	↓	-13
6	Gippsland*	$241	↓ -16	$352	↓	-14
7	North-west Tasmania	$283	↑ 2	$442	↓	-11
8	Bega Valley	$318	↓ -11	$357	↓	-14
9	Central west NSW	$303	↓ -12	$361	↓	-9
10	North coast NSW	$288	↓ -32	$346	↓	-11
11	Darling Downs	$273	↓ -26	$381	↓	-8
12	Atherton Tablelands*	$390	↑ 11	$384	↓	-1

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 2024. Compared to equivalent date April 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, Profarmer

Fertiliser

Urea (granular Black Sea)	DAP (US Gulf)	MOP (granular Vancouver)
320 US$/t	545 US$/t	305 US$/t
↑ +2% LY	↓ -14% LY	↓ -25% LY
↓ -25% 5Y	↓ -8% 5Y	↓ -11% 5Y

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

Cows

Cull cows

177c/kg (lwt)	50,676 head
↓ -33% LY	↓ -18% LY
↓ -6% 5Y	↓ -21% 5Y
Dairy cattle exports	↓ -44% LY
64,036 head	↓ -32% 5Y

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

Water

Northern Victoria	Murray Irrigation system
21$/ML	14$/ML
↑ +43% LY	↑ +255% LY
↓ -89% 5Y	↓ -78% 5Y
73$/ML MA	38$/ML MA
3,032,854 ML	356,478 ML
↑ +14% LY	↑ +81% LY
↑ +20% 5Y	↑ +89% 5Y
252,738 ML MA	29,706 ML MA

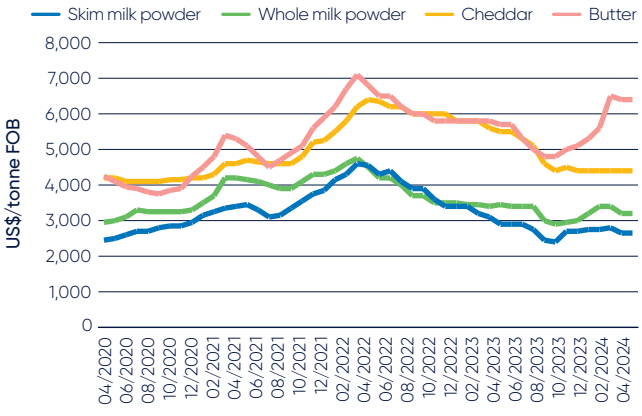
Price of water traded is April 2024 average compared to April last year (LY) and 5-year (5Y) average. Volume of water is 12 month total, to April 2024, and compared to same period last year (LY) and last 5 year (5Y) average. Monthly average (MA) is the average price and volume over the past 12 months to 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-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, the monthly byproducts report and the monthly production inputs monitor report via **dairyaustralia.com.au/industryreports**

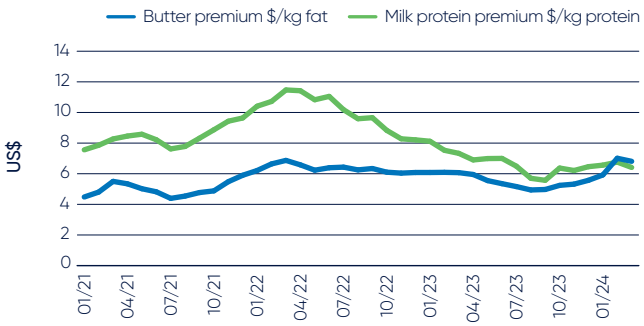
Commodity prices

Figure A1 Key dairy commodity price indicators



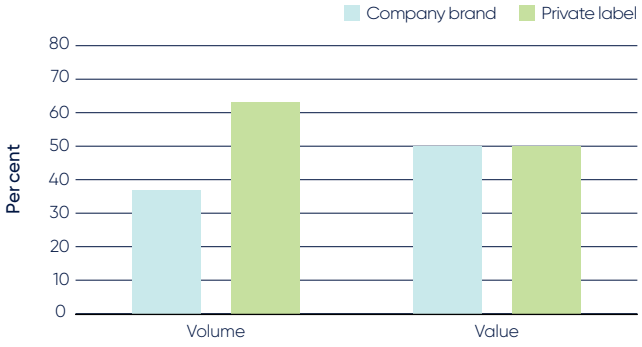
Source: Dairy Australia

Figure A2 Dairy fat and protein – pricing relative to substitutes



Source: Dairy Australia, Oil World

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



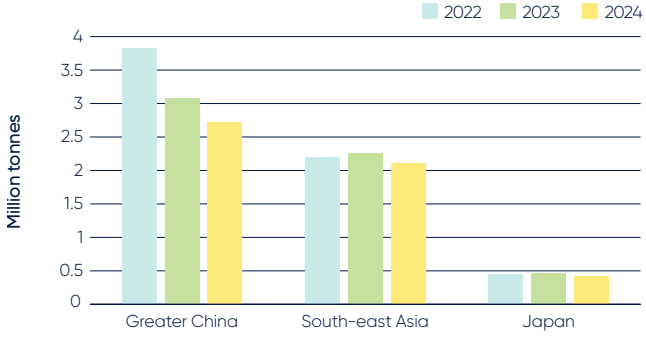
Australian market

Figure A3 Australian supermarket sales*

	Take home volume	YoY growth	Take home value $m	YoY growth
Milk *As of 24/03/24*	1,387m. L ↓	-1.5%	2,860 ↑	4.3%
Cheese *As of 24/03/24*	162kt ↑	1.7%	2,871 ↑	13.1%
Dairy spreads *As of 24/03/24*	58kt ↑	0.8%	799 ↑	10.5%
Yoghurt *As of 24/03/24*	186kt ↑	1.6%	1,408 ↑	8.0%

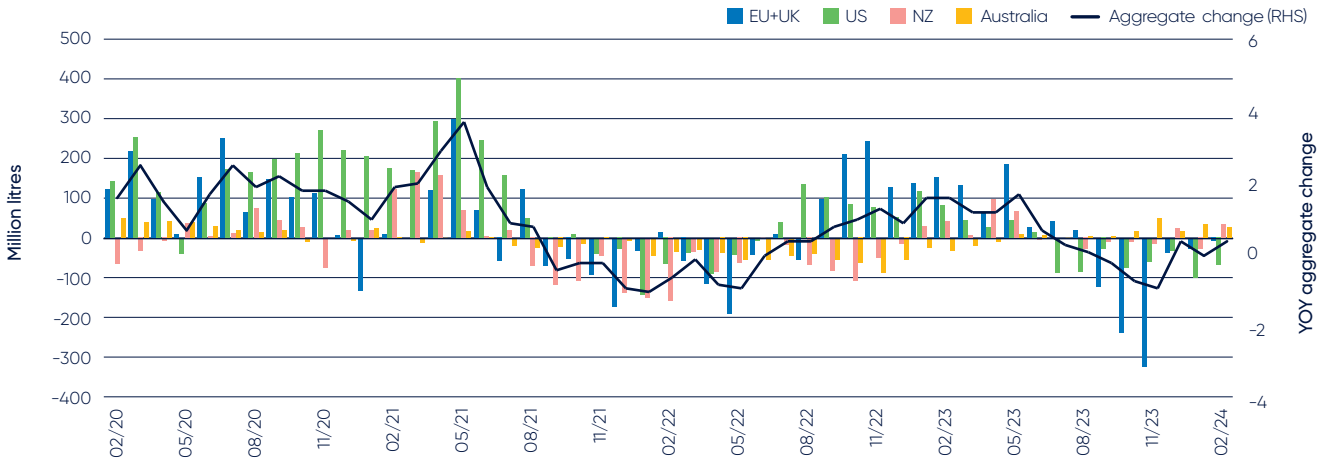
Global supply and demand

Figure A5 Exports to key markets (MAT to December)



Source: Dairy Australia, TDM.

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, dairy spreads, yoghurt and cheese to 24 Mar 2024, for the Total Australia market, according to the NielsenIQ standard hierarchy. Copyright © 2024, 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 24 Mar 2024, for the Total Australia market, according to the NielsenIQ standard hierarchy. Copyright © 2024, Nielsen Consumer LLC. product.

DairyNSW Regional NDFS results at a glance

While more than three quarters of DairyNSW respondents remain positive towards the future of their business, confidence towards the industry's future has decreased significantly (now 60%).

Growing concerns with the cost of production and anticipated seasonal challenges over the next year may be negatively impacting sentiment.

Approximately eight in ten DairyNSW farms were profitable in 2022/23, but a slightly lower proportion anticipate making an operating profit this financial year (71%).

Currently, one in five DairyNSW farms are expanding however, one in five are winding down and 9% may exit the industry over the next three years.

Profitability and investment

82% Made profit 2022/23

71% Expect profit 2023/24

36% Profit higher than 5–year average

31% Profit about same/unsure

29% Profit lower than 5–year average

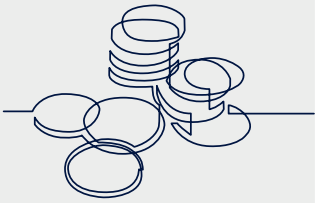
89% Invested 2022–24

87% Plan to invest 2024–26

42% Plan minor investment

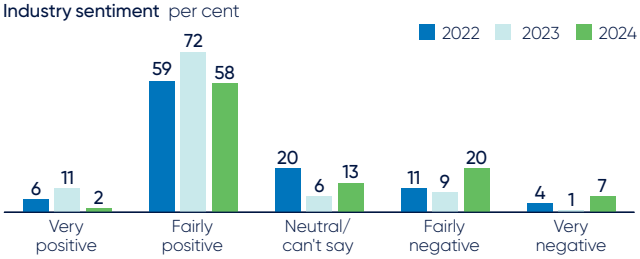
27% Plan moderate investment

18% Plan major investment

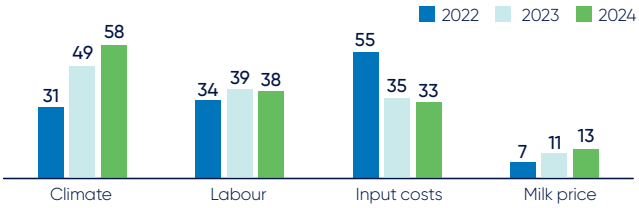


Sentiment

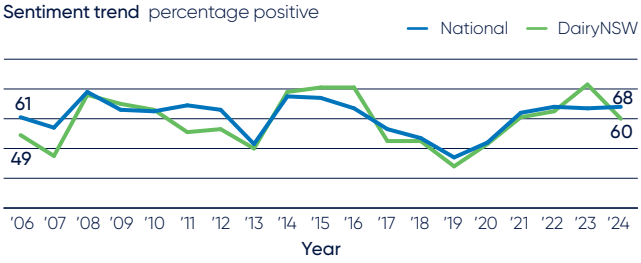
Industry sentiment per cent



Next 6-months' challenges per cent

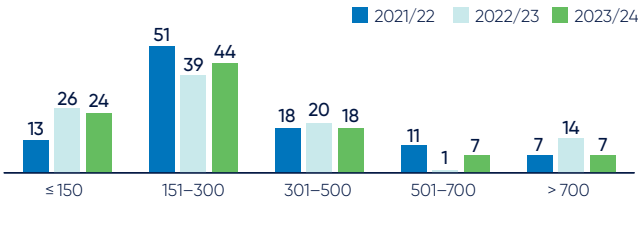


Sentiment trend percentage positive

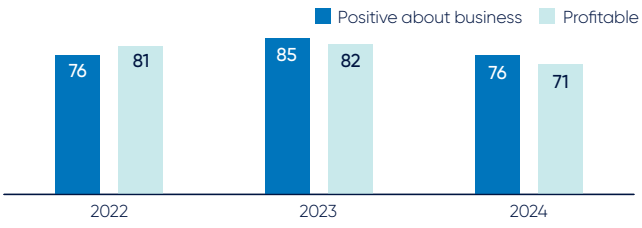


Current herd size and production

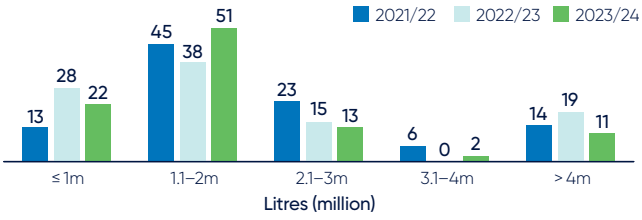
Herd size per cent



Business sentiment vs. profitability per cent

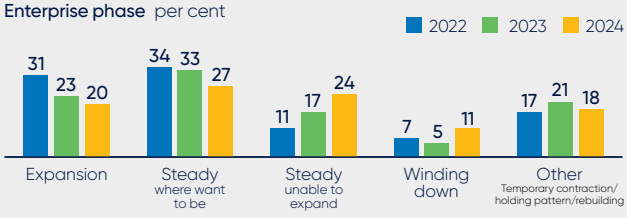


Herd production per cent



Farm profile

Enterprise phase per cent



The 'average' DairyNSW farmer

76% Impacted by extreme weather L12M

7% Changed milk factory supplied

20% Intend/desire to change milk factory

2.1t Average tonnes fed per cow per year

311 Average herd size

9% May exit industry next 3 years

DairySA Regional NDFS results at a glance

Approximately eight in ten DairySA respondents are positive about the future of their own business and of the industry. Industry confidence in this region is the highest nationally.

A high proportion (80%) of DairySA businesses were profitable in 2022/23 and the same proportion expect to be this financial year.

Currently, one third of DairySA respondents are expanding, compared to 7% in a winding down phase with 3% anticipating leaving the industry in the next three years.

Overall, the outlook for the region for the next five to ten years is looking positive with almost half of businesses (46%) expecting to grow.

Profitability and investment

80% Made profit 2022/23

80% Expect profit 2023/24

53% Profit higher than 5–year average

27% Profit about same/unsure

17% Profit lower than 5–year average

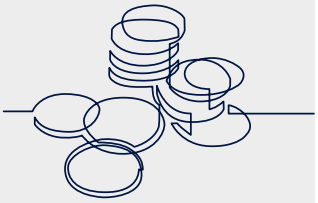
93% Invested 2022–24

87% Plan to invest 2024–26

47% Plan minor investment

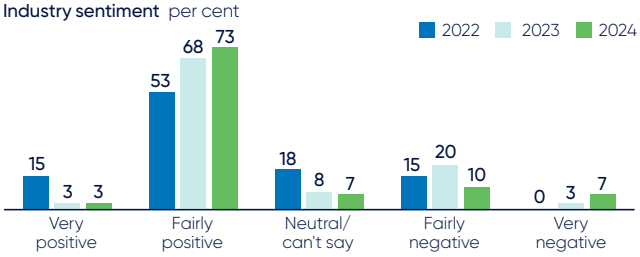
30% Plan moderate investment

10% Plan major investment

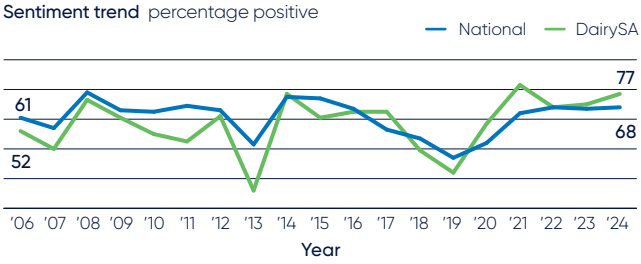


Sentiment

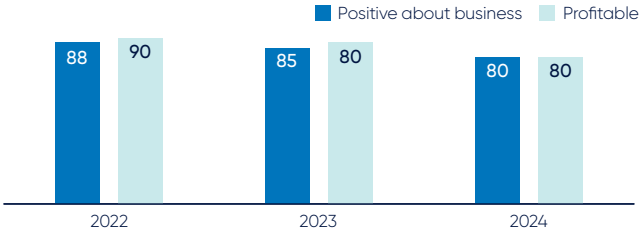
Industry sentiment per cent



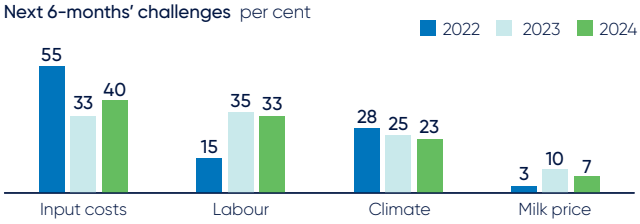
Sentiment trend percentage positive



Business sentiment vs. profitability per cent

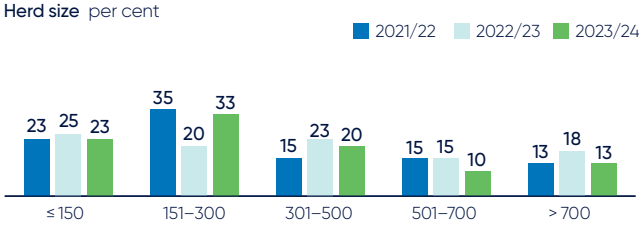


Next 6-months' challenges per cent

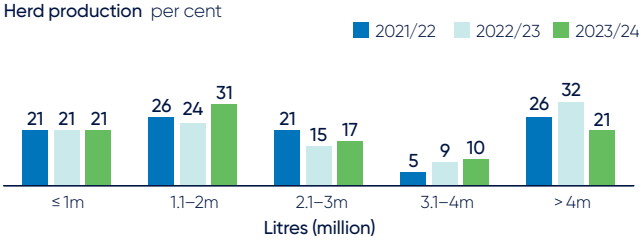


Current herd size and production

Herd size per cent

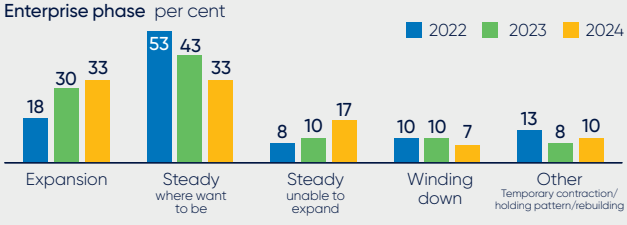


Herd production per cent



Farm profile

Enterprise phase per cent



The 'average' DairySA farmer

50% Impacted by extreme weather L12M

0% Changed milk factory supplied

14% Intend/desire to change milk factory

2.0t Average tonnes fed per cow per year

435 Average herd size

3% May exit industry next 3 years

DairyTas Regional NDFS results at a glance

Approximately 70% of DairyTas respondents are confident about the future of the industry, however, there has been a significant decrease in the proportion positive towards the future of their own business.

Profitability was widespread in 2022/23 and is again expected to be this financial year but since 2019/20, the proportion of respondents making an operating profit has been trending downwards.

Currently, 29% of DairyTas respondents are expanding their businesses while 9% are winding back.

Among those not winding down, half are prioritising on-farm improvements in the five to ten years ahead and 34% are planning for growth.

Profitability and investment

87% Made profit 2022/23

84% Expect profit 2023/24

31% Profit higher than 5–year average

45% Profit about same/unsure

22% Profit lower than 5–year average

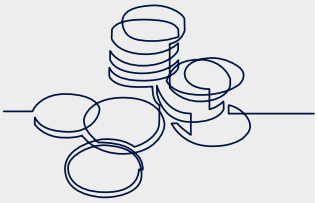
98% Invested 2022–24

85% Plan to invest 2024–26

27% Plan minor investment

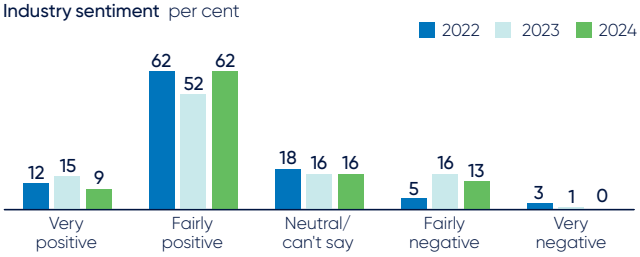
27% Plan moderate investment

31% Plan major investment

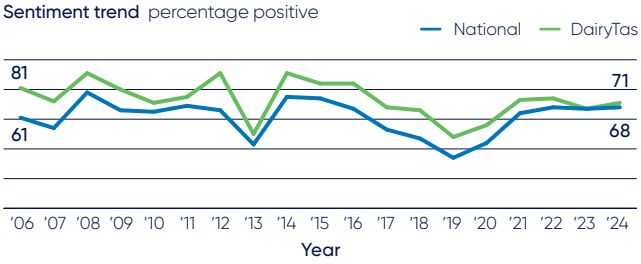


Sentiment

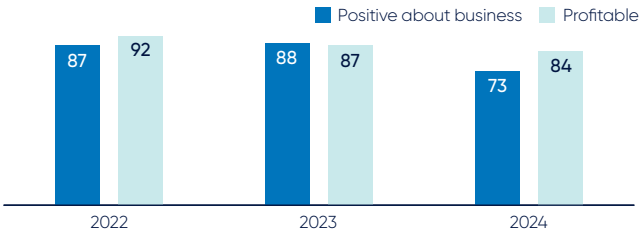
Industry sentiment per cent



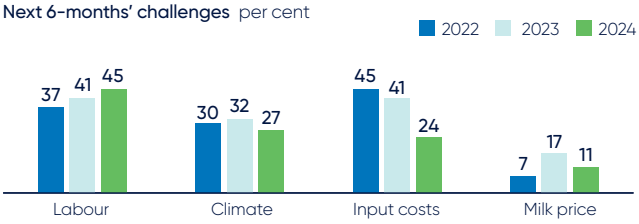
Sentiment trend percentage positive



Business sentiment vs. profitability per cent

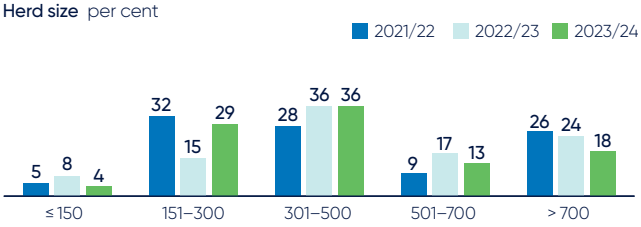


Next 6-months' challenges per cent

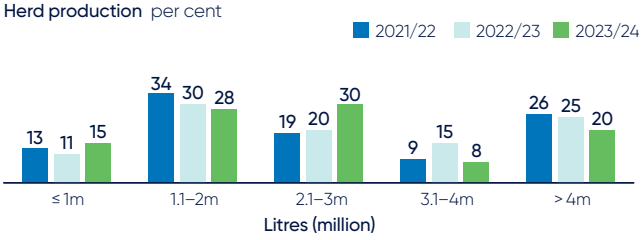


Current herd size and production

Herd size per cent

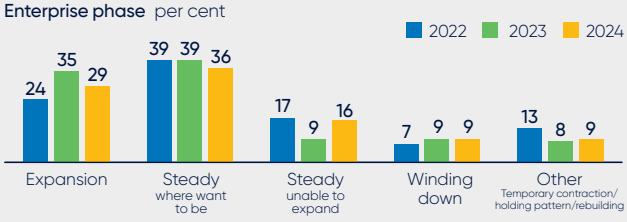


Herd production per cent



Farm profile

Enterprise phase per cent



The 'average' DairyTas farmer

69% Impacted by extreme weather L12M

4% Changed milk factory supplied

11% Intend/desire to change milk factory

1.5t Average tonnes fed per cow per year

550 Average herd size

2% May exit industry next 3 years

GippsDairy Regional NDFS results at a glance

Since 2022, there has been a growing proportion of GippsDairy respondents positive about the future of their businesses and this year's result is the highest nationally.

Similarly, almost three quarters of GippsDairy respondents are positive towards the future of the industry and this result is the highest since 2015.

Despite this positive sentiment, only one in five farmers in this region are currently expanding their enterprise.

A growing proportion of respondents are concerned with challenges due to seasonal conditions and future milk prices over the next year.

However, only 3% expect to leave the industry in the next three years and among those not winding down, three in ten expect to grow their business over the next five to ten years.

Profitability and investment

88% Made profit 2022/23

81% Expect profit 2023/24

47% Profit higher than 5–year average

38% Profit about same/unsure

14% Profit lower than 5–year average

96% Invested 2022–24

90% Plan to invest 2024–26

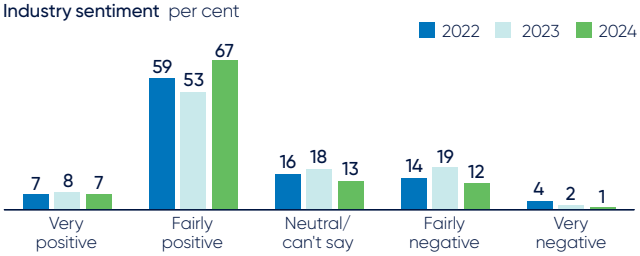
30% Plan minor investment

37% Plan moderate investment

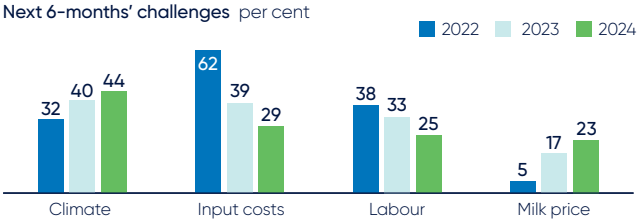
22% Plan major investment

Sentiment

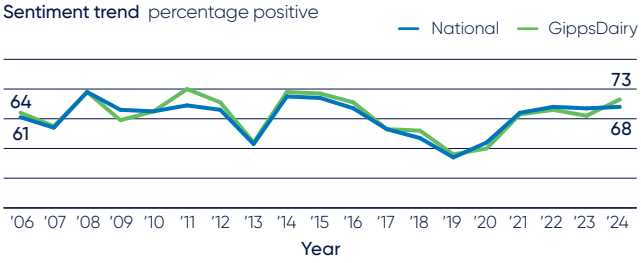
Industry sentiment per cent



Next 6-months' challenges per cent

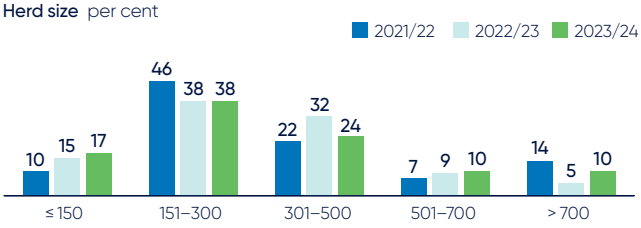


Sentiment trend percentage positive

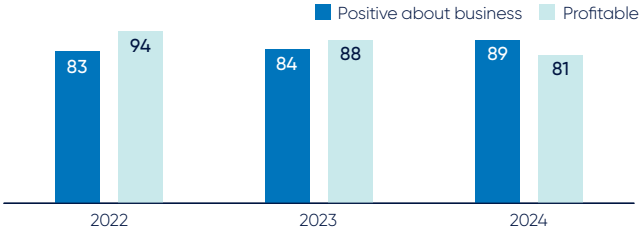


Current herd size and production

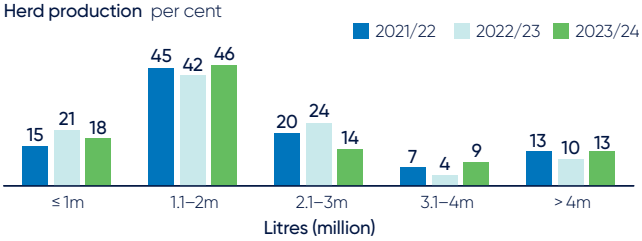
Herd size per cent



Business sentiment vs. profitability per cent

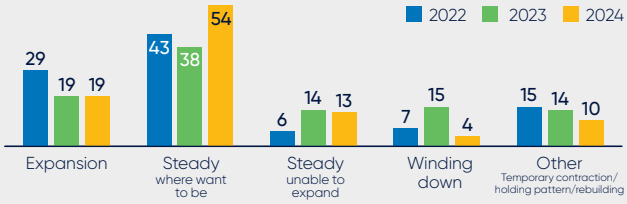


Herd production per cent



Farm profile

Enterprise phase per cent



The 'average' GippsDairy farmer

54% Impacted by extreme weather L12M

9% Changed milk factory supplied

17% Intend/desire to change milk factory

1.6t Average tonnes fed per cow per year

398 Average herd size

3% May exit industry next 3 years

Murray Dairy Regional NDFS results at a glance

Respondents have reported widespread profitability over the last four years. This has underpinned business confidence which continues to trend upwards and is the highest since the survey first captured this data in 2017 (87%).

Positivity towards the industry's future has increased over the past 12 months and is now at its highest since 2015 (73%).

Currently, 26% of Murray Dairy farms are expanding and compared to 2023, a significantly more farms have increased their milking herd size over the past year (44%).

Over the next year, climate, labour and input cost challenges are each expected by more than three in ten Murray Dairy respondents. However, profitability is still expected to be widespread this financial year.

Profitability and investment

84% Made profit 2022/23

84% Expect profit 2023/24

51% Profit higher than 5–year average

34% Profit about same/unsure

10% Profit lower than 5–year average

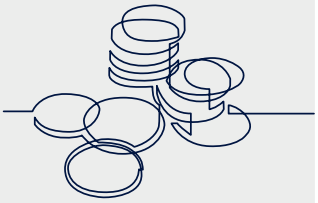
95% Invested 2022–24

90% Plan to invest 2024–26

30% Plan minor investment

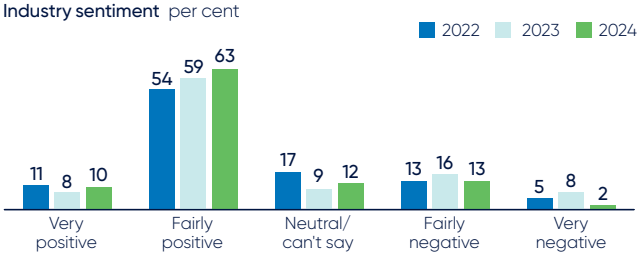
44% Plan moderate investment

16% Plan major investment

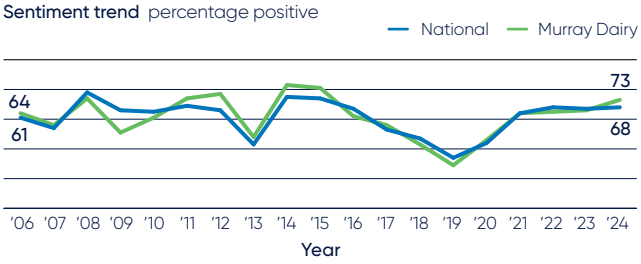


Sentiment

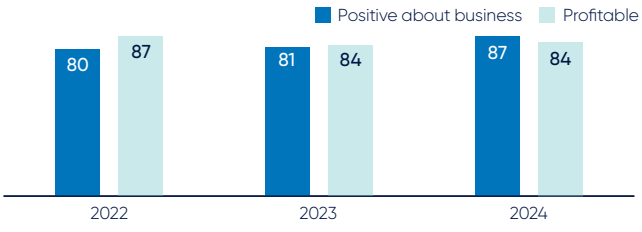
Industry sentiment per cent



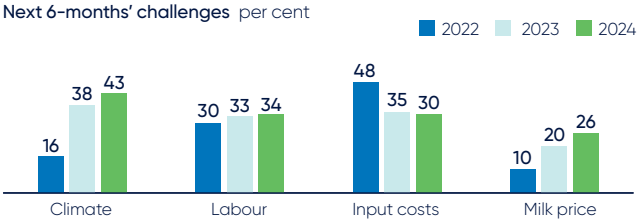
Sentiment trend percentage positive



Business sentiment vs. profitability per cent

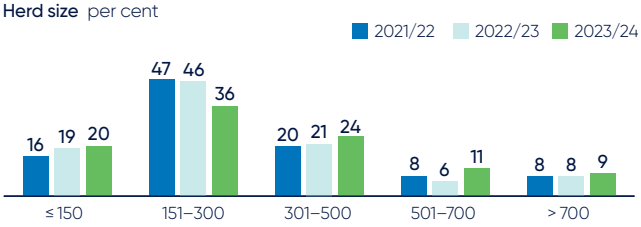


Next 6-months' challenges per cent

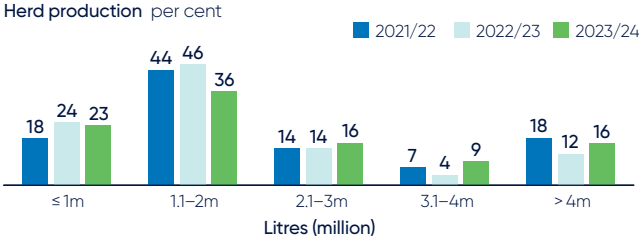


Current herd size and production

Herd size per cent

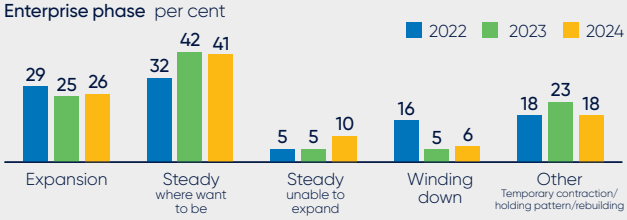


Herd production per cent



Farm profile

Enterprise phase per cent



The 'average' Murray Dairy farmer

65% Impacted by extreme weather L12M

10% Changed milk factory supplied

21% Intend/desire to change milk factory

1.8t Average tonnes fed per cow per year

391 Average herd size

3% May exit industry next 3 years

Subtropical Dairy Regional NDFS results at a glance

Nearly nine in ten respondents made an operating profit last financial year – the highest result since 2013.

Despite relatively widespread profitability being anticipated again this financial year, positivity towards the industry's future has decreased substantially but confidence in their own business remains stable at 72%.

At the time of the survey, one in five businesses in this region were expanding. Future growth intentions in the next five to ten years are however lower than the national average (22%).

In contrast, 14% of businesses are winding down and over the next three years, approximately 6% may exit the industry.

Profitability and investment

86% Made profit 2022/23

74% Expect profit 2023/24

40% Profit higher than 5–year average

36% Profit about same/unsure

22% Profit lower than 5–year average

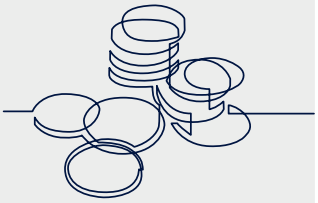
90% Invested 2022–24

90% Plan to invest 2024–26

37% Plan minor investment

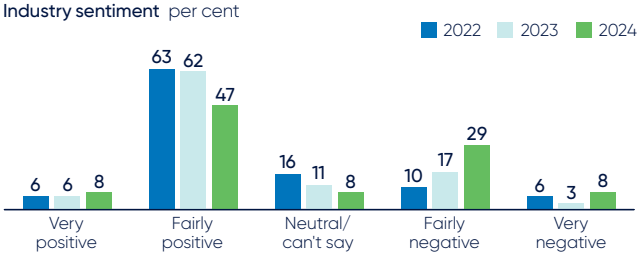
38% Plan moderate investment

15% Plan major investment

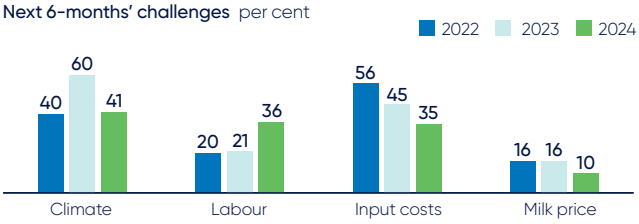


Sentiment

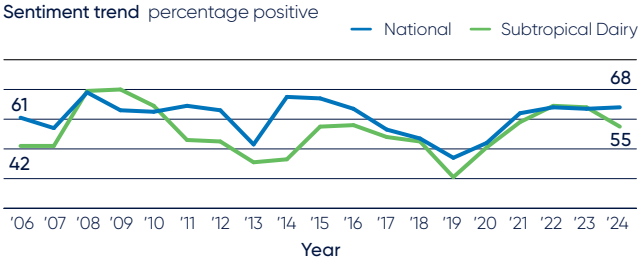
Industry sentiment per cent



Next 6-months' challenges per cent

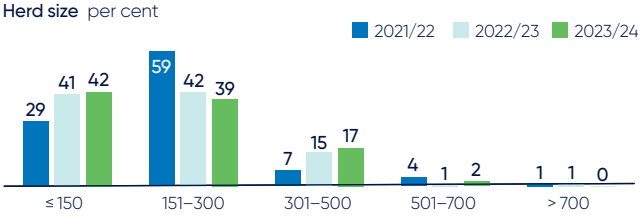


Sentiment trend percentage positive

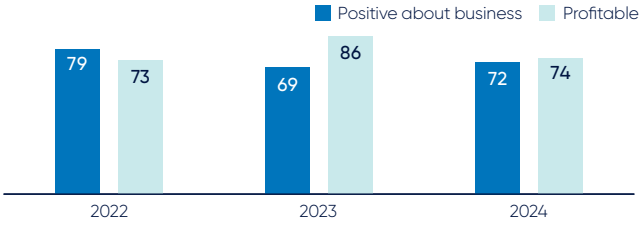


Current herd size and production

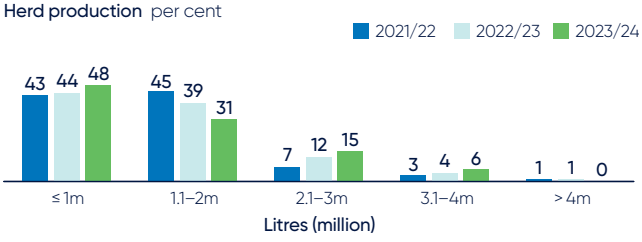
Herd size per cent



Business sentiment vs. profitability per cent

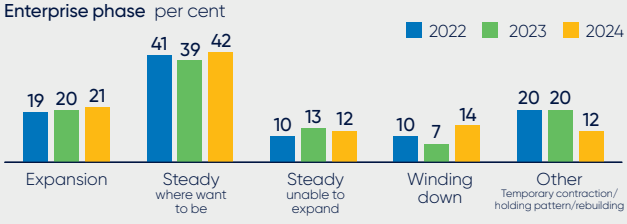


Herd production per cent



Farm profile

Enterprise phase per cent



The 'average' Subtropical Dairy farmer

86% Impacted by extreme weather L12M

8% Changed milk factory supplied

30% Intend/desire to change milk factory

1.9t Average tonnes fed per cow per year

209 Average herd size

6% May exit industry next 3 years

Western Dairy Regional NDFS results at a glance

Over the past 12 months, Western Dairy respondent confidence towards the future of their own business and that of the industry has dipped to the lowest nationally.

Cost of production, labour issues and significantly more widespread concerns with dry seasonal conditions are negatively impacting sentiment in the region.

As a result, while profitability has been widespread over the past four financial years, significantly fewer farms are expected to be profitable in 2023/24.

Currently only 10% of Western Dairy farms are expanding and a high 23% of respondents are in a winding down phase with 20% saying they are likely to exit the industry over the next three years.

Profitability and investment

90% Made profit 2022/23

67% Expect profit 2023/24

23% Profit higher than 5–year average

20% Profit about same/unsure

50% Profit lower than 5–year average

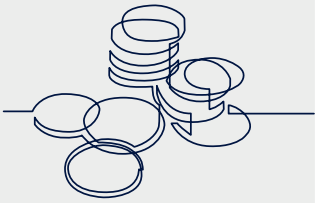
100% Invested 2022–24

80% Plan to invest 2024–26

37% Plan minor investment

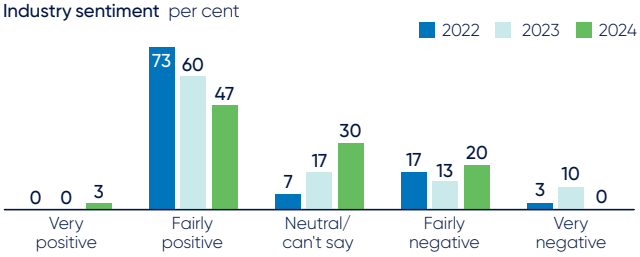
33% Plan moderate investment

10% Plan major investment

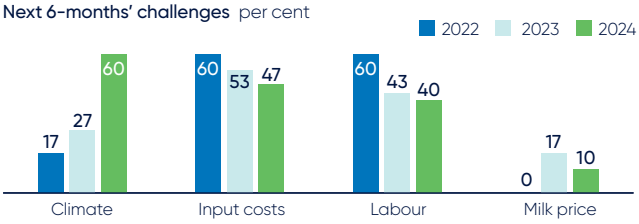


Sentiment

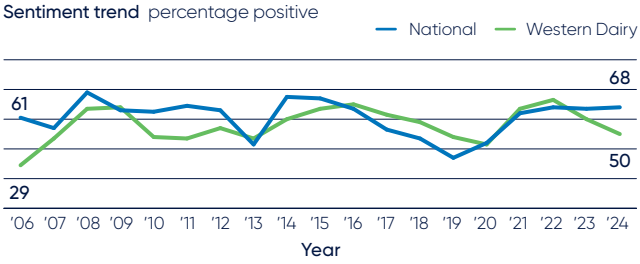
Industry sentiment per cent



Next 6-months' challenges per cent

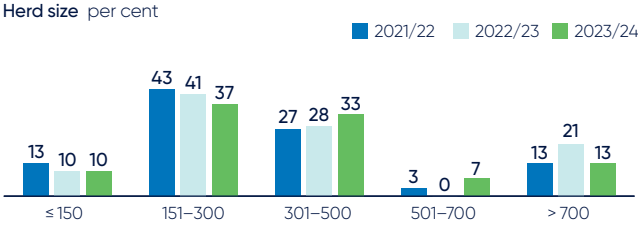


Sentiment trend percentage positive

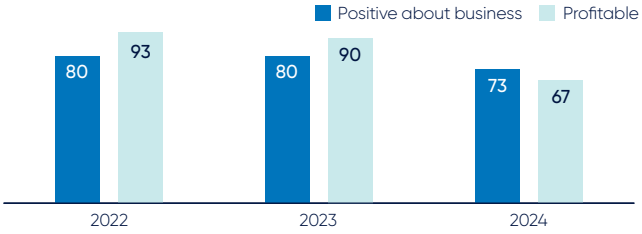


Current herd size and production

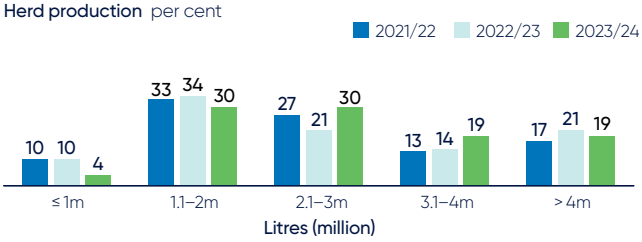
Herd size per cent



Business sentiment vs. profitability per cent

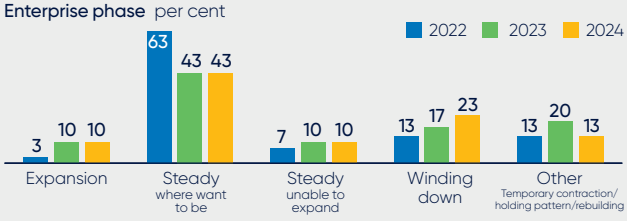


Herd production per cent



Farm profile

Enterprise phase per cent



The 'average' Western Dairy farmer

90% Impacted by extreme weather L12M

10% Changed milk factory supplied

20% Intend/desire to change milk factory

2.2t Average tonnes fed per cow per year

417 Average herd size

20% May exit industry next 3 years

WestVic Dairy Regional NDFS results at a glance

The vast majority of WestVic Dairy respondents remain positive towards the future of their business (85%).

However, over the past 24 months, confidence in the industry's future has dipped and there is growing concern towards future farmgate milk prices and climate challenges.

While profitability was widespread in 2022/23 and is again expected to be this financial year, it is trending downwards from the highs of 2021/22.

Approximately one in five WestVic Dairy businesses are currently expanding while only 3% of respondents expect to leave the industry over the next three years.

Profitability and investment

87% Made profit 2022/23

81% Expect profit 2023/24

49% Profit higher than 5–year average

26% Profit about same/unsure

18% Profit lower than 5–year average

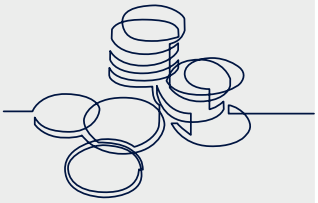
95% Invested 2022–24

88% Plan to invest 2024–26

31% Plan minor investment

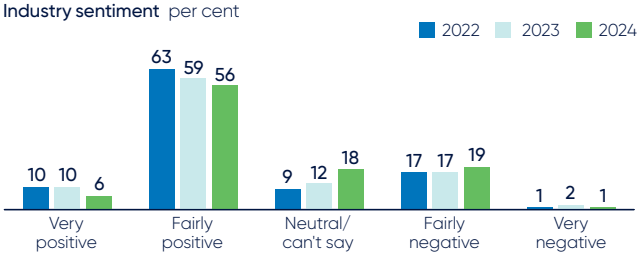
34% Plan moderate investment

23% Plan major investment

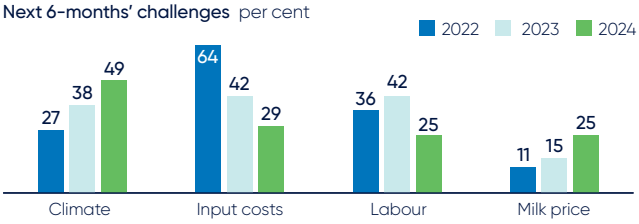


Sentiment

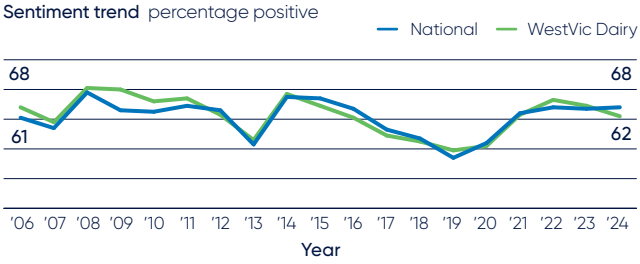
Industry sentiment per cent



Next 6-months' challenges per cent

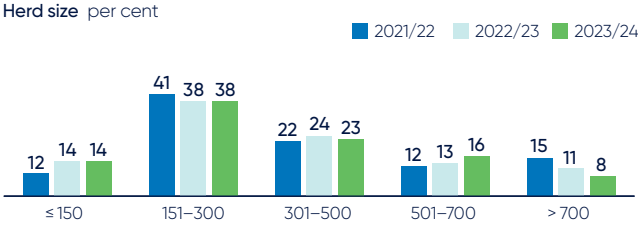


Sentiment trend percentage positive

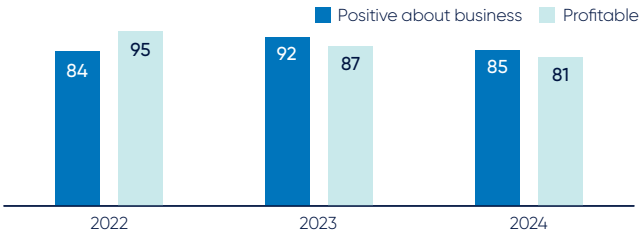


Current herd size and production

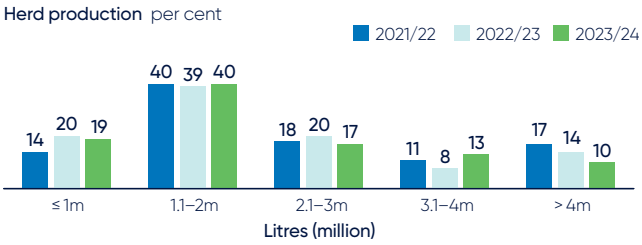
Herd size per cent



Business sentiment vs. profitability per cent

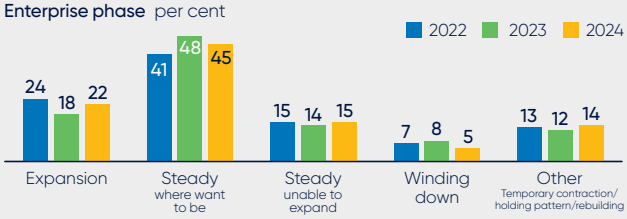


Herd production per cent



Farm profile

Enterprise phase per cent



The 'average' WestVic Dairy farmer

53% Impacted by extreme weather L12M

9% Changed milk factory supplied

17% Intend/desire to change milk factory

1.7t Average tonnes fed per cow per year

376 Average herd size

3% May exit industry next 3 years

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