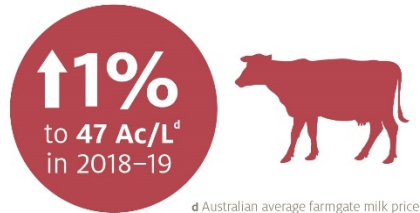


Dairy

Andrew Cameron



Dairy

Milk prices to rise due to a falling Australian dollar and increased competition for milk.

Domestic dairy herd and milk production forecast to fall

Poor seasonal conditions and rising input costs are forecast to lead to the Australian dairy herd shrinking and milk production falling in 2018-19. As a result of the drought in eastern Australia, prices for dairy feed inputs have increased considerably. Dairy Australia reports that [hay and feed grain prices are well above average levels](#) in most dairy regions.

For many producers, the increased costs will not be offset by higher forecast milk prices. Cow culling has increased and is likely to remain high as producers look to turn off less productive animals. The Australian herd is forecast to fall by 3% and milk production by 4% in 2018-19. If realised, this would be the lowest level of production in over 20 years.

The Australian farmgate milk price is forecast to rise slightly to 47 cents a litre in 2018-19. An [assumed fall in the Australian dollar](#) and strong competition among processors for milk supply are expected to support milk prices.

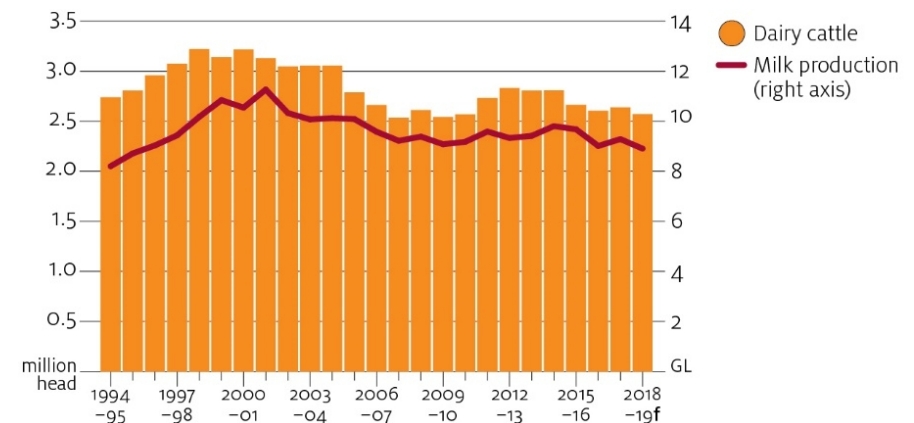
Production forecast to rise for competing exporters

Milk production in New Zealand and the United States is forecast to be higher in 2018-19, placing downward pressure on dairy commodity prices. New Zealand has experienced a better start to the 2018-19 season than last year. [US milk production has grown virtually uninterrupted](#) for over 5 years due to productivity improvements and is expected to continue to do so. Global prices for cheese, whole milk powder and butter are forecast to fall as a result.

Income growth to support dairy demand

Global dairy product demand is expected to be supported by broad-based economic growth. In 2018-19 lower milk production in China is likely as the dairy farm sector continues to consolidate. This will contribute to increased import demand.

Australian dairy herd and milk production, 1994-95 to 2018-19f



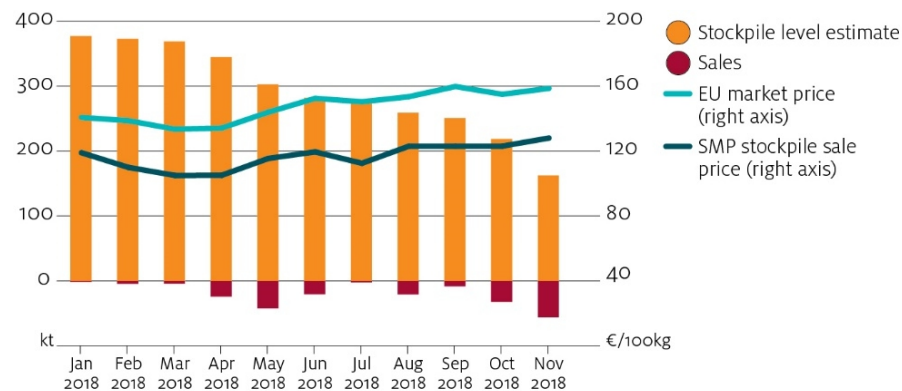
f ABARES forecast. s ABARES estimate.

Opportunities and challenges

EU intervention stocks limit upside for skim milk powder prices

The skim milk powder stockpile in the European Union stood at an estimated 160,000 tonnes in early December. Monthly sales volumes indicate that demand for the discounted powder has been variable. Sales are now occurring twice monthly, but it is likely to take at least another 12 months to eliminate the stockpile. A faster than expected reduction in the stockpile would place greater short-term downward pressure on skim milk powder prices.

EU skim milk powder intervention stockpile estimate, 2018



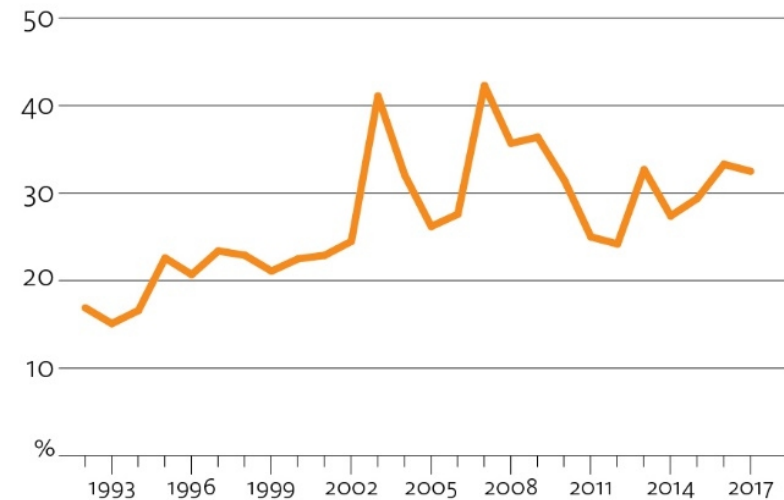
Source: EU Milk Market Observatory

Industry intensification increases drought risk exposure

The Australian dairy industry has [increased its use of material inputs like fodder](#). This increases the risk of farmers being exposed to large input price rises in times of drought, when these inputs are in high demand. Farms that do not have sufficient buffer stocks will have their profitability severely impacted because these costs can account for a large share of revenue. In the short term this will result in a fall in

Australian milk production in 2018–19. [Prices for cull cows are also forecast to fall](#) as US beef production expands, putting further pressure on Australian dairy farm incomes.

Fodder and water charges as share of milk receipts, Australia, 1990 to 2017



Source: ABARES AGSURF Database



Outlook for dairy

Category	unit	2016–17	2017–18 s	2018–19 f	% change
Australia					
Cow numbers a	'000	1,520	1,561	1,480	– 5.2
Milk yields	L/cow	5,930	5,951	6,020	1.2
Production					
Total milk	ML	9,016	9,289	8,910	– 4.1
market sales	ML	2,508	2,548	2,636	3.5
manufacturing	ML	6,508	6,741	6,274	– 6.9
Butter b	kt	100	92.7	66.0	– 28.8
Cheese c	kt	337	378	374	– 1.2
Whole milk powder	kt	60.0	82.5	72.0	– 12.7
Skim milk powder	kt	222	191	170	– 11.0
Farmgate milk price	Ac/L	40.9	46.0	46.6	1.3
Value of exports	A\$m	3,028	3,422	3,340	– 2.4
World prices					
Butter	US\$/t	4,500	5,879	4,820	– 18.0
Cheese	US\$/t	3,742	4,038	3,860	– 4.4
Skim milk powder	US\$/t	2,356	1,938	1,970	1.7
Whole milk powder	US\$/t	3,063	3,125	2,922	– 6.5

a At 30 June. b Includes the butter equivalent of butter oil, butter concentrate, dry butterfat and ghee. c

Excludes processed cheese. f ABARES forecast. s ABARES estimate

Sources: ABARES; Australian Bureau of Statistics; Dairy Australia