

Dairy

Andrew Duver



Domestic price supported by a lower Australian dollar

The 2019–20 farmgate milk price is expected to be 47.6 cents per litre, revised upwards since [Agricultural commodities: March quarter 2019](#). This is driven by a weaker Australian dollar and strong demand in dairy commodity export markets. The 2018–19 price has also been revised higher to 47.5 cents per litre.

Domestic production falls

Australia's milk production in 2018–19 is expected to be around 8% lower year-on-year. Dry conditions and high input costs have contributed to a reduction in cow numbers and a decline in production. If realised, this will be the lowest level of whole milk production since 1994–95.

Cull cow prices remain at 3-year lows in Victoria. [Cull cow prices are expected to rise](#) if there is a return to average seasonal conditions. A further reduction in the national dairy herd is expected as farms continue to sell cows to reduce feed costs and support cash flow. In 2019-20 this leads to a forecast improvement in milk yield per cow as less productive animals are culled first, and an overall decline in the number of milking cows.

Inputs costs to remain high

High water and fodder costs in 2018–19 have constrained profitability and milk production. This trend could continue into 2019–20 if there is no improvement to seasonal conditions.

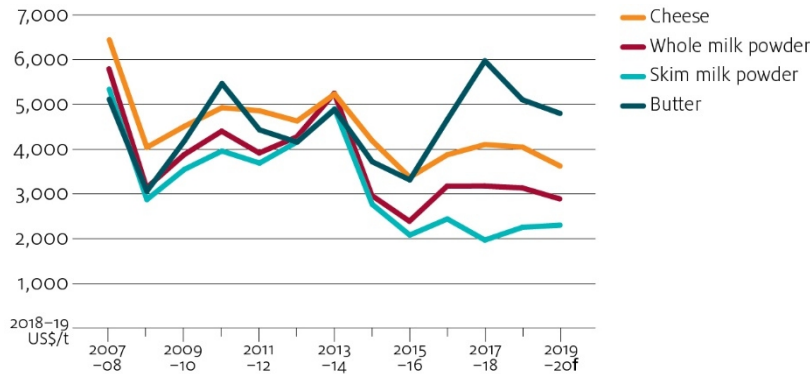
Surface water allocation prices in the southern Murray-Darling Basin have more than doubled since July 2018. Prices in the 2019–20 season are expected to remain elevated until water inflows improve storage levels. The long-term implications of [structural shifts in water demand](#) towards higher-value uses, such as almond growing, may result in fewer years of water prices in the range of \$150 to \$200 per megalitre. This will be an important consideration for farms reliant on purchasing surface water allocations as they are more exposed to water price volatility than farms that own permanent water entitlements.

Feed costs are likely to remain high until winter crops are harvested later in 2019. Fodder demand is expected to remain high over 2019–20 as herds and on-farm feed inventories are rebuilt.

Global markets expected to fall

Forecast prices for butter, cheese and whole milk powder in 2019–20 have been revised up since [Agricultural commodities: March quarter 2019](#) but remain below 2018–19 levels. The forecast price for skim milk powder in 2019–20 is low but will remain higher year-on-year, driven by demand from developing countries.

World dairy prices, 2007–08 to 2019–20

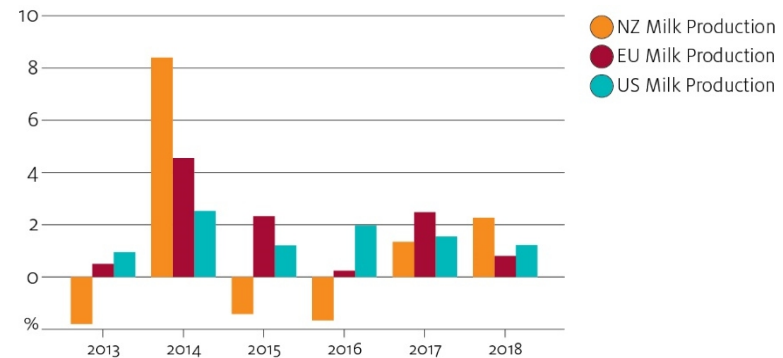


f ABARES forecast.

A falling Australian dollar and higher skim milk prices are expected to offset the domestic impact of lower world butter, cheese and whole milk powder prices. The Australian dollar is assumed to average US70 cents in 2019–20, revised down from the US73 cents forecast in [Agricultural commodities: March quarter 2019](#).

Milk production in New Zealand, the European Union and the United States has continued to grow since a spike in 2014, but at a slower rate. If seasonal conditions improve, a lift in global production could put downward pressure on prices in 2019–20 and into the medium term.

Selected year-on-year change in total milk production, 2013 to 2018



Sources: Dairy Companies Association of New Zealand; Eurostat; US Department of Agriculture

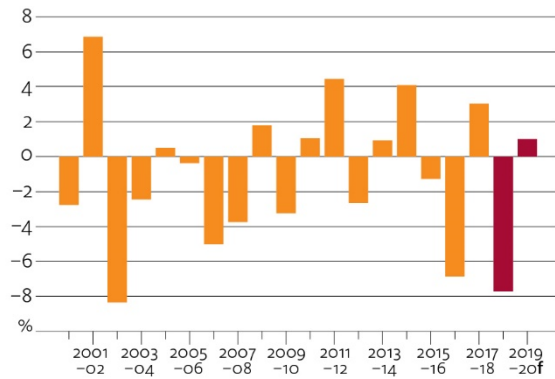
Global demand for dairy products is expected to grow steadily into the medium term. Slowing global economic growth in 2018–19 is expected to put some downward pressure on dairy demand. This will be partly offset by a growing preference for dairy products among an expanding population of middle-class Asian consumers.

Opportunities and challenges

Domestic supply unlikely to rebound quickly

In 2019–20 domestic milk production is expected to increase slightly, assuming a return to average seasonal conditions. The number of cows that have been culled in Victoria is likely to limit a recovery in production.

Year-on-year change in total milk production, 2000–01 to 2019–20



f ABARES forecast.

Sources: ABARES; Australian Bureau of Statistics; Dairy Australia

Manufacturing decisions

Low milk production in 2018–19 is likely to increase competition between processors into the 2019–20 season as they seek to maintain throughput. However, sustained lower milk production could lead to further rationalisation of processing facilities.



Australian Government
Department of Agriculture
ABARES

Outlook for dairy

| Category | unit | 2017–18 | 2018–19s | 2019-20f | % change |
|----------------------|-------------|----------------|-----------------|-----------------|-----------------|
| Australia | | | | | |
| Cow numbers a | '000 | 1,547 | 1,480 | 1,473 | -0.5 |
| Milk yields | L/cow | 6,007 | 5,791 | 5,878 | 1.5 |
| Production | | | | | |
| Total milk | ML | 9,289 | 8,570 | 8,656 | 1.0 |
| market sales | ML | 2,548 | 2,575 | 2,609 | 1.3 |
| manufacturing | ML | 6,741 | 5,995 | 6,047 | 0.9 |
| Butter b | kt | 92.7 | 52.0 | 58.0 | 11.5 |
| Cheese c | kt | 378 | 381 | 384 | 0.7 |
| Whole milk powder | kt | 82.5 | 48.0 | 46.5 | -3.1 |
| Skim milk powder | kt | 191 | 190 | 193 | 1.6 |
| Farmgate milk price | Ac/L | 46.0 | 47.5 | 47.6 | 0.2 |
| Value of exports | A\$m | 3,422 | 3,513 | 3,518 | 0.1 |
| World prices | | | | | |
| Butter | US\$/t | 5,879 | 5,107 | 4,900 | -4.1 |
| Cheese | US\$/t | 4,038 | 4,049 | 3,750 | -7.4 |
| Skim milk powder | US\$/t | 1,938 | 2,255 | 2,350 | 4.2 |
| Whole milk powder | US\$/t | 3,125 | 3,137 | 2,950 | -6.0 |

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