

Dairy

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Milk prices to fall due to global production increases and demand shocks.

Farmgate milk price to fall

The farmgate price of milk in Australia is forecast to average 47.9 cents per litre in 2020-21, down by 9% from the high levels of 2019-20. Measures implemented to control the COVID-19 pandemic are expected to reduce incomes in all of Australia's major dairy export markets. This will reduce demand for dairy products and push world prices down. The global supply of dairy products is expected to increase in 2020-21 due to favourable seasonal conditions in the United States and the European Union.

A weaker Australian dollar and competition among processors for milk supplies are expected to partially offset downward influences on farmgate milk prices. However, processors have been cautious in their initial contract offers of milk prices released on 1 June 2020. This is due to uncertainty about demand recovery—especially for high-value products—once COVID-19 lockdowns are lifted.

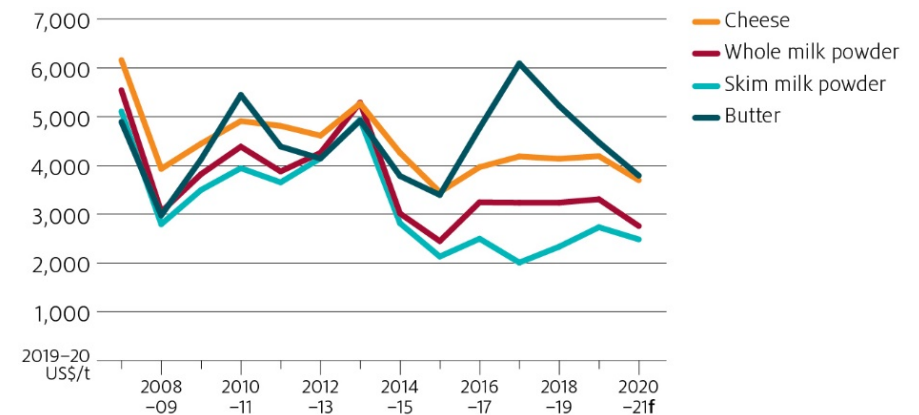
Global prices to fall due to weaker demand

Global prices of dairy products are forecast to fall in 2020-21. Falls in incomes caused by COVID-19 control measures are causing consumers in international markets to review discretionary spending. Weaker

demand for higher-value products is expected to result in lower prices for butter and cheese. Substitution to lower-cost dairy products, such as powders, will support prices for those commodities.

Prices for butter are expected to fall by 15% and cheese by 12%. Skim milk powder (SMP) is relatively inexpensive and demand is less responsive to changes in income. The expected price fall of 9% will be supported by implementation of private storage aid in the European Union. Whole milk powder (WMP) prices are expected to fall by 16%. The fall in WMP is greater than for SMP because it is used in higher-value products, where demand is more responsive to changes in income. Chinese WMP inventories have also increased due to redirection of milk from food service products to WMP production.

World dairy prices, 2007-08 to 2020-21



Despite slightly lower production in New Zealand due to adverse seasonal conditions, aggregate production among the big exporters is expected to be marginally higher in 2019-20 and is forecast to

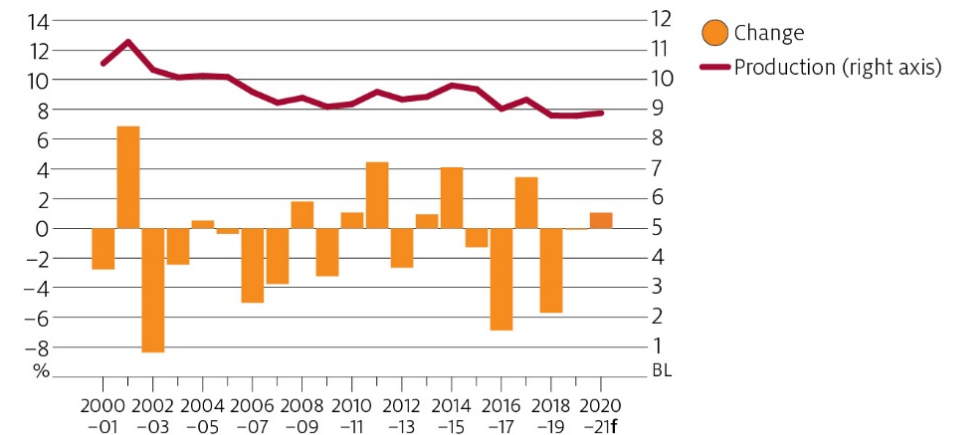
increase slightly in 2020–21. Favourable seasonal conditions and government support in response to COVID-19 in the European Union and the United States have supported milk production. High production and stocks are expected to maintain downward pressure on prices even after the COVID-19 recovery.

Domestic production to recover with improved seasonal conditions

Australian milk production is expected to remain steady in 2019–20, an upwards revision of 3% from [Agricultural commodities: March quarter 2020](#).

Production has recovered strongly in the second half of 2019–20 following poor drought conditions in 2019. Dairy farmers are expected to retain cows for herd rebuilding for the remainder of 2019–20 and into 2020–21 as input prices ease and pasture growth improves. The high level of culling during the drought is expected to have improved the average productivity of herds because the least productive cows were likely to have been culled first.

Year-on-year change and total milk production, 2000–01 to 2020–21



f ABARES forecast.

Sources: ABARES; Australian Bureau of Statistics; Dairy Australia

Average to wetter than average conditions forecast for June to August 2020 are expected to improve milk yields in some regions and encourage continued herd rebuilding. Milk production is forecast to increase only marginally. Without strong recovery in domestic milk production, competition between processors for milk supplies will only ease if export demand falls significantly due to the COVID-19 pandemic.

Opportunities and challenges

Global volatility and uncertainty

Uncertainty around the COVID-19 recovery poses a risk to the Australian dairy industry. For example, the shutdown of the food service sector in China diverted large volumes of milk destined for cheese and butter products into WMP, causing an increase in inventories. This may reduce China's demand for Australian WMP

exports. Volatility in the global market due to trade disputes described in [Agricultural commodities: March quarter 2020](#) is also likely to continue.

Structural adjustment pressures

Average incomes for Australian dairy farms fluctuate widely each year, largely in response to changes in farm costs resulting from prevailing seasonal conditions and variations in world dairy prices. Incomes exceed cash costs in most years, but lower income years are predominantly driven by high costs caused by poorer conditions. The ability to manage poorer conditions varies across individual farms and regions.

Recent ABARES analysis suggests water allocation prices in the southern Murray–Darling Basin will likely decrease from \$597 per ML in 2019–20 to around \$354 per ML in 2020–21 under average seasonal conditions (see Water note). However, prices are likely to remain high in 2020–21 compared with the historical average (around \$200 per ML). This is because it will take consecutive years of good rainfall and water recharge to lower water prices. As a result, dairy farms that rely on purchasing temporary allocations to grow fodder will be exposed to high water prices, and may need to consider other options such as buying fodder directly or adjusting the size of their herd.

Dairy code of conduct takes effect

Dairy processors published milk supply agreements for 2020–21 on 1 June 2020 as part of the requirements of the mandatory [Dairy Industry Code of Conduct](#). This requirement improves transparency in trading of milk and enables farms to more easily compare competing offers.

Milk pricing is complex. Prices vary for different months, regions and quality specifications. Agreements can be exclusive or non-exclusive and some contracts offer productivity incentives for supplying additional milk. The table indicates opening prices that an average dairy farm would receive in each processor's catchment.

Indicative milk prices offered by major processors, 2020–21 season

Processor	Opening milk price per kilogram milk solids (\$)
Australian Consolidated Milk	6.30–6.90
Bega Cheese (Northern Victoria)	6.55
Bega Cheese (Southern Victoria)	6.40
Beston Global Food Company	7.20
Brownes Dairy	7.00
Bulla	6.30–6.70
Burra Foods	6.00–6.40
Fonterra	6.40
Harvey Fresh	7.20
Lion Dairy & Drinks	7.00
Saputo	6.40

Source: Dairy processors



Outlook for dairy

Category	unit	2018–19	2019–20 f	2020–21 f	% change
Australia					
Cows a	'000	1,376	1,370	1,375	0.4
Milk yields	L/cow	6,389	6,412	6,455	0.7
Production					
Total milk	ML	8,793	8,785	8,876	1.0
market sales	ML	2,484	2,499	2,531	1.3
manufacturing	ML	6,309	6,285	6,345	0.9
Butter b	kt	73.3	65.0	68.0	4.6
Cheese c	kt	381	390	392	0.5
Whole milk powder	kt	47.5	45.0	46.0	2.2
Skim milk powder	kt	177	165	170	3.0
Farmgate milk price	Ac/L	49.7	52.4	47.9	-8.6
Value of exports	A\$m	3,188	3,308	3,373	2.0
World prices					
Butter	US\$/t	5,144	4,473	3,804	-15.0
Cheese	US\$/t	4,075	4,190	3,708	-11.5
Skim milk powder	US\$/t	2,298	2,733	2,492	-8.8
Whole milk powder	US\$/t	3,190	3,306	2,767	-16.3

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.

Sources: ABARES; ABS; Dairy Australia