

# DAIRY SITUATION AND OUTLOOK

JUNE 2020



# CONTENTS

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<b>Seven key drivers</b>	<b>1</b>
<b>Executive summary</b>	<b>2</b>
<b>National Dairy Farmer Survey</b>	<b>4</b>
Regional overview February 2020	7
<b>Domestic market</b>	<b>8</b>
<b>Global supply</b>	<b>12</b>
<b>Global demand</b>	<b>14</b>
<b>Inputs</b>	<b>16</b>
<b>Appendix</b>	<b>19</b>
Market dashboard	20
Regional NDFS results at a glance	22

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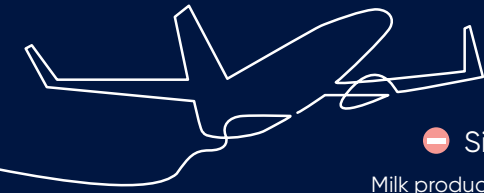
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# SEVEN KEY DRIVERS

## OF THE AUSTRALIAN DAIRY INDUSTRY



### Global supply

⊖ Situation ⊖ Outlook

Milk production has been expanding in three of the top four dairy exporting regions. Whilst a sharp COVID-19 induced slowdown is likely, ample supply of dairy products is likely to weigh on pricing in the months ahead



### Australian market

ⓘ Situation ⊖ Outlook

Sales of dairy products through the retail sector surged following the COVID-19 outbreak, as consumers stocked up in preparation for restrictions. In comparison demand plummeted through non-grocery channels, with value creation implications for the whole supply chain



### Global demand

⊖ Situation ⊖ Outlook

Widespread disruptions created by the rapid spread of COVID-19 saw global demand slow. A deteriorated economic outlook is set to impact purchasing power in price sensitive markets, with implications for Australia's dairy exports. Looking ahead, any improvement in demand is likely to be heavily dependent on the re-opening of global foodservices sectors



### Inputs

ⓘ Situation ⊕ Outlook

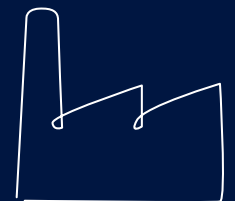
After two years of high input costs and challenging weather, climate outlooks have become more favourable. Rain late in summer and throughout autumn provided a boost for the winter cropping season and eased feed demand



### Global economy

⊖ Situation ⊖ Outlook

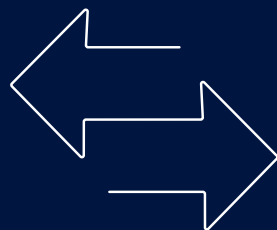
The global economy is forecast to contract 3% due to the outbreak of COVID-19. High levels of unemployment, subdued consumption and falling economic activity have driven this downturn. In addition, rising geopolitical tension is continuing to pose threats to the health of the global economy



### Australian production

⊕ Situation ⊕ Outlook

As seasonal conditions improve, national milk production has continued to recover, growing year-on-year for the past five months to April. Given the extent and persistence so far of this turnaround, Dairy Australia has moderated its milk production outlook for 2019-20, to indicate a drop of -1% to -3%, compared to 2018-19



### Exchange rates

⊕ Situation ⓘ Outlook

The Australian dollar plummeted throughout March reaching a low of 0.577 A\$/US\$, before finding some strength in April and May. As the A\$ is heavily influenced by the Chinese economy, a slower than expected recovery in China is forecast to maintain pressure on the currency in coming months

# EXECUTIVE SUMMARY

What a difference a year makes. The turnaround in 2019–20 seasonal conditions is well underway for some areas; for others it is still tentative.

Either way, a strong autumn break and buoyant outlook for grain and fodder production, signal the likelihood of lower input costs in the months ahead. In stark contrast, social and economic dynamics have been disrupted by the outbreak of COVID-19 and resulting restrictions implemented to curb the pandemic. This broader turmoil has impacted commodity markets, including dairy, and poses continued risks for the months ahead.

Nonetheless, some things are looking increasingly positive heading into the new season. With an early break and wet weather forecasts for many regions, demand for purchased feed has dampened, resulting in hay prices easing, especially in Victoria and South Australia (SA). Rain across much of New South Wales (NSW) and Queensland broke the drought in some regions and saw hay prices decrease. Tasmania received good amounts of rain over late-summer and autumn; however, fodder prices remain high due to lower fodder availability. In comparison, a dry start to the year in Western Australia (WA) has kept hay prices elevated and is weighing on the overall feed production outlook for the region. At the same time as fodder costs decreased, grain prices remained firm, due to high international prices and limited local supply. As global production forecasts turned more favourable, pressures on grain prices in Australia have started to ease. Whilst follow-up rainfall is needed to effectively complete sowing, especially in Queensland, the outlook for eastern Australia's winter cropping harvest has improved.

With more manageable input costs, favourable seasonal conditions and relatively strong farmgate milk prices this season, overall industry confidence has improved. According to data from the National Dairy Farmer Survey (NDFS), conducted in February, 44% of farmers were reportedly positive about the industry's future, up 10% from last year. Farmer sentiment about their own business has improved more, continuing to widen the gap between overall industry and own business confidence. This increase was noticeable in all regions however, significant differences remain. Own business sentiment appears to be closely correlated to farmer's reliance on the purchased feed market and weather.

Not surprisingly business confidence was lowest in WA and the Murray region, and highest in Tasmania, Gippsland, western Victoria and SA. As the main NDFS survey was conducted before COVID-19 was declared a pandemic, a shorter supplementary survey occurred early May to assess changes over this time. This survey showed that the spread of the virus had impacted around 20% of farm business in some capacity, for example creating difficulties sourcing different materials. Despite these challenges there has been a continued uplift in sentiment due to ongoing favourable seasonal conditions.

**44% of farmers were reportedly positive about the industry's future, up 10% from last year**

Better conditions and improved confidence have resulted in a significant recovery in Australia's milk pool. National milk production has increased year-on-year for the past five months to April. Given the extent and persistence of this turnaround, Dairy Australia has moderated its milk production outlook for 2019–20, to indicate a drop of between 1% and 3%, compared to 2018–19. This would equate to an annual total of between 8.5 and 8.7 billion litres. The production recovery remains localised to a few regions and is mainly driven by strong growth in Tasmania and Victoria. In comparison, high input costs have constrained production in other regions, such as WA and Queensland. As seasonal conditions have continued to rally, Dairy Australia's initial forecast for the 2020–21 season anticipates a modest rebound in milk production, up between 1% and 3%.

Whilst circumstances on farm have continued to improve, the COVID-19 outbreak has upset global markets, with flow-on effects in Australia. The virus has led to significant change in consumer purchasing behaviour with implications on demand for dairy both domestically and internationally.

In Australia the retail sector tends to account for a larger share of national dairy consumption, compared to non-grocery channels. This resulted in a temporary overall increase in dairy sales, as consumers stocked up pantries and fridges in preparation for restrictions. Sales of long life milk surged 76% in the four weeks to 22 March, while sales of fresh milk, yellow spreads, cheese and yoghurt



also grew, albeit at slower rates.<sup>1</sup> Since then sales through retail outlets have stabilised, but demand for fresh milk, yellow spreads, cheese and yoghurt remain elevated. In comparison, sales of dairy products through non-grocery channels, such as foodservice, restaurants and cafes have plummeted. As the non-grocery sectors typically act as a significant value generator for the dairy industry, this drop is likely to impact value creation opportunities throughout the supply chain.

Internationally, the spread of COVID-19 slowed exports to China, upset global markets and saw commodity prices drop. Whilst the initial panic that followed the outbreak has begun to settle, global dairy demand remains under pressure. Ongoing restrictions have seen demand ease, particularly from overseas foodservice sectors and price-sensitive markets. China's re-entry into the dairy trade in April has been a welcomed sign, however as the virus spreads, demand from other regions have also been impacted.

As COVID-19 continues to drive market sentiment, milk supply growth is equally weighing on the global market balance. Milk production in the US increased 2.2% in March, the strongest growth rate in three years. Favourable weather combined with growing cow numbers and per-cow production contributed to this increase. Similarly, favourable seasonal conditions and strong per-cow production supported milk growth in the EU. On the other side of the globe, dry weather in New Zealand curtailed production during the shoulder period. The overall impact of this has been limited with analysts predicting steady volumes to last year.

The outbreak of COVID-19 has exacerbated the impact of growing milk supply on global markets. The drop in demand, combined with an increase in supply, has amplified the need to redirect products. The resulting supply chain disruptions saw milk dumped in the northern hemisphere but also increased export competition in key overseas markets. Government interventions and commercially-driven measures were launched to counter this imbalance in the US and EU, however, global milk supply is likely to keep downward pressure on commodity values heading into 2020–21.

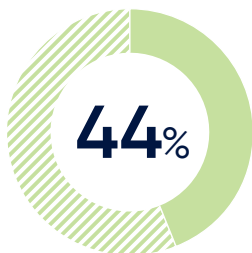
Australia is not immune to the growing headwinds facing global markets. The still escalating economic fallout of the crisis is expected to generate reverberations and reduce consumers' purchasing power in key markets, amidst unresolved trade disputes. Following the introduction of the new Mandatory Code of Conduct, minimum pricing announcements occurred on 1 June. Whilst exceeding some earlier expectations, for most farmers current indicated milk prices will represent a decrease compared to the 2019–20 season, which highlights the importance of continued moderation in input costs. On this note, favourable weather forecasts bode well, especially if translated to improved feed availability at decreasing prices. After a troubled relationship in recent years, Mother Nature may prove a timely ally in the months ahead.

<sup>1</sup> Nielsen Homescan based on a continuous panel of 10,000 households; excludes non-private dwellings & businesses, non-permanently occupied households & out-of-home/impulse purchasing. Dairy Australia calculation based in part on data reported by Nielsen through its Homescan Service for the dairy category for the 4-week period ending 22/03/2020, for the total Australian market, according to the Nielsen standard product hierarchy. © 2020, The Nielsen Company

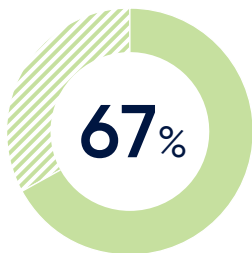


# NATIONAL DAIRY FARMER SURVEY

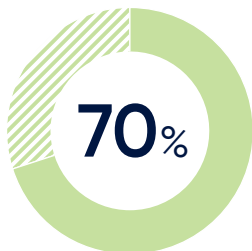
## Key findings



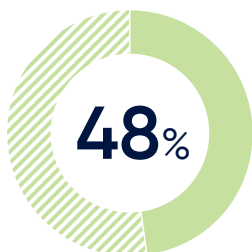
**Sentiment**  
Positive about industry future



**Outlook**  
Positive about own business



**Profitability**  
Expect operating profit in 2019–20



**Production**  
Increased production since 2018–19

The NDFS is conducted each year as a means of tracking dairy farmer sentiment, views on industry challenges, and their own business intentions. It provides a robust set of data to support or challenge anecdotal and other information sources.

## Farmers have a more positive outlook

The 2020 National Dairy Farmer Survey indicates a significantly more positive outlook for the year ahead. This improvement is centred around three key indicators:

- More farmers are feeling confident about their own businesses,
- Production is increasing; and
- Profit expectations for the 2019–20 year are higher compared to last year's predictions.

Favourable seasonal conditions, more manageable input costs and a relatively high farmgate milk price are the key underlying drivers. Furthermore, in 2020, fewer farmers were anticipating challenges related to inputs, climate or irrigation for the next six months than what was reported in 2019. Farmgate milk price was of least concern at the time of the February survey.

To better represent a rapidly changing environment in the time between the main February survey and its publication, a smaller supplementary survey was undertaken in May. Encouragingly, in this survey, conducted amongst a proportion of farmers who were interviewed in February, around 30% reported feeling more positive about the industry future and about their own businesses. This was primarily due to further weather improvements. The outbreak of COVID-19 has presented various challenges to dairy businesses with 20% of farms saying it has had some impact. The most common difficulties experienced have been in relation to accessing materials and farm supplies, as well as the implementation of additional staff hygiene protocols.



## 1 Greater confidence in their own business

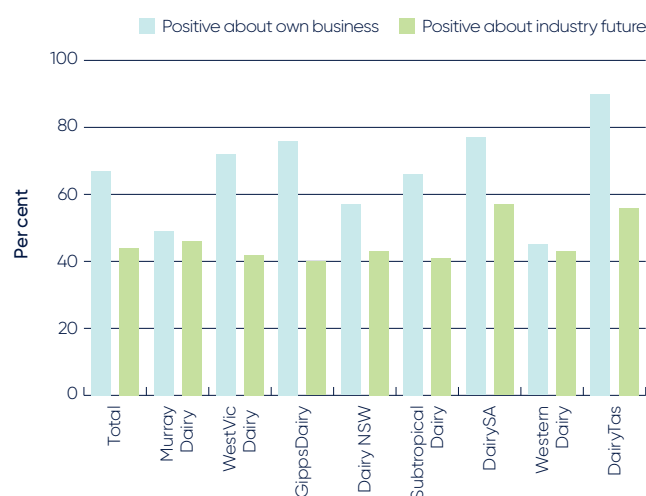
Farmer confidence came close to a record low in 2019, amidst challenging seasonal conditions and high costs of production. Survey data shows a marked turnaround in dairy farmer sentiment in 2020. In the last 12 months, there has been a significant rise in the proportion of farmers feeling positive about their own businesses, up 22% to 67%. This has mainly been the result of early rainfall, easing feed prices and the strong correlation that exists between the level of reliance on purchased feed and business confidence. Encouragingly, this uplift in farmer sentiment is widespread across most regions and herd sizes, despite some ongoing concerns about feed, water and seasonal conditions in the six-months ahead.

These challenges are most apparent in the Murray Dairy region where 32% of farmers fed their herds without grazing for more than six months of the past 12 (compared to a national average of 16%). In this farming environment, it is not surprising that concerns about feed and water continue to weigh heavily on farm business confidence. This is reflected in a comparably low share, 49%, of farmers feeling positive about their own business in 2020 in this region. While lower than average, this represents a significant improvement (up 17%) on 2019 confidence.

Data from the 2020 survey shows that farmers' confidence in their own business does not translate into an equally positive view about the future of the wider industry. In fact, the gap between industry and business sentiment has widened and is evident across many dairying regions, despite the overall improvement in industry sentiment, from 34% to 44%.

Interestingly, the farmgate milk price in general appears to have less impact on overall farmer confidence in the industry in 2020 than previous years. This could be a result of a shift in farmers' perception of their own ability to somewhat impact the price received by 'shopping around'. In the past 12 months one in five farmers changed processors, mainly in a bid to achieve a higher farmgate price. It seems possible from the survey data, that this ability to negotiate a higher price with a different supplier has influenced a number of farmers own business sentiment.

**Figure 1** Sentiment – own business vs. industry future



Source: NDFS

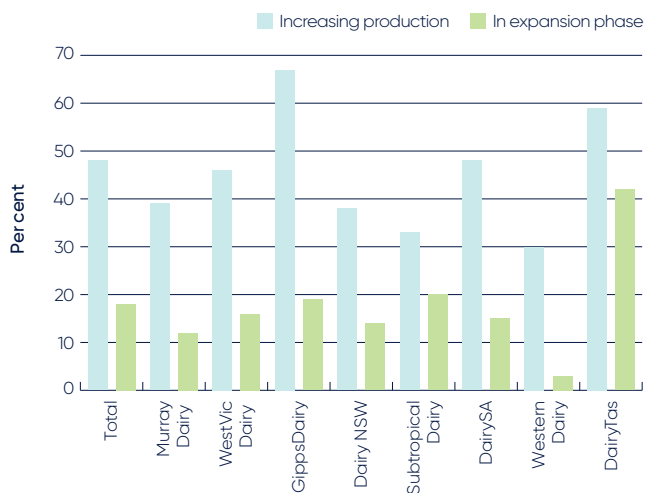
### KEY INSIGHTS

- Whilst there has been a significant increase in farmers' own business confidence and industry confidence in 2020, the gap between these measures is widening
- The level of reliance on the purchased feed market, combined with the impact this has on production costs and profitability, appears to have the greatest impact on own business sentiment
- Although there has been an uplift in industry confidence, the 'bounce back' is slower than what would normally be expected, and has previously been observed

## 2 Widespread improvement in production with more farms entering an 'expansion phase'

In February, 48% of farms anticipated an increase in production volumes for the year ending June 2020. This represents a significant change compared to the 2019 survey nationally, but especially across all Victorian regions and SA. The anticipated lift comes despite the challenges created by prolonged drought, bushfires and high feed and water costs facing many farmers prior to the survey.

**Figure 2** Increasing production vs. expansion 2019–20



Source: NDFS

For many, this improvement represents a period of recovery and moving back towards production levels prior to 2019. Only a portion of those farmers reporting production growth consider their business to be in an ‘expansion phase’. Overall, however, the proportion of farms in an expansion phase has increased strongly, up to 18%, from 11% in 2019. This is the highest share of farmers in an expansion phase since 2017.

From a regional perspective, Tasmania has the highest proportion nationally of farmers expanding their businesses, 42%. Farmers in the Murray Dairy, Subtropical and Dairy SA regions are also considerably more likely to be in an expansion phase in 2020 than in 2019. While farmers across all herd sizes are reporting an uplift in production for 2019–20, expansion is significantly more likely on farms with milking herds in excess of 700 cows.

### KEY INSIGHTS

- 2019–20 has been a year of recovery for many regions with overall improvements in productivity as seasonal conditions, feed costs and availability improved
- Bigger farms (>700 cows) are considerably more likely to be in an expansion phase
- Tasmania is likely to become an increasingly significant region for national milk supply

### 3 Higher proportion of profitable farmers

At the time of the survey, 70% of farmers were anticipating an operating profit for the 2019–20 financial year. Furthermore, half of respondents were expecting profits to be higher than the average of the past five years. This is the most positive profit outlook reported since 2016.

**Figure 3** Profitability expectations 2019–20



Source: NDFS

Survey data does however show considerable variability in profitability across the different dairy regions, depending on seasonal conditions and other challenges. In WestVic Dairy, 93% of respondents were expecting to be profitable, compared to 38% in Dairy NSW. Encouragingly, in all regions except Western Dairy, significantly more farmers were expecting higher profits in 2020 than achieved on average over the past five years.

Not surprisingly, regions with the largest share of profitable farmers also reported the highest levels of confidence in their own business.

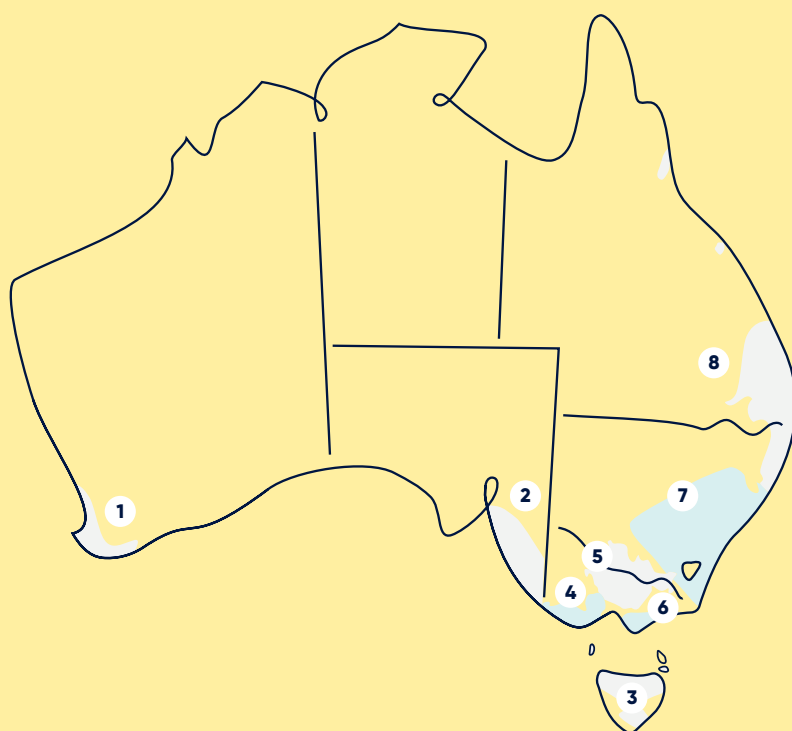
### KEY INSIGHTS

- When conditions are difficult, farmers tend to have an overly pessimistic profitability outlook even if farmgate milk prices are at acceptable levels. In difficult years, survey data shows the share of farmers who expect to be profitable, tends to be notably lower than the proportion who make an operating profit that year
- Profitable farmers tend, on average, to be less concerned with input prices and less reliant on the purchased feed market due to better grazing conditions

In conclusion, the positive shifts in own business confidence, early signs of increasing production and improved profitability are encouraging indicators of farm performance in the year ahead. The widespread improvements in seasonal conditions as well as the easing of feed prices nationally are also expected to further lift farmer confidence and optimism. This might however be tempered by uncertainties created by COVID-19 and its impact on global markets.

**The following summary highlights the differences in regional outlook and provides a comparison of factors potentially influencing regional results at the time of the survey.**





- Industry confidence\*
- Own business confidence\*\*
- Profitable
- Expanding
- Winding down

\*% positive about industry future  
 \*\*% positive about own business

## Regional overview February 2020

Australian dairy regions							Input costs		Seasonal conditions
	%	%	2019-20	2018-19	%	%			
1 Western Dairy	43	45	60	65	3	10	After easing significantly late in 2019, grain prices firmed again in January and were expected to keep rising due to the export market. Hay prices increased throughout the first two months of the year but had a more bearish outlook		The region recorded some rainfall in February; however, this was coming off a relatively dry summer
2 DairySA	57	77	77	67	15	13	Hay prices continue to trade at historically high levels but a notable discount to the peak of 2019. Grain prices eased throughout February, with improved sentiment around pasture growth and this year's crop		The area received some rainfall throughout January and February, particularly towards the south of the state
3 DairyTas	56	90	91	85	42	5	Availability concerns drove hay prices to record level in January before steadying in February. Grain prices remained stable for the month		North-west Tasmania dried off over summer, although this followed a reasonable season
4 WestVic Dairy	42	72	93	75	16	13	Grain prices eased notably towards the end of the year, before steadying throughout January and February. Hay prices firmed at the start of the year, as demand temporarily spiked across Victoria		February was relatively wet for the district; however, conditions were expected to dry (slightly) in March
5 Murray Dairy	46	49	49	49	12	19	Hay, grain and irrigation prices eased in February. With a favourable climate outlook, input prices looked to be in a bearish position		Some rain fell in northern Victoria throughout February. The climate outlook indicates favourable conditions with above average rain for coming months
6 Gipps Dairy	40	76	80	66	19	9	Both hay and grain prices began to decrease in the back half of February, as demand from bushfire regions eased		Considerable (late) summer rainfall following the widespread bushfires
7 Dairy NSW	43	57	38	47	14	8	Both hay and grain prices were showing signs of easing in February, although continued to trade at historically high prices		NSW experienced heavy rainfall throughout February, particularly along the coastline. Overall, rainfall was 104% above the long-term average for the month
8 Subtropical Dairy	41	66	53	53	20	12	Feed prices remained historically high in February. Meanwhile, the summer crop production outlook continued to be constrained by dry conditions		A delayed onset to the tropical monsoon season. Overall, the state remained dry, but indications of upcoming rainfall were emerging

# DOMESTIC MARKET

## HOW DOES THE DOMESTIC MARKET REACT TO A PANDEMIC-SIZED SHOCK?

Around two-thirds of milk produced in Australia is consumed domestically, with our mature market generally providing a stable source of demand.

Changes to purchasing patterns are usually driven by longer term consumption trends and overall volume growth tends to be steady. The spread of COVID-19 has led to an upending of the domestic market and seen dairy products fly off shelves in retail stores. In comparison, sales through the foodservice sector and route-trade (corner stores) have plummeted. Whilst the COVID-19 outbreak itself is hopefully a short-term event, the economic effects are expected to last for years to come, with a high level of uncertainty around how they will manifest. So, from a dairy perspective, is it a temporary disruption or will the virus fundamentally change Australia's domestic market?

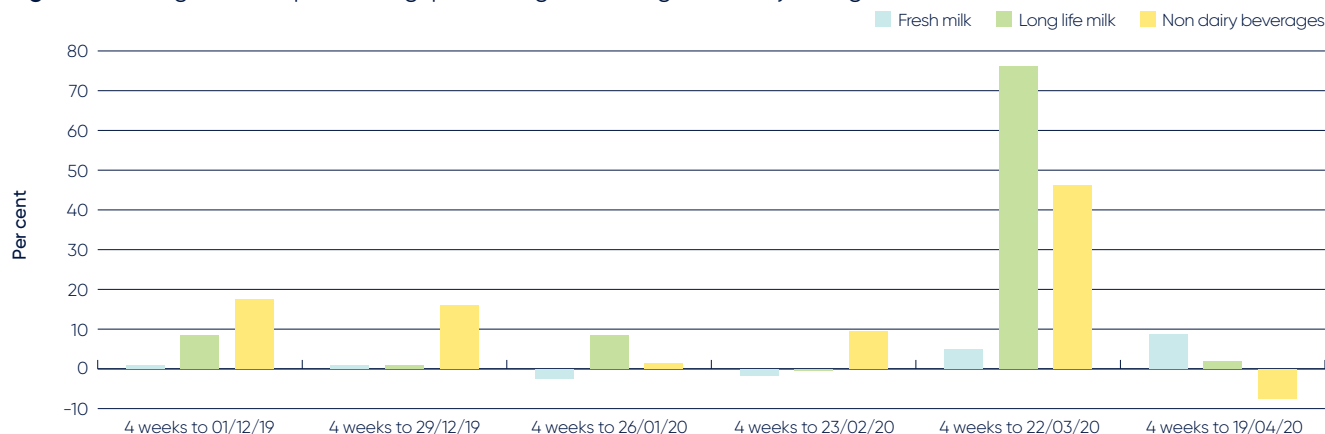
In Australia the retail sector usually accounts for a larger share of national dairy consumption, compared to other channels. For example, around 65% of liquid milk is sold in grocery outlets. This weighting resulted in a temporary overall increase in dairy sales, as consumers stocked

up pantries and fridges in preparation for restrictions following widespread lockdowns in other countries. Nielsen data revealed that the volume sales of long life milk surged 76% in the four weeks to 22 March while volume sales of fresh milk grew 4.8%.<sup>1</sup> Although the initial panic that followed the outbreak has begun to settle, retail sales of dairy products remain elevated.

In the 12 weeks to 19 April, fresh milk volume sales increased by 3.8% while long life milk sales surged by 25.5%. Butter volume sales have also grown strongly, up 31.8%.<sup>2</sup> The large increase in sales of long life milk resulted from an increase in households buying the products. According to data from Nielsen Homescan, only around one-third of households usually buy long life milk during a four week period. During the pandemic peak month of purchasing, this increased to more than half.<sup>3</sup>

Sales of dairy alternatives also increased over the same period, up 15.8%. In comparison to long life milk, the main reason for the rise was not significant growth in the number of households buying the products. It was instead a boost in spending from the households that already buy alternative drinks.<sup>4</sup>

**Figure 4** Changes in milk purchasing (percentage volume growth vs. year ago)



Total Australia: all shoppers – percentage change purchase equivalent vs. year ago. 4 weeks (rolling): 6 latest 4 weeks – week ending 19/04/20

1 Nielsen Homescan based on a continuous panel of 10,000 households; excludes non-private dwellings & businesses, non-permanently occupied households & out-of-home/impulse purchasing. Dairy Australia calculation based in part on data reported by Nielsen through its Homescan Service for the dairy category, for the total Australian market, according to the Nielsen standard product hierarchy. © 2020, The Nielsen Company  
 2 Period ending 12-weeks to 19/04/2020  
 3 Period ending 4-weeks to 22/03/2020  
 4 Period ending 12-weeks to 19/04/2020



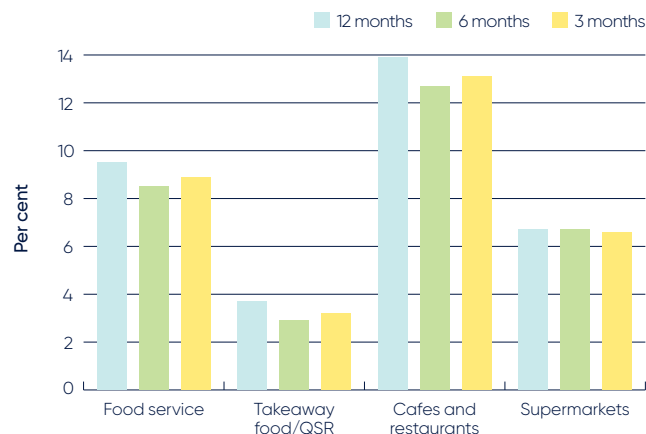
Additionally, retail sales of cheese and yoghurt have grown as consumers chose to stock-up fridges with dairy products. Yoghurt volume sales grew 9.3% in the four weeks to 22 March, driven by rising Greek-style and regular yoghurt sales. Sales of everyday style cheeses increased substantially, up 27.3% over the same period, due to an increase in large blocks sales and the number of households buying cheese.<sup>5</sup> Previously it's been speciality cheeses, such as deli-style cheeses, that have been driving value growth in the domestic cheese market. However, since the outbreak of COVID-19, demand for some of these products have decreased, whilst sales of bigger pack-sizes and cheaper cheese products have grown.

In comparison, sales through foodservice outlets, restaurants and cafes, and route-trade have substantially decreased. Whilst larger processing companies have been able to redirect some products into retail channels many smaller companies have less flexibility to do so. This has created significant challenges and seen some companies' sales dry up. The non-grocery sectors typically act as a major value creator for the dairy industry, in part due to significantly lower private label market share in these channels. Therefore, any sustained drop in sales through these outlets is likely to impact value creation opportunities throughout the supply chain.

Not surprisingly, the outbreak of COVID-19 has dented consumer confidence and led to the largest ever drop in the Westpac-Melbourne Institute Consumer Sentiment index. Consumer confidence in April 2020 was lower than during the global financial crisis (GFC), however the decline was limited to the short-term outlook. This was led by a belief that COVID-19 related disruptions to the economy would be temporary. However, as consumers expect a large impact on family finances, discretionary spending is likely to be negatively impacted. Generally speaking, when consumers are feeling pessimistic about family finances, they are less willing to spend money on 'non-essential' products or services, such as eating out at cafes or restaurants. In comparison sales through supermarkets tend to grow as consumers eat more at home.

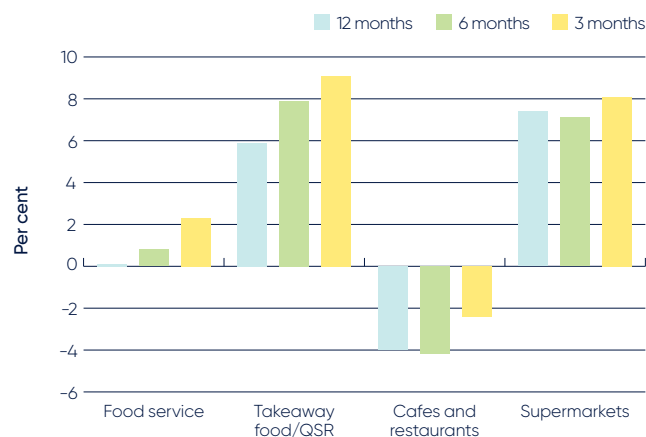
## From a dairy perspective, is it a temporary disruption or will the virus fundamentally change Australia's domestic market?

**Figure 5** Food service index – February 2007



Source: Dairy Australia

**Figure 6** Food service index – February 2009



Source: Dairy Australia

<sup>5</sup> Period ending 4-weeks to 22/03/2020

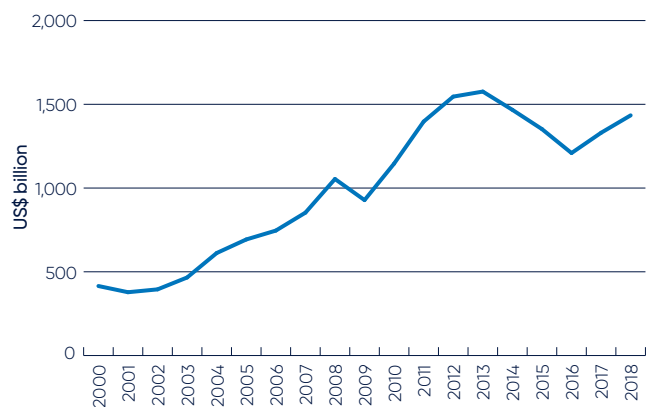


Dairy Australia's Food Service Index (figures 5 and 6) helps illustrate that consumers spend less in foodservice or restaurants during times of financial uncertainty. Heading into 2007, sales through foodservice channels and restaurants were growing strongly, up 9.5% and 13.9% respectively to previous years. Following the collapse of the subprime loan market and the subsequent GFC, Australia's economy contracted around 12% between 2008 and 2009. This decrease, combined with a significant downturn in market sentiment, saw consumers pull back on discretionary spending. This resulted in a marked drop in consumer spending through cafes and restaurants, down 4% compared to previous year, and a slowdown in sales through the foodservice sector. As Australia avoided a recession, consumer sentiment improved during the latter half of 2009, which saw spending increase again through all outlets.

## The initial spike in sales through retail outlets is encouraging as it indicates strong underlying demand for dairy

From 2014 to 2016 Australia's economy also shrank following the end of the mining boom, which impacted sentiment and consumer spending. Between 2015 and 2016 in particular, Australia's GDP dropped 10.6% and consumer spending in cafes and restaurants slowed, from +10.3% to +3.0% compared to the years prior. Even though Australia's economy contracted more during 2014 to 2016, than the GFC, the impacts on spending and consumer confidence were less pronounced. This was potentially due to the different factors influencing the GDP drops, as one was caused by an instant market shock and the other emerged over a few years. Comparing the two periods suggests that the more drastic and sudden a disruption to the economy is, the larger the potential impact on overall spending.

**Figure 7** Australian GDP



Source: World Trade Organisation (WTO)

The initial spike in sales through retail outlets is encouraging as it indicates strong underlying demand for dairy. However, as the COVID-19 pandemic continues, longer term changes to normal purchasing patterns will become more apparent. Consumers are already worrying about personal finances, and the average Australian's purchasing power is likely to be affected into the medium-term. Whilst these pressures might continue to support sales through retail channels, non-grocery sectors sales are likely to remain subdued. The dramatic and unexpected nature of the disturbances caused by COVID-19 is likely to aggravate the short-term market reaction. In the end, the length of the disruption and economy's ability to recover will be critical factors influencing the overall impact on dairy sales.

### SO WHAT?

As Australia's domestic market accounts for a large share of overall dairy sales, any shift in demand is likely to have reverberations through the supply chain. The onset of a pandemic has disrupted normal purchasing behaviours and is likely to cause the Australian economy to contract. In this environment, increasingly price-based purchasing decisions could limit value creation opportunities. It also poses a threat of the return to discounting strategies by major retailers.



# GLOBAL SUPPLY

## WILL THE MILK TRAIN STOP IN TIME?

The past two years have seen relatively muted milk supply growth, as low prices, followed by poor seasonal conditions, hampered growth across key global dairy exporting regions.

As the 2020 calendar year commenced, this began to change. Milk production had begun to expand, with momentum building during the northern hemisphere spring flush. Enter COVID-19, which has decimated economic activity and with it, a sizeable chunk of dairy demand in most markets. So, where are we at, and what is likely to happen next?

Despite recent bushfires, Australia's milk production has surged ahead of expectations, posting a 6.4% increase in April. This prompted Dairy Australia to moderate its expected full season decrease from a range of 3% to 5%, to a steadier 1% to 3% fall. Southern regions have seen the biggest increases in production, particularly Tasmania, and Victoria's Gippsland region, where many farmers experienced favourable pasture growth conditions through much of spring, summer and autumn. Other regions have been less fortunate, with drought-affected northern states only receiving meaningful rainfall from January and February onwards.

Supply growth has also been ramping up in the northern hemisphere, with milk production in the US hitting 2.2% in March, the strongest increase since January 2017. Cow numbers reached their highest point in 18 months, and unusually warm weather boosted per-cow production as well. Similarly, in Europe growth in per-cow yields has been strong, albeit against mixed herd size changes – with Germany, France, Poland and Italy cutting numbers, Ireland growing strongly, and the Netherlands up slightly.

New Zealand has been something of an exception to the global growth trend. After almost matching last springs record peak in collections, a dry period has curtailed volumes through the shoulder season, especially across the North Island. Despite the difficulties, the overall impact has been limited. With New Zealand's production season concluding at the end of May, local analysts are tipping a steady full season outcome.

Whilst the gradual building in milk production had been an emerging concern, the threat this posed to global market balance has been amplified significantly by the impact of COVID-19. In the short term, steps taken to reduce the spread of COVID-19 have negatively impacted global dairy demand, with foodservice sales collapsing amid widespread lockdowns and trading restrictions. As described elsewhere in this report, a short-term boost in retail sales has provided some offset. However, the need to redirect product, as well as differing exposures by market and by processor, have added disruption. The outlook for resumption of normal foodservice business is mixed and in general, uncertain. History suggests that in any case, consumer spending is likely to remain constrained well past the immediate crisis.

### Despite recent bushfires, Australia's milk production has surged ahead of expectations, posting a 6.4% increase in April

With supply growing and demand dramatically reduced, the impacts have been most visible and immediate in northern hemisphere exporting regions. Large volumes of milk have been dumped across parts of Europe and the US as supply chains struggled to adjust quickly. Local analysts suggest that COVID-19 and actions taken to combat it, have generated an approximate 20% reduction in US dairy demand, virtually overnight. In response, the US Government has initiated a series of measures to restore balance to dairy markets. These include hundreds of millions of dollars of dairy product purchases under multiple programs administered by the United States Department of Agriculture (USDA). US-based analyst Matt Gould estimates that these government purchases will absorb around 5% of US milk production across the four-and-a-half-month period commencing 15 May.



The United States' private sector is also responding decisively. Dairy processors (including numerous cooperatives) have implemented a wide variety of schemes to incentivise immediate on-farm production cuts. The effectiveness of these will become apparent over time, but anecdotal evidence suggests that with feed rations cut, cows dried off early, and an increase in culls, there has been substantial efforts by farmers to cut milk supply. Milk dumping had reportedly ceased by early May.

Although a rapid supply response is good news for other dairy exporters, including Australia, the US also saw a resurgence in exports. Overseas shipments accounted for a near term high of 15% of US milk solids production in March as sharply lower commodity prices outweighed the US dollar's appreciation against most other currencies.

Across the Atlantic, the European Union (EU) has activated its Private Storage Aid (subsidised storage) mechanism. The EU has also implemented a regulation allowing 'interbranch and producer organisations' to collaborate on reducing milk production. European farmers have taken to the streets in protest at these measures, demanding the implementation of an EU-funded voluntary production limitation scheme instead. The European Commission's current outlook is for a relatively modest 0.4% average growth rate over the whole of 2020.

Northern hemisphere dairy price indicators have shown significant falls over the period of the crisis, opening up a large gap with Oceania values. Without the same peak season supply pressure, Australian and New Zealand prices have faced less dramatic adjustments. However, as the new season approaches and sales negotiations progress, convergence is highly likely.

This has been reflected in warnings to New Zealand farmers that lower farmgate prices are likely for the season ahead and crystallised in Fonterra's initial 2020–21 farmgate price forecast of NZ\$5.40/kg MS to NZ\$6.90/kg MS (A\$5.37/kg MS to A\$6.86/kg MS in Australian terms). Similarly, minimum pricing announced for farmers in Australia's southern export regions reflects weaker market prospects and heightened risk over the course of the season. In both cases, farmers have time to weigh up production decisions against the outlook for seasonal conditions. Promising weather outlooks have the potential to encourage production in lower cost regions, especially if these translate to the long-awaited reduction in feed costs.

Whether these southern hemisphere price forecasts are followed by improvements, in large part depends on how this story continues. In the short term, northern hemisphere milk production is adjusting quickly in the US, and more slowly in Europe. In both cases, there is pressure to balance markets without relying wholly on stock-building schemes that provide a short-term safety net, but ultimately prolong any period of price depression, as was seen in the 2014–19 European intervention stocks experience.

## In the short term, northern hemisphere milk production is adjusting quickly in the US, and more slowly in Europe

Closer to home, the New Zealand spring will be as critical as ever, influencing the production trajectory for the world's largest dairy exporter in an environment where farmers will be cautious about taking risks. If there are cuts to be made, chances are they will be in the shoulder period, when pasture growth slows and feed becomes a limiting factor.

Overall, milk supply is likely to slow as markets rebalance. In true commodity market form however, it will probably be a case of not enough slowing at first, and too much later. It's set to be a bumpy ride.

### SO WHAT?

With milk production likely to take time slowing and the uncertainties around economic health and consequently demand, risk aversion will remain in favour. If the production response, either locally or globally, overshoots a balance of supply and demand, then pricing improvements are likely later in the season as the market plays catch-up.

# GLOBAL DEMAND

## TURBULENT ECONOMY IMPACTING DEMAND FOR DAIRY

The red warning lights on the economy's dashboard (as reported in the *March Situation and Outlook* report) have started to flash. Ironically, oil underpins major global concern.

The COVID-19 pandemic has undoubtedly developed into the defining factor for 2020. Quarantine measures and disruptions to everyday life have not only triggered a range of consumer responses but coalesced to extensively impact on economies and commodity prices. In turn, these are likely to reverberate back to the consumer level in the months and years ahead.

Global economic forecasts, as reported by the International Monetary Fund (IMF), have been revised for 2020 to suggest a 3% drop in growth. These forecasts are however still shrouded in uncertainty as the full impact of COVID-19 remains unknown. As it stands, this is a downward revision of more than 6% since the start of the year and suggesting a significantly greater global impact than during the GFC.

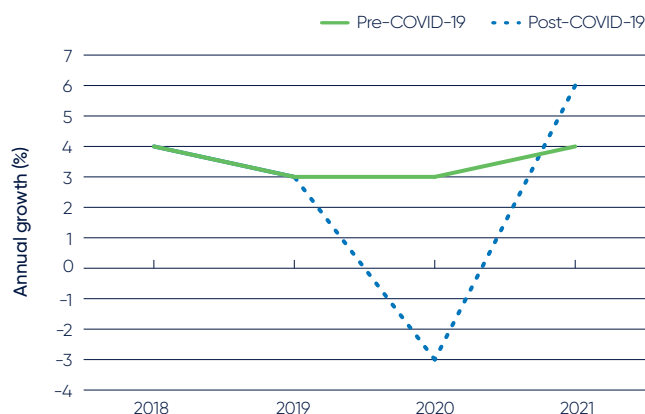
A major global economic downturn combined with a looming recession has resulted in governments around the world introducing unprecedented monetary response. As a result, budget deficits have reached levels unseen in peacetime and there have been major shifts in asset classes (an increase in money invested in low-risk assets, such as government bonds, compared with higher-risk assets, such as shares). This has had a dramatic impact on global markets and seen nearly all major commodity price indexes fall. Global oil prices have also plummeted and remain suppressed. As stifled cash flows and weak confidence continue to weigh on the economy, the question remains, how will changes to the global economy impact demand for dairy?

The restrictive measures implemented to stop the spread of the pandemic have disrupted normal supply chains and savaged dairy demand. The foodservice sector in many countries was virtually shut down, creating an immediate impact on sales for a channel that accounts for a large share of dairy demand. This translated to some of the initial impacts on global commodity prices, as buyers held back from committing to purchases. The duration of the lockdown period will be a key driver for the future of dairy demand in overseas markets.

Having dropped sharply in recent months, oil prices in the US turned negative for the first time in history. This was the result of slower energy demand, amidst COVID-19 restrictions, as well as an increase in supply, driven by disputes between Saudi Arabia and Russia. For the MENA (Middle East North Africa) region, the lower oil price has reduced purchasing power and impacted demand for dairy imports. Whilst the Australian dairy industry only exports minimal volumes to the MENA region, it remains a large source of the world's overall demand for dairy fats and protein, accounting for 20% of global export volume in 2019. Most dairy exported to this region comes from the EU, and if demand slows, this is likely to increase EU export competition in other markets.

After the initial market shock, a global economic downturn is likely to have longer term impacts on overall demand. In a recession unemployment usually increases while discretionary spending decreases. This is likely to affect international demand for dairy, particularly in price sensitive markets. Currently, in Southeast Asia, the economic outlook is deteriorating and gross domestic product (GDP) is forecast to contract in 2020. This would be the first time in over 20 years the region has faced negative growth. Southeast Asia accounted for approximately 35% of all dairy exports (by volume) from Australia in 2019. If household incomes decrease in this region it is likely to reduce affordability of premium dairy products. As dairy is not a part of the traditional diet, the foodservice sector is especially vital for supporting demand.

Figure 8 World GDP forecast (pre- and post-COVID-19)



Source: IMF



With a lower disposable income, eating out may be less common, even when quarantine restrictions are lifted. This could impact overall demand for dairy in the medium term.

What might cushion this potential impact is that dairy in many cases is associated with a nutritious diet. During the pandemic, governments and spokespeople across the globe have heavily promoted an improved diet as a way to stay healthy. This has seen short term demand increase for some types of dairy products perceived to help regulate the immune system, such as lactoferrin.

If these perceptions are maintained, some customers might continue to purchase these 'health-style' products, despite a lower disposable income.

Likewise, the impact on demand will vary between regions, as government responses and regional specific economic outlooks differ greatly. For instance, the government response and the local effect of COVID-19 in Singapore is different to that of Indonesia or Thailand. Furthermore, the level of economic activity is compounded by weakening currencies in Indonesia, Malaysia and Thailand. These regions economy also depend on exporting product to the MENA region, and are heavily reliant on global oil prices.

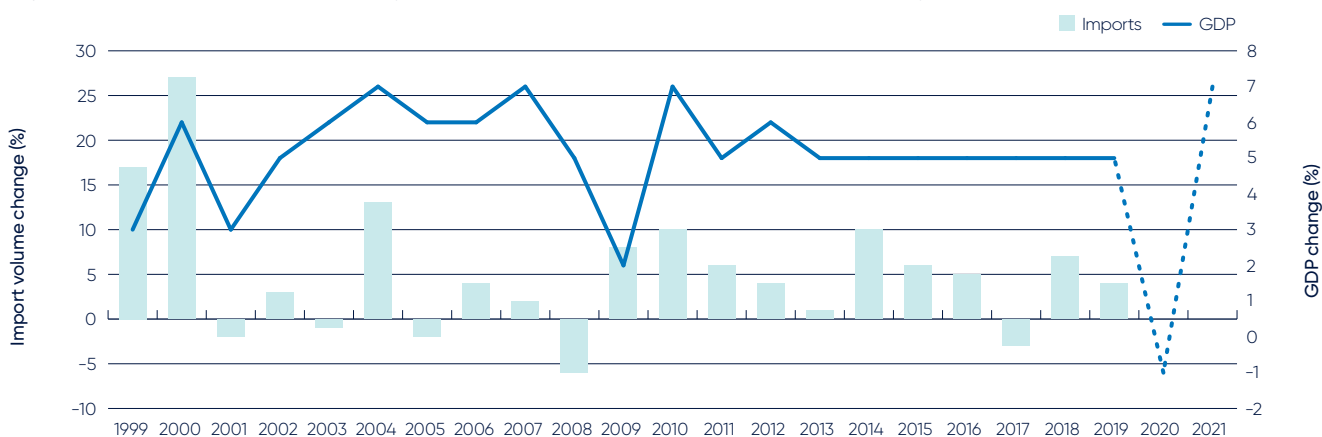
A slow-down in demand for dairy, combined with an increase in supply (particularly from the northern hemisphere) is adding pressure on global markets. China, as the world's largest dairy market, will play an important role for market balance going forward.

Whilst some positive signs have started to emerge following China's re-entry into dairy trade in April, many concerns remain. With economic activity increasing and the foodservice sector reopening, demand might be picking up, however residents have been slow to return to restaurants. Additionally, dairy inventories in China grew throughout the lockdowns, as an increase in milk powder production occurred in response to supply chain disruption and lower demand in retail channels. The rate of consumption of these inventories will play an important role in determining future export demand to the region. If demand remains limited in China, export competition into other regions is expected to increase.

#### SO WHAT?

The global economy is facing tremendous pressure and the overall impact of COVID-19 will take time to become fully apparent. What seems clear is that a global recession is going to be widespread and is likely to negatively impact purchasing power in key markets, with flow-on influence on Australian dairy sales. As global supply grows, strong demand for dairy is paramount for overall market balance. Therefore, a quick economic recovery will be key to support dairy demand in overseas markets.

**Figure 9** Southeast Asia real GDP growth compared to dairy import volume change



Source: IMF and TDM

# INPUTS

## DAIRY INPUTS REMAIN WELL POSITIONED WHEN GLOBAL FUNDAMENTALS SHIFT

Despite unfolding global challenges and increasingly volatile dairy markets, the Australian dairy industry has some favourable developments of late. Following years of drought and elevated input costs, 2020 has seen one of the most favourable autumn breaks in recent times.

As weather outlooks have improved, farmer confidence has lifted. Meanwhile, global fundamentals have deteriorated and commodity prices eased. Sustained improvements to input costs will be crucial to alleviate pressures on farm incomes for the season ahead.

Over the past two years, the feed market created significant challenges for most dairy farmers. Drought induced demand and a supply shortfall resulted in record high hay and grain prices. At the start of 2020, demand temporarily increased as widespread bushfires burnt pasture and stored hay. This exacerbated existing stresses on supply chains and caused hay prices to firm in all regions. Since then demand has eased and the fodder market has been relatively quiet. Cereal hay prices, while still trading above the five-year average, appear to have found a price floor in all regions, at least for the moment.

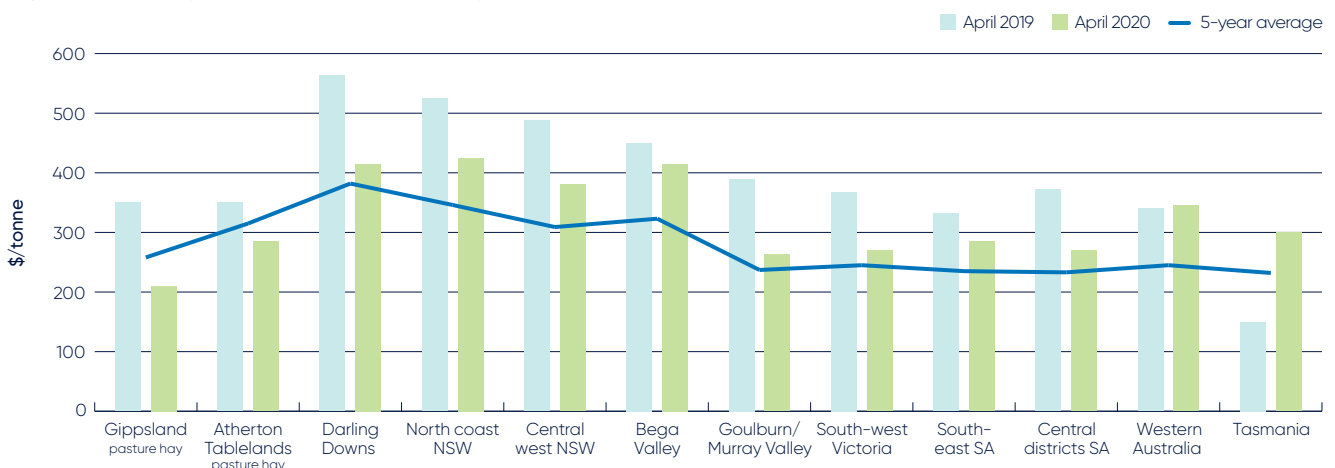
Despite general improvements, conditions remain varied across the country. A dry start to the year in south-west

WA and limited hay availability in Tasmania kept prices elevated. In south-west WA, cereal hay prices are close to last year's levels, but remain 41% above the five-year average. In Tasmania, prices are significantly higher, up 100% compared to April 2019, however, only 29% above the long-term average. In comparison, hay in most other regions is trading at roughly a 10% to 30% discount compared to last year.

Limited supply domestically combined with international pressures, sustained high grain prices over the first quarter of the year. These international developments were amplified by the COVID-19 outbreak, as consumer demand for staple wheat-based products, such as bread and pasta, surged. In response, areas of eastern Europe, including Russia (the world's biggest grain exporter), implemented limits on agricultural trade. Whilst these restrictions did not present a supply issue for grain exports, they caused concern and triggered efforts to secure supply from major importers.

Since May, improved new season crop prospects combined with softening offshore markets, have started to see local grain prices ease. In Australia's south-eastern states, widespread rain increased soil moisture and provided the most favourable start for winter cropping since the exceptional crop in 2016–17. In comparison, northern and western cropping regions remain drier. WA was a key contributor to production volume in 2016–17,

Figure 10 Average cereal hay prices by region



Source: Australian Fodder Industry Association (AFIA)

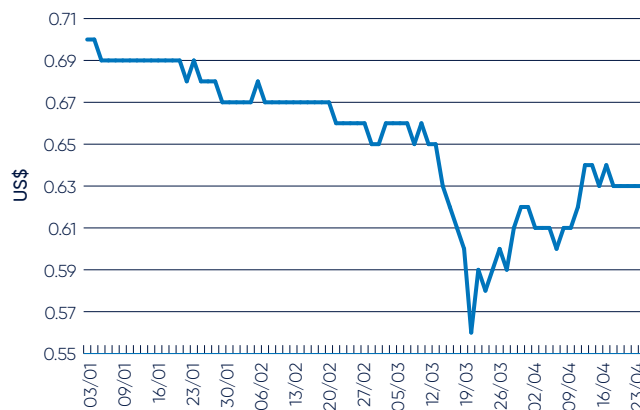


and missed out on significant (early) rainfall. Along the eastern wheatbelt, Queensland received some rainfall late summer, however, required more to effectively complete sowing. Australia's recovery from last season's drought induced feed deficit will continue to depend on improved production in these regions, alongside current forecasts in south-eastern states. Overall, Australia's winter crop production is expected to be close to average this year.

## Globally, the latest USDA supply and demand estimate indicates that wheat and coarse grain stocks will grow this year

Globally, the latest USDA supply and demand (12 May) estimate indicates that wheat and coarse grain stocks will grow this year. Large global stocks, easing global demand and favourable local crop prospects are likely to create more downwards pressure on prices in Australia, despite a relatively weaker currency. When the A\$ depreciates against other currencies, it generally makes Australian exports more cost-competitive, which could increase demand from overseas markets.

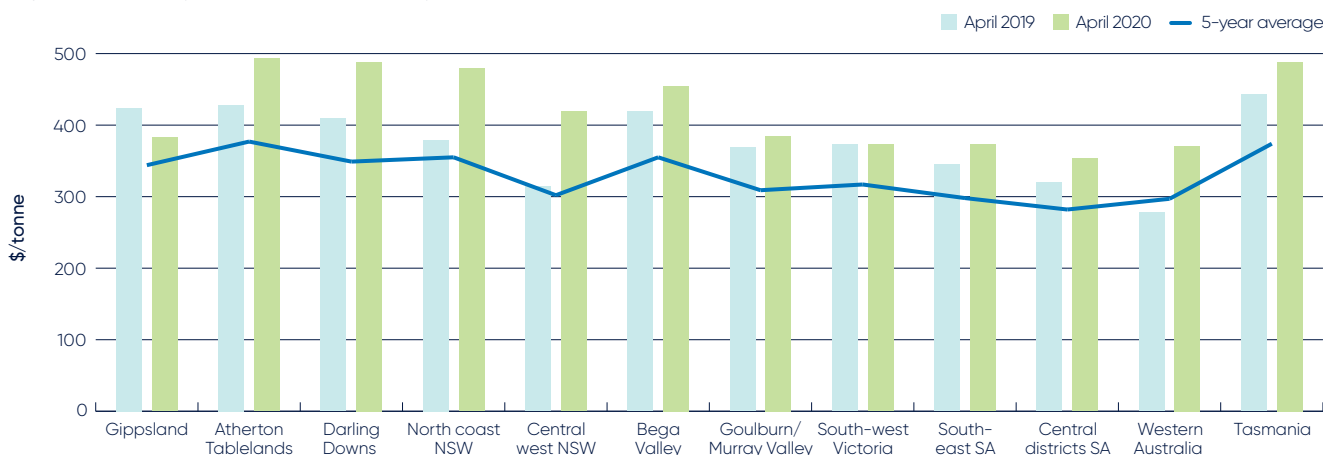
**Figure 12** Australian exchange rate



Source: Reserve Bank of Australia

Whilst the A\$ has been relatively weak throughout the start of the year, it recovered some ground, strengthening in April and May. Australia's currency is still forecast to remain relatively weak compared to the US\$ in coming months. Whilst a relatively weak A\$ improves Australia's cost competitiveness in overseas markets, it reduces Australia's purchasing power for importing products, such as fertilisers and agricultural chemicals. Global fertiliser prices have remained historically low; however, a weaker A\$ is eroding the advantage experienced in prior years. This is particularly the case for urea, with Australia entering its main importing period, before peak spring application.

**Figure 11** Average wheat prices by region



Source: Profarmer



Increasingly wet conditions across eastern states, in conjunction with improved streamflow and runoff into water storages, have also seen water prices ease. The water market remained bearish in April, with irrigation prices in both southern NSW and northern Victoria dropping for the fourth consecutive month. Prices have now halved since the start of the year. With improved water forecasts, prices are expected to continue to soften in the short-term.

Whilst the improved seasonal outlook has boosted confidence for next season, culling rates remain elevated, up 6% in the 12 months to April. The number of cattle passing through saleyards surged throughout February and March, as prices climbed above 500¢/kg, however, volumes have since dropped. Cull cow sales in April halved compared to the month prior, both in volume and value terms. This drop resulted from improved rainfall throughout the month, however, it was exacerbated by growing uncertainty around social distancing restrictions and a reduced number of sales.

The outbreak of COVID-19 will have significant implications for global markets, but one thing not susceptible to the virus is the weather. With timely rainfall generating increased streamflows and good promise for grain, hay and pasture production, the prospects of lower input costs have continued to improve.

#### **SO WHAT?**

Whilst the implications of COVID-19 will be profound and far reaching on one hand, many Australian dairy farmers are benefiting from more favourable seasonal conditions and a devalued A\$ on the other. Concerns around feed availability, irrigation and input costs remain, but an improved weather and feed outlook could provide a helpful cushion at a time when market volatility is mounting.

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# Appendix



Market dashboard

20

Regional NDFS results at a glance

22

# MARKET DASHBOARD

## Inputs

 <b>Hay and grain</b>					
Australian dairy regions		%		%	
1 South-west WA	\$345 ↑	1	\$371 ↑	34	
2 Central districts SA	\$270 ↓	-27	\$353 ↑	10	
3 South-east SA	\$285 ↓	-14	\$373 ↑	8	
4 South-west Victoria	\$270 ↓	-27	\$373 ←	0	
5 Goulburn/Murray Valley	\$263 ↓	-32	\$385 ↑	4	
6 Gippsland <sup>†</sup>	\$210 ↓	-40	\$383 ↓	-10	
7 North-west Tasmania	\$300 ↑	100	\$488 ↑	10	
8 Bega Valley	\$415 ↓	-8	\$455 ↑	9	
9 Central west NSW	\$380 ↓	-22	\$419 ↑	33	
10 North coast NSW	\$425 ↓	-19	\$479 ↑	26	
11 Darling Downs	\$415 ↓	-26	\$488 ↑	19	
12 Atherton Tablelands <sup>†</sup>	\$285 ↓	-19	\$493 ↑	15	

 Shredded cereal hay: mid-range product without weather damage, of good quality and colour

 The relevant stockfeed wheat available in a region (ASW, AGP, SFW1 or FED1)

Hay quoted is sourced and delivered locally, GST exclusive unless stated otherwise. Prices are estimates in \$/tonne at April 2020, compared to April 2019.


<sup>†</sup>Prices quoted is for pasture hay in Atherton Tablelands and Gippsland and cereal hay in all other regions.

Source: AFIA, Profarmer


For ongoing information and updates on farm inputs, readers can subscribe to Dairy Australia's weekly Hay and Grain Reports, or the monthly Production Inputs Monitor, found on the Dairy Australia website

[dairyaustralia.com.au/hayandgrain](http://dairyaustralia.com.au/hayandgrain)

[dairyaustralia.com.au/industry/farm-inputs-and-costs/production-inputs-monitor](http://dairyaustralia.com.au/industry/farm-inputs-and-costs/production-inputs-monitor)


 <b>Fertiliser</b>		
Urea (granular Black Sea)	DAP (US Gulf)	MOP (granular Vancouver)
235 US\$/t	282 US\$/t	245 US\$/t
↓ -5% LY	↓ -13% LY	↓ -8% LY
↑ +1% 5Y	↓ -17% 5Y	↓ -1% 5Y

Price is April 2020 average, compared to the 2019 April average (LY) and 5-year (5Y) April average. Source: World Bank

 <b>Cows</b>	
<b>Cull cows</b>	
229 c/kg	81,872 head
↓ -33% LY	↑ +6% LY
↓ -38% 5Y	↓ -3% 5Y
<b>Dairy cattle exports</b>	
109,674 head	↑ +40% LY
	↑ +46% 5Y

Price is April 2020 average, compared to April last year (LY) and 5-year (5Y) average. Number of head is last 12 months (cull cows to April 2020, dairy cattle exports to March 2020) compared to year earlier (LY) and 5-year (5Y) average. Source: NLRS, ABS

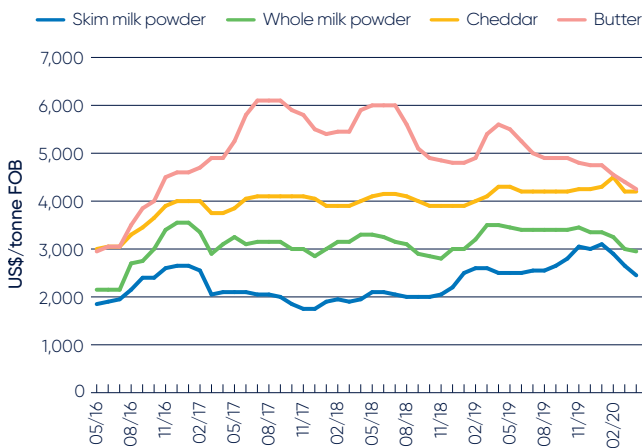
Due to the ongoing impact of COVID-19 there has been changes to the reporting mechanism of saleyard cattle which may account for some variation in reported figures

 <b>Water</b>	
<b>Northern Victoria</b>	<b>Murray Irrigation System</b>
610 \$/ML	543 \$/ML
↑ +73% LY	↑ +48% LY
↑ +122% 5Y	↑ +206% 5Y
2,188,455 ML	33,227 ML
↑ +10% LY	↓ -69% LY
↑ +6% 5Y	↓ -75% 5Y

Price of water traded is 12-month average and volume of water is 12-month total, to April 2020, and compared to year earlier (LY) and last 5-year (5Y) average. Source: Victorian Water Register, Murray Irrigation Ltd

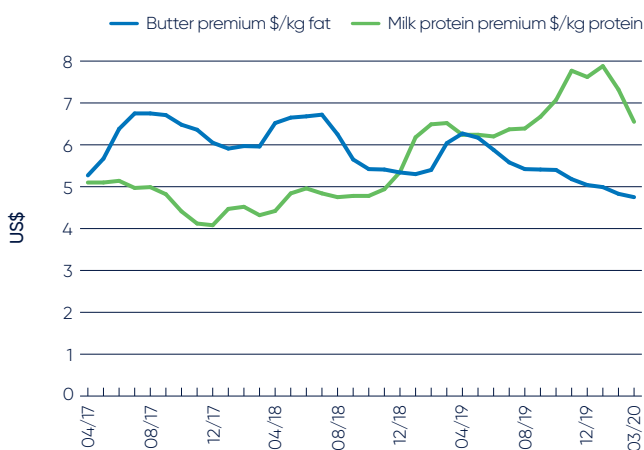
## Commodity prices

**Figure A1** Key dairy commodity price indicators



Source: Dairy Australia

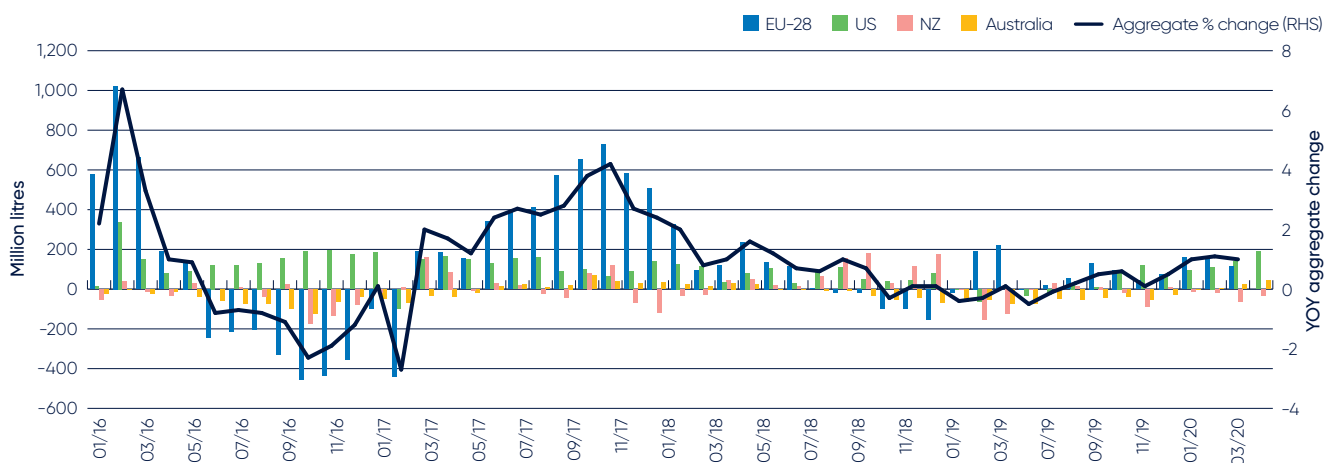
**Figure A2** Dairy fat and protein – pricing relative to substitutes



Source: Dairy Australia, Oil World

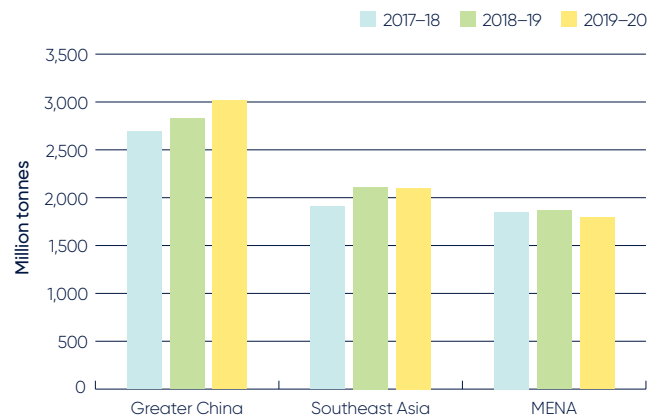
## Global supply and demand

**Figure A3** Milk production year-on-year changes



Source: USDA, DCANZ, Eurostat, Dairy Australia

**Figure A4** Exports to key markets



Source: Dairy Australia, TDM. Data represents 12-months to February 2020

## Australian market

**Figure A5** Australian supermarket sales\*

	Take home volume	YoY growth	Take home value \$m	YoY growth
<b>Milk</b> As of 19/04/20	1,498m. L	↑ 2.7%	2,491	↑ 10.7%
<b>Cheese</b> As of 29/12/19	161kt	↑ 1.2%	2,262	↑ 5.6%
<b>Dairy spreads</b> As of 19/04/20	92.5kt	↑ 9.4%	807.5	↑ 7.5%
<b>Yoghurt and snacks</b> As of 29/12/19	162kt	↑ 4.7%	1,057	↑ 6.1%

\*Source: Nielsen Homescan based on a continuous panel of 10,000 households; excludes non-private dwellings & businesses, non-permanently occupied households & out-of-home/impulse purchasing. Dairy Australia calculation based in part on data reported by Nielsen through its Homescan Service for the dairy category for the 52-week period ending 29/12/2019 and 19/04/2020, for the total Australian market, according to the Nielsen standard product hierarchy. © 2020, The Nielsen Company.

## Regional NDFS results at a glance

### Dairy NSW

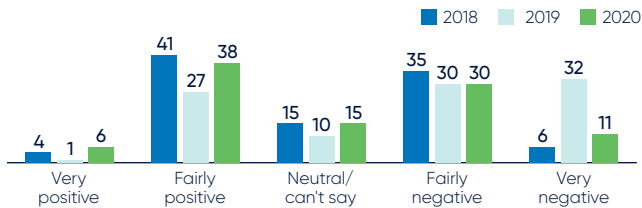
While respondent's confidence in both the industry and the future of their own business remains lower than the national average, recent rainfall in some areas and an improved milk price has significantly increased confidence in their own business this year.

Over the next 6 months, input costs, weather conditions, feed costs and availability are however expected to be ongoing issues for approximately half of all respondents in this region.

These challenges have contributed to less than half of the region's farms making an operating profit in 2018-19 and only 38% expecting to be profitable in 2019-20. This is the lowest proportion of profitable farms nationally.

### Sentiment

Industry sentiment per cent



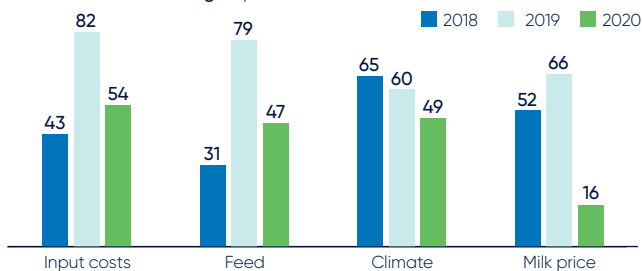
Sentiment trend percentage positive



### Profitability and investment

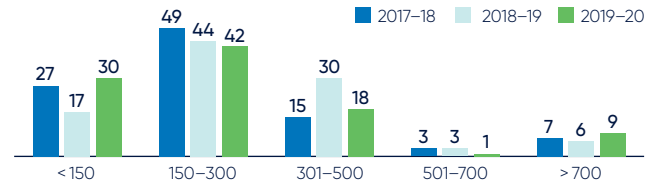
<b>47%</b> Made profit 2018-19	<b>81%</b> Invested on farm 2018-20
<b>38%</b> Expect profit 2019-20	<b>89%</b> Intend to invest 2020-22
<b>19%</b> Profit higher than 5-year average	<b>42%</b> Invest in machinery
<b>27%</b> Profit about same	<b>24%</b> Invest in dairy plant
<b>52%</b> Profit lower than 5-year average	<b>24%</b> Invest in irrigation

Next 6-months' challenges per cent

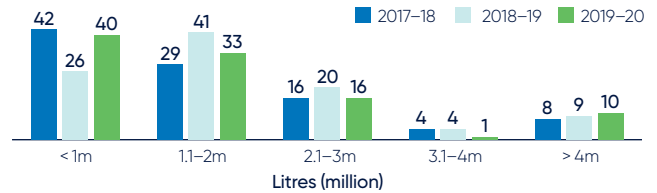


### Current herd size and production

Herd size per cent

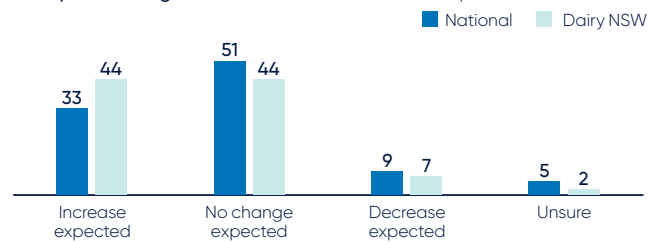


Herd production per cent

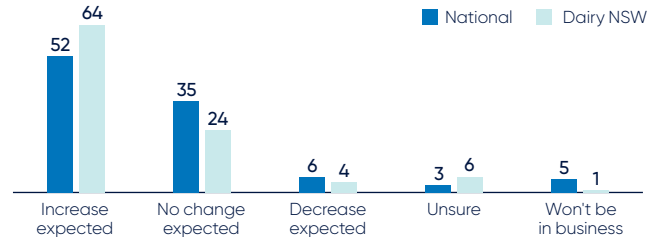


### Forecast herd size and production

Anticipated change in herd size 2022-23 vs. 2019-20 per cent

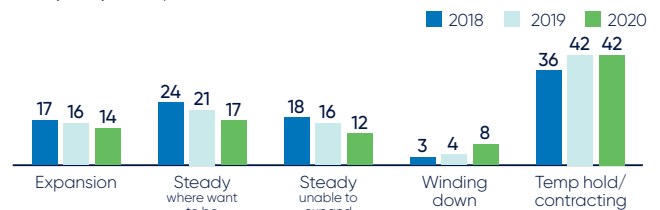


Anticipated change in production 2022-23 vs. 2019-20 per cent



### Regional profile

Enterprise phase per cent



The 'average' Dairy NSW farmer



**21%** Considering/want to change processor

**57%** Positive towards own business future

**2%** May exit industry next 2 years

**2.0t** Average grain fed per cow per year



## Regional NDFS results at a glance

### DairySA

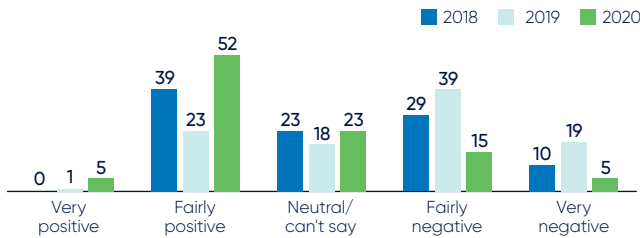
Farmers are significantly more confident in the future of the industry (57%, was 24%) and their own business (77%, up from 36%) in 2020 compared to 2019. Improved farmgate milk prices and perceived demand for products is driving this uplift in sentiment. Climate is seen as the greatest challenge for the next 6 months.

A high 77% of farmers are expecting an operating profit for the 2019–20 financial year with 63% anticipating an operating profit higher than the average of the past 5 years.

Over the past 12 months, 1 in 5 farms increased their herd size and more farmers are reporting being in an expansion phase in 2020 compared to last year.

### Sentiment

Industry sentiment per cent



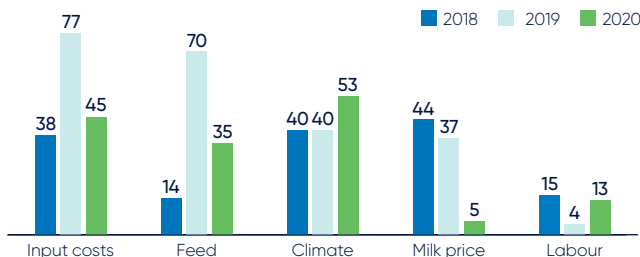
Sentiment trend percentage positive



### Profitability and investment

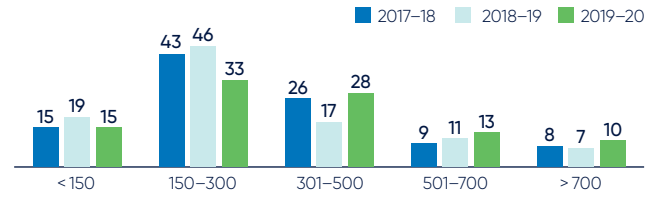
<b>67%</b> Made profit 2018–19	<b>88%</b> Invested on farm 2018–20
<b>77%</b> Expect profit 2019–20	<b>78%</b> Intend to invest 2020–22
<b>63%</b> Profit higher than 5–year average	<b>43%</b> Invest in machinery
<b>23%</b> Profit about same	<b>28%</b> Invest in dairy plant
<b>12%</b> Profit lower than 5–year average	<b>17%</b> Invest in irrigation

Next 6-months' challenges per cent

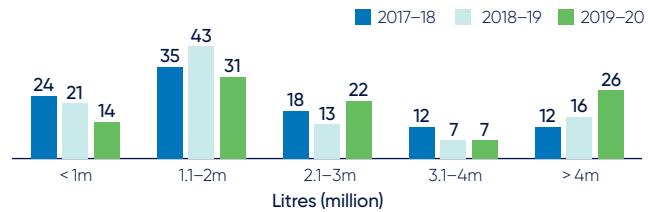


### Current herd size and production

Herd size per cent

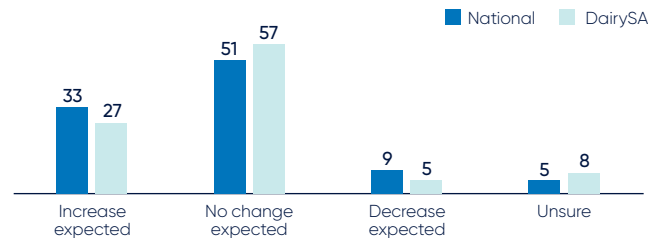


Herd production per cent

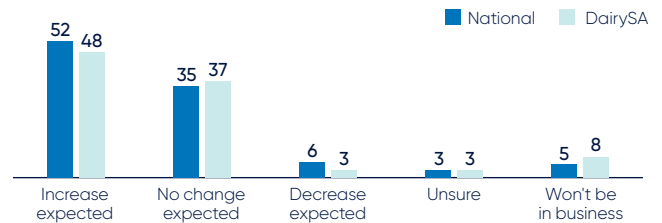


### Forecast herd size and production

Anticipated change in herd size 2022–23 vs. 2019–20 per cent

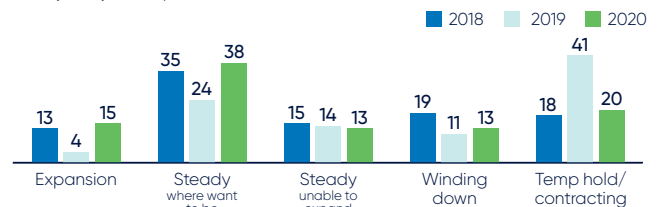


Anticipated change in production 2022–23 vs. 2019–20 per cent



### Regional profile

Enterprise phase per cent



The 'average' DairySA farmer



**15%** Considering/want to change processor  
**77%** Positive towards own business future

**8%** May exit industry next 2 years  
**2.1t** Average grain fed per cow per year

## Regional NDFS results at a glance

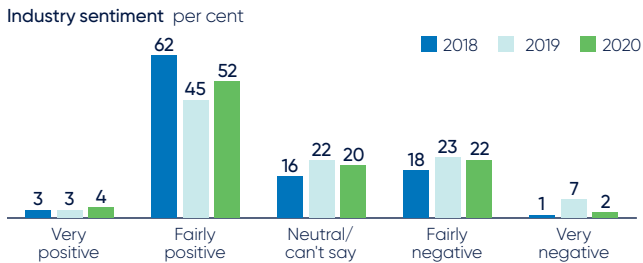
### DairyTas

Farmers are the most positive about their own businesses (90%) and are also one of the most positive about the future of the industry (56%) thanks to favourable conditions and satisfactory farmgate milk prices.

Almost all farmers this region (91%) expect to make an operating profit in 2019–20, up from 85% last year.

Over the past 12 months, respondents have been the most likely nationally to increase herd numbers (38%) and to be expanding their business (42%) and they are optimistic about maintaining ongoing growth in the years ahead.

### Sentiment



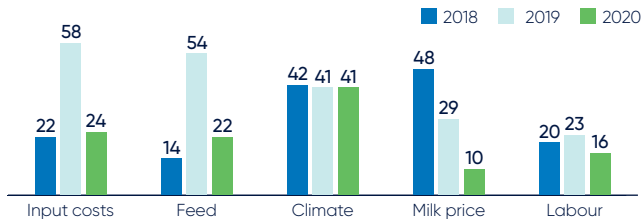
### Sentiment trend



### Profitability and investment

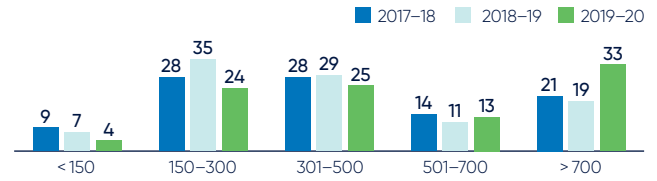
<b>85%</b> Made profit 2018–19	<b>90%</b> Invested on farm 2018–20
<b>91%</b> Expect profit 2019–20	<b>81%</b> Intend to invest 2020–22
<b>75%</b> Profit higher than 5–year average	<b>52%</b> Invest in irrigation
<b>13%</b> Profit about same	<b>22%</b> Invest in land
<b>9%</b> Profit lower than 5–year average	<b>16%</b> Invest in machinery

### Next 6-months' challenges

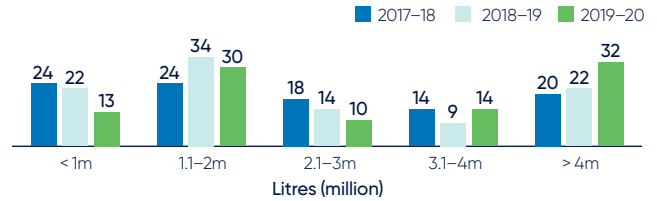


### Current herd size and production

#### Herd size per cent

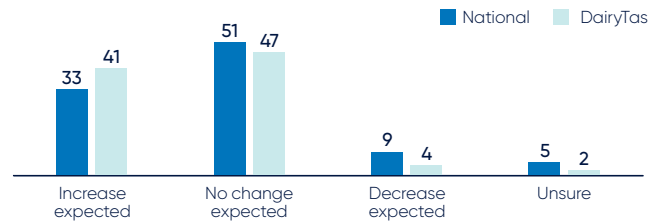


#### Herd production per cent

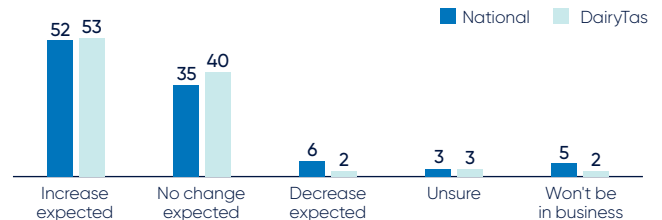


### Forecast herd size and production

#### Anticipated change in herd size 2022–23 vs. 2019–20 per cent

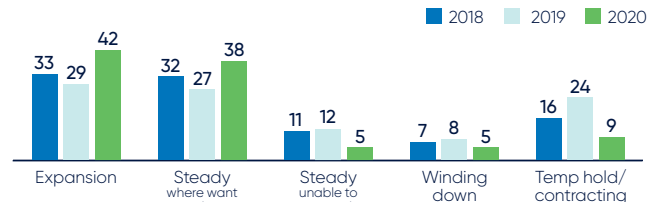


#### Anticipated change in production 2022–23 vs. 2019–20 per cent



### Regional profile

#### Enterprise phase per cent



#### The 'average' DairyTas farmer



## Regional NDFS results at a glance

### GippsDairy

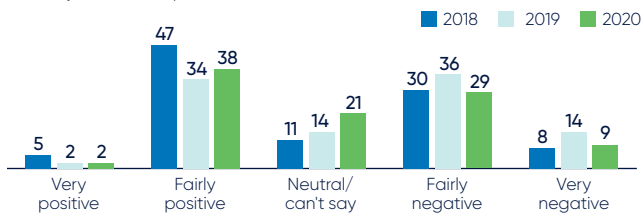
Positive sentiment about the future of their farm business has increased significantly compared to 2019 (76%, was 56%). In contrast, only 40% feel confident in the future of the industry.

Profitability in this region is expected to be significantly more widespread in 2019–20 than 2018–19 (80% and 66% respectively) despite ongoing challenges with input costs, especially cost of grain.

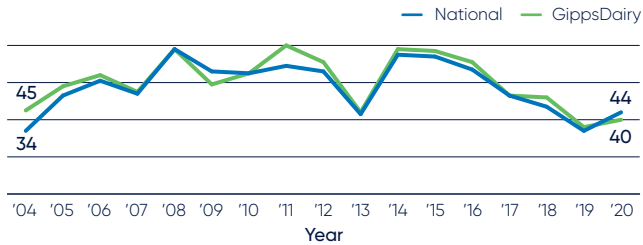
Over the past 12 months, herd sizes have remained static on a large proportion of farms (56%), but almost one third (29%) have increased numbers. The proportion of farmers reporting being in a 'steady, where I want to be' phase is notably higher in 2020.

### Sentiment

Industry sentiment per cent



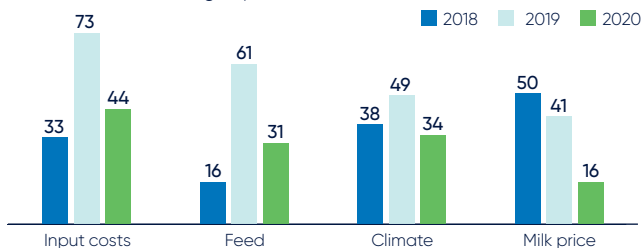
Sentiment trend percentage positive



### Profitability and investment

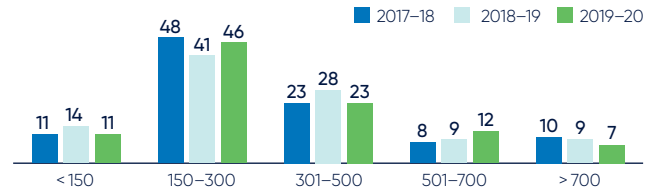
<b>66%</b> Made profit 2018–19	<b>86%</b> Invested on farm 2018–20
<b>80%</b> Expect profit 2019–20	<b>89%</b> Intend to invest 2020–22
<b>71%</b> Profit higher than 5–year average	<b>29%</b> Invest in machinery
<b>16%</b> Profit about same	<b>19%</b> Invest in dairy plant
<b>12%</b> Profit lower than 5–year average	<b>14%</b> Invest in land

Next 6-months' challenges per cent

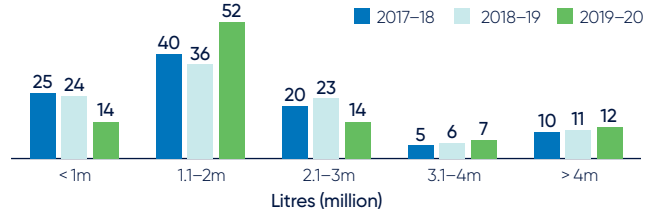


### Current herd size and production

Herd size per cent

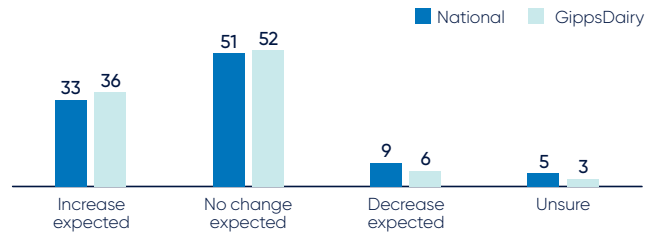


Herd production per cent

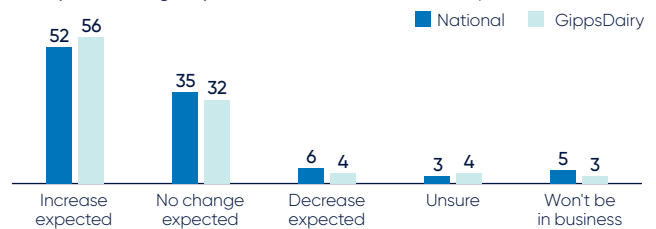


### Forecast herd size and production

Anticipated change in herd size 2022–23 vs. 2019–20 per cent

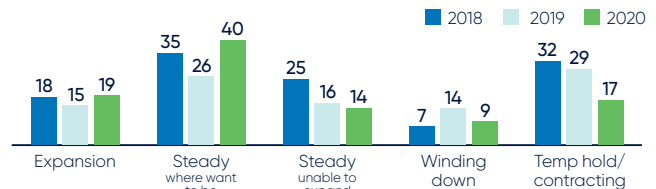


Anticipated change in production 2022–23 vs. 2019–20 per cent



### Regional profile

Enterprise phase per cent



The 'average' GippsDairy farmer



**6%** Considering/want to change processor  
**76%** Positive towards own business future

**6%** May exit industry next 2 years  
**1.5t** Average grain fed per cow per year

## Regional NDFS results at a glance

### Murray Dairy

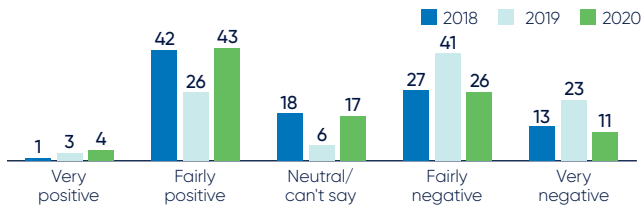
Farmers in the region are significantly more positive in 2020 about the future of the industry and about their own farm businesses than they were in 2019, despite ongoing concerns with input costs, climate and irrigation.

Just under half of respondents (49%) are expecting to be profitable in 2019–20, the same proportion who were profitable in the 2018–19 financial year. Due to challenging conditions and higher input costs, the area's farmers continue to be among least likely nationally to expect to be profitable.

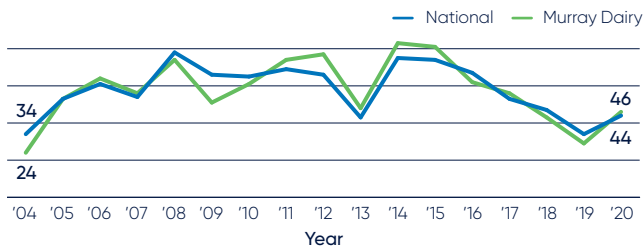
Herd sizes have increased over the past 12 months on 26% of the region's farms however the highest proportion nationally reduced their milking herds (30%).

### Sentiment

Industry sentiment per cent



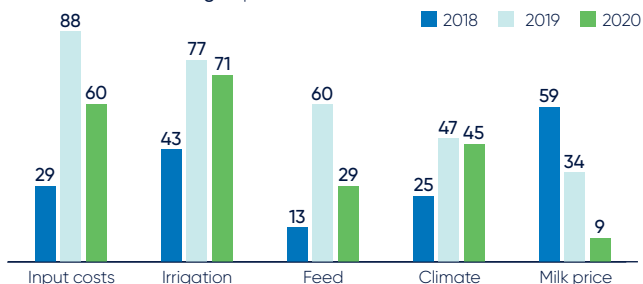
Sentiment trend percentage positive



### Profitability and investment

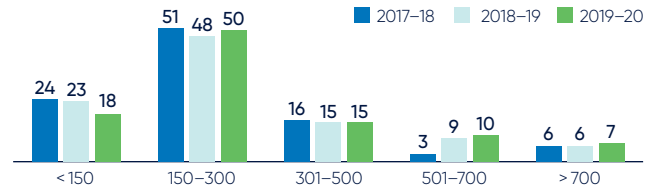
<b>49%</b> Made profit 2018–19	<b>76%</b> Invested on farm 2018–20
<b>49%</b> Expect profit 2019–20	<b>74%</b> Intend to invest 2020–22
<b>24%</b> Profit higher than 5–year average	<b>24%</b> Invest in machinery
<b>29%</b> Profit about same	<b>21%</b> Invest in irrigation
<b>46%</b> Profit lower than 5–year average	<b>15%</b> Invest in land

Next 6-months' challenges per cent

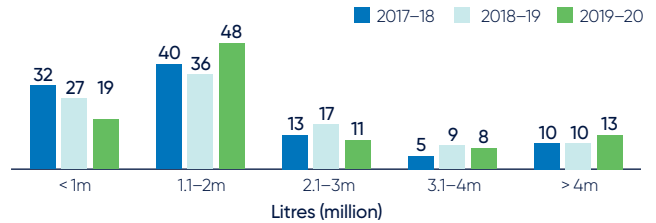


### Current herd size and production

Herd size per cent

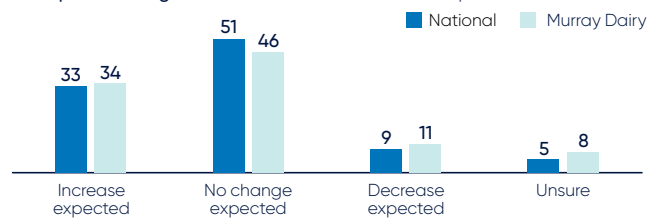


Herd production per cent

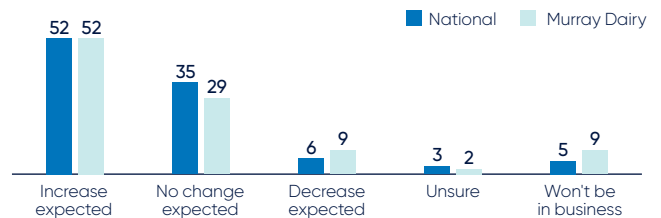


### Forecast herd size and production

Anticipated change in herd size 2022–23 vs. 2019–20 per cent

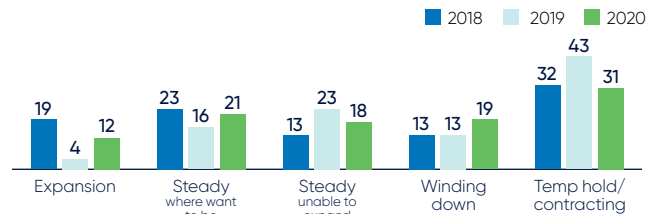


Anticipated change in production 2022–23 vs. 2019–20 per cent



### Regional profile

Enterprise phase per cent



### The 'average' Murray Dairy farmer



**10%** Considering/want to change processor

**49%** Positive towards own business future

**11%** May exit industry next 2 years

**1.7t** Average grain fed per cow per year

## Regional NDFS results at a glance

### Subtropical Dairy

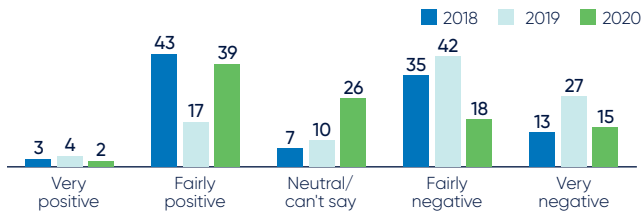
Over the past 12 months, respondent's confidence in the industry's future has increased a significant 20 points to 41% and is now in line with national results. The proportion of farmers confident in the future of their own business is also up significantly (66%, was 27%).

Challenges associated with climate, input costs, feed and milk price remain widespread and this is continuing to impact profitability expectations in this region. Only half of all respondents expect to be profitable this financial year, a similar proportion to 2018-19.

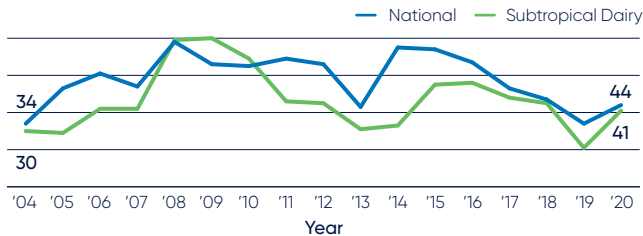
Compared to 2019, more farmers are entering an expansion phase. The reported growth in herd sizes over the past 12 months on 25% of farms supports this outlook.

### Sentiment

Industry sentiment per cent



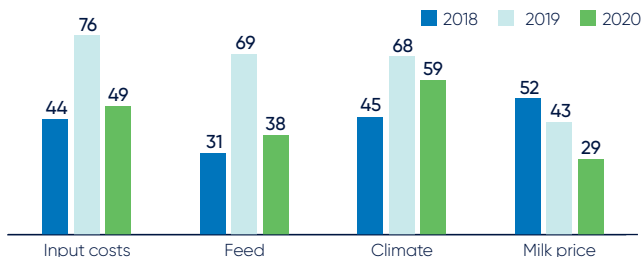
Sentiment trend percentage positive



### Profitability and investment

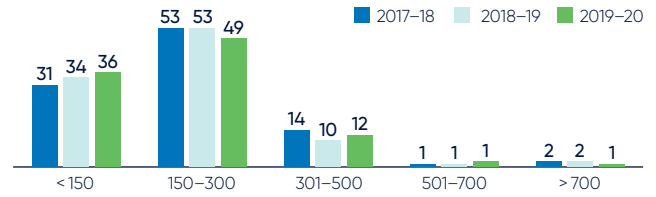
<b>53%</b> Made profit 2018-19	<b>79%</b> Invested on farm 2018-20
<b>53%</b> Expect profit 2019-20	<b>84%</b> Intend to invest 2020-22
<b>20%</b> Profit higher than 5-year average	<b>41%</b> Invest in machinery
<b>16%</b> Profit about same	<b>30%</b> Invest in irrigation
<b>61%</b> Profit lower than 5-year average	<b>25%</b> Invest in dairy plant

Next 6-months' challenges per cent

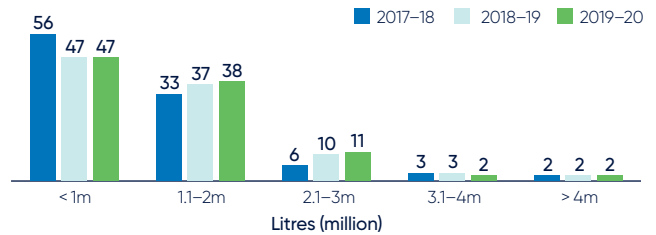


### Current herd size and production

Herd size per cent

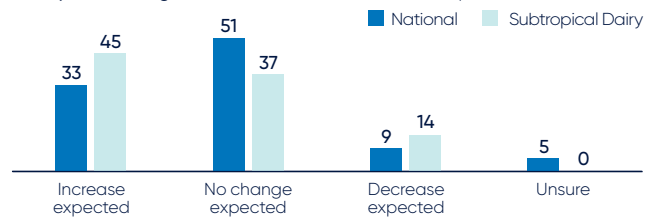


Herd production per cent

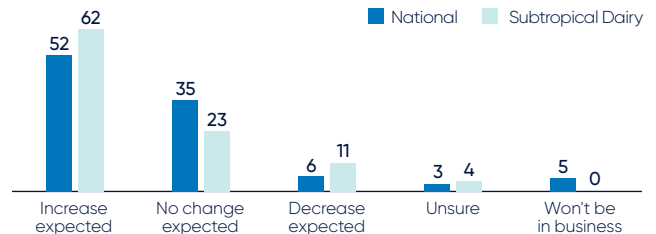


### Forecast herd size and production

Anticipated change in herd size 2022-23 vs. 2019-20 per cent

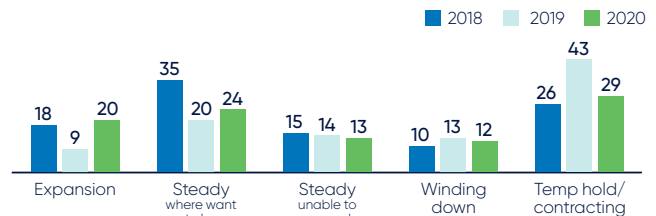


Anticipated change in production 2022-23 vs. 2019-20 per cent



### Regional profile

Enterprise phase per cent



### The 'average' Subtropical Dairy farmer



**19%** Considering/want to change processor

**66%** Positive towards own business future

**4%** May exit industry next 2 years

**1.8t** Average grain fed per cow per year

## Regional NDFS results at a glance

### Western Dairy

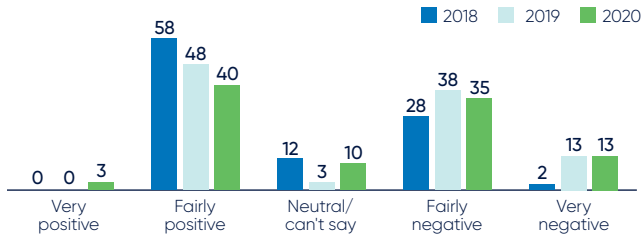
Since 2016, confidence in the industry's future has trended downwards among respondents and this year they are the only region more likely to be negative in the future of their own business than positive (48% and 45%).

Most likely nationally to expect challenges with input costs (78%) as well as feed price and availability (73%) over the next 6 months. Herd sizes for the year ahead are expected to remain static on most farms (63%).

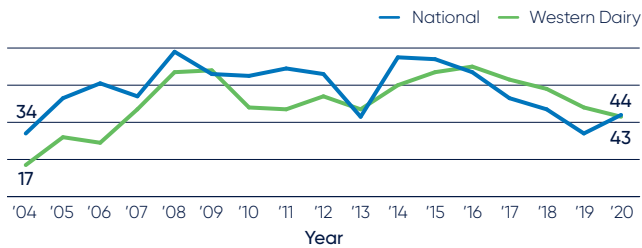
In 2018–19, 65% of farms reported making an operating profit and a similar proportion expect to be profitable this financial year (60%).

### Sentiment

Industry sentiment per cent



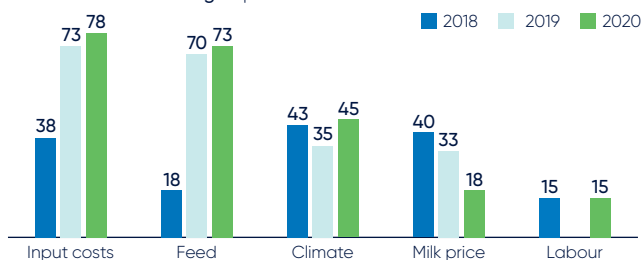
Sentiment trend percentage positive



### Profitability and investment

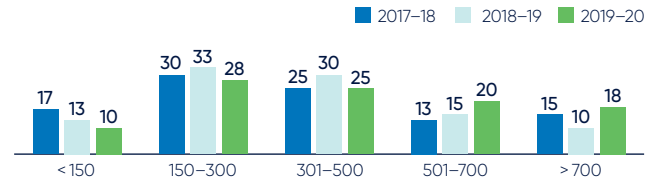
<b>65%</b> Made profit 2018–19	<b>88%</b> Invested on farm 2018–20
<b>60%</b> Expect profit 2019–20	<b>65%</b> Intend to invest 2020–22
<b>10%</b> Profit higher than 5–year average	<b>35%</b> Invest in machinery
<b>23%</b> Profit about same	<b>10%</b> Invest in feed system
<b>65%</b> Profit lower than 5–year average	<b>10%</b> Invest in dairy plant

Next 6-months' challenges per cent

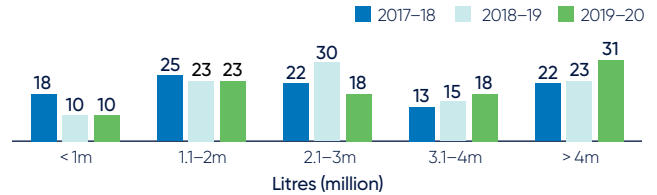


### Current herd size and production

Herd size per cent

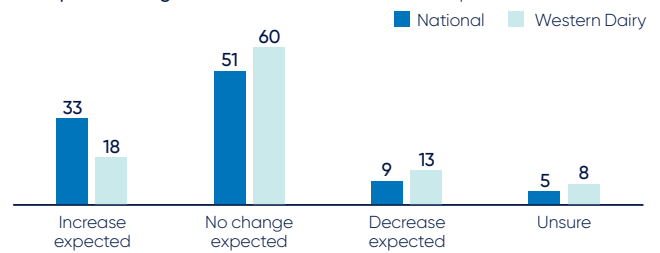


Herd production per cent

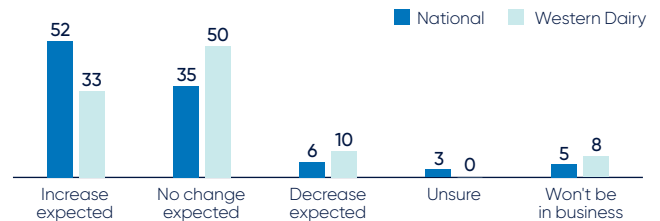


### Forecast herd size and production

Anticipated change in herd size 2022–23 vs. 2019–20 per cent

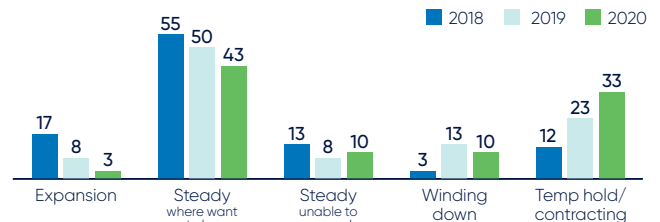


Anticipated change in production 2022–23 vs. 2019–20 per cent



### Regional profile

Enterprise phase per cent



The 'average' Western Dairy farmer



**28%** Considering/want to change processor

**45%** Positive towards own business future

**8%** May exit industry next 2 years

**2.2t** Average grain fed per cow per year

## Regional NDFS results at a glance

### WestVic Dairy

Favourable milk prices and improved seasonal conditions have resulted in a significantly higher proportion of positive feeling in the future of their own business (72%, up from 53%). In comparison, only 42% feel confident in the future of the industry.

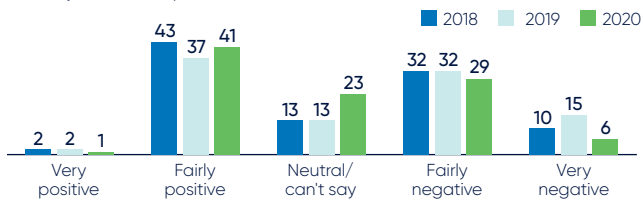
While concerns with input costs and feed remain reasonably widespread, the proportion of respondents expecting them to be a challenge over the next 6 months has decreased significantly since 2019.

Farmers in this region are significantly more optimistic of making an operating profit in 2019–20 (93%, up from 75% who were profitable last financial year).

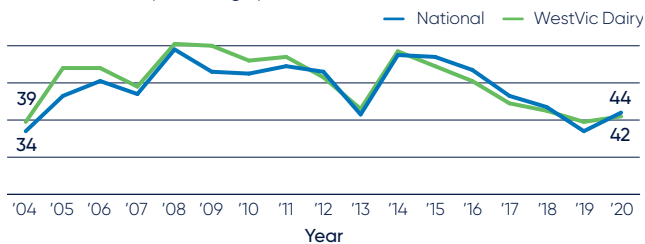
Over the past 12 months, herd sizes have remained static on more than half of the region's farms (55%) and similar proportion expect this to continue over the next 3 years (61%).

### Sentiment

Industry sentiment per cent



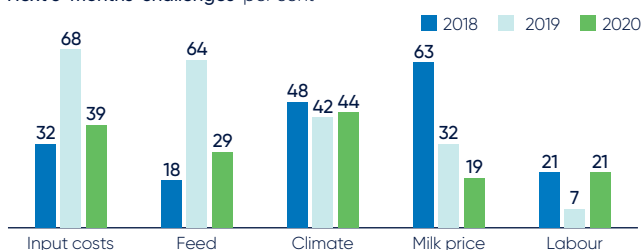
Sentiment trend percentage positive



### Profitability and investment

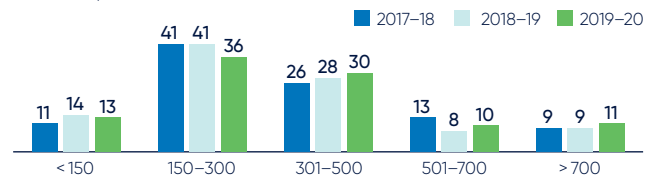
<b>75%</b> Made profit 2018–19	<b>83%</b> Invested on farm 2018–20
<b>93%</b> Expect profit 2019–20	<b>81%</b> Intend to invest 2020–22
<b>74%</b> Profit higher than 5–year average	<b>33%</b> Invest in machinery
<b>17%</b> Profit about same	<b>16%</b> Invest in land
<b>6%</b> Profit lower than 5–year average	<b>16%</b> Invest in dairy plant

Next 6-months' challenges per cent

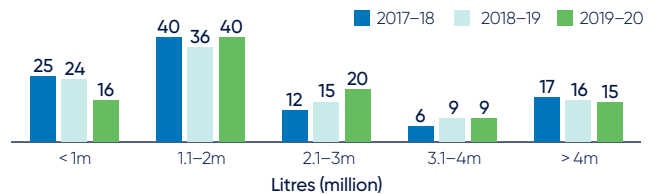


### Current herd size and production

Herd size per cent

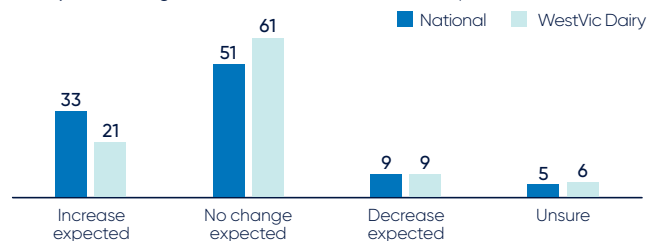


Herd production per cent

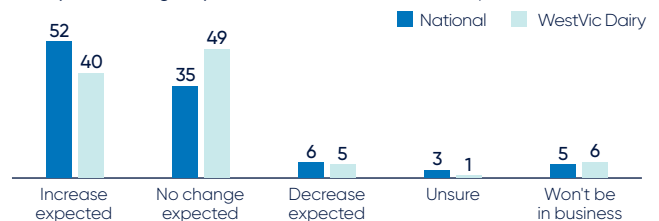


### Forecast herd size and production

Anticipated change in herd size 2022–23 vs. 2019–20 per cent

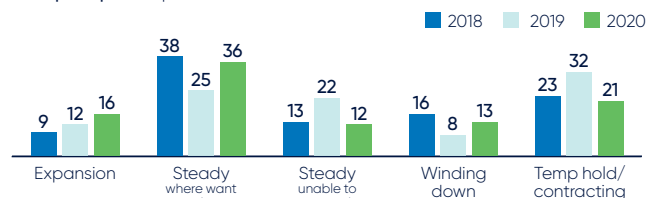


Anticipated change in production 2022–23 vs. 2019–20 per cent



### Regional profile

Enterprise phase per cent



### The 'average' WestVic Dairy farmer



**10%** Considering/want to change processor

**72%** Positive towards own business future

**8%** May exit industry next 2 years

**1.6t** Average grain fed per cow per year



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