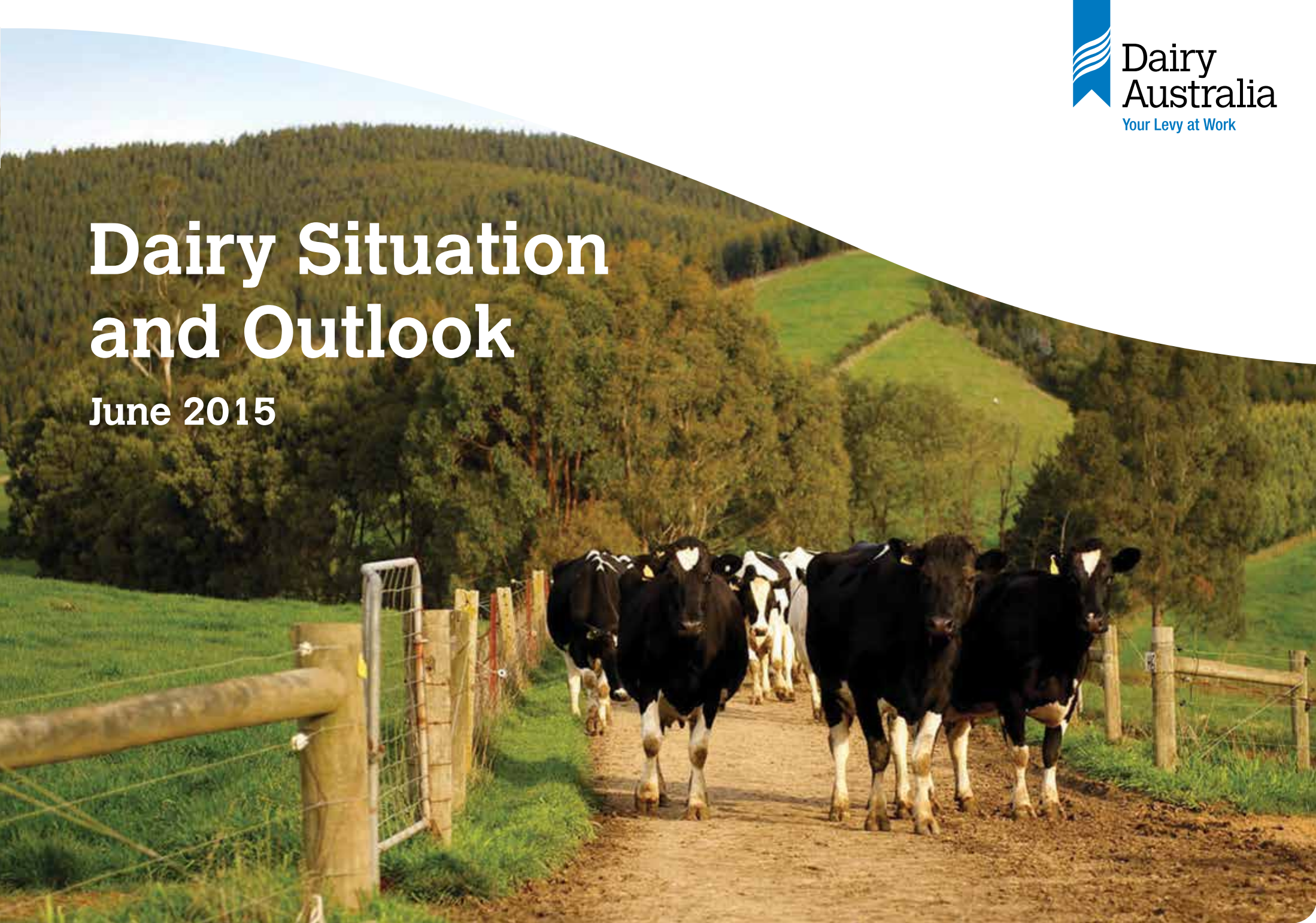


Dairy Situation and Outlook

June 2015



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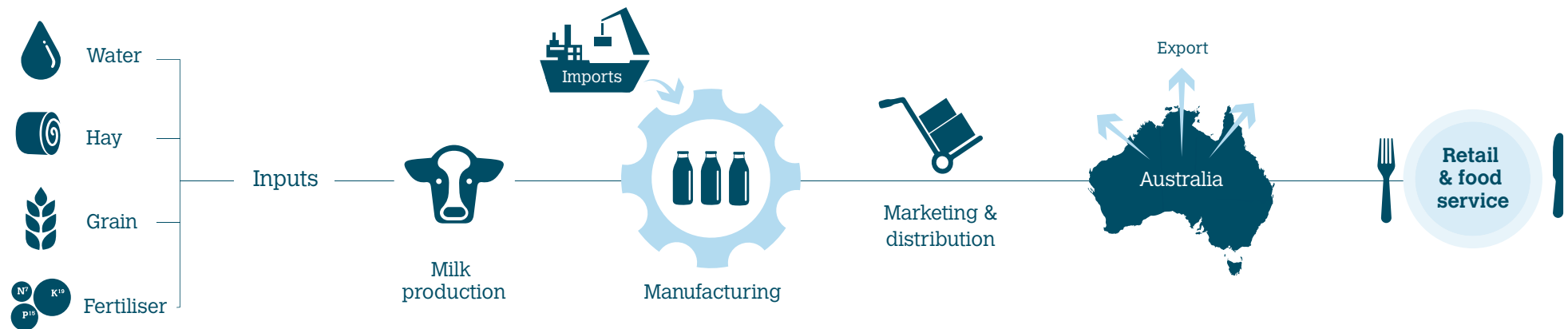
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Australian Dairy Industry value chain



Inputs

- › Bureau of Meteorology lifted ENSO indicator to 'El Niño' in May.
- › Weaker AUD and dry outlook see a gap opening between international benchmark, and firming domestic wheat prices.
- › Speculation that hay stocks may come under pressure as the year progresses.
- › Temporary water prices remain elevated.
- › High cull cows prices and slaughter rates continue.
- › Dairy cattle exports are 2% behind last year, at just over 60,500 head.

Milk Production

- › Australian milk production has tracked ahead of expectations for the season to April (up almost 3%).
- › Dairy Australia anticipates around 2.5% full season growth for 2014/15 (compared to 0.4% in 2013/14), with a total in the range of 9.45 to 9.50 billion litres.
- › Further growth likely in 2015/16, mostly in southern states. Queensland continues to face challenges, and WA will likely see significant changes at the processing level.

Manufacturing sector

- › Murray Goulburn's capital structure proposal has advanced.
- › United Dairy Power has ceased trading, but new entrants include Midfield Group and National Dairy Products.
- › Warrnambool Cheese and Butter acquired Lion's 'everyday cheese business', with Lion focussing higher up the value chain.
- › A number of organisations commenced exporting fresh dairy products to China.













Export markets

- › International dairy markets remain depressed, with abundant supply and lacklustre demand continuing to weigh on pricing.
- › Purchasing from China and Russia still sluggish; double digit export volume growth to Southeast Asia, Mexico and the Middle East.
- › Milk production in most US states growing strongly; the removal of European quotas has supported continued expansion. New Zealand's drought has not had the impact that many envisaged.
- › Depressed international dairy markets continue to limit the benefit to export returns of the weaker AUD.

Domestic retail

- › Dairy spreads growing faster than any other major dairy category.
- › Milk sales are increasing slowly and steadily.
- › Lower volumes, but average prices are higher for cheese and the yoghurt/dairy snacks categories.

Six key drivers of the Australian Dairy Industry

Inputs		Australian market		Global supply		Global demand		Global economy		Exchange rates	
Situation	Outlook	Situation	Outlook	Situation	Outlook	Situation	Outlook	Situation	Outlook	Situation	Outlook
											
Neutral	Negative	Neutral	Neutral	Negative	Neutral	Negative	Neutral	Neutral	Neutral	Positive	Neutral

- › Early stage El Niño declared.
- › Grain and hay markets have responded, with a gap opening between international benchmark, and firming domestic prices.
- › Hay prices remain unusually stable for the time of year. Stocks of hay in WA, SA and Tasmania are relatively low, raising the prospect that prices could increase through winter.
- › Increased capacity is keeping international benchmark urea prices low, while phosphate markets remain subdued due to increased competition from Chinese exports. Global potash prices have been supported by Chinese purchases.
- › Temporary water prices remain elevated.
- › High culling rates have been supported by strong prices for manufacturing beef. Live dairy cattle exports are 2% below average for the financial-year-to-date (to March) compared to 2013/14.
- › Consumer sentiment has weakened, due in part to a resurgence in petrol prices, concerns regarding household finances, and negative expectations around the labour market outlook.
- › Consumers are spending on discretionary items, with positive growth in food service, takeaway, and café and restaurant sales.
- › Total supermarket milk sales volume growth up slightly to +1.9% on a rolling 12 month (MAT) basis to March: total dairy spreads volumes up +6.2%, with strongest growth in blends.
- › New Zealand's drought has not had the impact on milk production that many envisaged; however a depressed farmgate price outlook may slow expansion in 2015/16.
- › Despite margins dipping below the top tier of the US Margin Protection Program (MPP), most US states continue to record strong growth in milk production, except drought-affected California.
- › The removal of European milk quotas has supported continued expansion in milk production, though buoyant supplies and the continued closure of the Russian market threaten margins in the months ahead.
- › Australian milk production continues to outperform forecasts, as favourable seasonal conditions and consecutive years of relative stability in margins support farmer confidence.
- › Sluggish purchasing from both China (high inventories and strong domestic milk production) and Russia (import embargo and a sharply weaker currency) remain the headline factors undermining aggregate dairy demand.
- › Brighter news from Japan, with imports for the 12 months to February at their highest since 2007.
- › Buyers in other markets across Africa, the Middle East, and Southeast Asia have enjoyed a prolonged period of attractive pricing, but are now well covered against short term requirements, and under little pressure to purchase.
- › Moderate global economic growth is expected in 2015, with a high degree of variability across countries and regions.
- › The IMF outlook for advanced economies is better than last year, and while emerging markets and developing economies are projected to grow more slowly, they will drive an increased global rate in 2016.
- › Most of Australia's trading partners are net energy importers and are benefitting from lower oil prices, with increased domestic demand and spending in the US, and euro areas helping to drive growth.
- › The AUD and other major currencies remain lower against the USD in year-on-year terms.
- › Median range forecasts see the AUD continuing to hover around, or slightly below, these levels into 2016.
- › Depressed international dairy markets continue to limit the benefit to export returns of the weaker AUD.
- › The significant drop in global dairy commodity prices means that for a number of major import markets, dairy is at its 'least expensive' level post-Global Financial Crisis. Weaker currencies against the US dollar have partly offset the gains from lower commodity values in other markets.

Executive summary

Dairy markets currently present a striking contrast from an Australian perspective. Internationally, prices remain depressed; the result of abundant supply and lacklustre demand. Buyers in many import markets have responded by refilling supply pipelines, and are now well stocked, with limited capacity to commit further. Others believe prices will remain depressed in the short term, and consequently are buying on an 'as needs' basis. Exports to key global buyers China and Russia remain well down in year-on-year terms. Milk production has been slow to respond, with most dairy export regions still growing. Farmgate milk price cuts have already occurred in both Europe and New Zealand, which may go some way to restoring the global balance, but a significant and sustained uplift in commodity pricing is considered increasingly unlikely in 2015.

In Australia however, relatively stable production margins and favourable weather conditions have allowed farmers in many regions to consolidate, and even grow, their businesses. With milk processors publicly forecasting similar farmgate prices for the upcoming 2015/16 season, farmer confidence in the future of the industry remains high. The results of Dairy Australia's 2015 National Dairy Farmer Survey (NDFS) indicate that 74% of dairy farmers are feeling positive about the industry's future – in line with 2014 sentiment. Moreover, 79% of farmers anticipate a profit in the current season, whilst 41% have increased herd sizes and 52% increased milk production, implying yield gains have also played a part. Positive sentiment is translating to investment on farm: 52% of respondents indicated intentions to invest in their enterprises over the next 12 months. More broadly, 64% of those surveyed identified long term benefits to the industry as a whole from the recently concluded Free Trade Agreements (FTA's) with Korea, Japan and China.

Significant regional differences in sentiment remain; with confidence in the Subtropical Dairy region of Queensland and northern NSW still well below the national average, at 55%. However, a substantial increase has been recorded (from 31% in 2013), based on a slightly

improved farmgate pricing and procurement environment, and supported by greater external investment interest in the region. In western Victoria and South Australia, confidence has been dampened (down 8% and 16% respectively) by uncertainty around recent corporate developments, and the medium term milk price outlook.

Farm input cost pressures are mixed. Grain and hay markets have responded to the Bureau of Meteorology lifting its ENSO indicator to 'El Niño' in mid-May. Changing views regarding global production prospects have resulted in somewhat erratic international wheat values. However, devaluation of the AUD, relatively low domestic stocks, and the dry outlook, have seen a gap open between weaker international benchmark, and firming domestic prices. Hay prices remained relatively static due to slow demand through early 2015, though the downside production risk posed by an El Niño is likely to discourage grain and hay producers from selling early in the lead-up to the 2015 harvest.

Against a backdrop of stable farmgate prices and generally favourable weather conditions, Australian milk production has tracked ahead of expectations for much of the current season. Dairy Australia's revised forecast for 2014/15

anticipates around 2.5% full season growth (compared to 0.4% in 2013/14), with total production in the range of 9.45 to 9.50 billion litres now likely.

Farmers in a number of regions, with two good seasons behind them, are well placed to take advantage of the opportunities a third could provide. If publicly reported processor milk price forecasts are realised and El Niño impacts remain moderate, further production growth is likely in the southern states through 2015/16. Western Australia is likely to see more milk change hands as processors adjust their strategies, while the Queensland production sector searches for stability in the face of severe and ongoing cost and climatic pressures.

The corporate sector has been active, with Murray Goulburn's capital structure proposal advancing, United Dairy Power (UDP) ceasing trading, and Warrnambool Cheese and Butter acquiring Lion's 'everyday cheese business' as Lion focus higher up the value chain. New entrants to dairy processing included Midfield Group, whose milk powder manufacturing plans moved closer to fruition, and milk trader National Dairy Products. A number of organisations commenced fresh dairy exports to China, while there has been a flurry of corporate investment at the farm level.

With most major dairy export regions worldwide enjoying favourable weather, global milk supply growth has persisted, despite a depressed farmgate price outlook for many of Australia's competitors. Production expectations continue to reflect a slowdown during 2015, but at the moment, this seems a long way off.

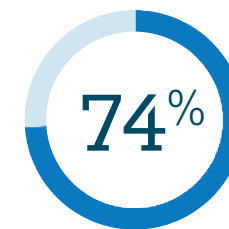
Having a diverse range of markets and products has paid dividends for Australian exporters this season. Interest in importing bulk powders remains relatively quiet in China, as large inventories take time to consume and surplus domestic production is directed into powder. Assessments of the timeframe for a significant recovery in that market are increasingly being pushed into early 2016. Double digit, price-driven volume growth in exports to Southeast Asia, Mexico and the Middle East is moderating as inventories are rebuilt. Exports to Russia continue to be hamstrung by the country's embargo on key suppliers. A firm US domestic market is helping absorb growth from that country's Midwest and northeast; while global dairy exports to Japan for the 12 months to February increased to their highest since 2007, their strongest growth since 2005.

Back home, dairy demand remains steady. The most recent update to Dairy Australia's 'Food Service Index' shows strong growth in spending through both the food service and supermarket channels, though the pace of growth has slowed in recent months. Australian supermarket sales of major dairy categories continue to tell an essentially positive story. Dairy spreads remain the top performer, outpacing all other major dairy categories for both volume and value growth. Milk sales are increasing slowly and steadily, though unit values are marginally lower. Despite shrinking sales volumes, higher average per kilo prices for both the cheese and yoghurt/dairy snacks categories are delivering growth in value.

Considered something of a 'handbrake' on industry returns through the buoyant 2013/14 season, the more stable returns generated by the Australian domestic market (which consumes around 60% of milk production) have helped cushion the industry through an internationally volatile 2014/15.

Maintaining an appropriate balance between the pursuit of potentially lucrative new export opportunities, and securing sustainable returns in more mature and stable markets, will be no less important in 2015/16 and beyond.

The results of Dairy Australia's 2015 National Dairy Farmer Survey (NDFS) indicate that confidence in the future of the industry has remained high over the past year

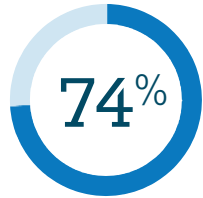


Almost three quarters of dairy farmers reported feeling positive about the industry's future.

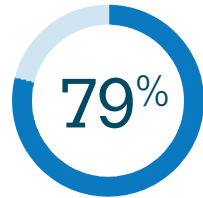
1% less than 2014

National Dairy Farmer Survey 2015

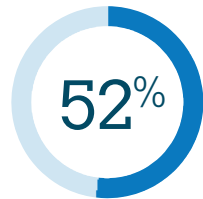
National results at a glance



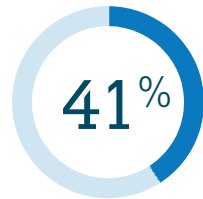
Farmers positive about industry future (2014: 75%)



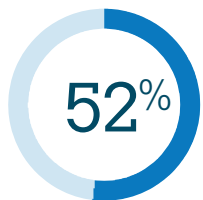
Anticipating profit in 2014/15



Increased production in 2014/15



Increased herd size in 2014/15



Intending to invest next 12 months

National overview

As measured through the National Dairy Farmer Survey (NDFS), overall farmer sentiment is comparable with 2014. Notwithstanding significant regional variability, 74% of farmers report feeling positive about the future of the dairy industry and a high proportion (79%) anticipate a profit this financial year.

Underpinning this is a significant increase in farmers who believe demand growth will continue, both domestically and globally. In terms of perceived challenges for the months ahead, the survey revealed heightened concerns about the level of new season farmgate prices, but also that there is reduced concern overall about input costs and climate compared to this time last year.

Key themes

Taking a closer look at the 2015 survey data, there are three overarching themes.

1. More than 80% of farmers made an operating profit in 2013/14 and a similar proportion are expecting a profitable year in 2014/15

When farmers are asked if they made an operating profit in the last financial year, 82% believed they were profitable and a similar proportion (79%) are expecting to make a profit in 2014/15. Overall, 88% of farmers who reported a profit

last year are anticipating an operating profit again this year and 38% of those who were not profitable last financial year are expecting an operating profit this financial year.

Regions with the highest proportion of respondents having positive profit expectations for 2014/15 are Western Dairy (92%) and GippsDairy (88%). The DairySA and Subtropical Dairy regions are least positive with 61% and 59% anticipating a profit respectively for the same period. South Australian farmers expressed significantly more negative profit expectations than last year. Concerns about the closure of UDP in

Figure 1 Regional profitability



South Australia and the resulting uncertainty are likely contributors.

Compared to the national average, farms with milking herds of more than 300 cows were more likely to have had a profitable 2013/14 and to be anticipating a profitable 2014/15. Aside from number of cows, other key characteristics of these farms that may influence perceptions of profitability (compared to other farm size segments) include:

- › They are significantly more likely to have an annual budget prepared to manage cash flow;
- › They are significantly more likely to benchmark the financial performance of their farm against other farms; and
- › They are significantly more likely to make changes to their systems to improve farm profitability.

More profitable conditions have generated a significant increase in farm investment in the past year (56%) compared to 48% in the previous year. Furthermore, over half of respondents are expecting to invest on farm in the 12 months ahead.

2. Announcements of Free Trade Agreements have been well received, though they are seen as being more beneficial for manufacturers and the industry in general than for farmers directly

Almost two thirds of respondents (64%) expressed belief that the recent Free Trade Agreements (FTAs) with China, Japan and Korea will be beneficial for the industry as a whole and for dairy manufacturers, primarily due to market growth potential. Just over 40% felt there would be a direct benefit to farmers while 30% believed the agreements would have no impact at all. There were few significant differences between respondents with small, medium or large herd sizes but those with herds greater than 500 cows tended to be more optimistic about personal benefit.

Regions that were most positive about the benefits to the industry and manufacturers were Dairy NSW (74%), Murray Dairy (68%) and Dairy SA (67%).

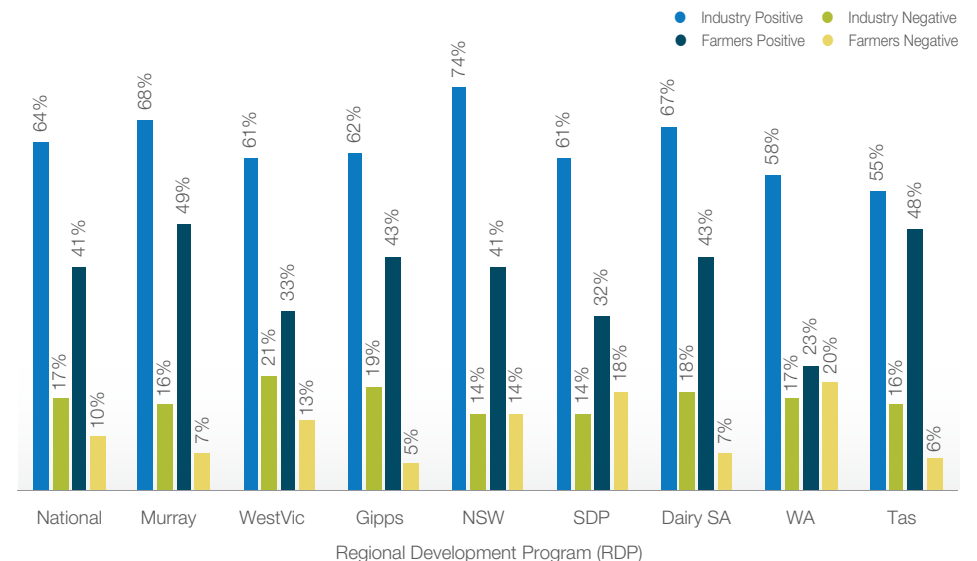
This could be because these regions have organisations already actively promoting export of Australian product to China.

In terms of perceptions about a direct benefit to farmers, export-focused Murray Dairy and Dairy Tas produced the most positive responses, while domestic market oriented Western Dairy and Subtropical Dairy were less optimistic.

For those who are positive, the FTAs are expected to deliver better farm gate prices, and there is optimism that they will help to support more stable pricing.

Approximately one quarter of respondents are expecting to see better farm gate milk prices as a result of the agreements. However, most believe any benefits are only likely to be realised in 5-10 years' time.

Figure 2 Perceptions of FTAs



3. Farmer sentiment in the Subtropical Dairy region has improved significantly in 2015

The views of farmers in the Subtropical Dairy (SDP) region have changed significantly since 2013. Despite remaining well below the national average, confidence amongst Subtropical region farmers has seen a sustained improvement from a low of 31% in 2013 to the current five-year high of 55%. This can largely be attributed to positive perceptions about the demand for milk, following the recent high profile conclusion of several Free Trade Agreements, and increased investment interest from the corporate sector.

Based on the NDFS survey data since 2013, the following trends provide an indication of what has changed to impact sentiment so markedly:

- › Key challenges: In 2013, 47% of farmers in this region were concerned about farm gate prices post \$1 milk; 38% were concerned about climate impacts, and 32% were concerned about input costs (especially grain and electricity). In contrast, 2015 survey data shows that the top three concerns for farmers are climate (49%), farm gate prices (25%) and input costs (17%).
- › Opportunities for the dairy industry: In 2013, only 41% of farmers were able to see any opportunities for their

future: in 2015, this has risen to 75% of respondents. Demand from Asia, and the potential from other global markets, continues to be the greatest perceived opportunity. This “bigger picture” view of prospects beyond the domestic market probably explains the diminishing concern about farm gate prices.

- › Profitability: In 2013, three out of four farmers were anticipating that their operating profit for the financial year would be lower than the average of the previous five years. At this time, around a quarter of respondents were reporting that they were extending debt, increasing loans, decreasing staff levels, and reducing herd size. The difference in 2015 is notable, with close to 60% expecting to be profitable in the current financial year, and the majority (58%) expecting similar or higher profit levels to 2013/14.

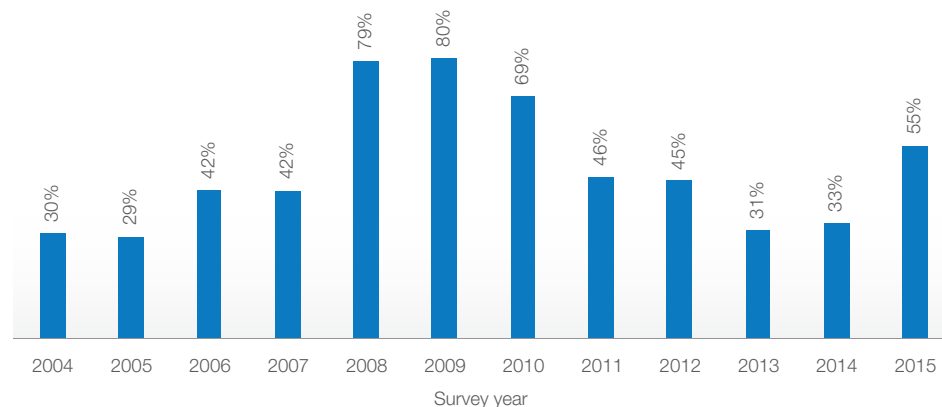
A key outcome of this improvement in sentiment is increased confidence to invest on farm, with 46% of farmers in the region planning to invest in the next 12 months. Compared to 2013, when

75% of farmers had no intention of investing, this is a significant turn-around.

The survey data highlights the impact that external factors (be they third party investment, discounting strategies or export market development) can have on a region’s farmers. Improvements in confidence, together with increased focus on opportunities beyond the domestic market may help to bring some stability to the Subtropical Dairy region.

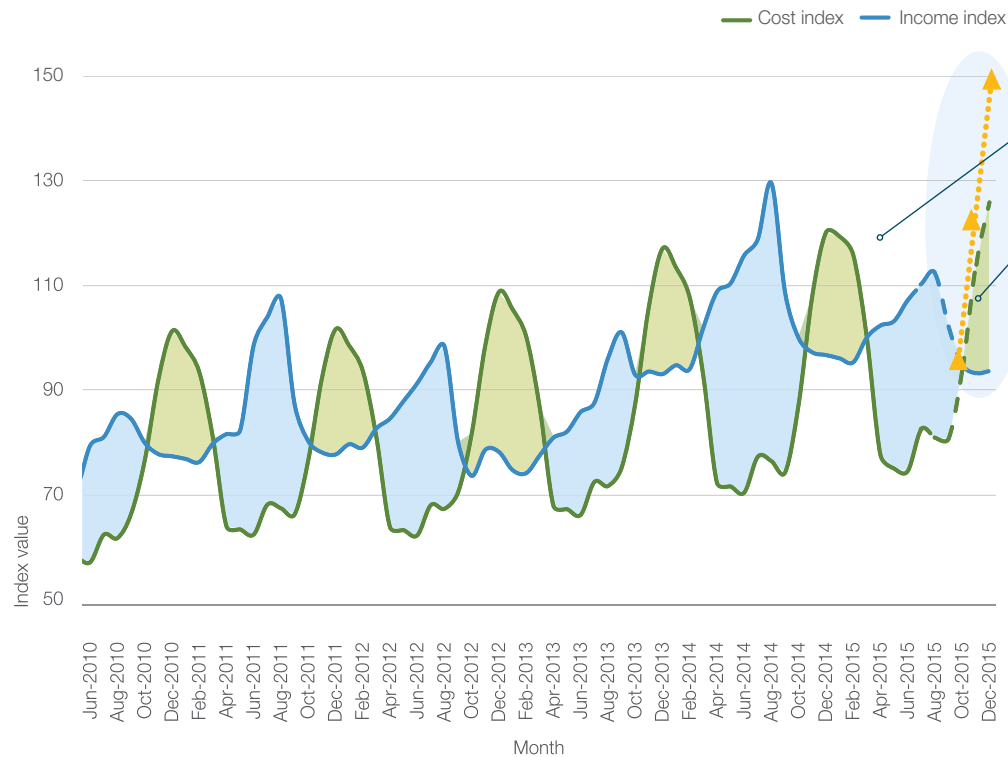
* *The National Dairy Farmer survey was conducted in March 2015 amongst 1,000 dairy farmers across eight dairying regions. Respondents are recruited randomly and are interviewed by telephone. Results presented are based on survey data which is weighted to represent the structure of the Australian dairy industry.*

Figure 3 SDP sentiment trend – very/fairly positive



Export region weighted cost and income indices

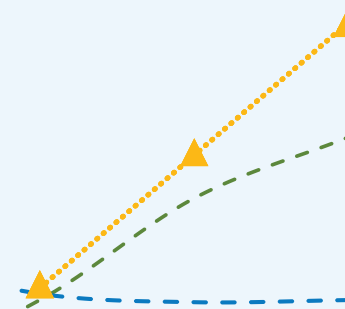
Figure 4 Export Region Weighted Cost and Income Indices



The weighted cost and income indices consider the near-term outlook and highlight the net impact of market changes. The latest update suggests:

- › Lower year-on-year farmgate milk pricing and ongoing input cost pressures have kept margins tighter than 2013/14.
- › The 'base case' outlook assumes a 'traditional' step-up pattern to meet 2015/16 processor milk price forecasts.
- › Modelling using current market indications suggests some key line items will inflate the average cost base in 2015/16.
- › Despite pressure on margins from both indices, under the base case scenario, reasonable full season profitability appears achievable.




Elevated feed cost scenario



- › Modelling of elevated feed costs under a severe El Niño scenario shows intensification of input cost pressure through spring and early summer.
- › The modelling assumes an escalation over spring from the current base, to levels seen during previous severe droughts coinciding with El Niño events.

Source: Dairy Industry Farm Monitor Project, Dairy Australia analysis

Inputs

		
Fertiliser	Water and weather	Cows
Urea (granular Middle East) US\$/t 296 ▼ -7% LY ▼ -22% 5Y	Northern Victoria \$/ML 130 ▲ +72% LY 1,360,947 ML ▲ +3% 5Y	Cull cows 357 c/kg ▲ +26% LY ▲ +22% 5Y 58,249 head ▲ +34% LY ▲ +15% 5Y
DAP (US Gulf) US\$/t 417 ▼ -9% LY ▼ -11% 5Y	Murray Irrigation System \$/ML 124 ▲ +121% LY 123,751 ML ▼ -7% 5Y	Dairy cattle exports 60,552 head ▼ -2% LY ▲ +3% 5Y
MOP (granular Vancouver) US\$/t 319 ▲ +7% LY ▼ -18% 5Y		
<i>Price is May average to 25/05/2015, compared to the 2014 (LY) and 5-year (5Y) May average. Source: Bloomberg</i>	<i>Price is April 2015 average, compared to year earlier (LY). Volume of water traded is YTD FY 2014/15 (to April), and compares to the 5-year average (5Y). Source: Victorian Water Register, Murray Irrigation Ltd</i>	<i>Price is April 2015 average, compared to year earlier (LY) and 5-year (5Y) averages. Number of head is YTD FY 2014/15 (cull cows to April, dairy cattle exports to March). Source: NLRS, ABS</i>

Fertiliser

International benchmark urea prices remain lower than last year, and below average. Globally, four new major plants are due to begin production this year, with market expectations of ample supplies keeping downward pressure on prices. Phosphate prices also continue to be relatively soft, with the introduction of a flat export tax (rather than a tax window) in China increasing competition. Major global potash producers have recently signed significant supply contracts with Chinese and Indian buyers at prices US\$10/tonne higher than the previous year. This is one factor contributing to global benchmark MOP prices being slightly higher than last year, despite remaining below the short run average.

While global benchmark fertiliser prices remain relatively low, continued weakness in the AUD will be putting pressure on import prices. Converted to AUD terms, urea prices are 9% higher than year earlier, DAP 7%, and MOP 26%. The declaration of an El Niño, suggesting challenging growing conditions for winter grain crops, could dampen domestic fertiliser demand. Importer expectations in this regard, and how they match up with market requirements, will partially influence domestic fertiliser prices and availability.

Water

Temporary water prices have remained significantly above prior year levels throughout the season for both Northern Victoria and the Murray Irrigation System. Despite this, total trading in Northern Victoria remained marginally above average, although demand appears to have suffered in the Murray Irrigation System.

Recent inflows to water storages in northern Victoria have been very low, negatively impacting the outlook for seasonal determinations for 2015/16. According to the 15th May update, high-reliability water share (HRWS) determinations are likely to be made for the Murray, Goulburn, Campaspe and Loddon systems on 1st July. Initial availability of HRWS in the Broken and Bullarook systems will be influenced by inflows and carryover. If 2015/16 inflows are average, all systems should have 100% HRWS by mid-December; dry conditions would likely only see this in the Goulburn and Loddon systems by the end of the season. Opening allocations of 0% for General Security (GS) and 80% for High Security (HS) are expected for the NSW Murray.

Cows

Despite a record second quarter, dairy cattle exports are 2% behind last year (financial year-to-date, to March), at 60,552 head. This can be primarily attributed to two of Australia's largest markets, Pakistan and Russia. Although not technically impacted by import bans, there have been no dairy cattle exports from Australia to Russia since they have been in place. China remains by far the largest market for Australian dairy cattle, with a total of 53,659 head shipped financial-year-to-March, a figure 8% (or over 4,000 head) higher than the same period the previous year. Despite this, growth is substantially weaker than in recent years, and (following record December shipments) March quarter shipments were significantly below the two previous years. A significant fall in Chinese domestic milk prices has dampened demand for heifers, with a number of projects for new mega-dairies being postponed or cancelled. China have also recently opened their market to live cattle imports from new markets. Similar issues in Pakistan, where dairy farmers are struggling to compete with milk powder imports on a cost basis, have seen numbers imported from Australia down by 4,436 head (or 69%).

While reduced demand has seen lower prices for dairy cattle for export, extremely strong demand for manufacturing beef out of the US has continued to support cull cow values.

It is possible that Australian producers are taking the opportunity to trade (now relatively cheap) heifers for older and less productive cows, as slaughter rates are well ahead of both year-earlier levels and longer run averages. An appetite for this kind of rebalancing is supported by recently released ABS statistics, which show an increase in the proportion of the Australian dairy herd made up of heifers, and a reduction in the proportion of cows from 2012/13 to 2013/14. US cattle producers are rebuilding their herds, but an excess of cows for manufacturing beef markets are unlikely to become available until at least 2016.

Grain, hay and the weather

El Niño signals from the tropical Pacific are growing in strength, according to the Bureau of Meteorology, who lifted their ENSO indicator to the 'El Niño' level in mid-May. While there is a lack of consensus from forecasters around the globe as to the extent and severity of the event, the significant impact that

El Niño can have on grain and fodder production globally means that the announcement has been duly noted by the market.

For El Niño to occur, anomalies in both the ocean and atmosphere need to coincide and interact, a set of circumstances which are currently occurring, and expected to continue at least into spring. During an El Niño, winter and spring rainfall over eastern Australia is often below-average, while daytime temperatures in the south are above average, particularly during the second half of the year. El Niño years have coincided with 9 of the 10 driest winter-spring periods for eastern Australia on record, and the 1982, 1994, 2002 and 2006 droughts. Higher temperatures increase evaporation, thus exacerbating the impact of reduced rainfall, while the combination also increases bushfire risk – particularly when the Indian Ocean Dipole (IOD) is positive, as predicted by 40% of international models for later in 2015. However, not every El Niño is associated with widespread drought, and the impact on the weather can vary widely.

This variability in El Niño's impact makes the effect on production of pasture, grain and hay difficult to predict.

Extremely strong demand for manufacturing beef out of the US has continued to support cull cow values

Not every El Niño is associated with widespread drought, and the impact on the weather can vary widely

One outcome in the short term is likely to be a general reluctance from grain and fodder producers to sell early

Many crops in southeastern Australia can grow quite well with below average rainfall, especially if the timing of rain is right, so it is possible for El Niño and reasonable cropping conditions to co-exist. It will be the speed and severity with which hot, dry conditions arrive that determines the outcome. The current forecast indicates that winter is likely to be warmer and drier than normal across the east of Australia, but wetter than normal over southern WA (historical accuracy of the winter outlook for SA and Victoria is low).

The reduced cloud cover associated with El Niño also brings an increased risk of frost, with 15-30% more frost days than average occurring in southern NSW and northern Victoria (although the current forecast is for warmer than average winter nights across most of Australia, excluding parts of inland NSW and WA). Hence, frost, heat and moisture stress all have the potential to impact on the quantity and quality of grain and fodder produced during winter. Going into summer, Queensland generally experiences less cyclones during El Niño, but the onset of the wet season can be delayed, potentially impacting summer crop production.

The first USDA projections for 2015/16 were released in the May WASDE (World Agricultural Supply and Demand) report, putting Australian wheat beginning stocks slightly lower than 2014/15. Production, domestic feed

use, and ending stocks are projected slightly higher, and exports unchanged. Production of course grains (including corn, sorghum, barley, oats, rye, millet) is expected to be slightly higher than for 2014/15, as is feed use and exports, for virtually unchanged ending stocks. A combination of relatively low production, and domestic and export demand, has kept Australia's inventory of feed grain relatively low in recent years.

International supply and demand dynamics are a critical influence on how any El Niño induced yield effects will play out in the domestic market. Global wheat production is projected to be the second highest total on record (according to the USDA), and total supplies to be slightly higher than in 2014/15, due to increased beginning stocks. Coarse grain supplies are projected to be at record levels in 2015/16, primarily based on larger corn beginning stocks and production for China. The Chinese corn crop could be facing dry conditions, as could cereal crops in Russia, Kazakhstan and the Ukraine. An El Niño weather pattern is fairly favourable for crop production in Europe and the US.

Changing views regarding global production prospects have resulted in somewhat erratic international wheat values, although overall there are no major supply concerns impacting prices. The lower AUD and dry outlook have thus seen a gap opening between

international benchmark and increasing domestic wheat prices.

Interest in hay was relatively low during the first half of 2015 and prices largely static, despite stocks running below average. This is partly driven by the actions of a large number of buyers having secured hay at harvest, reducing subsequent activity in the spot market – notwithstanding significant physical movements of product. The relatively kind summer in southeastern Australia also contributed, although the large spread of seasonal conditions across the regions meant varied fodder demand. Production in coastal NSW and the Bega Valley was above average, while regions such as southwest and central Victoria had a poor spring and summer, and consequent fodder harvests. As enquiries increase with the onset of winter, the impact of regional variability is becoming more pronounced; and increasingly reflected in pricing differences.

The dry start to the year in most of the eastern states, across dairy, livestock and hay producing regions, has led to speculation that hay stocks may come under pressure as the year progresses. Many regions remain dry, and while it is too early to judge how tight stocks will become, it is expected that limited hay will be released by sheep and beef farmers. Stocks are already under pressure in most key dairy regions in Victoria and SA, except Gippsland

(where favourable growing conditions are reducing demand), and strong export buying is likely to weigh on cereal hay reserves. Tasmanian supplies seem likely to come under pressure in the coming months. Demand (and hence pricing) is expected to pick up in Queensland in July/August. In WA, the cereal hay market continues to be driven by exporters, which is likely to see supply tightness maintained until harvest. Protein hay is short in all regions.

While the full implications of this El Niño for Australian milk production conditions will not be understood until much later in the year, one outcome in the short term

is likely to be a general reluctance from grain and fodder producers to sell early.

Although dairy farmers and other grain end-users may be looking to manage risk by locking in new season feed contracts, grain growers, processors, and others in the supply chain will be keen to have a clearer view of crop prospects. This has the potential to support prices in the interim, as sellers seek to avoid being caught out if a poor crop eventuates. On the other hand, if a risk-premium gets built into pricing, and a good harvest follows, grain buyers and sellers could see prices fall later.

The Grain & Hay Report provides a comprehensive overview of the market and indicative pricing by dairying region, and is published most weeks.

The Production Inputs Monitor provides statistics and commentary for grain, hay, fertiliser, weather, water and cull cows on a monthly basis.



Key driver analysis

Australian dairy regions

Grain and hay



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

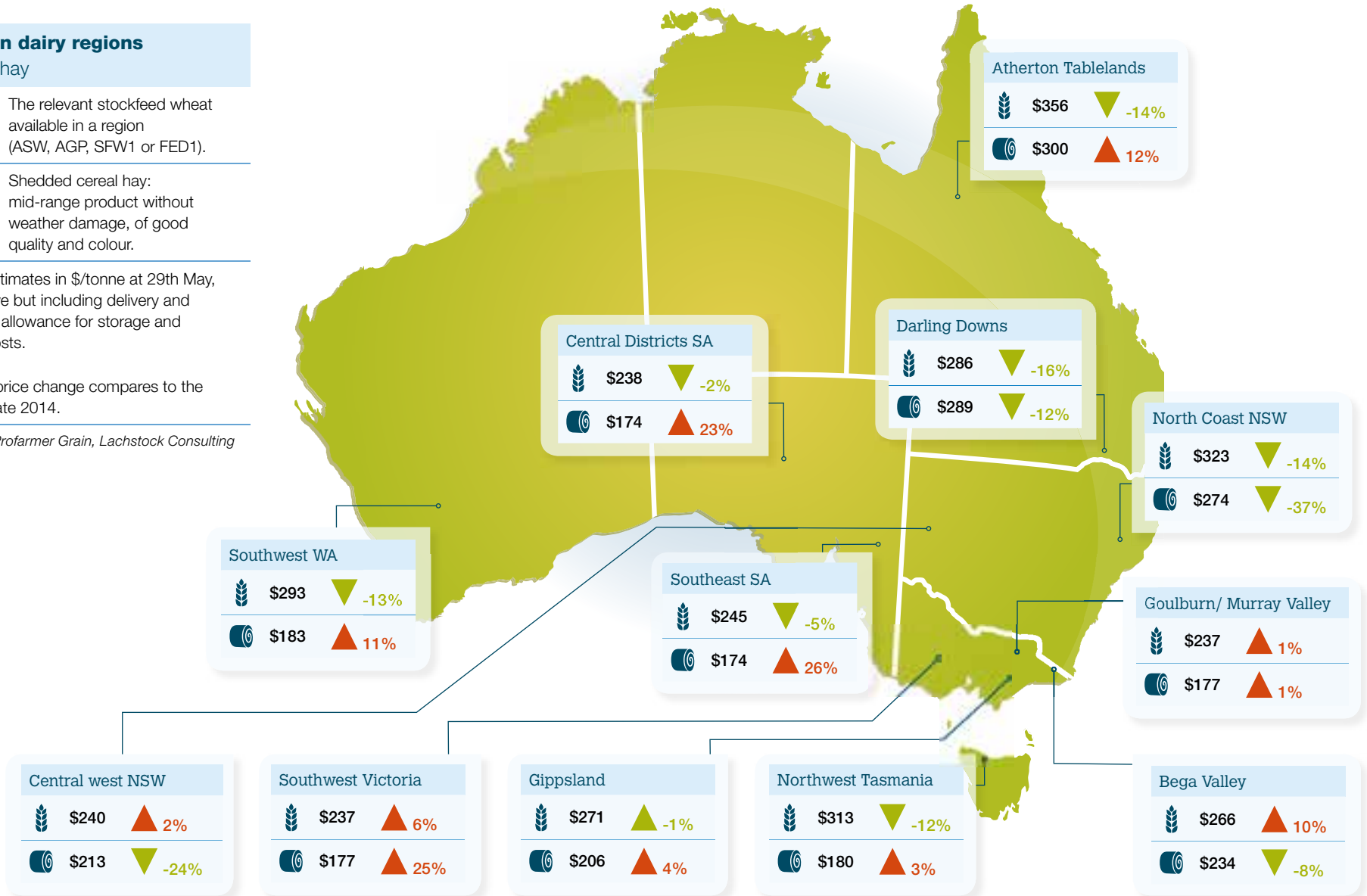


Shedded cereal hay: mid-range product without weather damage, of good quality and colour.

Prices are estimates in \$/tonne at 29th May, GST exclusive but including delivery and (for grain) an allowance for storage and marketing costs.

Percentage price change compares to the equivalent date 2014.

Source: AFIA, Profarmer Grain, Lachstock Consulting

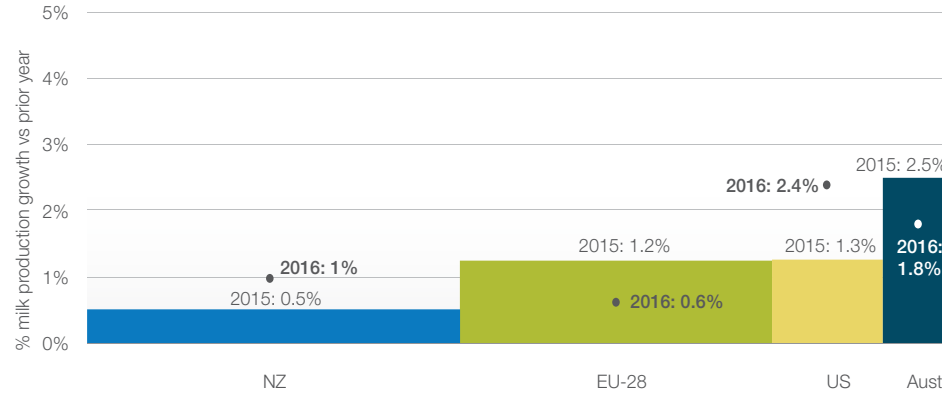


Global supply

Overview

With most farmers in major export regions enjoying favourable weather conditions, global milk supply growth has persisted, despite a depressed farmgate price outlook. Production expectations continue to reflect a slowdown over the course of 2015, but at the moment, this seems a long way off.

Figure 5 Forecast milk production – four largest exporters



Note: Columns denote YTD growth, points projected growth. Width of column represents export share in MEQ
 Calendar years for EU/US, production seasons for Aus/NZ
 Source: Dairy Australia, USDA, Eurostat, DCANZ

Figure 6 Farmgate price movements – four largest exporters

Change in indicative farmgate price	NZ	EU-28	US	Australia
Compared to last report (February 2015)	▼ -4%	▼ -1%	▼ -1%	■ Steady
Compared to prior year (May 2014)	▼ -44%	▼ -16%	▼ -31%	▼ -12%



Figure 7 Export volume trends (tonnes)



European Union

European milk production increased by around 4% in the 2014 calendar year, to a record of nearly 153 billion litres. The European Commission noted that this is equivalent to the cumulative increase over the previous five years, with the UK, Poland, Hungary, Belgium, Luxembourg and the Baltic states all exceeding 6% growth, together with Romania (up 13%). On this basis, the Commission expects growth of only around 1% for the 2015 year, arguing that much of the expected post-quota growth has already been observed. The latest available full data suggests that the expected slowdown (partly to minimise superlevy penalties) occurred in early 2015. The aggregate EU-28 total was down 0.2% for the 2015 to February, and 0.5% for February itself (with significant falls for a number of member states – particularly Ireland), compared to the same period last year. The Netherlands is the only EU member state for which the European Commission has published April production data, and it was expected to be one of the fastest to respond to the removal of the quota limitations. Growth of 1.2% in April (year-on-year) certainly represents a turnaround from the 2.2% average decline for January to March. More broadly, anecdotal reports vary as to the extent of the supply response since quotas expired on March 31st, however spot milk prices (for post-farmgate trade) are undoubtedly trending downwards, which is likely to curb further growth as processors pass

on reduced returns. The importance of Russia's import ban has diminished as European exporters have increased their presence in other markets (often in direct competition with New Zealand). Despite this, measures to mitigate the 'market disturbance' created by the ban remain in place, including extensions to the Private Storage Aid (PSA) subsidised storage and intervention buying programmes. Aid packages (totalling €39.4 million (A\$57 million)) have also been created for Finland and the Baltic States, and €30 million (A\$43 million) added to agricultural product marketing programs.



United States

Despite falling milk prices, and commodity indicators suggesting further pressure to come, a continuation of low feed costs is keeping most US dairy farmers profitable – and production expanding. California (responsible for roughly 20% of total output) is a major exception – showing year on year declines for every month since December, while the rate of growth is generally slowing at the national level. The latest figures from the USDA show growth of 1.8% for 2015 to April, and 1.7% for April itself. The difference is stark however, between California (down 2.1% for April) and the Midwest, where Wisconsin is up 4%, compared to April 2014. To some extent, these numbers reflect the extremes of 2014 as much as 2015: the Midwest suffered through the 'polar vortex' while California and other

south-western states experienced strong production growth. Almost half of California is now classified as being in 'Exceptional Drought', and well below average snow cover in the Rocky Mountains means water storages are likely to remain under stress through the coming summer. The only potential relief is the mooted development of an El Niño weather pattern, which typically brings above average rainfall to the western United States. Milk production forecasts from the USDA indicate expectations of a continued slowdown, with the full year 2015 total now anticipated to come in 1.3% above the 2014 volume of 93.5 billion litres. The recovering US economy is also reducing export potential, as booming retail butter sales (up 3-4%) and a recovery in foodservice demand soak up US product and, in the case of the former, attract imports.



Australia

Against a backdrop of stable farmgate prices and generally favourable seasonal conditions, Australian milk production has tracked ahead of expectations for much of the season to date. A sharp slowdown through December and January preceded solid year-on-year growth through the February-April period, which has maintained the national year to date growth rate at around 3%. Tasmania continues to lead the way (up 11% for the year to April), while parts of New South Wales have reportedly experienced the best autumn

conditions in a decade. Victoria's 2.3% rate of growth has drawn less power from the north, and more from the west as the season has progressed, while Gippsland's strong recovery has continued (up 5.9% to April). Of the domestic-focused states, Western Australia has posted a standout 4.9% increase for the same period as the flow-on effects of a processor tussle over milk supplies bolster the margins of many producers. Despite new project announcements and trade opportunities boosting confidence, Queensland has remained around 6% down for the season to date. Many Queensland farmers have also seen weather conditions take a turn for the worse – with excessive and inconsistent rainfall in coastal areas adding to the pressures of elevated feed prices brought on by the severe drought inland. Dairy Australia's revised forecast for the 2014/15 season anticipates 2.5% full season growth, with a total in the range of 9.45 to 9.50 billion litres considered likely.



New Zealand

Although New Zealand's year-on-year milk production growth has slowed almost every month for the current season, favourable autumn conditions in many regions have helped arrest the steep taper that had been forecast. In particular, solid production through autumn in the North Island has offset the effects of dry conditions in Canterbury and Otago. Drought

conditions have had significant localised effects, but overall this has been too little and too late to match the earlier, dire predictions. Hence, despite some early dry-off and accelerated culling of cows, production has exceeded expectations, and is likely to finish the season (to June) between flat and 1% higher, compared to the record 2013/14 total. Having started the year at NZ\$7.00/kg MS (around A\$6.94/kg MS), Fonterra's Farmgate Milk Price forecast has been regularly trimmed and is now at NZ\$4.40/kg MS (A\$4.36) – with most other processors at similar levels. For the 2015/16 season, Fonterra has forecast a price of NZ\$5.25/kg MS (A\$5.21), with the advance rate of 70% of this likely to place significant cashflow strain on a large proportion of New Zealand's milk production base in the coming months.

Latin America

Challenging production conditions continue to hamper milk output in Argentina and Uruguay. Argentina's milk production finished 2014 around 4% lower than 2013, and remains on a downward trend, with data to March suggesting a 5% fall for the first quarter of 2015. Uruguay has fared better: down 0.7% for 2014 and 0.8% for the year to March, but on an improving trend – March itself was up 2%. Brazil continues to make progress in plugging its dairy shortfall, with milk production growing an average of 5% in 2014. This trend is likely to be sustained in 2015, with growth expected to continue, while inflation is reportedly affecting dairy consumption – particularly in higher value categories.



Dairy Australia's forecast for 2015/16 season milk production is for a national total between 9.6 and 9.7 billion litres – around 2% growth on 2014/15

Shareholder approval clears the way for MG to seek to raise up to \$500 million through the Initial Public Offering (IPO)

Australian milk production forecast

The production outlook for 2015/16 hinges on two familiar factors: Farmgate margins, and seasonal conditions. With two good seasons behind them, many farmers are well placed to take advantage of the opportunities a third would provide. New South Wales, Victoria, and southeast South Australia have particular upside potential, assuming forecast milk prices and a weaker than expected El Niño impact. On the other hand, overly cautious early season milk price commitments, coupled with El Niño-induced seasonal challenges could see farmers adopt a more defensive approach, slowing overall growth. Similar factors will influence the outcome in Tasmania, however a higher baseline rate of expansion is expected to be maintained. In the southern states, processing capacity may be tested through the spring peak, although ongoing recruitment efforts and growth investments made by manufacturers suggest competition at the farmgate will remain a feature. Competition for milk has been a significant factor in Western Australia of late, and adjustments at the processing level are likely to see more milk change hands next season. A flagged reduction in special incentives to grow supply may preclude a repeat of this season's strong recovery, however. Queensland is an increasingly difficult market from which to source milk at the farmgate, though in the absence of substantial climatic relief, ongoing cost pressures mean significant organic growth is unlikely in the short term.

Dairy Australia's current forecast for 2015/16 season milk production is for a national total between 9.6 and 9.7 billion litres – representing around 2% growth on 2014/15.

Corporate sector update

A busy first half of 2015 has delivered a broad array of entries, exits and restructures at the corporate level.

Shareholders voted in favour of all items of business presented at the Extraordinary General Meeting of shareholders held by Murray Goulburn (MG) on May 8th. The basis for the meeting was consideration of MG's proposed capital structure, the approval of which clears the way for MG to seek to raise up to \$500 million through the Initial Public Offering (IPO) of a Unit Trust to be listed on the ASX. Unitholders will have an economic exposure to MG's business but will not have voting rights in relation to MG or its operations. The cooperative aims to 'further [its] strategic shift towards premium value-add dairy foods and in the process reduce MG's exposure to the volatility of the dairy commodity price cycle' – with investments in infant formula, UHT beverages and consumer cheese flagged.

Saputo-controlled Warrnambool Cheese & Butter (WCB) has lifted its presence in consumer branded cheese by acquiring the 'everyday cheese (EDC) business' of Kirin-owned Lion Dairy & Drinks (LDD). Situated adjacent to WCB's plant at Allansford (in property leased from WCB), the EDC business cuts and wraps cheese manufactured by WCB

that is sold under 'everyday cheese brands [including] Coon, Mil Lel... Cracker Barrel [and Fred Walker].' Lion are focussing higher up the value chain, with the opening of their upgraded specialty cheese plant, The Heritage, at Burnie, Tasmania.

United Dairy Power (UDP) was put into administration in late April, having been in receivership since last year. Murray Goulburn acquired the Caboolture cheese brand, and reportedly, will move the cheese cut-and-shred equipment to their Cobram site. Burra Foods picked up UDP's milk depot at Poowong and offered to underwrite the payment terms to UDP's Gippsland suppliers, expressing a desire to develop longer term supply partnerships with many of them. With no buyers found for the South Australian processing plants at Murray Bridge and Jervois, these have been closed. Media reports suggest Warrnambool Cheese and Butter secured 90% of the affected South Australian and 70% of the Western Victorian suppliers; and Parmalat gained around 6 million litres close to Adelaide.

As UDP disappeared from dairy manufacturing, meat processor Midfield Group advanced its previously announced plans to enter the industry. The company intends to build an export-oriented milk powder facility at a former McCain potato factory at Penola in southeast South Australia. It is expected to be operational in July 2016, starting with 160 million litres per year. Plans for another powder plant and enlarged cold storage facility in

Warrnambool have recently received parliamentary approval – but construction of that facility will wait until the Penola facility is operating. The two plants bring Midfield’s announced dairy manufacturing investment to around \$130 million.

Meanwhile Tony Esposito, founder of UDP, has started a new milk brokering business: National Dairy Products. Purchasing milk based on the UDP farmgate “price structure from before it went into receivership”, he hopes to secure more than 100 million litres of milk from former UDP suppliers across western and northern Victoria. Mr Esposito sold UDP to Hong Kong-based private investor William Hui in February 2014.

South Australian Dairy Farmers Association (SADA)-created fresh milk brand SADA Fresh has been launched in China. The organisation plans to air freight 4,000 litres of the packaged product each week for the first three months, with a view to subsequently doubling the order ‘depending on demand’. SADA Fresh is processed by Parmalat, with SA sales (via Coles) contributing 20 c/L to the South Australian Dairy Industry Fund. Sold under a separate contract, the China-bound product will contribute 5c/L to the fund. South Australia’s Fleurieu Milk & Yoghurt Company is also working on its China strategy. The Myponga-based company plans to fly 10,000 litres of fresh pasteurised milk from Edithburgh on the Yorke Peninsula into Shanghai each week, aspiring to grow this to 40,000 litres by early 2016.

China is also being targeted by Camperdown Dairy, which announced plans to export around four tonnes of yoghurt (in 200 gram cups) a week to Shanghai supermarkets from April. Camperdown Dairy (not to be confused with Camperdown Dairy International, which is redeveloping its part of the former Bonlac site at Camperdown) was born out of the Aussie Farmers Direct dairy business and still supplies the online shopping service.

There’s been no shortage of corporate investment at the farm level: Moxey Farms is set to be acquired by the Australian Fresh Milk Holdings consortium (AFMH) (subject to FIRB and regulatory approval). The AFMH consortium consists of Leppington Pastoral Company, New Hope Dairy and Freedom Foods. The Moxey family will continue to run the 3,400 cow, 50 million litre operation, while acquiring a strategic stake in AFMH. Meanwhile, Australian Consolidated Milk and Thailand’s Dutch Mill will buy farms and

lease them to proven dairy farmers who lack the capital to purchase their own property. The lessee will have the opportunity to acquire equity over time. A farm at Waaia in northern Victoria forms the first purchase. The aim of the joint venture is to broaden ACM’s supply base, while allowing Dutch Mill to source milk from “accredited farms”. ACM produce UHT milk in Shepparton through Pactum Dairy Group (a joint venture with Freedom Foods).

And milk production would double for ASX listed Australian Dairy Farm Group under a plan to purchase another three farms in south-west Victoria.

The company already owns four farms, and has entered into conditional agreements for the additional three, trying to raise up to \$17.7 million for the purchases. Reportedly, \$15.7 million has already been raised from institutional and retail investors, 40% being from overseas.

Milk production would double for ASX listed Australian Dairy Farm Group under a plan to purchase another three farms in south-west Victoria



Global economy and exchange rates

The IMF outlook for advanced economies has improved

According to the International Monetary Fund (IMF), world economic growth is expected to be moderate in 2015, at 3.5%, with a high degree of variability across countries and regions. Ageing populations and a slowdown in total productivity are weighing on both advanced and developing economies. Furthermore, high levels of debt are depressing spending and growth in many countries.

The IMF outlook for advanced economies has improved, although inflation is below target in many countries, and in some cases still declining with little capacity for monetary easing. Most of Australia's trading partners are net energy importers and are benefitting from lower oil prices. Increased domestic spending in the US, and (to a lesser extent) euro areas is helping to drive growth.

Emerging markets and developing economies are projected to exhibit slower growth in 2015 than last year (though still accounting for over 70% globally), but drive an increased rate in 2016. While economic activity is weaker in some major oil exporting nations, many have substantial financial reserves, and do not need to cut spending as quickly as net oil importing countries are increasing theirs. Weaker prospects are also apparent in some large emerging market economies, such as China and Brazil. A further slowdown in investment and a falling working age population are expected to contribute to a more measured pace of economic growth in China, and thus slower growth in demand.

The currencies of several major Australian trading partners have moved substantially during 2015. According to

the Reserve Bank of Australia (RBA), at the start of May the USD was 12% above its mid-2014 low, having appreciated 2% on a trade-weighted basis through 2015 (largely on expectations of an increase in the federal funds rate). The Japanese yen has appreciated 2% against the USD since early December, while the Chinese RMB is around 12% higher, and the Russian rouble 35% lower on a trade-weighted basis than they were in mid-2014. Most other Asian and emerging market currencies are stable or lower against the USD. The IMF sees the relative changes in the USD, euro and yen as net good news for the world economy, but warns of the potential for currency wars if large exchange rate movements continue.



Global demand

Global exports to key dairy demand regions – 12 months to February 2015

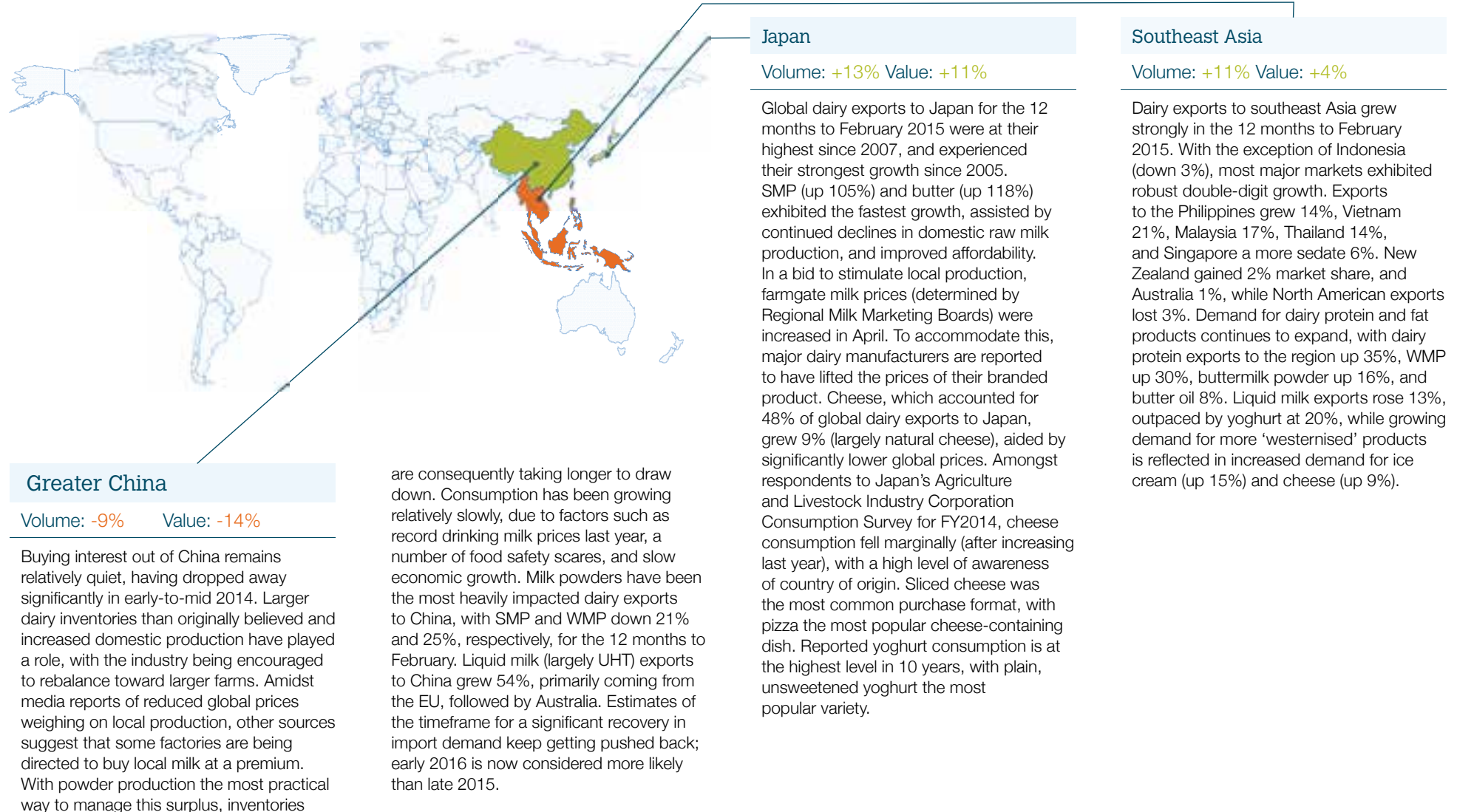
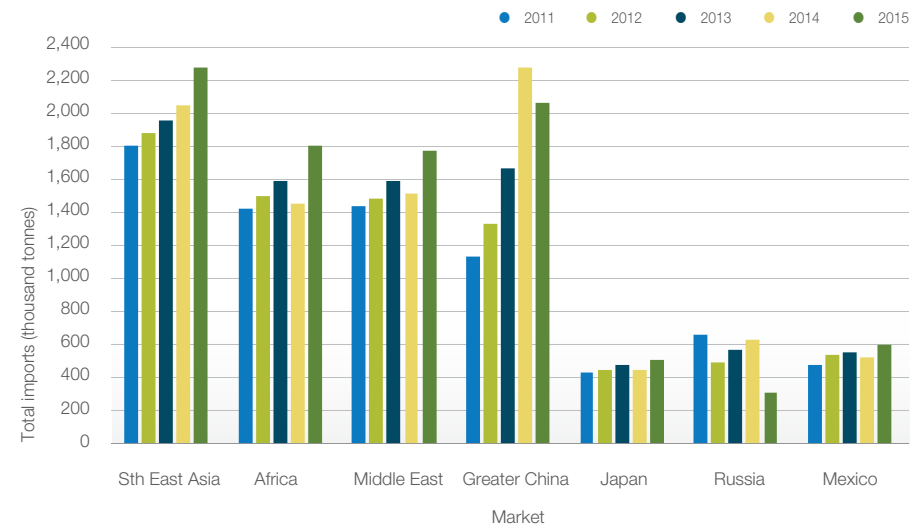




Figure 8 Exports to key demand markets (12 months to February)



Source: Dairy Australia, GTIS

Mexico

Volume: +13% Value: +8%

The United States remained the largest supplier by far of dairy products to Mexico in the 12 months to February 2015, at 81% market share (down from 83% for the equivalent period year-earlier). Slightly less US cheese was destined for Mexico during this period – 23% of total exports, as compared to 26% year-earlier – while the proportion of US SMP/Non-fat dry milk (NDM) exports rose from 31% to 39%. Global exports of cheese and SMP/NDM to Mexico rose 4% and 23%, respectively, over the same period. There were large increases in global exports of butteroil (+50%) and condensed milk (+33%), while liquid milk grew by 13%.

Middle East

Volume: +17% Value: +8%

Low global values aided WMP in overtaking cheese to reclaim its place as the highest volume dairy export to the Middle East, growing 32% in the 12 months to February 2015. The pace of growth has been similar for SMP. The rate of imports may moderate in coming months, as reports suggest that many buyers have taken the opportunity to restock, and now have their immediate needs covered. Cheese imports grew only 3% over the same 12 month period, while the improved affordability of dairy fats also saw buttermilk and butteroil exports grow 32% and 26%, respectively. New Zealand increased their market share 4% compared to year earlier, largely based on the significant jump in WMP.

Russia

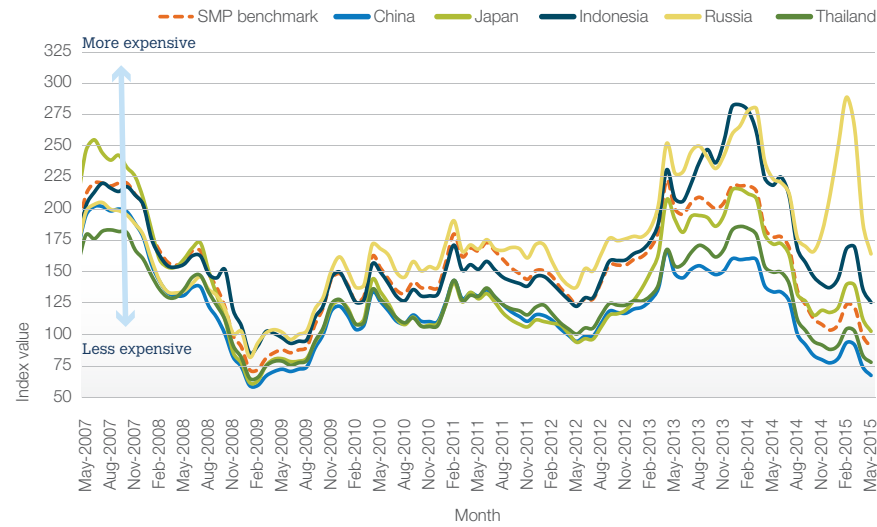
Volume: -51% Value: -49%

The combination of banning key suppliers, and a sharply weaker currency, have seen Russian dairy imports plummet, with total exports to Russia down 75% for the August to February period following the introduction of the embargo. Meanwhile, there is increasing expectation that the ban will outlast the initially announced 12-month term, with Russia instead looking to grant exceptions for selected countries only. Media reports suggest a number of Greek companies have recently gained export permits.

Exports from Argentina to Russia are up 62% for the August 2014 to February 2015 period, and there have also been significant percentage (but relatively small volume) increases in exports from Chile, China, South Korea, and Switzerland. While not captured in the available trade data, exports from neighbouring Belarus are also believed to have increased substantially since August, particularly cheese, butter, and SMP.

Dairy affordability and substitutes

Figure 9 Dairy affordability



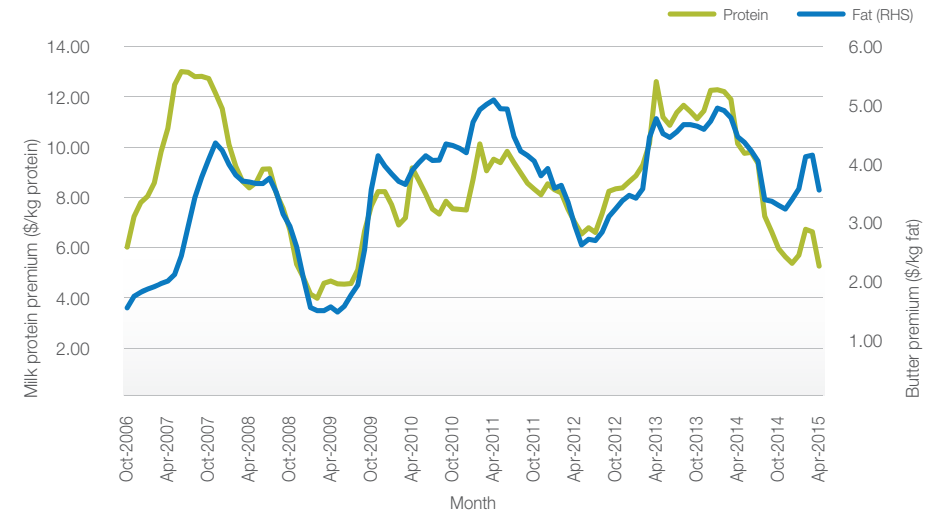
Source: Dairy Australia, Bloomberg

After a short-lived early 2015 recovery, the benchmark SMP price for Dairy Australia's affordability index fell a further 17% from its level at the time of the February Situation and Outlook report. This places the USD benchmark at half its year-ago level, and almost 60% below its December 2013 to February 2014 peak period.

For buyers in a number of major import markets, including China and Indonesia, this has brought affordability back to its 'least expensive' level in the six years post-Global Financial Crisis. In the case of others, weaker currencies against the US dollar have at least partly offset the gains from lower commodity values.

The standout case remains Russia, where although the rouble has gained 21% against the dollar since February's report, it remains 45% weaker than this time last year. Thus, dairy remains substantially less affordable than in other key markets, but significantly more so than February, when a modest recovery in commodity prices coincided with a sharp weakening of the rouble. Despite recent gains, Japan's currency also remains weaker (by around 18%) relative to May 2014, however the extent to which commodity prices have fallen since early 2014 means dairy is still the most affordable it has been in nearly three years.

Figure 10 Dairy price premium vs palm/soy substitutes



Source: Dairy Australia, Oil World

After a brief reversal as dairy commodity prices recovered, premiums relative to palm and soy substitutes have again retreated. Firm consumer demand has maintained a greater degree of stability in the market for dairy fats, sustaining the butterfat (versus palm) premium above late 2014 levels, but 12% below the five year average. The decline has been more marked for protein premiums, in line with a broader decrease in the value of dairy proteins on global markets. Despite soymeal pricing falling on average for 12 of the past 14 months (down 33% year on year), the SMP-based dairy protein premium is now at its lowest level since

the post-Global Financial Crisis trough of 2009. Whilst dairy protein markets are largely seen to be at, or close to, a price floor, ample stocks and upward revisions to South American crop forecasts are expected to exert further downside pressure on soymeal markets in the coming months. On the other hand, the premium of dairy fat over palm oil may be eroded by the possibility of below-average rainfall in major producing regions emanating from a developing El Niño weather pattern.

The Australian market

The most recent update to the index shows strong growth in both food service and supermarket spending

Dairy Australia's Food Service Index reflects changes in retail turnover of the supermarket and food service channels. The latter channel aggregates takeaway food, cafes, restaurants and catering services. Figure 11 (DA Food Service Index) depicts the year-on-year changes in the average values of the index over 6 and 12-month timescales (to March).

The most recent update to the index shows strong growth in both food service and supermarket spending, though lower 6-month growth figures suggest the pace of growth has slowed in recent months for both channels. Within the food service channel, spending growth has slowed for both cafes and restaurants, but accelerated for takeaway food.

The price of many dairy products is increasing relatively rapidly, with the 'dairy' Consumer Price Index (CPI) increasing 2.5% in the year to March, compared to a 1.9% increase in the broader 'food and non-alcoholic beverages' index. Strength in the dairy CPI was largely influenced by continued robust growth in the cheese sub-component (up 5.6%), while 'ice cream and other dairy products' also grew strongly (up 2.9%). The milk sub-component shrank 0.1%. The 'all groups' CPI rose more 1.3% over the

12 month period (almost half the increase in dairy), with the most significant price rises being for education (5.4%), alcohol and tobacco (5.2%) and health (4.4%). The March quarter saw significant price falls for a major household expense - automotive fuel (-12.2%) - although petrol prices have rebounded in recent weeks.

Lower petrol prices were a driver of strong consumer sentiment during February, after which optimists did not outnumber pessimists again until May. The Federal Budget, combined with the Reserve Bank decision to cut official interest rates at the start of the month, contributed to a surge in the Westpac-Melbourne Institute 'Index of Consumer Sentiment' for May. The index rose to its highest level since January 2014; and the result was also notable for being the first time since 2007 that the May (post Budget) update had been positive.

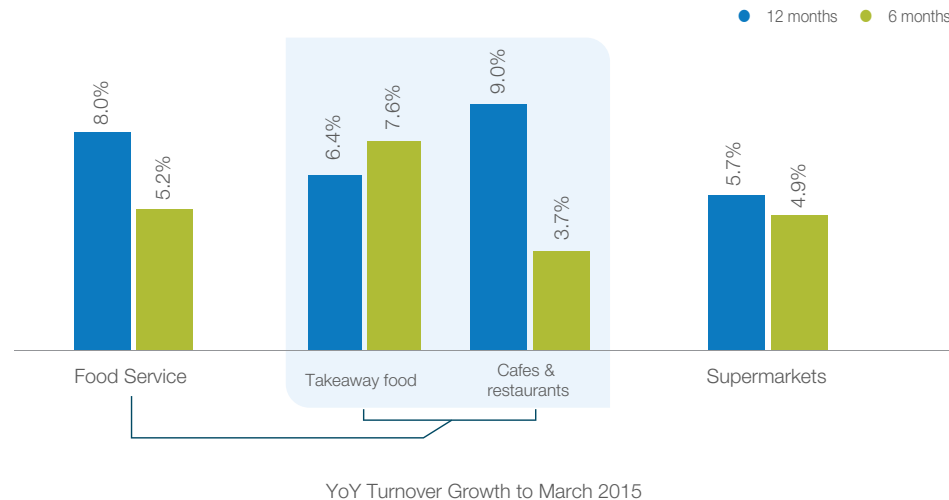
However, sentiment has been tenuous at best for much of the last 18 months, and the index fell 6.9% in June, with major areas of concern being the Australian and European economies, the sharemarket, house prices and job security. A small improvement in views regarding family finances compared to 12 months ago could be positive for discretionary purchases of higher value

dairy items (such as desserts or specialty cheeses), although expectations for finances in the longer term, and attitudes toward spending on major household items, declined.

Wages and job security remain an important consideration for individuals in assessing both their own finances, as well as the prospects for the economy. Wage inflation slowed during the first quarter of 2015, to the lowest point since the index commenced in 1997. A drive for cost reduction in both the public and private sectors, and a relatively weak labour market are likely to sustain this trend for some time.

The Westpac-Melbourne Institute 'Index of Unemployment Expectations' indicates that by historical standards, there is a high level of anticipation that unemployment will rise during the coming 12 months. Despite this, the index has improved somewhat over the past year, consistent with the slight fall since October 2014 in the ABS trend unemployment rate, which suggests a slightly steadier labour market. Furthermore, according to the ANZ, job advertisements in April were at their highest level in 2.5 years, having increased for 18 consecutive months in trend terms.

Figure 11 DA Food Service Index



Source: Dairy Australia, ABS

Supermarket sales

Supermarket sales of major dairy categories continue to tell an essentially positive story. Dairy spreads remain the top performer, outpacing all other major dairy categories for both volume and value growth. Milk sales are increasing slowly and steadily. Despite shrinking sales volumes, higher average per kilo prices for both the cheese and yoghurt/dairy snacks categories are delivering continued growth in category value.

Growth in white (non-flavoured) milk has been largely supported by UHT. Sales of fresh milk grew 0.1% in volume for the

12 months to May, with a slight fall in the average price (-1c/L to \$1.36/L) pushing category value down 0.6%. UHT sales grew at a substantially faster pace, up 7.1% in volume, although a lower average price (-4c/L to \$1.24/L) saw value grow more slowly (4.0%). The result is that UHT is taking a greater volume share of total white milk sales, growing from 14.3% to 15.2% of the market. There is also a swing away from reduced and no fat milks toward full fat varieties (across both fresh and UHT). Full fat milk now constitutes 56.8% of fresh white milk sales, compared to 54.5% a year earlier.

Branded fresh white milk sales continue to fall: down 4.1% in volume, but only 3.4% in value, due to a marginal increase (1c/L) in the average price. Private label sales are up 2.8% in volume, with value lagging behind just slightly at 2.7% (the average price having fallen less than 1c/L). Branded milk has shrunk from having 39.2% share of the fresh white milk market, to 37.6%. The opposite trend exists for

UHT, with branded product growth exceeding private label. Branded white UHT milk sales are up 14.5% by volume, although a 7c/L fall in the average price means that value has lagged behind (+8.6%). In comparison, sales of private label white UHT milk are up 4.9%, with value down 6.0% on the back of falling prices (-2.2% to average 99c/L).

Milk	Cheese	Dairy spreads	Yoghurts and snacks
Volume (m. litres)	Volume (kt)	Volume (kt)	Volume (kt)
1,324	136	45	209
Year-on-year growth	Year-on-year growth	Year-on-year growth	Year-on-year growth
▲ +1.5%	▼ -3.5%	▲ +5.8%	▼ -1.4%
Retail value (\$ m)	Retail value (\$ m)	Retail value (\$ m)	Retail value (\$ m)
2,051	2,092	406	1,431
Year-on-year growth	Year-on-year growth	Year-on-year growth	Year-on-year growth
▲ +1.2%	▲ +4.4%	▲ +8.7%	▲ +4.0%

Source: IRI-Aztec

Note: Available data is taken from differing periods: milk and dairy spreads figures from MAT 03/05/15; cheese, yoghurt & snacks, from MAT 04/01/15.

Consumers are shifting away from natural block and smooth or cream cheeses, and increasingly purchasing pre-sliced natural cheese, and cooking or ingredient cheeses

Fresh flavoured milk is also adding support to overall growth: up 6.7% in volume and 6.2% in value, with the average price falling 4.0% to \$3.70/L. Flavoured UHT sales have fallen in volume (-3.7%), but a 9.6% (to \$3.62/L) price rise has seen value grow 5.5%.

Non-dairy (nut, grain and soy) and goat milk products continue to proliferate, with total sales volumes up 2%, to almost 79 million litres (equivalent to 5.9% of the total cow's milk market). Value has increased at a more rapid pace: up 7% to \$201 million, partly on a shift from relatively cheap non-dairy milks, such as rice and soy, to more expensive nut based products.

Dairy spreads grew 5.8% in volume and 8.7% in value in the 12 months to May. Butter continues to lead the way in category volume growth, up 6.3% (+6.7% in value), while blends have exhibited the strongest value growth, at 10.9% (+5.2% in volume), with an average 50 c/kg (+5.4%) price increase.

Cheese sales continue to decline in volume and gain in value. Consumers are shifting away from natural block and smooth or cream cheeses, and increasingly purchasing pre-sliced natural cheese, and cooking or ingredient cheeses. All major sub-segments continue to display growth in per kilogram retail prices: block cheese is up 8.2% (from \$12.59 to \$13.62/kg), natural sliced cheese 7.4% (\$12.16 to \$13.05/kg), and deli cheese up 6.9% (from \$23.67 to \$25.40/kg) in the 12 months to January.

Declining sales of dairy snacks have weighed on the yoghurt and dairy snacks category (-1.4% for the 12 months to January). Dairy snacks sales fell 6.2% in volume, while yoghurt sales rose 0.1%, predominantly on increased quantities of natural (rather than sweetened) yoghurt. Total category value was boosted by increased prices: value of the yoghurt sub-category rose 5.1%, with an average 5.0% price rise (\$6.30 to \$6.70/kg). Total sub-category value for dairy snacks rose 0.7%, with an average 7.4% increase (\$6.85 to \$7.36/kg).



Policy updates

The Lisbon Agreement – Geneva Act adopted

On May 20 the Geneva Act of the Lisbon Agreement for the Protection of Appellations of Origin and Geographical Indications was adopted by members of the agreement at a Diplomatic Conference held at the headquarters of the World Intellectual Property Organisation in Geneva, Switzerland.

The World Intellectual Property Organisation (WIPO) is a self-funded, independent agency of the United Nations which was established in 1967. WIPO is the organisation that administers and provides a framework for revision of a number of treaties relating to intellectual property rights, including the Lisbon Agreement. WIPO currently has 188 members. According to its website (www.wipo.int), the WIPO mission is:

To lead the development of a balanced and effective international intellectual property (IP) system that enables innovation and creativity for the benefit of all.

The Lisbon Agreement was originally established in 1958 and is administered by the International Bureau of WIPO. Previously, the Agreement allowed for the protection of ‘appellations of origin’, which were protected in a signatory of the agreement, to be protected in

another via a register administered by WIPO. An ‘appellation of origin’ is defined as the ‘geographical denomination of a country, region or locality which serves to designate a product originating therein, the quality or characteristics of which are due exclusively or essentially to the geographical environment, including natural and human factors’.

However, in 2008, the 28 contracting parties of the Lisbon Agreement decided to establish a working group to examine ways to make the agreement ‘more attractive for users and prospective new members’. The result of this work was the adoption of the ‘Geneva Act’ of the Lisbon Agreement.

This new Geneva Act will now allow for ‘Geographical Indications’ to also be protected under the Agreement. Geographical Indications are a less stringent form of protection where the quality, reputation or characteristics are ‘essentially attributable to its geographical origin’. The new Act will also allow for inter-governmental organisations to join (such as the European Union) as opposed to just nation states, as was the case previously.

The Geneva Act will, amongst others, impact provisions around the scope of protection, genericness, and, prior trademarks.

Australia is a member of WIPO but not a signatory of the Lisbon Agreement nor the Geneva Act.

The United States, together with other countries including Australia, expressed their disappointment with the process by which the Geneva Act was adopted, particularly that voting rights were not extended to all WIPO members. The US Ambassador Pamela Hamamoto, in a statement to the Diplomatic Conference, said “the Lisbon parties chose to elevate their interests over the long-standing WIPO principles of inclusiveness and participation by all WIPO countries” making the “legitimacy of the Lisbon outcome...now in grave doubt”.

The Consortium for Common Food Names (CCFN) in its press release stated that the “resulting agreement will be problematic for the countries that choose to use it, particularly in terms of protecting common food names and the erosion of existing intellectual property rights.”

Australian Health Star Rating Scheme endorsed by Government

The endorsement of a voluntary Health Star Rating (HSR) Scheme by the Federal Government is the latest policy initiative to guide consumer choice towards healthier food options. The HSR provides nutrition information to consumers on the front of packaged

foods, utilising specific nutrient criteria to assess the ‘healthiness’ of foods.

It is recognised that the HSR is not intended to be a stand-alone strategy as it sits within the context of broader health strategies, which together will affect the environment in which consumers make food choices. To avoid confusion the Front of Pack Labelling Policy Principles, the overall HSR scheme must align with the Australian Dietary Guidelines (ADGs) and complement the current framework of food and health promotion initiatives. However, the complexities in achieving this outcome, particularly when comparing foods between categories have resulted in anomalies for the ‘core’ food category. Consequently, in the mind of the consumer, core food products from dairy, eggs, meat and seafood are effectively maligned.

The voluntary HSR scheme has commenced roll out and can be seen on packaged foods in store. It is of concern that the HSR scheme is not in alignment with the ADGs, with many ‘discretionary’ foods scoring more stars than ‘core’ foods. This is because the calculator is based on individual nutrients not the whole food approach of the ADGs. HSR is a key initiative that provides a great opportunity to convey the message of ‘core’ foods as healthier choices. To ensure that the HSR

DairyBase is a secure, web-based tool that enables dairy farmers to measure and compare their business

scheme aligns with the ADG's and recognising all core foods as healthier choices, Dairy Australia is providing technical support to the ADIC to advocate for a HSR scheme that not only works for nutrient poor energy dense foods but is further strengthened by recognising core foods as healthier choices.

DairyBase now available

Dairy Australia's new web-based farm business management tool DairyBase is available from June this year.

DairyBase is a secure, web-based tool that enables dairy farmers to measure and compare their business. After entering their data, farmers can then create confidential and comprehensive reports to help them understand the overall financial performance of their enterprise. All individual farm data remains confidential to the business owner.

DairyBase helps farmers analyse the resources they have and the way they are using them. Through comparative analysis it allows farmers to track their own performance over time and compare with other similar farms according to factors such as property size, region, production system, and rainfall/irrigation availability.

DairyBase is available to all dairy farmers through levy-funding. It is the first of a new range of farm business management tools and training initiatives Dairy Australia is developing for dairy farmers. The key benefit of DairyBase is that it gives farmers and their advisors the information and analysis they need to have well-informed discussions about farm performance.

Dairy farmers and service providers can access DairyBase through the website dairybase.com.au where there is a prominent link to 'Log in'. The web site also has supporting resources to help with this process including:

- › Getting Started guide for first time users
- › DairyBase user guide
- › Case studies
- › Input check list/preparation guide
- › FAQs
- › Key events such as webinars and seminars.

For further support there is a contact help line, **1800 548 073** and email dairybasesupport@dairyaustralia.com.au.

Regional Development Programs are able to provide more information about Farm Business Management and DairyBase activities and resources.

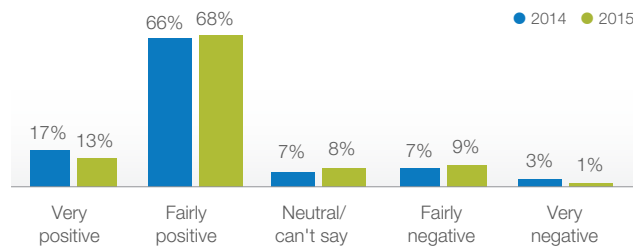
Regional NDFS results at a glance – Murray Dairy

Summary

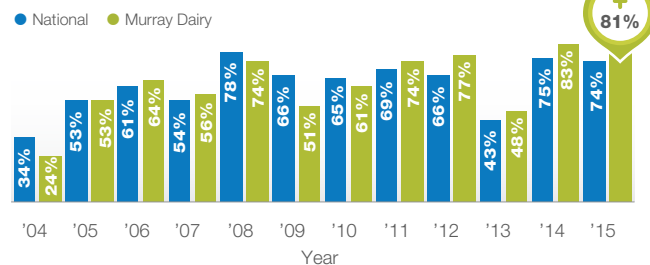
- Confidence has remained higher in Murray Dairy than the national average despite an easing in the proportion very positive about the future – due (at least in part) to some concerns about whether farm gate milk prices will continue at their current level.
- Profitability has been widespread again over the past year, enabling most of the region's dairy farmers to invest on-farm.
- Survey results suggest some de-stocking has occurred in the region, but despite this, herd production levels have increased overall.
- Intentions for the coming year and beyond suggest herd sizes and production levels on almost all farms will either remain the same or increase.
- Conversations about the long term viability of the industry have generally been positive and Murray Dairy farmers are among the most likely to be encouraging family and employees to remain in the industry.

Sentiment

Current sentiment



Sentiment trend (% positive)



Positive drivers

- ▲ Demand for dairy (33%)
- ▲ Export markets (19%)
- ▼ Farm gate price OK (12%)

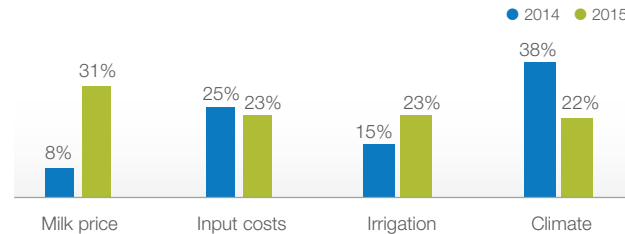
Negative drivers

- ▲ Farm gate price low (13%)
- ▲ Cost of production (7%)

Profitability and investment

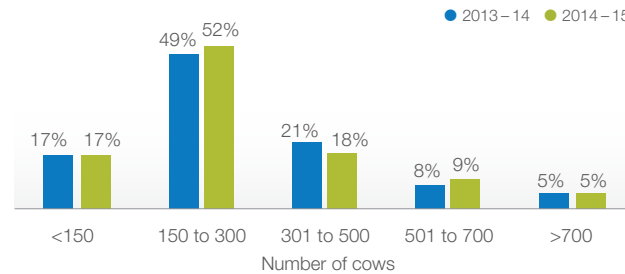
- 86%** Made profit 2013–14
- 79%** Expect profit 2014–15
- 39%** Profit higher than 5 year average
- 33%** Profit about same
- 23%** Profit lower than 5 year average
- 65%** Invested on farm 2013–14
- 62%** Intend to invest 2014–15
- 32%** Invest in irrigation plant
- 24%** Invest in machinery
- 19%** Invest in dairy plant

Challenges next 6 months

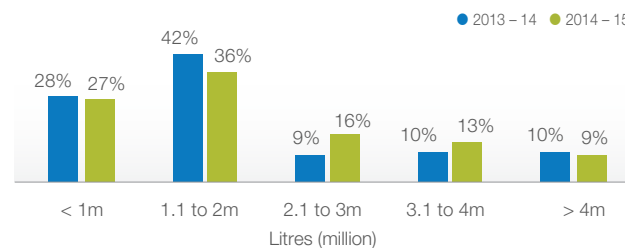


Current herd size and production

Herd size

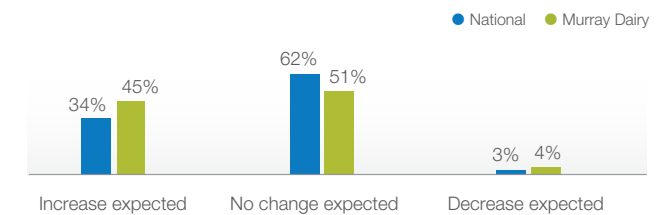


Herd production

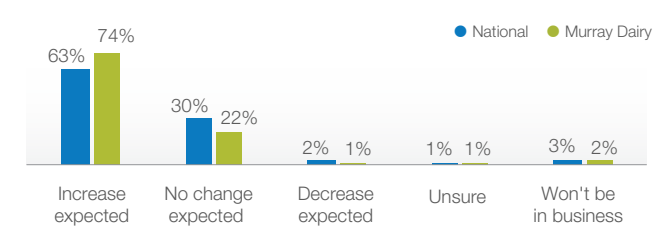


Forecast herd size and production

Anticipated change in herd size 2015–16 vs 2014–15

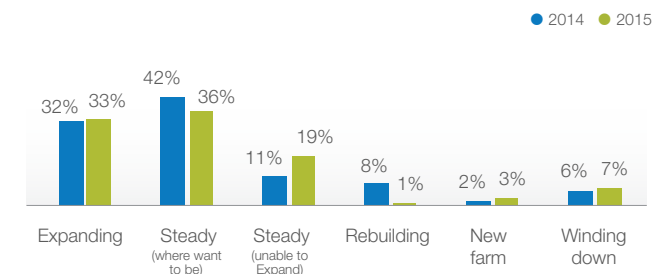


Anticipated change in production 2017–18 vs 2014–15



Regional profile

Enterprise phase



The 'average' Murray Dairy farmer:



- 92%** Works on family owned farm
- 60%** Feeds moderate to high level of concentrates
- 58%** Has split/batch calving system
- 79%** Is likely to encourage family or employees to remain in dairy industry
- 53%** Has a written annual budget for the farm
- 84%** No change/intention to change company supplied

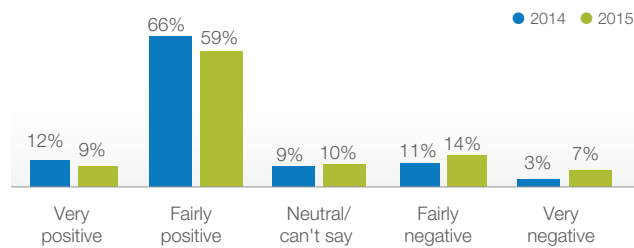
Regional NDFS results at a glance – WestVic Dairy

Summary

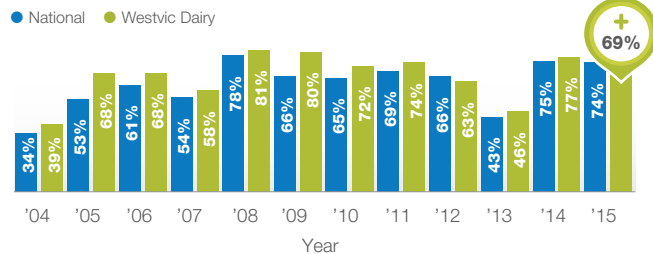
- While confidence in the future has remained high in among WestVic Dairy farmers, it has eased over the past 12 months due to more widespread concerns about whether farm gate milk prices will remain at current levels.
- Over the past year, 11% of respondents changed milk company supplied and a further 10% are considering doing so, with price as a key driver.
- At current levels, the vast majority of dairy farmers are able to realise an operating profit, allowing many to invest on-farm.
- Average herd size in the region has remained relatively unchanged, but per cow production has risen with intentions to continue this trend.
- WestVic Dairy farmers are substantially more likely than their Murray Dairy and Gippsland counterparts to have spoken negatively during the past 6 months about the long term sustainability of the industry.

Sentiment

Current sentiment



Sentiment trend (% positive)



Positive drivers

- ▲ Demand for dairy (24%)
- ▲ Export markets (12%)
- ▼ Farm gate price OK (12%)

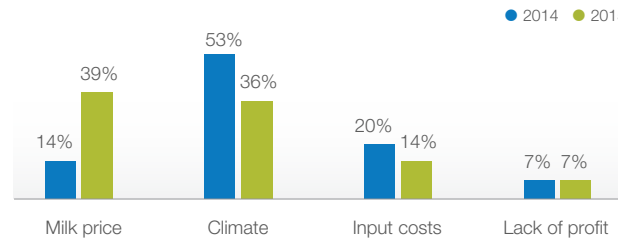
Negative drivers

- ▲ Farm gate price low (17%)
- ▲ Aging industry (9%)
- ▲ Cost of production (8%)

Profitability and investment

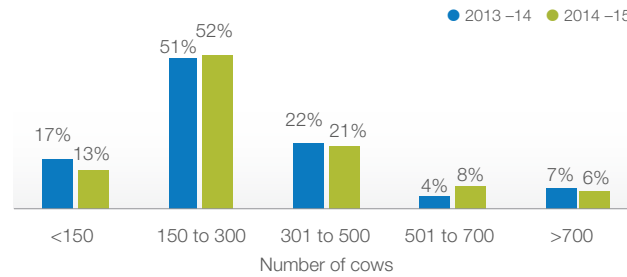
- 83%** Made profit 2013–14
- 81%** Expect profit 2014–15
- 38%** Profit higher vs 5 year average
- 31%** Profit about same
- 30%** Profit lower than 5 year average
- 51%** Invested on farm 2013–14
- 51%** Intend to invest 2014–15
- 18%** Invest in machinery
- 17%** Invest in dairy plant
- 10%** Invest in irrigation plant

Challenges next 6 months

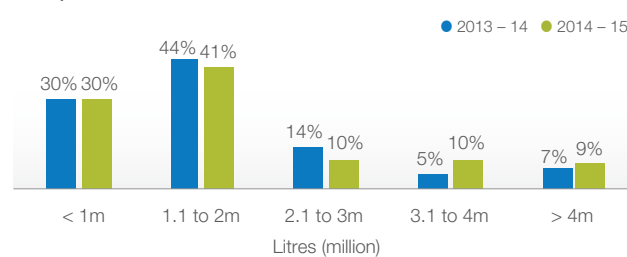


Current herd size and production

Herd size

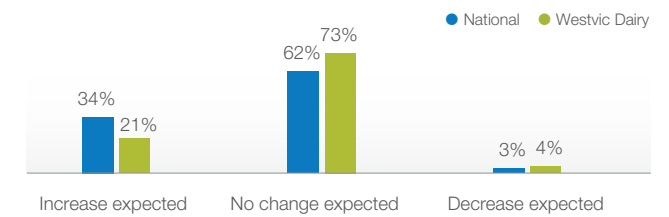


Herd production

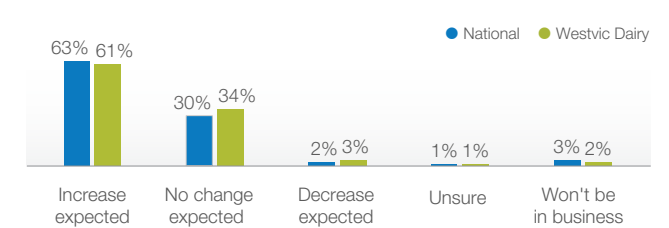


Forecast herd size and production

Anticipated change in herd size 2015–16 vs 2014–15

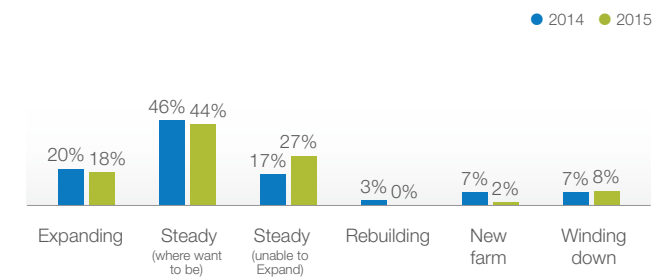


Anticipated change in production 2017–18 vs 2014–15



Regional profile

Enterprise phase



The 'average' WestVic Dairy farmer:

- 90%** Works on family owned farm
- 68%** Feeds moderate to high level of concentrates
- 57%** Has a seasonal calving system
- 64%** Is likely to encourage family or employees to remain in dairy industry
- 54%** Does not have written annual farm budget
- 79%** No change/intention to change company supplied



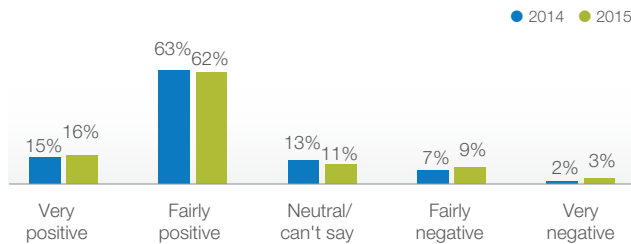
Regional NDFS results at a glance – GippsDairy

Summary

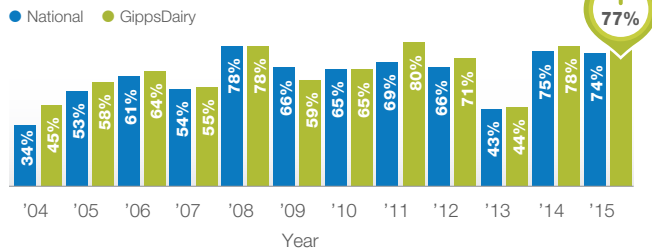
- Sentiment about the future of the industry has remained unchanged in the GippsDairy region over the past year although there is some evidence that concerns over farm gate milk price are growing.
- Profitability has been widespread, enabling on-farm investment on more than half the farms in the region. The proportion anticipating doing so over the coming year is one of the lowest nationally however, but this may be due to lack of need rather than lack of finances.
- Dairy farmers in the region are some of the most loyal suppliers nationally, with only 6% recently changing companies supplied and a low 4% considering doing so.
- Survey results suggest there has been a slight increase in the number of cows being milked in Gippsland but production levels have grown. Intentions for the future are similar.
- Conversations about the long term viability of the industry have more likely been positive than negative and most dairy farmers are encouraging others to remain in the industry.

Sentiment

Current sentiment



Sentiment trend (% positive)



Positive drivers

- Demand for dairy (28%)
- Farm gate price OK (17%)
- Export markets (15%)

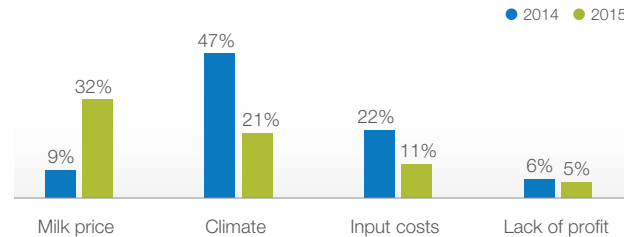
Negative drivers

- Farm gate price low (9%)
- Aging industry (5%)
- Cost of production (4%)

Profitability and investment

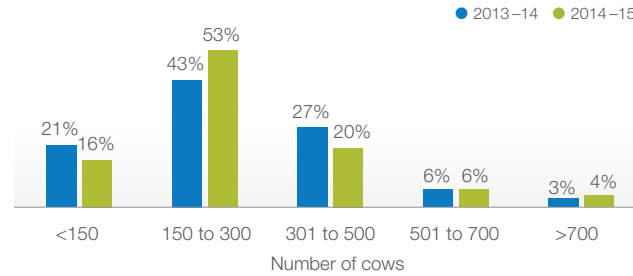
- 91%** Made profit 2013–14
- 88%** Expect profit 2014–15
- 42%** Profit higher vs 5 year average
- 36%** Profit about same
- 19%** Profit lower than 5 year average
- 57%** Invested on farm 2013–14
- 47%** Intend to invest 2014–15
- 15%** Invest in machinery
- 14%** Invest in dairy plant
- 12%** Invest in land

Challenges next 6 months

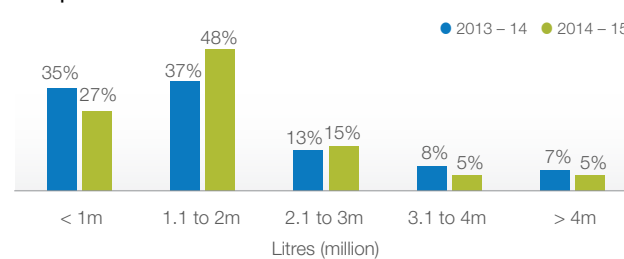


Current herd size and production

Herd size

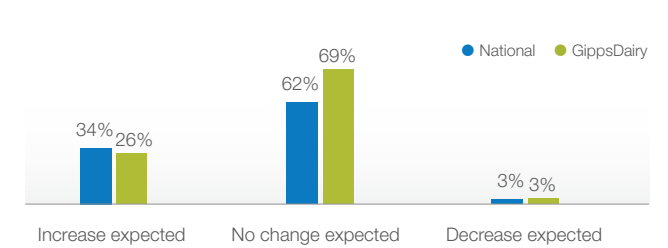


Herd production

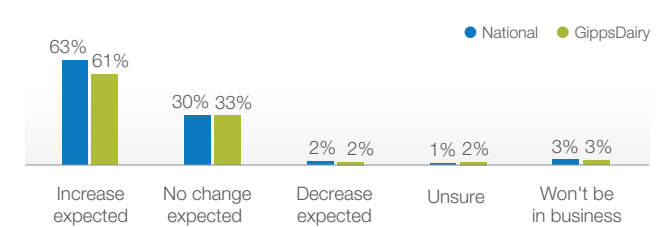


Forecast herd size and production

Anticipated change in herd size 2015–16 vs 2014–15

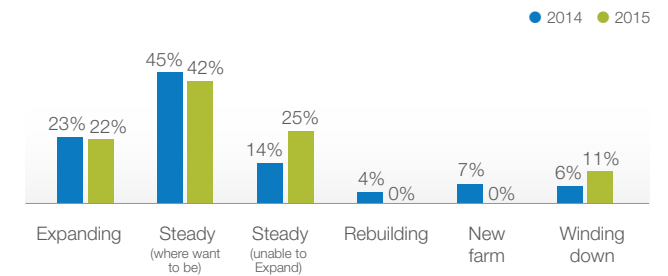


Anticipated change in production 2017–18 vs 2014–15



Regional profile

Enterprise phase



The 'average' GippsDairy farmer:



51

- 86%** Works on family owned farm
- 68%** Feeds moderate to high level of concentrates
- 47%** Has a seasonal calving system
- 44%** Has split/batch calving system
- 68%** Is likely to encourage family or employees to remain in dairy industry
- 58%** Does not have written annual farm budget
- 90%** No change/intention to change company supplied

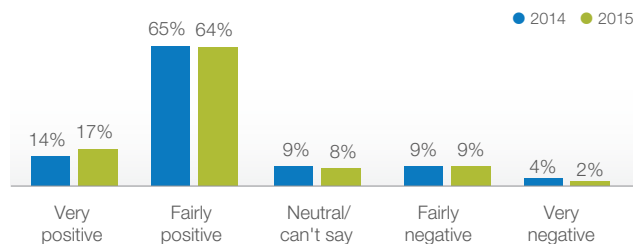
Regional NDFS results at a glance – Dairy NSW

Summary

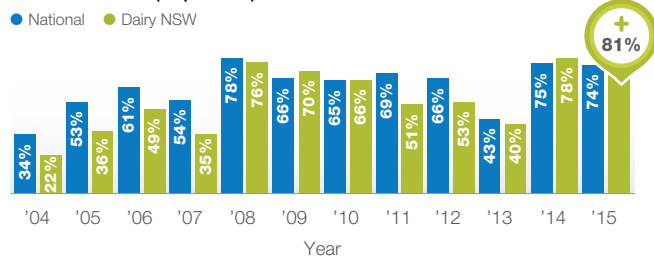
- Confidence in the future has remained high in the Dairy NSW region where respondents are the most likely nationally to say they are very positive about the future.
- Over the past year, 1 in 5 of the region's dairy farmers have changed the company they supply – the largest proportion nationally – with farm gate price being the key driver. A further 5% are considering change.
- Profitability has been widespread, allowing more than half the survey respondents to invest on farm both last year and in the coming year.
- While respondent herd size seems to have decreased slightly, this had not had an impact on the total milk supplied. Future intentions suggest herds are likely to grow along with production.
- Recent conversations about the long term viability of the industry have typically been positive and most dairy farmers are encouraging family and employees to remain in the industry.

Sentiment

Current sentiment



Sentiment trend (% positive)



Positive drivers

- Demand for dairy (29%)
- Farm gate price OK (23%)
- Export markets (20%)

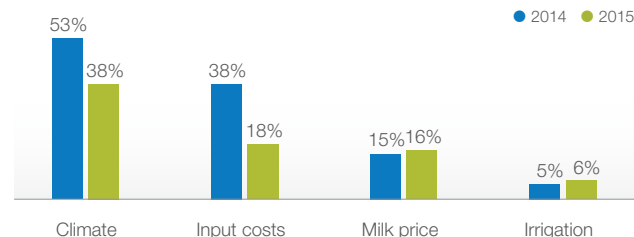
Negative drivers

- Farm gate price low (14%)
- Supermarket pricing (7%)
- Cost of production (6%)

Profitability and investment

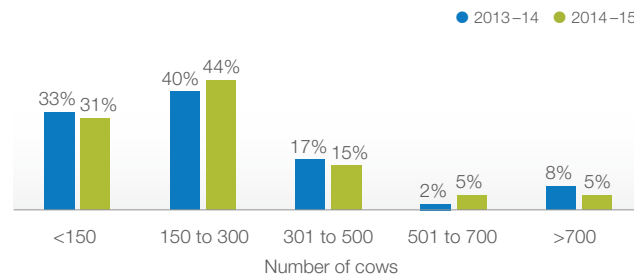
- 70%** Made profit 2013–14
- 79%** Expect profit 2014–15
- 48%** Profit higher than 5 year average
- 30%** Profit about same
- 19%** Profit lower than 5 year average
- 53%** Invested on farm 2013–14
- 55%** Intend to invest 2014–15
- 22%** Invest in machinery
- 15%** Invest in dairy plant
- 13%** Invest in irrigation plant
- 13%** Invest in cows/bulls

Challenges next 6 months

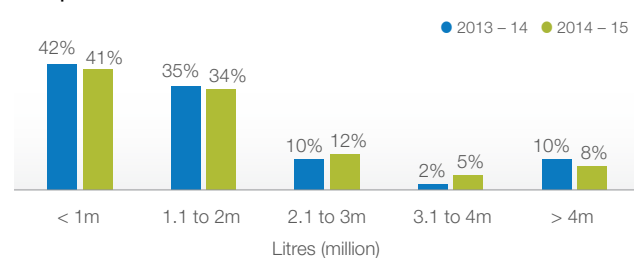


Current herd size and production

Herd size

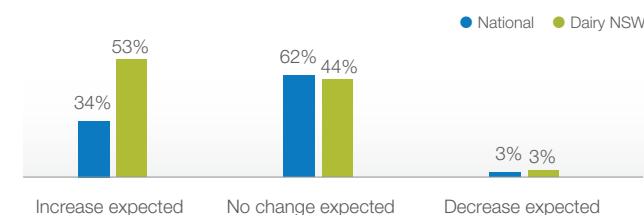


Herd production

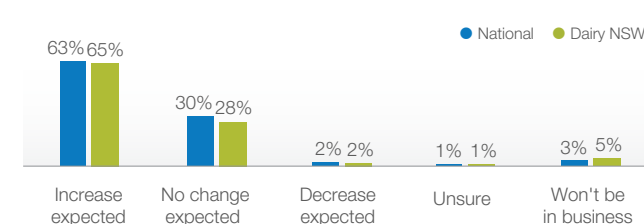


Forecast herd size and production

Anticipated change in herd size 2015–16 vs 2014–15

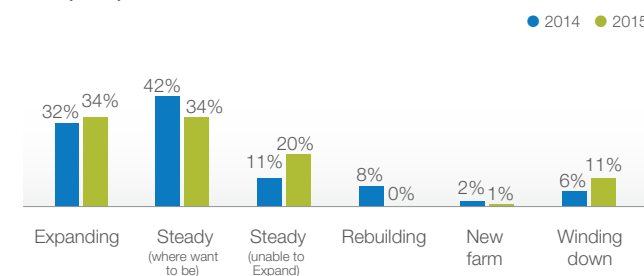


Anticipated change in production 2017–18 vs 2014–15



Regional profile

Enterprise phase



The 'average' Dairy NSW farmer:

- 89%** Works on family owned farm
- 68%** Feeds moderate to high level of concentrates
- 82%** Has a year round calving system
- 76%** Is likely to encourage family or employees to remain in dairy industry
- 56%** Does not have written annual farm budget
- 75%** No change/intention to change company supplied



Age
53

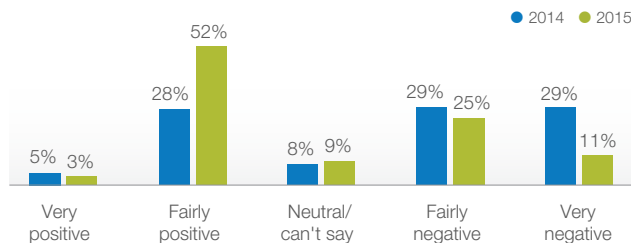
Regional NDFS results at a glance – Subtropical Dairy (SDP)

Summary

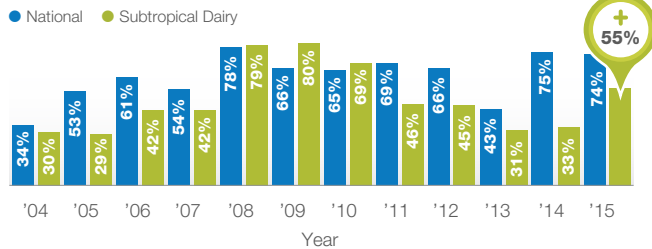
- Over the past year, confidence in SDP has risen significantly, but dairy farmers in the region are still the most likely in the country to feel negative about the future, with concerns over farm gate milk price still widespread, but easing.
- There has been considerable movement in the company supplied, with evidence that SDP farmers are chasing better farm gate milk prices on offer by some companies and this may be the reason for improved sentiments.
- SDP dairy farmers remain the least likely nationally to realise an operating profit and as a result less than half are making on-farm investment.
- Respondents' herd size and productivity have grown over the past year and while the overall intention is to increase milk volumes over the coming years, it will be through greater per cow production rather than increased herd sizes.
- With attitudes remaining quite polarised in SDP, it is not surprising that conversations about the long term viability of the industry are almost as likely to have been negative as positive recently.

Sentiment

Current sentiment



Sentiment trend (% positive)



Positive drivers

- Demand for dairy (23%)
- Export markets (15%)
- Farm gate price OK (14%)

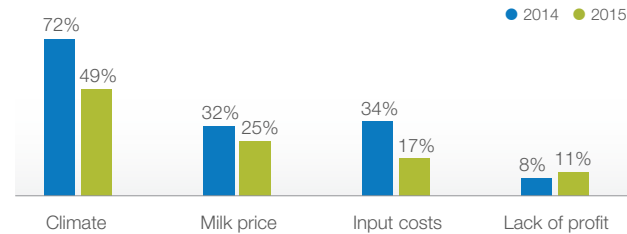
Negative drivers

- Farm gate price low (27%)
- Cost of production (15%)
- Supermarket pricing (10%)

Profitability and investment

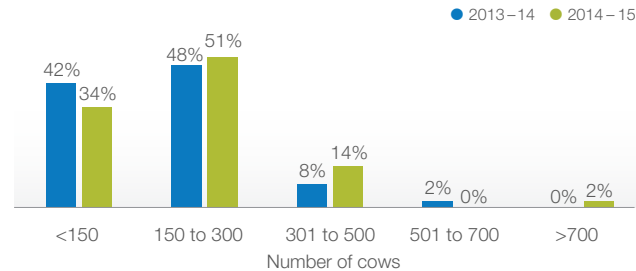
- 55%** Made profit 2013–14
- 59%** Expect profit 2014–15
- 31%** Profit higher than 5 year average
- 28%** Profit about same
- 37%** Profit lower than 5 year average
- 47%** Invested on farm 2013–14
- 46%** Intend to invest 2014–15
- 18%** Invest in irrigation plant
- 18%** Invest in machinery
- 17%** Invest in dairy plant

Challenges next 6 months

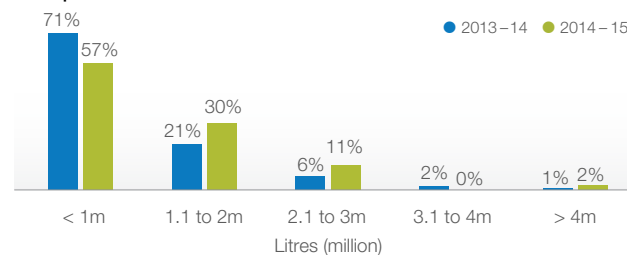


Current herd size and production

Herd size

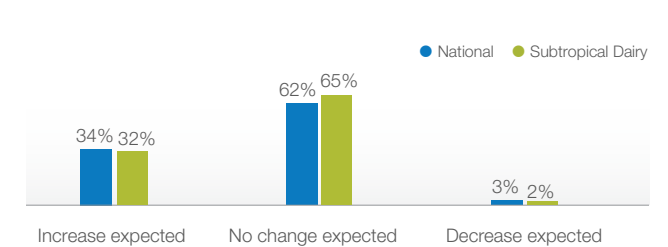


Herd production

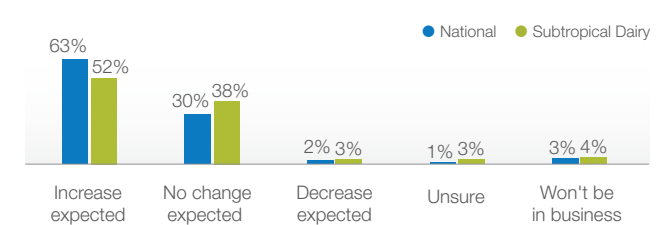


Forecast herd size and production

Anticipated change in herd size 2015–16 vs 2014–15

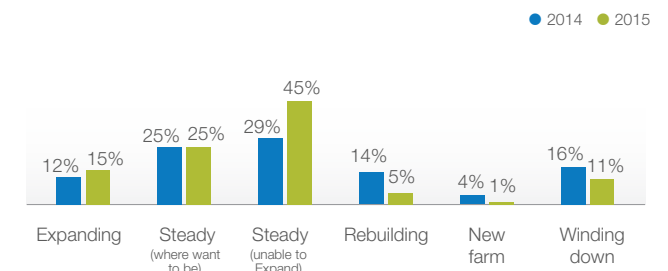


Anticipated change in production 2017–18 vs 2014–15



Regional profile

Enterprise phase



The 'average' Subtropical Dairy farmer:

- 98%** Works on family owned farm
- 55%** Feeds moderate to high level of concentrates
- 90%** Has a year round calving system
- 47%** Is likely to encourage family or employees to remain in dairy industry
- 61%** Does not have written annual farm budget
- 78%** No change/intention to change company supplied



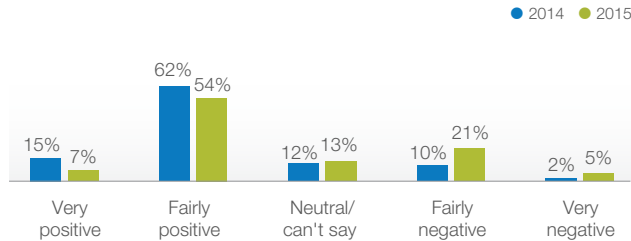
Regional NDFS results at a glance – Dairy SA

Summary

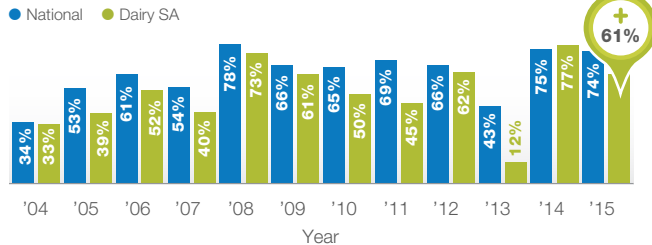
- Confidence in the future has fallen in SA over the past year and is now significantly lower than the national average due to growing concern over farm gate milk price and impact of climate.
- While profitability was very widespread for the 2013-14 financial year, it is expected to be less so for this year – impacting the proportion of dairy farmers able to invest on-farm.
- Although the vast majority of the region's dairy farmers are staying loyal to the company they supply, up to 20% have either changed or are considering doing so to achieve a better price.
- Milking herd size and production fell considerably during the past year in respondents' herds and while many intend to keep milker numbers stable, per cow production is expected to rise.
- Despite increasing negativity, conversations relating to the long term viability of the industry are more likely to have been positive than negative and a reasonably large proportion of the region's dairy farmers are still encouraging people to remain in the industry.

Sentiment

Current sentiment



Sentiment trend (% positive)



Positive drivers

- Export markets (18%)
- Demand for dairy (16%)
- Farm gate price OK (10%)

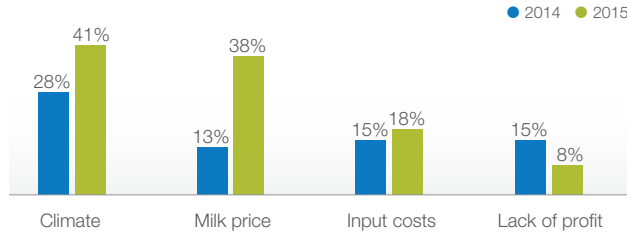
Negative drivers

- Farm gate price low (25%)
- Cost of production (10%)

Profitability and investment

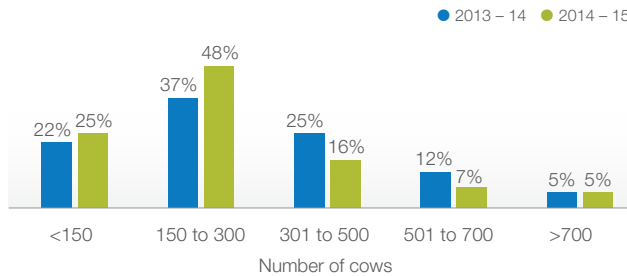
- 87%** Made profit 2013–14
- 61%** Expect profit 2014–15
- 33%** Profit higher than 5 year average
- 30%** Profit about same
- 38%** Profit lower than 5 year average
- 57%** Invested on farm 2013–14
- 48%** Intend to invest 2014–15
- 23%** Invest in machinery
- 18%** Invest in irrigation plant
- 15%** Invest in dairy plant

Challenges next 6 months

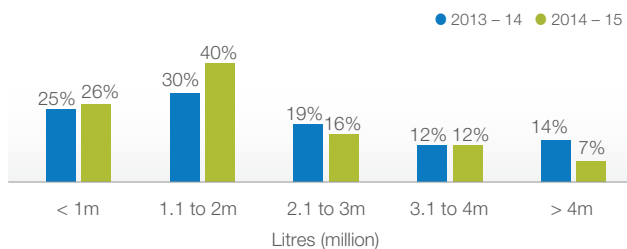


Current herd size and production

Herd size

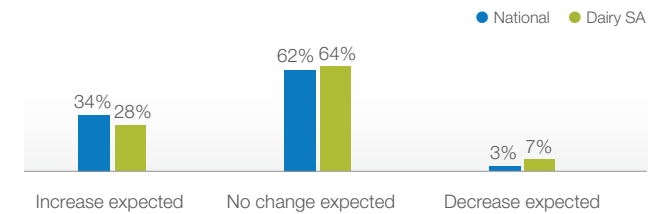


Herd production

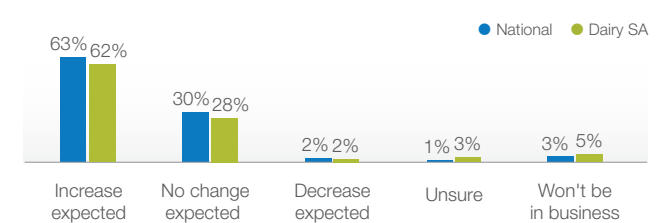


Forecast herd size and production

Anticipated change in herd size 2015–16 vs 2014–15

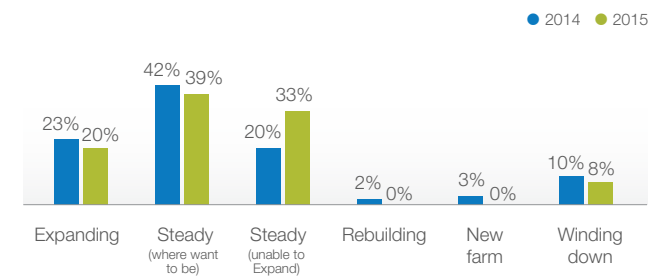


Anticipated change in production 2017–18 vs 2014–15



Regional profile

Enterprise phase



The 'average' Dairy SA farmer:

- 87%** Works on family owned farm
- 74%** Feeds moderate to high level of concentrates
- 41%** Has year round calving system
- 34%** Has split/batch calving system
- 62%** Is likely to encourage family or employees to remain in dairy industry
- 62%** Has written annual farm budget
- 80%** No change/intention to change company supplied



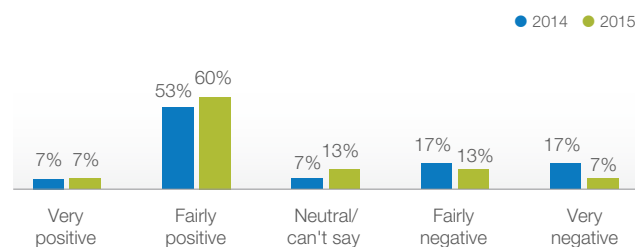
Regional NDFS results at a glance – Western Dairy

Summary

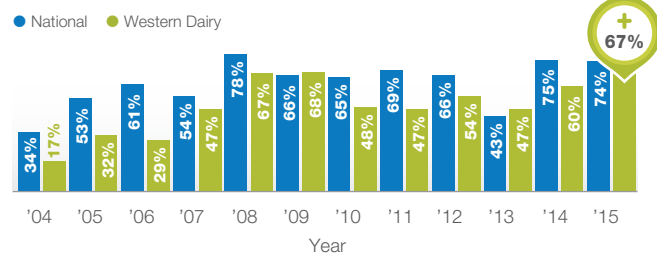
- Confidence in the industry's future has continued to climb in WA, although farm gate milk price is still seen as a challenge.
- Profitability has continued to be widespread and appears to be increasing. Despite this, the proportion of dairy farmers investing on-farm has remained fairly consistent.
- The 'average' milking herd has reduced in size but production levels have only fallen slightly. Future intentions suggest that herd sizes and production will remain the same or grow rather than contract further.
- WA dairy farmers have typically remained loyal to the company they supply in recent times but there are a number who are currently considering changing for a better farm gate price.
- Recent conversations about the long term viability of the industry are slightly more likely to have been positive than negative.

Sentiment

Current sentiment



Sentiment trend (% positive)



Positive drivers

- Demand for dairy (35%)
- Farm gate price OK (15%)
- Export markets (13%)

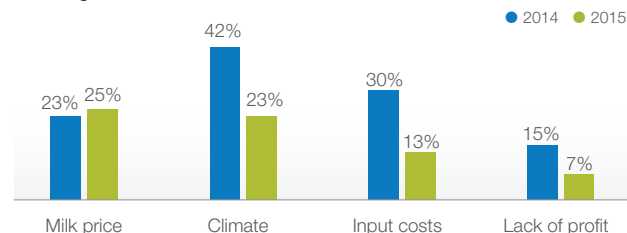
Negative drivers

- Farm gate price low (22%)
- Supermarket pricing (10%)
- Cost of production (7%)

Profitability and investment

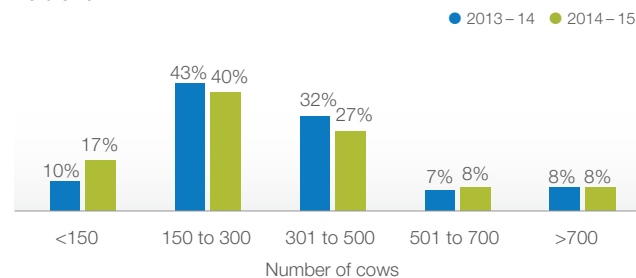
- 82%** Made profit 2013–14
- 92%** Expect profit 2014–15
- 55%** Profit higher than 5 year average
- 27%** Profit about same
- 17%** Profit lower than 5 year average
- 55%** Invested on farm 2013–14
- 53%** Intend to invest 2014–15
- 27%** Invest in machinery
- 22%** Invest in dairy plant
- 10%** Invest in feed systems

Challenges next 6 months

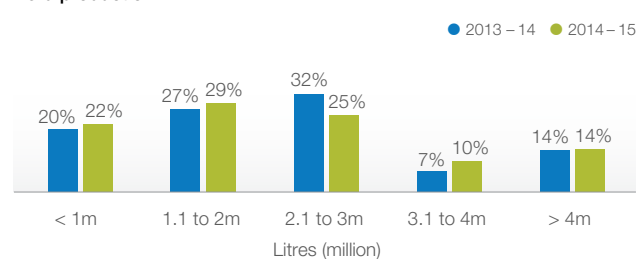


Current herd size and production

Herd size

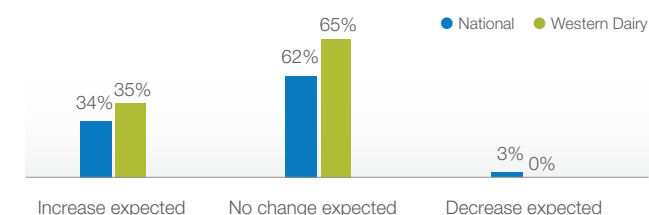


Herd production

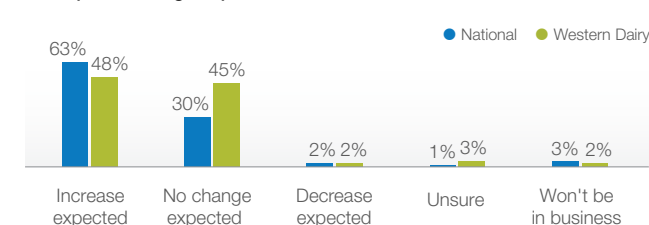


Forecast herd size and production

Anticipated change in herd size 2015–16 vs 2014–15

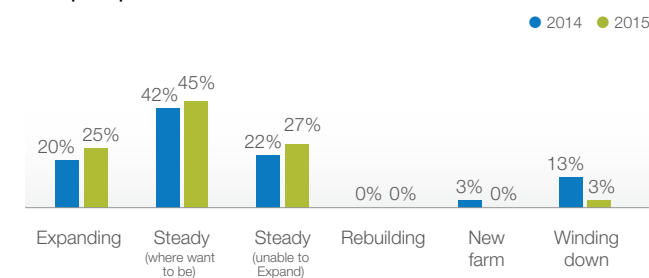


Anticipated change in production 2017–18 vs 2014–15



Regional profile

Enterprise phase



The 'average' Western Dairy farmer:

- 93%** Works on family owned farm
- 63%** Feeds moderate to high level of concentrates
- 50%** Has a year round calving system
- 68%** Is likely to encourage family or employees to remain in dairy industry
- 63%** Has written annual farm budget
- 80%** No change/intention to change company supplied



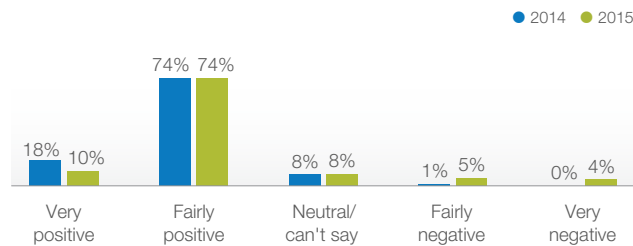
Regional NDFS results at a glance – DairyTAS

Summary

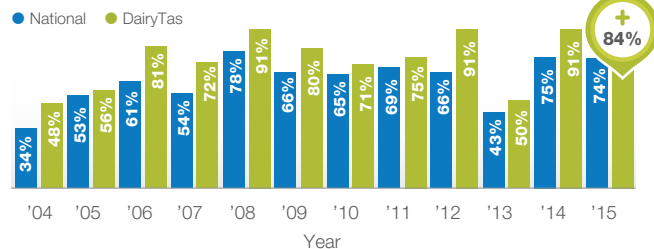
- While Tasmanian dairy farmers are still the mostly likely in the country to be positive about the future, there is some evidence that concerns over farm gate milk prices are becoming more widespread.
- Although almost all the Tasmanian respondents realised an operating profit last financial year, the proportion expecting to do so this year is substantially lower.
- Loyalty to the company supplied is strong in Tasmania, with only a small proportion changing or intending to change the company they supply.
- Respondents' milker numbers remained steady over the past year, but per cow production increased overall. These increases are expected to continue over the next 3 years.
- Tasmanian dairy farmers have been the most likely to speak positively about the long term viability of the industry recently and they typically encourage people to remain in the industry.

Sentiment

Current sentiment



Sentiment trend (% positive)



Positive drivers

- Demand for dairy (36%)
- Export markets (18%)
- Farm gate price OK (15%)

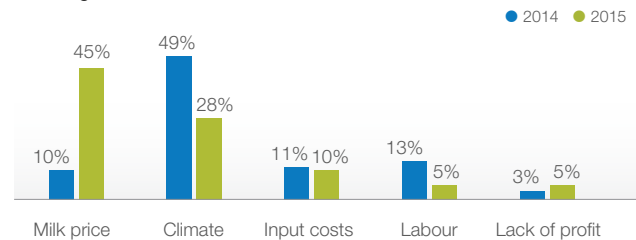
Negative drivers

- Farm gate price low (13%)
- Cost of production (4%)

Profitability and investment

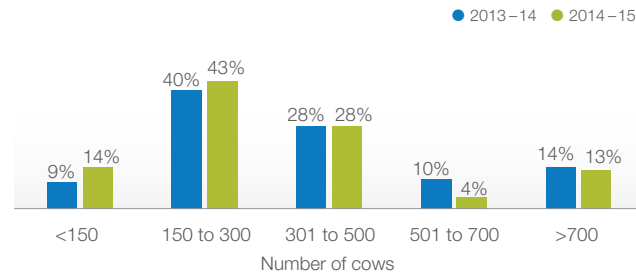
- 91%** Made profit 2013–14
- 79%** Expect profit 2014–15
- 38%** Profit higher than 5 year average
- 29%** Profit about same
- 33%** Profit lower than 5 year average
- 54%** Invested on farm 2013–14
- 49%** Intend to invest 2014–15
- 34%** Invest in irrigation plant
- 14%** Invest in machinery
- 11%** Invest in dairy plant

Challenges next 6 months

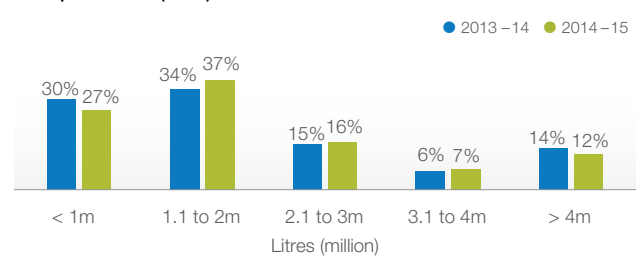


Current herd size and production

Herd size

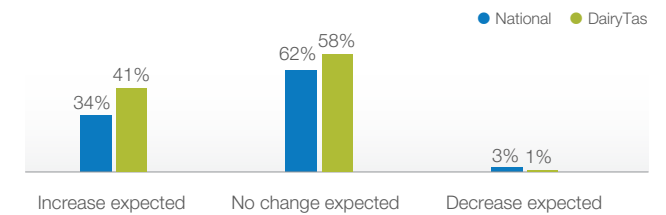


Herd production (litres)

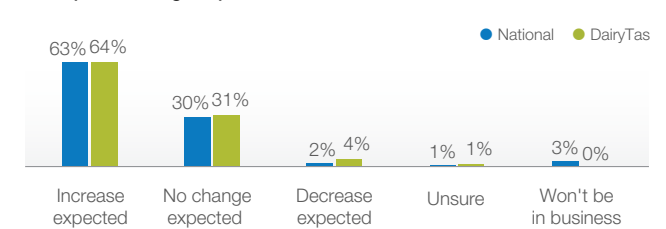


Forecast herd size and production

Anticipated change in herd size 2015–16 vs 2014–15

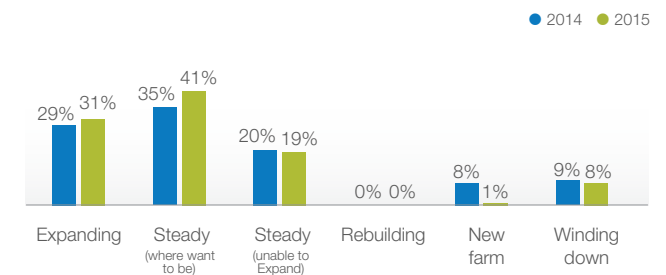


Anticipated change in production 2017–18 vs 2014–15



Regional profile

Enterprise phase



The 'average' DairyTas farmer:

- 85%** Works on family owned farm
- 49%** Feeds moderate to high level of concentrates
- 68%** Has a seasonal calving system
- 78%** Is likely to encourage family or employees to remain in dairy industry
- 51%** Does not have written annual farm budget
- 89%** No change/intention to change company supplied



Age
52



Dairy Australia Limited ABN 60 105 227 987
Level 5, IBM Centre
60 City Road, Southbank VIC 3006 Australia
T + 61 3 9694 3777 F + 61 3 9694 3701
E enquiries@dairyaustralia.com.au
dairyaustralia.com.au