

Dairy Situation and Outlook

June 2016



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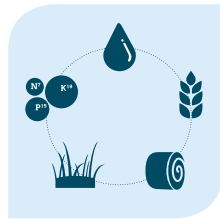
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Six key drivers of the Australian Dairy Industry

Inputs



Situation: ▼

Outlook: ■

The season continues to be unusually hot and dry, increasing costs for hay, grain and temporary irrigation water. However, a weakening El Niño, and depressed fertiliser prices offer some potential respite.

Global supply



Situation: ▼

Outlook: ▼

With strong growth in Europe and New Zealand milk production proving resilient in the face of low farmgate prices, the global supply of dairy products remains more than sufficient to meet current market requirements.

Global economy



Situation: ■

Outlook: ■

According to the IMF, a continued slowdown in emerging markets driven by lower commodity prices and increased macroeconomic volatility will be only partly offset by growth in mature economies. The net result is a lower forecast for overall global growth.

Australian market



Situation: ■

Outlook: ■

Supermarket sales for Australian dairy products showed volume growth for all categories, except yoghurt and dairy snacks. Growth in value was limited to dairy spreads, driven by increased demand for butter over blended spreads. Other categories were largely stable.

Global demand



Situation: ▼

Outlook: ■

Global demand growth has been patchy, with growth in China and southeast Asia, and a slight decrease in exports to Japan and the Middle East. However, apart from China, low prices mean total export values are well down.

Exchange rates



Situation: ▼

Outlook: ▲

The USD looks likely to appreciate over the next twelve months against major exporter currencies. Accordingly, following an appreciation in the December quarter, the AUD looks likely to depreciate over the course of 2016, which should improve export competitiveness.

▲ Positive ■ Neutral ▼ Negative

Executive summary

An already challenging season became significantly more difficult during April and May, as late-season farmgate price cuts were announced for most farmers in the southern, export-focused regions. The impact of these developments continues to unfold, and the process of revising budgets and strategies to accommodate sharply lower late-season incomes has begun. Next season's options will be reassessed in earnest once 2016/17 opening prices are announced. Although it remains too early to quantify the impact of the recent milk price cuts, it is clear that farmer confidence will be significantly impacted; with flow on effects for on-farm investment and likely future growth. Amidst an outlook suggesting tighter (in many cases negative) margins, next season's milk production will depend heavily on seasonal conditions. As always, regional variation is expected, but a national volume total below that of 2015/16 is considered highly likely.

Australian farmers have been hit by the impacts of a deep and persistent trough in international dairy markets. The same market trough has failed to significantly dent milk supply in most of the world's major dairy exporters. Europe and the US continue to power ahead in year-on-year terms, and favourable weather in New Zealand has led to a much smaller decline than many had expected – even after a second season of bruising margins. Attractive international commodity prices and slow trade last year have supported dairy demand in most importing regions over the past twelve months, with overall tonnages up nearly 6%. However, supply continues to outpace demand, and inventories in many parts of the world (most conspicuously Europe) are building. These stocks will likely slow any emerging price recovery.

Despite an absence of the breakneck demand growth of recent years, China has been responsible for a large proportion of the observed demand growth in the twelve months to February 2016. Total global exports to Greater China (China, Hong Kong and Macau) for this period are up 16% in volume terms, though WMP volumes are still down. Although total volume and value

are up, depressed commodity prices and strong competition (particularly from Europe) continue to constrain unit returns. Exports to Southeast Asian countries have continued to grow (up 4%), with strong expansion in milk powder categories, while export volumes to the Middle East and Japan have eased (down 8% and 1% respectively).

A relatively stable domestic market is still buffering the Australian industry in the face of international headwinds. Despite some slowing, overall trends for supermarket sales of major dairy categories remain relatively unchanged from February's *Situation and Outlook* report. Dairy spreads continue to grow strongly (up 5%), while cheese volumes increased by 1.7% for the twelve months to March 2016. Ongoing growth in block and ingredient cheese segments offset falls in sliced and smooth cream cheeses, with specialty/entertaining and deli cheeses also performing well (up 17% and 4.3% respectively). The value of cheese sales grew by 1.8% in year-on-year terms, with strong growth in the value of deli and specialty cheese sales helping offset price falls in the unit cost of block and ingredient cheese categories.

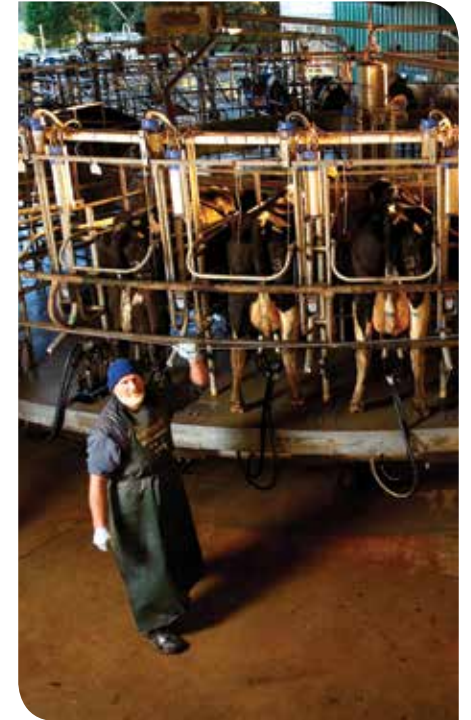
Fresh milk volumes and values are steady, while those for yoghurt and dairy snacks have eased. Infant formula continues to sell strongly, with growth of over 30% in sales through the supermarket channel, though the split between Australian consumption and grey market exports is much less clear.

On-farm, the 2015/16 season has been characterised by challenging seasonal conditions in many regions. Rainfall across the country has been variable but generally below average, and while April was forecast to provide a much needed autumn break, totals received for the month were lower than predicted. Constrained pasture growth has coincided with a tight market for hay, while lower international grain prices have taken some time to flow through to the Australian market. For irrigators, low allocations and high demand have driven temporary water prices to post-drought highs. Fertiliser remains a bright spot, and a more favourable rainfall outlook suggests farmers may be better placed to take advantage of an ongoing global oversupply to grow more feed on-farm, where cash flow permits.

Managing short term pressures to achieve longer term business plans will prove a greater challenge than usual in the months ahead.

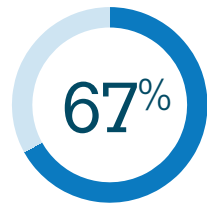
Confidence amongst farmers as measured by the National Dairy Farmer Survey (NDFS), fell significantly from 2015 to 2016. The annual survey, conducted in February and March, showed a decline in the proportion of farmers feeling positive about the future of the industry from 74% to 67%. This was concentrated in Victoria and southern NSW (and particularly the Murray Dairy region), with farmers in other regions feeling similar or greater levels of confidence this year. More recently, late season cuts to farmgate prices have caused a significant decline in sentiment across most regions, which is currently being quantified through follow up research.

A global market turnaround remains some way off, though the Australian market remains stable and some relief from elevated input costs is likely if the forecast favourable rainfall patterns eventuate. Profitability and sentiment in southern, export focused regions have been hit particularly hard by recent cuts to farmgate prices, and the forecast favourable rainfall in 2016/17 will prove invaluable in supporting both, should it eventuate. There is little doubt however, that managing short term pressures to achieve longer term business plans will prove a greater challenge than usual in the months ahead.

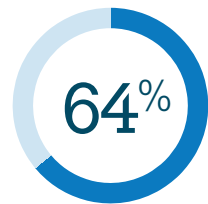


National Dairy Farmer Survey (NDFS) 2016

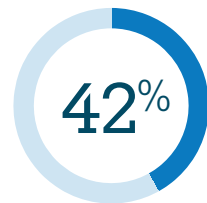
National results at a glance as at February/March 2016



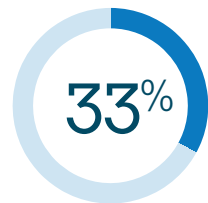
Farmers positive about industry future (2015: 74%)



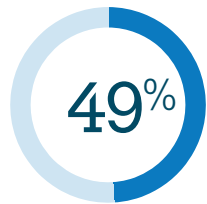
Anticipated profit in 2015/16



Increased production in 2015/16



Increased herd size in 2015/16



Intended to invest in the next 12 months

The NDFS was conducted during February and March 2016 amongst 1,000 dairy farmers nationally. At the time of the survey, 67% of respondents felt positive about the future of the dairy industry and this represented a significant drop in sentiment from 2015 survey results where 74% were positive. The decline has been largely driven by substantial declines across Victoria but most noticeably in the Murray Dairy region where positive sentiment fell significantly from 81% to 62% in twelve months. Farmgate prices and access to irrigation water were of greater concern in this region than in the recent past.

In the past month, announcements of reductions in farmgate milk prices have had further impact on farmer sentiment with early indications from a subsequent survey showing at least a 20% drop in confidence since March.

This response is predictable considering historical data which shows the strong correlation between price and sentiment. This is discussed further in the following key themes.

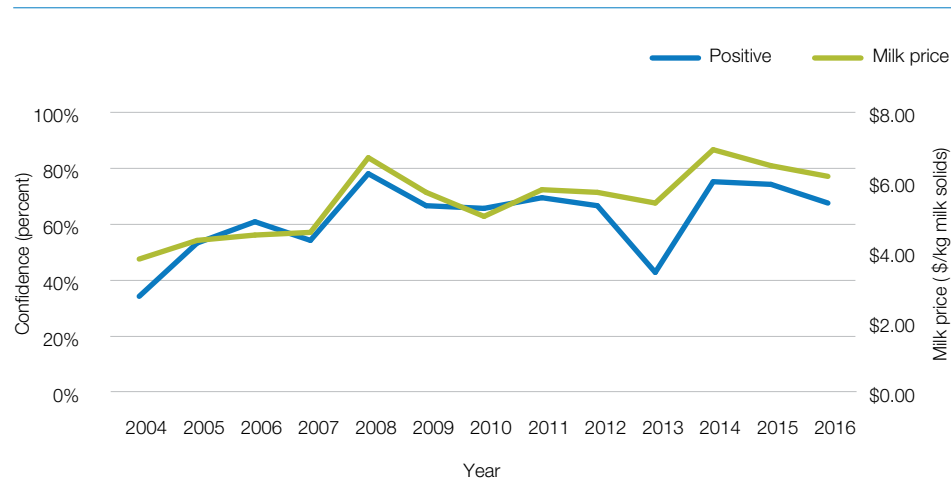
Theme 1: A close relationship exists between farmgate prices and farmer confidence in the future of the industry.

The NDFS has been conducted since 2004 with the purpose of gauging farmer sentiment about the industry, ascertaining production, herd and investment intentions and understanding challenges being faced.

Over the time of the survey, the national trend in farmer sentiment showed a close relationship with farmgate prices. Statistical analysis suggests that prices account for more than 80% of the variability in farmer confidence about the future of the dairy industry. Climate or seasonal conditions and input costs tended to be the next most dominant drivers of sentiment but show a much lower correlation than price.

Trend data (Figure 1) also shows farmgate pricing is considered a consistent and ongoing challenge for dairy farmers. Over the past 12 years, price has always been seen to be a major challenge when considering the future of the industry, even in times when prices are at comparatively high levels.

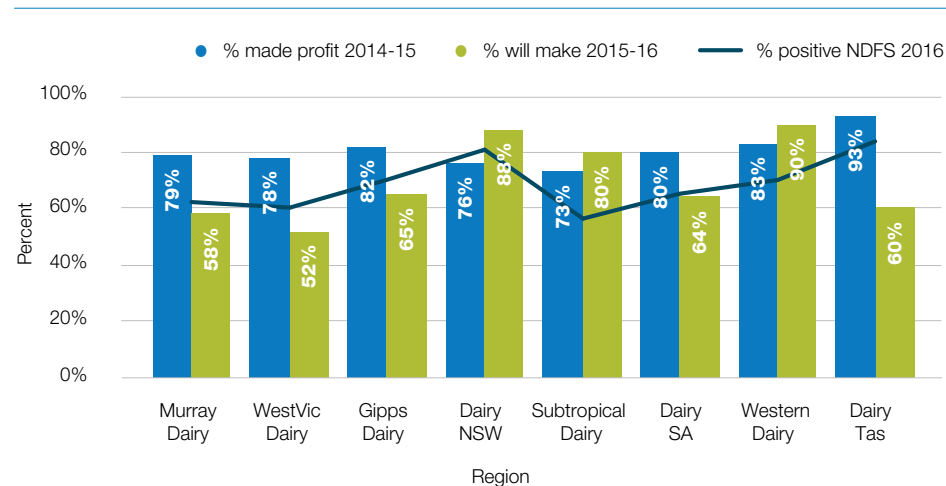
Figure 1 National sentiment vs price trend



Source: National Dairy Farmer Survey 2004–2016, Australian Dairy Industry In Focus

Note: the 2012/13 season was an exceptional year in terms of farmer sentiment. The lowest levels of confidence were reported since tracking commenced as a result of falling farmgate prices (affected by a strong Australian dollar), cash flow challenges, higher debt loadings, high input costs and variability in seasonal conditions with floods and drought being experienced. If we exclude the 2013 survey results, the correlation increases to over 90%.

Figure 2 Sentiment vs profitability expectations



Source: National Dairy Farmer Survey

Data from the latest survey, however, suggests farmers are used to dealing with seasonal challenges and variability in market conditions. The majority (60%) report that they were prepared to make on-farm changes to deal with the challenges they face. These changes were primarily related to purchasing and conserving feed, making adjustments to herd size and closer monitoring of costs to cope with current conditions.

Theme 2: Profitability predictions are more pessimistic in 2016.

At the time of the 2015 NDFS, 79% of farmers predicted an operating profit for the 2014/15 financial year end. This optimism was realised with 80% of farmers nationally reporting profit for this period. This was widespread across all regions.

However, even prior to the recent price announcements, profitability predictions for the 2015/16 financial year dropped significantly. Survey data shows approximately two thirds of farmers (64%) were expecting to make an operating profit but 56% were expecting lower profit levels when compared to the past five years. Victorian farmers in the Murray Dairy (58%) and WestVic (52%) regions as well as those in DairyTas (60%) were most pessimistic in

terms of 2015/16 profit expectations. In contrast, the profitability outlook for the year ahead was notably more optimistic in the domestic market focused regions of Western Dairy (90%), Dairy NSW (88%) and Subtropical Dairy (80%).

Interestingly, profitability for the current season was less of a predictor of farmer confidence about the industry than profit expectations for the year ahead. There was also variability across the regions in terms of confidence and profitability. Figure 2 shows farmer sentiment compared to profitability expectations by dairying region.

The impact of lower profit expectations for 2015/16 does appear to be translating into a decline in the proportion of farmers planning on-farm investments in the next twelve months. In the year ahead, 49% of farmers said they intended to make capital investments compared to 59% in the prior twelve month period. Investment intentions have declined significantly in the Murray Dairy and WestVic regions where impacts of price combined with difficult seasonal conditions are more pronounced. Recent cuts to farmgate prices will likely reduce investment plans further in the months ahead.

Theme 3: Since 2014, annual survey results consistently show a quarter of the industry being in an expansion phase and close to 40% being 'stable and happy' with their current enterprise.

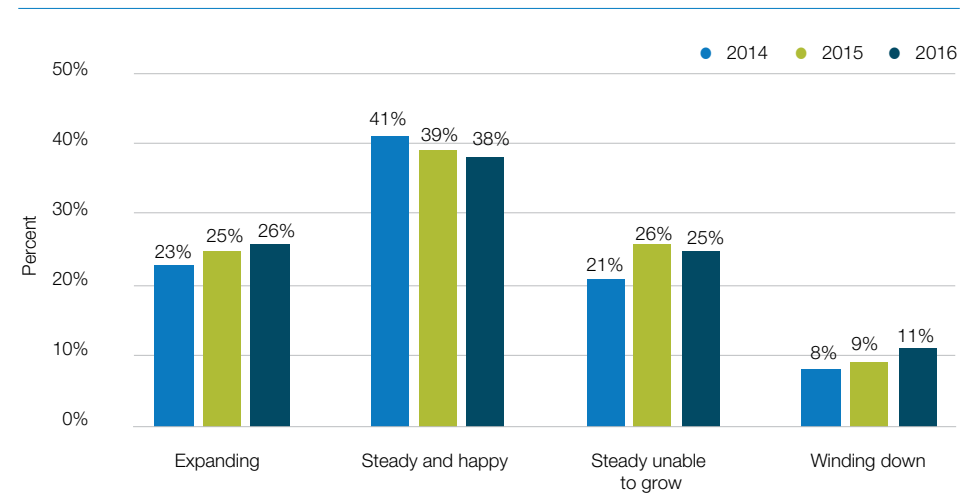
Despite variability in sentiment, trend data shows some consistency in the proportion of farmers being in an expansion phase or 'stable and happy' with the state of their dairy enterprise. For the past three years, just under two thirds of respondents report being in either of these phases (Figure 3).

Typically farms with herd sizes in excess of 300 cows are more likely to be expanding. In 2016, there are more farmers in an expansion phase in the southern dairying regions of WestVic,

GippsDairy, DairySA and DairyTas than there were in the prior year but there are also more expanding in the Subtropical Dairy region.

The reported confidence in enterprise phase translated into optimistic outlooks in terms of production. Looking ahead three years, 66% of farmers expected to be achieving greater production levels in 2018/19 compared to levels reached in 2015/16. Higher levels of production were anticipated across farms of all herd sizes (although more likely amongst farms with herds in excess of 300 cows) and the production outlook was positive for most dairying regions. Subtropical Dairy and Western Dairy were the least optimistic regions with 50% and 43% expecting higher production in 2018/19 respectively.

Figure 3 Enterprise phase trend 2014–2016



Source: National Dairy Farmer Survey 2014–2016

The National Dairy Farmer survey was conducted in February and March 2016 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.

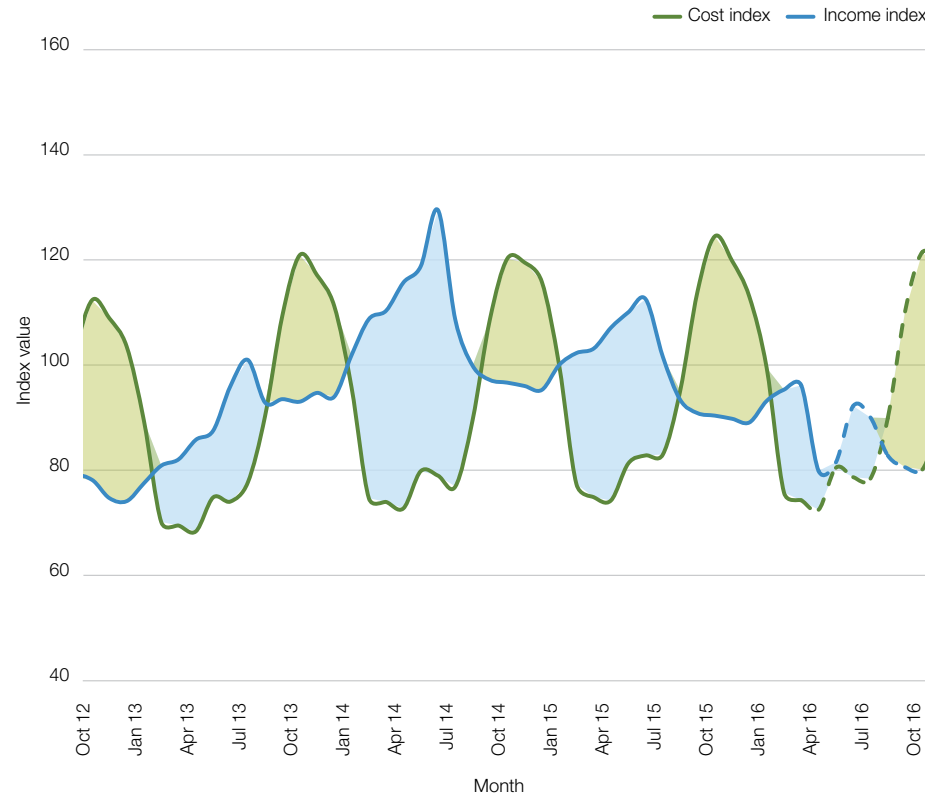
Export region weighted cost and income indices

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

The latest update suggests:

- › Overall, margins have been significantly tighter through 2015/16; squeezed by both higher costs and lower income.
- › Furthermore, income for many farmers will fall below the previously assumed base case of a farmgate price around the 2015/16 opening level for the final months of the season.
- › Although some easing of costs during the 2016/17 season is likely, a weak milk price outlook suggests that margin pressure will intensify – at least through the first half of the year.
- › An earlier than expected commodity price recovery may provide relief in the second half of the season, but either way, cash flow challenges through spring will present a significant hurdle for many farms.

Figure 4 Export region weighted cost and income indices



Source: Dairy Industry Farm Monitor Project, Dairy Australia analysis

Inputs



Fertiliser

Urea (granular Middle East)

226 US\$/t

▼ -11% LY

▼ -32% 5Y

DAP (US Gulf)

351 US\$/t

▼ -19% LY

▼ -20% 5Y

MOP (granular Vancouver)

277 US\$/t

▼ -9% LY

▼ -21% 5Y

Price is March 2016 average, compared to the 2015 March average (LY) and 5-year (5Y) March average.

Source: Bloomberg

Water and weather

Northern Victoria

217 \$/ML

▲ +107% LY

▲ +144% 5Y

1,867,522 ML

▲ +12% LY

▲ +20% 5Y

Murray Irrigation System

221 \$/ML

▲ +103% LY

▲ +135% 5Y

106,766 ML

▼ -36% LY

▼ -42% 5Y

Price and volume of water traded are average last 12 months to April 2016, and compare to year earlier (LY) and last 5 years (5Y).

Source: Victorian Water Register, Murray Irrigation Ltd

Cows

Cull cows

410 c/kg

▲ +22% LY

▲ +37% 5Y

93,026 head

▲ +37% LY

▲ +38% 5Y

Dairy cattle exports

68,026 head

▼ -29% LY

▼ -7% 5Y

Price is March 2016 average, compared to year earlier (LY) and 5-year (5Y) averages. Number of head is last 12 months (cull cows to March, dairy cattle exports to February 2016) compared to year earlier (LY) and 5-year (5Y) averages.

Source: NLRS, ABS

International benchmark prices for urea, MOP and DAP all remain lower than last year and have been in decline for the first few months of 2016.

Weather

For the first half of 2016 Australia's climate has been characterised by a weakening El Niño weather system and warmer than average sea surface temperatures in the Indian Ocean. These events are associated with warmer temperatures and lower rainfall in Australia. As such, it comes as no surprise that since the start of the year most regions have faced very warm weather. February 2016 was Australia's ninth warmest February recorded, and in March, both the overall and mean minimum temperatures were the warmest for March on record. April was also unseasonably warm and dry. The outlook towards the end of June suggests warmer than average weather nation wide, except in parts of the southern interior and Western Australia.

Rainfall across the country has been variable but generally below average. While southwest Western Australia, much of South Australia and parts of Queensland have tended towards above average levels, New South Wales recorded its driest February since 1978. Rainfall has also been scarce in areas of south-eastern Australia, especially Tasmania and Eastern Victoria, and across northern Australia. While April was forecast to provide a much needed autumn break, rainfall for the month was lower than predicted. In regards to drought, areas of severe deficiency remain in western and central Victoria, inland Queensland, central NSW and in parts of western and south-eastern

Tasmania. Areas that previously had serious deficiencies in pastoral districts of South Australia have contracted.

Fortunately, the outlook for Australia's weather for the remainder of the year seems favourable. The Southern Oscillation Index (SOI) is showing clear signs that El Niño is deteriorating and that the following weather pattern will be either neutral or a La Niña system. La Niña is usually associated with above-average winter–spring rainfall over northern, central and eastern Australia. Furthermore, persistent warmth in the Indian Ocean should provide extra moisture for rain systems as they cross Australia.

Water

The average price for temporary water remains dramatically elevated with the average price in the Murray Irrigation System reaching \$221/ML for the last twelve months to April 2016 and \$217/ML in Northern Victoria. The key drivers of higher water prices include Commonwealth buy-backs over the past few years for the environment, and the recent low inflows for both water systems.

Demand has dropped off in the Murray Irrigation System and is down 36% on last year's average. Conversely, the amount of water trading in Northern Victoria has increased by 12% to over 1.8 million megalitres. This may be attributable to orchardists amongst Lower Murray Water diverters expanding plantings in recent years

and increased production levels in the dairy industry.

General Security water share allocations in the NSW Murray system were at 23% as of April 2016. In the absence of a significant flow event in the Darling River during the wet season, the outlook for water levels in the near future is less favourable. Whilst the situation has been less severe for the Victorian Murray systems, most High Reliability Water Share allocations in the region are yet to reach 100%. Given the likelihood of neutral conditions or a La Niña event during the second half of the year, the outlook for the remainder of the year may contain additional upside, relative to 2015.

Fertiliser

International benchmark prices for urea, MOP and DAP all remain lower than last year and have been in decline for the first few months of 2016. This trend is likely to continue in the second half of the year with an ongoing global supply glut putting downward pressure on the market. Adding to this is stagnant global demand for fertilisers. The International Fertiliser Industry Association forecasts that demand will retreat by around 0.1% by the end of the 2015/16 financial year, predominantly as a result of low crop prices.

The global MOP market has been particularly soft and set to decrease further with India announcing a reduction on the subsidy allocation for potash. On the other hand, the EU

is planning to lift restrictions on sugar production and exports in the next few years. If this goes ahead it could affect global demand as sugar beet crops have exceptionally high potash requirements. As Australia is a net importer of fertiliser, local prices are set on an import parity basis, so they should follow global price movements.

Cows

Cull cow sales for 2015/16 have been significantly elevated compared to last year and five year averages, up by 37% and 38% respectively. With relatively cheap replacement stock and continued margin pressures driving high sales numbers, much of this increase can be attributed to the high price that cull cows have been fetching. The average March price in 2016 was up 22% compared to March last year.

One of the main factors boosting the local cull cow market is unseasonably strong demand for imported manufacturing beef in the United States. Following several years of decreased US production, Australia exported a record amount of manufacturing beef to the US in 2014/15 and the amount for the current financial year is also forecast to be well above average. The outlook for 2016/17 is less favourable, as a projected reduction in Australian beef supplies due to herd rebuilding is expected to limit export growth.

It is a different story for live dairy cattle however, as exports for the last twelve months to February 2016 have

decreased 29% compared to the previous period. This is largely a result of reduced demand from China, where domestic milk price has been relatively soft for the last few years. China accounts for over 80% of Australia's live dairy cattle exports, with the remainder mainly exported to Malaysia, Indonesia, Pakistan and Vietnam.

Grain

Following several seasons of strong production, global grains stocks have been sitting at record highs for the last few years. Much of this can be attributed to major players China and the EU, for whom 2015/16 will mark the fourth consecutive year of both increased production and stocks. As expected, this has pushed global wheat prices lower, as reflected by a world wheat indicator price that is forecast to be the lowest in 10 years. The global market has been subject to further softening as low crude oil prices continue to pressure biofuel usage, which accounts for a significant proportion of demand for corn and oilseeds.

On the other hand, well below-average wheat crops in India may push prices upwards, as it is predicted that the usual net exporting country may need to import more than 2.75M tonnes of wheat. There are also concerns that a colder than average winter forecast for much of the northern hemisphere could impact productivity of crops in the region, which would also put upward

pressure on prices. Overall however, the market is forecast to stay soft for the 2016/17 with no end to the record global stocks in sight and a decline in consumption of wheat for livestock feed.

In Australia, domestic grain prices are still at a premium, which is a result of 2014/15 prices tracking consistently above five-year averages. In saying this, the local market is currently following the global trend and in nearly all growing regions wheat is at a lower price compared to the previous year. Downward pressure on prices is likely coming from high levels of wheat and barley production, with ABARES quoting total wheat production for 2015/16 up 5% compared to the previous season, at 24.2 million tonnes, and barley up 4% to 8.5 million tonnes.

While Australian grain should be competitive on the global market given the weak AUD, the export pace has been slow in recent months and Australian exports of coarse grains are forecast to fall in 2016/17 compared to prior years. This having an especially large impact on barley trade due to low demand from China and Saudi Arabia, two of Australia's largest export destinations. While China took around 59% of Australian barley exports in 2014/15, in late 2015, the Chinese Government implemented import restrictions on feed grain, which is expected to lower imports. Conversely, Australian canola exports are forecast to rise by around 8% in 2016/17 reflecting higher expected production.

Overall, however, the market is forecast to stay soft for the 2016/17 with no end to record global stocks in sight.

Dry weather in parts of Victoria and Tasmania has maintained pressure on fodder stocks, especially in the main dairying regions.

This is attributable to steady import demand from the European Union and lower canola production from Ukraine, Australia's main competitor in the EU market.

Hay

Two key factors continue to exert the largest influence over the fodder market: stocks on hand and the autumn break. As of mid May, fodder stocks are low in many regions and the break arrived later than expected for much of the country. Notable exceptions are the north coast of NSW and the Bega region where a strong season has led to good stocks of homegrown fodder, and areas in southern WA that experienced an early autumn break.

Outside these regions stocks of fodder have tended to be low and levels of demand mixed. Typically, with the current seasonal conditions and fodder

stocks on hand, higher levels of demand and potentially further price increases would be expected. Conversely, there is some resistance to current prices from buyers. This has resulted in buying patterns which have been described as 'hand to mouth' and in relatively steady hay prices. That said, there is also a general consensus that fodder prices will not fall in most regions through winter.

Regionally, dry weather in parts of Victoria and Tasmania has maintained pressure on fodder stocks, especially in the main dairying regions. This is resulting in buyers having to look further afield to source fodder, and transport is increasingly contributing to fodder costs. Tasmania also faced distortion of the market due to reports of inflated prices for small batches of fodder being purchased by hobby farmers. In addition, there are reports of the

domestic market being tight for hay in Western Australia. This is unexpected considering the strong 2015 cereal hay harvest.

On the other end of the scale, coastal regions in NSW and Southern Queensland continue to experience good conditions for pasture production. This has resulted in a low demand for purchased fodder due to good availability of paddock feed and homegrown fodder. While the size of on-farm hay and silage production is difficult to estimate there is general agreement that demand for purchased fodder into these regions is likely to be well down on average. There also appears to be good volumes of hay available in central NSW and SA, However much of the available fodder in NSW is weather damaged and fires earlier in the year in South Australia may lead to shortages in the coming months.

The 'Grain and 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.



Grain and hay prices

Australian dairy regions

Grain and hay



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

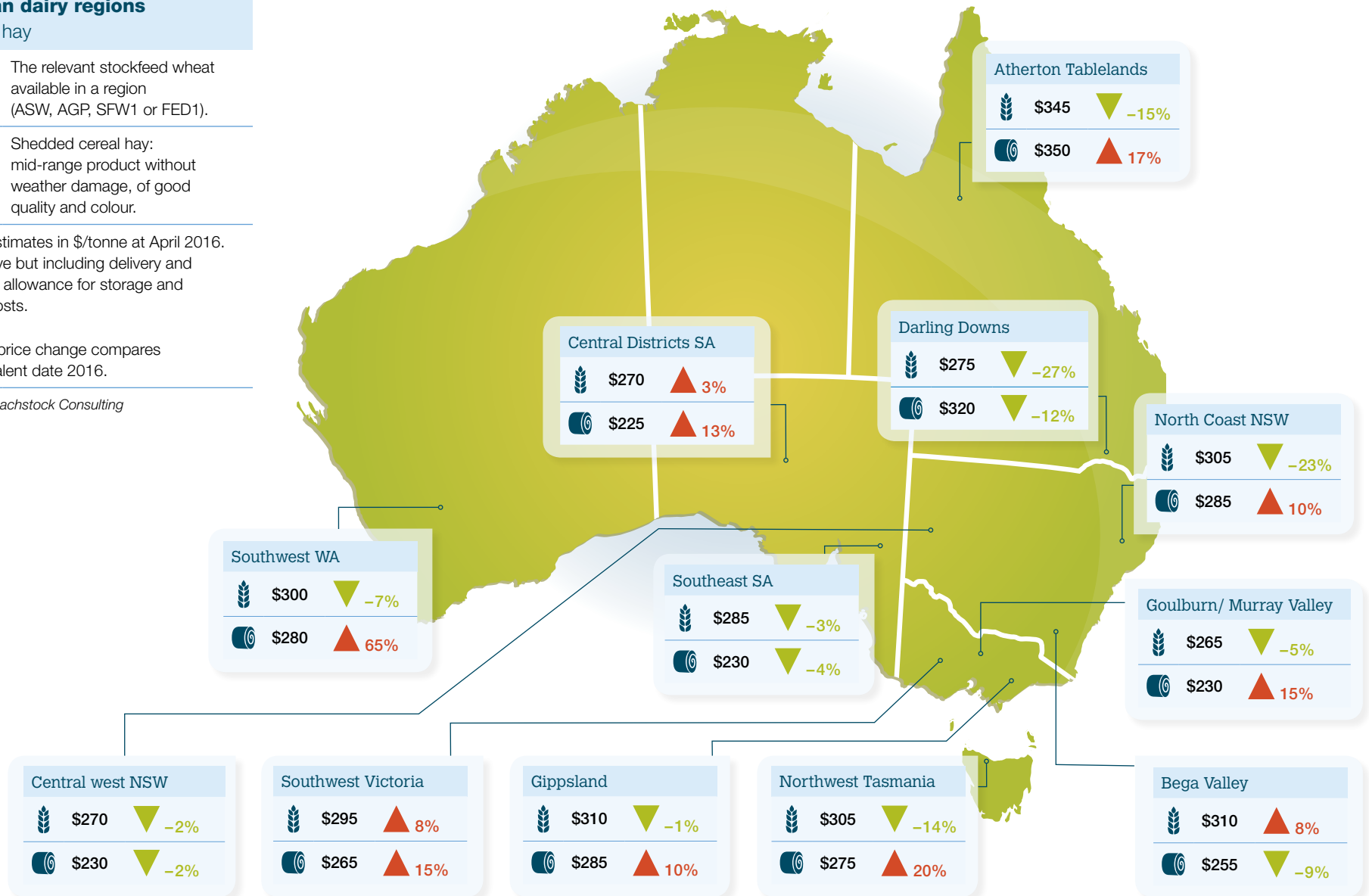


Shedded cereal hay: mid-range product without weather damage, of good quality and colour.

Prices are estimates in \$/tonne at April 2016. GST exclusive but including delivery and (for grain) an allowance for storage and marketing costs.

Percentage price change compares to the equivalent date 2016.

Source: AFIA, Lachstock Consulting



The Australian market

Australian market

The trends for supermarket sales of major dairy categories remain relatively unchanged from the February *Situation and Outlook* report. Dairy spreads continue to grow strongly, milk and cheese sales growth remains flat, whilst sales volumes and values for yoghurt and dairy snacks declined.

Total milk sales volumes remained steady, increasing by 0.4% over the twelve months to March, with growth in fresh milk sales accounting for the increase. Sales volumes for UHT product fell 0.1% (to a total of approximately 190 million litres), although category value declined disproportionately by 2.9%, as the average price of UHT fell by 2.7% to

approximately \$1.31/litre. Volumes of flavoured UHT milk continue to fall (-11.7%), while sales of 'white' (non-flavoured) milk rose 0.4% to 183 million litres. Growth in sales of fresh milk overtook that of UHT, increasing 0.5% in volume terms (to 1,139 million litres), with value declining -0.1% as the price per litre declined by -0.8%, to an average of \$1.54. In contrast to UHT product, sales of fresh flavoured milk continue to grow (+4.9%), while fresh white milk sales volumes remained flat at 1,025 million litres.

The consumer transition toward full cream options in both fresh milk and UHT categories has continued. Sales volumes of full cream fresh white milk have increased 5.1%, and modified milk decreased 8.8%, while sales of full cream and modified UHT milk rose 9.8% and fell 3.6%, respectively. Hence, full cream fresh white milk now represents 49.9% of total white milk sales (by volume), compared to 47.7% a year earlier. Full cream UHT white milk now represents 7.7% of total white milk sales, compared to 7.1% a year earlier.


Consumer preferences also seem to be evolving with regards to non-dairy milk alternatives. Overall sales volumes have continued to increase, growing by 3.3% over the last twelve months to March 2016, and increasing non-dairy products' overall share of milk sold by 0.2%. However, within non-dairy 'milks' there has been a marked transition

away from bulk-commodity based milks such as soy, rice, oats, which fell by 7.2%, 10% and 19.5% respectively, towards nut-derived alternatives such as coconut, almond and macadamia milks, which grew in volume terms by 174, 22.2 and 93%. Total value grew more rapidly, by 4.6%, as the average price for non-dairy milk increased by 1.3% to \$2.58 per litre, reflecting the increase in sales of higher-priced nut-based alternatives.

Branded milk continues to cede market share to supermarkets' own house brands in the fresh white milk category. Market share of company branded milk has fallen by 0.3% to 36.3% of all white fresh milk sales, and total sales volumes falling 4% in the last twelve months to 372 million litres. The average price per litre of branded milk fell by 1% to \$1.92, while the price of private label milk remained steady at \$1.01. This trend also carried over into the UHT white milk category, as sales of branded white UHT milk fell by 0.2%, while private label sales grew 1.4%. The average per litre price for branded and private label white UHT milk was \$1.38 and \$0.96.

Dairy spreads (butter and blends) grew 4.2% in volume and 5% in value in the twelve months to March 2016. Butter sales increased 6.4% by volume, although a 0.1% fall in average price (\$8.38 per kilo) caused total sales value to increase by less than this, at 5.4%. Sales of butter blends grew 1.6% by

Figure 5 Supermarket sales

 Milk	 Cheese	 Dairy spreads	 Yoghurts and snacks
Volume (m. litres) 1,329	Volume (kt) 138.6	Volume (kt) 46.5	Volume (kt) 204.4
Year-on-year growth +0.4%	Year-on-year growth +1.7%	Year-on-year growth +4.6%	Year-on-year growth -2.8%
Retail value (\$ m) 2,043	Retail value (\$ m) 2,118	Retail value (\$ m) 421	Retail value (\$ m) 1,424.6
Year-on-year growth -0.5%	Year-on-year growth +1.8%	Year-on-year growth +5.0%	Year-on-year growth -0.7%

Source: IRI

Note: Available data is taken from differing periods; milk and dairy spreads figures from MAT 06/03/2016; cheese, yoghurt and dairy snacks from MAT 03/01/2016.

volume, and 4.4% in total value, as the average price increased by 0.5% to \$9.83/kg. Butter increased its total share of dairy spreads sales by 0.3% to 53.6% at the expense of blended spreads. This continues a marked change in consumer preferences towards higher fat levels, as perceptions regarding the healthiness of dairy and the risks of fat content have altered. At the same time, sales of unsalted have outpaced those of salted butter, sales increasing by 9.8% and 6.7% respectively over the same twelve month period.

Cheese sales volumes increased by 1.7% for the twelve months to March 2016, with sales totalling 138.6 million kilos. Ongoing growth in block and ingredient cheese segments (up 2.8%, 1.7%) offset falls in sliced and smooth cream cheeses (down 1.5% and 4.7%), with specialty/entertaining and deli cheeses also performing well, growing by 17% and 4.3% respectively. The value of cheese sales grew by 1.8% in year-on-year terms, with strong growth in the value of deli and specialty cheese sales. These helped to offset price falls in the unit cost of block and ingredient cheese categories (down 0.8% and 2.8%), the largest two categories of cheese, as more heavily discounted bulk 1–1.5 kg pack sizes gained market share at the expense of smaller higher-margin 200–300 gram packs.

Yoghurt and dairy snack sales continued to decline, falling 2.8% over the twelve months to January 2016. Overall dairy yoghurt is down 2% year-on-year, however ongoing shifts in consumer preferences driven by health concerns mean that this growth is distributed unevenly; sweetened yoghurt has continued a steady decline, falling by 9%. This was partially offset by strong growth in natural and unsweetened varieties. Sweetened yoghurt has lost market share to traditional yoghurt, with the percentage shares of total snacks and yoghurt sales falling by 1.9% and rising by 3.9% respectively, to 28.3% and 39.5%. Consumer surveys suggest that perceptions regarding the health impacts of sugar are evolving, whilst at the same time consumers are re-evaluating the risks posed by traditional dairy fats, leading to a change from products advertised as 'lite' or reduced fat, which may have added sugar.

Total sales value for the yoghurt category decreased by 0.1%, as strong per-unit price increases (6.9%) partially offset a fall in total volume. As with volume, within the yoghurt category the key difference is between traditional as opposed to sweetened yoghurt, with the per-unit price of the two categories increasing by 22.4% and decreasing by 7.6% respectively, with total sales values changing by +10% and -10.2% respectively.

Infant formula

Infant formula continues to make headlines in the media, with ongoing reports of shortages, and a series of large partnerships and investments in the sector. Sales through supermarket channels increased in volume by 37.1% and 45.3% in value, as the product range diversified to include more high-value specialty ranges such as organic and lactose-free varieties. Parallel exports to Asian markets may account for part of this growth, as there is no evidence to suggest significant demographic or consumer preference changes over this period.

With an eye to foreign export markets, Bega Cheese, Fonterra Australia and Murray Goulburn have all announced partnerships with established nutritional companies to develop their infant formula businesses. Fonterra have purchased a strategic stake in Chinese infant formula company Beingmate, whilst Murray Goulburn has committed \$260–300 million for a new infant formula plant in Koroit, with a capacity of 45,000 tonnes a year.

Source: IRI

Note: Data for the period MAT 03/01/2016.

Infant formula

Volume (kt)

16

Year-on-year growth

+37.1%

Retail value (\$ m)

396

Year-on-year growth

+45.3%

Impacts of \$1.00 per litre supermarket milk

Five years on

On 26 January 2011 Coles supermarkets announced that it was making significant and permanent reductions to the retail price of its main private label lines of drinking milk. Other major supermarket competitors responded by making similar price cuts, although the majority indicated they believed the margins associated with the new price structure to be unsustainable.

Not only did the retailers drop the price of their private label full cream milks to \$1.00 per litre for 2-litre and 3-litre pack sizes, but they also 'line-priced' their modified white milks – reduced fat and no fat/skim milks – to the same level. Analysis at the time concluded that the overall retail value of drinking milk sales would decline substantially.

Total drinking milk consumption growth averaged 1.7% pa over the ten years to 2010, and it was assumed that there would be no extra growth overall in milk sales volumes, reflecting limited price elasticity of milk consumption.

In reality, volumes grew by 2.8% and 3.3% over the first two years, slowing thereafter to the population growth rate and slightly further over the last two years.

A 10% shift from route trade to supermarket sales channel was also assumed. By the end of 2015 however, the loss in share of the Route and Food service channel totalled 1.4% over the last five years.

The 4.7% increase in market share for supermarket private label milk over the last five years is substantially less than the assumed 10% shift from processor-branded to supermarket private label product. Average branded milk prices are now 3% (6 c/L) higher than five years ago (a 10% fall had been assumed).

The net result in value terms is shown in the tables opposite. The data suggests that over the five years to the end of 2015, the total milk market has increased by an estimated \$325 million in retail value to nearly \$4.6 billion.

Milk sales – Australia

Estimated retail sales value – \$ million

Year	Total market	Supermarkets	Route and F/S *
2010	\$4,260	\$1,940	\$2,320
2011	\$4,280	\$1,920	\$2,360
2012	\$4,434	\$1,996	\$2,437
2013	\$4,541	\$2,027	\$2,513
2014	\$4,540	\$2,054	\$2,486
2015	\$4,584	\$2,046	\$2,538

Actual change in retail sales value – \$ million

Year	Total market	Supermarkets	Route and F/S *
2010			
2011	\$21	-\$20	\$40
2012	\$153	\$76	\$77
2013	\$107	\$31	\$76
2014	-\$1	\$26	-\$27
2015	\$44	-\$7	\$52
5-year impact	+\$325	+\$107	+\$218

Route and Food service * – assumes route price is equal to the branded supermarket price

Economic settings

The Westpac – Melbourne Institute Consumer Sentiment Index fell by 4% in April to 95.1 from 99.1 in March, and down from 101.3 at the time of the last *Situation and Outlook* in February, indicating that pessimists outnumber optimists amongst consumers. Confidence is now below the level it was twelve months ago. Concerns about household finances led many respondents to indicate debt repayment as a priority, with perceptions of households' financial positions compared to twelve months prior deteriorating in consecutive months, by 8.2% and 3.8% in March and April respectively. This suggests a subdued outlook for households' spending in the near future.

Respondents' outlook for the next twelve months also deteriorated by 5.5%, with households less confident about economic growth. Unease about market volatility and negative media coverage of the property market and household debt levels appear to be weighing on consumer sentiment. The April result is the second consecutive decline in confidence, and the concern is that ongoing pessimism will be reflected in a reduced desire for expenditure on discretionary items such as eating out, or more 'indulgent' food items.

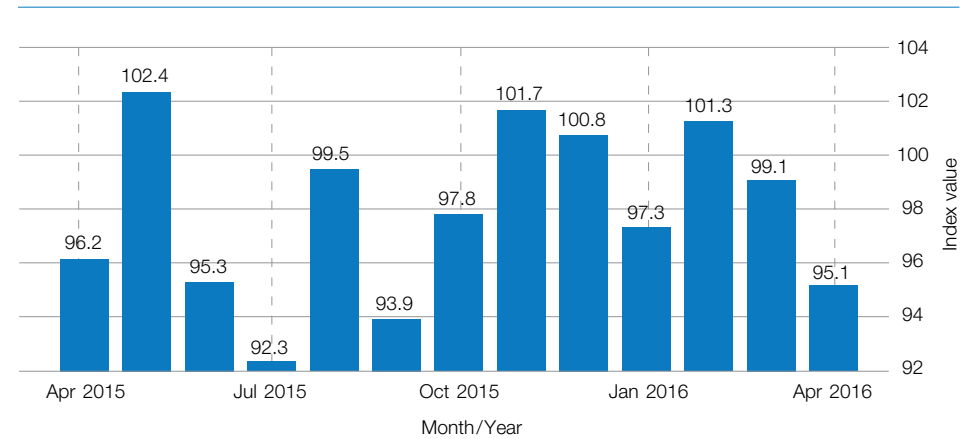
Consistent with subdued consumer sentiment, Dairy Australia's Food Service Index shows slowing growth in the food services sector. The index reflects year-on-year growth in turnover of the Food Service channel, which aggregates hospitality turnover from

takeaway food, cafes, restaurants and catering services. The Index shows that overall growth in food service spending has slowed markedly over the last six months, and noticeably in the takeaway food segment. Whilst supermarket sales have fallen, they have fallen less in proportion to other sectors and have maintained a higher rate of growth, suggesting consumers may be economising by preparing and consuming food at home.

Inflation has slowed in Australia, with headline inflation captured by the 'all groups' CPI falling 0.2% in the March quarter, compared to a 0.4% increase in the previous December quarter. Over the twelve months to the March quarter 2016 inflation rose 1.3%, down from the twelve month total to the December quarter of 1.7%. Automotive fuel (-10.0%), fruit (-11.1%) and international travel and accommodation represented the largest category price falls, while pharmaceutical products (+4.8%), secondary education (+4.6%) and medical and hospital services represented the largest increases.

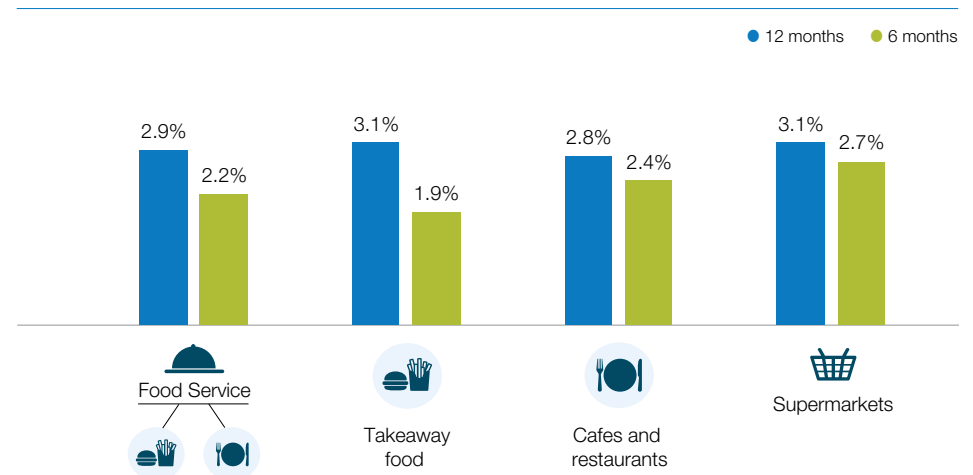
Within the 'all groups' CPI, food fell by 0.2% from December quarter 2015, but was unchanged over the past twelve months from March quarter 2015. Within the food component of the consumer basket of goods, the dairy category CPI fell 0.2%. Milk rose 0.1%, cheese fell 2.0%, and ice cream and other dairy products rose by 0.9%. The fall in inflation was unexpected by the market, and prompted a relaxation in monetary policy. In turn, this has had implications for Australian exchange rates, causing a depreciation in the AUD.

Figure 6 Australian consumer confidence



Source: www.tradingeconomics.com, Westpac Banking Corporation, Melbourne Institute

Figure 7 DA Food Service Index (YoY Turnover Growth to February 2016)



Source: Dairy Australia, ABS

Global economy and exchange rates

The latest update to the World Economic Outlook (WEO) from the International Monetary Fund (IMF) (April), projects global economic growth at 3.2% in 2016, a slight downward revision of its original 3.4% forecast in January. This revised forecast reflects ongoing macroeconomic developments such as a continued slow-down in Chinese growth, weakness in commodity prices, and declining capital and investment flows into developing and emerging markets (which accounted for the majority of global growth in 2015).

Subdued commodity prices, particularly for oil, have had a severe negative income effect, and led to a depressed outlook and reduced confidence

for many major exporters. This has prompted significant currency depreciations, reduced trading activity, and reduced consumption. At the same time, many emerging and developing countries face pressure to reduce fiscal outlays that could stimulate or stabilise aggregate demand, and have had difficulty in accessing external financing given increased financial volatility. Faced with deteriorating macroeconomic circumstances, many lower-income countries have seen capital outflows and a decline in international investment, which has weighed down the global economy.

Currencies of major dairy commodity exporters have remained fairly weak, improving their cost-competitiveness.

The Australian dollar averaged 0.77 AUD/USD during the March quarter of 2016 up from 0.73 in the December quarter 2015. Expectations of monetary tightening by the US Federal Reserve and rate cuts by the Reserve Bank of Australia have led exporters to anticipate a lower exchange rate going forward, with the median consensus forecast fluctuating around the 0.72–0.73 AUD/USD mark over the year to first quarter 2017. Forecasts for major dairy exporters New Zealand and the European Union also anticipate that both the NZD and Euro will depreciate further against the USD over the course of 2016, before stabilising in the first quarter of 2017.



Global supply and demand overview

Strong production growth continues to drive stock buildup and exports, though demand from importers is mixed.

United States

Lactose exports are up as cheese production for the domestic market booms; less NDM is expected in coming months as returns favour SMP.

Export volume trends

Total volume change:

▼ -5%

Significant product shifts

- ▲ Lactose (+10%)
- ▲ SMP/NDM (+6%)
- ▼ Cheese (-14%)
- ▼ Butter and blends (-69%)

Mexico

Demand for dairy imports in Mexico remains strong, driven by large increases in cheese and SMP.

Import volume trends

Total volume change:

▲ +18%

Significant market shifts

- ▲ European Union (+69%)
- ▲ New Zealand (+55%)
- ▲ South America (+8%)
- ▲ United States (+6%)

European Union

Booming milk production is being exported through all channels available, though the loss of the Russian market has depressed cheese volumes.

Export volume trends

Total volume change:

▲ +22%

Significant product shifts

- ▲ Butter and blends (+46%)
- ▲ Liquid milk (+39%)
- ▲ WMP (+18%)
- ▲ SMP (+14%)

Russia

Continued embargoes and marked depreciation of the Rouble have seen global exports fall for a second consecutive year.

Import volume trends

Total volume change:

▼ -61%

Significant market shifts

- ▼ European Union (-77%)
- ▼ Eastern Europe (-68%)
- ▼ New Zealand (-4%)
- ▼ South America (-32%)

Greater China

Low international prices and subdued local production saw strong growth in imports, particularly in liquid milk (+53%).

Import volume trends

Total volume change:

▲ +16%

Significant market shifts

- ▲ European Union (+60%)
- ▲ Australia (+21%)
- New Zealand (0%)
- ▼ North America (-13%)

South East Asia

Imports grew slightly, driven by strong growth in SMP and whey powder. Excess supply from Europe poses a challenge to Australian exporters.

Import volume trends

Total volume change:

▲ +4%

Significant market shifts

- ▲ European Union (+27%)
- ▲ New Zealand (+7%)
- ▲ Australia (+5%)
- ▼ North America (-7%)

Japan

Despite dairy imports being at the most affordable level in over five years, imports softened, with importers drawing down already sizeable stocks.

Import volume trends

Total volume change:

▼ -0.75%

Significant market shifts

- ▲ European Union (+12%)
- ▲ Australia (+9%)
- ▼ New Zealand (-4%)
- ▼ North America (-15%)

Australia

Cheese products are producing attractive returns, while SMP volumes are up due to strong cream cheese (for export) and butter (for domestic sale) production.

Export volume trends

Total volume change:

▲ +7%

Significant product shifts

- ▲ Cheese (+14%)
- ▲ SMP (+14%)
- ▼ WMP (-15%)
- ▼ Butter and blends (-32%)

Middle East

Imports are down slightly, following the accumulation of large stocks.

Import volume trends

Total volume change:

▼ -8%

Significant market shifts

- ▲ European Union (+17%)
- ▼ New Zealand (-5%)
- ▼ North Africa (-30%)
- ▼ North America (-40%)

New Zealand

Slower (though recovering) shipments to China have dented WMP volumes. Other product streams are offering higher returns.

Export volume trends

Total volume change:

▲ +6%

Significant product shifts

- ▲ Cheese (+21%)
- ▲ SMP (+7%)
- ▲ Butter and blends (+3%)
- WMP (0%)

Changes 12 months to February
Source: GTIS, Dairy Australia

 Four largest exporters

Global demand

Overview

Globally the volume of dairy products traded grew by 5.8% over the past twelve months, with a recovery in demand from Greater China accounting for much of this growth. Overall volumes to Southeast Asian countries continued to grow, with strong growth in milk powder categories, while exports volumes to the Middle East and Japan

have eased slightly. The value of global exports fell by 9%, with falls across all major markets.

Demand from Russia, previously the world's second largest single country dairy market, has collapsed following the embargo on western exporters. Mexico has since assumed this title, with strong growth in (mainly US) import volumes.

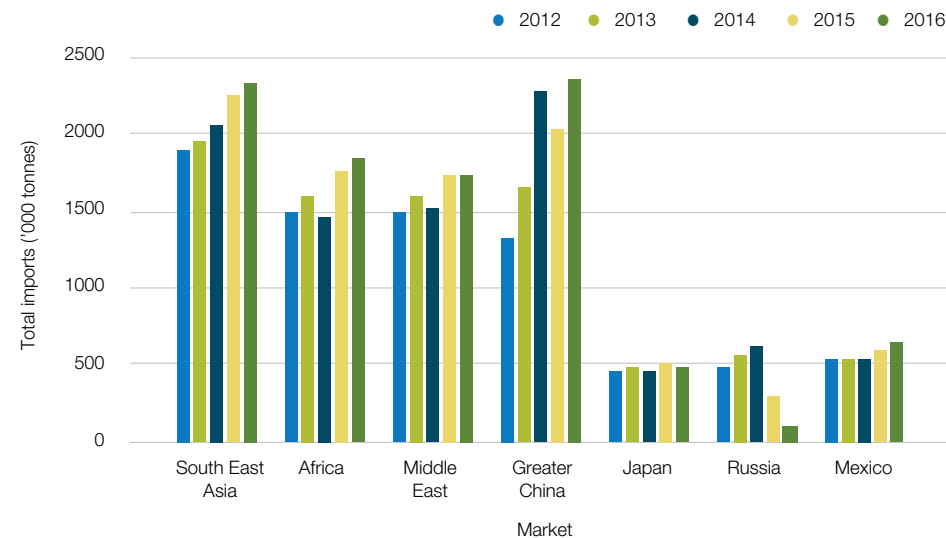
Greater China

Exports to Greater China (PRC, Macau and Hong Kong) grew by 16% in volume terms over the twelve months to February 2016. Demand for milk powder is mixed, with WMP down 15% year on year to 430,000 tonnes, whilst imports of SMP have increased by 7.5% to 248,000 tonnes. Sales of butter increased by 43% to over 73,000 tonnes, whilst liquid milk imports rose 53% (over 581,000 tonnes). Australian export volumes grew by 21%, while the value of Australian exports increased by 29% year-on-year, with strong growth in high value categories such as liquid milk and infant formula.

(-16%) saw the most significant volume falls. Overall cheese volumes saw no growth in the twelve months to February 2016 and total value declined by 18%, however Australia's cheese exports grew by 17% in volume and 12% in value to \$431 million. The total USD value of global exports to Japan fell 21% over the twelve month period, however the value of Australia's share increased by 4% over the same period.

Falls in global prices combined with a strong appreciation of the Yen has seen the affordability of dairy imports improve significantly for Japanese consumers over the last twelve months.

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



Source: Dairy Australia, GTIS

Higher production costs for Chinese dairy farmers, combined with low international prices for dairy commodities have constrained local production growth and led to a recovery in demand for dairy imports. Within China, the government has encouraged continued improvements in the national herd genetics through the import of live dairy cows (of which Australia is the largest supplier) and genetic material. Policies are also in place to promote consolidation and growth in larger-scale farms.

Southeast Asia

Overall growth in the Southeast Asian region slowed, with volumes increasing by 4% year-on-year, whilst the USD value fell 24%. Import volumes to Vietnam, Thailand and Indonesia grew by 14%, 8% and 4% respectively, whilst Malaysia, the Philippines and Singapore posted slight declines.

SMP export volumes to the region grew by 10% to 666,000 tonnes, driven mostly by strong growth from Vietnam (+34%). Volumes of butter and cheese both increased (7% and 4%, respectively), whilst total WMP volumes fell by 3%. The value of dairy exports to the region fell across all major categories, and overall USD value for the twelve months to February declined by 24%.

Japan

Global dairy exports to Japan fell by 1% in volume during the twelve months to February 2016. SMP (-20%) and Milk

Relative market shares by region have remained more-or-less constant, with New Zealand remaining the largest single exporter accounting for 30% of volume, and Australia maintaining a market share of around 11% in the region.

Mexico

Mexico saw strong growth in overall volumes of dairy imports up by 12% on last year, led by increases in SMP (+33%), butter (+29%) and cheese (+13%). The overall value of Mexican imports declined however, falling by 10%. The US maintained its market share of 79% of total product purchased. New Zealand increased its share to 9.5% of product, and the EU share remained steady at 7%. Major product shifts were in butter oil, cheese and SMP. Butter oil rose 72% (to 39,000 tonnes), while SMP grew by 32% to almost 295,000 tonnes, and cheese increased by 9% to approximately 114,000 tonnes.

Middle East

Export volumes to the Middle East eased slightly, down 1% on the same time last year, with falls in demand for SMP (-9.8%), butter (-4.5%) and cheese (-2.7%) to 174,000 tonnes, 137,000 and 325,000 tonnes respectively. This was only partially offset by increases in condensed milk (+8.6%), WMP

(3.0%) and infant formula (+13.5%) to 156,000, 332,000 and 102,000 tonnes respectively.

Following the removal of production quotas and substantial production increases, export volumes from the EU have increased by 17% over the last twelve months, increasing market share to almost 38%. This has come at the expense of other major exporters, displacing imported product from North America (-40%) and New Zealand (-5.7%). Australia's dairy export volumes to the region fell by 21%, and were down 33% in value terms over the same period. Australia's market share declined slightly over the same period, to 2.6% of product sold.

Russia

Embargoes remain in place on dairy imports from United States, European Union, Australia, Canada and Norway – although exceptions have periodically been made.

The ban on key suppliers saw Russian dairy imports fall precipitously, from 629,000 tonnes in 2014 to 118,000 tonnes in 2016. Russia has turned to smaller dairy producers such as Argentina, China and Switzerland for supplies, while the combined EU still accounts for the majority of Russia's imports. In spite of depressed global prices for dairy commodities, marked

depreciation of the Rouble has meant that dairy imports are less affordable for Russian consumers, with declines

in import volumes even from countries unaffected by sanctions.

Iran

The successful conclusion of negotiations and the lifting of nuclear-related sanctions on Iran has been greeted as a welcome piece of news by major dairy exporters. Iran is a large, middle income country, with population of approximately 80 million. Importantly, it has a well-established tradition of dairy, which comprises about 40% of average Iranians' daily protein intake. Cheese, yoghurt and sour milk products are all popular traditional products amongst consumers. With the opening up of the Iranian market, and expectations that the economy will grow strongly with the removal of sanctions, hopes are high that Iran will mature into a large, high-value market for dairy exports.

Until relatively recently, Iran was a sizeable dairy importer, particularly of butter and SMP, and there is some existing foreign presence.

Perhaps the most significant is New Zealand, which has had an average market share of around 55% over the last 15 years by volume, 90% of which was exports of butter.

However, optimism must be tempered with a realistic appraisal about the challenges of doing business with Iran. These include remaining US financial sanctions (making banks wary about the country), a still-fickle regulatory and tax environment for foreign companies, and restrictive trade policy. Oil revenues, which comprise approximately 80% of Iran's export revenue, are also depressed due to low global prices, meaning affordability may be an issue for many of Iran's consumers.

Iran presents a potentially exciting opportunity for dairy exporters; but it remains unclear whether, and just how quickly this market can deliver on the high hopes of some.

Dairy affordability

Dairy Australia's affordability index continued to fall from its reported level in the February *Situation and Outlook*, with the SMP price index easing a further 5.1% to 83.1 from 87.6. This marks a fall in value of 8% on its value of 89.9 in June last year, and is the lowest the USD benchmark has been since February 2009. However, subdued commodity prices have been partially offset by a general appreciation of the USD against most major currencies over the past twelve months from June 2015, which has served to make imports denominated in USD more expensive.

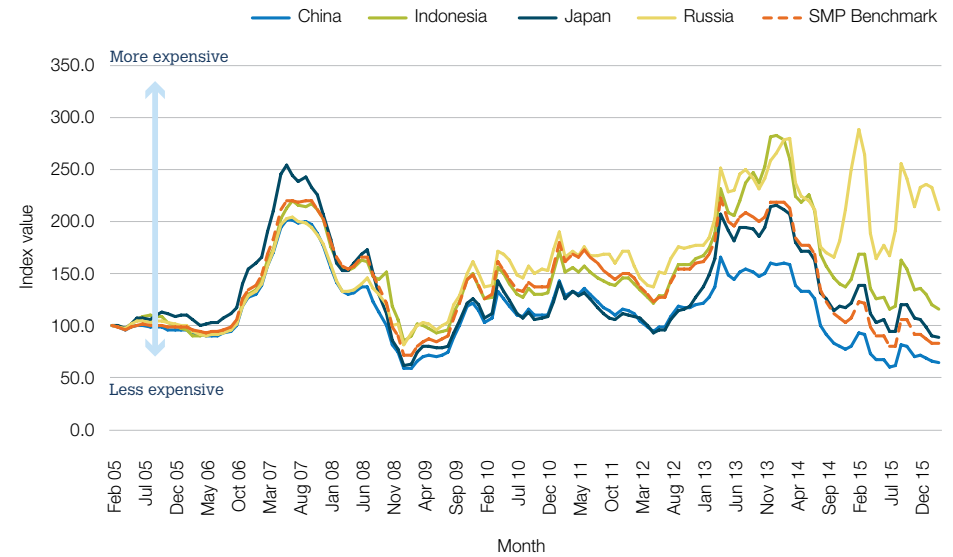
Consequently, improvements in the affordability of dairy over the past twelve months for major importers have been less than SMP prices would suggest, with individual country affordability indices down by just 2% on average from the same time last year, and some importers such as Mexico and

Malaysia seeing affordability worsen slightly. Nevertheless, affordability is still significantly better than the three-year affordability index averages for all importers.

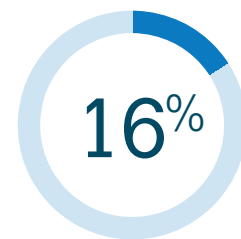
A standout case is Japan, where strong appreciation of the Yen against the USD since November 2015 (by approximately 35%) has reduced the cost of dairy imports by 16% since June last year, making them the most affordable they have been since late 2009.

Despite recent speculation that Russia may relax its embargo on dairy imports from a number of major producers, a significant re-emergence of Russian import demand for dairy remains unlikely. Prior to sanctions, Russia was the second largest single country import market for dairy; however the subsequent significant depreciation of the Rouble has meant that dairy import affordability has deteriorated. Russian buying would thus likely remain subdued, even in the absence of trade restrictions.

Figure 9 Dairy affordability



Source: Dairy Australia, Bloomberg



Improvement in affordability in Japan due to strong appreciation of the Yen

Since June 2015

Dairy substitutes

Premiums for dairy fats and proteins have continued to weaken since the last *Situation and Outlook* report in February, falling a further 7.5% to \$3.13/kg for butterfat and down by 5.3% to \$4.46/kg for dairy proteins, relative to palm oil and soy meal substitutes. This represents a marked deterioration for protein premiums, which are 32.7% below the level of the same time twelve months ago. Butterfat premiums are down by 21.5% on the same time last year, and 7.3% lower than the twelve month average.

This reflects supply side fundamentals and ongoing weakness in global demand for dairy products. Fat and protein substitutes such as palm oil and soybean meal can be blended into processed food to reduce cost,

with demand from manufacturers changing with relative prices of dairy and dairy substitutes. Consecutive record soybean crops in 2014, 2015 and projected increases again in 2016 for South America and USA, on the back of large existing stocks suggest a looming oversupply. This has exerted strong downward pressure on soymeal markets, and with SMP spot prices approaching a floor, may see price differences widen as soymeal prices continue to fall. Whilst dairy fat premiums are also down, drier El Niño conditions in Malaysia and Indonesia have reduced kernel yields for palm oil crops, leading palm oil prices to rise in February. Adverse weather events may yet lead to further downward crop revisions, with the higher palm oil substitute prices narrowing the dairy premium.

Premiums for dairy fats and proteins have continued to weaken since the last *Situation and Outlook* report in February, relative to palm oil and soy meal substitutes.

Figure 10 Dairy price premium vs palm/soy substitutes



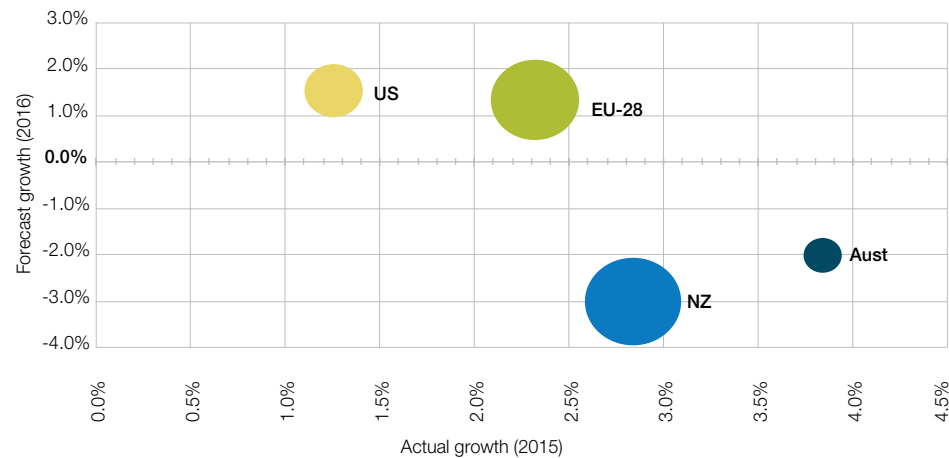
Source: Dairy Australia, Oil World

Global supply

Overview

A better than expected summer has supported milk production in New Zealand, while difficult conditions have slowed intakes in Australia. The European Union continues to produce significant growth, while US farmers have seen margins cushioned by cheap feed grain prices.

Figure 11 Actual and forecast milk production growth – four largest exporters

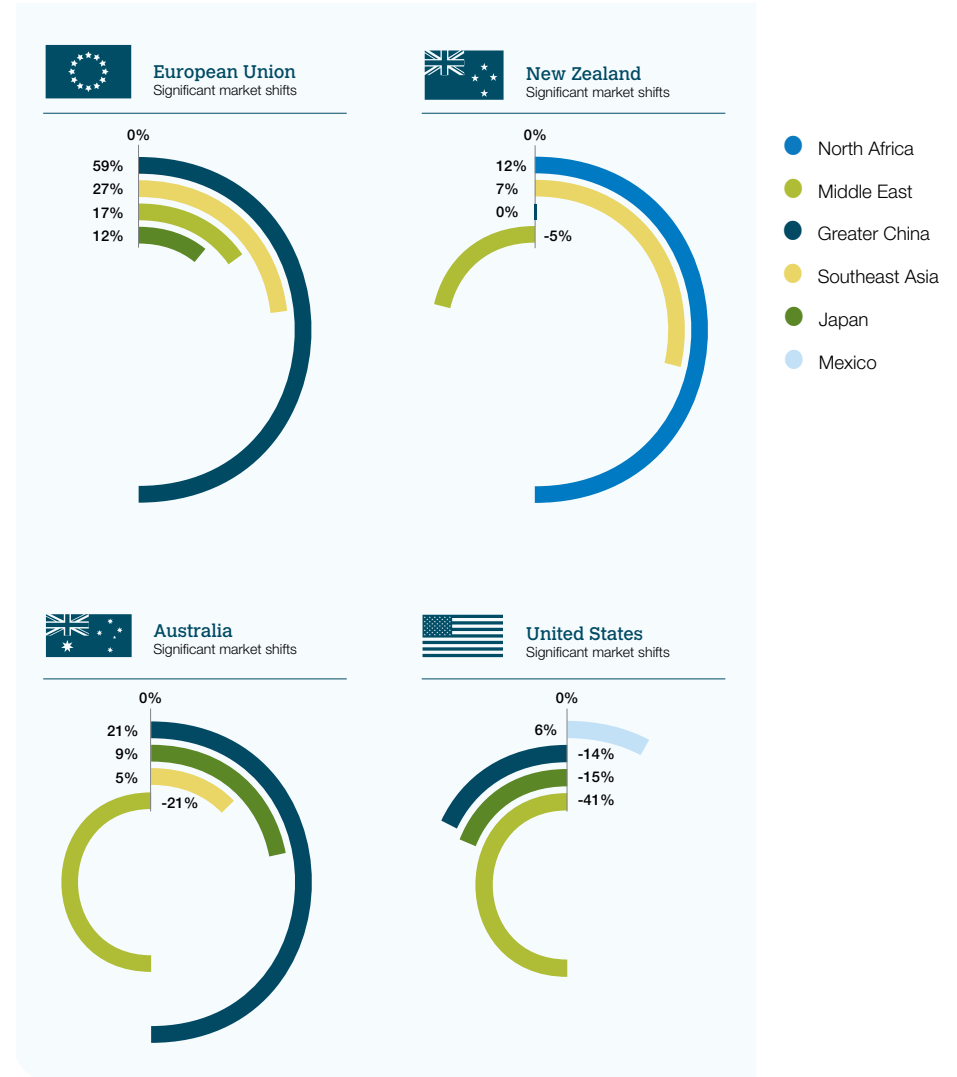


Note: Size of bubble represents share of global dairy exports. Data covers production seasons for Aust and NZ, calendar years for US and EU.

Figure 12 Farmgate price movements – four largest exporters

Change in indicative farmgate price	NZ	EU-28	US	Australia
Compared to last report (Feb 2016)	▼ -6%	■ 0%	■ 0%	▼ -4%
Compared to prior year (Jun 2015)	▼ -26%	▲ 3%	▼ -7%	▼ -8%

Figure 13 Market trends – four largest exporters



Source: GTIS, Dairy Australia

European Union

European milk production finished calendar 2015 up 5% compared to 2014, reflecting an extra 3.2 billion litres of production across the 28 member states. Favourable weather conditions and low grain prices have augmented the boost to milk production following removal of quotas in 2015, whilst the closure of the Russian market and a weak Euro have amplified the European presence on international markets.

January 2016 data shows a further 5% growth for the month, and while some member states are beginning to see production slow, there have been some large increases reported for February as well. In leap-year-adjusted terms, the Netherlands (Europe's third largest producer) saw an 18% increase in milk deliveries, whilst Ireland's output grew a massive 32%. France and the UK have seen production begin to track below comparable 2015 levels since February and March respectively, but in general, the current surge is expected to last through the northern hemisphere spring.

The European Commission has responded to pressure from the farm sector by announcing a package of additional support measures, including a doubling of the ceiling for intervention purchases of SMP and butter. Having filled the existing limit of 109,000 tonnes for SMP, the scheme reverted to purchases via tender for a

short time until implementation of the additional 109,000 tonnes. This has now occurred, supporting the €1,698/t (US\$1,900/t) floor. Growth in European milk production is expected to moderate further as the year progresses, with the European Commission forecasting a full year total of 1.3% above 2015.

United States

Milk production growth in the United States has persisted despite the national dairy herd tracking at similar levels to the same time in 2015. Increases in per-cow milk production have been helped by persistently low feed prices, and local analysts predict further gains as higher quality feed becomes available later in the year.

Although milk prices continue to ease, concurrent falls in feed costs have kept average margins for milk production positive. February marked the 28th consecutive month that the USDA's calculated margin remained in 'expansionary' territory (measured in terms of return over feed cost, relative to a benchmark).

Despite growing production, the US hasn't had the same impact on global markets as Europe over the past year. A strong domestic market has absorbed the extra milk produced, keeping overall US export shipments in line with the same time last year. The exception has been nonfat dry milk (NDM), which has

seen strong volume growth, albeit at a lower total value due to aggressive pricing. More recently, manufacturers have responded to falling NDM values by shifting production in favour of SMP, which is likely to herald a renewed focus on markets in southeast Asia. Cheese production in the US is likely to remain high, with milk output strongest in the cheese-focused Midwest states (such as Wisconsin). Cheese stocks are well above average, and it appears that demand may no longer be keeping up. Butter production is also surging (+5.8%), due to high prices, and imports are also well up, while demand (measured by commercial disappearance) has eased – despite some major food service establishments switching from margarine to butter.

With the milking herd forecast to remain around current levels (9.3 million head) in the near term, the USDA predicts milk production will increase 1.5% for the full year, to exceed 96 billion litres.

New Zealand

A declining farmgate milk price outlook has squeezed the margins of New Zealand's dairy farmers for the second consecutive season. Fonterra's current farmgate price forecast of NZ\$3.90/kg MS (A\$3.86/kg MS) is the lowest since 2006/07. Combined with a forecast dividend of NZ\$0.40 per share, its total payout for a fully shared-up farmer falls

in the NZ\$4.00 – \$5.00/kg range most kiwi processors are offering. Fonterra has also announced special measures including interest free loans and early dividend payments to help farmers deal with severe cash flow pressure.

Seasonal conditions have provided some reprieve, with timely rainfall and warm temperatures maintaining good pasture cover in many regions – aided by lower stocking rates on those farms that culled early and heavily. Lower demand and a shortage of storage for supplementary feeds such as feed grains, palm kernel and maize silage are contributing to sharp price reductions for these products, benefiting those farmers who continue to use them. Extra pasture availability and cheaper feed have moderated the impact of tight cash flow on milk volumes, with intakes down 2.1% for the New Zealand (June – May) 2015/16 season to March. The month of March itself saw only a small decrease compared to March 2015, and overall the season total is expected to be around 3% lower than 2014/15, at around 21 billion litres. This is somewhat less than the 5–10% fall some commentators had predicted earlier in the season.

Australia

Australian milk production has continued to track below prior-year levels since early spring, with most

regions experiencing difficult seasonal conditions in addition to challenging margins. March data shows a 1.1% drop over the season to date, with intakes for the month itself down 4.6% compared to the same time last year. A late autumn break, persistently high feed costs, and other issues such as pasture pests and herd health problems have also contributed.

Tasmania saw milk production hit by a hot, dry season that has caused ongoing tightness in feed supplies, despite good rainfall in February. Production rebounded in March however, up 4.1%. Many parts of Victoria have experienced similarly dry conditions, with water and fodder availability and pricing amongst the key issues facing farmers. Temporary irrigation water prices reaching post-drought highs, impacting cash flow and milk production in northern Victoria, whilst rainfall deficits have necessitated additional fodder purchases in the state's west and into South Australia.

Western Victoria has seen the most dramatic year-on-year declines in milk production (12.1% for March) for the state over recent months, though Gippsland is currently furthest (3%) below the prior season in year-to-date terms. Seasonal conditions in Gippsland have been widely varied, with south Gippsland and parts of

West Gippsland severely impacted by dry conditions. Northern states have had a better season, with coastal parts of NSW enjoying good rainfall; Queensland has avoided both flooding and cyclones. Western Australia has continued to produce standout growth in milk volumes (up 6.9% for the season to March), despite several farms being severely impacted by fires in January, and some processors reducing intakes.

Latin America

After a slow start to 2015, Argentinean milk production finished the year up 1.6% compared to 2014. Reports from local contacts suggest the situation has deteriorated in early 2016, with low farmgate milk prices and pressure on feed costs squeezing margins. In particular, relaxation of export taxes and a depreciating currency have increased corn and soybeans prices, and debt burdens are reducing the ability of many farmers to absorb margin losses. Excessive rain in two major production regions (Santa Fe and Córdoba) in April has compounded these issues, with a drop of as much as 15% forecast. Severe flooding is also likely to affect milk production in Uruguay, which had already trended downwards in YOY terms since July 2015, and finishing the year 2% below the 2014 total. Following further deterioration, milk intakes were

down 11% for 2016 to February. The Uruguayan industry is also awaiting full payment from Venezuela for dairy

product supplied under a July 2015 deal aimed at easing food shortages in the latter country.

Australian milk production forecast

For the remainder of the current season, risks are weighted towards the lower end of the -1% to -2% range forecast in the February *Situation and Outlook* report.

While trends in northern states and Western Australia are likely to persist to the end of the season, the outcome is far less predictable in southern regions. Following the material cuts to May and June milk prices for many farmers, there is significant potential for a sharp drop in production, as farmers cull and/or dry off cows early in response.

In southern regions, milk production is expected to fall further in 2016/17. The recent farmgate price cuts have intensified margin pressure and dampened opening price expectations; confidence has suffered as a consequence, and on-farm investment is likely to slow substantially. Northern Victoria is of particular concern, given the confluence of income (milk price) and cost (particularly

water) issues, together with a large proportion of highly geared businesses. For western Victoria and Gippsland, a La Niña-driven boost to rainfall could help reduce the effects of tighter margins. A recovery to modest growth in Tasmania is expected, while Western Australia's rapid growth is forecast to moderate. The northern states are likely to be mixed (with a small increase in NSW, and small decrease in Queensland), but growth is largely dependent on the timing of any adjustment in farmgate prices to reflect lower southern values.

Dairy Australia's 2015/16 season milk production forecast remains for a total between 9.55 and 9.65 billion litres; a contraction of between 1 and 2% compared to 2014/15. The initial forecast for 2016/17 is for a further 1–2% fall in production, to between 9.45 and 9.55 billion litres.

Corporate sector update

The pace of new investment announcements slowed during a tumultuous first half of the 2016 calendar year, though the corporate sector has been far from quiet.

Whilst its recent trading update and shock farmgate price reduction have captured headlines, Murray Goulburn (MG) has made a number of other announcements over the past few months. Two of these were major agreements with existing customers, concerning the \$260–\$300 million in previously flagged investment in nutritional powders capacity at MG's Koroit site.

MG announced a 'framework agreement to establish a strategic supply alliance' with global paediatric nutrition company Mead Johnson Nutritionals (MJN), and a supply agreement with Kalbe Nutritionals, Indonesia's leading nutritionals company in March. The two agreements allow MG to proceed with the Koroit investment, for which plans are currently being refined. The most recent (March) guidance suggests two 45,000 tonne per annum dryers are ultimately planned, with the first slated to be operational in early 2019.

Subsequently, in April, MG announced an agreement to divest its 25% holding in food testing business Dairy Technical Services (DTS). DTS was formed in 1954 as an independent analytical services provider, and is part-owned by Fonterra and Warrnambool Cheese and Butter, both of whom are also divesting their stakes. New Zealand state-owned enterpriseASUREQuality, itself a testing service provider, owns a 25% share, and will buy out the three processors as part of a consortium that also includes the Singapore arm of Belgian testing company Bureau Veritas. Full details of the sale value weren't released, but MG advised its share would generate a one-off profit of \$18 million after tax, whilst Warrnambool Cheese and Butter booked \$8.4 million for its 13.32% holding.

Burra Foods has also announced significant changes recently, with China-based Inner Mongolia Fuyuan Farming Co Ltd (Fuyuan), taking a majority shareholding in the South Gippsland processor, subject to Foreign Investment Review Board (FIRB) approval. Fuyuan's biggest shareholder is Mengniu, one of China's largest dairy companies, and its interest in Burra is touted as offering 'unparalleled access

to the world's largest and fastest growing dairy market in addition to improved access to capital that will fund expansion projects.'

Further development at the company's Korumburra site has been flagged, aided by state government plans to improve water supply to the town. Existing shareholders including Burra Foods' founder, Grant Crothers and Japanese dairy distributor Itochu, will maintain a combined 21% interest in the company with Mr Crothers remaining CEO. Both Burra Foods and Fuyuan will provide directors for a new board once FIRB approval is granted and the sale is completed.

Australian Consolidated Milk (ACM) has announced plans to expand production of organic liquid milk and is seeking new suppliers. ACM indicated that a significant premium would be offered, and a willingness to cover the costs of organic certification. In further developments, Pactum Dairy Group which is part-owned by ACM, has announced an agreement reached with International Dairy Products to supply the Vietnamese company with UHT from its plant in Shepparton.

Camperdown Dairy International has also concluded a supply arrangement with a Vietnamese company, in this case KLF Global, to export infant formula to Vietnam. Camperdown has developed a special line of formula branded Green Meadow, with plans to export around 500,000 tins a year.

In what it has branded a significant first, Fonterra Australia has launched the first available Extended Shelf Life milk product in Australia to use microfiltration technology. The Anchor brand milk makes use of permeable membranes to reduce the levels of bacteria and micro-organisms in the milk, which does not otherwise affect taste. This allows for a shelf life of around 23 days, without the need for higher heat treatment which may produce a 'cooked' taste. While ESL microfiltered milk has been available in Europe and the US for some time, this marks the first time an Australian manufacturer has adopted the technology. The milk will be processed at Fonterra's Cobden plant.

Other local product launches included the Blackmores-branded infant formula produced via a joint venture with Bega Cheese, whilst MG's Devondale NatraStart infant formula was launched in China.

Policy updates

Under the ‘effects test’, it would no longer be necessary to prove a business with market power acted with the ‘purpose’ of substantially lessening competition.

Food Standards Australia New Zealand Infant Formula Review

The regulation of infant formula is currently under review by Food Standards Australia New Zealand and is open for consultation. This standard affects dairy derived infant formula ingredients. For example the use, development, marketing and trade of both dairy commodity and innovative, high value specialised dairy ingredients. The inputs to this consultation will also be used to help inform the assessment process for the regulatory impact, including a cost benefit analysis of proposed regulatory options for the infant formula standard.

Authorities recognise, that though breastfeeding is the recommended way to feed a baby, a safe and nutritious substitute for breastmilk is needed for babies that cannot be or are not breast fed. For infants up to 6 months of age breast milk and or formula is generally the sole source of nutrition. Subsequently it is critical that standards that apply reflect the most current evidence in terms of meeting infant nutrition needs and delivering health outcomes.

The purpose of the consultation proposal is to revise and clarify the

standard whilst considering the following objectives:

- › The health and safety of infants is protected.
- › There is consistency with advances in scientific knowledge.
- › Industry innovation and trade is not hindered.

Dairy Australia is providing technical guidance and coordinating the dairy industry submission with the view to guide the review towards a standard that is consistent with the following principles: evidence-based, proportionate to risk, benefits can be realised proportionate to cost, and supports competition and trade – particularly with our major markets.

‘Effects test’ for Section 46 of the Competition and Consumer Act

The Australian Government announced in mid-May that it will introduce legislation later in the year to implement the Harper Review’s recommendation to amend Section 46 of the *Competition and Consumer Act* – regarding the misuse of market power provision.

The new provision would be aimed at preventing firms with substantial market power from engaging in conduct that

has the purpose, effect or likely effect of substantially lessening competition.

Under the proposal, it would no longer be necessary to prove a business with market power acted with the ‘purpose’ of substantially lessening competition – only that it engaged in behaviour ‘likely to have the effect’ of substantially lessening competition – thereby theoretically reducing the burden of proof to make it easier for small business to prove that a large competitor has misused its market power.

There is a view among agricultural and small business stakeholders that an effects test will protect them against misuse of market power and anti-competitive behaviour – by addressing ‘a longstanding weakness in the existing competition rules’ and will ensure that there is a more transparent and competitive marketplace that treats all supply chain participants fairly.

This change has been strongly advocated for by both Australian Dairy Farmers (ADF) and the Queensland Dairyfarmers Organisation (QDO); arguing that it will strengthen competition and give the ACCC stronger powers to pursue practices that undermine competition.

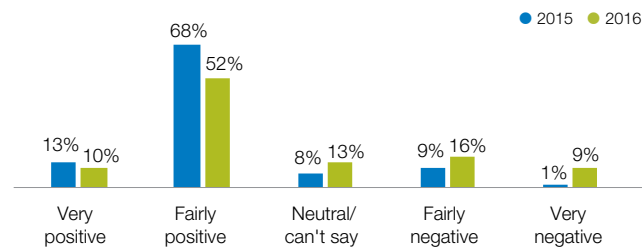
Regional NDFS results at a glance – Murray Dairy

Summary

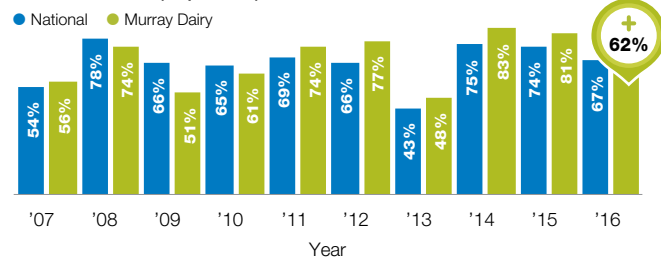
- Confidence levels in Murray Dairy have fallen significantly over the past year; mainly due to concerns over future farmgate milk prices compared to cost of production – with access to irrigation water also a significant concern.
- Although profitability was widespread last financial year, it is expected to be less so this year. Investment on-farm is likely to be impacted as a result.
- While milking herd sizes on most respondent farms have remained the same or grown, some have de-stocked in response to the challenges being faced.
- The average amount of grain fed per cow per year has decreased significantly, impacting overall production.

Sentiment

Current sentiment



Sentiment trend (% positive)



Positive drivers

- Demand will continue (29%)
- Improved farm gate milk price/price OK (13%)
- Greater export demand (11%)

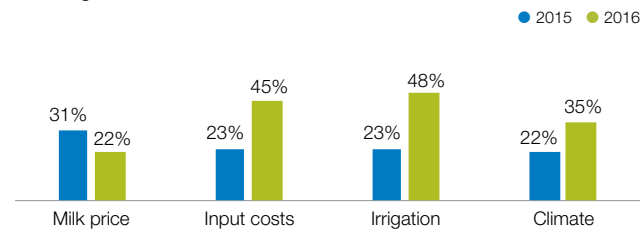
Negative drivers

- Farm gate milk price too low (22%)
- Increasing cost of production (16%)

Profitability and investment

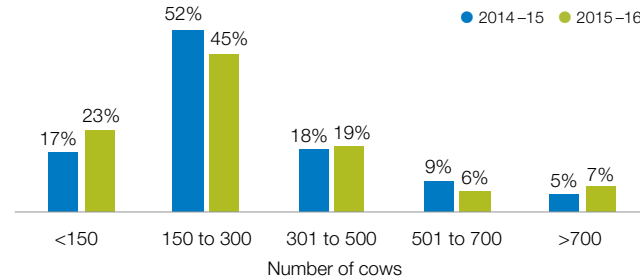
79% Made profit 2014–15	62% Invested on farm 2014–15
58% Expect profit 2015–16	47% Intend to invest 2015–16
12% Profit higher than 5 year average	31% Invest in irrigation plant
16% Profit about same	19% Invest in machinery
71% Profit lower than 5 year average	16% Invest in fencing
	14% Invest in tracks/laneways/yards

Challenges next 6 months

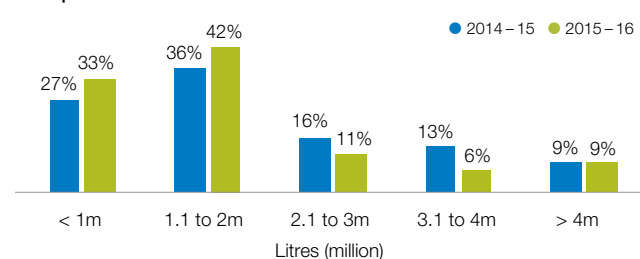


Current herd size and production

Herd size

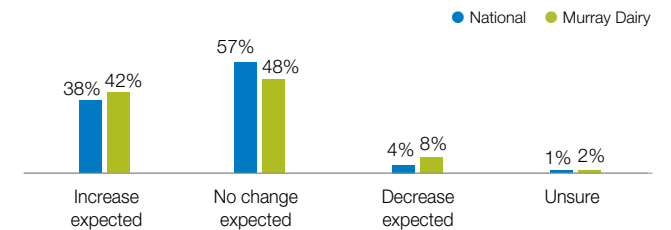


Herd production

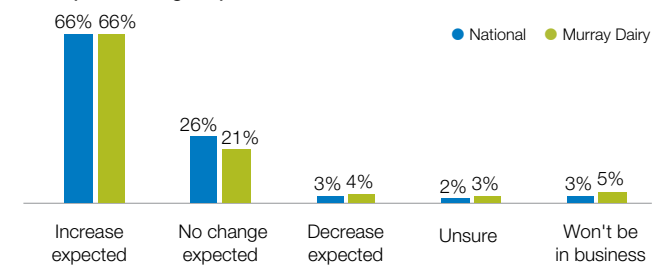


Forecast herd size and production

Anticipated change in herd size 2016–17 vs 2015–16

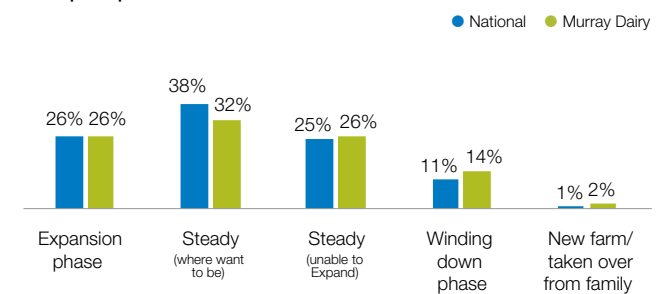


Anticipated change in production 2018–19 vs 2015–16



Regional profile

Enterprise phase



The 'average' Murray Dairy farmer:



- 91%** No change/intention to change company supplied
- 65%** Feeds moderate to high level of concentrates
- 47%** Made changes to feedbase last year
- 63%** Made changes in past year to deal with challenges
- 1.5t (tonnes)** Average grain fed per cow per year
- 48%** Has a written annual farm budget

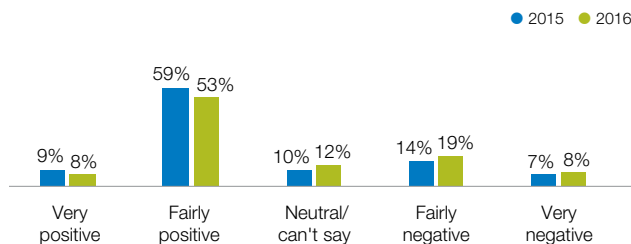
Regional NDFS results at a glance – WestVic Dairy

Summary

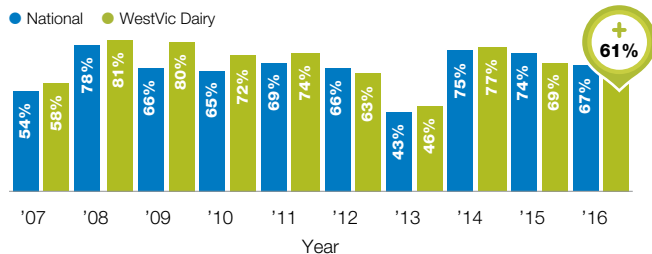
- Confidence in the future of the industry has eased again in WestVic; with more widespread concern over future farmgate milk prices and the effects of climate.
- Although a large majority of WestVic respondents made an operating profit last financial year, a significantly smaller proportion anticipate doing so this year. The impact on plans to invest on-farm is considerable.
- Despite growing concerns over profitability, there has been little change in the proportion of farms having a written farm budget or comparing financial performance with others.

Sentiment

Current sentiment



Sentiment trend (% positive)



Positive drivers

- Demand will continue (22%)
- Improved farm gate milk price/price OK (11%)
- Greater export demand (11%)

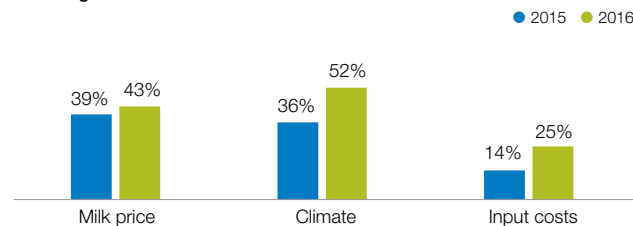
Negative drivers

- Milk price too low (31%)
- Increasing cost of production (10%)

Profitability and investment

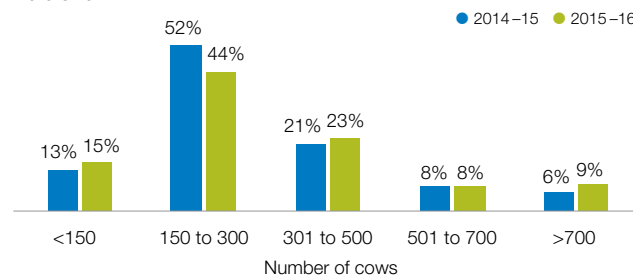
78% Made profit 2014–15	52% Invested on farm 2014–15
52% Expect profit 2015–16	39% Intend to invest 2015–16
8% Profit higher than 5 year average	17% Invest in tracks/laneways/yards
24% Profit about same	14% Invest in dairy plant
66% Profit lower than 5 year average	14% Invest in machinery
	13% Invest in fencing

Challenges next 6 months

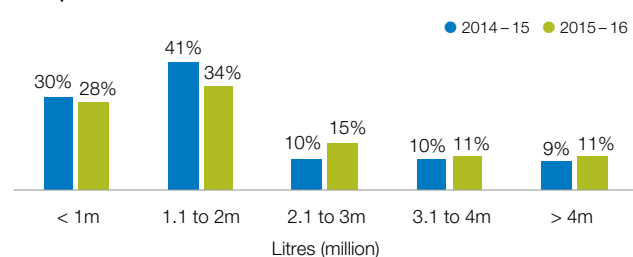


Current herd size and production

Herd size

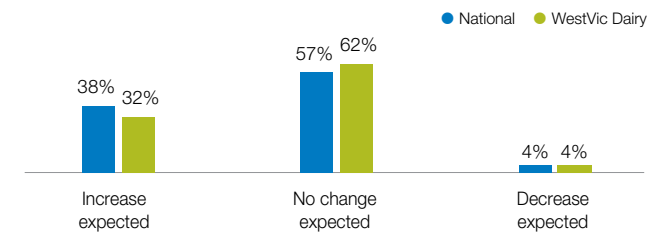


Herd production

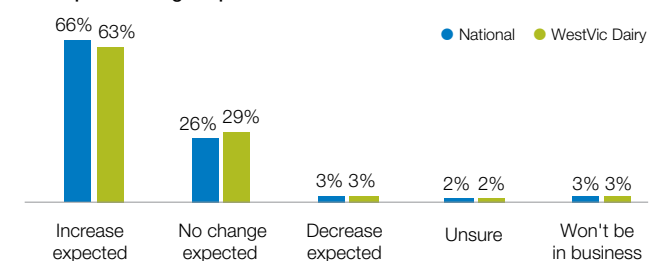


Forecast herd size and production

Anticipated change in herd size 2016–17 vs 2015–16

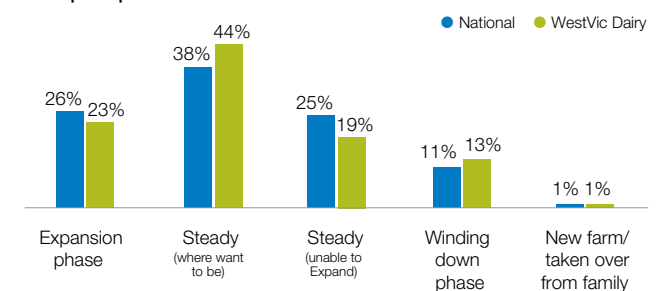


Anticipated change in production 2018–19 vs 2015–16



Regional profile

Enterprise phase



The 'average' WestVic Dairy farmer:



- 92%** No change/intention to change company supplied
- 70%** Feeds moderate to high level of concentrates
- 43%** Made changes to feedbase last year
- 54%** Made changes in past year to deal with challenges
- 1.6t (tonnes)** Average grain fed per cow per year
- 47%** Has a written annual farm budget

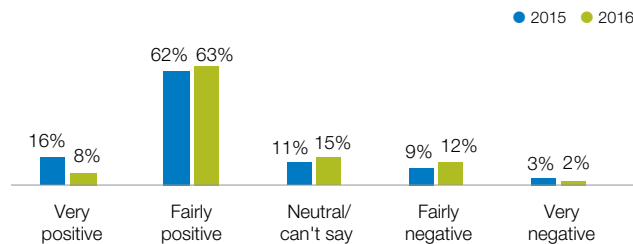
Regional NDFS results at a glance – GippsDairy

Summary

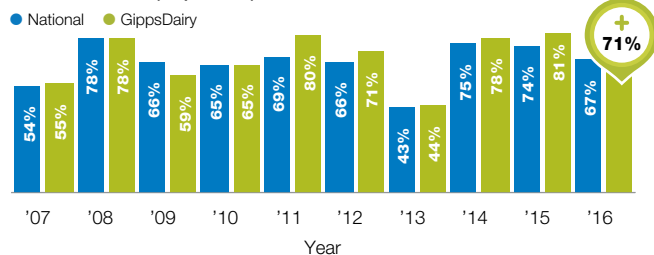
- › Sentiment about the future of the industry has fallen in the GippsDairy region over the past year, with a significant drop in the proportion very positive. This is mainly due to farmgate milk price, but climate issues are also expected to become more challenging in the future.
- › While profitability was widespread in the 2014/15 financial year, it is likely to be less so this year, resulting in potentially less than half of Gippsland dairy farmers investing on-farm over the next twelve months.
- › Survey respondent herds and production have continued to grow, now representing one quarter of the nation's cows and milk.

Sentiment

Current sentiment



Sentiment trend (% positive)



Positive drivers

- Demand will continue (29%)
- Improved farm gate milk price/price OK (10%)

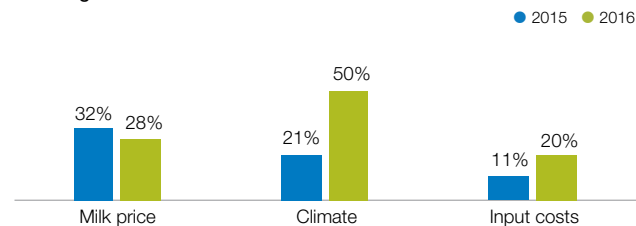
Negative drivers

- Farm gate milk price too low (24%)

Profitability and investment

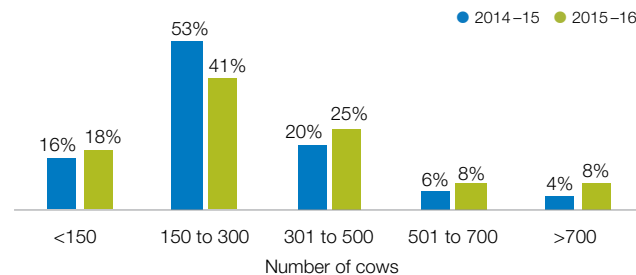
82% Made profit 2014–15	58% Invested on farm 2014–15
65% Expect profit 2015–16	49% Intend to invest 2015–16
15% Profit higher than 5 year average	21% Invest in tracks/laneways/yards
25% Profit about same	18% Invest in fencing
58% Profit lower than 5 year average	15% Invest in irrigation plant
	14% Invest in machinery

Challenges next 6 months

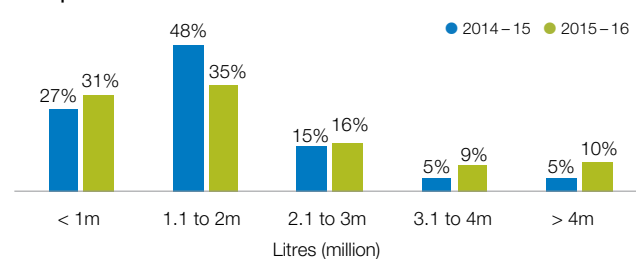


Current herd size and production

Herd size

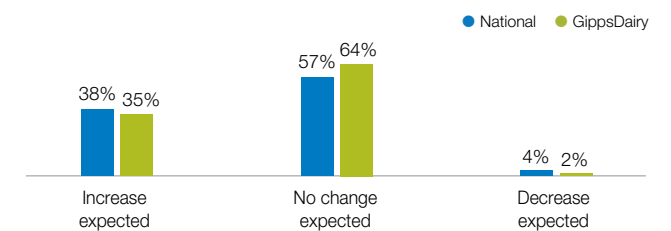


Herd production

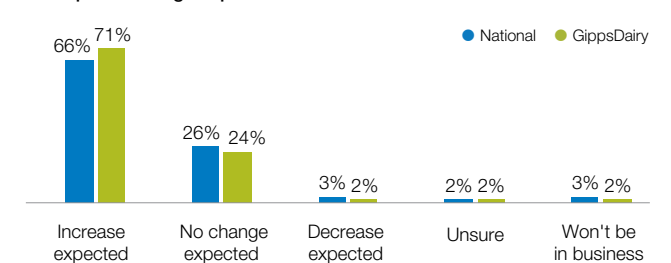


Forecast herd size and production

Anticipated change in herd size 2016–17 vs 2015–16

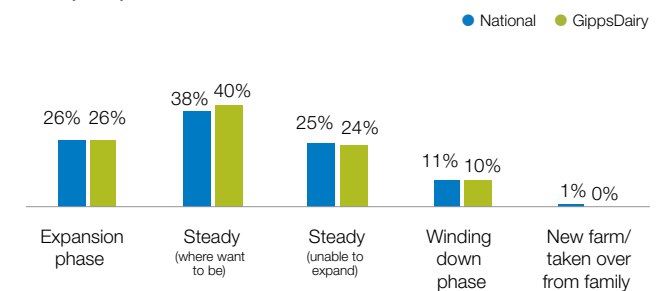


Anticipated change in production 2018–19 vs 2015–16



Regional profile

Enterprise phase



The 'average' GippsDairy farmer:



91% No change/intention to change company supplied

77% Feeds moderate to high level of concentrates

41% Made changes to feedbase last year

62% Made changes in past year to deal with challenges

1.5t (tonnes) Average grain fed per cow per year

50% Has a written annual farm budget

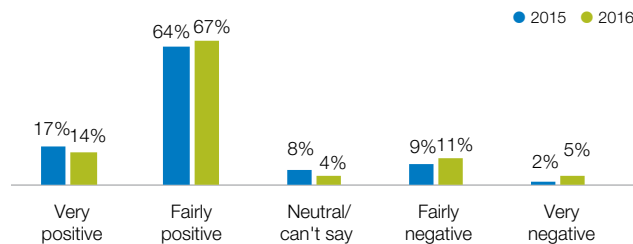
Regional NDFS results at a glance – Dairy NSW

Summary

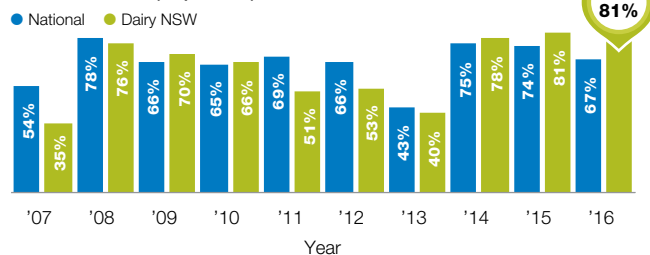
- Dairy NSW respondents continue to be some of the most confident nationally. Comments relating to farmgate milk price are more likely to have been positive than negative this year.
- Profitability has been widespread, allowing more than half the survey respondents to invest on-farm both last year and planning to do so in the coming year.
- Notably, the proportion expecting to make an operating profit this year is one of the highest nationally and more than half say it will be higher than the average of the past 5 years.
- The average milking herd size and production have remained relatively stable since 2015.

Sentiment

Current sentiment



Sentiment trend (% positive)



Positive drivers

- Demand will continue (31%)
- Milk price OK (20%)
- Greater export demand (17%)

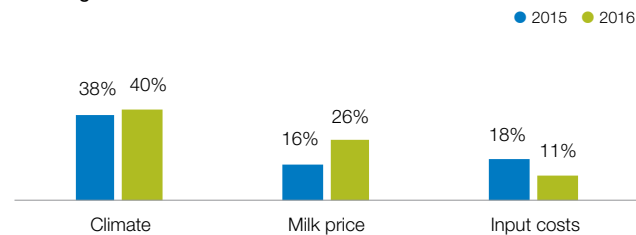
Negative drivers

- Milk price low (18%)

Profitability and investment

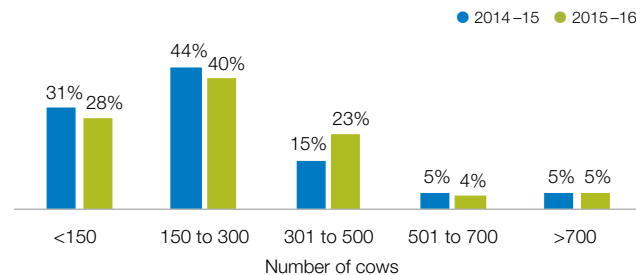
76% Made profit 2014–15	59% Invested on farm 2014–15
88% Expect profit 2015–16	66% Intend to invest 2015–16
52% Profit higher than 5 year average	25% Invest in machinery
32% Profit about same	16% Invest in tracks/lane ways/yards
16% Profit lower than 5 year average	16% Invest in fencing
	16% Invest in irrigation plant

Challenges next 6 months

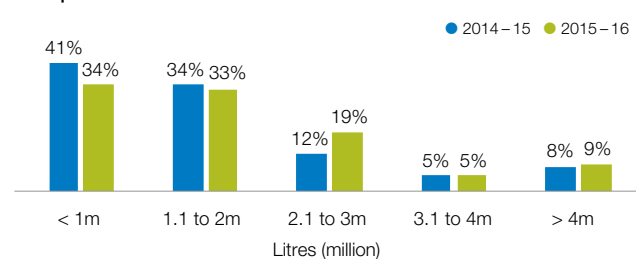


Current herd size and production

Herd size

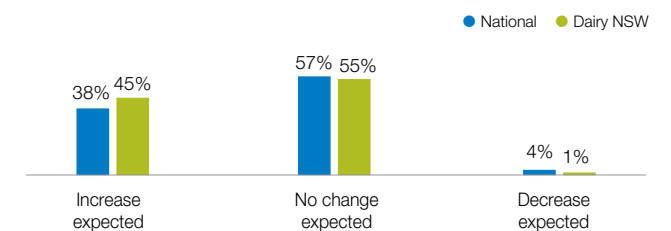


Herd production

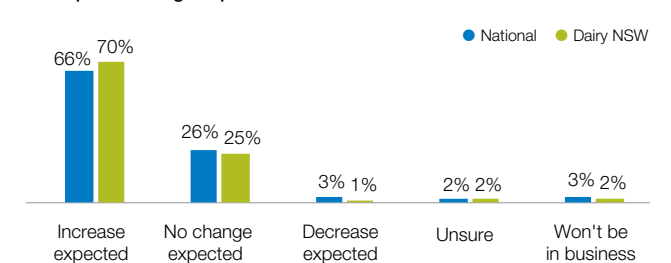


Forecast herd size and production

Anticipated change in herd size 2016–17 vs 2015–16

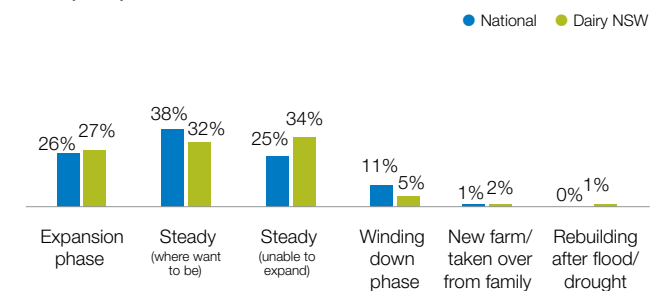


Anticipated change in production 2018–19 vs 2015–16



Regional profile

Enterprise phase



The 'average' Dairy NSW farmer:



84% No change/intention to change company supplied

65% Feeds moderate to high level of concentrates

50% Made changes to feedbase last year

62% Made changes in past year to deal with challenges

1.9t (tonnes) Average grain fed per cow per year

35% Has a written annual farm budget

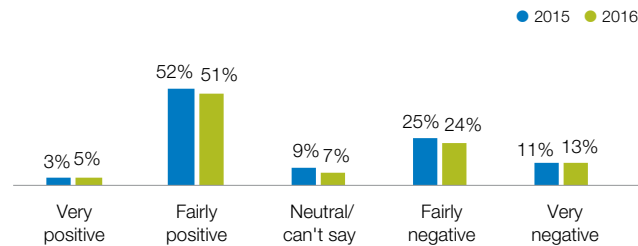
Regional NDFS results at a glance – Subtropical Dairy (SDP)

Summary

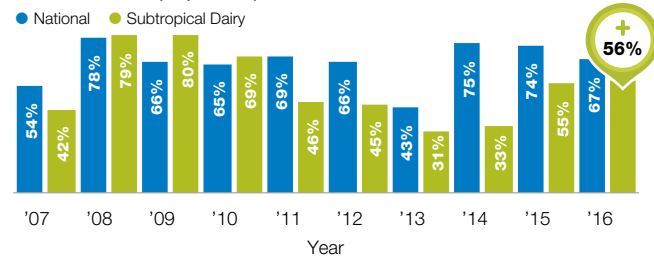
- Confidence in SDP has remained at similar levels to 2015, but is still the lowest nationally. While there is belief that demand for dairy products will continue, concerns over farmgate milk price are quite widespread.
- The proportion of SDP dairy farmers making an operating profit in 2014/15 is significantly greater than for 2013/14. Profits are expected on a very high proportion of farms for the current financial year and this is likely to result in more widespread on-farm investment.
- Respondents' milking herd size has typically remained steady over the past year, but half say productivity has increased compared to 12% decreasing.

Sentiment

Current sentiment



Sentiment trend (% positive)



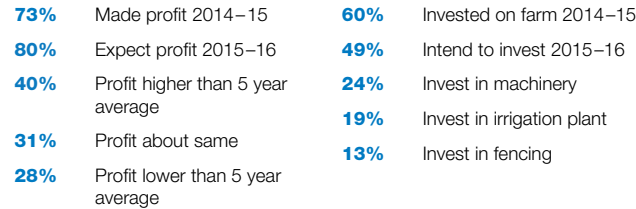
Positive drivers

- Demand will continue (28%)
- Improved farm gate milk price/price OK (10%)

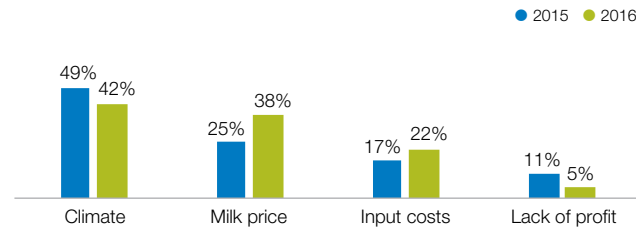
Negative drivers

- Farm gate milk price too low (28%)
- Cost of production (10%)

Profitability and investment

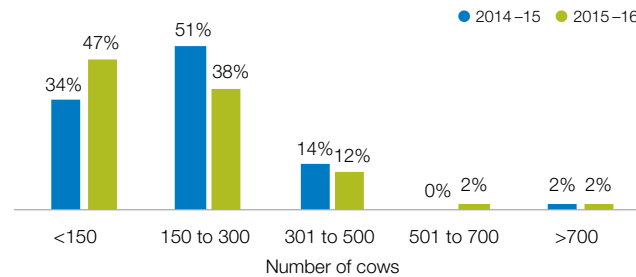


Challenges next 6 months

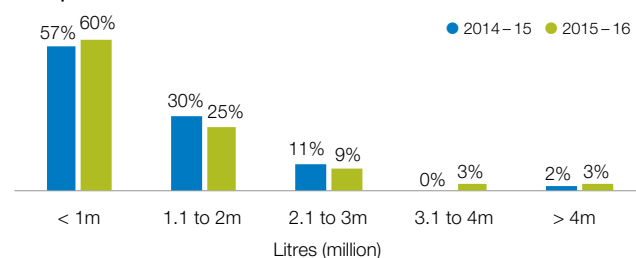


Current herd size and production

Herd size

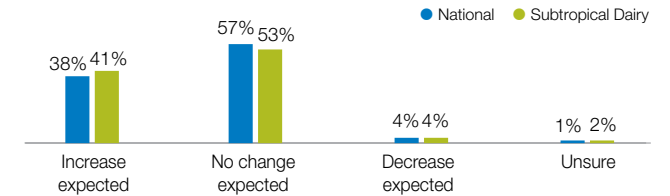


Herd production

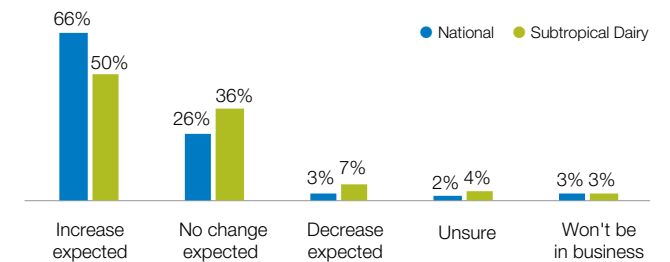


Forecast herd size and production

Anticipated change in herd size 2016–17 vs 2015–16

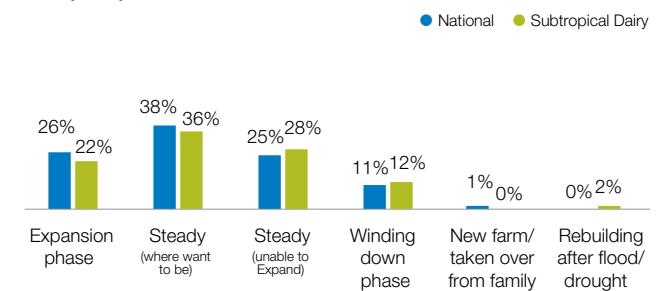


Anticipated change in production 2018–19 vs 2015–16



Regional profile

Enterprise phase



The 'average' Subtropical Dairy farmer:



- 93%** No change/intention to change company supplied
- 43%** Feeds moderate to high level of concentrates
- 47%** Made changes to feedbase last year
- 52%** Made changes in past year to deal with challenges
- 1.8t (tonnes)** Average grain fed per cow per year
- 42%** Has a written annual farm budget

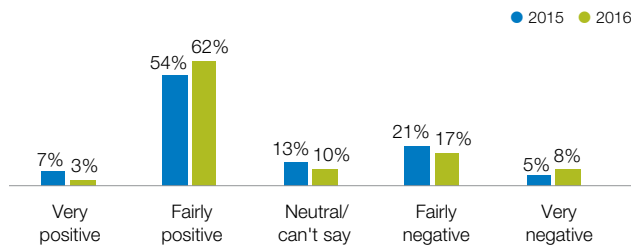
Regional NDFS results at a glance – Dairy SA

Summary

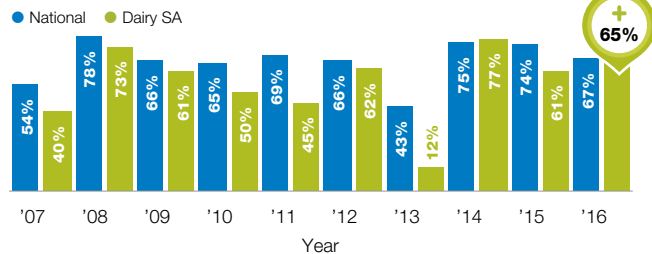
- Confidence in the future has risen slightly in SA over the past year and is now on par with the national average.
- There is increasing confidence in dairy markets but continuing concern over farmgate milk price and the impact of climate.
- The vast majority of SA respondents made an operating profit in 2014/15, but considerably fewer expect a profit in 2015/16. As a result, on-farm investment is likely to be less widespread over the coming year and where investment is planned, it is expected to be in maintenance areas such as fencing and laneways.

Sentiment

Current sentiment



Sentiment trend (% positive)



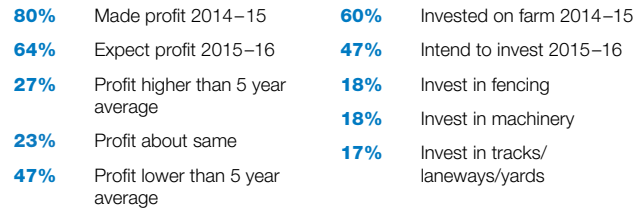
Positive drivers

- Demand will continue (33%)
- Improved farm gate milk price/price OK (18%)
- Export markets (10%)

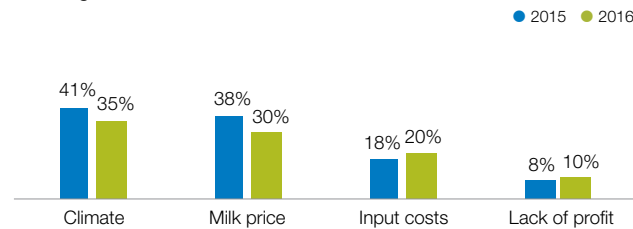
Negative drivers

- Farm gate milk price too low (32%)
- Increasing cost of production (10%)

Profitability and investment

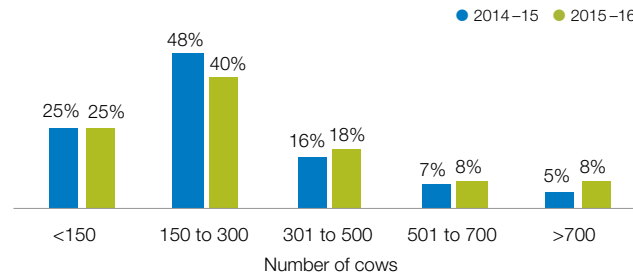


Challenges next 6 months

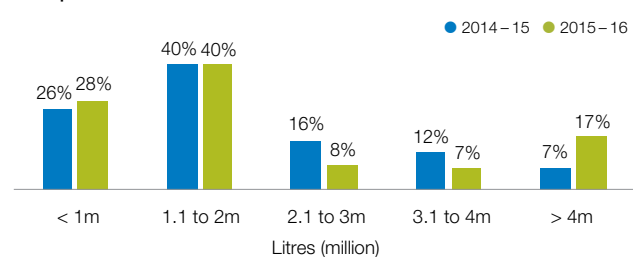


Current herd size and production

Herd size

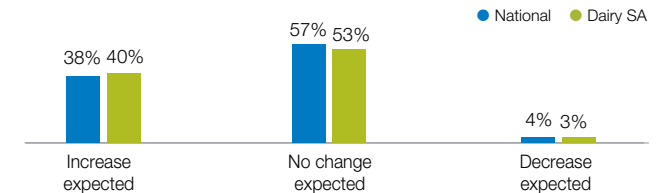


Herd production

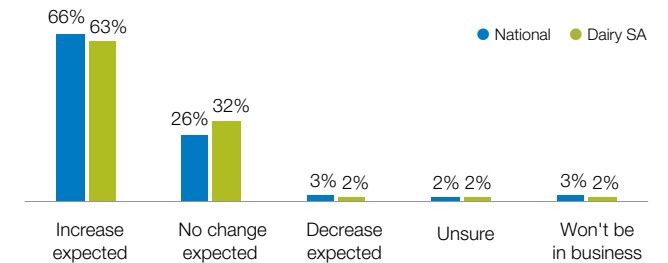


Forecast herd size and production

Anticipated change in herd size 2016–17 vs 2015–16

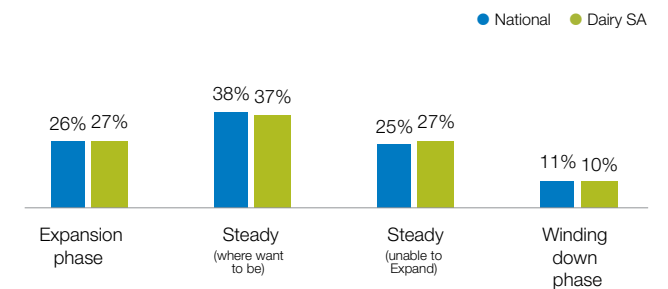


Anticipated change in production 2018–19 vs 2015–16



Regional profile

Enterprise phase



The 'average' Dairy SA farmer:



70% No change/intention to change company supplied

67% Feeds moderate to high level of concentrates

30% Made changes to feedbase last year

62% Made changes in past year to deal with challenges

1.6t (tonnes) Average grain fed per cow per year

60% Has a written annual farm budget

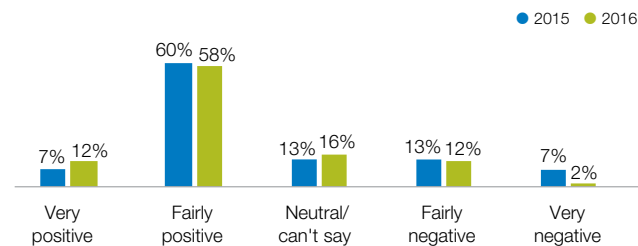
Regional NDFS results at a glance – Western Dairy

Summary

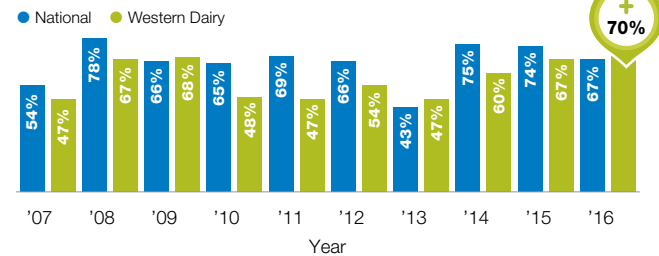
- Confidence in the industry's future has continued to climb in WA; with farmgate milk price less of an issue than it has been in recent years.
- Profitability in 2014/15 was widespread and a very high 90% of respondents expect to make a profit this financial year – the highest proportion nationally. On-farm investment is likely to be widespread with comparatively high proportions expecting to purchase machinery and dairy plant.
- The 'average' milking herd size and production levels have remained consistent with the previous year on respondent farms. Survey results suggest there is unlikely to be much change over the coming year.

Sentiment

Current sentiment



Sentiment trend (% positive)



Positive drivers

- Demand will continue (35%)
- Improved farm gate milk price/price OK (33%)

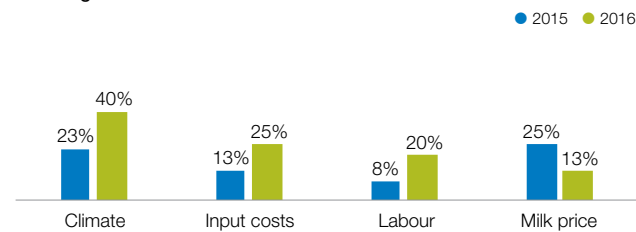
Negative drivers

- Farm gate milk price too low (12%)

Profitability and investment

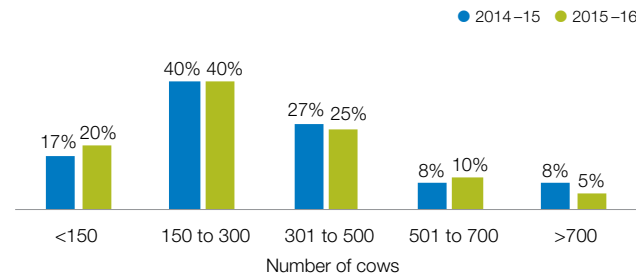
83%	Made profit 2014–15	62%	Invested on farm 2014–15
90%	Expect profit 2015–16	62%	Intend to invest 2015–16
65%	Profit higher than 5 year average	37%	Invest in machinery
25%	Profit about same	28%	Invest in dairy plant
7%	Profit lower than 5 year average	20%	Invest in tracks/laneways/yards

Challenges next 6 months

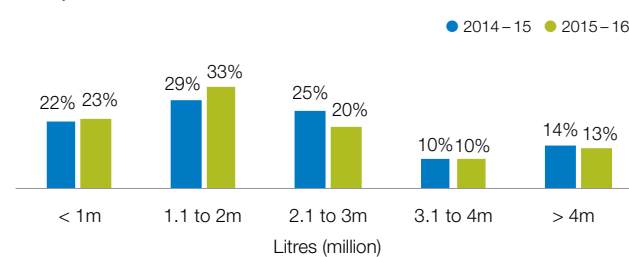


Current herd size and production

Herd size

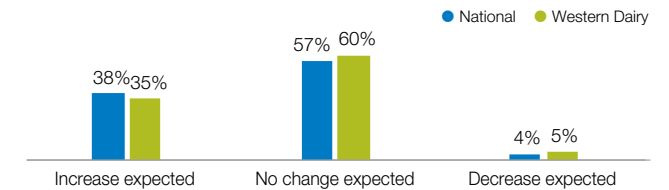


Herd production

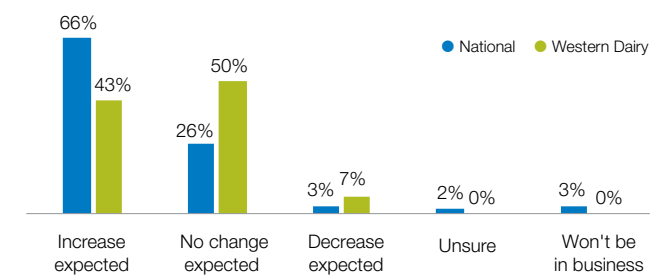


Forecast herd size and production

Anticipated change in herd size 2016–17 vs 2015–16

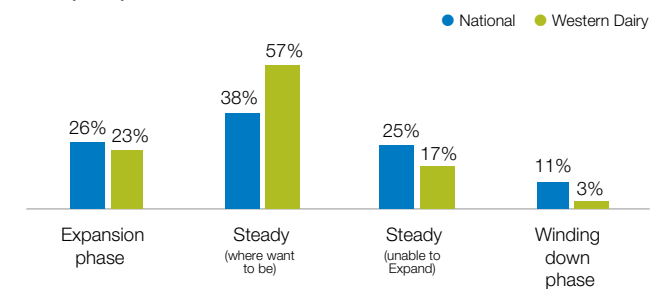


Anticipated change in production 2018–19 vs 2015–16



Regional profile

Enterprise phase



The 'average' Western Dairy farmer:



- 87%** No change/intention to change company supplied
- 67%** Feeds moderate to high level of concentrates
- 35%** Made changes to feedbase last year
- 60%** Made changes in past year to deal with challenges
- 2.0t (tonnes)** Average grain fed per cow per year
- 53%** Has a written annual farm budget

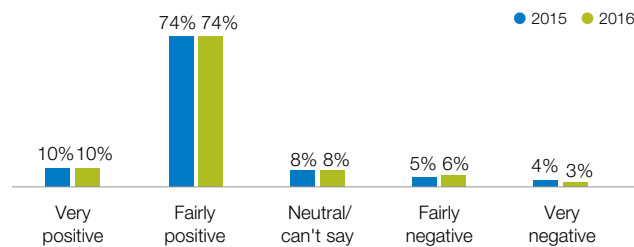
Regional NDFS results at a glance – DairyTas

Summary

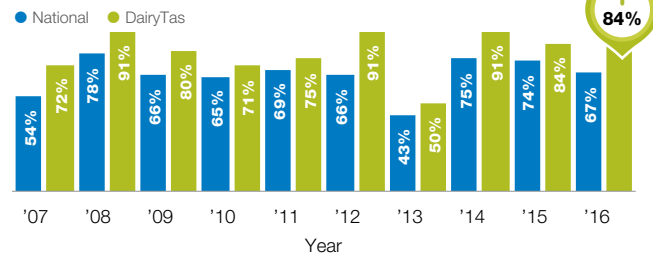
- Despite enduring a challenging year, Tasmanian dairy farmers are still the mostly likely to be positive about the future. There is reasonably widespread confidence in markets, although there is some concern arising on global oversupply.
- While almost all Tasmanian respondents realised an operating profit last financial year, the proportion expecting to do so this year is substantially lower and this is having an impact on the proportion investing on-farm. Dry conditions have resulted in 4 in 10 respondents planning to invest in irrigation plant.
- The average milking herd size in Tasmania continues to be the largest nationally and average production levels in respondent herds has been reasonably stable.

Sentiment

Current sentiment



Sentiment trend (% positive)



Positive drivers

- Demand will continue (39%)
- Improved farm gate milk price/price OK (15%)
- Industry improving (13%)

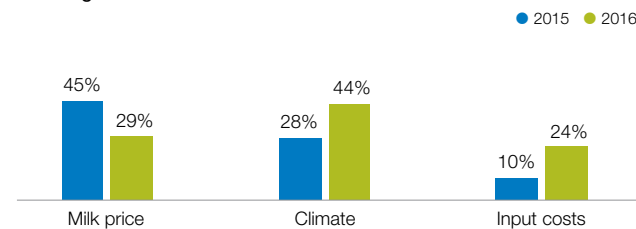
Negative drivers

- Farm gate milk price too low (11%)

Profitability and investment

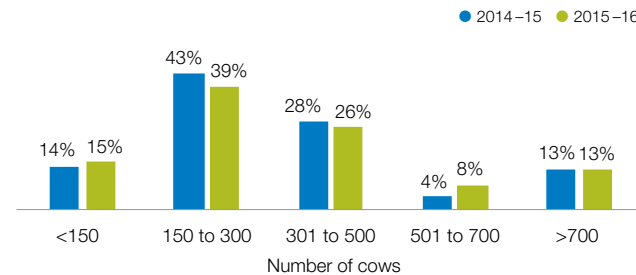
- 93%** Made profit 2014–15
- 60%** Expect profit 2015–16
- 9%** Profit higher than 5 year average
- 21%** Profit about same
- 70%** Profit lower than 5 year average
- 66%** Invested on farm 2014–15
- 58%** Intend to invest 2015–16
- 41%** Invest in irrigation plant
- 18%** Invest in machinery
- 15%** Invest in fencing
- 13%** Invest in tracks/laneways/yards
- 13%** Invest in effluent management

Challenges next 6 months

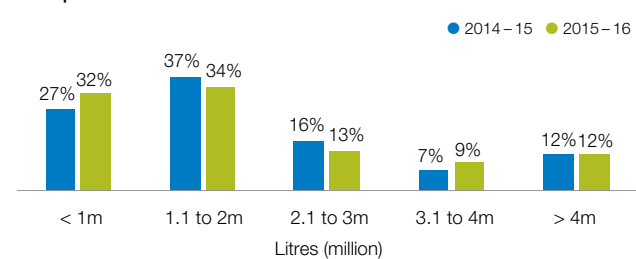


Current herd size and production

Herd size

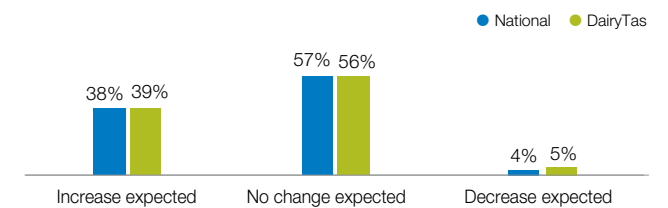


Herd production

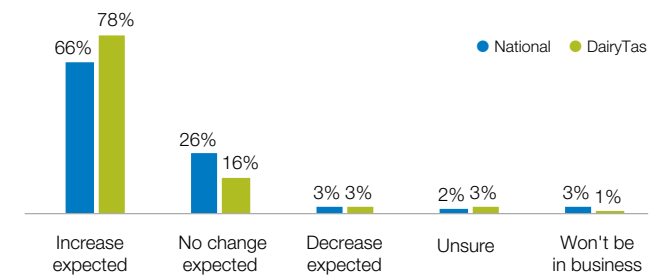


Forecast herd size and production

Anticipated change in herd size 2016–17 vs 2015–16

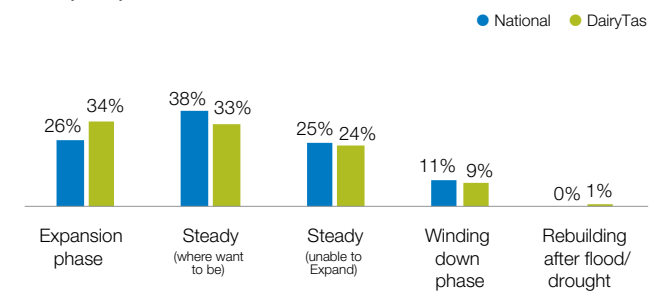


Anticipated change in production 2018–19 vs 2015–16



Regional profile

Enterprise phase



The 'average' DairyTas farmer:



- 91%** No change/intention to change company supplied
- 55%** Feeds moderate to high level of concentrates
- 39%** Made changes to feedbase last year
- 70%** Made changes in past year to deal with challenges
- 1.3t (tonnes)** Average grain feed per cow per year
- 59%** Has a written annual farm budget



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