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Australia

Dairy and Products Annual

2013

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Report Highlights:

The overall outlook for the dairy industry in Australia for 2014 is generally positive with milk production expected to increase by two percent. The August industry survey estimated overall industry confidence at 73 percent; a significant increase from the 44 percent recorded in February, which is attributed to the improvement in farm gate prices, the reduction in the Australian dollar and more favorable seasonal conditions.

Commodities:

Dairy, Butter

Dairy, Cheese

Dairy, Dry Whole Milk Powder

Dairy, Milk, Fluid

Dairy, Milk, Nonfat Dry

Production

2014 Forecast

Total milk production for 2014 is forecast to increase by two percent to 9.9 billion metric tons. This increase is driven by a slight increase in the number of cows in milk from 1.65 million to 1.68 million, improved seasonal conditions and ongoing productivity gains. The increase in milk production is expected to flow through to all dairy products with slightly higher increases in cheese and butter production than dry milk powders.

Opening farm gate milk prices for the 2013-14 are significantly higher than the previous year due to higher world dairy prices and a fall in the Australian dollar. These increases apply particularly to manufacturing milk in southern Australia where the majority of export processing plants are located. However producers in northern New South Wales and Queensland which are primarily dependent on the domestic market are yet to see a significant increase in prices.

The Tasmanian branch of the Australian dairy industry research and development organization has announced a goal of increasing production in the state by 40 percent to over 1 billion metric tons by 2017. To achieve this ambitious goal will require an estimated 60,000 additional cows in milk and increased productivity of each cow. The increase in milk production will increase the throughput of processing facilities in Tasmania to close to full capacity.

2012 and 2013 Estimates

Final milk production figures for 2012 were just slightly higher than previous estimates but production of butter, cheese and full fat milk powder were lower. In particular, industry production figures indicate that cheese production was nearly 15 percent lower than previously estimated.

Total milk production for the period January to August 2013 was nearly nine percent lower than for the same period 2012. Some areas have experienced significant fodder shortages with alternative feeds such as almond meal being substituted in some cases. Good winter rainfall in southern production areas and expectations of improved fodder availability from a good winter grain harvest should increase production substantially for the remainder of 2013.

Domestic consumption

Fluid milk sales in Australia in 2012 were three percent higher than 2011 at 2.5 billion MT. This trend has continued into 2013 with fluid milk sales for the period January to July 2013 up another two percent compared 2012.

Consumption of butter and cheese is also increasing, with estimates of a three percent increase in butter, and a two percent increase in cheese consumption for 2013. Similar trends are expected in 2014.

Retail prices for dairy products have remained fairly stable since early 2011. Consumer confidence has increased slowly over that period but most data indicates an ongoing degree of caution. As has been seen in other products such as meat and eggs there is an increasing demand for niche dairy products which are locally produced and often sourced direct from the producer. However, the majority of milk and dairy product sales are still through large supermarket chains.

Trade

Exports of processed dairy products (butter, cheese and milk powder) are forecast to increase in 2014 due to higher world dairy prices and the fall in the Australian dollar. Imports are expected to remain fairly stable as the steady increase in consumption will be supported by higher domestic production.

Imports in 2013 are on track to reach the levels indicated in previous estimates with just slightly higher imports of full fat milk powder than previously forecast (2 percent). Export forecasts remain unchanged.

Imports for 2012 were unchanged from previous estimates with the exception of butter for which revised data indicated imports were 1.6 percent higher than previously estimated. Revised data indicates that exports of fluid milk in 2012 were nearly four percent lower than previously estimated but exports of processed dairy products remain unchanged from previous estimates.

Market changes

As discussed in the April Dairy report the Australian dairy processing sector is undergoing significant change and expansion. The largest grower owned cooperative, Murray Goulburn (MG) has begun construction of two new processing plants (in Sydney and Melbourne) to supply 200 million liters per year to the Coles supermarket chain from July 2014. The deal is designed to increase the farm-gate milk price and will raise the consumer cost of milk above the controversial \$1 per liter which Coles implemented in January 2011. Coles will also stock the MG Devondale range of butter and cheese. Murray Goulburn has also completed expansion of an ultra-heat treated (UHT) milk processing facility which will raise production by 70 million liters per year. The demand for high quality dairy products in Asia, particularly China, has also seen Freedom Foods expand their UHT processing capacity by 100 million liters per year.

The other large Australian supermarket chain, Woolworths has also recently implemented a new direct agreement with farmers to source milk. Under the agreement which is currently with only seven growers for 16 million liters per year, Woolworths will buy the milk direct from the producer and it will be contract packaged by an existing processor. The deal has been announced as a pilot with several other growers already expressing interest in joining the scheme and potential to expand to up to 50 million liters per year.

A large Victorian dairy processor, Warrnambool Cheese and Butter (WCB) is also currently the focus of two takeover bids. The first, from the Australian-owned Bega Cheese and the second, from Canadian company, Saputo. The Saputo offer is slightly higher but Bega Cheese has stated that they are not withdrawing their offer. Also, unlike the Saputo deal which will be subject to federal government approval by the Foreign Investment Review Board, as an Australian company the Bega Cheese offer would not be subject to the same requirements.

Production supply and demand tables

Fluid milk

Dairy, Milk, Fluid Australia	2012		2013		2014	
	Market Year Begin: Jan 2012		Market Year Begin: Jan 2013		Market Year Begin: Jan 2014	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Cows In Milk	1,650	1,650	1,645	1,645		1,680
Cows Milk Production	9,790	9,811	9,738	9,800		9,996
Other Milk Production	0	0	0			
Total Production	9,790	9,811	9,738	9,800		9,996
Other Imports	5	5	7	7		6
Total Imports	5		7			
Total Supply	9,795	9,816	9,745	9,807		10,002
Other Exports	98	95	95	95		97
Total Exports	98	95	95	95		97
Fluid Use Dom. Consum.	2,490	2,511	2,420	2,501		2,505
Factory Use Consum.	7,207	7,210	7,230	7,211		7,400
Feed Use Dom. Consum.	0		0			
Total Dom. Consumption	9,697	9,721	9,650	9,712		9,905
Total Distribution	9,795	9,816	9,745	9,807		10,002
1000 HEAD, 1000 MT						

Butter

Dairy, Butter Australia	2012		2013		2014	
	Market Year Begin: Jan 2012		Market Year Begin: Jan 2013		Market Year Begin: Jan 2014	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	42	42	45	33		27
Production	121	106	115	115		122
Other Imports	18	21	23	23		25
Total Imports	18	21	23	23		25
Total Supply	181	169	183	171		174
Other Exports	54	54	60	60		62
Total Exports	54	54	60	60		62
Domestic Consumption	82	82	83	84		86
Total Use	136	136	143	144		148
Ending Stocks	45	33	40	27		26
Total Distribution	181	169	183	171		174

Cheese

Dairy, Cheese Australia	2012		2013		2014	
	Market Year Begin: Jan 2012		Market Year Begin: Jan 2013		Market Year Begin: Jan 2014	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	42	42	45	33		27
Production	121	106	115	115		122
Other Imports	18	21	23	23		25
Total Imports	18	21	23	23		25
Total Supply	181	169	183	171		174
Other Exports	54	54	60	60		62
Total Exports	54	54	60	60		62
Domestic Consumption	82	82	83	84		86
Total Use	136	136	143	144		148
Ending Stocks	45	33	40	27		26
Total Distribution	181	169	183	171		174
1000 MT						

Whole milk powder

Dairy, Dry Whole Milk Powder Australia	2012		2013		2014	
	Market Year Begin: Jan 2012		Market Year Begin: Jan 2013		Market Year Begin: Jan 2014	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	38	38	28	18		29
Production	130	120	131	125		130
Other Imports	9	9	10	12		10
Total Imports	9	9	10	12		10
Total Supply	177	167	169	155		169
Other Exports	109	109	100	90		100
Total Exports	109	109	100	90		100
Human Dom. Consumption	40	40	40	36		40
Other Use, Losses	0		0			
Total Dom. Consumption	40	40	40	36		40
Total Use	149	149	140	126		140
Ending Stocks	28	18	29	29		29

Non-fat milk powder

Dairy, Milk, Nonfat Dry Australia	2012		2013		2014	
	Market Year Begin: Jan 2012		Market Year Begin: Jan 2013		Market Year Begin: Jan 2014	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	75	75	75	75		65
Production	235	235	220	225		235
Other Imports	3	3	5	5		5
Total Imports	3	3	5	5		5
Total Supply	313	313	300	305		305
Other Exports	168	168	165	165		170
Total Exports	168	168	165	165		170
Human Dom. Consumption	70	70	73	75		73
Other Use, Losses	0		0	0		0
Total Dom. Consumption	70	70	73	75		73
Total Use	238	238	238	240		243
Ending Stocks	75	75	62	65		62