

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Report Highlights:

Two consecutive years of record rainfall in eastern Australia have sharply improved pasture conditions and fully replenished supplies of irrigation water for the Australian dairy industry. Despite the recent sharp improvement in production conditions, the rebound in dairy production in Australia has been sluggish. The production of fluid milk in CY 2012 is expected to increase just three percent year-on-year following a smaller increase for CY 2011. On the positive side, cow numbers have begun to increase as-well-as milk yield per cow and this is likely to continue well beyond the forecast period. The trade remains "cautiously optimistic" over the longer-term as the Australian dairy industry makes "modest" improvements in production and productivity.

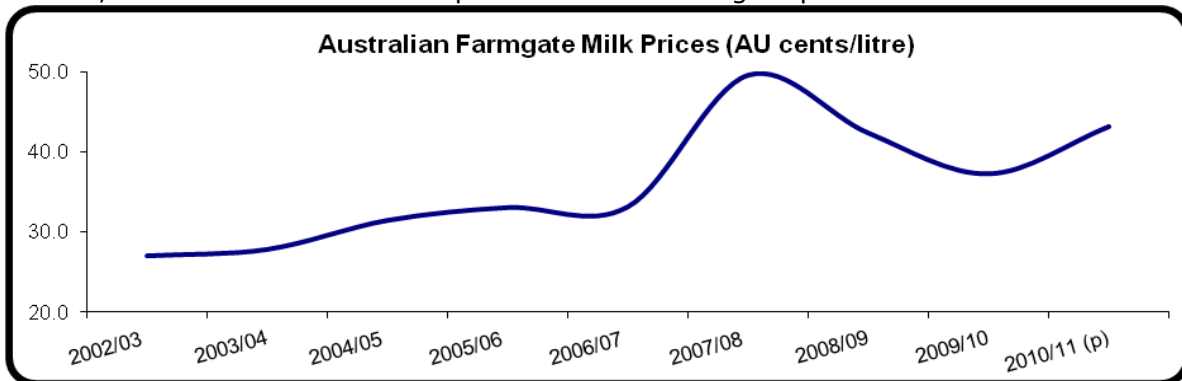
Summary:

Two consecutive years of record rainfall in eastern Australia have sharply improved pasture conditions and fully replenished supplies of irrigation water for the Australian dairy industry. Back-to-back record production levels for wheat and cotton have also sharply increased the supplies of both grain and other commodity bi-products (such as cotton seed meal) for use as dairy fodder.

High rainfall, improved pasture conditions and sharp increases in fodder availability have followed the worst drought in recorded history. The drought, which began in CY 2002 and continued until Christmas day 2009, depleted fodder and irrigation water reserves to their lowest levels in living memory. As a consequence, the Australian dairy sector witnessed a decline in cattle numbers and milk yield per cow during this period.

Despite the recent sharp improvement in production conditions, the rebound in dairy production in Australia has been sluggish. The production of fluid milk in CY 2012 is expected to increase just three percent year-on-year following a smaller increase for CY 2011. These are but modest increases when the transition from the worst conditions on record to some of the best conditions on record is taken into account.

Despite greatly improved climatic conditions, the Australian Dairy Industry continues to be constrained by high relative costs for other farm inputs such as labor. Conversely, the historically high Australian dollar, which has been climbing steadily since CY 2008 and recently reached new record levels, continues to constrain exports and limit farm gate prices for fluid Milk.



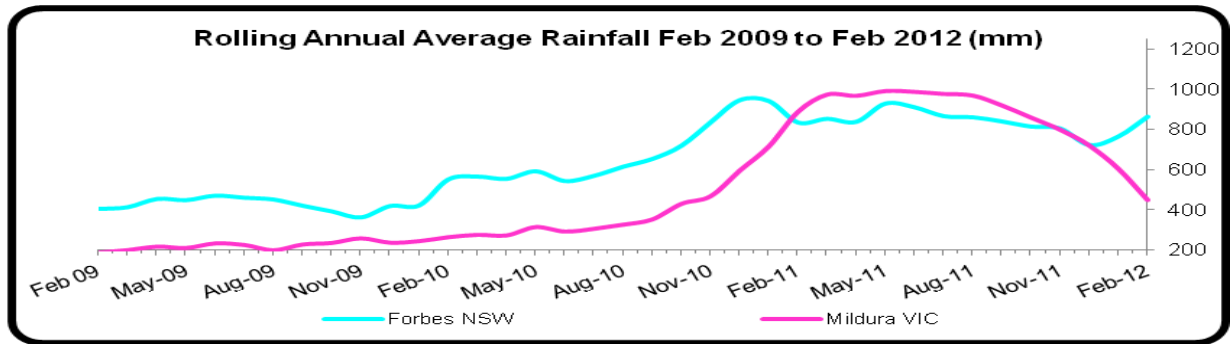
Source: Dairy Australia data

On the positive side, cow numbers have begun to increase as-well-as milk yield per cow and this is likely to continue well beyond the forecast period. The trade remains "cautiously optimistic" over the longer-term as the Australian dairy industry makes "modest" improvements in production and productivity.

The production and export series for some commodities have also been significantly revised, in line with recently received industry data. In response to the high Australian dollar the export series of key dairy commodities have been revised downwards and closing stocks adjusted upwards in line with industry gathered raw data. Official stock numbers are unavailable, however, anecdotal evidence suggests that stocks of dairy commodities have increased due to the high value of the Australian dollar and the subsequent constraints on export performance.

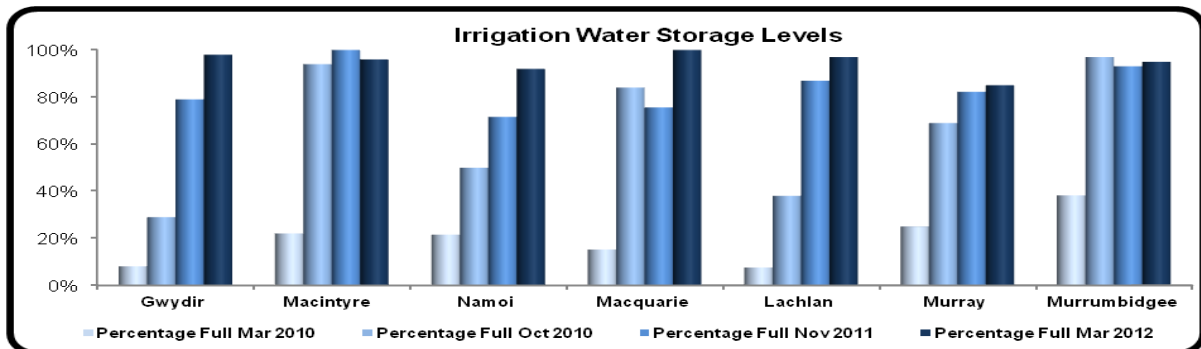
Rainfall and Flooding in Eastern Australia

Eastern Australia has been experiencing “La Nina” weather conditions over the past two years and this has brought widespread heavy rainfall and in the worst affected areas severe flooding. Many records have been surpassed during this period – including the wettest seven day period on record. For the most intensively farmed agricultural regions of eastern Australia, this flooding event is regarded as similar to that of the early 1970’s and the 1950’s. However, this event has been even more severe for other less well known areas of inland Australia.



Source: Australian Bureau of Meteorology Data

Heavy rains and flooding have completely replenished previously depleted irrigation water storage dams. During nearly eight years of drought irrigation water availability steadily declined reaching zero for many irrigated farms. The chart below shows the dramatic improvement in irrigation water storage since the drought began to break at the end of CY 2009. This improvement is likely to see production of irrigated crops return to levels more reflective of the longer term average.



Source: Murray Darling Basin Authority Data

Commodities:

Dairy, Milk, Fluid

Dairy, Cheese

Dairy, Butter

Dairy, Dry Whole Milk Powder

Dairy, Milk, Nonfat Dry

Production, Supply and Demand Data Statistics

Dairy, Milk, Fluid	2010		2011		2012	
Australia	Market Year Begin: Jan 2010		Market Year Begin: Jan 2011		Market Year Begin: Jan 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Cows In Milk	1,596	1,596	1,610	1,620	1,625	1,650
Cows Milk Production	9,327	9,327	9,550	9,562	9,750	9,850
Other Milk Production	0	0	0	0	0	0
Total Production	9,327	9,327	9,550	9,562	9,750	9,850
Other Imports	11	11	12	9	11	8
Total Imports	11	11	12	9	11	8
Total Supply	9,338	9,338	9,562	9,571	9,761	9,858
Other Exports	71	74	74	79	75	92
Total Exports	71	74	74	79	75	92
Fluid Use Dom. Consum.	2,284	2,284	2,320	2,347	2,350	2,350
Factory Use Consum.	6,983	6,980	7,168	7,145	7,336	7,416
Feed Use Dom. Consum.	0	0	0	0	0	0
Total Dom. Consumption	9,267	9,264	9,488	9,492	9,686	9,766
Total Distribution	9,338	9,338	9,562	9,571	9,761	9,858
1000 HEAD, 1000 MT						

Dairy, Cheese	2010		2011		2012	
Australia	Market Year Begin: Jan 2010		Market Year Begin: Jan 2011		Market Year Begin: Jan 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	19	19	23	29	24	36
Production	319	319	325	332	332	345
Other Imports	75	76	76	72	75	70
Total Imports	75	76	76	72	75	70
Total Supply	413	414	424	433	431	451
Other Exports	165	160	170	167	174	174
Total Exports	165	160	170	167	174	174
Human Dom. Consumption	225	225	230	230	235	235
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	225	225	230	230	235	235
Total Use	390	385	400	397	409	409
Ending Stocks	23	29	24	36	22	42
Total Distribution	413	414	424	433	431	451
1000 MT						

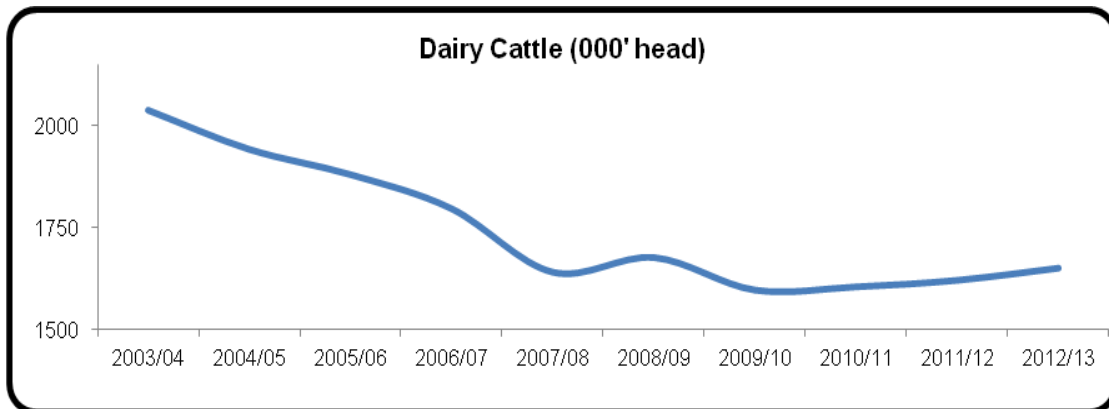
Dairy, Butter		2010		2011		2012	
		Market Year Begin:		Market Year Begin:		Market Year Begin:	
Dairy, Dry Whole Milk Powder		2010		2011		2012	
Australia		Market Year Begin: Jan 2010		Market Year Begin: Jan 2011		Market Year Begin: Jan 2012	
		USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Total Supply	133	157	31	132	27	131	23
Beginning Stocks							49
Other Exports	63	63	147	63	45	148	65
Production							154
Total Exports	63	63	15	15	45	19	65
Other Imports							15
Domestic Consumption	61	77	15	18	18	19	15
Total Imports							20
Total Supply	124	140	93	123	194	207	192
Ending Stocks	9	14	37	39	141	111	44
Other Exports							116
Total Distribution	133	157	137	164	141	186	144
Total Exports							116
Human Dom. Consumption			29		30		31
Other Use, Losses			0		0		0
Total Dom. Consumption			29		30		31
Total Use			166		171		175
Ending Stocks			27		23		17
Total Distribution			193		194		223
1000 MT							

Dairy, Milk, Nonfat Dry	2010		2011		2012	
Australia	Market Year Begin: Jan 2010		Market Year Begin: Jan 2011		Market Year Begin: Jan 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	32	32	48	51	56	82
Production	222	222	230	241	235	240
Other Imports	5	5	5	5	4	4
Total Imports	5	5	5	5	4	4
Total Supply	259	259	283	297	295	326
Other Exports	160	141	175	147	185	160
Total Exports	160	141	175	147	185	160
Human Dom. Consumption	51	67	52	68	53	69
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	51	67	52	68	53	69
Total Use	211	208	227	215	238	229
Ending Stocks	48	51	56	82	57	97
Total Distribution	259	259	283	297	295	326
1000 MT						

Dairy Cow Numbers

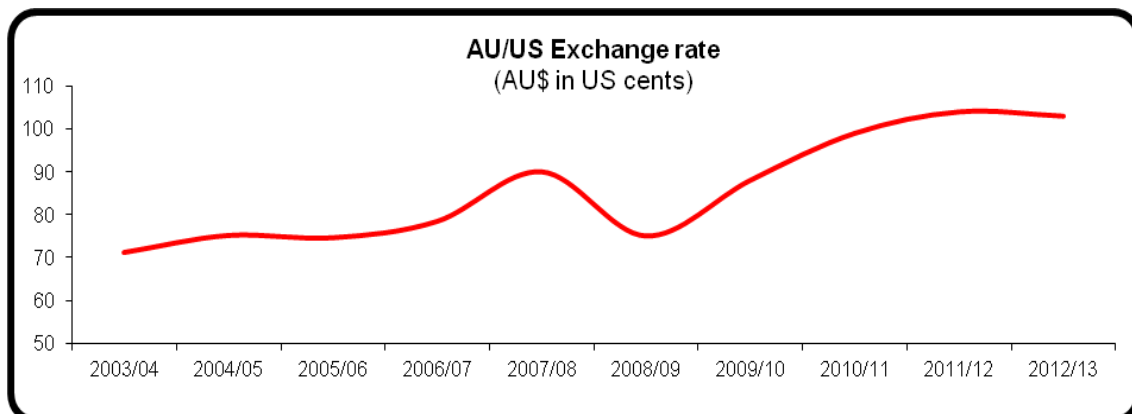
Total cows in milk are forecast at 1.65 million head, up 1.85 percent from the previous year in response to sharply improved pasture conditions and fodder supply. Record breaking rainfall combined with a significant decline in domestic feed grain prices allowed cow numbers to expand slightly beyond those in Post's previous report.

Despite this, total cow numbers continue to remain well below those recorded prior to the record breaking drought and further increases in herd numbers are expected to be modest.



Source: ABARES Data

Recent improvements in farm gate milk prices have also assisted in the expansion of the herd and restored some confidence in the long term outlook of the industry. However, further increases in farm gate prices will likely be constrained (at least partially) by the historically high and at times record value of the Australian dollar.



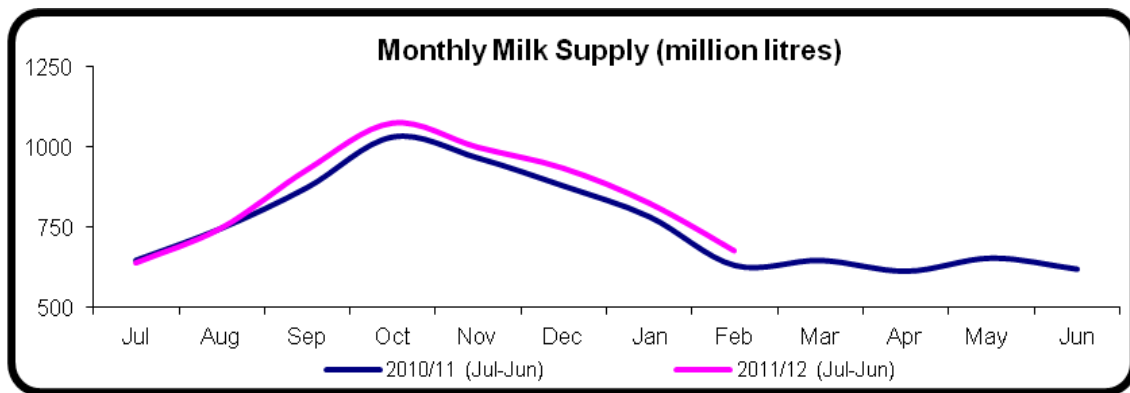
Source: ABARES Data

Dairy, Milk, Fluid

Production

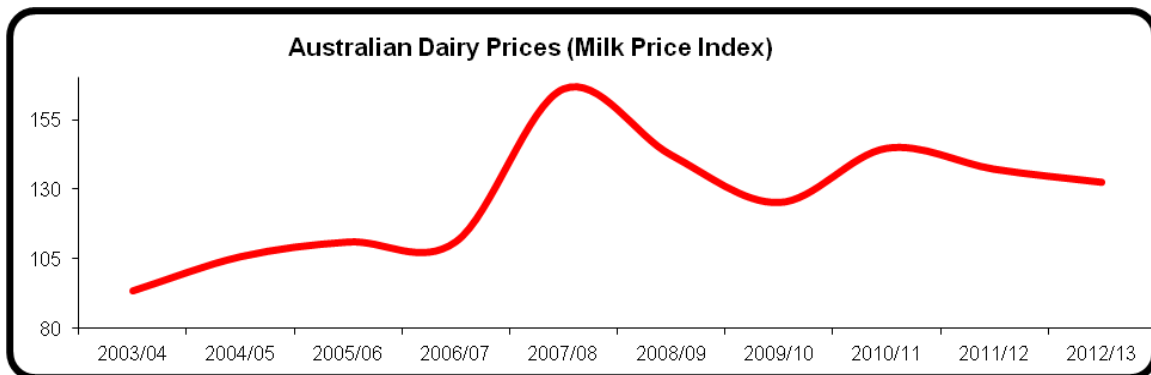
Total fluid milk production for CY 2012 is forecast at 9.85 MMT, up 3 percent from last year's estimated level of production. A second season of record breaking rainfall and flooding has seen total number of cows and average yield per cow increase and this has led to the slight upward revision in the milk production forecast.

Of particular interest is the significant decline in local feed grain prices toward the end of 2011. Record wheat production, as well as other crops, combined with difficult harvesting conditions (due to wet weather at harvest) sharply increased domestic supplies of downgraded wheat for use as feed grain – subsequently, costs of purchased feed grain have fallen significantly leading into CY 2012. This has done much to “sure-up” dairy production volumes in CY 2012.



Source: Dairy Australia data

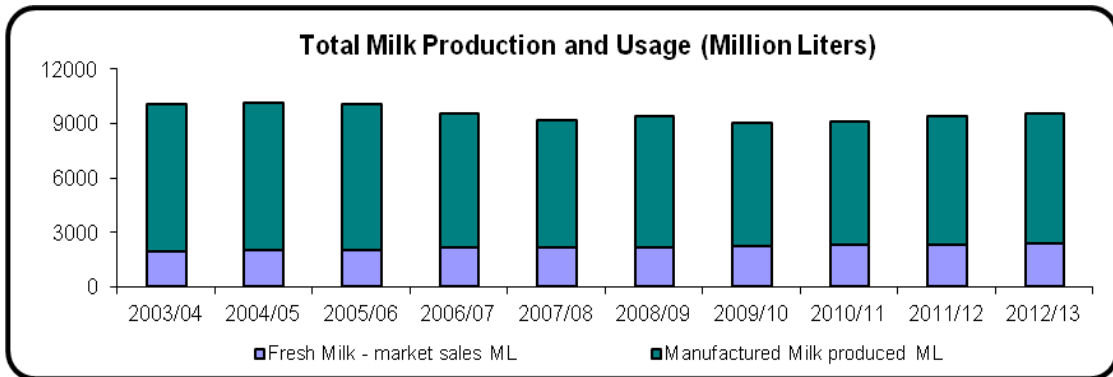
Fluid milk production for CY 2011 has also been revised upwards slightly and is estimated at 9.56 MMT, due to increased cow numbers and increased yield.



Source: ABARES Data

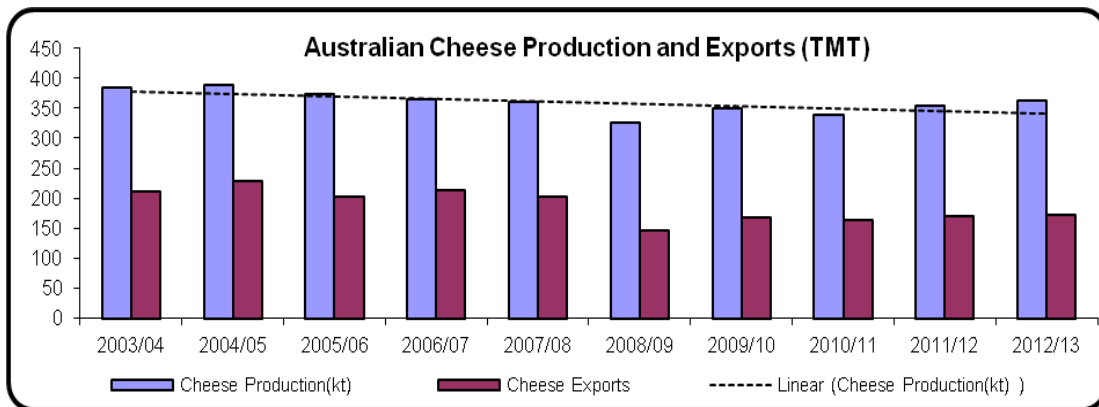
Dairy, Cheese

Total cheese production in 2012 is forecast at 345 TMT, up about 4 percent from the 2011 estimated level of production. This figure is driven by the increase in fluid milk available for manufacturing and firmer pricing compared with other dairy commodities. Long term trends show fluid milk consumption remaining relatively flat (with only small and incremental year-to-year increases in demand) therefore the majority of growth in total fluid milk production will have to be directed towards manufacturing.



Source: ABARES Data

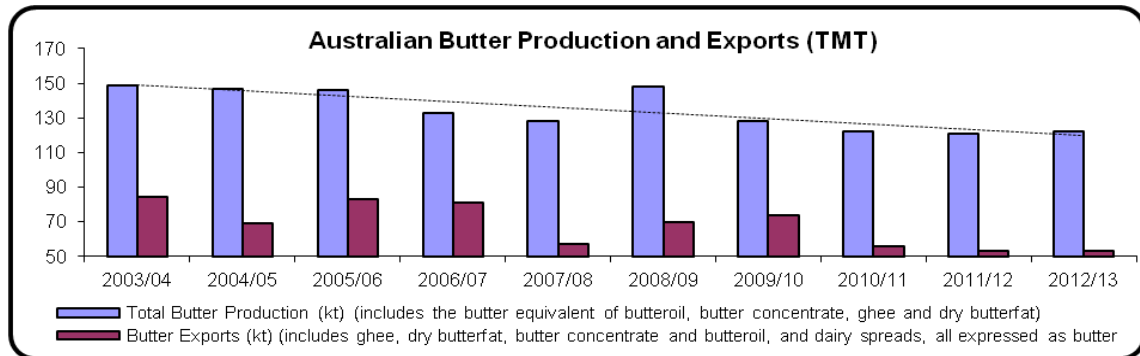
Total cheese production CY 2011 has been revised upwards to 332 TMT, in line with increases indicated by industry data. Higher returns for cheese over the past decade have allowed cheese production to remain relatively stable despite earlier falls in fluid milk supply.



Source: ABARES Data

Dairy, Butter

Total butter production for CY 2012 is forecast at 129 TMT, up slightly on the revised estimate of 127 TMT for the previous year. An increase in fluid milk supply is expected to see butter production rise slightly despite the long term declining trend in production. Long term trends in consumer consumption patterns have seen butter production trending downwards.



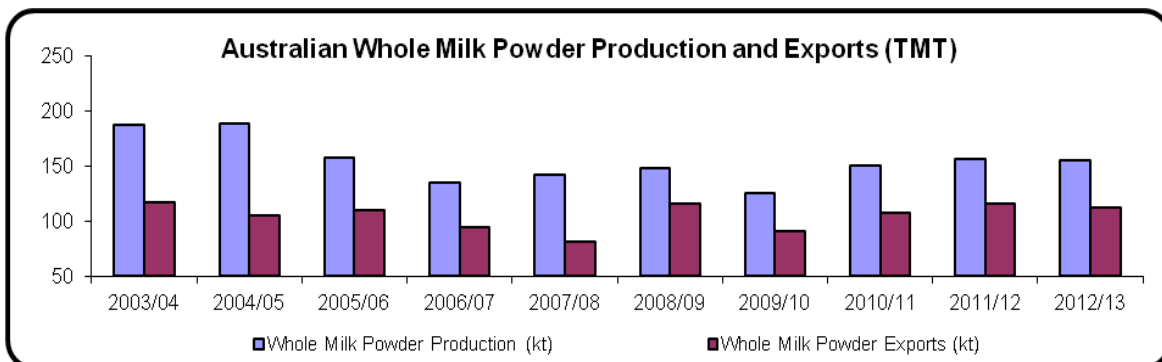
Source: ABARES Data

Total butter exports for CY 2012 are forecast at 65 TMT, up sharply from the revised estimate for the previous year. Increasing closing stocks, due to poorer export performance estimated in CY 2011 is expected to push 2012 exports upwards, closer to the long-term-average.

The production and export series for butter has been revised, in line with recently received industry data.

Dairy, Dry Whole Milk Powder

Production of whole milk powder in 2012 is forecast at 154 TMT, up about 4 percent from last year and in-line with the increase in fluid milk supply. WMP prices are expected to decline slightly going forward and this is expected to constrain production and export volumes. Production for CY 2011 has been revised downwards slightly to 148 TMT in line with recently released industry data.



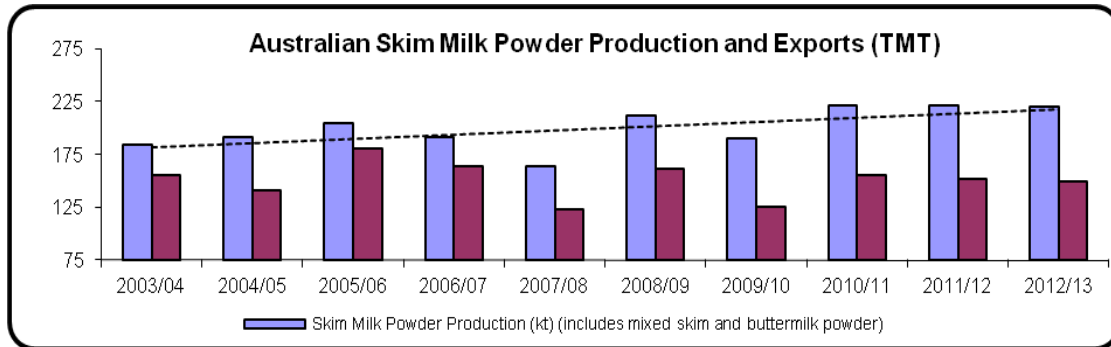
Source: ABARES Data

Exports in 2012 are forecast at 116 TMT. The high value of the Australian dollar has caused a downward revision of exports across the series, while revising stocks upwards. This revision is supported by industry data.

Dairy, Skim Milk Powder (SMP)

Total skim milk powder production for CY 2012 is forecast at 240 TMT, largely unchanged from the previous year. However, exports have been increased significantly for CY 2012 to 160 TMT.

Domestic consumption and closing stock numbers have been increased across the series due to lower than expected export performance driven by a historically high, and at times record value of the Australian dollar.



Source: ABARES Data

Recent Reports from FAS/Canberra

The reports listed below can all be downloaded from the FAS website at:

<http://gain.fas.usda.gov/Lists/Advanced%20Search/AllItems.aspx>.

Title of Report	Date
Sugar Annual 2012	04/10/12
Cotton and Products Annual 2012	03/29/12
Grain and Feed Annual 2012	03/20/12
Wine Annual 2012	03/15/12
Livestock and Product Semi-annual 2012	03/13/12
Grain & Feed Lock-Up – February 2012	01/24/12
Citrus Annual 2011	12/07/11
Grain and Feed Update – November 2011	11/01/11
Dairy Annual 2011	10/14/11