

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT POLICY

Required Report - public distribution

**Date:** 10/14/2011

**GAIN Report Number:** AS1126

## Australia

## Dairy and Products Annual

## 2011

**Approved By:**

Joe Carroll, Agricultural Counselor

**Prepared By:**

Mike Darby, Agricultural Specialist

**Report Highlights:**

Australian dairy production is expected to expand by around two percent in CY 2012, a similar rate to the expansion estimated for CY 2011. Pasture and fodder production increased in CY 2011, and this will likely persist into CY 2012 despite an assumed return to average rainfall. Post has forecast dairy commodity production and exports to grow at around two percent across the board in CY 2012, in-line with the projected increase in fluid milk production.

## **Executive Summary:**

Australian dairy production is expected to expand by around two percent in CY 2012, a similar rate to the expansion estimated for CY 2011. Above-average rainfall in CY 2010 greatly improved pasture conditions and fodder availability in CY 2011. Steady growth is forecast in CY 2012, despite the expectation that conditions will become generally drier as rainfall continues to decline from record high levels in CY 2010, and back toward the long-term average for CY 2011 and CY 2012.

Irrigation water availability has improved to levels experienced prior to the drought (2002-2010). Pasture and fodder production have been boosted in CY 2011 and this will likely persist into CY 2012 despite an expected return to average rainfall.

Growth in dairy production in CY 2012 is expected to remain relatively modest at around two percent. A chronic shortage of replacement heifers experienced in CY 2011, following years of drought and herd liquidation, is expected to persist into CY 2012. Historically high grain prices have also partially constrained growth in production in CY 2011 and this is expected to persist into CY 2012.

The Australian dollar reached a record high of \$US1.10 in CY 2011 and this has somewhat constrained growth in exports. The value of the Australian dollar has eased somewhat (US\$1.00) at the time of the writing of this report, and this is expected to provide some relief moving into CY 2012, although Post expects the Australian dollar to remain relatively strong. Sustainable growth in the Australian economy during CY 2011 is expected to continue into CY 2012 and this is likely to support modest growth in domestic consumption.

Post forecasts dairy commodity production and exports to grow around two percent across the board in CY 2012, in-line with the projected increase in fluid milk production. Since January 2011, prices received for dairy commodities have generally declined, in part due to a stronger Australian dollar. However, these prices remain "historically high" and a slightly lower dollar value (at time of writing this report) has provided confidence that exports can be increased modestly in CY 2012.

## **Commodities:**

Dairy, Milk, Fluid

Dairy, Cheese

Dairy, Butter

Dairy, Dry Whole Milk Powder

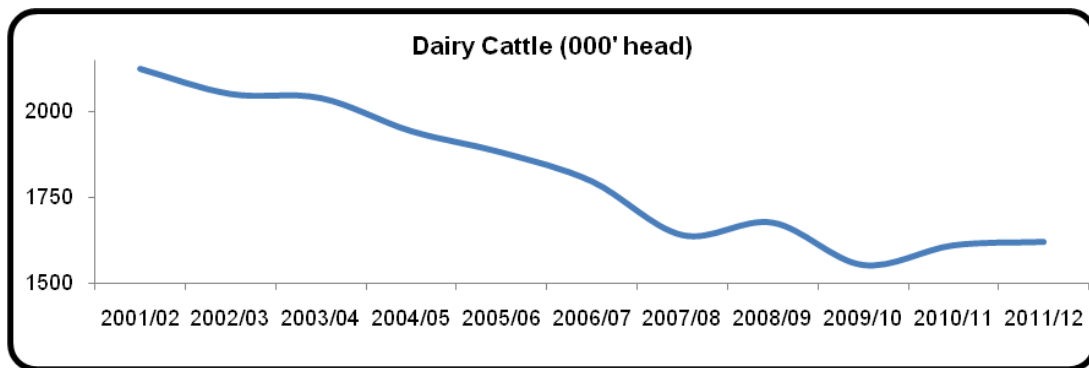
Dairy, Milk, Nonfat Dry

## Dairy Cow Numbers

### Total Cow Numbers

Dairy cow numbers are forecast to increase to 1.625 million head in CY 2011, up slightly on the estimated 1.61 million head for CY 2010. This increase follows a long period of herd liquidation caused by the prolonged and severe drought which began in CY 2002 and concluded with record high levels of rainfall in CY 2010.

Despite dramatically improved conditions in CY 2010 and CY 2011, dairy herd expansion is expected to continue at a modest rate due to the chronic shortage of replacement dairy cattle following years of drought and associated high slaughter levels. Poor heifer availability has been further exacerbated by live export demand for dairy heifers from China. Falling farm numbers, milk price discounting and competition for land and labor from other industries are also expected to continue to slow the growth in total cow numbers for the foreseeable future.



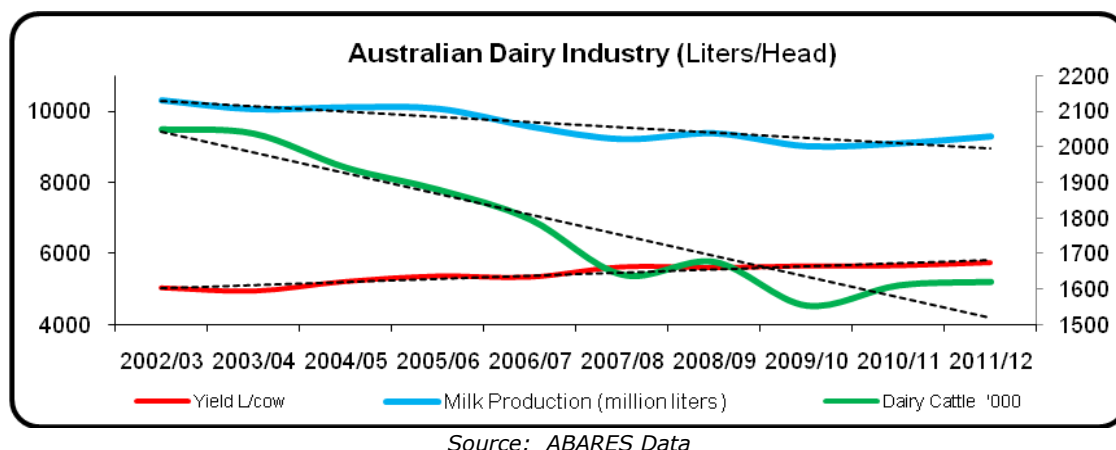
Source: ABARES Data

Dairy cow numbers have been falling in Australia since 1965, according to historic ABARES figures, as the industry continues to rationalize. The primary reason for falling cow numbers has been a decline in dairy farms and increased cow productivity levels. Over time, the total number of farms has continued to fall dragging total cow numbers lower despite the continued increase in herd sizes of remaining dairy farms.

While it is possible for cow numbers to increase sharply, dairy cow numbers are expected to rise modestly going forward. Industry sources urge caution in regards to the potential for sharp increases in cow numbers. ABARES expects improved fodder supply and pasture conditions to see modest consecutive increases in cow numbers out to 2014/15.

### Fluid Milk Production

Fluid milk production for CY 2011 is forecast at to 9.75 MMT, and follows a similar increase in estimated production for the previous year. This increase is expected to be driven by a continued increase in milk yield per cow together with slightly higher cow numbers. Despite the forecast increase in fluid milk production in CY 2012, this level of production remains well below the historical average. The all time record for fluid milk production stands at 11.27 million liters (11.6 MMT), produced in 2001/02 (July-June).



Post's forecast for fluid milk production of 9.75 MMT assumes a record milk yield per cow. Steadily increasing milk yields per cow over the longer term, together with the nearer term, sharp increases in fodder and irrigation water supplies supports the assumption of record high milk yield in CY 2012.

Fluid milk production for CY 2011 has been revised downwards slightly to 9.55 MMT, slightly below the 9.6 MMT previously reported by Post.

Exports of Fluid milk are forecast to increase only slightly to 75 TMT, less than one percent of total production. This equates to around 72.8 million liters of fresh milk (using a conversion factor of 1.03). A slightly lower Australian dollar value leading into CY 2012 should assist a modest growth in exports in the coming year.

According to media reports, Australia is currently trialing the airfreight of fresh milk to China. This purportedly has the potential to add another 15 million liters (or 15.5 TMT) to fresh milk exports per year – bringing the potential annual total to around 90 TMT over the longer term.

## Policy – Pricing

Australia's two largest retailers continue to discount fluid milk sales prices, as outlined in Post's previous report. The pricing of fresh milk at the retail level continues to be controversial.

Coles Supermarkets, Australia's second largest retailer, recently implemented a new national pricing policy. This policy has effectively discounted retail prices for meat, seafood, dairy, deli and bakery products and has seen milk sold for around AUS\$1.00/liter in Coles supermarkets, around half the price of "branded" milk.

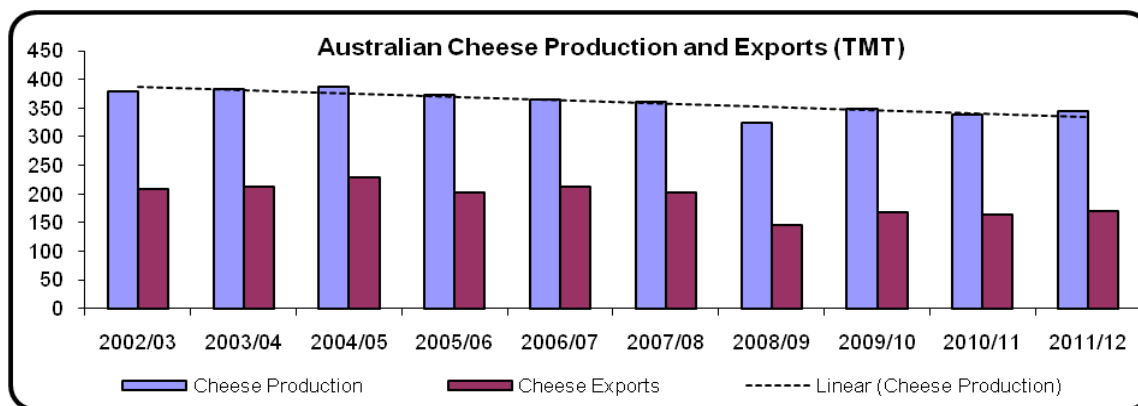
This new policy has drawn negative reaction from the Australian dairy industry and has received much media attention. Serious concerns were raised that the pricing strategy is unsustainable and anti-competitive.

## Dairy, Cheese

Cheese production for CY 2012 is forecast at 332 TMT, up around two percent on the revised estimate for the previous year. This increase is roughly in-line with the forecast increase in fluid milk supply.

Post's CY 2012 (Jan-Dec) forecast is largely in line with ABARES forecast of a two percent increase in cheese production for 2011/12 (July-June). Cheese prices are forecast to increase slightly in 2011/12 (July-June) and this also supports post's forecast. Post notes with interest that cheese prices appear to be the only major dairy commodity to have held firm since January 2011, while butter and milk powders have seen price declines.

Estimated production for CY 2011 has been revised to 325 TMT in line with partial-year industry data. For 2011/12 (July-June), industry reports that "cheddar" varieties remain the most popular and account for just under half of total cheese production while the "fresh" and "stretch" varieties account for 24 and 17 percent respectively.



Source: ABARES Data

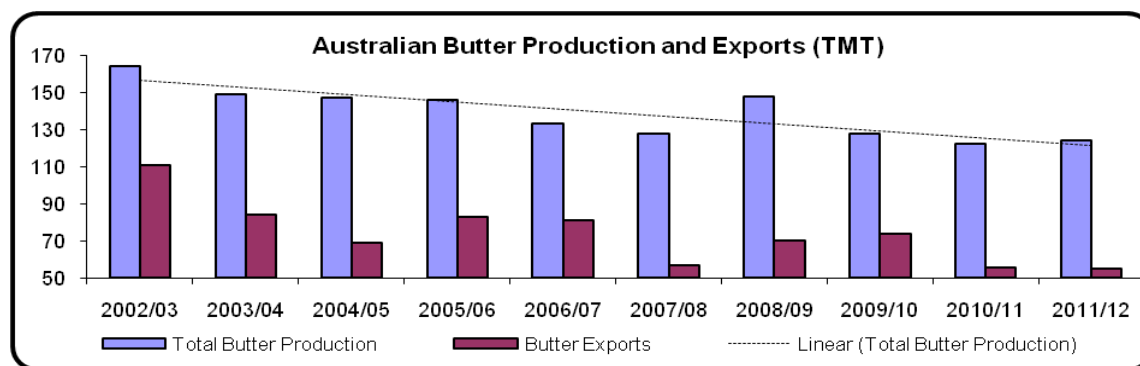
Exports of cheese for CY 2012 are also forecast to increase around two percent to 174 TMT in line with forecast increases in production. Imports of cheese from the United States appear to have increased in CY 2011 and are expected to increase again in CY 2012 driven by a stronger Australian dollar and strong demand from the food service sector.

According to historic ABARES data, Japan accounts for around 50 percent of the total value of cheese exports and around 53 percent of total volume.

## Dairy, Butter

Total butter production for CY 2012 is forecast to increase around two percent to 107 TMT in line with increased fluid milk supply. Butter prices are expected to ease somewhat in CY 2012, however post expects prices to remain "historically high" and will not likely significantly constrain production of butter going forward.

Estimated production for CY 2011 has been revised downwards slightly to 105 TMT. Partial-year industry data shows a fall in production for the CY 2011 year-to-date although the rate of decline appears to be falling on a month-by-month basis leading Post to revise full year production for CY 2011 downwards slightly.



Source: ABARES Data

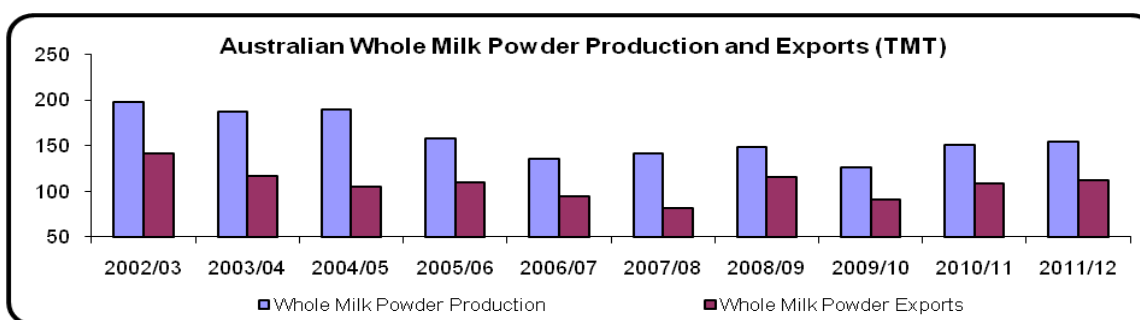
Butter exports for CY 2012 are forecast at 65 TMT, up on the revised estimate for the previous year and largely in-line with the forecast increase in production. Historically, butter production has tended to decline over time in line with consumer demand, however butter prices appear to have outperformed other dairy commodities in more recent years leading Post to believe production and exports are likely to grow somewhat in CY 2012.

Australia's export markets for butter remain diverse, with the top export market (Singapore) accounting for only 10 percent of total value and eight percent of total volume of exports. The top five export market account for only 34 percent of total value and only 32 percent of total volume.

### Dairy, Whole Milk Powder

Whole milk powder (WMP) production is expected to increase around two percent in CY 2012 in line with forecast increases in fluid milk production. This forecast increase remains modest when considering the recent large increases in production experienced in previous years.

Production for CY 2011 has been revised only slightly to 151 TMT. Monthly data for CY 2011 year-to-date shows production fluctuating widely although showing an increase in production overall.



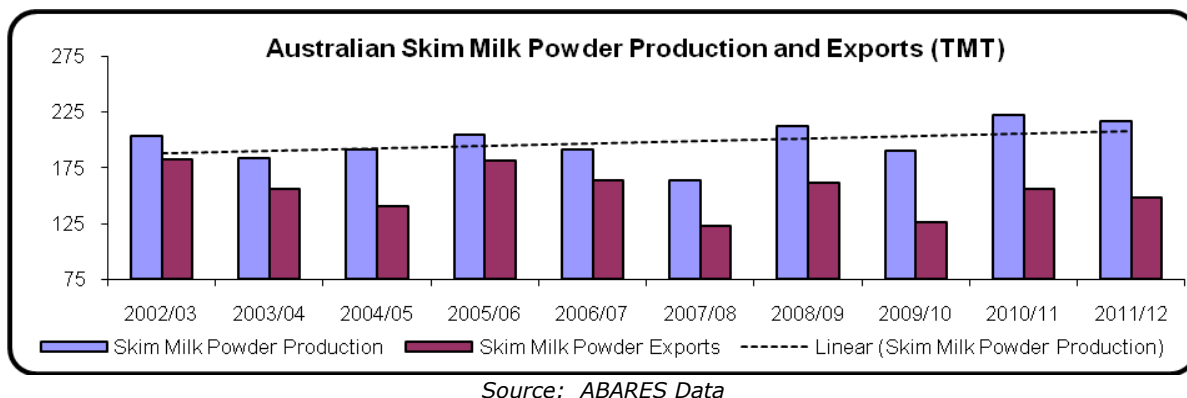
Source: ABARES Data

Exports for WMP are also forecast to grow around two percent in CY 2012, in line with increased production.

According to historical data, Singapore is Australia's largest accounts for around 18 percent of export value and around 15 percent of export volume.

## Dairy, Nonfat, Dry – Skim Milk Powder

Skim milk powder (SMP) production is forecast to increase around two percent in CY 2012 to 235 TMT. Estimated production for CY 2011 remains unchanged at 230 TMT.



Exports of SMP in CY 2011 are expected to increase around three percent largely in line with increases in production.

According to historical data, the is Australia's largest SMP export market is the Philippines which accounts for around 14 percent of total export market value while Singapore accounts for around 13 percent.

## Recent Reports from FAS/Canberra

The reports listed below can all be downloaded from the FAS website at:  
<http://www.fas.usda.gov/scriptsw/AttacheRep/default.asp>.

Title of Report	Date
<a href="#">Sugar Semi Annual 2011</a>	09/16/11
<a href="#">Livestock and Products Annual 2011</a>	08/31/11
<a href="#">FAIRS Country Report</a>	08/17/11
<a href="#">Stone Fruit Annual 2011</a>	08/11/11
<a href="#">US Cherries Break Through Quarantine Barrier into Western Australia</a>	07/19/11
<a href="#">Agricultural Biotechnology Report</a>	06/29/11
<a href="#">Exporter Guide</a>	06/22/11
<a href="#">Sugar Update 2011</a>	06/20/11
<a href="#">Ag DownUnder June 2011</a>	06/07/11
<a href="#">Dairy Semi Annual 2011</a>	05/09/11
<a href="#">Testing of Food from Japan - Update</a>	04/14/11
<a href="#">Sugar Annual 2011</a>	04/13/11

## 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	1,553	1,596	1,570	1,610		1,625
Cows Milk Production	9,327	9,327	9,600	9,550		9,750
Other Milk Production	0	0	0	0		0
Total Production	9,327	9,327	9,600	9,550		9,750
Other Imports	11	11	12	12		11
Total Imports	11	11	11	12		11
Total Supply	9,338	9,338	9,612	9,562		9,761
Other Exports	76	71	78	74		75
Total Exports	76	71	78	74		75
Fluid Use Dom. Consum.	2,284	2,284	2,300	2,320		2,350
Factory Use Consum.	6,978	6,983	7,234	7,168		7,336
Feed Use Dom. Consum.	0	0	0	0		0
Total Dom. Consumption	9,262	9,267	9,534	9,488		9,686
Total Distribution	9,338	9,338	9,612	9,562		9,761

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	23		24
Production	319	319	328	325		332
Other Imports	75	75	75	76		75
Total Imports	75	75	75	76		75
Total Supply	413	413	426	424		431
Other Exports	165	165	170	170		174
Total Exports	165	165	170	170		174
Human Dom. Consumption	225	225	230	230		235
Other Use, Losses	0	0	0	0		0
Total Dom. Consumption	225	225	230	230		235
Total Use	390	390	400	400		409
Ending Stocks	23	23	26	24		22
Total Distribution	413	413	426	424		431

1000 MT



<b>Dairy, Butter</b>	<b>2010</b>		<b>2011</b>		<b>2012</b>	
<b>Australia</b>	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	6	6	9	9		7
Production	108	108	109	105		107
Other Imports	19	19	18	18		17
Total Imports	19	19	18	18		17
Total Supply	133	133	136	132		131
Other Exports	63	63	63	63		65
Total Exports	63	63	63	63		65
Domestic Consumption	61	61	63	62		63
Total Use	124	124	126	125		128
Ending Stocks	9	9	10	7		3
Total Distribution	133	133	136	132		131

1000 MT

<b>Dairy, Dry Whole Milk Powder</b>	<b>2010</b>		<b>2011</b>		<b>2012</b>	
<b>Australia</b>	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	31	31	27	27		23
Production	147	147	155	151		154
Other Imports	15	15	15	16		15
Total Imports	15	15	15	16		15
Total Supply	193	193	197	194		192
Other Exports	137	137	145	141		144
Total Exports	137	137	145	141		144
Human Dom. Consumption	29	29	30	30		31
Other Use, Losses	0	0	0	0		0
Total Dom. Consumption	29	29	30	30		31
Total Use	166	166	175	171		175
Ending Stocks	27	27	22	23		17
Total Distribution	193	193	197	194		192

1000 MT

