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Australia

Dairy and Products Semi-annual

2011

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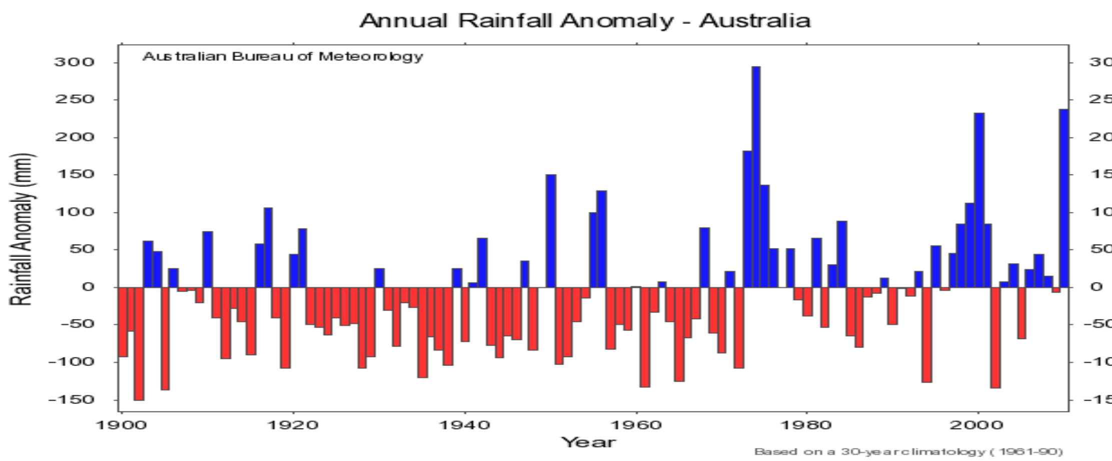
Report Highlights:

Dairy production and exports are forecast to increase in CY 2011 as production conditions continue to improve. This represents a turnaround in the long-term decline experienced in the dairy industry since the drought began in CY 2002. A shortage of dairy cows for herd expansion is expected to constrain larger increases in production while a high Australian dollar value is expected to constrain exports from exceeding Post's forecasts. Robust domestic economic growth is expected to see domestic consumption continue to grow.

Summary:

Eastern Australia appears to have fully recovered from the severe and record breaking drought which commenced in CY 2002 and began to end with widespread and soaking rains on Christmas day 2009. CY 2010 has been compared with the legendary rainfall year of 1974 which saw devastating cyclones in northern Australia (Cyclone Tracey) and heavy flooding in southern and eastern Australia.

Flooding in 2010, particularly in the key dairy producing areas of northern Victoria, constrained dairy production below Post's previous expectations. Normal rainfall conditions have been assumed in CY 2011 and this should see production increase.



Source: Australian Bureau of Meteorology Data

Widespread rainfall and flooding has seen irrigation reservoirs completely recharged and this is expected to boost production of fluid milk going forward, particularly in the crucial irrigation areas of northern Victoria and southern NSW. Fodder availability has also improved sharply and, combined with improved pasture conditions, should see milk yield continue to increase.

The greatest constraint to fluid milk production going forward is the shortage of dairy cattle available for herd expansion. This will likely constrain production, at least partially, for 2011 and beyond. Consecutive years of drought have seen the dairy herd fall to its lowest level in memory.

Despite increased domestic supplies of grain, historically high grain prices are also likely to place some constraint on fluid milk production. However, improved supplies of irrigation water are likely to see larger volumes of pasture produced, mostly circumventing the effect of high grain prices.

The Australian dollar recently reached a record high of $US1.10 and this is expected to see growth in exports somewhat constrained in CY 2011. Strong growth in the Australian economy is likely to see domestic consumption continue to grow steadily in CY 2011 and beyond. Imports of US cheese are likely to continue to grow.

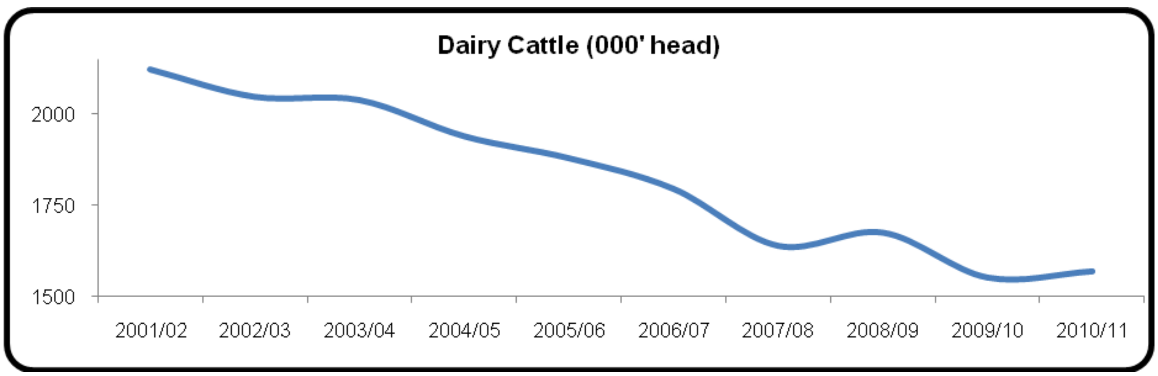
Commodities:

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 1.57 million head in CY 2011, up slightly on the estimated 1.55 million head for CY 2010, representing the first substantial increase in cow numbers since CY 2001. Prices received for dairy cows are historically high, driven by a sharp increase in demand as producers seek to increase herd numbers in response to improved seasonal conditions.



Source: ABARES Data

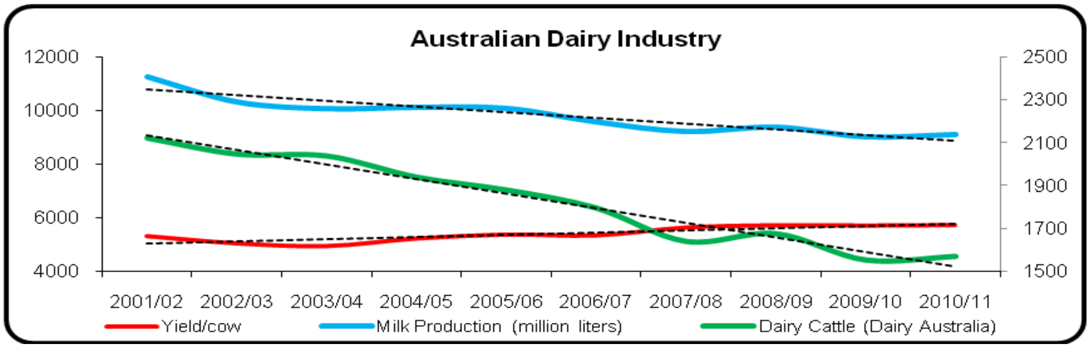
Dairy cow numbers have been falling in Australia since 1965, according to historic ABARES figures, as the industry continues to rationalize. The primary reason for falling cow numbers has been a decline in dairy farms and increased cow productivity levels. Over time, the total number of farms has continued 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 steadily going forward. Industry sources urge caution in regards to the potential for increases in cow numbers. Falling farm numbers, milk price discounting and competition for land and labor from other industries are expected to continue to slow the growth in total cow numbers for the foreseeable future. ABARES expects improved fodder supply and pasture conditions to see modest consecutive increases in cow numbers out to 2014/15.

Traditionally, Australian dairy farms have been located adjacent to large urban populations in capital cities on the coast. However, as urban development has increased, producers have sold their land and relocated to larger regional holdings in inland Australia. Technology advances in irrigation and transport have aided this relocation. Many producers selling farms have opted to retire and exit the industry and this has seen farm numbers fall.

Fluid Milk Production

Fluid milk production for CY 2011 is forecast to increase to 9.6 MMT and represents the first increase in fluid milk supply since CY 2002. A continued increase in milk yield per cow is expected to see production increase, assisted somewhat by a small increase in cow numbers.



Source: ABARES Data

Despite the forecast increase in fluid milk production in CY 2011 to 9.6 MMT (9.32 billion liters), this level would be considered well below the historical average.

Fluid milk production for CY 2010 has been revised downwards to 9.33 MMT, below the 9.4 MMT previously reported by Post. Despite improved irrigation water supplies previously expected to lift production, persistent heavy rainfall combined with flooding in the worst affected areas prevented increases in fluid milk production previously expected by Post. Industry sources suggest these conditions effectively limited access to pasture and created shortages of pelletized fodder commonly fed indoors.

Policy – Pricing

Australia purports to have the only deregulated dairy industry in the world. However, since deregulation in CY 2001, the pricing of fresh milk at the retail level has been controversial. Accusations of large retailers unsustainably discounting retail milk to the detriment of farm gate prices persist and have been very loud in CY 2011.

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 as little as AUS$1 per liter in Coles supermarkets. This compares to double the price for "branded" milk.

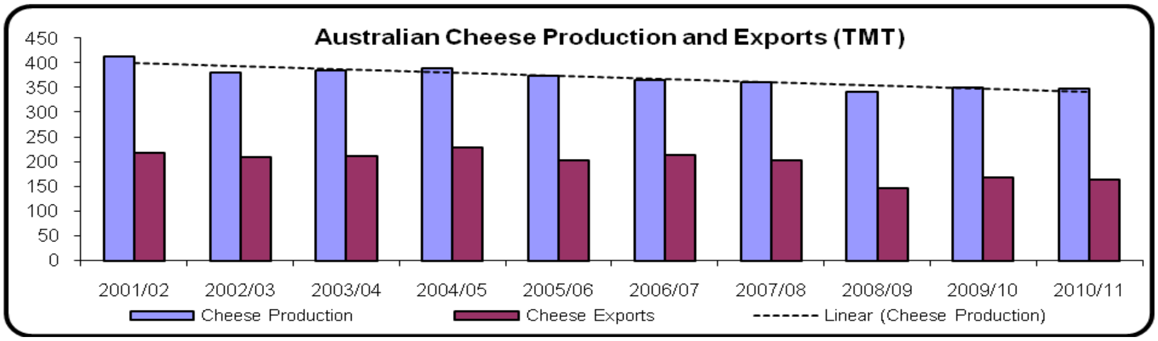
This new policy has drawn negative reaction from the Australian dairy industry and has received much media attention. Serious concerns were raised that the pricing strategy was unsustainable and anti-competitive.

The issue was referred to a Senate Committee in February 2011. The Committee has received 151 submissions and has held public hearings. The committee has recommended that "the government table a formal response to the recommendations outlined in the previous Senate Committee Inquiry into dairy pricing" (conducted in CY 2010) before further recommendations can be made. http://www.aph.gov.au/senate/committee/economics_ctte/dairy_industry_supermarket_2011/interim_report/report.pdf

Dairy, Cheese

Cheese production for CY 2011 is forecast at 328 TMT, up around three percent on the revised estimate for the previous year. This increase is roughly in-line with the forecast increase in fluid milk supply.

Estimated production for CY 2010 has been revised downwards to 319 TMT in line with up-to-date industry data. An unforeseen shortfall in the supply of fluid milk due to flooding and heavy rain is likely to have constrained cheese production in CY 2010. According to ABARES reports, stronger demand for other dairy commodities (such as milk powders) is likely to have encouraged the production of other dairy commodities.

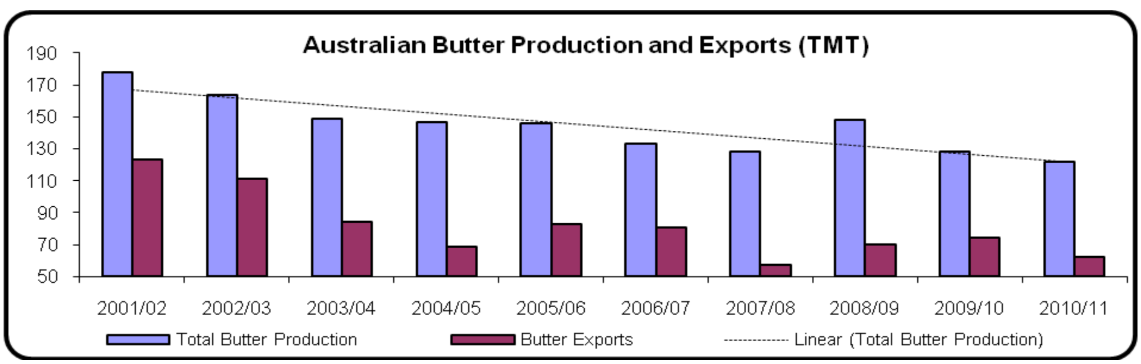


Source: ABARES Data

Exports of cheese for CY 2011 are forecast to increase around three percent to 170 TMT in line with forecast increases in production. Imports of cheese from the United States increased again in CY 2010 driven by a stronger Australian dollar and strong demand from the food service sector. Industry sources report a large Australian pizza chain recently switching to US cheese for pizza production.

Dairy, Butter

Total butter production for CY 2011 is forecast to increase to 111 TMT in line with increased fluid milk supply. Estimated production for CY 2010 has been revised downwards slightly to 108 TMT in line with up-to-date industry data

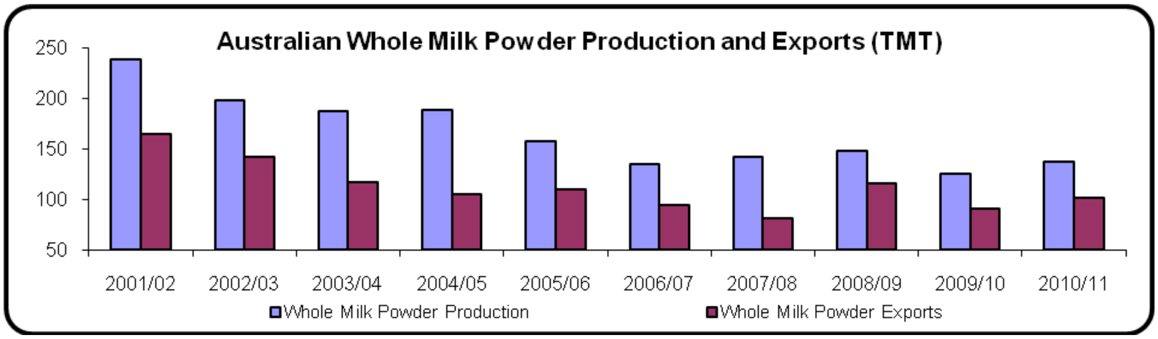


Source: ABARES Data

Exports are forecast at 66 TMT, up on the revised estimate for the previous year. Historically, butter production has tended to decline over time in line with consumer demand, exports however have tended to fluctuate more widely.

Dairy, Whole Milk Powder

Whole milk powder (WMP) production is expected to increase around three percent in CY 2011 following large increases in CY 2010. The recent large increases appear to be slowing in CY 2011, according to monthly industry production data.

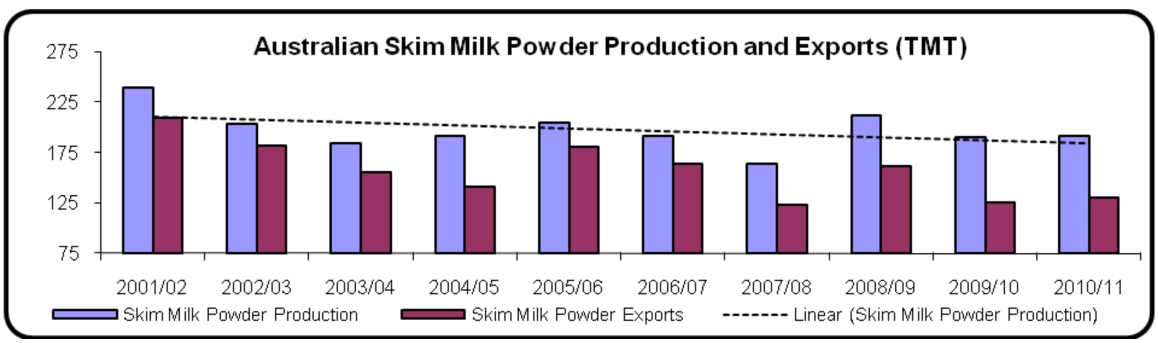


Source: ABARES Data

Exports for WMP are also forecast to grow around three percent in CY 2011, despite the large upward revision for exports in CY 2010. A record high value for the Australian dollar, which recently reached $US1.10, is expected to cool export demand in CY 2011 and this is expected to see both production and exports of WMP fall.

Dairy, Nonfat, Dry – Skim Milk Powder

Skim milk powder (SMP) production is forecast to increase around three percent in CY 2011 to 230 TMT. This increase remains well below the revised estimated increase for CY 2010. Improved milk supply is expected to be partially offset by more subdued export demand and this is expected to see production increases in the region of three percent.



Source: ABARES Data

Exports of SMP in CY 2011 are expected to increase around three percent in line with increases in production. Larger export volumes are expected to be constrained by the record high value of the Australian dollar at time of writing this report. Exports for CY 2010 have been revised upwards.

Statistical Tables

Dairy, Milk, Fluid Australia	2009		2010		2011	
	Market Year Begin: Jan 2009		Market Year Begin: Jan 2010		Market Year Begin: Jan 2011	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Cows In Milk	1,676	1,676	1,630	1,553	1,650	1,570
Cows Milk Production	9,326	9,326	9,400	9,327	9,700	9,600
Other Milk Production	0	0	0	0	0	0
Total Production	9,326	9,326	9,400	9,327	9,700	9,600
Other Imports	7	7	10	11	11	12
Total Imports	7	7	10	11	11	12
Total Supply	9,333	9,333	9,410	9,338	9,711	9,612
Other Exports	74	71	76	76	78	78
Total Exports	74	71	76	76	78	78
Fluid Use Dom. Consum.	2,272	2,272	2,300	2,284	2,350	2,300
Factory Use Consum.	6,987	6,990	7,034	6,978	7,283	7,234
Feed Use Dom. Consum.	0	0	0	0	0	0
Total Dom. Consumption	9,259	9,262	9,334	9,262	9,633	9,534
Total Distribution	9,333	9,333	9,410	9,338	9,711	9,612
1000 HEAD, 1000 MT						

Dairy, Cheese Australia	2009		2010		2011	
	Market Year Begin: Jan 2009		Market Year Begin: Jan 2010		Market Year Begin: Jan 2011	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	15	15	19	19	31	23
Production	321	321	335	319	345	328
Other Imports	65	65	67	75	65	75
Total Imports	65	65	67	75	65	75
Total Supply	401	401	421	413	441	426
Other Exports	162	162	165	165	180	170
Total Exports	162	162	165	165	180	170
Human Dom. Consumption	220	220	225	225	230	230
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	220	220	225	225	230	230
Total Use	382	382	390	390	410	400
Ending Stocks	19	19	31	23	31	26
Total Distribution	401	401	421	413	441	426
1000 MT						

Dairy, Butter Australia	2009		2010		2011	
	Market Year Begin: Jan 2009		Market Year Begin: Jan 2010		Market Year Begin: Jan 2011	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	13	13	6	6	8	9
Production	118	118	110	108	113	111
Other Imports	18	18	19	19	20	19
Total Imports	18	18	19	19	20	19
Total Supply	149	149	135	133	141	139
Other Exports	83	83	66	63	72	66
Total Exports	83	83	66	63	72	66
Domestic Consumption	60	60	61	61	62	63
Total Use	143	143	127	124	134	129
Ending Stocks	6	6	8	9	7	10
Total Distribution	149	149	135	133	141	139
1000 MT						

Dairy, Dry Whole Milk Powder Australia	2009		2010		2011	
	Market Year Begin: Jan 2009		Market Year Begin: Jan 2010		Market Year Begin: Jan 2011	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	40	40	31	31	27	27
Production	137	137	120	147	130	150
Other Imports	15	15	15	15	15	15
Total Imports	15	15	15	15	15	15
Total Supply	192	192	166	193	172	192
Other Exports	133	133	110	137	120	140
Total Exports	133	133	110	137	120	140
Human Dom. Consumption	28	28	29	29	30	30
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	28	28	29	29	30	30
Total Use	161	161	139	166	150	170
Ending Stocks	31	31	27	27	22	22
Total Distribution	192	192	166	193	172	192
1000 MT						

Dairy, Milk, Nonfat Dry Australia	2009		2010		2011	
	Market Year Begin: Jan 2009		Market Year Begin: Jan 2010		Market Year Begin: Jan 2011	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	42	42	32	32	60	48
Production	203	203	200	222	206	230
Other Imports	4	4	4	5	4	6
Total Imports	4	4	4	5	4	6
Total Supply	249	249	236	259	270	284
Other Exports	167	167	125	160	160	165
Total Exports	167	167	125	160	160	165
Human Dom. Consumption	50	50	51	51	52	52
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	50	50	51	51	52	52
Total Use	217	217	176	211	212	217
Ending Stocks	32	32	60	48	58	67
Total Distribution	249	249	236	259	270	284
1000 MT						

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
Testing of Food from Japan - Update	04/14/11
Sugar Annual 2011	04/13/11
Additional Testing Required for Japanese Food Products	04/08/11
Cotton and Products Annual	04/04/11
Grain and Feed Annual 2011	03/29/11
Livestock and Products Semi-annual 2011	03/18/11
Wine Annual 2011	03/10/11
Public Attitudes Towards Agricultural Biotechnology in Australia	03/08/11
Review of Food Labeling & Policy	02/24/11
Grain & Feed Lock-Up – February 2011	02/01/11
Citrus Annual 2010	12/15/10
Ag DownUnder - Issue 7 2010	12/10/10
Winter crop harvest under way as rain continues in eastern Australia	11/30/10
Australia Moves toward Phasing Out the Use of Sow Gestation Stalls	11/24/10
Dairy and Products Annual 2010	11/23/10
Grain and Feed Lock-Up – November 2010	10/28/10
Ag DownUnder – Issue 6 2010	10/15/10
Sugar Semi Annual 2010	09/29/10
Livestock and Products Annual	09/01/10