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Report Highlights:

Australia's milk production in 2026 is estimated to increase by 1.4 percent to 8.6 million metric tons, following a 2.1 percent decrease in 2025. This is a partial recovery after drought conditions impacted southwest Victoria and South Australia. This milk production growth is supported by firm farmgate milk prices, improved seasonal conditions, and relatively low feed grain costs. Domestic fluid milk consumption in 2026 is expected to decline by 0.5 percent, continuing a long-term downward trend. Factory-use milk consumption is projected to increase by 1.8 percent, largely reflecting the anticipated rise in milk production. Consequently, output of manufactured dairy products is expected to increase modestly. Exports of fluid milk, cheese, skim milk powder and butter are projected to increase in 2026. At the same time, imports of cheese and butter are expected to reach record levels, driven by strong growth in shipments from the United States.

EXECUTIVE SUMMARY

Australia's milk production in 2026 is estimated to increase by 1.4 percent to 8.60 million metric tons (MMT), following a notable 2.1 percent decline in 2025. The increase represents a partial recovery from drought conditions that affected southwest Victoria, one of Australia's major dairy-producing regions, and South Australia. Improved seasonal conditions, firm farmgate milk prices announced for the 2026/27 season, and relatively lower feed grain costs are expected to support the recovery in production. These positive factors are anticipated to outweigh the impact of sharply higher fuel and fertilizer costs associated with the ongoing Middle East situation.

Domestic fluid milk consumption in 2026 is projected to decline by 0.5 percent to 2.40 MMT, reflecting a return to the longer-term trend of gradually declining consumption following a modest increase in 2024.

Consumer preferences in 2025 continued to favor full-fat and flavored milk products, while demand for ultra-high temperature (UHT) and reduced-fat milk declined. Factory-use milk consumption in 2026 is forecast to increase by 1.8 percent to 6.01 MMT, primarily due to the expected increase in overall milk production.

With factory-use milk consumption projected to rise modestly in 2026, production of manufactured dairy products is also expected to increase slightly from the previous year. Cheese and skim milk powder (SMP) production are forecast to increase marginally, while butter and whole milk powder (WMP) production are expected to remain relatively unchanged, albeit at historically low levels. Dairy processors are expected to continue prioritizing cheese production to maximize economic returns, with approximately 61 percent of factory-use milk allocated to cheese manufacturing.

Fluid milk exports are forecast to increase in 2026 for the second consecutive year, supported by signs of strengthening demand in two key export markets following a trough in 2024. Cheese and SMP exports are also projected to increase by 1.7 percent and 1.9 percent, respectively, supported by higher production volumes. Butter exports are expected to rise modestly from a relatively low base. In contrast, WMP exports are projected to decline by 20 percent following weak trade performance during the first three months of 2026.

Cheese imports are forecast to increase by 4.3 percent in 2026, reaching a record level as imports from the United States continue to expand at the expense of New Zealand. Butter imports are also projected to rise to match the record level reached in 2023, similarly driven by increased shipments from the United States and reduced market share for New Zealand suppliers. WMP imports are also anticipated to increase modestly in 2026, but with imports double that of domestic consumption, this is driven by export demand for value added product. SMP imports remain relatively low and are expected to remain stable in 2026.

FLUID MILK

Production

2026 Milk Production Estimate

FAS/Canberra has revised its estimate for Australia's 2026 milk production upward by 0.6 percent to 8.60 MMT, an increase of 1.4 percent over 2025.

The upward revision reflects a stronger-than-anticipated recovery from drought conditions in southwest Victoria and South Australia. In addition, processors have announced opening milk prices for the 2026/27 season that are firm, although slightly below the final prices received during 2025/26. While dairy farmers continue to face higher fuel and fertilizer costs associated with the ongoing Middle East situation, lower feed grain prices during the first half of 2026 and strong milk prices are expected to support modest growth in milk production.

Most dairy-producing regions have experienced a favorable autumn break, creating good pasture growth conditions for late autumn and early winter. However, the Australian Bureau of Meteorology (BOM), together with several international forecasting agencies, has indicated a strong likelihood that El Niño conditions could develop later in 2026. El Niño is typically associated with below-average rainfall and drought conditions across much of eastern Australia. Consequently, the revised production forecast remains cautious despite the positive start to the year.

Australian milk production increased by 1.6 percent during the first three months of 2026 compared with the same period in 2025, with production continuing to trend upward.

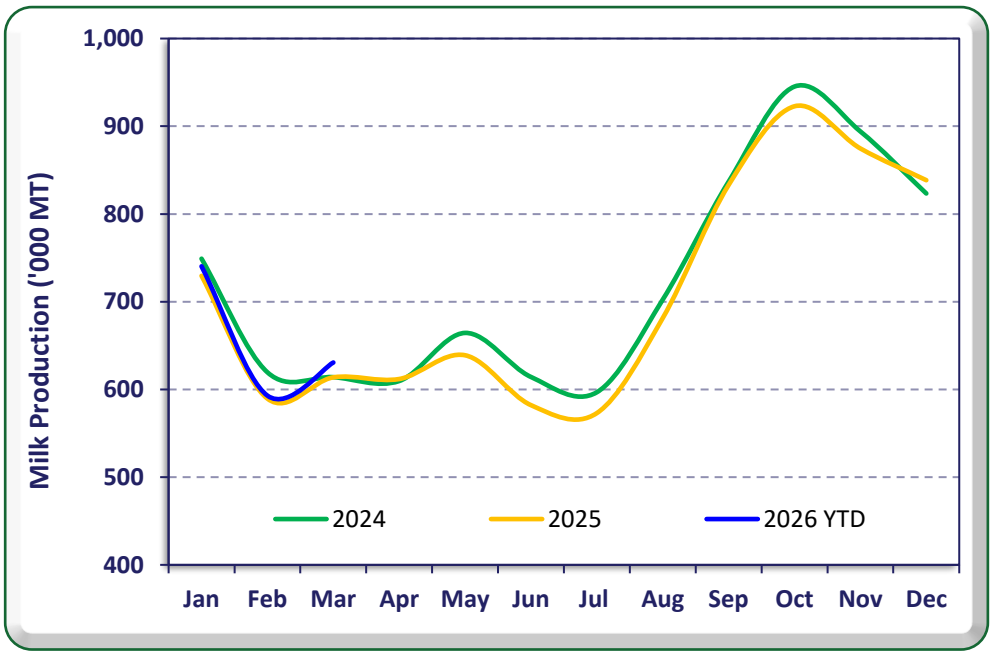
Milk production in Australia is highly seasonal. Most dairy farmers, particularly in the southern states, calve during late autumn and winter so that peak lactation coincides with spring pasture growth when temperate regions provide optimal pasture quantity and quality. Milk production typically peaks in October before gradually declining through the remainder of the season. As a result, conditions during the spring period often determine production outcomes for the entire lactation cycle.

During 2025, southwest Victoria and South Australia, which together account for approximately 28 percent of national milk production, remained affected by drought through the critical spring production period. However, drought-breaking rainfall arrived in late spring, particularly during November 2025, improving pasture conditions and supporting stronger milk production in December. These improved seasonal conditions have contributed to the 1.6 percent increase in milk production recorded during the first quarter of 2026 (see Figure 1).

Milk production prospects for the remainder of 2026 will depend largely on conditions during the second half of the year. Key factors include spring rainfall during peak pasture growth months and feed grain costs. While production is expected to remain strong through winter, the development of El Niño

conditions later in 2026 could offset some of these gains during the spring period (September to November).

Figure 1 – Australian Milk Production – January 2024 to March 2026



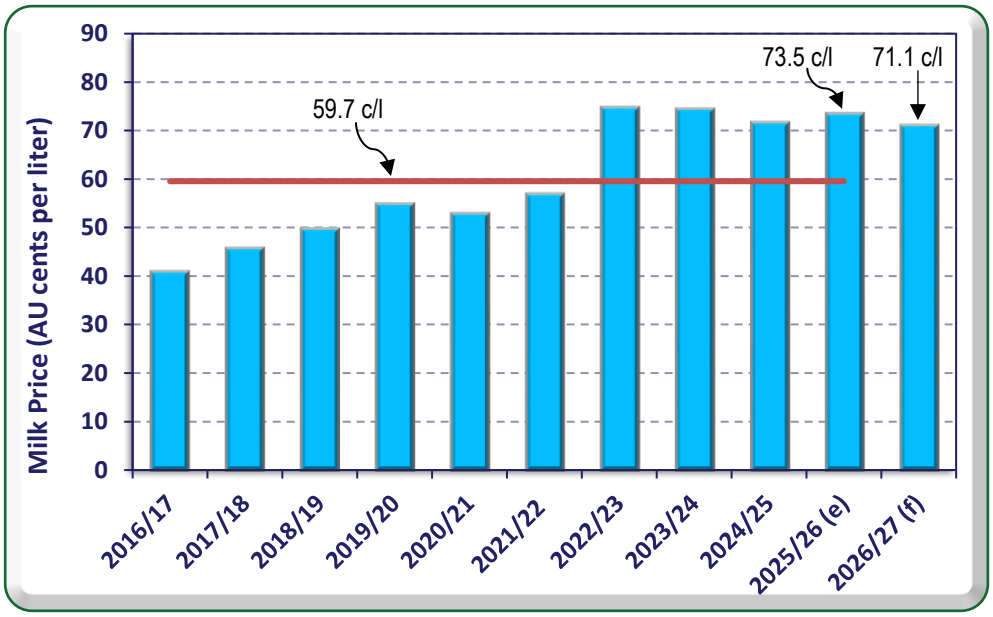
Source: *Dairy Australia*

Strong Milk Price Support

The Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES) forecast the average farmgate milk price for 2026/27 to decline slightly from the previous season while remaining approximately 20 percent above the 10-year average (see Figure 2). Opening milk price announcements for the 2026/27 season, which typically increase as the season progresses, support the ABARES forecast.

Current milk price levels remain historically strong and would normally encourage more rapid production growth. However, elevated fuel and fertilizer costs, together with uncertainty surrounding seasonal conditions, are expected to moderate expansion in milk production during 2026.

Figure 2 – Farm Gate Milk Price – Recent History and Forecast

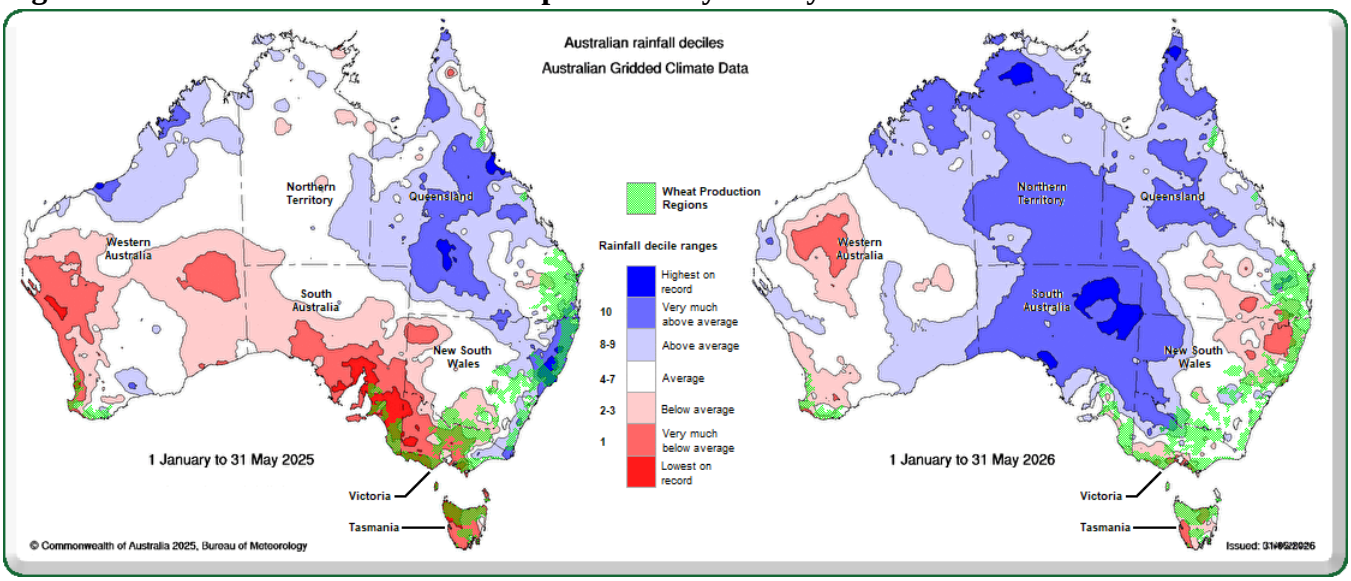


Source: *Australian Bureau of Agricultural and Resource Economics and Sciences*
Note: *(e) = estimate, (f) = forecast*

Seasonal Conditions for 2026

Rainfall across most southern dairy-producing regions during the first five months of 2026 improved markedly compared with the same period in 2025 (see Figure 3). These improved conditions have supported the increase in milk production recorded during the first quarter of 2026 and are expected to underpin greater growth in the coming months.

Figure 3 – Australia Rainfall Decile Maps – January to May 2025 and 2026



Source: *Australian Bureau of Meteorology / Dairy Australia*

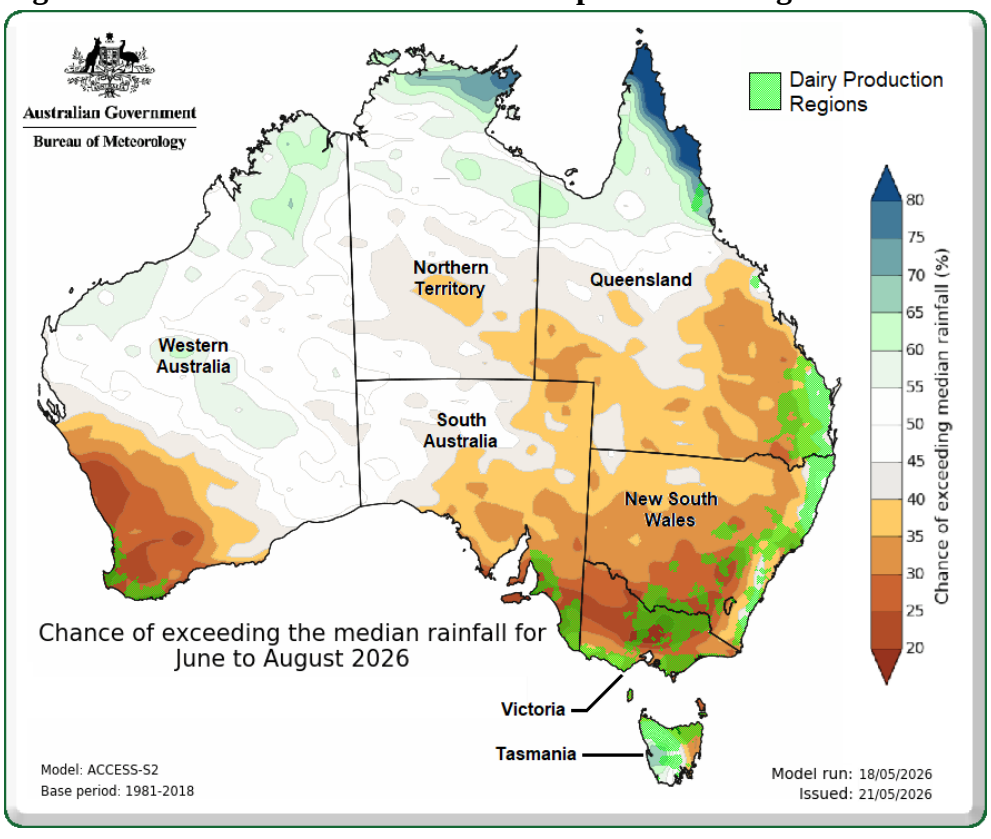
Despite the favorable start to the year, BOM and several international forecasting agencies indicate an increased likelihood that El Niño conditions could develop later in 2026, potentially becoming a strong event. In Australia, El Niño is typically associated with widespread drought conditions across the eastern states, while impacts are generally less severe in Western Australia.

Given that most of Australia's dairy industry is concentrated in the eastern states, widespread drought conditions would have significant implications for milk production. As a result, the FAS/Canberra forecast incorporates a degree of caution despite the favorable seasonal conditions experienced thus far.

The BOM forecast for June to August 2026 indicates a below-average probability of receiving median rainfall across most dairy-producing regions (see Figure 4). If realized, these conditions could erode some of the production gains achieved earlier in the year.

While any El Niño-related impacts on milk production during 2026 are expected to be relatively moderate, a more significant effect could emerge in 2027 if spring pasture growth, hay production, silage production, and feed grain yields are adversely affected. Reduced fodder availability and higher feed costs would likely place greater pressure on milk production in the following year.

Figure 4 – Australia Rainfall Forecast Map – June to August 2026



Source: Australian Bureau of Meteorology / Dairy Australia

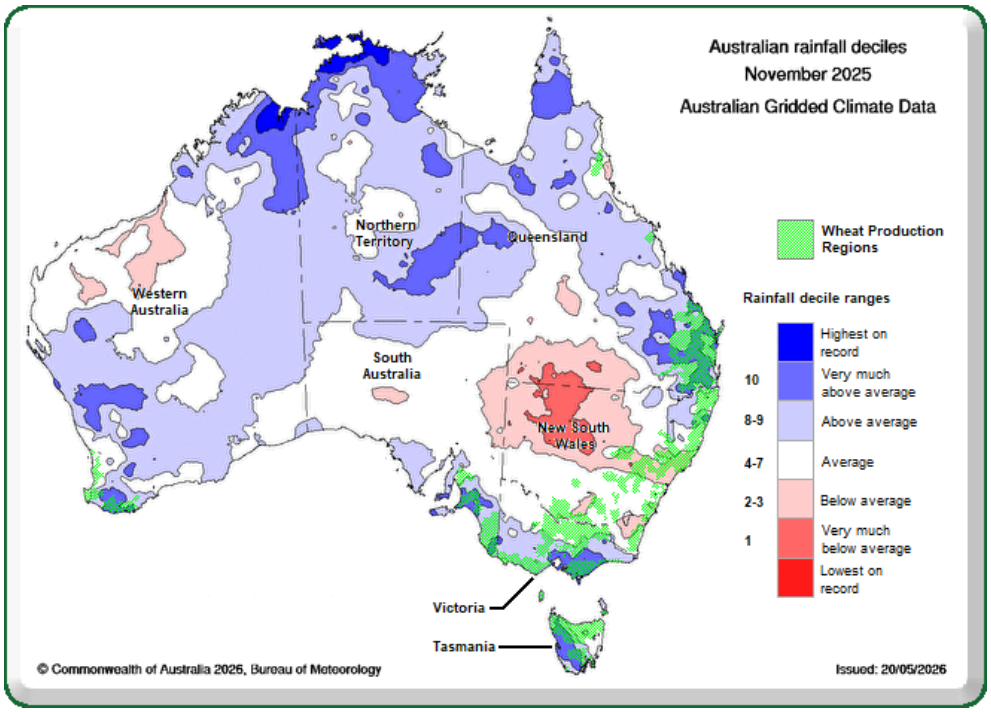
Fodder from late Spring 2025 Supports 2026 Output

Industry sources report that although spring conditions were initially dry during 2025, average rainfall in October followed by above-average rainfall in November across southern dairy regions (see Figure 5) resulted in above-average hay and silage production.

As a result, many dairy farmers entered 2026 with substantial fodder reserves, placing them in a relatively strong position to manage through forecast dry conditions and potential El Niño impacts later in the year.

Nevertheless, if El Niño conditions substantially reduce spring pasture growth during 2026, some impact on milk production is likely. More importantly, reduced hay and silage production would limit fodder reserves available for 2027, potentially creating greater production challenges in the following year.

Figure 5 – Australia Rainfall Decile Map – November 2025

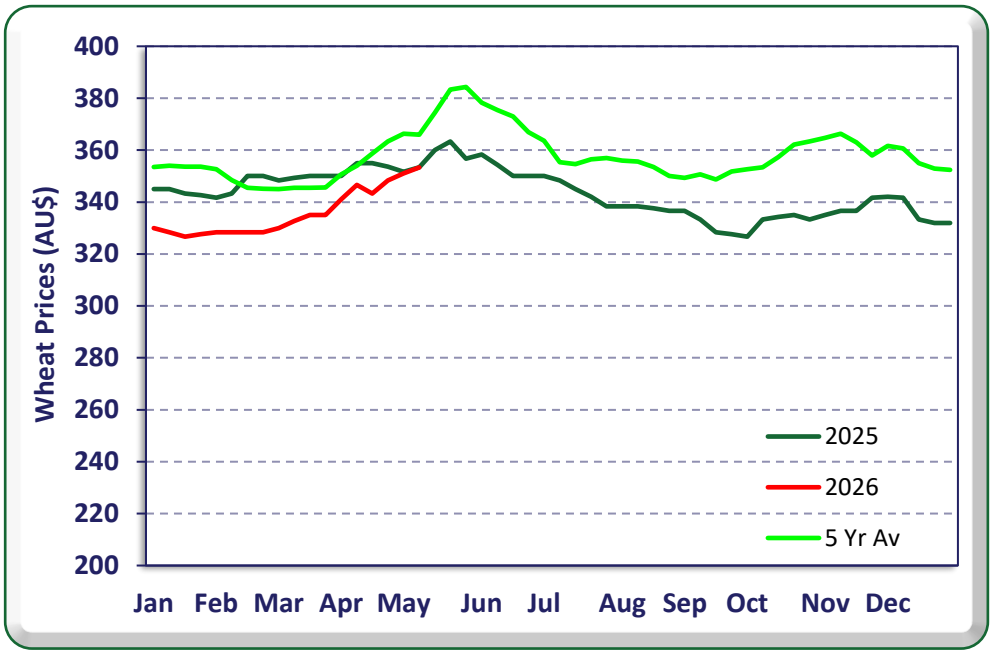


Source: Australian Bureau of Meteorology / Dairy Australia

Feed Grain Prices Support Milk Production in 2026

Feed grain prices during the first five months of 2026 averaged approximately five percent below both the previous year's levels and the five-year average (see Figure 6). Although prices have risen in recent months in response to changing global supply and production prospects, they remain below historical averages and continue to support dairy farm profitability.

Figure 6 – Feed Wheat Price Trends in Victorian Dairying Regions



Source: *Dairy Australia*

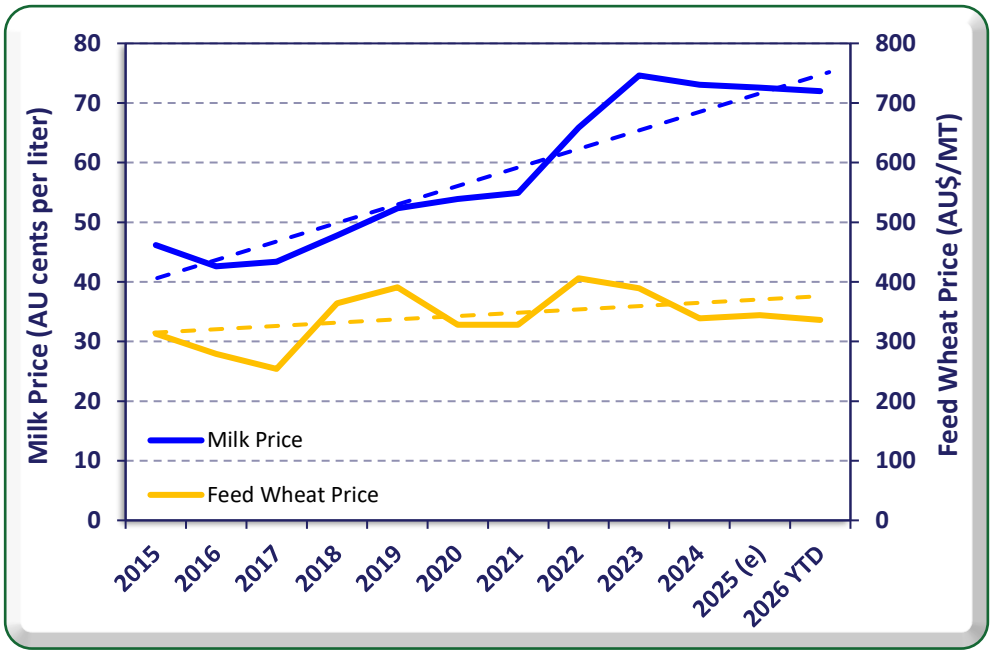
Over the past decade, farmgate milk prices have increased substantially faster than feed grain prices (see Figure 7). The widening margin between milk prices and feed costs has improved the economics of supplementary grain feeding and contributed to higher milk production per cow.

This structural change has also strengthened the industry's resilience to drought. Historically, drought conditions often resulted in herd reductions and lower milk production because of the high cost of purchased feed. In recent years, however, favorable milk-to-feed price ratios have enabled producers to increase grain feeding rates and maintain production despite lower pasture availability.

At the same time, dairy farmers have expanded their use of silage and improved fodder storage practices, enabling them to build reserves during favorable seasons and draw upon them during dry periods. Consequently, the impact of drought on herd size, per-cow productivity, and overall milk production can now be mitigated more effectively than in the past.

Should El Niño conditions emerge later in 2026, the effect on milk production is expected to be less severe than during previous drought events. However, if dry conditions significantly reduce spring pasture growth, hay and silage production, and domestic grain output, the more substantial production impacts would likely occur in 2027 through reduced fodder availability and higher feed costs.

Figure 7 – Milk and Grain Price Trends – 2015 to May 2026



Source: *Australian Bureau of Agricultural and Resource Economics and Sciences*
Dairy Australia
Note: *(e) = estimate*

2025 Milk Production

FAS/Canberra has marginally revised its 2025 milk production estimate to 8.49 MMT. This production was 2.1 percent below the 2024 level, based on final production data published by Dairy Australia.

The decline in 2025 production primarily reflected drought conditions in southwest Victoria and South Australia, which together typically account for approximately 28 percent of Australia's milk production.

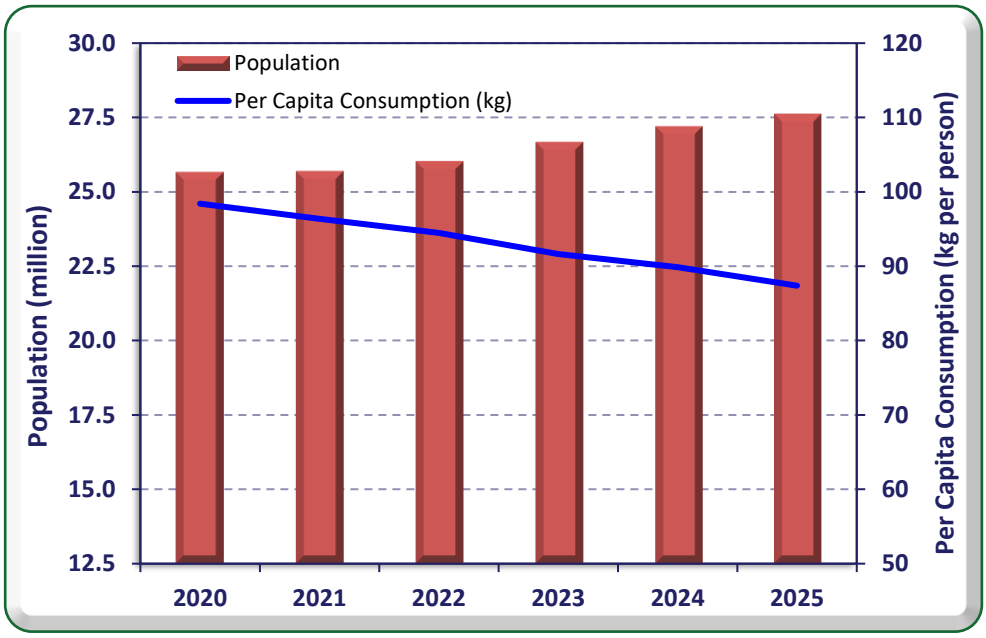
Consumption

2026 Milk Consumption Estimate

FAS/Canberra has marginally revised its 2026 fluid milk consumption estimate upward to 2.40 MMT, reflecting slightly stronger-than-expected consumption in 2025. Despite this revision, fluid milk consumption in 2026 is forecast to decline by 0.5 percent from the previous year, consistent with the longer-term downward trend in consumption following a modest increase recorded in 2024.

Per capita fluid milk consumption continues to decline by approximately two to three percent annually. However, the impact on total consumption is partially offset by Australia's growing population (see Figure 8).

Figure 8 – Population and Per Capita Consumption Trend



Source: Australian Bureau of Statistics / Dairy Australia

2025 Milk Consumption

Fluid milk consumption in 2025 declined by 1.3 percent from the previous year to 2.41 MMT. While this decrease is larger than the average annual decline observed in recent years, it follows an unexpected increase in consumption during 2024. As a result, 2025 consumption is viewed as a return to the longer-term downward trend.

Consumer preferences remained relatively stable during 2025. Full-fat milk continued to dominate the market, accounting for 59 percent of total fluid milk consumption. Flavored milk continued its gradual expansion, increasing its share of consumption from 10.1 percent in 2024 to 10.5 percent in 2025. In contrast, ultra-high temperature (UHT) milk continued its long-term decline, with its market share falling from 10.5 percent to 10.2 percent over the same period. Reduced-fat milk consumption also declined in volume terms, although its share of total consumption remained broadly unchanged.

2026 Milk Factory Consumption

Factory use of milk in 2026 is estimated at 6.006 MMT, an increase of 1.8 percent from 5.901 MMT in 2025. The increase primarily reflects the anticipated recovery in milk production during 2026.

Higher milk availability is expected to support increased processing volumes, particularly for manufactured dairy products. The increase in factory use is expected to be partially offset by modest growth in fluid milk exports, while a small decline in domestic fluid milk consumption will provide additional milk supplies for processing.

2025 Milk Factory Consumption

Factory use of milk in 2025 is estimated at 5.901 MMT, representing a 2.7 percent decline from the previous year. The decrease was primarily driven by lower milk production resulting from drought conditions in southwest Victoria and South Australia, which together account for approximately 28 percent of Australia's milk production.

Reduced milk availability constrained processing volumes across the dairy manufacturing sector, contributing to lower production of several manufactured dairy products during 2025.

Trade

Exports

2026 Milk Fluid Export Estimate

Following a period of rapid growth between 2010 and 2021, Australian fluid milk exports declined sharply from 2022 through 2024 before beginning to recover in 2025. FAS/Canberra estimates this recovery to continue in 2026, with fluid milk exports projected to increase by 10 percent to 200,000 MT.

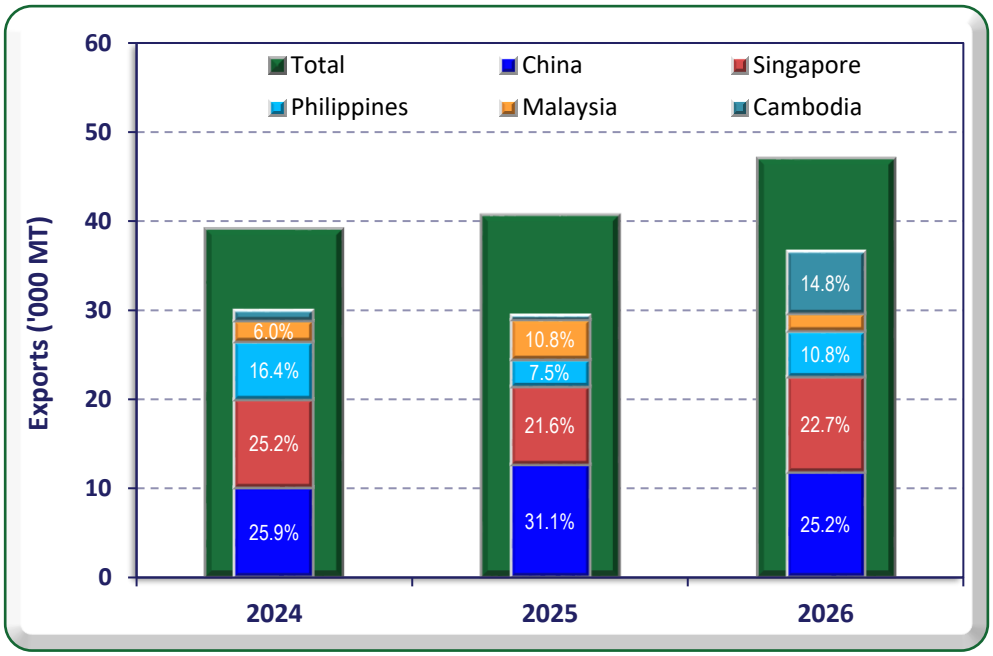
The anticipated growth is being driven primarily by strengthening demand in Southeast Asia, which is increasingly offsetting weaker demand from China. During the first quarter of 2026, fluid milk exports totaled 47,100 MT, an increase of 15.6 percent compared with the same period in 2025.

Although Australia exports fluid milk to more than 40 countries, the five largest destinations typically account for over 75 percent of total export volume. China remains the largest market, despite exports declining slightly during the first quarter of 2026. By contrast, exports to Singapore increased by more than 20 percent, while shipments to Cambodia continued their strong upward trend. Growth in exports to Cambodia accelerated during the first three months of 2026, making it Australia's third-largest export market for fluid milk (see Figure 9).

China's importance as a destination for Australian fluid milk has diminished in recent years as its domestic milk production has expanded. According to FAS/Beijing, China has experienced surplus fluid milk production since 2022, resulting in reduced import demand. The oversupply has contributed to lower farmgate milk prices, industry consolidation, and increased investment by processors in cheese, butter, and milk powder manufacturing capacity.

Given these structural changes in the Chinese dairy sector, a return to the record levels of Australian fluid milk exports achieved in that market prior to 2022 is not expected in the near term. Instead, future export growth is likely to be driven primarily by expanding demand in Southeast Asian markets.

Figure 9 – Major Milk Fluid Exports – January to March 2024 to 2026



Source: *Australian Bureau of Statistics*

2025 Milk Fluid Exports

According to final trade data from the Australian Bureau of Statistics, Australia's fluid milk exports totaled 182,000 MT in 2025, an increase of 7.5 percent from 2024.

Despite this recovery, export volumes remained approximately 55 percent below the record level of 402,400 MT reached in 2021. The decline from peak export levels has been largely driven by reduced demand from China, reflecting the country's increased domestic milk production and lower reliance on imported fluid milk.

Imports

Australia's fluid milk imports are estimated to remain relatively small at 6,000 MT in 2026, down from 7,000 MT in 2025. The modest decline reflects a slower pace of imports during the first quarter of 2026. Given Australia's substantial domestic milk production and well-developed dairy processing sector, fluid milk imports are expected to remain a minor component of the domestic market.

Table 1 - Production, Supply, and Distribution of Dairy, Milk, Fluid

Dairy, Milk, Fluid	2024		2025		2026	
Market Year Begins	Jan 2024		Jan 2025		Jan 2026	
Australia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Cows In Milk (1000 HEAD)	1330	1330	1315	1315	1320	1320
Cows Milk Production (1000 MT)	8668	8668	8500	8489	8650	8600
Other Milk Production (1000 MT)	0	0	0	0	0	0
Total Production (1000 MT)	8668	8668	8500	8489	8650	8600
Other Imports (1000 MT)	9	9	8	7	8	6
Total Imports (1000 MT)	9	9	8	7	8	6
Total Supply (1000 MT)	8677	8677	8508	8496	8658	8606
Other Exports (1000 MT)	169	169	175	182	180	200
Total Exports (1000 MT)	169	169	175	182	180	200
Fluid Use Dom. Consum. (1000 MT)	2444	2444	2405	2413	2390	2400
Factory Use Consum. (1000 MT)	6064	6064	5928	5901	6088	6006
Feed Use Dom. Consum. (1000 MT)	0	0	0	0	0	0
Total Dom. Consumption (1000 MT)	8508	8508	8333	8314	8478	8406
Total Distribution (1000 MT)	8677	8677	8508	8496	8658	8606
(1000 HEAD) ,(1000 MT)						
OFFICIAL DATA CAN BE ACCESSED AT: PSD Online Advanced Query						

CHEESE

Production

2026 Cheese Production Estimate

FAS/Canberra estimates cheese production in 2026 at 455,000 MT, an increase of 1.8 percent from 2025. This growth is slightly above the estimated 1.4 percent increase in milk production and is consistent with the projected 1.8 percent rise in milk available for processing.

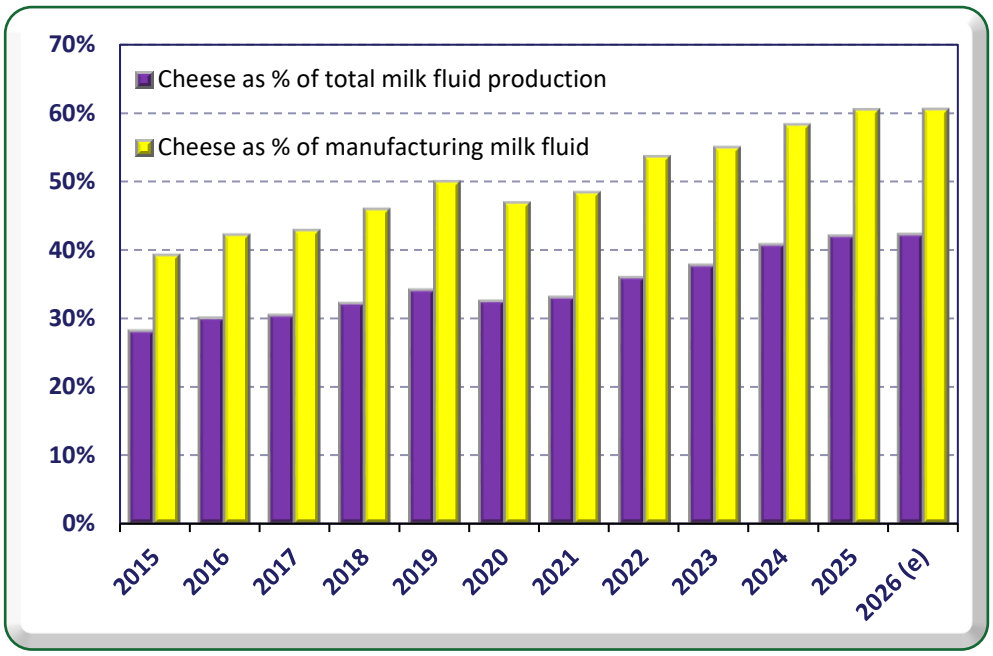
Australian dairy processors are expected to continue prioritizing cheese production as the highest-value use of available milk supplies. In 2026, cheese production is forecast to utilize approximately 42 percent of the national milk pool and 61 percent of the manufacturing milk pool, compared with 28 percent and 39 percent, respectively, in 2015 (see Figure 10).

This shift reflects a long-term structural adjustment within the Australian dairy industry. Since 2015, national milk production has declined by approximately 15 percent before stabilizing in recent years. Faced with constrained milk supplies and growing domestic demand from a rising population, processors have increasingly focused on maximizing returns from available milk by allocating a larger share to cheese production.

As a result, production of other major manufactured dairy products—including butter, WMP, and SMP—has gradually declined to historically low levels. This reallocation of milk toward cheese

production has enabled processors to optimize product value, but it has also limited the industry's capacity to substantially expand cheese output without a significant increase in milk production.

Figure 10 – Trend in Milk Consumption for Cheese Production



Source: Dairy Australia / FAS/Canberra

While domestic cheese production has continued to increase, it has not kept pace with growth in total demand. Historically, cheese imports have largely consisted of lower-value products destined for the food service sector, including supply to quick-service restaurant chains. More recently, however, population growth and Australia's increasingly diverse consumer base have contributed to rising demand for a wider range of specialty and higher-value cheese products. This trend has supported growth in cheese imports and is expected to continue in the coming years.

2025 Cheese Production

FAS/Canberra estimates cheese production in 2025 at 447,000 MT, an increase of 1.1 percent from the previous year. The estimate is based on Dairy Australia's voluntary industry reporting data.

As reporting remains voluntary, the 2025 cheese production estimate may be revised as additional data become available. Accordingly, FAS/Canberra may adjust its estimate in future reports if warranted by updated industry information.

Consumption

2026 Cheese Consumption Estimate

FAS/Canberra estimates cheese consumption in Australia to reach 365,000 MT in 2026, an increase of 1.4 percent from the 2025 estimate of 360,000 MT. The projected growth is broadly consistent with Australia's expected population increase, which remains the primary driver of expanding cheese demand.

If realized, 2026 would mark another record year for cheese consumption, continuing a trend of sustained growth that has seen annual consumption reach successive record highs for nearly two decades. Strong consumer demand across both retail and food service channels is expected to support this ongoing expansion.

2025 Cheese Consumption

Cheese consumption in 2025 is estimated at 360,000 MT, an increase of 1.4 percent, or 5,000 MT, from 2024.

Growth in consumption during 2025 was driven primarily by population growth, which continued to offset relatively stable per capita consumption. The increase extended Australia's long-term trend of rising cheese consumption and established a new record level of domestic demand.

Trade

Exports

2026 Cheese Export Estimate

FAS/Canberra estimates Australian cheese exports in 2026 at 175,000 MT, 1.7 percent above the estimated 172,000 MT exported in 2025.

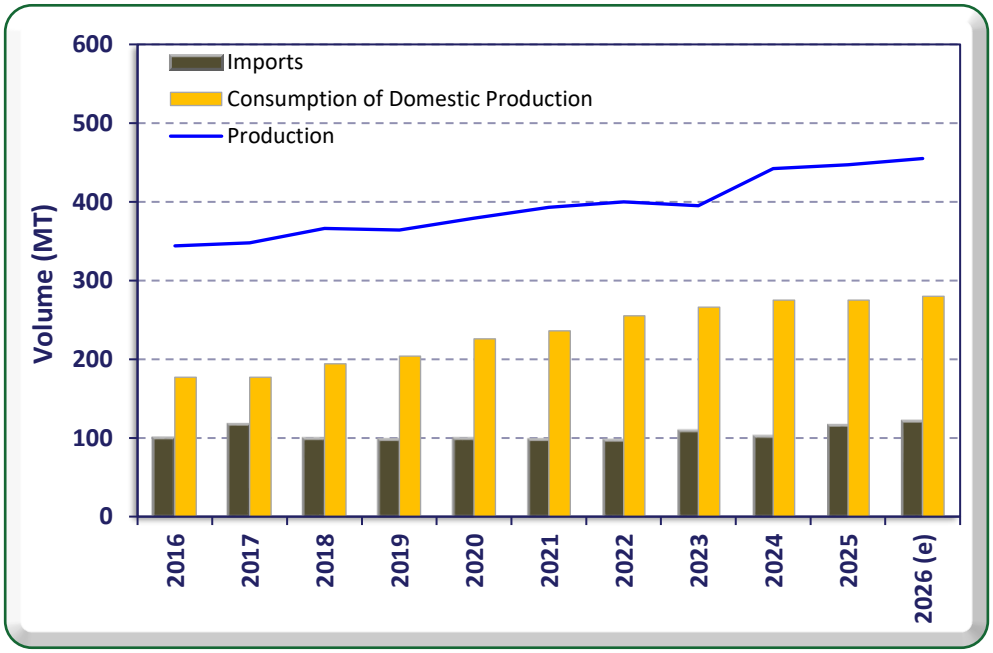
During the first three months of 2026, cheese exports totaled 40,000 MT, a decline of 13.1 percent from 45,300 MT during the same period in 2025. While this pace suggests downside risk to the annual forecast, the weaker result was largely driven by unusually low exports in January 2026. Export volumes during February and March were broadly in line with the corresponding months of the previous year. FAS/Canberra expects export activity to strengthen during the remainder of 2026, offsetting the weak start to the year and supporting modest annual growth.

Although the Middle East situation has disrupted some global shipping routes, the impact on Australian cheese exports has been limited. The vast majority of Australia's cheese exports are destined for nearby Asian markets, while exports to the Middle East account for just over one percent of total shipments.

Australia remains a net exporter of cheese, reflecting the competitiveness of its dairy sector. Over the past decade, growth in cheese production has largely been absorbed by rising domestic consumption, resulting in only modest long-term growth in export volumes (see Figure 11). With milk production expected to remain relatively constrained, processors are likely to continue prioritizing higher-value cheese production for both domestic and export markets.

Rising domestic demand, driven by population growth, is expected to be increasingly supplemented by imports, allowing Australian processors to focus on product segments that maximize returns from available milk supplies.

Figure 11 – Trend in Milk Consumption for Cheese Production

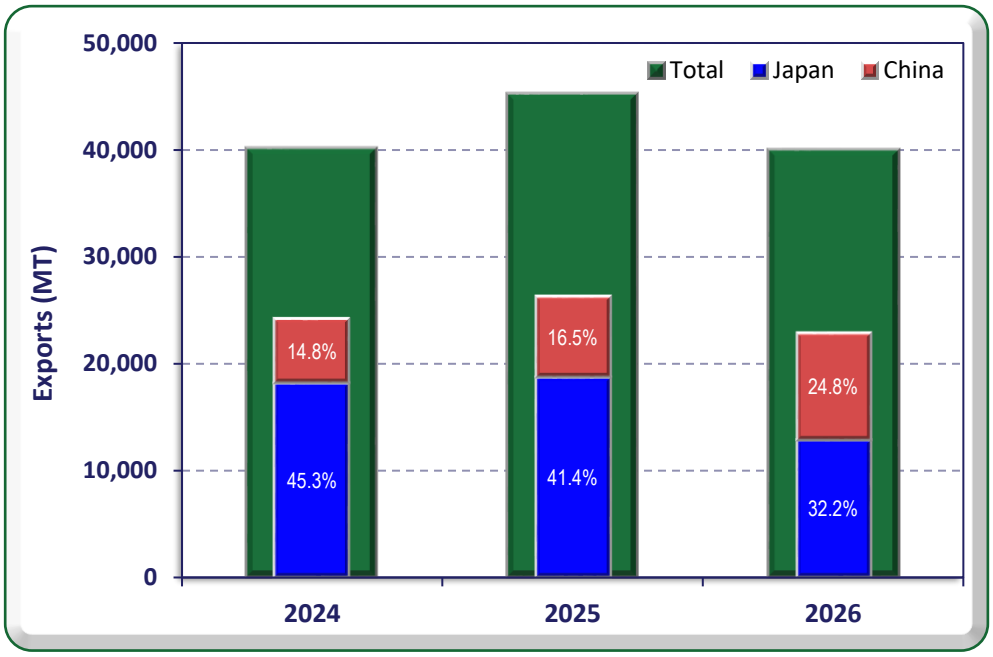


Source: Dairy Australia / Australian Bureau of Statistics / PSD Online

Japan has remained Australia's largest cheese export market for more than a decade, followed by China. Despite significant expansion of China's domestic dairy sector and reports of milk oversupply, Australian cheese exports to China have continued to grow. However, FAS/Beijing reports increasing investment in Chinese cheese manufacturing capacity, which could reduce future import demand and create greater competition for Australian exporters.

Trade patterns shifted noticeably during the first quarter of 2026. Cheese exports to Japan declined by nearly one-third compared with the same period in 2025, while exports to China increased by approximately one-third. Together, Japan and China account for around 55 percent of Australia's cheese exports. Thailand and Malaysia, Australia's third- and fourth-largest export markets, also recorded strong growth, with export volumes increasing by more than 20 percent during the first quarter of 2026 (see Figure 12).

Figure 12 – Major Cheese Export Destinations – January to March 2024 to 2026



Source: *Australian Bureau of Statistics*

2025 Cheese Exports

According to final trade data from the Australian Bureau of Statistics, Australian cheese exports reached 172,000 MT in 2025, an increase of three percent from 2024. This marked the second consecutive year of firm export growth and the highest annual export volume since 2018.

Imports

2026 Cheese Import Estimate

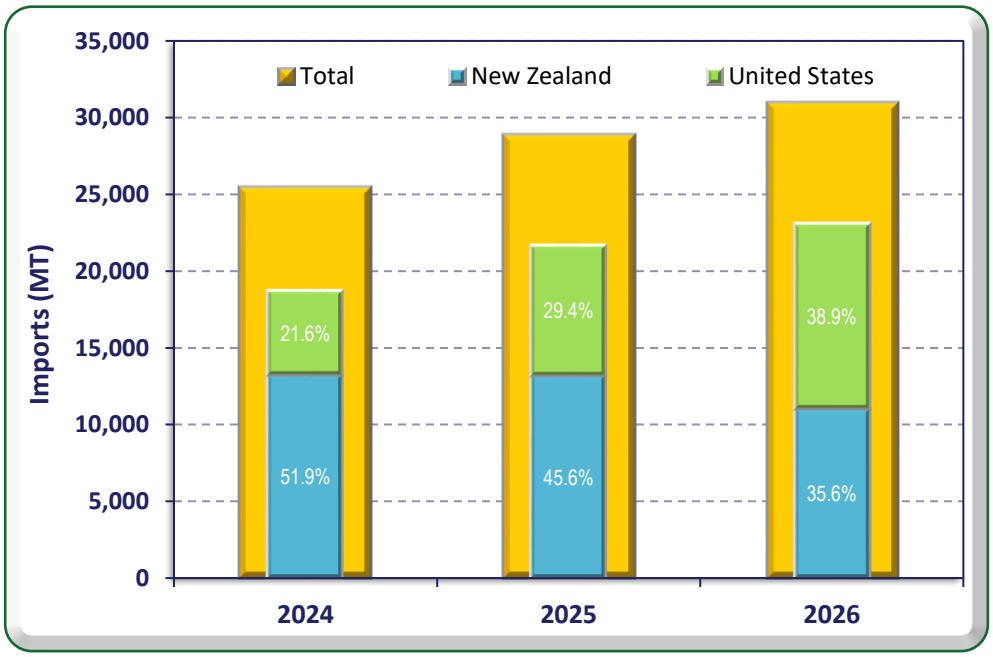
FAS/Canberra estimates cheese imports at 120,000 MT in 2026, unchanged from the previous forecast. This represents a 4.3 percent increase from the estimated 115,000 MT imported in 2025. If realized, imports would establish a new record, surpassing the previous high of 116,000 MT recorded in 2017.

Imports totaled 30,900 MT during the first quarter of 2026, up seven percent from the same period in 2025. This growth is broadly consistent with the forecast increase for the full year.

Historically, New Zealand has supplied nearly half of Australia's imported cheese, with the United States consistently ranking as the second-largest supplier. During the first quarter of 2026, however, the United States overtook New Zealand as Australia's largest source of imported cheese for the first time (see Figure 13). This shift reflects a trend that has been developing over several years.

Industry sources indicate that much of Australia's imported cheese continues to be destined for the food service sector, particularly for use by quick-service restaurant chains and food manufacturers. At the same time, imports of specialty and higher-value cheeses are increasing as consumer preferences become more diverse and demand expands alongside population growth.

Figure 13 – Major Cheese Import Sources – January to March 2024 to 2026



Source: Australian Bureau of Statistics

2025 Cheese Imports

Australia imported 115,000 MT of cheese in 2025, making it the second-highest annual import volume on record. Imports were only marginally below the record level of 116,000 MT reached in 2017 and represented just the fourth year in which cheese imports exceeded 100,000 MT.

The continued growth in imports reflects strong domestic demand and the limited capacity for domestic production to fully meet expanding consumption, particularly across food service and specialty cheese segments.

Table 2 - Production, Supply, and Distribution of Dairy, Cheese

Dairy, Cheese	2024		2025		2026	
Market Year Begins	Jan 2024		Jan 2025		Jan 2026	
Australia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks (1000 MT)	131	131	146	152	166	182
Production (1000 MT)	426	442	430	447	432	455
Other Imports (1000 MT)	101	101	110	115	110	120
Total Imports (1000 MT)	101	101	110	115	110	120
Total Supply (1000 MT)	658	674	686	714	708	757
Other Exports (1000 MT)	167	167	170	172	175	175
Total Exports (1000 MT)	167	167	170	172	175	175
Human Dom. Consumption (1000 MT)	345	355	350	360	355	365
Other Use, Losses (1000 MT)	0	0	0	0	0	0
Total Dom. Consumption (1000 MT)	345	355	350	360	355	365
Total Use (1000 MT)	512	522	520	532	530	540
Ending Stocks (1000 MT)	146	152	166	182	178	217
Total Distribution (1000 MT)	658	674	686	714	708	757
(1000 MT)						
OFFICIAL DATA CAN BE ACCESSED AT: PSD Online Advanced Query						

BUTTER

Production

2026 Butter Production Estimate

FAS/Canberra estimates Australia's butter production at 60,000 MT in 2026, unchanged from the estimated production level for 2025.

Butter is no longer a priority product for Australian dairy processors. With milk supplies expected to remain relatively constrained, processors are likely to continue allocating available milk toward higher-value dairy products, particularly cheese and value-added protein products. As a result, any increase in milk production during 2026 is expected to be directed primarily toward these higher-return product categories rather than butter manufacturing.

The 2026 production forecast is broadly consistent with recent years and remains insufficient to fully meet domestic demand. Consequently, Australia is expected to remain a net importer of butter, continuing a trend that has persisted for more than a decade.

Current production levels contrast sharply with historical output. Prior to 2018, Australian butter production exceeded 100,000 MT for nearly three decades and reached a peak of approximately 180,000 MT in 2000. The subsequent decline reflects a long-term restructuring of the dairy processing sector as manufacturers shift away from butter, SMP, and WMP production toward higher-value cheese products.

According to industry sources, processors are increasingly focused on extracting additional value from whey, a byproduct of cheese manufacturing, through the production of specialized protein ingredients. This strategy further reinforces the industry's preference for cheese production over butter manufacturing.

In addition, the substantial capital investment required to re-establish large-scale butter processing capacity limits the likelihood of any significant expansion in production. Consequently, temporary increases in global butter prices are unlikely to result in a meaningful increase in Australian butter output.

2025 Butter Production

FAS/Canberra estimates butter production in 2025 at 60,000 MT, an increase of 5,000 MT, or nine percent, from 2024.

The increase was broadly consistent with Dairy Australia's voluntary industry production data and reflected improved milk availability relative to the previous year. Despite the increase, butter production remained well below historical levels as processors continued to prioritize higher-value dairy products.

Consumption

2026 Butter Consumption Estimate

FAS/Canberra estimates butter consumption in 2026 at 95,000 MT, an increase of 1.1 percent from the estimated 94,000 MT consumed in 2025. The modest growth is expected to be driven primarily by population growth, which more than offsets a slight decline in per capita consumption.

The consumption estimate includes butteroil and anhydrous milk fat (AMF), expressed on a butter-equivalent basis. AMF is a concentrated, moisture-free milk fat product widely used in food manufacturing, particularly in bakery, confectionery, and processed food applications. By contrast, conventional butter is predominantly consumed through retail and food service channels, although it is also used as an ingredient in some food manufacturing sectors.

2025 Butter Consumption

FAS/Canberra estimates butter consumption in 2025 at 94,000 MT, an increase of 1,000 MT from 2024.

Growth in consumption during 2025 was primarily supported by Australia's expanding population, while a modest decline in per capita consumption limited the pace of overall demand growth. This pattern is expected to continue in 2026, resulting in only gradual increases in total butter consumption despite ongoing population growth.

Trade

Exports

2026 Butter Export Estimate

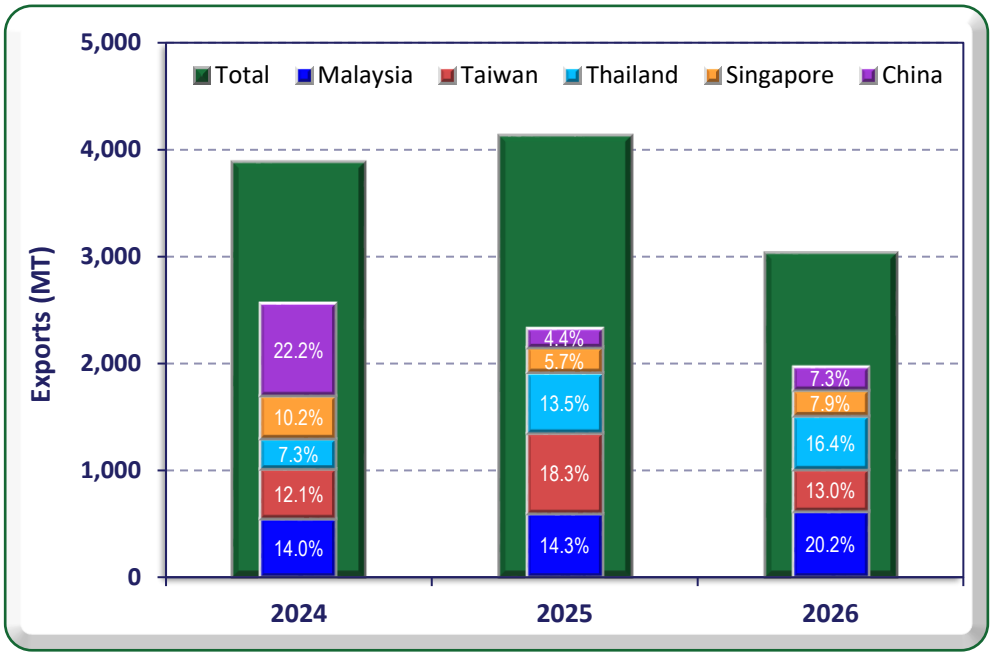
FAS/Canberra estimates butter exports at 15,000 MT in 2026, a modest increase from the 14,000 MT exported in 2025.

As Australia is a net importer of butter and domestic consumption substantially exceeds production, there is limited scope for significant growth in export volumes. Consequently, butter exports are expected to remain relatively stable at historically low levels.

Exports during the first quarter of 2026 were slightly below those recorded during the same period in 2025. However, quarterly butter exports are typically volatile because of the relatively small volumes traded and are not necessarily indicative of full-year performance. FAS/Canberra expects export volumes to strengthen during the remainder of 2026, supporting the annual export forecast.

Australia exports butter to more than 25 countries, although trade is concentrated among a small number of markets. Over the past five years, Malaysia, Taiwan, Thailand, Singapore, and China have collectively accounted for between 55 and 65 percent of total exports (see Figure 14).

Figure 14 – Change in Butter Exports – January to March 2024 to 2026



Source: *Australian Bureau of Statistics*

China was previously a more significant destination for Australian butter exports, but its importance has declined markedly in recent years. According to FAS/Beijing, milk oversupply in recent years has encouraged investment in domestic dairy processing, including butter and cheese manufacturing capacity. As China's dairy industry continues to expand and modernize, a return to the higher levels of Australian butter exports previously recorded in that market appears unlikely in the near term.

2025 Butter Exports

According to final Australian trade data, butter exports totaled 14,000 MT in 2025, down from 21,000 MT in 2024 but above the 9,000 MT exported in 2023.

The relatively low export volume in 2023 was likely influenced by Australian milk prices remaining above world market parity, reducing the competitiveness of Australian butter in export markets. The sharp increase in exports during 2024 was likely supported by stronger global butter prices and efforts by processors to reduce elevated butter inventories. Export volumes in 2025 returned closer to longer-term levels.

Imports

2026 Butter Import Estimate

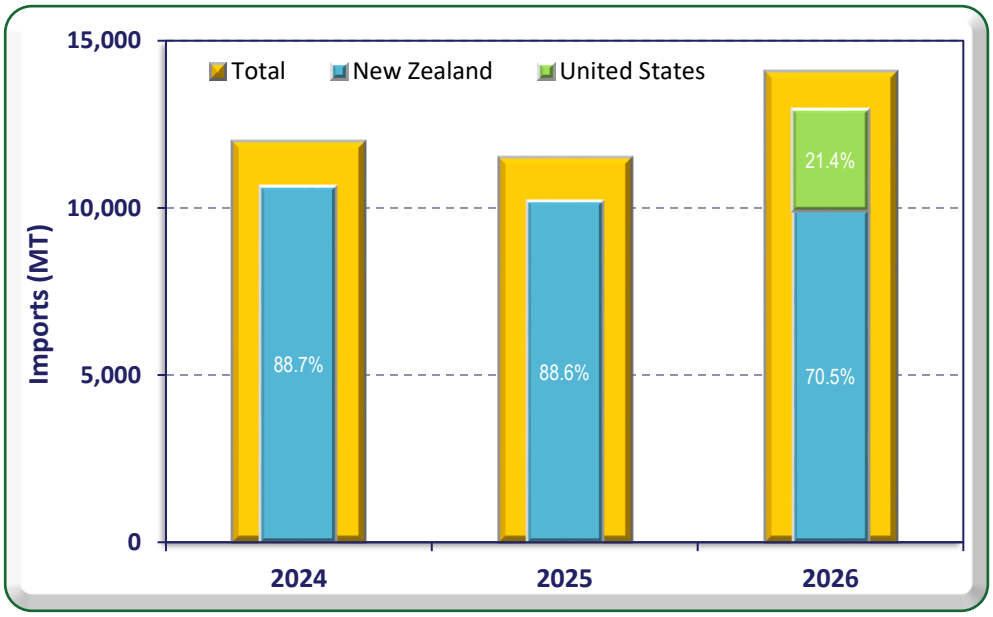
FAS/Canberra estimates butter imports at 50,000 MT in 2026, an increase of 2,000 MT from the 48,000 MT imported in 2025. If realized, imports would match the record volume reached in 2023.

Imports totaled 14,000 MT during the first quarter of 2026, slightly ahead of the pace required to meet the annual forecast. However, the first quarter has accounted for an average of 26.8 percent of annual butter imports over the past five years. Based on this seasonal pattern, FAS/Canberra expects import growth to moderate during the remainder of the year, supporting the forecast import volume.

Australia has remained a net importer of butter for more than a decade, reflecting domestic production levels that consistently fall short of consumption requirements. New Zealand has traditionally dominated the Australian butter import market, often supplying more than 85 percent of total imports.

However, trade patterns have shifted noticeably since the second half of 2025 with the emergence of the United States as a significant supplier. During the first four months of 2026, the United States accounted for approximately 21 percent of Australia's butter imports, largely at the expense of New Zealand's market share (see Figure 15). This development represents one of the most significant changes in Australia's butter import market in recent years and may signal a more competitive supply environment going forward.

Figure 15 – Butter Imports Trends – January to March 2024 to 2026



Source: Australian Bureau of Statistics

2025 Butter Imports

According to final trade data, butter imports totaled 48,000 MT in 2025, an increase of 4,000 MT, or nine percent, from 2024.

Year-to-year fluctuations of this magnitude are not unusual given Australia's relatively small butter market and reliance on imports to supplement domestic production. Imports accounted for approximately half of domestic butter consumption during 2025, highlighting the ongoing importance of imported product in meeting Australian demand.

Table 3 - Production, Supply, and Distribution of Dairy, Butter

Dairy, Butter	2024		2025		2026	
Market Year Begins	Jan 2024		Jan 2025		Jan 2026	
Australia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks (1000 MT)	56	56	41	41	38	41
Production (1000 MT)	55	55	60	60	60	60
Other Imports (1000 MT)	44	44	46	48	46	50
Total Imports (1000 MT)	44	44	46	48	46	50
Total Supply (1000 MT)	155	155	147	149	144	151
Other Exports (1000 MT)	21	21	14	14	15	15
Total Exports (1000 MT)	21	21	14	14	15	15
Domestic Consumption (1000 MT)	93	93	95	94	96	95
Total Use (1000 MT)	114	114	109	108	111	110
Ending Stocks (1000 MT)	41	41	38	41	33	41
Total Distribution (1000 MT)	155	155	147	149	144	151
(1000 MT)						
OFFICIAL DATA CAN BE ACCESSED AT: PSD Online Advanced Query						

SKIM MILK POWDER

Production

2026 Skim Milk Powder Production Estimate

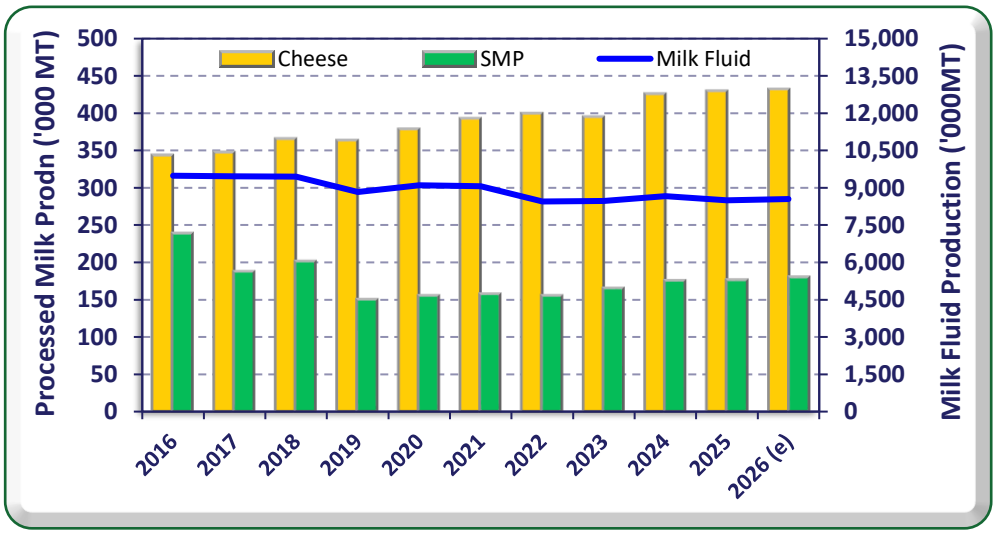
FAS/Canberra estimates SMP production at 180,000 MT in 2026, an increase of 4,000 MT from the estimated 176,000 MT produced in 2025. The increase reflects the anticipated growth in milk production and a modest rise in the volume of milk available for manufacturing.

Seasonal milk production patterns play an important role in determining SMP output. During the spring peak in milk production (see Figure 1), dairy processors often face capacity constraints in manufacturing other dairy products. As a result, excess milk is frequently directed into milk powder production. Consequently, the size of the seasonal production peak is a key determinant of annual SMP output, with larger milk peaks generally resulting in higher milk powder production.

SMP and butter production are closely linked because they are typically produced through the same manufacturing process. Milk fat is separated from raw milk before the remaining skim milk is dried to produce SMP. According to industry sources, approximately one-quarter of the extracted milk fat is used for cream products, while the remaining three-quarters are processed into butter. Processors can readily adjust the allocation of milk fat between cream and butter production in response to changing market conditions and relative returns.

Despite the forecast increase in 2026, SMP production remains well below historical levels. Prior to the last decade, SMP production consistently exceeded 200,000 MT and reached a peak of 266,000 MT in 2015. The subsequent decline reflects both lower national milk production and structural changes within the dairy industry. As milk supplies became more constrained, processors increasingly prioritized cheese production, directing a larger share of available milk toward higher-value products (see Figure 16).

Figure 16 – Milk Fluid, SMP and Cheese Production Trends



Source: Dairy Australia / PSD Online

2025 Skim Milk Powder Production

FAS/Canberra estimates SMP production at 176,000 MT in 2025, marginally above the 175,000 MT produced in 2024.

The increase occurred despite national milk production declining by 2.1 percent during 2025 and a lower seasonal peak in October. As a result, processor capacity constraints during peak milk production were unlikely to have been the primary factor supporting higher SMP output.

Instead, stronger demand for dairy protein ingredients appears to have supported production. Global demand for protein-enriched foods has continued to grow in recent years, particularly for products such as yoghurt (largely manufactured using reconstituted SMP), nutritional foods, and other dairy-based products fortified with additional protein. This trend has contributed to stronger demand for SMP and supported production despite tighter milk supplies.

Consumption

2026 Skim Milk Powder Consumption Estimate

FAS/Canberra estimates SMP consumption in 2026 to remain stable at 25,000 MT, unchanged from the estimated level in 2025.

Since Australia produces significantly more SMP than it consumes domestic consumption is relatively small and largely not influenced from year-to-year fluctuations in production. As a result, the modest increase in SMP production is not expected to affect domestic consumption levels.

SMP is widely used across the food manufacturing sector as a functional ingredient in products such as baked goods, confectionery, processed foods, snacks, and animal feed. It is also used as a base ingredient for recombined dairy products, including yoghurt, dairy desserts, ice cream, and reconstituted milk, particularly in markets where cold-chain infrastructure is less developed.

Most SMP-containing products are ultimately distributed through retail and supermarket channels, with a smaller share flowing through the food service sector. Given its broad industrial application base and relatively mature demand profile, SMP consumption tends to be stable, with long-term growth primarily driven by population increases rather than changes in per capita use.

2025 Skim Milk Powder Consumption

SMP consumption in 2025 is estimated at 25,000 MT, unchanged from 2024.

This represents a relatively small share of domestic production—approximately 14 percent—highlighting Australia’s role as a net exporter of SMP. Domestic consumption remains structurally stable and is not significantly influenced by fluctuations in production volumes or export performance.

Trade

Exports

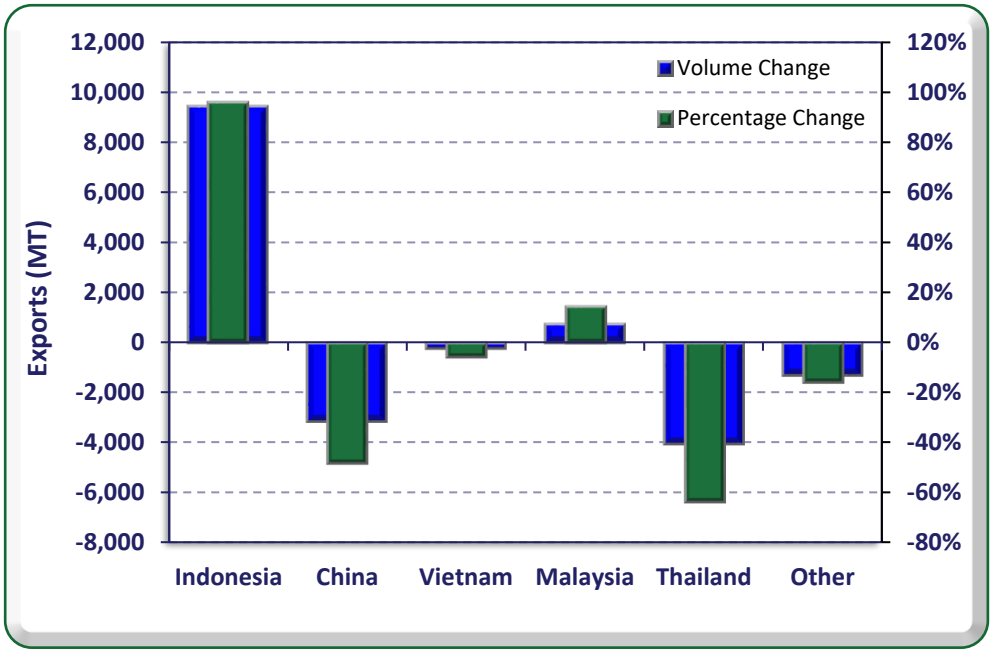
2026 Skim Milk Powder Export Estimate

FAS/Canberra estimates SMP exports at 160,000 MT in 2026, 3,000 MT above the 157,000 MT exported in 2025. The upward revision reflects stronger expected production and solid export performance during the first quarter of 2026.

During the first three months of 2026, SMP exports totaled 41,600 MT, an increase of 3.6 percent from 40,200 MT in the same period of 2025. Given that, on average, just over one-quarter of annual exports are typically shipped in the first quarter, the current pace is broadly consistent with the full-year export forecast of 160,000 MT.

Australia exports SMP to more than 20 countries, with the top five destinations typically accounting for around three-quarters of total export volumes. In the first quarter of 2026, exports to Indonesia increased sharply and accounted for 46 percent of total shipments (see Figure 17), making it the dominant market during the period.

Figure 17 – Change in SMP Exports – January to March 2025 to 2026



Source: Australian Bureau of Statistics

In contrast, exports to China have declined significantly since 2024, and this trend has continued into 2026. China accounted for just eight percent of Australia's SMP exports in the first quarter of 2026, down from a peak of 69 percent in 2023. This reflects structural changes in China's dairy sector as

domestic production has expanded, and the market has moved into a period of oversupply triggering industry structural change.

According to FAS/Beijing, substantial investment in domestic milk powder processing capacity has continued in recent years. As a result, China's SMP imports fell by approximately one-third in the first quarter of 2026, significantly reducing demand for Australian product.

Despite this decline, Australia's SMP export sector remains relatively resilient due to its diversified market base, with growing demand in Southeast Asia helping to offset reduced shipments to China.

2025 Skim Milk Powder Exports

SMP exports totaled 157,000 MT in 2025, down from 170,000 MT in 2024. However, this decline primarily reflects an unusually strong export outcome in 2024 rather than a deterioration in underlying export performance in 2025.

The elevated 2024 result was driven by higher farmgate milk prices in 2023, which were above world parity and reduced export competitiveness. This contributed to inventory accumulation during 2023, which was subsequently drawn down and exported in 2024, inflating that year's export total.

Imports

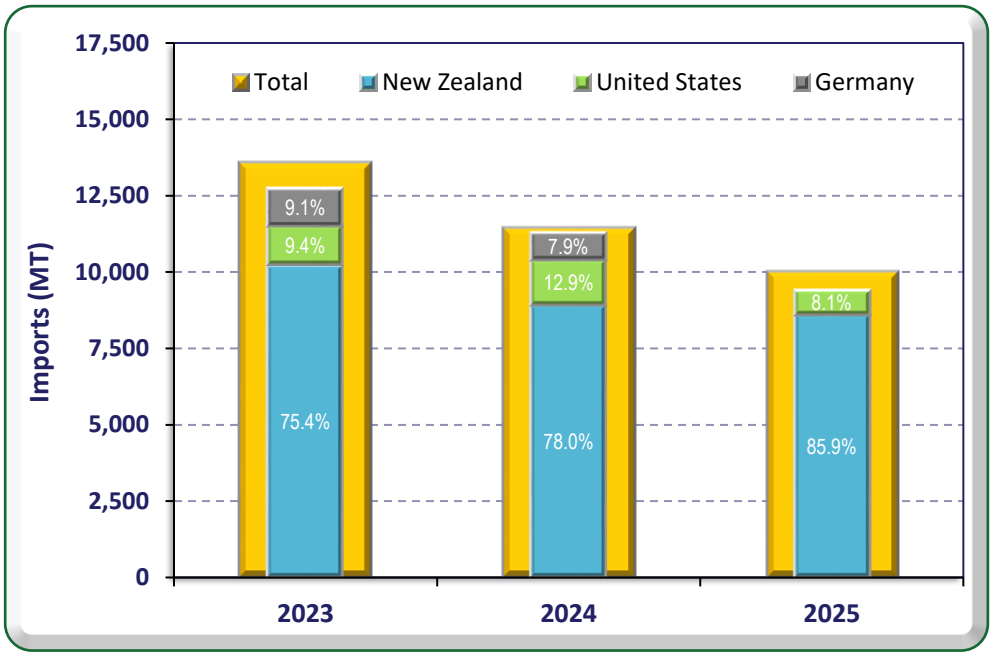
2026 Skim Milk Powder Import Estimate

FAS/Canberra estimates SMP imports in 2026 at 10,000 MT, consistent with the 2025 outcome. As Australia is a major net exporter of SMP, import volumes remain structurally low and relatively stable year to year.

Imports during the first quarter of 2026 totaled 2,700 MT, slightly below the same period in 2025. However, based on average seasonal patterns over the past five years—where the first quarter typically accounts for just over one-quarter of annual imports—the current pace remains consistent with the full-year forecast of 10,000 MT.

New Zealand remains Australia's primary source of SMP imports, accounting for approximately 86 percent of total imports in 2025. The United States and Germany account for most of the remaining volumes (see Figure 18). However, imports from Germany ceased in 2025, further concentrating supply among a small number of origins.

Figure 18 – Major SMP Import Sources – 2023 to 2025



Source: *Australian Bureau of Statistics*

2025 Skim Milk Powder Imports

SMP imports in 2025 totaled 10,000 MT, down slightly from 11,000 MT in 2024. Import volumes have remained low and relatively stable over the past five years, reflecting Australia's strong domestic production base and limited reliance on imported SMP.

Table 4 - Production, Supply, and Distribution of Dairy, Milk, Nonfat Dry

Dairy, Milk, Nonfat Dry	2024		2025		2026	
Market Year Begins	Jan 2024		Jan 2025		Jan 2026	
Australia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks (1000 MT)	35	35	24	27	24	31
Production (1000 MT)	172	175	170	176	170	180
Other Imports (1000 MT)	11	11	10	10	10	10
Total Imports (1000 MT)	11	11	10	10	10	10
Total Supply (1000 MT)	218	221	204	213	204	221
Other Exports (1000 MT)	170	170	155	157	155	160
Total Exports (1000 MT)	170	170	155	157	155	160
Human Dom. Consumption (1000 MT)	24	24	25	25	25	25
Other Use, Losses (1000 MT)	0	0	0	0	0	0
Total Dom. Consumption (1000 MT)	24	24	25	25	25	25
Total Use (1000 MT)	194	194	180	182	180	185
Ending Stocks (1000 MT)	24	27	24	31	24	36
Total Distribution (1000 MT)	218	221	204	213	204	221
(1000 MT)						
OFFICIAL DATA CAN BE ACCESSED AT: PSD Online Advanced Query						

WHOLE MILK POWDER

Production

20265 Whole Milk Powder Production Estimate

FAS/Canberra estimates WMP production to remain stable at 25,000 MT in 2026, unchanged from 2025.

WMP represents a relatively small share of Australia's dairy manufacturing output, accounting for just over 2 percent of total milk usage. As a result, fluctuations in national milk production have limited influence on WMP output, with production decisions instead driven primarily by processor product mix strategies.

Australian WMP production has declined sharply over the past two decades. Output peaked at approximately 239,000 MT in 2002 but has since fallen by around 90 percent to current levels near 25,000 MT. This long-term decline reflects a structural shift within the Australian dairy industry, with processors increasingly allocating milk toward higher-value products, particularly cheese.

As a consequence, current WMP production is largely concentrated in niche, higher-value segments, including specialty powders used in infant formula and other formulated nutritional products.

2025 Whole Milk Powder Production

FAS/Canberra estimates WMP production in 2025 at 25,000 MT, a decline of 1,000 MT from 2024.

Despite a 2.1 percent decline in national milk production during 2025, the reduction in WMP output was not primarily driven by supply constraints. Instead, it reflects ongoing industry prioritization of higher-value dairy products, particularly cheese, which continues to attract a larger share of available milk.

Overall, WMP production remains structurally stable at low levels, with year-to-year changes driven more by product allocation decisions than by fluctuations in total milk supply.

Consumption

2026 Whole Milk Powder Consumption Estimate

FAS/Canberra estimates WMP consumption in 2026 to remain stable at 20,000 MT, unchanged from the 2025 estimate.

Although Australia has experienced strong population growth in recent years, the pace has moderated to a more typical long-term rate of around 1.6 percent as of September 2025. At this rate, implied growth in WMP consumption is minimal—approximately 300 MT annually—and is not sufficient to materially alter overall consumption patterns.

WMP is a versatile ingredient used across a broad range of food manufacturing applications. It can be reconstituted into liquid milk and used in products such as yoghurt and ice cream. In processed food manufacturing, it is applied in similar ways to SMP, including in bakery products (bread, cakes, and biscuits), beverages, confectionery, dry mixes, and prepared foods.

A major distinction between WMP and SMP is that WMP is used to produce infant milk formula, whereas SMP is not. This differentiated application supports a relatively stable demand base.

Given its wide range of end uses and mature consumption profile, WMP demand tends to change gradually, with population growth remaining the primary driver of long-term consumption trends.

2025 Whole Milk Powder Consumption

WMP consumption in 2025 is estimated at 20,000 MT, unchanged from 2024.

Consumption remained stable despite ongoing demographic growth, reflecting the relatively mature nature of demand and the limited year-to-year variability in industrial food manufacturing requirements.

Trade

Exports

2026 Whole Milk Powder Export Estimate

FAS/Canberra estimates Australian WMP exports in 2026 at 40,000 MT, representing a downward revision of 5,000 MT from the previous forecast issued six months earlier. The revision primarily reflects weaker-than-expected export performance in the first quarter of 2026.

During the first three months of 2026, WMP exports totaled 8,000 MT, a decline of 40 percent from 13,200 MT in the same period of 2025. While this result appears weak, quarterly WMP exports are historically volatile and not always indicative of full-year performance. Based on average seasonal patterns over the past five years, first-quarter results would imply annual exports closer to 33,000 MT.

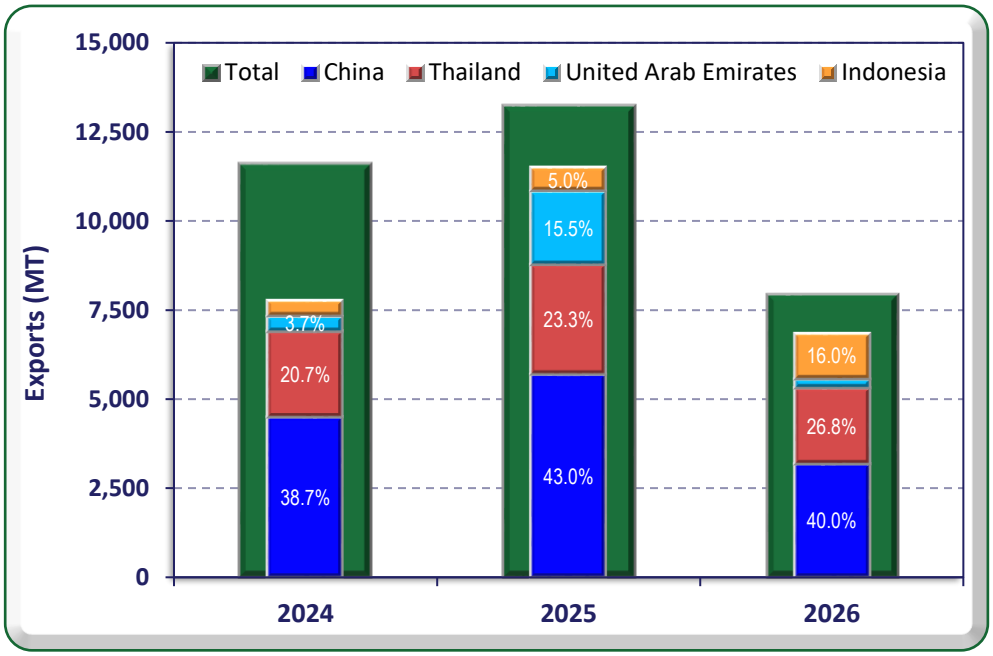
However, FAS/Canberra expects export momentum to strengthen over the remainder of 2026. A sharp decline in global WMP prices at the beginning of the year temporarily reduced export competitiveness, contributing to the weak start. Prices have since partially recovered, and improved trading conditions are expected to support stronger export volumes through the remainder of the year.

Given relatively limited domestic WMP production, Australian manufacturers primarily allocate production toward higher-value export opportunities. At the same time, imported WMP plays an important role in domestic food manufacturing, where it is used as an intermediate input in further processed and re-exported products.

Australia's key WMP export markets in recent years have been China, Thailand, and the United Arab Emirates, which together account for approximately 75 percent of total exports. In the first quarter of 2026, exports to these three destinations softened, while shipments to Indonesia increased significantly (see Figure 19).

This shift reflects evolving regional demand patterns. In Indonesia, government-led nutrition initiatives—particularly the Prabowo administration's Free Nutritious Meal Program targeting 82.9 million beneficiaries—have supported increased demand for dairy ingredients, including WMP. While the program aims to strengthen domestic agricultural capacity over time, near-term implementation has increased reliance on imported dairy inputs, benefiting Australian exporters.

Figure 19 – Major WMP Export Destinations – January to March 2024 to 2026



Source: *Australian Bureau of Statistics*

2025 Whole Milk Powder Exports

WMP exports totaled 50,000 MT in 2025, a decline of 5,000 MT (nine percent) from 2024.

This movement largely reflects trade normalization following an atypical export pattern in 2023–2024. Elevated Australian farmgate milk prices in 2023, which were above world parity, reduced export competitiveness and contributed to lower WMP export volumes that year. This was followed by a rebound in 2024 as accumulated inventories were cleared, resulting in temporarily elevated export shipments.

Imports

2026 Whole Milk Powder Import Estimate

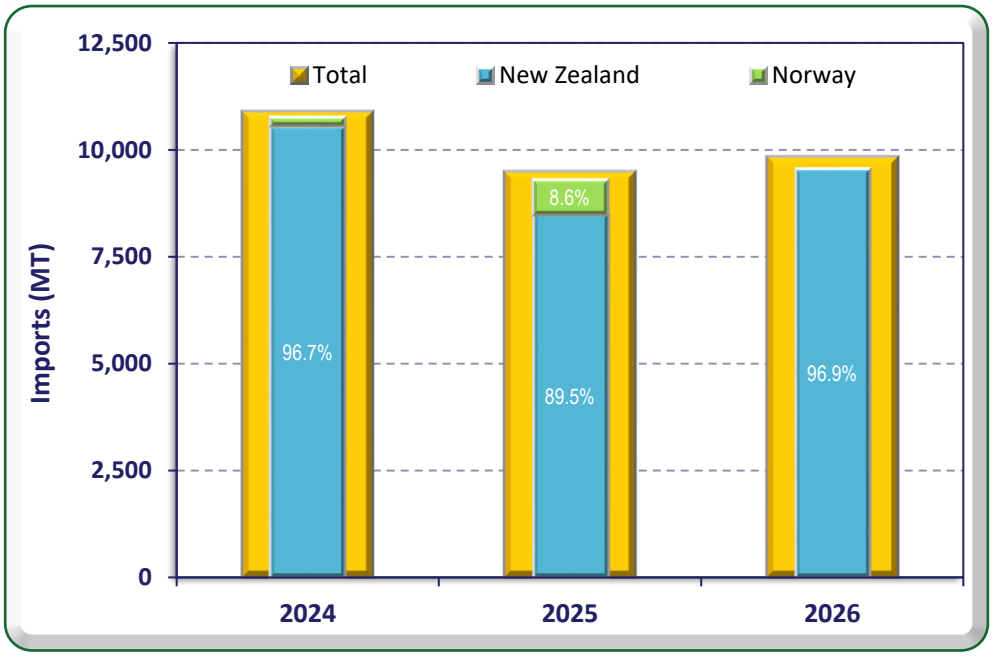
FAS/Canberra estimates WMP imports at 40,000 MT in 2026, an increase of 2,000 MT (five percent) from the estimated 38,000 MT imported in 2025.

Australia is structurally a net importer of WMP relative to domestic consumption, with imported product playing a key role in downstream food manufacturing and value-added processing activities. A significant share of imported WMP is further processed in Australia and re-exported.

Imports during the first quarter of 2026 totaled 9,800 MT, slightly above 9,500 MT in the same period of 2025. While first-quarter imports are not a strong predictor of full-year outcomes, the current pace is broadly consistent with the full-year forecast.

New Zealand remains by far the dominant supplier of WMP to Australia, accounting for more than 90 percent of total imports (see Figure 20). This reflects both geographic proximity and New Zealand's significantly larger WMP production base relative to Australia.

Figure 20 – Major WMP Import Sources – Jan to Mar 2024 to 2026



Source: *Australian Bureau of Statistics*

2025 Whole Milk Powder Imports

WMP imports totaled 38,000 MT in 2025, slightly above 37,000 MT in 2024.

Import volumes remain relatively stable and are driven primarily by the needs of Australia's food manufacturing sector, particularly industries engaged in value-added processing and re-export activities.

Table 5 - Production, Supply, and Distribution of Dairy, Dry Whole Milk Powder

Dairy, Dry Whole Milk Powder	2024		2025		2026	
Market Year Begins	Jan 2024		Jan 2025		Jan 2026	
Australia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks (1000 MT)	29	29	17	17	10	10
Production (1000 MT)	26	26	30	25	30	25
Other Imports (1000 MT)	37	37	35	38	40	40
Total Imports (1000 MT)	37	37	35	38	40	40
Total Supply (1000 MT)	92	92	82	80	80	75
Other Exports (1000 MT)	55	55	52	50	45	40
Total Exports (1000 MT)	55	55	52	50	45	40
Human Dom. Consumption (1000 MT)	20	20	20	20	20	20
Other Use, Losses (1000 MT)	0	0	0	0	0	0
Total Dom. Consumption (1000 MT)	20	20	20	20	20	20
Total Use (1000 MT)	75	75	72	70	65	60
Ending Stocks (1000 MT)	17	17	10	10	15	15
Total Distribution (1000 MT)	92	92	82	80	80	75
(1000 MT)						
OFFICIAL DATA CAN BE ACCESSED AT: PSD Online Advanced Query						

Attachments:

No Attachments