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Report Highlights:

Milk production in Australia for 2024 is estimated to increase, for the first time since 2020, by 3.3 percent to 8.75 million metric tons (MMT). Industry confidence is elevated by high milk prices for dairy farmers over recent years and, also lower feed and fertilizer prices and broadly good seasonal conditions in 2024. However, the estimate for 2024 is tempered by dry conditions experienced in some dairy-producing regions. Domestic fluid milk consumption in 2024 is estimated to rise for the first time in six years. This is due to rapid population growth, now at a rate of 2.5 percent per annum. Factory use milk consumption is also estimated to increase by 5.6 percent, due mainly to increased milk production but also a fall in fluid milk exports. With this in mind, there is an expectation that production and exports of cheese, skim milk powder (SMP), and whole milk powder (WMP) will rise. For butter, production is estimated to fall but exports rise in 2024.

EXECUTIVE SUMMARY

In 2024, Australia's milk production is estimated to increase, for the first time since 2020, by 3.3 percent to 8.75 million metric tons (MMT). This is also a substantial 2.9 percent upward revision from the earlier forecast of 8.50 MMT for 2024. The revised forecast is due to the strong milk production momentum established in the last quarter of 2023. Overall, industry confidence is high due to increased milk prices for dairy farmers over recent years. In addition, dairy producers expect lower feed and fertilizer prices and broadly good seasonal conditions to carry well into 2024. The estimate for 2024 is tempered by dry conditions being experienced, particularly in southwestern Victoria, one of the major production regions, and Western Australia and South Australia.

An important contributor to the growth in milk production is the decline in beef cattle prices. This has led to a reduction in dairy beef calves retained, and as a result, more pasture is available for the milking herd. Combined with this, there has been a large decline in export demand for dairy heifers to China. This has enabled more cows to enter the milking herd, but also fewer female calves are retained for this market, freeing up more pasture for the milking herd.

Domestic fluid milk consumption in 2024 is estimated to increase slightly by 0.5 percent to 2.455 MMT. This is the first time that fluid milk consumption is expected to rise in six years. This is due to rapid population growth, now at a rate of 0.5 percent per annum. However, the industry expects per capita consumption to fall by around two percent, consistent with the trend over the last five years. In 2023, consumers shifted their milk preference back towards full-fat milk and away from Ultra-High Temperature (UHT) and reduced-fat milk. Flavored milk consumption grew slightly, and no-fat milk consumption retreated slightly. Factory use milk consumption is also estimated to increase by 5.6 percent to 6.152 MMT for 2024, due mainly to increased milk production and a fall in fluid milk exports.

With strong growth estimated for factory-use milk consumption in 2024, there is an expectation the production of cheese, skim milk powder (SMP), and whole milk powder (WMP) will rise. The growth in the production of powders is driven more so by the necessity to manage larger milk volumes during peak production. However, dairy processors expect to continue favouring cheese production to optimize their economic returns, as has now been the case for numerous years in Australia. Butter production, however, is estimated to continue its trend of lower production in 2024.

Fluid milk exports are expected to fall in 2024, which has been the case since reaching a peak in 2021 due to weakening demand from Australia's major export market, China. Exports of cheese and SMP are anticipated to rise substantially in 2024 associated with increased production. Butter exports are generally at very low levels, but for 2024, they are also estimated to increase. However, this is from an abnormally low level in 2023. WMP exports are anticipated to rise marginally, mainly due to the expectation of slightly higher production. There is relatively little change to imports of all the major dairy commodities expected for 2024.

POLICY

UK-AU FTA

The United Kingdom (UK) and Australia commenced a Free Trade Agreement in mid-2023.

Under the FTA, the UK and Australia will eliminate dairy tariffs over five years. During the transition period, Australia will have immediate access to a duty-free quota for cheese of 24,000 MT, rising in equal installments to 48,000 MT in year five. Australia also received immediate access to 20,000 MT of non-cheese dairy products. Additionally, as part of the FTA, Australia received a duty-free quota for butter of 5,500 MT, transitioning to 11,500 MT in year five.

While the Australian dairy industry welcomed the FTA as it provides a further significant market access option, Australia would continue to focus its trade to nearby Asian markets. So far, there has been no change to the trade of dairy products between the UK and Australia. The only notable trade is for less than 2,000 MT of cheese per year from the UK to Australia, a volume that has remined unchanged since the FTA's commencement.

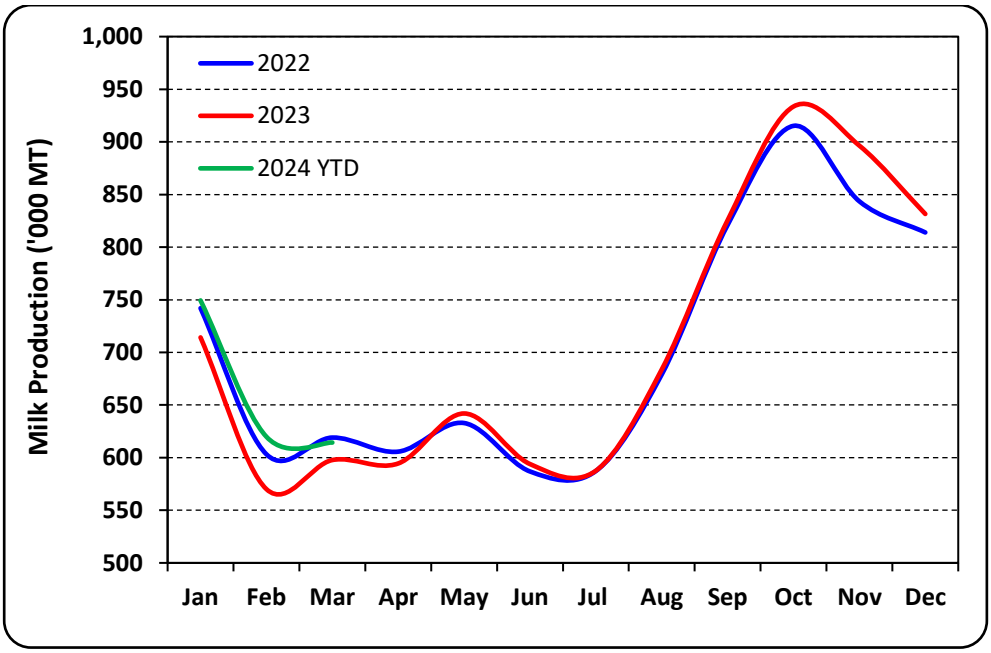
FLUID MILK

Production

FAS/Canberra has upward revised the estimate for Australia's milk production by 2.9 percent to 8.75 MMT for 2024 from the previous forecast of 8.5 MMT. This is a growth estimate of 3.3 percent from the prior year and the first time since 2020 that increased milk production anticipated for Australia. The revised forecast is based on strong momentum established in the last quarter of 2023, with confidence built up from high milk prices for dairy farmers over recent years, lower feed and fertilizer prices and broadly good seasonal conditions.

Milk production in Australia is seasonal. Most dairy farmers, particularly in the southern states, calve their cows in the lead-up to spring when the temperate regions produce the greatest amount of grass and the highest quality grass. Milk production in Australia peaks in October and then tails off as lactation progresses. However, the peak production level typically sets the tone for milk production for the remainder of the lactation. From October to December 2023, milk production was 3.5 percent above that of the prior year. The elevated production has continued for the first three months of 2024, with production at 5.4 percent above the same period for 2023 (see Figure 1). Dairy farmers expect this strong momentum to continue through to mid-year. However, the outcome for 2024 will be highly dependent on milk production in the second half of the year which will be impacted by any change in the milking cow numbers, the seasonal conditions during the spring pasture production period and fodder and fertilizer costs.

Figure 1 – Australian Milk Production – Jan 2022 to Mar 2024



Source: *Dairy Australia*

Dairy farmers have had a record milk price in 2022/23, which is about to be followed by a very strong price for 2023/24. The Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES) forecasts a lower milk price in 2024/25, which is still 25 percent above the previous 10-year average (see Figure 2). The recent very high milk prices have encouraged dairy farmers to allocate increased resources towards lifting milk production, which has been evident since October 2023. The strong milk price forecast by ABARES for 2024/25 is expected to encourage dairy farmers to increase milk production further in 2024.

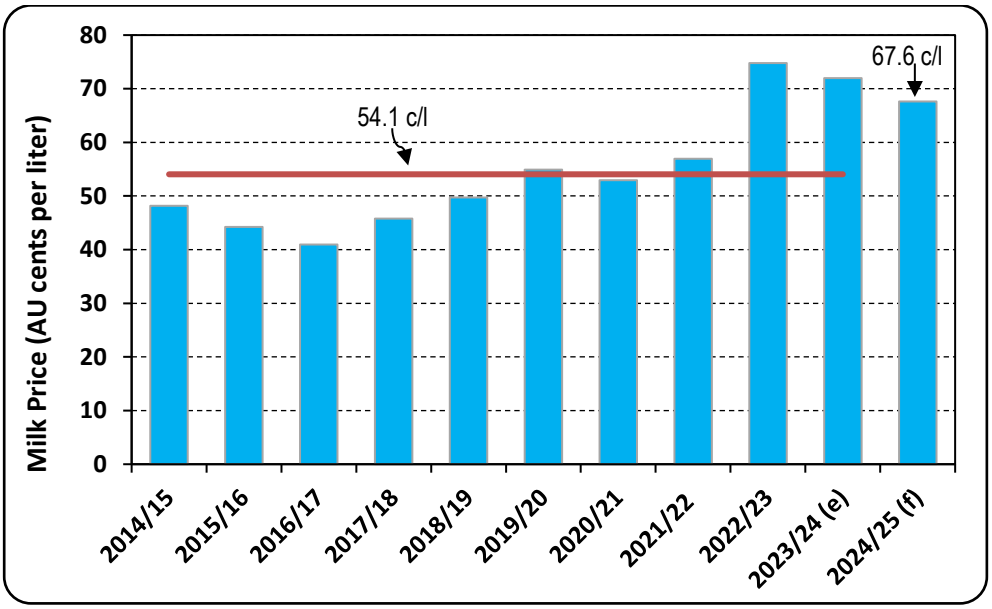
The national dairy herd is estimated to increase slightly in 2024, and the average milk yield is also anticipated to continue rising and contribute to the 3.3 percent estimated increase in milk production. An important dynamic driving the anticipated small milking herd increase for 2024 and arresting the slide in the national dairy herd over recent years, is the decline in beef cattle prices and the subsequent rise in milk prices.

The rapid rise in beef cattle prices in Australia throughout 2021 and well into 2022 resulted in a rapid decline in national calf slaughter, mainly dairy calves. This led to a rise in dairy beef cross calves retained for beef production. Some of this was by dairy farmers who had reduced their milking herd size partly to address difficulties in sourcing labor due to COVID-19 impacts, which then made more area of pasture available for growing out dairy-beef livestock.

In the second half of 2022 and 2023, beef cattle prices in Australia fell dramatically while dairy milk prices increased rapidly to record levels. Dairy farmers have responded to the change in market

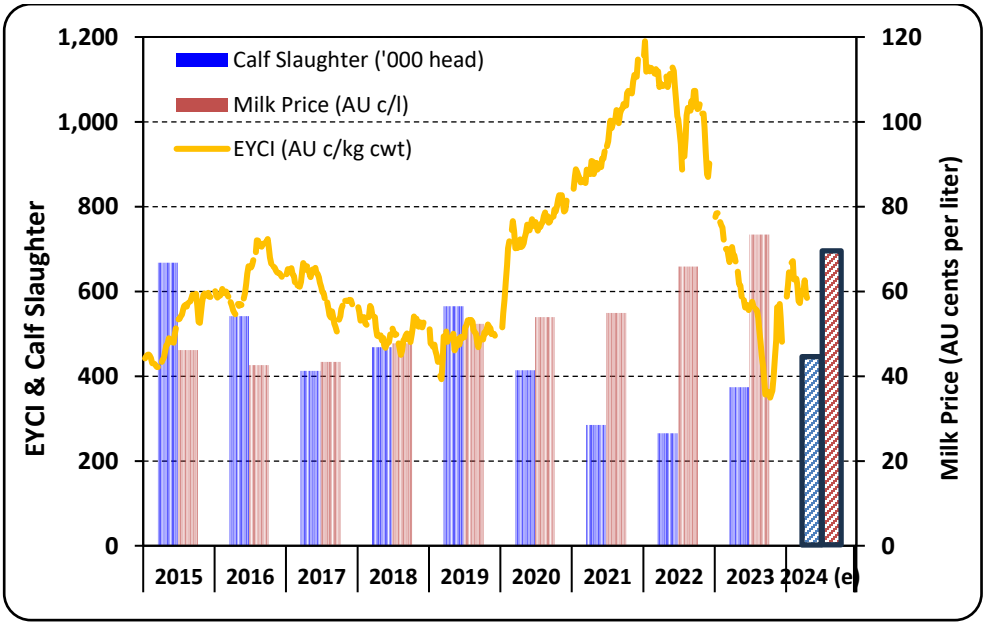
dynamics of beef cattle and milk prices by retaining fewer calves for dairy-beef livestock production, evidenced by the rising calf slaughter numbers (see Figure 3). This shift is expected to have availed more pasture areas back towards the dairy herd for milk production in 2024.

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*

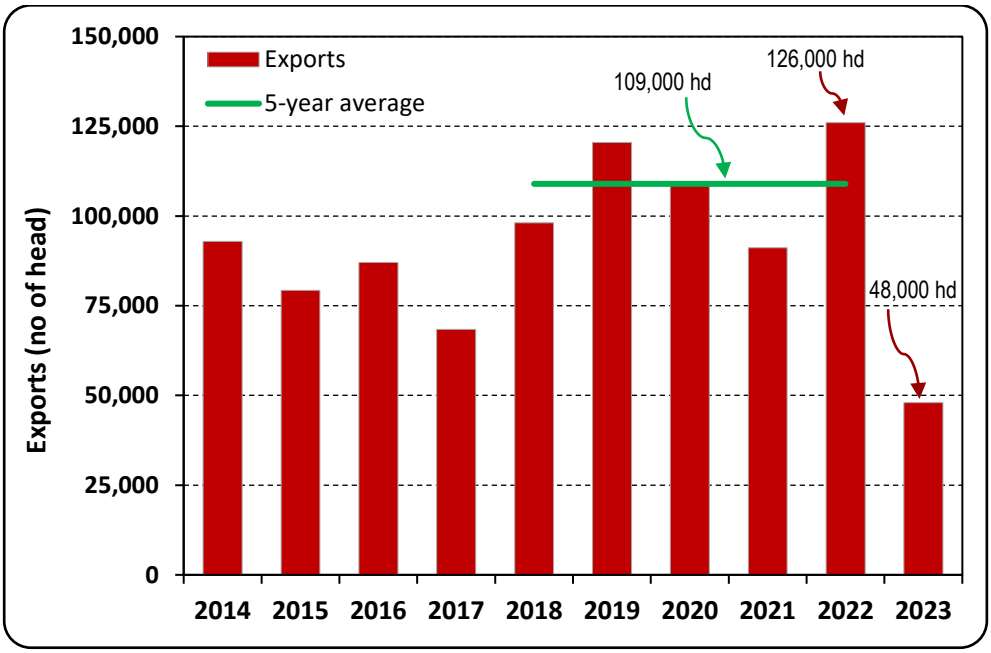
Figure 3 – Cattle Indicator Price, Calf Slaughter and Milk Price Trend



Source: *Australian Bureau of Agricultural and Resource Economics and Sciences*
Meat & Livestock Australia
Note: *(e) = estimate, EYCI = Eastern Young Cattle Indicator price*

Dairy heifer exports to China in 2023 dropped by 56 percent from the previous 5-year average and 62 percent from the prior year. There has been a modest recovery for the first three months of 2024, but the full-year result is unlikely to be substantially stronger than that for 2023 and will be well below the previous 5-year average (see Figure 4). There are reports of milk overproduction in China, which has led to a drop in demand for the live dairy heifer trade. A key outcome of this rapid shift in trade was that the surplus dairy heifers were available to enter the Australian dairy milking herd and support the growth in milk production. This will also have a further short-to-medium-term impact as dairy farmers will retain fewer dairy heifer calves to produce for the live trade to China. This will increase pasture availability for the dairy herd and further support milk production.

Figure 4 – Live Cattle Exports to China – 2014 to 2023

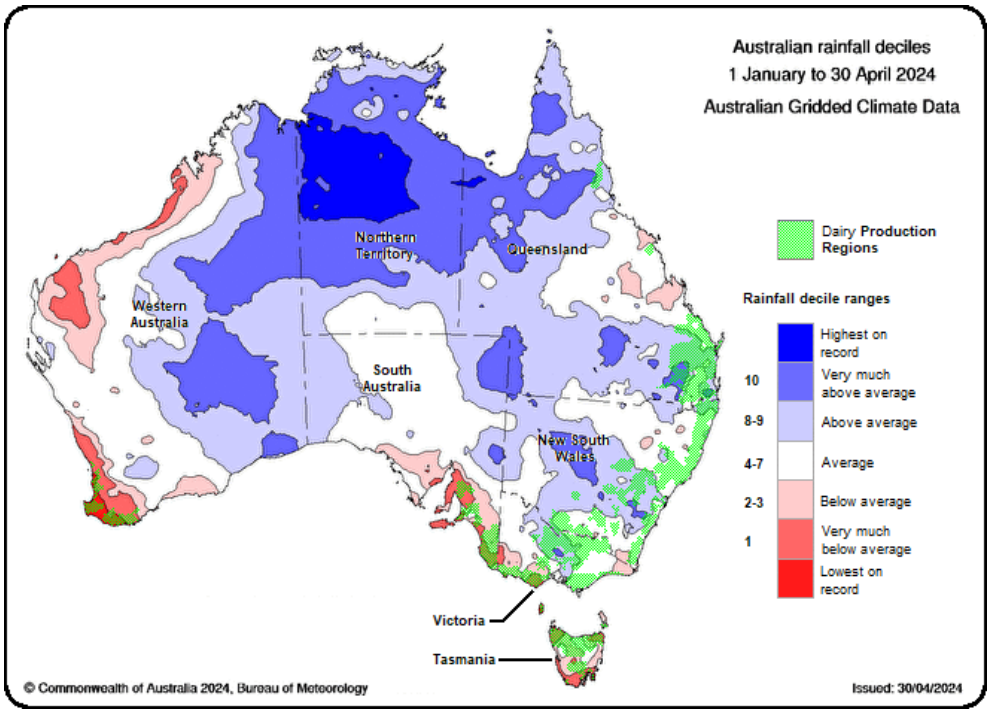


Source: *Australian Bureau of Statistics*

Rainfall in 2024 so far has been mixed across the dairy production regions of Australia. Victoria and Tasmania typically contribute three-quarters of the national milk production. They have temperate climates, and of all of the dairying regions in Australia, these farmers are most reliant on pasture production. Around 60 to 65 percent of the dairy herd feed requirements come from grazing pastures and some fodder crops, so their rainfall outcomes are particularly important to milk production. Northern Victoria has had above-average rainfall, and the southeastern part of the state has had around-average rainfall. However, southwestern Victoria, and much of Tasmania have had below-average rainfall so far this year (see Figure 5). Despite this, milk production in these two impacted regions for the first two months of 2024 is five percent above the same period in the previous year. In comparison, Victoria's northern and eastern regions are ten and eight percent higher, respectively.

Dairy farmers across Queensland and New South Wales have generally received average to above-average rainfall from January to April 2024. However, these regions are relatively small contributors to national milk production and have a higher reliance on supplementary feed, and its cost. Western Australia and South Australia are similarly relatively small producers of milk, but they have been impacted by very dry conditions. If these conditions continue, fodder prices are likely to rise, and milk production is likely to be adversely impacted as 2024 progresses.

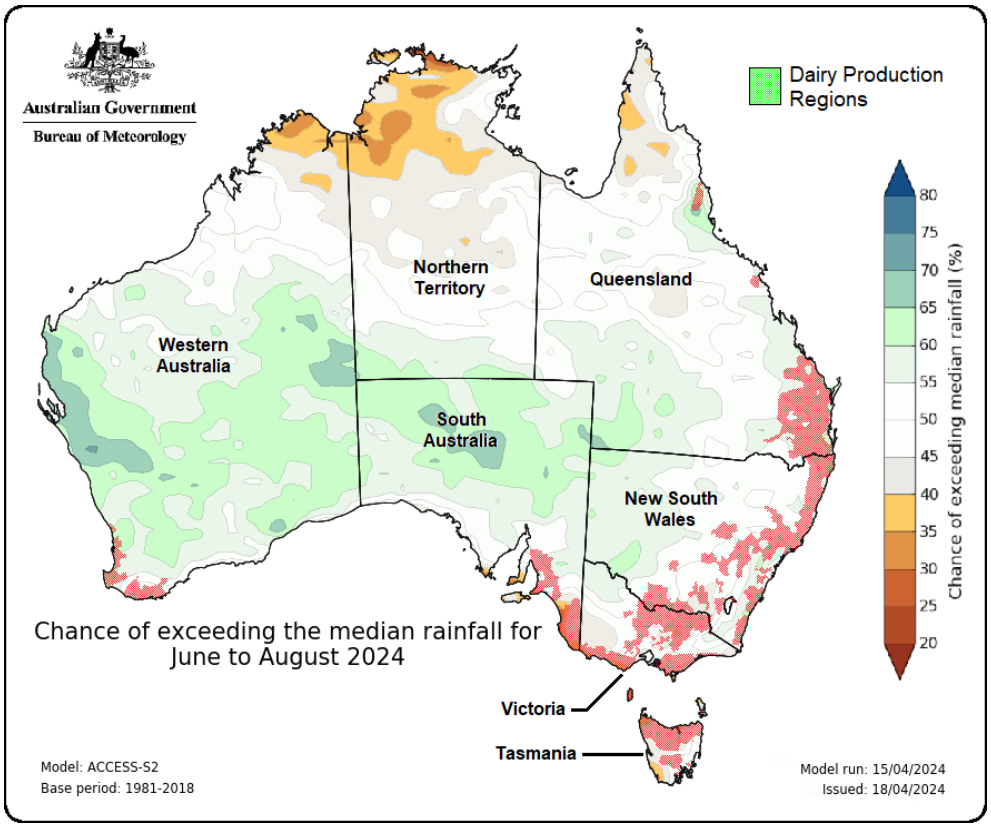
Figure 5 – Australia Rainfall Decile Maps – Jan to Apr 2024



Source: Australian Bureau of Meteorology / Dairy Australia

The Australian Bureau of Meteorology (BOM) forecasts an average chance of exceeding median rainfall from June to August 2024 for almost all dairying regions in Australia (see Figure 6). If the forecast eventuates this will support pasture production during the winter months and contribute to upholding the 2.9 percent increase in milk production estimated for 2024.

Figure 6 – Australia Rainfall Forecast Map – Jun to Aug 2024



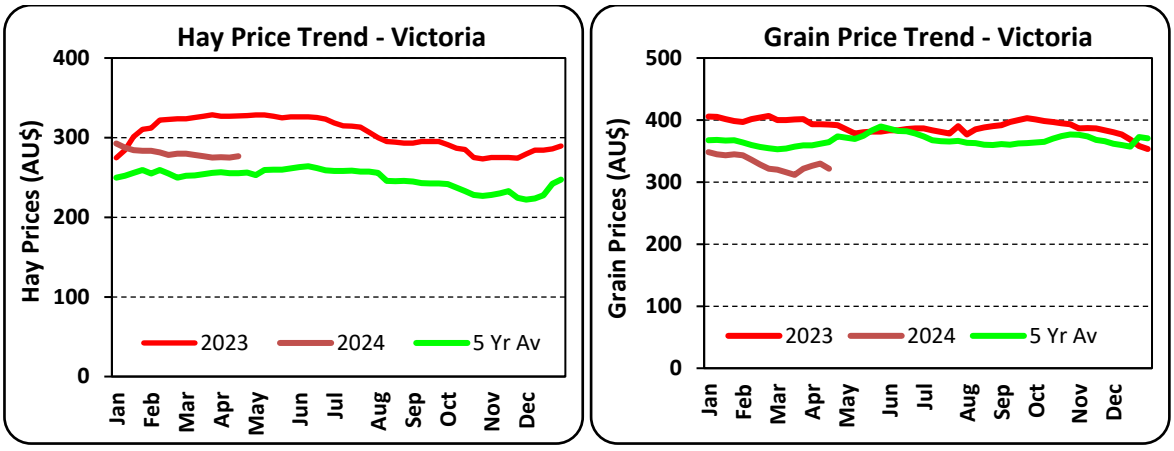
Source: Australian Bureau of Meteorology / Dairy Australia

A contributing reason the key milk-producing regions of southwestern Victoria and Tasmania, currently experiencing dry conditions, producing five percent higher in the first two months of 2024 compared to the same period in the previous year, is that they have had access to fodder at lower prices, particularly grain.

After successive years of high grain production in Australia and an easing of world export demand, grain prices for Victorian dairy farmers in 2024 have been below the previous 5-year average and well below the same period in the previous year. Hay prices in Victoria have eased so far in 2024 and are approaching the 5-year average but are still well below the same period for 2023 (see Figure 7). This reflects lower grain prices rather than the drier-than-usual conditions in parts of Victoria.

Many grain analysts anticipate that, based on current expectations of northern hemisphere grain production and world demand, that world grain prices may rise but not markedly well into 2024. This situation augers well for dairy farmers to support the estimated increase in milk production for 2024.

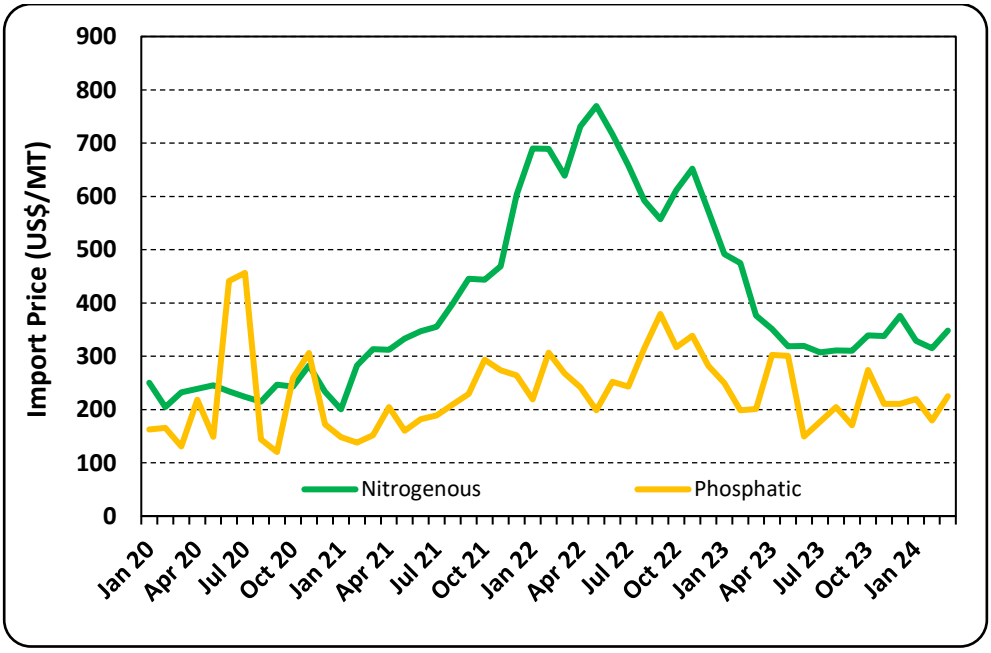
Figure 7 – Hay and Grain Price Trends in Victorian Dairying Regions



Source: *Dairy Australia*

For dairy farmers, fertilizer inputs are a significant cost to the business, primarily for producing pastures and other fodder crops. Many dairy farmers use phosphatic and nitrogenous fertilizers or blended products of the two. Imported nitrogenous fertilizer prices skyrocketed to record levels in 2022 but have eased rapidly in 2023. Since mid-2023, prices have been relatively stable at around 40 percent above 2020 levels (see Figure 8). Phosphatic fertilizers also rose in 2022 but to a far lesser extent than nitrogenous fertilizers, and they have similarly eased and, on average over recent months have been a little higher than for 2020. These higher nitrogenous and phosphatic fertilizer prices (compared to 2020) can be accommodated by dairy farmers from the current high milk prices and will not likely be a limiting factor to pasture production in 2024.

Figure 8 – Average Monthly Nitrogenous and Phosphatic Fertilizer Import Price



Source: *Australian Bureau of Statistics*

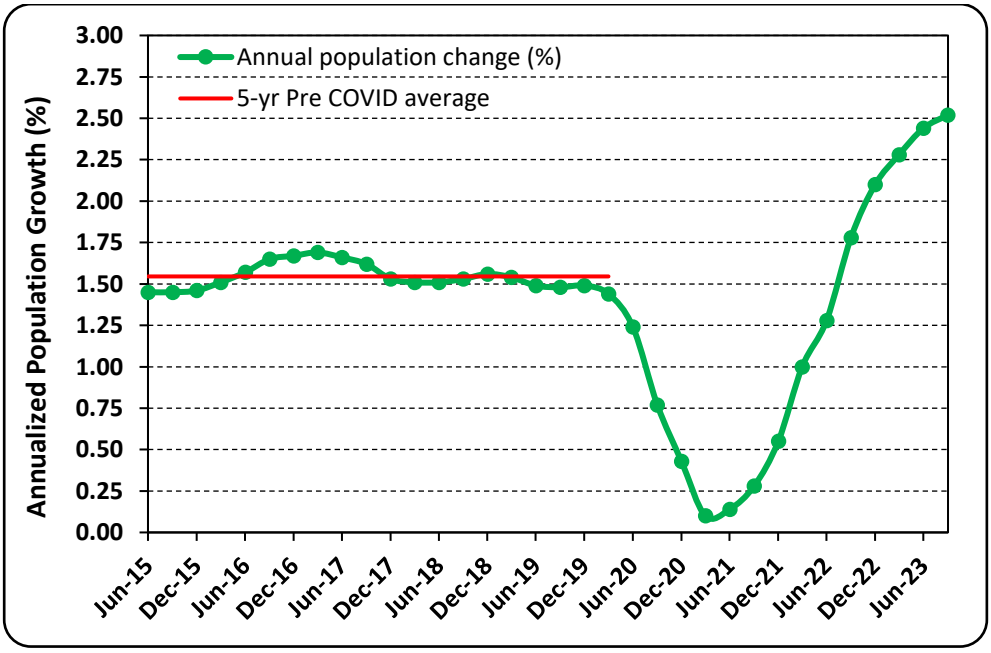
FAS/Canberra's fluid milk production for 2023 is revised up slightly to 8.47 MMT from the official USDA estimate of 8.40 MMT. This revision is based on Dairy Australia's published production data for the full year. This rise in production is mainly due to stronger-than-expected milk production in the last three months of 2023.

Consumption

Fluid milk consumption is estimated by FAS/Canberra to increase by 0.5 percent to 2.455 MMT for 2024 from 2.443 MMT in 2023. This is the first time in six years that an increase in milk consumption is anticipated. This is a result of a rapid increase in Australia's population since the start of 2023.

Australia's population growth rate has surged beyond the steady pre-COVID-19 pandemic rate of a little over 1.5 percent. From late 2022, the rate has continued to climb past the 5-year average prior to the pandemic, and as of the third quarter of 2023, the annualized growth rate is at around 2.5 percent (see Figure 9). Most of the growth is due to a high immigration rate. The federal government has previously indicated that it intends to temper that rate of immigration, but this is yet to occur, with record monthly immigration rates recorded in January and February 2024. On this basis, population growth is likely to be strong for 2024. The rapid growth in population in 2023 and the anticipated growth in 2024 are expected to drive an overall increase in milk consumption in Australia.

Figure 9 – Australian Population Growth Trend



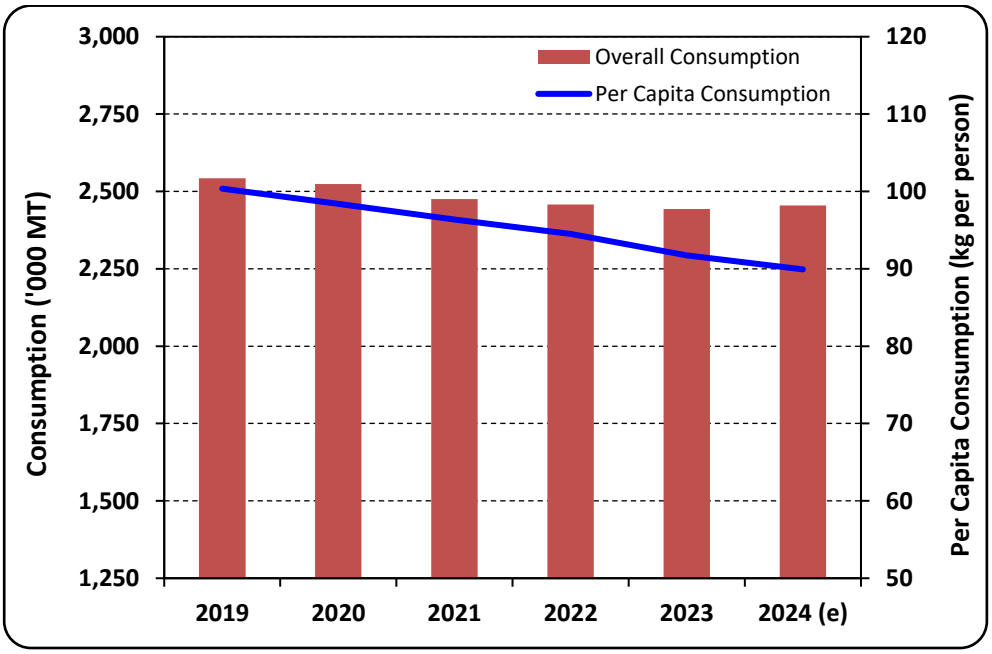
Source: Australian Bureau of Statistics

Although growth in milk consumption is estimated for 2024, the per capita consumption of milk is expected to decline. Over the last five years, the decline in milk consumption has been steady at around

two percent per annum (see Figure 10). A population growth rate of 2.5 percent equates to an estimated population growth of 700,000 people in 2024. The overall estimated milk consumption for 2024 combined with the estimated population growth equates to almost a two percent decline in per capita consumption for 2024, continuing the recent past trend.

Dairy Australia has reported that the overall milk consumption results for January and February 2024 are 2.5 percent ahead of the same time in the previous year. This is well ahead of FAS/Canberra's 0.5 percent growth estimate for 2024. However, month-to-month variances can be substantial, and a growth rate of 2.5 percent would equate to no decline in the per capita consumption of milk, which would strongly buck the consistent trend over the last five years.

Figure 10 – Overall Milk and Per Capita Consumption Trend



Source: Australian Bureau of Statistics / Dairy Australia

Consumers over the last year (2023) have shifted their milk preference back towards full-fat milk (57.3 percent) and away from Ultra-High Temperature (UHT) (10.8 percent) and reduced-fat milk (19.5 percent). Flavored milk consumption grew slightly to 10.0 percent, and no-fat milk consumption retreated slightly to 2.4 percent. Changes in preferences for the type of milk consumed are relatively small from year to year, and no significant shift is expected in 2024.

FAS/Canberra estimates factory milk consumption in 2024 to reach 6.152 MMT, a rise of 5.6 percent from the 5.827 MMT in 2023. This is mainly due to the estimated growth in milk production (3.3 percent) for 2024 and a decline in fluid milk exports, combined with only a modest (0.5 percent) growth in domestic fresh milk consumption.

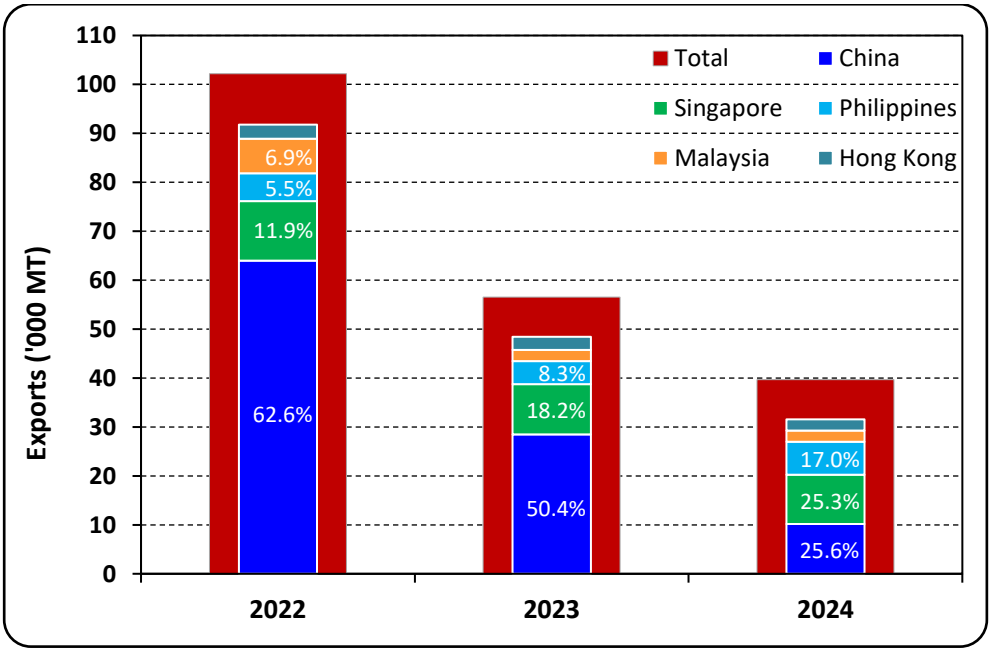
Trade

Exports

After a rapid growth period of fluid milk exports from 2010 to 2021, FAS/Canberra estimates they will continue to fall to 150,000 MT in 2024, a 27.5 percent decline from the 2023 outcome of 207,000 MT which itself was a 38 percent fall from 2022. This decline from peak exports of 402,000 MT in 2021 is directly related to the rapid drop in demand from Australia's primary export market, China.

Exports for the first quarter of 2024 are at 24,500 MT and are 30 percent below the same period in 2023. Although Australia exports to over 40 nations, the top five countries typically account for around 85 percent of fluid milk exports. China, in the past, has been a dominant destination for Australian fluid milk exports but has rapidly declined in importance over recent years to being a quarter of the overall trade and equal to Singapore, for the first three months of 2024 (see Figure 11). Over the recent years, the decline in overall fluid milk exports is almost entirely attributed to decreased exports to China. Over many years, China has gradually built up its dairy herd and domestic milk production. As a result, domestic fluid milk production has increasingly met China's demand.

Figure 11 – Major Milk Fluid Exports – Jan-Mar 2022 to 2024



Source: Australian Bureau of Statistics

According to final Australian Bureau of Statistics trade data, 2023 milk exports reached 207,000 MT, a 38 percent decline from 2022. This primarily relates to declining demand from China.

Imports

Fluid milk imports by Australia are forecast to remain relatively stable at a very low level of 7,000 MT for 2024. This is in line with the 2023 result, and for the first quarter of 2024 the volume of imports has been similar to the same period in the previous year.

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

Dairy, Milk, Fluid	2022		2023		2024	
Market Year Begins	Jan 2022		Jan 2023		Jan 2024	
Australia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Cows In Milk (1000 HEAD)	1335	1335	1270	1270	1250	1280
Cows Milk Production (1000 MT)	8450	8450	8400	8470	8500	8750
Other Milk Production (1000 MT)	0	0	0	0	0	0
Total Production (1000 MT)	8450	8450	8400	8470	8500	8750
Other Imports (1000 MT)	7	7	7	7	7	7
Total Imports (1000 MT)	7	7	7	7	7	7
Total Supply (1000 MT)	8457	8457	8407	8477	8507	8757
Other Exports (1000 MT)	335	335	200	207	250	150
Total Exports (1000 MT)	335	335	200	207	250	150
Fluid Use Dom. Consum. (1000 MT)	2450	2450	2430	2443	2410	2455
Factory Use Consum. (1000 MT)	5672	5672	5777	5827	5847	6152
Feed Use Dom. Consum. (1000 MT)	0	0	0	0	0	0
Total Dom. Consumption (1000 MT)	8122	8122	8207	8270	8257	8607
Total Distribution (1000 MT)	8457	8457	8407	8477	8507	8757
(1000 HEAD) ,(1000 MT)						
OFFICIAL DATA CAN BE ACCESSED AT: PSD Online Advanced Query						

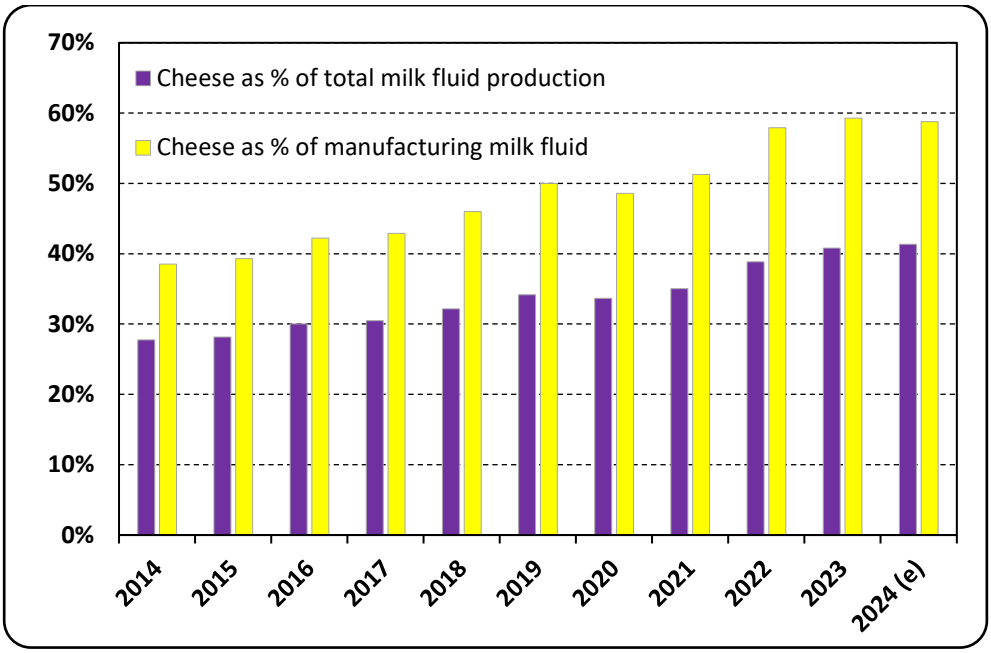
CHEESE

Production

FAS/Canberra's cheese production estimate for 2024 remains unchanged at 445,000 MT from the previous forecast and is in line with the official USDA estimate. Australian dairy processors have increasingly focused on cheese production over the last decade. Cheese production in 2024 will account for 41 percent of the national milk pool and 59 percent of the manufacturing milk pool. This is from 28 percent and 39 percent a decade earlier in 2014, respectively (see Figure 12).

Over the last decade, Australian cheese manufacturers have increasingly emphasized producing higher-value cheese varieties and, in more recent years, non-cheddar varieties. Although Australia produces more cheese than it consumes, the focus has been on extracting higher value from the available milk rather than meeting the needs of all domestic cheese demand sectors. Much of the imports are lower-value cheeses used in the food service sector, such as in fast-food chains.

Figure 12 – Trend in Milk Consumption for Cheese Production



Source: Dairy Australia / FAS/Canberra

FAS/Canberra's cheese production estimate for 2023 is unchanged from the previous estimate at 425,000 MT and in line with the official USDA estimate. This is six percent above the prior year's cheese production. This was partly due to lower fluid milk exports for 2023, which raised the volume of milk available for manufacturing.

Consumption

FAS/Canberra's estimate for cheese consumption in 2024 is 380,000 MT and is in line with the official USDA estimate. This is a 4.1 percent increase from the 2023 estimate of 365,000 MT, primarily related to the rapid growth in Australia's population, as mentioned earlier. If realized, this would be the highest level of cheese consumption in Australia on record.

FAS/Canberra estimates consumption of cheese in 2023 at 365,000 MT, which is in line with the official USDA estimate. This is also a strong growth from the prior year, in part due to strong population growth but also general domestic market recovery from the COVID-19 pandemic.

Trade

Exports

FAS Canberra estimates cheese exports in 2024 at 160,000 MT, a substantial (24 percent) increase over the 129,000 MT achieved in 2023. The 2024 estimate remains unchanged from the earlier forecast and is in line with the official USDA estimate.

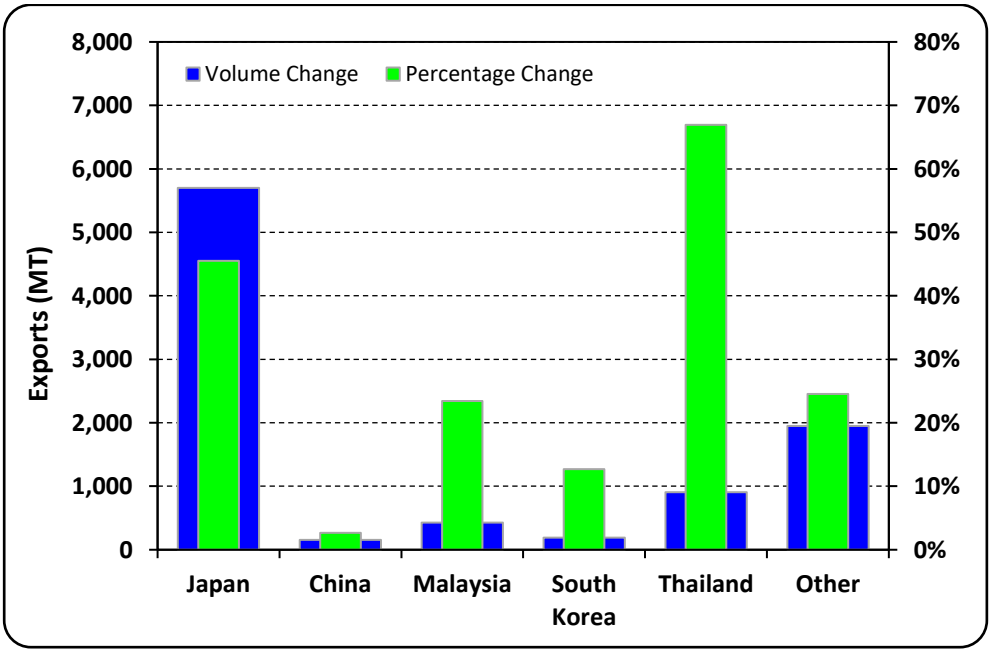
Cheese exports for the first quarter of 2024 were strong at 40,309 MT compared to 30,975 MT for the same period in 2023. Over the last five years, one-quarter of exports occurred in the first three months of the year. On this basis and compared to the prior year's first-quarter outcome, the trade is on track to reach the estimated 160,000 MT for 2024.

Australia's position as a net exporter of cheese is evidence of its strength in the dairy industry. Australia typically exports over one-third of all the cheese that it produces. The country's manufacturers are expected to continue to prioritizing cheese production. With a growing population, the growth in cheese production is well-positioned to accommodate increased domestic consumption and higher exports for 2024.

Japan has consistently and by far, been the largest market for Australian cheese over the last decade and, until recent years, for around half of all cheese exports. From 2021 to 2023 exports to Japan have declined to around 40 percent of overall exports. During this period, there has been a growth in cheese exports to China, which by volume has been similar to the decline in exports to Japan.

For the first quarter of 2024, cheese exports to Japan have surged 45 percent from the same period in the previous year (see Figure 13). For this period, Japan has accounted for 45 percent of Australia's overall cheese exports. The four other significant cheese export destinations also showed modest increases in the first quarter of 2024.

Figure 13 – Change in Cheese Exports – Jan-Mar 2023 to 2024



Source: *Australian Bureau of Statistics*

Cheese exports for 2023 reached 129,000 MT on finalized Australian Bureau of Statistics trade data, an 11 percent decline from 2022. This primarily relates to weaker-than-usual demand from Japan.

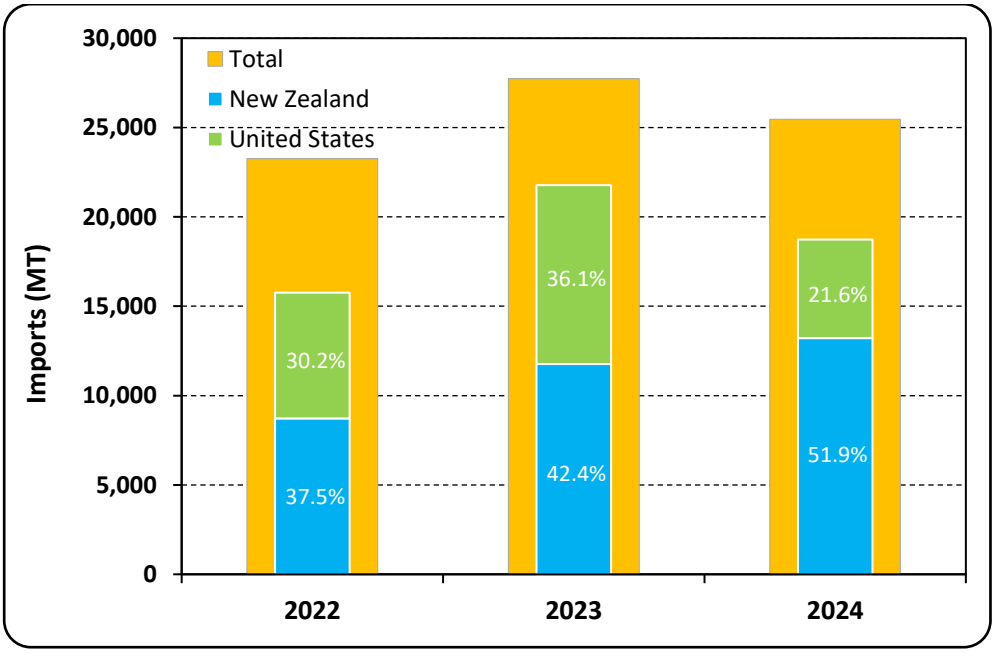
Imports

FAS/Canberra estimates Australia's cheese imports at 100,000 MT for 2024, unchanged from the previous forecast and is in line with the official USDA estimate. The 2024 estimate is a seven percent decline from the 2023 outcome of 108,000 MT. The 2024 estimate is in line with the prior five-year results (2018 to 2022) ranging from 96,000 MT to 98,000 MT.

For the first quarter of 2024, imports are at 25,464 MT, and over the last five years on average, the first three months of the year have accounted for marginally over a quarter of the annual result. Given past results and the early outcome for 2024, cheese imports are on track to achieve the 100,000 MT estimate.

Generally, nearly one-half of all cheese imports have for many years come from New Zealand. The United States has been the second-largest source of cheese imports, accounting for approximately one-quarter of overall imports annually. However, in the past two years (2022 and 2023), U.S. imports have surged, making up almost one-third. However, for the first quarter of 2024 imports from New Zealand are a little higher than usual and imports from the United States are lower than usual (see Figure 14).

Figure 14 – Major Cheese Import Sources – Jan-Mar 2022 to 2024



Source: Australian Bureau of Statistics

Imports for 2023 were at 108,000 MT, 11 percent higher than the previous five-year average and marginally below the previous FAS/Canberra estimate of 110,000 MT.

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

Dairy, Cheese	2022		2023		2024	
Market Year Begins	Jan 2022		Jan 2023		Jan 2024	
Australia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks (1000 MT)	76	76	97	97	137	136
Production (1000 MT)	400	400	425	425	445	445
Other Imports (1000 MT)	96	96	110	108	100	100
Total Imports (1000 MT)	96	96	110	108	100	100
Total Supply (1000 MT)	572	572	632	630	682	681
Other Exports (1000 MT)	145	145	130	129	160	160
Total Exports (1000 MT)	145	145	130	129	160	160
Human Dom. Consumption (1000 MT)	330	330	365	365	380	380
Other Use, Losses (1000 MT)	0	0	0	0	0	0
Total Dom. Consumption (1000 MT)	330	330	365	365	380	380
Total Use (1000 MT)	475	475	495	494	540	540
Ending Stocks (1000 MT)	97	97	137	136	142	141
Total Distribution (1000 MT)	572	572	632	630	682	681
(1000 MT)						
OFFICIAL DATA CAN BE ACCESSED AT: PSD Online Advanced Query						

BUTTER

Production

FAS/Canberra estimates butter production in 2024 to decline to 45,000 MT, which is in line with the official USDA estimate. This estimate is 5,000 MT lower than for 2023 and continues the trend of declining butter production in Australia over numerous years. This is due to dairy processors focusing on the highest and best use of the available milk for manufacturing.

Forecast butter production remains well below past levels, which for almost three decades prior to 2018 was well in excess of 100,000 MT, peaking at 180,000 MT in 2000. Over recent years, processors have restructured their infrastructure to prioritize cheese production over butter, SMP and WMP. Due to the large capital costs needed to reinvest in butter production equipment, it is unlikely that dairy processors would return to high rates of butter production based on short-term spikes in world prices.

FAS/Canberra estimates butter production in 2023 to have reached 50,000 MT, which is in line with the official USDA estimate. This estimate is based on Dairy Australia’s reported production data.

Consumption

FAS/Canberra estimates butter consumption to increase by 3.3 percent to 95,000 MT for 2024. This growth reflects the rapid growth in population experienced in Australia, as previously mentioned, with little change to per capita consumption.

Butter volumes include butteroil and anhydrous milk fat in butter equivalent terms. Anhydrous milk fat is essentially dehydrated butter used in food manufacturing, such as bakery and confectionery products.

Although butter is also used in food manufacturing, it is primarily sold through retail channels and used by the food service sector.

FAS/Canberra's butter consumption estimate for 2023 of 92,000 MT is in line with the official USDA estimate and is a modest increase over the 91,00 MT for 2021.

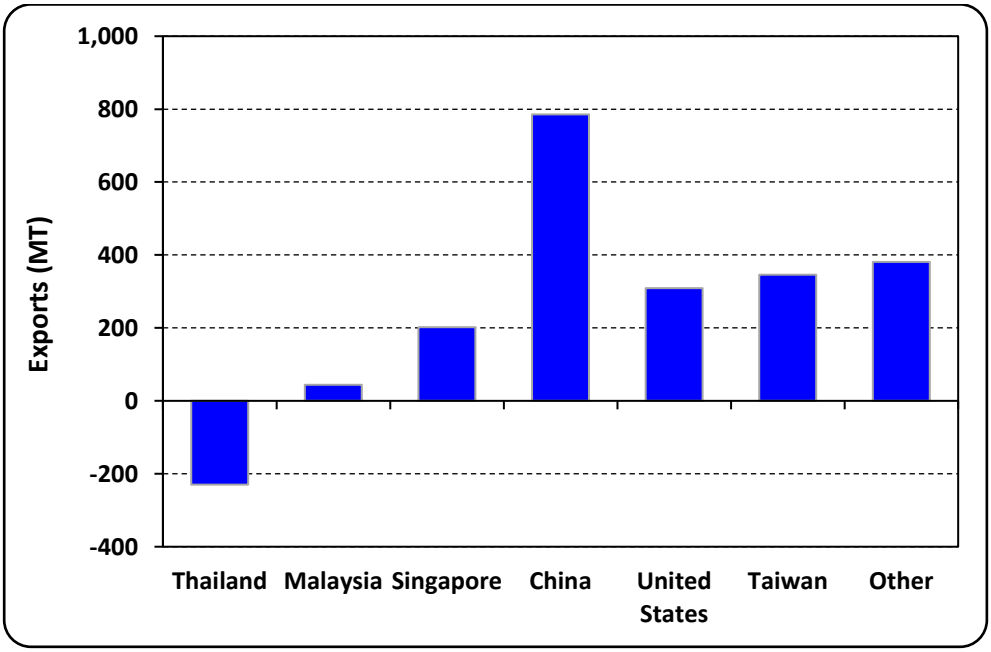
Trade

Exports

Butter exports in 2024 are estimated at 13,000 MT, unchanged from the USDA official forecast. This estimate is 4,000 MT higher than the result for 2023 of 9,000 MT, which was a substantial drop from the prior year. Australia is a net importer of butter and consumes far more than it produces. Consequently, any significant change in exports from already low levels is unlikely. Butter exports for the first quarter of 2024 are significantly higher than for the same period in 2023. However, with such a small overall trade volume, exports over the first quarter of past years have been inconsistent and not a great guide to the full-year result. However, the stronger first-quarter export result for 2024 supports the estimated growth in exports for 2024.

Australia exports butter to over 30 countries, and the major destinations have consistently been Thailand, China, Singapore, and Malaysia. However, for the first quarter of 2024, there has been a shift in butter exports to China, the United States, and Taiwan (see Figure 15). The growth in exports to China and the United States appears at odds with China's growth in domestic dairy production, and the United States has a mature dairy industry that exports substantial volumes of butter.

Figure 15 – Change in Butter Exports – Jan-Mar 2023 to 2024



Source: Australian Bureau of Statistics

Butter exports for 2023 were 9,000 MT based on Australian trade data. This was 6,000 MT (41 percent) lower than for 2022. This was an unusually large drop in exports and inconsistent with preceding years.

Imports

FAS/Canberra estimates the import of butter to Australia to increase to 55,000 MT in 2024, in line with the official USDA forecast. The FAS/Canberra estimate for 2024 is also 5,000 MT above the 2023 result. The first quarter imports in 2024 are down by 25 percent at 12,000 MT from the same period in 2023. At this rate, overall imports for the year would fall short of the estimate. However past first quarter imports have not been a strong guide to the final full-year outcome.

Australia is a net import of butter, and by far, the dominant source of imports is from New Zealand, representing around 85 percent of overall imports from 2019 to 2023. With Australia close to New Zealand, importers can readily adjust trade volumes to meet domestic consumption demands.

The import result for 2023 was 50,000 MT based on final trade data, was 9,000 MT (20 percent) higher than for 2022.

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

Dairy, Butter	2022		2023		2024	
Market Year Begins	Jan 2022		Jan 2023		Jan 2024	
Australia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks (1000 MT)	67	67	57	57	56	56
Production (1000 MT)	55	55	50	50	45	45
Other Imports (1000 MT)	41	41	50	50	55	55
Total Imports (1000 MT)	41	41	50	50	55	55
Total Supply (1000 MT)	163	163	157	157	156	156
Other Exports (1000 MT)	15	15	9	9	13	13
Total Exports (1000 MT)	15	15	9	9	13	13
Domestic Consumption (1000 MT)	91	91	92	92	95	95
Total Use (1000 MT)	106	106	101	101	108	108
Ending Stocks (1000 MT)	57	57	56	56	48	48
Total Distribution (1000 MT)	163	163	157	157	156	156
(1000 MT)						
OFFICIAL DATA CAN BE ACCESSED AT: PSD Online Advanced Query						

SKIM MILK POWDER

Production

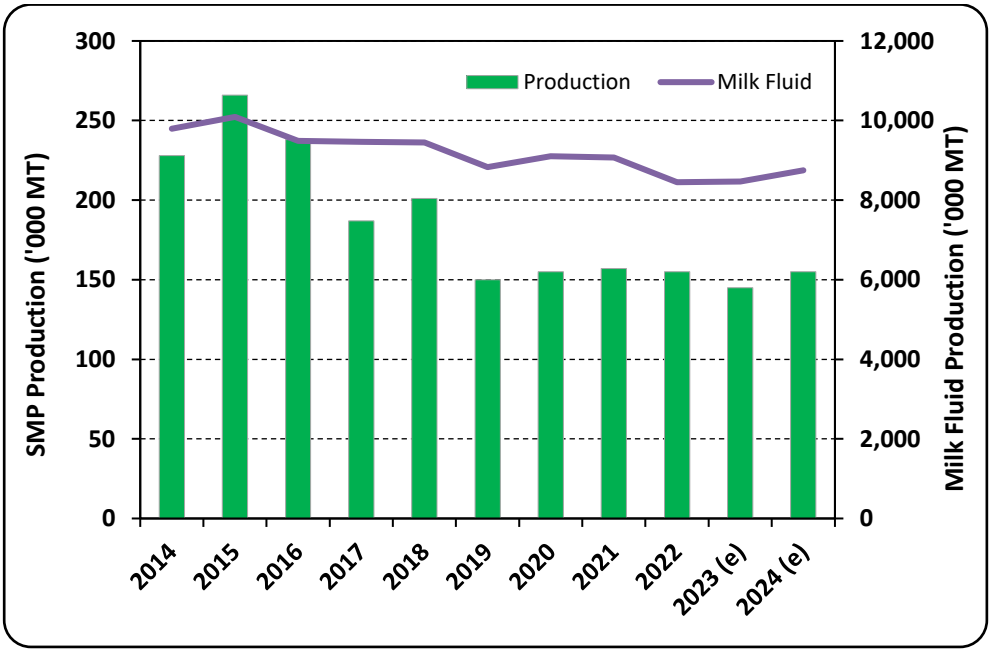
FAS/Canberra estimates SMP production in 2024 at 155,000 MT, which is 15,000 MT higher than the official USDA forecast and 10,000 MT higher than the prior year. The estimated growth in SMP production is mainly due to the upward revised milk production (2.9 percent) and milk available for manufacturing (5.2 percent) for 2024. A growth in peak milk production in spring necessitates

processors managing the larger milk supply via milk powder production due to limitations in the production capacity of other dairy products.

SMP and butter are typically produced in the same manufacturing process and production. The fat content of milk is initially reduced and then dried to produce SMP. According to industry reports, approximately one-quarter of the extracted milk fat from the production of SMP, is used to produce cream and three-quarters are further processed to produce butter, the mix of which manufacturers can readily alter. SMP production for 2024 is estimated to increase by seven percent, and butter production is anticipated to decrease by 10 percent. However, processors can alter the balance of butter production with other fat-based secondary products, such as cream.

It's worth nothing that SMP production, like butter, is now well below past levels. For nearly a decade prior to 2019, it was well in excess of 155,000 MT, peaking at 266,000 MT in 2015 (see Figure 16). There is a broad trend that as milk production in Australia has declined, SMP production has also reduced. However, there is not a direct relationship as the industry has in recent years shifted its focus towards cheese production, which has further contributed to the lower rate of SMP production.

Figure 16 – Milk Fluid and SMP Production Trend



Source: *Dairy Australia / PSD Online*

FAS/Canberra's estimate of SMP production in 2023 of 145,000 MT is in line with the official USDA estimate. This estimate is based on Dairy Australia's reported SMP production data for 2023.

Consumption

FAS/Canberra's SMP consumption estimate for 2024 has been increased by 1,000 MT (3.4 percent) to 30,000 MT. Australia produces far more SMP than it consumes, and the estimated increase in production will have no impact on influencing domestic consumption, instead, changes in population have a greater impact. The rise in the SMP consumption estimate for 2024 mainly reflects the rapid population growth in Australia as previously mentioned.

Skim milk powder has a wide range of uses in the food manufacturing sector as additive products such as:

- breads, cakes, and biscuits (improving volume and binding capacity, browning, freshness extension);
- beverages, confectionary (such as milk chocolate to add a milky texture and flavour);
- dry mixes and infant products (assists with adding a dairy flavor, texture and aroma to foods);
- prepared foods such as processed meats and seafoods, seasoning and flavours (adding texture and flavor and acting as a flavour carrier);
- snacks.
- animal feeds.

SMP can also be reconstituted to produce yogurts, dairy desserts, ice creams, and skim milk, particularly in countries without adequate refrigerated food supply chains.

A vast majority of the end products containing SMP are sold through retail and supermarket stores and, to a lesser extent the food service sector. Due to the wide range of uses for SMP significant variations in consumption from year to year are not anticipated other than driven by changes in population.

FAS/Canberra's SMP consumption estimate for 2023 of 29,000 MT is marginally lower than the official USDA estimate but slightly higher (3.6 percent) than the 28,000 MT for the prior year. The increase from 2022 reflects Australia's strong population growth in 2023.

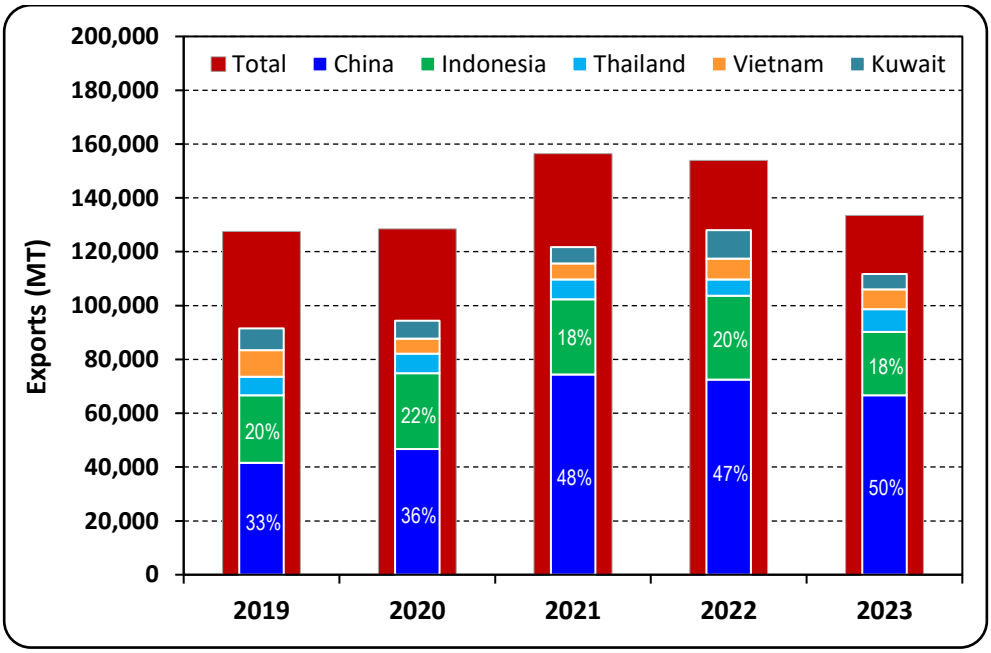
Trade

Exports

FAS/Canberra estimates SMP exports in 2024 at 140,000 MT, which is 15,000 MT higher than the official USDA estimate. The FAS/Canberra estimate for 2024 equates to a 5.3 percent increase from 2023. This is mostly due to the estimated increase in SMP production. Since domestic consumption is small relative to production (around 20 percent), it is anticipated that changes in production will mostly flow through to changes in exports.

Australia exports SMP to over 20 countries, but over the last five years, China and Indonesia have been the major destinations. China has grown to around half of overall exports (see Figure 17).

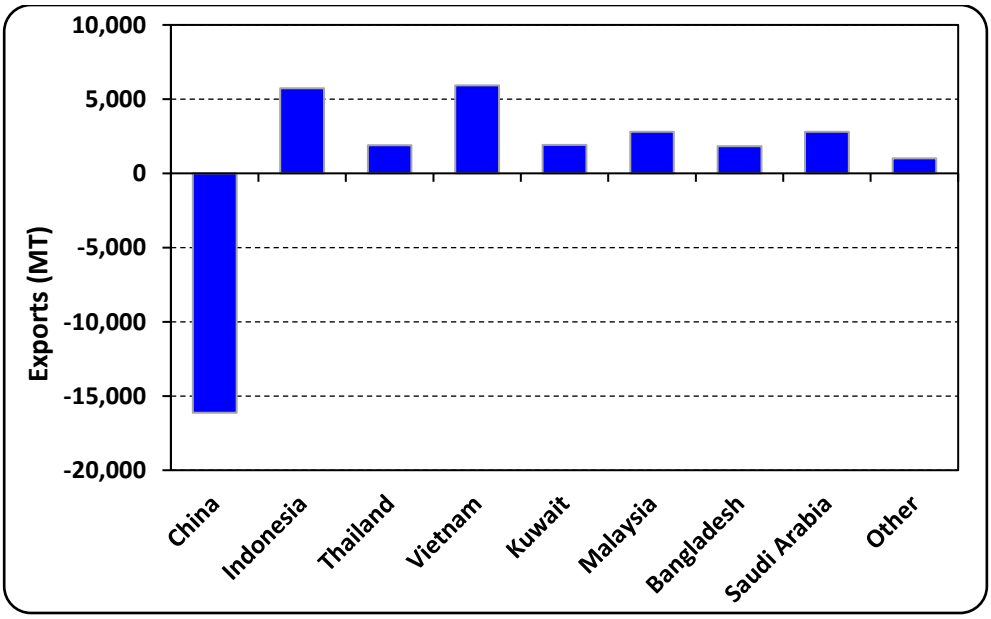
Figure 17 – Major SMP Export Destinations – 2019 to 2023



Source: *Australian Bureau of Statistics*

In the first quarter of 2024, exports increased by 8,000 MT (21 percent). China has substantially decreased its volume by 16,000 MT (63 percent) but this has been more than compensated by increases in other key export markets, including, Indonesia, Vietnam, Thailand, Malaysia, Kuwait, Bangladesh, and Saudi Arabia (see Figure 18). The decline in SMP exports to China so far in 2024 is likely to reflect its reported increased domestic production of milk.

Figure 18 – Change in SMP Exports – Jan-Mar 2023 to 2024



Source: *Australian Bureau of Statistics*

SMP exports for 2023 were 133,000 MT, based on trade data. A slightly higher than previously expected outcome was due to the strong demand from China.

Imports

FAS/Canberra forecasts SMP imports to remain stable at 15,000 MT in 2024, similar to the 14,000 MT outcome for 2023. Imports of SMP are very low, and as a large net exporter, variances of imports from year to year are minimal.

SMP imports from January to March 2024 are a little over 3,000 MT. Overall, imports are tracking to reach the estimated 15,000 MT for the full year.

Over the past few years, New Zealand has consistently been the primary source of SMP for Australia, accounting for around two-thirds of overall imports. The United States, Germany and Austria are also low volume sources of SMP.

The import result for 2023 was 14,000 MT and slightly below the 2022 result of 15,000 MT. This volume of trade has been very stable over the last five years.

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

Dairy, Milk, Nonfat Dry	2022		2023		2024	
Market Year Begins	Jan 2022		Jan 2023		Jan 2024	
Australia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks (1000 MT)	29	29	17	17	21	14
Production (1000 MT)	155	155	145	145	140	155
Other Imports (1000 MT)	15	15	14	14	15	15
Total Imports (1000 MT)	15	15	14	14	15	15
Total Supply (1000 MT)	199	199	176	176	176	184
Other Exports (1000 MT)	154	154	125	133	125	140
Total Exports (1000 MT)	154	154	125	133	125	140
Human Dom. Consumption (1000 MT)	28	28	30	29	28	30
Other Use, Losses (1000 MT)	0	0	0	0	0	0
Total Dom. Consumption (1000 MT)	28	28	30	29	28	30
Total Use (1000 MT)	182	182	155	162	153	170
Ending Stocks (1000 MT)	17	17	21	14	23	14
Total Distribution (1000 MT)	199	199	176	176	176	184
(1000 MT)						
OFFICIAL DATA CAN BE ACCESSED AT: PSD Online Advanced Query						

WHOLE MILK POWDER

Production

FAS/Canberra estimates WMP production in 2024 at 35,000 MT, an increase of 5,000 MT from 2023. This is directly related to the forecast rise in milk production for 2024, which is expected to require processors to increase the production of powders during the peak milk production period.

Peak WMP production in Australia was in 2002 at 239,000 MT and has gradually declined by around 85 percent to 30,000 MT in 2023. If not for the strong growth in milk production anticipated for 2024 a further small decline may have been expected. Over recent years Australian dairy processors have been channelled greater volumes of milk towards cheese production, and the reduced volumes of WMP produced are more specialized higher value powders such as infant milk formula.

The FAS/Canberra WMP production outcome for 2023 is 30,000 MT based on Dairy Australia data from manufacturers' voluntary reporting. This is a 19 percent drop in production from the 2022 result of 37,000 MT, highlighting the increasing focus on manufacturing products with higher returns.

Consumption

FAS/Canberra estimates WMP domestic consumption in 2024 at 40,000 MT, five percent higher than the prior year. This is mainly due to the population growth that occurred in 2023 and continued strong growth into 2024.

WMP is an important ingredient for a wide range of manufactured food products, and it can be reconstituted to produce milk drinks, yogurts, and ice cream. In the food manufacturing sector, it is used similarly to SMP in baking products, such as breads, cakes and biscuits, beverages, confectionaries, dry mixes, and prepared foods. A key difference though, is that WMP is used to produce infant milk formula whereas SMP is not. With this diverse range of WMP uses, the growth in population is expected to increase the demand from the food processing sector.

The FAS/Canberra WMP consumption outcome for 2023 is 38,000 MT based on Dairy Australia data from manufacturers' voluntary reporting. This is a 3,000 MT increase from the 2022 result of 35,000 MT.

Trade

<u>Exports</u>

FAS Canberra estimates WMP exports in 2024 at 40,000 MT, and in line with the official USDA estimate. This estimate is five percent above the 2023 outcome of 38,000 MT mainly driven by the higher production expectation.

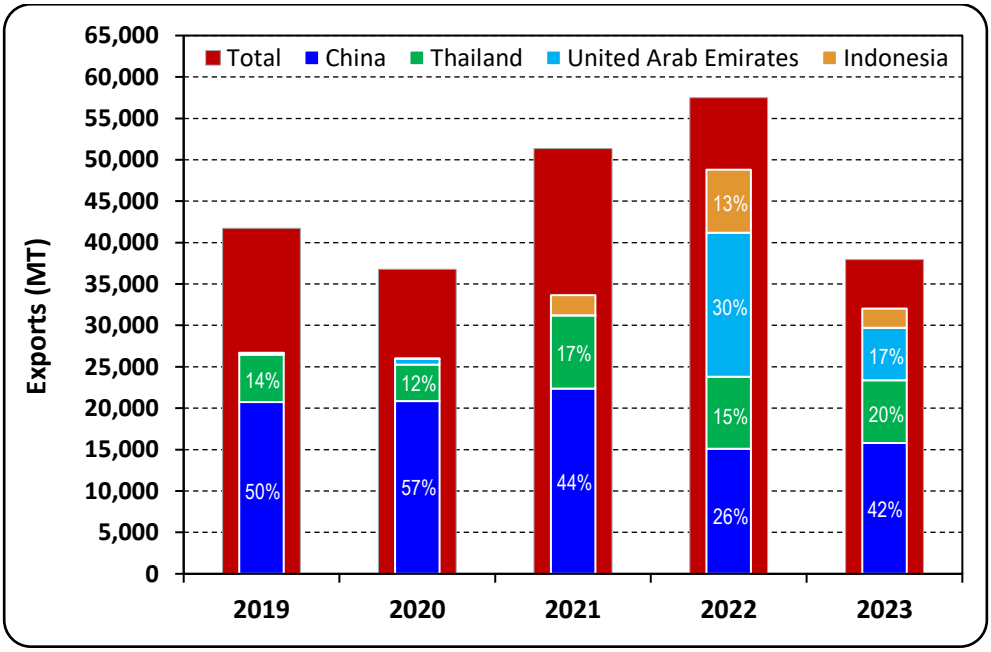
WMP exports in the first quarter of 2024 are at 12,000 MT and 2,000 MT above the same period of the previous year. However, the first quarter outcome in the past has varied substantially from one-quarter

of the annual outcome. FAS/Canberra anticipates that the pace of exports will ease for the remainder of the year.

With relatively low WMP production, Australian manufacturers focus on producing higher-value WMP predominantly for export, while imported product is mainly used as an ingredient in manufactured products.

In past years, China and Thailand typically accounted for almost two-thirds of all WMP exports from Australia. However, in 2022 a substantial shift carried through into 2023. In these last two years, there has been a significant drop in the volume of WMP exports to China and a big increase to the United Arab Emirates and Indonesia (see Figure 19). However, exports in the first quarter of 2024 indicate that there may be a reversal of the recent trend, making China and Thailand the main WMP destinations.

Figure 19 – Major WMP Export Destinations 2019 to 2023



Source: Australian Bureau of Statistics

The WMP export result in 2023 was 38,000 MT based on Australia's trade data. The result is far lower than previous expectations and 20,000 MT below the outcome for 2022. However, the export volume for 2022 was driven by strong world demand amid supply chain concerns as the world began emerging from the COVID-19 pandemic.

Imports

FAS/Canberra estimates WMP imports of 45,000 MT in 2024, in line with the official USDA estimate but lower than the 47,000 MT for 2023. This estimated decline in WMP imports is largely associated with the expectation of higher domestic production for 2024.

The majority of WMP imports to Australia are from New Zealand, the volume and proportion of which have crept up in recent years to now exceed 90 percent. Imports for the first quarter of 2024 are at almost 11,000 MT and 1,000 MT lower than for the same period the previous year, reflecting the lower outlook for 2024.

WMP imports for Australia in 2023 were 47,000 MT based on Australia's trade data. This was a record level of WMP imports for Australia, with the previous highest being 43,000 MT in 2020.

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

Dairy, Dry Whole Milk Powder	2022		2023		2024	
Market Year Begins	Jan 2022		Jan 2023		Jan 2024	
Australia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks (1000 MT)	36	36	20	20	19	21
Production (1000 MT)	37	37	35	30	35	35
Other Imports (1000 MT)	40	40	47	47	45	45
Total Imports (1000 MT)	40	40	47	47	45	45
Total Supply (1000 MT)	113	113	102	97	99	101
Other Exports (1000 MT)	58	58	45	38	40	40
Total Exports (1000 MT)	58	58	45	38	40	40
Human Dom. Consumption (1000 MT)	35	35	38	38	40	40
Other Use, Losses (1000 MT)	0	0	0	0	0	0
Total Dom. Consumption (1000 MT)	35	35	38	38	40	40
Total Use (1000 MT)	93	93	83	76	80	80
Ending Stocks (1000 MT)	20	20	19	21	19	21
Total Distribution (1000 MT)	113	113	102	97	99	101
(1000 MT)						
OFFICIAL DATA CAN BE ACCESSED AT: PSD Online Advanced Query						

Attachments:

No Attachments