

The Australian Dairy Industry

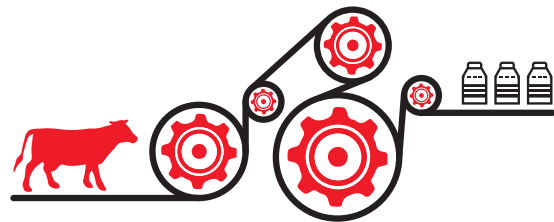


dairy farmers produce approximately **9,200 million litres**

of whole milk on average per year from over **6,300 farms** across the country.

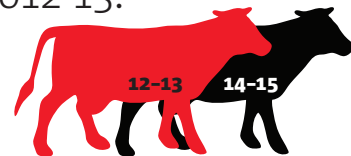
Victoria

is responsible for about **two-thirds** of the total Australian **dairy production**.



Queensland, New South Wales and Western Australia are mainly producing milk for **domestic consumption**.

Australia's 2014-15 year to date milk production is tracking slightly **ahead** of 2012-13.



NAB forecasts the **AUD to continue to fall against the US dollar** during 2015, which may help to mitigate the effects of declining global dairy prices.



The China-Australia FTA includes the progressive

removal of all tariffs



on Australian dairy products over the next four – 11 years

NAB's Economic Outlook

	Mar 2015	Jun 2015	Sep 2015
Australian GDP (%)	0.7	0.8	0.7
RBA Cash Rate (%)	2.25	2.25	2.0
AUD/USD Exchange Rate (\$)	0.81	0.80	0.79

Dairy Outlook

Global Outlook

BNZ global dairy prices (USD/tonne)



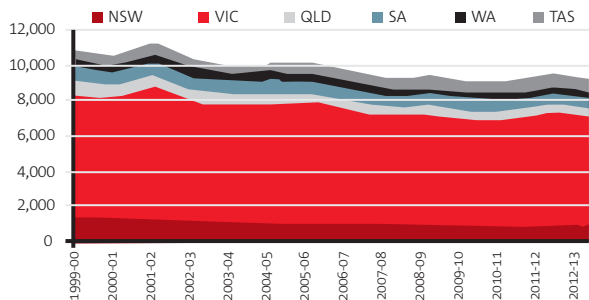
Source: BNZ

International conditions remain sluggish, with prices on world markets falling since early 2014 in response to large Chinese inventories, plentiful global supply and, since August, the effects of the Russian dairy embargo.

The most recent Global Dairy Trade auction, held in mid December 2014, posted a small increase in weighted prices. This, combined with expectations of weaker supply growth in 2015, may point towards price stabilisation in 2015. Nevertheless, we do not expect prices to recover in the short term should Chinese demand remain fragile.

Local outlook

Australian milk production (million litres per year)



Source: Dairy Australia

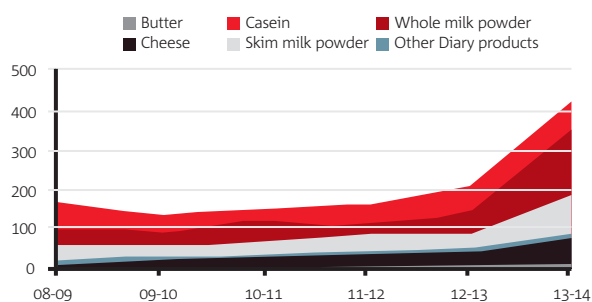
2014-15 is shaping up as a mixed year for Australian dairy producers. While the year began with considerable optimism on account of record international dairy prices and a good autumn break, lower international prices and challenging spring conditions have weighted on sentiment of late.

Domestic production is tracking slightly higher than last year so far but has peaked early in western Victoria and the Murray and Goulburn areas in response to dry to very dry spring conditions. Gippsland is performing on par with previous seasons and Tasmania looks to be having an above average season.

Longer term trends for Australian dairy have been characterised by industry consolidation driven by deregulation over the past two decades. High levels of government intervention ended with the removal of price and production quantity regulation in 2000.

China-Australia FTA

Australian dairy exports to China by type (AUD million)



Source: ABARES

There has been considerable interest in the impacts of China-Australia FTA (ChAFTA) on Australia's dairy industry in light of the impact of the New Zealand-China FTA on New Zealand's dairy industry. ChAFTA includes the removal of all tariffs on Australian dairy products within four to 11 years, although some discretionary barriers remain.

It remains to be seen whether the China-Australia FTA will spur increased Australian dairy production and export. While New Zealand dairy benefited from an FTA with China, it was already enjoying strong export growth, in part allowed by favourable climatic conditions for dairy. To fully capitalise on the ChAFTA, Australian dairy producers require further economies of scale in farming and investment in processing capacity, as well as strategies to mitigate the effects of future droughts.

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