

1. Industry snapshot: Dairy

Key takeaways

- Dairy in Australia generates \$4.19 billion in farm-gate value
- Outlook for the industry is positive in the medium term, though cost competitiveness remains a challenge
- Slender margins have seen production in northern Victoria decline 17.5 per cent year-on-year in 2016/17

Overview

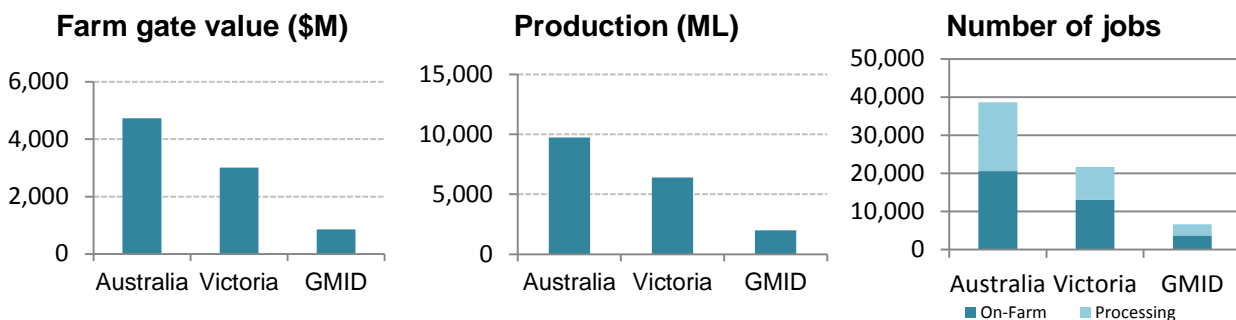
The dairy industry is Australia's third largest rural industry behind beef and wheat, generating more than \$4.19 billion in farm-gate value in 2015/16. Victoria is Australia's largest milk producing state, accounting for about two thirds of national production (6.19GL in 2015/16).

The majority of dairy production in Victoria occurs across three distinct geographical areas - eastern, western and northern Victoria. Production is spread relatively evenly across the three areas. To end November, northern Victoria accounted for 28.8 per cent of 2016-17 production (785.9ML), with western Victoria accounting for the largest share of production (38 per cent or 1,037.4ML). The dairy industry has a long association with northern Victoria and plays a vital role in the regional economy.

Source: Dairy Australia, 2016

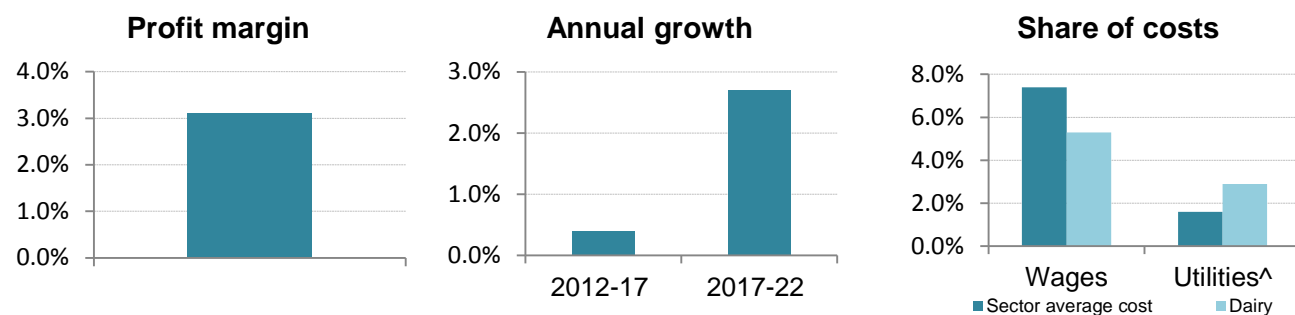
Key statistics

The following charts provide data on the dairy industry in the GMID, as it stood at 2013/14.



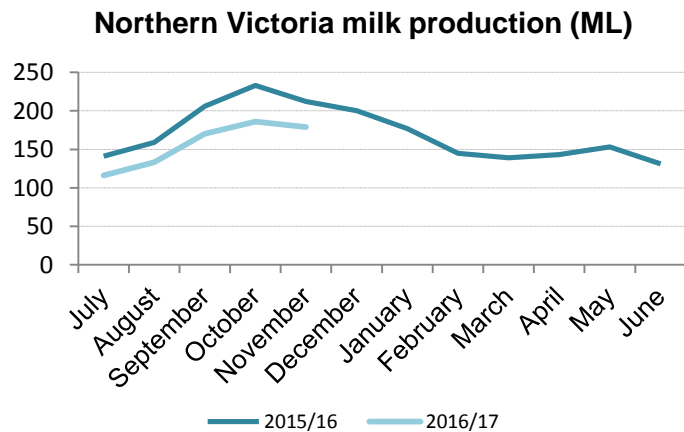
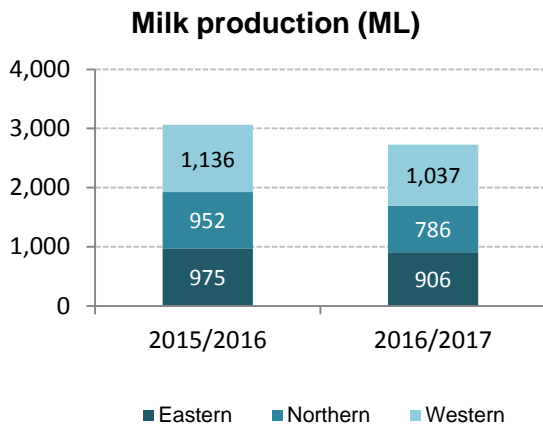
Source: Dairy Australia, 2016

The following charts provide data on the Australian dairy industry, as it stood at 2016.



Source: IBIS World, 2016

The chart below compares milk production in 2015/16 and 2016/17.



Use of water

- In the southern Murray Darling Basin (sMDB), dairy uses approximately 1,223GL per year
- In the GMID, dairy uses approximately 935GL per year, making it the largest water user
- Water costs are estimated to represent 3 per cent of total costs for dairy farmers within the GMID

Source: RMCG, 2016

Trends

Production volumes slowly recovering from drought lows, though trending lower in 2016/17

- Since a low of 1.4GL in 2010/11, GMID production has steadily increased to about 1.7GL; still well down from peak production of 2.8GL in 2001/02
- Recovery has been constrained by low confidence regarding water availability and a declining milk price
- Production in north east valleys is growing

Source: RMCG, 2016; Dairy Australia, 2017

Increasing concentration into larger, commercialised farms

- Number of Australian dairy farms has declined from 19,380 (in 1985) to 6,102 (in 2016)
- Average herd sizes have increased to a current estimate of 284 from 93 in 1985
- Majority of production now comes from large (500 plus cow herd) farms

Source: Dairy Australia, 2016

Rapidly declining margins, particularly in northern Victoria, challenging competitiveness

- Northern Victoria has higher average variable costs (\$4.06 vs. \$3.57 and \$3.24 for west and east respectively), despite lower fixed overheads (\$1.89 vs. \$2.19 and \$2.22)
- EBIT dropped by 97 per cent in the past financial year; compared to 85 per cent in the west and 75 per cent in east

Source: Dairy Farm Monitor Project, 2016

Negative industry sentiment and significant uncertainty for farmers

- Difficult year has dampened sentiment and the short term outlook for the industry is poor
- Recent report that 75 per cent of farmers expect returns to deteriorate this year

Source: Dairy Farm Monitor Project, 2016



OUR FUTURE

OUR STRATEGIC PLAN

Briefing Paper

References

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9. **Dairy Australia.** *Victoria Milk Production 16/17 by Region.* 2017.