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Report Highlights:

Milk production for 2025 in Australia is forecast to increase by 1.1 percent to 8.8 million metric tons (MMT) after strong growth of 2.7 percent for 2024 at an estimated 8.7 MMT from previous years of declining production. Expectations for 2025 would be higher if not for challenging dry conditions in parts of Australia's dairy-producing regions. Fresh milk consumption is forecast to reverse a five-year decline. Factory use of milk is expected to rise, with much of it forecast to be diverted to cheese production. Skin Milk Powder (SMP) and Whole Milk Powder (WMP) production is forecast to remain stable, but there is a slight increase in butter production. Exports for SMP, WMP, and butter are forecast to moderate in 2025 after strong results so far in 2024.

EXECUTIVE SUMMARY

Milk production in Australia is forecast to grow by 1.1 percent in 2025, reaching 8.8 million metric tons (MMT), following an estimated 2.7 percent increase in 2024, totaling 8.7 MMT. Forecast growth expectations would be higher if not for the challenging dry conditions experienced in southwestern Victoria and South Australia, which will compromise their momentum heading into 2025.

The dairy industry's current growth trajectory began with record milk prices in 2022/23. Two key challenges previously dampened production—high beef cattle prices and labor shortages during the COVID-19 pandemic in 2021 and 2022—have now eased, greatly reducing the incentives for dairy conversion to beef.

Southwestern Victoria and South Australia, contributing approximately 28 percent of national milk output together, are facing dry spring conditions that are likely to affect production through late 2024 and into 2025. However, feed grain prices remain around the previous five-year average, and they will have good hay supply available from winter crops that have been impacted by the dry and frost, some of which have been cut for hay. The Australian Bureau of Meteorology forecast for the coming months is for average to above-average rainfalls across all dairy-producing areas, which could offset some of the current adverse impacts. This is also partly mitigated by the availability and price of feed grains and hay, but it is expected to have some drag on the forecast growth in milk production for 2025.

Fresh milk consumption is forecast to increase by 0.4 percent to 2.47 MMT in 2025, reversing a five-year decline. This represents 28.1 percent of total milk production. Factory use of milk is expected to rise to 6.2 MMT from an estimated 6.1 MMT in 2024, driven by increased overall production. However, fresh milk exports are projected to decline slightly to 140,000 metric tons (MT) due to reduced demand from Australia's primary export market.

The Australian dairy industry, having focused on expanding cheese production over the past decade, appears to have reached a plateau. Cheese remains the largest consumer of fluid milk, accounting for 35 percent of total production. After an unexpected drop in cheese output in 2024, production is expected to return to 375,000 MT in 2025, matching the 2023 level and marking the third-highest annual output on record. Cheese exports are projected to moderate to 150,000 MT in 2025, down from an estimated 165,000 MT in 2024.

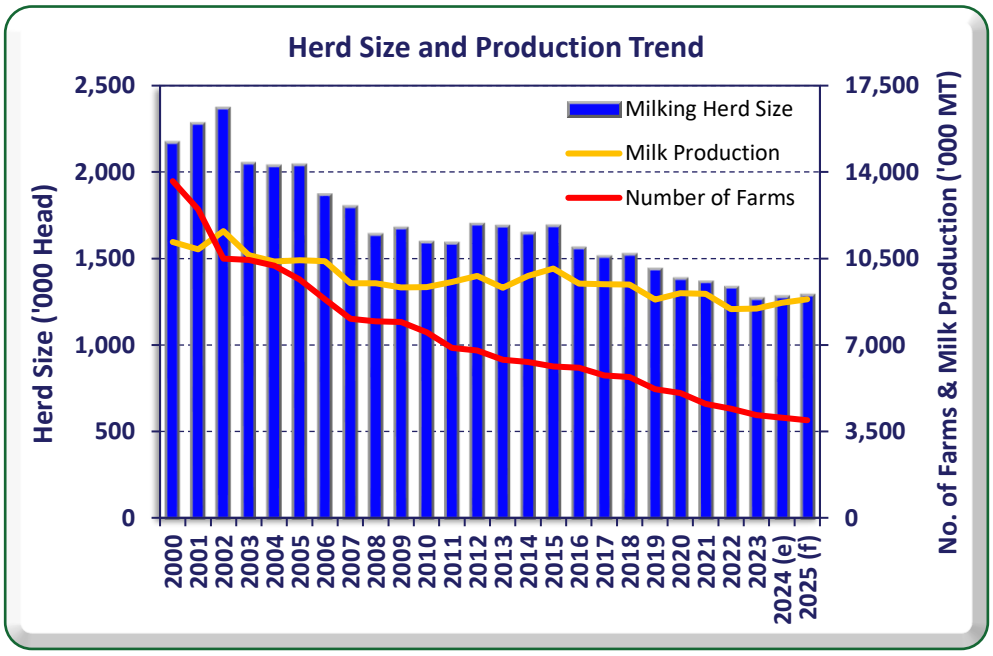
With a higher milk production forecast for 2025, the surplus will primarily support increased cheese production, keeping output levels for skim milk powder (SMP) and whole milk powder (WMP) stable. Butter production is expected to rise slightly, driven by strong exports in 2024 that have reduced stock levels. Exports for SMP, WMP, and butter are forecast to moderate in 2025 after strong results so far in 2024.

DAIRY INDUSTRY SUMMARY

The dairy industry has been a significant part of Australian agriculture for decades. The milking herd peaked in 2002 with 2.369 million head, and milk production also hit a high that year at 11.608 million metric tons (MMT) (see Figure 1). This growth occurred just two years after the government deregulated the dairy industry. Deregulation dismantled the state-based liquid milk market, which had benefited smaller milk-producing states where a high proportion of milk went into the higher-value liquid milk market rather than the more exposed manufactured milk sector, dependent on domestic and export markets. As part of this transition, dairy farmers received compensation from the Federal Government based on each farm's reliance on the regulated liquid milk market.

Deregulation allowed some farmers to invest further in their operations and others to exit the industry, ultimately helping the sector consolidate. This shift enabled the industry to "right-size" by reducing the number of less efficient farms, especially in northern tropical and sub-tropical regions. In contrast, southern temperate regions remained more resilient. From 2002 to 2023, the milking herd decreased by 46 percent to 1.27 million head, and the number of dairy farms fell by 60 percent to 4,163. Despite this, productivity gains have been significant; while milk production decreased by only 27 percent, from 11.6 MMT in 2002 to around 8.5 MMT in 2023, the average herd size grew by about 50 percent—from 200 to 300 head. Additionally, average milk production per cow increased by approximately 36 percent, from around 4.9 metric tons (MT) per cow to nearly 6.7 MT per cow.

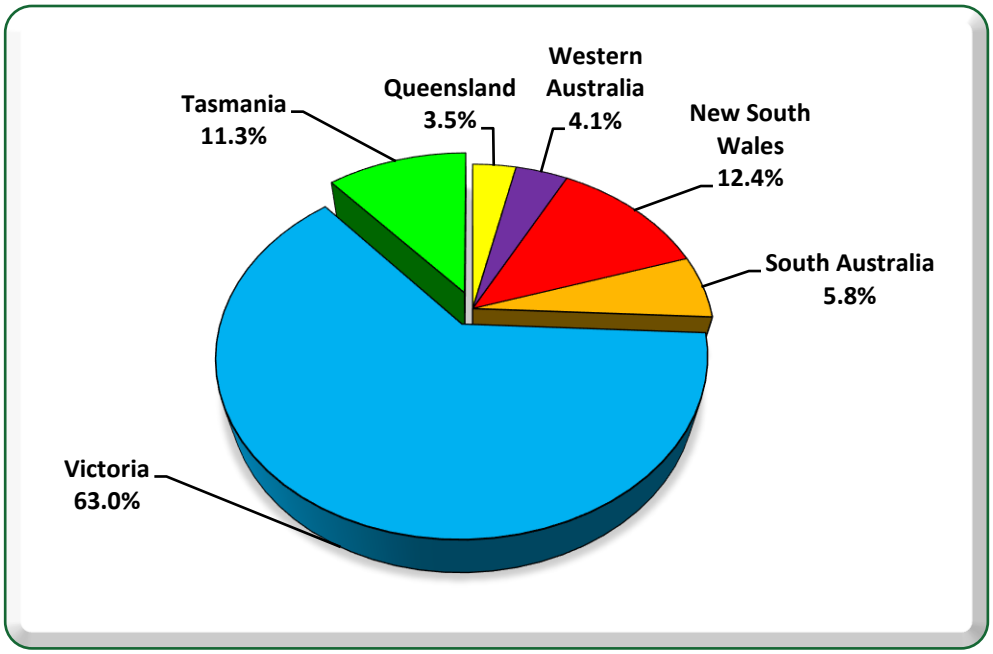
Figure 1 – Australian Dairy Herd Size, Farm Numbers and Milk Production



Source: *Dairy Australia / ABS / PSD / FAS/Canberra*

Almost two-thirds of milk production is from the southern state of Victoria (see Figure 2), which has a temperate climate. The northern part of Victoria, known as the Murray Dairy region, traditionally relies on irrigation but has had to adapt to higher water prices and limited availability due to increased competition from the horticulture sector. Victoria's two southern dairy regions—West Vic Dairy and Gipps Dairy—are largely pasture-based and depend on natural rainfall, with only a few areas having irrigation access. Pasture-based Tasmania relies primarily on natural rainfall and contributes about 11 percent of Australia's milk production. In New South Wales, milk production mainly occurs in the central and southern coastal regions and the southern irrigation areas bordering the Murray Dairy region.

Figure 2 – Milk Production by State 2023



Source: *Dairy Australia*
Note: *Data is based on January to September 2024*

Across the major dairying areas in the southern states, around 60 to 65 percent of the dairy herd feed requirements come from grazing pastures and some fodder crops. The balance of feed requirements comes from supplementary feed, mainly grains, hay, and silage. Very few dairy farms are entirely reliant on grazing. The shift over time towards increased supplemental feeding has contributed to the increase in average per cow production along with herd genetic gains, predominantly through decades of artificial insemination typically using U.S. genetics. In recent years, genotyping has fast-tracked genetic gains.

In contrast to the United States, free-stall barn systems are rare in Australia. While some large-scale feedlots have operated for some time, interest in such systems has grown. New free-stall barns in development often incorporate robotic milking systems to address labor shortages for milking duties. Most growth in free-stall barns and robotic facilities occurs in northern Victoria and southern New

South Wales, areas suited to growing fodder crops for silage and close to feed-grain production. Dairy operation experts report that the return on capital for a dairy farm with robotic milking is lower than that for a farm of a similar scale with a rotary milking parlor. However, there is an improvement in the ease of managing the dairy farm operation, mainly from removing the rising challenges of sourcing and maintaining good quality staff for milking parlor duties.

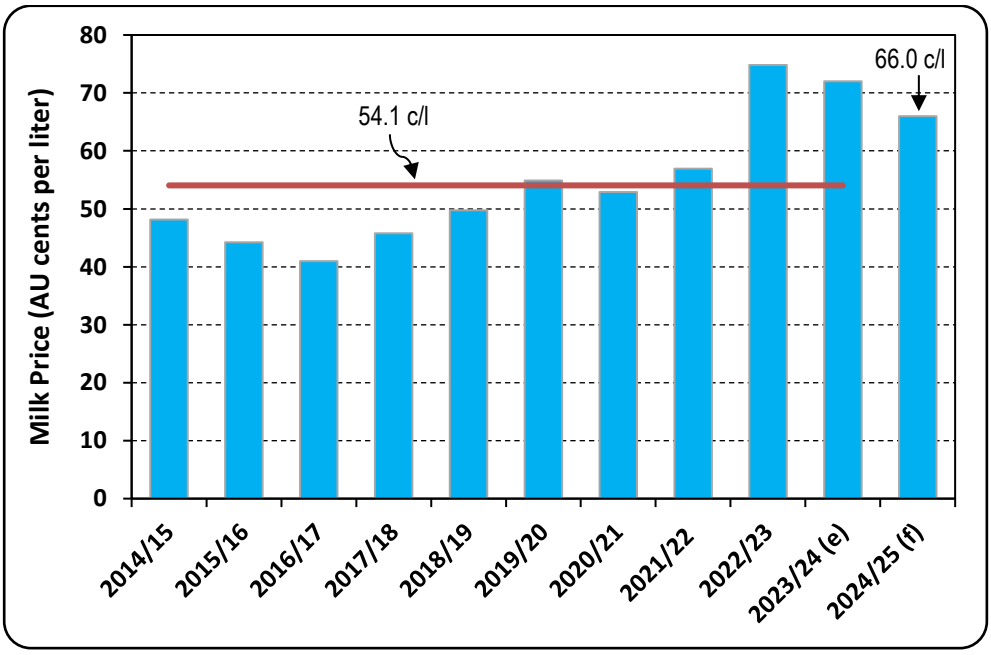
FLUID MILK

Production

FAS/Canberra forecasts a 1.1 percent increase in Australia's milk production for 2025, reaching 8.8 million metric tons (MMT), up from a downward revised estimate of 8.7 MMT for 2024. This growth rate is more modest than the 2.7 percent estimated for 2024. The forecast growth expectation would be higher if not for the challenging dry conditions experienced in southwestern Victoria and South Australia, dampening their momentum heading into 2025.

The dairy industry's current upward trend began with record-high milk prices in 2022/23, which set the stage for growth. This was further supported by strong milk prices in 2023/24, and projections for 2024/25 show a lower price, though still around 22 percent above the average (see Figure 3).

Figure 3 – Farm Gate Milk Price – Recent History and Forecast



Source: Australian Bureau of Agricultural and Resource Economics and Sciences

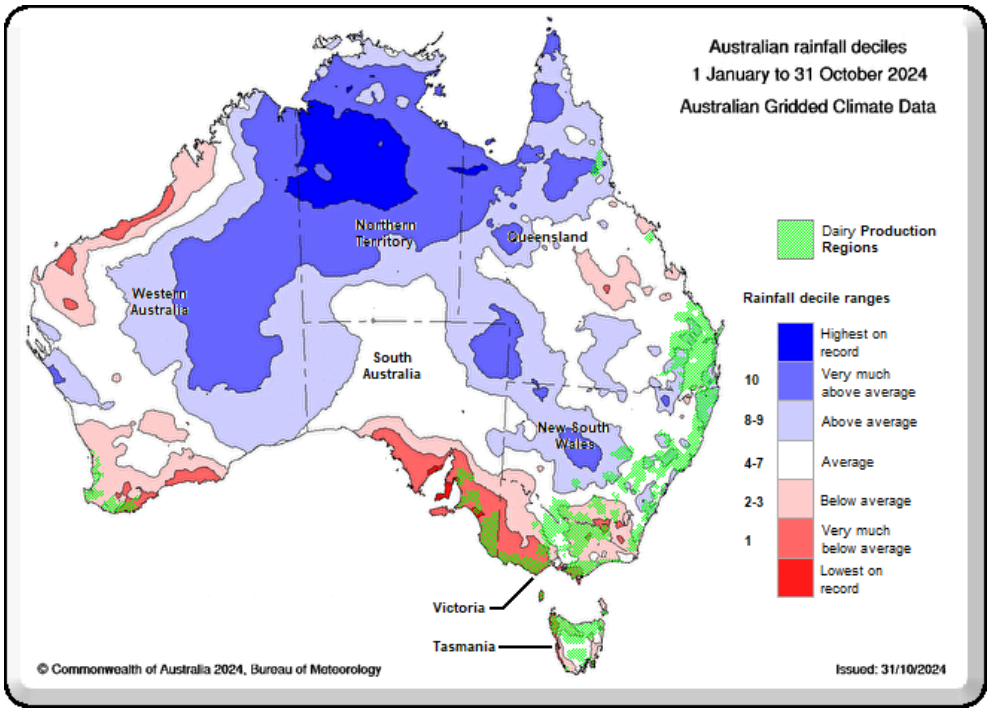
Two other challenges that had constrained milk production in recent years have now eased:

- High beef cattle prices in 2021 and 2022, reaching a record level in late 2021, encouraged dairy conversion to beef

- Labor shortages during the COVID-19 pandemic, particularly acute in 2021 and 2022, combined with price encouragement to convert to beef production, negatively impacted milk production

The key issue dampening the forecast rate of growth for 2025 is the extended period of dry conditions impacting southwestern Victoria, a major milk production region, and South Australia (see Figure 4). These two regions typically produce 22 percent and six percent of national milk production, respectively. Western Australian and Tasmanian dairy producers similarly experienced dry conditions in the first half of 2024 but have had good rainfalls in recent months, helping to mitigate their impacts.

Figure 4 – Australia Rainfall Decile Maps – Jan to Oct 2024



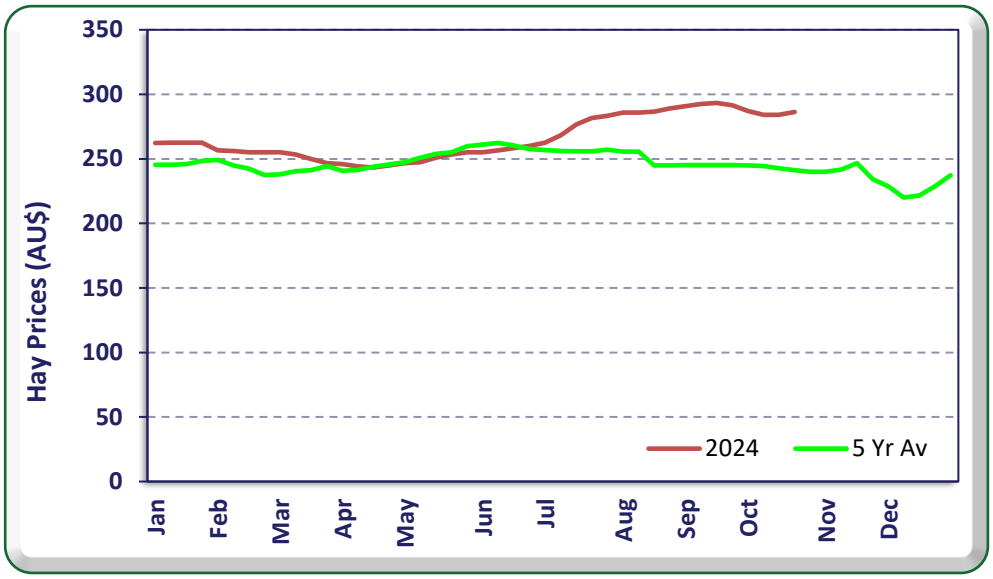
Source: Australian Bureau of Meteorology / Dairy Australia

The extended dry conditions into the spring period have negatively impacted pasture and fodder production in southwestern Victoria and South Australia. This will have multiple impacts on these regions in the forecast year:

- Low hay and silage production in spring 2024, leaving farmers with below-average fodder reserves for 2025.
- Rising fodder prices, not only in southwestern Victoria and South Australia but also in northern and southeastern Victoria, from where supplies are expected to be sourced.
- Higher feed costs are expected to lead farmers to cull more cows in late 2024, reducing fodder demand but potentially lowering milk production capacity in 2025.

Pasture hay prices in Victoria began rising in mid-2024, surpassing the previous five-year average by approximately 20 percent (see Figure 5).

Figure 5 – Hay Price Trends in Victorian Dairying Regions



Source: *Dairy Australia*

Some winter cropping areas in northwestern Victoria and South Australia experienced frost damage at flowering in mid-September, coupled with very dry conditions. Consequently, some wheat, barley, and canola crops have been harvested for hay, increasing supply and helping moderate hay price rises for dairy farmers.

Several factors are expected to support milk production growth in 2025:

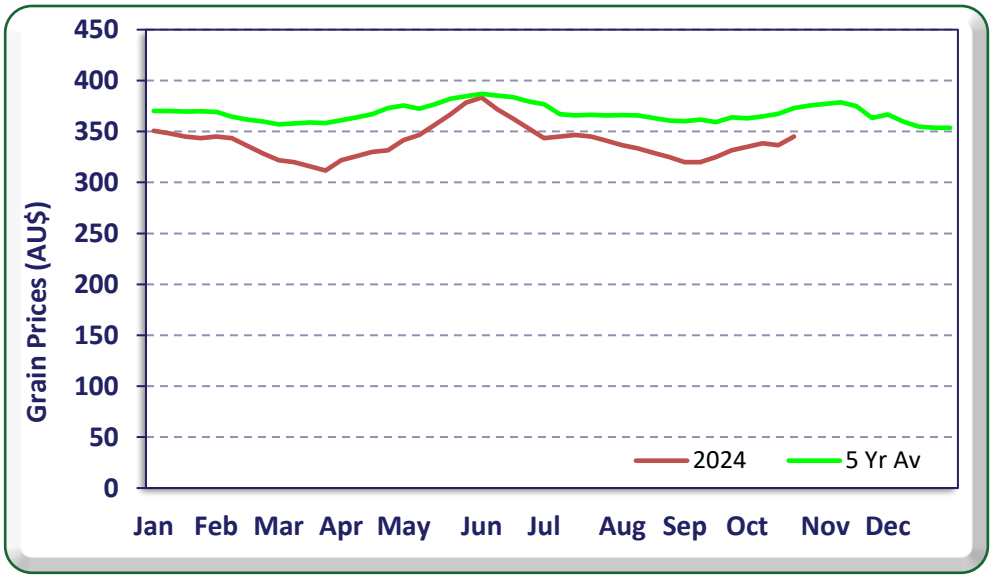
- Feed grain prices are below the previous 5-year average, and this is anticipated to continue into 2025
- The three-month rainfall forecast is positive for all dairy farming regions

Despite challenging winter crop production conditions in the southern producing regions of Australia, overall wheat and barley production this season (currently in the process of harvest) is anticipated to be near the previous 10-year average. As a result, ample feed grain will be available for dairy farmers. In conjunction with relatively flat world markets for feed grains, the price of feed wheat (see Figure 6) and barley is currently around five to ten percent below the previous five-year average. With planting season well underway in the northern hemisphere and southern hemisphere crops being harvested, analysts do not anticipate any significant shift in feed grain prices in the coming months. This will support a positive milk production momentum into 2025.

The Australian Bureau of Meteorology rainfall forecast over the next three months (December 2024 to February 2025) broadly indicates an average to above-average chance of exceeding median rainfall (see Figure 7). Early 2025 rainfall would support production momentum from 2024, though fall (March–May) and spring (September–November) remain the most influential rainfall periods for southern dairy

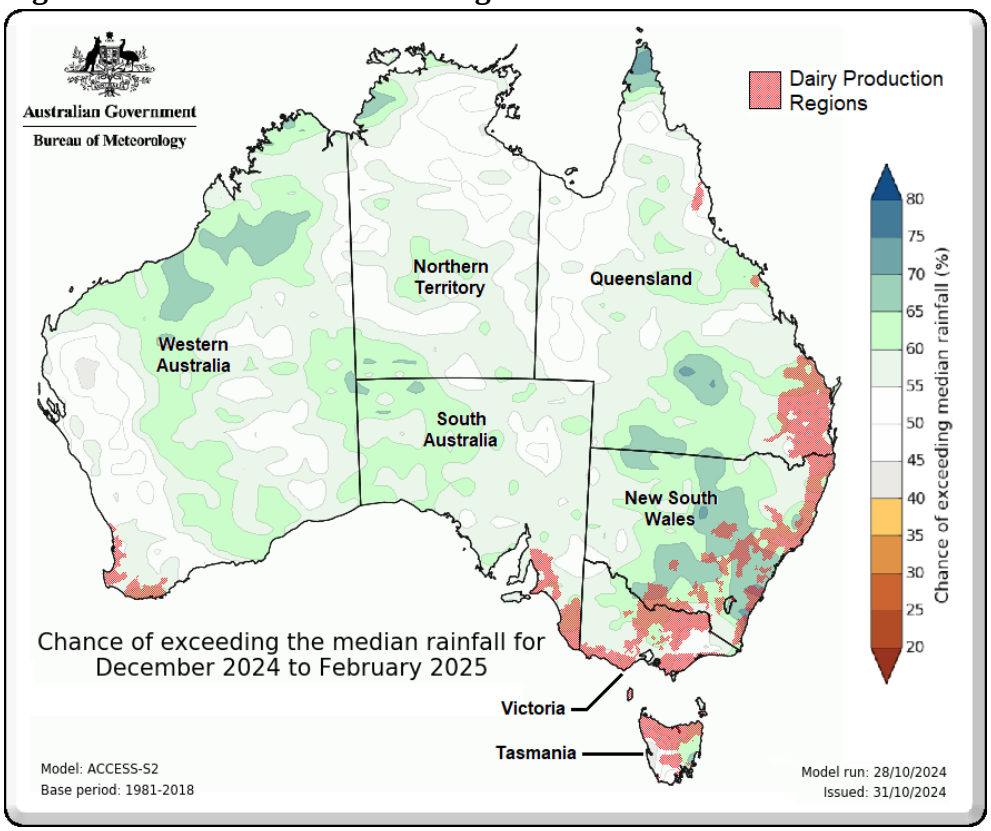
farmers. With no expected shifts towards La Niña or El Niño conditions, average weather is anticipated for 2025.

Figure 6 – Wheat Price Trends in Victorian Dairying Regions



Source: *Dairy Australia*

Figure 7 – Chance of Above Average Rainfall – Dec 2024 to Feb 2025



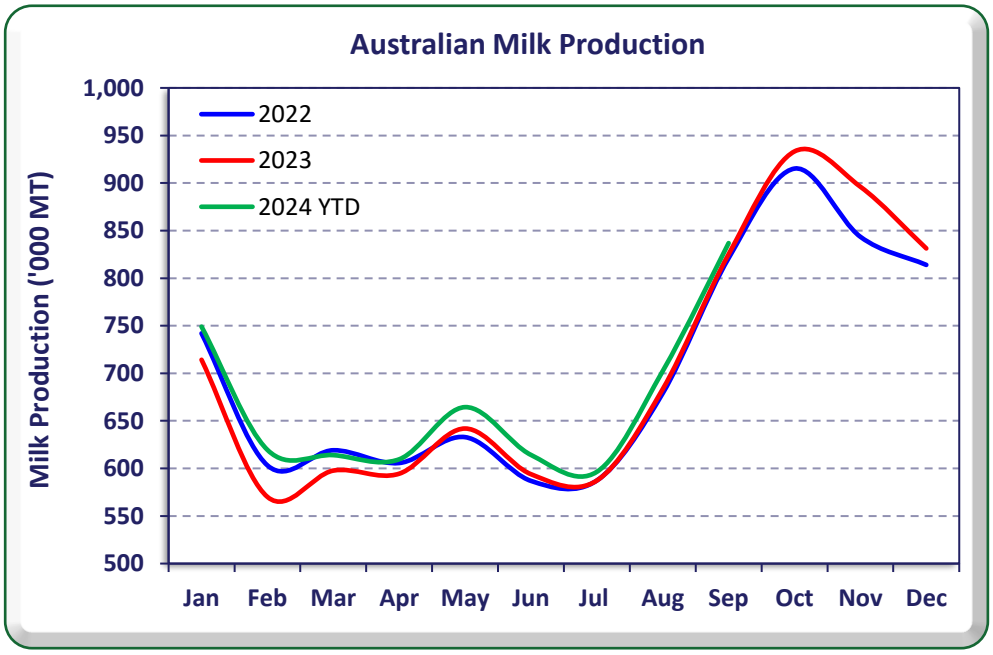
Source: *Australian Bureau of Meteorology / Dairy Australia*

FAS/Canberra's milk production estimate for 2024 is downward revised by 0.6 percent to 8.70 MMT from 8.75 MMT. Reported production from January to September 2024 reached 6.01 MMT, up 3.4 percent from the same period last year. The full-year estimate represents a 2.7 percent increase over 2023.

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 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.

The peak for 2023 was significantly stronger than 2022 (see Figure 8). This higher peak in 2023 established the momentum for higher production for the first nine months of 2024. However, the gap in the production advantage has closed in the most recent months of 2024 as spring-calving cows approach their peak production levels. This is mainly associated with the dry conditions in southwestern Victoria, which typically accounts for around 22 percent of national milk production. As discussed earlier, the dry conditions have extended into the critical spring period, which has resulted in lower-than-usual pasture production. Consequently, FAS/Canberra anticipates a drop in the milk production growth for the full year in 2024 compared to the position for the first nine months (3.4 percent down to 2.7 percent), resulting in a modest downward revision of milk production for 2024.

Figure 8 – Australian Monthly Milk Production



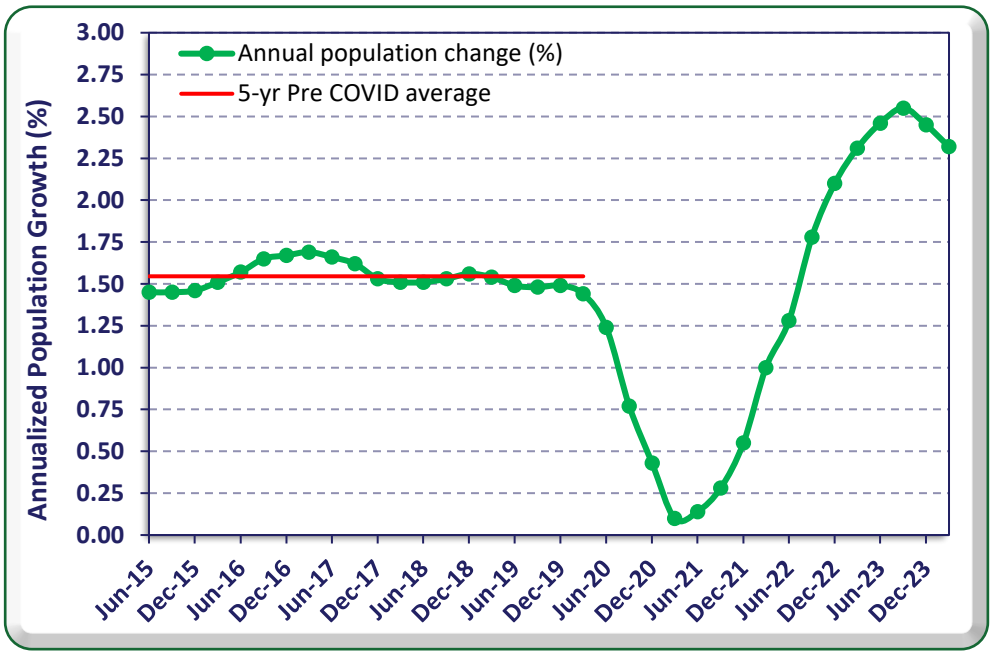
Source: *Dairy Australia*

Consumption

FAS/Canberra forecasts a 0.4 percent increase in Australia's fluid milk consumption for 2025, reaching 2.47 million metric tons (MMT), up slightly from a revised estimate of 2.46 MMT for 2024. This marks a reversal of the declining trend over the previous five years, where fluid milk consumption generally dropped by around one percent annually. The shift is primarily due to rapid population growth since the beginning of 2023.

Australia's population growth rate has surged beyond the steady pre-COVID-19 rate of just over 1.5 percent. From late 2022, the growth rate has consistently exceeded the pre-pandemic average, reaching an annualized rate of approximately 2.3 percent by the first quarter of 2024 (see Figure 9). The majority of this growth is due to high immigration, although the federal government has since implemented measures to slow the immigration rate. However, the strong growth through 2024 will continue positively influencing overall fluid milk consumption into 2025.

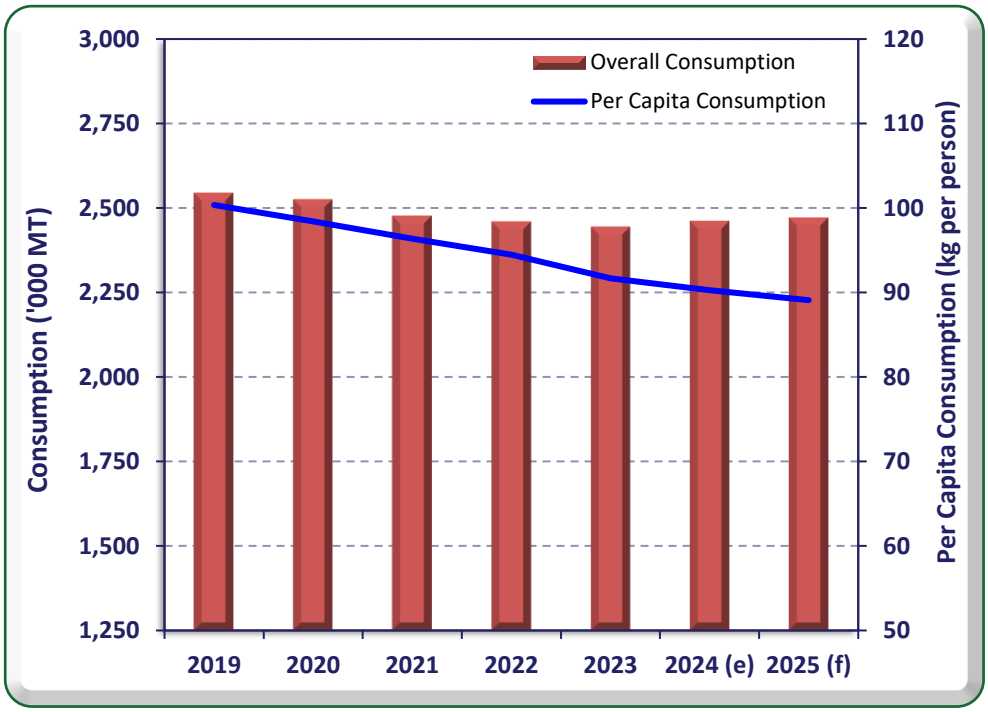
Figure 9 – Australian Population Growth Trend



Source: Australian Bureau of Statistics

Despite the forecasted increase in milk consumption, per capita consumption is expected to continue its decline at a rate similar to previous years (see Figure 10). Over the past five years (2019–2023), per capita milk consumption has consistently dropped by around two percent annually. For 2025, a population growth rate of 1.75 percent (in line with the government's goal of reducing immigration) is projected to increase to approximately 475,000 people. However, this population growth, combined with overall consumption, is expected to lead to a 1.5 percent decline in per capita consumption, consistent with the estimate for 2024.

Figure 10 – Overall Milk and Per Capita Consumption Trend



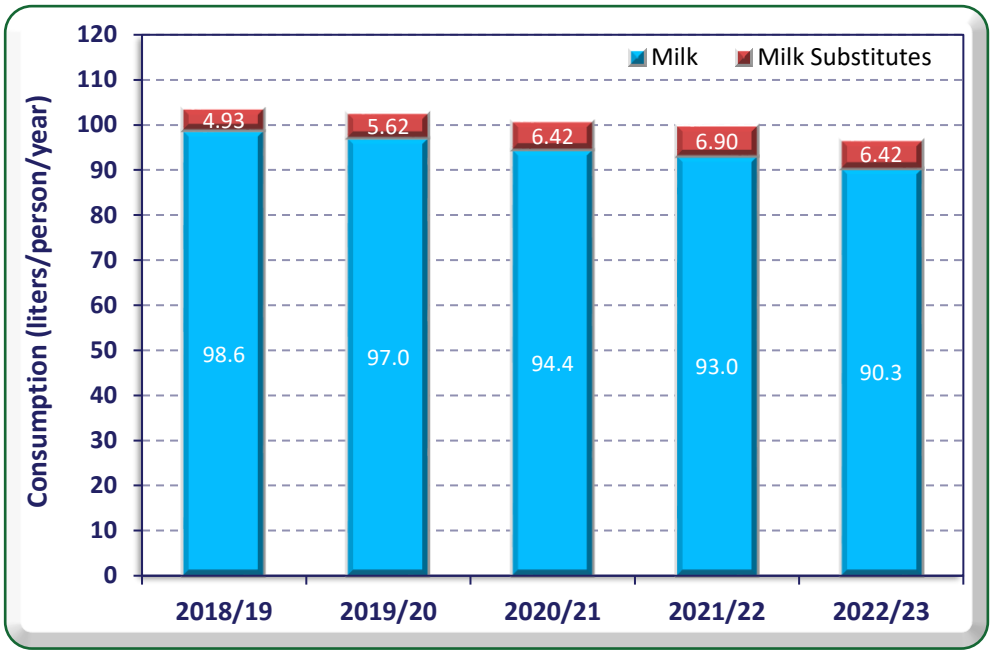
Source: Australian Bureau of Statistics / Dairy Australia

There has been notable growth in the consumption of milk substitute products such as soy, almond, oat, and rice milk. As the range of plant-based milk substitutes has expanded, so has consumption in this sector. However, data from the Australian Bureau of Statistics (ABS) shows that per capita consumption of milk substitutes peaked in 2021/22 and fell by seven percent, or nearly 0.5 liters per person, in 2022/23 (see Figure 11). This decline in milk substitutes may contribute to the slowdown in milk consumption, reducing the annual drop from around two percent to an estimated 1.5 percent for 2024 and 2025.

Despite the decline in per capita consumption, fluid milk remains a staple in Australia, with consumption expected to represent 28.1 percent of national milk production in 2025. Per capita consumption remains high by global standards, although it is forecast to decrease from 100 liters per person in 2019 to 89 liters per person in 2025.

Full-fat milk continues to be the most consumed category, accounting for 59 percent of total milk consumption. Over recent years, this has increased at the expense of reduced-fat, non-fat, and UHT milk varieties. Flavored milk now makes up almost 10 percent of overall drinking milk consumption, showing modest growth in recent years.

Figure 11 – Milk and Milk Substitute Consumption Trend



Source: *Australian Bureau of Statistics / Dairy Australia*

FAS/Canberra's 2024 milk consumption estimate has been revised upward by 0.2 percent to 2.46 MMT, reflecting a 0.7 percent increase from 2023. This marks a departure from the previous trend of declining fluid milk consumption, driven by robust population growth in 2023 (see Figure 9), even though per capita consumption continued to decline.

Factory milk consumption for 2025 is forecast to reach 6.20 MMT, up from the revised estimate of 6.09 MMT for 2024. This 1.8 percent increase in manufactured milk consumption is closely tied to the forecasted rise in overall milk production. The 2024 factory milk consumption estimate has been revised down slightly by one percent from the previous estimate of 6.15 MMT due to the upward revision of fluid milk consumption and a modest downward revision of milk production for the same year.

Trade

Exports

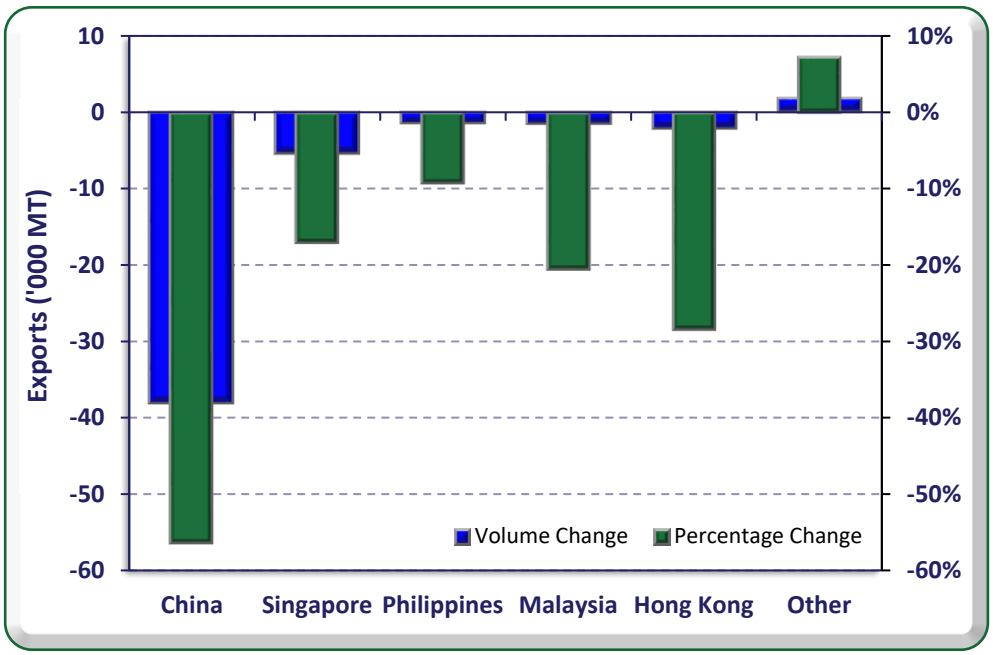
FAS/Canberra forecasts fluid milk exports to reach 140,000 metric tons (MT) in 2025, a 12.5 percent decline from the revised estimate of 160,000 MT for 2024. This volume is significantly lower than the peak of 414,520 MT in 2021. The anticipated decline is largely driven by further reduced demand from Australia's major export destination.

In 2021 and 2022, China accounted for approximately half of all Australian fluid milk exports. Since then, Australia's fluid milk exports have plummeted by an estimated 61 percent, primarily due to a sharp decline in demand from China. FAS/China forecasts a further drop in fluid milk imports from China in

2025, driven by an expected increases in domestic and UHT milk production. With relatively low milk prices for Chinese dairy farmers, the country's domestic production is expected to intensify competition for imported UHT milk. However, FAS/China anticipates continued demand for high-end UHT milk products, such as A2 and organic milk, which could offer opportunities for Australian fluid milk exporters to mitigate the overall decline in exports to China.

Exports to other markets, including Singapore, the Philippines, Malaysia, and Hong Kong, have declined over the past year (see Figure 12). However, the decreases have been modest, with the drop in shipments to China having the most significant impact on Australia's overall fluid milk exports.

Figure 12 – Change in Milk Fluid Exports – Jan to Sep 2023 to 2024



Source: Australian Bureau of Statistics

FAS/Canberra's 2024 milk export estimate has been revised upward slightly to 160,000 MT, up from a previous estimate of 150,000 MT. This marks a substantial 23 percent decline from the 2023 export volume. As of January to September 2024, 123,800 MT of fluid milk have been exported. Historically, around 25 percent of annual exports occur in the final quarter, supporting the revised export estimate for 2024.

Imports

Australia's fluid milk imports remain relatively low but are forecast to increase slightly to 10,000 metric tons (MT) in 2025, up from an estimated 9,000 MT in 2024. As of January to September 2024, imports have totaled 6,800 MT. If this pace continues, the estimated 2024 import volume is expected to be reached.

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

Dairy, Milk, Fluid	2023		2024		2025	
Market Year Begins	Jan 2023		Jan 2024		Jan 2025	
Australia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Cows In Milk (1000 HEAD)	1270	1270	1280	1280	0	1285
Cows Milk Production (1000 MT)	8467	8469	8750	8700	0	8800
Other Milk Production (1000 MT)	0	0	0	0	0	0
Total Production (1000 MT)	8467	8469	8750	8700	0	8800
Other Imports (1000 MT)	7	7	7	9	0	10
Total Imports (1000 MT)	7	7	7	9	0	10
Total Supply (1000 MT)	8474	8476	8757	8709	0	8810
Other Exports (1000 MT)	207	207	150	160	0	140
Total Exports (1000 MT)	207	207	150	160	0	140
Fluid Use Dom. Consum. (1000 MT)	2440	2443	2455	2460	0	2470
Factory Use Consum. (1000 MT)	5827	5826	6152	6089	0	6200
Feed Use Dom. Consum. (1000 MT)	0	0	0	0	0	0
Total Dom. Consumption (1000 MT)	8267	8269	8607	8549	0	8670
Total Distribution (1000 MT)	8474	8476	8757	8709	0	8810
(1000 HEAD) ,(1000 MT)						
OFFICIAL DATA CAN BE ACCESSED AT: PSD Online Advanced Query						

CHEESE

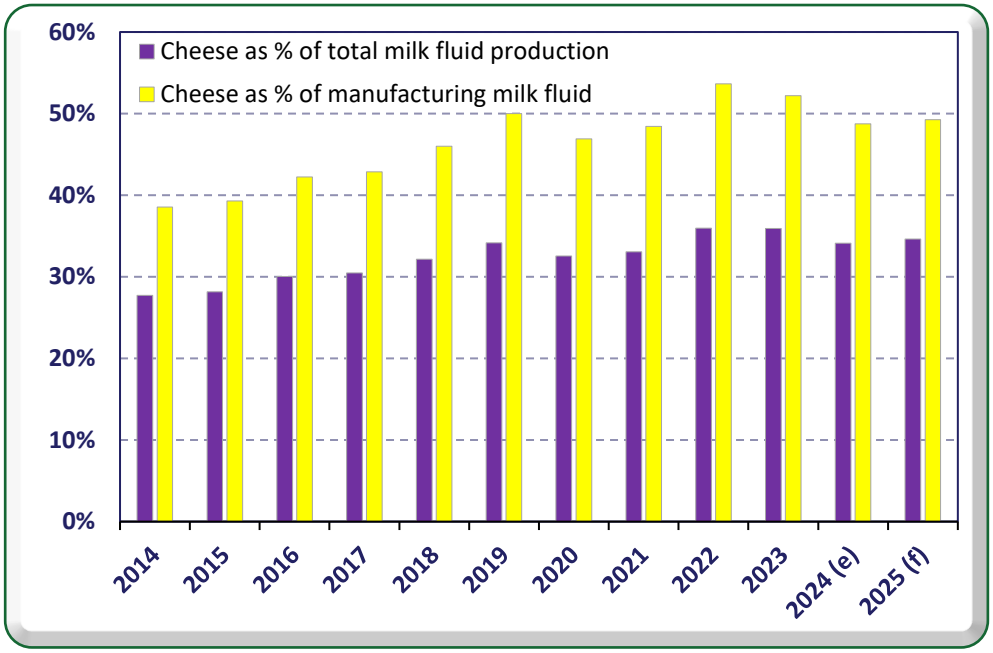
Production

FAS/Canberra forecasts cheese production to lift to 375,000 MT in 2025, a 2.7 percent increase on the downward revised 2024 estimate of 365,000 MT. If realized, this would be the third highest level of cheese production on record, but equal to a more recent peak in 2023. The current record of 413,000 MT was set in 2002 when milk production in Australia was at its peak and 24 percent higher than the forecast production for 2025. The primary reason for the higher expectation is directly related to the small increase in forecast milk production. Over the last decade, there has been a trend of milk processors channeling more and more milk towards cheese production at the expense of other processed dairy products, during which milk production has broadly declined. This trend has plateaued in 2023 and is estimated to dip in 2024 with a rise in SMP and butter production at the expense of cheese.

Cheese production is forecast to account for 35 percent of total fluid milk production. After accounting for forecast domestic fluid milk consumption and fluid milk exports, 49 percent of fluid milk available for manufacturing products is used for cheese (see Figure 13). Over the last decade, there has been a clear trend of cheese production becoming of increasing focus by processors until 2023. In 2014, cheese accounted for only 28 percent of national fluid milk production, and 39 percent of fluid milk was used for manufacturing products. Cheese by far, accounts for more milk usage in Australia than any other dairy product. The next highest use is for domestic fluid milk consumption, which is forecast to equate to 28 percent of national milk production.

The forecasted cheese production of 375,000 MT in 2025 is similar to the level achieved in 2023 but with an expected 3.9 percent increase in milk production. As milk production declined over time, the industry also rationalized processing capacity. With the rise in milk production starting in 2024, processors have focused on increasing SMP and butter production to manage the higher spring-peak production load.

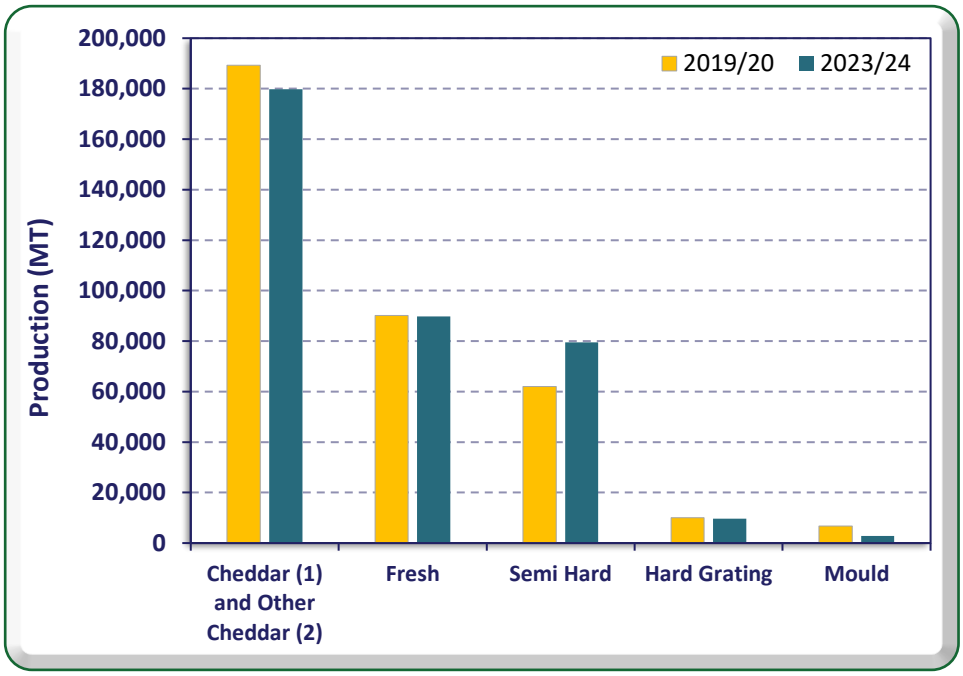
Figure 13 – Trend in Milk Consumption for Cheese Production



Source: *Dairy Australia / Dairy Manufacturers*

For the last decade, Australian cheese manufacturers have focused on increasing cheese production at the expense of other dairy commodities. However, as cheese production began to mature over the last five years, the focus has been on increasing semi-hard cheese production, and partially at the expense of cheddar cheeses (see Figure 14). Processors have shifted their focus towards producing more specialized cheeses to extract greater value from the available milk.

Figure 14 – Cheese Production by Type - 2019/20 and 2023/24



Source: *Dairy Australia / Dairy Manufacturers*
Notes: *(1) Includes vintage*
(2) Includes Cheedam, Colby, Cheshire, Gloucester, Lancashire, Nimbin and semi processed cheddar

FAS/Canberra's cheese production estimate for 2024 is 365,000 MT, which is 10,000 MT (2.7 percent) below that for 2023. Dairy Australia data for January to June 2024 cheese production shows a decline of over seven percent compared to the same period in 2023. For Australia, the peak milk production period is in the second half of the year because of a predominantly pasture production-based system, and cows are calving in time to take advantage of the spring pasture flush. FAS/Canberra anticipates processors to run cheese production at full capacity during this period, and it is anticipated that there will be some catch-up in cheese production, limiting the fall from 2023.

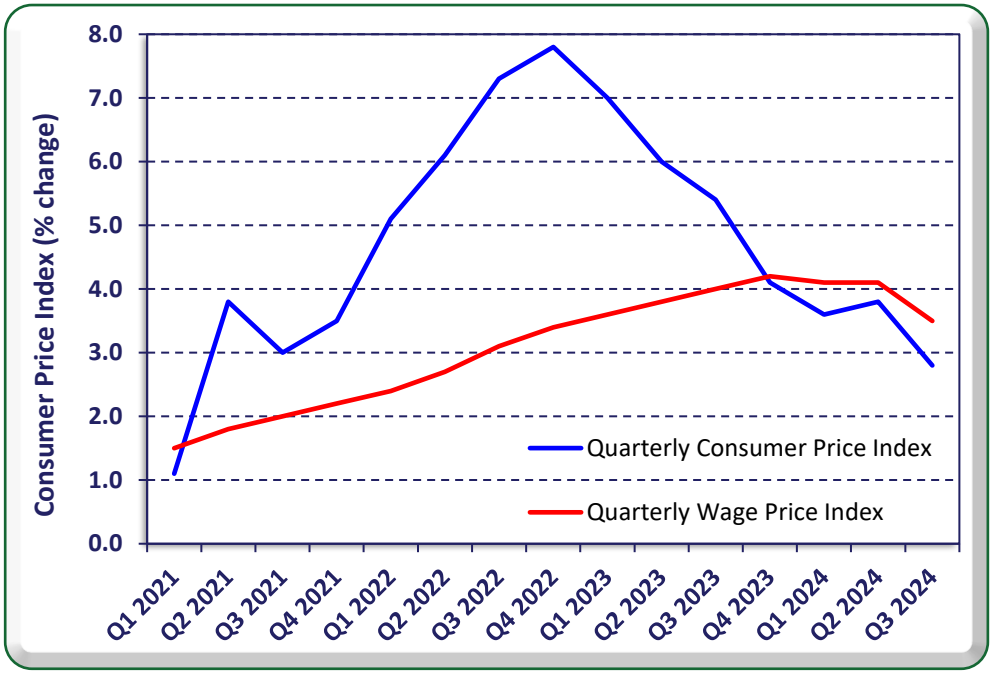
Consumption

FAS/Canberra forecasts cheese consumption to grow in 2025, reaching 345,000 MT, a 3.0 percent increase from the 2024 estimate. The key drivers for this growth are rapid population increases and the continued easing of inflationary pressures, which economists broadly expect.

As noted earlier, Australia's population growth rate reached an annualized 2.3 percent by the end of 2023 (see Figure 9). While this is expected to slow in 2024 and 2025 due to federal government measures, it will remain higher than the past typical average of around 1.5 percent.

Since late 2023, there has been a positive shift in the gap between inflation and salary growth, with both tracking similarly for the first time since early 2021. In the first half of 2024, wage growth outpaced the overall Consumer Price Index (CPI) (see Figure 15), easing cost-of-living pressures. Economists expect this trend to continue into 2025, with CPI likely remaining below wage growth. This is expected to lead to an improvement in disposable income, supporting the forecast increase in cheese consumption.

Figure 15 – Australian Consumer Price Index and Wage Growth - 2021 to Sep 2024



Source: Australian Bureau of Statistics

The combination of strong population growth and anticipated improvements in disposable income are the primary factors driving the forecast rise in cheese consumption for 2025.

FAS/Canberra estimates cheese consumption in 2024 at 335,000 MT, a 10,000 MT increase from 2023. This growth is primarily driven by the strong population growth experienced in Australia since 2023.

Trade

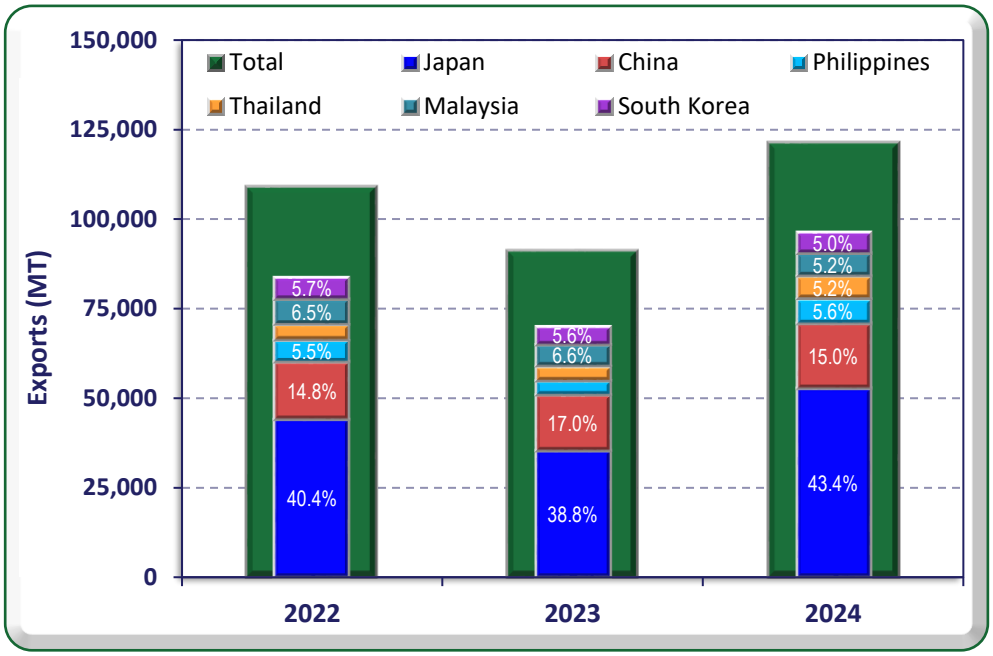
Exports

FAS/Canberra forecasts Australian cheese exports to decline by nine percent in 2025, reaching 150,000 metric tons (MT), down from the particularly strong export estimate of 165,000 MT for 2024. This projected decline marks a return to the levels seen from 2020 to 2022, following a significant downturn in 2023. The drop in 2023 was primarily attributed to very high domestic farm gate milk prices, which reduced the competitiveness of Australian cheese exports. However, the market rebounded in 2024 as high cheese stock levels from 2023 were cleared.

Australia remains a net exporter of cheese, which is the country's largest dairy export. In 2024, an estimated 45 percent of all cheese produced in Australia will be exported—higher than usual due to carryover stock from 2023. As mentioned, the industry's long-term shift toward prioritizing cheese production has plateaued. With milk production stabilizing and small incremental increases expected, coupled with a less intense focus on expanding cheese output, the potential for substantial growth in cheese exports in the coming years is limited.

Japan has been the largest market for Australian cheese over the last decade, accounting for around 40 percent of exports in recent years (see Figure 16). China is the second-largest market, with about 15 percent of exports, followed by the Philippines, Thailand, Malaysia, and South Korea, each of which typically receives around five percent of exports. Combined, these top six destinations account for nearly 80 percent of Australia's total cheese exports. From January to September 2024, cheese exports have rebounded to all these countries, recovering from declines in 2023.

Figure 16 – Major Cheese Export Destinations Jan-Sep 2022 to 2024



Source: *Australian Bureau of Statistics*

FAS/Canberra estimates cheese exports in 2024 at 165,000 MT, a 36,000 MT increase from 2023. Exports for the January to September 2024 period reached 121,200 MT. Based on past trends, which typically see about 27 percent of total exports in the final quarter, the forecast for 2024 is expected to be met, with the usual export pace expected in the final three months.

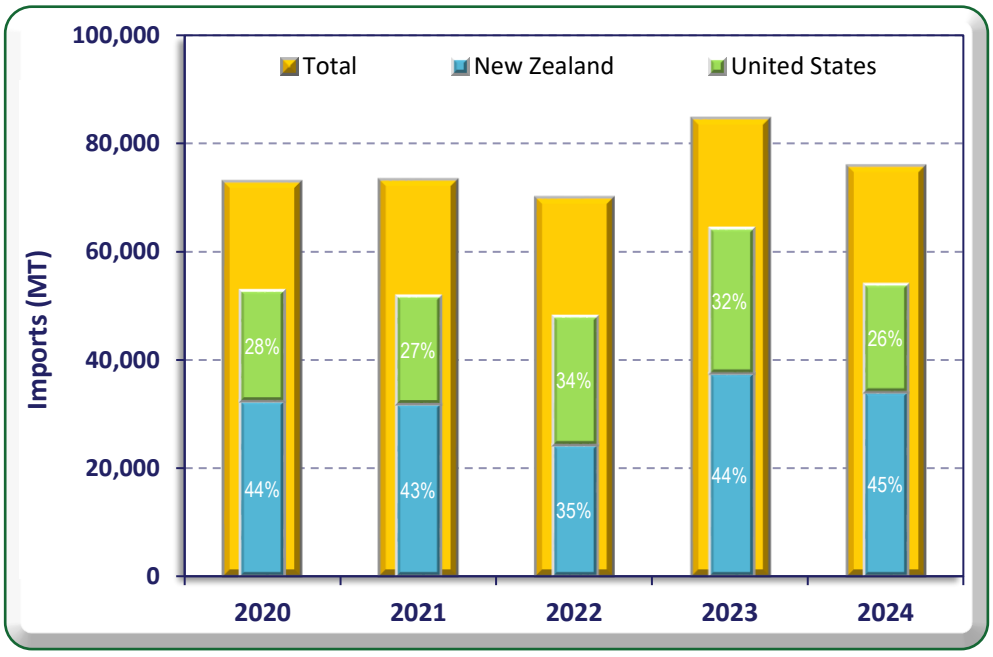
Imports

FAS/Canberra forecasts Australian cheese imports to increase by 10 percent in 2025, reaching 110,000 metric tons (MT). If realized, this would be the second-highest level on record, just shy of the 116,000 MT reached in 2016. As mentioned, the recent push by Australian processors to increase domestic cheese production appears to be easing. With little likelihood of significant growth in milk production and continued population growth driving consumer demand, the demand for imported cheeses is expected to rise in the coming years.

New Zealand and the United States have historically supplied approximately three-quarters of all cheese imports to Australia. New Zealand remains the largest source, accounting for nearly half of all imports, while the United States typically supplies over a quarter. While there was a shift in the balance of imports in 2022 and 2023, the trade pattern has returned mainly to historical trends in 2024 (see Figure 17).

Unlike New Zealand's other major trading partners, Australia is a net exporter of cheese and can meet much of its domestic needs. The cheese imports from New Zealand and the United States are typically lower-value cheddar varieties, used primarily in the food processing sector. Meanwhile, Australian processors have increasingly focused on producing higher-value, specialized cheeses for export.

Figure 17 – Change in Cheese Imports Jan-Sep 2020 to 2024



Source: *Australian Bureau of Statistics*

FAS/Canberra's cheese import estimate for 2024 remains unchanged at 100,000 MT, consistent with the previous forecast issued six months prior. From January to September 2024, imports totaled 75,800 MT,

approximately 9,000 MT lower than the same period in 2023. For the full year, imports in 2023 reached 108,000 MT, driven by record-high farmgate milk prices, which made domestic cheese less competitive and encouraged higher-than-usual imports. The estimate for 2024 represents a modest increase compared to the five-year average from 2018 to 2022.

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

Dairy, Cheese	2023		2024		2025	
Market Year Begins	Jan 2023		Jan 2024		Jan 2025	
Australia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks (1000 MT)	97	72	136	101	0	66
Production (1000 MT)	425	375	435	365	0	375
Other Imports (1000 MT)	108	108	95	100	0	110
Total Imports (1000 MT)	108	108	95	100	0	110
Total Supply (1000 MT)	630	555	666	566	0	551
Other Exports (1000 MT)	129	129	165	165	0	150
Total Exports (1000 MT)	129	129	165	165	0	150
Human Dom. Consumption (1000 MT)	365	325	380	335	0	345
Other Use, Losses (1000 MT)	0	0	0	0	0	0
Total Dom. Consumption (1000 MT)	365	325	380	335	0	345
Total Use (1000 MT)	494	454	545	500	0	495
Ending Stocks (1000 MT)	136	101	121	66	0	56
Total Distribution (1000 MT)	630	555	666	566	0	551
(1000 MT)						
OFFICIAL DATA CAN BE ACCESSED AT: PSD Online Advanced Query						

Note: Dairy Australia has downward revised cheese production from 2019/20 through to current. FAS/Canberra has updated the historic PSD data for production and consumption based on changes to Dairy Australia information.

BUTTER

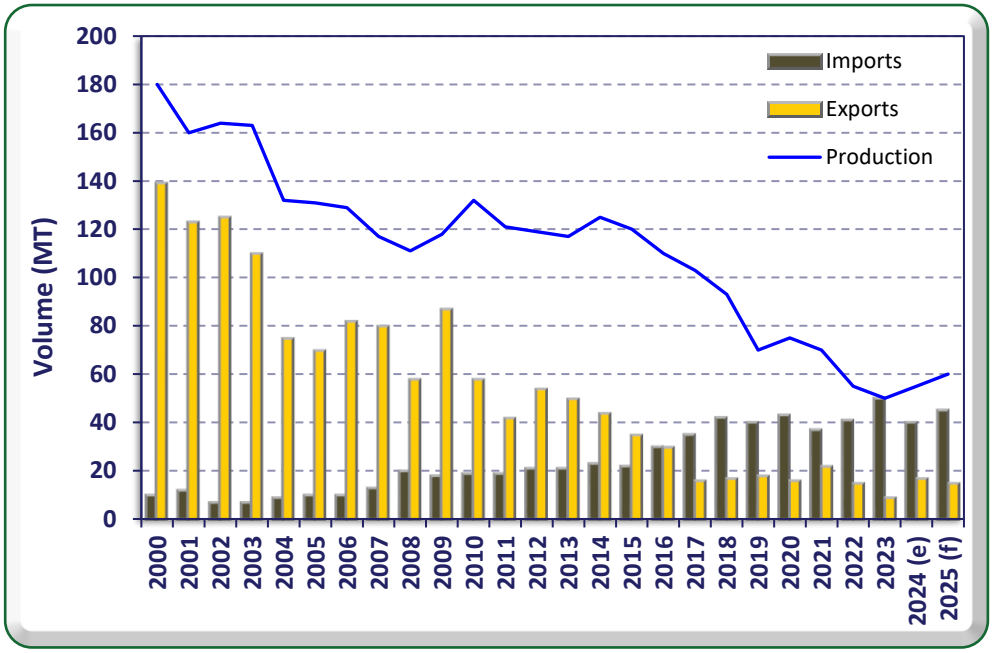
Production

FAS/Canberra forecasts Australian butter production to increase by 5,000 metric tons (MT) in 2025, reaching 60,000 MT, up from the 2024 estimate. This growth is primarily driven by the higher milk production forecast for 2025 and a shift away from the strong focus on cheese production that has, in recent years, diverted milk from butter production.

For several decades prior to 2018, butter production in Australia consistently exceeded 100,000 MT, peaking at 180,000 MT in 2000. However, the forecast for 2025, 24 years after this peak, represents only a third of that historical high. Over the years, Australia’s milk processors have increasingly prioritized cheese production over butter. This trend persisted until 2024, when even with higher milk production, the industry chose to reduce cheese output, breaking the pattern of the previous decade.

As a result of this shift in milk processing priorities, Australia became a net importer of butter in 2017. Currently, it exports roughly one-third of the butter it imports (see Figure 18). Australia now produces around 60 percent of its domestic butter consumption needs. While there is potential for the country to increase butter production at the expense of other dairy products, it will likely remain a net importer of butter for the foreseeable future.

Figure 18 – Butter Production and Trade Trend - 2000 to 2025



Source: *Australian Bureau of Statistics, PSD / FAS/Canberra*
Note: *(e) = estimate, (f) = forecast*

FAS/Canberra's estimate for butter production in 2024 is 55,000 MT, a 5,000 MT increase compared to 2023. This estimate is based on Dairy Australia's reported production data for January to June 2024, which shows butter production is almost 10 percent higher than the same period in 2023. The higher milk production forecast for 2024 further supports the industry's ability to increase butter output as needed.

Consumption

FAS/Canberra forecasts Australian butter consumption to rise to 96,000 metric tons (MT) in 2025, a 2,000 MT increase from the 2024 estimate. While Dairy Australia's per capita consumption data indicates a general decline in butter consumption over recent years, this trend is expected to slow in the coming years. The forecast growth in butter consumption is primarily driven by Australia's population growth, which, although strong, is expected to moderate in 2025 compared to the previous two years. Despite the slowdown in population growth, per capita butter consumption is anticipated to remain relatively stable.

The volume of butter includes butteroil and anhydrous milk fat (AMF) in butter equivalent terms. Anhydrous milk fat, which is essentially dehydrated butter, is widely used in food manufacturing, particularly bakery and confectionery products. While butter itself is also used in food manufacturing, it is primarily sold through retail channels and consumed by the food service sector.

Trade

Exports

FAS/Canberra forecasts Australian butter exports to decline to 15,000 metric tons (MT) in 2025, down from the 2024 estimate of 19,000 MT. This forecast is well above the record low of 9,000 MT in 2023 but is in line with export levels seen over the previous five years. The anticipated return of exports to recent past levels for the forecast year is associated with rising milk production in 2024 and 2025 and the industry easing back on its focus on increasing cheese production.

In 2024, China has become the largest export destination for Australian butter. However, other key markets, including Malaysia, Thailand, Singapore, and increasingly Taiwan, remain important destinations for Australia's relatively low volume of butter exports.

FAS/Canberra estimates butter exports in 2024 will reach 19,000 MT, a significant rebound of 10,000 MT from the record low seen in 2023. Exports from January to September 2024 totaled 14,600 MT, more than double the volume exported in the same period the previous year. The growth in exports in 2024 has been spread across nearly all of Australia's top 10 butter export destinations. Additionally, the average price of butter exported in 2024 is nine percent higher than in 2023, which reflects a supply shortage in Australia during 2023 rather than a lack of price competitiveness.

Imports

FAS/Canberra forecasts butter imports to rise to 45,000 metric tons (MT) in 2025, up from an estimated 42,000 MT in 2024. This increase in imports is expected despite a forecasted rise in domestic production. For 2024, however, imports are expected to be lower than initially anticipated, which will result in a significant decline in stock levels. As stock pressure builds at the start of 2025, it is anticipated that imports will increase to support domestic consumption demand.

New Zealand remains the dominant source of butter imports to Australia, accounting for approximately 85 percent of total imports. This trend has persisted for many years and is expected to continue, given New Zealand's status as a major dairy producer and its proximity to Australia.

FAS/Canberra estimates butter imports at 42,000 MT for 2024. Imports for the January to September 2024 period have already reached 30,800 MT. Historically, the final three months of the year account for about 27 percent of total annual imports, and no significant deviation from this trend is expected for

the remainder of 2024. Based on this, the current pace of imports is on track to meet the revised estimate for the year.

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

Dairy, Butter	2023		2024		2025	
Market Year Begins	Jan 2023		Jan 2024		Jan 2025	
Australia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks (1000 MT)	57	57	56	56	0	40
Production (1000 MT)	50	50	55	55	0	60
Other Imports (1000 MT)	50	50	35	42	0	45
Total Imports (1000 MT)	50	50	35	42	0	45
Total Supply (1000 MT)	157	157	146	153	0	145
Other Exports (1000 MT)	9	9	11	19	0	15
Total Exports (1000 MT)	9	9	11	19	0	15
Domestic Consumption (1000 MT)	92	92	95	94	0	96
Total Use (1000 MT)	101	101	106	113	0	111
Ending Stocks (1000 MT)	56	56	40	40	0	34
Total Distribution (1000 MT)	157	157	146	153	0	145
(1000 MT)						
OFFICIAL DATA CAN BE ACCESSED AT: PSD Online Advanced Query						

SKIM MILK POWDER

Production

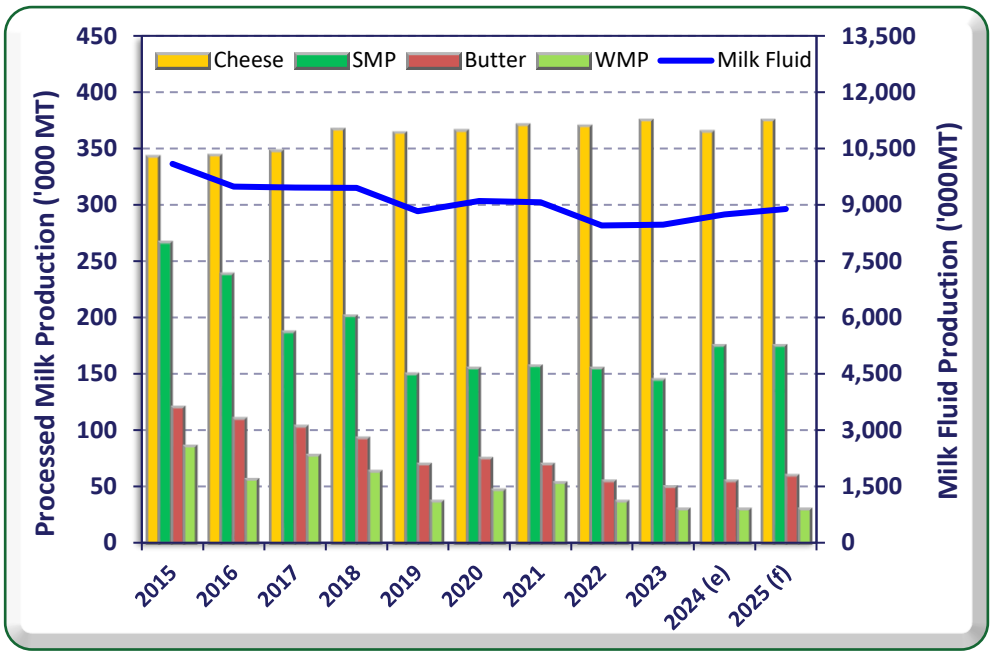
FAS/Canberra forecasts SMP production in 2025 to remain stable at 175,000 MT, the same as the 2024 estimate. SMP and butter are typically produced in tandem as part of the same manufacturing process. However, the proportion of milk used for butterfat-based products, such as cream and sour cream, can vary, influencing the amount of milk directed towards butter production. Despite a 1.1 percent increase in milk production anticipated for 2025, much of this additional milk is expected to be used for cheese production, which is the primary reason for the stable SMP forecast.

In the SMP production process, the fat content of milk is first reduced and then dried. Approximately one-quarter of the extracted milk fat is used to produce cream (including sour cream), while the remaining three-quarters is processed into butter. Manufacturers have flexibility in adjusting this ratio based on demand.

SMP production levels have been significantly lower in recent years compared to historical trends. Before 2018, production typically exceeded 200,000 MT annually, peaking at around 265,000 MT in the early 2000s when milk production was at its highest. However, over the past decade, the decline in SMP and butter production has outpaced the decline in milk production. Milk has increasingly been directed towards cheese production, a trend that appears to be slowing. In 2024, there is an expectation for a shift, with higher SMP and butter production at the expense of cheese production (see Figure 19).

However, with a rise in milk production forecast for 2025, there is an expectation that SMP production will remain stable while cheese production recovers from its estimated fall in 2024.

Figure 19 – Milk and Processed Milk Products Production Trend 2015 to 2025



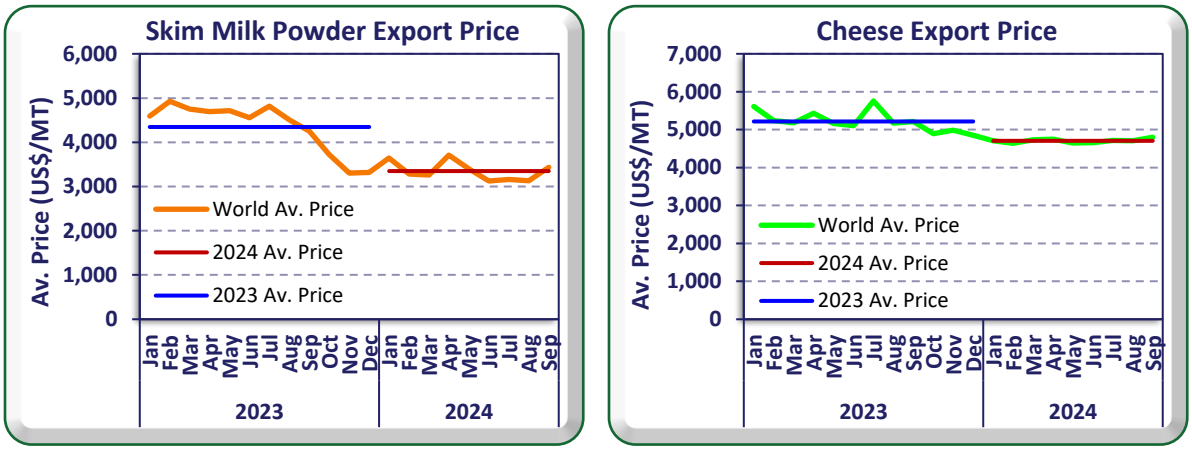
Source: *PSD / FAS/Canberra*
Note: *(e) = estimate, (f) = forecast*

A key factor influencing a shift in the balance of processed products is industry capacity. In 2022/23, the industry experienced record-high farmgate milk prices, which were well above world parity. This was driven by strong competition for milk-by-milk processors at a time when milk production was at its lowest. Following this, there was some industry rationalization, with some facilities shut down, which impacted the industry's production capacity.

During the peak spring milk production period (see Figure 8), producing powder is an efficient and cost-effective means of dealing with the high volume of milk over a short period. The industry rationalization in 2024 has moved more milk towards SMP and butter production and away from cheese.

Another consideration is the changing price dynamics of processed products. Between January and September 2024, SMP export prices dropped by 23 percent compared to 2023, whereas cheese export prices fell by a more modest 10 percent (see Figure 20). The larger price drop for SMP is expected to encourage a shift towards cheese production, using the additional milk forecast for 2025. However, production capacity constraints are likely to limit the increase in cheese production, meaning that SMP production is expected to remain stable in 2025.

Figure 20 – Export SMP and Cheese Prices for 2023 and 2024 (Jan-Sep)



Source: *Australian Bureau of Statistics*
Note: *(e) = estimate, (f) = forecast*

FAS/Canberra has revised the 2024 SMP production estimate upward to 175,000 MT, 30,000 MT (21 percent) higher than in 2023. Dairy Australia reports that SMP production for the first half of 2024 was approximately 11,000 MT (22 percent), higher than the same period in the previous year. Historically, around 60 to 65 percent of SMP production occurred in the second half of the year, contributing to FAS/Canberra's upward revision of the 2024 estimate.

Consumption

FAS/Canberra forecasts SMP consumption to rise to 30,000 MT in 2025, slightly above the 2024 estimate. The increase is primarily driven by expectations of population growth and the anticipated easing of cost-of-living pressures.

While population growth is expected to slow in 2025, it will remain higher than typical levels, as noted earlier for fluid milk consumption (see Figure 9). Additionally, cost-of-living pressures, which began easing in the first half of 2024 (see Figure 15), are expected to continue into 2025, further supporting growth in consumption.

Skim milk powder has a wide range of applications in the food manufacturing sector, including as an additive in:

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

Additionally, SMP can be reconstituted to produce yogurt, dairy desserts, ice cream, and skim milk, especially in regions lacking an adequate refrigerated food supply chain.

FAS/Canberra estimates 2024 SMP consumption at 29,000 MT, a 2,000 MT increase over 2023, driven by strong population growth.

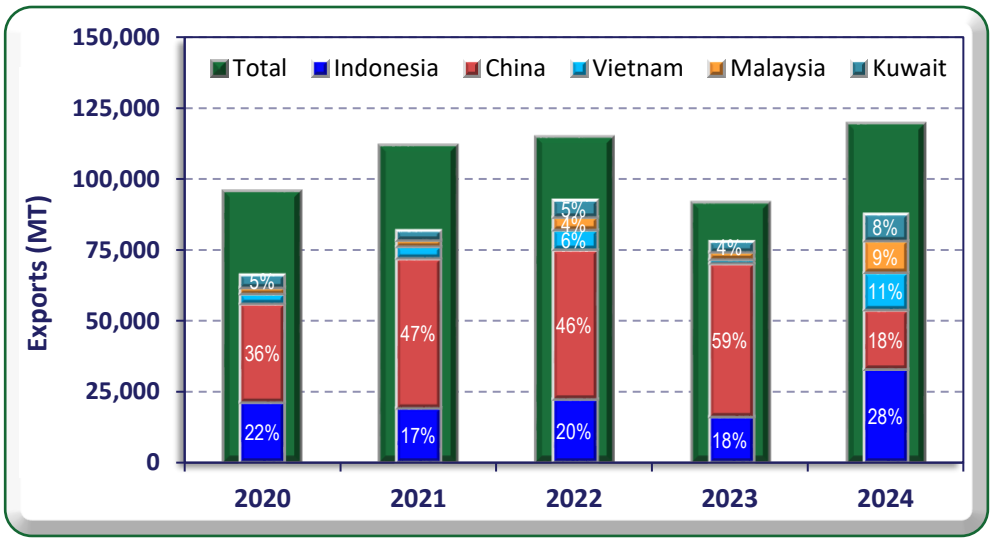
Trade

Exports

FAS/Canberra forecasts SMP exports in 2024 to reach 155,000 MT, slightly lower than the previous year's estimate. However, this forecast would still rank among the highest in the past decade, surpassed only by the 2024 estimate of 165,000 MT. Australia typically exports the majority of its SMP production, and with an expected increase in production for 2024 and 2025, strong export outcomes are anticipated for the forecast year.

Historically, China has been the dominant destination for Australian SMP, with Indonesia accounting for around 20 percent of total exports. Other smaller markets include Vietnam, Malaysia, and Kuwait, each accounting for around five percent. However, in the first nine months of 2024, there has been a significant shift in export patterns. Exports to China have dropped by 60 percent, while exports to Indonesia have doubled. There has also been considerable growth in exports to Vietnam, Malaysia, and Kuwait (see Figure 21). This shift is primarily due to weaker demand from China, which has driven down SMP prices (see Figure 20), while Australia's other major export destinations have increased their demand in response.

Figure 21 – Change in SMP Exports – Jan-Sep 2020 to 2024



Source: *Australian Bureau of Statistics*

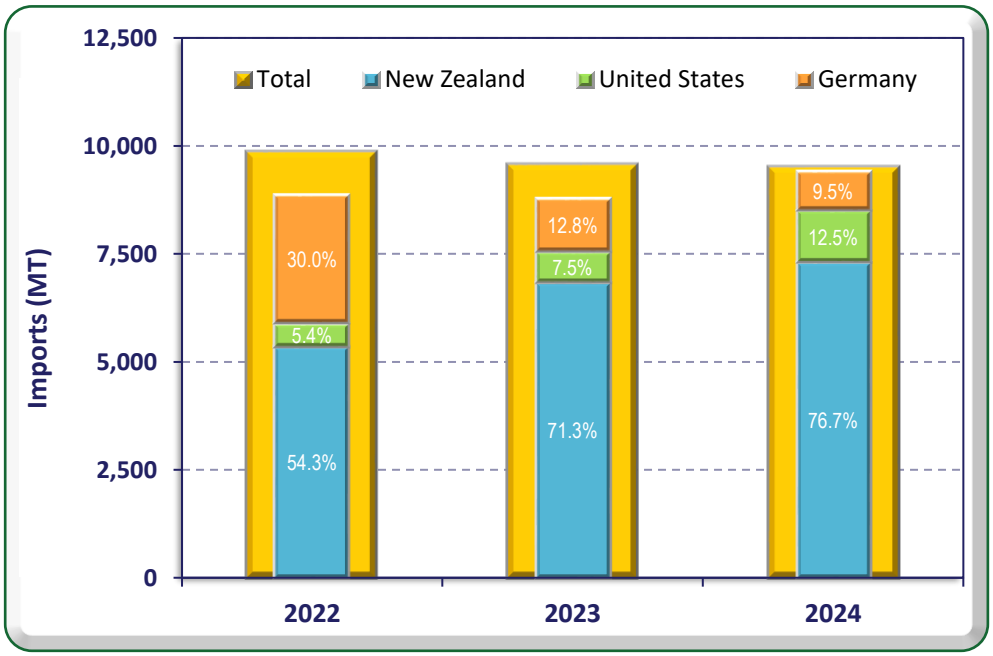
Imports

SMP imports are very low, and FAS/Canberra forecasts it to remain relatively stable at 15,000 MT in 2025. As a large net exporter of SMP, Australia has seen slight fluctuation in import volumes in recent years.

For the January to September period in 2024, SMP imports totaled 9,500 MT, similar to the same period in 2023, which resulted in a full-year total of 13,586 MT. As a result, FAS/Canberra's estimate for 2024 remains unchanged at 13,000 MT.

Over the years, New Zealand has been the primary source of Australia's SMP imports, with smaller volumes from Germany and the United States. However, in the past three years, there has been a notable shift in the balance of imports. New Zealand now accounts for approximately three-quarters of total imports, while the United States has surpassed Germany to become the second-largest supplier (see Figure 22).

Figure 22 – Change in SMP Imports – Jan-Sep 2022 to 2024



Source: *Australian Bureau of Statistics*

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

Dairy, Milk, Nonfat Dry	2023		2024		2025	
Market Year Begins	Jan 2023		Jan 2024		Jan 2025	
Australia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks (1000 MT)	17	17	13	16	0	10
Production (1000 MT)	145	145	170	175	0	175
Other Imports (1000 MT)	14	14	13	13	0	15
Total Imports (1000 MT)	14	14	13	13	0	15
Total Supply (1000 MT)	176	176	196	204	0	200
Other Exports (1000 MT)	133	133	160	165	0	155
Total Exports (1000 MT)	133	133	160	165	0	155
Human Dom. Consumption (1000 MT)	30	27	25	29	0	30
Other Use, Losses (1000 MT)	0	0	0	0	0	0
Total Dom. Consumption (1000 MT)	30	27	25	29	0	30
Total Use (1000 MT)	163	160	185	194	0	185
Ending Stocks (1000 MT)	13	16	11	10	0	15
Total Distribution (1000 MT)	176	176	196	204	0	200
(1000 MT)						
OFFICIAL DATA CAN BE ACCESSED AT: PSD Online Advanced Query						

WHOLE MILK POWDER

Production

FAS/Canberra forecasts WMP production to remain stable at 30,000 MT in 2025, matching the 2024 estimate. This represents the lowest WMP production level in at least 40 years. Milk production in Australia has stabilized, with modest increases expected, leading to a leveling off of WMP output after decades of decline.

Australia's peak WMP production occurred in 2002, when output reached 239,000 MT. Since then, production has steadily declined, with a forecast of 30,000 MT for 2025. Over the past decade, Australian manufacturers have increasingly directed milk toward cheese production, and the reduced volumes of WMP have been repurposed for higher-value products, such as infant milk formula.

The 2024 WMP production estimate is also 30,000 MT, aligning with the 2023 outcome. Dairy Australia data for January to June 2024 shows production at 12,100 MT. Given the expectation of higher milk production in the second half of the year, WMP production is anticipated to rise, ensuring the full-year estimate is met.

Consumption

FAS/Canberra forecasts domestic WMP consumption to remain steady at 35,000 MT in 2025, in line with the 2023 estimate. Due to WMP's use in various manufactured products, significant year-to-year fluctuations in consumption are not expected.

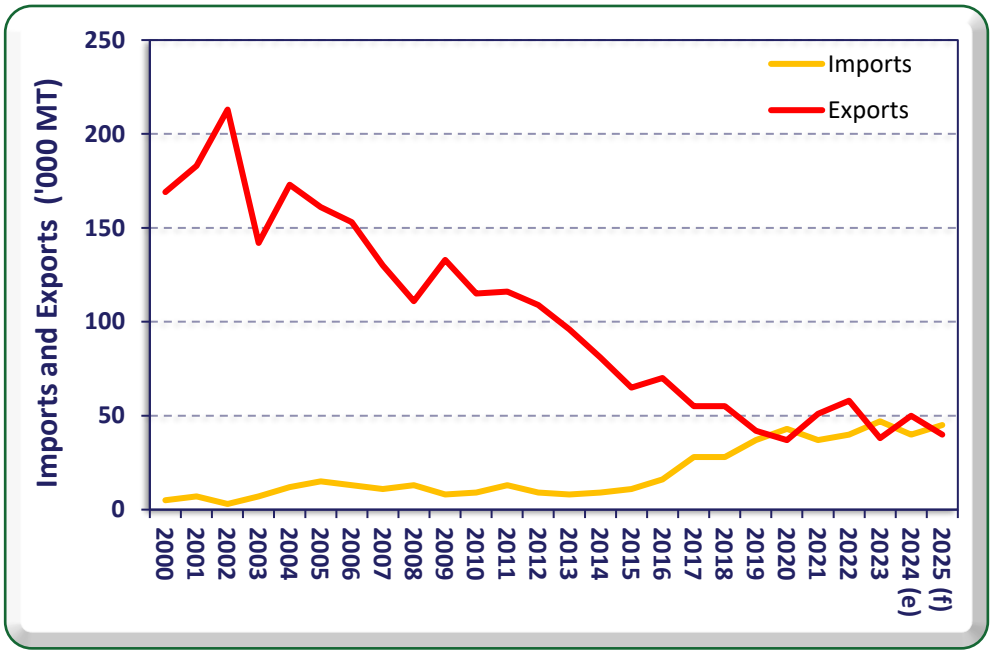
WMP is a key ingredient in a wide range of food products and can be reconstituted to produce milk drinks, yogurts, and ice cream. In the food manufacturing sector, it is used similarly to SMP in baking products such as breads, cakes, and biscuits, as well as in beverages, confectionery, dry mixes, and prepared foods. However, a key distinction is that WMP is also used to produce infant milk formula, whereas SMP is not.

Trade

Exports

FAS/Canberra forecasts WMP exports in 2025 to decline to 40,000 MT, which is 20 percent lower than the 2024 estimate of 50,000 MT. With low production and population growth increasing domestic demand, Australia is expected to become a net importer of WMP for the third time in 2025. This follows similar trends in 2020 and 2023 and is expected to become a more common scenario in the years ahead (see Figure 23).

Figure 23 – WMP Import and Export Trend



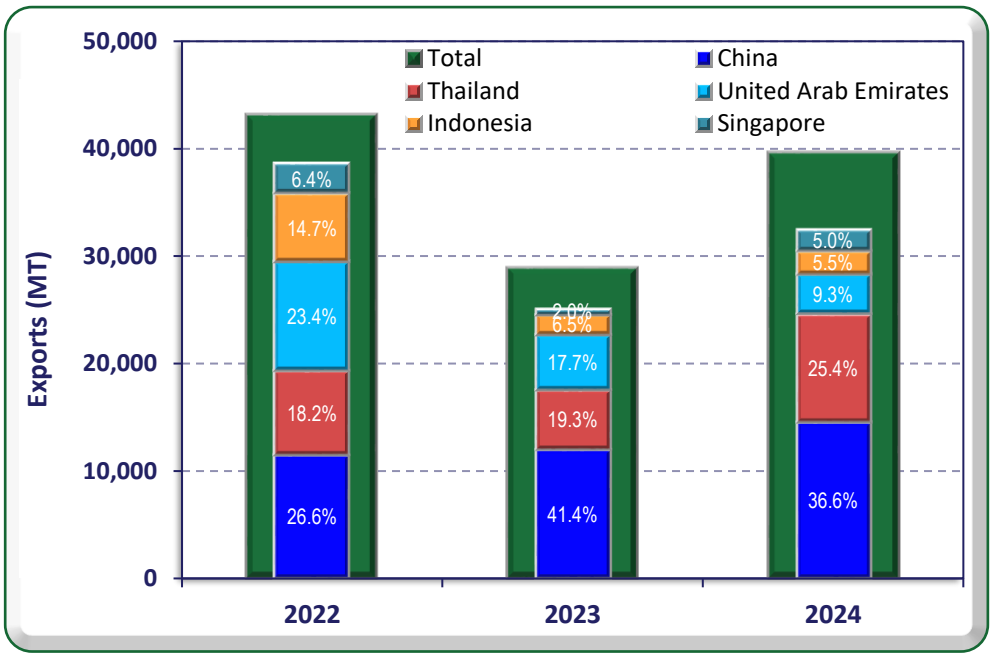
Source: Australian Bureau of Statistics

Given the relatively low level of WMP production, Australian manufacturers focus on producing higher-value WMP primarily for export. At the same time, imported WMP is predominantly used as an ingredient in processed food products.

In recent years, China and Thailand have been the main export destinations for Australian WMP, accounting for around 60 percent of total exports. The United Arab Emirates and Indonesia have also

been significant destinations, though their demand has diminished over the last two years (see Figure 24).

Figure 24 – Major WMP Export Destinations Jan-Sep 2022 to 2024



Source: Australian Bureau of Statistics

WMP exports for January to September 2024 reached 39,700 MT. Based on past trends, which show that about one-quarter of annual exports occur in the final quarter, trade is on track to meet the 50,000 MT estimate for 2024.

Imports

FAS/Canberra forecasts WMP imports in 2025 to increase to 45,000 MT, a 5,000 MT rise from the 2024 estimate. Given stable production and domestic consumption, the higher-than-expected WMP exports in 2024 will deplete stocks, requiring increased in imports to meet demand.

As with butter, New Zealand is the dominant source of WMP imports to Australia, consistently accounting for about 90 percent of total imports. New Zealand's large-scale milk production, particularly during its spring peak, forces processors to produce large volumes of milk powders. Given their efficiency and production scale, it makes sense for Australia to focus on higher-value specialized WMP products for export while relying on New Zealand to meet a significant portion of domestic needs due to proximity and production capacity.

FAS/Canberra's 2024 WMP import estimate is 40,000 MT, a 7,000 MT decrease from 2023. As of September 2024, WMP imports total 29,600 MT, about 5,000 MT lower than the same period in 2023. Based on current trends, imports are on track to meet the full-year estimate.

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

Dairy, Dry Whole Milk Powder	2023		2024		2025	
Market Year Begins	Jan 2023		Jan 2024		Jan 2025	
Australia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks (1000 MT)	20	20	21	24	0	9
Production (1000 MT)	30	30	32	30	0	30
Other Imports (1000 MT)	47	47	40	40	0	45
Total Imports (1000 MT)	47	47	40	40	0	45
Total Supply (1000 MT)	97	97	93	94	0	84
Other Exports (1000 MT)	38	38	40	50	0	40
Total Exports (1000 MT)	38	38	40	50	0	40
Human Dom. Consumption (1000 MT)	38	35	40	35	0	35
Other Use, Losses (1000 MT)	0	0	0	0	0	0
Total Dom. Consumption (1000 MT)	38	35	40	35	0	35
Total Use (1000 MT)	76	73	80	85	0	75
Ending Stocks (1000 MT)	21	24	13	9	0	9
Total Distribution (1000 MT)	97	97	93	94	0	84
(1000 MT)						
OFFICIAL DATA CAN BE ACCESSED AT: PSD Online Advanced Query						

Attachments:

No Attachments