

# Tasmanian Dairy Conference

Burnie

8 July 2009



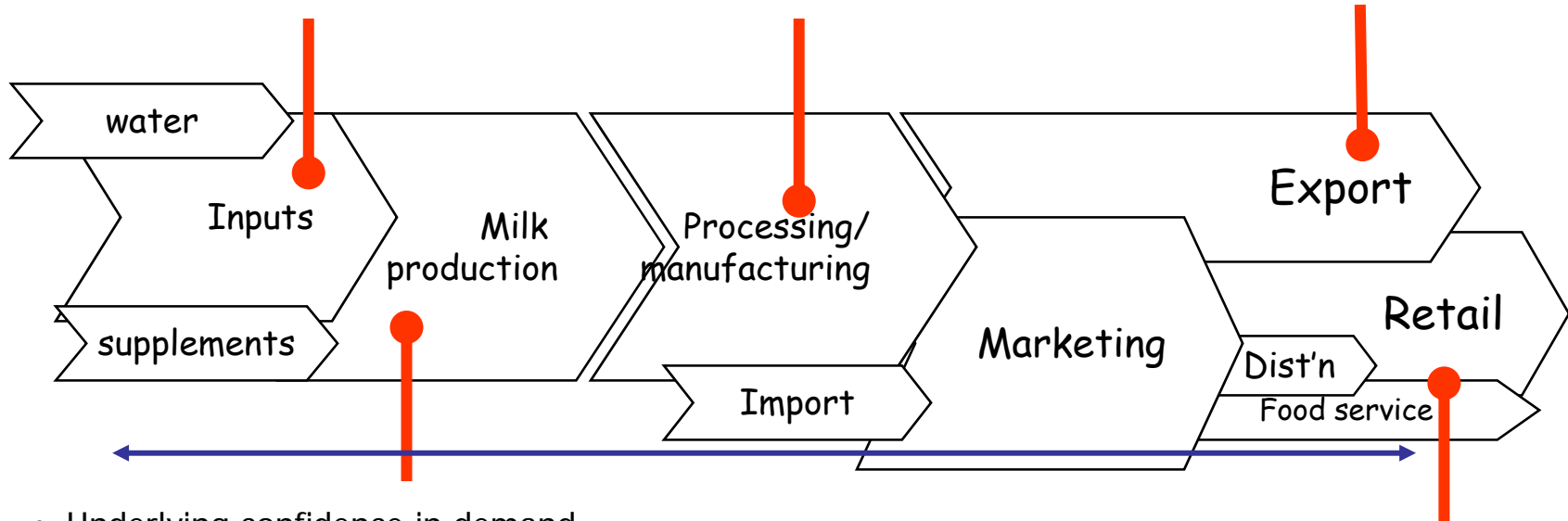
**Dairy 2009**  
Situation and Outlook



# Rough road to recovery

- Input prices remaining firm
- Water access uncertainty
- Improved rainfall in northern regions
- Asset values under pressure
- Sustained competition for milk
- Choices in market/product mix
- Capacity pressures in Nth Vic
- Processing consolidation

- Cautious market recovery with slow GDP growth
- Ongoing risk of volatility
- Restored EU/US intervention
- Trade reform complicated by short-term protectionism



- Underlying confidence in demand
- Stalled investment due to financial market turmoil
- Short-term cashflow crisis in south
- Uncertainty: climate & systems

- Weakened consumer sentiment but increased spending power
- Weakening food price inflation
- Consumers preferring cheaper food options
- More private label but QSR volumes boosted
- Wholesale prices under pressure from falling commodity prices



# Production sector

is a story of several industries

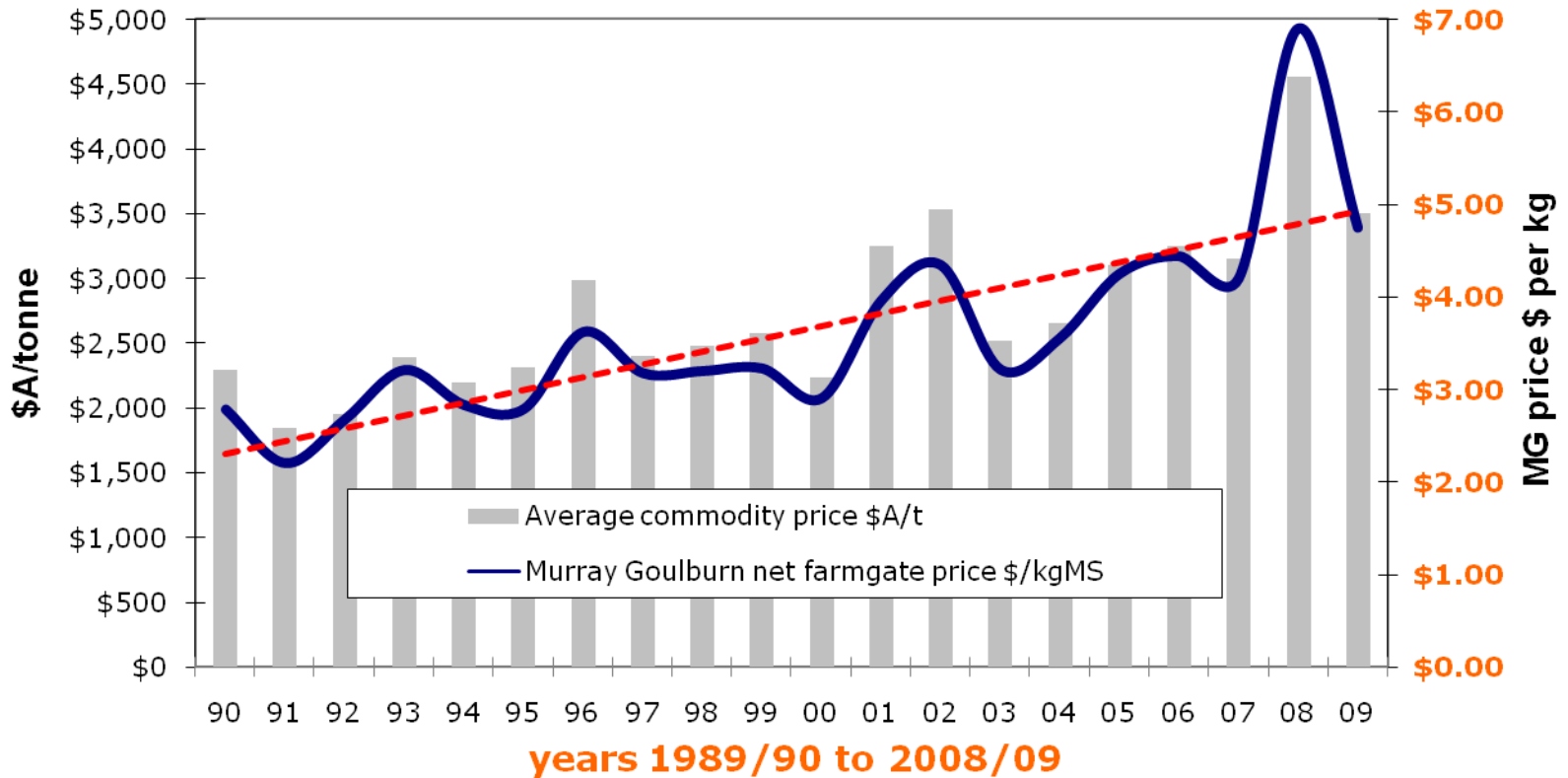
	Where	Short-term market outlook	Input costs	Confidence
<b>Southern Pasture</b>	<b>Gipps, West Vic, Tas, Sth SA, WA</b>	<b>**</b>	<b>***</b>	<b>***</b>
<b>Southern MDB</b>	<b>Nth Vic &amp; Riverina, inland NSW, SA river</b>	<b>**</b>	<b>**</b>	<b>**</b>
<b>Fresh milk supply</b>	<b>Sth Qld, NSW &amp; other</b>	<b>*****</b>	<b>***</b>	<b>*****</b>

Farmer sentiment on these issues driven by nature of milk supply arrangements and seasonal conditions



# Farmgate market

## Average export returns and Murray Goulburn milk price 1990 to 2009





# Farmgate market outlook in 2009/10

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## Southern:

- **Opening prices announced**
  - \$3.46 to \$3.80 kgMS, in line with forecast.
- **Full year outlook for exporters still holding**
  - Full-year prices down by 10-15% (\$4.00 to \$4.60)
  - \$A critical to final outcome
  - Customers making shorter commitments due to caution on market conditions
- **Fresh milk processors will mark off manufacturers but conscious of supply risks**

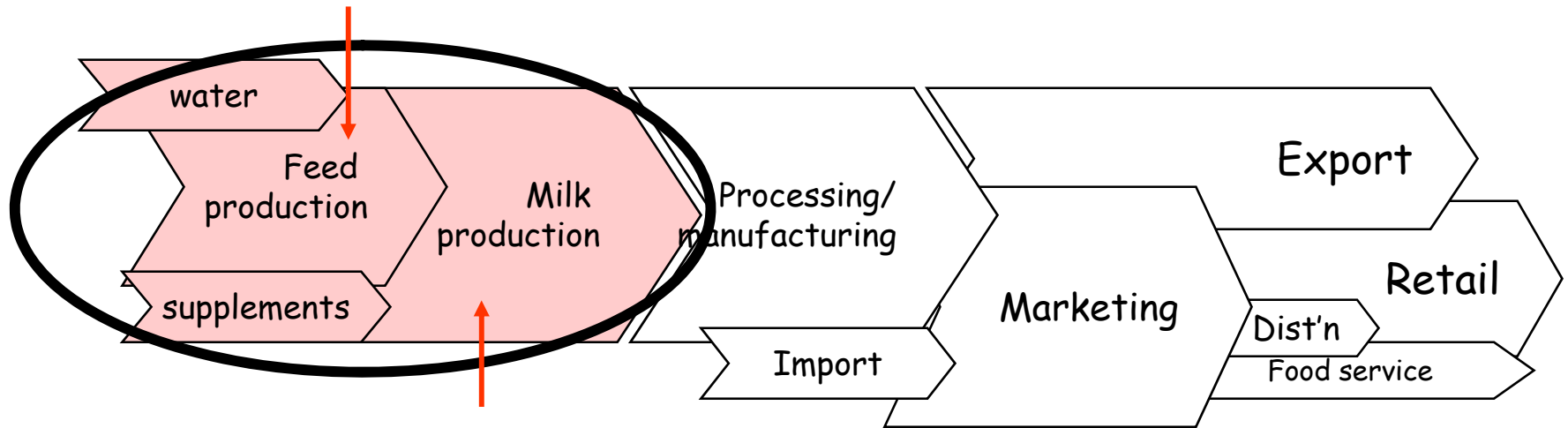
## Fresh milk regions:

- **Security of year-round supply remains the driver**
- **Contract prices set in 2007-08 remain in place**
- **Increased gap between southern and NSW/Qld prices**
- **Some prices under pressure due to surplus milk at times**
- **WA decline is stronger due to production growth & market deterioration in commodities**



# Milk production – slow recovery

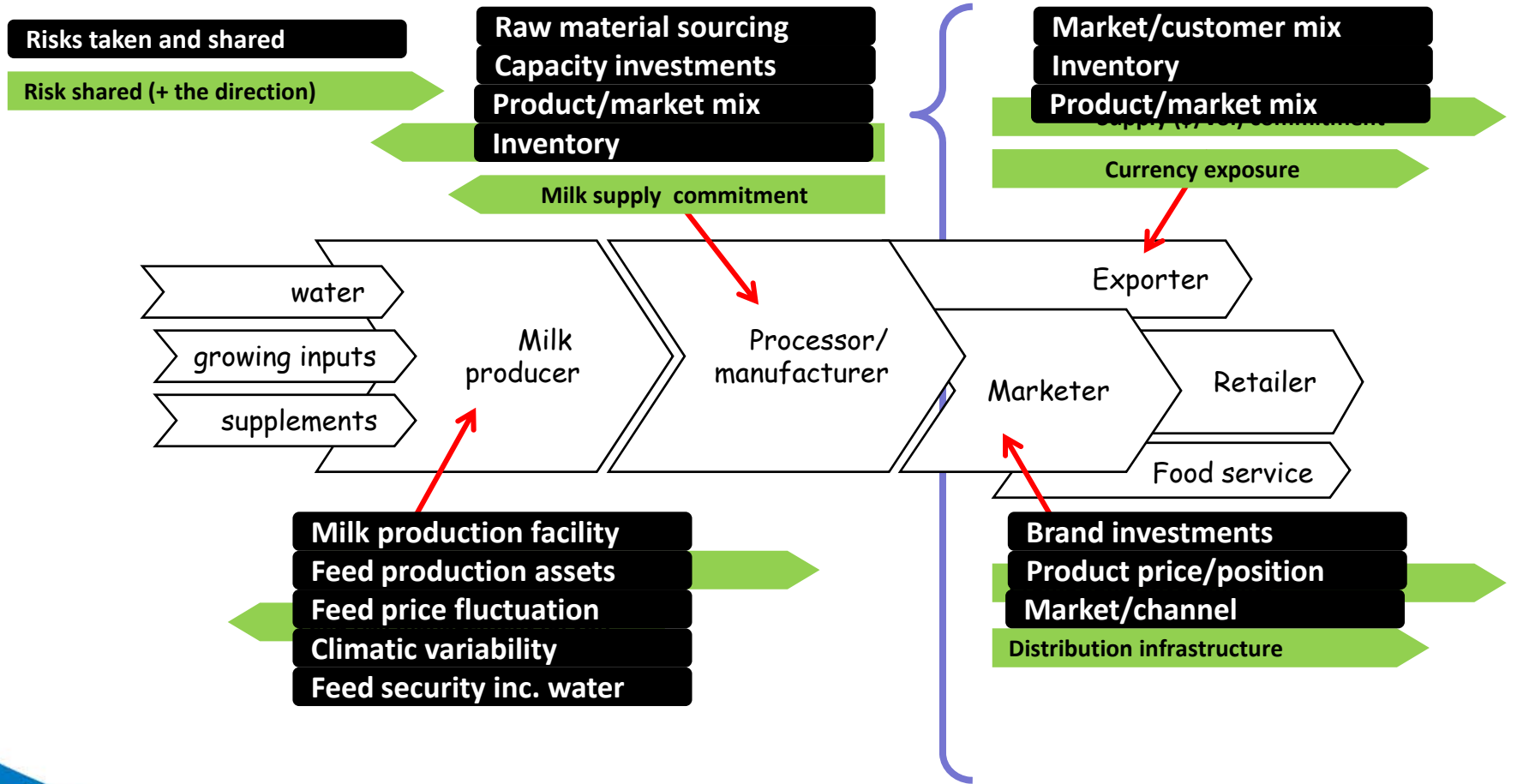
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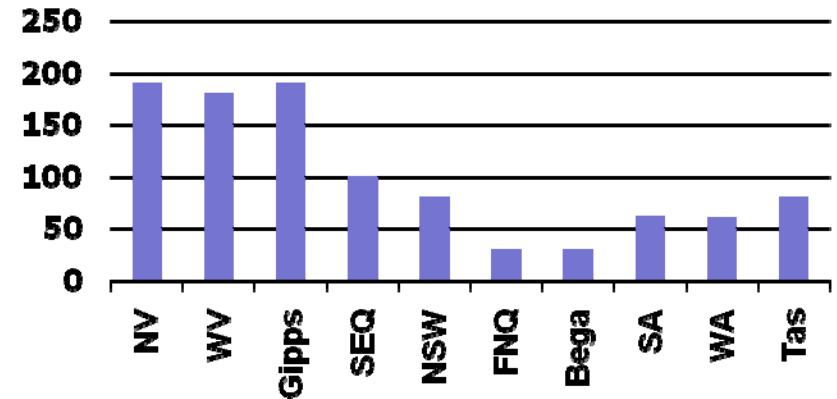
# Risks taken & shared





# National Dairy Farmer Survey

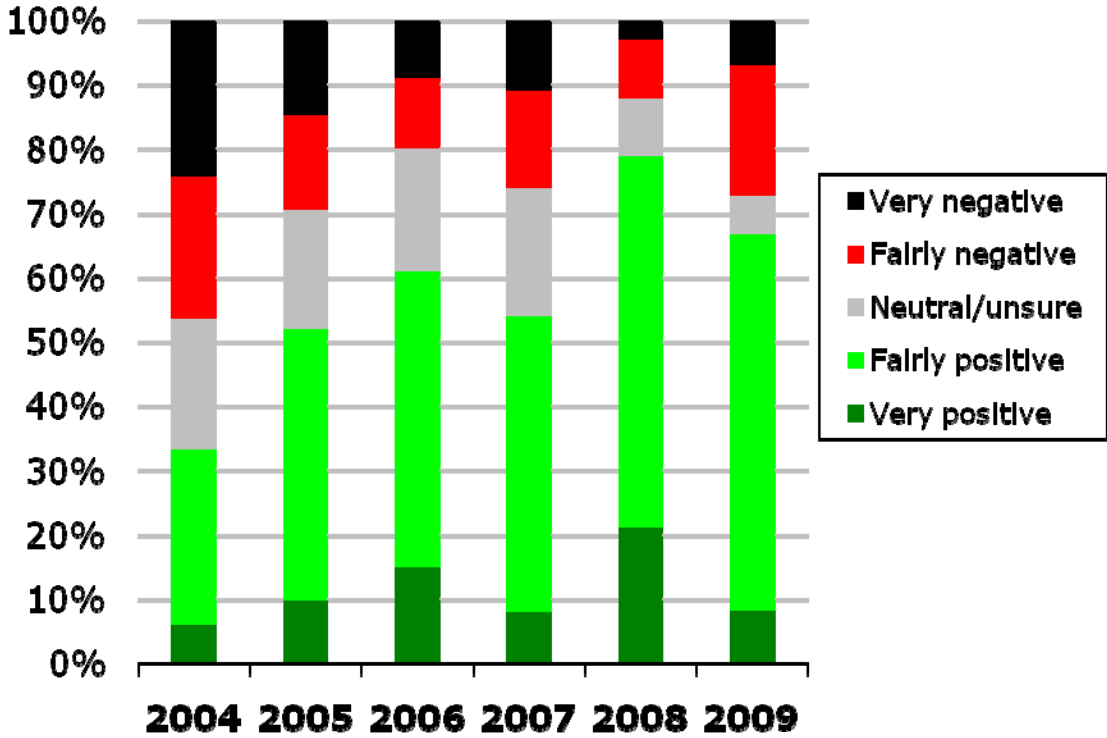
- **Sixth year of NDFS survey**
- **1002 farmers interviewed**
  - Similar to last year
- **Fieldwork conducted from mid-February to early March**
- **Response rate remained quite high at 72%**
  - 69% in 2008
- **Includes specific Q's on feed, water and herd management**
  - detail available
- **Follow-up survey planned for early September**





# Attitude to the industry

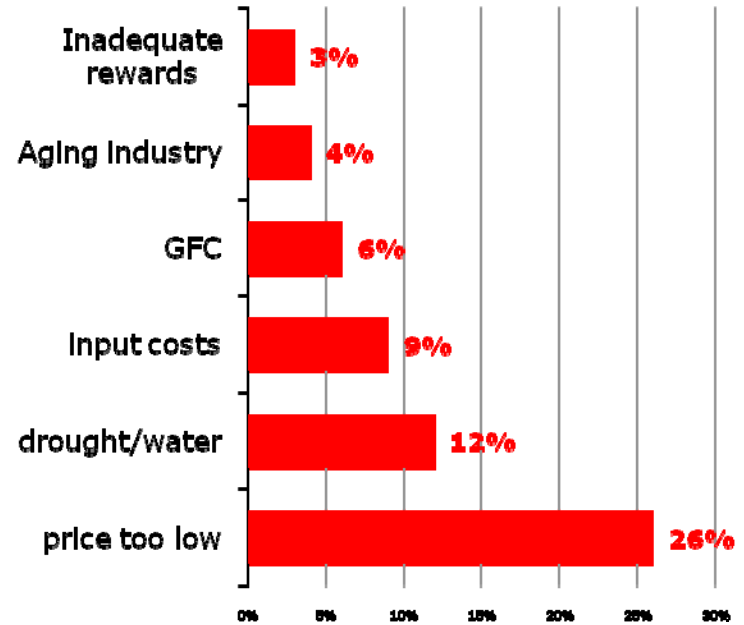
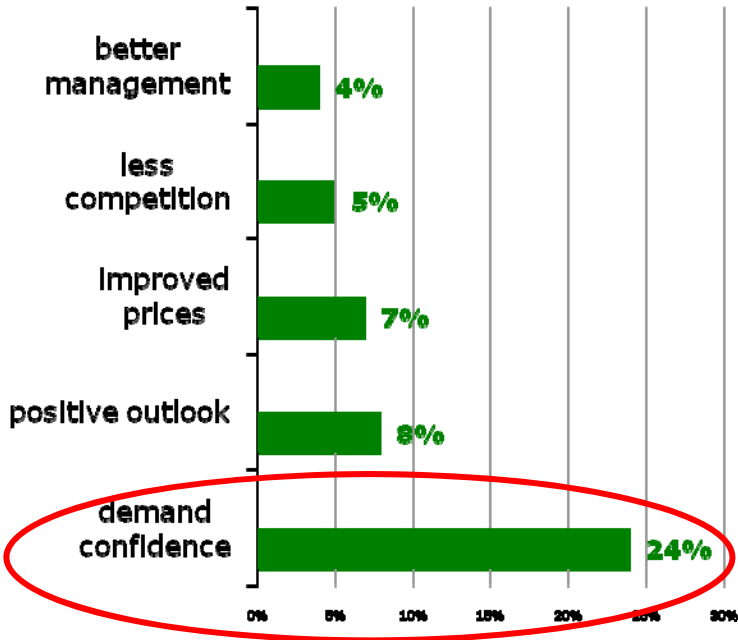
Attitude to the industry – comparing 6 surveys





# Reasons behind attitude

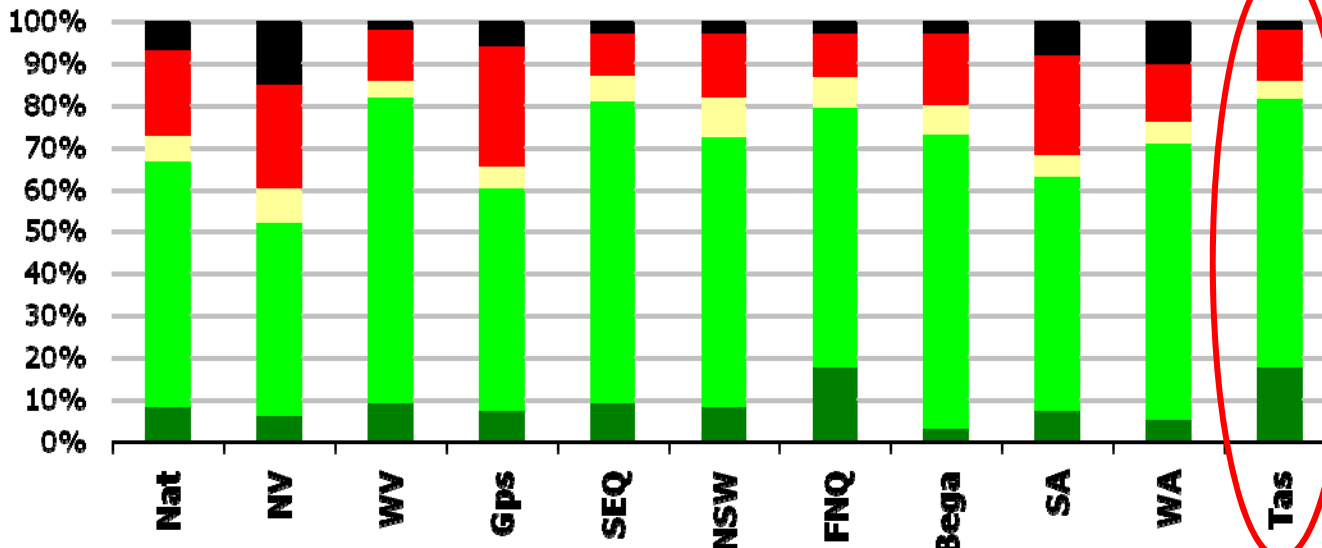
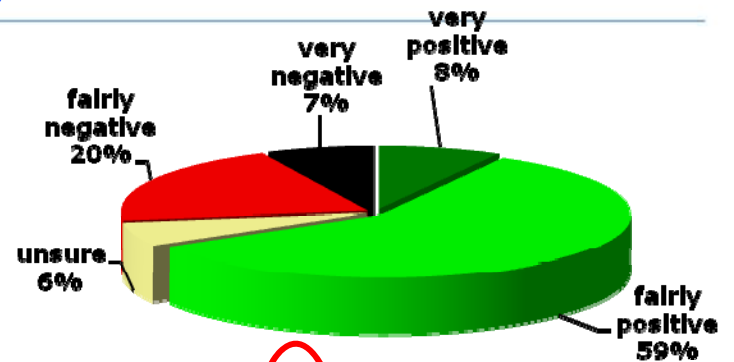
Reasons cited for positive (+) or negative (-) attitudes (2009)





# Attitude to the industry

Attitude towards the future of the dairy industry  
(% farms)

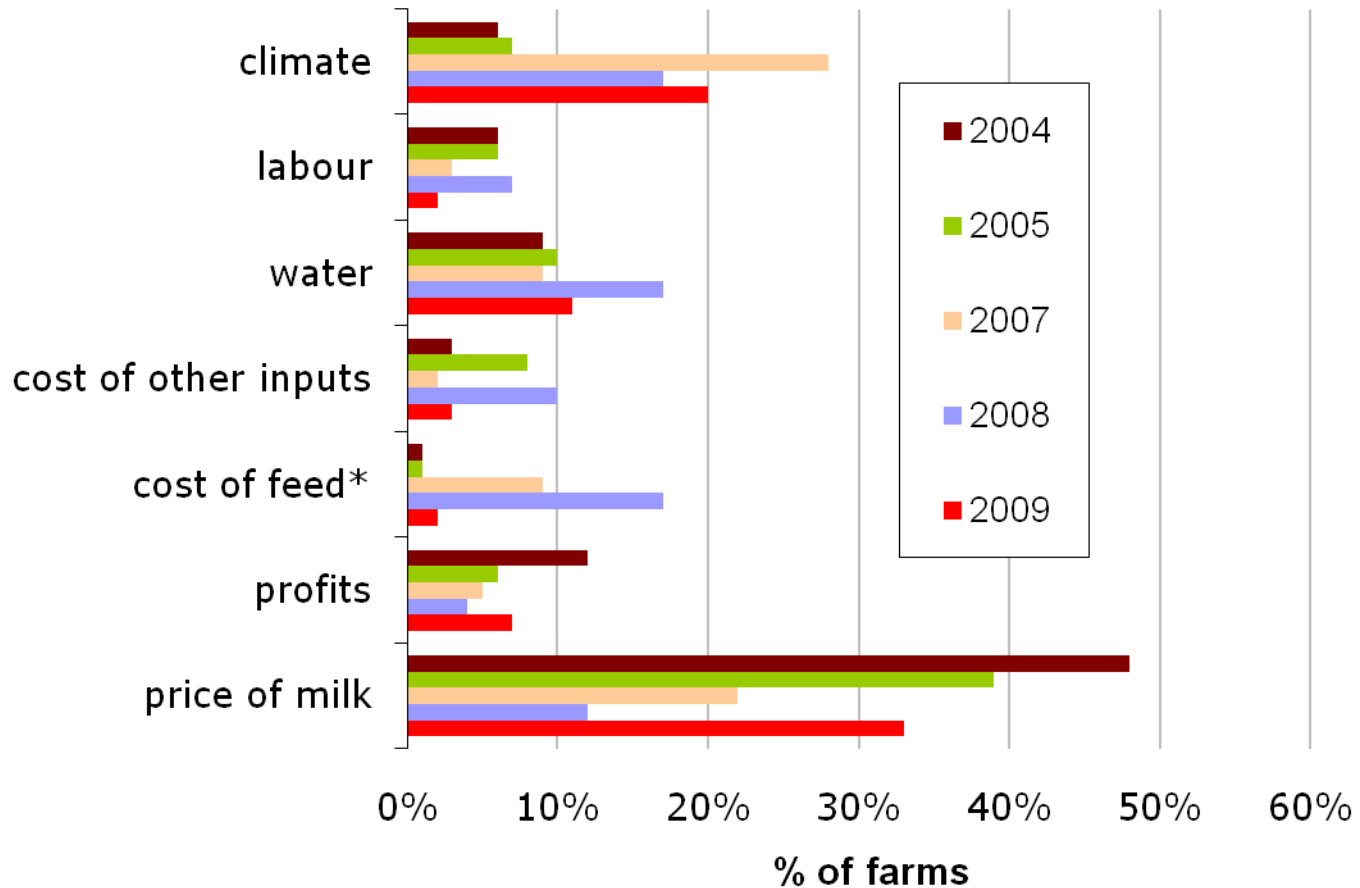


Very positive    Fairly positive    Neutral/unsure    Fairly negative    Very negative



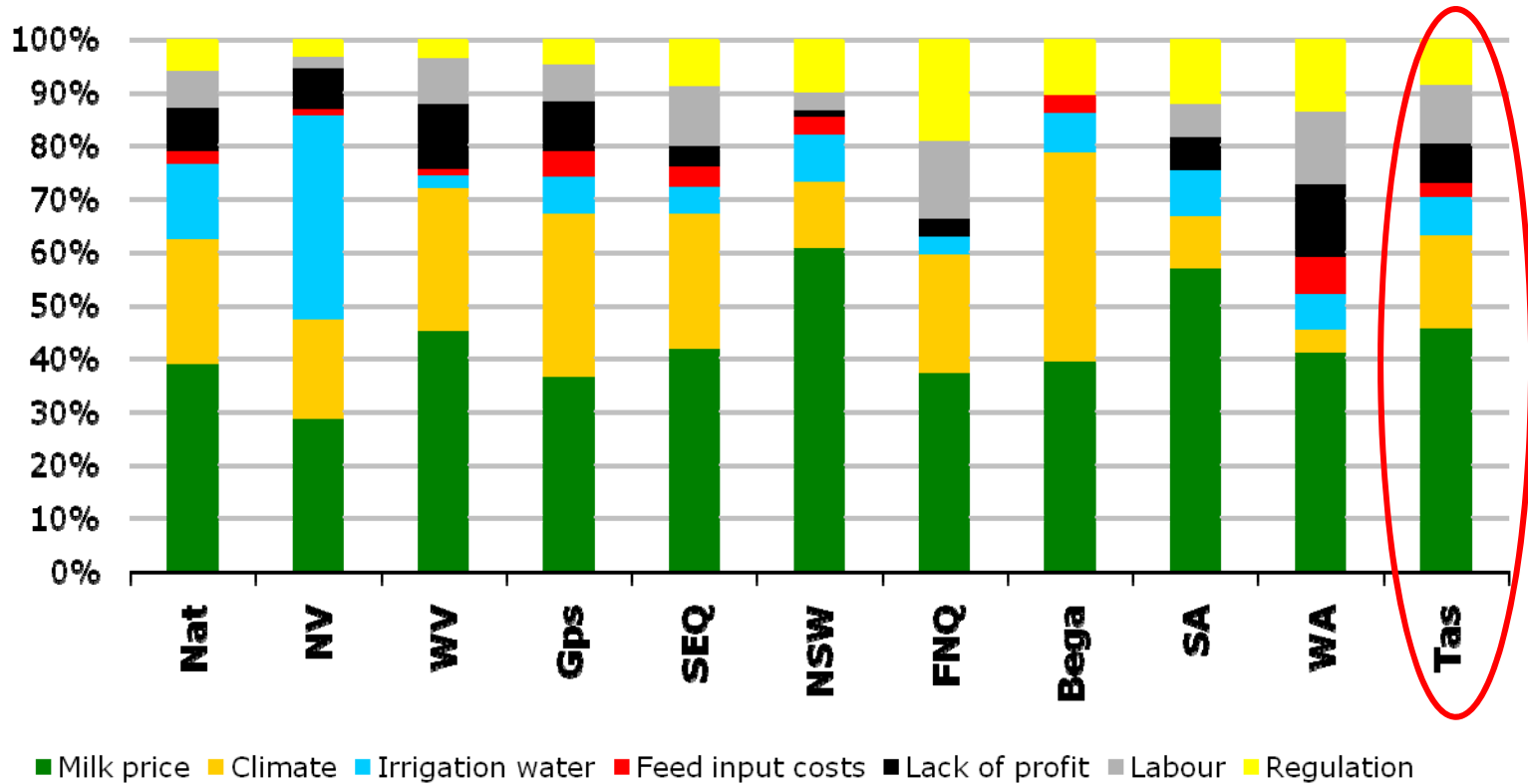
# Main challenges faced

•Main challenge faced in the future





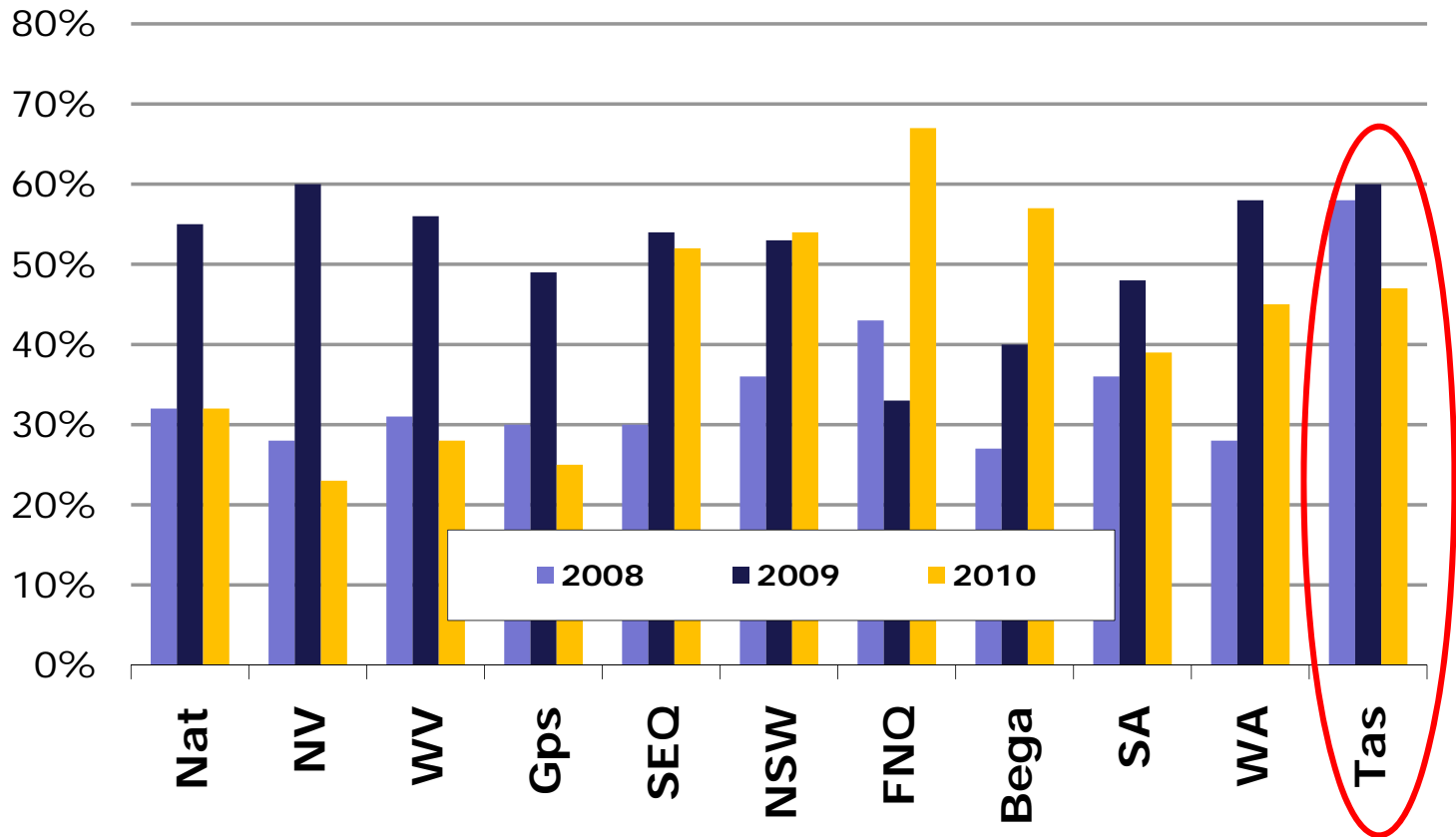
# Main challenges faced in future





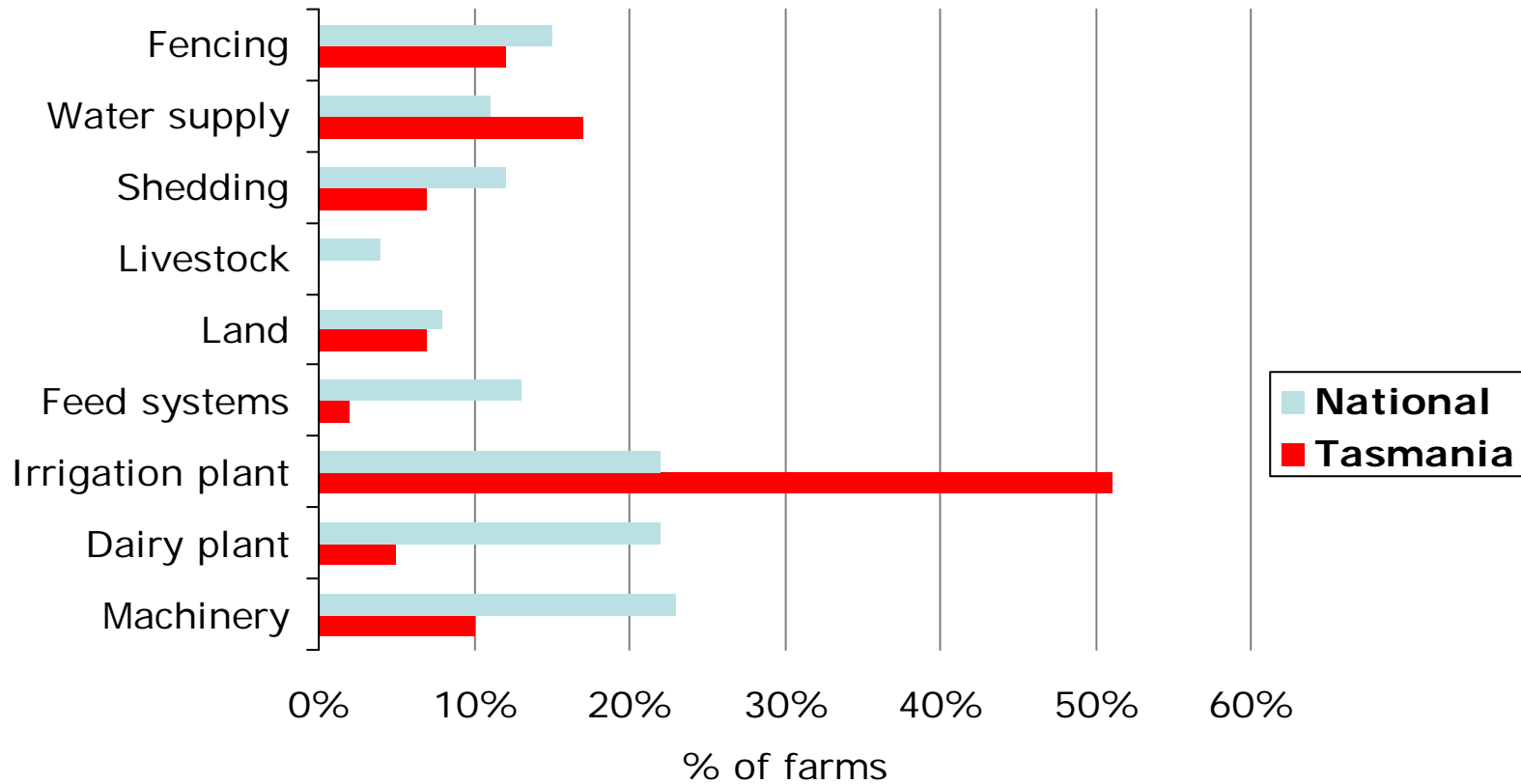
# Investments on farm (intent)

Planned on-farm investment in 2009 (% of farms)



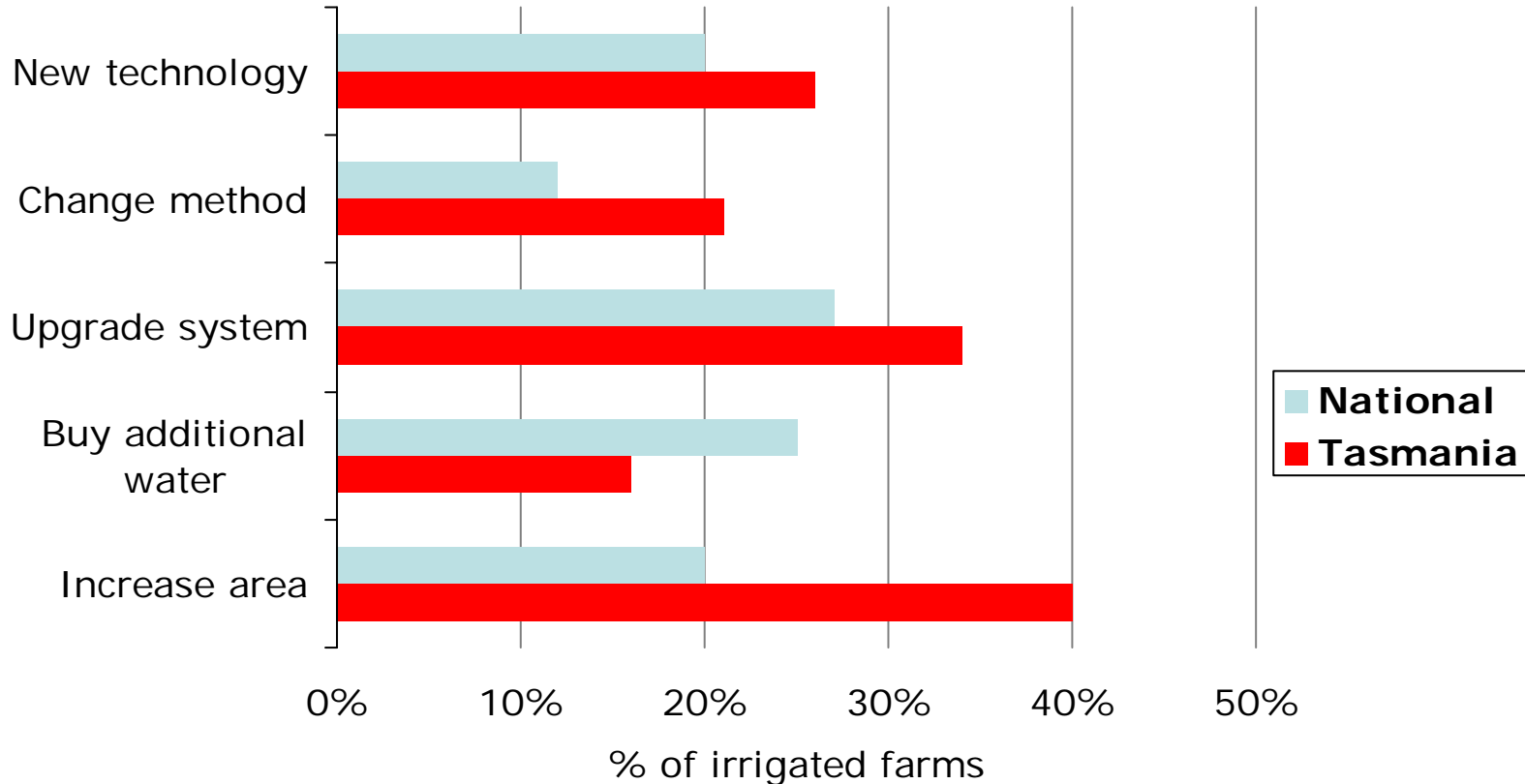


# Planned investment by type





# Planned changes to irrigation systems





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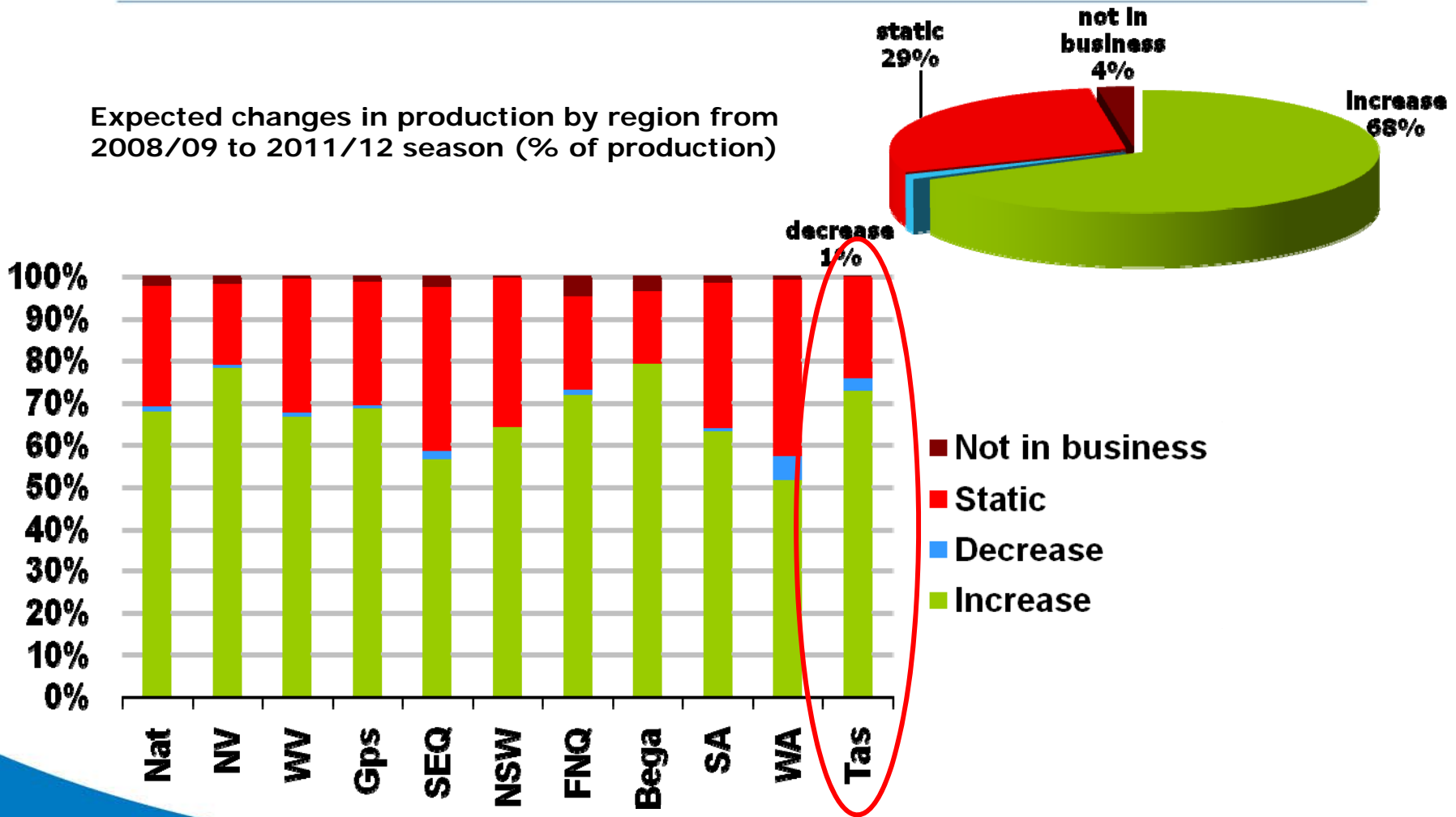
# Production outlook

Medium term



# 3 year outlook

Expected changes in production by region from 2008/09 to 2011/12 season (% of production)





## National growth scenarios

<b>% farms</b>	<b>Now</b>	<b>if</b>	<b>Outlook</b>
<b>Growing (65%)</b>	<b>6.2</b>	<b>+4% to 6% per annum</b>	<b>6.9-7.3</b>
<b>Static (30%)</b>	<b>2.6</b>	<b>No change</b>	<b>2.6</b>
<b>Declining (2%)</b>	<b>0.2</b>		<b>0.2</b>
<b>Exiting (3%)</b>	<b>0.2</b>		<b>-</b>
<b>Total</b>	<b>9.2</b>		<b>9.7-10.1</b>



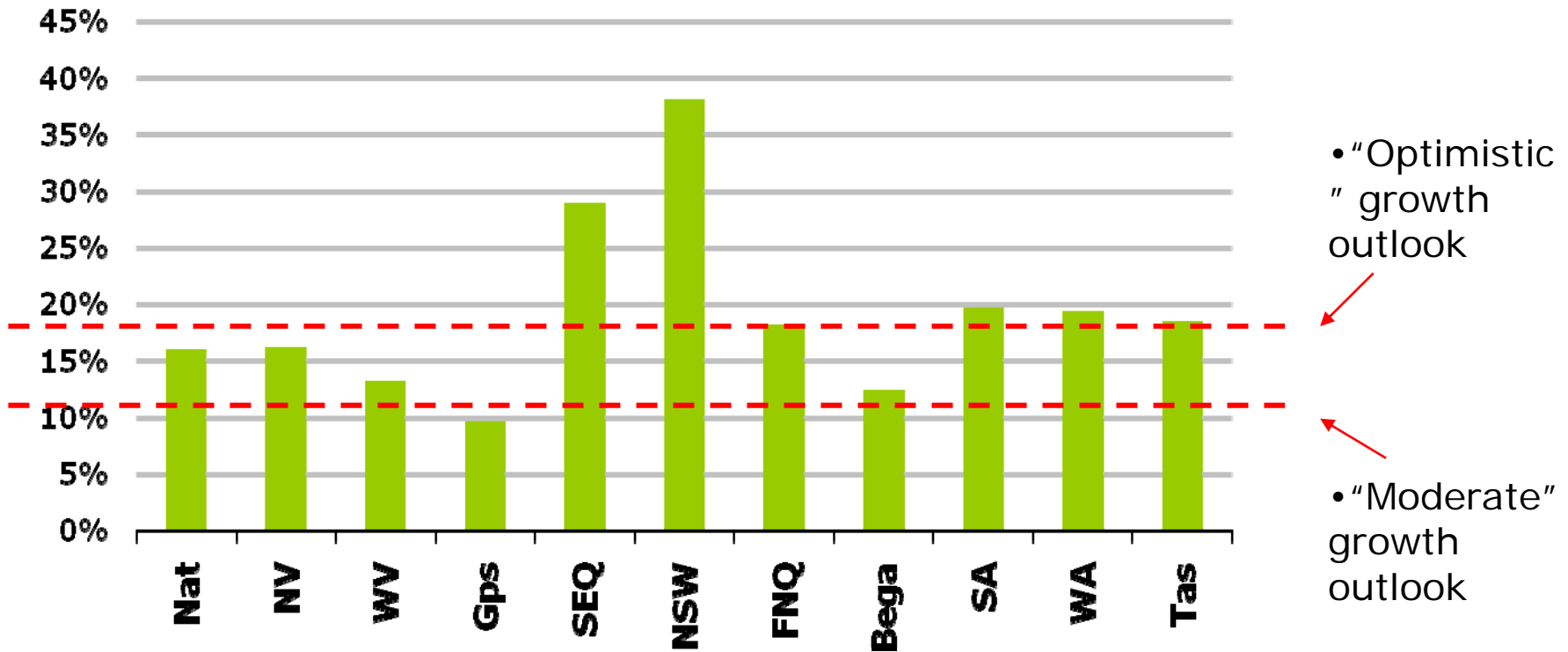
## Tasmanian growth scenario

<b>% farms</b>	<b>Now</b>	<b>if</b>	<b>Possible outcome</b>
<b>Growing (65%)</b>	<b>509</b>	<b>+4 to 6% growth per annum</b>	<b>572-606</b>
<b>Static (31%)</b>	<b>169</b>	<b>No change</b>	<b>169</b>
<b>Declining (1%)</b>	<b>20</b>		<b>20</b>
<b>Exiting (1%)</b>	<b>2</b>		<b>-</b>
<b>Total</b>	<b>700</b>		<b>760-793</b>



# Recent growth achievements

Actual annual growth rates of "growers" between 2007/08 and expected 2009/10





# Future challenges for growth

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## Opportunity

- **Strong faith in medium to long term prospects for the dairy industry**
- **Latent investment interest in the sector**
- **Land value impact of MIS failure**
- **Scope for gains from risk management**
  - Feed security
  - Milk sales

## Threat

- **Increasing volatility of margins**
- **Damage to herd capacity from 2008/09 market slump**
- **Uncertainty ahead**
  - Impact of CPRS
  - Ongoing access to water + certainty of trading market regimes
- **Labour & skills**
  - Improved ability to compete