Quarterly Update

No news is good news

19 September 2025

A strong start to the season, and resilient fundamentals offer hope despite uncertainty

The 2025-26 dairy season has started strong, with production up year-on-year for June by 18% and for July by 2%. This is off the back of May also being up by 8%, demonstrating strong winter production. Despite this, the volume produced at this time last season was only 2.5% of the season total, meaning we have a long way to go (as seen in the plots to the right) before we can really celebrate strong milksolid production. Figures 1 and 2 show that while the season is cumulatively off to a strong start, the progress made during peak production is far more crucial.

Despite this strong start in production the season is not without uncertainty, with some commentators suggesting that global demand and supply are moving out of sync - favourable European weather conditions, American domestic oversupply and poor Australian production. However, this is not immediately apparent in the NZX milk price futures markets which remains largely unchanged in recent weeks. Further to that, Fonterra have not revised their suggested farmgate milk price. Consequently, the DairyNZ forecast average payout received for the season remains stable (adjusted marginally upward to $10.30/kgMS). If we start to see further reductions in the prices for key products (milk powder, cheese, butter), then there is a risk of downward pressure on processors farmgate milk prices. We will look to the next GDT results alongside Fonterra's forthcoming announcement with considerable interest.

Figure 1 – National total monthly milksolid production

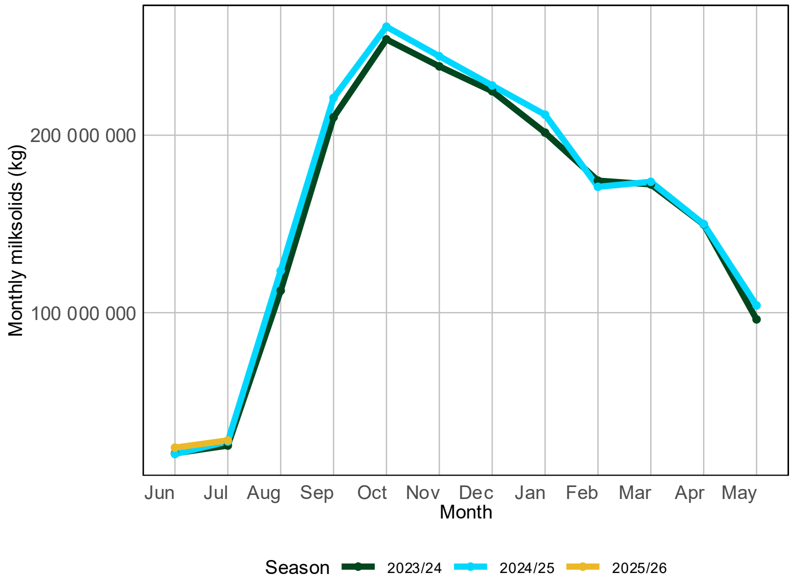
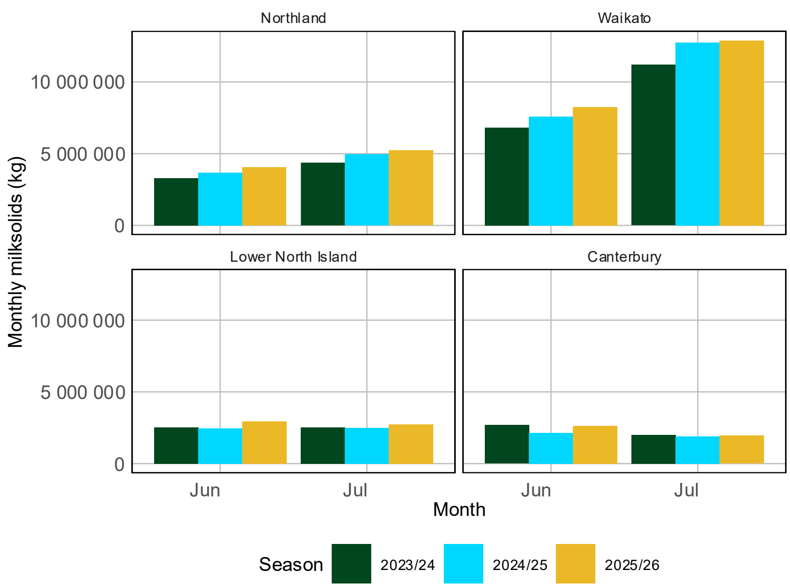


Figure 2 – Season to date monthly milksolid production by selected regio



Looking beyond production, the latest DairyNZ Econ Tracker update shows that the 2025-26 season's financials seem to be broadly consistent with the opening season forecast. It appears that post-COVID craziness in the markets has largely passed, and despite the domestic and global economic downturns dairy appears to be a good business to be in. Currently, any inflationary cost pressures are being largely offset by interest payment decreases associated with declining interest rates as the Reserve Bank attempts to kick the economy back into gear.

The most notable changes to the DairyNZ forecasts are increases in electricity and freight, which are consistent with price increases felt throughout the economy, and livestock sales due to strong cow prices. According to StatsNZ via the Farm Expense Price Index, dairy farmers faced 12%, 10%, and 19% inflation on electricity, freight and fertiliser, respectively, year ending June.

These changes are reflected in the current forecast Break Even Milk Price for the average New Zealand owner-operator of \$8.66/kgMS, and \$4.34/kgMS for the average 50/50 Sharemilker.

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