Dairy NZ

Quarterly Update

Dairy farms set for a merry season, despite tighter margins

10 December 2025

Global milk supply lifts, easing prices as demand lags

New Zealand's milk production continues its strong trajectory in the 2025/26 season, up 3.4% on last year to date, with October collections rising 2.8% year-on-year. The South Island is leading the charge, posting a 5.7% lift in October, largely supported by extra supplementary feed. It remains to be seen whether damage to irrigators and pasture from the October storms will influence South Island production for the remainder of the season.

Strong milk production observed in the recently released Dairy Statistics for 2024/25 aligns with elevated production globally, adding greater volumes to international markets. Between January and October 2025, the US increased output by 2.1%, the EU by 0.8%, Argentina by 10.4%, Chile by 6.7%, and the UK by 4.9%. These increases have placed significant downward pressure on dairy commodity prices, which will eventually flow through to Kiwi consumers.

Greater supply and more cautious purchasing behaviour have reshaped Global Dairy Trade (GDT) auctions. While Southeast Asia remains active, purchasing volumes are more subdued than pre-2022 levels. More milk available from more regions has driven prices lower, particularly for butter, cheese, and whole milk powder. Since August, the GDT Price Index has fallen for eight consecutive events, down roughly 13%, and forward curves continue to point toward softer pricing heading into early 2026. NZX futures reinforce this trend: September 2026 milk price contracts have slipped from $10.10 on August 1 to $9.33 on December 1, signalling further downside risk as markets rebalance.

EconTracker forecast update: margins tighten as costs remain elevated

In response to the softening international commodity markets, Fonterra has trimmed its farmgate milk price midpoint to $9.50/kgMS (range $9.00–$10.00). This reduction signals that farmers should revisit and stress-test their budgets. While the midpoint has eased, Fonterra has committed to maintaining advance payments over the medium term, and last season's strong retro softens the immediate impact of the milk price reduction. Based on the current schedule, we forecast an average payout received of $9.92/kgMS, supported by a strong 2024/25 retro payment.

While the income picture has softened, the expense side is becoming clearer. Farm working expenses continue to rise, up from $5.66/kgMS last season to $5.83/kgMS, driven by lingering inflation and a weaker New Zealand dollar increasing import prices. Fertiliser and feed costs are nudging upward again: urea is up $103/t year-on-year, maize is up $102/t, and feed wheat is up $60/t, while Palm Kernel Expeller remains an outlier at $330–$345/t, still well below its peak of $500/t. Interest costs continue to fall as the OCR declines to 2.25%, reducing interest and rent payments from $1.46 to $1.11/kgMS, partially offsetting cost pressures. However, overall increases in working expenses and higher tax obligations have lifted the Breakeven Milk Price (BEMP) to $8.50/kgMS, up from $8.29 last season.

Table 1: Forecast update

National averages for owner operators	2024-25	2025-26
Milk sales (net of dairy levies)	10.14	9.92
Net Dairy Cash Income	10.82	10.66
Farm Working Expenses	5.66	5.83
Depreciation	0.48	0.49
Interest & Rent	1.46	1.11
Tax	0.55	1.00
Net Drawings	0.81	0.81
Total expenses (excl. principal & capital)	8.97	9.24
Total surplus (Net Dairy Cash Income - Total expenses)	1.85	1.42
Breakeven milk price	8.29	8.50

Breakeven milk price = Farm working expenses + Depreciation + Interest & Rent + Tax + Net Drawings - Net livestock sales - Other dairy cash income

Taken together, movements in global dairy markets, domestic input costs, and the average payout received suggest that while profitability is expected to soften, 2025/26 is still shaping up to be a good season overall.

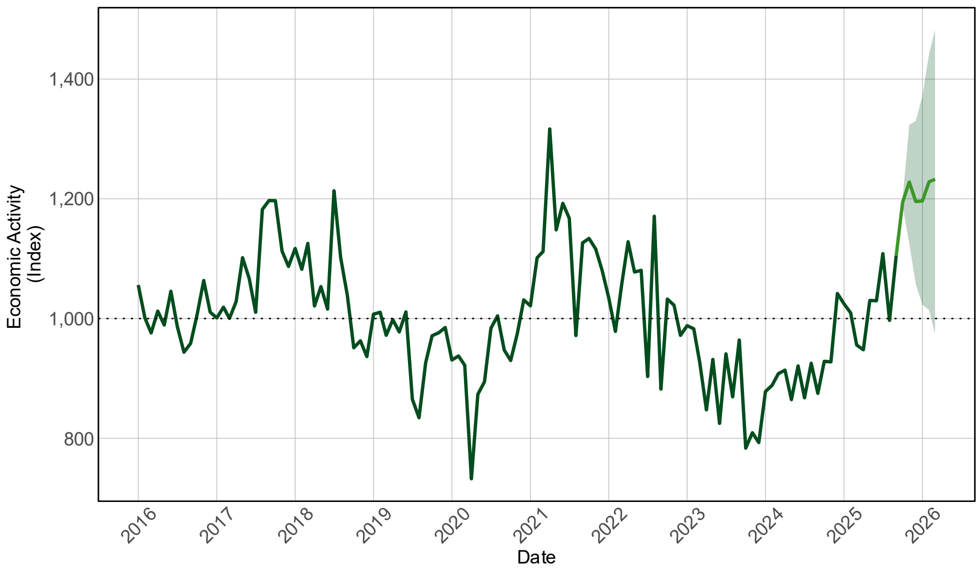
Introducing the Dairy Confidence Index

We are also excited to share a new measure of dairy farmer confidence: the DairyNZ Dairy Confidence Index. The Dairy Confidence Index draws on several datasets to describe how aggregate dairy farmer spending and confidence moves over time, relative to a base year. This allows us to observe how farmers respond to shifting economic, legislative, environmental, and international conditions.

The index incorporates capital imports of dairy machinery, feed and fertiliser imports, new tractor registrations, and retail spending in agricultural regions. Imports of dairy machinery signal renewal or expansion of operations, while feed and fertiliser imports shed light on how farmers are feeding their cows. New tractor registrations and regional retail spending deepen this picture by showing how willing farmers are to commit cash to new investments and on-farm improvements.

Dairy Confidence Index is best read as a dial: a rising line signals more money flowing into equipment, inputs, and regional economies; a falling line signals belt-tightening and delayed spending.

Figure 1: Dairy Confidence Index over time



The Dairy Confidence Index indicates that farmer confidence, according to this measure, is at its strongest level since the low-interest-rate, high-consumption period of the pandemic era, a notable lift after the belt-tightening of 2023 and 2024. Lower interest costs combined with strong milk revenues have made it easier for farmers to commit to big-ticket items such as machinery, vehicles, feed, fertiliser, and even non-dairy spending.

The preliminary forecasts suggest this momentum will carry through to early 2026. The range around the outlook reflects the possibility that confidence could continue to strengthen, or soften, depending on movements in milk prices and margins, the two factors that most strongly influence farmers' willingness to invest. On balance, we expect this lifted level of on-farm investment and input spending to continue supporting local businesses, particularly machinery and vehicle dealers, rural merchants, and other service providers critical to dairy communities.

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