Quarterly Update

Dairy to thrive in ’25?

March 2025

Past performance doesn’t indicate future results, but right now past experience is contrasting with market expectations.

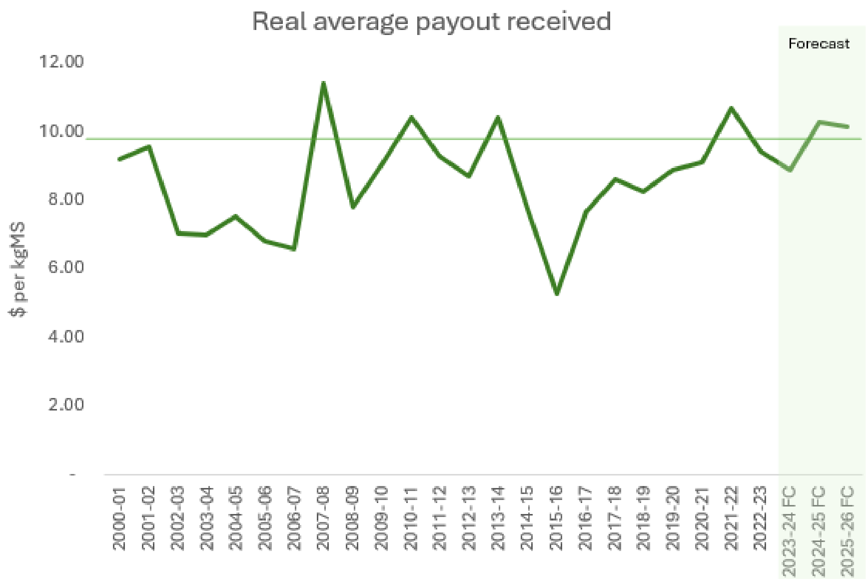
The real (inflation adjusted) payout received has reached $10 in four seasons this side of the century. On all occasions a downward correction occurred the following season.

However, current forecasts have the milk price holding strong through the remainder of the 24/25 season and into the 25/26 season. This means that the tendency for decreases in real payout received after a high payout (see graph 1 below) may be interrupted this season.

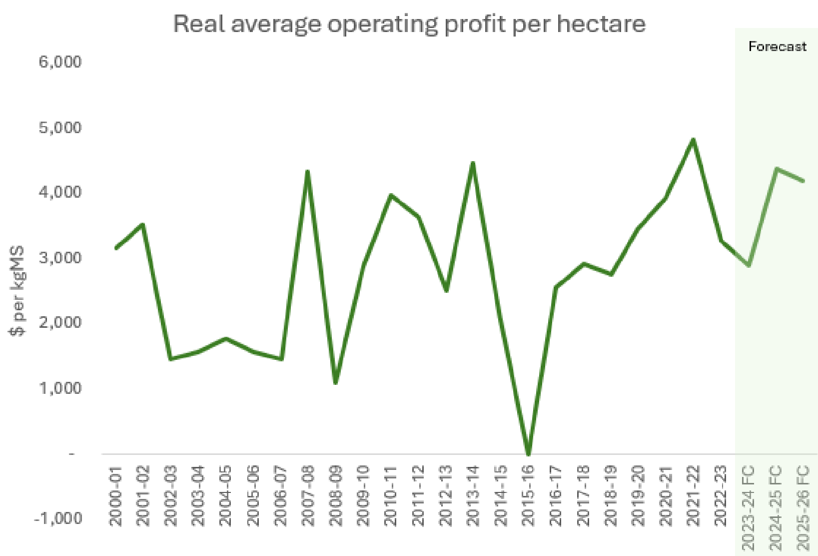
DairyNZ’s Econ Tracker initial forecasts for the 25/26 season expect the payout received for the average New Zealand owner operated dairy farm to be $10.13 per kilogram of milksolids (kgMS), which, relative to the breakeven milk price of $8.57 per kgMS, leaves a healthy margin compared to recent seasons.

The combination of a strong payout and minimal cost creep in the 25/26 forecast mean that forecast operating profit per hectare remains strong through the remainder of this season and into next.

Graph 1: Average payout received, when adjusted for inflation



Graph 2: Average Operating Profit per hectare (inflation adjusted)



Challenges ahead: navigating volatility

While the 25/26 season is set for a strong start, there are significant external risks that could impact profitability. A volatile operating environment in international commodity markets—driven by trade tariff tensions, exchange rate fluctuations, and the increasing risk of a U.S. recession—adds uncertainty to global dairy prices.

Historically, global financial markets, commodity prices, and dairy payouts have been closely linked. The recent downturn in the S&P 500, fuelled by trade-war uncertainties, raises concerns about potential price corrections at upcoming GDT auctions.

Meanwhile, a weaker NZD, resulting from sluggish economic growth and a declining OCR, presents a double-edged sword for farmers. While lower interest rates may provide short-term relief by improving farmgate returns, they also increase the cost of imported inputs such as machinery, fertilisers, and fuel.

Prepare for future challenges

While dairy farmers have numerous ways to adjust the inputs they use to produce milk, they cannot control the prices of their inputs which introduces price risk to their businesses.

Currently the signs are for a strong milk price to persist over the short term, but in the global context of the volatility outlined above and the historical context of a downward correction in the milk price after reaching $10, caution should be exercised to shore up the parts of the business farmers can control.

Farmers are encouraged to take advantage of the current strong payout by maintaining healthy cash reserves, reducing debt where possible, and preparing for potential market fluctuations. Strategic planning now will help safeguard farm businesses against future volatility.

Visit the Econ Tracker tool