

# Fact sheet



## Wet weather impact on milk intake, pricing and suspension of MSSP in FY17

20 October 2016

Murray Goulburn Co-operative Co. Limited (MG) has today provided an update on the impact of very wet climatic conditions on milk intake as well as a revision of our full year forecast farmgate milk pricing. Furthermore, a suspension of the Milk Supply Support Package (MSSP) for the remainder of FY17 was also announced.

### Background

Until recently, there was confidence that spring rainfall was positioning the industry for an excellent season. However unexpected continual rainfall since mid-September has created a major challenge for our suppliers and the Australian dairy industry.

All production regions across south-eastern Australia are impacted, in particular the North and West of Victoria, where widespread flooding has impacted dairy herds and pastures. Production across the region was down 10.7 percent in August and this trend has unfortunately continued. In particular, the North of Victoria has moved from drought-like conditions in FY16 to severe wet conditions at present, with production in that region down 16.9 percent in August year to date.

### Impact of wet conditions

As a result of these very wet conditions, MG expects milk intake for FY17 to be approximately 20 percent lower than last year. This reduction in milk intake is driven by milk supply losses of approximately 350 million litres (approximately 10 percent lower than last year's intake) through retirements from the industry.

We also expect on-farm production by our approximately 2,200 farmers to reduce due to very wet conditions by 10 to 12 percent in FY17 – broadly in-line with results to date for FY17 production across the south eastern dairy industry. As a result, we have reduced our FY17 farmgate milk price forecast to \$4.70 per kgms, down from \$4.88 per kgms.

### Suspended recovery of the Milk Supply Support Package in FY17 only

The Board and management recognised the need to get cash into farmers' pockets as quickly as possible. Therefore, recovery of the MSSP will be suspended from 1 October 2016 until 30 June 2017, resuming on 1 July 2017. As a result of this, an increase of \$0.09 per kilogram butterfat and \$0.18 per kilogram protein (the equivalent \$0.14 per kgms) will be applied from 1 October 2016 to 30 June 2017.

A broader review of the MSSP is ongoing and a further announcement will be made before the Annual General Meeting on 28 October 2016.

### Outlook

Due to the delay in the traditional peak milk production cycle, we may see an extended period of above average production in coming months. However we expect our profitability will be impacted as a result of these climatic conditions and will provide an update at half year results in February 2017.

MG also continues to act proactively to address these challenging market conditions and has identified cost efficiencies program to deliver \$50 million to \$60 million per annum FY17. We will continue to proactively manage our production facilities to target additional savings and cater for lower milk intake.

Further information on the above can be accessed via the MG [website](#).