QUARTERLY UPDATE

El Niño blows into the farm gate: does it curdle the outlook?

DairyNZ Economics & Insights

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2026-27 outlook, Strong El Niño scenario

Farm Working Expenses	Breakeven Milk Price	Operating Profit
$6.57	**$8.90**	**$2.81**
per kgMS	per kgMS	per kgMS

Earth Sciences New Zealand has confirmed a very strong El Niño event, expected to peak in early summer and stay influential through autumn

01 Summary

- Projecting impacts of an El Niño event is extremely challenging, because no single El Niño event plays out like another, and the expected impacts of this coming El Niño event vary significantly by region and in some cases sub-regionally.
- Milk production dips rather than collapses: about 2.1% below the baseline under a "Strong El Niño" and about 3.3% under our "Very Strong El Niño" scenario.
- We have modelled three scenarios. The national breakeven milk price rises to $8.90/kgMS under a "Strong El Niño" and $9.07/kgMS under a "Very Strong El Niño" scenario. Even our Baseline (no El Niño event) forecast sees our national breakeven milk price forecast rising to $8.62/kgMS due to ongoing price pressures on key inputs like fuel, fertiliser and feed.
- The North Island carries the greatest exposure: rainfall-dependent systems with a smaller home-grown feed base. North Island breakeven milk prices range from $9.41 - $9.56/kgMS under a Very Strong El Niño event.
- We expect to see both an impact on milk production and costs under the two El Niño scenarios. Farmers will most likely respond to a summer feed gap partly by buying feed and adjusting herd management. Nationally, feed costs are anticipated to range between $1.56/kgMS under a no-El Niño event and $2.02/kgMS under a very strong El Niño.
- The effects do not stop in 2026/27. Feed, fertiliser and breakeven milk prices stay elevated into 2027-28 under both El Niño scenarios.
- The dairy sector is in a financially strong position, and farmers are practised at managing volatility. However, farm expenses have increased significantly in recent seasons, reflected in a forecast breakeven milk price at or above $9kg/MS for many regions. We don't expect these expenses to fall significantly in the 2027/28 season. With a forecast farm gate milk price around $9.50, profit margins are forecast to remain very tight.

02 Strait into it, what's happened since our last forecast?

Three months ago, the sector's attention was on the Strait of Hormuz, and the pricing pressures it was creating on fuel, fertiliser, feed and freight. Those pressures have not dissipated; oil prices remain volatile, refining margins for diesel and petrol are elevated, and fertiliser prices are yet to reflect lower international prices. Since then, the focus has shifted to what the weather could mean for pasture growth and feed supply on farm.

However, a new challenge has emerged. In early July, Earth Sciences New Zealand confirmed a very strong El Niño event is building, shifting attention from global supply chains to expected weather events. To consider the impact of an El Niño weather event on farm budgets, we modelled two drought severities against a baseline. We used NZX Pasture Growth data to assess how production could be constrained by region, estimate feed deficits, and then apply realistic farm responses: buying supplement, applying nitrogen, once-a-day milking, culling earlier, or drying off in stages. Those responses flowed through to our forecast estimates for milk production, expenses, operating profit and breakeven milk price.

No two El Niño events play out alike, and impacts vary between regions and sometimes within them, so the scenarios bound a plausible range rather than predict an outcome. To capture the uncertainty surrounding the season ahead, we have modelled three scenarios:

Baseline

What it represents

The season as it would unfold without an El Niño event.

Strong El Niño

What it represents

A significant widespread event, with impacts on pasture growth across the regions over summer.

Very Strong El Niño

What it represents

A prolonged widespread event, with impacts on pasture growth into the autumn

03 What could it mean for production?

Pasture takes the first hit

El Niño typically brings drier, hotter and windier conditions to the north and east, while the west and lower south may face wetter conditions that reduce pasture growth and utilisation. Modelled pasture deficits reach around 2 to 3 t DM/ha across Northland, Waikato, Bay of Plenty and the East Coast, increasing to 3 to 4.2 t DM/ha under a Very Strong event as the effects extend into autumn. Irrigation partly protects Canterbury from this reduction, although water restrictions and stronger winds may still constrain growth. On the West Coast and in Southland, wetter soils and fewer sunshine hours create deficits ranging from 0.1 to 0.8 t DM/ha and may also reduce pasture quality. Impacts in Taranaki, the lower western North Island and parts of Otago are less certain.

Milk production dips rather than collapses

National production is around 2.1% below baseline under a Strong El Niño and 3.3% lower under a Very Strong event, equivalent to around 42 million and 67 million kgMS, respectively. On farm, this could mean:

- Strong El Niño: 4,100 kgMS average reduction, around $39,500 reduction in revenue
- Very Strong El Niño: 6,500 kgMS average reduction, around $63,700 reduction in revenue.

DairyNZ's guidance for individual drought-hit farms puts the worst case for a farm at around 10% of the season's production.

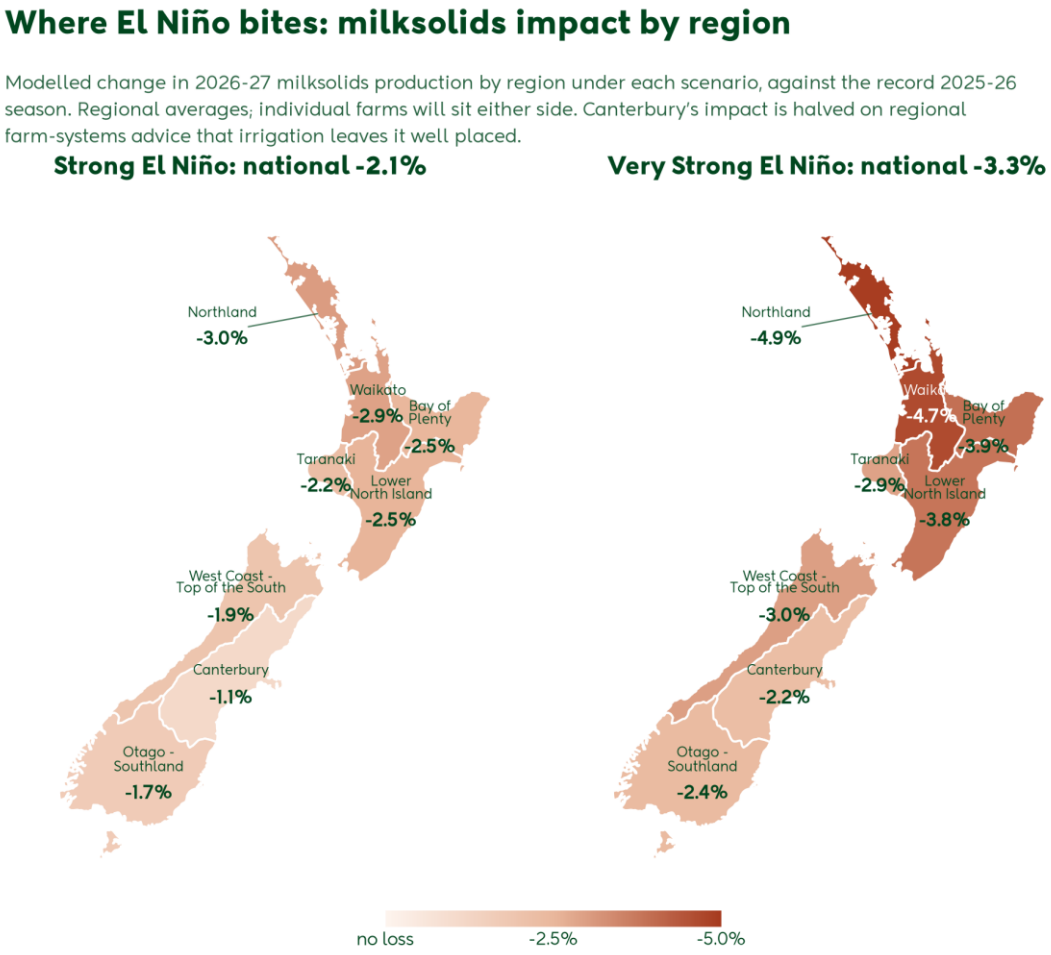

Figure 4. Modelled change in 2026-27 milksolids production by region under each scenario, against a season without El Niño. Regional averages; individual farms will sit either side.

04 How does it impact the farm budget?

The budget in five lines

National averages ($/kgMS), owner operator	2025-26	2026-27		
		Baseline	Strong	Very Strong
Average price received	$10.07		$9.64	
Farm working expenses	$5.75	$6.18	$6.57	$6.78
Feed expenses	$1.40	$1.56	$1.87	$2.02
Operating profit	$4.02	$3.20	$2.81	$2.53
Breakeven milk price	$8.45	$8.62	$8.90	$9.07

Breakeven milk prices move higher

Breakeven milk prices were already expected to rise from $8.45/kgMS in 2025-26 to $8.62/kgMS in 2026-27, reflecting higher input costs from the Strait of Hormuz closure. A Strong El Niño lifts the national breakeven milk price further to $8.90/kgMS, while a Very Strong event raises it to $9.07/kgMS.

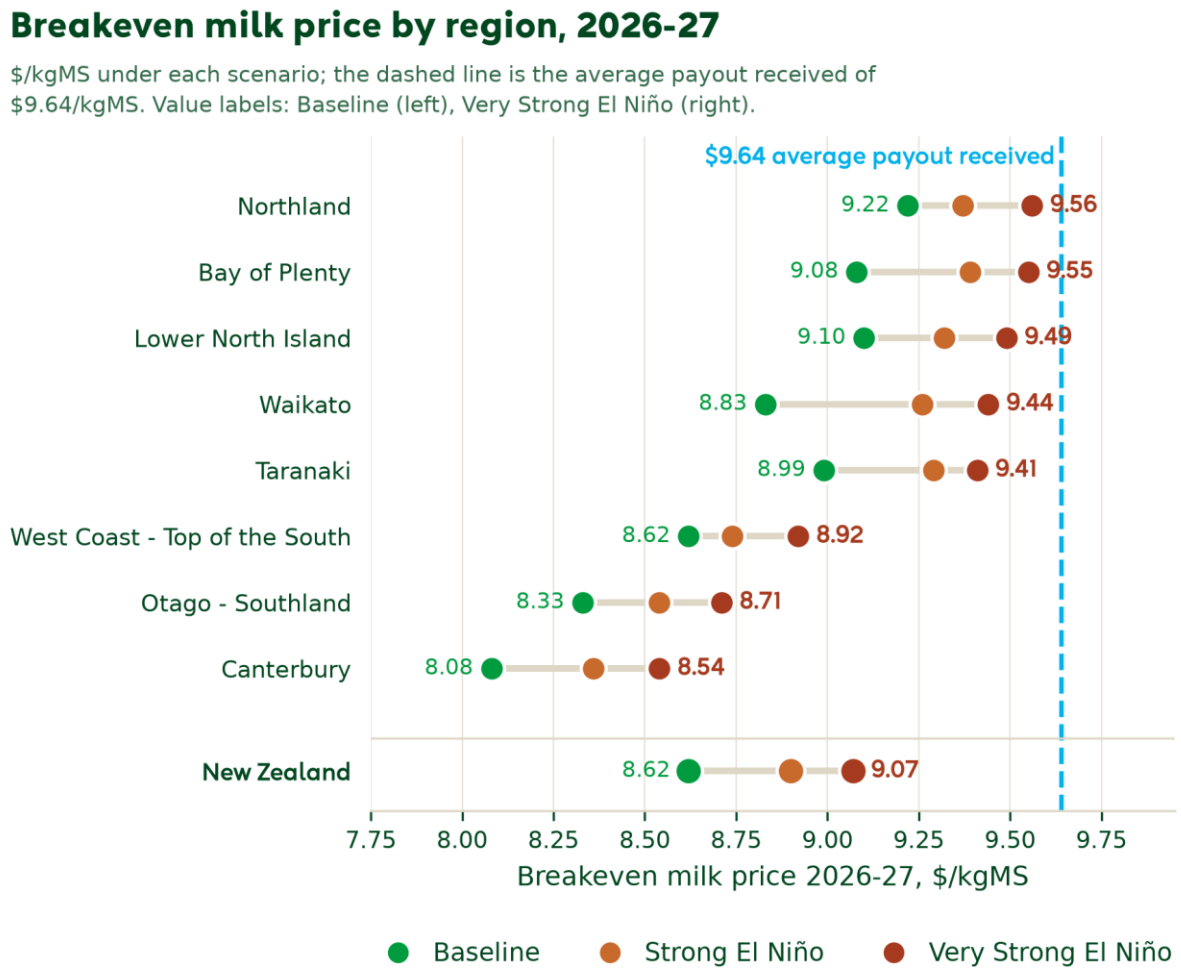

Figure 5. Breakeven milk price by region, 2026-27, under each scenario, $/kgMS. Placeholder: Econ Tracker draft chart, to be replaced with the updated figures.

The pressure is greatest on the North Island, where many farms rely more heavily on rainfall and purchased feed. North Island breakeven milk prices range from $9.41 - $9.56/kgMS under a Very Strong El Niño event. Irrigation, larger home-grown feed bases, and higher summer rainfall provide some South Island farms with more milksolids volume to offset costs, with breakeven milk prices ranging from $8.54 - $8.92/kgMS

Feed is the main source of additional cost. National feed expenses increase from $1.56/kgMS under the baseline to $1.87/kgMS under a Strong El Niño and $2.02/kgMS under a Very Strong event. This leads to an increase in farm working expenses of approximately $6.18/kgMS under the no El Niño baseline to $6.57/kg MS under a Strong El Niño and $6.78/kgMS under a Very Strong El Niño.

Importantly, the financial effects do not end with the 2026-27 season. Breakeven milk prices are expected to ease in 2027-28 but remain above the baseline at $8.76/kgMS under a Strong El Niño and $8.89/kgMS under a Very Strong event. Lower pasture covers and feed reserves can slow recovery, meaning decisions made this season may affect both years. Some of the most important decisions this season are about protecting next year's performance rather than maximising production now.

05 How can farmers respond?

While no one can control how the weather unfolds, planning ahead can improve flexibility and reduce the impact of adverse conditions if they occur.

Know your feed position

Track pasture cover, feed inventory and herd demand now. Regular feed budgeting identifies a deficit while you still have options.

Identify your trigger points

Decide in advance what conditions will prompt each management lever. Delaying a response to a feed deficit is costly for animal welfare, reproduction, production, and profitability.

Bring Nitrogen use forward

Nitrogen only works when there is moisture. Strategic, targeted and timely applications can lift growth for three to six weeks, growing additional feed while conditions remain favourable.

Conserve feed where possible

Build your farm's feed reserves and protect pasture covers. Extra feed on hand provides security when facing feed deficits from summer through to the following winter.

Plan for the herd, not just the feed

Decide now which cows would go first if feed runs short – empties, low producers and problem cows – while processing space and store prices are still on your side and set the body condition targets and dates that would move you to once-a-day or a staged dry-off.

Protect next season, not just this one

Autumn cover and feed reserves set the pace of recovery. Avoid decisions that trade 2027-28 performance for a few extra kilograms of milk now.

Farmers who know their feed position, know when to trigger decisions and keep flexibility in the system will have more options if El Niño intensifies, and it keeps the decisions theirs rather than the weather's.

Take the next step

Explore the full dataset, scenario settings and seasonal outlook behind this update on the DairyNZ EconTracker.

connect.dairynz.co.nz/EconTracker

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