DairyNZ

Quarterly Update

2025-26 season predicting solid returns – Setting up for important investment decisions for the coming season

10 March 2026

Summary

- The 2025-26 season has shifted firmly into a high-cashflow story, supported by a strong milk price, solid production, and a substantial one-off cash injection through Fonterra's planned divestment and special dividend.
- Production levels are running ahead of last season and remain above the 10-year average. At the same time costs remain elevated compared with 2021-22 levels (recent historic peak).
- This is a notable period in a long-run sense. Farmers have now had three consecutive seasons with milk prices around or above $9.50/kgMS, and six consecutive years with inflation-adjusted milk prices above $8/kgMS. However, breakeven milk prices have also remained above $8/kgMS for three years in a row.
- Current geopolitical events risk adversely impacting critical input prices like fertiliser, imported feed and fuel.
- For the coming 2026-27 season we expect another positive season for many dairy farms, supported by firm milk prices, solid production levels, and easing interest costs.

Record production with strong milk price lift farm cashflow

Season-to-date milksolids production from June 2025 to January 2026 is running 3.3% ahead of last season, reaching 1,381 million kgMS compared with 1,338 million kgMS at the same point last year. The lift has been broadly consistent through the core months of the season, with monthly gains generally in the range of 2–3% above 2024-25 from July to January.

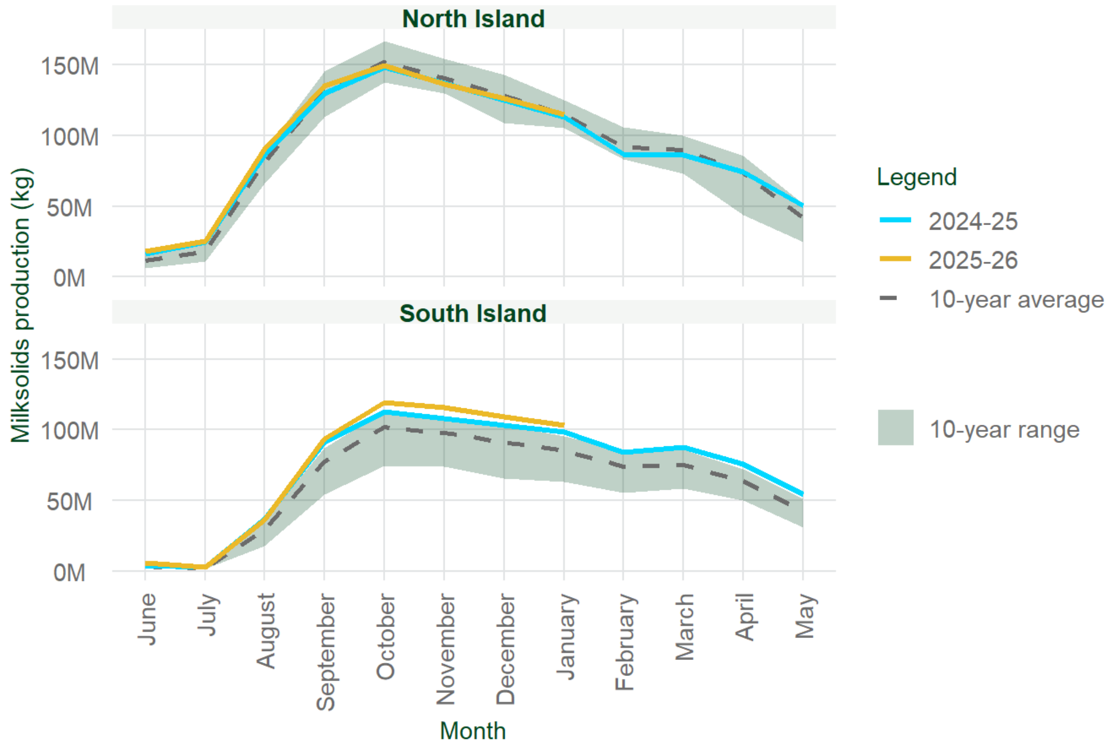
Growth has been led by the South Island. Southland and Otago are collectively up 7.9% year-to-date and Canterbury is up 3.1%, while the major North Island regions are mostly modestly ahead, including Waikato (+1.7%) and Taranaki (+1.9%).

Fonterra has revised its forecast Farmgate Milk Price midpoint for the 2025-26 season to $9.50/kgMS, with a range of $9.20 to $9.80. That revision reflects improving near-term market conditions and provides renewed confidence after the softer tone seen through late 2025. The combination of stronger payout expectations and higher production means many farms are tracking toward a very solid revenue season.

Importantly, this season is not just about operating cashflow. Fonterra's planned divestment is expected to return significant capital to supplying shareholders. This represents a substantial one-off, cash injection into the sector.

The key question now shifts from whether farms will be profitable to how this cash will be deployed. Debt reduction, infrastructure upgrades, environmental investment, land development, and off-farm diversification are all potential uses. The way farmers allocate this capital will shape both farm resilience and regional economic activity over the next 12 to 24 months.

Figure 1: Milksolids production by Island (kg)



Margins remain positive, but cost discipline still matters

While the income outlook has strengthened, costs remain elevated compared with in 2021-22. Farm working expenses continue to sit high, particularly for fertiliser, feed and energy. Although interest costs have eased from their recent peak, they remain materially higher than during the ultra-low-rate period. As a result, breakeven milk prices remain elevated.

Regional feedback suggests farmer sentiment is positive, but still cautious. Recent improvements in Global Dairy Trade outcomes have supported confidence after the series of price declines seen through late 2025. However, most farmers remain conscious of how quickly international markets can turn. In short, the margin story is favourable, but prudent financial management remains central.

Global uncertainty remains the key swing factor

Geopolitical risks have re-emerged as a material watchpoint. Tensions affecting major global shipping and energy routes highlight how exposed food systems remain to energy and freight disruptions. Any sustained rise in oil prices or shipping costs will flow through to fertiliser, transport and on-farm input prices.

For New Zealand dairy farmers, this creates a two-sided exposure. Strong global dairy prices lift farm revenue, but global energy, fertiliser and freight shocks can quickly compress margins.

New Zealand remains a highly export-oriented dairy producer. That exposure brings opportunity when global markets are strong, but it also means external shocks transmit quickly to the farmgate.

The coming quarter will reveal how farmers balance consolidation and reinvestment in what is shaping up to be one of the stronger cashflow years in recent times.

EconTracker 2025-26 season forecast update

Farm working expenses for Season 2025-26 are forecast at $5.66/kgMS, reflecting ongoing pressure in key inputs such as fertiliser and supplementary feed, as well as the impact of a relatively weak New Zealand dollar on imported farm inputs. Interest costs have eased from their recent peak as monetary conditions soften, with interest and rent estimated at $1.16/kgMS, helping to partially offset higher operating costs.

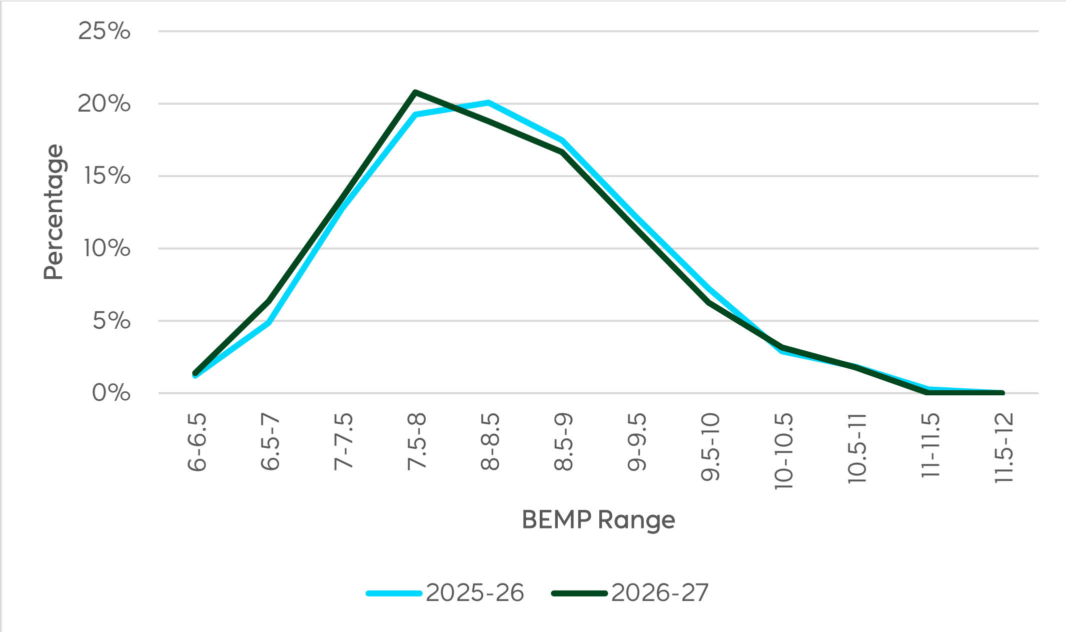
Taking these factors together, total expenses (excluding principal and capital) are estimated at $9.09/kgMS, resulting in a forecast breakeven milk price of $8.36/kgMS for the average owner-operator farm. With the expected payout received of $9.92/kgMS, this implies an average surplus of around $1.56/kgMS for the current season.

Looking at the season ahead

Looking ahead to the 2026-27 season, we are forecasting a slightly lower average payout received. Key costs are forecasted to come down marginally reflected in slightly lower breakeven milk price at $8.31/kgMS.

Overall, while margins are expected to tighten slightly compared with the current season, 2026-27 remains a strong cashflow year for many dairy farms, supported by firm milk prices, solid production levels, and easing interest costs.

Figure 2: Shift in the distribution of BEMP



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

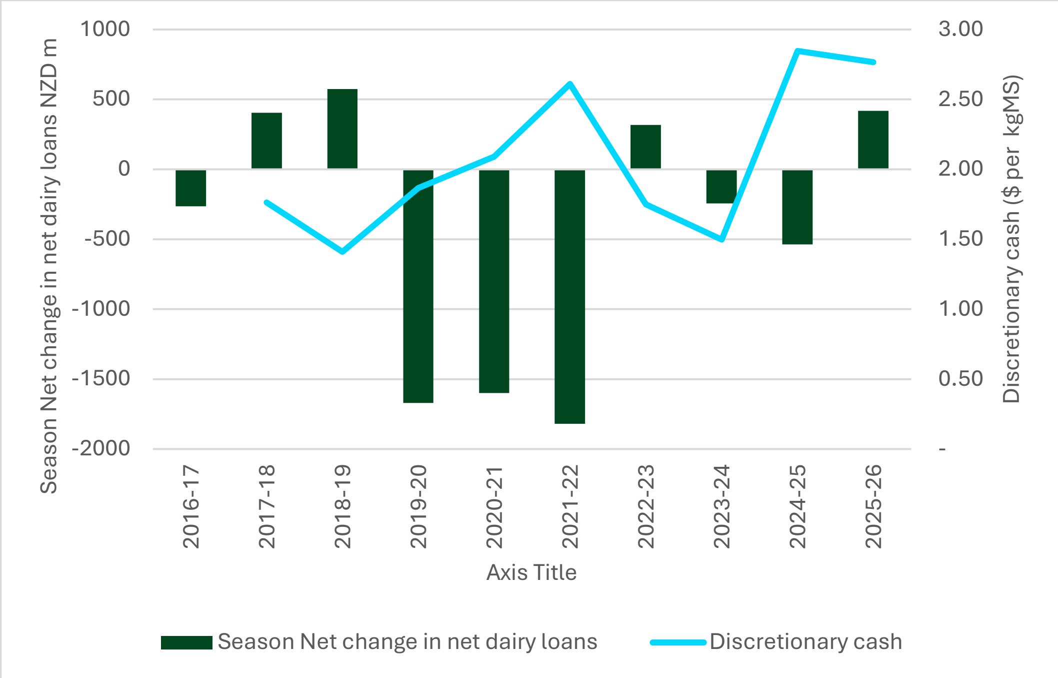
It is important to note that BEMP of $8.36/kgMS is nation average for owner-operator farms for 2025-26 season. Figure 2 shows the distribution of BEMP ranging from $6/kgMS to $12/kgMS in extreme cases for the current season 2025-26 and the next season.

Trends in dairy-sector bank lending

The graph below shows the annual net change in dairy-sector bank lending, highlighting periods of debt repayment across seasons from 2019-20 to 2024-25. A combination of relatively high discretionary cash available for debt repayment, signals of tighter environmental regulation, and lower interest rates has contributed to the reduction in dairy debt in recent years.

In contrast, seasons such as 2017-18, 2018-19 and 2022-23 show modest increases in net borrowing, reflecting lower discretionary cash available for debt repayment. In those years, higher input costs driven by inflation and rising interest rates put greater pressure on farm cashflow. Overall, the pattern points to a period in which dairy farmers have placed a strong emphasis on debt reduction, reflecting financial prudence and a focus on longer-term business resilience.

Figure 3: Trends in dairy-sector bank lending: seasonal patterns in net lending



Source: DairyBase and RBNZ (Banks: Assets - Loans by purpose - S31)

Looking ahead, the strong discretionary cash projected for the 2025-26 season, together with the substantial cash injection expected to be paid to Fonterra's supplying shareholders through both capital divestment proceeds and the special dividend, creates a strategic opportunity for farmers.

Depending on the goals and lifecycle stage of each farm business, this capital could be allocated toward strengthening financial resilience through debt reduction or building cash reserves to manage short- or medium-term headwinds. Alternatively, it could be directed toward infrastructure upgrades, environmental improvements, land development, or off-farm diversification.

How farmers choose to deploy these funds and the extent to which this capital is ultimately directed toward debt repayment remains to be seen.

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