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Innovation influencing dairy farming as sector faces supply constraints

Australia's dairy sector remains structurally supply constrained, with milk production forecast to fall from around 8.3 billion litres to just over 8.1 billion litres, according to ANZ's Autumn Commodity InFocus report.

Over the same period, the milking herd is forecast to decrease by around two per cent, falling from approximately 1.31 million cows to about 1.29 million.

Despite this, total dairy gross value of production is forecast to rise from around \$5.4 billion in 2024/25 to about \$5.9 billion in 2025/26.

Income growth is therefore being sustained by higher prices and rising yield per cow, rather than by expansion in cow numbers or milk volumes.

ANZ Head of Agribusiness, Mark Bennett, said: "This is the outcome of an industry in which scarcity is increasingly shaping prices, production decisions and investment behaviour. At the same time, the Australian dairy industry remains highly adaptive, with innovation, productivity focus and capital discipline increasingly central to how producers respond to this tighter supply environment.

"Although we continue to hear about a shrinking milk pool and declining dairy farmer numbers in Australia, the farmers heavily invested and committed to dairy are highly successful, forward-thinking businesses that are currently among the most profitable in agribusiness."

Jonno Hewitt of Longroad Dairy Pty Ltd in South West Victoria says understanding your competitive advantage is key to success.

"It is the one percenters and two percenters that make the difference. For us, grass is our cheapest feed, and we target utilisation of 70% home grown and conserved feed. We don't have irrigation but we have high rainfall – this drives our production system and we try to utilise this to our best advantage."

Mr Hewitt adds that innovation is influencing the future of dairy farming.

"Across the industry, there is significant opportunity for the increased usage of technology such as virtual fencing collars, which enable farmers to manage and monitor cattle without the need for physical fencing.

"These collars are already having an impact, particularly with new legislation for virtual fencing in Victoria, which is already part of the landscape in Tasmania."

"Looking at competitive advantages, the priority is to grow as much pasture as you can to convert to milk. Besides the herd health and staff benefits, if pasture utilisation and pasture growth management can be enhanced through the use of virtual fencing collars, even if the financial returns are not fully known yet, the intangibles are becoming evident," Mr Hewitt said.

Further insights are available in the 2026 Autumn edition of ANZ's Agri InFocus Commodity Insights report.

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