



**SUMMARY OF THE KEY MARKET SIGNALS FOR
THE DAIRY INDUSTRY,
FEBRUARY 2023 EDITION**

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SYNOPSIS

Following the major changes in the world due to Covid, the situation in the world changed dramatically at the end of February 2022, due to the invasion of Ukraine by Russia and the reactions of other countries to the invasion. These developments and the increased tension between the Western world and China:

- Dramatically increased the level of uncertainty about future developments in the world; and
- Impacted negatively on economic growth in the world, prices of food, other products and energy, international trade and trade relations between countries.

The duration and outcome of the conflict created by Russia is unknown, and further escalation of the conflict and the negative impact of the conflict on economic growth in the world, is possible. It is known that even when the conflict came to an end, some of the negative consequences of the conflict, will continue in the medium term and most likely also in the long term. Also, Covid did not disappear from the world and it recently disrupted economic activity in China.

The price index for dairy products of the Food and Agricultural Organisation (FAO), which measures the price movements of a basket of dairy products in the international market, increased in 2021 to levels higher than in the previous seven years. This increase continued in the first half of 2022, but from June 2022 to November 2022, it decreased by 8.51 percent to a level which is 9.0 percent higher than November 2021 and 30.37 percent higher than November 2020. Following an increase from November to December 2022 of 0.58 percent, the index decreased to a level in February 2023, which is 7.20 percent lower than in February 2022, but 16.09 percent higher than in February 2021.

According to the FAO, the reduction in the price index of dairy products, is the result of “the continued weakness in global import demand” and “increase in exportable supplies”.

In 2020, in the situation created by COVID and the lockdown measures of Government, the performance (in terms of sales quantity and retail price), in the South African retail market of specific dairy products namely, UHT (long life) milk, yoghurt, maas, pre-packaged cheese, cream cheese, butter and cream, were higher than in 2019, while the opposite was true in respect of fresh and flavoured milk.

Two years ago, namely in the February 2021 edition of the “Summary of the Key Market Signals for the Dairy Industry”, it was stated that it should not be assumed that the good performance of most dairy products as achieved in 2020, will continue as, amongst other, “the lower level in South Africa of economic activity resulting from COVID, and of which the full extent will only be known later”, can impact negatively “on the demand for food products including dairy products”.

The good performance of dairy products in the South African retail market in 2020, did not continue in 2021 and in 2022 (the latest available information is in respect of December 2022).

In 2021, the retail sales quantities of eight of the nine dairy products, of which the retail sales are monitored, were lower than in 2020.

SYNOPSIS (Continued)

In 2022, the retail sales quantities of six of the nine dairy products, namely fresh milk, flavoured milk, yoghurt, cream cheese, butter and cream, were from 2.1 to 7.7 percent lower than in 2021, while the retail sales quantities of three of the dairy products, namely UHT milk, maas and pre-packaged cheese, were from 0.05 to 1.2 percent, higher. The retail sales prices of the nine dairy products increased in the year which ended in December 2022, with from 6.7 percent to 13.2 percent. The price increases of eight of the nine dairy products were higher than the inflation rate of 7.2 percent in the year which ended in December 2022, but lower than the inflation rate of processed food of 15.7 percent in the same period.

The decrease in the retail sales quantities of most dairy products in South Africa, is linked to the erosion of the purchasing power of consumers by widespread increases in the prices of consumer goods and services, poor service delivery by the public sector and weak economic growth during the last five years. Also see paragraph 56 of the report, regarding yoghurt and dairy snacks. (The gross domestic product (GDP) of South Africa in 2022, was only 0.57 percent higher than in 2018 and only 0.26 percent higher than in 2019, while the GDP in 2021 and 2020, was lower than in 2018 and 2019).

The producer price index of dairy products as published by Statistics SA, fluctuated from month to month and:

- In the year which ended in December 2020, it increased by 1.60 percent;*
- In the year which ended in December 2021, it increased by 10.66 percent; and*
- In the year which ended in December 2022, it increased by 12.12 percent.*

According to Milk SA, the mass of production in South Africa of unprocessed milk in 2021, was 0.71 percent lower than in 2020, 0.86 percent lower than in 2019 and 0.21 percent lower than in 2018. The decrease from 2020 to 2021, was due to lower production in seven of the first eight months of 2021. The production in the last four months of 2021, was respectively 1.3 percent, 1.9 percent, 2.8 percent and 1.4 percent higher than in the same months of 2020.

The lower production in South Africa of unprocessed milk in 2021, relative to the production in 2020, should be considered, taking into account:

- The retail sales quantities in 2021, of most dairy products, were lower than in 2020 and thus the demand for unprocessed milk for the production of these dairy products, was also lower; and*
- The sharp rise in the prices of feed for dairy cattle in the second half of 2020, of which the impact was limited by the increase in the price of unprocessed milk in the last quarter of 2020 and in the first half of 2021.*

The mass of the production of unprocessed milk in South Africa in 2022, was 1.56 percent lower than in 2021, 2.26 percent lower than in 2020 and 2.41 percent lower than in 2019.

SYNOPSIS (Continued)

The lower production of unprocessed milk in 2022, relative to 2021, is due to lower production in nine months and only the production in January, July and August 2022, was higher. The lower production of unprocessed milk in 2022, is linked to the lower demand for most dairy products, the high costs of inputs required for the production of unprocessed milk and periods of unfavourable weather in major production regions.

In January 2023 and February 2023, the mass of the production of unprocessed milk, was respectively 2.2 percent lower and 1.9 percent higher than in the same months of 2022 (the latest available information is in respect of February 2023).

The production of unprocessed milk in South Africa and in other countries, is seasonal. In South Africa, the highest production per day occurs in October or November and the lowest in April, May or June. The average difference between the highest and lowest production per day in the fourteen years from 2008 to 2022, was 34.4 percent.

The extent of the seasonal decrease in the production of unprocessed milk in South Africa from October 2021 to June 2022, of 30.5 percent, was higher than the average decrease of 23.1 percent in the same periods of the years 2008/2009 to 2020/2021, and also higher than the previous highest decrease of 26.2 percent, which was recorded in the period October 2019 to June 2020.

The extent of the seasonal increase in the production of unprocessed milk in South Africa, in the fifteen years from 2008 to 2022, measured from July to October, varied from 24.2 percent in 2010, to 35.8 percent in 2021, while the average increase in the years 2008 to 2021, is 29.2 percent. According to figures of Milk SA, the increase from July to October 2022, was 34.0 percent, which is the third highest increase in the fifteen years from 2008 to 2022.

The producer price index of unprocessed milk, as published by Statistics SA, fluctuated from month to month and:

- In the year which ended in December 2020, it increased by 10.57 percent;*
- In the year which ended in December 2021, it increased by 10.32 percent; and*
- In the year which ended in December 2022, it increased by 16.39 percent.*

The relationship between the producer price index of unprocessed milk and the index of the feed price indicator (feed for dairy cattle), is an important indicator at a macro level, of the level of encouragement for the production of unprocessed milk.

In 2022, the index of the feed price indicator moved close to the producer price index of unprocessed milk, but in January 2022 as well as from September 2022 to December 2022, the first mentioned was higher. This position, together with the sharp increases in the prices of other inputs such as fertilizers, fuel and electricity, offers less encouragement for the production of unprocessed milk, than in 2021 and in especially 2017, 2018 and 2019.

SYNOPSIS (Continued)

The future prices of maize and soya, achieved in South Africa on 17 February 2023, indicate that a continuation of high prices for concentrated feed for dairy animals, should be expected.

In 2018, 2019, and 2020, the producer price index of unprocessed milk was at lower levels than the producer price index of dairy products. In 2021 and 2022, the producer price index of unprocessed milk was respectively in nine and in ten months higher than the producer price index of dairy products. In January 2023 (the latest available information is in respect of January 2023), the producer price index of unprocessed milk was higher than that of dairy products.

The producer price index of unprocessed milk was, in the eight years from January 2015 to December 2022:

- With the exception of one month in 2015, higher than the retail price index of UHT milk;
- Moved in 2015, 2016 and 2017, close to the retail price index of fresh milk, in nine months of 2018, in 2019 and in 2020 it was lower, in the first eight months of 2021 it was higher, in September 2021 to December 2021, it was more or less on the same level as the retail price index of fresh milk, and in January to December 2022, the producer price index of unprocessed milk was higher than the retail price index of fresh milk;
- Higher than the retail price indices of pre-packaged cheese and maas; and
- With the exception of the period August 2018 to September 2018 and in the period November 2018 to February 2019, higher than the retail price index of yoghurt.

The factual position that the South African dairy industry is confronted with, as shown by the information available up to 20 March 2023, corresponds with the factual position described in the November 2022 edition of "Summary of the Key Market Signals for the Dairy Industry", namely:

- High levels of uncertainty about future economic growth and political developments internationally and in South Africa;
- Interrupted supply of electricity which created higher costs and other disruptions;
- Consumer purchasing power eroded by the increases of administrated and other prices and slow economic growth;
- Weak demand for most dairy products in terms of quantity;
- Lower production of unprocessed milk in 2022, than in 2019, 2020 and 2021 and a very unfavourable relationship between the index of the feed price indicator and the producer price index of unprocessed milk;
- Input cost increases experienced by the primary and secondary dairy industries, are higher than the increases of the prices of unprocessed milk, processed milk and of other dairy products; and
- Uncertainty about the extent of the negative impact of higher prices for dairy products, on the demand for dairy products and thus, on the demand for unprocessed milk.

SYNOPSIS (Continued)

In essence, the South African primary and secondary dairy industries, like many other South African industries, are under severe pressure, due to:

- *Interruptions in the supply of electricity and the increased costs and other disruptions created by it;*
- *Poor service delivery by the public sector and in particular cases, the absence of service delivery, including lack of maintenance of infrastructure;*
- *High input prices;*
- *Consumer demand weakened by widespread increases in the prices of consumer goods and services and poor economic growth;*
- *Uncertainty about the extent of the negative impact of higher prices for dairy products, on the demand for dairy products and thus on the demand for unprocessed milk, amidst the erosion of purchasing power of consumers due to widespread increases in the prices of consumer goods and services as well as poor economic growth; and*
- *High uncertainty about future economic growth and political developments.*

Simply said

- In the immediate future, high input costs, weak demand and poor service delivery by the public sector, as well as a high level of uncertainty, will be the position in which the South African dairy industry will have to operate.

