



OBSERVATIONS IN RESPECT OF THE STATISTICAL INFORMATION REGARDING THE PERFORMANCE OF THE DAIRY INDUSTRY, PRESENTED TO THE GENERAL MEETING OF SAMPRO ON 22 JULY 2021

1. The next edition of the quarterly report of SAMPRO titled “Summary of Key Market Signals for the Dairy Industry”, will cover the quarter which ends in August 2021.
2. Against the background of the previous paragraph, the purpose of this report is only to capture a number of important observations in respect of the set of 30 tables and 19 graphs, presented to the General Meeting of SAMPRO on 22 July 2021. Copies of the graphs and tables can be obtained from the Office of SAMPRO (yvonne@sampro.co.za).
3. The price index of a basket of dairy products traded internationally, as published by the Food and Agricultural Organisation (FAO), increased in the twelve months up to May 2021, to a level 27.9 percent higher than in May 2020, 13.3 percent higher than in May 2019 and 8.8 percent higher than in May 2018.
4. From May 2021 to June 2021, the FAO Price Index of dairy products decreased with 1.2 percent, to a level which is 21.97 percent higher than in June 2020, 16.52 percent higher than in June 2019 and 6.76 percent higher than in June 2018.
5. The comments of the FAO in respect of the decrease in the price index for dairy products from May 2021 to June 2021, are as follows:

“In June international quotations for all dairy products represented in the index fell, with butter registering the highest drop, underpinned by a fast decline in global import demand and a slight increase in inventories, especially in Europe. Whole milk powder prices declined on reduced purchases by China and lower demand for spot supplies, while global export availabilities remained adequate to meet existing orders. International quotations for cheese and skim milk powder declined slightly also on reduced global import demand amid somewhat higher export supplies from major producing regions.”

6. The movements of the prices in the international market of the different types of dairy products, differ. In recent months, the price of butter decreased significantly, while the price of cheddar cheese, full cream milk powder and skimmed milk powder also decreased, but to a lesser extent as is the case with butter.

7. The prices of major dairy products for future delivery, achieved at the Global Dairy Trade Auction on 6 July 2021, show the following:
- The price of whole milk powder decreases with 5.05 percent from September 2021 to November 2021, increases slightly from November 2021 to December 2021, but decreases from December 2021 to January 2022, to a level which is 7.29 percent lower than in September 2021;
 - The price of skimmed milk powder moves sideways from September 2021 to January 2022, within a band of prices of which the highest is 2.72 percent higher than the lowest;
 - The price of cheddar cheese decreases with 8.0 percent from September 2021 to November 2021 and from November 2021 to December 2021, it increases with 12.5 percent to a level which is 3.44 percent higher than in September 2021. From December 2021 to January 2022 the price decreases with 0.42 percent to a level which is 3.05 percent higher than in September 2021; and
 - The price of butter decreases with 4.26 percent from September 2021 to October 2021, from October 2021 to November 2021, it increases with 3.1 percent followed by a sideways movement up to January 2022. The price in January 2022, is 0.94 percent lower than in September 2021.
8. The average price of unprocessed (raw) milk in the European Union (EU), the biggest exporter of dairy products, was from March 2020 to December 2020, lower than in 2019¹). In January 2021 and February 2021, the price of raw milk in the EU was lower than in the same months of 2020, but in March 2021 to June 2021, it was higher than in 2020.
9. The latest available information about the retail sales of dairy products in South Africa, is in respect of March 2021. As indicated in the May 2021 edition of “Summary of Key Market Signals for the dairy industry”:

“The good performance of dairy products in the retail market in 2020, did not continue in the first quarter of 2021, as:

- *The retail sales quantities of five of the nine dairy products were lower than in the same quarter of 2020; and*
- *The retail sales prices of five of the nine dairy products decreased in the quarter concerned.”*

1. *Note that the prices for raw milk in different member states of the EU differ, and that the prices paid for raw milk by the different milk processors in any member state, also typically differ.*

10. The information in respect of the retail sales of dairy products in South Africa in the quarter which ended in June 2021, is expected to be available soon.
11. The performance of dairy products in the South African retail market in die quarter which ended in March 2021, does not support optimistic views regarding the retail sales of dairy products in the rest of 2021²⁾ and major uncertainties regarding the economic performance and social stability of South Africa, exist³⁾.
12. According to Milk SA, the production of raw milk (raw milk purchases) in South Africa in 2020, was 0.16 percent lower than in 2019, 0.49 percent higher than in 2018 and 5.33 percent higher than in 2017. The decrease from 2019 to 2020, is the result of lower production in eight of the twelve months of 2020.
13. The lower production of raw milk in 2020 in South Africa, relative to the production in 2019, should be seen against the background of especially the following:
 - The uncertainty about the impact of COVID-19 on the demand for dairy products and thus the demand for raw milk, which existed in 2020. Essentially this position discouraged, at any point in time during 2020, optimistic views about the future demand for dairy products and the future demand for raw milk, and thus the justification for significant stimulation of production of raw milk through price increases; and
 - The unexpected sharp increases of the prices of maize and soya in the second half of 2020, which are the basis of important ingredients of feed for dairy cattle and which eroded the positive impact of the increase of the prices of raw milk which took place.
14. In the first six months of 2021, the estimated production of raw milk in South Africa was 3.46 percent lower than in the same months of 2020, due to the lower production in five of the six months.

2. *Increased retail sales can be the result of greater consumer preference for dairy products due to:*

- *lower prices and/or*
- *factors other than price and/or*
- *higher consumer income.*

Lower prices for dairy products seem to be an unlikely scenario, increased preference for dairy products due to other factors than price, most likely played out in 2020 and it will take time before the level of economic activities reach the pre-COVID level.

3. *Major reasons for the uncertainty include the future developments in respect of COVID, policy disputes and the political conflict and related social instability.*

15. The production of raw milk in South Africa, is just like in other countries seasonal, with high production in summer and low production in winter. In South Africa, in the thirteen years, 2008 to 2020:
- The highest production per day per month was in October (eleven years), or November (two years);
 - The lowest production per day per month was in April (three years), May (three years), or June (seven years); and
 - The highest production per day per month was on average 33.0 percent higher than the lowest. The highest difference of 39.5 percent was recorded in 2017, whilst the lowest of 25.2 percent, was recorded in 2015.
16. The seasonal decrease from October 2020 to April 2021, was 24.5 percent which is slightly higher than the previous highest of 24.4 percent recorded in 2008/2009, as well as in 2019/2020. The seasonal decrease from October 2020 to June 2021 (note that the figures for May 2021 and June 2021 are estimated figures) of 29.0 percent, is higher than the previous highest decrease of 26.2 percent recorded in 2019/2020 and the average decrease in the years 2008/2009 to 2019/2020 of 22.7 percent.
17. In 2020, the producer price index of raw milk in South Africa decreased in three months, remained the same in two months and increased in seven months. The net result is that the price index in December 2020, was 10.6 percent higher than in December 2019.
18. In the first five months of 2021, the producer price index of raw milk in South Africa increased and the price index in May 2021, was 18.9 percent higher than in December 2020. In the year which ended in May 2021, the producer price index of raw milk increased with 21.7 percent.
19. Higher prices of feed for dairy cattle in South Africa, due to increased prices for maize and soya, eroded in 2020 the effect of the increased prices for raw milk, on the volume of raw milk production.
20. Due to the decrease in the prices of maize and soya in South Africa in the first five months of 2021, and the sharp increase in the price of raw milk in the same period, the price index of raw milk, was in February 2021 to May 2021 higher than the index of the feed price indication.
21. Regarding the relative movements of the producer price index of raw milk and the producer price index of dairy products, the available information shows that in 2018, 2019 and 2020 the producer price index of raw milk was lower than the producer price index of dairy products, but from January 2021 to May 2021 (the latest available information is in respect of May 2021), the opposite is true. In the year which ended in May 2021, the producer price index of raw milk increased with 21.7 percent, while the producer price index of dairy products increased with 3.2 percent.

22. In the last nine months of 2018, as well as in 2019 and 2020, the producer price index of raw milk was lower than the retail price index of fresh milk, but higher than the retail price indices of UHT milk, yoghurt, maas and pre-packaged cheese. This position changed and since January 2021, the producer price index of raw milk is also higher than the retail price index of fresh milk.
23. The recent destruction of property and blockage of roads in mainly KwaZulu Natal, in which approximately 27 percent of the total production of raw milk in South Africa occurs, resulted in amongst other:
- Loss of production of raw milk and dairy products;
 - Significant damage to retail shops and the banking facilities; and
 - Significant damage in respect of the viability of many businesses including businesses in the dairy industry.
24. The full impact of the damages caused, will soon be clear, but it is realistic to expect that time will be required to repair the damages caused to, for example, the infrastructure and stocks of suppliers of inputs to the dairy industry, and the retail and banking facilities.
25. In the next few months, the South African dairy industry will be confronted by:
- The uncertainty regarding the unfolding impact of COVID-19 on human behaviour, service delivery by the public sector and the economy;
 - The normal sharp seasonal rise in production of raw milk. In the thirteen years 2008 to 2020, the average growth in the production of raw milk from July to October, was 28.7 percent, the lowest increase of 24.6 percent was recorded in 2008, and the highest of 34.3 percent, was recorded in 2017;
 - The impact of the expected low level of economic activity in South Africa on the demand for dairy products. The performance in the first quarter of 2021 of most dairy products in the retail market, does not support optimistic views regarding the demand in the coming months for dairy products. (See paragraph 11 and footnotes 2 and 3 in respect of paragraph 11). Although it is expected that the South African economy will grow in 2021, the level of economic activity will remain lower than in 2019; and
 - Uncertainties about the consequences of political differences and push back against the fight against corruption and poor service delivery.

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