# SUMMARY OF

# THE KEY MARKET SIGNALS FOR THE DAIRY INDUSTRY,

**(Only the Synopsis and Introduction of the Report)**

# NOVEMBER 2022 EDITION

## *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:*

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

*The duration and outcome of the conflict created by Russia is unknown, and escalation of 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.*

*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 with 8.45 percent to a level 13.16 percent higher than November 2021 and 31.57 percent higher than November 2020.*

*According to the FAO, the reduction in the price index of dairy products, from June to October 2022, is the result of "weak import demand" and uncertainty about future demand for dairy products.*

*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, 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.*

*Twenty-one months 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 the first three quarters of 2022 (the latest available information is in respect of September 2022). In the year which ended in September 2022, the retail sales quantities of six of the nine dairy products, of which the retail sales are monitored, were from 1.7 to 8.0 percent lower than in the previous year. The retail sales prices of the nine dairy products increased in the year which ended in September 2022, with from 5.1 percent to 10.0 percent and the price increases of three of the nine dairy products were lower than the inflation rate in the year which ended in September 2022, of 7.5 percent.*

## *SYNOPSIS* *(Continued)*

*The producer price index of dairy products as published by Statistics SA, fluctuates 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 first ten months of 2022, it increased by 17.91 percent.*

*According to Milk SA, the production of unprocessed milk (unprocessed 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 marginal decrease from 2019 to 2020, was the result of lower production in eight of the twelve months of 2020.*

*The lower production of unprocessed 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 on the economy, as well as on the demand for dairy products and thus the demand for unprocessed 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 unprocessed milk, and thus the justification for the stimulation of production of unprocessed milk through price increases;*
- *The unexpected sharp increases in 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 unprocessed milk which took place; and*
- *The high increases in the production of unprocessed milk in 2017 and 2018, of respectively 3.02 percent and 4.82 percent, and from 2016 to 2019 of 8.6 percent.*

*The 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.*

## *SYNOPSIS (Continued)*

*The latest information about the production of unprocessed milk in South Africa, available from Milk SA, indicates that the estimated production from January to October 2022, was 0.54 percent lower than in the same months of 2021, 1.89 percent lower than in the same months of 2020 and 2.06 percent lower than in the same months of 2019.*

*The lower estimated production of unprocessed milk in the first ten months of 2022, relative to the same months of 2021, is due to lower production in the five months from February to June 2022, as well as in October 2022 (estimated figure), as the production in January, July and August 2022, as well as the estimated production in September 2022, was higher. The net effect of these changes is that the production in the first and second quarters of 2022, were lower than in the same quarters of the previous four years, while the estimated production in the third quarter of 2022, was higher than in the same quarters of the previous thirteen years.*

*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 2021, was 33.8 percent.*

*The extent of the seasonal decrease in the production of unprocessed milk in South Africa from October 2021 to June 2022, which is, according to the figures of Milk SA, 30.5 percent, is higher than the average decrease of 23.1 percent in 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 fourteen years from 2008 to 2021, measured from July to October, varied from 24.2 percent in 2011, to 35.8 percent in 2021, while the average increase in the years concerned, is 29.2 percent. According to estimated figures of Milk SA, the increase from July to October 2022, was 34.0 percent.*

*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 first ten months of 2022, it increased by 14.57 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.*

## *SYNOPSIS (Continued)*

*In the ten months from January to October 2022 (the latest available information is in respect of October 2022), the index of the feed price indicator moved close to the producer price index of unprocessed milk, but in January 2002 as well as in September 2022 and October 2022, the first mentioned was higher, due to the sharp increase in the index of the feed price indicator. This position, together with the sharp increases of the prices of other inputs such as fertilizers, fuel and electricity, offer less encouragement for the production of unprocessed milk, than in 2021 and in especially 2017, 2018 and 2019.*

*The future prices of maize and soya, achieved in South Africa on 8 November 2022, 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, from January 2021 to August 2021 and in November 2021, it was on higher levels, but in September 2021, October 2021 and December 2021, it was lower. In January 2022 to July 2022, the producer price index of unprocessed milk was again higher than the producer price index of dairy products but in September and October 2022, it was lower.*

*The producer price index of unprocessed milk was, in the seven years and nine months from January 2015 to September 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 September 2022, the producer price index of unprocessed milk was higher than the retail price index;*
- *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 South African primary and secondary dairy industries, like many other industries, experienced sudden and unexpected increases in the prices of important inputs like, fertilizer, chemicals, packaging materials, electricity, fuel and capital equipment. Some of these price increases are the result of developments in international markets, while others are linked to events in South Africa, like the damages caused by the riots in July 2021, and flooding in KZN in 2022, as well as poor service delivery by the public sector in respect of, for example, electricity, water and security. This position puts the South African dairy industry (primary and secondary) under severe pressure.*

## *SYNOPSIS (Continued)*

*The factual position which the South African dairy industry is confronted with, as shown by the information available up to 5 December 2022, corresponds with the factual position described in the May 2022 and the August 2022 editions 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;*
- *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 estimated production of unprocessed milk in the first ten months of 2022, than in the first ten months of 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 higher than the increases of the prices of unprocessed milk, processed milk and of the 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.*

### Simply said

- In the immediate future, high input costs and weak demand as well as high level of uncertainty, will be the position in which the South African dairy industry will have to operate; and
- Approaching the future, a new way of thinking is required, as the world changed dramatically due to initially, Covid and now, the disruption due to the Russian invasion of Ukraine and reactions of other countries to it, which render the thus far general accepted frame of reference, less useful.

# Introduction

1. This report is a quarterly publication of SAMPRO and is prepared by the Office of SAMPRO, independently from the commercial interests of role players in the dairy industry.

2. The purpose of this report is, like the other regular reports of SAMPRO, to make market signals available to all interested parties, in order to promote the effective working of the markets for unprocessed milk and the different other dairy products, as envisaged by the Competition Act and which is in the interest of the consumer, the dairy industry and optimum use of national resources.

3. This report is of a macro nature and the position in South Africa of individual unprocessed milk producers, individual producers of processed milk and individual manufacturers of the other dairy products, can differ from the macro position due to a variety of factors. In the primary dairy industry (the producers of unprocessed milk), differences are the result of factors like production regime (pasture based or total mixed ration), sophistication in respect of the management (in respect of issues such as monitoring of individual animals, feeding, animal health, soil health and pastures), weather conditions, geographical location and the extent to which the producer is involved in the production of other agricultural products, which are complementary to the production of unprocessed milk (like the production of maize and lucerne). In the secondary dairy industry (the producers of processed milk and the manufacturers of the other dairy products), differences are the result of factors like product range, reputation of brand name, exposure to foreign competition, geographical location, as well as productivity in respect of the collection of unprocessed milk, processing, manufacturing and marketing.

4. As a result of, as described in the previous paragraph, the diverse nature of the South African primary dairy industry and the diverse nature of the South African secondary dairy industry, the reaction of the different members of each of the industries to the same set of market signals, can differ.

5. This report presents a summary of information regarding market signals for the South African dairy industry and more comprehensive information is available from the Office of SAMPRO. The information contained in this report, is the information available up to 5 December 2022. 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 different countries to the invasion. The duration and the outcome of the conflict is unknown and escalation of the negative impact of the conflict on economic growth in the world, is possible. It is known that:

    - Thus far, the invasion and actions of countries to the invasion, impacted significantly negatively on economic growth in the world, inflation, international trade and the trade relations between major countries;
    - The negative impact will continue in at least the medium term and most likely in the next decade; and that it
    - Increased to a very high extent, the uncertainty regarding future economic growth in the world, international trade and trade relations between countries.