



SUMMARY OF THE KEY MARKET SIGNALS FOR THE DAIRY INDUSTRY

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SYNOPSIS

International Situation

1. The uncertainty about economic growth in the world and thus about the growth of the dairy industry in the world, is very high relative to previous years due to especially the increase in the intensity of military and other conflicts in the world and the recent changes in the governments of major countries. As a result, predictions about, for example, economic growth and the supply of and demand for dairy products in the world in the near future, should be considered with great caution.
2. The price index of dairy products of the FAQ, which measures the price movements of butter, cheddar cheese, whole milk powder and skimmed milk powder traded in the international market, decreased sharply from the very high levels achieved in the middle of 2022, to much lower levels in September 2023. Subsequently, the FAO price index for dairy products increased up to October 2024 with 24.19 percent, to a level 21.28 percent higher than the level in October 2023 and 6.78 percent lower than in October 2022. This increase was mainly due to a sharp rise in the price of butter and a meaningful increase in the price of cheese.
3. The future prices of dairy products recorded at the Global Dairy Trade Auction on 3 December 2024, for delivery from January 2025 to May 2025, showed fairly sideways movements from January 2025 to May 2025, and the prices in May 2025, are from 3.0 percent lower to 1.0 percent higher than the prices in January 2025.
4. The average price of unprocessed milk in the EU increased sharply during 2022, in 2023 it decreased, in the first seven months of 2024, it moved sideways, followed by an increase up to October 2024. The price in October 2024, is 13.54 percent higher than in October 2023 and 5.40 percent higher than in January 2024.

South African Situation

5. The estimated total mass of the import and export of dairy products in 2024, is lower than in 2023. According to the estimated figures, South Africa will be in 2024, in terms of mass, a net exporter of four of the six types of dairy products, while in most of the previous eight years, South Africa was a net exporter of only two of the six types of dairy products.
6. In the year which ended in September 2024, relative to the previous year, an increase in the retail sales quantities of UHT milk, yoghurt, maas, pre-packed cheese, cream cheese, butter and cream did occur, but the opposite was true in respect of fresh milk and flavoured milk.
7. The increase in the retail sales quantities in the year which ended in September 2024, relative to the previous year, coincided with much lower price increases than in the previous year. In the year which ended in September 2024, the retail price of one dairy product, namely UHT milk, decreased, while the retail price of eight of the nine dairy products, increased and the price increases of five of the eight dairy products, were below the inflation rate of 3.8 percent in September 2024.

8. In the quarter which ended in September 2024, the retail sales prices of four of the nine dairy products decreased and in this quarter, the retail sales quantities of seven of the nine dairy products were higher than in the same quarter of 2023.
9. High increases in 2021, 2022 and in the first half of 2023, of the producer price indices of unprocessed milk and dairy products, as well as high increases in the retail prices of dairy products. These high increases were not the result of higher demand in terms of quantity, as it took place in order to achieve levels of supply of the products concerned, which are more or less equal to the demand (which did not increase) in circumstances of significant increased production, manufacturing, distribution and marketing costs of the products concerned.
10. In 2023, the producer price indices of unprocessed milk and dairy products decreased, followed by increases up to the second quarter of 2024, after which the producer price index of unprocessed milk decreased and the producer price index of dairy products moved sideways. The net results of these price movements were that the producer price indices in October 2024 of unprocessed milk and dairy products, were respectively 1.7 percent lower and 2.6 percent higher, than in October 2023. The tempo of the increase in the producer price indices in the year which ended in October 2024, was thus much lower than before. Similarly, the tempo of the increases of the retail prices of dairy products in the year which ended in September 2024, decreased and the retail price of one dairy product, namely UHT milk, decreased.
11. Lower production of unprocessed milk in 2023, than in 2019, 2020, 2021 and in 2022. The estimated production in the first ten months of 2024, is higher than in the same months of 2023, as well as in the same months of 2022 and 2021.
12. In 2022, the relationship between the index of the combined price of maize and soybean (major ingredients of concentrated feed for dairy cattle originate from maize and soybean) and the index of the producer price index of unprocessed milk, was very unfavourable in respect of the production of unprocessed milk. The opposite was true in 2023 and in the first seven months of 2024. From July 2024 to September 2024, this position changed unfavourably, due to the decrease in the producer price index of unprocessed milk and the increase in the index of the combined maize and soybean price. Obviously, many variables, other than the prices of maize and soybeans, also influence the production, distribution and marketing cost of concentrated feed for dairy cattle and thus, the prices of concentrated feed for dairy cattle.
13. Since the publication of the May 2024 edition of “Summary of the Key Market Signals for the Dairy Industry”, the optimism in South Africa, in respect of future economic growth and thus about future consumer demand, increased meaningfully due to especially:
 - The establishment of Government of National Unity;
 - The priorities of the Government of National Unity;
 - Lack of loadshedding;
 - Lower fuel prices;
 - Lower inflation; and
 - Expectations regarding lower interest rate.

14. Amidst greater optimism, referred to in the previous paragraph, the following should not be ignored:

- The weak performance of the public sector (state enterprises, provincial and national departments, as well as local authorities) and the considerable time and effort required to increase the performance of the public sector to a level which can support meaningful economic growth;
- The weak financial position of institutions in the public sector and especially of local authorities and state enterprises;
- Likely increased electricity price;
- Weak infrastructure in respect of especially water and transport, due to lack of maintenance during the last two decades and lack of expansion of infrastructure to cater for growth;
- The fragile nature of the Government of National Unity; and
- High levels of uncertainty in South Africa and internationally.

15. In the light of the previous paragraph, it will take time for the positive developments referred to in paragraph 13, to result in meaningful economic growth and an increase in the buying power of consumers. Also, the optimism referred to in paragraph 13 is fragile, the uncertainty about future developments is high and unfavourable developments in South Africa and internationally, can negatively influence the optimism.

16. In respect of the performance of the South African dairy in the immediate future, the following is also important:

- The expected levels of economic growth in South Africa in 2024 and 2025, are positive signals, but the expected growth rates are low and do not signal a strong improvement in the demand for consumer goods, including the demand for dairy products;
- Recent increases in the retail sales quantities of most dairy products coincided with low price increases and price decreases;
- The high production of unprocessed milk and thus higher production of dairy products thus far in 2024, created downwards pressure on prices and the seasonal increase of production from typical June to October (the increase from July to October in the sixteen years from 2008 to 2023, varied from 24.2 percent to 35.8 percent and the average was 29.6 percent), most likely added to the downward pressure on prices; and
- The impact of weather in the summer rainfall region, during the rain fall season which commences in October, on the production of pasture, hay, silage and main ingredients of concentrated feed (like yellow maize) for dairy cattle. In this regard, it is important to note that the available information suggests that the weather conditions in October 2024 and November 2024, the prime planting season in the summer rainfall region, were very unfavourable. This position created upward pressure on the prices of maize and soybean and can result in further upward pressure.

17. In light of the above description of the situation in respect of the dairy industry and the fact that most elements of the situation can change fairly quickly and meaningfully, the relevant variables should continuously be monitored, and changes should timeously be reacted to, in order to ensure that in South Africa, the supply of unprocessed milk and dairy products follows the demand for these products as closely as possible.

CHAPTER 1

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 that of 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 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), composition of milk produced, seasonality of production, 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, including 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, the reputation of the brand name, exposure to foreign competition, geographical location, the productivity and sophistication of equipment and management systems in respect of the collection of unprocessed milk, processing, manufacturing, distribution and marketing, as well as the extent to which the enterprise is involved in the manufacturing, distribution and marketing of products, other than dairy products.
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 the primary dairy industry and different members of the secondary dairy industry, 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 3 December 2024.