



## ***QUARTERLY REVIEW OF THE PERFORMANCE OF THE DAIRY INDUSTRY<sup>1</sup>***

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4th Quarter 2018

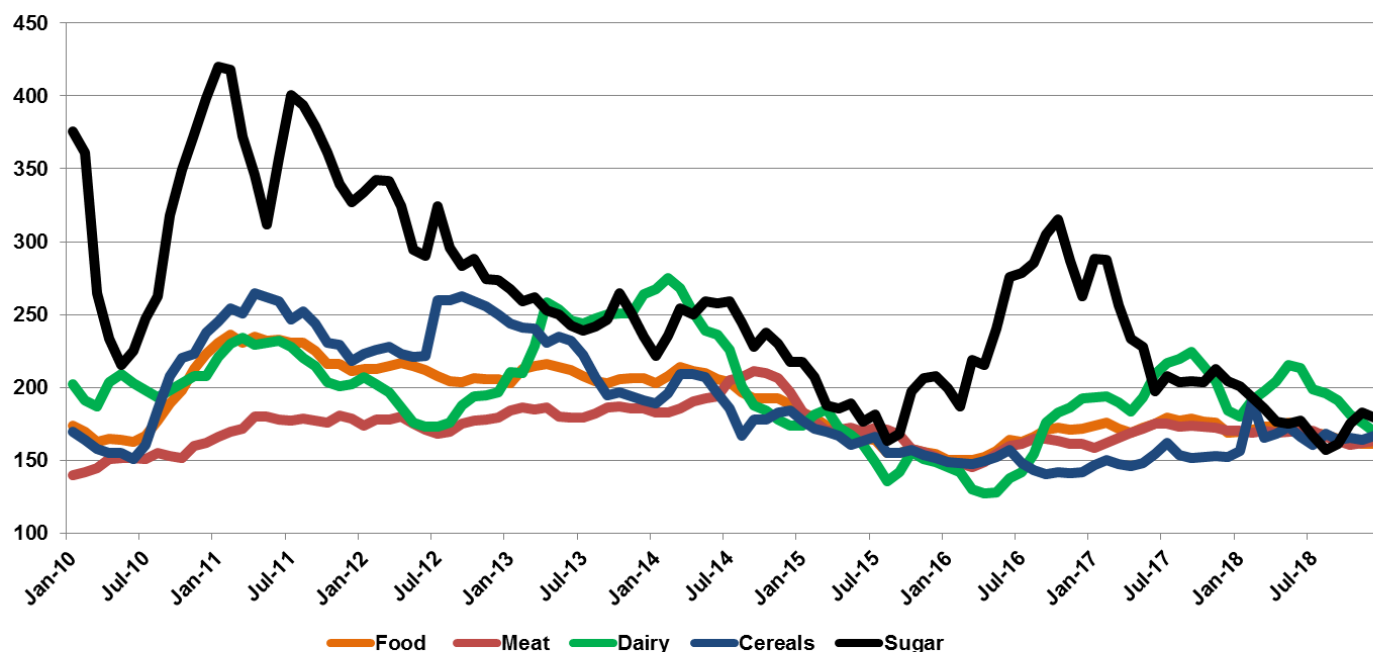
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<sup>1</sup> A publication of Milk SA prepared by the MPO and SAMPRO

## 1. INTERNATIONAL MARKET

**FIGURE 1: FAO FOOD PRICE INDICES, JANUARY 2010 – DECEMBER 2018**

Index (2000 - 2004 = 100)



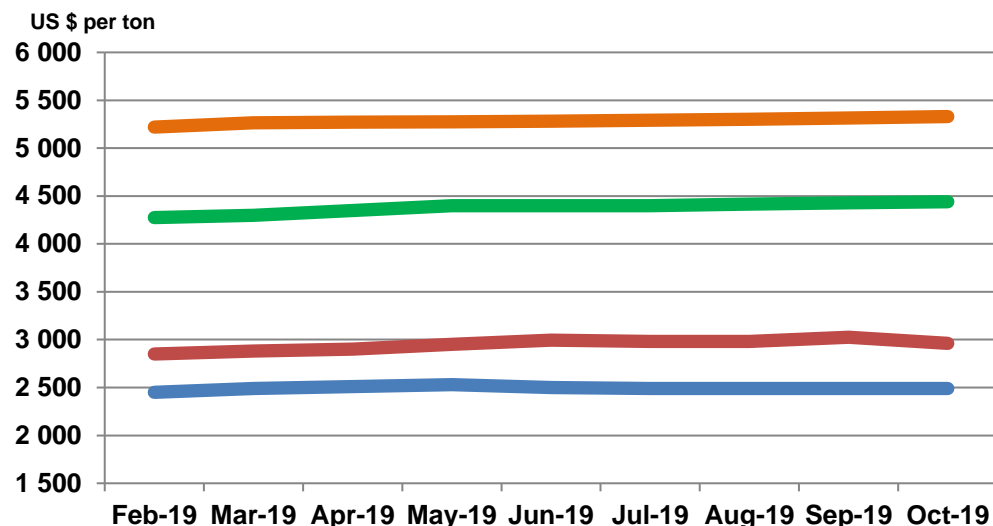
Source: FAO Food price index, 2018

The price index of food and the other foodstuff in figure 1 started to increase since middle 2016 (except sugar), as the world economy started with an expansive cycle that resulted in an increased demand for food. There are shorter cycles evident within the different time series that are food type specific. The sugar spike was a result of adverse weather conditions in South America that created a shortage on the world market. The high volatility of the sugar market is clearly visible in the figure while the meat market exhibits a lower volatility compared to all the other food stuffs.

The dairy index shows strong growth since the middle of 2016 but the growth tapered off at the end of 2017 and is currently moving sideways along the 170 index point level. The cyclical movement in dairy prices are distinctly evident in figure 1. Dairy product prices are on an upward trend since April 2016. During this cycle dairy product prices slowed down, decreased and then continued the upward trend. The index peaked in Sept 2017 on 224 index points, decreased to 190 points in February 2018 and peaked again in May 2018 on 215 index points. In June 2018 dairy product prices started to decrease and the index decreased from 215 points to 170 points in December 2018. The index level for December 2018 is at the same level as in June 2016.

The downward trend in international dairy product prices is now trending for seven consecutive months. Meat, sugar and cereal product prices were less volatile over the last quarter of 2018 indicating reasonable stock levels and a more balanced supply and demand.

**FIGURE 2: FUTURE PRICES FOR DAIRY PRODUCTS ACHIEVED ON THE NEW ZEALAND FUTURES EXCHANGE (NDX) ON 28 Jan 2019: Feb 2019 – Oct 2019**



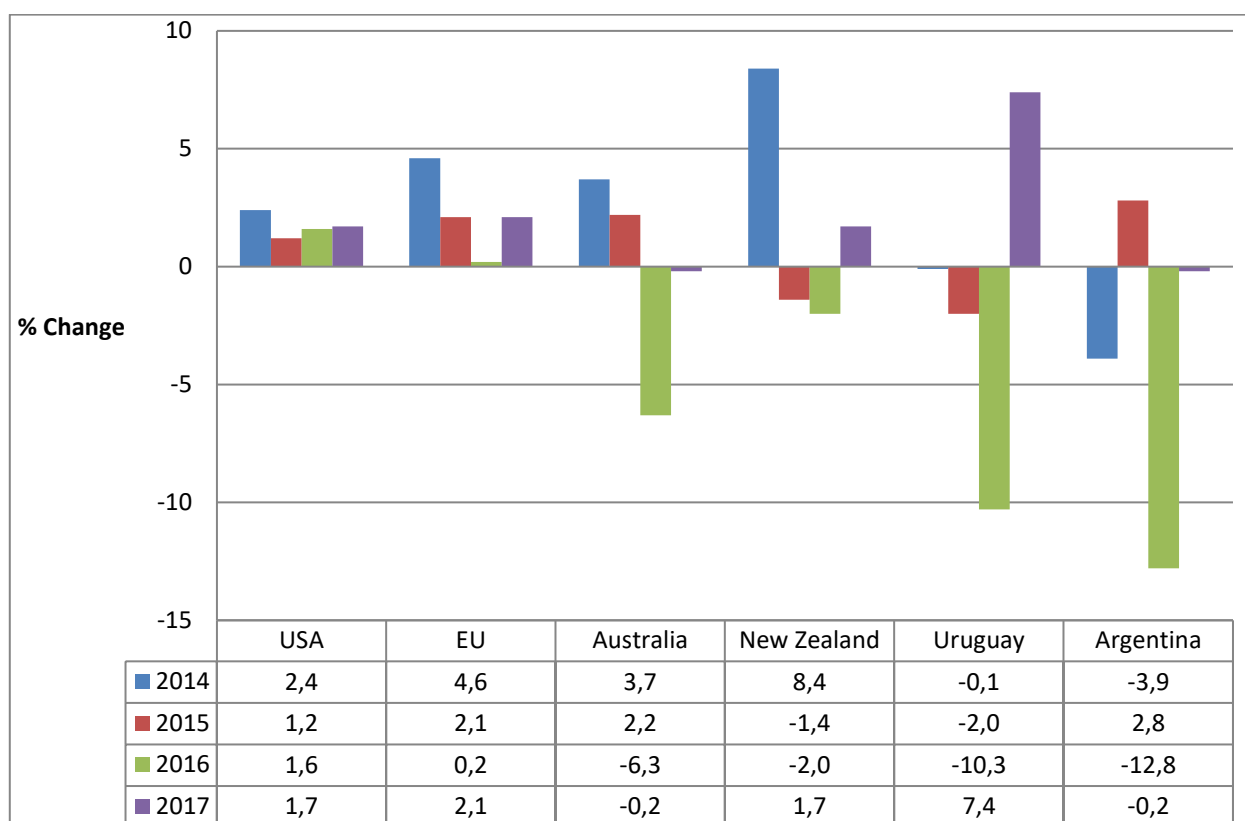
	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19
Skimmed milk powder	2 450	2 490	2 510	2 530	2 500	2 490	2 490	2 490	2 490
Full cream milk powder	2 850	2 880	2 900	2 950	2 995	2 980	2 980	3 025	2 960
Butter	4 275	4 300	4 350	4 400	4 400	4 400	4 415	4 430	4 440
Anhydrous milkfat	5 220	5 265	5 270	5 275	5 280	5 290	5 300	5 315	5 330

— Skimmed milk powder — Full cream milk powder — Butter — Anhydrous milkfat

Source: NZX Futures, January 2018

The New Zealand Future Exchange reflects stable prices for dairy products over the next 9 months. The future trading levels indicate a relative good balance in supply and demand. The higher demand for food resulted in higher prices for food due to the world economy growing at 3.7% in 2017. This stimulated the production of food creating increased supply. Prices started to decrease as supply met demand with volatility consequently decreasing and prices levelled off. The estimated growth of the world economy for 2018 and 2019 is also 3.7% which could leave supply and demand in the food market close to balance barring any unexpected events in the big food producing countries/regions relating to climate, policies, politics, etc.

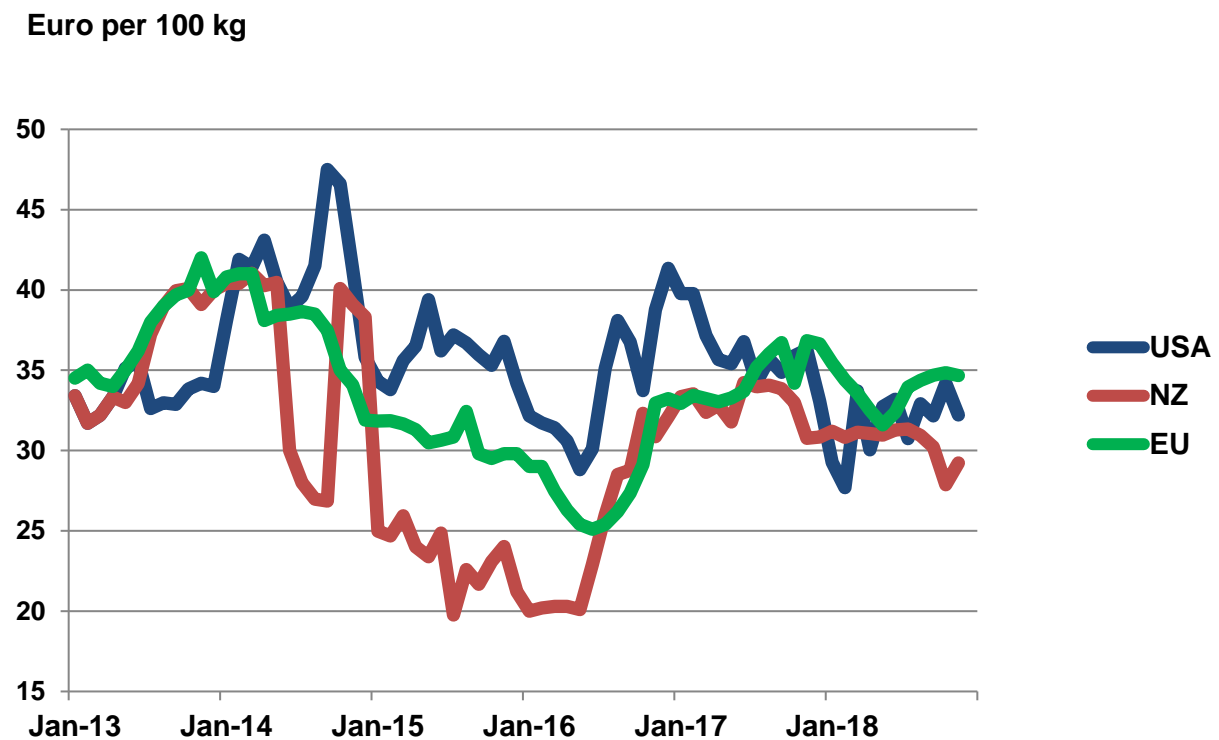
**FIGURE 3: YEAR ON YEAR CHANGE IN UNPROCESSED MILK PRODUCTION IN MAJOR DAIRY EXPORTING COUNTRIES, 2014 – 2017**



Source: CNIEL, January 2018

Unprocessed milk production in the USA continued to grow although the lower producer prices did affect production growth. Expected European production growth after quotas were removed, did not realise, partially as a result of production limiting subsidies in the EU. In the Southern hemisphere lower producer prices and unfavourable climatic conditions resulted in lower milk production especially in 2016.

**FIGURE 4: PRODUCER PRICES OF UNPROCESSED MILK IN THE EU, USA AND NEW ZEALAND IN EURO PER 100 KG, JANUARY 2013 - NOVEMBER 2018**



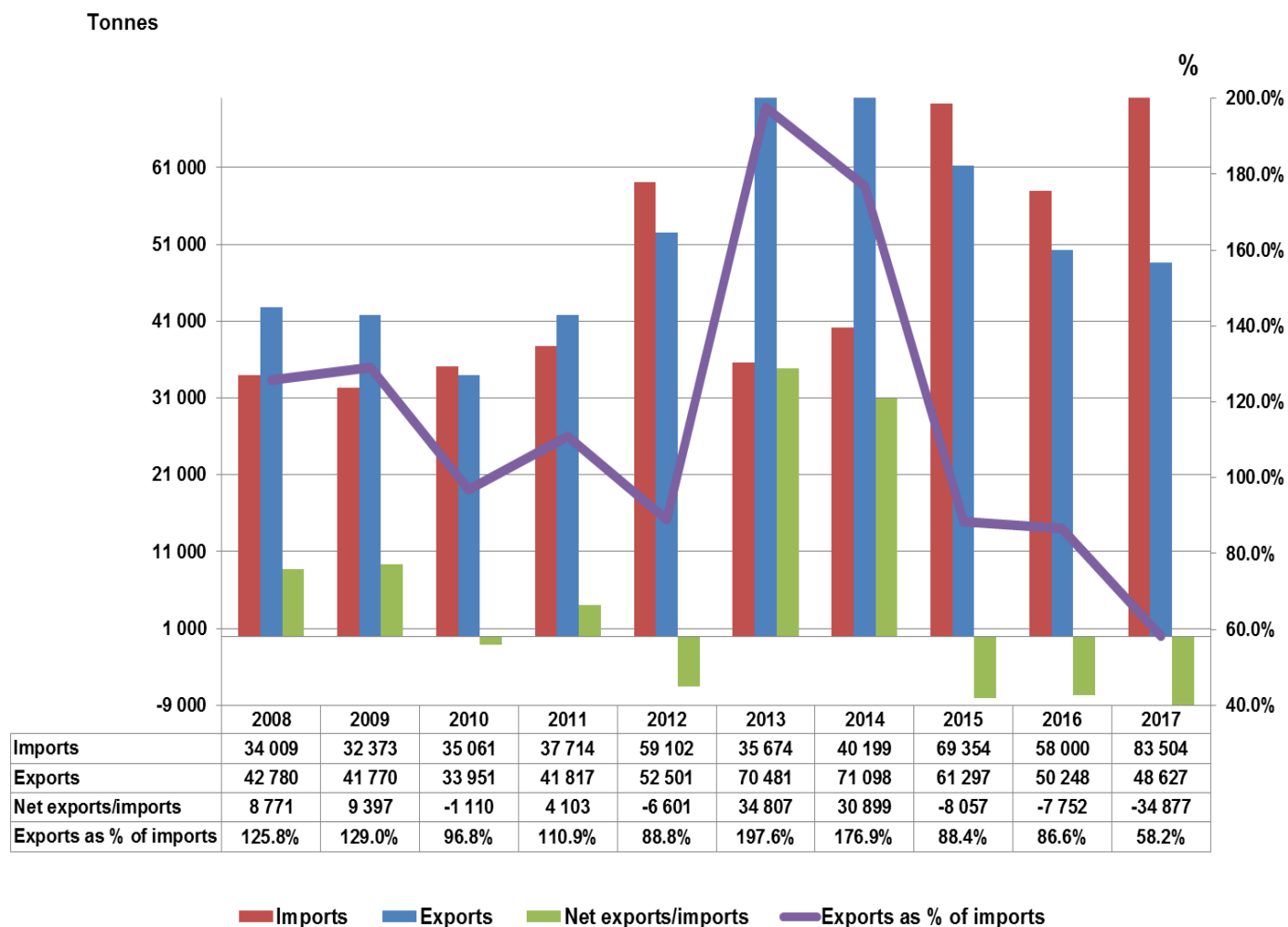
Source: LTO Nederland, July 2018

Producer prices in the USA, EU and New Zealand decreased from mid-2014 to April 2016. Since then prices in the USA, EU and New Zealand improved but it remained lower than the high levels achieved in particular months of 2014. There was a marked convergence of producer prices in the last year similar to the situation at the beginning of 2013. The projected growth for the world economy in 2019 levelling off at the same level (3.7%) as was achieved in 2017 and estimated for 2018 should see producer prices remaining at the current levels with less volatility.

## 2. SOUTH AFRICAN DAIRY MARKET

Import and export figures from SARS are supplied by SAMPRO.

**FIGURE 5: TOTAL SOUTH AFRICAN IMPORTS AND EXPORTS OF DAIRY PRODUCTS, 2008 – 2017**

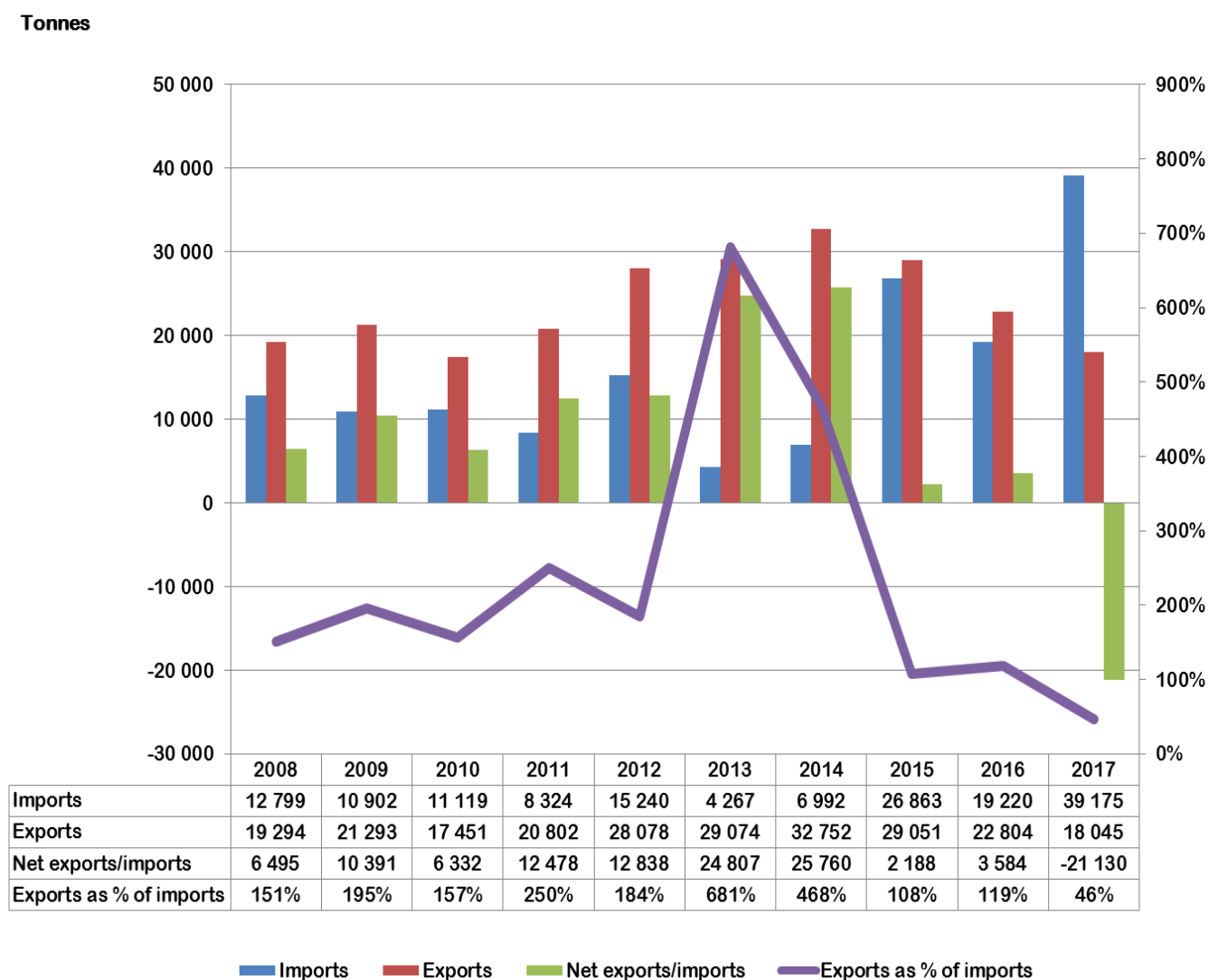


The information regarding imports and exports by South Africa of dairy products in 2017, showed that:

- The mass of exports was 3.2 percent lower than in 2016, 20.6 percent lower than in 2015 and the sixth highest in the ten years from 2008 to 2017;
- The mass of imports was 44.0 percent higher than in 2016 and 20.4 percent higher than in 2015, which was the highest import in the years 2008 to 2016. This increase in the mass of imports of dairy products, was mainly the result of higher imports of milk and cream (04.01) and concentrated milk (04.02);
- The very sharp increase in the imports of milk and cream (04.01) from 2016 to 2017 was the result of the increased imports of UHT milk. The share of the imports of UHT milk in the estimated total South African market for UHT milk, increased from 2.2 percent in 2016, to 4.2 percent in 2017;

- South Africa was, in terms of mass, a nett exporter of one of the six types of dairy products, namely “buttermilk and yoghurt”; and
- South Africa was, in terms of mass, for the first time in the ten years from 2008 to 2017, a nett importer of “milk and cream”.

**FIGURE 6: SOUTH AFRICAN IMPORTS AND EXPORTS OF MILK AND CREAM  
(04.01), 2008 – 2017**

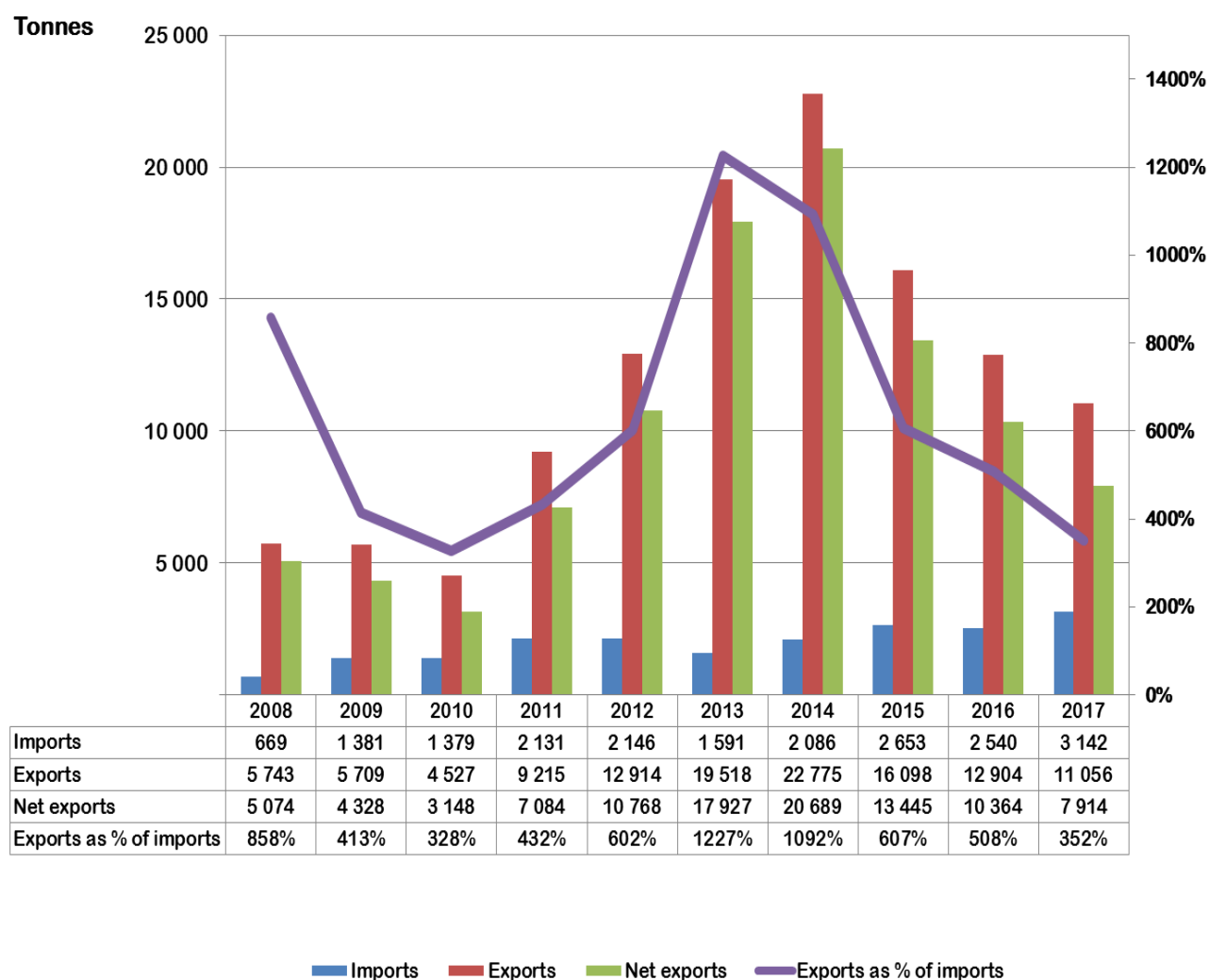


**FIGURE 7: SOUTH AFRICAN IMPORTS AND EXPORTS OF CONCENTRATED MILK,  
(04.02) 2008 – 2017**



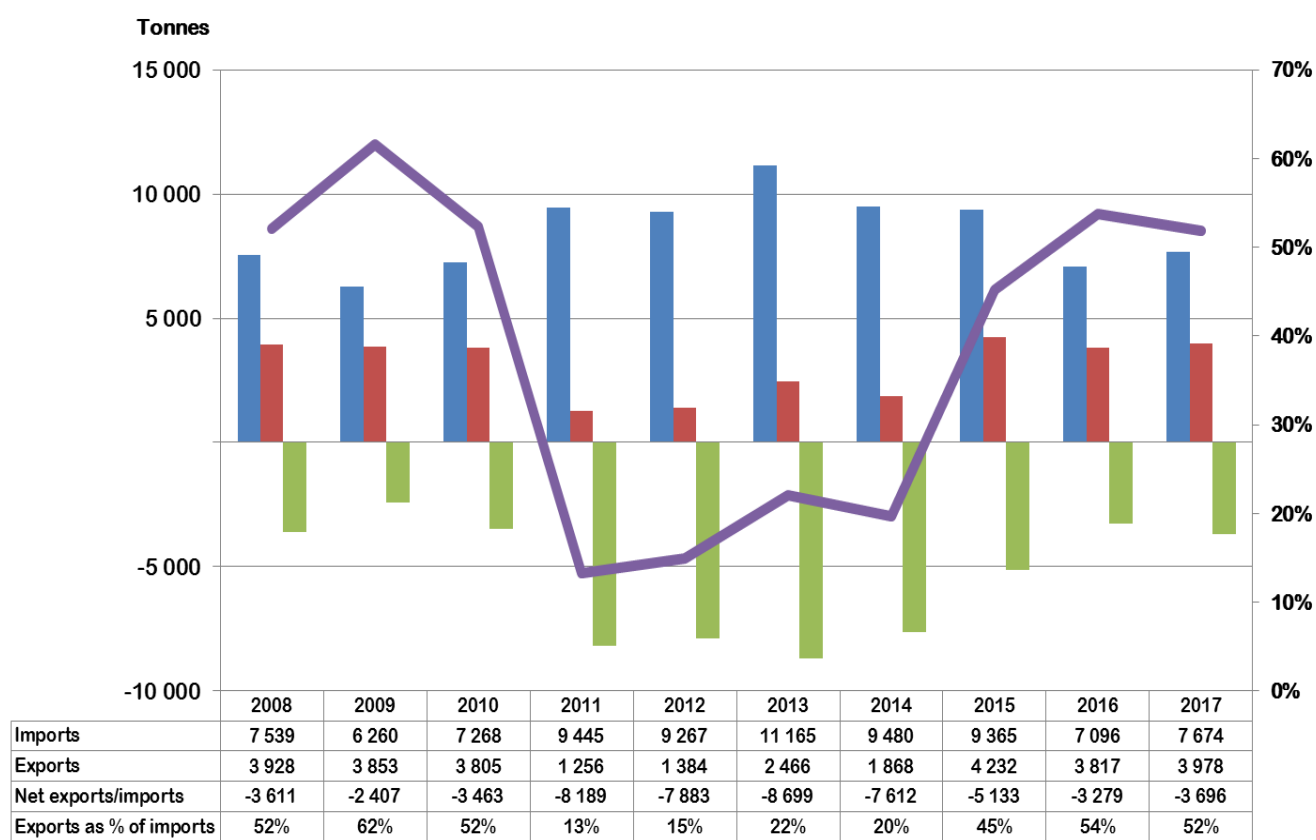


**FIGURE 8: SOUTH AFRICAN IMPORTS AND EXPORTS OF BUTTERMILK AND YOGHURT, (04.03) 2008 – 2017**



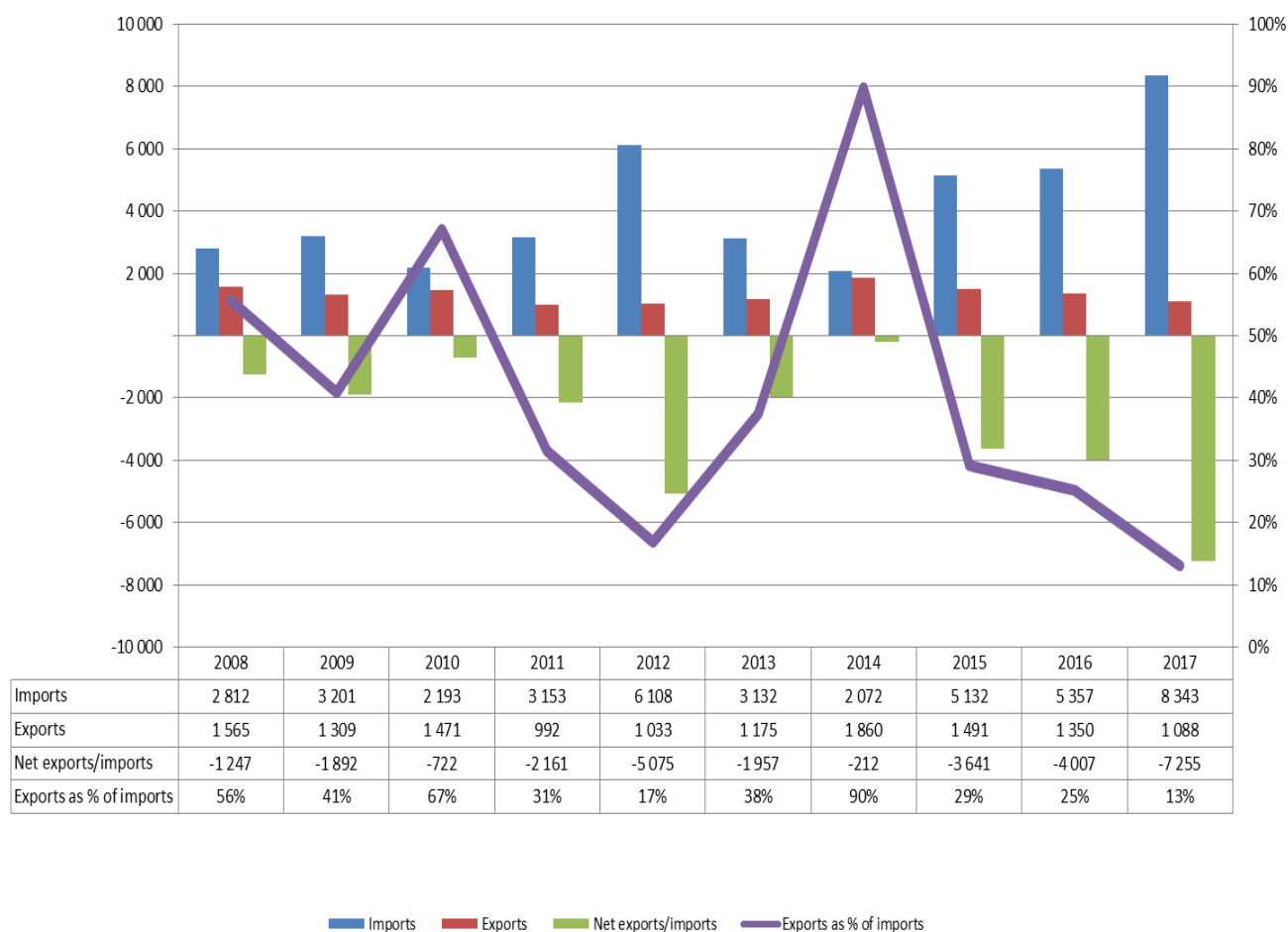
**FIGURE 9: SOUTH AFRICAN IMPORTS AND EXPORTS OF WHEY AND WHEY POWDER, (04.04)**

**2008 – 2017**

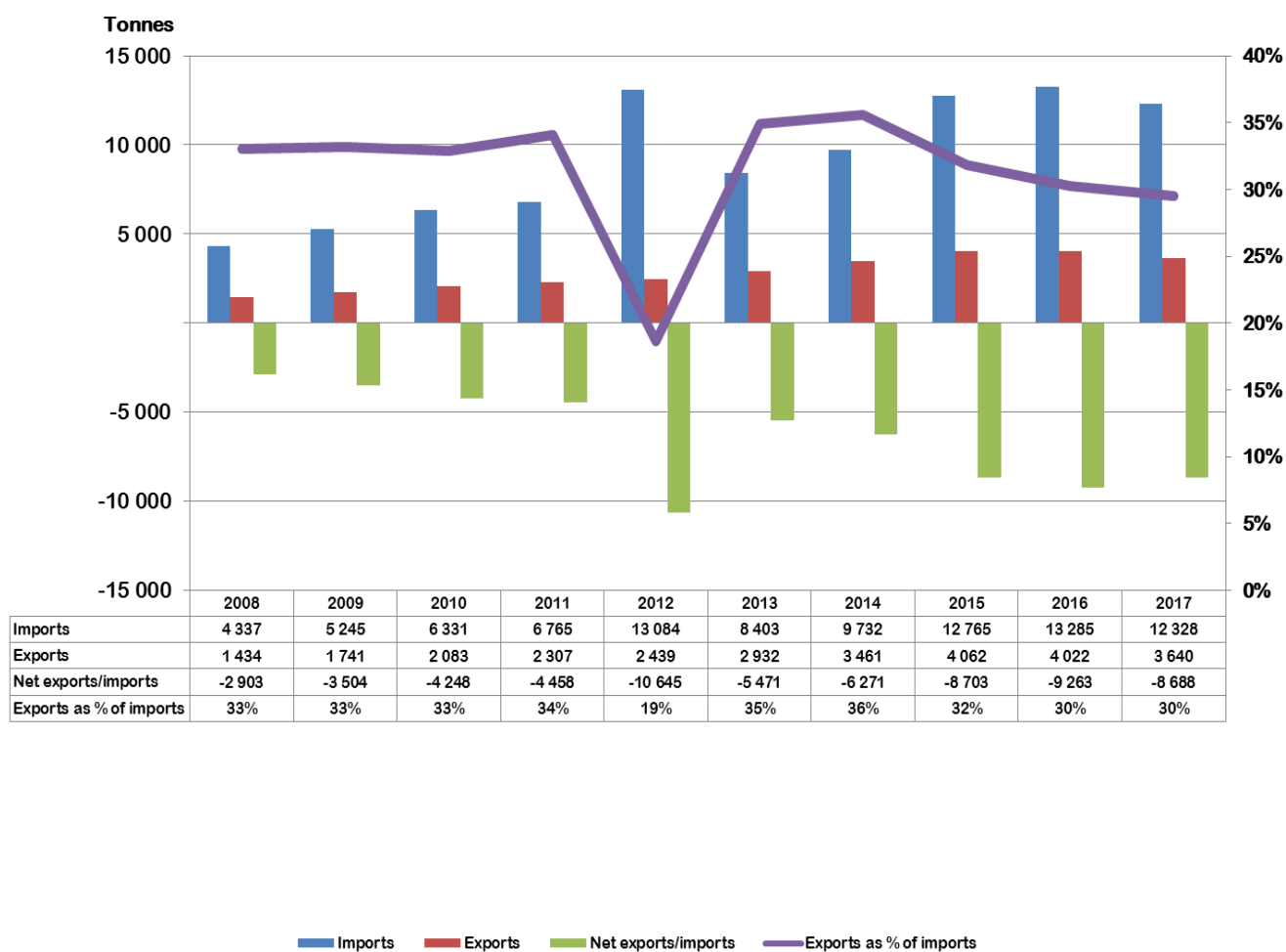


**FIGURE 10: SOUTH AFRICAN IMPORTS AND EXPORTS OF BUTTER AND MILKFATS, (04.05) 2008 – 2017**

Tonnes



**FIGURE 11: SOUTH AFRICAN IMPORTS AND EXPORTS OF CHEESE AND CURD,  
(04.06) 2008 – 2017**



Source, Figure 6 – Figure 11: SARS Figures supplied by SAMPRO

**TABLE 1: AVERAGE SOUTH AFRICAN IMPORT AND EXPORT FOB-PRICES FOR DAIRY PRODUCTS, 2013– 2017**

Tariff heading	Description	Import price (R/kg)					Export price (R/kg)				
		2013	2014	2015	2016	2017	2013	2014	2015	2016	2017
04.01	Milk & cream	5.96	8.50	7.65	7.44	7.65	8.55	9.45	10.30	10.18	10.93
04.02	Concentrated milk	37.95	42.62	30.92	32.94	32.31	19.49	30.04	30.97	37.00	41.51
04.03	Buttermilk & yoghurt	35.55	42.09	28.06	25.57	28.39	17.76	19.97	18.76	21.27	37.12
04.04	Whey	28.62	34.82	31.98	28.90	31.24	15.55	14.85	10.51	25.46	13.27
04.05	Butter	35.05	48.13	39.56	46.87	68.89	36.75	40.37	40.66	49.40	59.94
04.06	Cheese	51.90	61.70	54.94	57.21	62.19	42.47	46.11	45.50	51.99	60.86

Source: SARS as supplied to SAMPRO

**TABLE 2: PERCENTAGE CHANGE IN RETAIL SALES QUANTITIES FOR MAJOR DAIRY PRODUCTS FOR THE 12 MONTH PERIOD FROM OCTOBER 2016 TO SEPTEMBER 2017 COMPARED TO THE 12 MONTH PERIOD FROM OCTOBER 2017 TO SEPTEMBER 2018 AND THE CHANGE IN RETAIL PRICES FROM SEPTEMBER 2017 TO SEPTEMBER 2018**

Product	Change in quantity sold %	Change in retail prices %
Fresh milk	-3.9	0.3
Long-life milk (UHT)	12.8	-3.8
Flavoured milk	3.9	3.5
Yoghurt	0.1	-0.5
Maas	11.5	-6.0
Pre-packaged cheese	9.6	-5.2
Cream cheese	-8.0	4.9
Butter	-2.5	5.6
Cream	-2.0	10.7

Source: Nielsen figures supplied by SAMPRO

In the period that ended in September 2018, the retail sales quantities of 4 of the 9 dairy products were lower than in the previous period. The retail prices of 5 of the 9 dairy products, increased from September 2017 to September 2018 and the increases of 2 of the 9 products were higher than the inflation rate.

The total estimated retail sales quantity of unflavoured and unsweetened milk (fresh and long-life milk) in the period which ended in September 2018 is 5.8 percent higher than in the previous period. Unflavoured and unsweetened milk utilize approximately 53.3 percent of the total raw milk production in South Africa.

Changes in sales quantities and prices during the period in table 2 do not change at the same rate during the period concerned. This situation is illustrated in Table 3 and Table 4.

**TABLE 3: CHANGES IN THE QUANTITIES OF RETAIL SALES OF CERTAIN DAIRY PRODUCTS**

Product	Change in quantities of sales compared to same period previous year (%)				
	Sept 18 vs Sept 17	July – Sept 18 vs July– Sept 17	April17 – Sept 18 vs April16 – Sept17	Jan17 – Sep18 vs Jan16 – Sept17	Oct17 – Sep18 vs Oct16 – Sep17
Fresh milk	-5.0	-4.8	-4.2	-4.4	-3.9
UHT milk	18.2	14.4	13.7	12.8	12.8
Flavoured milk	5.0	7.1	4.6	3.9	3.9
Yoghurt	7.8	-4.4	2.1	0.1	0.1
Maas	23.7	17.8	16.2	11.5	11.5
Pre- packaged cheese	18.0	8.0	9.3	9.6	9.6
Cream cheese	-5.5	-4.1	-4.7	-8.0	-8.0
Butter	3.9	5.5	3.5	-2.5	-2.5
Cream	-2.8	-2.8	-2.3	-2.0	-2.0

Source: Nielsen as supplied by SAMPRO

In the one month, three months and the six months periods which ended in September 2018, the retail sales quantities of 3 of the 9 dairy products were lower than in the same periods of 2017. These products are fresh milk, cream cheese and cream.

In the one month, three month, six month, nine month and 12 month period that ended in September 2018 both UHT milk and Maas achieved phenomenal growth in quantities sold spanning from 23.7% to 11.5% growth. Prepacked cheese is also increasing market share while cream cheese, cream and fresh milk is losing ground. In the case of fresh milk the driver is the changing profile of the traditional consumer and the profile of “new consumers”. Cream cheese and cream are losing ground due to product price levels.

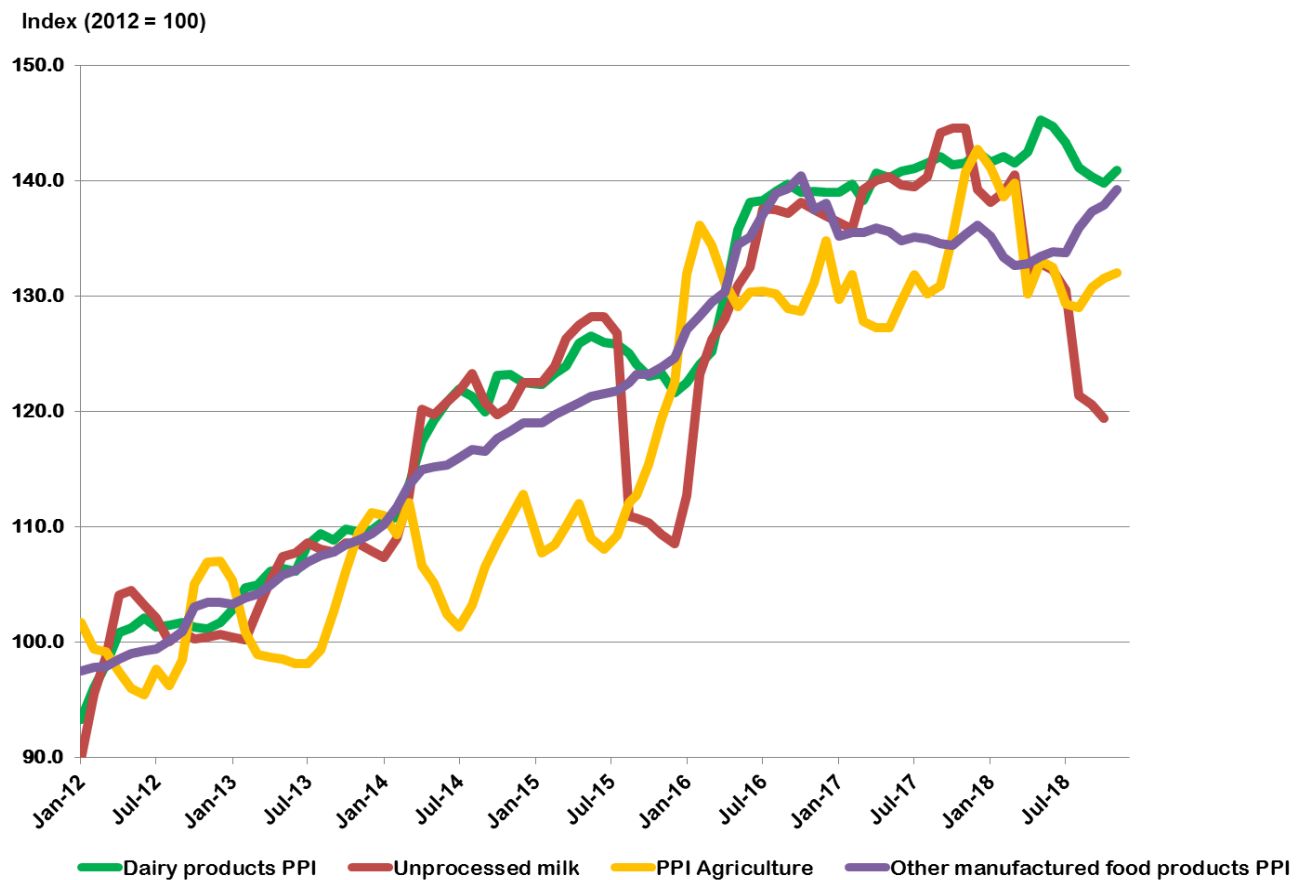
**TABLE 4: CHANGES IN THE RETAIL PRICES OF CERTAIN DAIRY PRODUCTS**

Product	Change in retail prices compared to same period previous year (%)				
	Sept 18 vs Aug 18	Sept 18 vs June 18	Sept 18 vs March 18	Sept 18 vs Dec 17	Sept 18 vs Sept 17
Fresh milk	0.0	-2.1	-1.2	0.5	0.3
UHT milk	-0.7	0.1	-3.9	-4.6	-3.8
Flavoured milk	0.4	1.9	4.4	5.8	3.5
Yoghurt	-0.8	-0.4	-1.3	1.4	-0.5
Maas	-1.8	-2.3	-5.1	-5.1	-6.0
Pre-packaged cheese	-4.9	-2.4	-2.5	-1.7	-5.2
Cream cheese	0.6	-0.4	4.2	1.5	4.9
Butter	0.6	-2.4	-5.7	-1.5	5.6
Cream	0.7	2.6	3.0	0.7	10.7

Source: Nielsen as supplied by SAMPRO

From September 2017 to September 2018 the prices of 4 of 9 products decreased with Maas registering a decrease of 6%, Prepacked cheese 5.2% and UHT milk 3.8%. Overall the table mostly register decreased prices or marginal increases with the exception of cream cheese, butter and cream. However, the price increase of butter did slow down notably during the last quarter of 2018.

**FIGURE 12: PRODUCER PRICE INDICES OF SOUTH AFRICAN AGRICULTURAL AND FOOD PRODUCTS, JANUARY 2012 – Nov 2018.**



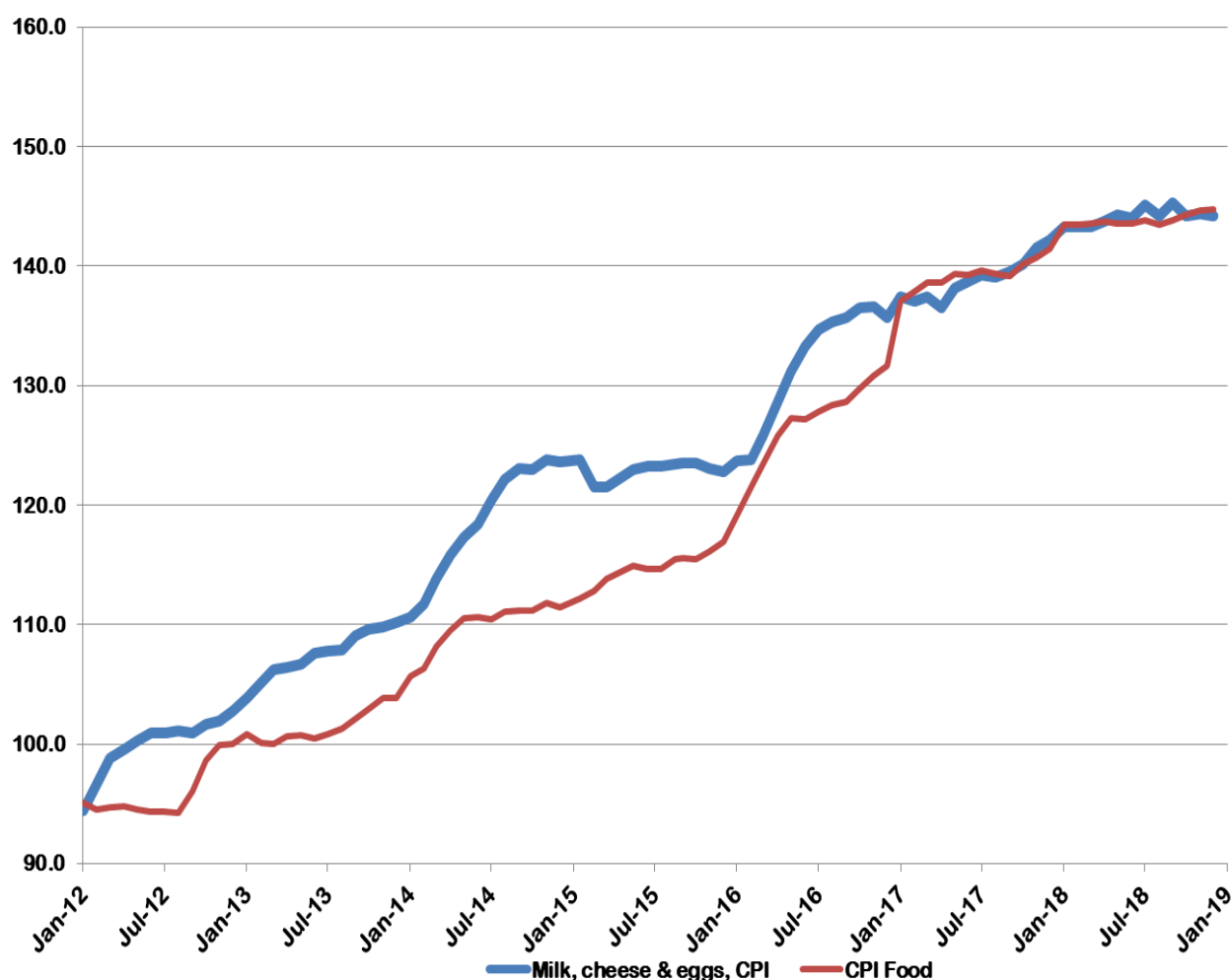
Source: Stats SA

The above graph indicates that all the product prices were on an upward trend since Jan 2012 with short negative cycles occurring in some of the indices. However, the price of unprocessed milk started a downward trend since November 2017 breaking away from the other indices. The producer price of milk took a beating in 2018.

The reduced field crop prices, coupled with the lower producer price for milk and weaners would be the main drivers for the downward trend in the PPI for agriculture since January 2018. The price of dairy products started reducing from May 2018 due to the lower cost of unprocessed milk, high supply levels of other dairy products as well as the low economic growth rate in South Africa. The reduced prices of dairy products are substantiated in table 4 and should be read with the increase in demand for certain of these products as can be seen in table 3.



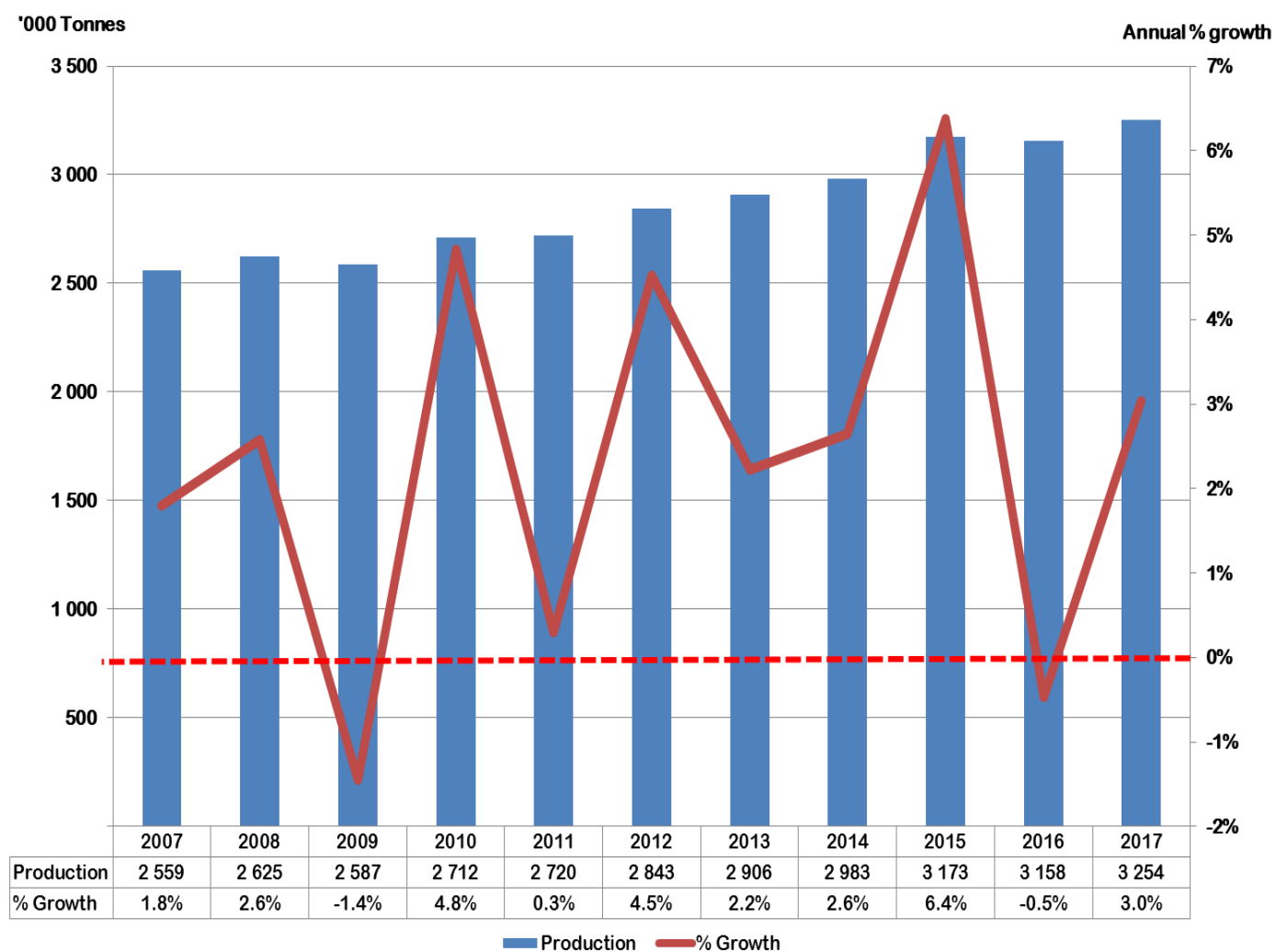
**FIGURE 13: CONSUMER PRICE INDICES OF SOUTH AFRICAN FOOD AND DAIRY PRODUCTS, JANUARY 2012 – DECEMBER 2018**



Source: Stats SA

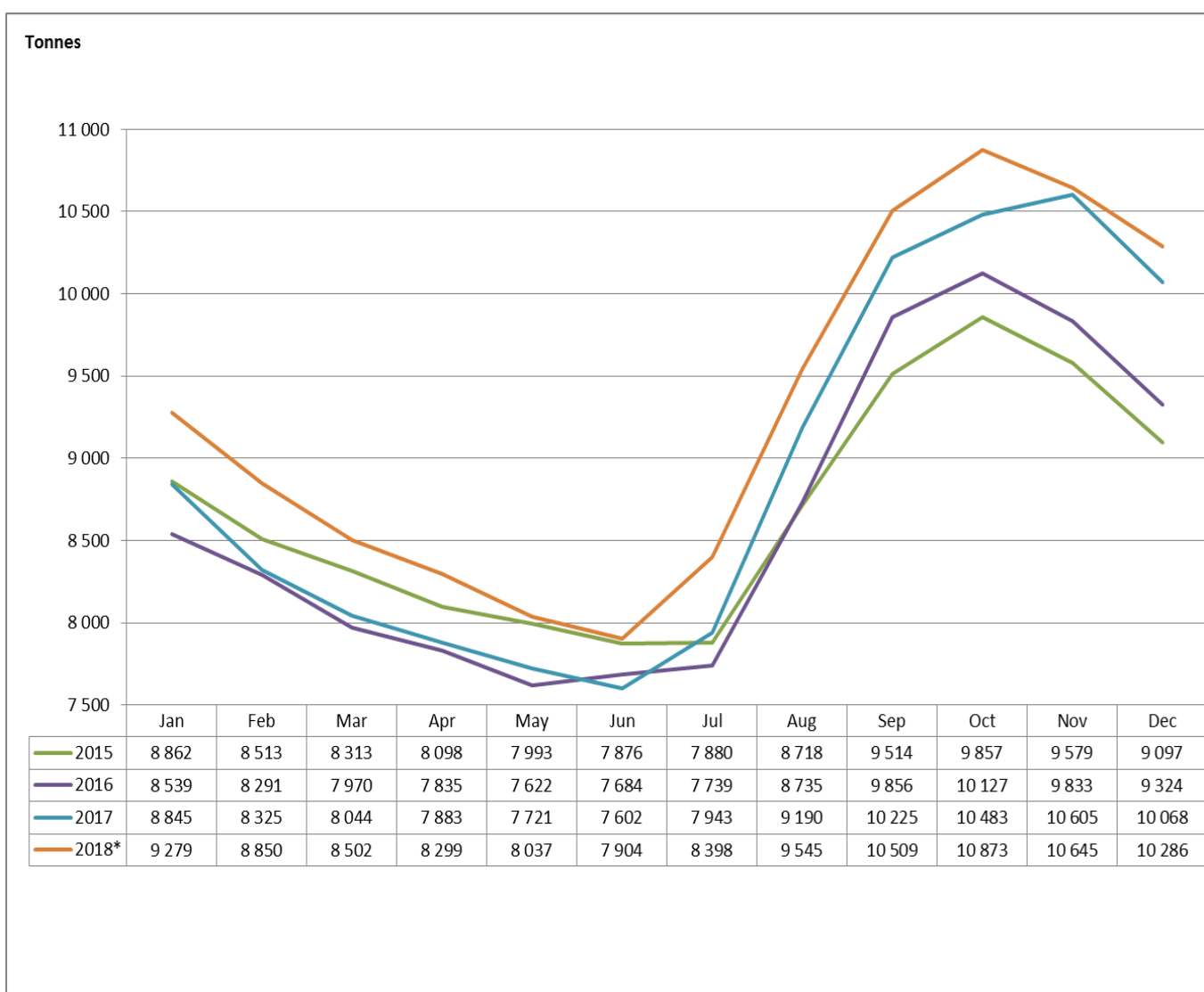
Price increases in the collective food market and the combined prices of milk, cheese and eggs have basically come to a standstill. Both indices are staying on the 143 index level moving sideways since January 2018. Reduced grain and dairy prices supported this trend but the current drought in certain regions of the country will start to pressurise these prices. The CPI for milk, cheese and eggs dipped slightly below the CPI for food in the last quarter of 2018, something that is rarely achieved.

**FIGURE 14: ANNUAL SOUTH AFRICAN UNPROCESSED MILK PURCHASES,  
2007 – 2017**



Source: Milk SA

**FIGURE 15: SOUTH AFRICAN UNPROCESSED MILK PURCHASES DAILY AVERAGE  
PER MONTH, JANUARY 2015 – DECEMBER 2018**



Source: Milk SA; \*November and December 2018 = Milk SA estimates.

**TABLE 3: CUMULATIVE UNPROCESSED MILK PURCHASES (Tonnes), 2014 – 2018**

Month	2014	2015	2016	2017	2018
January	247 503	274 707	264 711	274 208	287 641
February	458 976	513 058	505 147	507 314	535 441
March	683 061	770 769	752 227	756 690	799 011
April	896 012	1 013 700	987 280	993 180	1 047 971
May	1 118 093	1 261 478	1 223 556	1 232 517	1 297 131
June	1 334 059	1 497 744	1 454 086	1 460 583	1 534 253
July	1 561 984	1 742 039	1 694 009	1 706 830	1 794 590
August	1 819 644	2 012 295	1 964 790	1 991 715	2 090 492
September	2 100 142	2 297 713	2 260 473	2 298 450	2 405 750
October	2 403 060	2 603 272	2 574 398	2 623 438	2 742 822
November	2 692 478	2 890 637	2 869 392	2 941 589	3 062 165
December	2 982 735	3 172 656	3 158 446	3 253 682	3 381 020

Source: Milk SA statistics. November and December 2018 = estimated.

During 2017, 3 253 682 tonnes of unprocessed milk were purchased, 3.0% more than in 2016. Unprocessed milk purchases for 2018 equals 3 381 020 tonnes, 3.9% more than in 2017. Please note that the November and December purchases are estimates.

**The performance of the South African dairy industry in 2019 will especially be shaped by:**

- Climatic conditions, especially rainfall during the remainder of the 2018/2019 summer.
- Feed and fodder supply in view of the extremely dry conditions that prevailed in significant grain producing areas and other areas of South Africa during the 2018/2019 rainfall season.
- Performance of the South African economy which is largely a function of government's ability to improve on its service delivery; domestic politics and policies; and public reaction to it.
- The effect of the Foot and Mouth disease outbreak in the Limpopo province on especially exports.