LACTO DATA

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Statistics

A Milk SA publication compiled by the Milk Producers' Organisation

MELK SUID-AFRIKA/MILK SOUTH AFRICA

MELKPRODUSENTE-ORGANISASIE
MILK PRODUCERS' ORGANISATION

FNB

FNB foreword

First National Bank is the leader when it comes to financing agricultural commodities and presenting new, innovative financial solutions. It is only possible due to a substantial investment in agricultural information that enables it to design price and production risk products that meet the farmer's own and financial needs.

In a free market, market information is one of the most important elements that enables participants to keep the system honest. It creates a safer investment environment for all role players. In terms of the dairy industry, it benefits the producer, in particular due to the long production cycle he or she is exposed to.

Market transparency is closely related to the quality and timeliness of market information and promotes effective price formation.

First National Bank is therefore proud to once again contribute towards the publication of *Lacto Data* to the benefit of the entire dairy industry.

Milk SA foreword

The purpose of this publication is to make information available about the structure and performance of the dairy industry, with the view to promote the optimal development of the industry to the benefit of the South African dairy industry and consumers.

Executive summary

International dairy markets consolidated during the first half of 2008 after the sharp increase in prices during 2007. Since mid-2008, international prices stabilised at much higher levels than during 2005/2006.

Locally demand is under severe pressure as a result of a sharp increase in interest rates, food and fuel prices. This has resulted in a decrease in demand growth and in surplus stocks of some dairy products in the market place.

This situation was aggravated by higher milk production, mainly as a result of a very favourable season, but also driven by higher and incentive producer prices.

Lacto Data is also available on **www.dairyconnect.co.za** and **www.milksa.co.za**

Contents

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The primary industry

Industry structure

The number of milk producers has decreased from 3 899 in January 2007 to 3 608 in August 2008. The number of producers per province is shown in *Table 1*. Since 1997, the number of producers has decreased by 48%. The largest decrease in producers occurred in the Northern Cape (74,4%), while the number of producers in the Free State decreased by 23%.

TABLE 1: Number of milk producers per province, 1997-2008

Province	Number of producers per province			
	Dec '97	Jan '06	Jan '07	Aug '08
Western Cape	1 577	878	827	797
Eastern Cape	717	422	420	395
Northern Cape	133	39	37	36
KwaZulu-Natal	648	402	385	375
Free State	1 204	1 067	987	905
North West	1 502	649	596	553
Gauteng	356	275	245	218
Mpumalanga	866	407	357	293
Limpopo	74	45	45	36
TOTAL	**7 077**	**4 184**	**3 899**	**3 608**

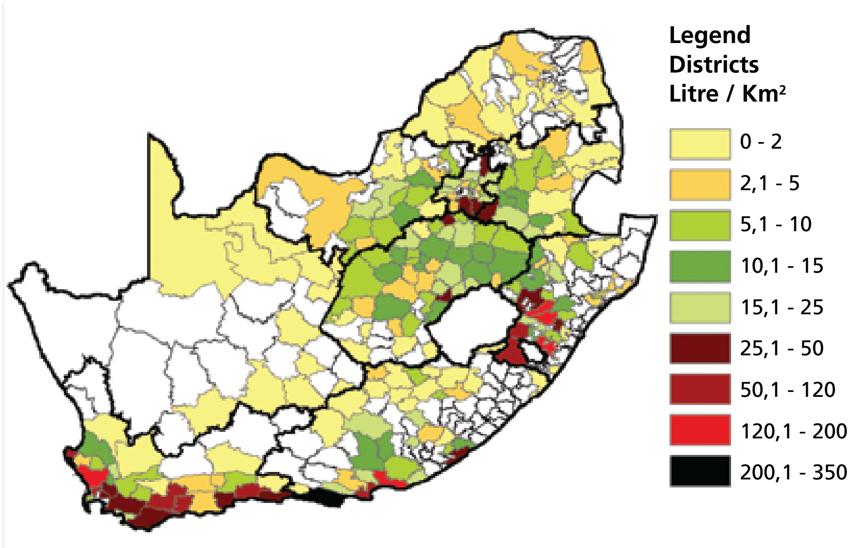
Source: MPO statistics

TABLE 2: Milk production per province, 1997 & 2007

Province	% Distribution of milk production	
	Dec 1997	Mar 2007*
Western Cape	22,9	25,3
Eastern Cape	13,8	21,8
Northern Cape	1,2	0,7
KwaZulu-Natal	15,7	21,1
Free State	18	12,8
North West	12,6	7,1
Gauteng	4,4	3,1
Mpumalanga	11	7,6
Limpopo	0,4	0,5
TOTAL	**100**	**100**

Source: MPO statistics
***Preliminary**

FIGURE 1: Milk production density (litre/km²) per district, 2006



Source: MPO statutory survey

TABLE 3: Number of cows-in-milk per producer, 2006

Province	Number of cows	
	Mean	Median
Western Cape	151	100
Eastern Cape	349	200
Northern Cape	67	50
KwaZulu-Natal	267	180
Free State	72	54
North West	68	50
Gauteng	225	47
Mpumalanga	91	60
Limpopo*	206	160
South Africa	**151**	**80**

* Limpopo sample not representative

Source: MPO statutory survey

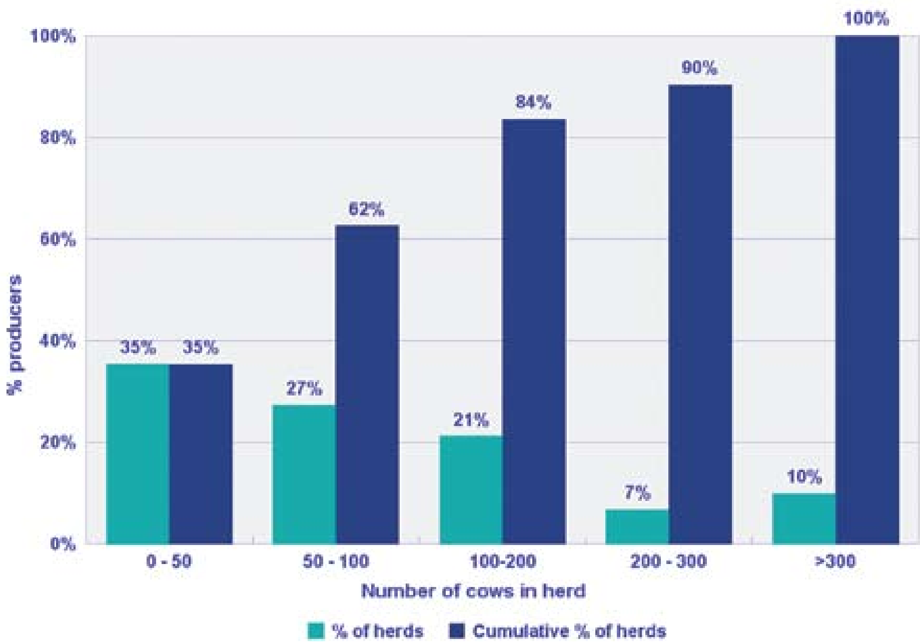
"The number of milk producers has decreased from 3 899 in January 2007 to 3 608 in August 2008. The number of producers per province is shown in *Table 1*. Since 1997, the number of producers has decreased by 48%"

The trend towards higher total production in the pasture-based areas, continued. The concentration of milk production per district is shown in *Figure 1*. Milk production per province according to the latest MPO statutory review, is shown in *Table 2*.

The number of cows varies widely among different producers. The percentage distribution of herd size is shown in *Figure 2*. The average herd size per producer in the different provinces, is shown in *Table 3* and the concentration of cows per district in *Figure 3*.

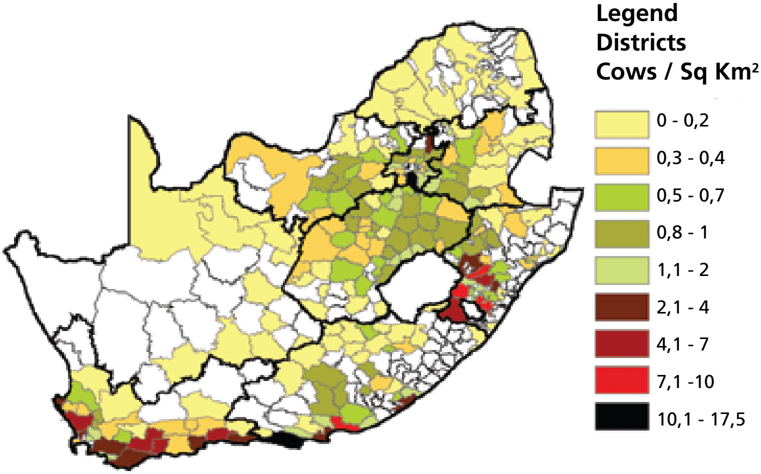
Average milk production per cow per day was 15,2 litres/day in 2006. Of this, 89% was sold in the formal market and 3% informally. The rest was used for own consumption and calves. The distribution of milk producers on production basis is shown in *Figure 4*.

FIGURE 2: Size distribution of dairy herds, 2007



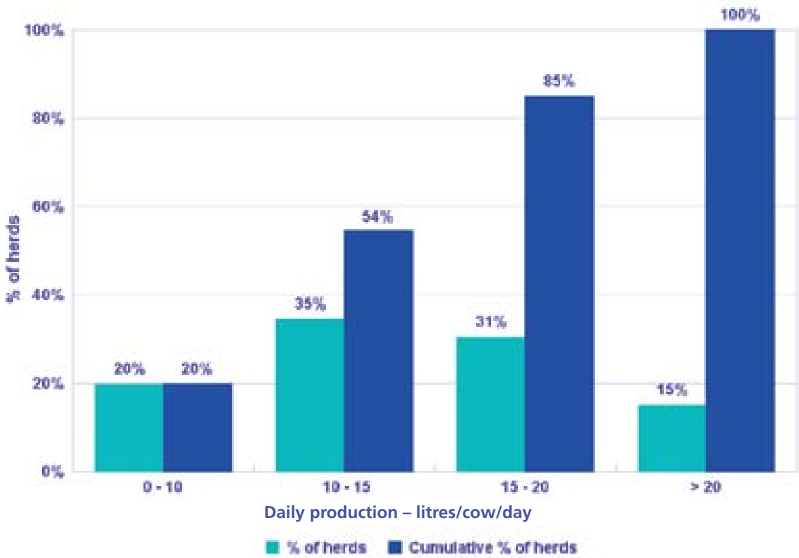
Source: MPO statutory survey

FIGURE 3: Cow density per district (cows/km²), 2006



Source: MPO statutory survey

FIGURE 4: Distribution of herds per production class, 2006



Source: MPO statutory survey

Milk production and consumption

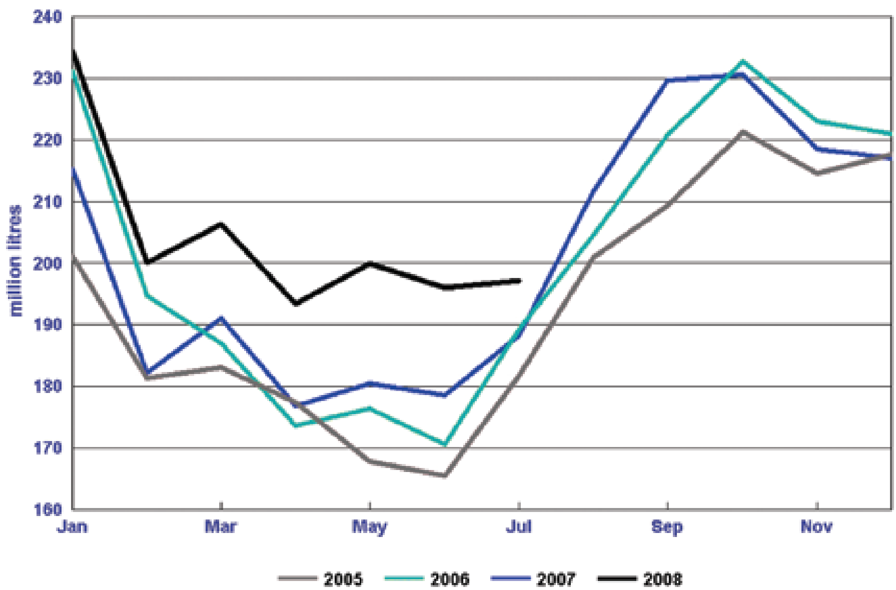
Annual milk production shows a steady linear upwards trend over time. Total milk to market for 2007 is currently estimated at 2,47 billion litres, up 1,9% on the previous year. Production for 2008 is estimated by the MPO at 2,565 billion litres, up 3,9% on 2007.

Milk production for 2005 to 2007 and predicted production for 2008, are shown in *Figure 5*. Milk consumption is estimated at 2,55 billion litres for 2007.

The growth of dairy consumption has decreased as a result of higher food and fuel prices, as well as higher interest rates. The weaker growth in demand will continue for some time.

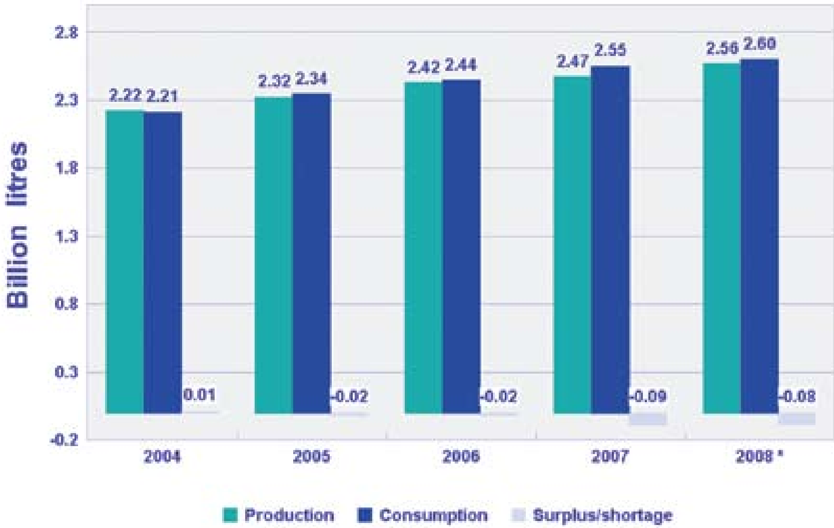
"Annual milk production shows a steady linear upwards trend over time. Total milk to market for 2007 is currently estimated at 2,47 billion litres, up 1,9% on the previous year"

FIGURE 5: South African seasonal milk production



Source: MPO calculation

FIGURE 6: Annual milk production* and consumption, 2005-2008



Source: MPO statutory survey
* Excludes milk retained on farm

The secondary industry

Industry structure

The South African secondary industry consists of a few larger processors operating nationally, a large number of smaller processors who operate in specific areas, and a number of producers who sell their own produce directly to retailers or consumers – known as producer-distributors (PDs). The number of PDs and milk buyers per province is shown in *Table 4*.

Production and consumption

The South African dairy market is divided into 60% liquid and 40% concentrated products. Pasteurised liquid milk and UHT milk are the major liquid products, while hard cheese is the major concentrated product. The estimated composition of the markets for liquid and concentrated products, is shown in *Figures 7* and *8*.

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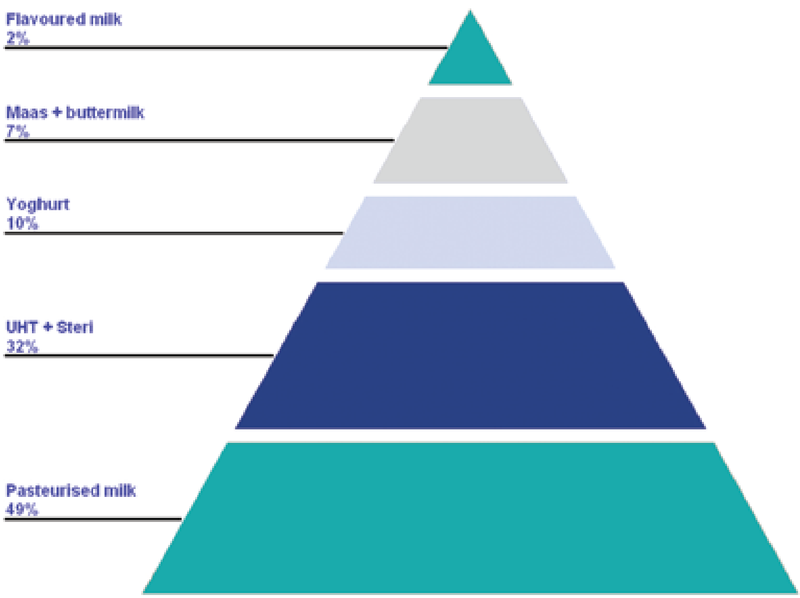
TABLE 4: Number of producer-distributors (PDs) and milk buyers per province

Province	Number of PDs*		Number of milk buyers
	Jan '07	Jan '08	Jan '08
Western Cape	34	35	37
Eastern Cape	58	62	22
Northern Cape	21	20	4
KwaZulu-Natal	41	37	17
Free State	106	98	36
North West	52	52	28
Gauteng	67	64	59
Mpumalanga	59	54	19
Limpopo	30	25	3
Total	**468**	**447**	**215**

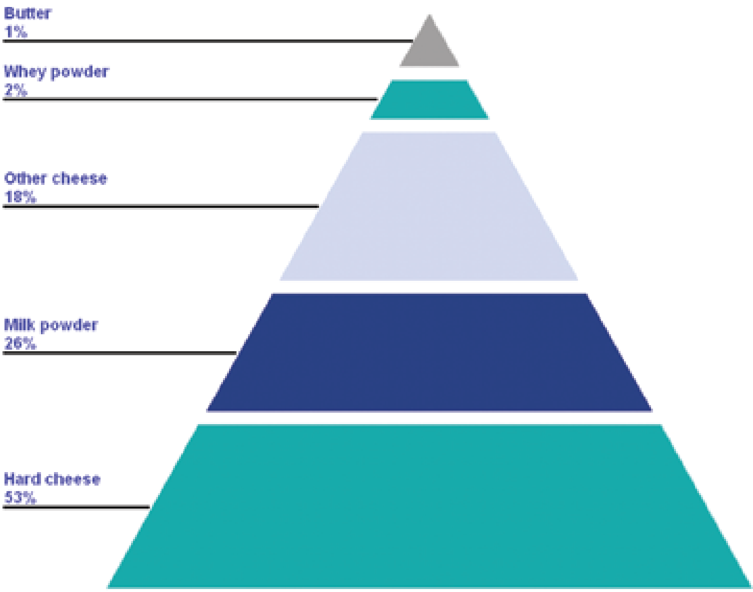
Source: MPO data
*Producer-distributors

FIGURE 7: Percentage composition of the South African liquid market



Source: Industry sources

FIGURE 8: Percentage composition of the South African concentrated product market



Source: Industry sources

Imports and exports

Total dairy product imports and exports are shown in *Figure 9*. During 2007, 44 000 tons of product were imported and 18 000 tons exported. On a milk equivalent basis, South Africa has been a net importer of dairy products since 2005. The positive growth of exports during the first quarter of 2008 will, if it continues, result in a net export situation by the end of 2008.

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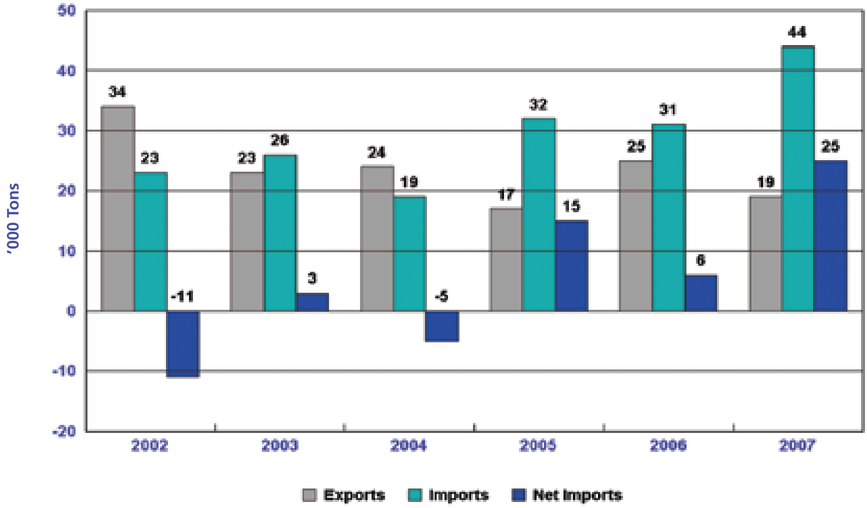
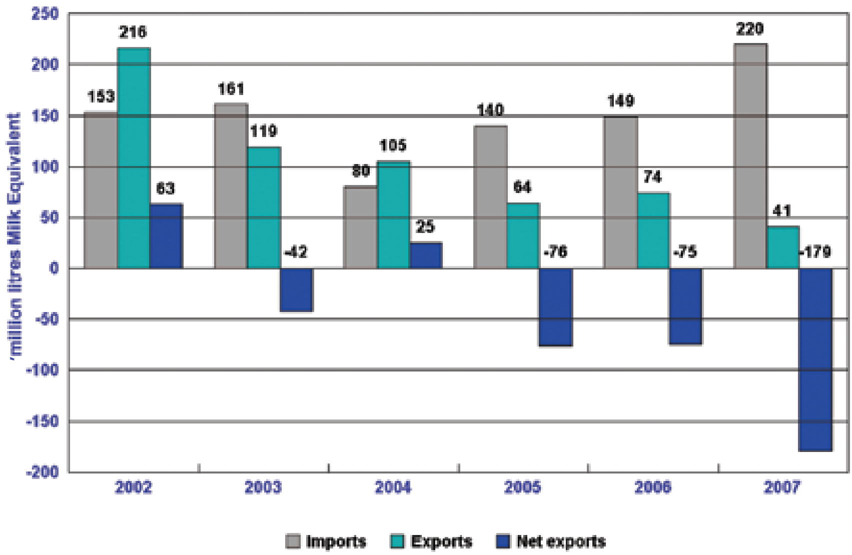
FIGURE 9: Dairy product imports and exports ('000 tons), 2002-2007



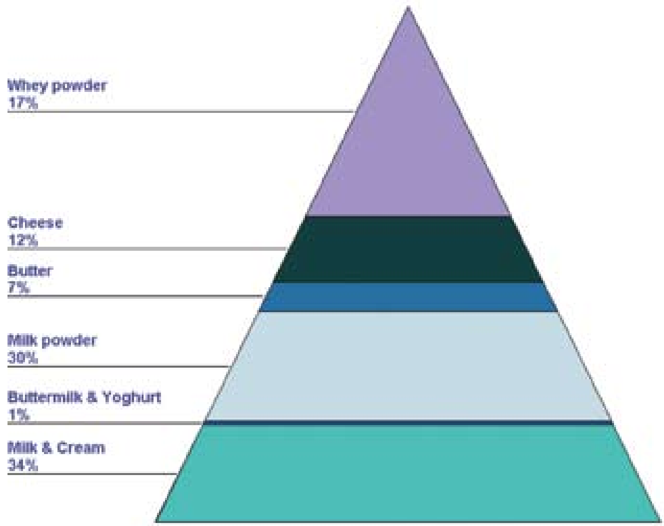
Source: MPO, Sampro

FIGURE 10: Dairy product imports and exports (milk equivalent basis), 1996-2007



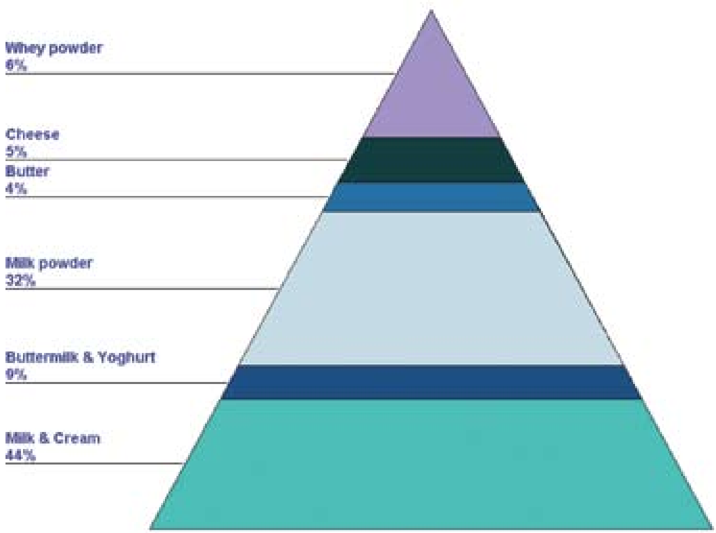
Source: MPO, Sampro

FIGURE 11: Percentage composition of imports, 2008*



Source: MPO Analysis; *Solids basis
*January - June 2008

FIGURE 12: Percentage composition of exports, 2008*



Source: MPO Analysis; *Solids basis
*January - May 2008

Dairy price trends

International product prices

Since the peak in 2007, world dairy product prices have decreased slightly. Currently prices seem to move sideways, with little change. Both the FAO / OECD Agricultural Outlook and FAPRI predict that prices will decrease towards 2009 and will thereafter increase slowly, with the exception of butter prices where the decrease may continue.

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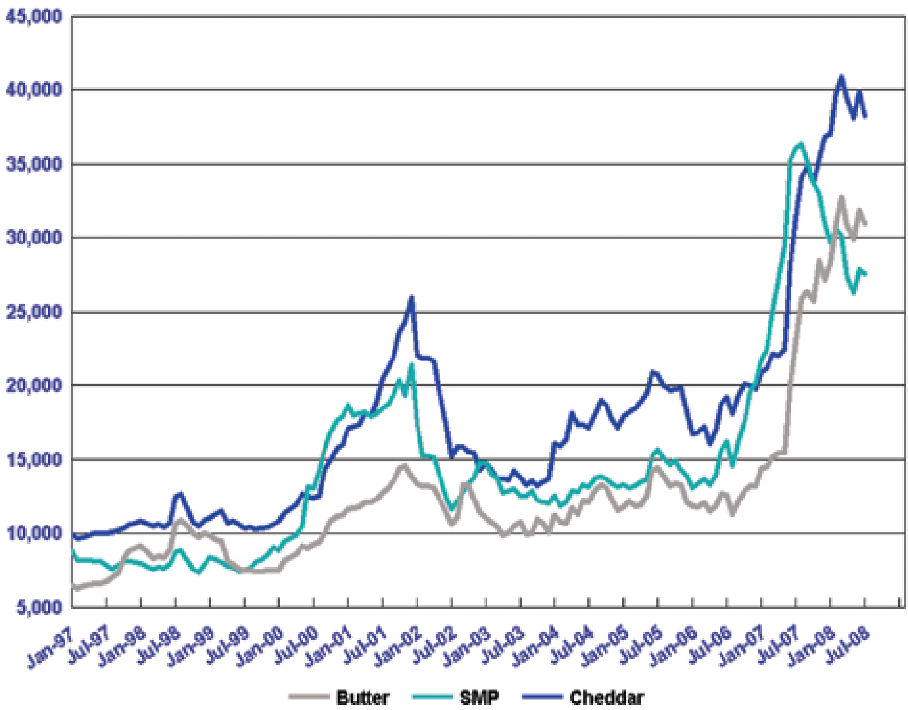
FIGURE 13: International dairy product prices, rand/ton, 1996-2008



Source: USDA; SA Reserve Bank

International producer prices

International producer prices increased substantially in the year to June 2008. New Zealand farmers got the highest price ever. Since June 2008 producer prices decreased slightly from the June peak levels, but are still substantially above 2006 levels. Price expectations for 2009 are still speculative and will depend on production conditions and international product prices.

FAO/OECD and FAPRI projections also indicate a slowing down in the rate of increase in producer prices. South African producer prices is estimated by BFAP to move sideways during 2008 and increase slowly from 2009.

TABLE 5: International milk producer prices, 2007-2008

Country	Rand per litre – 12 Month average: to June 2007*	Rand per litre – 12 Month average: to June 2008**	% Change
Belgium	2,56	4,49	75,4%
Ireland	2,5	4,16	66,4%
Netherlands	2,51	4,42	76,1%
Germany	2,45	4,32	76,3%
France	2,62	4,22	61,1%
Denmark	2,5	4,17	66,8%
Sweden	–	4,77	–
Great Britain	2,24	3,79	69,2%
South Africa***	2,08	3,04	46,2%
USA	2,23	3,71	66,4%
New Zealand***	1,51	3,66	142,4%

* Exchange rate R12,00/Euro
* Adjusted for butterfat & protein contents
*** Does not include top-up payments
Source: LTO Nederland, June 2008

South African producer prices

South African producer prices increased sharply from 2006. Since May 2008, some milk processors have reduced prices. However, the majority of processors did not follow this trend until July 2008. Since then, the trend towards lower producer prices has become more general.

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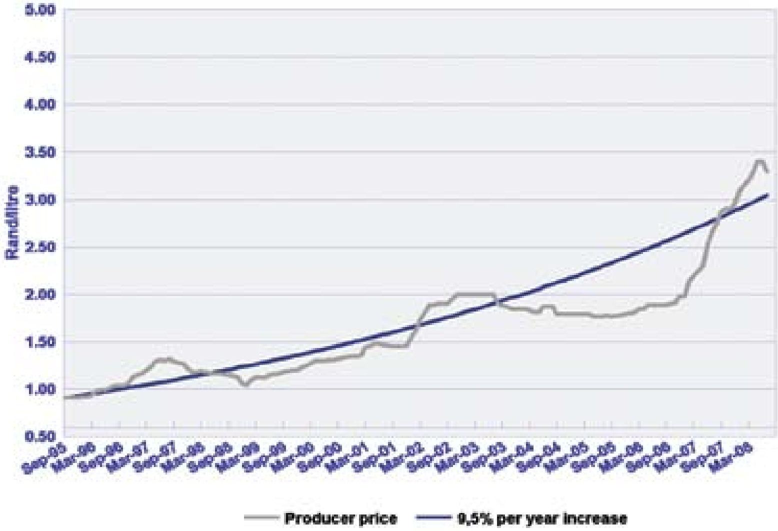
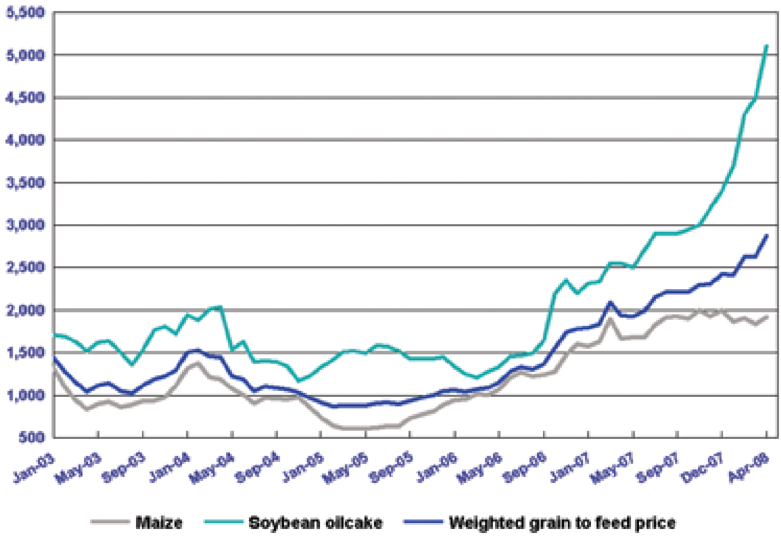
FIGURE 14: Monthly average South African producer prices, 1995-2008



Source: MPO data

FIGURE 15: Maize, soybean and dairy meal prices



Source: MPO statistics
Calculated meal price = maize x 0,7; soybean oilcake x 0,3

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