



South African Milk Processors' Organisation
The voluntary organisation of milk processors for the promotion of the development of the secondary dairy industry to the benefit of the dairy industry, the consumer and the South African society.

8 September 2014

News Release

KEY MARKET SIGNALS FOR THE DAIRY INDUSTRY

The quarterly report “Key Market Signals for the Dairy Industry” will be published on 10 September 2014. The report is the most comprehensive report in respect of the dairy industry, which is regularly published in South Africa, and is based on objective analysis of information from independent authoritative sources. The Office of SAMPRO compiled the report independently from the commercial interest of the parties involved in the dairy industry.

The purpose of the quarterly editions of “Key Market Signals for the Dairy Industry” is to make market signals available to all role players in order to promote the effectiveness of the markets concerned and effective competition as envisaged by the Competition Act, which are prerequisites for the sustainable growth of the South African dairy industry.

According to the report:

- a) The retail sales in South Africa in terms of quantity, of six of the nine dairy products covered by an independent survey, were higher in the year which ended in June 2014 than in previous years;
- b) The dairy products of which the retail sales quantities decreased are fresh milk, flavoured milk and cream cheese. The decrease in the demand for flavoured milk was marginal, but the decrease in the demand for fresh milk and cream cheese was meaningful;
- c) The decrease in the demand for fresh milk is overshadowed by the increase in the demand for long life milk and the estimated combined retail sales of the two types of processed milk was 1,18 percent higher in the year that ended in June 2014, than in the previous year;

Old Farm Office Park,
881 Old Farm Road,
Faerie Glen, Pretoria
PO Box 1853
Silverton, 0127



Phone +27 (12) 991 4164
Fax +27 (12) 991 4134
E-mail yvonne@sampro.co.za
Website <http://www.sampro.co.za>

*SAMPRO IS A MEMBER OF: The Global Dairy Economist Group, Global Dairy Platform, The National Committee of The International Dairy Federation, Milk SA, Dairy Standards Agency, The CEO Forum and the Service Delivery Forum of the Minister of Agriculture, Forestry and Fisheries.
SAMPRO is also an Accredited Training Provider(with FoodBev SETA) for the secondary dairy industry.*

- d) The higher retail sales quantities of six of the nine dairy products should be evaluated against the background of the following:
- The increased retail sales quantities were, to a large extent, at the expense of the retail prices. The average retail prices of three of the six products, increased less than the inflation rate; and
 - The retail sales quantities of generally consumed food products like bread, rice, coffee, tea and margarine were lower in the year which ended in June 2014 than in the previous year;
- e) The information provided under (b), (c) and (d) is an expression of the fact that the South African consumers are under severe pressure due to the weak economic performance of South Africa. Improvement of the situation in the coming months should not be expected as it is generally accepted that the prospect for economic growth in South Africa, in at least the rest of 2014, remains bleak;
- f) In 2013 and in the first five months of 2014, South Africa was in terms of mass, a net exporter of three of the six different types of dairy products, as was the case in 2008 and 2009;
- g) The total export, in terms of mass, of the six different types of dairy products in 2013 was higher than in the previous eleven years while import in 2013 was higher than in eight of the previous eleven years. This situation means that the exposure of the South African dairy industry to foreign competition in 2013 was higher than in ten of the previous eleven years;
- h) If the levels of import and export of the first five months of 2014 are maintained in the rest of 2014, the exposure of the South African dairy industry to foreign competition in 2014 will be more or less the same as in 2013. However, the downward trend in the prices of dairy products in the international market, as referred to under (k), can put upward pressure on imports and downward pressure on exports by South Africa in the near future;
- i) The prices of dairy products in the international market increased considerably in 2013 and in the first two months of 2014. The index of the Food and Agricultural Organisation (FAO) of the prices of dairy products in the international market, was in February 2014 1,1 percent higher than the previous record high level which was achieved just more than six years ago in November 2007;
- j) The increase in the prices of dairy products in the international market was the result of adverse weather conditions in the major dairy countries of the world in the first half of 2013, which limited raw (unprocessed) milk production in major dairy exporting countries and which also resulted in record high prices for raw milk in the countries concerned;

- k) Favourable weather conditions in major dairy countries of the world in the second half of 2013 and thus far in 2014, and the high prices up to February 2014, resulted in increased production of raw milk and dairy products in the world. As a result, prices started to decline and from February to July 2014 (the date of the latest information) the FAO index for dairy products declined with 17,8 percent. Prices of whole milk powder, skimmed milk powder, cheddar cheese and butter, for delivery in October and November 2014, at the auction of Fonterra on 19 August 2014 are from 17,3 to 25,6 percent lower than the price achieved at the auction on 3 June 2014. The expectation, as described in the February 2014 and May 2014 editions of “Key Market Signals for the Dairy Industry”, that the prices of dairy products in the international market will decline, has thus become a reality;
- l) Assuming normal weather conditions in the major dairy countries of the world during the rest of 2014 and no unexpected improvement in the demand, further downward pressure on prices of dairy products and raw milk in the world can originate from:
- The boycott by Russia of dairy products originating from most of the major dairy exporting countries, which was announced on 7 August 2014;
 - Possible increased supply of dairy products from the European Union linked to the abolishment of production quotas per country;
 - Possible continuation of the high production of raw milk in major dairy countries of the world;
- m) The lower prices of dairy products in the international market can result in increased import and lower export by South Africa in the near future;
- n) The prices of dairy products in South Africa are more stable than in the international market and the price of raw milk in South Africa is more stable than the raw milk prices in Europe and the USA, notwithstanding the government intervention in respect of the dairy industries in Europe and the USA, aimed at influencing supply and demand. This situation shows that the South African dairy industry, which is not the subject of such government measures, adapted more successfully to the requirement that the supply should follow the demand than the dairy industries in the USA and Europe;
- o) In South Africa the prices of dairy products and raw milk did not increase in 2013 as sharply as abroad as the supply and demand in South Africa moved close together. This position is contrary to the position in the major dairy countries of the world and in the international market for dairy products, where supply in 2013 fell short of demand due to unfavourable weather;

- p) The producer price index of dairy products of Statistics SA, with base year 2012, increased in the twelve months up to July 2014 (the latest available information) slightly (1,6 percent) more than that of raw milk, but in the 30 months from January 2012 to July 2014 the producer price index of dairy products increased less (6,9 percent) than that of raw milk. In both periods the producer price index of raw milk increased more than that of other primary agricultural products and the producer price index of dairy products increased more than that of other manufactured food products;
- q) The production of raw milk in South Africa increased from 2011 to 2012 with 4,5 percent and from 2012 to 2013 with 2,2 percent. The production in the first seven months of 2014 was 0,56 percent lower than in the same months of 2013;
- r) Raw milk production in South Africa is seasonal and production increases normally sharply from July to October. The production of raw milk is highly dependent on weather conditions. If the weather conditions in the rest of 2014 are favourable, higher production of raw milk than in same months of 2013 is a possibility due to the recent increases in the price of raw milk and the lower feed price that should result from the lower maize and soya prices;
- s) Higher production of dairy products in South Africa on the back of higher raw milk production, can create a very challenging situation for the South African dairy industry later in 2014 as:
- Consumer demand in South Africa is under pressure due to the weak economic growth of South Africa; and as
 - Higher import and lower export of dairy products by South Africa is a possibility due to the sharp decline of the prices in the international market.
- t) The situations in the South African and the international dairy industries are at present very dynamic due to different reasons. As a result, views about the prospects of the industries in the immediate future should be reviewed when new information regarding key market signals becomes available.

Enquiries: Alwyn P Kraamwinkel
Tel: 012-991 4164
Cell: 082 564 6845
E-mail: yvonne@sampro.co.za

Svj/SAMPRO/SAMPRO 2014/Sept 3 News Release Key Market Signals for the Dairy Industry
FWORD: 2014 SAMPRO News Release Key Market Signals AUG 8SEP

Old Farm Office Park,
881 Old Farm Road,
Faerie Glen, Pretoria
PO Box 1853
Silverton, 0127



Phone +27 (12) 991 4164
Fax +27 (12) 991 4134
E-mail yvonne@sampro.co.za
Website <http://www.sampro.co.za>

SAMPRO IS A MEMBER OF: The Global Dairy Economist Group, Global Dairy Platform, The National Committee of The International Dairy Federation, Milk SA, Dairy Standards Agency, The CEO Forum and the Service Delivery Forum of the Minister of Agriculture, Forestry and Fisheries.
SAMPRO is also an Accredited Training Provider(with FoodBev SETA) for the secondary dairy industry.