



MPO POINTER 13/22 SEPTEMBER 2020

THE AVERAGE MILK PRICE FOR FARMERS SHOULD BE AT LEAST R5,56

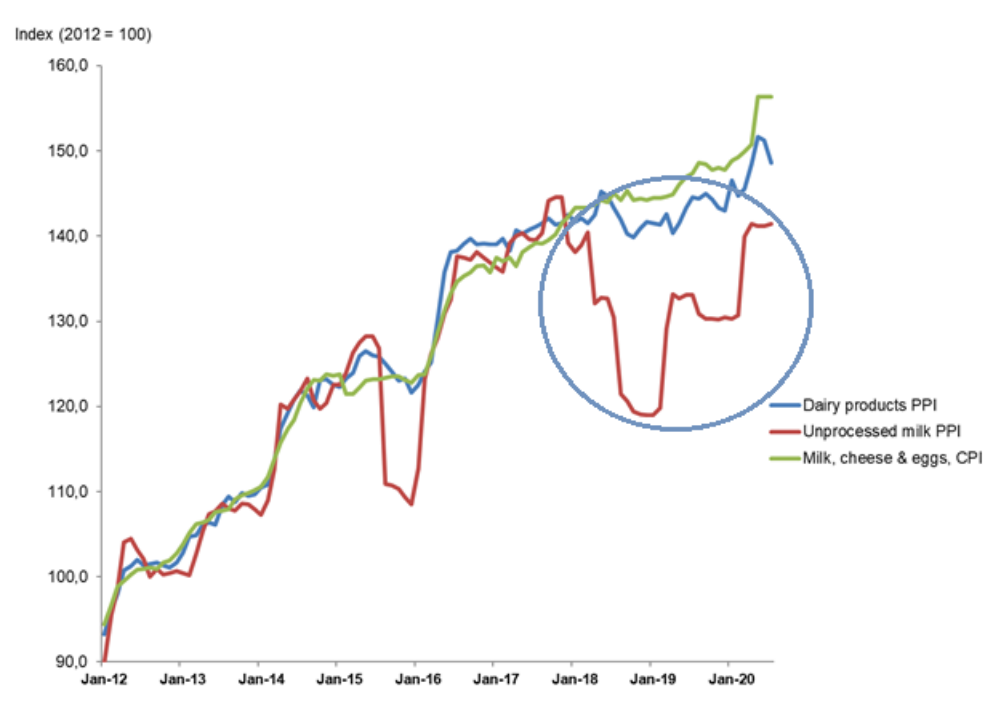
Unprocessed milk production for August 2020 is estimated at 288 million litres, 1,5% less than in August 2019. Cumulative unprocessed milk production for 2020 (inclusive of August) was 2 057 million litres, indicating a negative growth of -0,6% for the first eight months of 2020, if compared to the same period of 2019 (source: Milk SA last two months preliminary). February 2020 was a leap month and, if the month is adjusted to 28 days, the negative growth percentage for the first eight months increases to -1,1%.

Looking further back, the growth in 2019 for the first eight months was 0,5% and for the first eight months of 2018 it was 6,6%. The 2018 base was therefore very high, which puts the subsequent lower growth rates into perspective.

Table 1: Cumulative unprocessed milk production ('000 ℓ)

First eight months of 2018	2 058 400
First eight months of 2019	2 069 510
First eight months of 2020	2 056 519

It is clear from the table above that production stagnated in 2019 and actually contracted in 2020. It is acknowledged that growth in 2018 expanded too fast and that fact sheds light on the graph below.



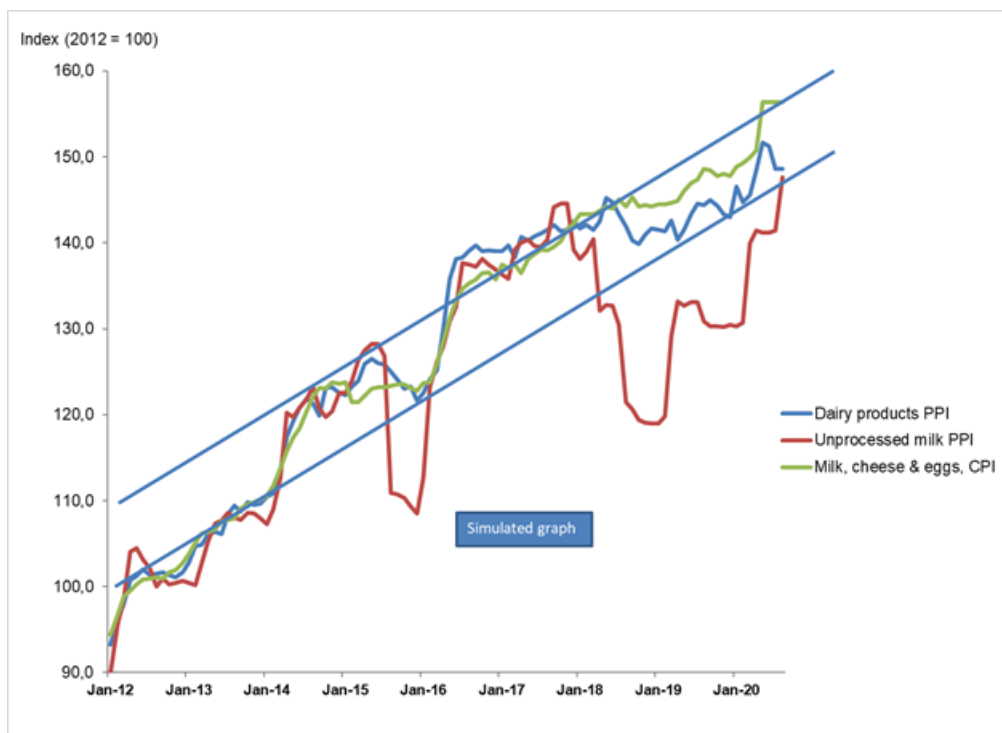
Source: Statistics SA

The MPO has consistently commented that the reduction in farmer prices reflected in the above graph has been too steep and lengthy. The MPO has cautioned that a reduction of this magnitude would harm the industry in the short and medium term, wipe out farmer reserves, force farmers to



accumulate debt to survive, and force farmers to leave the industry. All of this happened while role players downstream were bailing the ZAR. The cautionary remarks of the MPO were ignored. In a bid to stem the accelerating decline, processors are now increasing prices in spring to protect supply in the winter of 2021.

To rectify the situation illustrated in the graph above, the average price paid to farmers should be at least R5,56. In the graph below, this price was used to simulate the probable effect on the unprocessed milk producer price index (PPI). This would only increase the PPI for the farmer to marginally within the trend band of the two other indices.



Simulated graph.

Milk farmers are currently in a good position to negotiate price and contract terms.

The MPO is more than willing to assist all role players in the value chain with objective primary industry information and market interpretation.

Bertus van Heerden, chief economist, Milk Producers' Organisation (MPO)