Dairy market trends

March 2021

Dairy Market Trends March 2021: 2021 will be the year of price recovery for the primary dairy sector. *Remember producer prices for unprocessed milk go up and down.* Do not chase production.

Executive summary

The Global Dairy Trade (GDT) Index for both December 2020 and January 2021 registered strong upward momentum. **A double break occurred in March 2021.** The 1100 and 1300 index resistance levels were sliced through, showing strong demand with limited supply. It seems that global production and shipping time lost during the hard lockdown in 2020 reduced supply and geographical distribution.

International prices for milk powders, butter and cheddar cheese as reported by USDA converted to Rand/ton, overall, echo the developments in the GDT index. In Rand terms, three of the four product prices increased from March 2020 to March 2021. Butter with 18%, skimmed milk powder (SMP) with 9%, for whole milk powder (WMP) with 29%, while cheddar cheese decreased with 10%. In US dollar terms three of the four product prices increased from March 2020 to March 2021. Butter with 32%, skimmed milk powder (SMP) with 22%, **for whole milk powder (WMP) with 44%**, while cheddar cheese moved sideways. Dairy product prices upbeat, indicating good demand across world markets.

In South Africa, the demand for dairy products is doing extremely well. In the year which ended in December 2020, the retail sales quantities of seven of the nine dairy products being monitored were between 2.2 to 14.8 percent higher than 2019 while the retail sales quantities of two dairy products were 7.9 and 10.6 percent lower than in 2019, In 2020, the retail sales prices of all nine dairy products increased with from 1.0 to 11.1 percent.

The increases in the quantity of retail sales of **cream -** 11.2 percent and **pre-packaged cheese** - 14.8 percent from 2019 to 2020 are the highest. The retail sales prices of the two products were 2.2 percent and 3.8 percent higher respectively in December 2020 than in December 2019.

For January 2021 the national average producer price for unprocessed milk is calculated at R5,30 and in February 2021 at R5,40 with further buoyancy present in the price. According to market information the price is set to increase to an average of R5,81 in March 2021, with some buoyancy left.

The milk: concentrate feed price ratio is illustrated in figure 10. The ratio is dangerously low from August 2020 to February 2021. **The ratio improved noteworthy in March 2021 to 1.21:1 due to improved producer prices and lower grain prices.** A ratio that indicates reasonable levels of profitability at farming level is 1.4:1.

The upward trend in concentrate feed cost occurred from January 2018 and continued into 2021 but slowing down in March 2021. The average soybeans price in February 2021 was R9 558/ton declining to R8 234/ton (-14%) in March 2021. The average yellow maize price in January 2021 was R3 543/ton declining to R3 331/ton (-6%) in March 2021. **These reduced prices will over time reflect in the prices of concentrates and farmers need to monitor this development in feed cost charges. Grain prices are still at high levels when the current crop estimate is factored in.**

Frequently milk producers and other role players ask about the meaning and implications of specific market trends on the total dairy market balance and how it will change future markets. While the Milk Producers' Organisation cannot and will not try to predict the future in any detail, the possible general impact of specific changes will be discussed in this document. This information should not be regarded as financial advice.

While this report is compiled from sources that are deemed to be reliable, MPO cannot take responsibility for any decisions based on the information in this report.

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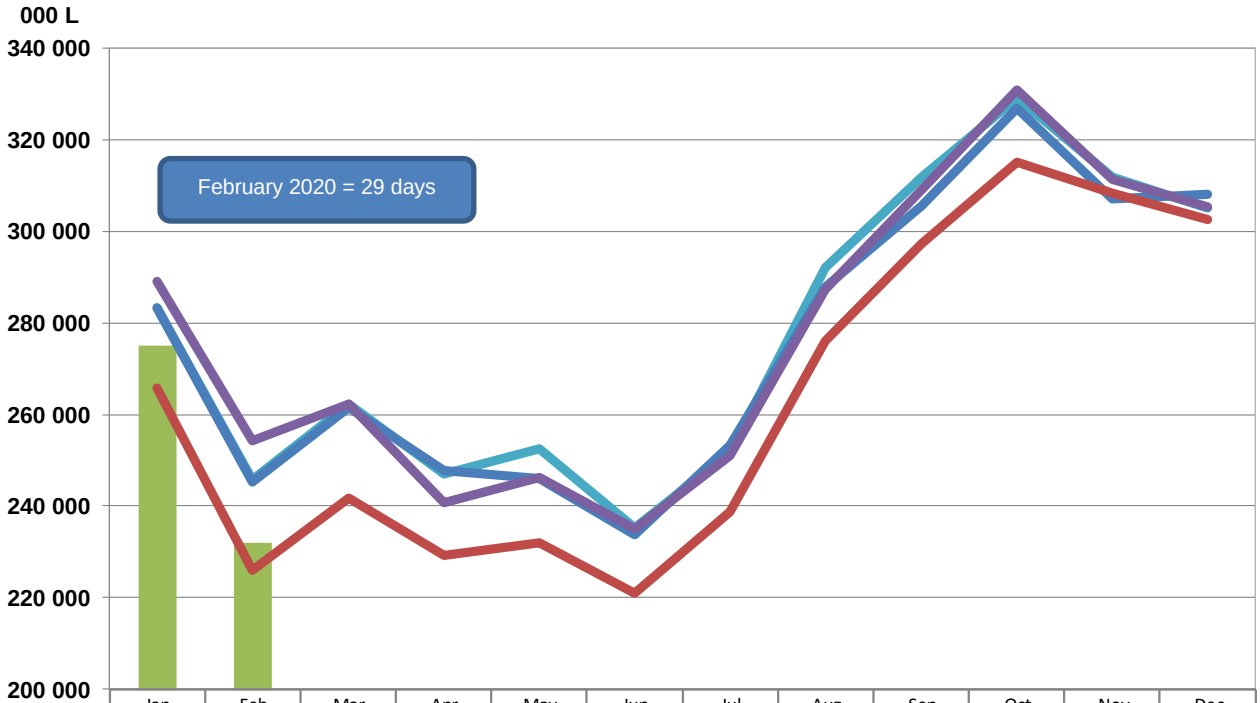
1. Milk supply, demand and prices

1.1 Milk production

Unprocessed milk production for February 2021 is estimated at 232 million litres, 8.76% less than in February 2020. Cumulative unprocessed milk production for 2021 (inclusive of February) was 507 million litres indicating a decline of 6,69% in comparison to 2020 and 4,13% less than in 2019.

Market signals from the MPO, since early 2018, indicated that the cost price squeeze is severe in farm economics due to too low producer prices and high cost increases. The MPO sounded a warning in the May 2020 publication of this journal stating that positive farm economics "would only be possible if the upward trend in producer prices prevail in 2020". Notwithstanding, producer prices moved sideways and the cost of feed sky rocketed, wiping out the increases in the producer price at the beginning of 2020, once again producing severe negative farm economics. The current decline in the production of unprocessed milk can be traced back to that juncture.

Monthly milk production is reflected in Figure 1 below.

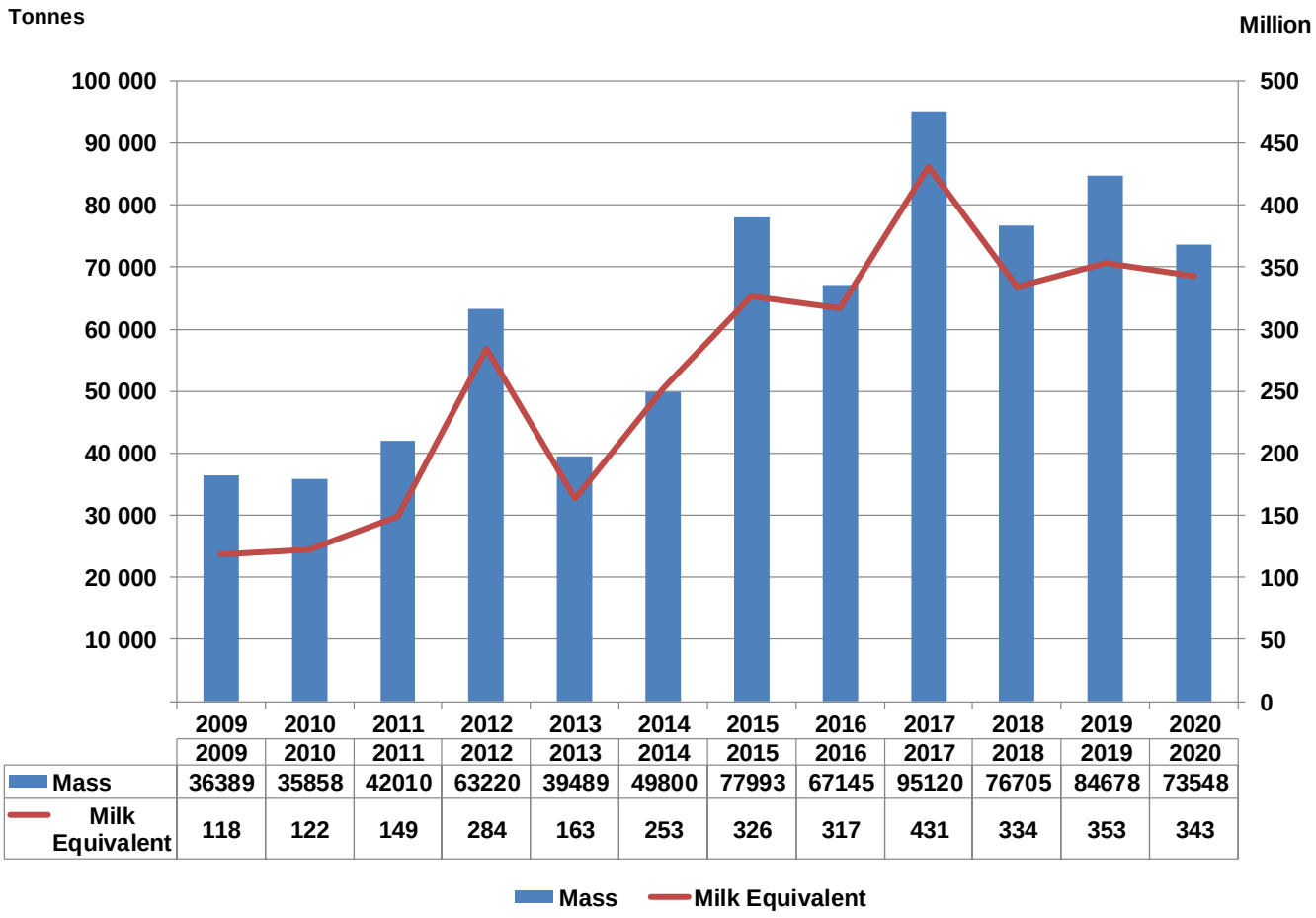


	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2021	275072	232063										
2019	283 271	245 696	262 240	246 916	252 456	235 318	251 630	291 985	311 935	329 081	311 949	305 174
2018	283 221	245 228	261 423	247 708	245 962	233 780	253 262	287 816	305 684	326 816	307 035	308 130
2017	265 808	225 966	241 736	229 246	232 006	221 080	238 704	276 158	297 339	315 032	308 405	302 532
2020	289 149	254 354	262 266	240 636	246 165	235 011	250 987	287 352	308 965	330 979	311 240	305 244

Figure 1 Monthly milk production ('000 L.).

Source: Milk SA, Jan and Feb are preliminary

1.2 Dairy imports



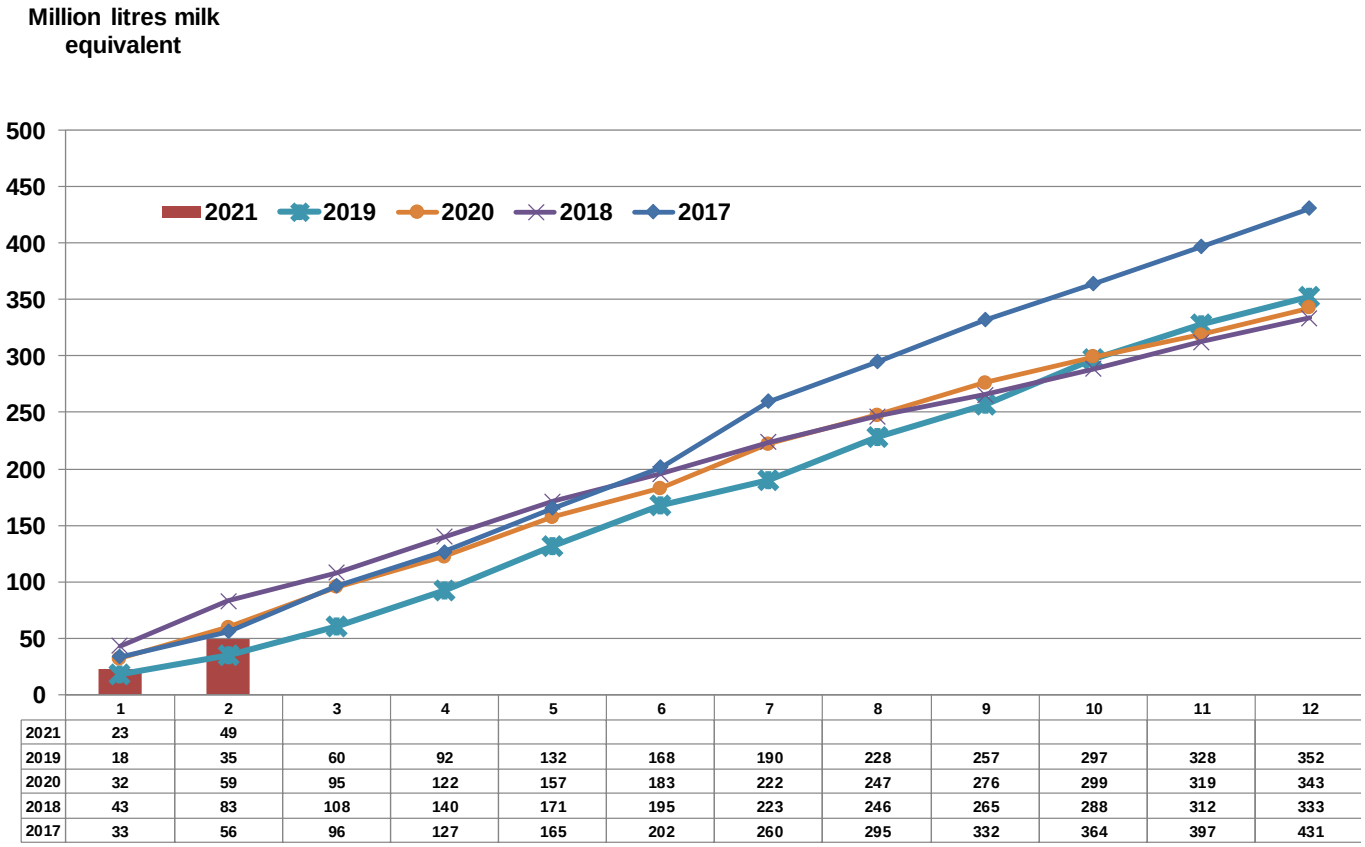
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Mass	36389	35858	42010	63220	39489	49800	77993	67145	95120	76705	84678	73548
Milk Equivalent	118	122	149	284	163	253	326	317	431	334	353	343

Figure 2 Annual imports, mass and milk equivalent basis, 2009-2020

Source: Agri Inspec

Figure 2 illustrates the fluctuation in dairy imports on a mass and milk equivalent basis over the past 12 years. On a mass basis, imports declined in 2020 with 13.1% compared to 2019. On a milk equivalent basis, imports declined in 2020 with 2,8% compared to 2019. The reduction in imports is mainly due to drastic increases in dairy commodity prices in South African Rand (ZAR) terms during the second and third quarter of 2020. The depreciation of the ZAR was in reaction to the worldwide pandemic, specifically during the initial stages.

Figure 3 illustrates monthly cumulative dairy imports on a milk equivalent basis.



	1	2	3	4	5	6	7	8	9	10	11	12
2021	23	49										
2019	18	35	60	92	132	168	190	228	257	297	328	352
2020	32	59	95	122	157	183	222	247	276	299	319	343
2018	43	83	108	140	171	195	223	246	265	288	312	333
2017	33	56	96	127	165	202	260	295	332	364	397	431

Figure 3 Monthly cumulative imports, (Mil. L.) milk equivalent basis

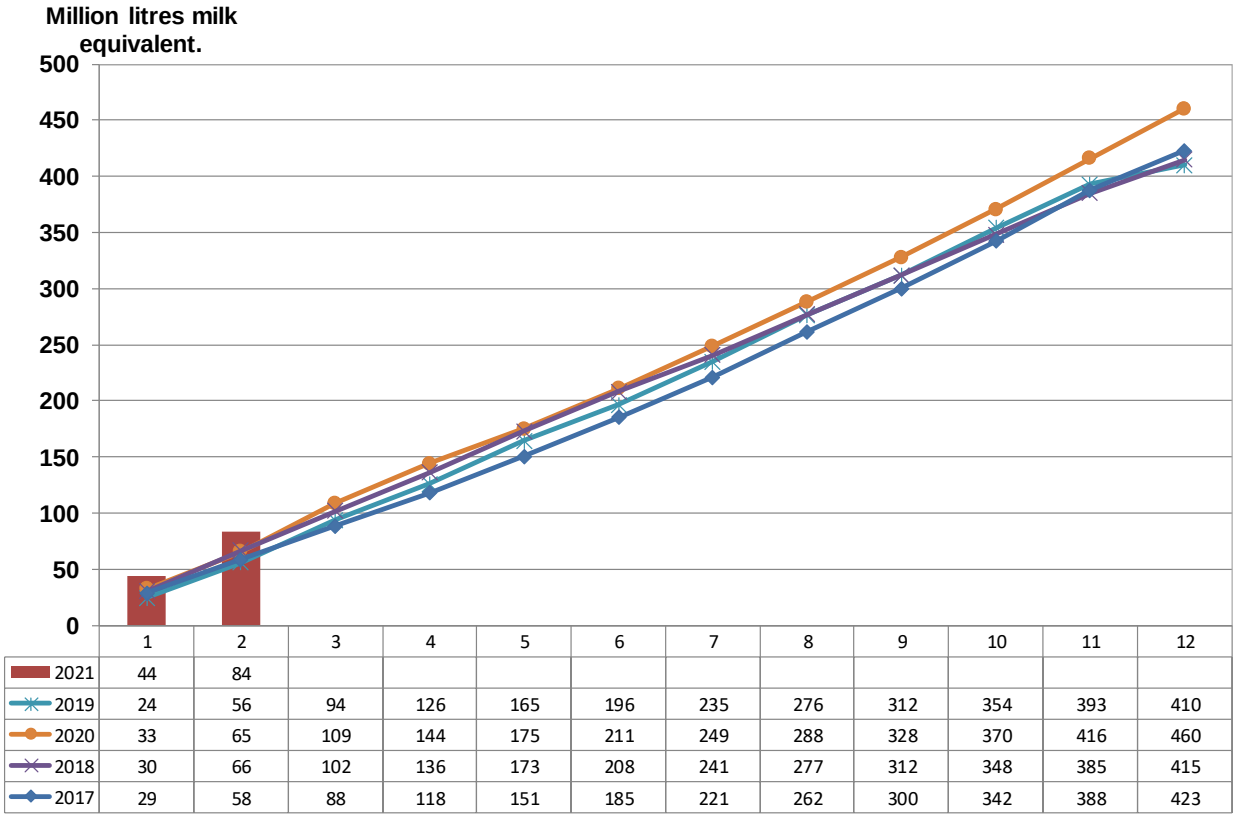
Source: Agri Inspec

1.3 Dairy exports (inclusive of sales to the BLNE countries)

Monthly cumulative exports on a milk equivalent basis are reflected in Figure 4 below. Exports in 2020 recorded an all-time high record, where SA exported 460 million litres of milk. This is a feather in the cap of the dairy value chain and affected government departments – the route to market was maintained despite the “lockdown”-restrictions in South Africa and our trading partners.

Further, it is an indication that export markets are well looked after by the SA exporters, that the markets are satisfied with the product range and quality and that untapped potential exists in the export market.

The positive export story continues into 2021. Cumulative exports for the first two months increased with 29% in comparison to same period in 2020.



	1	2	3	4	5	6	7	8	9	10	11	12
2021	44	84										
2019	24	56	94	126	165	196	235	276	312	354	393	410
2020	33	65	109	144	175	211	249	288	328	370	416	460
2018	30	66	102	136	173	208	241	277	312	348	385	415
2017	29	58	88	118	151	185	221	262	300	342	388	423

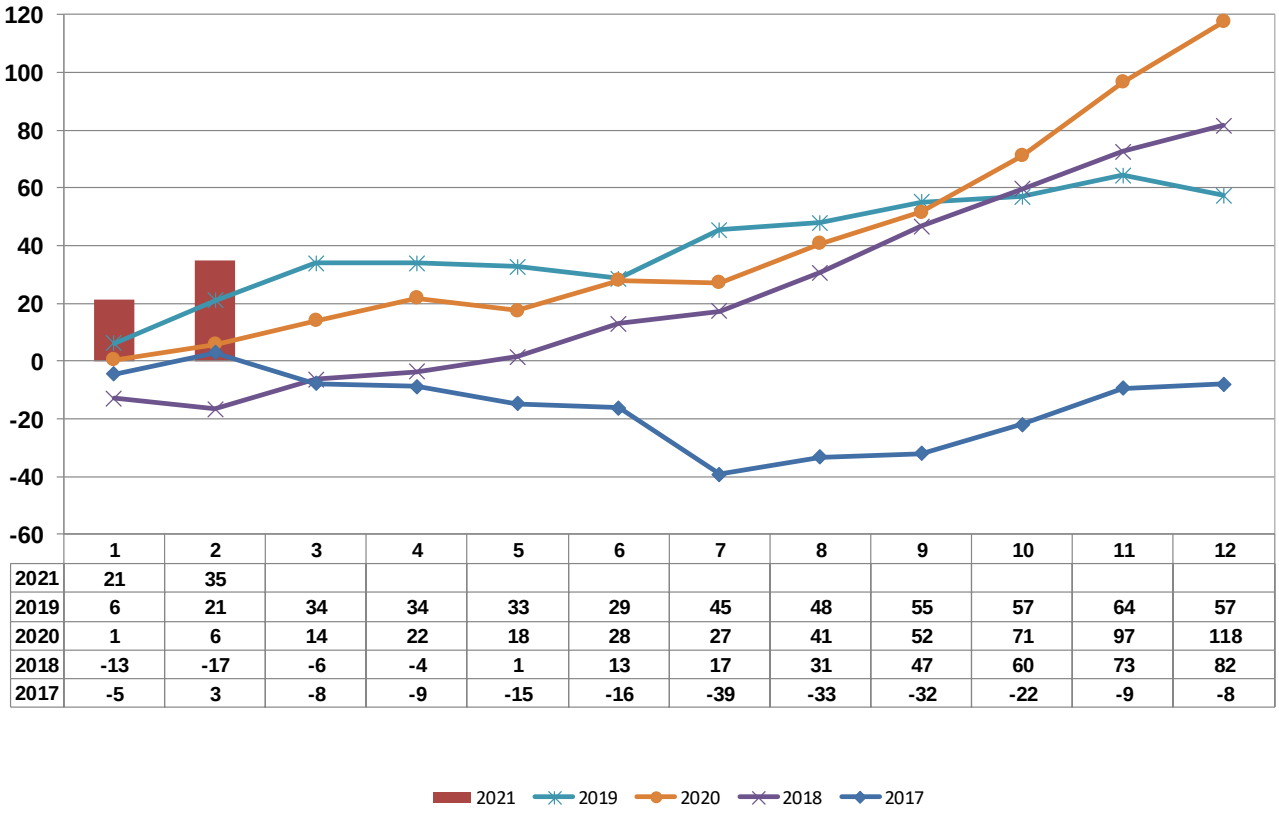
Figure 4 **Monthly cumulative dairy exports (Mil. L.), milk equivalent basis**

Source: Agri Inspec

1.4 Net exports (Inclusive of sales to BLNE countries)

The SA dairy industry regained its status as a net exporter of dairy products in 2018, maintained that status in 2019, 2020 and for the first two months in 2021. Cumulative net exports (total exports plus sales to BLNE countries less total imports) on a milk equivalent basis are shown in Figure 5 below.

Mil. L. ME



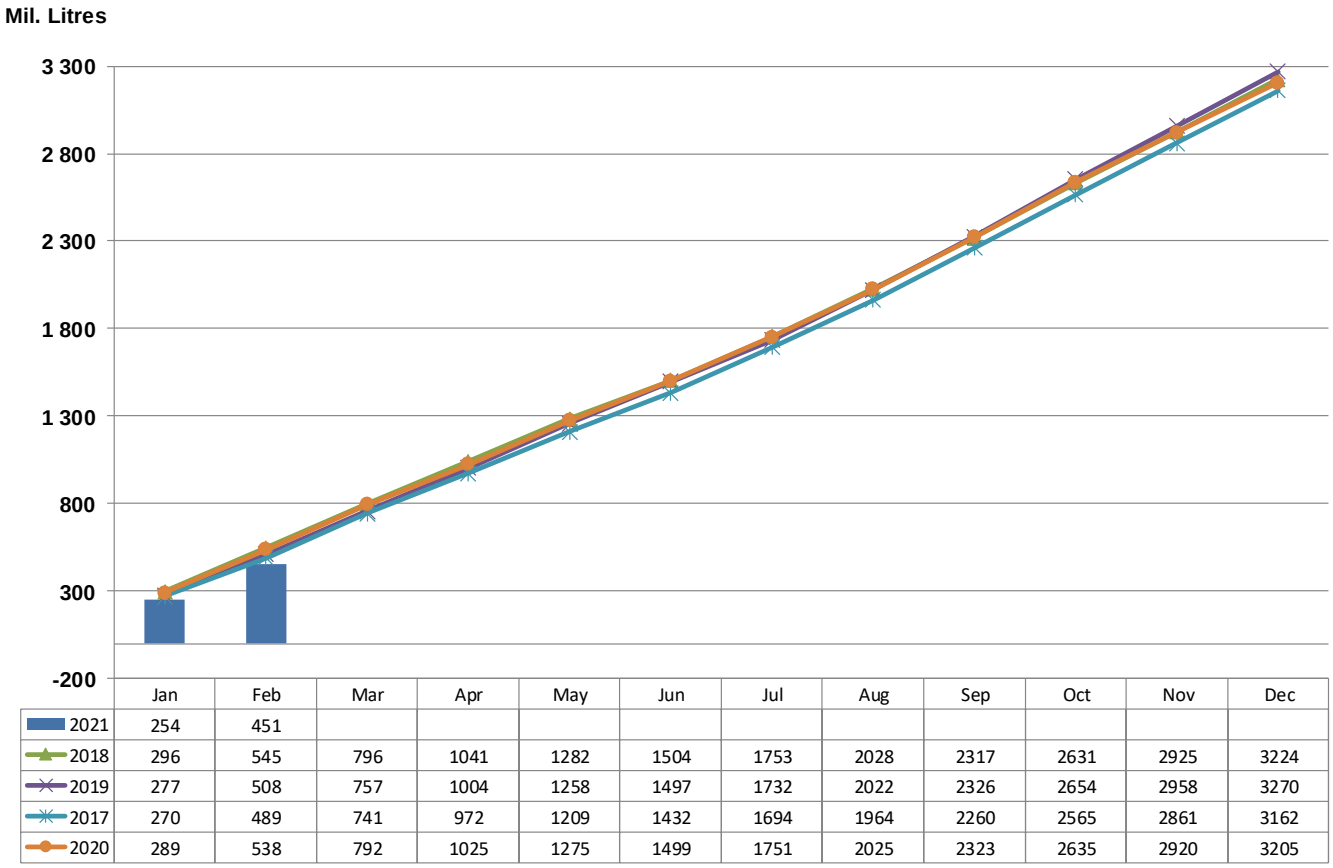
	1	2	3	4	5	6	7	8	9	10	11	12
2021	21	35										
2019	6	21	34	34	33	29	45	48	55	57	64	57
2020	1	6	14	22	18	28	27	41	52	71	97	118
2018	-13	-17	-6	-4	1	13	17	31	47	60	73	82
2017	-5	3	-8	-9	-15	-16	-39	-33	-32	-22	-9	-8

Figure 5 Cumulative net exports, milk equivalent basis (Mil. L.)

Source: Agri Inspec

1.5 Total milk supply

The total cumulative monthly supply of milk, consisting of locally produced milk less net exports (total exports inclusive of sales to BLNE countries less total imports) is reflected in Figure 6. The total cumulative supply of milk for 2020 is 2.0% less than in 2019 and 16,2% less for the first two months of 2021 in comparison to the same period in 2020.



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2021	254	451										
2018	296	545	796	1041	1282	1504	1753	2028	2317	2631	2925	3224
2019	277	508	757	1004	1258	1497	1732	2022	2326	2654	2958	3270
2017	270	489	741	972	1209	1432	1694	1964	2260	2565	2861	3162
2020	289	538	792	1025	1275	1499	1751	2025	2323	2635	2920	3205

Figure 6 Total Cumulative monthly milk supply

Source: MPO calculation

1.6 Milk demand

Table 1 contains information with regard to the change in retail sales quantities for specific dairy products. Changes in the retail price of dairy products impact on sales quantities.

In the year which ended in December 2020, the retail sales quantities of two of the nine dairy products were from 7.9 and 10.6 percent lower than in the year which ended in December 2019, while the retail sales quantities of seven dairy products were between 2.2 to 14.8 percent higher than in the year that ended in December 2019.

In the quarter which ended in December 2020, the retail sales quantities of three of the nine dairy products were between 0.6 and 9.3 percent lower than in the same quarter of 2019, while the retail sales quantities of six of the dairy products were between 1.7 to 10.2 percent higher. In December 2020 the retail sales quantities of seven of the nine dairy products were higher than in December 2019 (SAMPRO, Nielsen Report Dec 2020).

TABLE 1: PERCENTAGE CHANGE IN RETAIL SALES QUANTITIES FOR SPECIFIC DAIRY PRODUCTS

PRODUCT	Sales in the month of December 2020 versus the sales in the month of November 2020	Sales in the 3 months from October 2020 to December 2020 versus the sales in the 3 months from October 2019 to December 2019	Sales in the 6 months from July 2020 - December 2020 versus the sales in the 6 months from July 2019 to December 2019	Sales in the 9 months from April 2020 to December 2020 versus the sales in the 9 months from April 2019 to December 2019	Sales in the 12 months from January 2020 to December 2020 versus the sales in the 12 months from January 2019 to December 2019
	percent		percent		percent
Fresh Milk	-9.4	-9.3	-9.1	-9.0	-7.9
UHT milk	6.9	5.7	7.3	9.3	9.9
Flavoured milk	-8.1	-7.2	-10.4	-11.7	-10.6
Yoghurt	8.4	5.9	6.2	9.6	9.1
Maas	1.1	1.8	3.3	5.7	6.2
Pre-packaged cheese	13.4	10.2	10.8	15.0	14.8
Cream cheese	1.1	-0.6	-0.5	3.1	2.2
Butter	-3.2	1.7	6.7	10.6	8.2
Cream	4.6	7.7	11.0	14.7	11.2

Source: Nielsen supplied by Sampro

Table 2 contains information with regard to the changes in the average retail prices of specific dairy products.

In the year which ended in December 2020, the retail sales prices of all nine dairy products increased with from 1.0 to 11.1 percent. In the quarter which ended in December 2020 the retail sales prices of seven of the nine dairy products increased between 0.4 to 3.8 percent, while that of two of the dairy products decreased between 0.7 to 1.6 percent.

From November 2020 to December 2020, the retail sales prices of eight of the nine dairy products increased between 0.8 to 9.6 percent, while that of one dairy product decreased with 2.7 percent.

The increases in the quantity of retail sales of **cream -** 11.2 percent and **pre-packaged cheese** - 14.8 percent from 2019 to 2020 are the highest. The retail sales prices of the two products were 2.2 percent and 3.8 percent higher respectively in December 2020 than in December

2019. In the year 2020, the retail sales quantity of fresh milk, was 7.9 percent lower than in the year 2019, and that of UHT milk 9.9 percent higher. The total estimated retail sales quantity of unflavoured and unsweetened milk (fresh and long-life milk), was 3.3 percent higher in the year 2020, than in the previous year. Unflavoured and unsweetened milk utilize approximately 51.7 percent of the total raw milk production in South Africa (SAMPRO, Nielsen Report Dec 2020).

The major milk consuming categories are doing well despite consumer disposable income being under pressure and a weak SA economy. It seems that the dairy component in the consumer basket is getting stronger and solidified. Good marketing efforts by all the role players in the value chain should be recognised in this trend.

Early indications seem to indicate a change in consumer behaviour giving rise to a new dairy product mix. Home cooking is driving this change and only time will tell whether it is permanent or temporary.

TABLE 2: CHANGES IN THE AVERAGE RETAIL PRICES OF SPECIFIC DAIRY PRODUCTS

PRODUCT	December 2020 versus November 2020 (1 month ago)	December 2020 versus September 2020 (3 months ago)	December 2020 versus June 2020 (6 months ago)	December 2020 versus March 2020 (9 months ago)	December 2020 versus December 2019 (12 months ago)	December 2020 versus June 2019 (18 months ago)	December 2020 versus December 2018 (24 months ago)
	Percent	Percent	Percent	Percent	Percent	Percent	Percent
FRESH MILK	1.0	1.3	0.6	1.6	2.8	4.9	8.9
UHT MILK	2.1	0.4	-1.3	4.7	4.3	5.8	16.4
FLAVOURED MILK	9.6	1.7	-0.6	3.6	4.7	6.1	10.4
YOGHURT	0.8	-0.7	1.0	-0.05	2.2	0.2	3.6
MAAS	-2.7	-1.6	-3.1	-2.8	1.0	0.9	3.0
PRE-PACKAGED CHEESE	1.9	1.7	1.6	1.6	3.8	5.3	6.5
CREAM CHEESE	3.0	3.8	3.7	8.5	9.4	11.4	14.6
BUTTER	4.6	1.2	1.7	0.1	11.1	8.4	11.1
CREAM	4.5	3.0	2.8	2.9	2.2	7.7	10.6

Source: Nielsen figures supplied by SAMPRO

1.7 Producer prices

Producer prices are indicated in Figure 7. The graph is calculated by the MPO based on information supplied by members and other role players, **and is a national average.** The MPO provided a market analysis in MPO Pointer number nine and number 10 (available on the MPO webpage) that indicated how producer prices fell behind prices in the secondary and tertiary industries and that adequate margins exist to bring the producer price in line with the indices tracking price movements in the primary, secondary and tertiary industries.

The performance of the value of dairy products being sold despite four successive quarters of negative economic growth and the lockdown due to the Covid-19 pandemic indicated a vibrant and economic healthy value chain that can remunerate dairy farmers adequately.

For January 2021 the national average producer price for unprocessed milk is calculated at R5,30 and in February 2021 at R5,40 with further buoyancy present in the price. According to market information the price is set to increase to an average of R5,81 in March 2021, with some buoyancy left.

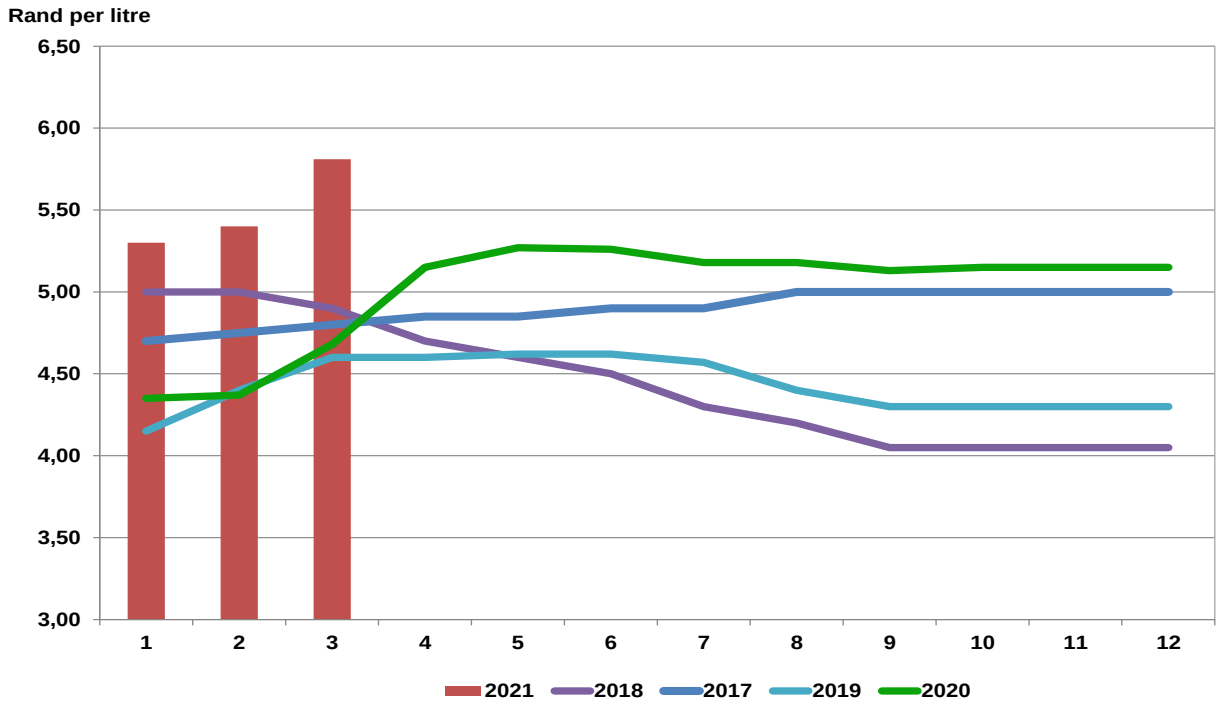


Figure 7 Monthly milk producer prices, 2017-2021

Source: Feb and March, preliminary, MPO calculations

1.8 Retail prices

Retail prices of fresh milk in different packaging are supplied by the South African National Consumer Union (SANCU). The retail prices of fresh milk per litre for milk packaged in 2-litre plastic containers are compared to producer prices in Figure 8. The farm to retail price spread is too wide and exhibiting a divergent trend. The MPO is focusing on the negative implication of this trend for dairy farmers and alerting various institutions in this regard. The spread improved (the difference decreased) in November, December and January 2021.

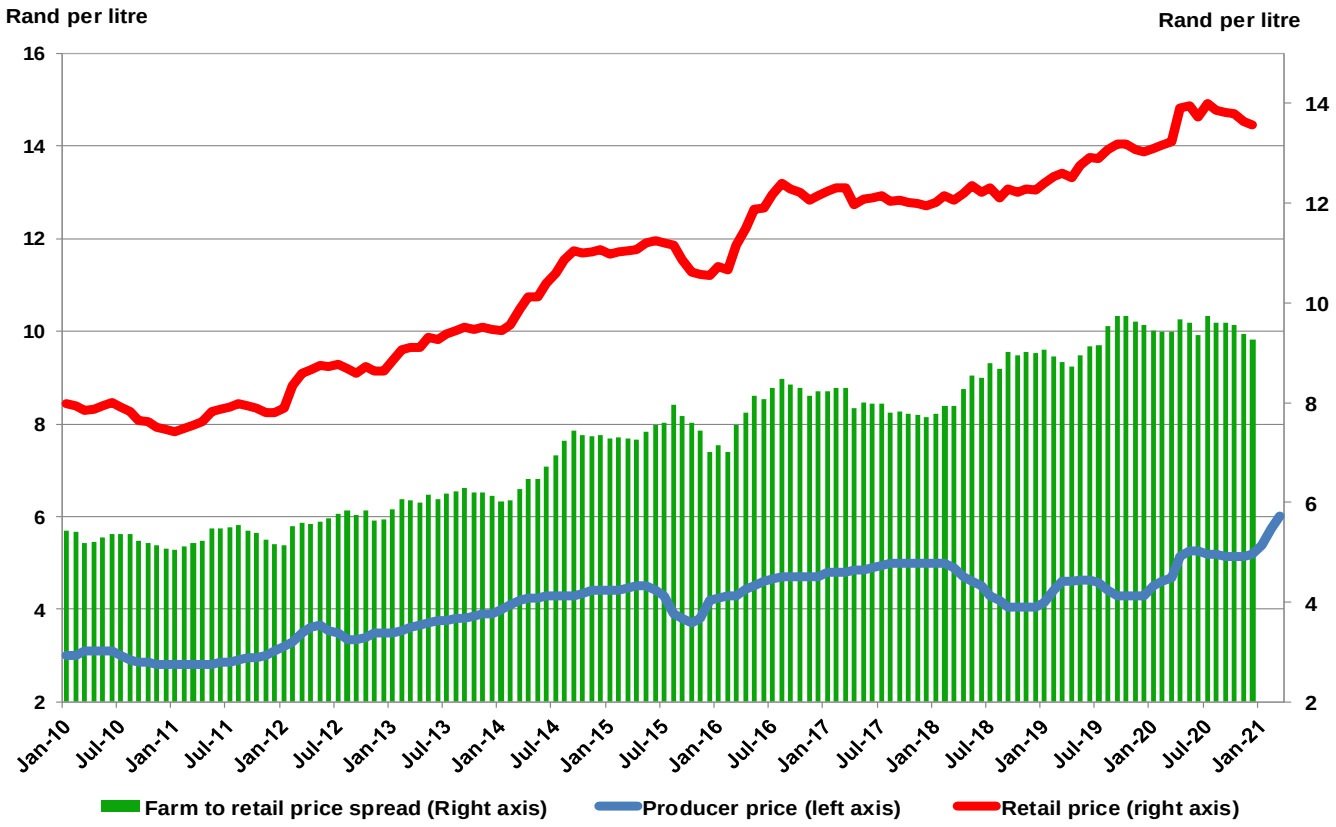


Figure 8 Monthly producer and retail prices, 2010- 2021

Source: MPO, SANCU

1.9 Concentrate feed price

Feed cost is the most important cost item for milk producers. Internationally the price of maize and soybeans are used as a proxy for feed prices. A derived feed price is thus defined as the weighted price per kilogram of maize and soybeans (70% maize, 30% soybeans). Feed prices, based on Safex nearest month prices, are reflected in Figure 9. Farmers' production decisions are not based on absolute prices, but on relative prices. If the producer price of unprocessed milk decrease in relation to feed prices, farmers will tend to produce less, and if prices increase relative to feed prices, production will increase. Unfavourable milk: feed price ratios will result in slower production growth or lower production over time.

Up and until February the driver of the higher yellow maize and soya prices on the Chicago Mercantile Exchange (CME), previously known as the Chicago Board of Trade (CBOT), was the unexpected higher demand from China. These developments were carried through to our grain market as well.

The upward trend in feed cost is clearly visible since January 2018 and continued into 2021 with March 2021 starting to put some brakes on prices. The average soybeans price in February 2021 was R9 558/ton with March 2021 declining to R8 234/ton (-14%). The average yellow maize price in January 2021 was R3 543/ton with March 2021 declining to R3 331/ton (-6%). These reduced prices will over time work through to the prices of concentrates and farmers need to monitor this development in feed cost charges. **Grain prices are still at high levels when the current crop estimate is factored in.**

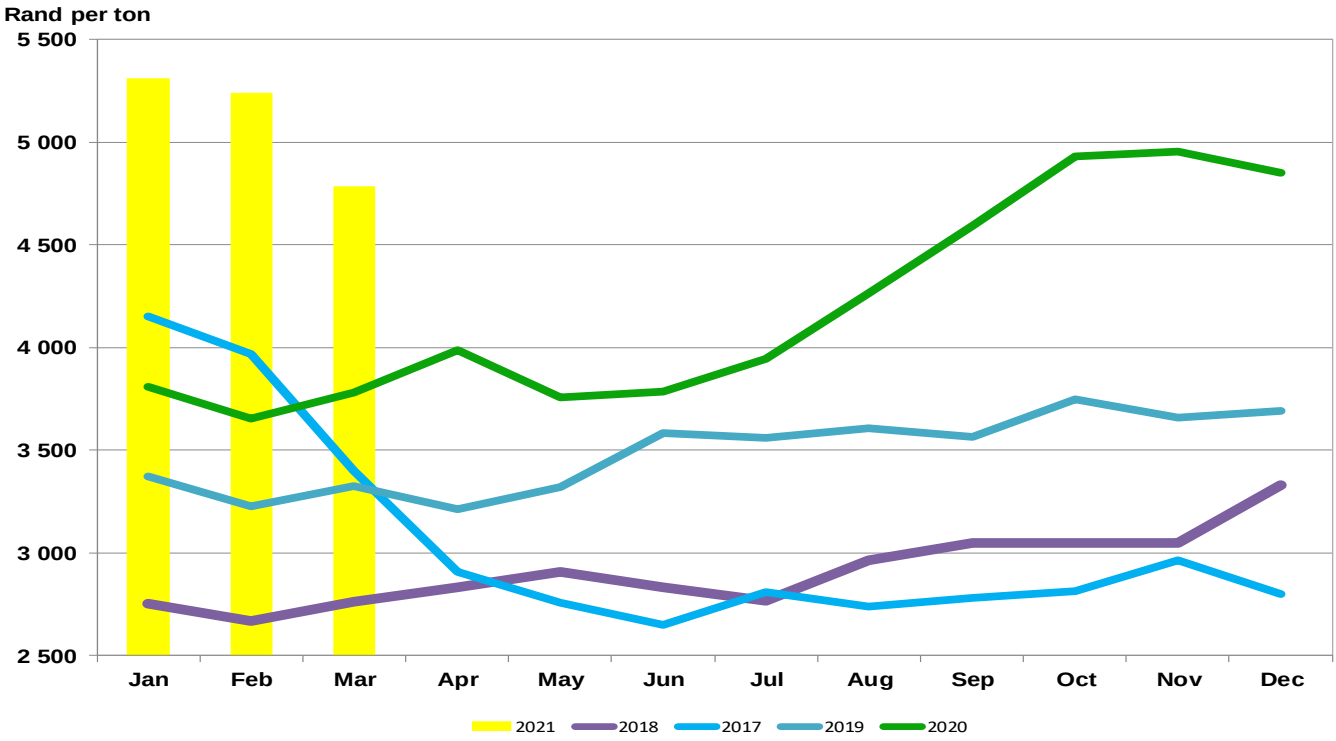
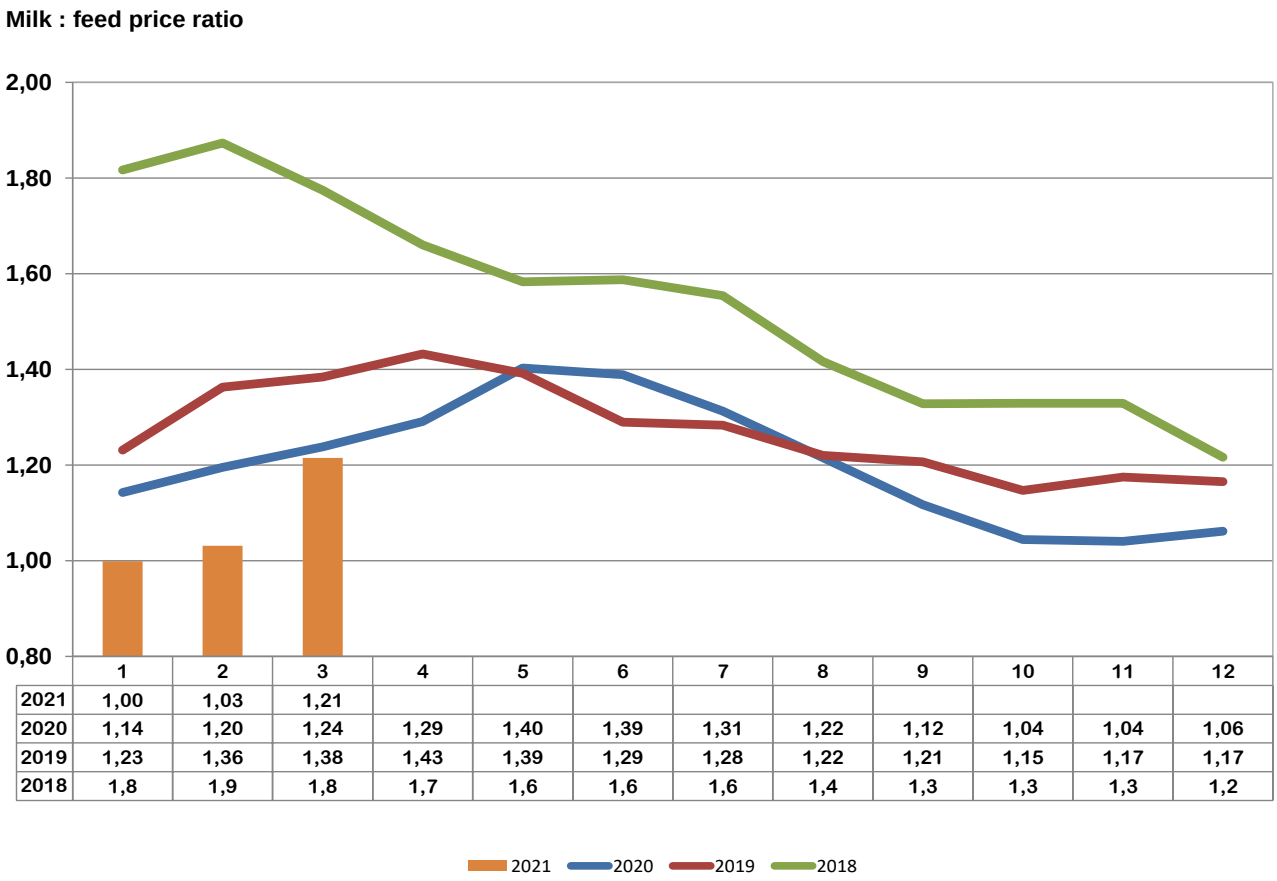


Figure 9 Calculated dairy concentrate feed prices, 2016-2021 *Source: Safex nearest month data*

The milk: concentrate feed price ratio is illustrated in figure 10. The ratio is dangerously low from August 2020 to February 2021. The ratio improved noteworthy in March 2021 to 1.21:1 due to improved producer prices and lower grain prices. A ratio that indicates reasonable levels of profitability at farming level is 1.4:1.

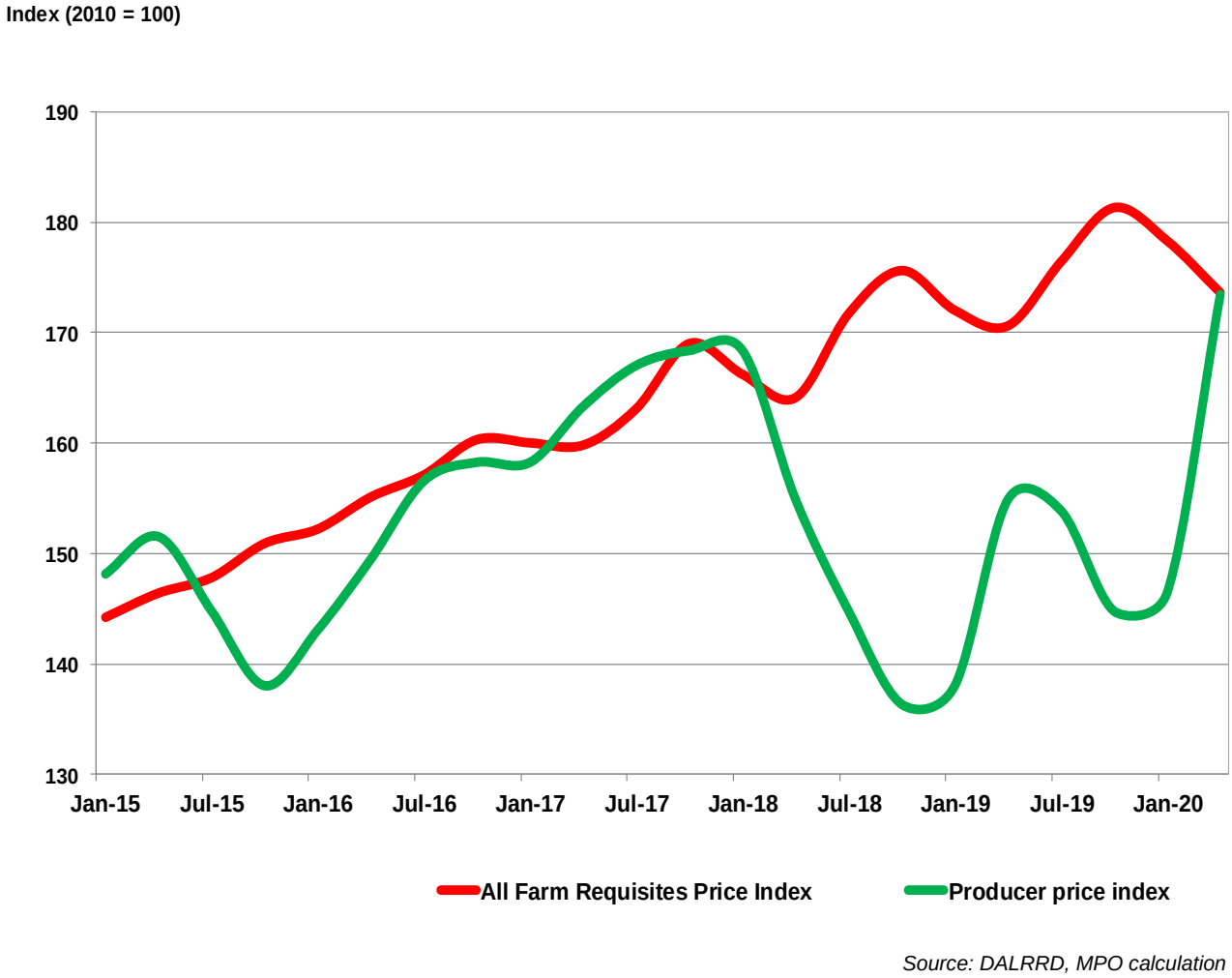


	1	2	3	4	5	6	7	8	9	10	11	12
2021	1,00	1,03	1,21									
2020	1,14	1,20	1,24	1,29	1,40	1,39	1,31	1,22	1,12	1,04	1,04	1,06
2019	1,23	1,36	1,38	1,43	1,39	1,29	1,28	1,22	1,21	1,15	1,17	1,17
2018	1,8	1,9	1,8	1,7	1,6	1,6	1,6	1,4	1,3	1,3	1,3	1,2

Figure 10 Milk: concentrate feed price ratio, 2016-2020 (*Source: MPO calculations; February and March 2021 preliminary)*

1.10 Input prices

The Department of Land Reform and Rural Development (DALRRD) publishes price indexes for farm requisites on a quarterly basis. As with all indexes, this index simplifies a very complex data-set to a level that does not correspond to individual farm data-sets. However, the trend in this index gives an indication of the direction of input price changes. The farm requisite index and producer price index are shown in Figure 11. The slump in the producer price since January 2018 until March 2020 is a glaring injustice and confirms the market analysis of the MPO over that period that the farmer price for milk was too low. Due to this slump, financial stability at dairy farmer level was destroyed.



Source: DALRRD, MPO calculation

Figure 11 Quarterly Farm Requisites Price Index and Producer Price Index Jan 2015 – April 2020.

1.11 International prices

The FAO Food Price Index (FFPI) averaged 118.5 points in March 2021, 2.4 points (2.1 percent) higher than in February. **The increase marked the tenth consecutive monthly rise in the value of the FFPI to its highest level since June 2014**. The increase was led by strong gains in meat and dairy sub-indices.

The FAO Cereal Price Index averaged 123.6 points in March, down 2.2 points (1.7 percent) from February, ending the eight-month rising trend, but still 25.9 points (26.5 percent) above its March 2020 level. Among major cereals, wheat export prices declined the most in March, falling 2.4 percent, however, they remained 19.5 percent higher than in the same month last year. The month-to-month decline in wheat prices mostly reflected generally good supplies and favourable production prospects for the 2021 crops. International maize and barley prices also fell in March, although continued strong import demand from China prevented them from falling more significantly, and sorghum prices even rose.

The FAO Dairy Price Index averaged 117.4 points in March, up 4.4 points (3.9 percent) from February, rising for the tenth consecutive month and lifting the index to nearly 16 percent above its value in the corresponding month last year. In March, international butter prices rose, mainly underpinned by somewhat tight supplies in Europe due to a slow start to its milk production season and increased internal demand in anticipation of a foodservice sector recovery. Milk powder prices also rose, supported by a surge in imports in Asia, especially China, due to concerns over possible short-term sourcing challenges amidst seasonally declining milk production in Oceania and scarce shipping container availability in Europe and North America. By contrast, cheese prices fell slightly for a third consecutive month due to limited demand for spot supplies.

The FAO Meat Price Index* averaged 98.9 points in March, up 2.2 points (2.3 percent) from February, continuing the upward trend for the sixth consecutive month, but still stood slightly (0.5 percent) below its value a year ago. Poultry and pig meat quotations increased, underpinned by a fast pace of imports by Asian countries, mainly China. A surge in internal sales in Europe in preparation for the Easter celebrations also supported pig meat prices.

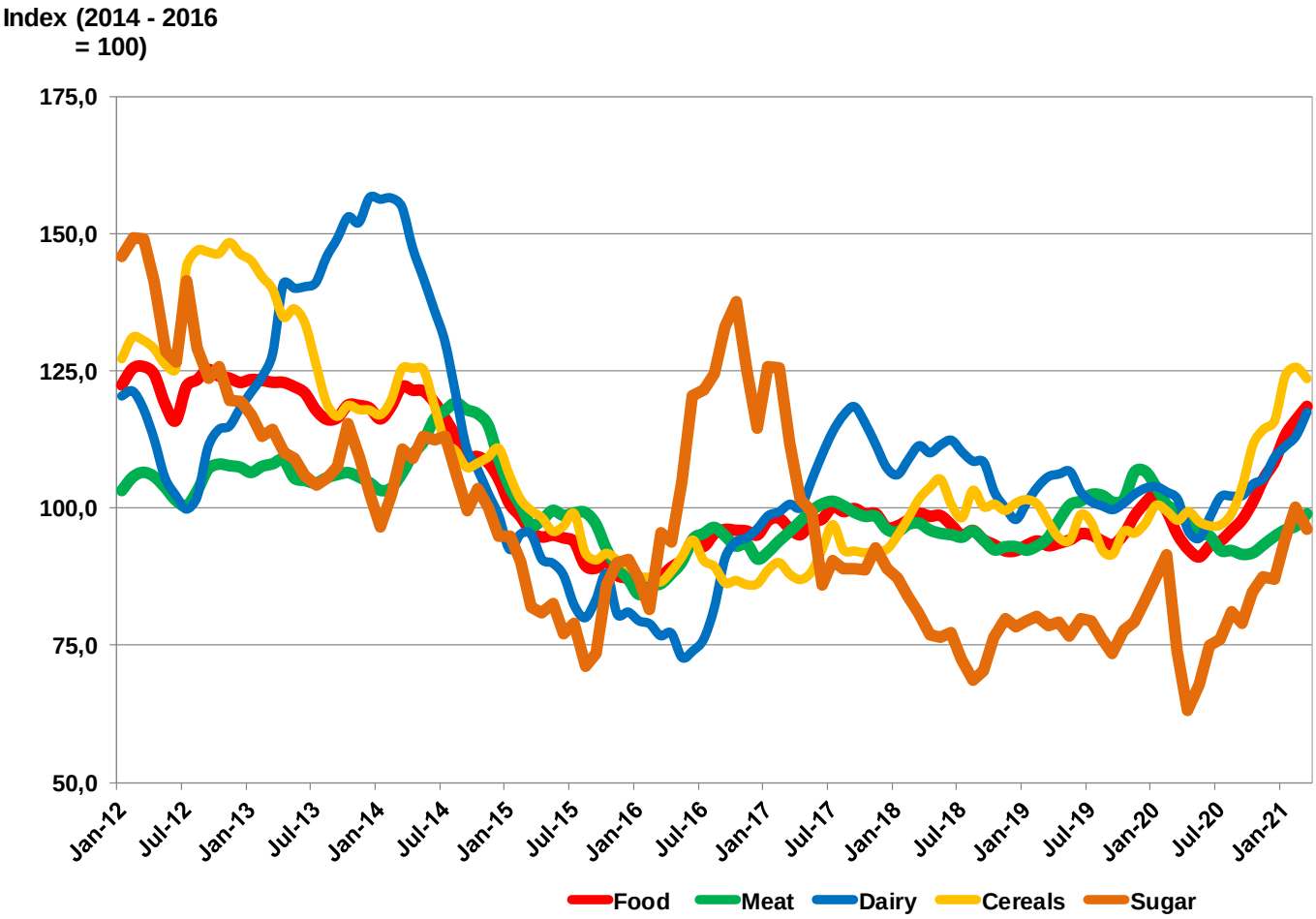


Figure 12 Monthly FAO food price indexes

Source: FAO food price index

The Global Dairy Trade platform is an online auction through which large volumes of dairy products can be sold or bought. There are two trading events per month where people across the globe can enter bids or offers.

Figure 13 shows the movement of the Global Dairy Trade (GDT) price index inclusive of December 2020. According to this index international prices (USD) are continuing to zig-zag with the index showing indication of a change in the wavelength and frequency regarding price movement, starting early in 2020. This usually indicates nervousness in the market when unknown variables are introduced which could relate to the influence of the worldwide pandemic. Both December 2020 and January 2021 registered strong upward momentum. A double break occurred in March 2021. **The 1100 and 1300 index resistance levels were sliced through, showing strong demand with limited supply.** It seems that global production and shipping time lost during the hard lockdown in 2020 reduced supply and geographical distribution.

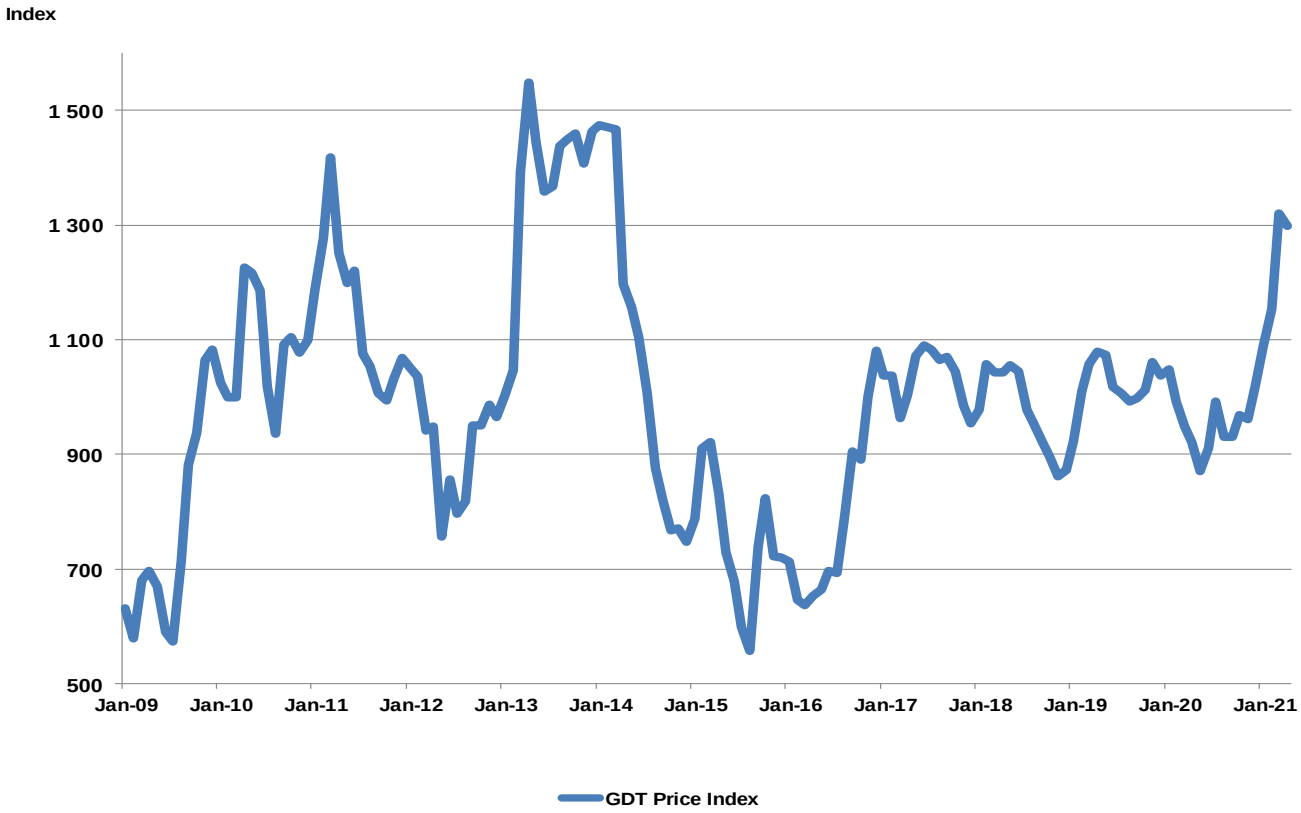


Figure 13 Global dairy trade-weighted price index

Source: Global dairy trade

Figure 14 shows international prices for milk powders, butter and cheddar cheese as reported by USDA converted to Rand/ton inclusive of March 2021. In Rand terms, three of the four product prices increased from March 2020 to March 2021. Butter with 18%, skimmed milk powder (SMP) with 9%, for whole milk powder (WMP) with 29%, while cheddar cheese decreased with 10%. In US dollar terms three of the four product prices increased from March 2020 to March 2021. Butter with 32%, skimmed milk powder (SMP) with 22%, for whole milk powder (WMP) with 44%, while cheddar cheese moved sideways.

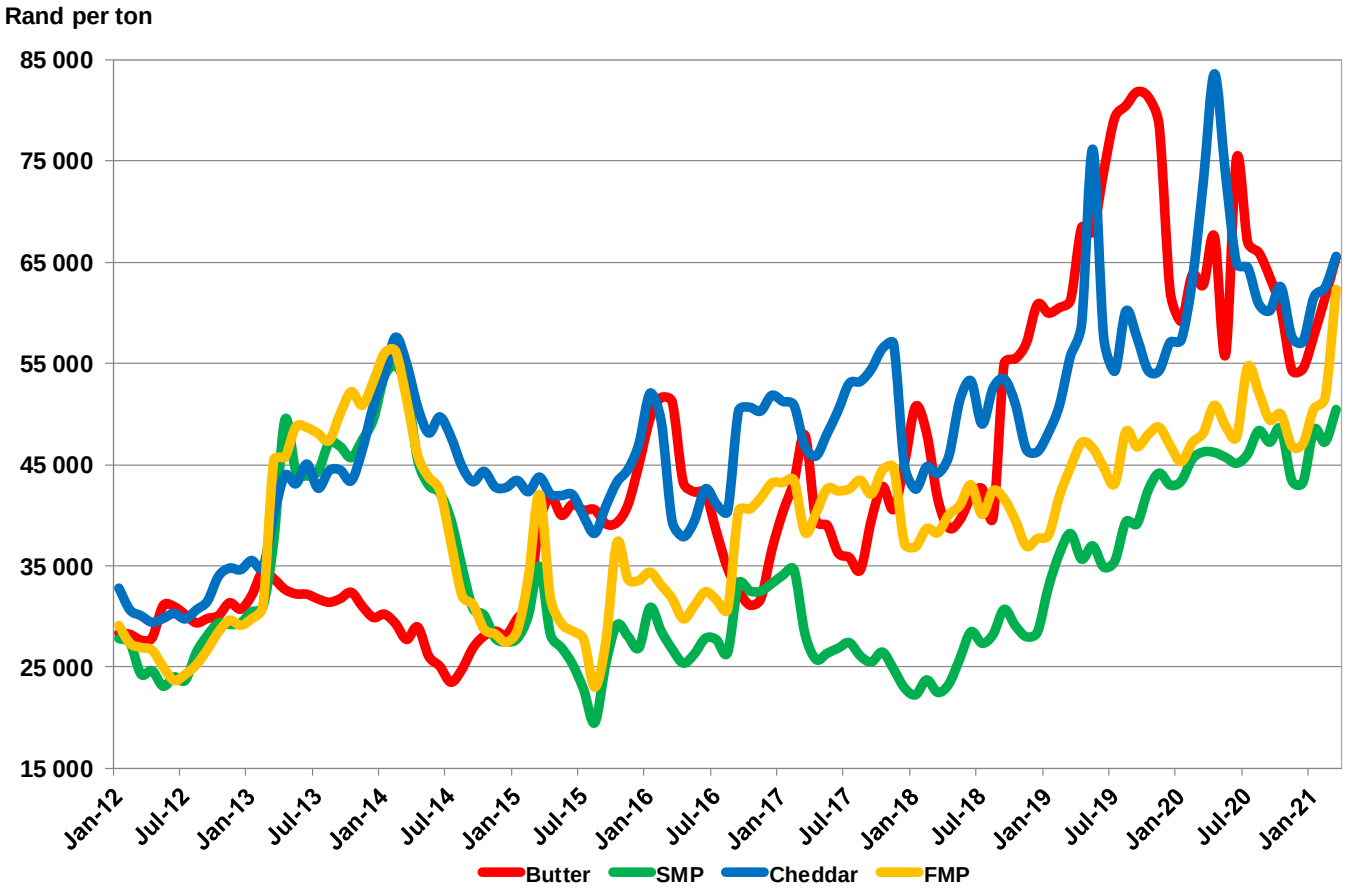


Figure 14 International dairy product prices (Rand/ton)

Source: USDA, SA Reserve Bank

1.12 Import parity and producer prices

The MPO's benchmark import parity is based on the published USDA prices, SA Rand/$ exchange rates, standard import tariffs and import and production cost as supplied by industry sources. The calculation methodology is standardised and while import parity may differ for a specific importer, based on a specific import mix and individual cost structure, the trend indicated by the import parity index is applicable to all importers

Import parity and producer prices are reflected in Figure 15.

During 2020 two new extreme high levels was recorded , namely in April and August.

The massive jumps in dairy product prices in March 2021 are fuelling import parity and outstripping producer price increases in South Africa.

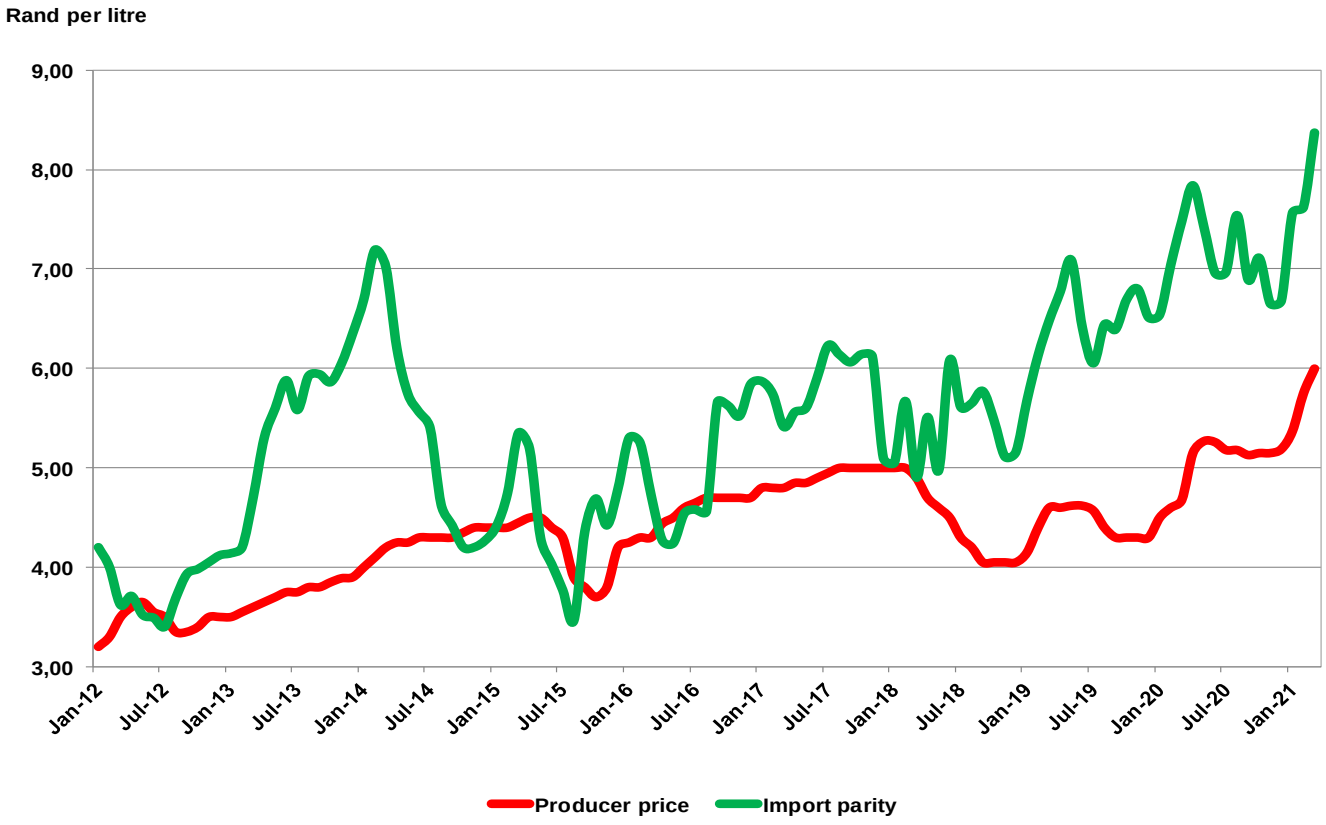


Figure 15 Monthly producer and import parity prices

Source: MPO calculations

Import parity and producer prices
Import parity at or below average producer prices implies that processors can import dairy products at current international prices at a lower price per litre than they have to pay local producers. An importing processor will still have to service the fixed cost on infrastructure and an importing retailer has to pay for packaging and manage returns.

2. Changes in cumulative unprocessed milk production in the major dairy exporting countries

Changes (%) in cumulative unprocessed milk production in the major dairy exporting countries and South Africa 2016 – 2020.

	2016	2017	2018	2019	2020
USA	**1.6**	**1.7**	**1.1**	**0.3**	**2.2**
EU	**0.2**	**2.1**	**1.4**	**0.4**	**1.6**
AUS	**-6.9**	**0**	**0.9**	**-7.3**	**2.8**
NZ	**-2.0**	**1.7**	**1.3**	**-0.8**	**0.4**
URU	**-10.4**	**7.6**	**5.7**	**-4.0**	**5.4**
ARG	**-14.4**	**-1.6**	**6.4**	**-2.3**	**7.4**
ZA	**-0.5**	**3.0**	**5.0**	**0.7**	**-0.16**

(Source: CLAL and Milk SA)

Milk production at farm level has improved in 2020 compared to 2019 for all the major exporting countries. This is due to better climatic conditions and improved producer price levels. South Africa is the odd one out, confirming that our producer price is trailing the rest of the world. This phenomenon was born in 2018 and will bear a difficult 2021.

3. Economic overview

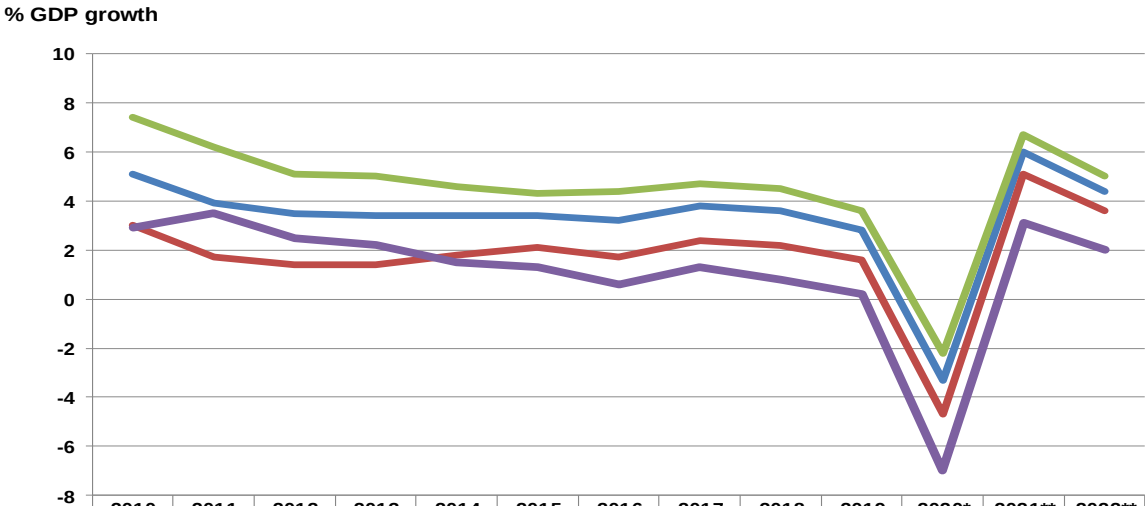
3.1 International economic outlook

After an estimated contraction of –3.3 percent in 2020, the global economy is projected to grow at 6 percent in 2021, moderating to 4.4 percent in 2022. The projections for 2021 and 2022 are 0.8 percentage point and 0.2 percentage point stronger than in the October 2020 WEO, reflecting additional fiscal support in a few large economies and the anticipated vaccine-powered recovery in the second half of the year. Global growth is expected to moderate to 3.3 percent over the medium term—reflecting projected damage to supply potential and forces that predate the pandemic, including aging-related slower labour force growth in advanced economies and some emerging market economies.

Thanks to unprecedented policy response, the COVID-19 recession is likely to leave smaller scars than the 2008 global financial crisis. However, emerging market economies and low-income developing countries have been hit harder and are expected to suffer more significant medium-term losses. Output losses have been particularly large for countries that rely on tourism and commodity exports and for those with limited policy space to respond. Many of these countries entered the crisis in a precarious fiscal situation and with less capacity to mount major health care policy responses or support livelihoods. The projected recovery follows a severe contraction that has had particularly adverse employment and earnings impacts on certain groups. Youth, women, workers with relatively lower educational attainment, and the informally employed have generally been hit hardest. Income inequality is likely to increase significantly because of the pandemic. Close to 95 million more people are estimated to have fallen below the threshold of extreme poverty in 2020 compared with pre-pandemic projections. Moreover, learning losses have been more severe in low-income and developing countries, which have found it harder to cope with school closures, and especially for girls and students

from low-income households. Unequal setbacks to schooling could further amplify income inequality.

Future developments will depend on the path of the health crisis, including whether the new COVID-19 strains prove susceptible to vaccines or they prolong the pandemic and the effectiveness of policy actions to limit persistent economic damage.



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020*	2021**	2022**
World	5,1	3,9	3,5	3,4	3,4	3,4	3,2	3,8	3,6	2,8	-3,3	6	4,4
Advanced economies	3	1,7	1,4	1,4	1,8	2,1	1,7	2,4	2,2	1,6	-4,7	5,1	3,6
Developing economies	7,4	6,2	5,1	5	4,6	4,3	4,4	4,7	4,5	3,6	-2,2	6,7	5
South Africa	2,9	3,5	2,5	2,2	1,5	1,3	0,6	1,3	0,8	0,2	-7	3,1	2

Figure 16 International economic growth and estimated growth

* Estimate
** Projection

Source: IMF WEO March 2021

3.2 South African economy

3.2.1 Economic activity and growth

Indicators of economic activity are provided by the SA Reserve Bank in the form of a co-incident, leading and lagging indicator. The monthly movement of the leading and co-incident indicator of economic activity is reflected in Figure 17. Both composite indicators supports the hypothesis of a V-shape economic recovery for the South African economy.

Indicators of economic activity
The coincident indicator of economic activity show whether the economy is in an upwards or downwards phase of the business cycle. The leading indicator shows possible changes in economic activity in future.

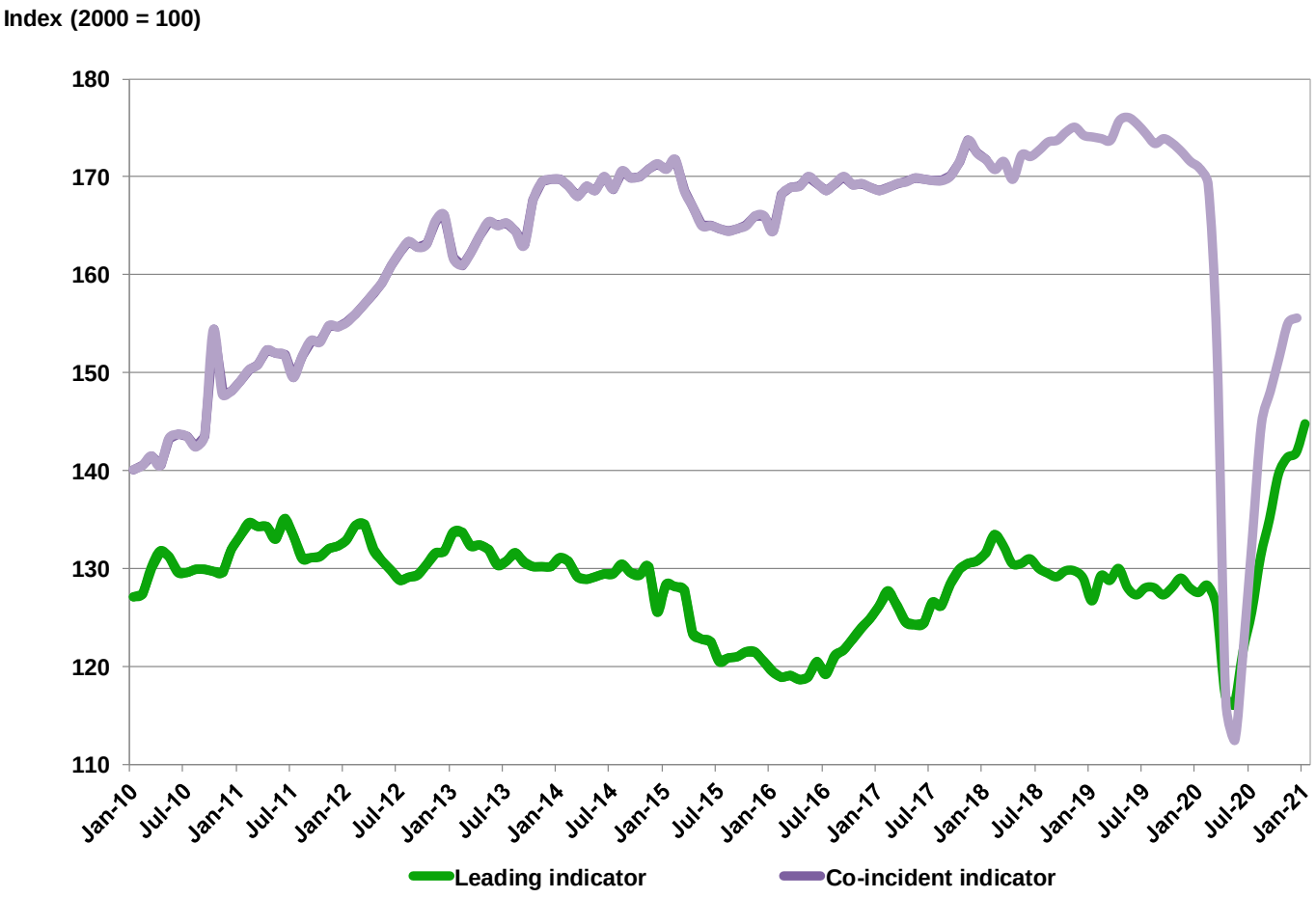


Figure 17 Leading and co-incident indicator of economic activity (*Source: SARB)*

Figure 18 shows the quarterly growth rate of the SA gross domestic product. The SA economy contracted with 3.2% in the first quarter of 2019, in the second quarter a growth rate of 3.1% was achieved, in the third quarter it contracted again with 0.8% and in the last quarter of 2019 the economy contracted with 1,4%. The consecutive quarterly contractions placed SA in a technical recession. The SA economy registered a marginal growth rate of 0,2% for the full year 2019, which is the lowest over the past 10 years.

The South African economy in 2020 contracted with 1,8% in the first quarter, with 51% in the second quarter and expanded with 66% in the third quarter of 2020 and expanded with 6,3% in the last quarter of 2020 (annualised percentages). The SA economy registered a growth rate of -7,0% for the full year of 2020, which is the lowest over the past 60 years.

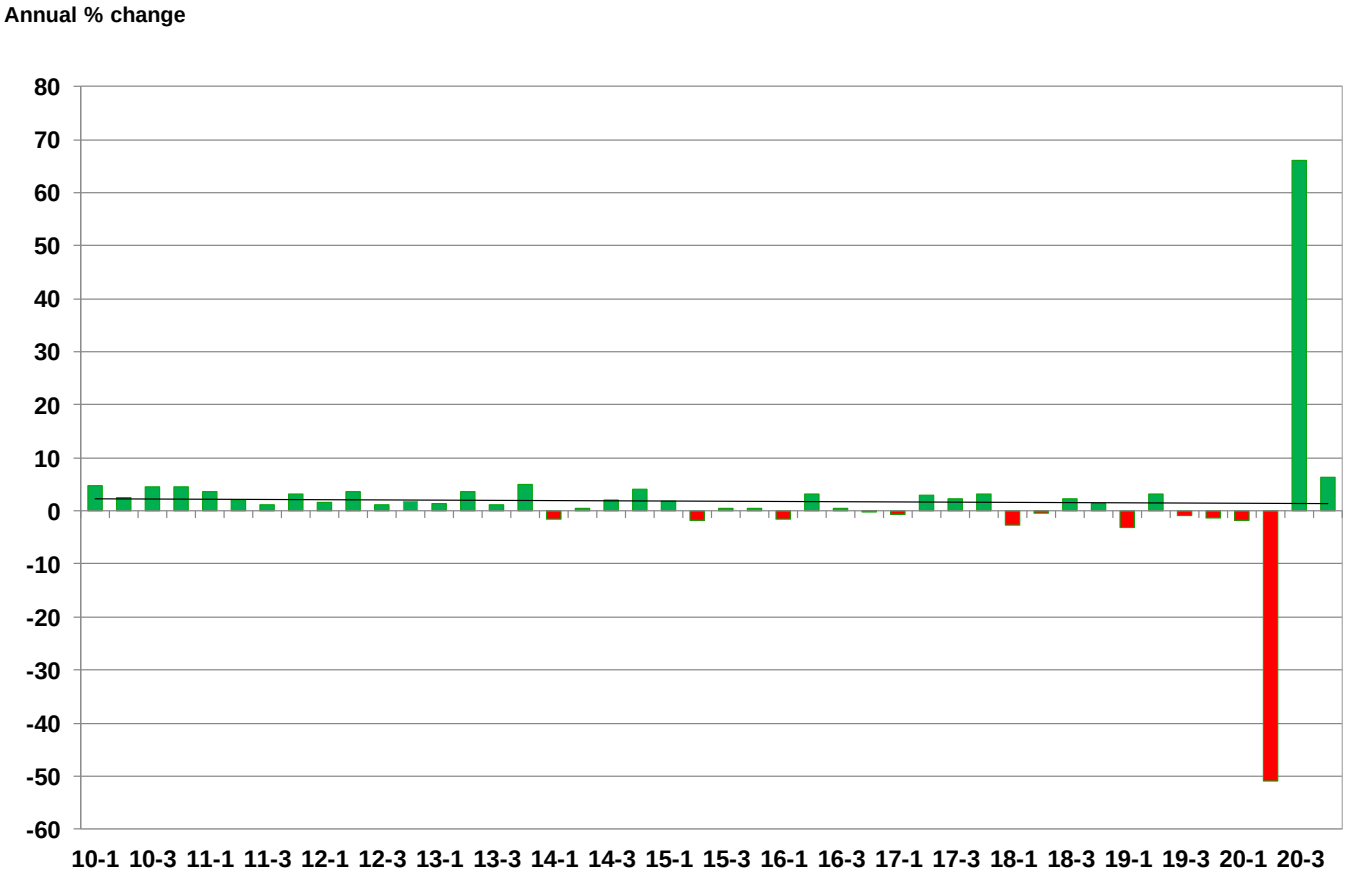


Figure 18 Quarterly change in real gross domestic product

Source: Stats SA

3.2.2 Household debt and income

Household debt increased in the third quarter of 2020 following an unprecedented decline in the second quarter. However, household debt as a percentage of nominal disposable income decreased from 86.5% in the second quarter of 2020 to 75.7% in the third quarter, as the increase in household disposable income exceeded that in debt.

3.2.3 Inflation

The consumer price index and monthly inflation rate are reflected in Figure 19.

Annual consumer price inflation was 2,9% in February 2021, down from 3.2% in January 2021. The SARB is doing a sterling job regarding monetary stability.

Consumer price index (CPI) and inflation

The CPI is the value of a basket of goods and services on retail price level. The change in the value of this basket compared to the same period a year ago is called the rate of inflation. The Reserve Bank tries to keep the rate of inflation between 3% and 6%.

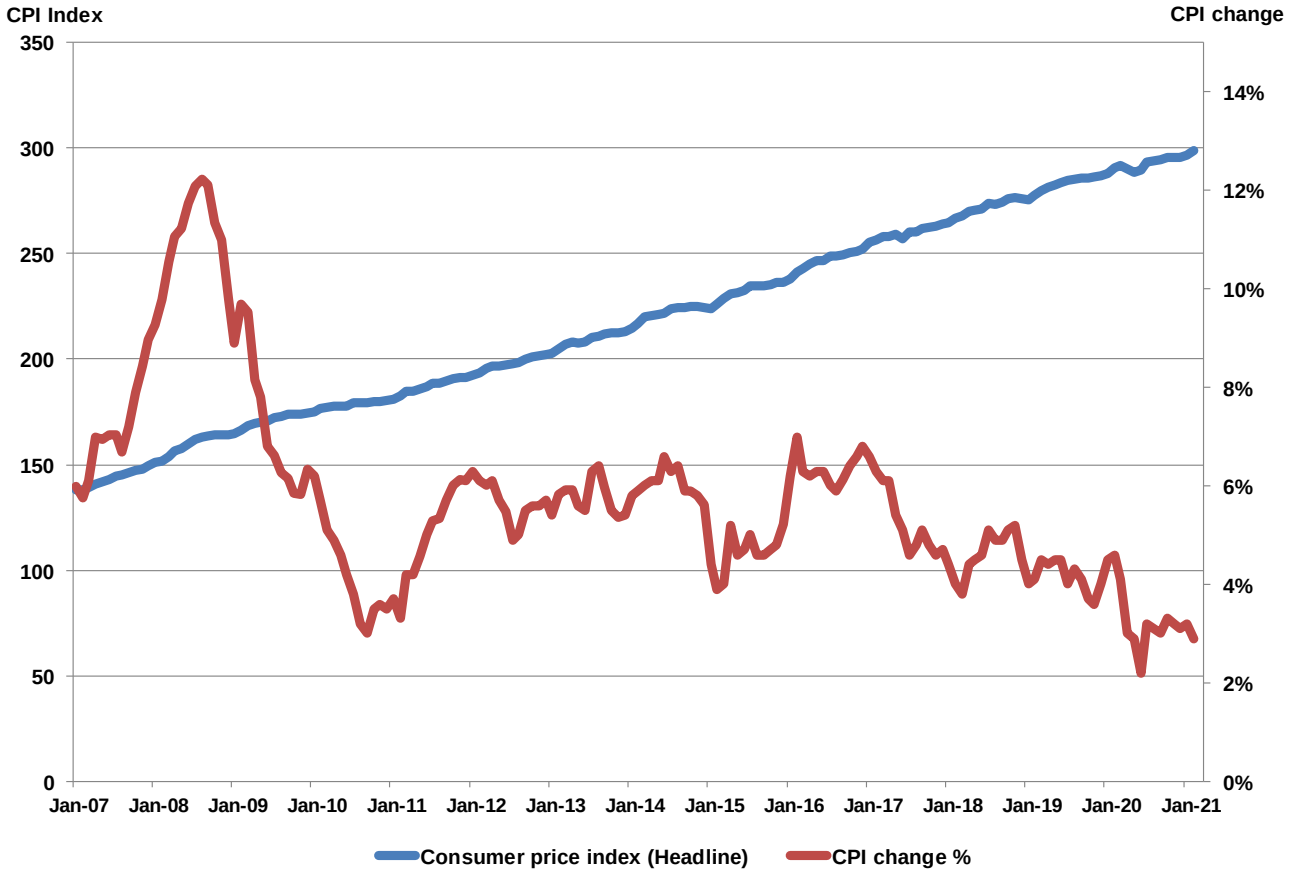


Figure 19 Consumer price index and consumer price inflation, 2007-2021

Source: Stats SA