Dairy market trends

September 2021

Dairy Market Trends September 2021: The cost pressure on dairy farms is relentless and indications of consumers struggling to pay their bills are surfacing more prominently.

Executive summary

Over the first the first 8 months of 2021, the producer price of unprocessed milk is on average, 16% higher than it was over the same period in 2020, and 28% higher compared to 2019. Compared to the same period in 2019, the cost of feed meal (yellow maize and soya combination) increased with 39% - more than neutralising the better farmer price with one stroke. Other inputs such as electricity increased by 18,7%, basic iron and steel by 44% and basic chemicals by 27,7% over the period from August 2020 to August 2021. Urea increased with 116.6% and super phosphate with 72.2% in the period from September 2020 to September 2021. The end-result and repercussions for farm economics are crystal-clear.

Economic Indicators as published by the South African Reserve Bank are showing signs of strain in respect of economic activity. In June 2021, the co-incident indicator moved sideways indicating reduced economic activity, in tandem with what the June 2021 leading indicator projected. In July 2021, the leading indicator continued south, indicating that further reduced economic activity is expected. The index reduced from 125,1 points to 122 points, June to July 2021. The co-incident indicator is 9,7% lower than in June 2019, indicating noteworthy reduced economic activity.

Annual consumer price inflation was 4,9% in August 2021, up from 4,6% in July 2021. The main contributors to the 4,9% annual inflation rate were food and non-alcoholic beverages; housing and utilities and transport. Food and non-alcoholic beverages increased by 6,9% year-on-year, and contributed 1,2 percentage points to the total CPI annual rate of 4,9%. Housing and utilities increased by 3,8% year-on-year, and contributed 0,9 of a percentage point. Transport increased by 9,9% year-on-year, and contributed 1,4 percentage points.

Households Debt to income in South Africa increased to 77.10 percent in 2020 from 72.80 percent in 2019. Consumer spending in the second quarter of 2021 was R37 billion less if compared to the second quarter of 2019. New data from the consumer credit reporting agency shows that consumers are struggling to pay their bills.

The dairy value chain will have to dance cleverly over the next three months as farm economics dictate no margin for a price decrease to farmers, rather that the price will increase while on the other hand, the consumer is battling with a poor South African economy and the consequential negative effect on buying power.

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.

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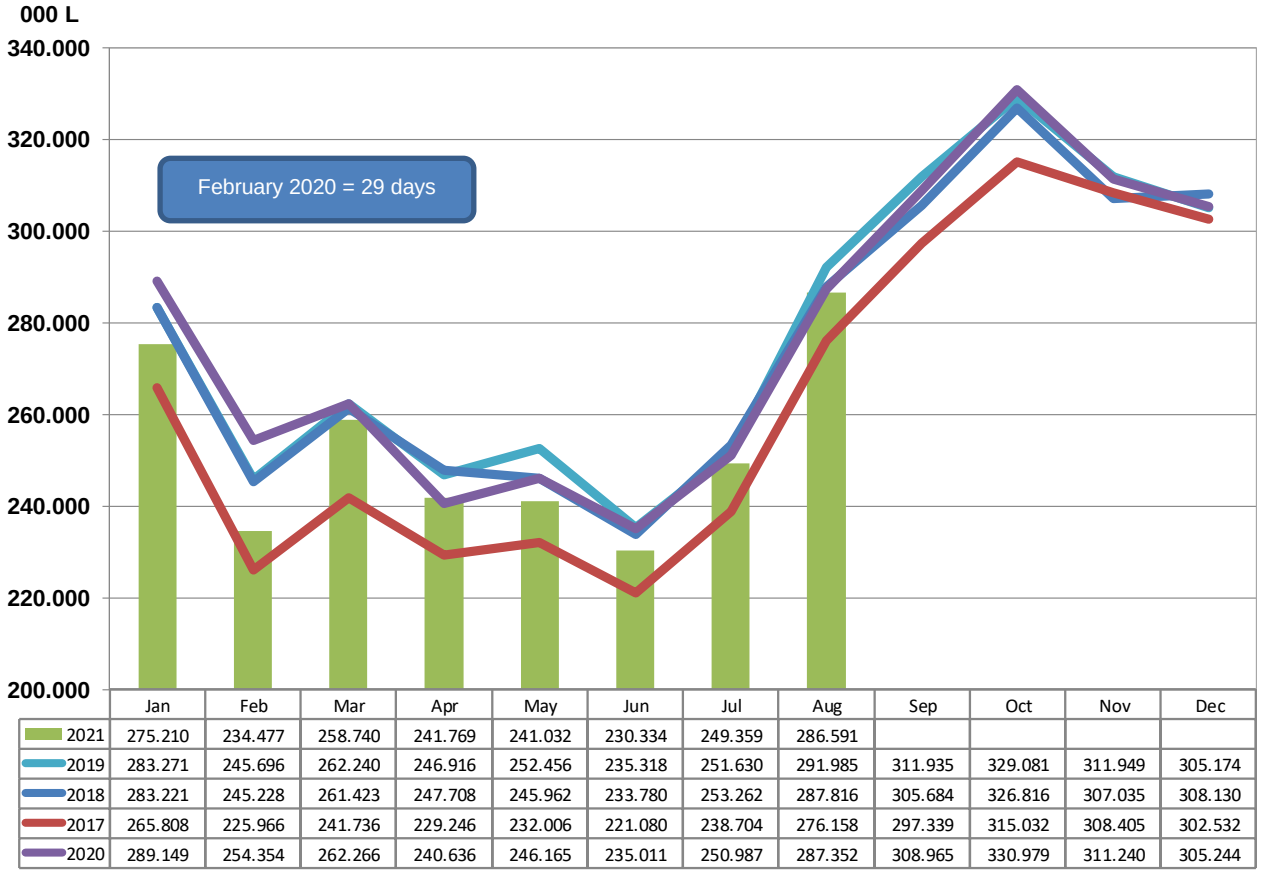
1. Milk supply, demand and prices

1.1 Milk production

Unprocessed milk production for August 2021 is estimated at 287 million litres, 0.26% less than in August 2020. Cumulative unprocessed milk production for 2021 (inclusive of August) was 2 017 million litres, indicating a decline of 2.34% in comparison to 2020.

The cost price squeeze at farmer level is relentless and started in 2018. There seems to be no release on price pressure in the coarse grains market both locally and internationally, due to low international coarse grain stock levels.

Monthly milk production is reflected in Figure 1 below.

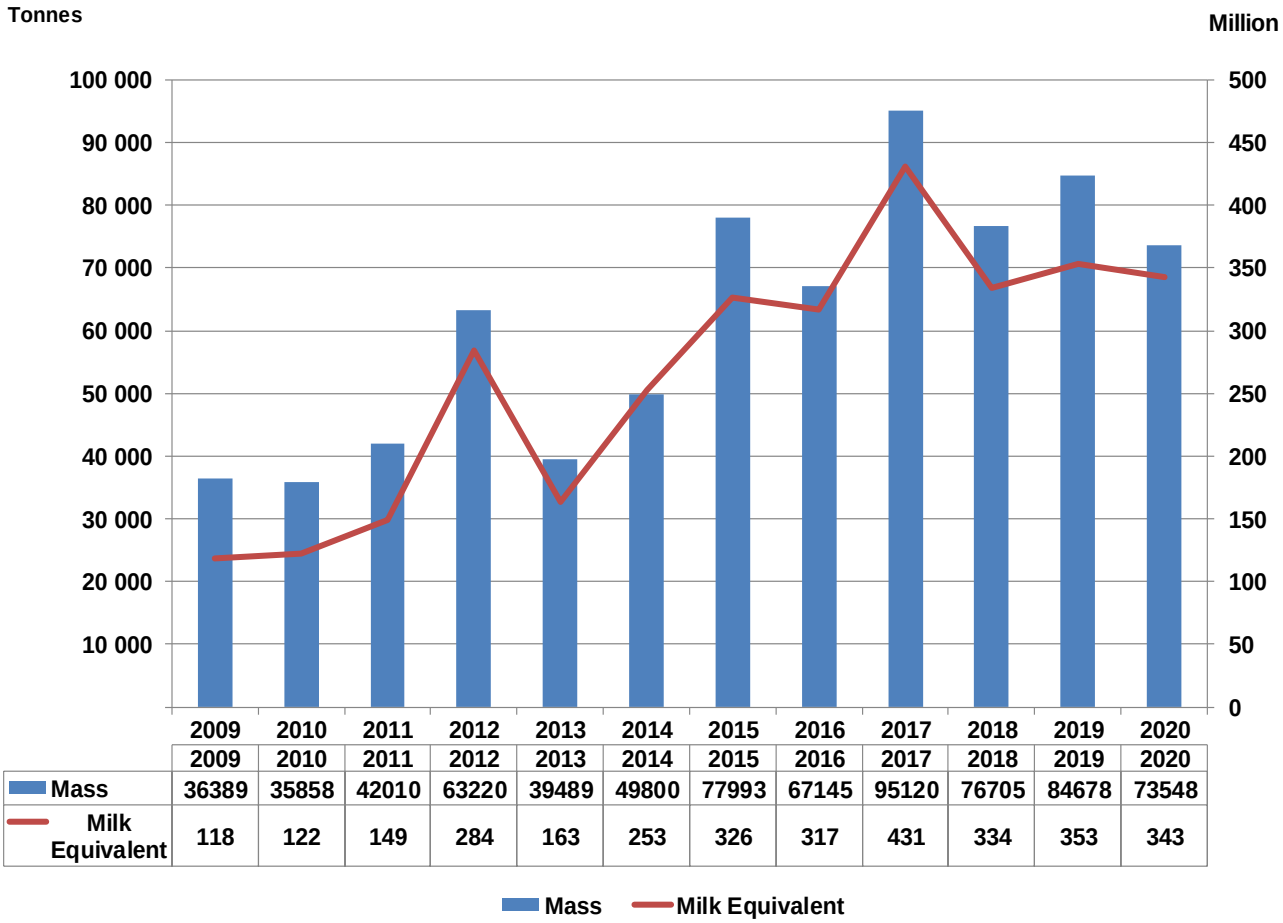


	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2021	275.210	234.477	258.740	241.769	241.032	230.334	249.359	286.591				
2019	283.271	245.696	262.240	246.916	252.456	235.318	251.630	291.985	311.935	329.081	311.949	305.174
2018	283.221	245.228	261.423	247.708	245.962	233.780	253.262	287.816	305.684	326.816	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, July and August 2021 are preliminary

1.2 Dairy imports



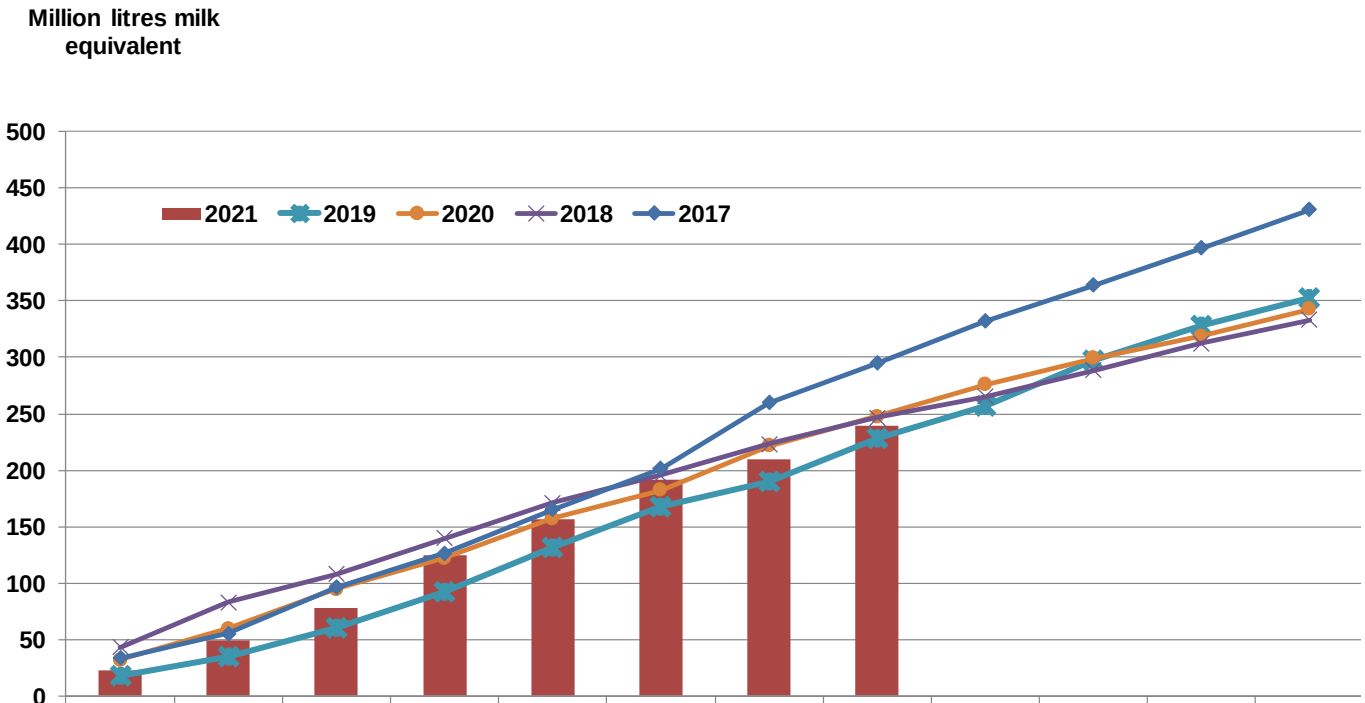
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Mass	36389	35858	42010	63220	39489	49800	77993	67145	95120	76705	84678	73548
Milk Equivalent	118	122	149	284	163	253	326	317	431	334	353	343

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 by 13.1% compared to 2019. On a milk equivalent basis, imports declined in 2020 by 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 quarters 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. Cumulative imports are lower for all the years that are included in the graph with the exception of 2019.



	1	2	3	4	5	6	7	8	9	10	11	12
2021	23	49	78	125	156	191	209	240				
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

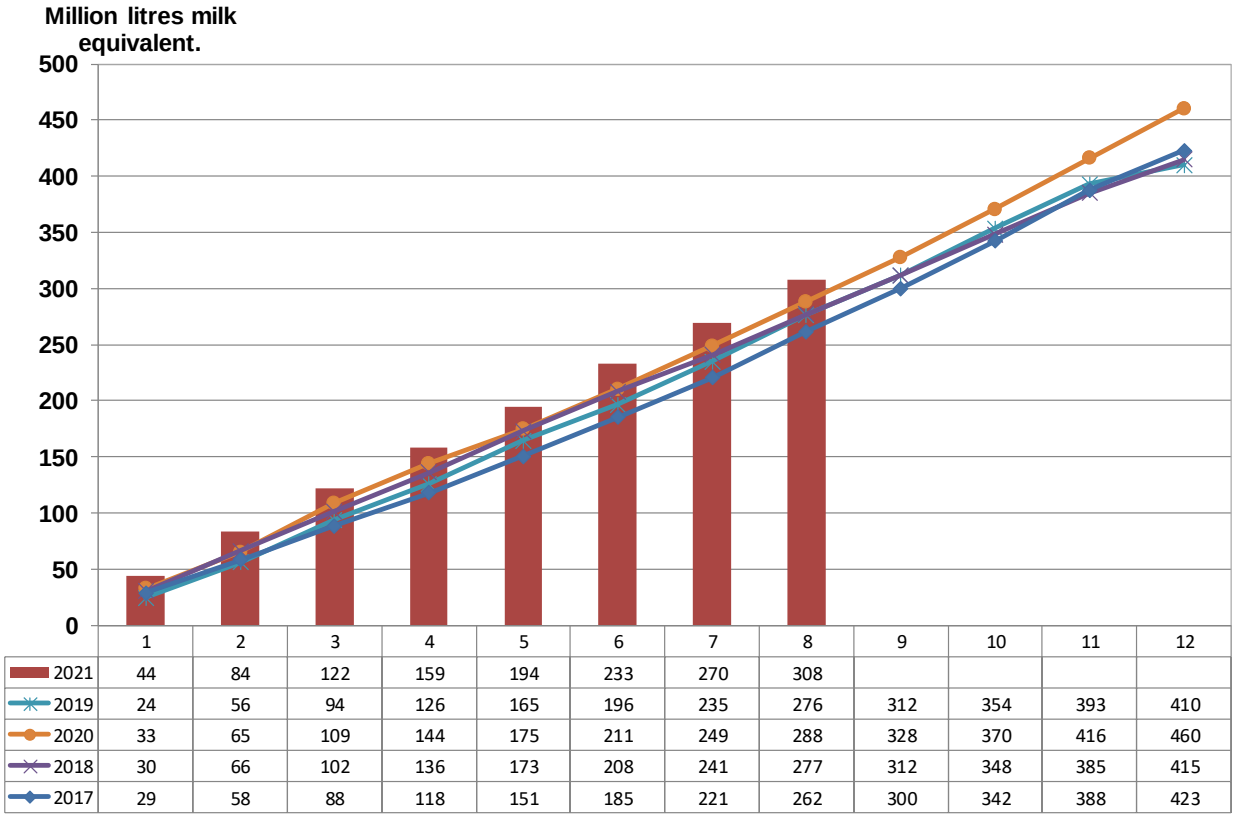
Source: Agri Inspec

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 in our trading partners.

Furthermore, 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 exist in the export market.

The positive export story continues into 2021. Cumulative exports for the first eight months increased by 7% in comparison to the same period in 2020.



	1	2	3	4	5	6	7	8	9	10	11	12
2021	44	84	122	159	194	233	270	308				
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

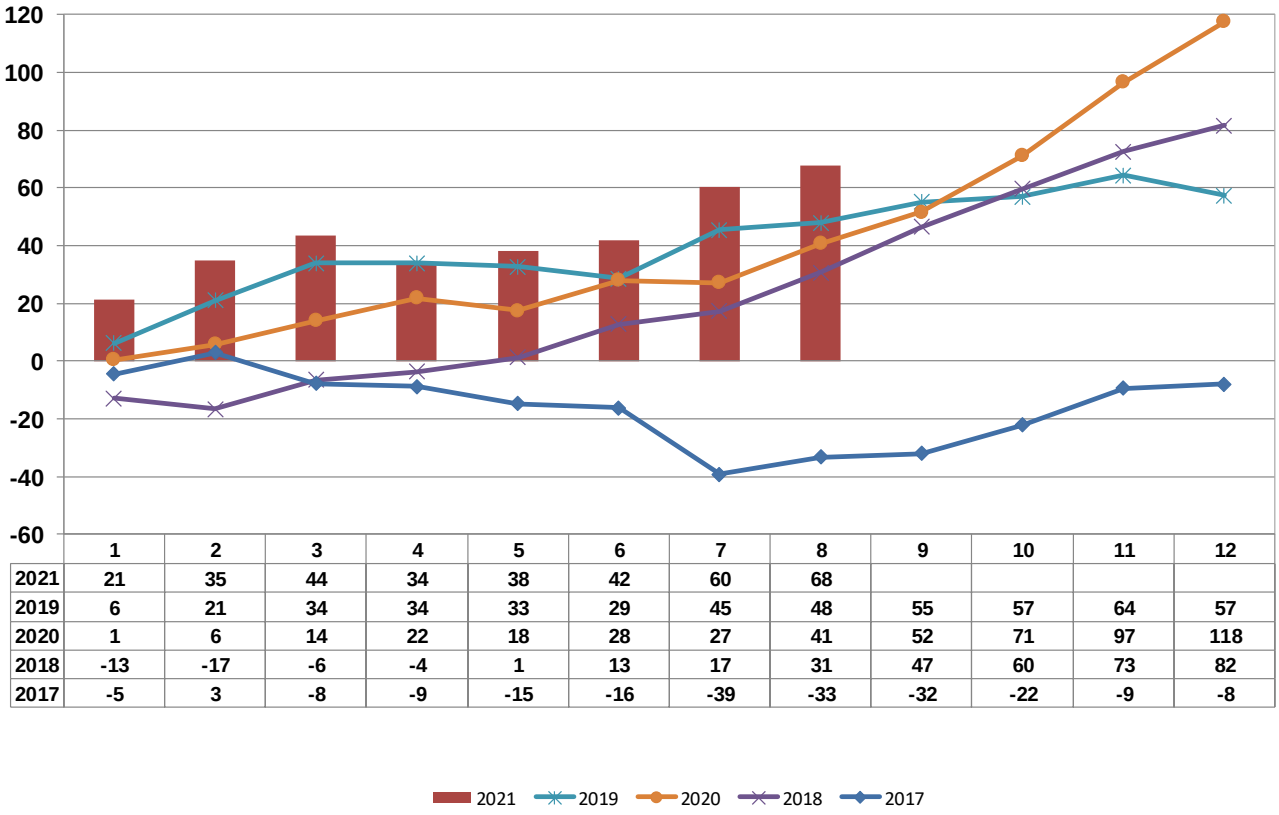
Figure 4 **Monthly cumulative dairy exports (Mil. L.), milk equivalent basis**

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 eight 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



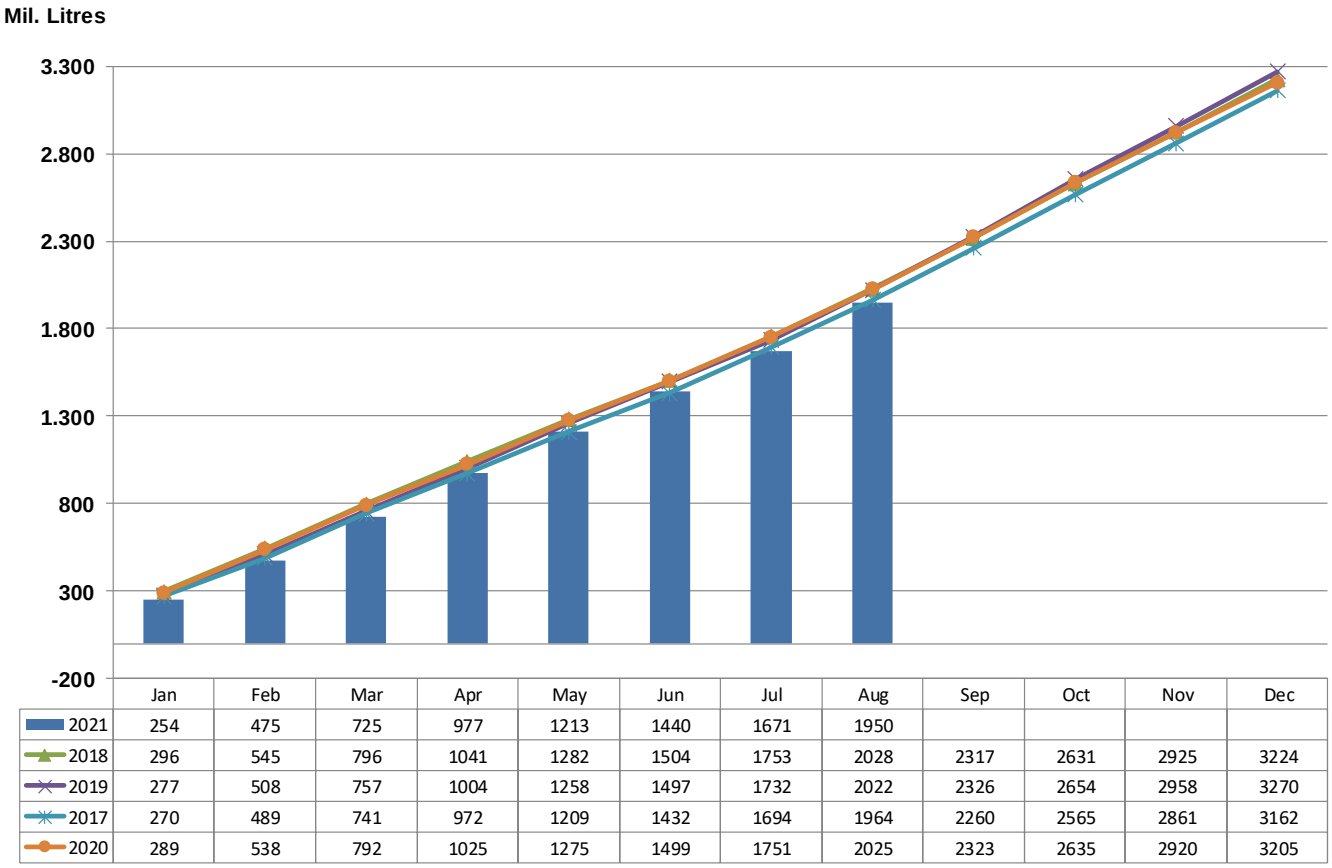
	1	2	3	4	5	6	7	8	9	10	11	12
2021	21	35	44	34	38	42	60	68				
2019	6	21	34	34	33	29	45	48	55	57	64	57
2020	1	6	14	22	18	28	27	41	52	71	97	118
2018	-13	-17	-6	-4	1	13	17	31	47	60	73	82
2017	-5	3	-8	-9	-15	-16	-39	-33	-32	-22	-9	-8

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 (milk equivalents) for the first eight months of 2021 is 3.7% less than in 2020. The biggest shortfall was in January 2021, at 12% and gradually reduced as downstream role players increased import volumes.



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2021	254	475	725	977	1213	1440	1671	1950				
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 regarding the change in retail sales quantities for specific dairy products. Changes in the retail price of dairy products impact sales quantities.

In the year that ended in June 2021, the retail sales quantities of 4 of the 9 dairy products were from 0.4 to 4.1 percent higher than in the previous year, but the sales quantities of 5 of the 9 dairy products were lower than in the previous year.

Comparing 2021 sales quantities to 2020 sales need to be interpreted while taking cognisance of the distortion that occurred due to the hard lockdown and various further stages of lockdowns due to the pandemic.

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

PRODUCT	Sales in the month of June 2021 versus the sales in the month of June 2020	Sales in the 3 months from April 2021 to June 2021 versus the sales in the 3 months from April 2020 to June 2020	Sales in the 6 months from January 2021 to June 2021 versus the sales in the 6 months from January 2020 to June 2020	Sales in the 9 months from October 2020 to June 2021 versus the sales in the 9 months from October 2019 to June 2020	Sales in the 12 months from July 2020 to June 2021 versus the sales in the 12 months from July 2019 to June 2020
	percent		percent		percent
Fresh Milk	-2.4	-4.2	-6.2	-7.3	-7.7
UHT milk	-3.6	-15.0	-10.8	-6.2	-3.5
Flavoured milk	7.0	6.2	3.2	-2.1	-6.1
Yoghurt	-5.1	-7.2	-3.4	0.5	1.7
Maas	-7.4	-7.4	-5.3	-2.4	-1.3
Pre-packaged cheese	4.5	-6.2	-3.6	0.6	2.8
Cream cheese	-9.0	-13.2	-7.1	-4.9	-3.9
Butter	0.5	-16.8	-5.4	-3.1	0.4
Cream	-7.0	-13.3	-2.5	1.0	4.1

Source: Nielsen supplied by Sampro

Table 2 contains information regarding the changes in the average retail prices of specific dairy products.

The average retail prices of all 9 products were higher in June 2021 than in June 2020. In the year which ended in June 2021, the retail prices of 4 of the 9 dairy products of which the prices increased, increased with less than the inflation rate of 4.9 percent.

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

PRODUCT	June 2021 versus May 2021 (1 month ago)	June 2021 versus March 2021 (3 months ago)	June 2021 versus December 2020 (6 months ago)	June 2021 versus September 2020 (9 months ago)	June 2021 versus June 2020 (12 months ago)	June 2021 versus December 2019 (18 months ago)	June 2021 versus June 2019 (24 months ago)
	Percent	Percent	Percent	Percent	Percent	Percent	Percent
Fresh milk	-0.7	2.5	5.5	6.9	6.1	8.5	10.7
Uht milk	0.4	3.7	4.1	3.7	3.5	8.3	10.0
Flavoured milk	3.5	9.5	7.5	9.0	7.0	12.4	14.0
Yoghurt	-1.4	2.7	6.5	6.2	6.5	8.5	6.6
Maas	-0.6	1.6	5.6	6.4	5.2	5.2	9.6
Pre-packaged cheese	0.01	2.8	1.8	4.1	3.7	5.4	9.6
Cream cheese	1.3	1.6	5.5	9.5	9.3	15.5	17.7
Butter	-0.6	2.8	-0.5	0.7	1.2	10.5	7.8
Cream	1.4	2.8	1.0	3.9	3.8	3.2	9.0

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.** Over the first the first 8 months of 2021, the producer price of unprocessed milk is on average, 16% higher than it was over the same period in 2020, and 28% higher compared to 2019. Compared to the same period in 2019, the cost of feed meal (yellow maize and soya combination) increased with 39% - neutralising the better farmer price with one stroke. Other inputs such as electricity increased with 18,7%, basic iron and steel with 44% and basic and other chemicals with 27,7% over the period from August 2020 to August 2021. The end-result and repercussions are crystal-clear.

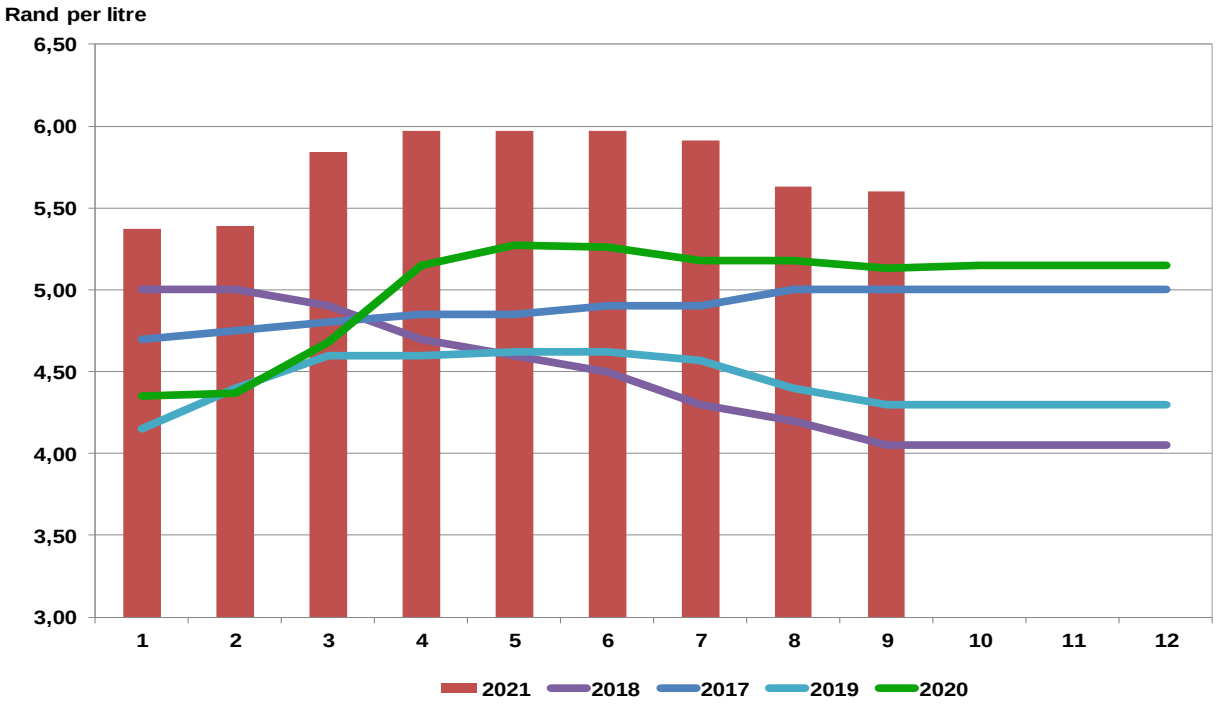


Figure 7 Monthly milk producer prices, 2017-2021

Source: August and September 2021, 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.

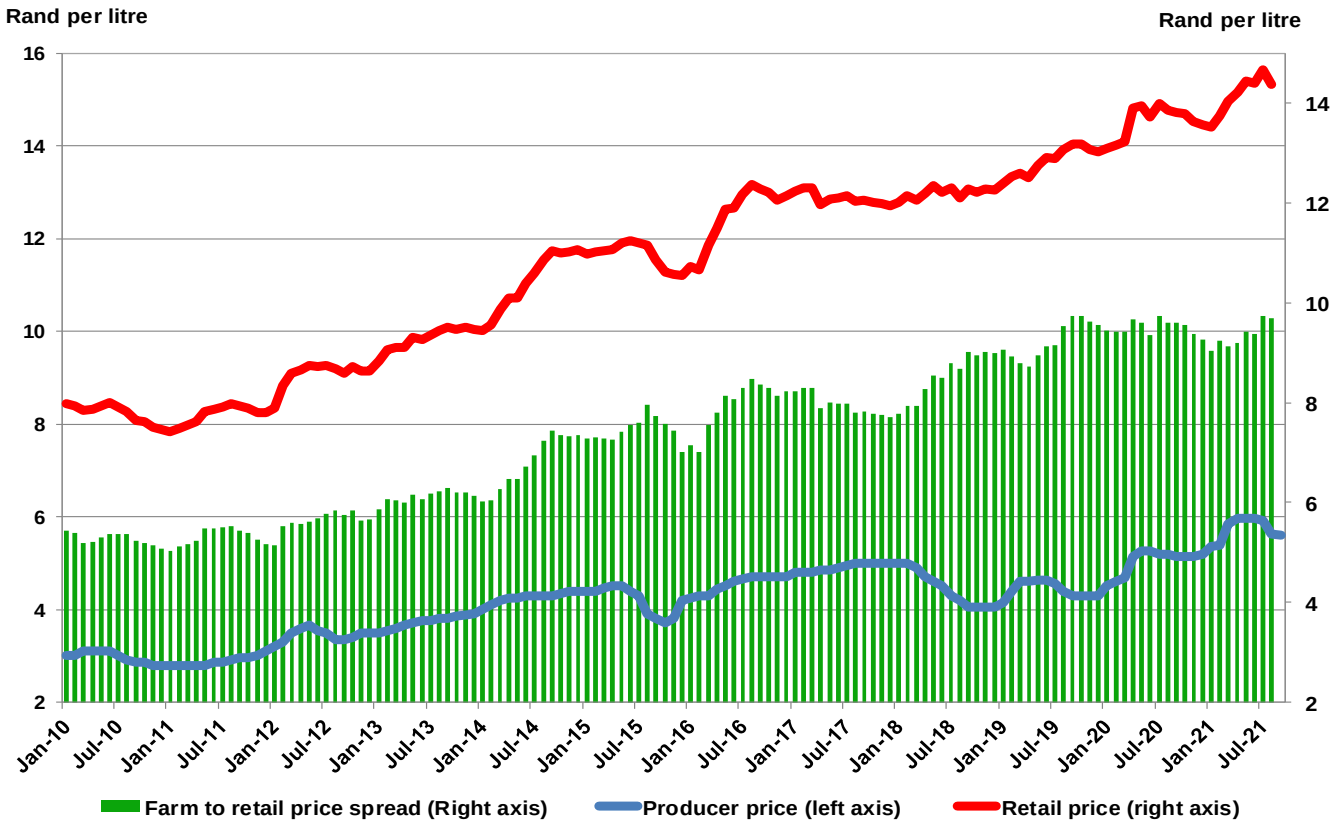


Figure 8 Monthly producer and retail prices, 2010 - 2021

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 is used as a proxy for feed prices. A derived feed price is, therefore 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.

The upward trend in feed cost is clearly visible since January 2018 and continues into 2021. The average feed cost price for the first eight months of 2021 is 39% higher than the same period in 2019 and 20% higher compared to the same period in 2020.

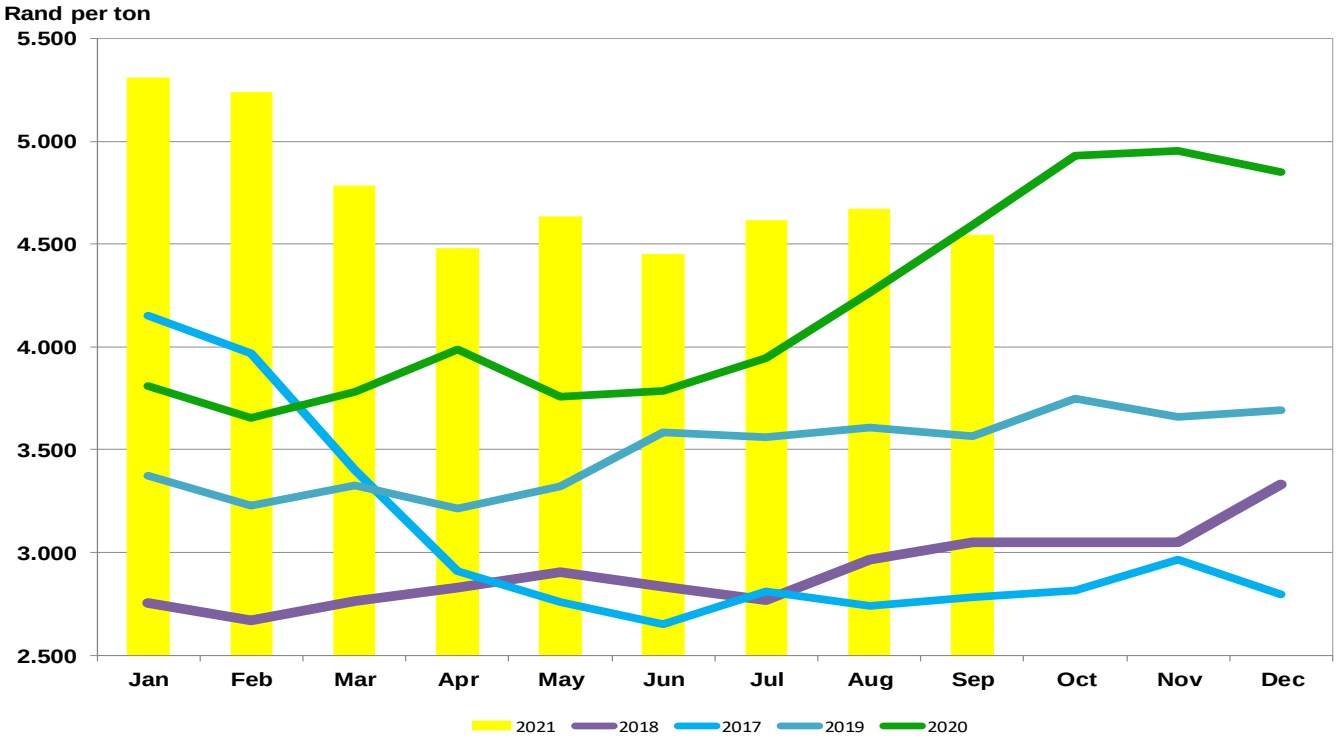
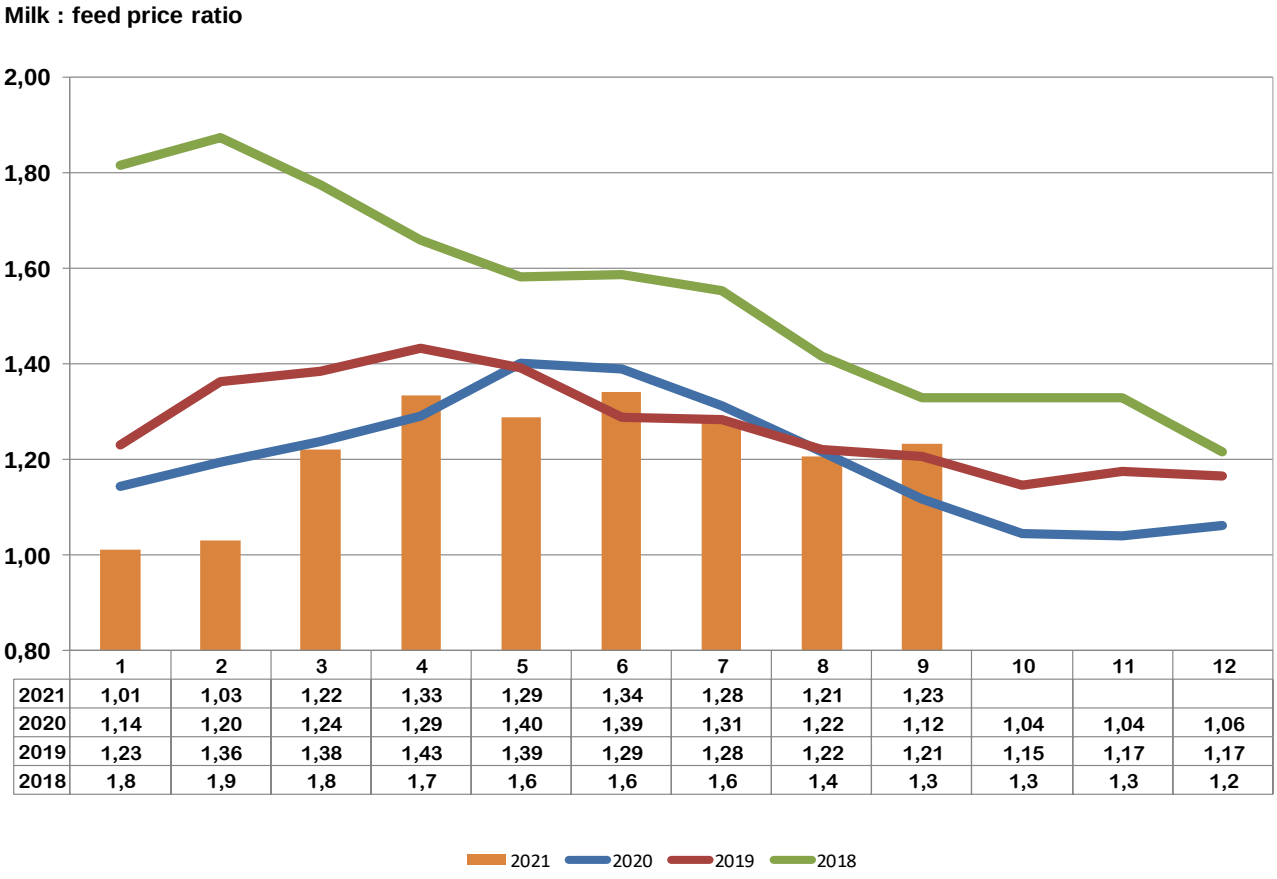


Figure 9 Calculated dairy concentrate feed prices, 2016-2021 *Source: Safex nearest month data*

The milk: concentrate feed price ratio is illustrated in figure 10. The ratio is dangerously low since August 2020. The ratio improved somewhat in April 2021 but has now again for the past three consecutive months slipped back to the 1.2:1 territory, where many dairy farmers produce at a loss. The ratio started moving into negative territory in September 2018, with short periods of a month or two during the total period ending September 2021, where the ratio improved to breakeven levels. This period eroded most dairy farmers' fodder banks, credit facilities and introduced a period where replacement heifers and other maintenance activities were starved of capacity and funds.

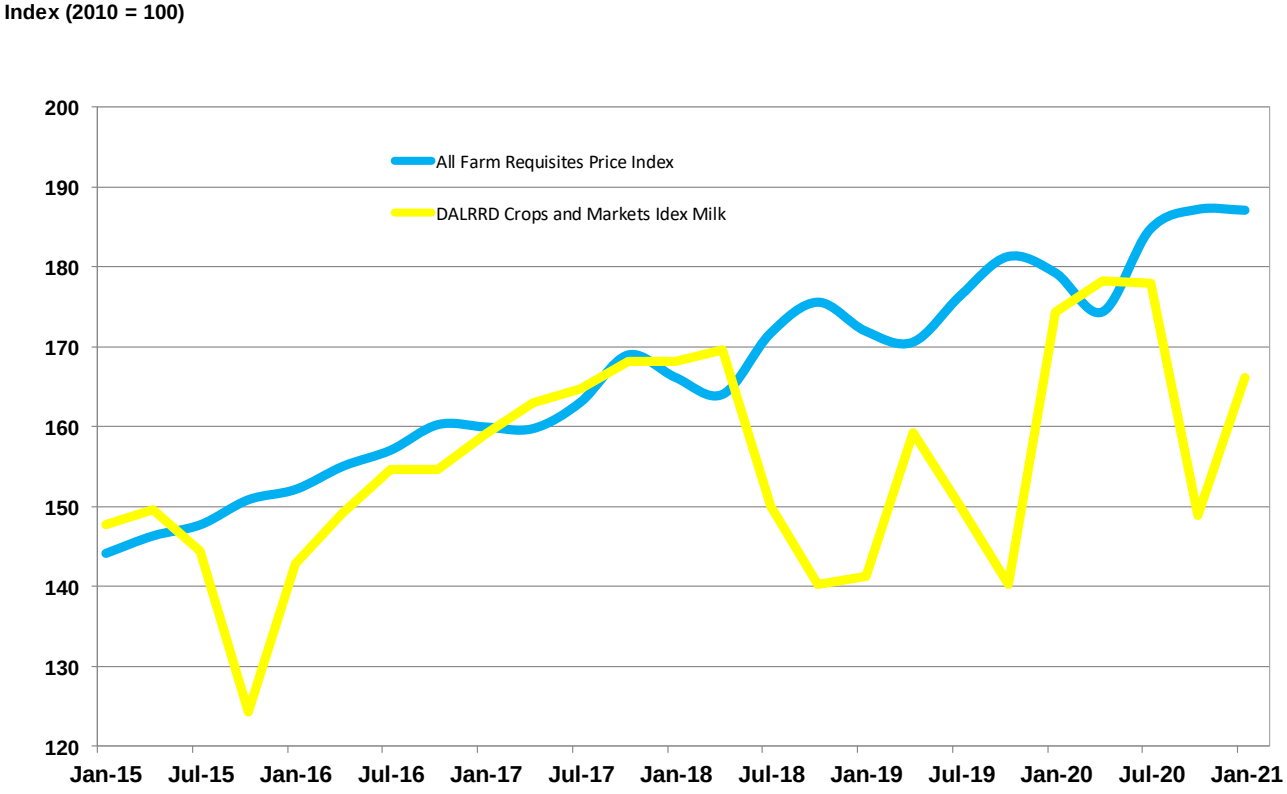


	1	2	3	4	5	6	7	8	9	10	11	12
2021	1,01	1,03	1,22	1,33	1,29	1,34	1,28	1,21	1,23			
2020	1,14	1,20	1,24	1,29	1,40	1,39	1,31	1,22	1,12	1,04	1,04	1,06
2019	1,23	1,36	1,38	1,43	1,39	1,29	1,28	1,22	1,21	1,15	1,17	1,17
2018	1,8	1,9	1,8	1,7	1,6	1,6	1,6	1,4	1,3	1,3	1,3	1,2

Figure 10 Milk: concentrate feed price ratio, 2018-2021 (*Source: MPO calculations; July and Aug 2021 preliminary)*

1.10 Input prices

The Department of Agriculture, 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 interaction between the cost index and the milk price explains the cost price squeeze experienced at farmer level.**



Source: DALRRD, MPO calculation

Figure 11 Quarterly Farm Requisites Price Index and Producer Price Index Jan 2015 – January 2021.

1.11 International prices

The FAO Food Price Index (FFPI) averaged 127.4 points in August 2021, up 3.9 points (3.1 percent) from July and 31.5 points (32.9 percent) from the same period last year. The FFPI's rebound in August after two consecutive months of decline was led by strong gains in the sugar, vegetable oils, and cereal sub-indices.

The FAO Dairy Price Index averaged 116.0 points in August, down marginally from July but still 13.9 points (13.6 percent) above its value in the corresponding month last year. In August, international quotations for milk powders fell, reflecting the continued weakness in global import demand for spot supplies combined with seasonally rising export availabilities in Oceania during the new production season. By contrast, price quotations for cheese rose, underpinned by increased internal demand and tightened supplies in Europe, offset by a slight decline in prices in Oceania on rising production. Butter prices also rose slightly, pressured by high import demand from East Asia for near-term deliveries.

The FAO Cereal Price Index averaged 129.8 points in August, up 4.3 points (3.4 percent) from July and 30.8 points (31.1 percent) above its August 2020 level. Reduced harvest expectations in several major exporting countries pushed up world wheat prices by 11.1 points (8.8 percent) month-on-month, to 41.5 points (43.5 percent) above their level of one

year ago. By contrast, maize prices registered a slight decline of 1.3 points (0.9 percent). Improved production prospects in Argentina, the EU, and Ukraine moderated the effects of lowered production forecasts in Brazil and the United States of America. International sorghum quotations also fell in August, by 3.9 points (2.5 percent), though still up 45.5 points (43.3 percent) from the same period last year. Meanwhile, international rice prices remained on a downward trajectory in August, influenced by efforts to promote foreign sales as well as currency movements.

The FAO Meat Price Index* averaged 112.5 points in August, up slightly from July, placing the index 20.3 points (22.0 percent) above its value in the corresponding month last year. In August, international quotations for ovine and bovine meats increased, principally underpinned by high purchases, mainly by China, and constrained supplies of animals for slaughter in Oceania. Poultry meat prices also rose, reflecting solid import demand from East Asia and the Middle East and limited production expansions in some major exporting countries owing to high input costs and labour shortages.

The FAO Sugar Price Index averaged 120.1 points in August, up by 10.5 points (9.6 percent) from July, marking the fifth consecutive monthly increase and the highest level since February 2017. The latest hike in international sugar price quotations was prompted by concerns over frost damage to crops in Brazil - the world's largest sugar exporter, adding to the negative impact of prolonged dry weather conditions. Larger monthly price increases were, however, prevented by a decline in crude oil prices and a weakening of the Brazilian Real against the US dollar.

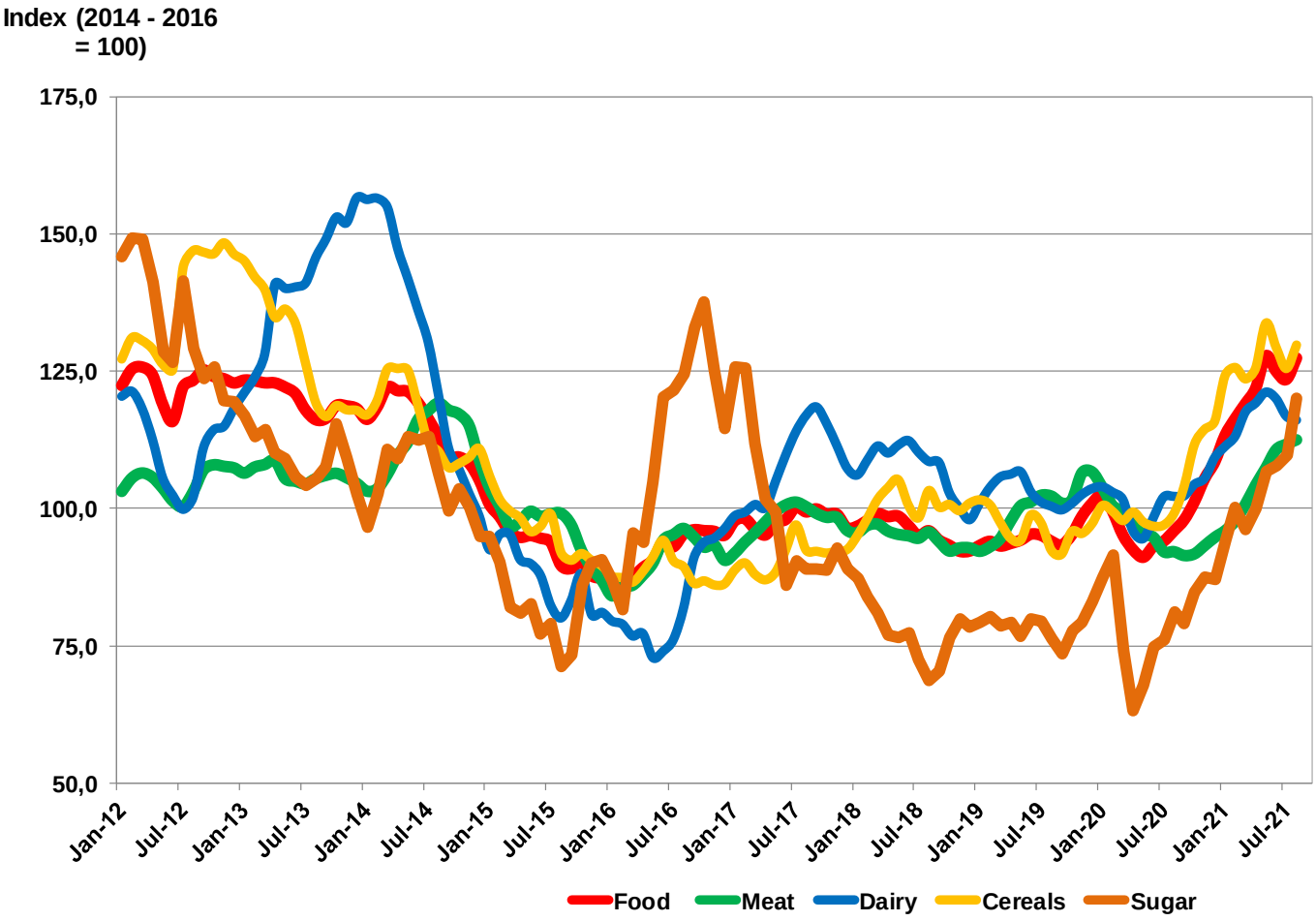


Figure 12 Monthly FAO food price indexes

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 1200 index resistance levels were sliced through, showing strong demand with limited supply.** The April index moved sideways, May retreated to below the 1300 index level and the June through August trend remained downward. It seems that global manufacturing and shipping time lost during the hard lockdown in 2020 has been partially made good with better supply and distribution causing the prices to reduce. However, the September index bounced back from 1168 points in August 2021 to 1223 points in September 2021. The products that contributed to the bounce back were whole milk powder, cheddar (each 4%) and skimmed milk powder with the biggest increase of 6%.

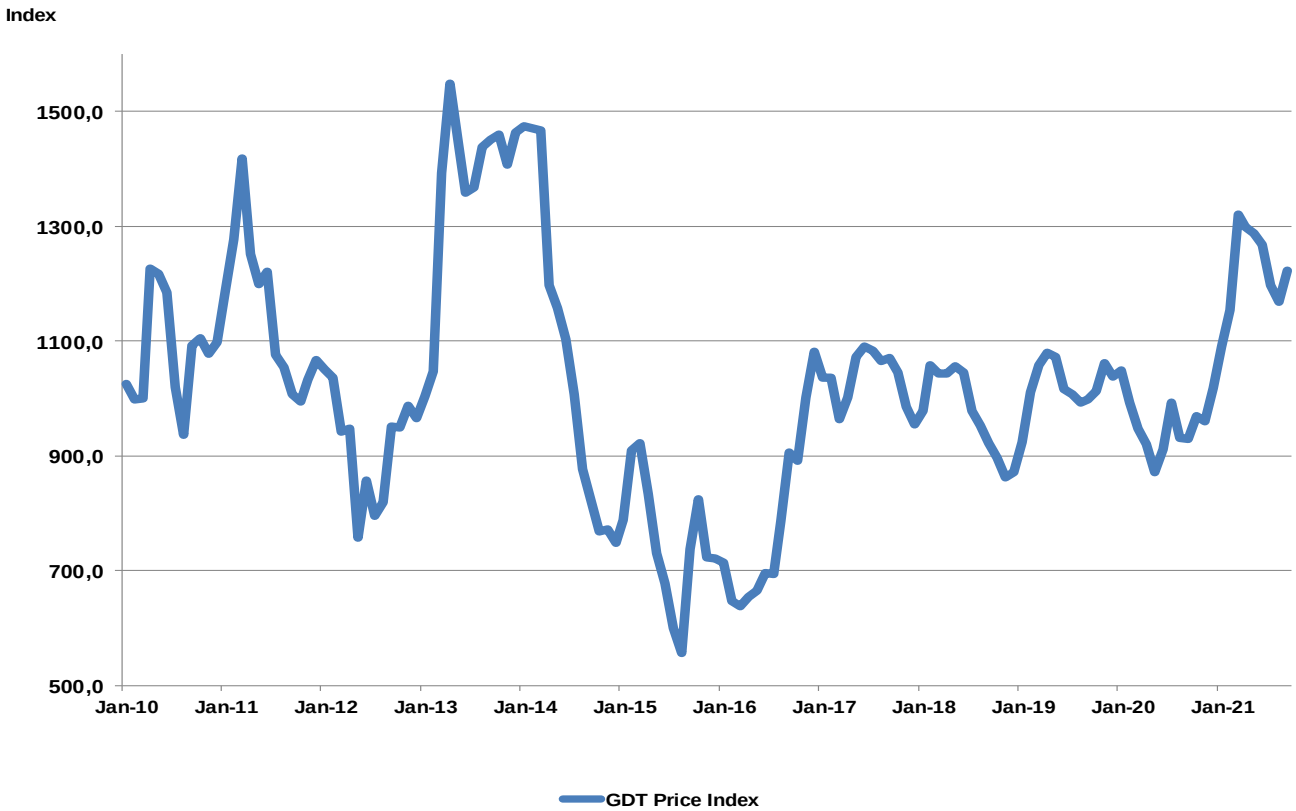


Figure 13 Global dairy trade-weighted price index

Source: Global dairy trade

Figure 14 shows international prices for milk powders, butter, and cheddar cheese as reported by the USDA converted to Rand/tonne inclusive of September 2021. In Rand terms, three of the four product prices increased from September 2020 to September 2021. Butter, cheddar and whole milk powder (WMP) respectively with 23%, 3% and 7%. Skimmed milk powder (SMP) decreased by 4% from September 2020 to September 2021.

In US dollar terms all four product prices increased from September 2020 to September 2021 with butter up 41%, skimmed milk powder (SMP) up 10%, (WMP) with 23%, and cheddar with 18%.

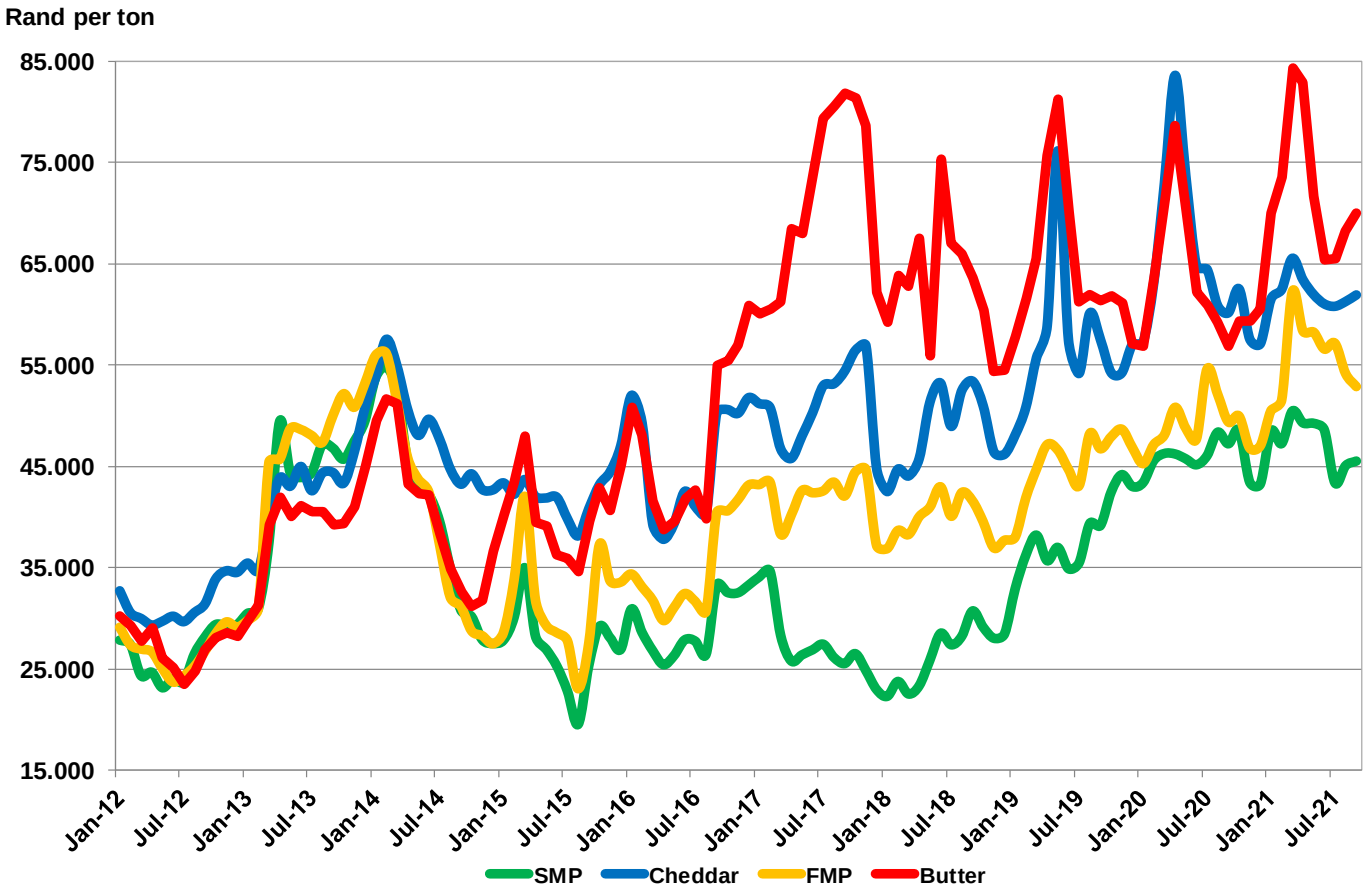


Figure 14 International dairy product prices (Rand/ton)

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. The main contributor for the upward import parity trend that started at the beginning of 2019 is skimmed milk powder.

Import parity and producer prices are reflected in Figure 15.

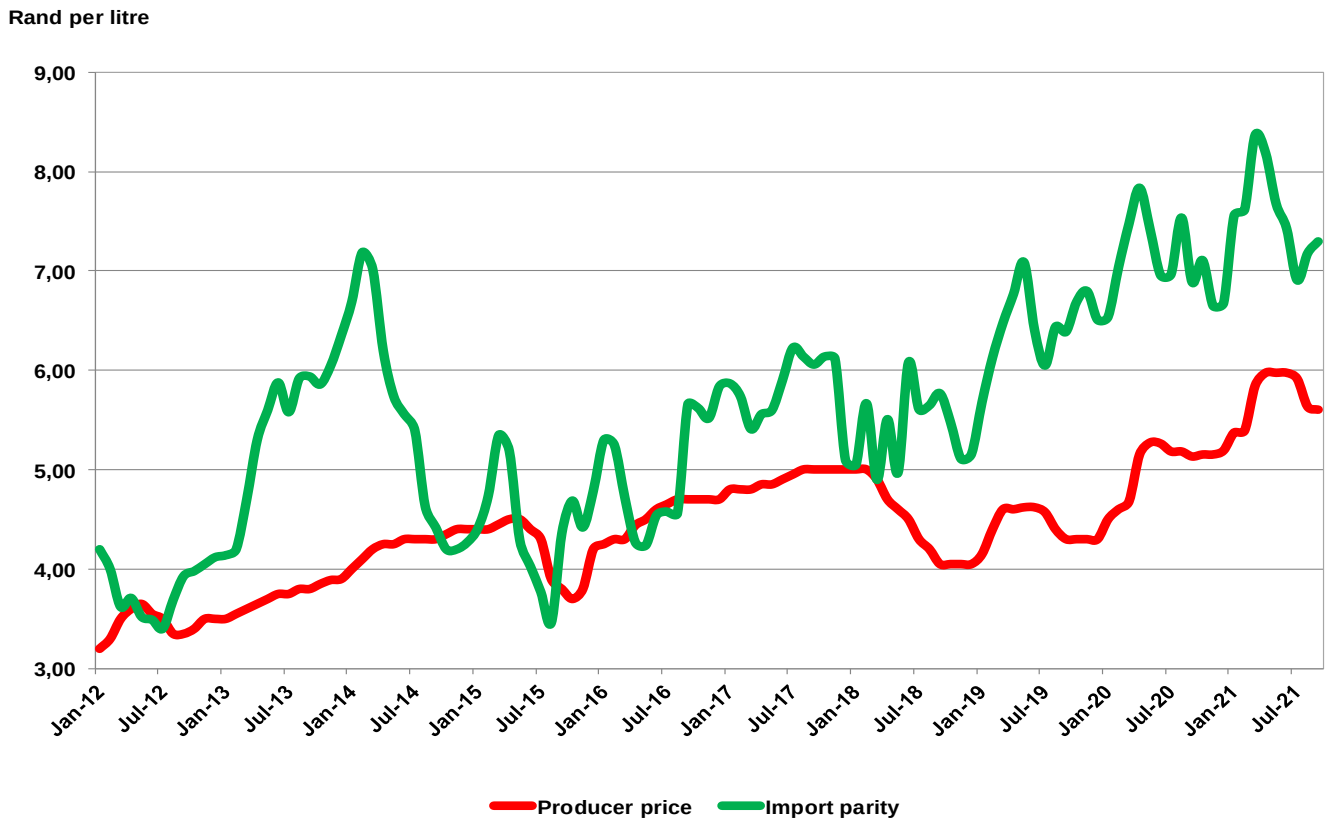


Figure 15 Monthly producer and import parity prices

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 – 2021.

	2016	2017	2018	2019	2020	2021*
USA	**1.6**	**1.7**	**1.1**	**0.3**	**2.2**	**2.3**
EU	**0.2**	**2.1**	**1.4**	**0.4**	**1.6**	**-0.1**
AUS	**-6.9**	**0**	**0.9**	**-7.3**	**2.8**	**2.0**
NZ	**-2.0**	**1.7**	**1.3**	**-0.8**	**0.4**	**5.6**
URU	**-10.4**	**7.6**	**5.7**	**-4.0**	**5.4**	**5.7**
ARG	**-14.4**	**-1.6**	**6.4**	**-2.3**	**7.4**	**4.0**
ZA	**-0.5**	**3.0**	**5.0**	**0.7**	**-0.16**	**-2.34**

(Source: CLAL and Milk SA) *(2021 first seven months; SA first 8 months))

Milk production at farm level has improved in 2020 compared to 2019 for all the major exporting countries with the exception of the EU. This is due to better climatic conditions and improved producer price levels. For the first seven months of 2021, New Zealand experienced extraordinary growth of 5.6%. During 2020, South Africa was the odd one out, confirming that our producer price is trailing the rest of the world. This phenomenon was born in 2018 and is now in 2021 coming into fruition as unprocessed milk production remains under pressure despite noteworthy producer price increases during 2021.

3. Economic overview

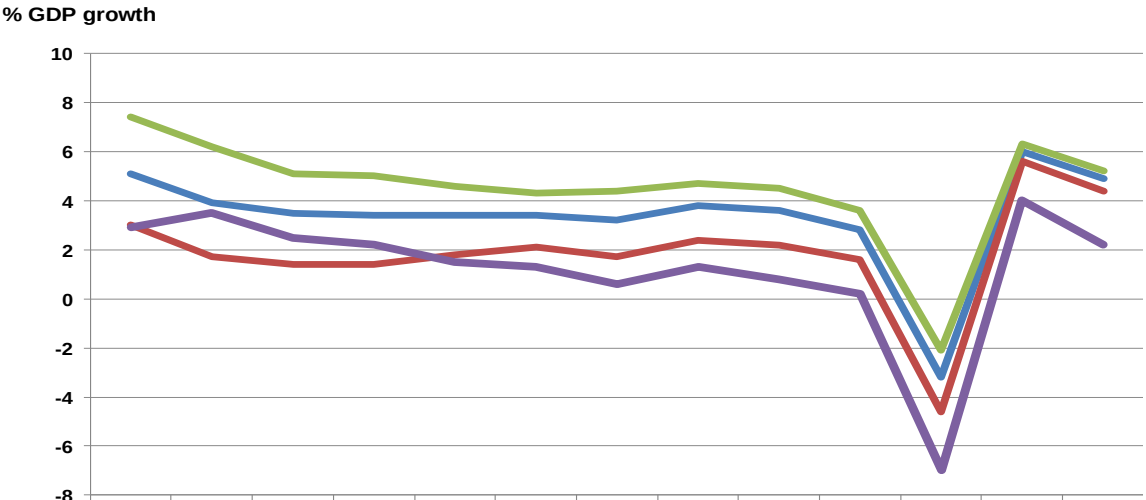
3.1 International economic outlook

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 points and 0.2 percentage points 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	-3,2	6	4,9
Advanced economies	3	1,7	1,4	1,4	1,8	2,1	1,7	2,4	2,2	1,6	-4,6	5,6	4,4
Developing economies	7,4	6,2	5,1	5	4,6	4,3	4,4	4,7	4,5	3,6	-2,1	6,3	5,2
South Africa	2,9	3,5	2,5	2,2	1,5	1,3	0,6	1,3	0,8	0,2	-7	4	2,2

Figure 16 International economic growth and estimated growth

* Estimate
** Projection

Source: IMF WEO April 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 support the hypothesis of a V-shape economic recovery for the South African economy. Both indicators trended north from May 2020. In June 2021 the co-incident indicator moved sideways indicating reduced economic activity, in tandem with what the June 2021 leading indicator, projected lower economic activity. In July 2021 the leading indicator continued south, indicating reduced future economic activity.

Indicators of economic activity
The co-incident indicator of economic activity shows 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.

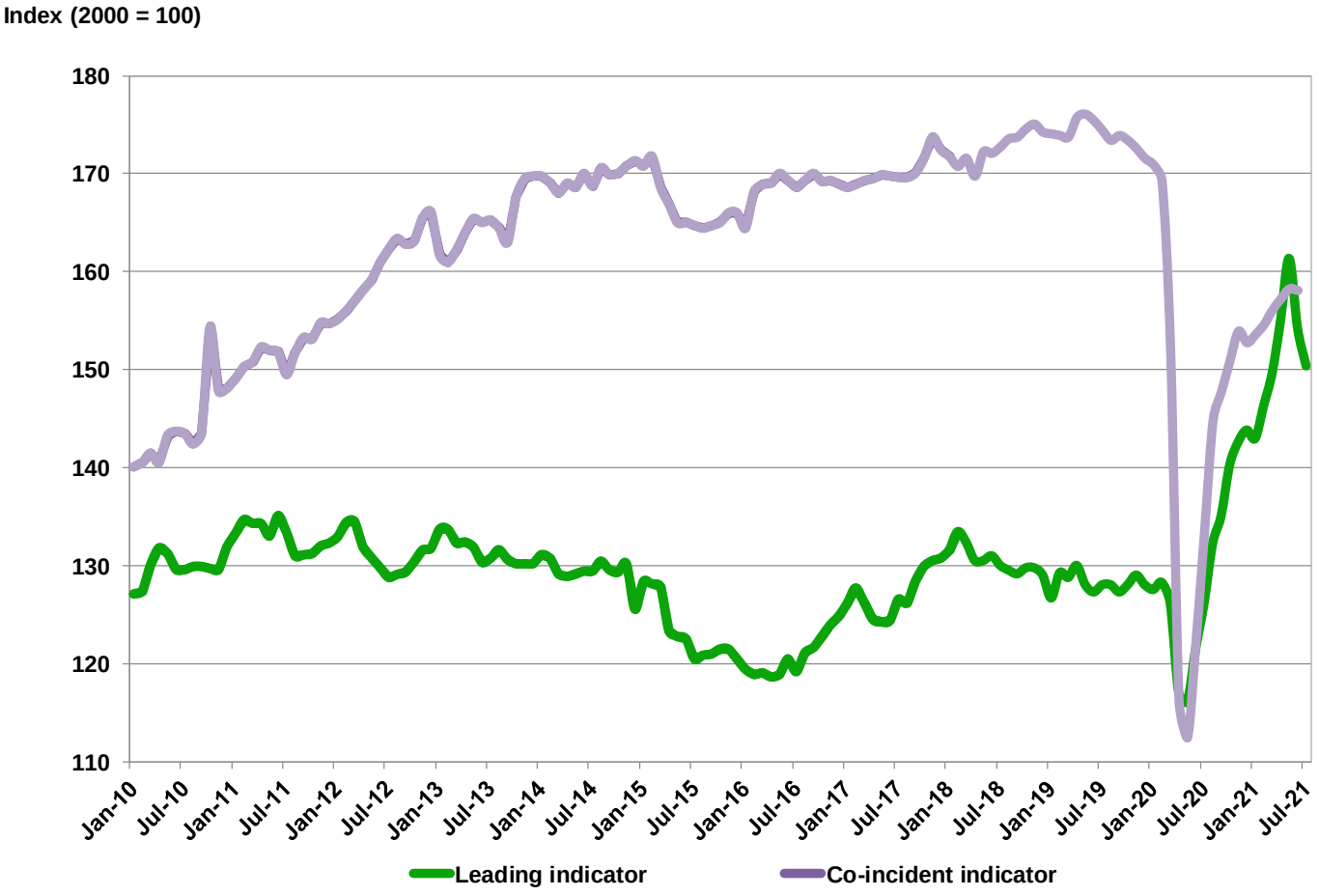


Figure 17 **Leading and co-incident indicator of economic activity** (*Source: SARB)*

Figure 18 shows the quarterly growth rate of the SA gross domestic product. The South African economy in 2020 expanded with 0.1% in the first quarter, then it contracted with 17.4% in the second quarter, expanded with 13.9% in the third quarter of 2020 and expanded with 2.5% in the last quarter of 2020. The SA economy registered a growth rate of minus 6.4 for the full year of 2020, which is the lowest over the past 62 years. In the first quarter of 2021, the economy expanded by 1.0% and the second quarter by 1.2%.

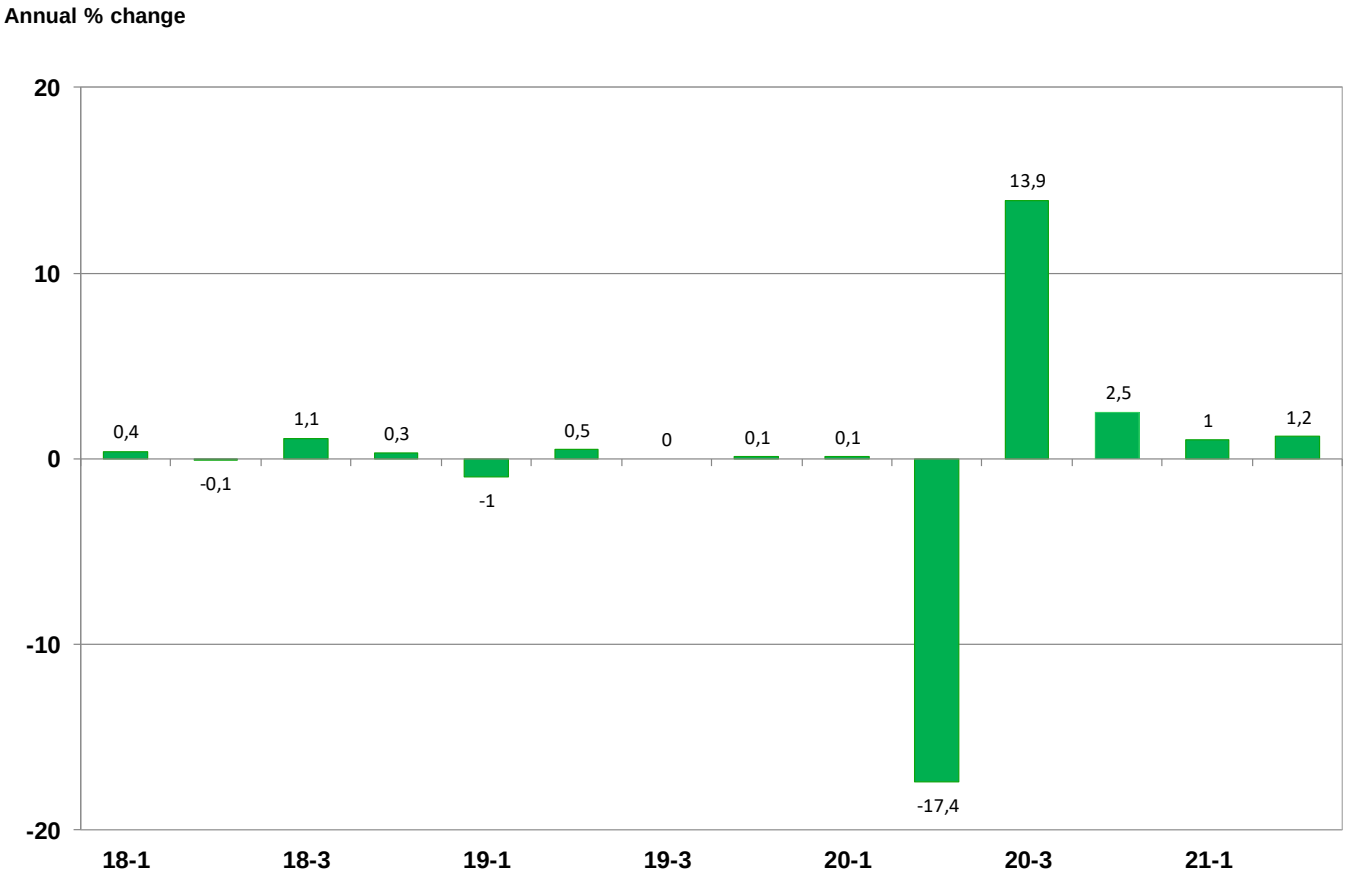


Figure 18 Quarterly change in real gross domestic product

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 the increase in debt.

3.2.3 Inflation

The consumer price index and monthly inflation rate are reflected in Figure 19. Annual consumer price inflation was 4,9% in August 2021, up from 4,6% in July 2021. The main

contributors to the 4,9% annual inflation rate were food and non-alcoholic beverages; housing and utilities and transport. Food and non-alcoholic beverages increased by 6,9% year-on-year, and contributed 1,2 percentage points to the total CPI annual rate of 4,9%. Housing and utilities increased by 3,8% year-on-year, and contributed 0,9 of a percentage point. Transport increased by 9,9% year-on-year, and contributed 1,4 percentage points.

Consumer price index (CPI) and inflation

The CPI is the value of a basket of goods and services at 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%.

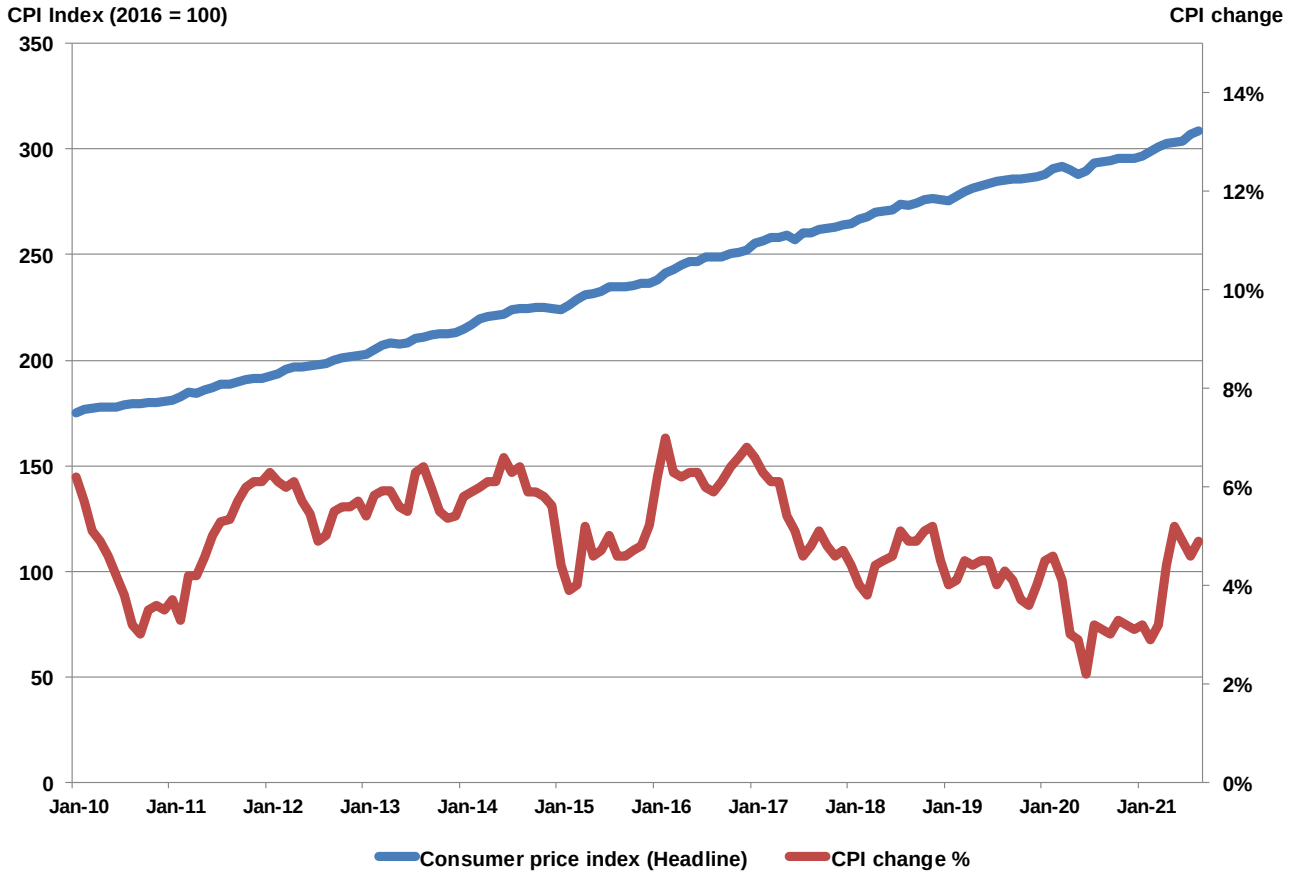


Figure 19 Consumer price index and consumer price inflation, 2007-2021

Source: Stats SA