



Dairy market trends

June 2022

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Dairy Market Trends June 2022: The market signal to dairy farmers is crystal clear – produce less milk.

Executive summary

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) in milk equivalents for the first five months of 2022 is 4,5% less than in the same period in 2021 and if compared to the same period as in 2020 it is 9,0% lower. The total milk supply in the first five months of 2022 is the lowest compared to the previous five years.

The milk: concentrate feed price ratio is dangerously low since November 2021. At these levels, many dairy farmers produce at a loss or at a level where production will not be stimulated. The current level of the milk-to-feed ratio (1.13:1) coupled with other abnormal high increases in major production inputs could force dairy farmers to apply different quantitative management practices (e.g., less fertiliser/ha = lower yield = lower carrying capacity) that will result in lower unprocessed milk production.

Unprocessed milk production		
Year	000 ton	Growth
2018	3 411	4.82%
2019	3 433	0.65%
2020	3 427	-0.16%
2021	3 403	-0.71%
2022*	3 353	-1.40%

* projected, *ceteris paribus*

The demand for unprocessed milk is clearly suppressed since 2019. Downstream role players are clearly not concerned about the stagnation. The market signal from the unprocessed milk price regime in South Africa underpins the above conclusion.

The average preliminary June 2022 unprocessed milk price in Europe(27) is 36% up from June 2021 and the New Zealand price in May 2022 is up 25% from May 2021 (source CLAL- Farm-gate milk prices). **These price increases are closely linked to the high increases in the prices of a wide range of major inputs.** Over the same period, the South African unprocessed milk price increased by 6.1%. The South African price is trailing the European price by R1,70 and the New Zealand price by R0,99.

Fonterra indicated in June 2022 a record milk price on top of a record milk price. Fonterra hiked its forecast for the season that started in June 2022 by 50c and is currently indicating a farmgate milk price of NZ\$9.50 per kilogram of milk solids.

A market economy is dependent on available information evenly distributed between role players that enable the “invisible hand” to optimally distribute production factors. The better the information the more optimally the invisible hand can function. The objective of the Economic Desk of the MPO is to provide market signals and market trends to the dairy industry, organised agriculture and policymakers, to enhance the functioning of the value chain.

The Economic Desk of the MPO produces several reports focussing on supply and demand variables and dynamics, both within an international and domestic ambit. The Desk follows an approach where the market analysis is objective with a strong scientific foundation.

The outputs and deliberations of the Desk should assist role players in the value chain to better prepare for market developments and empower role players to engage at a higher level. 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, the 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 May 2022 is estimated at 236 million litres, 2,84% less than in May 2021. Cumulative unprocessed milk production for 2022 (inclusive of May 2022) was 1 236 million litres, indicating a decline of 1,36% in comparison to the same period in 2021.

Monthly milk production is reflected in Figure 1 below.

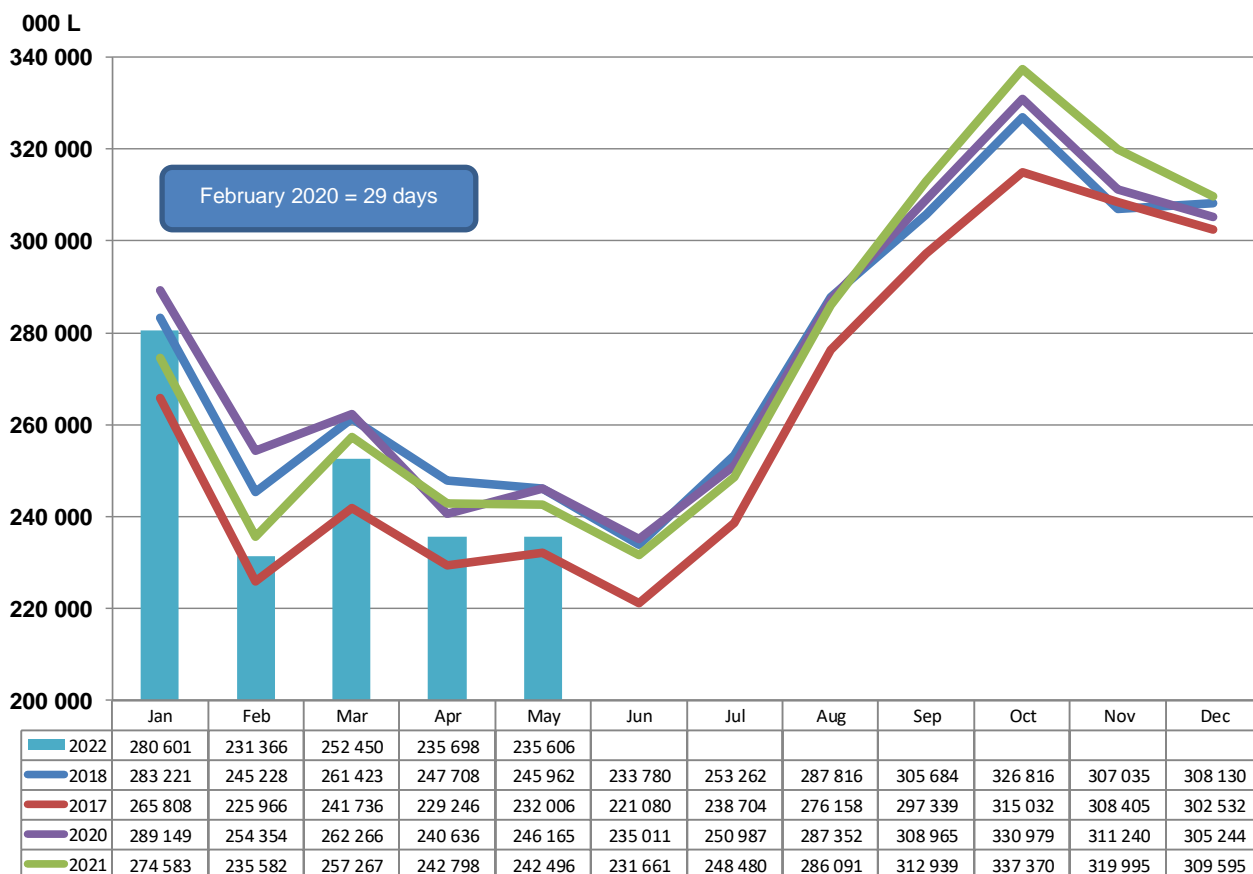


Figure 1 Monthly milk production ('000 L).

Source: Milk SA, April and May 2022 are preliminary

1.2 Dairy imports

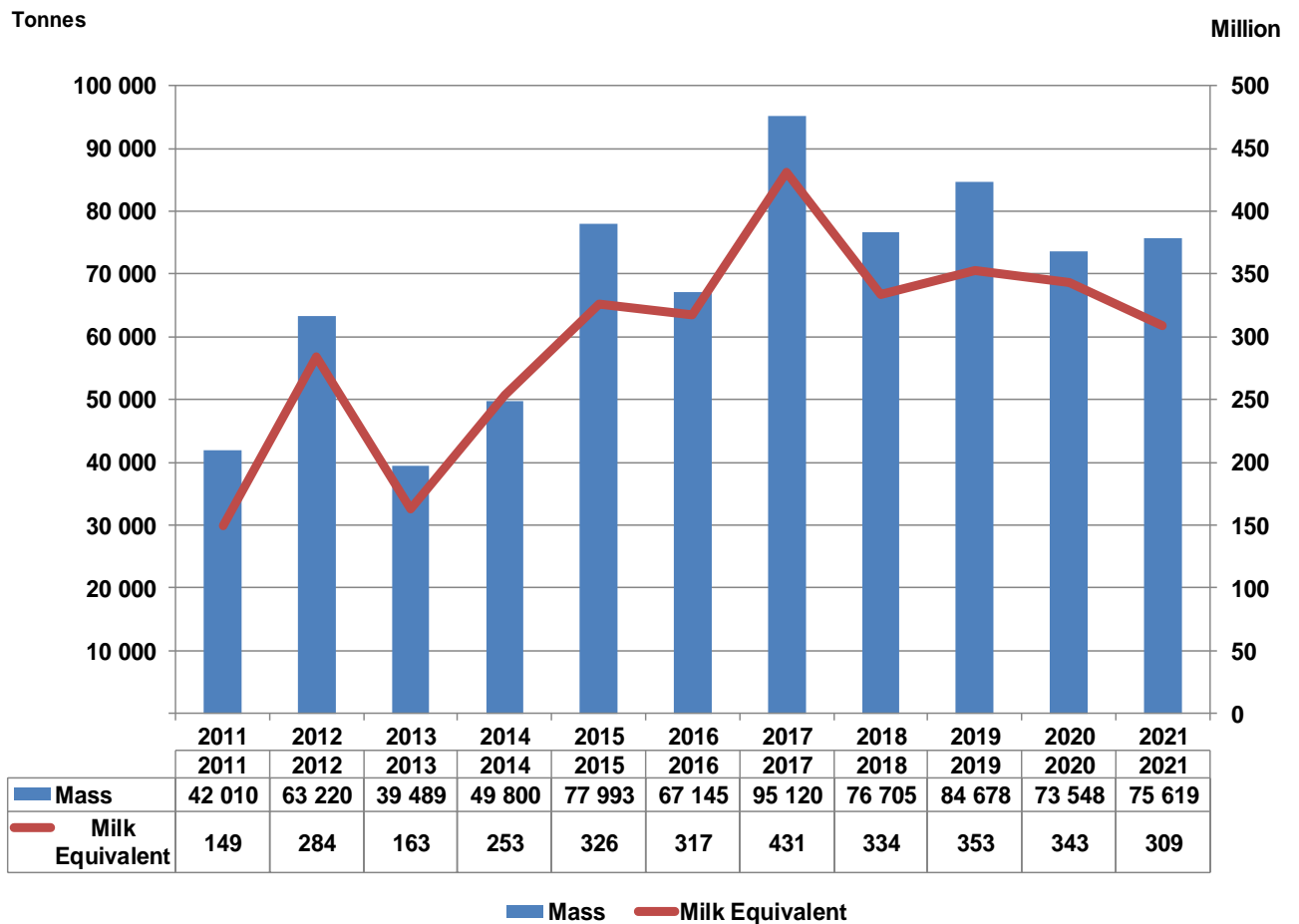


Figure 2 Annual imports, mass and milk equivalent basis, 2011-2021

Source: Agri Inspec

Figure 2 illustrates the fluctuation in annual dairy imports on a mass and milk equivalent basis. On a mass basis, imports increased in 2021 by 2,8% compared to 2020. On a milk equivalent basis, imports declined in 2021 by 9,9% compared to 2020.

Figure 3 illustrates monthly cumulative dairy imports on a milk equivalent basis. Cumulative imports, year to date, slowed down in May and are now at the lowest level compared to the previous five years.

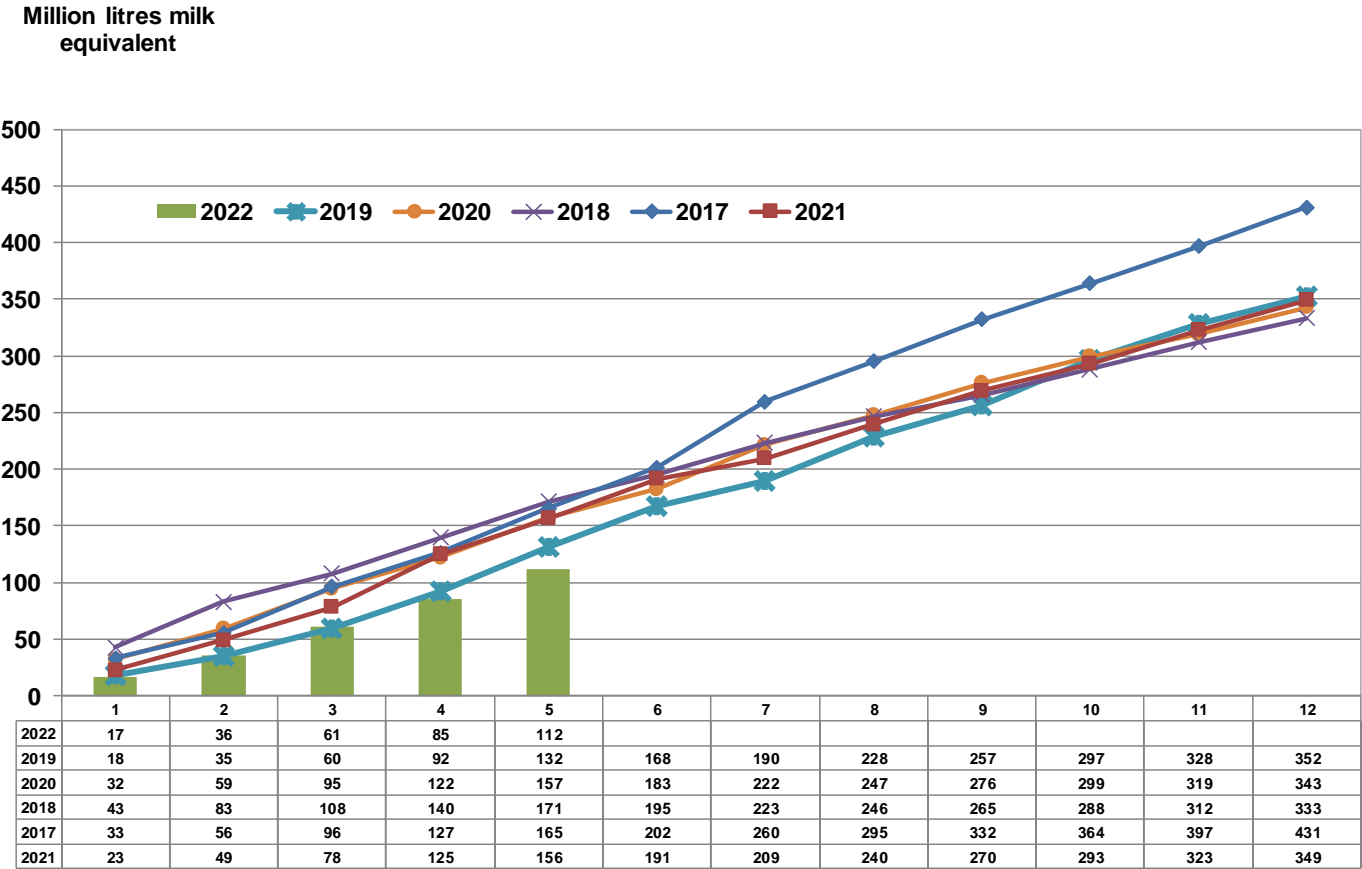


Figure 3 Monthly cumulative imports, (Mil. L.) milk equivalent basis

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 2021 recorded an all-time high record, where SA exported 480 million litres of milk, on a milk equivalent basis. 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 by 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 exists in the export market.

For the first five months of 2022, export quantities decreased by 3,0% when compared to the same period in 2021.

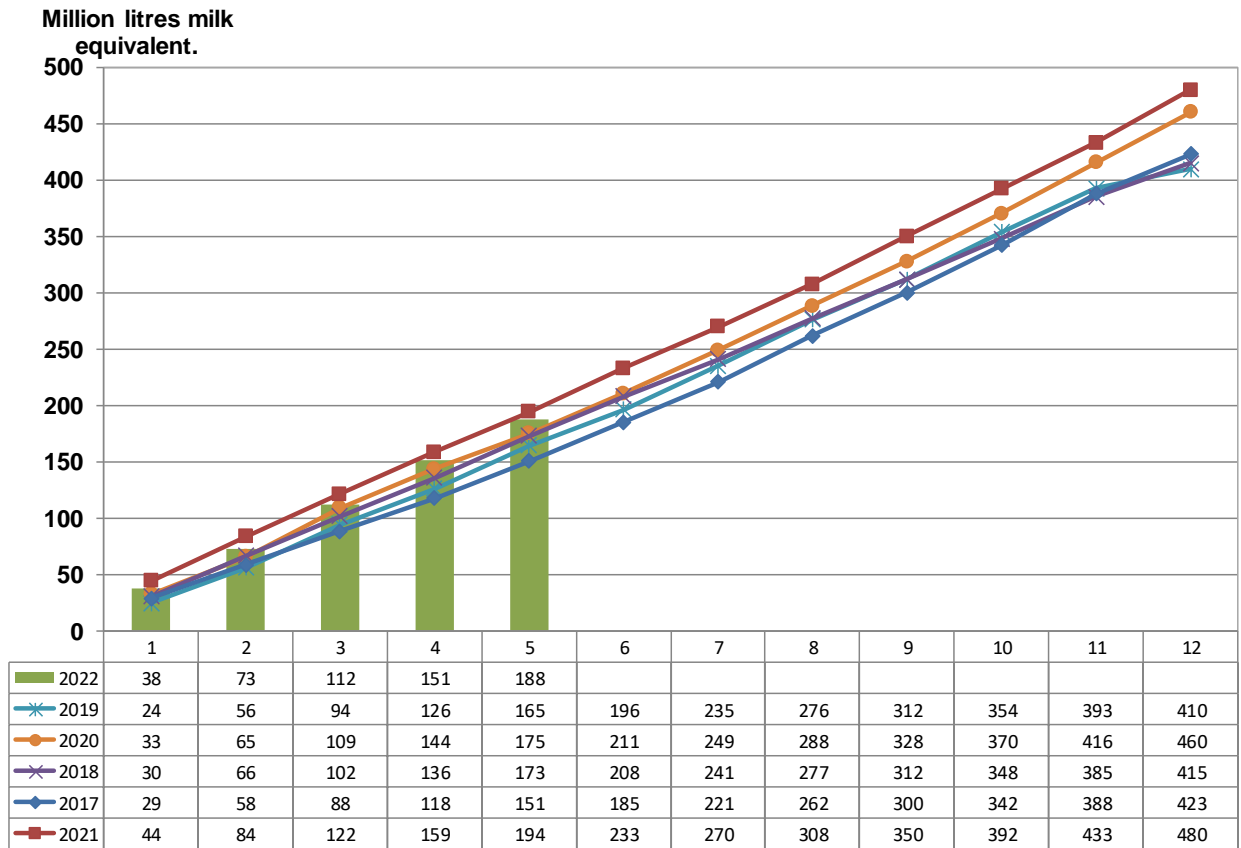


Figure 4 Monthly cumulative dairy exports (Mil. L.), milk equivalent basis

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 and maintained that status in 2019, 2020, and 2021. Net exports for the first five months of 2022 are at a record level if compared to the previous five years over the same period. 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

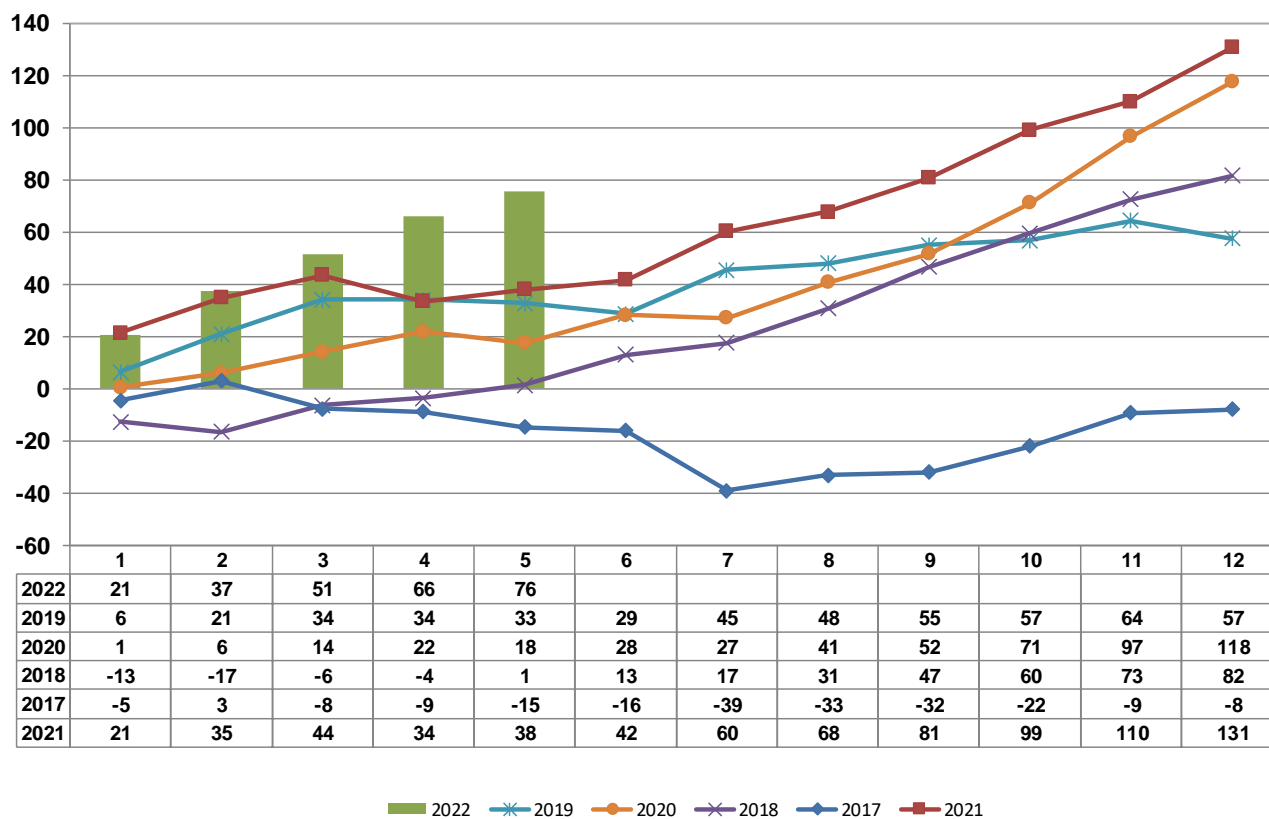


Figure 5 Cumulative net exports, milk equivalent basis (Mil. L.)

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 five months of 2022 is 4,5% less than in the same period in 2021 and if compared to the same period as in 2020 it is 9,0% lower. Total milk supply in the first five months of 2022 is the lowest compared to all the previous five years.

Mil. Litres ME

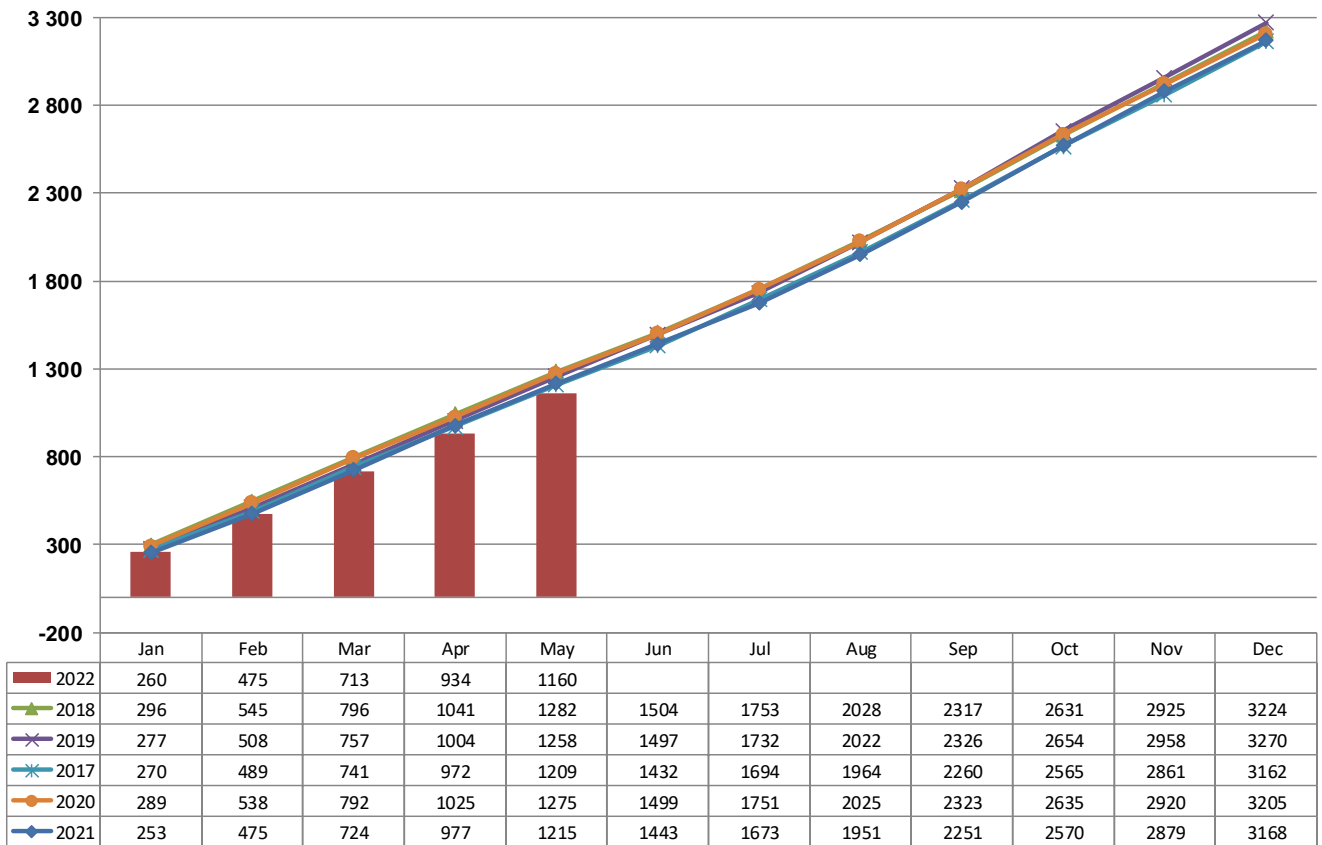


Figure 6 Total Cumulative monthly milk supply

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.

Focussing on the 12-month column, where sales quantities of 2021 are compared to 2020, a concerning trend is visible. All the products, except flavoured milk, experienced negative growth. The two major dairy products, fresh milk, and UHT milk reflect serious negative growth, and together with the other products indicate that demand, in the current marketing mix is decreasing.

Comparing April 2021 to March 2022 sales quantities to April 2020 to March 2021 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 COVID-19 pandemic, especially in 2020. Nevertheless, fewer products are being sold at the retail level.

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

PRODUCT	Sales in the month of March 2022 versus the sales in the month of March 2021	Sales in the 3 months from January 2022 to March 2022 versus the sales in the 3 months from January 2021 to March 2021	Sales in the 6 months from October 2021 to March 2022 versus the sales in the 6 months from October 2020 to March 2021	Sales in the 9 months from July 2021 to March 2022 versus the sales in the 9 months from July 2020 to March 2021	Sales in the 12 months from April 2021 to March 2022 versus the sales in the 12 months from April 2020 to March 2021
	percent		percent		percent
Fresh Milk	-6.8	-9.1	-7.6	-7.6	-6.7
UHT milk	8.6	3.2	2.3	1.7	-2.9
Flavoured milk	-1.9	-4.0	-1.8	-0.8	0.8
Yoghurt	-4.7	-7.1	-7.8	-9.0	-8.7
Maas	2.9	1.3	0.4	-2.3	-3.5
Pre-packaged cheese	5.4	3.0	2.9	1.5	-0.5
Cream cheese	-2.3	-3.1	-2.5	-3.4	-5.8
Butter	-0.6	-1.0	0.4	-0.4	-4.9
Cream	-8.7	-7.8	-5.0	-5.3	-7.4

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 nine products were higher in March 2022 than in March 2021 (12 months). The retail prices of only one of the nine dairy products increased by more than the annual consumer inflation rate of 6,5 per cent in May 2022.

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

PRODUCT	March 2022 versus February 2022 (1 month ago)	March 2022 versus December 2021 (3 months ago)	March 2022 versus September 2021 (6 months ago)	March 2022 versus June 2021 (9 months ago)	March 2022 versus March 2021 (12 months ago)	March 2022 versus September 2020 (18 months ago)	March 2022 versus March 2020 (24 months ago)
	Percent	Percent	Percent	Percent	Percent	Percent	Percent
FRESH MILK	1.5	1.5	0.2	1.3	3.8	8.3	8.6
UHT MILK	0.5	-1.5	-2.8	-3.3	1.0	0.9	5.7
FLAVOURED MILK	-0.1	1.2	-2.7	-1.7	7.6	7.1	9.5
YOGHURT	0.2	3.1	1.4	2.0	5.4	8.9	9.8
MAAS	0.1	0.0	0.9	-0.1	1.4	6.4	4.3
PRE-PACKAGED CHEESE	-1.3	-3.0	-1.6	-0.5	2.2	3.5	5.8
CREAM CHEESE	1.6	-0.7	1.4	0.9	2.5	10.4	15.4
BUTTER	4.5	-0.1	0.03	-1.9	0.8	-1.2	-2.3
CREAM	0.1	-0.5	2.3	2.9	5.7	6.9	7.2

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 producer price of unprocessed milk is 6,1% higher in June 2022 compared to June 2021. The June 2022 price is preliminary.

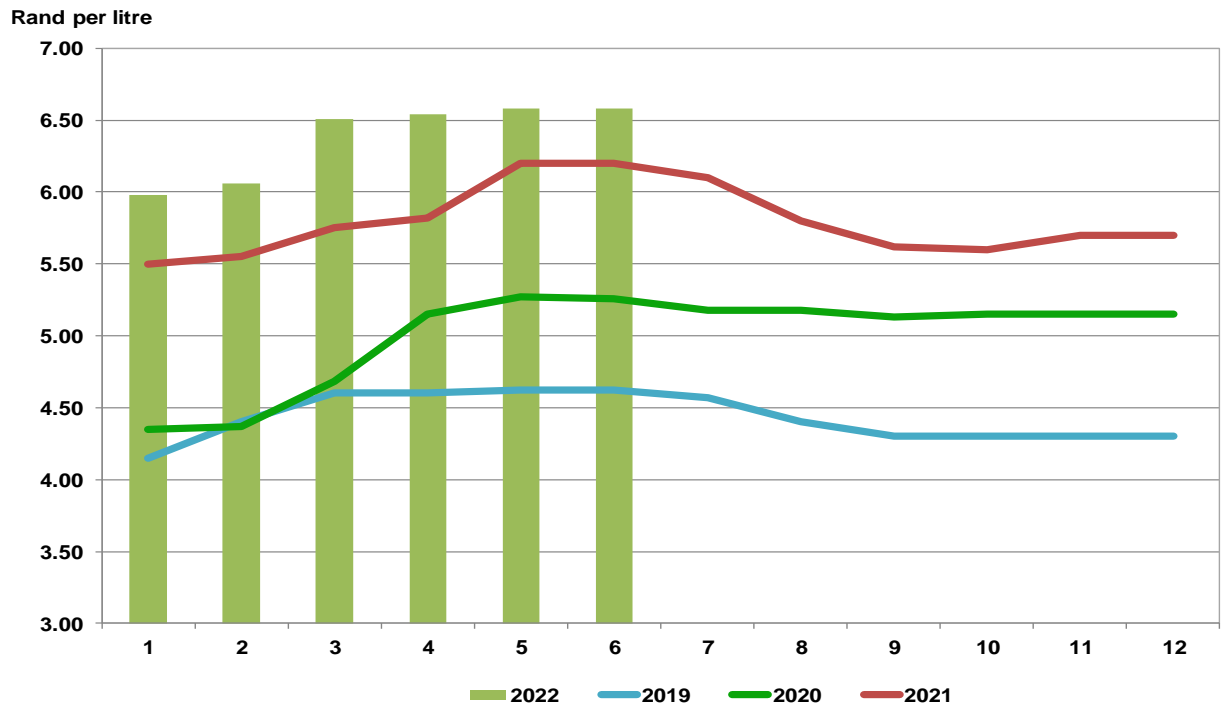


Figure 7 Monthly milk producer prices, 2019-2022

Source: MPO calculations, June 2022, preliminary.

1.8 Retail prices

Average retail prices of fresh milk in different packaging are supplied by the South African National Consumer Union (SANCU). The average 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 has been reducing since the last quarter of 2021 due to the higher level of producer prices while the average price for milk in a 2-litre plastic container moved sideways during the same period.

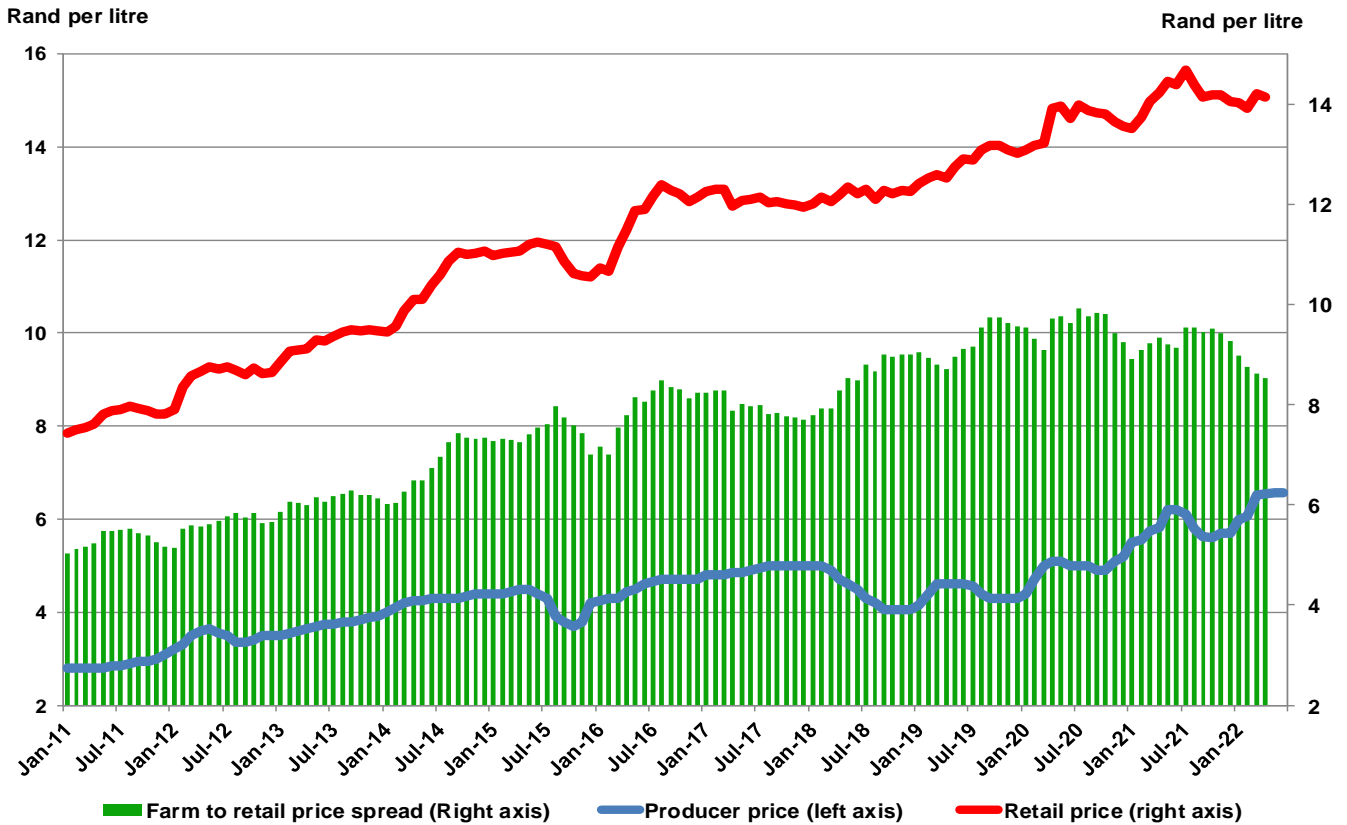


Figure 8 Monthly producer and retail prices, 2011 - 2022

Source: MPO; April 2022 producer price preliminary, SANCU

1.9 Concentrate feed price (Feed meal)

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 meal, 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 decreases 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.

In May 2022, the feed meal price reached a new historic high. Developments in international grain markets are well documented and the consequential influence on unprocessed milk production was frequently illuminated in various MPO communiqué.

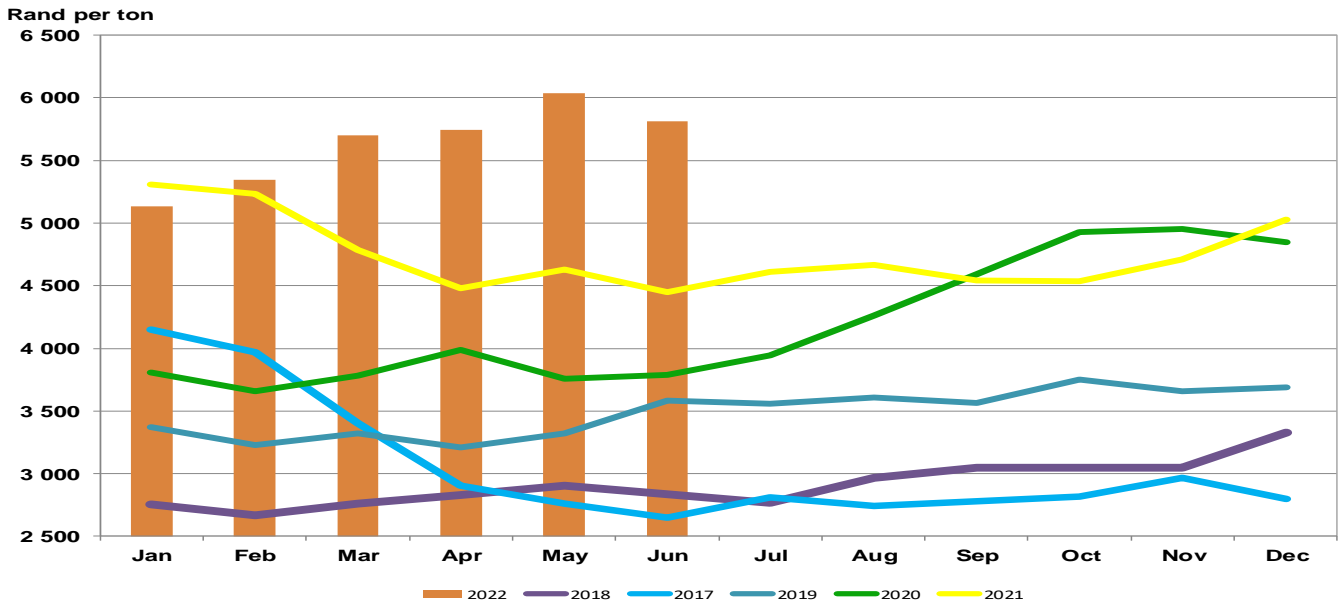


Figure 9 Calculated dairy concentrate feed prices, 2017-2022 *Source: Safex nearest month data*

The milk: concentrate feed price ratio is illustrated in Figure 10. The ratio is dangerously low since November 2021. At these levels, many dairy farmers produce at a loss or at a level where production will not be stimulated. The current level of the milk-to-feed ratio coupled with other abnormally high increases in major production inputs could force dairy farmers to apply different quantitative management practices (e.g., less fertiliser/ha = lower yield = lower carrying capacity) that will result in lower unprocessed milk production.

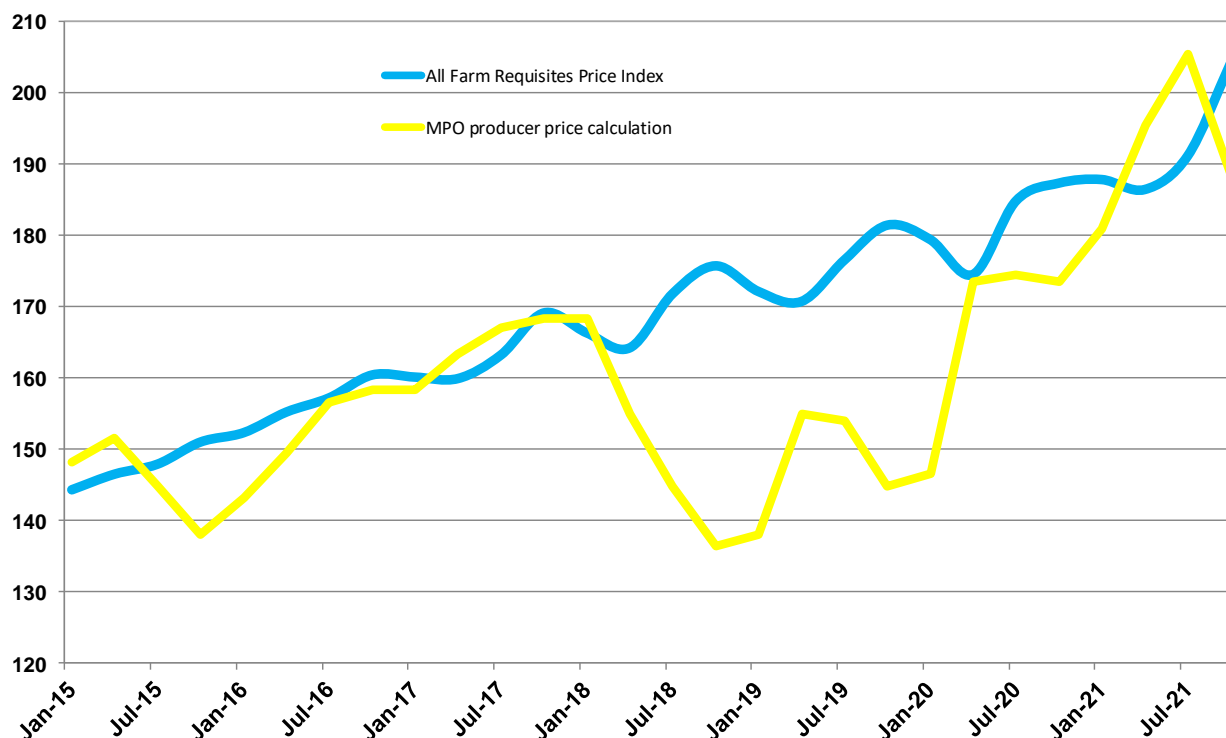


Figure 10 Milk: concentrate feed price ratio, 2019-2022 *(Source: MPO calculations; June 2022 preliminary)*

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 indicates the direction of input price changes.

Index (2010 = 100)



Source: MPO and DALRRD, Crops, and Markets

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

1.11 International food prices

The FAO Food Price Index (FFPI) averaged 154.2 points in June 2022, down 3.7 points (2.3 percent) from May, marking the third consecutive monthly decline, though still 29.0 points (23.1 percent) above its value a year ago. The drop in June reflected declines in the international prices of vegetable oils, cereals and sugar, while dairy and meat prices increased.

The FAO Cereal Price Index averaged 166.3 points in June, down 7.2 points (4.1 percent) from May, but still 36.0 points (27.6 percent) above its June 2021 value. After reaching a near-record level in May, international wheat prices fell by 5.7 percent in June but were still up 48.5 percent from their values last year. The decline in June was driven by seasonal

availability from new harvests in the northern hemisphere, improved crop conditions in some major producers, including Canada, higher production prospects in the Russian Federation, and slower global import demand. International coarse grain prices fell by 4.1 percent in June but were still 18.4 percent above their year-earlier values. Downward pressure stemming from seasonal availabilities in Argentina and Brazil, where maize harvests progressed quickly, and improved crop conditions in the United States of America underpinned a 3.5-percent decline in world maize prices in June.

The FAO Dairy Price Index averaged 149.8 points in June, up 5.9 points (4.1 percent) from May and as much as 29.9 points (24.9 percent) above its June 2021 value. In June, international prices of all dairy products increased. Quotations for cheese rose the most, underpinned by a surge in import demand for spot supplies amid market concerns over supply availabilities later in the year, as the early summer heat wave further weighed on already low milk output in Europe.

The FAO Meat Price Index averaged 124.7 points in June, up 2.1 points (1.7 percent) from May, setting a new record high and exceeding by 14.0 points (12.7 percent) its June 2021 value. The FAO Sugar Price Index averaged 117.3 points in June, down 3.1 points (2.6 percent) from May, marking the second consecutive monthly decline and reaching its lowest level since February.

Index (2014 - 2016 = 100)

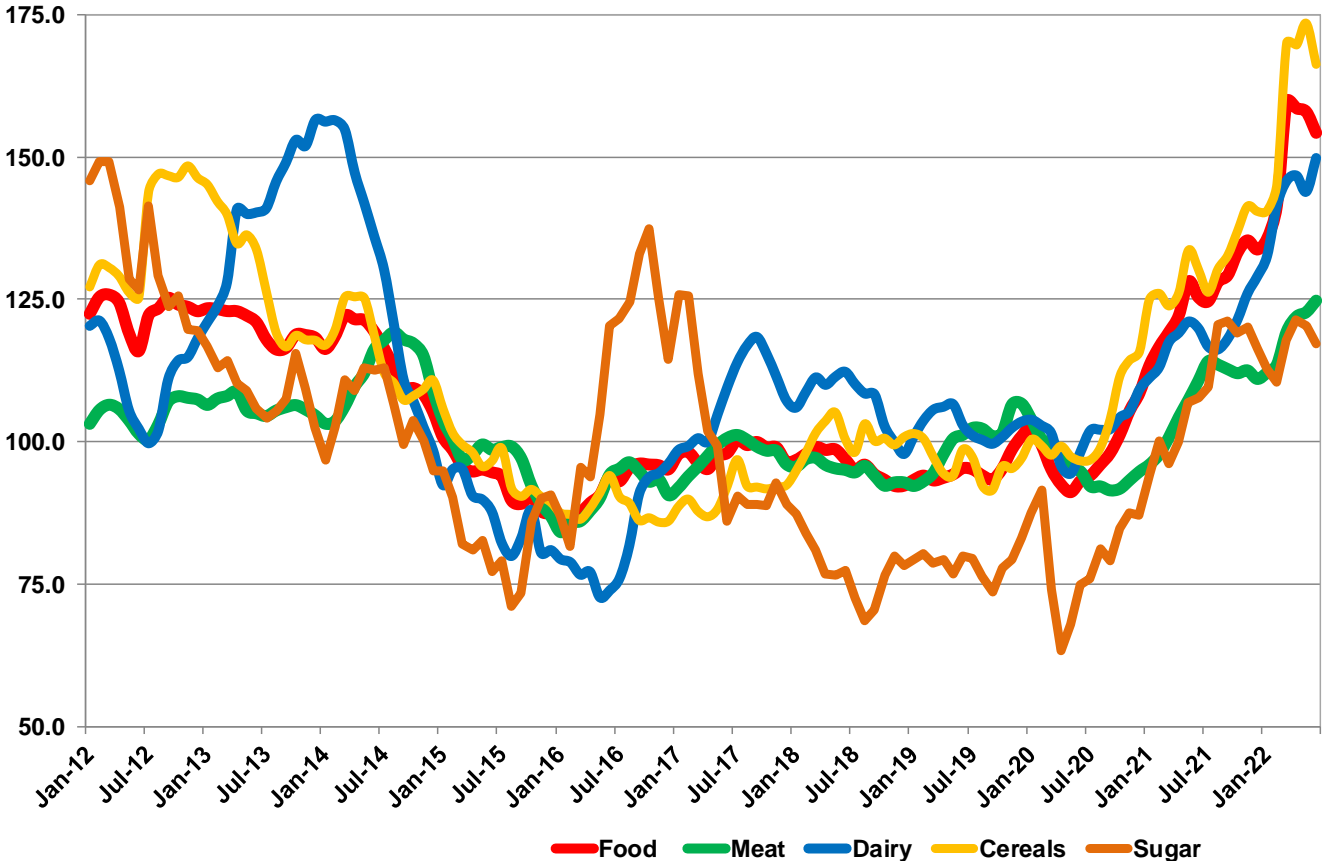


Figure 12 Monthly FAO food price indexes

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 and/or offers.

Figure 13 shows the movement of the Global Dairy Trade (GDT) price index inclusive of December 2021. At the initial stages of the worldwide pandemic, the index zig-zagged with the index showing an 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 upward break occurred in March 2021. The 1 100 and 1 200 index resistance levels were sliced through, showing strong demand with limited supply.** The April index moved sideways, May retreated to below the 1 300-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 upward trend continued until December 2021, breaking the 1 300-resistance level once again at 1 344 points.

The index increased aggressively in January and February 2022 and in March averaged 1586 points, up 100 points (6.7 per cent) from February 2022 and setting a new record high, lifting the index 20.1 per cent above its value from a year ago. **A double downward break occurred in May 2022. The 1 500 and 1 400 index support levels were sliced through, indicating a possible new trend and new price levels.** In June the market took some profit, with July decreasing through the 1 300 points support level. The July reading only accounts for one auction. Although the index is still sitting 22% above the pre-Covid-19 average index level, the extremely high prices experienced at the beginning of 2022 seems to be something of the past.



Figure 13 Global dairy trade-weighted price index

Figure 14 shows international Free On Board (FOB) prices for milk powders, butter, and Cheddar cheese. International product prices (Figure 14) for butter, Cheddar, full-cream milk powder, and skimmed milk powder, as published by the United States Department of Agriculture (USDA) and converted to rand prices by the MPO (rand price source: the South African Reserve Bank). The April 2022 prices initiated a slow-down in the upward momentum of three of the four product prices with full cream milk powder turning negative as reflected in the figure below. In May and June, prices started to come off, while full-cream milk powder bucked the trend with a small uptick. The Global Dairy Trade Price Index (GDT index) (Figure 13) confirms the mood change in the market – prices losing significant steam but remaining at high levels compared to prices in the pre-Covid-19 period.

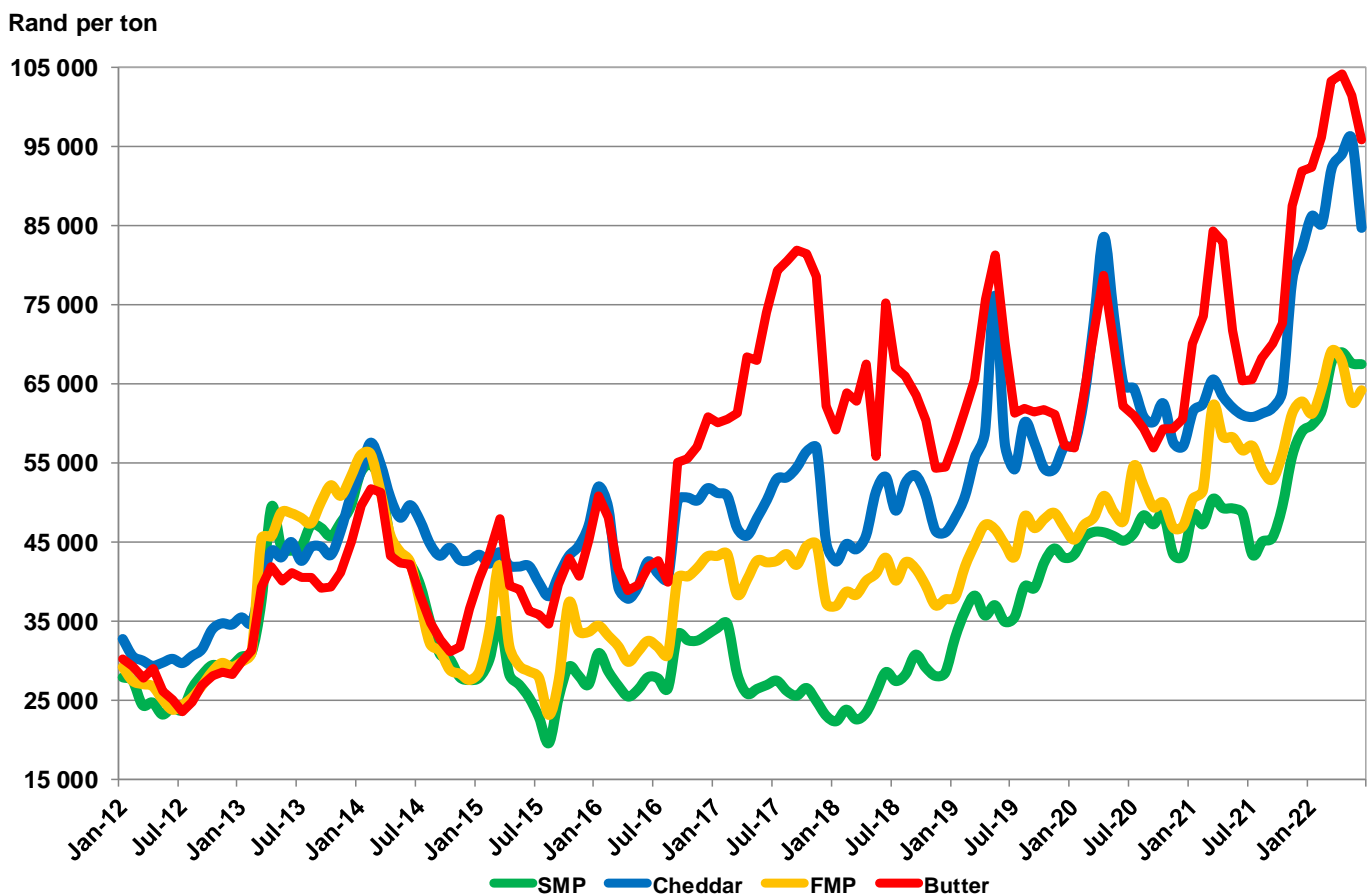


Figure 14 International dairy product prices (Rand/ton)

Source: USDA, SA Reserve Bank

In USD terms butter reduced from the year-to-date high of 6 644\$/ton (April 2022) to 6 063\$/ton in June, and cheese reduced from 6 263\$/ton (April 2022) to 5 356\$/ton in June, skimmed milk powder reduced from 4 600\$/ton (April 2022) to 4 269\$/ton in June and full cream milk powder reduced from 4 625\$/ton (March 2022) to 4 063\$/ton in June.

1.12 Import parity and producer prices

The MPO's benchmark import parity is based on the published USDA FOB prices, SA Rand/\$ exchange rates, standard import tariffs, and import and production costs 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 applies to all importers. The aggressive upward move of import parity since July 2021 is on the back of record-high international dairy product prices (butter and skimmed milk powder) and the depreciation of the ZAR. International product prices started to reduce from April 2022 with the consequential decrease in import parity.

Import parity and producer prices are reflected in Figure 15.

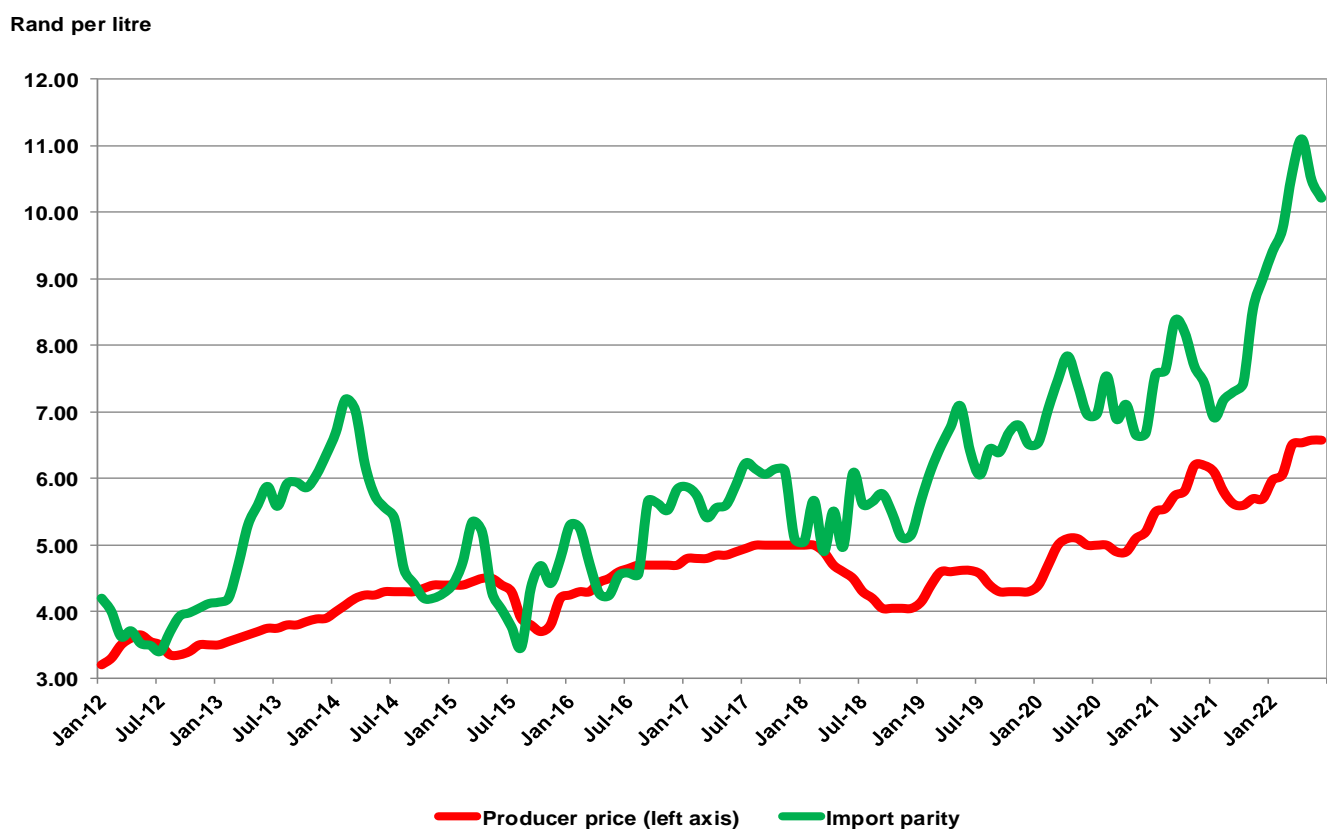


Figure 15 Monthly producer and import parity prices

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 of 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 2017 – 2022.

	2017	2018	2019	2020	2021	2022*
USA	1.7	1.1	0.3	2.2	1.3	-1.3
EU27	2.1	1.4	0.4	1.6	-0.3	0.1
AUS	0	0.9	-7.3	2.8	-0.9	-6.2
NZ	1.7	1.3	-0.8	0.4	0.1	-7.0
URU	7.6	5.7	-4.0	5.4	1.8	-1.2
ARG	-1.6	6.4	-2.3	7.4	4.0	1.1
ZA	3.0	5.0	0.7	-0.16	-0.71	-1.36

(Source: CLAL and Milk SA) *(2022 first two months; SA first 5 months)

Milk production in 2022 at the farm level for the major dairy exporting countries is mostly exhibiting slower growth or negative growth over the first two months of 2022 compared to 2021. The methodology used for comparison is based on the current year compared with the same period in the previous year (the first two months of 2021 compared to the first two months of 2022).

3. Economic overview

3.1 International economic outlook

Global growth is projected to slow from an estimated 5.7 percent in 2021 to 2.9 percent in 2022 and 3.0% in 2023. Beyond 2023, global growth is forecast to decline to about 3.3 percent over the medium term. War-induced commodity price increases and broadening price pressures have led to 2022 inflation projections of 5.7 percent in advanced economies and 8.7 percent in emerging market and developing economies. It will be a challenge for central banks to balance economic growth (recovery) while tackling inflation.

Even before the war, inflation had surged in many economies because of soaring commodity prices and pandemic-induced supply-demand imbalances. Some emerging markets and developed economies' central banks, such as the US Federal Reserve and those in Latin America, had already come under pressure before the war, bringing forward the timing of their monetary policy tightening. War-related supply shortages will greatly amplify inflation pressures, notably through increases in the price of energy, metals, and food. Although bottlenecks are expected to eventually ease as production elsewhere responds to higher prices and new capacity becomes operational, supply shortages in some sectors are expected to last into 2023.

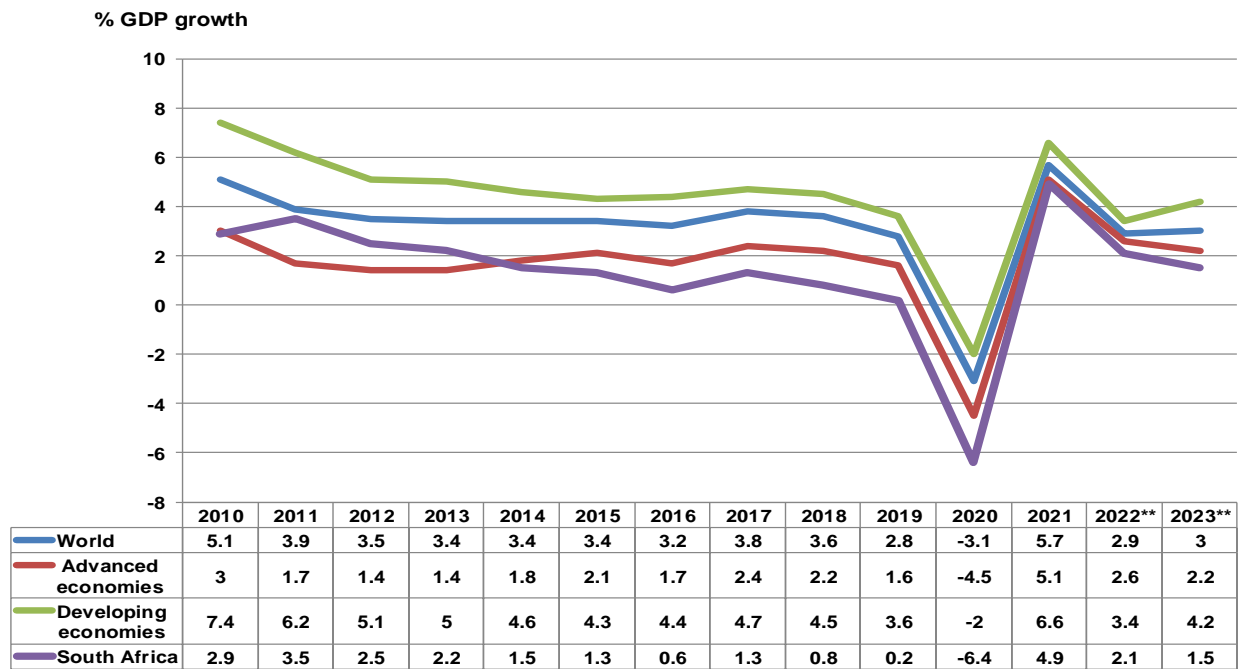


Figure 16 International economic growth and estimated growth

** Projection

Source: IMF WEO June 2022

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 co-incident, leading, and lagging indicators. The monthly movement of the leading and co-incident indicators 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. The annualised gross domestic product for the first quarter of 2022 (R4 613 billion) indicates that the economy has recovered to the same level as the pre-Covid-19 levels of 2019 (R4 584 billion). Both indicators trended north from May 2020. In June 2021 the co-incident indicator took a dip but started to increase again in January 2022. In June 2021 the leading indicator turned south, projecting lower economic activity and the index started to move sideways from October 2021.

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 the future.

Index (2000 = 100)

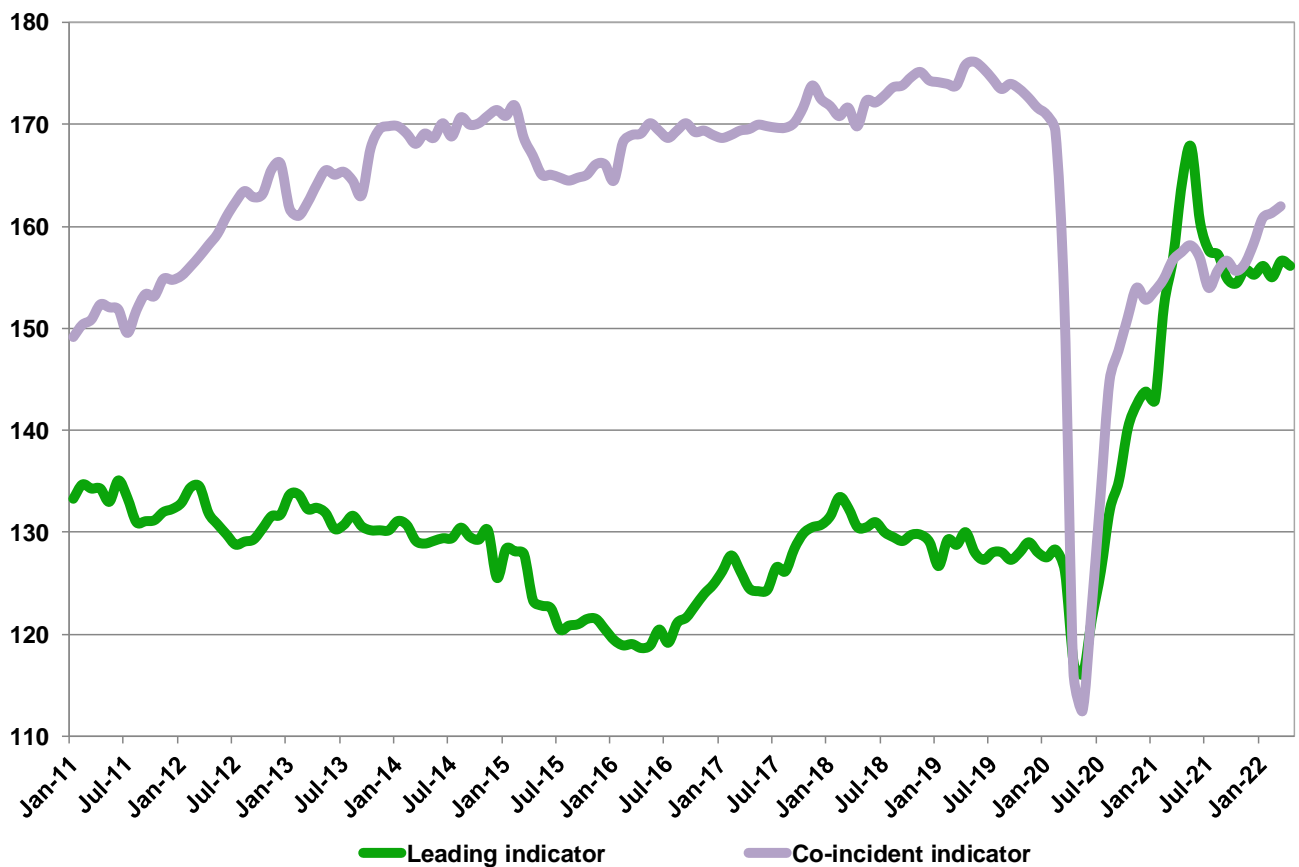


Figure 17 Leading and co-incident indicators of economic activity (Source: SARB)

Figure 18 shows the quarterly growth rate of the SA gross domestic product. The South African economy records a **positive fourth quarter in 2021**. Real gross domestic product (GDP) grew by 1,4% in the fourth quarter (October–December 2021), taking the annual growth rate for 2021 to 4,9% following a decrease of 6,4% in 2020. The fourth quarter's key drivers were: personal services, trade, manufacturing and agriculture.

The annual increase in real GDP of 4,9% in 2021 was primarily led by higher economic activity in finance growing by 3,7%; personal services growing by 5,3% and manufacturing growing by 6,6%.

In the first quarter of 2022, the real gross domestic product increased by 1,9%. Eight industries of the domestic product, which consists of ten industries, recorded positive growth between the fourth quarter of 2021 and the first quarter of 2022. The manufacturing industry increased by 4,9%, the trade, catering and accommodation industry increased by 3,1% and the finance, real estate and business services industry increased by 1,7%.

Non-Annualized quarter
on quarter % change

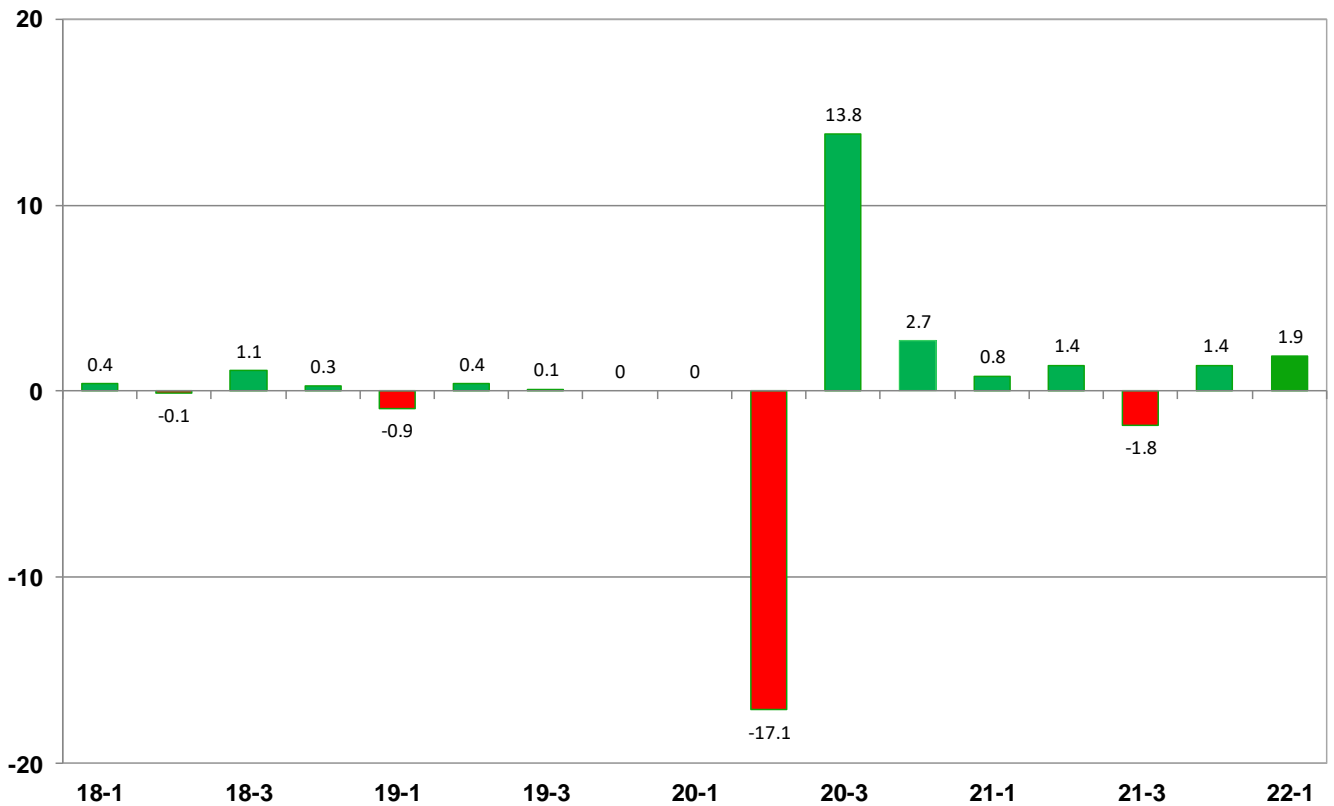


Figure 18 Quarterly change in real gross domestic product

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, a result of the COVID-19 restrictions. Inflation

The consumer price index and monthly inflation rate are reflected in Figure 19. Annual consumer price inflation was 6,5% in May 2022, up from 5,9% in April 2022. The main contributors were food and non-alcoholic beverages increasing by 7,6% year-on-year, housing and utilities increasing by 4,9% year-on-year, and transport increasing by 15,7% year-on-year. These were the same categories as main contributors in April.

Consumer price index (CPI) and inflation

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

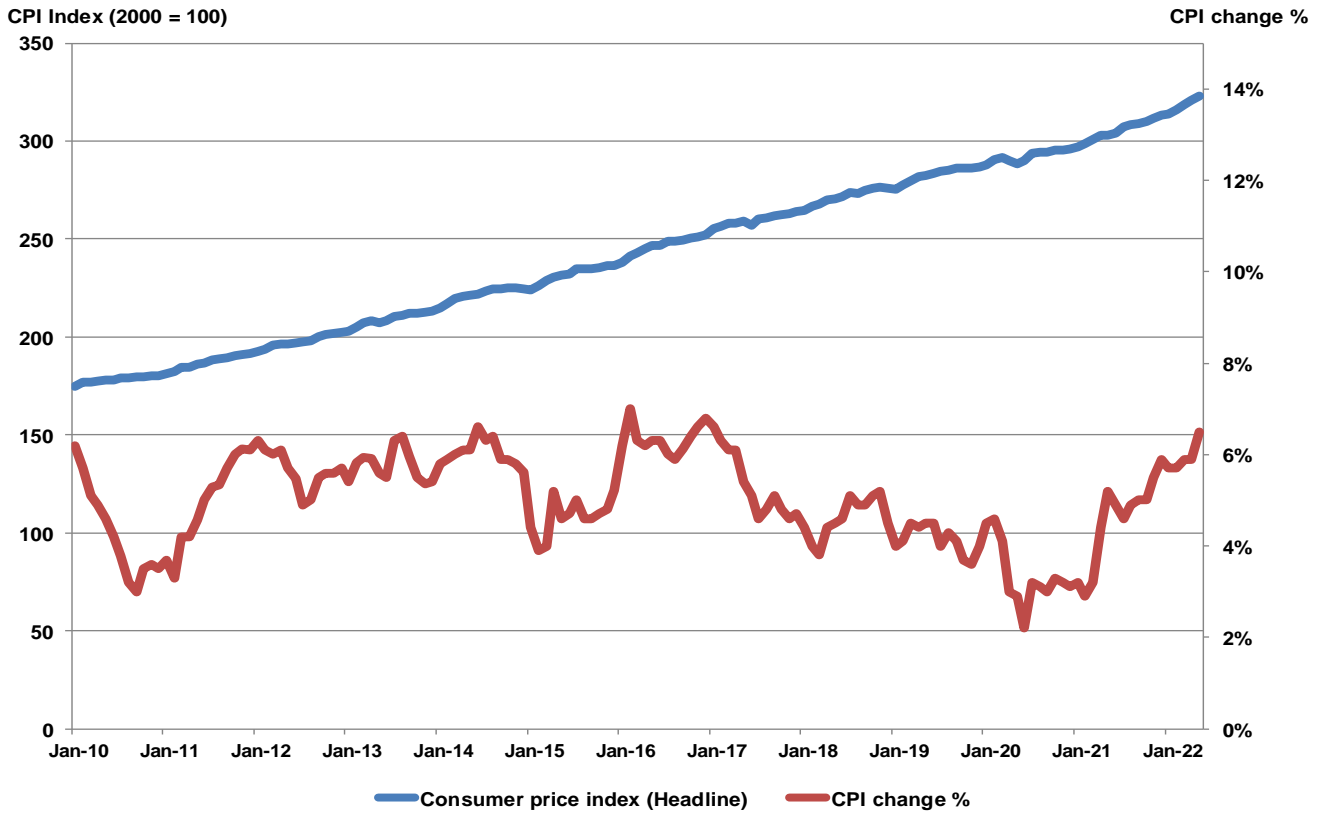


Figure 19 Consumer price index and consumer price inflation, 2010-2022

Source: Stats SA