



Dairy market trends

Feb 2024

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Dairy Market Trends February 2024:

Executive summary

With disinflation and steady growth currently experienced in the world economy, the likelihood of a hard landing for the world economy has receded, and risks to global growth are broadly balanced. On the upside, faster disinflation could lead to further easing of financial conditions. However, geographical tension remains high and could develop into a black swan.

There are signs that the deflation situation (-0.2% headline inflation) in China is deepening and now spreading to services as well. Deflation can cause company profits to decrease resulting in laying off workers and a contraction of money supply and credit as consumers hoard cash. Deflation can move a recession into depression and the current slowdown in the Chinese economy could massively affect the demand for a wide range of products, including agricultural products.

At this point, in time international dairy product prices are lifting with the Global Dairy Trade Index up 25% from August 2023 to February 2024.

In South Africa, the declining trend in the leading indicator of economic activity as published by the South African Reserve Bank is starting to manifest in the co-incidence indicator turning south, and if the time factor that the leading indicator exhibited a declining trend flows through to the co-incidence indicator, 2024 will mostly experience reduced economic activity.

Unprocessed milk production during 2023 in South Africa remains stagnant on the back of an economy grabbing with a wide range of structural challenges and ideological judgement errors:

Year	Unprocessed Milk Production (billion liters)
2018	3.41
2019	3.43
2020	3.43
2021	3.40
2022	3.35
2023	3.33*

*Last two months' preliminary

Dairy imports are down while healthy growth in export volumes was experienced with new markets opening.

In South Africa dairy demand as per the quarterly report from NielsenIQ is experiencing a noteworthy drop in volumes sold of the most important dairy products as monitored by NielsenIQ on the back of high increases in retail sales prices. Some of the products increased with more than double the inflation rate and at this pace, consumer resistance is highly probable.

The marketing margin as calculated as the differential between the price of one litre of milk in a 2-litre plastic container and the average farmgate price is at a new record level leaving ample space for moderate price increases in the farmgate in 2024 without putting pressure on the retail price.

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 van 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. These reports embody the Industry Information Project of the MPO. 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 December 2023 is estimated at 299 million litres, 2.77% more than in December 2022. Cumulative unprocessed milk production for 2023 was 3 226 million litres, indicating a decline of 0.64% in comparison to 2022 and 2.20% less when compared to 2021.

The MPO estimate for the final result of unprocessed milk production in 2023 is a decline of 0.85% compared to 2022.

Monthly unprocessed milk production is reflected in Figure 1 below.

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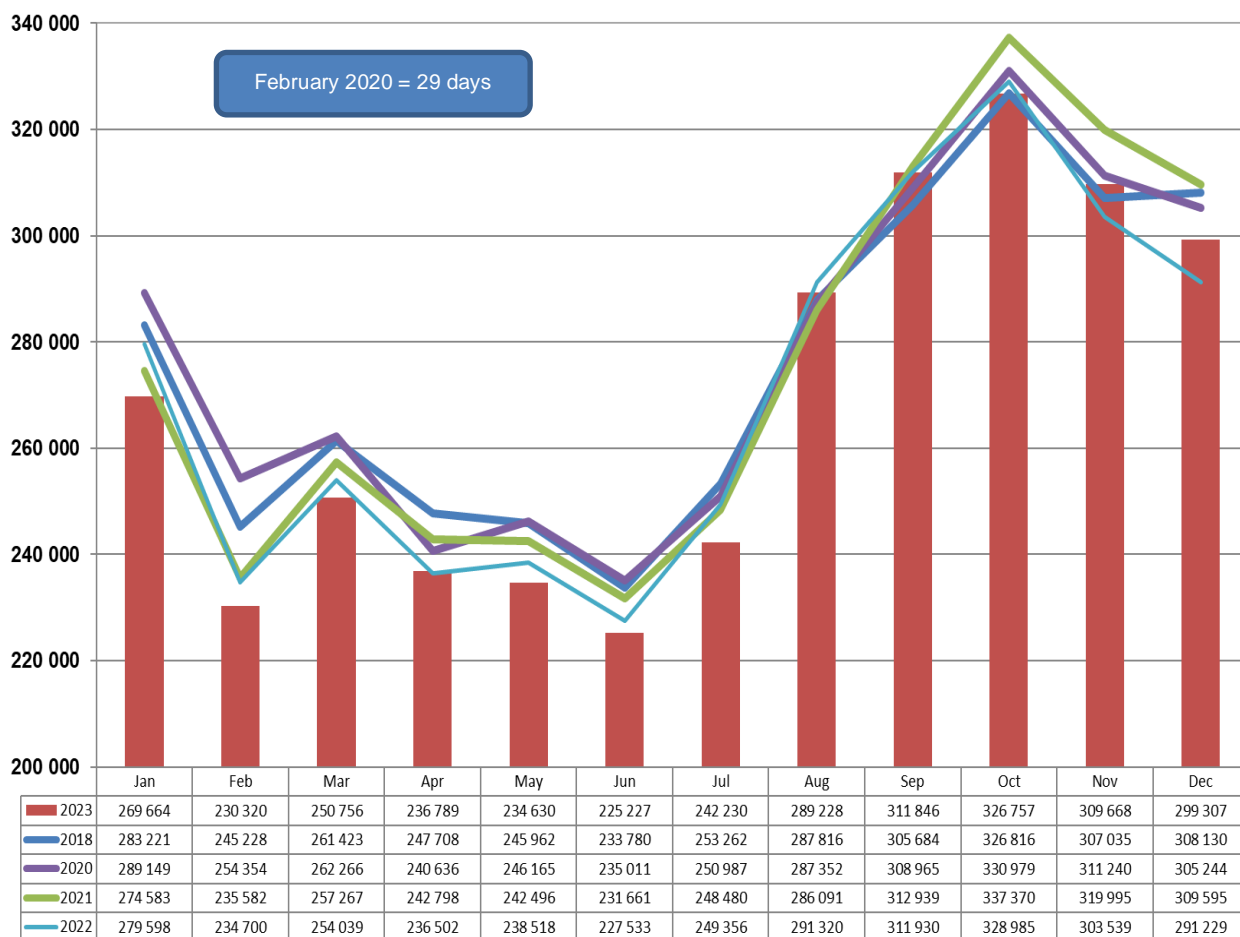


Figure 1: Monthly milk production ('000 L.).

Source: Milk SA, November and December 2023 are preliminary

1.2 Dairy imports

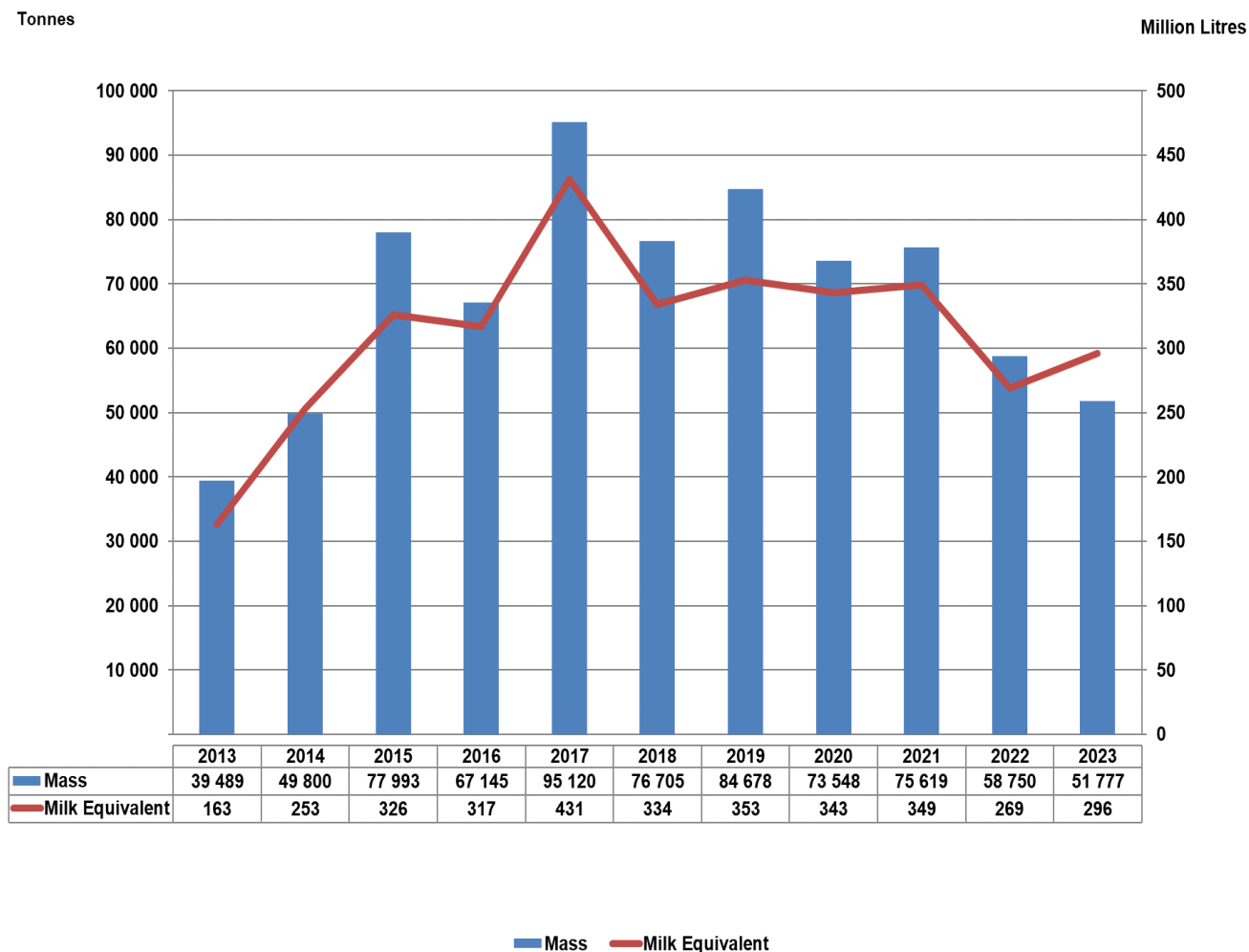


Figure 2: Annual imports, mass and milk equivalent basis, 2013-2023

Source: SARS as supplied by Agri Inspec

Figure 2 illustrates the fluctuation in annual dairy imports on a mass and milk equivalent basis. On a mass basis, imports decreased in 2023 by 12% compared to 2022. On a milk equivalent basis, imports increased in 2023 by 10% compared to 2022. Excluding the years 2013 and 2014, the year 2023 represents the second lowest level of imports (mass basis) for the past 11 years. There are some similarities during 2013 through 2014 with 2023 including that prices of imported dairy products were high compared to previous years and the same was experienced in 2022 and 2023. Additional to that, logistical challenges on an international and local level further impeded the volume of dairy imports.

Figure 3 illustrates monthly cumulative dairy imports on a milk equivalent basis. Cumulative dairy imports during 2023, is clearly well below the level of previous years imports, excluding 2022.

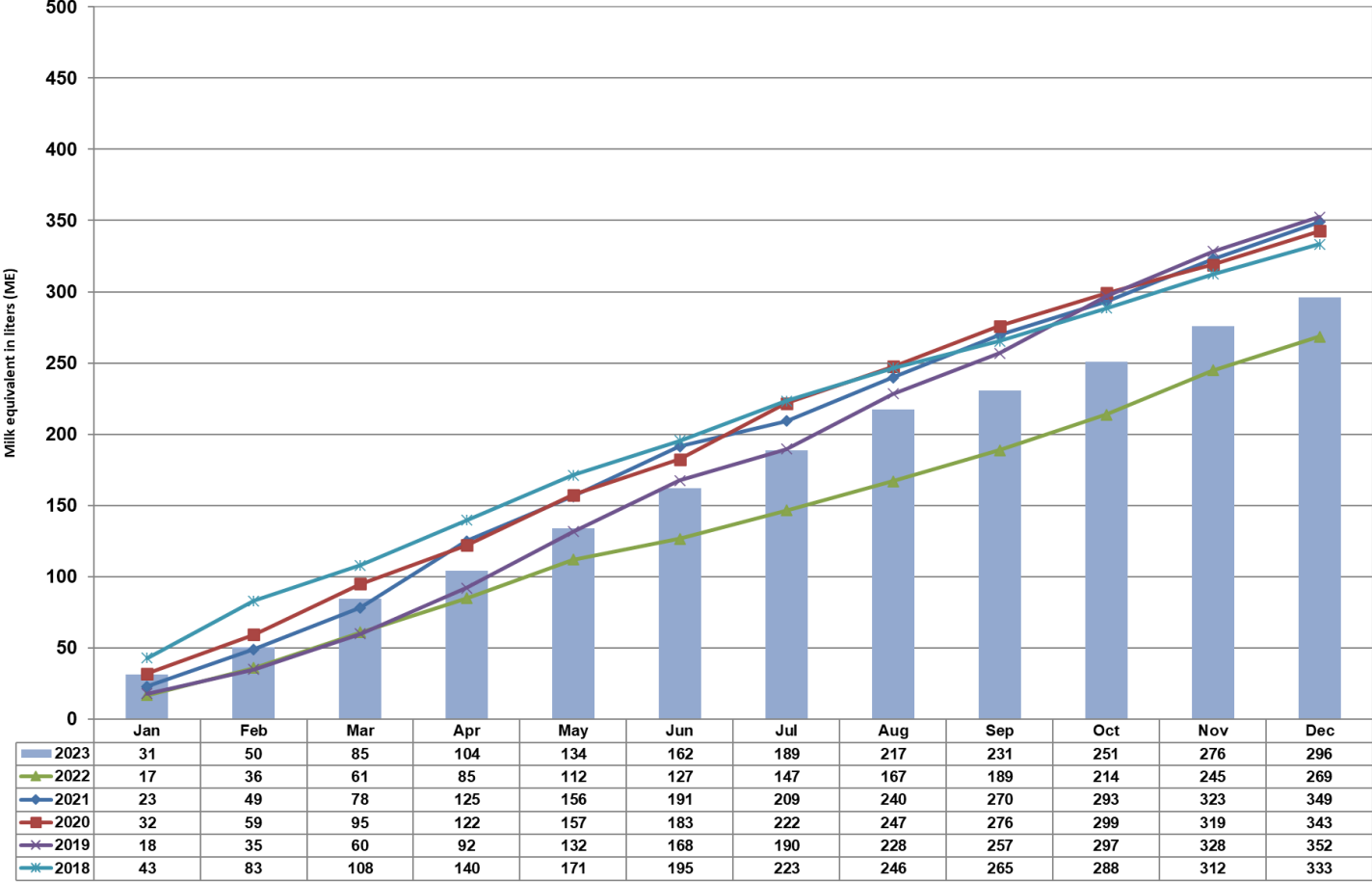


Figure 3: Monthly cumulative imports, (Mil. L.) milk equivalent basis

Source: SARS as supplied by 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 with 2022 registering 476 million litres, marginally lower. 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.

However, it seems that during 2023 sales to the other SACU countries pulled back. Exports, excluding sales to the other SACU countries increased with 8% compared to 2022. New markets were opened, with the United Arab Emirates and Saudi Arabia improving as exports destinations of South African dairy products. The number for dairy exports inclusive of the sales to other SACU countries came in lower than in 2022, indicating that sales to other SACU countries decreased.

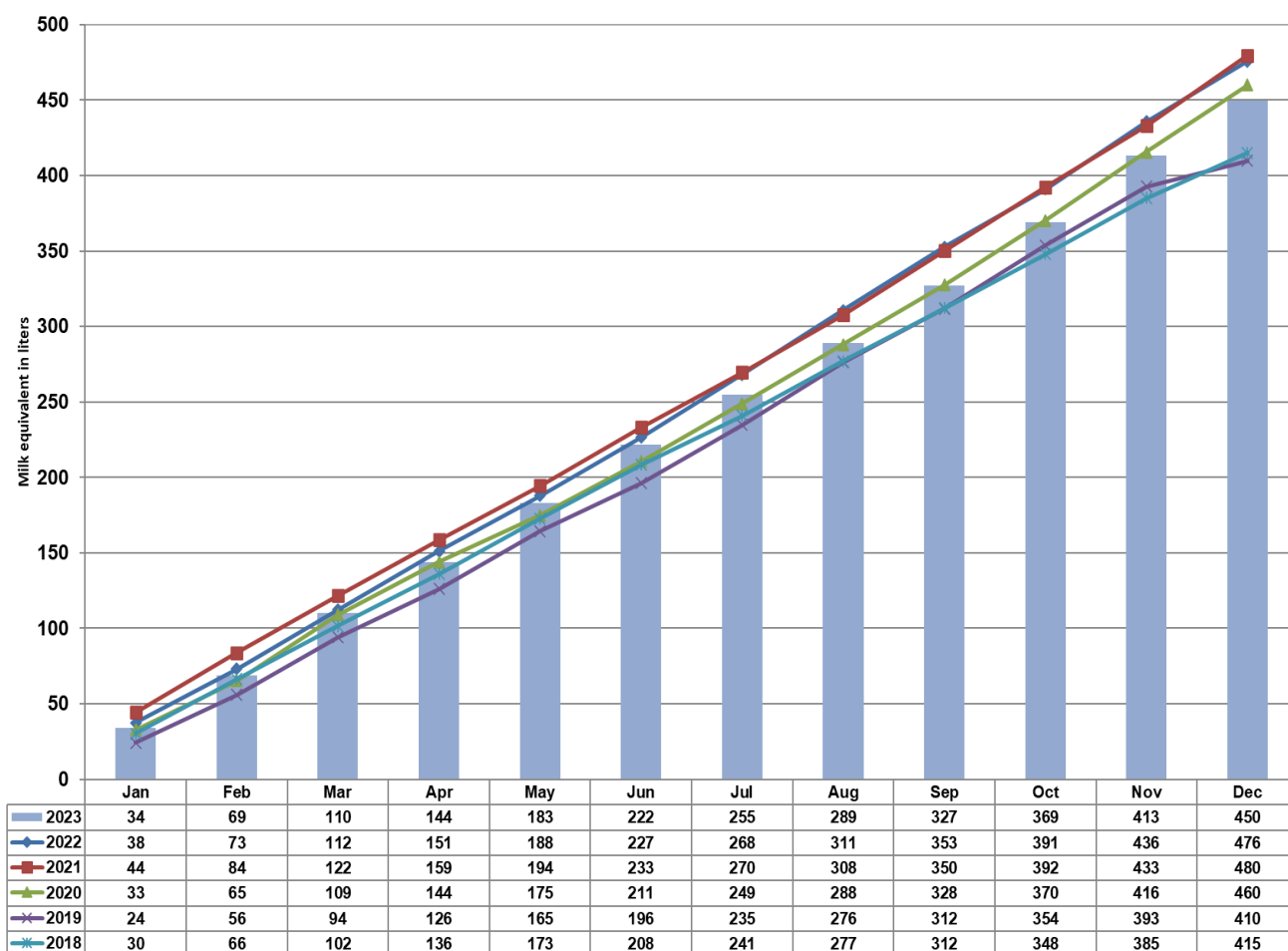


Figure 4: Monthly cumulative dairy exports (Mil. L.), milk equivalent basis

Source: SARS as supplied by 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 2023. Net exports in 2022 achieved a record level if compared to the previous five years while net exports in 2023 also exceeded the level of net exports before 2022, but at a lower level. Cumulative net exports (total exports plus sales to BLNE countries less total imports) on a milk equivalent basis are shown in Figure 5 below.

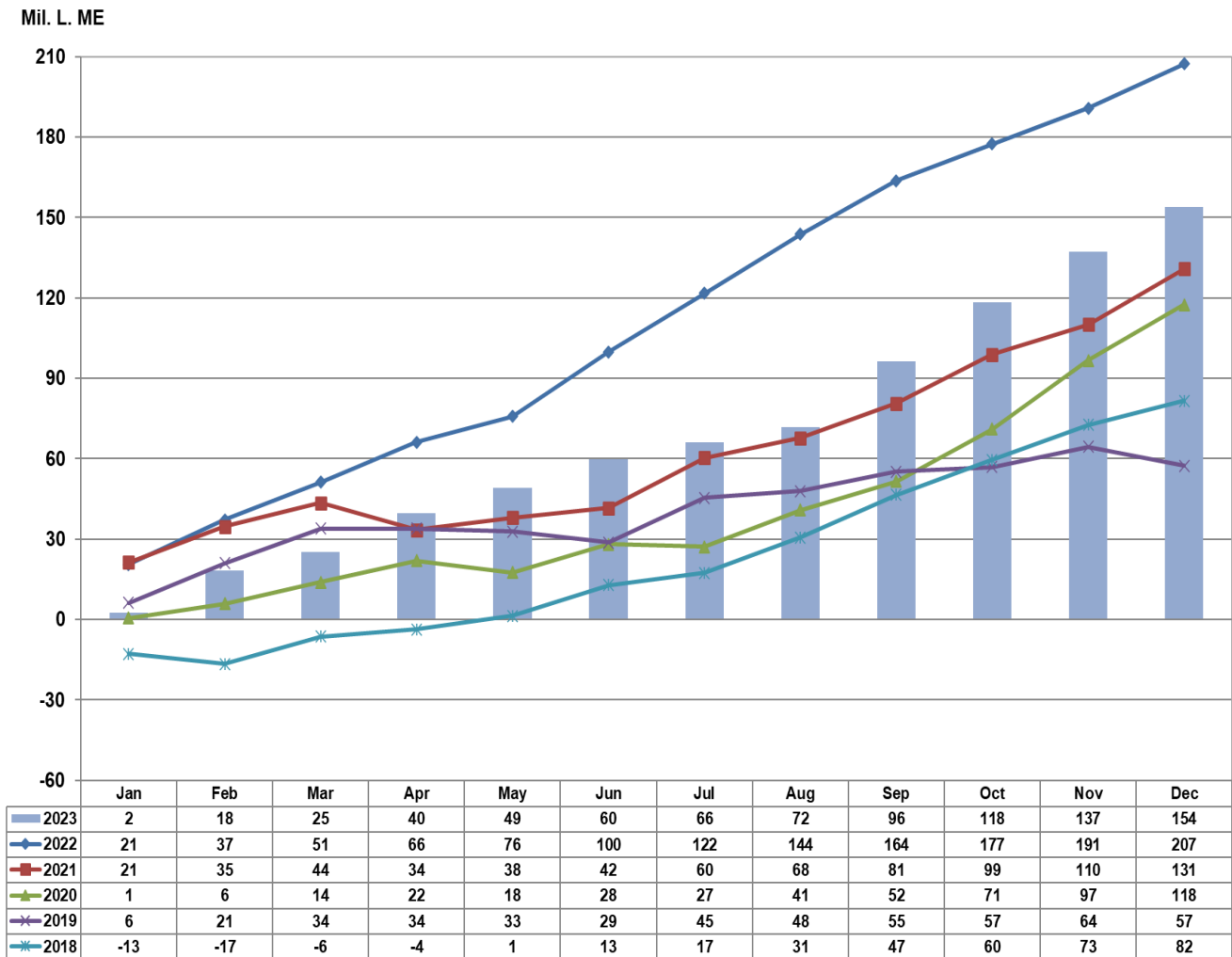


Figure 5: Cumulative net exports, milk equivalent basis (Mil. L.)

Source: SARS as supplied and calculated by 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, ME) for 2023 is marginally more (1.0%) than in 2022 and if compared to the same period as in 2021 it is 2.9% less.

Expressed differently: the 1% increase in ME equals 33 000 000 litres more for 2023, at 600 000 lactating cows, that equals 150 ml per cow per day extra compared to 2022. Assuming that at this total milk supply level, the market was relatively in balance, logic conclude that similar to the rugby world cup, margins are small and if we get it wrong the market will punish us.

In the residential property market, location is everything. **In the dairy market (value chain), information and communication are everything.**

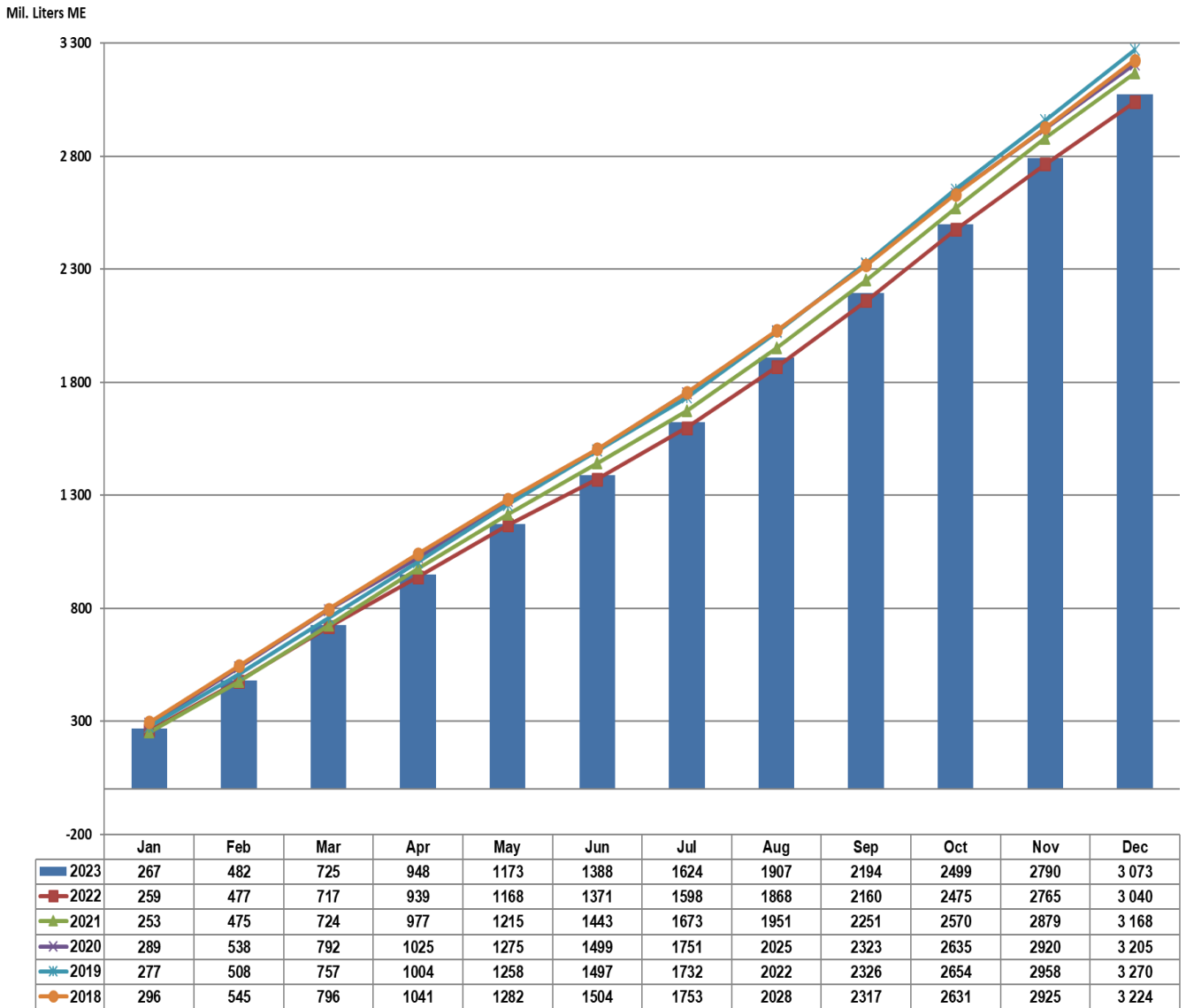


Figure 6: Total Cumulative monthly milk supply

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 October 2022 to September 2023 are compared to October 2021 to September 2022, a concerning set of percentages are visible. The table reflects that eight of the nine products being monitored experienced reduced sales. Demand for dairy products and consequently unprocessed milk, reflect serious negative growth, in the current marketing mix.

The magnitude of reduced sales will have to be taken into consideration by milk farmers and milk processors in an effort to balance supply and demand. Farmers should heed the feedback from processors and make sure they produce in line with supplier contracts.

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

PRODUCT	Sales in the month of September 2023 versus the sales in the month of September 2022	Sales in the 3 months from July to September 2023 versus the sales in the 3 months from July to September 2022	Sales in the 6 months from April 2023 to September 2023 versus the sales in the 6 months from April 2022 to September 2022	Sales in the 9 months from January 2023 to September 2023 versus the sales in the 9 months from January 2022 to September 2022	Sales in the 12 months from October 2022 to September 2023 versus the sales in the 12 months from October 2021 to September 2022
	percent	percent	percent	percent	percent
Fresh Milk	-6.5	-6.4	-6.2	-6.1	-5.8
UHT milk	-2.8	-0.13	-2.6	-4.9	-4.2
Flavoured milk	-8.8	-10.9	-11.5	-11.5	-10.7
Yoghurt	-1.8	-7.1	-8.5	-8.5	-7.6
Maas	-2.4	-6.6	-7.9	-7.2	-5.9
Pre-packaged cheese	-3.4	-1.5	-1.0	-1.6	-1.1
Cream cheese	19.0	15.9	11.3	8.4	5.6
Butter	-15.4	-3.5	-4.0	-6.6	-5.8
Cream	2.1	-1.3	-2.3	-2.7	-3.1

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 nine products were higher in September 2023 than in September 2022 (12 months). The retail prices of eight of the nine dairy products being monitored by Nielsen increased by more than the September annual headline inflation rate of 5.4 per cent. All price increases are significantly higher than the inflation rate with five of the monitored product prices increasing with more than double the inflation rate. At these levels consumer resistance will be a real risk with the consequential effects regarding demand and some consumers moving to competitor products.

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

PRODUCT	September 2023 versus August 2023 (1 month ago)	September 2023 versus June 2023 (3 months ago)	September 2023 versus March 2023 (6 months ago)	September 2023 versus December 2022 (9 months ago)	September 2023 versus September 2022 (12 months ago)	September 2023 versus March 2022 (18 months ago)	September 2023 versus September 2021 (24 months ago)
	Percent	Percent	Percent	Percent	Percent	Percent	Percent
FRESH MILK	-0.1	-1.0	0.5	10.2	12.8	18.1	19.0
UHT MILK	0.3	-0.4	5.2	11.0	14.9	27.0	23.9
FLAVOURED MILK	1.5	1.4	2.2	10.5	9.4	23.8	22.4
YOGHURT	-2.9	-0.03	1.8	8.4	9.6	18.0	19.3
MAAS	-0.3	0.5	2.2	12.1	16.8	26.6	28.4
PRE-PACKAGED CHEESE	-0.07	2.9	5.0	7.4	13.2	21.1	18.9
CREAM CHEESE	0.6	-0.2	4.0	5.4	8.6	15.6	17.4
BUTTER	1.9	0.5	6.7	2.7	12.3	22.4	18.2
CREAM	-0.8	-0.9	1.9	6.2	8.6	15.5	18.5

Source: Nielsen supplied by Sampro

1.7 Producer price of unprocessed milk

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 SA average farmgate price increased in 2023 by 10% and closed at R7.48 in December 2023 with an apex price of R7.78 in June representing an increase of 19.3% compared to June 2022. The MPO estimate of unprocessed milk production for 2023 is 0.85% less than in 2022 with some upward mobility existing in the farmgate price, targeting R8.00/l. Reflecting on 2023 it seems that the market succeeded in balancing weak demand with adequate supply while integrating the higher cost structure in the value chain.

International: the average EU price reduced by 18% in 2023 to R8.83/L. The price started to move sideways since September 2023 with a slight incline on the trendline going forward. In New Zealand the price also dropped with 18%, down to R6.15/L in November 2023. The Fonterra Group forecasts a moderate price increase in 2024 on the back of the lift in global dairy trade prices. The IFCN world price outlook for 2024 indicates an average of 40 USD/100kg solid corrected milk with a flat trajectory. In ZAR terms R7.74/l (R/\$ estimate, R19.95).

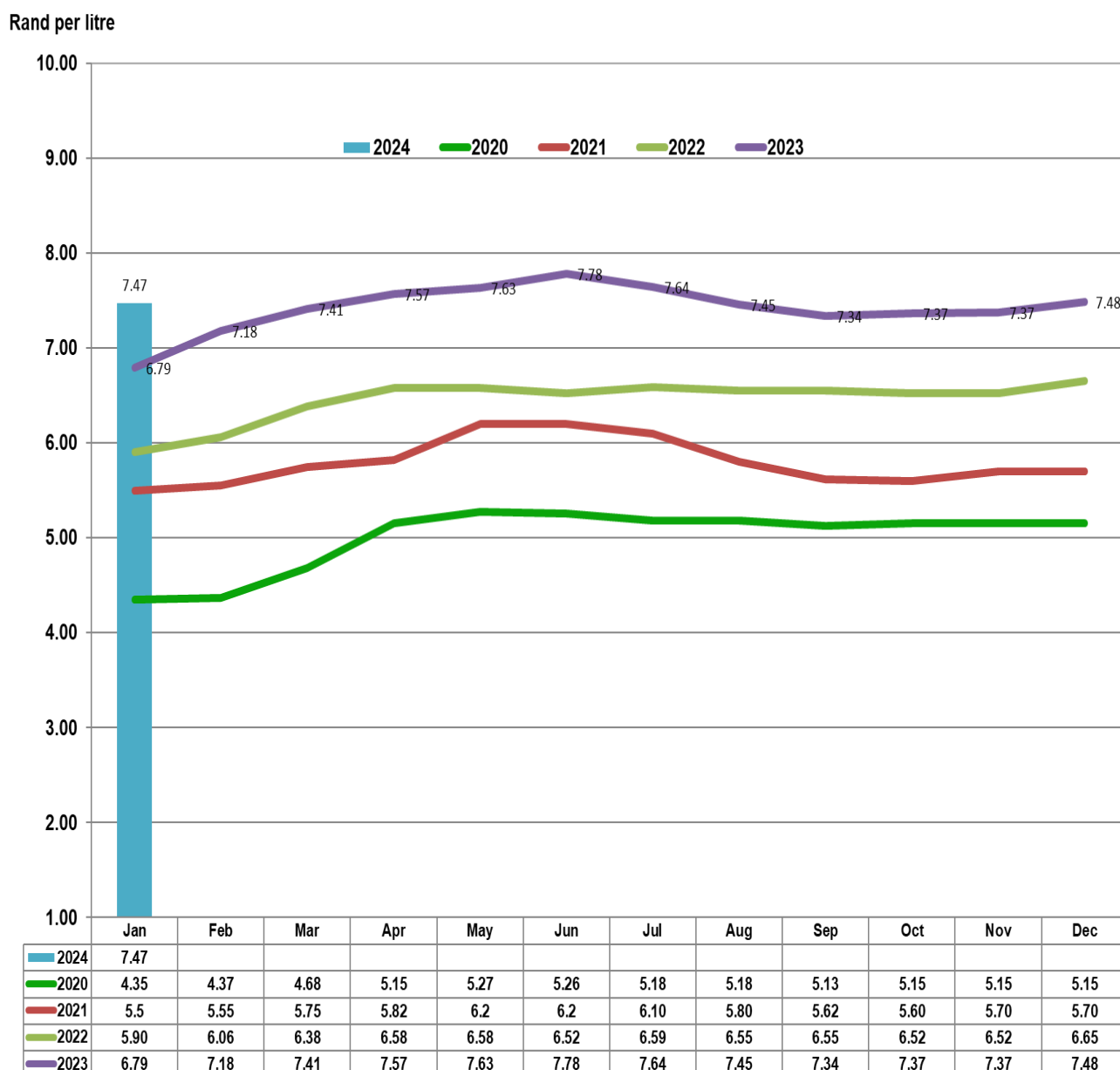


Figure 7: Monthly milk producer prices, 2020-2024

Source: MPO calculations.

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 price of fresh milk per litre for milk packaged in 2-litre plastic containers are compared to producer prices in Figure 8. The differential can be referred to as the retail price spread or the marketing margin, being the margin after the farmgate required to get the retail product on the shelf and will consist of cost and profit.

It is significant to note, that the marketing margin reached an all-time high during 2023 and that the margin was maintained through 2023. This only reflects the position as it pertains to the producer price and fresh milk, a product which is believed to be a loss leader.

Both shorter term trendlines, post Covid-19, exhibits more aggressive price increases, with retail prices outstripping producer prices, thus achieving an improved marketing margin.

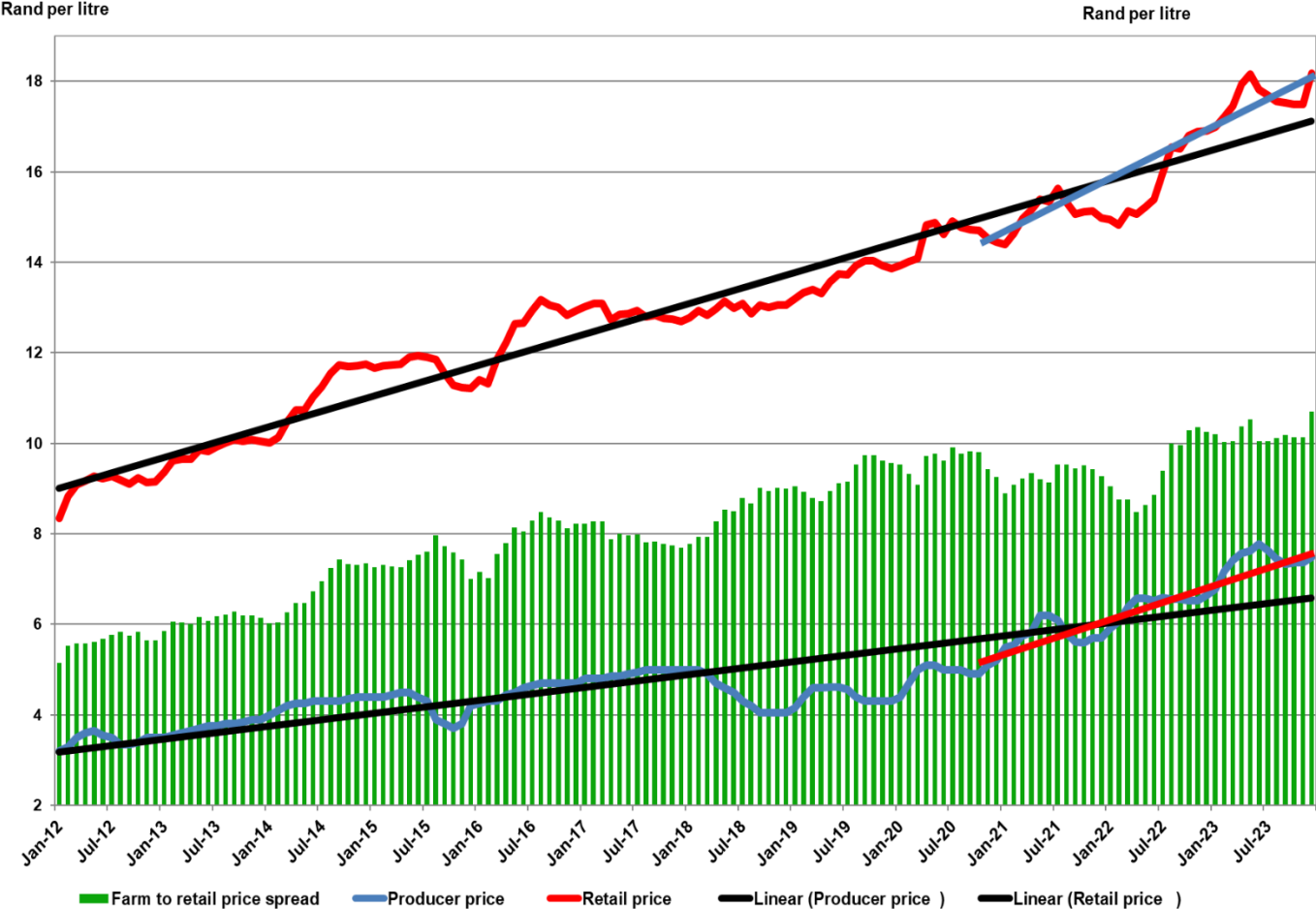


Figure 8: Monthly producer and retail prices, 2012 – December 2023

Source: MPO; SANCU

1.9 Yellow maize and Soya prices

Feed cost is the most important cost item for milk producers. Yellow maize and soya prices as traded on the JSE is tracked to reflect the trends in these prices. A cocktail (combination of soya and yellow maize) of 30% soya and 70% yellow maize is constructed. Various factors outside the dynamics on the JSE can influence what a buyer pays for either of the two grains. Premiums exists for grain favourably positioned for export, to name but one. Nevertheless, trends in these markets as captured on the JSE, are reflected in Figure 9. These trends will flow through to the price for dairy feed meal.

The January 2024 combined price is 18.2% lower than January 2023 price. However, reflecting on the price transmission in the animal feed milling environment, more important is the percentage price change of the average price in 2022 versus the average price in 2023. In this case point in time, the price decreased from R5 889/tonne in 2022 to R5 464/tonne in 2023, a decrease of 7.2%. Also infuse into that is the dynamic of inter year price changes: in 2022 the lowest price was R5 135/ton in January with the apex price in November 2022 of R6 700/ton;

in 2023 the lowest price was R4 875/ton in May 2023 with the apex price of R6 244/ton in January 2023.

The key take away is that, the dairy feed meal cost in January 2024 should be noteworthy less if compared to the average dairy feed meal cost in the first half of 2023.

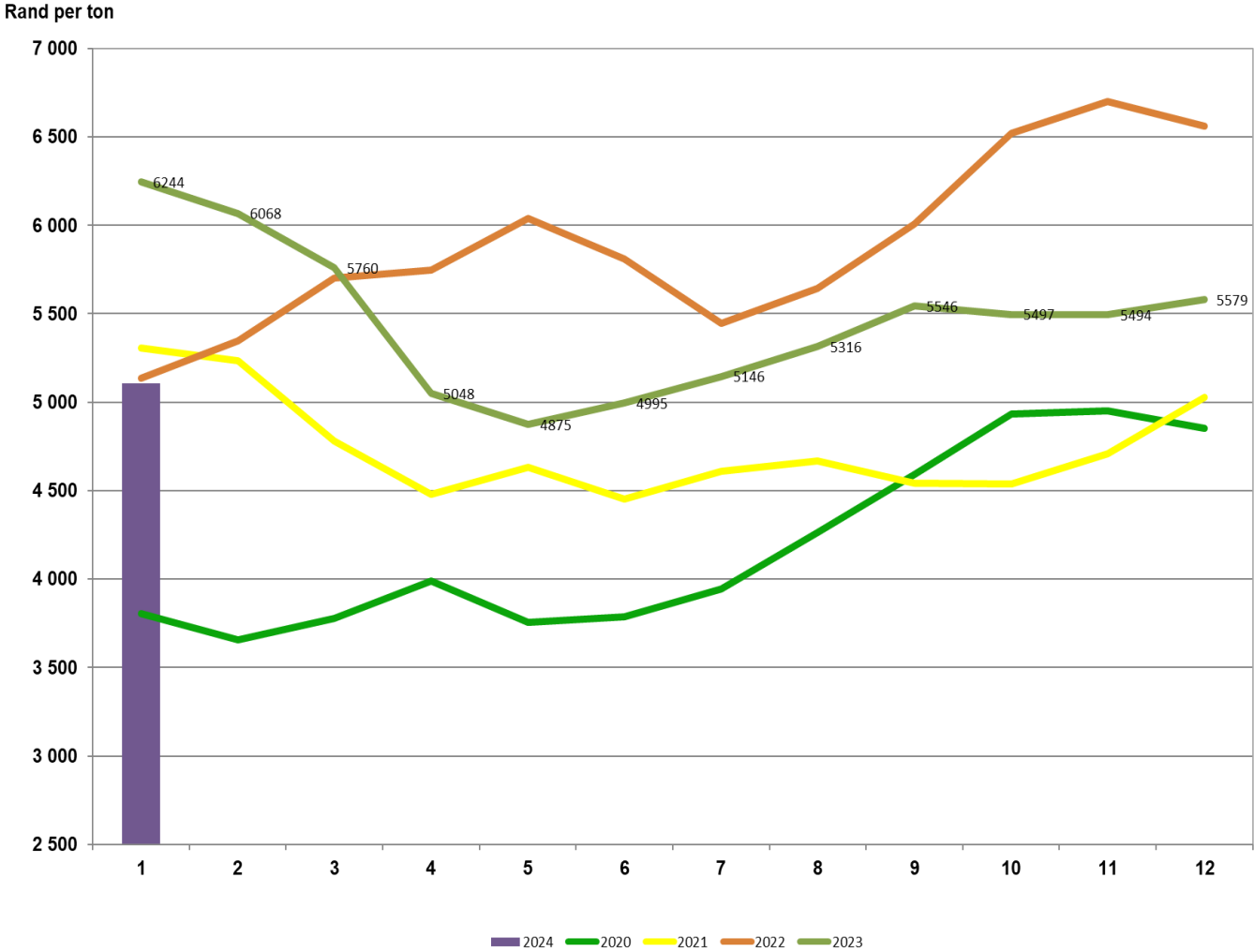


Figure 9: Combined yellow maize(70%) and soya(30%) prices, 2020 - January 2024

Source: Safex nearest month data

1.10 International food prices

The FAO Food Price Index (FFPI) is a measure of the monthly change in international prices of a basket of food commodities. It consists of the average of five commodity group price indices weighted by the average export shares of each of the groups over 2014-2016. The five commodities are meat, dairy, cereals, sugar and vegetable oil.

Latest developments: The FFPI has been declining since March 2022 and registered 118 points in January 2024, down 25%. Except for sugar, the other commodities exhibit the same trend since March 2022. In September 2023 the dairy indices started to move north and

increased with 7.1% (January 2024). However, these prices are still on average some 13.5% higher than the price era between 2016 and 2020.

According to a Trading Economics publication, food inflation (December 2023) in the EU registered 5.9% (down from 16.4% in April), in the UK food inflation registered 8% (down from 19% in April 2023), in the USA food inflation registered 2.7% (down from 7.7% in April 2023), in China food inflation registered -4.2% in November 2023 (down from 0.4% in April 2023) and in South Africa food inflation registered 8.5% in December 2023 (down from 14.3% in April 2023) (source Stats SA).

There are signs that the deflation situation (-0.2% headline inflation) in China is deepening and now spreading to services as well. Deflation can cause company profits to decrease resulting in laying off workers and a contraction of money supply and credit as consumers hoard cash. Deflation can move a recession into depression.

Medium term review: The commodity indices started to turn south in May/June 2022, and continued on that trend into 2023 except for sugar. Although prices started to come down, the April 2023 aggregate food price index was still 36% above the pre-Covid-19 levels, meat 17%, dairy also 17%, cereals 44% while sugar reversed the downward trend and is up by 89%. According to a Trading Economics publication, food inflation in the EU peaked in March 2023 at 19.2% and dropped to 16.4% in April, in the UK the April 2023 food inflation registered 19%, in the USA food inflation peaked on 11.4% in August 2022 and registered 7.7% in April 2023, in China food inflation peaked on 8.8% in September 2022 and registered 0.4% in April 2023 and in South Africa food inflation was 14.3% in April 2023 (source Stats SA). It seems that in some regions of the world supply chains are still struggling to meet demand, inherent input costs are still keeping food prices relatively high and logistical challenges persist although at a lesser level.

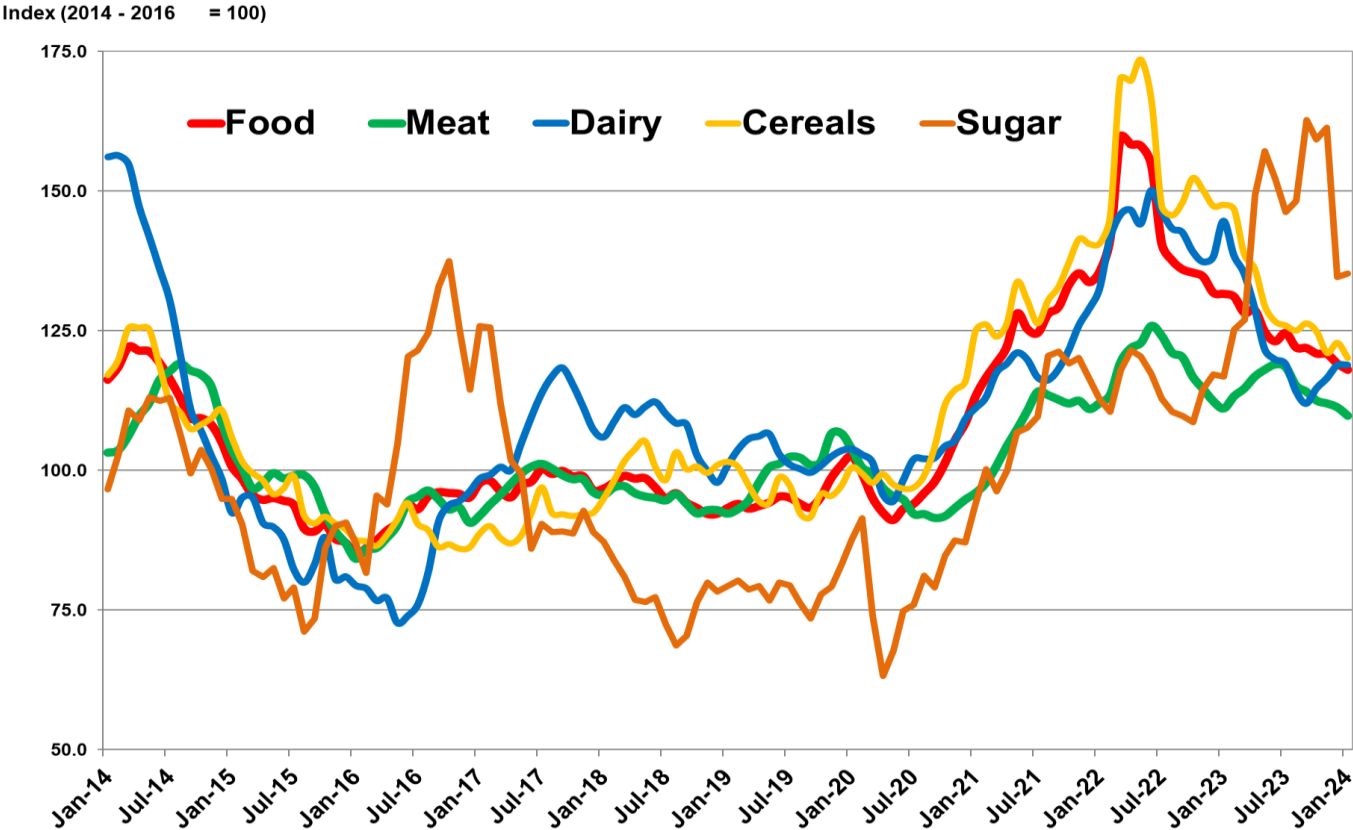


Figure 10: Monthly FAO food price indexes 2014 to January 2024
 Source: FAO food price index

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 February 2024.

Latest developments: The index bottomed out in August 2023 (884 index points) and then turned north. The index in February 2024 (1 106 index points) is up by 25%. The lift in trade price will boost farmgate prices.

Medium term review: 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 dip 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 2022 the market took some profit, with July decreasing through the 1 300 points support level and August 2022 obliterating the 1200 points support level and November 2022 going through the 1100 level. The April and May 2023 indices are now in the territory immediately before the Covid-19 pandemic with the April index testing the 1000 points support level. The index dropped from the March 2022 (1 586 points) peak to August 2023 (884 points) with 44%. Referring to November 2018 and May 2020 and August 2023, the 900 support level is strong and in place for quite some time.

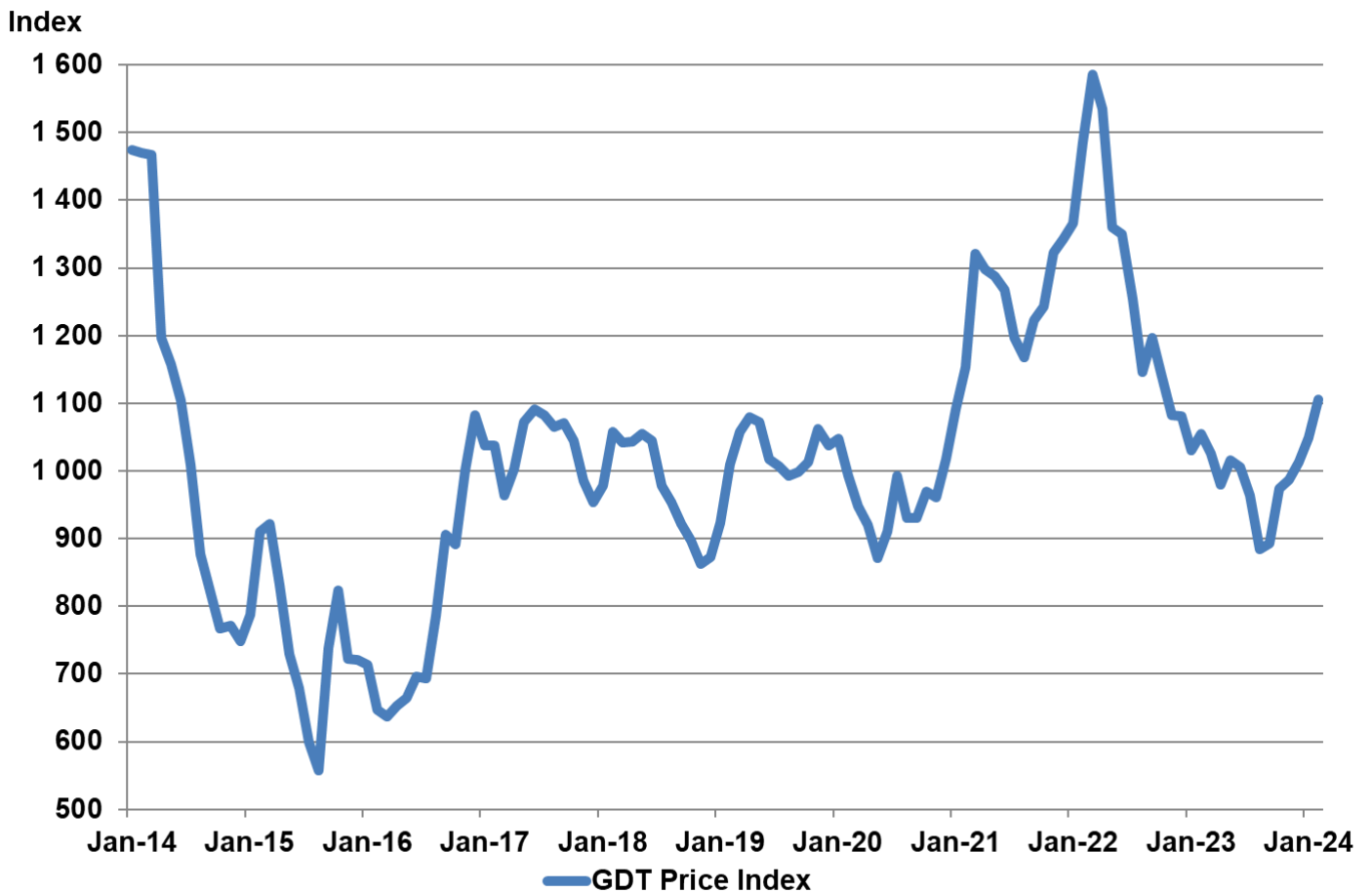


Figure 11: Global dairy trade-weighted price index 2014 to February 2024 (Feb only one reading)

Source: Global dairy trade

Figure 14 shows international Free On Board (FOB) prices in tonnes for milk powders, butter, and Cheddar cheese. International product prices (Figure 14) for butter, Cheddar, full-cream milk powder (FMP), and skimmed milk powder (SMP), 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).

Latest developments: In ZAR terms the August 2023 price for **butter** bottomed out and increased to a new record level of R108 363 in January 2024, an increase of 24.1%.

In November 2023 the **Cheddar** price bottomed out and increased from R72 719 to R78 687 in January 2024, an increase of 8.2%.

In September 2023 the **FMP** price started to increase and registered a price of R61 927 in January 2024, an increase of 20.3%.

In September 2023 the **SMP** price turned north and registered a price of R49 594 in January 2024, an increase of 12.1%.

Medium term review: In ZAR terms the price for **butter** decreased from the March 2022 (R104 416) peak with 25.8% to the January 2023 (R77 501) level but is still some 16% above

the average prices of the three years preceding the Covid-19 pandemic and Russian attack on the Ukraine. In January 2023 the price turned north and peaked in June 2023 on R98 812 , a 27.5% increase, whereafter the price decreased to R87 312 in August 2023, a drop of 11.6%.

The price for **Cheddar** decreased from the May 2022 peak (R94 685) with 10.5% to the June 2022 (R84 682) level. From June 2022 to June 2023 the price went through a zigzag phase, ending in June 2023 on R90 860. In June 2023 the price turned south bottoming in November 2023 on R72 719, a decrease of 20%.

The price of **FMP** went through a zigzag downward phase from March 2022 when the price peaked at R69 423 to R51 456 in September 2023, a drop of 25.9%. The price for **SMP** decreased from the March 2022 peak of R69 423 with 30.8% to R48 037 in April 2023. The May 2023 price improved to R54 179 but turned south once again and decreased to R44 224 in September 2024, a decrease of 18.4%.

In USD terms prices for all four dairy commodities also exhibit upward trends starting towards the end of 2023, with butter up by 23.9%, Cheddar by 7.6%, FMP by 21.4% and SMP by 13.2% in January 2024.

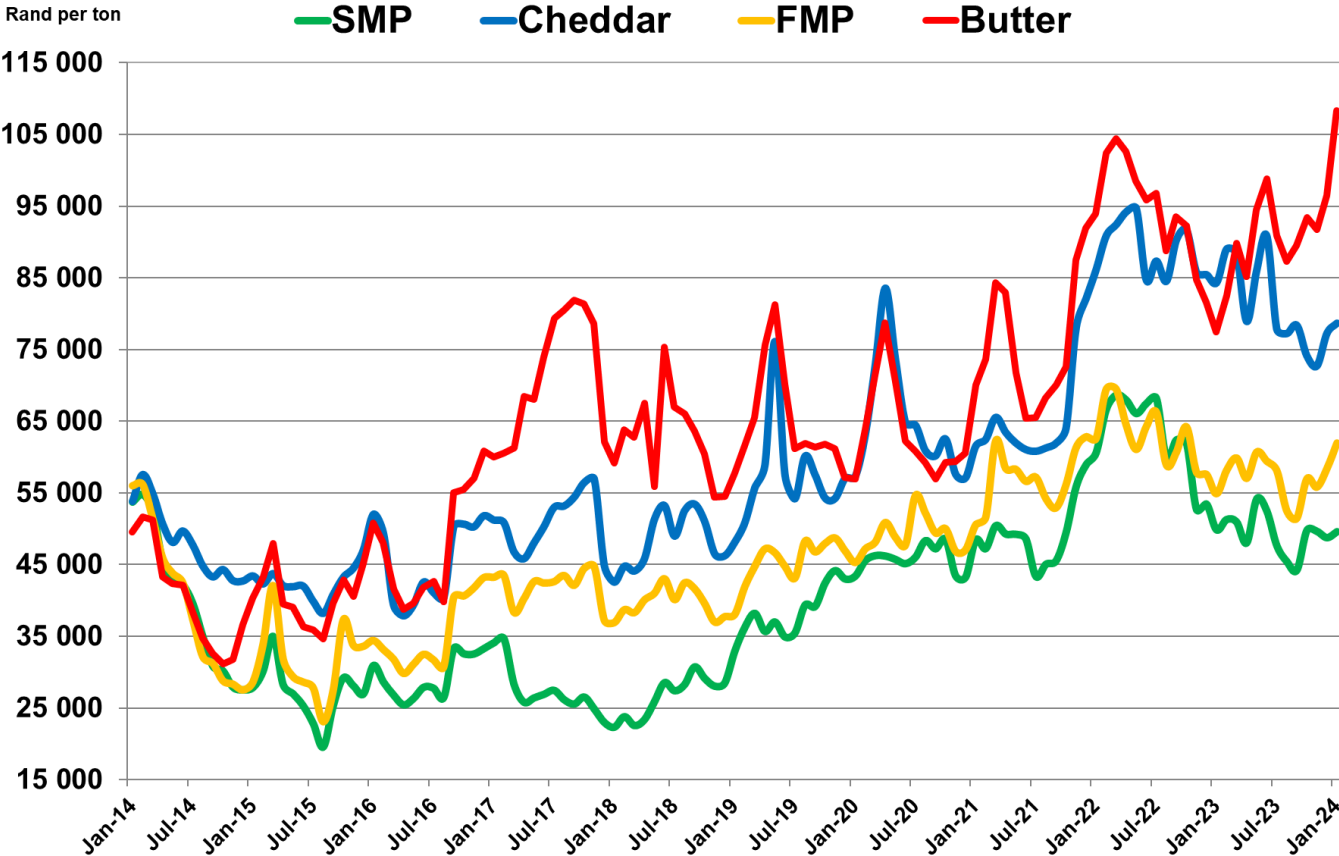


Figure 12 International dairy product prices 2014 to January 2024 (Rand/tonne)

Source: USDA, SA Reserve Bank

1.11 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.

Latest developments: The farmgate price in South Africa largely moved sideways since September 2023 while international trade prices improved resulting in the aggressive widening of the gap between the South African farmgate price and import parity.

Medium term review: 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 decrease in April 2022 while producer prices moved sideways with the consequential decrease in import parity. The downward trend in international dairy products prices continued into 2023 and local producer prices started to increase in December 2022 and that trend continued into 2023. The effect of the decrease in international dairy products prices while local producer prices increased, decreased the import parity gap in April 2023 to the lowest level since March 2018.

Import parity and producer prices are reflected in Figure 15.

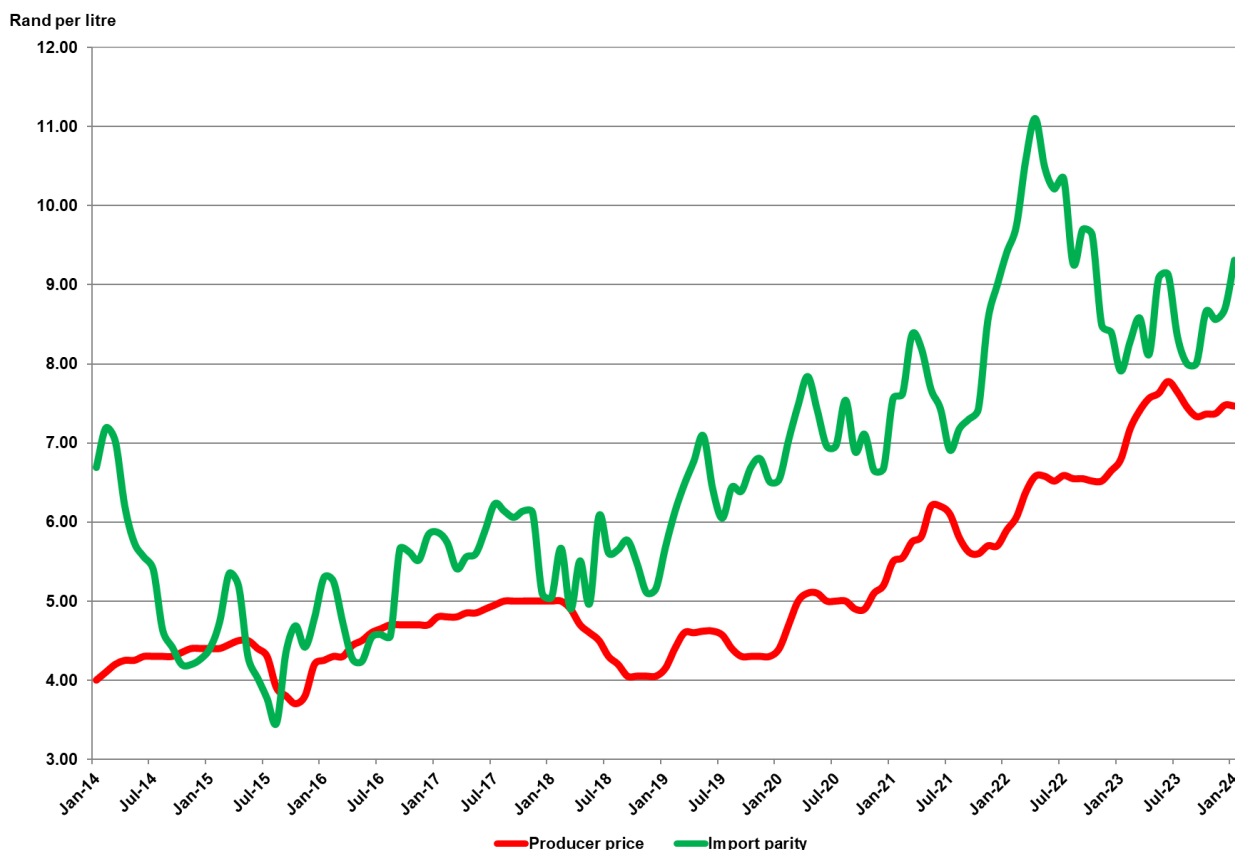


Figure 13: Monthly producer and import parity prices 2014 to January 2024.

Source: MPO calculations, January 2024 preliminary

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 2018 – November/December 2023.

	2018	2019	2020	2021	2022	2023*
USA	1.1	0.3	2.2	1.3	-0.1	0.1
EU27	1.4	0.4	1.6	-0.3	-0.4	0.1
AUS	0.9	-7.3	2.8	-0.9	-6.4	0.0
NZ	1.3	-0.8	0.4	0.1	-5.0	0.9
URU	5.7	-4.0	5.4	1.8	-1.8	1.2
ARG	6.4	-2.3	7.4	4.0	0.7	-1.5
ZA	5.0	0.7	-0.2	-0.7	-0.5	-0.6

(Source: CLAL and Milk SA) *(2023 first eleven months; SA 12 months of 2023)

Most of the major exporting countries improved their unprocessed milk production output from being negative in 2022 to marginally positive in 2023. However, Argentina went from positive growth to negative growth and South Africa remained in the negative territory.

Economic Overview

2.1 International economic outlook

Global growth (Figure 16) is projected at 3.1 percent in 2024 and 3.2 percent in 2025. The forecast for 2024–25 is, however, below the historical (2000–19) average of 3.8 percent, with elevated central bank policy rates to fight inflation, a withdrawal of fiscal support amid high debt weighing on economic activity, and low underlying productivity growth. Inflation is falling faster than expected in most regions, in the midst of unwinding supply-side issues and restrictive monetary policy. Global headline inflation is expected to fall to 5.8 percent in 2024 and to 4.4 percent in 2025.

With disinflation and steady growth, the likelihood of a hard landing has receded, and risks to global growth are broadly balanced. On the upside, faster disinflation could lead to further easing of financial conditions. Looser fiscal policy than necessary than assumed in the projections could imply temporarily higher growth, but at the risk of a more costly adjustment later on. Stronger structural reform momentum could bolster productivity with positive cross-border spillovers. On the downside, new commodity price spikes from geopolitical shocks—including continued attacks in the Red Sea—and supply disruptions or more persistent underlying inflation could prolong tight monetary conditions. Deepening property sector woes in China or, elsewhere, and spending cuts could also cause growth disappointments.

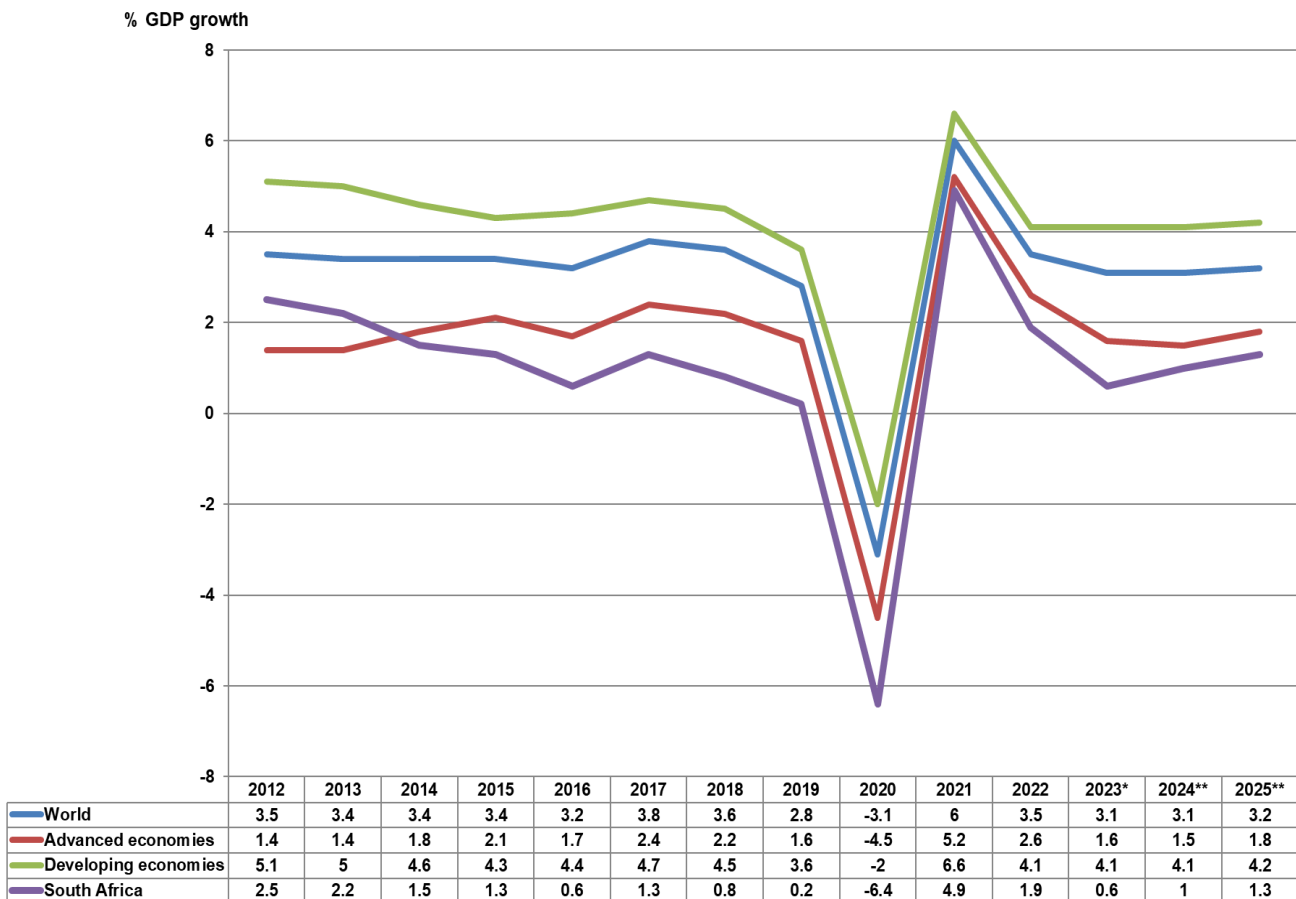


Figure 14: International economic growth and estimated growth, 2012 to 2025.

* Estimate ** Projection Source: IMF WEO January 2024

2.2 South African economy

2.2.1 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. Keep in mind that the leading indicator is at least looking forward six months. The downward trend of the leading indicator in 2022 started in June 2022. In July 2023 the co-incident indicator started to show signs of turning south, 14 months later. According to the trend of the leading indicator we can expect weaker economic activity for most of 2024.

Indicators of economic activity

The co-incident indicator of economic activity shows whether the economy is in an upwards or downward phase of the business cycle. The leading indicator shows possible changes in economic activity in the future.

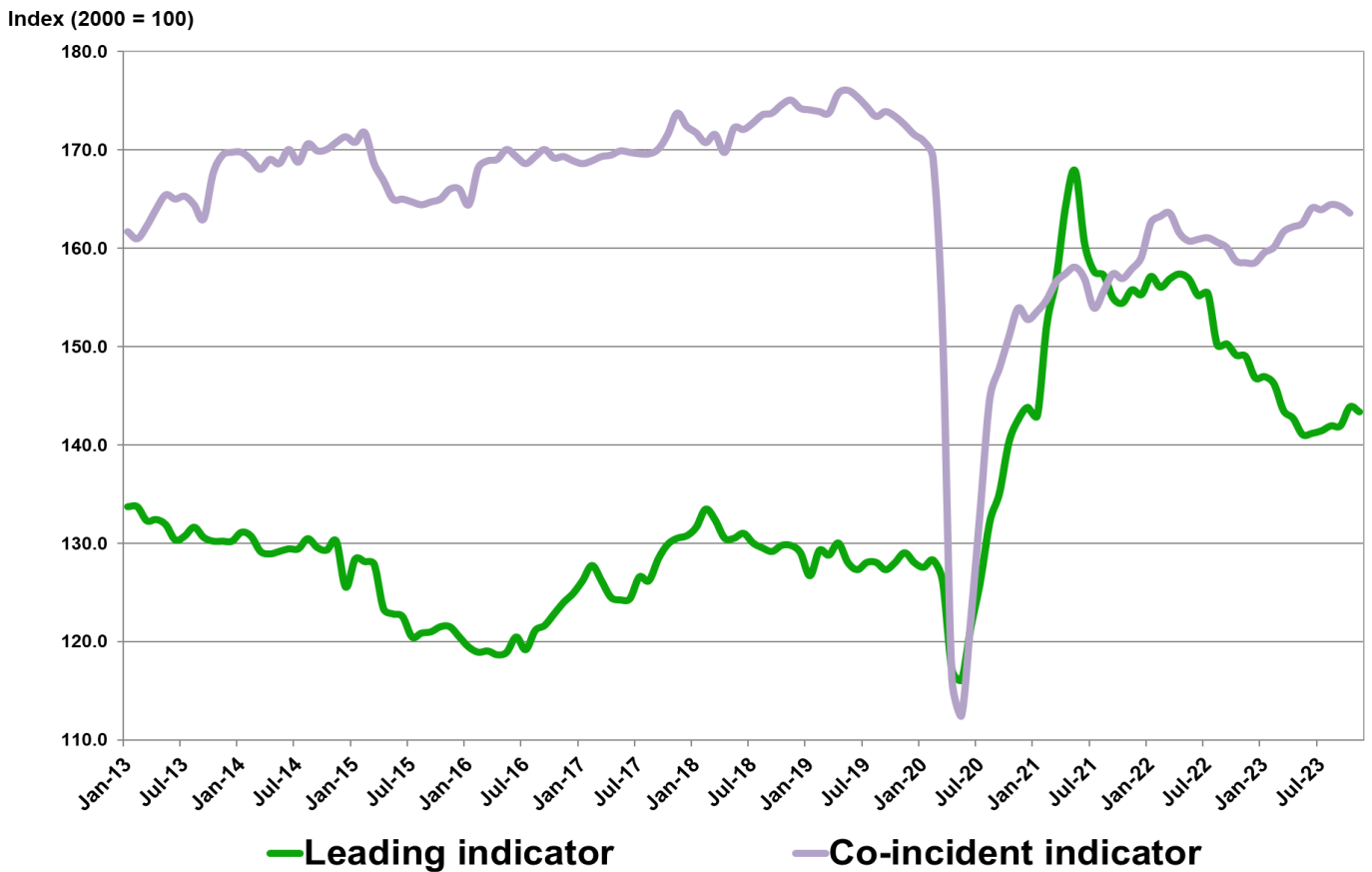


Figure 15: Leading and co-incident indicators of economic activity from 2013 to October/November 2023.

(Source: SARB)

Figure 18 shows the quarterly growth rate of the SA gross domestic product. In the third quarter of 2023, the real gross domestic product decreased by 0.2%. Five industries recorded negative growth between the second quarter of 2023 and the third quarter of 2023. The main contributors were, the agricultural industry decreased by 9,6%, the manufacturing industry decreased by 1,3% and the construction industry decreased by 2,8%.

The annual GDP increased by 2.0% in 2022, and were primarily led by increased economic activity in transport, storage and communication by 8.6%, finance, real estate and business services by 3.9% and trade, catering and accommodation by 3.5%.

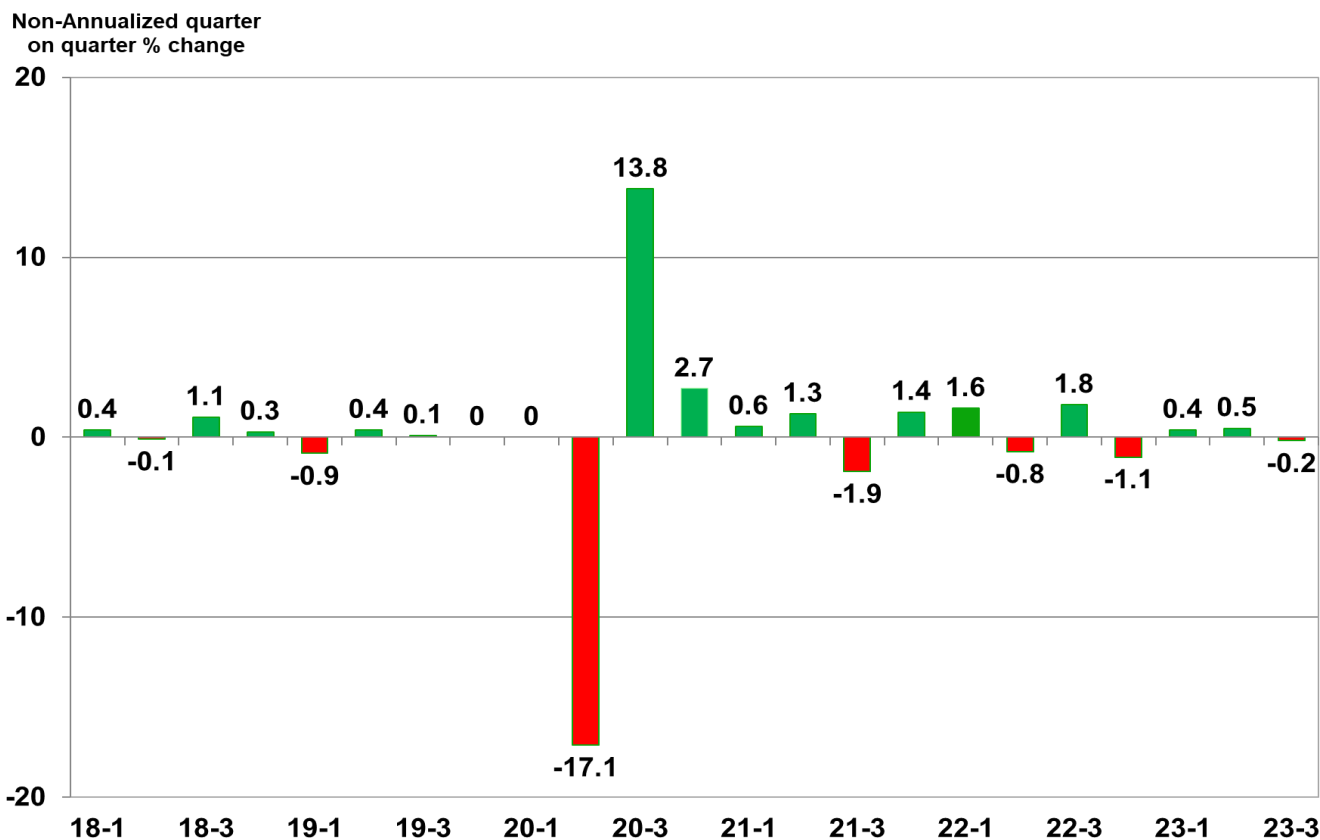


Figure 16: Quarterly change in real gross domestic product from the first quarter of 2018 to the third quarter of 2023.

Source: Stats SA

2.2.2 Household debt and income

No new data.

Inflation

The consumer price index and monthly inflation rate are reflected in Figure 19. From July 2022 to July 2023 CPI decreased from 7.8% to 4.7%. The trend reversed in July 2023 with CPI increasing to 5.9% in October 2023. Since then, CPI improved to 5.1% in December 2023. The CPI rate is within the target range of the SARB indicating the possibility of an ease in interest rates in 2024. If the ZAR do not suffer external shocks and world inflation continue on the downward trend interest rates could moderate with 100 to 125 basis points in South Africa during 2024.

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%.

CPI Index (2000 = 100)

CPI change %

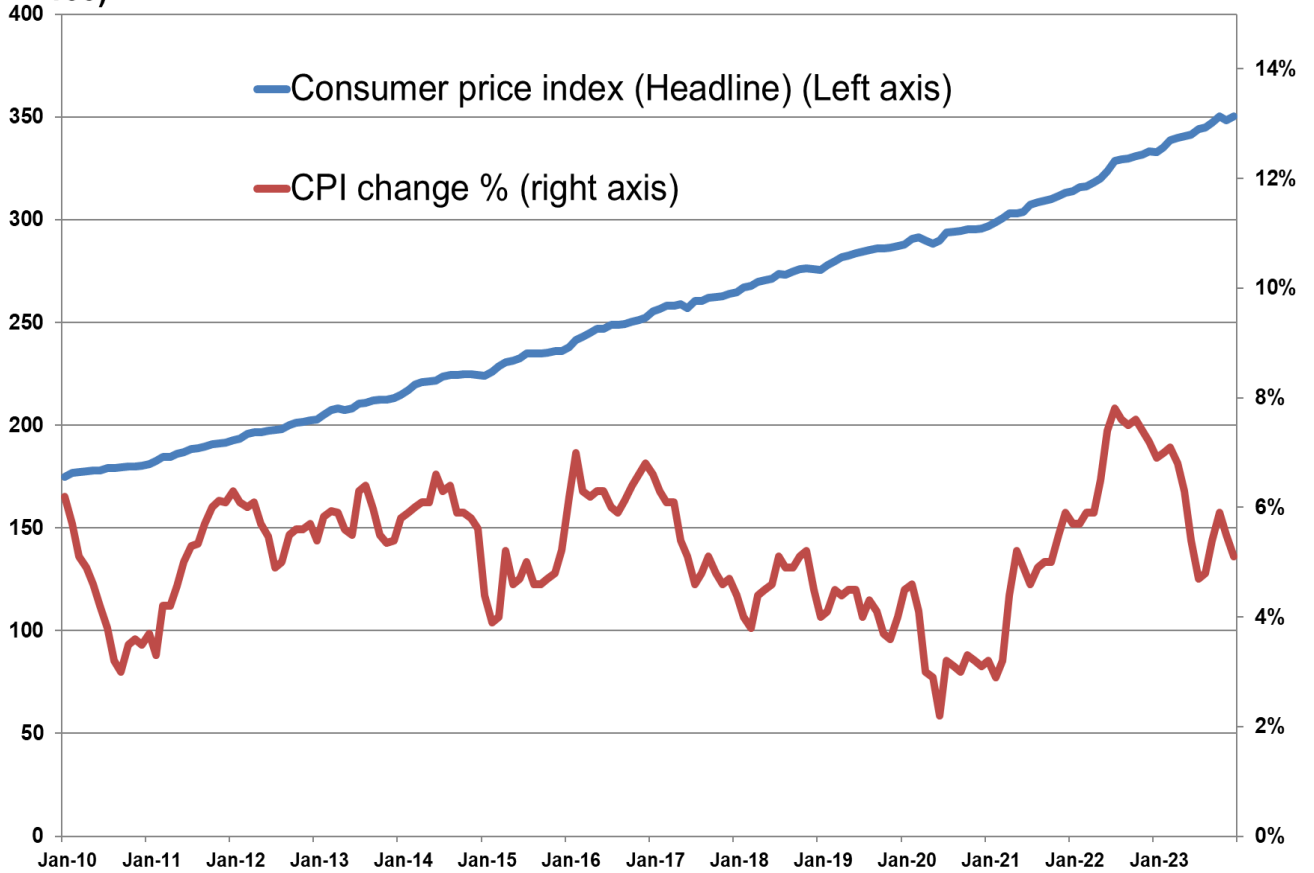


Figure 17: Consumer price index and consumer price inflation, 2010- April 2023

Source: Stats SA