Dairy Outlook

Supplement to The Dairy Mail - February 2012

Dr Koos Coetzee - MPO

Total milk production during the first ten months of 2011 was 0.3% higher than the same period last year. Total production during 2011 is currently estimated at 2,616 million litres, slightly lower than 2010. Monthly milk production is shown in Figure 51.

Milk producers are currently under severe pressure resulting from higher energy, feed and fertiliser prices. The key milk-to-feed price index is at historically low levels. In the past, a low milk-to-feed price ratio resulted in lower milk production. The expected higher feed prices will put further pressure on the income of farmers and their production decisions in 2012. Very high beef prices already had a negative effect on herd sizes and may result in a substantial decrease in herd numbers.

Producer prices have declined since 2010 and until September 2011 were 6% to 7% below prices in the comparable period in 2010. While South African producer prices declined, import parity prices increased as a result of higher world prices and a weaker rand. The gap between producer and import parity prices are at historic highs (Figure 51).

Total imports are higher than during 2010. Positive export growth has resulted in limiting net imports for the current year to end October to 42 million litres, up 14% or 5 million litres over the same period in 2010. Firmer world prices and a weaker rand will limit imports in future, while the recovery of African markets in general and the reopening of the Zimbabwean market will result in higher exports.

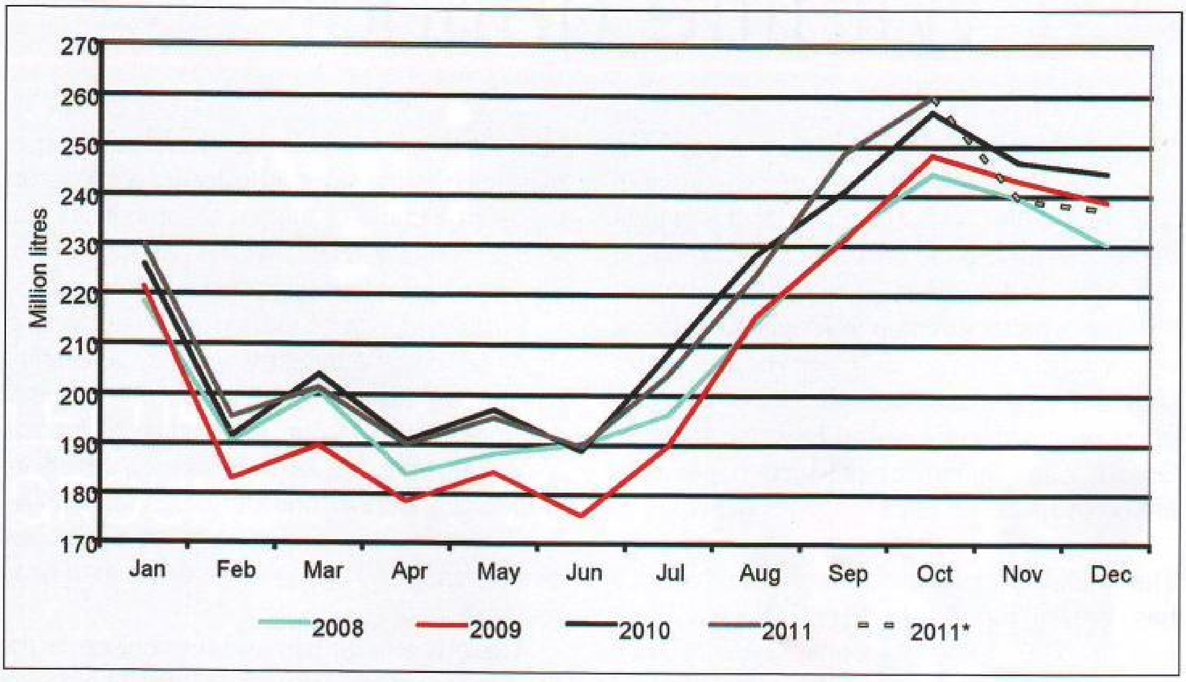
The demand for dairy products grew at a fast rate during the past two years. The change in demand for different categories of dairy products for the 12 months to September 2011, compared with the period to September 2010, is shown in Table 7.

The outlook for higher producer prices in 2012 is positive. Current producer prices do not cover the full economic production costs for the majority of milk producers. There are no signs of lower input prices in 2012. Milk producers will therefore remain under pressure unless producer prices are adjusted.

On the retail side, dairy product prices continue to increase at lower rates than products in general. Food inflation in October was 111%, while the price of dairy products and eggs increased by 2.7%. An adjustment in retail prices of dairy products is urgently required.

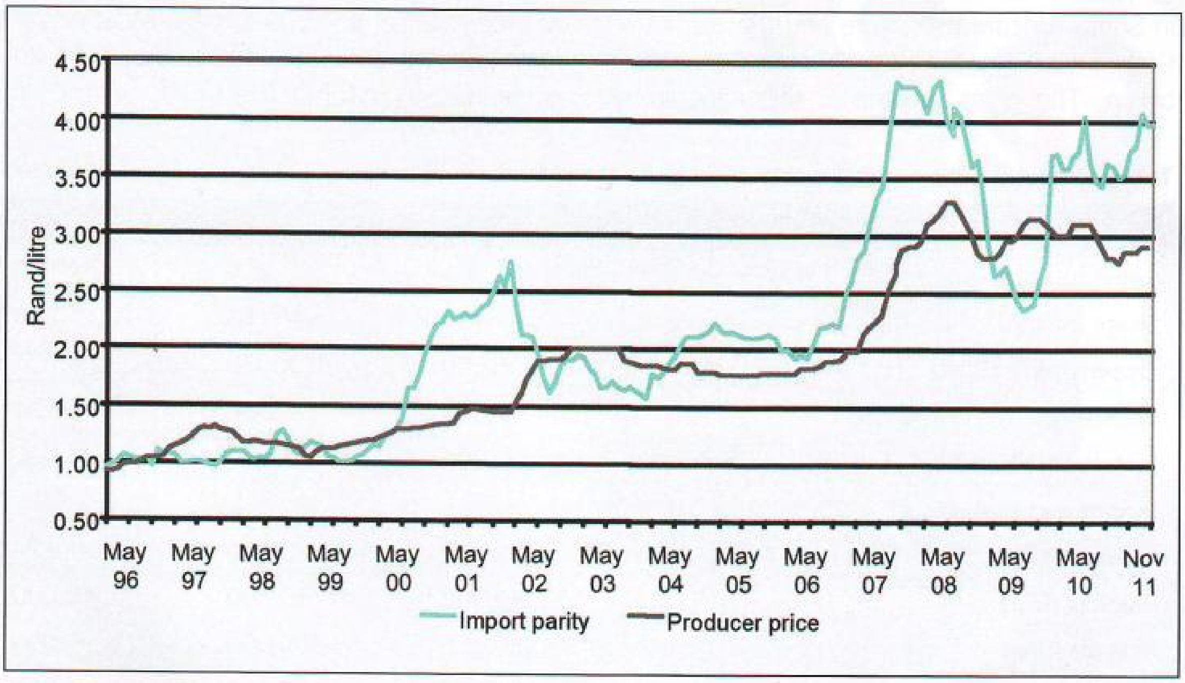
All market indicators point towards higher producer prices. Some milk processors have already announced higher prices January 2012. However, a 6% price adjustment is not enough to accommodate the sharp increase in input prices. A 16% to 20% increase in price is needed and producer prices are expected to increase by this percentage in 2012.

Figure 51: Monthly milk production, 2008 to 2011



Source: MPO, 2011

Figure 52: Producer and import parity milk prices, 1995 to 2011



Source: MPO, 2011

Table 7: Change in demand for dairy products, October 2010 to September 2011, compared to October 2009 to September 2010.

Product	Year-on-year % change year to Sept 2011 compared to year to Sept 2010	
	Change in demand	Change in price
Fresh milk	3,2	3,7
UHT milk	8,8	-0,4
Flavoured milk	2,7	-0,4
Yoghurt	11,9	-3,2
Maas	9,4	-0,7
Prepacked cheese	13,9	-1,9
Butter	11,2	6,7

Source: SAMPRO, 2011