DFC'S QUARTERLY SKIM

TRADE AND MARKET INSIGHTS FOR CANADIAN FARMERS

2022

QUARTER 2

DAIRY FARMERS OF CANADA
LES PRODUCTEURS LAITIERS DU CANADA
®/MD

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Welcome to the latest edition of DFC's Quarterly Skim, where we take a glimpse into what is happening in the marketplace and provide insight into what to expect in upcoming months. Our goal? To help you keep tabs on how the marketplace for dairy products is evolving.

High Prices Continue for Global Dairy Prices

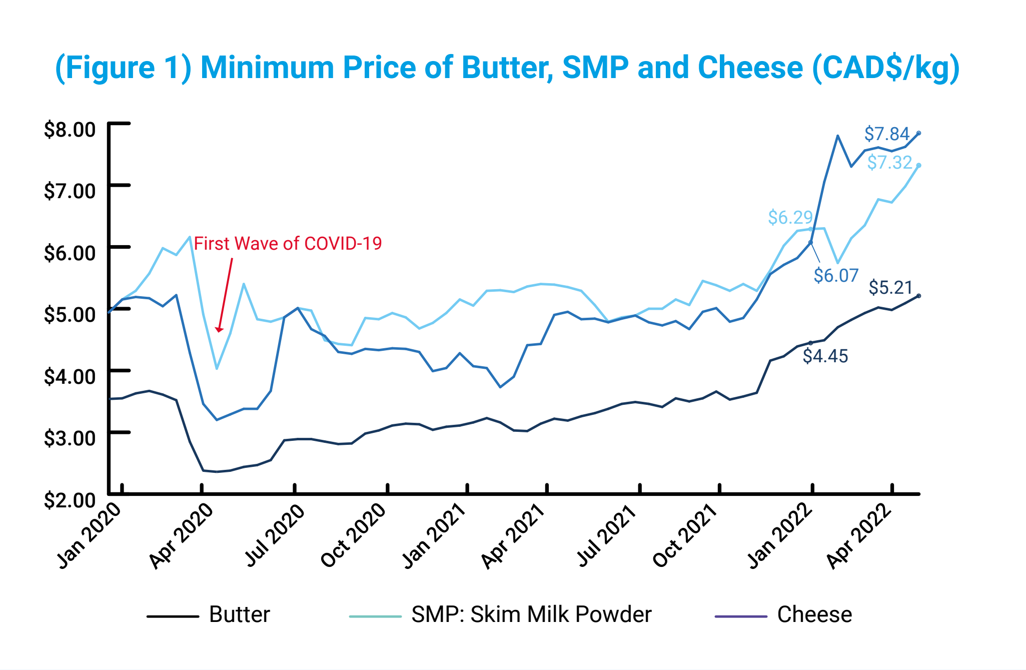
Global prices for many key dairy commodities dipped somewhat at the start of the Covid-19 pandemic, but recovered in the second half of 2020 and have continued on an upward trajectory ever since.

- The minimum world prices for butter, cheese, and skim milk products (SMP) are depicted in figure 1. Butter prices continue on an upward trend following a slight decline in 2021. Skim milk products have followed a similar trajectory, but SMP prices have doubled from June 2020 to April 2022, from $1.80 CAD/Kg to $4.11 CAD/Kg this spring.

- Prices for domestic class 4A solid non-fat, depicted in figure 2, have also been trending upward since the second half of 2020.

- In April 2022, the International Farm Comparison Network (IFCN) World Milk Price Indicator, which serves as a key benchmark for global dairy prices, reached $63.40 per 100 kilograms, its highest level since 2013-14. This was up significantly from the level observed just four months earlier – $55 in December, 2021. The World Milk Price Indicator is based on a weighted average of price indicators for SMP, butter, cheese and whey.

The high global dairy prices can be attributed to a number of factors, namely, pandemic-related increases in the cost of production, as well as poor weather patterns in many dairy-producing regions, which had an impact on the quality of feed and thus affected production levels.



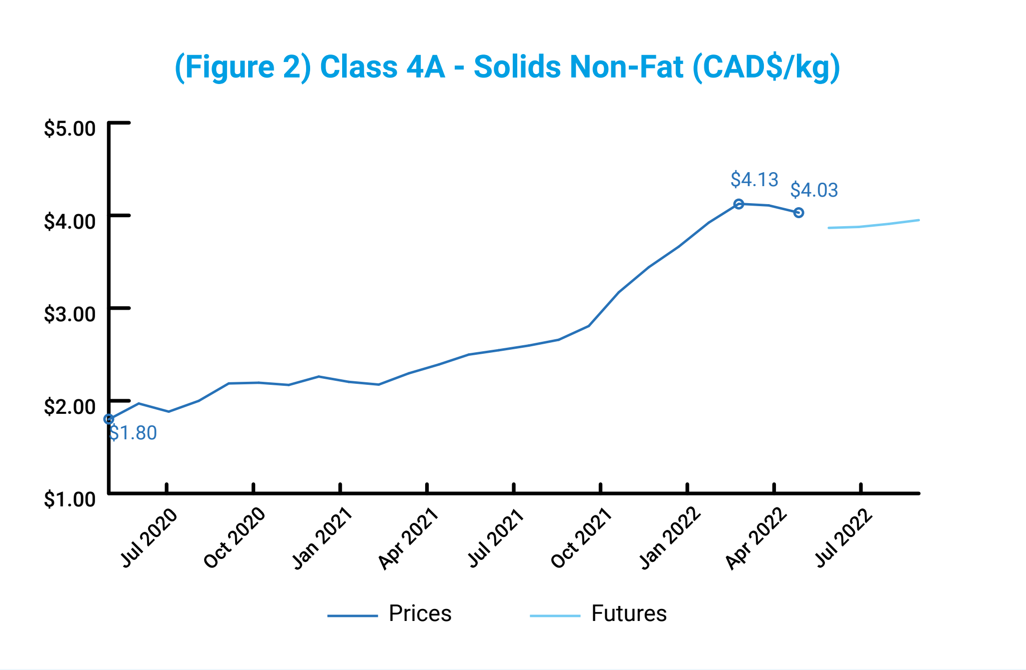


Figure 1: USDA and Bank of Canada exchange rate, DFC calculations.
Figure 2: USDA and Chicago mercantile exchange (CME) futures, DFC calculations.

Future Outlook

IFCN forecasts that the pressure on dairy prices will continue over the next few months, due to weaker north Asia demand, as well as the low level of supply in major dairy production regions.

According to the futures market from the Chicago Mercantile Exchange (CME), although we have observed a slight slowdown in prices for dairy futures, the SMP price will probably reach a plateau in the second half of the year, remaining near current levels. Considering the low level of global supply and lockdowns in China, a slowdown in Chinese demand may lead to fragile global demand. In addition, geopolitical tensions, supply chains disruptions, energy costs, inflation and recession risks are all factors that could have an impact on dairy prices in the coming months.

A sharp decline in prices therefore seems unlikely, although prices will probably reach a plateau.

Shifting consumption patterns affecting fluid milk consumption

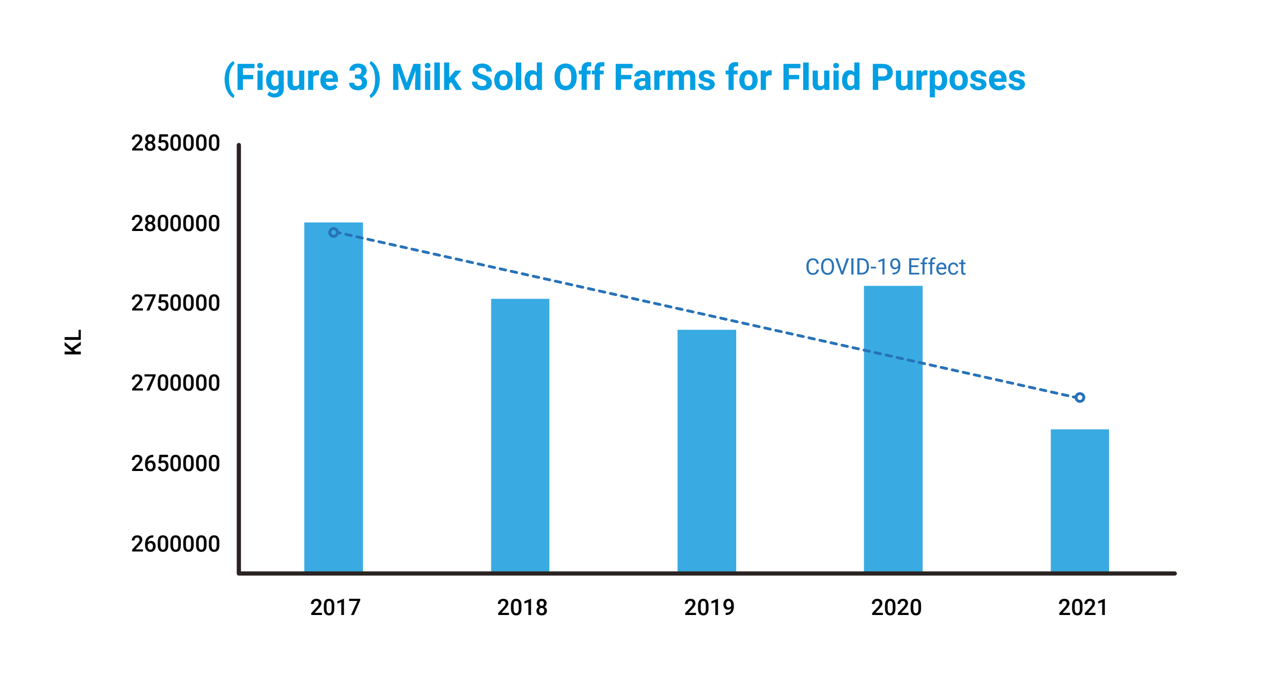


Figure 3: Statistics Canada, DFC compilation.

Fluid Milk Sales

Nationally, sales of fluid milk by volume continue to trend downward, affecting producers' revenues as the associated milk class is losing market share.

Over the past five years, sales of fluid decreased by an average of 33 million litres per year[1]. The decline was even more significant in 2021, when we saw a drop of 80 million litres from the year prior when sales were unusually high due to the pandemic effect.

While the demographic profile Canadian consumers is changing and diversifying, this trend is indicative of a long-term threat posed by milk alternatives.

According to a U.S. study[2] on dairy market alternatives, changing eating habits and new trends in diet are factors that explain the growing demand for alternatives to dairy products at the international level.

That report zeroes in on two factors driving the growth of alternatives:

- **Rising incidences of lactose intolerance, and**
- **Changing standards of living of consumers who are increasingly sensitive to trends in health issues.**

[1] Excluding 2020, when the volume of milk sold increased as a result of unusual consumption patterns related to the Covid-19 pandemic.
[2] Polaris Market Research, *Dairy Alternatives market-forecast to 2030*, New York, 2022.

The study forecasts that the increase in lactose intolerance and milk allergies is expected to be the main driver of the dairy alternatives market over the next decade.

However, other sources somewhat downplay the impact plant-based alternatives are having on sales of fluid milk, attributing the changing consumption patterns to other factors.

A recent Mintel study on the future of dairy and dairy alternatives[3] for instance, shows a rise in lactose-free milk sales across North America. Sales data from Nielsen confirms increased lactose-free milk sales and inventory on store shelves here in Canada.

Nielsen, meanwhile, estimates that sales of plant-based beverages represent less than 10% of market share in the whole milk category. In addition, while sales of plant-based products have increased overall, their relative percentage share of milk sales decrease has dropped over the last five years, from an estimated 29% in 2017 to 5% in 2021.

As such, the Mintel study points to other converging factors contributing to the decline of milk, including changing demographics as well as a shift in consumer preferences.

DFC will continue to monitor and assess the issue of milk alternatives and domestic consumption trends.

[3] Mintel, *The future of dairy and non-dairy drinks*, April 2022.

Looking ahead

Should you have any suggestions for topics for future editions, we invite you to send them to **communications@dfc-plc.ca**.