

DFC'S QUARTERLY SKIM

**TRADE AND MARKET
INSIGHTS FOR CANADIAN
FARMERS**

**2023
QUARTER 1**



®/MD

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 the upcoming months. Our goal? To help you keep tabs on how the marketplace for dairy products is evolving.

In this edition for the 1st quarter of 2023, we look at dairy sales at the retail level over the past year and analyze data on increasing dairy imports under Canada's international trade agreements.

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DAIRY OUTLOOK

The impact of economic trends driven by the COVID-19 pandemic and international trade concessions continued to present hurdles for dairy farmers in 2022. Domestically, retail dairy sales were hurt by the price increases needed to cover raised production costs amid continuing high inflation. The return of employees to the office may have led to a decline in purchases of dairy products in retail outlets. However, sales of some products, such as ice cream, were not as negatively impacted in 2022 as they were in 2021.

Retail sales

Amid high inflation, most dairy products are seeing sales losses at retail

At the national level, food prices continued to soar despite measures taken by the Bank of Canada to curb inflation. The farmgate milk price adjustment in February, resulting from increased production costs and the inflationary pressures in the economy, had a compounding effect on the consumer market, with retail dairy sales falling.

Fluid milk sales at the retail level continued to decline, with plant-based beverages drawing display space away from milk at many retailers and price-sensitive chocolate milk seeing a continuing weakness in sales. The retail market share of organic milk has been stable, but sales growth of lactose-free milk remains strong. Ice cream consumption was down, but the negative trend was not as strong by year-end, and ice cream substitutes have started to lose market share in the category.

For cream, 2022 brought a pattern of decreasing sales as the price increased at retail. But the market for refrigerated yogurt trended in a positive direction. With butter, the decline in retail sales continued last year; despite that, its market share has remained constant. Meanwhile, imported cheese experienced a loss in sales in 2022.



Retail trends of dairy products in Canada

National retail sales for the 52-week period ending December 31, 2022



Dairy Product	Sales (Volume) per Capita	Sales (Volume)		Average Price		Promotional Sales (Volume)	
		Change	Change (1YA)	Change	Price	Share	Share (1YA)
Milk	48.4 L	-4.2%	-4.9%	8.9%	\$1.88/L	18.1%	16.3%
• Plain milk	44.8 L	-4.3%	-5.1%	8.8%	\$1.82/L	16.0%	14.3%
• Chocolate milk	3.1 L	-3.4%	-5.9%	8.4%	\$2.45/L	45.9%	45.2%
• Lactose-free milk	2.9 L	10.7%	10.3%	5.1%	\$2.93/L	40.2%	37.3%
• Organic milk	1.1 L	-11.3%	-8.3%	5.3%	\$2.81/L	26.7%	22.6%
Cream	3.6 L	-3.5%	-1.1%	8.8%	\$4.93/L	41.2%	41.0%
Refrigerated yogurt	8.9 kg	0.9%	0.1%	5.5%	\$5.53/kg	65.0%	67.1%
Ice cream	3.3 L	-2.9%	-6.9%	7.0%	\$4.18/L	56.2%	54.1%
Sour cream	0.8 kg	-7.2%	-4.7%	9.2%	\$6.94/kg	41.9%	41.9%
Natural cheese	6.8 kg	-5.0%	-2.1%	5.8%	\$18.51/kg	57.0%	55.1%
• Canadian natural cheese (note 1)	6.6 kg	-4.9%	-2.4%	6.1%	\$18.03/kg	57.5%	55.6%
• Prepackaged Canadian natural cheese (note 2)	5.2 kg	-4.3%	-1.9%	6.1%	\$18.35/kg	60.8%	58.0%
Butter	1.8 kg	-6.8%	-7.1%	17.6%	\$12.71/kg	58.9%	55.4%
Substitute and Import							
Plant-based beverages	4.7 L	-3.6%	2.7%	5.0%	\$2.40/L	56.7%	53.1%
Ice cream substitutes	1.3 L	-8.8%	-13.1%	0.3%	\$3.10/L	61.4%	62.3%
Prepackaged imported natural cheese (note 2)	0.3 kg	-6.2%	5.8%	3.4%	\$30.90/kg	38.4%	37.5%
Margarine	1.6 kg	-5.6%	-9.5%	32.3%	\$6.88/kg	46.0%	58.6%

Change in sales and the average price compared to a year ago (1YA)

(Note 1) Nielsen has origin information for all types of natural cheese except for cottage, cream, grated and random weight cheese. As a result, these were included in Canadian natural cheese.

(Note 2) Only types of cheese that have information on their origin were considered.

Sources: Nielsen, Statistics Canada, and DFC calculations



2022 IMPORTS

Trade

International trade concessions continued to impact the Canadian dairy sector.

In Canada, imports of dairy products are managed using tariff rate quotas (TRQs). TRQs allow a pre-determined quantity to be imported for each dairy product. One way to assess the impact of international trade agreements is by looking at the volume of a commodity being imported; another is by looking at TRQ fill rates (the volume of TRQs used by importers as a percentage of what was agreed to in the trade deal). Below we discuss both assessments.

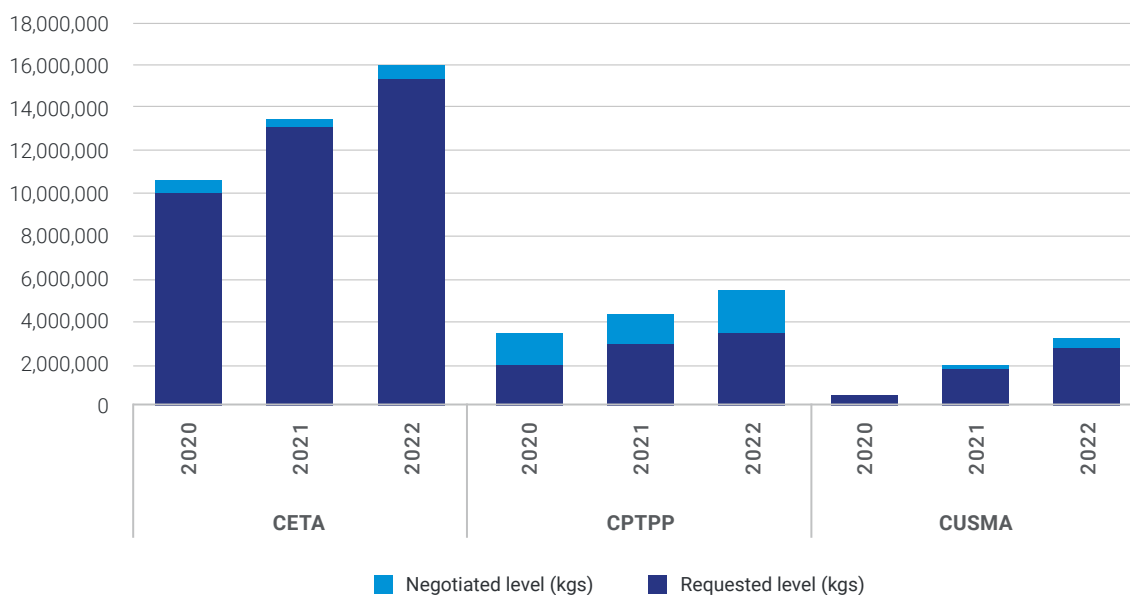
Cheese

In 2022, Canada received 15,419 tonnes of cheese (96.4% fill rate) from Europe under the Canada-European Union Comprehensive Economic and Trade Agreement (CETA). This quantity is up 17.9% compared to 2021 import volumes under CETA.

Cheese imports from the Asia-Pacific region under the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) have also increased in volume. Cheese imports reached 3,455 tonnes (63.5% fill rate) by the end of the year. This quantity is up compared to 2021, when import volumes reached 2,795 tonnes (64.3% fill rate). These imports originated mainly from New Zealand and Australia.

Under the Canada-United States-Mexico Agreement (CUSMA), the cheese fill rate reached 87.9% in 2022, down from the fill rate of 93.3% in 2021. While fill rates of the cheese TRQ are lower this year, quantity is up. Higher requested volumes (2,747 tonnes in 2022 vs. 1,944 tonnes in 2021) of cheese came into Canada, a trend that is impacting our domestic market.

(Figure 1) Imported Volume by Agreement, Cheese



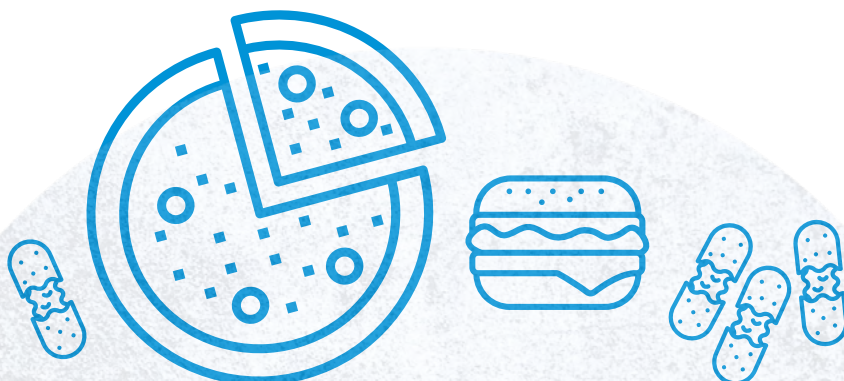
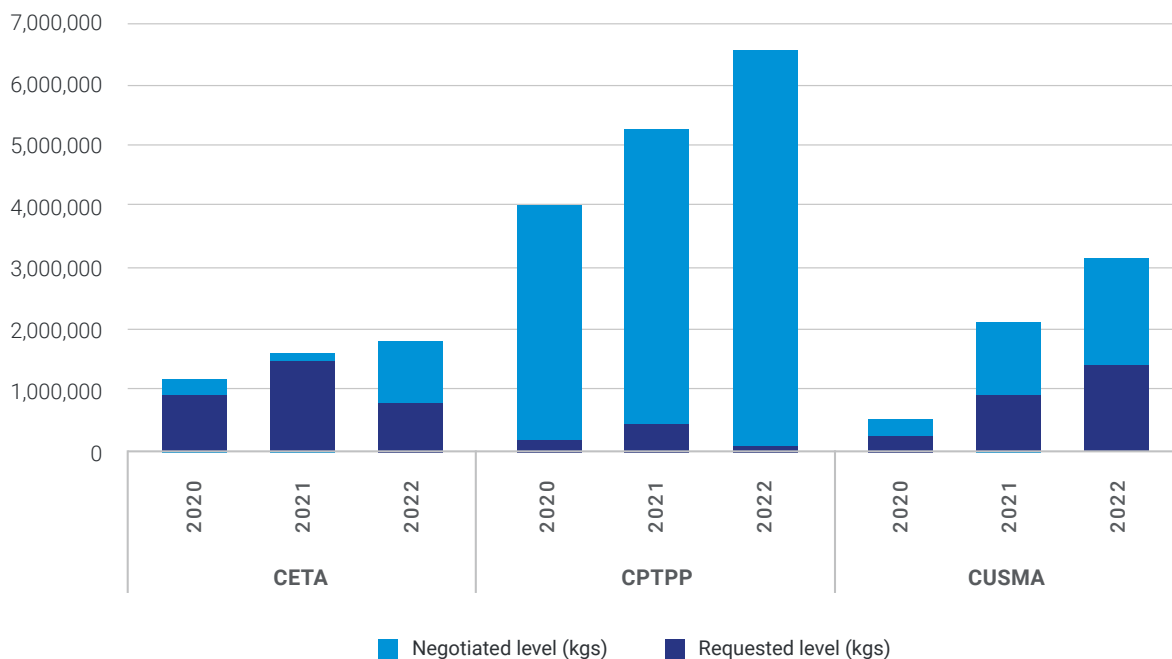
Industrial cheese

Under CETA, imports of industrial cheese (i.e. cheese used for further food processing) reached 687 tonnes (40.4% fill rate) in 2022. This quantity is lower than last year's imports which were at 1,321 tonnes (93.3% fill rate) by the end of the year.

Under CPTPP, the TRQ for industrial cheese has increased by nearly 25% from 2021 to 2022, to 6,646 tonnes. However, despite the growing cap, the fill rate has historically been low. Just 88 tonnes were imported in 2022 (1.3% fill rate), down significantly from 539 tonnes (10.1% fill rate) in 2021.

Under CUSMA, the TRQ for industrial cheese has increased by nearly 50%, from 2,083 tonnes in 2021 to 3,125 tonnes in 2022. Import volumes also continued to grow under CUSMA, reaching 1,413 tonnes in 2022 (45.2% fill rate). This quantity is up over 40% compared to the 999-tonne volume imported in 2021 (48% fill rate).

(Figure 2) Imported Volume by Agreement, Industrial Cheese



SPOTLIGHT ON CUSMA

Yogurt and buttermilk imports have increased under CUSMA, from 320 tonnes (23.3% fill rate) in 2021 to 592 tonnes (28.6% fill rate) in 2022. Ice cream imports, meanwhile, have slowed to just 82 tonnes (23.7% fill rate) in 2022 from 125 tonnes (54.5% fill rate) in 2021. Milk concentrate imports reached 724 tonnes (52.5% fill rate) in 2022, slightly down compared to 877 tonnes (95.4% fill rate) in 2021.



Looking ahead

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

