

DAIRY FARMERS  
OF CANADA'S

FALL  
2023

# QUARTERLY SKIM





Welcome to the latest edition of Dairy Farmers of Canada (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 third quarter of 2023, we look at global dairy commodity prices and dairy sales in the Canadian market (retail, food service, and further processing) over the first half of the year and analyze data on key increasing dairy imports during the last dairy year under Canada's international trade agreements.

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# CONTINUOUS DECLINING TREND FOR GLOBAL DAIRY COMMODITY PRICES

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The second quarter of 2023 was marked by a sharp decline in milk prices. Resilient global milk production in some key producing regions and persistent slowing demand put a downward pressure on prices.

The average world prices for butter and skim milk powder (SMP) are depicted in Figure 1a and 1b.

Butter prices decreased in all regions at the beginning of 2023. Prices are lower than 2022 levels but remain above 2021 levels. On a regional basis, in the second quarter of 2023, Oceania and EU prices are very similar while the US price is slightly higher.

SMP prices have been decreasing from their peak in April 2022. However, prices are in line with 2021 levels. On a regional basis, SMP prices in all three regions continued a downward trend in Q2 2023.

Prices for domestic class 4A solids non-fat (SNF) kept their lower levels observed in the first quarter of 2023 and reached \$2.44/kg CAD in June 2023, their lowest levels compared to the same period, a year ago (Figure 2).

## GLOBAL MARKET DEVELOPMENTS: SPOTLIGHT ON THE CHINESE MARKET

The cumulative effects of high food price inflation over the past 24 months, along with slowing economic activity in 2023, have translated into lower dairy demand in developed and emerging markets.

In July 2023, with an average of 116.3 points, the FAO Dairy Price Index saw its seventh consecutive monthly decline (20.6 percent) below its value for the same month last year. July's decline was due to lower SMP and butter world prices, underpinned by reduced market activity in Europe during the summer vacations, and lower dairy demand in big markets such as China. An analysis by the UK Agriculture and Horticulture

Development Board (AHDB)<sup>1</sup> indicates that Chinese dairy imports continued to decline in the first half of 2023, reaching their lowest levels in four years. High stocks of whole milk powder (WMP), increasing milk production, government policies supporting dairy production and economic slowdown are some of the drivers explaining the lower dairy imports from China. These lower imports are driving much of the weakness seen in global markets as China is one of the major importers of WMP. As a result, New Zealand's exports to China, where New Zealand typically sends up to 90% of its production, have declined, creating a situation of oversupply and price instability in the global market. In the first half of 2023, New Zealand has seen exports to China down by 22.5%. This is the same trend observed in all other exporting countries such as Australia (-20%) and European Union (-14%).

<sup>1</sup> AHDB – China's dairy imports: "Weak demand could drive global prices further," August 2023.

## GLOBAL MILK PRODUCTION OVERVIEW

Global milk production is still growing but losing momentum. Growth is attributed to EU and US gains, while Oceania and South America continue to see lower output in the first half of the year. Dry weather in South America and parts of Europe must be monitored and could be a key factor impacting production, particularly in Europe, during Q3.

Milk production in the EU-27 recorded an increase of 1.2% during the first 5 months of the year due to increases in productivity. Notable increases were recorded for Germany (+2.4%), Poland (+4.0%), the Netherlands (+1.9%) and Italy (+1.7%). The largest decline was seen in France (-3.4%) year on year.

The U.S. witnessed production growth of 0.7% year-over-year. Milk production for 2023 is forecasted to increase by 0.8% compared to 2022 due to higher-than-expected herd size.

In New Zealand, milk production is forecasted up 1.9% from 2022. The outlook through September is promising as rainfall is expected to be average or above average in many New Zealand dairy regions.

**FIGURE 1A AND 1B:  
EVOLUTION OF BUTTER AND SMP WORLD PRICES**



Source: USDA and Bank of Canada exchange rate, DFC compilation.



**FIGURE 2: EVOLUTION OF CLASS 4A SNF PRICES**



Sources: AMS USDA (prices) and CME (futures) from August 29<sup>th</sup>, 2023



# CONSUMPTION TRENDS IN THE TOTAL MARKET

**FIGURE 3:  
CANADIAN MARKET - 12-MONTH PERIOD ENDING MAY 2023  
VS. SAME PERIOD A YEAR AGO**

PERIOD	SOURCE	AFC, CDC, GAC, STATS CAN, AND DFC CALCULATION	NIELSEN		HRI		CLASS 5 FURTHER PROCESSING	
	Dairy Product	Domestic Disappearance (Million)	Nielsen Retail (Million)	Nielsen Retail (% Share)	HRI (Million)	HRI (% Share)	Remaining Markets (Million)	Remaining Markets (% Share)
12 - MONTH PERIOD ENDING MAY 2023 VS SAME PERIOD YEAR	Plain milk (litres)	- 1.6%	- 2.4%	81.1%	+ 2.8%	17.7%	- 9.0%	1.2%
	Cream (litres)	+ 1.5%	- 3.0%	40.3%	+ 5.7%	51.6%	- 1.0%	8.1%
	Natural cheese (kilograms)	- 0.1%	- 1.4%	54.7%	+ 2.9%	36.3%	- 3.8%	9.0%
	Butter (kilograms)	- 2.8%	- 5.6%	55.3%	+ 18.5%	23.8%	- 13.8%	20.8%

## Notes

1. Domestic disappearance for plain milk = production + imports for domestic market - domestic exports.
2. Domestic disappearance for cream, refrigerated yogurt = production + imports for domestic market - domestic exports.
3. Domestic disappearance for natural cheese, and butter = production + imports for domestic market + destocking - domestic exports.
4. IREP, over access committed imports, and foreign exports (re-exports) are not included in the domestic disappearance.
5. The HRI market = domestic disappearance - retail market - further processing of class 5. HRI includes hotels, restaurants, institutions and independent retailers, which are not taken into account by Nielsen.
6. Does not capture cross-border shopping of dairy products. These were estimated by Agriculture and Agri-Food Canada (AAFC) at 64,500 tonnes per year for fluid milk between 1989 and 1991.

Sources: Statistics Canada, GAC, CDC, Nielsen, AAFC, and DFC calculations

## PLAIN MILK

In the total market, plain milk saw a decline in sales by 1.6% in the 12-month period ending May 2023 compared to the 12-month period ending May 2022. This decline is seen in the retail side which accounts for 81.1% of the market. The aging of the Canadian population, plant-based beverages, anti-milk and anti-farming movements are some of the factors explaining the slowdown in the consumption levels of plain milk at the retail level. According to a recent Mintel report, inflationary pressure may also be causing consumers to cut back on the amount of milk they drink<sup>2</sup>. However, this has not been significantly observed in the sales to date. While we don't currently see any trends between monthly price changes and sales of plain milk, this is something that we continue to monitor. In the Hotel, Restaurants and Institutional (HRI) market, there has been a growth in sales, with plain milk up 2.8%. This growth could be a result of a continued trend of companies bringing employees back into the office following the COVID-19 restrictions. However, the current consumption levels in the food service sector are still -8.3% lower than in 2019. In the products used for further processing (class 5) market plain milk decreased by 9.0% compared to a year ago. However, this market is much smaller only accounting for 1.2% of the plain milk market in Canada.

## NATURAL CHEESE

In the case of natural cheese, the total market saw a slight decline in sales by 0.1%. Retail purchases decreased by 1.4% in the 12-month period ending May 2023 compared to the 12-month period ending May 2022. This decrease may be a result of inflationary pressure as well as the public measures' effects of COVID-19 in 2021/2022. However, many reports suggest that with high inflation, consumers will still purchase cheese, but may just switch over to more affordable cheese types<sup>3</sup>. Retail purchases make up 54.7% of the total market. In the HRI market, cheese sales increased by 2.9% in the 12-month period ending May 2023 compared to the 12-month period ending May 2022. Cheese sales in the HRI markets are 2.7% higher than they were in 2019. Circana suggests that, at the food service level, cheese remains the top dairy menu item in terms of importance and sales volume. In the products used for further processing (class 5) market cheese sales decreased by 3.8% compared to the 12-month period ending May 2022. The class 5 market for cheese accounts for 9.0% of the natural cheese market in Canada. We will continue to monitor the impact of prices on consumer demand for cheese.

## CREAM

For cream, 2022 total consumption increased by 1.5% in the 12-month period ending May 2023 compared to the 12-month period ending May 2022. A large portion of this increase comes from the remaining markets which make up 59.7% of the market share. The remaining market captures HRI and products used for further processing. In the HRI market, cream sales grew 5.7%.

According to data from Circana, cream and milk continue to hold a 90% market share of total additives in the commercial food service sector. However, sales of plant-based alternatives like oat and almond beverages are growing faster. This is partly because of Generation Z (b. 1997+), a generation that is responsible for a large portion of the cream and plant-based alternative sales in the remaining markets, as they tend to spend a lot more money in the food service sector. Circana's survey suggests that Gen-Z likes trying new specialty drinks rather than coffee that would traditionally be consumed with cream, and this is causing plant-based alternative sales to grow faster. So, while there is still growth in sales in the remaining market this will be something to continue to monitor. For cream used in further processing, consumption decreased by 1% compared to the same period a year ago. Further processing products make up 8.1% of the cream market. At the retail level, cream saw a decline in sales by 3% in the 12-month period ending May 2023 compared to the 12-month period ending May 2022. This category accounts for 40.3% of the retail market.

## BUTTER

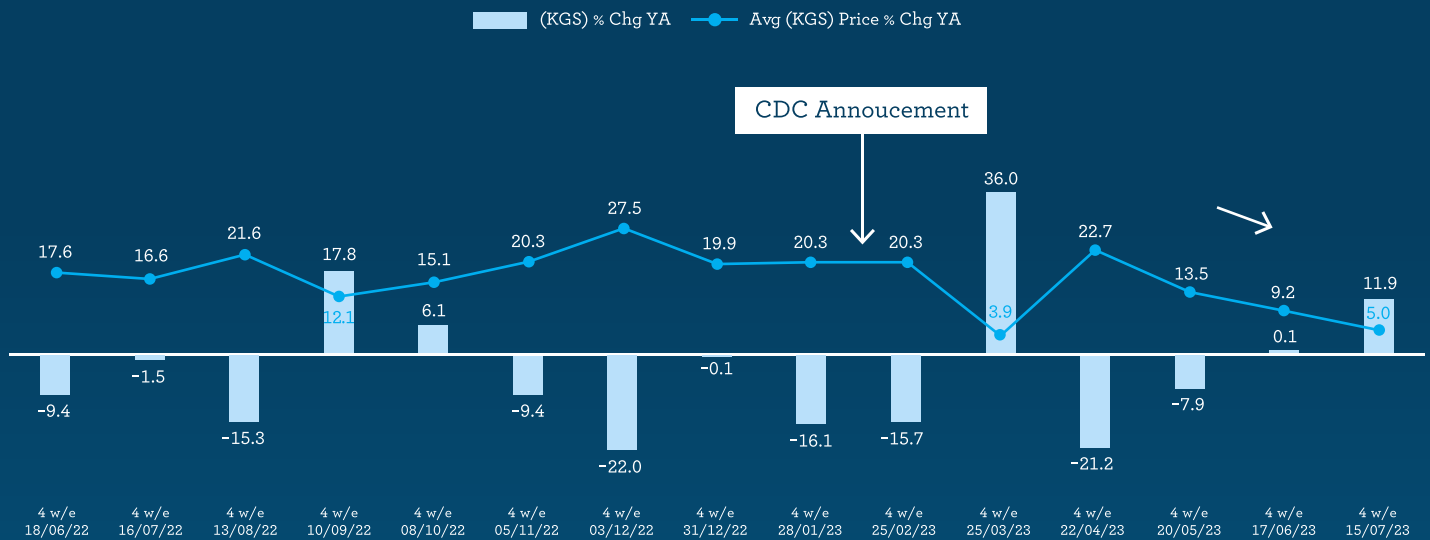
For butter, the total consumption decreased by 2.8% in the 12-month period ending May 2023 compared to the 12-month period ending May 2022. Most of that decrease came from the retail side, which dropped by 5.6%. Retail purchases of butter make up 55.3% of the total market. On the retail side, we have seen that butter sales are very sensitive to significant price changes. In recent data, we can see that when the average price increase slows down, butter sales increase. This occurred in August 2022, March 2023 and July 2023.

<sup>2</sup> Mintel Group Ltd. (2023). *Dairy and Non-Dairy Milk, Canada - 2023*.

<sup>3</sup> Mintel Group Ltd. (2023). *The Future of Cheese: 2023*



**FIGURE 4: 4-WEEK PERIOD CHANGE COMPARED TO SAME PERIOD, A YEAR AGO**



Despite the declining butter sales at the retail level, we continue to observe an 18.5% increase in the HRI markets which account for 23.8% of the total market. This shows that despite high prices, consumers continue to go out and purchase butter menu items. While this increase may seem very high compared to the 12-month period ending May 2022, butter sales in the HRI are only up 0.3% since 2019.

For butter, the further processing market decreased by 13.8% in the 12-month period ending May 2023 compared to the 12-month period ending May 2022. Further processing of butter accounts for 20.8% of the total market. While this is a very strong decrease compared to the 12-month period ending May 2022 overall, butter sales in the further processing market are up 14.3% since 2019.





# DAIRY PRODUCT IMPORTS

In Canada, imports of dairy products are managed using tariff rate quotas (TRQs). TRQs allow a predetermined quantity to be imported for each dairy product. The concessions granted in trade agreements have created market uncertainty for producers processing. TRQs continue to increase year after year, and it is important to monitor them as they will continue to impact the domestic dairy market.

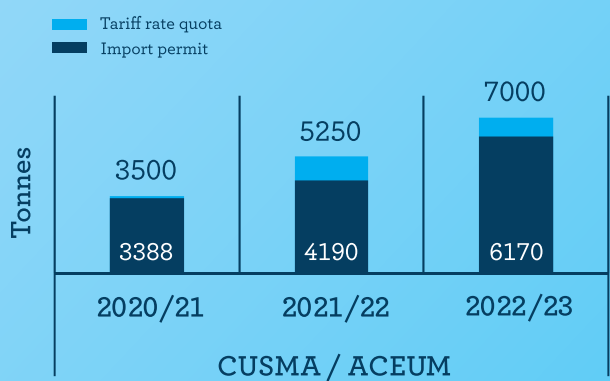
One way to examine the impact of international trade agreements is by looking at the volume of a commodity being imported; another is by looking at TRQ fill rates (the volume of TRQs used by importers as a percentage of what was agreed to in the trade deal). Below we discuss both elements for cream, butter, milk powder, and whey powder imports for the 2022/23 dairy year.



## CREAM

The cream TRQ under the Canadian-United States-Mexico Agreement (CUSMA) increased by 33.3% from 5,250 tonnes in the 2021/22 dairy year to 7,000 tonnes in the 2022/23 dairy year. In the 2023/24 dairy year, the TRQ is set to increase another 25% to 8,750 tonnes. This increasing TRQ means that higher quantities of cream could be imported under CUSMA each year. This aligns with the trend we have seen over the past 3 years. The volume of cream imported under CUSMA has increased from 4,190 tonnes in the 2021/22 dairy year (79.8% fill rate) to 6,170 tonnes in the 2022/23 dairy year (88.1% fill rate).

FIGURE 5: CREAM



## BUTTER

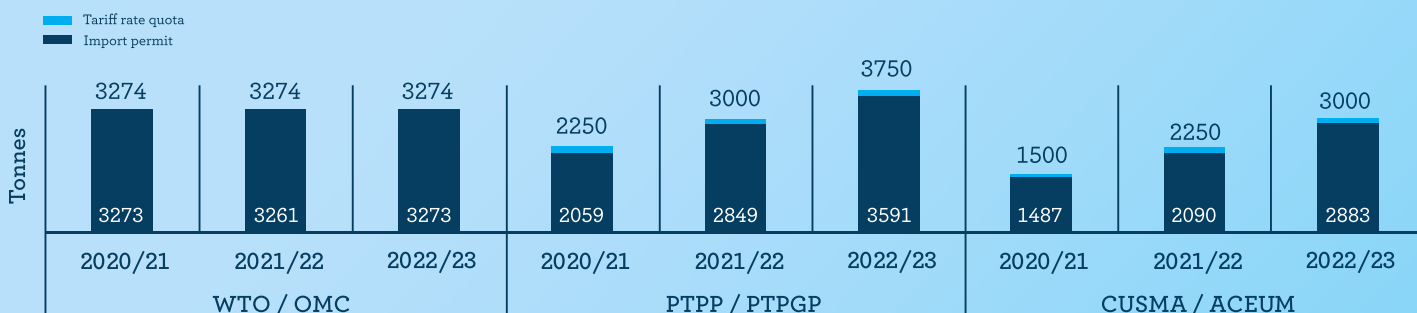
Butter's TRQs under the World Trade Organization (WTO) is the same each year capped at 3,274 tonnes of imports. Fill rates of butter under WTO were fully filled to 100% as of June 2023, consistent with the high rates in previous years.

Under the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), butter's TRQs increased by 25% in the 2022/23 dairy year. In 2022/23 the fill rate reached 95.8%. This fill rate is fairly

consistent with last year's. However, in terms of actual quantity, the actual imported volume of butter is 26% higher increasing from 2,849 tonnes in 2021/22 to 3,591 tonnes in 2022/23.

Under CUSMA, butter's TRQs increased by 33% in the 2022/23 dairy year. With a 96.1% fill rate, this year's rate is slightly higher than last year's fill rate of 92.9%. However, in terms of quantities, the volume of imported butter is up 38% from 2,090 tonnes in 2021/22 to 2,883 tonnes in 2022/23.

**FIGURE 6: BUTTER**

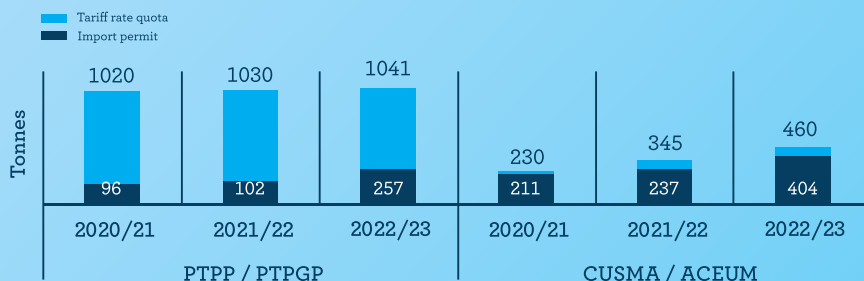


## MILK POWDER

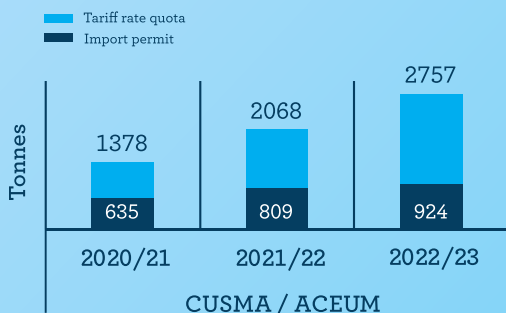
Under CPTPP, milk powder fill rates increased from 9.9% in 2021/22 to 24.6% in 2022/23. The quantity of imports increased 151% compared to last year, up from 102 tonnes to 257 tonnes.

There was also an increase in fill rates under CUSMA. From 2021/22 to 2022/23, fill rates increased from 68.7% to 87.9%. This is an increase from 237 tonnes to 404 tonnes.

**FIGURE 7: MILK POWDER**



**FIGURE 8: WHEY POWDER**



## WHEY POWDER

The whey powder TRQs under CUSMA increased by 50% from 2,068 tonnes in the 2021/22 dairy year to 2,757 tonnes in the 2022/23 dairy year. In the 2023/24 dairy year, the TRQs are set to increase another 33% to 3,446 tonnes. This increasing TRQ means that higher quantities of whey powder could be imported under CUSMA each year. This year we have seen this, with the volume increasing from 809 tonnes in the 2021/22 dairy year (39.1% fill rate) to 924 tonnes in the 2022/23 dairy year (33.5% fill rate).



## CONCLUSION

In the 2022/23 dairy year, under CUSMA imports of dairy products with high butterfat, content such as butter and cream have the highest fill rate, above 90%, followed by other imports: milk powder, whey powder and milk. Under CPTPP, butter follows a similar trend of CUSMA with the highest fill rate, followed by milk powders. As negotiated quantities for butter will increase an additional 25% in the 2023/24 dairy year under both trade agreements, higher quantities of imports will continue to affect the butterfat requirements of the domestic market, negatively affecting farmer's revenues.

