


DAIRY FARMERS
OF CANADA

WINTER
2024



QUARTERLY SKIM





Welcome to the latest edition of Dairy Farmers of Canada's Quarterly Skim, where we take a glimpse into what's 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 fourth quarter of 2024, we look at the most recent cost of production data and its impact on farmgate prices. In addition, we explore how import levels have changed for various dairy products compared to last year under Canada's international trade agreements. Finally, we review dairy consumption in the Canadian market in the retail, food service, and further processing sectors.

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COST OF PRODUCTION

The overall indexed Cost of Production (iCOP) as of August 2024 is \$90.36 per standard hectolitre (std hl), this is down 2.93% compared to last year. The decline in iCOP is largely due to decreases in input costs, such as feed, fuel, and fertilizers. Purchased feed, which made up 25% of the total COP, saw lower prices due to strong crop yields and reduced corn prices, which reduced the iCOP by \$2.85 per std hl. Other costs rose, including a 37.7% increase in interest paid due to higher borrowing costs as loans renewed. Hired labour costs increased by 14.7%, reflecting higher wages and farm owners shifting some of their hours to employees. Altogether, the numbers published by the Canadian Dairy Commission (CDC) confirm a decrease in on-farm costs compared to last year.

The Consumer Price Index (CPI) is another variable used to estimate variations in producer costs and is used in calculating annual price adjustments for dairy farmers. Over the 12-month period ending August 2024, the CPI has increased by 2.89% compared to the 12-month period ending August 2023 (Statistics Canada, 2024).



FARMGATE PRICES

For the next price adjustment, **the CDC announced a 0.0237% price decrease at the farm level**, coming into effect on February 1, 2025. This adjustment in prices for domestic Classes 1 to 4 reflects the National Milk Pricing Formula, which considers variations in the iCOP (50%) and the CPI (50%).



TRADE

This section will examine tariff rate quotas (TRQs) and fill rates under Canada’s foreign trade agreements up to October 2024. TRQs allow a predetermined quantity to be imported for each dairy product. Data used in this analysis comes from Global Affairs Canada and the Canadian Dairy Information Centre (CDIC).

CHEESE

Total cheese imports under the World Trade Organization (WTO) Agreements are on track to reach the TRQ negotiated-level threshold. As of October 2024, the fill rate has reached 78.8%. This marks a slight increase compared to a year prior, when the fill rate was 76.5%. In December 2023, 19,573 tonnes were imported, representing 95.9% of the total TRQ volume of 20,412 tonnes.

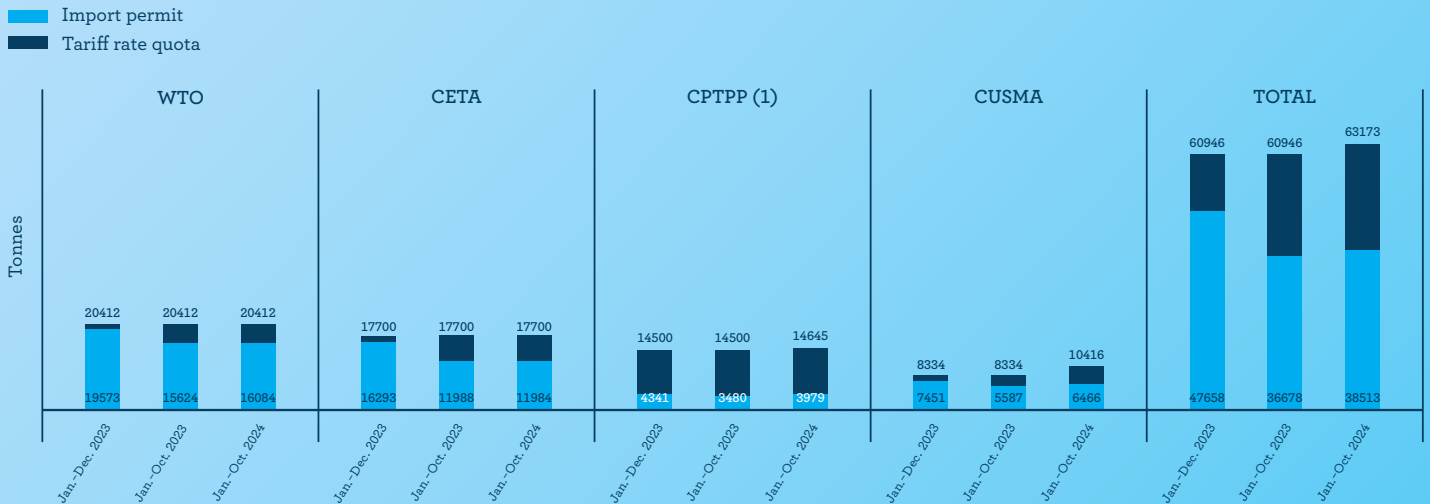
Historically, cheese fill rates from Europe under the Canada-European Union Comprehensive Economic and Trade Agreement (CETA) have been high. As of October 2024, the fill rate stands at 67.7%, consistent with the same period last year. This indicates that, like in 2023, we are on track to reach the TRQ quantity by the end of 2024.

The cheese fill rate under the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) increased from 27.2% as of October 2024, slightly up from the 24.0% fill rate in October 2023. Import volumes under CPTPP mainly originate from Oceania.

Imports of cheese under the Canadian-United States-Mexico Agreement (CUSMA) reached a level of 67.0% (5,587 tonnes) by the end of October 2023. This year, during the same period, Canada received 6,466 tonnes of cheese, with a fill rate of 62.1%.

Across all agreements, cheese imports are up from 36,678 tonnes in October 2023 to 38,513 tonnes in October 2024. This is a 5.0% increase.

FIGURE 1: TOTAL CHEESE IMPORTS



(1) For CPTPP, the TRQ and import permits also include the additional access level granted specifically for mozzarella and prepared cheese (grated, powdered, or processed).

Source: Global Affairs Canada

CHEESE IMPORTS VOLUMES BY REGION

Between January and August 2024, the European Union (EU) accounted for 47.9% of the total cheese imports, with Italy and France contributing 14.2% and 10.3%, respectively. North America followed closely, making up 37.1% of the total, with the United States (U.S.) representing nearly the entire share at 37.0%. Oceania contributed 8.9%, with New Zealand and Australia accounting for 4.7% and 3.9%, respectively. Overall, the total cheese imports during this period amounted to 35.9 million kg, with the EU and U.S. being top exporters.

TABLE 1: QUANTITY AND SHARE OF CHEESE IMPORTS (MILLION KG), BY EXPORT LOCATION

LOCATION	JAN.-AUG. 2024	SHARE OF TOTAL
EUROPEAN UNION	17.2	47.9%
ITALY	5.1	14.2%
FRANCE	3.7	10.3%
NORTH AMERICA	13.3	37.1%
UNITED STATES	13.3	37.0%
OCEANIA	3.2	8.9%
NEW ZEALAND	1.7	4.7%
AUSTRALIA	1.4	3.9%
TOTAL	35.9	100.0%

Source: Canadian Dairy Information Centre

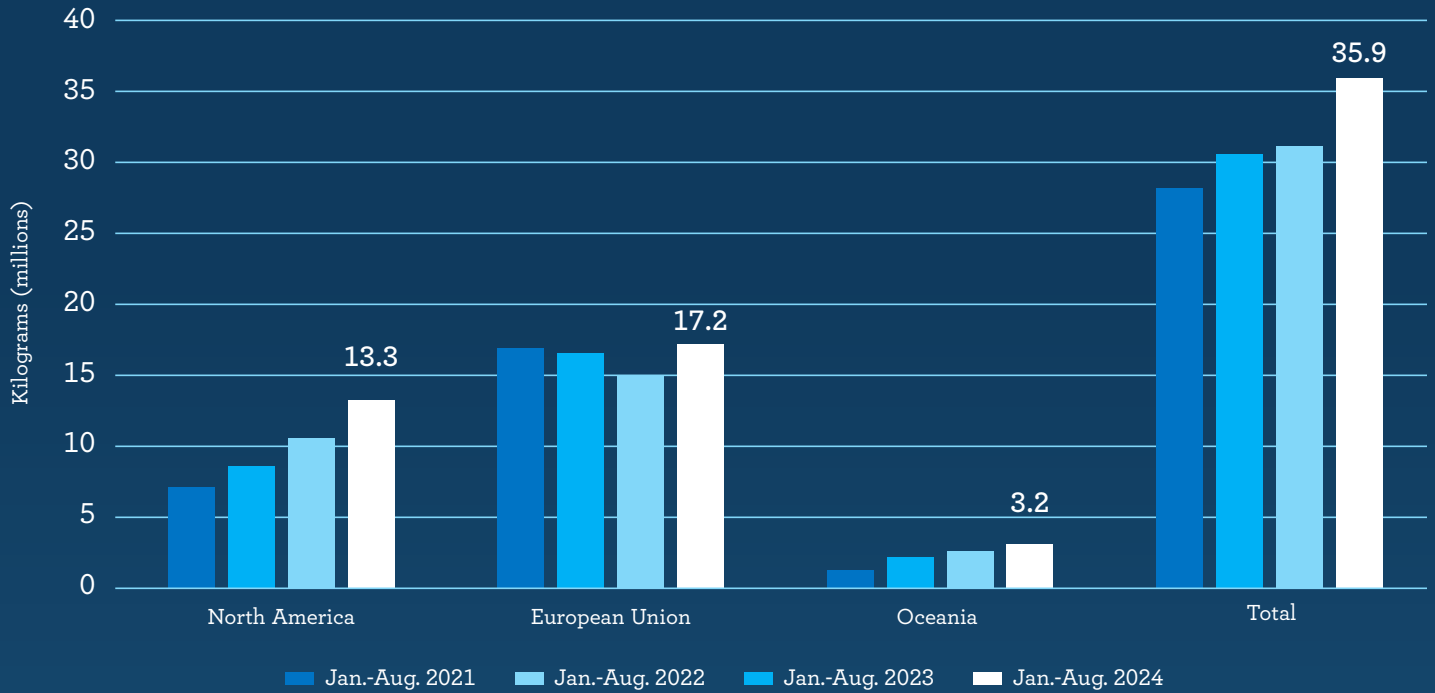
From January to August 2024, imports of cheese increased 27.3% compared to the same period in 2021. At the same time, average import prices increased by 3.2%, from \$10.59/kg to \$10.92/kg. Cheese imports from the EU grew by 2.4% to 17.2 million kg during this period with most of the cheese coming from Italy and France. The average cheese import price from the EU increased by 15.8% from \$11.37/kg to \$13.17/kg. Imports from Italy have been growing over this period while imports from France have decreased compared to January to August 2021.

In North America, import volumes grew by 84.8% from 7.2 million kg to 13.3 million kg, while import prices have fallen by 3.8% from \$8.46/kg to \$8.13/kg. Canada has also received more cheese imports from Oceania, with volumes from increasing by 146.2% from 1.3 million kg to 3.2 million kg. The average import price increased 4.7% from \$6.13/kg to \$6.42/kg during this period. Imports from Australia have accelerated in 2024 compared to previous years

but remain smaller in volume compared to cheese imports from New Zealand, which have also increased significantly from January to August 2021. It is important to note the impact of COVID-19, and trade-related disruptions may still be present in 2021.

Variations in trade volumes across regions may be impacted by changes in trade agreements and TRQs. Under the WTO, cheese TRQ has remained unchanged, while under CETA, TRQs reached full maturity in 2022, allowing for more stable growth in imports from the EU. CPTPP entered the lower-growth phase in 2024, which is expected to moderate future import growth in upcoming years. Despite this, the pace of growth leading up to the end of the year is still accelerating from both Europe and the Oceania. Under CUSMA, the TRQ is expected to increase 20% from 2024 to 2025, albeit this growth is likely to slow after 2025, assuming no significant trade changes.

FIGURE 2: QUANTITY OF CHEESE IMPORTS (MILLION KG), BY REGION



Source: Canadian Dairy Information Centre

TABLE 2: QUANTITY OF CHEESE IMPORTS (MILLION KG), BY EXPORT LOCATION

LOCATION	JAN.-AUG. 2021	JAN.-AUG. 2022	JAN.-AUG. 2023	JAN.-AUG. 2024	JAN.-AUG. 2024 VS. JAN.-AUG. 2021
EUROPEAN UNION	16.8	16.5	15	17.2	2.4%
ITALY	4.4	5.2	4.2	5.1	15.9%
FRANCE	4.4	4.1	3.6	3.7	- 15.9%
NORTH AMERICA	7.2	8.6	10.5	13.3	84.8%
UNITED STATES	7.2	8.6	10.5	13.3	84.7%
OCEANIA	1.3	2.2	2.6	3.2	146.2%
NEW ZEALAND	0.5	0.9	2.2	1.7	240.0%
AUSTRALIA	0.8	1.3	0.5	1.4	75.0%
TOTAL	28.2	30.6	31.1	35.9	27.3%

Source: Canadian Dairy Information Centre

TABLE 3: AVERAGE CHEESE IMPORT PRICE (CAD\$/KG), BY EXPORT LOCATION

LOCATION	JAN.-AUG. 2021	JAN.-AUG. 2022	JAN.-AUG. 2023	JAN.-AUG. 2024	JAN.-AUG. 2024 VS. JAN.-AUG. 2021
EUROPEAN UNION	\$11.37	\$11.85	\$12.97	\$13.17	15.8%
ITALY	\$15.49	\$14.73	16,81 \$	\$17.05	10.0%
FRANCE	\$10.46	\$10.45	\$12.17	\$12.53	19.9%
NORTH AMERICA	\$8.46	\$8.21	\$8.91	\$8.13	- 3.8%
UNITED STATES	\$8.46	\$8.22	\$8.91	\$8.13	- 3.9%
OCEANIA	\$6.13	\$7.07	\$7.84	\$6.42	4,7%
NEW ZEALAND	\$6.87	\$7.05	\$7.40	\$6.28	240.0%
AUSTRALIA	5,70 \$	\$7.08	\$9.88	\$6.58	15.6%
TOTAL	\$10.59	\$10.66	\$11.31	\$10.92	3,2%

Source: Canadian Dairy Information Centre

NATURAL MILK CONSTITUENTS

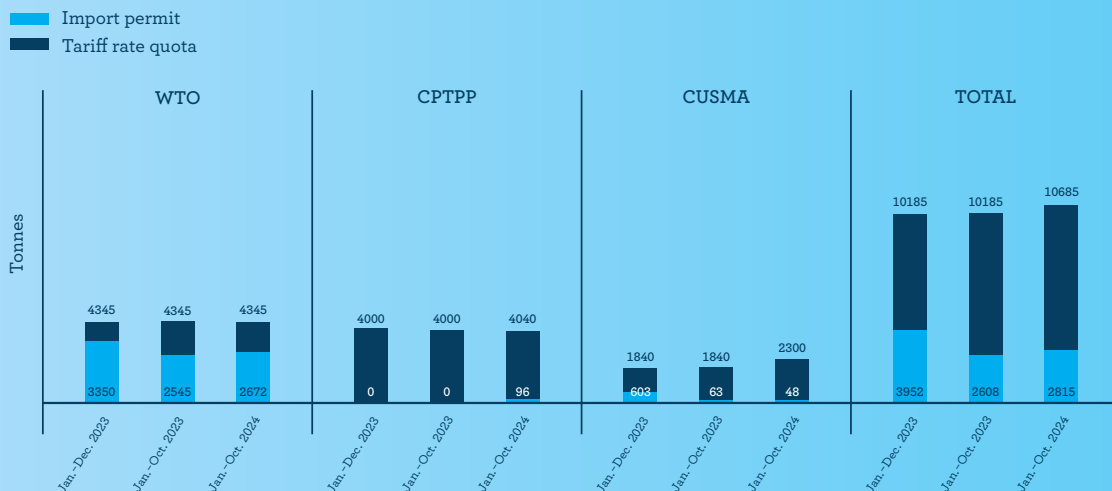
Under the WTO, imports of products containing natural milk constituents (NMC), commonly known as Milk Protein Concentrates (MPC), have increased compared to last year, reaching a fill rate of 61.5% as of October 2024. This is slightly up from a fill rate of 58.6% during the same period in 2023.

The NMC fill rate under CPTPP currently stands at 2.4% as of October 2024. While this is low, historically NMP have not been imported under CPTPP.

Imports of NMC products under CUSMA have reached a fill rate of 2.1% by the end of October 2024, a slight decrease compared to the fill rate of 3.4% during the same period last year.

In total, NMC imports increased from 2,608 tonnes during January to October 2023 to 2,815 tonnes in the same period of 2024. This is a 7.9% increase.

FIGURE 3: NATURAL MILK CONSTITUTES IMPORTS



Source: Global Affairs Canada

CONSUMPTION TRENDS IN THE TOTAL MARKET

In the 12-month period ending August 2024, consumption of dairy products increased compared to the same period a year prior. This growth has been mainly driven by Canada's population growth, which was up 3.2% year-over-year at the midpoint of this period.

Milk sales rose by 1.9% with high consumption in the Hotel, Restaurant and Institutional (HRI) food sector and pressure on plant-based beverages from higher prices. Cream, natural cheese and butter consumption increased by 2.7%, 1.8%, and 1.7%, respectively. Yogurt consumption grew by 3.3%, with a shift to larger format sizes, which has supported consumption growth.

However, when adjusted for per capita consumption, individual intake of most dairy products has declined, with yogurt being an exception, where per capita consumption has remained stable. This suggests that while overall dairy sales are up, individual consumption is more negative.

This could potentially be due to new Canadians maintaining their original consumption patterns, which might differ from our national average. This would alter overall consumption trends. Additionally, the current economic environment and pressure on household budgets may also affect the growth of per capita consumption.

CANADIAN MARKET

**TABLE 4: CANADIAN MARKET, CONSUMPTION OF DAIRY PRODUCTS,
12-MONTH PERIOD ENDING AUGUST 2024 VS. 12-MONTH PERIOD ENDING AUGUST 2023**

PERIOD	MARKET	TOTAL	RETAIL (NielsenIQ)		HOTEL, RESTAURANTS, INSTITUTIONS (HRI)		CLASS 5 FURTHER PROCESSING (CDC)	
		Sales in Volume (% Change)	Sales in Volume (% Change)	Sales in Volume (% Share)	Sales in Volume (% Change)	Sales in Volume (% Share)	Sales in Volume (% Change)	Sales in Volume (% Share)
12-MONTH PERIOD ENDING IN AUGUST 2024	Milk (litres)	+ 1.9%	+ 0.1%	77.9%	+ 10.4%	20.4%	- 3.9%	1.7%
	Cream (litres)	+ 2.7%	+ 1.0%	39.5%	+ 4.0%	52.5%	+ 2.3%	8.0%
	Refrigerated yogurt (kilograms)	+ 3.3%	+ 3.2%	94.9%	+ 6.3%	4.8%	- 5.4%	0.4%
	Natural cheese (kilograms)	+ 1.8%	+ 1.9%	54.9%	+ 4.0%	36.8%	- 8.1%	8.3%
	Butter (kilograms)	+ 1.7%	+ 3.0%	58.6%	+ 9.5%	23.9%	- 10.9%	17.5%

Notes

- Total market for milk, cream, and refrigerated yogurt = production + imports for domestic market - domestic exports.
- Total market for natural cheese and butter = production + imports for domestic market - stock variation - domestic exports.
- IREP, over-access committed imports, and foreign exports (re-exports) are not included in the total market.
- HRI = total market - retail market - Class 5.
- HRI = hotels, restaurants and institutions, independent retailers that are not captured by Nielsen, Class 5 further processing when not available, and all other further processing not included in Class 5.
- 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, NielsenIQ, AAFC, and DFC calculations

TABLE 5: CANADIAN MARKET, PER CAPITA CONSUMPTION OF DAIRY PRODUCTS, 12-MONTH PERIOD ENDING AUGUST 2024 VS. 12-MONTH PERIOD ENDING AUGUST 2023

PERIOD	MARKET	TOTAL	RETAIL (NielsenIQ)		HOTEL, RESTAURANTS, INSTITUTIONS (HRI)		CLASS 5 FURTHER PROCESSING (CDC)	
		Sales in Volume (% Change)	Sales in Volume (% Change)	Sales in Volume (% Share)	Sales in Volume (% Change)	Sales in Volume (% Share)	Sales in Volume (% Change)	Sales in Volume (% Share)
12-MONTH PERIOD ENDING IN JUNE 2024	Milk (litres)	-1.2%	-3.0%	77.9%	+7.0%	20.4%	-6.8%	1.7%
	Cream (litres)	-0.5%	-2.1%	39.5%	+0.8%	52.5%	-0.8%	8.0%
	Refrigerated yogurt (kilograms)	+0.1%	0.0%	94.9%	+3.0%	4.8%	-8.3%	0.4%
	Natural cheese (kilograms)	-1.4%	-1.3%	54.9%	+0.8%	36.8%	-10.9%	8.3%
	Butter (kilograms)	-1.4%	-0.1%	58.6%	+6.1%	23.9%	-13.6%	17.5%

Notes

1. Total market for milk, cream, and refrigerated yogurt = production + imports for domestic market – domestic exports.
2. Total market for natural cheese and butter = production + imports for domestic market – stock variation – domestic exports.
3. IREP, over-access committed imports, and foreign exports (re-exports) are not included in the total market.
4. HRI = total market – retail market – Class 5.
5. HRI = hotels, restaurants and institutions, independent retailers that are not captured by Nielsen, Class 5 further processing when not available, and all other further processing not included in Class 5.
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, NielsenIQ, AAFC, and DFC calculations

MILK

In the total market, milk sales have increased by 1.9% in the 12-month period ending August 2024 compared to the same period a year ago. As the population has increased, there has been more demand for milk. On a per capita basis, total milk consumption is down 1.2%. Although milk is approaching a growth rebound in the total market, factors such as the growing share of younger generations in Canada’s population, changes in consumption habits, the arrival of new immigrants with different food cultures, and anti-milk and anti-animal agriculture movements continue to exert negative pressure on the evolution of sales of this product.

A large amount of this growth has come from the HRI market, where milk sales increased 10.4% compared to the previous year, representing 20.4% of the total market. This increase in the HRI sector is likely linked to shifting consumer habits as more people work to the office settings, leading to an increase in out-of-home spending.

At the retail level, milk sales have remained stable at 0.1% year-over-year, representing 77.9% of the total market. Within this category, the decline milk sales with 1% milk fat (M.F.) and 2% M.F. has been slowing. However, whole milk sales have continued to grow.

Amid rising living costs, sales of plant-based beverages have declined, now making up 8.8% of total sales in the milk and substitutes category, down from 9.0% a year ago. This shift is mainly due to the higher average price of plant-based beverages compared to milk. Additionally, on July 8, 2024, the Canadian Food Inspection Agency (CFIA) issued a recall for 15 Silk and three Great Value brand plant-based beverages due to Listeria contamination. This recall appears to be driving sales toward other plant-based brands and milk.

In the products used for further processing (Class 5) market, milk decreased by 3.9% compared to a year ago. This market accounts for only 1.7% of the total milk sales in Canada.

CREAM

Total cream consumption rose by 2.7% in the 12 months ending August 2024 compared to the same period a year prior. However, on a per capita basis, this represents a decrease of 0.5%.

In the retail market, which accounts for 39.5% of the total market, sales grew by 1.0% over this period. Cream sales have gradually levelled off as prices have stabilized. However, despite this price stabilization, current economic conditions have continued to put pressure on retail sales.

REFRIGERATED YOGURT

In the total market, refrigerated yogurt sales saw an increase of 3.3% in the 12-month period ending August 2024, compared to the 12-month period ending August 2023. On a per capita basis, total consumption remained stable at 0.1%.

Retail sales captured 94.9% of the market share during this period. At retail, yogurt sales grew 3.2% in the 12-month period ending August 2024 compared to the 12-month period ending August 2023. This growth is partly driven by a shift toward larger yogurt formats, which offer more cost-effective options and encourage higher consumption due to unrestricted portion sizes. Additionally, consumers are purchasing more plain yogurts and those with higher protein content at retail.

In addition, having to work in the office more often than in the previous year is stimulating consumption in the HRI sector, and is therefore contributing to a slowdown in retail sales growth. The HRI markets, which make up 52.5% of the market share for cream, grew by 4.0%.

For cream used in further processing, consumption increased by 2.3% compared to the same period a year ago. Further processing products make up 8.0% of the cream market.

In the HRI markets, which account for 4.8% of the market, refrigerated yogurt sales grew 6.3%. Similarly to the milk and cream markets, HRI yogurt sales rebounded post-pandemic as people have been working more days outside the home in the past 12 months compared to the same period a year ago. This shift has contributed to increased demand for yogurt in the HRI sector.

Finally, in the products used for further processing (Class 5) market, which accounts for 0.4% of the total yogurt market in Canada, sales decreased by 5.4% compared to a year ago.





NATURAL CHEESE

During the 12-month period ending August 2024, natural cheese consumption increased by 1.8% compared to the same period a year ago. This has been largely driven by population growth. Per capita sales experienced a decline of 1.4%.

Retail sales increased by 1.9% in this period, making up 54.9% of the total natural cheese market. This growth can be attributed to the slowing growth of cheese prices at retail. The market share of imported cheese in the prepackaged natural cheese category has continued to decline gradually. Imported cheeses are generally priced higher than Canadian cheese within the same category.

BUTTER

In the 12-month period ending August 2024, butter consumption increased by 1.7% compared to the previous year. Per capita sales declined by 1.4%.

At the retail level, which makes up 58.6% of the total sales, butter sales increased 3.0% compared to the same period a year ago. Butter sales have consistently grown on a 52-week basis since the period ending on February 17, 2024. Additionally, there has been a significant decline in price growth during the past year. The butter market share has increased during the same period. It now represents 53.4% of total sales in kilograms within the butter and solid substitute category, compared to 52.1% a year ago.

In the HRI sector, cheese sales increased 4.0% compared to the same period a year ago, representing 36.8% of the total market. According to Direct Link data, HRI price growth in the 12-month period ending August 2024 is up 2.1% compared to the same period a year prior. This is slowing compared to the 9.0% price change from the 12-month period ending August 2023 to the 12-month period ending August 2022. Slowing price growth may be contributing to steadier consumption. Finally, in the products used for further processing (Class 5) market, which accounts for 8.3% of the total natural cheese market in Canada, sales decreased by 8.1% compared to a year ago.

The HRI market, accounting for 23.9% of the overall market share, experienced a growth of 9.5% in the 12-month period ending August 2024. In the products used for further processing (Class 5) market, which accounts for 17.5% of the total butter sales in Canada, butter sales have declined 10.9% compared to the same period a year ago. Toward the end of 2022, butterfat usage in further processing seems to have shifted from Class 5 to Class 4a, which may account for slower growth within the HRI sector.

CONCLUSION

As of August 2024, the iCOP is \$90.36 per std hl, down 2.93% from last year. Meanwhile, CPI rose 2.89% over the same period (Statistics Canada, 2024). This results in a national pricing formula of -0.0237% , which will come into effect on February 1, 2025.

In terms of trade, during this calendar year, total cheese imports are up compared to the same period a year ago. From January to August 2024, imports of cheese increased 15.3% compared to the same period a year ago. At the same time, the average cheese import price has decreased. Total imports for yogurt and buttermilk and ice cream and mixes are down slightly compared to last year. Whereas imports of NMC have increased. Looking ahead, while imports may continue to rise, the pace of growth is expected to slow as TRQ levels stabilize.

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

Canada's expanding population has led to an increase in demand for dairy products. During the 12-month period ending August 2024 overall consumption of milk, cream, refrigerated yogurt, natural cheese and butter increased compared to the previous year, mainly due to slower price growth and population expansion.

