

Canadian Update on Milk Supplies, Demand and Prices

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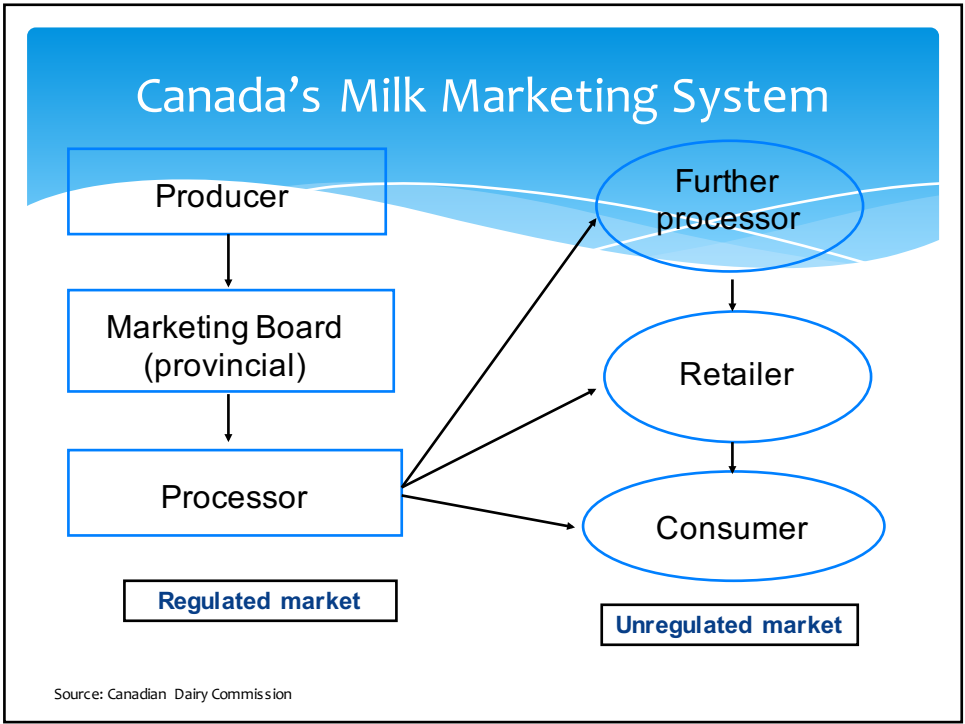
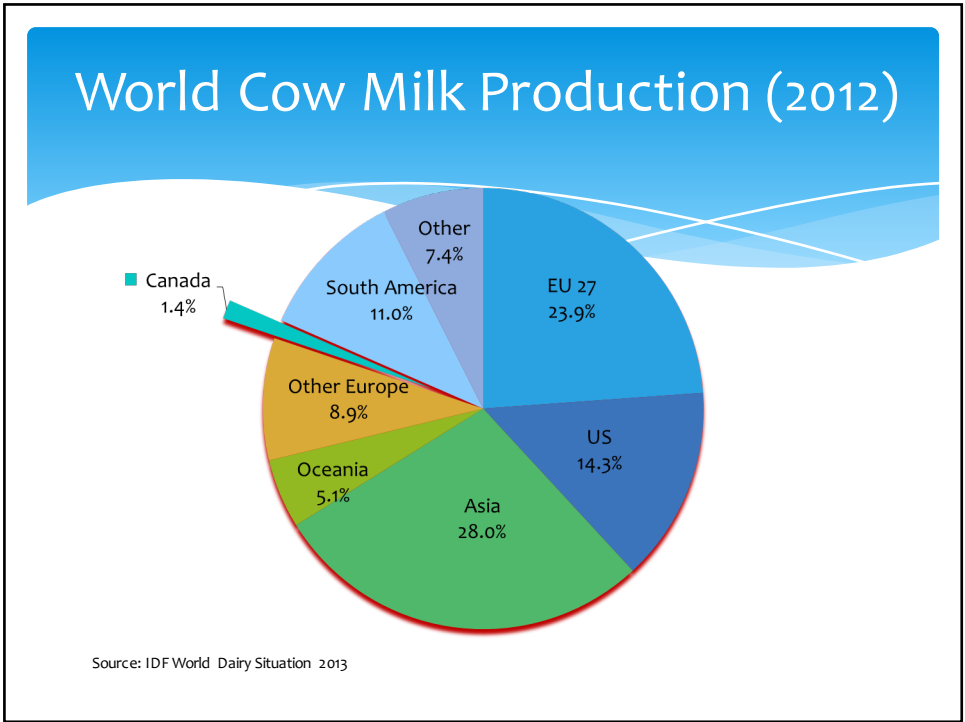
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Disclaimer: The assessment of the market situation and views expressed in this presentation are those of the author and do not necessarily represent the views or opinion of the Canadian Dairy Commission or any future employer.

Snapshot of the Canadian Dairy Industry

- * 11,962 farms producing approximately 8 billion litres of milk (2014-15)
- * 444 processing plants (22,400 employees)
- * Farm receipts: \$6.1 billion
- * Distribution of farms
 - * 82% in Quebec and Ontario
 - * 13% in Western Canada
 - * 5% in Atlantic Provinces
- * Processed products sales: \$17.3 billion
- * Sustains more than 215,000 jobs*

Source: CDC Annual Report 2014-15
* Ecoresources



Supply Management

- * Supply management system based on
 - * Production management to match demand (BF quota – fluid and industrial)
 - * Predictable and measurable imports (controlled by TRQ's)
 - * Controlled milk prices to producers based on COP (set by provincial authorities and typically established for one year)
- * Milk volumes are determined by national quota allocation to provinces and then producers
- * Class 1, yogurt and fine cheese are basically on-demand. Each dairy processors is entitled to its predictable share of the market (cheese, butter, SMP)

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Supply and Demand Not perfectly balanced recently

Supply (Production, stocks and imports)	Demand (total requirements)
<ul style="list-style-type: none"> • Milk production growing is catching up with demand • +5.4% in the last year vs previous year • Low butter stocks • Increased imports of SNF in liquid form 	<ul style="list-style-type: none"> • Growing at rate of about 2%/year • Demand for milk driven by high demand for butterfat (cream, yogurt, ice cream and butter) • 4.9% increase in BF (Feb 16 vs. Feb 2015), only 1.2% for SNF • Minimal exports mostly for SNF (subsidized but end in 2020 with WTO Nairobi Agreement)

Implications

- Supplementary butter imports
- Increase in SNF surplus removal and SMP stocks

Based on data from the Canadian Dairy Commission

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Retail Sales

12 months ending March 5, 2016 vs. previous 12 months

Product Category	Change
Fluid Milk	-0.9%
Fluid Cream	+3.7%
Yogurt	+3.5%
Ice Cream	+2.9%
Cheese	+1.7%
Butter	+2.4%

Source: CDC compiled from AC Nielsen (Market Track and Homescan Panelist)

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Prices

- * Very stable and predictable prices (farm, wholesale and retail)
- * Decrease and decoupling of SMP support price by the CDC in February
- * Low world prices for SMP and imbalance in market is causing a decreasing blend returns to producers (down 8-10% in last year)

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Concluding Remarks

- * The supply and demand will return closer to equilibrium in the coming months
- * Need to increase use of surplus SNF - On-going discussions at national level
- * Given the market growth, investments are required to secure increased plant capacity