DOMESTIC MARKET REPORT | Q4 2020

CANADA BEEF INC.

REPORT FROM CANADA BEEF

Economic Outlook

Macro indicators suggest a slowing pace of economic recovery in Canada and confirm that 2020 performance will be below last year despite strong corrections this summer. A promising v-shaped recovery to Gross Domestic Product (GDP) over the summer tapered off into a Nike Swoosh this fall. The most recent GDP data for September was down 3.9% from last September, and consumer confidence is waning. Confidence fell from 83.6 points in September to 74.1 in October, before holding steady in November; to be 38 points below November 2019.

Household consumption remains the engine of the Canadian economy, representing an average 56% of GDP over the last 60 years. Capital investment made up roughly 23% of GDP during the same period, with government spending the remaining 21%. This means that consumer sentiment and spending will play a major role in any economic recovery, with a healthy labour force being a primary driver.

With the first COVID-19 vaccine issued in the UK in December, there is room to hope that current labour force characteristics will improve. While the unemployment rate moved from 8.9% in October to 8.5% this November, it is still well above the 5.9% from November 2019. Year over year, the working age population grew by 1.1% in November, while the labour force increased by just 0.3%. The difference today suggests a lack of efficiency in deploying the working age population. The labour force participation rate in November decreased for the first time since April, to 65.1%, compared to 65.6% in November 2019. The population of employed persons this November was 2.5% lower than last November; with full-time employment down 2.26% and part-time employment down 3.67% from last year. The numbers indicate that Canadians are still firmly rooted in a recession with many still facing challenges finding or returning to work.

December GDP projections from the Organization for Economic Development have average global GDP down 4.5% from 2019, with Canadian GDP down 5.5% this year. Growth in 2021 is forecast at 3.9% for Canada, mostly in the second half of the year; this would mean the 2021 economy is still smaller

Key Indicators for the Economy (3 month comparison)

worse better

Indicator	Change	Last 3 Mth	Prev 3 Mth
Consumer Confidence	-0.5	44	44
Business Confidence	-11	54	65
Currency (CAN$ = 1US$)	-2 %	1.31	1.33
Inflation (%)	0.4	0.73	0.30
Interest Rates (%)	0	0.25	0.25
Unemployment (%)	-2.3	8.80	11.13
Stock Market (TSX CI)	4 %	16987	16300

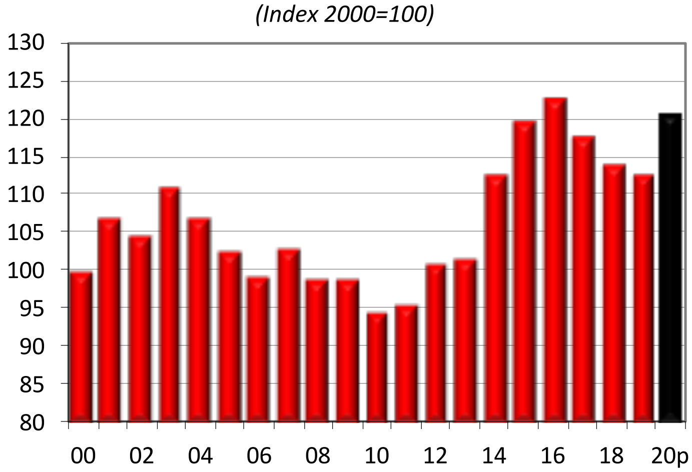
than 2019. The economy will be pressured by a second round of containment measures for COVID-19 that started in the fourth quarter and will last at least until the first quarter of 2021. Roadblocks to growth in the first half 2021 include: lags in employment rate improvements, policy impediments to business productivity, and a lack of competitiveness. In this light, the domestic demand picture may look challenging, but silver linings will arise.

Retail Sector

The Canadian retail demand index is projected to be up 6.8% this year to 120.5 (Index 2000=100), slightly under the increase in retail demand in the US (+9.1%). The last increase of this magnitude in Canada was in 2014 and 2015, when the retail demand index increased by 10.9% and 6.2%, respectively. A large draw on protein from China was at the heart of those historical increases. This year however, demand was driven by

Canadian Retail Beef Demand Index

(Index 2000=100)



Source: CanFax Research

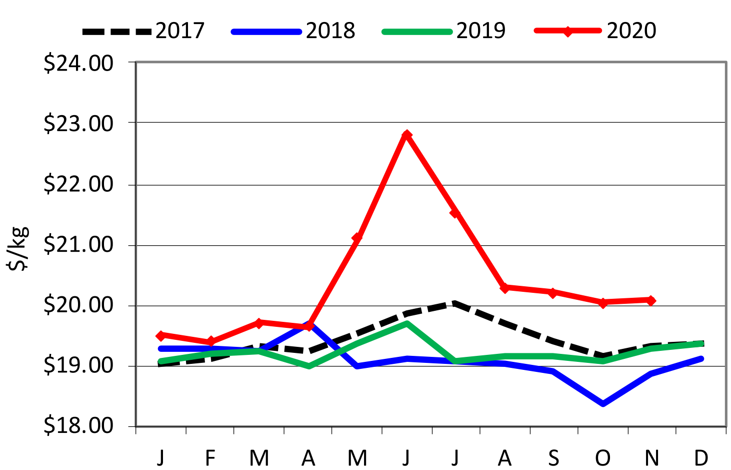
consumers whose daily and special occasion mealtime traditions shifted away from food service toward small gatherings at home. Even as retail prices surged in the spring following extraordinary wholesale costs, demand for beef at retail held firm among protein alternatives.

The retail price of beef steadied this fall after a steep correction from June's peak price. The retail price of beef moved just +0.17% from October to $20.07/kg in November, up 4% from last November and 5% from the three year average. As beef prices firmed, pork prices declined. The retail price of pork declined 7% from June to $12.79/kg in October, bringing the retail price ratio to 1.57 in October. Pork prices increased 5% from October to November to $13.42/kg, 2% greater than last November and 5% greater than the five-year average. The move brought the beef to pork ratio down to 1.50 in November. Chicken prices strengthened from spring lows, moving the retail beef to chicken price ratio down to 2.71 in November, up 3% from last year and 5% fro the five-year average to favour chicken. At $7.42/kg in November, the retail price of chicken was <1% greater than November 2019 and steady with the three-year average.

Most retail cuts had year over year improvements in price this November, but at $11.16/kg, ground beef was down 5% from November 2019. Boneless blade roast (+13%), stewing beef (+6%), sirloin steak (+5%), prime rib roast (+4%) and round steak (+4%) were all up in price this November compared to last as consumers look to retail as an outlet for their food service favourites.

Meat prices at grocery are expected to increase 4 to 6% in 2021. With the average retail price of beef already up 6% year to date (Jan-Nov), inflation may cause some consumers to reign in their spending at grocery. Vegetable, grain and poultry products are anticipated to increase the most on climate and supply factors south of the Canadian border.

Statistics Canada Retail Beef Price Index



Source: Statistics Canada

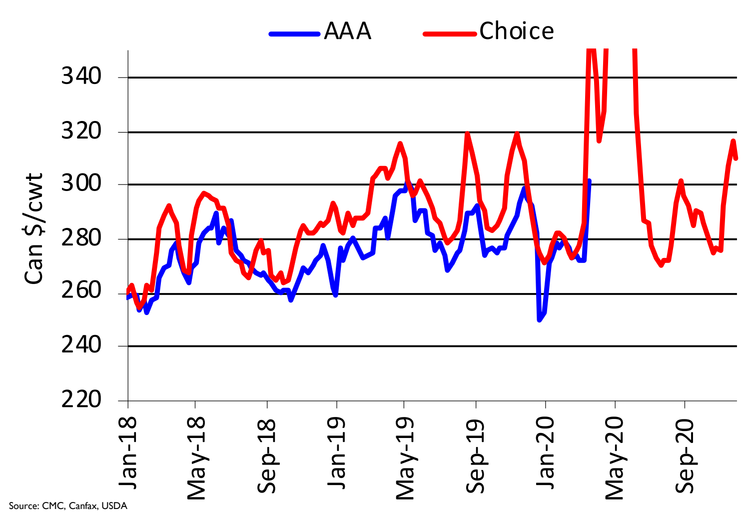
Wholesale Sector

While the Canadian cutout values are unavailable, a look at the American market can provide insight into the North American wholesale sector.

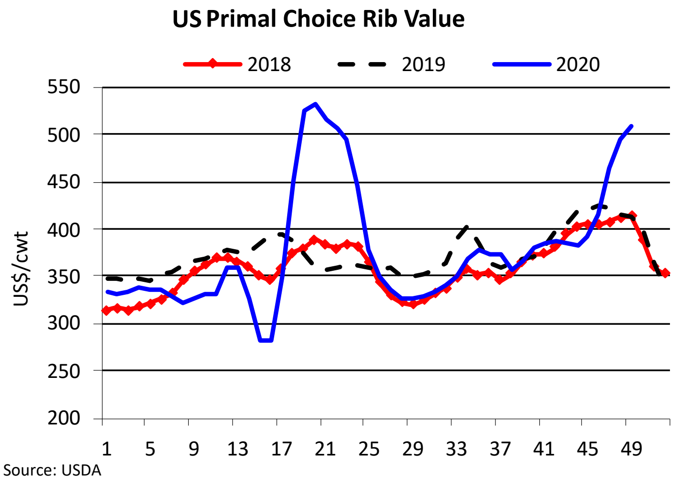
The fall wholesale market was relatively subdued when compared to the volatility seen early this year. The wholesale demand index is projected to be up 12% this year to 98.2 (Index 2003=100), 2% greater than the previous high in 2015 of 96.1.

The US Choice cutout value fell through September to CDN$274.71/cwt (US$209.03/cwt) in October, before a seasonal climb to CDN$297.91/cwt (US$222.84/cwt) in November; 6% below last November and the five-year average. With food service struggling in a second wave and steer carcass weights still above average, there are plenty of Choice supplies to be found at a discount. The Select cutout was CDN$269.63/cwt (US$205.90/cwt) in November, 3% lower than last November, but 6% higher than the five-year average. Year to date (Jan-Nov), the Choice cutout is up 8%, with Select cutout values fairing even better, up 10% over 2019.

Canadian AAA vs. U.S. Choice Cutout Value



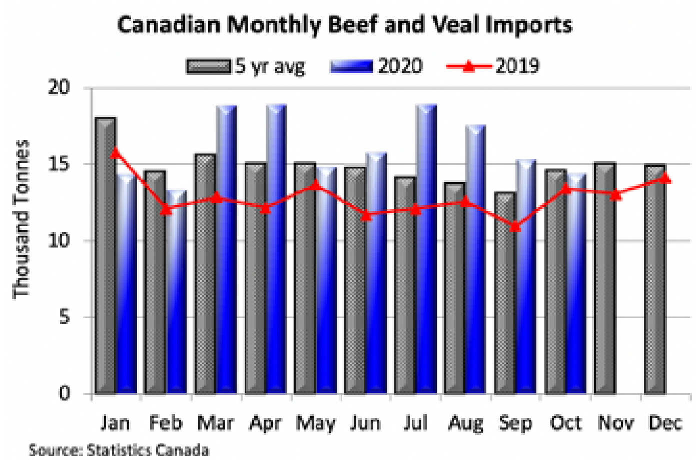
Although modest for the month of November, primal prices still rallied above last year in the last week of November, with demand targeted at the rib. The rib moved to US$494.96/cwt, up 19% from same week last year. The loin at US$293.34/cwt was up 3%, the round at US$197.33/cwt was up 5% and the chuck primal was also up 5% at US$203.40/cwt last week of November. The rib primal price continues to climb into December as other primal prices ease. On a monthly average, the rib primal was 5% higher than November 2019 at US$441.64/cwt. In contrast, all other primals were below last year, the loin (-5%), chuck (-3%) and round (2%).



With restrictions to conferences, concerts, travel, house guests, dine-in service and the number of people who can gather indoors and out, December demand is likely to be a bit different this year. If trends from the US Thanksgiving holiday provide any indication, then 'luxury' beef cuts may be gracing holiday tables as an alternative to turkeys this year. Brisket and trims have been a bargain at wholesale, with 85% trim between 13 and 21% lower than 2019 every week in October and November. This is between 4 and 10% lower than the three-year average for 85% trim during the same period.

Imports

In October 2020, beef imports were up 7% from last year and down 1% from the five-year average for October. Year to date (Jan-Oct), Canadian beef imports are up 28% in volume and up 29% in value. Year to date imports were up from the US (11%) and New Zealand (42%), the EU (218%), Uruguay (78%) and Mexico (46%); but declined from Australia (-3.5%). Imports are projected to be up 22.5% in 2020 with low prices in the EU and South America driving import volumes.



Value, Volume, Price and Market Share % of Beef Imports from Major Suppliers (Oct. 2020, YTD)

-10% +10%

Origin	Year $ Change	CAN$ '000 YTD		Year MT Change	Volume (MT) YTD		Yr $/kg Change	CAN$/Kg YTD		Yr Share Change	Market Share MT	
		2020	2019		2020	2019		2020	2019		2020	2019
USA	15 %	816,627	710,396	11 %	89,575	80,461	3 %	$9.12	$8.83	-13 %	55%	63%
AUS	20 %	100,636	83,551	-3 %	12,614	13,071	25 %	$7.98	$6.39	-24 %	8%	10%
NZ	55 %	114,872	74,176	42 %	16,813	11,846	9 %	$6.83	$6.26	11 %	10%	9%
Other	85 %	281,671	152,666	99 %	43,133	21,709	-7 %	$6.53	$7.03	56 %	27%	17%
ALL	**29 %**	**$1,313,806**	**$1,020,789**	**28 %**	**162,135**	**127,087**	**1 %**	**$8.10**	**$8.03**		**100%**	**100%**

Source: Statistics Canada