

## REPORT FROM CANADA BEEF

### Economic Outlook

Domestic economic performance for the remainder of 2021 is riding on several key macro-economic factors: the prevalence of containment measures, labour market trends, and household savings. Economies outside of Canada are also playing a role in beef demand.

Containment measures for COVID-19 kept economic growth tight in the first quarter of 2021. February 2021 marked the 12th straight month of negative growth for Canadian Gross Domestic Product (GDP). It is too soon to tell whether the 6.6% year over year increase to GDP seen in March 2021 marks the start of a turning point in the previously negative growth trend. One reason for caution is that March 2020 and the 12 months following were hardly a reliable benchmark for current growth performance. Embers of hope are glowing though. When looking at current GDP performance compared to 2019, March 2021 GDP figures mark the second consecutive month that GDP growth has surpassed 2019 levels (up 0.2% from February 2019 and up 0.6% from March 2019).

Another reason for caution: the recovery of energy prices has contributed to inflation in the second quarter and could be bolstering GDP growth. In April, inflation was up 3.4%, but when energy was excluded, the Consumer Price Index was up just 1.6%. Global commodity price booms and strong commodity exports, including agricultural commodities, are strengthening Canada's economic performance. Canadians are expected to benefit from a boon in the U.S. economy and strong U.S. demand. The Organization for Economic Cooperation and Development (OECD) note that inflationary trends in Canada are expected to ease to gradual growth in the second half of the year.

Participation in the domestic labour market is key to effectively deliver commodities to buyers. It is also key to maintain available disposable income for beef buying as emergency subsidies are scaled back. The unemployment rate for Canada was up 0.6 percentage points from March to April, and up 0.1 points from April to May. The latest unemployment figure

for May 2021 is at 8.2%. This is up 2.8 percentage points from May 2019, but down 5.5 percentage points from May 2020.

Long-term unemployment (+27 weeks) remained near record highs in May 2021, 166.8% greater than February 2020. If these discouraged workers were included in unemployment calculations, unemployment would be 10.7%. Labour force participation among youth and core-aged women (25-54 years old) declined 0.3% in May 2021 to 64.6%. Labour force underutilization ticked up in May 2021, even as the full-time employed returned to 98% of pre-pandemic levels. These figures highlight underlying shifts in the labour market that have yet to settle. On a positive note, the OECD projects that the unemployment rate should continue to fall gradually for the next two years. It is not expected to meet pre-pandemic levels however, even by the end of 2022. A steady 5.1 million working people were still in their home offices in May 2021, supporting steady retail over food service buying trends.

The Consumer Confidence Index bounced around in the second quarter to be down 6.8 points from March to April then up 6.5 points from April to May at 104.9. The rollercoaster of consumer confidence is following COVID-19 case trends and containment measures, which heightened in March to peak in April and declined into May. Pre-pandemic, the consumer confidence index hovered around 120.

### Retail Sector

Grocery sales in the first quarter of 2021 were up an average 5.9% from the first quarter of 2020. This comparison includes the explosive sales event that launched March 2020 grocery sales 25% over the previous year. Using 2019 as a benchmark instead, first quarter 2021 grocery sales were up an average 9.3%. Over the last 12 months (Apr 2020-Mar 2021), grocery sales have been up an average 8.6% over the same time the previous year. March 2021 sales, while down 13.1% from March 2020, remained 8.5% above March 2019.

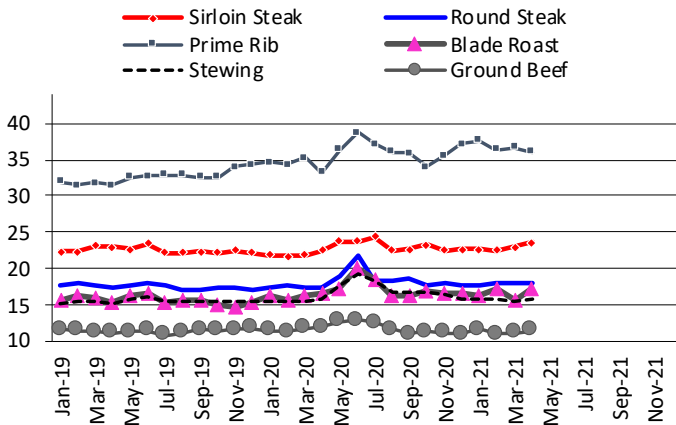
The retail beef price ticked up 1.9% from March to April 2021 in a seasonal trend. The retail beef price in April at CDN\$20.35/kg was 3.7% higher than April 2020 and 3.8% higher than the five-year average. Retail meat prices were up across the board in April, with retail pork prices up 2.3% and retail chicken prices up 9.2%.



Prime rib roasts and sirloin steaks in April 2021 continue to trend above 2020 levels. The prime rib roast price was up 8.6% to CDN\$36.08/kg in April 2021, after having eased down from the recent high in January at CDN\$37.66/kg. While easing, prime rib roast prices in April 2021 were still 13.3% higher than the five-year average for April. Sirloin steak prices in April were in a full seasonal spring rally, increasing 5.2% to CDN\$23.60/kg February to April. The higher prices could be a consequence of higher U.S. demand as Canadians also got their home grills going. Exports of beef products to the U.S. year to date (Mar-Apr) were up 18%, with loin and rib primal volumes up 61% and 68% respectively.

Round steaks at retail were up 3.2% year over year at CDN\$17.94/kg in April 2021, and boneless blade roasts were up 2% at CDN\$17.07/kg. Stewing beef was down 0.5% in April this year compared to last, to CDN\$15.88/kg, and 1.3% lower than the five-year average. Ground beef was down 3.5% in April this year compared to last, to CDN\$11.53/kg, 5.2% lower than the five-year average for ground beef.

Retail Beef Prices

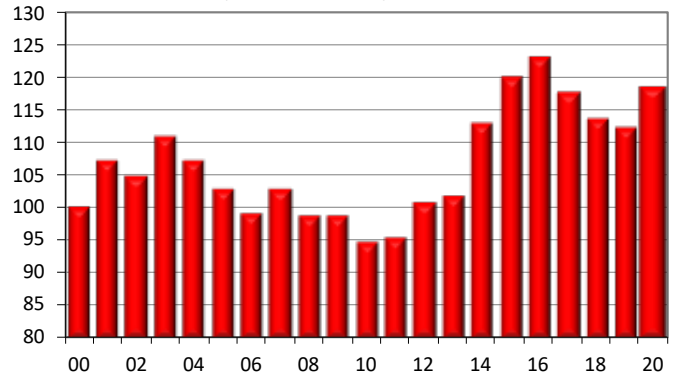


Source: Statistics Canada

Following a shift from food service to retail, Canadian beef consumption was up in 2020 according to the recent release of Statistics Canada data. Per capita beef consumption was up 0.3% at 18 kg (retail weight), the highest level in five years. The retail beef demand index (2000=100), which measures the consumers' willingness to pay (with per capita consumption and deflated retail prices), was up 5.5% in 2020 from 2019. The surge in beef demand in 2020 was the third highest in recent history.

Canadian Retail Beef Demand Index

(Index 2000=100)



Source: CanFax Research

### Wholesale Sector

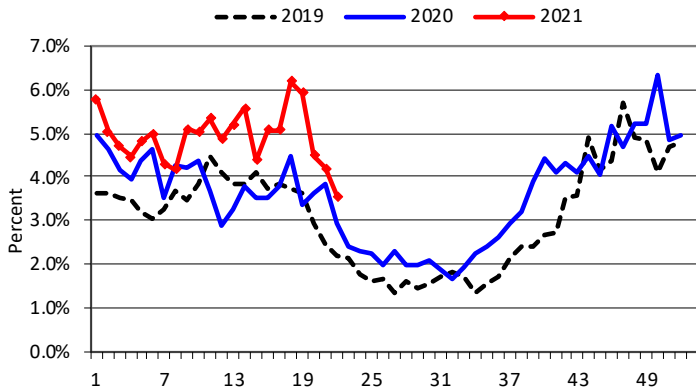
Canadian cutout values have been unavailable since March 2020. Looking at the American market can provide insight into the Canadian wholesale sector. The U.S. Choice cutout value in May 2021 was down 24.4% compared to 2020, with the Select cutout value down 25.8%. Recall that April 2020 was the start of an upward trend where cutout values surpassed all records. Cutout values are actually higher than they have been historically. At CDN\$384.97/cwt in May 2021, the Choice cutout was up 11% from the five-year average for May. The Select cutout at CDN\$359.19/cwt in May 2021 was up 19% from the five-year average. Year to date (Jan-May) the Choice cutout was down 4% from 2020, but up 15% from 2019. The Select cutout was down 5% year to date from 2020, but up 14% from 2019 for the same period.

The U.S. Choice rib primal value at CDN\$639.00/cwt in May 2021 was up 1.4% from May 2020. Choice rib primal values are hovering at their highest levels on record as they moved even higher to CDN\$660.49/cwt in the second week of June. This year, the high prices are a demand side consequence, versus last year's temporary shortage of supply. The Choice loin primal was on a similar upward trajectory as the rib, but at CDN\$579.03/cwt in May 2021, the price was still 8.4% short of surpassing the record high from May last year. Based on historical trends, it's likely that these are around peak prices for the year.

Year to date (Jan-May) the 85% trim market was down 5% from 2020 but up 10% from 2019. The 50% trim market has been amongst the slowest to recover, still down 32% year to date (Jan-May) from 2020 and down 15% from same period in 2019.

Year to date (Jan-Jun 5) 2021 has been a good year for Canadian Prime grade beef production. Prime as a percentage of all grades was at 4.9% this year, compared to 3.8% in 2020, 3.5% in 2019 and 2.5% in 2018 for the same period.

Canadian Prime as % of all A Grades



Source: CBGA

**Food Service**

Restaurants Canada released its forecasting and expects food service sales to improve to \$61.4 billion in 2021. The 2021 forecast compared to the \$55.4 billion in total food service sales reported by Statistics Canada for 2020 shows that sales are expected to be up just 11% in 2021. While improving, 2021 forecasted sales would be 17.4% lower than the sales reported for 2019. The forecast calls for parity to 2019 by the end of 2022, with sales at \$74.6 billion. It is not clear whether effects from potential further containment measures are included in the forecasting, or when tourism will begin to influence food service sales again. The GDP contribution of food and beverage services in the tourism industry in 2020 (latest) was at a 43% loss in total dollars from 2019.

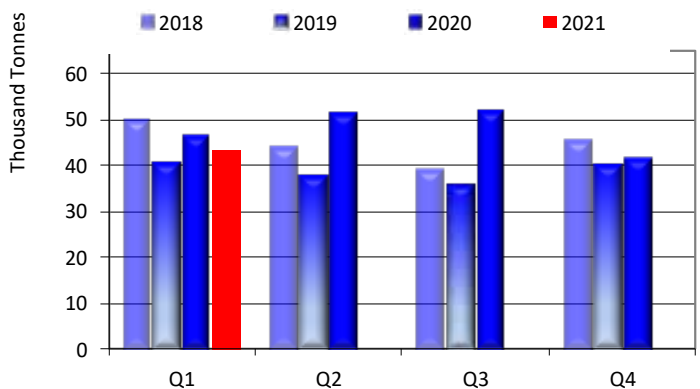
The other question mark surrounding food service recovery is the evolving labour force distribution. The work from home population may diminish in the coming months which could mean more breakfast and lunch fast food crowds and support for the grind and chuck markets. More people could stay working from home though, creating permanent declines at quick serve but more full service and white table-cloth sales from commuting money saved. This scenario may support the rib and loin primal prices throughout the summer. Alternatively, families may have more time to cook and shop at retail, given their commutes have disappeared. In this case, could homemade barbecued burgers or more retail convenience foods stay on the menu for lunch?

Finally, how much of the real disposable income bump from 2020 will consumers have left to spend? Adjusted household disposable income increased 10% in 2020 from 2019, primarily earned by low-income and younger households. These cohorts also acquired mortgage debt at a faster pace than other households, while decreasing their ratio of debt to real-estate assets in heated home equity. Younger crowds are more likely to eat out, and so housing market performance and interest rates could also largely affect the sales at food service in the medium-term.

**Imports**

Imports in the first quarter of 2021 were down 7% from the first quarter of 2020 and down 12% from the five-year average. With annual imports in 2020 up 22% amid the logistical challenges of COVID 19, last year was a big year for imports. April 2020 was one of the biggest months for year over year import increases in 2020, which partly explains why in April 2021, beef imports were down 27% from last April and down 9% from the five-year average. Compared to 2020, year to date (Jan-Apr) imports were down 13% in volume and 14% in value.

**Quarterly Beef Imports**



Source: Statistics Canada

Import volumes declined from the U.S. (-16%), the European Union (-2%), the United Kingdom (-35%), Uruguay (-21%), and Australia (-27%). Import volumes increased from New Zealand (8%), Mexico (5%), Brazil (52%) and Argentina (4617%). The unit price per kilogram has diminished from all major import countries except for Australia and Mexico. Australia's herd size is at its lowest point in 20-30 years. Australian farmers are now restocking, and there is increased demand for protein in Asian markets. Mexico is facing severe drought in the Sonora region, where 42% of the state's total cattle herd is located.

Large domestic supplies are being recorded in the first half of 2021 that are expected to diminish into the second half of the year. Year to date (Jan-Jun 5), slaughter was up 17% in Canada. Slaughter weights were up an average 9 lbs and domestic meat productions was up 18.4%. Beef exports are offsetting some of this supply, up 23% year to date (Jan-Apr) from 2020 and 25% from the five-year average. This has moved federally inspected packing plant utilization up 8 percentage points from the five-year average to 94% year to date (Jan-May 2021).