

REPORT FROM CANADA BEEF

Economic Outlook

The Canadian economy is warming up. Canadian Gross Domestic Product (GDP) was up 0.1% from August to September 2021, the fourth consecutive month of incremental growth. Canadian GDP is projected to be up 4.8% in 2021, slightly behind projected global GDP growth at 5.6%. If the performance continues, Canadian GDP would be near 2019 output (\$25 trillion CDN) by the end of 2021.

High commodity prices (including energy and agri-food sectors) have boosted the balance sheet since last fall. The Bank of Canada's commodity price index (1972=100) was at 632.51 in November 2021, up 50% from November 2020 and November 2019, comparable to the sustained high ranges from 2012-2014. Higher energy prices in 2022 will support consumer inflation as supply chain bottlenecks pose a risk. These may prolong economic recovery by delaying trade and consumer spending.

Inflation will be a key metric influencing the performance of retail and food service in 2022 as it affects the purchasing power of disposable household incomes and consumer confidence. Labour prices and availability may also influence the rate of inflation. The unemployment rate decreased from 6.7% in October 2021 to 6% in November 2021, nearing the pre-pandemic baseline of 5.8% from February 2020. Increases in the labour force participation rate confirm that people are rejoining the workforce, but not without some incentive. Fixed, weighted, average wages increased 5.1% from October 2019 to October 2021, primarily within the recent hire sector. Wage increases will help to maintain disposable income, but at the same time support inflation as the cost of producing goods and services go up. The Consumer Price Index had risen 5.3% within the same period to offset the income gains.

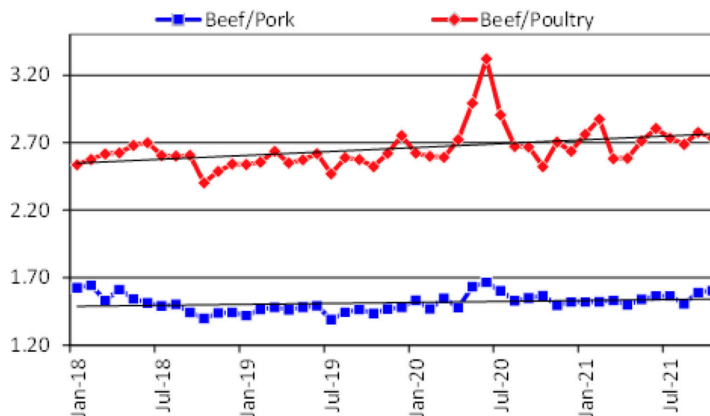
A stronger economy is on the horizon, but many moving parts still need to find balance for the engine to really fire. Without further disruption, Canadian GDP is forecast to be up 3.9% in 2022 and up 2.8% in 2023 to meet the pre-pandemic trend line.

Retail Sector in Canada

Retail sales at grocery remain strong. From January through October 2021, grocery sales were up an average 1.6% compared with the same period in 2020 and up an average 11.5% from 2019. Basic food prices were up 4.2% over the last 12 months (October 2020 through September 2021), with meat prices up 9.5% to support higher sales at retail. Food prices are expected to increase further in 2022, up 5 to 7% for basic items like produce, bakery, and dairy. Meat prices are forecast to be steady to up 2% in 2022, after the big jumps this year.

The Canadian retail beef price January through October 2021 averaged CDN\$21.37/kg, up 5% from the same period in 2020 and up 11% from 2019. The price of pork and chicken rose 6% during the same period keeping relative price ratios between beef and pork and beef and chicken within normal ranges.

Relative Price Ratios of Meat at Retail

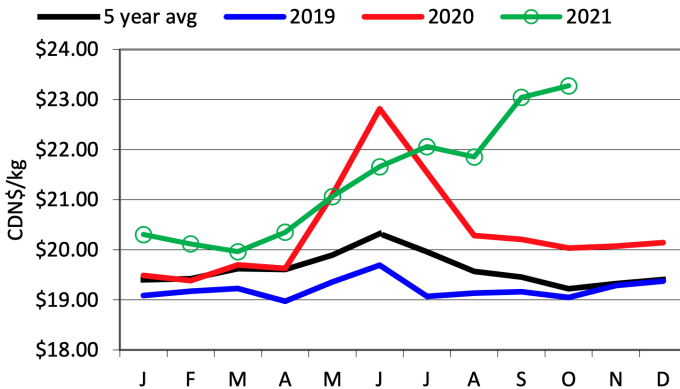


Source: Statistics Canada

Canadian retail beef prices rallied counter seasonally this fall. From August to October 2021, the Canadian retail beef price increased 6.5% to CDN\$23.27/kg, 16% higher than October 2020. The price this October set a record high, 2% higher than the previous record set June 2020. All retail cut prices were up in October 2021 compared to October 2020. Prime-rib roast (+28%), round steak (+15%), and sirloin steak (+14%) increased the most, with stewing beef (+11%), boneless blade roast (+8.6%), and ground beef (+8.2%) up as well.



Retail Beef Prices (Not Deflated)



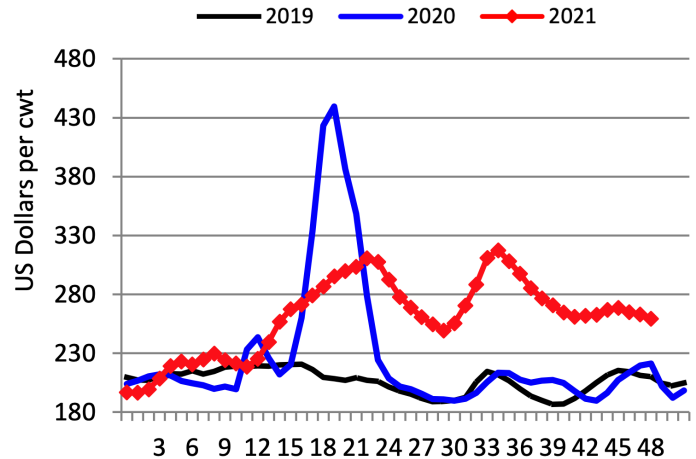
Source: Statistics Canada

The counter seasonal price rally is being driven by international demand for Canadian beef that has uncoupled retail prices from seasonal expectations. The international beef demand index for Canadian beef is projected to be up 11.5% to 138.4 (2000=100). Strong export demand is pulling product away from the domestic consumer and is projected to result in lower per capita domestic beef consumption for 2021, down 5% from 2020 to 17.1 kg per capita. The Canadian retail beef demand index is projected to be down 1.5% to 116.5 (2000=100) in 2021.

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 Choice cutout value rallied counter seasonally this fall to a high of CDN\$433/cwt, 6% higher than its spring peak. The Select cutout value rallied a similar 2%. Japan, South Korea and China ignited the international beef market and remain top export destinations for U.S. beef. The demand pull is fuelled by protein shortages from African Swine Fever and lower beef availability from Australia, and

US Weekly Select Cutout Values



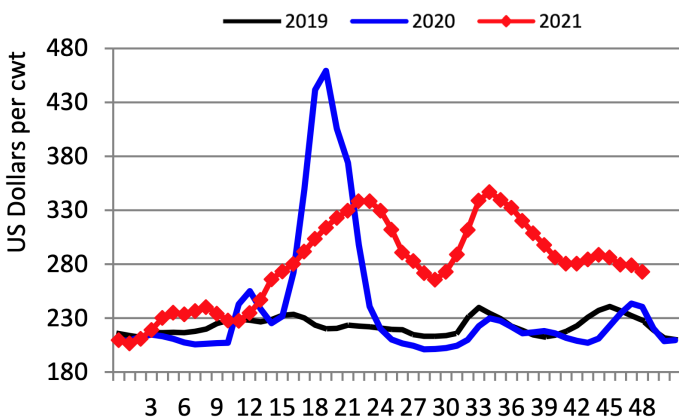
Source: USDA

sparked by surging economies in China and South Korea, along with the summer Olympics in Tokyo. The U.S. consumer also had dollars to burn. The result was a bonfire of wholesale beef demand making prices less palatable for weaker economies.

Wholesale prices have since corrected but remain higher than historical levels. The seasonal holiday rally was muted with Choice cutout prices in November 2021 up 1% from October to CDN\$355/cwt, but 19% higher than November 2020. The Select cutout value increased 2% from October to CDN\$333/cwt, 22% higher than November 2020. The U.S. Choice/Select spread narrowed from CDN\$28/cwt in October to CDN\$24/cwt in November, steady with November 2020.

Rib and loin primal prices remain high but the cutout values this year are being supported by cascading demand for every primal, for both Choice and Select. The product mix demanded reflects the demand pull from Asia, the bidding wars for high-quality middle meats, and the alternatives that are being purchased to serve lower price appetites.

US Weekly Choice Cutout Values



Source: USDA

Primal	Jan-Nov '21/'20	Jan-Nov '21/'19	Jan-Nov '21/'20	Jan-Nov '21/'19
	Choice		Select	
Brisket	+78%	+22%	+78%	+22%
Flank	+48%	+18%	+48%	+23%
Short plate	+45%	+22%	+45%	+22%
Round	+32%	+28%	+30%	+27%
Chuck	+24%	+27%	+25%	+27%
Loin	+21%	+25%	+22%	+29%
Rib	+9%	+25%	+18%	+23%



Foodservice Sector

The food service sector in Canada may have turned a corner. Cautious optimism for food service recovery is warranted as summer and fall sales brought the industry to within 5% of pre-pandemic levels. Restaurant Canada’s Discerning Diner Report 2021 finds that Canadians want to return to restaurants, with only 32% tentative about eating in-person.

Recovery in the food service industry will be challenged to find new footing in 2022. Restaurants will face the same rising food costs as Canadian consumers, coupled with higher labour and transportation costs. As a result, menu prices are expected to increase in 2022, with the number of visits to restaurants expected to decline. To serve the largest delivery demographic (18 to 34 years), value will need to be on the menu, as this demographic has recently been reported as the most value conscious and least confident about future finances. Many Canadian restaurants will not have the opportunity to rise to the challenge. An estimated 15 to 30% (10,000 to 20,000 out of 65,000) of restaurants have closed permanently since the pandemic started. Major chains will represent a higher proportion of food service offerings in the short and medium term.

Limited-service in Canada includes cafeterias and food trucks, generally any establishment where the meal is paid for before being consumed. Limited-service sales in Canada from January through September 2021 are down just 2% compared with the same period in 2020 and 2019. This makes sense as the number of people working from home at 23.5% of the work force, was steady for the third month in a row in November, impacting how and when Canadians access food

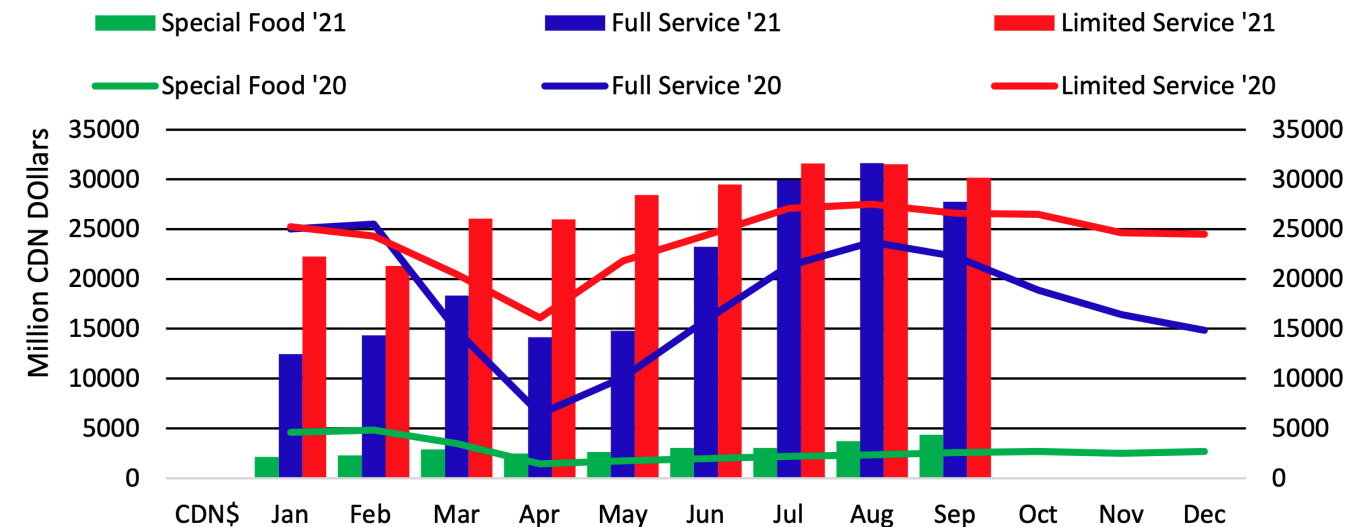
service. Quick service sales are projected to recover to pre-pandemic levels in the fourth quarter of 2021, but ongoing restrictions to Canadian’s daily routines could cause delays.

Full-service sales from January through September 2021 were up 13% from the same period in 2020 but down 27% from 2019. Full recovery for full-service restaurants is not expected until the second quarter of 2022. Special service (catering and events) sales were up 6% from January through September 2021 compared to the same period in 2020, but still down 42% from 2019. Income supports have slowed in Canada with federal funding now targeted towards the hard-hit food service and accommodation industry. Food service sector performance ranges widely with the slowest recovery occurring in provinces with the deepest cuts to sales in 2020.

Trade

From January through October 2021, Canadian beef exports were up 25% in volume and 40% in value. In October 2021, Canadian beef export volumes were up 25% from October 2020, and up 34% from the five-year average for October. Canadian beef exports have been filling the protein gap in Asia and red-hot U.S. consumer demand, while supporting economic recovery in Canada alongside the entire agri-food sector. The U.S. retail beef demand index is projected to be up 9.7% in 2021, building on the 7.5% increase in 2020 to be the strongest since 1989. Year-to-date export volumes increased to the U.S. (16%), Japan (41%), Mexico (84%), mainland China (109%), SE Asia (excluding Taiwan) (185%), South Korea (109%), the EU (44%), and MENA (20%); but declined to Hong Kong and Macau (-34%), Taiwan (-44%), and the UK (-42%).

Canadian Food Service Sales



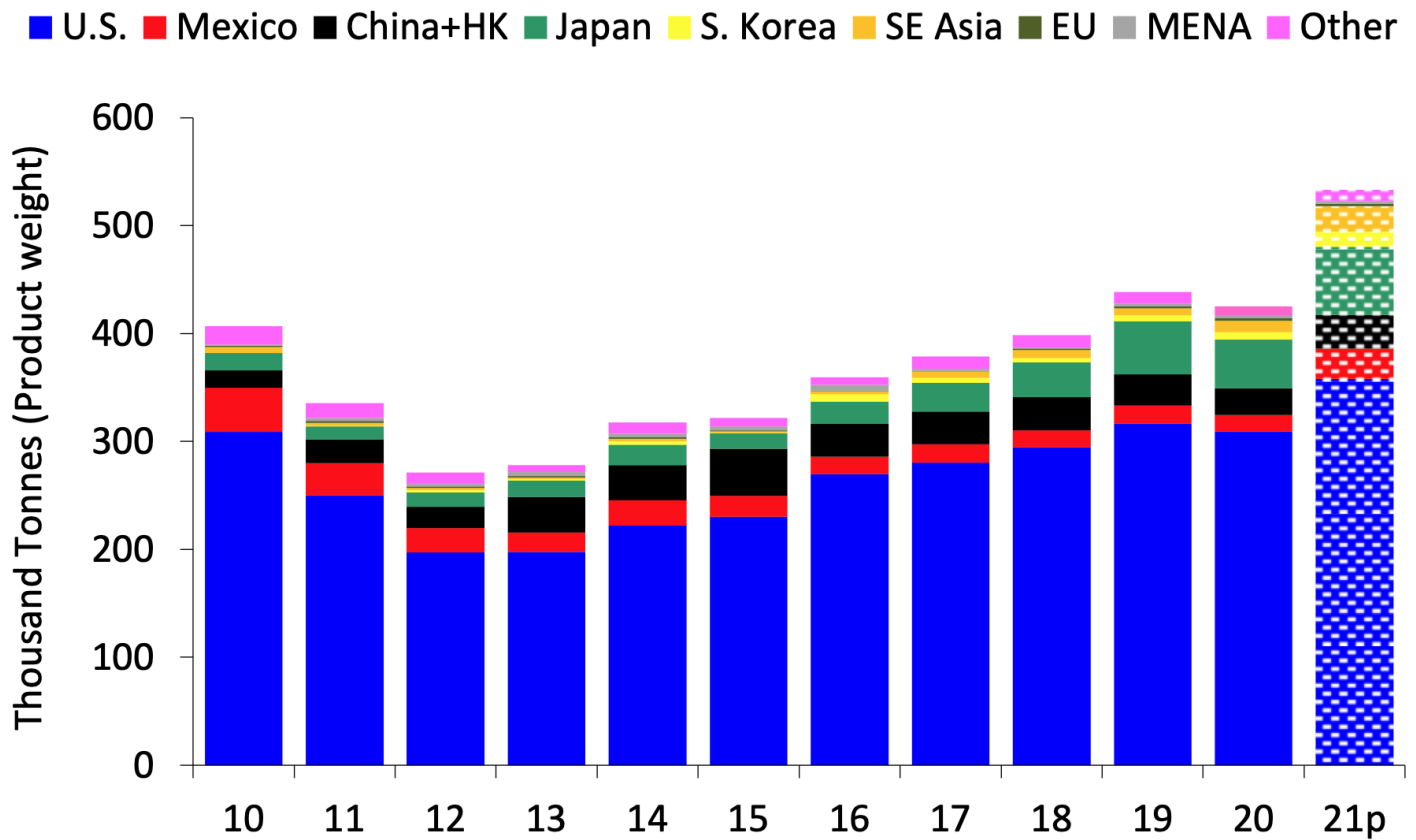
Source: Statistics Canada



From January through October 2021, Canadian beef imports were down 18% in volume and 12% in value. In October 2021, beef import volumes were down 15% from last year and down 13% from the five-year average for October. Larger Canadian beef production, projected up 6% for 2021, is supporting the domestic supply and limiting the downside from rising transportation costs and shipping disruptions.

Year-to-date import volumes declined from the U.S. (-12%), the EU (-4%), the UK (-48%), New Zealand (-31%), Uruguay (-40%), and Australia (-48%); and increased from Brazil (2%) and Argentina (1588%) on competitive pricing, and Mexico (3%).

Canadian Beef Export Volume



Source: Statistics Canada, CanFax