

## REPORT FROM CANADA BEEF

### Executive Summary

The Canadian economy skirted a recession in 2023. Inflation is falling and recently moved into the control target range of 1-3%. Interest rates have been held at 5%; consumers appear well aware of the effects of higher interest rates on their pocketbooks. Retail beef prices moved seasonally higher in January, while pork and poultry prices declined. Price ratios are at, or near, record wide levels. Canadian retailers appear to be responding to changes in consumer preferences and are increasing the number of Discount stores, in most cases converting their Conventional stores to Discount.

Food service sales increased year-over-year in 2023, though significant headwinds related to the Canadian Emergency Business Account (CEBA) remain. A significant percentage of restaurants are currently struggling to survive. Canadian beef imports in 2023 were 11% higher than 2022; increased volumes were seen from most major suppliers.

### Economic Outlook

The Canadian economy once again narrowly missed moving into a technical recession in the fourth quarter of 2023, with annualized GDP growth at 1%, outpacing expectations of 0.5% growth. The latest inflation data released by Statistics Canada, continues to show that Canada is headed in the right direction. In January, inflation fell 0.5 percentage points from December, to 2.9%. Perhaps more noteworthy, the annual inflation rate in January fell to 2.9%, to be within the Bank of Canada's target range for the first time since June 2023. Annual core inflation fell 0.2 percentage points to 2.4% in January and is the second consecutive monthly decline. Food inflation also fell in January, down a moderate 1.1 percentage points to 3.9%. The unemployment rate in February was 5.8%, increasing slightly from 5.7% in January, and is once again at its highest point since January 2022. Most economists continue to be relatively conservative with their expectations of interest rate cuts, which are widely expected to begin in June or July 2024. Many economists feel that interest rates will begin to come down once the three-month core inflation rate is steady within the Bank's target range. At least one

of Canada's Big Six Banks thinks that interest rates will move 1.25% lower by the end of 2024. However, some economists are speculating that interest rates will have to move lower in the U.S. before the Bank of Canada officials move rates lower north of the border.

Bank of Canada policy makers met on March 6th, and opted to leave the overnight rate steady, as was expected. Officials are concerned about the ongoing conflict in the Middle East and the effect it may have on Red Sea shipping routes; that is, if a significant number of ships decide to take the longer route around the Horn of Africa, shipping costs for imported items may increase significantly enough to drive inflation higher. The Canadian Survey of Consumer Expectations for the fourth quarter of 2023 found that consumers have been adjusting their behaviour in response to persistent high interest rates, and that a higher portion of respondents perceive that their financial situation has deteriorated in the fourth quarter compared to the third quarter.

Consumers continue to be subject to economic headwinds, especially mortgage interest rates and rental rates. The Bank of Canada acknowledged that higher housing costs are playing a large role in keeping inflation above 2%. There is concern, however, that reducing interest rates too soon will stimulate home purchases and re-ignite inflation.

### Retail Sector

Retail beef prices in the fourth quarter of 2023 mirrored the five-year average, albeit at a significant premium. Deflated retail beef prices in 2023 were 3% higher than 2022. In January 2024, retail beef prices were up 6% from year ago, with increases of 2-16% on all cuts except stewing beef, which declined 2%. Prices remain at a significant premium compared to the five-year average.

Stocks of beef in cold storage, either domestic or imported in the first quarter of 2024 (the first business day of January) were 16% higher than the fourth quarter of 2023 but were 15% lower than the first quarter of 2023. Reduced stocks compared to last year, are likely to keep retail beef prices elevated, in the first quarter of 2024.

Competing meat retail prices moved lower year-over-year in

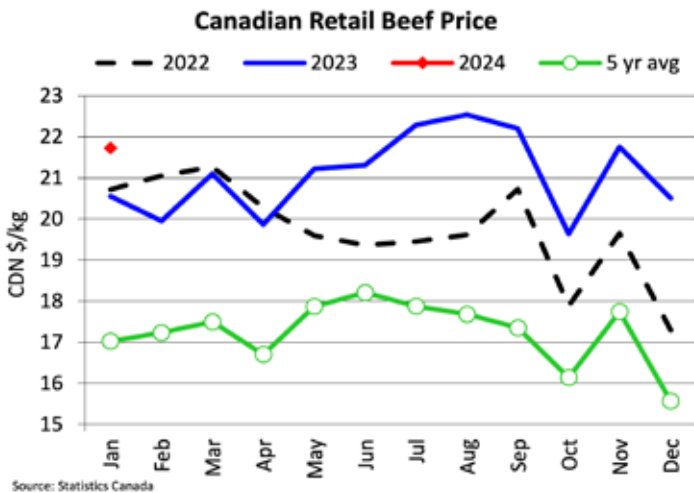


January, pork prices declined 4%, while chicken prices were down 5%. Among competing meats, the price increased for only one cut (pork shoulder cuts). The competing meat price ratios widened compared to historical averages and were moderately wider than January 2023. The beef-to-pork ratio for January at 2.44:1 was the widest on record going back to 2017; the beef-to-chicken ratio at 2.36:1 was the fourth widest on record, after June 2020, March 2022, and May 2020. Stocks of pork in cold storage in the first quarter of 2024 are only 1% lower compared to both the fourth quarter of 2023 and the first quarter of 2023; retail pork prices may remain comparable with last year in the first quarter of 2024.

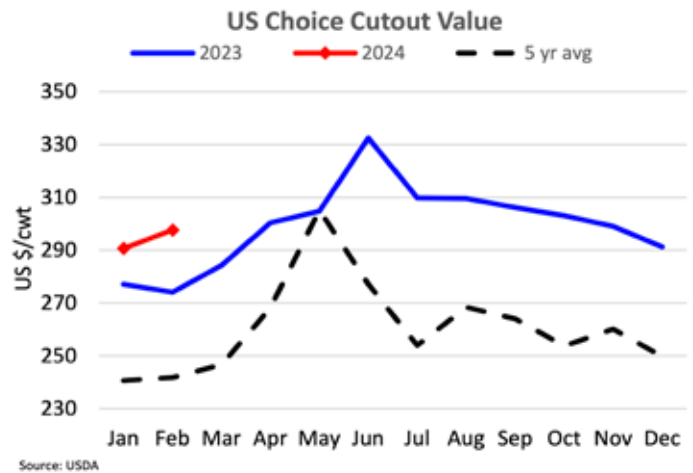
of \$107.2 billion in 2023 were 5.5% higher than 2022. Food inflation declined from 5.9% in September to 5% in December, impacting dollar sales.

**Wholesale Sector**

The lack of any major holidays, coupled with Christmas bills coming due in January and February, typically results in beef demand softening to begin any new year. That was the expectation of multiple beef market analysts. However, to begin 2024, US Choice cutout values bucked the expectations, moving counter-seasonally higher this year. Choice cutouts moved 2% higher between December 2023 and February 2023. Historically, there is a 3% softening in Choice cutout values from December to February. Choice cutouts in February were 9% higher than last year and 23% higher than the five-year average. Lean (85%) trim prices have exploded since December and have been very supportive to cutout values. At US\$286/cwt, 85% lean trim is only 3% off the all-time high set last September.



In January 2024, 3.52 pounds of beef could be purchased for every hour worked, using Statistics Canada average wage calculations. This is similar to January 2023, when 3.54 pounds of beef could be purchased for every hour worked.



All three of Canada’s largest retail grocers’ earnings reports have shown that Discount stores drive overall sales growth. These large retailers have responded by heavily investing in their Discount banners in response to consumers’ shifting preferences in product labels over the last year. These retailers are converting some of their High-end or Conventional stores (banners) to Discount, rather than building from scratch. The drawback for consumers is a smaller selection on the shelves, and the lack of an in-store deli section or bakery. According to Michael von Massow, food economy professor at the University of Guelph, Discount banners are less likely to run specials and promotions. On the other hand, this simpler model, without the “value added” portion of the grocery store is what helps to keep prices lower.

Moving to primals, moderate price support has been seen on Loin while Rib primal has trended mostly sideways and has been largely steady with last year. Round and Chuck primals moved significantly higher in January but diverged in February; Round primals continued their upward trend while Chuck stalled out. Moving into the spring, the Loin and Rib primals should be supportive to cutout values. In Alberta, historically heavy steer carcass weights through January and February pushed domestic fed production above year ago levels despite the reduction in fed slaughter. YTD domestic fed production is 1% higher than the same period last year; total domestic beef production YTD is steady with last year. In contrast, in the U.S., beef production YTD is 4% below last year. Supplies are expected to continue to tighten in the second half of 2024 supporting beef prices throughout the supply chain. All eyes will be on consumers to see how demand holds up.

Seasonally adjusted supermarket and grocery sales in December totaled just over \$9 billion, up nearly 2% from November. Fourth quarter sales of \$26.9 billion were 4% higher than the fourth quarter of 2022. Total supermarket and grocery sales



The U.S. Conference Board recently reported that the U.S. is not expected to go into a recession in 2024, GDP growth is expected to be 1.3-1.5%. Estimates are that two-thirds of GDP growth is made up of consumer spending. Of note, in the U.S., it's estimated that there is a 1:1 ratio between consumer spending and beef demand. This implies that U.S. beef demand is expected to increase by 1% in 2024.

**Food Service Sector**

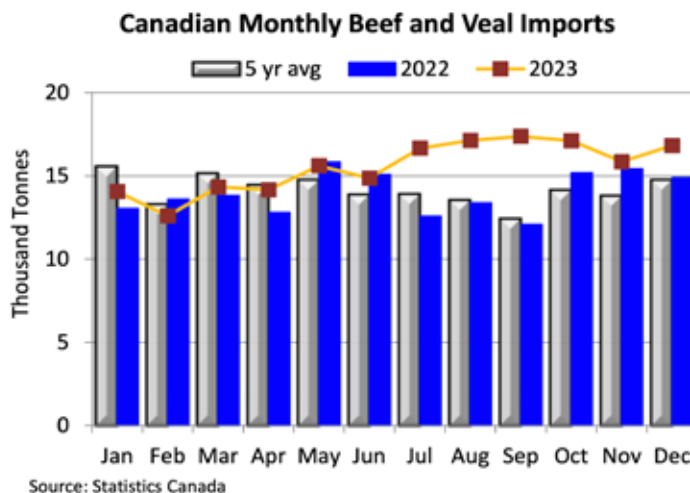
Food service sales in Canada totaled \$93.3 billion in 2023, 13% higher than 2022. Food service sales in the fourth quarter totalled \$23.8 billion, 9% higher than the fourth quarter of 2022. Limited-service sales (fast food and take-out) accounted for 46% of all sales last year. Full-service sales (dine-in) were close behind at 44% of all sales. Despite the year-over-year increase in sales, the latest data from Restaurants Canada found that 62% of restaurants were operating at or below breakeven. Pre-pandemic, only around 10% of restaurants were in this position. The longer that higher interest rates are a reality, the longer that discretionary income is hard to find. Consumers have tough choices to make – pay the mortgage or go out for a nice meal. Restaurant operators are finding that they are on the short end of that stick.

Another worrying factor is the upcoming alcohol excise tax, set to go into effect on April 1st, 2024. The anticipated 4.7% increase that will have to be passed on to patrons is expected to negatively impact either the frequency of visits or the amount spent during their visit.

Looking across Canada, 25% of businesses indicated that the repayment deadline for the Canadian Emergency Business Account (CEBA) on January 18, 2024, threatened their business, according to the Canadian Federation of Independent Business (CFIB). Closer to home, around 80% of Alberta restaurateurs say they are facing significant headwinds related to CEBA repayments. In an effort to alleviate some of the sense of impending doom, the federal government made changes to provide more flexibility to repay CEBA loans. This includes an extension on securing financing, and conversion of their CEBA loan into a three-year term loan.

**Imports and Distribution**

Canadian beef imports in 2023 were up 11% in volume and 12% in value from 2022. Beef imports in December were 13% higher than a year ago and 14% higher than the five-year average for December.



Among our top suppliers, import volumes in 2023 increased from Australia (+96%), New Zealand (+56%), Uruguay (+73%), Mexico (+18%), and Brazil (+21%). Import volumes were steady from the U.S. In February, U.S. boneless lean beef trim prices moved to a \$0.37-0.39/lb premium against Australian/New Zealand lean trim and is approaching levels seen from July to October of last year. Sustained premiums at or above this mark are likely to encourage Australian and New Zealand beef exporters to point their ships toward U.S. ports.

Last November, the U.S. Animal and Plant Health Inspection Service (APHIS) amended regulations governing the importation of beef to include beef from Paraguay. According to APHIS, Foot and Mouth Disease has not been detected in Paraguay in over a decade. A resolution of disapproval under the Congressional Review Act was introduced recently opposing the importation of beef from Paraguay, citing concern for the safety of the U.S.'s beef, pork, and sheep herds. The World Organization of Animal Health currently recognizes all South American countries except Venezuela as being FMD free. Canada has not imported beef from Paraguay since at least 2011.



<sup>1</sup>Bank of Canada. (2024). Canadian Survey of Consumer Expectations-Fouth Quarter of 2023.

<https://www.bankofcanada.ca/2024/01/canadian-survey-of-consumer-expectations-fourth-quarter-of-2023/>

<sup>2</sup>Canada Emergency Business Account (CEBA). Program Overview. <https://ceba-cuec.ca/>

<sup>3</sup>Importation of Fresh Beef From Paraguay.

<https://www.federalregister.gov/documents/2023/11/14/2023-24782/importation-of-fresh-beef-from-paraguay#:~:text=Based%20on%20the%20evidence%20documented,18077%E2%80%9318086%2C%20Docket%20No.>

<sup>4</sup>Resolution introduced to prohibit Paraguayan beef imports to U.S.

<https://www.agdaily.com/livestock/resolution-introduced-to-prohibit-paraguayan-beef-imports-to-u-s/>

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