



CANADIAN CONSUMERS CONTINUE TO RESPOND TO INCREASED INTEREST RATES IN Q1 2024

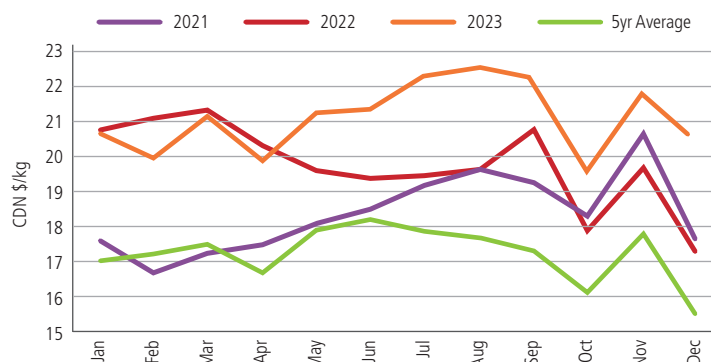
Cover story by Canfax

The Canadian inflation rate¹ fell to 2.9% in January, to be within the Bank of Canada's 1-3% target range for the first time since June 2023, and was below expectations of 3.3%. Food inflation fell to 3.9% in January, from 5% in December. Randy Bartlett at Desjardins noted "every measure of inflation came in below expectations". Despite the good news indicating the Canadian economy is heading in the right direction, Bank of Canada officials will need to be fully convinced that the economy has indeed cooled sufficiently to begin reducing interest rates, likely around mid-year according to most finance sector economists. The Canadian Survey of Consumer Expectations for the fourth quarter of 2023² found that consumers have been adjusting their behaviour in response to persistent high interest rates, and that a higher number of respondents perceive that their financial situation has deteriorated in the fourth quarter compared to the third quarter. GDP grew 1% (annualized) in the fourth quarter, surpassing expectations of a 0.5% increase, allowing the Canadian economy to skirt a recession once again.

Looking south of the border, U.S. GDP is expected to grow between 1.3-1.5% in 2024. More importantly, consumer spending comprises two-thirds of GDP, and there is a 1:1 relationship between consumer spending and beef demand. Assuming this relationship holds, U.S. beef demand is set to increase around 1% this year.

Canadian retail beef prices followed the trend from 2022 and the five-year average during the fourth quarter of 2023, though at a premium to both historical markers. Retail beef prices peaked in November, in time for holiday buying, then dropped in December. However, the price drop from November to December was only 6%, compared to a 12% drop in 2022. In comparison, both pork (+4%) and chicken (+7%) prices rose from November to December, moving price ratios closer to their respective long-term averages (1.95:1 for pork and 2.02:1 for chicken). The beef-to-pork ratio in December was 2.04:1 with the beef-to-chicken ratio at 2.03:1. Consumers continued to move toward Discount Banners in the fourth quarter as they navigated higher food prices. Nominal retail prices increased for beef and chicken in 2023, but deflated retail prices were higher only for beef.

Canadian Beef Retail Price



Source: Statistics Canada

Statistics Canada reported the Canadian cattle herd on January 1st, 2024 to be down 2.1% from last year, beef cows down 2.4% and beef breeding heifers down 5.6%. In the U.S., cattle numbers were down 1.9%, beef cows down 2.5% and beef breeding heifers down 1.4%. Tighter North American beef supplies are expected in 2024, supporting beef prices throughout the supply chain, including at retail. Larger beef imports are anticipated to fill the void with shrinking North American beef production.

Retail Meat Prices (2023)

	Average Price 2023 (\$/kg)	Nominal chg from '22	Deflated chg from '22
Beef	\$21.08	7%	3%
Pork	\$9.61	-5%	-8%
Chicken	\$9.85	3%	0%

Source: Statistics Canada

(1) Trading Economics inflation rate. <https://tradingeconomics.com/canada/inflation-cpi>

(2) Bank of Canada. (2024). Canadian Survey of Consumer Expectations-Fourth Quarter of 2023. <https://www.bankofcanada.ca/2024/01/canadian-survey-of-consumer-expectations-fourth-quarter-of-2023/>

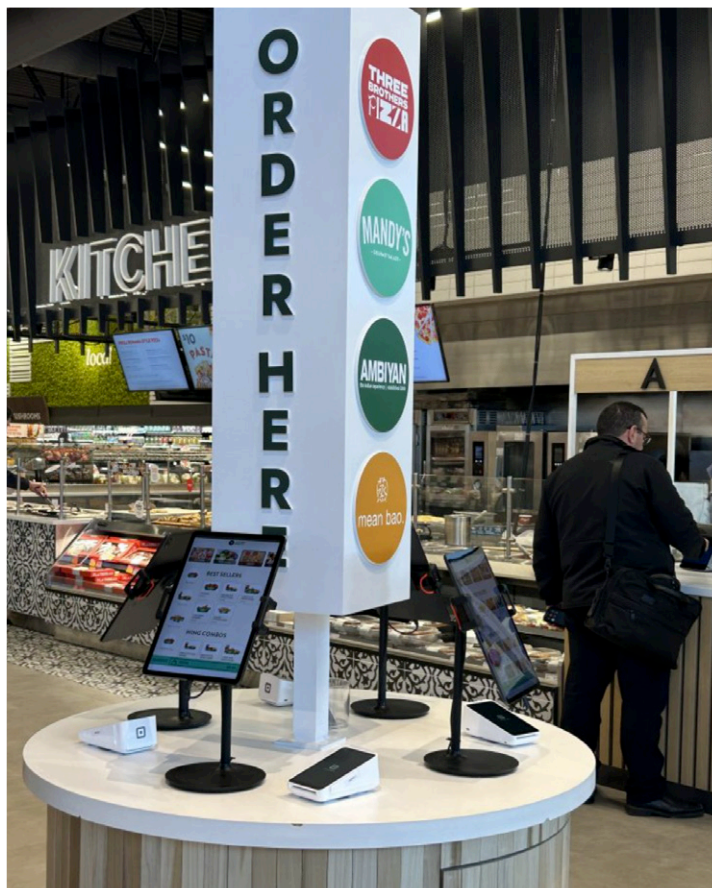
HOME MEAL REPLACEMENT AND CENTRAL KITCHENS TO CONTINUE CHANGING CANADA'S GROCERY LANDSCAPE

Canadians from coast to coast, regardless of their demographic makeup, ask themselves, "What's for dinner?" on a daily basis and will forevermore do so. A 2019 jointly-released study by Nielsen and the NPD Group noted that "three-quarters of Canadians feel preparing dinner is 'a chore'"¹ While some Canadians will lean on takeout options when convenience is at stake, others are still seeking at-home alternatives, which may be slightly more cost-friendly. Home Meal Replacement (HMR), which competes directly with quick-service restaurant occasions by offering meals that provide speed and convenience to customers, is a growing avenue within the Canadian retail sector.

As of 2019, 38% of Canadian households surveyed had purchased HMR options in the past year.² This number grew to nearly two-thirds of Canadians by 2022, with Mintel stating that 62% of Canadians purchased prepared meals at the grocery store in the past three months, with 49% of those surveyed doing so on a weekly basis.³ This continued growth, partially driven by customers becoming accustomed to better quality prepared foods during the pandemic as restaurants pivoted to takeout, has led grocers within Canada to recognize the demand for HMR meals. The prepared foods section can be a significant revenue generator for retailers, and many Canadian retailers are taking different approaches using economies of scale in order to truly compete against restaurant takeout options.

Central Kitchens

Empire Group recently announced that they will be opening a central kitchen in Calgary in the first half of their 2025 fiscal year, with CEO Michael Medline foreseeing it "bringing an elevated curation of ready-to-cook, ready-to-eat meals into our stores."⁴ Retailers may utilize central kitchens in order to leverage economies of scale, whereby food preparation activities are consolidated into one location, which helps to reduce redundancies in preparation.⁵ Central kitchens also help with task specialization amongst staff, which leads to increased proficiency in food preparation and better quality due to trained staff replicating specific tasks.



Food Halls

Retailers have also begun to embrace food halls, where many different takeout options are offered in conjunction with the grocer's HMR replacement options. After successfully launching a food hall in their Liberty Village location in 2022, Longos has partnered with Kitchen Hub once again to bring the ghost kitchen's 'store-within-a-store' concept to their Maple location⁶.

While the "primary goal of the partnership is to drive traffic and sales while enhancing the overall guest experience within the grocery setting," Kitchen Hub is keen on exploring opportunities with their partners to appeal to diverse populations seeking international cuisines⁷. T&T is also exploring the potential of food halls in their business model, with the integration of an Asian food hall area within their CF Fairview Mall expansion in 2023⁸.

(1) Discover Why the HMR Category is Nearing Double-Digit Growth in Canada.

(2) IBID

(3) How grocers can satisfy the growing appetite for meal solutions.

(4) Days of discount outperforming full-service grocery stores could soon end: Empire CEO.

(5) Central Kitchens as Labor-Offset Solutions.

(6) Kitchen Hub unveils new location at Longo's Maple, welcomes six restaurants

(7) IBID

(8) T&T Supermarket Opens 36,000 sq ft store at CF Fairview Mall in Toronto, as Part of \$80M Sears Box Revitalization

Need New HMR Recipe Ideas? Canada Beef Can Help!

It has been said that success in prepared foods requires a focus on quality and innovation in order to keep customers engaged in the HMR space. Canada Beef has developed eight Culinary Planners, highlighting a multitude of creative dishes utilizing Canadian beef. Though initially conceptualized for foodservice, these commercial

recipes were developed using beef dish trends in Canada, and identify 3-4 different beef cuts that could be used for each. These recipes are designed to be served in a commercial setting (with the serving size targeted at 16) and could serve as inspiration for your retailer's central kitchen.



Access these planners by clicking [HERE](#).

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