



REPORT FROM CANADA BEEF

Executive Summary

Per capita beef availability in 2023 was down 7.2% from 2022, pork was up 14.4%, and poultry was steady with 2022. The Canadian retail beef demand index was down slightly from 2022 but remains historically strong. The Grocery Code of Conduct appears to be gaining traction with Canadian retailers, as Canada's largest retailer has agreed to sign on. Year-to-date, beef imports are 16% higher than last year and 13% higher than the five-year average as beef fights to maintain market share. The Bank of Canada lowered their key interest rate by 25 basis points in June 2024. This is the first time since March 2020 that interest rates have been reduced. Inflation continues to move toward the target range.

Economic Outlook

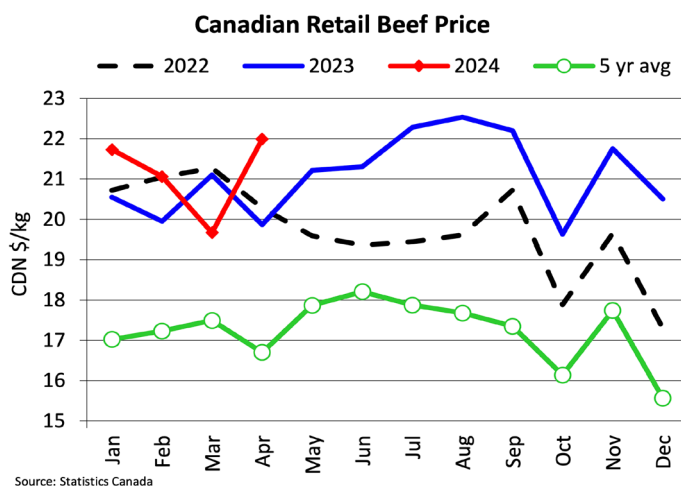
The Canadian economy continues to move in the right direction. The inflation rate¹ eased to 2.7% in April, down from 2.9% in March. Canada's annual inflation rate has been within the Bank of Canada's target range of 1-3% for four consecutive months. Core inflation² cooled for the fifth consecutive month, to 1.6% in April, from 2% in March. Food inflation³, at 2.3% in April has been declining since January 2023. However, the job market continues to show signs of weakness. The unemployment rate⁴ (seasonally adjusted) was 6.2% in May, up slightly from April and has been slowly climbing since April 2023 when it was 5%. Year-over-year, the largest increases in unemployment occurred in Alberta (7.2%, up 1.5%), Saskatchewan (5.6%, up 1.2%), and Ontario (6.7%, up 1.1%). During their June meeting, Bank of Canada policy makers determined that an interest rate drop was in order and knocked 25 basis points off, to now sit at 4.75%. There are four more opportunities for Bank of Canada officials to adjust the key rate before the end of 2024: July 24, September 4, October 23, and December 11. Macroeconomic analysts expect additional rate cuts this year, suggesting that more positive news may be forthcoming from the Bank of Canada.

Consumer confidence was estimated at 61.3 in May 2024⁵, up two points from April, but is still 16 points below May 2023. According to the Bank of Canada's First Quarter Survey of Consumer Expectations⁶, consumers believe inflation has

slowed, but their expectations in the year ahead is for inflation to remain high. Food prices, rent and related costs, and fuel prices were the top three indicators consumers viewed as very important when determining their expected average inflation rate over the next 12 months. Canada's Food Price Report for 2024, with research conducted by Dalhousie University, the University of Guelph, the University of Saskatchewan, and the University of British Columbia, estimates that the average family of four will spend \$16,297 on food this year, a \$700 increase from last year⁷. Food prices are forecast to increase by 2.5-4.5% compared to 2023. Food prices have increased 29% since 2020.

Retail Sector

There have been some significant developments in the voluntary grocery code of conduct in recent months. Canada's largest retailer, Loblaw's, has agreed to sign on. Current noteworthy holdouts are Walmart and Costco. Canada's industry minister, François-Philippe Champagne expects these companies will also sign on soon. The grocery code of conduct is a set of rules and guidelines that aim to promote predictability, transparency, and fair dealing⁸. The code is set to go into effect June 1, 2025⁹.



Retail beef prices moved counter seasonally in the first quarter of 2024, declining 10% between January and March, compared to the five-year average of a 3% increase over the



course of the first quarter. Beef prices rebounded in April, once again moving counter-seasonal to the five-year average. In April, retail beef prices averaged \$21.99/kg, 11% higher than April 2023 and 24% higher than the five-year average. April beef prices were the fourth highest on record going back to 2017 and were only \$0.60/kg below their all-time high set in August 2023.

Stocks of beef and pork in cold storage (domestic or imported) for the second quarter (as of April 1st) at 131,800 tonnes and were 8% smaller the same period last year and 6% smaller than five-year average. Stocks of pork in cold storage at 81,600 tonnes, were 3% smaller than last year but 2% larger than the five-year average. In contrast, stocks of beef in cold storage, at 36,600 tonnes, were 5% smaller than last year and 12% smaller than the five-year average. Digging a little deeper, bone-in beef stocks were 8% larger than last year but 1% smaller than the five-year average, while boneless beef stocks were 9% and 15% smaller respectively.

Moving down the meat counter, retail pork prices averaged \$9.66/kg in April, down a very slight 0.4% from April 2023 but up 1.2% compared to the five-year average. In a similar manner, retail chicken prices averaged \$9.35/kg in April, down 3.7% from April 2023 but up 3% compared to the five-year average. The divergence in retail prices pushed both the beef-to-pork and the beef-to-chicken price ratio wider in April. In April, 3.5 lbs of beef could be purchased for every hour worked. This is similar to the January 2022-March 2024 average of 3.56 lbs of beef per hour worked and suggests that wages have mostly kept up with retail beef prices over the last couple of years.

Statistics Canada's 2023 food availability showed protein availability (beef and veal, pork, poultry, and seafish) at 79.8 kg per person, up 1.4% from last year.

Beef availability at 16.23 kg per person in 2023 (retail weight), was down 7.2% from 2022, due to reduced total beef supply (-3.6% from 2022) and population growth (+3.0%). Pork availability, at 17.38 kg, increased 14.4% from 2022, as pork exports continued to decline. The increase in pork availability fully offset the decrease in beef. Poultry availability, at 41.27 kg, was steady with 2022. Seafish availability was at 4.02 kg, up 4% from 2022.

The Canadian retail beef demand index, a measurement of consumers' willingness to pay, was down 2.1% at 122 (2000=100) in 2023. The decline was driven by a larger drop in per capita availability (-7.2%) compared to the increase in deflated retail beef price (+2.8%). Despite this, the demand index in 2023 remained the fourth strongest since 1989, with the top three years being 2022, 2020, and 2016.

In terms of total domestic disappearance (by volume), beef accounted for 25.3% of market share in 2023, down 2.3% from 2022, with pork accounting for 25.1% of market share (+2.7%), poultry accounting for 45.2% of market share (-0.5%), and seafish accounting for 4.4% of market share (+0.1%). Although domestic beef production dropped 6% in 2023, a 14% increase in imports helped maintain beef market share.

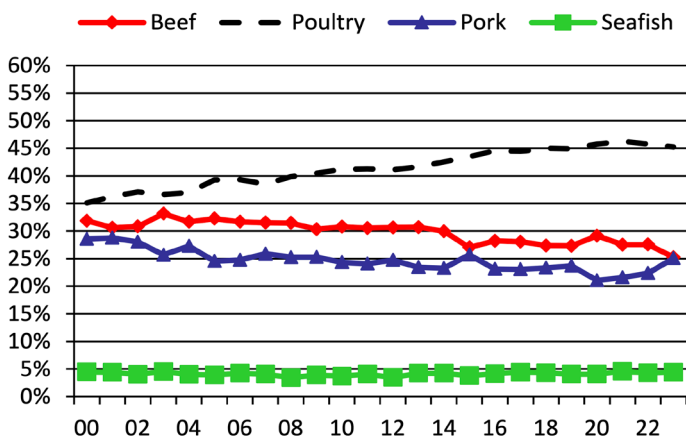
As a testament to the support red meat has at both retail and foodservice, a recent survey conducted by Beyond Meat found that most Canadians think it's easier to give up social media than red meat; with taste being a factor in consumers' reluctance to switch from animal protein to a plant-based protein. This is confirmed by Glynn Tonsor, the author of the Kansas State University Meat Demand Monitor, whose survey also finds that taste is consistently valued highly among survey respondents.

Research conducted by Cargill's case-ready division found that 90% of shoppers see case-ready meat to be of the same or better quality than meat cut and packaged in-store¹⁰. Highlighting qualities such as shelf life, freshness, quality, and ease of storage also appear to be embraced by shoppers.

Supermarket and grocery retail sales (seasonally adjusted) were \$26.9 billion in the first quarter of 2024, up 2.1% from the first quarter of 2023. Year-over-year, sales were 2.8% higher in January, 2.2% higher in February, and 1.3% higher in March.

The most recent data from Statistics Canada shows fresh and frozen seafood prices were 3.1% lower in April 2024, compared with April 2023. Prices at the dairy section were a slight 0.4% lower, while eggs climbed 2.4%. Fresh fruit was a noticeable 8.7% lower, fresh vegetables were down a moderate 3.5%. However, frozen fruit and vegetables were 1.3% higher.

Meat Market Share



Source: Statistics Canada

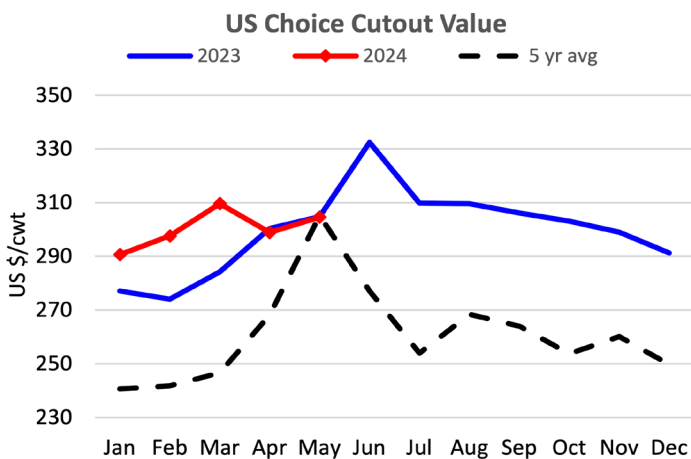


The grains section of the grocery store (bread, crackers, rice, and cereal) was down 4.3% year-over-year in April.

Wholesale Sector

Wholesale cutouts staged a solid rally in the first quarter, due in part to the early Easter season this year. A March Easter (2005, 2008, 2013, 2016, and 2018) typically results in cutout values being relatively flatter from March to May, than when Easter falls in April (2009-2012, 2014-15, 2017, 2019-2023). U.S. cutouts followed that trend again in 2024, peaking in March, and moving largely sideways in April and May. Moving into June, cutouts are showing signs of once again preparing a rally, just in time for Father's Day, as well as Canada Day and Fourth of July holidays.

Lean 90% trim prices continued to move higher, though some of the momentum has come out of the trim market in the past month. Middle meats have supported the spring rally in cutout values, climbing 10% between the beginning to the end of May. In comparison, end meats have been more muted in their spring rally moving only 3.5-4.0% over the same period.



Canadian steer carcass weights re-aligned with the five-year average in May as market ready supplies of yearlings seasonally transitioned to fed calves.

Year-to-date domestic beef production (to the end of May 2024) is 1.15 billion pounds, steady with last year and 2% higher than the five-year average. Fed production (from youthful animals) at 990 million pounds, is 1% higher than the same period last year and 2.5% higher than the five-year average. Non-fed production (from mature animals) at 157 million

pounds, is down 3% from last year but steady with the five-year average. U.S. beef production is projected to be down 1.4% in 2024, up slightly from the 1.9% decrease that was estimated in April. U.S. steer carcass weights have averaged 920 lbs year-to-date, 20 lbs heavier than last year and 24 lb heavier than the five-year average. It appears the summer low for U.S. carcass weights will be completely missed this year.

Food Service Sector

Restaurants Canada saw some positive news come from the 2024 Federal Budget. A 2% cap on the federal alcohol excise tax, down from the 4.7% level initially presented by the Canadian federal government is seen as a positive development for the restaurant industry¹¹.

Food service sales in Canada were \$21.5 billion in the first quarter of 2024, up 5.3% from the first quarter of 2023. Full-service (dine-in) dollar sales were up 4.7%; while limited-service dollar sales were up 5.8%. The news isn't all positive, however, as menu price inflation continued to play a role in the increase in dollar sales. Restaurants Canada reported that menu price inflation was 5.1% in March, translating to a year-over-year increase in real dollar sales of 0.4%¹². Caterers (+2.8%) and full-service restaurants (+1.6%) outperformed quick service (-1.6%) and drinking places (-3.0%) in the change in real dollar sales compared to March 2023.

Imports and Distribution

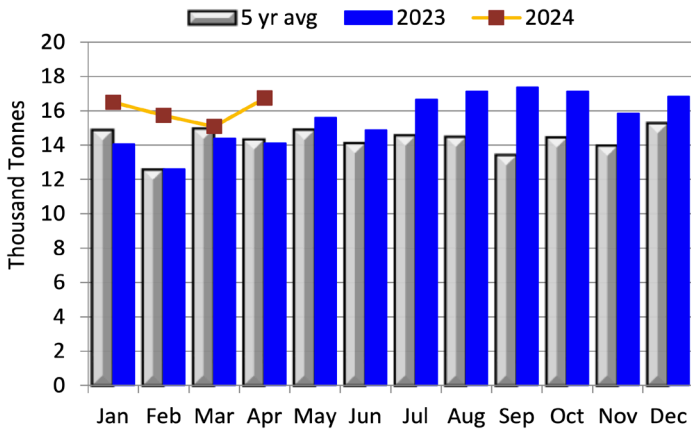
From January to April 2024 Canadian beef imports were up 16% in volume and up 26% in value compared to 2023. Import volumes declined from the U.S. (-2%), Mexico (-7%), and Brazil (-7%) and increased from the EU (+14%), the U.K. (+151%), New Zealand (+26%), Uruguay (+22%), Australia (+136%), and Argentina (+8,854%).

With the bottom of the cattle cycle approaching, larger beef imports play an important role to maintain beef's market share among consumers. Domestic boneless beef has been at a \$0.37-0.68/lb premium to Australian boneless beef since the middle of February, encouraging exporters to move beef into the North American market.

As of June 1, 2024, Australia has filled 15% of their beef quota and New Zealand has filled 19% of their available quota. The Most Favoured Nation quota (MFN) has been filled largely by Uruguay, though Brazil and Argentina have also contributed.



Canadian Monthly Beef and Veal Imports



Source: Statistics Canada

As of June 10th, the Cargill Dunlop packing plant in Guelph, Ontario remains idle due to strike action. Fed cattle prices in both the east and the west have held up remarkably well considering the largest eastern Canadian plant has been shut down since May 27th. Cattle have been moving west into Alberta and south into the U.S. for slaughter in an effort to manage supplies in eastern Canada.

¹Trading Economics Inflation Rate.

<https://tradingeconomics.com/canada/inflation-cpi>

²Trading Economics Core Inflation Rate.

<https://tradingeconomics.com/canada/core-inflation-rate>

³Trading Economics. Food Inflation.

<https://tradingeconomics.com/canada/food-inflation>

⁴Statistics Canada. Table 14-10-0287-01.

<https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1410028701>

⁵The Conference Board of Canada.

<https://www.conferenceboard.ca/insights/canadas-consumer-confidence-only-sees-minor-improvements-in-may/>

⁶Bank of Canada. Survey of Consumer Expectations.

<https://www.bankofcanada.ca/2024/04/canadian-survey-of-consumer-expectations-first-quarter-of-2024/>

⁷Canada's Food Price Report 2024. Agri-Food Analytics Lab. Dalhousie University.

<https://www.dal.ca/sites/agri-food/research/canada-s-food-price-report-2024.html>

⁸Canada Code.

<https://canadacode.org/>

⁹Loblaws agrees to sign grocery code of conduct after months of negotiations. CTV News.

<https://www.ctvnews.ca/business/loblaw-agrees-to-sign-grocery-code-of-conduct-after-months-of-negotiations-1.6889831>

¹⁰Supermarket Perimeter. Demand for case-ready meat is climbing.

<https://www.supermarketperimeter.com/articles/11253-demand-for-case-ready-meat-is-climbing>

¹¹Restaurants Canada. Restaurants Canada's Response to Federal Budget 2024.

<https://www.restaurantscanada.org/restaurants-canadas-response-to-federal-budget-2024/>

¹²Restaurants Canada. Canada's restaurant industry records lacklustre real sales in March.

<https://www.restaurantscanada.org/research/canadas-restaurant-industry-records-lacklustre-real-sales-in-march/>