DOMESTIC MARKET REPORT | Q1 2025

CANADA BEEF

REPORT FROM CANADA BEEF

Executive Summary

The Canadian economy appeared to be on mostly solid footing to begin 2025, with a stable unemployment rate, and inflation that continues to be within the Bank of Canada's target range. Tariff threats and the imposition of tariffs are rattling governments around the world, including Canada. Economists warn that a prolonged trade war may increase inflation as consumers deal with tariff-induced price increases. Subsequently, consumer confidence is shaky. The Bank of Canada lowered its key interest rate by 25-basis points at its March meeting.

The Canadian cattle herd was down on January 1st 2025 to be the smallest since 1988. Canadian cattle markets have solid fundamentals supporting record high prices; but are susceptible to tariffs. Feeder and slaughter markets declined the first week of March, a direct impact of tariffs coming into effect. The exemption for CUSMA products (including cattle and beef), saw cattle prices rebound the second week of March back to levels seen the end of February. Retail beef prices moved higher in 2024 on both a nominal and a deflated basis. Nominal retail pork prices were steady with 2023 while poultry prices declined. Both pork and poultry prices declined on a deflated basis. Beef imports in 2024 were the largest since 2013, as the industry worked to keep beef on the centre of the plate.

Tariff and Trade Landscape

The Canadian economy has been roiled by the near constant threat of tariffs on all products imported into the U.S. since November. Ongoing discussions between Prime Minister Justin Trudeau and President Trump resulted in delays in the implementation of tariffs in January and February. By March 4th, tariffs of 25% were applied on all Canadian products, however this was rolled back to products that were not part of the Canada-US-Mexico (CUSMA) agreement (including beef and cattle) which was negotiated during President Trump's first term in office. There has also been a carve-out of smaller 10% tariffs on potash that does not fall under the CUSMA agreement. In response, Canada implemented tariffs on C$30 billion worth of U.S. goods. This was a very specific list of U.S. products that was meant to maximize harm to U.S. producers while minimizing the impact to Canadian consumers. It is estimated that around 38% of Canadian products are covered under the CUSMA agreement, with the other 62% not protected.

On March 12th, Canadian steel and aluminum products imported into the U.S. were subject to 25% tariffs. Canada once again responded with reciprocal tariffs worth C$29.8 billion, including U.S. made steel, aluminum, computers, and sports equipment, set to go into effect March 13th.

CUSMA products are still expected to have tariffs applied beginning April 2nd. Oil, gas, and energy resources are also expected to see tariffs on April 2nd, though at a lower 10% rate.

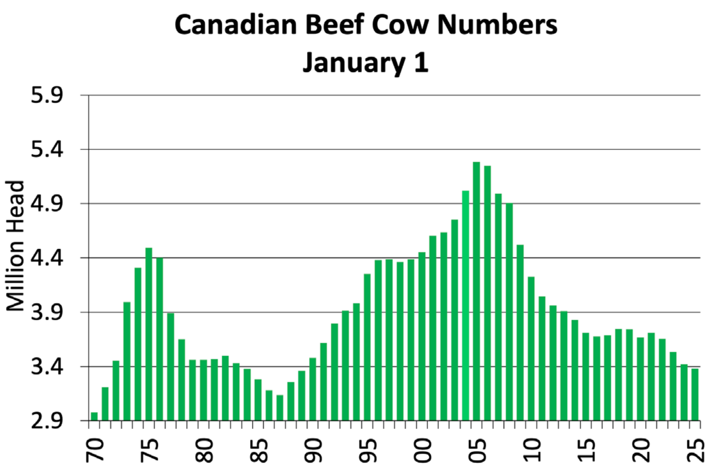
Between January 21st (the day after President Trump's inauguration) and March 11th, all five major Canadian and U.S. stock exchanges moved lower. The New York Stock Exchange declined 4%, the Dow Jones Industrial was off 5%, the S&P 500 was down 6%, and the Nasdaq declined 8%. In Canada, the Toronto Stock Exchange was down 2%. Businesses, investors, and countries alike are all rattled by the uncertainty surrounding tariffs.

Canadian Supplies

The Canadian cattle herd on January 1, 2025 was down 0.7% to be the smallest since 1988. Beef cow inventories were down 1.2% with declines seen in both the west and the east and are the smallest since 1989. Beef breeding heifers were up 0.8% from historically low levels, with the west up 0.3% and the east up 5%. This was inadequate to support a stable herd. Market prices are encouraging the Canadian beef herd to stabilize. However, weather concerns remain top of mind along with aging demographics and competition for pastureland.

Economic Outlook

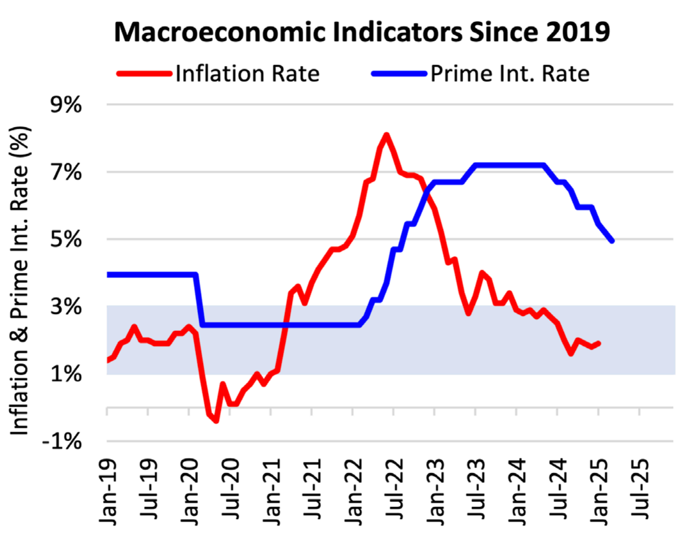
The Canadian economy grew 1.6% (seasonally adjusted) to $2.67 trillion in 2024. On a monthly basis, Canada's GDP increased at least 1% every month in 2024. Headwinds have moved into the Canadian economy to begin 2025. The length and magnitude of the U.S.-Canada tariff war will be the determining factor in the Canadian economy this year. According to the Conference Board of Canada, Canada's consumer confidence reached a high in November, but began to waver in December. By February 2025, Canadian consumer confidence was at the lowest level since November 2023.



Source: Statistics Canada

The latest employment data suggests a largely resilient economy over the first couple months of 2025. The February unemployment rate was 6.6%, steady with January and has been moving mostly sideways since August 2024. Furthermore, the unemployment rate came in better than expected.

Canada's annual inflation rate was 1.9% in January (the latest data available), up slightly from December 2024. Looking back, the annual inflation rate has been within the Bank of Canada's target range of 1-3% since January 2024. The Bank of Canada governor Tiff Macklem indicated that the ongoing trade war with the U.S. is likely to increase inflation in the coming months.



Source: Bank of Canada

As a result of the ongoing trade conflict, and the associated inflationary consequences, the Bank of Canada decided to lower its key interest rate for the seventh consecutive time. At its March 12th meeting, they opted for a 25-basis point cut to 2.75%. Bank of Canada officials note that in the face of the current economic uncertainty, Canadians have begun penny pinching which will stifle economic growth. As of mid-March, economists expect the Bank of Canada to cut its key interest rate at each of the next three meetings: dependant on the trajectory of tariffs.

Retail Sector

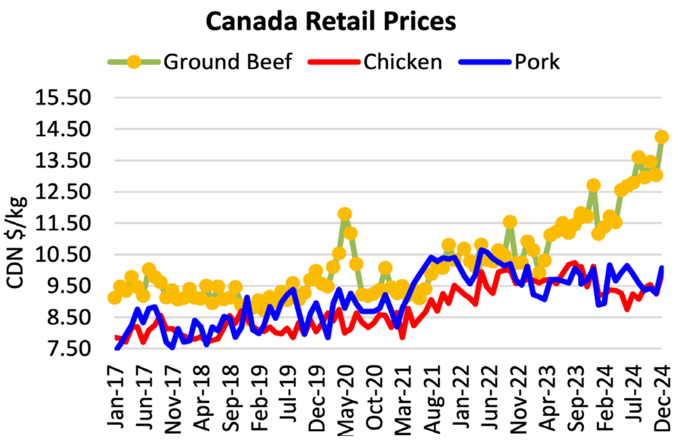
Restaurant dollar sales in 2024 totaled $109 billion nationally, a solid 2% increase from 2023, and were up almost 10% compared to the five-year average. Dollar sales in the fourth quarter of 2024 were up 3% from 2023 and up 10% from the five-year average.

According to CTV News, there has been a wave of patriotism among Canadians in grocery stores across the country since tariffs were placed on all Canadian products entering the U.S. Increasingly, people are looking for Canadian products as much as possible. Grocers have responded by putting Canadian flags on products that are deemed to be fully or mostly Canadian made. According to social media posts during the first week of March, several retail grocery chains, including No Frills, Sobeys, Independent Grocers, Foodland, and Metro have begun putting Canadian flags on produce that meet requirements designating it as "Made in Canada" or "Product of Canada".

Global News has reported that Loblaws has decided to place a "T" on products originating in the U.S. and subjected tariffs. The CEO of Loblaws, when interviewed by Global News, noted that products prepared in Canada may face partial tariffs due to either the raw product or some of the processing being completing in the U.S. Also, higher prices on products from the U.S. is not likely to been seen immediately. For fresh food, this may mean a one-week delay (possibly to the middle of March) while processed foods may not see price increases from tariff impacts for up to six weeks or until the existing inventory is drawn down and replaced after the tariff implementation date.

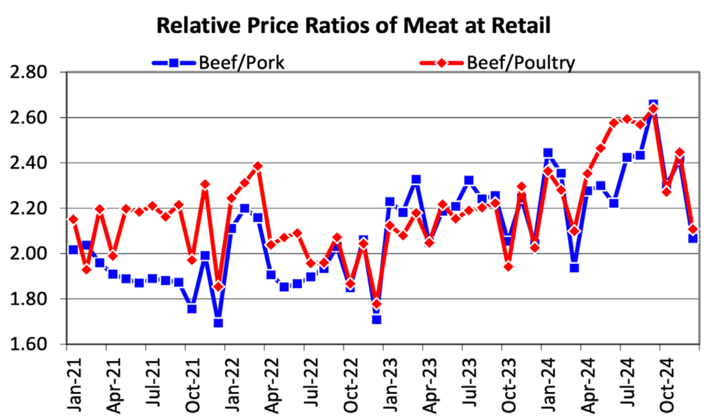
Nominal retail beef prices (the average of five cuts) from Statistics Canada in 2024 were up 6% from 2023 and up 21% from the five-year average to $22.26/kg. Ground beef has been the primary driver, up 12% year-over-year. A more moderate 8% increase was seen on rib with a modest 4% year-over-year increase on stewing cuts and striploins. Top sirloin cuts saw a slight 2% increase from 2023. In January 2025, 3.57 lbs of beef could be purchased per hour worked. This is steady with January 2024 but down almost 0.25 lbs per hour worked from its most recent high in December when 3.79 lbs of beef could be purchased for every hour worked.

Retail pork prices (average of four cuts) in 2024 were steady with 2023 and were up 3% compared to the five-year average to $9.61/kg. Compared to 2023, a noticeable 10% increase was seen on shoulder cuts in 2024, with a modest 2% increase in loin cuts. Rib cuts and bacon declined 3-4% from 2023.



Source: Statistics Canada

Retail chicken prices (average of four cuts) in 2024 were down 6% from 2023 but were up 4% from the five-year average to $9.30/kg. Year-over-year declines were noted on whole chicken (-4%), chicken breast (-7%), and thigh (-8%). Drumsticks were steady with last year.



Source: Statistics Canada

Several indicators point to the possibility that some consumers may move away from beef and toward either pork or chicken at the meat counter. In 2024, the beef-to-pork price ratio was 2.32:1 with the beef-to-chicken ratio at 2.39:1. September 2024 saw these price relationships move to be the widest on record, making beef uncompetitive. By December, price ratios had narrowed, with both relationships near their respective 2021-2023 averages.

On a deflated basis, retail beef prices in 2024 were 3% higher than 2023. In contrast, retail pork prices declined 2% from 2023 with retail chicken prices down 8%.

Wholesale Sector

In 2024, domestic beef production was down 2% from 2023 and down 3% from the five-year average, driven by non-fed production (for ground beef) which was down 16% from 2023 and down 8% from the five-year average. Fed production (for roasts and steaks) was steady with 2023 but down 2% from the five-year average.

Year-to-date, domestic beef production is down 12% from last year and 9% from the five-year average, with fed production (for roasts and steaks) down 13% and non-fed production (for ground beef) down 6%. Smaller slaughter volumes for both fed (-11%) and non-fed cattle (-8%) and lighter fed steer carcass weights (-33 lbs) are all contributing factors to the reduced beef production in 2025. Tighter supplies are rationing product with higher prices.

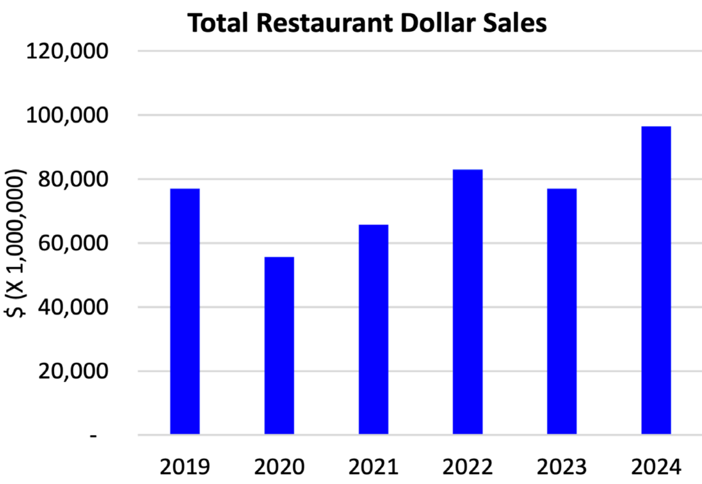
US Choice cutouts averaged C$422/cwt in 2024, up 5% from 2023 and up 23% from the five-year average. Choice Chuck (+7.2%) and Round (+8.8%) moved higher in 2024 while Choice Rib (-0.4%) and Loin (-0.7%) found some headwinds.

Select cutouts averaged C$399/cwt in 2024, up 7% from 2023 and up 25% from the five-year average, and on a proportional basis, slightly outperformed their Choice counterparts. Select Chuck (+7.8%) and Round (+8.8%) followed very closely in line with their Choice counterparts, while Select Rib (+6.5%) and Loin (+1.9%) diverged. While most consumers continue to demand Choice quality or higher beef, there appears to be a move toward more economically priced beef.

Lean trim prices were 23% higher than 2023 and 44% above the five-year average. Domestic lean trim prices were at a C$0.84/lb premium to Australia/New Zealand imported trim in the third quarter of 2024 but disappeared in the fourth quarter, providing a price floor. Seasonally, there has been a rebound in domestic lean trim prices to begin 2025.

Food Service Sector

Total dollar sales at all food services and drinking places in 2024 was up 25% from 2023, to $96 billion. Special food (catering), full-service (dine-in), and limited-service (fast food) were all higher year-over-year. Dollar sales rebounded sharply higher after seeing a decline from 2022 to 2023. Consumer confidence was largely positive between April and November, which may have encouraged people to purchase more away-from-home meals.



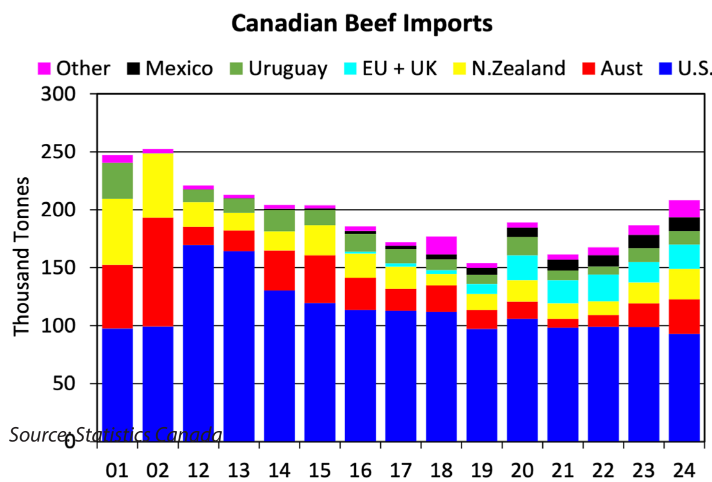
Source: Statistics Canada

Prior to the announcement that GST/HST would be removed from most food products, Restaurants Canada estimated it would lead to a 5-7% increase in dollar sales. Data recently released by Restaurants Canada showed that the GST/HST holiday was a boon for the restaurant industry. The average transaction size was up over 5%.

Restaurants Canada noted in a recent article that the restaurant industry is the fourth largest private sector employer, employing over one million Canadians and contributing $120 billion every year to the Canadian economy.

Imports and Distribution

Beef import volumes were 208,300 tonnes in 2024, up 12% from 2023 and up 21% from the five-year average, and were the largest since 2013. Imports from the U.S. were down 6% from last year while imports from Mexico were up 2%. Non-CUSMA imports at 103,600 tonnes, up 36% from 2023 and were the largest since 2003. Non-CUSMA beef imports were around 27,000 tonnes above the quota limit, suggesting some exporters saw Canada as an attractive market even with tariffs applied.



Source: Statistics Canada

By market share, the U.S. continues to be Canada's largest source for imported beef with 45% market share, followed by Australia (14%), New Zealand (13%), the EU and U.K. (10%), and Uruguay and Mexico tied for fifth place (6% market share each).

Sources

(1) The official term Statistics Canada uses to categorize special food services, drinking places, full-service restaurants, and limited-service eating places. https://www150.statcan.gc.ca/t1/tbl1/en/cv.action?pid=2110001901