

REPORT FROM CANADA BEEF

Retail Sector in Canada

Grocery sales in Canada surged 38% March 11 with news of the global pandemic. Sales were 16% higher than the busiest weeks in December. Beef sales rose 35% over the yearly 2019 average. Despite exceptional retail demand, the decline at food service meant that the price for beef has been pressured up only slightly. At CDN\$19.70/kg in March, the price was 2.5% higher than March 2019, but still lower than the five year high of CDN\$20.63/kg in March 2016.

Year over year variance from March 2019 to March 2020 showed sirloin steak down 5.1%, with minor declines in the price of stewing beef (-0.1%) and round steak (-0.9%). While prime rib roasts averaged 10.6% higher than March 2019 and ground beef was up 4.3% from last year.

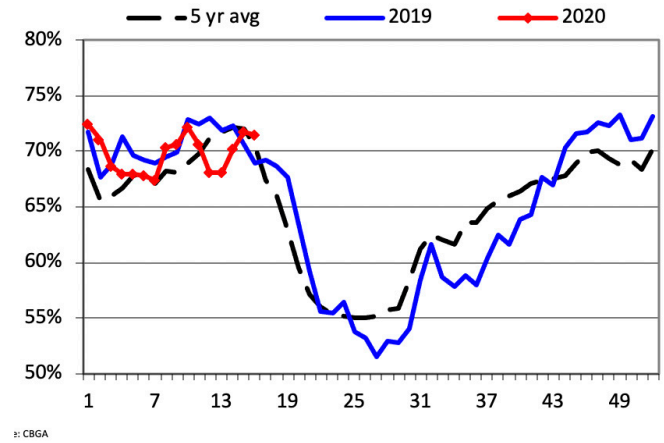
Wholesale Sector in Canada

The AAA cutout values spiked to CDN\$301/cwt on March 23rd in response to the strong retail demand. Values were supported by the sudden shift from food service to retail. By April, abattoirs were struggling with supply as packing plants were temporarily closed, resulting in cutout values across North America shooting sharply higher to all time records. The Choice cutout price bounced a bit in April but remained on a sharp upward trend reaching US\$349/cwt (CDN\$485/cwt) at the end of the month.

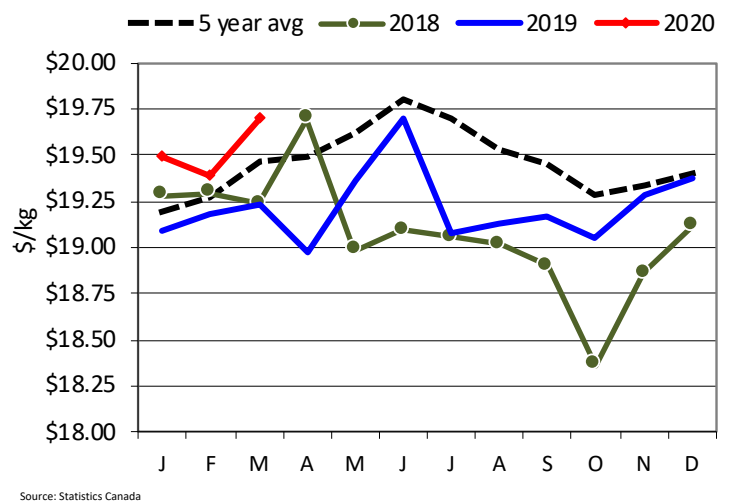
The AAA/AA spread contracted 35% from its three-year average to CDN\$3.93/cwt on March 16. We might expect this spread to widen over the coming months with increasing demand for grill meats and loosening restrictions on restaurants. The AAA/AA spread could be one to watch aggregate demand for top quality meats in the current economic climate. Rib and loin primals could remain stable but may be influenced upward as restaurants reopen and invite consumers back to the table. The loin primal has retained its value through March 2020, trending along similar lines to 2018 and 2019 at CDN\$3.75/lb in mid-March, 2% below the three-year average.

End meat prices that typically decline into the summer months sailed on grocery demand for value cuts and ground beef. Chucks moved 14% higher than the three-year average.

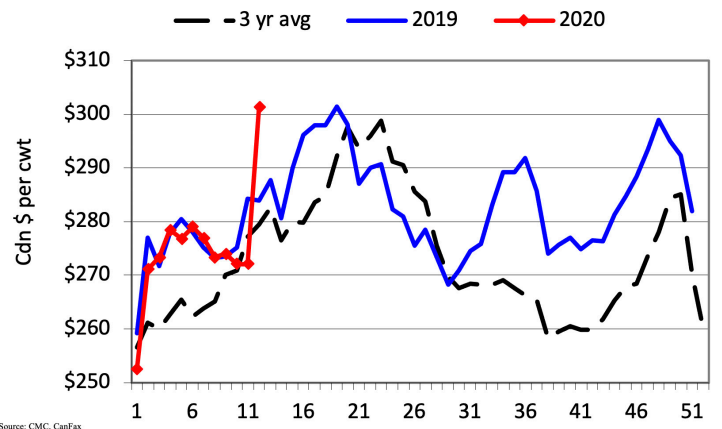
Canada AAA + Prime as % of all A Grades



Statistics Canada Retail Beef Price Index



Canadian Weekly AAA Cutout Values





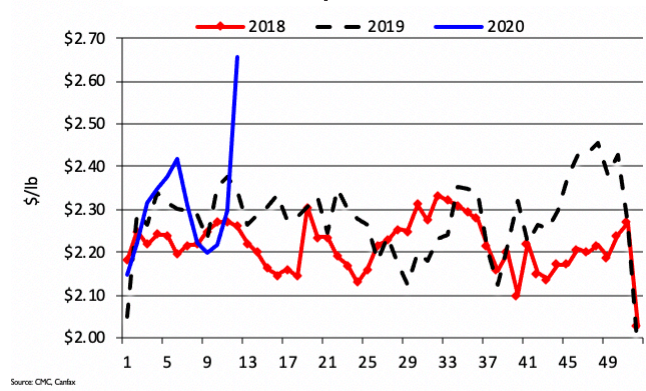
The AAA round primal was up 9%, at CDN\$2.50/lb in March compared to CDN\$2.29/lb in March 2019. The AA round primal was up 21% from the three-year average, topping CDN\$2.76/lb in March.

Food Service Sector

Temporary closures in fast food and other food service may have impacted 50% trim prices, resulting in lower prices at wholesale in March. Fresh lean 50% trimmings were down to CDN\$80/cwt in the second week of March, but bounced back to CDN\$86/cwt the next week. In the US, plant closures and tight beef supplies have resulted in 50% trim prices moving sharply higher toward the end of April to US\$210/cwt (CDN\$292/cwt).

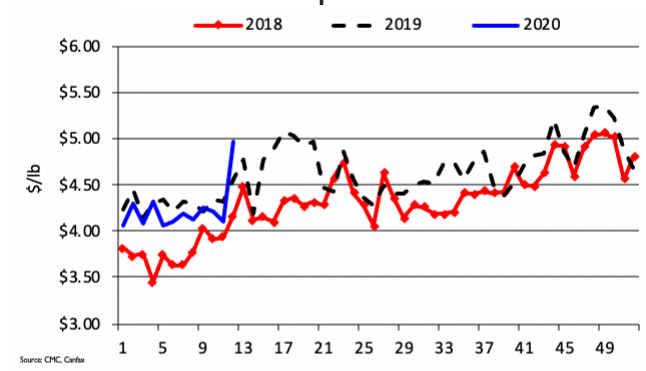
For May, the foodservice sector may be ready to put more on their plate. Approximately 33% of businesses say they can return to normal after one week of loosened social distancing measures, with 26.5% saying that things can return to normal before one month. Economically this could be good news, as Canada's food service industry has typically represented 4% of Canada's GDP. Currently, there are domestic markets that are operating business as usual: PEI, the North West Territories and New Brunswick report normal or increased revenue during April.

Primal Values | AAA Chuck



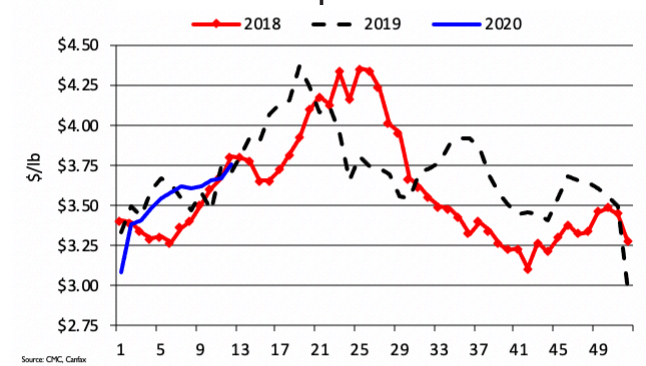
Source: CMC, Carfax

Primal Values | AAA Rib



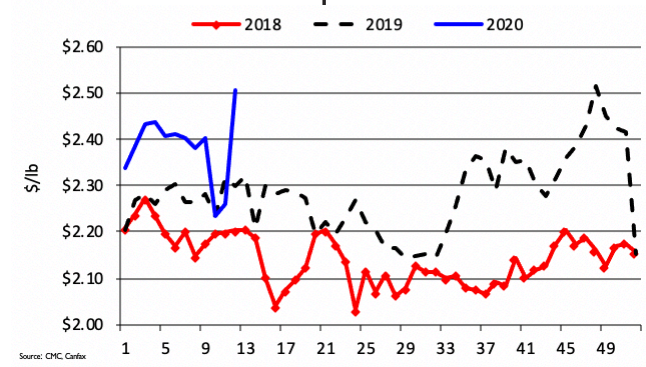
Source: CMC, Carfax

Primal Values | AAA Loin



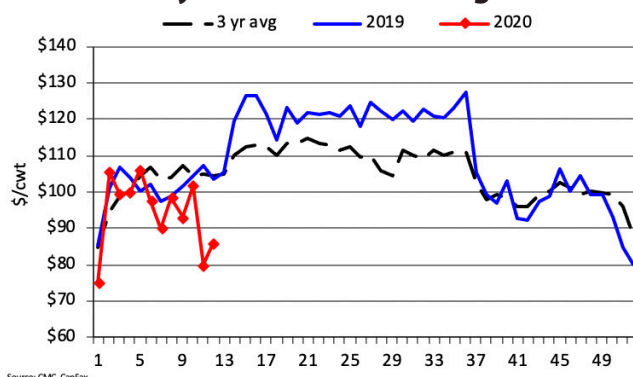
Source: CMC, Carfax

Primal Values | AAA Round



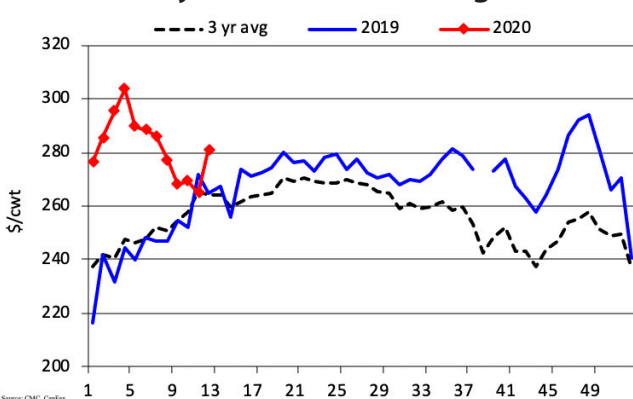
Source: CMC, Carfax

Weekly 50% Fresh Trimmings



Source: CMC, Carfax

Weekly 85% Fresh Trimmings



Source: CMC, Carfax



Imports

In March, beef imports were up 47% from last year and 20% from the five-year average. First quarter beef imports were up 14% in volume and up 22% in value. Imports were up from the US (22%); but declined from Australia (-43%) and New Zealand (-18.5%). While imports are projected to represent 19% of Canadian beef consumption in 2019, disruptions at packing plants is expected to increase that in 2020.

Economic Outlook

On April 22, the Conference Board of Canada revised projected real GDP to contract by 4% in 2020, recognizing that “federal and provincial guidelines recommending people stay at home and practise social distancing have resulted in a dramatic drop in Canadian economic activity.”

Statistics Canada is closely monitoring the economic impacts of COVID-19. The number of Canadians affected by job loss or reduced hours is currently 3.1 million. February to March witnessed a 5.3% decline in the number of people working (that is, 1 million people) and the number of hours worked declined by 15.3%. Women have been more affected by job loss than men, and those ages 25 to 54 experienced the biggest decrease in employment. The March unemployment rate was 7.8% and moved to 13% in April.

Unemployment, alongside perceptions of future prosperity and consumer confidence, will drive consumer behaviour. Twenty-nine per cent of respondents to the Canadian Perspectives Survey were having difficulty meeting basic needs in March. A further 23.8% believed it too soon to tell whether they would experience adverse impacts to their finances. Among respondents still working, 34.5% were concerned that they might lose their source of income in the next four weeks. The consumer confidence index was down from 53 in March to 36 in April 2020, the “lowest level ever.”

Indicator	Key Indicators for the Economy (3 month comparison)		
	Change	Last 3 Mth	Prev 3 Mth
Consumer Confidence	-4.9	48	52
Business Confidence	-22	34	56
Currency (CAN\$ = 1US\$)	6 %	1.40	1.32
Inflation (%)	-0.3	1.83	2.10
Interest Rates (%)	-1	0.63	1.75
Unemployment (%)	3.1	8.80	5.67
Stock Market (TSX CI)	-15 %	14,618	17,181

Food service and accommodations industries were slapped with restrictions, reporting revenues down by 72.6%. The second quarter doesn't look great as a result of declining real and perceived disposable income. Consumer spending may decrease 5% this year, primarily anticipated in the second quarter.

Origin	Year \$ Change	CAN\$ '000 YTD		Year MT Change	Volume (MT) YTD		Yr \$/kg Change	CAN\$/Kg YTD		Yr Share Change	Market Share	
		2020	2019		2020	2019		2020	2019		2020	2019
USA	23 %	228,573	186,135	22 %	27,764	22,750	1 %	\$8.23	\$8.18	7 %	60%	56%
AUS	-26 %	20,652	27,874	-43 %	2,612	4,561	29 %	\$7.91	\$6.11	-50 %	6%	11%
NZ	-4 %	30,253	31,372	-19 %	4,382	5,382	18 %	\$6.90	\$5.83	-29 %	9%	13%
Other	63 %	77,167	47,473	47 %	11,733	7,991	11 %	\$6.58	\$5.94	28 %	25%	20%
ALL	22 %	\$356,645	\$292,854	14 %	46,491	40,684	7 %	\$7.67	\$7.20		100%	100%

Source: Statistics Canada