

REPORT FROM CANADA BEEF

Retail Sector in Canada

It has been an impressive year for grocery sales in Canada, up 13% from January to May. With more opportunity to work and attend classes from home, grocery sales are likely to remain 3 to 5% above 2019 levels for the rest of the year.

Explosive retail demand and temporary supply squeezes in March and April were slow to impact retail beef prices. The retail price of beef rose sharply to CDN\$22.82/kg into June to be 8% higher than May 2020, and 16% higher than June 2019. The price decreased 6% from June to CDN\$21.54/kg in July.

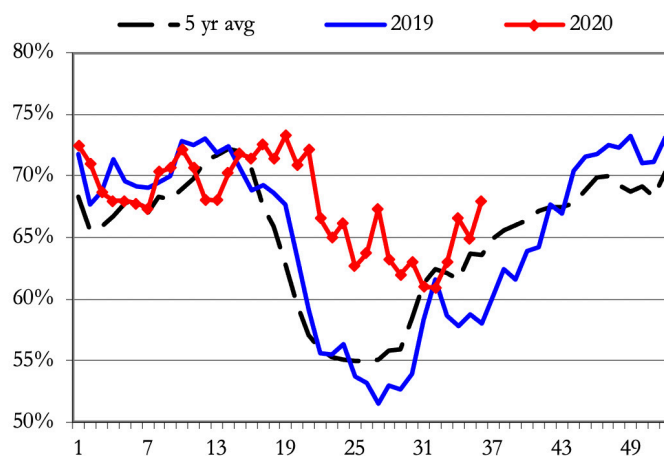
In July 2020, the retail beef price was up 12.9% over July 2019. All index cuts showed year over year increases: boneless blade roast was up 20.5% at CDN\$18.49/kg, stewing beef was up 18.1% at CDN\$18.31/kg, ground beef was up 15.1% at CDN\$12.50/kg and prime rib roast was up 12.5% at CDN\$37.09/kg. Sirloin steak was up 10.3% at CDN\$34.45/kg and round steak was up 4.5% at CDN\$18.39/kg.

The struggling chicken price sharply contrasted the surging beef price, presenting risk of switching at retail. Chicken prices fell March through June to CDN\$6.87/kg, with a record high beef/poultry price ratio of 3.32 (records available since 1984). Prices recovered in July to CDN\$7.41/kg, down 4% from July 2019 and bringing the beef/poultry price ratio to 2.91. The retail pork price at CDN\$13.45/kg in July 2020 was down 2.1% from July 2019, with a beef/pork price ratio of 1.6.

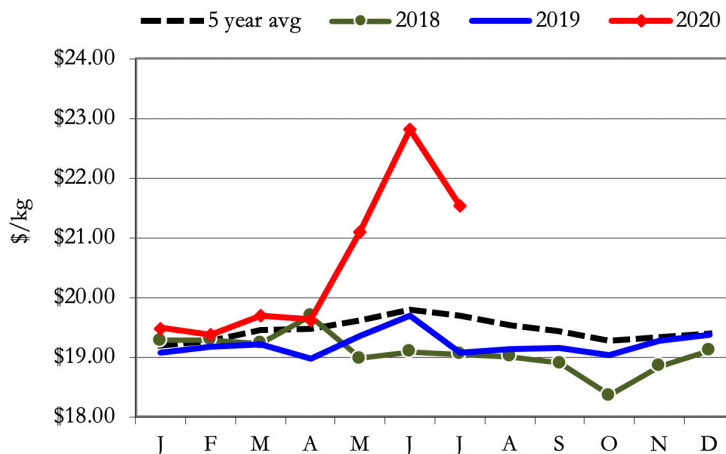
Wholesale Sector in Canada

Canadian cutout values are undelivered since March 2020, but a look to the American market can provide insight into the Canadian wholesale sector. US cutout values surpassed all records mid-May, topping CDN\$646/cwt for Choice and CDN\$619/cwt for Select. These values are 119 and 121% greater than the same week in 2019, respectively. The sharp increase in the cutout value was followed by an equally sharp decline into June, when pricing returned to seasonal expectations. Choice values lagged through July and August, ranging 2 to 9% below summer 2019. Select values returned to steady with last year. Seasonal pre-labour day price support was followed

Canada AAA + Prime as % of all A Grades



Statistics Canada Retail Beef Price Index



Source: Statistics Canada

by post-labour day price softening. As of September 5th, the Choice cut out is 2% lower than same week last year, and the Select cutout is steady with last year.

Higher grade meats may have been devalued this year as there is more supply available from a backlog of cattle. In Canada, more Prime and AAA is available as production moved higher than usual over the summer. Throughout July and early August, Prime and AAA grades were 70% of all A grades in Canada, up 19% over the five-year average for the same time period. By mid-August, production began to



normalize, up 7% over same time last year, but just 1% higher than the five-year average. Over the last five years, year to date Prime and AAA production has averaged 63.7% of all A grades in Canada; year to date 2020 that number is up over four percentage points at 67.3%.

Food Service Sector

It was a tough start to the summer season for food service as forced shutdowns left many owners uncertain about the future. Forty-seven per cent of full-service restaurants in Canada were closed in April 2020, decreasing to 21% in May with 11% still closed for the entire month of June. The seasonal spring rally in the cutout wasn't stoked by food service this year, they came to the table later than usual. Late summer support for middle meats had the Choice loin primal 6% higher than August 2019, and the Select rib primal 10% over August 2019. Restrictions regarding large scale gatherings left in-person events cancelled or down-sized significantly. As a result, end meats, particularly brisket, are lagging below their seasonal summer slump at values well below 2019. Brisket the last week of August, was 17% below same week in 2019.

As more restaurants opened month over month and sales improved, unadjusted food service sales were still below 2019 levels. At the height of closures in April, sales were down 61% compared with April 2019. As of June 2020 (the latest data available), sales were down 38% compared with June 2019. Statistics Canada estimates that sales in July may be within 30% of reaching year ago levels.

Restaurants Canada estimates that the restaurant industry may lose between 21.7 and 44.8 billion dollars this year. While many jurisdictions made special allowances for increased outdoor capacity, the weather in Canada will grow cold and seating will soon be limited again, impacting opportunities for increasing sales.

Imports

Year to date (January to July), Canadian beef imports were up 27% in volume and up 30% in value. Year over year, July imports were up from the US (14%) and New Zealand (27%); but declined from Australia (-5%). Imports are up from Brazil (58%), Uruguay (55%), Mexico (48%) and the EU (215%), but down from Argentina (-33%).

In July 2020, monthly beef imports were up 56% from July 2019 and up 33% from the five-year average for July. The summer surge followed disrupted product flows constrained by global health restrictions.

Key Indicators for the Economy (3 month comparison)			
Indicator	Change	Last 3 Mth	Prev 3 Mth
Consumer Confidence	5.7	44	39
Business Confidence	35	65	29
Currency (CAN\$ = 1US\$)	-4 %	1.34	1.40
Inflation (%)	-0.1	0.03	0.10
Interest Rates (%)	0	0.25	0.25
Unemployment (%)	-0.4	11.13	11.53
Stock Market (TSX CI)	11 %	16289	14720

Beef imports were 18.79% of domestic consumption in 2019, down 14% from 2018 and at the lowest levels since 2006. For 2020, beef imports from the US, Canada's largest supplier, are projected to increase by 7% over 2019.

Economic Outlook

Macro-economic indicators suggest that the Canadian economy is recovering from the impacts of COVID-19 in a v-shaped trajectory. Month over month increases in real GDP were reported April to June 2020, although forecasters indicate that annualized GDP could contract between -5 and -10% from last year. The unemployment rate at 10.2% in August was improved from the May low at 13.7%. Consumer confidence was on the rise from April to July but softened slightly into August. While there are signs that economic recovery is underway, lasting impacts will affect Canadians unequally along geographic, racial, gender, age and industry specific lines. Following these impacts is important for the beef industry as consumer behaviour will remain key to the uptick of the economy and domestic demand for beef.

In the last five years, demand for beef has been growing. Domestic beef consumption rose 10% from 2015 to 2019. From 2018 to 2019, domestic consumption increased 1.6%, and per capita beef consumptions rose 0.2%. Domestic consumption in 2019 was just 7% short of the 20-year high during 2003. In 2020, beef has been a top performer in volume and sales among the grocery aisles as spending shifted drastically from food service to retail. The domestic demand index projects a 3.73% year over year increase in beef demand this year.

The Canadian Perspectives Survey from June 2020 indicated that demographic variables such as age and immigrant status will play a role in changing post-lock-down consumer behaviour. Grocery spending was expected to increase among 19.3% of all respondents and decrease among 10.2% of



respondents. Dine-in restaurant spending was expected to increase among 20.4% of respondents and decrease among 50.9% of respondents. Take-out spending was expected to increase among 16.3% of respondents and decrease for 31.3% of respondents.

Table 1. Canadian Perspectives on Spending (June 2020)

	More	Less
Groceries	19.3%	10.2%
Eating at a restaurant	20.4%	50.9%
Ordering take out	16.3%	31.3%

Source: Chart adapted from Statistics Canada

Grocery and take out spending were expected to increase among a higher percentage of immigrants versus Canadian-born individuals, with more Canadian-born individuals expecting to spend more at restaurants than immigrants. Restaurant spending was expected to decrease among those aged 35 to 54 more so than younger and older cohorts. Grocery spending was expected to increase more so among respondents in the 55+ age category. Take-out and restaurant spending were expected to increase more so among those aged 15 to 34 than older cohorts. These perspectives are a starting point to understand demand trends for beef products during this period of economic recovery. For example, because those aged 35 to 54 are the most likely to actively include beef and red meat in their diet, we can infer from this data that more red meat could be purchased in grocery stores.

Value, Volume, Price and Market Share % of Beef Imports from Major Suppliers (July 2020, YTD)												
Origin	Year \$ Change	CAN\$ '000 YTD		Year MT Change	Volume (MT) YTD		Yr \$/kg Change	CAN\$/Kg YTD		Yr Share Change	Market Share MT	
		2020	2019		2020	2019		2020	2019		2020	2019
USA	17 %	581,500	498,299	14 %	63,356	55,446	2 %	\$9.18	\$8.99	-10 %	55%	61%
AUS	19 %	69,794	58,415	-5 %	8,699	9,140	26 %	\$8.02	\$6.39	-25 %	8%	10%
NZ	42 %	82,872	58,238	27 %	11,880	9,353	12 %	\$6.98	\$6.23	0 %	10%	10%
Other	92 %	202,095	105,428	89 %	30,950	16,345	1 %	\$6.53	\$6.45	49 %	27%	18%
ALL	30 %	\$936,261	\$720,380	27 %	114,885	90,284	2 %	\$8.15	\$7.98		100%	100%

Source: Statistics Canada