



REPORT FROM CANADA BEEF

Executive Summary

In the fourth quarter of 2021, Canadian businesses appeared confident in the strength of consumer demand. At the same time, they recognized a need to invest and hire to overcome current supply constraints. The disconnect between strong demand and constrained supply is creating inefficiencies in the economy and leading to higher prices. Retail and restaurant food prices moved sharply higher this January, increasing at a faster rate than annual 2021 inflation. Rising input costs appear to be the driver as grocery sales softened year-over-year and food service sales remain below 2019 levels. The Cutout value softened seasonally into February but remains higher than a year ago. A two-speed beef market may be pressuring the cutout as more consumers look for value cuts. At the same time, the market for middle meats will be sustained as public-health restrictions are lifted and as exports continue to surge. Domestic high-grade cattle supplies will be ample in the first half of the year, but imports are waning as global beef supplies tighten, lending further support to beef prices.

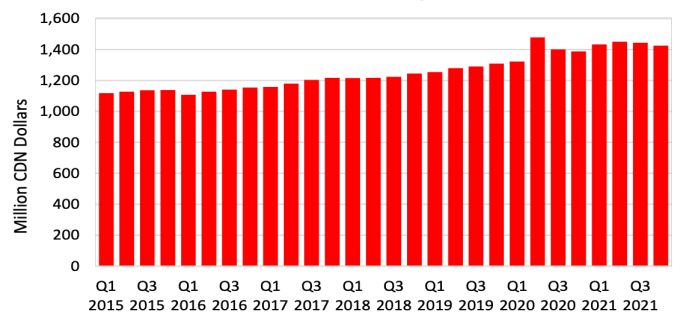
Economic Outlook

Record high levels of business intentions to invest and hire over the next twelve months are driving a rosy forecast for Canadian economic growth in 2022. The Bank of Canada's fourth quarter 2021 Business Outlook Survey cited supply chain disruptions and a lack of capacity and skills as constraints to businesses who are seeing strong demand and indicators for growth. As a result, the balance of opinion on higher investment spending was at record high levels in the fourth quarter of 2021 (record since 1991). The balance of opinion on decisions to hire also accelerated in the fourth quarter, up 10 percentage points from the third quarter to a record high. Canadian real gross domestic product was up 4.6% in 2021 (0.5% below 2019 levels) and is expected to increase a further 3.6% in 2022 (Bank of Canada).

First quarter performance is likely to be curbed by the response to Omicron in January. Absenteeism and unemployment hit the labour force hard. In January 2022, 10%

of employees were recorded absent, up from the previous record high of 8.1% in March 2020. Canada's unemployment rate increased 0.5 percentage points to 6.5% in January 2022, the first increase to unemployment in nine months. This loss of 200,000 workers primarily affected youth and core-aged women in Quebec and Ontario. The most significant decrease in hours worked since March 2020 also occurred in January 2022. The early year uncertainty pressured consumer sentiment to 93.1 in February 2022, the lowest level since February 2021.

Canadian Household Disposable Income



Source: Statistics Canada

Despite the uncertainty, the option for businesses to forgo current returns appears to be diminishing as demand and supply pressures persist. For some businesses, driving ahead is a measurable risk. For others, the option to idle is eroding, a luxury unafforded by supply chain constraints and labour scarcity. Auspicious growth from consumption is forecast despite the specter of inflation that most firms are expecting to ease in one to three years. Historically high household disposable income rates and savings rates should support consumption and continued economic recovery. However, these metrics are skewed by income class, and a two-speed recovery is apparent and marked by shifting consumer preferences in the beef markets.

Retail Sector

Demand driven retail food price increases have taken a backseat to inflation that is currently steering retail prices higher. In 2020, retail food prices in the Canadian Consumer Price Index (CPI) were up 2.4%, a larger increase than the all-item CPI (+0.7%). In 2021 that changed, with the all-item CPI basket supported by surging prices for gasoline (+31%), energy

(+19%), transportation (+7%) and consumer goods (+5%). The all-item CPI was up 3.4% in 2021, higher than the 2.2% increase in the retail food CPI. In January 2022, retail food price inflation was up 6.5% compared to January 2021 as retailers appear unwilling or unable to absorb the higher cost of inputs.

Product Category	2021/2020	Jan 2021/Jan 2022
Retail Food	2.2%	6.5%
Beef	3.1%	13.0%
Pork	2.9%	6.2%
Poultry	6.5%	8.8%
Fish and Seafood	1.0%	5.8%
Dairy	2.8%	4.3%
Eggs	6.3%	6.2%
Bakery Products	0.7%	6.9%
Fresh Fruit	2.6%	8.2%
Fresh Vegetables	-2.6%	1.6%

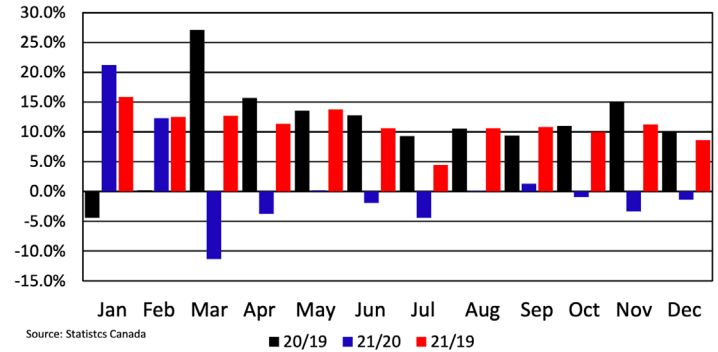
Source: Statistics Canada

Most retail food product categories increased in 2021 but poultry was the price increase leader. Poultry price increases were driven by rising input costs and were supported by strengthening demand at food service, alongside what appears to be substitution away from red meats at retail. Domestic retail beef demand is projected to be down 0.3% in 2021 due to higher prices and a higher percentage of production going to exports. Beef exports as a percent of production were 45% in 2021 versus 40% in 2020.

The retail beef price continued to climb into January 2022, up 2.9% from December 2021 to CDN\$23.43/kg. All cuts in the Statistics Canada six-cut price average increased from December to January and were also up from January 2021. The highest year over year increases were among value cuts: stewing beef (+19%) and boneless blade roasts (+19%), followed by ground beef (+8%). There are still those willing to pay more for prime rib roasts (+16%), sirloin steak (+15%), and round steak (+13%) that were also priced higher in January 2022 compared to January 2021.

Despite higher prices at retail, 29% of Canadians intend to cook more often in 2022, but this may not translate into higher sales at grocery. More than half of Canadians report intentions to change their food buying habits in 2022, with 53% of Canadians planning to use coupons or 'buy tonight' promotions more often. Cost-saving strategies align with shifting consumer values to reduce food waste. Grocery sales in 2021 were down 1.4% compared to 2020, but still up 8.6% from 2019. Canadian grocery sales in 2021 failed to overtake previous year's sales in seven out of twelve months.

Monthly % Change in Canadian Grocery Store Sales



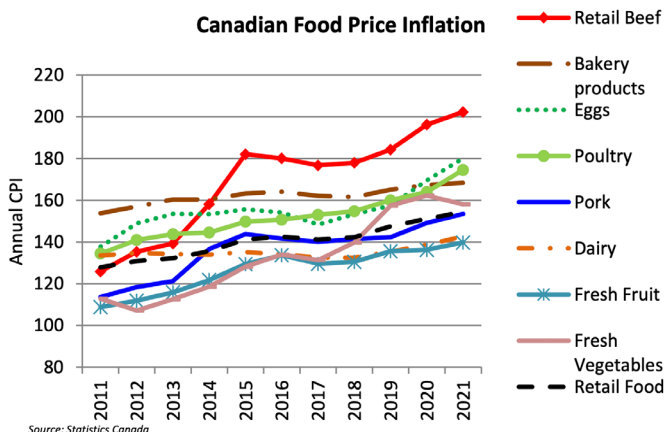
Wholesale Market

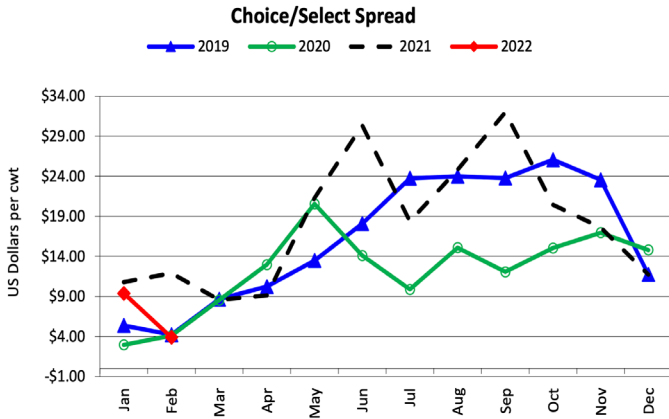
Wholesale buyers could enhance their forward position as the US cutout moves seasonally lower into March. The Choice cutout at US\$256/cwt (CDN\$324/cwt) week ending March 5, 2022, is nearing its seasonal low, but was still 9% higher than the same week in 2021. The Select cutout at US\$251/cwt (CDN\$318/cwt) was 12% higher than the same week in 2021.

Value can be found in the Choice rib primal at this time of year. The Choice rib primal at US\$388/cwt (CDN\$491/cwt) was 0.6% below year ago levels. All other Choice primals were up by double digits year over year in February. The Choice brisket primal climbed the most, up 49%. With Canadian beef exports still surging (+9% in volume and +37% in value year over year in January 2022), loosening public-health restrictions, and the slow and steady recovery in accommodation and food service industries, the cutout should begin gaining seasonal strength into patio season by mid to late April.

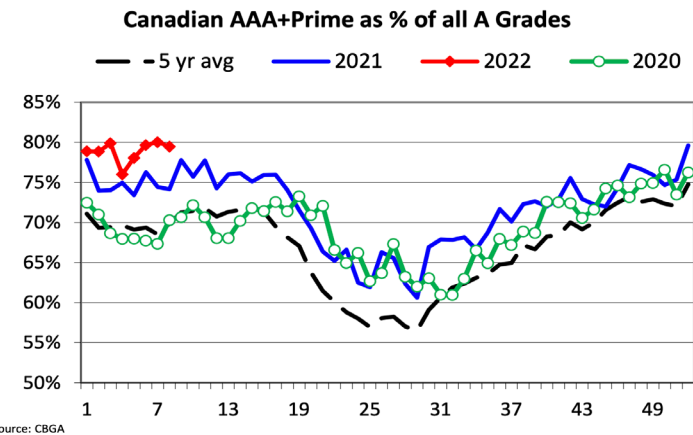
Of note is the narrowing Choice/Select spread that was US\$4/cwt in February 2022, US\$8/cwt narrower than year ago levels and par with the typical spread for this time of year. This could reflect a return of normalcy in beef seasonality. The substitution of Select for Choice beef during the winter months typically keeps the spread narrow. The Choice/Select spread will signal how buyers anticipate consumer preferences (domestically and internationally) into the summer months. If the spread remains narrower than recent years, buyers may be anticipating more discretionary spending from their customers.

Canadian Food Price Inflation

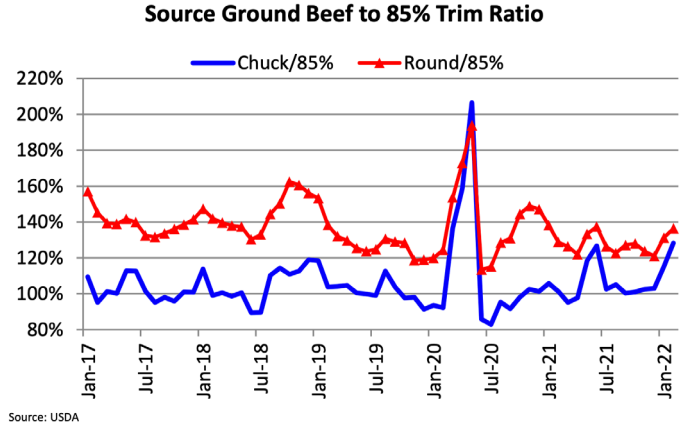




The production of high-quality grain-fed beef has reached record levels in Canada. Prime+AAA production was 79% of all 'A' grades year to date (February), compared to 75% in 2021 and 70% for the five-year average. Year to date carcass weights for fed steers and heifers averaged 888 lbs, 6 lbs lower than 2021, but 8 lbs higher than the five-year average. The supply of cattle on feed in Alberta and Saskatchewan on February 1, 2022, was up 11% from last year and up 17% from the five-year average – this will continue to support beef production throughout the first half of 2022. Pasture conditions and input costs will be primary determinants for supply in the second half of the year.



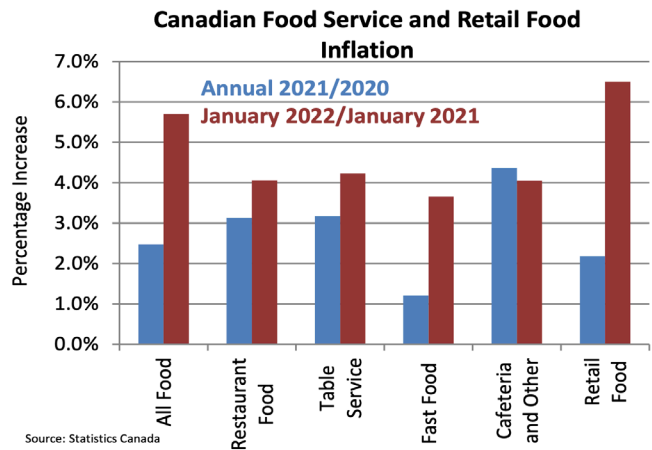
Grinding meat prices remain strong amidst liquidation of the beef cow herd and declining beef cow numbers in Canada and the US. Australian trim supplies are historically tight at a time when many consumers are switching to lower priced beef. Eighty-five percent trim at US\$255/cwt (CDN\$323/cwt) in February 2022, was up 28% from last year. Chuck and round source grinds have increased even more, 62% and 37% respectively, pushing the source grind to 85% trim ratios up.



Foodservice Sector

In 2021, the annual CPI for restaurant food was up 3.1% from 2020, which was more than retail food that was up 2.2%. The cafeteria and other food segment increased the most (+4.4%), with table service up 3.2% and fast food and take-out up 1.2%.

In January 2022, restaurant food was up 4.1% compared to January 2021, which was less than retail food that was up 6.5%. The cafeteria and other food segment was up 3.7%, with fast food and takeout up 4.1% and table service up 4.2%.



Food service sales are slowly recovering, but as recent as January 2022 there were regional public health restrictions still deterring restaurant sales at establishments in Quebec and Ontario. In 2021, limited-service sales were up 16% from 2020 and just 1% below 2019 levels. Full-service sales were up 24% from 2020, but down 22% from 2019. Special service sales (e.g. catering) were up 19% from 2020 but down 38% from 2019. More than half of Canadians plan to eat out less in 2022 which could deter restaurant recovery and keep spending firmly in retail channels. One quarter



of Canadians were still working exclusively from home in January 2022 will likely impact food service sales as well. The lifting of work from home mandates and restaurant restrictions this spring would be supportive to food service spending.

Food and beverage trends over the last year have focused on health, comfort foods, touchless ordering and innovation to meet the challenges presented by the pandemic and changing consumer behaviour. These trends are evolving into consumption drivers in 2022. Consumers want to know what they're eating, and they want it to be nutritious. Simple and quality ingredients remain top of mind for consumers who want foods that promote their physical and mental well-being. Consumers want experiences that help them connect with one another to help foster the human evolutionary drive toward socialization. Virtual cooking classes, preserve parties, and heritage cooking are therefore expected to continue. Restaurant kits are still popular for those not ready to return to restaurants.

Imports

Beef imports in 2021 were down 15% from 2020 and down 8% from the five-year average. Imports increased from Mexico (+12.8%), but decreased from Australia (-46.9%), Uruguay (-45.2%), New Zealand (-27.4%), the EU and UK (-8.6%), and the US (-7.4%). The US had 61% market share on a volume basis, followed by the EU and UK with 12%, New Zealand with 8%, Mexico with 6%, Uruguay with 5% and Australia with just 5% market share in 2021.

