



REPORT FROM CANADA BEEF

Executive Summary

The Canadian economy has been on a rocky road for two-plus years but data from the first half of 2022 suggest the economy may have finally found some smoother pavement. The question at these cross-roads remains, what direction are we headed? Gross domestic product (GDP) and employment figures speak to whether the economy is heating up or cooling off. Down-turns or upswings in the economy affect consumer spending, as does the consumer's available disposable income and their confidence in the future of the economy. These factors have marketing implications for beef products and illuminate the shifts in the domestic beef market today.

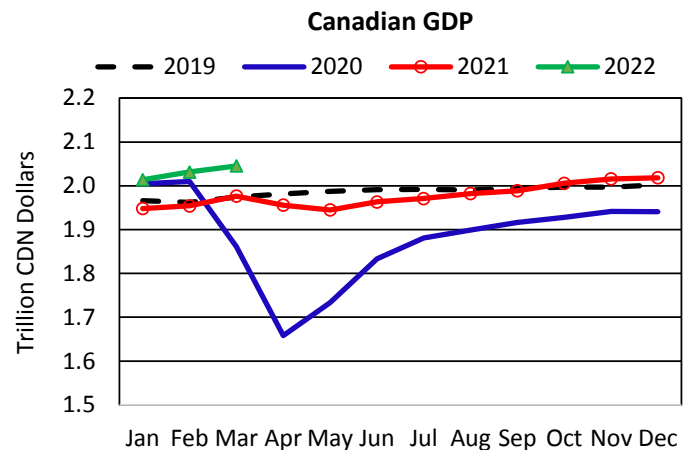
Gross domestic product growth in the first quarter of 2022 remains positive, but is it fuelled by innovation and business investment, or inflation? Canada is at full employment, but over 1 million job vacancies still exist. Modest gains in consumer confidence have yet to surpass past pre-pandemic levels. Domestic retail beef consumption declined in 2021 while the consumption of substitutes increased. Domestic consumers in 2022 appear to have turned away from rib and striploin cuts at retail and toward cubes, ground beef and sirloin. The Canadian foodservice industry accelerated, while the U.S. cutout value appears to be running out of steam. At these cross-roads, the beef market follows the signs toward the best route to meet consumers at their new normal.

Economic Outlook

In March 2022, Canadian GDP grew 0.7% from February. The accommodation and foodservice sectors were up 10.9% from February to March, led by foodservice sector growth (+8.5%). Advance (unofficial) GDP data suggest GDP growth could continue for April 2022.

Goods producing sectors (including construction, manufacturing, and agriculture, forestry and fishing) were among the largest contributors to growth in the first quarter of 2022. On the one hand, this may indicate some rebound from last year's supply and labour constraints. The number of employed persons in Canada in May 2022 has never been higher

at 19,640,300 Canadians. The participation rate at 65.3% was a slight 0.3 percentage points below the long-term average (since 1976). The unemployment rate was 5.1%, the lowest rate on record since 1976. Canada is at full employment, which partly accounts for why household disposable income at \$1.48 trillion in the first quarter of 2022 is 3.7% higher than the first quarter of 2021, and steady with the record high set in the second quarter of 2020.



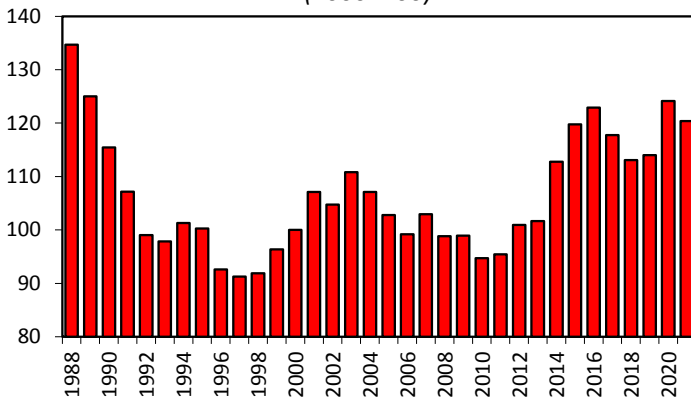
On the other hand, higher output from goods producing sectors could be the symptom of higher inputs being passed on. There are still a record high 1,012,900 vacant positions that existed at the start of March 2022. Despite indications of positive macro-economic performance, Canadians are worried about current and future finances and want to save money. The Conference Board of Canada's Consumer Confidence Index at 99.8 (2014=100) in April 2022 was just 1.8 percentage points higher than April 2021 but well below the pre-pandemic level around 120. Consumer concerns in April 2022 were primarily driven by inflation and policy that has the potential to impact their disposable income. Consumer prices in April 2022 increased 0.6% from March and were 6.8% higher than April 2021. The concerns of consumers are valid: interest rate hikes have been known to trigger a downturn in the past. Whether confidence grows throughout the summer this year as it did in 2021 will be a telling sign for what to expect in the second half of 2022.



Retail Sector

Statistics Canada published the annual retail food consumption data for 2021. Total Canadian retail beef consumption in 2021 was down 6.6% to 919,720 tonnes (carcass weight) from 2020, with increased exports and decreased imports reducing available supplies. Per capita consumption decreased 7.2% to 16.9kgs, the lowest level on record since 1970. Year-over-year beef prices in 2021 were higher than 2020 every month (except May and June, with June 2020 remaining the highest beef price on record). The higher retail prices in 2021 combined with lower per capita consumption meant retail beef demand was down 3% in 2021 from 2020. However, the retail beef demand index at 120 (2000=100) in 2021 was still historically high comparatively within the last three decades.

Canadian Retail Beef Demand Index (2000=100)



Source: CanFax Research

The consumption data show potential substitution from beef to other proteins in 2021. Beef consumption market share was 27.3% in 2021, down 1.8% from 2020. Pork, poultry, and seafood gained market share. Pork at 21.5% market share increased by 0.5%, poultry at 46.2% market share increased by 0.3%, and seafood at 4.9% market share increased by 0.9% compared to 2020.

Beginning in March 2022, Statistics Canada changed its reporting methods for monthly retail beef prices. Monthly retail beef prices are now based on product averages among the following commonly purchased items: beef stewing cuts, beef striploin cuts, beef top sirloin cuts, beef rib cuts and ground beef. Statistics Canada published five years of historical retail food price data using the new methods. In April 2022, the retail beef price at \$20.28/kg was down from March 2022, the first decline following three consecutive months of price increases.

According to the Consumer Price Index (CPI), retail beef prices fell 2% from March to April 2022, but were up 13% from April 2021. The retail pork CPI in April 2022 was up 7% from April

2021 at \$10.64/kg; the retail chicken CPI was up 6% at \$5.66/kg. The beef/pork price ratio at 1.90 in April was normal, but the beef/chicken price ratio at 3.58 was historically high and similar to the ratio in June 2020.

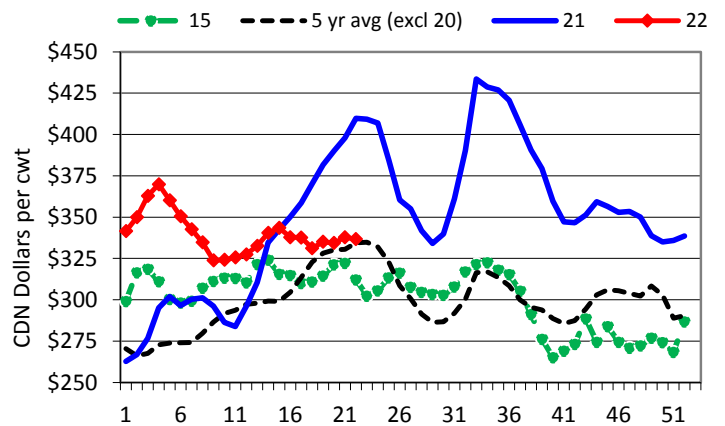
The month-over-month retail beef prices provided by Statistics Canada for specific beef cuts suggest a shift in Canadian consumer beef preferences. The seasonal decline in beef striploin cuts (-12.0%) and beef rib cuts (-14.8%) from March to April 2022 would not be considered unusual. What is unusual is the rate that prices for items like stewing cuts (+7.7%), beef top sirloin (+6.0%), and ground beef (+7.0%) increased March to April 2022. In the previous five years (2017-2021), March to April price changes have increased at most 3.1% for stewing cuts, 3% for beef top sirloin cuts, and 5% for ground beef.

In April 2022, prices for all beef product categories were up compared to April 2021: beef striploin cuts were up most (+25.9%), followed by beef stewing cuts (+23.3%), ground beef (+17.7%), beef top sirloin (+16.1%), and beef rib cuts (+1.4%). While prices are not the pure measure of demand, the data indicate that consumers may be turning to stewing beef, top sirloin, and ground beef and away from striploin and ribs cuts.

Wholesale Market

Deflation may be present in the wholesale market after 2021 marked the highest annual Choice cutout value on record at US\$349/cwt (CDN\$449/cwt). The cutout value now shows some easing from the extreme volatility that characterized 2021. The question was never if wholesale beef prices would turn down, but when.

US Weekly Choice Cutout Values in CDN\$



Source: AAFC, Canfax, USDA

After a brief and muted seasonal rally in spring 2022, the cutout value moved below 2021 levels and closer to the five-year average (with 2020 excluded). The Choice cutout at US\$260/



cwt (CDN\$334/cwt) in May 2022 was down 18% from May 2021 and up just 3% from the five-year average for May. The Select cutout at US\$245/cwt (CDN\$315/cwt) was 17% lower than May 2021 and up just 5% from the five-year average for May. The Choice/Select spread at US\$14.90 in May 2022 was US\$6.38/cwt narrower than May 2021 but just US\$1.43/cwt wider than May 2019. The narrower spread suggests fewer customers will consider paying the premium for Choice this year.

All Choice primal values in May 2022 were lower than 2021 but some Choice primal values like brisket and rib edged closer to a 2019 baseline. Other primal values remain stubbornly higher than 2019, as seen in the table below. Select follows a similar trend.

Choice Primal Values for May 2022

Primal	May 2022 (US\$/cwt)	May 2022 (CDN\$/cwt)	YoY Chg 2021	YoY Chg 2019
Choice brisket	210.03	270.20	-28.5%	+0.9%
Choice rib	399.36	513.78	-24.2%	+8.7%
Choice loin	365.68	470.45	-23.4%	+15.9%
Choice chuck	203.90	262.32	-13.0%	+17.2%
Choice short plate	197.02	253.46	-8.4%	+19.5%
Choice flank	155.42	199.94	-2.0%	+24.2%
Choice round	209.78	259.88	-8.9%	+26.8%

Source: USDA

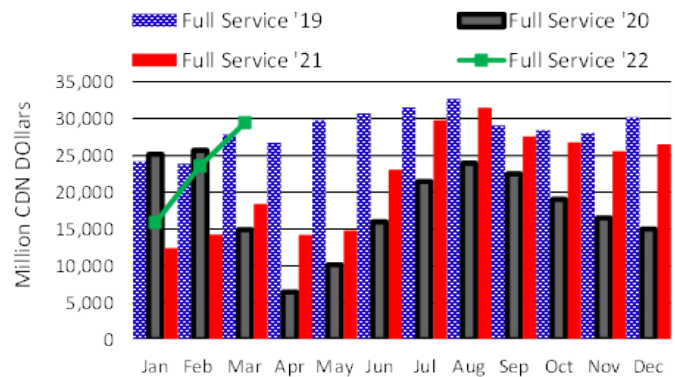
Foodservice Sector

Much higher traffic and higher sales signal the final stages of a long road to recovery in the Canadian food service sector in the first quarter of 2022, and a new direction. NDP group reported that physical and online foodservice visits were up 18% in the first quarter of 2022 from the first quarter of 2021. Full-service (dine-in) traffic was up 47% with Canadians eager to sit-down when eating out: dine-in (as opposed to take-away) visits to full-service were up 187%. Limited-service restaurants also enjoyed an uptick in traffic, up 14% in the first quarter of 2022 compared to the first quarter of 2021. Food service traffic was up at a similar rate for breakfasts, lunches and dinners. With restrictions lifted and full employment, the balance of consumers primarily eating meals at-home is softly moving toward away-from-home meals.

March 2022 marked the first month since health restrictions that full-service restaurant sales surpassed 2019 levels. March 2022 full-service sales at \$2.9 billion were up 6% from March 2019 and are a significant milestone for the industry.

First quarter 2022 full-service sales were up 53% from the first quarter of 2021. Limited service (counter-service) sales were up 16% and special service (on-location catering and food truck) sales were up 36%. Special foodservice sales were decimated in 2020 and 2021, but with sales at CDN\$1 billion in the first quarter of 2022, special service sales are within 26% of 2019 levels. While special service sales still have a way to go, January to March sales have moved higher for three consecutive months and may grow throughout the summer.

Canadian Full-service Sales



Source: Statistics Canada

Imports

Net beef supplies continue to be challenged despite domestic meat production being up 3.6% year to date week ending May 28, 2022. Following the trend in 2021, year to date (Jan-April 2022) beef exports were up 9% in volume and 34% in value; while imports were down 7% in volume, but up 17% in value. The combination of larger exports and smaller imports has tightened available beef supplies despite the increased production.

In April 2022, beef import volumes were down 7% from April 2021, and down 13% from the five-year average for April. At the same time exports surged ahead, up 6% from April 2021 and up 33% from the five-year average for April.

Year-to-date import volumes declined from the U.S. (-4%), New Zealand (-41%), Argentina (-98%), and Uruguay (-38%), and increased from Australia (8%), the EU27 (31%), the UK (61%), Mexico (19%) and Brazil (4%).