

REPORT FROM CANADA BEEF

Executive Summary

Amid food cost concerns in Canada, the average retail beef price throughout the second half of 2022 has been historically competitive with retail pork and chicken prices. The competitive retail beef price contributes to higher projected beef consumption for 2022. A sharp correction in the average retail beef price from September to October 2022 was a seasonal expectation based on historical price trends. That beef prices declined to below 2021 levels, however, was noteworthy and a potential sign of waning inflation.

The average beef retail price has trended lower January to October 2022 and followed the steady decline in beef wholesale values throughout the year. The ribeye and tenderloin were flagged as holiday favourites in October and November, supporting a typical holiday rally in wholesale beef prices.

Food service sales in Canada continued to improve quarter after quarter despite the many pressure points applied to pocketbooks this year. Full service and limited service sales regained equal market share in the third quarter of 2022 for the first time since 2019.

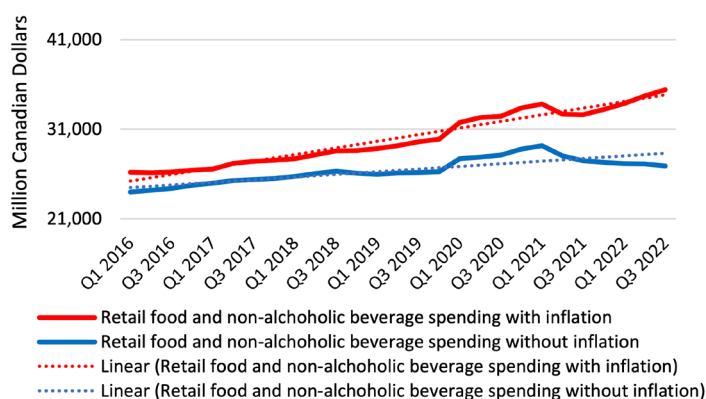
Higher beef production in 2022 bolstered historically strong beef exports even as the proportion of beef exported declined slightly this year. That means that more Canadian beef supplies are projected to have stayed in Canada in 2022 compared with 2021. Capacity constraints in Canada spurred a slight uptick in beef imports, particularly from non-traditional suppliers.

Canada's resource sector supported third quarter 2022 economic growth and is likely to lend more support under a depreciating Canadian dollar. Despite chilling headwinds moving into 2023, there are indicators that Canadian consumption may remain insulated.

Retail Sector

Retail food inflation continued to limit consumer purchasing power in the third quarter of 2022. Canadian retail expenditures on food and non-alcoholic beverages increased 8.6% year-over-year in the third quarter with retail food inflation increasing 10.7% over the same period. When adjusted for inflation, retail food expenditures actually declined 2.1% year-over-year in the third quarter of 2022. Retail food inflation had since moved lower by 0.1% from September to October 2022.

Canadian Expenditures on Food and Non-alcoholic Beverages at Retail



Retail meat prices eased substantially into the fourth quarter of 2022. From September to October 2022, the retail beef price declined 14% to \$17.88/kg, down 2% from October 2021. The retail pork price declined 5% to \$9.68/kg, down 7% from October 2021. The retail chicken price declined 4% to \$9.58/kg but unlike beef and pork, was 4% higher than October 2021.

Year-to-date, from January through October 2022, the average retail beef price was \$20.00/kg, up 10% from the same period in 2021. The average retail pork price was \$10.11/kg and up 6% from the same period in 2021. The average retail chicken price was \$9.55/kg and up 11%.

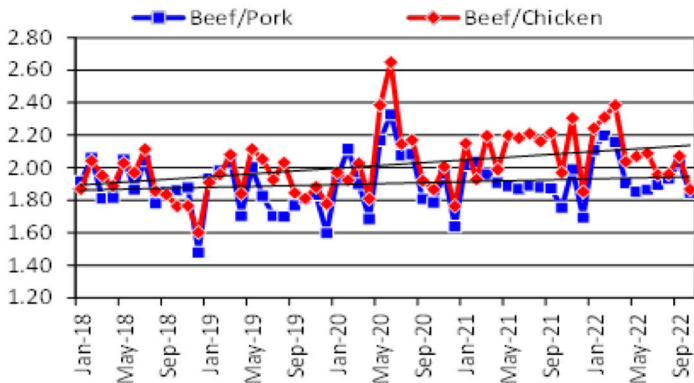
Since the second quarter of 2022 beef has maintained competitive pricing with pork and chicken. Between April and October, the relative price ratios of beef to pork and chicken have ranged between 1.85 and 2.09. In October 2022, the beef to pork ratio was 1.85, the lowest since May 2022. The

beef to chicken ratio was 1.87 in October 2022, the lowest since December 2021. In October 2022, beef was less than twice the price of chicken or pork. This competitiveness is likely a driver of the projected increase in beef consumption for 2023 (+1.7%).

In November 2022, the Choice-Select spread widened to US\$26.22/cwt, \$8.60/cwt wider than November 2021 and \$9.28/cwt wider than November 2020. The spread in November can be attributed to the increasing value of Choice ribeye that was flagged as a holiday favourite for this year. The Choice rib primal rallied 27% through October and November 2022, peaking at US\$515.47/cwt (CAN\$700.05/cwt) week ending December 3, 2022.

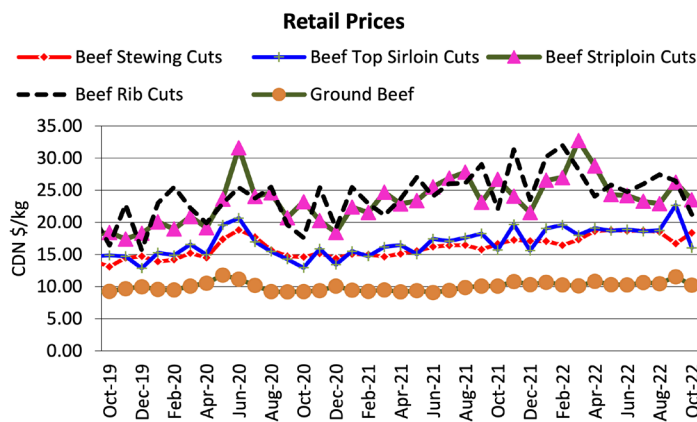
While some tenderloin values rallied as well, the overall loin primal remained relatively steady. There was a slight holiday lift in the chuck primal, but not above previous year prices. The round, flank, plate, and brisket primals were under pressure throughout the fourth quarter. Both 50% and 85% trim were within the same price ranges as 2019 in November and December 2022.

Relative Price Ratios of Meat at Retail



Source: Statistics Canada

Among most beef cuts there was a notable price drop from September to October 2022. Seasonality explains some of the decline for beef striploin cuts (-10%), beef rib cuts (-21%), beef top sirloin cuts (-29%), and ground beef (-11%). The magnitude of these declines, however, may reflect a year-over-year correction in retail prices for beef following a year of steady to lower pricing at wholesale. This could be a sign that retailers have worked through high-priced inventories.

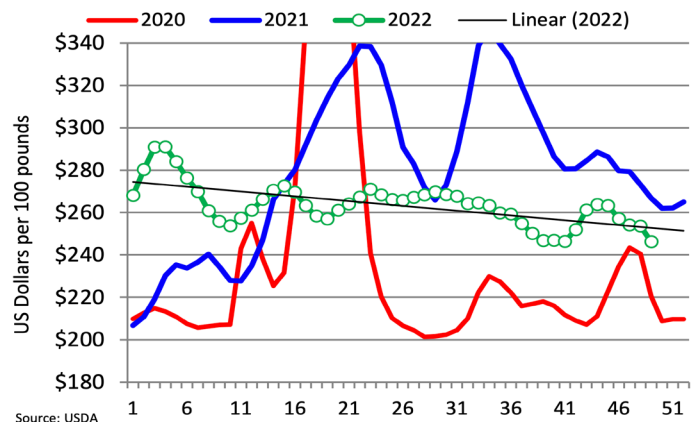


Source: Statistics Canada

Wholesale Sector

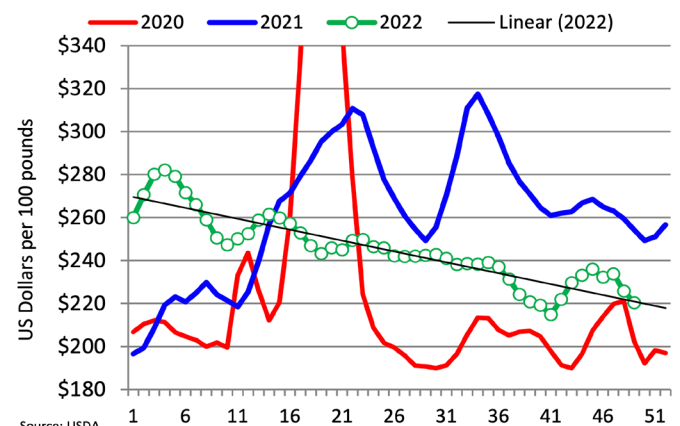
While the Canadian cutout values are unavailable, a look at the American market can provide insight into the North American wholesale sector. The Choice cutout value steadily declined throughout 2022, reaching a seasonal low of US\$246.23/cwt (CAN\$334.32/cwt) on December 10, 2022. The Select cutout value has declined more sharply during the same period, to US\$220.37/cwt (CAN\$299.29/cwt) on December 10, 2022.

US Weekly Choice Value



Source: USDA

US Weekly Select Value



Source: USDA



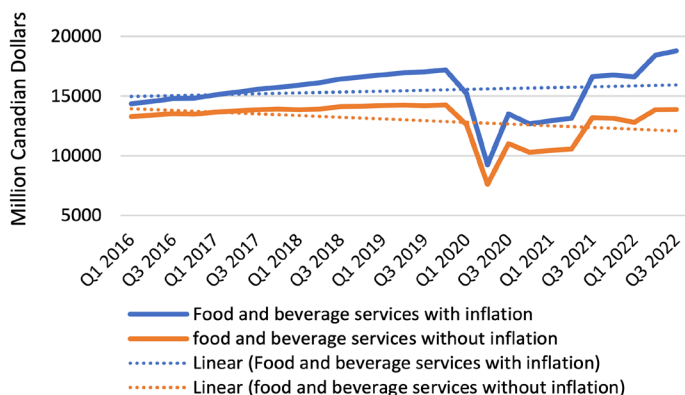
Primal Values	Jan-Nov '22/'21	Nov '22/'21	Jan-Nov '22/'21	Nov '22/'21
	Choice		Select	
Brisket	-7%	-31%	-7%	-32%
Flank	+8%	-11%	+6%	-10%
Short plate	-7%	-19%	-7%	-19%
Round	-3%	-14%	-4%	-13%
Chuck	-4%	-7%	-5%	-8%
Loin	-6%	-6%	-8%	-12%
Rib	-12%	-2%	-11%	-14%
Wholesale Cutout Value	-6%	-9%	-6%	-13%
Beef Trimming Value	Jan-Nov '22/'21		Nov '22/'21	
50% Trim	+9%		-25%	
85% Trim	+5%		-10%	

*One less week year to date 2022 versus 2021 and in November 2021 versus November 2022.

Food Service Sector

Canadian expenditures on food and non-alcoholic beverage services increased in recent months. Expenditures were up 13% in the third quarter of 2022 compared with the third quarter of 2021. Adjusted for inflation, expenditures were up 5.2% during the same period, meaning Canadians were spending more money in real terms at food service. Total food service sales January through September 2022 were up 30% from 2021. Third quarter 2022 food service sales were up 16% year-over-year. All channels had higher sales in the third quarter of 2022, but gains were greatest in special service sales where there was more ground to make up compared to 2021. Special service sales were up 54% year-over-year in third quarter of 2022 whereas full service sales were up 17% and limited service sales were up 11%.

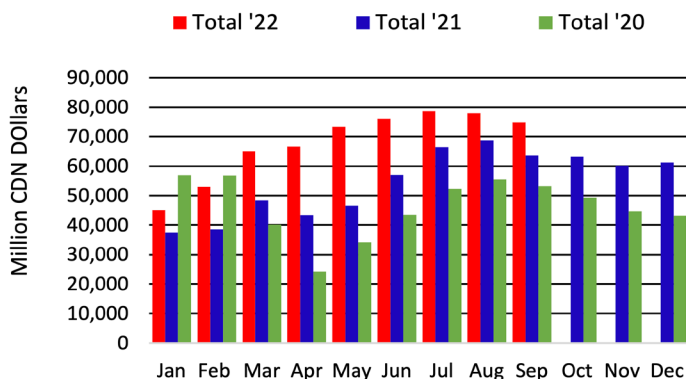
Canadian Expenditures on Food and Non-alcoholic Beverages Services



From January through September 2022, the market share by value of limited-service restaurants was 46%, with full service market share at 44% and special service market share

at 7% (drinking places had 3% of market share). Throughout 2022 these shares have been moderating back to 2019 levels. Limited service shares surged to 51-52% and full service sales hovered around 40% throughout 2020 and 2021. Quarter over quarter in 2022, however, full service sales have been gaining market share from limited service. Full service market share by value was at 42% in the first quarter, 44% in second quarter and finally tied with limited service at 45% market share in the third quarter.

Canadian Food Service Sales



Source: Statistics Canada

Trade

Canadian beef exports in 2022 have been historically strong, keeping pace with 2021 levels that were the highest on record since 2002. From January through October 2022, exports were steady with the same period in 2021, bolstered by a 10% increase in volumes in Q1 2022. Compared to the five-year average, exports were up 20% from January through October 2022. Beef exports have increased each quarter in 2022, with 120,289 tonnes sent in the first quarter, 128,901 tonnes sent in the second quarter, and 133,164 tonnes sent in the third quarter. Compared to 2021, however, quarterly exports began to decline from the 2021 pace by 1% in the second quarter of 2022 and by 6% in the third quarter of 2022. Export volumes are projected to be down 0.4% year-over-year to 504,551 tonnes in 2022, but still the third highest on record.

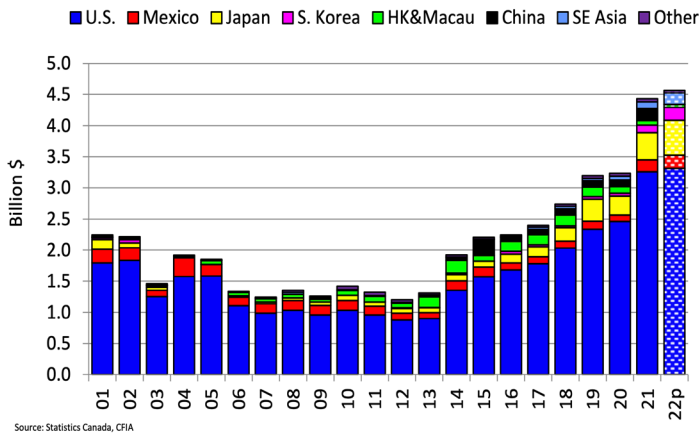
From January through October 2022, export values were up 5% from the same period in 2021 and up 47% from the five-year average. Total export values are projected to be up 3.5% in 2022 to \$4.6 billion and marking a decade's long growth in year-over-year export values for Canadian beef. Values are projected to be higher for the U.S. (+1.7%), Mexico (+10.3%),



Japan (28.2%), Southeast Asia (+65%) and South Korea (+75%). Headwinds gathered in the second and third quarters, however. October 2022 marked the third consecutive month of year-over-year value declines when compared to 2021. Global economic performance will be the limiting factor for exports in 2023.

There are historically strong levels of demand in Canada, however. Exports as a percent of domestic beef production are projected to decrease from 45% in 2021 to 44% in 2022. Domestic retail beef demand in Canada is projected to be up 3.9% in 2022 (assuming production and trade maintain their current pace) to 125.15 on the retail beef demand index (2000=100). This level of demand would surpass 2020 to be the highest demand on record since 1988.

Canadian Beef Export Value

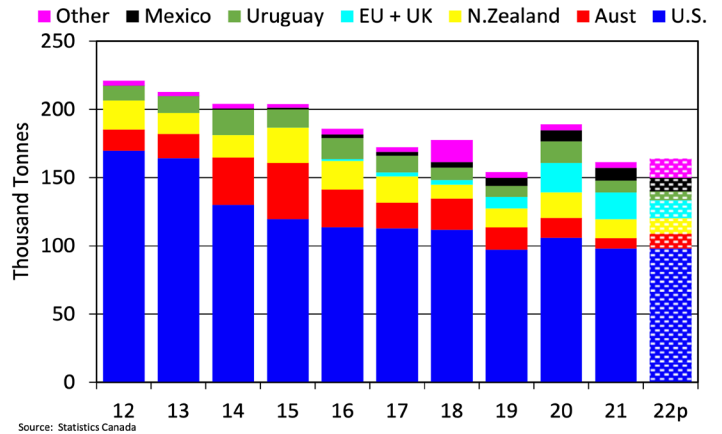


Canadian beef production in 2022, is projected to be up 0.5% to 3.06 billion pounds and the highest on record since 2005. To achieve this larger production, slaughter utilization in western Canada was at 97% from January through November 2022. Saturday shifts were worked 19 weeks of the year. Larger production is supporting the domestic supply and limiting the downside costs of transportation and a depreciating Canadian dollar.

With production near capacity, imports in 2022 have grown. From January through October 2022, imports were up 4% in volume and 19% in value from 2021. Year-to-date import volumes increased from the US (4%), EU 27 (12%), UK (71%), Australia (39%), Mexico (11%), and Brazil (24%). Imports declined from New Zealand (-18%), Uruguay (-31%) and Argentina (-78%) with strong prices in China an attractive draw for

those exporters. Total import volumes are projected to be up 3.7% in 2022 from 2021.

Canadian Beef Imports



Economic Outlook

High commodity prices and large exports contributed to positive economic performance in Canada in the third quarter of 2022. Growth in Canada's Gross Domestic Product (GDP) surpassed expectations in the third quarter, driven by business investment in inventory and exports of crude oil, bitumen, and farm and fishing products. Projections put Canadian GDP up 3.2% year-over-year in 2022, slightly ahead of projected global GDP growth of 3.1% (Organization for Economic Development).

Canadian GDP is expected to stay positive in 2023 but growth is expected to slow to 1% (OECD). Headwinds may come from a weaker housing market and declining manufacturing, wholesale, and retail trade. Support will come from exports, with the Bank of Canada forecasting export growth in 2023 stronger than 2022, up 4.7%. The U.S. Federal Reserve has been persistent in their monetary tightening and a depreciating Canadian dollar would support an increase in export volumes. The Canadian dollar declined from \$0.79 cents in the first quarter of 2022 to \$0.76 in the third quarter and averaged \$0.74 cents for October and November 2022. Canadian products have become relatively less expensive for key trading partners throughout the year.

At home, the Conference Board of Canada's index of consumer confidence shows that Canadians have been substantially less confident in the economy in 2022 compared with 2021, or even 2020. It is winter, but that is not the reason why con-



sumer confidence has gone so cold. The cost of food remains a key concern and the increasing reliance on imported foods remains a key risk amid depreciating currency and the high and increasing costs of transportation. Canada's Food Price Report forecasts that a Canadian family of four will spend an additional \$1,065.60 on groceries in 2023. The report notes that coupons, flyers, and volume discounts are key strategies Canadian consumers use to save money. With average debts rising, however, there may not be a lot of extra room in the budget for bulk, especially for the 15% of Canadians who live alone.

Nevertheless, there are positive signs for consumption and opportunities for growth in Canada in 2023. The Bank of Canada projects overall domestic demand (+0.5%) and consumption (+1.3%) will increase in 2023. Canadians are in a fair position with respect to their household disposable income as it marches steadily higher quarter after quarter into the third quarter of 2022. Despite large debt, Canadian savings remained historically robust in the third quarter of 2022. Unemployment is projected to increase from 5.3% in 2022 to 6.0% in 2023, but remain below the 10-year average (2012-2021) at 7.1%. The influx of over 400,000 immigrants in 2022 should ease labour costs and support further consumption.
