

REPORT FROM CANADA BEEF

Executive Summary

The effects from Canadian monetary policy intended to cool inflation are beginning to show in the first quarter of 2023. The full implications on Canadian consumers will become clearer in the second half of the year as the typical lag period unfolds. With the historically rapid increase to interest policy rates throughout 2022, the threat to consumption this year is real, but the full economic reach is unknown. Retail beef prices already reflect the vulnerability of lower income Canadians and the continued resilience in beef demand among higher income Canadians. Wholesale beef values that typically rally in the spring are rallying earlier in 2023 than 2022, above last year's values in most cases. Food service sales surged throughout the fourth quarter of 2022 alongside higher traffic volumes. Food service businesses challenged by inflation and available labour are adjusting their input costs and offerings to maintain or regain competitiveness with the retail sector. Cattle supplies in North America are tightening with importers looking to Brazil, Mexico, and Australia to fill orders.

Economic Outlook

The latest Bank of Canada (BoC) policy rate hike in January 2023 have many hoping it is well done – but not over-cooked. While the BoC opted to forgo another increase on March 8th, keeping the overnight rate steady at 4.5%, the full implications of a 4.25% policy rate increase over the last year would typically take 18 months to land on the consumer's plate. Significant impacts to consumer behaviour and spending are anticipated for second half of 2023. The overall impact on gross domestic product is projected to be a marked decline in growth, steady to up 1% in 2023 versus up 3.6% in 2022 (Organization for Economic Development, OECD).

The burners under the housing markets have cooled first and hardest, leaving room for negative wealth effects to impact consumer mindset and higher interest rate payments affecting their pocketbooks. The Consumer Confidence Index at 71.4 (2014=100) in February 2023 was well below the three-year average for February (The Conference Board of Canada).

Headline inflation at 6.8% in 2022 impacted purchasing power and is projected to continue at 4% in 2023 (OECD). While there are signs that the labour market is loosening up, key sectors, including over 50% of accommodation and food service businesses, anticipated continuing work-force related obstacles into the first quarter of 2023. Employment data show, however, the sector got an 11.2% boost in employment in January 2023 from the group that includes non-permanent residents.

Many Canadians look comfortably positioned for the risk on the table this year. The unemployment rate in February 2023 was at an historically low 5.0% for the third consecutive month, with strong job gains in December (100,000+) and January (150,000+). Employment rates and participation rates are pushing higher as well, meaning higher proportions of Canadians in the labour force and working. Household disposable income was up 3% from the third quarter to the fourth quarter of 2022, and Canadian household savings rate increased 1% during the same time. The annual savings rate at 6% in 2022 was well below the 2021 rate of 11%, but well above the 2019 rate of 2%. These indicators may mean some breathing room for consumers. Others will be tightening their belts – consumer debt increased 6% from the third quarter to the fourth quarter of 2022, and mortgage and non-mortgage interest expenses increased 27% in 2022.

Retail Sector

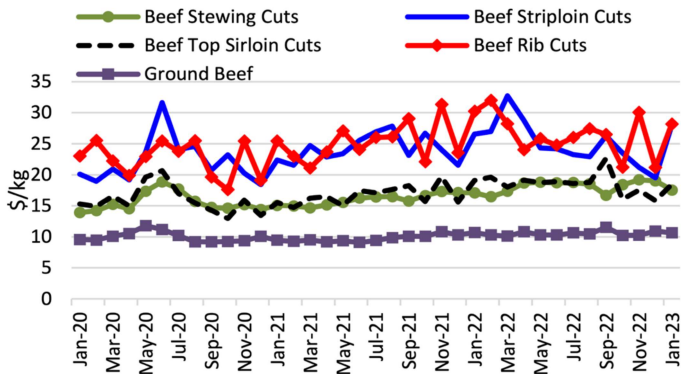
Although the Canadian retail beef price declined 17% from January through December 2022, it jumped 19% into January 2023. The increase was driven primarily by higher end products. At CAD\$20.55/kg in January 2023, the Canadian retail beef price was just 1% lower than January 2022, the highest January price on record (since 2017).

Higher end products posted significantly higher prices in January 2023 compared to December 2022; the price of beef striploin cuts (+43%), beef top sirloin (+17%) and beef ribs (+33%) increased dramatically. Beef striploin at CAD\$27.98/kg in January 2023 was up 5% from January 2022 and up 33% from the five-year average. Beef top sirloin at CAD\$18.44/kg in January 2023 was down 3% from January 2022 but up 17% from the five-year average. Beef ribs retailed at an average CAD\$28.18/kg, down 7% from January 2023, but up 16%



from the five-year average. The trend suggests retailers are relatively confident in the spending power of their high-end consumers.

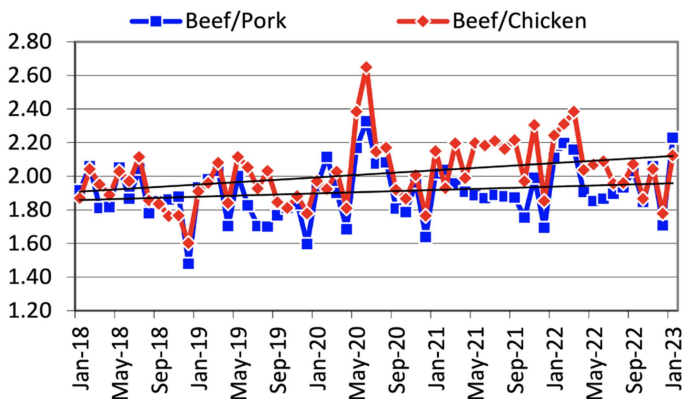
Retail Price, Selected Beef Cuts



Source: Statistics Canada

Conversely, the price of value items declined from December 2022 to January 2023. The price for beef stewing cuts and ground beef declined 8% and 3% respectively. The price of beef stewing cuts at CAD\$17.52/kg in January 2023 was up 3% from January 2022, and up 20% from the five-year average for January. The ground beef price at CAD\$10.65/kg in January 2023 was steady with January 2022, but up 12% from the five-year average. This trend suggests retailers are adjusting to the pressures felt by their lower income consumers.

Relative Price Ratios of Meat at Retail



Source: Statistics Canada

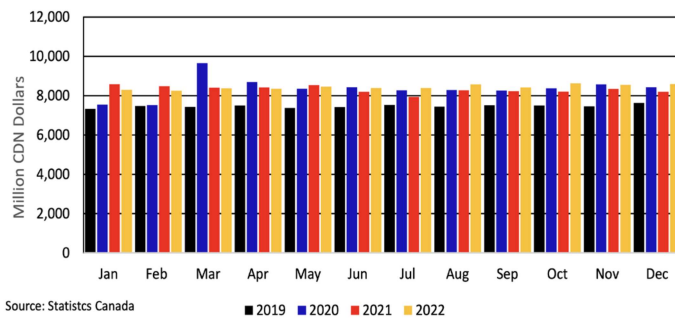
The retail price ratios of beef to pork and beef to chicken increased in January 2023 as a result of higher beef prices and lower pork and chicken prices. The pork price declined 9% from December 2022 to January 2023 and was down 6% year-over-year. The chicken price declined 1% from December 2022 to January 2023 but was up 5% year-over-year. The beef to pork price ratio increased from 1.71 in December 2022 to 2.23 in January 2023. The beef to chicken ratio increased from 1.78 in December 2022 to 2.12 in January 2023. The beef to pork

ratio in January 2023 was higher compared to January 2022 (2.11) whereas the beef to chicken ratio was lower in January 2023 compared to January 2022 (2.24).

The risk for beef is substitution with pork. While beef and chicken both experienced 8% inflation in 2022, pork inflation was up just 4% in 2022.

Total grocery sales increased 0.6% from November to December 2022 and were up 4.1% in the fourth quarter of 2022 from the fourth quarter of 2021. Total 2022 grocery sales were up 1.4% year-over-year. Overall retail food inflation was up 10% in 2022 from 2021, led by cereals and eggs, resulting from supply challenges due to war and disease.

Monthly Canadian Supermarket and Grocery Sales



Source: Statistics Canada

Wholesale Market

Many anticipated the wholesale beef spring rally would begin early in 2023, and expectations have become reality. The Choice cutout at US\$289/cwt (CAD\$393/cwt) week ending March 4, 2023, rallied 9% from the start of February; the Choice cutout was up 13% from the same week last year. Week-to-week comparisons in 2023, however, should be approached cautiously: rapidly changing behaviour is the rare constant in markets today. Year-to-date, the Choice cutout value was steady with the same period in 2022 (+0.6%), with the Select cutout value down 3.2%. The Choice Select spread at \$14/cwt in February 2023 was \$7/cwt wider than the three year average for February.

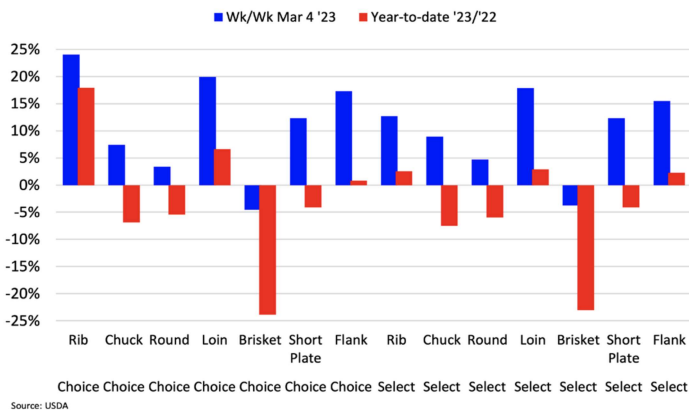
Most primals are performing at or near 2022 levels, the exception being brisket. While still increasing in value, the Choice (US\$ 210/cwt; CAD\$286/cwt) and Select (US\$ 207/cwt; CAD\$282/cwt) brisket primals remained the only products valued below 2022 levels. For the week ending March 4, 2023, Choice and Select brisket were down 4.6% and 3.8%, respectively, compared to the same week in 2022. Year-to-date (March 4, 2023), the Brisket primals were down 23-24% compared with 2022.

Choice chuck (US\$230/cwt; CAD\$313/cwt) and round



(US\$228/cwt; CAD\$310/cwt) values have recently outperformed 2022 levels, up 7.4% and 4.7% respectively for the week ending March 4, 2023, compared to the same week in 2022. Year-to-date, Choice chuck was down 7% from 2022, with Choice round down 5%.

Change in US Primal Values 2022 and 2023



The performance of Choice rib (US\$467/cwt; CAD\$636/cwt) and loin (US\$404/cwt; CAD\$550/cwt), continue to astound, up 24% and 20% respectively for the week ending March 4, 2023, compared with the same week in 2022. Choice rib and loin have been consistently outperforming their value in 2022 as year-to-date Choice rib and loin were up 18% and up 7%, respectively from 2022.

Choice flank values have remained elevated in 2023 compared with 2022, up 0.8% year-to-date. Choice short plate values surged into March, up 12% week ending March 4, 2023 (US\$201/cwt; CAD\$274/cwt), compared with the same week in 2022, but were down 4% year-to-date.

Retail grinding meat prices are on track toward 2022 levels. Week ending March 4, 2023, 85% trim was US\$240/cwt (CAD\$327/cwt), up 9% from the first week of January and just 6% lower than week ending March 5, 2022. Fifty percent trim values in 2023 pulled ahead of 2022 to US\$123/cwt (CAD\$167/cwt) week ending March 4, 2023, up 23% from the first week of January and from March 5, 2022.

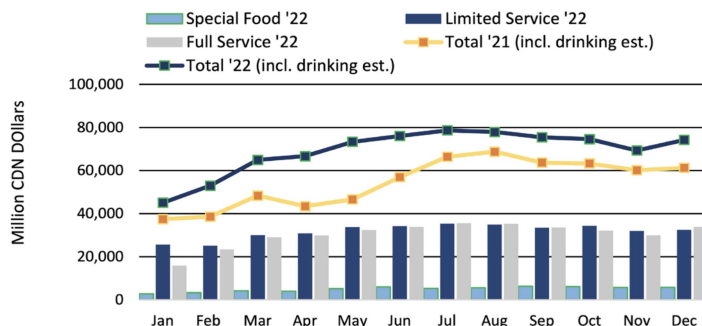
Foodservice Sector

Total Canadian food service sales in 2022 were up 27% from 2021 to CAD\$82.9 billion. While noteworthy that special service (e.g. catering) sales increases 52% year-over-year, to \$6 billion in 2022, special service sales were still 5% below 2019

levels and remain a relatively steady 6-8% of the total food service market.

The advancement of full service sales (e.g. sit down restaurants) in 2022, up 38% year-over-year to CAD\$36.4 billion, marked a significant comeback in market share from 39% in 2020 to 44% in 2022 (Statistics Canada). Full service traffic increased 26% in 2022 according to NPD Group, with on-premise visits surging and displacing a moderate percentage of carry-out business. Limited service sales were up a strong 14% year-over-year in 2022 to CAD\$38.2 billion with 45% market share (Statistics Canada) and traffic up 9% year-over-year (NPD Group). While the divergence of dollar market share between full service and limited service is shrinking, quick service restaurants still dominate the market share of traffic at 67% in Canada (NPD Group).

Canadian Food Service Sales in 2022



Source: Statistics Canada

December was a strong month for full service sales that foreshadows how food service operators are working to entice consumers to the table during an uncertain economic climate. Meals that can't easily be made at home, providing unique flavours, experiences, and stories, will populate menus and encourage guests to get out and get together. Conversely, 'functional' visits that have been at historic lows lately are expected to get a boost in 2023 through morning, lunch, and travel visits, according to NPD Group, who forecast food service traffic up a typical 2% in 2023.

Central and South American inspirations will be a key trend according to Technomic, and these foods can add margins and diversity with potentially added value to the beef cut out. Chucks, round steaks, sirloin steaks, brisket, and ground beef are all central to these meals.



January Inventories and Imports

Statistics Canada released their January 1st inventory report on the last day in February 2023. The report showed total cattle inventories down 2.2% to 11.27 million head. The decline was driven by a contraction in calves (<1 year old), mature cows, and beef replacement heifers. The liquidation started with the January 1, 2020, interrupted in 2021 by a backlog of cattle.

Much of the decline in cattle availability that has occurred in the last two years has followed drought. The largest declines were in the western provinces of Alberta (-4.8%), British Columbia (-2.5%), and Saskatchewan (-1.8%); with all other provinces seeing growth lead by Ontario (+2.9%), Quebec (+2.3%), Atlantic Provinces (+1.2%), and Manitoba (+0.6%). Declining inventories supported larger domestic production (up 1.1% in 2022p).

Despite larger production, beef imports in 2022 were up 4% in volume and 16% in value from 2021 at 167,672 tonnes valued at \$1.65 billion. Import volumes were down in the first three quarters of the year, but switched to be up 7% in the fourth quarter of 2022. The trend suggests that imports have supplemented softening fourth quarter production or that the product mix demanded domestically has shifted to encourage both imports and exports of domestic product. The percentage of beef produced domestically and exported increased from 49.7% in 2021 to 50.4% in 2022.

Import volumes declined from New Zealand (-14%), Uruguay (-19%) and Argentina (-78%) due to supply and policy issues, but increased from the US (+1%), EU 27 (+9%), UK (+62%), Australia (+34%), Mexico (+7%) and Brazil (+104%). Overall, imports in 2022 were 2% below the five-year average with large domestic production supporting Canadian consumption and exports. Trade flows in 2023 are likely to shift as availability is pressured by a tightening North American beef herd and the resilience of the Canadian consumer is tested by tightening monetary policy.

Canadian Beef Imports

