DOMESTIC MARKET REPORT | Q3 2024

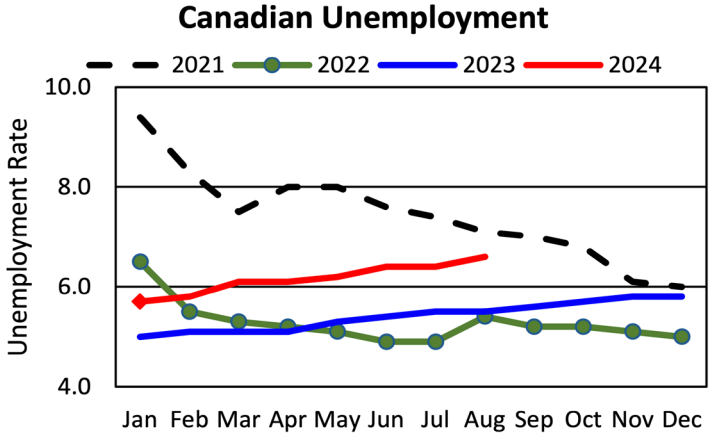
REPORT FROM CANADA BEEF

Executive Summary

Interest rates are coming down, easing the burden on consumers. Analysts anticipate more rate cuts in 2025. Canada's labour market is under pressure, with the unemployment rate at its highest point since January 2017 (omitting 2020 and 2021). Retail beef prices pushed to new record highs in June. Price ratios also widened, as retail pork prices increased year-over-year, but less than beef, while retail chicken prices declined. Food price inflation is moderating. The Canadian cattle herd looks to be entering the consolidation phase of the cattle cycle, with smaller production expected next year. Beef import volumes have increased from last year to keep beef on the consumers' plates.

Economic Outlook

The Bank of Canada had a dovish outlook on the economy this summer and provided some relief to consumers. The key interest rate was cut by 25 basis points at both their July and September meetings to bring the key interest rate to 4.25%. There are two more meetings scheduled in 2024 (October 23 and December 11). Financial markets have put the chances of an October rate cut at better than 90%, while a December rate cut has been fully priced into the market. Currently, macroeconomic analysts expect additional rate cuts to continue into at least the first quarter of 2025.



Source: Statistcs Canada

As of the first week of September, Canada's prime interest rate was 75 basis points lower than the US. Too much divergence between the two countries' rates can weaken the Canadian dollar, and investors will look to other markets for a better return on their investments. A weaker currency also increases the cost of imports, which has the potential to fuel inflation.

Canada's unemployment rate was 6.6% in August, and has been slowly increasing since January 2023, when it was at 5%. Market expectations were for an increase to 6.5%, suggesting that Canada's labour market may be in a slightly weaker position than expected. Omitting 2020 and 2021, Canada's unemployment rate is the highest since January 2017. Only two provinces saw a year-over-year decline in their unemployment rates (Nova Scotia and New Brunswick), while Alberta, at 7.7%, saw the largest year over-year increase (+2 percentage points). Other notable increases were Newfoundland (+1.6 percentage points), Quebec (+1.3 percentage points), and Ontario (+1.1 percentage points).

According to the Conference Board of Canada, the Canadian consumer confidence index in August was 67.1, and has been largely unchanged over the last three months. While the June interest rate cut resulted in a small bump in consumer confidence, the July cut appeared to have little impact on consumers' view toward their future economic situation.

Canada's annual inflation rate slowed to 2.5% in July and has been within the Bank of Canada's target range for the last seven months. Omitting 2020 and 2021, the annual inflation rate was the smallest since August 2018. Real GDP is expected to grow 1% in 2024, slightly below the OECD block of countries average growth rate of 1.7%, of which Canada is a member. In 2025, Canada's GDP is anticipated to grow by 1.8%, fully inline with the average for the OECD block of countries.

The US is starting to show signs of a slowing economy. The annual inflation rate was 2.5% in August and has been easing for the last five months. The unemployment rate was 4.2% in August, down from 4.3% in July. However, this was seen as bearish by US economists. The US added 142,000 jobs in August, but this was below the expectation of 160,000 additional jobs. Federal reserve officials are scheduled to meet the week of September 18th, to discuss the key interest rate. Pun-

dits have all but guaranteed an interest rate cut but continue to debate the merits of a 25-basis point versus a 50-basis point reduction on the impact to the US economy. As of September 11th, there was an 81% chance of at 25-basis point cut, with a 19% chance of a 50-basis point cut.

Retail Sector

According to Statistics Canada, retail beef prices averaged $23.96/kg in July, 8% higher than last year and 26% higher than the five-year average, establishing new record highs. Top quality cuts were mixed, striploin cuts (9%) were lower than last year, while top sirloin cuts (+14%) and rib cuts (+21%) were higher. More economically priced stewing cuts (+4%), and ground beef (+14%) were both higher. Retail ground beef prices in July were at a new record high.

Cuts	Retail Price July 2024 (CDN)	Change from June 2024	Change from July 2023	Change from the Five-year Average for July
Beef rib	$32.71/kg	+13.2%	+21.3%	+32.4%
Beef striploin	$29.18/kg	+8.4%	-9.1%	+15.2%
Beef top sirloin	$24.80/kg	+4.7%	+14.2%	+40.3%
Beef stewing cuts	$20.33/kg	-0.7%	+4.4%	+17.2%
Ground beef	$12.78/kg	+0.8%	+14.2%	+26.6%
Total Retail Beef	$23.96/kg	+6.3%	+7.5%	+25.9%

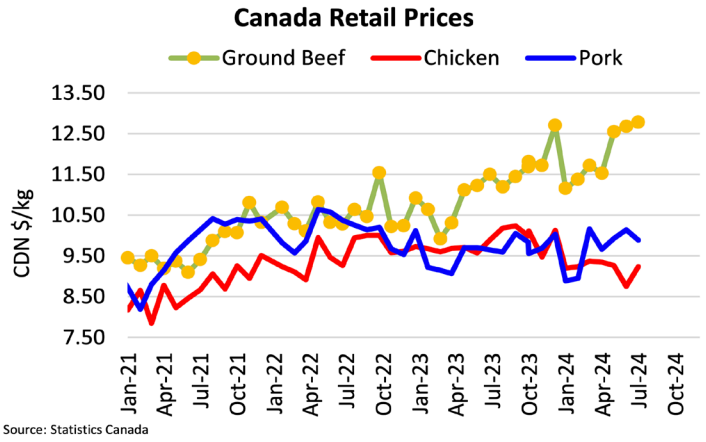
Source: Statistics Canada

Retail pork prices in July 2024 increased 3% from last year to $9.89/kg. Shoulder cuts were up 19%, rib cuts were up 2%, loin cuts were steady, and bacon was down 3%. Retail chicken prices declined 9% from last year to $9.24/cwt: whole chicken (-14%), chicken breast (-13%), and thighs (-10%) were all lower while drumsticks (+5%) were higher. Price relationships widened in July: the beef-to-chicken ratio was 2.59:1, the beef-to-pork ratio was 2.42:1. A reduction in the competitiveness of beef with pork and poultry is expected to reduce beef's market share.

Pounds of beef purchased per hour worked has been trending lower since March 2024. In July, 3.21 lbs of beef could be purchased per hour worked, the second smallest on record going back to 2017. Wages have been increasing, but not as fast as retail beef prices. This is expected to put pressure on beef demand moving into the fall.

Food inflation is being driven higher by the increase in protein prices; with beef leading the way. Other commodities have seen more a more modest increase in prices. Annual food price inflation (including non-alcoholic beverages and food purchased at restaurants) was estimated at 2.7% in July, with grocery store food inflation up 2.1%. Between July 2023 and July 2024, dairy products were up 2%, fresh vegetables were up 1%, frozen fruit and vegetables were up 1%, eggs were up 1%, fresh and canned seafood was steady, canned products (soup, fruit, and vegetables) were down 3%, fresh fruit was down 6%, and grain products (including bread, crackers, pasta, rice, and cereal) were down 9%.

Supermarket and grocery sales (nominal) totaled just over $27 billion in the second quarter of 2024, a slight 0.5% increase from 2023. Supermarkets sales were above a year ago for five of six months during the first half of 2024; the exception being May, when sales were 2% lower than last year.



Source: Statistics Canada

Stocks of beef in cold storage as of July 1 were up 3% from last year but down 11% from the five-year average. Bone-in stocks were up 8%, but down 9% from the five-year average; boneless stocks were up 2% from last year but down 12% from the five-year average.

Stocks of pork in cold storage were down 5% from last year but were up 1% from the five year average. Loins (+21%), backs and shoulders (+10%), and trimmings (+7%) were higher than last year while hams (-26%), bellies (-9%), butts (-9%), picnics (-1%), and ribs (-11%) were lower.

Stocks of frozen poultry in August were down 5% from last year but up 15% from the five-year average. Frozen chicken stocks were down 16% from last year but were partially offset by a 9% increase in frozen turkey stocks.

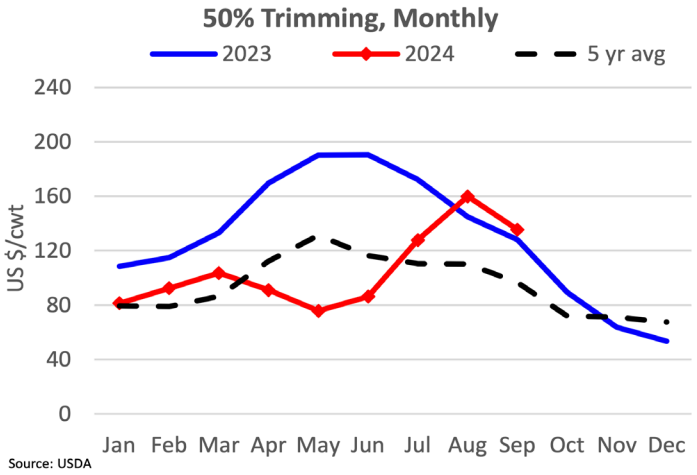
As of mid-July, all of Canada's major grocers have agreed to sign the Grocer's Code of Conduct, with the aim of having it implemented by June 2025 . In addition, key suppliers have also agreed to the code. The code of conduct was not intended to lower grocery store prices, though Gary Sands, Senior VP with the Canadian Federation of Independent Grocers, predicts that there will be a positive impact on prices.

Wholesale Sector

Year-to-date, fed slaughter is down 2% from last year and down 5% from the five year average. Canadian steer carcass weights (FI plants only) averaged 936 lbs, 29 lbs heavier than last year and 28 lbs heavier than the five-year average. Follow-

ing the normal seasonal decline with a late spring low. There has only been one week so far this year that steer carcass weights were below last year. US steer carcass weights moved mostly sideways between February and July, ranging narrowly between 914-923 lbs. There was little in the way of a seasonal decline in steer carcass weights during the summer of 2024. US beef production for 2024 is projected to be down a modest 1% from last year.

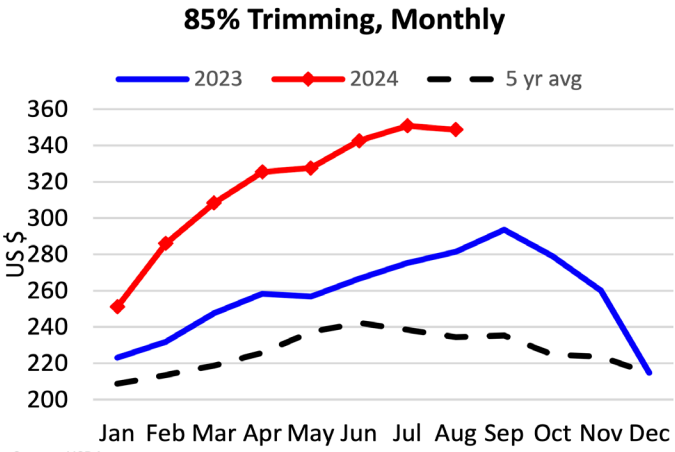
US cutout values remained strong through the first eight months of 2024. Choice cutouts averaged US$307/cwt 3% higher than last year and 7% higher than the five-year average. Select cutouts averaged US$294/cwt, and moderately outperformed their Choice counterparts. Select cutouts were 7% higher than last year and 6% higher than the five-year average. On a monthly basis, Select cutouts have been priced at or above last year every month so far this year.



Source: USDA

US Choice and Select middle meats have been priced at a premium to the five-year average on a weekly basis so far this year, and have moved loosely in line with last year, sometimes at a premium and sometimes at a discount. Year-to-date, Choice middle meats are 1-2% softer than last year, while Select middle meats are 2 8% stronger. It's been the end meats that have been the story of 2024. Both Choice and Select end meats have been priced above a year ago. Choice end meats are 7-11% stronger than last year, with Select end meats 8-11% stronger.

Fatty trim from steers and heifers has seen significant volatility; moving counter-seasonally stronger from April though to August. Between January and August, 50% trim averaged US$102/cwt, down 33% from last year, but up 15% from the five-year average. Since August, fatty trim prices have been steady to slightly stronger than last year. This is despite larger supplies with heavy carcass weights and more yield grade 4 and 5 cattle.



Source: USDA

Year-to-date domestic cow and bull slaughter is down 16% from last year and down 10% from the five-year average. The US has followed the same trend with cow slaughter 15% smaller than both last year and the five year average. Reduced cow and bull slaughter has helped push lean trim prices through the roof in 2024. Between January and August, lean 85% trim (for ground beef and hamburgers) averaged US$318/cwt, 24% higher than last year and 49% higher than the five year average.

Smaller supplies and strong consumer demand for ground beef has encouraged wholesalers to move end meats into grinding lines. Year-to-date, imported lean trim prices have averaged a C$50/cwt discount to local trim prices, which has encouraged lean trim to move into the North American market. Imports from Australia (+150%), New Zealand (+70%), and Uruguay (+3%), of which a large portion is trim product, has had a moderating effect on domestic lean trim prices.

Year-to-date Canadian cattle grading Prime or AAA account for 77.7 per cent of all A grade carcasses, up from 72.3 per cent last year. In the west, carcasses grading either Prime or AAA accounted for 78.5 per cent of all A grade carcasses, up from 71.3 per cent last year. Carcass grading dipped in the east, with 73.9 per cent grading either Prime or AAA, down from 76.7 per cent last year.

Year-to-date domestic beef production is down 1% from last year and down 3% from the five-year average. Domestic beef production has been supported by youthful animals for steaks and roasts; steady with last year but is 3% smaller than the five-year average. Beef production from mature animals for ground beef is down 11% from last year and down 6% from the five-year average.

Food Service Sector

First half 2024 restaurant dollar sales (not seasonally adjusted on a nominal basis) were 4.6% higher than last year, supported by a 3% increase in full-service sales and a 6% increase in fast food and takeout sales. On a monthly basis, food service dollar sales between January and June were 2-8% higher than last year. Since 2019, food service sales have peaked in either July or August every year, suggesting that the peak for 2024 is still coming. Fast food sales accounted for 46.5% of all restaurant sales during the first half of 2024 (+0.5 percentage points), with full-service sales at 43.2% (-0.5 percentage points), special food sales at 7.7% (+0.2 percentage points) and drinking sales at 2.6% (-0.1 percentage points). Restaurant food inflation increased 3.8% on average from last year, with full-service service restaurant sales up 3.4% and fast food and takeout sales up 4.8%.

Imports and Distribution

From January to July 2024, Canadian beef imports were up 15% in volume and up 24% in value from last year. Beef import volumes declined from the U.S. (-4%), Mexico (-2%), and Brazil (-27%), while increasing from the EU (+4%), the U.K. (+196%), New Zealand (+196%), Uruguay (+3%), Australia (+150%), and Argentina (up 1,144 tonnes from a very small base). The top five exporters to Canada by market share are the U.S. (48.2%), Australia (13.8%), New Zealand (11%), Uruguay (7.2%), and Mexico (5.8%). These five countries account for 86 per cent of Canadian imports.

A decline in domestic beef production is anticipated as Canada moves into the consolidation phase of the cattle cycle. Larger beef imports will be needed to keep beef on consumers' plates.