

REPORT FROM CANADA BEEF

Executive Summary

The Canadian economy hit a rough patch in November with unemployment rising, and even surpassing expectations. The Bank of Canada capped their 2024 meeting schedule with another interest rate reduction, the fifth consecutive reduction this year. The key interest rate has dropped 175 basis points since the start of the year. Retail beef prices eased in October but remain higher than last year. In comparison, both retail pork and chicken prices are lower than last year.

Food costs are forecast to increase in 2025, with the largest increase in the meat category. Year-to-date domestic beef production is 2% smaller than last year, on smaller slaughter volumes. Canada's population grew by 2.4 million people or 6% over the past two years. A larger population competing for relatively steady supplies has pushed retail beef prices to some of the highest levels on record.

Economic Outlook

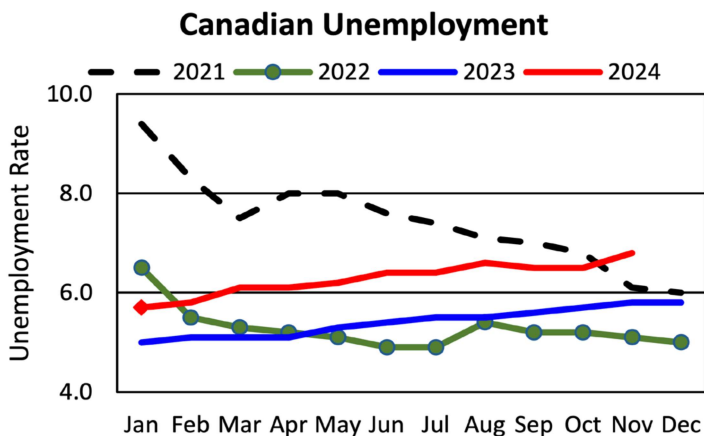
Canada's annual inflation rate in October was 2%, up from 1.6% in September and slightly above expectations of 1.9%. Headline inflation has been within the Bank of Canada's target range since January 2024. Officials anticipate the spotlight to move away from inflation as it stabilizes.

The Canadian unemployment rate rose in November to 6.8% from 6.5%, surpassing market expectations of 6.6%. Omitting 2020 and 2021, the Canadian unemployment rate was the highest since the second half of 2016. The November employment report was a mixed bag. There was a net increase of 51,000 jobs, the second largest monthly increase in employment this year and double what analysts had estimated. However, Canada's unemployed population was estimated at 1.5 million persons, up 90,000 from October, of which almost half have not worked in the last year or have never worked. On December 11th, the Bank of Canada opted to cut its key interest rate by another 50 basis points and is the fifth consecutive meeting that officials have decided to lower interest rates. A total of 175 basis points have been knocked off the key interest rate since June. At the same time, officials indicated that any subsequent cuts would be more gradual. The same week, all six of Canada's major banks indicated they will lower their respective prime rates by the same amount.

Annualized growth was 1% in the third quarter of 2024, failing to meet revised Bank of Canada expectations of 1.5%; down from 2.8% earlier in the year. Canadians were putting more into savings rather than purchases, which impacted GDP growth.

Two pieces of legislation were recently introduced by the Federal Government. The first is a two-month GST/HST break on a wide range of products, including most essential items. The Department of Finance noted that this makes essentially all food tax-free. This bill is currently before the Senate and is expected to pass the Senate and receive royal assent sometime between December 9th and December 16th, 2024. The second is a one-time \$250 rebate to be released in the first quarter of 2025 to anyone who worked in 2023 and made less than \$150,000. This bill has stalled in the House of Commons.

According to the Third Quarter Canadian Survey of Consumer Expectations published by the Bank of Canada, respondents expect inflation to be 3.9% while wage growth is only expected to increase by 2.7% one year from now. Survey respondents also expect interest rates to stabilize around the 5% mark for the next five years. As for the economic



Source: Statistics Canada

outlook, around one-third (32%) of respondents expect the Canadian economy to remain stable over the next 12 months, while almost half (49%) expect the economy to either have a small or a significant decline. Just shy of one in five (18%) respondents surveyed thought the Canadian economy would grow over the next 12 months.

Headwinds in 2025 include the possibility of tariffs being applied to all products coming into the U.S., including from Canada and Mexico until border issues (illegal immigration and drugs) are resolved. This is despite the CUSMA agreement being in place. Some analysts, however, think this may be a negotiating tactic.

Retail Sector

Retail beef prices averaged \$21.66/kg in October, 10% higher than last year and 26% higher than the five-year average. Four of five beef cuts increased year-over-year in October, with a moderate 6% increase on stewing cuts and moderate 14-15% increases on ground beef and rib cuts. Top sirloin saw the largest year-over-year increase, up 22%. Striploin cuts eased a slight 1% from October 2023.

Cuts	Retail Price October 2024 (CDN)	Change from September 2024	Change from October 2023	Change from the Five-year Average for October
Beef rib	\$26.55/kg	-24.5%	+14.6%	+32.1%
Beef striploin	\$25.24/kg	-21.2%	-0.9%	+7.6%
Beef top sirloin	\$24.41/kg	+1.0%	+21.8%	+53.3%
Beef stewing cuts	\$18.65/kg	-7.2%	+5.6%	+16.0%
Ground beef	\$13.46/kg	+3.9%	+13.9%	+32.9%
Total Retail Beef	\$21.66/kg	-12.9%	+10.3%	+26.4%

Source: Statistics Canada

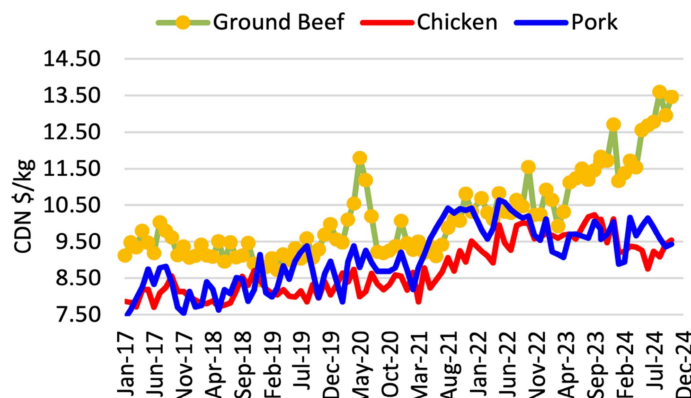
Retail pork prices averaged \$9.43/kg in October, down 1% from last year but up 2% from the five-year average. Pork prices were pulled lower in October from a 3% drop in shoulder cuts and a 5% decline in bacon. Rib cuts were up a moderate 3% and loin cuts were steady with last year.

Retail chicken prices averaged \$9.54/kg in October, down almost 6% from last year. The largest declines were seen on whole chickens (-12%) and drumsticks (-11%), with a smaller year-over-year decline on chicken breast (-6%). A marginal 1% increase was noted on thighs.

The beef-to-pork price ratio was 2.30:1 in October, its narrowest in the last four months. However, this was still noticeably wider than the long-term average of 1.99:1. The beef-to-chicken ratio was 2.27:1 in October and was at its narrowest point in six months.

In October, ground beef was priced at approximately 1.5 times the price of pork loin and was priced slightly higher than chicken breast. Some consumers may see this as an opportunity to switch to other protein products.

Canada Retail Prices



Source: Statistics

On average, 3.63 pounds of beef could be purchased per hour worked in October, the highest since March. However, this is slightly smaller than last year when 3.82 pounds of beef could be purchased per hour worked, with the five-year average of 4.04 pounds of beef purchased for every hour worked.

Supermarket and grocery (nominal) sales totaled \$27.6 billion in the third quarter of 2024, up 2% from last year and 11% higher than the five-year average. Supermarket sales were somewhat flat in July and August with less than a 1% increase in both months, however, sales surged 4% higher in September to cap the quarter.

The 2025 edition of Canada's Food Price Report forecasts food prices to increase by 3-5% on average. The meat category is forecast at 4-6% and is the only category that is expected to have a larger than average price increase. Vegetables are forecast to be steady with the average increase in food prices, at 3-5%. Below average food price inflation is forecast for bakery and dairy products (up 2-4%), while fresh fruit and seafood are forecast to be up 1-3%. Retail featuring may help reduce some of the burden for consumers next year.

Stocks of Meat in Cold Storage

Stocks of beef in cold storage as of October 1st were up 11% from last year but down 3% from the five-year average. Bone-in beef stocks were up 5% from last year and up 8% from the five-year average. Boneless beef stocks were up 13% from last year but down 6% from the five-year average. Higher boneless beef stocks may be partially due to stocks in bonded warehouses ready to be released January 1st, 2025, when import quota volumes reset, allowing beef to be imported tariff-free.



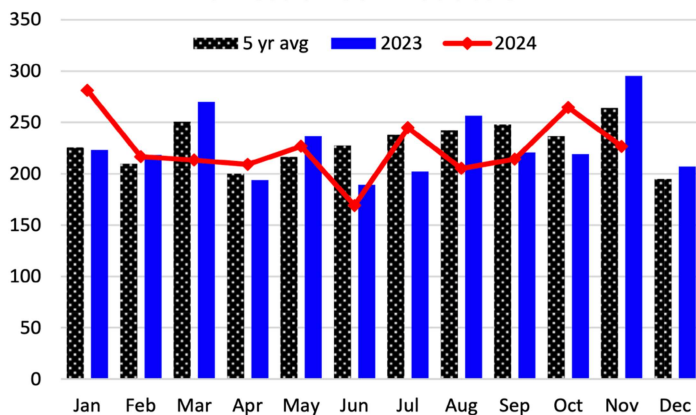
Stocks of pork in cold storage were 1% smaller than last year but 4% larger than the five-year average. Stocks of hams, loins, bellies, and butts were all larger than last year, while stocks of picnics, ribs, backs and shoulders, and trimmings were all smaller.

Stocks of frozen poultry in November were down 8% from last year but were up 7% from the five-year average for November. Stocks of frozen chickens were down 12% from last year but were up 5% from the five-year average, while stocks of frozen turkeys were higher than both last year and the five-year average.

Wholesale Sector

Year-to-date, total slaughter volumes are down 5% from last year and are down 6% from the five-year average. Slaughter volumes have been below year ago levels for 39 of 48 weeks so far this year. However, domestic production is only down 2% from last year with larger carcass weights. On a weekly basis, domestic production has been more resilient and has only been below year ago levels for 21 of 48 weeks, which has helped keep packing plant production lines operating.

Domestic Beef Production



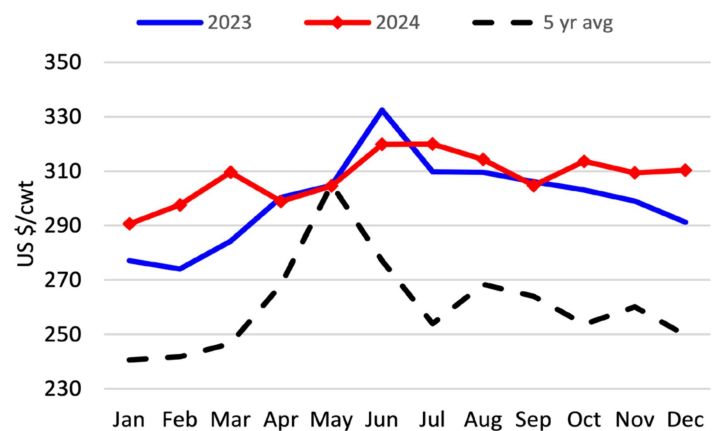
Year-to-date, youthful slaughter for steaks and roasts is down 2% from last year and down 5% from the five-year average. Part of the drop in youthful slaughter is due to the Guelph labour strike in June and July. Year-to-date, steer carcass weights are 23 lbs heavier than last year and 25 lbs heavier than the five-year average. Most of the year-over-year increase in carcass weights can be attributed to the first quarter. Carcass weights since May are running only 12 lbs above a year ago. Beef production from youthful animals is steady with last year but is 3% smaller than the five-year average.

Year-to-date, cow and bull slaughter is down 20% from last year and down 13% from the five-year average. Year-to-date beef production from mature animals for ground beef products is down 16% from last year and down 8% from the five-year average.

Cutout Values

During the second half of the year, US Choice cutouts have been largely rangebound within \$10/cwt of \$310/cwt. This year, the Choice cutout found strength between September and October during what has historically been a softer month. Year-to-date, the Choice cutout is 2.5% stronger than last year, averaging US\$308/cwt. End meat primals have been supporting the Choice cutout, with Chuck and Round up 7-8% year-over-year. Middle meats have been lackluster, softening around 1% from last year. However, since the middle of October, the Rib primal has been carrying the Choice cutout. The Select cutout, which has been pushed higher by the reduction of lean trim for ground beef products, has been outperformed the Choice cutout this year. Year-to-date, the Select cutout is 5% stronger than last year, averaging US\$292/cwt. Select end meats are 8% higher than last year, Select middle meats are a wide ranging 2-6% higher.

US Choice Cutout Value



Source: USDA

Carcass grading continues to impress. Year-to-date, AAA or Prime accounted for 77.9% of all A grade carcasses. Grading improved in the west compared to last year (78.8% vs. 73.5%) but declined in the east (73.9% vs. 76.4%).

Food Service Sector

Total restaurant dollar sales (not seasonally adjusted) in the third quarter of 2024 were 2.8% higher than last year. Special



food services (catering) and limited-service restaurants (fast food) were both up 5% from the third quarter of 2023. Dollar sales at full-service restaurants (dine-in) were up a slight 0.4% from last year. Year-to-date, total restaurant dollar sales are up 3.9% from last year. Special food services are up a notable 6.7%, followed by limited-service restaurants (+5.4%) and full-service restaurants (+2.2%).

The October 2024 consumer price data released by Statistics Canada estimates restaurant food price inflation for 2024 to be 3.4% higher than 2023. Table-service (full-service) food inflation is estimated at 3.1% with fast food and take-out restaurant inflation at 4.3%. The 2025 edition of Canada's Food Price Report forecasts restaurant food inflation in 2025 to range from 3-5% higher than 2024.

Imports and Distribution

The Canadian cattle herd is thought to be moving into the consolidation phase of the cattle cycle, with a reduction in cow slaughter and modest heifer retention occurring on cow-calf farms. The beef industry will be dependant on heavier carcass weights and larger imports to keep beef on the centre of consumers' plates.

From January to October 2024, Canadian beef imports were up 9% in volume and up 17% in value from last year. Imports were higher from Australia (+64%), New Zealand (+38%), Uruguay (+8%), the U.K. (+183%), and Argentina (+15,038%). The majority of beef imported from these countries is trim and grinds for ground beef products. Beef imports from the U.S. (-8%), Mexico (-1%), the EU (-2%), and Brazil (-14%) are down from last year.

Statistics Canada estimated the Canadian population at 41.3 million people as of October 1st, 2024, up 3% from last year and up 6% from October 1st, 2022. This means 2.4 million more people over the last two years. A larger population competing for steady supplies has pushed retail beef prices to be the highest on record in recent months. Overall, available beef supplies have lagged behind the population growth. Research indicates that immigrants often experience changes in their dietary habits after relocating to Canada, a process known as dietary acculturation. This process involves both the retention of traditional dietary behaviours and the incorporation of new foods and eating habits. The extent of this dietary shift varies among individuals and communities.

¹Canadian Survey of Consumer Expectations – Survey Data.

<https://www.bankofcanada.ca/publications/canadian-survey-of-consumer-expectations/canadian-survey-of-consumer-expectations-survey-data/>
