

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Canada

Livestock and Products Annual

2012: Stabilization in Cattle and Hog Herds

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Report Highlights:

After several years of decline, the cattle and hog herd number appear to have reached their lowest point and a modest expansion is forecast for 2012. Due to relatively good supplies of barley, wheat and canola, Canada continues to maintain a feed cost advantage, resulting in lower exports of livestock to the United States. Given high costs, and despite solid market prices, it is too early for an expansion. Beef production is forecast to increase in 2012, while pork production remains flat, both below recent levels. A persistently strong Canadian dollar will result in weak beef and flat pork exports.

Executive Summary:

Cattle & Beef

After years of contraction, the Canadian cattle sector may have turned the corner in 2011. Based on increased numbers of beef heifers retained for replacement and a substantial drop in the number of cows slaughtered, Post forecasts for 2012 a modest expansion of 1 percent in total cattle inventories, suggesting the sector entered a phase of consolidation.

Canada will continue to maintain its recently acquired feed cost advantage into 2012, although at a narrower margin. This will affect cattle exports to United States, which are forecast to further decline from their 2011 level. Abundant feed wheat and fair barley supplies, both corn substitutes, were the reasons behind this cost advantage, which translated into an unexpected estimated drop of almost 40 percent in 2011 cattle exports.

With large numbers of inventories remaining in country, Post forecasts for 2012 a 4 percent increase in slaughter, after a 9 percent drop in 2011. Although beef production will go up in 2012, supplies remain tight and the market will rely on imports to fill the gap. Limited supplies and the continued strength of the Canadian dollar are the reasons why beef exports will continue to remain below recent average levels. In 2011, Canada imported 13 percent more beef than in 2010, while exports declined by an estimated 21 percent.

Hogs & Pork

Similar to cattle, the hog sector is at a turning point in 2011. Herd liquidation has ceased and farmers are looking to consolidate their operations. Post forecasts a modest increase in inventories for 2012, coupled with the retention of additional breeding sows for production. The high cost of feed, oscillating market prices and the capacity to service debt will continue to influence farmers' decisions in 2012. In the province of Manitoba, strict environmental regulations are reported to become more burdensome and may start affecting production levels in the years to come.

Exports of live hogs have also stabilized, and Post predicts a volume in 2012 similar to the 2011 level, which is only marginally higher than the previous year. Slaughter remains flat, forecasted only slightly up for 2012, after a small decline in 2011. In tandem, given fairly similar weights, pork production will show a modest increase in 2012, after some reduction in 2011.

Despite the strong Canadian dollar, pork demand remains relatively weak, prompting Post to forecast a lower level of imports for 2012. Imports in 2011 are estimated up 6.5 percent compared to 2010, which is less than anticipated. The same strong dollar, combined with limited supplies has an impact on pork exports, forecasted to remain flat in 2012 for the third consecutive year. In 2011, gains in some export Asian markets, including Korea and Russia, have been counterbalanced by reduced volumes in some other Asian markets, United States and Australia.

CATTLE:

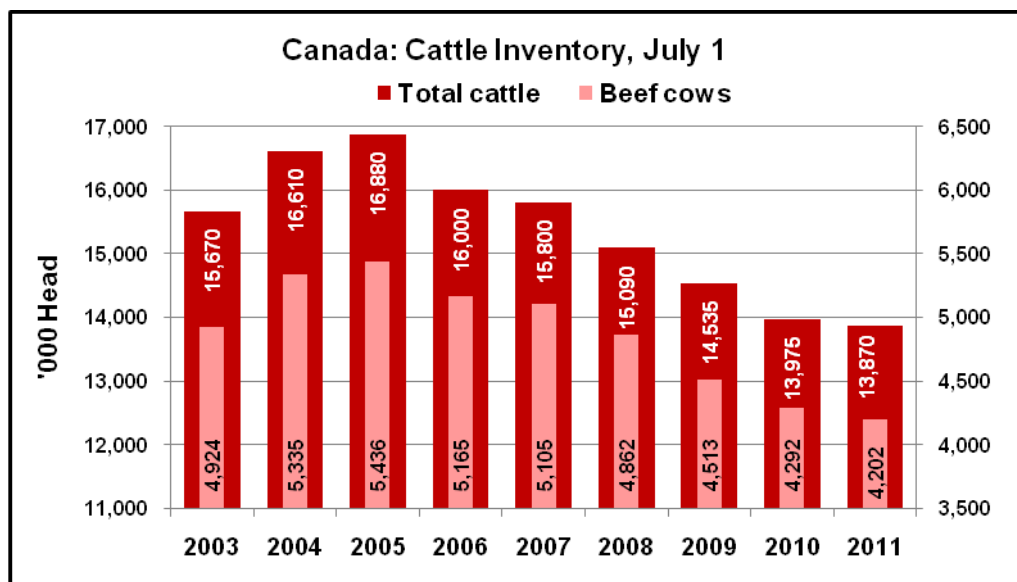
NOTE: "NEW Post" data reflect author's assessments and are NOT official USDA data

CANADA Animal Numbers CATTLE ('000 head)	2010		2011		2012	
	USDA Official Data	NEW Post Data	USDA Official Data	NEW Post Estimates	USDA Official Data	NEW Post Estimates
Total Cattle Beg. Stocks	12,905	12,905	12,460	12,457	0	12,615
Dairy Cows Beg. Stocks	981	981	987	983	0	980
Beef Cows Beg. Stocks	4,391	4,391	4,273	4,273	0	4,280
Production (Calf Crop)	4,886	4,835	4,675	4,700	0	4,800
Total Imports	55	56	55	60	0	60
Total Supply	17,846	17,796	17,190	17,217	0	17,475
Total Exports	1,065	1,065	1,000	650	0	600
Cow Slaughter	610	605	500	510	0	500
Calf Slaughter	250	303	200	290	0	300
Other Slaughter	2,879	2,838	3,040	2,600	0	2,725
Total Slaughter	3,739	3,746	3,740	3,400	0	3,525
Loss	582	528	550	552	0	560
Ending Inventories	12,460	12,457	11,900	12,615	0	12,790
Total Distribution	17,846	17,796	17,190	17,217	0	17,475

The Cattle Herd Is Stabilizing

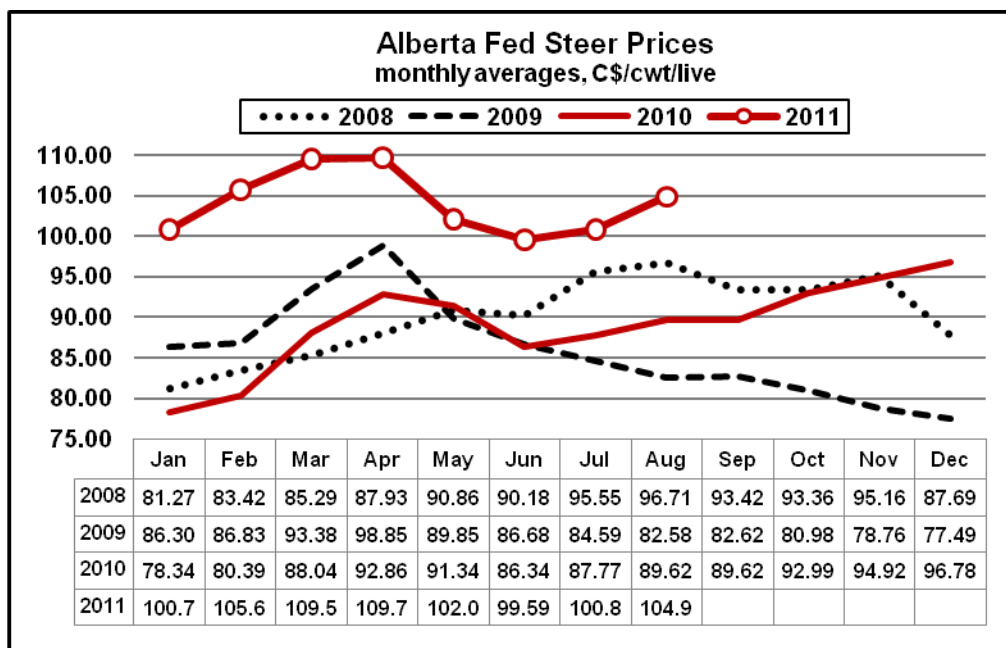
Data released by Statistics Canada for July 1st showed a 6.7 percent increase in the number of heifers retained for beef cow replacement. At the same time, beef cow slaughter in 2011 is estimated to decline by 16 percent compared to 2010. These trends prompted Post to forecast a modest increase in total cattle inventories for 2012 and to conclude that after years of downsizing the sector has reached the bottom in 2011 and is now entering a phase of consolidation. It is too early to discuss expansion, as market conditions remain uncertain in terms of feed costs and demand, while the Canadian dollar is likely to maintain its recent strength.

With the additional heifers retained and the existing cow inventory, Post forecasts a 2 percent increase in calf production for 2012, at 4.8 million head up from an estimated 4.7 million head in 2011. Total cattle inventories at the beginning of 2012 are forecasted at 12.62 million head, up from 12.46 million in 2011, while 2012 ending inventories are forecast at 12.79 million head.



Source: Statistics Canada

Tight cattle supplies continue to fuel high prices, helping ranchers through this period of equally high feed costs. Prices throughout 2011 have remained at much higher levels than in previous five years.

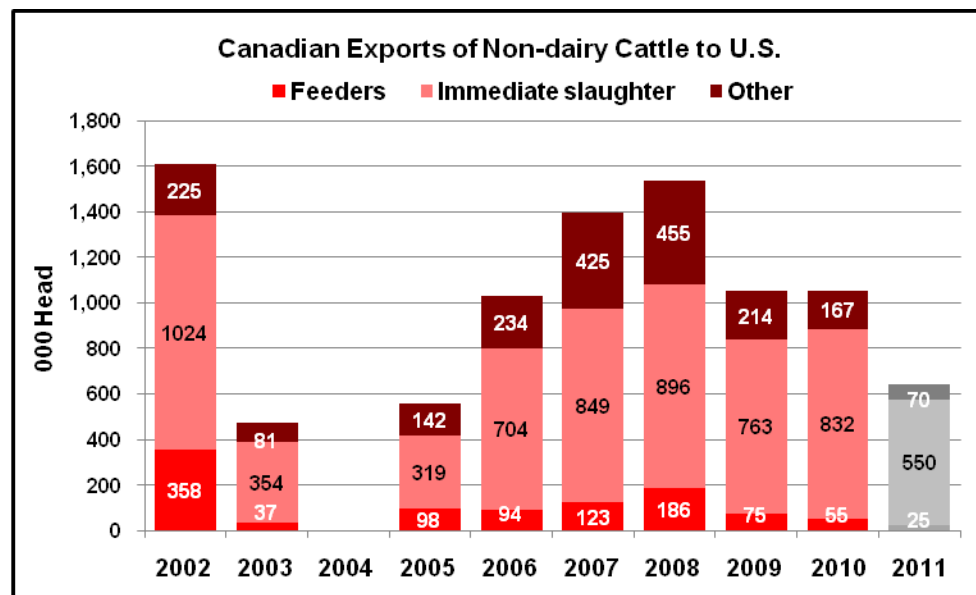


Source: Statistics Canada

Cattle Exports on Sharp Decline

As the Canadian cost advantage in feed is likely to continue into 2012, although at a narrower margin, Post forecasts an additional drop of 7.7 percent in cattle exports, down to 600,000 head from an estimated level of 650,000 head in 2011. Due to excessive rain and flooding in the west, large amounts of wheat have been downgraded to feed wheat in 2011, which, together will fair supplies of barley,

translated into lower prices for cattle feed. In Canada, both feed wheat and barley are substitutes for corn.



Source: Global Trade Atlas

This abundant supply of feed at comparatively lower prices resulted in large numbers of cattle remaining on feedlots in Canada, rather than exported to the United States. The drop in total 2011 cattle exports exceeded all expectations at an estimated 39 percent, down from more than 1 million head in the previous year. This approaches levels not seen since the 2003 BSE crisis.

BEEF:

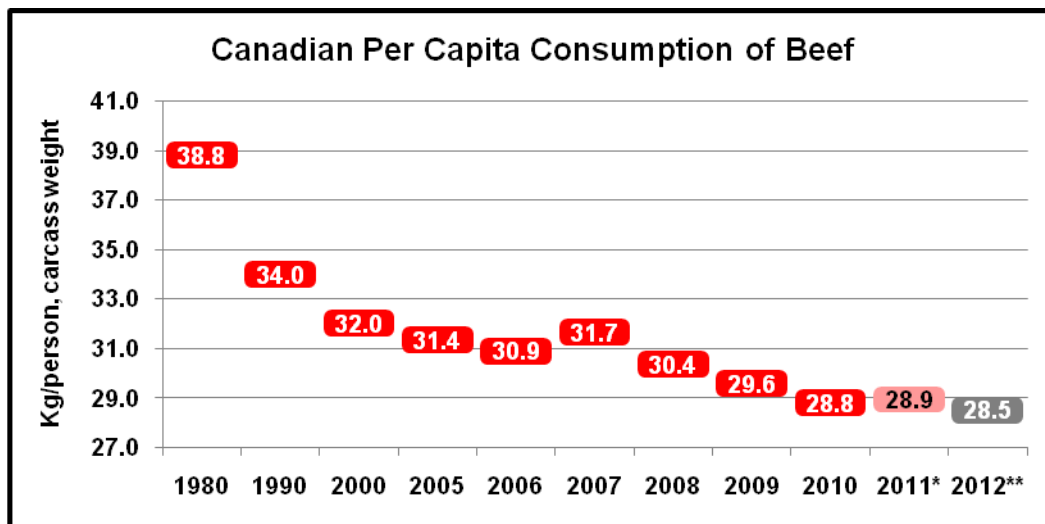
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CANADA Meat BEEF and VEAL	2010		2011		2012	
	USDA Official Data	NEW Post Data	USDA Official Data	NEW Post Estimates	USDA Official Data	NEW Post Estimates
Slaughter (Reference)	3,739	3,746	3,740	3,400	0	3,525
Beginning Stocks	37	37	30	30	0	30
Production	1,272	1,272	1,275	1,155	0	1,190
Total Imports	243	243	240	275	0	270
Total Supply	1,552	1,552	1,545	1,460	0	1,490
Total Exports	523	523	525	415	0	450
Total Dom. Consumption	999	999	990	1,015	0	1,010
Ending Stocks	30	30	30	30	0	30
Total Distribution	1,552	1,552	1,545	1,460	0	1,490

Beef Supplies Tight, Although Increasing

With large numbers of cattle staying in Canadian feedlots and packers seeking to run their plants closer to capacity, Post is forecasting a 3.7 percent increase in domestic slaughter for 2012, now pegged at over 3.5 million head. This will follow an estimated significant drop of 9.2 percent in 2011, which is the result of stagnant domestic demand, high costs, and weak exports caused by a persistently strong Canadian dollar.

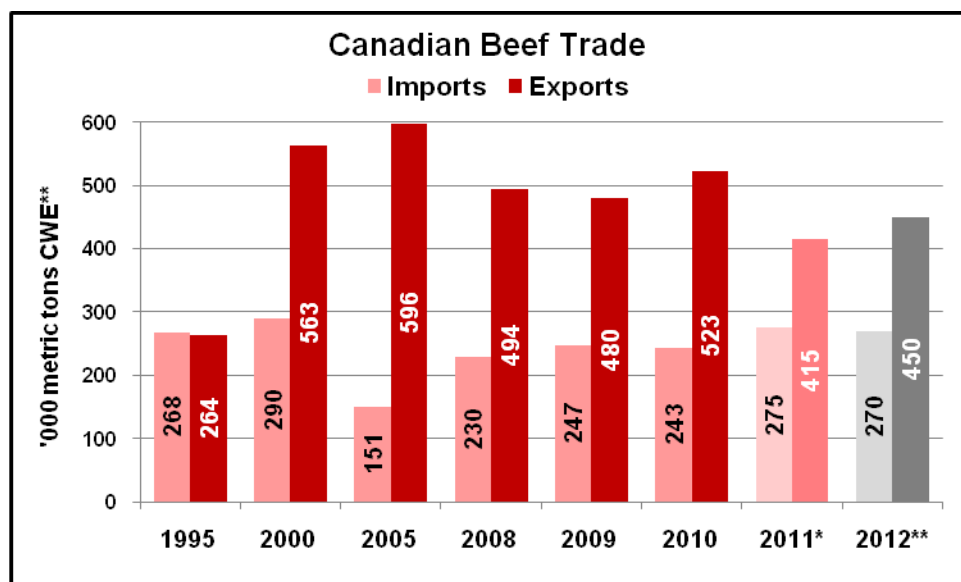
Beef production is forecast to climb 3 percent in 2012, reaching 1.19 million metric tons (MT), after a 9 percent drop in 2011. Per capita domestic consumption is not likely to change much from the levels reached in recent years. Following a period of steady decline, it seems to be stabilizing around 28-29 kilograms per capita of carcass weight equivalent.



Source: Statistics Canada / Post *estimate **forecast

From Bottom Levels, Trade Can Only Go Up

With additional supplies of domestic beef, and given the current tight markets worldwide which provide a sustained demand, exports are likely to increase in 2012, overcoming the negative impact caused by a persistently strong Canadian dollar. Post forecasts exports at 450,000 MT, up more than 8 percent after they hit in 2011 a record low level in over a decade at an estimated 415,000 MT. Reduced supplies and an exceptionally strong dollar contributed to these developments in 2011, when exports dropped almost 21 percent from the previous year's level.



Source: Global Trade Atlas / Post *estimate **forecast

The United States continues to be the main export market in 2011 for Canadian beef, however exports to Mexico declined as a result of their resumption of beef imports from United States following the trucking dispute resolution. Egypt and Russia show a good export potential given significant increases in exports over the past half year.

Canada: Beef Exports, January - June (metric tons, CWE*)							
	Quantity			% Market Share			% Change
	2009	2010	2011	2009	2010	2011	2011/2010
World	231,328	273,626	207,779	100.00	100.00	100.00	- 24.06
United States	192,722	220,104	161,236	83.31	80.44	77.60	- 26.75
Mexico	21,239	29,533	17,633	9.18	10.79	8.49	- 40.29
Hong Kong	5,444	10,766	13,794	2.35	3.93	6.64	28.13
Japan	2,527	5,154	4,661	1.09	1.88	2.24	- 9.56
Russia	93	611	2,813	0.04	0.22	1.35	360.10
Egypt	0	121	2,055	0.00	0.04	0.99	1601.17
Philippines	1,518	478	1,112	0.66	0.17	0.54	132.68
All other countries	7,785	6,859	4,475	3.37	2.51	2.15	-34.76

Source: Global Trade Atlas / *Conversion to carcass weight equivalent at 1.4

Imports, by contrast, are likely to decline in 2012 as supplies build. Post pegs imports at 270,000 MT, a 2 percent decline from 2011. During the current year, poor domestic production and competitively priced imports, facilitated by the strong Canadian currency, translated in an estimated 13 percent increase in beef imports from the 2010 level. The United States remain the major supplier of beef, with an increase of 32 percent during the first half of 2011 over the similar period one year earlier.

Canada: Beef Imports, January - June (metric tons, CWE*)							
	Quantity			% Market Share			% Change
	2009	2010	2011	2009	2010	2011	2011/2010
World	135,563	120,487	134,895	100.00	100.00	100.00	11.96
United States	78,225	75,292	99,604	57.70	62.49	73.84	32.29
New Zealand	30,121	18,966	21,356	22.22	15.74	15.83	12.60
Uruguay	15,866	15,549	5,578	11.70	12.90	4.14	- 64.12
Australia	8,726	6,308	5,152	6.44	5.24	3.82	- 18.33
Brazil	2,090	3,631	3,018	1.54	3.01	2.24	- 16.90
All other countries	535	741	187	0.39	0.62	0.14	-74.76

Source: Global Trade Atlas / *Conversion to carcass weight equivalent (CWE) at 1.4 for fresh, chilled and frozen meat, and at 1.79 for salted and processed meat

Policy:

Innovation for the Beef Feedlot Industry

The Canadian federal government announced an investment of C\$750,000 to Quantum Genetics Canada Inc. to commercialize a new technology that help producers send cattle to market at the optimum time.

Quantum Genetics Canada developed a management services system that improves the quality of beef carcass profiles and this funding has helped the company market the system to feedlots across North America. The tool uses DNA testing and genotyping to enable producers and feedlot operators to distinguish between genetic variations in beef cattle that are related to growth and fat profiles. These profiles tell feedlot operators the best feeding schedules for the animals. They also tell feedlot operators when the animal has reached the targeted body fat profile, which prevents feedlot operators from spending additional money keeping the animal on the feedlot unnecessarily and allows them to process more cattle more quickly. It will also help them capture premiums for their product for attributes like marbling and tenderness. Funding for this project came from the Agri-Opportunities Program.

Vietnam Opened its Doors to Canadian Live Breeding Cattle, Sheep and Goats

The Canadian industry has been working with the government to gain access to the Vietnam market for several years. Vietnam's Department of Animal Health has now formally approved the Canadian export health certificates for live cattle and live goat and sheep, allowing trade to resume immediately. The industry estimates the total market value for imports of live ruminants in Vietnam worth close to C\$50 million, of which Canada can now compete for a share. In addition to live breeding cattle, sheep and goats, Canada also has access for the following related products: all beef from animals of all ages; beef offal (heart, liver, and kidney); bovine semen; bovine embryos; ovine semen; ovine embryos; caprine semen; caprine embryos.

Government Provides Tax Deferrals to More Livestock Producers

More livestock producers in Manitoba and Saskatchewan will have financial breathing room to cope with excess moisture and flooding as the list of designated areas eligible for tax deferrals has been expanded. The tax deferral allows eligible producers in designated areas to defer income tax on the sale of breeding livestock for one year, to facilitate the replenishment of the breeding stock in the following

year. To defer income, the breeding herd must have been reduced by at least 15 percent. If this is the case, 30 percent of income from net sales can then be deferred. In cases where the herd has been reduced by more than 30 percent, 90 percent of income from net sales can be deferred.

Support to Improve Beef Quality

The federal government announced an investment of C\$1.7 million to the Canadian Simmental Association. Using DNA and other genetic data, this three-year project will help cattle breeders identify, select and breed cattle that have higher fertility and mothering ability, growth and feed efficiency, and produce a more desirable beef product. The results will be shared through various beef sector groups including the Canadian Beef Breeds Council. This funding comes from the Canadian Agricultural Adaptation Program.

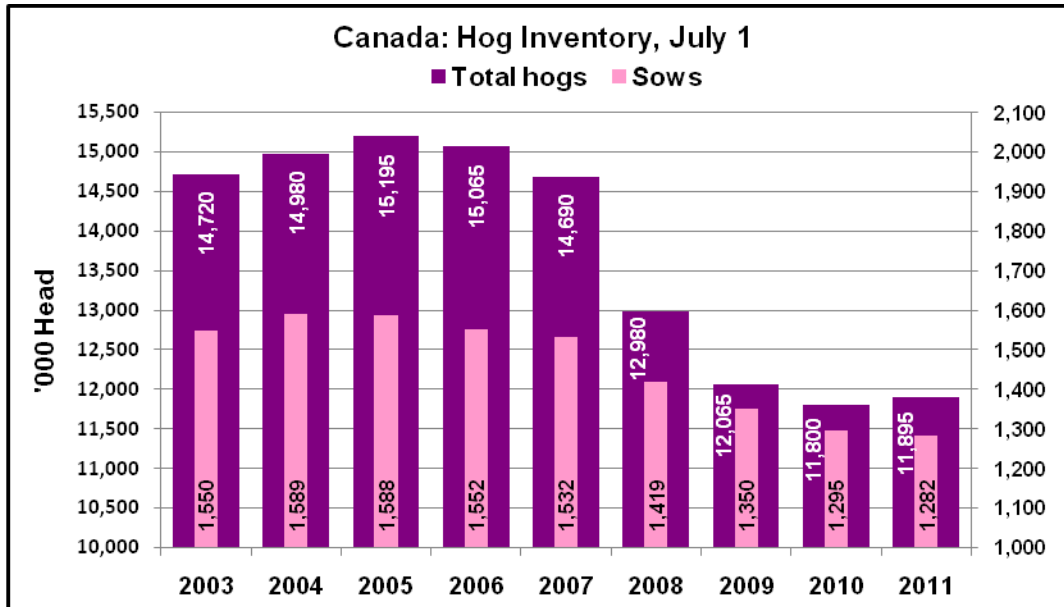
HOGS:

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CANADA Animal Numbers SWINE ('000 head)	2010		2011		2012	
	USDA Official Data	NEW Post Data	USDA Official Data	NEW Post Estimates	USDA Official Data	NEW Post Estimates
Total Beginning Stocks	11,835	11,835	11,910	11,895	0	11,925
Sow Beginning Stocks	1,310	1,310	1,295	1,295	0	1,300
Production (Pig Crop)	28,503	28,498	28,170	28,260	0	28,450
Total Imports	3	3	2	3	0	2
Total Supply	40,341	40,336	40,082	40,158	0	40,377
Total Exports	5,761	5,761	5,850	5,840	0	5,830
Total Slaughter	21,270	21,285	20,950	21,010	0	21,185
Loss	1,400	1,395	1,382	1,383	0	1,387
Ending Inventories	11,910	11,895	11,900	11,925	0	11,975
Total Distribution	40,341	40,336	40,082	40,158	0	40,377

Herd Liquidation Ceased and Consolidation Is Underway

The hog sector was at a turning point in 2011. Herd liquidation has ceased and farmers are now looking to consolidate their operations. Post forecasts for 2012 a modest 0.25 percent increase in total inventories, up to 11.93 million head. In addition, it is estimated that additional breeding sows will be retained for production, up to a total of 1.3 million head.

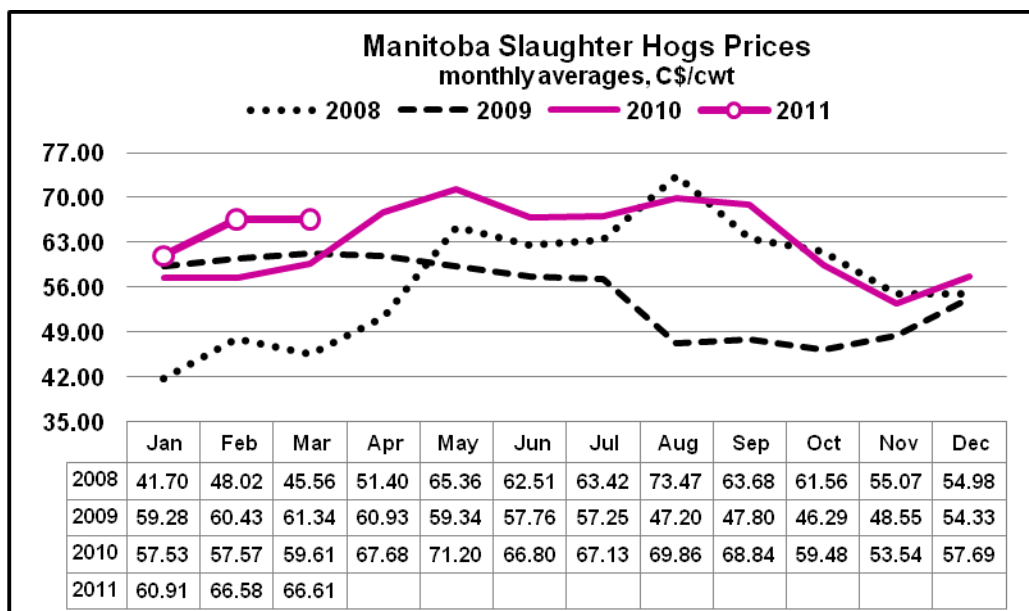


Source: Statistics Canada

With the increased number of sows expected in production, Post forecasts the 2012 pig crop at 28.45 million head, up 0.7 percent from the 2011 level. The high cost of feed, oscillating market prices and the capacity to service debt will continue to influence farmers' decisions in 2012. In Canada, canola meals are a substitute, to a certain degree, for soy meals in hog rations, and the record high canola crop that is estimated for 2012 is likely to provide some feed cost relief to producers.

In the province of Manitoba, strict environmental regulations are reported to become more burdensome and may start affecting production levels in the years to come, as farmers will have difficulties in building new barns, to replace the existing facilities or to expand production, while paying the price of compliance with the new regulations.

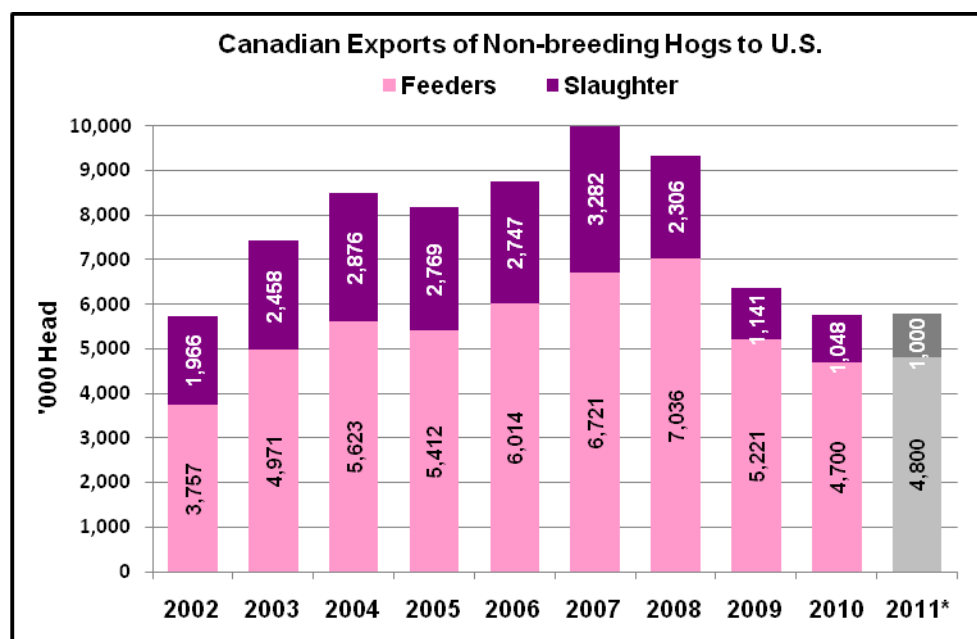
In parallel with feed costs, hog prices remain relatively high, just enough to keep most farmers in business, but not nearly high enough to trigger a new expansion.



Source: Statistics Canada

Trade in Live Hogs Goes Steady

Exports of live hogs seem to have stabilized. Post predicts a number of 5.83 million head to be exported in 2012, a level that is only marginally lower than the estimated 5.84 million head for 2011. This, in turn, is also only marginally higher than the export level of 5.76 million head recorded in 2010. The market seems to have reached a balance between exports and the necessary supply of hogs required to be slaughtered domestically, given that recent years have shown a stable demand for pork both internally and on foreign markets.



Source: Global Trade Atlas / *Post estimate

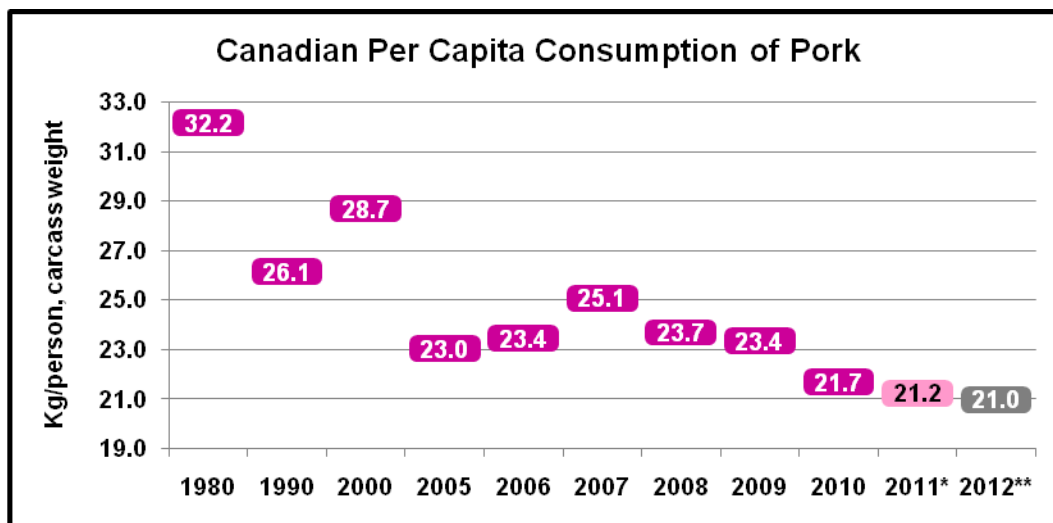
PORK:

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CANADA Meat SWINE	2010		2011		2012	
	USDA Official Data	NEW Post Data	USDA Official Data	NEW Post Estimates	USDA Official Data	NEW Post Estimates
Slaughter (Reference)	21,270	21,285	20,950	21,010	0	21,185
Beginning Stocks	51	51	40	45	0	40
Production	1,772	1,772	1,745	1,753	0	1,765
Total Imports	183	183	220	195	0	190
Total Supply	2,006	2,006	2,005	1,993	0	1,995
Total Exports	1,159	1,159	1,180	1,160	0	1,165
Total Dom. Consumption	807	802	795	793	0	790
Ending Stocks	40	45	30	40	0	40
Total Distribution	2,006	2,006	2,005	1,993	0	1,995

Demand for Canadian Pork Remains Flat, Domestically and on Foreign Markets

As a result of stagnant demand, slaughter remains flat as well. Post forecasts hog slaughter 0.8 percent up for 2012 to 21.185 million head, after an estimated decline of 1.3 percent in 2011. In tandem, given fairly similar weights, pork production will show a modest increase of 0.7 percent in 2012 to 1.765 million MT, after a 1.1 percent reduction in 2011.



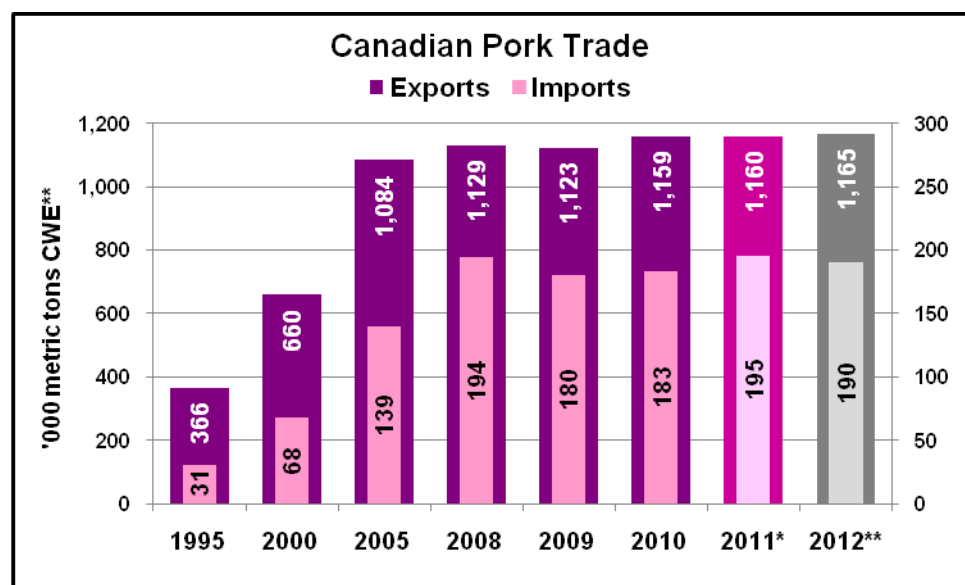
Source: Statistics Canada / Post *estimate **forecast

Per capita consumption of pork in Canada is expected to continue its declining trend. For 2012 Post forecasts a consumption level of 21 kilograms carcass weight equivalent, the lowest ever recorded. This reflects the fact that overall consumption is not keeping pace with the rate of population growth, as well

as the fact that pork has not managed to climb in popularity among proteins, despite sustained promotion by the industry.

Trade Flows Are Flat As Well

The Canadian dollar remains at record high levels, a factor that could have encouraged imports. However, countering that impact, pork demand stays relatively weak resulting in stable levels of imports. This prompted Post to forecast a somewhat lower level of imports for 2012, down to 190,000 MT. The same strong dollar, combined with limited supplies, has impacted pork exports, putting downward pressure on volumes sent abroad. Post forecasts exports to remain flat in 2012, at 1.165 million MT, for the third consecutive year.



Source: Global Trade Atlas / *Post estimate **forecast

Imports in 2011 are estimated up 6.5 percent compared to 2010, which is less than anticipated. The major supplier of pork remains the United States, with a market share of more than 95 percent.

Canada: Pork Imports, January - June (metric tons, CWE*)							
	Quantity			% Market Share			% Change 2011/2010
	2009	2010	2011	2009	2010	2011	
World	81,710	89,924	95,824	100.00	100.00	100.00	6.56
United States	79,475	88,386	92,930	97.26	98.29	96.98	5.14
Chile	1,817	1,070	1,333	2.22	1.19	1.39	24.62
Denmark	1	22	546	0.00	0.02	0.57	2335.59
Ireland	0	33	528	0.00	0.04	0.55	1523.17
Italy	284	326	317	0.35	0.36	0.33	- 2.57
All other countries	133	87	170	0.16	0.10	0.18	95.40

Source: Global Trade Atlas / *Conversion to carcass weight equivalent at 1.3

In 2011, reduced export volumes in some Asian markets (like Hong Kong and Philippines), the United States and Australia, have been counterbalanced by gains in some other Asian markets (including Korea, China and Taiwan) and Russia. Interesting to note that due to such development, the anticipated gains in the South Korean market, which was devastated earlier in the year by an outbreak of FDM (foot and mouth disease), and which materialized in almost doubling the export volumes, in the end were not able to pull up the overall export volumes of pork.

Canada: Pork Exports, January - June (metric tons, CWE*)							
	Quantity			% Market Share			% Change
	2009	2010	2011	2009	2010	2011	2011/2010
World	537,367	577,140	576,892	100.00	100.00	100.00	- 0.04
United States	180,866	184,830	175,492	33.66	32.03	30.42	- 5.05
Japan	129,142	146,857	127,432	24.03	25.45	22.09	- 13.23
Russia	33,798	57,214	70,500	6.29	9.91	12.22	23.22
Korea South	37,051	28,825	55,532	6.89	4.99	9.63	92.65
China	12,426	9,251	31,198	2.31	1.60	5.41	237.23
Australia	32,935	27,201	20,291	6.13	4.71	3.52	- 25.40
Mexico	11,074	21,431	20,026	2.06	3.71	3.47	- 6.56
Philippines	19,119	23,473	17,673	3.56	4.07	3.06	- 24.71
Taiwan	10,956	10,335	12,981	2.04	1.79	2.25	25.60
New Zealand	7,022	4,719	5,724	1.31	0.82	0.99	21.28
South Africa	10,944	4,158	5,708	2.04	0.72	0.99	37.25
Hong Kong	18,923	22,004	5,651	3.52	3.81	0.98	- 74.32
All other countries	33,111	36,842	28,684	6.16	6.38	4.97	-22.14

Source: Global Trade Atlas / *Conversion to carcass weight equivalent at 1.3

Policy:

HyLife Foods and Aliments Prince Receive a Boost from Government

HyLife Foods, formerly *Springhill Farms*, receives C\$10 million under the Slaughter Improvement Program for upgrades to the wet area, expansion of the cooler and cutting areas, the purchase of new equipment and improvements to the work flow to enable further processing. The funding comes from the C\$60 million Slaughter Improvement Program, which makes federal repayable contributions available to support sound business plans aimed at reducing costs, increasing revenues and improving the operations of meat packing and processing operations.

In a similar development, *Aliments Prince* owned by *Olymel*, received an investment of C\$2,000,000. This investment helped the company improve its processing lines. *Olymel* is a Canadian leader in the primary processing and distribution of pork and poultry meat products. With the fund received, the company purchased and installed three new bacon slicing and packing lines, which increased production speed.