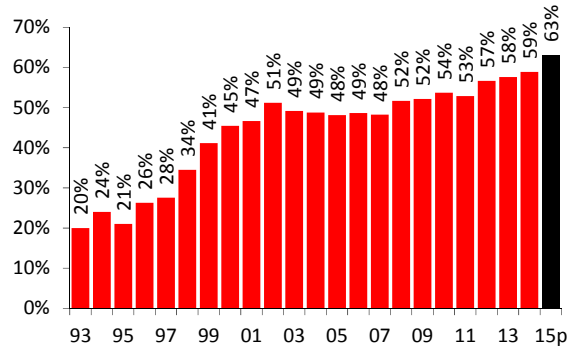




Beef Quality production responds to price signals

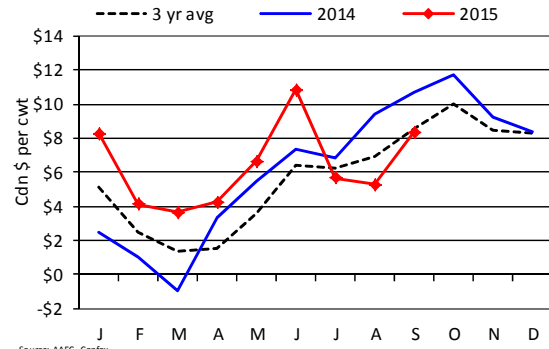
Bridging the information gap between consumers,retailers and producers

Canadian AAA + Prime as a % of all A Grades



Source: CBGA

Canadian Weekly AAA/AA Spread



Source: AAFC, Canfax

The Canadian A grades provide the highest quality beef. The A grades are from youthful cattle with bright red colour, no yellow fat is permitted, muscling is good or better, and texture is firm only. The main difference between the grades is the amount of marbling. Prime beef has slightly abundant marbling; AAA has small marbling; AA has slight marbling; A has traces of marbling. The more marbling the more flavorful and juicy the meat will be. Hence, a premium is frequently paid for AAA cuts over AA cuts.

A wider AAA/AA price spread results in more AAA beef production

The AAA/AA price spread is an indicator of demand for the different quality of beef cuts. It also reflects the higher production costs for AAA products as cattle usually must be kept on feed longer to achieve a higher quality grade. In the first nine months of 2015, the price spread between AAA and AA at wholesale averaged \$6.75/cwt. This is wider than last year at \$5.25/cwt and the five-year average of \$3.75/cwt. Most of the increase occurred in spring and summer when demand for high quality beef picks up with the grilling season.

A larger AAA/AA price spread provides greater incentive for producers to supply AAA beef. Year to date, AAA and prime accounts for 63.1% of total A grades, up from 62.5% in the same period last year. AA/A grades account for 36.9%, down from 37.5% last year. Over the last 10 years producers have increased the percentage of AAA product produced on average by 1% per year.

Consumer preference for high quality beef

Preliminary research by Tanya Mark at the University of Guelph in Ontario shows sustained demand for high quality beef. Premium beef brands showed amazing growth during the 2008-09 recession while other consumer items suffered considerable declines in sales. Premium brands fall into a consumer classification called hedonic consumption, where there is such a strong desire for the pleasure that the consumer will buy the product at the expense of some other premium items they also desire. Cross-category indulgence means that a consumer may really want a filet mignon but realizes they can only afford a top sirloin. By staying in the same brand category they still have a satisfying dining experience.

❖ Beef opportunity

As beef production tightened in recent years, there have been rising concerns around the loss of beef consumption due to reduced supply which will be hard to regain. In November and December, demand for middle meats typically peaks for the holiday season and consumers tend to be willing to pay more for AAA products compared to AA. While it's evident that the industry has been responding to price signals, a larger premium on AAA product will help to ensure sufficient supply of AAA products during the peak demand seasons.

More information about grading is available at <http://www.canadabeef.ca/ca/en/rt/quality/CBGA/default.aspx>

Disclaimer / Copyright Notice: Canfax Research Services tries to provide quality information, but we make no claims, promises, or guarantees about the accuracy, completeness, or adequacy of the information. Canfax Research Services does not guarantee, and accepts no legal liability arising from or connected to, the accuracy, reliability, or completeness of any material contained in our publications. Reproduction and/or electronic transmission of this publication, in whole or in part, are strictly forbidden without written consent from Canfax Research Services.

