

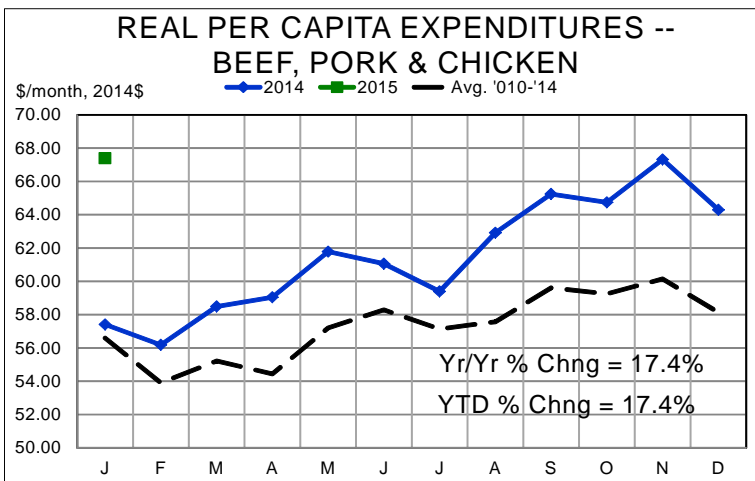
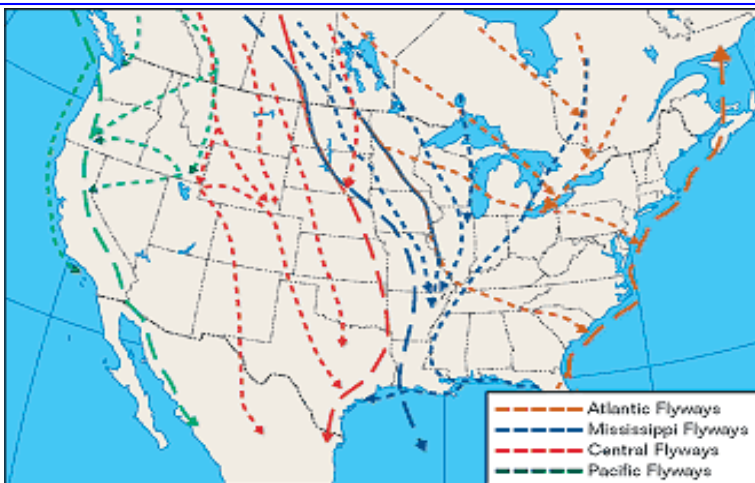
Federal and state officials confirmed yesterday that a case of high-pathogenic avian influenza (HPAI) has now been found in Arkansas. The H5N2 strain (the same one found earlier in the Pacific Northwest, Minnesota and Missouri) was confirmed in a turkey flock in Boone County, Arkansas. That county is east of Tyson's Springdale, AR headquarters and straight south of Springfield, MO. Based on 2014 slaughter data, Arkansas was the nation's third largest broiler producer and second largest turkey producer. Based on 2014 pounds, AR ranks 4th for both species. A major concern remains the role that wild birds will play in the spread of this disease. As can be seen at right, Arkansas, Missouri and eastern Oklahoma and Texas lie right in two major migration pathways — and it is March. Millions of birds are either already or soon to be headed northward through these major poultry producing areas. This is the first incidence of HPAI in the U.S. since 2004. The virus poses no threat to human health.

Several countries have already moved to block imports of U.S. poultry products from the impacted regions. Bloomberg noted that China had banned all U.S. poultry products while Mexico, the EU, Guatemala, Jordan and "more than a dozen other countries" have restricted some shipments of U.S. poultry products. Of all of those, Mexico is by far the most important but observers believe Mexico will move carefully on a state-by-state basis as it needs to maintain good access to U.S. chicken and turkey products. We believe most of the other restrictions have been only for products from the impacted states but this adds another HUGE state to the list. Arkansas is by far the biggest broiler producing state to have been impacted thus far.

And we reiterate these numbers from Monday's DLR: The turkey industry exported 804.5 million pounds of its 5.756 billion pounds of production (14 percent) in 2014. The broiler industry exported 7.304 billion pounds of its 38.55 billion pounds (18.9 percent) of 2014 production. In terms of meat and poultry tonnage available in the U.S., export difficulties for the broiler industry are FAR more important!

Our metrics for January indicated, as expected, that it was one of the best months ever for U.S. meat and poultry demand. Total real per capita expenditures (RPCE) for the beef, pork and chicken increased by over 17 percent for one year ago in January. Note that we no longer include turkey in this measure due to USDA providing only a whole-bird retail price which we do not think is at all indicative of today's demand for value-added turkey products.

That robust growth seems at odds with struggling cash markets but consider the data that go into the calculations. Per capita disappearance/availability/consumption was higher in January for all species but was sharply higher for broilers (11.8%) and pork (10.8%) due to much higher production, lower exports and, for pork, sharply higher imports. Beef production was lower but imports were much higher and exports lagged there as well. Higher quantity should push prices lower, right? Well it didn't happen to anywhere near the expected degree in January, indicating that demand was strong. The observed average real retail pork price in January was 6.2% higher than last year. Assuming a consumer-level demand elasticity of -0.75, that increase should have pushed per capita consumption LOWER by 4.7% but, as noted above, it grew by 10.8% year-on-year indicating robust demand. For chicken, the 2.2% increase in real prices should have resulted in a 1.6% decline in per cap consumption but U.S. consumers took 11.8% more chicken in January. Dramatically higher real beef prices (+16.8%) should have required a sharp reduction in per capita beef availability

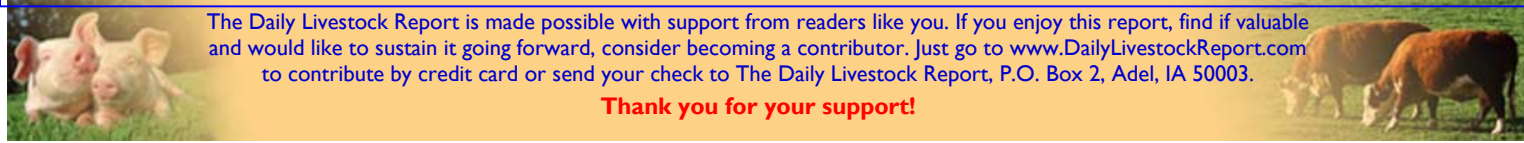


but that figure increase slightly (0.17%) from one year ago, again indicating robust demand growth. Charts for the individual species appear on page 2.

So what is going on here? The most obvious conclusion is that USDA's retail price data are either wrong or simply have not reacted to growing domestic supplies. Some of both is probably true. These price data have always had their foibles — narrow and possibly non-representative product selection, prices gathered generally in the early part of a month, no sales volumes with which to weight the prices thus meaning they do not fully capture the impact of featuring. Further, supply changes simply do not impact retail prices quickly due to a) retailers quite reasonable desire to maintain profits as long as possible and b) retailers reluctance to change retail prices quickly in either direction. We seriously doubt that future computations will look this good but would not be surprised at all to see our demand measures stay strong in 2015 as supplies rise and prices hold well above their historic levels. Whether overstated or not, January's RPCE numbers suggest that cash market problems were not the fault of domestic demand.

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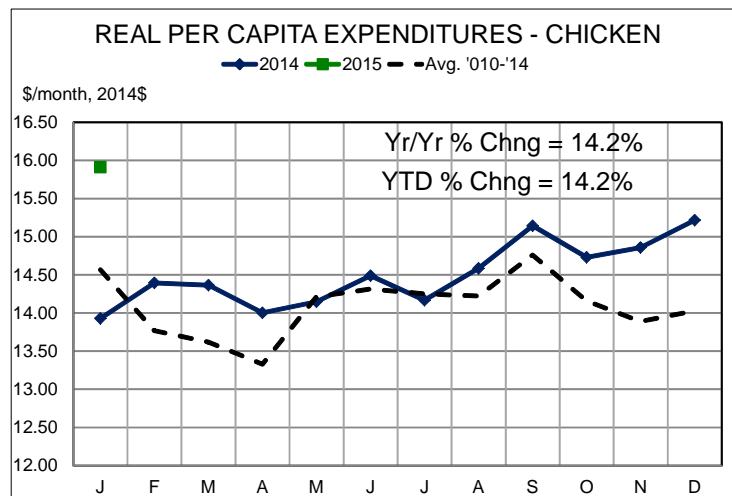
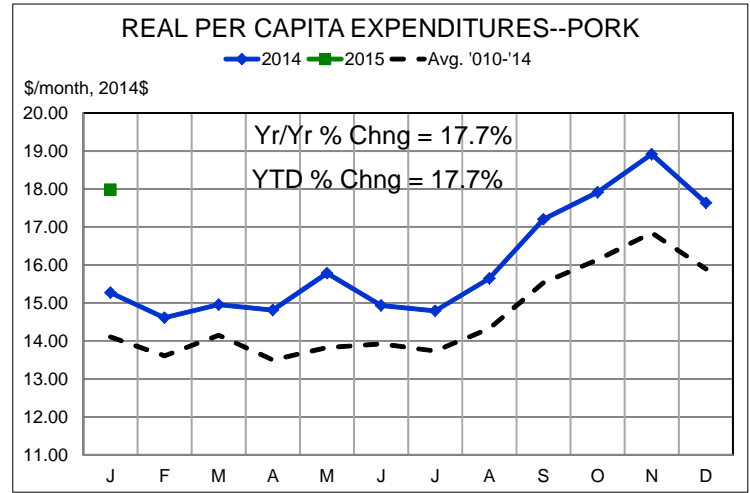
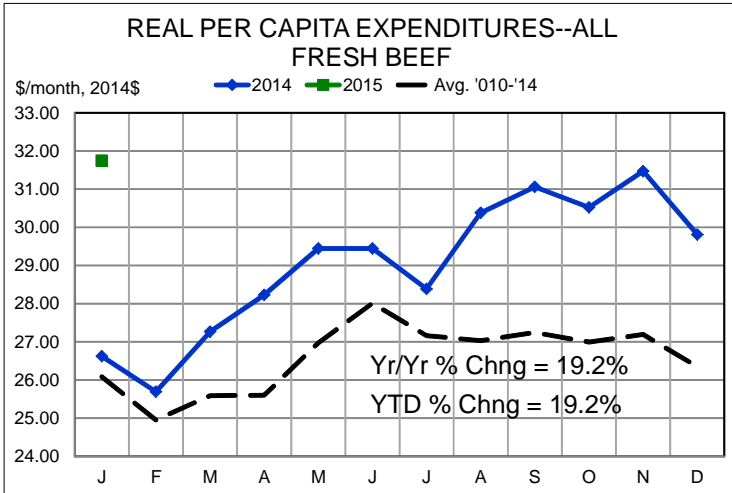
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