

Daily Livestock Report

E-Livestock Volume	5-Jan	2-Jan	29-Dec
LE (E-Live Cattle):	8,186	13,140	6,981
GF (E-Feeder Cattle):	803	820	707
HE (E-Lean Hogs):	11,950	17,639	10,262

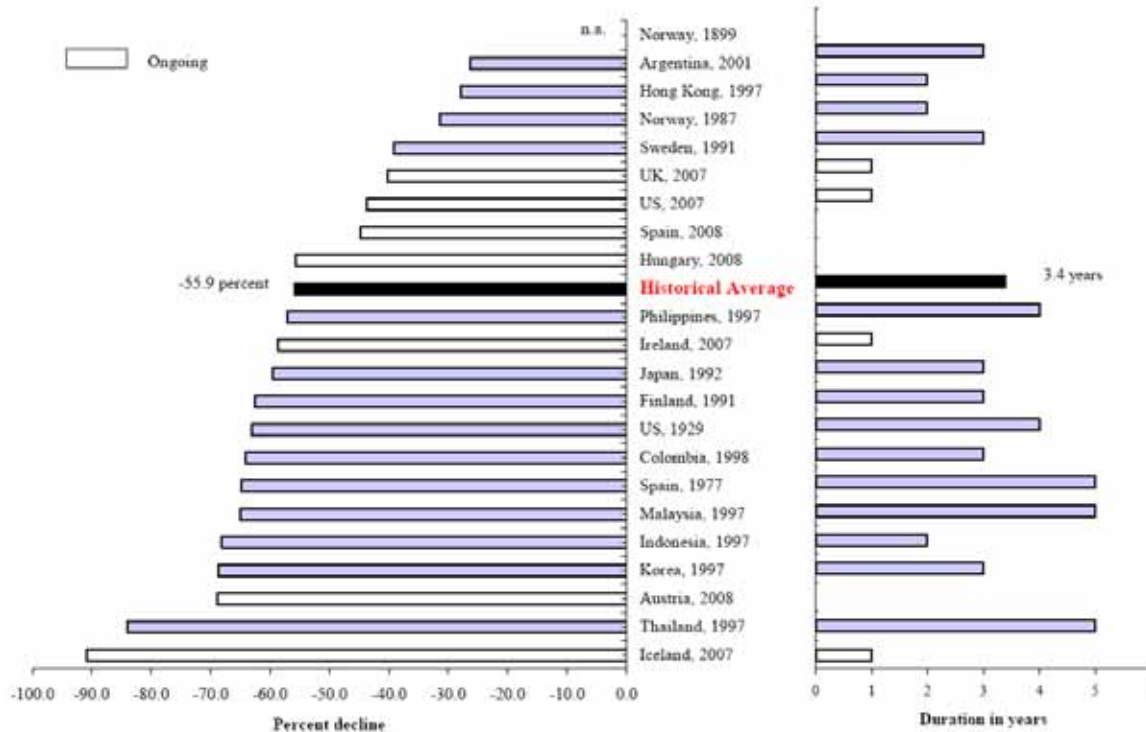
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Market Comments

Without venturing too far afield from our normal discussion of livestock markets, we thought it would be appropriate to briefly touch upon the outlook of the US economy as we start this new year. Fundamentally the livestock and poultry markets in the US will continue to be driven by the broader economic conditions in the US as well as the impact of the US crisis on trading partners and the global financial system. Reinhart and Rogoff, two academic economists, recently prepared a brief analysis of the fallout from financial crises in the last 100 years, showing that on average the impact on the economies affected tends to be deeper and last longer than most would expect. While the US financial system is more sophisticated than that of many of the countries included in the analysis, in the end all financial systems rely on one critical factor—they rely on the trust of the populace and market participants that the system works. Once that trust is betrayed, it takes time and significant resources to repair the system. The cost to the economy is quite significant not just in the present but for many years to come in the form of much larger public debt burdens. The economists' analysis suggests that "asset market collapses are deep and prolonged. Real housing price declines average 35 percent stretched out over six years, while equity price collapses average 55 percent over a downturn of about three and a half years." Even more troubling for meat markets should be the general impact on employment and the impact this has on disposable incomes and general consumer attitudes. The analysis showed that the unemployment rate rises an average 7 percentage points over the down phase of the cycle. At the peak of the last up cycle, the US unemployment rate was about 4.4% (March 2007). Therefore, we could be looking at an unemployment rate above 11% at the trough of the current cycle. That is a truly sobering number and one that, if it comes true, will likely cause further pain not just for the restaurant industry but the broader meat market, especially the beef industry.

Another factor at play in the markets as we start the new year is **the ongoing volatility in the currency markets and the impact this could have on US meat trade.** After a rapid ascent vs. the Euro in September, October and November, the US dollar lost significant ground in December. But, in recent days the US currency has again gained ground vs. a number of key currencies, including the Japanese yen (up 6.2% compared to mid December levels).

Past and Ongoing Real Equity Price Cycles and Banking Crises: Peak-to-trough Price Declines (left panel) and Years Duration of Downturn (right panel)



Source: Reinhart, Carmen. Rogoff, Kenneth. 'The Aftermath of Financial Crises'. Dec. 19, 2008

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