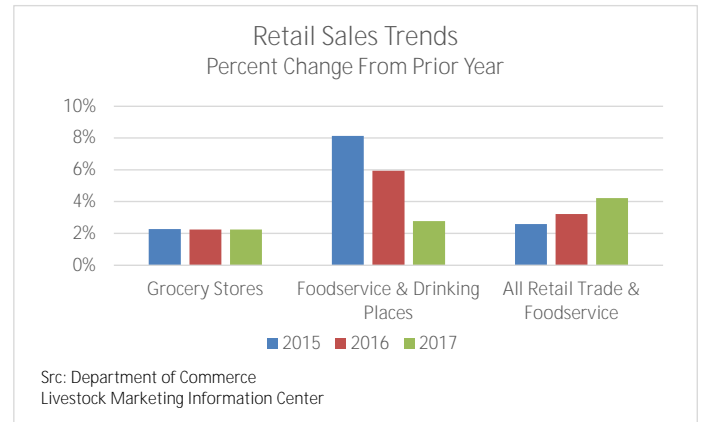


Food sector retail sales finished 2017 on the upswing, with foodservice and drinking place sales in December providing a pleasant surprise following slowing sales growth for much of the second half of the year. Grocery store sales growth in December continued to run at the high end of the range registered in November, 3.6% above the prior December. Foodservice and drinking place retail sales were up 3.9% in December from a year earlier. This compares to a 2.2% growth pace in November and a 1.6% year-over-year increase in October.

Fall quarter grocery store sales were up 3.1% from the same quarter in 2016, the biggest year-over-year quarterly increase for grocery store sales since the first quarter of 2015. Annually, grocery store sales growth has been stable at 2.2-2.3 percent in each of the last three years. The stage may be set for a breakout year in 2018. Sales growth in early 2017 was modest with only a 0.6% gain in the first quarter of the year. This should make for easy, if not impressive gains, possibly 4% or more this quarter. It will be interesting to see if this translates into some positive surprises for meat demand in the next few months. The fastest growth in quarterly grocery store sales during 2017 (spring and fall quarters) also witnessed demand-driven rallies in the beef and cattle markets.

Foodservice and drinking place retail sales in the last quarter managed a 2.6% gain from four quarters earlier, largely due to a rebound in December business. This was up slightly from the 2.3% gain during the summer quarter. For the year, sales in this sector were up 2.8%. This compares with a 5.9% gain in 2016 and an 8.1% jump in 2015. A slower sales growth trend raises the specter of the possible negative

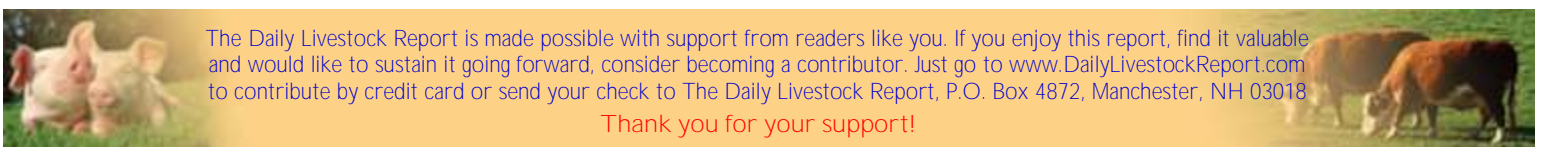
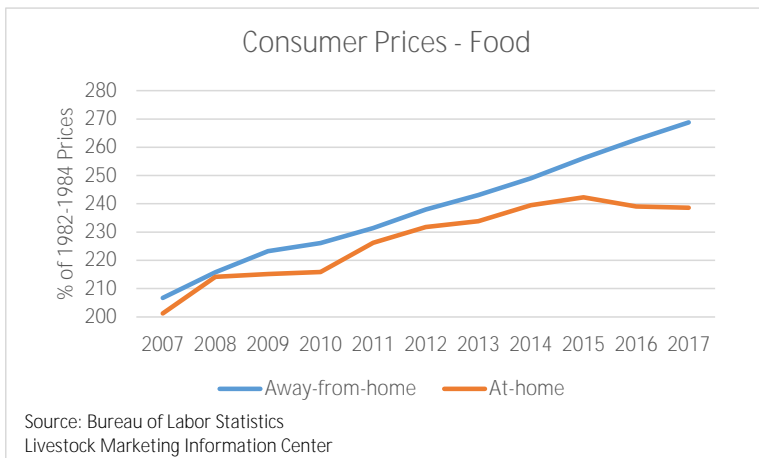


influences of food e-commerce on restaurant business relative to grocery stores.

Simple extrapolation of recent retail sales trends for the foodservice sector hints at potential sales declines on a year-over-year comparison basis in 2018. This would probably take the form of menu price reductions as opposed to lower customer counts. Lower menu prices could be favorable for meat demand and meat prices at the wholesale and farm level. Lower grocery store prices for beef and pork in 2017 seemed to be a supportive factor for wholesale beef and pork prices.

Price index data from the Bureau of Labor Statistics (BLS) over the last ten years highlights the steady trend upward in prices for food purchased away from home (e.g. restaurants) while grocery store food prices have stabilized and declined slightly since 2015. Meat prices in grocery stores have played a major role in this story. Over the last ten years, the biggest increase in prices for food-away-from-home were in 2008 (a 4.4% increase). The Great Recession slowed price increases in this sector to a 1.3% increase in 2010, but price increases regained momentum since then. Away-from-home food prices were up 2.3% in 2017, the smallest increase since 2013.

There has been a divergence between pricing at full-service and limited-service establishments, however. Price increases at full-service restaurants finished the year up 2.2% from a year earlier. Limited-service restaurants (e.g. fast food) priced food 2.8% higher than 12 months earlier. At the beginning of 2017, both segments of the foodservice industry were pricing their product 2.4% higher than at the start of 2016.



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