

Daily Livestock Report

Market Comments

Continuing on our demand discussion from yesterday's letter, we thought it would be interesting to look at **the latest data reported in the monthly restaurant performance tracking survey**. The tracking survey is conducted by the National Restaurant Association and the polling elicits the opinions of some 500 or so restaurant operators regarding same store sales performance, customer traffic, expectations for future sales as well as other issues related to employment and capital expenditures. The latest survey results confirmed what we have known for some time, the restaurant business is in the midst of probably the worst contraction ever. The monthly tracking index was pegged at 96.4, 0.3 points lower than the previous month and at the lowest point in the six year history of the survey. Readings below 100 point to contraction and the current contraction has been going on since the summer of 2007, and getting worse with each passing month. But more important for those that have an interest in the meat market is the sales dynamics in the industry as well as the sharp reduction in customer traffic. As the top chart to the right shows, while sales are lower across all restaurant concepts, the decline has been particularly severe in the fine dining and family dining segments. Only 8% of operators in the fine dining concept reported higher sales than the previous year. Family dining was slightly better but generally sales were down overwhelmingly in this segment also. On the other hand, sales at limited service restaurants, or quick service restaurants (QSR), were much better compared to the rest of the industry. While 49% of respondents reported lower sales compared to a year ago, 46% reported increased sales. In a way this makes sense, and fits with generally positive results reported from large publicly traded QSR companies, such as McDonalds. This has significant implications for the livestock industry. The poor performance of fine dining and family dining restaurants makes it more difficult to put adequate value on steak and other high value beef cuts. Light choice ribeye prices closed on Tuesday afternoon (USDA quote) at just \$4.2476 per pound, some 20% lower than year ago levels and 15% lower than the 2004-08 average. Prices for other high priced cuts are also down sharply. The better performance of the QSR concept should provide a boost to demand for grinding beef raw materials and prices for beef trimmings are steady to higher compared to year ago levels. **The problem that the industry also faces, is the general decline in foot traffic, which will tend to negatively reduce beef volumes flowing through the system.** Yes, cattle numbers are down but fewer customers eventually mean fewer restaurants and a real decline in US aggregate beef demand.

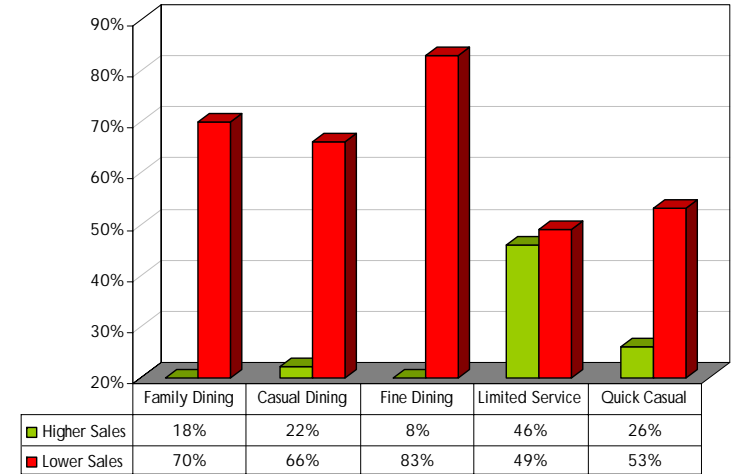
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E-Livestock Volume	3-Feb	2-Feb	27-Jan
LE (E-Live Cattle):	12,179	17,019	10,494
GF (E-Feeder Cattle):	663	928	1,119
HE (E-Lean Hogs):	9,462	9,780	13,584

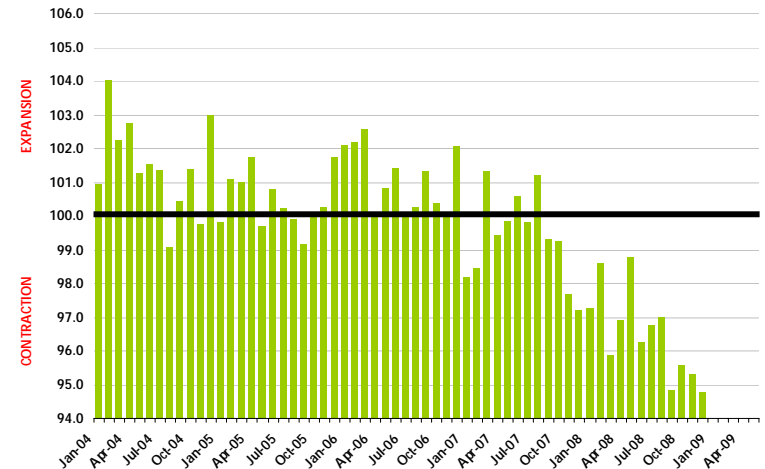
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RESTAURANT SAME STORE SALES: NRA SURVEY



Same store sales: December 2008 vs. December 2007, Tracking Survey Responses by Industry Segment
Source: National Restaurant Association

RESTAURANT PERFORMANCE INDEX: CUSTOMER TRAFFIC INDICATOR



EXPANSION
CONTRACTION