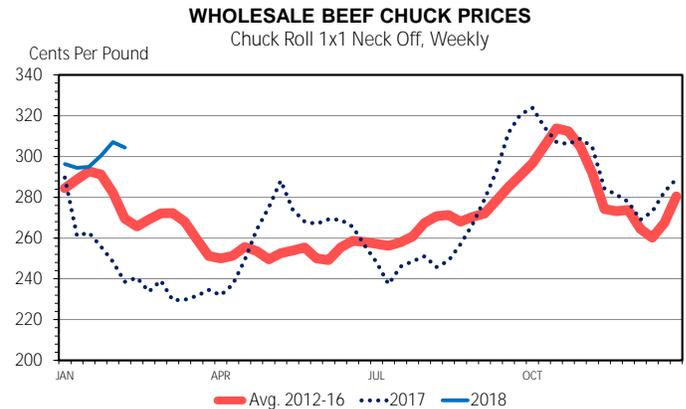


Demand for beef has been a mild positive surprise so far this year. Last January, Choice beef values were under pressure as beef production was on its way to posting a 6% increase from the first quarter of 2016. This year, beef production is again on a path to be up, with the Livestock Marketing Information Center projecting a 3.9% gain. Choice beef product values, instead of faltering like they did last January have put in a stoic performance, holding steady from the first of the year through early February. There was a bit of a hiccup in values in mid-January as beef production was up 8% during the third week of the month compared to a year earlier. Since then, weekly production has been up 3%, which product demand seems to take in stride.

The carcass component providing support for overall Choice beef values during the last month has been chucks. The increase in chuck value during the last two weeks of January was very atypical relative to normal seasonal trends. Chucks are usually merchandised through grocery stores as roasts and ground beef and the recent price trends suggest that product movement has been good through this channel.

The majority of the increase in beef production has come from additional cows harvested at heavier weights. Weekly cow slaughter for January was up 6.7% from a year earlier. Cow carcass weights were 2.5% heavier, providing a rough estimate for beef production coming from cows increasing by 9.3%. Similar calculations for beef production coming from bulls shows a 3.6% increase in January. Cow and bull beef production is the primary source of beef trimmings and the tally for this category of beef production is up 8.8% from January



Data Source: USDA-AMS Livestock Marketing Information Center

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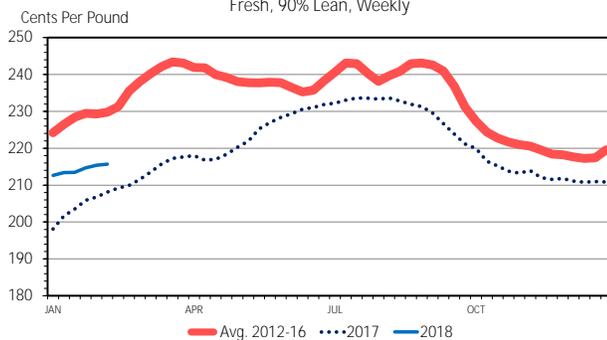
2017. Even with this increase in supply, lean trimmings prices have sustained an uptrend. More chucks from steers and heifers being sold as roasts instead of being ground for trimmings probably is a factor limiting pressure on trimmings values.

The normal seasonal trend in chuck values in upcoming months (downward) should lead to more chucks going into ground beef production, which will put pressure on lean trimmings values. Historically, when cow and bull beef production increases by more than 10% in a year, lean beef trimmings prices are vulnerable to going to a discount to the Choice Beef Cutout. Just to show the range that the price spread between the Choice carcass value and lean trimmings priced can take, lean trimmings prices in January were premium to the Choice Beef Cutout by 6 cents per pound. In January 2017 the premium was 8 cents, but in January 2016 trimmings were discounted 26 cents per pound to the Choice carcass value.

Looking at the interval between 2012 and this year, the only years when Chuck Roll prices increased from the start of the year to early February was this year and 2016. In that year, Chuck Roll prices declined 16% by the end of March. Also in 2016, 90% lean trimmings prices actually went up from January to March by 8%, but were still at a discount to the Choice Beef Cutout by 7 cents in March. On the supply side of the market, First Quarter 2016 cow and bull meat production was only up only 1.5% from four quarters earlier, a modest gain compared to this year.

### WHOLESALE BONELESS BEEF PRICES

Fresh, 90% Lean, Weekly



Data Source: USDA-AMS Livestock Marketing Information Center

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