

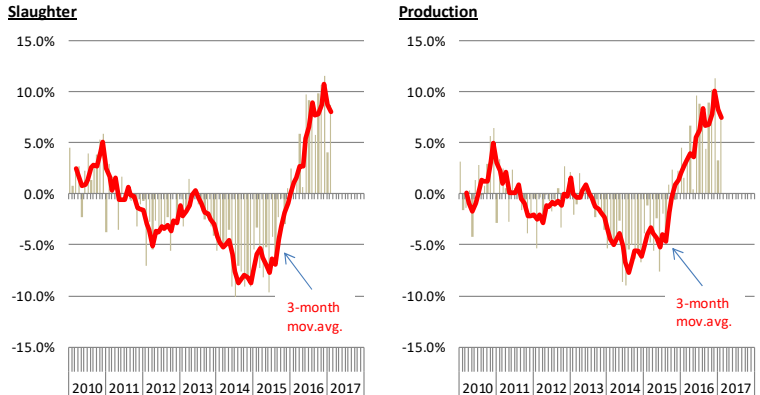
USDA issued yesterday its **monthly production statistics for beef and pork**. The production numbers for poultry will be released today. The numbers give us one more piece of data to build the demand picture for red meat in February. It is always important to look at these supply numbers in the broader context of supply flows through the economy rather than as individual data points. Also important is to recognize that calendar differences often will tend to skew the numbers so one should **look past the headline and understand what was the true availability in the domestic market**. Below are some of the highlights and implications for beef and pork:

Beef: Total commercial cattle slaughter in February was 2.369 million head, 3.5% higher than the previous year. But there was one less slaughter day last month. Average slaughter last month was 118,460 head/day, 8.7% higher than in February 2016. Steer slaughter in February averaged 60,070 head/day, 9% more than last year while heifer slaughter at 31,730 head was 7.8% higher. While the increase in heifer slaughter slowed down slightly last month, in the last six months the number of heifers coming to market has averaged about 12% above the previous year. Cow slaughter also was higher last month, averaging 22,765 head/slaughter day or 7.6% more than the same period a year ago. Larger slaughter numbers bolstered overall beef production but output did not increase by the same degree due to lighter carcass weights. Total beef production for the month was 1.934 billion pounds, 48.7 million pounds more than in February 2016. Average daily beef output last month was 96.7 million pounds, about 7.7% higher than what it was a year ago. But more beef produced does not always mean that there is more beef available for the US domestic consumer. To come up with that number, we need to adjust for the supply of beef trading in and out of the US and adjust for the starting and ending cold stocks. Trade data is not yet available but we estimate that US beef imports were down about 11% last month while exports were up 15%. The shift in trade flows reduced domestic availability by about 52 million pounds, more than offsetting the production increase. End users appear to have countered that by relying on their cold storage stocks. According to our calculations (which will be revised when trade data comes out) total disappearance in February was 1.978 billion pounds, just 0.3% less than a year ago. Adjusting for 21.92 slaughter days in a month, disappearance was 5.3% higher than last year or 4.4% on a per capita basis.

Pork: **Hog slaughter in February was 9.370 million head, 0.6% lower than a year ago. Average daily slaughter, however, was 468,515, 4.4% higher than the previous year.** One thing to note about the daily slaughter is that it also includes Saturday slaughter so it will not match with the actual week day slaughter numbers you will see from USDA. But this is still a useful measure when adjusting for the number of

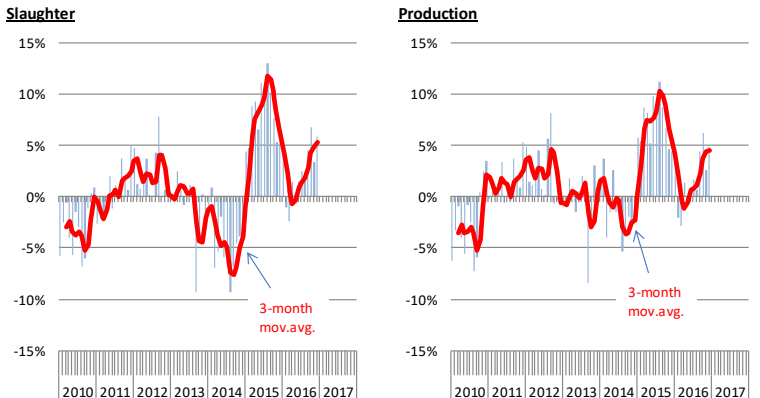
Cattle Slaughter & Beef Production Per Slaughter Day: Y/Y % Change

Data Source USDA/NASS. Calculations by Steiner Consulting

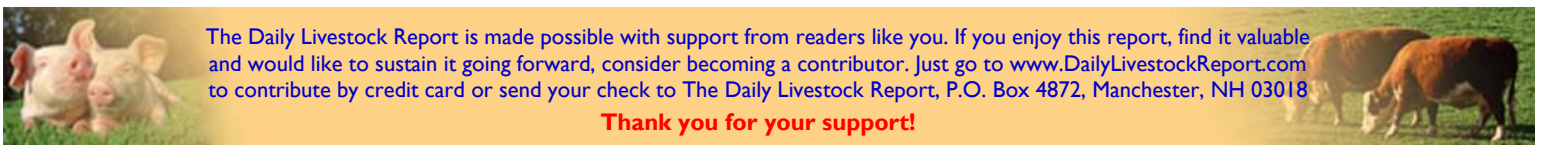


Hog Slaughter & Pork Production Per Slaughter Day: Y/Y % Change

Data Source USDA/NASS. Calculations by Steiner Consulting



marketing days. Sow slaughter in February was 233,100 head, 1% less than last year but adjusting for the slaughter days available sow slaughter was up 3.9%. The pace of sow slaughter has increased in the last six months but a larger breeding herd also implies more cull sows available and current pace of sow slaughter does not suggest contraction in our view. Pork production in February was down 0.7% from a year ago but it was up 4.3% on an average daily basis. Our estimate is that pork exports in February were about 16% higher than last year. If this number is correct, it would imply a net reduction of about 64 million pounds from domestic pork supplies. So when adjusting for both the one less slaughter day and population growth, per capita pork disappearance in February was likely down 3% Y/Y, which helps explain the robust pork cutout values.



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