

Choice grade carcass beef values have taken off like a rocket during the last month. Last week, the Choice beef cutout value averaged \$2.23 per pound. A year earlier, Choice beef prices averaged \$2.27 for the same week, but note the volatility depicted last year in the graphic. If, and it's a big if, Choice product prices hold steady this week, this will represent the first year-over-year increase in the Choice beef cutout since the week of July 3, 2015.

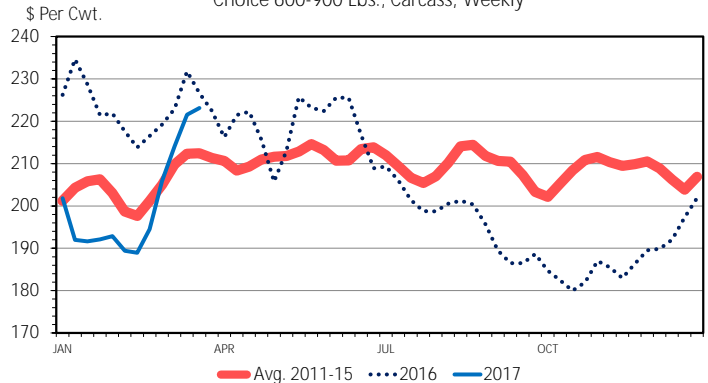
Beef production this quarter is expected to be up 4-5% from the first quarter of 2016. An increase in beef exports along with less imported beef create a situation where beef availability in the U.S. is actually down from a year ago, however, which is a price-supportive factor in the marketplace. The Livestock Marketing Information Center is expecting per capita beef consumption this quarter to be down 0.4% from a year ago. The Choice beef cutout value during the first quarter of 2016 was \$2.23 per pound. So far this quarter it has averaged \$2.01, about a 10% decline from a year ago. This would be consistent with traditional price quantity relationships where a 5% change in the quantity of a product leads to percentage change in prices of twice the magnitude in the opposite direction (known as a price flexibility in economic jargon). The recent price-quantity relationships indicate that the market has not been that sensitive, that is up until the last few weeks. The bounce in beef value back to what was seen a year ago brings some consistency back to the relationship between availability (i.e. per capita consumption) that is expected to be down from a year ago this quarter and current prices that are on track to finish the quarter slightly above 2016's.

The intensity of the price rally for beef during the last month is a notable contrast to distinct downtrend last year, that finally bottomed-out last October. Cattle marketings to slaughter plants started out 2016 increasing by 3% from the first quarter of 2015 and finished 2016 with a 9% from the last quarter of 2015. Beef cutout values in the final quarter of 2016 were down 10% year-over-year, a modest decline relative to the increase in cattle marketings. The trend in reduced U.S. beef imports and expanding exports was one factor limiting the beef price decline to only 10%.

Currently, the outlook for cattle slaughter in the upcoming quarter (April-June) shows a 5% increase relative to the spring

BOXED BEEF CUTOUT VALUE

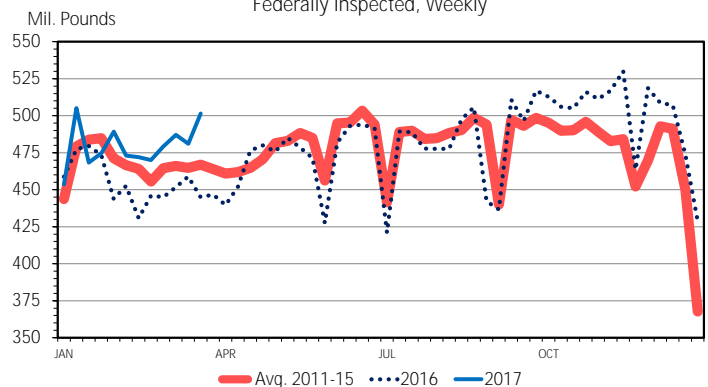
Choice 600-900 Lbs., Carcass, Weekly



Data Source: USDA-AMS
Livestock Marketing Information Center

BEEF PRODUCTION

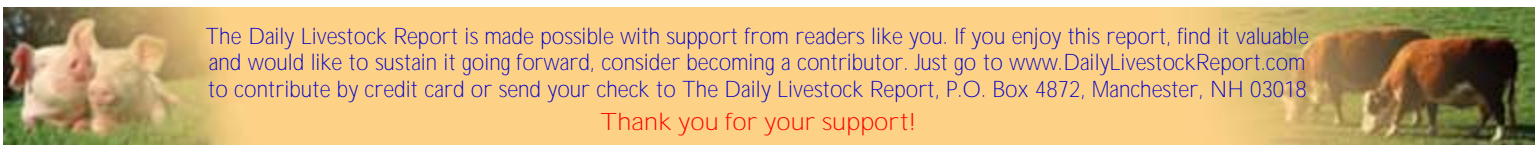
Federally Inspected, Weekly



Data Source: USDA-AMS & USDA-NASS
Livestock Marketing Information Center

M-S-18
03/27/17

quarter of 2016. Per capita beef supplies, integrating the effects of beef import and exports, should be up 2% from last year. These beef quantities suggest that the Choice beef cutout value in the upcoming quarter will probably be slightly less than the \$2.19 average value posted for the spring quarter of 2016, unless consumer demand for beef improves in order to pay for more supply at a higher price.



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