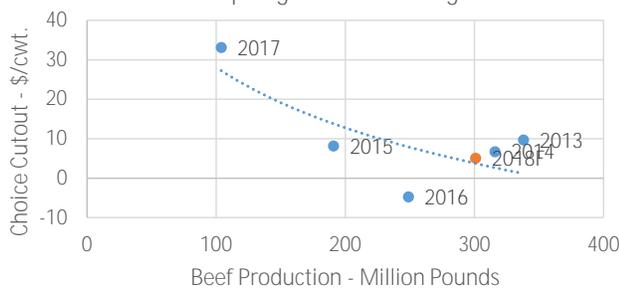


Consumers are in a mood to spend this spring and the food industry is garnering the benefits. Food service and drinking place sales, inclusive of the restaurant industry, in May were up 5.8% from a year earlier. This was the biggest year-over-year gain since November 2016. Grocery store sales were up 4.5%, a nice rebound following a disappointing slowdown in April. Grocery store sales gains in March were up 5.6%, which was the biggest year-over-year increase in over three years. The slowdown in April was a surprise, given the stellar sales gains in the last half of 2017. Economy-wide, retail sales were up 6.4% from a year earlier, the biggest increase since February 2016. Sectors of the economy posting the biggest increases during May were gasoline stations, up 17.9% on the basis of rising gasoline prices, and e-retailers such as Amazon, with sales up 9.1%. Year-to-date, both foodservice/drinking place and grocery store sales are up 3.7% from the first five months of 2017.

The acceleration in food sector retail sales growth has helped offset the potential pressure on the Choice Beef Cutout value coming from an increase in beef production. Livestock Marketing Information Center (LMIC) is projecting current quarter beef production to be up 300 million pounds from the winter quarter. This would be the largest first to second quarter beef production increase since 2014.

Changes in the Choice Beef Cutout from the winter to spring quarter during the last three years have reflected an

Beef Production-Price Relationships Winter to Spring Quarter Change



Livestock Marketing Information Center



Source: Department of Commerce
Livestock Marketing Information Center



Source: Department of Commerce
Livestock Marketing Information Center

increasing sensitivity to changes in production, captured by steeper downward sloping relationship between prices and production. That relationship for the current year seems to be improving. It is also worth noting that this is the first year since 2014 that foodservice retail sales growth has accelerated between the winter and spring quarter. Based on the production-to-price change relationship shown in the chart at the left, a demand situation similar to 2015-2017 may have resulted in the Choice Beef Cutout averaging \$10-\$15 lower (\$205-\$210 per cwt). With only a couple weeks left in this quarter, the Choice Beef Cutout is on track to average slightly above \$220 per cwt.



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