

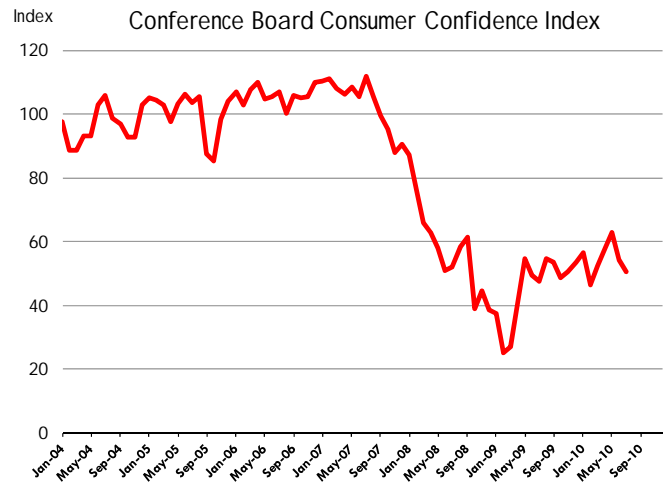
# Daily Livestock Report

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## Market Comments

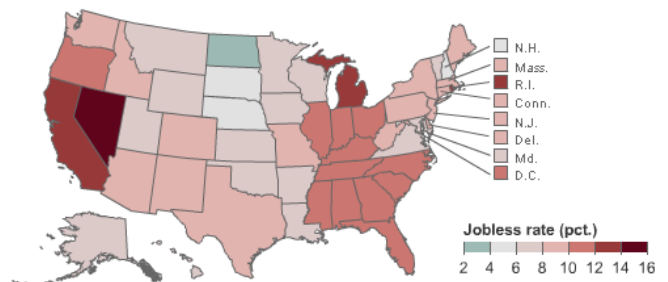
In yesterday's letter we noted some of the recent drivers in the grain markets (acres, weather, drought in Russia) which underpin a somewhat more bullish view for feed prices going into the fall. Higher feed prices could temper the incentives for expansion among hog and pork producers. As for beef producers, the situation continues to remain challenging and higher feed costs further complicate critical decisions regarding the future of the industry. The National Cattlemen's Beef Association is currently convening in Denver CO and we'll keep you posted as to how the largest beef association in the country sees the outlook for the future.

While the supply picture has become somewhat more bullish for grains and livestock, it is also important to keep an eye on demand. Exports have been a critical demand driver for the market to this point but a recovery in domestic markets is necessary for a sustained growth of the US livestock and poultry industry. A number of factors drive protein demand, among them consumer incomes and spending patterns; employment (which is tied to spending but also labor availability at home for food preparation), price of competing proteins, health news and information; consumer perception of risks in consuming protein items; and in urban areas the consumer understanding/misunderstanding of the modern food production systems. The charts to the right illustrate only two of the points outlined above. Consumer confidence has rebounded from the lows set in early 2009 but it has leveled off in recent months. The consumer confidence index in July was down 12 points from May levels and at 50.4 it is now at the lowest point since February. We would like to see the confidence index above the 60 level (see chart) before proclaiming a sustained recovery in the broader market. The decline in consumer confidence sometimes is seen as proxy for consumer spending, which is a real driver for beef, pork or chicken demand. A study by economists at K-State (Tonsor, Mintert, Schroeder 2009) indicated that "on average, a 1 percent increase in U.S. consumer total expenditures results in a 0.9 percent increase in the quantity of beef demanded." Consumer spending has increased moderately since the beginning of the year but it will be constrained, in part due to high rates of unemployment. As the map above shows, unemployment rates remain particularly high in the Southeast and West Coast. Foodservice remains particularly vulnerable to high unemployment rates. In the short term, the demand picture appears negative for beef, less so for pork and chicken.



## The Nation's Unemployed

Follow the change in unemployment from the beginning of the current recession. Below, the state-by-state unemployment rate from the Bureau of Labor Statistics, seasonally adjusted. Updated: 7/20/2010



Source: Wall Street Journal

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