

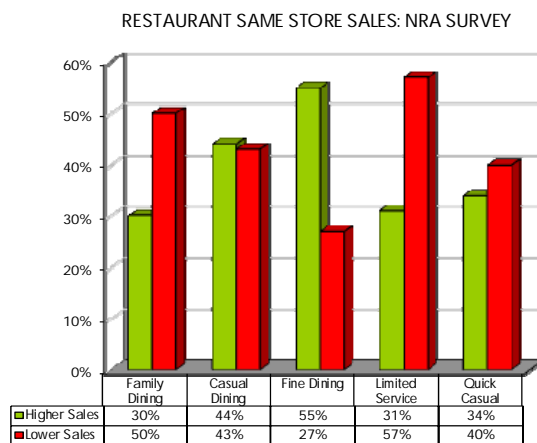
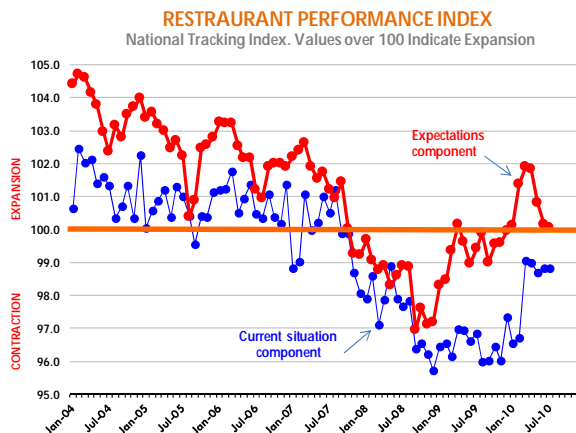
Daily Livestock Report

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Market Comments

In our last edition of this letter, we noted that some of the leading indicators were strongly pointing to the possibility that we may have already entered a downward cycle in economic growth. It was a somewhat ill timed piece given that the broad equity market gained some 265 points. However, if we have learned anything in the last few months it is not to mistake the daily gyrations in the stock market (we've had three major rallies in the past 12 months) with actual gains in economic activity. The gains in equity values will need to be sustained and be accompanied by employment gains and an overall increase in disposable incomes in order to have any perceptible impact on meat demand.

And while we are on the topic of meat demand, yesterday we received fresh evidence that the situation in the foodservice sector is slowly deteriorating. **The National Restaurant Association published yesterday (Sep 1) the results of its monthly Restaurant Performance Index (RPI).** For those that are not familiar with it "The Restaurant Performance Index is based on the responses to the National Restaurant Association's Restaurant Industry Tracking Survey, which is fielded monthly among restaurant operators nationwide on a variety of indicators including sales, traffic, labor and capital expenditures. The Index consists of two components – the Current Situation Index and the Expectations Index.." The latest RPI reading stood at 99.4, one point lower than the previous month and the fourth consecutive month of declines in the overall index. As the top chart shows, the recent decline in the index has been primarily due to weakness in the expectations component. Restaurant operators now feel less confident about sales and traffic in the coming months. As for the current situation, the index has bounced back from the lows seen in 2008 and 2009 but it still remains below the 100 point benchmark - values above 100 indicate expansion while those below 100 indicate contraction. Respondents to the national tracking survey indicated that the situation among various foodservice concepts is mixed. Fine dining respondents were generally indicated that sales at the moment are higher than a year ago. On the other hand, 57% of the respondents from the limited service category indicated that sales are currently lower than a year ago. The improvement in fine dining should be positive for beef, especially high quality steak cuts. The overall deterioration, however, remains a cause for concern and it is likely to keep in check US domestic meat demand in the second half of this year.



Same Store Sales - Jul 2010 vs. Jul 2009, Tracking Survey Responses by Industry Segment. Source: National Restaurant Association

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