CME Group

Daily Livestock Report

Vol. 10, No. 35 February 20, 2012

There's HOPE! Or at least we think there is hope given last week's retail meat price data from the Bureau of Labor Statistics via USDA's Economic Research Service. As you can see in the charts at right — if you look REAL hard — retail chicken prices finally showed signs of life in January, rising 6.2 cents/lb. (3.4%) from December to reach $1.855 per pound (+5.5%, yr/yr). The January price is just 0.2 cents lower than the record composite chicken price set in May 2009.

Some of you may think we have gone completely off our rockers to make so much of such a small increase in prices but it is the first indication that broiler companies' hugr reductions in output are having an impact at retail. Broiler production was 7.6% lower than one year earlier in the fourth quarter of 2011 and is down 6.1% so far in 2012. Broiler egg sets and chick placements remain sharply lower than last year at –5.2% and –3.8%, respectively, but those numbers indicate that the year-on-year declines may be slowing.

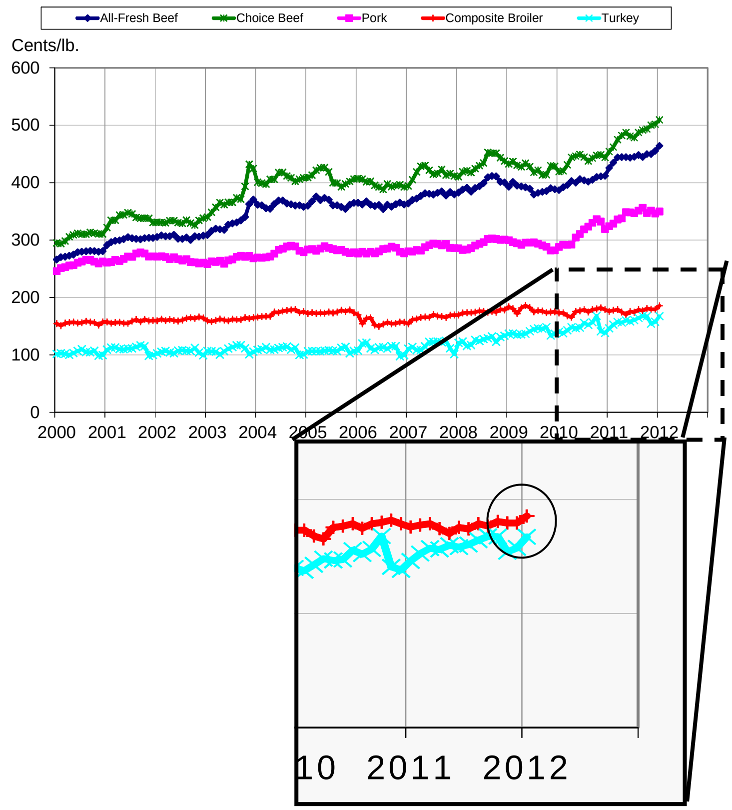
There are time lags to consider, no doubt, but we would wonder if the reductions are large enough yet to drive lasting improvements in margins. Our main concern remains breast meat, which, when one considers boneless/skinless, tenders and bone-in breasts, accounts for 38-40% of the cutout value. Wholesale boneless/skinless breasts fell to just over $1.22/pound two weeks ago, their lowest level since November. This price has not been above $1.37 per pound since October 2010 about the time the last round of "post-high-feed-cost" expansion hit the market. The "post" part of that qualifier, of course, did not last long and broiler producing companies have, until just recently, seen a steady stream of red ink. We hope this marks the beginning of a trend — for those companies, their growers and employees and beef, pork and turkey producers as well.

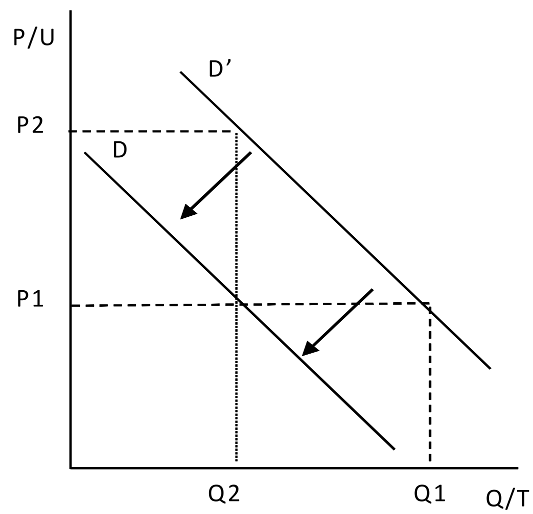
By the way, Choice beef and All-fresh beef set new records in January as well. Choice beef averaged $5.093/lb., 12.1% higher than last year. The average price of all fresh beef was $4.640, up 8.7 cents from last month and 9% higher than one year ago. Pork and turkey prices increased in January, too. Both fell short of setting new records but turkey only missed by 0.5 cents/pound so, given the normal rise of turkey prices during the year, new records are almost guaranteed. Ditto for pork.

So are these high prices causing "demand destruction"? Absolutely NOT. There is a reason for high prices — LOWER SUPPLIES. And there is a reason for lower supplies — HIGHER COSTS. Higher retail prices are the manifestation of higher costs and resulting losses and lower output/availability/consumption. Consumption is less because less product is available to consumers. That's the same reason prices are higher. Exports play a role as well but the big driver is the huge increase in costs since 2006. Do fewer people want to eat meat? Perhaps. But it is certain that a) fewer people want to eat meat and b) more people want to eat less meat when it is priced at record-high levels — especially when personal incomes have struggled. Those that believe we are better off eating less meat have found a sure-fire way to make that happen: Price it beyond the ability to pay.

Always remember that <u>price is part of demand</u> and <u>demand is not consumption or quantity</u>. Moving from P1 to P2 in response to a decrease in quantity from Q1 to Q2 is not demand destruction; that would be going from D' to D due to lower incomes, higher taxes, etc.

RETAIL MEAT PRICES, USDA





The Daily Livestock Report is published by Steve Meyer and Len Steiner. To subscribe/unsubscribe visit www.dailylivestockreport.com.

CME Group

Daily Livestock Report

Vol. 10, No. 35 February 20, 2012

PRODUCTION AND PRICE SUMMARY

Week Ending 2/18/2012

	Item	Units	Current Week	Last Week	Pct. Change	Last Year	Pct. Change	YTD	Pct. Change
	Total Meat & Poultry Prod.	**Million lbs.**	**1684.0**	**1672.8**	**0.67%**	**1714.2**	**-1.76%**	**198,433**	**-2.76%**
C	FI Slaughter	Thou. Head	616	602	2.33%	654	-5.75%	4,236	-5.51%
A	FI Cow Slaughter	Thou. Head	128.4	126.1	1.81%	122.1	5.19%	652	0.12%
T	Avg. Live Weight	Lbs.	1316	1305	0.84%	1289	2.09%	1,305	0.48%
T	Avg. Dressed Weight	Lbs.	786	783	0.38%	773	1.68%	784	0.41%
L	Beef Production	Million Lbs.	482.8	470.2	2.68%	503.6	-4.13%	3,312	-4.95%
E	Live Fed Steer	$/cwt live wt.	122.37	122.88	-0.40%	109.68	11.60%		
	Dressed Steer	$/cwt carcass	195.84	197.22	-0.70%	175.80	11.40%		
&	OKC Feeder Steer	600-700 Lbs.	167.57	164.88	1.63%	136.33	22.92%		
	Beef Cutout	600-750 Choice	189.04	185.97	1.60%	167.75	12.70%		
B	Hide/Offal	$/cwt live wt.	12.99	12.73	2.60%	12.90	0.70%		
E	Rib	Choice	266.85	260.20	2.60%	232.47	14.80%		
E	Round	Choice	166.65	166.77	-0.10%	153.89	8.30%		
F	Chuck	Choice	156.92	156.64	0.20%	153.67	2.10%		
	Trimmings, 50%	Fresh	99.84	99.98	-0.10%	74.44	34.10%		
	Trimmings, 90%	Fresh	212.28	209.92	1.10%	200.06	6.10%		
H	FI Slaughter	Thou. Head	2149	2130	0.89%	2095	2.58%	15,062	0.70%
O	FI Sow Slaughter	Thou. Head	56.9	52.3	8.89%	49.0	16.33%	278	0.10%
G	Avg. Dressed Weight	Lbs.	208	209	-0.48%	208	0.00%	209	0.13%
S	Pork Production	Million Lbs.	447.3	443.9	0.77%	435.5	2.71%	3,140	0.77%
	Iowa-S. Minn. Direct	Avg.	85.00	86.06	-1.20%	79.45	7.00%		
&	Natl. Base Carcass Price	Weighted Avg.	84.77	85.01	-0.30%	80.67	5.10%		
	Natl. Net Carcass Price	Weighted Avg.	87.17	87.47	-0.30%	83.06	4.90%		
P	Pork Cutout	185 Lbs.	86.52	84.99	1.80%	89.51	-3.30%		
O	Hams	Primal Cutout	65.83	64.86	1.50%	72.29	-8.90%		
R	Loins	Primal Cutout	97.58	93.61	4.20%	96.41	1.20%		
K	Bellies	Primal Cutout	123.38	122.87	0.40%	118.11	4.50%		
C	Young Chicken Slaughter*	Million Head	149.83	151.56	-1.15%	157.95	-5.14%	890	-7.09%
H	Avg. Weight	Lbs., RTC	4.33	4.31	0.35%	4.22	2.65%	4.3	0.38%
I	Broiler Production	Million Lbs., RTC	648.5	653.8	-0.80%	666.0	-2.63%	3,818	-6.10%
C	Eggs Set	Million	195.8	193.0	1.49%	204.3	-4.16%	1,164	-5.23%
K	Chicks Placed	Million Head	162.3	160.7	0.99%	168.0	-3.38%	970	-3.85%
E	12-City Broiler	Composite	86.31	81.99	5.30%	75.39	14.50%		
N	Georgia Dock Broiler	2.5-3 Lbs.	90.4	89.9	0.60%	84.45	7.00%		
	Northeast Breast	Skinlss/Bonelss	122.41	127.04	-3.60%	117.39	4.30%		
	Northeast Legs		72.86	72.07	1.10%	53.56	36.00%		
T	Young Turkey Slaughter*	Million Head	4.19	4.27	-1.74%	4.45	-5.88%	24.7	-3.54%
U	Avg. Weight	Lbs.	25.14	24.60	2.21%	24.49	2.68%	25.3	2.68%
R	Turkey Production	Million Lbs.	105.4	104.9	0.44%	109.0	-3.36%	322	-1.83%
K	Eastern Region Hen	8-16 Lbs.	100.90	98.07	2.90%	90.4	11.60%		
F	Corn, Omaha	$ per Bushel	6.45	6.44	0.23%	6.89	-6.39%		
E	DDGS, Minnesota	$ per ton	190.50	187.50	1.60%	189.50	0.53%		
E	Wheat, Kansas City	$ per Bushel	6.66	6.49	2.62%	8.60	NQ		
D	Soybeans, S. Iowa	$ per Bushel	12.68	12.34	2.76%	13.98	-9.30%		
	SB Meal, 48% Central Illinois	$ per Ton	330.30	321.00	2.90%	359.70	-8.20%		

* Chicken & turkey slaughter, production and prices are 1 week earlier than the date at the top of this table. Cow & sow slaughter are for 2 weeks earlier

The Daily Livestock Report is published by Steve Meyer and Len Steiner. To subscribe/unsubscribe visit www.dailylivestockreport.com.