

MONTHLY MARKET PROFILE: AUGUST, 2010
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Several observations have caught my attention in recent days:

- Nothing we are seeing in a post-bubble credit collapse is normal (Dave Rosenberg, Chief Economist and Strategist, Gluskin Sheff, Aug 5).
- The deceleration is broadbased, encompassing personal consumption expenditures (particularly for food and clothing), personal income, and certain types of business investment...It will not be a routine matter to keep profits moving forward in such an environment (ValueLine Investment Survey for week ending Aug 13).
- ...the consumer deleveraging process is further along than we originally believed. But the drawback is that this also means consumers are finally undertaking the mindset that saving is critical, at the expense of spending and economic growth (Chris Maxey, Fortigent, Advisor Perspectives, Aug 9)

The statements concisely reflect general sentiment about what's happening within the broader economy. The August employment summary further underscored such perspectives; there remains lots of shifting sands in these early stages of recovery especially within the realm of consumer behavior.

Consumers remain entrenched and may actually be deepening their propensity towards careful spending. Standard and Poors second-quarter consumer discretionary spending is forecast to improve less than 4% versus last year and only .39% compared to 2010's first quarter. That estimate is reinforced by the National Retail Foundation's recent survey regarding back-to-school spending intentions: increased sale shopping and overall plans to spend less were reported by 53.3% and 42.6% of respondents, respectively. Unemployment trends, ongoing housing and mortgage concerns, and weak consumer confidence are contributors to stalling economic growth.

That reality prompted focus on beef demand in the course of economic slowdown in July's Monthly Market Profile. The primary theme being emergence of "...some clarity about the economy's overall direction and beef's subsequent fortunes would evolve...That's not been the case; the economy continues to churn ambiguous signals." But with all that said, it's hard to ignore the data and not ponder beef's incredible run in recent months.

The market has staged an impressive turnaround in 2010 – the beef complex has defied headwinds within the broader economy and proven to be amazingly resilient. Who would have ever guessed a year ago that live cattle would have managed to trade at \$95 in the middle of July? In fact, 2010 established a new top for the fed market as prices averaged \$92.93 through July – topping the previous high-water mark of \$92.64 (remember the 2008 tax stimulus and surging summer cutout values?).

What's driving these higher prices? A number of critical factors have come together and proven supportive for the market. Those include weather, relatively limited cattle availability, and speculative presence at CME. But underneath all of that one thing has gone largely overlooked – the primary emphasis of last month's Monthly Market Profile – consumer spending. And somehow, somehow the beef complex has managed to defy conventional wisdom.

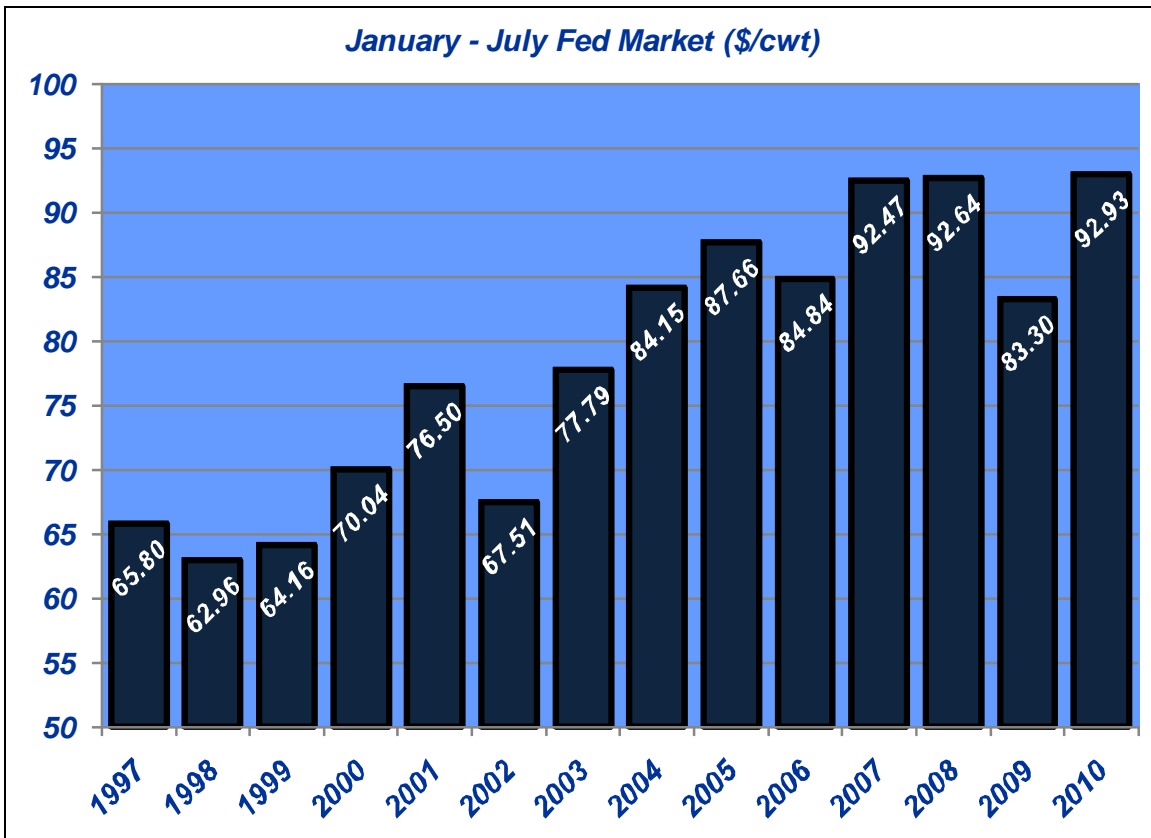
The overwhelming expectation has been that consumers will trade down across all categories of discretionary spending. But nothing is normal - projections are touch-and-go in this environment. The protein industry has come up a winner while many other consumer sectors have struggled. Amidst spending angst and a trying economy the beef complex has been the benefactor of a personal mini-splurge at the meat counter; consumers are seemingly trading up at the retail level.

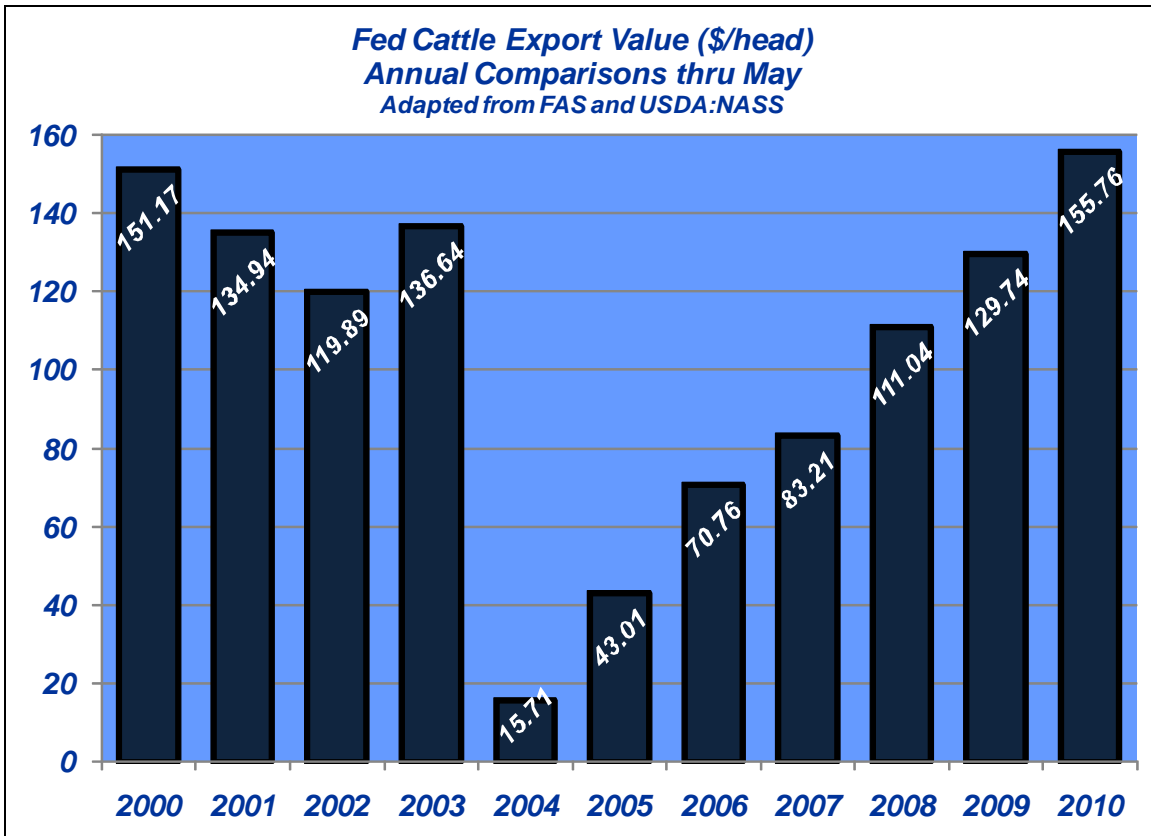
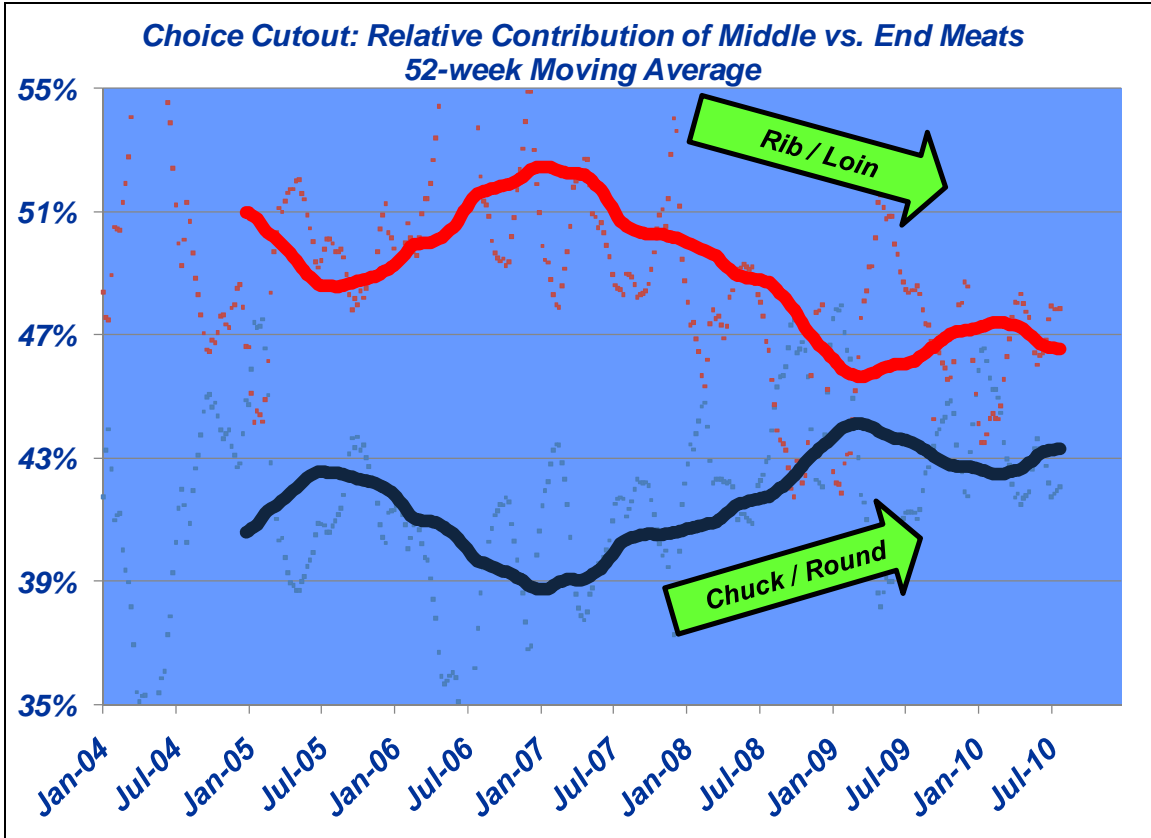
Strength in wholesale prices has been driven by end meats – not middle meats. That's the outcome of reduced restaurant expenditures coupled with invigorated burger enthusiasm –

retailers are increasingly carrying the marketing load. Simultaneously, the industry has also benefitted from demand on the international front; beef exports through May have generated an additional \$26 per head versus this time last year due to international trade (see graph below).

None of that should imply the industry should let down its guard. As noted last month, consumers are adopting “a new frugality” when it comes to purchasing habits. And nothing is certain in this post-crisis economy – any type of victory could prove to be very short-lived; consumer spending largely centers on perceptions making the marketplace very fickle. And as I’ve noted previously, it’s “better to be defensive and pleasantly surprised than the other way around.” Nonetheless, some good news is refreshing and encouraging; maybe, just maybe there’s reason to express some cautious optimism (and at least for a moment just pause and celebrate).

One final market observation as it relates to the newly proposed GIPSA rule. If ever there was a period in which the market was prone to disintegrating because of inequitable practices 2010 would be it. The barrage of bad news is never ending; in fact, there’s been increasing chatter in recent weeks about renewed threats of deflation. However, the market’s resilience is partially attributable to the previous 20 years of work: alliances and value-based marketing have contributed to increased prevalence of effective price signals throughout the supply chain. That’s enhanced beef quality and consistency while ensuring responsive precision and efficiency of product delivery to various consumer segments. The bottom-line being improved customer satisfaction that’s anchoring spending in these challenging times.





PRICE SUMMARY**WEEK ENDING:**

	6-Aug	30-Jul	23-Jul	16-Jul	9-Jul
Slaughter Steers (\$/cwt)	93.00	92.83	94.83	93.80	92.75
Choice Cutout (\$/cwt)	150.84	154.01	154.94	154.04	155.14
Select Cutout (\$/cwt)	143.77	145.72	146.06	145.02	145.62
Hide and Offfall (\$/cwt)	10.66	10.58	10.65	10.68	10.78
USDA Slaughter Weights (lb)	1275	1272	1269	1266	1264
USDA Steer Carcass Weights (lb)	836	832	834	827	824
CME Feeder Cattle Index (\$/cwt)	113.30	113.28	112.60	112.19	113.30
Cow Cutout (\$/cwt)	129.84	131.42	130.86	130.72	129.11
Corn (basis Omaha: \$/BU)	3.64	3.44	3.43	3.59	3.59
Cattle Harvest (000 head)	654	654	666	666	602
Beef Production (million lb)	504.6	503.4	511.5	509.1	458.9