MONTHLY MARKET PROFILE: MARCH, 2010

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During the past several months the *Monthly Market Profile* has deviated from a more routine format. That derives from the large number of unknowns surrounding the beef complex as the economy works towards a "new normal". This year will likely prove critical to the direction of the beef industry (and all other industries for that matter).

Therefore, I've backed up from some of the regular market discussion to provide a broader view of the industry and business drivers into the future. That's included discussion of the financial crisis along with historical review of consumer expenditures and potential impact on spending behavior in coming years. January and February were largely focused upon fairly tangible metrics. But equally important are more intangible influences that will potentially shape the industry going forward. More specifically, those influences include ongoing cowherd consolidation and an increasingly prevalent anti-beef bias appearing within the general public.

Departure from previously well-established inventory cycles has been a central topic in recent years; more specifically, the U.S. cowherd continues to contract with no apparent intent for producers to rebuild in the short-run (see first two graphs below). Most important, that occurrence has been concomitant with ongoing expansion within the feedyard sector. The outcome being establishment of what I refer to as a "feedtruck premium" - a significant pricing stimulus derived from the feeding sector chasing cattle to operate at maximum efficiency. That's worked to severely squeeze margins and remove any buffer for downside risk (in the absence of risk management) at the feedyard level.

Most perplexing has been the absence of response to price signals among cow/calf operators. Typically, the sector reacts to improving prices by retaining more heifers and/or culling fewer cows: calving more females generates more calf revenue at the farm/ranch level. The pragmatic evidence indicates that conventional wisdom needs to be rethought. Multiple reasons likely account for the lack of cowherd expansion – some of the more important during the past 10-15 years include (drought notwithstanding): 1) increasing diversification within operations that run cows – resources are being recommitted to other ventures (e.g. farming, wildlife, etc…), 2) shifting age demographics within agriculture, 3) steady escalation of production costs, and 4) increased competition for acreage (versus corn) in a new ethanol era.

There's a new influence at work: the financial crisis. Clearly, the recession has had a large impact upon the beef complex from a beef demand perspective. But it's also brought about another, somewhat unexpected outcome. Households that run cows find themselves in a similar position to most Americans; they're being pressured by unemployment and/or the mandate to shore up their personal balance sheets. In many instances, cows represent a financial drain (or breakeven at best) and thus are being liquidated when the financial pinch hits home. That dynamic has apparently been at work following fall weaning season – the four-month culling rate has steadily increased in recent years and most recently exceeded 4% for the first time since 1997 (see third graph below).

Separately there's seemingly an increasingly pervasive anti-meat agenda that exists among the general public. Unfortunately, that aspect gets largely focused on beef and the beef industry. The industry has to stem that tide to grow beef demand and ensure prosperity in the future. The final two graphs below depict percentage of Americans with favorable perception about ranchers and cattlemen and perspectives about food and food companies, respectively. While there's some room for interpretation the overarching trend is what really matters.

Is it any wonder? Just this past weekend the PBS weekly news show *NOW* featured Robert Kenner, director of *Food, Inc* (week of March 5). Dialogue with host David Brancaccio about the beef industry on two separate points went like this:

> Brancaccio: Too many calories is one thing, but food contamination is also on many of our minds.
>
> Kenner: Well, food poisoning is not necessarily new. The dangers today are that it's become very centralized.
>
> Brancaccio: Alright, centralization – you'd also think higher technology you would think, therefore, safer.
>
> Kenner: Our food has not gotten safer. And unfortunately we have so many…like for one hamburger you might have a thousand cows in that hamburger. So if you have one sick cow- all of a sudden that meat could be traveling throughout the United States.
>
> Brancaccio: These chunks of meat can come from many different animals that end up in a single patty.
>
> Kenner: Yeah, it's all going into one big pot.
>
> Brancaccio: So if one is sick there's the contamination.

> Brancaccio: When it comes to E. coli contamination, you make a case in the film – there's a connection between how we feed our cows on a big feedlot and the dangers of E. coli contamination.
>
> Kenner: Well, I think again it's all about centralization. We're bringing all the cows to one location, they're living in their manure . We're bringing corn in from the Midwest that's artificially subsidized by the federal government. It's just a system…these cows are not meant to eat corn, they're meant to eat grass so there's bacteria that grows in their stomach. On one hand, it's cheap, it's very efficient, the cows grow much faster. But there's certain dangers in it – it's not a healthy system.

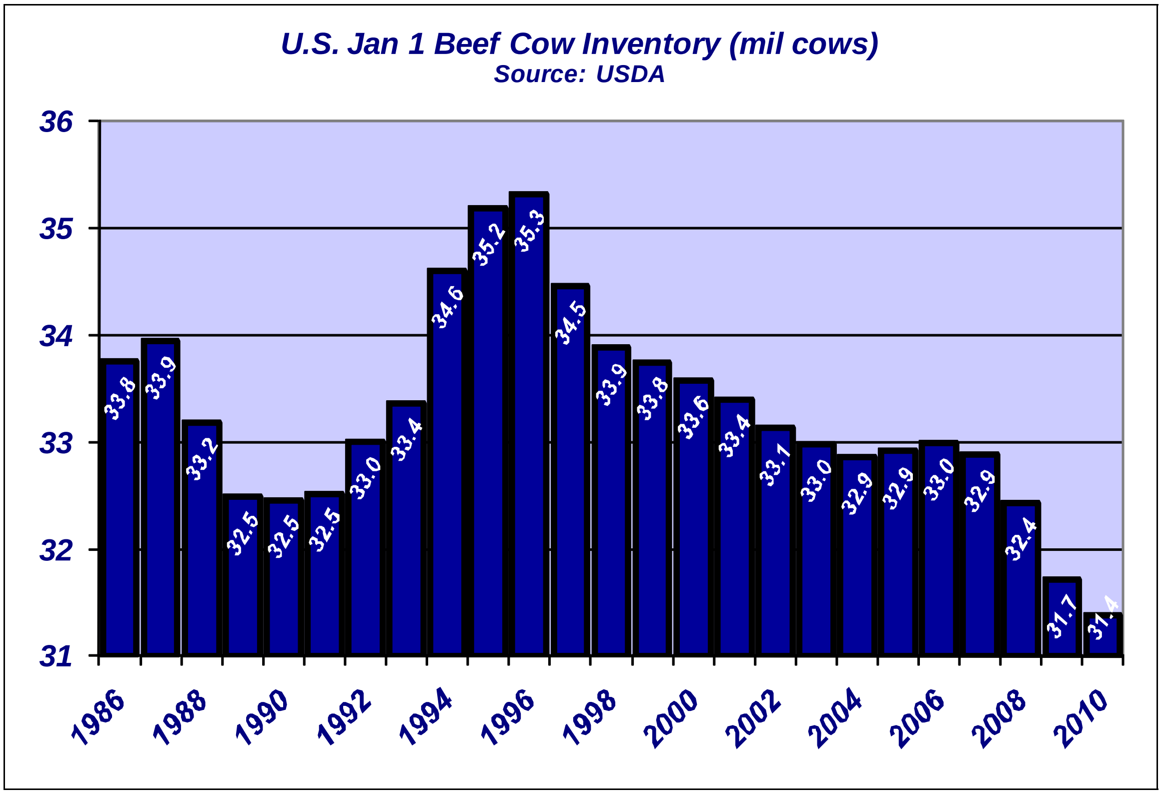
The inference is that food is NOT safe because we're feeding Americans "sick" cattle. Meanwhile, per the "stomach bacteria" comment, someone might want to remind Mr. Kenner that cattle are ruminants.

Adding insult-to-injury were Fedele Bauccio's (CEO, Bon-Appetit) comments at USDA's Outlook Forum in late February:

> So we created this low carbon diet where we had a number of initiatives for our chefs and our managers, and we were able in two years to reduce beef purchases by 33 percent and cheese by 10 percent. And as you know, livestock or mostly ruminants have methane gas that they are naturally cough up which is very, very powerful, more powerful than CO2. So that was the reason for this. We did this without affecting revenues and without affecting customer satisfaction, just by giving really great choices so that consumers would pick those choices over beef or not have beef as often….

That proclamation followed Nina Federoff's (Special Adviser, Science and Technology, U.S. State Department) presentation, "Rethinking Agriculture in a Warming Climate," that included the hockey-stick representation of global temperature projections.

While seemingly unrelated these factors may influence the business structure going forward. Repetitive misrepresentations get traction within the public realm and partially account for beef's slumping demand in recent years. Meanwhile, this is an especially precarious time: we're working with fewer participants – and at risk for even more decline. Such distortions must be countered (see March *AgSight*) to prevent severe cascading to the downside, further liquidation and inability to sustain current levels of infrastructure in the beef complex.


U.S. Jan 1 Beef Cow Inventory (mil cows)
Source: USDA
36
35
34
33
32
31
33.8
33.9
33.2
32.5
32.5
32.5
33.0
33.4
34.6
35.2
35.3
34.5
33.9
33.8
33.6
33.4
33.1
33.0
32.9
32.9
33.0
32.9
32.4
31.7
31.4
1986
1988
1990
1992
1994
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2002
2004
2006
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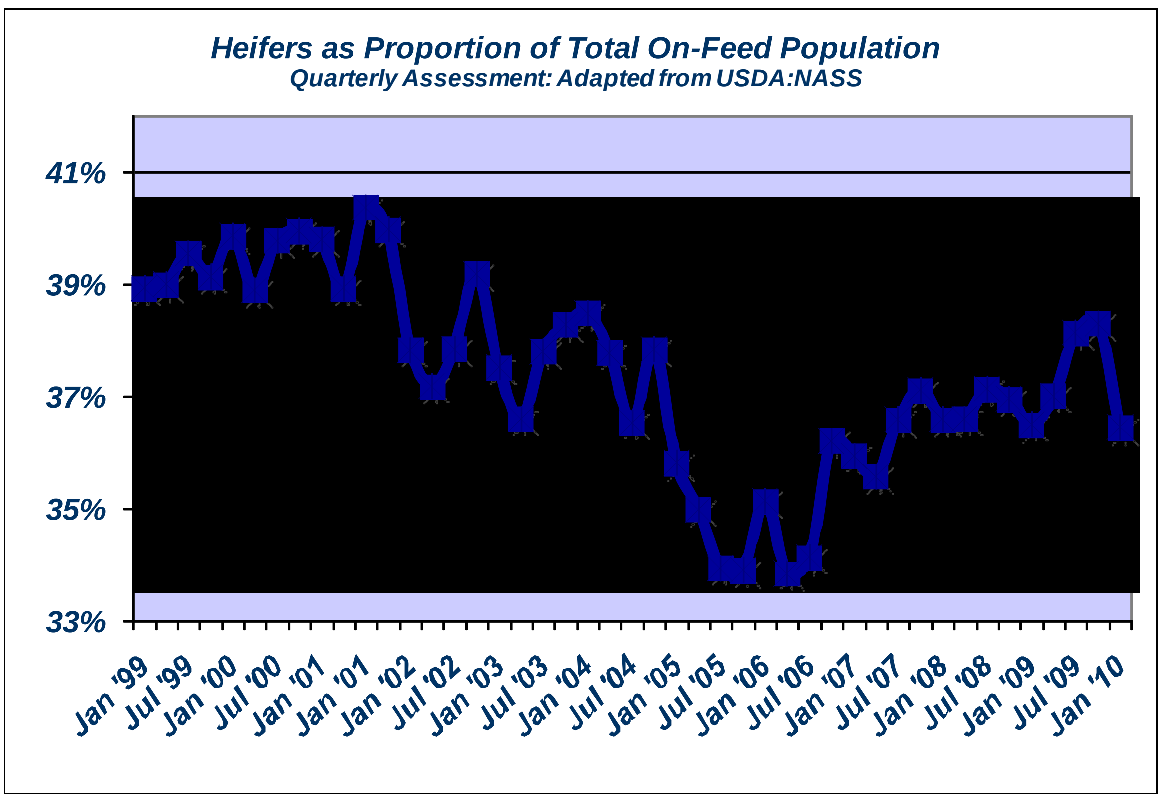
2010


Heifers as Proportion of Total On-Feed Population
Quarterly Assessment: Adapted from USDA:NASS
41%
39%
37%
35%
33%
Jan '99
Jul '99
Jan '00
Jul '00
Jan '01
Jan '01
Jan '02
Jul '02
Jan '03
Jul '03
Jan '04
Jul '04
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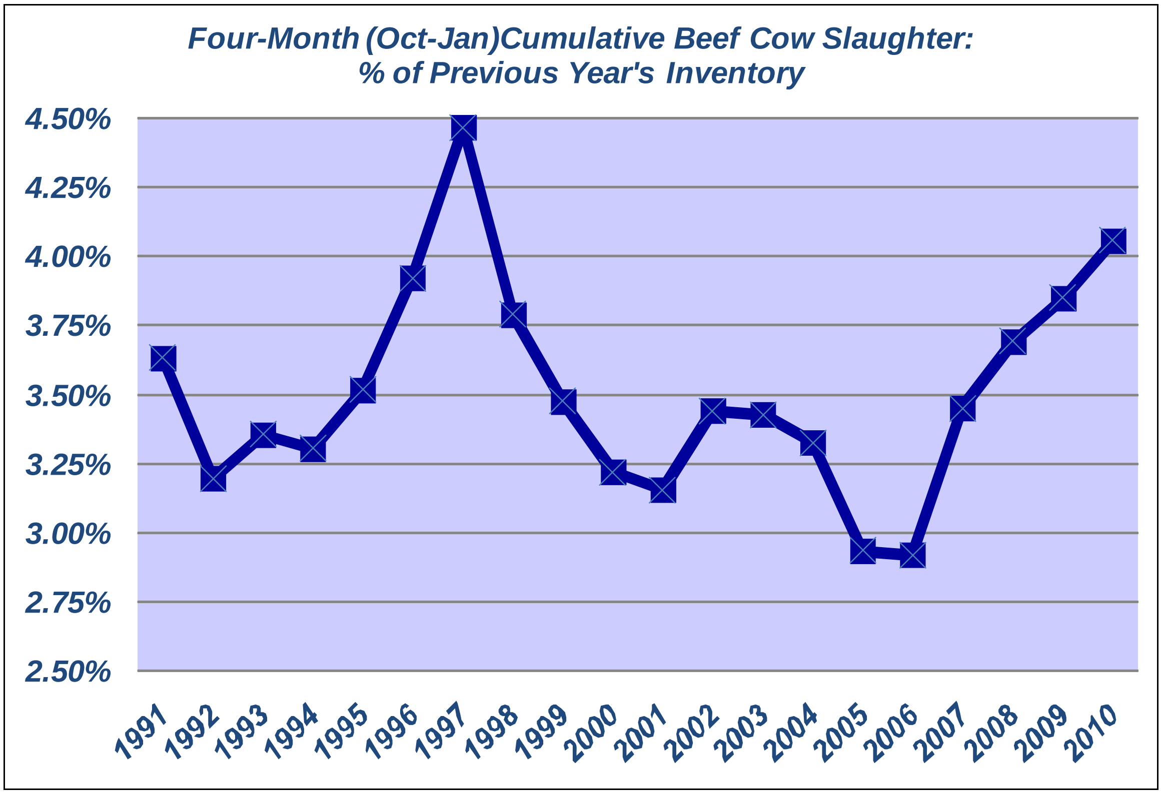
Jan '09
Jul '09
Jan '10


Four-Month (Oct-Jan)Cumulative Beef Cow Slaughter:
% of Previous Year's Inventory
4.50%
4.25%
4.00%
3.75%
3.50%
3.25%
3.00%
2.75%
2.50%
1991
1992
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
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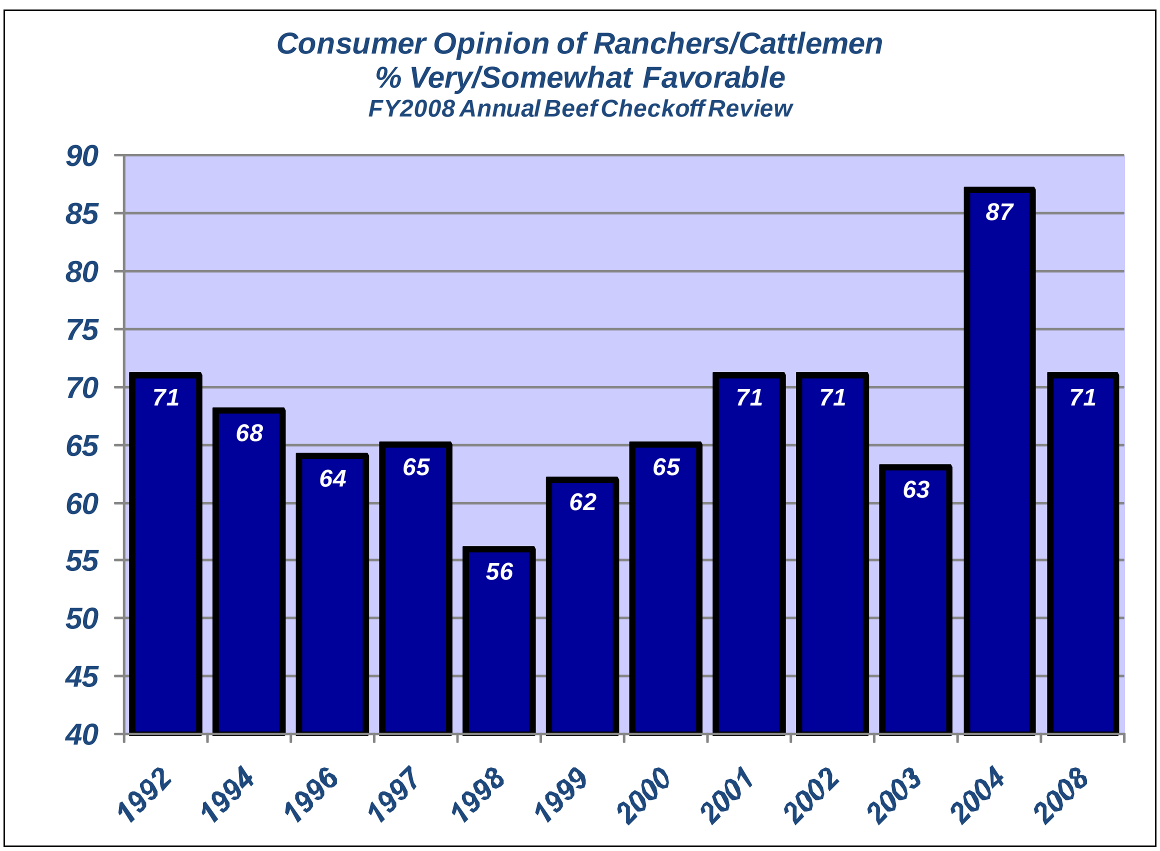
2006
2007
2008
2009
2010


Consumer Opinion of Ranchers/Cattlemen
% Very/Somewhat Favorable
FY2008 Annual Beef Checkoff Review
90
85
80
75
70
65
60
55
50
45
40
71
68
64
65
56
62
65
71
71
63
87
71
1992
1994
1996
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1999
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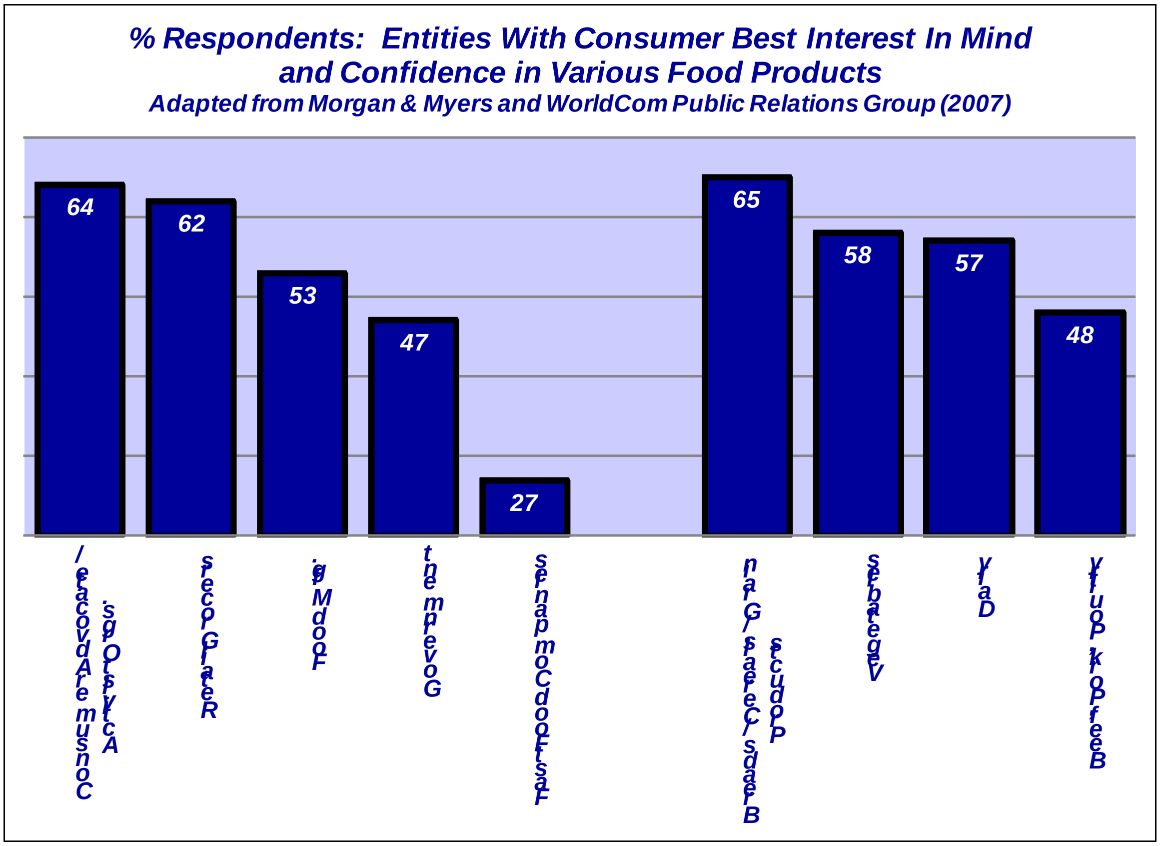
2001
2002
2003
2004
2008



PRICE SUMMARY

	WEEK ENDING:				
	5-Mar	26-Feb	19-Feb	12-Feb	5-Feb
Slaughter Steers ($/cwt)	90.94	89.24	91.03	88.41	85.67
Choice Cutout ($/cwt)	150.34	149.62	144.58	139.32	139.34
Select Cutout ($/cwt)	148.94	148.84	142.81	137.45	136.85
Hide and Offall ($/cwt)	9.88	9.80	9.68	9.62	9.55
USDA Slaughter Weights (lb)	1289	1290	1291	1292	1294
USDA Steer Carcass Weights (lb)	831	831	833	836	836
CME Feeder Cattle Index ($/cwt)	102.08	101.27	101.67	100.39	98.72
Cow Cutout ($/cwt)	120.68	122.58	122.97	120.42	114.03
Corn (basis Omaha: $/BU)	3.54	3.68	3.50	3.50	3.35
Cattle Harvest (000 head)	617	632	620	602	642
Beef Production (million lb)	476.2	488.1	478.2	464.1	496.0