Pork Merchandiser's **Profit Maximizer**

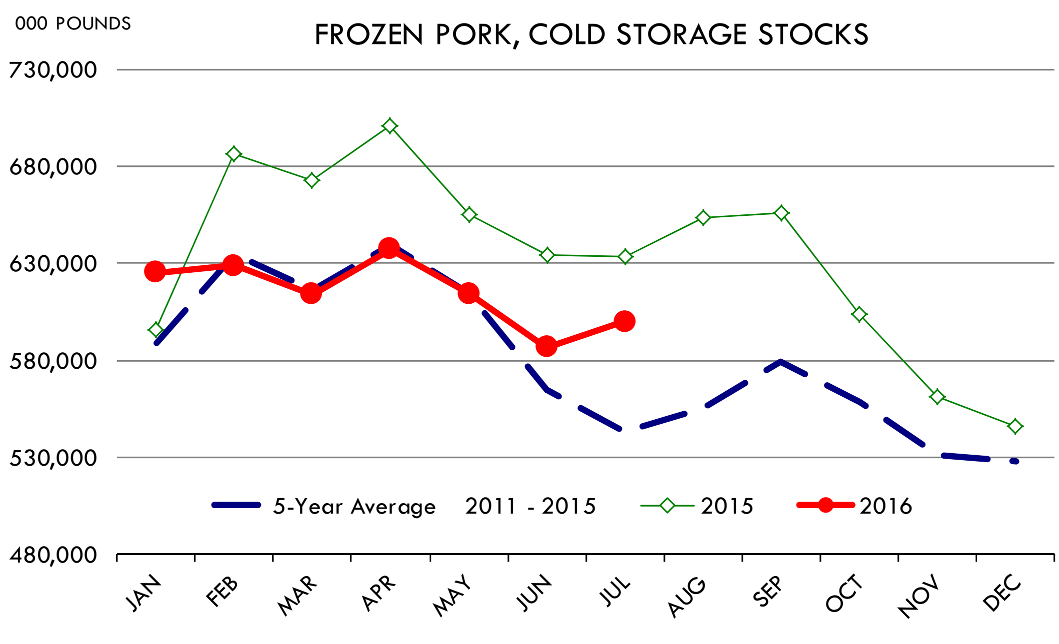
- Foodservice Edition -

Prepared by Steiner and Company, Manchester, NH 800-526-4612.

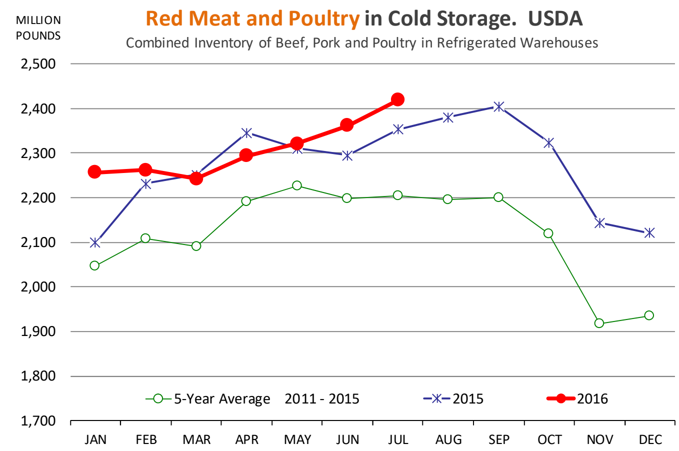
September 6, 2016

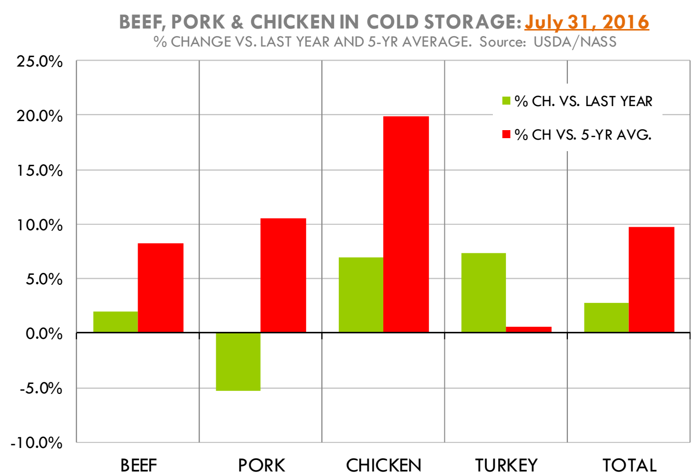
1. Meat supplies in cold storage are large and getting larger. At the end of July the combined volume of beef, pork, chicken and turkey was 2.419 billion pounds, 2.8% higher than a year ago and 9.7% higher than the five year average. This is the largest supply of meat in cold storage since 2002

We view the latest numbers on pork inventories as somewhat bearish for the fall market, when supplies will continue to ratchet higher. Total pork in cold storage was 599.9 million pounds, 5.3% lower than the very burdensome levels a year ago but still some 10.5% higher than the five year average. Inventories increased by 2.3% in July from the previous month when in the past five years we have seen an average 4% draw-



down in stocks. Ham inventories were 188.6 million pounds, 8.2% lower than last year but 14% higher than the five year average. The seasonal increase in ham stocks was in line with the normal buildup for this time of year. Pork belly stocks remain large and this helps explain the weakness in the pork belly market in the last few weeks. Total pork belly stocks at the end of July were 50.7 million pounds, 114.3% higher than a year ago and 45.6% higher than the five year average. Liquidating 25 million pounds of belly inventories at a time when slaughter is approaching 2.3 million head is a tall task. Belly primal value has dropped from around $140/cwt in late July to around 87 cents last night. Pork rib stocks are still quite heavy at 90 million pounds, +19.1% vs. last year and 53.8% higher than the 5 -yr average.



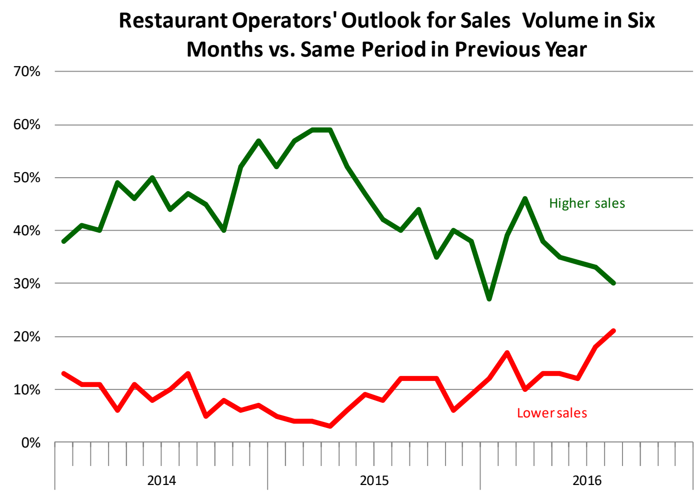


Beef: The total supply of beef in cold storage at the end of July was 469.3 million pounds, 2% higher than a year ago and 8.3% higher than the five year average. Beef inventories have increased in each of the past two months while normally we see inventories decline by an average of 3% at this time of year. Looking at the breakout of beef inventories by region offers a somewhat confusing picture (map below shows only regions with significant changes from a year ago). Inventories of boneless beef in the Middle Atlantic region, which includes East Coast port facilities, is up 26% from a year ago and accounts for a big part of the y/y increase in beef stocks. However, beef imports are down sharply so far this year. And the increase is not due to more beef going to export because most US beef exports go out of West Coast as well as land border points with Canada and Mexico. The implication, in our view, is that the meat belongs to processors and other end users that serve heavily populated areas along the East Coast.

Chicken: Chicken inventories remain burdensome and they are responsible for much of the increase of meat in cold storage. Total chicken inventories at the end of July were 819.1 million pounds, 6.9% higher than a year ago and 19.9% higher than the five year average. Inventories increased by 0.5% in July, in line with the average of the past five years. Breast meat inventories have declined compared to earlier in the year but at 167.7 million pounds they are still 20.5% higher than last year and 39.2% higher than the five year average. The inventory of chicken wings in cold storage at 92.7 million pounds is 58% higher than last year and 36.4% higher than the five year average. Football season cannot come soon enough.

2. Foodservice demand issues and implications for meat prices going forward

<u>Foodservice demand, which over the years has become an increasingly critical driver for the meat industry, remains a source of great worry for livestock producers</u>. However you spin things, recent trends are quite negative and do not bode well for protein demand. Take the first chart to the right. The Restaurant Performance Index has been steadily declining since its peak in 2014. The customer traffic index decline has outpaced the broader index and now shows the number of customers walking through the door is lower than a year ago. Restaurants will try to boost revenues by changing menus, selling more drinks etc. but if you are a livestock producer who is producing more tonnage, you should be really worried when there are fewer customers today sitting at tables or looking at menu boards. And that customer traffic index, which in July was pegged at 98.7, has been under the 100 steady state mark for much of this summer and in six of the last eight months. The situation appears to be particularly worrisome in the so called fast casual category (places like Chipotle). In the June report, 78% of respondents in this category said they were seeing lower customer traffic than a year ago and just 22% reported higher traffic. But family dining, casual dining and fine dining also had more respondents indicating contraction than expansion in customer traffic. One possible reason for the decline is



the increasing discrepancy between food cost inflation at retail vs. foodservice. You can either go buy a steak at the local grocery store on sale for $5.99 or go to the local restaurant and spend big bucks between steak, drinks, appetizers (and don't forget the 20% tip). **<u>July inflation for food that will be consumed at home was DOWN 1.6% from last year while inflation for food that will be consumed away from home was UP 2.8% from a year ago</u>**. Food retailers also have become more aggressive in offering prepared foods that look and taste like something you will get at a restaurant but at a fraction of the cost. Also concerning, from a demand perspective, is the worsening outlook for sales and general business conditions in the next six months (see second chart). About 21% of operators noted that they see worsening sales six months from now, up from 18% the previous month and 10% back in March. The survey also showed that 28% of restaurant operators expect worse economic conditions 6 months forward compared to 18% that expect economic conditions to improve. The mood in the restaurant industry has deteriorated and the chart to the right shows what proteins are more vulnerable to a worsening outlook at foodservice.

Upcoming holidays:

2016 Labor Day [US and Canada] (Monday September 5); Rosh Hashanah (Monday October 3); Yom Kippur (Wednesday October 12); Columbus Day (Monday October 10; Canadian Thanksgiving Day (Monday October 10); Daylight Savings Time Ends [US and Canada] (Sunday November 6); Veterans Day (Friday November 11); Remembrance Day [Canada] (Friday November 11); Thanksgiving (Thursday November 24); Hanukkah (Sunday December 25); Christmas Day (Sunday December 25); Boxing Day [Canada] (Monday December 26).

PORK

NOTE: WE ARE NOW REPORTING AND FORECASTING MANDATORY PLANT WEIGHTED AVERAGE BLUE SHEET PRICES FOR PORK CUTS.

Live hogs. For the week ending September 3 slaughter was 2.259 million head, up 3.5% from a year ago. In the last two weeks hog slaughter is up 2.4% vs. year ago levels.

Iowa/Minnesota, Base Lean Market Hog 185 lbs. Carcass Values. Lean hog carcass values at about 60.04 /cwt. on Friday were down $2.5/cwt since Wed. August 24. Prices are down 9.3 dollars compared to year ago values.

Loin, 1/4 Trimmed Loin VAC, FOB Plant, USDA (page 8). Prices finished last week at $1.0396, up about 8.0 cents since the Wed. August 24 quote and up about 7 cents from year ago levels.

Bnls. Strap on Pork Loins. Prices finished the week at $1.4337 for the strap on loins, up 16.8 cent since Wed. August 24 and up about 11 cent from the year ago levels. Strap off loins at $1.4551 are up about 5.5 cent since Wed. August 24 but down about 2 cent compared to the year ago quote.

Boneless sirloins at $1.1283 are up 5 cents from the Wed. August 24 quote but down about 0.4 cents from the year ago price.

Pork tenderloin finished last week at $2.1617, up one cent from the Wed. August 24 quote but down about 12.1 cents from the year ago price.

1/4 Trim Pork Butts (page 10), prices finished the week at $1.1318, up 10.9 cents since Wed. August 24. Prices are up 17 cents from a year ago.

Spare Ribs, Trimmed - LGT, Vac (page 8). Prices finished the week at $1.3939, up about 4 cent since Wed. August 24 but down about 28 cents from year ago levels.

Rib inventories on July 31 were 90.0 million pounds, up 19.1% percent from a year ago.

Bone-in Hams.

17/20 hams (page 9) price was $0.7847/lb., unchanged since Wed. August 24 and up about 3 cents from a year ago.

20/23 hams finished the week at 80.12 cents, up about 5.1 cents since Wed. August 24 and up about 7 cents from the year ago level.

23/27 hams finished the week at 76.48 , up about 3 cents from the Wed. August 24 quote and up about 6.3 cents from the year ago level.

Total ham cold storage stocks on July 31 at 188.6 million pounds were down 8.2% from year ago levels.

42 CL Pork Trim "FOB Basis". Prices finished the week at 37.77 cent, down about 12.0 cent since Wed. August 24 but up about 13 cents from the year ago price.

72 CL Pork Trim "FOB Basis". Prices finished the week at 54.07 cents, down about 6.3 cents since the Wed. August 24 quote but up about 10 cents from the year ago level.

Freezer stocks of all trimmings on July 31 were 36.1 million pounds, down 18.3% percent from the year ago levels.

72 CL Picnic Meat "FOB Basis". Picnics prices should continue to command premiums over the price of 72CL pork trim in the spring.

POULTRY

Georgia Dock Broilers. The Georgia dock price last week at $110.25 was down 4.75 cents from a year ago.

The National Whole Bird price was quoted at 79.12 on Friday, September 3, up about 1 cents from a year ago.

Broiler slaughter for the week ending September 3 was 171.79 million head, up 2.40% from a year ago. For the last two weeks slaughter was up 1.4% vs. a year ago.

Breasts. Prices on boneless skinless breasts finished the week at $1.4537, down 3 cents since Wed. August 24 but still up about 5 cents from year ago levels.

Leg Quarters. Improvements in export demand have provided support and prices are now well above levels we saw in late 2015 and early 2016. Last week leg quarter prices were down about 1.3 cents vs. two weeks ago but at 32.33 cents per pound prices were up 6 cents from a year ago.

Wings. Prices at $1.6388 are down about 4 cents from year ago levels.

Turkeys

Hens finished last week at $1.2800, up since Wed. August 24 but down about 6 cents from the year ago price.

Toms finished last week at $1.2800, up since Wed. August 24 but down about 6 cent from the year ago price.

Total turkey supplies in the freezer on July 31 were up 7.4% from a year ago at 530.5 million pounds. Whole birds were down 7.5% from a year ago with an inventory of 275.0 million pounds.

Turkey slaughter was 4.5150 million head for the week ending August 27, up 18.22% from a year ago. For the last two weeks slaughter has been up 12.6%.

Boneless Turkey Breast Meat. Boneless skinless turkey breast meat prices finished last week at $2.1500, unchanged since Wed. August 24. Prices are down about 355 cents vs. year ago levels.

BEEF

NOTE: WE ARE NOW REPORTING AND FORECASTING WEIGHTED AVERAGE BLUE SHEET PRICES FOR BEEF CUTS.

Choice 112A Heavy Bnls. Lip On Rib Eyes at $6.7362 (weighted average quote) finished last week down about 103 cents since the Wed. August 24 quote and down about 143 cents vs. the year ago price.

Select 112A Heavy Lip On Rib Eyes at $6.6002 (weighted average quote) finished last week down about 29 cents since the Wed. August 24 quote but down about 43 cents vs. the year ago price.

Currently Choice 112A Rib Eyes are $0.1360 /lb. over Select. The 2015 annual average spread (wt. average price) had the Choice at a premium to the Select by $0.1048 per pound and the previous five years (2010 thru 2014) average spread was Choice at a premium to the Select by $0.0933 per pound.

Choice regular #168 insides finished last week quoted at $1.9766 down about 11 cents since Wed. August 24 and down about 81 cents from the year ago price.

Choice ¼ inch trimmed #168 insides finished last week quoted at $2.0276 down about 13 cents since Wed. August 24 and down about 80 cents from year ago levels.

Choice #170 Gooseneck Rounds finished last week at $1.8588 down about 3 cents since Wed. August 24 and down about 55 cents from the year ago levels.

Choice #180 (0x1) Bnls. Strip Loins finished last week quoted at $4.7924 (wt. avg.) down about 73 cents from the Wed. August 24 quote. Prices are about 193 cents over year ago levels.

Choice #184 Regular Heavy top butts finished at $3.4285 (wt. avg.) down about 8 cents since Wed. August 24 and down about 116 cents from year ago levels.

Choice #184 ¼ inch trimmed Top Butts finished at $3.4395 (wt. avg.) down about 8 cents since Wed. August 24 and down about 116 cents from the year ago levels.

Choice #185A Flap Meat prices finished Friday at $4.8681 (wt. avg.) down about 49 cents since Wed. August 24 but up about 3 cents from year ago values.

COARSE GROUND BEEF –

73CL Coarse Ground product finished last week at $1.6510 up about one cents since Wed. August 24 but down about 29 cents from year ago levels.

81CL Coarse Ground product finished last week at $1.7105 down about 26 cent since Wed. August 24 and down about 69 cents from the year ago quote.

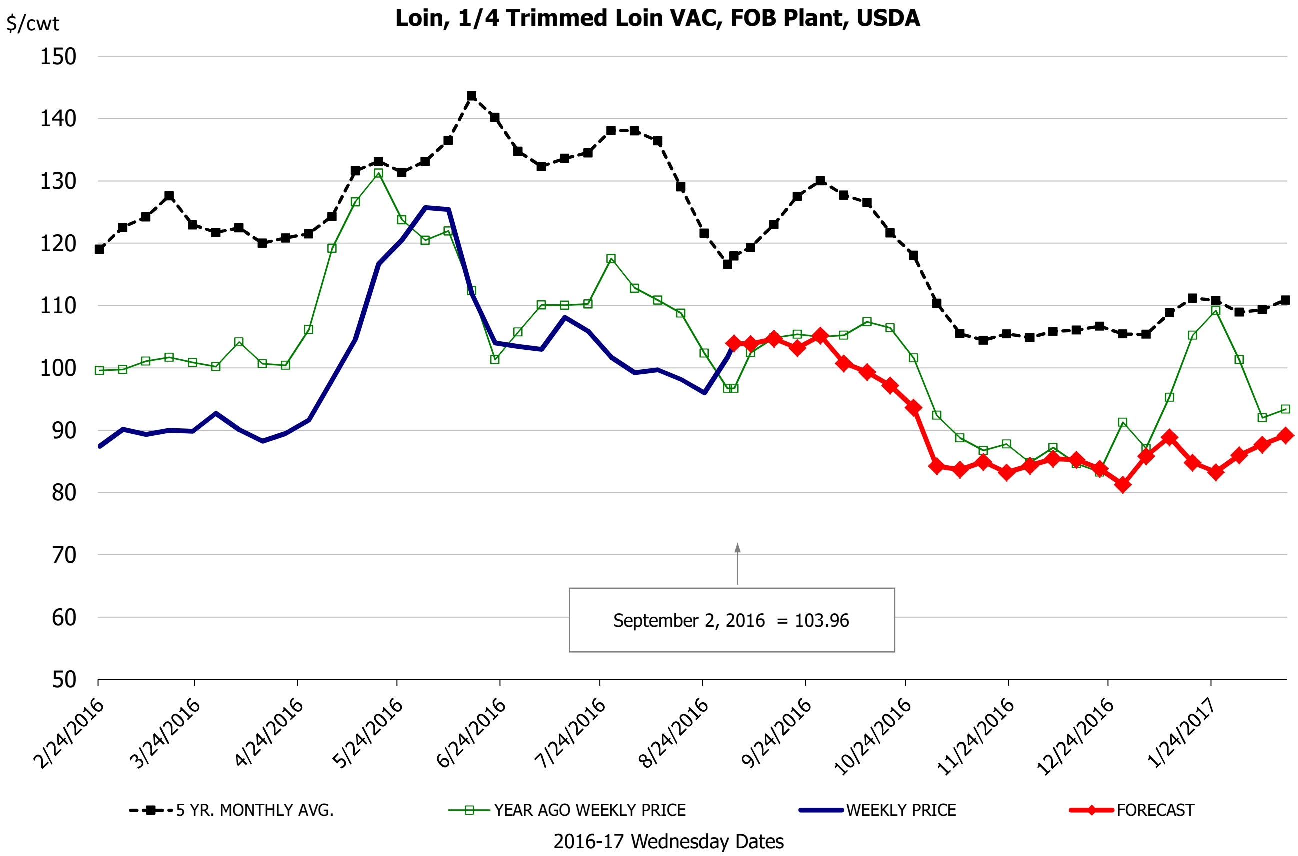
90CL Bnls. Beef prices finished the week at $2.0795 (wt. avg.) down about 5.22 cent since Wed. August 24 and down 72 compared to the year ago price quote.

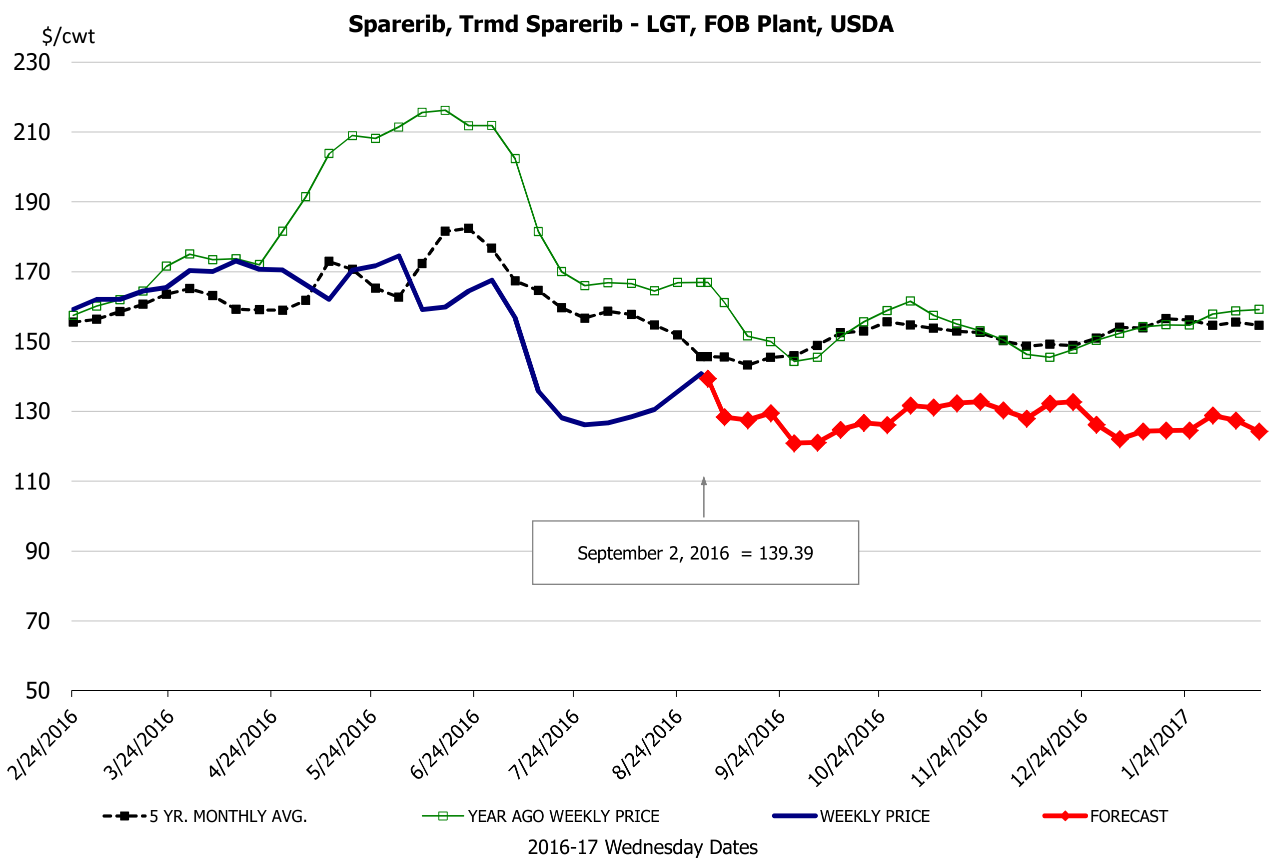
50 CL Beef Trim prices finished last week at $0.4059, down about 8 cent since Wed. August 24 and down 16 cent compared to the year ago level.

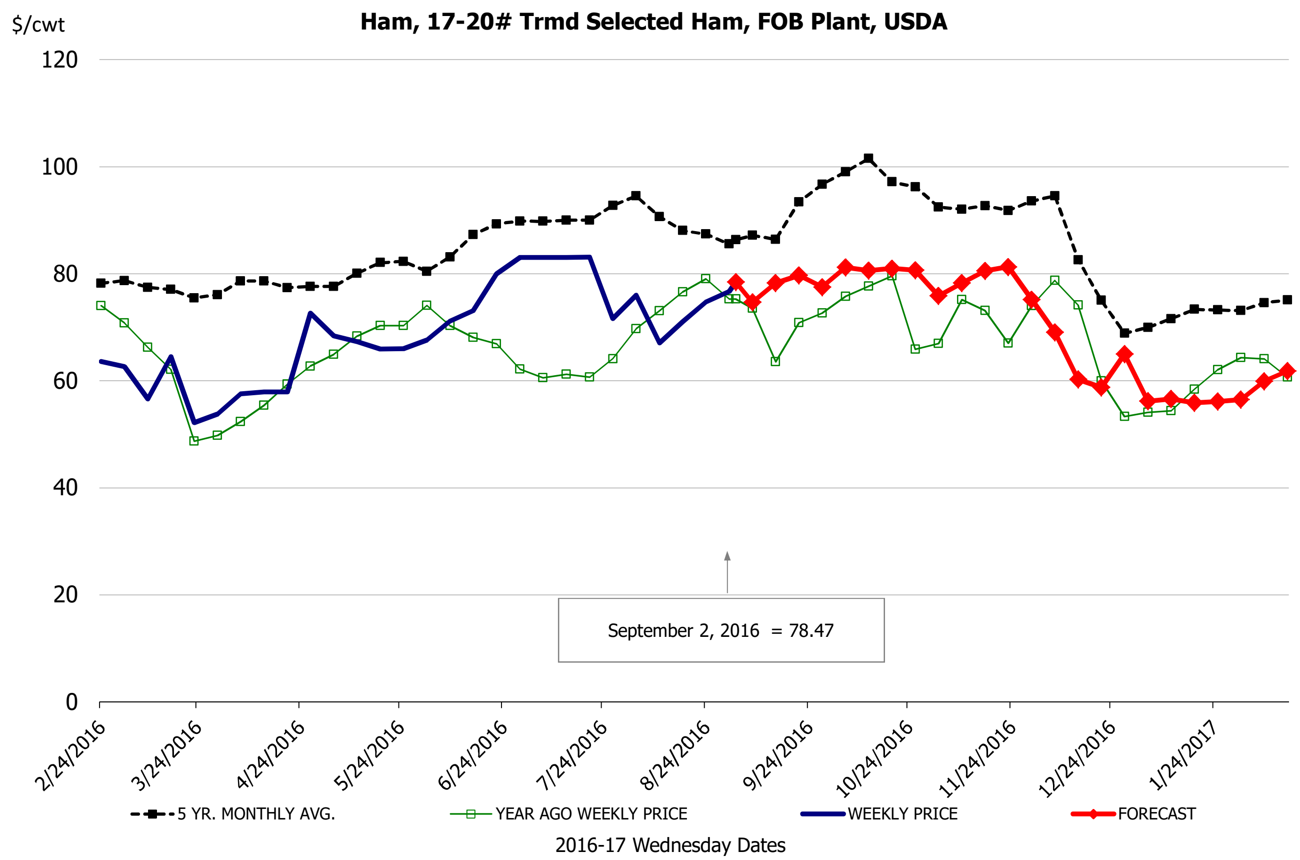
Food Service Summary Table - WT. AVE

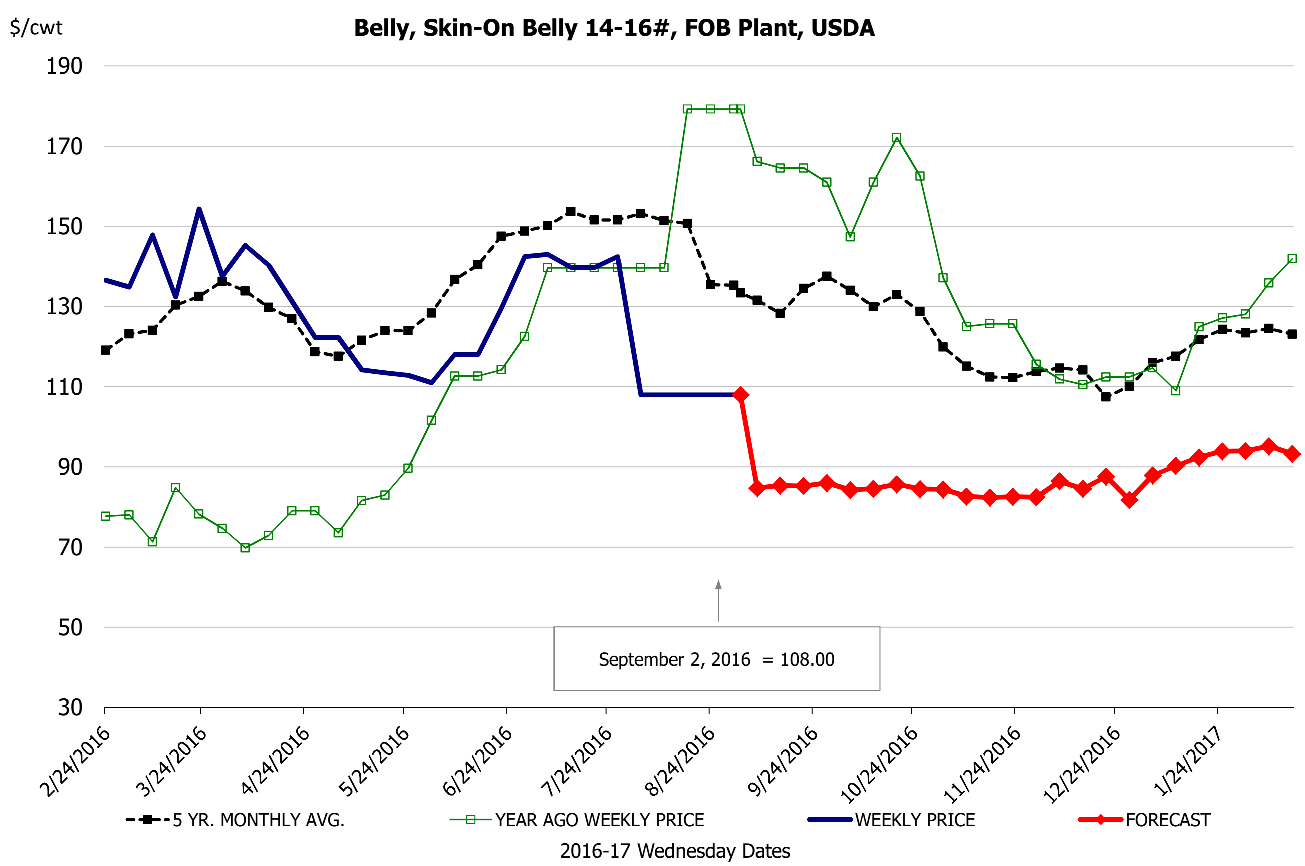
	2016 History								2016 FORECAST						
	Mar	Apr	May	Jun	Jul	Aug	8/24/2016	9/2/2016	9/14/2016	Sep	Oct	Nov	Dec	Jan	Feb
PORK															
Loin, 1/4 Trimmed Loin VAC, FOB Plant, USDA	0.90	0.89	1.08	1.13	1.05	0.98	0.96	1.04	1.05	1.04	0.98	0.84	0.84	0.85	0.88
Loin, 1/8 Trimmed Loin VAC, FOB Plant, USDA	0.97	0.97	1.13	1.22	1.12	1.04	1.03	1.09	1.12	1.10	1.03	0.91	0.91	0.92	0.94
Loin, Bnls CC Strap-off, FOB Plant, USDA	1.42	1.38	1.49	1.51	1.40	1.37	1.40	1.46	1.55	1.54	1.50	1.29	1.30	1.32	1.32
Loin, Tenderloin, FOB Plant, USDA	2.15	2.21	2.52	2.91	2.66	2.22	2.15	2.16	2.12	2.18	2.14	2.07	2.05	2.08	2.22
Butt, 1/4 Trim Butt Combo, FOB Plant, USDA	0.84	0.96	1.12	1.12	1.15	0.99	0.93	0.98	0.99	0.99	0.90	0.85	0.87	0.84	0.86
Sparerib, Trmd Sparerib - LGT, FOB Plant, USDA	1.64	1.67	1.66	1.62	1.33	1.30	1.36	1.39	1.28	1.28	1.23	1.32	1.30	1.23	1.27
Sparerib, St Louis Spareribs, POLY, FZN, FOB Plant, USDA	2.61	2.56	2.61	2.61	2.44	2.42	2.35	2.41	2.11	2.12	2.10	2.17	2.14	2.08	2.10
Sparerib, Trmd Sparerib - MED, FOB Plant, USDA	1.55	1.54	1.65	1.60	1.31	1.31	1.31	1.34	1.25	1.27	1.20	1.27	1.24	1.18	1.20
Loin, Backribs 2.0#/up, FOB Plant, USDA	2.73	2.90	2.98	2.86	2.56	2.22	2.20	2.20	2.20	2.21	2.04	2.13	2.14	2.00	2.13
Ham, 17-20# Trmd Selected Ham, FOB Plant, USDA	0.56	0.64	0.67	0.75	0.79	0.71	0.75	0.78	0.78	0.77	0.81	0.79	0.66	0.56	0.60
Ham, 20-23# Trmd Selected Ham, FOB Plant, USDA	0.55	0.63	0.67	0.74	0.80	0.71	0.75	0.80	0.78	0.77	0.77	0.76	0.65	0.54	0.58
Ham, 23-27# Trmd Selected Ham, FOB Plant, USDA	0.55	0.64	0.66	0.72	0.75	0.67	0.73	0.76	0.77	0.75	0.73	0.71	0.61	0.52	0.55
Ham, 5 Muscle Ham to Blue, FOB Plant, USDA	1.03	1.03	1.03	1.14			1.14	1.14	1.29	1.27	1.24	1.22	1.14	1.03	1.07
Belly, Skin-on Belly 14-16#, FOB Plant, USDA	1.40	1.32	1.13	1.27	1.42	1.08	1.08	1.08	0.85	0.85	0.85	0.83	0.86	0.90	0.94
Belly, Derind Belly 9-13#, FOB Plant, USDA	1.65	1.51	1.33	1.52	1.54	1.08	1.01	1.03	1.02	1.03	1.03	1.02	1.06	1.13	1.18
Belly, Derind Belly 13-17#, FOB Plant, USDA	1.64	1.50	1.24	1.50	1.60	1.04	1.03	0.99	1.01	1.02	1.02	1.01	1.05	1.12	1.17
Trim, 42% Trim Combo, FOB Plant, USDA	0.25	0.38	0.46	0.36	0.42	0.49	0.50	0.38	0.39	0.39	0.39	0.39	0.36	0.40	0.41
Trim, 72% Trim Combo, FOB Plant, USDA	0.55	0.69	0.69	0.73	0.80	0.66	0.60	0.54	0.55	0.54	0.53	0.53	0.52	0.55	0.59
HOG CARCASS															
IA/MN, Base Market Hog 185 lb Carcass Basis, Plant Dlv.	0.63	0.65	0.74	0.80	0.73	0.63	0.63	0.60	0.63	0.63	0.61	0.57	0.56	0.57	0.59
BROILERS															
BROILER, NATIONAL WHOLE BIRD PRICE, USDA	0.85	0.88	0.94	0.97	0.88	0.80	0.79	0.79	0.81	0.81	0.80	0.80	0.81	0.82	0.82
N.E. BROILER BREAST BONELESS-SKINLESS, USDA	1.11	1.16	1.23	1.20	1.29	1.43	1.48	1.45	1.44	1.46	1.22	1.08	1.05	1.04	1.06
N.E. BROILER BREAST LINE RUN, USDA	0.89	0.93	0.97	0.97	0.92	0.89	0.91	0.91	0.90	0.90	0.86	0.81	0.80	0.81	0.82
N.E. BROILER LEG QUARTERS, USDA	0.31	0.35	0.37	0.36	0.35	0.32	0.34	0.32	0.30	0.31	0.30	0.28	0.28	0.32	0.32
N.E. BROILER WINGS, USDA, WT.AVG.	1.79	1.79	1.61	1.54	1.56	1.57	1.63	1.64	1.67	1.64	1.68	1.55	1.58	1.60	1.54
TURKEYS															
UB HEN TURKEYS, EAST, FROZEN 10-12LBS	1.21	1.22	1.23	1.24	1.25	1.26	1.26	1.28	1.28	1.28	1.29	1.29	1.14	1.03	1.04
UB BONELESS-SKINLESS TURKEY BREAST, TOM, FRESH	3.24	2.59	2.18	2.15	2.15	2.15	2.15	2.15	2.27	2.25	2.30	2.35	2.25	2.20	2.20
LIVE STEERS															
FIVE AREA DIRECT AVERAGE LIVE STEER, USDA	1.37	1.32	1.28	1.23	1.18	1.17	1.17	1.10	1.12	1.11	1.11	1.13	1.11	1.11	1.12
BEEF															
CHOICE, 112A, 3 RIBEYE, BONELESS, HEAVY, USDA	7.95	7.52	7.32	8.29	6.86	7.37	7.77	6.74	6.95	6.91	6.28	7.96	7.34	5.57	5.71
CHOICE, 168, 3 TOP INSIDE ROUND, 1/4" MAX, USDA	2.36	2.19	2.10	1.99	2.10	2.17	2.16	2.03	2.06	2.03	2.01	2.01	2.02	2.06	1.99
CHOICE, 170, 1 BOTTOM GOOSENECK ROUND, USDA	1.98	1.96	1.92	1.83	1.85	1.85	1.89	1.86	1.86	1.86	1.90	1.84	1.82	1.92	1.90
CHOICE, 180, 3 STRIP LOIN, BONELESS, 0x1, USDA	7.20	7.23	7.33	8.05	6.51	5.51	5.52	4.79	4.80	4.79	5.13	5.17	5.20	5.09	5.16
CHOICE, 184, 3 TOP BUTT, BONELESS, USDA	4.18	4.48	4.40	3.86	3.68	3.61	3.52	3.44	3.40	3.36	3.02	3.01	3.04	3.04	3.14
CHOICE, 185A, 4 BOTTOM SIRLOIN, FLAP, USDA	5.72	5.59	5.17	5.20	5.05	5.20	5.36	4.87	4.62	4.68	4.36	4.09	3.99	3.96	4.12
COARSE GROUND 73%, USDA	1.42	1.50	1.55	1.48	1.34	1.52	1.64	1.65	1.51	1.51	1.40	1.29	1.27	1.58	1.43
COARSE GROUND 81%, USDA	1.65	1.74	1.89	1.83	1.66	1.74	1.97	1.71	1.70	1.71	1.62	1.52	1.49	1.80	1.69
90% BONELESS BEEF, CENTRAL, FRESH, USDA	2.18	2.18	2.18	2.17	2.17	2.14	2.13	2.08	2.06	2.08	1.86	1.84	1.85	1.95	2.00
50CL BEEF TRIM, FRESH, NATIONAL, USDA	0.94	0.72	0.51	0.85	0.90	0.56	0.49	0.41	0.44	0.45	0.53	0.71	0.62	0.78	0.71

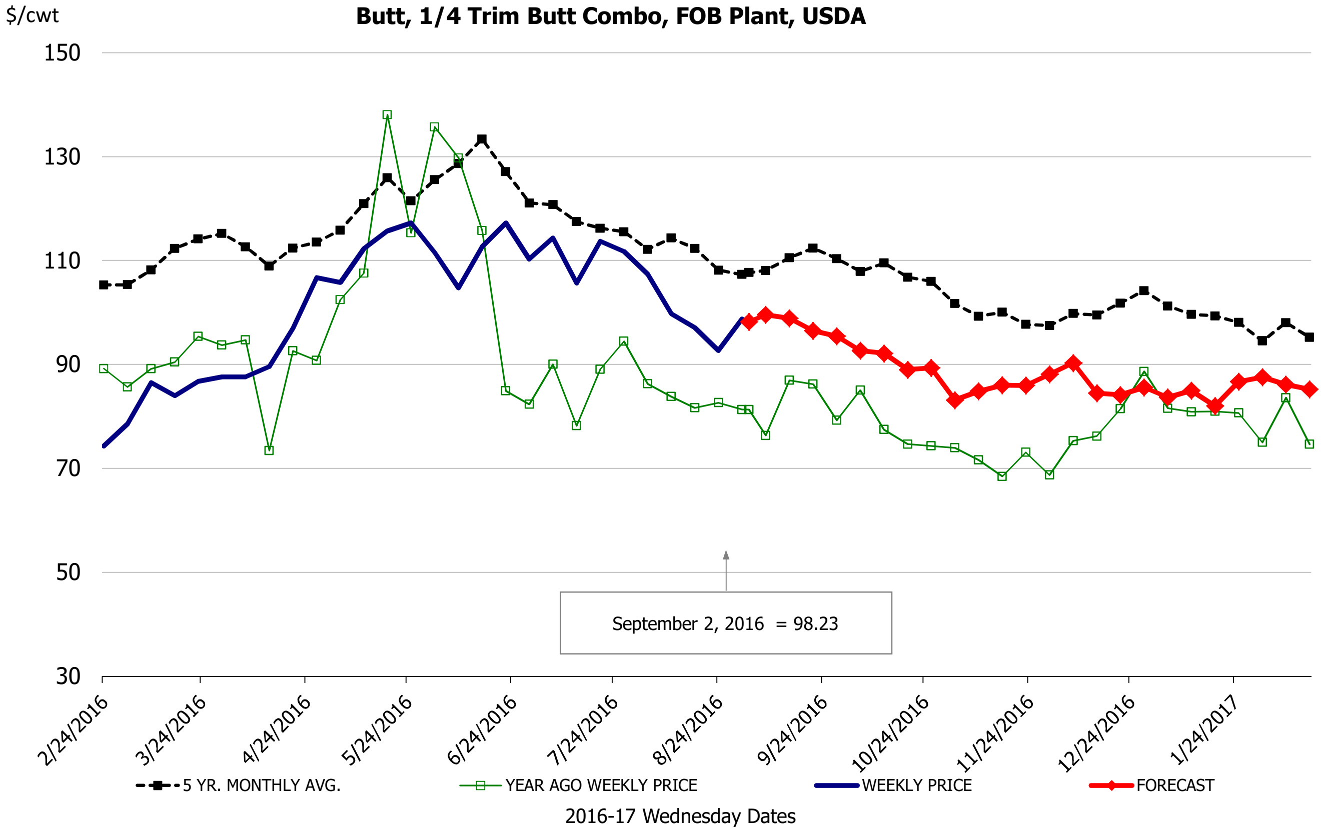
*St. Louis 2 1/4 dn rib prices are estimated at 3 1/2 dn plus $1.10

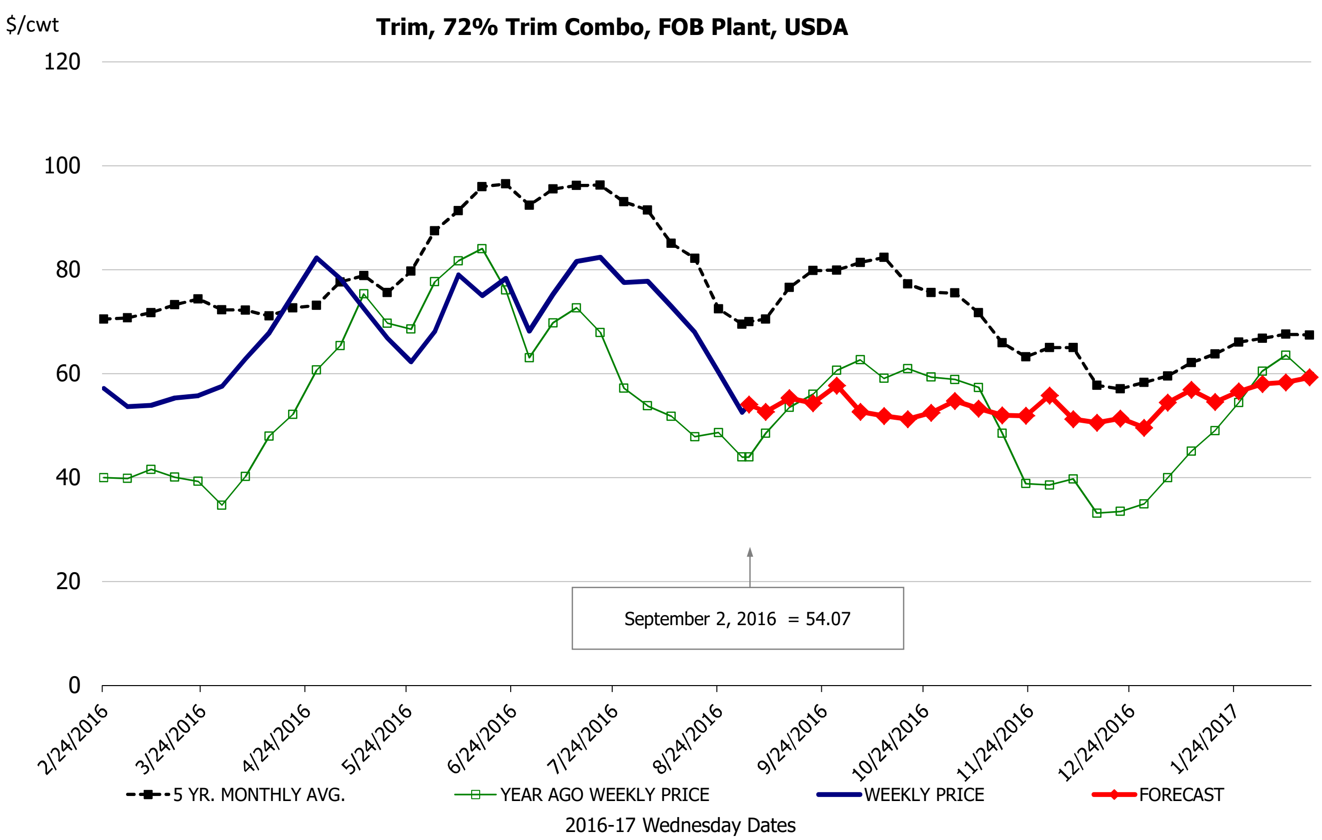

Loin, 1/4 Trimmed Loin VAC, FOB Plant, USDA
$/cwt
150
140
130
120
110
100
90
80
70
60
50
September 2, 2016 = 103.96
2/24/2016
3/24/2016
4/24/2016
5/24/2016
6/24/2016
7/24/2016
8/24/2016
9/24/2016
10/24/2016
11/24/2016
12/24/2016
1/24/2017
5 YR. MONTHLY AVG.
YEAR AGO WEEKLY PRICE
WEEKLY PRICE
FORECAST
2016-17 Wednesday Dates


Sparerib, Trmd Sparerib - LGT, FOB Plant, USDA
$/cwt
230
210
190
170
150
130
110
90
70
50
September 2, 2016 = 139.39
2/24/2016
3/24/2016
4/24/2016
5/24/2016
6/24/2016
7/24/2016
8/24/2016
9/24/2016
10/24/2016
11/24/2016
12/24/2016
1/24/2017
5 YR. MONTHLY AVG.
YEAR AGO WEEKLY PRICE
WEEKLY PRICE
FORECAST
2016-17 Wednesday Dates

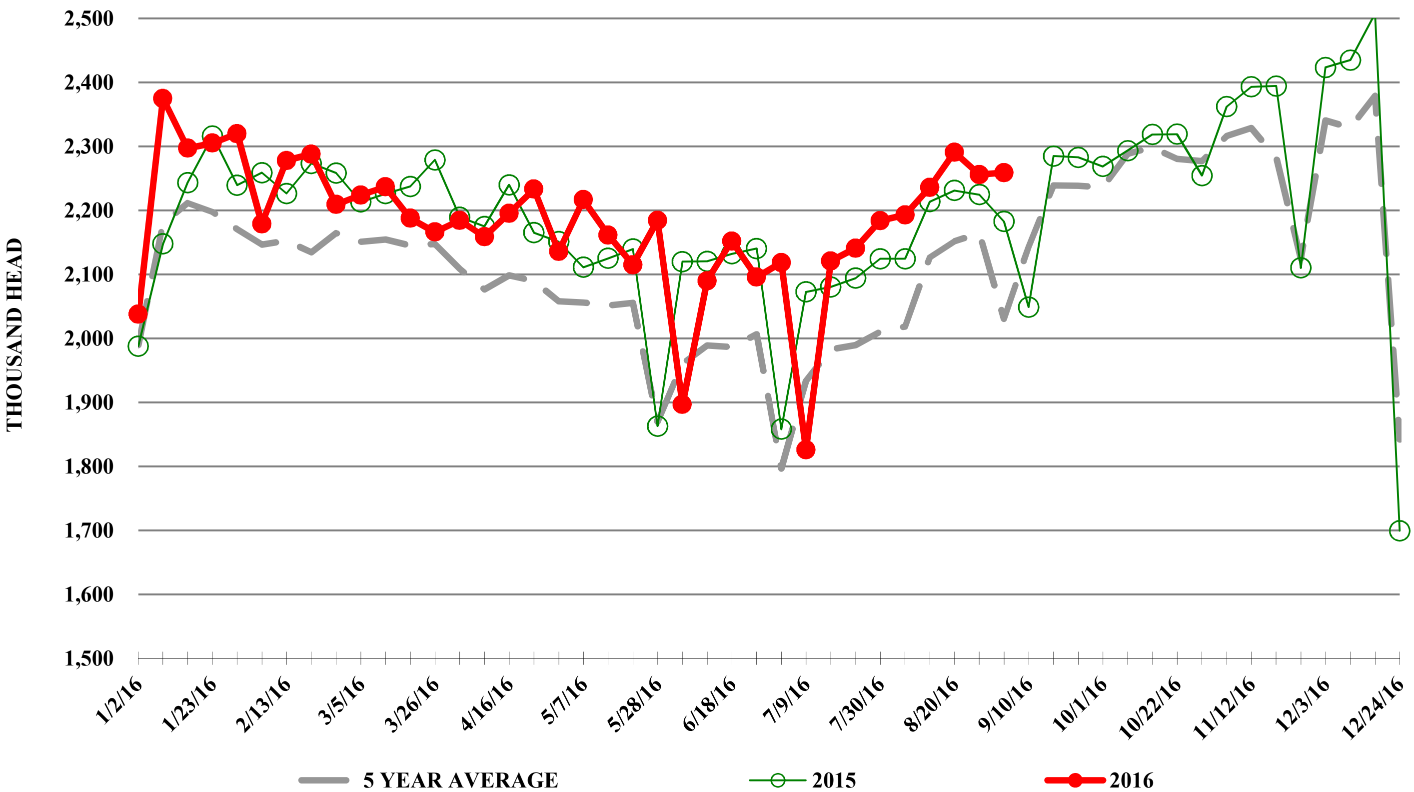

$/cwt
Ham, 17-20# Trmd Selected Ham, FOB Plant, USDA
120
100
80
60
40
20
0
September 2, 2016 = 78.47
2/24/2016
3/24/2016
4/24/2016
5/24/2016
6/24/2016
7/24/2016
8/24/2016
9/24/2016
10/24/2016
11/24/2016
12/24/2016
1/24/2017
5 YR. MONTHLY AVG.
YEAR AGO WEEKLY PRICE
WEEKLY PRICE
FORECAST
2016-17 Wednesday Dates


$/cwt
Belly, Skin-On Belly 14-16#, FOB Plant, USDA
190
170
150
130
110
90
70
50
30
September 2, 2016 = 108.00
2/24/2016
3/24/2016
4/24/2016
5/24/2016
6/24/2016
7/24/2016
8/24/2016
9/24/2016
10/24/2016
11/24/2016
12/24/2016
1/24/2017
5 YR. MONTHLY AVG.
YEAR AGO WEEKLY PRICE
WEEKLY PRICE
FORECAST
2016-17 Wednesday Dates


$/cwt
Butt, 1/4 Trim Butt Combo, FOB Plant, USDA
150
130
110
90
70
50
30
September 2, 2016 = 98.23
2/24/2016
3/24/2016
4/24/2016
5/24/2016
6/24/2016
7/24/2016
8/24/2016
9/24/2016
10/24/2016
11/24/2016
12/24/2016
1/24/2017
5 YR. MONTHLY AVG.
YEAR AGO WEEKLY PRICE
WEEKLY PRICE
FORECAST
2016-17 Wednesday Dates


$/cwt
Trim, 72% Trim Combo, FOB Plant, USDA
120
100
80
60
40
20
0
September 2, 2016 = 54.07
2/24/2016
3/24/2016
4/24/2016
5/24/2016
6/24/2016
7/24/2016
8/24/2016
9/24/2016
10/24/2016
11/24/2016
12/24/2016
1/24/2017
5 YR. MONTHLY AVG.
YEAR AGO WEEKLY PRICE
WEEKLY PRICE
FORECAST
2016-17 Wednesday Dates

ESTIMATED WEEKLY FI HOG SLAUGHTER



ESTIMATED WEEKLY FI PORK PRODUCTION