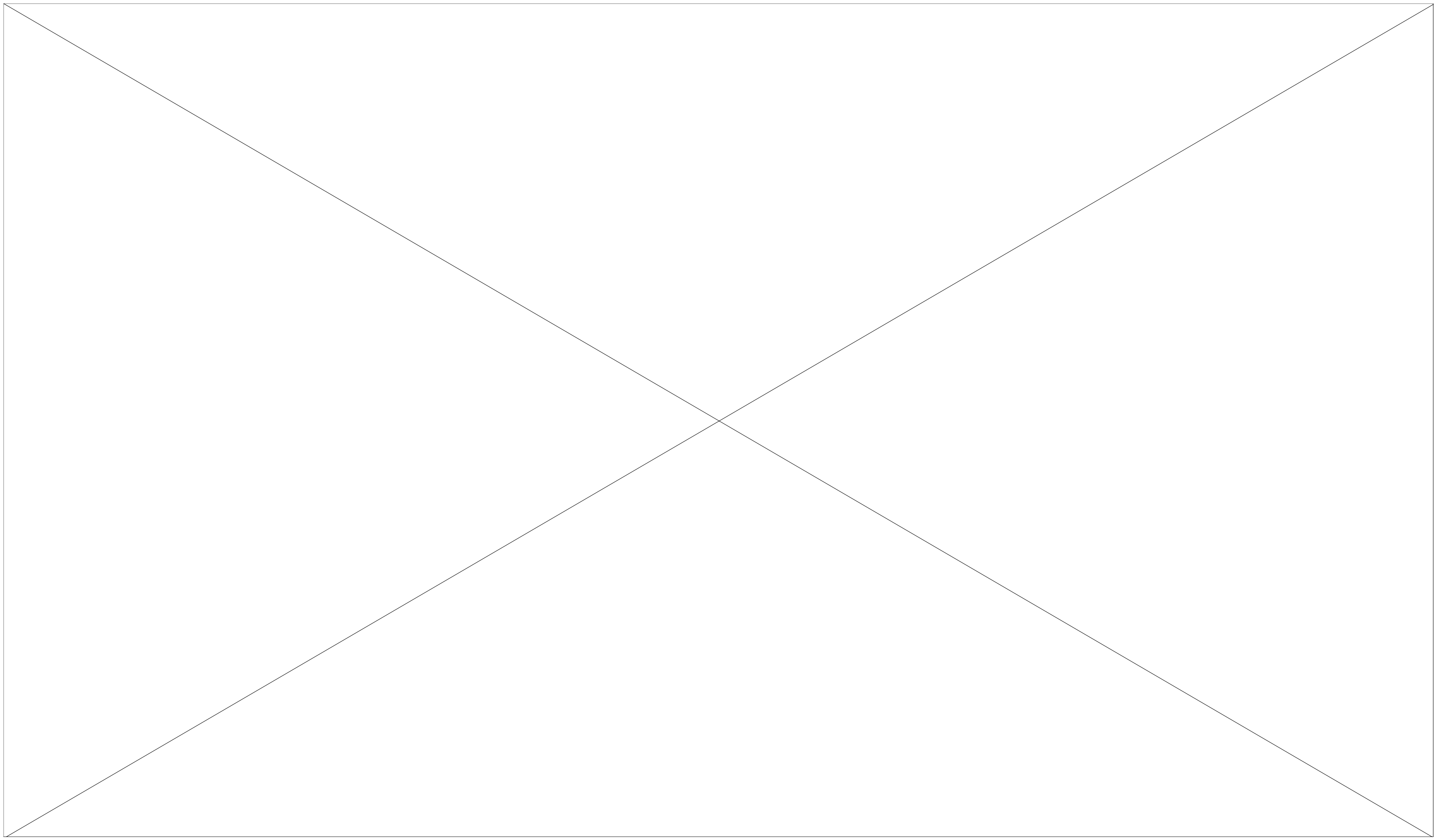
Annual Meat Conference – February 2017

Market Outlook for Meat & Poultry – General Economy and Pork

Steve R. Meyer, Ph.D.
Vice-President, Pork Analysis
EMI Analytics

EMI Express Markets, Inc.
Analytics™

In case you missed it, I have a new title . . .



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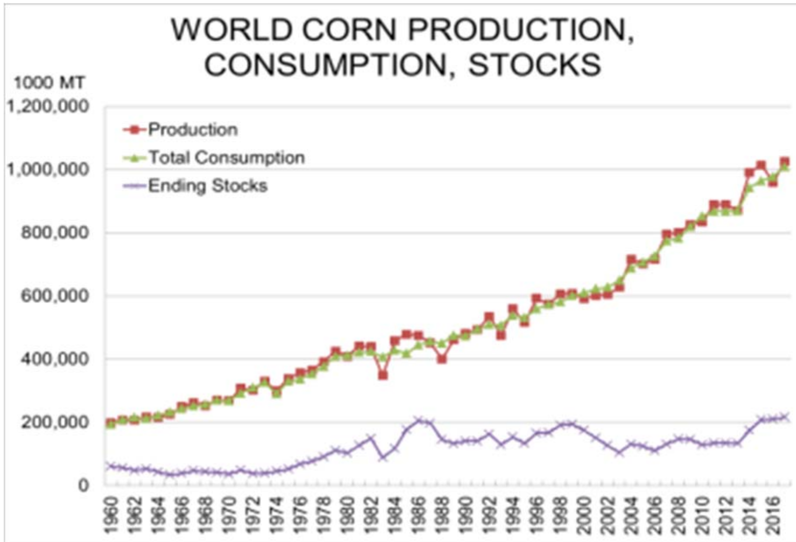
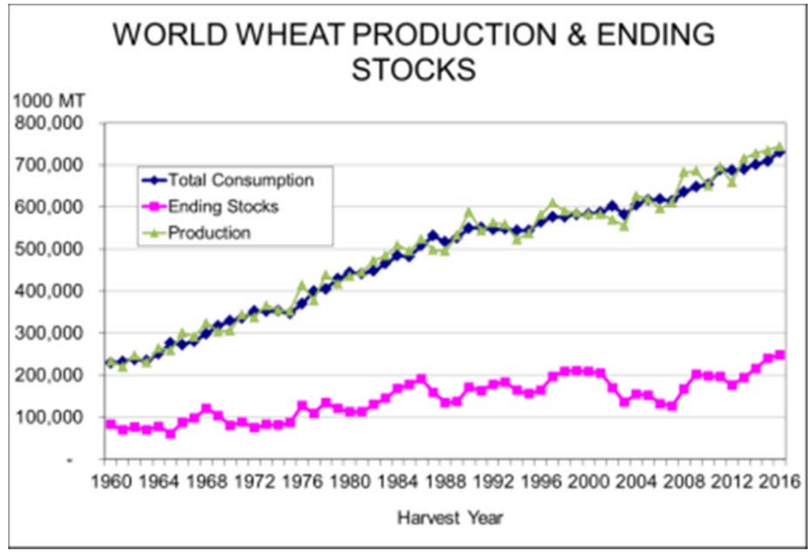
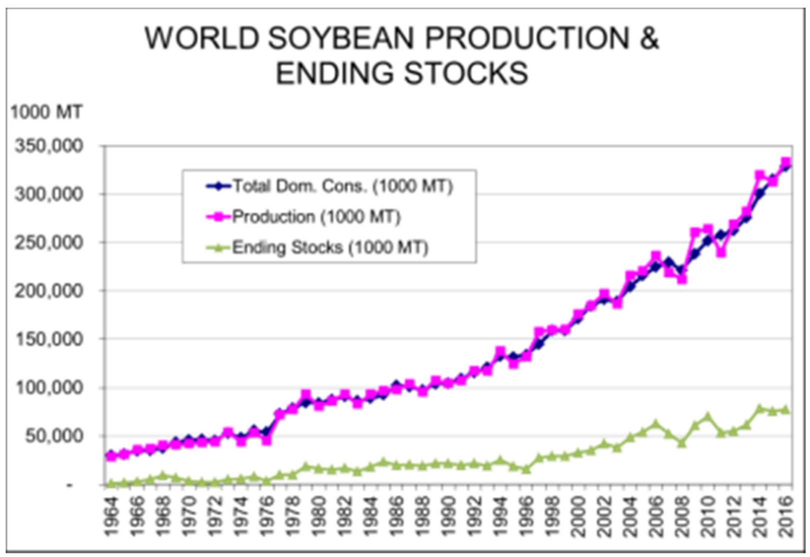
A word about feed ingredients and costs . . .

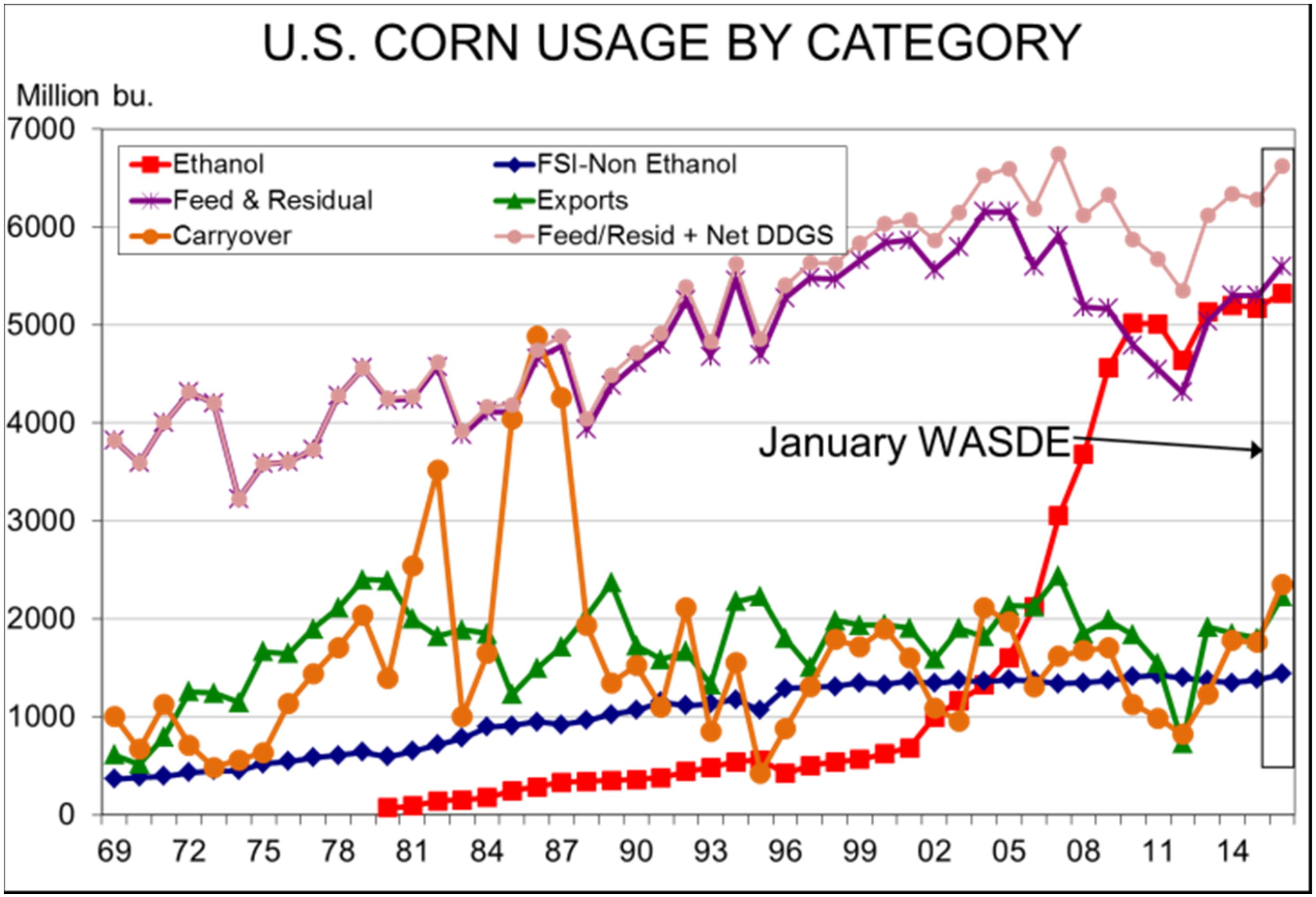






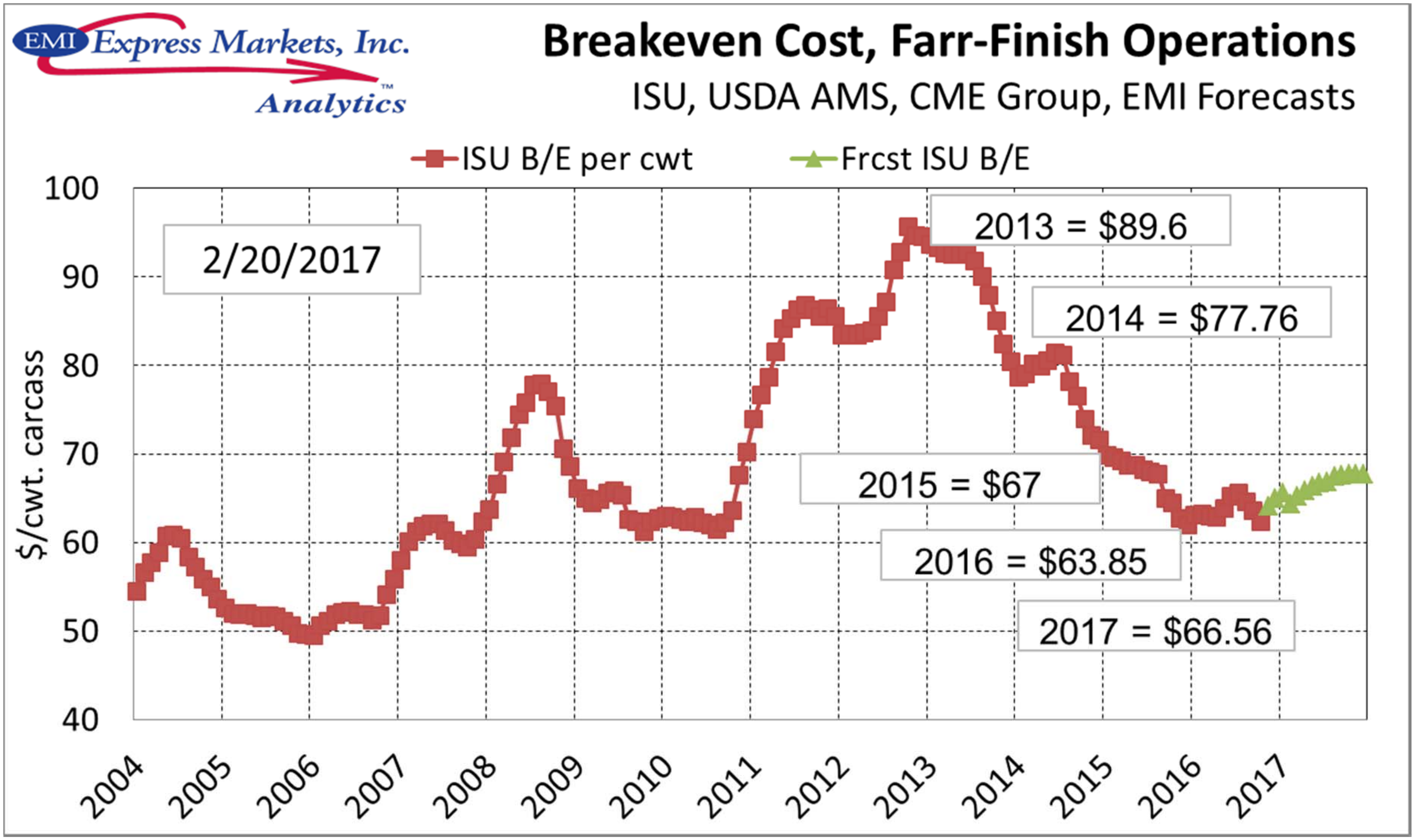
Ethanol usage is now flat . . .

. . . And feed availability is growing with output!

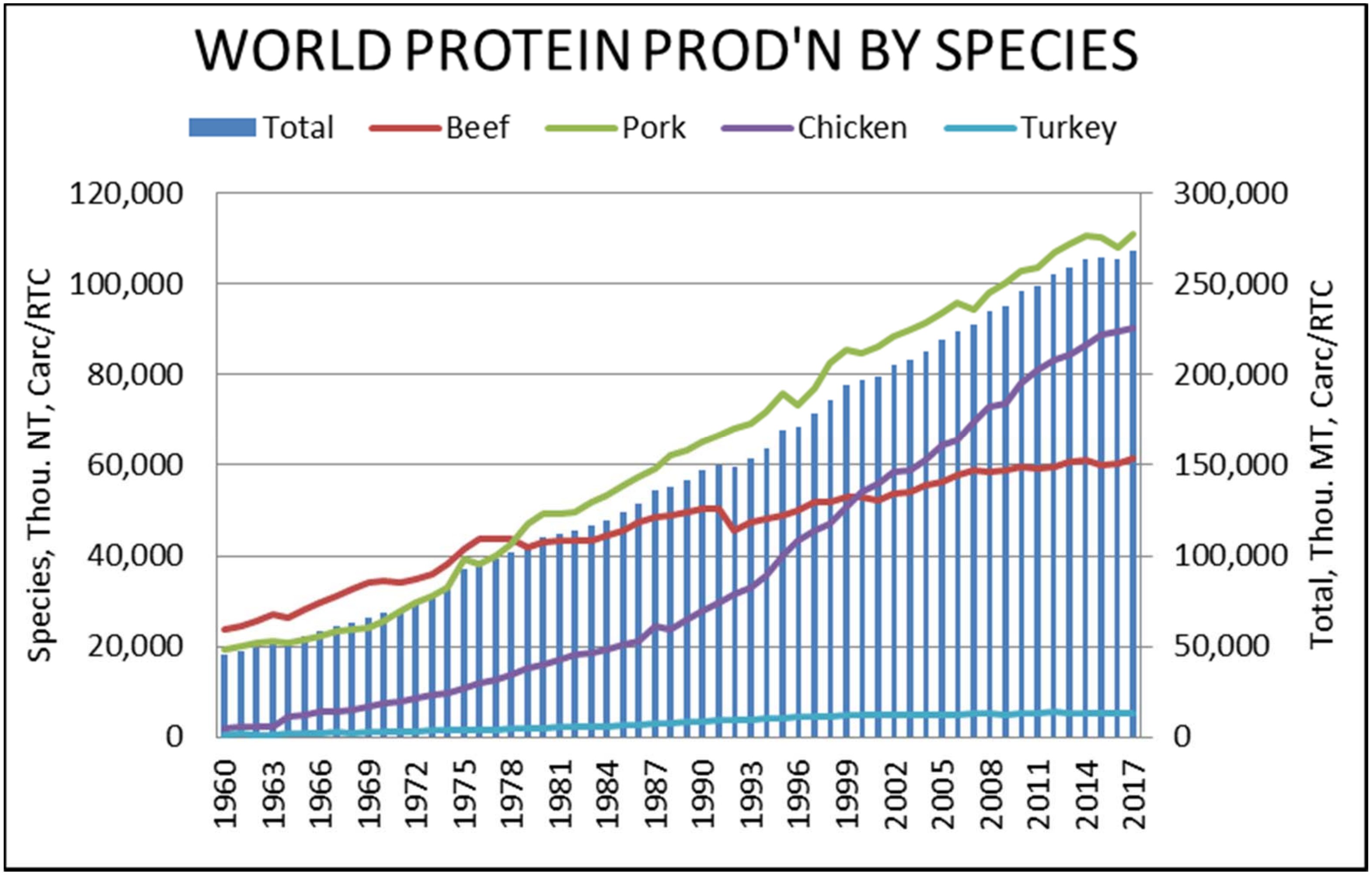


'16 & '17: Silver lining was and is production costs

. . . but they have been creeping higher

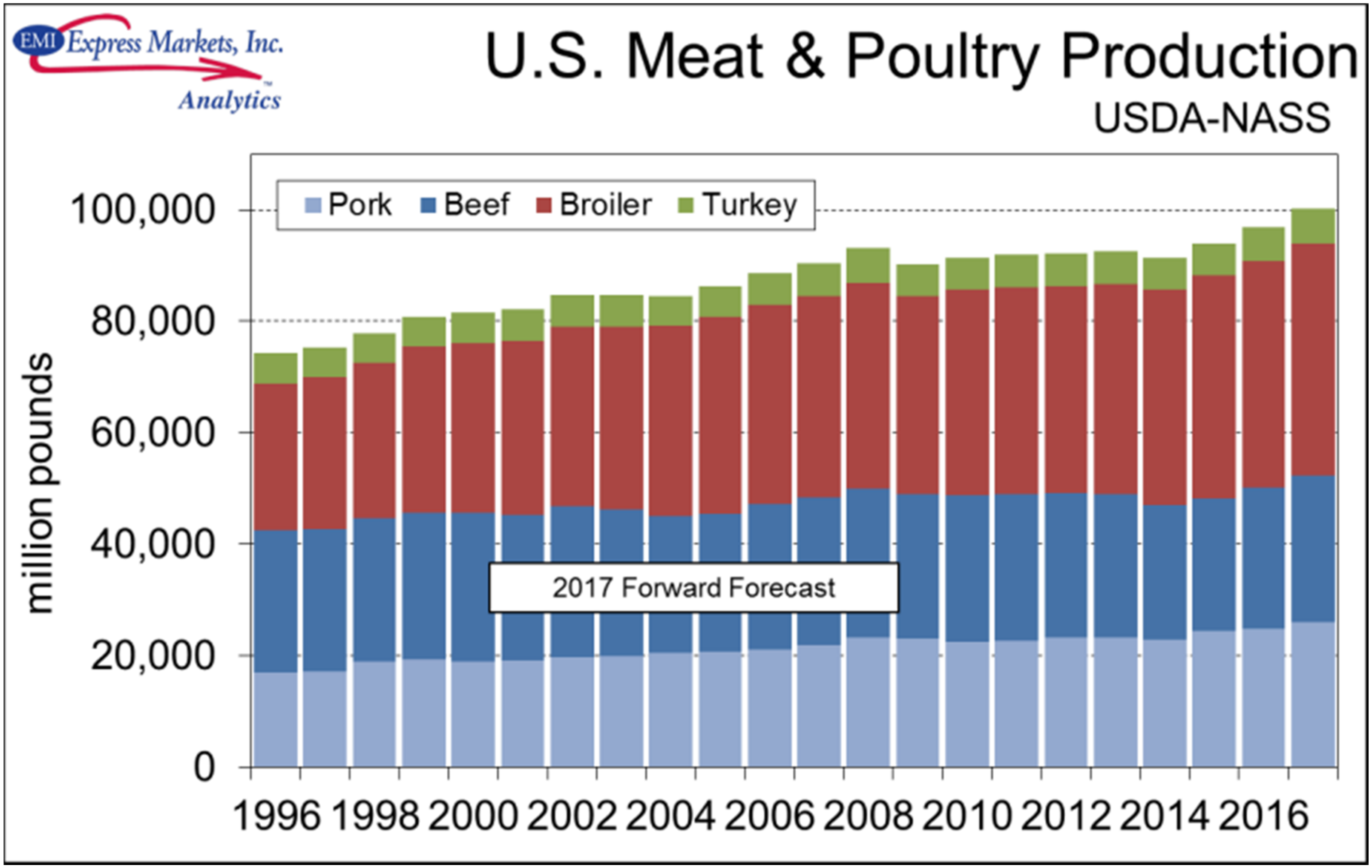


The same is true of meat and poultry supplies . . .



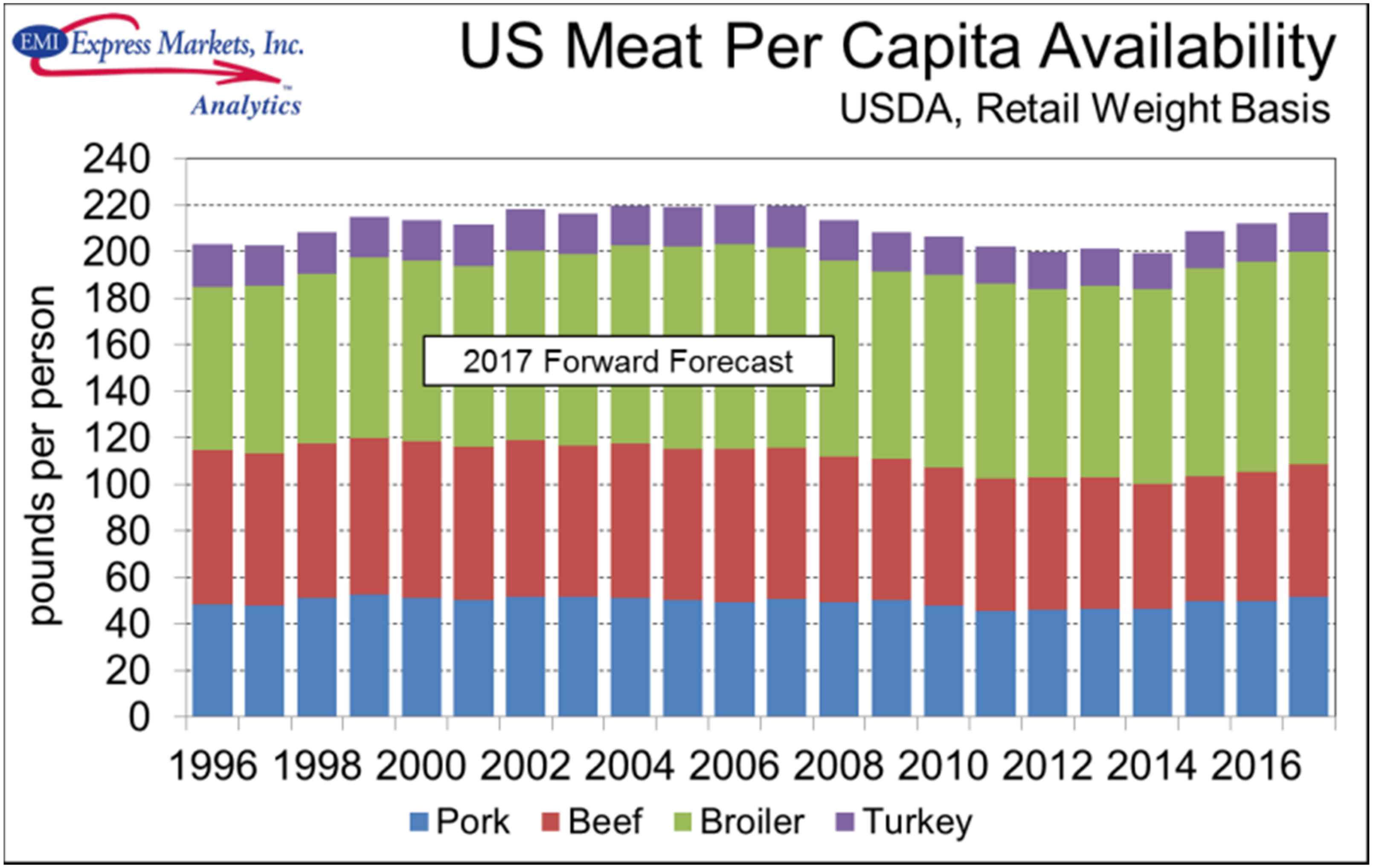
U.S. production will set records as well . . .

. . ‘15 was up 2.7%, ‘16 was +3.1%, ‘17 will be +3%

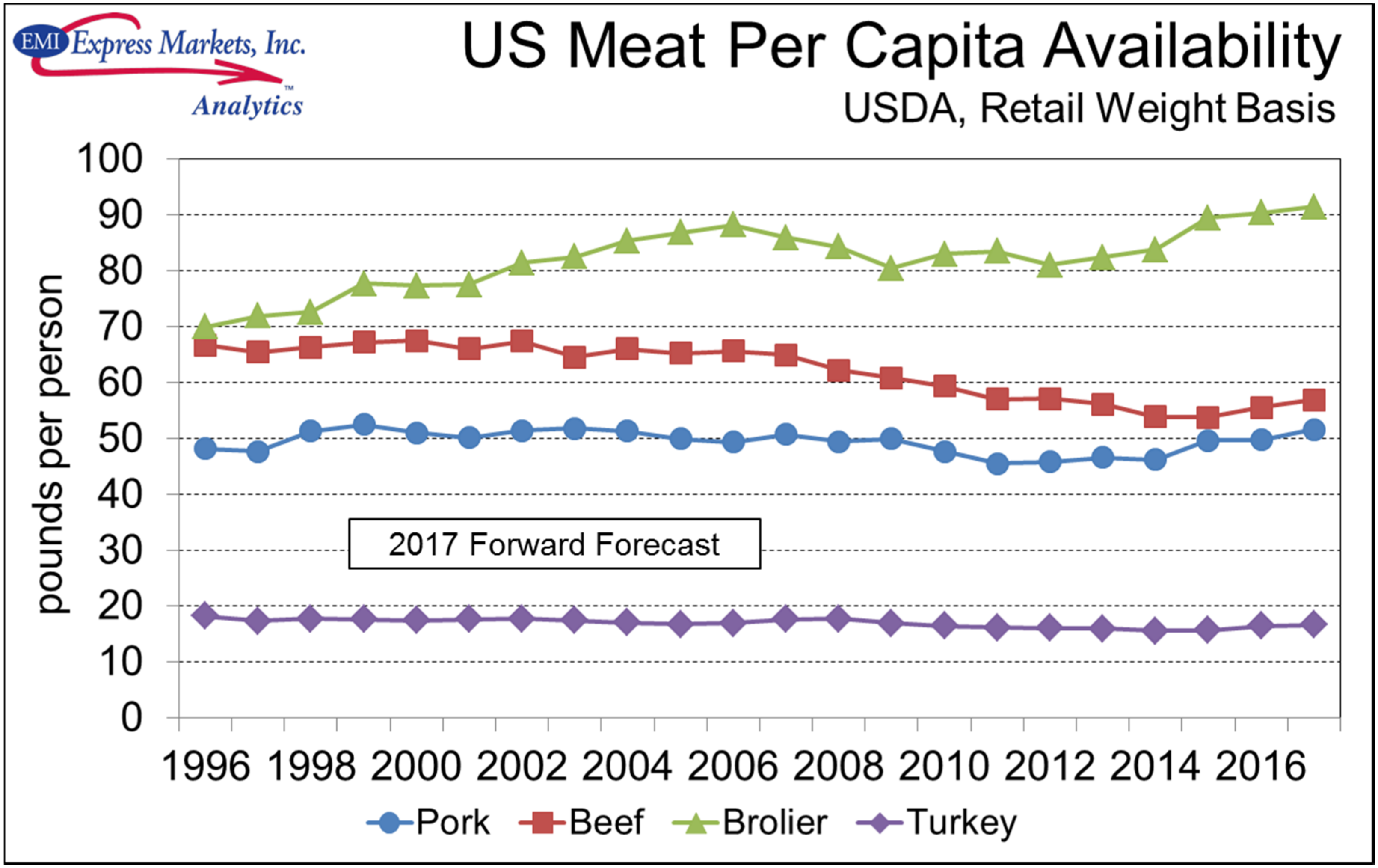


Per capita protein consumption is rising again . . .

. . . big jump was 4.6% in '15; '16 was 1.5%, '17 = 1.9%

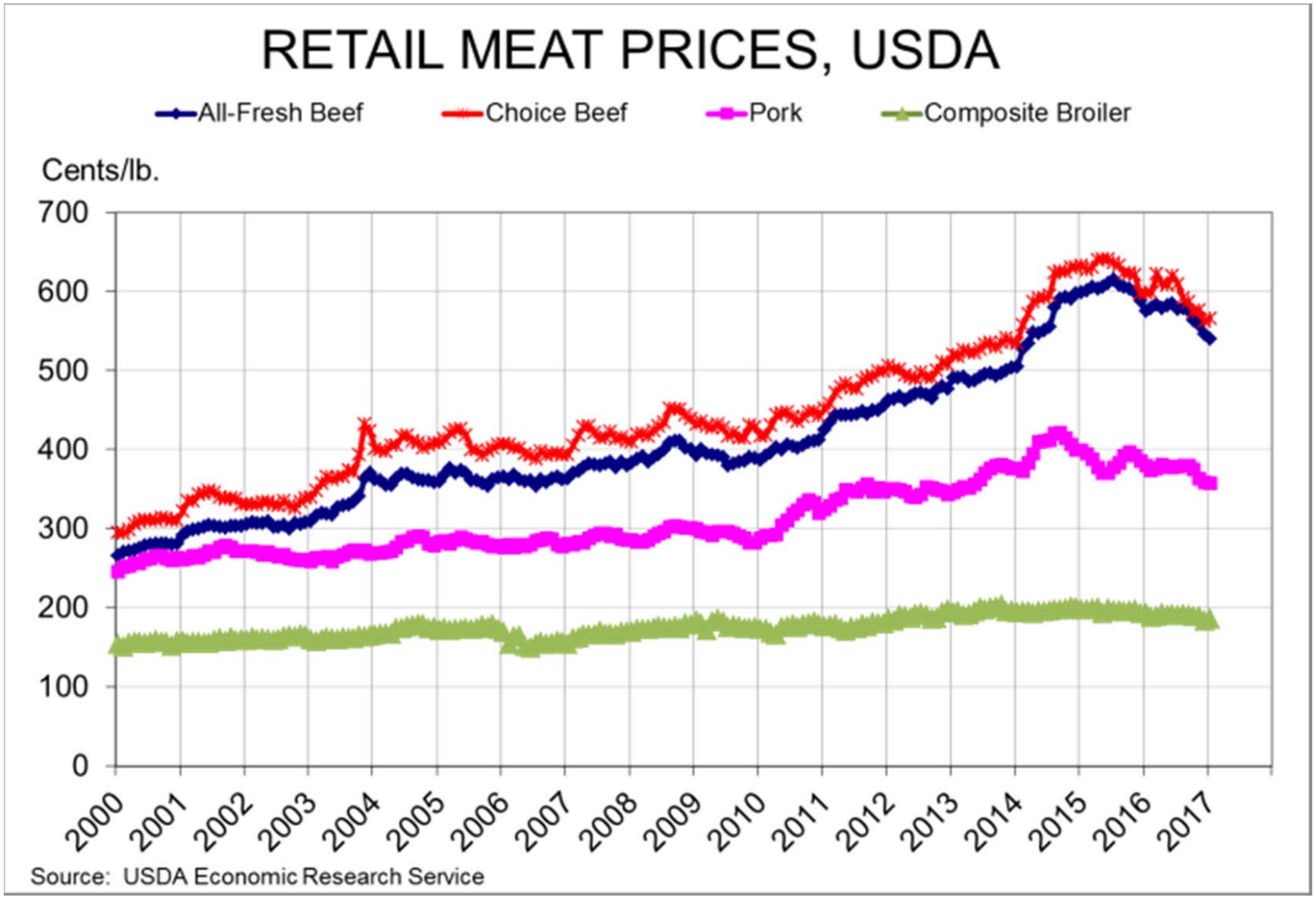


Pork has returned to its “normal” 50 lbs/person . . .



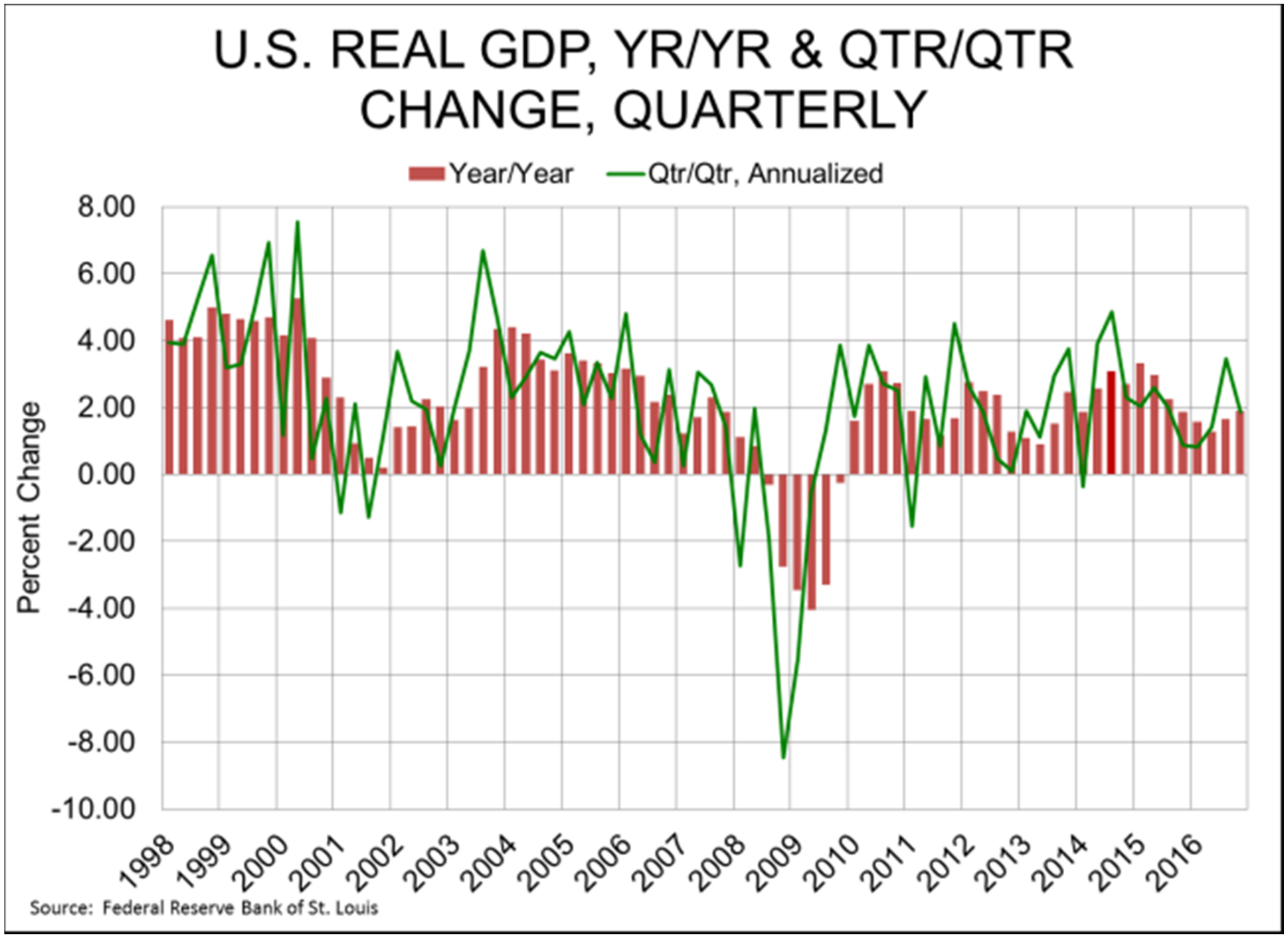
The other part of demand is retail price . . .

. . . & pork prices have fallen – lowest since ‘13

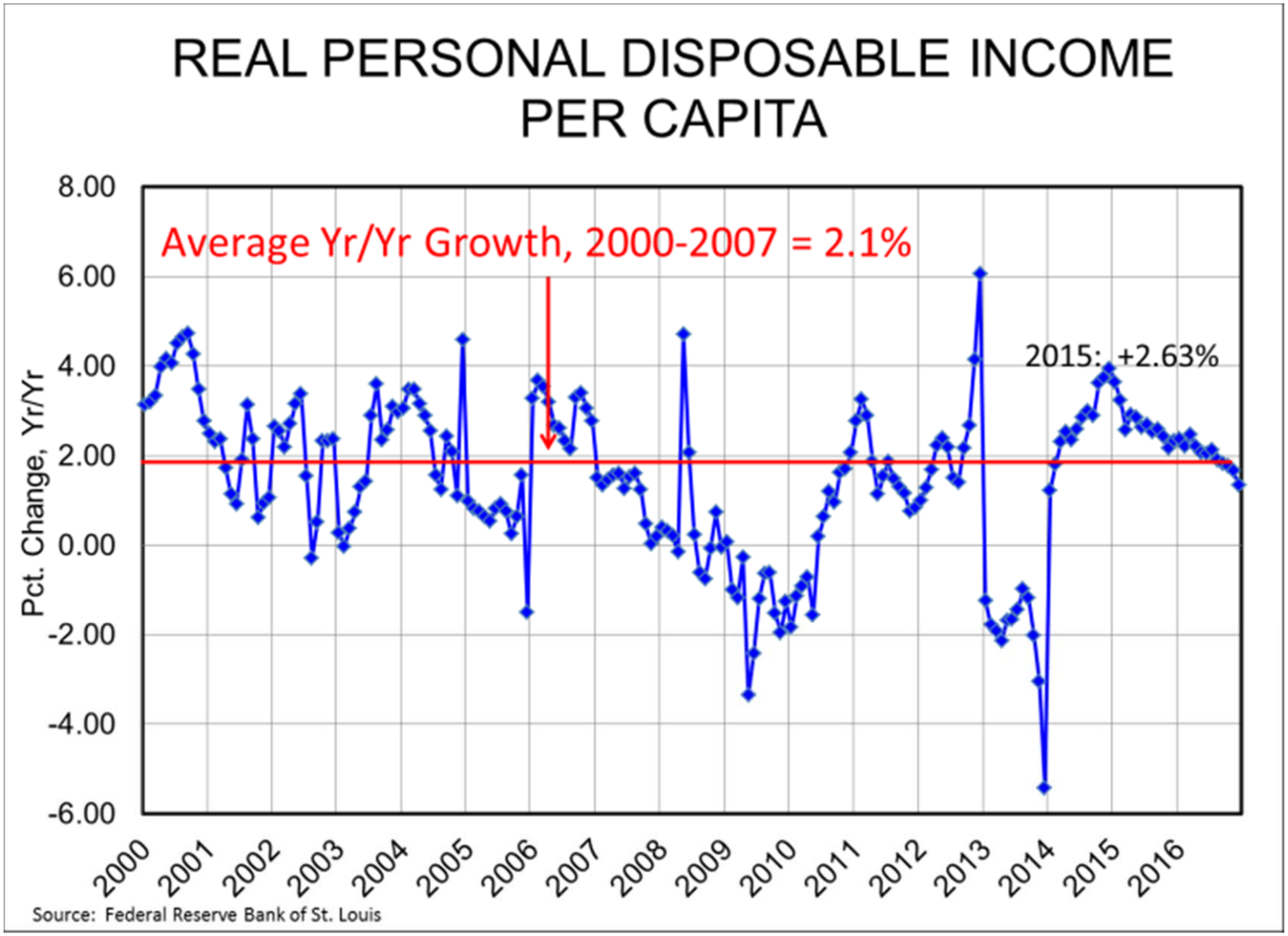


Q4 GDP grew, qtr/qtr at a 1.9% annual rate . . .

. . . And yr/yr percent change was also 1.9%

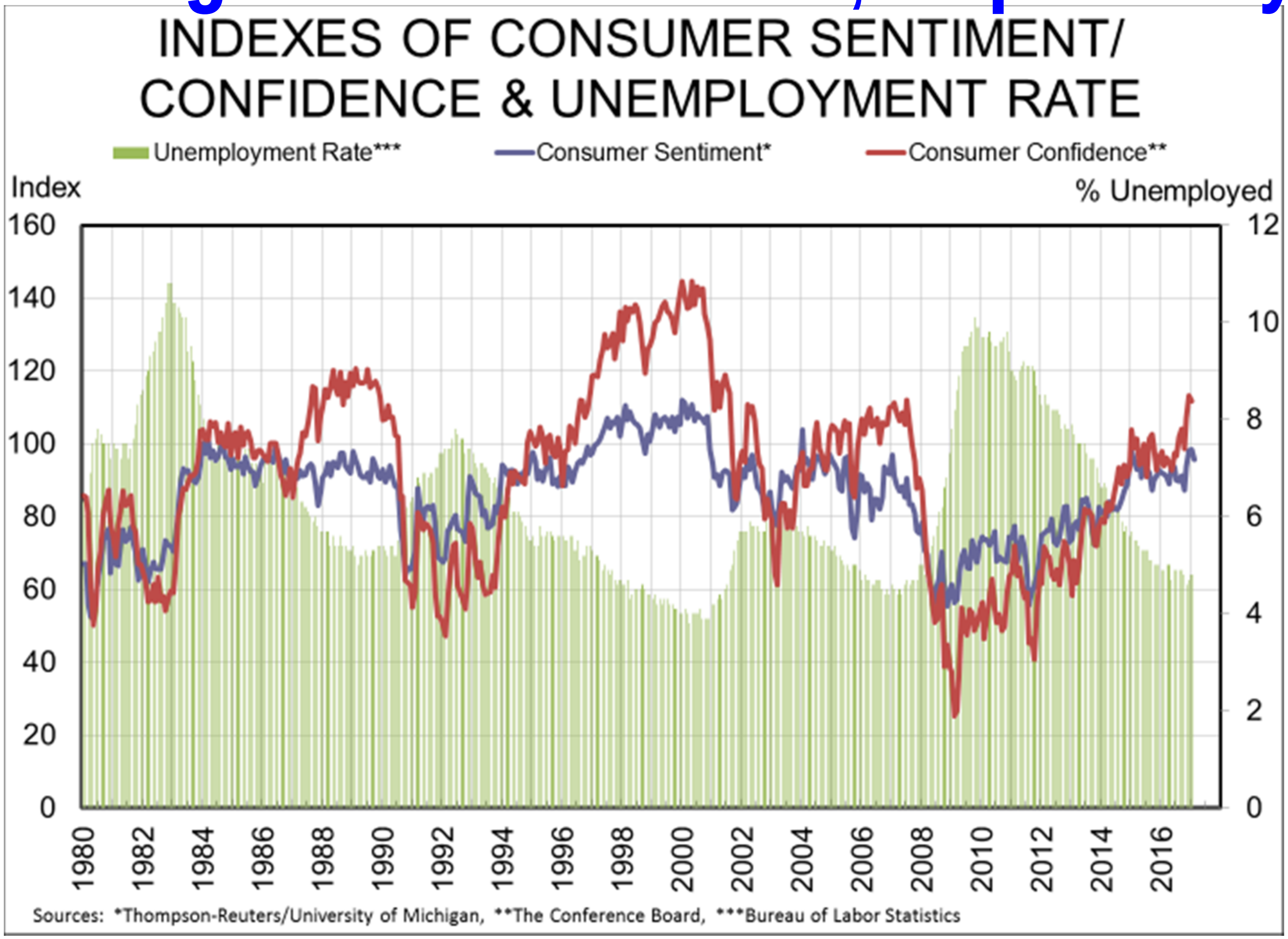


RPDI growth has slowed steadily: ’16 = 2.01% . . .



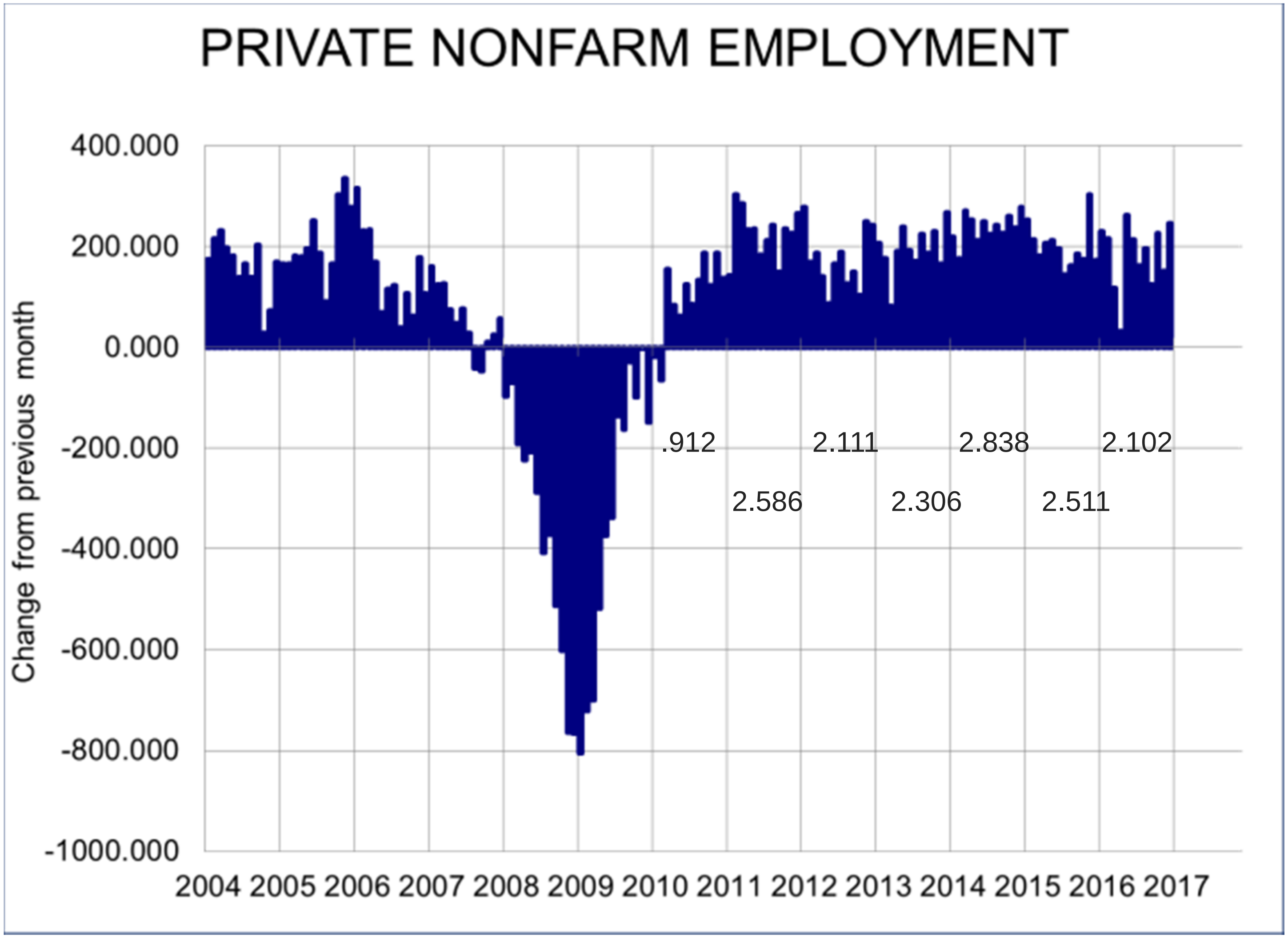
Consumer Sentiment & Confidence Indexes . . .

. . . Highest since ’04 & ’01, respectively, in Dec



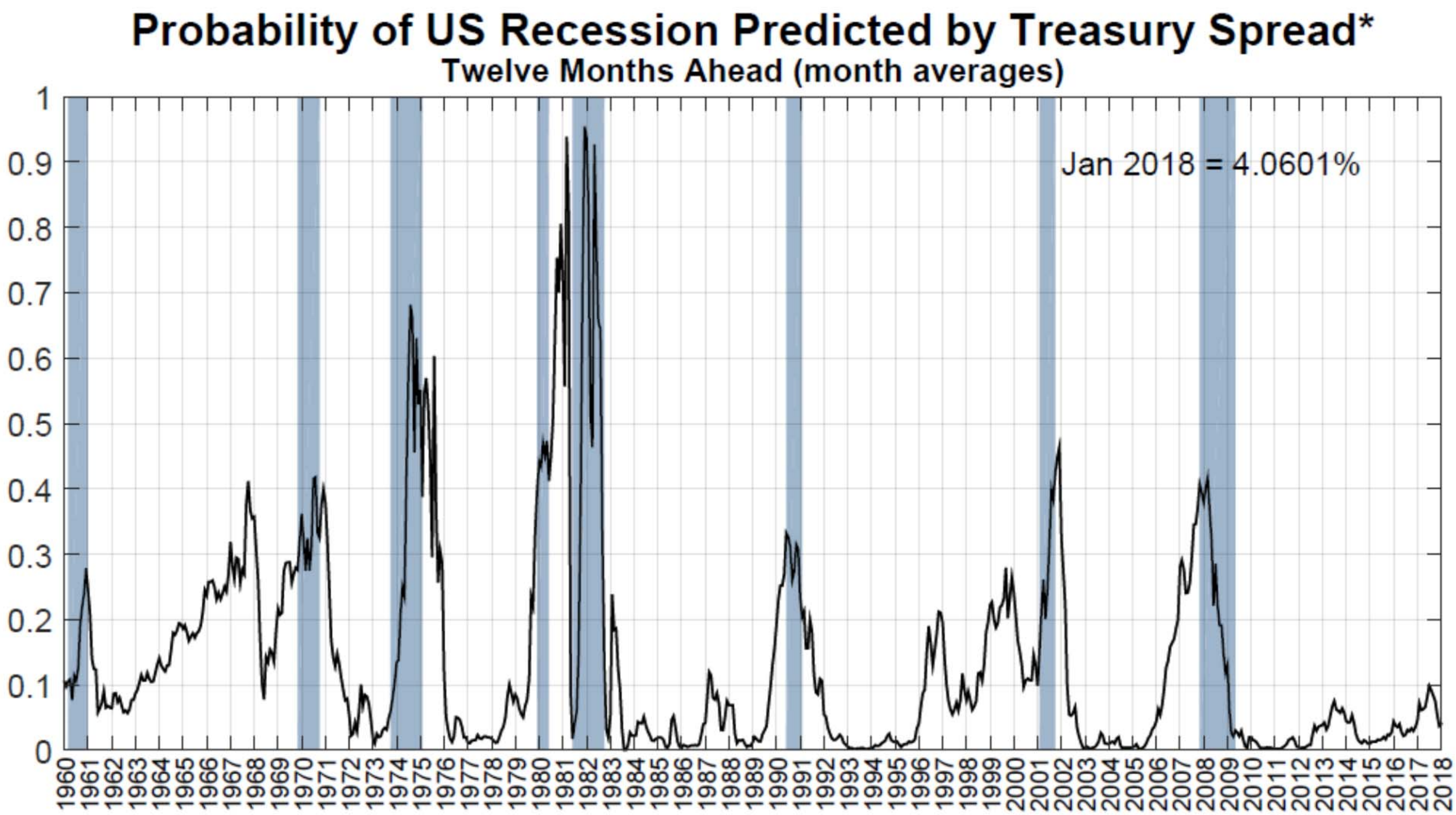
The economy has consistently added jobs . . .

But 2016 was the lowest number since 2010 . . .



By at least one measure/predictor . . .

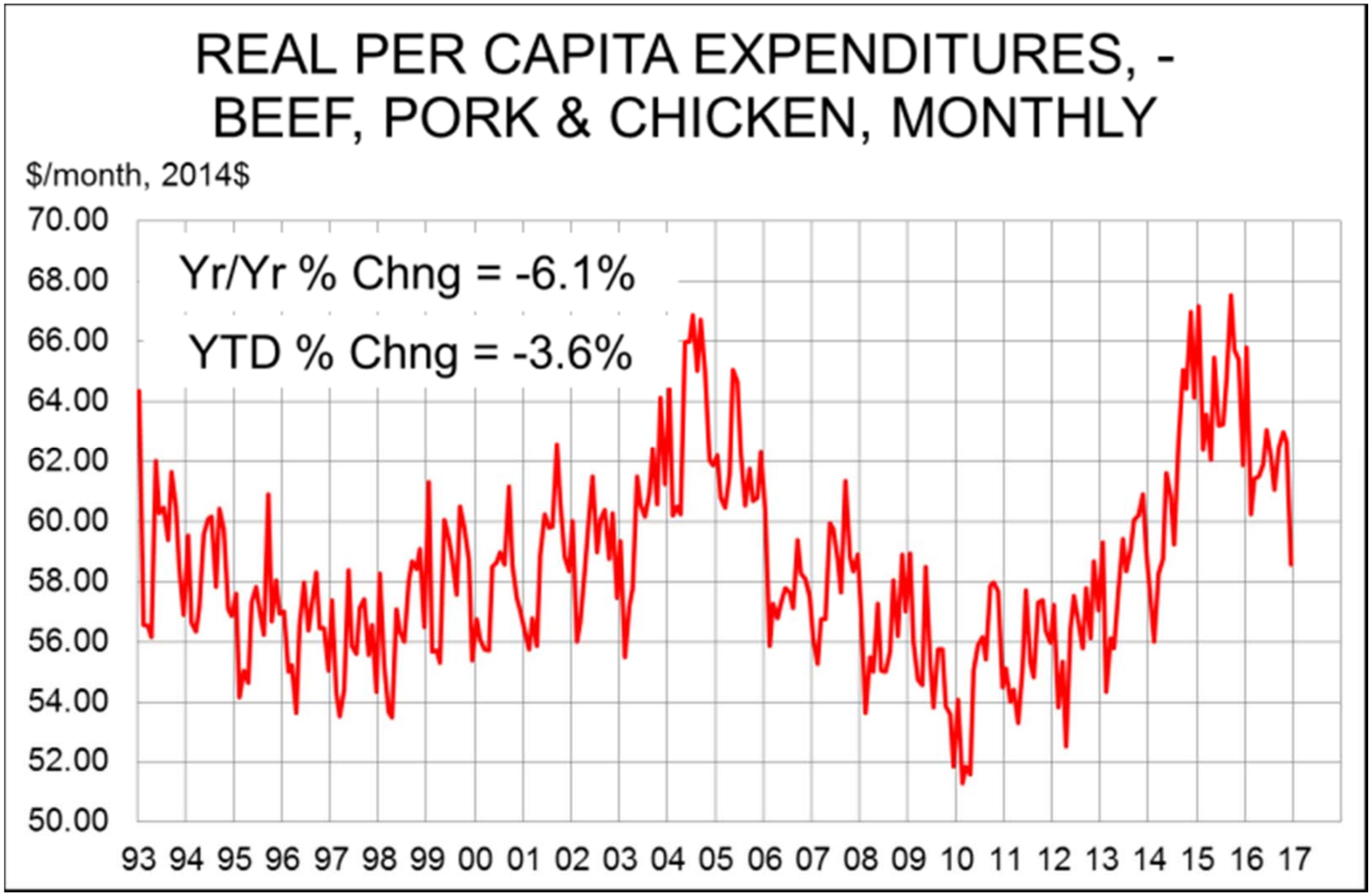
. . . A recession is very unlikely over next 12 mos.



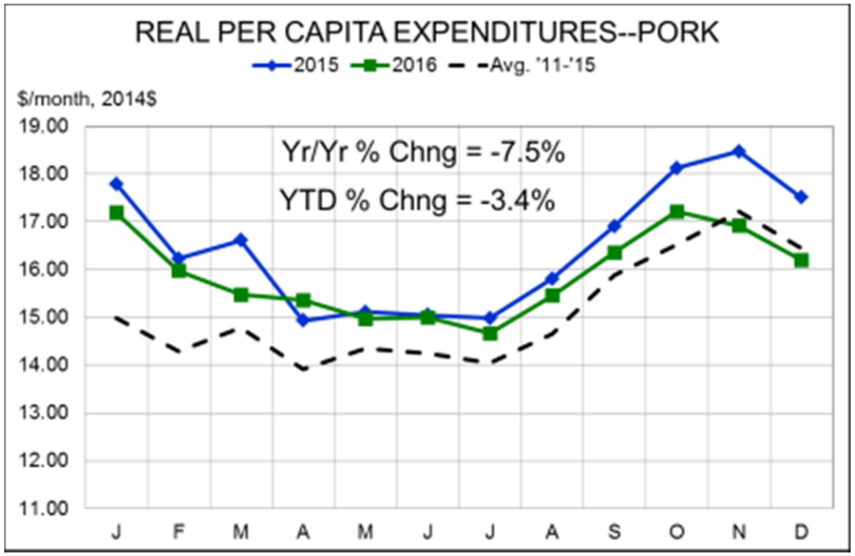
Source: Federal Reserve Bank of New York

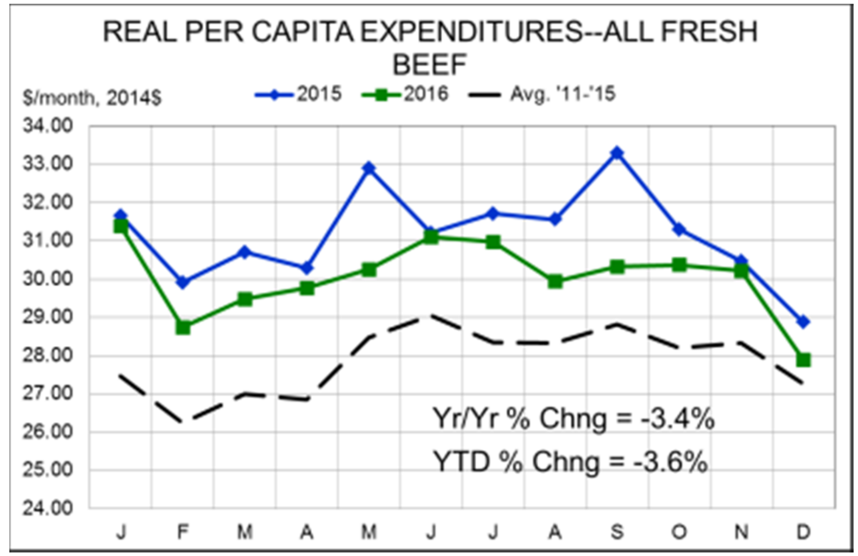
Meat/poultry demand has improved . . .

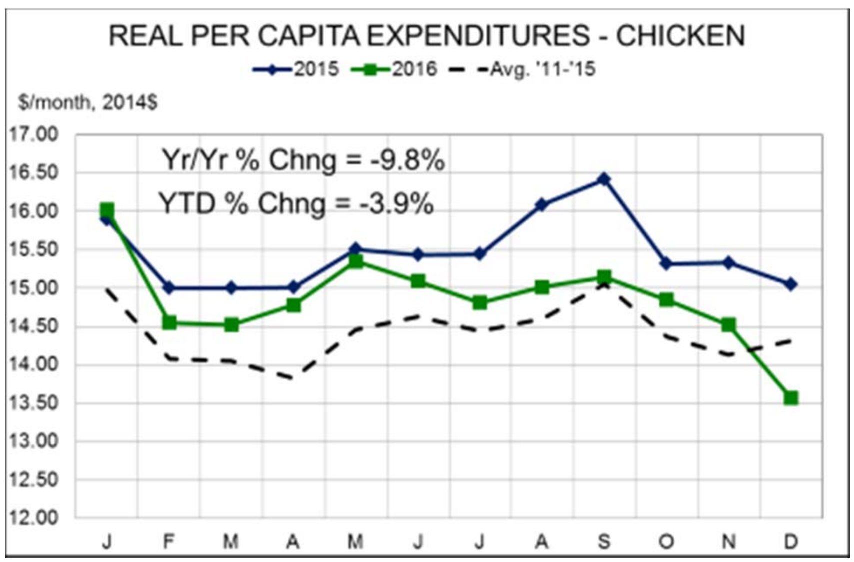
. . . Atkins, recession, recovery, hi-pro/lo-carb



'16 pork RPCE is down less than beef, chicken

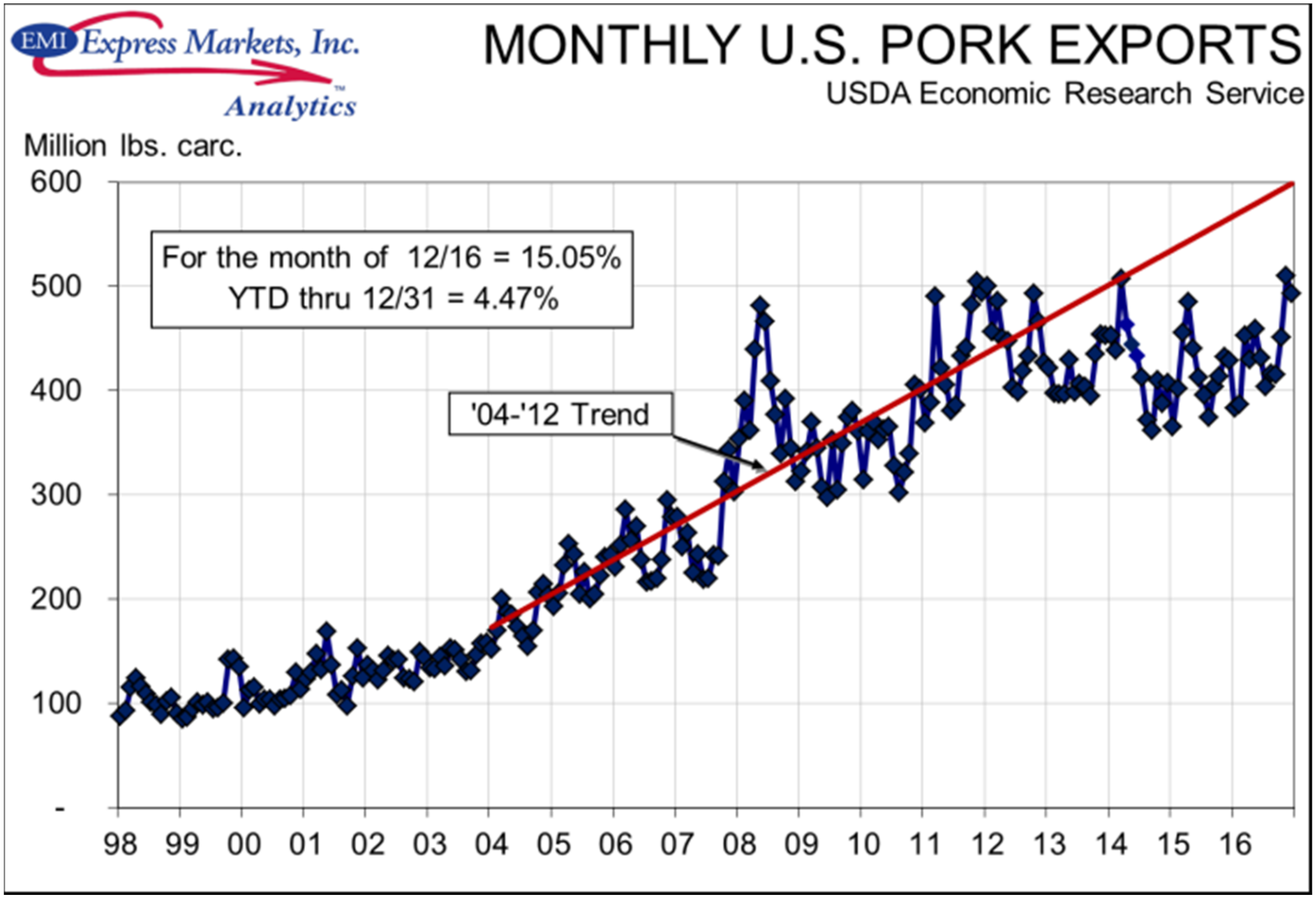






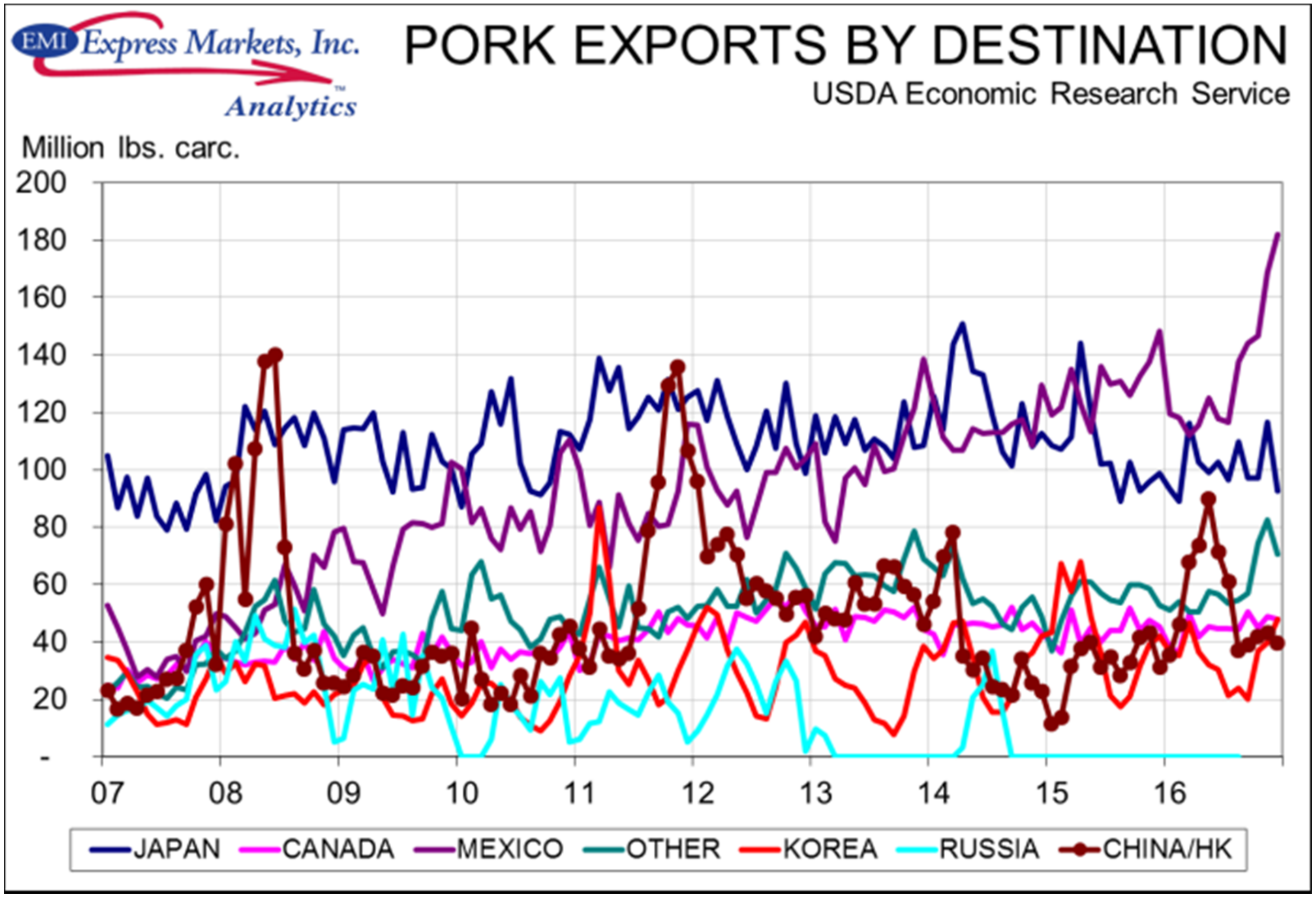
Export growth has slowed since '11 . . .

. . . But 2016 was the second largest year ever



China has generally been slow since '11 . . .

. . . While Mexico, Other markets continue to grow



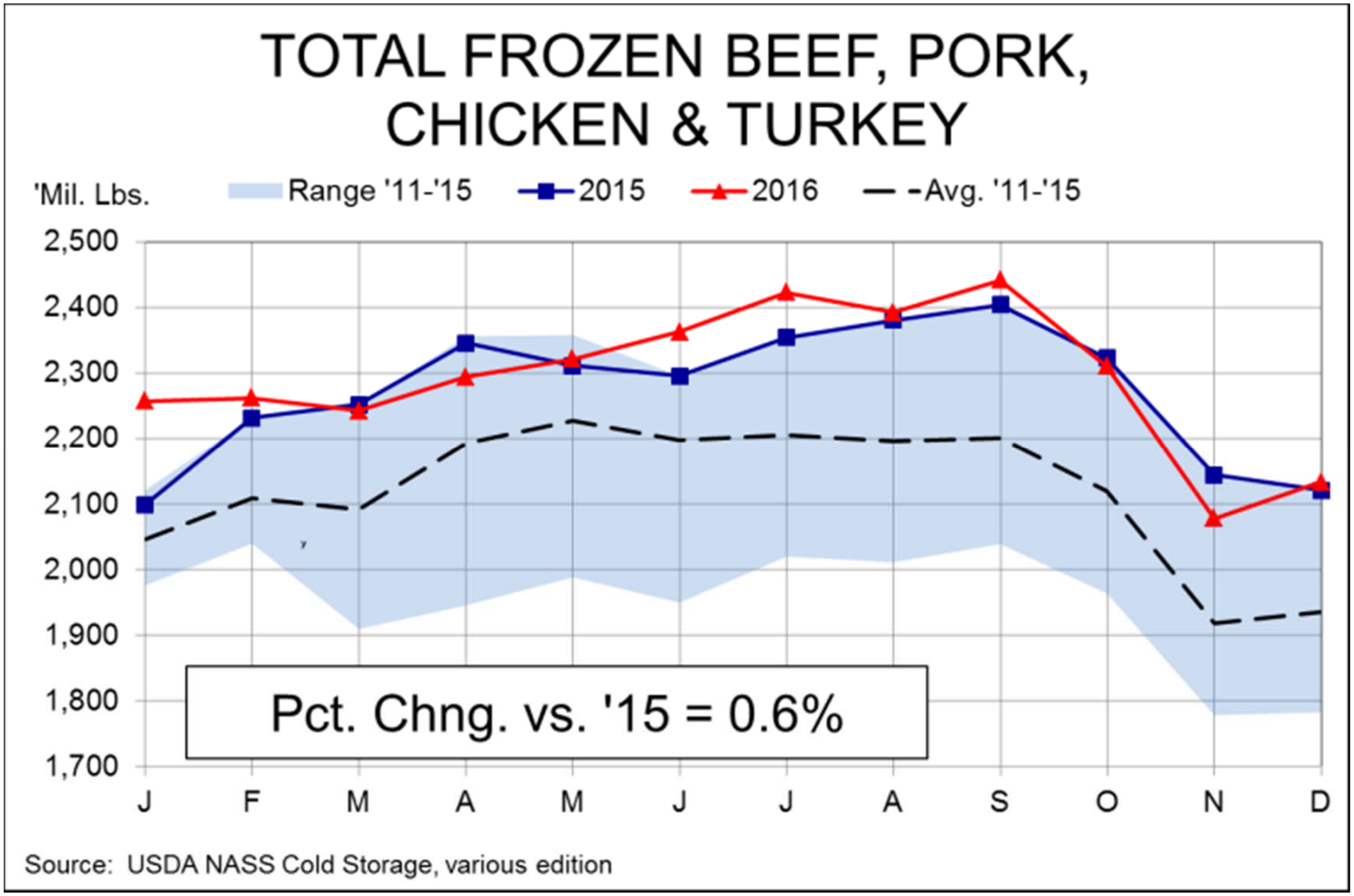
Mex -6%, Jap -4%, chk+135

The strong $US has been a challenge . . .

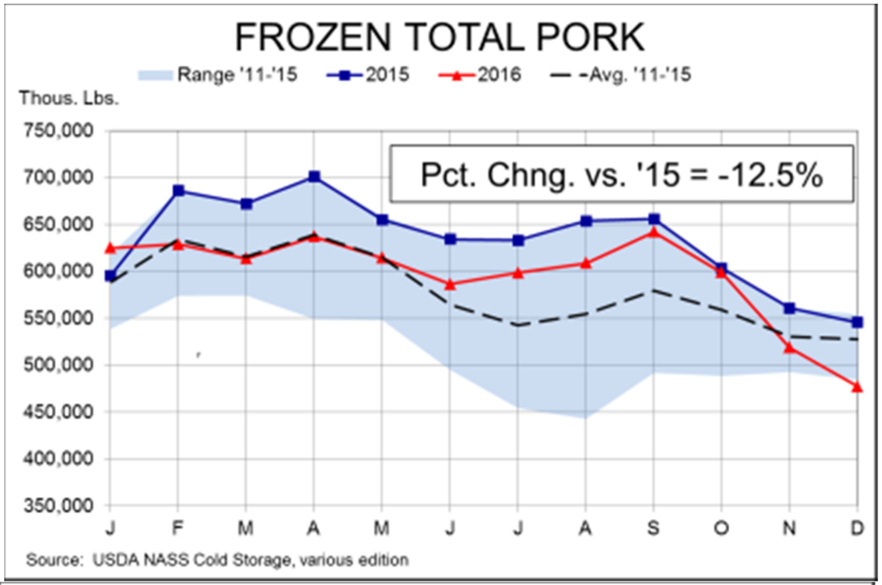
. . . Will it drop back into its range?

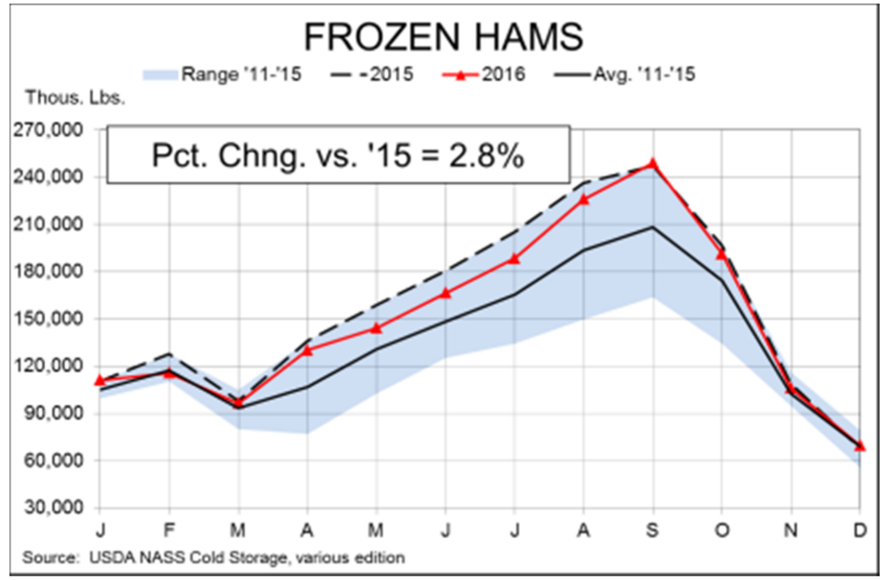
Total frozen meat/poultry grew in December . . .

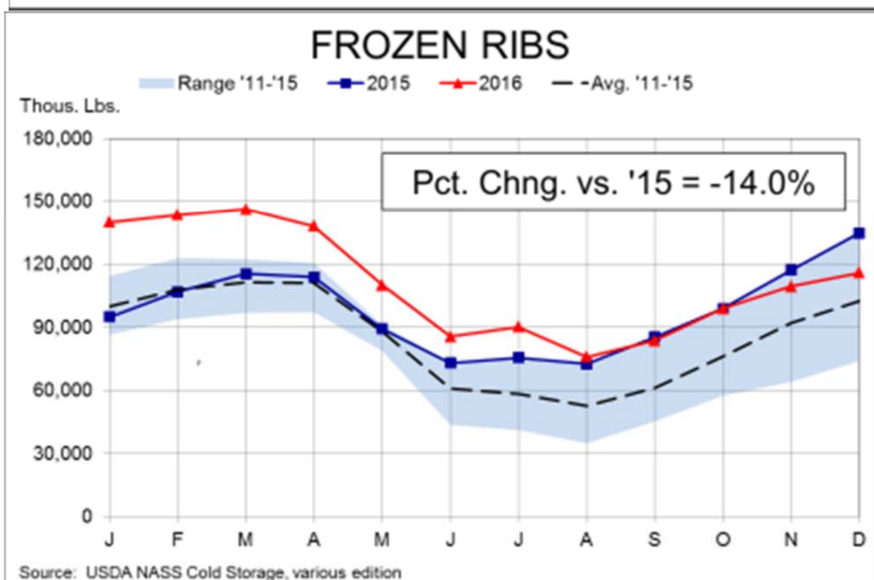
. . . And was back above year-ago level

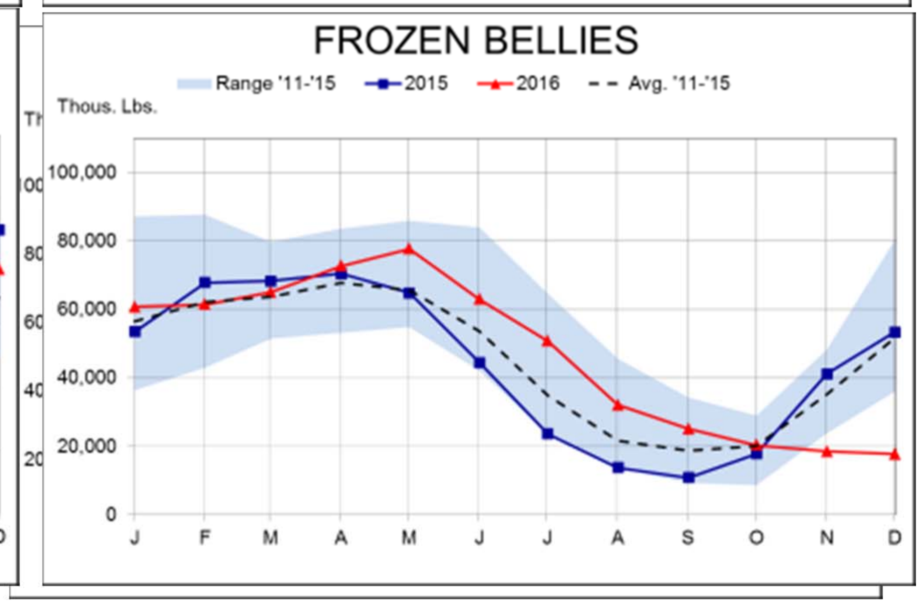


But pork is NOT the problem . . .

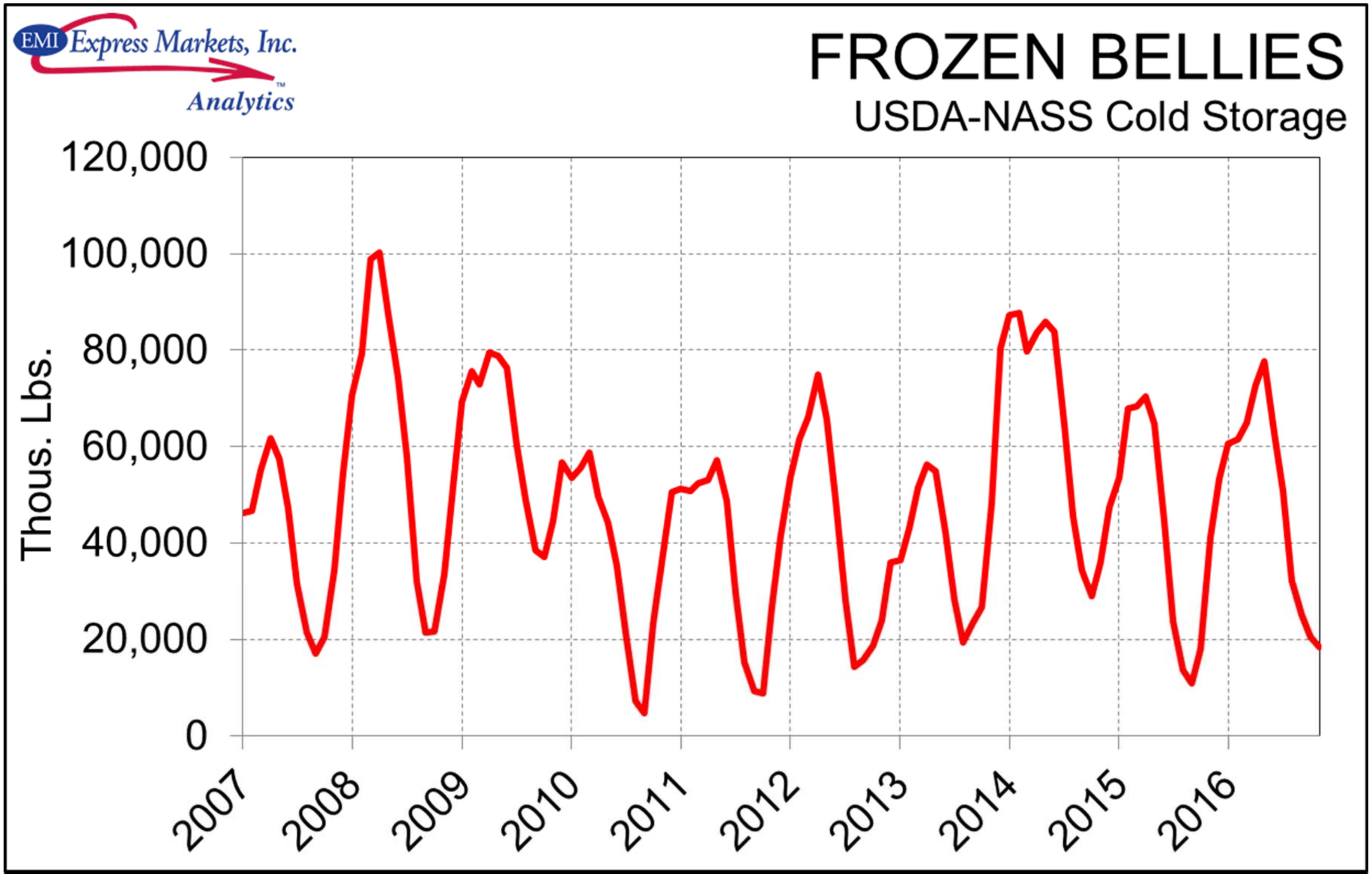






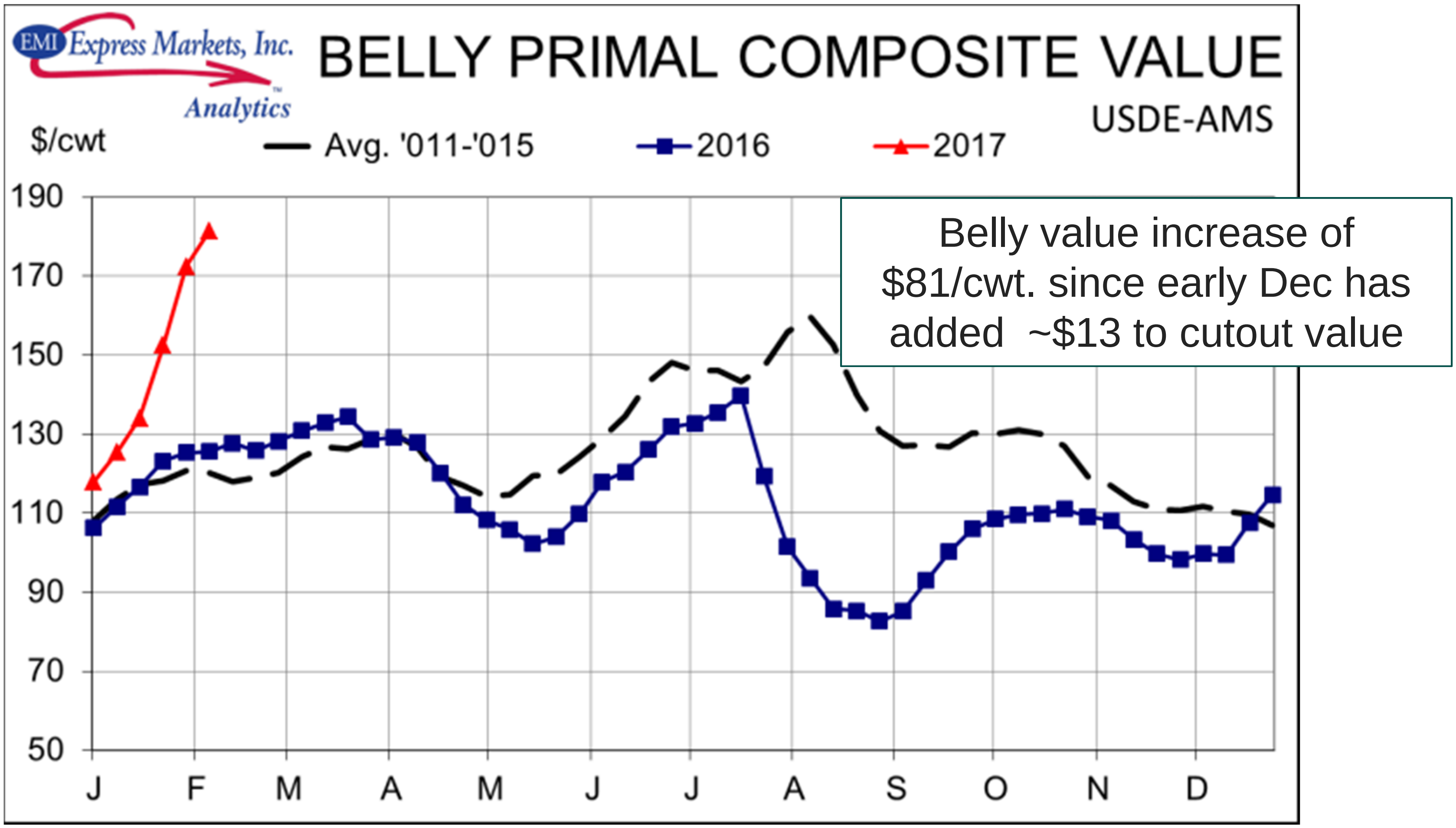


And about the GREAT BACON SHORTAGE II . . .



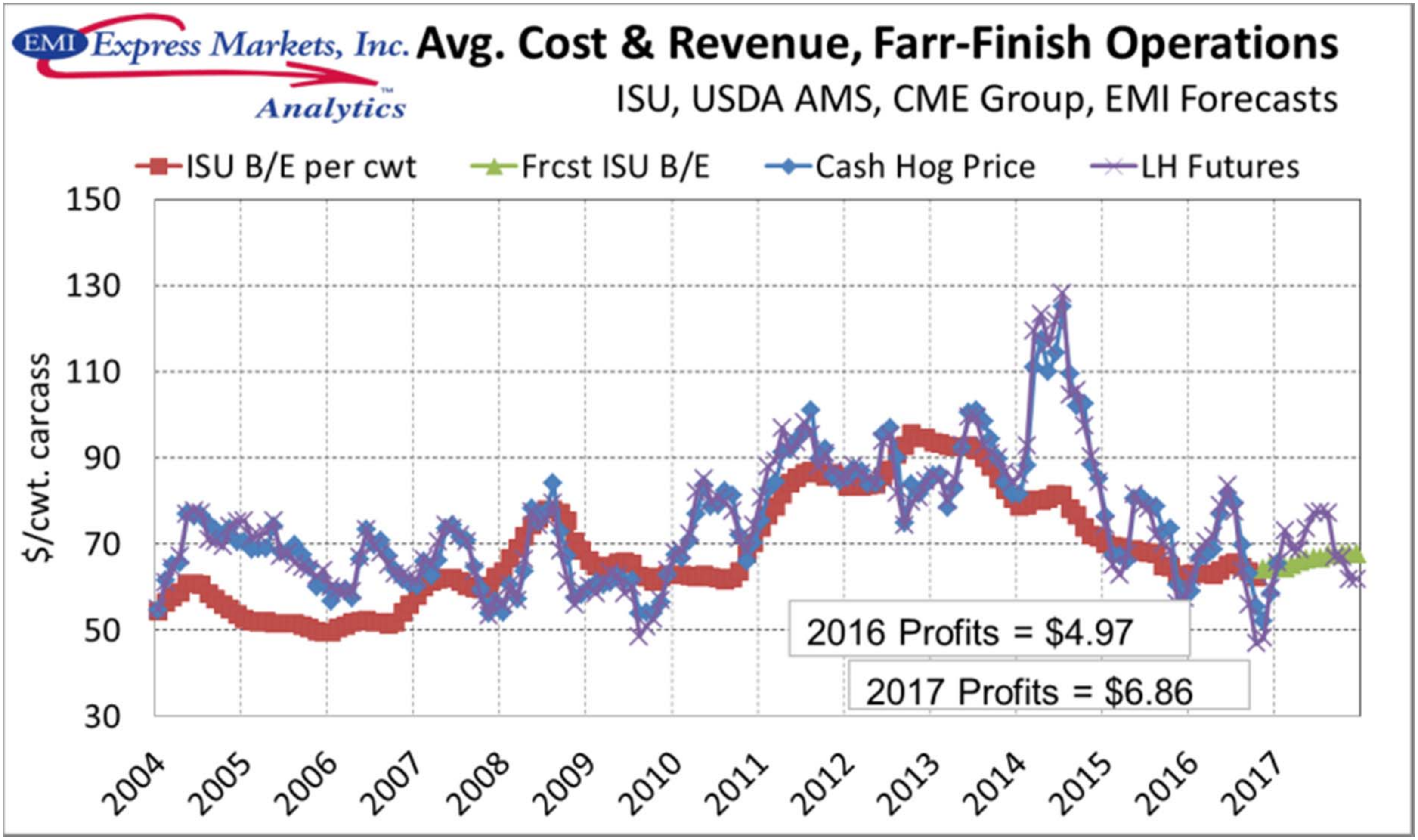
Price is the rationing mechanism . . .

. . . That will slow belly usage, increase stocks



Profit outlook has improved greatly from Nov. . . .

. . . Better than '16, good enough to sustain growth!



December Hogs and Pigs report -- BEARISH . . .

. . . But Feb futures have rallied $4+ thru Friday

USDA QUARTERLY HOGS & PIGS REPORT

December 23, 2016

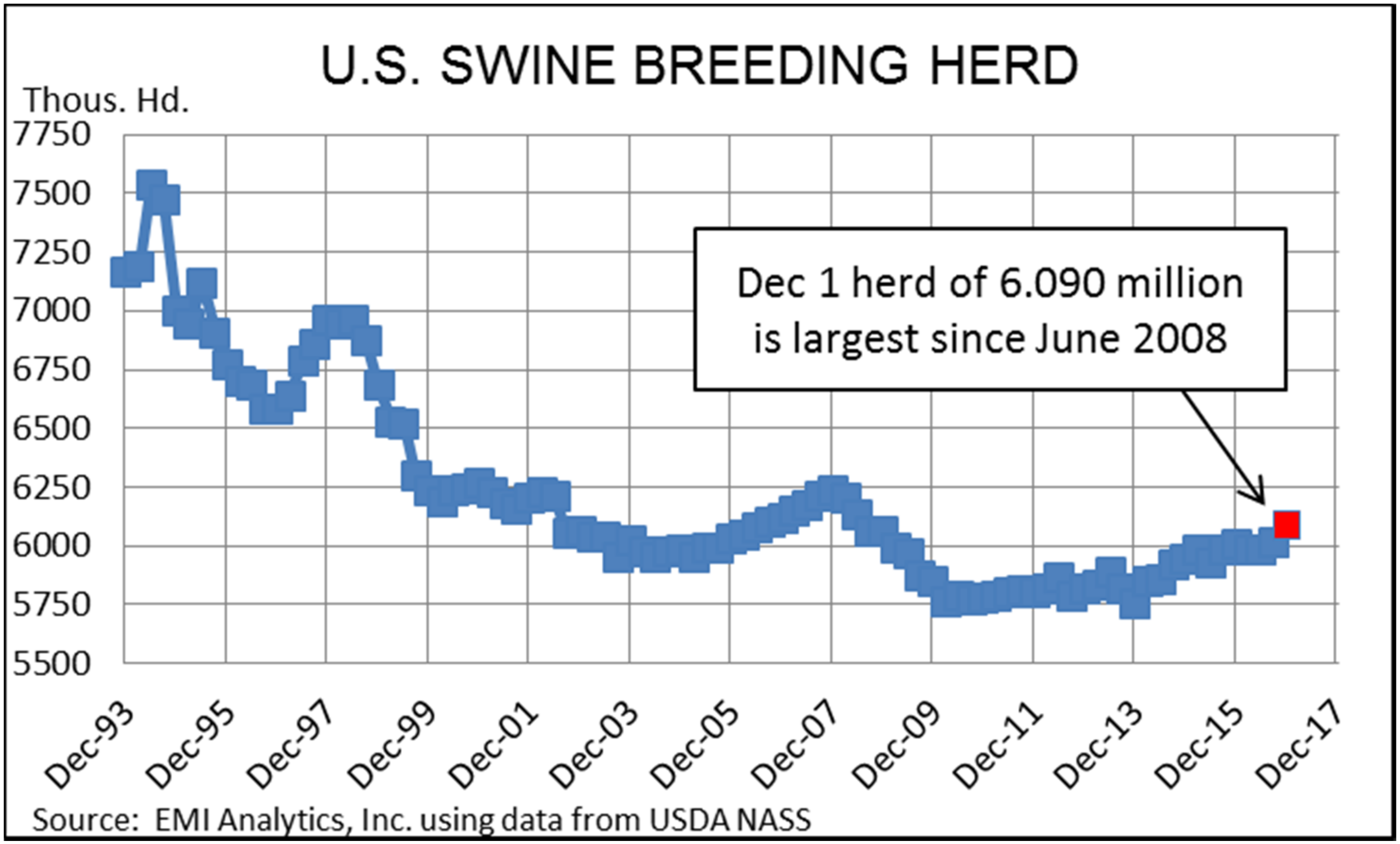
Category	2015	2016	'15 as Pct of '14	Pre-Report Est's[1]	Actual minus Est.
Inventories on Dec 1					
All hogs and pigs	68,919	**71,500**	103.7	101.7	2.0
Kept for breeding	6,002	**6,090**	**101.5**	100.2	1.3
Kept for marketing	62,917	65,410	104.0	102.0	2.0
Under 50 lbs.	20,008	20,882	**104.4**	101.4	3.0
50-119 lbs.	17,262	18,037	**104.5**	101.8	2.7
120-179 lbs.	13,370	13,911	104.0	102.0	2.0
180 lbs. and over	12,276	12,580	102.5	102.8	-0.3
Farrowings					
Sep-Nov sows farrowed	2,929	3,043	**103.9**	100.4	3.5
Dec-Feb Intentions	2,927	2,968	**101.4**	99.6	1.8
Mar-May Intentions	2,968	2,997	**101.0**	100.5	0.5
Sep-Nov Pig Crop	30,848	32,333	104.8	101.5	3.3
Sep-Nov pigs saved per litter	10.53	10.63	**100.9**	101.1	-0.2

*Thousand head ** Thousand Litters

[1]Source: Urner Barry

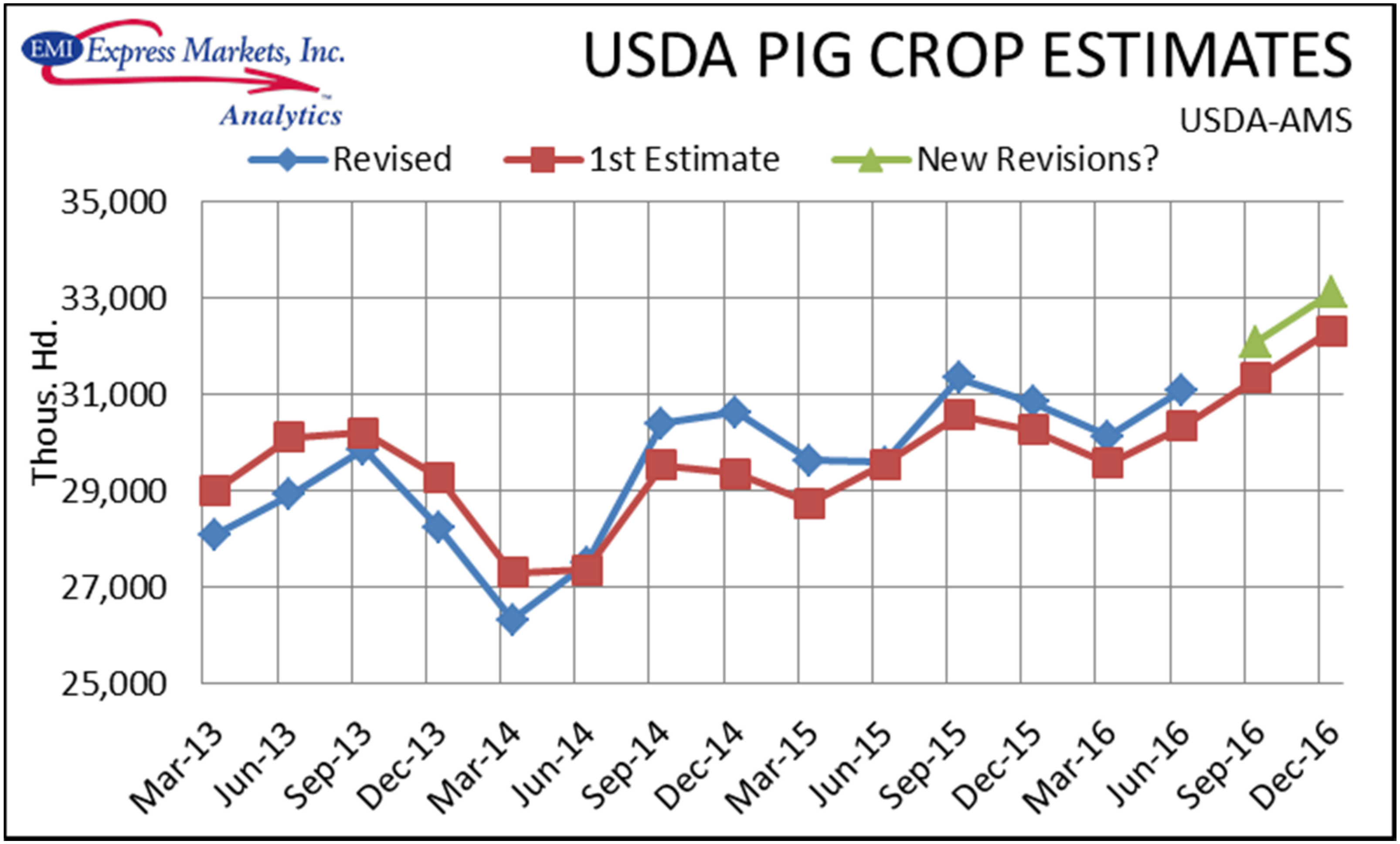
Dec 1 BH of 6.090 mil. hd. is, we think, reasonable . .

. . largest since June 2008, look for +1 to +1.5% in '17

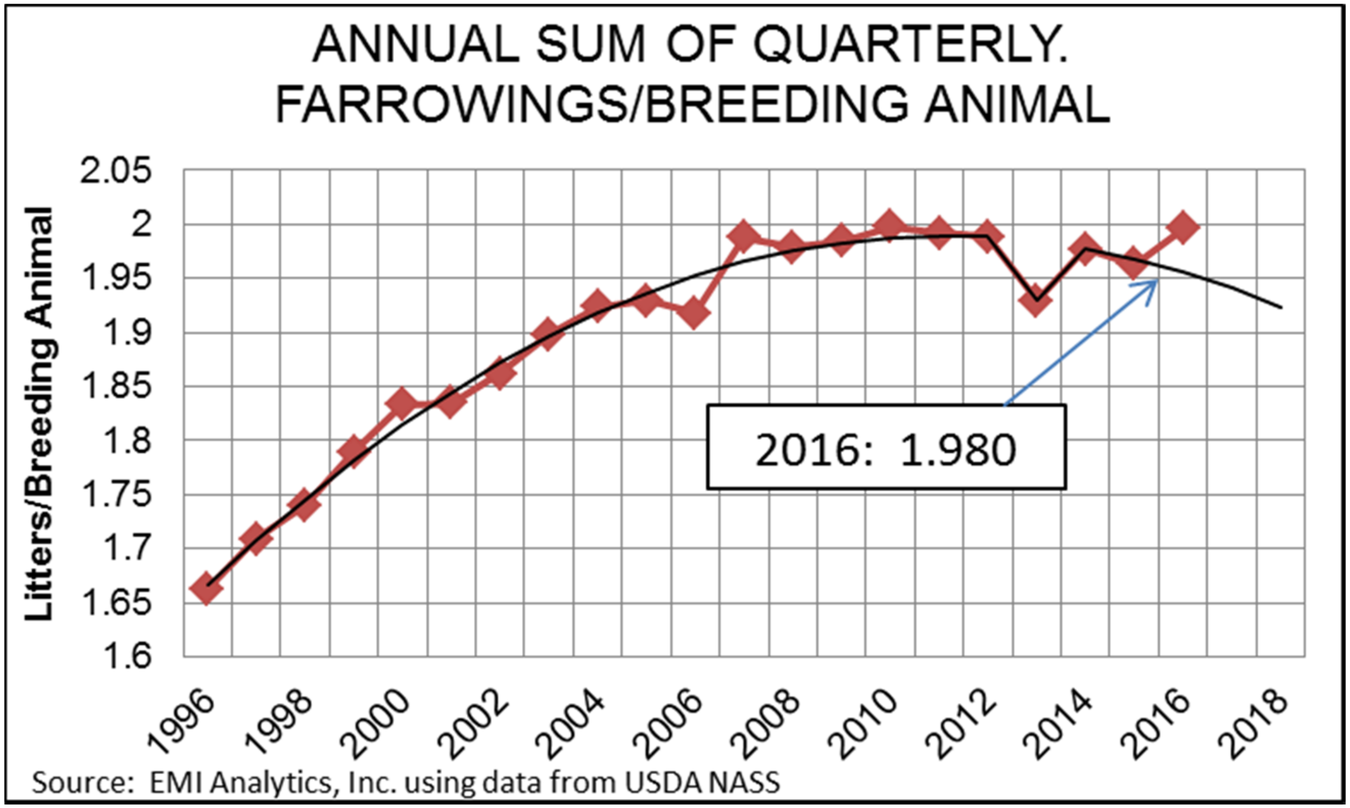


Mar-May pig crop revised up 2.4% -- long pattern!

. . . Average revision since Jun-Aug '14 is +2.4%



Dec report & revisions drove litter/BA up sharply



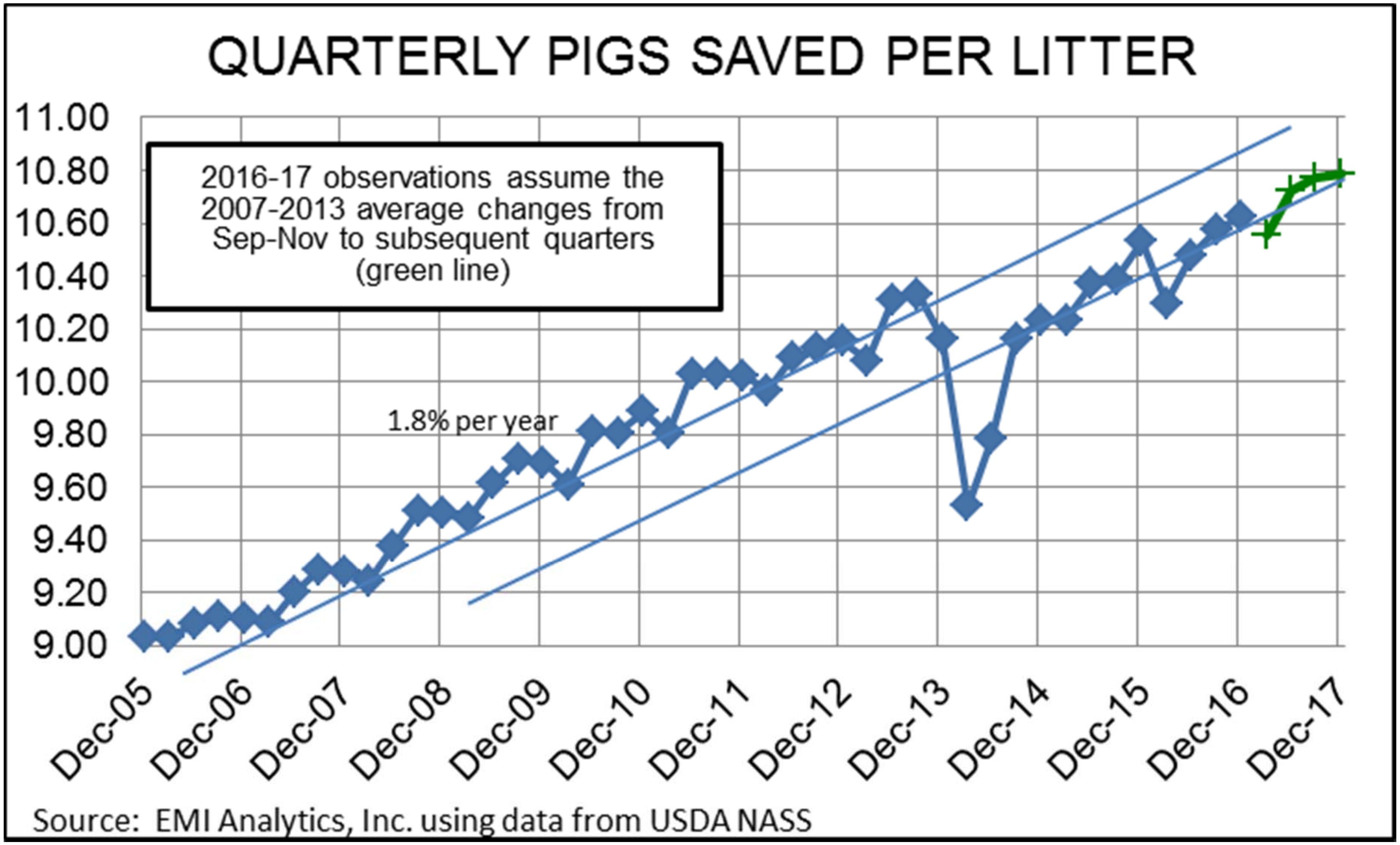
. . . 11.963 mil. litters in '16

	Brdg Herd Growth	Avg. Brdg Herd	Litter Rate/Brdg	Annual Farrowings
2016*	0.6%	5994	1.996	11,963
2017	1.5%	6039	1.980	11,958
2018	-1.0%	6009	1.980	11,898

*Actual farrowings per USDA, Dec-Nov

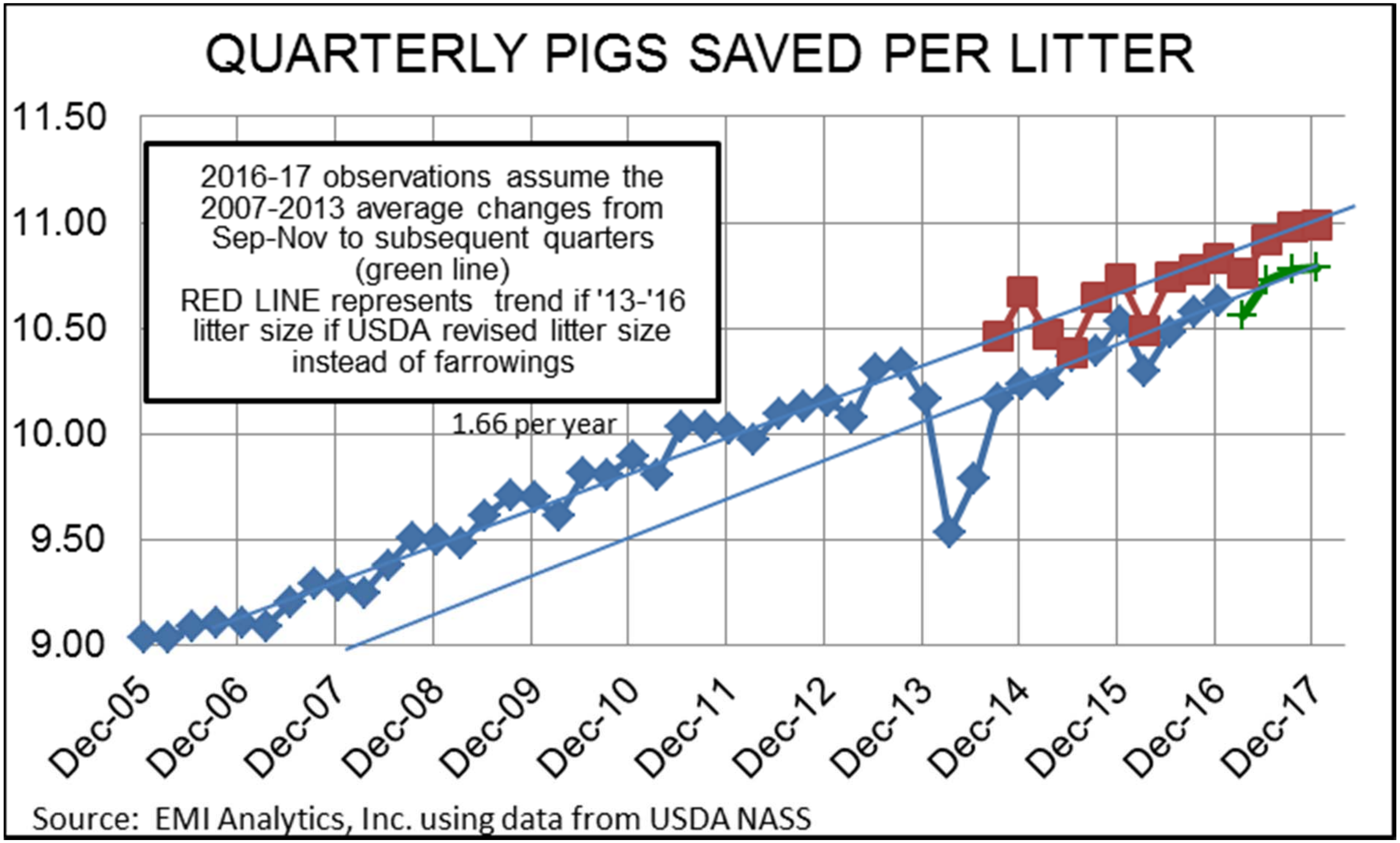
Key issue is still litter size -- likely understated . . .

. . . We expect near 2% -- in 4-5 yrs will be 3%+



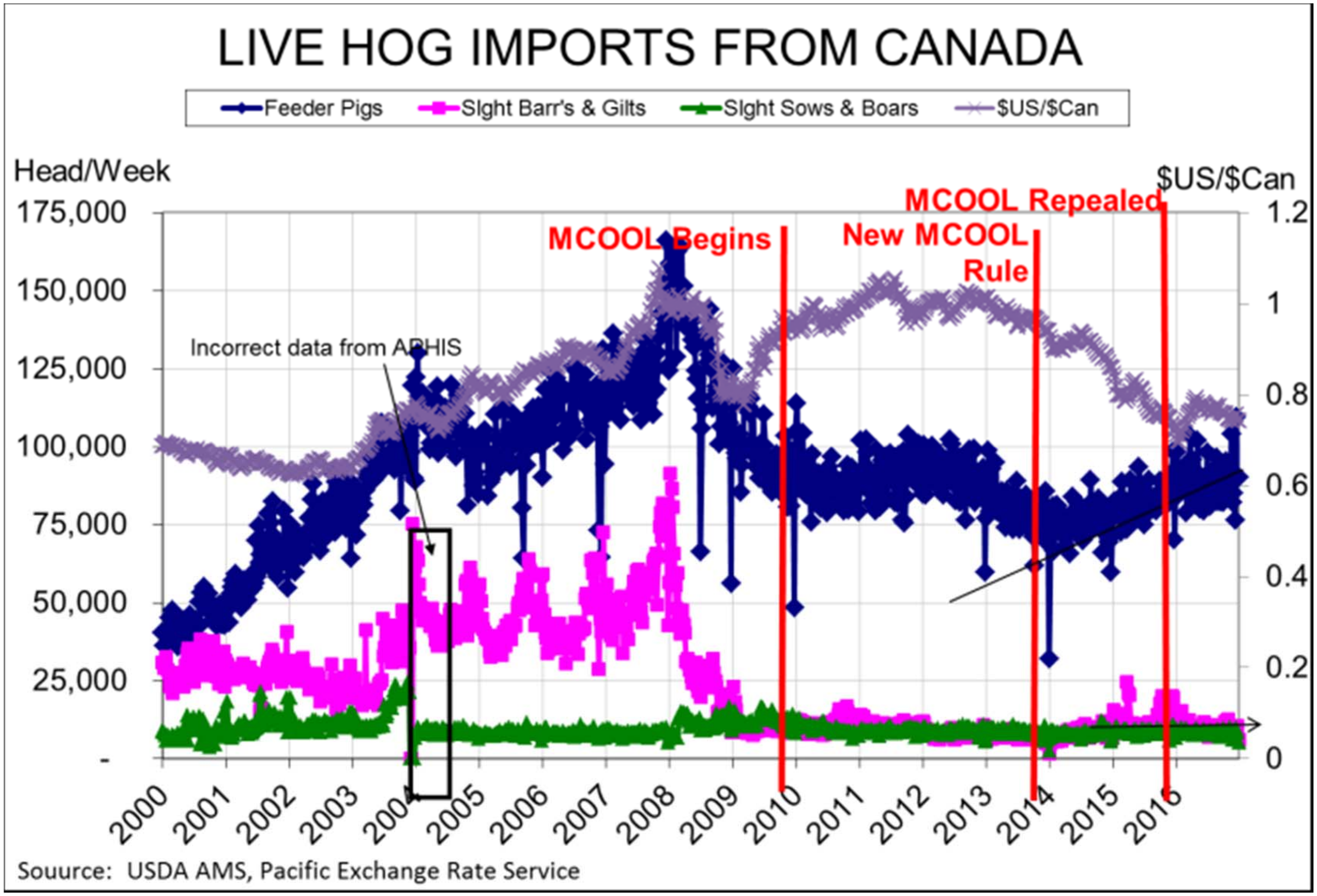
What if USDA had revised litter sizes, not farr's . . .

. . . to account for pig crop shortfalls?



‘16 FP imports from Canada: +332k hd (7.7%) . . .

. . . MH imports are -174k, (-25%), S&B are -8k, (2%)

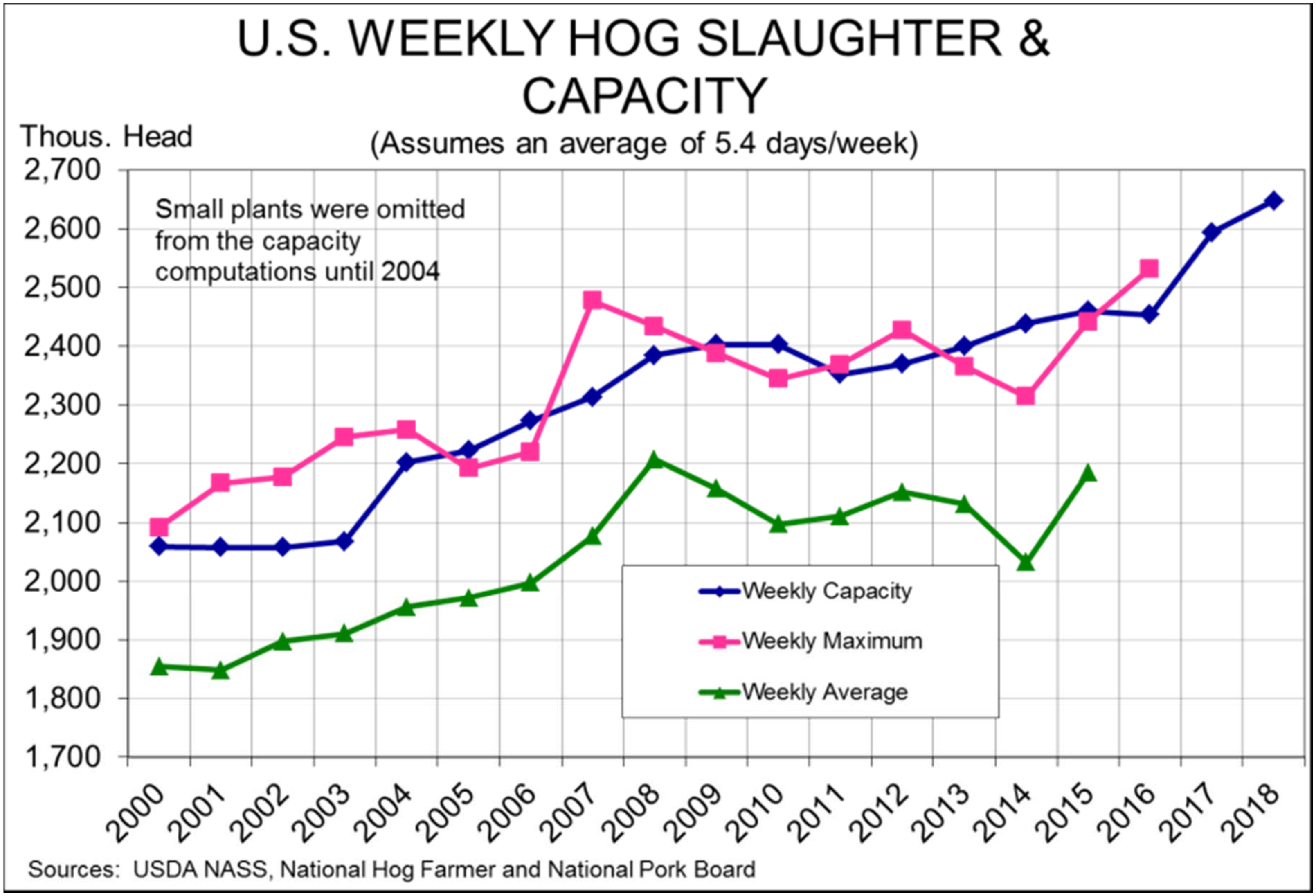


Pending packing capacity increases . . .

U.S PACKING CAPACITY UNDER CONSTRUCTION								
	Fall 2016		**Fall 2017**		**Fall 2018**		**Fall 2018 - TSF Doubled**	
	Daily Hd	Ann Hd	Daily Hd	Ann Hd	Daily Hd	Ann Hd	Daily Hd	Ann Hd
Pleasant Hope, MO	2,500	625,000	2,500	625,000	2,500	625,000	2,500	625,000
Windom, MN	~~4,000~~	~~1,000,000~~	4,000	1,000,000	4,000	1,000,000	4,000	1,000,000
Sioux City,IA			12,000	3,000,000	12,000	3,000,000	**20,000**	**5,000,000**
Coldwater, MI			10,000	2,500,000	10,000	2,500,000	10,000	2,500,000
Wright County, IA					10,000	2,500,000	10,000	2,500,000
Total	**2,500**	**625,000**	**28,500**	**7,125,000**	**38,500**	**9,625,000**	**46,500**	**11,625,000**
Head per week		12,019		137,019		185,096		223,558
Pct of '15 avg = 2.195 mil.		0.5%		6.2%		8.4%		10.2%
Pct of '15 max = 2.507 mil.		0.5%		5.5%		7.4%		8.9%
								9/26/2016

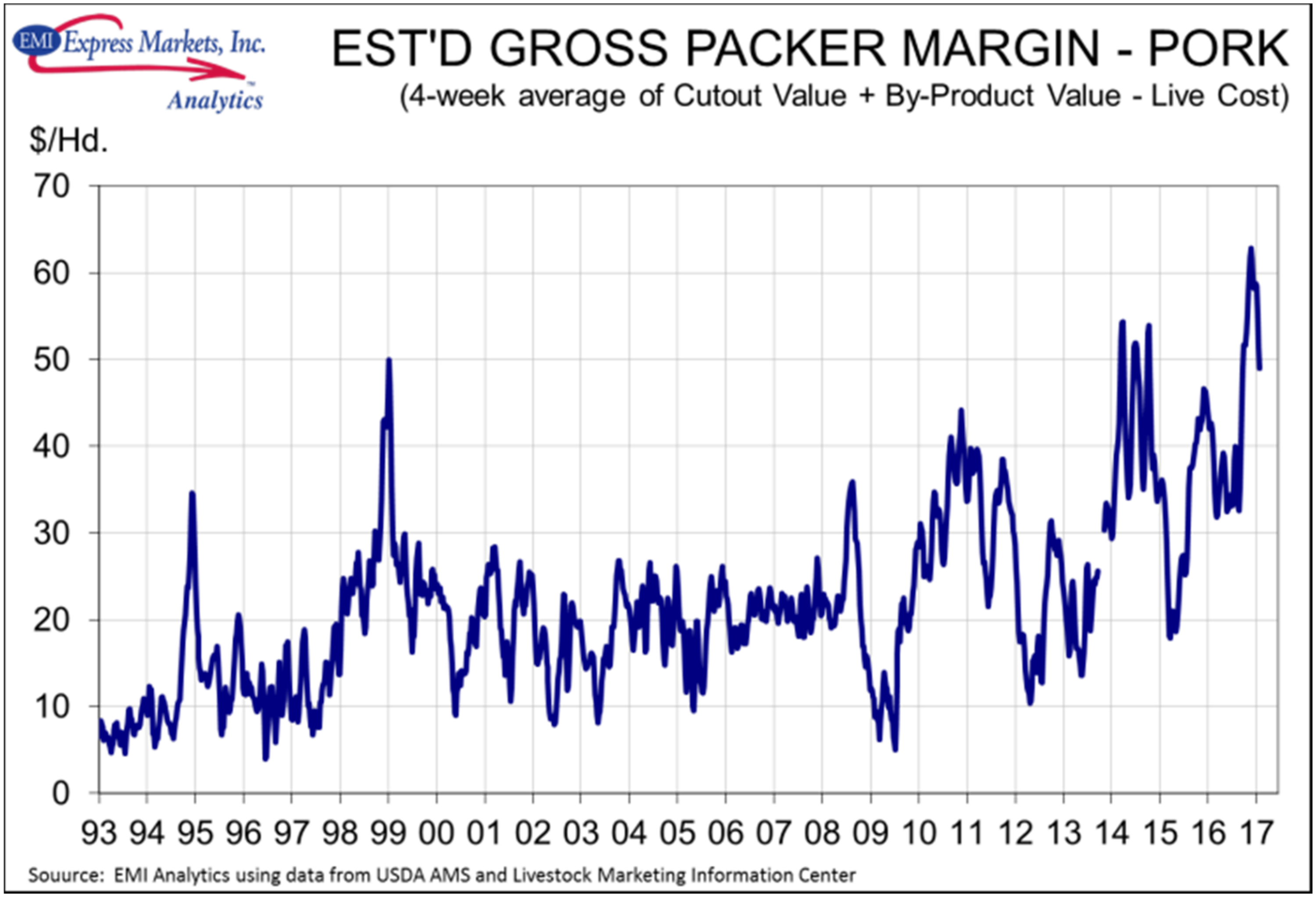
- Triumph/Seaboard & Clemmons are on track to open this summer – July?
- MoonRidge (MO) is at 800-1000/day
- Prime Pork (MN) has been delayed to March or April ‘17

‘16 capacity is 454,320/day, 2.453 million/week



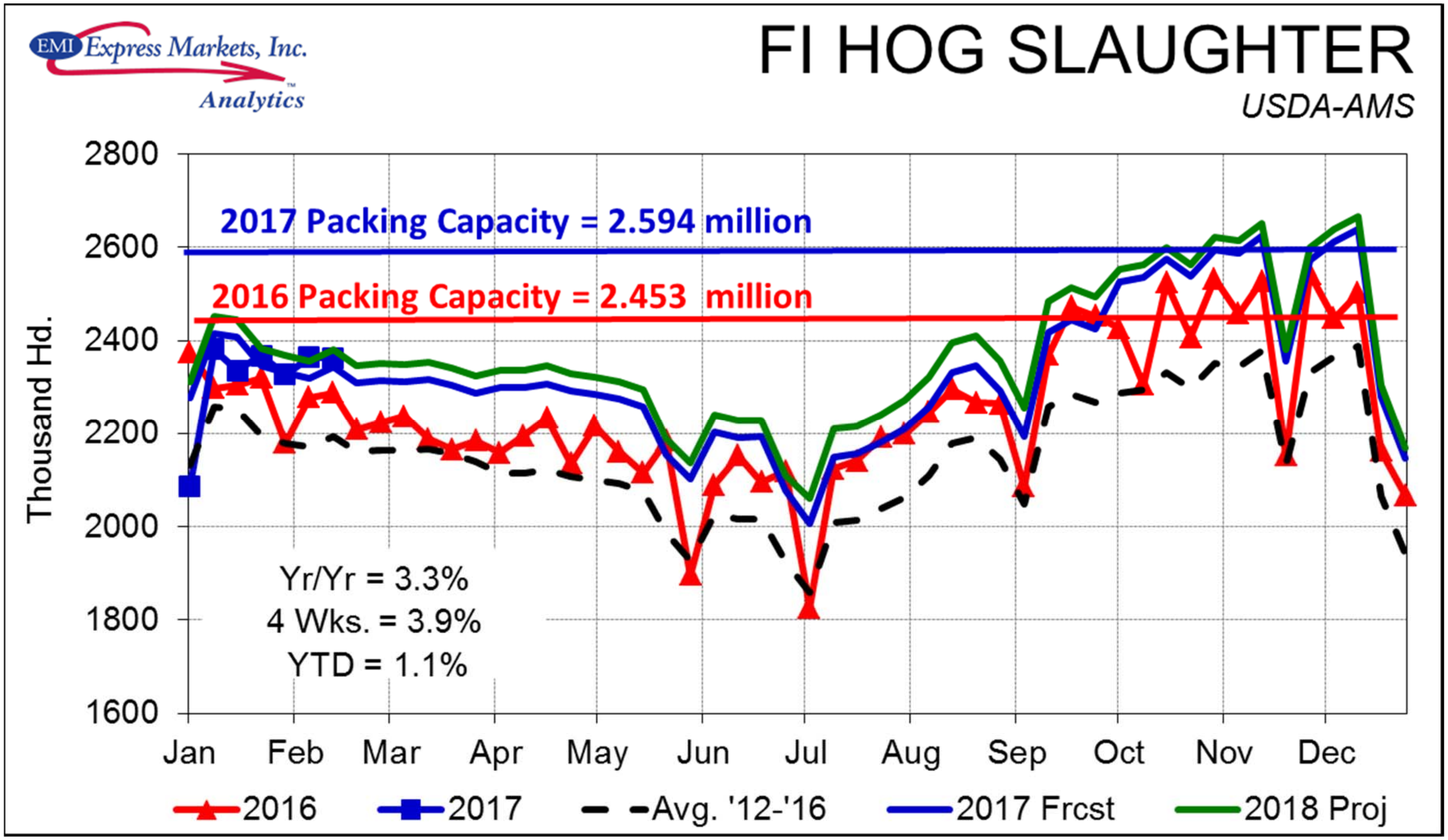
Packer margins: Record wide in November . . .

. . . But growth since ‘07 is driving expansion



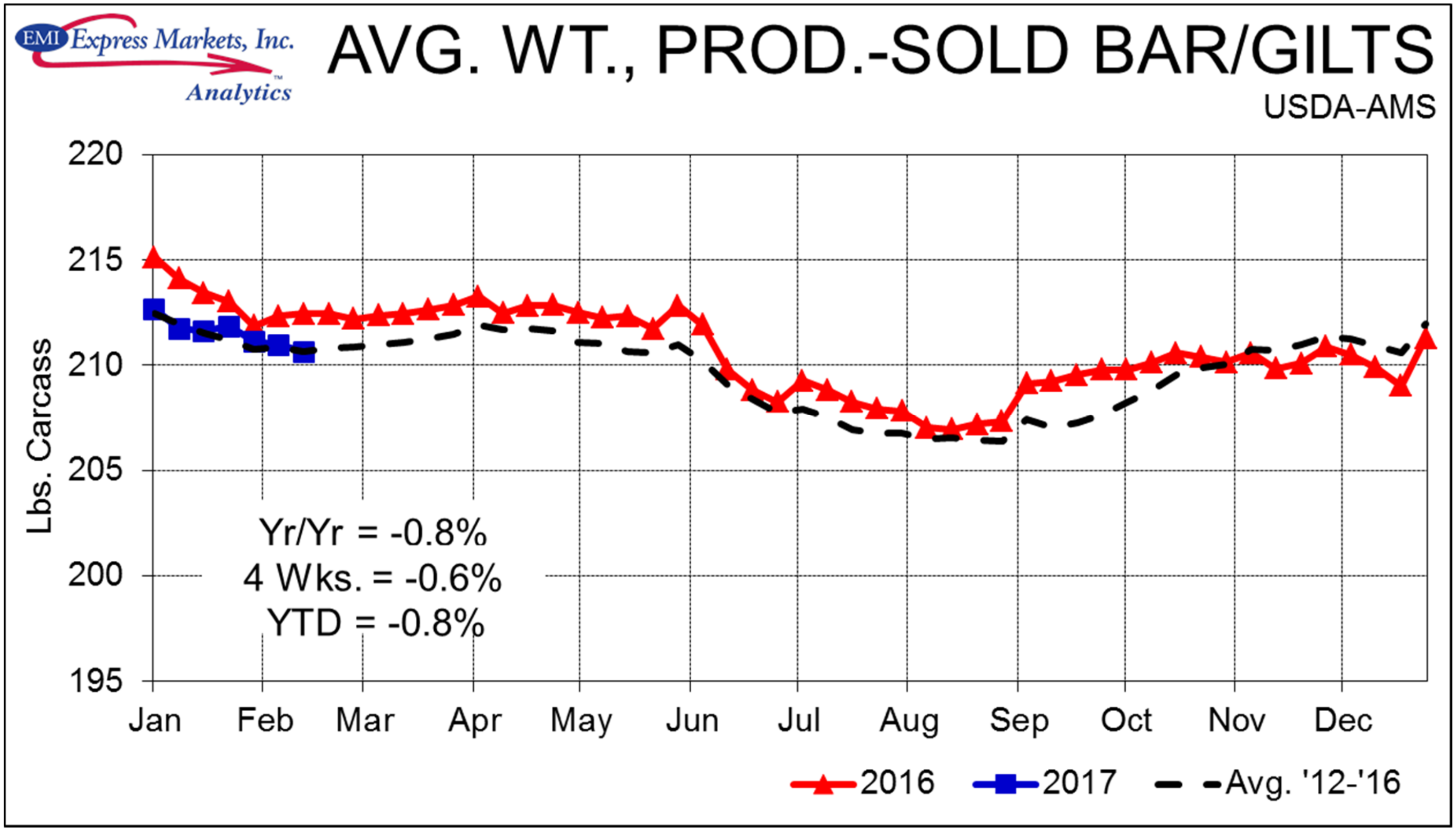
Last week 2.38 mil. – 37k above our forecast . . .

. . . 1.1% YTD increase is due to different New Year's



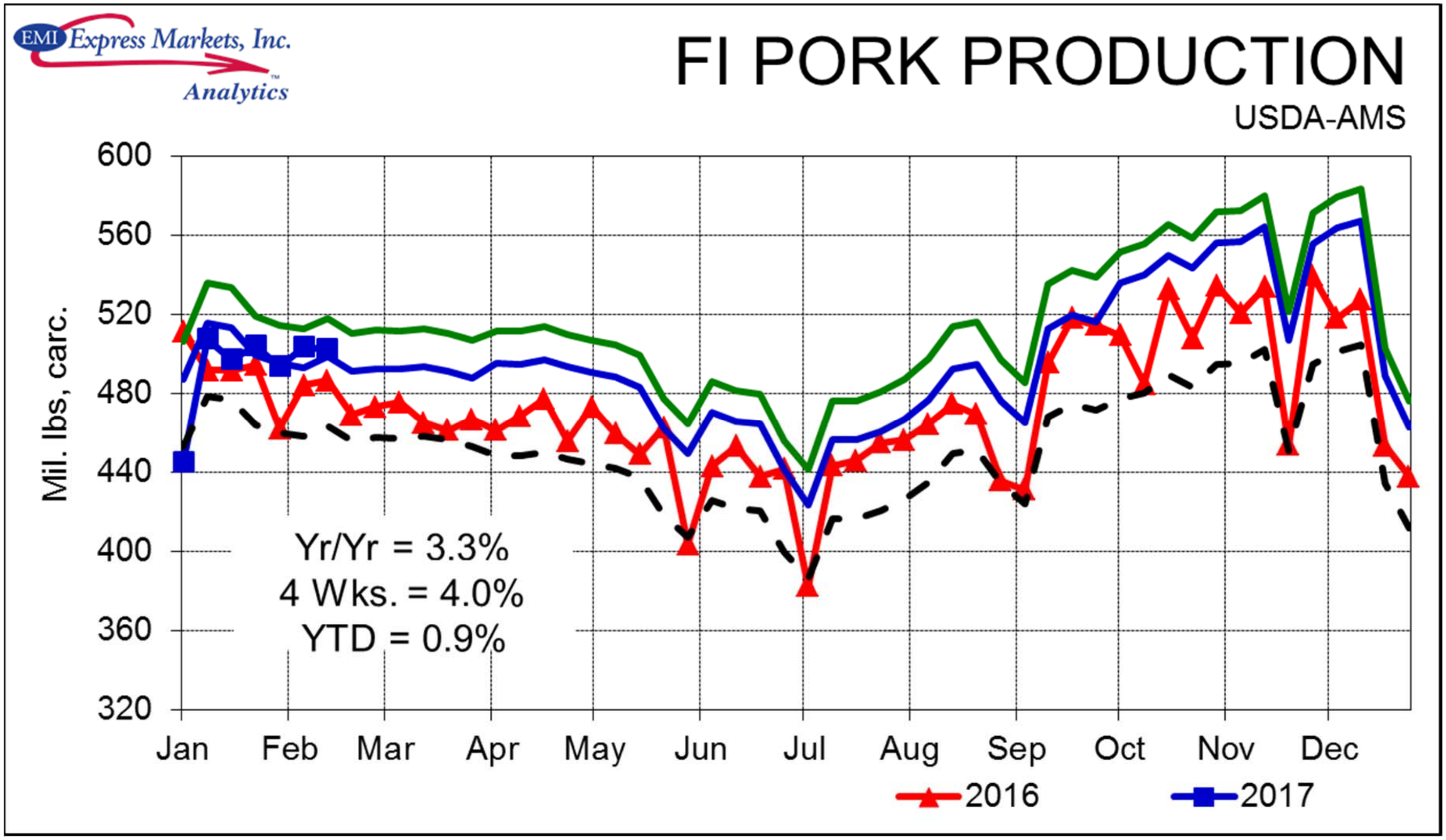
Weights are creeping back up on year-ago . . .

. . . We think they will stay below until spring



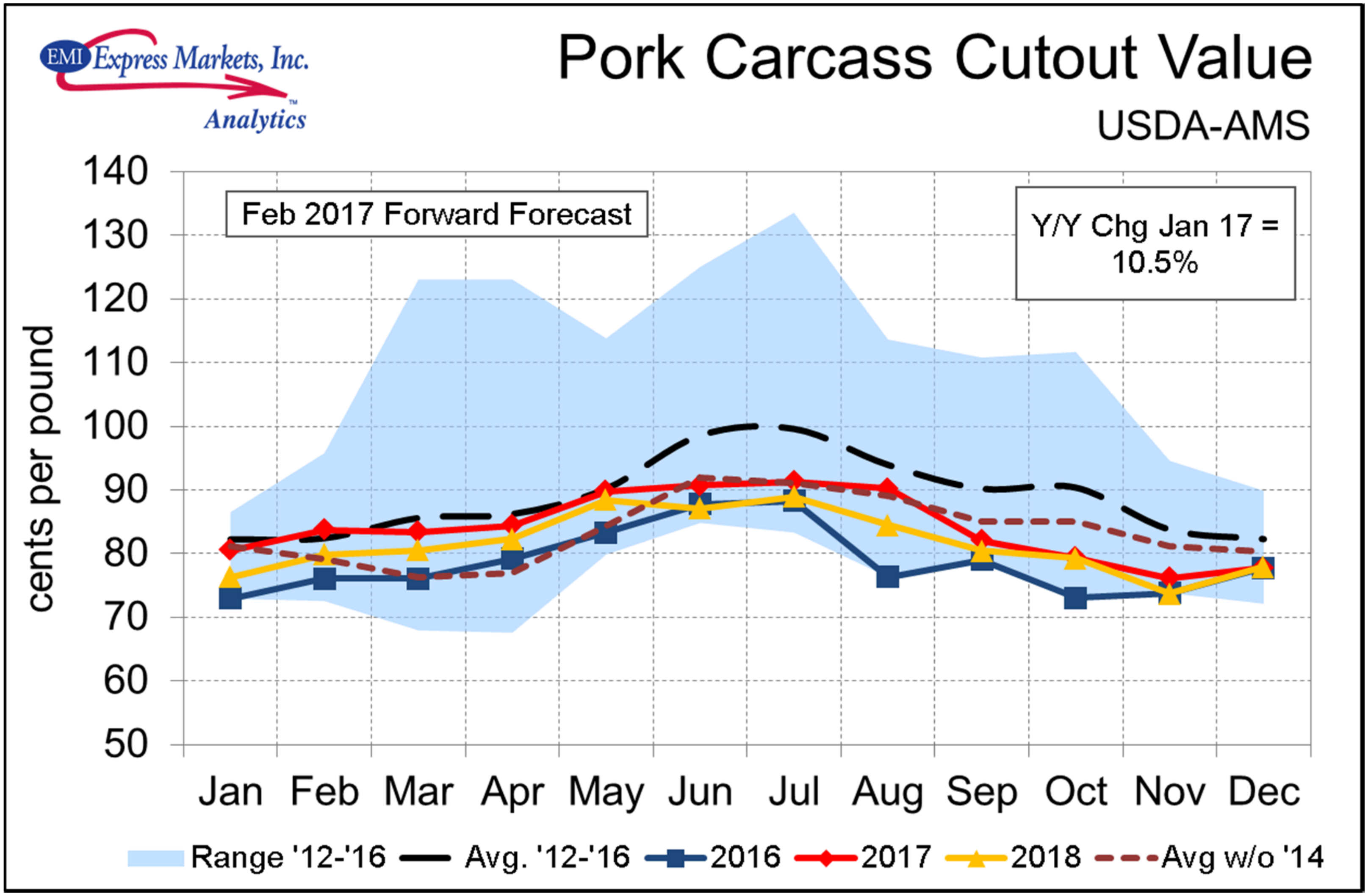
Pork production up 1.8% in '16 and 3.9% in '17 . . .

. . . but Q4s up 3.1% and 5.3%, respectively, yr/yr



Cutout held up remarkably well last fall . . .

. . . And we see more improvement in ‘17



Slaughter forecasts: More BIG growth in '17

December 2016 Hogs & Pigs -- Commercial Slaughter Forecasts									
		ISU		LMIC		EMI		ACTUAL	
		Mil. Hd	% Chnge	Mil. Hd	% Chnge	Mil. Hd	% Chnge	Mil. Hd	% Chnge
2014								106.876	-4.7%
2015								115.426	8.0%
2016	Q1**	29.240	1.8%	29.597	3.0%	28.860	0.5%	29.259	1.9%
	Q2	27.971	0.4%	28.100	0.9%	27.604	-0.9%	28.111	0.9%
	Q3	29.038	2.0%	28.875	1.4%	28.662	0.7%	29.316	3.5%
	Q4	31.365	3.3%	30.773	1.3%	31.540	3.4%	31.516	3.8%
	Year*	118.051	2.3%	117.459	1.8%	118.226	2.4%	118.202	2.4%
2017	Q1	30.069	2.8%	30.241	3.4%	30.412	3.9%		
	Q2	29.410	4.6%	29.136	3.6%	28.935	4.8%		
	Q3***	30.034	2.5%	29.555	0.8%	29.598	1.0%		
	Q4	32.436	2.9%	32.153	2.0%	32.764	4.0%		
		121.950	3.2%	121.085	2.4%	121.709	3.0%		

*Annual total uses actuals to-date plus forecasts for the rest of the year.

** 1 more day in qtr vs. yr. ago

We revised '17 upward – demand strength . . .

. . . But futures are higher yet! – look to price hogs!

December 2016 Hogs & Pigs -- Hog Price Forecasts					
		ISU	LMIC	EMI	CME
		Ia-Mn Producer-Sold Neg'd Base	National Wtd Avg. Base Price	National Net Neg'd Price, Wtd. Avg.	CME Lean Hog Futures/**Index**
2014		102.50	100.31	102.95	104.99
2015		67.08	69.69	68.49	70.09
2016	**Q1**	59.67	62.15	60.14	63.13
	Q2	73.46	73.38	73.15	75.36
	Q3	62.30	68.31	66.25	69.31
	Q4	46.79	53.08	47.61	**52.43**
	Year	60.56	64.23	61.79	65.06
2017	**Q1**	59 - 63	55 - 58	54 - 58	**71.55**
	Q2	67 - 71	65 - 69	66 - 70	**75.25**
	Q3	68 - 72	65 - 70	66 - 70	**77.58**
	Q4	56 - 60	53 - 59	56 - 60	**66.36**
	Year	62 - 66	60 - 64	60 - 64	72.69
Blue figures are estimated using USDA data					2/20/17

Risks to the forecasts – an important practice!

- Major export disruption
  - FMD, ASF, CSF – small probability, HUGE impact
  - PT is high probability, unknown impact
- Diseases -- PEDv is good (Illinois?), some recent PRRS activity but still better than '16
- Feed costs – '16-'17 is okay; price '17-'18???
- Demand: Growth in '17?
  - Domestic: Prefs? Wages/incomes?
  - Exports: CHINA/HK? Mexico? $US?
- Impact of competition for hogs in H2, 2017?
- Pork prices if plants are full in '18?