Pork Merchandiser's **Profit Maximizer**

- Foodservice Edition -

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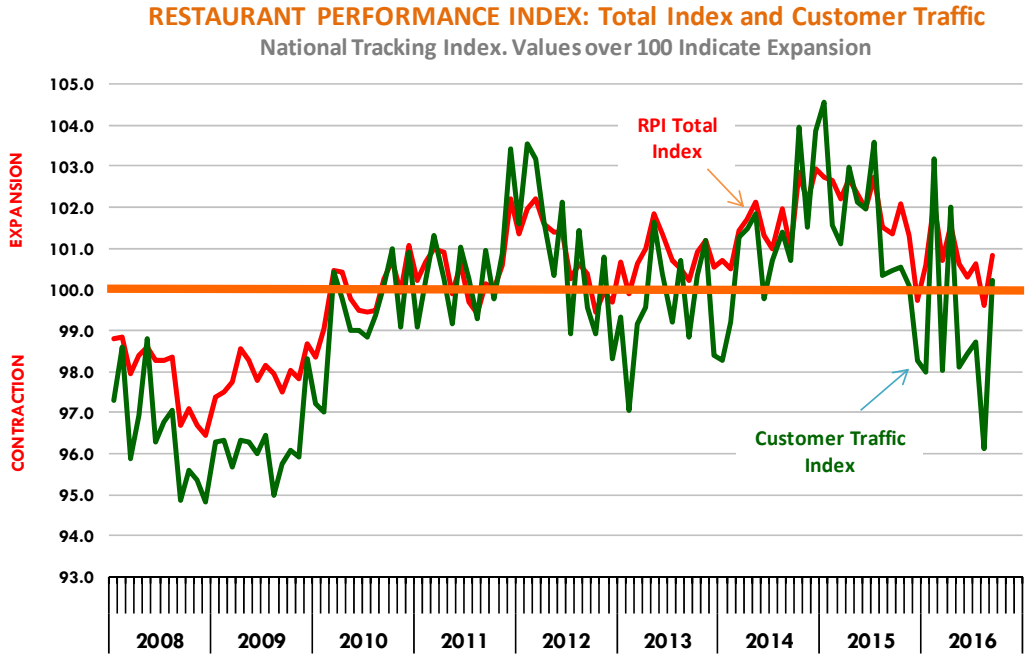
Prepared by Steiner and Company, Manchester, NH 800-526-4612.

October 31, 2016

1. Higher restaurant sales and improving GDP numbers point to possible demand improvement in the short term in domestic channels.

Before we review the latest restaurant trends, a brief update on trends to this point. Part of the reason for the notable weakness in meat prices during the summer we think can be traced back to the significant slowdown in foodservice business. Restaurant foot traffic trends were particularly troubling, with the index in August dropping to the lowest levels since late 2009. And this was not just a one month drop, it was the culmination of several months of declining same store sales and lower traffic. While it is difficult to pinpoint the driver behind the slowdown in restaurant sales during the summer, we can



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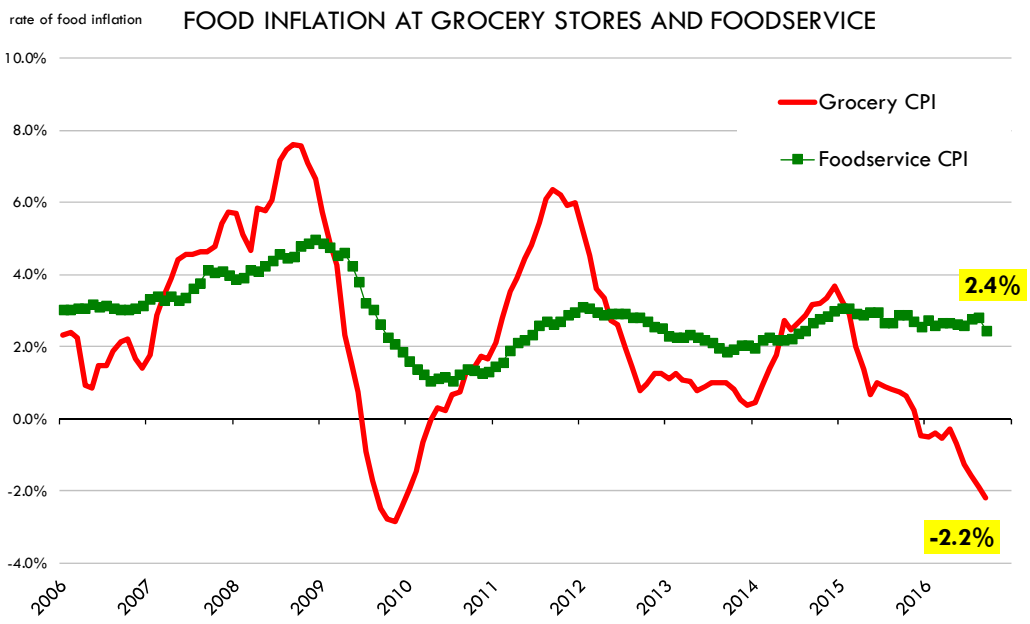


point to a few factors. First, we have seen a growing divergence in prices at the retail counter and in foodservice menus. The CPI data released earlier this month (for the month of September) showed that the cost of food which will be consumed at home, mostly foodstuffs sold at grocery stores, was down 2.2% compared to the previous year. One has to go back to the great recession of 2008-09 to see this kind of price deflation at grocery store level. On the other hand, the cost of food that will be eaten away from home, foodservice and other hospitality, is up 2.4% compared to the previous year. We think this divergence in costs has cannibalized sales at established restaurants, especially as grocery stores capitalize on the lower cost structure to offer more meal replacement options.

But the divergent costs at retail vs. foodservice are only part of the problem, in our view. Interest rates are extremely low, consumer tastes appear to be shifting and there is a very strong push for new restaurant concepts to establish themselves. This has presented a significant challenge for larger chains and the foodservice index that is calculated by the National Restaurant Association tacks same store sales and traffic from its members. With more new entrants, one should view the index more as a statement about the health of incumbent establishments.

The September survey results, however, presented a somewhat better picture. There was improvement across all categories. The overall Restaurant Tracking Index in September was at 100.8, about 0.8 points above contraction territory and 1.2 points higher than the previous month. The index tracking current conditions jumped from 98.6 in August to 101 in September and this was the highest reading of current conditions since last April. By far the biggest jump, however, was in the customer traffic component. The September customer traffic index was 100.2, up from 96.1 in August and the highest since February. The improvement in restaurant traffic comes at a time when we are also seeing some better economic growth data and robust employment numbers. GDP growth estimate for Q3 stood at 2.9%, the strongest growth since mid 2014. The unemployment rate has stabilized at 5%, with more people joining the labor force. The economy has gained 1.6 million new jobs so far this year and per capita disposable income growth is hovering near 2%, in line with the long term growth trend.

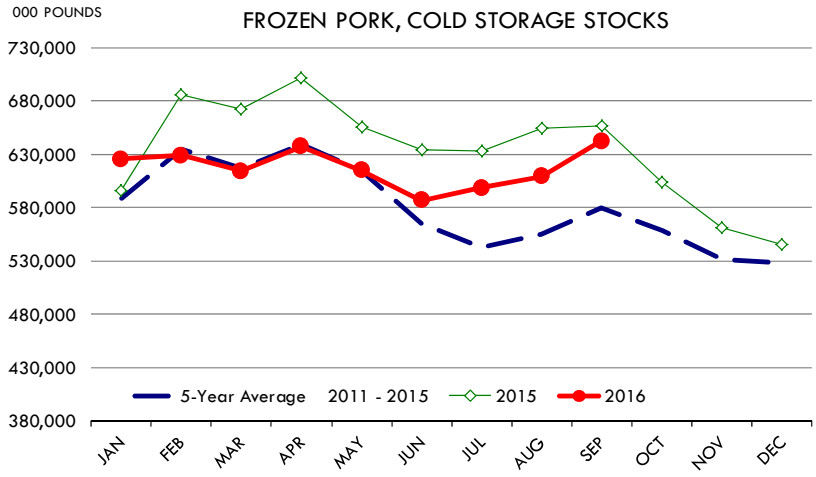
Risks: While the latest numbers points to improving trends, risks abound. On the foodservice side, operators continue to downgrade their forward outlook about the state of the economy and their business. In the past this has been a leading indicator of a downturn in trends. In the latest survey 29% of participants said they expect conditions to be worse six months from now compared to just 14% that expected an improvement. Back in April, the split was 20% expecting declines vs. 16% expecting improvement (the rest expected flat growth). As for the broader economy, the main challenge remains slowing productivity, which tends to cap income growth.

2. Cold storage inventories

There is still plenty of meat in cold storage and, in the short term, this may keep prices in check. Total beef, pork and poultry supplies in refrigerated warehouses at the end of September were estimated at 2.443 billion pounds, 1.6% larger than the previous month and 11% higher than the five year average. Inventory build in September was +2.1% compared to the previous month compared to a five year average build of just 0.2%. Boneless beef stocks jumped 9% from the previous month compared to a five year average monthly build of just 3.3%. It should be noted that the increase in inventories comes at a time when US beef imports have declined sharply, implying that significantly more domestic boneless beef is ending up in cold storage. This should dampen demand for some beef products in the short term. USDA does not say what kind of product is in cold storage but we suspect that part of the reason for the increase is due to the oversupply of fat beef trim. Some of this product likely is going into the freezer but it has a relatively short shelf life and we think negatively impact price expectations for later this year and into January-February.

Total pork inventories were 642 million pounds, 5.4% higher than the previous month and a much faster inventory build than we normally see at this time of year. Total pork inventories are still about 2.1% lower than a year ago. Given the big increase in slaughter in August and September it is quite impressive that cold storage stocks are lower than last year. We think overall demand for pork remains in good shape and packers have been quite successful in keeping the flow of product moving through the various channels. Higher exports likely have helped, with September exports currently pegged up 9% from last year (our estimate). However, not all is good in the pork complex. Slaughter in October is expected to be even bigger and exports are showing signs of slowing down. We expect pork inventories to increase further in October. For now, however, we think markets will view the current report as generally neutral for prices in the short term.

Total chicken inventories were 768.7 million pounds, 3.9% lower than a year ago but still 15.1% higher than the five year average. Inventory depletion was generally in line with what we see this time of year. Inventories of leg quarters are now down 18.9%, helped in large part but resurgent chicken exports. Breast meant inventories, on the other hand, are still up 7.3% from last year and 29% higher than the five year average.



Upcoming holidays:

2016 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).

2017 New Year's Day (Sunday January 1); Martin Luther King Day (Monday January 16); Chinese New Year (Saturday January 28); Super Bowl 51 (Sunday February 5, in Houston, TX); Valentine's Day (Tuesday February 14); President's Day (Monday February 20); Ash Wednesday (Wednesday March 1; Daylight Savings Time Begins in US (Sunday March 12); St. Patrick's Day (Friday March 17); Passover (Monday April 10, at sundown); Easter (Sunday April 16); Cinco de Mayo (Friday May 5); Mother's Day (Sunday May 14); Victoria Day [Canada] (Monday May 22); Memorial Day (Monday May 29); Father's Day [US and Canada] (Sunday June 18); Canada Day [Canada] (Friday July 1); Independence Day (Tuesday July 4); Labor Day [US and Canada] (Monday September 4); Rosh Hashanah (Monday September 20); Yom Kippur (Friday September 29, at sundown); Columbus Day (Monday October 9; Canadian Thanksgiving Day (Monday October 9); Daylight Savings Time Ends [US and Canada] (Sunday October 29); Veterans Day (Saturday November 11); Remembrance Day [Canada] (Saturday November 11); Thanksgiving (Thursday November 23); Hanukkah (Tuesday December 12, starts at sundown); Christmas Day (Monday December 25); Boxing Day [Canada] (Tuesday 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 October 29 slaughter was 2.401 million head, up 6.5% from a year ago. In the last two weeks hog slaughter is up 7.5% vs. year ago levels.

Iowa/Minnesota, Base Lean Market Hog 185 lbs. Carcass Values. Lean hog carcass values at about 44.87 /cwt. on Friday were down $1.4/cwt since Wed. October 19. Prices are down 19.5 dollars compared to year ago values.

Loin, 1/4 Trimmed Loin VAC, FOB Plant, USDA (page 8). Prices finished last week at $0.8609, down about 7.1 cents since the Wed. October 19 quote and down about 16 cents from year ago levels.

Bnls. Strap on Pork Loins. Prices finished the week at $1.2019 for the strap on loins, down 14.0 cent since Wed. October 19 and down about 32 cent from the year ago levels. Strap off loins at $1.3972 are down about 4.3 cent since Wed. October 19 and down about 27 cent compared to the year ago quote.

Boneless sirloins at $1.0976 are down 6 cents from the Wed. October 19 quote but up about 10.5 cents from the year ago price.

Pork tenderloin finished last week at $1.9940, down 15 cent from the Wed. October 19 quote and down about 8.3 cents from the year ago price.

1/4 Trim Pork Butts (page 10), prices finished the week at $0.8707, down 0.4 cents since Wed. October 19. Prices are up 3 cents from a year ago.

Spare Ribs, Trimmed - LGT, Vac (page 8). Prices finished the week at $1.1931, up about 0.5

cent since Wed. October 19 but down about 40 cents from year ago levels.

Rib inventories on September 30 were 83.7 million pounds, down 2.0% percent from a year ago.

Bone-in Hams.

17/20 hams (page 9) price was $0.6173/lb., unchanged since Wed. October 19 but down about 4 cents from a year ago.

20/23 hams finished the week at 61.83 cents, up about 5.5 cents since Wed. October 19 but down about 3 cents from the year ago level.

23/27 hams finished the week at 58.65 , up about 5 cents from the Wed. October 19 quote and up about 0.4 cents from the year ago level.

Total ham cold storage stocks on September 30 at 249.1 million pounds were up 0.8% from year ago levels.

42 CL Pork Trim "FOB Basis". Prices finished the week at 24.21 cent, down about 1.3 cent since Wed. October 19 and down about 4 cents from the year ago price.

72 CL Pork Trim "FOB Basis". Prices finished the week at 42.56 cents, up about 1.6 cents since the Wed. October 19 quote but down about 17 cents from the year ago level.

Freezer stocks of all trimmings on September 30 were 35.6 million pounds, down 10.9% 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 $110.00 was down 4.00 cents from a year ago.

The National Whole Bird price was quoted at 70.81 on Friday, October 29, down about 2 cents from a year ago.

Broiler slaughter for the week ending October 29 was 161.05 million head, up 6.28% from a year ago. For the last two weeks slaughter was up 3.2% vs. a year ago.

Breasts. Prices on boneless skinless breasts finished the week at $1.0678, down 4 cents since Wed. October 19 and still down about 2 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 1.7 cents vs. two weeks ago but at 30.54 cents per pound prices were up 7 cents from a year ago.

Wings. Prices at $1.8318 are up about 16 cents from year ago levels.

Turkeys

Hens finished last week at $1.3000, unchanged since Wed. October 19 but down about 10 cents from the year ago price.

Toms finished last week at $1.2900, unchanged since Wed. October 19 but down about 11 cent from the year ago price.

Total turkey supplies in the freezer on September 30 were up 13.7% from a year ago at 511.1 million pounds. Whole birds were up 1.3% from a year ago with an inventory of 269.3 million pounds.

Turkey slaughter was 4.6680 million head for the week ending October 22, down -7.62% from a year ago. For the last two weeks slaughter has been down 8.6%.

Boneless Turkey Breast Meat. Boneless skinless turkey breast meat prices finished last week at $2.1500, unchanged since Wed. October 19. Prices are down about 370 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 $7.0264 (weighted average quote) finished last week up about 42 cents since the Wed. October 19 quote but down about 81 cents vs. the year ago price.

Select 112A Heavy Lip On Rib Eyes at $5.9644 (weighted average quote) finished last week up about 37 cents since the Wed. October 19 quote but down about 123 cents vs. the year ago price.

Currently Choice 112A Rib Eyes are $1.0620 /lb. over Select. The 2015 annual average spread (wt. average price) had the Choice at a premium to the Select by $0.0915 per pound and the previous five years (2010 thru 2014) average spread was Choice at a premium to the Select by $0.0906 per pound.

Choice regular #168 insides finished last week quoted at $1.8704 up about 17 cents since Wed. October 19 but down about 48 cents from the year ago price.

Choice ¼ inch trimmed #168 insides finished last week quoted at $1.9224 up about 11 cents since Wed. October 19 and down about 45 cents from year ago levels.

Choice #170 Gooseneck Rounds finished last week at $2.0741 up about 3 cents since Wed. October 19 but down about 10 cents from the year ago levels.

Choice #180 (0x1) Bnls. Strip Loins finished last week quoted at $4.4382 (wt. avg.) up about 7 cents from the Wed. October 19 quote. Prices are about 146 cents over year ago levels.

Choice #184 Regular Heavy top butts finished at $2.3975 (wt. avg.) down about 8 cents since Wed. October 19 and down about 87 cents from year ago levels.

Choice #184 ¼ inch trimmed Top Butts finished at $2.5315 (wt. avg.) down about 3 cents since Wed. October 19 and down about 75 cents from the year ago levels.

Choice #185A Flap Meat prices finished Friday at $3.7349 (wt. avg.) up about 9 cents since Wed. October 19 but down about 54 cents from year ago values.

COARSE GROUND BEEF –

73CL Coarse Ground product finished last week at $1.3197 up about 9 cents since Wed. October 19 but down about 34 cents from year ago levels.

81CL Coarse Ground product finished last week at $1.6768 up about 11 cent since Wed. October 19 but down about 39 cents from the year ago quote.

90CL Bnls. Beef prices finished the week at $1.9304 (wt. avg.) up about 1.44 cent since Wed. October 19 but down 31 compared to the year ago price quote.

50 CL Beef Trim prices finished last week at $0.4159, up about 9 cent since Wed. October 19 but down 23 cent compared to the year ago level.

Food Service Summary Table - WT. AVE

	2016 History								2016-17 FORECAST						
	May	Jun	Jul	Aug	Sep	Oct	10/19/2016	10/28/2016	11/9/2016	Nov	Dec	Jan	Feb	Mar	Apr
PORK															
Loin, 1/4 Trimmed Loin VAC, FOB Plant, USDA	1.08	1.13	1.05	0.98	1.10	0.91	0.93	0.86	0.85	0.85	0.89	0.88	0.92	0.97	0.98
Loin, 1/8 Trimmed Loin VAC, FOB Plant, USDA	1.13	1.22	1.12	1.04	1.16	0.98	0.95	0.93	0.90	0.91	0.95	0.95	0.98	1.04	1.05
Loin, Bnls CC Strap-off, FOB Plant, USDA	1.49	1.51	1.40	1.37	1.60	1.47	1.44	1.40	1.35	1.35	1.41	1.36	1.38	1.45	1.45
Loin, Tenderloin, FOB Plant, USDA	2.52	2.91	2.66	2.22	2.16	2.10	2.14	1.99	2.05	2.03	2.08	2.04	2.20	2.19	2.25
Butt, 1/4 Trim Butt Combo, FOB Plant, USDA	1.12	1.12	1.15	0.99	1.11	0.86	0.82	0.77	0.86	0.86	0.91	0.84	0.88	0.92	0.95
Sparerib, Trmd Sparerib - LGT, FOB Plant, USDA	1.66	1.62	1.33	1.30	1.31	1.20	1.19	1.19	1.21	1.22	1.24	1.29	1.34	1.36	1.40
Sparerib, St Louis Spareribs, POLY, FZN, FOB Plant, USDA	2.61	2.61	2.44	2.42	2.36	2.39	2.40	2.48	2.37	2.39	2.41	2.30	2.34	2.30	2.34
Sparerib, Trmd Sparerib - MED, FOB Plant, USDA	1.65	1.60	1.31	1.31	1.29	1.21	1.25	1.16	1.20	1.20	1.22	1.25	1.29	1.30	1.34
Loin, Backribs 2.0#/up, FOB Plant, USDA	2.98	2.86	2.56	2.22	2.18	2.17	2.19	2.15	2.25	2.25	2.36	2.10	2.25	2.33	2.46
Ham, 17-20# Trmd Selected Ham, FOB Plant, USDA	0.67	0.75	0.79	0.71	0.70	0.54	0.56	0.62	0.69	0.70	0.65	0.57	0.62	0.60	0.62
Ham, 20-23# Trmd Selected Ham, FOB Plant, USDA	0.67	0.74	0.80	0.71	0.72	0.53	0.56	0.62	0.64	0.67	0.64	0.56	0.60	0.59	0.60
Ham, 23-27# Trmd Selected Ham, FOB Plant, USDA	0.66	0.72	0.75	0.67	0.64	0.50	0.54	0.59	0.58	0.61	0.59	0.53	0.57	0.55	0.57
Ham, 5 Muscle Ham to Blue, FOB Plant, USDA	1.03	1.14	1.14	1.14	1.14	1.14	1.14	1.14	1.13	1.18	1.14	1.05	1.11	1.07	1.10
Belly, Skin-on Belly 14-16#, FOB Plant, USDA	1.13	1.27	1.42	1.08	1.39	1.20	1.26	1.14	1.06	1.06	1.08	1.04	1.08	1.12	1.15
Belly, Derind Belly 9-13#, FOB Plant, USDA	1.33	1.52	1.54	1.08	1.15	1.38	1.38	1.37	1.34	1.34	1.35	1.29	1.36	1.41	1.45
Belly, Derind Belly 13-17#, FOB Plant, USDA	1.24	1.50	1.60	1.04	1.15	1.35	1.36	1.35	1.32	1.32	1.33	1.27	1.34	1.39	1.43
Trim, 42% Trim Combo, FOB Plant, USDA	0.46	0.36	0.42	0.49	0.32	0.24	0.25	0.24	0.24	0.24	0.22	0.27	0.29	0.32	0.32
Trim, 72% Trim Combo, FOB Plant, USDA	0.69	0.73	0.80	0.66	0.51	0.42	0.41	0.43	0.43	0.43	0.48	0.51	0.55	0.55	0.56
HOG CARCASS															
IA/MN, Base Market Hog 185 lb Carcass Basis, Plant Dlv.	0.74	0.80	0.73	0.63	0.55	0.47	0.46	0.45	0.44	0.46	0.47	0.50	0.54	0.56	0.62
BROILERS															
BROILER, NATIONAL WHOLE BIRD PRICE, USDA	0.94	0.97	0.88	0.80	0.77	0.71	0.71	0.71	0.73	0.74	0.74	0.77	0.77	0.80	0.80
N.E. BROILER BREAST BONELESS-SKINLESS, USDA	1.23	1.20	1.29	1.43	1.32	1.15	1.11	1.07	1.05	1.05	1.02	1.02	1.03	1.04	1.12
N.E. BROILER BREAST LINE RUN, USDA	0.97	0.97	0.92	0.89	0.94	0.88	0.88	0.83	0.85	0.84	0.80	0.81	0.82	0.82	0.86
N.E. BROILER LEG QUARTERS, USDA	0.37	0.36	0.35	0.32	0.34	0.32	0.32	0.31	0.33	0.33	0.33	0.34	0.34	0.34	0.35
N.E. BROILER WINGS, USDA, WT.AVG.	1.61	1.54	1.56	1.57	1.79	1.80	1.79	1.83	1.77	1.78	1.85	1.90	1.74	1.63	1.55
TURKEYS															
UB HEN TURKEYS, EAST, FROZEN 10-12LBS	1.23	1.24	1.25	1.26	1.28	1.30	1.30	1.30	1.31	1.29	1.14	1.03	1.04	1.04	1.06
UB BONELESS-SKINLESS TURKEY BREAST, TOM, FRESH	2.18	2.15	2.15	2.15	2.15	2.15	2.15	2.15	2.16	2.15	2.15	2.15	2.15	2.20	2.30
LIVE STEERS															
FIVE AREA DIRECT AVERAGE LIVE STEER, USDA	1.28	1.23	1.18	1.17	1.07	1.00	0.98	1.02	1.05	1.05	1.08	1.08	1.09	1.10	1.11
BEEF															
CHOICE, 112A, 3 RIBEYE, BONELESS, HEAVY, USDA	7.32	8.29	6.86	7.37	6.80	6.67	6.61	7.03	7.74	7.63	7.06	5.42	5.56	6.01	6.24
CHOICE, 168, 3 TOP INSIDE ROUND, 1/4" MAX, USDA	2.10	1.99	2.10	2.17	1.98	1.88	1.81	1.92	1.95	1.95	1.96	2.02	1.93	2.03	1.96
CHOICE, 170, 1 BOTTOM GOOSENECK ROUND, USDA	1.92	1.83	1.85	1.85	1.91	2.00	2.04	2.07	1.93	1.95	1.90	1.89	1.85	1.80	1.69
CHOICE, 180, 3 STRIP LOIN, BONELESS, 0x1, USDA	7.33	8.05	6.51	5.51	4.76	4.42	4.37	4.44	4.42	4.40	4.76	5.00	5.03	5.57	6.04
CHOICE, 184, 3 TOP BUTT, BONELESS, USDA	4.40	3.86	3.68	3.61	3.27	2.72	2.56	2.53	2.62	2.68	2.75	2.99	3.06	3.21	3.30
CHOICE, 185A, 4 BOTTOM SIRLOIN, FLAP, USDA	5.17	5.20	5.05	5.20	4.66	3.72	3.64	3.73	3.63	3.65	3.80	3.90	4.02	4.30	4.69
COARSE GROUND 73%, USDA	1.55	1.48	1.34	1.52	1.27	1.22	1.23	1.32	1.26	1.24	1.25	1.52	1.40	1.40	1.38
COARSE GROUND 81%, USDA	1.89	1.83	1.66	1.74	1.56	1.54	1.57	1.68	1.56	1.54	1.50	1.77	1.64	1.62	1.56
90% BONELESS BEEF, CENTRAL, FRESH, USDA	2.18	2.17	2.17	2.14	2.05	1.93	1.92	1.93	1.82	1.82	1.87	1.89	1.95	1.98	1.97
50CL BEEF TRIM, FRESH, NATIONAL, USDA	0.51	0.85	0.90	0.56	0.38	0.33	0.32	0.42	0.47	0.46	0.43	0.59	0.54	0.66	0.68

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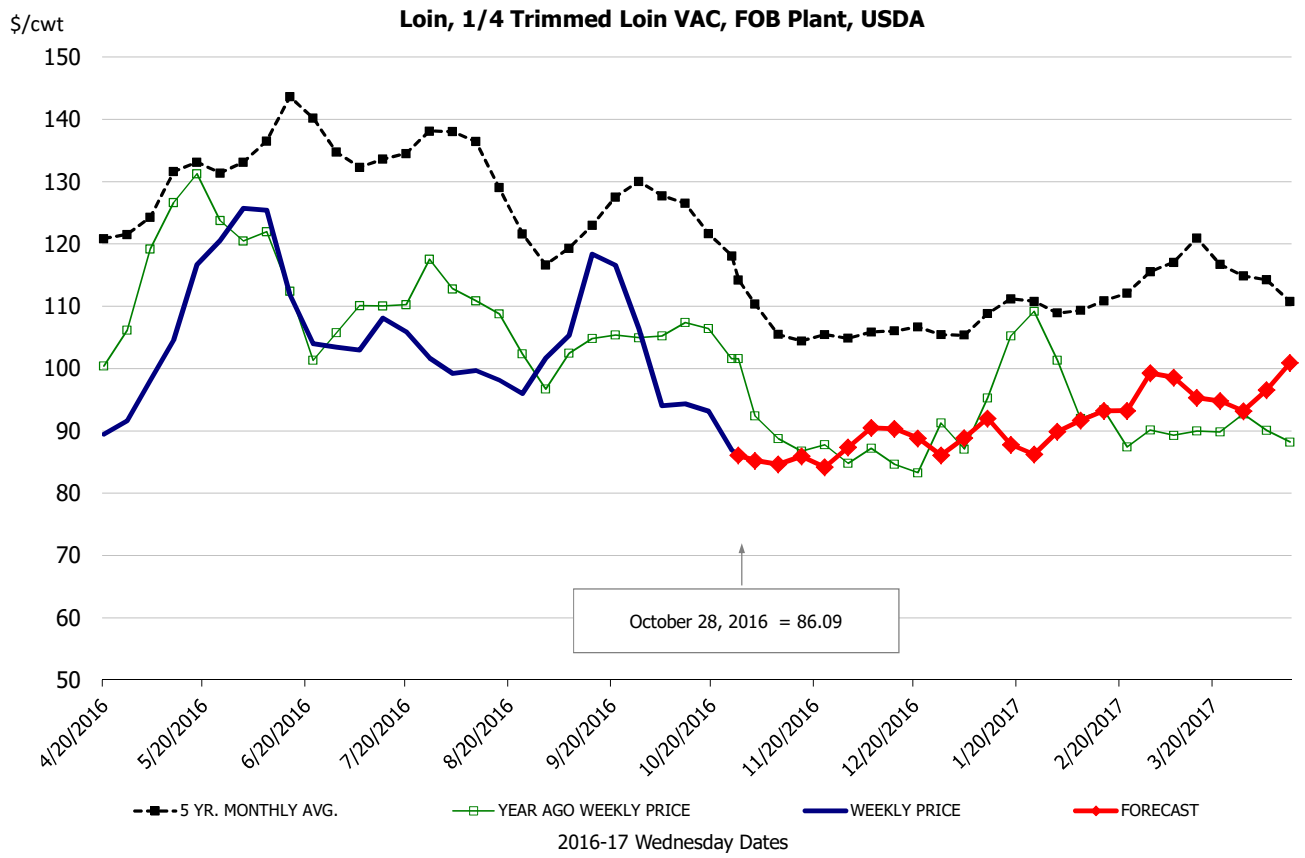
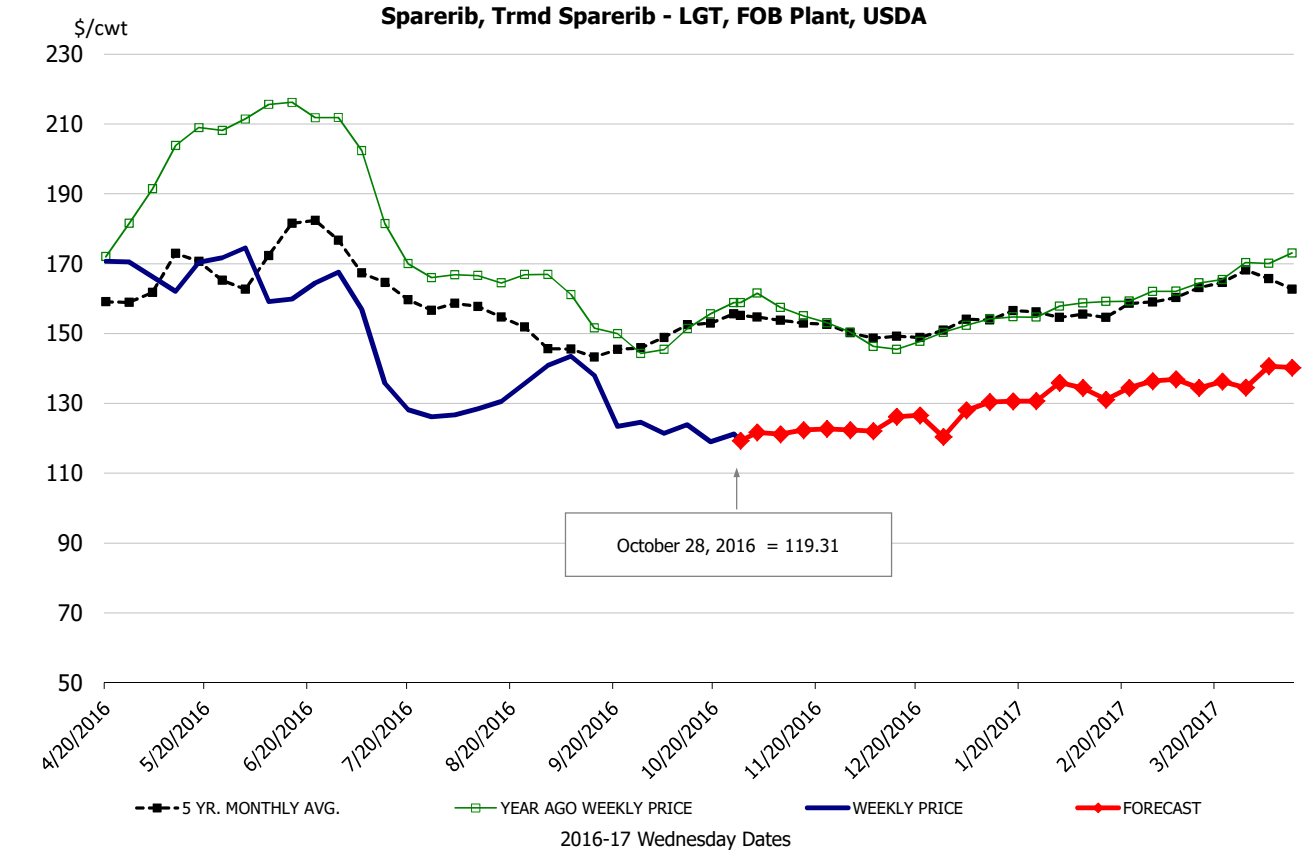
*St. Louis 2 1/4 dn rib prices are estimated at 3 1/2 dn plus $1.10





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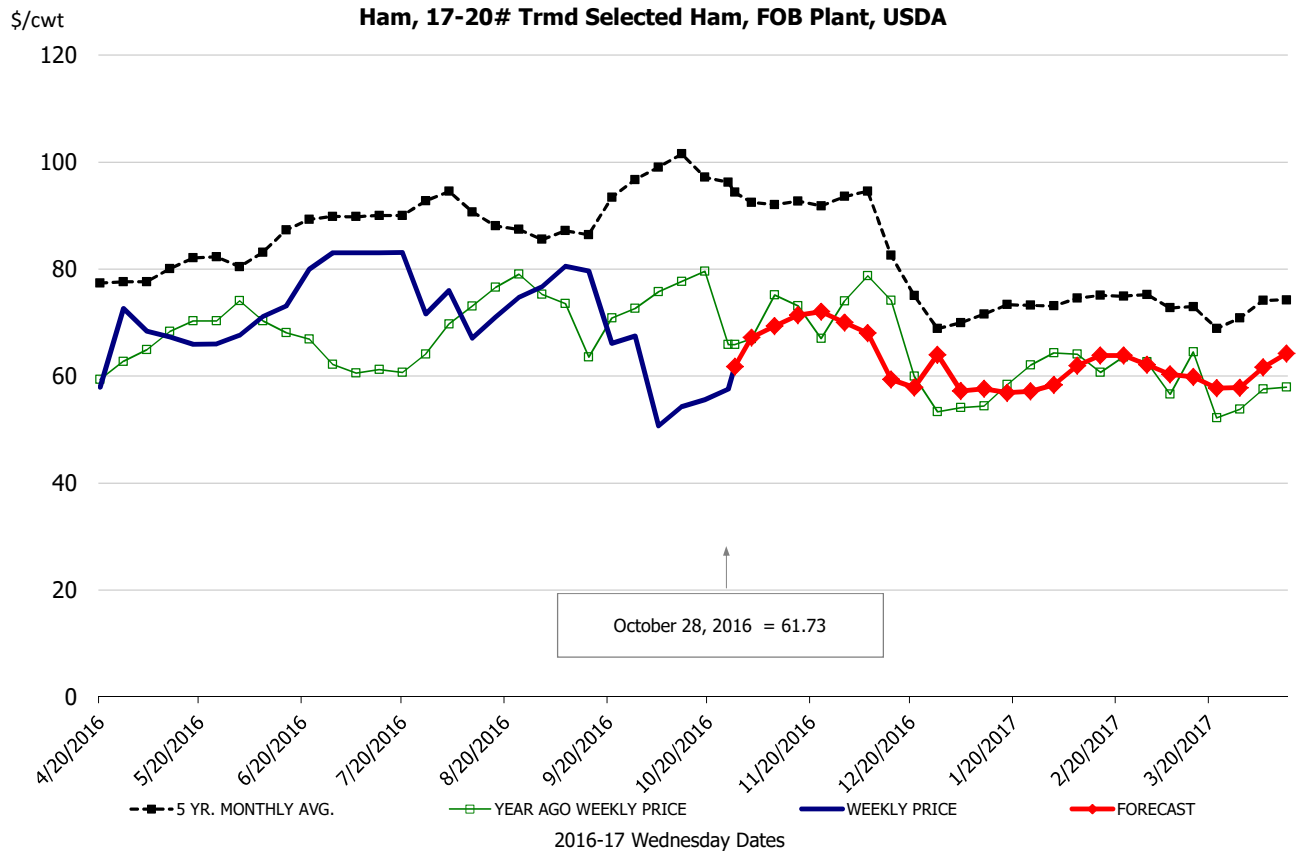

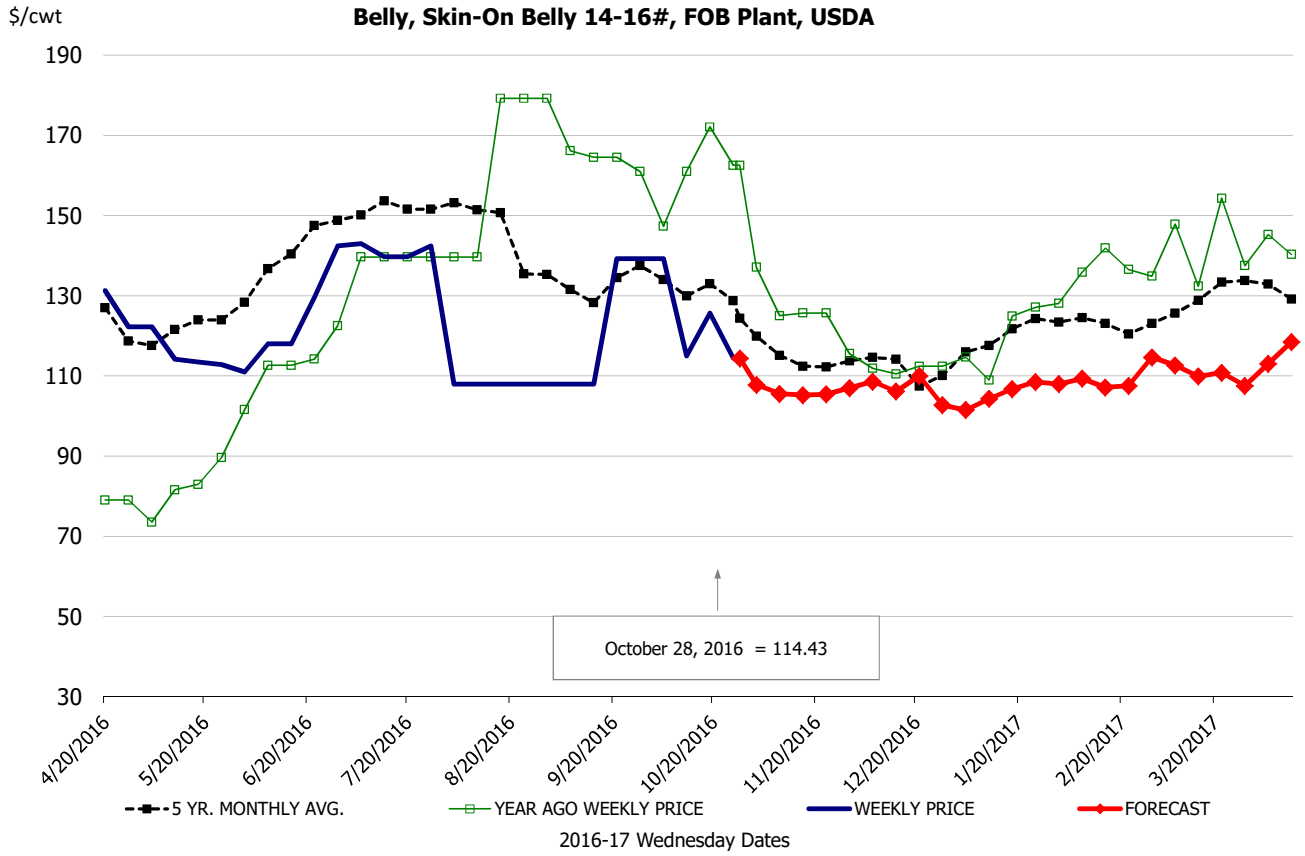

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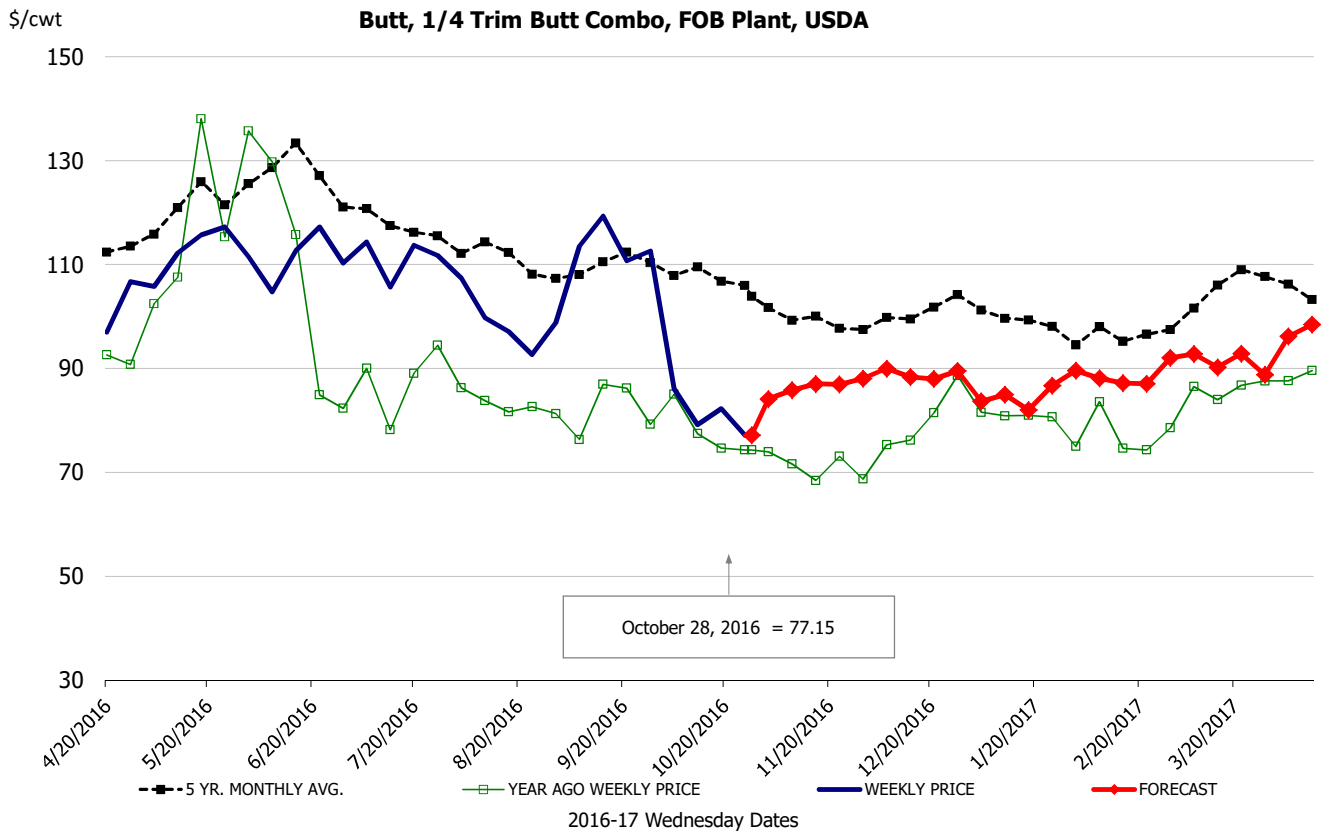

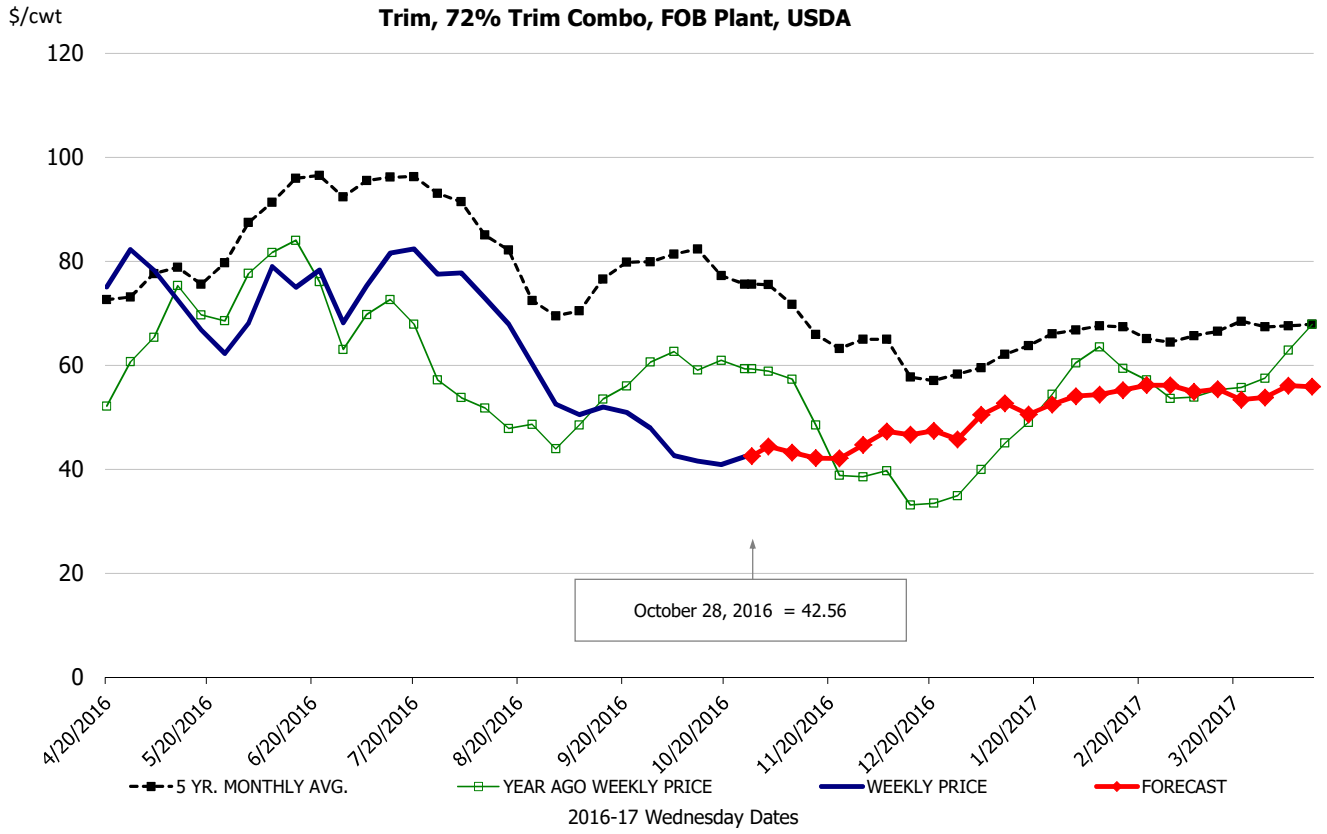

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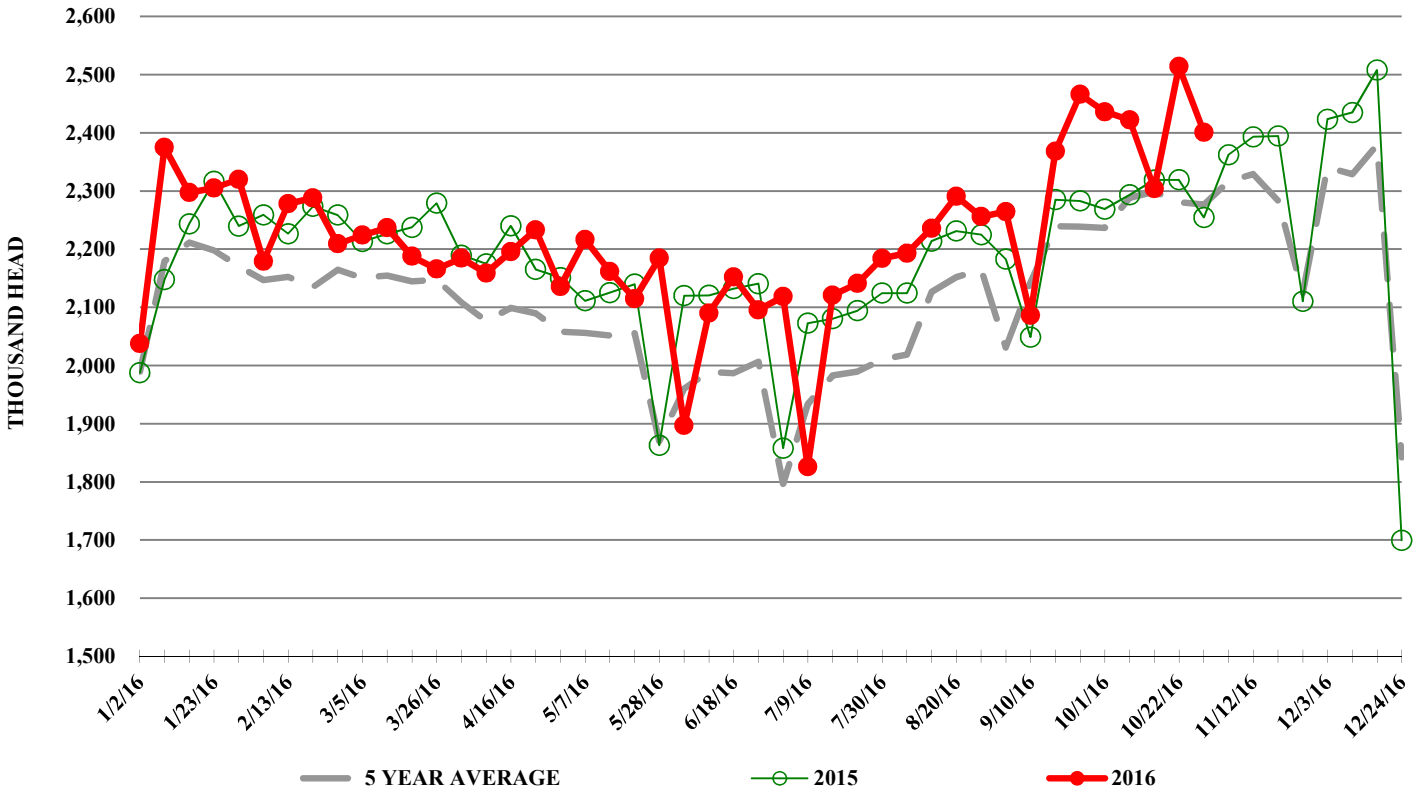
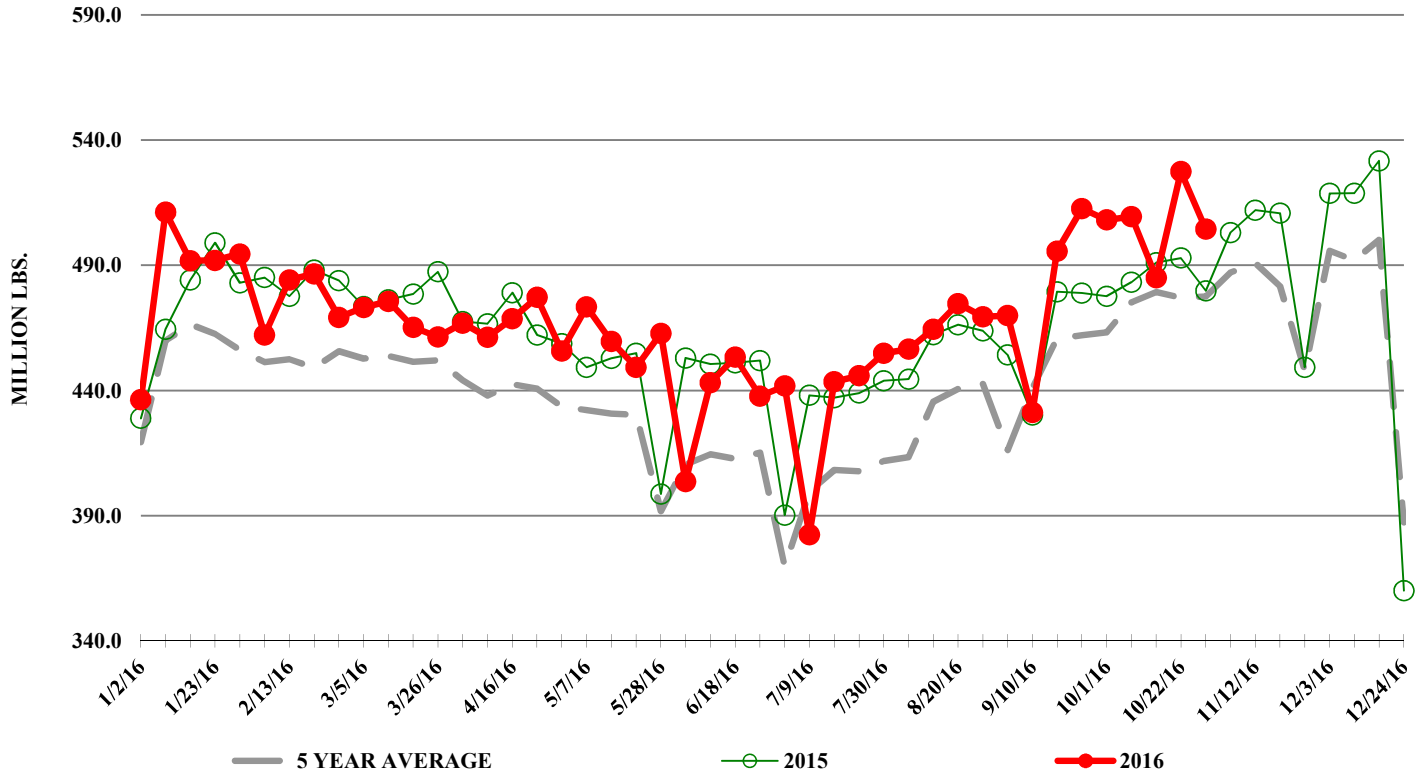
ESTIMATED WEEKLY FI HOG SLAUGHTER



ESTIMATED WEEKLY FI PORK PRODUCTION



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