December 2001

Beef Market Outlook

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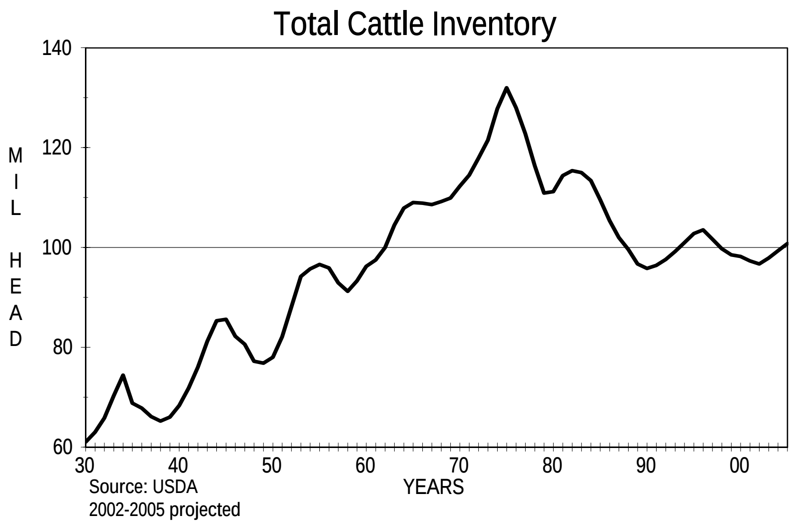
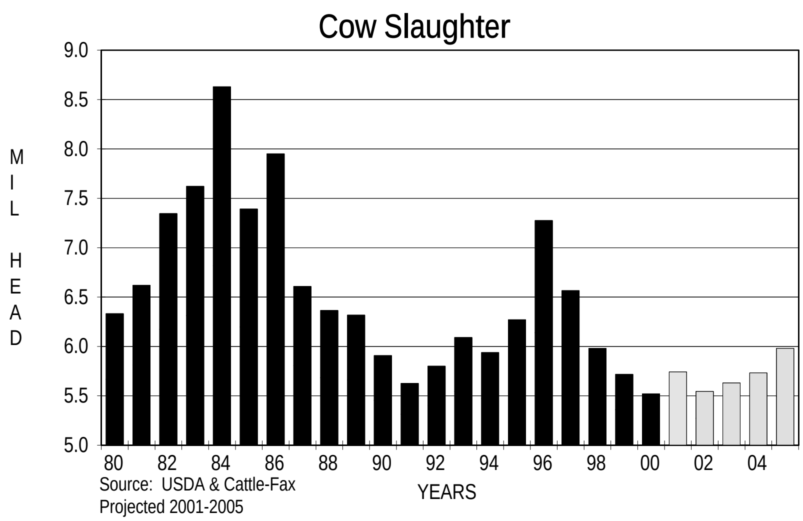
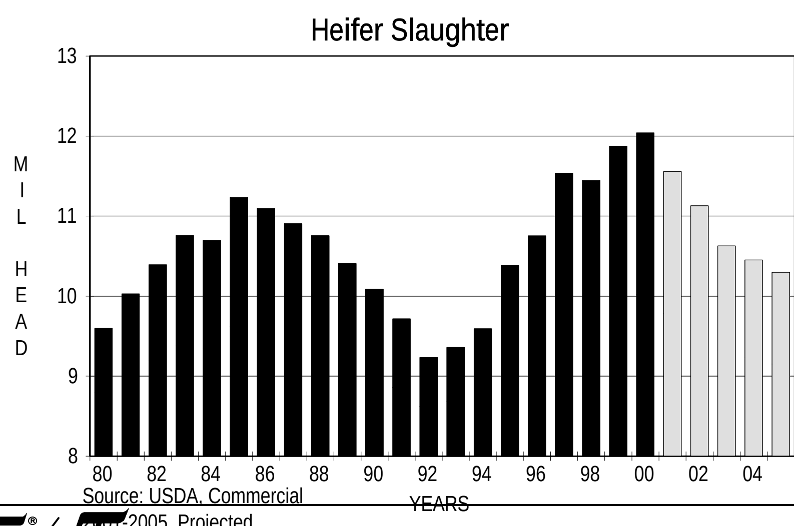
BEEF MARKET OUTLOOK

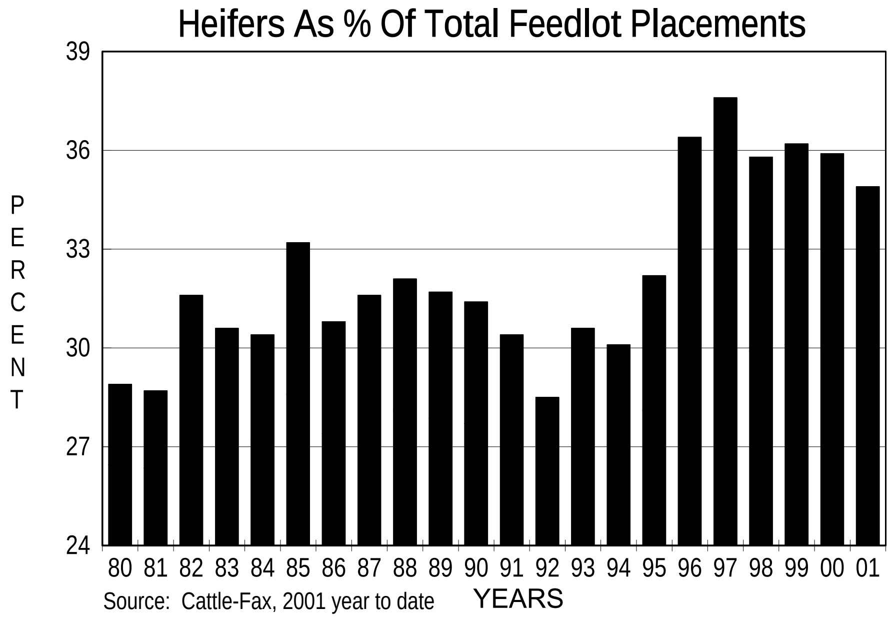
By Randy Blach
Centennial, CO

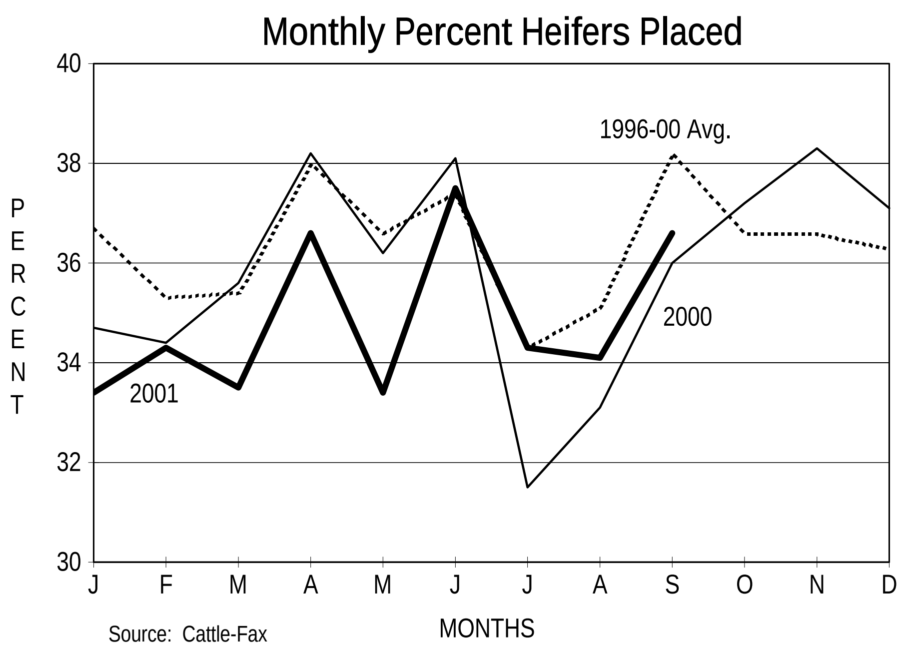


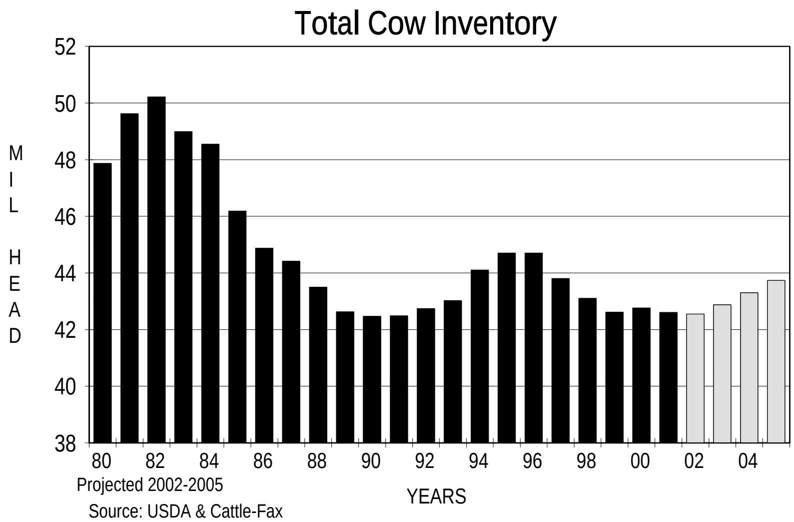


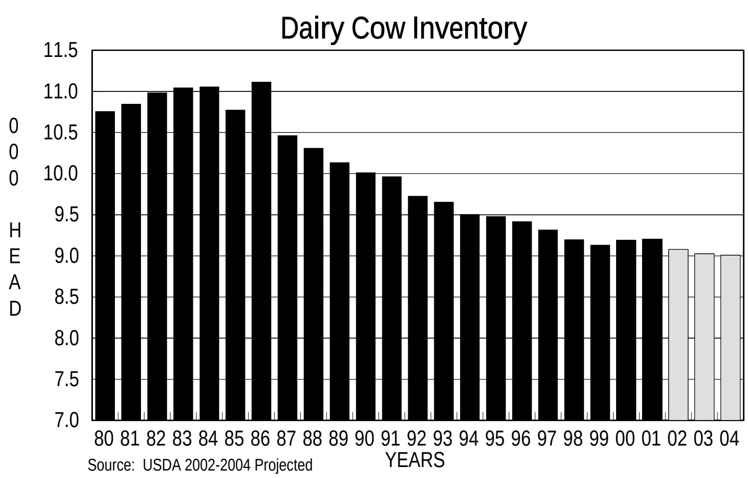


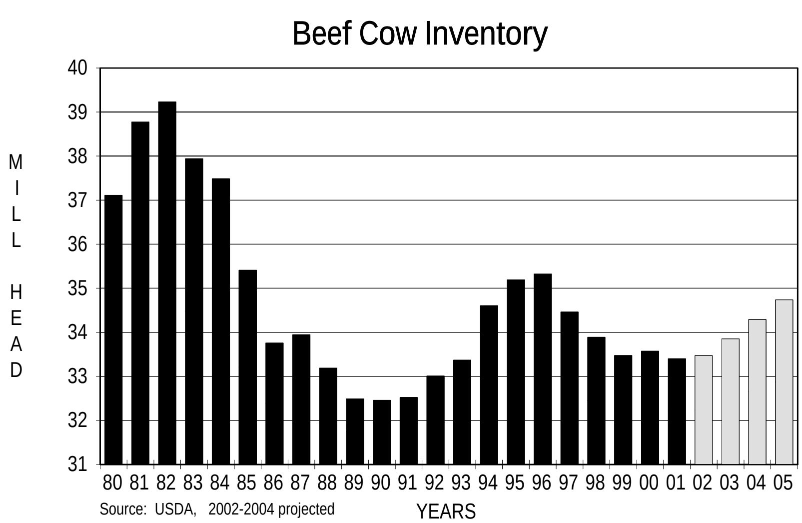
Notes


Heifers As % Of Total Feedlot Placements
39
36
33
30
27
24
PERCENT
80 81 82 83 84 85 86 87 88 89 90 91 92 93 94 95 96 97 98 99 00 01
Source: Cattle-Fax, 2001 year to date
YEARS


Monthly Percent Heifers Placed
40
38
36
34
32
30
PERCENT
1996-00 Avg.
2000
2001
J F M A M J J A S O N D
Source: Cattle-Fax
MONTHS

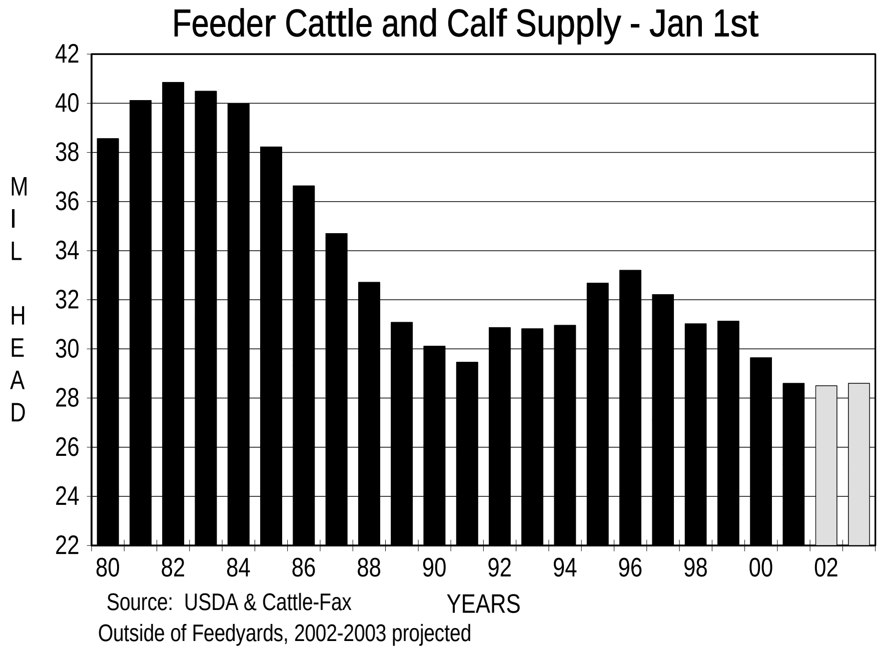

Total Cow Inventory
M I L H E A D
52
50
48
46
44
42
40
38
80 82 84 86 88 90 92 94 96 98 00 02 04
Projected 2002-2005
Source: USDA & Cattle-Fax
YEARS


Dairy Cow Inventory
0 0 0 H E A D
11.5
11.0
10.5
10.0
9.5
9.0
8.5
8.0
7.5
7.0
80 81 82 83 84 85 86 87 88 89 90 91 92 93 94 95 96 97 98 99 00 01 02 03 04
Source: USDA 2002-2004 Projected
YEARS

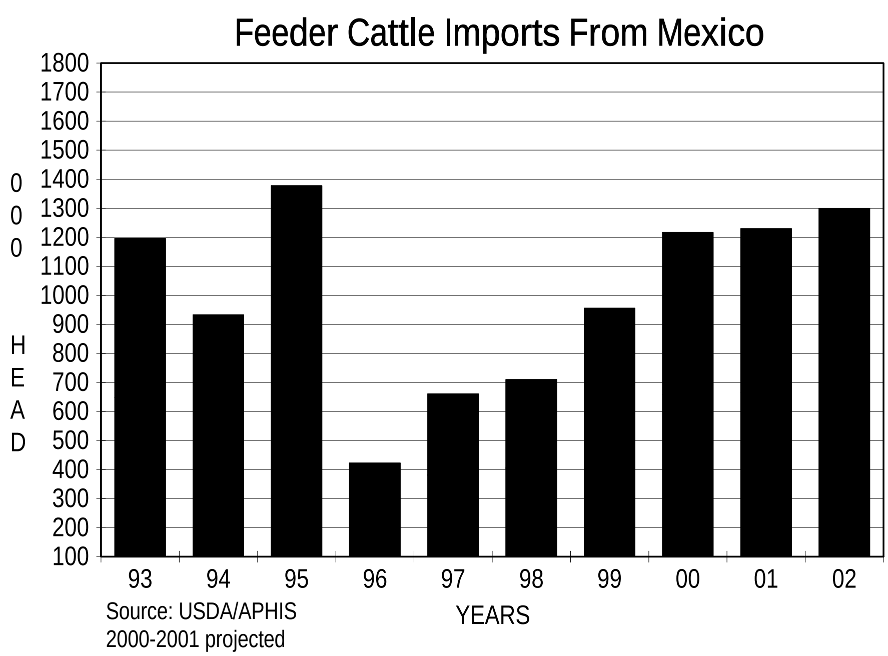

Beef Cow Inventory
M I L L H E A D
40
39
38
37
36
35
34
33
32
31
80 81 82 83 84 85 86 87 88 89 90 91 92 93 94 95 96 97 98 99 00 01 02 03 04 05
Source: USDA, 2002-2004 projected
YEARS

Notes

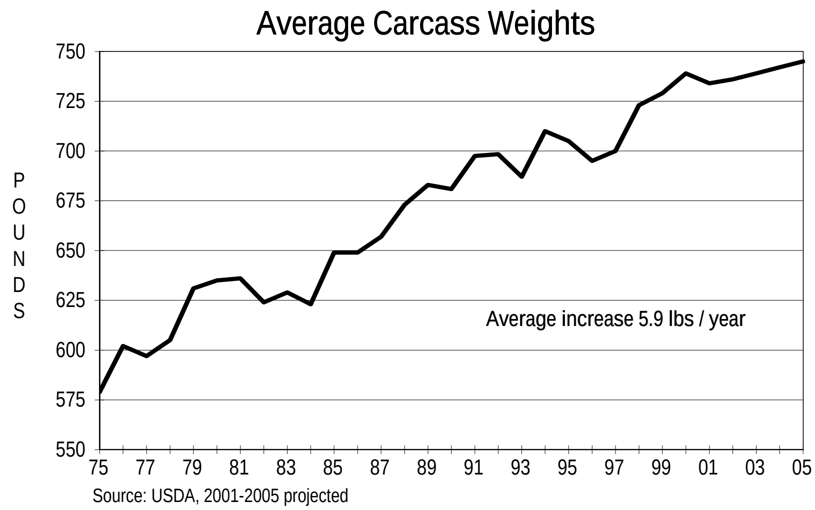
Notes

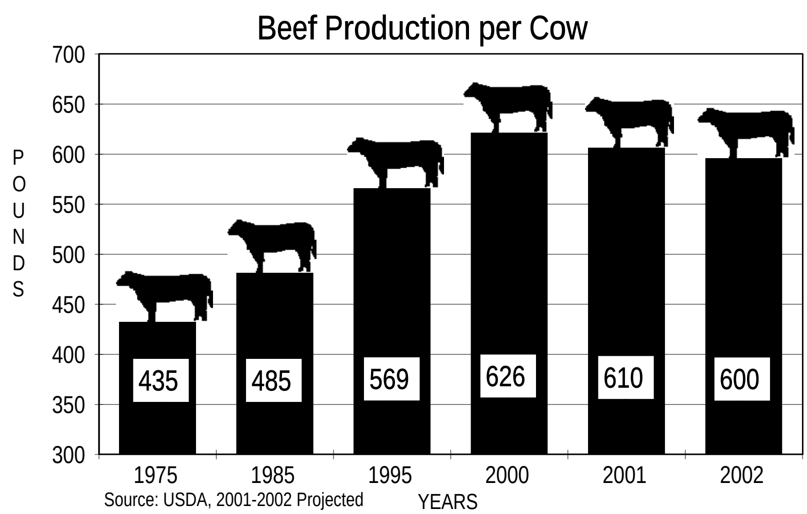


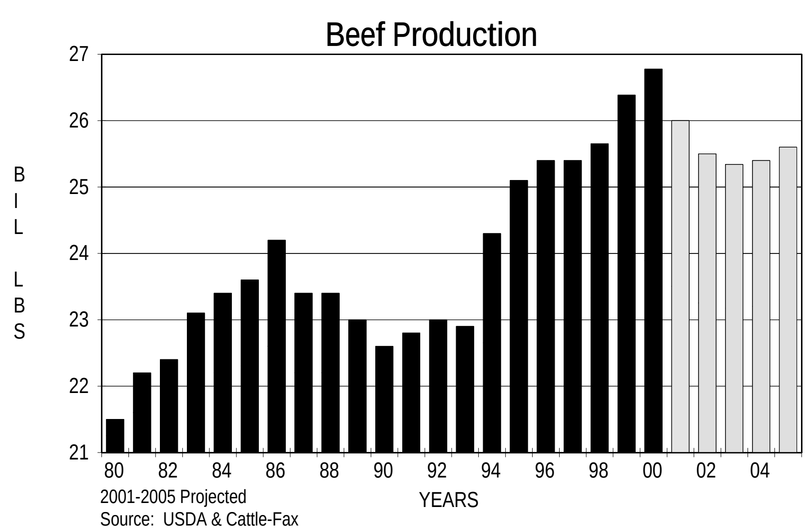
Feeder Cattle and Calf Supply - Jan 1st
MIL HEAD
42
40
38
36
34
32
30
28
26
24
22
80
82
84
86
88
90
92
94
96
98
00
02
YEARS
Source: USDA & Cattle-Fax
Outside of Feedyards, 2002-2003 projected



Feeder Cattle Imports From Mexico
000 HEAD
1800
1700
1600
1500
1400
1300
1200
1100
1000
900
800
700
600
500
400
300
200
100
93
94
95
96
97
98
99
00
01
02
YEARS
Source: USDA/APHIS
2000-2001 projected


Average Carcass Weights
750
725
700
675
650
625
600
575
550
P O U N D S
Average increase 5.9 lbs / year
75 77 79 81 83 85 87 89 91 93 95 97 99 01 03 05
Source: USDA, 2001-2005 projected


Beef Production per Cow
700
650
600
550
500
450
400
350
300
P O U N D S
435
485
569
626
610
600
1975 1985 1995 2000 2001 2002
Source: USDA, 2001-2002 Projected
YEARS


Beef Production
27
26
25
24
23
22
21
B I L L B S
80 82 84 86 88 90 92 94 96 98 00 02 04
2001-2005 Projected
Source: USDA & Cattle-Fax
YEARS

Notes

Cattle Numbers, Beef and Total Meat Supply

-Cattle numbers are expected to bottom out at 96.7 million head on January 1, 2002. The total cattle inventory is expected to grow nearly five million head by 2005-2006.

-Beef-cow numbers were at the cycle low in January 2001. The beef-cow factory is expected to increase about 2.0 million head by 2006 to 2007.

-Total cattle slaughter peaked in 2000 at 36.25 million head. Annual slaughter is expected to decline about 2.0 million head during the next five years.

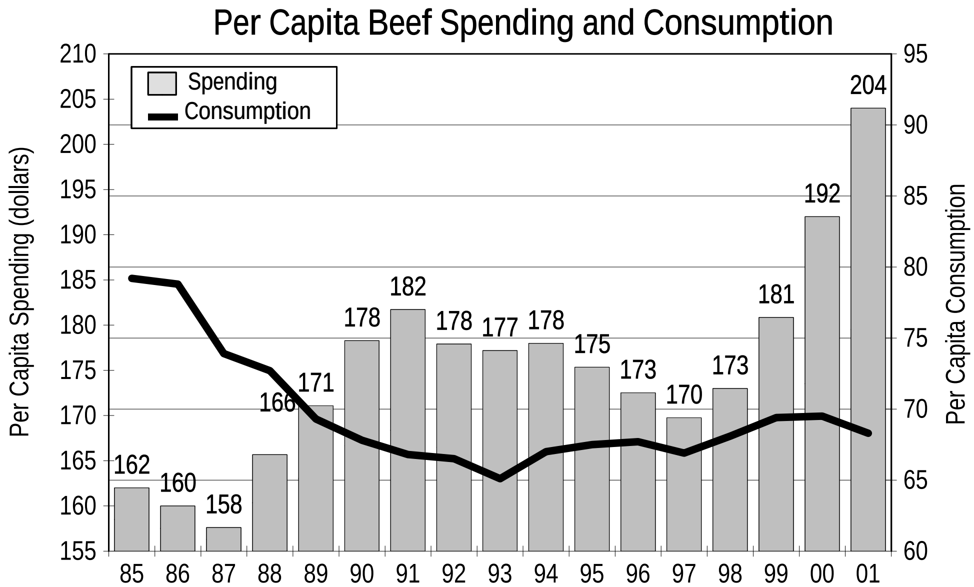
-Beef production and per-capita consumption peaked in 2000. Annual beef production is expected to decline about 1.4 billion pounds during the next four years.

-Cattle-on-feed numbers are expected to decline significantly as a result of sharply reduced feeder-cattle and calf supplies.

-Heifer slaughter is expected to decline during the next few years as herd expansion unfolds, and reach the cycle low in 2005 at about 10.3 million head.

-Pork production is expected to increase 1% to 2% in 2002, and poultry production should increase 2%. Total meat supplies will be about even for the year.

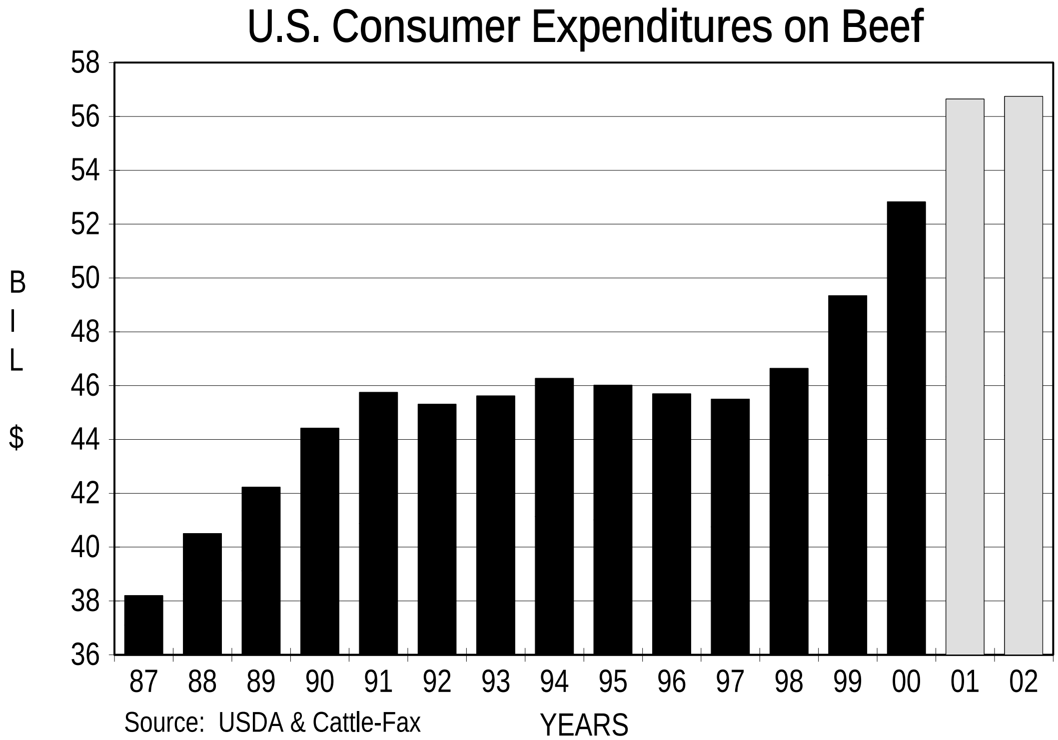
Notes



Source: USDA
2001 projected

Market Share of Meat Spending

	1980	1985	1990	1998	2000	2001
Beef	53.9	50.3	45.4	39.8	40.2	41.0
Pork	26.9	26.2	27.0	29.5	29.1	29.3
Chicken	16.1	19.5	23.1	26.3	26.7	25.9
Turkey	3.1	4.0	4.5	4.4	4.0	3.8



Source: USDA & Cattle-Fax

Domestic disapperance valued at all-fresh retail price, 2001-2002 projected

Total Consumer Spending (bil $)

YEAR	BEEF	PORK	CHICKEN	TURKEY	TOTAL
1987	38.20	22.52	17.44	3.76	81.91
1988	40.54	23.60	19.11	3.76	87.01
1989	42.16	23.52	21.64	4.22	91.53
1990	44.16	26.45	22.65	4.36	97.61
1991	45.76	26.97	23.10	4.53	100.36
1992	45.31	26.85	24.46	4.46	101.08
1993	45.62	26.71	26.03	4.61	102.98
1994	46.27	27.39	26.81	4.65	105.13
1995	46.04	26.88	26.59	4.82	104.33
1996	45.70	28.79	28.32	5.12	107.93
1997	45.49	30.22	29.40	4.97	110.08
1998	46.64	34.48	30.80	5.13	117.13
1999	49.35	36.02	33.59	5.15	124.11
2000	52.82	38.32	35.18	5.20	131.53
2001	56.65	40.47	35.82	5.20	138.14

Beef Export Breakdown
(000 pounds carcass weight)

	U.S. Total	Japan	Mexico	Korea	Canada	Other
1995	1,820,813	1,004,452	92,303	272,175	311,982	139,901
1996	1,878,218	1,015,779	172,245	203,795	295,425	190,974
1997	2,129,901	1,052,659	312,370	261,433	282,030	221,409
1998	2,170,639	1,118,490	418,857	153,807	261,210	218,275
1999	2,417,115	1,101,166	466,001	307,957	249,463	292,528
2000	2,516,271	1,116,855	533,616	398,825	253,694	213,281
2001*	2,214,318	996,443	558,008	265,718	254,647	139,502

Percent of Total

	Japan	Mexico	Korea	Canada	Other
1995	55.17%	5.07%	14.95%	17.13%	7.68%
1996	54.08%	9.17%	10.85%	15.73%	10.17%
1997	49.42%	14.67%	12.27%	13.24%	10.40%
1998	51.53%	19.30%	7.09%	12.03%	10.06%
1999	45.56%	19.28%	12.74%	10.32%	12.10%
2000	44.39%	21.21%	15.85%	10.08%	8.48%
2001*	45.00%	25.20%	12.00%	11.50%	6.30%

*** Estimate**

What If Exports to Japan Decline?

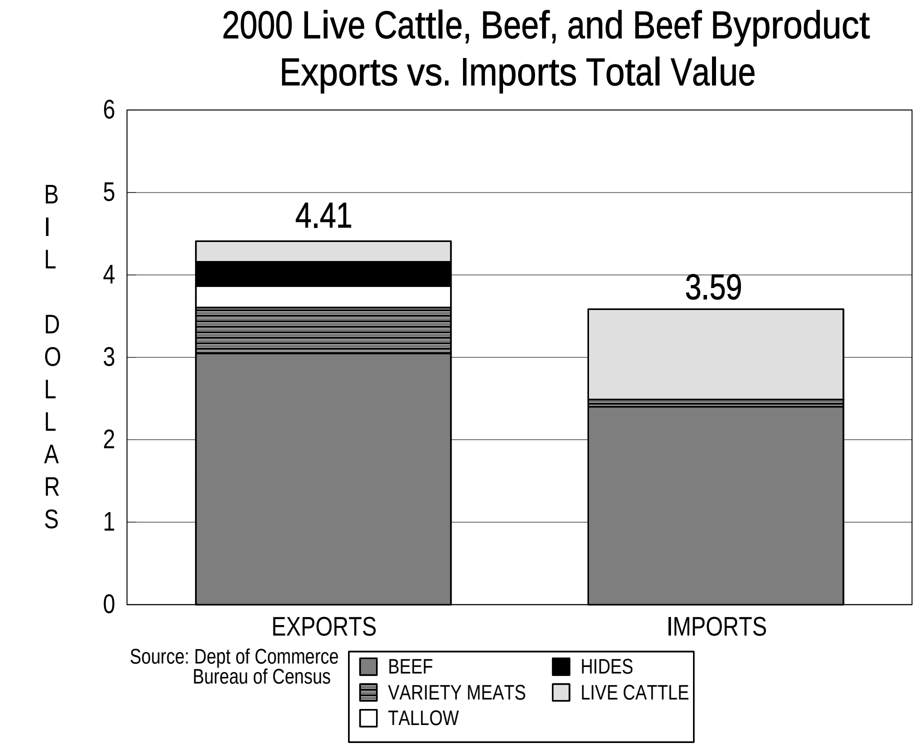
	Result
Off 10 percent	An additional 2.1 million pounds per week on U.S. market
Off 20 percent	An additional 4.2 million pounds per week on U.S. market
Off 30 percent	An additional 6.3 million pounds per week on U.S. market
Off 50 percent	An additional 10.5 million pounds per week on U.S. market

Approximate Market Impact

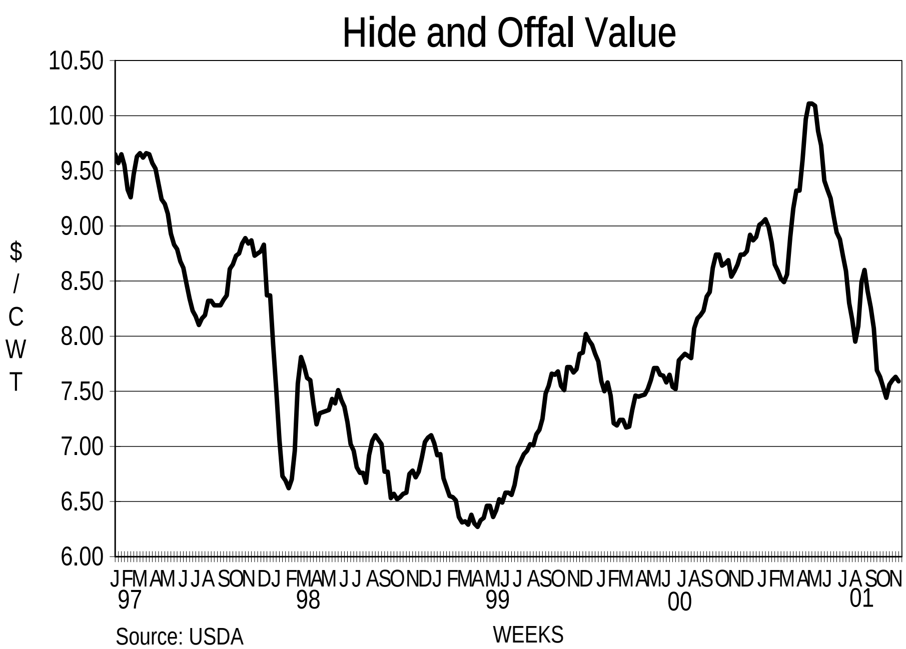
(Assumes impact last all year)

Off 10 percent	$0.50/cwt.
Off 20 percent	$0.80/cwt.
Off 30 percent	$1.25/cwt.
Off 50 percent	$2.00/cwt.

Notes

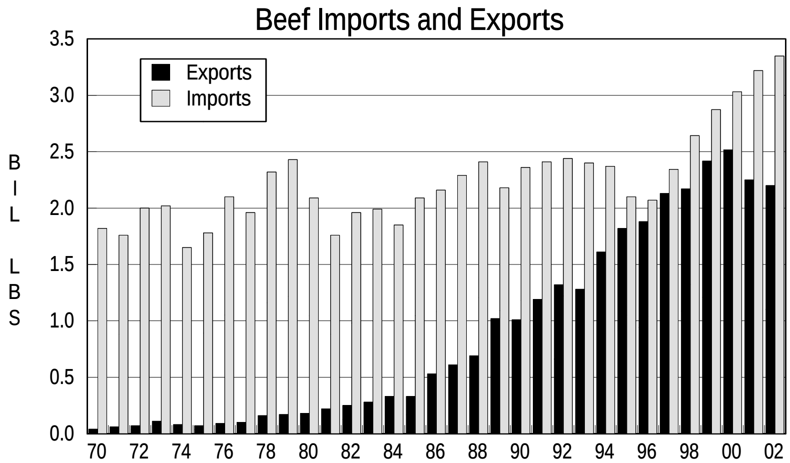


2000 Live Cattle, Beef, and Beef Byproduct
Exports vs. Imports Total Value
BIL DOLLARS
0
1
2
3
4
5
6
4.41
3.59
EXPORTS
IMPORTS
Source: Dept of Commerce Bureau of Census
BEEF
VARIETY MEATS
TALLOW
HIDES
LIVE CATTLE

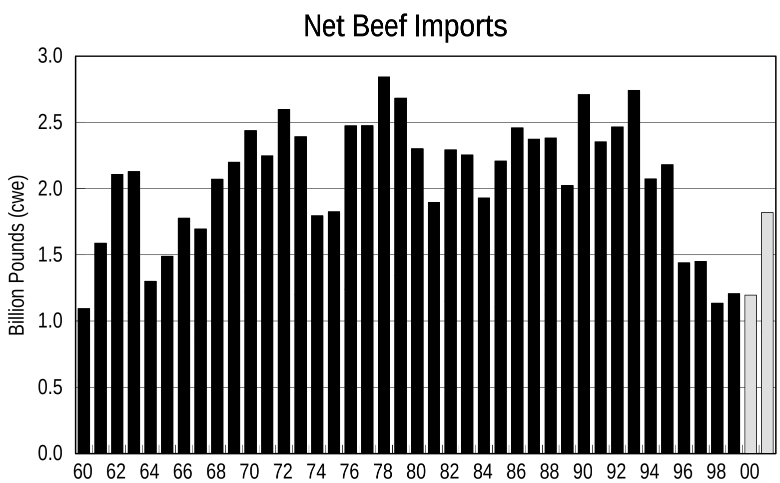


Hide and Offal Value
$ / CWT
6.00
6.50
7.00
7.50
8.00
8.50
9.00
9.50
10.00
10.50
JFMAMJJASONDJFMAMJJASONDJFMAMJJASONDJFMAMJJASONDJFMAMJJASON
97
98
99
00
01
Source: USDA
WEEKS

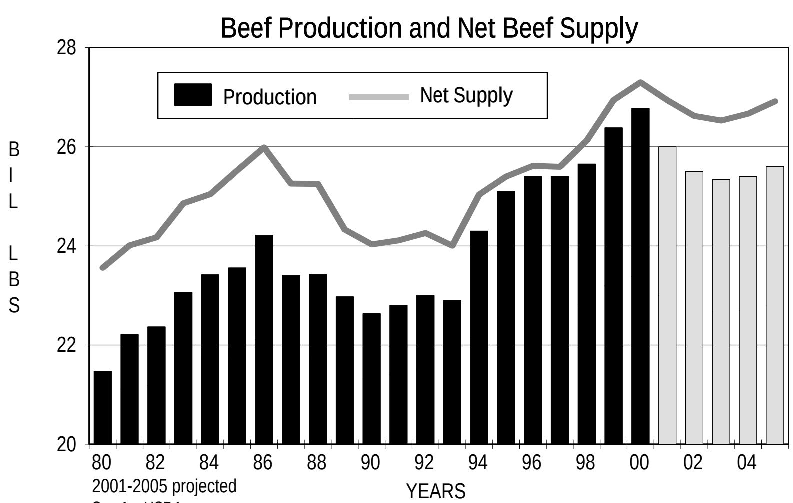
Notes



Source: USDA/ERS, 2001-2002 projected

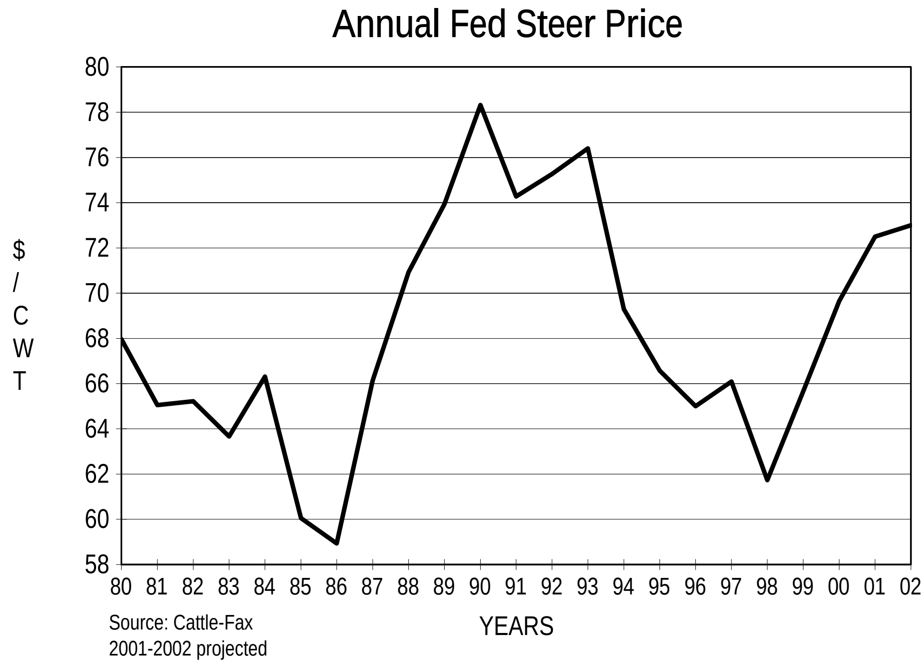


Net beef imports includes beef equivalent of live cattle trade
Source: USDA, 2001-2002 projected



2001-2005 projected
Sour1e: USDA

Notes

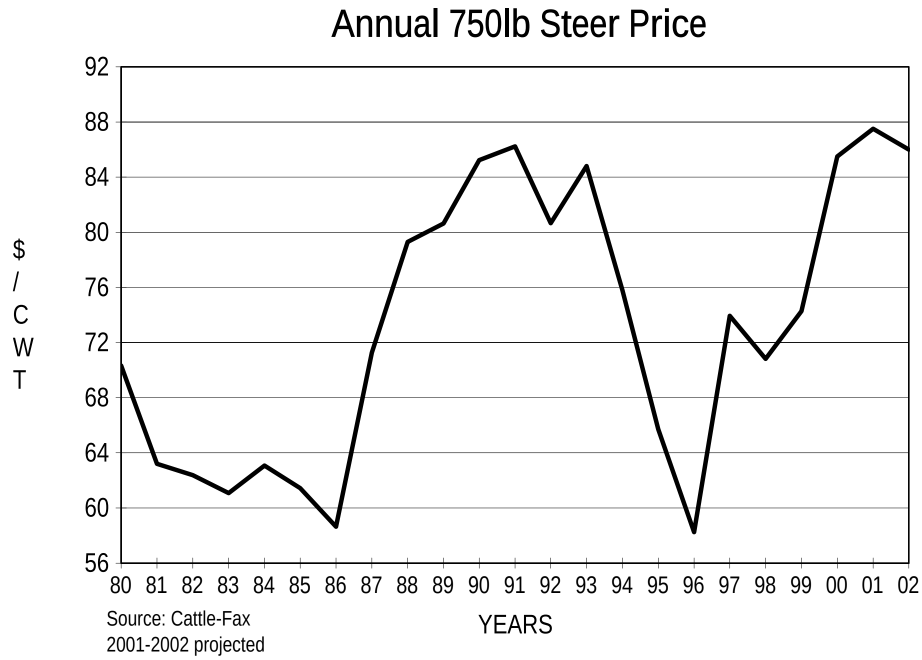


- $72.50 fed cattle average 2001
- $72 – $74 fed cattle average in 2002
- Range $67-$80

Longer-Term

- 2003 $74-$76
- 2004 $74-$76
- 2005 $72-$74

Notes

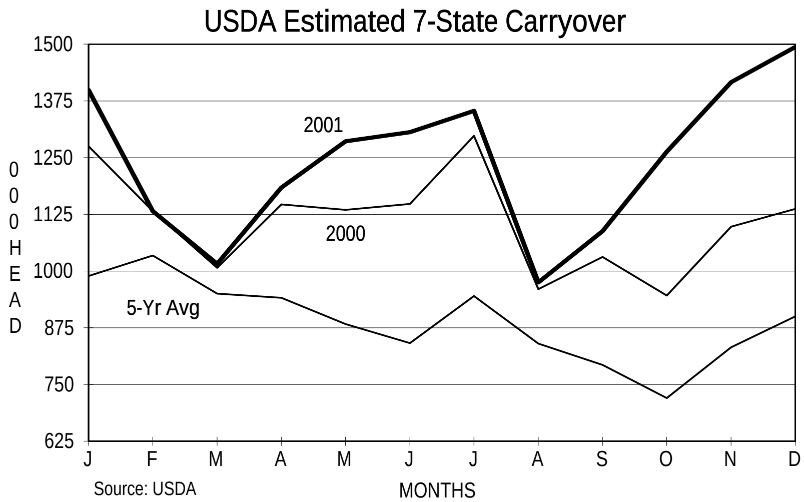


- $87.50 feeder cattle average in 2001
- $85-$87 2002
- Range $82-$90

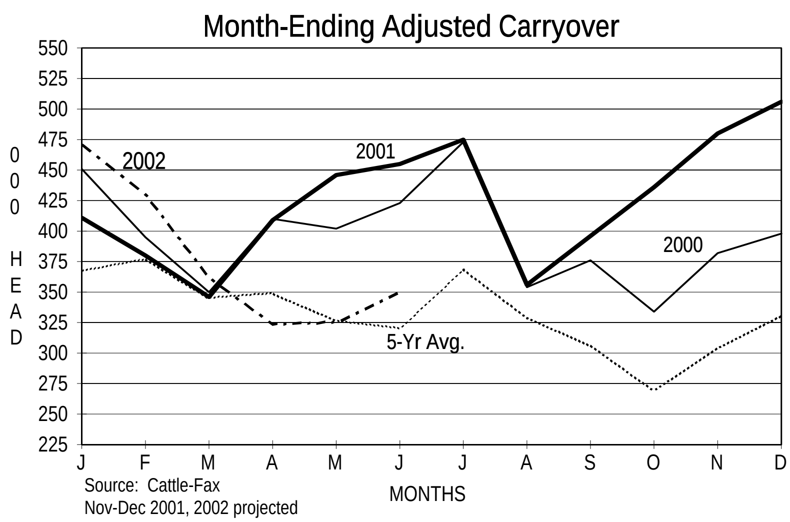
Longer-Term

- 2003 $85-$87
- 2004 $85-$87
- 2005 $82-$83

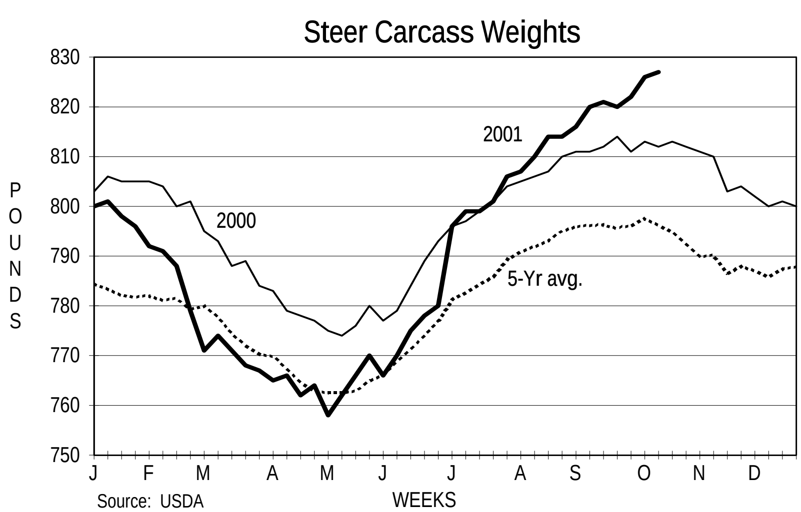
Notes



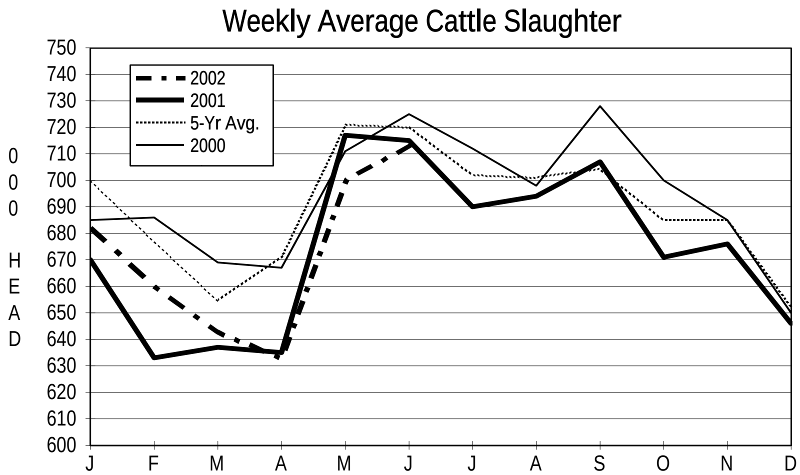
USDA Estimated 7-State Carryover
1500
1375
1250
1125
1000
875
750
625
000 HEAD
2001
2000
5-Yr Avg
J F M A M J J A S O N D
Source: USDA
MONTHS



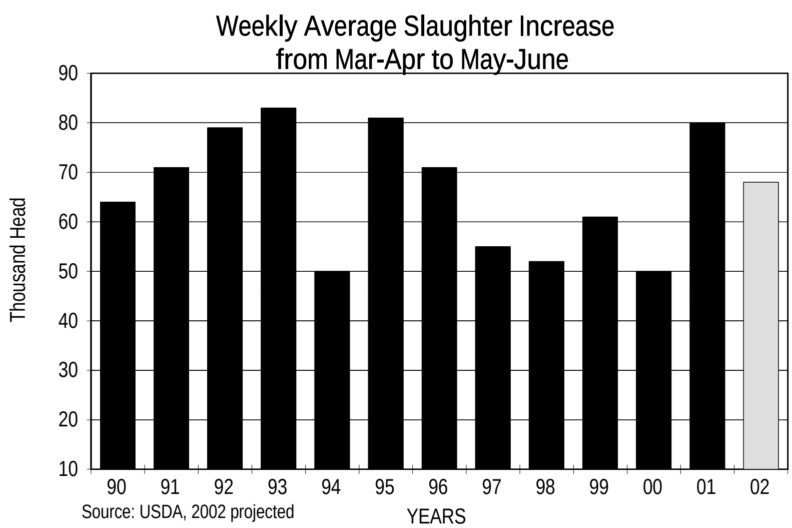
Month-Ending Adjusted Carryover
550
525
500
475
450
425
400
375
350
325
300
275
250
225
000 HEAD
2002
2001
2000
5-Yr Avg.
J F M A M J J A S O N D
Source: Cattle-Fax
Nov-Dec 2001, 2002 projected
MONTHS



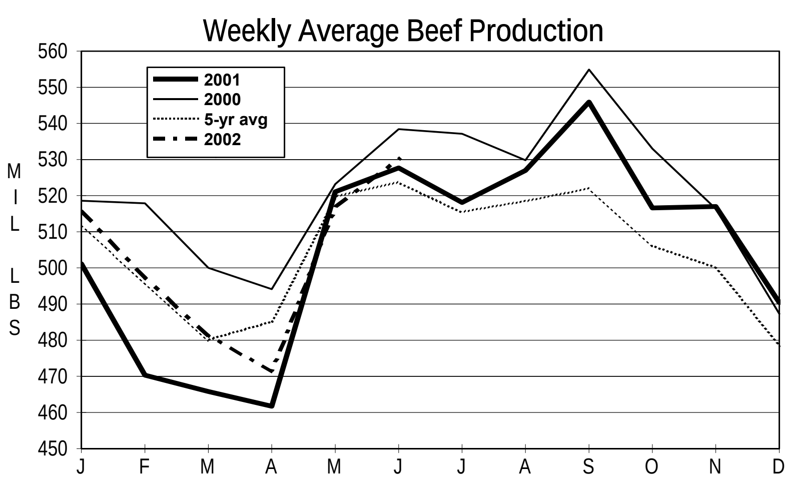
Steer Carcass Weights
830
820
810
800
790
780
770
760
750
POUNDS
2001
2000
5-Yr avg.
J F M A M J J A S O N D
Source: USDA
WEEKS



Source: USDA
Oct-Dec 2001, 2002 projected



Source: USDA, 2002 projected



Source: USDA
Oct-Dec 2001, 2002 projected

Notes

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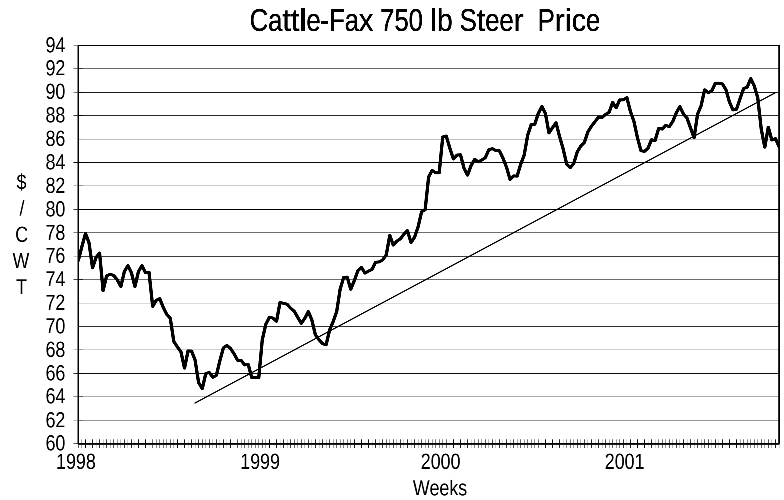
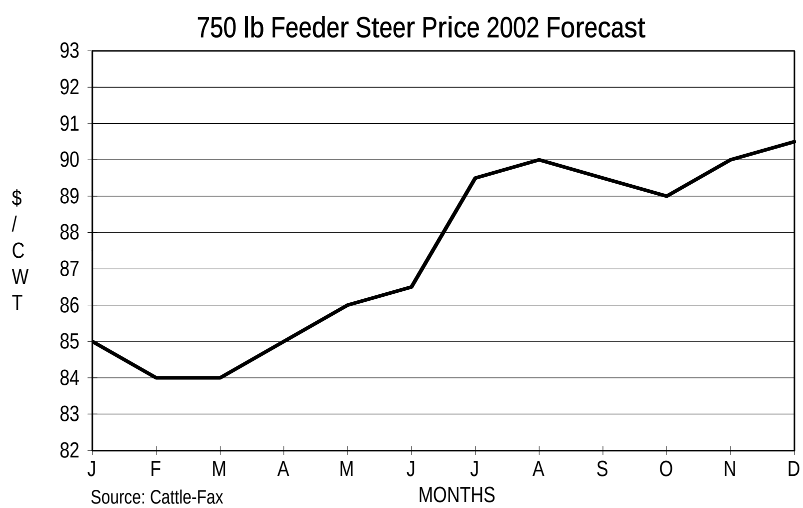
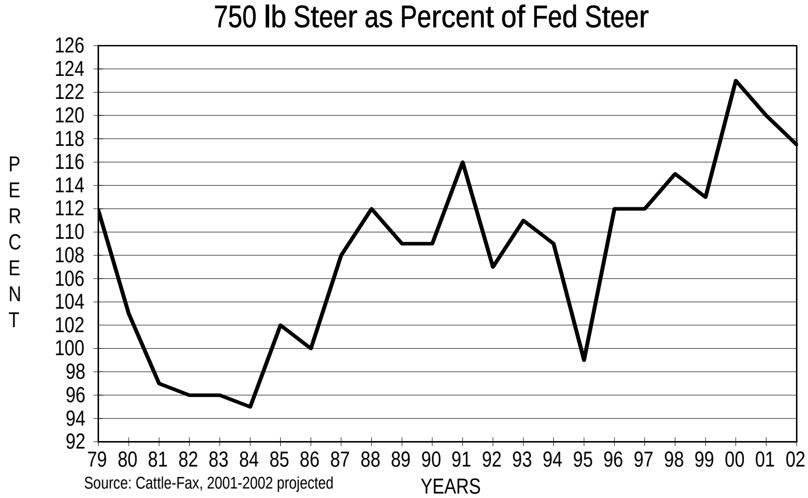
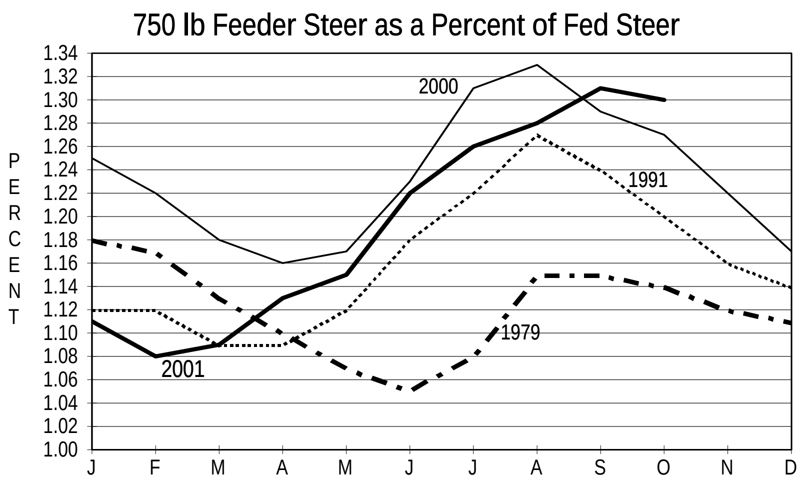

Cattle-Fax 750 lb Steer Price
94
92
90
88
86
84
82
80
78
76
74
72
70
68
66
64
62
60
$ / CWT
1998
1999
2000
2001
Weeks


Seasonal 750 lb Steer Price
105
104
103
102
101
100
99
98
97
96
95
INDEX
1980-2000
J F M A M J J A S O N D
Source: Cattle-Fax
WEEKS

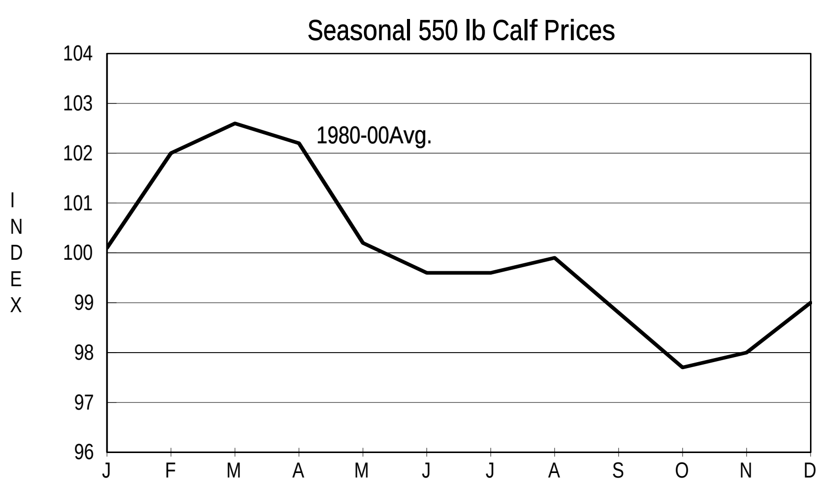

750 lb Feeder Steer Price 2002 Forecast
93
92
91
90
89
88
87
86
85
84
83
82
$ / CWT
J F M A M J J A S O N D
Source: Cattle-Fax
MONTHS



Source: Cattle-Fax, 2001-2002 projected



Source: Cattle-Fax



Source: Cattle-Fax

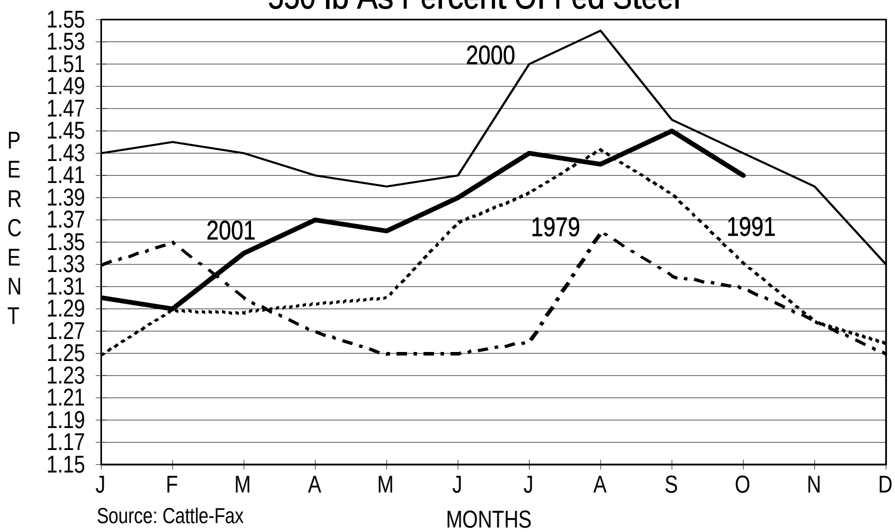
Notes

Notes

550 lb Steer Calf as Percent of Fed Steer

Source: Cattle-Fax, 2001 projected

550 lb As Percent Of Fed Steer



Source: Cattle-Fax

Breakeven Purchase Price
550 lb Steer

Fed Price	Corn Price $/bu 2.00	2.20	2.40	2.60	2.80	3.00	3.20	3.40	3.60	3.80	4.00	4.20	4.40
54.00	62.02	59.00	55.98	52.96	49.94	46.92	43.90	40.88	37.86	34.84	31.82	28.80	25.78
56.00	65.77	62.75	59.73	56.71	53.69	50.67	47.65	44.63	41.61	38.59	35.57	32.55	29.53
58.00	69.52	66.50	63.48	60.46	57.44	54.42	51.40	48.38	45.36	42.34	39.32	36.30	33.28
60.00	73.27	70.25	67.23	64.21	61.19	58.17	55.15	52.13	49.11	46.09	43.07	40.05	37.03
62.00	77.02	74.00	70.98	67.96	64.94	61.92	58.90	55.88	52.86	49.84	46.82	43.80	40.78
64.00	80.77	77.75	74.73	71.71	68.69	65.67	62.65	59.63	56.61	53.59	50.57	47.55	44.53
66.00	84.52	81.50	78.48	75.46	72.44	69.42	66.40	63.38	60.36	57.34	54.32	51.30	48.28
68.00	88.27	85.25	82.23	79.21	76.19	73.17	70.15	67.13	64.11	61.09	58.07	55.05	52.03
70.00	92.02	89.00	85.98	82.96	79.94	76.92	73.90	70.88	67.86	64.84	61.82	58.80	55.78
72.00	95.77	92.75	89.73	86.71	83.69	80.67	77.65	74.63	71.61	68.59	65.57	62.55	59.53
74.00	99.52	96.50	93.48	90.46	87.44	84.42	81.40	78.38	75.36	72.34	69.32	66.30	63.28
76.00	103.27	100.25	97.23	94.21	91.19	88.17	85.15	82.13	79.11	76.09	73.07	70.05	67.03
78.00	107.02	104.00	100.98	97.96	94.94	91.92	88.90	85.88	82.86	79.84	76.82	73.80	70.78
80.00	110.77	107.75	104.73	101.71	98.69	95.67	92.65	89.63	86.61	83.59	80.57	77.55	74.53

Breakeven Purchase Price
750 lb Steer

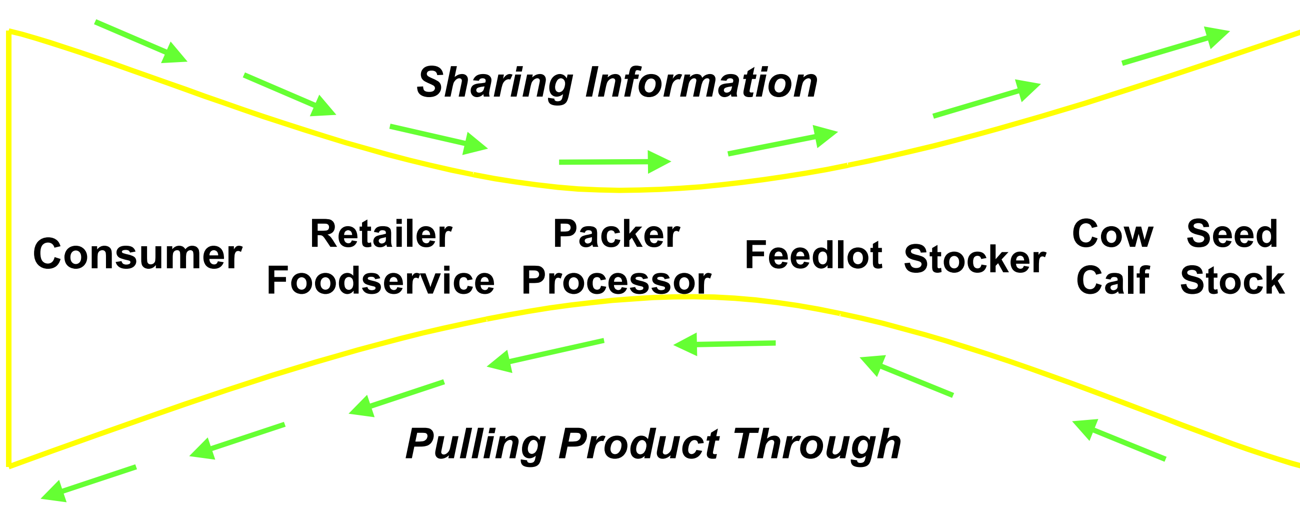
Fed Price	Corn Price $/bu 2.00	2.20	2.40	2.60	2.80	3.00	3.20	3.40	3.60	3.80	4.00	4.20	4.40
54.00	57.48	55.83	54.18	52.53	50.88	49.23	47.58	45.93	44.28	42.63	40.98	39.33	37.68
56.00	60.43	58.78	57.13	55.48	53.83	52.18	50.53	48.88	47.23	45.58	43.93	42.28	40.63
58.00	63.38	61.73	60.08	58.43	56.78	55.13	53.48	51.83	50.18	48.53	46.88	45.23	43.58
60.00	66.33	64.68	63.03	61.38	59.73	58.08	56.43	54.78	53.13	51.48	49.83	48.18	46.53
62.00	69.28	67.63	65.98	64.33	62.68	61.03	59.38	57.73	56.08	54.43	52.78	51.13	49.48
64.00	72.23	70.58	68.93	67.28	65.63	63.98	62.33	60.68	59.03	57.38	55.73	54.08	52.43
66.00	75.18	73.53	71.88	70.23	68.58	66.93	65.28	63.63	61.98	60.33	58.68	57.03	55.38
68.00	78.13	76.48	74.83	73.18	71.53	69.88	68.23	66.58	64.93	63.28	61.63	59.98	58.33
70.00	81.08	79.43	77.78	76.13	74.48	72.83	71.18	69.53	67.88	66.23	64.58	62.93	61.28
72.00	84.03	82.38	80.73	79.08	77.43	75.78	74.13	72.48	70.83	69.18	67.53	65.88	64.23
74.00	86.98	85.33	83.68	82.03	80.38	78.73	77.08	75.43	73.78	72.13	70.48	68.83	67.18
76.00	89.93	88.28	86.63	84.98	83.33	81.68	80.03	78.38	76.73	75.08	73.43	71.78	70.13
78.00	92.88	91.23	89.58	87.93	86.28	84.63	82.98	81.33	79.68	78.03	76.38	74.73	73.08
80.00	95.83	94.18	92.53	90.88	89.23	87.58	85.93	84.28	82.63	80.98	79.33	77.68	76.03

Structural Changes
&
Points to Consider

Profile of Livestock & Producer Operations

	Total # of Producers/ Operators	# of LG Producers	LG Producers as % of Total	% of Production from LG Producers
Broilers Top 20				85%
Hogs >2000 hd	98,460	7,125	7%	69%
Dairy >200 cows	105,250	8,005	8%	48%
Beef Cattle				
Feedlots >1000 hd	104,471	2,071	2%	85%
Cow/Calf >200 cows	804,000	28,000	3.5%	33%
>100 cows		72,891	9%	51%

Beef Industry Structure:
The Way it is Evolving



Retailer Consolidation

- Smaller number of national & international heavy-weights
- Most efficient to work with a limited number of suppliers

Retailer Consolidation-Supermarkets

➢ Top Twenty Control	73% - food sales
➢ Top Ten Control	59% - food sales
➢ Top Five Control	41% - food sales

Retailers Are Shifting The Responsibility to the Supplier For:

- Food safety
- Inventory Management

What does this mean for you?

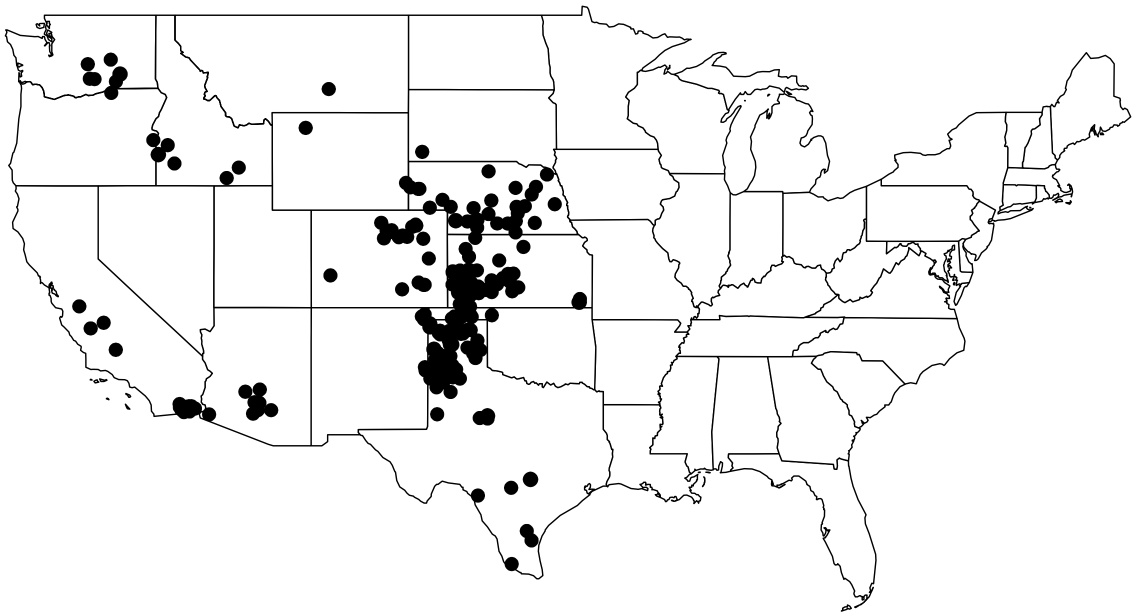
Top 5-7 Retailers may control 70-75 percent of food sales in

FIVE YEARS

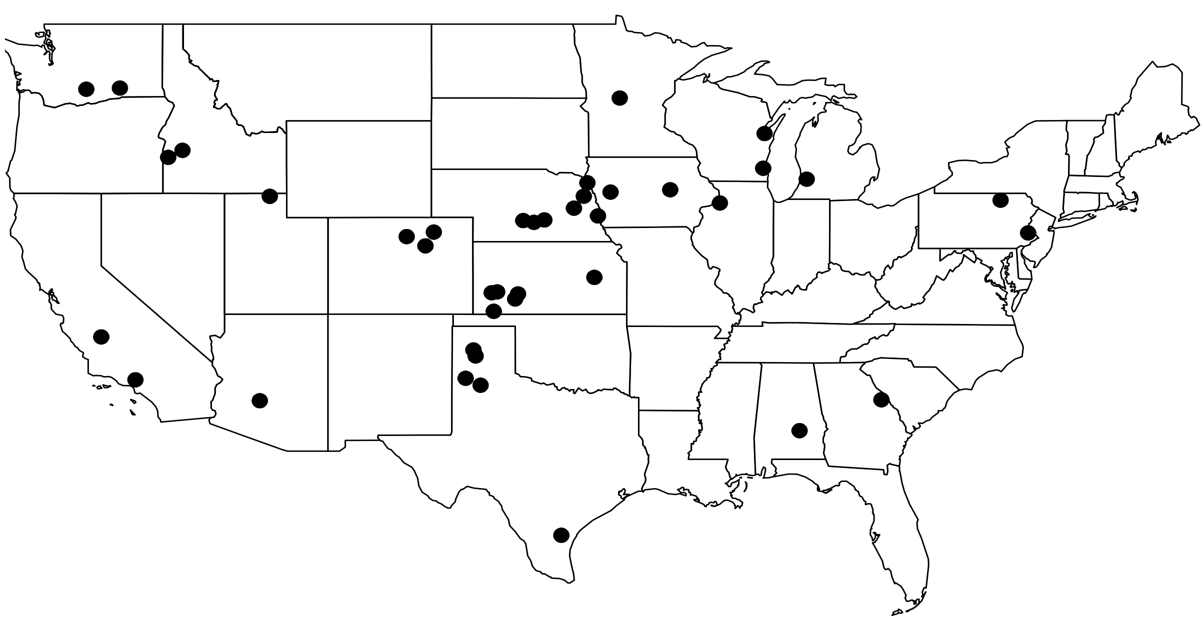
What are the Implications

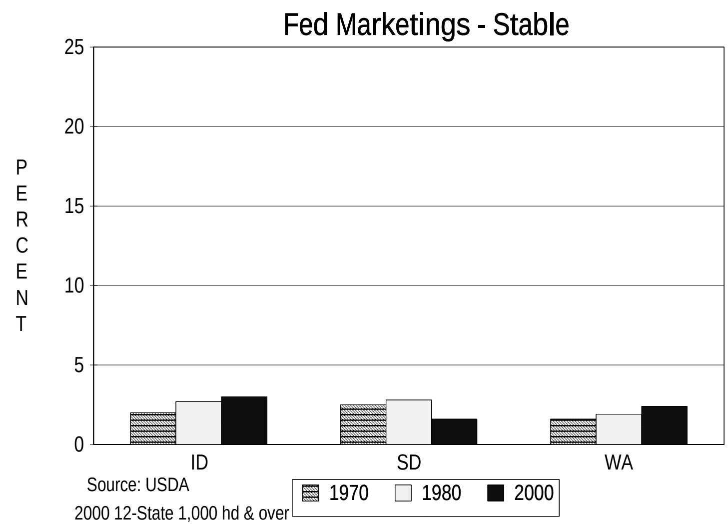
- ✓ Single source suppliers
- ✓ Just in time supply management
- ✓ Inventory management
- ✓ Consistency, Quality, Quantity

United States
Feedyards > 16,000 Head*
January 1, 2001

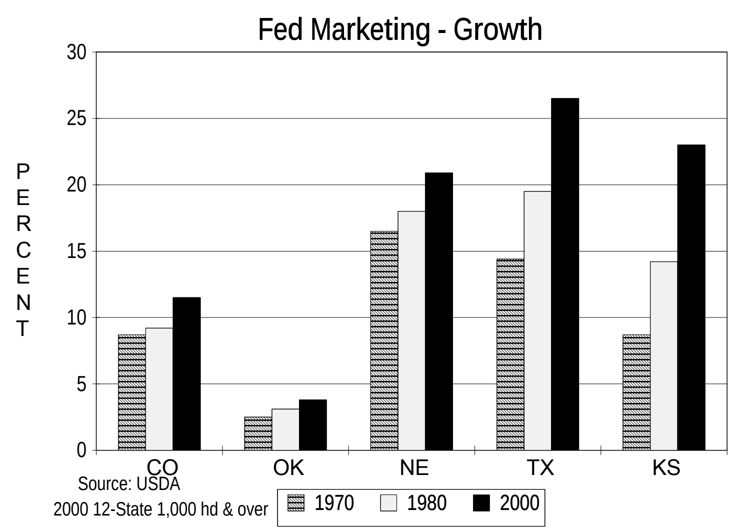


United States
Packers > 1,000 Head*
January 1, 2001

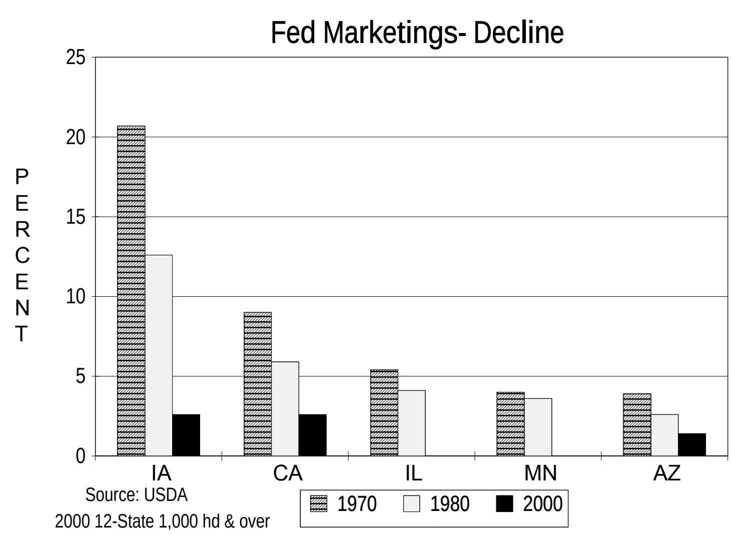




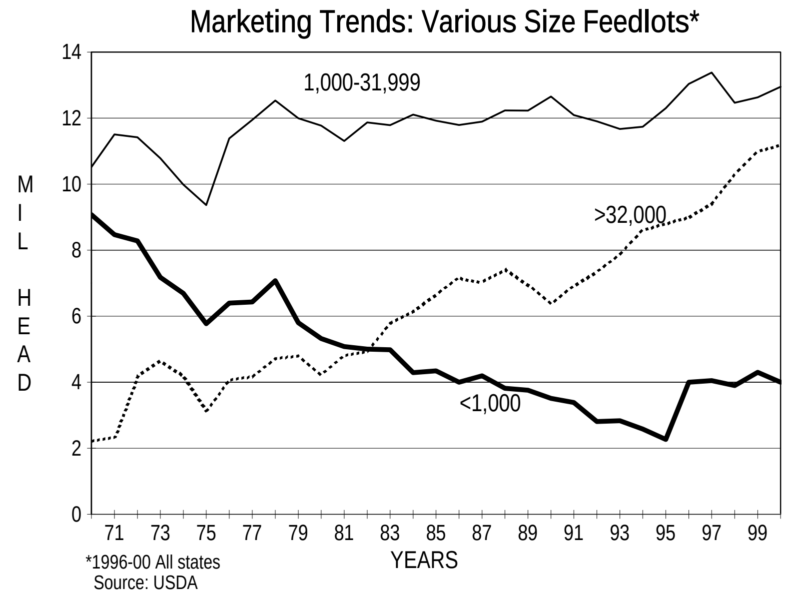
Fed Marketings - Stable
PERCENT
25
20
15
10
5
0
ID
SD
WA
Source: USDA
2000 12-State 1,000 hd & over
1970
1980
2000



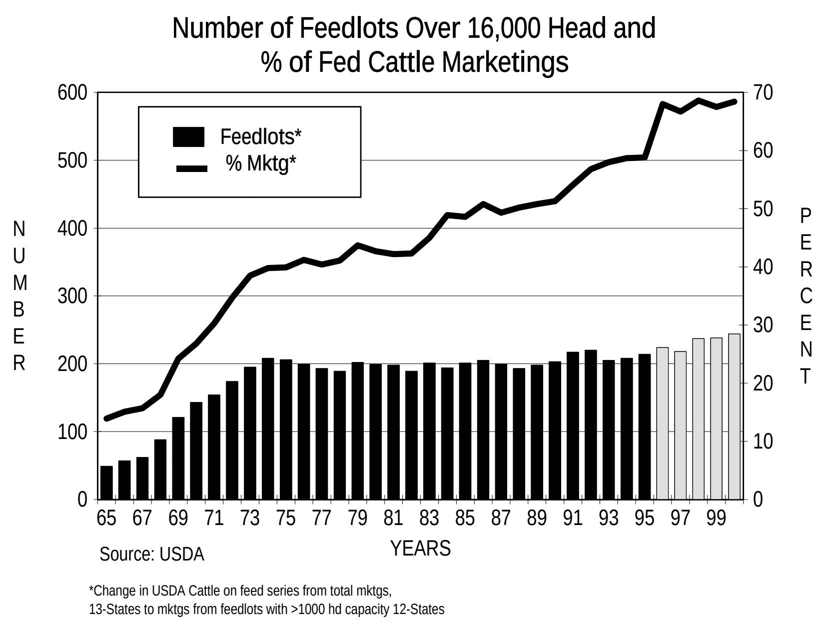
Fed Marketing - Growth
PERCENT
30
25
20
15
10
5
0
CO
OK
NE
TX
KS
Source: USDA
2000 12-State 1,000 hd & over
1970
1980
2000



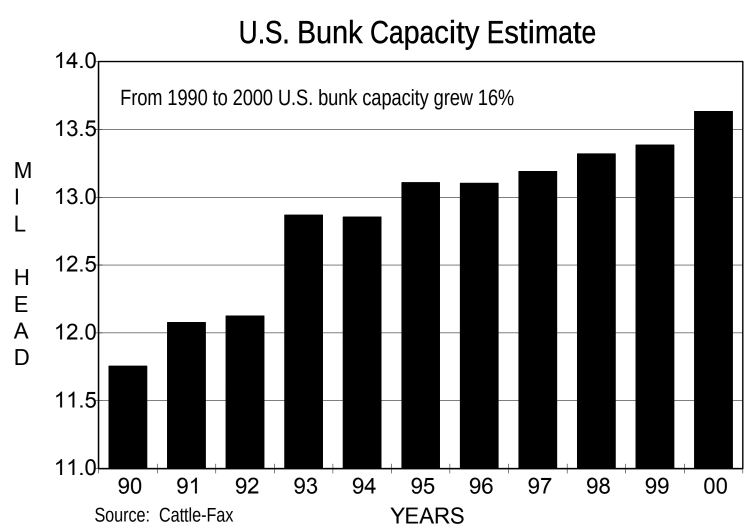
Fed Marketings- Decline
PERCENT
25
20
15
10
5
0
IA
CA
IL
MN
AZ
Source: USDA
2000 12-State 1,000 hd & over
1970
1980
2000



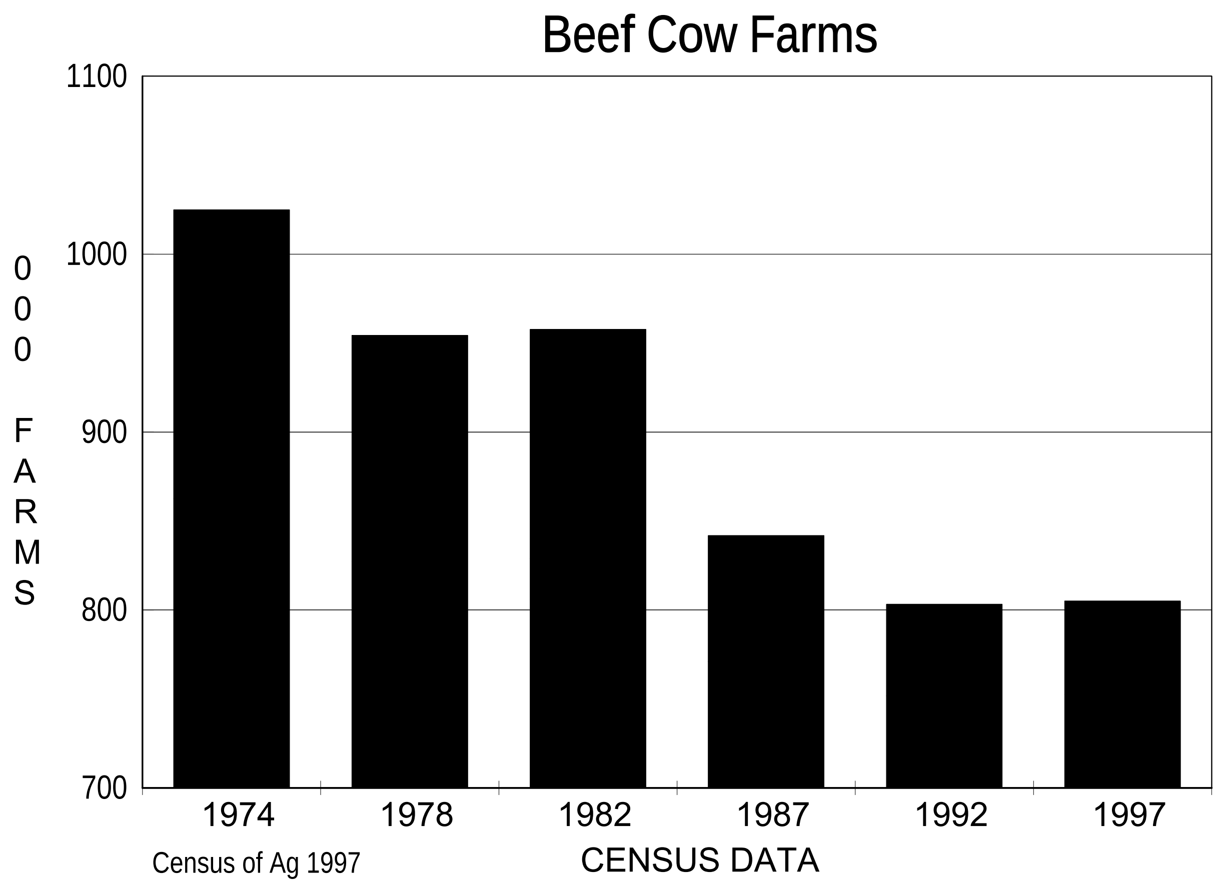
Marketing Trends: Various Size Feedlots*
1,000-31,999
>32,000
<1,000
MIL HEAD
YEARS
*1996-00 All states
Source: USDA



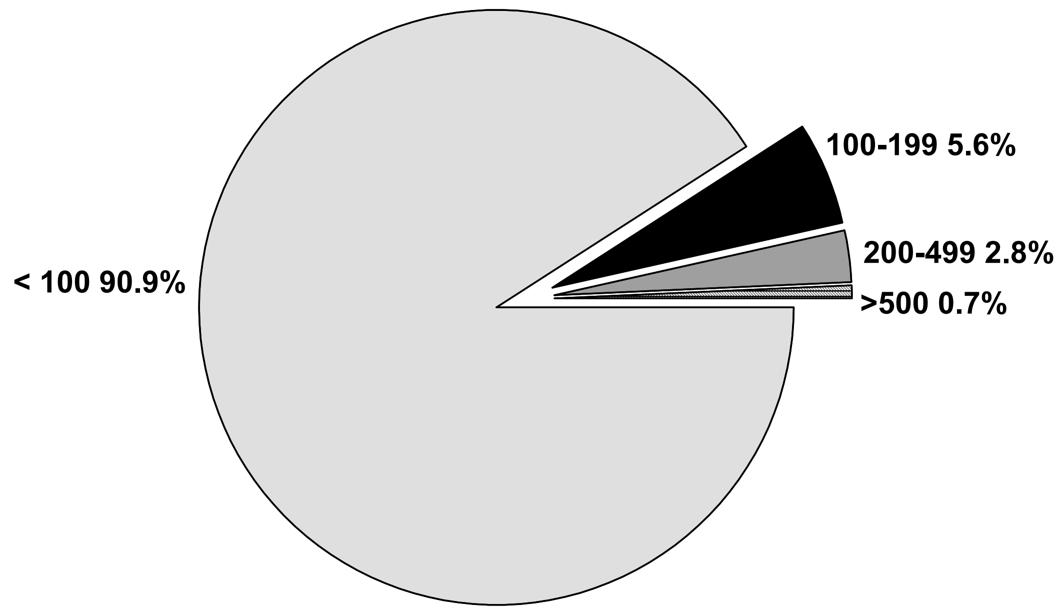
Number of Feedlots Over 16,000 Head and
% of Fed Cattle Marketings
Feedlots*
% Mktg*
NUMBER
PERCENT
YEARS
Source: USDA
*Change in USDA Cattle on feed series from total mktgs,
13-States to mktgs from feedlots with >1000 hd capacity 12-States



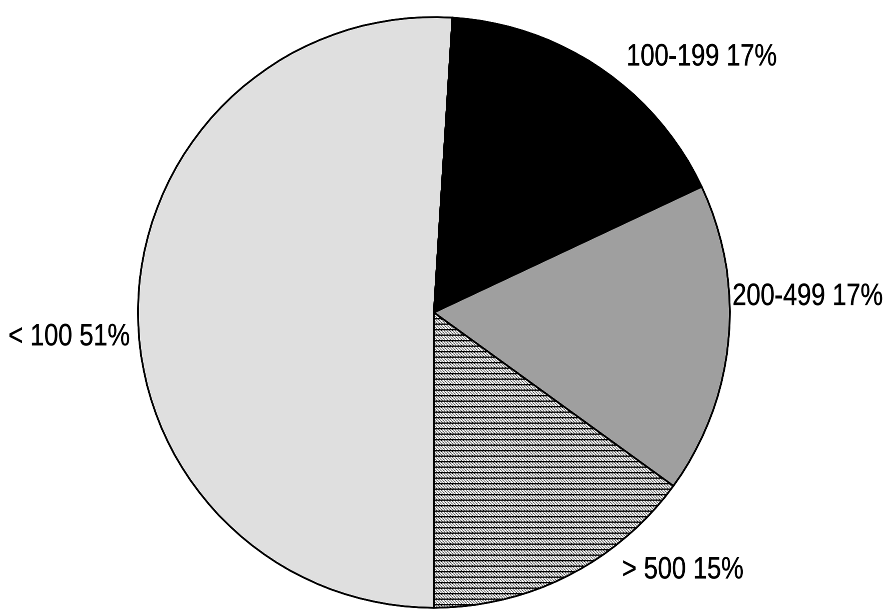
U.S. Bunk Capacity Estimate
From 1990 to 2000 U.S. bunk capacity grew 16%
MIL HEAD
YEARS
Source: Cattle-Fax


Beef Cow Farms
1100
1000
900
800
700
000 FARMS
1974
1978
1982
1987
1992
1997
Census of Ag 1997
CENSUS DATA

Percent of Beef Cow Operations in Various Size Groups - 1997 Census of Ag

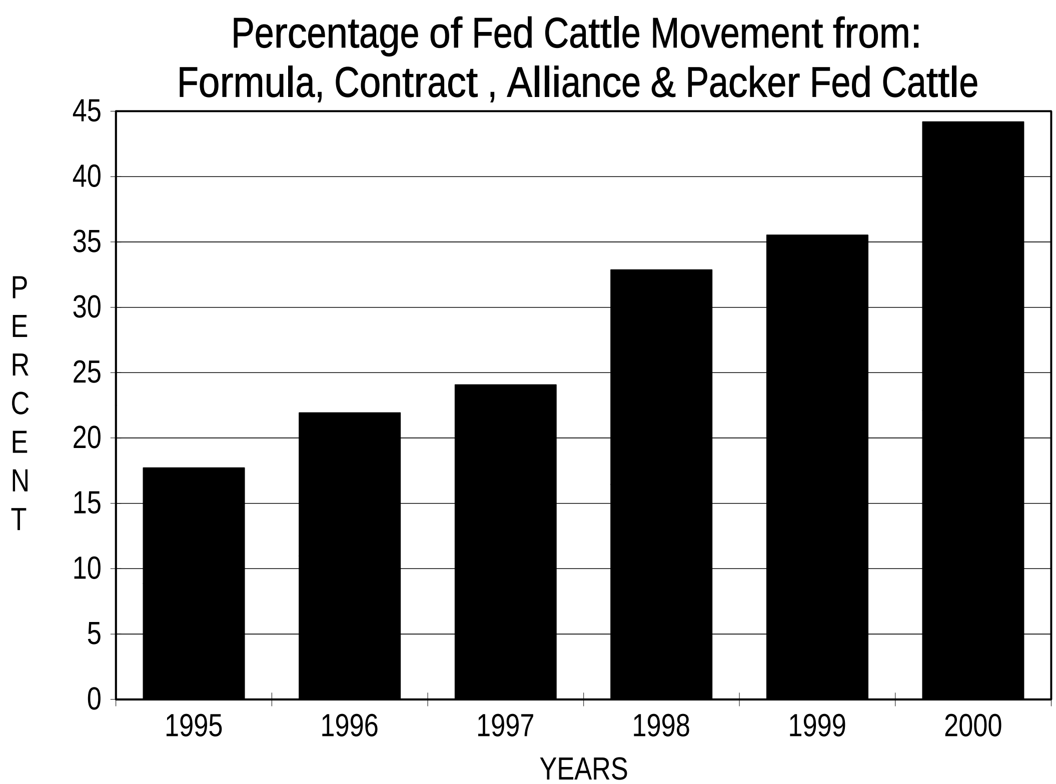


Percent of Beef Cows Accounted for by Various Size Operations - 1997 Census of Ag

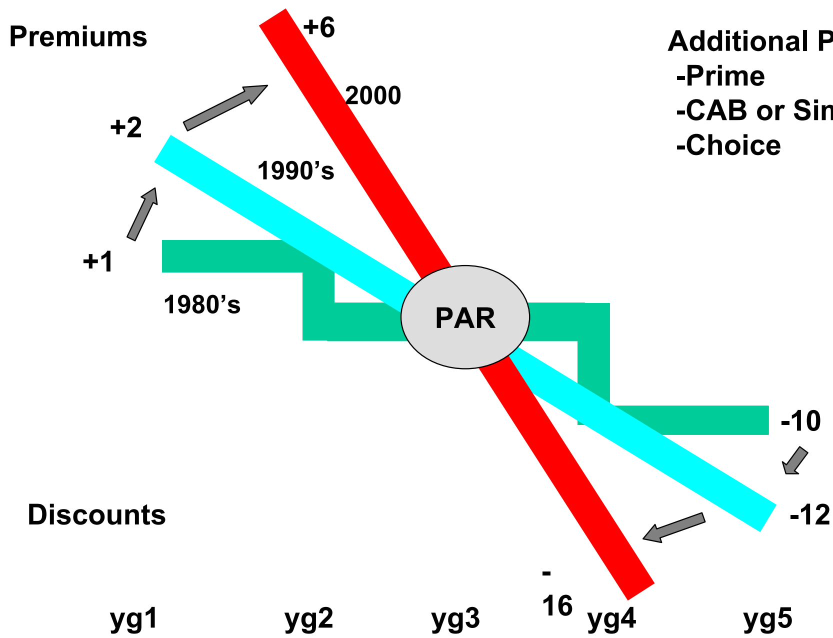


Top 25 Feeding Companies Feed 38% of the Cattle Now!

By 2005 45-50%

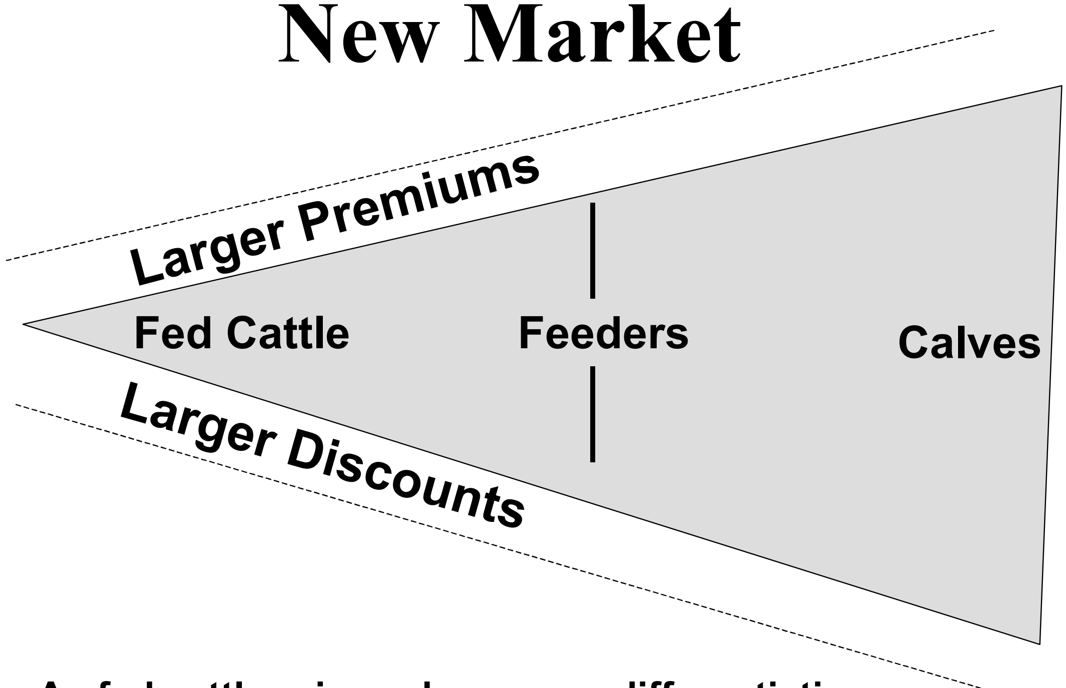


Value Discovery Changing



Additional Premiums for:
-Prime
-CAB or Similar Specs
-Choice

New Market



As fed cattle prices show more differentiation so will feeder and calf prices

The Target

	Yield Grade 1	Yield Grade 2	Yield Grade	Yield Grade 4	Yield Grade 5
Prime	$16.20	$13.70	$12.20	$(4.80)	$(9.20)
CAB	$11.20	$8.70	$7.20		
Choice	$7.20	$4.70	$3.20	$(11.80)	$(16.20)
Select	$(0.80)	$(3.30)	$(4.80)	$(19.80)	$(24.20)
Standard	$(11.00)	$(13.50)	$(15.00)	$(30.00)	$(35.00)

550 ← Carcass Weight Range → 950

*Ch/Sel Spread
*60% Choice

The Target

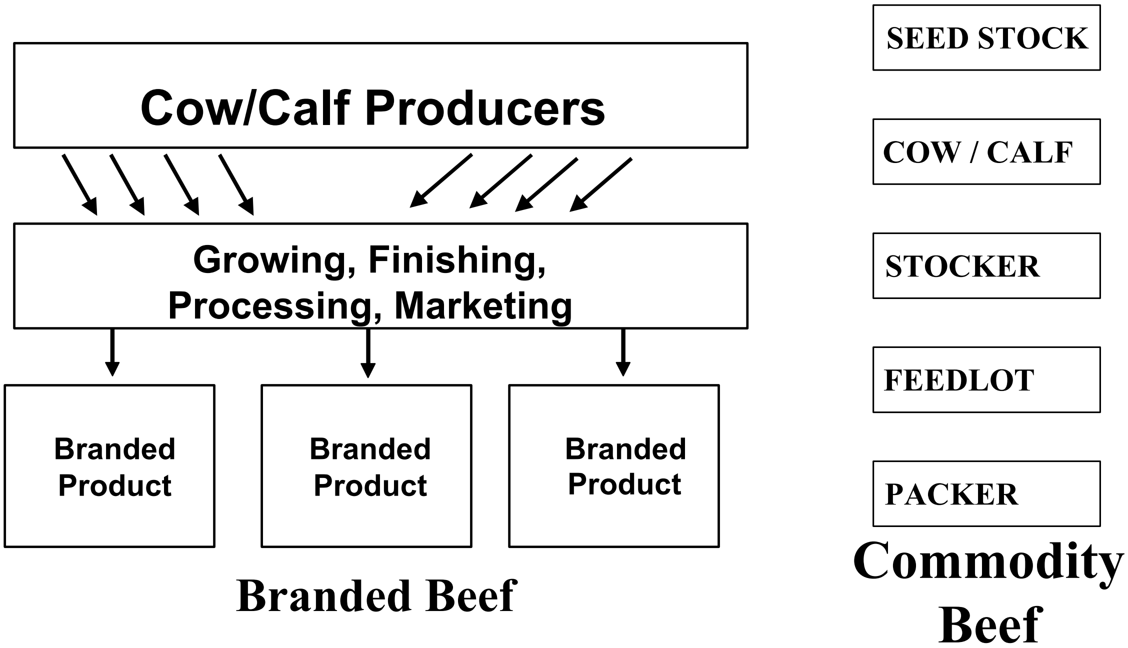
	Yield Grade 1	Yield Grade 2	Yield Grade 3	Yield Grade 4	Yield Grade 5
Prime	$122.00	$103.00	$92.00	$(21.00)	$(59.00)
CAB	$84.00	$65.00	$54.00	$(59.00)	(96.00)
Choice	$54.00	$35.00	$24.00	$(89.00	$(126.00)
Select	$(6.00)	$(25.00)	$(36.00)	$(149.00)	$(186.00)
Standard	$(83.00)	$(101.00)	$(113.00)	$(125.00)	$(263.00)

550 ← Carcass Weight Range → 950

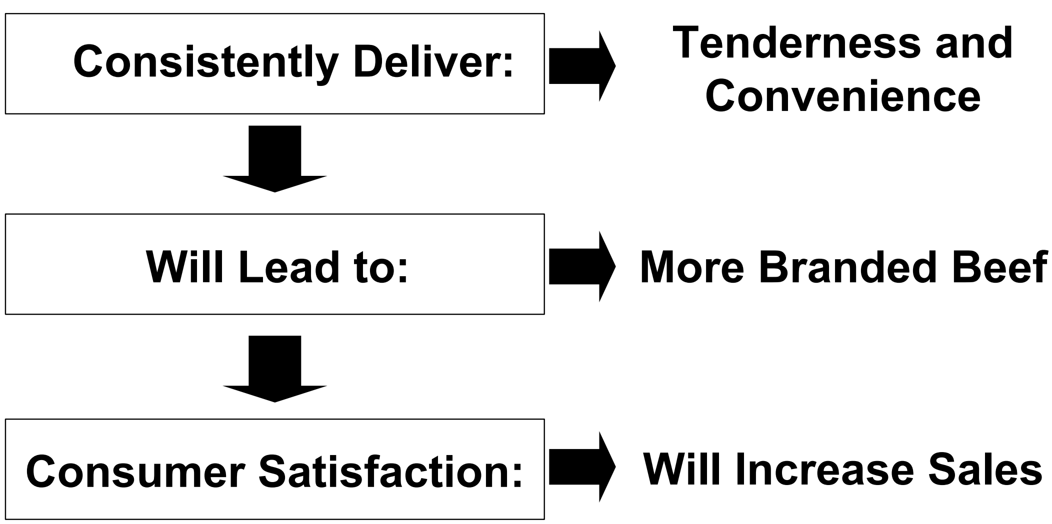
*Ch/Sel Spread
*60% Choice

Several Commodity Industries Have Been Led by Strong Brands

Where do You Fit ?



Opportunity



Beef Business Facts:

1. The beef industry is changing rapidly

2. Competition will be tougher and margins will narrow

3. Risk is increasing

4. Approaches to marketing are changing

5. An increased percentage of beef will be sold under a brand name

6. Environmental and food safety issues will increase

7. General observations