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OPPORTUNITIES TO RECAPTURE DEMAND FOR BEEF

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Since 1976, the total supply of red meat and poultry has increased 63%. However, all of the gains since 1976 have been the domain of the competing meats. During 1998, beef production approximated the record production of 1976. This was accomplished with approximately 28 million fewer cattle (100M) than in 1976 (128M). The entire reduction in cattle inventories is offset by an increase in average annual carcass weight. During the period 1990-1998, beef production increased 3.1 billion pounds, pork increased 3.7 billion pounds, chicken increased 9.0 billion pounds and turkey increased 660 million pounds. In total during the 1990-1998 period, the red meat and poultry supply increased 16.5 billion pounds. The competing meats comprised 13.4 billion pounds or 81% of the total increase in meat supplies. Thus, the market share for beef continued to decline and the price level and production of competing meats increasingly influenced the level of beef prices and the profitability of the beef industry.

During the period from 1975-1980, the last of the golden years for beef demand, beef captured approximately 50% of new spending on red meat and poultry. During the 1980-1998 period, beef captured only 10% of the new spending on red meat and poultry. The competing meats, namely poultry, captured the remaining 90%. It is this new consumer spending that financed the growth of the poultry sector, just as the consumer financed the aggressive growth of the beef industry prior to 1980.

Accompanying the advance in beef prices to record highs relative to pork and poultry during 1979 and 1980, increased health concerns regarding beef consumption and fat intake permeated the news. These factors combined with a slowing economy to undermine beef demand. *Beef demand remained in a precipitous decline during the 1980-1998 period. This period witnessed a decline in per capita beef consumption while beef prices in real dollars (inflation adjusted) also declined. This represents the worst case demand scenario for any product.* In sharp contrast, per capita poultry consumption increased while spending in real dollars (adjusted for inflation) initially declined and even increased in recent years. While the beef industry continued to produce a commodity product, the consumer increasingly moved to more healthy, convenient and consistent products. The biological time frame differences and integration in the poultry and pork industry allowed those sectors to respond more quickly to changing consumer preferences, thus capturing an increasing flow of new consumer dollars. The erosion in beef demand is not the same for all beef items. Middle meats (loin and rib) posted new all time highs this year while the chuck, round and trim remained sharply below their previous highs. The rib and loin represent approximately 25% of the carcass while the chuck, round and trim comprise 56% of the carcass by weight. The beef product demand pattern this year is similar to beef product demand that evolved during the years of declining beef demand.

Since the second quarter of 1999, increased consumer spending for beef has supported beef prices above the previous supply-price trend, indicating an upward shift in beef demand.

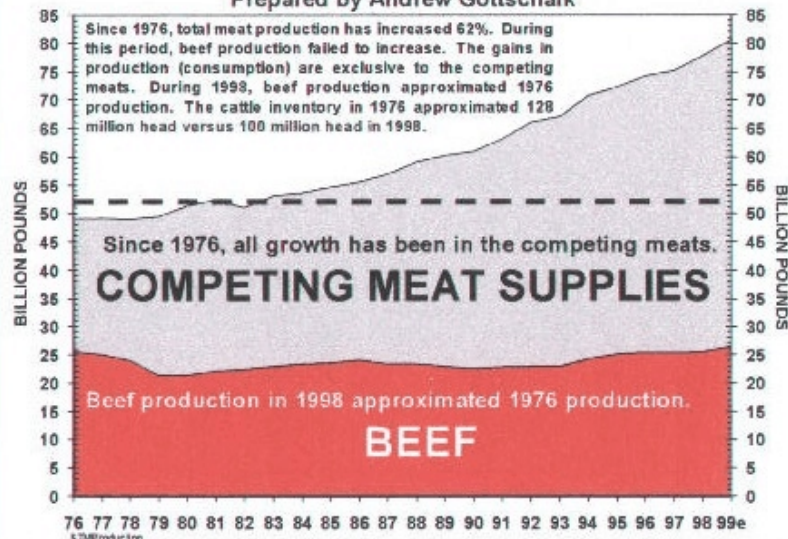
These gains continued throughout the third quarter. The impact can be expressed this way: During September, beef production increased 3.6% above the previous year while fed cattle prices during September averaged \$8.00/cwt or 14% above year earlier levels. What has changed? *The principal factors contributing to this renewed demand for beef and all meats are a full employment domestic economy and rising wages at all income levels. Wages at the lower income level are rising faster than average wages for the first time since 1969. The largest working group numerically in the work force is experiencing rising wages.* Each dollar increase in per capita spending on beef adds \$270 million to the beef industry. Increased beef exports and the millennium hype certainly have aided and influenced beef demand this year. While it is prophetic to claim that new product offerings of beef are the cause of this demand surge, the facts suggest otherwise. This is not meant to underscore the long term positive impact of new and better product offerings that offer greater value to the modern day consumer. When examining consumer spending this year, all meats showed dramatic gains, not just beef. Pork posted the largest consumer spending gains through the third quarter of 1999. *Spending on all meats has grown dramatically this year, and that implies the cause of the spending gains is much broader than is explained solely by exports, millennium hype or new product offerings.* The broad based spending gains occurring in the meat complex this year are very bullish and are unique, but not without precedent, in our history.

The challenge for the beef industry is to permanently capture this increased share of new consumer spending on red meat and poultry. New product development (especially adding value to the chuck and round) that increases the overall value of beef, would result in increased consumer demand and is essential to achieving this goal. During this process, costs must also be reduced. *Value is a multi-function that is determined by price and quality.* Value can and does represent different things to different consumers.

Vertical coordination and cooperation among beef industry segments will accelerate. Beef alliances will continue to evolve. They are not the cause of the lower prices experienced in recent years. Rather, they are a vital link necessary to permanently restore beef demand and allow this industry to effectively challenge the competition. The average pricing system is rapidly being replaced by a value-based system. *Lean meat yield will become the dominant value determinant.* This change is long overdue. The current average pricing system only encourages the surplus production of below average product. Producers of above average product subsidize the producer of below average product. A growing market allows for increased market differentiation or segmentation allowing more participation and choice for producers. Change is inevitable; choice is optional.

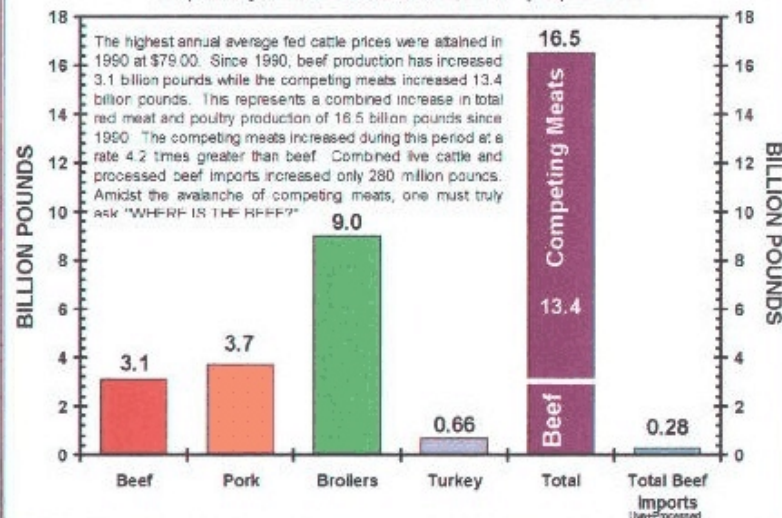
TREND: Total Meat Production

Prepared by Andrew Gottschalk



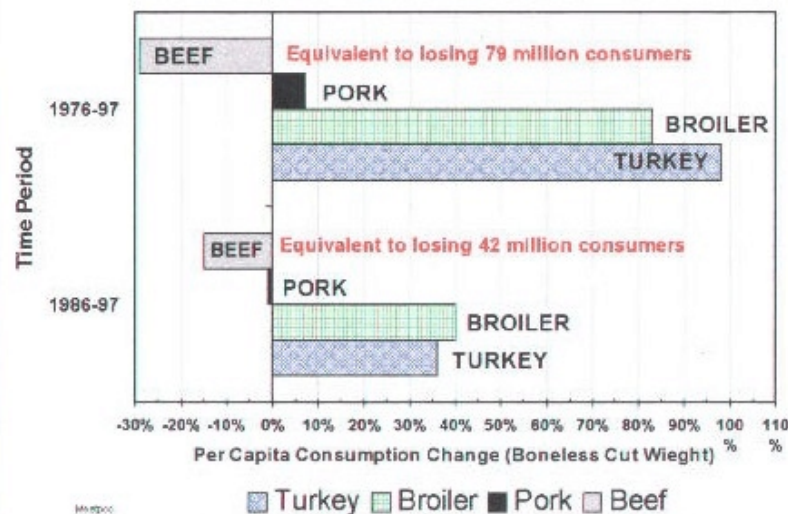
Meat Production Changes: 1998e vs 1990

Prepared by Andrew Gottschalk LFG, L.L.C. (800) 756-0063



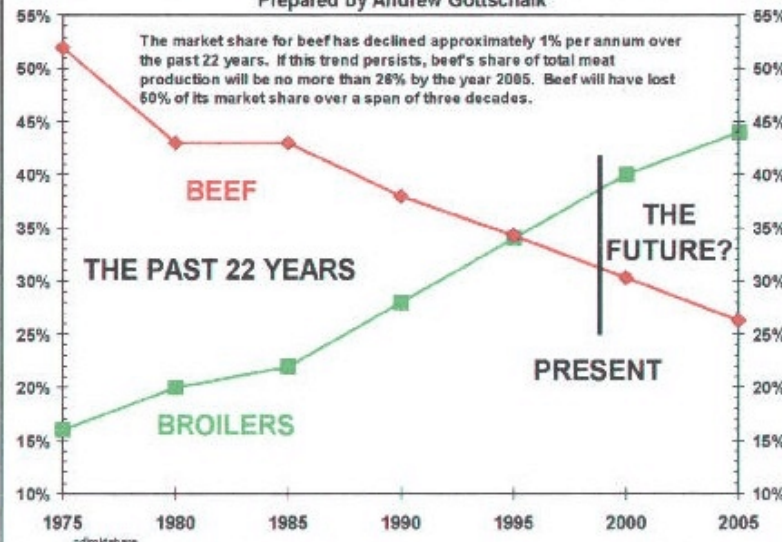
Per Capita Consumption: Decades of Change

Prepared by Andrew Gottschalk

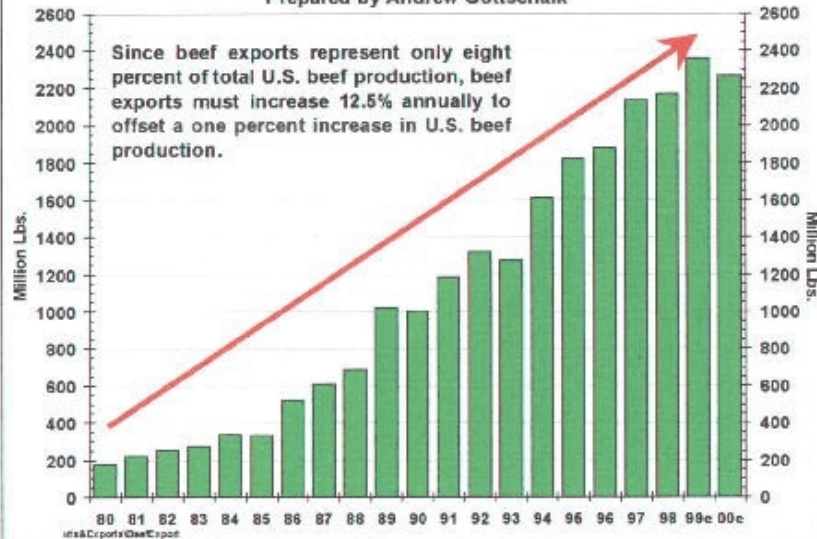


Trend: Share of Total Meat Production

Prepared by Andrew Gottschalk

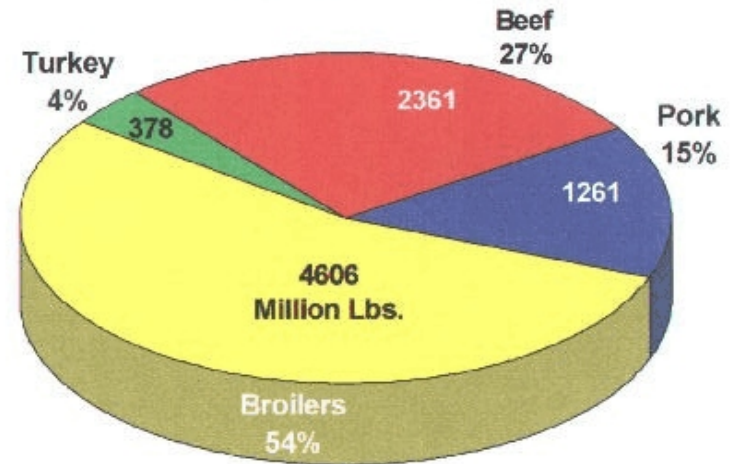


Beef Export Trend
Prepared by Andrew Gottschalk



Meat Exports: Market Share 1999e

Prepared by Andrew Gottschalk



Distribution: 1999 Beef Production

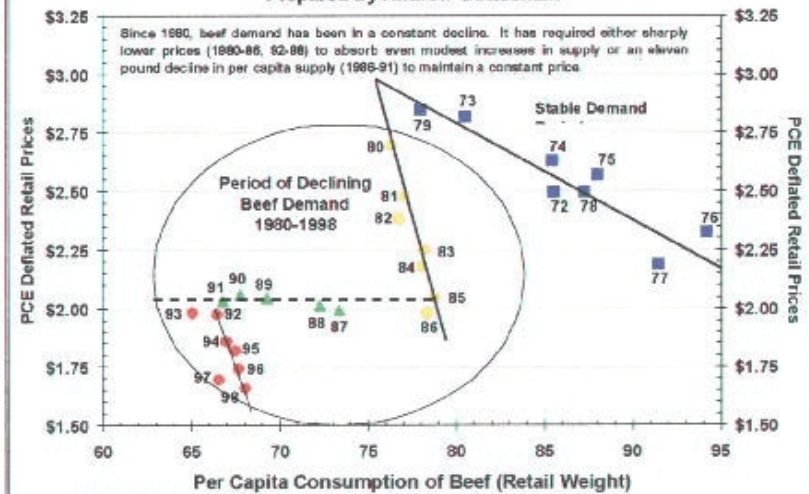
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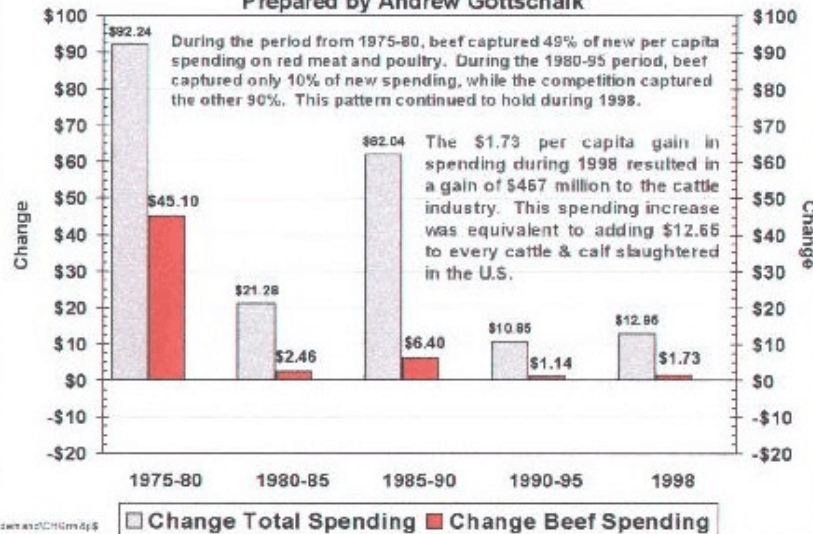
Beef Demand: 1972 - Present

Beef Consumption vs Retail Prices

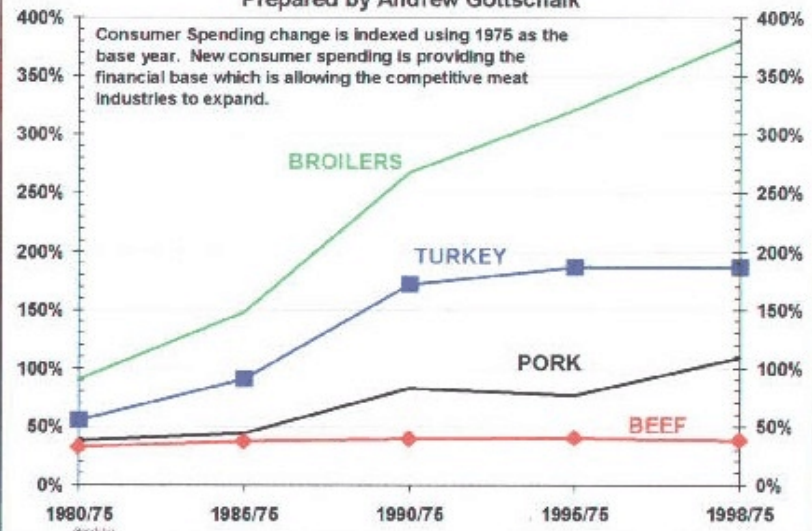
Prepared by Andrew Gottschalk



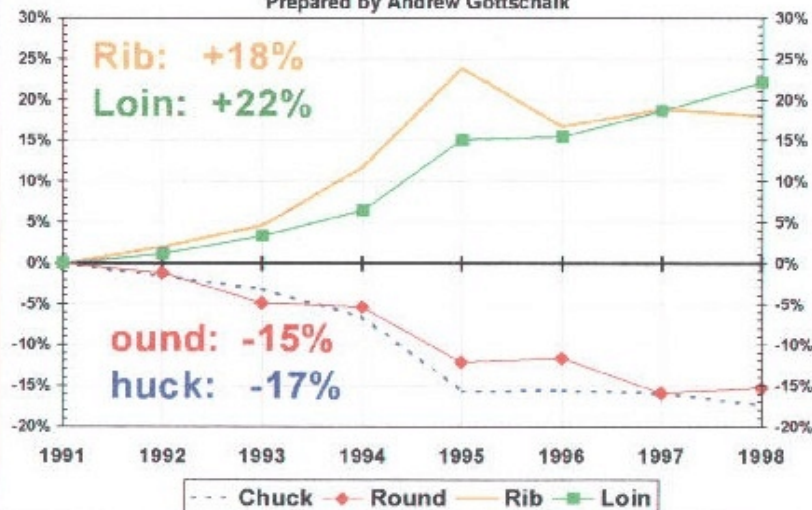
Change: Red Meat & Poultry Expenditures Prepared by Andrew Gottschalk



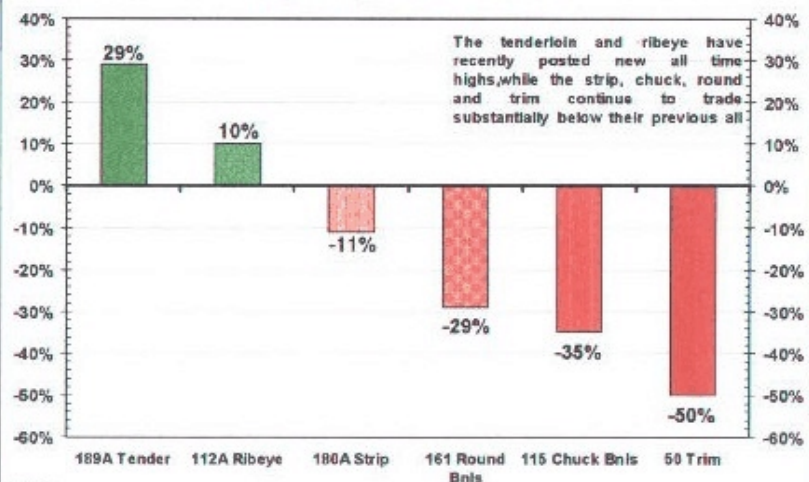
Consumer Expenditures: Red Meat & Poultry Prepared by Andrew Gottschalk

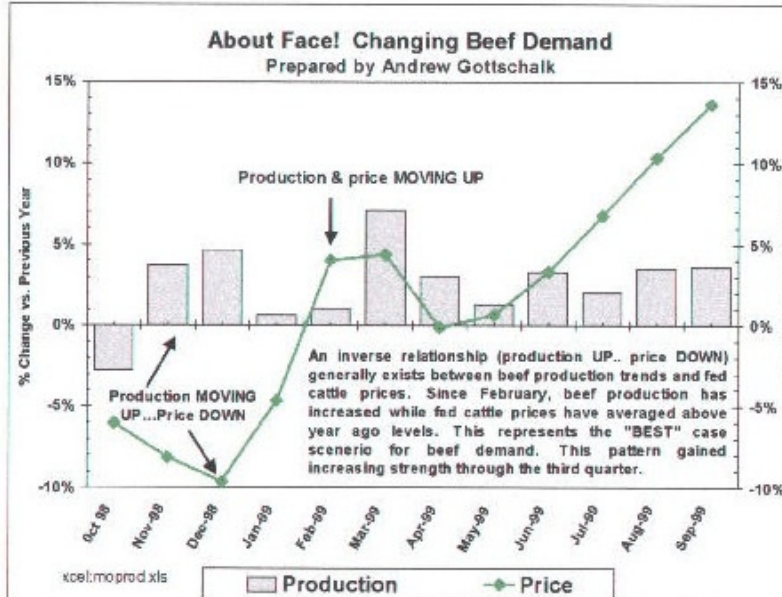


Choice Boxed Beef Primals vs. Cut Out 7/850# % Difference, 1991-98 Prepared by Andrew Gottschalk



ChcTender, Ribeye, Strip, Round, Chuck & Trim: Current Price (Week Ending Oct 9, 1999) vs Previous All-Time High Prepared by Andrew Gottschalk





DURING THE JAN-SEP PERIOD OF 1999, CONSUMER SPENDING ON BEEF INCREASED \$1.87 BILLION VERSUS \$467 MILLION DURING ALL OF 1998. THIRD QUARTER SPENDING THIS YEAR INCREASED \$820 MILLION. MORE IMPORTANTLY, TO DATE BEEF CAPTURED 30% OF NEW SPENDING ON RED MEAT AND POULTRY IN 1999. DURING THE 1980-98 PERIOD BEEF CAPTURED ONLY 10% OF NEW SPENDING ON RED MEAT AND POULTRY.

WHAT FACTORS ARE INFLUENCING BEEF DEMAND?
PREPARED BY ANDREW GOTTSCHALK

1. A FULL EMPLOYMENT DOMESTIC ECONOMY.
2. RISING REAL WAGES AT ALL INCOME LEVELS.
3. WEALTH CREATION VIA APPRECIATION IN HOUSING & STOCK VALUES.
4. PEAKED CONSUMER CONCERNS REGARDING FAT CONSUMPTION THAT IS BEING REPLACED BY A TASTE PREFERENCE.
5. A DECLINE IN NEGATIVE PRESS REGARDING BEEF & MEAT CONSUMPTION.
6. A REVIVAL IN THE PACIFIC RIM ECONOMIES.
7. NEW, HIGH QUALITY & MORE CONVENIENT PRODUCT OFFERINGS.

**FOR EVERY ONE
DOLLAR INCREASE IN
DOMESTIC PER CAPITA
BEEF SPENDING, THE
BEEF INDUSTRY GAINS
\$270 MILLION
DOLLARS.**

**THE BEEF INDUSTRY'S
GREATEST CHALLENGE
IS TO PERMANENTLY
REVERSE THE TREND IN
DECLINING BEEF
DEMAND.**

**VERTICAL
COORDINATION &
COOPERATION MUST
AND WILL EVOLVE FOR
THE BEEF INDUSTRY TO
COMPETE.**

**THEREFORE, THE BEEF
INDUSTRY'S TOP PRIORITIES
MUST BE:**

- LOWERING COSTS**
- IMPROVING QUALITY**
- IMPROVING CONSISTENCY**
- IMPROVING CONVENIENCE**
- ***FOOD SAFETY*****

**THANK YOU FOR YOUR
HOSPITALITY.**



**COOPERATION CAN
BUILD A BETTER BEEF
INDUSTRY.**