



Beef Industry Update

2006 /2007

NMA Summer Meeting

Coeur d' Alene, Idaho

August 18, 2006

John Nalivka



Critical Supply Factors – Beef Industry

- Herd building continues through it's 3rd year. However, the pace has slowed in the face of drought impacts in both the Northern and Southern Plains.
 - Producers responded to drought-reduced forage supplies and culled herds sending large numbers of cattle to feedlots and early culling of the breeding herd - cows.
 - **Beef cow** slaughter through the end of July was 13% higher than a year earlier and represented the largest increase since 2003. Beef cows represented the 56% of total cow slaughter, the highest since 1996.
 - **Dairy cow** slaughter through the end of July was up 1% from a year ago for the same period; also following a sharp decline since early 2005.
 - Given this level of cow slaughter, Sterling revised forecasts for the size of the herd are for an expected 2% increase at the beginning of 2007 rather than the 3% that was forecast on January 1, 2006.



Critical Supply Factors – Beef Industry

- ❑ Based on large feedlot placements, cattle on feed inventories will likely be up 7% from a year earlier on August 1.
 - ❑ If feedlots maintain an active marketing pace during August, there may be “hole” in September and October. While this is largely driven by reduced placement activity in May and lighter placement weights in June and July, behavior in the market often changes the situation.
- ❑ **Weights will remain high.**
 - ❑ Through the end of July, average steer carcass weights at 821 lbs. were 17 lbs above a year ago and record high.
 - ❑ Heifer carcass weights through the end of July were also record high, averaging 756.



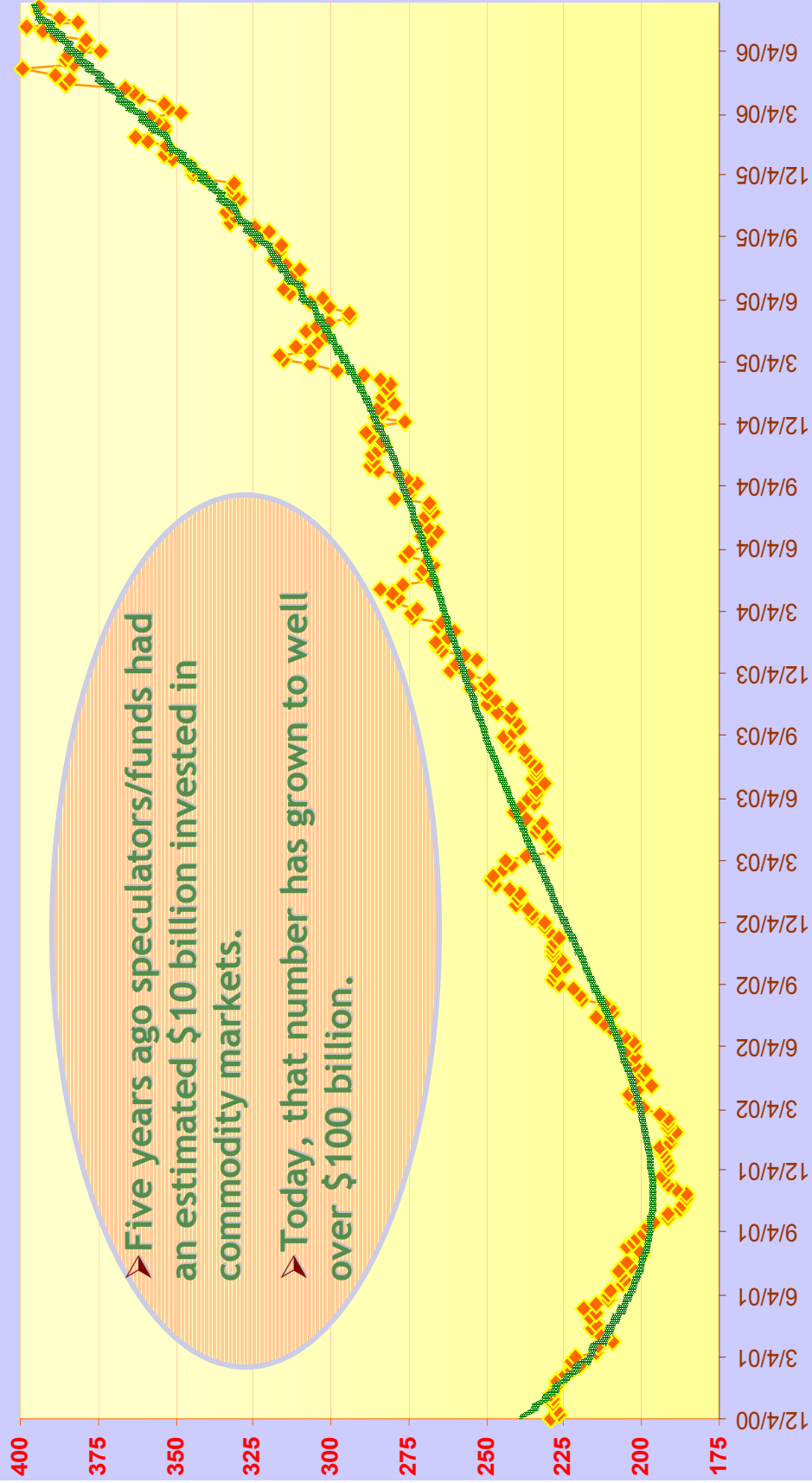
Critical Supply Factors – Beef Industry

- Increased feedlot placement activity in the early third quarter pulls cattle forward that would be placed in the late third quarter / early fourth quarter.
- Increased cow culling in the third quarter are cows that would be culled and slaughtered in the fourth quarter.
 - However, cow slaughter will still increase seasonally into the fourth quarter and leave cow slaughter for the year up 10% from a year ago.



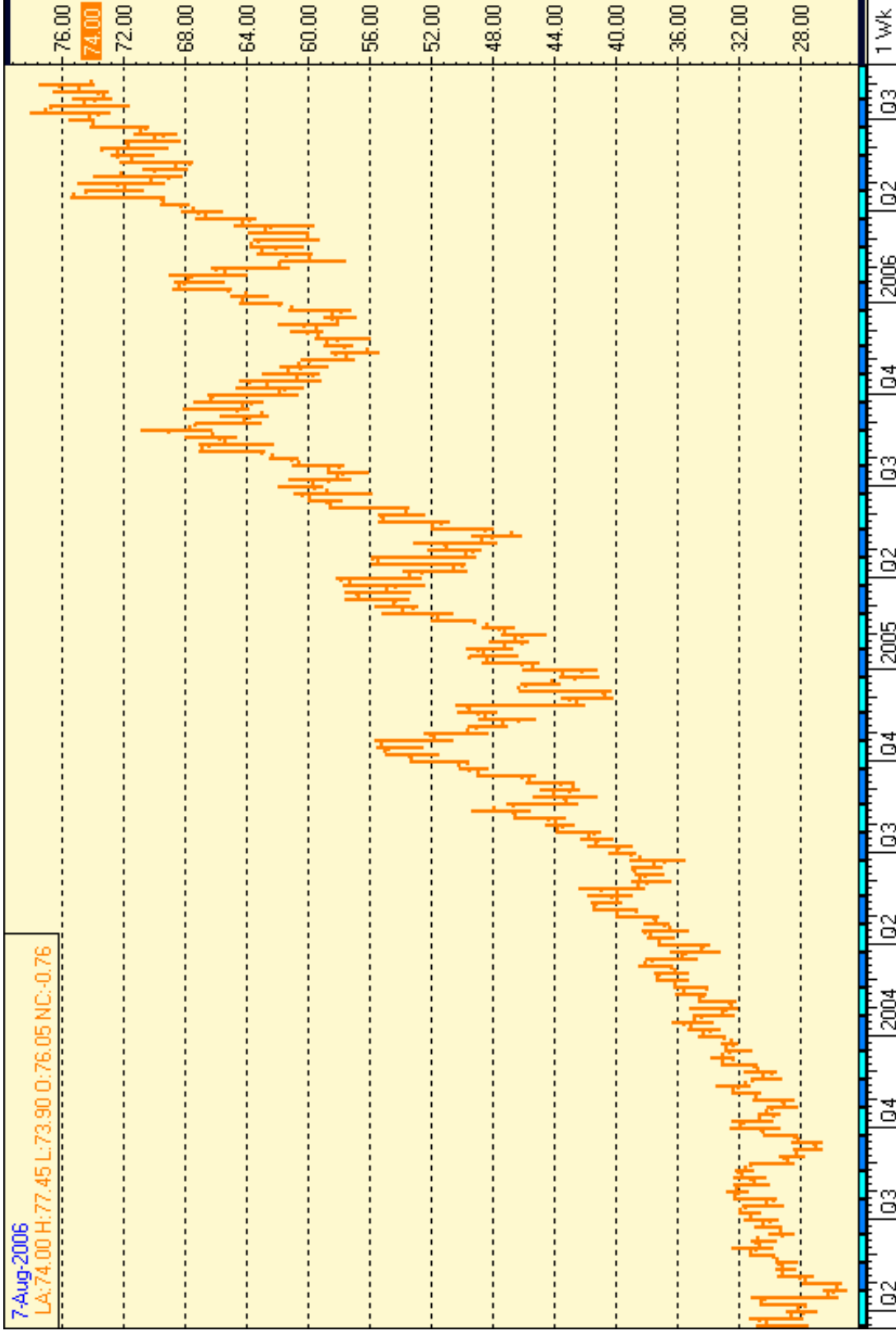
Continuous CRB Index

\$500 x Index





Crude Oil

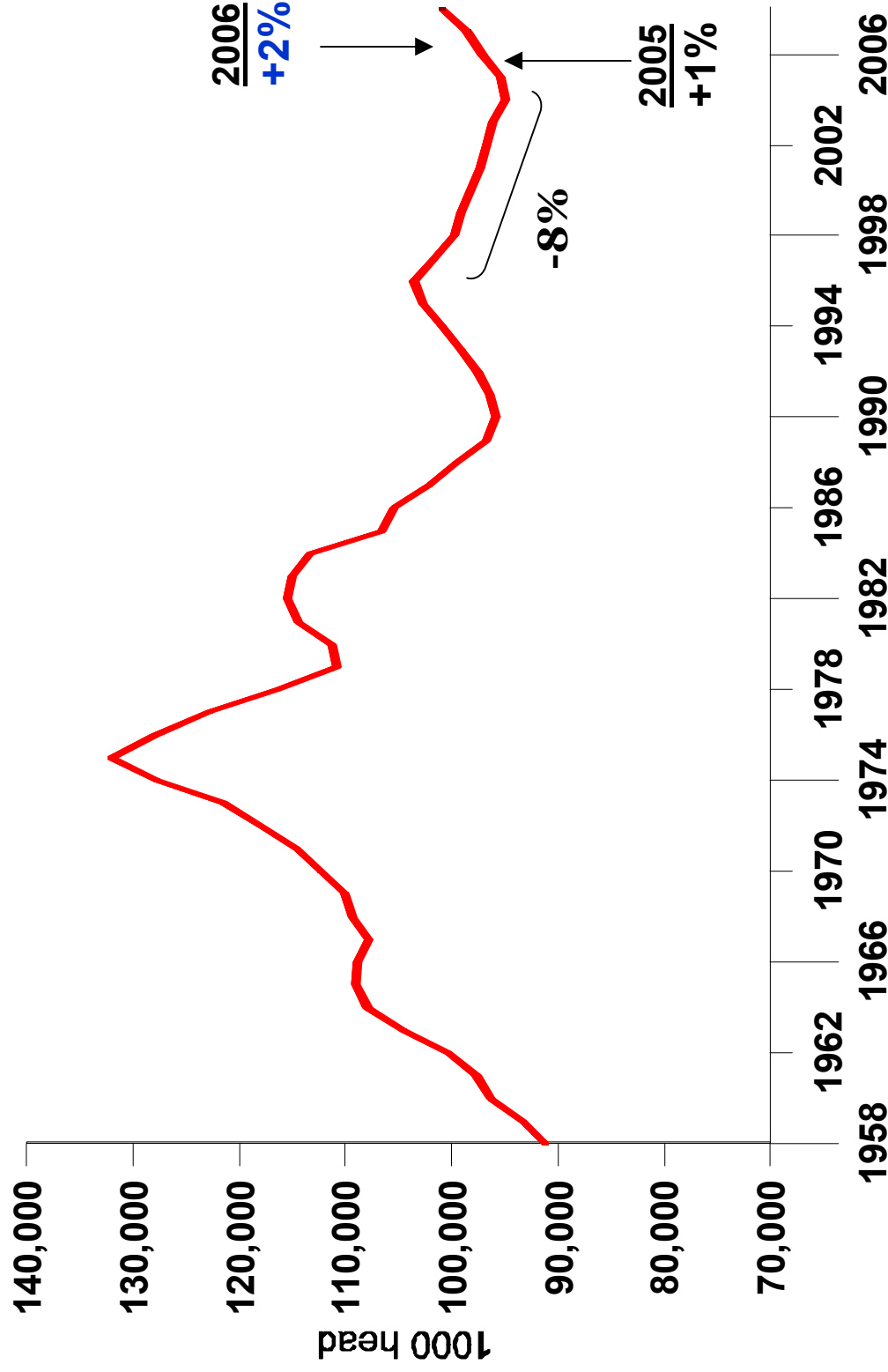


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U.S. Cattle Inventory

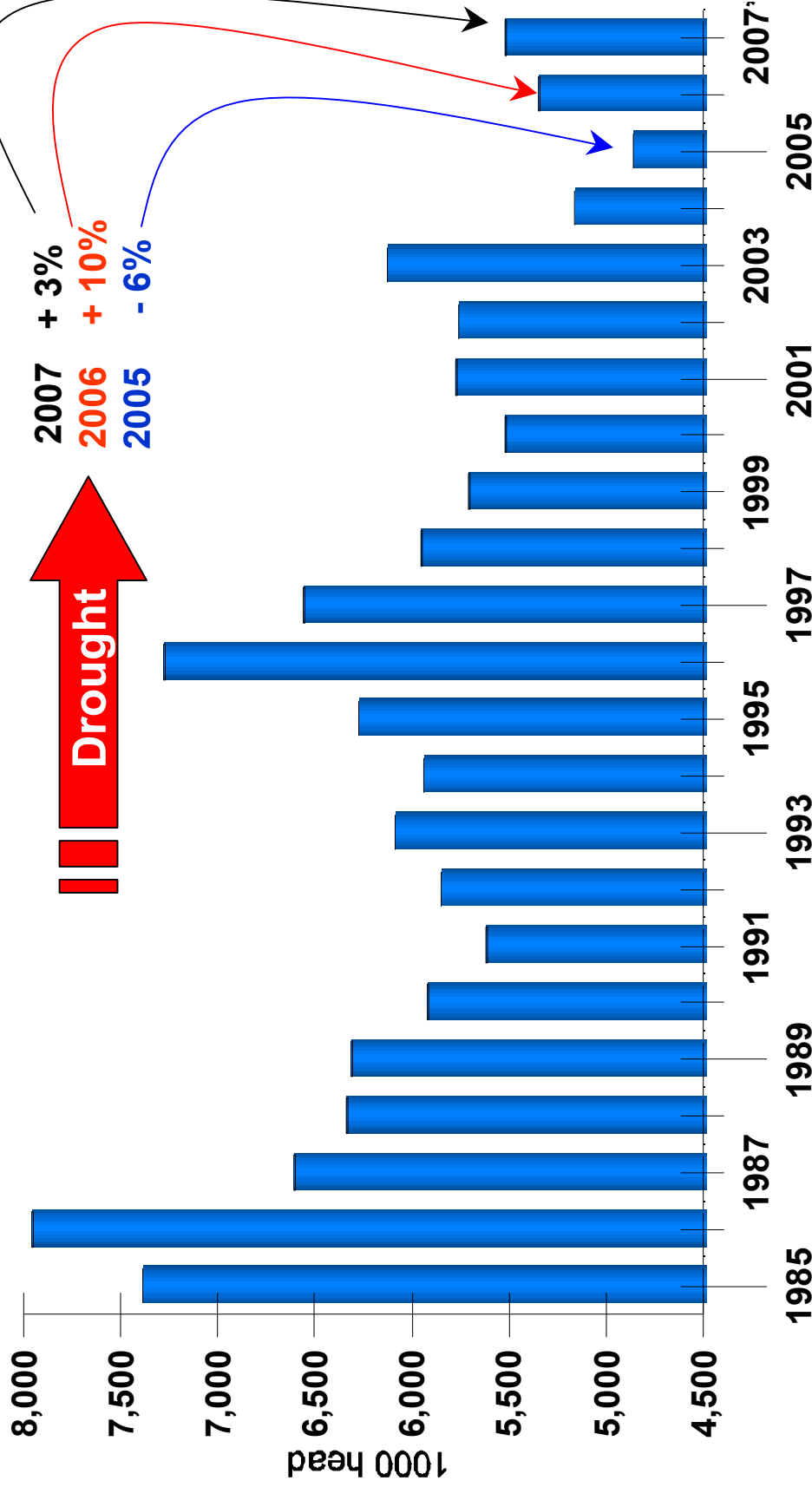
After 9 years of liquidation, herd rebuilding began in 2004.





Cow Slaughter

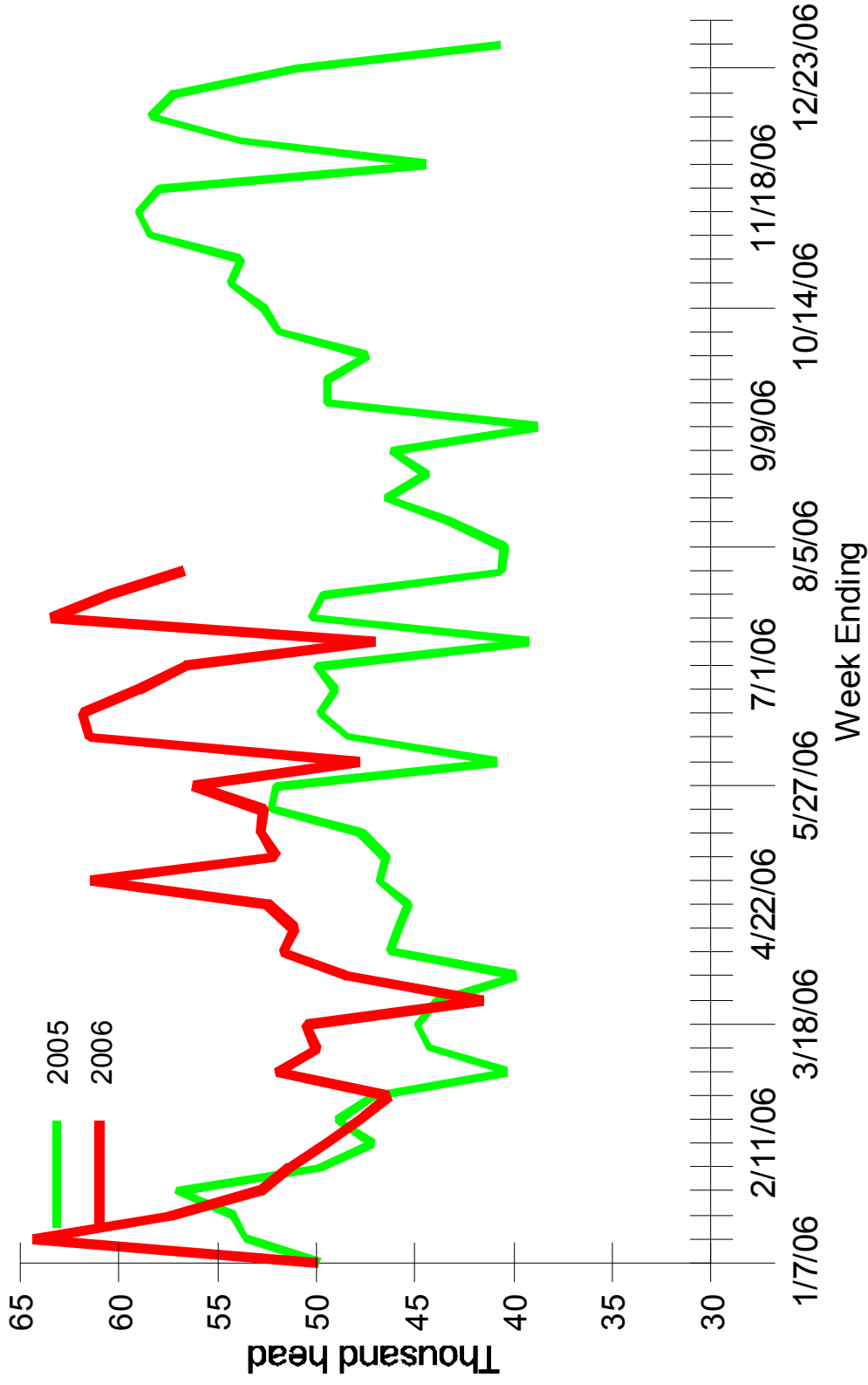
declined to 40 year lows as producers held cows off the market.





Beef Cow Slaughter

Federally Inspected

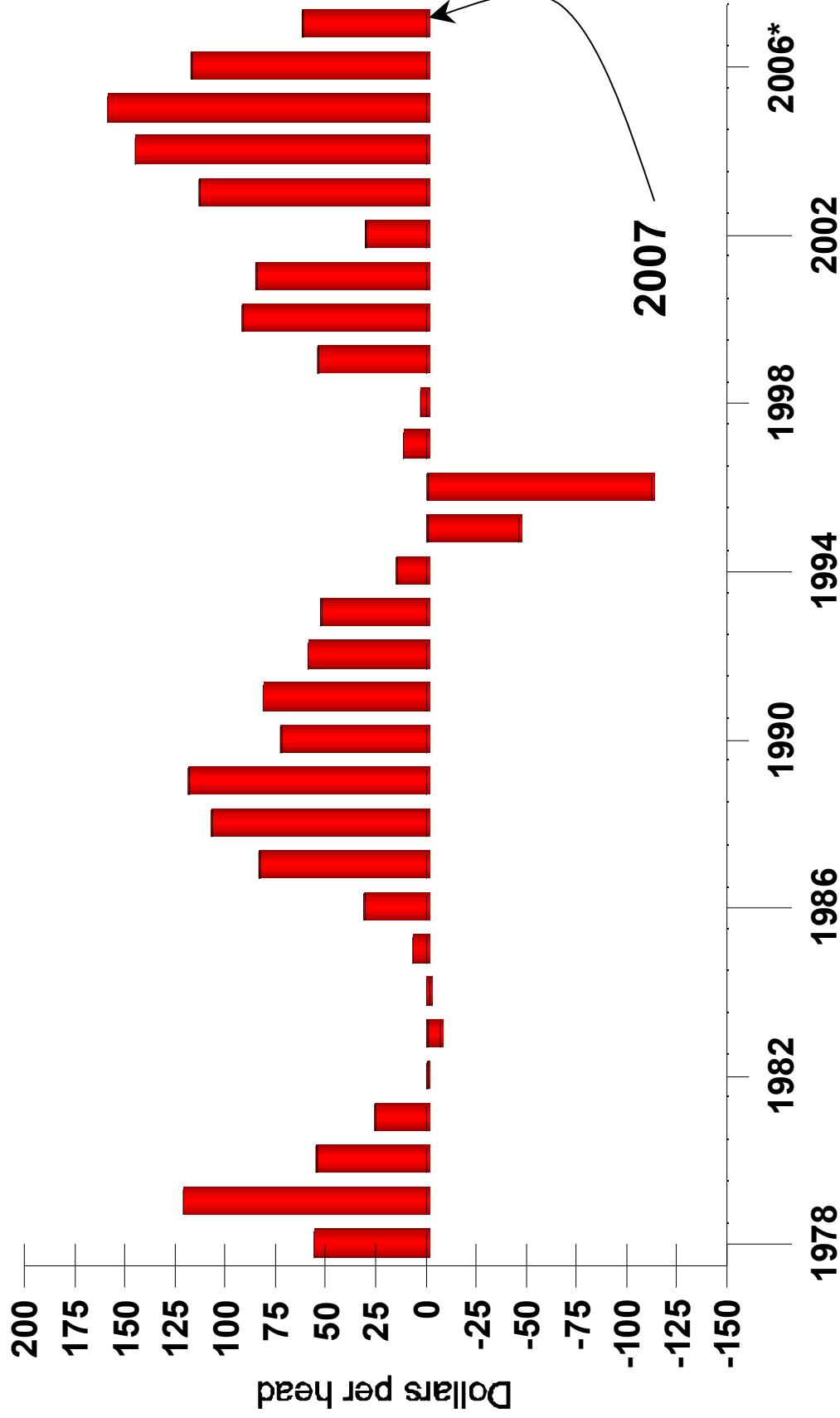


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Returns to Cow-Calf Producers

Profitable cattle production motivates cattlemen to begin building herds.

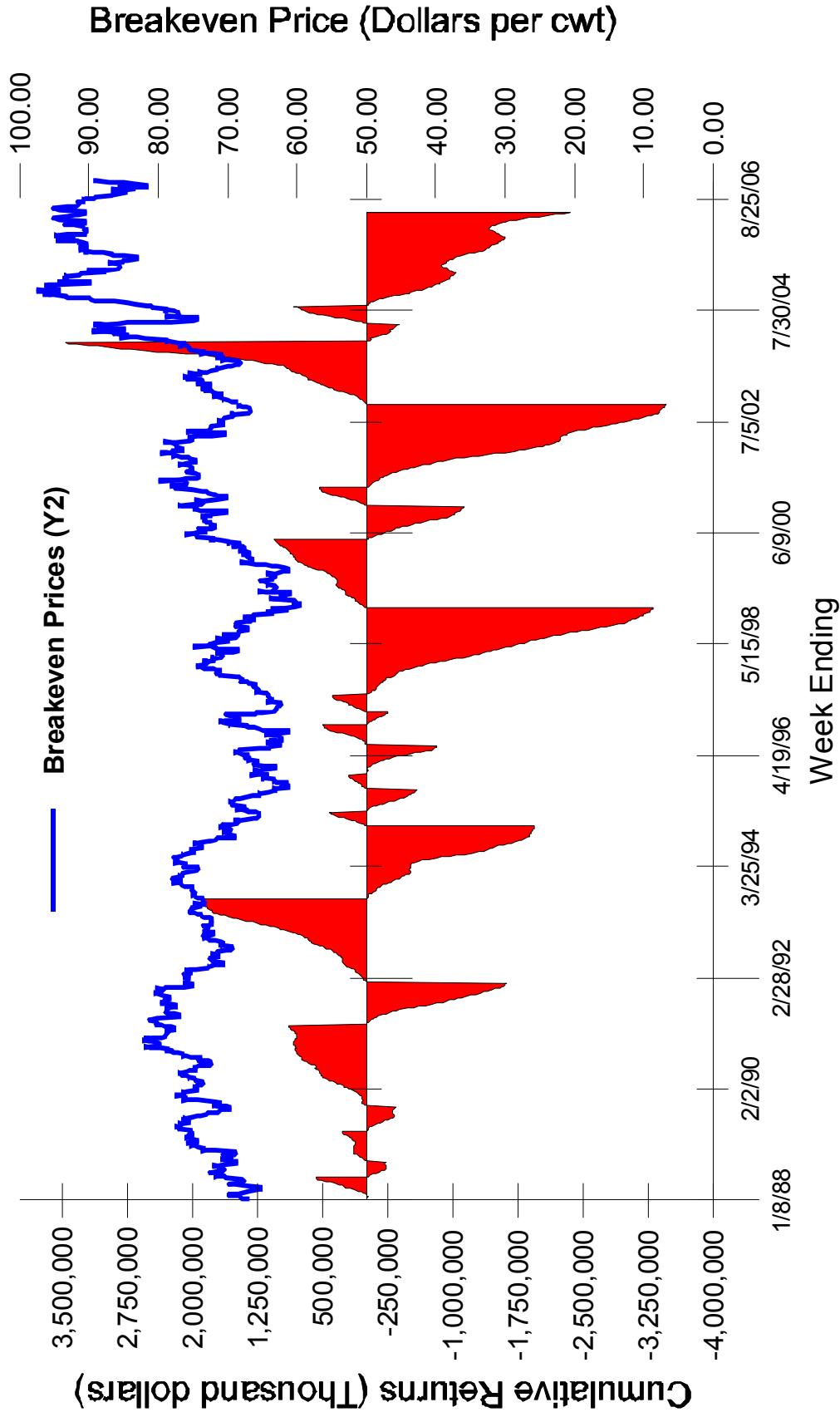


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Cumulative Returns to Cattle Feeding

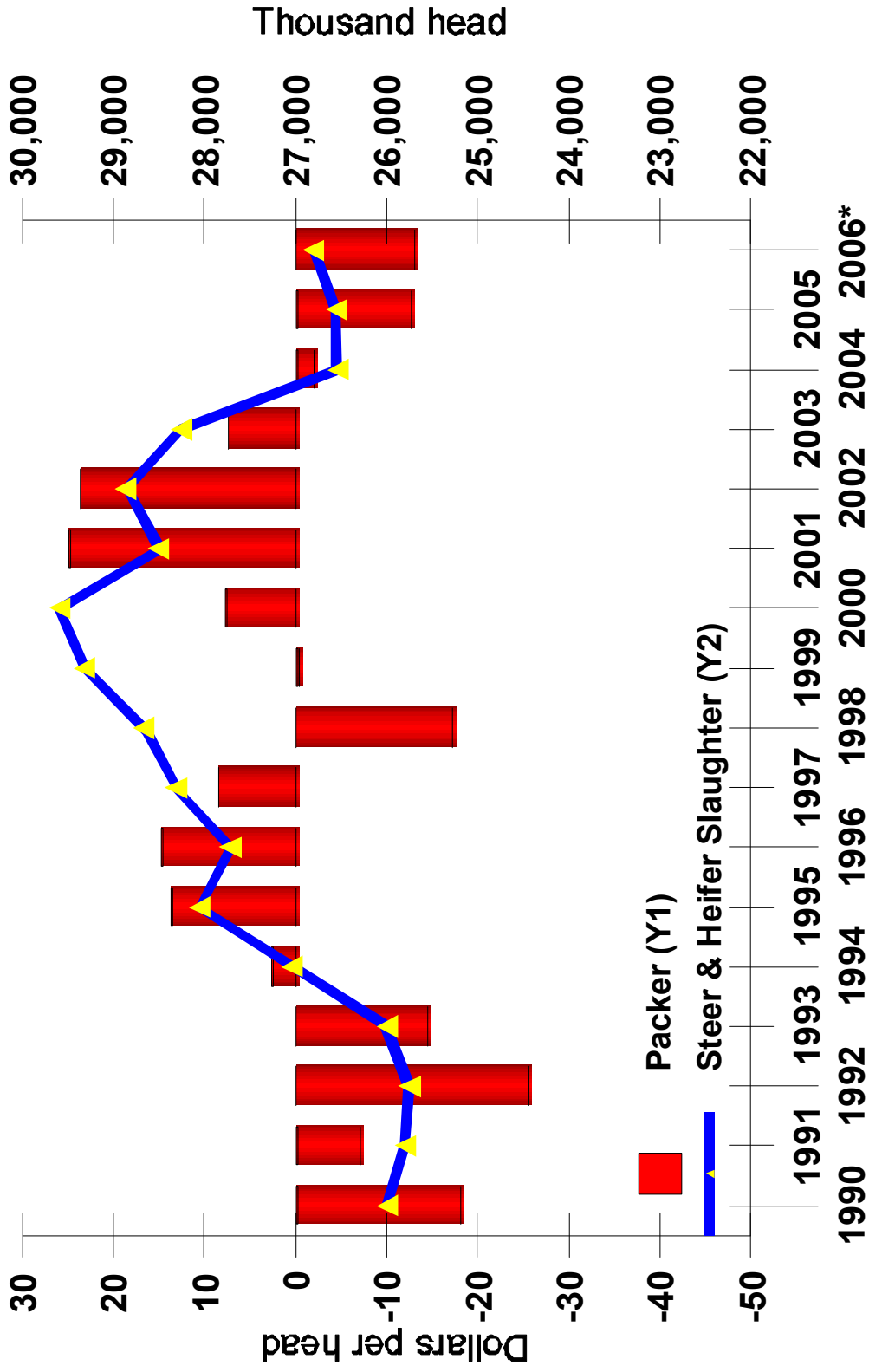
And Fed Cattle Breakeven Prices





Beef Packer Operating Margins

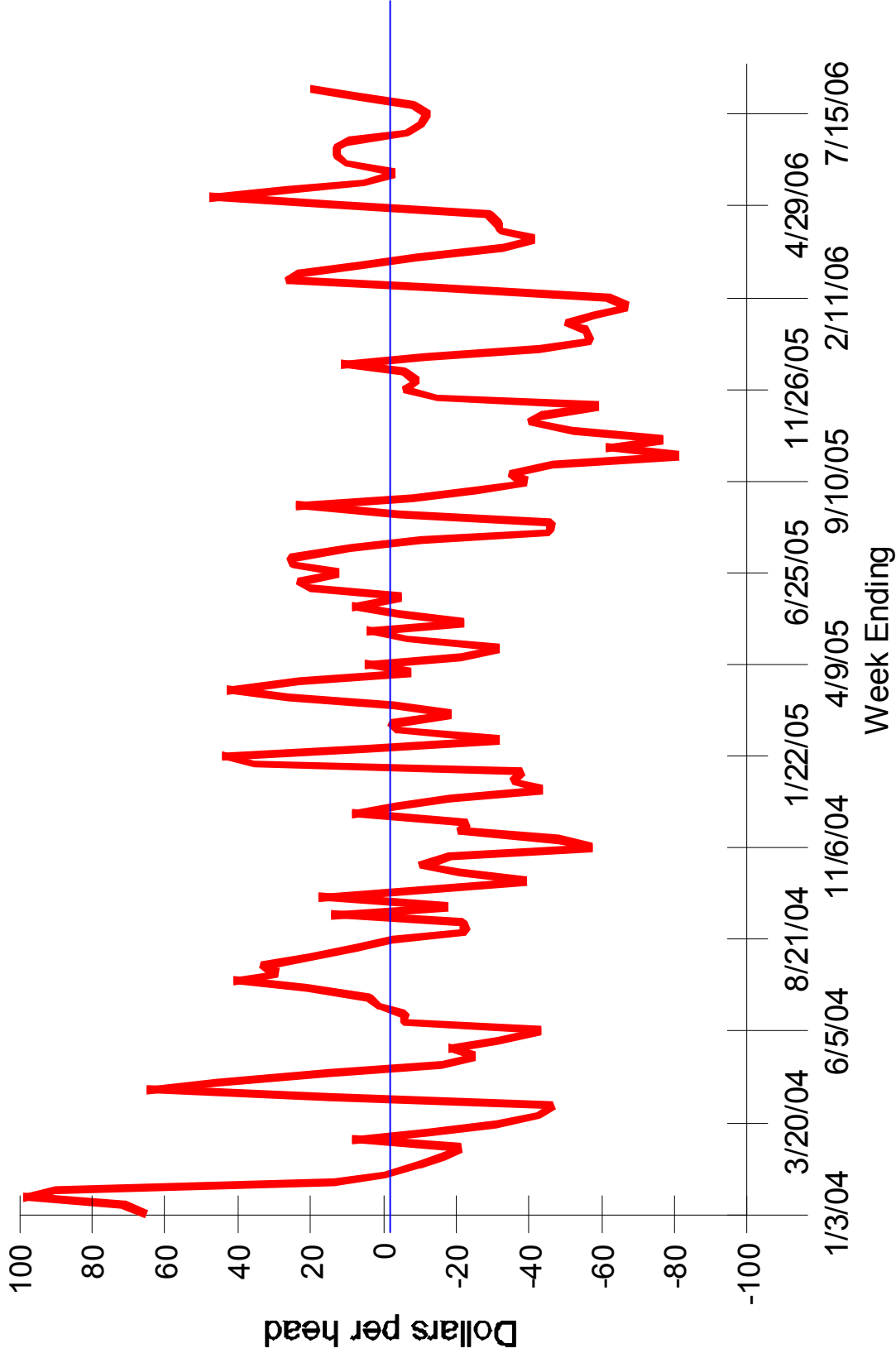
have suffered in the face of sharply reduced cattle supplies.



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Beef Packer Operating Margin

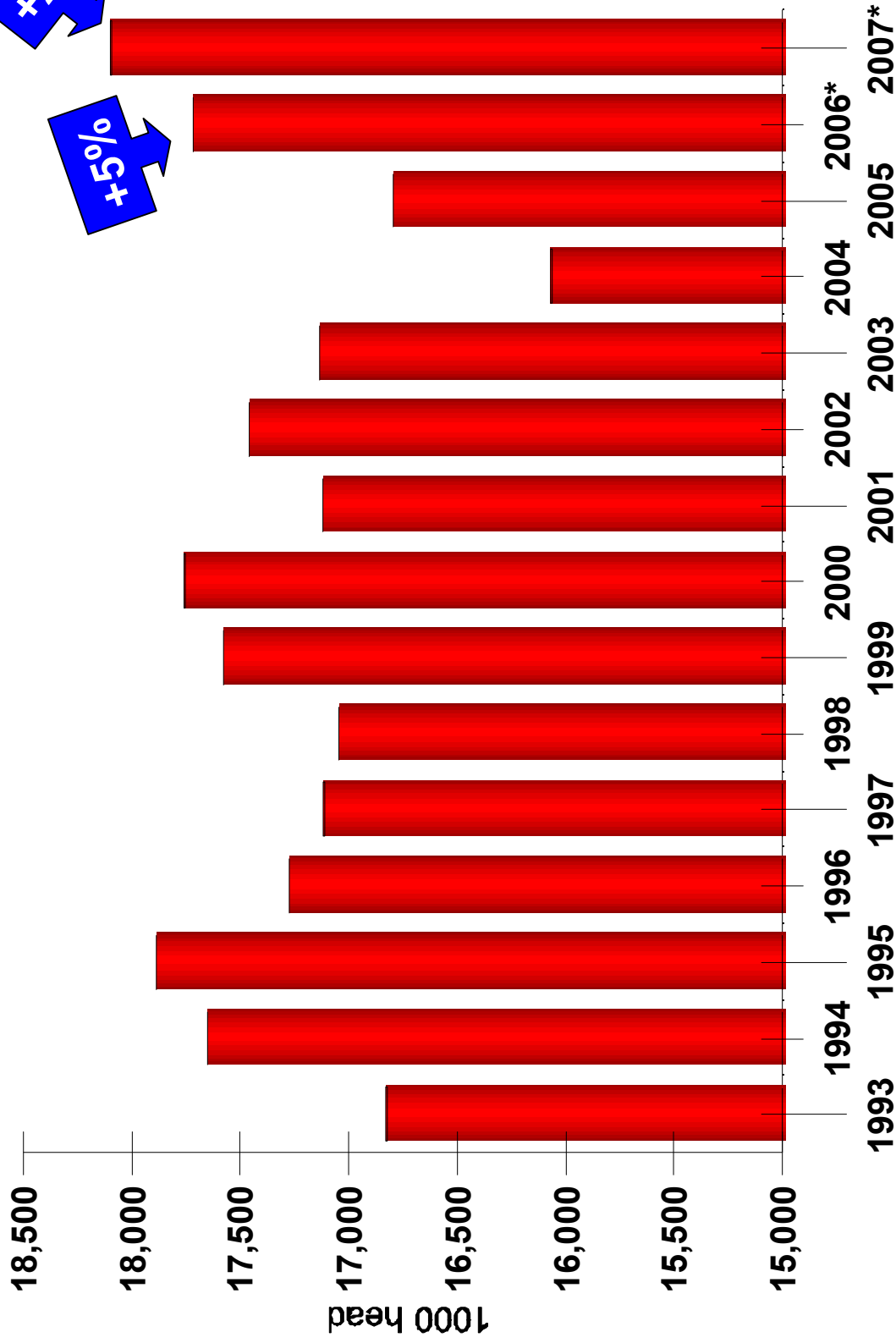


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Federally Inspected Steer Slaughter



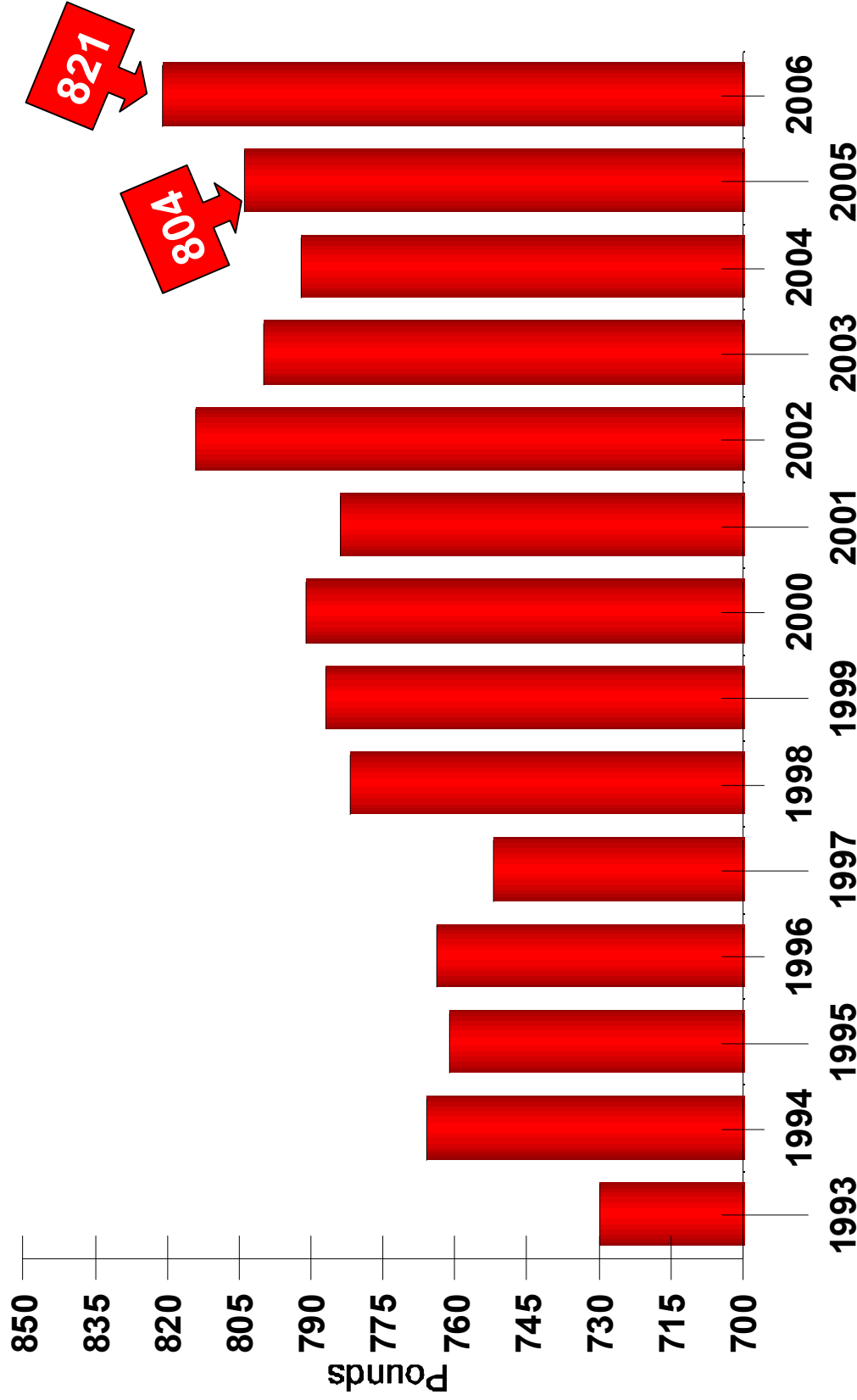
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Average Steer Carcass Weights

Year to date through July 29



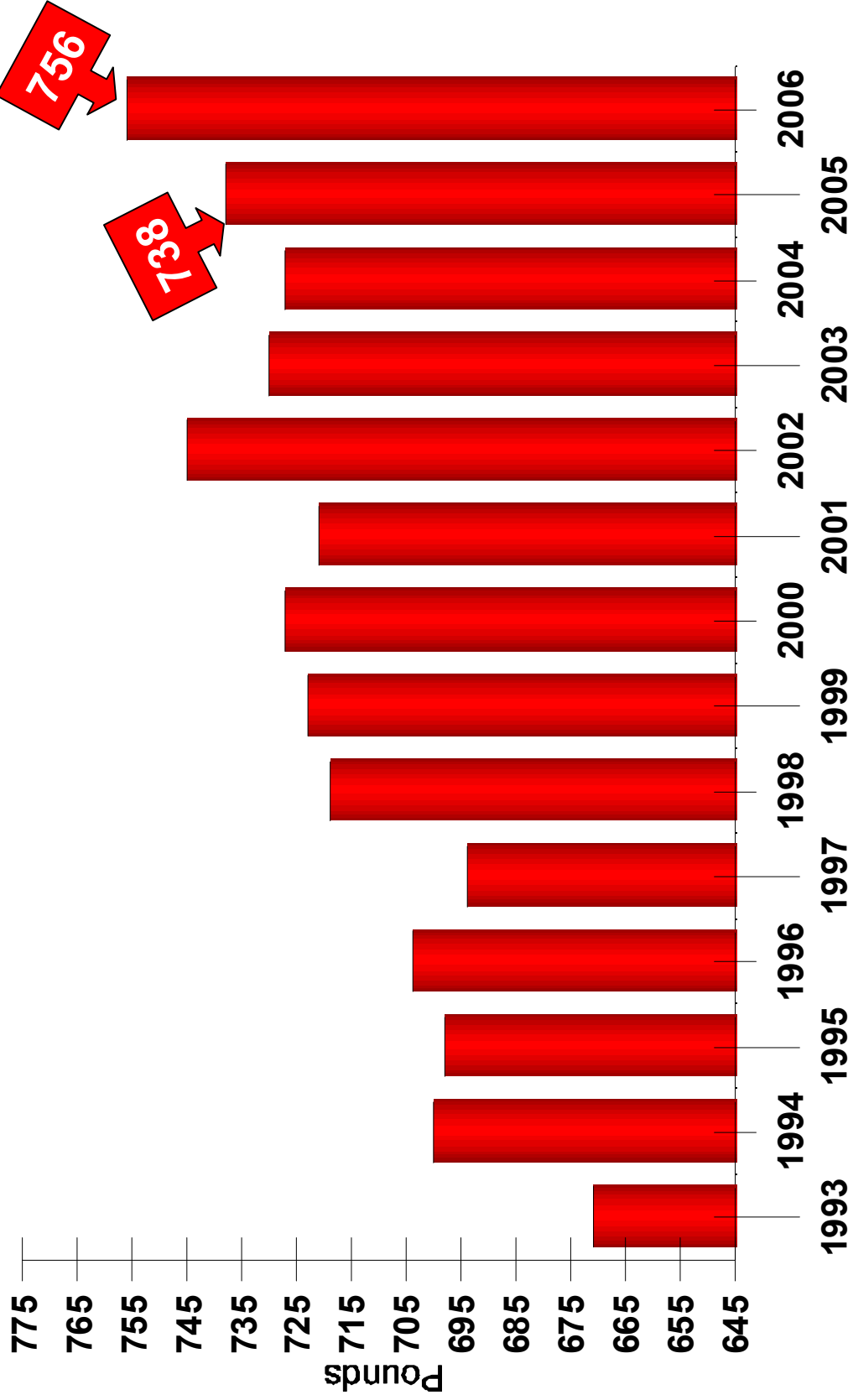
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Average Heifer Carcass Weights

Year to date through July 29

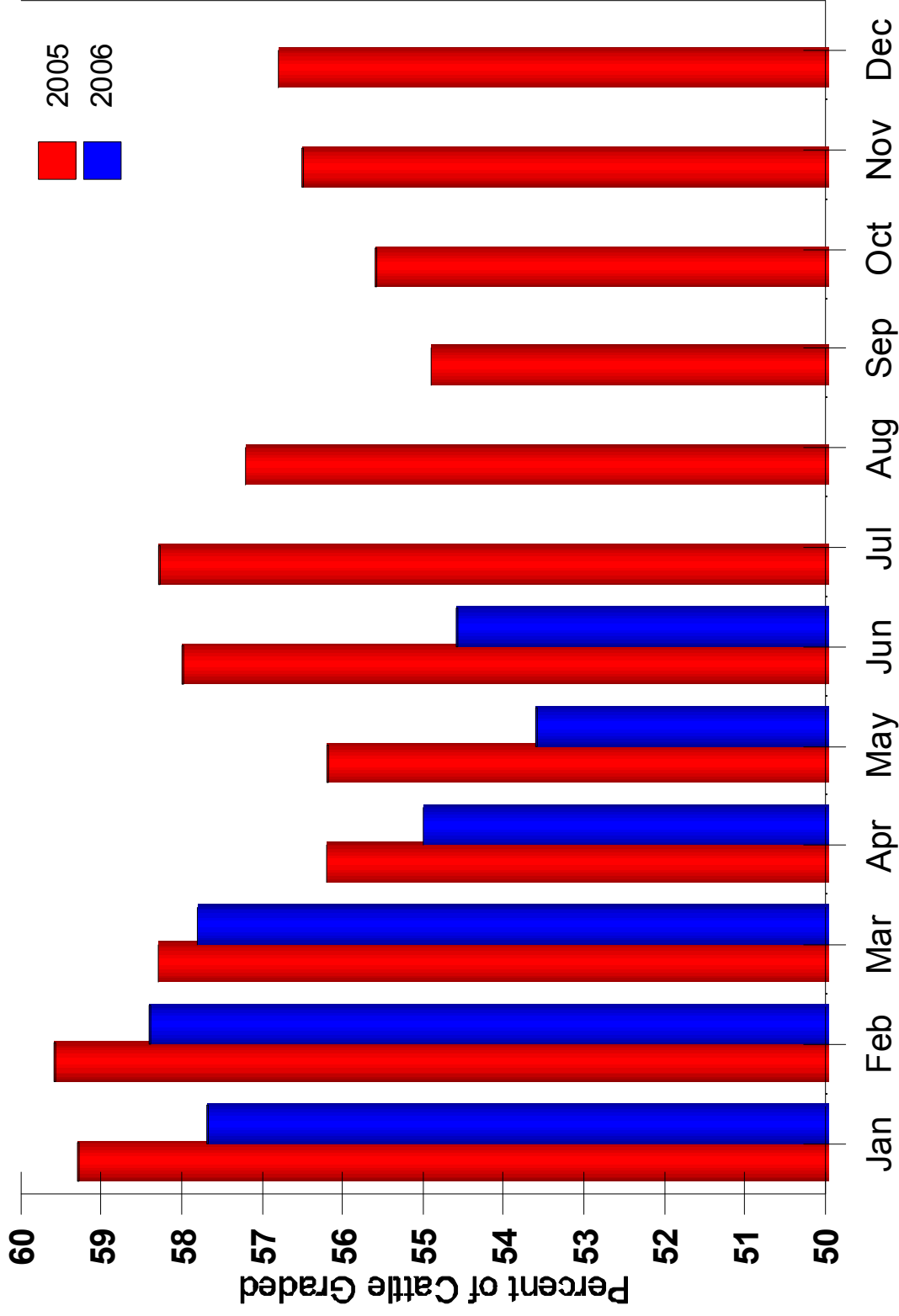


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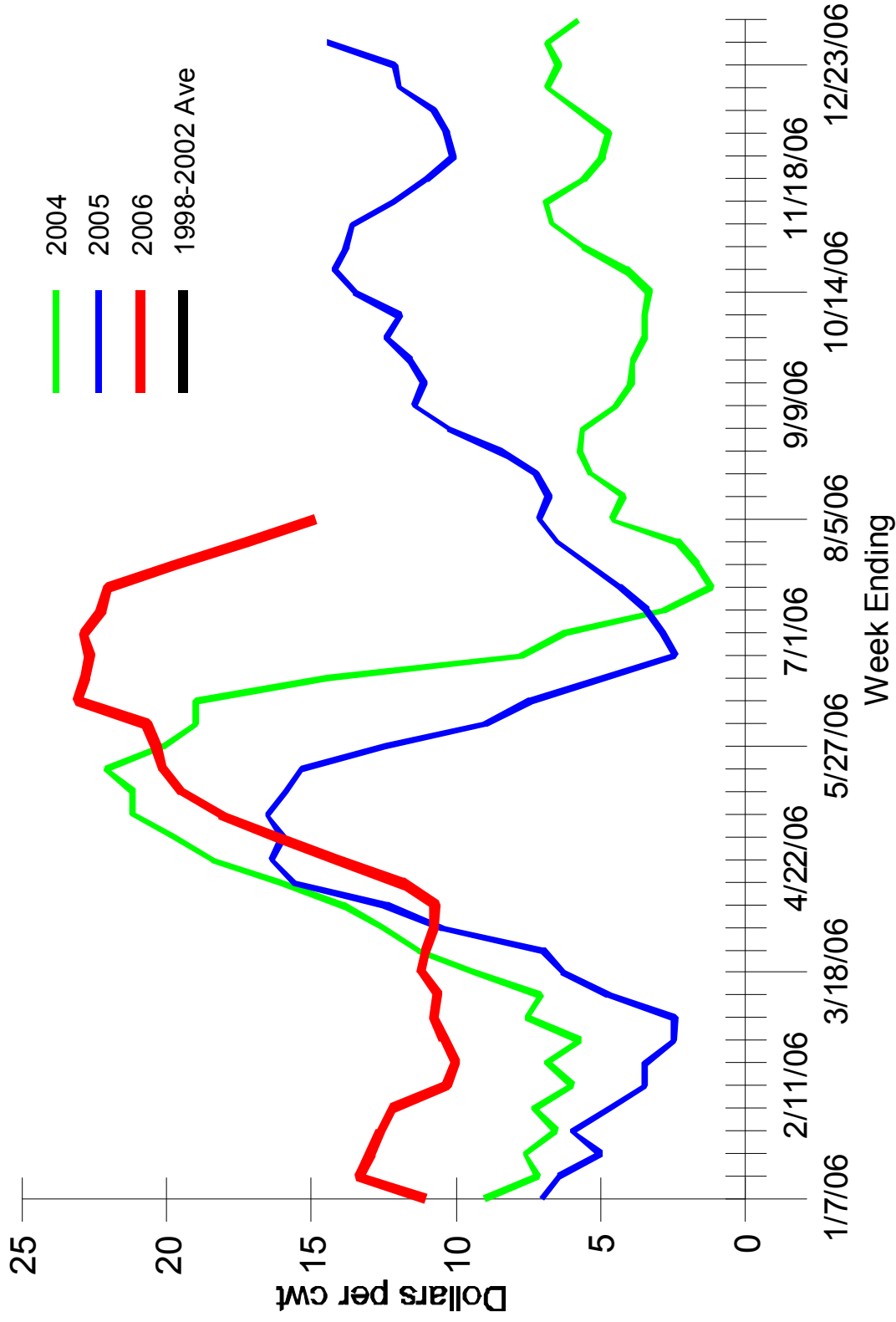
Percentage of Beef Grading Choice



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Choice - Select Price Spread

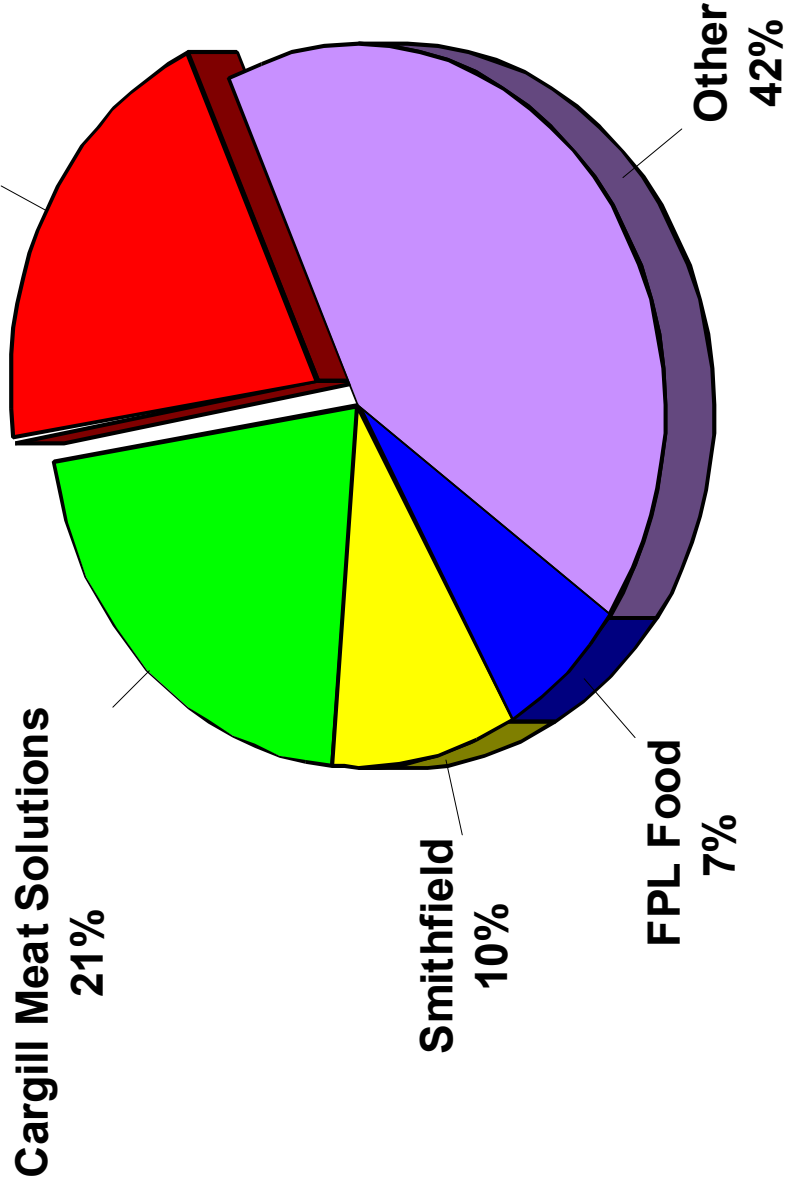




Cow Packer Concentration

January 2006

American Foods Group, LLC
21%

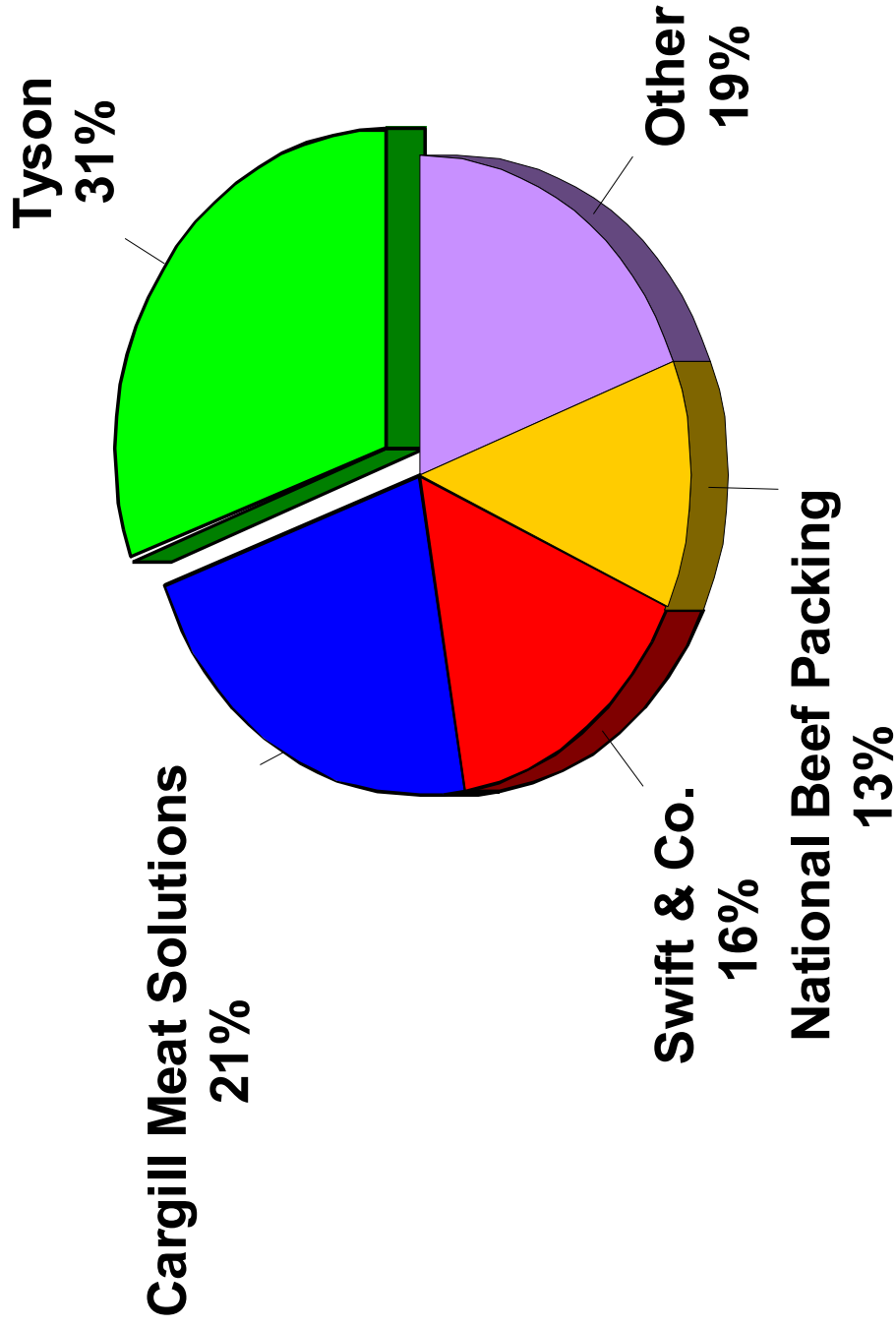


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Packer Concentration

Fed Beef - April 2006



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An Analysis Of Beef Industry Capacity in the Pacific Northwest June 2, 2006

“It is important to note that the possibility exists that Tyson would permanently close one of its plants in the PNW in its goal to cut costs and rebalance the company’s financial situation.”

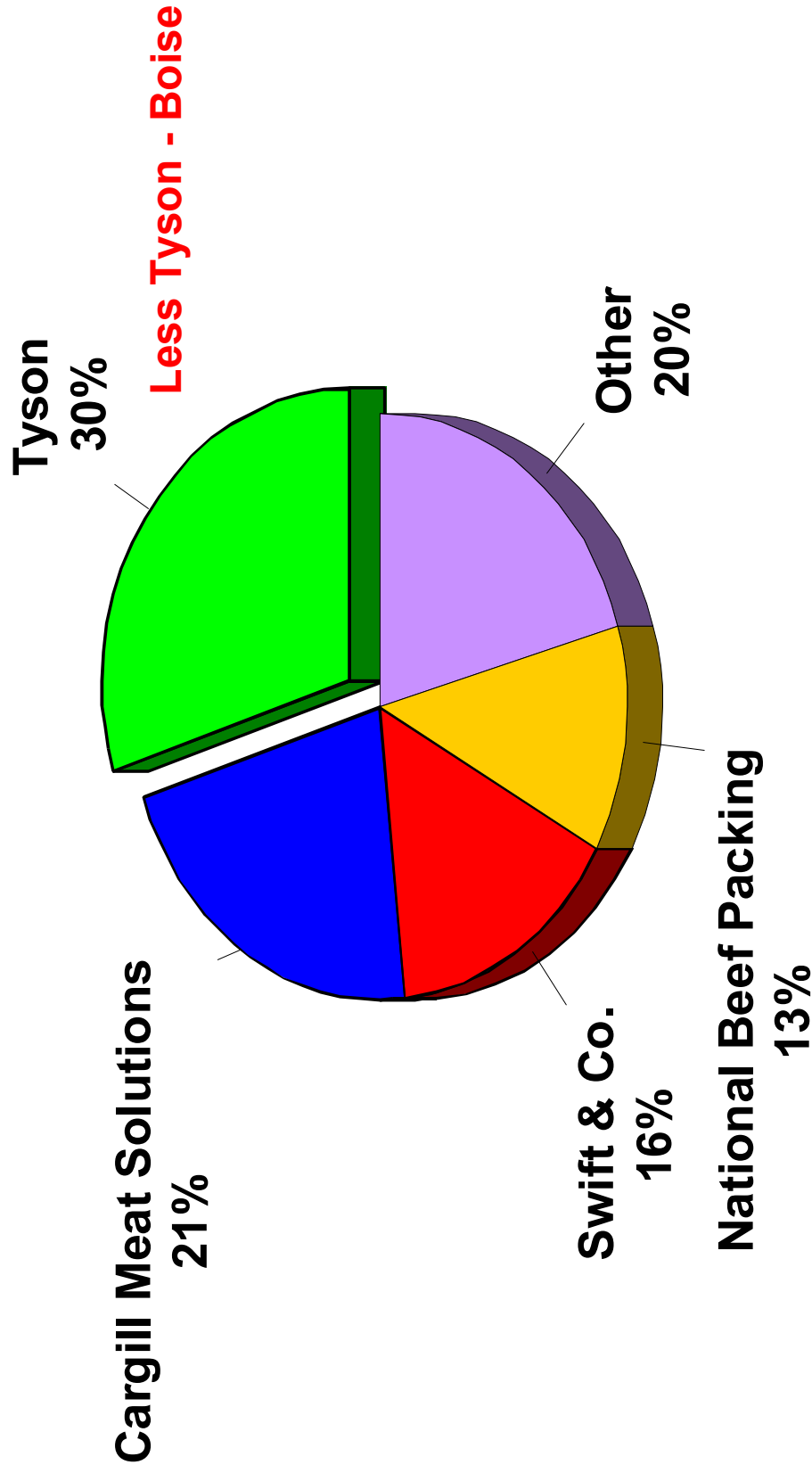
“While it may argued that this has never been an option, the current economic environment may have changed circumstances enough for Tyson that the possibility does now exist.”

“Also, under Tyson’s ownership, IBP is not IBP as the industry once knew it.”



Packer Concentration

Fed Beef - Oct 2006

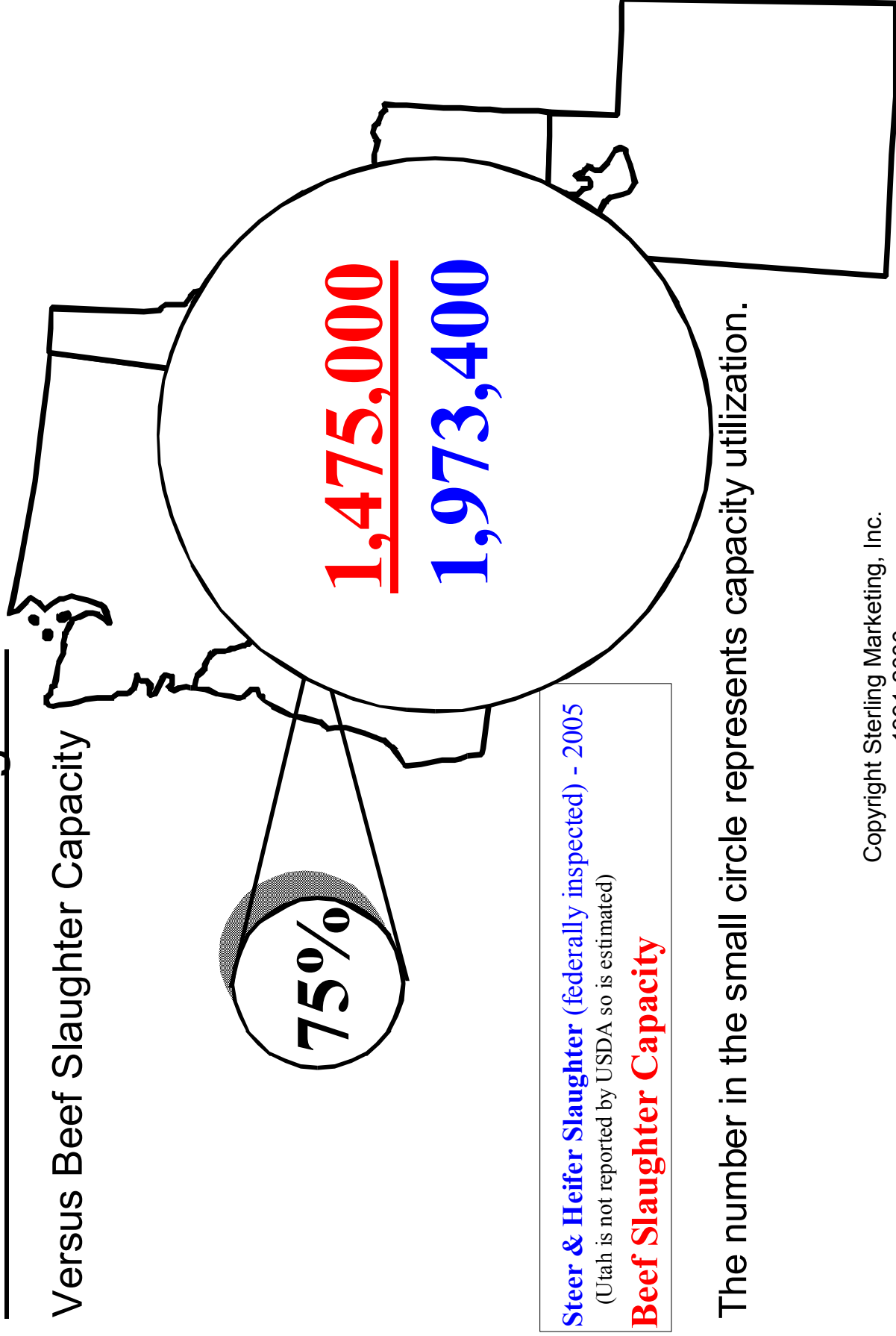


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PNW Fed Cattle Slaughter

Versus Beef Slaughter Capacity



Steer & Heifer Slaughter (federally inspected) - 2005

(Utah is not reported by USDA so is estimated)

Beef Slaughter Capacity

The number in the small circle represents capacity utilization.



PNW Beef Industry Capacities

Aug 2006

Packer **1,973,400**

Feedlot **1,285,575**

Fed Mktgs **1,263,500**

(2005)

64%

Oct 2006 (-Tyson Boise)

1,599,000

1,285,575

1,263,500

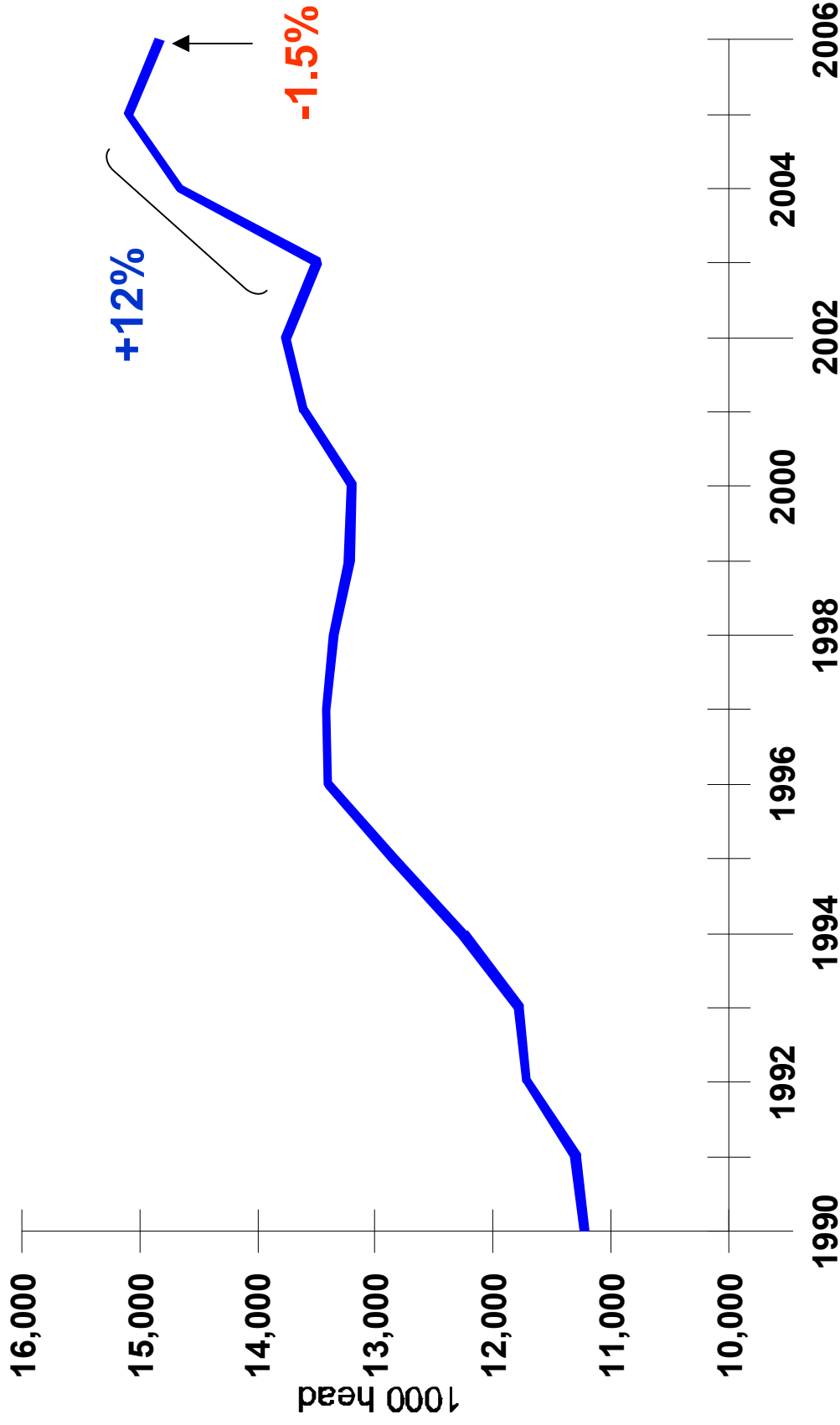
4 %

79%



The Canadian Cattle Inventory increased

substantially following BSE discovery in 2003, but declined during 2005.

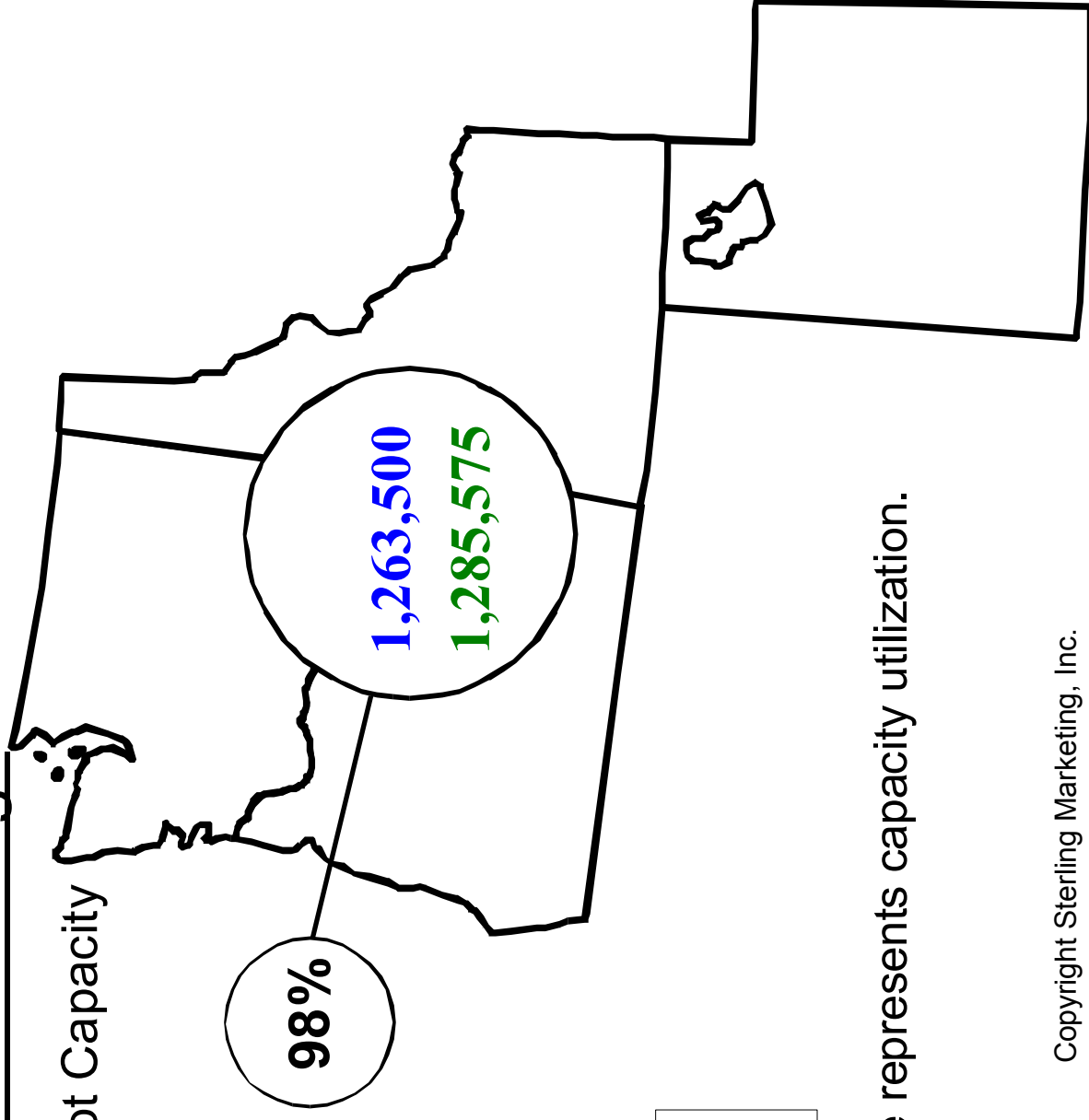


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PNW Fed Cattle Marketings

Versus Annual Feedlot Capacity



Fed Cattle Marketed - 2005

Feedlot Capacity - 2005

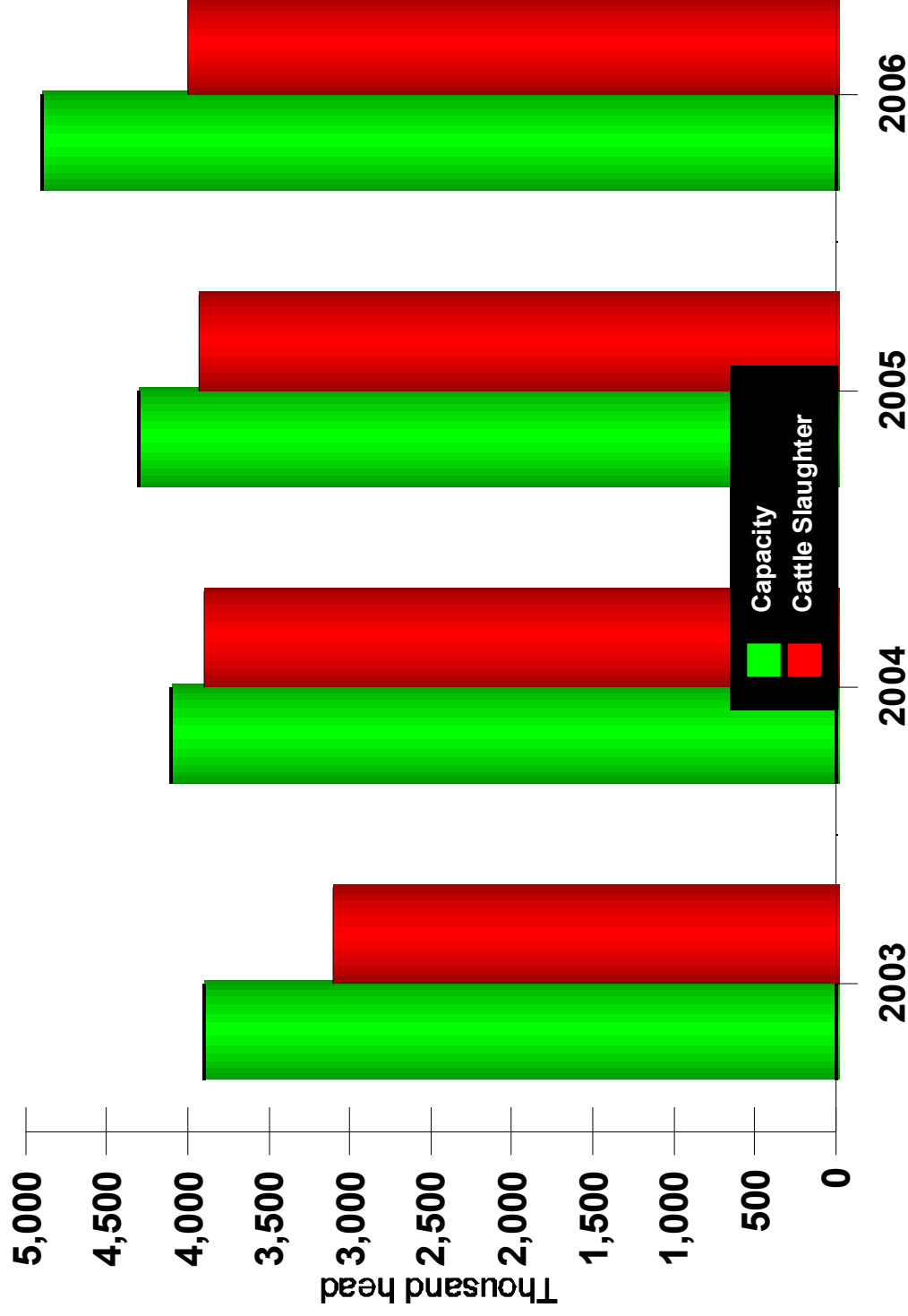
The number in the circle represents capacity utilization.

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Canadian Beef Packing Capacity

and utilization both increased after the border was closed.



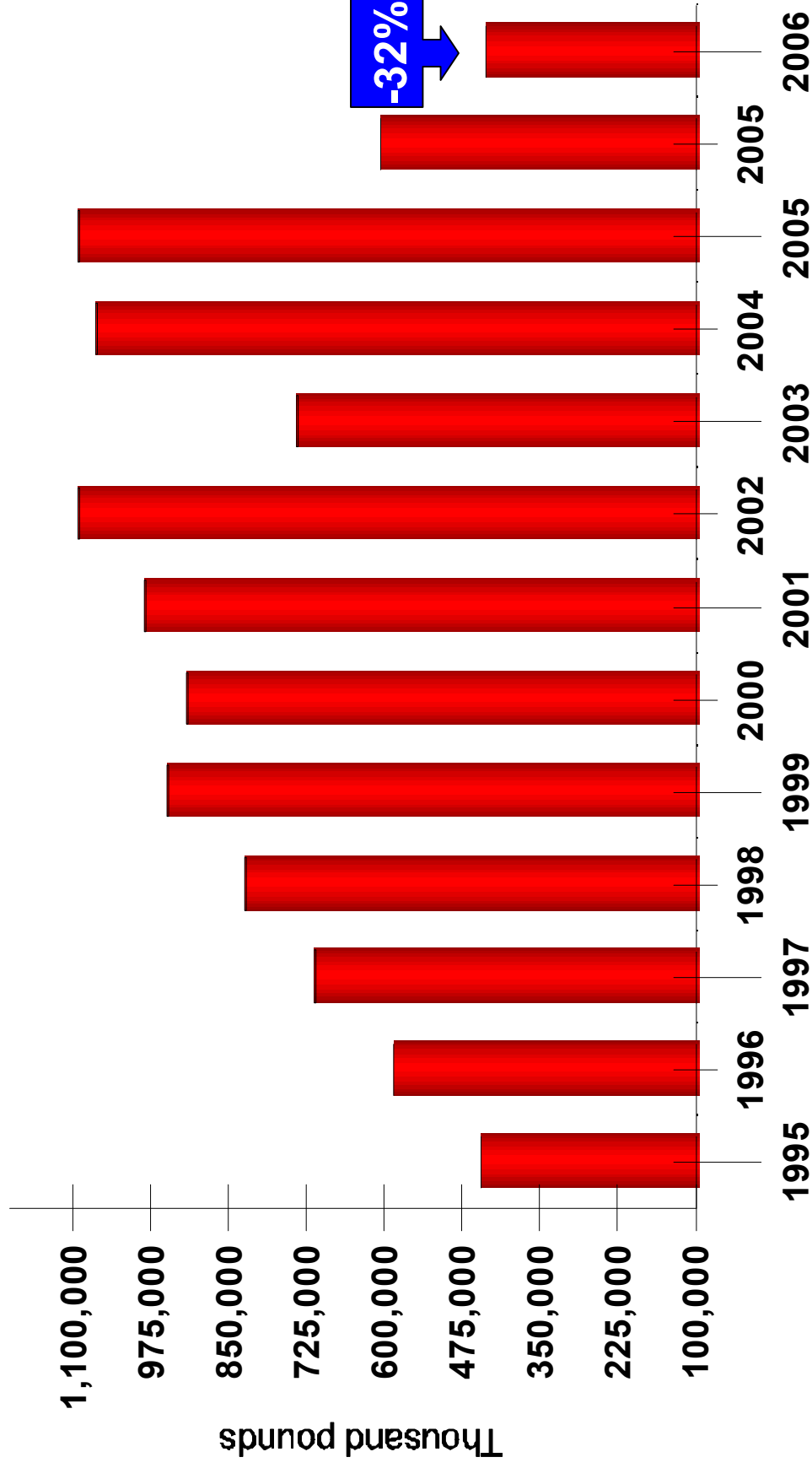
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U.S. Beef Imports from Canada

again reached a record in 2005.



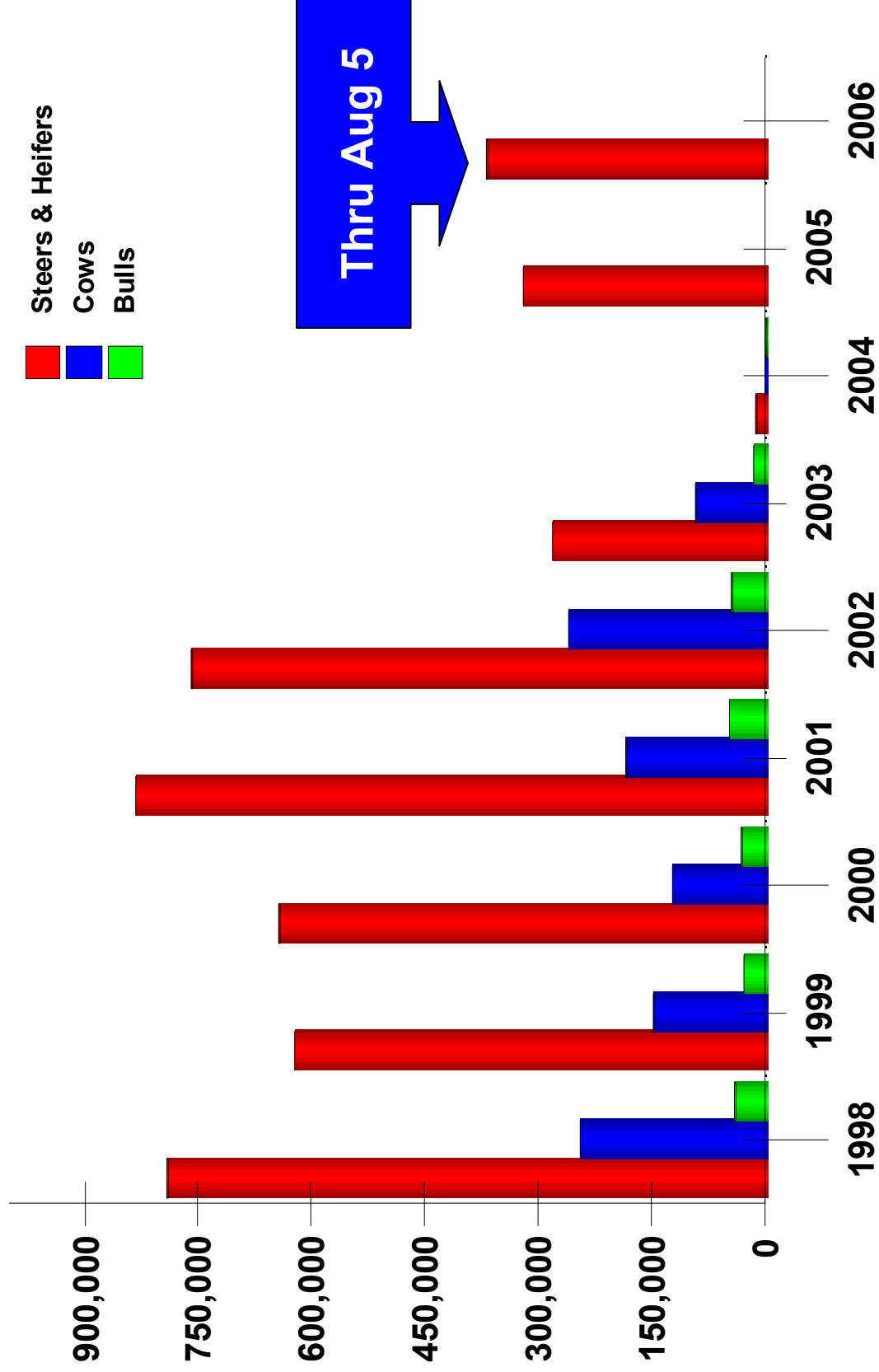
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Jan - Jun

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Live Cattle Imports from Canada

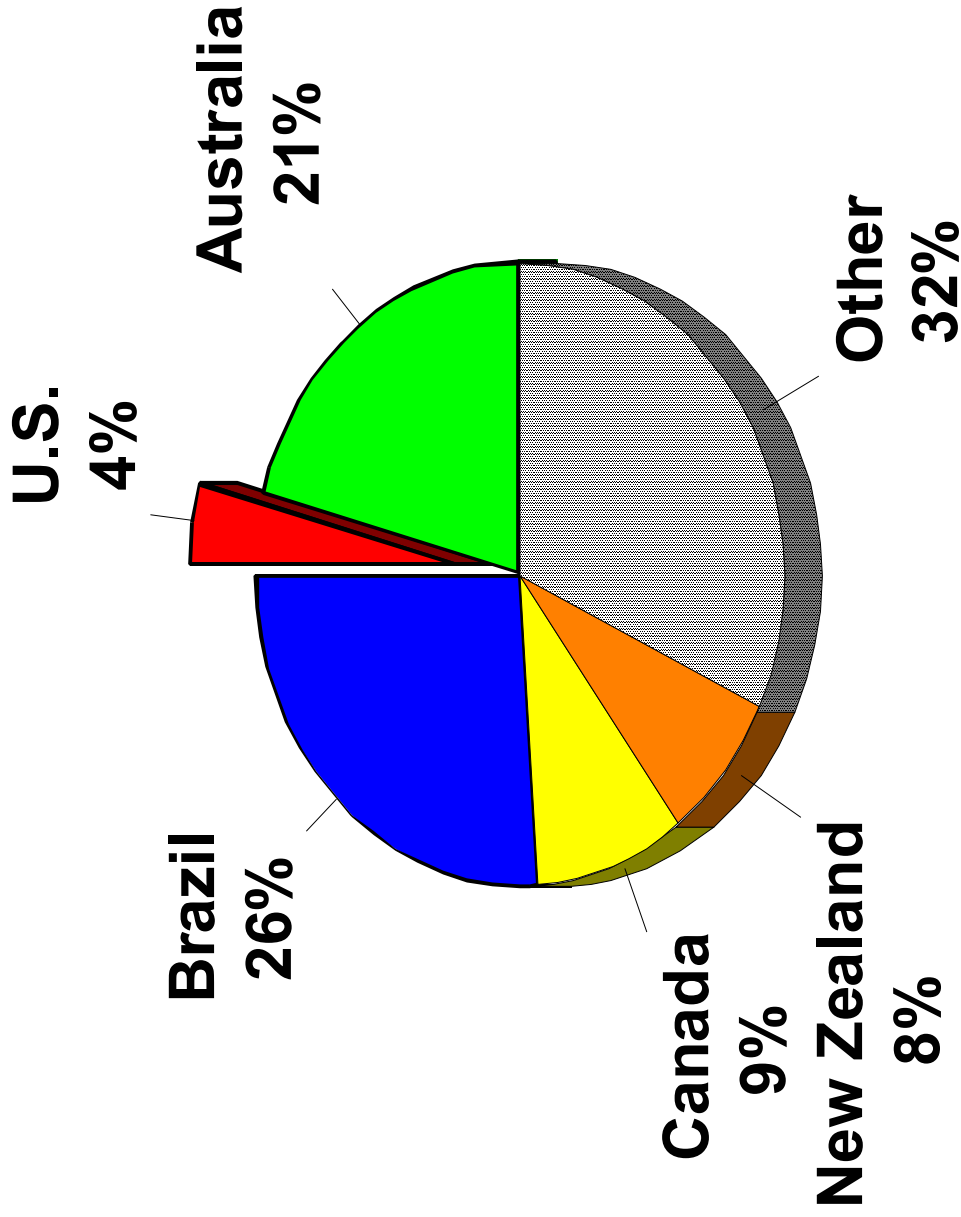


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World Beef Export Share

2005

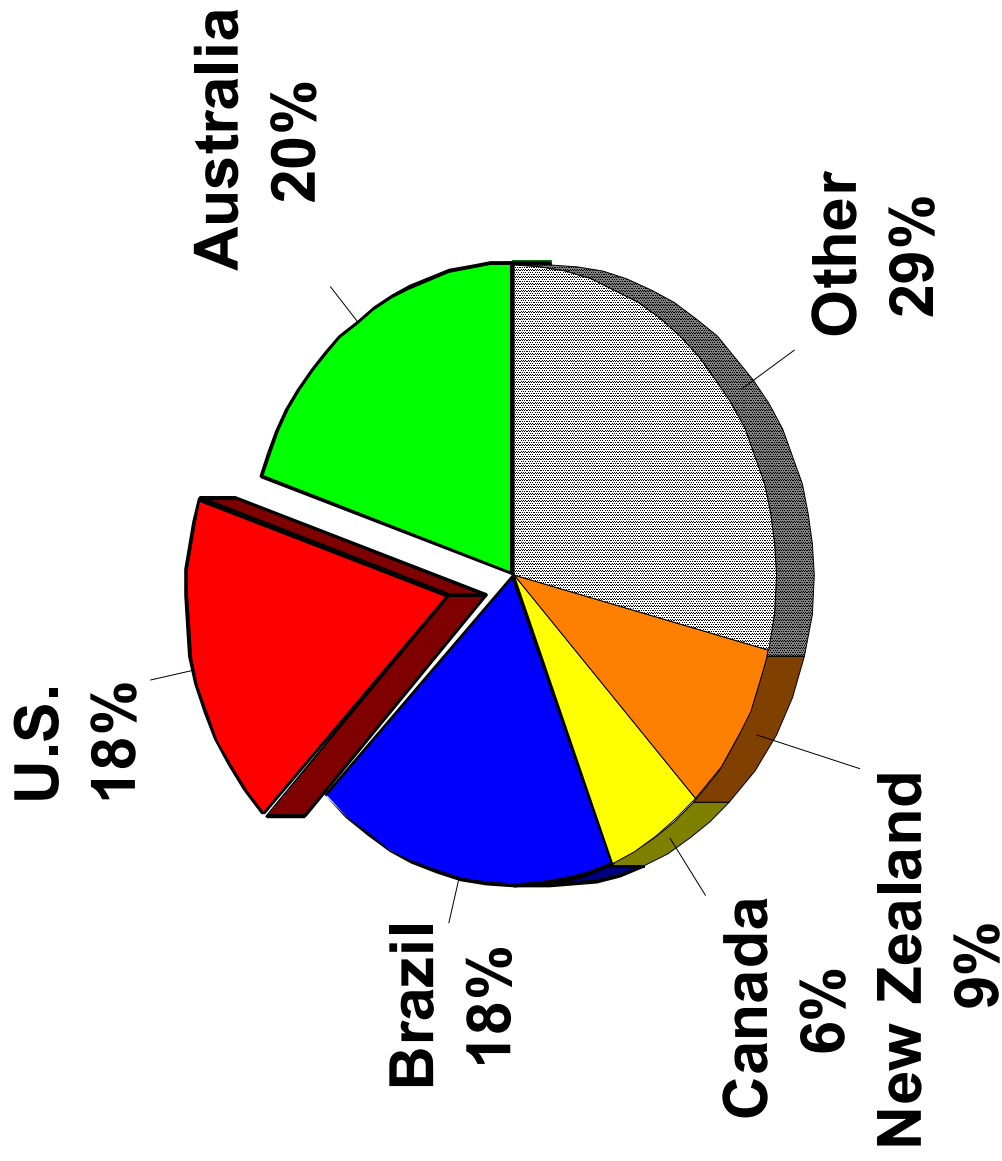


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World Beef Export Share

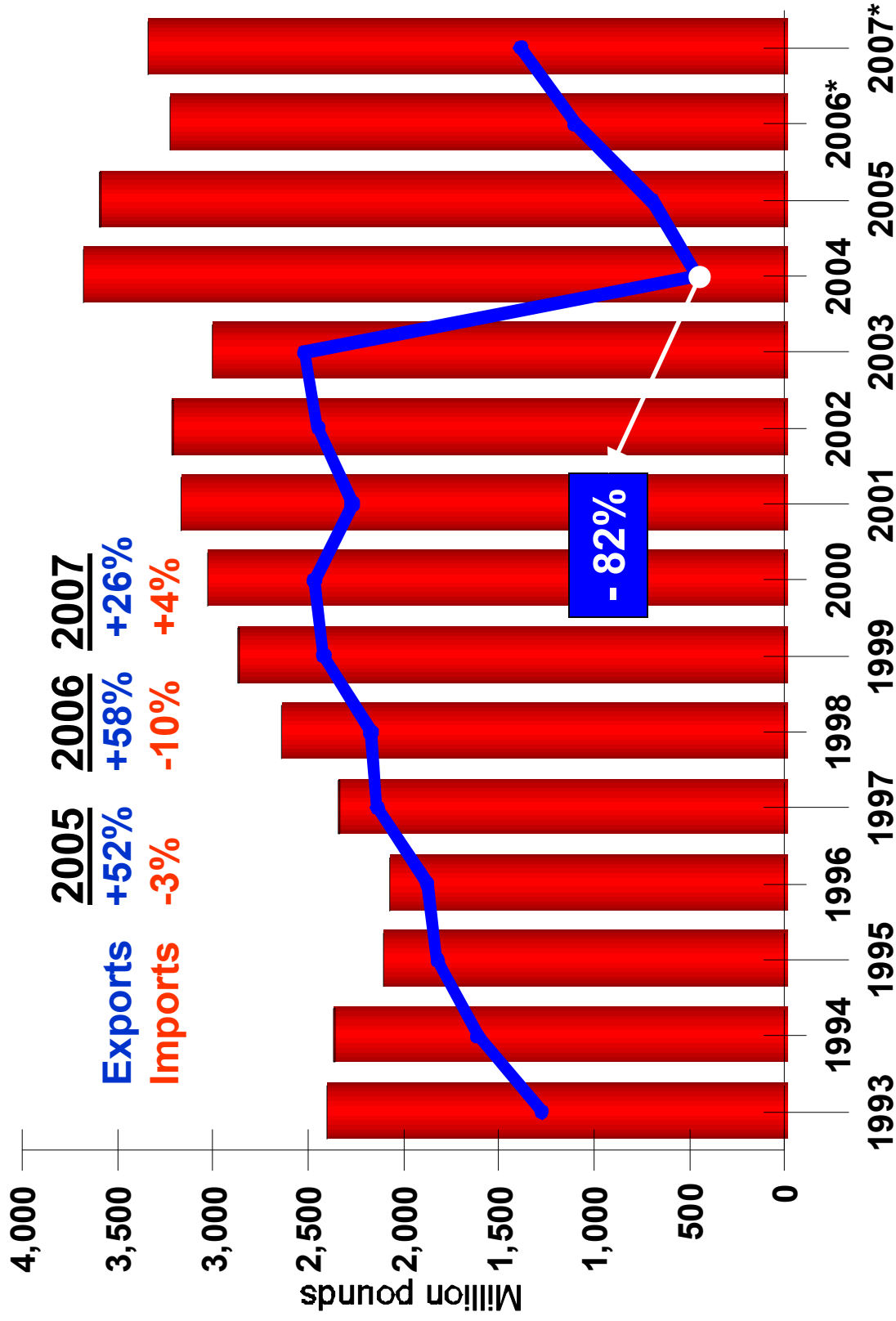
2003



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U.S. Beef Trade



2005 **2006** **2007**
Exports **+52%** **+58%** **+26%**
Imports **-3%** **-10%** **+4%**



