

Real GDP growth showed significantly on a quarter-to-quarter basis in Q4 2014. The quarter's 2.6% change from Q3 is sharply lower than the past two quarters in which GDP exceeded the prior quarter by 4.6 percent and 5.0 percent, respectively. It closes out a wild year which saw both the best quarter (Q3) and worst quarter (Q1) since the end of the Great Recession in 2010. The average quarter-to-quarter rate for 2014 was 2.5 percent, slightly better than the 2.3 percent average for 2010 through 2013.

The year-on-year change was very typical for this recovery so far. The 2.5 percent change puts the string of positive growth quarters at 20 with the smallest being 1.2 percent in Q3 of 2011 and the largest being 3.1 percent which was observed twice over that five year period. The average year-on-year rate for 2014 was 2.4 percent, a figure that, like the year's quarter-to-quarter rate, was 0.2 percent larger than the 2010-2013 (ie. post recession) average.

So is this good news or bad? Probably neither. It is certainly not indicative of a hot economy but neither is it indicative of a poor economy. We doubt that this growth rate is enough to cause any significant uptick in inflation, a fact that will make the Federal Reserve governors happy. But it will probably continue the slow pace of personal income growth. We would say that incomes will continue to be of little consequence — either positive or negative — for meat and poultry demand if this GDP pace continues.

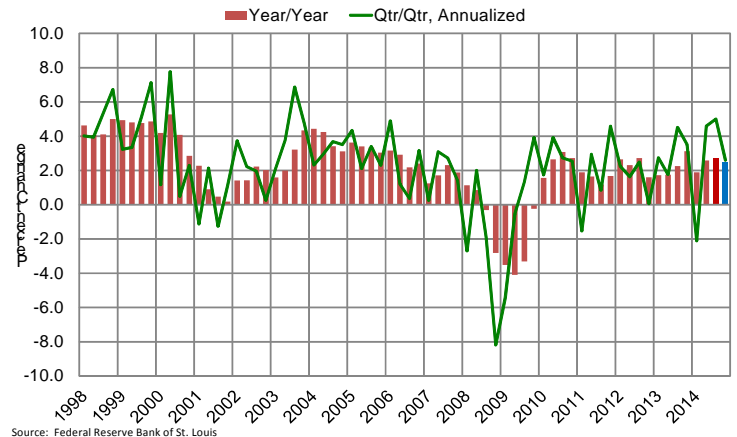
Gasoline and oil futures gained significant value for the second straight day yesterday and are higher in overnight trading as workers enter their third day of a strike at nine U.S. refineries. According to news reports, only one of those nine refineries is expected to shut down soon and that shutdown is related to maintenance needs. Management is stepping in to run the other eight refineries pending resolution of the labor stoppage. According to Reuters, the companies that are the targets of the strikes operate 63 plants and the nine being struck represent about 10 percent of U.S. refining capacity. Nearby RBOB gasoline futures have gained about \$0.18 per gallon (12.9%) since last Thursday and were trading at \$1.5712 as of this writing. Nearby crude oil futures were trading at \$50.70 as of 7:30 a.m. Central this morning, up \$6.17 (13.8%) from last Thursday's close.

At what point must relative meat and poultry prices return to some semblance of "normal"? Friday's Cattle report suggests that they will eventually get closer to past relationships but how long will the process take? We suspect it will take a while given the time needed to get heifers bred and calved and calves to market weight but the incentives to get that done are getting remarkably large!

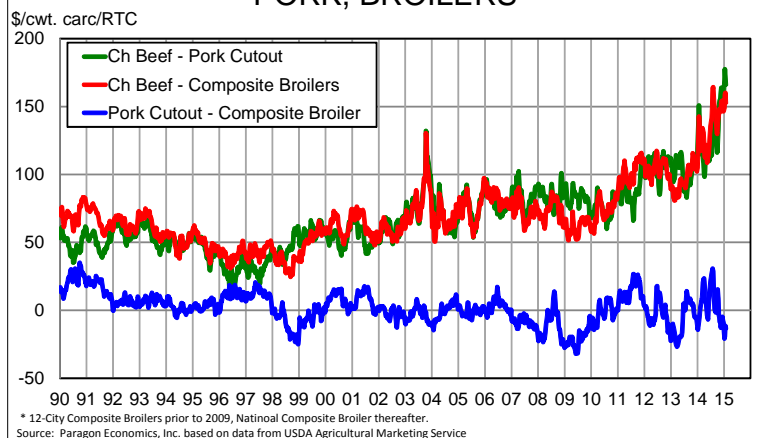
The chart at right shows the ratios of weekly wholesale prices for beef, pork and broilers since 1990. It is clear that these relationships are fluid but that they usually stay within ranges and tend to return to those ranges when ever they stray. That appears to have been more true prior to the grain price and feed cost disruptions of the mid-'00s and that makes sense — all three of the sectors have had to discover new price relationships relative to one another and to costs.

The pork-chicken relationship was remarkably stable from 2000

U.S. REAL GDP, YR/YR & QTR/QTR CHANGE, QUARTERLY



WHOLESALE PRICE SPREADS -- BEEF, PORK, BROILERS



onward until expansion in 2008 (largely due to circovirus vaccines) and 2009's "swine flu" challenge drove pork prices well below their normal relative value with broilers. The relationship has been more volatile since then but remains centered on par — equal values for both species. The recent selloff in pork cut values has given pork a short-run advantage.

But the real question is whether beef can maintain these record-high premiums relative to both species. It appears that a new "normal" range may have been established from 2011 through 2013 but the past 13 months — and especially the past six — have seen the spread reach epic proportions. We doubt severely that such spreads can be maintained for very long.

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