



Canadian Meat Council Conference

Meat industry competitiveness

7 May 2010

Bill Cordingley
Head of Food & Agribusiness Research and
Advisory

What is Rabobank International?



- **Rabobank** is the largest global agribusiness bank
- **Rabobank** is an AAA rated financial institution
- **Rabobank** is one of the few global banks that did not have required government support
- **Rabobank** has a global network of dedicated research professionals



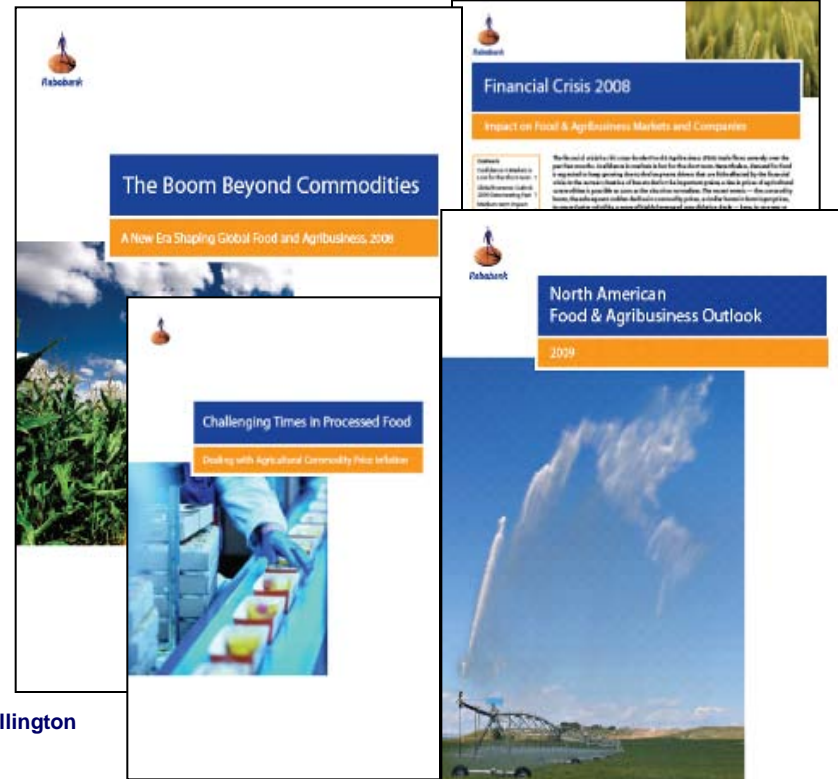
Food & Agribusiness Research



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Global network, local F&A expertise

Rabobank's Global Food & Agribusiness Research Network



Animal Protein



Beverages



Clean Tech



Dairy



Farm Inputs



Food



Fruit, Veg & Flowers



Grains & Oilseeds



Non-food



Sugar, Cotton, Coffee & Cocoa

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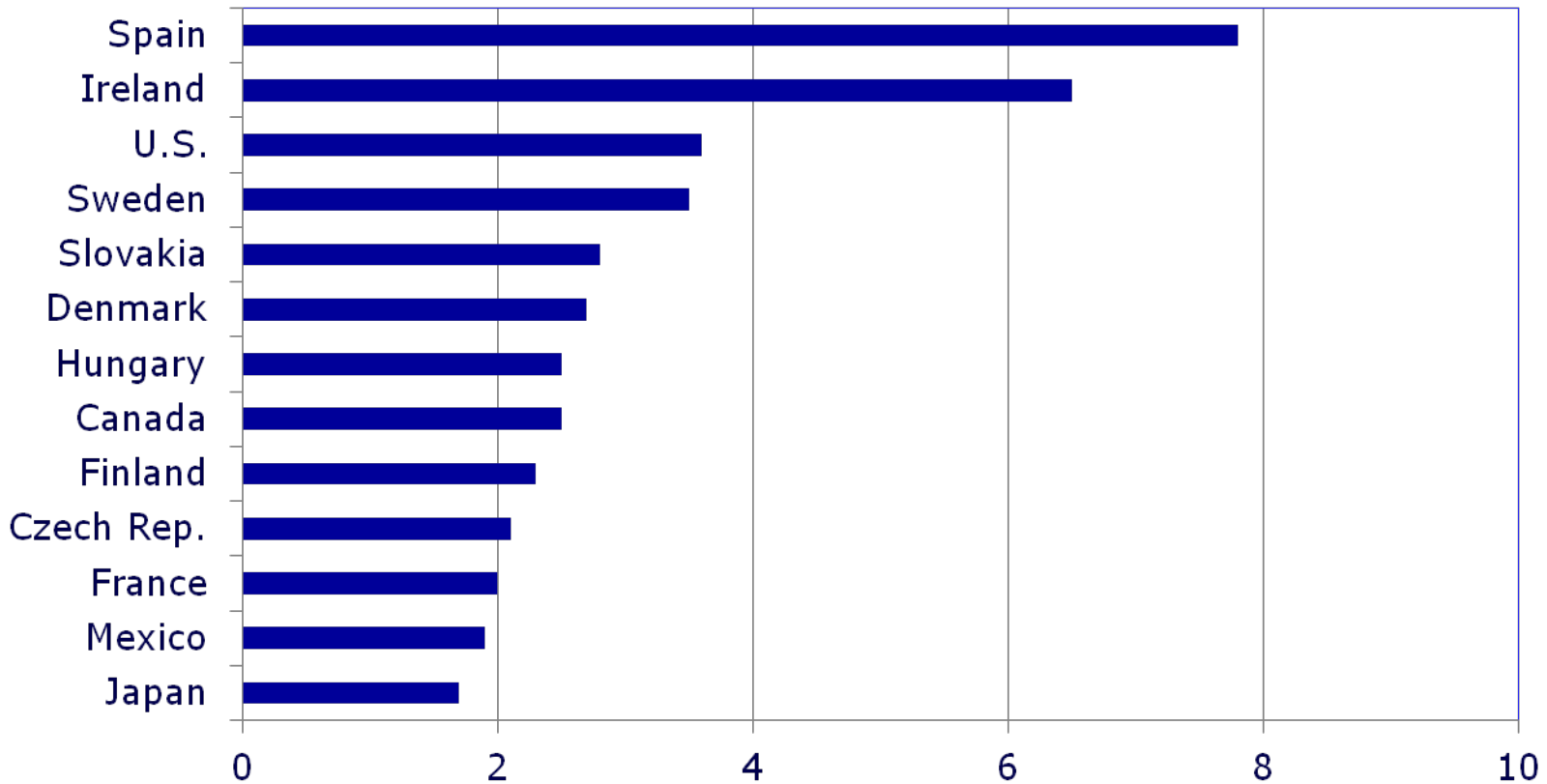
The commodity boom followed by the global economic crisis presented huge challenges to the global animal protein industry



Global recession saw a huge uptick in unemployment



Annual percent variation in unemployment in selected countries

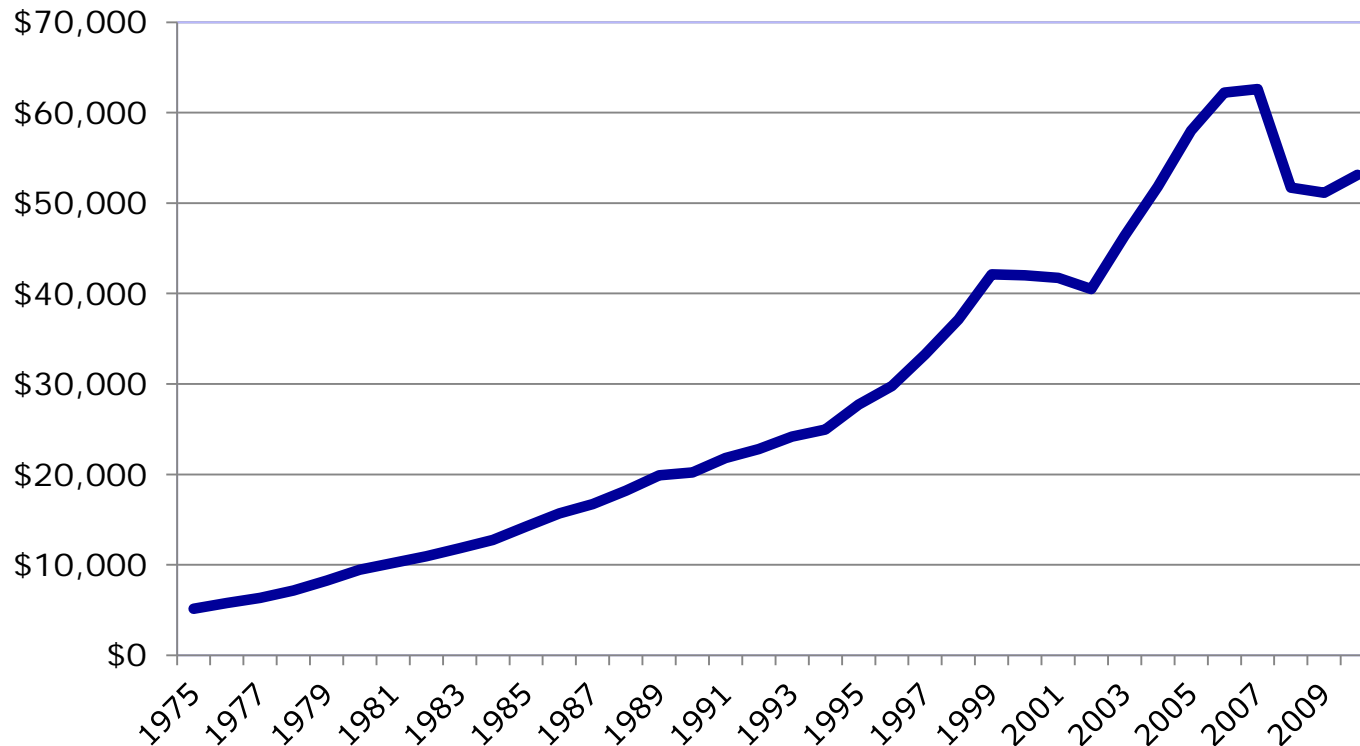


Source: OECD

... consumers saw part of their wealth disappear



Net wealth of U.S. households



Source: Rabobank with data from the U.S. Federal Reserve

Consumers changed their habits spending less and where they spend:



How they spend

- Less disposable income
- First comes spending on the basics What is basic?
 - Food is basic
 - What foods?
- Changing spending strategies
 - Buy less high cost products
 - Trading down – eating at home rather than restaurants

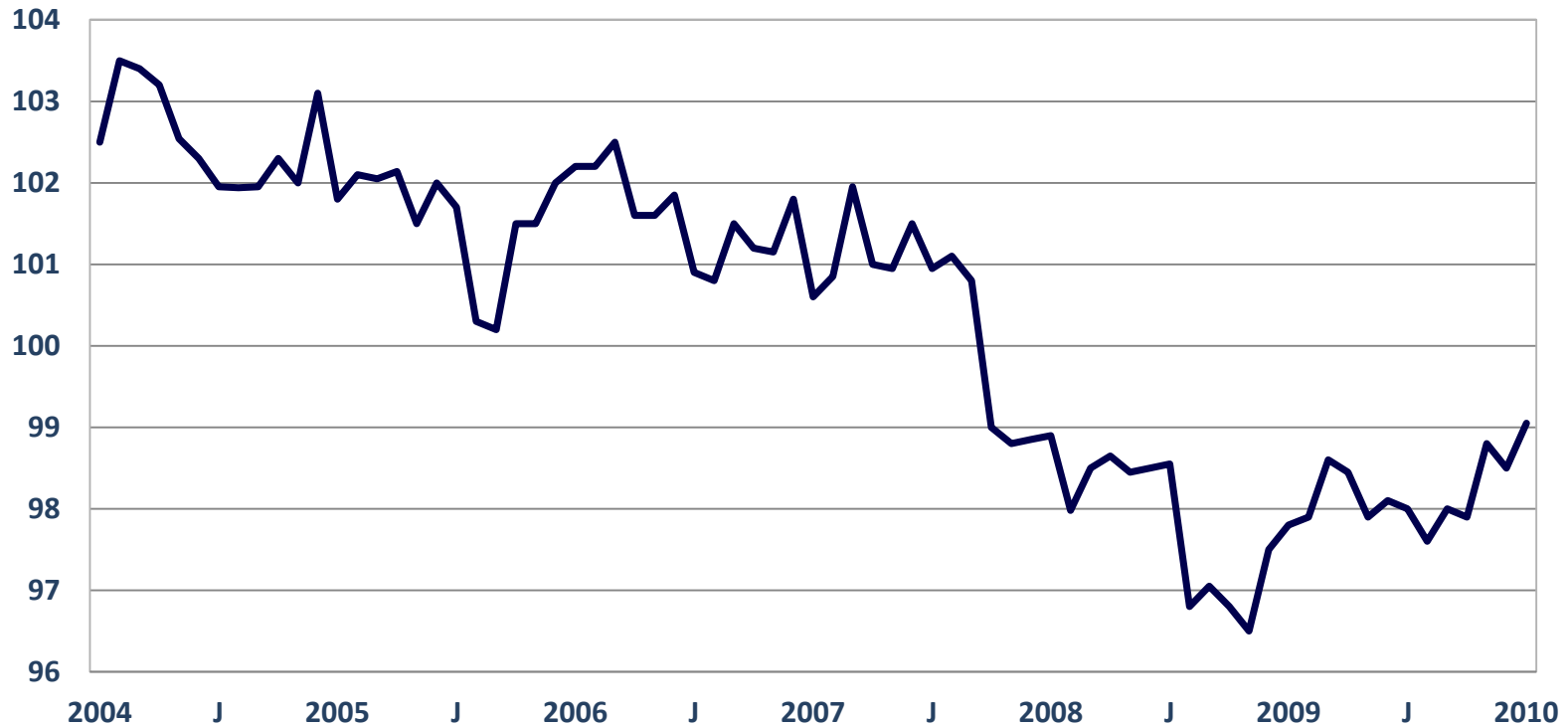
Where they spend

- Slowdown in growth in the retail sector and food service
 - ✓ Increased unemployment
 - ✓ Poor economic performance
- Restriction on credit card use
- Limited financing for expansion plans
- Pressure on food companies:
 - ✓ Extend payment period
 - ✓ Hold line on or reduce prices
 - ✓ Products more in line with what consumers will buy
 - ✓ In-house brands

..consumers either stopped going out to eat or traded down

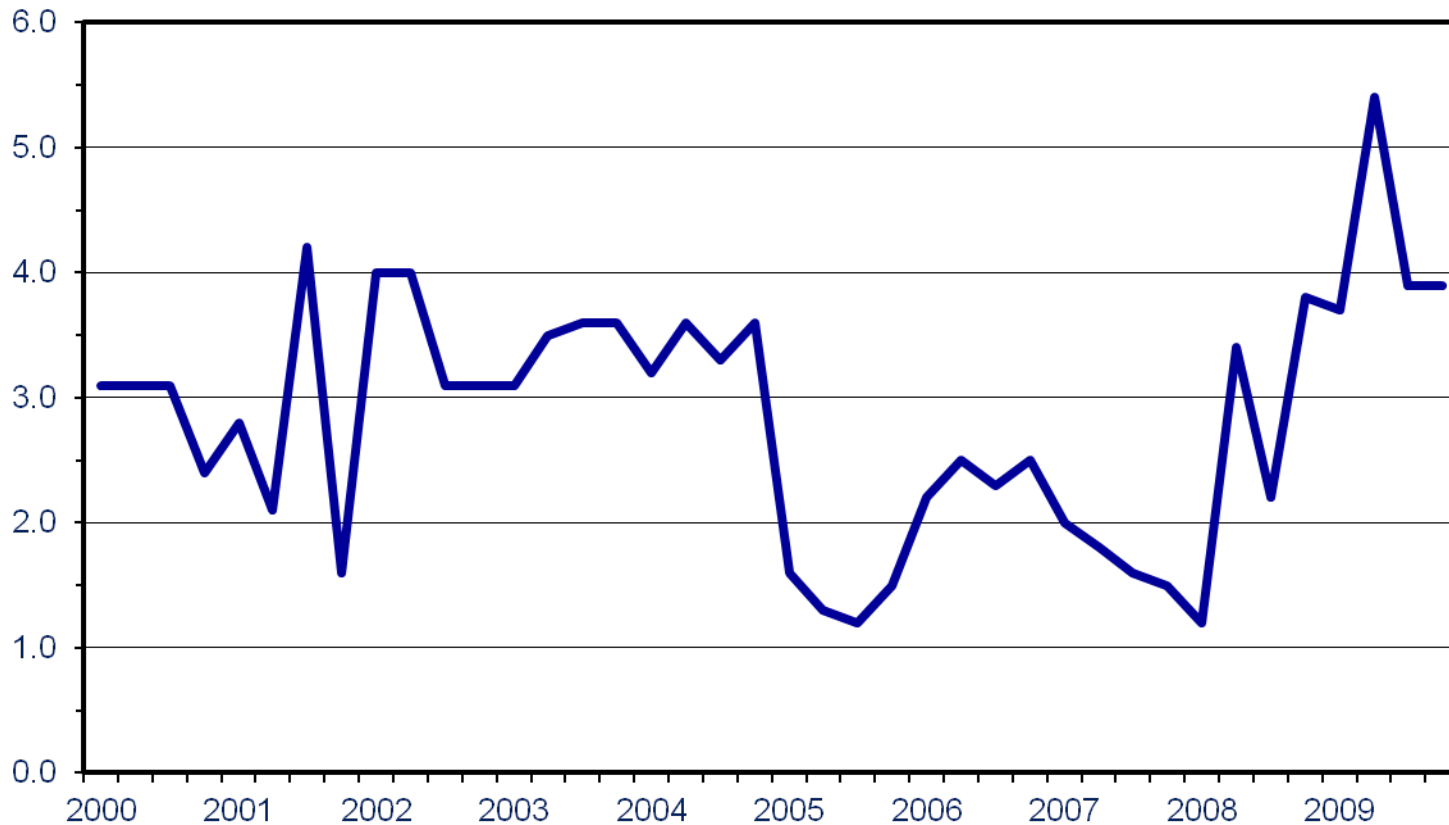


Restaurant Performance Index: values over 100 indicate expansion



Source: Rabobank with data from CEM Group and National Restaurant Association

... and, personal quarterly savings as a percent of disposable personal income (current dollars) has stopped falling



Source Livestock Marketing Information Center with data from Bureau of Economic Analysis

...with the impact felt throughout the meat value chain

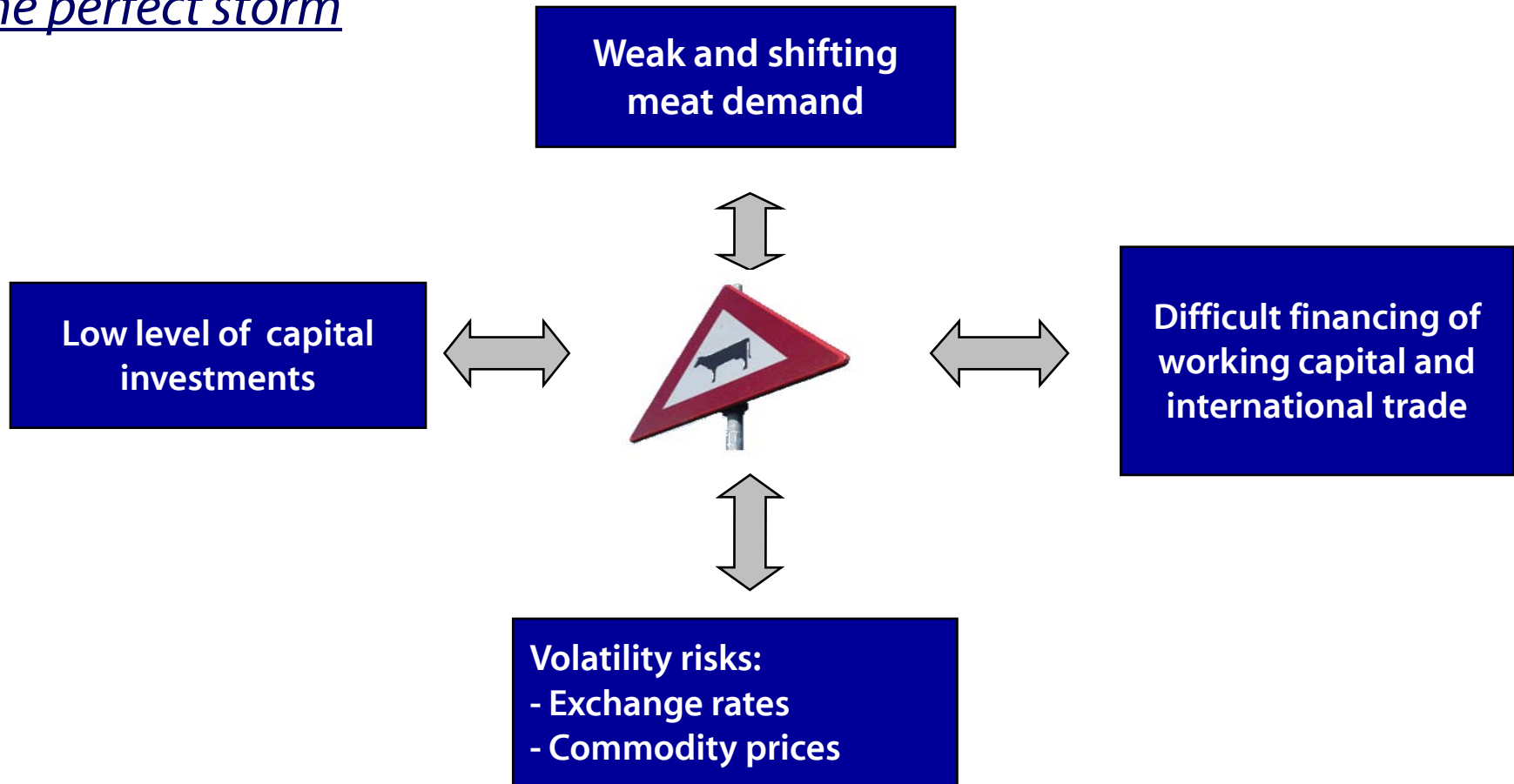


- Pressure on farm gate prices for most commodities
- Credit from banks available but more stringent
- Softening demand
- Increasing FX volatility
- Trade finance availability greatly tightened, especially for riskier destinations
- Global trade shrank by 10% in 2009, first decline since WWII
- Fall in business confidence
- Tightening credit lines
- Running down inventories
- Hand to mouth
- Falling consumer confidence – wealth effect
- Change in eating patterns
 - eating in
 - Trading down, cuts and less high end eating out.

Meat producers have had to operate in an environment that was both unknown and uncertain...



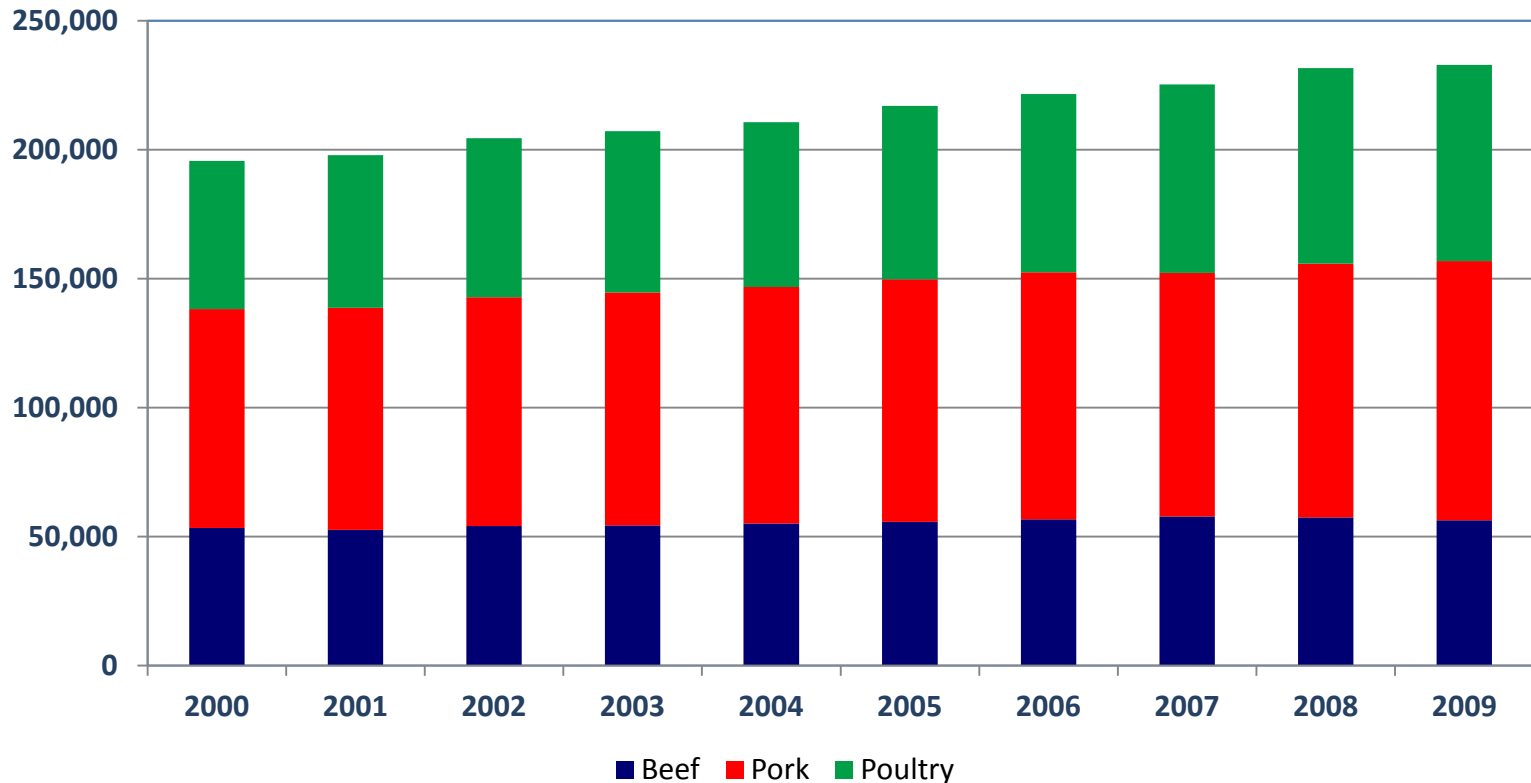
The perfect storm



Global meat consumption flat last year, after having grown 2.1% annually during the decade...



Meat consumption: '000 MT



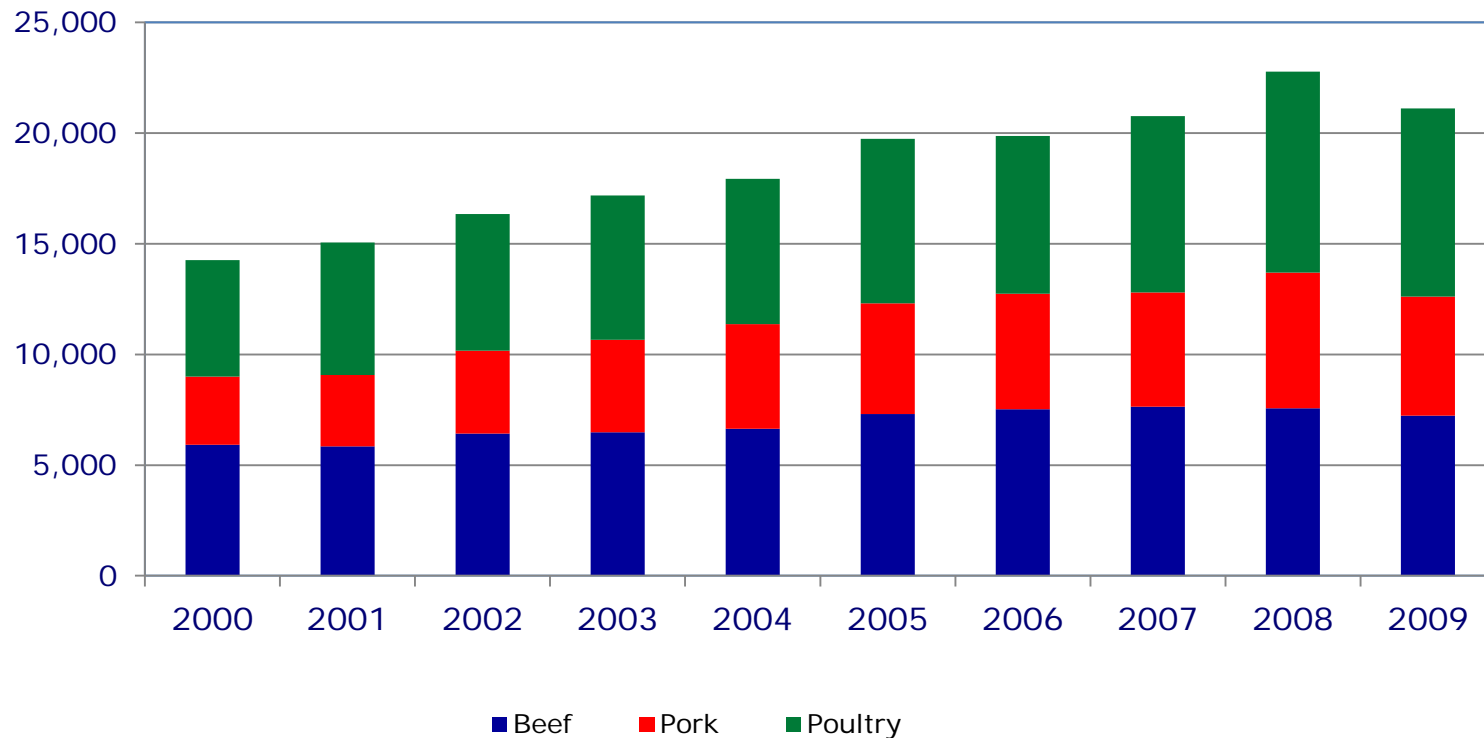
Source: Rabobank with data from USDA



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...exports contracted for the first time this decade (-7.3%)

World meat exports: 1,000 MT

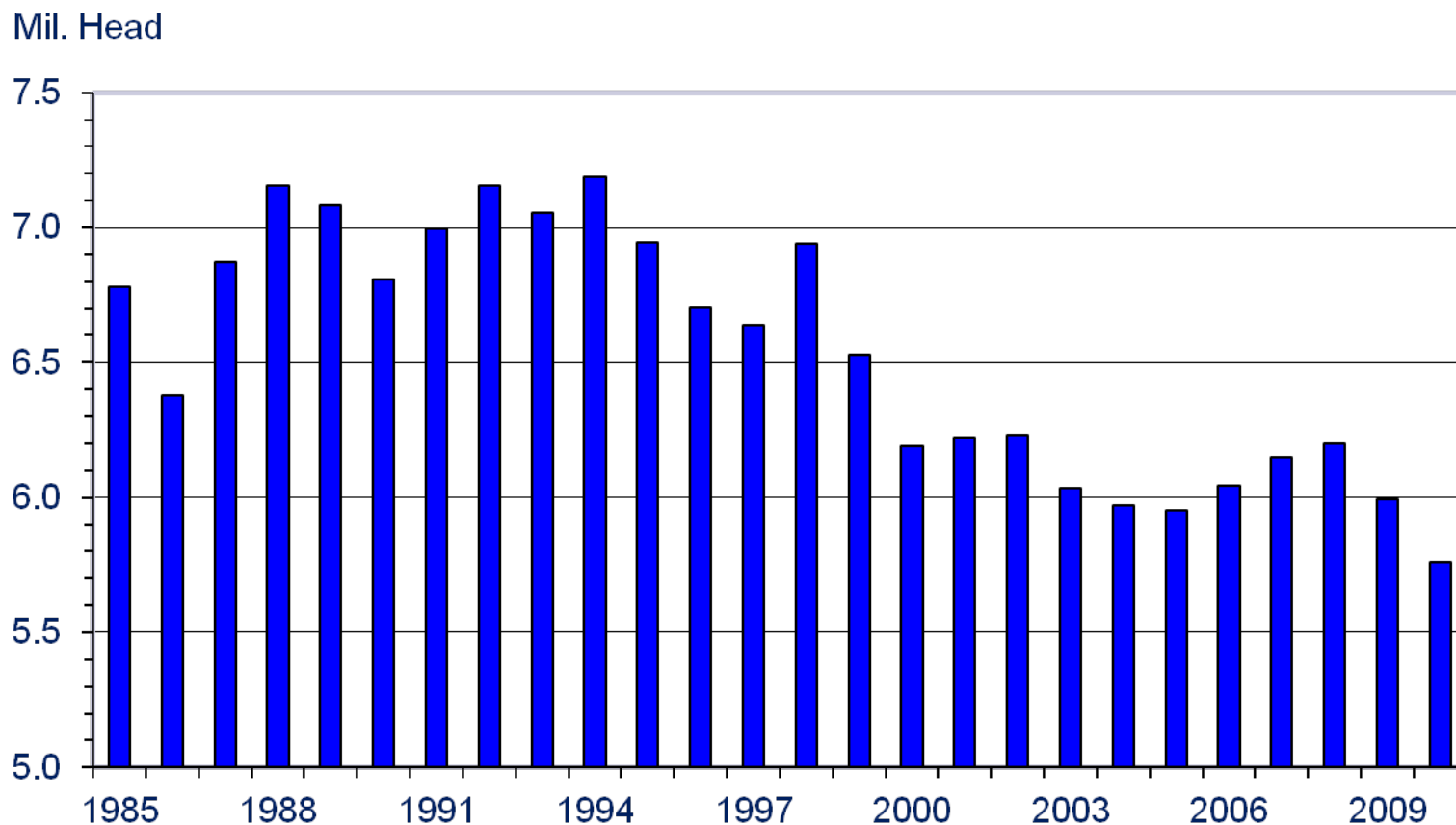


Source: Rabobank with data from USDA



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...as the hog breeding herd turned downward: March 1 inventory



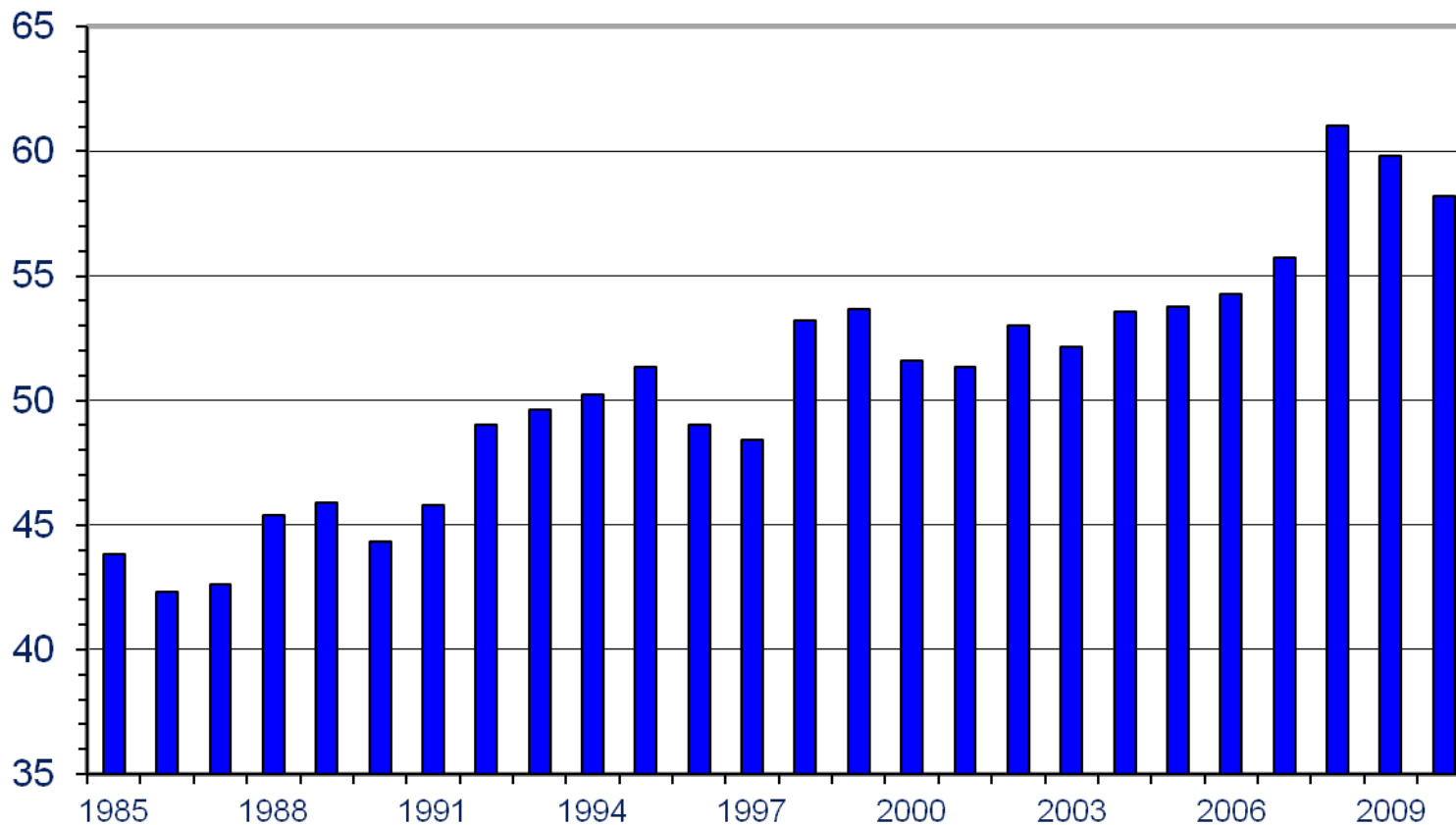
Source Livestock Marketing Information Center with data from USDA/NASS



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...and, less hogs are available for marketing: March 1 inventory of market hogs

Mil. Head

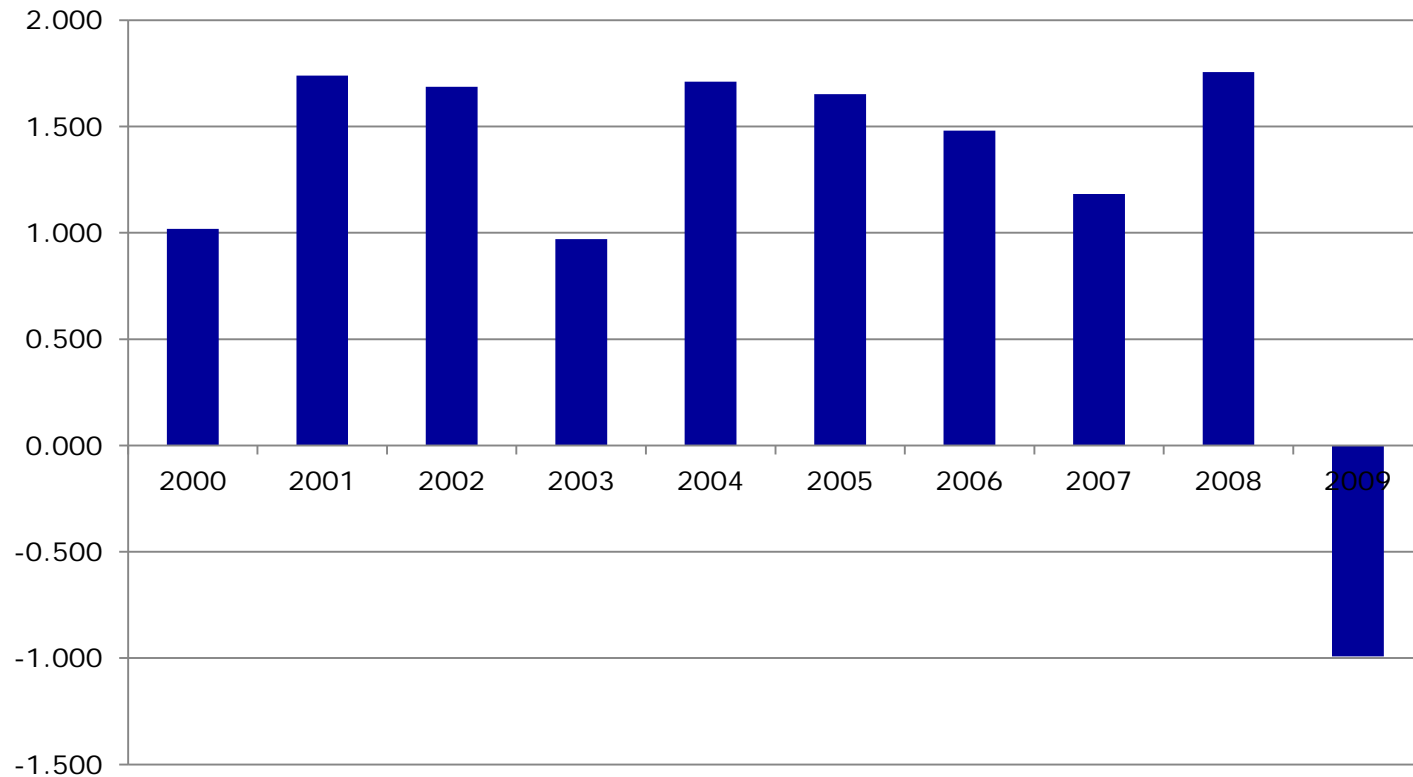


Source Livestock Marketing Information Center with data from USDA/NASS

Weak demand and stronger CAD sent the US Ag trade balance into deficit for first time in decade



Canada Ag trade balance with US (USD billion)

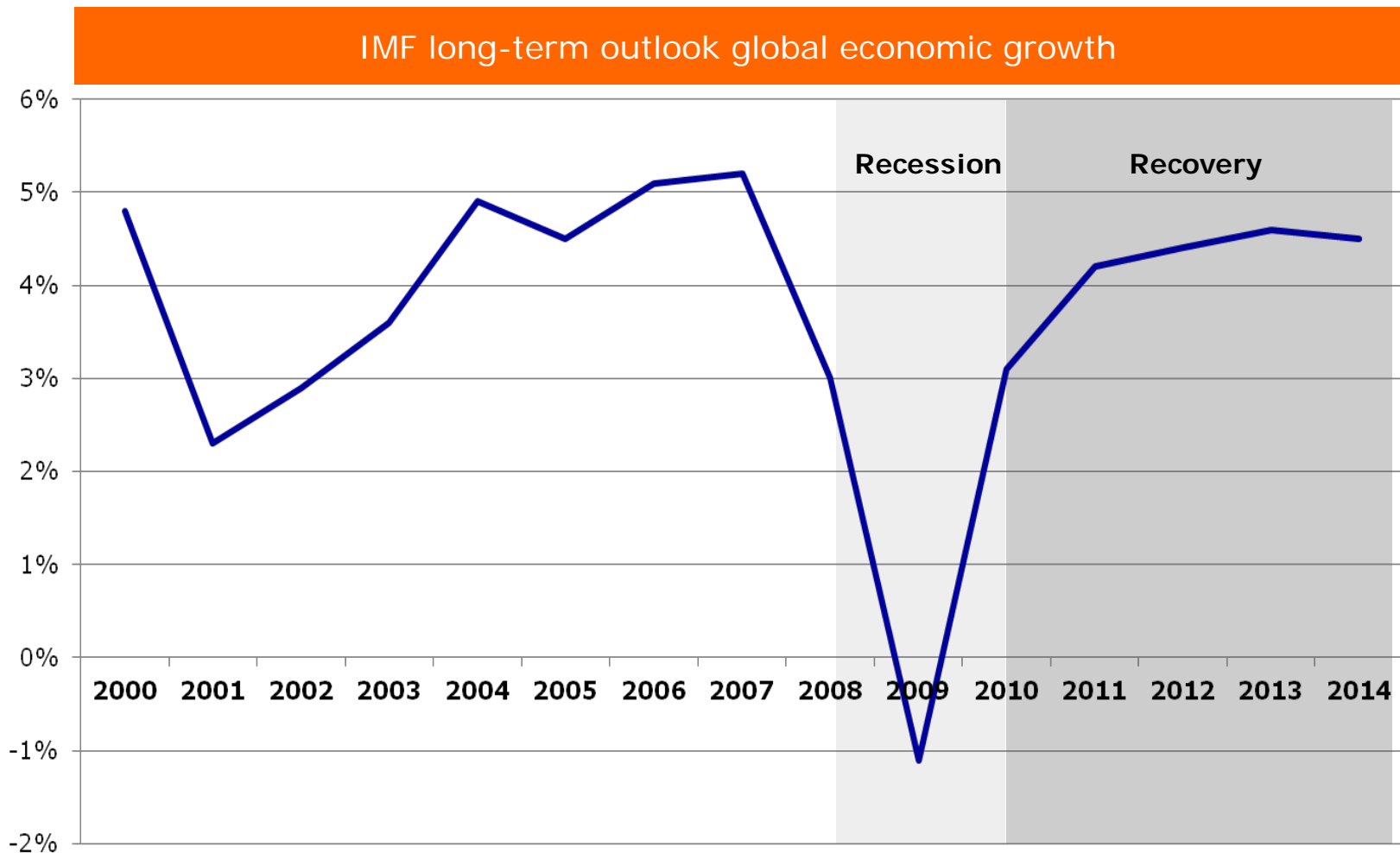


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Global economy recovering better than expected but risks abound

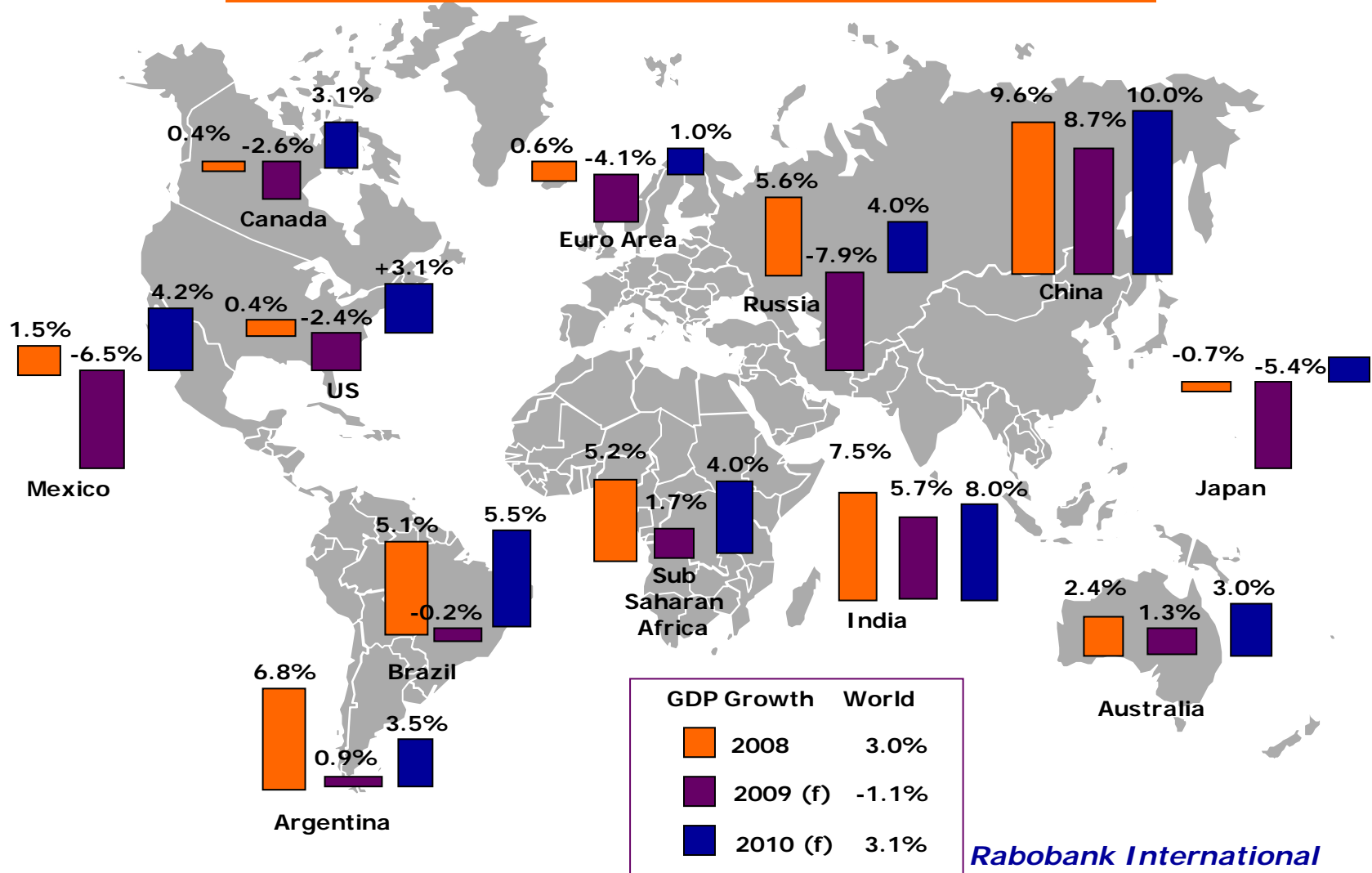


Source: IMF, October 2009

An uneven recovery around the globe!

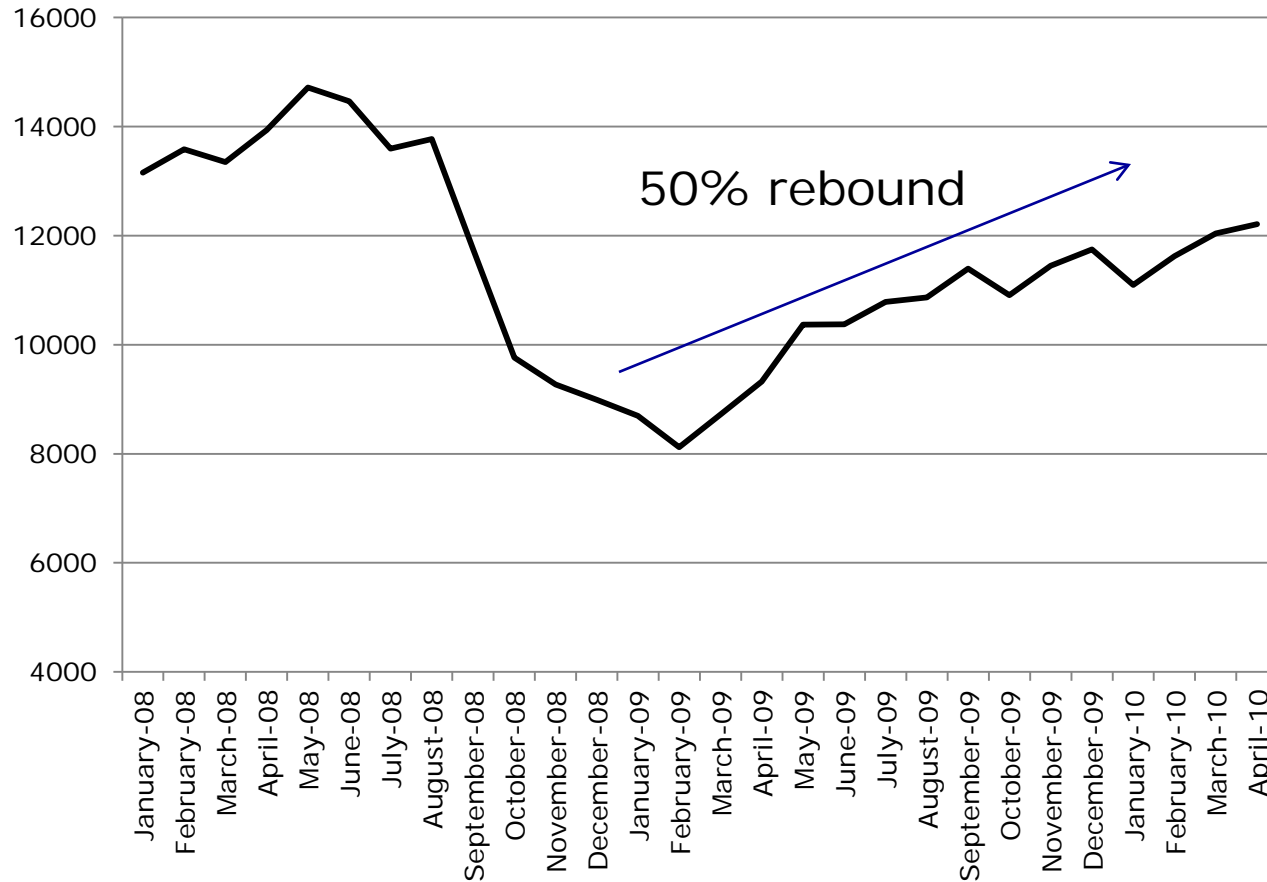


GDP - 2008, 2009, 2010

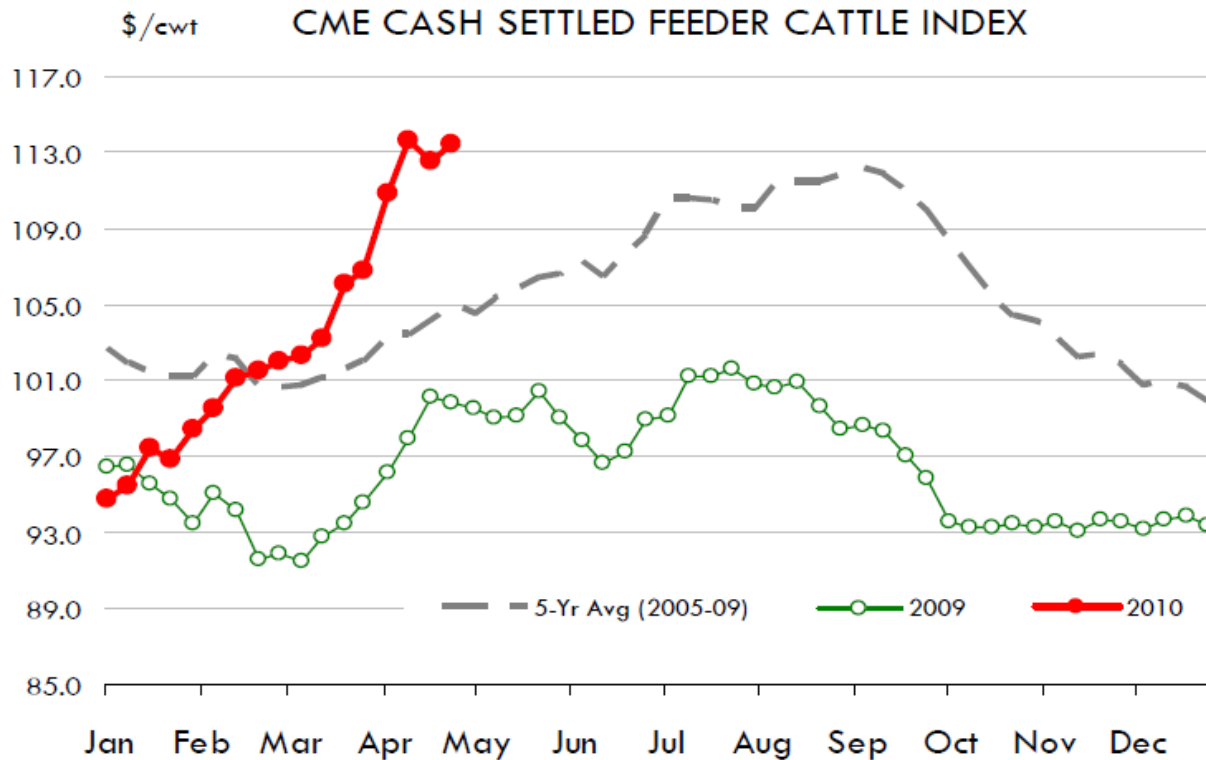


Canada economy improving

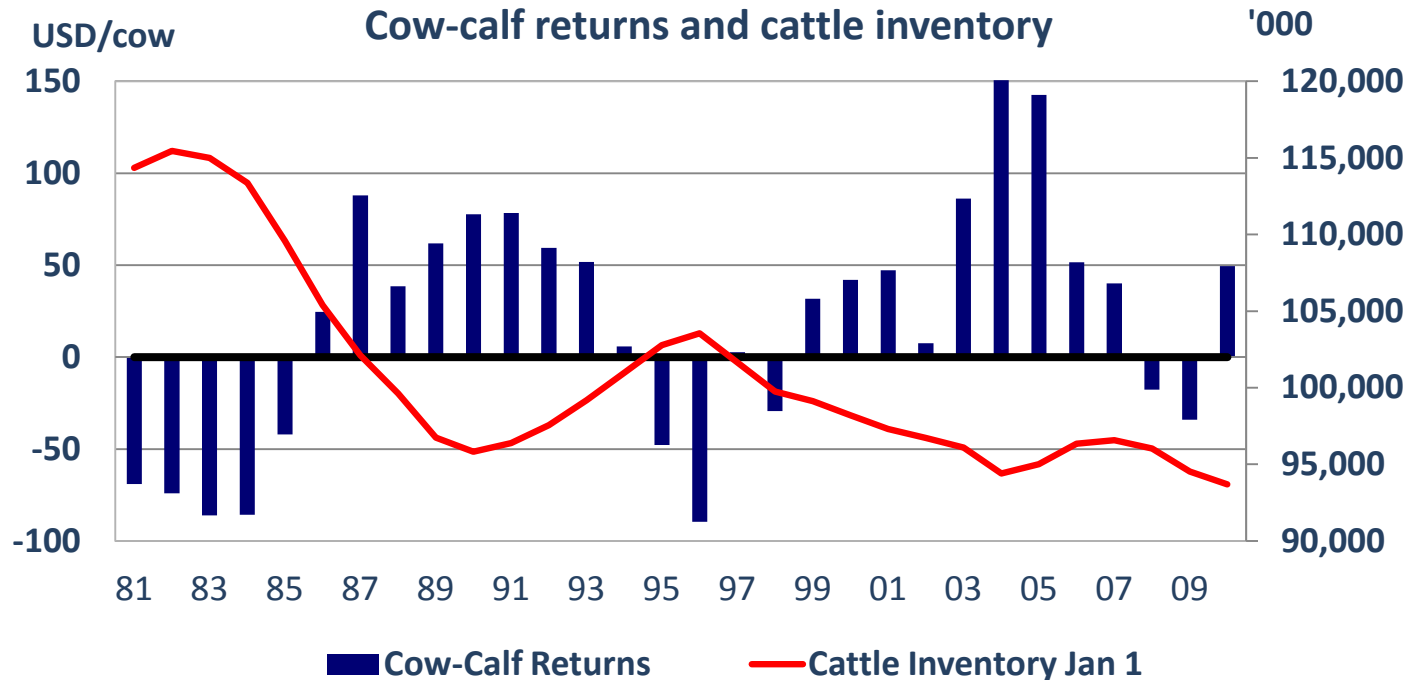
SPTSX - Toronto Stock Exchange



Livestock and meat prices have spiked due to tight supplies and recovering demand

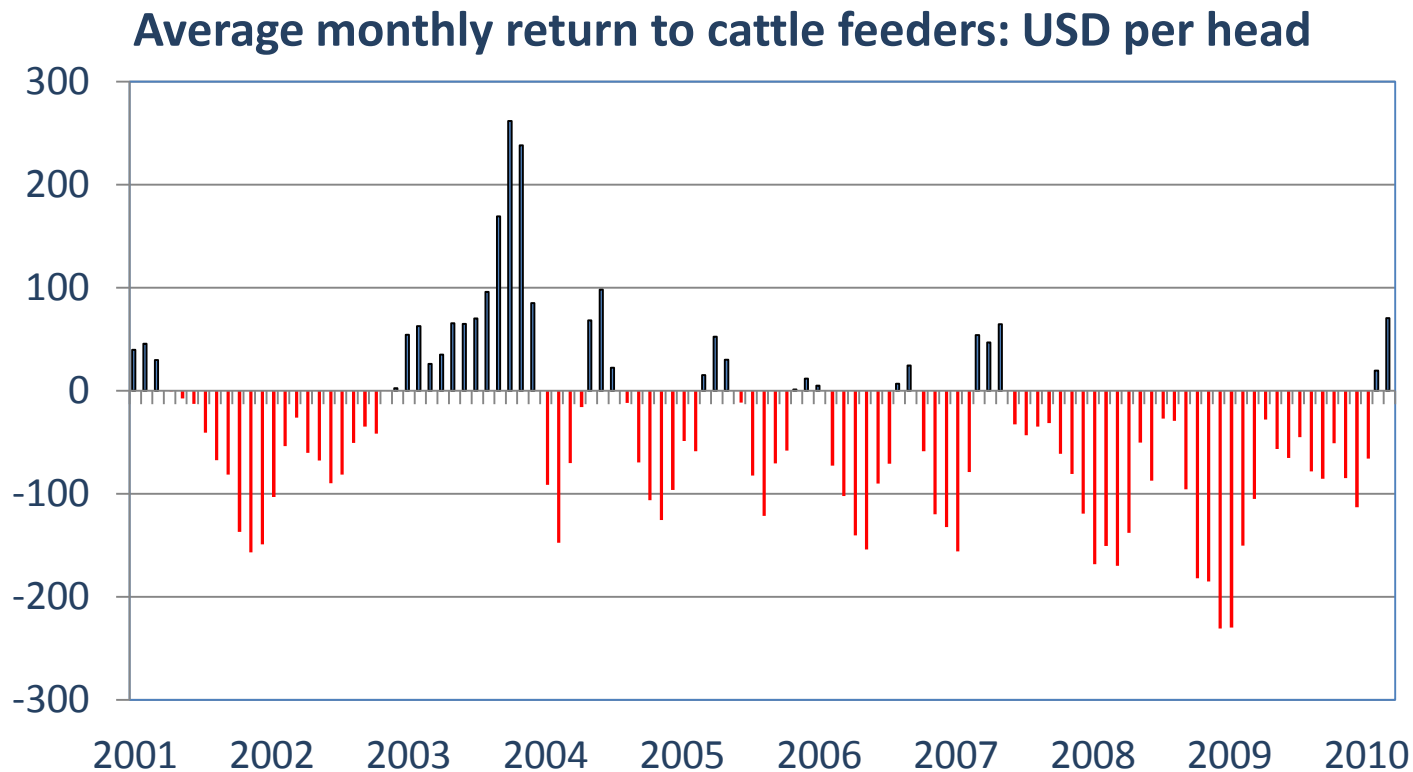


Returns have turned positive, but the cattle cycle not expected to reverse soon



Data Source: Livestock Marketing Information Center USDA/NASS

An ugly decade for cattle feeding – lower grain prices and higher fed cattle prices have improved returns for feeders

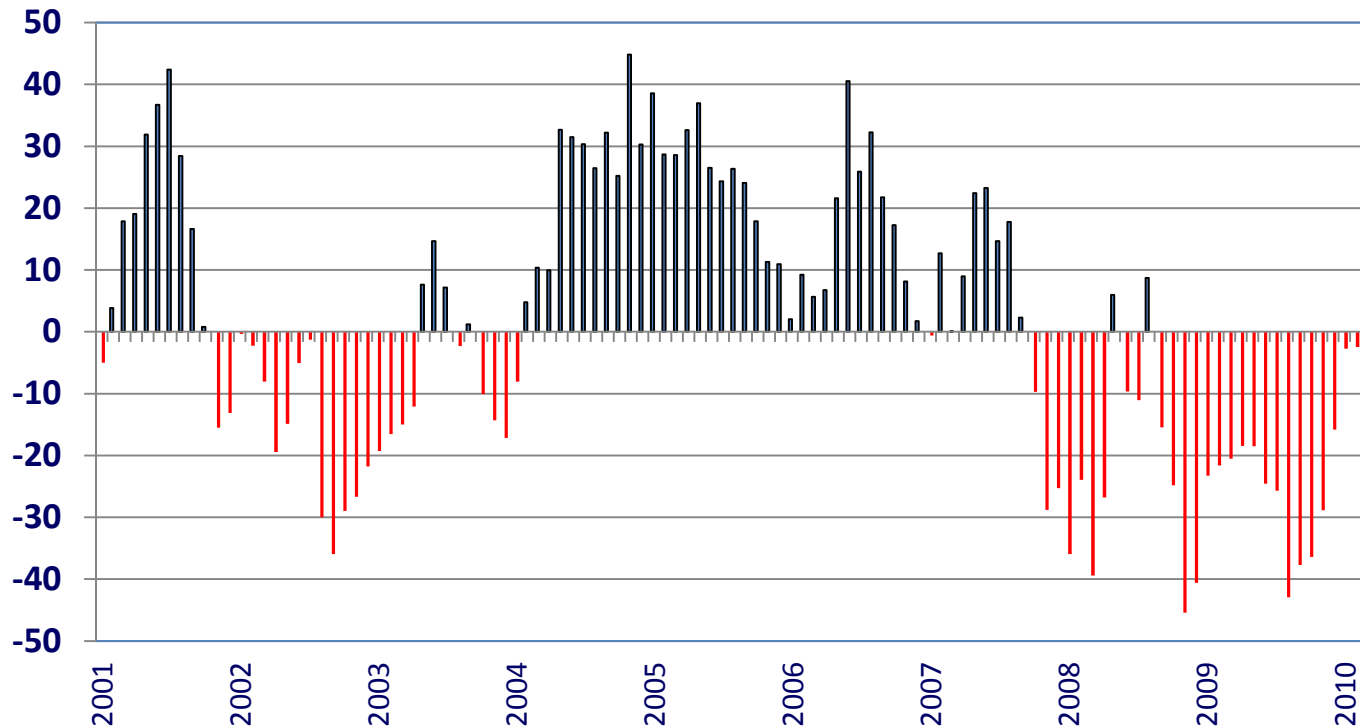


725 Lb. Steers, S. Plains
Source: LMIC

After losing money for 27 of the last 29 months hog operations are finally looking at positive numbers...



Farrow to finish monthly profits: Iowa USD per head



Source: Iowa State University

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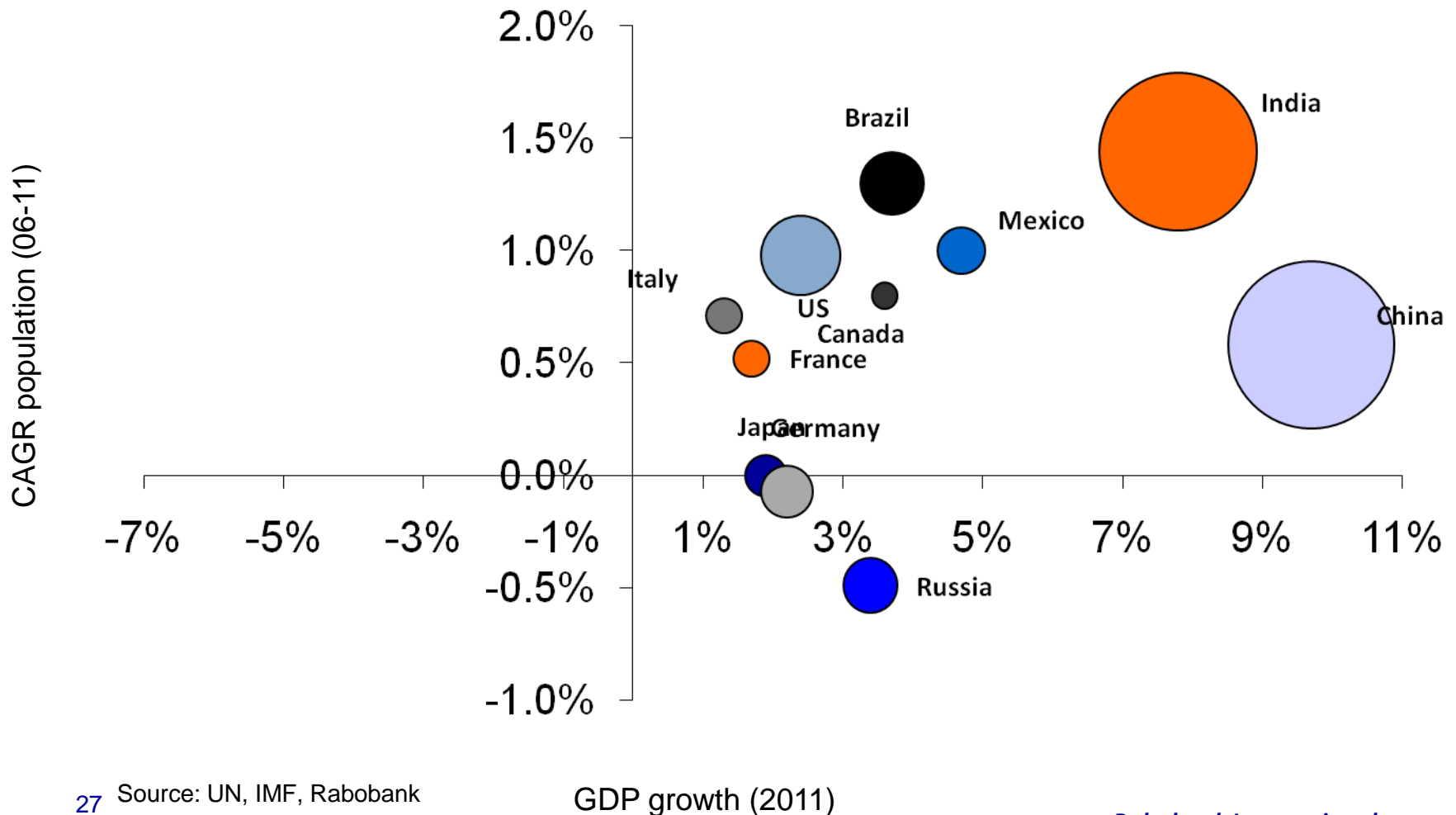


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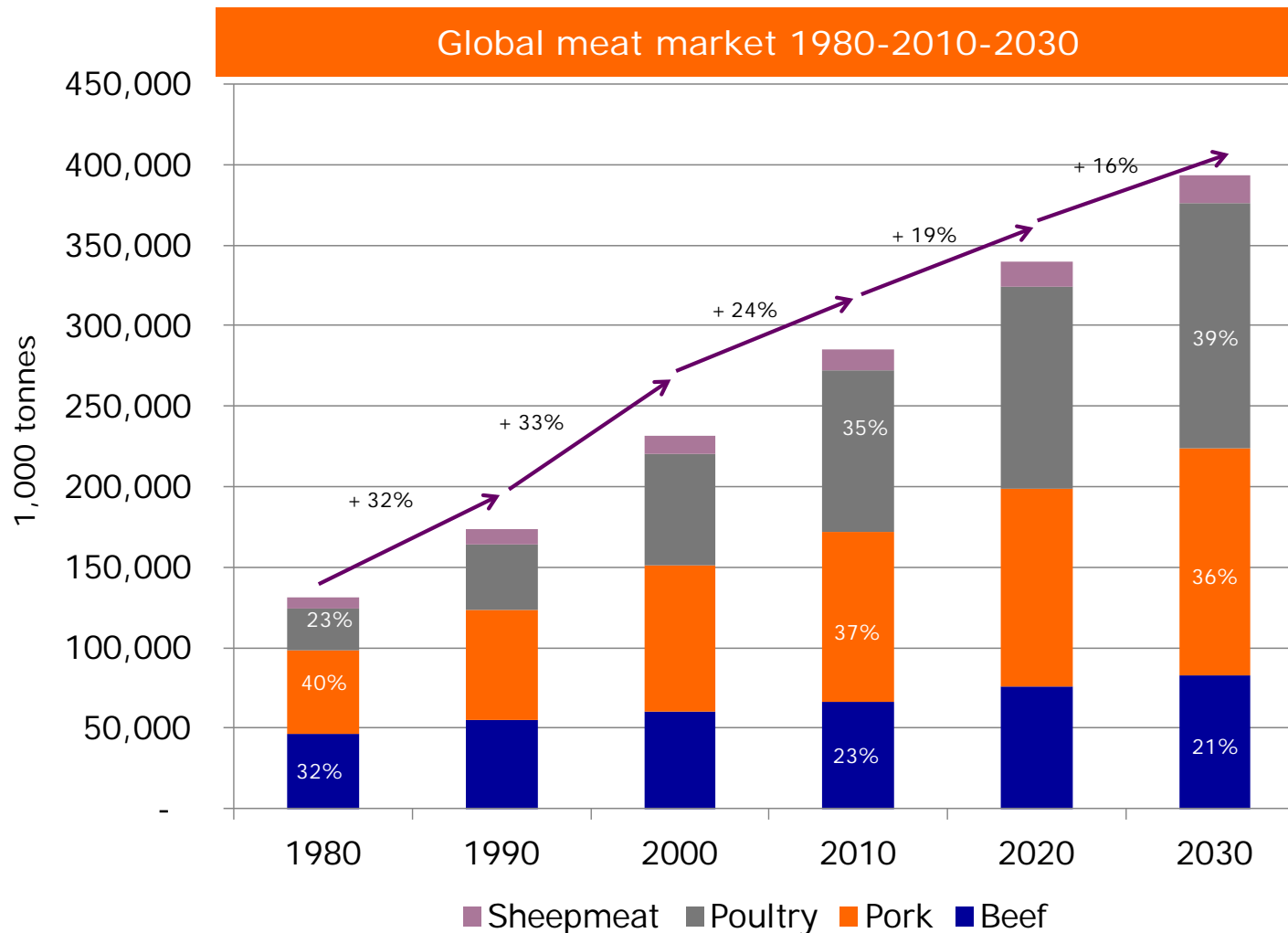
Income and Population Growth Drive Increased Food Consumption



Income and population growth in selected countries



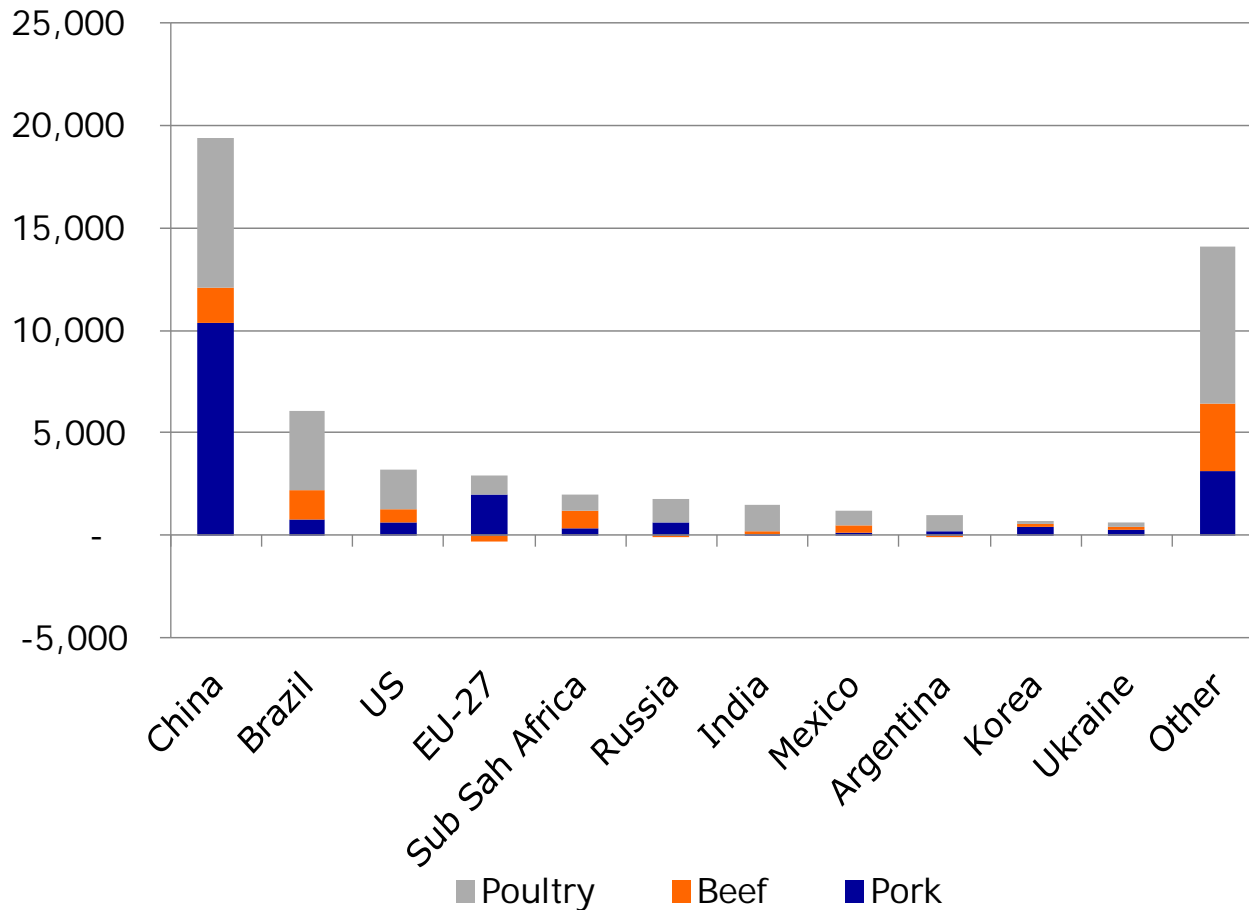
World meat market to grow almost 40% in next 20 years



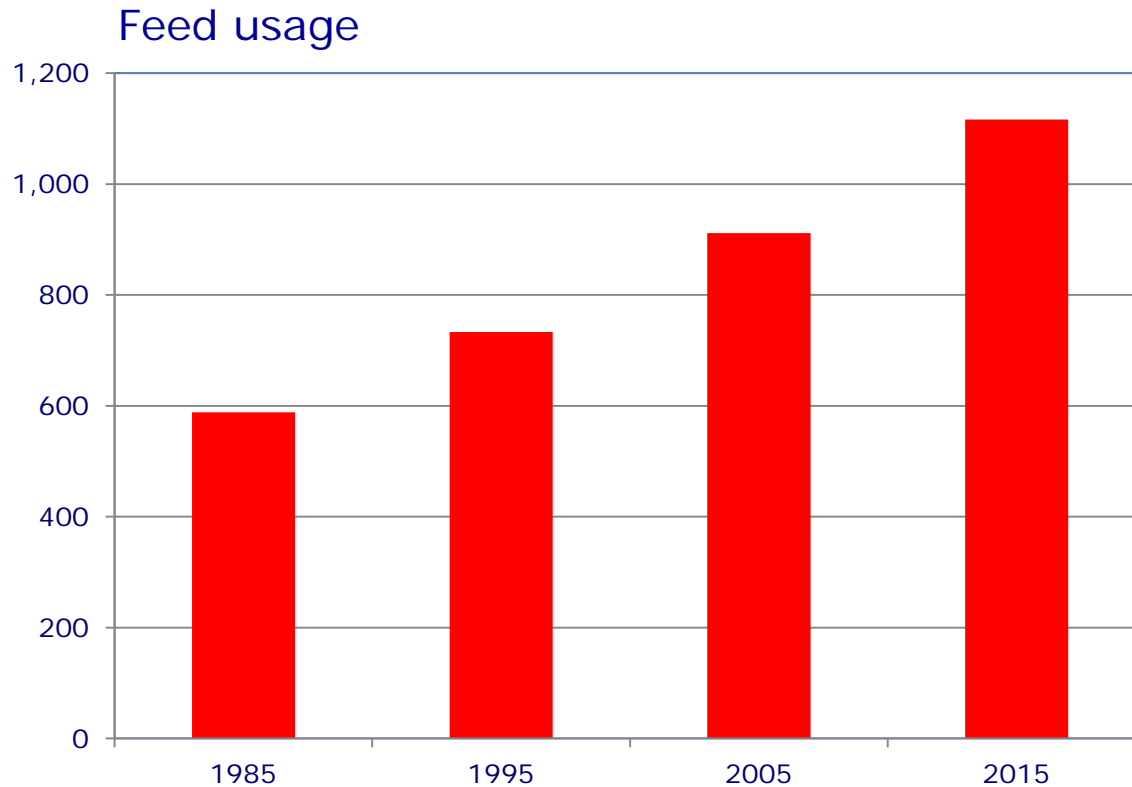
70% of global growth in demand for meat will be in Asia



Market growth estimate for key meat markets 2010-2020

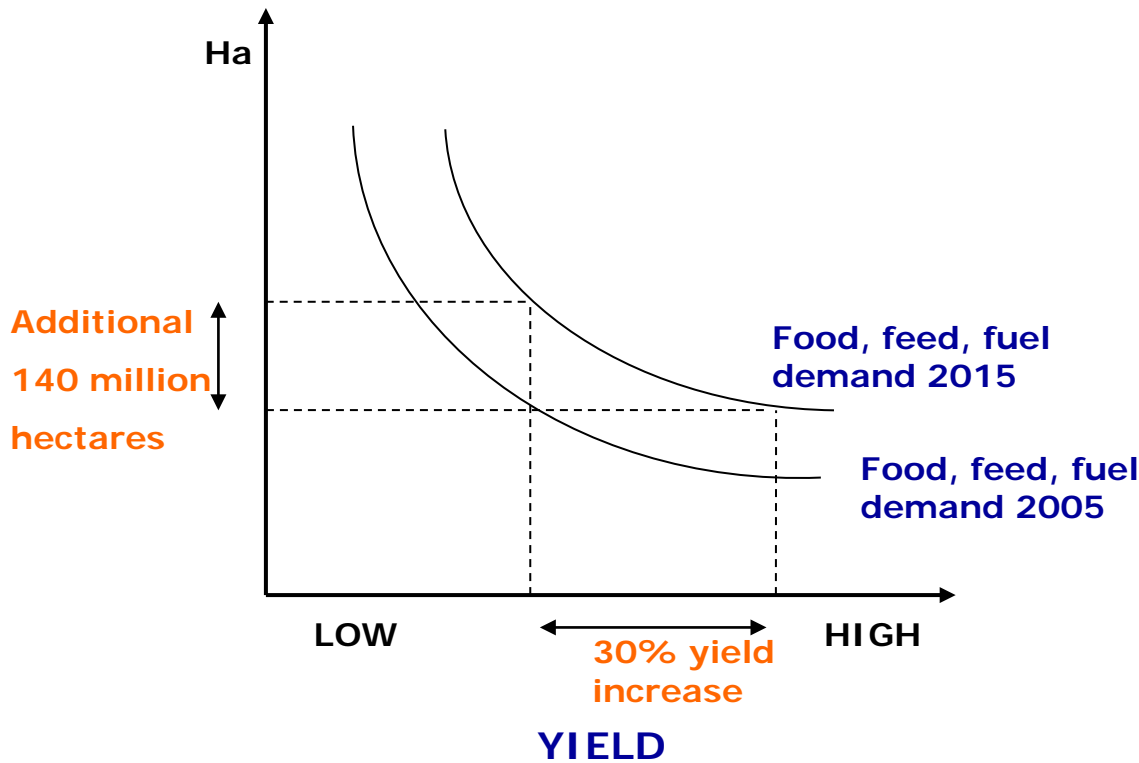


The growth in demand for meats translates into an increase demand for feed: million MT

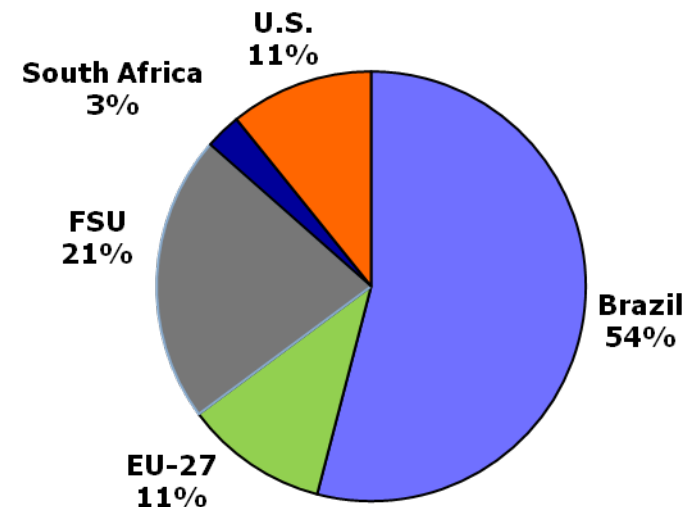


Source: FAO and Rabobank estimates for feed usage

Everything else equal we'd need 140 million hectares

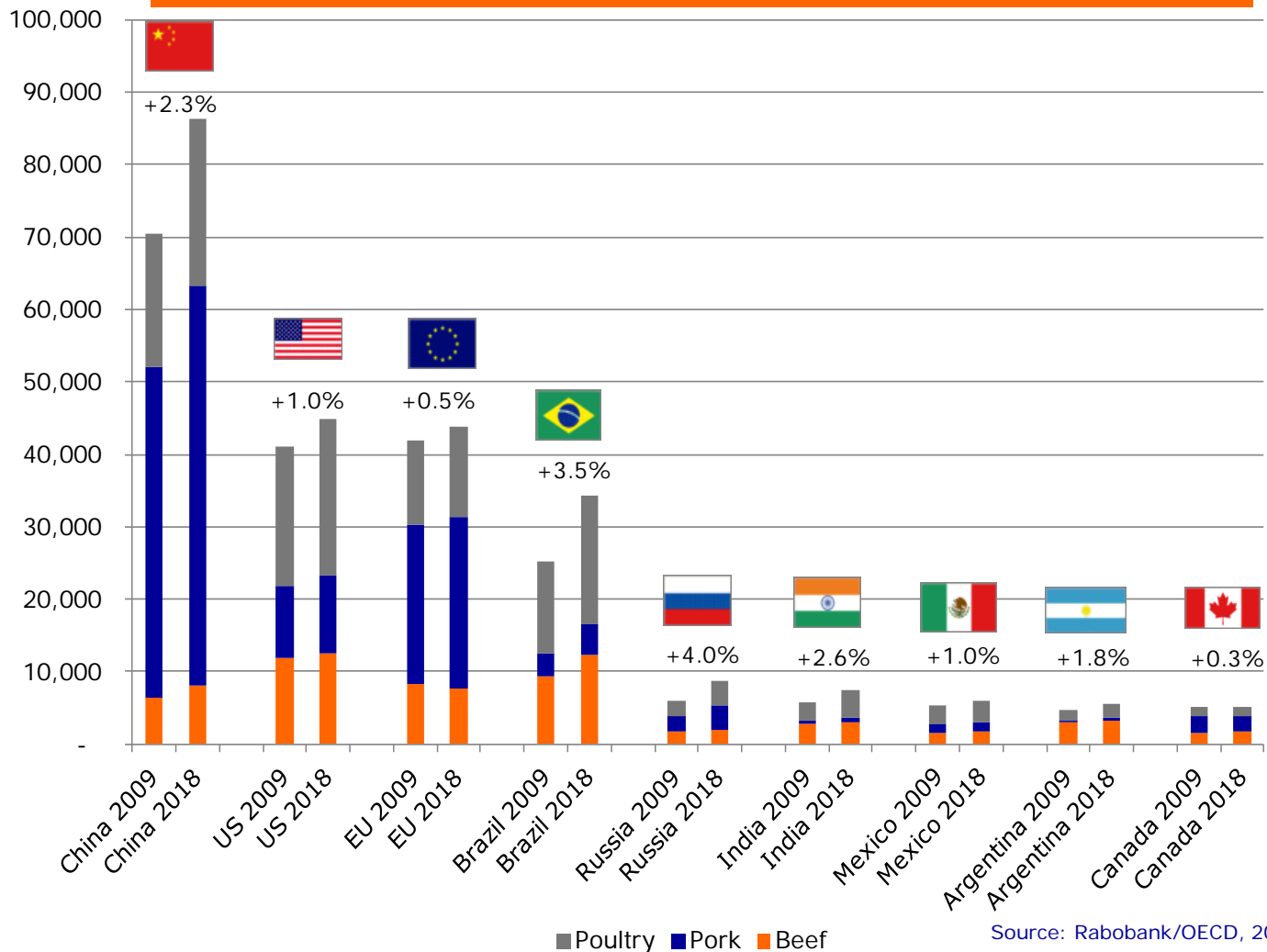


Available arable land



Future meat production growth

Global meat production 2009 – 2018 (1,000 tonnes and CAGR 2009-2018)



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Structural shifts in Canadian meat industry competitiveness



Negatives

- **Disease/access**
- **COOL**
- **Ethanol**
- **Recession**
- **CAD**
- **Environmental regulations**
- **Obesity**

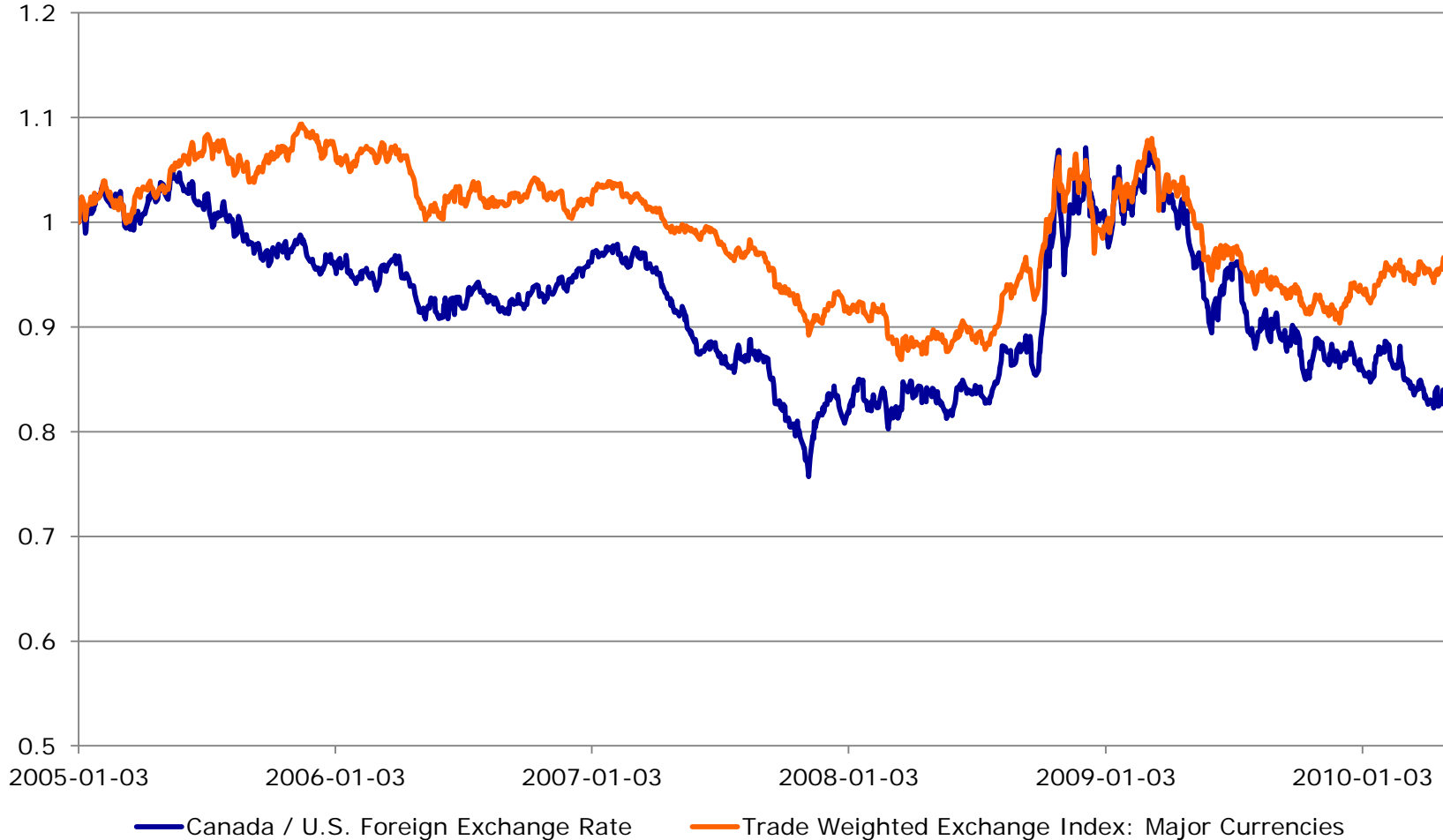
Positives

- **Efficient production system**
- **Quality and safety**
- **NAFTA treaty**
- **Advanced technology**
- **Location – US/Asia**

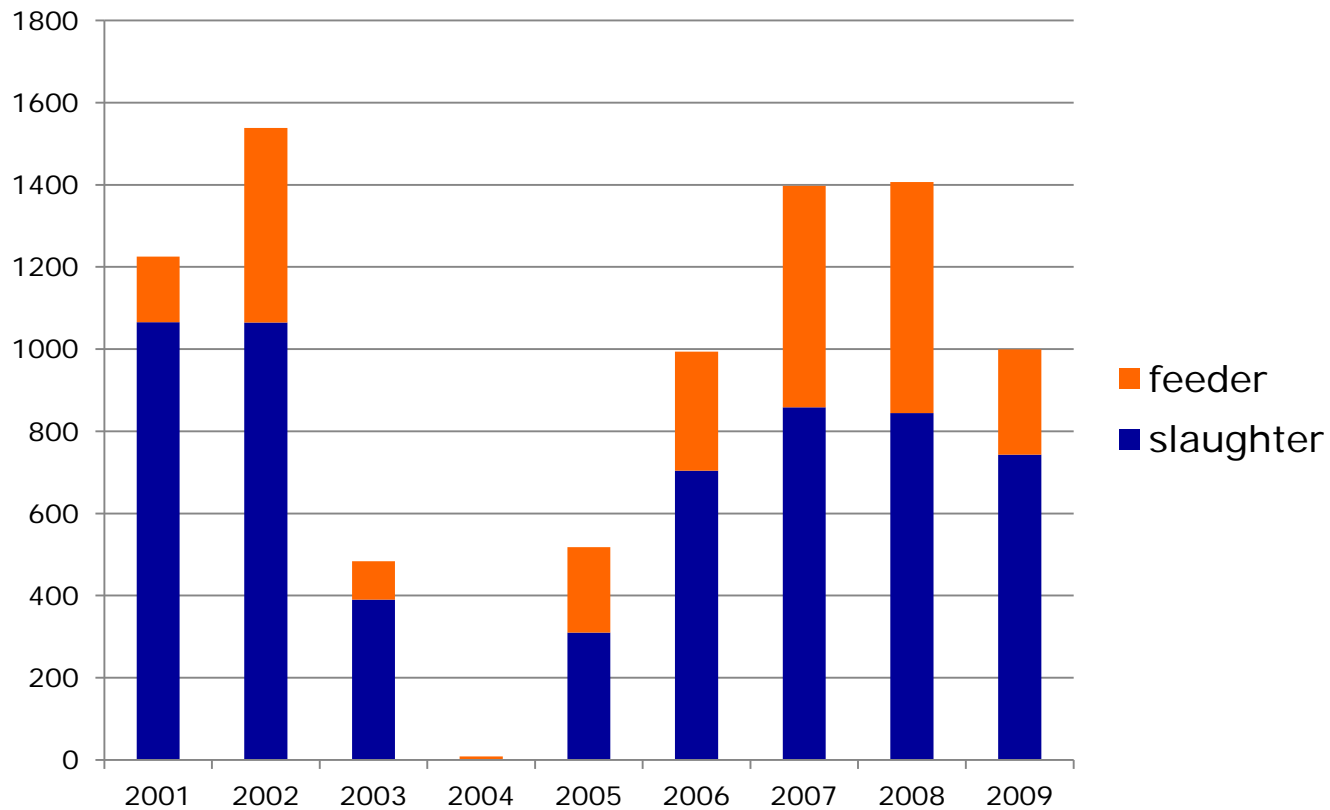
A strong currency challenges Canadian competitiveness



Index of CAD to USD and TWI to USD 2005 - 2010



Live cattle and hog exports falling due to COOL



...the industry is under pressure:
obesity



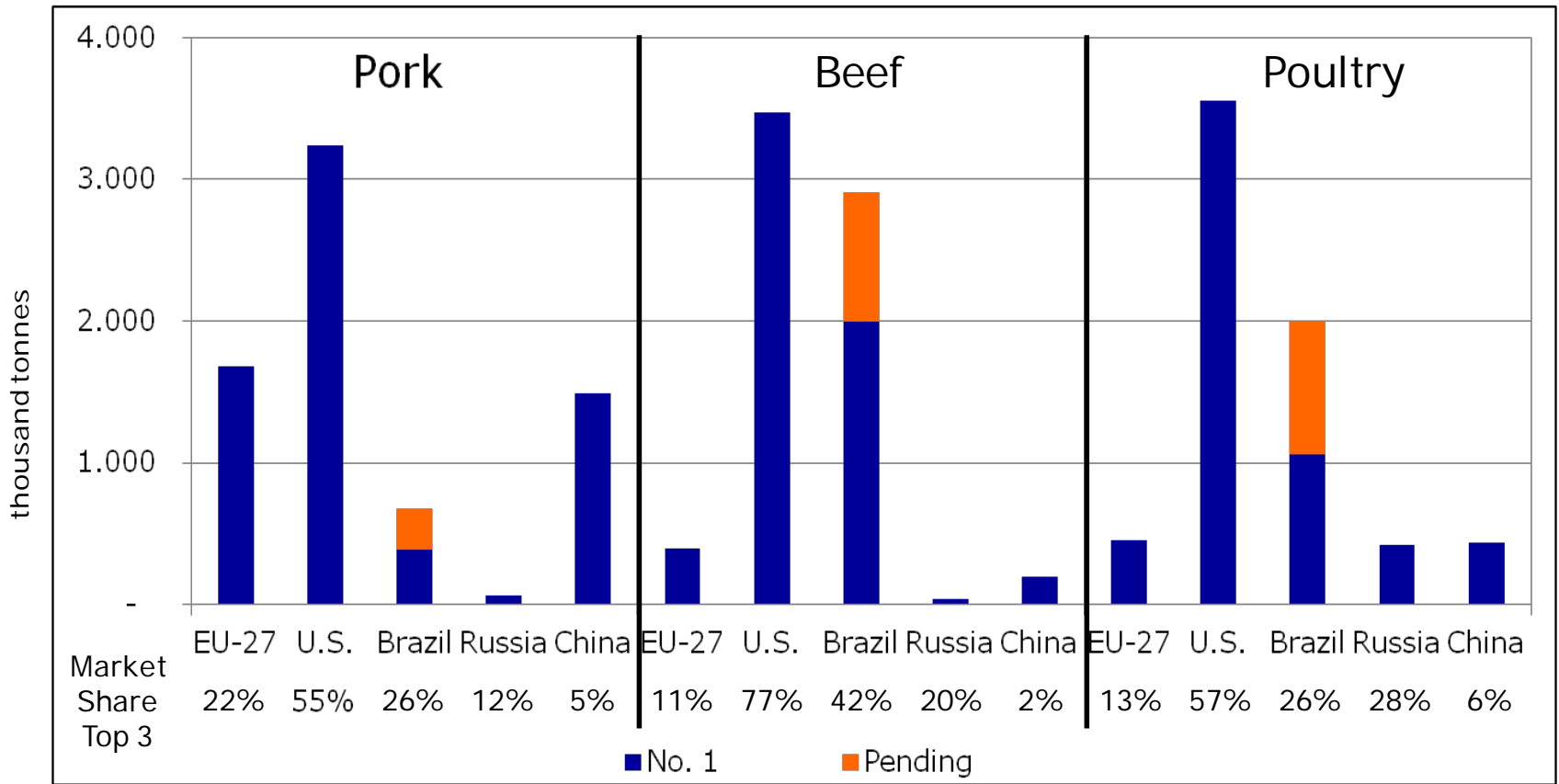
...animal welfare



Anti-trust issues are expected to become more prevalent as push for consolidation and globalization goes forward

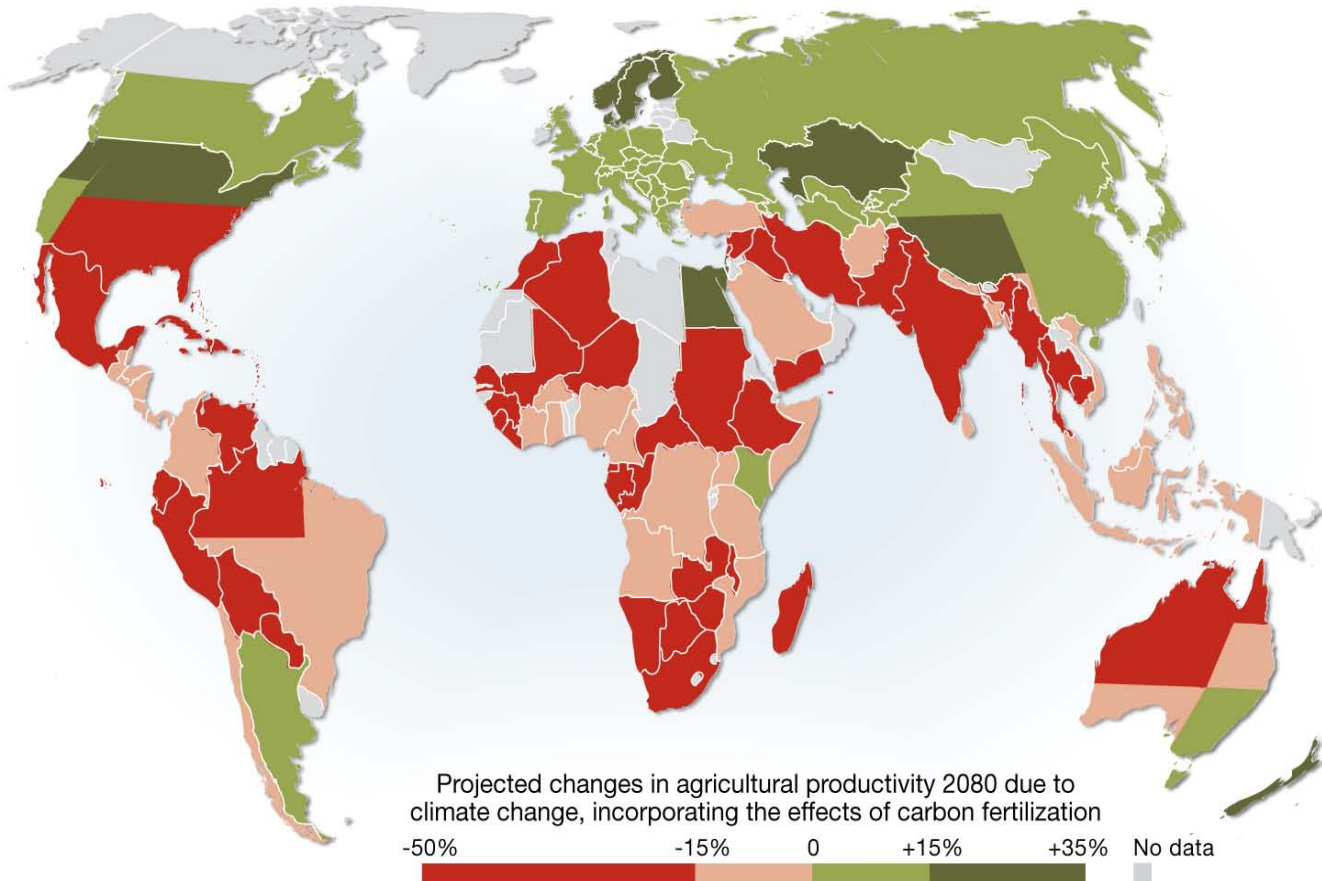


Differences in size and consolidation levels between EU, US, Brazilian, Russian and Chinese companies



Source: Public company information, 2009

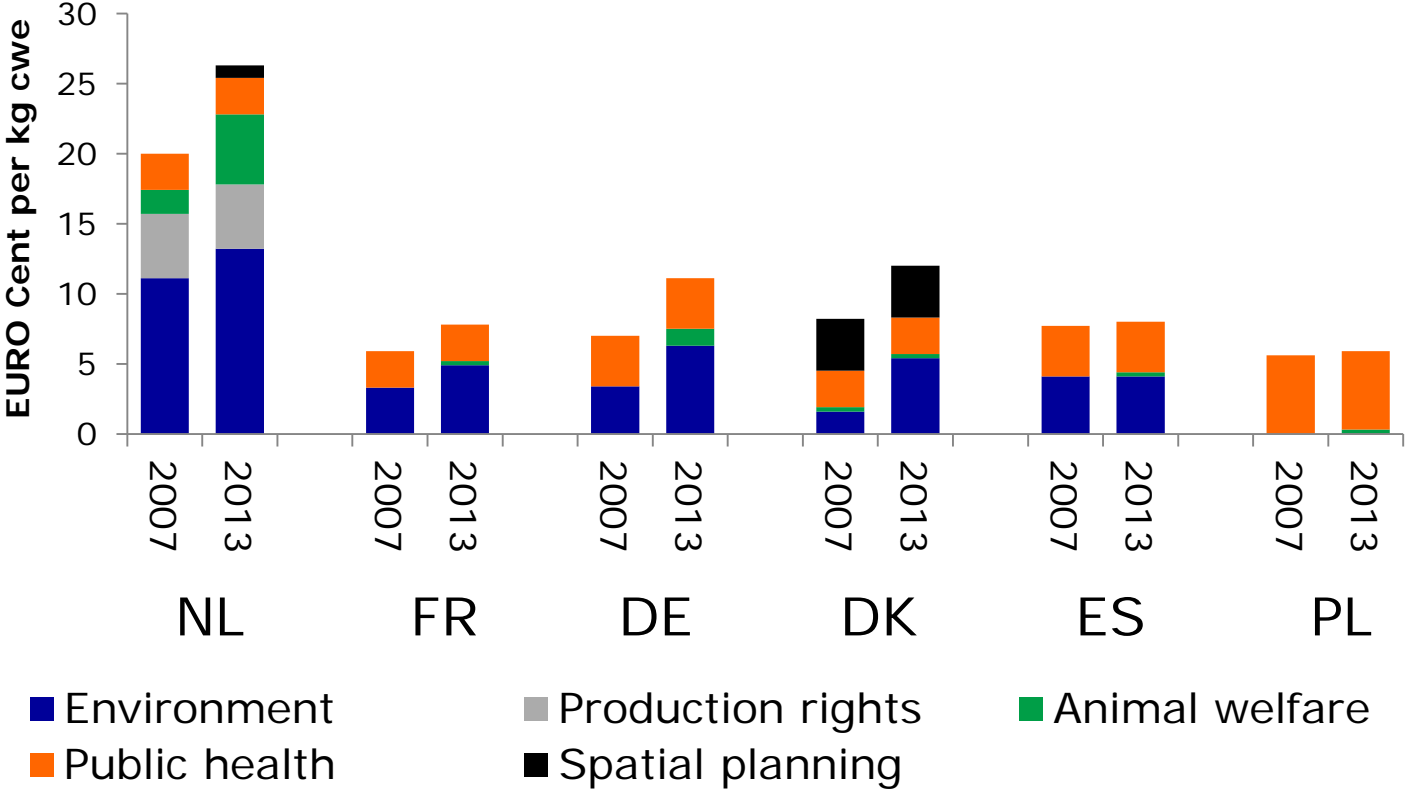
Livestock production is being portrayed as one of the major contributors to global warming



The meat market, especially in in developed markets will be driven by social/policy issues



Increase in cost price pork due to policy measures





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Conclusions

- The economy has turned around but recovery is vulnerable to relapse
- The Canadian industry can expect improved returns based on extreme supply tightness over the coming 12 months – although this will be hampered by dollar strength
- The market is currently supply driven with mild demand recovery overwhelmed by very tight supply globally
- Export demand will be strong in US as other suppliers find it difficult to fulfill market needs
- Significant competitive challenges faced from South America, poultry and a more frugal consumer, as well as disease and other access restrictions
- Longer term the industry will continue to reshape and reduce costs, but is well placed to grow to service strong global demand growth for animal protein



*“The financial link in
the global food
chain”™*

Thank you



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