



WEEK END 3/27/2009	PRICE per	CHANGE +/-	TOTAL LBS	CHANGE +/-
DESCRIPTION	100 LB	Prior Wk	(000)	Prior Wk
WHL BIRD 3LB. +	66.75	1.50	913	(36)
WOG 2.5-4.0 LB.	70.00	1.25	8,392	(561)
8 & 9 PC MR	87.50	(1.00)	11,974	(233)
FRONT HALVES	66.75	(3.50)	120	(26)
FRONT HALVES, SML	73.00	(0.75)	557	39
B/S BREAST UNSZD	127.25	(4.00)	16,557	(1,055)
B/S BRST UNSZD, SML	141.25	(2.00)	1,679	(35)
BREAST TRIM <=5%	120.00	1.25	1,374	21
TENDERS 1.2 OZ +	199.00	(1.50)	764	(93)
WINGS	138.50	(2.25)	2,470	437
FR LEG QRTS	33.50	(0.25)	16,497	1,137
FZ LEG QTRS	35.25	1.25	53,641	8,039
THIGHS	51.00	0.00	2,872	146
B/S THIGH	117.75	2.50	2,289	314
DRUMSTICKS	58.25	0.50	2,770	(441)
MSC >15% FAT	22.75	0.25	13,328	350
TOTAL			136,197	8,003

March 31, 2009 Issue

Random Thoughts on the Industry

-- By Mike Donohue

Relative Costs of Production in Producing Broilers

My water bill and electricity bill keep on going up. I whine about it constantly to my family, my neighbors and anyone who will listen to me, with little effect on how many lights are left on in the house or on any water wasted in day-to-day life around here. I'm not alone.

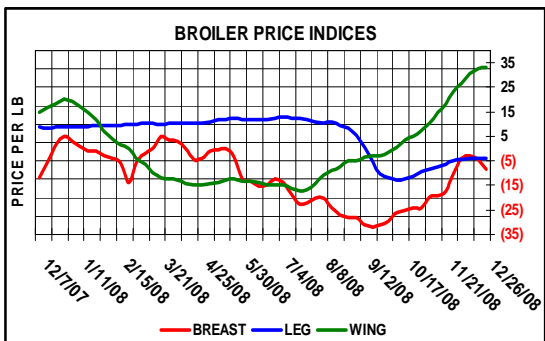
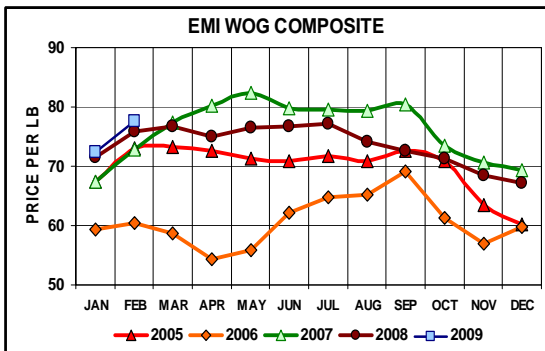
Two years ago I spent money on additional insulation to reduce heating and cooling costs in the house. The project was successful. Immediately I saw that my consumption of natural gas and electricity dropped and the bill reflected that. However, many of us adopted conservation programs and the energy and water companies saw their cash flow drop so they applied for additional rate increases to cover the fixed costs of doing business.

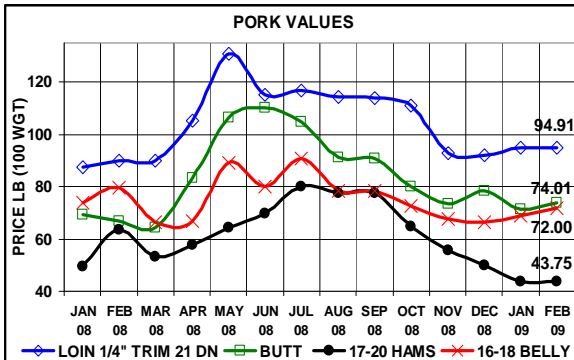
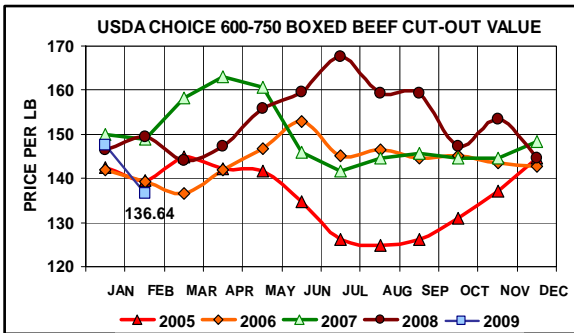
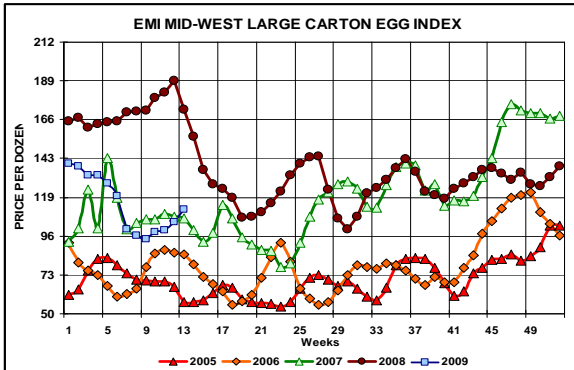
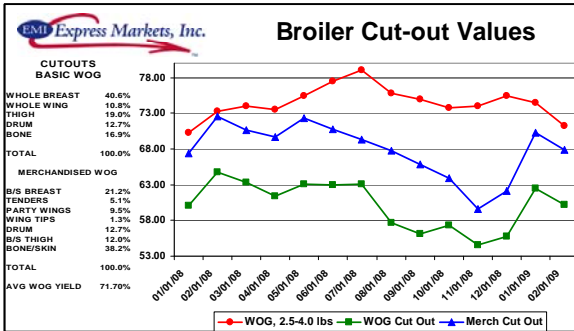
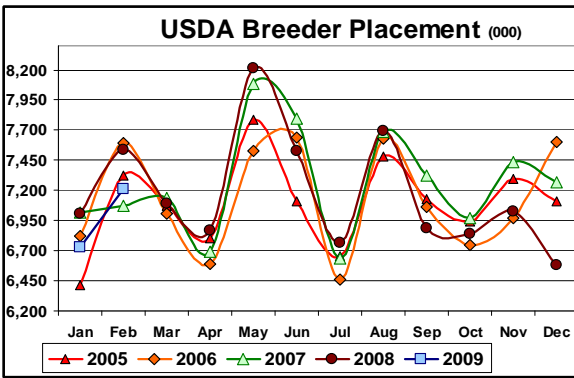
The chicken business experiences the same kind of challenge on a much larger scale. Running processing plants, hatcheries and feed mills require significant quantities of water, electricity, and fuel for daily operations, and there is a great difference between regions of the country in the rates charged for utilities. In several regions the changes in utility and fuel costs over the last ten years are staggering and at least part of the gain in efficiency that we develop every year is lost to higher input costs. Sound familiar to my insulation story?

Water and Water Treatment Expense

Over the last two years, water and treatment costs have been a big driver at Agri Stats' reviews. In 2007, the drought in north Georgia and other areas of the South drove many municipalities to restrict water consumption for both households and businesses and may have been part of the decision by one North Carolina plant to suspend operations in 2008. Water authorities raised rates; in theory to increase availability but probably also as an incentive to reduce consumption and maintain reserves.

Water and treatment costs in the most significant areas of US broiler production, including Delmarva, north Georgia, and northwest Arkansas, have seen the largest increase in expense





Random Thoughts (Cont'd)

over the last decade. On Delmarva the cost of water per processed pound produced is up by 43%, north Georgia processors have seen costs increase by 51% over the period and the rise in expense in northwest Arkansas is an amazing 96%! All of these areas are regions with rapid population growth that strained the existing water production and treatment systems.

Water and Treatment Cost per Eviscerated Pound

	1998	2008
Delmarva	\$.0057	\$.0086
North Carolina	\$.0070	\$.0072
North GA, SC	\$.0084	\$.0120
South GA, FL	\$.0083	\$.0080
North AL/MS	\$.0059	\$.0069
South AL/MS	\$.0046	\$.0050
North AR, MO, OK	\$.0050	\$.0098
South AR, TX, LA	\$.0062	\$.0080

Remember that this cost is per processed pound. Over the last decade most operations have increased production by processing more chickens and most importantly increased live weights in big bird plants. Water and treatment costs are usually fixed costs and if we increase volumes we reduce the cost per pound. If volumes had not increased the cost of water and treatment would have been an even greater factor in total costs of production.

Electricity

Similar changes are seen in electricity expenses. World economic conditions and domestic and international demand affect the cost of powering plants, hatcheries and feed mills. Economic growth and questions of petroleum availability drive our utility costs and no home or business is left unaffected by these changes. Electricity rates are regulated by most states, and while deregulation programs initiated several years ago were supposed to open the market to multiple suppliers in each region, the positive effect of this is hard to see and is often overcome by the economic questions raised earlier.

The challenge here is not just seen in the absolute increase in electricity cost per 100 kwh but in the range of cost of electricity between broiler producing regions.

Random... Thoughts (Cont'd)

In 1998 North Carolina producers had the highest cost of electricity at \$5.09 per 100 kwh and north Georgia/South Carolina the lowest cost at \$4.45 per 100 kwh, a difference of 14.4%.

In 2008 Delmarva costs were the highest in the business at \$8.63 per 100 kwh and northwest Arkansas, Oklahoma and Missouri producers paid an average of \$6.35 per 100 kwh, a difference of 35.9%.

Electricity Cost \$/100 kwh

	<u>1998</u>	<u>2008</u>
Delmarva	\$ 4.93	\$ 8.63
North Carolina	\$ 5.09	\$ 6.42
North GA, SC	\$ 4.45	\$ 7.33
South GA, FL	\$ 4.81	\$ 7.15
North AL/MS	\$ 4.75	\$ 6.68
South AL/MS	\$ 4.81	\$ 7.06
North AR, MO, OK	\$ 4.57	\$ 6.35
South AR, TX, LA	\$ 4.61	\$ 7.15

Fuel Costs

I'm of an age where I remember as a kid watching my dad fill up the car with 25 cent per gallon gasoline. He had a big old Chrysler Imperial with the tail fins and room for all six of the kids in the back seat or between my parents in the front seat. No concern about seat belts or fuel economy. If we'd lost my little brother at the time I wouldn't have been all that upset. I'm joking.

The cost of diesel, propane or natural gas has been almost as volatile as corn and soybean meal prices over the last couple of years. Fuel cost is just behind labor, packaging materials, M&R materials and depreciation expense in the total cost of production.

Delmarva fuel costs rose from \$3.05 per million BTU in 1998 to \$14.27 per million BTU over a ten-year period, an increase of 368%! The smallest increases were seen in south Georgia, Alabama and Mississippi where costs increased by about 180%

Total plant utility costs are still a relatively small part of production costs but now represent 5.6% of total plant cost vs. 3.6% a decade ago. If we had not increased volumes through our plants the percentage

of cost dedicated to utilities would have been even greater.

Fuel Cost \$/Million BTU's

	<u>1998</u>	<u>2008</u>	<u>% Change</u>
Delmarva	\$ 3.05	\$ 14.27	367.9 %
North Carolina	\$ 3.70	\$ 12.52	238.3%
North GA, SC	\$ 3.44	\$ 10.77	213.1 %
South GA, FL	\$ 3.60	\$ 9.96	176.6 %
North AL/MS	\$ 4.31	\$ 12.59	192.1 %
South AL/MS	\$ 3.84	\$ 10.78	180.1%
North AR, MO, OK	\$ 3.21	\$ 8.30	185.6 %
South AR, TX, LA	\$ 3.70	\$ 9.92	168.1 %

This may be just another rant about the challenges we face in improving profitability in the industry, but the results are real. Water conservation and energy conservation are critically important programs in all of our plants and related operations. They will become only more important in coming years.

Consumer Pack Turkey Markets

-- By Amanda Martin

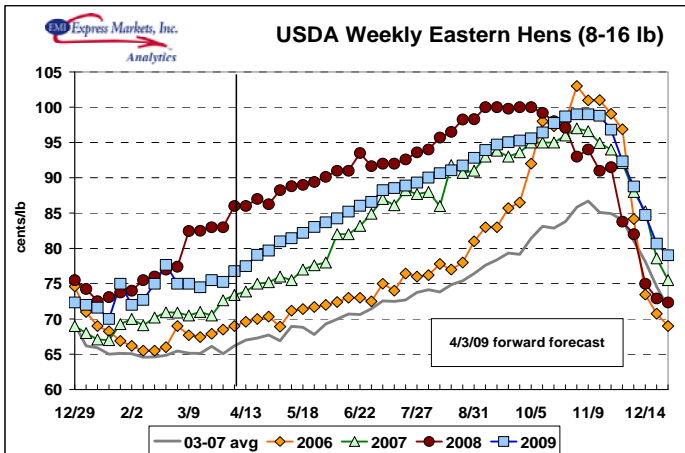
As the crocuses and tulips begin blooming and the birds are again singing in the mornings, one thing is *normally* on the minds of whole turkey buyers. Thanksgiving. This isn't necessarily the case this year. Record levels of whole birds left in cold storage combined with pretty dramatic cuts in production has caused some uncertainty among buyers as they try to figure out when will be the best time to place fall orders, or if that time has already passed.

Whole turkey markets were very high through most of 2008, with markets reported by USDA for frozen hens and toms setting record highs from January through October. The fall season prices, normally the peak, fell dramatically during October and this drop continued through the end of December. Lower than average pork prices caused many retailers to focus their holiday deals on hams instead of turkey, causing whole turkey markets to collapse at the end of the year. This, in turn, caused more cold storage stocks of whole birds to hit levels not seen since 2003, as producers had to store birds they had intended to sell during the 2008

Consumer... Turkey (Cont'd)

holiday season.

Even with the dramatic drop, whole turkey markets didn't take much of a winter break and buyers began to test the markets in early January. Buyers with needs for specific brand labels, pack types, or private labeling contracted early in the year for delivery ahead of the holidays, often with the paying price tied to markets during the delivery period. Buyers with more flexibility in regard to pack date and size have been slowly testing the waters in the past few months, as a split market began showing up in January and February, with 2008 and 2009 pack selling at separate levels. We have heard that some producers are still discounting 2008 birds, but seem to be holding on to 2009 birds and not backing down on pricing.



Currently, USDA is reporting offers for frozen consumer pack sales in the 74 to 77 cent per pound range for Grade A packer label birds for current shipments. Prices have stayed in that general range since the beginning of March. As was mentioned previously, some movement in the upper 60 cent range during early 2009 was most likely last year's pack. Even with this back and forth, many negotiations are in progress, and from both buyers and sellers we hear ceiling prices discussed in the low to mid 80's per pound for spring and early summer delivery.

Throughout 2009, high stocks in cold storage paired with cuts in production will cause some uneasiness in the markets. We anticipate that turkey production decreases will continue to be centered on the heavier deboning type birds, with the lower than average tom breast meat prices continuing. We do

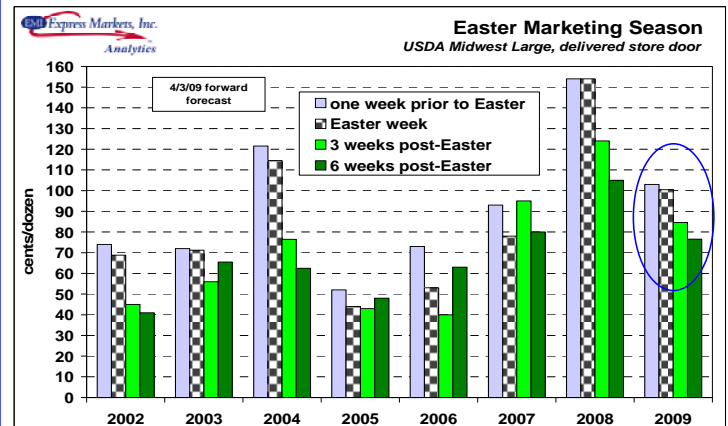
expect some producers to cut consumer sized hens due to concerns that continued high stocks will hinder price increases later in the year. On the other hand, possible higher ham prices could be a factor in market strength for whole turkeys during the latter half of 2009.

Even with production cuts, we don't expect consumer-sized turkey markets to see the same highs that were experienced during 2008. Overall, average prices for all of 2009 will remain high and expected to peak in the 95 to 99 cent per pound range ahead of Thanksgiving. Currently the annual average is projected at nearly 85 cents per pound, just 2 cents below the record high average experienced during 2008.

Seasonal Egg Pricing

-- By Sue Trudell

Cartoned egg markets are at or near seasonal highs as we approach Easter. Historically, prices peak one to two weeks before Easter, and start to drop Easter week as seasonally heavy deliveries to retail outlets are winding down.



Most of the seasonal price drop happens quickly, within a few weeks, and occurs from the week before Easter (peak price) to 4 weeks post-Easter (usually the end of the most severe of the drop). Over the past 10 years, the average decline during this time has been 26 cents per dozen. There was one year, 2007, when prices rose slightly during this period. During that time egg producers began a sharp reduction of the table egg flock after several years of expansion, and the tighter egg supplies generated higher market prices.

This year, egg production is running about 1% above year-earlier, and markets are above average but well below the record high prices of early 2008.

Seasonal... Egg(Cont'd)

USDA's Midwest regional cartoned egg market for large white eggs delivered store-door is currently reported at \$1.03 per per dozen, and is probably close to the top for the season although a couple of cents additional gain can't be ruled out during the next week. However, we expect to see cartoned egg prices drop about 25 cents per dozen from the week before Easter to 4 weeks after Easter. By mid May, we expect to see this market down to the 70-74 cent area, which may be the low point of the year.

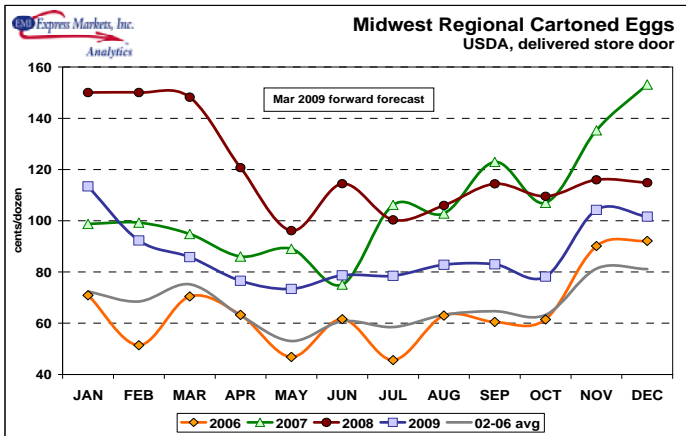
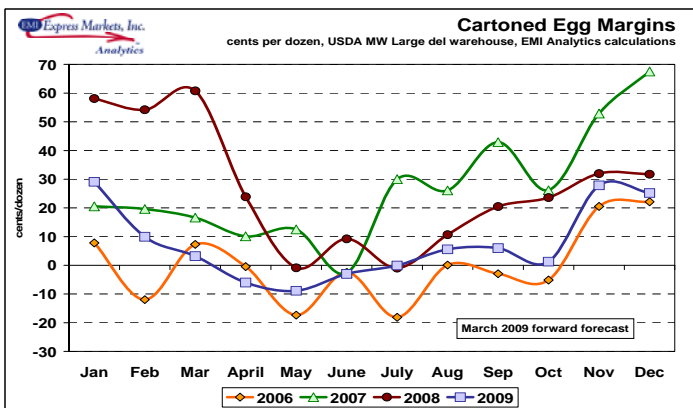


Table egg production is expected to remain about 1% above year-earlier throughout 2009 and into 2010. The higher supply will keep egg markets well below the high levels of late 2007 through 2008, although prices are expected to stay above average. The lower wholesale market level will likely pressure production margins to below breakeven by late April. Although feed costs have dropped by 30% from the records set during 2008, feed cost is expected to average 32 cents per dozen eggs during 2009, compared with an average of about 22 cents which was the typical long-term norm.



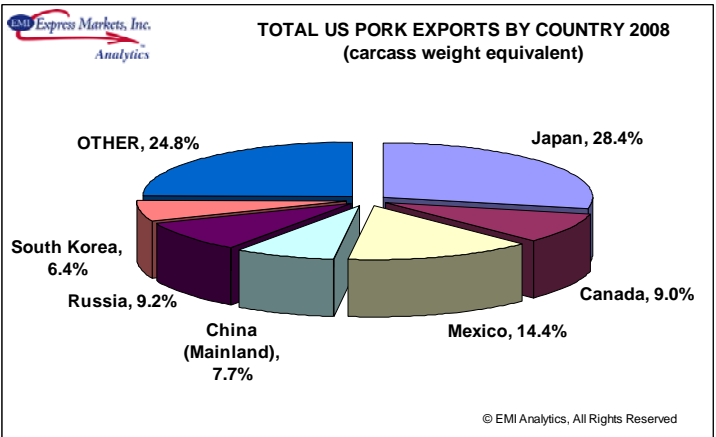
Beef and Pork Trade Changes US Product Mix

-- By Eric Scholer

Global economic conditions have led to much speculation that US exports of beef and pork could be substantially lower in 2009. However, January export data provides a mixed message, with indications that change may be driven more by market-specific factors than by overall global conditions. Net trade impacts have the potential to alter the US domestic product mix.

Pork

Total US pork exports during 2008 increased by 50% to a record 4.7 billion pounds, primarily driven by increased demand from China. China purchased 58% more pork from the US (362 million pounds) because of a decline in their swine herd caused by disease, a rapidly growing economy, and hosting the Olympics. As China's pork production recovered and with a slowing economy, exports to China declined significantly in the 4th quarter of 2008, and during January 2009 shipments were 90% below January 2008 levels. Further declines are expected throughout 2009. China primarily imports variety meats (hearts, livers, etc.) from the US which would otherwise go into US processed products.



Mexico and Japan accounted for 43% of US pork exports in 2008 but purchase very different products. Mexico typically prefers legs and picnic shoulders while Japan usually imports loins and butts. Mexico increased US imports by 63% during January 2009 compared to last year, despite devaluation of the peso by nearly 50% against the US currency. However, last year at this time, pork exports to Mexico were down from 2007 due to their own hog industry liquidation, reducing the need for imported pork. Now

Beef and Pork... Trade (Cont'd)

that Mexico's industry has reduced capacity it's likely that they will continue to import more US pork.

Japan bought 23% more US pork in 2008 for a total of 1.3 billion pounds, and January imports were also higher by 23% versus year ago. Continuing increases to Japan are questionable however, as the country undergoes a recession. EMI Analytics currently projects total US pork exports for 2009 to decline by 5% from the record 2008 level of 4.7 billion pounds.

Beef

Total US beef exports during 2008 increased by 32% to 1.9 billion pounds. The combination of increases to South Korea and Japan offset declines from other major trading partners such as Canada and Mexico, a scenario likely to continue for 2009. US beef exports for January were up 8% from last year, primarily due to continued increases for South Korea and Japan.

During 2008, South Korea went from virtually nothing to buying 8% of all US beef exports, and the majority of these shipments were made from August through December. Japan increased US beef imports by 45% in 2008 to 231 million pounds. Although Japan's overall purchasing power may be affected by economic difficulties, continued growth in US beef purchases is expected as trade trends back toward

pre-BSE levels.

For the month of January, US beef imports increased 19% with increases coming from all of the typical trading partners. Canada, Australia and New Zealand accounted for 80% of the US beef imports in 2008, and most purchases are lean beef trimmings to blend into ground beef. Beef imports are likely going to increase at a greater rate than exports during 2009, due to a stronger US dollar and increased domestic interest in ground beef as an inexpensive meat option.

Net Red Meat Trade

The small decline in pork exports and the increase in beef net imports are unlikely to increase total domestically available beef and pork supplies, because both industries are cutting production. However, with the changes in imports and exports, we will likely have a higher proportion of lower-cost cuts available to consumers for both beef and pork.

More hamburger meat will be available due to increased imports of grinding meat and increased dairy slaughter. More processed meat products will be available, with China reducing their imports of variety meats while Japan increases imports of higher value pork cuts.

The net effect will be less domestic pork and beef available due to production cuts, but a change in the product mix with an increase in the volume of lower price point products.

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