

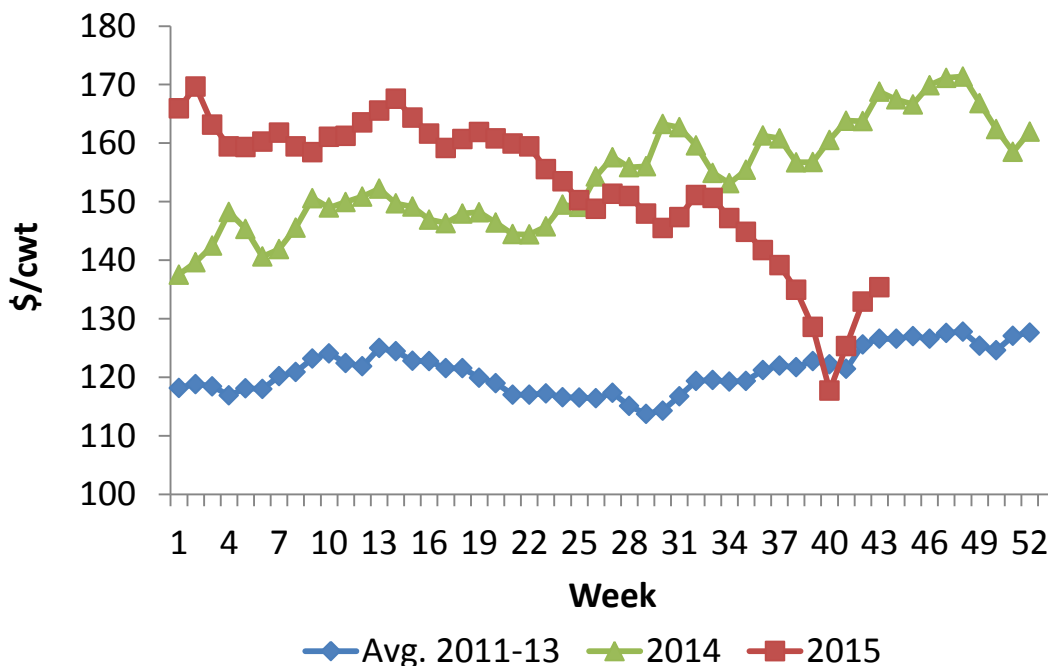


October 2015 – Livestock Market Update

Public Policy Department Budget & Economic Analysis Team

Cattle Prices Bounce Back

Three weeks ago, cash fed cattle prices ended their long, sharp decline. For the week ending on October 11, the 5-Area weighted average fed steer price worked out to \$125.35 per hundredweight, a gain of \$7.64 over the prior week's close. The following week, the 5-Area price gained another \$7.60, working out to \$132.95. Last week, the market slowed down a bit, managing to add another couple of bucks to cash prices, but doing so on a limited volume of sales. Still, the three-week rebound in fed cattle prices has been about as dramatic a turn as you ever see in the cattle market. The chart of the weekly 5-Area weighted average price in Figure 1 below makes this point well.



Data Source: USDA Agricultural Marketing Service through Livestock Marketing Information Center

Figure 1. Weekly 5-Area Weighted Average Fed Steer Price (Live Basis)

It seems entirely reasonable that the sell-off in fed cattle was overdone, particularly during the last week or two of price declines. Still, the sharp advance in cattle prices over the last three weeks is also a little surprising given the behavior of wholesale meat prices. The boxed beef cutout has gained some ground in the last couple of weeks, but has not nearly kept pace with cattle prices. In fact, cash fed cattle prices turned up a week before the cutout bottomed out. Since hitting bottom for the week ending October 9, the Choice cutout has increased about 6 percent. By contrast, fed cattle cash prices have increased by around 15 percent. This implies a considerable tightening of packer margins over the last three weeks.

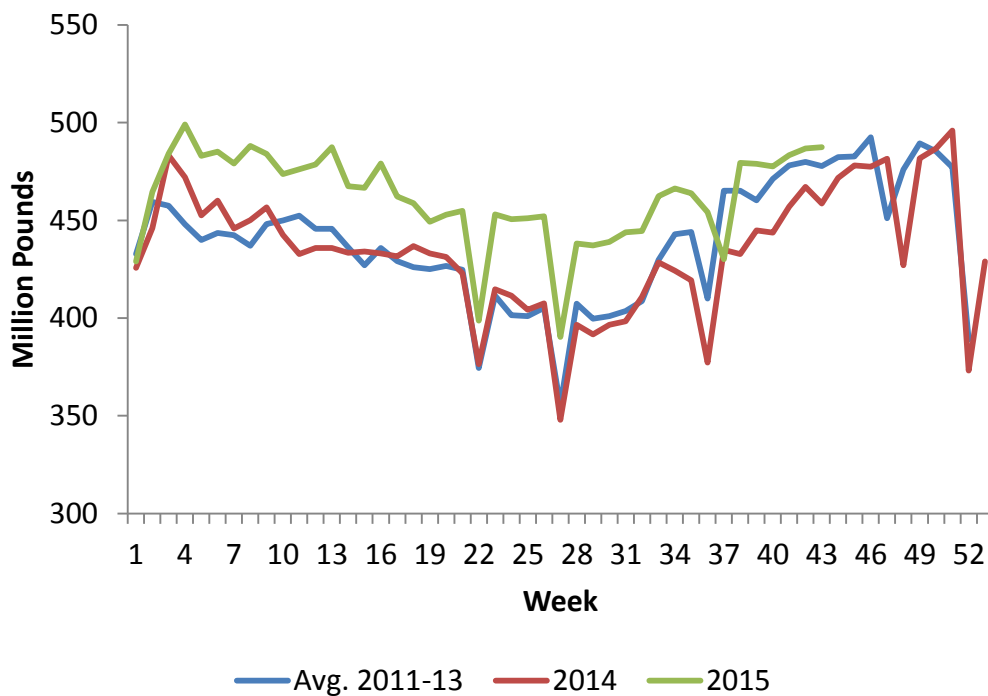
One thing that is clearly not behind the surge in cattle prices over the past few weeks is an immediate shortage of meat. Weekly beef production has run above year-ago levels for five of the past six weeks. Weekly pork production has run above year-ago levels pretty much all year. The same is also true of weekly chicken production. Taken together, for the recently-concluded third quarter of the year, combined beef, pork and chicken production were up by over 4 percent, year-over-year.

Not only is current production up, but stocks of meat in storage are up as well. Last week's Cold Storage report indicated substantial growth in beef, pork and chicken currently in storage. Beef, pork and chicken in cold storage on September 30 were up by 31 percent, 19 percent and 28 percent, respectively, from the prior year. For both beef and pork, the September end-of-month inventory levels were the highest on record going back to 1915.

Packers have enjoyed pretty strong margins so far this fall, and those margins appear to have encouraged more aggressive bidding on cattle over the last two or three weeks. The consequence of that, though, is that packer margins have likely deteriorated markedly. Barring an imminent surge in wholesale beef prices, cash fed cattle are likely close to being topped out for now. Indeed, federally inspected cattle slaughter last week was down to 556 thousand head after hitting 573 thousand the week before. This week's slaughter will also likely hold down around the low 550s based on recent slow sales. This means the up surge in prices will most likely pause here for a spell. Hopefully, it will at least hold its ground (or most of it), though.

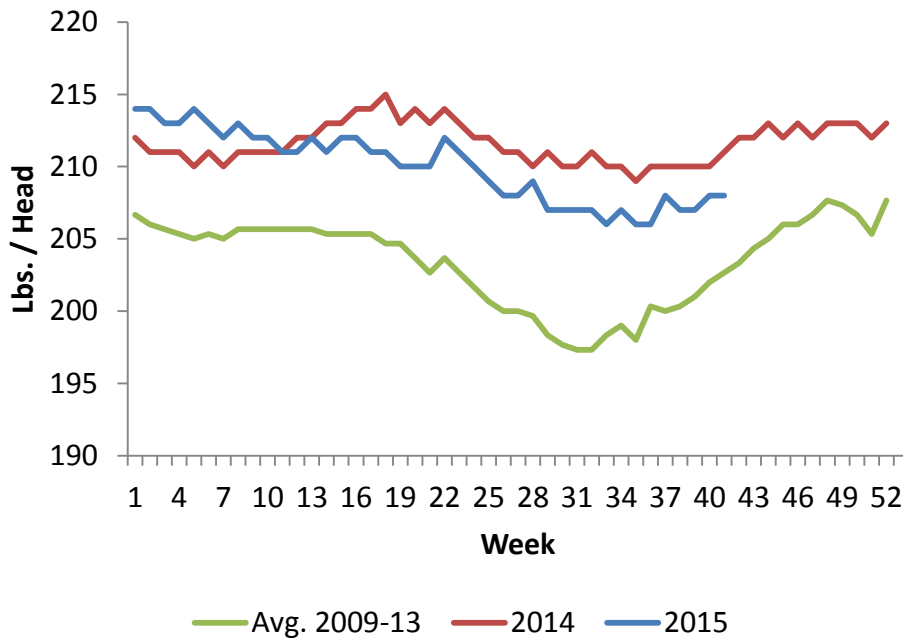
Pork Production Slowing Down...Maybe?

Weekly pork production continues as a high level, but the rate of increase year-over-year actually seems to have finally slowed a bit in recent weeks. Figure 2 shows weekly pork production estimates from USDA.



Data Source: USDA Agricultural Marketing Service through Livestock Marketing Information Center
Figure 2. Weekly Federally Inspected Pork Production

Pork production has been increasing seasonally for the last several weeks, but this seasonal increase is actually not as pronounced as normal, as can be seen by comparing this year's production numbers to the average weekly production for 2011 through 2013. Part of the reason for this is that hog weights have moderated quite a bit over the course of the year. Since around the end of the first quarter, barrow/gilt dressed weights have run below 2014's very high levels. And while weights have increased a bit seasonally in the last month or so, the seasonal increase has not been as pronounced as it has been historically. This is plain from Figure 3 showing weekly average barrow and gilt dressed weights.



Data Source: USDA Agricultural Marketing Service through Livestock Marketing Information Center

Figure 3. Weekly Average Barrow and Gilt Dressed Weight

Looking ahead, the big surge in pork production is probably over. Current USDA estimates have third quarter 2015 production up by almost 10 percent compared to the same quarter in 2014. For the final quarter of the year, production is estimated to be up by a bit under 7 percent. That's still a big year-over-year increase, and it will likely equate to record fourth quarter production, but the weeks of double-digit year-over-year increases in production should be over with.

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IARC Shenanigans

On Monday, the International Agency for Research on Cancer (IARC), the specialized cancer agency of the World Health Organization (WHO) set the barnyard into a tizzy with their classification of processed meat as a Group 1 carcinogen and red meat as probably carcinogenic to humans (Group 2A). This follows similar evaluations earlier this year for two of modern agriculture's most commonly used herbicides: glyphosate and 2, 4-D. Glyphosate was given a Group 2A designation and 2, 4-D was given a Group 2B designation. If agriculture hadn't heard of IARC before 2015, we've certainly been put on notice that IARC has heard of us.

Who is IARC? And more importantly, why does this group seem to be making findings that run counter to commonly held science.

IARC is the part of the WHO that has the job of slotting different chemical agents, mixtures, or exposures, into one of five groups depending on the evidence for their cancer-causing potential, or carcinogenicity. The groups and some key examples are summarized well in the image to the right.

The important thing to realize about the IARC classifications is that they don't assess the level of risk that a particular agent poses with respect to cancer. They simply rank the quality of the evidence of it being cancer-causing. Group 1 is the highest in this regard—the placement of a substance into this classification means that there is sufficient evidence in humans for it causing cancer. Other example group 1 substances include alcohol and sunshine.

IARC began publishing their categorizations 44 years ago and since then have assessed over 900 different agents. Only ONE of these 900 agents has been placed in Group 4 – Probably not carcinogenic. Simply put—if a product is evaluated by IARC it will be found to cause cancer, it's just a matter of what degree.

But these findings don't gel with what we generally have come to know about the above named products, so it's worth digging deeper to understand how IARC conducts their evaluations.

First, it is important to know that IARC does not conduct original research, but rather surveys a defined body of literature to inform its analysis. Moreover, it is important to differentiate IARC's methodology as it is based on a "hazard" analysis as opposed to a "risk" classification used by many national regulatory bodies. A cancer "hazard" refers to an agent that is capable of causing cancer under limited circumstances. By contrast, a cancer "risk" is an estimate of carcinogenic

A Rough Guide to IARC CARCINOGEN CLASSIFICATIONS

The International Agency for Research on Cancer (IARC) classifies substances to show whether they are suspected to cause cancer or not. It places substances into one of five categories depending on the strength of evidence for their carcinogenicity.

GROUP	WHAT DOES IT MEAN?	WHAT DOES IT INCLUDE?
GROUP 1	CARCINOGENIC TO HUMANS Sufficient evidence in humans. Causal relationship established.	Smoking, exposure to solar radiation, alcoholic beverages and processed meats.
GROUP 2A	PROBABLY CARCINOGENIC TO HUMANS Limited evidence in humans. Sufficient evidence in animals.	Emissions from high temp. frying, steroids, exposures working in hairdressing, red meat.
GROUP 2B	POSSIBLY CARCINOGENIC TO HUMANS Limited evidence in humans. Insufficient evidence in animals.	Coffee, gasoline & gasoline engine exhaust, welding fumes, pickled vegetables.
GROUP 3	CARCINOGENICITY NOT CLASSIFIABLE Inadequate evidence in humans. Inadequate evidence in animals.	Tea, static magnetic fields, fluorescent lighting, polyethene.
GROUP 4	PROBABLY NOT CARCINOGENIC Evidence suggests no carcinogenicity in humans/animals	1 ONLY 1 CHEMICAL EVER PLACED IN THIS GROUP, OF ALL SUBSTANCES ASSESSED Caprolactam, which is used in the manufacture of synthetic fibres.

THE IARC'S INDEX ONLY TELLS US HOW STRONG THE EVIDENCE IS THAT SOMETHING CAUSES CANCER. SUBSTANCES IN THE SAME CATEGORY CAN DIFFER VASTLY IN HOW MUCH THEY INCREASE CANCER RISK.

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By contrast, a cancer "risk" is an estimate of carcinogenic

effects caused by exposure to an agent identified as a cancer hazard. IARC does not consider “risk” or likelihood of harm to humans. As such, an agent may be classified as a cancer “hazard” by IARC even though the cancer “risk” is low at current human exposures. As mentioned by IARC in its summary published in *The Lancet Oncology*, there is “limited evidence in humans for the carcinogenicity of glyphosate.”¹ In fact, by IARC’s own classification scheme, an agent may be classified in the “probable human carcinogen” category even when there is inadequate evidence of carcinogenicity in humans, but sufficient evidence of carcinogenicity in experimental animals.

I hope this makes the IARC findings make more sense. I also expect that it may cause you to wonder what’s next in IARC’s crosshairs. They’ve made that question easier to answer as well. In 2014, IARC released a document that details their priorities for 2015-2019. Here are a few highlighted “agents” from the high priority list: Beta-Carotene, Coffee, Disinfected water, Obesity and Overweight, Occupation exposure to pesticides and Sedentary Work. Here are a few highlighted “agents” from the medium priority list: Job Stress, Salt and a lengthy list of pesticides. See the whole list here: <http://monographs.iarc.fr/ENG/Publications/internrep/14-002.pdf>.

Bottom line: It’s time we get really comfortable discussing what IARC findings really mean. It looks like our industry hasn’t seen the last of IARC and its consumer-image-damaging findings.

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¹ Katherine Guyton, Dana Loomis, Yann Grosse et al, *Carcinogenicity of tetrachlorvinphos, parathion, malathion, diazinon, and glyphosate*, *Lancet Oncology* (Mar. 20, 2015), available at [http://dx.doi.org/10.1016/S1470-2045\(15\)70134-8](http://dx.doi.org/10.1016/S1470-2045(15)70134-8).